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UCC Summary Governor's May Revision 2018-19 May 11, 2018

The Governor released his May Revision on May 11, 2017 which provides a total budget of \$199 billion. The Governor stated that while California is receiving higher revenues the state must continue to be fiscally prudent with no pricey promises. The May Revision reflects the receipt of \$8 billion in higher revenues through 2018-19 compared to the January Budget. From this amount the Governor's May Revision proposes \$4 billion in one-time General Fund spending focused on infrastructure, homelessness and mental health. The remainder of the surplus is going into the Rainy-Day Fund.

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

Major changes:

- \$359 million in one-time funding to address homelessness which includes a \$250 million grant program to cities and counties for emergency assistance, additional funding for programs in CalWORKs, and funding for the Statewide Council on Homelessness.
- Proposal to place the No Place Like Home on the November ballot for approval.
- Proposal to eliminate the 340B drug pharmacy program remains in the May Revision.
- \$254 million in mandate reimbursement for the AB 3632 program related to mental health for counties.
- \$24 million in additional funding for county administration of the IHSS program.
- Additional funding for the Continuum of Care implementation.

Program and State Department Proposals

Health and Human Services

1991 State-Local Realignment Health Account Redirection (AB 85)

County indigent health savings are projected to increase by \$242.7 million in 2018-19. This results in additional 1991 Realignment funds available to offset General Fund costs in CalWORKs.

Mental Health

Despite substantial funding and some recent efforts to enhance mental health services, many challenges remain in the mental health system. These include continued growth in incompetent to

stand trial referrals, increasing interactions between individuals with mental illness and the criminal justice system, and the prevalence of mental illness and co-occurring substance use disorder issues, in California's homeless population.

- No Place Like Home. The May Revision proposes placing the No Place Like Home program on the November 2018 ballot. Voters will have an opportunity to validate the No Place Like Home program, which allocates \$2 billion from Mental Health Services Act funds to provide housing for individuals who are in need of mental health services and are experiencing homeless or at risk of homelessness. The Department of Housing and Community Development will issue an initial Notice of Funding Availability prior to November and make awards before the end of the calendar year, contingent on voter approval of the measure.
- AB 3632 Mandate Repayment. The May Revision includes repayment of approximately \$254 million plus interest for repealed state mandates related to services provided by counties to seriously emotionally disturbed children (AB 3632). The costs were incurred by the counties between 2004 and 2011. The Administration expects counties to use this funding for early intervention and prevention of mental health services for youth, with an emphasis on teens.
- Homeless Mentally Ill Outreach and Treatment. The May Revision proposes a one-time augmentation of \$50 million for the Department of Health Care Services to provide counties with targeted funding for multi-disciplinary teams to support intensive outreach, treatment and related services for homeless persons with mental illness (see the Homeless Package). The funding allocation will be targeted to local entities based on the principles in AB 2034 (2000) and AB 34 (1999). Counties are encouraged to match these funds with local mental health funding as well as federal matching funds, where appropriate. This type of intervention is expected to result in earlier identification of mental health needs, prevention of criminal justice involvement, and improved coordination of care for this population at the local level.
- Graduate Medical Education. To address the lack of mental health professionals, the May Revision proposes an increase of \$55 million one-time General Fund to support psychiatric graduate medical education programs serving Health Professional Shortage Areas or Medically Underserved Areas in rural portions of the state.
- Oversight and Planning. The May Revision proposes \$6.7 million for 48 staff at the Department of Health Care Services to support oversight of county mental health programs and review of Mental Health Services Act expenditures, as well as planning efforts for system and data improvements to support the evaluation of county mental health programs

Medi-Cal

The Governor notes that many of the complexities in forecasting program expenditures have resulted in a Medi-Cal shortfall compared to the 2017 Budget Act that now totals \$830.5 million General Fund. The May Revision attributes the shortfall to drug rebates, delays in federal approval of fees and CHIP Reauthorization.

Significant Adjustments:

- Specialty Mental Health Services Federal Audit Repayment. A recent audit by the U.S. Department of Health and Human Services Office of the Inspector General is expected to result in the disallowance of approximately \$180.7 million in federal Medi-Cal claims for county specialty mental health services. These funds will initially be paid by the state in 2018-19 with repayments from counties occurring over the next four years to prevent the removal of significant local funds from the mental health delivery system in a single year.
- Proposition 56. The May Revision forecasts expenditures of \$629.9 million in 2018-19 for supplemental payments and rate increases, a decrease of \$51.6 million compared to the Governor's Budget. Based on year-to-date expenditures in 2017-18, claims for physicians were lower than expected. However, the May Revision maintains the increase of approximately \$163 million for physician payments and \$70 million for dental payments in 2018-19. The May Revision also reflects an increase of \$55.3 million to support new growth in Medi-Cal in 2018-19.
- Pharmacy Reimbursement. The May Revision maintains the Administration's proposal to prohibit the use of federal 340B Drug Pricing Reimbursements beginning July 1, 2019 to prevent duplicate discounts and overpayments.
- Expand Hepatitis C Treatment Clinical Guidelines. The May Revision proposes an increase of \$70.4 million in 2018-19 to authorize treatment for all patients ages 13 and above with Hepatitis C under Medi-Cal.

Social Services

The Department of Social Services (DSS) serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

CalWORKs Single Allocation

The May Revision proposes an increase of \$55.8 million TANF in 2018-19 to reflect the adoption of a revised budgeting methodology for county administration of the CalWORKs eligibility determination process. This model recognizes that counties have difficulty adjusting to significant increases and decreases in caseload and attempts to smooth out the changes to county funding. The methodology establishes a fixed-base funding level that does not adjust when caseload changes and includes a variable component that adjusts when caseload increases or decreases by 5 percent or more compared to the 2018-19 caseload.

CalWORKs Housing Support Program (Also listed under Homeless Package)

The May Revision proposes an increase of \$24.4 million to help CalWORKs families secure permanent housing. With an additional augmentation in 2019-20, the total program funding will increase from \$47 million to \$95 million annually. This program provides counties with flexibility to address the needs of each family, including move-in assistance, temporary rental subsidies, and intensive case management.

CalWORKs Homeless Assistance Program (Also listed under Homeless Package)

The May Revision proposes an increase in the daily payment rate for temporary assistance for families who are homeless or face imminent eviction. This program provides up to 16 days of temporary housing each year by issuing eligible families a voucher for either a temporary shelter or hotel/motel. For a family of four, the rate will increase from \$65 to \$85 beginning January 1, 2019.

This daily rate was last increased more than ten years ago. The May Revision includes \$8.1 million in 2018-19, increasing to \$15.3 million in 2019-20.

Home Safe Pilot Program (Also listed under Homeless Package)

The May Revision proposes \$15 million, on a one-time basis, to fund a pilot program within Adult Protective Services. The pilot provides housing-related supports to seniors experiencing homelessness or at risk of losing their homes by providing temporary rental or utility assistance, housing repairs, landlord mediation, and case management. The funding will be available to participating counties over a three-year period with a local match.

Continuum of Care Reform

The May Revision notes that as implementation of the foster care reforms outlined in AB 403 continues into its second full year, expected savings have eroded. This is due primarily to a slower-than-anticipated decline in congregate care caseload, as well as continued use of the Specialized Care Increments (SCIs) that were expected to decrease as foster care rates increased. This results in General Fund increases of \$49.5 million in 2017-18 and \$56 million in 2018-19.

The May Revision continues to assume counties will reduce SCI payments to reflect the transition from age-based foster care rates to the new home-based family care rate structure beginning in July 2018. Additionally, one-time funding of \$3.2 million General Fund is provided to support county efforts in eliminating the backlog of foster care resource family applications that are pending review and approval. An increase of \$2.5 million General Fund is also proposed to address county workload associated with implementation of an assessment tool to assess a child's level of care needs. Together, these increases will further support the transition to a home-based family care model with improved access to services to support these placements.

In addition to the funding noted above, the May Revision includes an increase of \$13.4 million TANF in 2018-19 to provide caregivers with up to six months of emergency assistance payments pending approval as a resource family. Beginning in 2019-20, and annually thereafter, emergency assistance payments will be available for up to three months, as local child welfare agencies and probation departments are expected to eliminate the backlog and complete the resource family approval process within three months of application receipt. The May Revision sets aside \$27 million TANF to fund these emergency assistance costs through 2020-2021.

Other Significant Adjustments:

- IHSS County Administration. An increase of \$24 million General Fund in 2018-19 to reflect higher estimates of county workload related to the IHSS Program.
- County IHSS Maintenance of Effort. The May Revision notes that SB 90 (2017), specified the counties' share of IHSS costs and implemented a revised maintenance-of-effort (MOE) structure, resulting in higher county costs compared to the prior MOE levels. Based on updated revenue projections and redirections, available 1991 Realignment revenues are expected to cover a larger share of the increased MOE costs. When combined with \$330 million in state mitigation for 2018-19 and \$200 million in 2019-20, this results in no net fiscal impact to counties through 2019-20.

- SSI/SSP. A decrease of \$21.9 million General Fund in 2017-18 and \$34.4 million General Fund in 2018-19 to reflect continued decreases in caseload to approximately 1,246,000 recipients.

Homelessness Package

The May Revision notes that homelessness is fundamentally a local government responsibility, with cities responsible for the zoning and siting for housing and counties responsible for the provision of health and social services. The Governor notes that local jurisdictions are best positioned to address homelessness and identify solutions to meet local needs. The May Revision proposes a total package of \$359 million as detailed below:

Figure SWE-01
Homelessness Response Proposal
 (Dollars in Millions)

Department	Program	2018-19	Ongoing
Homeless Coordinating and Financing Council ^{1/}	Emergency Homeless Aid Block Grants	\$250.0	-
	Council Administration	0.5	0.5
Department of Social Services	CalWORKs Housing Support Program	24.2	48.3
	CalWORKs Homeless Assistance Program	8.1	15.3
	Senior Home Safe Program	15.0	-
Office of Emergency Services	Domestic Violence Shelters and Services	10.0	-
	Homeless Youth and Exploitation Program	1.0	-
Department of Health Care Services	Homeless and Mental Illness Program	50.0	-
Total		\$358.8	\$64.1

^{1/} Housed within the Business, Consumer Services, and Housing Agency.

Planning – State Homeless Council

The May Revision proposes \$500,000 and three positions to expand the Homeless Coordinating and Financing Council established by SB 1380 (2016) and proposes to move the Council to the Business, Consumer Services, and Housing Agency. The Council will work in collaboration with other stakeholders to evaluate grant proposals for a \$250 million General Fund homelessness emergency aid block grant described below.

Prevention – Social Services

The May Revision proposes \$47.3 million in 2018-19 and \$63.6 million on going to support safety net programs operated by the Department of Social Services to prevent vulnerable Californians from becoming homeless or help them obtain housing as follows:

- Establish a senior homelessness prevention pilot program with \$15 million in one-time funding over three years and requiring participating counties to match funds received.
- Expand the existing \$47 million CalWORKs housing support program with an increase of \$24.2 million in 2018-19. With an additional increase in 2019-20, the program will reach

\$95 million ongoing to provide assistance to low-income families obtaining and maintaining permanent housing.

- Increase funding for the CalWORKs Homelessness Assistance program by \$8.1 million in 2018-19 and \$15.3 million ongoing to raise the payment from \$65 per day to \$85 per day to provide families with up to 16 days of temporary shelter.

Emergency Aid – Block Grants

To assist locals in addressing homelessness until more state resources are available next year, the May Revision proposes emergency assistance funds as follows:

- Create a one-time Homelessness Emergency Aid block grant of \$250 million administered through Continuums of Care (federal HUD designations) for cities, counties or joint power authorities that declare a local shelter crisis and identify city-county coordination. Grants can be used for emergency housing vouchers, rapid rehousing, emergency shelter construction, and use of armories to provide temporary shelters, among other activities. These funds will be allocated through a process to be determined by the Homeless Coordinating and Financing Council.
- Provide one-time funding of \$1 million through the California Office of Emergency Services to augment the Homeless Youth and Exploitation Program for homeless and exploited youth shelters that serve unaccompanied minors.
- Increase funding by \$10 million through the OES for additional domestic violence providers for projects that include emergency “safe” homes or shelters for victims and their families.
- Provide a one-time augmentation of \$50 million for DHCS to provide counties with funding for intensive outreach, treatment and related services for homeless persons in need of mental health services.

Public Safety

The Governor’s May Revisions includes several proposals to the State Department of Corrections and Rehabilitation for various upgrades and proposals.

State Penalty Fund- Law Enforcement Training

The May Revision proposes to restore State Penalty Fund reductions included in the Governor’s January Budget. Specifically, the Commission on Peace Officers Standards and Training and the Standards and Training for Local Corrections programs are now proposed to be funded at their 2017-18 level. Because State Penal Fund revenues continue to decline, the May Revision proposes to shift the Standards and Training for Local Correction program administered by the Board of State and Community Corrections to the General Fund.

Other State Departments

Medicinal and Adult-Use Cannabis

The May Revision includes an additional \$133.3 million for cannabis-related activities, including the processing of licenses and permits, enforcement, laboratory services, information technology, quality assurance and environmental protection. The proposals are funded by the Cannabis Tax Fund which receives revenue from licensing fees.

The May Revision includes funding for the following activities:

- **Licensing and Enforcement.** \$28.3 million for the California Department of Food and Agriculture, \$10.6 million for the Department of Public Health, \$33.9 million for the Department of Consumer Affairs, and \$440,000 to the Department of Finance.
- **Tax Collection and Business Filings.** This funding would support ongoing tax collection activities for the following entities: EDD (\$3.7 million), DTFA (\$2.4 million), FTB (\$193,000) and SOS (\$440,000).
- **Hearing and Appeals.** Provides funding for the Cannabis Control Appeals Panel (\$1.4 million) and DGS (\$13 million) to conduct administrative hearings and appeals that result from denying, transferring, conditioning, suspending or revoking licenses.
- **Illegal Cannabis Market Enforcement.** Provides \$14 million for the Department of Justice to establish four investigation teams and one interdiction team to investigate illegal cannabis activity with an emphasis on complex, large-scale financial and tax evasion investigations as well as reducing environmental and other crimes associated with the illegal cannabis market.
- **Community Engagement.** Proposes \$10 million for the Governor's Office of Business and Economic Development to support the Community Reinvestment Grants Program that will be awarded on a competitive basis to local health departments and non-profit organizations to support substance use disorder treatment, job placement, legal services, and other programs.
- **Research.** Proposes \$2 million for the University of California San Diego's Center for Medicinal Cannabis Research and \$10 million to a public university chosen by the Bureau of Cannabis Control to research and evaluate the implementation of Proposition 64.
- **Drug Recognition.** Proposes \$3 million for the CHP to establish and adopt protocols to determine whether a driver is operating a vehicle when impaired.

Wildfire Response and Recovery

The May Revision includes additional investments for recovery efforts and to create a stronger emergency response system in California as follows:

Office of Emergency Services

- Public Safety Communications. The May Revision includes \$15 million to begin a five-year plan to upgrade the California Public Safety Microwave network from an analog system to a digital system for emergency response continuity.
- Emergency Response Operations. The May Revision provides \$1.6 General Fund to increase staffing within OES' Homeland Security Branch and Regional Response and Readiness Branch.
- Situational Awareness and Collaboration Tool – The May Revision proposes \$353,000 General Fund and \$325,000 reimbursements for OES to manage and train local agencies on the effective use of this tactical tool, which is deployed in the field to coordinate various disaster response efforts.

Cal Recycle

The May Revision proposes \$1.3 million for Cal Recycle to lead a disaster response and recovery team that would become the subject matter experts for disaster recovery and debris removal. The team will respond to disaster events and support local agency requests for technical assistance.

Local Property Tax Backfill and Debris Removal Cost Share Waiver

The May Revision proposes \$32.8 million General Fund to backfill the property tax revenue losses that cities, counties and special districts will incur in 2017-18 and 2018-19 due to the 2018 wildfires and resulting mudslides in Southern California. Of this amount, \$21.8 million is for Northern California jurisdictions and \$11 million is for Southern California jurisdictions.