



TO: ACC-OC Members

FROM: Diana Coronado, Legislative Affairs Director

SUBJECT: 2017- 2018 California Budget Analysis

DATE: January 13, 2017

---

On Tuesday, Governor Brown released his 2017-2018 California Budget Proposal. This is the first step in what will be a five-month budget negotiation processes leading up to the May Budget Revise, then an ultimate final budget in June. For the first time in over four years the State is facing a near 2-billion-dollar budget deficit. The Governor's message warned against a looming recession that could potentially catapult what appears to be a small deficit into a larger shortage if the State does not prioritize fiscal prudence. This coupled with the still unknown federal administration changes, especially related to healthcare funding, were cautions headed by Governor Brown. The Governor plans to correct the deficit by reducing 2016-2017 one-time budget spending, including the elimination of the \$400 million set-aside for affordable housing, K-14 educations spending adjustments, and constraining any future spending proposals, including the middle-class scholarship fund and child care.

This year, the two priorities of the Legislature (outside of retaining federal funding to maintain California's healthcare) surround housing and transportation - both of which were left unsettled last year, despite a special session, multiple legislative proposals, and efforts from the Governor. Highlighted below are portions of the Governor's 2017 Budget proposals having the most effect on local governments and cities.

### **Local Government**

This budget reported minimal updates to the winding down of redevelopment agencies. Cities will continue receiving an allocation of \$733 million from the general purpose revenues over the 2016 – 2018 years, and will also receive their continued property tax revenue apportionment from the remaining \$900 million in what has been an ongoing distribution among cities, counties and special districts. The Governor believes that these unrestricted dollars will give local governments the flexibility to fund key public services, and other municipal necessities. There has not been any other change related to new or additional funding for redevelopment, and its anticipated that it will remain that way through the final budget.

This budget also begins investing in the State's role and participation in the 2020 Census data collection, by providing grants ranging from \$7,500 - \$125,000 to cities and counties. Grant allocation will be based on housing transactions within a city's jurisdiction over the 2010 – 2016 years, to receive this allocation each city will have to register with the Census Bureau and provide necessary materials and data.

Most recently affecting local governments is the passage of Prop 64, the legalization of recreational marijuana. The Governor has proposed the implementation of one regulatory structure for cannabis activities addressing both medical and recreational marijuana use. To support this mission \$52.2 million has been allocated for the regulation of cannabis to be used

towards licensure and enforcement. While the money appropriation doesn't go directly to local governments this is the first sign of momentum towards the creation of a structured regulatory plan. There are multiple state-wide departments overseeing cannabis regulation and the budget has outlined the dollar distributions towards each agency, below.

- Department of Consumer Affairs—\$22.5 million to enhance the Bureau of Medical Cannabis Regulation within the Department of Consumer Affairs. The Bureau will regulate the transportation, storage, distribution, and sale of cannabis within the State and will also be responsible for licensing, investigation, enforcement, and coordination with local governments.
- Department of Public Health—\$1 million for the licensing and regulation of medical cannabis product manufacturers.
- Department of Food and Agriculture—\$23.4 million to provide Cannabis Cultivation Program administrative oversight, promulgate regulations, issue cannabis cultivation licenses, and perform an Environmental Impact Report. In addition, the Department of Food and Agriculture is responsible, with assistance from the California Department of Technology and the Board of Equalization, for establishing a track and trace program to report the movement of medical cannabis products throughout the distribution chain using unique identifiers.
- Board of Equalization—\$5.3 million in 2017-18 to notify businesses of the new tax requirements and update its information technology systems to register businesses and process tax returns from retail sales. Proposition 64 requires the Board of Equalization to administer an excise tax on cannabis sales and a cultivation tax on all harvested cannabis that enters the commercial market.
- Department of Health Care Services—\$5 million in 2016-17 for the public information program specified in Proposition 64. The program, to be established and implemented no later than September 1, 2017, will cover a number of health-related topics pertaining to cannabis and cannabis products.

### **Public Safety & Health Services**

Public safety has been at the forefront of state budget cuts and this proposal is no different. Over the last few years, the passage of Prop 57 and Prop 47 have dramatically effected the impacts to crime in our communities, and how local law enforcement and the criminal justice system respond to this changing landscape. The reclassification of defined "violent" crimes, the reduction of prison sentences, and realignment have all taken a significant toll on rehabilitative programs, human service assistance, and probation departments. Listed below are budget cuts outlined by the Governor's proposal related to juvenile and adult programs that have been eliminated or reduced due to our pending budget deficit.

- Elimination of Community Infrastructure Grants—The Budget includes the reversion of the one-time \$67.5 million General Fund augmentation included in the 2016 Budget Act for community infrastructure grants to cities and/or counties to promote public safety diversion programs and services by increasing the number of treatment facilities for mental health, substance use disorder, and trauma-related services.
- Internet Crimes Against Children Task Forces, Office of Emergency Services—These task forces investigate cyber criminals who prey on children. In addition to the state funding, these task forces receive funding from both their local government and the federal government. This proposal would eliminate the state funding provided to these task forces.
- Local government costs will likely increase as departments will assist in more juvenile court proceedings where a judge determines whether a juvenile offender should be tried in juvenile or adult court. If more wards are committed to the Division of Juvenile Justice, county probation departments will be required to pay the state \$24,000 per year for certain juvenile court commitments.
- California Gang Reduction, Intervention, and Prevention Program, Board of State and

Community Corrections—This program provides grants to locals to collaborate and coordinate with local jurisdictions to reduce gang and youth violence. This proposal would eliminate the grant program as it is solely funded by the State Penalty Fund.

- Children's Mental Health Crisis Services Grants—The Budget includes the reversion of \$17 million General Fund from 2016-17 funds intended for grants to local governments to increase the number of facilities providing mental health crisis services for children and youth under the age of 21. However, nearly \$11 million in Mental Health Services Act funding remains available for the program.

The 2017 budget proposal has reduced the amount of money allocated to counties' In Home Support Services (IHSS), and the Coordinated Care Initiative (CCI) programs. Both these services allowed vulnerable, often times elderly or disabled, populations to remain in their homes while receiving assistance for their healthcare. Specifically, CCI programs allowed multiple health services, including IHSS needs, to be bundled in one healthcare plan. These statewide programs alleviated what would be more expensive statewide costs for long-term, institutionalized care. Both IHSS and CCI state coverage have been revised to be absorbed by county governments, hitting Orange, Los Angeles, and San Diego counties the hardest (due to population), below are the cuts reflected in the Governor's budget.

- IHSS Changes Related to CCI—IHSS benefits were incorporated into the managed care delivery system in seven CCI counties (including Orange), along with a range of long-term services and supports. The IHSS program returns to the prior state-county sharing ratios. This change results in a General Fund reduction of \$626.2 million in 2017-18.
- Additionally, responsibility for collective bargaining returns to counties.
- Re-establishes the state-county share of cost arrangement for the IHSS program that existed prior to the implementation of CCI. Counties will be responsible for the payment of 35 percent of the nonfederal portion of program costs through 1991 Realignment. Based on current estimates, growth in 2017-18 realignment revenues alone will not be sufficient to cover the additional IHSS costs. Therefore, this change is likely to result in financial hardship and cash flow problems for counties.

This new cost burden for counties will force them to make cuts in other areas of their budget, having an adverse effect on countless other services. The programs our county provides are crucial to the constituents across the 34 cities in our region – without some state relief in operating these newly absorbed county services the negative impacts could trickle down to local governments. According to the Governor's office, the Administration will look for ways to mitigate certain fiscal responsibilities connected to this reversion. ACC-OC welcomes the opportunity to work with our county leaders to help secure this assistance from the state as budget negotiations move forward.

## **Housing**

While the Governor concedes that housing affordability is unattainable for a majority of Californians he has not put forth an affordable housing solution, due to the recent budget deficit projections. The State's housing shortfall is at an all-time low, in Orange County alone the workforce housing shortage is between 50,000 and 62,000 units. The lack of housing production at an affordable level has negatively impacted intertwined policy issues, including transportation infrastructure, emission reduction goals, economic vitality, and homelessness. The Governor has left the challenge of addressing affordable housing in the hands of the Legislature by providing outlined principles that he has proposed through the budget:

- Streamline Housing Construction—Reduce local barriers to limit delays and duplicative reviews, maximize the impact of all public investments, and temper rents through housing supply increases.
- Lower Per-Unit Costs—Reduce permit and construction policies that drive up unit costs.

- Production Incentives—Those jurisdictions that meet or exceed housing goals, including affordable housing, should be rewarded with funding and other regulatory benefits. Those jurisdictions that do not build enough to increase production should be encouraged by tying housing construction to other infrastructure-related investments.
- Accountability and Enforcement—Compliance with existing laws—such as the housing element—should be strengthened.
- No Impact to the General Fund—No new costs, or cost pressures, can be added to the State's General Fund, if new funding commitments are to be considered.
- Any permanent source of funding should be connected to these other reforms.
- A portion of \$900 million (or 60 percent of projected revenues) from Cap and Trade auction proceeds in continuously appropriated funds for affordable housing.

Using these principles, the Legislature will be constrained to developing legislative bill language that meets these parameters. Any bill introduced to address affordable housing will be negotiated over the next few months to ensure these priorities have been met – before reaching the Governor's desk. Outside what has already been allocated for affordable housing through cap and trade funding, and last year's increase in housing for the homeless, there has been nothing newly provided in the governor's budget. The only change that has been made is the removal of the \$400 million in potential affordable housing funds, further debilitating housing development.

The ACC-OC will monitor legislation that affects housing policy in California. The issues related to homelessness and housing affordability remain as key policy priorities for the Association, and we will continue to advocate for solutions that strike the right balance of meeting housing needs without diminishing local control. You can read our suggestions to the Governor on his Streamlining Affordable Housing Approvals proposal from 2016, [here](#).

### **Transportation & Water Infrastructure**

The Governor's budget acknowledges the transportation crisis faced by our state at a near \$6 billion shortfall. Due to the continued inaction from the State Legislature the Governor has reintroduced his transportation funding plan from the 2015 budget proposal. The transportation plan includes an annual \$4.2 billion appropriation over 10 years for local road repair, highway maintenance, trade infrastructure, and public transit- totaling to a \$43 billion investment. Listed as a top principle, and most notable for cities, is the provision for the matching of local dollars for high-priority transportation projects.

The budget also includes total funding of \$18.1 billion for all programs administered within the six entities that oversee state transportation, and an additional allocation of \$1.6 billion in fuel excise tax will be distributed to cities and counties for street and roadway improvement and maintenance. Below, is the annual funding breakdown reflected from the Governor's budget summary:

- Road Improvement Charge—\$2.1 billion from a new \$65 fee on all vehicles, including hybrids and electrics.
- Stabilize Gasoline Excise Tax—\$1.1 billion by setting the gasoline excise tax at the 2013-14 rate of 21.5 cents and eliminating the current annual adjustments. The broader gasoline tax would then be adjusted annually for inflation to maintain purchasing power.
- Diesel Excise Tax—\$425 million from an 11-cent increase in the diesel excise tax (this tax would also be adjusted annually for inflation to maintain purchasing power).
- Cap and Trade—\$500 million in additional Cap and Trade proceeds.
- Caltrans Efficiencies—\$100 million in cost-saving reforms.
- General Fund commitment of accelerating \$706 million in loan repayments over the next three years.

The following lists the investments articulated by the 2017 budget summary proposed in the governor's 10-year transportation funding plan:

- Sustainable Transportation Grants—An increase of \$25 million annually for competitive planning grants to assist regions and local governments in achieving the sustainable transportation requirements in SB 375.
- Corridor Mobility Improvements—An increase of over \$2.7 billion for multi-modal investments on key congested commute corridors that demonstrate best practices for quality public transit and managed highway lanes such as priced express lanes or high-occupancy vehicle lanes. Included is also \$25 million annually to expand the freeway service patrol program.
- Transit and Intercity Rail Capital Program—An increase of over \$4.2 billion (including \$4 billion in additional Cap and Trade as well as \$256 million from loan repayments) for transit capital investments that provide greenhouse gas reductions, with at least 50 percent of the funds directed to benefit disadvantaged communities.
- Highway Repairs and Maintenance—An increase of almost \$18 billion (including \$1 billion from Caltrans efficiency savings) for Caltrans to fund repairs and maintenance on the state highway system.
- State Transportation Improvement Program (STIP)—An augmentation and stabilization to the STIP, which should not only allow the California Transportation Commission to restore funding for \$750 million worth of projects cut from the program in 2016, but also program approximately \$800 million in new projects in the 2018 STIP.
- Trade Corridor Improvements—An increase of over \$2.8 billion (including \$2.5 billion in new revenues and \$323 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
- Savings gained by newly implemented reforms and efficiencies imparted upon CalTrans

According to our partner agency, the Orange County Transportation Authority (OCTA), of the nearly \$294 million in State Transit Assistance (STA) funding \$15.8 million will be allocated to OCTA for bus transit. ACC-OC will continue to work closely with our local transportation partners to support solutions that work best for continued investment within our cities and county's transportation infrastructure.

Related to water infrastructure, the 2017 budget touches on the Sustainable Groundwater Management Act of 2014 (SGMA). In the past, local agencies primarily made the decisions on how to best manage their groundwater resources based on parameters set by the State. This year the Governor has carved out a caveat that would allow the State to take action if a local agency was not properly protecting their groundwater basins, which could negatively impede on local control and regional activities. Like transportation, ACC-OC will be working through our Water Committee and regional agencies on protecting the best practices for water management, meeting conservation goals, maintenance of water treatment, and increasing our water reliability in ways that makes sense for the residents of our county.

## **Next Steps**

Overall, the Governor's 2017 proposal is \$179.5 billion proposal, has a total of \$123 billion in spending, and \$1.5 billion increase to the rainy day fund. The original General Fund revenue forecast had to be reduced to accommodate the more accurate decline in wages and consumption to \$125 billion. As expected, the Governor took a cautious approach towards this budget proposal, and did not make major policy changes. Additionally, the Governor's budget does not take into account any of the hypothetical budget loss scenarios from federal actions. If there were sweeping changes related to federally funded state policies, it would ultimately impact the final budget.

As budget decisions progress the ACC-OC will make regular progress updates, and analyze the effects of the Legislature's actions on local government. Should you have any questions please contact Legislative Affairs Director, Diana Coronado at [dcoronad@accoc.org](mailto:dcoronad@accoc.org) or at (714) 953-1300. To view the Governor's entire budget summary please click [here](#) or go to <http://www.ebudget.ca.gov/2017-18/pdf/BudgetSummary/FullBudgetSummary.pdf> .