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MAY REVISION HIGHLIGHTS

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SENATE COMMITTEE ON BUDGET & FISCAL REVIEW
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OVERVIEW OF GOVERNOR'S MAY REVISION

On May 13, the Governor released his May Revision for budget year 2016-17. The Governor now projects budget year General Fund expenditures of \$122.2 billion, revenues of \$123.4 billion (before transfers to the Budget Stabilization Account), and a general budget reserve of \$1.8 billion. Compared to January, the revenues represent a decrease of \$800 million and the reserve level is lower by about \$440 million. 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 balanced over most of the forecast period, although operating deficits begin to appear in the last two years of the budget window. 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 modest decline in revenues is largely offset by a reduced deposit requirement to the Budget Stabilization Account (BSA). The proposal continues to include a required deposit to the BSA of three percent of revenues, with a diversion of half that amount to retire certain long-term budget debt, and an optional BSA deposit amount of \$2 billion. The General Fund budget summaries for January and May are listed below:

**2015-16 and 2016-17
General Fund Summary
(Dollars in Millions)**

	January Budget		May Revision	
	2015-16	2016-17	2015-16	2016-17
Prior Year Balance	\$3,699	\$5,172	\$3,444	\$4,829
Revenues and Transfers	\$117,537	\$120,633	\$117,000	\$120,080
Total Resources	\$121,236	\$125,805	\$120,444	\$124,909
Non-Proposition 98	\$66,072	\$71,637	\$65,842	\$71,050
Proposition 98	\$49,992	\$50,972	\$49,773	\$51,105
Total Expenditures	\$116,064	\$122,609	\$115,615	\$122,155
Fund Balance	\$5,172	\$3,196	\$4,829	\$2,754
Encumbrances	\$966	\$966	\$966	\$966
Special Fund for Economic Uncertainties	\$4,206	\$2,230	\$3,863	\$1,788
Budget Stabilization Acct.	\$4,455	\$8,011	\$3,421	\$6,713

Economic Forecast Somewhat Revised. The Governor's economic forecast is somewhat more cautious for 2016 than in January, but it retains the overall growth over the near and medium term. This dynamic reflects national trends, which has gross domestic product (GDP) increases of 2.1 percent in 2016 (versus 2.9 percent in January) and 2.8 percent in 2017 (same as in January). Personal income in the state is expected to grow by 5.5 percent from 2015 to 2016, and 5.3 percent from 2016 to 2017. California's economy has performed steadily with respect to job creation since the sharp downturn, and has gained private sector jobs in excess of those lost during the recession. Unemployment remains above the national average - as is typical for California - and is also somewhat higher than the state's historical average. The average annual unemployment rate, which was 7.5 percent in 2014, dropped to 6.3 percent in 2015, and is expected to decline further to 5.3 percent in 2016. California is expected to add jobs in the near to medium term although the pace has slowed somewhat. There are expectations of slight slowing in growth nationally and in California as the economy returns to pre-recession levels of unemployment. Wages and salaries, which had been almost static earlier in the recovery, are now showing increases.

Slight Revenue Softening. After accounting for transfers, revenues at the May Revision are expected to be about \$1.9 billion lower than the Governor's January expectations for the three year period (2014-15, 2015-16 and 2016-17). The overall reduction is due to several partially offsetting factors: a reduction in personal income tax receipts related largely to capital gains declines; a revenue reduction from realigned insurance tax and corporation taxes for managed care; and, an increase from corporation taxes due to accruals. After accounting for transfers, General Fund revenues are down from January by \$537 million in 2015-16 and \$553 million in 2016-17. For the big three taxes, personal income taxes are higher by \$90 million in 2014-15, and down by \$1.4 billion in 2015-16, and \$448 million in 2016-17. Corporation taxes are up by about \$452 million over the three-year period, due largely to technical factors and accrual methodologies. Sales tax revenues are down modestly from the January forecast by \$460 million over the three-year period. Forecasts of local property tax revenues (an important part of meeting the Proposition 98 guarantee) are somewhat higher than forecast in January, with growth rates of 5.9 percent in 2015-16 and 6.2 percent for 2015-16.

Overview of the Governor's 2016-17 May Revision

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

**2015-16 and 2016-17
General Fund Revenue Sources
(Dollars in Millions)**

	January Budget		May Revision	
	2015-16	2016-17	2015-16	2016-17
Revenue Source				
Personal Income Tax	\$81,354	\$83,841	\$79,962	\$83,393
Sales and Use Tax	\$25,246	\$25,942	\$25,028	\$25,727
Corporation Tax	\$10,304	\$10,956	\$10,309	\$10,993
Other Revenues	\$3,482	\$3,450	\$3,516	\$3,259
Total	\$120,386	\$124,189	\$118,815	\$123,372

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

**Expenditures by Agency
General Fund
(Dollars in Millions)**

	January Budget		May Revision	
	2015-16	2016-17	2015-16	2016-17
Agency				
Legislative, Judicial, Executive	\$3,227	\$3,330	\$3,245	\$3,404
Business, Consumer, Housing	636	434	637	432
Transportation	267	222	258	237
Natural Resources	2,730	2,909	2,714	2,801
Environmental Protection	325	-31	223	86
Health and Human Services	31,666	33,742	31,514	32,995
Corrections and Rehabilitation	10,276	10,620	10,182	10,775
K-12 Education	49,859	51,230	49,566	51,200
Higher Education	14,312	14,567	14,275	14,300
Labor and Workforce	212	166	212	173
Government Operations	761	2,245	761	2,256
General Government	1,793	3,175	2,028	3,496
Total	\$116,064	\$122,609	\$115,615	\$122,155

Key Features of the May Revision. The May Revision is a traditional mid-budget correction with no major new commitments or changes from the January proposal. Some of the highlights of this more traditional ‘revision’ are outlined in the sections below.

- **Homelessness Package.** The May Revision endorses the Senate’s plan of a \$2 billion bond for housing for persons who face mental illness and chronic homelessness. The bond would be funded from a portion of future Proposition 63 mental health revenues and enable the Department of Housing and Community Development to develop and administer homelessness and affordable housing programs through a Mental Health Service Act-Supportive Housing Program and Tenant-Based Rental Assistance Program. The May Revision proposes first-year funding of \$267 million from the bond proceeds. The May Revision also proposes legislation requiring ministerial “by right” land use entitlements for multifamily infill housing developments that include affordable housing.
- **Proposition 98 Guarantee and Investments in Education.** The May Revision forecasts moderate changes to the Proposition 98 minimum guarantee, with a total increase of \$626 million over the three-year period despite reduced General Fund revenues in 2015-16 and 2016-17. General Fund costs for Proposition 98 will increase by \$389 million over the three-year period and property taxes increase by \$236 million. The overall funding plan for education builds upon the priorities in the January proposal and includes an additional \$154 million in ongoing support for implementation of the Local Control Funding Formula, bringing the total investment in 2016-17 to \$2.9 billion, and an additional \$134.8 million to pay down K-12 education mandate debt, \$1.4 billion in total. The budget plan also includes an additional \$100 million in one-time Proposition 98 funds for an emergency loan program to repair school facilities that pose immediate threats to health and safety. Community Colleges will receive increased investments of \$75 million for an unallocated base increase, \$20 million for online education, \$29 million to pay down the mandate backlog, and a reduction of \$71 million for deferred maintenance and instructional equipment.
- **Early Care and Education.** Building on the Governor’s January proposal to create a consolidated \$1.6 billion early Education Block Grant, which would target pre-kindergarten funding and services for low-income and at-risk preschoolers, the May Revision incorporates feedback from the four public comment sessions to include: (1) \$20 million Proposition 98 General Fund (\$10 million ongoing and \$10 million one-time) for county offices of education to work in the budget year for a transition to the new early education program; (2) postpones the start date for the new early education program to 2017-18; (3)

development of a regional early learning plan that would align pre-K and K-12 programs; and (4) the use of an existing locally-based quality rating system to define pre-K program quality. In addition, the May Revision adjusts the cost-of-living adjustment from 0.47 percent in the Governor's budget, to zero percent in the May Revision, resulting in a net decrease of \$4.3 million Proposition 98 General Fund.

- **California State University Graduation Rates.** The May Revision provides \$25 million one-time General Fund for CSU contingent upon CSU submitting a plan to improve graduation rates to the Department of Finance by September 2016. The plan would set system-wide and campus-level targets for improvements in four-year graduation rates (for freshmen), two-year graduation rates (for transfers), and the gap in graduation rates between Pell-eligible and non-Pell-eligible students. The plan must also establish a timeframe to achieve these goals.
- **Drought Response.** The May Revision includes changes to the January drought proposals. The Governor's January budget proposed \$323.1 million to continue the state's emergency response to the drought. This included several proposals that assumed the drought would continue at levels similar to previous years, statewide. Drought conditions continue, particularly in Southern California, leading the Administration to propose additional funding to continue its drought efforts statewide, and to address impacts of the multi-year drought on forests and wildlife. However, in the north state, drought conditions have lessened, leading the Administration to remove certain January drought budget proposals, including \$42 million (General Fund) to reflect that the removal of the salinity barriers in the Delta will not be necessary.
- **Earthquake Early Warning.** The May Revision includes \$10 million General Fund for the Office of Emergency Services to perform research on necessary technology, conduct trainings and public education, and integrate public-private infrastructure to support the statewide implementation of the California Earthquake Early Warning System and Program.
- **Continuum of Care Reform.** The May Revision increases funding for the implementation of the Continuum of Care Reform (CCR), (AB 403 (Stone), Chapter 773, Statutes of 2015) by \$59.9 million General Fund in 2016-17. Combined with funding in the Department of Health Care Services, the May Revision includes \$127.3 million General Fund to implement the CCR.

Overview of the Governor's 2016-17 May Revision

- **Restoration of IHSS Seven Percent Reduction.** The Governor's budget proposed to use a portion of the revenues from a restructuring of the existing Managed Care Organization (MCO) tax to restore the seven-percent across-the-board reduction. The May Revision instead proposes using \$265.8 million General Fund for the restoration of the seven-percent reduction to IHSS, while still tying it to the MCO tax; the restoration will remain in effect until June 30, 2019, when the tax is scheduled to expire.
- **Minimum Wage Impacts.** The May Revision includes \$39.4 million General Fund to fund state costs associated with the first scheduled increase in the minimum wage. This includes state employee wages, increased payments to In-Home Supportive Service providers, and increases in Medi-Cal costs.
- **Budgetary Debt and Reserves.** The May Revision makes no change to the January proposal for an optional deposit of \$2.0 billion to the BSA. In addition, as in the Governor's budget, 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 2016-17.

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

	Outstanding Amount	January Payment Plan	May Payment Plan
Budgetary Borrowing			
Special Fund Loans	\$1,819	\$955	\$692
Proposition 98 Settle-Up	1,232	257	218
Transportation Loans	879	173	173
State Retirement Liabilities			
State Retiree Health	74,103	0	38
State Employee Pensions	49,592	0	0
Teacher Pensions	72,626	0	0
Judges Pensions	3,279	0	0
CalPERS Deferred Payments	570	0	0
UC Retirement Liabilities			
Employee Pensions	10,786	171	171
Retiree Health	17,270	0	0
Total	\$218,374	\$1,556	\$1,292

Risks Inherent in Budget Plan and Underlying Economics. As with every budget plan, things can go awry, although the state has made substantial progress in cushioning against fiscal stress. The economy has continued its moderate recovery and the Administration has taken a reasonable approach in its revenue forecasting. Nevertheless, the May Revision notes continued economic risks as a result of potential corrections in the stock market and economic uncertainty abroad. The Administration has in the past also noted the slow pace of recovery and growing income inequality that could slow consumption and make it more difficult for people to save and invest. In addition, the Administration has previously indicated that although there are few signs of conditions that could curtail growth, the nation is already seven years into a recovery - two 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.

CORRECTIONS AND PUBLIC SAFETY

CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION

The May Revision includes \$10.6 billion (\$10.3 billion General Fund and \$248 million other funds) for the California Department of Corrections and Rehabilitation (CDCR). This represents approximately the same level of funding as the Governor's January budget proposal.

- **Electronic Healthcare Record System.** The May Revision includes an increase of \$35.9 million General Fund to provide expanded functionality of the new electronic health record system to include dental patient and scheduling information. The May Revision commits \$80.6 million over the next three years for this purpose and \$5.8 million on-going.
- **Adult Offender Population Adjustment.** The May Revision includes a decrease of \$11.6 million General Fund in 2015-16 and \$9.8 million General Fund in the budget year for costs related to adult inmate and parole population changes.
- **Leadership Training.** The May Revision includes \$4 million General Fund for CDCR to increase its leadership training efforts, evaluate its current workforce, and create a succession management plan.
- **Basic Correctional Officer Academy.** The May Revision includes a decrease of \$21.5 million General Fund and 265 positions to reduce the annual capacity for the Basic Correctional Officer Academy from approximately 3,300 cadets to 2,100 cadets.
- **Investments in Rehabilitative Programs.** The May Revision includes \$24.5 million General Fund (\$3 million Proposition 98) for increased rehabilitative programming. The increases include investments in the following:
 - Innovative Programming Grants – \$3.1 million.
 - Third Watch Overtime – \$2.5 million.
 - Arts in Corrections – \$4 million.
 - eReader Community College Content – \$3 million (Proposition 98).
 - Cognitive Behavioral Therapy – \$2.2 million.
 - Substance Use Disorder Treatment – \$3.7 million.
 - Internet Protocol Television Integration Maintenance and Support – \$3.7 million.

PROPOSITION 47

The May Revision increases the estimated savings as a result of reductions in the trial courts, state prisons and state hospitals due to the passage of Proposition 47 by \$10.2 million, for a total savings of \$39.4 million in 2016-17 and an estimated \$62.6 million on-going.

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.

- **Trial Court Civil Case Management System Replacement.** The May Revision includes \$12.4 million General Fund to replace the case management systems for superior courts in Orange, Sacramento, San Diego, and Ventura.

BOARD OF STATE AND COMMUNITY CORRECTIONS

- The May Revision includes \$4.2 million General Fund for post-release community supervision (PRCS) as a result of an increase in the number of offenders eligible for two-for-one credits.

DEPARTMENT OF STATE HOSPITALS

The May Revision includes \$1.7 billion (\$1.6 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.

- **Restoration of Competency (ROC Expansion).** The May Revision includes \$2.7 million General Fund to expand the ROC program by 25 beds. The program provides treatment to individuals deemed incompetent to stand trial in county jails rather than in state hospitals. This will provide a total of \$22.6 million General Fund to support 183 ROC beds.
- **Incompetent to Stand Trial.** The May Revision includes an increase of \$18.1 million General Fund and 175.5 positions to add 60 additional beds at Napa State Hospital and 36 beds at Metropolitan State Hospital to treat more individuals who have been found incompetent to stand trial due to a mental illness.

GENERAL GOVERNMENT AND LOCAL GOVERNMENT

OFFICE OF EMERGENCY SERVICES

- The Governor's May Revision includes an increase of \$30 million General Fund through the California Disaster Assistance Act, which provides local assistance support for tree mortality, wildfires, earthquakes, floods and drought.
- The May Revision includes \$10 million General Fund for the Office of Emergency Services to perform research on necessary technology, conduct trainings and public education, and integrate public-private infrastructure to support the statewide implementation of the California Earthquake Early Warning System and Program.

DEPARTMENT OF CONSUMER AFFAIRS

- The May Revision provides updated trailer bill language for the Medical Cannabis Regulation and Safety Act. The language, among other provisions: (1) requires additional conditions of licensures, such as proof of bond to cover the cost of destroying product; (2) establishes a filing deadline for individuals to submit an application for licensure; (3) authorizes the Board of Equalization, for purposes of taxation and regulation, to access the Department of Food and Agriculture's track and trace electronic database; (6) provides the Department of Public Health (DPH) cite and fine authority and authority for mandatory recalls; (7) shifts authority, from the DPH to the Bureau of Medical Cannabis Regulation, to license laboratories; and (8) excludes a cannabis manufacturer, who infuses butter with cannabis, from having to be licensed as a milk product plant. For additional information regarding instream protections and water supply issues, please see the Resources summary on page 27 of this report.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

- The May Revision endorses the Senate's plan for a \$2 billion bond for housing for persons who face mental illness and chronic homelessness. The bond would be funded from a portion of future Proposition 63 mental health revenues and enable the Department of Housing and Community Development to develop and administer homelessness and affordable housing programs through a Mental Health Service Act-Supportive Housing Program and Tenant-Based Rental Assistance Program. The May Revision proposes first-year funding of \$267

million from the bond proceeds. The May Revision also proposes trailer bill language requiring ministerial “by right” land use entitlements for multifamily infill housing developments that include affordable housing.

CALIFORNIA HOUSING FINANCE AGENCY

- The May Revision proposes changes to law to combine remaining funding totaling \$176.5 million from multiple down payment assistance programs into the MyHOME Program to help more families become first-time homebuyers.

SECRETARY OF STATE

- The May Revision proposes one-time \$10 million General Fund to print the principal and supplemental voter information guides for the 2016 General Election.

TAX AGENCIES

- The Governor's May Revision includes additional funding of \$2.0 million for the Franchise Tax Board (FTB) to increase outreach to individuals and households who may qualify for the state's Earned Income Tax Credit (EITC) that was enacted by the Legislature last year. The funds will be used to enhance existing outreach efforts, and will be provided through grants to non-profits, community-based organizations, and other state and local agencies.
- The May Revision also includes substantial resources to the Board of Equalization (BOE) for the purposes of ongoing efforts to address technology challenges at that agency. The BOE would receive \$17.5 million for the Centralized Revenue Opportunity System (CROS) to begin the procurement phase of the project.

LOCAL GOVERNMENT

- The May Revision includes some changes to the January proposal regarding the efforts to locate hard-to-site facilities. The new proposal converts the \$25 million plan from incentive payments to direct grants to cities and counties that facilitate the location of hard-to-site facilities that improve public safety and support the criminal justice system. Such facilities include services such as substance abuse treatment, mental health, and reentry programs.

HEALTH

DEPARTMENT OF HEALTH CARE SERVICES

- **Newly Qualified Immigrant Benefits and Affordability Program.** The May Revision includes an increase of \$31.8 million General Fund to reflect a delay of one year in the implementation date of this program.
- **Medi-Cal 2020 Waiver.** The May Revision includes \$2.2 billion in federal funds for the new Medi-Cal 2020 Waiver.
- **Behavioral Health Treatment.** The May Revision includes \$180.2 million General Fund, an increase of \$86.4 million, to provide behavioral health treatment services. This increase reflects transitioning responsibility for the provision of these services to the Medi-Cal program from the Department of Developmental Services.
- **Full-Scope Medi-Cal Coverage for Undocumented Children.** The May Revision includes \$188.2 million General Fund, a \$45.4 million increase, to provide full-scope benefits to 185,000 children. The provision of this benefit begins in May 2016.
- **Federal Medicaid Managed Care Regulations.** The May Revision includes \$5 million General Fund and 38 positions to implement the new federal regulations. In May 2016, the federal government published final regulations pertaining to Medicaid managed care programs. The Administration states that there are several components of these regulations that could negatively impact California and result in General Fund costs in the hundreds of millions of dollars annually in the out years.
- **Continuum of Care Reform.** The May Revision includes an increase of \$6.4 million General Fund for county mental health costs associated with the implementation of the Continuum of Care, pursuant to AB 403 (Stone), Chapter 773, Statutes of 2015. These funds would be used to support child and family teams, mental health assessments for children in foster care, and training for mental health providers.
- **Minimum Wage.** The May Revision includes an increase of \$7.1 million General Fund to reflect the impact of the 50-cent increase in the state minimum hourly wage, effective January 1, 2017 pursuant to SB 3 (Leno), Chapter 4, Statutes of 2016.

HIGHER EDUCATION

CALIFORNIA COMMUNITY COLLEGES (CCC)

- **Increased Operating Expenses.** The May Revision proposes an increase of \$75 million Proposition 98 General Fund to support community college operating expenses.
- **Local Property Tax Adjustment.** Included in the revision is an increase of \$51.2 million Proposition 98 General Fund in 2016-17 as a result of decreased offsetting local property tax revenues. Proposes an increase of up to \$38.6 million Proposition 98 General Fund in 2015-16, provided on a contingency basis, for an anticipated shortfall in redevelopment property taxes for community college apportionment. Any funds not needed to support the shortfall would become available for additional mandate payments.
- **Online Education Initiative.** The May Revision proposes \$20 million one-time Proposition 98 General Fund to expand and expedite the adaptation and development of online courses through the online course exchange.
- **Telecommunications and Technology Infrastructure Program.** There is a proposal for an increase \$5 million ongoing Proposition 98 General Fund and \$7 million one-time Proposition 98 General Fund to support the Telecommunications and Technology Infrastructure Program, which will expand broadband capacity across campuses.
- **Adult Education Technical Assistance.** The May Revision includes a \$5 million one-time Proposition 98 General Fund increase to provide consortia with technical assistance, coordination, and capacity building assistance through the 2018-19 fiscal year.
- **Equal Employment Opportunity Program.** The plan proposes an increase of \$2.3 million Employment Opportunity Fund to promote equal employment opportunities in hiring and promotion at community colleges.
- **Full-Time Student Success Funding.** The revision includes an increase of \$2.2 million Proposition 98 General Fund to reflect the inclusion of Cal Grant C recipients, and an increased estimate of eligible Cal Grant B students in 2016-17.

Overview of the Governor's 2016-17 May Revision

- **Academic Senate Funding.** The May Revision includes an increase of \$300,000 Proposition 98 General Fund to support the Academic Senate of the Community Colleges.
- **Deferred Maintenance and Instructional Equipment.** The plan calls for a decrease of \$65.8 million in Proposition 98 General Fund to reflect alternative spending priorities. This leaves \$219.4 million in one-time Proposition 98 General Fund for deferred maintenance.
- **Mandate Debt Payment.** The May Revision proposes an increase of \$29.2 million one-time Proposition 98 General Fund to pay for outstanding mandate debt on a per full-time equivalent student basis, and provides districts with discretionary one-time funding for investments in local priorities.
- **Cost-of-Living Adjustments.** The revised plan proposes a cost-of-living adjustment from 0.47 percent to zero percent, and corresponding adjustments in various activities. Specifically, a decrease of \$1.3 million Proposition 98 General Fund for the Disabilities 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; a decrease of \$136,000 Proposition 98 General Fund for the hourly non-credit funding rate for the Community College and K-12 apprenticeship programs; and a decrease of \$29.3 million for apportionments.
- **Proposition 39.** The May Revision proposes an increase of \$4.1 million for a total of \$49.3 million to reflect increased revenue estimates.
- **CCC Mandate Block Grant.** The plan proposes to decrease by \$134,000 Proposition 98 General Fund to align mandate block grant funding with revised full-time equivalent student estimates.

UNIVERSITY OF CALIFORNIA

- **UC Outreach Program.** Under the revision, there will be provided \$4 million General Fund on a one-time basis for the UC Scout program to develop 45 additional A-G and advanced placement courses by January 2018.
- **Current-Year Appropriations.** The May Revision releases \$96 million one-time to UC for adopting the state's pensionable salary limit. Provides \$25 million General Fund ongoing to UC, based on the UC President's plan to enroll at least 5,000 more undergraduate resident students in 2016-17 over 2014-15 levels. Both

appropriations are associated with stipulations in the *2015-16 Budget Act* and were already built into the Governor's January budget.

CALIFORNIA STATE UNIVERSITY (CSU)

- **Graduation Improvement Plan.** The revision includes \$25 million one-time General Fund, from savings from the Middle Class Scholarship, contingent upon CSU submitting a graduation improvement plan to the Department of Finance by September 2016. The plan must set system wide and campus-level targets for improvements in four-year graduation rates (for freshmen), two-year graduation rates (for transfers), and the gap in graduation rates between Pell-eligible and non-Pell-eligible students. The plan must also establish a timeframe to achieve these goals. Moving forward, CSU would annually update the Administration and the Legislature on its progress. This reporting requirement would replace the previous academic sustainability plan requirement.
- **Student Success Network.** Also included for CSU is \$1.1 million ongoing General Fund to establish a network comprised of faculty, staff, and administrators to share, develop, and promote practices that improve student outcomes. Funding provides staff leave time to participate in these working groups, as well as to support conferences and research.

CALIFORNIA STUDENT AID COMMISSION (CSAC)

- **Cal Grants Costs with Federal Temporary Assistance for Needy Families (TANF) Funds.** Included is an increase of \$283 million in TANF reimbursements in 2016-17, which reduces General Fund support for Cal Grants. This would bring total TANF support for Cal Grants to \$1.1 billion.
- **Caseload Adjustments.** The new plan assumes Cal Grant spending decreases by \$50.9 million in 2015-16 and \$101.6 million in 2016-17 to reflect revised estimates in Cal Grant caseload costs for the current year and budget year.
- **College Access Tax Credit Funding.** The May Revision assumes a \$3.2 million increase in College Access Tax Credit Funding for the Cal Grant B supplement. This brings total funding for the Cal Grant B supplement to \$5.1 million and increases the per-student supplement to \$22.

Overview of the Governor's 2016-17 May Revision

- **Middle Class Scholarship Program Costs.** The revision assumes costs will not exceed \$48.5 million in 2015-16, which is \$33.5 million below the \$82 million statutory appropriation. The Governor makes no changes to his assumption the program will be funded at the statutory appropriation of \$116 million in 2016-17.
- **Loan Assumption Program Costs.** The revision proposes a decrease by \$2.1 million in 2015-16 and \$2.4 million in 2016-17 to reflect revised estimates in caseload costs for various loan assumption programs.
- **Security Enhancements to Existing Grant Delivery Information Technology (IT) System.** The May Revision proposes a \$1.5 million one-time General Fund and \$0.5 million ongoing General Fund for to hire consultants and staff to make improvements to the security of its existing IT system.
- **New Grant Delivery IT System.** The May Revision includes \$396,000 one-time to hire consultants to plan for the new IT system.

CALIFORNIA STATE LIBRARY

- **Database Subscriptions.** The new plan proposes an increase of \$505,000 ongoing General Fund for the State Library to purchase online subscriptions to periodicals, journals, and other resources.
- **Increased Facilities Costs.** The revision proposes an increase of \$56,000 ongoing for increased rental costs at the State Library's N Street facility in Sacramento, which is managed by the Department of General Services.

HUMAN SERVICES

DEPARTMENT OF SOCIAL SERVICES

- **Implementation of Continuum of Care Reform.** Last year, the Legislature passed AB 403 (Stone), Chapter 773, Statutes of 2015 to implement the Continuum of Care Reform (CCR), which 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 increases funding for the implementation of the CCR by \$59.9 million General Fund in 2016-17. Combined with funding in the Department of Health Care Services, the May Revision includes \$127.3 million General Fund to implement the CCR.
- **Restoration of IHSS Seven Percent Reduction.** The Governor's budget proposed to use a portion of the revenues from a restructuring of the existing Managed Care Organization (MCO) tax to restore the seven-percent across-the-board reduction to IHSS. However, the MCO tax, as passed on February 29, 2016, did not include the seven-percent restoration. The May Revision proposes using \$265.8 million General Fund for the restoration of the seven-percent reduction, while still tying it to the MCO tax; the restoration will remain in effect until June 30, 2019, when the tax is scheduled to expire.
- **Minimum Wage Increase.** SB 3 (Leno), Chapter 4, Statutes of 2016, increases the state minimum wage to \$10.50 on January 1, 2017, increasing annually until it reaches \$15 for most employers by 2022. SB 3 also provides three paid sick leave days to IHSS workers, beginning July 2018. The May Revision includes increased expenditures in IHSS of \$18.4 million General Fund and a decrease in CalWORKs expenditures of \$6 million General Fund to reflect the initial 50-cent increase in the minimum wage.
- **In-Home Supportive Services (IHSS).** Due to increases in caseload, hours per case, and costs per hour, the May Revision increases funding for the program by \$131.7 million General Fund in the current year and \$183.1 million General Fund in budget year.

- **IHSS Funding and Revised Implementation Schedule.** In September 2013, the U.S. Department of Labor issued a final rule, effective January 1, 2015, which requires overtime pay for domestic workers and payment for activities not previously eligible for compensation, such as travel time between multiple recipients, wait time associated with medical accompaniment, and time spent in mandatory provider training. However, due to various court actions, the final rule was implemented in California effective February 1, 2016. The May Revision reflects a decrease of \$65.8 million General Fund in 2015-16 resulting from the revised implementation schedule. These savings are used to offset other increased IHSS costs.
- **Funding for IHSS Overtime Exemptions.** SB 855 (Committee on Budget and Fiscal Review), Chapters 29, Statutes of 2014, established a limit of 66 hours per week for IHSS providers, based on the statutory maximum of 283 hours a month for IHSS recipients, and limited travel time for providers to seven hours a week. However, since the release of the Governor's budget, the department has issued guidance to counties establishing two exemptions to the overtime cap to ensure continuity of care and allow IHSS recipients to remain safely in their own homes. The May Revision includes an increase of \$22.3 million General Fund in 2016-17 to reflect costs associated with exempting providers who meet specified criteria from IHSS overtime restrictions.
- **CalWORKs Grant Increase.** The May Revision includes a 1.4 percent increase to CalWORKs grants, effective October 1, 2016, due to an increase in 1991-92 State-Local Realignment revenue projections. The Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund is projected to have an ending balance of \$47.4 million in 2016-17.
- **Caseload for CalWORKs.** The May Revision proposes to increase General Fund and federal Temporary Assistance for Needy Families (TANF) block grant by \$28.4 million in 2016-17 to reflect updated caseload and average cost per case projections.
- **Caseload for SSI/SSP.** The May Revision proposes to decrease funding by \$44 million in 2016-17 to reflect updated caseload and average cost per case projections. The May Revision continues to fund a one-time cost-of-living increase to the SSP portion of the SSI/SSP grant, as proposed in the Governor's Budget.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- **Proposed Developmental Center Closures.** The May Revision includes trailer bill language to (1) extend special managed care provisions to Medi-Cal eligible individuals that are transitioning from developmental centers into the community; (2) provide an exemption to allow developmental center employees working at facilities slated for closure to go through the process of becoming community-based service providers, and (3) provide retention incentives for developmental center staff during the closure process.
- **Regional Center Services.** The May Revision proposes an additional \$6.6 million General Fund for regional center and department resources to implement the changes authorized by AB 1 X2 (Thurmond), Chapter 3, Statutes of 2016. These resources would be used to oversee the implementation of programs to reduce disparities and competitive integrated employment activities, contract for a provider rate study, and report on adjustments to provider rates.
- **Minimum Wage.** The May Revision includes an increase of \$12 million General Fund to reflect the impact of the \$0.50 increase in the state minimum hourly wage, effective January 1, 2017 pursuant to SB 3 (Leno), Chapter 4, Statutes of 2016.
- **Behavioral Health Treatment.** The May Revision includes a decrease of \$75.8 million General Fund to reflect transitioning responsibility for the provision of these services to the Medi-Cal program from the Department of Developmental Services.

K-12 EDUCATION AND CHILD CARE

The May Revision includes \$87.6 billion total funds (\$51.5 billion General Fund and \$36.1 billion other funds) for all K-12 education programs.

PROPOSITION 98 – K-14 EDUCATION

- **Changes to the Minimum Guarantee.** Driven by significant growth in General Fund revenues, the estimated Proposition 98 funding obligations included in the May Revision for the three-year period of 2014-15 to 2016-17, increased by a total of \$626 million from the Governor's budget. More specifically, the revised Proposition 98 minimum guarantee levels for the 2014-15 through 2016-17 fiscal years are \$67.2 billion, \$69.1 billion, and \$71.9 billion, respectively. Compared to January, this reflects the following yearly changes, due to increases in prior year revenues and slower growth in the current and budget year:
 - o An increase of \$463 million to the 2014-15 guarantee.
 - o A decrease of approximately \$125 million to the 2015-16 guarantee.
 - o An increase of approximately \$288 million to the 2016-17 guarantee.

In addition, these proposed funding levels reflect Proposition 98 Maintenance Factor balances of \$155 million in 2015-16 and \$908 million in 2016-17.

- **Local Control Funding Formula (LCFF).** The May Revision includes approximately \$2.9 billion for implementation of the LCFF formula, which brings the formula to 95.7 percent of full implementation in the 2016-17 fiscal year. This is an increase of \$154 million over the January proposal of \$2.8 billion in ongoing investments in LCFF.
- **Mandates.** The May Revision includes a total of \$1.4 billion in one-time Proposition 98 General Fund to pay down the backlog of the state's obligations attributable to K-12 education mandates. This is an increase of \$134.8 million from the January proposal to pay down approximately \$1.3 billion. Similar to last year's mandates payment, the Administration notes that this is discretionary one-time funding that K-12 schools could use to make investments in academic content standards implementation, technology, professional development, beginning teacher induction programs, and deferred maintenance, among other uses.

PROPOSITION 98 – OTHER MAJOR CHANGES FOR K-12 EDUCATION

- **Emergency Repair Revolving Loan Program.** The May Revision includes \$100 million in one-time Proposition 98 funds to create a new loan program that will allow schools with immediate health and safety needs to receive loan funds through an expedited process to address immediate facility needs.
- **Proposition 39 Energy Efficiency Programs for K-12 Education.** The May Revision increases the amount of energy efficiency funds available to K-12 schools in 2016-17 by \$33.3 million, to \$398.8 million, to reflect increased revenue estimates.
- **Other Technical Adjustments.** The May Revision also includes the following adjustments:
 - **Local Property Taxes.** A decrease of \$196.5 million in 2015-16 and a decrease of \$211.3 million in 2016-17 in Proposition 98 General Fund for school districts, special education local plan areas, and county offices of education as a result of higher offsetting property tax revenues. An additional increase of up to \$28.5 million in 2015-16 for special education local plan areas, on a contingency basis for an anticipated shortfall in redevelopment agency property taxes.
 - **Average Daily Attendance.** An increase of \$11.2 million in 2015-16 and a decrease of \$2 million in 2016-17 for school districts, charter schools, and county offices of education as a result of changes in projected attendance.
 - **Categorical Program Growth.** A decrease of \$5.7 million Proposition 98 General Fund for selected categorical programs based on updated estimates of projected attendance growth.
 - **Cost-of-Living Adjustments.** A decrease of \$22.9 million Proposition 98 General Fund to selected categorical programs, including state preschool, based on a revised cost-of-living factor of zero percent for 2016-17, reduced from the 0.47 percent estimated in January.

CHILD CARE AND EARLY CHILDHOOD EDUCATION

- **Funding Adjustments.** Overall, the May Revision decreases child care and preschool funding by \$31 million from the Governor's budget, which includes an additional increase of \$56 million in federal funds, decrease in non-Proposition 98 General Fund of \$93 million, and increase in Proposition 98 funding of \$6 million. Funding for CalWORKs child care also decreased from the Governor's

budget, around \$43 million, to reflect a lower Stage 3 average cost of care estimate and lower net caseload across Stages 2 and 3.

- **Early Education Block Grant Proposal.** Building on the Governor's January proposal to create a consolidated \$1.6 billion Early Education Block Grant, which would target pre-kindergarten funding and services for low-income and at-risk preschoolers, the May Revision incorporates feedback from the four public comment sessions to include: (1) \$20 million Proposition 98 General Fund (\$10 million ongoing and \$10 million one-time) for county offices of education to work in the budget year for a transition to the new early education program; (2) postpones its start date to 2017-18; (3) development of a regional early learning plan that would align pre-K and K-12 programs; and (4) the use of an existing locally-based quality rating system to define pre-K program quality.
- **Child Care Restructuring Plan.** The May Revision provides additional detail for the Governor's budget plan for the California Department of Education to develop a five-year restructuring plan to transition to a single child care system with one funding mechanism, one set of programmatic requirements, retention of parental choice, and streamlined administrative processes.
- **Local Planning Council Funding.** Approximately \$3.4 million is proposed to be shifted from the local planning councils to the county offices of education, which would be expected to convene local stakeholders and engage in regional planning for child care.

COMMISSION ON TEACHER CREDENTIALING

- **Four-Year Teacher Credential Programs.** The May Revision includes \$10 million in one-time non-Proposition 98 General Fund for a competitive grant program, administered by the Commission on Teacher Credentialing (CTC), to provide grants of up to \$250,000 to postsecondary institutions to improve upon or develop four-year integrated teacher credential programs.
- **California Center on Teaching Careers.** The May Revision includes \$2.5 million in one-time Proposition 98 funds for a competitive multi-year grant, administered by the CTC, to be awarded to a local educational agency to administer the California Center on Teaching Careers. This center would support statewide recruitment of individuals into the teaching profession.

NATURAL RESOURCES

DROUGHT

The Governor's January budget proposed \$323.1 million to continue the state's emergency response to the drought. This included several proposals that assumed the drought would continue at levels similar to previous years, statewide. Drought conditions continue, particularly in Southern California, leading the Administration to propose additional funding to continue its drought efforts statewide, and to address impacts of the multi-year drought on forests and wildlife. However, in the north state, drought conditions have lessened, leading the Administration to remove certain January drought budget proposals, including \$42 million General Fund to reflect that the removal of the salinity barriers in the Delta will not be necessary.

- **Tree Removal.** The May Revision includes \$11 million General Fund to CalFIRE to assist in the removal and disposal of trees in high hazard areas. This includes: (1) \$6 million for grants to local entities for removal of hazardous trees that pose a threat to public health and safety; (2) \$5 million for equipment and personnel for hazardous tree removal and fuels reduction efforts; and, (3) trailer bill language to allow small biomass facilities to defer certain system interconnection costs.
- **Fish Health and Monitoring.** The May Revision includes \$4.2 million General Fund, on a one-time basis, to the Department of Fish and Wildlife, for the following delta smelt-related proposals: (1) \$2 million for a habitat restoration and food production adaptive management pilot project; (2) \$1.8 million for enhanced aquatic weed control; and, (3) \$400,000 for continued monitoring and targeted studies. The budget also reflects a decrease of \$4.2 million to reflect improved conditions in the north, reducing the necessity for fish rescues, water infrastructure and conveyance improvements.
- **Local Assistance for Small Communities.** The May Revision includes \$5 million General Fund to the Department of Water Resources (DWR) to provide emergency drinking water support for small communities. This is in addition to \$5 million included in the January budget.
- **Public Education.** The May Revision reduces \$3 million General Fund in the DWR budget to reflect the reduced need for a statewide water saving public education campaign.

- **Drought Preparedness and Resilience for Urban Water Agencies.** To effect long-term water conservation, the May Revision includes \$4.5 million General Fund to DWR and the State Water Resources Control Board (SWRCB) to review and update local water shortage contingency plans, develop recommendations for new water use efficacy targets, and to establish a permanent urban water use efficiency data tracking system.
- **Groundwater Sustainability.** The May Revision includes \$1 million General Fund for DWR to support local public agencies with facilitation services as they implement new groundwater laws.
- **Agricultural Land Use Data.** The May Revision includes \$1 million General Fund to DWR to support the use of remote sensing technology to establish statewide agricultural land use data, in order to support new groundwater law requirements.

NATURAL RESOURCES

- **California History Interpretation Pilot Program.** The May Revision includes \$348,000 (State Parks and Recreation Fund) to fund a two-year pilot project at the Department of Parks and Recreation, to develop and implement public interpretation to expand upon collaboration with the California Citrus State Historic Park and El Presidio de Santa Barbara State Historic Park.
- **CalFIRE Helicopters.** The May Revision provides the Department of Forestry and Fire Protection (CalFIRE) with \$12 million General Fund to purchase one helicopter in the budget year with budget bill language allowing the Department of Finance to augment the item for actual costs, related fees, and support, following Joint Legislative Budget Committee notification. The January budget included \$100 million as a placeholder for this purpose.
- **Cannabis Cultivation Trailer Bill.** The Administration proposes substantial changes to how medicinal cannabis growers manage water, water rights, and instream flows, though changes to the Business and Professions Code.

ENVIRONMENTAL PROTECTION

- **Reducing Lead Exposure.** The May Revision includes: (1) \$180,000 (Childhood Lead Poisoning Prevention Fund) to the Department of Public Health to upgrade the information technology system to include spatial data on lead exposure and contamination throughout the state; (2) an increase of \$480,000 (Safe Drinking Water Account) to the State Water Board to provide guidance and outreach to schools to assist local efforts for water quality testing and to support public water systems in improving compliance with federal reporting requirements; and, (3) \$255,000 (Toxic Substances Control Account) to evaluate listing lead acid batteries as “priority products” subject to safer consumer product regulations.
- **Environmental Justice.** The May Revision includes \$904,000 (various special funds) to make permanent a pilot project designed to reduce adverse environmental impacts in the most vulnerable communities. The proposal supports increased enforcement and compliance initiatives in more areas identified as disadvantaged in the state.
- **Pesticide Air Monitoring.** The May Revision requests \$2.3 million (multiple special funds) and five positions to the Department of Pesticide Regulation and Air Resources Board to expand the current network of year-round pesticide air monitoring, enhance pesticide laboratory analysis capabilities, and resume previously suspended seasonal ambient pesticide monitoring to better evaluate the impact of pesticides on children’s health in disadvantaged communities.
- **Oil and Gas Monitoring.** The May Revision requests \$2.3 million (Oil, Gas, and Geothermal Administrative Fund), and four positions, for the Air Resources Board to support neighborhood air quality monitoring near oil and gas facilities and enhance emergency response.

PUBLIC EMPLOYMENT AND RETIREMENT

EMPLOYEE COMPENSATION AND RETIREE HEALTH COSTS

- The May Revision proposes a \$362 million (\$314 million General Fund) increase for employee compensation and retiree health care costs. These costs are driven primarily by increases to salaries and benefits recently negotiated with correctional peace officers and professional scientists and pay increases related to minimum wage changes in SB 3 (Leno), Chapter 4, Statutes of 2016. The May Revision also includes retention incentives for the Department of Developmental Services employees working in facilities that will be closing in upcoming years.
- The Administration is currently in active contract negotiations with 17 of the state's 21 bargaining units.

STATE EMPLOYEES' RETIREMENT

- The May Revision reflects a decrease to state retirement contributions of \$89.8 million (\$43 million General Fund) from the Governor's budget. The reduction reflects the impact of employees entering the system under the reduced benefit formula pursuant to the Public Employees' Pension Reform Act of 2013 and greater-than-expected contributions to the system.

TEACHERS' RETIREMENT SYSTEM

- The state's contributions to the California State Teachers' Retirement System increased by \$4.6 million General Fund due to revised compensation figures for K-12 and community colleges teachers.

TRANSPORTATION

DEPARTMENT OF TRANSPORTATION

The May Revision calls for minor changes in the funding and programs for the Department of Transportation (Caltrans).

- The May Revision continues to reflect the Governor's transportation package that would provide \$36 billion over the next decade to improve the maintenance of highways and roads, expand public transit, and improve critical trade routes.
- The May Revision reflects the availability of federal funds from the Fixing America's Surface Transportation (FAST) Act for highway, transit, safety, and rail programs. Under the proposal some of those funds would be spent pursuant to the Trade Corridor Improvement Fund Guidelines and other funding would require a match of state, local, or other federal funds.

CAP-AND-TRADE EXPENDITURE PLAN

- The Administration's \$3.1 billion Cap-and-Trade expenditure plan remains unchanged from the January proposal. The funding for various programs intended to reduce greenhouse gas emissions includes:
 - High-Speed Rail—\$500 million.
 - Transit and Intercity Rail Capital Program—\$500 million.
 - Low Carbon Vehicles—\$460 million.
 - Affordable Housing and Sustainable Communities—\$400 million.
 - State Transit Assistance—\$200 million.
 - Low Carbon Road Program—\$100 million.
 - Carbon Sequestration—\$280 million.
 - Energy Efficiency and Renewable Energy—\$200 million.
 - Short-Lived Climate Pollutants—\$195 million.
 - Local Climate Program—\$100 million.
 - Various Water Efficiency Programs—\$90 million.