



The Rural Rundown

***Governor's 2017-18 May Revision
and Other Budget Items***

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RCRC'S ANALYSIS OF THE GOVERNOR'S 2017-18 MAY REVISION AND OTHER BUDGET ITEMS

Summary

Earlier today, Governor Jerry Brown unveiled his May Revision of the 2017-18 State Budget (May Revision) in an attempt to more accurately reflect revenue and expenditure projections. The \$183.4 billion Budget reflects a spending plan that includes \$124 billion in General Fund expenditures, \$56 billion in special fund expenditures, and \$3.4 billion in bond expenditures.

While the revenue shortfall predicted in January is less severe, the Governor's May Revision remains considerably more constrained than in any year since 2012. Many cuts from the Governor's January proposed Budget remain, however, the "modestly improved fiscal outlook" allows the Governor's May Revision to increase funding for schools through the Local Control Funding Formula, and provide funding to mitigate the increase in In-Home Supportive Services (IHSS) costs to counties, among others.

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The Governor's May Revision touts maintaining a balanced budget while preserving the State's core achievements from the past four years, including K-12 education, higher education, counteracting the effects of poverty, strengthening infrastructure, and paying down debts and liabilities. However, citing the Legislature and the Administration's focus on spending to counteract the effects of poverty, the Governor cautioned "in the coming year, I don't think even more spending will be possible... we have ongoing pressures from Washington, and an economic recovery that won't last forever."

The Rural Rundown of the Governor's 2017-18 May Revision and Other Budget Items highlights the changes from the Governor's January proposed Budget, and outlines key issues and changes on high priority items for RCRC member counties. *The Rural Rundown* of the Governor's 2017-18 January proposed Budget can be accessed [here](#).

Key Issues/Changes for RCRC Member Counties

The Governor's May Revision:

- Provides \$400 million to mitigate the In-Home Support Services (IHSS) cost shift associated with the elimination of the Maintenance of Effort (MOE) within the Coordinated Care Initiative;
- Includes an additional \$43.2 million to continue/commence activities associated with the regulation of both medical and adult-use cannabis;
- Provides \$42.3 million to the California Department of Forestry and Fire Protection (CAL FIRE) to extend staffing and purchase equipment to complete a greater number of fuels reduction projects (including tree mortality mitigation projects) during off-peak season;
- Reduces and repurposes emergency drought response funding to address "drought legacy issues";

- Provides additional funding to K-12 education and community colleges;
- Includes \$2 million in economic development grant funding through the California Small Business Development Center;
- Includes \$644,000 for the State's Payment in Lieu of Taxes (PILT) Program for 2017-18; and,
- Maintains only \$1,000 for the Open Space Subvention Program (Williamson Act), the lowest possible dollar figure that allows the program to remain in the Budget.

Rainy Day Fund

The Governor's May Revision continues efforts to protect against future economic downturns by maintaining increased revenues in the State's Budget Stabilization Account (Rainy Day Fund). Under the terms of Proposition 2, which establishes a constitutional target to set aside 10 percent of General Fund tax revenues, the Rainy Day Fund would grow to a total balance of \$8.5 billion, or 66 percent of its constitutional authority, by the end of 2017-18.

Administration of Justice

2011 Realignment of Public Safety Responsibilities to Counties. The Governor's May Revision estimates reductions in Assembly Bill 109 funds. Specifically, "base" funding for the Community Corrections Subaccount has been revised from \$1.221 billion to \$1.186 billion. In addition, "growth" funds associated with the Community Corrections Subaccount have been estimated to only produce \$24.7 million - \$34.4 million less than previously estimated.

In 2011, the Governor and the Legislature enacted the realignment of various State programs to counties. Specifically, a realignment of various criminal justice populations occurred under AB 109, known as Public Safety Realignment (Realignment). The 2011 Realignment fiscal structure ensures continued funding for several local public safety subventions (rural sheriff grants, COPS, etc.). Funding for Realignment is made primarily via a dedication of 1.065 percent of the State portion of the sales tax rate, and secondarily through a portion of Vehicle License Fee revenues. These revenue commitments are now constitutionally protected following the passage of Proposition 30 (Temporary Taxes to Fund Education) in 2012.

AB 109 funding is directed to counties from the State-level Community Corrections Subaccount. Annual funding from the Community Corrections Subaccount is dictated by the 2011 Realignment fiscal structure set forth in statute, and the overall funding level produced by the dedicated State sales tax within a given fiscal year. Actual allocations to counties are made according to a permanent formula developed several years ago by a nine-member County Administrative Officer committee, with the assistance of the California State Association of Counties.

Proposition 47. The Governor's May Revision reflects additional State savings associated with Proposition 47. In total, the Administration is estimating a State savings of \$45.6 million due to reduced levels of adult incarceration, and a reduction in felony filings. Approved by voters in 2014, Proposition 47 reduces penalties for a variety of specified offenses, and dedicates the 'savings' from prosecuting and housing these offenders into programs that support K-12 schools, victim services, and mental health and

drug treatment. Proposition 47 requires the Department of Finance to calculate savings associated with the measure, and the current budget year provides for the first opportunity for an estimated calculation of the savings.

Proposition 57. The Governor's May Revision reflects an accelerated implementation of Proposition 57, which will result in State savings of \$38.8 million in the 2017-18 budget year. California voters approved Proposition 57 in November 2016, allowing certain non-violent felons serving a sentence in State prison to seek early parole. The measure also empowers the Department of Corrections to readjust credits that inmates can earn to obtain earlier release opportunities. The Administration expects that early parole petitions and readjustments of credits will result in a lowering of the male adult prison population (subject to a federal court ordered limit), thereby allowing those serving their sentences in costly out-of-state institutions to return to California facilities.

Since much of the Proposition 57 population will be subject to county responsibility under Post Release Community Supervision, the Governor's May Revision includes an additional \$4.4 million to assist county probation departments to supervise the temporary increase in the offender population subject to Post Release Community Supervision. This builds upon the Governor's January proposed Budget to provide \$11 million.

Offender Transitional Housing. The Governor's May Revision proposes to broaden the purposes for which counties and cities may use their Community-Based Transitional Services Program monies. The 2016-17 State Budget package included \$25 million to provide cities and counties with incentive payments for siting new housing facilities that provide treatment and reentry programming for criminal offenders. Under the program, cities and counties apply for grants between \$500,000 and \$2 million through the Department of Finance. Monies must be used to partner with private entities to operate transitional housing facilities. In broadening the purposes, statutory changes would be made to end limitations on the amount of grant monies being provided to facility operators.

California Environmental Protection Agency

Assembly Bill 32 Cap-and-Trade Proceeds. The Governor's May Revision makes no changes to the spending plan in the Governor's January proposed Budget for the State's Cap-and-Trade auction revenues. The Governor has reiterated his commitment since January to delaying allocation of the funds unless the Legislature extends the Cap-and-Trade auction program, through a two-thirds urgency vote, beyond its current 2020 sunset date. The program is currently under legal challenge as an unconstitutional tax, and a two-thirds approval of the program and extension by the Legislature would effectively thwart the ongoing lawsuit. There are currently a number of legislative proposals that would extend the program, namely Senate Bill 775 (Wieckowski) and Assembly Bill 151 (Burke and Cooper). SB 775 would make a number of substantive changes to the program, including disallowing the use of offset credits, eliminating free allowances, and creating a rebate program for California residents. AB 151 would largely leave the program as is and simply remove the sunset date.

RCRC has consistently advocated for the allocation of more funding to natural resource projects such as fuel treatment and forest restoration projects, as well as dedicated funding for rural infrastructure projects. In 2017-18, it is also vital that the State provides

Cap-and-Trade funds for the removal of dead and dying trees due to invasive pests, as well as providing funds for waste diversion infrastructure to implement Assembly Bill 1826 (Chesbro; 2014) and Senate Bill 1383 (Lara; 2016).

Education

Community Colleges. The Governor's May Revision includes an additional \$160 million investment in the Community College system to improve student success and outcomes. This builds upon the Governor's January proposed Budget which included \$150 million for the Guided Pathways Program. The Administration remains committed to expanding student access to quality online education, and is requesting the Community College Chancellor's Office to develop a proposal for a fully online community college system by November 2017.

K-12 Education. The Governor's May Revision provides an additional \$750 million in one-time discretionary funding for school districts, charter schools, and county offices of education. This builds upon the Governor's January proposed Budget which included a one-time \$290 million allocation of Proposition 98 funds, bringing the total to more than \$1 billion in 2017-18.

Additionally, the Governor's May Revision proposes to leverage federal funding, under the Every Student Succeeds Act, to support efforts to improve teacher recruitment and retention efforts throughout the State especially in high need fields such as Math and Science and in critical teacher shortage areas.

K-12 School Facilities. The Governor's May Revision continues to advance the proposal outlined in the Governor's January proposed Budget focused on improving accountability and oversight with the State's school construction funding process, and directs the Office of Public School Instruction to develop grant agreements that outline terms and conditions for applicants requesting funding through the School Facilities Program. The Governor's January proposed Budget also directed the Administration to enact legislation that would require bond expenditures to be included in the annual K-12 Audit Guide.

Since January, the Office of Public School Instruction has presented a comprehensive grant agreement for the School Facility Program to the State Allocation Board (SAB) for approval, and the SAB is expected to take action in late May 2017. The Administration has stated that they will support the expenditure of Proposition 51 funds when both the grant agreement and audit requirement have been fulfilled.

Proposition 51, the Kindergarten through Community College Public Education Facilities Bond Act of 2016, was approved by California voters in November 2016, and authorized \$9 billion in general obligation bonds to be used for new construction and modernization projects at K-12 and community college facilities.

General Government

Cannabis Regulatory Structure. The Governor's May Revision provides additional monies to continue/commence activities associated with the regulation of both medical

and adult-use cannabis. Specifically, the Governor's May Revision provides an additional \$43.2 million in the following manner:

Department of Fish and Wildlife: \$17.2 million to further support the Department of Food and Agriculture and the State Water Resources Control Board for a variety of environmental impacts (environmental compliance, streambed alteration permits, etc.), which includes \$1.5 million for the cleanup and abatement of illegal cannabis grow sites in Humboldt, Mendocino and Trinity Counties.

State Water Resources Control Board: \$9.8 million to develop a statewide water quality permit and expanded water rights registration process for cannabis cultivations.

Department of Food and Agriculture: \$3.9 million to assist in reviewing environmental impact activities. This will also be used to assist County Agricultural Commissioners with cooperative agreements.

Department of Pesticide Regulation: \$1.3 million to develop and update guidelines for pesticide use on cannabis. These amounts are slated to increase in future years to assist County Agricultural Commissioners to provide training and outreach to the industry on proper use of pesticides.

Cannabis Control Appeals Panel: \$1 million to provide for the operations of an Appeals Panel to handle cannabis licensing decision appeals.

Bureau of Cannabis Control: \$600,000 to review environmental impact report activities.

Department of Public Health: \$9.3 million to implement regulations upon cannabis product manufactures prior to the January 1, 2018 deadline for licensing this aspect of the cannabis industry.

The Legislature enacted a medical cannabis licensing/regulatory framework at the end of the 2015 Legislative Session. The framework provided the authorization to use General Fund monies for regulatory activities. It is anticipated that once the regulatory scheme is launched, license fees, fines, and penalties will be redirected to backfill many of the initial General Fund costs. In addition, in November 2016, California voters approved Proposition 64, which sanctions the adult-use of cannabis, and puts forth a similar regulatory scheme. Of note, Proposition 64 outlines a number of tax levies that will take effect once the licensing system is launched. In order to avoid duplicate activities, the Administration is proposing statutory changes to consolidate the regulatory schemes for medical and adult-use cannabis activities simultaneously.

Governor's Office of Economic Development. The Governor's May Revision includes \$2 million to draw down the federal funds match available to the California Small Business Development Center to expand the State's small business presence. This funding will be administered through a one-time competitive grant application process with a particular emphasis on those areas with high poverty and/or high unemployment rates.

Williamson Act. The Governor's May Revision does not propose any change to the Open Space Subvention Act (OSSA) from the Governor's January proposed Budget, which included \$1,000 for the OSSA. This is the lowest possible dollar figure that allows the program to remain in the State Budget.

The Williamson Act, also known as the California Land Conservation Act of 1965, authorizes cities and counties to enter into agricultural land preservation contracts with landowners who agree to restrict the use of their land for a minimum of 10 years in exchange for lower assessed valuations for property tax purposes.

Health and Human Services

Continuum of Care Reform Resources. The Governor's May Revision provides an increase of \$11.2 million to implement a higher hourly rate for county social workers and probation staff for administrative activities. This increase would also support higher rates for those involved in the foster care placement process. For several years, monies have been provided to county child welfare and mental health agencies and probation departments for costs associated with implementation of the continuum of care reforms pursuant to Assembly Bill 403 (Stone; 2015). These changes provide a better system of support for foster youth through increased payments to foster parents, improved outreach and retention of foster parents, mental health care for foster youth, and other wraparound services. State funded foster care services and improvements to the existing system are important in rural areas where other safety net services are often limited or non-existent.

Coordinated Care Initiative/In-Home Support Services. The Governor's May Revision creates a new Maintenance of Effort (MOE) associated with the In-Home Support Services (IHSS) program for all 58 counties, and reduces the estimated additional cost to counties from \$623 million to \$592.2 million. The Governor's January proposed Budget declared the Coordinated Care Initiative no longer cost-effective, thereby reinstating a cost-share borne by counties for the IHSS program.

In response to county concerns, the Administration engaged in discussions with county representatives to find an alternative. The Governor's May Revision represents the by-product of those discussions.

With the creation of a new MOE, the Governor's May Revision establishes baseline (\$592.2 million) IHSS costs to counties for FY 2017-2018 services and administration costs. The MOE cost will increase by five percent in 2018-19, and in future years, the inflation factor will be adjusted on a sliding scale ranging from no annual cost up to a seven percent inflator.

To offset costs to counties, all Vehicle License Fee (VLF) growth from the Health, and the Mental Health Subaccounts, as well as the County Medical Services Program (for three years), will be redirected to lower county MOE costs. In years four and five, 50 percent of the VLF growth will be redirected. Additionally, if a county is experiencing financial hardship due to the increased IHSS costs, it may apply to the Department of Finance for a low-interest loan.

MOE Cost Factors

Fiscal Year	State General Fund Contribution to County Share	Redirection of 1991 Realignment Revenue Growth	Annual Inflation	Expected Net Impact to Counties
2017-2018	\$400 million	100%	0%	\$141 million
2018-2019	\$330 million	100%	5%	\$129 million
2019-2020	\$200 million	100%	7% (unless decreased realignment revenue)	\$230 million
2020-2021	\$150 million	50%	7%	\$251 million
2021-2022	\$150 million	50%	7%	unknown
Out years	\$150 million	None	7%	unknown

Other significant changes to the IHSS program in the Governor's May Revision include:

- Caseload Cost Calculations: The Administration will change the methodology for calculating program costs for IHSS. Instead of the current accrual method that essentially sets up a two-year lag for program payments to counties, costs will be paid in the year in which they are incurred, relieving counties of carrying costs on their books over multiple fiscal years.
- Institutions of Mental Disease: The Governor's May Revision provides for a suspension of the current obligation on counties to provide a 3.5 percent annual rate increase to institutions of mental disease in any year that the Mental Health Subaccount does not receive full growth allocation.
- Board of Equalization Debt: The Administration is proposing to forgive the Board of Equalization accounting errors through 2015-16 that impact 1991 Realignment, 2011 Realignment, and Proposition 172.
- Collective Bargaining: The Governor's May Revision continues with the Governor's January proposed Budget action that requires local collective bargaining with IHSS unions, with some modifications.
- Future Discussions: The Administration has agreed to continue discussions with counties about the costs of the IHSS program and the inflation factors as it relates to overall 1991 Realignment revenues.

Federal Cures Act Opioid Targeted Response Grant. The Governor's May Revision includes \$44.7 million in federal funding to reflect the award for the federal Opioid State Targeted Response Grant program administered by the Substance Abuse and Mental Health Services Administration. The program will focus on rural areas without a Narcotic Treatment Program (NTP) in their geographic area, and increase the availability and utilization of buprenorphine statewide. The program will use the Hub and Spoke model, which will improve access to NTPs and Medication Units in counties with the highest

overdose rates. For counties that do not have an NTP, the lead entity could be the county, an alcohol and drug facility, a federally qualified health center, or other group. NTPs will begin providing expanded services by September 1, 2017 under the grant provisions.

Resources

Department of Forestry and Fire Protection. The Governor's May Revision includes \$42 million General Fund, and \$309,000 from various special funds, to extend staffing and purchase equipment for the California Department of Forestry and Fire Protection (CAL FIRE) beyond peak fire season to allow CAL FIRE to complete a greater number of fuels reduction projects, including tree mortality mitigation projects, during off-peak season.

Department of Parks and Recreation. The Governor's May Revision includes an initial investment of \$54 million in a variety of areas. Specifically, \$31.5 million to repair and maintain the aging infrastructure, including water systems, roads, bridges, campgrounds, and archaeological sites; an increase of \$1.5 million to establish a pilot project to provide transportation to State parks from urban areas; an increase of \$1 million for increased law enforcement, environmental monitoring and maintenance grants to support Off-Highway Vehicle Recreation; an additional \$1 million to help remove abandoned watercraft from the State's waterways; \$1 million to establish a recruitment and training program for hard to fill classifications within State parks; and an increase of \$18 million for the Jurupa Area Recreation and Park District.

Emergency Drought Response. In light of the Governor's official declaration that the drought has ended in all but four counties, the Governor's May Revision makes a number of changes and reductions to funds previously proposed for emergency drought response, repurposing those funds to address "drought legacy issues" going forward. The Governor's May Revision reduces the total proposed funding for drought response from \$178.7 million to \$62.9 million, a decrease of \$115.8 million, with the caveat that the Administration will continue to monitor precipitation levels throughout 2017, and reevaluate budget year needs.

Most notably, the Governor's May Revision dramatically decreases the proposed funding for the California Disaster Assistance Act (CDAA) from \$52.7 million to just \$8.5 million, a decrease of \$44.2 million. Of these funds, only \$2 million will be available for local governments to use for tree mortality mitigation, while the remaining \$6.5 million is earmarked to provide water tanks, periodic refills of tanks, and tank storage and sanitization in those counties that continue to experience the effects of the drought through the next year. CDAA funds have been accessed by counties for emergency assistance in recent months for vital public safety activities such as tree mortality mitigation and flood relief projects.

The drought response funds also include \$38.7 million from the General Fund, and \$3 million from the State Responsibility Area Fund, for the California Department of Forestry and Fire Protection to support expanded fire suppression activities during the 2017 fire season. Additionally, the Department of Water Resources would receive \$5 million in General Fund monies to provide emergency drinking water supplies for small

communities in the Central Valley still faced with dry private domestic wells, and \$2.6 million for at-risk fish monitoring.

Drought Response

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>January Proposed Amount (in Millions)</i>	<i>May Revision Proposed Amount (in Millions)</i>
Protecting Water Supplies and Water Conservation	Department of Water Resources	Local Assistance for Small Communities	\$5	\$5
	Water Board	Water Rights Management	\$5.3	\$0.6
	Department of Water Resources	Drought Management and Response	\$7	—
	Department of Water Resources	Save Our Water Campaign	\$2	\$1
Emergency Response	Department of Forestry and Fire Protection	Enhanced Fire Protection	\$91	\$41.7
	Office of Emergency Services	California Disaster Assistance Act	\$52.7	\$8.5
	Office of Emergency Services	State Operations Center	\$4	—
Protecting Fish and Wildlife	Department of Fish and Wildlife	Emergency Fish Rescues and Monitoring	\$8.2	\$2.6
	Department of Water Resources	Delta Smelt Resiliency Strategy	\$3.5	\$3.5
	Department of Community Services and Development	Farmworker Assistance	\$7.5	—
Total			\$178.7	\$62.9

Natural Resources and Parks Preservation Fund. The Governor’s May Revision proposes a “pay as you go” fund to support natural resources previously funded through bonds, including water, flood management, wildlife habitat, and other programs. The fund will be established with an initial \$65 million from previous appropriations for deferred maintenance at State parks.

The proposed program stems from the fact that General Fund costs for debt service for natural resource bonds have increased from \$200 million in 2000, to over \$1 billion in 2016-17, accounting for the single largest General Fund expenditure in the Natural Resources Agency.

State Payment in Lieu of Taxes. The Governor's May Revision does not propose any changes to the \$644,000 in funding to pay State Payment in Lieu of Taxes (PILT) to local governments from the Governor's January proposed Budget.

California State PILT was established in 1949 to offset adverse impacts to county property tax revenues that result when the State acquires private property for wildlife management areas. However, the Department of Fish and Wildlife, prior to Fiscal Year 2015-16, had not made annual State PILT payments in more than a decade, resulting in arrearages of more than \$8 million to 36 counties.

RCRC will continue to advocate in both the legislative and Budget processes for the arrears in State PILT funding owed to counties. Additionally, RCRC is the sponsor of Senate Bill 58 (McGuire), which would reverse the language that makes State PILT payments permissive.

Sierra Nevada Conservancy. The Sierra Nevada Conservancy (SNC) is requesting, through a Budget Change Proposal, a new local assistance appropriation of \$285,000 in Proposition 84 funds. These funds would be used to award grants and cooperative agreements to governmental agencies, eligible nonprofit organizations, and tribal organizations, to initiate and support efforts that improve the environmental, economic, and social well-being of the Sierra Nevada Region, its communities, and the citizens of California.

The SNC is also requesting provisional language to make the new appropriation funds available for encumbrance until June 30, 2020.

Transportation

The Governor's May Revision includes \$2.8 billion in new transportation appropriations in association with the recent enactment of Senate Bill 1 (Beall). SB 1 provides approximately \$52 billion in new transportation revenues (over a 10-year period) to address the State and local transportation maintenance backlog. More than 60 percent of the proceeds raised directly from SB 1 are to be split evenly between the State and local governments. The anticipated local government share would be divided equally between cities and counties for local streets and roads under existing distribution formulas. The California Transportation Commission shall annually evaluate each agency receiving funds to ensure that the funds are spent appropriately. Much of the anticipated State share of the revenues would be directed to the State Highway Operation and Protection Program for addressing deferred maintenance on the existing State highways. RCRC's Board memo on SB 1 can be accessed [here](#).

Water

California Water Action Plan. The California Water Action Plan (WAP) continues to serve as the Administration's blueprint to address California's water and ecosystem needs. The Governor's May Revision includes the following appropriations to fund implementation of the WAP:

Bay-Delta Water Quality Control Plan: The Governor's May Revision maintains a commitment seeking voluntary agreements to meet the State Water Resources Control

Board's update to the Bay-Delta Water Control Plan. The Natural Resources Agency is leading the negotiations. In order to effect these agreements, five positions, and an increase of \$1.1 million from the General Fund have been allocated to the Department of Fish and Wildlife. An increase of \$50 million from Proposition 1 monies will go to the Department of Water Resources for multi-benefit flood management projects that are identified through the negotiations. This is out of the total \$387.1 million of Proposition 1 directed to flood control investments in the broader category of dam safety and flood control expenditures.

Central Valley Flood Control Plan: The Governor's May Revision proposes an increase of \$387.1 million Proposition 1 Funds to accelerate a portfolio of flood control projects over the next two fiscal years. These funds will complement existing Proposition 1E and Proposition 84 funds that have already been appropriated. Between these allocations, over \$1 billion would be allocated to enhance flood protection in areas with significant flood risk.

Department of Water Resources: The Governor's May Revision provides \$21 million from Proposition 13 water bond funds over the next five years to support salmon restoration actions on the San Joaquin River and its tributaries. While this is in addition to the monies identified as part of the Bay-Delta Water Quality Control Plan, they are meant to complement those investments.

The Administration is also proposing several legislative "fixes" to address concerns highlighted by the Oroville Spillway failure in February 2017, including updates in the emergency action plans, as well as the inundation maps and regulatory reporting requirements. To accompany these actions, the Governor's May Revision provides a number of relatively modest adjustments to the Department of Water Resources' Division of Dam Safety, including an increase of \$6.5 million to the Dam Safety Fund to improve Emergency Action plans, and conduct more extensive evaluations of appurtenant structures such as spillways, gates, and the like, and \$1.8 million to the General Fund for the Office of Emergency Services to review and approve the inundation maps and coordinate the review of the emergency action plans. The inspections will include additional hydrological and structural evaluations based on current design standards.