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First Look

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2016-17 Budget Reflects Increases for Education and Reserves, Repeals "Family Cap" Rule, and Makes Modest Investments in Other Key Supports

On June 27, Governor Jerry Brown signed the Budget Bill and several related bills for 2016-17, the fiscal year that starts on July 1, 2016. This budget plans for $122.5 billion in General Fund spending, including increases in funding for K-14 education, the state's mandatory reserve, and paying down budgetary debts – all of which are constitutionally required. The budget also makes an *additional* deposit into the state's mandatory reserve, beyond the level required by the state Constitution, and provides funding for repair of state buildings. Beyond these priorities, the budget package repeals the Maximum Family Grant, or "family cap," rule in the state's welfare-to-work program and makes a series of modest investments in other key supports.

The 2016-17 budget allocates billions of dollars as required by voter-approved measures. The budget includes $71.9 billion for K-12 schools, community colleges, and the state preschool program to meet the minimum funding guarantee under Proposition 98 of 1988, a significant increase from the post-recession low of $47.2 billion in 2011-12. Under Proposition 2, the 2014 rainy day fund measure, the new budget sets aside $1.3 billion for paying down budgetary debt and $1.3 billion for the state's mandatory reserve. An additional $2 billion deposit to this reserve brings the total 2016-17 deposit to $3.3 billion.

In a historic advance, the 2016-17 budget repeals the CalWORKs "family cap" rule, a punitive policy that serves only to drive children deeper into poverty. Modest advances in other key public supports include: increasing reimbursement rates for child care and preschool providers; holding tuition levels flat at the CSU and UC, in exchange for additional funding for both systems; providing a cost-of-living adjustment (COLA) to cash assistance for low-income seniors and people with disabilities; and funding a number of programs that seek to promote housing stability and reduce homelessness. The new state budget also reinstates school-based dental services and maintains California's Earned Income Tax Credit (CalEITC) at current eligibility levels with additional funds allocated for boosting participation in the program.

In recent years, a series of reforms were enacted to reduce incarceration in state and county corrections systems, and in one case – Proposition 47 of 2014 – allocate potentially substantial savings to other priorities. However, the 2016-17 budget reflects the Governor's low estimate of state savings from Prop. 47 while authorizing $270 million in bonds to build and renovate county jails.

The following sections summarize key provisions of the 2016-17 budget agreement. Please check the Budget Center's website (calbudgetcenter.org) for our latest analysis and commentary.

Budget Package Adopts Governor's Revenue Assumptions

The budget agreement adopts the Governor's 2016-17 General Fund revenue assumptions from this past May of $123.6 billion, before a $3.3 billion transfer to the Budget Stabilization Account (BSA), the state's constitutional rainy day fund. Although this revenue figure for 2016-17 is a reduction from the Governor's January revenue projection, it still represents an increase of roughly $1 billion over the projection for 2016-17 that the Governor released a year ago.

Of the $3.3 billion transfer to the BSA, $1.3 billion is constitutionally required by Proposition 2, which California voters approved in November 2014. The budget agreement provides an additional $2 billion deposit into the BSA beyond what is constitutionally required. After the 2016-17 deposits, the BSA balance will reach $6.7 billion, while the budget agreement specifies that the state's traditional reserve fund, called the Special Fund for Economic Uncertainties, will hold $1.8 billion, for a combined total of $8.5 billion in reserves.

Budget Agreement Ends the Counterproductive "Family Cap" Rule

The California Work Opportunity and Responsibility to Kids (CalWORKs) Program provides modest cash assistance for nearly 1 million low-income children while helping parents overcome barriers to employment and find jobs. The budget agreement makes a historic advance by repealing – effective January 1, 2017 – the Maximum Family Grant (MFG) or "family cap" rule, which is widely regarded as punitive and racist, and serves only to drive families with children deeper into poverty. This policy change will benefit an estimated 130,000 children who were born into poverty by allowing their families to receive a modest increase in cash assistance to help cover basic living expenses. Initially, the annual cost of this policy change will be funded with General Fund dollars as well as with special fund revenues from the 1991 "realignment" funding stream, which supports various health and human services programs operated by counties. However, by 2019-20, the entire annual cost of repealing the MFG rule is expected to be funded with 1991 realignment dollars.

The budget package also includes a small (1.43 percent) increase in CalWORKs grants – effective October 1, 2016 – that will raise the maximum grant for a family of three by $10 per month. This grant increase will be paid for entirely with 1991 realignment dollars, at an estimated cost of $35.4 million in 2016-17 and $47 million in 2017-18.

Budget Package Modestly Increases the State's Portion of SSI/SSP Grants for Seniors and People With Disabilities

Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants help 1.3 million low-income seniors and people with disabilities to pay for rent, food, and other necessities. State support for SSI/SSP grants – which are funded with both federal (SSI) and state (SSP) dollars – was reduced substantially during and following the Great Recession. State policymakers eliminated the annual state COLA and cut the SSP portion of the monthly grant from $233 to $156 for individuals and from $568 to $396 for couples – the minimum levels allowed by federal law. The budget package includes a 2.76 percent COLA to the state's SSP portion effective January 1, 2017, which will provide an increase of $4.32 per month for individuals and $10.94 per month for couples.

Budget Agreement Provides Additional Funds to Boost CalEITC Participation

The California Earned Income Tax Credit (CalEITC) is a refundable state tax credit for low-income workers and their families that was established by the 2015-16 budget agreement. In its first year, the new credit has helped more than 350,000 households to better afford basic expenses, according to the latest Franchise Tax Board (FTB) data. This suggests that potentially more than half to around three-quarters of eligible households have claimed the credit so far this year. (Limited information on the eligible population makes it difficult to precisely determine how many households are eligible for the credit, and initial estimates by the FTB and researchers ranged from roughly 460,000 to 600,000.) California's first-year EITC participation rate is particularly notable given the structure of the credit, which limits eligibility to households at the lowest income levels. The share of eligible tax filers who claim the state's EITC may increase after the first year of implementation as more people learn about this new tax benefit.

Because the CalEITC reached a smaller number of households than initially expected, the 2016-17 budget package reflects a lower annual "cost" – in foregone state revenues – of the credit: $255 million in 2015-16 and $295 million in 2016-17, according to the Legislative Analyst's Office (LAO). Last year's budget agreement assumed that the CalEITC would reduce revenues by $380 million annually in its first two years.

Although the estimated cost of the credit has been revised down, the budget agreement does not increase the size of the credit or extend it to additional low-income workers. The 2016-17 budget maintains the state credit at 85 percent of the federal EITC for the 2016 tax year. (This percentage, called the "adjustment factor," specifies the size of the CalEITC on the "phase-in" side of the credit and must be specified in each year's budget. For more information about how the credit works, see our interactive tool.)

In order to boost participation in the CalEITC, the 2016-17 budget provides $2 million to the FTB to increase awareness of the credit, more than three times the $600,000 devoted to CalEITC outreach efforts in 2015-16. The budget agreement also specifies that these funds "should be allocated in a manner that emphasizes nonprofit and community-based organizations that provide increased awareness of the CA Earned Income Tax Credit and free tax preparation assistance to eligible families and individuals." In testimony before a budget subcommittee in May, the FTB stated its intent to partner with the California Department of Community Services and Development to distribute these funds. The FTB also clarified that none of the $2 million would be used to support its own outreach efforts.

Budget Package Takes Steps to Address California's Affordable Housing Crisis

The 2016-17 budget package takes some notable steps toward addressing California's affordable housing crisis, although state policymakers have not yet reached agreement on major proposals that aim to reduce homelessness and to speed up local approval of development projects that include affordable housing units. The spending plan:

- **Assumes that state policymakers will approve legislation authorizing $2 billion in bond funds to build, rehabilitate, or preserve permanent supportive housing for people with a mental illness who are homeless or at risk of chronic homelessness.** These funds would be allocated over multiple years through a new No Place Like Home (NPLH) program to be established by Assembly Bill 1618, which passed out of the Legislature on June 30 and now awaits the Governor's signature. AB 1618 would provide bond funds to counties through both a competitive process ($1.8 billion) and a noncompetitive process ($200 million). The bonds would be repaid with revenues generated by Proposition 63 (2004), which levies a state personal income tax surcharge of 1 percent on the portion of a taxpayer's taxable income that exceeds $1 million and dedicates the proceeds to mental health services. However, the financing provisions for the $2 billion bond will require separate legislation, which has not yet been introduced. The NPLH program – including first-year funding of $267 million – is contingent upon enactment of such legislation.
- **Sets aside $400 million from the General Fund for affordable housing programs – dollars that would be allocated only if lawmakers modify the local review process for certain housing developments, as proposed by the Governor.** In May, the Governor proposed to

streamline the local approval process for multifamily infill developments that include affordable housing. The Governor stated that the current process "slows down approvals in areas already vetted and zoned for housing, which only delays development and increases costs." The Legislature did not adopt the Governor's so-called "by-right" proposal. However, the budget package includes an incentive for lawmakers to do so in the near future by making $400 million in affordable housing funds "contingent upon the passage of a 'by-right' approval process for affordable housing."

The budget package does include a number of new General Fund investments aimed at promoting housing stability and reducing homelessness. The 2016-17 budget agreement:

- **Establishes the California Emergency Solutions Grants Program to address the needs of people who are homeless or at risk of homelessness.** The budget provides $45 million to support community-based activities that include operating homeless shelters, providing services to shelter residents, and rapidly rehousing homeless individuals and families.
- **Creates the Housing and Disability Income Advocacy Program to help people who are homeless or at risk of homelessness and who have a disability to access appropriate benefits.** The budget provides $45 million to help increase eligible Californians' participation in disability benefit programs, including SSI/SSP and Social Security Disability Insurance (SSDI). Counties that participate in this new program would provide outreach, case management, and advocacy services and would be required to match the amount of state funding that they receive.
- **Establishes the Community-Based Transitional Housing Program to increase housing for people who are released from state prison or county jail.** The budget provides $25 million to encourage cities and counties to support the establishment of transitional housing facilities that will operate for at least 10 years and provide services such as vocational training, psychological counseling, and cognitive behavioral therapy. Local entities selected to participate in this new program will be eligible to receive up to $2 million and will be encouraged, but not required, to match the amount of state funding that they receive.
- **Boosts funding for the CalWORKs Housing Support Program.** The budget provides an additional $12 million for this program, bringing total funding to $47 million in 2016-17.
- **Creates the Bringing Families Home Program to reduce homelessness among families involved with the child welfare system.** The budget includes $10 million for this program, which will provide rental assistance and other housing-related supports to eligible families in participating counties. Counties that participate in this new program will be required to match the amount of state funding that they receive.

- **Expands CalWORKs families' access to Homeless Assistance Program services.** Families will have access services once every 12 months effective January 1, 2017, a change that will increase state spending by $2.4 million in 2016-17. Currently, the temporary and permanent housing assistance provided through this program is available only once in a lifetime.

Budget Agreement Reflects New Overtime Rules for In-Home Supportive Services Providers

Many seniors and people with disabilities rely on the In-Home Supportive Services (IHSS) Program, which helps people with low incomes remain safely in their own homes, preventing the need for more costly out-of-home care. IHSS enrollment is projected to reach roughly 490,000 in 2016-17, up from the current level of about 467,000. The 2016-17 budget package:

- **Assumes increased General Fund spending of $437 million associated with new federal labor rules that apply to IHSS.** On February 1, 2016, the state implemented federal labor regulations that mandate overtime pay for home care workers, including IHSS providers, and require that workers be paid for time spent in transit between multiple consumers and at medical appointments. IHSS providers are now paid overtime for working more than 40 hours per week, but under state law are limited to a 66-hour workweek. On May 1, the Administration implemented two exemptions that allow certain IHSS providers to exceed this limit and work up to 360 hours per month. One exemption applies to "live-in family care providers" who care for two or more disabled minor or adult children or grandchildren. The other exemption applies to IHSS recipients who face "extraordinary circumstances."
- **Temporarily suspends a provision in state law that reduces IHSS consumers' authorized hours of care by 7 percent.** This suspension will stay in place until July 1, 2019, so long as the state's current tax on managed care organizations (MCOs) remains operative. If the MCO tax becomes inoperative, the 7 percent cut to IHSS hours of care would be reinstated. (This cut was last in effect in the 2014-15 fiscal year.) Suspending the 7 percent reduction will increase state General Fund costs for IHSS by approximately $266 million in 2016-17.

Budget Agreement Scales Back "Estate Recovery" in Medi-Cal, Reinstates School-Based Dental Services

The 2016-17 budget package includes a number of significant changes affecting state health care policies. The budget agreement:

- **Scales back "estate recovery" in Medi-Cal so that it applies solely to long-term care services, consistent with federal law.** The federal government requires states to recover, from beneficiaries' estates after their death, the cost of providing long-term care through Medicaid (Medi-Cal in California). California exceeds this requirement by allowing for the recovery of all Medi-Cal expenditures, including the cost of premiums paid to managed care plans on behalf of a beneficiary. The state's new policy, which will apply to individuals who die on or after January 1, 2017, is projected to increase General Fund costs for Medi-Cal by $5.7 million in 2016-17.
- **Reinstates school-based dental services.** The budget agreement provides $3.2 million from the General Fund to re-establish the California Children's Dental Disease Prevention Program, which ceased operating after losing all General Fund support in 2009.
- **Extends the Hospital Quality Assurance Fee to January 1, 2018, pending federal approval.** This fee applies to certain acute care hospitals, with some of the proceeds offsetting – or reducing – the state's General Fund cost for providing children's health care. Extending the fee by one year, to January 1, 2018, will provide a projected General Fund offset of $845 million in 2017-18.
- **Provides $31.3 million from the General Fund to support primary care residency slots and newly accredited primary care residency programs.** This funding is contingent upon federal approval of the Hospital Quality Assurance Fee extension.
- **Provides $11.4 million from the General Fund to strengthen a number of public health activities.** This includes one-time funding of:
    - $5.0 million for the Sexually Transmitted Disease Prevention Program,
    - $2.7 million for the Drug Overdose Prevention Grant Program,
    - $2.5 million for the Early Detection and Diagnosis of Alzheimer's Disease Program, and
    - $1.2 million for the Hepatitis B and Hepatitis C Virus Prevention and Treatment Program.
- **Reinstates acupuncture as a Medi-Cal benefit.** This change, which takes effect July 1, 2016, will increase state General Fund spending by $3.7 million in 2016-17. Acupuncture was one of several benefits that state policymakers eliminated from Medi-Cal in 2009. Benefits that continue to be excluded from Medi-Cal include audiology, incontinence creams and washes, podiatry, and speech therapy.
- **Addresses concerns about the adequacy of language interpretation in Medi-Cal by supporting "a medical interpreters pilot project, study, or both."** The budget package provides $3.0 million from the General Fund for this purpose in 2016-17, with funding contingent on the enactment of authorizing legislation.

Budget Agreement Makes a Modest Investment in Early Care and Education

The budget package rejects the Administration's proposal to consolidate funding for state preschool into an Early Education Block Grant and to consolidate state-supported child care programs into a streamlined, voucher-based system. Instead, the agreement makes a modest investment in early learning programs in 2016-17 and assumes that this investment will increase in subsequent years. Specifically, the budget agreement:

- **Provides $7.8 million in Proposition 98 funds to support 2,959 additional full-day state preschool slots beginning March 1, 2017.** The budget package assumes that additional funds will be provided in each of the next three fiscal years, resulting in a total of 8,877 new slots by 2019-20.
- **Modestly raises child care and preschool provider reimbursement rates** beginning January 1, 2017, at an estimated cost of $137.5 million in 2016-17, including $43.7 million in Proposition 98 funds. These increases include:
  - Raising the regional market rate (RMR) to the 75th percentile of the 2014 RMR survey. (The RMR establishes the maximum amount the state will reimburse child care providers who accept vouchers.) The budget agreement includes a "hold harmless" provision that prevents providers from receiving a lower reimbursement rate due to this change through June 30, 2018. The budget agreement also states that it is the Legislature's intent to implement three interrelated changes: Raise rates to the *85th* percentile of the most recent RMR survey, update rates with each new RMR survey to the extent funding is available, and raise rates through 2018-19 to "reflect increased costs to providers resulting from increases in the state minimum wage."
  - Boosting reimbursement rates for license-exempt child care providers from 65 percent to 70 percent of the family child care home rate.
  - Increasing the standard reimbursement rate (SRR) by 10 percent for center-based child care and preschool providers who contract directly with the state. In addition, the budget agreement expresses legislative intent to raise the SRR through 2018-19 to reflect higher provider costs due to scheduled state minimum wage increases.

The budget agreement also requires the California Department of Education to develop a "quality funding expenditure plan" by March 1, 2017 that prioritizes activities that support the Quality Rating and Improvement System (QRIS). Additionally, the budget package states that it is the Legislature's intent to use federal Child Care and Development Block Grant (CCDBG) "quality allocation" funds to support the QRIS "to the greatest extent possible."

The budget package does not increase child care slots or raise the income eligibility limit for subsidized child care or preschool. The agreement also does not include a proposal adopted by the Assembly to establish a 12-month certification period for families who qualify for subsidized child care. This proposal was intended to allow families to remain eligible for 12 consecutive months of care regardless of certain changes in their incomes, work schedules, or education or training activities. The 2014 CCDBG requires states to adopt a 12-month eligibility certification period, but it is unclear what kind of penalties states could face for failing to comply.

Budget Agreement Maintains Minimum Funding Level for Schools and Community Colleges Assumed in Governor's May Revision

Approved by voters in 1988, Proposition 98 constitutionally guarantees a minimum level of funding for K-12 schools, community colleges, and the state preschool program. The 2016-17 budget agreement maintains the same Proposition 98 funding levels as assumed in the Governor's May Revision: $71.9 billion in 2016-17, $69.1 billion in 2015-16, and $67.2 billion in 2014-15.

California's school districts, charter schools, and county offices of education (COEs) provide instruction to approximately 6.2 million students in grades kindergarten through 12. The budget agreement increases funding for the state's K-12 education funding formula – the Local Control Funding Formula (LCFF) – and pays outstanding obligations to school districts. Specifically, the agreement:

- **Provides $2.9 billion to continue implementation of the LCFF** – down from the $3.0 billion included in the Governor's May Revision. According to the Administration, "this increase will bring the formula to 96 percent of full implementation." The LCFF provides school districts, charter schools, and COEs a base grant per student, adjusted to reflect the number of students at various grade levels, as well as additional grants for the costs of educating English learners, students from low-income families, and foster youth.
- **Provides $1.3 billion in one-time funding to reduce mandate debt the state owes to schools** – down from the $1.4 billion included in the Governor's May Revision. Mandate debt reflects the cost of state-mandated services that school districts, charter schools, and COEs provided in prior years, but for which they have not yet been reimbursed.
- **Reflects the elimination of COLAs for certain programs.** The Governor's January budget had funded a 0.47 percent COLA for the state preschool program and several categorical programs that remain outside of the LCFF, including special education, child nutrition, and American

Indian Education Centers. The Governor's May Revision reduced the COLA to 0 percent, and the final budget package reflects this reduction.

- **Does not include funding for a loan program for emergency repairs to school facilities proposed by the Governor.** Both houses of the Legislature rejected the Governor's proposal to provide $100 million in one-time Proposition 98 funding to establish a loan program to provide temporary funding to school districts to replace or repair facilities due to imminent health and safety issues.

California's community colleges (CCCs) help prepare approximately 2.3 million full-time students to transfer to four-year institutions as well as obtain training and skills for immediate employment. The budget agreement:

- **Provides $114.3 million to fund 2 percent growth in full-time equivalent student enrollment.**
- **Allocates $75 million to fund increased CCC operating expenses in areas such as employee benefits, facilities, and professional development.**
- **Reflects the elimination of COLAs for apportionments and certain categorical programs.**
- **Provides $105.5 million in one-time funds to reduce mandate debt the state owes to CCCs.** Mandate debt is the cost of state-mandated services that CCCs provided in prior years, but for which they have not yet been reimbursed.
- **Provides $184.6 million for deferred maintenance projects, instructional equipment purchases, and certain water conservation projects.**

Budget Package Provides Funding Boosts to CSU and UC, Seeks to Improve Inclusiveness of Disadvantaged Groups

The 2016-17 budget agreement boosts funding for both the California State University (CSU) and the University of California (UC) beyond continuing the multiyear funding plan already in place. Funding increases are contingent on CSU and UC growing student enrollment, particularly for California residents; improving graduation rates; and targeting aid to low-income and underrepresented minority students. Specifically, the budget package:

- **Increases ongoing annual funding for CSU by $125.4 million per the multiyear funding plan.**
- **Increases ongoing annual funding for CSU by $12.5 million with an enrollment target of 1.4 percent (5,194 students) more new full-time students over the 2015-16 level.**

- **Increases ongoing annual funding for CSU by $1.1 million to support the CSU Student Success Network.** The network would be led by CSU faculty, staff, and administrators and help them to learn from other campuses' experiences.
- **Increases ongoing annual funding for UC by $125.4 million per the multiyear funding plan.**
- **Increases ongoing annual funding for UC by $18.5 million, provided that residential student enrollment increases by 2,500 in the 2017-18 academic year *and* the UC Board of Regents adopts a policy capping nonresident student enrollment.** This funding increase is subject to confirmation by the Department of Finance by May 1, 2017 that UC has met the requirements.
- **Provides a one-time increase for UC of $22 million, $2 million to each UC campus and the Lawrence Berkeley National Laboratory, for innovation and entrepreneurship activities.**
- **Provides a one-time increase of $4 million for UC in 2016-17 to expand online classes for middle and high school students, aimed at improving college preparedness.**

The Budget Act also seeks to improve CSU and UC's inclusiveness of disadvantaged groups. In particular, the budget agreement:

- **Provides a one-time increase for CSU of $50 million.** Of this total, $35 million will be released after CSU adopts a plan to improve graduation rates, by September 30, 2016, with specific targets for underrepresented students and first-generation college students. The $35 million will be used for activities related to this plan.
- **Provides a one-time increase for UC of $20 million for outreach and support services for low-income and underrepresented minority students.**

UC will also receive a one-time increase of $171 million in Proposition 2 funds to help pay down unfunded liabilities of the UC Retirement Plan. This builds on the infusion of $96 million – also on a one-time basis – for the same purpose included in the 2015-16 budget agreement. This year's funds will be released contingent on certification by the Director of Finance that the UC Retirement Plan includes limits on pensionable compensation consistent with the limits specified in the Public Employees' Pension Reform Act of 2013.

Relative to the 2015-16 Budget Act, this year's budget agreement further cuts the Middle Class Scholarship program by $42 million in each of 2016-17 and 2017-18, down to $74 million and $117 million, respectively, due to lower-than-anticipated participation in the program.

Budget Package Reflects the Governor's Prop. 47 Savings Estimate, Adds Funding for Prop. 47-Related Services

Approved by the voters in 2014, Proposition 47 reclassified certain nonviolent drug and property offenses from felonies to misdemeanors, with the result that state prison is generally no longer a sentencing option for these crimes. By reducing incarceration, Prop. 47 will generate ongoing state budget savings. The Governor's Department of Finance (DOF) is required to annually calculate these savings relative to spending in 2013-14, with each year's final calculation due by August 1. However, Prop. 47 does not prescribe a specific methodology for performing this calculation or provide a role for the Legislature in determining or allocating the savings.

The DOF estimates net state savings of $39.4 million in 2015-16, the fiscal year that began on July 1, 2015. This is well below previous estimates, including the DOF's own initial projection from 2014, which anticipated state savings in the "low hundreds of millions of dollars annually." (This 2014 estimate was jointly released with the LAO.) The DOF's estimated $39.4 million in state savings will be allocated in 2016-17 based on a formula established by Prop. 47. This formula:

- **Provides 65 percent of the state savings ($25.6 million) to the Board of State and Community Corrections (BSCC)** to support mental health services, substance use disorder treatment, and other community-based services that aim to reduce recidivism, with an emphasis on people convicted of less serious crimes.
- **Allocates 25 percent of the state savings ($9.9 million) to the California Department of Education (CDE)** to support dropout and truancy prevention programs for K-12 public school students.
- **Allots 10 percent ($3.9 million) of the state savings to the California Victim Compensation and Government Claims Board** to support trauma recovery centers for victims of crime.

In addition to these allocations, which are required by Prop. 47, the budget package provides $28 million from the General Fund to support Prop. 47-related services. Specifically, the budget agreement:

- **Allocates an additional $18 million to the CDE** for K-12 dropout and truancy prevention programs.
- **Provides an additional $10 million to the BSCC** to support mental health services, substance use disorder treatment, and other community-based services that aim to reduce recidivism, with an emphasis on people convicted of less serious crimes.

Budget Package Authorizes $270 Million in Bonds for Jails, Funds a Broad Range of Local Public Safety Activities

The budget agreement authorizes the state to issue up to $270 million in lease-revenue bonds to build or renovate county jails. This new financing is in addition to the $2.2 billion in bonds the state has authorized since 2007 for this purpose. Napa County would receive $20 million of the new funding to replace its jail, which was damaged in the 2014 earthquake. The remaining funds – $250 million – would be available only to counties that have not previously received bond funds or have received only partial funding. Participating counties generally would be required to pay 10 percent of total project costs, although this share could be reduced to 5 percent for small counties. In addition, the 2016-17 spending plan:

- **Allocates $67.5 million from the General Fund to help communities develop or expand facilities to provide mental health, substance use disorder, and/or trauma-related services, such as for victims of violent crime.** Grant funds will be distributed through a competitive process overseen by the California Health Facilities Financing Authority.
- **Provides $45.7 million from the General Fund for local law enforcement.** The budget package includes four pots of money targeted toward local law enforcement in 2016-17:
    - $20 million "to increase positive outcomes between municipal law enforcement and high-risk populations," including people who have a mental illness.
    - $10.2 million to pay for the construction, renovation, or relocation of police department facilities in four cities: Firebaugh, Huron, Mendota, and Selma.
    - $10 million for "one-time Regional Crime Task Force Grants" for several cities – including Merced and Richmond – along with the University of California, Merced.
    - $5.5 million for the city of Salinas for "counter-violence and gang activity prevention."
- **Provides $19.7 million from the General Fund to county probation departments to address a temporary increase in probation caseloads.** This increase is due to a 2014 federal court order requiring the state to expand opportunities for certain state prisoners to be released from prison to local supervision on a faster timeline.
- **Provides $15 million from the General Fund to establish Law Enforcement Assisted Diversion (LEAD) pilot programs in up to three jurisdictions.** LEAD is intended to "reduce recidivism by increasing the availability and use of social service resources" as an alternative to arrest and incarceration for drug-related offenses or prostitution. LEAD services may include mental health care, substance use disorder treatment, and housing, among others. Participating jurisdictions will be selected through a competitive process overseen by the BSCC.

Budget Agreement Allocates $2 Billion Over Two Years for Maintenance and Improvement of State Facilities

The budget agreement transfers $1.0 billion from the General Fund in 2016-17 and $300 million from the General Fund in 2017-18 to the State Project Infrastructure Fund to renovate or replace certain state office buildings under a proposal put forward in the Administration's 2016 Five-Year Infrastructure Plan. In addition, the agreement includes $688 million ($485 million General Fund) to address deferred maintenance needs at state parks, universities, community colleges, prisons, and state hospitals.

Budget Agreement Defers on "Cap and Trade" Spending as Auction Revenues Fall Short

California's "cap and trade" program, which raises revenues from auctions organized by the Air Resources Board, fell far short of expectations for its May 2016 quarterly auction. Buyers purchased just 2 percent of the carbon credits made available for auction, raising $10 million instead of the expected $500-plus million. This quarter's auction results raise questions about the future of California's cap and trade program and by extension the programs that receive funding from its auctions, such as high-speed rail, the Affordable Housing and Sustainable Communities Program, the Low-Carbon Transit Operations Program, and the Transit and Intercity Rail Capital Program. In January and May, the Administration had proposed a $3.1 billion cap and trade expenditure plan, which included cap and trade funds not appropriated from 2015-16 and projected auction proceeds in 2016-17. The 2016-17 budget agreement now defers decisions on spending cap and trade funds into the future.