



**2016-17 GOVERNOR'S MAY REVISION
May 13, 2016**

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

FROM: Matt Cate, CSAC Executive Director
DeAnn Baker, CSAC Deputy Executive Director of Legislative Affairs

RE: **Governor's May Revision for 2016-17**

Today, Governor Brown released the May Revision to his 2016-17 January budget proposal, reflecting both fiscal and political changes that have taken place since then. The news for counties is generally positive despite changes to revenue projections.

Unsurprisingly, the Governor took the opportunity to emphasize both the precariously balanced nature of the budget and the significant spending commitments the state has made since the recession.

According to the new revenue estimates, the state budget will run into deficit when the Proposition 30 tax cuts expire and, even if voters in November approve increased taxes on high-income individuals, the budget would only barely balance. With a lengthy period of economic recovery likely coming to a close and a large amount of volatility in key revenue sources, the Governor urged fiscal restraint in order to avoid more drastic cuts in the years to come.

The Governor is therefore continuing to advocate for increasing the size of the state's Rainy Day Fund, using current revenue on one-time items and to pay off debt, and, most importantly, avoid new ongoing commitments.

As if to support his calls for prudence, the state's top two revenue sources—income tax and sales tax—have both disappointed this year. The May Revision now estimates that tax revenues will be \$1.9 billion lower than previously estimated.

Additionally, the Legislature and Governor passed significant changes in recent months: the Managed Care Organization (MCO) fix, a statewide minimum wage increase, and additional funding for developmental disability services, Medi-Cal providers, and debt reductions. While the May Revision includes funding for the state to implement the new minimum wage law, counties should note that they will not be impacted due to home rule provisions within the California Constitution.

Because tax estimates are down, the state's requirement for diverting funds to the Rainy Day Fund has also declined. Compared to the Governor's January budget proposal, the automatic payments to the Rainy Day Fund are reduced by nearly \$1.3 billion and the pay down of various debts and liabilities are reduced by \$264 million.

Some highlights from the Governor's May Revision are:

- \$250 million for jail expansion focused on treatment beds (unchanged from January).
- \$169 million additional funding for Medi-Cal Administration (unchanged from January).
- \$129.7 million for SB 678 recidivism reduction programs (unchanged from January).
- \$644,000 to fund the state's Payment In Lieu of Taxes (PILT) program for a year (unchanged from January).
- \$150 million of cap and trade auction revenues for healthy forests and tree mortality (unchanged from January).
- \$100 million of cap and trade auction revenues for disadvantaged communities (unchanged from January).
- \$177 million to true up AB 85/Affordable Care Act (new in May).
- \$127.3 million for counties to implement group home reform, an increase of \$59.9 million from January.
- \$11 million to Cal Fire for tree removal and disposal (new in May).
- \$30 million increase for disaster assistance, including tree mortality (new in May).
- \$39.4 million as a result of Proposition 47, an increase of \$10.1 million from January.
- The Governor's transportation funding proposal is unchanged from January.

For more detail on any of these items, see the appropriate policy section below or contact [CSAC legislative staff](#).



2016-17 May Revision
General Fund Budget Summary
(\$ in millions)

	2015-16	2016-17
Prior Year Balance	\$3,444	\$4,829
Revenues and Transfers	117,000	120,080
Total Resources Available	\$120,444	\$124,909
Non-Proposition 98 Expenditures	65,842	71,050
Proposition 98 Expenditures	49,773	51,105
Total Expenditures	\$115,615	\$122,155
Fund Balance	\$4,829	\$2,754
Reserve For Liquidation of Encumbrances	966	966
Special Fund for Economic Uncertainties	3,863	1,788
Budget Stabilization Account/Rainy Day Fund	\$3,421	\$6,713

General Fund Revenue Sources
(\$ in millions)

	2015-16	2016-17	\$ Change	% Change
Personal Income Tax	\$79,962	\$83,393	\$3,431	4.3%
Sales and Use Tax	25,028	25,727	699	2.8%
Corporation Tax	10,309	10,993	684	6.6%
Insurance Tax	2,486	2,345	-141	-5.7%
Alcoholic Beverage Taxes and Fees	370	376	6	1.6%
Cigarette Tax	87	85	-2	-2.3%
Motor Vehicle Fees	22	22	0	0.0%
Other	551	431	-120	-21.8%
Subtotal	\$118,815	\$123,372	\$4,557	3.8%
Transfer to the Budget Stabilization / Rainy Day Fund	-1,815	-3,292	-1,477	81.4%
Total	\$117,000	\$120,080	\$3,080	2.6%

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Long-Term Revenue Forecast – Three Largest Sources

(General fund Revenue - \$ in billions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Average Yearly Growth
Personal Income Tax	\$76.2	\$80.0	\$83.4	\$86.7	\$85.9	\$88.1	4.7%
Sales and Use Tax	23.7	25.0	25.7	26.2	27.4	28.7	4.0%
Corporation Tax	9.4	10.3	11.0	11.5	12.1	12.8	6.1%
Total	\$109.3	\$115.3	\$120.1	\$124.5	\$125.4	\$129.5	4.8%
Growth	11.3%	5.5%	4.2%	3.6%	0.7%	3.3%	

General Fund Expenditures by Agency

(\$ in millions)

			Change from 2015-16	
	2015-16	2016-17	\$ Change	% Change
Legislative, Judicial, Executive	\$3,245	\$3,404	\$159	4.9%
Business, Consumer Services & Housing	637	432	-205	-32.2%
Transportation	258	237	-21	-8.1%
Natural Resources	2,714	2,801	87	3.2%
Environmental Protection	223	86	-137	-61.4%
Health and Human Services	31,514	32,995	1,481	4.7%
Corrections and Rehabilitation	10,182	10,775	593	5.8%
K-12 Education	49,566	51,200	1,634	3.3%
Higher Education	14,275	14,300	25	0.2%
Labor and Workforce Development	212	173	-39	-18.4%
Government Operations	761	2,256	1,495	196.5%
General Government:				
Non-Agency Departments	708	736	28	4.0%
Tax Relief/Local Government	445	485	40	9.0%
Statewide Expenditures	875	2,275	1,400	160%
Total	\$115,615	\$122,155	\$6,540	5.7%

ACTION

Administration of Justice

Local Correctional Facilities

The Administration maintains the \$250 million for jail construction and rehabilitation projects with an emphasis on building better beds and treatment and programming space rather than simply increasing capacity. In addition, the May Revision discusses the importance of partnering with Los Angeles County to address alternative ways to create a more collaborative state and local public safety system to achieve efficiencies. One possible approach is the creation of a joint use correctional treatment facility that could serve as a diversion program or housing for state and local inmates with high mental health or substance use disorder treatment needs. While the May Revision does not contain a specific proposal, it does provide a continued opportunity for a proposal.

Proposition 47

The Governor's January budget proposal anticipated \$29.3 million in General Fund savings for Proposition 47. This amount was increased to \$39.4 million, an increase of \$10.2 million for mental health, substance abuse treatment, reduced truancy, and improved victim services. The Board of State and Community Corrections (BSCC) has established an Executive Steering Committee (ESC) to develop a request for proposal (RFP) on how these funds will be allocated.

The Department of Finance (DOF) estimate assumes savings from a reduction in the state's adult inmate population and increased costs. This change is due to a temporary increase in the parole population and trial court workload associated with fewer felony filings and more misdemeanor filings, and the number of offenders resentenced and released from the Department of State Hospitals. Ongoing savings are now expected to be approximately \$62.6 million.

Incentive to Site Facilities

The May Revision continues to fund \$25 million for the Community-Based Transitional Services Program. Trailer bill language has been included to focus on transitional housing for offenders released from state prison or county jail, in addition to at least two other services such as life skills training, employment counseling, vocational training, continuing education, cognitive behavioral therapy, anger management training, mental health treatment and counseling, and substances abuse treatment and counseling. Key points of the proposal include:

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- Additional funds to local communities that site, for a minimum of ten years, new transitional housing and supportive services for offenders released from state prison or county jail.
- A requirement that a portion of the funds be used by the city or county to increase public safety around the facility and improve communication with neighbors.
- A requirement that grant funding be shared with nonprofit facility operators to support rehabilitative services, security, and community outreach.
- A competitive application process that will protect existing permitted facilities, examine the current concentration of permitted facilities in the community, review the past performance of the facility operator, and give priority to cities and counties that leverage or provide other funding for the facility.

2011 Realignment

The May Revision updates revenue assumptions for 2011 Realignment programs and details base and growth estimates for 2016-17, which can be found at the end of this Budget Action Bulletin. Due to reduced sales taxes, projections have dropped somewhat; however, 2015-16 growth will be allocated in September based on actuals that will not be known until late August. Also, steady revenue growth in vehicle license fees continues thus increasing funds for the enhancing law enforcement accounts and the grant that it funds.

Judicial Branch

The May Revision assumes minimal changes to the January budget proposal for the courts.

California Department of Corrections and Rehabilitation (CDCR)

Information on budget changes for this state agency is included here due to the interactions between state and local programs. The May Revision includes reductions in non-rehabilitative program areas, and the savings are redirected to CDCR's core rehabilitative mission. Specifically, \$24.5 million General Fund, is proposed to expand, enhance, and create programming opportunities for state prison inmates. Additional expansions include:

- Cognitive Behavioral Therapy (\$2.2 million)—Expands Cognitive Behavioral Therapy programs currently offered at 13 reentry hubs to all institutions. This expansion will provide more inmates an opportunity to participate in rehabilitative programs, such as criminal thinking, anger management, and family relations.



- Substance Use Disorder Treatment (\$3.7 million)—This proposal adds 950 substance use disorder treatment positions to existing programs, thereby allowing CDCR to serve more inmates identified as having a substance use disorder.
- Career Technical Education Programs (\$2.3 million)—Adds 12 career technical education programs statewide to reduce the current waiting lists at institutions that have available classroom space to support these programs.
- Arts in Corrections (\$4 million)—The Arts in Corrections program is currently available at 19 institutions through a partnership with the California Arts Council. This proposal expands the program to all institutions to provide more inmates with an opportunity to participate in programs that have proven successful in changing behavior.
- Innovative Programming Grants (\$3.1 million)—Continues one time funding to expand nonprofit programs that have demonstrated success, and focus on offender responsibility and restorative justice principles to prisons with fewer volunteer programs available.

Agriculture, Environment and Natural Resources

The Governor’s May Revision includes a few key additional funding proposals for drought and water-related issues. First and foremost, the May Revision includes additional funding to help the state and local governments deal with the tree mortality crisis in California. The May Revision also includes an additional \$11.4 million in drought response funding and additional funding for the implementation of the Sustainable Groundwater Management Act and the Medical Marijuana Regulation and Safety Act.

The Governor has not proposed any changes to his cap and trade allocation plan, which includes \$3.1 billion in funding for programs that reduce GHG emissions, including a new local climate program for disadvantaged communities, increased spending for investments in waste management, and increases to the forestry sector. Finally, PILT funding remains consistent with the Governor’s January budget proposal, totaling approximately \$644,000.

Tree Mortality

The Governor’s May Revision includes additional funding to help areas most impacted by tree mortality deal with the already 29 million dead trees in our forests. The Administration recognizes that dead and dying trees make forests more susceptible to

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wildfires and additional public health and safety risks from falling trees. Specifically, the May Revision includes an additional \$11 million in General Fund monies to Cal Fire to assist with tree removal and disposal. This includes:

- \$6 million for grants to local entities, including local governments for the removal of dead and hazardous trees.
- \$5 million to support additional assistance through equipment use and personnel overtime for hazardous tree removal and fuels reduction efforts.
- Assistance for the use of biomass materials for energy production in high hazard fire zones. The budget references legislation that is proposed to allow small biomass facilities the ability to defer certain system interconnection costs.

In addition, the May Revision proposes an additional \$30 million for the Office of Emergency Services (OES), which could be used to assist counties with tree mortality. As you know, OES provides disaster assistance through the California Disaster Assistance Act (CDAA) to local jurisdictions from all disasters including wildfires, earthquakes, floods, drought, and tree mortality.

Emergency Drought Response

The May Revision proposes an additional \$11.4 million for a total of \$334.5 million in emergency drought response.

The proposed allocation is as follows:

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>Amount</i>
Protecting Water Supplies	Department of Water Resources	Local Assistance for Small Communities	\$10.0
	Water Board	Water Curtailment	\$5.4
	Water Board	Emergency Drinking Water Projects	\$16.0
Water Conservation	Department of Water Resources	Urban Water Conservation & Save Our Water Campaign	\$12.0
	Energy Commission	Rebates for Appliances	\$30.0
	Energy Commission	Water and Energy Technology Program	\$30.0
	Department of Food	Agricultural Water	\$20.0

	and Agriculture	Conservation	
Emergency Response	Department of Forestry and Fire Protection	Enhanced Fire Protection	\$87.8
	Department of Forestry and Fire Protection	Tree Mortality	\$11.0
	Department of Water Resources (DWR)	Drought Management and Response	\$12.0
	Department of Fish & Wildlife	Protection of Fish & Wildlife	\$13.5
	Department of Social Services	Drought Food Assistance	\$18.4
	Office of Emergency Services	California Disaster Assistance Act	\$52.7
	Office of Emergency Services	State Operations Center	\$4.0
	Department of Community Services & Development	Farmworker Assistance	\$7.5
TOTAL			\$334.5

Delta Smelt

Acknowledging the function of the Delta smelt as an indicator species for the overall health of the Delta’s ecosystem, the Governor’s May Revision proposes \$4.2 million General Fund on a one-time basis to the Delta Smelt Management Strategy.

Local Assistance for Small Communities

As reflected in the chart above the May Revision includes an increase of \$5 million General Fund for DWR to provide emergency drinking water support for small communities, thus making a total of \$10 million available for this purpose.

Drought Preparedness and Resiliency for Urban Water Agencies

On May 9, 2016, the Governor issued an [Executive Order B-37-16](#), directing the State Water Resources Control Board to adjust its emergency water restrictions to account for

this winter's snow and rain. The May Revision includes an increase of \$4.5 million General Fund to implement the directives of the Executive Order. This funding would cover work by DWR and the State Water Resources Control Board (Board) to review and update local water shortage contingency plans, develop recommendations for new water use efficiency targets, and establish a permanent urban water use efficiency data tracking system. On a related note, the Board is currently seeking comments on the draft Proposed Emergency Regulation, prepared in response to the Executive Order. Comments are due by noon on Monday, May 16.. The draft regulation and a fact sheet are [posted here](#).

Sustainable Groundwater Management Act (SGMA) Implementation

The Governor's May Revision proposes an increase of \$1 million General Fund for DWR to support local public agencies with SGMA facilitation services. In addition, the May Revision includes an increase of \$1 million General Fund for DWR to support the use of remote sensing technology to establish statewide agricultural land use data that will help groundwater sustainability agencies with developing water budgets.

Medical Marijuana Regulation and Safety Act Implementation

The May Revision proposes \$5.9 million for the Department of Consumer Affairs for eight positions and external contract costs for the development, implementation and maintenance of an IT solution that will support the Bureau of Medical Marijuana Regulation (Bureau). This funding would go towards the Bureau's IT solution that will support its licensing and enforcement functions. The May Revision also includes a one-time allocation of \$2.0 million for the Department of Food and Agriculture's IT related needs including project management and support services of the licensing and track and trace solutions.

Government Finance and Administration

One-Time Elections Funding in Current Year Budget

The Governor did not include any funding for voting equipment and systems replacement, an ongoing CSAC policy priority. However, he did approve a supplemental budget allocation for elections administration on April 29. This appropriation includes over \$16 million in the current fiscal year for counties to perform duties related to the June 7 primary election as well as signature verification for ballot initiatives seeking approval for the November general election.



Redevelopment Dissolution Continues

The Administration continues to implement changes related to the unwinding of redevelopment agencies, as eliminated in ABx1 26 (Chapter 5, Statutes of 2011). The May Revision estimates that counties will receive \$710 million in general purpose revenues in 2015-16 and 2016-17, combined. Additionally, Proposition 98 General Fund savings will be \$1.3 billion in 2016-17. Both projections increased slightly over January numbers.

Post-2004 Mandate Reimbursement and Reform

With the full repayment of the pre-2004 mandates completed in 2015, CSAC is seeking full reimbursement of the remaining outstanding debt for state mandated services and programs. However, as expected, no funding for this repayment was included in either the January budget or the May Revision. CSAC continues to work with the Administration and Department of Finance in an effort to determine a workable plan to pay down the debt, as well as future steps that will secure timely, dependable payments and reduce the possibility of future backlogs.

The prior year funded and suspended mandate status is proposed to continue in the next fiscal year for all mandates.

Sales and Use Tax Projections

Sales and use tax is one of the state's "Big Three" revenues and is of particular importance to counties as the primary source of funding for 1991 and 2011 realignments, Proposition 172 funds for public safety, transportation, and other local programs. Counties receive almost half of sales and use tax revenues.

The May Revision projects sales and use tax receipts to the General Fund will decrease by \$27 million in 2014-15, \$218 million in 2015-16, and \$215 million in 2016-17. While the forecast assumes a growth rate for taxable sales, the revenue collected will decline due to the Proposition 30 sales tax sunset that occurs midway through the 2016-17 fiscal year.

Property Tax Projections

Property taxes are primarily a source of local revenue, but high-level estimates are included in the state's budget due to the complicated interactions with Proposition 98. The May Revision estimates that statewide property tax revenue will increase by 5.9 percent in 2015-16 and 6.2 percent in 2016-17. These projections are slightly higher than the January estimates.

ACTION

Health and Human Services

MENTAL HEALTH

Housing the Chronically Mentally Ill

The Governor has endorsed the Senate’s “No Place Like Home” proposal to divert Mental Health Services Act (MHSA, or Proposition 63) funding to finance up to \$2 billion worth of bonds. Counties would apply for bond funding to build or retrofit supportive housing for those who are mentally ill and chronically homeless. The funding would be available on a competitive basis.

This proposal requires a two-thirds vote of the Legislature. CSAC has provided feedback on the technical aspects of the Senate’s proposal and will continue to work with the Administration and Legislature as it moves through the process.

Please also see the Housing and Homeless Section of this document for more information on the Governor’s other affordable housing and housing supply proposals.

MEDI-CAL

County Medi-Cal Administration Costs

The Governor’s May Revision upholds the January proposal of \$169 million in the current year for county Medi-Cal administration costs, plus that amount over baseline in the 2016-17 budget year. The County Welfare Directors have indicated that this amount is reasonable for county costs.

Expansion for Undocumented Children

The May Revision includes an additional \$45.4 million, bringing the total to \$188.2 million General Fund, to provide full-scope Medi-Cal benefits to 185,000 children.

AFFORDABLE CARE ACT IMPLEMENTATION/AB 85

County True-Up Reimbursements

The Governor will reimburse \$177.4 million to counties that chose the formula option under AB 85 in 2016-17. This reimbursement is part of the first “true-up” reconciliation for the first year of AB 85 redirections in 2013-14.

Redirection Estimate

The estimate for county AB 85 redirections for the current year (2015-16) was slightly



raised from \$741.9 million to \$749.9 million and from \$564.5 million to \$643.4 million in the budget year (2016-17).

CalWORKs Grant Costs

The May Revision includes a 1.4 percent increase to CalWORKs grants, effective October 1, 2016, to reflect an increase in AB 85 redirection estimates for 2016-17 (above).

CONTINUUM OF CARE REFORM (AB 403 Group Home Reform)

The Governor's May Revision increases funding for county implementation of the Continuum of Care Reform from his January budget proposal:

- In January, the Governor proposed \$94.9 million (60.9 million General Fund) for the Department of Social Services (DSS), Department of Health Care Services (DHCS), county child welfare agencies and county probation departments to implement AB 403 (Chapter 773, Statutes of 2015) by January 1, 2017. Today, the Governor increased that amount by \$59.9 million, for \$127.3 million in total funds for child welfare and county probation departments.
- In January, no funding for county mental health departments was included; today's May Revision proposes \$6.4 million for county behavioral health departments to implement AB 403.

The implementation date of AB 403 is seven short months away; CSAC and our county affiliates will continue to work with the Administration to ensure counties receive sufficient funding for capacity building and the implementation of the new practice requirements under AB 403.

IN-HOME SUPPORTIVE SERVICES

Restoration of Cuts

The Governor affirms his proposal to restore the seven percent cut in service hours – estimated to cost \$236 million in 2016-17 – with proceeds from the new MCO tax in lieu of General Fund (please see MCO tax section).

Overtime/Federal Fair Labor Standards Act

The Governor's May Revision decreased the state General Fund costs for 2016-17 In-Home Supportive Services (IHSS) overtime costs due to later implementation timelines from \$331.3 million to \$265.5 million.

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This reflects new exemptions for the overtime rules that will also cost the state money, including exemptions for live-in family care providers or extraordinary circumstances, which the Governor anticipates costing the state \$3.6 million in the current year and \$22.3 million in the budget year.

Minimum Wage

The Governor anticipates that the state's new phased-in minimum wage will cost an additional \$18.4 million in the budget year (effective January 1, 2017) for IHSS workers. Please note that this increase in the minimum wage is the state's responsibility to fund under the IHSS Maintenance of Effort.

2011 REALIGNMENT

To see the latest estimates for 2011 Realignment revenues, please see the table at the end of this BAB for DOF's "2011 Realignment Estimate at 2016-17 Governor's Budget" chart.

BEHAVIORAL HEALTH

The Governor's May Revision reduces the amount for expanded residential treatment services under the new Drug Medi-Cal Organized Delivery System waiver in 2016-17 because the waiver is still in the initial implementation stage in interested counties. He proposes using about \$12 million General Fund for waiver costs.

The Governor's May Revision also proposes an additional \$86.4 million, for a total of \$180.2 million General Fund, to provide federally required behavioral health treatment services. This increase reflects the costs of the transitioning the provision of these services from the state's Developmental Services system to Medi-Cal.

HUMAN SERVICES

Supplemental Security Income/State Supplementary Payment

Governor Brown continues to include roughly \$40 million General Fund for cost-of-living increases to the SSP portion of the grant equivalent to the California Necessities Index (now estimated at 2.76 percent). This is the first SSI/SSP grant increase proposed since the Great Recession. The Legislature may seek additional SSI/SSP increases.



CalWORKs Grant Costs

The May Revision includes a 1.4 percent increase to CalWORKs grants, effective October 1, 2016, to reflect an increase in AB 85 redirection estimates for 2016-17.

CALIFORNIA'S SECTION 1115 FEDERAL WAIVER RENEWAL

The Governor's May Revision includes \$2.2 billion in federal funds for the latest iteration of the Section 1115 Waiver, deemed "Medi-Cal 2020." CMS approved another five-year waiver effective January 1, 2016 through December 31, 2020.

The Governor noted core elements of the waiver agreement in his May Revision, including:

- A delivery system transformation and alignment incentive program (PRIME), which will draw down roughly \$3.3 billion for county public hospitals and district/municipal hospitals.
- A Global Payment program for the county public hospitals to serve the remaining uninsured. Federal funds for this program include \$1 billion in Disproportionate Share Hospital Funding annually and an initial \$276 million uncompensated care funding.
- Whole Person Care county-based pilots for high-risk, vulnerable populations. CMS has agreed to \$1.5 billion in funding over the five years.
- A dental transformation incentive program totaling \$750 million in federal funds.

MANAGED CARE ORGANIZATION TAX

A new Managed Care Organization (MCO) tax was passed by the Legislature in the Second Extraordinary Special Session in March. It provides \$1.1 billion in the current year and an estimated \$1.7 in the budget year for the Medi-Cal program. MCO funding is also dedicated to developmental services (\$287 million), retiree health prefunding (\$240 million), medical education programs (\$2 million), and \$135 million for increased rates for intermediate care facilities and forgiveness of retroactive recoupments from small Distinct Part Nursing Facilities.

Further, the May Revision proposes to use \$265.8 million in MCO proceeds to restore the seven percent across-the-board reduction in hours for IHSS beneficiaries. The Governor proposes to use MCO funding for this purpose until the expiration of the new MCO fix on June 30, 2019.

ACTION

EARNED INCOME TAX CREDIT

The 2015-16 offstate budget included the state's first Earned Income Tax Credit (EITC). More than 350,000 households have claimed the credit on their 2015 tax returns, including 57,000 new claimants who had not previously filed a tax return. However, preliminary data shows that more than 68,000 eligible households did not claim the credit, so the May Revision includes \$2 million for the Franchise Tax Board to support additional outreach.

PUBLIC HEALTH

Mobile Field Hospital Program

The Governor's May Revision proposes a redesign of the Mobile Field Hospital program that would both modify and expand the uses of the equipment. Proposed potential uses of the equipment include general staging, stabilization, and shelter capacity. The proposal also states that the equipment may benefit other state agencies, such as the OES, the Military Department, and the Department of Public Health.

Housing, Land Use and Transportation

TRANSPORTATION

The Governor did not make any adjustments to his ten-year \$36 billion transportation plan from the January budget proposal in the May Revision. While CSAC credits the Governor for coming up with a specific proposal for new funding and reforms, we continue to stress the importance of increasing the funding amount. Under the Governor's current proposal, city and county roads statewide would continue to deteriorate and the maintenance backlog would continue to grow. CSAC and our coalition partners continue to advocate for a package of reforms and new funding that allocates at least \$3 billion in new funding to local streets and roads along with an equal investment in state highway infrastructure.

Federal Transportation Bill Implementation

CSAC has also been involved in discussions of California's implementation of the recently-passed Fixing America's Surface Transportation Act (FAST Act). In addition to provisions allowing additional streamlining for transportation projects that require both state and federal environmental review, CSAC has been advocating to maximize funding for local bridge and safety projects.



While the May Revision does not directly address these CSAC FAST Act priorities, it includes a plan to allocate funding from the FAST Act's new National Highway Freight Program. The funding, which is estimated at \$582 million statewide over the five-year bill, would be allocated through the existing Trade Corridors Improvement Fund guidelines. The program would be under the purview of the California Transportation Commission, with half of the money awarded to locally-nominated projects and half to projects of statewide importance proposed by Caltrans. State funding would also be available to fund matching requirements from a new national competitive freight program funded at \$900 million annually.

HOUSING AND HOMELESSNESS

The Governor's May Revision put an increased focus on housing and homelessness issues compared to his January budget proposal. On the affordable housing side of the equation, Governor Brown cites the fact that local land use decisions have contributed to low inventories in the state. The Administration claims that discretionary local permitting and review processes have become longer and in turn increased the cost of housing production. Compounding the problem, the existing land use decision making process is often used by interest groups to stop housing projects. This has resulted in far fewer housing units than the state requires – from 2003 to 2014, local governments only issued permits for 672,000 units compared to the 1.48 million units needed to have kept pace with population growth.

The lack of supply of housing affordable to Californians at all income levels has exacerbated California's homelessness problems. According to the 2014 Affordable Housing Cost Study by the California Department of Housing and Community Development, local opposition to affordable housing projects increased costs by 5 percent. Further, one-third of the nation's people who are chronically homeless can be found in the Golden State.

Counties are seeking flexibility in regulations and funding to build or refurbish affordable housing, provide permanent supportive housing, and site the spectrum of transitional housing options, from emergency homeless shelters to sober living homes to criminal justice system reentry facilities. The Governor's focus on these issues is welcome, and CSAC will work with the Administration and the Legislature as these proposals move through the process.

ACTION

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Funding for Affordable Housing

The May Revision proposes to continue existing state investments into programs designed to meet the state's affordable housing goals such as the Affordable Housing and Sustainable Communities program, which is anticipated to receive approximately \$400 million in 2016-17 from cap and trade auction proceeds. The May Revision does not include a new tax credit proposal – the subject of much speculation after the Governor's veto of AB 35 (Chiu, 2015), which would have increased the amount of state Low-Income Housing Tax Credit allocations by \$300 million annually. The veto message indicated that the Governor would only consider such proposals within the state budget process. The Assembly included such an increase in tax credits in its recent \$1.3 billion housing plan.

The Governor continued to emphasize existing state support for housing and included strong statements about the ability of cities and counties to invest local dollars into affordable housing efforts, specifically the \$1.3 billion in discretionary property tax revenue that will be returned to local governments by the end of fiscal year 2016-17 from the dissolution of redevelopment agencies. Furthermore, successor agencies report that an additional \$126 million in outstanding loans are due to cities and counties that must be transferred to Low and Moderate Income Housing Asset Funds.

Proposals to Reduce Housing Costs

According to the California Department of Housing and Community Development's 2014 Affordable Housing Cost Study, the local opposition to housing projects increased project costs by five percent and the review process and changes to a projects' design adds seven percent in production costs, while high lands costs in California are also responsible for 12 percent of a housing projects' overall cost.

In order to maximize the investments the state makes to increase the pace of construction and reduce costs, Governor Brown proposes legislation that would require ministerial "by-right" land use entitlement provisions for multi-family infill housing development that includes an affordable housing component. Under this proposal, which appears to be based upon AB 2522 (Bloom) from this session, a local government could not require a conditional use permit, planned unit development permit, or other discretionary local review or approval for qualifying multifamily housing developments that include a specified percentage of affordable units. The Governor asserts that this will streamline processes and capture associated savings.

The Governor also offered support for a number of other legislative proposals currently being contemplated by the Legislature, including:



- AB 2299 (Bloom) which would mandate, rather than authorize, that local agencies provide by ordinance for the creation of second units in single family and multifamily residential zones.
- AB 2501 (Bloom) which would significantly modify density bonus law.
- SB 1069 (Wieckowski) which would further restrict a local agency’s ability to impose requirements on second units, which are renamed here as “accessory dwelling units.”

Unfortunately, CSAC currently opposes three of the aforementioned legislative proposals, although we are working with sponsors to better understand their intent and to negotiate amendments. Given the considerable interest of the Legislature and Governor in addressing affordable housing—a policy goal shared by California’s counties—CSAC staff will bring these issues forward to the CSAC Housing, Land Use, and Transportation Policy Committee during the Legislative Conference next week for further debate and consideration of positions.

Funding for Mental Health-Focused Housing Assistance

The Governor has endorsed the Senate’s proposal to divert Mental Health Services Act (MHSA, or Proposition 63) funding to finance up to \$2 billion worth of bonds. Counties would apply for bond funding to build or retrofit supportive housing for those who are mentally ill and chronically homeless. The funding would be available on a competitive basis. This proposal requires a two-thirds vote of the Legislature. CSAC has provided feedback on the technical aspects of the Senate’s “No Place Like Home” proposal and will continue to work with the Administration and Legislature as it moves through the process.

Community-Based Transitional Housing Program

The May Revision continues to fund \$25 million for the Community-Based Transitional Services Program. Trailer Bill Language has been included to focus on transitional housing for offenders released from state prison or county jail, along with at least two other services such as life skills training, employment counseling, vocational training, continuing education, cognitive behavioral therapy, anger management training, mental health treatment and counseling, and substances abuse treatment and counseling. Key points of the proposal include:

- Additional funds to local communities that site, for a minimum of 10 years, new transitional housing and supportive services for offenders released from state prison or county jail.

ACTION

- A requirement that a portion of the funds be used by the city or county to increase public safety around the facility and improve communication with neighbors.
- A requirement that grant funding be shared with nonprofit facility operators to support rehabilitative services, security, and community outreach.
- A competitive application process that will protect existing permitted facilities, examine the current concentration of permitted facilities in the community, review the past performance of the facility operator, and give priority to cities and counties that leverage or provide other funding for the facility.

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ACTION



2011 Realignment Estimate¹ - at 2016-17 May Revision

	2014-15	2014-15 Growth	2015-16	2015-16 Growth	2016-17	2016-17 Growth
Law Enforcement Services	\$2,144.4		\$2,289.2		\$2,402.6	
Trial Court Security Subaccount	518.1	14.5	532.5	11.3	543.8	13.6
Enhancing Law Enforcement Activities Subaccount ²	489.9	57.8	489.9	115.2	489.9	134.3
Community Corrections Subaccount	998.9	108.6	1,107.5	85.1	1,192.6	102.0
District Attorney and Public Defender Subaccount	17.1	7.2	24.4	5.7	30.0	6.8
Juvenile Justice Subaccount	120.4	14.5	134.9	11.3	146.3	13.6
<i>Youthful Offender Block Grant Special Account</i>	<i>(113.8)</i>	<i>(13.7)</i>	<i>(127.5)</i>	<i>(10.7)</i>	<i>(138.2)</i>	<i>(12.8)</i>
<i>Juvenile Reentry Grant Special Account</i>	<i>(6.6)</i>	<i>(0.8)</i>	<i>(7.4)</i>	<i>(0.6)</i>	<i>(8.1)</i>	<i>(0.8)</i>
Growth, Law Enforcement Services		202.6		228.6		270.3
Mental Health³	1,120.6	13.4	1,120.6	10.5	1,120.6	12.6
Support Services	3,022.1		3,277.6		3,477.7	
Protective Services Subaccount	1,970.7	138.5	2,109.2	94.8	2,204.0	113.7
Behavioral Health Subaccount ⁴	1,051.4	117.0	1,168.4	105.3	1,273.7	126.4
<i>Women and Children's Residential Treatment Services</i>	<i>(5.1)</i>	-	<i>(5.1)</i>	-	<i>(5.1)</i>	-
Growth, Support Services		268.9		210.6		252.7
Account Total and Growth	\$6,758.6		\$7,126.6		\$7,523.9	
Revenue						
1.0625% Sales Tax	6,210.9		6,521.5		6,899.7	
Motor Vehicle License Fee	547.7		605.1		624.2	
Revenue Total	\$6,758.6		\$7,126.6		\$7,523.9	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

¹ Dollars in millions.

² Base Allocation is capped at \$489.9 million. Growth does not add to the base.

³ Base Allocation is capped at \$1,120.6 million. Growth does not add to the base.

⁴ The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.