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UCC Summary
Governor's Proposed Budget 2018-19
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The Governor's Budget proposes a total budget of $190.3 billion and a projected surplus of $6 billion. The Governor proposes spending much of the surplus to augment the Rainy Day Fund.

Key proposals include:

- Additional funding to the Rainy Day Fund to prepare for recession.
- $27.5 million in additional funding for IHSS county administration.
- $117.3 million for Incompetent to Stand Trial changes and investments. This includes $2.5 million from the Mental Health Services Act to help counties develop innovative plans to address the IST population.
- Implementation and funding for transportation projects through SB 1.
- Policy changes to prohibit the use of 340b drugs in Medi-Cal which could negatively impact public hospitals.
- $3 million in additional funding to HCD to implement the housing package adopted in 2017.
- $134 million to counties for elections systems upgrades.

Rainy Day Fund

The Budget proposes a $3.5 billion supplemental transfer from the General Fund to the Budget Stabilization Account in addition to the current projected amounts required by Section 20 of Article XVI of the California Constitution. In total, the $5 billion transfer brings the Rainy Day Fund to $13.5 billion in 2018-19, achieving the maximum balance allowed by the Constitution for the fiscal year. In the event the amounts required to be transferred for 2017-18 through 2019-20 exceed the estimates reflected in the 2018-19 Budget (as part of the Proposition 2 "true up" process), the supplemental transfer will first be applied towards meeting those additional requirements.

Program and State Department Proposals

Environmental Protection

Cap and Trade

The Governor's Budget notes the 2018-19 Expenditure Plan will be announced at the Governor's State of the State address.

Groundwater Management

In 2014, the Governor signed a package of groundwater management bills that directed cities, counties, and water districts to work together to prevent long-term over-pumping of groundwater basins. The underlying principle of the Sustainable Groundwater Management Act of 2014 (SGMA), is that groundwater is best managed locally. SGMA places significant responsibilities upon local agencies to organize, plan, and ultimately manage their groundwater resources to a sustainable level within a 20-year time horizon, along with fee authority to help cover costs. However, the state will intervene temporarily to protect groundwater basins when local agencies are unwilling or unable to adequately do so. Local agencies have formed groundwater sustainability agencies covering over 99 percent of the state's high and medium priority groundwater basins. However, the major challenge for local agencies and the Department of Water Resources (DWR) remains the development and implementation of groundwater sustainability plans that serve as the foundation to achieving statewide goals and requirements under SGMA.

Significant Adjustments:

- SGMA Implementation—$61.8 million from SB 5 for DWR to support groundwater sustainability agencies through three key efforts: (1) providing technical assistance to aid in the development and evaluation of their plans, (2) supplementing existing planning grants to support a groundwater sustainability agency's responsibility to define a path to achieve sustainable groundwater management, and (3) providing grants directly supporting implementation of groundwater projects.

- Groundwater Treatment—$84 million from SB 5 for the State Water Board to support regional groundwater treatment and remediation activities that prevent or reduce contamination of groundwater that serves as a source of drinking water, including $10 million for technical assistance for drought and groundwater investments.

Health and Human Services

Federal Uncertainty

The federal administration and leaders in Congress continue to consider and propose numerous changes to health and human services programs. Many of the proposals could have far-reaching impacts on health care in California with significant impacts to Medicaid (Medi-Cal in California). It is not clear whether changes will ultimately be approved or when they would take effect. As such, the Budget continues to reflect existing state and federal law.

The federal tax reform bill, passed in December 2017, eliminated penalties for the individual mandate starting in 2019. Repeal of the individual mandate may result in disruptions to the health care market in California. Effective October 1, 2015 through September 30, 2019, the ACA increased the federal share of cost for the Children's Health Insurance Program (CHIP) from the historical rate of 65 percent to 88 percent. However, the federal funding was only appropriated through September 2017. The ACA requires California to continue coverage for most of the children currently under CHIP through September 2019, but absent congressional reauthorization, the state would receive only a 50-percent federal share for this population.

Congress passed legislation in late December 2017 to temporarily fund CHIP at 88 percent through early 2018. Due to this late action, the Budget reflects an 88-percent federal share only through December 31, 2017, and 65 percent as of January 1, 2018. This is consistent with the 2017 Budget Act's assumption. The May Revision will, at a minimum, include savings of approximately $150 million General Fund to reflect temporary federal funding authorized after the Budget was finalized. Coverage for approximately 32,000 pregnant women and children is at risk if CHIP funding is not provided beyond March 2018 because they do not qualify for federally funded, full-scope Medi-Cal.

In addition, other recent federal proposals have included reductions in funding for other health and human services programs including the Social Services Block Grant, Promoting Safe and Stable Families, and Preventive Health and Health Services Block Grant Fund. The effect of the changes being considered by the federal administration are unknown but could have a significant fiscal impact on the state budget.

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 $7.3 billion, and $699.6 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.

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.

Home Visiting Initiative

The Budget includes $26.7 million for a voluntary Home Visiting pilot program, which will continue through 2021 for young, first-time parents in the CalWORKs program. The goal of the home visiting pilot is to help young families reach self-sufficiency by improving family engagement practices; supporting healthy development of young children living in poverty; and preparing parents for employment. The pilot will leverage existing, evidence-based program models currently being implemented across the state. Home visitors will help parents navigate and connect to resources in the CalWORKs program and other available services, and report case progress and outcomes to the county. The Department will work with counties to establish the outcome measures of the pilot so the initiative can be evaluated for effectiveness. A total of $158.5 million in one-time TANF funds is being reserved for the pilot's total costs through calendar year 2021.

Single Allocation Methodology

The Budget includes a one-time augmentation of $187 million for the county single allocation until a revised budgeting methodology is adopted to address the cyclical nature of the caseload changes and impacts to county services. The Administration will continue to work with representatives of counties and the County Welfare Directors Association to develop recommendations for revising the single allocation budgeting methodology by the May Revision.

County Indigent Health Savings

County savings related to federal health care reform are estimated to be $657.1 million in 2017-18 and $530.5 million in 2018-19. The Budget also includes a one-time General Fund decrease of $231.2 million in the CalWORKs program resulting from additional 2015-16 county savings. These savings are partially offset by $23.2 million in costs reflected in the Department of Health Care Services budget. Actual statewide indigent health savings were higher than previously estimated based on the preliminary reconciliation of 2015-16, and the Budget assumes reimbursement of this amount from the counties in 2018-19. The estimated savings will be updated in the May Revision using audited data from the counties. 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 $11.2 billion ($3.6 billion General Fund) for the IHSS program in 2018-19, a 7.7-percent increase in General Fund costs over the revised 2017-18 level. Average monthly caseload in this program is estimated to be 545,000 recipients in 2018-19, a 5.4-percent increase from the 2017 Budget Act projection. General Fund costs in this program have more than doubled since 2010-11, while caseload has increased 26 percent.

IHSS Administration

The Budget includes an increase of $27.8 million General Fund in 2018-19 for county IHSS administrative costs to reflect revised workload and budget assumptions. The new budgeting methodology estimates the average number of cases a social worker can manage for statutorily-required activities, including the federal Fair Labor Standards Act overtime regulations. The workload and budget assumptions will be re-examined as part of the 2020-21 budget.

Medi-Cal

Since 2012-13, Medi-Cal General Fund costs have grown at an average rate of approximately 6 percent annually to $20.1 billion in 2017-18 due to a combination of health care cost inflation, program expansions, and caseload growth. With the passage of Proposition 56, growth in the Medi-Cal program in 2017-18 and 2018-19 is partially funded from this tax. After accounting for Proposition 56 funds, Medi-Cal General Fund spending is projected to increase 11 percent from $19.5 billion at the 2017 Budget Act to $21.6 billion in 2018-19. The Budget assumes that caseload will decrease approximately 0.5 percent from 2016-17 to 2017-18 and increase 0.05 percent from 2017-18 to 2018-19. Medi-Cal is projected to cover nearly 13.5 million Californians in 2018-19.

Significant Adjustments:

- Current Year Costs—The Budget reflects increased expenditures in the Medi-Cal program of approximately $543.7 million General Fund compared to the 2017 Budget Act. The current year increase is attributable primarily to retroactive payments of drug rebates to the federal government and a higher estimate of Medi-Cal managed care costs.
- ACA Optional Expansion—As of January 1, 2018, the state’s cost-sharing ratio for the ACA optional Medi-Cal expansion population will increase to 6 percent, and by 2020 the state's share will be 10 percent based upon current federal law. The Budget assumes costs of $17.7 billion ($1.4 billion General Fund) in 2017-18 and $22.9 billion ($1.6 billion General Fund) in 2018-19 for the 3.9 million Californians in the optional Medi-Cal expansion.

- Medi-Cal County Administration -Chapter 244, Statutes of 2013 (SB 28), required the Department to develop and implement a new budgeting methodology for Medi-Cal county administration base costs. However, the Department was unable to procure a qualified vendor due to limited responses to the request for proposal. As an interim methodology, the Budget proposes an increase of $54.8 million ($18.5 million General Fund) in 2018-19 based on an adjustment to the existing funding level using the increase in the California Consumer Price Index. A similar increase will be applied for two years as the county eligibility systems move to a single Statewide Automated Welfare System. The Department will work with the County Welfare Directors Association to improve processing of eligibility determinations and annual redeterminations, correct beneficiary aid codes, and produce timely data and reports.
- 340B Drug Billing Requirements Trailer Bill - In 2014, the Office of Inspector General for the Department of Health and Human Services published findings that showed an inconsistency in the identification of 340B program eligible prescriptions resulting in duplicative discounts without any process in place that would identify improper multiple discounts. There continues to be scrutiny and concern around the implementation of the 340B program across the nation. To comply with existing federal requirements, DHCS is proposing trailer bill related to the use of, and reimbursement for, drugs purchased under the 340B program in Medi-Cal.

  The Department continues to have significant concerns regarding the use of the 340B program within Medi-Cal and the resulting costs and administrative burden it places on the state. Existing statute requires 340B entities that provide drugs to Medi-Cal beneficiaries to use only drugs purchased under the 340B program and bill at their actual 340B acquisition cost plus any applicable dispensing fee. Although this is required in Medi-Cal fee-for-service under existing statute, the Department is aware of instances in the fee-for-service program in which this is not occurring, particularly when the use of "contracting" pharmacies is involved. In addition, based on discussions with various stakeholders, the Department understands that 340B entities are not billing their acquisition cost to Medi-Cal managed care plans and are instead billing a higher price, creating higher managed care pharmacy costs and therefore higher state costs. The Department has also noted in both fee-for-service and managed care that 340B drugs are not being correctly identified on claims to prevent inaccurate rebate billing that can jeopardize drug rebates with manufacturers.

  To address these issues, the Department's proposed trailer bill seeks to prohibit the use of 340B drugs in the Medi-Cal program, which will enable the state to comply with existing federal law and eliminate the unnecessary higher costs being paid through Medi-Cal as well as the substantial administrative burden of ensuring 340B entities are appropriately following existing law and regulation. The trailer bill proposes to make this effective no sooner than July 1, 2019. The trailer bill also contains flexibilities for the Department in the circumstance that CMS does not approve the complete prohibition, but does permit other types of limitations.

<u>State Hospitals</u>

The Department of State Hospitals 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 $1.9 billion ($1.8

billion General Fund) for support of the Department. The patient population is expected to reach 6,828 in 2018-19.

Incompetent to Stand Trial Admissions

The Department continues to experience a significant increase in the number of Incompetent to Stand Trial (IST) admission referrals from local courts, with annual referrals growing by approximately 33 percent since 2013-14. The Department has responded to this over the past three years by activating 418 inpatient beds and maximizing the use of available bed capacity in the state hospital system. Additionally, State Hospitals contracts with several counties to operate 200 jail-based competency restoration beds, with an additional 107 beds expected to be available in early 2018. Despite these efforts, referrals continue to outpace capacity, with the IST pending placement list of approximately 840 individuals as of early December 2017 compared to 600 in December 2016.

To help address this need, the Budget proposes $117.3 million ($114.8 million General Fund) to further develop the state-county partnership to address the growing number of IST commitments referred to the Department. Nearly $100 million General Fund will be available over three years for community alternatives to increase diversion of mentally ill offenders and decrease county IST referrals to state hospitals. The goal is to strengthen existing local mental health treatment efforts, develop or enhance robust diversion programs, and reduce IST referrals by up to 30 percent.

The program will focus on diverting individuals with mental illness who have committed felony crimes, to prevent entry or reentry into the criminal justice system. The program will prioritize contracts with the 15 counties that have the majority of IST referrals to develop and expand diversion programs to support up to 640 placements. These funds will also be used for up to 60 additional community placements in other counties.

As part of this effort, the Budget also includes $14.8 million General Fund to support a partnership with Los Angeles County for up to 150 IST patients, supporting three levels of treatment options in community settings. These community placements, in addition to the diversion efforts, will help the Department address the largest IST county referral population.

The Budget includes $2.5 million a year from Mental Health Services Act funds for the Mental Health Services and Accountability Commission to provide two years of consulting services to assist counties in developing Innovation Plans that incorporate ways to leverage and coordinate diversion programs to address IST populations.

In addition to the efforts noted above, the Department of State Hospitals continues to work with counties to identify other opportunities for collaboration, efficiencies, and approaches in treating IST patients. The Department is also open to exploring opportunities for joint-use facilities that would provide services to both State Hospital patients and appropriate jail populations.

Significant Adjustments:

Metropolitan State Hospital Bed Expansion

The Budget includes $53.1 million General Fund and 346.1 positions to activate an additional 236 secured, forensic beds at Metropolitan State Hospital.

Jail-Based Competency Treatment Beds
The Budget includes $16.1 million General Fund to allow the Department to contract for up to 159 jail-based competency treatment program beds through existing and new county jail treatment programs.

Coalinga State Hospital Mentally Disordered Offender Bed Activation
The Budget includes $11.5 million General Fund and 81.2 positions for the activation of 80 Mentally Disordered Offender beds at Coalinga State Hospital to offset bed reductions associated with the conversion of units for the Enhanced Treatment Program. The proposed beds will be filled with existing Mentally Disordered Offender patients from other state hospitals, which will free up beds to accommodate IST referrals.

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 $238.2 million ($179.7 million General Fund) to continue implementation of Continuum of Care reforms. This funding reflects ongoing support for child and family teams, approval of resource families, and family retention, recruitment, and support. While significant progress has been made with the transition of foster youth from group homes to Short-Term Residential Therapeutic Programs beginning January 1, 2017, assumptions on caseload movement were revised to more accurately reflect the pace of implementation. In 2018-19, county child welfare and probation departments will be working to increase the availability of home-based family care and determining the local need for Short-Term Residential Therapeutic Programs as group home licenses expire and residential congregate care placements decline.

Minimum Wage Increase
The Budget includes an increase in IHSS expenditures of $260.3 million ($119.4 million General Fund) and a decrease in CalWORKs expenditures of $1.2 million General Fund to reflect the impact of the increase in the state minimum hourly wage from $11.00 to $12.00, effective January 1, 2019.

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 Budget includes $2.8 billion General Fund for the SSI/SSP program. This represents a

1.2-percent decrease ($34.9 million) from the revised 2017-18 budget. The average monthly caseload in this program is estimated to be 1.3 million recipients in 2018-19, a slight decrease from the 2017-18 projection. The SSI/SSP caseload consists of 70 percent disabled persons, 28.6 percent aged, and 1.4 percent blind.

Effective January 2018, maximum SSI/SSP grant levels are $910 per month for individuals and $1,532 per month for couples. The federal cost of living adjustments based on the current Consumer Price Index growth factors are 2 percent for 2018 and a projected 2.6 percent for 2019. As a result, the maximum SSI/SSP monthly grant levels will increase by approximately $20 and $29 for individuals and couples, respectively, effective January 2019. CAPI benefits are equivalent to SSI/SSP benefits, less $10 per month for individuals and $20 per month for couples.

Tobacco Tax Increase (Proposition 56)
The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) raises the tax on cigarettes from $0.87 to $2.87 per pack and expands this tax to electronic cigarettes. Proposition 56 requires specified backfills for Proposition 99, Proposition 10, the Breast Cancer Fund, and to state and local governments to offset tax revenue decreases resulting from the additional tax. After backfills, remaining funds are allocated pursuant to a specified formula, including 82 percent of the funds for transfer to the Healthcare Treatment Fund for Medi-Cal provider payments and growth in the Medi-Cal program compared to the 2016 Budget Act. Updated revenues from this tax increase for 2017-18, which include one quarter of 2016-17 revenues and backfill amounts, are nearly $1.9 billion. Estimated revenues for 2018-19 are $1.3 billion. After backfills of $125.8 million, the Budget includes health care treatment expenditures totaling $850.9 million.

Specifically, the Budget allocates $649.9 million in 2018-19, an increase of $232.8 million, for supplemental payments and rate increases based on those approved in the 2017 budget package. Of the increased amount, approximately $163 million is for physician payments and $70 million is for dental payments. In the current year, supplemental payments for physicians and dental providers are applied statewide to specified procedures frequently performed by these providers, with the objective of increasing provider participation and quality of care. To the extent these supplemental payments are not demonstrating the intent of the initiative—increasing the number of Medi-Cal providers or the proportion of Medi-Cal clients served—the Administration will work with the Legislature to modify the supplemental payments to better promote the goals of the initiative.

The Budget also includes $169.4 million in 2018-19 to support new growth in Medi-Cal compared to the 2016 Budget Act. Finally, the Budget includes $64.5 million ($31.6 million Proposition 56 funds) for a 50-percent rate increase and associated increases in utilization for home health providers that provide medically necessary, in-home services to children and adults in the fee-for-service system or through the home and community-based services waivers. The rate increase is proposed to be effective July 1, 2018.

Housing and Local Government

County Assessors’ Operations
The Governor’s Budget includes $5 million annually for the next three years for a new initiative to

assist in the maintenance and equalization of the county property tax rolls. Proposed statutory language describes the framework for the new program.

County Election Systems

The Governor's Budget notes that the vast majority of voting technology used in California is from the late 1990s or early 2000s. Much of the equipment has reached the end of its useful life. The age and lack of replacement parts decreases the reliability and security of the equipment. The Budget includes a one-time augmentation of $134.3 million General Fund to support the purchase of all necessary hardware, software, and initial licensing for the replacement of voting systems and technology in all 58 counties. This funding represents a 50-percent state share of total voting system replacement costs; counties will be responsible for the other 50 percent.

Property Tax Backfill

The Budget includes $23.7 million General Fund to backfill the property tax revenue losses that cities, counties, and special districts will incur in 2017-18 and 2018-19 due to the October 2017 wildfires in Northern California. This funding estimate will be adjusted as part of the May Revision as more information becomes available from county assessors. This adjustment will also include backfills for the property tax revenue losses incurred by cities, counties, and special districts in 2017-18 and 2018-19 due to the Southern California wildfires that started in December 2017. Reliable estimates of the property tax impact of those fires were not available when the Budget was finalized. The wildfire-related property tax revenue losses incurred by K-14 schools are generally automatically backfilled under the Proposition 98 school funding mechanism. The Budget estimates K-14 schools will incur $24.5 million in cumulative property tax revenue losses in 2017-18 and 2018-19 due to the Northern California wildfires.

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. 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.

From 2011-12 through 2016-17, approximately $2.1 billion was returned to cities, $2.6 billion to counties, and $781 million to special districts. The Budget anticipates that cities will receive an additional $926 million in general purpose revenues in 2017-18 and 2018-19 combined, with counties receiving $990 million and special districts $282 million. The Budget anticipates that average annual property tax revenues of more than $1.2 billion will be distributed to cities, counties, and special districts through 2021-22. This is a significant amount of unrestricted funding that can be used by local governments to fund police, fire, housing, and other public services.

Housing

The Governor's Budget continues the Administration's commitment to improving existing programs and maximizing its investment in housing (see Figure SWE-03). To implement the significant changes included in the 2017 statewide housing legislative package, the Budget allocates $3 million General Fund to the Department of Housing and Community Development, in addition to resources from an estimated $258 million in real estate transaction fee revenue for housing programs and proceeds from the housing bond that will be available upon voter approval in the November 2018 election.

Tax Administration Reform
The Administration worked with the Legislature to enact Chapter 16, Statutes of 2017 (AB 102), which initiated various reforms, including the creation of two new departments. Effective July 1, 2017, the majority of the Board was recast as the California Department of Tax and Fee Administration (CDTFA), which performs all statutory duties formerly performed by the Board. AB 102 also created the Office of Tax Appeals (OTA) effective July 1, 2017. Beginning January 1, 2018, OTA adjudicates the tax appeals formerly assigned to the Board, except for those related to the constitutional duties performed by the realigned Board. The OTA adjudicates tax appeals using panels with three administrative law judges selected through the civil service process. The Board's authority is limited primarily to those duties specified in the State Constitution: the equalization of county property tax rates, assessing specified inter-county and business property, assessing taxes on insurers, and assessing and collecting alcohol excise taxes.

The Budget includes the following resources for the Board, CDTFA, and OTA:

Board of Equalization
$30.4 million ($30 million General Fund) and 204 positions.

California Department of Tax and Fee Administration
$664 million ($354 million General Fund) and 4,270 positions.

Office of Tax Appeals
$20 million General Fund and 80 positions. With the sweeping reforms and creation of CDTFA, the Administration is undertaking an expedited mission-based review to assess operations and determine the most efficient and effective collection of sales and use tax, which aligns with the core mission and values of the new department.

Medicinal and Adult-Use Cannabis
The Medical Marijuana Regulation and Safety Act enacted in 2015 created a regulatory framework for medical cannabis in California, and distributed the responsibility for state licensing between three state entities—the Department of Food and Agriculture, the Department of Public Health, and the Bureau of Cannabis Control. In November 2016, voters approved Proposition 64, the Adult Use of Marijuana Act, which legalized the recreational sale and use of cannabis to people over the age of 21. In addition, Proposition 64 levied new excise taxes on the cultivation and retail sale of both adult use and medical cannabis. Chapter 27, Statutes of 2017 (SB 94), integrated medical and adult use regulations to create the Medicinal and Adult-Use Cannabis Regulation and Safety Act (Cannabis Act), which established the overall framework for the regulation of medicinal and adult-use cannabis in California. The Budget continues funding as approved in the 2017 Budget Act for cannabis regulatory activities, including the processing of licenses and permits, enforcement, laboratory services, information technology, quality assurance, and environmental protection. California's three state cannabis licensing authorities have emergency regulations in place for commercial medicinal and adult-use cannabis, which includes state-licensed cannabis activity that became effective on January 1, 2018. As approved in Proposition 64, new excise taxes will be levied on the cultivation and retail sale of both recreational and medical cannabis with tax revenues being deposited in the Cannabis Tax Fund. The amount and timing of revenues generated from the new taxes are uncertain and will depend on various factors including local regulations, and cannabis price and consumption changes in a legal environment. Proposition 64 specifically delineated the allocation of resources in the Cannabis Tax Fund, which are not subject to appropriation by the

Legislature.

Pursuant to Proposition 64, expenditures are prioritized as follows:

- Regulatory and administrative costs necessary to implement, administer, and enforce the Cannabis Act. The Administration will use the initial revenues into the tax fund to repay the $135 million General Fund loan used to support these activities while cannabis tax proceeds were unavailable.
- Research and activities related to the legalization of cannabis, and the past effects of its criminalization.
- Programs to support substance use disorder treatment, environmental impacts of cannabis cultivation, and public safety.

Because the tax proceeds dedicated to these programs are based on prior year actual tax collection, the Budget assumes that funding for these programs will be available in 2019-20, consistent with Proposition 64. Given the timing of the legalized market's opening and the release of the Governor's Budget, the Administration is deferring all cannabis-related budget proposals until the May Revision. While only a limited amount of data will be available at the May Revision, the Administration will use the updated information to make more informed decisions about future resource needs.

Public Safety

Juvenile Justice Reform

The Governor's Budget provides a summary of the Farrell v. Brown lawsuit began in the early 2000s, and resulted in complete reform of the state juvenile system, including several legislative changes that were implemented to dramatically reduce the Division of Juvenile Justice population from around 3,000 in 2005 to approximately 1,100 in 2011. To continue population reductions and generate savings, the 2012 Budget Act changed the age of jurisdiction from 25 to 23 for youths sent to the Division of Juvenile Justice.

New research on brain development and juvenile case law around diminished culpability of juvenile offenders has prompted the Administration to reevaluate this decision. Currently, juvenile court commitments are eligible to be housed at a juvenile facility until the age of 23, and superior court commitments are transferred to an adult prison at the age of 18 if they are not able to finish their sentence by the age of 21. To allow offenders to benefit from rehabilitative programming designed for young offenders and be more successful upon release, the Administration proposes to raise the age of jurisdiction to 25.

As noted above, the landscape of juvenile sentencing and rehabilitation policy is progressively changing. In addition to juvenile brain development research, there is other research that indicates that emerging adult offenders released from adult prison recidivate at a higher rate than similarly aged offenders released from a juvenile facility. There appears to be widespread interest in treating the emerging adult offender group similar to today's juvenile offender population. In recognition of the changing philosophy related to the emerging adult population, the Legislature enacted Chapter 865, Statutes of 2016 (SB 1004), which authorized a five county pilot program to house youth aged 18 to 21 in juvenile halls rather than county jails. All these recent changes, including changes made to juvenile sentencing under Proposition 57, have led the Administration to propose a similar pilot program at the state level.

The Budget includes $3.8 million General Fund to establish two housing units to support a Young Adult Offender Pilot Program that would divert a limited number of young adult offenders who have committed specified crimes from adult prison to a juvenile facility. This would allow these offenders to benefit from specialized rehabilitative programming designed for young offenders with the goal of reducing recidivism. The Department will develop criteria for placement in this program, initially targeting offenders committed to adult prisons between the ages of 18 and 21. Both of the proposed changes divert young offenders from adult prison to the Division of Juvenile Justice to avoid the adult prison environment, especially gang activity.

Community Corrections Performance Incentive Grant

The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Budget includes $106.4 million to continue this successful program.

Post-Release Community Supervision

The Budget includes $29 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post-Release Community Supervision (PRCS) as a result of the implementation of Proposition 57.

Proposition 47 Savings

Voters passed Proposition 47 in November 2014, 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. The Department of Finance currently estimates net savings of $64.4 million for Proposition 47 when comparing 2017-18 to 2013-14, an increase of $18.8 million over the estimated savings in 2016-17. Ongoing savings are currently estimated to be approximately $69 million.

These funds will be allocated according to the formula outlined in the initiative. Transition from State Custody to Local Systems As a result of various criminal justice reforms over the years, it has become increasingly important to improve the transition of inmates from state custody to local supervision. The Administration has found the existing handoff between the California Department of Corrections and Rehabilitation and probation departments is in need of improvement. The Administration plans to strengthen local partnerships to enhance the process for release. By improving information transfer and sharing of resources to assist with a more seamless transition of offenders to the local system, the state can increase success of transition and reduce the likelihood of offenders returning to custody.

To this end, the Department has undertaken several initiatives in cooperation with counties, such as:

- Pre-release video conferencing, which allows a probation officer to schedule a video teleconference appointment with an offender prior to release to PRCS. This will increase communication between offenders and their probation officers, allowing for more effective pre-release planning and dialogue related to housing and treatment program placement.

- In December 2017, the Department led web-based training for approximately 600 county probation staff to promote a better understanding of the Department's release process and the Department's protocols for determining PRCS eligibility.

- The Department, in collaboration with the Receiver's Office and the Chief Probation Officers of California, has developed a protocol for the release of offenders who are medically compromised and in need of specialized community care upon release. The protocols include communication requirements and expedited timeframes between internal and external stakeholders who are impacted by the release of medically compromised inmates. The Department is also working on a protocol for the release of inmates with serious mental illness.

- In October 2017, the Department finished automation of the pre-release information to expedite the process and provide associated data to appropriate staff in real-time. The pre-release information includes offender data such as in-prison behavior and programming, residence and employment plans, reporting requirements, caseworker evaluations, and medical and psychiatric needs.

Since these efforts are in the early stages of implementation, the Administration will continue working with the Chief Probation Officers of California to discuss and evaluate their impacts on the handoff process. Success for offenders comes from continuing partnerships with stakeholders at the local level on diversion, mental health, job readiness and workforce development, substance use disorder treatment, and health care programs that focus more on rehabilitation and reintegration into society. Initiatives undertaken by the Administration, such as implementation of the Affordable Care Act and workforce investments, give the state an opportunity to provide offenders with services necessary to end the cycle of crime and become self-sufficient and productive members of society.

Transportation

The new SB 1 revenues are allocated by statutory formula to the state for highways, to cities and counties for local roads, and to transit agencies for operations and capital expenditures, and will begin flowing in February 2018. The 2017 Budget provided $2.9 billion in new funding from SB 1, and improvements funded from these new revenues are being implemented immediately. To jump start delivery of SB 1 goals, Caltrans' pavement maintenance funding has been increased by approximately $575 million per year. Caltrans has accelerated and programmed 210 highway repair, and bicycle and pedestrian access projects to date. Caltrans is also working with the Commission to program larger repair and rehabilitation projects. Similarly, cities and counties have submitted over 4,000 proposed projects for which the $451 million in SB 1 funds available in 2017-18, as well as SB 1 funds available in future years, can be used. Pursuant to this list, the Commission approved an initial allocation of these funds to cities and counties at its December 2017 meeting.

Over the next 5 years, SB 1 will increase the resources available for new state highway repair projects from $9 billion to $17 billion. The State Highway Operations and Protection Program (SHOPP), the state's long term highway repair plan has been increased by $1.6 billion in project funding capacity through 2018-19, with another $7 billion in projects planned from 2019-20 through 2022-23.

The 2017-18 Budget provided $2.8 billion in new funding from SB 1 for transportation projects, and the 2018-19 Budget includes $4.6 billion in new SB 1 funding. These revenues will be distributed evenly between state and local transportation priorities. (see Figure TRN-02 chart)