



SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
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Sacramento, CA 95814

Senator Holly J. Mitchell, Chair

OVERVIEW OF THE MAY REVISION
May 11, 2017

Staff of the Senate Committee on Budget and Fiscal Review prepared the attached Overview of the May Revision. More detailed program information follows these highlights as described in the Table of Contents. Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings beginning May 15, 2017.

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OVERVIEW OF THE GOVERNOR'S 2017-18 MAY REVISION

On May 11, 2017, the Governor released his May Revision for budget year 2017-18. The Governor now projects budget year General Fund expenditures of \$124.0 billion, revenues of \$127.7 billion (before transfers), and \$1.6 billion in the Special Fund for Economic Uncertainties (SFEU), the state's general budget reserve. Compared to January, the revenues represent an increase of \$2.5 billion and the SFEU displays a modest increase. In addition, the Governor adjusts some assumptions in the current year and budget year regarding expenditures in certain programs. The Governor's overall budgetary framework continues to be generally balanced over most of the forecast period, although operating deficits begin to appear in the last two years of the budget window, after accounting for significant transfers to the Budget Stabilization Account (BSA). The budget plan would continue to reduce the budgetary and other obligations and the Administration highlights the value of preparing for future economic downturns. The General Fund budget summaries for January and May are listed below:

**2016-17 and 2017-18
General Fund Summary
(Dollars in Millions)**

	January Budget		May Revision	
	2016-17	2017-18	2016-17	2017-18
Prior Year Balance	\$5,023	\$1,027	\$4,515	\$723
Revenues and Transfers	118,765	124,027	118,540	125,912
Total Resources	123,788	125,054	123,055	126,635
Non-Proposition 98	72,431	71,169	71,729	71,166
Proposition 98	50,330	51,351	50,603	52,852
Total Expenditures	122,761	122,520	122,332	124,018
Fund Balance	1,027	2,534	723	2,617
Encumbrances	980	980	980	980
Special Fund for Economic Uncertainties	47	1,554	-257	1,637
Budget Stabilization Act.	\$6,713	\$7,869	\$6,713	\$8,488

Economic Forecast Somewhat Revised. The Governor's economic forecast retains the overall moderate growth over the near and medium term. This dynamic reflects national trends, which has gross domestic product (GDP) increases of 1.6 percent in 2016 (the same as in January) and 2.4 percent in 2017 (versus 2.2 percent in January). Personal income in the state is expected to grow by 4.5 percent from 2016 to 2017, and

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4.5 percent from 2017 to 2018. California's economy has performed steadily with respect to job creation since the sharp downturn, and has gained private sector jobs well in excess of those lost during the recession. Unemployment remains above the national average – as is typical for California – but is at or below the state's historical average. The average annual unemployment rate, which was 7.5 percent in 2014, dropped to 6.2 percent in 2015, 5.4 percent in 2016 and is expected to decline further to 5.1 percent in 2017. California is expected to add jobs in the near to medium term although the pace has slowed somewhat. Wages and salaries, which had been almost static earlier in the recovery, are continuing to show increases.

Revenue Changes Since January. Overall, the May Revision forecast for 2015-16 through 2017-18 revenues, has increased \$2.5 billion from January 2017. There are three factors that contribute to this increase: a personal income tax increase of \$2.9 billion due to increased capital gains and wage growth in higher income jobs; a sales tax decrease of \$1.2 billion reflecting weak cash receipts; and, an increase of \$400 million in corporation taxes due to lower refunds and prior year higher payments. Forecasts of local property tax revenues, an important part of meeting the Proposition 98 guarantee that offset the General Fund obligation, show moderate growth. Property tax revenues are expected to increase by 4.9 percent in 2016-17 and 5.4 percent in 2017-18. This is a slight decline from January for 2016-17 and basically unchanged for 2017-18. About 42 percent of total property tax revenues go to K-14 education and county offices of education.

The General Fund revenue forecasts for the January budget and the May Revision are compared in the following table:

2016-17 and 2017-18 General Fund Revenue Sources (Dollars in Millions)

Revenue Source	January Budget		May Revision	
	2016-17	2017-18	2016-17	2017-18
Personal Income Tax	\$83,136	\$85,866	\$83,161	\$88,961
Sales and Use Tax	24,994	25,179	24,494	24,470
Corporation Tax	10,389	10,878	10,210	10,894
Other Revenues	3,430	3,260	3,688	3,362
Total	\$121,949	\$125,183	\$121,553	\$127,687

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Change in General Fund Expenditures. The overall General Fund expenditures by program area as proposed in January, and revised in May, are presented below:

2016-17 and 2017-18 General Fund Expenditures (Dollars in Millions)

Agency	January Budget		May Revision	
	2016-17	2017-18	2016-17	2017-18
Legislative, Judicial, Executive	\$3,500	\$3,322	\$3,507	\$3,333
Business, Consumer, Housing	493	388	494	382
Transportation	225	243	225	241
Natural Resources	3,110	2,811	3,024	2,873
Environmental Protection	90	89	90	85
Health and Human Services	35,263	33,994	34,685	33,669
Corrections and Rehabilitation	10,889	11,088	10,944	11,194
K-12 Education	50,589	52,169	50,813	53,575
Higher Education	14,527	14,627	14,606	14,743
Labor and Workforce	177	122	179	127
Government Operations	1,772	741	1,789	745
General Government	2,126	2,926	1,976	3,051
Total	\$122,761	\$122,520	\$122,332	\$124,018

Key Features of the May Revision. The May Revision is a traditional mid-budget correction with few major new commitments or changes from the January proposal. Some of the highlights of this more traditional 'revision' are outlined in the sections below.

- **Proposition 98 Guarantee and Investments in Education.** The May Revision provides increased Proposition 98 funding of \$1.5 billion over the Governor's budget for the three-year period of 2015-16 to 2017-18. This reflects an over-appropriation of the minimum guarantee levels in 2015-16 and 2016-17, and as a result, a higher minimum guarantee level in 2017-18. The overall funding plan for education builds upon the priorities in the January proposal and includes an additional \$661 million in ongoing support for implementation of the Local Control Funding Formula, bringing the total investment in 2017-18 to \$1.4 billion, and a total of \$1 billion in K-12 one-time discretionary funding, although these funds will not be disbursed until 2019. Community Colleges will receive increased investments of \$160 million ongoing to support community college operating expenses.

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- **Child Care and Early Education.** The May Revision includes approximately \$239 million (\$111 million General Fund and \$128 million Proposition 98) for implementing increased child care and preschool rates and increasing state preschool slots in the 2017-18 year per the schedule agreed upon during 2016-17 budget negotiations. The January proposal had previously paused planned increases for 2017-18 due to lower than anticipated revenues.
- **University of California.** In an effort to hold the University of California (UC) accountable for issues raised in the recent State Auditor Report on the UC Office of the President, the May Revision proposes to set-aside \$50 million General Fund from UC's base budget. The release of this funding is contingent on UC's adoption of the State Auditor's recommendations, and its 2015 agreement with the Administration to piloting activity-based costing at various campuses, and enrolling at least one transfer student for every two entering freshman.
- **Financial Aid.** The May Revision reverses the scheduled reduction in the maximum Cal Grant tuition award for new students attending private institutions accredited by the Western Association of Schools and Colleges, maintaining the award at \$9,084 (instead of \$8,056). This is funded through a redirection of \$4 million General Fund from UC and CSU each.
- **Significant Reduction in Medi-Cal Expenditures.** The May Revision reduces General Fund expenditures in the Medi-Cal program by \$619.8 million in 2016-17 and \$536.4 million in 2017-18. As a result, the 2016-17 General Fund shortfall is reduced from \$1.8 billion to approximately \$1.2 billion. According to the Administration, the reductions are primarily attributable to savings from drug rebates in Medi-Cal managed care, retroactive managed care rate adjustments, and slower caseload growth than previously estimated.
- **Mitigating Impacts of Coordinated Care Initiative Termination.** The Governor's budget determined that the Coordinated Care Initiative (CCI) was not cost-effective; this resulted in approximately \$600 million in state savings and a corresponding shift of these costs to counties due to the return to the cost-sharing ratio for the program. The May Revision proposes to mitigate this issue for counties by contributing \$400 million General Fund, and then smaller amounts in future years as realignment revenues grow. The maintenance-of-effort structure would remain rather than a share-of-cost structure, with a new base for county costs and an annual inflation factor that would be phased-in.

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- **Transportation Investment.** The May Revision includes significant capital outlay, state operations, and local assistance resources related to the implementation of SB 1 (Beall), Chapter 5, Statutes of 2017, the Road Repair and Accountability Act of 2017. This includes \$1.5 billion from a variety of funds, in local and capital funding for projects in multiple transportation programs, \$477.8 million from a variety of funds, with a net zero change in staff, to pave highways, fill potholes, rehabilitate bridges, and disseminate local assistance funds, and \$9.5 million in State Highway Account funds for 58 positions, including 48 redirected positions, for the new Office of Inspector General at Caltrans.
- **Cannabis Regulation.** The May Revision includes an additional \$43.2 million for activities relating to the implementation of cannabis regulation. The January budget included \$52.2 million to fund regulatory activities, license processing, and enforcement. The May Revision reflects the ongoing efforts to provide adequate resources to protect consumers, the environment, and public safety. Additional funding is intended to assist the Department of Public Health with licensing and implementing cannabis manufacturer regulations, provide resources to setup the Cannabis Control Appeals Panel, and help safeguard local control of cannabis and industry compliance with all of California's environmental laws.
- **Defending Against Unconstitutional Laws and Legislation.** The May Revision includes \$6.5 million General Fund and 31 positions for the Department of Justice to address increased workload related to various actions taken at the federal level. From January 20, 2017 through the end of April, the Department of Justice has expended over 11,000 hours of legal resources in response to federal actions related to public safety, healthcare, the environment, consumer affairs, and other constitutional issues.
- **Immigration Services.** The May Revision includes an increase of \$15 million General Fund for immigration services, bringing the total to \$30 million General Fund, to further expand the availability of legal services for people seeking naturalization services, deportation defense, or assistance in securing other legal immigration status.
- **Enhancing Dam Safety.** The May Revision includes the Administration's, previously released, current year proposal for a comprehensive Dam Safety and Emergency Flood Response Package for implementation in 2017-18. Specifically, the proposal includes: 1) \$3.5 million from the Dam Safety Fund and \$1.8 million General Fund for the Department of Water Resources and the Office of

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Emergency Services to review and approve inundation maps and coordinate the review of emergency action plans and trailer bill language to update and enhance emergency action plans and inundation maps; 2) \$3 million from the Dam Safety Fund for the Department of Water Resources to conduct more extensive evaluations of appurtenant structures, such as spillways, gates, and outlets; and 3) \$387.1 million in Proposition 1 funds for the Department of Water Resources to accelerate flood control projects over the next two fiscal years.

- **Budgetary Debt and Reserves.** The May Revision results in an increase from January in the amounts deposited to the BSA, as well as the amount available for payment of Proposition 2 eligible debts. The total amount available will increase by \$1.2 billion (with half deposited to the BSA and half used for debt payments). The May Revision continues the Governor's commitment to pay down budgetary debt and borrowing, including through the Proposition 2 mechanism. The following table shows changes to the Proposition 2 debts and the debt repayment plan in 2017-18.

Debts and Liabilities Payments Under Proposition 2 (Dollars in Millions)

	Outstanding Amount	January Payment Plan	May Payment Plan
Budgetary Borrowing			
Special Fund Loans	\$1,365	\$252	\$252
Proposition 98 Settle-Up	1,043	400	603
Transportation Loans	706	235	235
State Retirement Liabilities			
State Retiree Health	76,533	100	89
State Employee Pensions	59,578	0	427
Teacher Pensions	101,586	0	0
Judges Pensions	3,489	0	0
CalPERS Deferred Payments	627	0	0
UC Retirement Liabilities			
Employee Pensions	15,141	169	169
Retiree Health	21,860	0	0
Total	\$281,928	\$1,156	\$1,775

Risks Inherent in Budget Plan and Underlying Economics. The Administration expects continued moderate economic growth during the forecast period. As with every budget plan, things can go awry, although the state has made substantial progress in cushioning against potential fiscal stress by building its reserves. The economy has

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continued its moderate recovery and the Administration has taken a reasonable approach in its revenue forecasting. The May Revision notes continued economic risks as a result of potential corrections in the stock market, geopolitical events that could affect the national economy, and a continued lack of housing in California that limits growth. In addition, the Administration has previously indicated that although there are few signs of conditions that could curtail growth, the nation is already eight years into a recovery – three years longer than the recent historic average. Globally, economic uncertainty in Europe, slowing growth in emerging markets, the appreciating dollar, and stock market volatility, could have an impact on the national, and California's, economic growth trajectory. The federal budget, and potential changes regarding the receipt of federal revenues, remains a significant uncertainty.

K-12 EDUCATION AND CHILD CARE

The May Revision includes \$92.3 billion total funds (\$54.2 billion General Fund and \$38.1 billion other funds) for all K-12 education programs.

PROPOSITION 98 – K-14 EDUCATION

- **Changes to the Minimum Guarantee.** The May Revision provides increased Proposition 98 funding of \$1.5 billion over the Governor's budget for the three-year period of 2015-16 to 2017-18. More specifically, the May Revision funds the Proposition 98 guarantee for the 2015-16 through 2017-18 fiscal years at \$69.1 billion, \$71.4 billion, and \$74.6 billion, respectively. Compared to January, this reflects the following yearly changes:
 - o An increase of approximately \$533 million in 2015-16.
 - o An increase of approximately \$22 million in 2016-17.
 - o An increase of approximately \$1.1 billion in 2017-18.

These levels reflect over-appropriating the guarantee in the 2015-16 and 2016-17 fiscal years, resulting in a higher minimum guarantee level in the 2017-18 year. Proposition 98 Maintenance Factor balances at the end of 2017-18 are \$823 million. Finally, the May Revision includes a proposal to suspend what is known as the "3B supplemental appropriation" calculation for the 2016-17 through 2020-21 fiscal years. The 3B supplement is a component of the Proposition 98 calculation that ensures that school funding grows at the same rate as the rest of the budget when the state is experiencing low General Fund growth. Suspending this statutory portion of the calculation reduces the Proposition 98 obligation in future years, but this reduction amount is added to the maintenance factor calculation to be paid back when the state experiences higher General Fund growth.

- **Deferrals.** The May Revision does not include funding deferrals, undoing the January proposal to shift \$859.1 million of the funding scheduled to be provided for Local Control Funding Formula (LCFF) implementation from 2016-17 to 2017-18.

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- **Settle-Up.** The proposal provides \$603 million in settle-up payments that count towards the 2009-10 guarantee level; of this \$514 million is provided in LCFF payments in the 2016-17 fiscal year.
- **Local Control Funding Formula.** The May Revision includes approximately \$1.4 billion for implementation of the LCFF formula, which brings the formula to 97 percent of full implementation in the 2017-18 fiscal year. This is an increase of \$661 million over the January proposal of almost \$770 million in ongoing investments in LCFF.
- **Mandates.** The May Revision includes a total of up to \$1 billion in one-time Proposition 98 General Fund to provide discretionary funds to LEAs and to pay down the backlog of the state's obligations attributable to K-12 education mandates. This funding would count towards the 2017-18 Proposition 98 guarantee, but the Governor proposes to delay the release of these funds until May 2019, with the appropriation amount contingent upon the 2017-18 guarantee level remaining at the level determined at the 2017-18 budget act. To the extent the 2017-18 minimum guarantee calculation decreases in future years, the appropriation amount would be adjusted.

PROPOSITION 98 – OTHER MAJOR CHANGES FOR K-12 EDUCATION

- **Proposition 39 Energy Efficiency Programs for K-12 Education.** The May Revision decreases the amount of energy efficiency funds available to K-12 schools in 2017-18 by 46.7 million, to \$376.2 million, to reflect decreased revenue estimates.
- **Other Technical Adjustments.** The May Revision also includes the following adjustments:
 - **Local Property Taxes.** An increase of \$188.7 million in 2016-17 and a decrease of \$327.9 million in 2017-18 in Proposition 98 General Fund for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues.
 - **Average Daily Attendance.** An increase of \$26.2 million in 2016-17 and \$74.1 million in 2017-18 for school districts, charter schools, and county offices of education as a result of changes in projected attendance.

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- **Categorical Program Growth.** An increase of \$2.4 million Proposition 98 General Fund for selected categorical programs based on updated estimates of projected attendance growth.
- **Cost-of-Living Adjustments.** An increase of \$3.2 million Proposition 98 General Fund to selected categorical programs, including state preschool, based on a revised cost-of-living factor of 1.56 percent for 2017-18, increased from the 1.48 percent estimated in January.

CHILD CARE AND EARLY CHILDHOOD EDUCATION

- **Funding Adjustments.** Overall, the May Revision increases funding for child care and preschool programs by approximately five percent from the January proposal for a total of approximately \$4 billion, including transitional kindergarten. The increase is related to undoing the proposed pause of budget year components of the 2016-17 budget act agreement. Funding for CalWORKs child care decreased from Governor's budget, by a net of \$31 million, reflecting caseload adjustments and lower average cost of care estimates in stages 1, 2, and 3, offset by rate increases related to implementing the 2016-17 budget agreement.
- **Child Care Funding Pause.** Specifically the May Revision restored the following components of the 2016-17 budget agreement for the 2017-18 year that were not included in the January proposal for a total of \$239 million:
 - \$68 million to annualize the 10 percent Standard Reimbursement Rate (SRR) increase intended to begin January 1, 2017.
 - \$93 million to increase the SRR an additional 6 percent beginning July 1, 2017.
 - \$42 million to increase the Regional Market Rate (RMR) to the 75th percentile of the 2016 regional market survey starting January 1, 2017. This includes a temporary hold harmless provision so no provider receives less in 2017-18 than it receives under current rates.
 - \$29 million for cost-of-living adjustments for non-CalWORKs child care and preschool programs.
 - \$8 million to add 2,959 full-day State Preschool slots at local education agencies starting April 1, 2018.

HIGHER EDUCATION

CALIFORNIA COMMUNITY COLLEGES (CCC)

- **Increased Operating Expenses.** The May Revision includes an increase of \$160 million Proposition 98 General Fund to support community college operating expenses.
- **State Operations.** The May Revision proposes \$618,000 General Fund and \$454,000 in reimbursement authority to the Chancellor's Office for six positions and funding to support a second Deputy Chancellor.
- **Apportionment.** The May Revision proposes an increase of \$34.1 million Proposition 98 General Fund, which accounts for unused prior-year enrollment growth funding, declining enrollment, and an increase in cost-of-living adjustment.
- **Local Property Tax Adjustment.** The May Revision includes an increase of \$68.2 million Proposition 98 General Fund in 2016-17, as a result of decreased offsetting local property tax revenues.
- **Deferred Maintenance.** The May Revision proposes an increase of \$92.1 million one-time Proposition 98 General Fund and settle-up for deferred maintenance, instructional equipment, and specified water conservation projects.
- **Equal Employment Opportunity Program.** The May Revision proposes an increase of \$1.8 million Employment Opportunity Fund to promote equal employment opportunities in hiring and promotion at community colleges.
- **Full-Time Student Success Funding.** The May Revision proposes an increase of \$1.9 million Proposition 98 General Fund to reflect an increased estimate of eligible Cal Grant B and C recipients in 2017-18.
- **Cost-of-Living Adjustments.** The May Revision proposes an increase of \$229,000 Proposition 98 General Fund to provide a COLA for the Disabled Student Programs and Services program, the Extended Opportunities Programs and Services program, the Special Services for CalWORKs Recipients program, and the Child Care Tax Bailout program.

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- **Proposition 39.** The May Revision proposes a decrease of \$5.8 million, for a total of \$46.5 million, to reflect reduced revenue estimates.
- **Student Enrollment Fee Adjustment.** The May Revision proposes a decrease of \$24.8 million Proposition 98 General Fund as a result of increased offsetting student enrollment fee revenues.

UNIVERSITY OF CALIFORNIA (UC)

- **Cost Structure.** The May Revision proposes to set-aside \$50 million General Fund from UC's base, which will be released when UC has achieved the commitments made in the agreement with the Governor related to activity-based costing and enrollment of transfer students, and completed recommendations made by the State Auditor in its recent report on the UC Office of the President.

CALIFORNIA STATE UNIVERSITY (CSU)

- **Redirection.** The May Revision proposes to redirect \$4 million General Fund from UC and CSU each to prevent the scheduled award reductions for Cal Grants for students attending private institutions accredited by the Western Association of Schools and Colleges.
- **Transportation Research.** The May Revision proposes an increase of \$2 million for CSU and \$5 million for UC, from the State Transportation Fund, for transportation research, pursuant to Senate Bill 1 (Beall), Chapter 5, Statutes of 2017.

CALIFORNIA STUDENT AID COMMISSION (CSAC)

- **Offsets Cal Grants Costs with Federal Temporary Assistance for Needy Families (TANF) Funds.** The May Revision proposes an increase of \$194 million in TANF reimbursements in 2017-18, which reduces General Fund support for Cal Grants. This would bring total TANF support for Cal Grants to \$1.1 billion.
- **Caseload Adjustments.** The May Revision proposes Cal Grant spending increase by \$33 million in 2016-17 and \$71.6 million in 2017-18 to reflect revised estimates in Cal Grant caseload costs for the current year and budget year.

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- **College Access Tax Credit Funding.** The May Revision assumes a \$5.6 million decrease in College Access Tax Credit Funding for the Cal Grant B supplement. This decreases the per-student supplement to \$24.
- **Middle Class Scholarship Program Costs.** The May Revision proposes a net decrease of \$10 million for revised cost estimates related to the Governor's budget proposal to phase out the program.
- **Tuition Award for UC and CSU Students.** The May Revision proposes an increase of \$28 million and \$20.9 million to reflect the adopted tuition increases at CSU and UC, respectively. CSU and UC approved an increase in tuition of \$270, and \$282, respectively, and as a result, the maximum Cal Grant award would increase by a corresponding amount.
- **Private Institutions.** The May Revision proposes an increase of \$8 million General Fund, redirected from UC and CSU's base budget, in 2017-18, to maintain the maximum Cal Grant tuition award for students attending private institutions accredited by the Western Association of Schools and Colleges at \$9,084.
- **New Grant Delivery Infrastructure Technology (IT) System.** The May Revision proposes \$546,000 one-time for the final year of planning the system. Funds are for costs of a project manager and for the California Department of Technology project planning and support.

CALIFORNIA STATE LIBRARY

- **Asset Management System Replacement.** The May Revision proposes an increase of \$404,000 for replacement of the asset management system. Of this amount \$189,000 is ongoing to support costs of subscriptions, and \$215,000 is one-time to support costs of implementation of the new system.

NATURAL RESOURCES

DROUGHT

The Governor's January budget proposed \$178.7 million to continue the state's emergency response to the drought. After monitoring conditions through the 2017 raining season, the Administration has decreased drought proposals by \$115.8 million. As a result, the May Revision proposes \$62.9 million, including:

- **Department of Forestry and Fire Protection (CAL FIRE).** The May Revision includes \$38.7 million General Fund and \$3 million State Responsibility Area Fund for expanded fire protection in the 2017 fire season in recognition of continuing tree mortality.
- **Department of Water Resources.** The May Revision includes \$8.5 million: 1) \$5 million General Fund to provide emergency drinking water supplies for small communities in the Central Valley, and 2) \$2.6 million General Fund and \$900,000 Harbors and Watercraft Fund to implement the state's Delta Smelt Resiliency Strategy such as aquatic weed control, adaptive food management and distribution, and wetlands flood drain operations.
- **Department of Fish and Wildlife.** The May Revision includes \$2.6 million General Fund to sustain resilient systems for protection of fish and wildlife affected by future drought and climate change.
- **Office of Emergency Services.** The May Revision includes \$8.5 million General Fund, including \$2 million for local agencies to remove dead or dying trees and \$6.5 million to continue providing water tanks, periodic refills or tanks, and tank storage and sanitization to nine counties that continue to experience the effects of recent drought.
- **State Water Resources Control Board.** The May Revision includes \$600,000 General Fund to conclude water curtailment compliance and enforcement actions.

MAKING WATER CONSERVATION A WAY OF LIFE

In April the Administration proposed trailer bill language to establish new water efficiency standards and additional drought planning requirements. The May Revision supports these efforts to make conservation a way of life, as follows:

- **State Water Resources Control Board.** The May Revision includes five positions to implement the Administration's proposed trailer bill language.
- **Department of Water Resources.** The May Revision includes \$1 million General Fund to support the Save Our Water campaign, which will continue public outreach to encourage water conservation.

NATURAL RESOURCES

- **Collaborative Solutions to Water Supply Reliability and Watershed Health.** The May Revision includes the following proposals related to the Natural Resource Agency's efforts to enter into voluntary agreements with federal, state, local, and non-governmental organizations to balance competing demands for water in the Delta:
 - **Department of Fish and Wildlife.** The May Revision includes \$1.1 million General Fund and five positions for the department to provide legal, scientific, and other expertise.
 - **Department of Water Resources.** The May Revision includes \$50 million in Proposition 1 funds to support Central Valley multi-benefit flood management projects that include, but are not limited to, actions identified by voluntary agreements. This proposal is a component of the \$387.1 million acceleration of Proposition 1 flood control investments included in the Administration's Enhancing Dam Safety proposal.

Additionally, the May Revision includes \$21 million in Proposition 13 funds over the next five years for the department to provide scientific and engineering expertise and construction funds to support salmon habitat restoration actions on the San Joaquin River and its tributaries.

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- **CAL FIRE.** The May Revision proposes \$42 million General Fund and \$309,000 various special funds and reimbursements to expand the state's firefighting capabilities and extend the fire season by, specifically, adding 42 year-round fire engines, staffing CAL FIRE engines and helitack bases one month earlier, and extending peak staffing in the fall by approximately two weeks.
- **Enhancing Dam Safety.** The May Revision includes the Administration's previously released current year proposal for a comprehensive Dam Safety and Emergency Flood Response Package for implementation in 2017-18. Specifically, the proposal includes:
 - **Emergency Action Plans and Inundation Maps.** The May Revision includes \$3.5 million from the Dam Safety Fund and \$1.8 million General Fund for the Department of Water Resources and the Office of Emergency Services to review and approve inundation maps and coordinate the review of emergency action plans and trailer bill language to update and enhance emergency action plans and inundation maps.
 - **Enhanced Dam Evaluations.** The May Revision includes \$3 million from the Dam Safety Fund for the Department of Water Resources to conduct more extensive evaluations of appurtenant structures, such as spillways, gates, and outlets.
- **Acceleration of Flood Control Investments.** The May Revision includes \$387.1 million in Proposition 1 funds for the Department of Water Resources to accelerate flood control projects over the next two fiscal years. This was also a component of the Administration's current year Enhancing Dam Safety proposal.
- **Natural Resources and Parks Preservation Fund.** The May Revision includes the transfer of \$65 million General Fund, from previous appropriations for deferred maintenance at state parks, to establish a "pay as you go" special fund to support natural resources programs previously funded by bond measures, such as water and flood management, parks, forestry, land preservation, wildlife habitat, and climate adaptation.
- **Department of Parks and Recreation.** The May Revision includes \$54 million from the State Parks and Recreation fund as an initial investment from additional revenue received as a result of SB 1 (Beall), Chapter 5, Statute of 2017. Specifically, the May Revision includes:

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- **Fix Our Parks.** The May Revision includes \$31.5 million to repair and maintain the aging infrastructure of the state park system and repair the recent damage sustained from severe winter storms. A portion of the funds will provide the state's match of federal funds to address storm-damaged areas, including Big Sur State Park.
- **Establish Partnerships to Improve Access to Parks.** The May Revision includes \$1.5 million to establish a pilot project to provide transportation to parks from urban areas and schools.
- **Support Off-Highway Vehicle Recreation.** The May Revision includes \$1 million to increase law enforcement, environmental monitoring, and maintenance grants supporting federal off-highway vehicle recreation.
- **Reduce Boating Hazards.** The May Revision includes \$1 million for the Abandoned Watercraft Abatement grant program to remove abandoned watercraft from California's waterways.
- **Establish a Recruitment and Training Program.** The May Revision includes \$1 million to establish a recruitment and training program for hard-to-fill classifications, including park rangers, lifeguards, maintenance workers, administrators, and managers.
- **Jurupa Park.** The May Revision includes \$18 million for the Jurupa Area Recreation and Park District.

CALIFORNIA PUBLIC UTILITIES COMMISSION (PUC)

- The May Revision includes trailer bill language to transfer various transportation regulatory duties from PUC to a variety of other organizations. Specifically, under the proposed trailer bill language:
 - The responsibility for regulating private carriers of passengers would be transferred to the Department of Motor Vehicles.
 - The responsibility for regulating household goods carriers would transfer to the Department of Consumer Affairs' Bureau of Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation.

Overview of the Governor's 2017-18 May Revision

- The responsibility for regulating for-hire vessels would be transferred to the Department of Parks and Recreation's Division of Boating and Waterways.
- Responsibility for regulating commercial air carriers would be transferred to local jurisdictions.
- The May Revision also includes \$636,000 in Public Utilities Commission Transportation Reimbursement Account to fund six positions to strengthen capabilities in the PUC's Transportation Enforcement Branch as called for in the report prepared pursuant to SB 541 (Hill), Chapter 718, Statutes of 2015. This request includes trailer bill language to provide impoundment authority to Transportation Branch investigators.

TRANSPORTATION

The May Revision includes significant resources related to the implementation of SB 1 (Beall), Chapter 5, Statutes of 2017, the Road Repair and Accountability Act, as well as a number of ongoing efforts at the Department of Motor Vehicles.

DEPARTMENT OF TRANSPORTATION (CALTRANS)

- The May Revision includes a total of \$1,497,370,000, from a variety of funds, in local and capital funding for projects in multiple transportation programs in accordance with SB 1. This includes \$592.8 million for capital projects and \$904.6 million for local assistance. Affected programs include the Local Partnership Program, Trade Corridor Enhancement Program, Transit and Intercity Rail Capital Program, Active Transportation Program, Congested Corridor Program, and State Highway Operations Protection Program (SHOPP).
- The May Revision includes \$477.8 million in support costs, from a variety of funds, with a net zero change in staff, to pave highways, fill potholes, rehabilitate bridges, and disseminate local assistance funds from new revenue created by SB 1. The May Revision also requests approval of provisional language to provide funding flexibility.
- The May Revision includes \$9.5 million in State Highway Account funds for 58 positions, including ten new positions and the redirection of 48 existing positions, for the new Office of Inspector General created by SB 1.

CALIFORNIA TRANSPORTATION COMMISSION (CTC)

- The May Revision \$1.1 million in combined Public Transportation Account and State Highway Account funding for four positions to perform additional duties at the CTC resulting from the passage of SB 1.

DEPARTMENT OF MOTOR VEHICLES (DMV)

- The May Revision includes \$3.8 million in Road Maintenance and Rehabilitation Account funding to cover higher credit card transaction costs associated with the collection of the new Transportation Improvement Fee revenues created by SB 1.

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- The May Revision includes \$1.8 million in General Fund and \$5.2 million in Motor Vehicle Account funding to implement a single-step opt-out voter registration process pursuant to AB 1461 (Gonzalez), Chapter 729, Statutes of 2015.
- The May Revision includes \$23 million in Motor Vehicle Account funding and 166 positions to address workload requirements associated with conforming to federal REAL ID requirements for driver licenses and identification cards.

HEALTH

DEPARTMENT OF HEALTH CARE SERVICES (DHCS)

- **Significant Reduction in Medi-Cal Expenditures.** The May Revision reduces General Fund expenditures in the Medi-Cal program by \$619.8 million in 2016-17 and \$536.4 million in 2017-18. As a result, the 2016-17 General Fund shortfall is reduced from \$1.8 billion to approximately \$1.2 billion. According to the Administration, the reductions are primarily attributable to savings from drug rebates in Medi-Cal managed care, retroactive managed care rate adjustments, and slower caseload growth than previously estimated.
- **Proposition 56 Tobacco Tax Revenue.** The May Revision continues the Administration's proposed allocation of Proposition 56 tobacco tax revenue to growth in the Medi-Cal program. According to the Administration, the estimated Medi-Cal allocation of this revenue has increased by \$19.8 million to approximately \$1.3 billion.
- **Coordinated Care Initiative (CCI).** The May Revision continues the Administration's estimate that CCI will no longer be cost-effective and discontinues many components of CCI in 2017-18. The components proposed to be discontinued are: (1) remove IHSS benefits from plan capitation rates; (2) eliminate statewide authority responsible for bargaining IHSS workers' wages and benefits in the seven CCI counties; and (3) re-establish the state-county share of cost arrangement for the IHSS program that existed prior to the implementation of CCI. The May Revision includes General Fund and other support to mitigate the county impacts of this proposal (see Human Services, Department of Social Services, *Mitigation of In-Home Supportive Services impacts for counties due to end of the Coordinated Care Initiative*).

The May Revision also maintains the Administration's proposed continuation of Cal MediConnect, mandatory enrollment of dual-eligibles in managed care, and integration of long-term services and supports into managed care (except IHSS). The May Revision includes \$8 million of General Fund savings in the Medi-Cal budget for the proposed continuation of the Cal MediConnect duals demonstration pilot, a decrease of \$12 million from the savings included in the Governor's budget.

Overview of the Governor's 2017-18 May Revision

- **Elimination of Newly Qualified Immigrant (NQI) Benefits and Affordability Program.** The May Revision includes an increase of \$48 million General Fund to reflect elimination of the NQI Benefits and Affordability Program. According to the Administration, due to operational and programmatic uncertainties, the Medi-Cal program will stop efforts to implement the program. The Administration intends to seek federal designation of the existing, state-funded NQI health care coverage program as minimum essential coverage.
- **Medicare Part A Enrollees in Medi-Cal Optional Expansion.** The May Revision includes an increase of \$227.1 million General Fund in 2017-18 to account for a correction to federal funding claimed under the Optional Expansion for individuals enrolled in Medicare Part A. Because Medicare Part A is considered minimum essential coverage, these individuals are not eligible for the expansion. According to the Administration, enrollment systems were corrected in August 2016 to eliminate further enrollment of Medicare Part A eligible individuals into the Optional Expansion. The program will make necessary adjustments to recoup payments to managed care plans and county mental health plans, and to reimburse the federal government for inappropriately claimed federal funds.
- **Behavioral Health Treatment.** The May Revision reduces General Fund expenditures to provide behavioral health treatment services to Medi-Cal beneficiaries by \$111.2 million in 2016-17 and \$145.3 million in 2017-18. According to the Administration, these savings are due to reduced actual claims data compared to previous caseload estimates.
- **Federal Cures Act Opioid Targeted Response Grant.** The May Revision includes \$44.7 million federal funds from the Federal Cures Act Opioid Targeted Response Grant. This grant will allow for increased medication-assisted treatment for individuals with substance use disorders. DHCS will establish 15 “hub and spoke” systems by September 1, 2017. A Narcotic Treatment Program will serve as a “hub” and the “spokes” are regional physicians approved to prescribe medication assisted treatment. In addition, the Administration is proposing trailer bill language to expedite the ability to provide these funds to the receiving entities.
- **School-Based Mobile Vision Care Services.** The May Revision includes a proposed extension of a three-year pilot program in Los Angeles County for school-based mobile vision services. The program, which is scheduled to end on June 30, 2018, requires an evaluation of the program by the end of 2017. If the

Overview of the Governor's 2017-18 May Revision

evaluation demonstrates improved treatment for children in the county, the Administration proposes to expand the program statewide in 2018-19.

- **Elimination of Contract Pharmacies in Medi-Cal 340B Program.** The May Revision proposes statutory changes to end the use of contract pharmacies in the 340B program in Medi-Cal. According to the Administration, this proposal addresses recent concerns raised by the federal government regarding inappropriate duplicate discounts received by claiming federal drug rebates on already discounted drugs. The proposal also seeks to prevent unnecessary overpayments in Medi-Cal.

DEPARTMENT OF PUBLIC HEALTH

- **Implementation of the Adult Use of Marijuana Act.** The May Revision includes a request for 50 positions and expenditure authority from the Cannabis Control Fund of \$9.3 million to implement the licensing and regulatory provisions of the Adult Use of Marijuana Act (Proposition 64).

OTHER HEALTH-RELATED ISSUES

- **Reversion of Health-Related Investments Approved in 2016 Budget Act.** The May Revision continues the Administration's proposal to revert the following health-related investments approved in the 2016 Budget Act:
 - \$100 million General Fund over three years for health care workforce initiatives, including primary care residency funding.
 - \$67.5 million General Fund for community mental health and substance use disorder infrastructure grant funding.
 - \$17 million General Fund to increase facilities providing a continuum of crisis services for children.

HUMAN SERVICES

DEPARTMENT OF SOCIAL SERVICES

Mitigation of In-Home Supportive Services (IHSS) impacts for counties due to end of the Coordinated Care Initiative (CCI). The CCI was created in 2012 to reduce state costs and improve health care delivery by coordinating services through a single health plan. The Governor's budget determined that the CCI was not cost-effective; this resulted in approximately \$600 million in state savings and a corresponding shift of these costs to counties due to the return to the cost-sharing ratio for the program. Counties were concerned that 1991 Realignment funds, which fund the counties' share of IHSS, would not be enough to cover these costs, and this would only be exacerbated in out years.

- The May Revision proposes to mitigate this issue for counties by contributing \$400 million General Fund, and then smaller amounts in future years, as realignment revenues grow. Under this proposal, redirection of the Vehicle License Fee growth from the Health, County Medical Services Program, and Mental Health Subaccounts would provide additional resources for IHSS to offset General Fund costs. The maintenance-of-effort (MOE) structure would remain rather than a share-of-cost structure, with a new base for county costs and an annual inflation factor would be phased in.

IHSS Collective Bargaining. The Statewide Authority immediately ceased to be the employer of record for IHSS providers when the CCI was discontinued. Under CCI, if a county negotiated a wage and benefit increase, its MOE increased by its 35 percent share, and state participation has been capped at \$12.10 per hour for wages and benefits.

- The May Revision returns collective bargaining to counties and maintains the 35 percent county share of negotiated increases and proposes that the state participation cap always be \$1.10 above the hourly minimum wage set in SB 3 (Leno), Chapter 4, Statutes of 2016, for large employers. The cap would rise with inflation once the minimum wage reaches \$15 per hour. For counties at or exceeding the current state cap of \$12.10, the state would agree to participate at its 65 percent share of costs up to a 10 percent increase in wages and benefits over three years. Also, beginning July 1, 2017, if a county does not conclude bargaining with its IHSS workers within nine months, the union may appeal to the Public Employment Relations Board.

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- **Decrease in IHSS funding resulting from decrease in costs associated with provider travel time and medical accompaniment.** Related to the Fair Labor Standards Act overtime implementation, as set forth under SB 855 (Committee on Budget and Fiscal Review), Chapters 29, Statutes of 2014, began on February 1, 2016, the May Revision proposes a decrease of \$22.5 million General Fund in 2016-17, and \$80.8 million General Fund in 2017-18, due to a projected decrease in costs associated with IHSS provider travel time and medical accompaniment wait time.
- **Immigration Services.** The May Revision includes an increase of \$15 million General Fund for immigration services, bringing the total up to \$30 million General Fund, to further expand the availability of legal services for people seeking naturalization services, deportation defense, or assistance in securing other legal immigration status.
- **Continuum of Care Reform (CCR).** The CCR seeks to improve the assessment of child and families, emphasize home-based family care, support placement with available services, and increase transparency for child outcomes. The May Revision proposes an increase of \$11.2 million General Fund to implement a higher hourly rate for county social worker and probation staff, and to provide foster youth placed with relative caregivers the same infant supplement grant and dual agency rate as federally-eligible foster youth.
- **Adjusts caseload for CalWORKs.** The May Revision proposes a decrease of \$19.1 million General Fund and federal Temporary Assistance for Needy Families (TANF) block grant funds in 2016-17, and \$35.5 million General Fund and TANF in 2017-18, to reflect updated caseload and average cost per case projections.
- **Adjusts caseload for SSI/SSP.** The May Revision proposes to decrease funding by \$34.1 million General Fund in 2016-17, and \$37.3 million General Fund in 2017-18, to reflect updated caseload and average cost per case projections.
- **CalFood Program.** The May Revision includes a \$2 million one-time General Fund appropriation to allow the CalFood Program to purchase and distribute food to needy families.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- **Safety Net Proposals.** Tied to the planned closure of the state developmental centers (excluding the secured treatment program at Porterville Developmental Center), the Governor has proposed several initiatives to ensure services and supports are available to persons with challenging needs and those in crisis. Specifically, the May Revision proposes an augmentation of \$7.5 million General Fund and the redirection of \$13.7 million in existing funds in 2017-18, for a total of \$21.2 million, to establish the following:
 - \$1.9 million and 14.5 positions to operate two state-operated, 24/7, Mobile Acute Crisis Unit teams for deployment statewide.
 - \$3 million for two acute crisis homes in northern California to relocate and expand the existing STAR program at Sonoma Developmental Center.
 - \$1.3 million and trailer bill language to renovate and maintain the two southern STAR homes at Fairview Developmental Center.
 - \$3 million intensive wrap-around services for individuals transitioning out of secure treatment.
 - \$3 million for wrap-around services for persons with co-occurring developmental disabilities and mental health needs.
 - \$3 million for two vendor-operated homes to provide step-down services for individuals transitioning from the Porterville secure treatment program.
 - \$6 million for four vendor-operated homes to provide step-down services for dually diagnosed individuals transitioning from an institution for mental disease (IMD) or other restrictive settings.
- **Regional Center Caseload and Utilization.** The Governor proposes a \$15.7 million net decrease (\$19.5 million General Fund increase) in the current year, and \$37.3 million decrease (\$47.2 million General Fund decrease) in the budget year, for regional center operations and purchase-of services.

Overview of the Governor's 2017-18 May Revision

- **Behavioral Health Treatment (BHT) Services.** The May Revision proposes several adjustments related to the provision of BHT services. These include:
 - \$29.8 million increase (\$14.2 million General Fund increase) in the current year and budget year resulting from a decrease in the savings expected from transitioned consumers to the Department of Health Care Services (DHCS), based on updated actual expenditures.
 - \$3.3 million General Fund decrease in expenditures for consumers without an autism spectrum disorder (ASD) diagnosis who will transition to Medi-Cal Managed Care and DHCS fee-for-service, beginning January 1, 2018.
 - \$1.3 million (\$1.0 million General Fund) to provide .05 psychologists per regional center to assess children with an autism spectrum disorder diagnosis and provide a recommendation regarding BHT services. A recommendation from a physician or psychologist is required for these services to be eligible for federal funding participation under Medi-Cal. The May Revision assumes \$7.1 million in lost reimbursements in the current year due the lack of these recommendations, and \$7.4 million in reimbursements in the budget year tied to provision of these recommendations.
- **AB X2 1 Update.** The May Revision proposes a \$10.5 million increase (\$6.2 million General Fund increase) in the current year, and a \$1.8 million increase (\$1.1 million General Fund increase) in the budget year, to reflect updated expenditure estimates for direct care staff wages and benefits increases provided by AB X2 1 (Thurmond), Chapter 3, Statutes of 2016.
- **Developmental Center Population Adjustment.** The May Revision proposes an additional \$5.7 million (\$3.0 million General Fund) to reflect a start of year population of 793, an increase of 33 developmental center residents over what was estimated in the January budget, to reflect fewer placements of residents to the community than anticipated. This population adjustment results in the need to keep one intermediate care facility (ICF) unit open and retain 50.5 positions for an additional nine months.
- **Realignment of the Community State Staff Program (CSSP).** The May Revision proposes to transfer \$8.3 million in reimbursement authority from the developmental center budget to the headquarters budget, and administratively transfer employees participating in CSSP from the centers to headquarters.

GENERAL GOVERNMENT AND LOCAL GOVERNMENT

OFFICE OF EMERGENCY SERVICES

- The Governor's May Revision includes an additional \$8.5 million General Fund, including \$2 million for local agencies to remove dead or dying trees and \$6.5 million to continue providing through the next year water tanks, periodic refills of tanks, and tank storage and sanitization to nine counties that continue to experience the effects of the recent drought. The May Revision also includes a reduction of \$18.8 million that was slated for drought response activities. Executive Order B-40-17 lifted the Governor's previous drought declaration in all but four counties, thus OES will shift the focus of California Disaster Assistance Act efforts to provide assistance with the severe 2016-17 winter storms.
- The May Revision includes \$500,000 from the Antiterrorism Fund for the California Nonprofit Security Grant Program which provides support for target hardening and other physical security enhancements to nonprofit organizations that are at high risk of terrorist attack. The program promotes coordination and collaboration in emergency preparedness activities among public and private community representatives, and nonprofit organizations, as well as state and local government agencies.

CANNABIS REGULATION

The May Revision includes an additional \$43.2 million for cannabis-related activities, for a total of \$94.6 million in 2017-18.

Significant adjustments include:

- **Department of Fish and Wildlife.** \$17.2 million from multiple fund sources and 63 positions to support the development and implementation of the regulatory programs by the California Department of Food and Agriculture (CDFA) and the State Water Resources Control Board (Water Board). CDFA will consult on fish and wildlife considerations related to the development of regulations and guidelines by CDFA and the Water Board, provide law enforcement to support regulatory compliance efforts, and issue lake and streambed alteration permits or notifications that a permit is not needed for each proposed cannabis cultivation site. Beginning in 2018-19, CDFA's General Fund appropriation level will be adjusted upward consistent with the requirements of Proposition 64.

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- **Water Board.** \$9.8 million from multiple fund sources and 65 positions to develop a statewide water quality permit and expanded water rights registration process for cannabis cultivation. These resources will allow the Water Board to expand its water quality permitting program statewide, develop interim and long-term instream flow policies, process water right registrations, and enforce cannabis-related water rights.
- **Department of Pesticide Regulation.** \$1.3 million Cannabis Control Fund to develop and update guidelines for pesticide use on cannabis, prepare training programs, and outreach materials to inform cultivators and protect workers during the cultivation and harvesting processes, and evaluate requests for special local needs pesticide registrations. In 2018-19 and 2019-20, the allocation increases by \$1 million annually for County Agricultural Commissioners to provide training, outreach, and education to industry regarding the proper and safe use, handling, and disposal of pesticides at cultivation sites.
- **Cannabis Control Appeals Panel.** \$1 million Cannabis Control Fund and eight positions to provide the necessary resources for the operations of the Appeals Panel to effectively review all appeals related to cannabis licensing decisions.
- **Bureau of Cannabis Control.** \$664,000 Cannabis Control Fund and five positions for environmental impact review activities as required under the California Environmental Quality Act.
- **Department of Public Health.** \$9.3 million Cannabis Control Fund to implement cannabis manufacturer regulations, licensing, enforcement, training, and information technology activities by the January 1, 2018 statutory deadline. Provisional language is also proposed to provide the department the flexibility to increase resources if the licensing workload is higher than estimated.
- **Department of Food and Agriculture.** \$3.9 million Cannabis Control Fund and ten positions for required environmental impact review activities. The funding also will support information technology projects and cooperative agreements with County Agricultural Commissioners for cannabis cultivation licensing, inspection, and enforcement.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The May Revision requests a General Fund loan of \$1,576,000 to fund administrative costs for the No Place Like Home Program, to be used to address an administrative funding shortfall during completion of the legally-required bond validation process. The request proposes to repay the General Fund loan from bond proceeds upon issuance of bonds.

OFFICE OF POLICY AND RESEARCH (OPR)

The May Revision requests a one-time augmentation of \$10 million in General Fund resources to continue the California Initiative to Advance Precision Medicine. This augmentation is intended to allow OPR to build off of research funded in prior years. The request also includes provisional language to allow for an extended encumbrance period for these funds.

CENSUS OUTREACH

The May Revision includes specificity regarding resources used for local assistance to ensure that the California population is accurately counted in the upcoming census. The addition language will specify the hiring of an outreach coordinator for the effort and extends the period of time for the resources to be used by the Local Update of Census Address Program.

SMALL BUSINESS

The May Revision increases funding for the Governor's Office of Business and Economic Development by \$2 million to provide one-time funding for the California Small Business Development Center. The funds will allow for increased drawdown of available federal funds as a partial match.

2016 BUDGET ACT FUNDING

Based on lower than expected revenues, the Governor's Budget proposed reverting funding for a number of allocations included in the 2016 Budget Act. Based on the modest improvement in the state's fiscal outlook, the May Revision proposes to move ahead with \$11 million in General Fund spending for low carbon fuel research at the Lawrence Berkeley National Lab; atmospheric rivers research at UC San Diego; and allocations for the Armenian Museum, Pasadena Playhouse, Excelsior Auditorium, Lark Music Society, and the Micke Grove Zoo.

CORRECTIONS, PUBLIC SAFETY, AND THE JUDICIARY

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

The May Revision includes \$11.4 billion (\$11.1 billion General Fund and \$308 million other funds) for the California Department of Corrections and Rehabilitation (CDCR). This represents approximately \$100 million more than the Governor's budget proposal in January.

- **Adult Offender Population Adjustment.** The May Revision includes a decrease of \$29.4 million General Fund in 2016-17, and \$21.3 million General Fund in the budget year, for costs related to adult inmate and parole population changes. Specifically, the May Revision projects the average daily population of adult inmates are 129,275 in the current year, and 127,693 in the budget year. This is an increase of 260 in 2016-17, and a decrease of 466 in 2017-18, as compared to the January estimates. In addition, the May Revision projects the average daily population of parolees are 44,445 in the current year, and 47,274 in 2017-18, an increase of 759 and 2,513 parolees, respectively, over the January budget projections.
- **Juvenile Ward Population Adjustment.** The May Revision includes a decrease of \$813,000 General Fund in 2016-17, and \$3.3 million General Fund in budget year, for costs related to a smaller than anticipated juvenile ward population. Specifically, the May Revision projects the average daily population of juveniles are 683 in the current year, and 736 in the budget year. This is a decrease of 22 and 43 ward, respectively, as compared to the January estimates.
- **Proposition 57.** The May Revision assumes a net savings of \$38.8 million General Fund in 2017-18, growing to a savings of approximately \$186 million General Fund in 2020-21. In addition, the May Revision requests an additional \$1 million General Fund for the workload associated with Proposition 57, bringing the total funding request to \$6.7 million General Fund.
- **Drug and Contraband Interdiction.** The May Revision includes \$6.7 million General Fund for CDCR to add 42 additional canine teams to their drug and contraband interdiction efforts. This addition will bring the total number of canine teams to 70, which will allow for two teams at each prison. In addition, the department's three-year drug and contraband interdiction pilot project will end on June 30, 2017.

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- **Prison Infrastructure.** The May Revision includes \$34.9 million General Fund to replace roofs at Salinas Valley State Prison, Pleasant Valley State Prison, and California Correctional Institute.

DEPARTMENT OF JUSTICE

The May Revision includes \$890 million (\$222 million General Fund) for the Department of Justice. The difference between January and May is \$32 million.

- **Defending California against Unconstitutional Laws and Legislation.** The May Revision includes \$6.5 million General Fund and 31 positions for the Department of Justice to address increased workload related to various actions taken at the federal level. From January 20, 2017, through the end of April, the Department of Justice has expended over 11,000 hours of legal resources in response to federal actions related to public safety, healthcare, the environment, consumer affairs, and other constitutional issues.
- **DNA Identification Fund Revenue Shortfall.** The May Revision includes a transfer of \$10 million General Fund from the California Justice Information Services and \$5 million General Fund from the Division of Legal Services to the Bureau of Forensic Services to offset declining revenue in the DNA Forensic Services Fund. This will allow the Department of Justice to continue providing forensic services to local law enforcement agencies.

JUDICIAL BRANCH

The May Revision includes \$3.6 billion (\$1.7 billion General Fund) for the Judicial Branch. This represents approximately the same level of funding as the Governor's January budget proposal. The difference between January and May is \$11.6 million.

- **Transition to FI\$Cal.** The May Revision includes \$5.3 million General Fund and six positions to support the transition of the Judicial Council's existing financial system to the FI\$Cal system.

BOARD OF STATE AND COMMUNITY CORRECTIONS

The May Revision includes \$508.6 million (\$33.9 million General Fund) for the Board of State and Community Corrections. This represents approximately the same level of funding as the Governor's January budget proposal. The difference between January and May is \$6.2 million.

Overview of the Governor's 2017-18 May Revision

- **Proposition 47.** The Department of Finance estimates a savings of \$45.6 million for 2016-17 related to Proposition 47. This is an increase of \$2.6 million over the Governor's January budget estimates.
- **Post-Release Community Service.** The May Revision includes \$15.4 million General Fund for post-release community supervision (PRCS) as a result of an increase in the number of offenders eligible due to Proposition 57 and various court-ordered measures. This is an increase of \$4.4 million General Fund over the amount estimated in the Governor's January budget.

DEPARTMENT OF STATE HOSPITALS

The May Revision includes \$1.6 billion (\$1.5 billion General Fund) for the Department of State Hospitals (DSH). This represents approximately the same level of funding as the Governor's January budget proposal. The difference between January and May is \$26.5 million.

- **Incompetent to Stand Trial.** The May Revision includes an increase of \$4.7 million General Fund to expand the jail-based competency treatment (JBCT) program by 24 additional beds and for increased costs related to three existing JBCT contracts that are in the process of being renewed. This funding will allow DSH to treat more individuals who have been found incompetent to stand trial due to a mental illness.

PUBLIC EMPLOYMENT AND RETIREMENT

EMPLOYEE COMPENSATION AND RETIREE HEALTH COSTS

- The May Revision proposes a \$240 million (\$152.6 million General Fund) increase to reflect salary and benefit increases for recently negotiated memorandum of understanding with bargaining units represented by Service Employees International Union, bargaining units 8, 12, 13, 18, 19, and excluded employees.
- The May Revision proposes an increase of \$46.8 million (\$32 million General Fund) to reflect increased enrollment in health and dental plans, updated employment information for salary increases and benefits, and updated health premium rates.

STATE EMPLOYEES' RETIREMENT

- The May Revision proposes a \$6 billion one-time supplemental payment to the California Public Employees Retirement System in 2017-18. This payment will be funded through a loan from the Surplus Money Investment Fund, and will yield a net savings of \$11 billion over the next 20 years. The Administration proposes to repay the loan under Proposition 2 for the General Fund's share, other funds will pay the remainder.

PUBLIC EMPLOYMENT RELATIONS BOARD (PERB)

- The May Revision proposes an increase of \$750,000 to address PERB's budgetary pressures and provide the appropriate level of permanent funding to support existing permanent positions.