

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

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

HOUSING AND HOMELESSNESS

For decades, California has faced a shortage of housing due to historical underproduction of adequate supply when compared to demand. Although the state has identified 180,000 units of housing needed annually to address the growing population, less than 100,000 units have been produced each year over the last eight years. In addition, only about 3 percent of homes and 11 percent of rental units in the state are affordable through legal restrictions for individuals of low to moderate income. This shortage of affordable housing units is one of the major contributing factors to the increasing homeless population in the state, which has risen to nearly 135,000 individuals, up 13.7 percent since 2016 according to data from the U.S. Department of Housing and Urban Development. Of this number, more than 91,000 are considered unsheltered—meaning their primary nighttime location was a public or private space not ordinarily used for sleeping, such as a park, vehicle, or on the street. California represents 25 percent of the nation’s homeless population.

Housing and homelessness issues are fundamentally a local government responsibility. Although housing construction in one jurisdiction may affect housing costs regionally and statewide, housing entitlements and permits are determined locality by locality. Cities are

responsible for the zoning and siting of housing and counties are responsible for linking the homeless population to health and social services. Although many cities and counties have taken steps to address affordable housing and homelessness issues, efforts are often met with resistance, including community opposition, policies that increase development costs, delays in permit approvals, and challenges to financing housing for this population.

In recognition of California's pronounced housing shortage, in 2016, the Governor signed into law the No Place Like Home Program, which funds the construction of permanent supportive housing targeted to the chronically homeless and those at risk of chronic homelessness with mental health services needs. The program is funded with up to \$2 billion in bonds secured by Mental Health Services Act (Proposition 63) revenues. The Budget places the program before the voters in the November 2018 election to accelerate the issuance of program funds.

In 2017, the Administration and Legislature developed a legislative package of 15 bills that collectively shorten the housing development approval process, provide incentives to streamline development, promote local accountability to adequately plan for needed housing, and invest in affordable housing production through dedicated real estate transaction fee revenues (estimated at \$258 million annually) and an anticipated \$4 billion voter-approved housing bond that will appear on the November 2018 ballot.

In recognition of the longer time frame that these recent investments and policies require to take effect, and the immediate homelessness challenges facing local jurisdictions, the Budget includes \$609 million one-time General Fund and \$64 million ongoing General Fund (see Figure SWE-01) to focus state homelessness funding on planning, prevention, and emergency aid.

Figure SWE-01
Homelessness Response in the 2018-19 Budget
(Dollars in Millions)

Department	Program	2018-19	Ongoing
Homeless Coordinating and Financing Council ^{1/}	Emergency Homeless Aid Block Grants	\$500.0	-
	Council Administration	\$0.5	\$0.5
Department of Social Services	CalWORKs Housing Support Program	\$24.2	\$48.3
	CalWORKs Homeless Assistance Program	\$8.1	\$15.3
	Senior Home Safe Program	\$15.0	-
Office of Emergency Services	Domestic Violence Shelters and Services	\$10.0	-
	Homeless Youth and Exploitation Program	\$1.0	-
Department of Health Care Services	Homeless and Mental Illness Program	\$50.0	-
Total		\$608.8	\$64.1

^{1/} Housed within the Business, Consumer Services, and Housing Agency.

PLANNING

Given the many state resources that will be available in the coming years, the Budget includes \$500,000 ongoing to expand the Homeless Coordinating and Financing Council and move it to the Business, Consumer Services, and Housing Agency. The Council will provide statewide guidance on homelessness issues and develop a statewide plan to support the coordination of the various state homelessness investments.

EMERGENCY AID

To assist local governments in addressing immediate homeless needs until additional resources become available, the Budget provides:

- \$500 million for a Homeless Emergency Aid program for bridge funding to assist local governments in addressing immediate homeless needs. This program provides flexible block grant funds to jurisdictions that declare a shelter crisis and commit to local coordination. Of these funds, \$350 million will be distributed through Continuums of Care and \$150 million will be distributed directly to cities with populations greater than 330,000.
- \$50 million allocated by the Department of Health Care Services to counties to provide intensive outreach, treatment, and related services for homeless persons with mental health service needs.
- \$11 million for the California Office of Emergency Services to fund programs focusing on homeless youth and victims of domestic violence.

PREVENTION

As explained in the Health and Human Services Chapter, the Budget includes \$47 million in 2018-19 and \$64 million ongoing to support the safety net programs operated by the Department of Social Services to prevent homelessness, including the CalWORKs housing support program, the CalWORKs Homelessness Assistance program, and \$15 million one-time for a senior homelessness prevention program.

In addition to these efforts, the state continues to invest significant resources in housing and homelessness-related programs. The state addresses housing and homelessness challenges through a variety of targeted programs across multiple state departments, including the Department of Housing and Community Development. These programs provide grants and loans to construct affordable housing, assist moderate-income households through homebuyer and other assistance programs, and offer various supports for individuals and families experiencing homelessness.

The Budget includes \$5.1 billion in state and federal funds to address housing and homelessness (see Figure SWE-02).

Figure SWE-02
2018-19 Affordable Housing and Homelessness Funding
(Dollars in Millions)

Department	Program	Amount
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)	\$255
	Federal Funds	\$122
	Housing for Veterans Funds	\$75
	Infill Infrastructure Grant Program Reappropriation	\$51
	Multifamily Housing Program - Supportive Housing	\$39
	Office of Migrant Services	\$6
	Housing Related Parks Program Reappropriation	\$2
	Various	\$15
California Housing Finance Agency ^{1/}	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 ^{2/}
Homeless Coordinating and Financing Council	Emergency Homeless Aid Block Grants	\$500
Strategic Growth Council ^{3/}	Affordable Housing and Sustainable Communities	\$455
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	\$259 ^{4/}
	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	\$71
	CalWORKS Homeless Assistance Program	\$43
	Senior Home Safe Program	\$15
	CalWORKS Family Stabilization, Housing Component	\$3 ^{5/}
Department of Health Care Services	Homeless and Mental Illness Program	\$50
	Whole-Person Care Pilot Program, Health Homes Program, Mental Health Services Act Community Services and Supports, California Community Transitions Program	N/A ^{6/}
Office of Emergency Services	Domestic Violence Housing First Program	\$13
	Transitional Housing Program	\$10
	Domestic Violence Shelters and Services	\$10
	Specialized Emergency Housing	\$5
	Homeless Youth and Exploitation Program	\$2
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 ^{6/}
Total		\$5,050

^{1/} Amounts are based on lending activities from 2017-18 trends.

^{2/} This amount represents a voluntary allocation of Proposition 63 funds from 16 participating counties.

^{3/} The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade auction proceeds.

^{4/} 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.

^{5/} This amount represents an estimate of the portion of the program associated with housing and homelessness activities.

^{6/} 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.

PAYING DOWN THE STATE'S LONG-TERM RETIREMENT COSTS

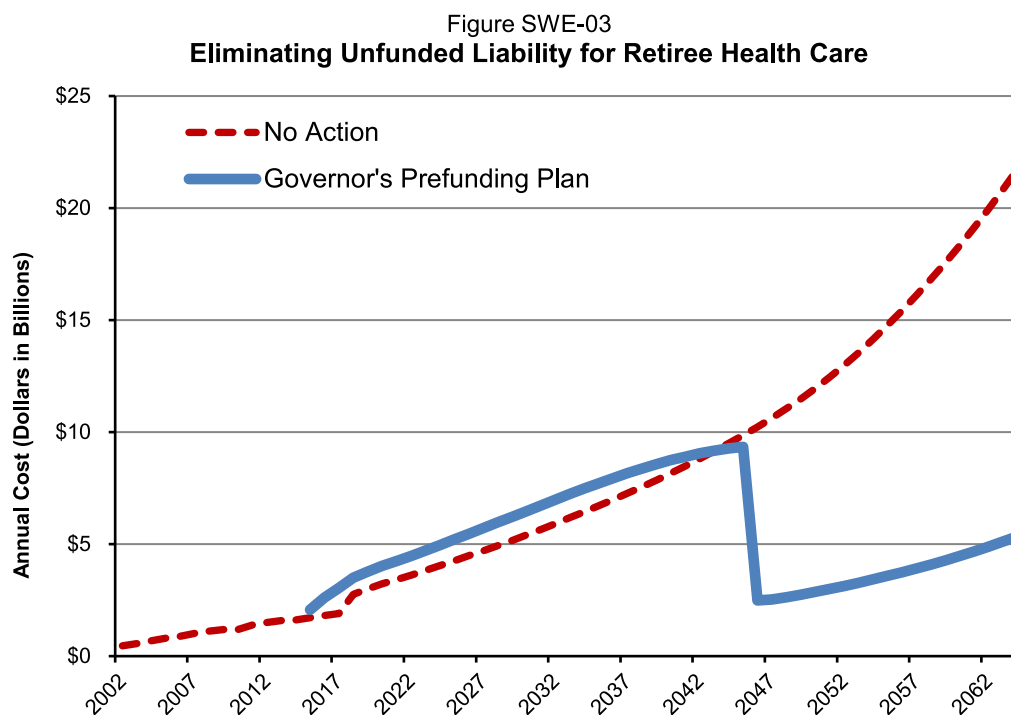
In the last ten years, the state's costs for state employee pension and health benefits have continuously grown. State health care benefits in particular remain one of the fastest growing areas of state government and have increased five-fold since the early 2000s. This far outpaces population and inflation growth during the same period. As a result of lower-than-expected investment returns and the adoption of more realistic assumptions related to future investment earnings and demographics, the state's retiree long-term costs, debts, and liabilities have risen to \$287 billion. Prior to 2012, there was no comprehensive plan to address the state's long-term retirement liabilities. The Administration has implemented major strategies to help ensure the state's continuing ability to provide retirement benefits over the long term.

Significant actions taken over the past several years to lessen growth in state retirement costs include 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 restructuring pension benefits government employers can more responsibly provide. Changes made include 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). The California Public Employees' Retirement System (CalPERS) has projected that the implementation of PEPRA will save government employers, including the state, an estimated \$29 billion to \$38 billion over the next 30 years.
- In 2014, the CalPERS Board of Administration adopted new actuarial assumptions to reflect longer life expectancy, earlier retirement ages, and higher-than-expected wage growth. The Administration requested that CalPERS recognize these demographic assumption changes in 2014-15, rather than in 2016-17 as recommended by CalPERS, saving the state approximately \$3.7 billion (\$1.8 billion General Fund) over a 20-year period.
- Chapter 47, Statutes of 2014 (AB 1469), created 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, increases the sustainability of the system and is expected to fully fund the system's defined benefits by 2046. CalSTRS continues to report that the funding strategy is projected to achieve this goal. The Budget includes additional funding for the Local Control Funding Formula to support core programs and services and provides substantial resources to accommodate increasing costs, including rising employee benefit costs. Based on the Legislative Analyst's estimates, since the enactment of the CalSTRS

funding plan in 2014, CalSTRS and CalPERS contribution requirements for K-12 local educational agencies have increased by \$4.1 billion. During the same period, funding for the Local Control Funding Formula has increased by \$21 billion.

- 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 strategy called for collective bargaining to reduce the state retiree contribution to equal the contribution level of most active employees and lengthening the number of years employees must work, or “vest,” to receive retiree health benefits. Assets are accumulated in a trust fund until they are sufficient to fully fund employee benefits (see Figure SWE-03). As a result, more than \$880 million is currently set aside in a prefunding trust fund to pay for future retiree health benefits. By the end of 2018-19, the trust fund balance will approach \$1.6 billion in assets.



- The CalPERS and CalSTRS Boards of Administration voted to reduce the assumed rate of investment return to 7 percent in December 2016 and February 2017, respectively. The Administration encouraged these actions to reflect a more realistic return on its investments. The CalPERS Board reduced the assumed rate of return on its investments from 7.5 to 7 percent, to be phased in over three fiscal years (2017-18 through 2019-20), and the CalSTRS Board approved a reduction in its assumed rate of return on investments from 7.5 to 7 percent, to be phased in over two fiscal years (2017-18 and 2018-19). While decreasing the assumed investment return has decreased the funded status and increased

contributions for both systems in the short-term, this change will help sustain both systems in the long run.

- In 2017-18, the state made a one-time \$6 billion supplemental pension payment to CalPERS, funded by a loan from the Surplus Money Investment Fund, to continue efforts to eliminate pension liabilities. This additional payment will reduce the state's unfunded liability by an estimated \$4.8 billion and help lower and stabilize the required annual contributions through 2037-38.

While retirement liabilities have grown by \$68.3 billion since 2011, a higher level of growth would have been experienced absent these collective efforts to strategically fund the state's long-term liabilities.

Figure SWE-04 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.

Figure SWE-04
State Retirement and Health Care Contributions ^{1/}
(Dollars in Millions)

	CalPERS ^{2/}	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental ^{3/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{4/}
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 ^{5/}	\$449 ^{5/}	1,303	160	51		2,567	1,365 ^{5/}	\$222 ^{5/}	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 ^{7/}
2017-18	5,188	661	2,790	197	76	1	3,252	1,771	291	189
2018-19 ^{6/}	5,506	683	3,082	195	74	1	3,435	1,891	311	373

^{1/} 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).

^{2/} 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.

^{3/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and California State University (CSU).

^{4/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{5/} Beginning in 2012-13, CSU pension and health care costs are displayed separately.

^{6/} Estimated as of the 2018 Budget Act. 2018-19 General Fund costs are estimated to be \$2,890 million for CalPERS, \$683 million for CSU CalPERS, \$1,613 million for Active Health and Dental, \$2,198 million for Retiree Health & Dental (including CSU), and \$194 million for OPEB Prefunding. The remaining totals are all General Fund.

^{7/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

Significant Adjustments:

- **Proposition 2 Debt Payments**—The Budget includes \$623.5 million within the Proposition 2 debt payment requirement to pay down the General Fund’s portion of the supplemental pension payment loan from the Surplus Money Investment Fund described above. The Budget also includes \$195 million within the Proposition 2 debt payment requirement to pay down the General Fund’s portion of the state’s prefunding contribution for retiree health benefits.
- **State Employees’ Retirement Contributions**—The Budget includes \$6.2 billion (\$3.6 billion General Fund) for state contributions to CalPERS for state pension costs. This includes \$683.3 million General Fund for California State University retirement costs.
- **Teachers’ Retirement Contributions**—The Budget includes \$3.1 billion General Fund for state contributions to CalSTRS. This roughly \$300 million year-over-year increase is due in part to an unanticipated increase in payroll growth and the lower assumed investment rate of return adopted by the CalSTRS Board in 2017. The budgeted amount also reflects the CalSTRS Board’s decision to exercise its authority to increase state contributions by 0.5 percent of teacher payroll, consistent with the funding strategy signed into law in 2014.
- **Sustaining State Health Care Benefits**—In total, the state is projected to spend approximately \$5.6 billion on health care benefits in 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 times 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.

The state’s retiree health care liability has now grown to \$91 billion as a result of changes in reporting requirements. While this is a staggering amount, the funding plan put in place by the Administration mentioned above places the state on a sustainable path forward to pay down this long-term liability.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$1.3 billion (\$719 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, including the recently negotiated contract with the California Correctional Peace Officers Association, 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.

The Administration will continue collective bargaining negotiations with three bargaining units whose contracts with the state expired in late June or will expire in early July 2018.

Additionally, the Budget sets aside \$15 million General Fund for penalties the state may face under the federal Patient Protection and Affordable Care Act (ACA) associated with the Employer Shared Responsibility and Employer Reporting provisions of the ACA.

PREVENTING DISCRIMINATION AND HARASSMENT IN THE WORKPLACE

The Budget includes \$4.4 million (\$3.7 million General Fund) to expand the state's efforts to prevent discrimination and harassment in the workplace both within state government through the Department of Human Resources and outside of state government through the Department of Fair Employment and Housing, as follows:

- \$1.4 million (\$720,000 General Fund) for the Department of Human Resources to establish a tracking system to collect data regarding complaints, judgments, and settlements related to workplace discrimination and harassment across all state entities. A unit will be established within the Office of Civil Rights to identify and monitor trends and patterns of problematic behavior, prepare executive and legislative reports related to the data being tracked, and expand policies, procedures, and training related to preventing discrimination and harassment.
- \$3 million General Fund for the Department of Fair Employment and Housing to expand education and outreach activities and more quickly process claims related to sexual harassment and other civil rights. The augmentation will fund a contract to develop outreach materials to educate private employers and employees of their rights. In addition, the funding will allow the department to hire additional staff to conduct outreach and address a backlog of claims to more quickly process complaints, including those involving sexual harassment.

PUBLIC EMPLOYMENT RELATIONS BOARD

The Public Employment Relations Board administers California’s eight public sector collective bargaining statutes and provides a timely and cost-effective method through which employers, employee organizations, and employees can resolve labor relations disputes. To address the department’s existing backlogs as well as to adjudicate and render more timely decisions, the Budget includes \$1.5 million General Fund and seven permanent positions. Additionally, the Budget includes up to \$900,000 General Fund to provide additional resources upon completion of the Department of Finance’s Mission-Based Review.

WILDFIRE RESPONSE AND RECOVERY

California was faced with unprecedented and historic disasters in 2017—floods, wildfires and mudslides—leading to the loss of lives and homes. After estimating total Federal assistance, the Budget assumes a net General Fund cost of \$384.8 million for various emergency response and recovery activities. The Budget includes additional investments for ongoing improvements to create a stronger emergency response system in California.

OFFICE OF EMERGENCY SERVICES

Public Safety Communications—\$26.5 million State Emergency Telephone Number Account Fund (SETNA), including \$11.5 million to implement a statewide Next Generation 9-1-1 system and \$15 million to begin a five-year plan to upgrade the California Public Safety Microwave Network from an analog system to a digital system to enhance emergency response communications. Next Generation 9-1-1 provides various benefits compared to the legacy system, including faster call delivery, increased routing accuracy and functionality, call overflow and backup functionality, updated geographic information capability and wireless location data, and incoming text capability. The Network provides connectivity for public safety radio systems that link responders and dispatchers, provides redundancy and resiliency, and enhances disaster recovery and the ability to support the Next Generation 9-1-1 system. Combined, these proposals will improve public safety and significantly advance California’s emergency response capabilities.

Recovery Program Workload—\$2.8 million General Fund and \$8.4 million Federal Trust Fund for three years to address increased workload related to disaster recovery activities, including working with impacted communities to implement and administer the California Disaster Assistance Act (CDAA) and federal disaster programs.

Disaster Service Worker Volunteer Program—\$675,000 General Fund to provide sufficient and timely workers' compensation benefits to injured volunteers and eligible survivors, and to issue medical provider payments without incurring penalty and interest fees.

Emergency Response Operations—\$1.6 million General Fund to increase staffing within the Office of Emergency Services' Homeland Security Branch and Regional Response and Readiness Branch. These branches support liaison efforts between federal, state, and local partners, and assist with responding to disasters and emergency management coordination.

Situational Awareness and Collaboration Tool—\$353,000 General Fund and \$325,000 reimbursements for the Office of Emergency Services to manage and train local agencies on the effective use of this tactical tool, which is deployed in the field to coordinate various disaster response efforts, including, but not limited to, evacuations, warnings, and shelters.

Hazard Mitigation Program—\$3.2 million Federal Trust Fund to enhance hazard mitigation activities throughout the state. Mitigation programs provide funding for eligible activities that reduce disaster losses and protect life and property from future disaster damages.

Regional Hazardous Materials Response Program—\$3.4 million General Fund on a three-year limited term basis for the Office of Emergency Services to provide regional and on-site support for planning, response, and mitigation capabilities in the event of a release of hazardous materials.

One-Time Mutual Aid System Enhancements—\$25 million General Fund for the Office of Emergency Services to procure equipment and technology to improve the state's mutual aid system and response coordination.

California Earthquake Early Warning System—\$15.8 million General Fund to complete the buildout of the California Earthquake Early Warning System and provide support to the California Earthquake Early Warning Program and Advisory Board.

CALIFORNIA DISASTER ASSISTANCE ACT

The Budget includes a one-time augmentation of \$88.1 million General Fund to increase the amount of funding available through CDAA, which is used to repair, restore, or replace public real property damaged or destroyed by a disaster, and to reimburse local governments for costs associated with certain activities undertaken in response to a state of emergency. This augmentation increases total CDAA funding to \$127.2 million in 2018-19.

CALIFORNIA DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY (CALRECYCLE)

CalRecycle Debris Removal Assistance Program—\$1.3 million Integrated Waste Management Fund for CalRecycle to lead a disaster response and recovery team that would become the subject matter experts for disaster recovery and debris removal. The team will respond to disaster events, train internal staff, support local agency requests for technical assistance, and assist with disaster response and debris removal plans.

DISASTER RESPONSE EMERGENCY OPERATIONS ACCOUNT

To address immediate response and recovery efforts for communities affected by wildfires and subsequent mudslides, the Director of Finance accessed over \$300 million in 2017-18 from the Special Fund for Economic Uncertainties for various departments related to unexpected equipment, personnel, and other disaster assistance costs incurred under the Governor's State of Emergency Proclamations. The majority of these costs were associated with the removal of hazardous waste and debris that threatened 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 Northern California fires, as well as rental/mortgage vouchers and utility assistance for those who would otherwise be ineligible to receive federal assistance.

The Budget includes statutory amendments to CDAA to remove the Disaster Response Emergency Operations Account's sunset date of January 1, 2019, and clarify that funds for the Account may be used for activities that commence within 120 days after a proclamation of emergency by the Governor, upon notification to the Legislature.

LOCAL PROPERTY TAX BACKFILL AND DEBRIS REMOVAL COST SHARE WAIVER

The Budget includes \$32.8 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 2017 wildfires and resulting mudslides in Southern California. Of this amount, \$21.8 million is for Northern California jurisdictions and \$11 million is for Southern California jurisdictions. This funding level is based on information provided by the county assessors.

The wildfire-related property tax revenue losses incurred by K-14 schools are generally backfilled within Proposition 98 school funding. Without the backfill, the Budget estimates K-14 schools would have incurred \$22.6 million in cumulative property tax revenue losses in 2017-18 and 2018-19 due to the Northern California wildfires and \$14.5 million due to the Southern California disasters.

Additionally, the Budget includes \$34.6 million General Fund to waive the local match for Northern California and Southern California counties' costs of debris removal, \$29.1 million and \$5.5 million, respectively.

FEDERAL SUPPLEMENTAL APPROPRIATIONS BILL FOR 2017 DISASTERS

The Governor declared emergencies in all of the disasters discussed above and secured a Presidential Major Disaster Declaration for the Northern and Southern California wildfires, and subsequent Southern California mudslides, providing direct federal aid for residents of those counties who 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.

In addition to investments made by California, Congress passed a supplemental disaster-related appropriations bill totaling \$4.4 billion to support the state's recovery efforts associated with these disasters. The Administration, through the Office of Emergency Services, is working closely with local officials to provide technical assistance and guidance to enable local governments to access these funds to support local recovery efforts that will boost the economy as well as reinstate essential services.

In April, California was awarded \$14.4 million Federal Trust Fund from the federal Immediate Aid to Restart School Operations Program. This funding is to be used to provide assistance or services to local educational agencies, including charter schools and private schools, to help defray expenses related to the restart of operations, reopening, and reenrolling students in elementary and secondary schools that serve an area affected by a covered disaster or emergency.

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 and levied new excise taxes on the cultivation and retail sale of all state-regulated 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, establishing a single regulatory system to govern the cannabis industry in California.

In 2015, the state began providing General Fund loans to support the cannabis regulatory system—the total loans now equal \$120 million.

The cannabis excise tax is forecast to generate \$630 million in 2018-19. While the forecast assumes revenue will be phased in over time, preliminary data indicates revenue receipts are slower than expected. Cannabis revenue projections are subject to great uncertainty.

Proposition 64 specified 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 General Fund loans totaling \$120 million 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.

The Budget includes approximately \$130 million to fund cannabis-related activities, which are largely authorized for a two-year limited-term basis and include the following:

- Licensing and Enforcement—Continues implementation of licensing and enforcement programs for the cultivation, manufacturing, testing, distribution, and retail sale of recreational and medicinal cannabis, including support for the Cannabis Track and Trace system to report the movement of cannabis through the distribution chain, the establishment of regional offices for licensing and cash collection, and a public awareness campaign of the benefits of the legalized market. Specifically, funding is authorized for the following entities: California Department of Food and Agriculture (\$28.3 million), California Department of Public Health (\$10.6 million), Department of Consumer Affairs (\$33.9 million), and the Department of Finance (\$440,000). Also, the Budget includes a General Fund loan of up to \$59 million to the Cannabis Control Fund to provide sufficient cash for 2018-19.
- Tax Collection and Business Filings—Supports ongoing tax collection activities, including collection of cash payments and establishment of a California Department of Tax and Fee Administration (CDTFA) cash collection office in Orange County, information technology system enhancements, and security upgrades at state offices, as well as the Secretary of

State's ability to process cannabis-related business and trademark filings. Specifically, funding is authorized for the following entities: Employment Development Department (\$3.7 million), CDTFA (\$2.4 million), and Secretary of State (\$440,000 Business Fees Fund).

- **Hearings and Appeals**—Provides funding for the Cannabis Control Appeals Panel (\$1.4 million) and the Department of General Services (\$13 million Service Revolving Fund) to conduct administrative hearings and appeals that result from denying, transferring, conditioning, suspending, or revoking issued licenses.
- **Local Equity Programs**—Provides \$10 million General Fund on a one-time basis, subject to the enactment of specified legislation, for the Bureau of Cannabis Control to provide grants to local equity programs and \$483,000 Cannabis Control Fund to provide technical assistance regarding the state licensing process to local equity applicants and licensees.

The Budget also includes funding for the following programs, as specified in Proposition 64:

- **Community Engagement**—\$10 million for the Governor's Office of Business and Economic Development to support the Community Reinvestment Grants Program that will be awarded on a competitive basis to local health departments and qualified community-based non-profit organizations to support substance use disorder treatment, job placement, legal services, and other cannabis use-related programs.
- **Research**—\$2 million for the University of California San Diego's Center for Medicinal Cannabis Research to further the objectives of the Center, including the enhanced understanding of the efficacy and adverse effects of cannabis as a pharmacological agent; and \$10 million to a public university or universities chosen by the Bureau of Cannabis Control to research and evaluate the implementation and effect of Proposition 64, and make recommendations to the Legislature and Governor regarding possible amendments to the Act.
- **Drug Recognition**—\$3 million for the California Highway Patrol to establish and adopt protocols to determine whether a driver is operating a vehicle while impaired, including best practices to assist law enforcement agencies.

Based on estimated tax revenues and pursuant to Proposition 64, the remaining programs will not receive funding until 2019-20 and will be based on collections received in 2018-19. Once funding is available beginning in 2019-20, Proposition 64 allocates resources for the following activities: (1) education, prevention, and treatment of substance use disorders; (2) clean-up, remediation and enforcement of environmental impacts created by cannabis cultivation; and (3) various public safety programs.

FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

The Financial Information System for California (FI\$Cal) is one of the largest IT projects successfully developed in the nation. The implementation of FI\$Cal brings together four partner agencies, the Department of Finance (Finance), the State Controller's Office (SCO), the State Treasurer's Office (STO), and the Department of General Services (DGS), to build a single integrated system encompassing budget, accounting, cash management, and procurement responsibilities. Rather than replace the isolated systems used by each, these agencies envisioned one system capable of expanding to meet future financial needs.

Prior to FI\$Cal, the state used a combination of 2,500 legacy systems—ranging from custom applications to commonly used desktop spreadsheet applications—which were generally not interoperable or transparent. From 2006 to 2012, Finance, DGS, SCO, and STO worked with FI\$Cal project staff to plan for the future system and in 2012, a vendor was brought on board to begin developing it.

In 2014, FI\$Cal produced the state's first budget and became the state's budget system of record. Since then, FI\$Cal has produced all subsequent budgets and any changes to budgets have been tracked and processed in FI\$Cal. In 2015, FI\$Cal implemented its procurement functionality (Cal eProcure) and became the state's procurement system of record. Cal eProcure now manages the acquisition of services from a vendor community that includes 58,000 active suppliers and 15,000 registered bidders. The Cal eProcure website also reports the state's procurement spending and allows the public to view individual procurement details.

Accounting functionality in FI\$Cal began in 2014 with 9 state entities, and has now been implemented at 88 state entities as part of a phased release plan. The final release in July 2018 will bring FI\$Cal's accounting functionality to 150 entities and will support approximately 20,000 users. Once accounting functionality is implemented statewide, approximately 40 million individual transactions will be processed in the system each year.

Currently, FI\$Cal staff are developing and implementing the cash management functionality that constitutes the project's last major release. Once fully implemented in July 2019, all of the state's expenditures will be documented and viewable in FI\$Cal, and the state's treasury and cash management functionality will be fully integrated within the system. This functionality will replace the SCO's and STO's legacy systems.

Notably, the Department of FI\$Cal was established in 2016 to maintain the system and address the needs of its user departments. After full system implementation, FI\$Cal staff will maintain the system while adding both department and statewide functionality as required. The Budget includes \$88.8 million (\$52.2 million General Fund) for the continued implementation of FI\$Cal and ongoing support of the Department of FI\$Cal.

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

The California Department of Food and Agriculture protects and promotes California's agricultural industry by ensuring a safe and healthy food supply for consumers and enhancing local and global agricultural trade. Over the past several years, the Administration has added over \$10 million in ongoing funding to strengthen the state's pest prevention system. These additional resources provide \$3.1 million for border protection stations, \$4.5 million to fortify the state's pest prevention system infrastructure, and \$5 million for the Citrus Pest and Disease Prevention Program. Further, a number of one-time augmentations have, in the aggregate, resulted in more than \$30 million General Fund being provided for the support of various pest prevention activities since 2013-14.

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's Office of Business and Economic Development (GO-Biz) serves as the lead state entity for economic strategy and marketing efforts designed to improve California's business development, private sector investment, and economic growth. As part of the Administration's ongoing efforts to achieve those goals, the Budget includes \$20 million General Fund in each of the next five years to provide statewide services to small businesses. This plan provides:

- \$17 million annually to establish a Small Business Development Technical Assistance Expansion Program to augment existing small business services such as free or low-cost one-on-one consulting and low-cost training. This funding will be provided through a competitive grant process to federal small business technical assistance centers with a focus on services to underserved business groups, including women, minority, and veteran-owned businesses, and businesses in low-wealth, rural, and disaster-impacted communities.

- \$3 million annually will go to federal Small Business Development Centers to help draw down federal funds that assist small businesses through consulting and training services.

In addition, the Budget extends the California Competes program for another five years through the 2022-23 fiscal year at \$180 million in credit allocations per year. The California Competes Credit program was created as part of the Governor's 2013 Economic Development Initiative which eliminated Enterprise Zones. The program has been successful at attracting new and expanded economic activity to California. Through the end of the 2017-18 fiscal year, the California Competes Credit program has awarded over three-quarters of a billion dollars of credits to businesses committing to create over 90,000 jobs and invest over \$17 billion in California. In addition, the Budget makes several important improvements to the program including eliminating the small business carve-out from the program and instead investing \$20 million in small business as described above, and giving GO-Biz greater flexibility to consider important business attributes when recommending credit awards.

EARNED INCOME TAX CREDIT

In 2015, the state enacted its first-ever Earned Income Tax Credit to help the poorest working families in California, which has been further expanded to include (1) self-employment income, (2) income ranges equivalent to full-time employment at the minimum wage, and (3) working individuals who are ages 18 to 24 or over age 65. The Earned Income Tax credit is expected to provide \$420 million in tax credits to over 2 million households in 2018-19.

SECRETARY OF STATE

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 that will be distributed amongst all 58 counties to support the research and development, purchase, or lease of necessary hardware, software, and initial licensing for the replacement of voting systems and technology. This funding will provide reimbursement to counties by matching county funds spent on voting system replacement activities on a dollar-for-dollar basis, up to the maximum amount of funds allocated for this purpose.

2020 CENSUS

California has the largest number of hard-to-count residents—putting its population at risk of being underreported. The Legislative Analyst’s Office estimated that California’s population was undercounted by 2.7 percent in the 1990 decennial census. The Budget includes \$90.3 million for statewide outreach and other efforts related to increasing the participation rate of Californians in the decennial census. Outreach will be conducted at the local level by networks of community organizations that are trusted by these hard-to-count populations. This effort will span multiple years, be conducted in multiple languages, and implement specific strategies to obtain a complete and accurate count of all California residents. California’s Complete Count Census will keep the Legislature informed of statewide Census efforts and expenditures for the duration of the enumeration process through one-time and quarterly reporting to the Joint Legislative Budget Committee, the Assembly Select Committee on the Census, and the Senate Select Committee on the 2020 United States Census. 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.

INFRASTRUCTURE

The Budget continues the revitalization and expansion of state-owned office space in Sacramento. The Budget provides a \$630 million General Fund transfer to the State Project Infrastructure Fund, bringing the balance of the fund to approximately \$725 million. These funds will be used for the design and construction of a new State Capitol Annex and related projects, as well as design of a new office building that will initially serve as a temporary home for the Legislature as the new Annex is constructed. The Budget also provides \$422.6 million lease revenue bond authority for the construction of the new office building and, in the event there is insufficient cash for the Annex projects, up to \$755.6 million lease-revenue bonds for the annex projects. The Budget also includes \$30.4 million General Fund for design activities related to the renovation of the Gregory Bateson and Jesse Unruh buildings, demolition of the existing State Printing Plant, and development of a new office complex at the State Printing Plant site.

Building on significant investments of approximately \$960 million in the 2015 and 2016 Budgets, the Budget provides one-time resources of \$333.5 million (\$305 million General Fund and \$28.5 million Proposition 98 General Fund) to address critical deferred maintenance needs, as follows:

- Department of Water Resources: \$100 million
- Judicial Branch: \$50 million
- California State University: \$35 million
- University of California: \$35 million
- California Community Colleges: \$28.5 million (Proposition 98 General Fund)
- California Exposition and Fair: \$15 million
- Department of State Hospitals: \$10 million
- Department of Developmental Services, Porterville: \$10 million
- Department of General Services: \$10 million
- Department of Corrections and Rehabilitation: \$9 million
- Exposition Park: California African American Museum: \$7 million
- California Military Department: \$4 million
- Department of Veterans Affairs: \$4 million
- State Special Schools: \$4 million
- Office of Emergency Services: \$4 million
- Network of California Fairs: \$3 million
- Department of Forestry and Fire Protection: \$2 million
- Department of Food and Agriculture: \$1 million
- Employment Development Department: \$1 million
- California Conservation Corps: \$500,000
- Hastings College of the Law: \$500,000

Budget challenges in the early 2000s resulted in a greater reliance on debt financing, rather than pay-as-you-go spending. From 1974 to 1999, California voters authorized \$38.4 billion of general obligation bonds. From 2000 to 2010, voters expanded the types of programs funded by bonds and authorized approximately \$111.9 billion of general obligation bonds.

The Administration has greatly tempered the use of debt, supporting \$24.1 billion of new general obligation bonds from 2011 to 2018—including \$4 billion on the ballot for housing in November—and strengthening oversight of bond spending for educational facility bonds

enacted through initiative. Of all previously issued infrastructure bonds, debt obligations of \$74.2 billion in general obligation bonds and \$9.2 billion in lease revenue bonds remain outstanding. Additionally there are \$37.1 billion of general obligation bonds and lease revenue bonds (\$33 billion and \$4.1 billion, respectively) that are authorized but not yet issued. The bonds will be issued when projects are approved and ready for construction.

When the state borrows to pay for infrastructure, roughly one out of every two dollars spent on infrastructure investments pays interest costs, rather than construction costs. The amount of funds required to service the debt had increased steadily over past years, but that growth has slowed during this Administration. Annual expenditures on debt service grew from \$2.9 billion in 2000-01 to \$6.4 billion in 2010-11—an average annual growth of 9.2 percent. Since that time, debt service grew more slowly to \$7.3 billion in 2017-18—an average annual growth rate of only 1.7 percent. Additionally, the Administration has focused on not selling bonds until cash is actually needed for projects—bringing the balance of bond cash on-hand to \$3 billion in May 2018 (including \$1.2 billion recently sold bonds for anticipated cash flows this calendar year) from a high of \$9.7 billion in December 2011.

The Budget also includes a framework for how infrastructure spending required by Proposition 2—estimated to be approximately \$1 billion—will be allocated for the 2019-20, 2020-21, and 2021-22 fiscal years. The first \$415 million will offset planned General Fund spending on state infrastructure, while any amounts over that will be evenly distributed between affordable housing projects and high-priority rail investments.