

HR Dowden & Associates

1415 L Street, Suite 870
Sacramento, CA 95814
E-mail: dowden@hrdowden.com

Office: 916.440.8809
Fax: 916.440.8801

From: HR Dowden & Associates
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Today, Governor Jerry Brown released his May Revision to the 2016-2017 Budget. The budget is in relatively good shape for the next two years. The Governor is emphasizing the downward performance of April tax receipts; however, when looking at the numbers, April's total revenues of \$16.78 billion fell short of the January estimate by 6.6 percent. Year to date revenues are only off estimates by \$550 million. While the May Revision forecast is lower than projected in January, it is still higher than predicted last year when the current year budget was passed. What the May Revise does is set the stage for the November 2016 elections and the proposed ballot initiative that would extend Prop. 30 revenues. The Governor made it clear that he would let the voters decide on this, and stated that "no significant new ongoing spending commitments should be made" until after November. He did decline to comment on how he would vote on any of the propositions before voters this year.

Regardless of the outcome of the November elections, the Governor is still pushing for fiscal prudence and saving for a rainy day. His May Revise has \$1.8 billion set aside for the regular reserve and \$6.7 billion for the Rainy Day Fund for a total reserve of \$8.5 billion. These numbers don't include the additional \$2 billion supplemental deposit that the Governor is proposing and remains on the table from January. This is slightly lower than the January proposal, which had \$2.2 billion in the regular reserve and \$8 billion in the Rainy Day Fund.

The May Revision expends \$122.2 billion General Fund out of the \$124.9 billion available. Due to the \$2 billion in declining revenue since January, there is an automatic true up feature in Prop. 2, and a subsequent reduction in funds deposited into the reserves as mentioned above. This accounts for about \$1.6 billion. The other decreases in funding come out of the amounts used to pay down debts and liabilities. Even with the changes in revenues down by \$2 billion, the Prop. 98 funding level remains almost the same at \$71.9 billion.

The Governor highlighted some of the major initiatives adopted since January such as the passage of the Managed Care Organization tax. This resulted in over \$2 billion in revenues not included in the January budget. These funds have been designated for developmental disability services, higher payments to Medi-Cal providers and for a

reduction in the debt. The Governor noted that over 6 million additional Californians were added to the Medi-Cal program in just the last four years. This is a result of expanded eligibility under the Affordable Care Act. However, the caseload estimate decreased, with the exception of those newly eligible, reflecting an upturn in the economy. Also of note, was the passage of legislation to increase the minimum wage to \$15/hour by 2023. This will cost the General Fund \$39 million in 2016-17. Recently, the federal government issued new regulations that may require the state to cover up to \$200 million in Medi-Cal Managed Care costs due to these changes. Plus, there is the potential that the state may need to pay nearly \$300 million in over-time costs for IHSS workers. With these accomplishments and unforeseen costs, the May Revision doesn't include any significant major funding proposals.

Infrastructure

The Administration continues its commitment to addressing the key infrastructure needs of the state. The Transportation Special Session is open allowing the Governor and the Legislature to craft a long-term solution for road maintenance and repair. The May Revision continues to provide \$36 billion over the next decade to improve the maintenance of highways and roads, expand public transit, and improve port access routes. The Budget allocates more than \$737 million (\$500 million General Fund) for deferred maintenance projects at levees, state facilities, courts, universities, and community colleges, and retains the \$1.5 billion General Fund down payment on renovating three of the state's Sacramento downtown office spaces.

Homelessness

With the Assembly and Senate both having major initiatives/proposals to address the growing number of homeless individuals in the state, the May Revision shares the Governor's public endorsement of the Senate's No Place Like Home Initiative. The May Revision includes first-year funding from the bond proceeds of \$267 million for Mental Health Services Act (MHSA) – Supportive Housing Program and Tenant-Based Rental Assistance Program, with a focus on the chronically homeless. The Governor's May Revision includes a combined \$3.2 billion in state and federal funding and award authority for various affordable housing and homelessness programs. (Please see the chart on the next page for a list of programs.) The Governor does propose legislation requiring ministerial "by right" land use entitlements for multifamily infill housing developments that include affordable housing. This would help speed up projects by requiring that if an area is zoned for housing, further restrictions that increase development costs, slow the pace of housing production, and discourage an increase in the housing supply could not apply. The Governor stated that to make housing more affordable, the state needs to increase the supply, not just throw more money at the problem.

Figure SLA-01
2016-17 Affordable Housing and Homelessness Funding
(Dollars in Millions)

Department	Program	Amount
	Mental Health Services Act Programs	\$267
	Federal Funds	\$112
Department of Housing and Community Development	Housing for Veterans Funds	\$75
	Regional Planning, Housing, and Infill Incentive Account	\$22
	Office of Migrant Services	\$6
	Various	\$94
California Housing Finance Agency (CalHFA) ¹	Multifamily Conduit Lending	\$190
	Single Family 1st Mortgage Lending	\$1,012
	Mortgage Credit Certificates	\$130
	Single Family Down Payment Assistance	\$48
	Special Needs Housing Program	\$55 ²
Strategic Growth Council	Affordable Housing and Sustainable Communities	\$400 ³
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	\$225 ⁴
	Low Income Housing Tax Credits (State)	\$61
	Farmworker Housing Assistance Tax Credits	\$5
Department of Veterans Affairs	CalVet Farm and Home Loan Program	\$66
Department of Social Services	CalWORKS Housing Support Program	\$35
	CalWORKS Homeless Assistance Program	\$30 ⁵
Department of Finance	Community-Based Transitional Housing Program	\$25
Department of Public Health	Housing Opportunities for Persons with AIDS (Federal)	\$3
Office of Emergency Services	Homeless Youth and Exploitation Program	\$2
California Department of Corrections and Rehabilitation (CDCR)	Integrated Services for Mentally-Ill Parolees	\$2
	Specialized Treatment of Optimized Programming, Parole Service Center, Day Reporting Center, Female Offender Treatment and Employment Program	N/A ⁶
	Total	\$3,165

¹ Amounts are the estimated lending activities from CalHFA's 2016-17 business plan.

² This amount represents a voluntary allocation of Proposition 63 funds from 11 participating counties.

³ Of the amount appropriated, statute requires at least 50 percent be committed to affordable housing. This program may also fund transportation, infrastructure, and other related uses for projects reducing greenhouse gas emissions.

⁴ This amount represents the 9 percent tax credits available in 2016 and an estimated figure for 4 percent credit awards based on 2015. This figure does not include the \$3.9 billion of tax-exempt bond debt allocation that is available for award from the California Debt Limit Allocation Committee.

⁵ This amount is an estimated figure based on actual assistance provided in 2015.

⁶ The state provides a number of wrap-around supportive services through these four programs, including housing support, which cannot be separated from CDCR's general budget.

For a look at the Governor's proposals in detail, visit the Department of Finance's overview by [clicking here](#). Some of the other noteworthy proposed programmatic changes that may be of interest to CCY are as follows:

K-12 EDUCATION and CHILDCARE

- Provides a total Proposition 98 funding level of \$71.9 billion for the 2016-17 Fiscal Year, up from \$71.6 billion in January.
- Provides an additional \$2.9 billion for the fourth year of implementing the Local Control Funding Formula (LCFF), in order to help schools reach their target funding level. This brings LCFF funding up to 95.7%.
- Provides a total of \$1.4 billion in discretionary funding for K-12 schools and community colleges in 2016-17, \$134.8 million more than the Governor's January budget. This funding would be allocated on a per-pupil basis and would offset any applicable mandate reimbursement claims for these schools and community colleges.
- Provides \$10 million in one-time non-Proposition 98 General Fund for grants to California postsecondary institutions to develop or improve four-year integrated teacher credential programs.
- Proposes \$2.5 million in one-time Proposition 98 General Fund for the California Center on Teaching Careers, to strengthen statewide recruitment of individuals into the teaching profession.
- Maintains the Governor's January proposal to consolidate funding for Transitional Kindergarten, the California State Preschool Program and the Quality Rating and Improvement System into a \$1.6 billion Early Education Block Grant. The May Revision includes the following details to the proposal:
 - Specifies that school districts would administer the early education programs and county offices of education would provide technical support.
 - Includes a transition year for county offices of education to begin working with school districts and other providers to implement early education programs in 2017-18. Includes the development of a regional early learning plan, which includes stakeholder input.
 - Uses the existing locally based quality rating system to define the minimum standards for a pre-kindergarten program.
 - Maintains current levels of funding for school districts and regions during a transition period.
- Provides \$20 million Proposition 98 General Fund (\$10 million ongoing and \$10 million one-time) for county offices of education to transition to the new early education program.
- Provides K12HSN with an additional \$3.5 million in reserve expenditure authority – could be used to pay for BIIG 2.0 administration costs.

- There were no new funds beyond the \$200 million in January to address the Legislative Women’s Caucus budget proposal to invest \$800 million in child care programs. Instead, there were various proposals and funding to address quality, and ease some of the regulatory barriers and difficulties in applying for services.

HIGHER EDUCATION

- Makes changes to trailer bill language creating the Strong Workforce career technical education program, including 40% of new funding to be directed towards colleges and 60% to regional consortia.
- Expands CCCs online course exchange, which allows students to enroll in online courses across the system, by providing \$20 million in one-time Prop. 98 funds.
- Increases funding for the Telecommunications and Technology Infrastructure Program by providing \$7 million in one-time funds for broadband upgrades at community colleges and \$5 million in on-going funds.
- Provides \$5 million in one-time funding for technical support to adult education consortia.
- Increases funding to CSU by \$25 million in one-time funds contingent upon the CSU adopting plans and timelines to improve graduation rates.
- Provides \$4 million GF to UC to develop high-quality, middle school and high school online “A-G” courses.

LIBRARIES

- Increases GF support by \$505,000 for publications and database subscriptions.
- No additional funds provided for broadband connection grants.

SOCIAL SERVICES and DEVELOPMENTAL SERVICES

- Proposes to keep the funding level the same for the Homeless Youth and Exploitation Program (despite what’s list in the chart on pg. 3) and keeps the California Youth Crisis Line funding at \$114,000.
- Includes an additional \$59.9 million for the Department of Social Services, county child welfare agencies, and county probation departments to continue the implementation of the Continuum of Care Reforms. Increased funding will be for Resource Family rates, additional workload for Child and Family teams, and

foster parent recruitment and retention. Combined with funding for the Department of Health Care Services, the May Revise includes a total of \$127.3 million for CCR.

- Provides trailer bill language to:
 - Extend special managed care provisions to Medi-Cal eligible individuals that are transitioning from Developmental Centers (DC) to the community.
 - Provides an exemption to allow DC employees working at facilities slated for closure to go through the process of becoming community-based service providers
 - Provides retention incentives for DC staff during the closure process.
- Includes a decrease of \$75.8 million GF to reflect the transition of Behavioral Health Treatment services for regional center consumers that will now receive these services in the Medi-Cal program.

HEALTH and MENTAL HEALTH

- Includes \$2.2 billion in federal funds for the new Medi-Cal 2020 waiver.
- Increases funding by \$86.4 million, for a total of \$180.2 million GF to provide Behavioral Health Treatment services, reflecting the cost shift from developmental disabilities.
- Provides \$45.4 million for a total of \$188.2 million GF to provide full-scope benefits to 185,000 children, regardless of immigration status. This is an increase from the January budget that would have covered 170,000 children.
- Delays the implementation date to January 1, 2018 for eligible beneficiaries in the Newly Qualified Immigrant Benefits and Affordability Program to be transitioned to coverage through Covered CA.
- Assumes total Medi-Cal caseload to be 14.1 million Californians in 2016-17, an increase of 600,000 enrollees from January projections
- Assumes costs of \$16.2 billion (\$819.5 million GF) in 2016-17 for the optional Medi-Cal expansion.
- Increases funding by \$18.1 million GF and 175.5 positions to activate an additional 60 beds at Napa State Hospital and 36 beds at Metropolitan State Hospital for the Incompetent to Stand Trial population.

ENVIRONMENT

- Proposes \$4.5 million for coordinated efforts by the Dept. of Water Resources and the Water Board to review and update local water agency drought preparedness and resiliency plans.
- Proposes \$1 million GF for Dept. of Water Resources to support the use of remote sensing technology to establish statewide agricultural land use data.
- Proposes an additional \$11.4 million, for a total of \$334.5 million, to continue the state's emergency response to the drought, with the expectation that the Administration would continue to monitor the state drought conditions.

PUBLIC SAFETY

- Provides an additional \$24.5 million in support of inmate rehabilitation and reentry services. These funds support:
 - \$3 million for electronic textbooks for inmates participating in community college programs.
 - \$3.7 million to create a system for delivering rehabilitative programming remotely using an internal CDCR television network.
 - \$2.2 million to expand cognitive behavioral treatment therapy to all institutions.
 - \$3.7 million to add 950 substance use disorder slots in prisons.
 - \$2.3 million to add 12 new Career Technical programs which will reduce wait lists.
 - \$4 million to expand "Arts in Corrections" program from 19 institutions to all prisons.
 - \$3.1 million to expand and encourage community groups to collaborate with prisons in areas of the state with low volunteerism.
 - \$2.5 million for prison guard overtime needed to supervise inmates during rehabilitative programming.
 - \$6.6 million to expand secured internet access for inmate working toward certifications in all Career Technical Education courses, statewide.
- Increases Prop. 47 savings by \$10.2 million above January projections. This brings ongoing savings up to \$63 million per year.
- Provides \$10 million to support implementation of the California Earthquake Early Warning System. The funds will be used to perform research on necessary technology and other technical aspects which will integrate public and private infrastructure, provide public education and conduct training.

LABOR & GENERAL GOVERNMENT

- Includes \$362 million to cover employee compensation and retiree health care costs relative to the January budget to reflect costs from recently negotiated contracts and pay increases from SB 3 – minimum wage increase.
- Sets aside \$500 million (\$200 million General Fund) to fund potential employee compensation increases subject to good faith bargaining.

ECONOMIC DEVELOPMENT

- Includes \$2 million to Franchise Tax Board to support additional outreach and marketing for the Earned Income Tax Credit program. Claimants for the 2015 credit remain eligible to claim the credit through October 2016.