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**SACRAMENTO UPDATE – JANUARY 7, 2016**  
**THE GOVERNOR’S 2016-17 BUDGET**

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This morning Governor Brown released his [2016-17 Budget proposal](#). Although it comes amid surging tax revenues and a rebounding state economy, the Governor continued to press the case for fiscal discipline in his press conference today, cautioning that another recession is just around the corner. The \$170 billion spending plan (\$123 billion General Fund) puts additional money into the Rainy Day Fund while also allocating funding to education, safety net programs, healthcare, and transportation. It addresses other issues such as climate change, drought, redevelopment dissolution, and unfunded liabilities. The chart below summarizes the state’s resources and expenditures to address these issues:

<b>General Fund</b>	<b>2015-16 (Billions) AS PROPOSED January 2014</b>	<b>2015-16 (Billions) REVISED May 2015</b>	<b>2015-16 (Billions) AS ENACTED June 2015</b>	<b>2016-17 (Billions) AS PROPOSED January 2016</b>
<b>Resources</b>	\$114.8	\$117.4	\$121.2	\$125.8
<b>Expenditures</b>	\$113.3	\$115.3	\$116.1	\$122.6
<b>Rainy Day Fund</b>	\$2.8	\$3.5	\$4.5	\$8

Major features of the 2015-16 spending proposal include:

## **RAINY DAY FUND**

Since revenues came in well above projections last year, the Budget proposes, as part of the Proposition 2 “true-up” process, a \$2 billion transfer from the General Fund (GF) to the Budget Stabilization Account in addition to the current projected amounts required by the state Constitution. In total, this \$3.6 billion transfer brings the balance of the Rainy Day Fund to \$8 billion in 2016-17, or 65 percent of its maximum.

## **K-12 EDUCATION**

When combined with more than \$257 million in settle-up payments for prior years, the Budget proposes an increased investment of \$5.4 billion in K-14 education, bringing total per-pupil K-12 expenditures to \$14,184 in 2015-16 and \$14,550 in 2016-17.

**Local Control Funding Formula** – The Budget provides a fourth-year investment of more than \$2.8 billion in the LCFF, building upon almost \$12.8 billion provided over the last three years. In total, this level of funding exceeds the original 2013 projection of formula funding provided through the 2016-17 year by almost \$6 billion.

**Early Education Block Grant** – With the goal of greater local financial flexibility, the Budget proposes a \$1.6 billion early education block grant for local educational agencies that combines Proposition 98

funding from the State Preschool Program, transitional kindergarten, and the Preschool Quality Rating and Improvement System Grant.

**Career Technical Education** – The program allocates \$900 million over three years—\$400 million in 2015-16, \$300 million in 2016-17, and \$200 million in 2017-18—in the form of competitive matching grants to school districts, county offices of education, and charter schools.

**K-12 School Facilities** – The Governor maintains that the existing school facilities program is overly complex, costly, and inflexible. His budget notes that a proposed \$9 billion school bond for the November 2016 ballot makes no changes to the existing program and would add an additional \$500 million a year in GF debt service. The Administration says it will continue a dialogue with the Legislature and education stakeholders to shape a state program focused on districts with the greatest need, while providing new flexibility for districts to raise the necessary resources for their facility needs.

**Charter School Startup Grants** – An increase of \$20 million one-time Proposition 98 GF to support operational startup costs for new charter schools in 2016 and 2017, which will help offset the loss of federal funding previously available for this purpose.

## HIGHER EDUCATION

The Budget proposes an additional \$148 million GF for CSU, \$125 million GF for UC, and a 4.4 percent increase for community colleges in 2016-17. The CSU and UC will each receive \$35 million GF for deferred maintenance, and the community colleges will receive \$283 million Proposition 98 GF. CSU will receive \$35 million in Cap and Trade funds (\$25 million for UC) to undertake projects reducing greenhouse gas emissions and future utilities charges.

### Other CSU Impacts

- **Sustainability Plan** — Increase of \$125.4 million GF, consistent with the Administration's long-term plan, \$15 million GF available as a result of changes made to the Middle Class Scholarship Program in 2015, and \$7.9 million GF for certain lease revenue rental payment.
- **Tuition** – Will not increase in 2016-17 consistent with the Administration's expectation.
- **Deferred Maintenance** — An increase of \$35 million GF on a one-time basis.
- **Energy Projects** — An increase of \$35 million Cap and Trade funds on a one-time basis.

## HEALTH

The Budget includes \$136 billion (\$34 billion GF and \$102 billion other funds) for the Department of Health and Human Services. The Medi-Cal program is expected to increase by 8 percent to \$19.1 billion in 2016-17. One major cost includes a Department of Labor regulation entitling home care providers (IHSS) to payment for overtime, travel time, and wait times, which will lead to over \$440 million annually. The major fiscal unknown continues to be the expiring Managed Care Organization (MCO) tax.

**MCO Tax** – The Budget proposes a tax reform package to extend a federally allowable MCO tax. It assumes that revenues from the tax be placed in a special fund and be used to restore the 7 percent reduction to the In-Home-Supportive-Services program (\$236 million annually). Finally, the Budget assumes the tax will be in place for three years starting in 2016-17.

The Administration proposes continued implementation of the Coordinated Care Initiative (CCI) in 2016. Over the course of the next year, the Administration will seek ways to improve participation in the program and extend an allowable MCO tax. If the tax is not extended and participation has not improved by January 2017, the CCI would cease operating effective January 2018.

**Department of Health Care Services** – Since 2012-13, total Medi-Cal benefit costs grew at an average of 22 percent annually to \$87.9 billion in 2015-16 due to a combination of health care inflation costs, program expansions, and caseload growth. Medi-Cal GF spending is projected to increase 8 percent from \$17.7 billion in 2015-16 to \$19.1 billion in 2016-17. Total caseload is expected to increase 8.1 percent in 2015-16 and 1.5 percent in 2016-17.

## TRANSPORTATION

The Budget includes total funding of \$16.2 billion for all programs administered within the Transportation Agency. In addition, the Shared Revenues budget in the general government transportation area allocates over \$1.4 billion in fuel excise tax to cities and counties for local streets and roads. The looming question is whether the special session convened by Governor Brown will come to an agreement on a funding package for additional transportation infrastructure needs.

### 2016-17 Spending

For 2016-17, the Budget reflects partial first year resources from the transportation package of over \$1.7 billion (including nearly \$1.6 billion from new revenues and \$173 million from loan repayments), which will be distributed as follows and it further outlined in the chart below, which can be found on page 89 of the Budget summary.

- **Local Streets and Roads** — Increase of \$342 million in Shared Revenues to be allocated by the Controller to cities and counties for local road maintenance under existing statutory formulas. The Budget also includes an additional \$148 million from loan repayments to reimburse cities and counties for funds already spent on Traffic Congestion Relief Program projects.
- **Low Carbon Road Program** — \$100 million from Cap and Trade funds for Caltrans to implement a new Low Carbon Road Program for local projects that encourage active transportation such as bicycling and walking, and other carbon reducing road investments, with at least 50 percent of the funds directed to benefit disadvantaged communities.
- **Transit and Intercity Rail Capital Program** — Increase of \$409 million from Cap and Trade funds (includes \$9 million from loan repayments) for transit capital investments that provide GHG reductions, with at least 50 percent of funds directed to benefit disadvantaged communities.
- **Highway Repairs and Maintenance** — An increase of \$515 million (\$5 million from loan repayments) for Caltrans to fund repairs and maintenance on the state highway system.
- **Trade Corridor Improvements** — Increase of \$211 million (\$11 million from loan repayments) for Caltrans to fund projects along the state's major trade corridors, providing ongoing funding for a program originally established with \$2 billion in one time Proposition 1B bond funding.

**Governor's Transportation Package**  
(Dollars in Millions)

<i>Investment Category</i>	<i>Program</i>	<i>2016-17 Amount</i>	<i>Annualized Amount<sup>3</sup></i>
Local Streets and Roads	Low Carbon Road Program	\$100	\$100
	Local Road Maintenance & Repairs <sup>1</sup>	\$490	\$1,010
	Local Partnership Grants <sup>2</sup>	\$0	\$250
Transit	Transit Capital <sup>1</sup>	\$409	\$400
State Highway Repair and Maintenance	Pavement <sup>1</sup>	\$220	\$900
	Bridges and Culverts	\$155	\$500
	Traffic Management Systems	\$20	\$90
	Maintenance	\$120	\$120
Trade Corridors	Improved Goods Movement <sup>1</sup>	\$211	\$200
<b>Total</b>		<b>\$1,725</b>	<b>\$3,570</b>

<sup>1</sup> The 2016-17 totals include anticipated loan repayments.

<sup>2</sup> Provides up to \$250 million per year beginning in 2017-18.

<sup>3</sup> Excludes one-time loan repayments totaling \$879 million.

### **Transportation Infrastructure**

The Administration remains hopeful that the Legislature's Special Session Conference Committee will adopt a funding package in 2016 that addresses the state's most urgent transportation needs. As such, the Budget reflects the Governor's proposed transportation funding and reform package first outlined in September 2015. The package includes a combination of new revenues, additional investments of Cap and Trade auction proceeds, accelerated loan repayments, Caltrans efficiencies and streamlined project delivery, accountability measures, and constitutional protections for the new revenues. The package of revenues would be split evenly between state and local transportation priorities.

The ten year funding plan will provide a total of \$36 billion for transportation with an emphasis on repairing and maintaining the existing transportation infrastructure. It also includes a significant investment in public transit. Specifically, the proposal includes annualized resources as follows:

- **Road Improvement Charge** — \$2 billion from a \$65 vehicle fee, including hybrids and electrics.
- **Stabilize Gasoline Excise Tax** — \$500 million by setting the gasoline excise tax beginning in 2017-18 at the historical average of 18 cents and eliminating the current annual adjustments.
- **Diesel Excise Tax** — \$500 million from an 11 cent increase in the tax beginning in 2017-18.
- **Cap and Trade** — \$500 million in additional cap and trade auction proceeds.
- **Caltrans Efficiencies** — \$100 million in cost saving reforms.

Additionally, the Budget includes a GF commitment to transportation by accelerating \$879 million in loan repayments over the next four years.

## NATURAL RESOURCES

**Cap and Trade** – The Budget proposes a \$3.1 billion expenditure plan. Some notable elements include:

- **Affordable Housing** – As part of the continuously appropriated package , \$400 million to the Strategic Growth Council to run the Affordable Housing and Sustainable Communities Program.
- **Local Climate Action** – \$100 million for the Strategic Growth Council to administer the Transformational Climate Communities Program to support local climate actions in the state’s top 5 percent of disadvantaged communities. The program will combine climate investments within a local area for catalytic impact, including investments in energy, transportation, active transportation, housing, urban greening, land use, water use efficiency, waste reduction, and other areas, while also increasing job training, economic, health and environmental benefits.
- **Short Lived Climate Pollutants** – The Air Resources Board has developed a plan that calls for a 50 percent reduction in black carbon and fluorinated gas emissions and a 40 percent reduction in methane emissions by 2030. Reducing methane emissions from landfills will be a key component of the short-lived climate pollutant strategy. A key to achieving these goals is the successful collection and recycling of organic and other materials. To this end, \$100 million will go to CalRecycle to provide financial incentives for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities. The Administration believes that investment in new or expanded clean composting, anaerobic digestion, fiber, plastic, and glass facilities is necessary to divert more materials from landfills. These programs reduce GHG emissions and support the state’s 75 percent solid waste recycling goal.

Figure EPA-01  
2016-17 Cap and Trade Expenditure Plan  
(Dollars in Millions)

Investment Category	Department	Program	Amount
Continuous Appropriation	High-Speed Rail Authority	High-Speed Rail Project	\$500
	State Transit Assistance	Low Carbon Transit Operations	\$100
	Transportation Agency	Transit and Intercity Rail Capital Program	\$200
	Strategic Growth Council	Affordable Housing and Sustainable Communities Program	\$400
50 Percent Reduction in Petroleum Use	Transportation Agency	Transit and Intercity Rail Capital Program	\$400
	Caltrans	Low Carbon Road Program	\$100
	Air Resources Board	Low Carbon Transportation & Fuels	\$500
	Energy Commission	Biofuel Facility Investments	\$25
Local Climate Action	Strategic Growth Council	Transformational Climate Communities	\$100
Short-Lived Climate Pollutants	Air Resources Board	Black Carbon Woodsmoke	\$40
	Cal Recycle	Refrigerants	\$20
	Cal Recycle	Waste Diversion	\$100
	Department of Food and Agriculture	Climate Smart Agriculture - Healthy Soils and Dairy Digesters	\$55
Safeguarding California/ Water Action Plan	Departments of Food and Agriculture & Water Resources	Water and Energy Efficiency	\$30
	Energy Commission	Drought Executive Order - Water and Energy Technology Program & Appliance Rebates	\$60
	Department of Fish and Wildlife	Wetlands and Watershed Restoration/CalEcoRestore	\$60
Safeguarding California/ Carbon Sequestration	CAL FIRE	Healthy Forests	\$150
	CAL FIRE	Urban Forestry	\$30
	Natural Resources Agency	Urban Greening	\$20
Energy Efficiency/ Renewable Energy	Department of General Services	Energy Efficiency for Public Buildings	\$30
	I Bank	California Lending for Energy and Environmental Needs Center	\$20
	Conservation Corps	Energy Corps	\$15
	Department of Community Services and Development	Energy Efficiency Upgrades/ Weatherization	\$75
	University of California/ California State University	Renewable Energy and Energy Efficiency Projects	\$60
Total			\$3,090

## DROUGHT AND WILDFIRE RELIEF

The Budget proposes an additional \$215 million GF for higher anticipated emergency wildfire suppression costs as a result of the drought. The Budget also provides an additional \$323.1 million (\$212.1 million GF) on a one-time basis to continue immediate response to the drought as outlined in the following chart on page 104 of the Budget summary. Many of the emergency drought actions outlined below, as well as those taken during the previous four years, further the goals of the California Water Action Plan released by the Governor in January 2014.

Figure RES-01 Emergency Drought Response (Dollars in Millions)			
Investment Category	Department	Program	Amount
Protecting Water Supplies	Department of Water Resources	Emergency Salinity Barriers in the Delta	\$42.0
	Department of Water Resources	Local Assistance for Small Communities	\$5.0
	Water Board	Water Curtailment	\$5.4
	Water Board	Emergency Drinking Water Projects	\$16.0
Water Conservation	Department of Water Resources	Urban Water Conservation & Save Our Water Campaign	\$15.0
	Energy Commission	Rebates for Appliances	\$30.0
	Energy Commission	Water and Energy Technology Program	\$30.0
	Department of Food and Agriculture	Agricultural Water Conservation	\$20.0
Emergency Response	Department of Forestry and Fire Protection	Enhanced Fire Protection	\$77.4
	Department of Water Resources	Drought Management and Response	\$12.0
	Department of Fish and Wildlife	Protection of Fish and Wildlife	\$17.7
	Department of Social Services	Drought Food Assistance	\$18.4
	Office of Emergency Services	California Disaster Assistance Act	\$22.7
	Office of Emergency Services	State Operations Center	\$4.0
	Department of Community Services and Development	Farmworker Assistance	\$7.5
Total			\$323.1

## LOCAL GOVERNMENT

- **Redevelopment Agencies** – The Budget anticipates that in 2015-16 and 2016-17, cities will receive an additional \$643 million in general purpose revenues, with counties receiving \$684 million and special districts \$203 million. The Administration is also currently in the process of implementing Senate Bill 107, which made numerous changes to the RDA dissolution process.
- **Siting Incentive Grants** — \$25 million GF for incentive payments to cities and/or counties that approve, between January 1, 2016 and June 30, 2017, new long term permits for hard to site facilities that improve public safety and support the criminal justice system through the provision of services, such as substance use disorder treatment, mental health, and reentry programming.
- **Wildfire Relief** – financial relief to Lake and Calaveras counties due to devastating wildfires in 2015.
- **Medical Marijuana Regulations** – The Budget includes \$5.4 million in the Medical Marijuana Regulation and Safety Act Fund in 2015-16 to fund initial regulatory activities, as well as \$12.8 million GF, \$10.6 million Medical Marijuana Regulation and Safety Act Fund, \$1.2 million other special funds, and 126 positions.

## **DEBT SERVICE**

Estimated GF debt service expenditures in 2016-17 will increase by \$60.3 million over current-year expenditures, to a total of \$5.4 billion. This increase is comprised of \$13.5 million for general obligation debt service (\$4.8 billion total) and \$46.8 million for lease revenue bonds (\$579 million total) and is attributed to recent bond sales and the planned issuance of additional bonds over the next year.

## **INFRASTRUCTURE**

Along with the Budget, the Administration is releasing the 2016 Five-Year Infrastructure Plan, which outlines the Administration's priorities in transportation and high-speed rail, state institutions, the judicial branch, natural resource programs, state office infrastructure, and education. Also, the Budget allocates one-time resources of \$807 million to address a variety of statewide deferred maintenance needs.