

Jan. 7, 2016
Issue #2

Governor Releases Balanced FY 2016-17 Budget Stressing Fiscal Prudence, Proper Planning for Future Recession

Proposal Includes \$3.6 Billion for Road System Maintenance and Repair

Gov. Jerry Brown this morning released his proposed [\\$170.7 billion budget](#) (\$122.6 billion General Fund spending) for the fiscal year that begins July 1 in a short press conference where he repeatedly warned that California must not be lulled into a false sense of security by the economic recovery.

Similar to last year, Governor Brown, now in his fourth term, cautioned that there have been 10 recessions since World War II. He supported his argument with charts demonstrating the rise and fall of revenues and years of massive deficits followed by small surpluses. Economic expansions typically last five years, but California is now in its seventh year. Thus he stressed that while the state should enjoy another year of a balanced budget, new programs cost money, stating: "This is not a candy store where you can pick out whatever you want."

California's financial picture is in a dramatically different place than when Governor Brown assumed his third term of office in 2011. At that time, California was struggling with a \$26.6 billion budget deficit. Today, California has paid off much of its accumulated debts from past budgetary borrowing and is building a strong Rainy Day fund strengthened by voters in through Proposition 2 of 2014. The state now has a projected \$4.7 billion in reserves, which will increase to \$6 billion by the end of FY 2016-17. Governor Brown is proposing to add an additional \$2 billion to the account by the end of FY 2016-17, for a total of \$8 billion.

A stable and disciplined state budget with growing reserves is good for both the larger economy and for cities. California cities have had long experience with the tendency of the state to look to local governments to help patch its budget gaps.

Rather than proposed takeaways, the budget has many positive aspects for cities, including proposed allocations of \$3.1 billion in cap and trade funds, allocation of water bond funds, drought and disaster assistance proposals, a proposed \$25 million incentive fund to encourage the siting or reentry facilities and implementation steps on the recently-enacted medical marijuana regulatory package. No new proposals are made affecting redevelopment dissolution.

It was disappointing that the Governor did not include a significant funding proposal for affordable housing. However, when asked if he supported the California Senate's [No Place Like Home](#) proposal that would use Prop 63 dollars for permanent supportive housing for homeless mentally ill, Governor Brown carefully said it was worth looking into while also commenting on the high cost to build one unit of affordable housing.

Of major importance to the League and cities, the Governor's budget contains the \$3.6 billion transportation funding proposal he introduced late last year. The Fix Our Roads Coalition, of which the League is a member, issued a [statement](#). The coalition thanked the Governor for his leadership and commitment to this urgent issue at the state and local levels and commended the conference committee and stakeholders who continue to work tirelessly on making fixing our roads a priority. Additional details on the Governor's transportation proposal are below.

Transportation

Funding

The Governor's transportation funding proposal remains essentially the same as his criteria released in early [September 2015](#). The proposal would provide an annual amount of funding of \$3.6 billion, and represents a solid baseline for ramping up Legislative discussions in 2016.

One-half of the funding (\$1.8 billion) would go to cities and counties for street maintenance, complete street projects, public transit and state-local partnership funding projects. Of this amount, \$1.01 billion would be allocated by formula for local streets and roads maintenance, \$523 million of which will go to cities each year based on population. An additional \$100 million would be set aside for a complete streets competitive grant program.

The revenue package required to fund the proposal relies on adjusting the variable gas tax to reflect historical averages, indexing the entire gas tax for inflation and \$2 billion from a \$65 per-vehicle highway user fee. Additional elements include \$500 million in Cap-and-Trade revenues, \$100 million in CalTrans efficiencies, and \$500 million from an 11-cent increase in the diesel tax indexed for inflation (to support the trade corridor enhancement program and other highway and road improvements). The Governor also proposes to speed up repayment of \$879 million in transportation-related loans from special funds, including \$148 million to the Traffic Congestion Relief Program.

Benefits to California residents will exceed the costs. Although the Administration projects the package will cost vehicle owners approximately \$10/month, these same vehicle owners are paying an average of \$762 annually to fix their vehicles due to poor road conditions.

The Governor's budget proposal assumes adoption of the proposal. Cities, however, should note that if a funding package is not adopted, transportation revenues are expected to decrease. Details on funding estimates, to reflect available revenues if the Governor's proposal is not adopted, will be released in the coming weeks.

Motor Vehicle Account Fix

The Governor also proposes a \$10 increase to the vehicle registration fee to address an ongoing deficit in the Motor Vehicle Account (MVA). MVA funds activities of the Department of Motor Vehicles, California Highway Patrol, and Air Resources Board.

Green Decal Program

The Green Decal program allows transitional and partial zero-emission vehicles use of High Occupancy Vehicles (HOV) lanes as single-occupancy vehicles. The state reached the statutory cap of 85,000 decals last year, and the Governor plans to ask for an extension. Details were not released.

Redevelopment Dissolution

The Governor's proposed budget summary reports that since FY 2011-12 and projected through FY 2016-17, redevelopment dissolution will have returned a total of \$6.8 billion in property taxes to K-14 schools. This consequently allows the state to reduce its General Fund expenditures under Proposition 98 education funding requirements by a similar amount.

The cumulative total received by counties, special districts and cities over this same period is projected to be \$5.1 billion. Cities are anticipated to receive \$643 million over FY 2015-16 and FY 2016-17. The budget document also summarizes the comprehensive changes to the redevelopment dissolution process made by SB 107, Chapter 325 of 2015, which was placed into print and passed by the Legislature on the final day of the 2015 legislative session. The Administration makes no new proposals in this area for FY 2016-17.

Cap and Trade Allocations

The budget proposes to allocate \$3.1 billion from Cap-and-Trade auction proceeds, which includes the balance of auction proceeds that were not allocated in FY 2015-16. The Cap-and-Trade expenditure plan proposes:

Continuous Appropriation (60 percent of annual auction proceeds)

- \$500 million for High-Speed Rail Projects
- \$100 million for Low Carbon Transit Operations
- \$200 million Transit and Intercity Rail projects
- \$400 million Affordable Housing and Sustainable Communities program

One-time Appropriation (40 percent of annual auction proceeds in plus balance of FY 2015-16 auction proceeds)

- \$400 million for Transit and Intercity Rail Capital program for additional competitive grants to support capital improvements to integrate state, local and other transit systems, including those located in disadvantaged communities, and to provide connectivity to high-speed rail. (See Transportation Funding section above.)
- \$100 million for the Department of Transportation to administer the Low Carbon Road Program, which will prioritize disadvantaged communities, and provide competitive grants for improvements to local streets and roads that encourage active transportation, such as walking and bicycling, transit, and other carbon-reducing road investments. (See Transportation Funding section above.)
- \$500 million for the Air Resources Board's Low Carbon Transportation Program to provide incentives for low carbon freight and passenger transportation, including rebates for zero emission cars, vouchers for hybrid trucks and zero-emission trucks and other uses.
- \$25 million for the Energy Commission for Biofuel Facility Investments.
- \$100 million for the Strategic Growth Council to administer the Transformational Climate Communities Program to support local climate actions in the state's top 5 percent of disadvantaged communities. Funding will support projects that integrate multiple, cross-cutting approaches to reduce GHG emissions.
- \$40 million for the Air Resources Control Board for black carbon woodsmoke.
- \$20 million for the Air Resources Control Board refrigerants.
- \$100 million for the Department of Resources, Recycling and Recovery to provide financial incentives for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities. Investment in new or expanded clean composting, anaerobic digestion, fiber, plastic, and glass facilities is necessary to divert more materials from landfills.
- \$30 million for the Department of Food and Agriculture for water and energy efficiency.
- \$60 million for the Energy Commission for water and energy technology programs and appliance rebates.
- \$60 million for the Department of Fish and Wildlife for wetland and watershed restoration.
- \$150 million for CAL FIRE to support forest health programs that reduce GHG emissions through fuel reduction, reforestation projects, pest and diseased tree removal, and long-term protection of forested lands vulnerable to conversion.
- \$30 million for CAL FIRE to Urban Forestry programs.
- \$20 million for the Natural Resources Agency for urban greening projects.
- \$30 million for the Department of General Services to implement Executive Order B-18-12 that requires state agencies to reduce GHG emissions by 10 percent by 2015 and 20 percent by 2020.
- \$20 million for the California Infrastructure and Economic Development Bank (I Bank) to leverage private investments in energy efficiency and renewable energy projects in public buildings that will save money by using less energy.
- \$15 million for the Conservation Corps for Energy Corps. This funding will support 10 crews and approximately 100 corps members to conduct energy audits and install energy efficiency and water conservation upgrades in public buildings over the next several years.
- \$75 million for the Department of Community Services and Development for energy efficiency upgrades and weatherization.
- \$60 million for UC and CSU for renewable energy and energy efficiency projects.

Environmental Quality

Emergency Drought Response

The Governor's budget proposes to provide an additional \$323.1 million (\$212.1 million General Fund) on a one-time basis to continue immediate response to the ongoing drought.

Key allocations would include:

- \$77.4 million for CALFIRE for enhanced fire protection.
- \$42 million for the Department of Water Resources Emergency Salinity Barriers in the Delta.
- \$5 million for the Department of Water Resources to provide emergency drinking water support for small communities, including addressing private wells.
- \$21.4 million for the State Water Resources Control Board to continue enforcement of drought-related water rights and water curtailment actions and provide grants for emergency drinking water projects.
- \$18.4 million for the Department of Social Services to continue the Drought Food Assistance Program.
- \$7.5 million for the Department of Community Services and Development to provide emergency assistance to unemployed farmworkers, including housing, utility and job training assistance.
- \$15 million for the Department of Water Resources for urban water conservation and Save Our Water Campaign.
- \$12 million for the Department of Water Resources to implement statewide actions, including operation of the drought management operations center, water transfer support and water supply modeling.
- \$26.7 million to continue to provide local communities with technical guidance and disaster recovery support related to the drought, distribution of bottled water, and response and recovery training and credentialing program for local agencies.

California Water Action Plan

In furtherance of the California Water Action Plan, which was released in 2014, the budget would allocate:

- \$385 million Prop. 1 for multiple agencies to support projects that meet the state's commitments under the Klamath Agreements (\$250 million), the Central Valley Project Improvement Act (\$90 million), and the San Joaquin River Settlements (\$45 million).
- \$100 million for the Department of Water Resources to enhance flood protection in the Central Valley by repairing levees.
- \$80 million Prop. 1 for the Department of Water Resources to design and implement projects that expand habitat and suppress dust at the Salton Sea, a critical resting stop for migratory birds.
- \$3.6 million for the Delta Stewardship Council to implement the Delta Science Plan and incorporate the WaterFix Delta conveyance project into the Delta Plan.
- \$3 million for the Department of Water Resources to identify water delivery operational improvements in extreme conditions and evaluate long-term climate change impacts on statewide water supplies.
- \$1.2 million for the Department of Water Resources to strengthen coordination and performance evaluation across state and regional agencies and develop a long-term investment and financing strategy for the Water Action Plan.

Department of Toxic Substances Control

The budget proposes an additional \$1.2 million for the Hazardous Waste Control Account and continuation of eight limited-term positions on a permanent basis to support timely permitting actions and improve the clarity, consistency, protectiveness, and enforceability of permits issued.

Department of Forestry and Fire Protection

In addition to providing resource management and wildfire protection services, CALFIRE also staffs local fire departments through reimbursement agreements with local governments. The budget proposes the following allocations:

- \$17 million and 95.9 positions to increase staffing levels in CALFIRE's 21 Emergency Command Centers, along with the two regional and Sacramento Command Centers, to address the increased volume of emergency calls during periods of historic increased fire activity.
- \$7 million and 12.8 positions to acquire, install, and support Automated Vehicle Location and Mobile Data Computer devices in all CAL FIRE emergency response equipment.

Department of Parks and Recreation

The Department of Parks and Recreation has undergone significant reform over the last few years. The budget proposes to continue to strengthening the State Parks System by allocating the following:

- \$112 million repayment to the Off-Highway Vehicle Trust Fund.
- \$60 million for high-priority deferred maintenance projects in the state parks system.
- \$690,000 for a two-year pilot project to implement a community liaison project within the two largest urban population centers in the state, Los Angeles and the Bay Area. These liaisons will work with community-based organizations and nonprofit groups to create culturally relevant interpretive and environmental programs.

Department of Conservation

The Department of Conservation administers programs responsible for the sustainable management and development of the state's land, energy, and mineral resources. The budget would allocate \$1.4 million to enable the Department to test sensitive gas pipelines on a more periodic basis and accurately map pipelines to identify potential threats.

Proposition 39

Voters approved Prop. 39 in 2012 to increase state corporate tax revenues. For FY 2013-14 through FY 2017-18, the measure requires half of the increased revenues, up to \$550 million per year, to be used to support energy efficiency. The budget proposes the following:

- \$365.4 million to support school district and charter school energy efficiency projects.
- \$45.2 million to support community college energy efficiency projects and clean energy job development programs.

Public Works

The Governor's budget summary outlines efforts to renew its focus on the California Conservation Corps, a program the Governor created in 1976. It makes the following adjustments:

- \$15 million increase from Cap and Trade funds for the Energy Corps Program. (See Cap and Trade Allocations section above.)
- \$5 million for Forest Health Improvement Projects in the highest fire risk areas of the state.
- \$2.6 million from the General Fund for a Butte Fire Center.
- \$400,000 General Fund increase for residential center site selection evaluation in Pomona, Napa, and Ukiah.
- \$19.7 million General Fund increase for renovation at the Auburn Center.

In conjunction with the release of the proposed FY 2016-17 budget, the Governor also released the state's [2016 Five-Year Infrastructure Plan](#). Cities should note that the Infrastructure Plan focuses solely on the needs of State-owned and operated facilities, and does not include the needs of local facilities.

Medical Marijuana Regulation and Safety Act Implementation

The Governor's budget proposes \$30 million and 126 positions in various state agencies to implement and regulate the newly created Medical Marijuana Regulation and Safety Act. Specific allocations would include:

- **Department of Consumer Affairs:** \$1.6 million in FY 2015-16 and \$3.8 million from the Medical Marijuana Regulation and Safety Act Fund and 25 positions in FY 2016-17 to

create the Bureau of Medical Marijuana Regulation within the Department, to regulate transportation, storage, distribution and sale of medical marijuana, in addition to licensing, investigation, enforcement, and coordination with local governments.

- **Department of Public Health:** \$457,000 in FY 2015-16 and \$3.4 million in FY 2016-17 to add 14 positions to the Department to undertake regulatory responsibilities associated with the Medical Marijuana Regulation and Safety Act.
- **Department of Food and Agriculture:** \$3.3 million in FY 2015-16 and \$3.4 million from the Medical Marijuana Regulation and Safety Act Fund and 18 positions in FY 2016-17 for the following activities:
 - Provide administrative oversight for the Medical Cannabis Cultivation Program.
 - Promulgate regulations, issue cultivation licenses, and perform an Environmental Impact Report.
 - Establishing a “seed-to-sale” tracking program with assistance from the Board of Equalization to use unique identifiers to track movement of medical marijuana and related products throughout the distribution chain.

Local Public Safety

City Law Enforcement Grants Totaling \$26 million

- \$20 million for increasing positive outcomes between local police and the homeless community, persons with mental health issues, and high-risk youth populations.
- \$6 million for competitively awarded grants to local law enforcement agencies for programs strengthening relationships between law enforcement and local communities.

Racial and Identity Profiling Act of 2015

- \$10 million to local law enforcement agencies for costs incurred through June 2017 related to increased citizen complaint reporting activities as required by AB 953 (2015). The Administration plans to work with law enforcement entities to develop an allocation methodology for these funds and the overall program that limits future mandate reimbursement claims related to AB 953.

Community Corrections Performance Incentive Grants

- \$127.9 million to provide incentives for counties to reduce the felony probationers that are returned to prison

Continuum of Care Reform

- \$26.8 million (including \$18.1 million from the General Fund) for county probation departments to implement reforms required by AB 403 (2015) to support the foster youth system.

Local Criminal Justice Facility Construction

- \$250 million in competitively awarded grants to counties that previously received only a partial award or no award from the state, to replace or renovate county jails and improve custodial housing, re-entry, rehabilitative programming, mental health services, and other treatment space, particularly for offenders with longer term sentences. The grants will entail a 10 percent county match requirement, reduced to 5 percent for smaller counties. This is part of an on-going state effort to invest in and support local criminal justice system needs in the wake of AB 109/Public Safety Realignment and Prop. 47.

Office of Emergency Services

- \$35.2 million increase to support the Office of Emergency Services’ responsibility for emergency preparedness and response. This proposal includes a one-time \$20 million General Fund augmentation to purchase wildland fire engines, which will be placed throughout the state as part of the State Fire and Rescue Mutual Aid System. In addition,

this proposal includes \$4.2 million General Fund for both the Fire and Rescue Branch and the Law Enforcement Branch to expand the capacity to respond to major fires and other natural and man-made disasters throughout the state. This also includes \$5 million General Fund to support Statewide Disaster Programs.

Department of Corrections and Rehabilitation

Prop. 47 Funds

- \$19 million allocation in Prop. 47 funds for the Board of State and Community Corrections (BSCC) to use for mental health treatment, substance use disorder treatment, and diversion programs.
- Prop. 47, combined with court-ordered and self-imposed county jail population caps, and Public Safety Realignment, have reduced average daily inmate population by 8,700. In FY 2015-16, that population will be reduced by an additional 4,700 as a result of resentencing and avoided new admissions.
- Prop. 47 requires state savings to be redirected to the Safe Neighborhoods and Schools Fund, to reduce truancy, support drop-out prevention programs in K-12 schools, increase substance abuse treatment services, and increase victim services grants. The Department of Finance estimates a net savings of \$29.3 million, and the first transfer of these savings is due to occur in August 2016.

Inmate Rehabilitation and Re-entry

- \$400 million to the Division of Rehabilitative Programs. This division operates 13 prison-based re-entry hubs for offenders who are within four years of release and have been assessed as moderate-to-high risk re-offenders and moderate-to-high need for services. These programs focus on behavioral treatment programming, including substance abuse treatment, anger management, family relationships, and criminal thinking.
- \$15.2 million for expansion of substance abuse treatment programs to correctional institutions that currently lack such a program.
- \$32.1 million to continue the Community Re-entry Program, linking offenders to community-based rehabilitative services (including employment, education, medical care, mental health care, housing, family reunification, and social support). This is a voluntary program allowing eligible male inmates to complete their sentences in the community in lieu of confinement in prison.

Siting Incentive Grants for Cities and Counties

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

Drug Contraband and Interdiction

- \$7.9 million for expanded efforts to reduce illegal drugs and contraband at 11 prisons, including Calipatria, Solano, and the facility in Los Angeles County.

Lifer Population: Expanded Programs and Services

The Department will begin efforts to develop a program that provides six-month transitional housing locations closest to communities in which life-term inmates will be released. Additionally, the Department has taken steps to allow offenders placed in transitional housing immediate access to community leave passes, phones and visitation, and to place these parolees in an appropriate service or treatment program based on their needs assessment.

- \$10 million is proposed to be allocated for the following program expansions:

- \$3.1 million for Parolee Service Center Beds (these centers provide a host of services including employment, job search, placement training, computer supported literacy, victim awareness, and substance abuse education)
- \$3.4 million for In-Prison Long Term Offender Program – covering a variety of services including substance abuse treatment, anger management, family relationships, victim impact, employment readiness, and criminal thinking. This will increase the number of available slots by 1,700.
- \$423,000 for the Offender Mentor Certification Program, a voluntary 10-month program in which long-term and life-term inmates are trained and certified as mentors for alcohol and drug counseling.
- \$3.1 million for the Pre-Employment Transitions Program, focusing on employment preparation, job readiness, job search skills, and education on community resources designed to help with transitioning back into society.

Reduction of Segregated Housing Units (SHU) at Pelican Bay State Prison

- As a result of the settlement in the *Ashker v. Brown* lawsuit, the Budget contains a reduction of \$28 million to reflect a reduction by several thousand beds, which will be converted to a lower, appropriate housing security level, as part of the Department's move away from indeterminate terms for inmates assigned to the SHU, to determinate terms for behavior-based violations. This includes implementation of plans to allow inmates to transition from the SHU into the general inmate population on an accelerated basis.
- \$5.8 million for additional investigative staff to monitor gang activity in prisons as the new segregated housing policy is implemented.

Compliance with Three-Judge Panel Population Cap

- As part of its ongoing oversight of the state prison system, the federal court ordered the state to downsize its total prison population to 137.5 percent of design capacity by Feb. 28, 2016. As of Dec. 9, 2015, the prison population was at 136 percent of population.
- To help the state remain in compliance, the Administration plans to maintain the current levels of in-state and out-of-state contract beds in private correctional facilities, and will seek legislative authorization for this beyond Dec. 31, 2016.

Additional Population Reduction Measures

The Board of Parole Hearings implemented the Youthful Offender Parole Program as required by SB 260 (2013), which provides youth offender parole hearings for those convicted of a felony offense prior to their 18th birthday and sentenced to state prison.

- The Governor's budget includes a \$3.7 million allocation to implement an expansion of this program.
- There is a separate \$3.3 million allocation (FY 2015-16) and a \$6 million allocation (FY 2016-17) to expand the existing female Alternative Custody Program to males, in compliance with the outcome of the *Sassman v. Brown* lawsuit.

Department of Industrial Relations (DIR)

The Governor proposes the following increases for the Department of Industrial Relations:

- Nine positions and \$1.4 million to the Labor and Workforce Development Fund to review and investigate additional cases associated with the Private Attorney General Act.
- 19.5 positions and \$3.2 million to the Labor Enforcement and Compliance Fund to address increases in caseload.
- Nine positions and \$1.8 million to the Labor Enforcement and Compliance Fund to address a backlog of wage claim adjudication hearings.

State Retiree Health and Pension Costs

Following the 2012 Public Employees' Pension Reform ACT (PEPRA), the Administration remains focused on addressing the current \$72 billion unfunded liability that exists for retiree

health care benefits. If left unchecked, the cost of unfunded healthcare liability is projected to grow to \$300 billion by FY 2047-48.

Strategies suggested by the Administration include: State and employees equally sharing in the prefunding of normal costs for future retiree health care for future workers. The Administration successfully negotiated a prefunding agreement with Bargaining Unit 9 (professional engineers). The Administration is now entering contract negotiations with state public services agencies (e.g. police and fire) to move in the same direction for future employees. Although there are no direct proposals to local governments, the Administration is encouraging municipalities to move towards a shared cost model for future retiree healthcare benefits.

Community Services

Child Care

The budget proposal increases funding subsidized child care programs, including an increase of 7,030 slots for full-day State Preschool, a 4.5-percent increase to the Regional Market Reimbursement Rate, and a five-percent increase for license-exempt providers.

Libraries

Increase ongoing funding to the California Library Services Act by \$1.8 million and invest an additional \$3 million on a one-time basis. These funds will be used to strengthen statewide and regional services for public libraries.

Workforce Development

- \$200 million in support to expand career technical education courses through the Strong Workforce Program at California Community Colleges.
- \$48 million for career technical education programs that expand on existing regional capacity and labor market demands for the Career Technical Education Pathways Program at California Community Colleges.

Special Needs Housing

Developmental Disabilities

The budget includes \$80 million for targeted investments in the developmental services system. Specifically establishes a four bed Alternative Residential Model Homes Rate - \$46 million (\$26 million Gen Fund). The rates for these homes are old and were originally based on a six-bed model. The smaller four bed model is increasingly used by regional centers.

Next Steps

The Department of Finance will begin releasing draft trailer bill language in the next month that will include details of the proposal. The Assembly and Senate Budget Committees will also begin hearings to review program-specific details. In May the Governor will release his revised budget proposal for the coming fiscal year that must be passed by June 15 to take effect July 1.