



**Governor's 2015-16 May Revision
May 14, 2015**

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

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

RE: **Summary of the Governor's 2015-16 May Revision**

As expected, Governor Brown stressed fiscal prudence and forethought in the 2015-16 May Revision today, raising the specter of deficits and the cuts they bring in not-too-distant future and the hundreds of billions of dollars in state liabilities and deferred maintenance. Health and education are the stated focus of the budget.

The revised budget proposal has many positive aspects from the county perspective, including hundreds of millions of dollars in reimbursements, but continues not to recognize the importance of local streets, roads, and bridges to California's transportation system.

Of the \$6.7 billion in unexpected 2015-16 General Fund revenue, \$5.5 billion will go to K-14 education, \$633 million will be saved pursuant to Proposition 2, and \$633 million will pay down debts and liabilities, also pursuant to Proposition 2.

Fulfilling the promise of the 2014-15 Budget Act, the May Revision will pay off the last of the pre-2004 mandate debts, totaling \$765 million. The amount was previously estimated to be \$800 million based on rough estimates of accrued interest.

Also of note for counties:

- The Governor has included \$150 million for Medi-Cal administration in 2015-16, the same amount allocated in the current-year budget for a six-month period.
- \$2.2 billion in funding for drought-related programs, on top of the \$1.9 billion already appropriated, are made available through accelerating the Proposition 1 bond schedule, cap and trade funds, and some General Fund revenue.
- Cap and trade revenues have more than doubled to \$2.2 billion since January, increasing the amount available in every line item including the Affordable Housing and Sustainable Communities program, which counties may access.
- SB 678 incentive funding is now available for offenders under mandatory supervision and post-release community supervision, instead of only those in traditional probation.
- The Governor has expanded his amnesty program for court-ordered debt.
- The May Revision proposes to fix a number of smaller issues that affect particular counties, including “negative bailout” and prior year insufficient ERAF, although these measures are packaged with changes to the redevelopment dissolution process that many legislators oppose.
- Funding for funding PILT and California’s Fairs remains unchanged from January.

This *Budget Action Bulletin* outlines the May Revision components of relevance to counties, including more information on the items above. Items previously detailed in the January proposed budget have not changed, unless noted here. For additional details on the Governor’s May Revision, visit www.ebudget.ca.gov. Please do not hesitate to contact CSAC staff with any questions.

STATEWIDE ISSUES

Despite calling for general fiscal restraint, the Governor does propose new General Fund spending in a few new areas.

One major new proposal is a state-level Earned Income Tax Credit, providing two million Californians with a total of \$380 million in benefits annually. The May Revision points out several other areas of the budget that address the problems faced by people in poverty, including affordable housing, farmworker housing, the Local Control Funding Formula for schools, and others included in the cap and trade and drought proposals.

Governor Brown also announced that university tuitions will be held flat for two more years, a deal reached in exchange for providing increased funding to CSUs and paying down pension liabilities for the UC system using Proposition 2 funds earmarked for debt repayment. Funds for providing health care and safety net services to undocumented immigrants covered by President Obama’s executive actions granting permanent residence are also included.

Funding for K-12 schools will reach \$68.4 billion in the budget year, \$2.7 billion more than expected just four months ago. The amount also represents an increase of nearly \$12 billion over 2007-08 levels and more than \$21 billion (about \$3,000 per student) above the low point in 2011-12. The increased funding also allows the state to accelerate funding for the Local Control Funding Formula, which directs increased funding to districts with high populations of students who are poor, English learners, and foster children.

2015-16 May Revision
General Fund Budget Summary
(\$ in millions)

	2014-15	2015-16
Prior Year Balance	\$5,589	\$2,359
Revenue and Transfers	\$111,307	\$115,033
Total Resources Available	\$116,896	\$117,392
Non-Proposition 98 Expenditures	\$64,929	\$65,892
Proposition 98 Expenditures	\$49,608	\$49,416
Total Expenditures	\$114,537	\$115,308
Fund Balance	\$2,359	\$2,084
Reserve for Liquidation of Encumbrances	\$971	\$971
Special Fund for Economic Uncertainties	\$1,388	\$1,113
Budget Stabilization Account / Rainy Day Fund	\$1,606	\$3,460

**General Fund Expenditures by Agency
Compared to Current Year**

(\$ in millions)

	2014-15	2015-16	\$ Change	% Change
Legislative, Judicial, Executive	\$3,017	\$3,180	\$163	5.4%
Business, Consumer Services & Housing	843	623	-220	-26.1%
Transportation	200	261	61	30.5%
Natural Resources	2,558	2,490	-68	-2.7%
Environmental Protection	87	65	-22	-25.3%
Health and Human Services	30,046	31,811	1,765	5.9%
Corrections and Rehabilitation	10,030	10,087	57	0.6%
K-12 Education	49,659	49,285	-374	-0.8%
Higher Education	13,267	14,195	928	7.0%
Labor and Workforce Development	282	215	-67	-23.8%
Government Operations	754	739	-15	-2.0%
General Government:				
Non-Agency Departments	1,500	677	-823	-54.9%
Tax Relief/Local Government	446	469	23	5.2%
Statewide Expenditures	242	1,211	969	400.4%
Supplemental Payment to the ERBs	1,606	-	-1,606	-100.0%
Total	\$114,537	\$115,308	\$771	0.7%

**General Fund Revenue Sources
Compared to Current Year**

(\$ in millions)

	2014-15	2015-16	\$ Change	% Change
Personal Income Tax	\$75,384	\$77,700	\$2,316	3.1%
Sales and Use Tax	23,684	25,240	1,556	6.6%
Corporation Tax	9,809	10,342	533	5.4%
Insurance Tax	2,486	2,556	70	2.8%
Alcoholic Beverage Taxes and Fees	353	360	7	2.0%
Cigarette Tax	84	82	-2	-2.4%
Motor Vehicle Fees	23	23	0	0.0%
Other	1,090	584	-506	-46.4%
Subtotal	\$112,913	\$116,887	\$3,974	3.5%
Transfer to Budget Stabilization / Rainy Day Fund	-1,606	-1,854	-248	15.4%
Total	\$111,307	\$115,033	\$3,726	3.3%



2011 Realignment

The Governor's May Revision includes updated estimates of allocations of base and growth amounts for 2011 Realignment through 2015-16 as detailed below.

2011 Realignment Estimate¹ - at 2015-16 May Revision

	2013-14	2013-14 Growth	2014-15	2014-15 Growth	2015-16	2015-16 Growth
Law Enforcement Services	\$2,124.3		\$2,078.3		\$2,258.8	
Trial Court Security Subaccount	508.0	9.8	518.1	18.1	536.1	14.7
Enhancing Law Enforcement Activities Subaccount ¹	489.9	24.6	489.9	73.7	489.9	89.6
Community Corrections Subaccount ²	998.9	73.1	934.1	135.4	1,069.5	110.3
District Attorney and Public Defender Subaccount ²	17.1	4.9	15.8	9.0	24.8	7.4
Juvenile Justice Subaccount	110.4	9.8	120.4	18.1	138.5	14.7
<i>Youthful Offender Block Grant Special Account</i>	<i>(104.3)</i>	<i>(9.3)</i>	<i>(113.8)</i>	<i>(17.1)</i>	<i>(130.8)</i>	<i>(13.9)</i>
<i>Juvenile Reentry Grant Special Account</i>	<i>(6.1)</i>	<i>(0.5)</i>	<i>(6.6)</i>	<i>(1.0)</i>	<i>(7.6)</i>	<i>(0.8)</i>
Growth, Law Enforcement Services	122.2	122.2	254.3	254.4	236.7	236.6
Mental Health³	1,120.6	9.1	1,120.6	16.8	1,120.6	13.7
Support Services	2,829.4		3,022.0		3,340.7	
Protective Services Subaccount	1,837.0	112.0	1,970.7	162.2	2,133.0	122.9
Behavioral Health Subaccount ⁴	992.4	60.0	1,051.3	156.4	1,207.7	136.6
<i>Women and Children's Residential Treatment Services</i>	<i>(5.1)</i>	-	<i>(5.1)</i>	-	<i>(5.1)</i>	-
Growth, Support Services	181.1	181.1	335.4	335.4	273.2	273.2
Account Total and Growth	\$6,377.6		\$6,810.6		\$7,230.0	
Revenue						
1.0625% Sales Tax	5,863.1		6,247.0		6,650.5	
Motor Vehicle License Fee	514.5		563.6		579.5	
Revenue Total	\$6,377.6		\$6,810.6		\$7,230.0	

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 Allocation is capped at \$489.9 million. 2013-14 growth will not add to subsequent fiscal year's subaccount base allocations.

² 2013-14 is not added to subsequent fiscal year's subaccount base allocations.

³ Growth does not add to 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.

ADMINISTRATION OF JUSTICE

2011 REALIGNMENT FUNDING ESTIMATES UPDATED

As reflected in the table above, the estimate for 2014-15 is now \$135.4 million. This is higher than the \$127.7 million estimated in the Governor's January Budget, but still lower than the \$151.8 million estimated last year. The amount will continue to change based on statewide sales tax performance until the data is finalized in August. Counties will receive 2014-15 growth funds this fall.

SB 678—COMMUNITY CORRECTIONS PERFORMANCE INCENTIVE ACT

The May Revision provides an augmentation of \$1.1 million for a total of \$125.8 million in the budget. The Governor proposes to adjust the methodology by providing incentive funding to county probation departments for reducing admissions to state prison by individuals on felony probation, Mandatory Supervision, and Post Release Community Supervision (PRCS).

ACTION

Incentive funding for the expanded supervised population will be based on 50 percent of the state's contract bed rate for reductions in new crime admissions, while reductions in technical violations admissions will be funded at 75 percent of the state's estimated contract bed rate. In addition, the formula adds a past-performance allocation for counties equal to 60 percent of the average of the highest two years of past payments. The May Revision recognizes the importance of SB 678 funding in helping reduce state prison admissions. These proposals will help stabilize funding going forward for county probation.

AMNESTY PROGRAM

The May Revision updates the January Amnesty Program proposal by allowing individuals whose driver licenses have been suspended to reinstate their licenses as part of the program, if the suspension is due to Failure to Appear or Failure to Pay related to traffic offenses. In addition, the \$300 court-imposed civil assessment fee will be waived for the purposes of the amnesty program and replaced with a \$50 administrative fee for the courts to recover their costs of running the program.

CORRECTIONS

The budget for the Department of Corrections and Rehabilitation (CDCR) is \$130 million less than the Governor's January Budget proposal (excluding a \$60.6 million transfer from the statewide funding set aside for high-cost medications), which is largely the result of reducing 4,000 out-of-state contract beds by the end of the year.

High Cost Drugs. An allocation of \$228 million of the proposed \$300 million for Department of Health Care Services, State Hospitals, and CDCR. This amount includes funding for expanding clinical guidelines that are largely consistent with national clinical recommendations for Hepatitis C treatment.

Clinical Workgroup. DHCS will convene two workgroups with state and local entities to discuss clinical and procurement issues with the goal of developing a proposal for inclusion in the 2016-17 Governor's Budget. The clinical workgroup will discuss high-cost drugs that are pending federal approval and how they could affect existing clinical guidelines. A procurement workgroup will examine aspects of relevant entities' pharmacy benefit manager contracts, the availability of pricing information, and the activities and functions of state entities procuring drugs or negotiating prices and supplemental rebates.

DEPARTMENT OF STATE HOSPITALS

The May Revision includes \$10.1 million General Fund to expand the Restoration of Competency Program by up to 108 beds to address the existing waitlist.

The May Revision also includes \$4.6 million General Fund for Coleman housing to activate 30 beds at the California Medical Facility in Vacaville.

AGRICULTURE, ENVIRONMENT AND NATURAL RESOURCES

The Governor's May Revision of the budget includes two significant changes in the Natural Resources & Environmental Protection areas from his January budget. The Administration is proposing significant funding increases to the state's cap and trade investment plan to the tune of an additional \$1.2 billion as well as an additional \$2.2 billion in one-time resources for the FY 15-16 budget to continue immediate response to drought impacts. Funding for programs proposed in the January budget, including \$644,000 for Payment in Lieu of Taxes and \$10 million for the network of fairs remains unchanged.

CAP AND TRADE FUNDING

The May Revision of the budget includes an additional \$1.2 billion in cap and trade funding to further reduce greenhouse gas (GHG) emissions. The increase in funding is directed at all programs across the Governor's January 2015-16 expenditure plan as well as a few select new programs. The increased resources reflect a revised auction proceeds estimate as well as the establishment of a reserve to account for potential volatility in future auction proceeds. This increase also supports the Governor's interim GHG reduction target—GHG emissions reduction of 40% below 1990 levels by 2030—which he imposed recently through an Executive Order.

The revised expenditure plan is largely similar to the January proposal, with significant funding increases to programs within the sustainable communities and clean transportation sectors. This includes the Affordable Housing and Sustainable Communities (AHSC) fund, which sees an increase of \$200 million from the January budget. Funding under the AHSC program is intended to provide funding to regions and local jurisdictions for the implementation of SB 375 and like projects that reduce GHG emissions and promote sustainable growth and affordable housing—including the preservation of agricultural lands—and projects that promote infill development and the reduction of vehicle miles traveled.

The revised expenditure plan includes several new programs, including funding for drought-related efforts (see the section on drought below), increased energy efficiency from California's public universities, and a new program to support demonstration projects to increase carbon sequestration from soils.

The table on the following page includes the updated cap and trade expenditure plan with a comparison to the January budget.

Category	Department	Program	January	May	Total
Sustainable Communities & Clean Transportation	High Speed Rail Authority	High Speed Rail Project	\$250	\$250	\$500
	Transportation Agency	Transit and Intercity Rail Capital Program	\$100	\$165	\$265
	State Transit Assistance	Low Carbon Transit Operations Program	\$50	\$50	\$100
	Strategic Growth Council	Affordable Housing & Sustainable Communities	\$200	\$200	\$400
	Air Resources Board	Low Carbon Transportation	\$200	\$150	\$350
Energy Efficiency & Clean Energy	Dept. of Community Services and Development	Energy Efficiency Upgrades & Weatherization	\$75	\$65	\$140
	Energy Commission	Energy Efficiency for Public Buildings	\$20	\$20	\$40
	Unv of CA/CAL State University	Renewable Energy and Energy Efficiency Projects	\$0	\$60	\$60
	DWR/ Dept of Food & Agriculture	Water and Energy Efficiency	(\$30)	\$60	\$60
	Energy Commission/DWR	Drought Executive Order- Rebates for Appliances	\$0	\$30	\$30
	Energy Commission/DWR	Drought Executive Order- Water & Energy Technology Program	\$0	\$30	
	Dept of Food & Ag	Agricultural Energy & Operational Efficiency	\$5	\$20	\$25
Natural Resources & Waste Diversion	Dept of Fish & Wildlife	Wetlands & Watershed Restoration	\$25	\$40	\$65
	Dept of Forestry & Fire Protection	Fire Preservation & Urban Forestry Projects	\$42	\$50	\$92
	Dept of Food & Agriculture	Healthy Soils	\$0	\$20	\$20
	Cal Recycle	Waste Diversion	\$25	\$35	\$60
TOTAL			\$992	\$1,245	\$2,237

DROUGHT

The Governor's May Revision includes an additional \$2.2 billion of one-time resources for the 2015-16 budget to continue immediate response to drought impacts. The additional funding comes from a combination of sources, including the acceleration of spending from Proposition 1, new General Fund dollars, and cap and trade funds.

Expanding Local Water Supplies. Included in the drought package is \$1.8 billion from Proposition 1 to the Water Board for a number of programs related to expanding local water supplies, including groundwater contamination funding for projects that prevent or clean up the contamination of groundwater that serves as a source of drinking water. Other programs funded under this category include water recycling and advanced treatment projects, small drinking water system projects in disadvantaged communities, wastewater treatment projects, stormwater management for multi-benefit projects. The package also directs \$110 million to the Department of Water Resources for groundwater sustainability efforts, including \$60 million to support local groundwater planning efforts as well as desalination projects.

Water Conservation. The drought package includes \$245 million to fund programs and projects that save water, with a focus on urban water conservation programs from a mix of cap and trade resources and bond funding. These programs include consumer rebates for the replacement of water consuming appliances, funds to replace lawns, grants to reduce energy demand through local projects that also support water use efficiency, and agricultural water efficiency programs.

Emergency Response Activities. The drought package includes \$371 million in General Fund dollars to assist drought-impacted communities and enforce water use restrictions, including funds to the Office of Emergency Services for local infrastructure projects and emergency protective measures for water delivery to individuals without potable drinking water; and, funds to the Department of Housing and Community Development to assist with housing and job training to those displaced by the drought. Finally, there is funding included in this package to increase enforcement of water use restrictions.

In addition to funding, the Governor's May Revision proposes legislation to enhance local enforcement authority by providing all water agencies and local governments with consistent, minimum enforcement capabilities to achieve required water conservation. The table on the following page details the drought-related funding and sources.

ACTION

Category	Department	Program	Dollars	Source
Protecting and Expanding Local Water Supplies	Water Board	Groundwater Contamination	\$784.0	Prop 1
	Water Board	Water Recycling	\$475.0	Prop 1
	Water Board	Safe Drinking Water in Disadvantaged Communities	\$180.0	Prop 1
	Water Board	Wastewater Treatment Projects	\$160.0	Prop 1
	Water Board	Stormwater Management	\$100.0	Prop 1
	DWR	Groundwater Sustainability	\$60.0	Prop 1
	DWR	Desalination Projects	\$50.0	Prop 1
Water Conservation	DWR/Energy Commission	Urban Water Conservation	\$104.0	Prop 1/Cap Trade
	DWR/Food & Ag	Ag Water Conservation	\$75.0	Prop 1/Cap Trade
	DWR/Energy Commission	Make Water Conservation a Way of Life	\$43.0	Prop 1/Cap Trade
	General Services	Conservation at State Facilities	\$23.4	General & Special Funds
Emergency Response	Dept of Forestry & Fire Protection	Enhanced Fire Protection	\$61.8	General Fund
	Office of Emergency Services	CA Disaster Assistance	\$22.2	General Fund
	DWR	Removal of Emergency Salinity Barriers in the Delta	\$22.0	General Fund
	Community Services & Development	Farmworker Assistance	\$7.5	General Fund
	HCD	Rental Relocation	\$6.0	General Fund
	Water Board	Executive Order Implementation	\$1.4	General Fund
Total			\$2,175	

ACTION

GOVERNMENT FINANCE AND OPERATIONS

REVENUE AND TAX

MANDATE REPAYMENT

The May Revision includes full repayment of the pre-2004 state mandated debt, increasing the January proposal by \$232 million for a total of \$765 million to local government agencies statewide. The noted reduction from the originally estimated \$800 pre-2004 mandate debt is a reflection of updated actual interest rate payments due.

Counties will receive 77 percent of the payment, or approximately \$589 million. The Department of Finance has said they expect the State Controller to distribute the money within 45 days.

The May Revision was silent on tackling another major challenge by paying down the post-2004 mandate costs.

MANDATE SUSPENSIONS

The Governor has proposed the suspension of two additional mandates since January:

- The Medi-Cal Eligibility of Juvenile Offenders mandate addresses activities of county juvenile detention facilities and county welfare departments to assist juveniles whose Medi-Cal coverage is terminated as a result of incarceration in a juvenile detention facility for 30 days or more to obtain Medi-Cal or other health coverage immediately upon release from custody. This mandated program cost in the current budget year is estimated at \$27,469 and \$4,578 annually thereafter.
- The State Authorized Risk Assessment Tool for Sex Offenders (SARATSO) addresses activities performed by counties and cities relating to the statutory requirement that registered sex offenders be subject to an assessment of the offender's risk of recidivism using the SARATSO. This mandated program cost in the current budget year is estimated at \$245,080 and \$40,847 annually thereafter.

The proposal to suspend the Interagency Child Abuse and Neglect (ICAN) Investigation Report mandate and provide grants in lieu of mandate reimbursement for those counties that carry out these programs remains unchanged in the May Revision.

REDEVELOPMENT DISSOLUTION

The Administration has provided additional details to the continued unwinding of redevelopment agencies (RDA) based on requests received from numerous stakeholders, including sponsoring entities, or those local governments with former RDAs, since the January budget release. These changes may impact the total general purpose property tax amounts

ACTION

returned to the affected local taxing entities. In addition, they capture several legislative proposals now moving through the Senate and Assembly in a single package.

The May Revision offers the following updates that the Administration believes is in keeping with the key dissolution goals of 1) providing a pathway that has limited state involvement, 2) clarifying and refining provisions of perceived ambiguity for smoother operation without rewarding prior questionable behavior, and 3) minimizing the erosion of property tax residuals being returned to affected local taxing entities. CSAC will closely review the specific trailer bill language for further details on these proposed changes.

Stranded 2011 Bond Proceeds. For bonds issued during a time known as the “mardi gras” period just prior to RDA dissolution enactment, the May Revision establishes a tiered process for successor agencies with a finding of completion to expend a portion of their “stranded” process. Any unused portions are to be used to defease the outstanding bonds in accordance with current law.

Litigation Expenses as Enforceable Obligations. Clarifies that the sponsoring entity can loan money to a successor agency for litigation costs associated with challenging a dissolution decision. As a loan amount, it may be repaid as an enforceable obligation but only if the litigation is successful. Under current law, successor agencies must use their administrative funds for litigation.

Findings of Completion. Allows a successor agency to receive a finding of completion if it enters into a written payment agreement with the Department of Finance to remit its unencumbered cash assets to the county auditor-controller.

Property Tax “Override” Revenues. Clarifies that any pension or State Water Project override revenues pledged to RDA debt service must be used for that purpose. If the override revenues were not pledged to debt service, they are to be returned to the entity that levies the override. If the override revenues were pledged to RDA debt service, but the full amount is not needed for that intended debt service payments, the entirety of the unneeded portion are to be returned to the levying entity.

Highway Infrastructure Improvements as Enforceable Obligations. The May Revision allows agreements between the former RDA and its sponsoring entity that relate to state highway infrastructure improvements to be an enforceable obligation.

Reentered Agreements. Clarifies, as a result of a final court decision, that only reentered agreements entered into after the passage of Chapter 26, Statutes of 2012 (AB 1484) are unauthorized and unenforceable, unless their purpose was providing administrative support.



ERAF AND OTHER FUNDING MECHANISM ADJUSTMENTS

Several May Revision proposals address Educational Revenue Augmentation Fund (ERAF) backfills. They clean-up various complex, long-standing funding mechanisms and agreements between the state, counties, and cities.

- \$5.8 million in insufficient ERAF backfill to Alpine, Amador, and San Mateo County, including for previous years.
- Ends the “negative bailout” for six counties, totaling \$6.9 million annually.
- Debt forgiveness in Riverside County for California’s newest cities, with subsequent CalFIRE reimbursement forgiveness for Riverside County through state General Fund backfill.
- ERAF calculation forgiveness totaling \$3.4 million in San Benito County.
- Unwinding Tax Equity Allocation in Santa Clara County, ending the requirement for cities to reimburse ERAF for these allocations over five years.

Similar to the RDA proposal, these provisions also incorporate a number of individual bills moving through the Legislative. CSAC has learned, unfortunately, the proposals above are likely to be bundled together with the RDA changes into a single trailer bill, in an “all or none” approach. The packaged approach could undermine certain proposals’ viability since interests in the Legislature and the local government community could be divided.

EMPLOYEE RELATIONS

POST COMMISSION

The Governor’s January Budget included a reduction of \$5.2 million in administrative costs; simultaneously, the Commission instituted an 18-month reduction plan that reduced the reimbursement of training costs for local law enforcement agencies attending training. The May Revision reduces administrative costs by \$800,000, increases the current reduction of contracted, non-mandated training courses by \$1.9 million, and continues the \$2.5 million suspension of reimbursements for local law enforcement to backfill behind officers participating in training. The reduction will allow the Commission to reinstate reimbursement for travel and per diem costs (\$4.4 million) to reduce the cost of training for local law enforcement agencies.

STATE EMPLOYEES

The May Revision increases state employee compensation and retiree health care costs by \$57 million relative to the Governor’s January Budget. Those costs are due to increases in health care premiums and enrollment. Additionally, the May Revision adjusts state contributions to the California Public Employees’ Retirement System for state employee pension costs by a decrease of \$56 million General Fund due to the impact of employees entering the system post-PEPRA, strong investment performance, and greater than expected contributions to the system.

ACTION

HEALTH AND HUMAN SERVICES

The Governor's May Revision decreases health and human services spending by \$121 million from the January plan. The total proposed 2015-16 funding for HHS is \$140.5 billion (\$31.6 billion General Fund and \$108.9 billion other funds, mostly federal).

MEDI-CAL COUNTY ADMINISTRATION FUNDING

The Governor proposes a smaller number than expected, \$150 million (\$48.8 million General Fund), for county Medi-Cal eligibility office workload in 2015-16. Since January 2014, county workers have had to use time-consuming manual workarounds for determining Medi-Cal eligibility due to problems with the state's CalHEERS system.

The \$150 million proposed does not cover the full-year costs of counties' ACA-associated workload and may result in longer response times for beneficiaries, reduced oversight activities, and delayed redetermination activities. Further, the state has failed to address many of the issues with CalHEERS, so counties will be forced to continue these workarounds in 2015-16.

When the Governor included a \$150 million mid-year budget augmentation for county administrative activities in January as part of the current year (2014-15) budget, he acknowledged that those funds were intended as a stop-gap for the huge costs counties had incurred as they worked their way around CalHEERS and the application backlog. Providing only \$150 million over the twelve-month 2015-16 fiscal year falls short of the costs counties will incur due to these ongoing problems.

AB 85 HEALTH REALIGNMENT DIVERSIONS FOR 2015-16

The Governor's May Revision included updated county diversion estimates for 2015-16 of \$742 million – roughly \$43.6 million higher than the Governor's January estimate of \$698.2 million.

AB 85 (Chapter 24, Statutes of 2013) specifies changes to the 1991 realignment structure and redirects health realignment funding for CalWORKs grant increases. The legislation designated three types of counties: County Medical Services Program Counties (CMSP), Article 13 Counties, and Public Hospital Counties. CMSP counties and the CMSP Board will have \$246 million diverted, Article 13 counties will have \$172 million diverted, and \$324 million will be diverted from the Public Hospital Counties.

The county-by-county AB 85 estimates released by the Department of Finance today were incorrect. Once accurate numbers are provided, CSAC will immediately distribute them.

Health realignment projections for 2015-16 are up \$4.7 million since the Governor's January budget.

POVERTY REDUCTION STRATEGIES

The Governor makes more of an effort to address California's high poverty rate in the May Revision, with three proposed strategies:

Earned Income Tax Credit. The Governor has a new proposal to implement a \$380 million state Earned Income Tax Credit (EITC) to assist working Californians at the lowest rungs of the economic ladder. The Governor estimates that this new tax credit will assist two million residents (825,000 families) and slide up or down based on the number of dependents in a household. Those with less than \$6,580 in income with no dependents and up to \$13,870 with three or more dependents will qualify and would receive between \$460 and \$2,653 annually.

The Legislature, particularly the Assembly, has been pushing for a state EITC, with two bills currently moving through the process.

AB 43, by Assembly Member Mark Stone, will be heard in the Assembly Revenue and Taxation Committee on May 18. It does not have income thresholds as currently in print.

SB 38, by Senator Carol Liu, would allow a credit based on earned income equal to 15 percent of the federal earned income tax credit allowed by federal law. SB 38 is similar to the first option in the Legislative Analyst's Office's (LAO) December report, *Options for a State Earned Income Tax Credit*. The measure is set for hearing in the Senate Appropriations Committee on May 18.

Now that the Governor has proposed an EITC, this issue will move through the Legislature's budget committee process.

Workforce Investment. The Governor's January Budget proposed investing roughly \$1.2 billion into California's workforce programs. These funds would support: Adult Education Block Grants (\$500 million), Career Technical Education (\$250 million), Workforce Investment Act (\$390.8 million), Apprenticeship Program Funding (\$14 million), and the Enhanced Non-Credit Rate Change (\$49 million).

The Governor's May Revision proposes \$1.4 billion for these programs, an increase of roughly \$150 million since January.

Court-Ordered Debt Amnesty Program. For information about the Court-Ordered Debt Amnesty Program, please see the Administration of Justice section earlier in this Bulletin.

HIGH-COST DRUGS

In January, the Governor reserved \$300 million to account for the high costs of newly approved Hepatitis C drugs. The Governor's May Revision allocates \$228 million of the \$300 million to the Department of Health Care Services, Department of State Hospitals, and the Department of Corrections and Rehabilitation. Please see the Administration of Justice section earlier in this Bulletin for more information.

DEPARTMENT OF STATE HOSPITALS

For information on the Governor's Department of State Hospitals (DSH) proposals, including the Restoration of Competency (ROC) program, please see the Administration of Justice section earlier in this Bulletin.

CALWORKS AND CHILD CARE

According to the Governor's May Revision, CalWORKs caseload will decline and is projected to be 539,000 in 2014-15 and 525,000 in 2015-16. Because of this, the Governor's May Revision decreased General Fund and federal Temporary Assistance for Needy Families (TANF) block grant expenditures by \$97 million in 2015-16.

In January, the Governor's Budget estimated a decrease in CalWORKs Stage 2 child care caseload and reduced funding by \$11.6 million. However the Governor's May Revision projects a \$46.8 million increase in General Fund spending to reflect the number of new Stage 2 beneficiaries and an increase in the cost of providing care.

Consistent with the Governor's January budget assumptions, Stage 3 child care caseload is also increasing. The Governor's May Revision includes an increase of \$2 million—in addition to the January's \$38.6 increase—in General Fund spending to reflect caseload and care costs.

CHILDREN'S HEALTH INSURANCE PROGRAM

The Governor's May Revision realizes \$381 million in savings due to the Congressional reauthorization of the Children's Health Insurance Program (CHIP). CHIP allows California to receive enhanced federal funding for children in the Medi-Cal program.

HEALTH CARE FOR IMMIGRANTS

The Governor includes a note about recent presidential and court actions that could allow "deferred action" immigrants to qualify for certain assistance programs in California.

If the President's deferred action plan moves forward—it is currently enjoined in federal district court—immigrants who qualify would fall under California's Permanent Residence Under Color of Law (PRUCOL) program and thereby be eligible for Medi-Cal, In-Home Supportive Services,

and some cash assistance payments. PRUCOL immigrants are not eligible for Covered California, CalFresh, CalWORKs, or the California Food Assistance Program.

The Governor includes partial-year costs of \$62 million General Fund for 2015-16 PRUCOL costs, and another \$5.2 million for direct assistance for immigrant applicants and temporary workers. The state estimates that the full annual PRUCOL costs would be around \$200 million General Fund. Please note that these costs—both estimated and proposed—will only be incurred if the federal deferred action plan moves forward.

Senator Ricardo Lara has also introduced SB 4, which would allow undocumented immigrants to participate in Covered California and Medi-Cal. It was placed on the Senate Appropriations Committee Suspense File on May 4, with estimated annual costs of \$280 to \$740 million.

HEALTH HOMES

The Governor's May Revision includes \$61.6 million in non-state funds for additional payments to health plans that participate in the Health Homes program, beginning in January 2016. Section 2703 of the Affordable Care Act of 2010 granted states the ability to create an optional Medicaid health home benefit that provides a comprehensive system of care coordination for individuals with chronic conditions. The Department of Health Care Services aims to implement the program in January 2016. The federal government will provide an enhanced participation rate for the first eight quarters of the program.

CSAC has provided comments to California as it develops the health home program and will continue to monitor this issue.

IN-HOME SUPPORTIVE SERVICES

In January 2015, a federal court ruled against the United States Department of Labor rule requiring overtime pay for IHSS workers under the Fair Labor Standards Act (FLSA). The Governor's Budget included \$184 million for 2014-15 and \$316 million in 2015-16; however no funds have been spent to date due to the federal court ruling.

Senate Bill 855 (Chapter 29, Statutes of 2014) included a provision requiring unspent FLSA-related funding in the current year resulting from delayed federal implementation to be used for other purposes within the IHSS program. The Governor's May Revision uses these funds to partially offset increased IHSS caseload costs. The Governor's proposed budget assumes an increase of \$147.6 million and \$179.1 million General Fund in 2014-15 and 2015-16 respectively. The increases in IHSS costs are associated with increases in caseload, hours per case, and costs per hour.

HOUSING, LAND USE AND TRANSPORTATION

The May Revision saw little change with regard to transportation funding, with the exception of programs funded through cap and trade auction proceeds (see the Agriculture, Environment and Natural Resources section earlier in this Bulletin).

Governor Brown called out transportation funding as a priority for his Administration in the 2015 legislative session, but deferred to the Legislature to develop specific solutions for the significant funding shortfalls. Speaker Toni Atkins subsequently released high-level concepts for her transportation funding proposal in February and Senator Jim Beall introduced SB 16, which CSAC supports, shortly thereafter.

While it was rumored that the May Revision might contain a proposal from the Administration on transportation funding or a response to the Legislature’s work to date, there were no specific proposals or direct reactions to legislative ideas currently under consideration. The May Revision mentions the funding challenges for local roads and bridges, but perpetuates the January Budget’s narrow focus on “the priorities that are the state’s core responsibility—maintaining and operating the state’s network of highways and interstates, and improving the highest priority freight corridors.” The May Revision also states that “funding should be sustainable as gasoline consumption falls” and that solutions for state highway funding needs should “reflect the state’s environmental objectives.” CSAC is concerned that the May Revision language could be interpreted as casting doubt on proposals, such as those contained within SB 16, which would share revenues with local governments, increase the gas tax, and ensure that zero-emissions vehicles pay for their use of roads and highways.

CSAC continues to emphasize the need for comprehensive interim and long-term funding solutions that invest in both the state and local systems. An interim funding solution is especially important since the timing to adopt a long-term replacement for the state gas tax—the primary revenue source for local street and road maintenance—is highly uncertain.

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