



**2018-19 GOVERNOR'S MAY REVISION
May 11, 2018**

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TO: CSAC Board of Directors
County Administrative Officers
CSAC Corporate Partners

FROM: Graham Knaus, CSAC Executive Director
Darby Kernan, CSAC Deputy Executive Director of Legislative Affairs

RE: Governor's May Revision for 2018-19

Governor Brown announced his sixteenth and final May Revision in the annual budget process with candor and humor as he warned of an impending recession and emphasized the need for increased contributions to the Rainy Day Fund. The State's heavy reliance on the highest income earners and associated volatility has continued to increase since January and lends to the call for prudence. The priorities in the May Revision were consistent with the Governor's long term goal of leaving the State in better fiscal health than when he entered office in 2011. By nearly all measures, this has been accomplished. The May Revision proposes a \$137.6 billion General Fund budget and \$199.3 billion in all funds and transfers, which largely reflects the increase in anticipated surplus compared to Governor's January budget proposal.

Most notably for counties and CSAC priority issues, Governor's May Revision includes:

- A commitment to paying down mandate debt for pre-2004 and post-2004 mandates that are no longer in effect;
- Urgency to fund homelessness programs, recognizing the benefits of collaboration between local governments and across service areas; and
- Acknowledgment of the importance of forest health and its impact on preventing future disasters.

Overall, the Department of Finance (DOF) reports in the May Revision for 2016-17 through 2018-19 a revenue increase of \$8 billion, before loan repayment and transfers to immediate and long-term savings accounts. The Governor proposes in the May Revision a \$4.4 billion contribution (up from \$3.5 billion in the Governor's January budget proposal) to the Rainy Day Fund, bringing the fund's total to \$13.8 billion, or ten percent of the General Fund. The purpose of the Rainy Day Fund is to minimize the effects of

revenue loss during a recession. The Administration stated a moderate recession could create a \$20 billion reduction in state revenue in a single year.

The Governor's May Revise also proposes depositing \$3.2 billion into the Special Fund for Economic Uncertainties, which is the State's short-term reserve fund, an increase from previous years. This fund's purpose is to pay for unforeseen circumstances that arise during the fiscal year, such as higher-than-anticipated costs for disaster response.

One-time expenditures, a hallmark of Governor Brown's surplus spending, for state and local programs include \$2 billion for state infrastructure, \$359 million for additional homelessness resources (see special Housing and Homelessness Section beginning on page 18 of this publication) and nearly \$60 million for mental health training. Ongoing commitments include funding for K-12 education, higher education, counteracting the effects of poverty through expanded health services, and combatting climate change, which are continuations of the January Budget proposal.

Please note, this edition of the Budget Action Bulletin reflects changes since the [Governor's January Budget Proposal](#). For more detail on any of these items, see the appropriate policy section below or contact [CSAC legislative staff](#).

SUMMARY CHARTS

2018-19 May Revision General Fund Budget Summary (\$ in millions)

	2017-18	2018-19
Prior Year Balance	\$5,673	\$8,452
Revenues and Transfers	\$129,825	\$133,513
Total Resources Available	\$135,498	\$141,965
Non-Proposition 98 Expenditures	\$73,665	\$82,537
Proposition 98 Expenditures	\$53,381	\$55,025
Total Expenditures	\$127,046	\$137,562
Fund Balance	\$8,452	\$4,403
Reserve For Liquidation of Encumbrances	\$1,165	\$1,165
Special Fund for Economic Uncertainties	\$7,287	\$3,238
Budget Stabilization Account/Rainy Day Fund	\$9,410	\$13,767

Long-Term Revenue Forecast – Three Largest Sources (General Fund Revenue - \$ in billions)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Average Yearly Growth
Personal Income Tax	\$83.3	\$92.0	\$95.0	\$98.1	\$100.1	\$102.5	4.2%
Sales and Use Tax	24.9	25.4	26.7	28.0	28.8	29.5	3.5%
Corporation Tax	11.0	11.2	12.2	12.8	13.3	13.8	4.6%
Total	\$119.2	\$128.6	\$133.9	\$138.9	\$142.3	\$145.9	4.1%
Growth	4.5%	7.9%	4.1%	3.7%	2.4%	2.6%	

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General Fund Revenue Sources
(\$ in millions)

	2017-18	2018-19	\$ Change	% Change
Personal Income Tax	\$91,971	\$95,009	\$3,038	3.3%
Sales and Use Tax	25,384	26,674	1,290	5.1%
Corporation Tax	11,246	12,248	1,002	8.9%
Insurance Tax	2,514	2,576	62	2.5%
Alcoholic Beverage Taxes and Fees	371	377	6	1.6%
Cigarette Tax	67	65	-2	-3.0%
Motor Vehicle Fees	27	27	0	0.0%
Other	942	894	-48	-5.1%
Subtotal	\$132,522	\$137,870	\$5,348	4.0%
Transfer to the Budget Stabilization / Rainy Day Fund	-2,697	-4,357	-1,660	61.5%
Total	\$129,825	\$133,513	\$3,688	2.8%

General Fund Expenditures by Agency
(\$ in millions)

	2017-18	2018-19	\$ Change	% Change
Legislative, Judicial, Executive	\$3,397	\$4,037	\$640	18.8%
Business, Consumer Services & Housing	404	430	26	6.4%
Transportation	232	239	7	3.0%
Natural Resources	3,506	3,452	-54	-1.5%
Environmental Protection	214	110	-104	-48.6%
Health and Human Services	35,664	38,865	3,201	9.0%
Corrections and Rehabilitation	11,687	11,976	289	2.5%
K-12 Education	54,005	55,833	1,828	3.4%
Higher Education	15,123	15,693	570	3.8%
Labor and Workforce Development	147	123	-24	-16.3%
Government Operations	1,134	1,813	679	59.9%
General Government:				
Non-Agency Departments	785	1,076	291	37.1%
Tax Relief/Local Government	433	466	33	7.6%
Statewide Expenditures	315	3,449	3,134	994.9%
Total	\$127,046	\$137,562	\$10,516	8.3%



Administration of Justice

2011 Realignment

The Governor's January budget proposal updated revenue assumptions for 2011 Realignment programs. In the May Revision, the Community Corrections Subaccount (AB 109) for 2017-18 statewide base remains \$1.241 billion and the growth funds that counties will receive this fall have increased from \$84.3 million to \$87 million. The 2011 Realignment growth funds are still subject to change because they are not finalized until the fall.

Judicial Branch

The Governor's January budget proposal provided \$4.2 billion for the Judicial Branch, which included \$150 million in new funding to support efforts by the Judicial Council to improve and modernize trial court operations. The Governor's May Revision increases the overall budget to nearly \$5.2 billion, which includes almost \$975 million to fund five courthouse projects. Specifically, the Governor's January budget proposal committed to completing construction for ten courthouse projects ready to proceed to construction from lease revenue bonds in the next two years, including projects in Imperial, Riverside/Indio, Shasta, Siskiyou, and Tuolumne in 2018-19 and projects in Glenn, Riverside/Mid-County, Sacramento, Sonoma, and Stanislaus in 2019-20. The Governor's January budget proposal only contained funding for the 2018-19 courthouses. The Governor's May Revision added the additional funding needed for the 2019-20 courthouse projects.

Law Enforcement Training

The Governor's May Revision restores proposed expenditure reductions included in the Governor's January budget proposal. Specifically, the Commission on Peace Officer Standards and Training and the Standards and Training for Local Corrections programs are now proposed to be funded at their 2017-18 level. Because State Penalty Fund revenues continue to decline, the Governor's May Revision shifts the Standards and Training for Local Corrections program (\$17.3 million), administered by the Board of State and Community Corrections, to the General Fund.

Post Release Community Supervision (PRCS)

The Governor's January budget proposal included \$29 million for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision (PRCS) as a result of the

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implementation of court-ordered measures and Proposition 57. The Governor's May Revision includes an \$820,000 reduction.

SB 678 Funding

The Governor's January budget proposal assumes sustained SB 678 (Chapter 608, Statutes of 2009) funding reflecting counties' ongoing success under the 2009 performance-based probation funding program. Based on the revised formula established in 2015-16, the Governor's January budget proposal included \$106.4 million to continue the Community Corrections Performance Incentive Grant Program. The Governor's May Revision includes an increase of \$2.9 million.

Proposition 47

Proposition 47 was passed by the voters in November 2014, which requires misdemeanor rather than felony sentencing for certain property and drug crimes and permitted inmates previously sentenced for these reclassified crimes to petition for resentencing. Based on fall projections, DOF estimated in the Governor's January budget proposal a net savings of \$64.4 million when comparing 2017-18 to 2013-14, an increase of \$18.8 million over the estimated 2016-17 savings. The Governor's May Revision includes an increase of \$225,000. These funds will be allocated according to the formula outlined in Proposition 47.

Agriculture, Environment and Natural Resources

Climate Resiliency Adaptation and Forest Health

The Governor's May Revision proposes additional investments in enhancing the state's resiliency to climate change and improving the condition of California's forests. Building on this effort, Governor Brown recently issued an [Executive Order \(EO\)](#) designed to help protect communities from wildfire and climate impacts. The EO will help implement better forest management strategies in part to deal with the state's ongoing Tree Mortality Crisis— a top Administrative priority and a major factor in the devastation caused by the 2017 wildfires.

As part of this year's May Revision, Governor Brown proposed an additional \$96 million for the implementation of his EO. The programs, outlined below, will be paid for with \$46.8 million from the Greenhouse Gas Reduction Fund (GGRF), \$45 million from Proposition 68 (conditioned on that measure's passage in June 2018), \$1.9 million from the Environmental License Plate Fund, and \$2.3 million from the Timber Regulation and Forest Restoration Fund. The \$96 million for forest health and resiliency improvement is in addition to the funds already included in the Governor's January Budget proposal

related to 2017 wildfire response and recovery costs. [Click here for a summary of the funding already included in the Governor's January budget proposal related to 2017 wildfire response and recovery costs.](#)

Specifically, the \$96 million will cover costs for the following programs:

- *Prescribed Fire and Fuel Reduction* – \$26.8 million will be allocated from the GGRF for 79 positions at Cal FIRE to operate six year-round prescribed fire crews and for the implementation of a forest health research and monitoring program.
- *Sierra Regional Forest Health Projects* –\$30 million from Proposition 68 in conditional funding for the Sierra Nevada Conservancy to expand the Watershed Improvement Program and fund activities recommended in California's Forest Carbon Plan.
- *Northern, Coastal and Southern California Regional Forest Health Projects* – \$20 million will be allocated from the GGRF for the Natural Resources Agency to provide block grants to support regional implementation of forest restoration projects that leverage non-state funding.
- *Legacy Forests at State Parks* – \$15 million in Proposition 68 funding for the Department of Parks and Recreation to protect forests in state parks.
- *Watershed Coordinator Grants* – \$1.9 million from the Environmental License Plate Fund for the Department of Conservation to provide grants to local entities for the development and implementation of watershed improvement plans.
- *Markets for Wood Products* – \$2.3 million from the Timber Regulation and Forest Restoration Fund for programs that will encourage the development of markets for timber products.

Disaster Response

Office of Emergency Services (OES) Funding

The Governor's May Revision budget proposal also includes roughly \$50 million in new investments for recovery efforts and improvements for California's emergency response system. Most of these investments will be made through OES and will be paid for through General Fund allocations, allocations from California's Federal Trust Fund, and an allocation from the State Emergency Telephone Number Account (SETNA). The

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funding will cover costs for additional staff at OES and recovery programs for hazard clean-up, mitigation and various other recovery programs.

Of special note to counties, there will be funding for OES to run situational awareness and collaboration trainings to help improve responses during future disasters. Finally, there is an allocation of \$15 million from the SETNA to improve California's public safety radio and microwave communications network. These improvements will improve redundancy and resiliency, and enhance the ability to support Next Gen 911 systems. Next Gen 911 could significantly improve outcomes during future disasters.

California Disaster Assistance Act (CDAA)

The May Revision also includes a one-time augmentation of \$49.5 million from the General Fund to increase CDAA funding. CDAA funding is used to repair, restore, or replace public property damaged or destroyed by disaster and to reimburse local government costs associated with certain emergency activities undertaken in response to a state of emergency. This additional funding brings the total CDAA funding up to \$121.7 million in 2018-2019.

Local Property Tax Backfill and Debris Removal Cost Share Waiver

The May Revision also includes a total of \$32.8 million from the General Fund to backfill property tax revenue losses that cities, counties, and special districts will incur in 2017-2018 and 2018-2019 due to the 2017 wildfires and mudslides. The May Revision also includes \$29.1 million from the General Fund to waive local match provisions for debris removal in Northern California counties. CSAC has been working closely with the Administration since the fires started to ensure accurate estimates of tax revenue losses in southern and northern California caused by the 2017 wildfires.

Federal Supplemental Disaster Relief

Congress has passed a \$4.4 billion disaster-related appropriation to help with California's disaster relief and recovery. The Administration and OES are working closely with local officials to provide technical assistance and guidance to enable local governments to access these funds that support local recovery efforts.

Cap and Trade Funding

The Governor's May Revision does not include an overall modification of their proposed January \$1.25 billion Cap and Trade Expenditure Plan. However, the May Revision does include an additional \$50 million in cap and trade revenues as a result of the February auction. Additional cap and trade spending is included in the Governor's proposal for forest health and resiliency.

Flood Control Infrastructure

The Governor's May Revision includes an additional \$295 million from the General Fund for flood control infrastructure. Existing bond funding is available from Proposition 1 and the proposed Proposition 68, which will appear on the June 2018 ballot, for flood investments. However, this funding does not support needed improvements in urban projects, operation and maintenance and deferred maintenance activities. The Governor's May Revision includes the following in additional General Fund spending:

- *Urban Flood Control* – \$170 million in one-time expenditures for the state cost-share of U.S. Army Corps flood control projects in urban areas of the Central Valley. This funding will help the state leverage approximately \$690 million in federal dollars.
- *Deferred Maintenance* – \$100 million in one-time expenditures for deferred maintenance projects on levees, including funding for repair and rehabilitation projects for levees damaged by the 2017 storms.
- *Operations & Maintenance* – \$25 million to support ongoing levee maintenance. These funds will provide incentives for cost-sharing with local maintaining agencies.

Cannabis Regulation

With the passage of Proposition 64 and the Medical Cannabis and Regulatory Safety Act (MCRSA), California began licensing commercial cannabis activity in January 2018. As approved by Proposition 64, a new excise tax and cultivation tax is imposed on cannabis licensees. The cannabis excise tax is forecasted to generate \$185 million in 2017-18 and \$640 million in 2018-19. Recent reports indicate that the state only collected roughly \$34 million in the first quarter of 2018, leading many to speculate that California's cannabis revenues will not live up to projections.

In the Governor's May Revision briefing with reporters, Director of Finance Michael Cohen indicated that the excise tax projections were based off of other state's experiences, including Colorado and Oregon. That said, it is important to note that California's regulatory structure is slightly different than other legalizing states in that we have adopted a dual licensing system, whereby a cannabis business must obtain both a state and local license or permit to operate. The California regulatory system also did *not* include a date certain for local governments to develop their local licensing and permitting programs and thus a number of jurisdictions across the state are still in the process of developing their local ordinances. As a result, projections for state excise

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taxes are generally lower this first quarter as not all cities and counties that will be regulating commercial cannabis are currently doing so. In addition, Proposition 64 specified the allocation of resources in the Cannabis Tax Fund (Fund), which are not subject to appropriation of the Legislature. Expenditures from the Fund are allowed for: regulatory and administrative costs, research activities, and programs to support a variety of issues including, substance abuse, environmental impacts and public safety.

Because the tax proceeds dedicated to these programs are based on prior year actual tax collection, the Governor's May Revise assumes that funding will not be available specifically from cannabis taxes until 2019-20. However, the May Revise does include an additional \$133.3 million for cannabis-related activities to various departments and state licensing agencies, to be paid back from proceeds from the Fund.

Specific proposals include:

- *State Licensing and Enforcement* —Funding is included to support licensing and enforcement programs, including support of the state Track and Trace program, the establishment of regional state offices, and a public awareness campaign. Specifically, funding in the May Revise is authorized for:
 - Department of Food and Agriculture –\$28.3 million for Track and Trace
 - Department of Public Health – \$10.6 million for Public Awareness Campaign
 - Department of Consumer Affairs – \$33.9 for Regional Offices
- *Tax Collection and Administration* – Funding in the May Revise is included to support the Employment Development Department and the Department of Tax and Fee Administration to help with the collection of cash payments as many cannabis businesses still lack adequate banking services due to the conflict with federal law. In addition, funding is available for information technology system upgrades and office security.
- *Hearings and Appeals* – The May Revise includes \$1.4 million to the Cannabis Controls Appeals Panel and \$13 million to the Department of General Services for administrative costs related to appeals hearings.
- *Illegal Cannabis Market Enforcement* – The May Revise provides \$14 million to the Department of Justice to establish four investigation teams and an interdiction team to investigate illegal cannabis activity.

Government Finance and Administration

Mandate Debt Reimbursement to Local Agencies

The May Revision includes a proposal to repay local agencies for the costs of providing certain mandates between 2004 and 2011, which have since expired or been repealed. The proposed allocation totals \$282.2 million plus interest. The majority of the funds, over \$250 million, are to pay debt related to “AB 3632” mandates, which required certain services for seriously emotionally disturbed children. These services were previously provided by counties but were subsequently shifted to schools pursuant to the federal program requirements. While the budget summary states that counties “are expected to use the repayment toward services for youth,” the funds are a repayment for costs already incurred and not legally restricted to any purposes.

To date, the State owes local agencies approximately \$1.04 billion for mandated services provided. The debts derive from two circumstances: from when the State suspends mandates, making them optional but keeping the statutes on the books, and from a mandate that is repealed entirely. The Governor’s May Revision proposed to pay all of the debt related to the 14 mandates that have been repealed entirely. The debt owed for suspended mandates remains outstanding. At the time of this publication, allocations by mandate and agency were not available.

Property Tax Backfill for Disaster-Impacted Counties

The Governor’s January Budget proposal included an initial allocation of \$24 million for counties impacted by the 2017 fires, namely in northern California, to backfill property tax losses. The May Revision provides an adjusted amount of \$32.8 billion, with \$21.1 million for northern California and \$11.1 million for southern California counties, cities, and special districts in 2017-18 and 2018-19. CSAC is working in close coordination with counties and DOF to ensure updated, accurate numbers are reflected and will continue to support property tax backfill and other local revenue backfill in the current and future budget years. Please see the AENR Section on page 8 for further disaster recovery funding information.

Statewide Economic Outlook

The Governor’s May Revision emphasizes the intensified risk to California’s economic outlook due to several factors, including a stock market correction, an eventual national recession, and geopolitical risks that affect national growth. Furthermore, the full impacts of the federal tax reforms that took effect earlier this year are still unknown.

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The May Revision anticipates that the recent federal tax cuts for corporations will result in increased business investment, which in turn will accelerate automation in California, slowing job growth to 1.7 percent in 2018. However, the capital investment increases the State's sales tax forecast by more than 100 basis points for 2017-18 and 2018-19, which will also increase revenues for realigned programs and for cities and counties where the sales take place.

The May Revision also notes that the median price for a single-family home in 2017 in California (\$538,000) was more than twice as high as the national median price of \$249,000. The Administration predicts residential building permits to increase to about 174,000 units by 2021, slightly less than the number needed to keep up with population growth.

Sales and Use Tax Revenue Projections

Stronger growth in capital investment attributed to changes in the federal tax results in sales tax forecasts being higher by \$219 million in 2017-18 and \$523 million in 2018-19. This represents growth at 5.8 percent and 5.6 percent, respectively, and over a 1 percent higher than the Governor's January budget proposal. The cannabis industry is noted as contributing to future sales tax growth but this comes with uncertainty for total revenues.

Property Tax Revenue Projections

Even though property taxes are a local revenue source, a property tax forecast is included in the state budget due to the allocation for K-14 schools offsetting General Fund expenditures.

The May Revision anticipates slightly lower property tax revenues compared to the Governor's January Budget proposal but still growth by 5.7 percent. The January budget proposal estimated 5.9 percent growth in 2017-18. In 2018-19 property tax growth is estimated at 5.6 percent.

Health and Human Services

HUMAN SERVICES

In-Home Supportive Services

The In-Home Supportive Services (IHSS) program provides assistance and services to eligible older or disabled individuals to help them remain safely in their home. The Governor's May Revision estimates that IHSS costs will increase by \$105.6 million General Fund in 2017-18 and \$174.7 million General Fund in 2018-19. These result from

increases in overtime, hours per case, and costs per case. The increases are partially offset by slower caseload growth, which has been adjusted to more than 544,000, slightly down from 545,000 in January.

IHSS Administration

The Governor's May Revision provides an increase of \$24 million General Fund for county IHSS administrative costs in 2018-19 compared to the January Budget Proposal. CSAC understands that this includes increases for both county IHSS administration and Public Authority administration. The increased funding for 2018-19 is positive and counties appreciate the additional General Fund commitment. There is a provision in 2017-18 budget legislation that requires DOF to work with counties to develop a new methodology for calculating IHSS administration costs. Progress has been made on this overall methodology and CSAC will continue to engage in ongoing conversations to understand the assumptions and calculations that are being utilized.

County IHSS MOE

The Governor's May Revision contains no changes to the structure of the new county IHSS maintenance of effort (MOE) that was negotiated last year and included in the budget trailer bill SB 90 (Chapter 25, Statutes of 2017). However, it does include updated estimates for 1991 Realignment revenues, which are used to help counties offset the increased IHSS costs in the new MOE. The May Revision estimates that with the updated revenue projections, redirections from Health and Mental Health Realignment funding, and State General Fund commitments, there will be no net fiscal impact to counties through 2019-20.

The Realignment revenue projections that were included in the Governor's January budget proposal and updated in the May Revision will help counties to better manage the increased IHSS costs, especially in the first two years. However, the estimate of no net fiscal impact to counties in 2019-20 differs significantly from CSAC's analysis conducted after the January budget proposal. CSAC and counties continue to believe that there will be increased county IHSS costs in 2019-20 that are not covered by offsetting revenue. CSAC has already engaged the Administration to discuss their assumptions and methodology on the May Revision estimate. In addition, CSAC is analyzing the updated revenue estimates to further understand the projected impact for these increased IHSS costs in the out years. It is also important to note that the offsetting revenue includes Health and Mental Health 1991 Realignment growth funding that would have otherwise been used to support vital mental health, indigent health, and public health services.

In 2017-18 budget legislation, CSAC secured a provision that allows the new County IHSS MOE to be adjusted downward if 2017-18 IHSS services costs are lower than the amount in the enacted 2017-18 budget. CSAC will work to gather additional information on the updated IHSS costs to determine if there will be an adjustment to the 2017-18 County MOE.

CalWORKs

The California Work Opportunity and Responsibility to Kids (CalWORKs) program is California's version of the federal Temporary Assistance for Needy Families (TANF) program, which provides temporary cash assistance to low-income families with children to meet basic needs as well as welfare-to-work services to help families become self-sufficient. Based on updated caseload and cost-per-case projections, the Governor's May Revision includes a decrease of \$37.1 million General Fund and federal TANF block grant funds in 2017-18 and \$34.4 million General Fund and TANF block grants in 2018-19.

CalWORKs Single Allocation

The CalWORKs Single Allocation is funding provided by the state to counties to administer the CalWORKs program. The Governor's May Revision includes an increase of \$55.8 million TANF for the Single Allocation in 2018-19, essentially restoring the proposed cut that was included in the January budget proposal. CSAC has advocated for this restoration, in partnership with the County Welfare Directors Association (CWDA) and numerous counties, and is pleased to see this additional funding for 2018-19. The 2017-18 budget required the Administration to work with CWDA to revise the methodology for the single allocation. The revised methodology is needed to insulate counties and beneficiaries from experiencing huge swings in year-to-year funding levels for the Single Allocation. The May Revision outlines a methodology that establishes a fixed-base funding level that is not adjusted based on caseload and that includes a variable funding level that adjusts when there is a five percent or more increase or decrease in caseload compared to 2018-19 caseload. CSAC will continue to participate in ongoing conversations to further understand this revised methodology.

CalWORKs Housing and Homeless Programs

The May Revision includes investments in both the CalWORKs Housing Support Program and the CalWORKs Homeless Assistance Program. Please see the Housing and Homelessness Section on beginning on page 18 for more details.

CalWORKs Stage 2 and Stage 3 Child Care

The May Revision includes a net increase of \$104 million non-Proposition 98 General Fund in 2018-19 to reflect increases in the number of CalWORKs child care cases and the

cost of care. The total costs for Stages 2 and 3 are \$559.1 million and \$398 million, respectively.

Continuum of Care Reform

The Continuum of Care Reform (CCR) enacted significant changes in the child welfare program that are intended to reduce the use of group homes, increase the availability of trauma-informed services, and improve outcomes for foster youth. The Governor's May Revision includes an increase of \$49.5 million General Fund in 2017-18 and \$56 million in 2018-19. This increase results from a slower than expected decline in the use of congregate care and the continued need for the use of Specialized Care Increments (SCIs).

CCR County Workload

The May Revision includes two investments to help with county workload related to CCR implementation. There is a one-time investment of \$3.2 million General Fund to support county efforts related to the backlog for Resource Family Approval (RFA). The May Revision also provides an increase of \$2.5 million General Fund for county workload associated with implementation of the Level of Care (LOC) assessment tool. CSAC has advocated for increased funding for county workload associated with CCR and appreciates this additional investment. In partnership with CWDA and the Service Employees International Union (SEIU), CSAC had requested \$8 million General Fund for the RFA backlog, \$8.8 million General Fund for the LOC assessments, and \$38 million for the Child and Adolescent Needs and Strengths (CANS) assessments.

Emergency Assistance Payments

The May Revision includes an increase of \$13.4 million in TANF in 2018-19 to provide up to six months of emergency assistance payments to caregivers who are awaiting approval as a resource family. For 2019-20 and thereafter, the emergency assistance payments would be available for up to three months. This proposal follows up on AB 110 earlier in 2018, which CSAC supported, that provided emergency assistance payments to caregivers awaiting approval as a resource family until June 30, 2018. The May Revision indicates that child welfare agencies and probation departments are expected to be able to further address the RFA backlog and complete the RFA process within three months. CSAC will work to gather more information on the different funding components, as well as learn how it may differ from AB 110, to understand the county impact of this proposal.

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Adult Protective Services

The May Revision provides funding to the Home Safe Pilot Program, a homelessness prevention demonstration grant program for victims of elder and dependent adult abuse and neglect served by county-run Adult Protective Services (APS). Please see the Housing and Homelessness Section beginning on page 18 for more details.

Earned Income Tax Credit

The Governor's May Revision expands the Earned Income Tax Credit (EITC) to workers between the ages of 18 and 25 and those above 64. Additionally, the credit's limits are adjusted to reflect the minimum wage increase to \$12 per hour in 2019.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

The May Revision includes a decrease of \$21.9 million General Fund in 2017-18 and \$34.4 million General Fund in 2018-19 to reflect continued decreases in caseload to approximately 1,246,000 recipients in the SSI/SSP programs statewide.

HEALTH

AB 85 Health Subaccount Redirections

Each May, the Governor includes the final 1991 Realignment Health Subaccount redirections for the budget year authorized under AB 85 (Chapter 24, Statutes of 2013). (Please see the AB 85 chart in the Appendix.) The total amount that will be redirected from the Health bucket for 2018-19 is \$773.2 million. DOF has until early June to determine whether any additional funding is owed via the "true up" process for previous year redirections. CSAC will continue to monitor this issue and update counties as information becomes available.

Medi-Cal

The May Revision includes some revisions of the state's portion of Medi-Cal costs for 2018-19, including the addition of nearly \$250 million in enhanced federal funding for the Children's Health Insurance Program (CHIP) and increases in state costs for the Managed Care Organization Tax and Hospital Quality Assurance Fees. Overall, the May Revision anticipates \$830.5 million in increased state General Fund costs for the Medi-Cal program in 2018-19.

Proposition 56

The revenues from the most recent tobacco tax enacted in 2016 have increased slightly compared to the estimate in January. Proposition 56 revenues after backfill amounts total \$1.3 billion in 2018-19, an increase of \$32 million since the Governor's January budget proposal. The May Revision forecasts expenditures of \$629.9 million in 2018-19 for supplemental payments and rate increases, a \$51.6 million decrease compared to

the Governor's January budget proposal. The May Revision also reflects an increase of \$55.3 million to support new growth in Medi-Cal in 2018-19.

BEHAVIORAL HEALTH

The May Revision includes a significant number of new and welcome investments in the behavioral health system as well as a plan for counties to repay federal disallowances.

Federal Mental Health Audit Repayment

The U.S. Department of Health and Human Services Office of Inspector General has nearly completed an audit of county mental health services billing practices in 2014. The draft audit initially indicated that the state – and by extension, counties – owes \$230.1 million in repayments identified by the audit. After considerable work with both the Department of Health Care Services (DHCS) and counties, that figure has been reduced to \$180.7 million.

The Governor proposes to use state dollars to make the initial full repayment and give counties four years to repay the full amount. CSAC will continue to work with counties and the Administration on the timing, amount, and county shares of the total.

No Place Like Home

The Governor proposes folding a legislative proposal to place the No Place Like Home program on the November 2018 ballot into Budget Trailer Bill Language to expedite placement on the statewide ballot. For more information, please see the Housing and Homelessness Section beginning on page 18.

Homeless Mentally Ill Outreach and Treatment

The May Revision includes \$50 million for a new Homeless Mentally Ill Outreach and Treatment program. For more information, please see the Housing and Homelessness Section beginning on page 18.

Mandate Repayments

The May Revision includes a \$282.2 repayment of county mandates costs incurred between 2004 and 2011, primarily mandates associated with the repealed AB 3632 mandate. Please see the Government Finance and Administration Section on page 11 for more details.

State Oversight and Planning

The May Revision includes \$6.7 million and 48 state staff members for DHCS. The

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mission for this augmentation is to increase state oversight for Mental Health Services Act and county behavioral health program expenditures, as well as to support system, data, and evaluation efforts. This represents a much-needed investment in state-level efforts to oversee the behavioral health system.

Graduate Medical Education

The May Revision proposes an increase of \$55 million one-time General Fund to augment psychiatric graduate medical education programs serving Health Professional Shortage Areas or Medically Underserved Areas in rural portions of the state.

Housing and Homelessness

The Governor’s May Revision includes \$358.8 million in one-time funding and \$64.1 million in ongoing funding to help local governments tackle California’s homelessness crisis. The Governor characterized the investments as bridge funding to continue or initiate local efforts until additional revenue is available via the SB 2 (Chapter No. 364, Statutes of 2017) real estate recording fee and the \$4 billion SB 3 (Chapter No. 365, Statutes of 2017) housing bond, which will appear on the November 2018 statewide ballot.

Homelessness Response Proposal
(\$ in millions)

Department	Program	2018-19	Ongoing
Homeless Coordinating and Financing Council	Emergency Homeless Aid Block Grant	\$250.0	\$ -
	Council Administration	0.5	0.5
Department of Social Services	CalWORKs Housing Support Program	24.2	48.3
	CalWORKs Homeless Assistance Program	8.1	15.3
	Senior Home Safe Program	15.0	-
Office of Emergency Services	Domestic Violence Shelters and Services	10.0	-
	Homeless Youth and Exploitation Program	1.0	-
Department of Health Care Services	Homeless and Mental Illness Program	50.0	-
Total		\$358.8	\$64.1

The Governor’s homelessness proposal requires coordination between cities and counties and reflects several CSAC funding priorities, including expedited authorization of No Place Like Home bond funds for supportive housing and targeted investments to prevent or address homelessness for vulnerable populations, including seniors, youth, and survivors of domestic violence.

No Place Like Home

The Governor proposes placing a measure on the November 2018 statewide ballot to explicitly authorize the use of Mental Health Services Act revenues to repay \$2 billion in bond proceeds that will be used to fund a competitive county grant program to create permanent supportive housing units for people with severe mental illness via the No Place Like Home (NPLH) program. DOF has characterized their authorization language as largely similar to Senator de León’s SB 1206, which CSAC is supporting. The May Revision also includes a \$1.2 million loan to the Department of Housing and Community Development to issue a Notice of Funding Availability for NPLH in the current fiscal year in order to expedite funding awards following the anticipated authorization vote in November 2018. The Governor’s proposal does not, however, allocate additional funding to NPLH.

Emergency Homeless Aid Block Grants

The May Revision includes \$250 million in General Fund for one-time block grants to cities and counties via Continuums of Care (COCs) to address homelessness through construction or operation of emergency shelters, rapid rehousing, housing vouchers, and other unspecified activities. While the program is described as block grants to COCs, the May Revision also includes \$500,000 in ongoing funding beginning in 2018-19 to staff the state Homelessness Coordinating and Financing Council, which will work with stakeholders to evaluate grant proposals for the emergency aid program. To be eligible for funding, cities, counties or joint powers authorities participating in the COC must declare a shelter crisis [pursuant to Government Code Section 8698](#) and demonstrate city-county coordination.

Mental Health and Social Services Programs to Address Homelessness

The Governor proposes supplementing existing mental health and social services programs with revenues from the General Fund to address homelessness, as well as authorizing additional one-time revenues for new programs targeted at vulnerable populations. Specific proposals include:

- *Homeless Mentally Ill Outreach and Treatment*—A one-time augmentation of \$50 million to the Department of Health Care Services for allocation to counties

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to provide multi-disciplinary teams to support intensive outreach, treatment and services for homeless persons experiencing mental illness. Counties are encouraged to match the one-time funding with local and federal mental health funding, where appropriate.

- *CalWORKs Housing Support Program*—\$24.2 million in additional funding in 2018-19 to help CalWORKs families secure permanent housing by allowing counties to provide move-in assistance, temporary rental subsidies and case management. The May Revision also includes an additional augmentation in 2019-20 to increase total funding for the program from \$47 million to \$95 million annually.
- *CalWORKs Homeless Assistance Program*—\$8.1 million in 2018-19 and \$15.3 million in 2019-20 to increase the daily payment rate for temporary assistance to families experiencing homelessness or facing imminent eviction from \$65 to \$85 dollars per day for up to 16 days.
- *Senior Home Safe Pilot Program* – \$15 million in one-time funding to participating counties for a pilot program within Adult Protective Services to provide housing-related supports to victims of elder and dependent adult abuse and neglect experiencing homelessness or at risk of homelessness. County matching funds will be required and funding will be available over a three-year period for case management, temporary rental subsidies, utility assistance, repairs and landlord mediation.
- *Domestic Violence Shelters and Services* – \$10 million in one-time funding through OES to domestic violence services providers that provide “safe” homes or shelters for survivors of domestic violence.
- *Homeless Youth and Exploitation Program* – \$1 million in one-time funding through OES for shelters that serve unaccompanied minors experiencing homelessness or exploitation.

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If you would like to receive the Budget Action Bulletin electronically, please e-mail Karen Schmelzer, CSAC Legislative Assistant at kschmelzer@counties.org.

Appendix – AB 85 Funding

2018-19 Interim Redirection in May Revision	
CMSP Counties	2018-19
Alpine	\$13,150.00
Amador	\$620,264.00
Butte	\$5,950,593.00
Calaveras	\$913,959.00
Colusa	\$799,988.00
Del Norte	\$781,358.00
El Dorado	\$3,535,288.00
Glenn	\$787,933.00
Humboldt	\$6,883,182.00
Imperial	\$6,394,422.00
Inyo	\$1,100,257.00
Kings	\$2,832,833.00
Lake	\$1,022,963.00
Lassen	\$687,113.00
Madera	\$2,882,147.00
Marin	\$7,725,909.00
Mariposa	\$435,062.00
Mendocino	\$1,654,999.00
Modoc	\$469,034.00
Mono	\$369,309.00
Napa	\$3,062,967.00
Nevada	\$1,860,793.00
Plumas	\$905,192.00
San Benito	\$1,086,011.00
Shasta	\$5,361,013.00
Sierra	\$135,888.00
Siskiyou	\$1,372,034.00
Solano	\$6,871,127.00
Sonoma	\$13,183,359.00
Sutter	\$2,996,118.00
Tehama	\$1,912,299.00
Trinity	\$611,497.00

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Tuolumne	\$1,455,320.00
Yuba	\$2,395,580.00
CMSP Board	\$200,044,250.79
Subtotal	\$289,113,211.79
Article 13 Counties	2018-19
Fresno	\$15,781,516.67
Merced	\$2,664,441.55
Orange	\$41,905,133.75
Placer	\$3,279,500.12
Sacramento	\$32,119,681.56
San Diego	\$45,324,425.59
San Luis Obispo	\$2,908,194.46
Santa Barbara	\$8,192,376.06
Santa Cruz	\$3,783,338.09
Stanislaus	\$10,991,448.18
Tulare	\$6,269,266.62
Yolo	\$3,547,067.72
Subtotal	\$176,766,390.37
Public Hospital Counties/Formula	2018-19
Alameda	\$17,325,352.27
Contra Costa	\$23,233,608.52
Kern	\$16,019,159.90
Los Angeles	\$77,492,118.64
Monterey	\$5,980,818.70
Riverside	\$38,360,009.21
San Bernardino	\$30,268,154.89
San Francisco	\$6,405,058.50
San Joaquin	\$19,535,480.61
San Mateo	\$16,261,343.53
Santa Clara	\$41,212,957.09
Ventura	\$15,231,595.28
Subtotal	\$307,325,657.13
2018-19 Total Redirections (CMSP, Article 13, and Public Hospital Formula Counties)	\$773,205,259.29