



**2019-20 GOVERNOR'S MAY REVISION
MAY 9, 2019**

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 Services

RE: Governor's May Revision for 2019-20

The paper printouts of charts have given way to digital slide presentations, but the overall message of Governor Newsom's budget press conference today was strikingly similar to those given in recent years by his predecessor: the good times are rolling, but a downturn is inevitable.

Governor Newsom today reemphasized his commitment to dedicate most surplus funds to reserves and one-time spending, with targeted ongoing investments in priority areas, noting that a recession could cost the state's General Fund \$70 billion over three fiscal years.

For counties, the most notable components of the May Revision would:

- Provide counties with flexibility and direct funding to combat homelessness,
- Strengthen the proposal regarding In-Home Supportive Services MOE, and
- Provide additional resources for disaster response, recovery, and prevention.

The May Revision proposes to significantly alter the January proposal regarding homeless shelters, navigation centers, and supportive housing. Importantly, the May Revision increases the total investment from \$500 million to \$650 million, provides \$275 million of that funding directly to counties, expands eligible uses of funds to include key county priorities, and provides more flexibility by allocating all funds up-front. The May Revision also calls for the use of 2019 point-in-time counts—a priority cited by many counties since the details of the January proposal were released. Combined with other targeted investments, the May Revision includes approximately \$1 billion to combat homelessness.

For In-Home Supportive Services (IHSS) more specifically, the Governor's May Revision maintains the January proposal to revise the County IHSS Maintenance of Effort (MOE) and includes additional State General Fund above the January amount to get counties to the new

lowered MOE amount. CSAC is grateful for the increased State General Fund commitment and continues to strongly support the Governor's IHSS MOE proposal.

The May Revision also builds upon the January proposals to assist local communities in recovering from recent wildfire devastation and becoming more resilient to future disasters. The additional investments include, but are not limited to, updates to the property tax backfills proposed in the January budget and funding to address the consequences of de-energizing power lines as a means to prevent wildfires during severe wind and weather events, including \$75 million General Fund to improve resiliency of the state's critical infrastructure and to provide assistance to communities as needs are identified. The May Revision also recognizes the significant devastation in Butte County as a result of the Camp Fire by including an additional \$10 million one-time General Fund to support local communities in their ongoing recovery efforts.

As the Legislature has also recently outlined Senate and Assembly priorities through budget subcommittee hearings, these proposals will now be expeditiously negotiated with the Legislature as the state rapidly approaches the June 15 constitutional deadline to adopt a balanced budget. CSAC will continue to communicate substantive budget changes and their impacts on counties and advocate for county interests.

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

2019-20 May Revision
General Fund Budget Summary
(\$ in millions)

	2018-19	2019-20
Prior-Year Balance	\$11,419	\$6,224
Revenues and Transfers	\$138,046	\$143,839
Total Resources Available	\$149,465	\$150,063
Non-Proposition 98 Expenditures	\$88,796	\$91,129
Proposition 98 Expenditures	\$54,445	\$55,904
Total Expenditures	\$143,241	\$147,033
Fund Balance	\$6,224	\$3,030
Reserve for Liquidation of Encumbrances	\$1,385	\$1,385
Special Fund for Economic Uncertainties	\$4,839	\$1,645
Budget Stabilization Account / Rainy Day Fund	\$14,358	\$16,515

General Fund Expenditures by Agency
(\$ in millions)

	2018-19	2019-20	\$ Change	% Change
Legislative, Judicial, Executive	\$4,654	\$5,079	\$425	9.1%
Business, Consumer Services & Housing	449	1,696	1,247	277.7%
Transportation	208	296	88	42.3%
Natural Resources	3,992	3,601	-391	-9.8%
Environmental Protection	380	131	-249	-65.5%
Health and Human Services	36,171	41,344	5,173	14.3%
Corrections and Rehabilitation	12,575	12,717	142	1.1%
K-12 Education	58,315	58,761	446	0.8%
Higher Education	16,486	17,369	883	5.4%
Labor and Workforce Development	160	126	-34	-21.3%
Government Operations	4,888	1,169	-3,719	-76.1%
General Government:				
Non-Agency Departments	1,144	906	-238	-20.8%
Tax Relief / Local Government	504	443	-61	-12.1%
Statewide Expenditures	3,315	3395	80	2.4%
Total	\$143,241	\$147,033	\$3,792	2.6%

General Fund Revenue Sources
(\$ in millions)

	2018-19	2019-20	\$ Change	% Change
Personal Income Tax	\$98,304	\$102,333	\$4,029	4.1%
Sales and Use Tax	26,100	27,241	1,141	4.4%
Corporation Tax	13,774	13,233	-541	-3.9%
Insurance Tax	2,643	2,868	225	8.5%
Alcoholic Beverage Taxes and Fees	381	386	5	1.3%
Cigarette Tax	63	62	-1	-1.6%
Motor Vehicle Fees	31	33	22	6.5%
Other	301	-160	-461	-153.2%
Subtotal	\$141,597	\$145,996	\$4,399	3.1%
Transfer to Rainy Day Fund	-3,551	-2,157	1,394	-39.3%
Total	\$138,046	\$143,839	\$5,793	4.2%

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average Growth
Personal Income Tax	\$93.8	\$98.3	\$102.3	\$103.8	\$106.3	\$107.6	2.8%
Sales and Use Tax	\$25.0	\$26.1	\$27.2	\$28.1	\$28.8	\$29.6	3.4%
Corporation Tax	\$12.3	\$13.8	\$13.2	\$13.7	\$14.2	\$14.7	3.7%
Total	\$131.1	\$138.2	\$142.8	\$145.5	\$149.3	\$151.8	3.0%
Growth	10.0%	5.4%	3.4%	1.9%	2.6%	1.7%	

Emergency Preparedness and Response

State Disaster Contingency Planning & Preparedness

The Governor's May Revision builds on his January proposal and investments already made in current year actions to strengthen the state's response capabilities and increase California's overall resiliency. The May Revision includes an additional \$39.9 million in General Fund spending directed to a number of different departments that have a role in disaster preparedness and response. The proposal also includes funding for disaster contingencies and the development of a Statewide Disaster Reserve Corps for additional state capacity during emergencies.

Specifically, the Governor's May Revision allocates the following additional state resources:

- Office of Emergency Services – \$5.9 million in ongoing funds to enhance Cal OES disaster preparedness and response capacity for future state disasters.
- Department of Housing and Community Development – \$2 million General Fund to create a permanent Disaster Response and Recovery Unit that will provide housing expertise in coordination with statewide disaster recovery efforts and to hire a consultant that will conduct local needs assessments related to the 2018 Camp and Woolsey fires as well as create local long-term recovery plan frameworks.
- State Water Resources Control Board – \$1 million ongoing General Fund to improve emergency response capabilities and address engineering and operation issues facing drinking water systems and waste water utilities, and preventing or minimizing impacts to water quality, water supply security, and safety.
- Department of Resources Recycling and Recovery – \$2.8 million ongoing General Fund to establish a dedicated team to help facilitate timely, safe, and effective debris removal operations as well as to assist local governments in the preparation of debris removal plans for future incidents.
- Emergency Medical Services Authority – \$979,000 ongoing General Fund to increase disaster medical services capacity.
- Department of Public Health – \$959,000 in ongoing funds to support health care facilities and mass care shelters during emergencies.

Emergency Contingency Funding & Statewide Disaster Reserve Corps

The May Revision includes \$20 million one-time General Fund for a state "mission tasking appropriation" within the Cal OES budget. In addition, \$1.5 million is proposed for Cal OES to coordinate with all state agency responders. The contingency funds will provide resources for staffing costs associated with emergency response and coordinate activities that are not absorbable in current budgets, and not reimbursable from the California Disaster Assistance Act

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or Disaster Response-Emergency Operations Account. In addition, the May Revision includes \$711,000 ongoing General Fund to initiate development of a statewide Disaster Reserve Corps resource pool for needs during a disaster.

Public Safety Power Shutoff (PSPS)

Given the recent catastrophic wildfires caused by utility infrastructure, the California Public Utilities Commission is engaged in a rule making process for de-energizing power lines in the event of high risk weather. This means that the power will likely be shutoff more often as a means to prevent wildfires during severe wind and weather events. The May Revision includes funding to address the consequences of this, including \$75 million General Fund to improve resiliency of the state's critical infrastructure and to provide assistance to communities as needs are identified. This proposed allocation will include a source of funding to address immediate needs as a result of a PSPS, and a source of funding for planning grants to Operational Areas (counties) to improve local preparedness.

The May Revision also includes \$41 million from the Public Utilities Commissions Utilities Reimbursement Account to fund inspections and to improve the review of utility wildfire mitigation plans. This is critical funding that will help implement the Governor's wildfire plan and go towards improving the overall safety of utility infrastructure.

Local Assistance

Property Tax Backfill

The Governor's May Revision includes one-time \$518,000 General Fund to local governments for 2018-19 property tax losses resulting from the 2018 wildfires. This builds on the Governor's January Budget proposal of \$31.3 million. The additional \$518,000 reflects more accurate estimates from Los Angeles, Mendocino, Napa, Orange, San Diego, Solano, Tuolumne, and Ventura Counties.

Camp Fire

In addition, the Governor's May Revision recognizes the significant devastation in Butte County as a result of the Camp Fire and includes \$10 million one-time General Fund to support local communities in their ongoing recovery efforts.

Forest Management, Resiliency & Fire Response

Building on investments proposed in his January budget, the Governor is proposing to include \$15.7 million one-time General Fund to enhance CAL Fire's fire protection capabilities and to increase the pace and scale of forest management activities. This will also help to fund the work of certifying the Programmatic Environmental Impact Report for Vegetation Management in California.

Catastrophic Livestock Disease Prevention and Emergency Response

On May 16, 2018, virulent Newcastle Disease, a fatal viral disease affecting birds and poultry, was detected in Los Angeles County. While the California Department of Food and Agriculture (CDFA) engaged in efforts to contain and eradicate the disease, the virus spread into new areas of Los Angeles, San Bernardino, Riverside, Ventura, and Alameda Counties, as well as to Utah and Arizona. As a result, over 1.2 million birds have been euthanized. The May Revision includes \$3.3 million ongoing General Fund to perform emergency response activities during catastrophic livestock or poultry disease outbreaks. Funding will also assist with coordinating assistance for animal needs during disasters; support community preparedness and volunteer mobilization for pet and livestock evacuation, housing, and treatment during disasters; and train CDFA staff and other federal and local responders.

Homelessness

The May Revision includes significant changes to the Governor's January budget proposal for a one-time \$500 million investment for jurisdictions that site and build emergency shelters, navigation centers, or supportive housing (\$300 million for planning grants and \$200 million for meeting milestones). The Governor's January budget proposal also called for the planning grants to be split with \$200 million to Continuums of Care (CoC) and \$100 million to the most populous cities.

The May Revision proposes the following changes which would significantly improve county access to these funds:

- Overall funding is increased from \$500 million to \$650 million.
- \$275 million is set aside exclusively for counties.
- Additional flexibility is provided, both by allocating all funds up-front in lieu of back-end milestone achievement funding and by expanding the eligible uses of funds beyond shelters and navigation centers. Eligible uses now include, but are not limited to, hotel/motel conversions, traditional and non-traditional permanent supportive housing, rapid rehousing, and jobs programs.

The revised proposal also calls for the use of 2019 point-in-time homelessness counts and incentivizes regional collaboration by making funds contingent on cities and counties submitting regional plans to their CoCs.

Combined with other targeted investments, the May Revision includes total funding of approximately \$1 billion to combat homelessness. These investments include a total of \$120 million for expanded Whole Person Care pilots, \$150 million for strategies to address the

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shortage of mental health professionals in the public mental health system, \$25 million for Supplemental Security Income advocacy, \$40 million for student rapid rehousing, and \$20 million for legal services for eviction prevention.

Administration of Justice

2011 Realignment

The Governor's May Revision updates revenue assumptions for 2011 Realignment programs. In the May Revision, the statewide base for the Community Corrections Subaccount (AB 109) for 2018-19 remains \$1.311 billion and the growth funds that counties will receive in fall 2019 has decreased from \$102.3 million to \$66.7 million. This results in an estimated 2019-20 base of \$1.378 billion. The 2011 Realignment growth funds are still subject to change because they are not finalized until the fall. (Please see the realignment chart at the end of this bulletin.)

CSAC will provide individual county projections in the coming weeks.

Judicial Branch

The Governor's May Revision includes total funding of \$4.2 billion in the 2019-20 budget, with \$2.4 billion directed to trial court operations. This is a slight increase from the Governor's January budget proposal, which provided \$4.1 billion for the Judicial Branch.

The Governor's May Revision recognizes both the need for trial court spending flexibility, as well as the need to fund additional superior court judges. To this end, the Governor's May Revision includes statutory changes to increase the trial court reserve cap to three percent beginning June 30, 2020. This will enable courts to address unanticipated mid-year changes in costs and provides flexibility to address unique local needs, as no two courts are alike. The Governor's May Revision, additionally, includes \$30.4 million General Fund in 2019-20 for 25 new superior court judgeships. The judges will be allocated upon completion of the Judicial Council's Needs Assessment, expected in late summer of 2019.

The Governor's May Revision also acknowledges the importance of dependency counsel, as they represent children and parents at every step of dependency proceedings. The Governor's January budget proposal provided \$156.7 million in 2019-20. The Governor's May Revision recognizes the expansion of the federal Families First Prevention Services Act list of eligible Title IV-E which now includes court-appointed dependency counsel costs. This will provide an additional \$34 million in federal reimbursements which will increase the dependency counsel budget to \$190.7 million in 2019-20.

Finally, the Governor's May Revision includes \$20 million one-time General Fund for legal aid for renters in landlord-tenant disputes and \$9.6 million General Fund for continuation of interpreter services for civil matters and to cover increased costs in criminal cases.

Victim Impact Programs

Crime victims and their families bear significant physical, emotional, and financial burdens. The Governor's May Revision includes several proposals that will assist crime victims and lay the groundwork for future changes to consolidate the various departments and agencies that work with victims into one department under the Government Operations Agency. The Governor's May Revision provides an additional \$18 million one-time General Fund (total \$27 million) to the California Violence Intervention and Prevention Program. This program provides grants to eligible cities and community based organizations to support services such as community education, diversion programs, outreach to at-risk transitional age youth, and violence reduction models.

Law Enforcement Training

The Standards and Training for Corrections Program assists local corrections agencies in improving professional training for local law enforcement. The funding source historically has been from criminal fine and fee revenue but has drastically been reduced over the past several years. In 2018-19, support for the program was shifted to General Fund and the Governor's May Revision includes \$6.2 million ongoing General Fund to restore to a level more consistent with historical funding.

SB 678 (Chapter 608, Statutes of 2009) Funding

The Community Corrections Performance Incentive Grant Program was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Governor's May Revision includes \$112.8 million General Fund to continue this successful program, which is a decrease of \$548,000 from the amount estimated in the Governor's January budget proposal.

Post Release Community Supervision (PRCS)

The Governor's May Revision includes \$14.8 million General Fund for county probation departments to supervise offenders on Post Release Community Supervision as a result of Proposition 57. This is an increase of \$3 million from the amount estimated in the Governor's January budget proposal.

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. The Department of Finance currently estimates net savings of \$78.4 million General Fund for Proposition 47, which is a \$23,000 decrease from the Governor’s January budget proposal. These funds will be allocated according to the formula outlined in the initiative.

Agriculture, Environment and Natural Resources

Cannabis

When the January Budget was released, the Administration stated that it would release proposed cannabis allocations during the May Revision when more up to date revenue data would be available. The Administration shared their proposals during today’s release of the May Revision. In January, the Administration expected the excise tax to generate \$355 million in 2018-19 and \$514 million in 2019-20. The May Revision has downgraded this revenue forecast to \$288 million for 2018-19 and \$359 million for 2019-20. When asked by reporters during his presentation if the state should take the responsibility for this lack of revenue, the Governor responded “It takes time to go from something old to something new.” He pointed out that it had only been 16 months since legalization and that during his campaign for Governor, he had consistently shared his viewpoint that it would take at least five to seven years for California to reach its expected revenue estimates from the new industry.

Under Proposition 64, revenue is continuously allocated to the Cannabis Tax Fund and prioritized in the following way. Priority funding goes to the administration and enforcement of California’s legalized cannabis regulatory framework. Next, funds go to specified cannabis legalization research programs and equity programs. Finally, remaining funds go to youth education, prevention, early intervention, and treatment; environmental restoration; and public-safety related activities.

Revenues for this new industry are hard to predict, therefore the flow of funding to these programs is subject to change. However, given the Administration’s estimated revenue of \$288 million to the Cannabis Tax Fund for 2018-19, the Administration is proposing roughly \$89 million in administrative costs and a remaining \$198 million for research, equity, youth education, public health, environmental clean-up, and public safety programs. Several of these allocations will be of interest to counties, including:

- \$15 million for grants to local governments to create and administer local equity programs.
- \$26 million to the Board of State and Community Corrections for a competitive grant program for local governments that have not banned cannabis to fund public health and

safety programs, including, but not limited to, local partnerships focused on prevention and intervention programs for youth, and efforts to support collaborative enforcement efforts against illegal cannabis cultivation and sale.

Additional programs receiving funds will include:

- \$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.
- \$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 will support enforcement activities aimed at preventing further environmental degradation of public lands.
- \$15.9 million to the Department of Parks and Recreation: \$7.1 million 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.
- \$2.6 million to the California Highway Patrol for training, research, and policy development related to impaired driving and for administrative support.
- \$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.
- \$12 million to the department of Public Health for Cannabis surveillance and education activities.
- \$80.5 million to the Department of Education to subsidize child care for school-aged children of income-eligible families to keep those children occupied and engaged in a safe environment, thus discouraging the use of cannabis
- \$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.

Finally, the May Revision includes statutory language to address technical clean-up issues related to streamlining provisional licenses, enhance the equity grant program established in Chapter 794, Statutes of 2018 (SB 1294), strengthen administrative penalties for unlicensed cannabis activity, and extend the existing CEQA exemption.

Cap & Trade Expenditure Plan

The Governor’s January Budget proposed expenditures of \$1 billion from the Greenhouse Gas Reduction Fund (GGRF) for 2019-20. In the May Revision, the Governor added \$252 million in proposed expenditures to a variety of programs. These increased expenditures have been proposed to the Transformative Climate Communities (TCC) Program, low carbon transportation programs, climate smart agriculture programs, and preparing workers for, and studying the transition to, a carbon-neutral economy. The TCC program was given an additional one-time increased allocation totaling \$92 million.

CSAC has consistently advocated for increased allocations to the Transformative Climate Communities program and strongly supports this additional funding. The TCC program supports integrated, community-scale housing, transit-oriented development, and neighborhood projects that reduce emissions in some of the state’s most disadvantaged areas.

2019-20 Cap & Trade Expenditure Fund Chart

Investment Category	Department	Program	January Amount (millions)	May Revision Amount	Total
Air Toxic and Criteria Air Pollutants	Air Resources Board	AB 617 – Community Air Protection	\$200	-	\$200
		AB 617 – Local Air District Implementation (\$50 million total, including other funds)	\$20	-	\$20
		Technical Assistance to Community Groups	\$10	-	\$10
Low Carbon Transportation	Air Resources Board	Clean Vehicle Rebate Project	\$200	-	\$200
		Clean Trucks, Buses, & Off-Road Freight Equipment	\$132	\$50	\$182
		Enhanced Fleet Modernization Program, School Buses & Transportation Equity Projects	\$50	\$15	\$65
		Agriculture Diesel Engine Replacement & Upgrades	\$25	\$65	\$90



Climate Smart Agriculture	Department of Food and Agriculture	Healthy Soils Program	\$18	\$10	\$28
		Methane Reduction	\$25	\$10	\$35
Healthy Forests	CAL FIRE	Healthy & Resilient Forests (SB 901)	\$165	-	\$165
		Prescribed Burns and Fuel Reduction Projects (SB 901)	\$35	-	\$35
Short-Lived Climate Pollutants	CalRecycle	Waste Diversion	\$25	-	\$25
Integrated Climate Action: Mitigation & Resilience	Strategic Growth Council	Transformative Climate Communities	\$40	\$92	\$132
	Coastal Commission & SF Bay Conservation and Development Commission	Coastal Resilience	\$3	-	\$3
	Community Services & Development	Low-Income Weatherization	\$10	-	\$10
	California Conservation Corps	Energy Corps	\$6	-	\$6
Workforce Training	Workforce Development Board	Apprenticeships for a Green Economy	\$27	\$8	\$35
Climate and Clean Energy Research	Strategic Growth Council	Climate Change Research	\$10	-	\$10
	California Environmental Protection Agency	Transition to a Carbon-Neutral Economy	-	\$1.5	\$1.5
TOTAL:			\$1.1 billion	\$252 million	\$1.253 billion

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Government Finance and Administration

Sales and Use Taxes

As announced earlier this week, the Governor is proposing tax exemptions for menstrual products and children's diapers as part of his May Revision focus on women and families, beginning January 1, 2020, and ending December 31, 2021. The exemption will cost the General Fund about \$17.5 million in the budget year, due to being implemented halfway through, and \$35 million the following year.

Local losses for the exemption are slightly higher (\$21.5 million for the half fiscal year and \$41 million for the full fiscal year) and will reduce funding for 1991 Realignment, 2011 Realignment, Proposition 172, local Bradley-Burns, local self-help, and any local transactions and use taxes.

Overall, the sales and use tax forecast is slightly lower (\$360 million) across the current year and the budget year compared to previous estimates, mostly due to slower growth in taxable capital investments than was expected after the federal tax cuts. Other factors include lower-than-expected cannabis sales and higher-than-expected use of the manufacturing exemption. The expanded application of sales and use taxes to online marketplaces, as required by the recently passed AB 147, was already mostly factored into the Governor's January Budget.

Property Taxes

The May Revision expects property taxes statewide to grow by 6.5 percent in 2019-20, after growing by 6.1 percent in 2018-19.

Broadband Infrastructure

Absent from Governor Newsom's budget was a comprehensive plan to expand deployment of broadband technologies throughout California, particularly in unserved and underserved areas of the state. The Governor noted that he will be submitting a five-year infrastructure plan to the Legislature this year, and he intends to host a subsequent event to present that impressive, broader proposal within the next several weeks. Within that proposal will be an impressive plan detailing expansion of broadband technologies. The only broadband funding included in this budget is \$15 million one-time non-Proposition 98 General Fund to be allocated to school districts most in need for broadband and infrastructure updates to meet the rapid growth of digital learning.

County Voting Systems

The 2018-19 Budget provided \$134 million one-time General Fund to counties to replace voting systems and to strengthen the security of California's election technology. That funding provided reimbursement to counties by matching funds spent by counties on voting system upgrades.

The May Revision builds on last year’s investment by including an additional one-time General Fund investment of \$87.3 million, to provide:

- An additional 25 percent of needed cost (\$65.7 million) to fund vote center models for counties with over 50 precincts (bringing total state investment to 75 percent of total estimated costs).
- \$3.6 million to fully fund polling place model costs for counties with 50 or fewer precincts.
- \$18 million for county election management system replacements.

California State Library

The January budget proposal included a modest funding adjustment to support local public libraries and statewide library programs, allocating \$1 million in one-time General Fund money for online library service systems, and another \$1 million for library districts to develop “Lunch at the Library” programs for students in low-income communities.

The May Revision made significant funding increases to support the variety of services and resources provided by our state’s public libraries. In this budget, Newsom allocated:

- \$5 million in one-time General Fund to underserved community libraries to support early learning and after-school library programs.
- \$3 million in one-time General Fund for the State Library to allocate to local library jurisdictions to purchase “bookmobiles” (mobile libraries) that would be used to expand access to books for under-resourced communities.
- \$1.7 million (of which, around \$1 million ongoing) General Fund to support Digitization and Cultural Preservation Library Activities.
- \$500,000 one-time monies dedicated to preservation of historic LGBTQ sites.

Economic Outlook – Increased Risks

The Standard and Poor’s 500 index remains at near record highs, and continues to experience increases due to California’s thriving economies (particularly technology industries). However, there are a number of risks to California’s sustained economic wellbeing. The May Revision provides insight on the state of California’s prospective economy, and a reminder that it is not infallible. Issues to be mindful of include:

- Policy action by the federal government that may undermine California’s globally competitive industries, including agriculture and technology.
- Slowing rates of global growth.
- Federal deficits.

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- Challenges for young Californians that will have long-lasting impacts, including falling home ownership rates and increased student loan burdens.
- Increasing frequency of natural disasters.
- An increasingly aging population.

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 homes. The Governor's May Revision estimates that IHSS costs will increase by \$60.5 million General Fund in 2018-19 and \$151.6 million General Fund in 2019-20. This results from increases in caseload growth, hours per case, and costs per case, which are partially offset by decreases in provider overtime and travel costs.

IHSS MOE Proposal

The Governor's May Revision continues his January Budget proposal to revise the County IHSS Maintenance of Effort (MOE). This includes lowering the County IHSS MOE base, reducing the inflation factor to four percent, and stopping the redirection of 1991 Realignment VLF growth from the Health and Mental Health subaccounts to Social Services. The County IHSS MOE will be rebased in 2019-20 down to \$1.56 billion. Based on updated Realignment projections and increased IHSS caseload and cost projections, this will require an increased General Fund commitment above the January projection. The increased General Fund costs for IHSS would be \$296.7 million in 2019-20, a \$55 million increase from January, and growing to \$615.3 million in 2022-23, which is a \$68 million increase above the January estimate. This represents a total increased General Fund commitment for IHSS of \$1.86 billion over the first four years of this new structure. CSAC is grateful for the continuation of the January Budget proposal and the increased General Fund commitment in the May Revision to get to the lowered MOE base and continues to strongly support the Governor's IHSS MOE proposal.

IHSS Hours Restoration

The Governor's May Revision provides an increase of \$15.3 million General Fund to reflect the updated costs to continue the restoration of the seven percent reduction in IHSS service hours. This restoration is proposed as a temporary restoration through December 31, 2021, due to lower than expected revenues in the coming years.

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.

Resource Family Approval

The Governor's May Revision provides a one-time increase of \$14.4 million General Fund to assist counties with Resource Family Approval (RFA). The RFA process is the new, streamlined, child-focused and family-friendly process for counties to approve resource families. In partnership with the County Welfare Directors Association (CWDA), CSAC has advocated for increased funding to be able to meet the mandate to approve resource families in a timely manner. This increased funding will support county efforts to address the backlog of resource family applications and continue to review and approve applications.

Foster Parent Recruitment, Retention, and Support

The Governor's May Revision provides a one-time increase of \$21.6 million for Foster Parent Recruitment, Retention, and Support (FPRRS). In partnership with CWDA, the Chief Probation Officers of California, and other partner organizations, CSAC has advocated for increased FPRRS funding, which was set to be eliminated in 2019-20. This funding will help counties continue critical recruitment and retention efforts to build the capacity of caregivers and support the children and youth in their care.

Foster Care Emergency Assistance

The Governor's May Revision includes an increase of \$21.7 million General Fund and federal Temporary Assistance for Needy Families (TANF) block grants in 2019-20 for emergency assistance payments to caregivers who are awaiting approval as a resource family. This funding will extend the timeframe to allow up to four months, an increase of one month, for these emergency assistance payments in 2019-20. Starting in 2020-21, these emergency assistance payments would be funded for up to three months to reflect that resource family applications are anticipated to be processed within three months. In order to fund these emergency assistance payments in 2020-21, the May Revision includes a TANF reserve of \$31.2 million.

CalWORKs

The California Work Opportunity and Responsibility to Kids (CalWORKs) program is California's version of the federal 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 \$46.8 million General Fund and federal TANF block grant funds in 2018-19 and \$49.1 million General Fund and TANF block grants in 2019-20.

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 ongoing increase of \$41.4 million General Fund and federal TANF block grant funds in 2019-20. This reflects the adoption of a revised methodology to budget for the employment services component of the Single Allocation. The May Revision also proposes to separate the child care component from the Single Allocation.

CalWORKs Outcomes and Accountability Review

The Governor's May Revision provides an increase of \$13.2 million General Fund and federal TANF block grant funds related to the CalWORKs Outcomes and Accountability Review (Cal-OAR). This funding is for counties to conduct continuous quality improvement activities consistent with implementation of this important reform.

CalWORKs Home Visiting

The May Revision includes an increase of \$10.7 million in funding for home visiting services for parents in the CalWORKs program with children under the age of two. This brings the total investment to \$89.6 million for the program in 2019-20. The Home Visiting program will leverage existing evidence-based program models to help young families improve engagement, the healthy development of young children, and employment stability. The additional funding reflects the increased number of home visiting eligible cases. The Department of Social Services will continue working with counties to ensure positive outcomes.

CalWORKs Stage 1, 2, and 3 Child Care

The May Revision includes an increased investment in early childhood programs and proposes a long-term Master Plan for Early Learning and Care. The budget includes a \$40.7 million General Fund investment in 2019-20 and \$54.2 million ongoing General Funds to the CalWORKs Stage 1 child care program. The CalWORKs Stage 1 program provides child care services for current CalWORKs recipients while they participate in employment related activities. The additional increased funding will expand Stage 1 eligibility to 12 months. In addition, the May Revision includes a net increase of \$38.2 million General Fund for the CalWORKs Stage 2 and 3 Child Care programs. CalWORKs Stage 2 and Stage 3 programs provide child care assistance for current and former CalWORKs families. The increase reflects the rise in child care costs and caseloads throughout the state.

Supplemental Security Income / State Supplementary Payment

The federal Social Security Department administers monthly supplemental security income (SSI) payments to eligible aged, blind and disabled persons. California has augmented SSI payments

with a state supplementary payment (SSP). The Governor's May Revision provides a decrease of \$5.9 million General Fund in 2018-19 and \$18 million General Fund in 2019-20, which reflects updated projections for caseload and costs per case.

County Administration Costs for SSI Cash-Out Policy

The elimination of the SSI Cash-Out policy in the 2018-19 budget extended CalFresh eligibility to SSI recipients. The Governor's May Revision provides a one-time increase of \$15 million General Fund in 2019-20 for county administrative costs associated with processing the new CalFresh applicants associated with ending the SSI Cash-Out policy. CSAC has supported CWDA's efforts to secure additional funding in the budget for county administrative costs for the SSI Cash-Out.

PUBLIC HEALTH

Infectious Disease Prevention

The May Revision includes a one-time \$40 million General Fund investment to support local health departments in meeting the rising health needs of their communities. County health departments work to prevent, investigate, and reduce dangerous and deadly infectious diseases. This investment will assist county health departments prevent and control the spread of infectious diseases.

The County Health Executives Association of California and the Health Officers Association of California requested a General Fund investment in 2019-20 to improve the county health department infrastructure and CSAC is pleased to see this investment in the May Revision.

HEALTH

AB 85 and Medi-Cal Expansion for Undocumented Young Adults

The Governor sustains his proposal to expand full scope Medi-Cal to undocumented young adults aged 19-25 at a cost of \$98 million (\$74.3 million General Fund), starting no sooner than January 1, 2020. He also stated his proposal to adjust the AB 85 diversion of 1991 Health Realignment funding from Article 13 and County Medical Services Program (CMSP) counties from the current 60 percent state and 40 percent county to 75/25 upon the implementation date will require continued discussions with the Administration and stakeholders.

The Governor acknowledges that Yolo County shall be treated as a CMSP county for purposes of this proposal and the need for the Article 13 counties and CMSP to be appropriately funded.

ACTION

CALIFORNIA STATE ASSOCIATION OF COUNTIES

Both Article 13 counties and CMSP identified significant concerns with the Governor’s January proposal. CSAC will work with county partners, the Administration, and Legislature on the proposal.

Besides the proposed changes to local AB 85 redirections, the Governor estimates \$617.7 million in AB 85 redirections from counties in 2019-20. This funding is statutorily required to offset state CalWORKs costs. While this is \$155.5 million lower than last year, the Governor estimates that the state will gain \$315 million from the 2016-17 AB 85 True Up. CSAC will continue to work with the Administration to ensure these estimates are accurate.

Medi-Cal County Administration

The Governor’s May Revision includes an increase of \$15.3 million for Medi-Cal county administration compared to January. Total funding is \$2.1 billion (\$729 million General Fund). This increase results from higher than projected growth in the California Consumer Price Index. The 2018-19 budget established the new Medi-Cal County Administration methodology that includes this annual adjustment based on the California Consumer Price Index.

Proposition 56

The May Revision proposes an additional \$263 million in Proposition 56 (2016 tobacco tax) funding to provide loan repayment programs, Value-Based Payments, training for trauma screenings, and for optical labs and services. Of the funds, \$70 million will go to additional funding for Value-Based Payments, focusing on behavioral health integration, bringing the total 2019-20 funding for these payments to \$250 million over several years.

BEHAVIORAL HEALTH

Whole Person Care

The May Revision includes a one-time \$20 million investment from the Mental Health Services Fund for counties currently not participating in Whole Person Care (WPC) Pilot Programs. The \$20 million is in addition to the \$100 million in General Fund investment from the Governor’s January Budget for WPC. Counties welcome this funding and the option for additional counties to participate in these effective pilots.

Mental Health Crisis Line

The May Revision includes an investment of \$3.6 million Mental Health Services Fund for a statewide mental health crisis line. This crisis line will be staffed by individual responders who can provide peer support to intervene during critical emotional crisis. The proposed investment would issue the funds annually, to the Department of Health Care Services for three years. The investment will help to fill the gap in providing immediate access to behavioral support intervention.

Housing, Land Use, and Transportation

The Governor’s May Revision dedicates a total of \$750 million in one-time funding to local governments to increase housing production. This reflects the same amount of total funding allocated for these purposes in the January budget proposal, but there are slight changes proposed for the uses of the funding. The relevant Assembly and Senate budget subcommittees have also approved preliminary housing and homelessness budget frameworks. A comparison of the May Revision and those proposals is attached as a separate document.

The May Revision continues to dedicate \$250 million to local governments for planning, technical assistance and staffing to encourage housing production, but adds school districts and county offices of education as qualified entities for a portion of the funding to reuse surplus property for teacher housing. The planning funding allocation would be split evenly between regional councils of governments and direct allocations to local jurisdictions to help meet higher short-term state housing goals.

The January proposal dedicated \$500 million of the \$750 million as incentive money to local jurisdictions that meet housing-related goals established in regional housing action plans. The May Revision repurposes the \$500 million for grants under the Infill Infrastructure Grant Program administered by the Department of Housing and Community Development (HCD).

Long-Term Housing Production Strategy

The May Revision promotes creating a new Regional Housing Needs Assessment (RHNA) process by 2022 through which HCD will set long-term regional housing production targets. The May Revision continues to focus on linking housing and transportation and provides that SB 1 local formula funding will be withheld from jurisdictions that are not in compliance with housing element law and have not zoned or entitled for their annual housing goals.

State Housing Tax Credit Program

The Governor’s May Revision includes \$500 million to expand the state tax credit program, which reflects the same amount included in the Governor’s January budget proposal. To allow for greater flexibility in the use of state tax credits, the Governor’s May Revision allows for tax credits to be used for preservation projects to maintain the existing housing stock in addition to allowing the use of tax credits for new housing production. The May Revision also repeals the 2020 sunset date on a provision that currently allows developers to sell “certificated” state tax credits to investors without requiring investors to be part of the project ownership. It also proposes making the Director of the California Housing Finance Authority and the HCD Director voting members of the California Tax Credit Allocation Committee.

ACTION

State Surplus Property for Housing Development

The Governor's May Revision dedicates funding for the Administration's effort to make surplus state property available for affordable housing development, including:

- \$2.5 million in one-time funding for real estate consultants for HCD and the California Department of General Services, and
- \$780,000 in ongoing funding and four positions for HCD to help with developing request for proposals, conducting site investigations, and evaluating and monitoring housing projects.

Assistance for Renters and Landlord-Tenant Disputes

As also reported in the Administration of Justice section of this bulletin, the May Revision includes an additional \$20 million in one-time funding to provide grants to nonprofits focusing on landlord-tenant disputes for counseling, renter education programs, and preventing evictions.

1991 Realignment Estimated Revenues and Expenditures - 2019 May Revision
(Dollars in Thousands)

2017-18 State Fiscal Year

	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	Totals
Base Funding							
Sales Tax Account	\$752,887	\$-	\$2,018,529	\$34,036	\$450,130	\$104,422	\$3,360,004
Vehicle License Fee Account	367,663	961,613	114,949	95,063	220,507	205,942	1,965,737
Total Base	\$1,120,550	\$961,613	\$2,133,478	\$129,099	\$670,637	\$310,364	\$5,325,741
Growth Funding							
Sales Tax Growth Account:	-	-	133,734	-	-	-	133,734
Caseload Subaccount	-	-	(133,734)	-	-	-	(133,734)
County Medical Services Growth Subaccount	-	-	-	-	-	-	-
General Growth Subaccount	-	-	-	-	-	-	-
Vehicle License Fee Growth Account	-	157	75,637	197	-	48,230	124,221
Total Growth	\$-	\$157	\$209,371	\$197	\$-	\$48,230	\$257,955
Total Realignment 2017-18^{1/}	\$1,120,550	\$961,770	\$2,342,849	\$129,296	\$670,637	\$358,594	\$5,583,696

2018-19 State Fiscal Year

Base Funding							
Sales Tax Account	\$752,887	\$-	\$2,152,263	\$34,036	\$450,130	\$104,422	\$3,493,738
Vehicle License Fee Account	367,664	876,923	172,864	95,260	323,075	254,172	2,089,958
Total Base	\$1,120,551	\$876,923	\$2,325,127	\$129,296	\$773,205	\$358,594	\$5,583,696
Growth Funding							
Sales Tax Growth Account:	-	-	221,764	-	-	-	221,764
Caseload Subaccount	-	-	(221,764)	-	-	-	(221,764)
County Medical Services Growth Subaccount	-	-	-	-	-	-	-
General Growth Subaccount	-	-	-	-	-	-	-
Vehicle License Fee Growth Account	-	82	39,472	103	-	25,169	64,826
Total Growth	\$-	\$82	\$261,236	\$103	\$-	\$25,169	\$286,590
Total Realignment 2018-19^{1/}	\$1,120,551	\$877,005	\$2,586,363	\$129,399	\$773,205	\$383,763	\$5,870,286

2019-20 State Fiscal Year

Base Funding							
Sales Tax Account	\$752,887	\$23,959	\$2,374,027	\$34,036	\$426,171	\$104,422	\$3,715,502
Vehicle License Fee Account	367,664	1,027,262	203,361	95,362	181,794	279,341	2,154,784
Total Base	\$1,120,551	\$1,051,221	\$2,577,388	\$129,398	\$607,965	\$383,763	\$5,870,286
Growth Funding							
Sales Tax Growth Account:	-	29,153	28,526	59,135	-	69,685	186,499
Caseload Subaccount	-	-	(28,526)	-	-	-	(28,526)
County Medical Services Growth Subaccount	-	-	-	-	-	-	-
General Growth Subaccount	-	(29,153)	-	(59,135)	-	(69,685)	(157,973)
Vehicle License Fee Growth Account	-	13,226	-	26,829	-	31,616	71,671
Total Growth	\$-	\$42,379	\$28,526	\$85,964	\$-	\$101,301	\$258,170
Total Realignment 2019-20^{1/}	\$1,120,551	\$1,093,600	\$2,605,914	\$215,362	\$607,965	\$485,064	\$6,128,456

^{1/} Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

2011 Realignment Estimate¹ - at 2019 May Revision

	2017-18	2017-18 Growth	2018-19	2018-19 Growth	2019-20	2019-20 Growth
Law Enforcement Services	\$2,467.2		\$2,560.8		\$2,649.7	
Trial Court Security Subaccount	550.3	\$9.4	559.7	\$8.9	568.6	\$11.4
Enhancing Law Enforcement Activities Subaccount ²	489.9	192.8	489.9	224.5	489.9	241.4
Community Corrections Subaccount	1,241.1	70.1	1,311.2	66.7	1,377.9	85.7
District Attorney and Public Defender Subaccount	33.2	4.7	37.9	4.4	42.4	5.7
Juvenile Justice Subaccount	152.7	9.4	162.1	8.9	171.0	11.4
<i>Youthful Offender Block Grant Special Account</i>	(144.3)	(8.9)	(153.1)	(8.4)	(161.5)	(10.8)
<i>Juvenile Reentry Grant Special Account</i>	(8.4)	(0.5)	(8.9)	(0.5)	(9.4)	(0.6)
Growth, Law Enforcement Services		286.4		313.4		355.6
Mental Health³	1,120.6	8.7	1,120.6	8.3	1,120.6	10.6
Support Services	3,591.7		3,756.7		3,913.5	
Protective Services Subaccount	2,258.0	78.1	2,336.2	74.3	2,410.5	95.5
Behavioral Health Subaccount	1,333.7	86.8	1,420.5	82.6	1,503.0	106.1
<i>Women and Children's Residential Treatment Services</i>	(5.1)	-	(5.1)	-	(5.1)	-
Growth, Support Services		173.6		165.2		212.2
Account Total and Growth	\$7,639.5		\$7,916.7		\$8,251.6	
Revenue						
1.0625% Sales Tax	6,956.8		7,202.2		7,520.3	
Motor Vehicle License Fee	682.7		714.5		731.3	
Revenue Total	\$7,639.5		\$7,916.7		\$8,251.6	

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.