



Governor's 2017-18 Proposed Budget

The Rural Rundown

January 10, 2017

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RCRC'S SUMMARY OF THE GOVERNOR'S 2017-18 PROPOSED BUDGET

Earlier today, the Brown Administration released details of the Governor's 2017-18 proposed Budget. This report, *The Rural Rundown*, is an in-depth look at the Governor's 2017-18 proposed Budget, its implications for member counties, details of RCRC's advocacy efforts on specific issue items, and an insider perspective into the reasoning and rationale behind elements of the proposal. In addition to *The Rural Rundown*, RCRC staff will present further findings and details on various programs of interest to RCRC member counties at the January 18, 2017, Board of Directors Meeting in Sacramento.

Overview

Described as "the most difficult budget that we have faced since 2012," the Governor's 2017-18 proposed Budget eliminates a projected \$2 billion deficit, bolsters the State's Rainy Day Fund, and pulls back on one-time spending proposals from 2016. In total, the Governor's 2017-18 proposed Budget includes \$3.2 billion in actions intended to bring the budget back into line.

The volatility of California's progressive tax structure drives the need for continued fiscal restraint in anticipation of the next economic recession. Furthermore, with recent revenue projections dipping, the Governor believes the State must bolster its Rainy Day Fund.

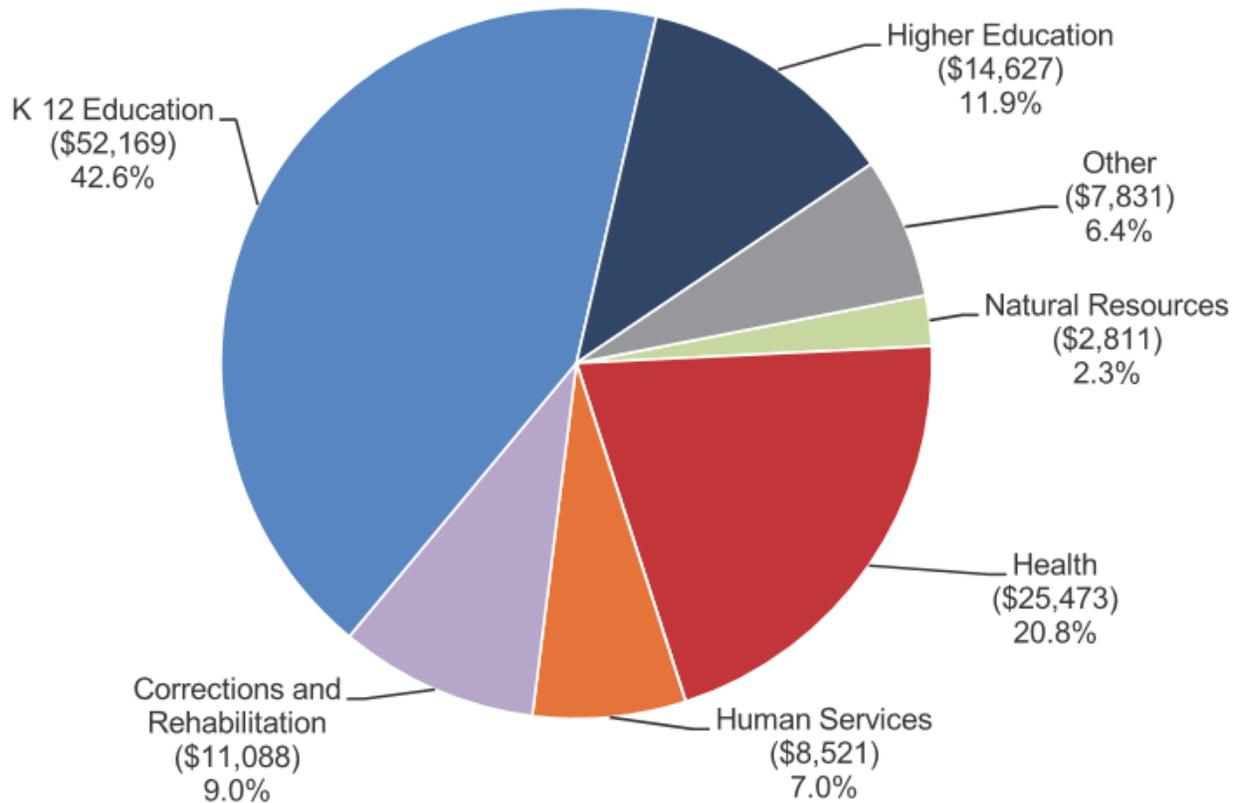
The Governor's 2017-18 proposed \$179.5 billion Budget reflects a spending plan that includes \$122.5 billion General Fund expenditures, \$54.6 billion special fund expenditures, and \$2.4 billion bond expenditures. Of primary importance is the Governor's increasing education funding (even though there is a proposed recalculation of the commitment under Proposition 98/school funding guarantee), continuing health care expansion under the federal Affordable Care Act, counteracting poverty, strengthening transportation infrastructure, and combating climate change.

Key Issues/Changes for RCRC Member Counties

The Governor's 2017-18 proposed Budget:

- Provides \$644,000 for the State's Payment in Lieu of Taxes (PILT) Program for 2017-18;
- Only includes \$1,000 for the Open Space Subvention Program (Williamson Act), the lowest possible dollar figure that allows the program to remain in the Budget;
- Eliminates the Coordinated Care Initiative, triggering higher county costs to the In-Home Support Services (IHSS) program;
- Reiterates a call for the Legislature to provide an additional \$4.2 billion annually to improve the maintenance of highways and local roads, expand public transit, and strengthen critical trade routes; and,
- Maintains the ongoing commitment of \$2.6 million for the support of local fairs.

Figure SUM 03
2017 18
General Fund Expenditures
(Dollars in Millions)



Rainy Day Fund

The Governor’s 2017-18 proposed Budget continues efforts to protect against future economic downturns by maintaining increased revenues in the State’s Budget Stabilization Account (Rainy Day Fund). Under the terms of Proposition 2, which establishes a constitutional target to set aside 10 percent of General Fund tax revenues, the Rainy Day Fund would grow to a total balance of \$7.9 billion, or 63 percent of its constitutional authority, by the end of 2017-18.

California’s Five Year Infrastructure Plan

Since 1999, California Governors have been required to submit a *Five Year Infrastructure Plan* with the annual Budget. Due to the recession, the 2014 *Five Year Infrastructure Plan* was the first submitted since 2008. The 2014 plan indicated that the amount of statewide deferred maintenance at that time was \$64 billion.

The 2017 *Five Year Infrastructure Plan*, which was released with the Governor’s 2017-18 proposed Budget, indicates that the amount of these deferred maintenance needs has grown to over \$78 billion.

Identified Statewide Deferred Maintenance
(Dollars in Millions)

Department of Transportation	\$57,000
Department of Water Resources	\$13,000
University of California	\$3,170
Judicial Branch	\$1,592
Department of Parks and Recreation	\$1,145
Department of Corrections and Rehabilitation	\$1,067
California Community Colleges	\$290
California Military Department	\$195
Department of Forestry and Fire	\$125
Department of General Services	\$121
California State University	\$110
Department of State Hospitals	\$ 89
Department of Veterans Affairs	\$54
Network of California Fairs	\$50
California Highway Patrol	\$35
State Special Schools	\$22
Department of Motor Vehicles	\$14
Department of Fish and Wildlife	\$14
Department of Developmental Services	\$13
Department of Housing, Community Development	\$ 9
California Science Center	\$8
Employment Development Department	\$6
Department of Food and Agriculture	\$5
California Conservation Corps	\$4
California State Library	\$2
Office of Emergency Services	\$1
Total	\$78,141

The 2017 *Five Year Infrastructure Plan* focuses on capital funding.

Agency	Five Year Capital Funding (in Millions)
Transportation / High Speed Rail Authority	\$39,647
Natural Resources	\$869
California Environmental Protection Agency	\$413
Health and Human Services	\$44
Corrections and Rehabilitation	\$197
Education	\$182
General Government	\$1,534
Total	\$42,886

The 2017 *Five Year Infrastructure Plan* is based on guidelines set forth in Assembly Bill 857 (2002), which established infrastructure planning priorities to promote equity, strengthen the economy, protect the environment, and promote public health and safety.

The 2017 *Five Year Infrastructure Plan* can be accessed [here](#).

Administration of Justice

2011 Realignment of Public Safety Responsibilities to Counties. In 2011, the Governor and the Legislature enacted the realignment of various state programs to counties. Specifically, a realignment of various criminal justice populations occurred under Assembly Bill 109, known as Public Safety Realignment. The 2011 Realignment fiscal structure ensures continued funding for several local public safety subventions (rural sheriff grants, COPS, etc.). Funding for Public Safety Realignment is made primarily via a dedication of 1.065 percent of the State portion of the sales tax rate, and secondarily through a portion of vehicle license fee revenues. These revenue commitments are now constitutionally protected with the passage of Proposition 30 (Temporary Taxes to Fund Education) in 2012.

AB 109 funding is directed to counties from a state-level Community Corrections Subaccount. Annual funding for the Community Corrections Subaccount is dictated by the 2011 Realignment fiscal structure set forth in statute, and the overall funding level produced by the dedicated state sales tax within a given fiscal year. Actual allocations to counties are made according to a permanent formula developed several years ago by a nine-member County Administrative Officer committee with the assistance of the California State Association of Counties. The Governor's 2017-18 proposed Budget estimates \$1.22 billion statewide for counties in base Community Corrections Subaccount (AB 109) funds, representing an overall annual increase of nearly \$60 million. Additionally, the Governor's 2017-18 proposed Budget projects \$59.1 million in 2016-17 growth funds (expected for receipt in Fall 2017), and an estimated \$75.4 million in 2017-18 growth funds (expected for receipt in Fall 2018). Actual growth amounts typically are

not known until just before they are distributed, but the Governor's May Revision will provide an update on revenue estimates.

Additional County Probation Funding. The Governor's 2017-18 proposed Budget includes nearly \$115 million in Senate Bill 678 (Leno; 2009) funding for County Probation Departments. SB 678 was enacted to provide counties with a financial incentive to reduce the number of reoffenders returning to State prison.

Assembly Bill 109 Planning Grants. The Governor's 2017-18 proposed Budget includes another one-time \$7.9 million appropriation for counties to revise and update their Community Corrections Partnership (CCP) plans. Every year since the passage of 2011 Realignment, the State has provided funds to support local implementation of Assembly Bill 109, namely, the work in constructing and reviewing a county's CCP plan. Funds are typically allocated to each county as a fixed-dollar amount (\$100,000, \$150,000, or \$200,000) based on population. The Board of State and Community Corrections requires counties to report on the outcomes adopted by a county's CCP, and the ongoing progress in meeting those outcomes in order to receive the planning grant funds.

Proposition 47. Approved by California voters in 2014, Proposition 47 reduces penalties for a variety of specified offenses, and dedicates the 'savings' from prosecuting and housing these offenders into programs that support K-12 truancy and dropout prevention, victim services, and mental health and drug treatment. Proposition 47 requires the Department of Finance to calculate savings associated with the measure. The Governor's 2017-18 proposed Budget estimates a savings of nearly \$43 million since enactment, and subsequently dedicates those savings.

Proposition 57. The Governor's 2017-18 proposed Budget provides \$11 million to assist county probation departments to supervise the temporary increase in the offender population subject to Post Release Community Supervision. Much of this temporary increase is due to the enactment of Proposition 57 in November 2016, and other prison-reduction efforts ordered by the courts. California voters approved Proposition 57 in November 2016, allowing certain non-violent felons serving a sentence in State prison to seek early parole (much of this population will be subject to county responsibility under Post Release Community Supervision).

Local Public Prosecutors and Public Defenders Training Program. The Governor's 2017-18 proposed Budget recommends the elimination of the Local Public Prosecutors and Public Defenders Training Program, which provides training grants for local public prosecutors and public defenders on the prosecution of crimes against women. Numerous programs rely on funding generated by fines, fees, and penalties assessed on certain court filings and citations. These penalties and forfeitures are collected and deposited into the State Penalty Fund and distributed for various programs.

The State Penalty Fund has experienced a significant decrease in revenue over the past several years and can no longer support all the programs. Currently, the Local Public Prosecutors and Public Defenders Training Program receives funding from both the State Penalty Fund and the federal government. Should state funding be eliminated

completely, the Local Public Prosecutors and Public Defenders Training Program will still receive its share of federal funding – approximately 35 percent of its current total.

Trial Court Operations/Courthouse Construction. The Governor’s 2017-18 proposed Budget includes \$3.6 billion in overall judicial branch funding, which supports the Supreme Court, courts of appeal, trial courts, and the Judicial Council (the courts’ policy making body). The overwhelming amount of this allocation is dedicated to local trial court operations. Of note, the Governor’s 2017-18 proposed Budget allocates \$5 million (\$4.1 million in 2017-18 and \$896,000 in 2018-19) to replace case management systems in nine smaller trial courts in the northern part of the state.

The Governor’s 2017-18 proposed Budget does not comment on new courthouse construction projects, nor those projects that are experiencing a pause in the construction process; however, last summer the Judicial Council announced a significant funding shortfall in continuing with a variety of courthouse construction projects. Generally, courthouse construction funding does not originate directly from the General Fund, but relies on a variety of accounts which are funded through portions of fines, penalties, and court filing fees.

Trial Court Security – New Court Facilities. The Governor’s 2017-18 proposed Budget includes \$7 million to address increased court security costs from new trial court construction.

In 2011, the Legislature realigned California’s trial court security funding scheme so the State would pay counties directly, rather than indirectly through the courts. Similar to other criminal justice realignment programs, a fixed percentage of sales tax revenue is allocated to each county to pay for trial court security. A number of recently-opened, newly-constructed courthouses have resulted in increased court security costs, most notably in Calaveras County and San Benito County. To receive monies, counties must demonstrate to the Department of Finance the need for increased trial court security staff as a result of the recent (prior to October 9, 2011) opening of newer (and oftentimes larger) courthouses.

RCRC has been working with the California State Sheriff’s Association and the California State Association of Counties to ensure that counties experiencing deficiencies in their trial court security funding are able to properly staff these recently-opened facilities.

California Environmental Protection Agency

The Governor’s 2017-18 proposed Budget includes \$3.4 billion for the Boards, Departments, and Offices of the California Environmental Protection Agency (CalEPA), representing a nearly \$200 million decrease from the 2016-17 State Budget Package, primarily due to a one-time bond allocation to the State Water Resources Control Board.

Air Resources Board. The Governor’s 2017-18 proposed Budget includes \$410.1 million for the Air Resources Board (ARB), a nearly \$441 million dollar decrease from the 2016-17 State Budget Package. This decrease is primarily due to the allocation of the Greenhouse Gas Reduction Fund being withheld pending the outcome of the proposed legislation to extend the Cap-and-Trade auction program, through a two-thirds urgency

vote, beyond its current 2020 sunset date. The ARB funding includes over \$2.3 million for the completion of the Assembly Bill 32 Scoping Plan Update and implementation of the Short-Lived Climate Pollutant Reduction Strategy.

Assembly Bill 32 Cap-and-Trade Proceeds. The Governor’s 2017-18 proposed Budget recommends legislation to extend the Cap-and-Trade auction program, through a two-thirds urgency vote, beyond its current 2020 sunset date. The program is currently under legal challenge as an unconstitutional tax, and a two-thirds approval of the program and extension by the Legislature would effectively thwart the ongoing lawsuit. If the extension is approved, the Governor’s 2017-18 proposed Budget would provide \$2.2 billion for a number of existing programs that received Cap-and-Trade funds in the 2016-17 State Budget Package, including \$900 million – representing 60 percent of the projected Cap-and-Trade proceeds – in continuously appropriated funds for high-speed rail, affordable housing, sustainable communities, and public transit.

Transportation: The transportation sector is once again the focal point of the Cap-and-Trade Expenditure Plan (Plan), with \$1.46 billion proposed for programs such as the High Speed Rail, Transit and Intercity Rail Capital Program, incentives for low carbon freight and passenger transportation, and low carbon transit operations.

Carbon Sequestration: The proposed Plan allocates \$127.5 million in Cap-and-Trade proceeds to the California Department of Forestry and Fire Protection, California Department of Food and Agriculture, and California Natural Resources Agency for programs that enhance carbon sequestration by promoting the management and restoration of natural and working lands. Such programs include healthy forests, healthy soils, urban forestry, and urban greening.

Short-Lived Climate Pollutants: In order to reduce short-lived climate emissions such as methane and black carbon, the Plan proposes \$95 million to the California Department of Resources, Recycling and Recovery, the California Air Resources Board, and the Department of Food and Agriculture to fund programs promoting waste diversion, black carbon woodsmoke reduction, and purchase and implementation of dairy digesters.

RCRC has consistently advocated for the allocation of more funding to natural resource projects such as fuel treatment and forest restoration projects, as well as dedicated funding for rural infrastructure projects. In 2017-18, it is also vital that the State provides Cap-and-Trade funds for the removal of dead and dying trees due to invasive pests, as well as providing funds for waste diversion infrastructure to implement Assembly Bill 1826 (Chesbro; 2014).

RCRC will encourage the Legislature to support funding these programs during the budget process. RCRC will also continue to pursue a change in the current definition of “disadvantaged communities” for the purpose of disseminating Cap-and-Trade proceeds, as the current definition excludes most rural communities from receiving these earmarked funds. RCRC will also continue seeking targeted rural funds in the various funding programs.

2017-18 Proposed Cap-and-Trade Expenditure Plan
(In Millions)

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

Beverage Container Recycling Program. The Governor's 2017-18 proposed Budget outlines the Administration's commitment to reforming the Beverage Container Recycling Program (commonly known as the Bottle Bill). The California Department of Resources Recycling and Recovery (CalRecycle) provided a policy framework to outline key components of reform, and the final work product will be developed through the budget process.

Aspects of the framework that could impact rural counties include restructuring of the processing payments and handling fees to support lower volume and rural sites, city/county payment programs, and the curbside operations/payments. Other key components for consideration include: incorporating wine and distilled beverages into the program beginning July 1, 2018; expanding additional container material types, such as aseptic and cartons; increasing beverage manufacturers' responsibilities; and, enhancing adaptability and sustainability provisions.

RCRC will participate in stakeholder discussions and work to preserve handling fees for certified centers, city/county payments, and programs to increase and improve recycling infrastructure in rural counties.

The Beverage Container Recycling Program has been operating at a structural deficit for quite some time. Now that the beverage container recycling rates are so high (85 percent), the payments to consumers and the myriad of programs (i.e. city/county payments, handling fees, curbside supplemental payments, and state educational program) exceeds unclaimed deposits. CalRecycle currently anticipates that funds will become insufficient for these programs, and will need to impose "proportionate reductions" beginning July 2017. In addition, in the past year, many rural counties have experienced a significant number of closures of Certified Recycling Centers making it difficult for rural consumers to receive their deposit monies.

Department of Resources Recycling and Recovery. The Governor's 2017-18 proposed Budget for the Department of Resources Recycling and Recovery (CalRecycle) is \$1.57 million, approximately \$40 million less than the 2016-17 State Budget Package, due to the previously reported allocation of the Greenhouse Gas Reduction Fund (GGRF) being withheld. Specifically, GGRF monies will provide financial incentives for capital investments that expand waste management infrastructure, predominantly for composting and anaerobic digestion facilities, but also for fiber, plastic, and glass facilities.

Following the passage of Assembly Bill 1826 (Chesbro; 2014), businesses that generate a certain amount of organic waste are required to recycle it. In addition, reducing methane emissions from landfills is targeted as a key component of the Short-Lived Climate Pollutant Strategy. There is currently insufficient infrastructure capacity to process the amount of organic waste generated. Since many RCRC member counties will qualify for a five-year exemption from the AB 1826 requirements, most of these monies are likely to be spent in the more urban areas. However, in their 2016-17 GGRF expenditure guidelines, CalRecycle committed to providing a rural set-aside.

Department of Toxic Substances Control. The Governor's 2017-18 proposed Budget includes \$285 million to the Department of Toxic Substances Control (DTSC), a \$24 million increase from the DTSC 2016-17 allocation. The proposal includes a reduction of \$19 million from various DTSC programs, and a \$43 million dollar increase in the Exide Technologies Facility Contamination Cleanup.

Office of the Secretary for Environmental Protection/Rural Certified Unified Program Agency Assistance. The Governor's 2017-18 proposed Budget includes \$835,000 for the continued reimbursement of qualified Certified Unified Program Agency's (CUPA's) located in low-population counties. Each county CUPA is required to perform a number of hazardous material programs to ensure local environmental health. Under current law, many RCRC member counties receive additional State General Fund monies for the operation of their local CUPA, which is calculated based upon population thresholds and other criteria.

Education

California State Universities and University of California. The Governor's 2017-18 proposed Budget includes \$31.9 billion (\$17.5 billion General Fund and local property tax, and \$14.4 billion other funds) for higher education. The Governor's 2017-18 proposed Budget continues to focus on opportunities that increase access, and acceleration of degree completion for students.

In September 2016, the California State University System (CSU) Board of Trustees adopted The CSU Graduation Initiative 2025, which outlined a series of objectives, including increasing the graduation rates for first-time freshman and transfer students. This effort is designed to support students from the admissions process through graduation.

It should be noted that while tuition fees have remained flat for the past five years, both the CSU and University of California (UC) have expressed intentions to increase tuition rates in 2017-18. The UC plans to submit a 2.5 percent increase to the Board of Regents in late January 2017, and the CSU Chancellor's office expects to present a 5 percent tuition increase to the Board of Trustees in March 2017. The Governor's 2017-18 proposed Budget does not include funding to pay for these proposed tuition increases, should they be approved.

Career Technical Education. The Governor's 2017-18 proposed Budget includes \$200 million to support the Career Technical Education Incentive Grant Program, which provides matching competitive grants to school districts, county offices of education, and charter schools who face unique barriers, including those located within rural school districts, or who have high dropout or unemployment rates. This allocation represents the final installment of funding for this three-year program, which was enacted as part of the 2015 Budget Act. Beginning in 2018-19, schools will be required to support the full cost of these programs through their Local Control Funding Formula allocations.

Community Colleges. The Governor's 2017-18 proposed Budget provides a number of investments designed to expand current services provided to students, and improve student outcomes and success. Of this funding, \$150 million one-time Proposition 98

General Fund is provided to Community Colleges to support the development and implementation of a guided pathways program designed to improve student completion rates, increase employment opportunities, and minimize student debt. Additionally, the Governor's 2017-18 proposed Budget provides a one-time allocation of \$6 million to develop an integrated library system which will allow students to access a cloud-based library system.

K-12 Education. The Governor's 2017-2018 proposed Budget continues to provide significant adjustments in K-12 Education, including investments in the Local Control Funding Formula, pay down of the education mandates backlog, and increased per pupil spending. Proposition 51, the Kindergarten through Community College Public Education Facilities Bond Act of 2016, was approved by California voters in November 2016, and authorized \$9 billion in general obligation bonds to be used for new construction and modernization projects at K-12 and community college facilities. Of that, \$7 billion is dedicated for K-12 schools. However, the Administration continues to express concerns with the State's school construction funding process, and is committed to ensuring appropriate usage of these bond funds, and increasing program accountability and oversight. As such, the Administration is recommending legislation to require facility bond expenditures to be included in the Annual K-12 Audit Guide, whereby auditors will verify that local educational agencies receiving bond funds have used those funds appropriately.

Middle Class Scholarship Program. The Governor's 2017-18 proposed Budget contains a phase-out of the Middle Class Scholarship Program (MCSP). As such, the Governor's 2017-18 proposed Budget provides \$74 million to the MCSP in 2017-18. Awards will only be renewed for the students who received grant awards in the 2016-17 academic year – approximately 37,000 students.

The Middle Class Scholarship Program provides undergraduate students with annual family incomes of \$100,000-\$150,000 with scholarship grants covering up to 10 percent of their tuition cost. The Administration projects that by 2020, this phase-out will reduce General Fund costs by \$115.8 million.

Rural and Low-Income School Program. The Governor's 2017-18 proposed Budget includes \$1.4 million for the Rural and Low-Income Schools Grant Program, which provides funds to rural, Local Educational Agencies (LEAs) that serve school districts with a high number of children from low-income households. Funds are allocated on a formula basis, and determined by the U.S. Department of Education.

General Government

Cannabis Regulatory Structure. The Governor's 2017-18 proposed Budget provides funding to continue/commence activities associated with the regulation of both medical and adult-use cannabis in the following manner:

- **Department of Consumer Affairs:** \$22.5 million to further support the Bureau of Medical Cannabis Regulation – the state entity within the Department of Consumer Affairs serving as the lead regulatory agency with specific focus on the transportation, storage, distribution, and sale of cannabis. It is also charged with

coordinating with local governments on various enforcement and regulatory activities;

- Department of Public Health: \$1 million for the licensing and regulation of cannabis manufacturers;
- Department of Food and Agriculture: \$23.4 million for a variety of activities, including cultivation, licensing, and the conducting of a statewide Environmental Impact Report. The Department of Food and Agriculture will also be working with the Board of Equalization to implement a “track and trace” program that monitors the movement of medical cannabis throughout the entire distribution chain;
- Board of Equalization: \$5.3 million to address the new tax requirements upon those involved in the cannabis industry, and to update the Board’s information technology systems to register cannabis-related businesses; and,
- Department of Health Care Services: \$5 million for public information programs to address a number of health-related topics pertaining to cannabis.

The Legislature enacted a medical cannabis licensing/regulatory framework at the end of the 2015 Legislative Session. The framework provided the authorization to use General Fund monies for regulatory activities. The Governor’s 2017-18 proposed Budget anticipates that once the regulatory scheme is launched, license fees, fines, and penalties will be redirected to backfill many of the initial General Fund costs. In addition, in November 2016 California voters approved Proposition 64, which sanctions the adult-use of cannabis, and puts forth a similar regulatory scheme. Of note, Proposition 64 outlines a number of tax levies that will take effect once the licensing system is launched. In order to avoid duplicate activities, the Administration is proposing to consolidate and fund both medical and adult-use cannabis activities simultaneously.

County Revenues/Basic Aid Districts. The Governor’s 2017-18 proposed Budget includes \$138,000 to reimburse Alpine County for funding shortfalls associated with their Sales & Use Tax and Vehicle License Fee Adjustment allocations. This shortfall is triggered by Basic Aid school districts having a strong presence within Alpine County. Recent State Budgets have provided monies to Alpine, Amador, and San Mateo Counties, and the cities located within, for shortfalls in their respective allocations to address the full loss occurring in these counties.

Debt Service. The Governor’s 2017-18 proposed Budget provides \$5.5 billion to debt service, which includes \$4.9 billion in General Obligation Bond, and \$598 million in lease revenue bond debt service. This represents an increase over current year of \$104 million for General Obligation Bond debt service, and \$48 million for lease revenue bonds. The General Obligation Bond debt service continues to hover at approximately 6 percent of the proposed State General Fund Budget, which has been noted as an acceptable level of debt by the Legislative Analyst’s Office and the State Treasurer.

General Obligation Bond debt service is constitutionally one of the highest priority General Fund expenditures; however, the debt service associated with general obligation bonds is “continuously appropriated” (payments are made without the Legislature’s approval in the Budget Act), and not a line-item part of the State Budget Package. This reassures investors that principal and interest are paid on time, and not waiting for legislative action.

Department of Food and Agriculture. The Governor's 2017-18 proposed Budget includes \$408 million for the California Department of Food and Agriculture (CDFA), consistent with last year's funding.

The CDFA operates four veterinary laboratories, three of which were constructed more than 40 years ago. The Turlock laboratory faces particularly severe space and bio-containment limitations, aged equipment, deficient electrical and airflow systems, and urban encroachment. The 2017 *Five-Year Infrastructure Plan* proposes \$54.1 million to replace this facility. Of this amount, \$3.1 million from the General Fund is proposed in 2017-18 for the site acquisition phase of the project. In addition, CDFA will conduct studies to assess infrastructure needs at various other facilities it owns.

Fairs. The Governor's 2017-18 proposed Budget maintains the ongoing commitment of \$2.6 million for the support of local fairs, which is consistent with the last two enacted State Budgets. Commencing in the 2015-16 State Budget, \$2.6 million in ongoing monies was to be directed to the Fairs and Expositions Fund for redistribution to improve the financial situation of smaller fairs, as well as provide training for Fair Board members.

The Governor's 2017-18 proposed Budget does not provide any funding in the 2017 *Five Year Infrastructure Plan* for capital improvements to address fire, life and safety, and other deferred maintenance projects for fairs across the network. The 2016-17 State Budget Package provided \$4 million, and the 2015-16 State Budget Package provided \$7 million for similar capital improvement efforts.

Prior to 2009-10, fairs received state support primarily from horse race wagering proceeds. In 2009, the State supplanted horse race wagering with State General Fund support. The 2011-12 State Budget Package eliminated the \$32 million General Fund for the support of fairs. Subsequent State Budgets did not replace the funding for fairs until the 2015-16 State Budget Package.

RCRC will continue to work with the California Department of Food and Agriculture and other stakeholders to address a long-term solution to the viability of fairs in light of the elimination of state funding in prior years. The previous lack of support placed several of the small and medium sized fairs in jeopardy of closure, and the ongoing funding – both in operations and capital improvements – should provide some relief until a long-term solution is realized.

State-County Assessor Partnership Program. The Department of Finance is conducting a review of the State-County Assessor Partnership Program (Program). This Program is slated to end by July 1, 2017, and is not proposed for renewal in the Governor's proposed 2017-18 Budget.

Enacted as part of the 2014-15 State Budget Package, this pilot Program provides \$7.5 million annually for a three-year period to County Assessors' Offices to ensure that Assessors have the resources to fairly and efficiently administer the county property tax rolls. Madera, San Benito, and Tuolumne Counties have participated in this Program.

State Mandates. The Governor's 2017-18 proposed Budget maintains suspensions of mandates that are not related to law enforcement or property taxes, consistent with the 2016-17 State Budget Package. The Governor's 2017-18 proposed Budget also provides funding for a variety of mandates funded in previous years, including the \$4 million block grant program for the Interagency Child Abuse and Neglect (ICAN) Investigation Reports mandate, which was established in the 2015-16 State Budget Package.

Suspending mandates has become a regular part of the State Budget as it allows the State to avoid making payments to local agencies by removing their responsibility to perform mandated functions. However, oftentimes a discontinuation of some of these mandates could lead to lawsuits and other county liabilities, making discontinuation of these mandates even less practical.

Williamson Act. The Governor's 2017-18 proposed Budget includes \$1,000 for the Open Space Subvention Program. This is the lowest possible dollar figure that allows the program to remain in the Budget.

The Williamson Act, also known as the California Land Conservation Act of 1965, authorizes cities and counties to enter into agricultural land preservation contracts with landowners who agree to restrict the use of their land for a minimum of 10 years in exchange for lower assessed valuations for property tax purposes.

In the 2003-04 fiscal year, then-Governor Schwarzenegger proposed to save approximately \$39 million by ending the State subventions. The first cuts came in 2008-09 when a Budget trailer bill reduced the State subventions by 10 percent. The Legislature's 2009-10 Budget reduced the subventions to \$27.8 million. However, Governor Schwarzenegger essentially eliminated the subventions by cutting the appropriation to \$1,000.

Given the ongoing reluctance of the Legislature and the Brown Administration to fund Williamson Act subventions, discussions relative to changes to the Williamson Act are appropriate. RCRC will continue to work with agricultural, environmental, and local governmental organizations to explore sources of sustainable funding, as well as potential changes to the program itself.

Veterans Housing. The 2017 *Five Year Infrastructure Plan* includes \$400 million to support a new California Department of Veterans Affairs Skilled Nursing Facility in Yountville (Napa County). In addition, the Governor's 2017-18 proposed Budget extends the timeline to award \$10 million in funding, authorized as part of the 2016-17 State Budget Package for the construction or rehabilitation of transitional housing or shelter facilities that provide services for homeless veterans through June 30, 2018.

Workforce Innovation and Opportunity Act. The Governor's 2017-18 proposed Budget maintains an estimated \$421 million in federal Workforce Innovation and Opportunity Act (WIOA) funding for the California Workforce Development Board (CWDB) and Local Workforce Investment Boards (WIB). Federal WIOA funding supports investments in local and regional education, employment, and job training programs.

In addition to federal WIOA investments, the Governor's 2017-18 proposed Budget contains \$248 million in Proposition 98 General Fund to support the Strong Workforce Program. This funding will provide additional support to build upon federal WIOA policy reforms made in 2014 that encourage alignment and coordination of multiple disparate funding sources and programs across our workforce, economic development, and educational institutions to meet the goals and objectives outlined in California's four-year WIOA State Strategic Workforce Plan. Lastly, the Governor's 2017-18 proposed Budget recognizes a nearly \$30 million investment to support economic and workforce investments in California's priority and emerging industries through the Community Colleges' Economic and Workforce Development Program, which works collaboratively with the CWDB and local WIBs.

Health and Human Services

Children's Health Insurance Program Reauthorization. The Governor's 2017-18 proposed Budget provides \$536.1 million to the Children's Health Insurance Program (CHIP), which primarily supports health care services to low-income children enrolled in Medi-Cal. Currently, the federal government provides 88 percent funding for this program, and the State covers the remaining 12 percent. CHIP is currently authorized by the federal government through September of 2017. The Governor's 2017-18 proposed Budget assumes that Congress will reauthorize the program later this year, but with a lower federal matching percentage of 65 percent, instead of 88 percent. As such, the Governor's 2017-18 proposed Budget provides \$536.1 million to reflect this assumption.

Continuum of Care Reform. The Governor's 2017-18 proposed Budget provides \$217.3 million to county welfare agencies and probation departments to continue implementation of the Continuum of Care Reform, as outlined in Assembly Bill 403 (2015).

Coordinated Care Initiative/In-Home Support Services. The Governor's 2017-18 proposed Budget includes a finding by the Department of Finance that the Coordinated Care Initiative (CCI) is no longer cost-effective, and therefore, by operation of law, the program will be discontinued in 2017-18. CCI was established to more efficiently deliver care (including In-Home Support Services (IHSS)) to seniors and people with disabilities who are dually eligible for the State Medi-Cal program and the federal Medicare program.

With the passage of CCI in 2012, IHSS benefits were incorporated into the managed care delivery system in seven CCI pilot counties (none of which are RCRC member counties) and a Maintenance of Effort (MOE) capping county IHSS costs was put in place for all 58 counties. With the elimination of CCI, the IHSS MOE provisions are automatically repealed, and the counties' share of the costs for the IHSS program will be reinstated to prior state-county sharing ratios. This increased county share, 35 percent of the non-federal portion of IHSS program cost, will be compounded by the minimum wage increase, the federal overtime requirement, and eventually paid sick leave. The Administration's move to eliminate CCI appears to be an effort to reduce the State's IHSS costs (and have them absorbed by counties), a change estimated to save \$626.2 million in General Fund dollars.

County Medi-Cal Administration Costs. The Governor's 2017-18 proposed Budget maintains the \$655.3 million augmentation to counties to conduct Medi-Cal eligibility case

work on behalf of the State. Additionally, the Governor's 2017-18 proposed Budget maintains \$1.5 million in funding for the development of a new budgeting methodology for counties' administration costs.

Hospital Quality Assurance Fee. Proposition 52, approved by voters in November 2016, permanently extended the Hospital Quality Assurance Fee (QAF). The QAF was created in 2009 requiring certain California hospitals to pay a fee to help the State draw-down available federal Medicaid funds. Revenue from the QAF provides funding for children's health care coverage, supplemental payments to public hospitals, and reimburses the Department of Health Care Services for administration costs. The Governor's 2017-18 proposed Budget assumes General Fund savings of over \$1 billion in 2017-18 from the QAF. Last year, the RCRC Board of Directors adopted a "Support" position on Proposition 52.

Local Emergency Medical Service Agencies. The Governor's 2017-18 proposed Budget includes \$2.1 million to support the seven Local Emergency Medical Service Agencies (LEMSAs), consistent with previous General Fund support in recent years. Most RCRC counties participate in LEMSAs to meet their state obligations for emergency medical care services.

Major Risk Medical Insurance Fund. The Governor's 2017-18 proposed Budget eliminates the Major Risk Medical Insurance Fund and proposes to transfer the remaining \$65 million in the fund to the Health Care Services Plans Fines and Penalties Fund. This transfer will provide coverage support for individuals remaining in the program, and cover expenses related to health care services for children, seniors, disabled persons, and dual eligible within the Medi-Cal program.

Managed Care Organization Tax. In 2016, the Governor and Legislature enacted the Managed Care Organization Tax (MCO tax), which authorized a tax on the operating revenue of Medi-Cal managed care plans based on the State sales tax rate. The MCO tax is used to fund the non-federal share of supplemental payments to Medi-Cal managed care rates for health services provided to children, adults, seniors, persons with disabilities, and persons eligible for both Medi-Cal and Medicare. The remainder of the revenue is used to fund capitation rates for Medi-Cal managed care plans that would otherwise be funded through the General Fund. As a result, the Governor's 2017-18 proposed Budget assumes a General Fund reduction of approximately \$1.1 billion in 2016, and \$1.6 billion in 2017-18.

Medi-Cal. The Governor's 2017-18 proposed Budget continues to fund the Medi-Cal coverage expansion providing \$18.9 billion (\$1.6 billion General Fund) in 2017-18. The cost for the Medi-Cal program assumes a caseload of 14.3 million in 2017-18, a 1.8 percent increase over the 2016-17 caseload, and covering over one-third of the state's population. The increase in General Fund from 2016-17 (\$888 million) is due to the increase in the state's share of the cost for expanded coverage. In 2018, the Federal-State cost-sharing ratio increases to six percent for the state.

State Hospitals. The Governor's 2017-18 proposed Budget includes \$1.6 billion for the Department of State Hospitals (DSH). There have been increased impacts on the DSH

system over the last several years, principally with referrals from local courts for Incompetent to Stand Trial Admissions (IST). The Governor's 2017-18 proposed Budget provides \$10.8 million in General Fund to establish a 60-bed Admissions, Evaluation and Stabilization Center for the assessment and treatment of ISTs. This center would be located in a county jail, and would admit patients from Southern California counties. The Administration continues to work with counties and other stakeholders to address the ongoing IST issue through innovative partnerships to increase bed capacity for this patient population.

Supplemental Security Income/State Supplementary Payment. The Governor's 2017-18 proposed Budget provides \$2.9 billion for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program, representing a 2 percent increase over the 2016-17 State Budget Package. Effective January 1, 2017, the maximum SSI/SSP grant levels were increased to \$895.72 per month for individuals, and \$1,510.14 per month for couples. The SSI/SSP grants provide assistance to more than 1 million low-income seniors and persons with disabilities to help pay for housing, food, and other basic necessities.

Housing and Land-Use

The Governor's 2017-18 proposed Budget reflects \$3.2 billion in state and federal funding to support existing housing programs, but does not contain any new funding sources or policy proposals to support the development of affordable housing. Instead, the Governor's 2017-18 proposed Budget focuses on the need to address issues that impact the construction of affordable units before any new revenue streams are proposed.

The Governor's 2017-18 proposed Budget contains the following 5 policy principles as a framework to guide development of a housing funding and reform package:

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

RCRC will actively participate in upcoming discussions on the policy principles to protect local control, and to ensure local jurisdictions are not held accountable for actual housing construction.

In addition to the Governor's policy framework, the California Department of Housing and Community Development recently released their 2025 Statewide Housing Assessment, which highlights the relationship between local land use decision-making and housing development. There have been several reports issued over the last year that have also discussed the impact local land use, zoning, and permitting has had on the development of new housing units, particularly as it relates to affordability. The Legislature stands poised to consider a variety of policy reforms to address rising housing prices over the next several years.

Resources

California Conservation Corps. The Governor's 2017-18 proposed Budget includes \$97.47 million for the California Conservation Corps' (CCC) Training and Work Program, consistent with last year's funding. The Training and Work Program focuses on four areas: natural resource work (such as fire hazard reduction and meadow restoration); emergency response (such as fire and flood support); corpsmember education to advance member academic skills; and, development and training in the areas of teamwork, leadership and firefighting certification.

The Governor's 2017 *Five Year Infrastructure Plan* includes \$67.4 million for infrastructure at CCC residential centers, of which \$3.5 million is allocated in the Governor's 2017-18 proposed Budget. Specifically there is \$1.8 million for the acquisition phase of the Ukiah Residential Center, and \$1.6 million for plans, drawings, and construction phases of the Tahoe Base Center Equipment Storage Relocation project.

The CCC is intended to provide youth work experience in public service responding to fires, floods, and other natural disasters, as well as environmental restoration work, and educational opportunities. In addition to the CCC, there are 14 local Conservation Corps entities operating in all 35 RCRC Member counties.

Delta Protection Commission. The Governor's 2017-18 proposed Budget includes \$1.57 million for the Delta Protection Commission, consistent with last year's funding. The funding is for the Delta Protection Commission to protect, maintain, and restore the overall quality of the Delta environment consistent with the Delta Protection Act, and the Land Use and Resource Management Plan for the Primary Zone.

Delta Stewardship Council. The Governor's 2017-18 proposed Budget includes \$27 million in funding for the Delta Stewardship Council, which is consistent with last year's funding. Consistent with the Governor's California Water Action Plan, the Delta Stewardship Council's charge is to achieve the coequal goals of providing a more reliable water supply for California, and protecting, restoring, and enhancing the Delta ecosystem. In order to achieve the coequal goals required by the 2009 Delta Reform Act, a long-term management plan for the Delta was created.

Department of Fish and Wildlife. The Governor's 2017-18 proposed Budget includes \$522.7 million in funding for the Department of Fish and Wildlife, which is consistent with last year's funding.

The Governor's 2017-18 proposed Budget includes policy proposals to align the non-dedicated Fish and Game Preservation Fund revenues with expenditures. Specifically, this proposal increases commercial fishing landing fees, adding \$12.4 million annually to the commercial fishing program. It also includes a one-time redirection of \$10.6 million from the Lifetime License Account.

The Governor's 2017 *Five Year Infrastructure Plan* includes \$246,000 for the Yolo Bypass Wildlife Area Waterfowl Habitat project.

Department of Parks and Recreation. The Governor's 2017-18 proposed Budget includes \$675 million for the Department of Parks and Recreation (State Parks), consistent with last year's funding. Specifically, this includes \$462.4 million for State Parks, \$29.29 million for the Division of Boating and Waterways, and \$183.8 million for Local Assistance Grants.

The 2015-16 State Budget Package included funding for a Transformation Team that the Administration has established comprised of individuals both inside and outside State Parks to lead in the execution of reforms in a number of areas, including the State Parks Budget, maximizing partnerships, enhancing the marketing program, and identifying innovative revenue generation opportunities. Many of the reforms have come to fruition over the last several years, including the ability of visitors to use credit cards, debit cards, and smartphones for parking fees. In February 2017, the Transformation Team will conclude its term and release a final progress report.

The Governor's 2017-18 proposed Budget includes a one-time increase of \$16.6 million to maintain existing service throughout the park system, although a long term structural shortfall remains.

The Governor's 2017 *Five Year Infrastructure Plan* includes \$93 million over the next five years from a variety of funding sources, including bond funds, special funds, and reimbursement for State Parks. Of this total, \$23.7 million is allocated for 2017-18 to renovate existing facilities and acquire new property. Specifically, there is \$8.5 million for the acquisition of property at the Hollister Hills State Vehicular Recreation Area, and the Ocotillo Wells State Vehicular Recreation Area. There is also \$6.9 million for the construction phase of Fort Ord Dunes State Park campground and beach access project; South Yuba River State Park Historic Covered Bridge; and the McArthur Burney Falls Memorial State Park Group Campground.

Emergency Drought Response. The Governor's 2017-18 proposed Budget includes an additional \$178.7 million one-time commitment to continue immediate response efforts for drought relief.

Some of the following appropriations will also assist small, rural counties in addressing a myriad of issues that have arisen as a result of successive years of drought.

Department of Water Resources

The Governor's 2017-18 proposed Budget includes \$17.5 million for multiple statewide drought response efforts including:

- \$5 million for local assistance to small communities, including the development of private, domestic wells;
- \$7 million for drought management and response;
- \$2 million to fund Save Our Water, the state's public education campaign to help Californians reduce water use; and,
- \$3.5 million to support the delta smelt resiliency strategy.

State Water Resources Control Board

The Governor's 2017-18 proposed Budget includes \$5.3 million to continue enforcement of drought-related water rights and water curtailment actions.

Department of Fish and Wildlife

The Governor's 2017-18 proposed Budget includes \$8.2 million to continue emergency fish rescue and stressor monitoring.

Tree Mortality Mitigation

Due to the dramatically increased risk of high severity wildfire posed by drought-induced tree mortality, the Governor's proposed 2017-18 Budget includes \$88 million General Fund, and \$3 million State Responsibility Area Fund monies for the California Department of Forestry and Fire Protection (CAL FIRE) for expanded fire protection in the 2017 fire season, including continuation of increased firefighter surge capacity, extended fire season, surge helicopter pilots, California Conservation Corps fire suppression crews, increased vehicle maintenance, and exclusive use of the large and very large air tankers. The Governor's proposed 2017-18 Budget also reflects an additional \$90 million from the General Fund in the current fiscal year, supported by the Emergency Fund, to initiate these enhanced fire protection efforts in the spring of 2017.

The Governor's 2017-18 proposed Budget also includes \$52.7 million to the California Office of Emergency Services to provide assistance to counties through the California Disaster Assistance Act (CDAA), consistent with the 2016-17 State Budget Package. While these funds can be accessed by counties for a number of disaster situations, counties that have declared tree mortality emergencies have been utilizing CDAA funds to help with hazardous tree removal efforts.

Emergency Drought Response

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>Amount (in Millions)</i>
Protecting Water Supplies and Water Conservation	Department of Water Resources	Local Assistance for Small Communities	\$5
	Water Board	Water Rights Management	\$5.3
	Department of Water Resources	Drought Management and Response	\$7
	Department of Water Resources	Save Our Water Campaign	\$2
Emergency Response	Department of Forestry and Fire Protection	Enhanced Fire Protection	\$91
	Office of Emergency Services	California Disaster Assistance Act	\$52.7
	Office of Emergency Services	State Operations Center	\$4
Protecting Fish and Wildlife	Department of Fish and Wildlife	Emergency Fish Rescues and Monitoring	\$8.2
	Department of Water Resources	Delta Smelt Resiliency Strategy	\$3.5
	Department of Community Services and Development	Farmworker Assistance	\$7.5
Total			\$178.7

State Payment in Lieu of Taxes. The Governor’s 2017-18 proposed Budget includes \$644,000 in funding to pay State Payment in Lieu of Taxes (State PILT) to local governments, which is consistent with the last two State Budgets.

The 2015-16 State Budget Package included \$1.77 million to Department of Fish and Wildlife (DFW) for the Management of Department Lands and Facilities. This funding included \$644,000 to pay the State PILT obligation to 36 counties. While the initial legislative agreement in the 2015-16 State Budget Package included an additional \$8 million to fund the State’s previous annual commitments to State PILT counties, the final State Budget Package eliminated the \$8 million intended for arrearages.

Additionally, the 2015-16 State Budget Package included language making State PILT payments permissive by changing Fish & Game Code Section 1504 from “*shall*” to “*may*.” Last year, RCRC sponsored Senate Bill 1188 (McGuire), which would have changed the language back to “*shall*”. However, despite full support throughout the legislative process, the Governor vetoed the legislation, arguably on the premise that he will continue to appropriate the annual payments during his tenure.

California’s State PILT was established in 1949 to offset adverse impacts to county property tax revenues that result when the State acquires private property for wildlife

management areas. However, the DFW, prior to last year, had not made annual State PILT payments in more than a decade, resulting in arrearages of approximately \$8 million to 36 counties.

RCRC will continue to advocate in both the legislative and budget processes for the arrears in State PILT funding owed to counties, as well as reversing the language that makes State PILT payments permissive.

Sacramento-San Joaquin Delta Conservancy. The Governor's 2017-18 proposed Budget includes \$12.5 million in funding for the Sacramento-San Joaquin Delta Conservancy to implement ecosystem restoration in the Delta, and to support efforts that advance environmental protection, and the economic well-being of the Delta residents.

Proposition 1 allocates a total of \$50 million to the Sacramento-San Joaquin Delta Conservancy for multi-benefit water quality, water supply, and watershed protection and restoration projects.

San Joaquin River Conservancy. The Governor's 2017-18 proposed Budget includes \$687,000 in funding for the San Joaquin River Conservancy to acquire, preserve, manage, and promote access to lands within the flood plain on both sides of the San Joaquin River from Friant Dam to Highway 99.

Proposition 1 allocates a total of \$10 million to the San Joaquin River Conservancy for multi-benefit water quality, water supply, and watershed protection and restoration projects.

Sierra Nevada Conservancy. The Governor's 2017-18 proposed Budget includes \$13.245 million in funding for the Sierra Nevada Conservancy.

Proposition 1 allocates a total of \$25 million to the Sierra Nevada Conservancy for multi-benefit water quality, water supply, and watershed protection and restoration projects.

Tahoe Conservancy. The Governor's 2017-18 proposed Budget includes \$10.66 million in funding for the Tahoe Conservancy to protect and sustain the natural resources and recreational opportunities in the Lake Tahoe Basin.

The Governor's 2017 *Five Year Infrastructure Plan* includes \$15.5 for restoration, planning and land acquisition. Of this total, \$3 million is proposed in 2017-18. Specifically, there is \$1.3 million for the Upper Truckee River and Marsh Restoration Project and minor capital outlay projects.

Transportation

The Governor's 2017-18 proposed Budget continues to support raising new revenues for the state and local transportation systems. Specifically, the Governor's transportation proposal contains roughly \$4.3 billion annually over the next ten years in new transportation revenues through various increases in taxes and fees associated with funding State and local transportation infrastructure. Additional investments will stem

from the State's Cap-and-Trade auction proceeds. The vast majority of these new revenues would be split evenly between state and local transportation priorities.

The following details the new funding mechanisms:

- Road Improvement Charge: Generates roughly \$2.1 billion annually by assessing a new \$65 fee on all vehicles;
- Gas Excise Tax: Generates approximately \$1.1 billion annually by setting the price-based excise tax at \$0.215, and replacing the Board of Equalization's annual excise tax adjustment with an annual adjustment to the broader gas tax based on inflation;
- Diesel Excise Tax: Generates an estimated \$425 million annually through an \$0.11 increase to the diesel excise tax, and includes an annual adjustment tied to inflation;
- Cap-and-Trade: Directs \$500 million in Cap-and-Trade auction proceeds to transportation; and,
- Caltrans Reforms: Generates \$100 million through various cost-saving reforms.

The Governor's proposal would also accelerate early repayment of approximately \$706 million in loans over the next three years to support additional investments in the Transit and Intercity Rail Capital Program, trade corridor improvements, and broader repairs to the state highway system.

The Governor's 2017-18 proposed Budget highlights a Ten-Year Investment Plan for transportation using a combination of existing revenues and new levies (as outlined above). The proceeds would be dedicated to a variety of existing and new transportation efforts, including:

State Transportation Improvement Program. The Governor's 2017-18 proposed Budget includes an immediate one-time commitment of \$750 million to restore annual funding reductions made in 2016 through the Board of Equalization's gas excise tax rate adjustments, and an additional \$800 million in new capacity to support the 2018 State Transportation Improvement Program.

Active Transportation Program. The Governor's 2017-18 proposed Budget provides \$100 million annually from Cap-and-Trade auction proceeds to expand the Active Transportation Program investments in alternative transportation projects, and requires a minimum of 50 percent of the funds to be expended in disadvantaged communities.

Local Streets and Roads. The Governor's 2017-18 proposed Budget provides an annual increase of \$1.1 billion for cities and counties for local road maintenance allocated through existing transportation formulas. Additionally, the proposal contains roughly \$220 million annually to support State-Local Partnership grants.

Sustainable Transportation Grants. The Governor's 2017-18 proposed Budget contains an increase of \$25 million annually to implement the Sustainable Communities and Climate Protection Act of 2008. While this money primarily supports meeting the SB

375 requirements for Metropolitan Planning Organizations (MPO), non-MPO counties can also qualify for these integrated planning projects.

Corridor Mobility Improvements. The Governor's 2017-18 proposed Budget includes roughly \$270 million annually to support investments in multi-modal transportation projects along commute corridors to relieve congestion.

Transit and Intercity Rail Program. The Governor's 2017-18 proposed Budget includes an annual increase of \$400 million in Cap-and-Trade auction proceeds, and roughly \$25 million annually from loan repayments to investment in transit and intercity rail projects. The proposal also includes a requirement that at least 50 percent of the funds benefit disadvantaged communities.

Highway Repairs and Maintenance. The Governor's 2017-18 proposed Budget includes \$1.1 billion annually for state highway repairs and maintenance; however, \$100 million of this funding is contingent upon efficiencies at the California Department of Transportation on an annual basis.

Trade Corridor Improvements. The Governor's 2017-18 proposed Budget provides a \$280 million annual increase – partially funding with \$250 million from new transportation revenues, and \$32 million from loan repayments – to support investments in California's major trade corridors.

The Governor's 2017-18 proposed Budget also contains various reforms and efficiency measures to expedite and streamline project delivery.

In addition to the Governor's transportation funding and reform package, Senate Transportation and Housing Committee Chairman Jim Beall (D-San Jose) and Assembly Member Jim Frazier (D-Oakley) have introduced comprehensive proposals that would generate roughly \$6 billion in new revenues for the state and local transportation systems. In each of these transportation funding and reform proposals, new revenues are proposed to be split evenly between State and local governments. It is important to note that a two-thirds vote in both houses of the Legislature is required as a variety of new revenues are proposed to be increased/levied.

Water

California Water Action Plan. The California Water Action Plan (Plan) continues to serve as the Administration's blueprint to address California's water and ecosystem needs. The Governor's 2017-18 proposed Budget includes the following appropriations to fund implementation of the 10-action Plan:

Bay-Delta Water Quality Plan: While no additional funding is provided, the Governor's 2017-18 proposed Budget acknowledges that the State Water Resources Control Board has undertaken an update of the Bay-Delta Water Quality Plan, last updated in 2006. As directed by the Governor, the California Natural Resources Agency is leading the effort to achieve voluntary settlements to meet the flow criteria to achieve the co-equal goals for the Delta, which include improved water quality, and water supply reliability.

Central Valley Flood Protection Board Permitting and Enforcement: An additional \$2.2 million from the General Fund is proposed for the Central Valley Flood Protection Board to support the permitting process and enforcement of encroachments on State Plan of Flood Control and related facilities.

Conservation: While no funding is proposed, the Governor's 2017-18 proposed Budget calls out implementation of the Governor's Executive Order B-37-16, which directs several agencies to develop a permanent conservation framework for urban and agricultural water agencies. The proposal anticipates that implementation of the Executive Order will require legislation, additional regulation, and data collection. In the meantime, the State Water Resources Control Board (State Water Board) will continue the existing conservation reporting website, including information technology solutions to improve user access. In addition, the State Water Board will initiate rulemaking to permanently prohibit wasteful water uses.

Integrated Regional Water Management Program: The Governor's 2017-18 proposed Budget includes an increase of \$248 million in Proposition 1 funding for the Department of Water Resources for integrated regional water management projects. This funding for multi-benefit projects is part of meeting the long-term water needs of the state, adapting the system to climate change, and supporting regional self-reliance.

Irrigated Lands Regulatory Program: The Governor's 2017-18 proposed Budget includes an additional \$1 million for the State Water Resources Control Board, in coordination with the California Department of Food and Agriculture, from the Waste Discharge Permit Fund to address contamination of groundwater basins from agricultural practices.

Salton Sea Restoration: The Governor's 2017-18 proposed Budget includes no additional funding; however, implementation of the Salton Sea Management Program is called out as a priority action item under the California Water Action Plan.

Sustainable Groundwater Management Act: The Governor's 2017-18 proposed Budget includes an increase of \$15 million from the General Fund to the Department of Water Resources (DWR) for statewide assistance and data collection. This should allow DWR to continue to assist small and/or rural counties in addressing a number of topics that might come up in implementing the Sustainable Groundwater Management Act.

In addition, the State Water Resources Control Board will receive an increase of \$2.3 million from the Water Rights Fund, plus \$1.5 million in contract funds to enforce reporting requirements and protect local groundwater basins in high or medium priority basins that fail to form local governance structures.

Water Storage Investment Program: The Governor's 2017-18 proposed Budget includes an increase of \$1.9 million to support the Department of Fish and Wildlife's outreach, as well as its review of the ecosystems benefits of water storage projects submitted to, and under consideration by, the California Water Commission. This funding is part of the \$2.7 billion water storage program authorized by Proposition 1.

2017-18 Proposed Funded Mandates

Accounting for Local Revenue Realignments (Ch. 162, Stats. 2003; Ch. 211, Stats. 2004; Ch. 610, Stats. 2004) (05-TC-01)
Allocation of Property Tax Revenues (Ch. 697, Stats. 1992) (CSM-4448)
California Public Records Act (Ch. 463, Stats. 1992; Ch. 982, Stats. 2000; Ch. 355, Stats. 2001) (02-TC-10 and 02-TC-51)
Crime Victims' Domestic Violence Incident Reports (Ch. 1022, Stats. 1999) (99-TC-08)
Custody of Minors-Child Abduction and Recovery (Ch. 1399, Stats. 1976; Ch. 162, Stats. 1992; and Ch. 988, Stats. 1996) (CSM-4237)
Domestic Violence Arrest Policies (Ch. 246, Stats. 1995) (CSM-96-362-02)
Domestic Violence Arrests and Victims Assistance (Chs. 698 and 702 , Stats. 1998) (98-TC-14)
Domestic Violence Treatment Services (Ch. 183, Stats. 1992) (CSM-96-281-01)
Health Benefits for Survivors of Peace Officers and Firefighters (Ch. 1120, Stats. 1996) (97-TC-25)
Local Agency Ethics (Ch. 700, Stats. 2005) (07-TC-04)
Medi-Cal Beneficiary Death Notices (Chs. 102 and 1163, Stats. 1981) (CSM- 4032)
Medi-Cal Eligibility of Juvenile Offenders (Ch. 657, Stats. 2006) (08-TC-04)
Peace Officer Personnel Records: Unfounded Complaints and Discovery (Ch. 630, Stats. 1978; Ch. 741, Stats. 1994) (00-TC-24)
Post Election Manual Tally (2 Cal. Code Regs., 20120 to 20127, incl.) (10-TC-08)
Rape Victim Counseling (Ch. 999, Stats. 1991) (CSM-4426)
Sexually Violent Predators (Chs. 762 and 763)
State Authorized Risk Assessment Tool for Sex Offenders (Chs. 336, 337, 886, Stats. 2006; Ch. 579, Stats. 2007) (08-TC-03)
Threats Against Peace Officers (Ch. 1249, Stats. 1992; Ch. 666, Stats. 1995) (CSM-96-365-02)
Tuberculosis Control (Ch. 676, Stats. 1993; Ch. 685, Stats. 1994; Ch. 116, Stats. 1997; and Ch. 763, Stats. 2002) (03-TC-14)
Unitary Countywide Tax Rates (Ch. 921, Stats. 1987) (CSM-4317 and CSM-4355)

2017-18 Proposed Suspended Mandates

Absentee Ballots (Ch. 77, Stats. 1978) (CSM-3713)
Absentee Ballots-Tabulation by Precinct (Ch. 697, Stats. 1999) (00-TC-08)
Adult Felony Restitution (Ch. 1123, Stats. 1977) (04-LM-08)
AIDS/Search Warrant (Ch. 1088, Stats. 1988) (CSM-4392)
Airport Land Use Commission/Plans (Ch. 644, Stats. 1994) (CSM-4507)
Animal Adoption (Ch. 752, Stats. 1998) (04-PGA-01, 98-TC-11)
Brendon Maguire Act (Ch. 391, Stats. 1988) (CSM-4357)
Conservatorship: Developmentally Disabled Adults (Ch. 1304, Stats. 1980) (04-LM-13)
Coroners' Costs (Ch. 498, Stats. 1977) (04-LM-07)
Crime Statistics Reports for the Department of Justice (Ch. 1172, Stats. 1989, Ch. 1338, Stats. 1992, Ch. 1230, Stats. 1993, Ch. 933, Stats. 1998, Ch. 571, Stats. 1999, Ch. 626, Stats. 2000) (02-TC-04 and, 02- TC-11) and Crime Statistics Reports for the Department of Justice Amended (Ch. 700, Stats. 2004) (07-TC-10)
Crime Victims' Domestic Violence Incident Reports II (Ch. 901, Stats. 1984) (02-TC-18)
Deaf Teletype Equipment (Ch. 502, Stats. 1980) (04-LM-11)
Developmentally Disabled Attorneys' Services (Ch. 694, Stats. 1975) (04-LM-03)
DNA Database & Amendments to Postmortem Examinations: Unidentified Bodies (Ch. 822, Stats. 2000; Ch. 467, Stats. 2001) (00-TC-27, 02-TC-39)
Domestic Violence Background Checks (Ch. 713, Stats. 2001) (01-TC-29)
Domestic Violence Information (Ch. 1609, Stats. 1984) (CSM-4222)
Elder Abuse, Law Enforcement Training (Ch. 444, Stats. 1997) (98-TC-12)
Extended Commitment, Youth Authority (Ch. 267, Stats. 1998) (98-TC-13)
False Reports of Police Misconduct (Ch. 590, Stats. 1995) (00-TC-26)
Fifteen-Day Close of Voter Registration (Ch. 899, Stats. 2000) (01-TC-15)
Firearm Hearings for Discharged Inpatients (Chs. 9 and 177, Stats. 1990) (99-TC-11)

Grand Jury Proceedings (Ch. 1170, Stats. 1996) (98-TC-27)
Handicapped Voter Access Information (Ch. 494, Stats. 1979) (CSM-4363)
Identity Theft (Ch. 956, Stats. 2000) (03-TC-08)
In-Home Supportive Services II (Ch. 445, Stats. 2000; Ch. 90, Stats. 1999) (00-TC-23)
Inmate AIDS Testing (Ch. 1579, Stats. 1988; Ch. 768, Stats. 1991) (CSM-4369 and CSM-4429)
Interagency Child Abuse and Neglect Investigation Reports Mandate (Ch. 958, Stats. 1977) (00-TC-22)
Judiciary Proceedings (Ch. 644, Stats. 1980) (CSM-4366)
Law Enforcement Sexual Harassment Training (Ch. 126, Stats. 1993) (97-TC-07)
Local Coastal Plans (Ch. 1330, Stats. 1976) (CSM-4431)
Mandate Reimbursement Process (Ch. 486, Stats. 1975) (CSM-4204 and CSM-4485)
Mandate Reimbursement Process II (Ch. 890, Stats. 2004) (05-TC-05)
Mentally Disordered Offenders' Extended Commitments Proceedings (Ch. 435, Stats. 1991) (98-TC-09)
Mentally Disordered Offenders: Treatment as a Condition of Parole (Ch. 228, Stats. 1989; Ch. 706, Stats. 1994) (00-TC-28, 05-TC-06)
Mentally Disordered Sex Offenders' Recommitments (Ch. 1036, Stats. 1978) (04-LM-09)
Mentally Retarded Defendants Representation (Ch. 1253, Stats. 1980) (04-LM-12)
Missing Persons Report (Ch. 1456, Stats. 1988; Ch. 59, Stats. 1993) (CSM-4255, CSM-4368, and CSM-4484)
Modified Primary Election (Ch. 898, Stats. 2000) (01-TC-13)
Not Guilty by Reason of Insanity (Ch. 1114, Stats. 1979) (CSM-2753)
Open Meetings Act/Brown Act Reform (Ch. 641, Stats. 1986) (CSM-4257 and CSM-4469)
Pacific Beach Safety: Water Quality and Closures (Ch. 961, Stats. 1992) (CSM- 4432)

Perinatal Services (Ch. 1603, Stats. 1990) (CSM-4397)
Permanent Absent Voters II (Ch. 922, Stats. 2001, Ch. 664, Stats. 2002, and Ch. 347, Stats. 2003) (03-TC-11)
Personal Safety Alarm Devices (8 Cal. Code Regs. 3401 (c)) (CSM-4087)
Photographic Record of Evidence (Ch. 875, Stats. 1985) (98-TC-07)
Pocket Masks (Ch. 1334, Stats. 1987) (CSM-4291)
Post Conviction: DNA Court Proceedings (Ch. 943, Stats. 2001) (00-TC-21, 01-TC-08)
Postmortem Examinations : Unidentified Bodies, Human Remains (Ch. 284, Stats. 2000) (00-TC-18)
Prisoner Parental Rights (Ch. 820, Stats. 1991) (CSM-4427)
Senior Citizens Property Tax Postponement (Ch. 1242, Stats. 1977; Ch. 43, Stats. 197 8) (CSM-4359)
Sex Crime Confidentiality (Ch. 502, Stats. 1992; Ch. 36, 1993-94 1st Ex. Sess.) (98-TC-21)
Sex Offenders: Disclosure by Law Enforcement Officers (Chs. 908 and 909, Stats. 1996) (97-TC-15)
SIDS Autopsies (Ch. 955, Stats. 1989) (CSM-4393)
SIDS Contacts by Local Health Officers (Ch. 268, Stats. 1991) (CSM-4424)
SIDS Training for Firefighters (Ch. 1111, Stats. 1989) (CSM-4412)
Stolen Vehicle Notification (Ch. 337, Stats. 1990) (CSM-4403)
Structural and Wildland Firefighter Safety Clothing and Equipment (8 Cal. Code Regs., 3401 to 3410, incl.) (CSM-4261-4281)
Very High Fire Hazard Severity Zones (Ch. 1188, Stats. 1992) (97-TC-13)
Victims' Statements-Minors (Ch. 332, Stats. 1981) (04-LM-14)
Voter Identification Procedures (Ch. 260, Stats. 2000) (03-TC-23)
Voter Registration Procedures (Ch. 704, Stats. 1975) (04-LM-04)