URBAN COUNTIES of CALIFORNIA

Chair
Supervisor Susan Peters
Executive Director
Jolena L. Voorhis

1100 "K" Street, Suite 101/Sacramento, CA 95814/ (916) 327-7531 FAX (916) 491-4182/UCC@urbancounties.com

UCC Summary
Governor's Proposed Budget 2017-18
January 10, 2017

The Governor's Budget proposes a total budget of $179.5 billion with a budget deficit of $1.6 billion. The Governor prioritizes the protection of the most significant accomplishments and pulling back on some of the one-time spending commitments made in last year's budget.

Key proposals include:
- Unwinding of the CCI program which includes returning IHSS collective bargaining to the counties and removing the current IHSS MOE which caps counties costs at 3.5%. However, parts of the CCI will be maintained including the Cal Medi-Connect and the mandatory enrollment of the dual eligibles.
- The cost shift of the IHSS MOE which includes county share of cost for the increase to minimum wage is estimated to be $4.4 billion over the next 6 years.
- Noted concern regarding federal uncertainty on the Affordable Care Act, but no specific proposal to address the possibility of a repeal by the Trump administration.
- Transportation Funding proposal and investment in state infrastructure similar to last year's proposal.
- New housing policies including streamlining housing construction, lower per-unit costs, providing incentives for building affordable housing, and compliance with existing law like the housing element.
- Reversion of $17 million from the Children's Mental Health Crisis Services grant funding authorized last year.
- Cap and Trade expenditure plan for 2017-18 which continues to fund the Transformative Climate Communities which is allocated to local governments. However, the funding is tied to the Legislative approval of the cap and trade auctions continuing past 2020.

Program and State Department Proposals

Environmental Protection

Cap and Trade

The Governor's Budget notes that to date, the state has appropriated approximately $3.4 billion in Cap and Trade auction proceeds for programs that reduce or sequester greenhouse gases by providing individuals, households, communities, and regions more transit options, modern housing near jobs and services, additional tree cover, forest and watershed improvements, healthy soils, recycling opportunities, and housing upgrades to cut energy use.

Over the past year, Cap and Trade auctions have experienced significant volatility. After several consecutive auctions that generated over $500 million in proceeds, the May and August auctions in 2016 generated only $10 million and $8 million, respectively. However, the most recent auction in November 2016 generated $364 million.

One of the factors that may have contributed to this revenue volatility is the perceived legal uncertainty about Cap and Trade beyond 2020. Consequently, the Administration proposes legislation to confirm the Air Board's authority, through a two-thirds urgency vote, to administer Cap and Trade auctions beyond 2020. The Budget proposes a $2.2 billion Cap and Trade Expenditure Plan to be allocated after legislation confirming the Air Board's authority to administer the Cap and Trade Program beyond 2020 is enacted through a two-thirds vote.

An additional $392 million is proposed for programs that could expand the amount of green spaces and new and upgraded housing in the state's disadvantaged and low-income communities, reduce pollution at landfills and provide new recycling jobs, improve the condition of the state's forests, and enhance agricultural water conservation. Funding for these programs will be allocated only upon legislative confirmation of the Air Board's authority, through a two-thirds vote, to administer Cap and Trade auctions beyond 2020. The expenditure plan below notes the amount of funds being proposed for various categories.

Figure CLI-02

2017-18 Cap and Trade Expenditure Plan

(Dollars in Millions)

Investment Category	*Department*	*Program*	*Amount*
Continuous Appropriation	High Speed Rail Authority	High Speed Rail Project	$375
	State Transit Assistance	Low Carbon Transit Operations	$75
	Transportation Agency	Transit and Intercity Rail Capital Program	$150
	Strategic Growth Council	Affordable Housing and Sustainable Program	$300
Trans Pkg	Transportation Agency	Transit and Intercity Rail Capital Program	$500
	CalTrans	Active Transportation	
50 Percent Reduction in Petroleum Use	Air Resources Board	Low Carbon Road Program	$363
Transformational Climate Communities	Strategic Growth Council	Transformative Climate Communities	$142
Short-Lived Climate Pollutants	Air Resources Board	Black Carbon Woodsmoke	
	Cal Recycle	Waste Diversion	$95
	Department of Food & Agriculture	Dairy Digesters	
Carbon Sequestration	CAL FIRE	Healthy Forests	
	Dept of Food and Ag	Climate Smart Ag-Healthy Soils	127.5
	Natural Resources Agency	Urban Greening	
Energy Efficiency/ Renewal Energy	Dept of Community Services and Development	Energy Efficiency Upgrades/ Weatherization	$27.5
	Dept of Food and Ag	State Water Efficiency and Enhancement	
Total			**$2,155**

Beverage Container Recycling Program

The Governor's Budget notes that over the past 30 years, the Beverage Container Recycling Program, which is administered by the Department of Resources Recycling and Recovery (CalRecycle), has raised consumer awareness of the environmental impacts of littering and the benefits of recycling single-use beverage containers. However, the program faces significant challenges, prompted by changes in consumer products and behavior, developments in recycling systems, and fluctuations in the global commodities market.

To maximize the environmental and economic benefits of recycling beverage containers, the program requires comprehensive reform that aligns with the state's climate change goals, the state's 75 percent waste diversion goal, and fiscal sustainability based on the following principles:

- Improving Recycling and Remanufacturing—The program has been successful in its initial goal of reducing litter by providing recycling collection opportunities for consumers. However, collection does not ensure that a product is recycled into a new commodity. Future investments should be focused on creating clean, recyclable streams of material, which will improve the recycling and remanufacturing segments of the current system.

- Sharing Responsibility — Historically, the consumer has shouldered most of the financial burden to sustain the program. Program responsibilities and financing should be rebalanced among all program participants.

- Enhancing Adaptability and Sustainability — Increases in the recycling rate have resulted in a structural deficit in the Beverage Container Recycling Fund. In addition, the program does not respond quickly to fluctuations in the marketplace.

- The program must be both nimble and fiscally sustainable. The Administration is committed to collaborating with stakeholders on a comprehensive reform package. To that end, CalRecycle proposes a policy framework that outlines key components of reform.

Health and Human Services

1991 State-Local Realignment Health Account Redirection

The Governor's Budget notes that 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 $585.9 million in 2016-17 and $546.2 million in 2017-18.

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 to CalWORKs grant levels.

Based on current revenue estimates, the Child Poverty and Family Supplemental Support Subaccount is projected to receive $318.8 million in base and growth funds in 2016-17, and $330.6 million in 2017-18. These funds will be used to fund the recent CalWORKs grant increases and repeal of the maximum family grant (MFG) rule.

2011 Realignment Funding

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 Realignment are now funded primarily by revenue dedicated for 2011 Realignment. Figure HHS-04 identifies the programs and funding for 2011 Realignment, which are funded through two sources: a state special fund sales tax rate of 1.0625 percent totaling $6.9 billion, and $643.7 million in Vehicle License Fees.

Figure HHS-04

2011 Realignment Estimate at 2017-18 Governor's Budget

(Dollars in Millions)

	2015-16	2015-16 Growth	2016-17	2016-17 Growth	2017-18	2017-18 Growth
Law Enforcement Services	**$2,289.1**		**$2,361.2**		**$2,440.1**	
Trial Court Security Subaccount	532.5	7.2	539.7	7.9	547.6	10.0
Enhancing Law Enforcement Activities Subaccount[1/]	489.9	116.0	489.9	154.7	489.9	153.8
Community Corrections Subaccount	1,107.5	54.1	1,161.6	59.1	1,220.7	75.4
District Attorney and Public Defender Subaccount	24.3	3.6	27.9	3.9	31.9	5.0
Juvenile Justice Subaccount	134.9	7.2	142.1	7.9	150.0	10.0
Youthful Offender Block Grant Special Account	*(127.5)*	*(6.8)*	*(134.3)*	*(7.5)*	*(141.7)*	*(9.4)*
Juvenile Reentry Grant Special Account	*(7.4)*	*(0.4)*	*(7.8)*	*(0.4)*	*(8.3)*	*(0.6)*
Growth, Law Enforcement Services		**188.1**		**233.5**		**254.2**
Mental Health[2/]	**1,120.6**	6.7	**1,120.6**	7.3	**1,120.6**	9.3
Support Services	**3,277.6**		**3,404.9**		**3,543.8**	
Protective Services Subaccount	2,109.2	60.3	2,169.5	65.8	2,235.3	83.9
Behavioral Health Subaccount	1,168.4	67.0	1,235.4	73.1	1,308.5	93.3
Women and Children's Residential Treatment Services	*(5.1)*	-	*(5.1)*	-	*(5.1)*	-
Growth, Support Services		**134.0**		**146.2**		**186.5**
Account Total and Growth	**$7,009.4**		**$7,266.4**		**$7,545.2**	
Revenue						
1.0625% Sales Tax	$6,403.5		$6,621.8		$6,901.5	
Motor Vehicle License Fee	605.9		644.6		643.7	
Revenue Total	**$7,009.4**		**$7,266.4**		**$7,545.2**	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

[1/] Base Allocation is capped at $489.9 million. Growth does not add to the base.

[2/] Base Allocation is capped at $1,120.6 million. Growth does not add to the base.

The Administration, in consultation with county partners and stakeholders, has set a base allocation for the 2011 Realignment Behavioral Health Subaccount beginning with the 2016-17 allocation. Beginning with the 2017-18 allocation, the ongoing base allocations will consist of the 2016-17 base allocation plus the subsequent growth allocations. This will serve as a “rolling base” mechanism for future allocations to the Behavioral Health Subaccount.

Coordinated Care Initiative Discontinued

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. Currently, the CCI operates in seven counties: 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 seven 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 Governor’s Budget unwinds the CCI because it estimates that the CCI will no longer be cost-effective, even with the recent enactment of the MCO tax. Therefore, pursuant to existing law, the program will be discontinued in 2017-18. Existing law only requires the Director of the Department of Finance to notify the Legislature of this change and there is no ability for the Legislature to stop this action.

According to the Governor, the major effects of the discontinuation of the CCI are as follows:

- Removes IHSS benefits from plan capitation rates.
- Eliminates the statewide authority responsible for bargaining IHSS workers’ wages and benefits in the seven CCI counties. These counties would again be responsible for IHSS bargaining.
- Reestablishes the state-county share of cost arrangement for the IHSS program that existed prior to the implementation of the CCI. Counties will be responsible for the payment of 35 percent of the nonfederal portion of program costs through 1991 realignment. Based on current estimates, growth in 2017-18 realignment revenues alone will not cover the additional IHSS costs. Therefore, the change is likely to result in financial hardship and cash flow problems for counties. The Administration is prepared to work with counties to mitigate the impact of returning a share of the fiscal responsibility for IHSS to counties.

The net result of these changes is a General Fund reduction of $626.2 million in 2017-18. Although CCI was not cost-effective during the initial demonstration period, the program provided the potential to reduce the cost of health care for the affected individuals and improve health outcomes. Therefore, based on the lessons learned from the CCI, the budget proposes to extend the Cal MediConnect program, continue mandatory enrollment of dual eligibles, and integrate long-term services and supports (except IHSS) into managed care. Although the funding for IHSS will no longer be included in the capitation rates, plans and counties are encouraged to collaborate on care coordination.

IHSS MOE
The Governor's Budget also makes changes to the IHSS MOE which was enacted as part of the CCI.

IHSS benefits were incorporated into the managed care delivery system in seven CCI counties, along with a range of long-term services and supports. Because CCI is no longer cost-effective and will discontinue, the IHSS maintenance-of-effort provisions are automatically repealed and the IHSS program returns to the prior state-county sharing ratios. This change results in a General Fund reduction of $626.2 million in 2017-18. Additionally, responsibility for collective bargaining returns to counties.

Fiscal Impact
Preliminary estimates indicate that this action by the Administration, will shift costs to counties in the amount of $4.4 billion over the next 6 years. It is important to note that besides the original cost sharing agreement of 35% counties and 65% state, the Governor is also including costs for the minimum wage increase in our share of costs.

UCC also notes that the partial continuation of the CCI programs is somewhat confusing and we are working to get more information on how the other parts of the CCI will continue to operate and what the county role will be going forward. However, our main priority will continue to be the large fiscal impact to counties with the decision to unwind the CCI which is not a proposal but is simply a notification.

CalWORKs

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services so that families may become self-sufficient. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs.

The Governor's Budget notes that the total TANF expenditures are $7.5 billion (state, local, and federal funds) in 2017-18. The amount budgeted includes $5.4 billion for CalWORKs program expenditures and $2.1 billion in other programs.

Significant Adjustments:

- Maximum Family Grant (MFG) Repeal—The Budget includes $224.5 million ($198.2 million General Fund) to reflect a full year of increased grant costs resulting from the repeal of the MFG rule, effective January 1, 2017. The rule, for the purpose of calculating a household's maximum aid payment, prohibited cash aid for any child born into a CalWORKs household ten or more months after initially receiving aid.

- County Indigent Health Savings—The Budget includes a one-time General Fund decrease of $265.9 million resulting from additional county savings related to federal health care reform. Actual statewide indigent health savings in 2014-15 were higher than previously estimated. Pursuant to current law, these additional county savings are redirected to the CalWORKs program to offset General Fund costs.

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 $10.6 billion ($3.2 billion General Fund) for the IHSS program in 2017-18, a 6.5-percent increase over the revised 2016-17 level. Average monthly caseload in this program is estimated to be 531,000 recipients in 2017-18, an 8.2-percent increase from the 2016 Budget Act projection. General Fund costs in this program have more than doubled since 2010-11, while caseload has increased 23 percent..

Significant Adjustment:

IHSS Changes Related to CCI—IHSS benefits were incorporated into the managed care delivery system in seven CCI counties, along with a range of long-term services and supports. Because CCI is no longer cost-effective and will discontinue, the IHSS maintenance-of-effort provisions are automatically repealed and the IHSS program returns to the prior state-county sharing ratios. This change results in a General Fund reduction of $626.2 million in 2017-18. Additionally, responsibility for collective bargaining returns to counties.

Medi-Cal & Health Care Reform
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.

Since 2012-13, Medi-Cal General Fund costs grew at an average of 5 percent annually to $19.6 billion in 2016-17 because of a combination of health care cost inflation, program expansions, and caseload growth. Due to the passage of Proposition 56, increased General Fund health care costs in the Medi-Cal program in 2017-18 are partially funded from this tax. After accounting for Proposition 56 funds, Medi-Cal General Fund spending is projected to increase 7 percent from $17.8 billion at the 2016 Budget Act to $19.1 billion in 2017-18. The Budget assumes that caseload will increase approximately 5 percent from 2015-16 to 2016-17 and 1.8 percent from 2016-17 to 2017-18. Medi-Cal is projected to cover 14.3 million people in 2017-18.

Health Care Reform Implementation
The Governor's Budget notes that California continues its implementation of federal health care reform which has enabled millions of Californians to obtain health care coverage. Since 2014, Covered California has provided individual health insurance through private plans. It is estimated that 1.4 million people will be enrolled in 2017-18.

Beginning in 2017, the state assumes a 5-percent share of cost for the optional expansion population. In 2018 the cost-sharing ratio increases to 6 percent and by 2020 the state share will be 10 percent. The Governor's Budget assumes costs of $20.1 billion in 2016-17 and $18.9 billion in 2017-18.

Federal Uncertainty on the ACA
The Governor's Budget notes that the incoming presidential administration and leaders in Congress have suggested major changes to the Medicaid (Medi-Cal in California) program. Recent proposals have included reductions to federal funding for the expansion population, a block grant structure

for Medicaid beneficiaries in private insurance, and creation of high-deductible plans for the Medicaid program combined with health savings accounts. At this point it is not clear what those changes will be or when they will take effect. As such, the Governor's Budget continued to reflect existing state and federal law.

As the congressional deliberations begin, the Administration stands ready to build on what has worked, support changes and efficiencies where appropriate, and play a constructive role to protect and enhance the lives and health of Californians.

Significant adjustments to Medi-Cal:

- Current Year Shortfall—The Budget includes increased expenditures in the Medi-Cal program of approximately $1.8 billion General Fund compared to the 2016 Budget Act. The current year increase is primarily attributable to a one-time retroactive payment of drug rebates to the federal government and miscalculation of costs associated with the Coordinated Care Initiative in prior estimates.

- Managed Care Organization Tax—SBx2 2 (2016) authorized a tax on the enrollment of Medi-Cal managed care plans and commercial health plans, which is in compliance with federal Medicaid regulations. This tax funds the nonfederal share of Medi-Cal managed care rates for health care services provided to children, adults, seniors, persons with disabilities, and persons eligible for both Medi-Cal and Medicare. As a result, the Budget assumes reduced General Fund spending in the Medi-Cal program of approximately $1.1 billion in 2016-17 and $1.6 billion in 2017-18.

- County Medi-Cal Administration—County workers conduct Medi-Cal eligibility work on behalf of the state. Medi-Cal caseload continues to grow and the Budget maintains the augmentation to counties of $655.3 million ($217.1 million General Fund) in 2017-18, as was provided in 2016-17, to administer the program. As the eligibility system continues to achieve greater stabilization, the state is in the initial process of developing a new Medi-Cal county administration budgeting methodology. The Budget continues to include $1.5 million ($731,000 General Fund) to make recommendations for a new methodology.

- Children's Health Insurance Program (CHIP) Reauthorization—CHIP is a partnership between the federal government and states and territories to help provide low-income children, not otherwise eligible for Medi-Cal, with health insurance coverage. The Affordable Care Act (ACA) included a provision that allows the program's federal matching assistance percentage to increase from 65 percent to 88 percent for federal fiscal years 2016 through 2019. However, the CHIP program is only authorized by the federal government through September 2017. To extend the CHIP program beyond September 2017, Congress must pass legislation. Given the uncertainties surrounding potential congressional actions, the Budget assumes the program is reauthorized, but at the non-enhanced, federal-matching percentage of 65 percent effective October 1, 2017, and includes General Fund costs of $536.1 million to reflect this assumption.

- Full-Scope Medi-Cal Coverage for Undocumented Children—The Budget includes $279.5 million General Fund to provide full-scope benefits to approximately 185,000 children. This amount reflects the full-year costs for this program. Chapter 18, Statutes of 2015 (SB 75), expanded full-scope Medi-Cal benefits to undocumented children under 19 years of age effective May 2016.

- Newly Qualified Immigrant Benefits and Affordability Program—SBx1 1, authorized transitioning coverage of these adults without children from Medi-Cal to a Qualified Health Plan in the Health Benefit Exchange, with DHCS providing premium and out-of-pocket payment assistance and wraparound benefits not covered by the Exchange plan. Because the state-only Medi-Cal program is not formally certified as meeting the minimum essential coverage requirements under the ACA, the adults continuing in state-only Medi-Cal may be subject to a tax penalty from the federal government. To ameliorate this issue, the Budget proposes that all new qualified adults eligible be included in the wrap program effective January 1, 2018. The Budget includes General Fund savings of $48 million from transitioning coverage for these adults from Medi-Cal to an Exchange plan.

- Hospital Quality Assurance Fee Extension—On November 8, 2016, voters passed Proposition 52, which amends the state Constitution to permanently extend the existing Hospital Quality Assurance Fee as defined under Chapter 27, Statutes of 2016 (AB 1607). Under prior law, the fee was due to sunset December 31, 2017. Revenues from the fee also fund health care coverage for children and the program's administrative expenses. The Budget assumes General Fund savings of over $1 billion in 2017-18 from the hospital fee.

- Proposition 56—The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 requires 82 percent of the funds remaining after specified allocations be transferred to the Healthcare Treatment Fund to support new growth in Medi-Cal expenditures as compared to the 2016 Budget Act. The Budget includes $1.2 billion for this purpose.

- Major Risk Medical Insurance Fund Abolishment—The Major Risk Medical Insurance Fund currently funds expenses related to the Major Risk Medical Insurance Program, which was originally established as a state high-risk pool. The ACA has reduced the need for the high-risk pool because individuals cannot be denied coverage based on a pre-existing health condition. The Budget abolishes the Major Risk Medical Insurance Fund and proposes to transfer the fund balance of approximately $65 million to the Health Care Services Plans Fines and Penalties Fund. This new fund will support coverage for individuals remaining in the program and expenses related to health care services for children, seniors, persons with disabilities, and dual eligibles in the Medi-Cal program.

- Drug Medi-Cal Organized Delivery System Pilot—In August 2015, the federal Centers for Medicare and Medicaid Services approved the waiver necessary to begin implementation of the Drug Medi-Cal Organized Delivery System pilot program. The pilot program requires counties that opt in to the demonstration program to provide a continuum of care for substance use disorder treatment services. Counties already provide many of the required services under the current Drug Medi-Cal program, and these services will continue under the pilot program. A total of 6 counties are estimated to begin providing services in 2016-17 with an additional 10 counties in 2017-18. The Budget includes $19.9 million ($3.1 million

General Fund) in 2016-17 and $661.9 million ($141.6 million General Fund) in 2017-18 for increased services for the pilot program.

- Medicaid Managed Care Regulations—The Budget includes an additional $4.5 million General Fund to continue implementation of the federal regulations. The managed care regulations are related to beneficiary grievances, provider networks, program integrity, and financing. Some new requirements overlap with existing oversight provided by the Department of Managed Health Care. Therefore, the Budget also reflects the consolidation of these activities at DHCS. There are several components of the regulations that could negatively impact California and result in General Fund costs in the hundreds of millions of dollars annually.

Public Health

The Department of Public Health is charged with protecting and promoting the health and well-being of the people in California. The Budget includes $3.3 billion ($132.2 million General Fund) in 2017-18 for the Department.

Significant Adjustments:

- Proposition 56—The Budget includes $223.5 million and 57 positions in 2017-18 for Public Health's dental, law enforcement, and tobacco prevention programs funded from the new revenue as outlined in Proposition 56.

- Licensing and Certification—The Budget includes $1.1 million Licensing and Certification Program Fund in 2017-18 for the Los Angeles County contract to account for several salary increases. Los Angeles County salaries for nurse surveyors and other contracted staff are higher than state salaries, have increased in each of the past two years, and will continue to increase in 2017 and 2018. Given these continuing cost pressures, Public Health is evaluating the most effective way to provide ongoing regulatory oversight of health care facilities in Los Angeles County. Any continuation of the current relationship will require that: (1) regulatory actions be completed in a timely fashion and consistent with other areas of the state, (2) quality of evaluations be consistent with the rest of California, and (3) costs be maintained within budgeted amounts.

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 $1.6 billion ($1.4 billion General Fund) in 2017-18 for support of the Department. The patient population is expected to reach 6,369 in 2017-18.

Incompetent to Stand Trial

The Governor's Budget notes that DSH continues to experience a significant increase in the number of Incompetent to Stand Trial Admissions (IST) referrals from local courts, with an annual growth rate of over 10 percent since 2013-14. The Department has responded over the past several years by opening 411 additional inpatient beds and using all available bed capacity in the state hospital system. Additionally, State Hospitals has contracted with several counties to open 138 jail-based competency restoration beds, with an additional 10 beds expected to be available in early 2017. Despite these efforts, referrals continue to outpace capacity and the IST pending placement list was approximately 600 individuals in December 2016.

To address this ongoing growth, the Administration continues to work with county partners, the Judicial Council, and stakeholders to find approaches to address the increase in IST referrals, explore additional options for streamlining the IST process, and to identify other potential bed capacity through partnerships with counties. In the longer-term, up to 200 additional secured forensic beds will become available in 2018-19 when the capital outlay project to construct a security fence around an existing patient treatment building at the Metropolitan State Hospital is completed.

In addition to these efforts, the Budget proposes $10.8 million General Fund to establish a 60-bed Admission, Evaluation, and Stabilization Center for the assessment and treatment of ISTs. The proposed Center would be located in a county jail and would admit patients from Southern California counties. Patients would receive a full evaluation upon admission to determine the degree of competency restoration required. Patients having drug-induced psychosis, presenting lower psychiatric acuity, malingering, or no longer meeting the requirements for incompetent to stand trial after the initial admission assessment will be considered short-term patients to be treated and discharged back to the referring county directly from the Center. Patients with higher psychiatric acuity will be transferred to a State Hospital for additional treatment.

State Hospitals continues to work with counties to identify other opportunities for collaboration, identify efficiencies, and reduce the costs for housing and treating IST patients. DSH is also exploring opportunities for joint-use facilities that would provide services to both State Hospital patients and appropriate jail populations.

Social Services

The Department of Social Services (DSS) serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

Significant Adjustments:

- Continuum of Care Reform—The Budget includes $217.3 million ($163.2 million General Fund) to continue implementation of the Continuum of Care reforms outlined in Chapter 773, Statutes of 2015 (AB 403). 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. Although significant progress has been made for the transition of foster youth beginning January 1, 2017, assumptions on caseload movement were revised to more accurately reflect the pace of implementation.

- Child Welfare Digital Services—The Child Welfare Services New System case management project continues to make progress, as the agile approach to software design and development adopted in November 2015 accelerates the project timeline. Rather than procuring a single, monolithic solution to replace the legacy system, a suite of digital services is being developed and integrated to deliver continually improving assistance to state and county workers, enabling effective engagement with and assistance to children and families. The Budget includes $175.9 million ($88 million General Fund) to support an increase in project activity, which includes increased funding for county engagement as individual digital services are designed, developed, and implemented.

- Minimum Wage Increase—The Budget includes an increase in IHSS expenditures of $56.8 million ($26.4 million General Fund) and a decrease in CalWORKs expenditures of $5.3 million General Fund to reflect the impact of the state minimum hourly wage from $10.50 to $11.00, effective January 1, 2018.

- Continue Consolidation of Statewide Automated Welfare Systems—The Budget includes $38.5 million ($7.5 million General Fund) for migration of 39 counties using the Consortium IV system to the LEADER Replacement System. The first year of funding for migration activities will be available after the county consortia negotiations are complete and the Department of Finance and the Department of Technology have reviewed and approved detailed project documents.

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. These cash grants assist recipients with basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility determinations, computing grants, and issuing combined monthly checks to recipients. The state-only Cash Assistance Program for Immigrants (CAPI) provides monthly cash benefits to aged, blind, and disabled legal non-citizens who are ineligible for SSI/SSP due solely to their immigration status.

The Governor's Budget includes $2.9 billion General Fund for the SSI/SSP program. This represents a 2-percent increase ($55.2 million) over the revised 2016-17 Budget. The average monthly caseload in this program is estimated to be 1.3 million recipients in 2017-18, a slight decrease from the 2016 Budget Act projection.

Effective January 2017, maximum SSI/SSP grant levels are $895.72 per month for individuals and $1,510.14 per month for couples. The current Consumer Price Index growth factors are 0.3 percent for 2017 and a projected 2.6 percent for 2018. Maximum SSI/SSP monthly grant levels will increase by $20 and $29 for individuals and couples, respectively, effective January 2018.

Significant Adjustments:

- SSP Cost-of-Living Adjustment—The Budget includes $73.2 million General Fund to reflect the full-year costs of the 2.76-percent cost-of-living increase to the SSP portion of the grant, which became effective January 1, 2017.

- Housing and Disability Advocacy Program—Due to fiscal constraints, the Budget includes one-time savings of $45 million General Fund in the current year from halting implementation of the Housing and Disability Advocacy Program included in the 2016 Budget Act.

Tobacco Tax Increase (Proposition 56)

The voters passed Proposition 56 in November 2016 which increases the excise tax rate on cigarettes and tobacco products, effective April 1, 2017. The excise tax, paid by distributors selling cigarettes in California, increases by $2 from 87 cents to $2.87 per pack of 20 cigarettes.

Proposition 56 requires backfills to Proposition 99, Proposition 10, the Breast Cancer Fund, and to state and local governments to address revenue declines that result from the additional tax. The Proposition specifies allocations to various entities, including the University of California, Department of Justice, Department of Public Health, Board of Equalization, and State Auditor. Additionally, Proposition 56 requires 82 percent of the remaining funds be transferred to the Healthcare Treatment Fund for the Department of Health Care Services to support new growth in Medi-Cal expenditures as compared to the 2016 Budget Act. Of the remaining 18 percent, 13 percent is for the Department of Public Health and the Department of Education for tobacco prevention, and 5 percent goes to the University of California for medical research.

See the chart below for the allocation of the funding.

Figure HHS-03

Proposition 56 Allocations

(Dollars in Millions)

Investment Category	*Department*	*Program*	*2017-18 Amount* [1/]
Enforcement	Department of Justice	Local Law Enforcement Grants[2/]	$37.5
	Department of Justice	Distribution and Retail Sale Enforcement[2/]	$7.5
	Board of Equalization	Distribution and Retail Sales Tax Enforcement[2/]	$5.8
	Department of Public Health	Law Enforcement[2/]	$7.5
Education, Prevention, and Research	University of California	Cigarette and Tobacco Products Surtax Medical Research Program	$80.7
	University of California	Graduate Medical Education[2/]	$50.0
	Department of Public Health	State Dental Program[2/]	$37.5
	Department of Public Health	Tobacco Prevention and Control	$178.5
	State Department of Education	School Programs	$31.5
Health Care	Department of Health Care Services	Health Care Treatment	$1,237.4
Administration and Oversight	State Auditor	Financial Audits	$0.4
	Board of Equalization	Sales and Use Tax	$1.1
Revenue Backfills	Proposition 99, Breast Cancer Research Fund, and Proposition 10		$37.1
Total			**$1,712.5**

[1/] 2017-18 figures include one quarter of 2016-17 revenue and four quarters of 2017-18 revenue.

[2/] Annual amount specified in statute.

Other Health and Human Services Changes
The Budget also includes the following significant adjustments given the General Fund's condition:

- Elimination of the Health Care Workforce Augmentation—The Budget includes the reversion of $33.4 million General Fund in 2016-17 that was intended to support health care workforce initiatives at the Office of Statewide Health Planning and Development. The Budget does not include additional funding in the future for this purpose.

- Elimination of Community Infrastructure Grants—The Budget includes the reversion of the one-time $67.5 million General Fund augmentation included in the 2016 Budget Act for community infrastructure grants to cities and/or counties to promote public safety diversion programs and services by increasing the number of treatment facilities for mental health, substance use disorder, and trauma-related services.

- Children's Mental Health Crisis Services Grants—The Budget includes the reversion of $17 million General Fund from 2016-17 funds intended for grants to local governments to increase the number of facilities providing mental health crisis services for children and youth under the age of 21. Nearly $11 million in Mental Health Services Act funding remains available for the program.

Housing and Local Government

Census Address Program
The Governor's Budget proposes $7 million General Fund for the Local Update of Census Address Program. The program will provide grants ranging from $7,500 to $125,000 to cities and counties to encourage their voluntary participation in efforts to ensure the accuracy of the Census Bureau's Master List of addresses. The program's goal is to count all California residents in the 2020 Census by giving the Census Bureau an accurate listing of every residential dwelling in the state.

The Department of Finance will administer the program and authorize distribution of grant funds. To receive a grant, a city or county must register with the Census Bureau, submit the required address materials to the Census Bureau, and provide Finance with the results of the address review. The Census Bureau will provide Finance status updates on the adequacy of each jurisdiction's participation. Each city's and county's grant will be based on the volume of housing transactions within its jurisdiction between 2010 and 2016.

Housing Policy Principles
The Governor's Budget notes that the Administration is committed to working with the Legislature on the development of a legislative package to further address the state's housing shortage and affordability pressures. This package should include additional reforms and any new funding should not rely on the General Fund.

The Administration puts forth the following principles:

- Streamline Housing Construction—Reduce local barriers to limit delays and duplicative reviews, maximize the impact of all public investments, and temper rents through housing supply increases.
- Lower Per-Unit Costs—Reduce permit and construction policies that drive up unit costs.
- Production Incentives—Those jurisdictions that meet or exceed housing goals, including affordable housing, should be rewarded with funding and other regulatory benefits. Those jurisdictions that do not build enough to increase production should be encouraged by tying housing construction to other infrastructure-related investments.
- Accountability and Enforcement—Compliance with existing laws—such as the housing element—should be strengthened.
- No Impact to the General Fund—No new costs, or cost pressures, can be added to the state's General Fund, if new funding commitments are to be considered. Any permanent source of funding should be connected to these other reforms.

Redevelopment

The Governor's Budget notes that the winding down of the state's former redevelopment agencies continues to be a priority for the Administration. ABx1 26 (2011), eliminated the state's approximately 400 redevelopment agencies and replaced them with locally organized successor agencies that are tasked with retiring the former redevelopment agencies' outstanding debts and other legal obligations. The elimination of redevelopment agencies has allowed local governments to protect core public services by returning property tax money to cities, counties, special districts, and K-14 schools.

In 2011-12 through 2015-16, approximately $1.7 billion was returned to cities, $2.1 billion to counties, and $658 million to special districts. The Budget anticipates that cities will receive an additional $733 million in general purpose revenues in 2016-17 and 2017-18 combined, with counties receiving $869 million and special districts $260 million. The Budget anticipates that additional ongoing property tax revenues of more than $900 million annually will be distributed to cities, counties, and special districts. This is a significant amount of unrestricted funding that can be used by local governments to fund police, fire, housing, and other public services.

Cannabis 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 cannabis in California. Proposition 64, the Adult Use of Marijuana Act, made the recreational use of cannabis legal to people over the age of 21. In addition, Proposition 64 makes it legal to sell and distribute cannabis as a regulated business beginning on January 1, 2018.

Proposition 64 levies new excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018. The cultivation tax is $9.25 per ounce of flower and $2.75 per ounce of leaves, to be paid on all recreational and medicinal cultivation of cannabis, and will be adjusted for inflation beginning in 2020. In addition, there will be a 15-percent tax on the retail price of cannabis. Recreational cannabis will also be subject to state and local sales taxes. Medical cannabis, on the other hand, is exempt from existing state and local sales taxes.

The amount and timing of revenues generated from the new excise taxes are highly uncertain and will depend on various factors including state and local regulations, how cannabis prices and consumption change in a legal environment, and future federal policies and actions toward the cannabis industry. Under Proposition 64, revenues generated from the new excise taxes will be allocated for various purposes, as specified by Proposition 64, including regulatory costs, youth substance use programs, environmental clean-up resulting from illegal cannabis growing, programs to reduce driving under the influence of cannabis and other drugs, and to reduce negative impacts on public health or safety resulting from the legalization of recreational cannabis.

As the state moves forward with the regulation of both medical cannabis and recreational cannabis, one regulatory structure of cannabis activities across California is needed. Implementing the current medical and recreational cannabis statutes separately will result in duplicative costs of an additional $25 million for a second track and trace system. Additionally, a separate regulatory framework for each would lead to confusion among licensees and regulatory agencies, undermining consumer protection and public safety. The Budget includes $52.2 million for the regulation of cannabis in 2017-18 to fund regulatory activities, processing of licenses, and enforcement.

Specific proposals include:

- Department of Consumer Affairs—$22.5 million to enhance the Bureau of Medical Cannabis Regulation within the Department of Consumer Affairs. The Bureau will regulate the transportation, storage, distribution, and sale of cannabis within the state and will also be responsible for licensing, investigation, enforcement, and coordination with local governments.

- Department of Public Health—$1 million for the licensing and regulation of medical cannabis product manufacturers.

- Department of Food and Agriculture—$23.4 million to provide Cannabis Cultivation Program administrative oversight, promulgate regulations, issue cannabis cultivation licenses, and perform an Environmental Impact Report. In addition, the Department of Food and Agriculture is responsible, with assistance from the California Department of Technology and the Board of Equalization, for establishing a track and trace program to report the movement of medical cannabis products throughout the distribution chain using unique identifiers.

- Board of Equalization—$5.3 million in 2017-18 to notify businesses of the new tax requirements and update its information technology systems to register businesses and process tax returns from retail sales. Proposition 64 requires the Board of Equalization to administer an excise tax on cannabis sales and a cultivation tax on all harvested cannabis that enters the commercial market.

- Department of Health Care Services—$5 million in 2016-17 for the public information program specified in Proposition 64. The program, to be established and implemented no later than September 1, 2017, will cover a number of health-related topics pertaining to cannabis and cannabis products.

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.

Community Corrections Performance Incentive Grant (SB 678)

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 $114.9 million to continue this successful program.

Post Release Community Supervision

The Governor's Budget includes $11 million for county probation departments to supervise the temporary increase in the average daily population of offenders on PRCS as a result of the implementation of court-ordered measures and Proposition 57.

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. Based on fall projections, Proposition 47is expected to reduce the 2016-17 adult inmate average daily inmate population by approximately 4,425, compared to 5,247 in 2015-16. The population reduction is attributable primarily to avoid new admissions since the effect of the resentencing component was mostly realized in 2015-16.

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.

The Department of Finance currently estimates net savings of $42.9 million, an increase of $3.5 million over the estimated savings in 2015-16. This estimate assumes savings from a reduction in the state's adult inmate population, and increased costs due to a temporary increase in the parole population and trial court workload associated with resentencing. The estimate also takes into consideration the savings associated with fewer felony filings and more misdemeanor filings, and the number of offenders resentenced and released from the Department of State Hospitals. In calculating state savings attributable to Proposition 47, the state considers the average length of stay of offenders that are no longer prison-eligible. Consequently, in future years, Proposition 57 will reduce the estimated length of stay for offenders that would have, absent Proposition 47, otherwise been sentenced to prison. Ongoing savings are currently estimated to be approximately $69 million.

Proposition 57

The Governor' Budget notes that the Governor sponsored Proposition 57 to maintain compliance with the court-ordered population cap, end federal court oversight, and establish more incentives for inmates to participate in rehabilitative programs. Proposition 57, which was passed by the voters in November 2016, reforms the juvenile and adult criminal justice system in California by creating a parole consideration process for non-violent offenders who have served the full term for their primary criminal offense in state prison, authorizing the California Department of Corrections and Rehabilitation to award credits earned for good behavior and approved rehabilitative or educational achievements, and requiring judges to determine whether juveniles charged with certain crimes should be tried in juvenile or adult court.

The Department is drafting regulations to implement the proposed parole and credit changes described below, which will be subject to a certification by the Secretary that they protect and enhance public safety. The Budget assumes that regulations will be implemented by October 1, 2017. Proposition 57 is estimated to reduce the average daily adult inmate population by approximately 2,000 in 2017-18, growing to an inmate reduction of approximately 9,500 in 2020-21. These figures are preliminary and subject to considerable uncertainty. The implementation of Proposition 57 and other population reduction measures mentioned above will allow the Department to remove all inmates from one of two remaining out-of-state facilities in 2017-18. Additionally, as the impact of Proposition 57 grows, the Department anticipates returning all 4,900 inmates from out-of-state facilities by 2020. Overall, the Budget estimates that Proposition 57 will result in net savings of $22.4 million in 2017-18, growing to net savings of approximately $140 million in 2020-21. The Budget includes $5.7 million for the Department to implement Proposition 57.

Division of Juvenile Justice

The Governor's Budget estimates an increase of 72 wards as a result of Proposition 57 and includes $4.9 million to reactivate two living units within the Division of Juvenile Justice to account for the anticipated increase in juvenile court commitments. Proposition 57 requires that all juvenile offenders who committed their crimes prior to age 18 have a hearing in juvenile court before being transferred to adult court. Specifically, Proposition 57 only allows a juvenile felony offender age 16 or 17 to be transferred to adult court, or age 14 or 15 for certain more serious felonies listed in state law. Prior to Proposition 57, certain crimes committed by a juvenile offender were required to be tried in adult court, and prosecutors also had discretion to file certain criminal charges directly in adult court without input from a juvenile court. The anticipated effect is that fewer juvenile offenders will be tried in adult court, which is estimated to reduce the average daily adult inmate population by 81 in 2017-18.

These changes will likely result in some local government costs, since probation departments will assist in more juvenile court proceedings where a judge determines whether a juvenile offender should be tried in juvenile or adult court. If more wards are committed to the Division of Juvenile Justice, county probation departments will be required to pay the state $24,000 per year for certain juvenile court commitments. However, there may also be some offsetting savings at the local level since juvenile offenders may be held in juvenile hall for a shorter period of time because juvenile court adjudications take less time than adult court adjudications. Additionally, when wards are released from the Division of Juvenile Justice, county probation departments receive funding for supervising juveniles through the Juvenile Reentry Grant within 2011 Public Safety Realignment.

Parole Eligibility for Non-Violent Offenders

CDCR currently operates a court-ordered parole process whereby non-violent, non-sex registrant second-strike offenders are eligible for parole consideration by the Board after serving 50 percent of their sentence. Proposition 57 authorizes a similar process by establishing parole consideration eligibility for non-violent offenders who have served the full term for their primary criminal offense. The regulations for the new process will exclude sex registrants. Additionally, Proposition 57 establishes eligibility once an offender has completed the full term of their primary offense compared to eligibility under the court-ordered process, which is after serving 50 percent of their total sentence. These changes will reduce the average daily adult inmate population by an estimated 524 in 2017-18.

Credit Earnings

To create additional incentives for offenders to participate in rehabilitative programming and improve in-prison behavior, CDCR plans to pursue various credit earning changes that are expected to reduce the average daily adult inmate population by 1,354 in 2017-18. Proposition 57 authorized CDCR to promulgate regulations to not only continue the court-ordered credit increases, but increase earning potential and provide more equality in the credit structure.

It is expected that the regulations will:

- Increase and standardize good-time credit earnings. Good-time credits are earned when an inmate avoids violating prison rules
- Allow all inmates, with the exception of life-term inmates without the possibility of parole and condemned inmates, to earn milestone credits. Milestone credits are earned when an inmate completes a specific education or training program that has attendance and performance requirements
- Increase the amount of time an inmate can earn for milestone completion credits from 6 weeks per year to 12 weeks.
- Create new, enhanced milestone credits for one-time significant earned academic and vocational achievements, such as the earning of Associate of Arts and Bachelor's degrees, high school diplomas, the Offender Mentor Certification Program, and Career Technical Education certifications. Enhanced milestone credits will be applied retrospectively for those credits earned during the inmate's current term.
- Establish new achievement credits for inmates that have sustained participation in other rehabilitative programs and activities. Inmates will be able to earn up to four weeks of achievement credits in a 12-month period.

State Penalty Fund - Fines, Fees and Assessments

The State Penalty Fund was created as a depository for assessments on specified fines, penalties, and forfeitures imposed and collected by the courts and counties for criminal offenses. In statute, the state penalty assessment is a total of $10 for every $10 of base fine assessed. Of the state penalty assessment, 70 percent is deposited into the State Penalty Fund and 30 percent is deposited into a county's general fund. The Budget proposes to amend the process by which the state portion of the assessment is distributed. Currently, the distribution is based on a statutory formula in which assessment revenues are distributed among eight special funds for various programs.

State Penalty Fund revenues have decreased significantly over the past several years, due largely to a significant decrease in traffic citations. Given that this decrease in revenue is projected to continue, the State Penalty Fund can no longer support all of the programs that receive this funding. In addition, the costs of these programs have increased; however the statutory formula has not been updated to account for these increased costs. As a result, many funds currently have structural deficits and some have received funding backfills to provide temporary solvency.

To recognize the decline in State Penalty Fund revenues, the Governor's Budget proposes to reduce the number of programs supported by the fund. The existing programs were evaluated and funding from the State Penalty Fund was prioritized for law enforcement training, victim services programs, and driver training programs. To ensure the program expenditures remain within existing revenues, the affected programs will need to take steps to reduce expenditures. Some examples of these steps include: the Commission on Peace Officers Standards and Training will need to reduce the amount available to reimburse local agencies for travel, lodging and subsistence costs related to out of area training courses; the Board of State and Community Corrections will need to reduce the amount of funding provided on a per-position basis for correctional training commensurate with the overall reduction; and the Office of Emergency Services will need to reduce the total dollar amount associated with Victim Witness Assistance grants across the state.

The Governor's Budget proposes to eliminate the following programs:

- Motorcyclist Safety Program, California Highway Patrol—This program provides motorcycle safety training, education and outreach across the state.

- Local Public Prosecutors and Public Defenders Training Program, Office of Emergency Services—This program provides statewide training grants for local public prosecutors and public defenders on the prosecution of crimes against women. Currently, the program receives training funding from both the State Penalty Fund and the federal government. Federal funding, which provides 35 percent of its total, would continue.

- Internet Crimes Against Children Task Forces, Office of Emergency Services—These task forces investigate cyber criminals who prey on children. In addition to the state funding, these task forces receive funding from both their local government and the federal government. This proposal would eliminate the state funding provided to these task forces.

- California Gang Reduction, Intervention, and Prevention Program, Board of State and Community Corrections—This program provides grants to locals to collaborate and coordinate with local jurisdictions to reduce gang and youth violence. This proposal would eliminate the grant program as it is solely funded by the State Penalty Fund.

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 - $2.1 billion from a new $65 fee on all vehicles, including hybrids and electrics.
- Stabilize Gasoline Excise Tax - $1.1 billion by setting the gasoline excise tax at the 2013-14 rate of 21.5 cents and eliminating the current annual adjustments.
- Diesel Excise Tax - $425 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 $706 million in loan repayments over the next three 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.

<u>10-Year Investment Plan</u>
Over the next ten years, the Governor's transportation package will provide almost $43 billion for transportation investments with revenues split evenly between state and local transportation priorities.

Key components of the 10-year plan are as follows:

- Active Transportation Program - $1 billion Cap and Trade funds for CalTrans to expand the grant program for local projects that encourage active transportation, such as bicycling and walking with 50 percent directed to disadvantaged communities.

- Local Streets and Roads/Local Partnership Funds – About $11.4 billion in Shared Revenues to be allocated by the Controller to cities and counties for local road maintenance according to existing statutory formulas and over $2.2 billion in state-local partnership grants.

- Sustainable Transportation Grants—An increase of $25 million annually for competitive planning grants to assist regions and local governments in achieving the sustainable transportation requirements in Chapter 728, Statutes of 2008 (SB 375), and other State objectives.

- Corridor Mobility Improvements—An increase of over $2.7 billion for multi-modal investments on key congested commute corridors that demonstrate best practices for quality public transit and managed highway lanes such as priced express lanes or high-occupancy vehicle lanes. Included is also $25 million annually to expand the freeway service patrol program.

- Transit and Intercity Rail Capital Program—An increase of over $4.2 billion (including $4 billion in additional Cap and Trade as well as $256 million from loan repayments) 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 almost $18 billion (including $1 billion from Caltrans efficiency savings) for Caltrans to fund repairs and maintenance on the state highway system.

- State Transportation Improvement Program (STIP)—An augmentation and stabilization to the STIP, which should not only allow the California Transportation Commission to restore funding for $750 million worth of projects cut from the program in 2016, but also program approximately $800 million in new projects in the 2018 STIP.

- Trade Corridor Improvements—An increase of over $2.8 billion (including $2.5 billion in new revenues and $323 million from loan repayments) 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*	*2017-18 Amount*	*Annualized Amount*
	Active Transportation Program	*$100*	*$100*
Local Streets and Roads	*Local Road Maintenance & Repairs*	*$206*	*$1,163*
	Local Partnership Grants	*$0*	*$250*
	SB 375 Planning Grants	*$25*	*$25*
	Corridor Mobility Program	*$275*	*$275*
Transit	*Transit Capitol*	*$409*	*$400*
	Pavement	*$129*	*$997*
	Bridges and Culverts	*$91*	*$554*
State Highway Repair and Maintenance	*Traffic Management Systems*	*$12*	*$100*
	Maintenance	*$120*	*$120*
Trade Corridors	*Improved Goods Movement*	*$120*	*$120*
Total		***$1,801***	***$4,234***