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**Governor's Revised FY 2016-17 Budget Holds Line on General Fund Spending;  
Includes \$2 billion Homeless Housing Revenue Bond**  
*Requires Non-Discretionary Approval of Affordable Housing to Avoid Perceived Delays  
Caused by Community Input and CEQA Review*

This morning Gov. Jerry Brown began his budget press conference by reiterating his warning that California must prepare for the next inevitable downturn. The [Revised FY 2016-17 Budget](#) recognizes that California's tax revenue forecast has been reduced by \$1.9 billion since January caused by sluggish income tax and sales tax revenues. Consequently, while minor adjustments were made to the Governor's January spending proposals, he proposes no new major General Fund spending.

The Governor warned that California may be dangerously close to the next recession. Consistent with his tendency to incorporate historical references, philosophers, and Latin into his presentations, he passed out to reporters copies of "[The Ants & the Grasshopper](#)" from *Aesop's Fables*. The message naturally to be inferred from this story is that California must get ready for winter and store up reserves for lean times.

"There are no Halcyon (calm, peaceful) days ahead," warned Governor Brown. He cautioned that California cannot afford any new spending and still prepare for the economic tide to turn. The state has great revenue volatility with the majority of tax revenues coming from California's wealthiest residents.

The Governor's revised FY 2016-17 budget is \$173.1 billion, which is a 1.8 percent increase over FY 2015-16. Of that total, \$122.2 billion is General Fund, which is an increase of 5.7 percent over the current budget year. Projections for the Rainy Day reserve fund have been reduced. The fund, which currently totals \$3.5 billion, was proposed in January to grow to \$8 billion. That amount, however, in the revised budget has been reduced to \$6.7 billion, reflecting lower projected revenues. The recently enacted minimum wage increase is expected to cost the state an initial \$39 million, but that amount is expected to grow to \$3.4 billion annually by full implementation in 2023. The Governor also noted that Medi-Cal funding is improved over the next three years thanks to the recent passage of the managed care organization tax.

It is now up to the Legislature to debate the proposal and come up with a refined spending plan for the Governor to approve for the budget year that begins July 1. Details on Governor Brown's January proposal are outlined in "[Governor Releases FY 2016-17 Budget Stressing Fiscal Prudence, Proper Planning for Future Recession,](#)" *CA Cities Advocate*, Jan. 7, 2016.

Additional details on the Governor's revised budget are below.

## **\$2 Billion in Homeless Housing Funding**

While the Governor rejected Assembly proposals to spend additional General Fund dollars on affordable housing, he endorsed Senate President Pro Tem Kevin de León's bipartisan proposal to fund housing for California's chronic homeless using funding from the Mental Health Services Act (Proposition 63). This [League-supported "No Place Like Home"](#) proposal would combat homelessness and assist low-income Californians. The proposed FY 2016-17 budget includes an initial expenditure of \$267 million from these bond proceeds.

“We have the money. It’s a serious problem, and the Legislature has come up with a thoughtful program,” said Governor Brown.

## **Public Engagement and Local Approval Process Blamed for Housing Shortage**

Gov. Brown proposes a ministerial, “by-right” land-use entitlement provision for multifamily infill housing developments, which include affordable housing. Under the plan, a local government could not require a conditional use permit, planned unit development permit or other discretionary local government review or approval for qualifying developments that include affordable housing, provided they are consistent with general plan and zoning standards.

While not made clear in the May Revise document, removing local discretion on these decisions and making them “ministerial” also avoids project-level environmental review required by the California Environmental Quality Act (CEQA), since CEQA is only triggered for *discretionary* governmental decisions.

The budget further indicates the Governor’s support for other proposals intended to increase the availability of accessory dwelling units and greater clarity and increased use of the Density Bonus Law. These include [SB 1069 \(Wieckowski\)](#), [AB 2299 \(Bloom\)](#) and [AB 2501 \(Bloom\)](#) — all bills that League opposes [because they reduce public engagement and local discretion over housing](#).

Despite a lengthy description of the alleged problems created by community input in the local development approval process, the May Revise calculates a savings of only 5 percent ([page 49](#)) in project costs. Such a low number actually supports a counter argument that the concern may be overblown. Changes caused by design review were assigned 7 percent of project costs, yet having good design (as opposed to taking short cuts on quality) has long been maintained by affordable housing developers as the key to community acceptance of higher density and affordable housing projects.

## **Transportation**

### **Funding**

The Governor’s transportation funding proposal remains the same as his budget release in January. The proposal would provide additional funding for transportation by \$3.6 billion annually, a number the Administration has indicated a willingness to negotiate with the Legislature.

If adopted, 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 would generate \$500 million by eliminating the variable gas tax adjustment and setting it to a historical average of 18 cents, indexing the entire gas tax for inflation and would generate \$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 \$704 million in transportation-related loans from special funds.

Benefits to investing in roads far exceed the costs to Californians. Although the Administration projects the package will cost vehicle owners approximately an additional \$10 per month, these same vehicle owners are paying an average of \$762 annually to fix their vehicles due to poor road conditions.

If, however, a funding package is not adopted, transportation revenues are expected to continue to decrease. The California Transportation Commission was recently forced to lower their fund estimate by \$754 million because of declining gas tax revenues.

The revise also includes conforming language to make California eligible federal matching freight grant funding under the federal Fixing America's Surface Transportation (FAST) Act.

### **Motor Vehicle Account Fix**

No changes are proposed to the \$10 increase to the vehicle registration fee to address an ongoing deficit in the Motor Vehicle Account (MVA) included in the January budget. MVA funds activities of the Department of Motor Vehicles, California Highway Patrol, and Air Resources Board.

### **Public Works**

No changes are proposed on the Administration's efforts to renew focus on the California Conservation Corps, a program the Governor created in 1976. Here are some of the elements from January:

- \$15 million increase from Cap and Trade funds for the Energy Corps Program.
- \$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.

### **Cap-and-Trade Allocations**

The Governor's May Revise holds firm on his January budget proposal that proposed 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. Details on the Cap-and-Trade expenditure plan are below.

Continuous Appropriation (60 percent of annual auction proceeds):

- \$500 million for High-Speed Rail Projects.
- \$100 million for Low Carbon Transit Operations.
- \$200 million for Transit and Intercity Rail projects.
- \$400 million for 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 (See transportation section).
- \$100 million for Low Carbon Road Program (See transportation section).
- \$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.
- \$100 million for 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.
- \$100 million for financial incentives for capital investments that expand waste management infrastructure, including new or expanded clean composting and anaerobic digestion.
- \$50 million for Urban Forestry programs and urban greening projects.

For a complete summary of the Governor's Cap and Trade proposal, please see ["Governor Releases FY 2016-17 Budget Stressing Fiscal Prudence, Proper Planning for Future Recession," CA Cities Advocate](#), Jan. 7, 2016.

### **Public Safety**

#### **Front-Line Law Enforcement Funding**

The May Revision does not alter proposed front line public safety funding or local jail funding. The \$20 million proposed allocation for police departments remains intact.

### **New Local Siting Grant Program for Re-Entry Facilities**

The May Revision contains more details following a concept described in January to offer a \$25 million siting grant program to encourage local communities to approve housing facilitating treatment and re-entry.

Key features include:

- Competitive application process to determine distribution scheme.
- Additional funding for jurisdictions that site transitional housing and supportive service for ex-offenders for a minimum of 10 years.
- Requires portion of funds to be used to increase public safety around the facility and improve communication with neighbors.
- Funding must be shared with nonprofit facility operators to support security, rehabilitative services and community outreach.

### **Medical Marijuana**

- Proposed increase of \$5.9 million for Information Technology acquisitions at Department of Consumer Affairs and Department of Food and Agriculture (DFA) related to implementation of Seed-to-Sale Tracking.
- \$2 million earmarked for DFA to implement and devise an estimate for the total cost of acquiring tracking system.
- Language to adjust for unknown changes in information technology requirements that crop up during the budget year, requiring expenditure increases.

### **Office of Emergency Services**

Adjustments from the January budget proposal include:

- \$30 million increase (General Fund) to the California Disaster Assistance Act funding, supporting local jurisdictions making use of this program to support recovery from natural disasters, including drought, earthquake, tree mortality, wildfires and floods.
- \$10 million increase (General Fund) to support implementation of California Earthquake Early Warning System, including funding for research on the necessary technology.

### **California Emergency Medical Services Authority (Cal-EMSA)**

Adjustments from the January budget proposal include:

- \$36.1 million (including \$8.7 million General Fund) to support Cal-EMSA's coordination of emergency medical and natural disaster response.
- Cal-EMSA proposes to modify and expand potential uses of three Mobile Field Hospitals purchased by the state in 2007 that have never been used. The mission of these assets will be expanded to include deployment for a broader range of emergencies, including earthquakes, fires, floods, severe influenza outbreaks, virus epidemic, or bioterrorism.

### **Proposition 47**

Since January, the (California Department of Corrections and Rehabilitation) (CDCR) adult inmate population as a result of Prop. 47 increased by 535, from 4,172 to 5,247 during FY 2015-16. The Department of Finance estimates a net savings of \$39.4 million, proposed to be allocated in FY 2016-17 as follows:

- \$25.6 million (65 percent) to the Board of State and Community Corrections for mental health treatment, diversion programs and substance abuse disorder treatment.
- \$9.8 million (25 percent) to the State Department of Education to reduce truancy, improve outcomes for K-12 education and support students at risk of dropping out or who are victims of crime.

- \$3.9 million (10 percent) to the Victim Compensation and Government Claims Board to support trauma recovery centers serving crime victims.

The May Revise also highlights several other pre-existing state initiatives to expand substance abuse disorder treatment including intensive outpatient services and residential treatment, pre-enrollment of inmates into Medi-Cal prior to release. Of the 42,600 offenders on active parole in FY 2016-17, 85 percent will be Medi-Cal eligible.

### **Department of Corrections and Rehabilitation**

CDCR's budget is projected at \$10.6 billion for department operations. Adult inmate and parolee populations have declined leading to corresponding reductions of over \$21 million over FY 2015-16 and FY 2016 fiscal years. Juvenile population has declined as well leading to over \$650,000 in reductions over the same period.

Also included within the CDCR budget:

- \$4 million for leadership training for CDCR staff.
- \$3 million Prop. 98 General Fund for eReader Community College Content (electronic reading devices with textbook content for inmates enrolled in community colleges).
- \$2.2 million for Cognitive Behavioral Therapy.
- \$3.7 million for Substance Abuse Disorder Treatment.
- \$2.3 million for Career Technical Education Programs.
- \$4 million for Art in Corrections (proven successful in altering behavior).
- \$3.1 million for Innovative Programming Grants (one-time funding expanding nonprofit programs focused on offender responsibility and restorative justice principles).
- \$35.9 million for continued implementation of Electronic Health Record System.
- \$3.7 million for Internet Protocol Television Integration — allowing CDCR to create necessary infrastructure to all prisons to support television network delivering rehabilitative programming to inmates.

In addition, \$24.5 million General Fund and \$3 million in Prop. 98 funds would be added to rehabilitation programming for inmates. This would build on a pre-existing allocation of \$60 million in the January Governor's Budget to support long-term offenders, community re-entry programs and expansion of substance abuse disorder treatment in prison

### **Environmental Quality**

#### **Emergency Drought Response**

The May Revise would allocate an additional \$11.4 million (for a total of \$334.5) for emergency drought response, based on current drought conditions. Key allocations include:

- \$6 million for grants to local entities, including local governments, for efforts to remove hazardous trees that pose a threat to public health and safety.
- \$5 million to support additional miscellaneous equipment and personal for hazardous tree removal.
- An increase of \$5 million for the Department of Water Resources to provide emergency drinking water support for small communities, including private wells.
- An increase of \$10.4 million for CAL FIRE to contract for additional helicopters and seasonal helicopter crews during peak fire season.

For a complete summary of the Governor's Emergency Drought Response proposal, please see in ["Governor Releases FY 2016-17 Budget Stressing Fiscal Prudence, Proper Planning for Future Recession," CA Cities Advocate](#), Jan. 7, 2016.

#### **Manage and Prepare for Future Droughts**

Building off of last year's 23.9 percent statewide water savings, the May Revise proposes to allocate the following for drought preparedness and resiliency for urban water agencies:

- \$4.5 million for a coordinated effort by the Department of Water Resources and the State Water Resources Control Board to review and update local water shortage contingency

plans, develop recommendations for new water efficiency targets, and establish a permanent urban water efficiency data tracking system, consistent with the directives of the most recent executive order.

- \$1 million for the Department of Water Resources to support local public agencies with formation of groundwater sustainability agencies.

### **Department of Toxic Substances Control and State Water Resources Control Board**

The Governor's January budget proposal included \$8.2 million from the Childhood Lead Poisoning Prevention Fund for the Department of Public Health to extend services to children who have been exposed to lead. The May Revise augments this effort with the following:

- An increase of \$180,000 to upgrade the information technology system to improve lead mapping.
- An increase of \$480,000 to prepare guidance documents and engage in outreach to schools to assist local efforts with water quality testing, and support public water systems in improving compliance with federal reporting requirements.

### **Enhancing Environmental Justice**

The May Revise seeks to enhance efforts to address environmental justice concerns by allocating the following:

- An increase of \$2.3 million for the Air Resources Board (ARB) to support neighborhood air quality monitoring near oil and gas facilities and enhance the ARB emergency response capabilities.
- An increase of \$2.3 million for the pesticide air monitoring program.
- An increase of \$904,000 to make the pilot Environmental Justice Compliance and Enforcement Working Group permanent. The Working Group will continue reducing adverse environmental impacts in the most vulnerable communities and expand its work to other areas of the state.

### **Proposition 39 K-12 Energy Efficiency**

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 May Revise increases the K-12 allocation by \$33.3 million for a total of \$398.8 million.

### **Community Services**

#### **Child Care**

The January budget proposal increased 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. The May Revise includes an increase of \$55.6 million federal funds for child care and development. The total ongoing and one-time federal funding is \$648.9 million.

#### **California State Library**

The May Revise proposes an increase of \$505,000 for services, including publications, data subscriptions, and other resources available to the public.

#### **Next Steps**

This represents an initial analysis by League staff of the Governor's May Revise. In the coming days more information and trailer bill language will become available to enable the details to be examined more closely. The Legislature is expected to send a final budget to the Governor by June 15, which must be signed before July 1.