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UCC Summary
Governor's May Revision
May 14, 2015

NOTE: This summary includes only those items that were changed from the January Budget. If it is not specifically mentioned, it remains unchanged from the January Budget.

The Governor's May Revision was released today and reflects a $6.7 billion increase in General Fund revenues compared to the January Budget. Most of the new revenue will be provided to Proposition 98 ($5.5 billion) and Proposition 2 ($633 million) for the rainy day fund. The Governor is also making the final mandate reimbursement payment to local governments.

Some of the major proposals include:

- Paying local governments $765 million in mandate repayments which is the total amount owed for pre-2004 debt.
- Creates an Earned Income Tax credit for the poor.
- Additional funding to address the drought.
- An additional investment in Medi-Cal of $150 million to help counties with the implementation of the Affordable Care Act.
- Additional $1.1 million for the implementation of SB 678 for county probation.
- Additional funding for cap and trade including affordable housing.
- Redevelopment dissolution trailer bill changes.
- Forgiveness of some debt for the four newly incorporated cities in Riverside.
- No changes to the Coordinated Care Initiative or the MCO Tax.

While there was no specific mention of the Coordinated Care Initiative, Health and Human Services Secretary Diana Dooley noted that it is their intention to meet all of the factors noted by the Department of Finance in the Governor's January Budget.

In addition, Secretary Dooley noted that the IHSS 7% reduction would be restored on July 1, 2015. It is not specifically linked to the MCO tax but does need a funding source. However, the Administration is moving forward to restore the 7% and will continue to work on a funding source.

Poverty

The Governor's May Revise recognizes the fact that for the last several years about 16% of California residents are living in poverty. The Governor's May Revise also recognizes recent actions to help those in poverty including increasing the minimum wage and health care reform.

The Governor is proposing the following in the May Revise to counteract the effects of poverty:

- Earned Income Tax Credit. Create the first Earned Income Tax Credit (EITC) to help the poorest working families in California. This targeted credit will provide a refundable tax credit for wages and would focus on the lowest-income Californians – households with incomes less than $6,580 if there are no dependents or $13,870 if there are three or more dependents. The proposed credit would match 85% of the federal credit at the lowest income levels, providing an average estimated household benefit of $460 annually for 825,000 families with a maximum benefit of $2,653.

- Workforce Investment. Provide $1.4 billion ($150 million more than January Budget) in funding to support a coordinated framework for adult education, career technical education, workforce investment and apprenticeships.

- Amnesty Program. The May Revise would establish an amnesty program for those Californians with past due court-ordered debt from traffic infractions. Participating individuals can reduce their debts by 50 percent, reduce the administrative fees they pay from $300 to $50, and have their drivers' licenses reinstated.

Program and State Department Proposals

Environmental Protection - Cap and Trade

The May Revision supports the Governor's GHG reduction target by including a $2.2 billion Cap and Trade Expenditure Plan that will further reduce emissions by providing additional resources for clean transportation and ecosystem restoration programs.

The increased proceeds result in a total of $1.6 billion for clean transportation, mass transit and sustainable community development as follows:

- Transit Operations - $100 million for transit operations in the Low Carbon Transit Operations Program.
- Transit Capital - $265 million for rail and transit in the Transit and Intercity Rail Capital Program.
- Affordable Housing - $400 million for projects in the Affordable Housing and Sustainable Communities Program.
- High-Speed Rail - $500 million for California's high-speed rail system.
- Low Carbon Transportation - $350 million for Air Resources Board clean transportation program.

Health and Human Services

<u>Department of Social Services</u>

The Department of Social Services administers programs that provide services and assistance payments to needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

Significant Adjustments

- IHSS Caseload – An increase of $147.6 million General Fund in 2014-15 and $179.1 million General Fund in 2015-16 associated primarily with increases in caseload, hours per case, and costs per hour.

- CalWORKs Caseload – Decreased General Fund and federal Temporary Assistance for Needy Families block grant expenditures of $97 million in 2015-16 to reflect revised caseload projections since the Governor's Budget. Overall CalWORKs caseload continues to decline, as caseload is projected to be approximately 539,000 in 2014-15 and 525,000 in 2015-16.

Higher Cost Drugs

The May Revision allocates $228 million of the $300 million that was set aside for high-cost drugs in the Governor's Budget to the Department of Health Care Services, the Department of State Hospitals, and the Department of Corrections and Rehabilitation. This amount includes funding for implementing expanded clinical guidelines that are largely consistent with national clinical recommendations for the treatment of Hepatitis C. Additionally, the California Health and Human Services Agency has held several meetings with counties, sheriffs, stakeholders, and state departments to discuss the clinical, procurement, and cost-benefit considerations around the new Hepatitis C treatments and future high-cost drugs.

Going forward, the Agency will convene two workgroups with state departments 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. The 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.

IHSS - Overtime

In January 2015, a federal court vacated the United States Department of Labor rule that required overtime pay for IHSS workers under the Fair Labor Standards Act (FSLA). The federal government appealed this decision but in the interim, the state has halted implementation of the rule until the legality of the rule is determined. A final court decision is unlikely before the end of fiscal year 2014-15. If the rule is upheld, implementation could begin right away.

The Governor's Budget included $184 million General Fund in the Department of Social Services' budget for implementation in 2014-15 and $316 million in 2015-16. To date, none of the 2014-15 funds have been spent. SB 855 (2014) includes a provision requiring any unspent FLSA-related funding in the current year resulting from delayed federal implementation of the rule be used for other purposes within the IHSS program. The May Revision uses these one-time unspent funds to partially offset the $326.7 million in increased IHSS costs described above. The May Revision continues to assume full-year funding in 2015-16 for implementation of the federal rule.

Immigration

On November 20, 2014, the President announced executive actions that would allow certain undocumented immigrants to temporarily remain in the United States without fear of deportation. These actions were intended to provide stability to the immigrant's families and boost the economy.

These individuals would be recognized as having Permanent Residence Under Color of Law due to their "deferred action" status, and/or because the U.S. Citizenship and Immigration Services recognizes their presence in the U.S. and does not intend to deport them.

On February 16, 2015, a federal district court enjoined implementation of these actions. The Obama Administration has appealed and if the Administration prevails, the annual costs to provide the state benefits would be approximately $200 million General Fund, and grow thereafter. The May Revision includes partial-year 2015-16 costs of $62 million General Fund, which presumes the courts allow the federal government to proceed with implementing the executive actions. In conjunction with the President's executive actions, the May Revision proposes an additional $5 million for direct assistance for immigrant applicants and temporary workers.

Significant Adjustments

- Immigration Application Assistance – The May Revision includes $5 million General Fund in the Department of Social Services for grants to non-profit organizations to provide application assistance to undocumented immigrants eligible for deferred action under the President's executive actions.

- Temporary Worker Pilot Program – The May Revision includes $148,000 General Fund and one position for the Labor and Workforce Development Agency to implement a voluntary 2-year pilot program to help prevent abuses in the recruitment of temporary workers. This program will improve coordination, maximize efficiency, and increase the effectiveness of various labor programs that serve and protect more than 800,000 farmworkers.

Medi-Cal

The Department of Health Care Services (DHCS) administers Medi-Cal, California's Medicaid program, which is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals.

Affordable Care Act

California continues its implementation of the federal Affordable Care Act (ACA). The mandatory Medi-Cal expansion simplified eligibility, enrollment and retention rules that make it easier to get on and stay on the program. The May Revision includes costs of $2.9 billion ($1.4 billion General Fund) in 2015-16 related to the mandatory expansion. California will split these costs with the federal government. Mandatory expansion caseload is estimated to be 1.4 million in 2015-16.

The optional expansion extended eligibility to adults without children, and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level. The May Revision includes costs of $14 billion in 2015-16 for the optional Medi-Cal expansion. The federal government has committed to pay 100 percent of the cost of this expansion for the first three years. California will begin contributing to these costs in 2016-17, and by 2020-21, the state will pay 10 percent of the total costs.

California also increased the mental health and substance use disorder benefits available through Medi-Cal, at a General Fund cost of $341 million in 2015-16. The May Revision also includes $125 million General Fund for managed care rate increases in 2015-16.

Due to the continuing workload associated with implementing eligibility changes at the county eligibility offices, the May Revision includes an additional $150 million ($48.8 million General Fund) in 2015-16 for ACA-related eligibility determination workload. The ACA implementation has necessitated manual system workarounds that require additional resources. As the state and counties gain experience with the new processes and the eligibility system stabilizes, the state and counties will reevaluate the Medi-Cal county administration budget pursuant to Chapter 442, Statutes of 2013 (SB 28).

Health Homes Program

The May Revision includes $61.6 million in non-state funds for additional payments to health plans that participate in the Health Homes Program beginning January 2016. Chapter 642, Statutes of 2013 (AB361), permits DHCS to develop a health homes program that would enhance care management and coordination for beneficiaries with complex needs. The program will provide comprehensive care management, care coordination, health promotion, comprehensive transitional care, individual and family support, and referral to community and social support services. The program will be funded primarily through federal funds, with the non-federal funding coming from non-state sources.

Department of State Hospitals

The Department of State Hospitals administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed and voluntary patients.

Significant Adjustments

- Restoration of Competency Expansion – 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 placement waitlist. The program provides for treatment of certain Incompetent to Stand Trial patients in county jails rather than inpatient treatment at a state hospital. Treating these patients at the county jail is more cost-effective than inpatient treatment at a state hospital. This expansion should help reduce the waitlist for Incompetent to Stand Trial defendants. Including these new beds, the total number of Restoration of Competency beds is expected to be approximately 148 by the end of 2015-16.

- Coleman Housing – The May Revision includes $4.6 million General Fund to activate 30 beds at the California Medical Facility in Vacaville to add sufficient capacity for the Department to serve Coleman patients. The Special Master over the Coleman case has been critical of the waitlist for intermediate and acute beds within the psychiatric programs. There is a need to activate this unit and increase the inpatient capacity within the psychiatric programs to respond to changing patient needs.

Local Government

The May Revision notes that during meetings on the RDA dissolution process, other local government issues were raised. The May Revision proposes addressing several of these long-standing issues as part of a comprehensive local government package.

Local Government Repayment - $765 million

Currently, the state owes counties, cities and special districts $765 million in mandate reimbursements for costs incurred prior to 2004 that must be repaid by 2020-21 under current law. The 2014 Budget Act included a trigger mechanism that makes additional payments for the remaining pre-2004 mandate debt if the estimated General Fund revenues for 2013-14 and 2014-15 fiscal years at the 2015 May Revision exceed the 2014 Budget Act's estimate for those same revenues.

The 2015 May Revision estimates that the trigger mechanism will result in a total of $765 to local governments for the remaining pre-2004 mandate debt. Of the $765 million, approximately 77 percent will go to counties. The May Revision also notes that it remains the Administration's expectation that local governments use these funds for core services such as public safety, particularly to improve the implementation of 2011 realignment and address mental health issues of local offenders.

Negative Bailout Counties

After Proposition 13 was passed in 1978, the state enacted legislation to provide relief to local governments for their lost property tax revenues. The state also assumed a portion of the counties' health and welfare costs, thus freeing up county funds for other purposes. If the health and welfare costs that the state assumed for a county exceed the additional property tax the county receives from schools, statute reduces the county's property tax revenue by the difference – called a "negative bailout." The May Revision ends negative bailout which will provide $6.9 million in annual relief to four counties.

Newly Incorporated Cities

Four cities in Riverside County incorporated after 2004, making them ineligible to participate in the VLF Swap mechanism. In addition, due to the passage of SB 89 in 2011 for Public Safety Realignment, the share of the remaining VLF share was redirected to realignment. The May Revision notes that the loss of this revenue has made it arduous for these contract cities to pay Riverside County for public safety services – approximately $24 million is owed to Riverside County. The May Revision proposed to absolve these cities of this one-time debt by reducing the reimbursement Riverside County must provide to CalFIRE for fire services. Riverside County will then forgive the debt to the four cities and the General Fund will backfill CalFIRE for its reduced reimbursements.

Prior Years Insufficient ERAF

Since 2011-12, the state has provided backfills to cities and counties when there is insufficient revenue in the County ERAF to reimburse the cities and counties for the VLF Swap and Triple-Flip costs. Backfills are generally provided two years in arrears. The May Revision provides $5.8 million in backfills, which includes $700,000 for shortfalls incurred in 2009-10 and 2011-12.

Tax Equity Allocation – Santa Clara

Tax Equity Allocation (TEA) provide property tax to cities that levied little or no property tax prior to Proposition 13. Under TEAs, a share of the property tax otherwise payable to the county is instead provided to the city. Currently, four cities in Santa Clara County reimburse the County ERAF for the revenue the ERAF loses because of the TEA allocations. This annual ERAF loss, which is about $2 million, results from the Santa Clara County's ERAF payment calculation, which excludes the amount it provides to the cities under the TEA. The May Revision ends the requirement for the cities to reimburse the County ERAF for the TEA allocations over a five-year period.

Public Safety

Amnesty Program - Court-Ordered Debt
The Governor's January Budget included an 18-month amnesty program that authorizes individuals with past due court-ordered debt owed prior to January 1, 2013, relating to traffic infractions to pay outstanding delinquent debt at a 50 percent reduction if the individual meets specified eligibility criteria.

The May Revision updates the Administration's proposed amnesty program by allowing individuals whose driver licenses have been suspended due to Failure to Appear or Failure to Pay related to traffic offenses to reinstate their licenses as part of the program. These individuals would agree to either make one payment or sign up for a payment plan. In addition, the $300 court-imposed assessment fee will be waived for purposes of the amnesty program and be replaced by a $50 amnesty administrative fee for the courts to recover their costs of running the program.

CDCR – Prison Population Update
The May Revision includes savings of $73.3 million General Fund in 2015-16 tied to the reduction of approximately 4,000 out-of-state contract beds by June 2016. The reduction assumes vacating two out-of-state facilities and reducing use of other out-of-state facilities to achieve a 2,700 bed reduction by December 2015 and a further 1,300 bed reduction by June 2016.

Community Corrections Performance Incentive Grant (SB 678)
In 2009, SB 678 (Leno) created the Community Corrections Performance Incentive Grant to provide incentives for counties to reduce the number of felony probationers sent to state prison. This performance-based funding has been provided to county probation departments based on a percentage of state General Fund savings when county probation departments successfully reduce the number of adult felony probationers going to state prison.

The May Revision proposes to augment the grant program by $1.1 million. This is due to the fact that the May Revision updates the SB 678 funding formula to include all types of local felony supervision, refocus this grant on local supervision admissions to state prison, and reward counties' past success. The intent of this revision is to preserve past successes and encourage county probation departments to continue to decrease the number of individuals sent to state prison.

The proposed revised formula will provide incentive funding to counties that decrease their statewide prison admissions below a 2013 baseline. Reductions in state prison admissions for new crimes for individuals on felony probation, Mandatory Supervision and Post Release Community Supervisions (PRCS) will be funded at 50 percent of the state's estimated contract bed rate per offender, while reductions in state prison admissions for technical revocations by felony probationers will be funded at 75 percent of the state's estimated contract bed rate per offender. Additionally, counties with a state prison admission rate 50 percent below the state average will receive a high performance grant. The formula also adds a past performance allocation for counties which is equal to 60 percent of the average of the highest two years of past payments.

Commission on Peace Officer Standards and Training

In January 2014, the Commission instituted an 18-month reduction plan due to declining revenues. Because the Commission's reduction plan was limited term and revenues from the State Penalty Fund continued to decline, the Governor's January Budget included a reduction of $5.2 million to the Commission's administrative costs. This reduction, coupled with the proposed delinquent-debt amnesty program, was a placeholder to cover a revenue shortfall.

The May Revision refines the proposal by reducing administrative costs, slightly increasing the current reduction of contracted, non-mandated training courses, and continuing the suspension of reimbursements for local law enforcement to backfill behind officers participating in training.

Redevelopment

The Governor's January Budget proposed trailer bill language to simplify the current Redevelopment (RDA) dissolution process. Over the past several months, the Department of Finance (DOF) has met with many local government entities to discuss the proposed legislation. Taking into consideration the input from stakeholders, the May Revision include the following substantive amendments to the RDA dissolution legislation:

- Findings of Completion. The May Revision allows successor agencies that enter into a written agreement with DOF to remit their unencumbered RDA cash assets to the county auditor-controller to receive a finding of completion.
- Stranded 2011 Bond Proceeds. For those with a finding of completion, the May Revision establishes a tiered process so that they may expend a portion of these stranded proceeds. The unused portions are to be used to defease the outstanding bonds.
- Property Tax "Override" Revenues. The May Revision clarifies that any pension or State Water Project override revenues pledged to RDA debt service must be used for that purpose. However, if the override revenues were not pledged to debt service, they will be returned in their entirety to the entity that levies the override. If the override revenues were pledged to RDA debt service, but some of the revenues are not needed for debt service payments, the entirety of the portion not needed for debt service payments will be returned to the levying entity.
- Highway Infrastructure Improvements. The May Revision allows agreements between the former RDA and its sponsoring entity that related to state highway infrastructure improvements to be an enforceable obligation of the successor agency.
- Litigation Expenses. The May Revision clarifies that a sponsoring entity can loan money to a successor agency for litigation expenses associated with challenging dissolution decisions and those loaned amounts may be repaid as an enforceable obligation if the litigation is successful.
- Reentered Agreements. Clarifies, as a result of a final court decision that only reentered agreements entered into after the passage of AB 1484 are unauthorized and unenforceable, unless they were for the purpose of providing administrative support activities.

Water and Drought Issues

The May Revision includes an additional $2.2 billion one-time resource for 2015-16 to continue immediate response to drought impacts. This additional funding is proposed in the wake of a very dry winter as the state continues to suffer from a drought of uncertain duration. The acceleration of spending from Proposition 1, combined with new dollars from the General Fund and Cap and Trade, reflects the Administration's commitment to move quickly in responding to the drought.

Protecting and Expanding Local Water Supply

In November 2014, the voters approved Proposition 1, which provides $7.5 billion in bonds for water storage, water quality, flood protection, and watershed protection and restoration projects. In an effort to accelerate the implementation of water infrastructure projects statewide, the May Revision includes $1.8 billion Proposition 1 funds for the following programs:

- $1.7 billion, available over the next three years, for the following Water Board programs:
  - Groundwater Contamination -- $784 million for projects that prevent or clean up the contamination of groundwater that serves as a source of drinking water.
  - Water Recycling -- $475 million for water recycling and advanced treatment projects to enhance local water supply resiliency.
  - Safe Drinking Water -- $180 million for projects, with priority given to small systems in disadvantaged communities, which help to provide clean, safe and reliable drinking water.
  - Wastewater Treatment Projects -- $160 million for small communities to build or upgrade their wastewater systems to meet current standards.
  - Stormwater Management -- $100 million for multi-benefit stormwater management projects that also contribute to local water supplies.

- $110 million for the following DWR programs:
  - Groundwater Sustainability - $60 million to support local groundwater planning efforts. Of this amount, $50 million is available over the next three years for technical and direct assistance and grants to local agencies for groundwater sustainability governance and planning. An additional $10 million in immediate funding will be dedicated to counties with stressed groundwater basins to update or develop local ordinances and plans that protect basins and their beneficial users and help facilitate basin-wide sustainable groundwater management under the Sustainable Groundwater Management Act, in coordination with other local water managers.
  - DeSalination Projects - $50 million to assist local agencies to develop new local water supplies through the construction of brackish water and ocean water desalination projects.

Water Conservation

The May Revision includes $245 million to fund programs and projects that save water, including:

- $104 for the following urban water conservation programs:
  - $43 million ($30 million Cap and Trade funds for the Energy Commission and $13 million Proposition 1 funds for DWR) to implement consumer rebate programs for the replacement of inefficient water consumer rebate programs for the replacement of inefficient water consuming appliances, including dishwashers and toilets.
  - $27 million Proposition 1 funds to replace lawns in underserved communities throughout the state with water efficient landscaping.
  - $20 million Cap and Trade funds for the DWR Water Energy Grant Program to reduce energy demand and greenhouse gas emissions through local projects that also support water use efficiency and conservation.

    - $10 million Proposition 1 funds to implement the CalConserve Program, which will enable homeowners and businesses to finance water-efficient upgrades through a revolving-loan program.
- $75 million ($40 million Cap and Trade funds and $35 million Proposition 1 funds) for agricultural water efficiency programs.
- $43 million for activities that will integrate water conservation into residents' lifestyles, consistent with the Water Action Plan, including:
    - $30 million Cap and Trade funds to begin implementation of the Water Energy Technology Program to provide funding for innovative technologies that (1) display significant water and energy savings, which also reduce greenhouse gas emissions, (2) demonstrate actual operation beyond the research and development stage, and (3) document readiness for rapid, large scale deployment in California.
    - $13 million Proposition 1 funds for the DWR to provide technical assistance, data collection, and applied research that supports long-term water use efficiency in urban and agriculture sectors.
- $23 million, including $10 million General Fund, for water conservation projects at state facilities.

Emergency Response

The May Revision includes $37.1 million General Fund to assist drought-impacted communities and enforce water use restrictions including:

- $22.2 million General Fund for the Office of Emergency Services to support local jurisdictions using the California Disaster Assistance Act program for approved drought-related projects, including, but not limited to, restoring and replacing public infrastructure that sustained drought-related damages, and emergency protective measures such as delivering water to individuals without drinking or potable water.
- $7.5 million General Fund for the Department of Community Services Development to provide emergency assistance to unemployed farmworkers, including job training and assistance.
- $6 million General Fund for the Department of Housing and Community Development to assist or relocate households without potable water sources due to drought.
- $1.4 million General Fund for the Water Board to increase enforcement of water use restrictions and conduct additional inspections of diversion facilities to verify compliance with water rights laws.

Additional Local Enforcement Authority

The May Revision proposes legislation to enhance local enforcement authority by providing all water agencies and local governments a consistent, minimum set of enforcement authorities to achieve required water conservation. Local water agencies with existing authorities to enforce against water waste can continue to use those authorities. Under this proposed legislation, any monetary penalties from this enforcement will be used for local conservation efforts. Specifically, it allows penalties to be issued administratively by wholesale and retail water agencies, as well as city and county governments, and enables these entities to enforce local water waste restrictions and Water Bond conservation restrictions.