



## UCC Summary Governor's May Revision 2019-20 May 9, 2019

With a strong revenue recovery in April boosting the state's fiscal position, Governor Gavin Newsom released his 2019-20 May Revision this morning. Below is UCC's Summary of the most significant elements of the revised budget proposal. Keep in mind that we have included new proposals and those that have changed from the January budget. If not mentioned below, but included in the January budget, those proposals continue to be considered as a component of the 2019-20 proposed state budget. With just five weeks before the June 15 constitutional deadline for enacting a final state budget, we are prepared to keep you posted on the discussions and developments.

### Overview

The 2019-20 May Revision outlines a \$213 billion total state budget, with the General Fund budget at \$147 billion. The budget surplus – an estimated \$21.5 billion – is nearly the same as projected in January, but still the largest budget surplus in state history. Additional revenues of \$3.2 billion above the Governor's budget are largely obligated to debt repayment, reserves, and schools. The May Revision includes additional state revenues of \$3.2 billion, driven in large part by healthy personal income tax revenues, with estimates increased from January due to expected Initial Public Offerings (IPOs) by large California-based companies and a strong stock market.

The May Revision dedicates \$15 billion (January plus May) to building budgetary resiliency and paying down the state's unfunded liabilities, representing a \$1.4 billion increase over January. Total expenditures include \$4.5 billion to eliminate debts and reverse deferrals, \$5.7 billion to build reserves, and \$4.8 billion to pay down unfunded retirement benefits.

Specifically, the May Revision reflects the repayment of loans to special funds of \$171 million and \$942 million in 2018-19 and 2019-20, respectively, eliminating all outstanding loans from special funds.

The Governor proposes an additional \$1.2 billion deposit into the Rainy Day Fund, bringing the reserve to \$16.5 billion in 2019-20. The Rainy Day Fund is anticipated to reach its constitutional cap of 10 percent of General Fund revenues in 2020-21, which is two years earlier than predicted in January. In addition, for the first time, nearly \$400 million in Proposition 98 funding will be deposited into the Public School System Stabilization Account as required by Proposition 2. The Public School System Stabilization Account was created as a separate rainy day fund for schools; however, the school community had not anticipated that the

constitutional threshold would be met to require the set-aside this year and suggested that there was flexibility on the part of the Administration in determining the requirement, a take that was quickly rejected by the Director of Finance. Look for the debate on the schools' rainy day fund to be considerable as the Legislature deliberates the budget.

The Governor continues to provide resources to reduce employer contributions to the California State Teachers' Retirement Fund (CalSTRS), with a proposed additional one-time contribution of \$150 million non-Proposition 98 funds to further reduce the employer contribution rate to 16.7 percent in 2019-20.

As previously announced, the Governor has proposed expanding paid family leave for each parent from six to eight weeks as a down payment on his goal of paid family leave for the first six months of a child's life, effective July 1, 2020. The proposal also allows claimants to take a full eight weeks to assist a family member for military deployment, effective January 1, 2021. The Governor is convening a task force to consider options to phase-in and expand paid family leave to meet the Administration's goal; the task force will also consider policy issues including adjustment to the wage replacement rate, alignment of existing worker protections, and retaliation protections for employees who use the program, and is anticipated to issue recommendations for consideration in the Governor's 2020-21 proposed budget.

## General Government

### Cannabis Tax Fund Allocations

The May Revision includes a proposed allocation of funds generated from cannabis excise and cultivation taxes, pursuant to Proposition 64, as follows:

- \$119.3 million (60 percent) to education, prevention, and treatment of youth substance use disorders and school retention
- \$39.8 million (20 percent) to clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation
- \$39.8 million (20 percent) to public safety-related activities

The May Revision also includes \$15 million to provide grants to local governments to assist in the creation and administration of equity programs, and to support equitable access to the regulated market for individuals through financial and technical assistance.

### County Voting Systems

The May Revision includes one-time funding of \$87.3 million to replace and upgrade county voting systems, which provides an additional 25 percent of the estimated vote center model costs for counties with over 50 precincts (\$65.7 million), full funding of the estimated polling place costs for counties with 50 or fewer precincts (\$3.6 million), and \$18 million for county election management system replacements.

### Earned Income Tax Credit

The May Revision proposes to expand the Earned Income Tax Credit (and refer to it going forward as the California EITC). The newly expanded credit will be available to approximately 3 million households; the Administration is proposing to triple the amount of credits. The proposal includes: 1) Providing a \$1,000 credit for every family that qualifies for the credit and has at least one child under the age of 6; 2) Increasing the maximum eligible earned income to \$30,000 so that those working up to full-time at the 2022 minimum wage of \$15/hour will be eligible for the credit; 3) Changing the structure of the credit so that it phases out more gradually. The May Revision also includes \$18.7 million for the Franchise Tax Board to develop and administer

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a program to give California EITC recipients the option to receive a portion of their EITC as monthly advance payments rather than as lump sum at the end of the year when taxes are filed. The May Revision is proposing conforming to several federal tax provisions (mainly impacting business income) to pay for the California EITC program. The revenue estimates for the conformity changes are expected to generate \$200 million in 2018-19, \$1.7 billion in 2019-20 and \$1.4 billion annually on an ongoing basis.

## **Emergency Preparedness, Response, and Recovery**

### Disaster Contingency Planning and Preparedness

The May Revision includes a number of additional investments to support disaster contingency planning and preparedness, including:

- \$5.9 million and 76 positions to the Office of Emergency Services (OES) for enhanced disaster preparedness and response capacity for future state disasters.
- \$2 million and four positions to the Department of Housing and Community Development (HCD) to create a permanent Disaster Response and Recovery Unit that will provide housing expertise in coordination with statewide disaster recovery efforts and to hire a consultant to conduct local needs assessments related to the 2018 Camp and Woolsey fires, as well as create local long-term recovery plan frameworks.
- \$1 million and six positions to the State Water Resources Control Board (SWRCB) to improve emergency response capabilities between the State Water Board, regional boards, and other state entities during emergencies.
- \$2.8 million and 21.5 positions to the Department of Resources Recycling and Recovery to continue its significant role in emergency response mission tasking responsibilities, including a dedicated team to facilitate timely, safe, and effective debris removal operations, as well as to assist local governments in the preparation of debris removal plans for future incidents.
- \$979,000 and two positions to the Emergency Medical Services Authority (EMSA) to increase disaster medical services capacity, including coordination of medical assets during emergency response efforts and one-time purchases of medical treatment and communications equipment.
- \$959,000 and six positions to the Department of Public Health to support health care facilities and mass care shelters during emergencies, as well as disaster preparedness, response, and recovery efforts.
- \$996,000 and six positions to the Department of State Hospitals to improve emergency coordination and preparedness and business continuity planning at five state hospitals and the Department headquarters.
- \$2.9 million and 20 positions to the Department of Social Services to support mandated disaster planning, coordination and training activities. The Department is responsible for statewide mass care and shelter responsibilities.

### Public Safety Power Shutdown (PSPS)

Get used to a new acronym! The Governor proposes a one-time investment of \$75 million to improve resiliency of the state's critical infrastructure in response to investor-owned utility-led Public Safety Power Shutdown (PSPS) actions, and to provide assistance to communities as specific urgent needs are identified. The proposal is intended to provide a flexible source of funding to facilitate immediate response to utility-initiated power shutdowns. Additionally, planning grants to improve local preparedness for PSPS events would be available to county offices of emergency management to convene regional stakeholders to discuss

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PSPS preparedness, update emergency plans for PSPS events, and hold trainings, discussions, and exercises to reinforce planning assumptions.

### Property Tax Backfill for Fire-Affected Counties

The May Revision proposes \$518,000 to reimburse cities, counties, and special districts for the 2018-19 property tax losses resulting from the 2018 wildfires. This appropriation augments the \$31.3 million previously provided by [AB 72](#) earlier this year and will be provided to local agencies in Los Angeles, Mendocino, Napa, Orange, San Diego, Solano, Tuolumne, and Ventura counties that suffered property tax losses due to the 2018 wildfires, but had not been able to calculate losses in time to be included in the Governor's January budget.

## **Transportation**

The May Revision continues to include the Governor's proposal to link transportation funding and housing goals. Specifically, under the proposal, local streets and roads funding from SB 1 (Chapter 5, Statutes of 2017) – the Road Repair and Accountability Act of 2017 – would be contingent upon compliance with housing element law and zoning and entitling to meet updated housing goals.

## **Housing**

### Grants for Planning and Infill Infrastructure

The Governor's May Revision continues to provide \$750 million in one-time funding for affordable housing related activities but refocuses the \$500 million previously identified in the January budget to reward cities and counties with general purpose revenue. Specifically, the proposal redirects the funds to the Infill Infrastructure Grant Program administered by the Department of Housing and Community Development (HCD). This existing program provides funding for infrastructure that supports higher-density affordable and mixed-income housing in infill areas. The May Revision reports that infill areas might also qualify as federal Opportunity Zones and therefore additional tax benefits.

### Short- and Long-Term Statewide Housing Production Strategy

The Governor's January budget proposed the development of higher short-term statewide housing goals for new housing production across all income levels as well as a long-term revamp of the Regional Housing Needs Assessment (RHNA) process. The May Revision instead relies on the forthcoming 6th cycle RHNA numbers for short-term planning and, over the long-term, HCD will continue to develop a new RHNA process by no later than 2022.

### Expanded State Housing Tax Credit Program

The May Revision proposes deeper subsidies for specified preservation projects through the current state tax credit program. The Governor's revised tax credit proposal would also eliminate the sunset date on existing authority that allows a developer to sell "certified" credits to investors, without requiring an ownership interest in the properties being built.

### Excess State Property Innovation Challenge

To further the Governor's January budget proposal to create a new "innovation challenge" that calls upon affordable housing developers to engineer demonstration projects that use creative and streamlined approaches to affordable and mixed-income housing, the May Revision includes \$2.5 million one-time

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General Fund for real estate consultants for both HCD and the Department of General Services, and four positions (\$780,000 ongoing General Fund) for HCD to assist with developing request for proposals, conducting site investigations, evaluating housing developments, and monitoring projects.

## Homelessness

### Regional Planning

In recognition of the continued homelessness epidemic, the May Revision increases one-time general fund support for homelessness programs for a total of \$1 billion in 2019-20. The May Revision increases by \$150 million, for a total of \$650 million, the proposal to site and build navigation centers, emergency shelters, and supportive housing. Specifically, California's most populous 13 cities will receive \$275 million, counties will receive \$275 million, and Continuums of Care (CoCs) will receive \$100 million, based on the 2019 federal point-in-time count. The May Revision still makes grant funding contingent upon submitting regional plans to their CoCs.

The May Revision also expands the eligible uses for the funds to include innovative projects including hotel/motel conversions, traditional and non-traditional permanent supportive housing, rapid rehousing, or jobs programs.

### Legal Aid for Renters and Landlord-Tenant Disputes

The May Revision proposes an additional \$20 million one-time General Fund to provide grants to nonprofit service organizations to assist specifically with landlord-tenant disputes, including legal assistance for counseling, renter education programs, and preventing evictions.

### Student Rapid Rehousing

The May Revision proposes \$6.5 million in ongoing General Fund to support rapid rehousing of homeless and housing insecure CSU students and \$3.5 million ongoing General Fund for UC students.

## Health and Human Services

The Governor is proposing changes to his January proposal to address health care affordability. The May Revision expands the subsidies being offered to individuals purchasing Coverage in Covered California to 200% of the federal poverty level (FPL) from 250%. Please recall that the Governor is proposing subsidies for individuals with incomes up to 600 percent FPL. Approximately 75 percent of the subsidy expenditure will be on individuals with incomes between 400 and 600 percent FPL; subsidies would average \$100 per month. Individuals with incomes between 200 and 400 percent FPL would receive subsidies that average \$10 per month.

### Medi-Cal

The May Revision makes several adjustments to the Medi-Cal caseload and revenue estimates. The May Revision assumes that caseload will decrease by 2.4 percent from 2017-18 to 2018-19 and increase by 0.02 percent from 2018-19 to 2019-20. The May Revision also projects General Fund expenditures of \$23 billion in 2019-20, which is \$3.3 billion more than 2018-19. The May Revision continues to assume the expiration of the managed care organization tax and does not propose a replacement tax.

### Full-Scope Medi-Cal Expansion for Undocumented Young Adults

The May Revision adjusts the implementation date to no sooner than January 1, 2020 – which is six months later than what was proposed in January. The May Revision includes \$98 million (\$74.3 million General Fund) for the expansion.

### Redirection of County 1991 Realignment Savings Linked to the Medi-Cal Expansion

The May Revision: 1) adjusts the Realignment direction to reflect a six-month delay in implementation for certain counties. Please note that on a conference call with stakeholders this afternoon a Department of Finance representative indicated that a revised Finance letter will be released in the coming days that will revisit the 75% redirection; 2) recognizes Yolo County as a County Medical Services Program (CMSP) county; and 3) proposes to withhold 1191 Realignment revenues from the CMSP Board until the Board's total reserves reach two years of total annual expenditures. Once that reserve level is reached, 75 percent of the revenue will be redirected.

### Pharmacy Transition to Fee-for-Service

The Administration includes an estimate of the state savings related to the transition of the pharmacy benefit from managed care to fee-for-service of \$393 million General Fund by 2022-23. The transition is scheduled for January 1, 2021; the Administration acknowledges that savings will be immediately realized due to the timing of drug rebates and the managed care rate setting process.

### Medi-Cal County Administration

The May Revision provides an additional \$15.3 million (total funds) over the January budget for county Medi-Cal eligibility determinations.

### Whole Person Care

The May Revision includes an additional \$20 million in one-time funding (Mental Health Services Fund) over five years to expand Whole Person Care to counties that do not currently operate a pilot. This is in addition to the \$100 million in the Governor's Budget.

### Peer-Run Mental Health Crisis Line

The May Revision includes \$3.6 million (Mental Health Services Fund) annually for three years to provide support for a statewide peer-run mental health crisis line.

### Substance Use Disorder

The May Revision includes \$21.5 million in Proposition 64 funds for competitive grants to develop and implement new youth programs in the areas of education, prevention and early intervention of substance use disorders. The funds are continuously appropriated.

### Proposition 56

The May Revision includes approximately \$263 million in additional Proposition 56 revenues, due to a one-time fund reconciliation. New investments include:

### Medi-Cal Loan Repayment Program

\$120 million Proposition 56 funds for the Medi-Cal loan repayment program – making \$340 million available over the next several years, including \$290 million for physicians and \$50 million for dentists.

### Value Based Payments

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An additional \$70 million (one-time) for Value Based Payments Program for behavioral health integration, bringing the total to \$250 million available over the next several years.

### Optician and Optical Lab Services

\$11.3 million to restore optician and optical lab services for adult beneficiaries in the Medi-Cal program, effective no sooner than January 1, 2020.

### Mental Health

The May Revision provides \$100 million from the Mental Health Services Fund for the new 2020-25 Workforce Education and Training (WET) Five-Year Plan to address the shortage of qualified mental health professionals in the public mental health system.

## **Social Services**

The May Revision includes several adjustments to programs administered by the Department of Social Services.

### In-Home Supportive Services (IHSS)

The May Revision updates two IHSS proposals from the Governor's Budget:

- *County IHSS Maintenance of Effort Adjustment.* The May Revision provides an increase of \$55 million GF to related to re-benching the County IHSS Maintenance of Effort to reflect revised 1991 Realignment revenue projections and revised IHSS caseload and cost projections.
- *IHSS Restoration of the 7-Percent Across-the-Board Reduction to Service Hours.* The May Revision includes an increase of \$15.3 million GF to reflect the updates costs for restoring the 7-percent across-the-board reduction to IHSS services.

### CalWORKs

Single Allocation Budgeting Methodology. The May Revision provides an additional ongoing \$41.4 million General Fund and TANF funds to reflect a revised budget methodology for the employment services portion of the CalWORKs single allocation.

CalWORKs Outcomes and Accountability Review. The May Revision provides an additional ongoing \$13.2 million General Fund and TANF funds for counties to perform required Continuous Quality Improvement activities consistent with Cal-OAR implementation.

CalWORKs Stage One Child Care. The May Revision provides an increase of \$40.7 million GF in 2019-20 (\$54.2 million annually thereafter) to establish a 12-month eligibility period for CalWORKs Stage One Child Care services.

CalWORKs Home Visiting Initiative. The May Revision provides an increase of \$10.7 million GF and federal TANF funds to reflect updated projections of CalWORKs cases eligible for home visiting.

### CalFresh

The May Revision provides a one-time increase of \$15 million GF in 2019-20 for county administration efforts to process new CalFresh applicants as a result of eliminating the Supplemental Security Income Cash-Out policy.

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## Child Welfare Services

Resource Family Approval Administration and Application Backlog. The May Revision includes a one-time increase of \$14.4 million GF in 2019-20 to support county efforts in eliminating the backlog of foster care resource family applications that are pending review and approval.

Foster Parent Recruitment, Retention and Support. The May Revision includes a one-time increase of \$21.6 million GF in 2019-20 to recruit, retain and support foster parents, relative caregivers, and resource families. Foster Care Emergency Assistance. The May Revision includes an increase of \$21.7 million GF and federal TANF funds in 2019-20 to provide caregivers with up to four months of emergency assistance payments pending resource family approval. Beginning in 2021 and beyond, the state will fund emergency assistance payments for up to three months. The May Revision includes a TANF reserve of \$31.2 million to fund emergency assistance costs through 2020-21.

## Child Care

The May Revision includes additional investments to increase access to subsidized child care, including: 1) \$80.5 million (Cannabis Fund) to subsidize child care for school-age children from income-eligible families; 2) \$40.7 million GF in 2019-20 and \$54.2 million ongoing to allow CalWORKs recipients to receive Stage 1 child care for up to 12 months; 3) \$12.8 million federal funds to pilot a program to allow alternative payment agencies to offer emergency child care vouchers to families on the waiting list who are in crisis and in need of temporary assistance; 4) \$2.2 million ongoing federal funds to improve child care quality through Quality Counts California; 5) an additional \$38.3 million ongoing General Fund for CalWORKs Stages 2 and 3 child care, which – combined with other funds – will provide child care to an additional 14,000 children.

## **Public Health**

The May Revision includes \$40 million one-time General Fund to slow infectious disease epidemics. The funding will be available over four years through local public health departments and tribes to assist in providing prevention, testing, and treatment services.

## **Local Public Safety and State Corrections**

### Juvenile Justice

As reported previously, the Administration recently released trailer bill language to carry out its proposed move of the Division of Juvenile Justice out of the California Department of Corrections and Rehabilitation (CDCR) to a new unit within the Health and Human Services Agency. The May Revision contains additional narrative about the proposed Department of Youth and Community Restoration, which would become operational on July 1, 2020. Additionally, the Governor now proposes \$1.2 million for staff needed to facilitate the transition and to launch a new independent training institute that will train staff on best practices and cultivate the cultural change needed to accompany the department's enhanced focus on rehabilitative and therapeutic approaches. Further, the May Revision proposes to invest \$1.4 million to establish a partnership between DJJ (and its successor) and the California Conservation Corps for an apprenticeship program.

### Community Corrections Performance Incentive Grant (SB 678)

The May Revision proposes \$112.8 million in 2019-20 for incentive payments to county probation departments as a result of ongoing implementation of community programs and practices that reduce

commitments of felony probationers to state prison. This proposed funding level is slightly lower than what was estimated in January (a decrease of \$548,000).

### Resources for Additional Post-Release Community Supervision (PRCS) Workload

Given increases in counties' PRCS populations resulting from implementation of Proposition 57 (2016), the budget proposes \$14.8 million to support associated probation department workload; this figure is \$2.9 million higher than the January budget proposal.

### 2011 Realignment Revenue Updates

As is customary, the Governor's May Revision updates revenue estimates across all accounts and subaccounts for programs realigned to counties in 2011. The overall 2011 Realignment funding level for 2019-20 is estimated to be \$8.2 billion, reflecting a downward adjustment of approximately \$161 million from the January budget given lower-than-expected state sales tax performance. All subaccounts are expected to receive growth funding in 2018-19 and 2019-20, but at levels lower than was expected in the January budget estimate.

#### 2011 Realignment Estimate<sup>1</sup> - at 2019 May Revision

	2017-18	2017-18 Growth	2018-19	2018-19 Growth	2019-20	2019-20 Growth
<b>Law Enforcement Services</b>	<b>\$2,467.2</b>		<b>\$2,560.8</b>		<b>\$2,649.7</b>	
Trial Court Security Subaccount	550.3	\$9.4	559.7	\$8.9	568.6	\$11.4
Enhancing Law Enforcement Activities Subaccount <sup>2</sup>	489.9	192.8	489.9	224.5	489.9	241.4
Community Corrections Subaccount	1,241.1	70.1	1,311.2	66.7	1,377.9	85.7
District Attorney and Public Defender Subaccount	33.2	4.7	37.9	4.4	42.4	5.7
Juvenile Justice Subaccount	152.7	9.4	162.1	8.9	171.0	11.4
<i>Youthful Offender Block Grant Special Account</i>	<i>(144.3)</i>	<i>(8.9)</i>	<i>(153.1)</i>	<i>(8.4)</i>	<i>(161.5)</i>	<i>(10.8)</i>
<i>Juvenile Reentry Grant Special Account</i>	<i>(8.4)</i>	<i>(0.5)</i>	<i>(8.9)</i>	<i>(0.5)</i>	<i>(9.4)</i>	<i>(0.6)</i>
<b>Growth, Law Enforcement Services</b>		<b>286.4</b>		<b>313.4</b>		<b>355.6</b>
<b>Mental Health<sup>3</sup></b>	<b>1,120.6</b>	8.7	<b>1,120.6</b>	8.3	<b>1,120.6</b>	10.6
<b>Support Services</b>	<b>3,591.7</b>		<b>3,756.7</b>		<b>3,913.5</b>	
Protective Services Subaccount	2,258.0	78.1	2,336.2	74.3	2,410.5	95.5
Behavioral Health Subaccount	1,333.7	86.8	1,420.5	82.6	1,503.0	106.1
<i>Women and Children's Residential Treatment Services</i>	<i>(5.1)</i>	-	<i>(5.1)</i>	-	<i>(5.1)</i>	-
<b>Growth, Support Services</b>		<b>173.6</b>		<b>165.2</b>		<b>212.2</b>
<b>Account Total and Growth</b>	<b>\$7,639.5</b>		<b>\$7,916.7</b>		<b>\$8,251.6</b>	
<b>Revenue</b>						
1.0625% Sales Tax	6,956.8		7,202.2		7,520.3	
Motor Vehicle License Fee	682.7		714.5		731.3	
<b>Revenue Total</b>	<b>\$7,639.5</b>		<b>\$7,916.7</b>		<b>\$8,251.6</b>	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

<sup>1</sup> Dollars in millions.

<sup>2</sup> Base Allocation is capped at \$489.9 million. Growth does not add to the base.

<sup>3</sup> Base Allocation is capped at \$1,120.6 million. Growth does not add to the base.

## Judicial Branch

### Judgeship Funding

The Governor's revised budget includes \$30 million in 2019-20 (and \$36.5 million annually beginning in 2020-21) to fund 25 previously authorized superior court judgeships. Distribution of the judicial positions will be determined by the Judicial Council's Judicial Needs Assessment, expected to be updated in late summer 2019. (The 2018 preliminary update demonstrates that 127 additional judicial officers are needed to meet statewide workload demands.) The counties of Riverside and San Bernardino have – by a significant margin – the most severe judgeship need (see Appendix B at the previous link for more details).

## Environmental Protection

### Cap and Trade

The May Revision proposes an additional \$251.5 million to the \$1 billion Cap and Trade Expenditure Plan (for a total of \$1.251 billion), as detailed in the table that follows. Additional investments include affordable housing, sustainability and resiliency priorities.

### Transformative Climate Communities

The May Revision includes a one-time increase of \$92 million to support integrated, community-scale housing, transit-oriented development, and neighborhood projects that reduce emissions in disadvantaged areas.

### Low Carbon Transportation

The May Revision includes a one-time increase of \$130 million for programs that will reduce emissions from the transportation sector, with a focus on diesel pollution, including 1) \$65 million to replace and upgrade diesel engines and equipment in the agricultural sector and 2) \$50 million to provide incentives for zero-emission trucks, transit buses, and freight equipment. Additionally, \$15 million is proposed to help individuals replace old, highly polluting vehicles with newer more efficient cars and trucks.

### Safe Drinking Water

The May Revision makes no changes to the Governor's proposal to enact an ongoing sustainable funding to assist disadvantaged communities in paying for the costs of obtaining access to safe and affordable drinking water. However, the Governor reiterated his commitment to working with the Legislature and stakeholders on a comprehensive package that includes a sustainable and reliable source of funding for safe and affordable drinking water for all Californians.

### Climate Smart Agriculture

The May Revision includes a one-time increase of \$20 million, including \$10 million for the Healthy Soils program and \$10 million for methane reduction programs.

### Preparing Workers for a Carbon-Neutral Economy

The May Revision includes an ongoing increase of \$8 million to increase job training and workforce development, including targeted pre-apprenticeship and apprenticeship programs for the construction industry and a new High Road Training Partnership program.

## Transition to a Carbon-Neutral Economy

The May Revision includes a one-time increase of \$1.5 million for a study laying out the key actions the state must take to transition toward a carbon-neutral economy. The study will examine the environmental and economic programs and policies to reduce fossil fuel demand by 2050.

## **What's Next?**

Budget subcommittee hearings will start as early as Monday of next week. It is expected that subcommittee work in both houses will close out by May 24, and the Budget Conference Committee activities will begin sometime after June 1.

For a preview of differences between the two houses on budget priorities, the Democratic leader in the Senate and Assembly each released a statement today following the release of the May Revision:

**Senate President Pro Tem Toni Atkins:** “I applaud Governor Newsom for the way he has made his original budget proposal even stronger. The May budget revision reflects California’s fiscal strength, increases our prudent reserves, and makes important investments for the future. I am particularly pleased to see more funding for K-12 education and increases for the Earned Income Tax Credit to help even more working Californians. Given the critical challenges we face addressing homelessness and preparing and responding to natural disasters, the Governor has appropriately increased funding in those areas as well.”

**Assembly Speaker Anthony Rendon:** “Keeping the state budget flexible and ready for economic uncertainties is crucial. I appreciate how Governor Newsom’s budget revision reflects both that and the key priorities of my Assembly colleagues. The budget shows respect for our Assembly priorities, including new investments in early childhood education for infants, toddlers, and preschoolers.” He also states that “we will consider the LAO’s suggestion to extend the so-called MCO tax to support current health care services.”

We will keep you apprised of budget developments in the coming weeks as we approach the constitutional deadline of June 15.

## **Questions?**

Should you have questions on any aspect of the May Revision or budget process in general, please do not hesitate to reach out to any of us. Thank you!

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