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UCC Summary
Governor's Proposed Budget 2016-17
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The Governor's Budget proposes a total budget of a $122.6 billion and includes significant increases in funding for education, health care and state infrastructure. In addition, this Budget proposes an additional investment in the Rainy Day Fund.

Key proposals include:

- New proposal for the MCO Tax which would provide a new three-year tiered MCO tax plan based on the type of health plan. To help plans with costs the state is offering relief in the Gross Premiums Tax and Corporate Tax.
- Extension of the CCI program for calendar year 2016. Continuation beyond 2016 is linked to the passage of the MCO tax.
- Transportation Funding proposal and investment in state infrastructure for $3.6 billion annually.
- $250 million in new grants to counties for local jail facility construction.
- $3.1 billion Cap and Trade Expenditure Plan.
- $25 million in Siting Incentive Grants for cities and counties to provide incentive payments to cities and counties that approve new long-term permits for hard-to-site facilities.
- $169 million for county administration of Medi-Cal.
- New funding for the implementation of Medical Marijuana Regulations at the various state departments.

Rainy Day Fund
The Budget proposes a $2 billion transfer from the General Fund to the Budget Stabilization Account in addition to the current projected amounts required by the California Constitution. In total, this $3.6 billion transfer brings the balance of the Rainy Day Fund to $8 billion in 2016-17, or 65 percent of its maximum.

Program and State Department Proposals

Environmental Protection – Cap and Trade
The Governor's budget proposes a $3.1 billion Cap and Trade Expenditure Plan that will reduce GHG emissions through programs that support clean transportation, reduce short-lived climate pollutants, protect natural ecosystems, and benefit disadvantaged communities.

The $3.1 billion Expenditure Plan reflects the balance of auction proceeds that were not appropriated in 2015-16, as well as the expenditure of projected proceeds in 2016-17. This plan is consistent with the second triennial investment plan for Cap and Trade auction proceeds. The proposed plan expends at least 10 percent of the proceeds within disadvantaged communities and at least 25 percent of the proceeds to projects that benefit those communities.

Figure EPA-01
2016-17 Cap and Trade Expenditure Plan
(Dollars in Millions)

Investment Category	*Department*	*Program*	*Amount*
Continuous Appropriation	High Speed Rail Authority	High Speed Rail Project	$500
	State Transit Assistance	Low Carbon Transit Operations	$100
	Transportation Agency	Transit and Intercity Rail Capital Program	$200
	Strategic Growth Council	Affordable Housing and Sustainable Program	$400
50 Percent Reduction in Petroleum Use	Transportation Agency	Transit and Intercity Rail Capital Program	$400
	Caltrans	Low Carbon Road Program	$100
	Air Resources Board	Low Carbon Transportation & Fuels	$500
	Energy Commission	Biofuel Facility Investments	$25
Local Climate Action	Strategic Growth Council	Transformational Climate Communities	$100
Short-Lived Climate Pollutants	Air Resources Board	Black Carbon Woodsmoke	$40
		Refrigerants	$20
	Cal Recycle	Waste Diversion	$100
	Department of Food & Agriculture	Climate Smart Agriculture – Health Soils and Dairy Digesters	$55
Safeguarding CA/Water Plan Action Plan	Departments of Food and Ag Water Resources	Water and Energy Efficiency	$30
	Energy Commission	Drought Executive Order – Water and Energy Technology Program & Applicance Rebates	$60
	Dept. of Fish and Wildlife	Wetlands and Watershed Restoration CalEcoRestore	$60
Safeguarding CA/Carbon Sequestration	CAL FIRE	Healthy Forests	$150
		Urban Forestry	$30
	Natural Resources Agency	Urban Greening	$20
Energy Efficiency/ Renewal Energy	Dept. of General Services	Energy Efficiency for Public Buildings	$30
	I Bank	CA Lending for Energy and Environmental Needs Center	$20
	Conservation Corps	Energy Corps	$15
	University of CA/CA State University	Renewable Energy and Energy Efficiency Projects	$60
Total			**$3,090**

Local Climate Action

Over the past several years, Cap and Trade proceeds have targeted disadvantaged communities through multiple pathways. The Budget proposes to continue to support these existing programs, as well as new, innovative approaches to support local efforts to reduce emissions. This proposal reflects comments received at the second investment plan public workshops encouraging greater local control.

The Governor's Budget includes $100 million for the Strategic Growth Council to administer the Transformational Climate Communities Program to support local climate actions in the state's top 5 percent of disadvantaged communities. Funding will support projects that integrate multiple, cross-cutting approaches to reduce GHG emissions. This program will combine investments within a local area for catalytic impact, including investments in energy, transportation, active transportation, housing, urban greening, land use, water use efficiency, and waste reduction.

Health and Human Services

1991-92 State-Local Realignment Health Account Redirection

AB 85 modified the 1991 Realignment Local Revenue Fund (LRF) distributions to capture and redirect savings counties are experiencing from the implementation of federal health care reform. The net savings are redirected for county CalWORKs expenditures, which saves the state General Fund on the CalWORKs program. County savings are estimated to be $741.9 million in 2015-16 and $564.5 million in 2016-17. However, actual county savings in 2013-14 were $151.7 million lower than estimated and the Budget assumes reimbursement of this amount to counties in 2016-17. The estimates for 2016-17 will be updated in the May Revision using more current data from the counties.

AB 85 established two new subaccounts within the LRF beginning in 2013-14: (1) the Family Support Subaccount, which receives sales tax funds redirected from the Health Subaccount, as noted above, and then redistributes to counties in lieu of General Fund for the CalWORKs program, and (2) the Child Poverty and Family Supplemental Support Subaccount, which receives base and growth revenues dedicated solely towards funding increases a fixed 18.5 percent of general growth funds, while the Mental Health Subaccount continues to receive general growth without any changes to the original statutory formula. The Child Poverty and Family Supplemental Support Subaccount receives any remaining general growth funds.

Based on current revenue estimates, the Child Poverty and Family Supplemental Support Subaccount is projected to receive $241.5 million in base and growth funds in 2015-16, plus an additional $69.5 million in carryover funding from the prior fiscal year. These funds will be used to fund the two 5 percent increases to CalWORKs grant levels that took effect on March 1, 2014 and April 1, 2015, which are estimated to cost $326 million in 2015-16 and $319.8 million in 2016-17. Total deposits to the Child Poverty and Family Supplemental Support Subaccount in 2016-17 are projected to be $302.4 million. The Budget includes $15 million General Fund in 2015-16 and $17.4 million General Fund in 2016-17 to provide the remaining funding needed for the grant increases.

2011 Public Safety Realignment

In an effort to provide services more efficiently and effectively, 2011 Realignment shifted responsibility and dedicated funding for public safety services to local governments. In addition, community mental health programs previously funded in 1991-92 State-Local Realignment are now funded primarily by revenue dedicated for 2011 Realignment.

2011 Realignment is funded through two sources: a state special fund sales tax of 1.0625 cents totaling $6.9 billion, and $589.2 million in Vehicle License Fees. These funds are deposited into the Local Revenue Fund 2011 for allocation to the counties and are constitutionally guaranteed for the purposes of 2011 Realignment.

The Administration, in consultation with county partners and stakeholders, is continuing to develop an allocation for 2014-15 funds in the 2011 Realignment Behavioral Health Services Growth Special Account. From 2014-15 revenues, the Account has $117 million. The first priority for growth funds is federal entitlement programs including Medi-Cal Specialty Mental Health (including those required by Early Periodic Screening, Diagnosis, and Treatment) and Drug Medi-Cal.

See attached chart for details on the Realignment funding for 2016-17.

Coordinated Care Initiative

Under the Coordinated Care Initiative (CCI), persons eligible for both Medicare and Medi-Cal (dual eligibles) receive medical, behavioral health, long-term supports and services, and home and community-based services coordinated through a single health plan. The CCI was intended to operate in eight counties: Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara. Under CCI, the state is in the process of starting to collectively bargain with In-Home Supportive Services (IHSS) workers in the counties that have implemented the CCI. The CCI also includes a new IHSS maintenance of effort for counties that replaces the old county share of cost.

The following changes have occurred since creation of the program:

- More than 100,000 participants were exempted, including Medicare Special Needs Plans and certain categories of Medi-Cal beneficiaries based on age or health condition.
- Implementation was delayed until 2014, and Alameda County will no longer participate in the demonstration. Passive enrollment is now complete in six of the seven demonstration counties, with passive enrollment in Orange County still in progress.
- Medicare and Medicaid savings were intended to be shared 50-50 with the federal government. However, the federal government reduced the amount of savings California was allowed to retain to approximately 25 to 30 percent.
- To help pay for Cal MediConnect implementation, the federal government allowed a 4 percent tax on managed care organizations through June 30, 2016. However, the federal government has indicated the tax is inconsistent with federal Medicaid regulations and will not be allowed to continue without major modifications.
- As of November 1, 2015, approximately 69 percent of eligible participants have opted out of, or disenrolled from the demonstration compared to initial projections of approximately 33 percent. The opt-out rate is around 83 percent for IHSS beneficiaries, and participation varies widely by county.
- Due to revised federal Fair Labor Standards Act regulations, IHSS providers are entitled to overtime compensation. Because the CCI replaced the county share of cost with a cost cap based on 2011-12 expenditure levels plus annual growth of 3.5 percent, the overtime rule has significantly increased the state's IHSS costs. The cost cap applies to all 58 counties, not just the seven counties implementing the CCI.

The Administration proposes to continue to implement the CCI in 2016. Over the course of the next year, the Administration will seek ways to improve participation in the program and extend an allowable managed care organization tax. If the tax is not extended and participation is not improved by January 2017, the CCI would cease operation effective January 2018.

IHSS

The IHSS program provides domestic and related services such as housework, transportation, and personal care services to eligible low-income aged, blind, and disabled persons. The Budget includes $9.2 billion ($3 billion General Fund) for the IHSS program in 2016-17, an 8.4 percent increase over the revised 2015-16 level. Average monthly caseload in this program is estimated to be 490,000 recipients in 2016-17, a 4.9 percent increase from the 2015 Budget Act projection. General Fund costs in this program have doubled since 2010-11, while caseload has increased 12 percent.

The Budget proposes to restore the current 7 percent across-the-board reduction in service hours with proceeds from the managed care organization tax effective July 1, 2016. The cost to restore the 7 percent reduction is estimated to be $236 million in 2016-17.

Implementation of the U.S. Department of Labor regulations that require overtime pay for domestic workers is estimated to cost $700.4 million ($331.3 million General Fund) in 2015-16 and $942 million ($443.8 million General Fund) annually thereafter.

In late December 2014, a federal district court ruled that a portion of the overtime pay regulations exceeded the Department of Labor's authority and voided the regulations. In August 2015, however, a U.S. Court of Appeals upheld the regulations. The ruling was appealed to the U.S. Supreme Court, but in October 2015, the Supreme Court denied the plaintiff's request for a motion to stay the appellate court's decision. The Court has not yet decided whether to consider the case.

To allow for an orderly transition, minimize confusion, and permit time for IHSS automation changes, implementation of the federal overtime rules for IHSS providers is anticipated to begin February 1, 2016. Increased rates to cover these costs for development services providers became effective December 1, 2015.

Managed Care Organization Tax

SB 78 (2013) authorized a tax on the operating revenue of Medi-Cal managed care plans based on the state sales tax rate. This tax offset General Fund spending in the Medi-Cal program by approximately $1 billion annually. The federal government released guidance in 2014 indicating that the current tax is impermissible under federal Medicaid regulations. California's current tax expires at the end of 2015-16.

Calendar year 2017 is the first year that the state will share the costs of the optional expansion population under federal health care reform. To serve the 3.4 million residents now receiving coverage, the Budget allocates $740 million General Fund for the state's 5 percent share of costs (on a half year basis). These costs will eventually reach $1.8 billion General Fund annually by 2020-21. The managed care organization tax remains a critical component of maintaining Medi-Cal program funding that allows for the coverage of the expanded population and for future provider rate increases.

The Budget proposes a tax reform package to extend a federally allowable managed care organization tax. The Budget also assumes that revenues from the tax be placed in a special fund and be used to restore the 7 percent reduction to the In Home Supportive Services ($236 million annually). Finally, the Budget assumes the tax is in place for three years starting in 2016-17.

Specifically, the Governor is proposing a new three-year tiered MCO tax plan based on the type of health plan (commercial, closed-system, and Medi-Cal). Some plans, including local health plans, would fall under both the commercial and Medi-Cal tiers. To help plans with the costs associated with the new proposed tax, the state is offering concurrent relief in the Gross Premiums Tax and Corporate Tax that some plans also pay.

This proposal would raise about $1.7 billion total, but after the tax policy changes are taken into account, would net the state about $1.3 billion. This funding would be placed into a special fund and be used to fund current Medi-Cal activities, including parts of the Coordinated Care Initiative plus the full-year restoration of the 7 percent across-the-board cuts in In-Home Supportive Services hours ($236 million).

Medi-Cal

The Governor's Budget notes that Medi-Cal, California's Medicaid program is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals.

Health Care Reform Implementation

Significant reforms in the individual and small group insurance markets also took effect January 1, 2014. Most health plans and insurers in California are required to cover the 10 essential health benefits required by federal law: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health; including behavioral health treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services and chronic disease management; and pediatric oral and vision care.

With these reforms, the Medi-Cal caseload will increase from 7.9 million in 2012-13 to a projected 13.5 million in 2016-17, covering over a third of the state's population. In addition, 1.5 million people will be enrolled in Covered California by the end of 2015-16. Covered California is now a self-sustaining entity primarily through the fees it assesses on qualified health plans to fund its operating budget.

The Budget assumes net costs of $4 billion ($1.9 billion General Fund) in 2016-17 for the cost of the mandatory Medi-Cal extension. Additionally, the federal government will pay 100 percent of the cost of the optional expansion for the first three years. Beginning in 2017, the state assumes a 5 percent share for the optional expansion population. By 2020-21, the federal share will have decreased to 90 percent and the state will pay 10 percent. The Budget assumes costs of $14.1 billion ($740.2 million General Fund) in 2016-17 for the state's share of costs for the optional Medi-Cal expansion.

Significant adjustments:

- Extension of Full-Scope Medi-Cal Coverage to Undocumented Children – Chapter 18, Statutes of 2015 (SB 75), expands full-scope Medi-Cal benefits to undocumented children under 19 years of age. The Budget includes $182 million ($145 million General Fund) to provide full-scope benefits to 170,000 children. The provision of this benefit is scheduled to begin by May 1, 2016.
- County Medi-Cal Administration – County workers conduct Medi-Cal eligibility work on behalf of the state. Medi-Cal caseload continues to grow significantly post implementation of the Affordable Care Act, and the system built to automate eligibility determines is not yet completely functional. The Budget provides counties an additional $169.9 million ($57 million General Fund) in 2016-17 and the following year to administer the program. Once the eligibility system is stabilized, the state will conduct time studies to inform a new Medi-Cal county administration budgeting methodology.

Medi-Cal 1115 Waiver Renewal
Throughout 2015, California negotiated with the federal government to renew the Medi-Cal Section 1115 "Bridge to Reform" Waiver, which was fundamental to the successful implementation of the Affordable Care Act. California subsequently received approval for the Waiver renewal, called Medi-Cal 2020, effective January 1, 2016 through December 31, 2020. The total initial federal funding in the renewal is $6.2 billion over five years, with the potential for additional funding in the global payment program outlined below.

Medi-Cal 2020 will enable California to continue the delivery system transformation of public hospital systems begun under the Bridge to Reform Waiver. It will also implement new efforts to further improve services across the Medi-Cal program, including in the Medi-Cal dental program and in the treatment of high-risk, vulnerable populations.

The agreement includes the following core elements:

- A delivery system transformation and alignment incentive program for designated public hospitals and district/municipal hospitals that totals $3.3 billion.
- A global payment program for designated public hospitals for services to the remaining uninsured. The program transitions around $1 billion in current federal Disproportionate Share Hospital funding annually along with federal uncompensated care funding (initially $276 million) into a value-based system aimed at improving care for the remaining uninsured.
- A whole person care pilot program that would integrate care for high-risk, vulnerable populations in a county-based, voluntary program. The funding for this program would be up to $1.5 billion.
- A dental transformation incentive program totaling $750 million.

In addition to these programs outlined above, the federal government requires as a condition of the waiver an independent assessment of access to care and network adequacy for Medi-Cal managed care beneficiaries and independent studies of uncompensated care and hospital financing.

<u>Mental Health and Substance Use Disorder Services</u>
California expanded the mental health and substance use disorder benefits available to those eligible for Medi-Cal as part of its implementation of the Affordable Care Act. The Budget includes the costs of the expansion of these benefits.

DHCS sought a waiver from the federal Centers of Medicare and Medicaid Services to provide better coordination and continuum of care for substance use disorder treatment services, including residential treatment services which would be unavailable for most beneficiaries absent a waiver. The waiver amendment, which was approved in August 2015 and is included in the Medi-Cal 2020 Waiver, will allow state and county officials more authority to select quality providers to provide substance use disorder treatment, assessments, and case management. To participate in the waiver, counties which must opt in by submitting an implementation plan to DHCS, which expects over 50 counties to begin participating by the end of the budget year. The Budget includes $90.9 million ($32.5 million General Fund) for residential treatment services expanded under the new waiver.

Existing law also requires DHCS, in collaboration with stakeholders, to create a Performance Outcomes System to track outcomes of Medi-Cal Specialty Mental Health Services for children and youth. DHCS continues to work with stakeholders to identify key components of the system and finalize the outcome measures that will be prioritized for data collection. The Budget includes $11.9 million General Fund for implementation of this system, including county collection of assessment data related training to better report on participant outcomes.

State Hospitals

The Department of State Hospitals (DSH) administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed patients. The Budget includes $1.8 billion ($1.7 billion General Fund) in 2016-17 for support of DHS. The patient population is projected to reach a total of 7,323 in 2016-17.

The Budget includes $500,000 General Fund in 2015-16 and $1.5 million General Fund in 2016-17 for DHS to contract with Sonoma County for 10 beds in its jail facility. With this request, DSH will support a total of 158 restoration of competency beds to serve incompetent to stand trial patients outside of the state hospitals, at a cost of approximately $20 million General Fund annually.

Social Services

The Department of Social Services (DSS) services, aids and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibilities, and foster independence. The Department's major programs include CalWORKs, CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare Services, Community Care Licensing, and Disability Determination. The Budget includes $23.8 billion ($8 billion General Fund) for DSS in 2016-17.

Significant Adjustments:

- Continuum of Care Reform Resources – The Budget includes $94.9 million ($60 million General Fund) for DSS, county child welfare agencies, and county probation departments to continue the implementation of the Continuum of Care reforms passed in AB 403 (2015). The reforms emphasize home based family care, improve access to services without having to change out-of-home placements to get those services, and increase the role of children, youth, and families in assessment and case planning. The measure establishes a core practice model to govern all services, whether delivered by a county or licensed provider organization, and provides medically necessary mental health services to children and youth in foster care regardless of their placement setting.
- CalFresh Assistance and Training – The Budget includes five positions and $804,000 ($261,000 General Fund) for DSS to provide technical assistance and training to the 19 largest counties on effective business processes for enrolling and retaining families in the CalFresh Program. Their work will be coordinated with Medi-Cal and the Department of Public Health's Women, Infants and Children program to provide appropriate nutrition assistance for young children.

Supplemental Security Income/State Supplemental Payment

The federal SSI program provides a monthly cash benefit to eligible aged, blind, and disabled persons who meet the program's income and resource requirements. In California, the SSI payment is augmented with an SSP grant.

The Budget includes $2.9 billion General Fund for the SSI/SSP program. This represents a 2.8 percent increase ($76.8 million) over the revised 2015-16 budget. The average monthly caseload in this program is estimated to be 1.3 million recipients in 2016-17, a slight increase over the 2015-16 projected level. The SSI/SSP caseload consists of 71 percent disabled persons, 28 percent aged, and 1 percent blind.

Effective January 2016, maximum SSI/SSP grant levels are $889 per month for individuals and $1,496 per month for couples. Under the Budget, maximum SSI/SSP monthly grant levels will increase by $17 and $31 for individuals and couples, respectively, effective January 2017. CAPI benefits are equivalent to SSI/SSP benefits, less $10 per month for individuals and $20 per month for couples.

Judicial Branch

The Governor's Budget notes that during the recession, General Fund support for the Judicial Branch was reduced like every area of state government; however the state mitigated the impact through increased user fees, the redirection of various special funds, and the expenditure of trial court reserves. During the fiscal crisis, some trial courts were forced to reduce service hours, furlough and lay off employees, and close courtrooms, while other courts were able to fully maintain operations. This disparity in how trial courts handled the reductions highlighted the need for a comprehensive evaluation of the state's progress in achieving the goals outlined in the Trial Court Funding Act of 1997. A working group composed of Administration and Judicial Branch appointees made recommendations to better allocate existing resources. The Governor's Budget provides a 10.5 percent increase to the Judicial Branch Budget.

Other significant adjustments:

- Trial Court Employee Costs – The Budget includes $15.6 million General Fund for trial court employees benefit costs, of which $7.4 million reflects funding for trial courts that have made progress towards meeting the Public Employees' Pension Reform Act of 2013 standard for employees sharing the cost of pension funding. Recognizing that many of these costs are beyond the control of the trial courts, the Administration will continue to fund future increases related to existing health benefits and retirement costs for trial court employees and retirees.

- Trial Court Trust Fund Revenues – Following the passage of Proposition 47 in November 2014, the trial courts have experienced increased workload due to the requirement that courts reclassify and resentence certain drug and property crimes that involve less than $950 from felonies to misdemeanors. The Budget includes $21.4 million General Fund to reflect the projected resentencing hearings in 2016-17. By the end of 2016-17, the Administration expects that the courts' workload associated with Proposition 47 will be significantly reduced or eliminated.

- Court Innovations Grant Program – The Budget includes an increase of $30 million General Fund on a one-time basis for a grant program that promotes improvement, efficiencies, and access to justice in the courts.

- Language Access – Given California's diversity, the court system is faced with significant linguistic challenges. The Judicial Council's current annual budget allocation for interpreter services is $94.5 million. To improve language access for limited English proficient court users, the Budget includes an additional $7 million General Fund to provide court interpreter services in civil proceedings.

- Trial Court Funding – An augmentation of $20 million General Fund for discretionary trial court operations.

- Fund Shift for Financial System – The Budget includes $8.7 million General Fund to fund the Phoenix Financial System, operated by Judicial Council staff, that provides the state with consistent financial information of trial court expenditures. It was previously funded from the State Trial Court Improvement and Modernization Fund (IMF). The IMF is intended to pay for innovative approaches to technology to support special funds, and the expenditure of trial court reserves. During the fiscal crisis, some trial courts were forced to reduce service hours, furlough and lay off employees, and close courtrooms, while other courts were able to fully maintain operations and even provide salary increases. The disparity in how trial courts handled the reductions highlighted the need for a comprehensive evaluation of the state's progress in achieving the goals outlined in the Trial Court Finding Act of 1997. A working group composed of Administration and Judicial Branch appointees made recommendations to better allocate existing resources. The Chief Justice and the Judicial Council, through a modification of the Workload Allocation Funding Model, have taken significant steps to promote equal access to justice by allocating funding more equitably to the trial courts.

- Trial court funding is proposed to be 10.5 percent above 2007-08 in 2016-17.

Local Government

Siting Incentive Grants

The Governor's Budget notes that local governments have sole control over land use, zoning, and permitting within their communities. When local communities are reluctant to allow the operation of programs for the rehabilitation of offenders in the criminal justice system, this local authority has slowed the ability of the state and local governments to provide meaningful rehabilitation programs.

The Governor's Budget proposes $25 million General Fund for incentive payments to cities and counties that approve, between January 1, 2016 and June 30 2017, new long-term permits for hard-to-site facilities that improve public safety and support the criminal justice system through the provision of services, such as substance use disorder treatment, mental health ,and reentry programming. The Administration will work with city and county stakeholders during the spring to develop an allocation methodology while also safeguarding existing permitted facilities.

Medical Marijuana Regulations

The Governor's Budget notes that the Medical Marijuana Regulation and Safety Act enacted in 2015 created a regulatory framework for the licensing and enforcement of the cultivation, manufacture, transportation, storage and distribution of medical marijuana in California.

The Governor's Budget includes $5.4 million Medical Marijuana Regulation and Safety Act Fund (MMRSAF) in 2015-16 to fund initial regulatory activities. In addition, the Budget includes $12.8 million General Fund, $10.7 million Medical Marijuana Regulation and Safety Act fund, $1.2 million special funds, and 126 positions to implement the regulation of medical marijuana in California.

Specific proposals include:

- Department of Consumer Affairs - $1.6 million in 2015-16 and $3.8 million from the MMRSAF and 25 positions in 2016-17 to create the Bureau of Medical Marijuana Regulation within the Department of Consumer Affairs. The Bureau will regulate the transportation, storage, distribution and sale of medical marijuana within the state and will also be responsible for licensing, investigation, enforcement, and coordination with local governments.

- Department of Public Health - $457,000 in 2015-16 and $3.4 million from the MMRSAF and 14 positions in 2016-17 to DPH for the licensing and regulation of medical marijuana product manufacturers and testing laboratories.

- Department of Food and Agriculture - $3.3 million in 2015-16 and $3.4 million from the MMRSAF and 18 positions in 2016-17 to provide Medical Cannabis Cultivation program administrative oversight, promulgate regulations, issue medical marijuana cultivation licenses, and perform an Environmental Impact Report.

- Department of Pesticide Regulation - $700,000 Pesticide Regulation Fund and 3 positions in 2016-17 to develop guidelines for the use of pesticides in the cultivation of medical marijuana.

- Department of Fish and Wildlife - $7.6 million General Fund and 31 positions in 2016-17 to expand and make permanent the statewide multi-agency task force established in 2014 to address environmental impacts of medical marijuana cultivation and work with the State Water Resources Control Board and CDFA to regulate water diversions.

- State Water Resources Control Board - $5.7 million and 35 position in 2016-17 for the Water Boards to develop and implement a regulatory program to address the environmental impacts of medical cannabis cultivation.

Public Safety

The Governor's proposed Budget provides an overview of the efforts the state has undertaken over the past few years related to the jail population. The Governor's Budget notes that as of December 9, 2015, the prison population was at 136.0 percent of design capacity, which is below the February 2016 benchmark ordered by the Three-Judge Panel.

<u>Community Corrections Performance Incentive Grant (SB 678)</u>

In 2009, SB 678 (Leno) created the Community Corrections Performance Incentive Grant to create incentives for counties to reduce the number of felony probationers sent to state prison. Based on the revised formula established in 2015-16, the Budget includes $129.7 million to continue this successful program.

City Law Enforcement Grants
The Budget includes $20 million General Fund to increase positive outcomes between city police and the homeless community, persons with mental health needs, and high-risk youth populations. The Board of State and Community Corrections (BSCC) will allocate funds to individual cities acting as a fiduciary agent within each county receiving the funds.

The Governor's Budget also continues $6 million General Fund for grants to local law enforcement agencies for programs and initiatives intended to strengthen relationships between law enforcement and the communities they serve.

Continuum of Care Reform – County Probation
The Budget includes $26.8 million for county probation departments to implement Continuum of Care reforms passed in 2015 (AB 403) that support the foster youth system.

Local Criminal Justice Facility Construction – County Grants
The Governor's Budget notes that since 2011 Public Safety Realignment, county jails have been housing felony offenders with longer sentences. Older jails do not lend themselves to the kinds of treatment and programming space needed to run effective in-custody programs that lead to success once an offender is released. The state has provided $2.2 billion in lease revenue authority for local jail construction over the last several years. Using lease revenue bonds for these facilities has been cumbersome. Many counties' projects have been delayed because of real estate issues that needed to be resolved to be compatible with lease revenue bonds.

The state remains committed to helping counties more appropriately serve felony offenders to improve California's overall criminal justice system. The Governor's Budget includes $250 million General Fund for competitive grants to those counties that have previously received only a partial award or never received an award from the state or replacing or renovating county jails to improve custodial housing, reentry, rehabilitative programming, mental health services, or treatment space. Consistent with SB 863 there will be a 10-percent county match requirement, but the match may be reduced to 5-percent for small counties. Counties that previously applied and submitted recent documentation to support the need for improved local criminal justice facility housing with an emphasis on expanded program and treatment space will not be required to resubmit such documentation.

These new grants will mainly fund projects in small counties. While 17 counties have never received an award, it is unlikely that all remaining counties will apply for funds. This Budget proposal is intended to address remaining gaps at the local level, particularly in small counties, to provide appropriate programming and treatment space to better serve offenders sentenced to county jail and improve outcomes among this population. Given the state's significant investment in this area, future consideration for additional funding for this purpose would require significant justification and a demonstrable need.

The Governor's Budget notes that Los Angeles County received an AB 900 award of $100 million for the Mira Loma facility to house female offenders. The County recently authorized the replacement of Men's Central Jail. The Administration has been in discussions with representatives of Los Angeles County about alternative ways the state might assist in the replacement of Men's Central Jail, which is estimated to cost $2 billion. Although the Governor's Budget does not include funding to assist Los Angeles County, the Administration remains committed to working with the County to address alternative ways to create a more collaborative state and local corrections program to make the system more efficient. The Administration is considering options presented by Los Angeles County, such as a diversion program and finding alternative placements for inmates coming to state prison who have six months of time left to serve.

Proposition 47

The Governor's Budget notes that on November 4, 2014, the voters passed Proposition 47, which requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits inmates previously sentenced for these reclassified crimes to petition for resentencing. Proposition 47 and other measures have reduced the average daily inmate population by approximately 8,700. Proposition 47 accelerated the scheduled release of many offenders and it is estimated that the 2015-16 average daily inmate population will be reduced by approximately 4,700 as a result of resentencing and avoided new admissions.

Proposition 47 requires that state savings from the Proposition be transferred into a new fund, the Safe Neighborhoods and Schools Fund. The new fund will be used to reduce truancy, and support drop-out prevention programs in K-12 schools, increase victim services grants, and support mental health and substance use disorder treatment services. The Department of Finance currently estimates net savings of $29.3 million when comparing 2015-16 to 2013-14. Pursuant to Proposition 47 the funds will be allocated as follows:

Department	**Purpose**	**Percentage**	**2016-17 Estimated Allocation**
Board of State and Community Corrections	Mental Health Treatment Substance Use Disorder Treatment Diversion Programs	65%	$19,039,487
State Department of Education	Improve Outcomes for K-12 Students Reduce Truancy Support Students at risk of dropping out	25%	$7,322,579
California Victim Compensation and Government Claims Board	Support Trauma Recovery Centers that Serve Crime Victims	10%	$2,929,152
Total		**100%**	**$29,291,518**

Racial and Identity Profiling Act of 2015

AB 953 (2015, Chapter 466) revises the definition of racial profiling and requires the Attorney General to report on citizen complaints alleging racial or identity profiling for each state and local agency that employs peace officers. Beginning in 2018-19, these local agencies will have to report data on all stops conducted by the agency's peace officers, including the time, date, and location of the stop, and the reason for the stop. The Governor's Budget includes $10 million General Fund to allocate to local law enforcement agencies for costs incurred through June 2017 related to increased citizen complaint reporting activities. The Administration will work with law enforcement entities during the spring to develop an allocation methodology for these funds and the overall program that limits future mandate reimbursement claims related to AB 953.

Transportation

The Governor's Budget notes that California has a vast state transportation infrastructure and efficient operation of the vast network is vital to the state's continued economic growth and serves much of the country. The Budget also notes the work of the conference committee convened by the Legislature and remains hopeful that the committee will adopt a funding package that addresses the state's most urgent transportation needs.

The Governor's Budget reflects the Governor's transportation funding and reform package, including reforms first outlined in September 2015. The package includes a combination of new revenues, additional investments of Cap and Trade auction proceeds, accelerated loan repayments, CalTrans efficiencies and streamlined project delivery, accountability measures, and constitutional protections for the new revenues.

The Governor's package of revenues will be split evenly between state and local transportation priorities. The ten-year funding plan will provide a total of $36 billion for transportation with an emphasis on repairing and maintaining the existing transportation infrastructure. The proposal includes the following resources:

- Road Improvement Cleanup - $2 billion from a new $65 fee on all vehicles, including hybrids and electrics.
- Stabilize Gasoline Excise Tax - $500 million by setting the gasoline excise tax beginning in 2017-18 at the historical average of 18 cents and eliminating the current annual adjustments.
- Diesel Excise Tax - $500 million from an 11-cent increase in the diesel excise tax beginning in 2017-18. This tax would be adjusted annually for inflation to maintain purchasing power.
- Cap and Trade - $500 million in additional cap and trade proceeds.
- Caltrans Efficiencies - $100 million in cost-saving reforms.

Additionally, the Budget includes a General Fund commitment to transportation by accelerating $879 million in loan repayments over the next four years. These funds will support additional investments in the Transit and Intercity Rail Capital Program, trade corridor improvements, and repairs on local roads and the state highway system.

Over the next ten years, the $36 billion transportation package will provide $16.2 billion for highway repairs and maintenance, invest $2.3 billion in the state's trade corridors. Local roads will receive more than $13.5 billion in new funding.

<u>2016-17 Spending on Transportation</u>

For 2016-17, the Budget reflects partial first-year resources from the transportation package of over $1.7 billion which will be distributed as follows:

- Local Streets and Roads – An increase of $342 million in Shared Revenues to be allocated by the Controller to cities and counties for local road maintenance according to existing statutory formulas. The Budget also includes an additional $148 million from loan repayments to reimburse cities and counties for funds already spent on Traffic Congestion Relief Program projects.

- Low Carbon Road Program - $100 million Cap and Trade for CalTrans to implement a low Carbon Road Program for local projects that encourage active transportation such as bicycling and walking, and other carbon-reducing road investments, with at least 50 percent of the funds directed to benefit disadvantaged communities.

- Transit and Intercity Rail Capital Program – An increase of $409 million Cap and Trade for transit capital investments that provide greenhouse gas reductions, with at least 50 percent of the funds directed to benefit disadvantaged communities.

- Highway Repairs and Maintenance – An increase of $515 million for Caltrans to fund repairs and maintenance on the state highway system.

- Trade Corridor Improvements – An increase of $211 million for Caltrans to fund projects along the state's major trade corridors, providing ongoing funding for a program originally established with $2 billion in one-time Proposition 1B bond funding.

Figure TRN-01
Governor's Transportation Package
(Dollars in Millions)

Investment Category	Program	2016-17 Amount	Annualized Amount
Local Streets and Roads	Low Carbon Road Program	$100	$100
	Local Road Maintenance& Repairs	$490	$1,010
	Local Partnership Grants	$0	$250
Transit	Transit Capitol	$409	$400
State Highway Repair and Maintenance	Pavement	$220	$900
	Bridges and Culverts	$155	$500
	Traffic Management Systems	$20	$90
	Maintenance	$120	$120
Trade Corridors	Improved Goods Movement	$211	$200
Total		$1,725	$3,570

1 The 2016-17 totals include anticipated loan repayments.
2 Provides up to $250 million per year beginning in 2017-18.
3 Excludes one-time loan repayments totaling $879 million.