



County of San Diego

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FROM: Helen Robbins-Meyer
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HIGHLIGHTS OF THE GOVERNOR'S PROPOSED FY 2017-18 STATE BUDGET AND POTENTIAL COUNTY IMPACTS

On January 10th, Governor Jerry Brown unveiled his Proposed FY 2017-18 State Budget. The Governor's proposed \$122 billion spending plan for FY 2017-18 has been designed to fund the government for the upcoming fiscal year and would continue to address the State's remaining debt and financial liabilities. The proposed budget also addresses a projected \$1.6 billion state budget deficit and a \$1.8 billion current-year shortfall in the Medi-Cal program.

The Governor's Proposed Budget specifically identified a slowing economy, reduced revenue forecast for income, sales and corporation taxes and the new Administration in Washington, D.C. as factors that are contributing to an uncertain state budget environment. During his State Capitol press conference the Governor maintained his message of fiscal caution that he has delivered in previous years when releasing his initial spending plan.

Among the more significant impacts of the Proposed FY 2017-18 State Budget is the immediate termination of the Coordinate Care Initiative (CCI) which includes the unwinding of the In-Home Supportive Services (IHSS) Maintenance of Effort (MOE). The County of San Diego is one of several counties that will shoulder a significant impact as this would re-establish the state-county share of costs for the IHSS Program and would also shift collective bargaining for the IHSS workers back to counties. According to the California State Association of Counties (CSAC), eliminating the IHSS MOE would result in approximately \$625 million in new county costs statewide for FY 2017-18 and at least \$4.4 billion over the next six years.

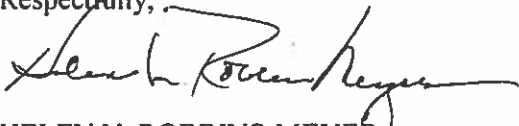
The Governor's Proposed FY 2017-18 State Budget also reintroduces a transportation infrastructure funding plan designed to maintain streets, roads and bridges that have fallen into disrepair throughout California. The Governor's funding plan would increase taxes on gasoline and impose a \$65 per year "road improvement charge" on all vehicles; however the State Legislature has been slow to embrace the proposal when it was introduced in previous years seeking a more robust solution.

Shortly after the release of the Governor's Proposed FY 2017-18 State Budget the California State Controller announced that state revenues for December missed projections in the FY 2016-17 Budget Act by 12.7 percent. The State Controller's statement noted that for the first half of the fiscal year, beginning in July 2016, total revenues are \$1.6 billion below budget estimates, or 3.1 percent.

The Governor's January Proposed Budget is the starting point for budget discussions with the State Legislature. In May, the Governor will release a Revised State Budget as the Legislature prepares for budget deliberations. The State Legislature has until June 15th to pass a State Budget in advance of the end of the fiscal year on June 30th.

The attached document includes highlights of the Governor's Proposed FY 2017-18 State Budget and potential impacts to the County of San Diego.

Respectfully,



HELEN N. ROBBINS-MEYER
Chief Administrative Officer

Attachment

cc: ACAO, CSG, FGCG, HHSA, LUEG, PSG, CNL, CLK, OSIA

**GOVERNOR'S PROPOSED FISCAL YEAR 2017-18 STATE BUDGET
POTENTIAL IMPACTS ON THE COUNTY OF SAN DIEGO**



MISCELLANEOUS BUDGET

Bringing the Budget Back into Balance (*Governor's Proposed Budget Summary, Pages 1-4, 15, 58, 149*)

- The Governor's Proposed Budget plans for \$122.5 billion in spending from the State General Fund and continues to prioritize more money for education, an earned income tax credit for working families, the rising minimum wage, and the expansion of health care coverage to millions.
- The Proposed Budget remains committed to maintaining a balanced budget in uncertain times, proposing \$3.2 billion in budget solutions in order to close a \$1.6 billion deficit caused by a reduction in revenue and a \$1.8 billion current-year shortfall in the Medi-Cal program.

Long-Term Costs and Debts (*Governor's Proposed Budget Summary, Pages 8, 125-127*)

- The State has \$240 billion in long-term costs, debts, and liabilities, with the majority of these liabilities, approximately \$236 billion, related to retirement costs of state and University of California employees.
- The Governor and his administration remain focused on addressing the State's \$74 billion unfunded liability for retiree health benefits and currently has approximately \$400 million set aside in the prefunding trust fund to pay for future retiree health benefits. By the end of FY 2017-18, the trust fund balance will be doubled and approaching \$1 billion in assets.

Rainy Day Fund (*Governor's Proposed Budget Summary, Pages 2, 9-10, 12, 153*)

- Proposition 2 (2014) established a constitutional goal of having 10 percent of tax revenues in the Rainy Day Fund in order to pay off State General Fund debts and build a reserve to prepare for any potential future economic downturn.
- By the end of FY 2017-18, the State's Rainy Day Fund will have a total balance of \$7.9 billion, or 63 percent of the constitutional target.

State's Revenue (*California State Controller's Office, Press Release: CA Controller Reports "Big Three" State Revenue Sources Fell Below Budget Estimates for December*)

- Total revenues for the month of December 2016 were \$12.85 billion, missing projections in the FY 2016-17 Budget Act by \$1.87 billion, a shortfall of 12.7 percent.
 - Personal income taxes came in at \$8.58 billion, falling short of projections by \$1.38 billion.
 - Corporation taxes came in at \$1.77 billion, \$29.4 million lower than expected.
 - Retail sales and use taxes came in at \$2.14 billion, missing expectations by \$372.1 million.
- The State ended December with unused borrowable resources of \$20.49 billion, \$2.01 billion less than predicted in the FY 2016-17 Budget Act and outstanding loans of \$17.75 billion that were \$3.38 billion higher than expected. This loan balance is the result of borrowing from the State's internal special funds.

State Minimum Wage (*Governor's Proposed Budget Summary, Pages 1, 49-50*)

- On January 1, 2017, the State minimum wage increased from \$10 per hour to \$10.50 per hour. In 2018, the minimum wage will increase once again to \$11 per hour, and incrementally to \$15 per hour by 2022.
- The Proposed Budget includes \$217 million to fund state costs associated with the rising minimum wage and maintains the flexibility to pause scheduled increases should negative economic or budgetary conditions emerge.

State Mandate Reimbursement (*California State Association of Counties Budget Action Bulletin: Governor's Proposed Budget for 2017-18, Page 15*)

- The Governor's Proposed Budget mirrors the FY 2015-16 Enacted Budget and the FY 2016-17 Enacted Budget with 23 funded mandates for a total of \$34.5 million. There are 56 mandates that continue to be suspended and are not eligible for reimbursement if carried out optionally by local agencies.

COMMUNITY SERVICES

State's Workforce Strategy and Local Libraries (*Governor's Proposed Budget Summary, Page 48*)

- The Governor's January Proposed Budget remains committed to integrating efforts such as K-12 schools, community colleges, social services agencies, libraries, and employers to enhance educational and workforce training opportunities provided to California residents.
- The State Librarian will engage stakeholders in the spring to create plans to strengthen the integration of libraries into the State's workforce strategy.
 - The State currently funds high-speed Internet access for many libraries and plans to better integrate libraries could provide the County Library with new funding opportunities for technology.
Unknown County Impact

Dissolution of Redevelopment Agencies (*Governor's Proposed Budget Summary, Page 122*)

- The dissolution of the State's former redevelopment agencies continues to be a priority in the Governor's Proposed Budget. The Budget anticipates that counties will receive an additional \$869 million in general purpose revenues in 2016-17 and 2017-18 combined, as well as, additional ongoing property tax revenues of more than \$900 million annually distributed to cities, counties, and special districts.
 - The County is required by law to consolidate all 17 San Diego County area successor agency oversight boards into one board by July 1, 2018.
Unknown County Impact

FINANCE AND GENERAL GOVERNMENT

State Payment In Lieu of Taxes (PILT) Funding (*CSAC Budget Action Bulletin, Pages 13-14*)

- The Governor's Proposed Budget includes \$644,000 in funding for the State Department of Fish and Wildlife Payment In Lieu of Taxes (PILT) program for payments to counties for FY 2017-18, but does not include funding for past overdue State PILT payments. The State PILT program is designed to offset adverse impacts to county property tax revenues that result from State acquisition of private property for wildlife management areas. The FY 2016-17 Enacted Budget also included State PILT funding at \$644,000.
County Impact
 - The County portion of the FY 2017-18 state PILT allocation is not yet known, but the County received \$46,529 for FY 2016-17, and anticipates a similar allocation for FY 2017-18.
 - It is estimated that the overdue State PILT payments total nearly \$900,000 for qualifying parcels located in San Diego County.

HEALTH AND HUMAN SERVICES

1991 Health Realignment Redirection (AB 85) (*Governor's Proposed Budget Summary, Pages 53-54*)

- AB 85 (2013) modified the 1991 Realignment Local Revenue Fund (LRF) distributions to capture and redirect savings counties are experiencing from the implementation of federal health care reform. The net savings are redirected for county CalWORKs expenditures, which saves the State General Fund on the CalWORKs program.
- Current estimates indicate that the net savings to counties in FY 2014-15 were \$245.6 million more than previously estimated. The Governor's Proposed Budget assumes collecting this additional savings back from counties in FY 2017-18.
County Impact
 - The County is due a credit of \$12,021 for FY 2014-15.

CalWORKs (*Governor's Proposed Budget Summary, Pages 53-54, 63-64*)

- The overall CalWORKs caseload is estimated to continue to decrease by approximately 5.6 percent, which is attributed to ongoing economic improvements in California. The Employment Services caseload is also estimated to decrease by 8.3 percent. These decreases result in a CalWORKs Single Allocation decrease of \$198.4 million from the FY 2016-17 amount.
- The Governor's Proposed Budget includes \$224.5 million to reflect a full year of increased grant costs resulting from the repeal of the Maximum Family Grant (MFG) rule, effective January 1, 2017.

- Based on the AB 85 formula that calculates possible future grant increases, there does not appear to be enough redirected health realignment for a new CalWORKs grant increase for FY 2017-18.

County Impact

- The County Welfare Directors Association (CWDA) is working with the State and counties on an allocation methodology for the CalWORKs Single Allocation. The decrease in the County's allocation is unknown at this time.
- There is no fiscal impact to the County tied to the MFG grant increase; the grant increase is fully funded by the State.

Coordinated Care Initiative (CCI) and In-Home Supportive Services (IHSS) (Governor's Proposed Budget Summary, Pages 54-56, 64)

- CCI is costing the State more than anticipated. The Governor's Proposed Budget assumes CCI will be discontinued in FY 2017-18 with the following effects:
 - Removes IHSS from Health Plans capitation rates
 - Immediately eliminates statewide authority for collective bargaining for IHSS Individual Providers – returns to counties
 - Re-establishes the state-county share of cost for the IHSS program by eliminating the IHSS Maintenance Of Effort (MOE)
 - Overall the elimination of CCI appears to primarily impact IHSS as the Governor's Proposed Budget proposes to extend the Cal MediConnect program, continue mandatory enrollment of dual eligibles, and integrate long-term services and supports (except IHSS) into managed care
- Continued growth is projected in the IHSS caseload, with the FY 2017-18 average statewide caseload estimated to be 8.2 percent higher than assumed in FY 2016-17.

County Impact

- The additional County funds associated with shifting from the IHSS MOE back to the pre-MOE cost sharing ratios is expected to be significant. The estimated fiscal impact using what is known of the Governor's budget assumptions currently is around \$21 million annually for the County of San Diego, though it could turn out to be higher. However, the Administration acknowledges that Realignment revenue projected to be available to counties is not sufficient to cover the additional IHSS costs, and has stated a willingness to work with counties to help mitigate the financial impact. The form and magnitude of the potential mitigation is unknown at this time.

Tobacco Tax Increase (Governor's Proposed Budget Summary, Pages 56-57)

- Proposition 56 passed in November 2016, increasing the excise tax rate on cigarettes and tobacco products, effective April 2017. The Proposition specifies allocations to various entities, including the University of California, Department of Justice, Department of Public Health, Board of Equalization, and State Auditor. The Budget includes an allocation of \$178.5 million for Tobacco Prevention and Control and \$37.5 million for the State Dental Program. The Department of Health Care Services also receives funds to support new growth in Medi-Cal expenditures as compared to the 2016 Budget Act.

County Impact

- It is expected that the County will receive some additional funds to support tobacco control efforts. Allocation methodology is not known, but the anticipated range is \$100,000 to \$150,000 in additional funding for FY 2017-18.

County Medi-Cal Administration (Governor's Proposed Budget Summary, Pages 58-59)

- The Governor's Proposed Budget maintains the augmentation to counties of \$655.3 million in FY 2017-18, as provided in FY 2016-17 to administer Medi-Cal eligibility.

County Impact

- CWDA is working with the State and counties on an allocation methodology. No significant year over year change is expected to the County's allocation.

Continuum of Care Reform (CCR) (Governor's Proposed Budget Summary, Page 62)

The Governor's Proposed Budget includes \$217.3 million to continue the implementation of the Continuum of Care reform efforts in child welfare and probation services to improve the foster care system.

County Impact

- CWDA is working with the State and counties on an allocation methodology. The County's estimated share of funding is unknown at this time, but the intent is to fully fund counties for any increased costs experienced under CCR.
- The new mandates required Polinsky Children's Center to become a 10 day assessment center, effective January 1, 2017. CCR will also convert group home facilities to therapeutic facilities which will limit stays for six months and increase the rates.

Drug Medi-Cal Organized Delivery System Pilot (*Governor's Proposed Budget Summary, Page 60*)

- The pilot program requires counties that opt in to the demonstration program to provide a continuum of care for substance use disorder treatment services. A total of six counties are estimated to begin providing services in FY 2016-17 with an additional 10 counties in FY 2017-18. The January Proposed Budget includes \$19.9 million in FY 2016-17 and \$661.9 million in FY 2017-18 for increased services for the pilot program.

County Impact

- County's participation is currently being evaluated internally. Final decision to participate in the pilot has not been made. Additional information will also be needed regarding the desire of the Federal Government to continue the Medicaid Waivers that fund pilots such as this.

Supplemental Security Income (SSI)/State Supplementary Payment (SSP) (*Governor's Proposed Budget Summary, Page 65*)

- The Governor's Proposed Budget includes SSI/SSP monthly grant level increases by \$20 and \$29 for individuals and couples, respectively, effective January 2018. The current grant levels, effective January 1, 2017 is \$895.72 for individuals and \$1,510.14 for couples.
- State only Cash Assistance Program for Immigrants (CAPI) provides monthly cash benefits to aged, blind, and disabled legal non-citizens who are ineligible for SSI/SSP due solely to their immigration status. CAPI benefits are equivalent to SSI/SSP benefits less \$10 per month for individuals and \$20 per month for couples.

County Impact

- No fiscal impact to the County.
- There are approximately 418 CAPI cases in San Diego.

No Place Like Home (*Governor's Proposed Budget Summary, Pages 119-120*)

- The Governor's Proposed Budget continues to budget for the \$2 billion bond secured by a portion of Mental Health Services Act (MHSA) revenues to address homelessness for individuals with mental health needs through the provision of permanent supporting housing. In FY 2017-18, \$262 million is assumed. Of the \$2 billion bond funding, \$1.8 billion will be awarded on a competitive basis, while \$200 million will be awarded on a non-competitive basis.

County Impact

- It is expected that the State will retain a portion of MHSA revenues that otherwise would have been allocated directly to counties. The County's impact is \$11.5 million reduction, annually.
- The bond funding will be awarded to counties on a competitive and non-competitive basis to support housing for those who are mentally ill and chronically homeless.
 - The competitive component will be awarded in multiple funding rounds. Counties will compete for funding with counties of similar size. San Diego County is categorized under "large" counties (population greater than 750,000, excluding Los Angeles County).
 - The non-competitive component will be awarded on an over-the-counter basis to all counties within the State proportionate to the number of homeless persons within each county or in the amount of \$500,000 (whichever is greater).

California Emergency Solutions Grant Program (*Governor's Proposed Budget Summary, Page 120*)

- The Governor's Proposed Budget includes \$35 million to support rapid rehousing, emergency shelter, and other services to address homelessness throughout the State through the California Emergency Solutions Grants (CA ESG) Program.

County Impact

- It is anticipated that the County will receive an estimated allocation of \$545,000 in State of California Emergency Solutions Grant funds. This is a new program that will enhance the current HUD-funded, State-managed Emergency Solutions Grant program.

LAND USE AND ENVIRONMENT

Beverage Container Recycling Program Reform (*Governor's Proposed Budget Summary, Pages 99-100*)

- The Governor's Proposed Budget notes the need for reform of the California Beverage Container Recycling Program, but does not provide a specific reform proposal.
 - The Beverage Container Recycling Program, administered by CalRecycle, provides payments for recycled beverage containers from the California Beverage Container Recycling Fund. The Program also provides \$10 million to cities and counties for beverage container recycling and litter clean-up activities and \$15 million for curbside supplemental payments annually. In recent years the Fund has been running at a structural deficit due to changes in recycling systems and consumer behavior, and is expected in FY 2017-18 to further reduce its reserves by \$23 million.

County Impact

- The County Department of Public Works Solid Waste Planning and Recycling Section receives annual payments from this fund in the amount of \$127,000 per year. CalRecycle has stated in its latest quarterly "State of the Beverage Container Recycling Fund" that the fund will fall below its "prudent reserve" of \$59 million in the Spring of FY 2017-18 which will trigger proportional reductions in payments of approximately 20 percent. Because the County is paid in advance, the effects of a potential reduction would not be felt until FY 2018-19.

Drought Response and Tree Mortality (*Governor's Proposed Budget Summary, Pages 101-104*)

- The Governor's Proposed Budget includes \$178.1 million in one-time expenditures for drought related impacts, including some allocations that could be of some interest to the County.
 - Water Supply and Conservation: The Emergency Drought Response funding includes \$14 million for the California Department of Water Resources for Local Assistance for Small Communities, Drought Management and Response, and the Save Our Water Campaign.

County Impact

- Unknown possible positive fiscal impact. County staff will monitor these allocations for potential funding opportunities.
- Tree Mortality: The Emergency Drought Response funding includes \$52.7 million for the California Office of Emergency Services to provide financial assistance to counties through the California Disaster Assistance Act for the removal of dead and dying trees that are a public threat. As noted under the Cap and Trade Expenditure Plan section, the Proposed Budget also includes \$127.5 million in Cap and Trade funding for carbon sequestration, a portion of which would go to CAL FIRE for healthy forests related activities.

County Impact

- In recent years the State Budget has included funding for tree mortality, but it has largely been concentrated on the counties in the lower Sierra region due to the unprecedented scope of the problem in that region and this focus is expected to carry over into FY 2017-18. In addition, in order to access funding from the \$52.7 million allocation to the California Office of Emergency Services a local agency must declare a disaster.

California Water Action Plan (*Governor's Proposed Budget Summary, Pages 104-108*)

- The Governor's Proposed Budget continues to build on the California Water Action Plan, as released in 2014. The Water Action Plan includes priorities that support the Sustainable Groundwater Management Act (SGMA) program, since it prioritizes actions that may be included as part of the Groundwater Sustainability Plans required by SGMA.
- Groundwater Management: The Governor's Proposed Budget includes \$15 million to the California Department of Water Resources for 29 existing positions for statewide technical assistance and to provide detailed information on basin scale water use, water supplies, and groundwater conditions in support of the implementation of the Sustainable Groundwater Management Act.

County Impact

- The Governor did not specifically allocate funding for local agencies to develop Groundwater Sustainability Plans as mandated by SGMA. Should a portion of the funding be available to local agencies to prepare Groundwater Sustainability Plans, it may support the County's ongoing work towards ensuring groundwater sustainability for the four County basins.

- San Diego County contains four of the basins that are mandated to be sustainably managed under SGMA: Borrego Valley, San Luis Rey Valley, San Pasqual Valley and the San Diego River Valley.
- Integrated Water Management: The Governor's Proposed Budget includes \$248 million from Proposition 1 funding (2014 Water Bond) to the State Department of Water Resources for integrated regional water management projects. These projects are generally regional and multi-beneficial in nature, such as adapting water infrastructure to climate change and improving regional water self-reliance.

County Impact

- The County will monitor this funding and expects to be well positioned to compete for grant funding through our participation in the San Diego Integrated Regional Water Management plan.

Housing Policy and Local Review/Permit Costs (*Governor's Proposed Budget Summary, Pages 115-122*)

- The Governor's Proposed Budget acknowledges a statewide housing shortage, but does not provide a specific proposal to address the issue. The Proposed Budget outlines the housing cost/affordability and supply concerns, discusses local land use decision making as it relates to driving up the costs to produce new housing, and reviews recent state measures that have been enacted related to housing supply such as streamlining permitting for accessory dwelling units. The Proposed Budget specifically notes permitting and impact fees, delays in permit approvals and parking requirements as local factors that drive up per-unit costs. The Governor concludes by outlining five principles for future legislative reform, which include:
 - Streamlining housing construction by reducing local barriers and limiting duplicative reviews.
 - Lowering per-unit costs by reducing permit and construction policies that may contribute to unit costs.
 - Providing production incentives to local governments that meet or exceed housing goals.
 - Ensuring compliance with existing laws.
 - No new costs or cost pressures to the State as a result of this reform.

County Impact

- Because there is no specific legislative proposal or language included with the Governor's Proposed Budget, it is not possible at this time to determine whether this may impact County operations, but the discussion regarding local land use decision making driving up per unit housing costs may indicate forthcoming legislation that could limit the land use authority of local governments.

Cannabis Regulation (*Governor's Proposed Budget Summary, Pages 130-131*)

- The Governor's Proposed Budget includes \$52.2 million for the regulation of medical and recreational cannabis for FY 2017-18. This includes funding for regulatory activities, processing of licenses and enforcement.
 - In 2015, the State Legislature and Governor enacted the Medical Cannabis Regulation and Safety Act (MCRSA), which provides a framework for the regulation of medical marijuana in California.
 - Proposition 64 (2016) legalized recreational marijuana in California and established a similar regulatory framework to what was enacted in MCRSA.
- Additionally, the Proposed Budget notes that implementing the current medical and recreational cannabis laws separately could lead to confusion among licensees and regulatory agencies, result in an additional \$25 million in costs for a second "track and trace" system for the cannabis, and ultimately undermine consumer protection and public safety. The Proposed Budget does not offer specific language to resolve this issue.

County Impact

- Until the State Agencies responsible for developing regulations under MCRSA and Proposition 64 begin to advance draft regulatory language it will remain unclear as to whether there may be a County role or impact. County staff continues to monitor the State Bureau of Medical Cannabis Regulation, State Department of Public Health, State Department of Food and Agriculture and State Board of Equalization, among others.

Transportation Funding (*Governor's Proposed Budget Summary, Pages 85-88*)

- The Governor's Proposed Budget does not include new funding for local streets and roads. The Budget Proposal reintroduces the Governor's transportation funding and reform package, which was first outlined in 2015 but never acted on by the State Legislature. The Proposed Budget notes that the transportation package would generate \$43 billion over 10 years through a variety of reforms, increased taxes, and fees. The Governor's transportation funding package would consist of the following:
 - A new \$65 "road improvement charge" on all vehicles.
 - An 11-cent increase in diesel gas excise tax.

- An increase of the variable (price based) tax per gallon of gasoline from 9.8 to 21.5 cents. This would result in a total gas tax of 39.5 cents per gallon, which is equivalent to the gas tax rate in FY 2013-14.
- \$500 million from Cap and Trade funding. This funding would only be available if the State Legislature passes legislation reaffirming and extending the Cap and Trade program, and would also depend on the Governor and the State Legislature reaching a deal on the Cap and Trade Expenditure Plan.
- \$100 million from cost saving reforms in Caltrans.

County Impact

- Highway User Tax Account (HUTA) funding is one of the current primary funding sources for local streets and roads. HUTA revenue comes from an excise tax on gasoline that is calculated by the Board of Equalization each year based on gasoline prices. Due to slight increases in gasoline prices, the Governor's Proposed Budget projects that the gasoline excise tax will be increased by 1.9 cents in July (increasing the overall state gasoline excise tax rate from 27.8 to 29.7 cents). This increase in the gasoline excise tax is anticipated to result in an increase of approximately \$3.97 million for the County. Although this slight increase may provide some additional funding, overall the gas tax rate remains still far below its 39.5 cent rate at its height in FY 2013-14. In the absence of further state action to identify a new funding source for transportation infrastructure, the California State Association of Counties estimates that local streets and roads face an estimated statewide shortfall of \$78 billion in deferred maintenance and an annual shortfall of \$7.8 billion. It is currently unclear what the County's share would be for local road funding should the Governor's transportation package be adopted by the State Legislature.

Cap and Trade Expenditure Plan (*Governor's Proposed Budget Summary, Pages 96-99*)

- The Cap and Trade program was established to address climate change by capping greenhouse gas emissions from the largest sources and establishing a market mechanism under which those businesses that invest in green technology and reduce their emissions under the cap can trade their remaining allowance. As part of this program, the California Air Resources Board holds auctions to allow market participants to buy emissions allowances directly, but proceeds from this auction have been lower than expected due to questions raised regarding the validity of the Cap and Trade program and its future status. The Governor's Proposed Budget includes a \$2.2 billion Cap and Trade Expenditure Plan, which is contingent on the passage of legislation confirming the Air Board's authority to administer the Cap and Trade Program beyond 2020 by the State Legislature.
- As previously approved by the State Legislature, the Governor's proposed Cap and Trade Expenditure Plan would provide the same continuous appropriation of 60 percent of the projected auction proceeds to support transit, high-speed rail and the Affordable Housing and Sustainable Communities Program. The Expenditure Plan would allocate the remaining funds to a number of programs, including the following:
 - \$95 million to CalRecycle, the California Air Resources Board and the California Department of Food and Agriculture to support efforts to combat short lived climate pollutants, including waste diversion.
 - \$500 million to the California Transportation Agency and Caltrans for inclusion in the Governor's transportation funding package.
 - \$127.5 million to CAL FIRE, the California Department of Food and Agriculture and the California Natural Resources Agency for carbon sequestration, including funding for healthy forests and healthy soils related projects.

County Impact

- Should the Governor and the Legislature reach an agreement based on the Governor's proposed Expenditure Plan, local governments may be eligible for funding under several programs. The Governor's proposed Expenditure Plan does not specifically allocate any funding to projects within San Diego County, and in many of the proposals the funding is targeted toward disadvantaged communities, which may limit the various programs' applicability to some areas of the County. County staff will monitor the ongoing allocation discussions in Sacramento.

PUBLIC SAFETY

2011 Realignment (*Governor's Proposed Budget Summary, Page 61*)

- The Governor's Proposed Budget updates revenue assumptions for 2011 Realignment programs and details base and growth assumptions for FY 2017-18.

- The estimated 2011 Realignment revenue levels will be revisited and revised in this spring's May Revision. For the Community Corrections Subaccount (AB 109) the base total is \$1.221 billion and the growth is estimated at \$75.4 million.
- The Enhancing Law Enforcement Activities Subaccount, which funds a variety of local assistance programs, should achieve its guaranteed funding level of \$489.9 million with healthy growth available from FY 2016-17 (an estimated \$154.7 million) and FY 2017-18 (an estimated \$153.8 million).

County Impact

- Continues the anticipated allocation of funds to the County to support law enforcement activities, juvenile justice programs and court security responsibilities.

Trial Court Security- Court Construction Local Assistance (*Governor's Proposed Budget Summary, Appendix 32*)

- The Governor's Proposed Budget includes \$7 million to fund enhanced court security needs created by the opening of newly constructed courthouses scheduled to come online in the budget year. This is ongoing funding that addresses court security needs created by capital court projects.

County Impact

- The County of San Diego is still awaiting response on the application for funding from the Department of Finance regarding the new court facility due to open this year.

Incompetent to Stand Trial Admissions (*Governor's Proposed Budget Summary, Page 66*)

- The Governor's Proposed Budget proposes \$10.8 million to establish a 60-bed Admission, Evaluation, and Stabilization Center for the assessment and treatment of Incompetent to Stand Trial Admissions for Southern California counties.
- Up to 200 additional secured forensic beds will become available in FY 2018-19 contingent upon the construction of a security fence around the existing patient treatment building at the Metropolitan State Hospital.

County Impact

- There will likely be an operational impact to the County in future years.

Proposition 57 – Public Safety and Rehabilitation Act of 2016 (*Governor's Proposed Budget Summary, Pages 72, 74-75*)

- The Governor's Proposed Budget includes \$5.7 million for the Department of Corrections and Rehabilitation (CDCR) and \$4.9 million to the Division of Juvenile Justice (DJJ) to implement Proposition 57, which was passed by the voters in November of 2016. The DJJ will be reactivating two living units in anticipation of increased juvenile commitments due to Proposition 57. One aspect of Proposition 57 is that certain crimes committed by a juvenile that were previously tried in adult court will now be tried in juvenile court.

County Impact:

- Probation Department will be required to pay the State \$24,000 per year, per juvenile, for any juvenile court commitments that are sent to the DJJ units.
- There may be some offsetting savings for the County since juvenile offenders may be held in juvenile hall for a shorter period of time. Additionally, when wards are released from DJJ, county probation departments receive funding for supervising juveniles through the Juvenile Reentry Grant within 2011 Public Safety Realignment.

Inmate Rehabilitation and Reentry (*Governor's Proposed Budget Summary, Pages 76-78*)

- The Governor's Proposed Budget includes \$440 million for the Division of Rehabilitative Programs, compared to approximately \$300 million in FY 2012-13. The Division prepares offenders for their release by offering various programs and services that promote positive in-prison behavior and support their rehabilitative efforts to provide a better opportunity for them to reintegrate into society upon release.

Unknown County Impact

Proposition 47 (*Governor's Proposed Budget Summary, Pages 27,73, 79-80*)

- The State Department of Finance assumes \$42.9 million of net savings from a reduction in the State's adult inmate population and increased costs due to a temporary increase in the parole population and trial court workload associated with resentencing. This estimate also includes savings from fewer felony filings and more misdemeanor filings, and the number of offenders resentenced and released from the Department of State Hospitals.

- Ongoing savings are expected to be approximately \$69 million.

County Impact:

- The Board of State and Community Corrections has issued a Request for Proposal for available funds. The County submitted a letter of intent to apply for a portion of these funds.

Community Corrections Performance Incentive Grant (*Governor's Proposed Budget Summary, Page 81*)

- The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Budget includes \$114.9 million to continue this program.

County Impact

- The Probation Department anticipates receiving a portion of these funds.

Post Release Community Supervision (*Governor's Proposed Budget Summary, Page 81*)

- Includes \$11 million for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the implementation of court-ordered measures and Proposition 57.

County Impact

- The Probation Department anticipates receiving a portion of these funds.

State Penalty Fund/Fines Fees and Assessments Review (*Governor's Proposed Budget Summary, Pages 82-84*)

- State Penalty Fund (Fund) revenues have decreased significantly over the past several years, due largely to a significant decrease in traffic citations. The Fund can no longer support all of the programs that receive this funding. In addition, the costs of these programs have increased; however the statutory formula has not been updated to account for these increased costs. As a result, many funds currently have structural deficits and some have received funding backfills to provide temporary solvency.
- In statute, the state penalty assessment is a total of \$10 for every \$10 of base fine assessed. Of the state penalty assessment revenues, 70 percent is deposited into the State Penalty Fund and 30 percent is deposited into the respective county's general fund. The Governor's January Budget proposes to amend the process by which the state portion of the assessment is distributed.
- The Governor's Proposed Budget also seeks to reduce the number of programs supported by the Fund. The existing programs were evaluated and funding from the Fund was prioritized for law enforcement training, victim services programs, and driver training programs. State Penalty Fund dollars for the following programs is proposed to be eliminated: Motorcyclist Safety Program, California Highway Patrol; Local Public Prosecutors and Public Defenders Training Program, Office of Emergency Services; Internet Crimes Against Children Task Forces, Office of Emergency Services; and the California Gang Reduction, Intervention, and Prevention Program, Board of State and Community Corrections (CalGRIP).
 - The item also reduces the State Penalty revenue available for the Peace Officer Standards and Training Program, which reimburses costs related to Peace Officer training and travel associated with receiving the training.
 - The fund also provides reimbursement for Standards and Training for Corrections (STC). There will likely be a similar reduction in reimbursement for training courses for detentions deputies.

County Impact

- This shift in the State Penalty Fund will impact the revenues generated in the County's Penalty Assessment Fund. The Sheriff's Department has \$4.1 million budgeted annually in Penalty Assessment funds. This amount has been decreasing over the past several years as the revenue receipts in the fund have been decreasing.
- There will be a reduction in reimbursement from State Penalty Revenue, but it is too early to determine the magnitude.
- The Sheriff's department participates in CalGRIP and it is unknown if the department contribution to the task force will increase as a result of this reduction in revenue. The department receives grant funding for CalGRIP through the City of Vista. If the revenue for the CalGRIP program is decreased, the services will be reduced proportionately.

Richard Donovan Correction Facility (*Governor's Proposed Budget Summary, Page 77*)

- The Governor's Proposed Budget continues programs and services designed for long-term inmates that have unique needs due to their lengthy periods of incarceration. CDCR will add a Long-Term Offender Program at Richard Donovan Correctional Facility.
Unknown County Impact

Enhanced Fire Protection and Tree Mortality (*Governor's Proposed Budget Summary, Pages 103-104*)

- The Governor's Proposed Budget includes \$88 million State General Fund and \$3 million State Responsibility Area (SRA) Fund for CAL FIRE for expanded fire protection in the 2017 fire season, including continuation of increased firefighter surge capacity, extended fire season, surge helicopter pilots, California Conservation Corps fire suppression crews, increased vehicle maintenance, and exclusive use of the large and very large air tankers.
- The Governor's Proposed Budget also reflects an additional \$90 million in the current fiscal year to initiate these enhanced fire protection efforts in the spring of 2017.
- In addition, as noted under the Land Use and Environment section, the Governor's Proposed Budget includes \$52.7 million for the State Office of Emergency Services to provide assistance to counties through the California Disaster Assistance Act, which can be used to aid local agencies in the removal of dead or dying trees that are a direct threat to public safety.

County Impact

- While there is no direct fiscal impact to the County, there will likely be an increase to local CAL FIRE resources in support of the San Diego County Fire Authority.