STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

This Chapter describes items in the Budget that are statewide issues or related to various departments.

OFFICE OF DIGITAL INNOVATION

A primary goal of government is the efficient delivery of government services. To further this goal, California must change the way it approaches service delivery and technology investments. Millions of Californians interact with government services every day: residents apply for drivers' licenses, students compare financial aid options, and small business owners apply for licenses or pay business taxes. Too often, outdated tools and complex systems make these interactions cumbersome and frustrating. Additionally, manual processes and the lack of digital service delivery often require individuals to take time off work and go to a physical office to interact directly with government staff. The state must actively seek to understand what users want to ensure government is more accessible and intuitive.

The Budget includes $26.2 million ($23.7 million one-time General Fund), $14.6 million ongoing ($9.6 million General Fund), and 50 positions to establish the Office of Digital Innovation (Office) within the Government Operations Agency to lead this charge. The Office will build on what has been learned about digital innovation in California, and scale it across the state. It will use design, technology, data, and behavioral insights to

work iteratively with departments to deliver better services for Californians. It will also bring its tools to refocus efforts through discovery and rapid prototyping. The Office has the authority to develop service delivery policies, standards, and procedures for statewide use in assessing service delivery models and underlying business processes from an end-user perspective.

A FOCUS ON THE CUSTOMER

The Office will work with departments and stakeholders to design and deliver better products and services, leveraging data and real user experiences as guides. It will strive to understand state government programs as well as the people who deliver and utilize them, and work to improve service delivery in line with iterative software development approaches. In addition to driving improved service delivery on individual projects, it will position the state to deliver better user experiences. It will champion innovative approaches to procurements, contracts, standards, and how work gets done. It will escalate and help resolve issues that inhibit better services. It will be a proponent of openness, simplicity, and common standards.

DRIVING A CUSTOMER-FOCUSED CULTURE

Scaling user-centered digital services requires a significant cultural change across the state. The Office will take a deliberate and focused approach to building a continuous improvement customer-focused culture. It will provide practical training that will include understanding users, working iteratively, improving processes, and leading cultural changes.

PROVIDING ADDITIONAL INFORMATION TECHNOLOGY TRAINING

The Office will also include additional information technology training for state staff in agile and other modern development methods to improve successful service delivery with a focus on continuous improvement. The state has already begun investing in modular procurements and agile project development (rather than depending on a single vendor for delivery), which can reduce cost and risk. While the state has developed agile curriculum, more emphasis on training is necessary for state project managers and information technology staff to realize success with these methods, which have proven successful in the private sector for years.

DIGITAL INNOVATION SERVICES REVOLVING FUND

The Budget includes $10 million one-time General Fund to allow the Office to assist departments with the tools and resources necessary to address prioritized needs and to demonstrate transformational customer-focused digital service delivery.

The transformation of state operations and programs is essential to bringing government closer to the people and building user-friendly service delivery models. This state investment focuses on modernizing service delivery at all levels where Californians engage with government services.

STATE PENSION LIABILITIES

To mitigate growth in costs for state retirement programs and to support its obligation to providing retirement benefits, the state has taken action over the past several years to address its long-term pension liabilities. The California Public Employees' Pension Reform Act of 2013 (PEPRA) was enacted to save billions of taxpayer dollars by capping benefits, increasing the retirement age for new employees, and requiring them to pay at least half of their normal costs (or the amount of money that must be set aside today to pay for the future pension benefits that accrued that year). In 2014, the state implemented a funding strategy to shore up the California State Teachers' Retirement System (CalSTRS), which was projected to run out of money in 33 years. In 2017, the state made a $6 billion one-time supplemental pension payment to the California Public Employees' Retirement System (CalPERS), funded by a loan from the Surplus Money Investment Fund. Based on current estimates, this payment is projected to save the state $5.9 billion in the long term.

While the state's employee pension costs continue to grow, these efforts have placed the state in a better fiscal position. The state's current unfunded pension liability for CalPERS is $59.7 billion, and the overall unfunded liability for CalSTRS is $102 billion (of which the state's share is an estimated $33.4 billion). As of June 30, 2018, the funded status for CalPERS and CalSTRS was 70 percent and 66 percent, respectively.

The Budget includes significant investments totaling $5.9 billion over the next four fiscal years to address the state's long-term pension liabilities—including $3 billion one-time General Fund to CalPERS and $2.9 billion in available Proposition 2 debt payment funding to CalSTRS. These supplemental pension payments are intended to curb the growing costs of the state's retirement programs and are estimated to result in $14.5 billion in savings over the long term. Paying off the state's other budgetary debts

from the General Fund will allow all the required Proposition 2 debt payments to go toward paying the state's retirement liabilities.

STATE EMPLOYEES' RETIREMENT CONTRIBUTIONS

The Budget includes a $2.5 billion one-time General Fund supplemental pension payment to be paid to CalPERS in fiscal year 2018-19. The remaining $500 million will be paid to CalPERS over fiscal years 2020-21 through 2022-23. Based on current CalPERS actuarial assumptions, this supplemental pension payment is estimated to result in a reduction in state employer contribution rates beginning in 2019-20 and additional savings of roughly $7.1 billion over the next three decades.

TEACHERS' RETIREMENT CONTRIBUTIONS

The Budget includes a $1.1 billion supplemental pension payment in 2019-20 toward the state's share of the unfunded liability for the CalSTRS Defined Benefit Program. This amount is the first installment of an estimated $2.9 billion to be paid to CalSTRS over fiscal years 2019-20 through 2022-23 using available Proposition 2 debt payment funding. Based on current CalSTRS actuarial assumptions, the state will achieve estimated savings of $7.4 billion over the next three decades as a result of the supplemental pension payments.

Significant Adjustments:

- Surplus Money Investment Fund Loan—The Budget includes $723 million in 2018-19 and $390 million in 2019-20 within the Proposition 2 debt payment requirement to pay down the General Fund's portion of the supplemental pension payment loan from the Surplus Money Investment Fund described above.
- State Employees' Retirement Contributions—The Budget includes $6.8 billion ($3.9 billion General Fund) for state contributions to CalPERS for state pension costs. This includes $723 million General Fund for California State University retirement costs.
- Teachers' Retirement Contributions—The Budget includes $3.3 billion General Fund for state contributions to CalSTRS. This roughly $241 million year-over-year increase is due in part to the lower assumed investment rate of return adopted by the CalSTRS Board in 2017. The budgeted amount also reflects the CalSTRS Board's decision to exercise its authority to increase state contributions by 0.5 percent of teacher payroll, consistent with the funding strategy signed into law in 2014.

The State Retirement and Health Care Contributions figure provides a historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

State Retirement and Health Care Contributions [1/ 2/]
(Dollars in Millions)

	CalPERS[3/]	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental[4/]	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding[5/]
2008-09	$3,063		$1,133	$189	$40		$2,146	$1,183		
2009-10	2,861		1,191	184	32		2,120	1,182		$3
2010-11	3,230		1,200	166	54		2,277	1,387		2
2011-12	3,174		1,259	195	58		2,439	1,505		0
2012-13	2,948 [6/]	$449 [6/]	1,303	160	51		2,567	1,365 [6/]	$222 [6/]	0
2013-14	3,269	474	1,360	188	52	$1	2,697	1,383	225	22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 [8/]
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	79	1	3,329	1,784	311	394
2019-20[7/]	6,036	723	3,323	222	85	1	3,495	1,895	331	577

1/ The chart does not include contributions for University of California pension or retiree health care costs, and does not reflect the $6 billion supplemental pension payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84).

2/ The Budget Act of 2019 includes one-time supplemental pension payments to CalPERS and CalSTRS, which are not reflected in the chart. The first payment is $3 billion General Fund to the CalPERS state plans over fiscal years 2018-19 through 2022-23. The second payment is $2.9 billion to CalSTRS over fiscal years 2019-20 through 2022-23, on the state's behalf, using estimated available Proposition 2 debt repayment funding. The third payment is $904 million General Fund to the CalPERS Schools Pool in 2018-19. The fourth payment is $2.2 billion General Fund supplemental pension payment to CalSTRS in 2018-19, on behalf of CalSTRS employers.

3/ In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in this column reflect statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

4/ These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and California State University (CSU).

5/ Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

6/ Beginning in 2012-13, CSU pension and health care costs are displayed separately.

7/ Estimated as of the Budget Act of 2019. Of the total estimated 2019-20 contributions, contributions sourced from the General Fund are estimated to be $3,179 million for CalPERS, $1,642 million for Active Health and Dental, $2,222 million for Retiree Health & Dental (including CSU), and $289 million for OPEB Prefunding. Fiscal year 2019-20 contributions to CSU CalPERS, CalSTRS, JRS, JRS II, and LRS are all General Fund costs.

8/ Amount includes a one-time prefunding contribution of $240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes $1.4 billion ($612 million ongoing General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding for active employees. Included in these costs are collectively bargained salaries and benefit increases as a result of contract negotiations, including the recently negotiated contract with the California Correctional Peace Officers Association, and pay increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3). Funding is also included for 2020 calendar year increases in health care premiums and enrollment.

The Administration will continue collective bargaining negotiations with Highway Patrol Officers, whose contract expired early July 2018, and will begin or continue collective bargaining negotiations with the additional four bargaining units, representing Attorney's and Administrative Law Judges, Public Safety, Stationary Engineers, and Psychiatric Technicians, whose contracts expire in late June or early July 2019.

DEPARTMENT OF FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

The Department of Financial Information System for California (FI$Cal) is responsible for managing and implementing the state's enterprise resource planning system, which integrates budgeting, procurement, and accounting functions. At a cost of $1.1 billion, 18,000 system users, managing $400 billion in state expenditures, processing tens of millions of annual financial transactions, and myriad unique system requirements due to California's laws and policies, FI$Cal represents one of the largest and most complex enterprise resource planning systems in the nation.

All 152 state departments have transitioned onto the system and 98 percent of planned functionality—budgeting, procurement, and departmental accounting—has been implemented.

During the May Revision, FI$Cal submitted Special Project Report 8 to complete system implementation and improve the efficiency with which the system is used. The Budget includes $63.9 million ($39.1 million one-time, multi-year General Fund). Of this total, $57.9 million will be used to provide additional training resources for users of the system's accounting functionality. The additional training resources will be provided by

contracted personnel familiar with the system's custom accounting functionality. The remaining $6 million will be used for a one-year extension to complete the remaining cash management and comprehensive annual financial report (CAFR) functionality.

The Legislature also approved additional annual reporting requirements for FI$Cal in conjunction with the approval of Special Project Report 8 resources. The reporting requirements include system integrator contractor performance, training metrics, and month-end and year-end close metrics.

PUBLIC EMPLOYMENT RELATIONS BOARD

The Public Employment Relations Board administers California's eight public sector collective bargaining statutes and provides a method through which employers, employee organizations, and employees can resolve labor relations disputes. As a result of the Department of Finance's Mission-Based Review, the Budget includes $1.2 million ongoing General Fund, for a total of $4.3 million ongoing General Fund provided over the last three years, to meet the department's workload needs, address the existing backlog, and improve the timeliness of case resolution.

DEPARTMENT OF GENERAL SERVICES

FAIRVIEW DEVELOPMENTAL CENTER

The Budget includes a $2.2 million one-time General Fund appropriation to complete a site evaluation of disposition options for the Fairview Developmental Center. The Department of Developmental Services anticipates it will continue serving clients at the Fairview facility through the end of 2019. To facilitate the timely disposition of the property after the Department of Developmental Services ceases operation of the facility, the Department of General Services will hire a consultant to assist with the evaluation of appropriate reuse options. In January, the Governor issued Executive Order N-06-19, which directed state departments to prioritize development of housing on excess state properties, working in partnership with local government. Accordingly, the Fairview evaluation will include identifying constraints and opportunities, working with the City of Costa Mesa and Orange County to identify local stakeholder interest in the reuse of the property, particularly related to meeting housing and homelessness needs, and identifying options that will generate the greatest benefit to the state. Concurrently, the Department of General Services will explore options to immediately

enter into a lease with a local jurisdiction to provide housing and supportive services for up to 200 individuals with cognitive disabilities who are currently homeless.

SONOMA DEVELOPMENTAL CENTER

The Department of Developmental Services ceased operations at the Sonoma Developmental Center (Center) in December 2018. The Budget includes a $43.7 million one-time, multi-year General Fund appropriation to support the disposition of the property separately from the state's traditional surplus property process due to the uniqueness of the site. Some of the Center's unique characteristics include the town of Eldridge, its cemetery, riparian water rights, its proximity to a regional and state park, and a main thoroughfare providing access to those parks.

The Budget includes statutory changes to outline a process for Department of General Services and Sonoma County to dispose of this site in a manner that balances several priorities, including providing affordable housing, protecting open space and access to open space, and natural and historic resources. The Department of General Services is responsible for maintaining the site and continuing shutdown activities while Sonoma County is responsible for completing an expedited land use planning process. To assist Sonoma County in expediting its planning process, the Budget provides a $3.5 million one-time General Fund appropriation.

Assuming all milestones are completed, the disposal of the site will conclude in no more than three years consistent with the resources committed by the state to this alternate disposal process.

CANNABIS TAX FUND ALLOCATIONS

Enacted in 2015, the Medical Marijuana Regulation and Safety Act created a regulatory framework for medical cannabis in California, and distributed the responsibility for state licensing between three state entities—the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health. In November 2016, voters approved Proposition 64, the Adult-Use of Marijuana Act, which legalized the recreational sale and use of cannabis to people over the age of 21 and levied new excise taxes on the cultivation and retail sale of all state-regulated cannabis. Chapter 27, Statutes of 2017 (SB 94), integrated medicinal and adult-use regulations to create the Medicinal and Adult-Use Cannabis Regulation and Safety Act, establishing a single regulatory system to govern the commercial cannabis industry in California.

As approved in Proposition 64, effective January 1, 2018, excise taxes are levied on the cultivation and retail sale of both adult-use and medicinal cannabis with tax revenues being deposited into the Cannabis Tax Fund. The cannabis excise tax is forecast to generate $288 million in 2018-19 and $359 million in 2019-20. The forecast assumes continued growth of more than 15 percent annually as new businesses continue to enter the marketplace and local jurisdictions adjust to the state's legal framework. It is important to note that for the near term, revenue estimates will be subject to significant uncertainty because the market has only recently been established.

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis, and the past effects of its criminalization. Once those priorities have been met, the remaining funds are allocated to youth education, prevention, early intervention, and treatment; environmental restoration; and public safety-related activities. The Budget estimates $198.8 million will be available for these purposes, and allocates them for the first time in 2019-20 as identified below.

Education, prevention, and treatment of youth substance use disorders and school retention—60 percent ($119.3 million):

- $12 million to the Department of Public Health for cannabis surveillance and education activities.
- Remaining 75 percent ($80.5 million) to the Department of Education to subsidize child care for children from income-eligible families to keep these children occupied and engaged in a safe environment, thus discouraging potential use of illegal substances or drugs.
- Remaining 20 percent ($21.5 million) to the Department of Health Care Services for competitive grants to develop and implement new youth programs in the areas of education, prevention and treatment of substance use disorders along with preventing harm from substance use.
- Remaining 5 percent ($5.3 million) to California Natural Resources Agency to support youth community access grants. These grants will fund programs to support youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities. This includes but is not limited to community education and recreational amenities to support youth substance use prevention and early intervention efforts.

Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20 percent ($39.8 million):

- Sixty percent ($23.9 million) to the Department of Fish and Wildlife, of which $13.8 million will support clean-up, remediation, and restoration of damage in watersheds affected by illegal cannabis cultivation and $10.1 million to support enforcement activities aimed at preventing further environmental degradation of public lands.
- Forty percent ($15.9 million) to the Department of Parks and Recreation, of which $7.1 million will be used to survey the impacts and identify unknown areas of cannabis cultivation to assist with prioritizing resources for effective enforcement, $5.6 million for remediation and restoration of illegal cultivation activities on state park land, and $3.2 million to make roads and trails accessible for peace officer patrol and program assessment and development.

Public safety-related activities—20 percent ($39.8 million):

- $2.6 million to the California Highway Patrol for training, research, and policy development related to impaired driving and for administrative support.
- Remaining 30 percent ($11.2 million) to the California Highway Patrol's impaired driving and traffic safety grant program for non-profits and local governments authorized in Proposition 64.
- Remaining 70 percent ($26 million) to the Board of State and Community Corrections for a competitive grant program for local governments that have not banned cannabis cultivation or retail activities that will prioritize various public health and safety programs, including, but not limited to, local partnerships focused on prevention and intervention programs for youth and to support collaborative enforcement efforts aimed at combating illegal cannabis cultivation and sales.

The dollar amounts above are subject to change and will be affected by actual cannabis tax receipts for the final quarter of 2018-19.

The Budget also includes an additional $30 million ($15 million Cannabis Tax Fund and $15 million General Fund) to provide grants to local governments to assist in the creation and administration of equity programs, and to support equitable access to the regulated market for individuals through financial and technical assistance. The Governor's Office of Business and Economic Development will administer the grant program on behalf of the Bureau of Cannabis Control.

The Budget also includes an additional $2.9 million Cannabis Tax Fund for the California Department of Tax and Fee Administration for a cannabis tax enforcement program, to increase cannabis tax compliance.

The Budget includes statutory language to address technical, clean-up issues related to the Cannabis Control Appeals Panel statute, restructure provisional licenses, enhance the equity grant program established in Chapter 794, Statutes of 2018 (SB 1294), strengthen administrative penalties for unlicensed cannabis activity, extend the existing CEQA exemption for local authorization of commercial cannabis activity, and streamline the Department of Health Care Services contracting process for its grant program.

In total, the Budget includes $278.1 million from the Cannabis Tax Fund and $149.4 million from the Cannabis Control Fund, which receive revenues from cannabis licensing fees, for cannabis-related activities.

2020 CENSUS

The upcoming 2020 Census is critical to California because the data collected by the decennial census determines the number of seats California will have in the U.S. House of Representatives and federal funding levels for local communities. This will be the first census conducted online, and this and other aspects of the federal census design may adversely impact participation.

California has a higher proportion of hard-to-count residents, such as limited English proficient communities, than the rest of the country. As a result, there is a heightened risk that its population will be underreported. To reduce this risk, in 2017 the state launched an extensive statewide outreach and awareness campaign, known as California Complete Count—Census 2020, to encourage and support full participation in the upcoming 2020 Census. This effort will span multiple years, be conducted in multiple languages, and implement specific strategies to obtain a complete and accurate count of all California residents.

The Budget includes $86.9 million one-time General Fund for California Complete Count - Census 2020. This is in addition to $100.3 million one-time General Fund approved in the Budget Acts of 2017 and 2018. This amount includes $4 million one-time General Fund for the California Housing and Population Sample Enumeration, which is a survey that will identify barriers to a complete count and effective outreach efforts in order to prepare for the 2030 Census.

COUNTY VOTING SYSTEMS

The Budget makes additional investments to upgrade and replace voting systems and technology in all 58 counties. Specifically, the Budget includes $87.3 million one-time General Fund for this purpose. This is in addition to the $134.4 million General Fund included in the Budget Act of 2018, increasing total funding to $221.7 million. This investment will support counties in their effort to replace voting systems and strengthen the security of California's election infrastructure. The additional investment in the Budget reduces the county share to 25 percent of the estimated vote center model costs for counties that have over 50 precincts. Counties with 50 or fewer precincts will not be required to provide matching funds. Full funding of the estimated polling place model costs is provided for these counties.

In addition, the Budget includes $2.7 million ongoing ($742,000 General Fund and $2 million Business Fees Fund) to support the Secretary of State's continued efforts in identifying and mitigating cybersecurity risks associated with voting and other sensitive information technology systems. These resources support infrastructure replacement and monitoring and notification tools necessary to effectively detect and protect against cybersecurity threats.

CALIFORNIA ARTS COUNCIL

The California Arts Council's mission is advancing California through the arts and creativity. The Council administers grants to support the state's arts and cultural communities through the development of partnerships with the public and private sectors to enhance the cultural, educational, social, and economic growth of California. The grant programs support arts education in school and community settings; system-engaged youth; recently incarcerated individuals; local and community economic development; recent immigrants and refugee communities; native communities; veterans and their families; and various arts service organizations, and are designed to serve populations and communities who are underrepresented in the arts and have reduced access to arts programs.

The Budget includes $10 million ongoing General Fund to expand grant programs that offer support for public access to the arts, arts education, and the state's cultural infrastructure. The Budget also includes a total of $27.5 million one-time General Fund to promote California's arts and cultural diversity by investing in the following: Los Angeles Museum of the Holocaust ($6 million), Armenian American Museum and Cultural Center

of California ($5 million), National LGBTQ Center for the Arts ($500,000), Italian American Museum ($1 million), the Latino Theater Company ($2 million), Korean American National Museum ($4 million), and Navy Training Center Foundation Renovation for Performing Arts ($9 million).

DEPARTMENT OF MOTOR VEHICLES

The Budget provides an increase of $242.1 million Motor Vehicle Account, including $207.7 million one-time and up to 1,873.3 temporary positions as well as $34.4 million ongoing and 178.8 permanent positions and a number of other operational improvements to address a range of both immediate and long-term needs within DMV. These resources are targeted to implement actions identified by the Government Operations Agency's DMV Reinvention Strike Team.

The DMV is facing a temporary spike in field office visits driven primarily by the federally mandated REAL ID Act. The Budget provides resources to continue funding 900 existing temporary positions and up to 947 new temporary positions, such as temporary hires, permanent intermittent employees, retired annuitants, and staff borrowed from other departments to address this short-term increase in workload and keep wait times down.

The DMV must also address long-term operational improvements as it continues to provide vital services to the millions of Californians it serves every year. Recent significant wait times and a frustrated public have made it clear that the DMV must do better to improve its overall customer service. Acceptance of credit cards in field offices will make transactions faster and easier for customers. The redesign and streamlining of DMV's website will make it easier to complete transactions online and reduce unnecessary field office visits. These website improvements, combined with a range of new online chat services, will also help customers understand whether a field office visit is necessary, and, if so, what they need to bring to complete the transaction expeditiously. The DMV will also focus on developing mobile transaction facilities and expanding the use of kiosks to include a broader range of transaction capabilities. Taken together, these efforts and investments will improve public access by increasing DMV's ability to serve the public more efficiently and in a greater number of locations outside of field offices.

The Budget also includes $9.5 million one time for media campaigns to reduce wait times by better informing the public regarding which transactions require a field office visit, how to make use of alternative service channels such as online services or kiosks, and what documentation to bring in for various types of transactions, such as REAL ID.

This outreach effort is intended to achieve a measurable reduction in the number of unnecessary field office visits.

Finally, the Budget provides for critical information technology improvements, including replacement of outdated and unreliable hardware such as terminals, servers, and circuits, and expanded network redundancies to stabilize the current system. This proposal will reduce vulnerability to outages so that DMV's ability to serve the public as well as the broader effectiveness of the other proposed improvements are not hindered by technical outages or faulty equipment.

The Budget includes provisional language to provide regular reporting to the Legislature and to allow for further budgetary augmentation, subject to Legislative approval, should the requested resource level be insufficient to meet the public's needs.

EARNED INCOME TAX CREDIT

The Budget significantly expands Earned Income Tax Credit (EITC) beginning in tax year 2019. The Budget more than doubles the existing credit from $400 million to $1 billion. The expanded program extends credits to 1 million more households, reaching 3 million households in total.

The expanded California EITC does the following:

- Provides a $1,000 credit for every family that otherwise qualifies for the credit and has at least one child under the age of 6.
- Increases the maximum eligible earned income to $30,000 so that those working up to full-time at the 2022 minimum wage of $15 per hour will be eligible for the credit.
- Phases out more gradually, providing a more substantial credit for many eligible families.

FEDERAL TAX CONFORMITY

To pay for the entire cost of the newly expanded EITC and to reduce taxes on small businesses, the Budget conforms or partially conforms to a number of federal tax provisions that were enacted at the end of 2017 as part of the federal Tax Cuts and Jobs Act. The state is conforming to these provisions because they are good policy or eliminate unnecessary administrative burdens to both taxpayers and the Franchise Tax

Board. While some provisions increase revenues and others decrease revenues, in total these conformity provisions are expected to increase revenues by $200 million in 2018-19, $1.5 billion in 2019-20, and then about $1.2 billion annually on an ongoing basis.

The conformity provisions included in the Budget do the following:

- Limit non-corporate business losses that can offset other ordinary income to $500,000 per year. Only taxpayers with non-business income above $500,000 will be affected. The average non-business income for affected taxpayers is over $3 million. This provision ensures that wealthy taxpayers pay more of their fair share.
- Eliminate the tax-deferral on like-kind exchanges for personal property, with an exception for individuals with adjusted gross income below $250,000 if filing single or $500,000 if filing joint. This removes the ability of corporations and wealthy personal income taxpayers to avoid taxes on gains achieved when selling valuable personal property.
- Reduce the deduction on FDIC premiums for banks with more than $10 billion in assets and eliminate the deduction for banks with assets above $50 billion.
- Eliminate the business deduction for employee compensation above $1 million for top executives of publicly traded firms.
- Require corporations that make an IRS Section 338 election to treat a purchase of a target corporation as an asset rather than a share acquisition for federal income tax purposes to make the same election for state tax purposes. This limits the ability of corporations to use tax strategies to avoid paying taxes.
- Allow an expanded population of businesses, generally those with gross receipts between $5 million and $25 million, to use simpler accounting methods. This will reduce paperwork burdens and generally reduce tax liabilities for small businesses.
- Do not tax student loan forgiveness when the recipient has died or has a total and permanent disability.
- Repeal the technical termination of a partnership for tax purposes when more than 50 percent of the ownership interest in the partnership changes hands within a 12-month period. Without this change, many partnerships would have been required to keep a second set of books just to comply with California tax law.
- Eliminate the 2-year Net Operating loss (NOL) carrybacks so that taxpayers cannot use current year losses to reduce their tax liability on prior year returns and receive a refund on those prior taxes.

- Expand contributions to Achieving a Better Life Experience (ABLE) accounts that support individuals with disabilities by allowing beneficiaries and their families to contribute more to them on a tax-advantaged basis, including 529 rollovers.

In order to spur housing development and promote alternative energy generation, the Administration will continue to pursue limited conformity to the federal Opportunity Zone tax benefits.