

# STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

**T**his Chapter describes items in the Budget that are statewide issues or related to various departments.

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## SUPPLEMENTAL TRANSFER TO THE RAINY DAY FUND

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

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## WILDFIRE RESPONSE AND RECOVERY

Beginning in October 2017, California faced the most lethal and destructive fires in the history of the state.

On October 8, 2017, a series of wildfires erupted in Northern California and engulfed 100 square miles. Sparked by the same hot, windy conditions, other major wildfires soon broke out across the state, devastating more than 245,000 acres of land and destroying over 8,900 structures.

Containment took nearly two weeks, and tragically 44 lives were lost.

On December 4, 2017, another series of wildfires erupted in Southern California, resulting in significant destruction in Ventura, Los Angeles, San Diego and Santa Barbara counties. These fires spread quickly due to strong winds and dry brush. The fires destroyed hundreds of homes and other structures, burned almost 300,000 acres, and caused widespread power outages that forced the closure of major highways and local roads.

The Governor declared emergencies in all of these disasters. The Governor also secured a Presidential Major Disaster Declaration for the Northern California wildfires, providing direct federal aid for residents of those counties who have suffered related losses. Workers in these counties who have lost jobs or had work hours substantially reduced as a result of the fires are also now eligible for federal Disaster Unemployment Assistance benefits. The Governor is seeking a similar Presidential Declaration for the Southern California wildfires.

Executive orders were issued to waive the one-week waiting period for unemployment insurance benefits for impacted individuals; suspend the fees associated with the replacement of specified documents and records; suspend specified procurement rules to allow state agencies to enter into contracts for goods, materials, and services necessary to quickly assist with response and recovery efforts; and strengthen coordination between state agencies on environmental restoration in fire-impacted areas. For Northern California, the executive orders also suspended planning and zoning requirements and state fees for manufactured homes and mobile home parks to help displaced residents with housing needs, and streamlined regulations to allow wildfire-impacted facilities regulated by the California Department of Social Services and the California Department of Public Health to remain open.

Estimates for the total costs across the state will be in the billions of dollars, and the full economic impacts will not be realized for years due to the widespread losses across multiple industries and communities. Currently, CAL FIRE response costs require a 2017-18 augmentation of \$469.3 million (provided through E-Fund). Due to the dynamic nature of these events, the total General Fund impact will be further refined as part of the May Revision.

As of December 20, 2017, the Director of Finance accessed \$43.4 million in resources available in the State Fund for Economic Uncertainties for various departments related to unexpected equipment, personnel, and other disaster assistance costs incurred in response to the Governor's State of Emergency Proclamations related to the wildfires. The majority of these costs are associated with the removal of hazardous waste and debris that threaten public health and the environment if not immediately addressed. Resources were also made available to the Department of Social Services for the purchase and distribution of food to individuals affected by the fires, as well as rental/mortgage vouchers and utility assistance for those who would

otherwise be ineligible to receive federal assistance.

In addition to investments being made by California, Congress is currently considering a supplemental disaster-related appropriations bill totaling \$4.4 billion to support the state's recovery efforts associated with the Northern California wildfires.

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### **PROPERTY TAX BACKFILL**

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

The wildfire-related property tax revenue losses incurred by K-14 schools are generally automatically backfilled under the Proposition 98 school funding mechanism. The Budget estimates K-14 schools will incur \$24.5 million in cumulative property tax revenue losses in 2017-18 and 2018-19 due to the Northern California wildfires.

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### **PUBLIC SAFETY COMMUNICATIONS**

The historic wildfires in Northern California this past fall showed the fragility and importance of California's emergency telecommunications system in the face of a disaster. Over the course of several days, major telecommunications infrastructure was lost, hampering firefighting efforts, communications with impacted residents and 9-1-1 capabilities. The Budget proposes \$11.5 million State Emergency Telephone Number Account (SETNA) to modernize the state's current antiquated 9-1-1 system with a Next Generation 9-1-1 system, and improve public safety during emergency events.

To complete the implementation of Next Generation 9-1-1, and temporarily continue the operation of the current 9-1-1 system, the Budget proposes to revise the SETNA fee structure. The SETNA has funded the state's 9-1-1 system since it was built in the 1980s. Due to changes in technology, particularly the increased use of data compared to voice communication, the current SETNA fee model is no longer sufficient to support the legacy 9-1-1 system, or the Next Generation 9-1-1 buildout. Currently, the SETNA fee is charged on intrastate voice plans as a percentage fee on total intrastate calls. The Budget proposes to revise the fee structure to a per-subscription flat-rate on all voice and data plans similar to other states.

As part of additional efforts to improve emergency response telecommunications, the Administration is opting into the federal FirstNet program that will provide dedicated telecommunication spectrum to law enforcement and first responders. The Administration continues to explore opportunities to further strengthen all aspects of emergency telecommunications.

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## **PAYING DOWN THE STATE'S LONG-TERM LIABILITIES**

The state's costs for state worker pension and health benefits have continued to increase over the past decade. State health care benefits in particular remain one of the fastest growing areas of state government and have increased five-fold since the early 2000s. This far outpaces population and inflation growth during the same period. In addition, poor investment returns and the adoption of more realistic assumptions related to future investment earnings and demographics have grown the state's retiree long-term costs, debts and liabilities to \$272 billion. Prior to 2012, the state's long-term retirement liabilities went unaddressed without a comprehensive plan or strategy for how these benefits would be funded. Recognizing the need to address these long-term liabilities, the Administration has taken bold steps to preserve the ability of the state to keep providing these benefits over the long term.

Over the past several years, there have been significant strides in curbing the growing costs of state retirement programs, including the following:

- Pursuant to Chapter 296, Statutes of 2012 (AB 340), the California Public Employees' Pension Reform Act (PEPRA) was enacted to save billions of taxpayer dollars by capping benefits, increasing the retirement age, and requiring employees to pay at least half of their normal costs (or the amount of money that must be set aside today to pay for the future pension benefits that accrued that year), among other things. According to the California Public Employees' Retirement System (CalPERS), the implementation of PEPRA is projected to save government employers, including the state, an estimated \$29 billion to \$38 billion over the next thirty years.
- The Governor signed Chapter 47, Statutes of 2014 (AB 1469), putting into law a funding strategy to address the unfunded liability of the California State Teachers' Retirement System (CalSTRS). The funding strategy, which includes predictable increased payments from school districts, teachers, and the state over a seven-year period, positions CalSTRS on a sustainable path forward. The intent is to fully fund the system by 2046. According to CalSTRS, the funding plan is on track to meet this goal.
- The Administration initiated a comprehensive strategy in which the state and its employees began to share equally in the prefunding of retiree health benefits to eliminate a \$72 billion

unfunded liability over three decades. The funding plan to eliminate the unfunded liability assumes that the state continues to pay for retiree health benefits on a pay-as-you-go basis (more information on prefunding is below).

- The state continued its commitment to eliminate pension liabilities through a one-time \$6 billion supplemental pension payment to CalPERS, funded by a loan from the Surplus Monetary Investment Fund (SMIF). The additional payment will reduce the state's unfunded liability and help lower and stabilize the required annual contributions through 2037-38.

Significant Adjustment:

- The Budget proposes \$475 million within the Proposition 2 debt payment requirement to pay down the General Fund's portion of the supplemental pension loan from the SMIF described above.

While retirement liabilities have grown by \$48.9 billion since 2012, these collective efforts have put the state on a path to fund these long-term liabilities.

Figure SWE-01 provides a historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

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## STATE EMPLOYEES' RETIREMENT CONTRIBUTIONS

The Budget includes \$6.2 billion (\$3.6 billion General Fund) for state contributions to CalPERS for state pension costs. Included in these costs are \$685.7 million General Fund for California State University retirement costs.

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## TEACHERS' RETIREMENT CONTRIBUTIONS

The Budget includes approximately \$3.1 billion in General Fund for state contributions to CalSTRS. This roughly \$300 million year-over-year increase is due in part to an anticipated increase in payroll growth and the lower assumed investment rate of return adopted by the CalSTRS Board in 2016. The budgeted amount also assumes the Board will exercise its authority to increase state contributions by 0.5 percent of teacher payroll, consistent with the funding strategy signed into law in 2014.

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## SUSTAINING STATE HEALTH CARE BENEFITS

In total, the state is projected to spend approximately \$5.6 billion on health care benefits in

Figure SWE-01  
**State Retirement and Health Care Contributions**<sup>1/</sup>  
 (Dollars in Millions)

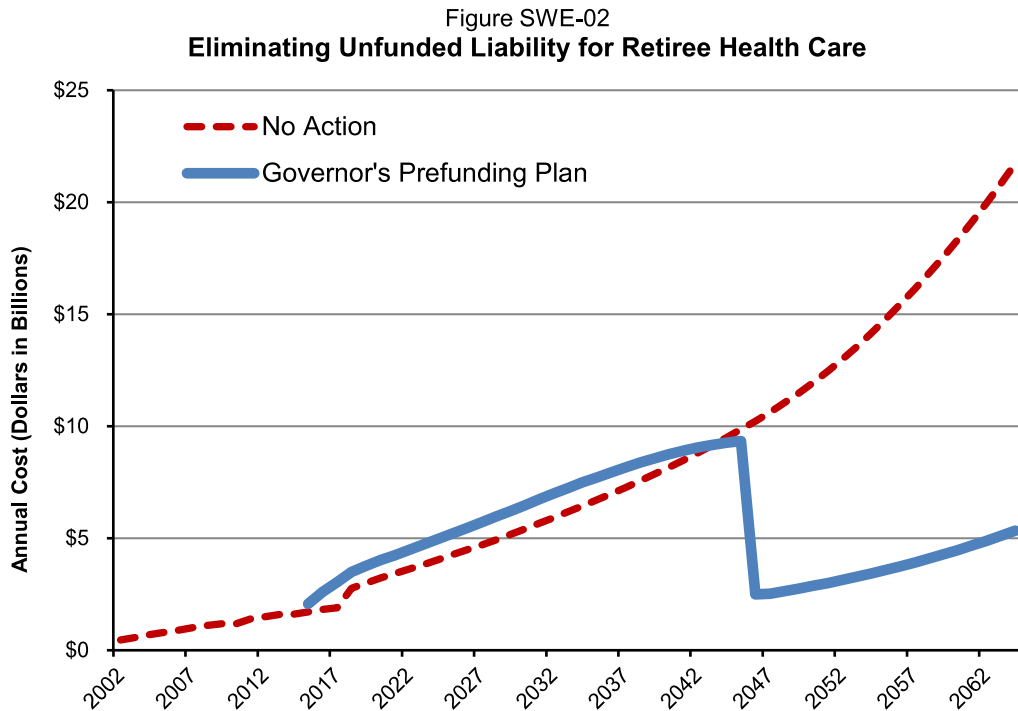
	CalPERS <sup>2/</sup>	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental <sup>3/</sup>	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding <sup>4/</sup>
2008-09	\$3,063		\$1,133	\$189	\$40		\$2,146	\$1,183		
2009-10	2,861		1,191	184	32		2,120	1,182		\$3
2010-11	3,230		1,200	166	54		2,277	1,387		2
2011-12	3,174		1,259	195	58		2,439	1,505		0
2012-13	2,948 <sup>5/</sup>	\$449 <sup>5/</sup>	1,303	160	51		2,567	1,365 <sup>5/</sup>	\$222 <sup>5/</sup>	0
2013-14	3,269	474	1,360	188	52	\$1	2,697	1,383	225	22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 <sup>7/</sup>
2017-18	5,188	661	2,790	197	76	1	3,252	1,771	291	189
2018-19 <sup>6/</sup>	5,522	686	3,077	195	80	1	3,435	1,891	311	373

<sup>1/</sup> The chart does not include contributions for University of California pension or retiree health care costs, and does not reflect the \$6 billion supplemental pension payment in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84).  
<sup>2/</sup> In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS.  
<sup>3/</sup> These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and California State University (CSU).  
<sup>4/</sup> Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.  
<sup>5/</sup> Beginning in 2012-13, CSU pension and health care costs are displayed separately.  
<sup>6/</sup> Estimated as of the 2018-19 Governor's Budget. 2018-19 General Fund costs are estimated to be \$2,901 million for CalPERS, \$686 million for CSU CalPERS, \$2,198 million for Retiree Health & Dental, \$1,613 million for Active Health and Dental, and \$194 million for OPEB Prefunding. The remaining totals are all General Fund.  
<sup>7/</sup> Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

2018-19 for more than 850,000 state employees, retirees, and their family members. The Budget includes nearly \$2.2 billion for retiree health care benefits for 2018-19. These payments are five-fold what the state paid in 2001 (\$458 million) and now represent approximately 1.7 percent of the General Fund. Fifteen years ago, retiree health care benefits made up less than one half of one percent of the General Fund.

As a result of these significant cost increases, the Administration negotiated a prefunding plan with state employee unions to address the \$72 billion unfunded liability that existed for retiree health care benefits in 2015. Assets are accumulated in a trust fund until they are sufficient to fully fund employee benefits (see Figure SWE-02). The strategy also called for collective bargaining to reduce the state retiree contribution so it equals the contribution level of most active employees and lengthening the number of years employees must work, or “vest,” to receive retiree health benefits.

The Administration has successfully negotiated contract agreements with each of the state’s employee bargaining units, which included prefunding for retiree health benefits. As a result, more than \$570 million is currently set aside in a prefunding trust fund to pay for future retiree health benefits. By the end of 2017-18, the trust fund balance will approach \$1 billion in assets.



## EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$1.2 billion (\$589.5 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding for active employees. Included in these costs are collectively bargained salaries and benefit increases as a result of contract negotiations and pay increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3). Funding is also included for 2019 calendar year increases in health care premiums and enrollment.

In addition, in the upcoming calendar year, the Administration will begin collective bargaining negotiations with 4 of the state’s 21 bargaining units, whose contracts with the state will expire in late June or early July 2018.

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## CONTINUING PROGRESS ON CIVIL SERVICE REFORM

Over the years, efforts have been made to improve the state civil service system to help state departments quickly recruit, hire, train, and develop employees through a merit-based process. In 2015, the Governor initiated Civil Service Improvement (CSI), a comprehensive strategy to systemically improve the civil service system. CSI efforts focus on improving hiring, recruiting, succession planning, retention, training, and other civil service functions to allow California to compete for and retain the best and brightest employees. To date, the state has made important improvements in the state's civil service system, including:

- Improved job searches online and automated the application process.
- Additional online examinations for job seekers.
- Improved benefits oversight and management.
- Increased recruitment of underrepresented communities, veterans, and persons with disabilities.
- Developed more non-traditional apprenticeships to create a pool of talent for hard-to-recruit jobs.
- Overhauled and bolstered leadership training programs and training requirements for state managers, supervisors, and executives.

CSI efforts also continue to focus on consolidating the state's multitude of job classifications to streamline the civil service system. There are currently 17 classification types under review, including consolidating a wide variety of analyst classifications into a single General Analyst class and consolidating 36 information technology classifications into 9 general classes. Although CSI efforts have accomplished a great deal, more progress is needed. The Budget proposes additional statutory changes to make the civil service system more efficient and transparent.

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## REDEVELOPMENT AGENCIES

Redevelopment agencies were created after the Second World War to allow cities and counties to leverage property tax revenue to rehabilitate blighted urban areas for California's growing postwar population. Redevelopment agencies received the incremental growth in property tax revenue within their project areas after they were established, which would otherwise have gone to cities, counties, special districts, and K-14 schools. Many redevelopment agencies used this revenue to finance bonds whose proceeds paid for the



redevelopment activities.

The tax increment financing model that redevelopment agencies used for decades became increasingly unsustainable as each K-14 school district's minimum funding level consists of a mix of property tax revenue and state General Fund revenue, with any shortfall in property tax revenue backfilled by the General Fund. By 2010, the redirection of property tax revenue from schools to redevelopment agencies cost the state \$1.6 billion per year.

When the Administration assumed office in 2011, the state faced a budget deficit of over \$26 billion. Closing the deficit required a host of sweeping decisions, including eliminating California's approximately 400 redevelopment agencies. Pursuant to Chapter 5, Statutes of 2011 (ABx1 26) and a California Supreme Court decision, the redevelopment agencies were dissolved in February 2012, and each was replaced with a locally organized successor agency that is tasked with retiring the former redevelopment agency's outstanding debts and other legal obligations.

The winding down of the state's former redevelopment agencies continues to be a priority for the Administration. The elimination of redevelopment agencies has allowed local governments to protect core public services by returning property tax money to cities, counties, special districts, and K-14 schools.

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

From 2011-12 through 2016-17, approximately \$7.3 billion was returned to K-14 schools. The Budget anticipates Proposition 98 General Fund savings resulting from the dissolution of RDAs will be \$1.4 billion in 2017-18 and \$1.6 billion in 2018-19. Average annual out-year savings are estimated at \$1.9 billion through 2021-22.

The Administration sponsored Chapter 785, Statutes of 2014 (SB 628), which restored the ability of cities and counties to use tax increment financing for local development initiatives. The bill allows cities and counties to create Enhanced Infrastructure Financing Districts. Unlike the redevelopment agencies, Districts can only leverage property tax revenues from cities, counties, and special districts that agree to participate and cannot leverage property tax

revenues from K-14 schools.

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## SUPPORT FOR COUNTY ASSESSORS' OPERATIONS

The Budget includes \$5 million annually for the next three years for a new initiative to assist in the maintenance and equalization of the county property tax rolls. Proposed statutory language describes the framework for the new program.

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## HOUSING

For decades, California has faced a shortage of housing due to historical underproduction of adequate supply when compared to demand. While the state has identified 180,000 units of housing needed annually to address the growing population, only 100,000 units on average have been produced annually over the last eight years.

California local governments have primary control over land use and housing-related decisions. Housing entitlements and permits are determined locality by locality, each with its own community needs and challenges. Throughout the development process, each local government may face pressures that discourage housing development, including community opposition, incentive to approve sales tax-generating development over residential development, and market conditions, such as high land and construction costs. These factors often result in policies that increase development costs, including permitting and impact fees, delays in permit approvals, and parking requirements.

In recognition of California's pronounced housing shortage, in 2016, the Administration proposed a "by-right" proposal in conjunction with state funding to streamline local housing approval and drive down per unit housing costs. This proposal was not adopted by the Legislature.

In January 2017, the Administration put forward comprehensive policy principles to reduce local barriers, limit construction delays, lower per-unit costs, provide production incentives, strengthen compliance with existing laws, and establish a permanent source of ongoing funding for affordable housing and related investments.

Within this framework, the Administration and Legislature developed a package that included statutory changes to reduce per unit costs and increase production, a housing bond and a real estate transaction fee. The 15 bills signed into law collectively shorten the housing development approval process, provide incentives to streamline development, and promote local accountability to adequately plan for needed housing. A real estate transaction fee was established that will generate \$258 million annually to invest in affordable housing production.

Of these funds, 10 percent is dedicated to affordable homeownership and rental housing for agricultural workers and their families. The housing package also places a \$4 billion bond on the November 2018 ballot for voter approval which includes \$3 billion in general obligation bonds for various housing programs and \$1 billion for veterans housing.

The state has continued to make a significant investment in affordable housing construction through various grant and loan programs, including the Affordable Housing and Sustainable Communities Program, No Place Like Home Program, and Veterans Housing and Homelessness Prevention Program. Beyond these legislative changes and new funding programs, the state has worked collaboratively across its housing agencies to improve outcomes for its existing programs. The Tax Credit Allocation Committee, which administers the Low Income Housing Tax Credit program, has made a number of regulatory changes in collaboration with the Administration to increase the utilization of this program. These efforts resulted in a historic high of 20,847 units financed with federal tax credits in 2016. The California Housing Financing Agency has increased its multifamily lending activity each year since the Great Recession, providing \$369 million in financing in 2016-17 to support 2,100 affordable housing units. The agency also issued \$682 million in private activity bonds for affordable housing since 2015 and provided \$4 billion to moderate-income families that do not qualify for the low-income programs through the state's First-Time Homebuyers Downpayment Assistance Program.

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

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## **VOTING SYSTEM REPLACEMENT FOR COUNTIES**

The vast majority of voting technology used in California is from the late 1990s or early 2000s. Much of the equipment has reached the end of its useful life. The age and lack of replacement parts decreases the reliability and security of the equipment.

The Budget includes a one-time augmentation of \$134.3 million General Fund to support the purchase of all necessary hardware, software, and initial licensing for the replacement of voting systems and technology in all 58 counties. This funding represents a 50-percent state share of total voting system replacement costs; counties will be responsible for the other 50 percent.

Figure SWE-03  
**2018-19 Affordable Housing and Homelessness Funding**  
 (Dollars in Millions)

<b>Department</b>	<b>Program</b>	<b>Amount</b>
Department of Housing and Community Development	Veterans and Affordable Housing Bond Act Programs (SB 3)	\$277
	No Place Like Home Program	\$262
	Building Homes and Jobs Fund Programs (SB 2)	\$245
	Federal Funds	\$122
	Housing for Veterans Funds	\$75
	Office of Migrant Services	\$6
	Various	\$54
California Housing Finance Agency <sup>1/</sup>	Single Family 1st Mortgage Lending	\$1,500
	Multifamily Conduit Lending	\$300
	Multifamily Lending	\$200
	Single Family Down Payment Assistance	\$108
	Special Needs Housing Program	\$30 <sup>2/</sup>
Strategic Growth Council <sup>3/</sup>	Affordable Housing and Sustainable Communities	\$455
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	\$259 <sup>4/</sup>
	Low Income Housing Tax Credits (State)	\$97
	Farmworker Housing Assistance Tax Credits	\$3
Department of Veterans Affairs	CalVet Farm and Home Loan Program	\$264
Department of Social Services	CalWORKS Housing Support Program	\$47
	CalWORKS Homeless Assistance Program	\$35
	CalWORKS Family Stabilization, Housing Component	\$3 <sup>5/</sup>
Office of Emergency Services	Transitional Housing Program, Victim of Crimes Act	\$12
	Homeless Youth and Exploitation Program	\$1
	Domestic Violence Housing First Program	\$6
Department of Public Health	Housing Opportunities for Persons with AIDS (HOPWA)	\$3
	Housing Plus Program	\$2
California Department of Corrections and Rehabilitation	Integrated Services for Mentally-Ill Parolees	\$3
	Specialized Treatment of Optimized Programming, Parole Service Center, Day Reporting Center, Female Offender Treatment and Employment Program	N/A <sup>6/</sup>
	Whole-Person Care Pilot Program, Health Homes Program, Mental Health Services Act Community Services and Supports, California Community Transitions Program	N/A <sup>6/</sup>
<b>Total</b>		<b>\$4,369</b>

<sup>1/</sup> Amounts are based on the lending activities from 2017-18 trends.

<sup>2/</sup> This amount represents a voluntary allocation of Proposition 63 funds from 16 participating counties.

<sup>3/</sup> The Affordable Housing and Sustainable Communities program amount reflects local assistance funds available from 20 percent of projected Cap and Trade revenues.

<sup>4/</sup> This amount represents the 9 percent tax credits allocated in 2018-19 and an estimated figure for 4 percent credit awards based on 2015-2017 averages. This figure does not include the approximately \$4 billion of tax-exempt bond debt allocation that is available for award from the California Debt Limit Allocation Committee.

<sup>5/</sup> This amount represents an estimate of the portion of the program associated with housing and homelessness activities.

<sup>6/</sup> The state provides a number of wrap-around supportive services through these programs, including housing support and application assistance, which cannot be separated from the Department of Health Care Services' and Department of Corrections and Rehabilitation's general budgets.

Chapter 832, Statutes of 2016 (SB 450), provided counties with the option to conduct less-costly elections where all voters are sent a vote-by-mail ballot and regional centers are established throughout the county to allow voters to vote at a convenient time and place in the days leading up to an election.

It is expected that most counties will transition to the vote center model authorized by SB 450, which will reduce equipment costs. The costs assume all jurisdictions with more than 50 precincts will go to a vote center model, and counties with less than 50 precincts will continue with the precinct model.

## TAX ADMINISTRATION REFORM

The Department of Finance's Office of State Audits and Evaluations (OSAE) released a legislatively mandated review of the Board of Equalization in March 2017 that found "certain board member practices have intervened in administrative activities and created inconsistencies in operations, breakdowns in centralized processes, and in certain instances result in activities contrary to state law and budgetary and legislative directives." OSAE's review also identified errors in the allocation of sales tax revenue and other revenues totaling in the hundreds of millions of dollars.

The Administration worked with the Legislature to enact Chapter 16, Statutes of 2017 (AB 102), which initiated various reforms, including the creation of two new departments. Effective July 1, 2017, the majority of the Board was recast as the California Department of Tax and Fee Administration (CDTFA), which performs all statutory duties formerly performed by the Board. AB 102 also created the Office of Tax Appeals (OTA) effective July 1, 2017. Beginning January 1, 2018, OTA adjudicates the tax appeals formerly assigned to the Board, except for those related to the constitutional duties performed by the realigned Board. The OTA adjudicates tax appeals using panels with three administrative law judges selected through the civil service process.

The Board's authority is limited primarily to those duties specified in the State Constitution: the equalization of county property tax rates, assessing specified inter-county and business property, assessing taxes on insurers, and assessing and collecting alcohol excise taxes.

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

- Board of Equalization—\$30.4 million (\$30 million General Fund) and 204 positions.
- California Department of Tax and Fee Administration—\$664 million (\$354 million General Fund) and 4,270 positions.
- Office of Tax Appeals—\$20 million General Fund and 80 positions.

With the sweeping reforms and creation of CDTFA, the Administration is undertaking an expedited mission-based review to assess operations and determine the most efficient and effective collection of sales and use tax, which aligns with the core mission and values of the new department.

## MEDICINAL AND ADULT-USE CANNABIS

The Medical Marijuana Regulation and Safety Act enacted in 2015 created a regulatory framework for medical cannabis in California, and distributed the responsibility for state licensing between three state entities—the Department of Food and Agriculture, the Department of Public Health, and the Bureau of Cannabis Control. In November 2016, voters approved Proposition 64, the Adult Use of Marijuana Act, which legalized the recreational sale and use of cannabis to people over the age of 21. In addition, Proposition 64 levied new excise taxes on the cultivation and retail sale of both adult use and medical cannabis. Chapter 27, Statutes of 2017 (SB 94), integrated medical and adult use regulations to create the Medicinal and Adult-Use Cannabis Regulation and Safety Act (Cannabis Act), which established the overall framework for the regulation of medicinal and adult-use cannabis in California.

The Budget continues funding as approved in the 2017 Budget Act for cannabis regulatory activities, including the processing of licenses and permits, enforcement, laboratory services, information technology, quality assurance, and environmental protection. California's three state cannabis licensing authorities have emergency regulations in place for commercial medicinal and adult-use cannabis, which includes state-licensed cannabis activity that became effective on January 1, 2018.

As approved in Proposition 64, new excise taxes will be levied on the cultivation and retail sale of both recreational and medical cannabis with tax revenues being deposited in the Cannabis Tax Fund. The amount and timing of revenues generated from the new taxes are uncertain and will depend on various factors including local regulations, and cannabis price and consumption changes in a legal environment.

Proposition 64 specifically delineated the allocation of resources in the Cannabis Tax Fund, which are not subject to appropriation by the Legislature. Pursuant to Proposition 64, expenditures are prioritized as follows:

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

based on prior year actual tax collection, the Budget assumes that funding for these programs will be available in 2019-20, consistent with Proposition 64.

Given the timing of the legalized market's opening and the release of the Governor's Budget, the Administration is deferring all cannabis-related budget proposals until the May Revision. While only a limited amount of data will be available at the May Revision, the Administration will use the updated information to make more informed decisions about future resource needs.

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## MILITARY DEPARTMENT

The Military Department is responsible for the command, leadership and management of the California National Guard, Youth and Community Programs, State Military Reserve and the Naval Militia. The Military Department Youth and Community Program serves California communities and families by delivering national level, high-quality educational support programs, in partnership with the educational community, within a military, academic structured environment.

The Budget expands existing Youth and Community Programs. Specifically, the Budget includes \$6.5 million General Fund to update the statewide curriculum for the California Cadet Corps, as well as expand the program to serve a total of 8,125 youths in 2018-19, growing to nearly 22,000 youths in 2022-23. Currently, 51 schools serve 5,800 cadets. This augmentation will enable the Military Department to expand the California Cadet Corps programs to a total of 175 schools by 2022-23.

The Budget also includes \$2.4 million General Fund to implement a Porterville Military Institute College Preparatory Academy in Tulare County to serve 500 students beginning in the fall of 2018, and \$1.2 million General Fund to provide military personnel at the California Military Institute in Riverside County. The Porterville Military Institute is modeled after the Oakland Military Institute College Preparatory Academy that develops leaders of character by providing a rigorous seven-year college preparatory program to promote excellence in the four pillars of academics, leadership, citizenship, and athletics. The California Military Institute is a public charter school that currently has no military presence on the campus. To improve outcomes for youth at the California Military Institute, the Budget includes resources for the Military Department to dedicate military personnel to provide cadets the leadership and development training that is similarly offered to youth participating in the Oakland Military Institute. Using a military framework, the goal of these Institutes is to graduate cadets who are capable of meeting the admissions requirements of any college in the nation.



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## PRECISION MEDICINE

In 2015, the Governor created the nation's first state-level initiative on precision medicine. Precision medicine aims to improve health and healthcare through better use of advanced computing, technology and data science. Building on the \$23 million state investment in precision medicine to date, the Budget proposes to establish the California Institute to Advance Precision Health and Medicine with an additional \$30 million one-time General Fund appropriation to continue developing demonstration projects, incorporate successful demonstration projects into the health delivery system, and further advance how data science can be utilized in healthcare. The institute would be administered through a collaboration between public and private nonprofit institutions, overseen by the Governor's Office of Planning and Research.

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## 2020 CENSUS

The Budget includes \$40.3 million for statewide outreach and other activities related to the 2020 Census count. Statewide coordination of the multi-year, multi-lingual effort is critical to obtain a complete and accurate count of California residents. The data collected by the decennial census determines the number of seats California has in the U.S. House of Representatives and is also used to determine federal funding levels for local communities.