

# ASSEMBLY REPUBLICANS

## GOVERNOR'S 2016 BUDGET HIGHLIGHTS



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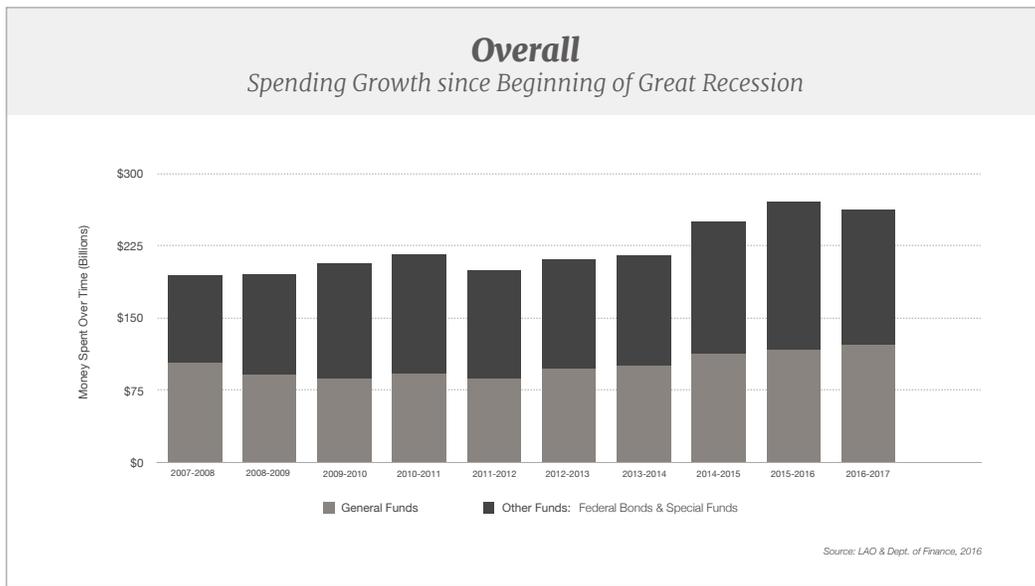


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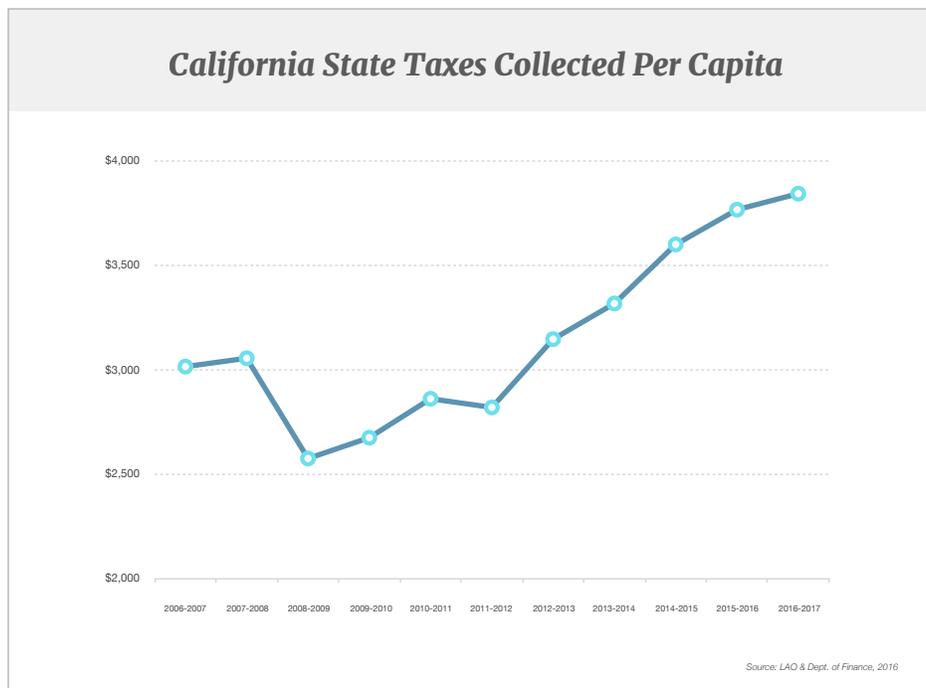
# OVERVIEW



**Total state spending, including special funds, bond funds, and federal funds, has increased by \$68 billion (35 percent) since 2007-08, the peak spending year before the Great Recession. General Fund spending hits a new record-high level at \$122.6 billion, which is \$20 billion (19 percent) higher than the 2007-08 pre-recession peak.**

**Record-Breaking Revenues and Spending.** The 2016-17 Governor’s Budget once again reflects the state’s seventh straight year of economic growth and revenue increases. General Fund tax revenues hit a new high at over \$125 billion, which is **\$7.1 billion more than last year’s Budget Act.** As displayed above, this tremendous economic recovery has fueled record spending under the Governor’s tenure. General Fund spending is also up to a record-breaking level of \$122.6 billion, up **\$7.2 billion from last year’s Budget Act.** Including all sources of funding (special, bond, and federal funds), the Governor proposes an astounding \$262.6 billion in spending next year.

On a per capita basis, state tax revenues have more than recovered from the recession and are rapidly growing to new highs. The Governor now estimates that **the state will collect \$3,846 in state taxes annually for every man, woman, and child in California.**



**Budget Trouble on the Horizon – Build Budget Reserve.** Amidst this growth, the Governor rightfully calls on his Democratic colleagues in the Legislature for “fiscal restraint and prudence.” Our state’s overdependence on progressive personal income taxes has historically caused the state budget to whiplash between high surpluses and deep deficits. To prepare for the inevitable downturn, the Governor proposes a **\$2 billion supplemental payment into the Rainy Day Fund, which Assembly Republicans support.** This is in addition to the \$1.6 billion already mandated by the bipartisan, voter-approved Proposition 2 (2014). By the end of 2016-17, the Rainy Day Fund would have a balance of \$8 billion, or about 65 percent of the constitutional target of 10 percent of General Fund tax revenues. In order to make the need for this extra reserve deposit clear, the Governor outlined the devastating effects a recession of average magnitude could have on our state. As the Governor’s Budget Summary states, **“Under such a model, the state would be left with a \$29 billion deficit by 2019-20.”** This budgetary deficit does not include the **\$223.7 billion in state employee and University of California retirement-related liabilities that must be addressed.** (See *General Government* section for more details on pension liabilities.)

**Governor Challenged from Within.** Unfortunately, ruling Democrats are likely to ignore the Governor’s warning and will treat the \$2 billion supplemental payment as a “piggy bank” to fund pet projects and expand programs favored by their special interests. The Governor’s proposed budget is already growing at an unsustainable rate due to past budget compromises with legislative Democrats: expansions of Medi-Cal coverage to millions; a new minimum wage hike that will increase payroll substantially; welfare cash grant increases; public employee pay raises and benefit increases; and other products of past budget negotiations. Health and human services spending will grow by more than \$2 billion in one year under the Governor’s plan due to these expansions. New “budget giveaways” will make the future fiscal situation more difficult to manage.

**Making the Right Spending Choices.** Although the Governor has laudably proposed \$2 billion in additional one-time infrastructure spending, his proposal does not target the greatest statewide needs: our crumbling roads, water storage, and school facilities. Instead, the Governor proposes \$1.5 billion to refurbish Sacramento’s state buildings. Although there may be merit to some of these proposals, they do not outweigh the needs of the state’s essential infrastructure. Instead of proposing \$3.6 billion in additional gas and car taxes, the one-time infrastructure funds could be re-directed (along with a portion of the unanticipated revenue) to start road repairs that would encourage economic expansion in regions that are still struggling.

**New Health Insurance Tax Swap.** In the past, Republicans supported a version of the Managed Care Organization tax that brought in billions of new federal dollars to reduce the state cost for the Medi-Cal program without raising health insurance rates on Californians. A similar solution may be reached if the Governor’s new tax swap functions as promised. However, Republicans remain committed to (1) preventing higher healthcare taxes on 24 million Californians; (2) prioritizing General Fund dollars, not tax increases, to fund services for the state’s most needy, including the developmentally disabled; and (3) ensuring the developmentally disabled have the services they need with no strings attached. *(See the Health section for more details on the MCO tax.)*

**No Need for More Tax Increases.** Revenues are up nearly \$11 billion over two years compared to last year’s Budget Act (\$3.5 billion higher in 2015-16 and \$7.1 billion higher for 2016-17). Of that amount, \$5.9 billion was unanticipated from the last projections made by the Governor. Given these record revenues and the fact that both the Governor and the LAO anticipate no significant deficits in the five-year horizon, **there is no justification for Democrats to continue the “temporary” Proposition 30 tax increases.**

# REVENUES / TAXATION

## Tax Revenues Are Flowing In

- » Compared to the 2015-16 Budget Act, state General Fund revenues are \$3.5 billion higher for 2015-16 and \$7.1 billion higher for 2016-17 (**a combined increase of \$10.6 billion**). Of this amount, \$5.9 billion represents “unanticipated” revenues that were not projected at the time the Budget was adopted. The tax revenue surge is largely due to high income taxpayers paying more in taxes on their income and the capital gains generated by their investments. Experience shows that these revenues are volatile and can quickly drop off as the economy slows down.
- » The state’s economic recovery continues to provide a revenue windfall, but the Governor and the Legislative Analyst’s Office have warned that an economic downturn is looming that could result in major budget deficits if the Legislature does not show fiscal restraint. This is essentially a message for ruling Democrats that have already identified billions in new spending increases they would like to provide for their special interest groups.
- » While many claim California has not helped the poor, Governor Brown stated, “Education funding is at its highest level ever, fifteen million Californians are covered by Medi-Cal or Covered California, the minimum wage has risen to \$10 an hour, and for the first time, the state will provide almost \$400 million to low-wage working families through an earned income tax credit.”

## Revenue Surge Funds Record High Spending

The General Fund will receive more revenue than anticipated in last year’s budget, but the Governor’s Budget proposes to increase spending just as quickly as the money comes in. The Budget proposes to spend \$122.6 billion from the General Fund, a \$7.2 billion increase relative to the 2015-16 Budget Act. On a positive note, it is fiscally wise that the Governor directs about \$4 billion to one-time actions, such as building the reserve, funding infrastructure, and deferred maintenance. However, Assembly Republicans remain concerned that these large annual spending increases cannot be sustained over time, and will eventually lead California back to an era of budget cuts and tax increases.

## BIG THREE GENERAL FUND REVENUES (In Billions)

Governor's Budget	Personal Income Tax	Sales and Use Tax	Corporation Tax	Total Big 3
2016-17	\$83.8	25.9	11	\$120.7
2015-16	\$81.4	25.2	10.3	\$116.9

\*The Big Three includes the largest revenues into the General Fund, but excludes other minor revenues and other transfers out of the GF.

### No Need for Tax Increases

- » The current fiscal year is the last one with the full revenues from the Proposition 30 (2012) tax increases. There is no “fiscal cliff effect” projected once Proposition 30 revenues end, which means that state revenues are expected to continue to grow and keep pace with state spending growth.
- » The Governor stated, **“As it was intended, the measure has provided the state with increased resources on a short-term basis to give the economy time to recover.** Under the measure, the state has been able to restore funding for education and the safety net, expand health care coverage, and pay off its budgetary borrowing.”
- » Nonetheless there will be pressure from legislative Democrats and their special interests to extend the temporary taxes imposed by Proposition 30, which was approved by voters as a means to avoid education budget cuts. **It was not intended to fund the massive expansion of Medi-Cal and other new safety net programs that the Governor noted in the budget summary.**
- » Given the ongoing revenue windfall, spending increases, and large budget surplus, it is difficult to understand why the Legislative Democrats believe Californians would support the extension of Proposition 30 tax increases. The tax increases were sold to the voters as temporary and necessary to prevent education cuts. K-12 education spending has increased by more than \$24 billion over the past five years, and the tax increase is being used to grow spending in virtually all areas of the state budget. **For example, public employee salary and benefit increases are expected to cost more than \$1 billion in 2016-17.**

**ESTIMATED PROP 30 REVENUES (In Billions)**

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-2020
Personal Income Tax	\$7.3	\$7.6	\$7.7	\$7.7	\$3.1	\$0
Sales and Use Tax	1.4	4.5	.8	0	0	0
Total	\$8.7	\$9.1	\$8.5	\$7.7	\$3.1	\$0

**The Rainy Day Fund**

**Savings and Debt Payments.** Republicans fought for the passage of Proposition 2 (2014), which provided a Rainy Day Fund to ensure some money would be put away each year for future economic downturns. The Governor’s Budget makes a supplemental \$2 billion deposit into the state’s Rainy Day Fund. It would raise the balance in the fund to \$8 billion, which is 65% of its constitutional target (i.e., 10 percent of the General Fund revenues). **However, that \$2 billion is subject to approval by the Legislature’s ruling Democrats.** Republicans are concerned that the Governor’s fiscal restraint will not be shared by the majority, **who may view the Rainy Day Fund as a “piggy bank” for new spending.** California’s budget relies heavily on personal income taxes and benefits from the capital gains tax revenue generated from stock market gains. Now is the time to save as the Department of Finance warns that a potential \$29 billion deficit would result if there were a moderate recession beginning in 2017-18. Nothing precludes the Legislature from increasing the state’s savings account or from paying down our debt faster.

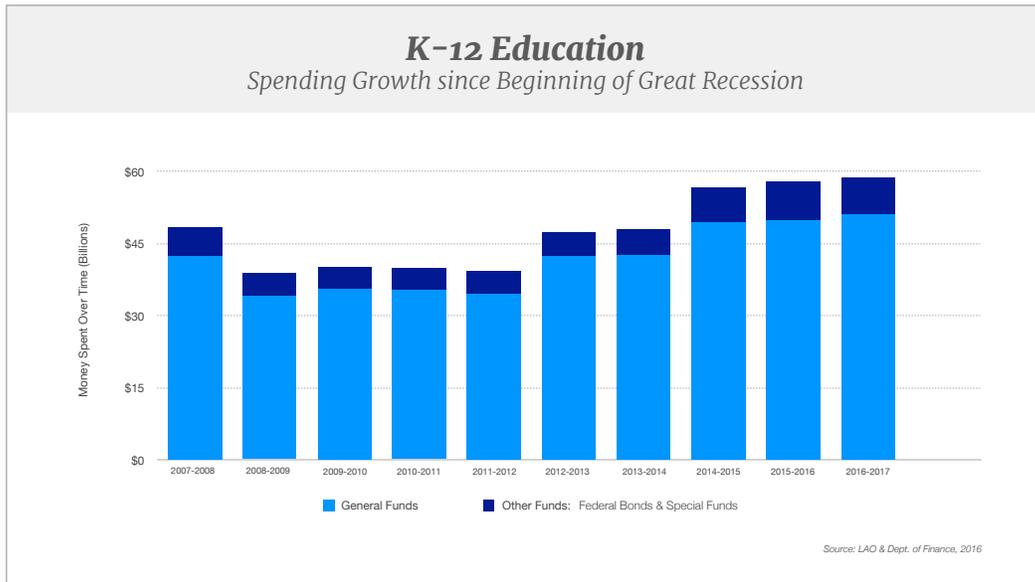
**November Ballot Measures to Extend Proposition 30**

**Two Competing Measures**

1. The California Teachers Association has proposed extending the temporary higher tax rates on upper income taxpayers until 2030, with the estimated \$7.5 billion in annual revenue going to public schools and community colleges. This would be a total \$90 billion tax increase over 12 years. **Governor Brown warns that this initiative has a fatal flaw because it excludes new revenue from the Rainy Day Fund, thwarting the will of the voters as expressed in Prop 2.**
2. The California Hospital Association and Service Employees International Union-United Healthcare Workers West have proposed a competing ballot proposition that would increase personal income tax rates even more than Proposition 30. It would create two additional brackets and a top rate of 15.3 percent. This would make California as the state with the highest state income tax rates in the nation by far. It would generate between \$7 to \$15 billion revenue annually *and would be permanent.* The funds would be used for education and healthcare purposes, among other things. Excludes revenue from the proposition from being deposited into the Proposition 2 Rainy Day Fund, but sets up its own reserve account that is earmarked for their own purposes.

# K-12 EDUCATION

INCLUDING MOST CHILD CARE and EARLY LEARNING



**Total state spending on K-12 education, including special funds, bond funds, and federal funds, has increased by \$10 billion (21 percent) since the 2007-08 peak spending year before the Great Recession. The Budget proposes General Fund spending of \$51 billion, which is nearly \$9 billion (21 percent) higher than the 2007-08 pre-recession peak.**

**Overview:** The 2016-17 Governor’s Budget increases Proposition 98 (PreK-Community College) funding to \$71.6 billion. According to the Governor, this would provide about \$10,600 per K-12 student (including PreK funding) and total **per-pupil spending<sup>1</sup> would be around \$14,550**. The chart below reflects Proposition 98 increases relative to the 2015-16 Budget Act:

PROPOSITION 98	2014-15	2015-16	2016-17
2015-16 Budget Act	\$66,303	\$68,409	
2016-17 Gov’s Budget	\$66,690	\$69,175	\$71,585
	\$387	\$766	\$3,176

PreK-14 Proposition 98 spending has increased dramatically coming out of the recession. The Governor’s Budget indicates a five-year increase of over \$24 billion. Although these increases are skewed by \$10 billion in past payment deferrals, shifting most child care spending out of Prop 98, and realignment, spending for PreK-14 still reaches record high levels. Schools and community colleges have received billions of new money in recent years, and the LAO’s 2016-17 Fiscal Forecast indicates that Prop 98 will continue to increase (albeit more slowly) as Proposition 30 revenues expire (absent a recession). Thus, the expiration of Proposition 30 tax hikes does *not* result in a “funding cliff.”

<sup>1</sup> All funds include Proposition 98 funding plus federal funds, state payments for teacher retirements, state bond debt service, funding for the CA Department of Education, CA Commission on Teacher Credentialing, Scholarshare Investment Board, Education Audit Appeals Panel, CA Summer School for Arts, local debt service, local parcel tax revenue, local sales of assets, local lease and rental revenue, local interest, local fees (developer, childcare, adult education), local excess property tax (Basic Aid), and other local miscellaneous. <sup>2</sup> The Great Schools for California package includes AB 1044 (Baker), AB 1078 (Olsen), AB 1248 (Chávez), AB 1099 (Olsen), AB 889 (Chang), AB 1226 (Chávez & Linder), and the budget reserve repeal (AB 1048, Baker & Hadley).

Assembly Republicans believe that funding alone won't address the issues our students face in the K-12 system. Students Matter appropriately states, *"As overwhelming evidence presented in the historic Vergara v. California demonstrated, teacher quality is the single most important in-school factor affecting student achievement – not per-pupil spending or other fiscal measures."*

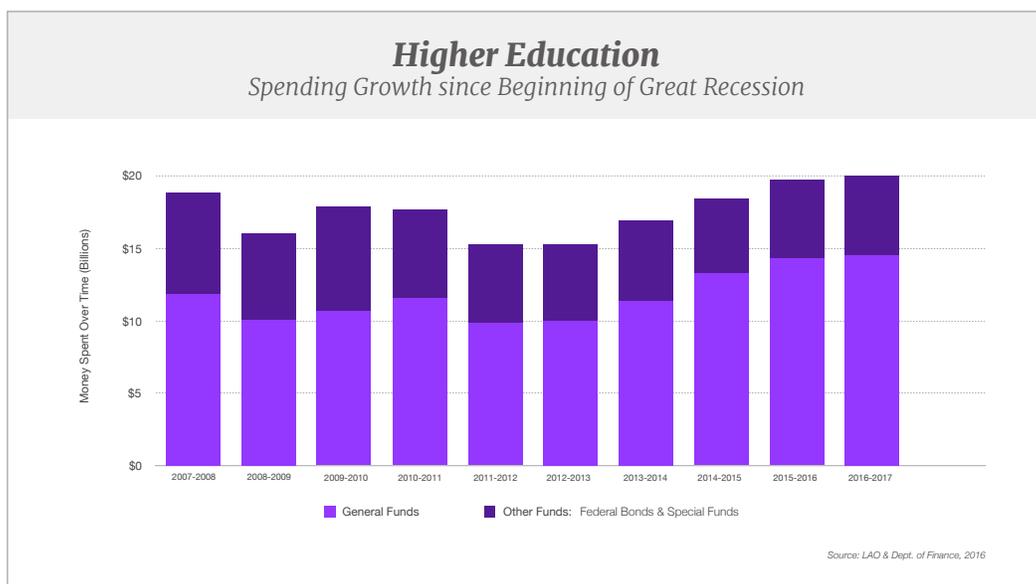
Assembly Republicans want to focus on improving opportunities and outcomes for those in poverty and strengthening the middle class through needed K-12 education reforms, which were proposed in the Assembly Republican **Great Schools for California** package<sup>2</sup>. Further, the Governor **fails to repeal the irresponsible school budget reserve cap**, which continues to threaten school budget stability.

#### **Notable Issues:**

- » **Local Control Funding Formula (LCFF) Would Receive Most New Money.** The Governor provides over \$2.8 billion of the Prop 98 increase to reach nearly 95% of full LCFF implementation. It would take an additional estimated \$3 billion to fully fund the formula in 2016-17. The LCFF has resulted in varied funding increases to schools, with some school districts experiencing a windfall while others receive much less.
- » **Governor Looks to Retire Mandate Debt with One-Time Prop 98 Funds.** The Budget includes \$1.2 billion for schools to use at their discretion. The Governor notes that this builds on previous one-time funding and can be used for "critical investments" such as "content standards implementation, technology, professional development, induction programs for beginning teachers, and deferred maintenance."
  - Assembly Republicans believe that paying state mandate responsibilities and retiring debt is a responsible approach for using these one-time funds.
- » **Workforce Development/Career Technical Education to Receive 2nd Year of Funding.** The 2015-16 Budget Act approved \$900 million over three years for Career Technical Incentive Grants. The Governor's Budget includes the second installment of \$300 million.
  - Assembly Republicans believe that quality workforce development is critical to helping low-income Californians succeed and to restore the Middle Class. This proposal is a good starting point, but more can be done for struggling Californians.
- » **School Facilities - Governor Strongly Opposes School Bond.** The Governor opposes the \$9 billion K-14 school bond proposed by the Coalition for Adequate School Housing and the California Building Industries Association because it makes no changes to the existing school facilities program. The Governor apparently wants reforms to the program and to shift more school facilities funding to local governments.
  - Many Assembly Republicans support the \$9 billion bond proposed for the November 2016 ballot because it provides critical funds to help modernize aging and outdated schools and construct new facilities. The Governor's ideas lack detail and Republicans are concerned that ruling Democrats may see this as an opportunity to undermine the more robust and fair school bond.

- » **Charter Schools Would Receive Growth and One-Time Money for Start-ups.** The Governor proposes \$61 million for charter school enrollment growth and \$20 million in one-time funds to backfill a loss of federal funds for charter school start-up costs. Charter schools provide choices for low-income and middle class families to access better schools.
  
- » **Budget Pork - \$3.5 Million for the San Francisco Exploratorium.** The Governor proposes \$3.5 million with few details for a “Statewide Center of Excellence for Science.” Staff understanding is that this is for the San Francisco Exploratorium funded through the San Francisco Unified School District. Given the Governor’s own warnings about a potential economic downturn and future budget deficits, this type of pork spending seems inappropriate.
  
- » **Early Learning “Targeted Play and Learning Block Grant” and Shift to Vouchers for Child Care.** The Governor proposes to block grant \$1.6 billion in existing Prop 98 early learning funds (\$880 million for the California State Preschool Program, \$725 million for transitional kindergarten, and \$50 million for the Preschool Quality Rating and Improvement System). These funds would be reallocated based on a variety of demographic factors focusing on low-income, at-risk children and their families, while holding harmless current recipients. He also seeks the development of a plan for a five-year transition of contracted child care funding to vouchers.
  - Shifting more child care slots to vouchers is certainly a positive step for increasing parental choice and reducing bureaucracy. Assembly Republicans believe that embracing these principles in child care programs and any new early learning block grant would benefit low-income and middle class families. However, we are concerned about shifting more early learning programs to the current K-12 system, especially absent needed reforms. We believe that private preschool providers must remain part of any new block grant of subsidized early learning or child care. Assembly Republicans also are concerned about the efforts to unionize child care. We agree with Governor Brown that the state can maintain quality child care without increasing the cost and making it unaffordable for more California families.

# HIGHER EDUCATION



**Total state spending on higher education, including special funds, bond funds, and federal funds, has increased by \$1 billion (6 percent) since the 2007-08 peak spending year before the Great Recession. The Budget proposes General Fund spending of \$15 billion. Contrary to the promises made to the voters when they passed the Proposition 30 tax increases, total spending on higher education has not substantially increased in the last decade.**

**Overview:** The 2016-17 Governor’s Budget continues the Governor’s “5,5,4,4” plan that began in 2013-14. At the time, he agreed to provide annual increases to the University of California (UC) and California State University (CSU) of 5%, 5%, 4%, and 4% over four years with expectations that UC and CSU not increase tuition/fees, make operational efficiencies, maintain affordability, improve time-to-completion, and boost graduation rates. Last year’s Budget departed from this plan with additional funding for UC and CSU and a fee increase at UC. The final year of this plan is 2016-17, and the Governor is offering a 4% increase (\$125 million each) for UC and CSU, plus a few extras that continue last year’s additional support.

The UC system was given an additional \$25 million in 2015-16 with an expectation to increase resident enrollment, among other reforms and initiatives. Preliminary information indicates that California resident enrollment growth is lower than projected in 2015-16, but nonresident enrollment has increased much more than anticipated. Also in 2015-16, UC increased mandatory systemwide student fees by \$48 per student, but nuanced this increase by claiming they didn’t increase “tuition.” **Assembly Republicans remain concerned about nonresident enrollment increases at UC at the expense of California resident students, and the continued increases in student fees.**

California Community Colleges continue to remain the beneficiaries of the substantial Proposition 98 increases. This year, the Governor also proposes a significant one-time increase in federal welfare funds to support ongoing increases to the Cal Grant program.

**Notable Issues:**

- » UC Would Receive 4% and Pension Support. In addition to a \$125 million base increase (noted above, with an expectation that UC would implement reforms and outcomes negotiated with the Governor last year), UC would also receive: (1) \$171 million in one-time Proposition 2 funds (with an expectation that UC adopts a pension cap consistent with the state's cap, currently about \$117,000-\$140,000); (2) \$35 million in one-time General Fund dollars for deferred maintenance; and (3) \$25 million in one-time money from Cap-and-Trade funds for energy projects.
  - **Assembly Republicans believe that UC must increase its enrollment of California residents and cap nonresident enrollment, which was noticeably absent from the initiatives agreed upon by UC and the Governor.**
  
- » **UC Violates Agreement to Not Increase Student Tuition/Fees with Another Fee Increase and Plans to Increase Tuition Beginning in 2017-18.** As noted above, UC increased mandatory systemwide student "fees" last year and began to separate its characterization of "fees" and "tuition." They did this to get around the tuition/fee freeze expected by the Legislature, the Governor, and sold to students to get support for Proposition 30 (2012) tax increases. In 2016-17, UC plans to once again increase the "fee" portion of mandatory systemwide tuition/fees by over \$50 per student (which would be a per student increase of about \$100 over 2 years). UC has also publicly stated it will begin to increase statewide mandatory student "tuition" beginning in 2017-18.
  - **Assembly Republicans note that Proposition 30 tax increases were sold to students as a way to keep their mandatory tuition/fees from increasing. Thus, we believe it is inappropriate for UC to raise mandatory systemwide tuition or fees while the Prop 30 taxes are in place.** Additionally, Assembly Republicans want college students and families to have more fiscal stability, possibly through 4-year tuition agreements.

- » **CSU Would Receive 4% Increase, Additional Support, and Performance Funding.** The Governor proposes a \$125 million base increase, an additional \$15 million bonus, and other adjustments for a \$148 million ongoing General Fund increase. Additionally, CSU would receive (1) \$35 million one-time General Fund for deferred maintenance and (2) \$35 million one-time from Cap-and-Trade funds for energy projects. Citing concern over CSU's paltry four-year graduation rate (which ranges by campus from a high of 47% to a low of only 5%), the Governor expects the CSU to adopt a new campus funding model to target additional resources to campuses successfully serving students with the greatest need.
  - **Assembly Republicans support a move toward performance-based funding.**
  - **California Community College (CCC) Proposals Focus on Workforce, Remedial Education, and Institutional Effectiveness.** As beneficiaries of Proposition 98 funding, the CCCs would receive an increase of over \$700 million for a myriad of purposes, including:
    - 2% enrollment growth, a cost-of-living increase, deferred maintenance/instructional equipment, and innovation awards.
    - \$200 million for the CCC Strong Workforce Program to increase career technical education (CTE) courses and implement a regional accountability structure that aligns with the recommendations of the CCC Board of Governor's Task Force on Workforce, Job Creation, and a Strong Economy, plus \$48 million to continue existing CTE funding.
    - \$30 million would support further "basic skills" programs that are more effective in improving outcomes for students needing remediation.
    - \$10 million to support more institutional effectiveness work to improve CCC outcomes. \$5 million to create zero-cost textbook degrees – full degree programs using only open education resources.
    - Assembly Republicans believe quality workforce development and effective community colleges are critical to helping low-income Californians succeed and to restore the middle class. These proposals appear to be good starting points and we look forward to seeing more details.
  
- » **Cal Grant Program Costs Rise – Private School Students Left Behind.** Total spending for the Cal Grant program would exceed \$2.3 billion in 2016-17, which is an increase of nearly \$170 million over last year. The Governor proposes using an additional \$305 million in federal welfare funds to offset General Fund costs. Despite healthy revenues, the Cal Grant for students attending private, nonprofit colleges and universities remains below pre-recession levels and continues to face another statutory cut in 2017-18 (from \$9,084 to \$8,056). The Budget fails to address this inequity despite restorations of other recessionary Cal Grant cuts and the creation of a new Cal Grant program in recent years. In addition, the Middle Class Scholarship program also limits student choice by applying only to UC and CSU students.
  - **Assembly Republicans believe it is appropriate to have parity in the Cal Grant program** by restoring the Cal Grant award for students attending private, nonprofit colleges/universities and by expanding the Middle Class Scholarship to students who chose to attend private, nonprofits. **This promotes student choice and can save the state money.** Funds are available to provide parity for these students, as the Governor budgeted funds for the Middle Class Scholarship program well beyond need.
  
- » **Governor Keeps Funding for UC Labor Institutes.** Rather than removing funding put in the budget last year for UC Labor Institutes (\$4 million), the Governor leaves the funding increase in the budget but merely removes a \$6 million earmark.
  - Assembly Republicans think it is inappropriate to use state funds to support a propaganda machine for "big labor" to achieve its political agenda.

# RESOURCES & TRANSPORTATION



**Total state spending on resources and transportation, including special funds, bond funds, and federal funds, has increased by \$4 billion (21 percent) since the 2007-08 peak spending year before the Great Recession. The Budget proposes General Fund spending of \$3 billion. Most of the funding in these program areas are generated through fees, special taxes, and through federal and bond funds.**

**Overview:** The 2016-17 Governor’s Budget largely continues implementation of Governor Brown’s environmental policies, which are popular for their lofty goals, but unfortunately continue to place the greatest cost burden on low-income and middle class Californians.

- Adding transportation fuels to the AB 32 Cap-and-Trade program has significantly increased revenues to the state on the order of about \$2 billion annually.
- **The Energy Commission estimates this policy has increased the price of gas in California by \$0.10 per gallon. According to the LAO, this price increase could double over the next 4 years.**
- Continuation of the legally-questionable \$75 million State Responsibility Area (SRA) fire prevention fee burdens rural Californians with roughly \$150 in annual fees in addition to locally-imposed assessments that fund fire protection districts. This is fundamentally unfair to residents in rural and outlying areas, who tend to be poorer than their urban counterparts.

According to the American Automobile Association, Californians pay the highest gas prices in the nation. **Residential electricity costs in California are 41 percent higher than the national average.** As a result, nearly 1 million California households are forced to spend more than 10 percent of their disposable income on electricity and natural gas. In addition, California’s commercial electricity rates are 66 percent higher than the national average, and its industrial rates are 89 percent higher.

## Notable Issues:

**Transportation.** The Budget continues to highlight a \$5.7 billion annual shortfall in funding for state highway maintenance and rehabilitation. The Governor convened the 1st Extraordinary Session in June 2015 to address this issue. In September 2015, the Governor proposed a \$500 million gas tax increase, and a \$2 billion vehicle registration fee increase to repair roads. This proposal is included in the Budget. The Governor’s proposed \$65 per vehicle “road improvement charge” would more than double the existing base registration fee.

- » The Governor’s proposed gas tax and vehicle registration fee increases are regressive, and disproportionately harm low-income and middle class working families. Lower income Californians drive less fuel-efficient vehicles, and commute longer distances due to the state’s lack of affordable housing. Californians also receive poor value on their existing transportation investments. California already has the fourth-highest gas tax in the nation, and yet ranks 45th in overall highway performance. Existing fees and taxes paid by road users are being diverted away from transportation infrastructure, and inefficiencies at the Department of Transportation (Caltrans) substantially increase project time and cost.
- » **The Assembly Republican Caucus has proposed a nine-point plan to make transportation a priority.** The plan generates \$4.3 billion in new revenue for transportation infrastructure and enacts meaningful policy reforms, without raising taxes. This plan ends the diversion of existing transportation tax revenues for non-transportation purposes, invests surplus state revenue in transportation infrastructure, and eliminates waste at Caltrans.
- » The Budget is contradictory on transportation revenue. While the Governor proposes \$1 billion to “reduce statewide petroleum use by 50 percent by 2030,” he simultaneously forecasts that a gas tax increase will generate \$5 billion annually, based on no change in petroleum consumption over the next 10 years. **As a result, the Governor invests \$1 billion to achieve a goal, but budgets under the assumption that the policy will fail.** If the goal were to be met as ARB envisions, the Governor’s gas tax increase would result in a revenue loss of \$255 million/year, rather than a revenue gain of \$500 million per year.
- » The Budget also forecasts that \$1 billion over 10 years will be generated from “Caltrans efficiencies,” but enacts no policy or budget changes to achieve these efficiencies. This savings is illusory. The Governor’s transportation proposal merely asks Caltrans to “implement efficiency measures,” and assumes that \$1 billion will materialize. This is the type of budget gimmick that has resulted in budget deficits and public distrust.
- » Assembly Republicans believe the Governor’s Budget misses opportunities to prioritize transportation. In 2015, the state’s Cap-and-Trade program was expanded to cover transportation fuels. According to the California Energy Commission, this added an additional 10 cents to the cost of a gallon of gas. The Legislative Analyst’s Office estimates this tax will grow automatically to between 13 and 20 cents per gallon over the next five years. When this “hidden” tax is included, Californians pay the highest gas tax in the nation. **This hidden tax on gasoline will generate between \$1 and \$3 billion per year in new revenue. The Budget dedicates none of this revenue towards road maintenance and rehabilitation.** Instead, it earmarks Cap-and-Trade funds for transit, bicycle lanes, and pedestrian walkways while still seeking new car and gas taxes for roads.

- » The Budget also fails to restore \$1 billion per year in truck weight fees that were diverted from road maintenance and rehabilitation during the last recession to fund other state programs.
- » The Budget fails to put any surplus state revenue towards transportation infrastructure. Given that General Fund revenues are up more than \$11 billion relative to the 2015-16 Budget Act, the state has resources to make fixing roads a priority in this year's budget.
- » The Budget continues to fund construction of a high-speed rail project that, if constructed, would reduce traffic congestion by only 1 percent. In addition to more than \$500 million per year in cap-and-trade revenue, taxpayers will pay \$650 million per year in bond debt service over the next 30 years to fund this project. Project costs continue to rise. Recent documents reveal the cost of the project's first operating segment will exceed estimates by more than \$9 billion. Assembly Republicans believe that this high-speed rail is too costly and the funds could be better used for other transportation infrastructure needs.

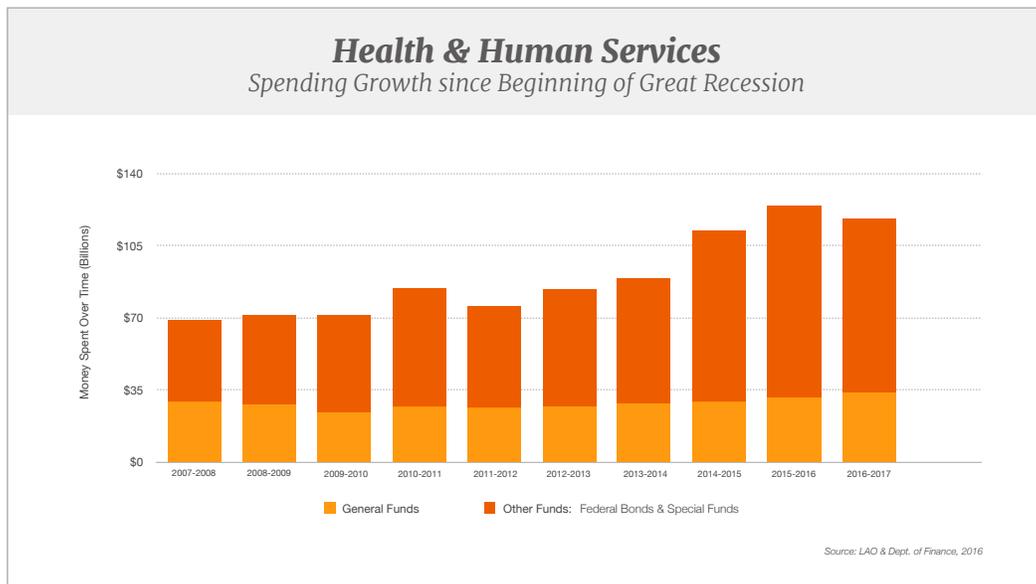
**Cap-and-Trade.** The Budget includes the Governor's proposal to spend \$3 billion in Cap-and-Trade revenues.

- » One of the major highlights is a vital new \$150 million program to fund forest restoration, biomass energy, and vegetation management, which would avoid greenhouse gas emissions by reducing the risk and intensity of catastrophic forest fires. This program will create jobs, and improve water quality and the environment. It could also mitigate significant General Fund expenditures associated with fighting fires.
- » The Budget also allocates \$100 million for organic waste and recycling infrastructure. This investment should offset plans by the Governor to establish a new trash tax to raise \$100 million annually for similar purposes.
- » Cap-and-Trade is anticipated to fund \$30 million in Drought Rebate Programs for residential clothes washers, dish washers, showerheads, and faucets in disadvantaged communities. While these expenditures will help improve how efficiently scarce water resources are used, Assembly Republicans believe we must also focus on building the brick-and-mortar facilities necessary to provide safe, clean, affordable drinking water to the state's residents.
- » The Budget also proposes to spend \$30 million in Cap-and-Trade revenues on the Department of Food and Agriculture's effective SWEEP Program that provides incentives for the agriculture industry to invest in energy and water efficiency technologies, and the Water Energy Technology Program that will assist in the deployment and research of new innovative water and energy saving technologies such as water desalination membranes.

**Water.** The Budget provides \$212.2 million in General Fund dollars for drought response. The Legislature has already appropriated \$3.7 billion for drought-related impacts, including wildfire. However, only \$5 million is dedicated to emergency drinking water support for small communities and private wells. In contrast, over \$20 million is allocated for the State Water Resources Control Board for enforcement of water rights and curtailment orders, a bureaucracy that has frequently overstepped its authority. The Budget continues the Drought Food Assistance Program, farmworker assistance and disaster recovery/support related to the drought.

- » The Budget increases General Fund spending by \$100 million for flood protection and levee repair. This will facilitate the state's deferred maintenance of its vast levee system.
  
- » The Budget includes significant resources to continue responding to last year's catastrophic wildfires and assist those communities, schools, and fire districts hit hardest. The Budget provides \$292 million in additional funding for the current budget year to fund suppression costs and debris removal in Lake and Calaveras Counties. It also includes \$1.9 million to backfill lost tax revenue in Calaveras and Lake Counties, and \$2.6 million to cover local costs for CAL FIRE contracts with South Lake County Fire and Calaveras County. Assembly Republicans are pleased to see that the Budget provides resources for communities to recover from the effects of wildfires.

# HEALTH



**Total state spending on health and human services programs, including special funds, bond funds, and federal funds, has increased by nearly \$49 billion (70 percent) since the 2007-08 peak spending year before the Great Recession. The Budget proposes General Fund spending of almost \$34 billion, which is over \$4 billion (15 percent) higher than the 2007-08 pre-recession peak. The biggest growth in spending has been associated with mandatory and optional increases tied to federal health care reform within the Medi-Cal program.**

**Overview:** The 2016-17 proposed Governor’s Budget for health largely focuses on continued implementation of ongoing programs and recent expansions and maximizing federal funding. It anticipates spending \$19.1 billion in General Fund dollars on Medi-Cal. This is an 8 percent increase from the 2015-16 Budget, due to an increase in health care costs generally, mandatory and optional program expansions, and an increase in caseload growth. By the end of 2016-17, Medi-Cal will cover more than 13.5 million Californians (more than one-third of the population)--including all traditionally-eligible Medi-Cal recipients and the new “optional” population expansion resulting from California’s implementation of the Affordable Care Act (ACA) that includes childless adults. The recent state-only expansion to cover children of undocumented immigrants will cost \$182 million in General Fund dollars—a group for whom the federal government provides no matching funds.

### Notable Issues:

- » **New Managed Care Organization Tax (MCO) Swap:** In 2014, the federal government indicated that the structure of California’s existing Managed Care Organization (MCO) tax, which expires at the end of 2015-16, is not permissible. As part of the Extraordinary Session on Health Care called by the Governor in June 2015, the Governor introduced an MCO tax proposal that would increase the cost of health care for more than 24 million Californians in order to fund expansions of the state Medi-Cal program and increase payments for unionized In-Home Support Services (IHSS) providers. In addition, the Governor and Legislative Democrats cynically tried to hold the developmentally disabled community “hostage” by declaring they would only provide necessary funds for community-based developmental service providers if the unrelated MCO tax was approved. **Assembly Republicans believe that funding for the developmentally disabled should be a top budget priority. It is fundamentally unfair and senseless to make health care more unaffordable for 24 million Californians who have to buy health insurance in order to fund an expansion of government health care programs.**

In the past, Republicans have supported a version of the MCO tax that provided a “win-win” by ensuring that health plans did not raise rates on their California enrollees while also bringing in \$1 billion of new federal dollars to reduce the state cost for the Medi-Cal program. **The Governor’s newest proposal involves a complex tax swap** that places a new tax on managed care plans, but offsets the impact by eliminating the current Insurance and Corporate taxes for the health plans. In addition, the health plans would receive Medi-Cal reimbursement rate increases to further mitigate any potential costs. The Administration indicates that this approach **results in net savings to health plans so Californians would not see higher health care costs as a result**, while also maximizing the drawdown of federal funds to offset state costs. It’s not clear that the tax is appropriate given the current budget surplus and the lack of details regarding the overall proposal. However, it merits consideration if it can reduce state cost burdens without increasing the cost to hard-working Californians. *(See the Human Services section for additional discussion regarding the use of the MCO tax).*

- » **California Picking Up Cost of Affordable Care Act (ACA):** Calendar Year 2017 will be the first year that California will be required to share in the costs of the ACA expansion to cover childless adults under Medi-Cal. For half the 2016-17 fiscal year, California’s 5 percent share of the costs of covering this population will be \$740 million. Ultimately, these costs will rise to \$1.8 billion annually in General Fund expenditures. The Administration appears to be relying on the MCO tax to cover this future expense as well. Republicans believe that expanding Medi-Cal should not be linked to increasing the cost of health care for other California families.
- » **Medi-Cal Reimbursement Rates:** Medi-Cal provider rates are a key component to ensuring access to health care, especially in underserved areas, such as rural and inner-city communities. These are also areas with the highest Medi-Cal utilization rates. Without adequate reimbursement rates in place, more and more providers and facilities may be forced either to stop accepting Medi-Cal patients, or close their doors entirely, effectively denying access to health care for many already inadequately served Medi-Cal recipients. Provider availability is a key component to making any health care system functional. The Governor’s Budget does nothing to increase provider rates. Republicans have consistently supported increasing provider rates to ensure those who rely on Medi-Cal have access to care and not just a useless beneficiary card. The Legislature should consider improving rates and access before implementing program expansions that the state may not be able to afford.

# HUMAN SERVICES

**Overview:** The 2016-17 proposed Governor’s Budget for human services largely focuses on continued implementation of program expansions made in previous years. It includes “targeted” increases in Developmental Services program funding, yet it does not include the complete 10 percent across-the-board provider reimbursement rate increase supported by Assembly Republicans to adequately fund services for the developmentally disabled. Contributing to the \$23.8 billion (\$7.9 billion in General Fund expenditures) allocated for human and social services this year are the previously- approved CalWORKs grant increases, continued increased costs for In-Home Supportive Services (IHSS) for overtime pay, increases to the standard food payment allowance for CalFresh (formerly food stamps) recipients, a bump to Supplemental Security Income/State Supplementary Payment (SSI/SSP) payments, and **drug felon eligibility for cash grants**. There is a \$111 million General Fund expenditure increase budgeted for 2015-16 over the 2015-16 adopted Budget, and a \$371 million General Fund increase for 2016-17 due largely to the increased costs in the IHSS system.

## Notable Issues:

- » **Developmental Services Proposal:** The Governor’s Budget allocates only \$130 million over current funding for the Department of Developmental Services. Of that amount, \$78.8 million is allocated to address the community placement of current developmental home residents of Sonoma, Fairview, and Porterville. This is designated money out of an overall pot of \$146.6 million to address community placement generally. Additionally, another \$50 million General Fund is allocated in “targeted” provider rate increases, specifically in three areas: 1) for those Alternative Residential Model homes moving from a 6-bed to a 4-bed model; 2) to meet the federal government maximum caseload requirement for a case manager employed by a regional center; and 3) to those providers that are more integrated in the community and consistent with the Home and Community-Based Services Waiver. The Governor is trying to tie additional provider rate increases to the Managed Care Organization (MCO) tax. Assembly Republicans believe that the funding for the developmentally disabled should not be held hostage to an unrelated tax increase. There is sufficient funding available in the General Fund to fully fund provider rates for this population.
  
- » **Managed Care Organization (MCO) Tax:** The only funding item specifically allocated out of the MCO tax is \$236 million to restore the 7 percent reduction to authorized hours of service in the IHSS program. Additionally, the Governor’s Budget includes language mentioning possible other targeted increases in reimbursement rates for developmentally disabled service (DDS) providers funded out of the MCO tax. This cynical approach to tie the needs of the most vulnerable to this proposal is inappropriate. DDS should have been a budget priority last year and should not be held hostage to an unrelated tax increase. Assembly Republicans are committed to continue to fight to ensure full funding for necessary services for the developmentally disabled. (*See Health Section for more on MCO*).

- » **Foster Care Reform:** The Governor's Budget includes \$94.9 million across the Department of Social Services, Department of Health Care Services, county child welfare agencies, and county probation departments for continued implementation of the Continuum of Care Reform to improve the foster care system, which Assembly Republicans supported. These improvements ultimately are intended to increase the availability of home-based family care through recruitment and retention efforts and focus on providing the full range of health and mental health services available to youth in home-based family care placements. Establishing the final rate structure for these home-based placements could be a contentious process and consideration must be given to the principle that money should meet the needs of the child as opposed to the needs of the provider. Assembly Republicans believe that there is still more we can do to support our state's foster youth.
  
- » **Combating Poverty:** Assembly Republicans believe we can do more to restore California's fading middle class and provide more effective support and better opportunities for the state's poor and vulnerable. The economic recovery should be benefiting all Californians, but current state policies have resulted in a poverty maintenance program. Many of California's current programs do not provide adequate opportunity for those in poverty to succeed. Republicans seek to shape a better social safety net that does more to help those in need by providing better opportunities and outcomes. **The current system has left California with the highest poverty rate in the nation. Assembly Republicans look forward to helping to shape an improved safety net that better serves our state's neediest residents.**

# LAW & ADMINISTRATION



**Total state spending on corrections, including special funds, bond funds, and federal funds, has increased by over \$3 billion (30 percent) since the 2007-08 peak spending year before the Great Recession. The Budget proposes General Fund spending of nearly \$11 billion, which is over \$506 million (5 percent) higher than the 2007-08 pre-recession peak.**

**Overview:** The 2016-17 Governor’s Budget largely continues the Governor’s questionable policies with respect to the 2011 Public Safety Realignment and to Proposition 47 of 2014. These policies related to driving the early release of felons and decriminalizing drug offenses have resulted in overflowing county jails and displacement of lower level offenders into communities. The Los Angeles Times stated on November 10, 2015 that, “a Times review found that property crime has increased in nine of California’s 10 largest cities so far this year compared with the same period last year (and) violent crime was up in all 10.” Assembly Republicans believe the state should provide adequate resources for local government and law enforcement to manage and rehabilitate these offenders so our communities are safe.

## **Notable Issues:**

**Corrections.** The Department of Corrections and Rehabilitation budget will rise to \$10.5 billion, including \$2.8 billion for mental health, medical and dental care programs. The inmate population is projected to increase to 128,834 inmates, a 0.7% increase compared to the 2015 Budget Act projection.

- » **Jail Construction Funding.** The Budget proposes an additional \$250 million for counties that have not previously received an award or only a partial award. Assembly Republicans support greater capacity to deal with the flood of inmates now under local control and believe this allocation and greater levels of resources may be needed.

- » **Inadequate funding for local law enforcement.** The Budget proposes to continue a \$20 million city law enforcement grant and \$10 million in support for compliance with a recent anti-racial profiling mandate. However, it does not provide new funding for front-line law enforcement to address rising crime or to mitigate the loss of approximately \$85 million in federal asset forfeiture funds resulting from a recent decision by the U.S. Department of Justice to withhold equitable sharing funds. This will have major impacts on local law enforcement budgets. Assembly Republicans support increasing local assistance to local law enforcement to mitigate this impact.

**Extension of Private Prison Contracts, More Infill Capacity Needed to Comply With Court-Mandated Cap:** In December, the prison population was 136.0% of “design capacity” – below the 137.5% cap. To continue compliance, the budget proposes to extend out-of-state contract beds, the lease of the California City facility beyond December 31, and to maintain the operation of the prison at Norco. It also proposes to activate 2,376 infill beds. Assembly Republicans believe it is necessary to maintain adequate prison capacity in order to comply with federal court mandates and protect public safety.

**Judiciary.** The Judicial Branch receives an additional \$180 million, for a total of \$3.8 billion (\$1.8 billion General Fund) of which \$2.8 billion is provided to support trial court operations. Assembly Republicans generally believe that this is an appropriate increase, but more funding is needed to meet what the Judicial Branch considers adequate to provide access to justice.

- » **Judicial Branch and Trial Court Funding Continue to Increase, but More is Needed.** Based on the court’s workload analysis, an additional \$270 million is needed in order to fully fund the Judicial Branch and trial courts. Under the Governor’s proposal, trial courts receive, among other things, \$60 million in one-time deferred maintenance costs; \$44 million for ongoing costs to address retirements and salary increases, to backfill an anticipated decline in revenues from fees and fines, and for costs associated with expected workload increases; \$30 million in one-time competitive grants for court innovations; \$20 million for discretionary trial court operations; and \$7 million related to language access expansion in civil proceedings. In addition, \$10 million is available to fund trial court emergencies.
- » **No New Funding for New Trial Court Judgeships.** The Administration is proposing to work with Judicial Council to reallocate up to five vacant superior court judgeships, shifting them to where the workload is highest without needing to increase the overall number of judges. Under the current judicial needs assessment funding model, the judgeships should be shifted to: (1) San Bernardino; (2) Riverside; (3) San Bernardino; (4) Riverside; and (5) Kern. Nonetheless, Assembly Republicans believe more judges are needed. At a minimum, funding for 12 new superior court judges and staff should be included in the state budget to help ensure timely access to justice.

## Other Issues.

- » **Governor Vastly Underestimates Cybersecurity Risk.** The Governor's Budget contains an increase of \$1.6 million, which is 1/1,000th of one-percent (0.001%) of all state expenditures, to fund an information security audit program reviewing all departments for compliance with information security requirements. By comparison, Google spends almost 1/3 of its revenues on cybersecurity. The state will never be able to match the resources devoted to cybersecurity by the private sector, but Assembly Republicans will provide leadership to make this more of a budgetary priority. Cyber threats are not going away and will likely become a more serious problem.
  
- » **Lack of Funding for the Office of Emergency Services to Plan/Respond to Terrorism.** While terrorism is mostly a federal issue, the Governor's Budget does not propose any new guidance for the Office of Emergency Services (OES) to coordinate and plan for another San Bernardino or Paris type terrorist attack. A recent statewide Field Poll and Sacramento Bee article *Californians Increasingly Believe Terror Attack 'Very Likely' Here* indicated that 33% of California voters believe another terrorist attack is likely in the near future in this state. Of the approximately \$1.5 billion in spending for OES, it is important to direct some resources to terrorism response planning and cyber-terrorism incidents.
  
- » **Proposition 47 Savings Lower Than Expected.** The Budget estimates a new \$29.3 million savings from Proposition 47, which is far lower than the potential \$100 million promised by supporters of the initiative. While much of the decriminalization aspects of Proposition 47 have come to fruition, the fiscal realities are well short of what advocates led the public to expect. As a result, fewer dollars will be allocated to the various rehabilitation programs outlined in the Proposition. The adverse public safety impact of decriminalization combined with less than expected rehabilitation services could be significant.

# GENERAL GOVERNMENT

**Overview:** The Governor’s Budget spends nearly \$10 billion on pensions and other benefits for state employees, uses surplus revenue on state office building projects, and implements the new medical marijuana regulatory structure. However, it makes no significant proposals to address California’s “housing affordability” crisis that affects residents at all income levels.

## **State Office Infrastructure**

- » The Governor proposes to set aside \$1.5 billion in 2016-17 for state office building infrastructure projects. Although the Governor has long-term plans for nearly all of the state’s properties, initial projects would include the replacement of the Natural Resources Headquarters Building (\$530 million), the construction of a new state office building (\$226 million), and an increase in the capacity of offices and committee rooms in the State Capitol. While renovations and repairs for Sacramento-area buildings may be necessary, Assembly Republicans and most Californians think that improvements to our roads and water storage facilities throughout the state should be a higher priority. This type of infrastructure spending promotes economic growth and better prepares the state for future droughts.

## **Housing and Community Development**

- » Other than the previously-enacted continuous appropriation of Cap-and-Trade money for low-income housing and “sustainable communities,” the Governor’s budget offers nothing to address housing affordability for all Californians.. Senate Democrats have announced a proposal on homelessness that repurposes Proposition 63 (Mental Health Services Act) funds, and would attempt to leverage billions of additional dollars from other local, state, and federal funding anchored by a \$2 billion bond to construct permanent supportive housing.
- » Republicans believe that the housing crisis needs budgetary and policy solutions that may include increased funding. However, government-subsidized housing can only help with a very small part of the problem and is not a solution to state’s housing shortage. Assembly Republicans will provide leadership to adopt reforms that shorten the housing/permit timeline, reduce building fees, encourage energy efficient housing in low to middle income rural areas, and make housing affordability for all Californians a priority. In the long term, future growth in the economy (and state and local revenues) will not reach its full potential if new housing production continues to fall far short of demand.

## **Redevelopment Agencies**

- » A 2015 budget trailer bill, SB 107, made changes to the redevelopment dissolution process. The Administration will implement these in 2016-17. Assembly Republicans support additional changes that clarify what is defined as a loan from cities to their RDAs because SB 107 was not clear as to whether language referenced a single loan or multiple loans in a single agency. The cost to a city associated with one loan would be less than it would be with multiple loans.

## **Public Employee Compensation and Retirement**

- » California has roughly \$219.2 billion in state employee and University of California retirement related liabilities. While measures like the Public Employees’ Pension Reform Act (PEPRA) in 2012 and the 2014 CalSTRS funding bill have begun to address these costs, such liabilities still remain as a great burden on future generations of Californians.

STATE RETIREMENT LIABILITIES (IN MILLIONS)	
State Retiree Health	\$71,773
State Employee Pensions	\$43,291
Teacher Pensions <sup>1/</sup>	\$72,718
Judges' Pensions	\$3,358
University of California Employee Pensions	\$10,786
University of California Retiree Health	\$17,270
<b>Total</b>	<b>\$219,196</b>
<sup>1/</sup> The state portion of the unfunded liability for teacher pensions is \$14.916 billion.	

- » The Governor proposes \$8 billion in 2016-17 for pension contributions and \$2 billion for state retiree health care, an increase of about \$1 billion from the 2015-16 Budget Act. Despite the Governor's recent critique that the CalPERS board wasn't paying down the state's pension liabilities fast enough, the Governor chose not to include any supplemental funding for CalPERS' pension portfolio. While Proposition 2 (the Rainy Day Fund) requires annual debt repayment contributions that could include retirement related liabilities, of the \$1.56 billion available for debt repayment, the Governor chose to only use \$171 million for University of California pensions. To his credit, the Governor continues to pursue a plan to eliminate the unfunded liability for retiree health care over the next 30 years.
- » Assembly Republicans have provided leadership on this issue, including authoring a bill in 2014 (AB 1681, Allen) to require a retiree health care prefunding proposal in every future collective bargaining agreement. The Governor agrees and proposes to address retiree health care costs in employee negotiations. In 2016, the Legislature will likely be asked to ratify collective bargaining agreements with 18 different unions (including SEIU and CCPOA). Republicans will continue to provide leadership to ensure that any new agreements fund both the costs of the long-term health care liabilities and also reduces the current costs of health care.

### **Medical Marijuana Regulation**

- » In 2015, the Legislature approved a package of bills (AB 243, AB 266, and SB 643) to create a regulatory framework for the cultivation, manufacturing, transportation, storage, and distribution of medical marijuana. The Governor's Budget includes \$24.6 million to add 126 new positions. As implementation continues, and with a possible recreational marijuana initiative on a future ballot, this will continue to be a growing area of state government. Assembly Republicans remain concerned that (1) more should be done to stop illegal grow operations and (2) this issue may be treated differently at the federal level under a new Presidential administration.

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