



# **Governor's 2015-16 May Revision and Other Budget Items**

## ***The Rural Rundown***

**May 14, 2015**

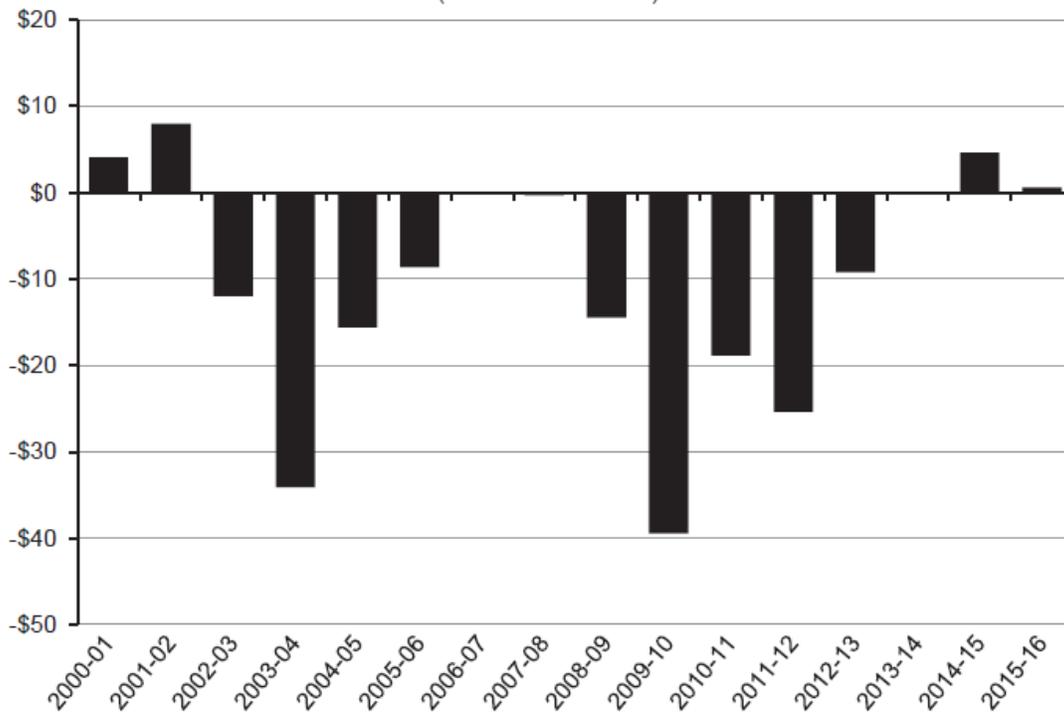
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## RCRC'S ANALYSIS OF THE GOVERNOR'S 2015-16 MAY REVISION AND OTHER BUDGET ITEMS

### Summary

Today, Governor Jerry Brown unveiled his May Revision of the 2015-16 State Budget in an attempt to more accurately reflect revenue and expenditure projections. Overall, the Governor's May Revision reflects a \$6.7 billion increase in General Fund revenues compared to the Governor's January proposed Budget. The surge in revenues primarily stems from increased income tax receipts from high income filers; however, other sources of State revenue also reflect healthy increases including the State sales tax and the corporation tax. Under the State's Constitution, priority of surplus revenues must be directed to Proposition 98 (the funding guarantee for K-12 schools and community colleges), and Proposition 2, enacted last year to provide for a more robust "Rainy Day Fund," as well fulfill debt obligations and other liabilities.

Figure INT-01  
**Balanced Budgets Have Been Quickly  
Followed by Huge Deficits<sup>1/</sup>**  
(Dollars in Billions)



<sup>1/</sup> Budget shortfalls or surplus, measured by the annual Governor's Budget.

Noting the precarious state of California's economic recovery, Governor Brown continues to be reluctant to commit to new State spending. However, there are notable changes outlined in the May Revision. These include freezing tuition at both the University of California and the California State University for two years; creating the California Earned Income Tax Credit for very low-income filers; and, providing health care and other safety net services to those undocumented individuals who are likely to gain Permanent Residence Under Color of Law status as put forth under President

Obama’s recent Executive Order. Furthermore, the Governor’s May Revision expands California’s programs to reduce greenhouse gas emissions through Cap-and-Trade proceeds.

**Key Issues/Changes for RCRC Member Counties**

The Governor’s May Revision:

- Maintains \$644,000 for the State’s Payment in Lieu of Taxes (PILT) program for 2015-16;
- Completes in full the repayment of all pre-2004 Mandate Claims;
- Provides \$50 million in Cap-and-Trade monies for CAL FIRE forest health projects;
- Addresses specific and unique property tax situations in a number of RCRC member counties;
- Increases the Greenhouse Gas Reduction Programs by \$1.2 billion; and,
- Adds \$2.2 billion over the next three years as continued response to the drought.

The *Rural Rundown* of the Governor’s 2015-16 January proposed Budget can be accessed [here](#).

Figure INT-02

**Debts and Liabilities Eligible for Accelerated Payments Under Proposition 2**  
(Dollars in Millions)

	Outstanding Amount at Start of 2015-16	Governor's Budget Pay Down	Additional May Revision Pay Down
<b>Budgetary Borrowing</b>			
Loans from Special Funds	\$3,028	\$965	\$537
Underfunding of Proposition 98—Settle-Up	1,512	256	0
Unpaid Mandate Claims for Local Governments (prior to 2004-05) <sup>1/</sup>	0	0	0
<b>State Retirement Liabilities</b>			
State Retiree Health	71,773	0	0
State Employee Pensions	43,303	0	0
Teacher Pensions <sup>2/</sup>	72,718	0	0
Judges' Pensions	3,358	0	0
Deferred payments to CalPERS	530	0	0
<b>University of California Retirement Liabilities</b>			
University of California Employee Pensions	7,633	0	96
University of California Retiree Health	14,519	0	0
<b>Total</b>	<b>\$218,374</b>	<b>\$1,221</b>	<b>\$633</b>

1/ Entire liability paid off under the 2014 Budget Act revenue trigger.

2/ The state portion of the unfunded liability for teacher pensions is \$14.916 billion.

## **Administration of Justice, Corrections, and Law Enforcement**

**County Probation Department Funding.** The Governor's May Revision includes an additional \$1.1 million in Senate Bill 678 (Leno) funding for County Probation Departments beyond the \$125 million in the Governor's January proposed Budget. Additionally, the Governor's May Revision proposes to update the performance-based funding formula to further incentivize county probation departments to continue to decrease the number of offenders returning to State custody.

Enacted in 2009, SB 678 provides counties with a financial incentive to reduce the number of reoffenders returning to State prison. Following Public Safety Realignment in 2011, adjustments to the incentive program needed to be made to ensure reductions in the reoffender population level were maintained.

**Courthouse Construction Funding.** The Governor's May Revision calls for adjustments in the process for allocating resources for two courthouse construction projects: the new Ukiah Courthouse in Mendocino County, and the Willows Courthouse in Glenn County. These adjustments are needed to ensure these projects move forward without delay.

The Governor's January proposed Budget included nearly \$175 million in funding for courthouse construction projects including those in El Dorado, Inyo, Lake, Shasta, Siskiyou, and Tuolumne Counties. A number of other courthouse construction projects continue in their respective construction and funding processes absent language in the Governor's January proposed Budget. This is primarily due to appropriations made in previous Budgets, as well as monies from other sources.

**Criminal Penalties Amnesty Program.** The Governor's May Revision updates a proposed 18-month amnesty program, as called for in the Governor's January proposed Budget, for those who have been convicted of traffic infractions and certain misdemeanors, with outstanding monetary penalties associated with these offenses. Participants in the program would pay their fines at a 50 percent level. The amnesty program is anticipated to generate approximately \$150 million, and portions of those proceeds would help offset deficits of various special funds that are nearing insolvency. Courts and counties would be able to recover portions of their administrative costs by accessing some of the monies generated by the amnesty program.

The Governor's May Revision authorizes drivers whose licenses have been suspended due to Failure to Appear or Failure to Pay as a result of their offenses to reinstate their licenses as part of their participation in this program.

**Local Trial Court Operations.** The Governor's May Revision provides an additional \$15.5 million to be placed into the Trial Court Trust Fund. This request builds upon the Governor's January proposed Budget, whereby an additional \$180 million would be allocated to support local trial courts. The primary reason for the increase in the Governor's May Revision is the forecasted downward trend of fines and penalty monies in the coming fiscal year. The Governor's May Revision is consistent with the Administration's goals of providing additional resources to the trial courts to address

day-to-day trial court operations, employee benefits costs, and an increased workload from Proposition 47, which reduced criminal penalties for a variety of lower-level crimes.

Over the last several years, the State's trial courts have experienced a number of Budget reductions. To address these reductions, trial courts were instructed to utilize their operating reserves and make internal reforms to reduce costs – most notably, employee costs associated with pension benefits. The Administration has recognized that trial court reserves have been spent down, and also recognizes some local trial courts have begun to make adjustments in their employee pension costs.

**State Department of Corrections and Rehabilitation.** The Governor's May Revision reflects a reduction of \$130 million in General Fund support to the Department of Corrections and Rehabilitation (Department), primarily the result of the elimination of contracts with out-of-state providers of bed space for offenders in State custody. The Department estimates slight reductions in the adult prison population in the current fiscal year, as well as the 2015-16 fiscal year. A number of factors account for these reductions – the release of those eligible for sentence redetermination under Proposition 47, continued success with county probation departments under the SB 678 program, and reforms to the parole process. The 2011 Realignment shifted custody and parole responsibilities to counties for certain classifications of offenders, and this has had a drastic effect on the overall population under State supervision. The Department faces a federal court order to reduce its prison population to 137.5 percent of design-capacity by February 2016. That translates into a cap of approximately 113,000 inmates. As of the Governor's May Revision, the population for the current year is estimated at 133,451, as determined by average daily population.

#### **California Environmental Protection Agency**

**Assembly Bill 32 Cap-and-Trade Proceeds.** The Governor's May Revision allocates approximately \$2.2 billion to greenhouse gas emissions reduction efforts from Cap-and-Trade auction proceeds – an increase of 125 percent from the Governor's January proposed Budget. The increased allocation is a result of greatly increased Cap-and-Trade revenue over initial estimates, largely due to the recent inclusion of oil refineries in the program.

The Governor's 2014-15 State Budget established an appropriation scheme for the various investment categories: 25 percent to fund the High Speed Rail Authority, 35 percent to the Transportation, Affordable Housing, and Sustainable Communities program (20 to 18 percent for the affordable housing and sustainable communities portion, and 15 percent for transit and intercity rail), and 40 percent to the remaining resources, energy, low carbon transportation, and other programs. The Governor's May Revision will continue to fund programs that are already receiving funding in the current fiscal year, but diverges somewhat from the appropriation scheme established in the 2014-15 State Budget.

The Cap-and-Trade Expenditure Plan (Plan) includes an additional \$200 million for programs which were not included in the Governor's January proposed Budget, including the Department of Water Resources for Water and Energy Efficiency Program. The Plan also includes funds for the creation of new programs, such as a consumer

rebate program at the California Energy Commission, and funds the implementation of the Drought Executive Order for Water and Energy Technology and the Healthy Soils Initiative.

Figure CAP-01  
**2015-16 Cap and Trade Expenditure Plan**  
(Dollars in Millions)

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>Jan 10/ Accelerated Drought</i>	<i>May Revision</i>	<i>Total</i>
Sustainable Communities and Clean Transportation	High-Speed Rail Authority	High-Speed Rail Project	\$250	\$250	\$500
	State Transit Assistance	Low Carbon Transit Operations Program	\$50	\$50	\$100
	Transportation Agency	Transit and Intercity Rail Capital Program	\$100	\$165	\$265
	Strategic Growth Council	Affordable Housing and Sustainable Communities Program	\$200	\$200	\$400
	Air Resources Board	Low Carbon Transportation	\$200	\$150	\$350
Energy Efficiency and Clean Energy	Department of Community Services and Development	Energy Efficiency Upgrades/Weatherization	\$75	\$65	\$140
	Department of General Services *	Energy Efficiency for Public Buildings	\$20	\$20	\$40
	University of California/ California State University	Renewable Energy and Energy Efficiency Projects	\$0	\$60	\$60
	Department of Water Resources/Department of Food and Agriculture	Water and Energy Efficiency	(\$30)	\$60	\$60
	Energy Commission/ Department of Water Resources	Drought Executive Order - Rebates for Appliances	\$0	\$30	\$30
	Energy Commission/ Department of Water Resources	Drought Executive Order - Water and Energy Technology Program	\$0	\$30	\$30
	Department of Food and Agriculture	Agricultural Energy and Operational Efficiency	\$5	\$20	\$25
Natural Resources and Waste Diversion	Department of Fish and Wildlife	Wetlands and Watershed Restoration	\$25	\$40	\$65
	Department of Forestry and Fire Protection	Forest Health	\$42	\$50	\$92
	Department of Food and Agriculture	Healthy Soils	\$0	\$20	\$20
	Cal Recycle	Waste Diversion	\$25	\$35	\$60
<b>Total</b>			<b>\$992</b>	<b>\$1,245</b>	<b>\$2,237</b>

\* Shifts administration of Green Buildings and \$20 million from the current year from Energy Commission to Department of General Services.

Several existing programs received more than double the funding proposed in the Governor's January proposed Budget, including programs that potentially benefit rural communities, such as the Forest Health Program, the Wetlands and Watershed Restoration Program, and the Waste Diversion Program. The Governor's May Revision also expands the Forest Health program by allowing CAL FIRE to use the funds to enter into cooperative agreements on carbon emissions reduction and sequestration projects with other entities, including private or non-governmental entities and tribes, as well as local, state, and federal agencies.

RCRC has consistently advocated for the allocation of more funding to natural resources projects such as fuel treatment and forest restoration projects and waste diversion, as well as dedicated funding for rural transportation and infrastructure projects. The Governor's May Revision addresses some of RCRC's requests through increased allocations to the Forest Health Program and Waste Diversion Program, as well as by allowing Forest Health Program funds to be used on projects with other entities such as the USDA Forest Service. In addition, RCRC continues to advocate for not using CalEPA CalEnviroScreen as the sole tool for the definition of "Disadvantaged Communities" as it eliminates 29 counties from qualifying for the Disadvantaged Communities dedicated funding set-aside.

**Department of Resources Recycling and Recovery.** The Governor's May Revision includes a \$1.3 million increase for the Beverage Container Recycling Program (BCRP) to improve oversight, enhance program integrity, and reduce expenditures resulting from fraud. The BCRP has been operating at a deficit for several years, surviving on repayment of previous loans from the General Fund and program improvements.

RCRC continues to monitor and engage in BCRP reform conversations to protect the city/county payments and payments to recyclers that are important to rural county programs.

The Department of Resources, Recycling, and Recovery (CalRecycle) will be receiving an additional \$35 million for a total of \$60 million for waste reduction, specifically targeted at eliminating organics from landfills and reducing landfill methane emissions.

CalRecycle has adopted their Guidelines for the organics program, which previously allocated \$14.4 million to organics projects, and included a \$2 million set-aside for rural counties. It is anticipated that a proportional amount of the increased funding will also be included as a set-aside to support rural county organics projects. RCRC will be working with member counties to help identify feasible projects, and will engage in the allocation process of these funds to ensure accessibility to our member counties.

**Department of Toxic Substances Control.** The Governor's January proposed Budget decreased the Department of Toxic Substances Control (DTSC) budget by \$13.5 million, despite efforts by the "Fix the Foundation" initiative to continue implementing reform to improve the efficiency and effectiveness of cleanup, permitting, enforcement, and safer consumer products programs. The Governor's May Revision restores \$7.65 million. \$3.5 million will be directed to enforce hazardous waste laws to increase inspection of hazardous waste transporters, begin inspections of metal recyclers, and

review and improve the inspection and enforcement processes, especially in the most disproportionately impacted communities.

**State Water Resources Control Board.** The Governor's May Revision includes an increase of \$7.8 million to complete the update of the Bay Delta Water Quality Control Plan (Plan), with \$3.7 million from the General Fund, and \$4.1 million from the Water Rights Fund. The Plan will develop flow criteria and sustainable management criteria to protect and balance competing uses of water, including municipal, agricultural, fish and habitat protection, and recreational uses. RCRC will continue to monitor the development of the plan.

The Governor's May Revision does not alter the \$1.54 million in General Fund monies provided in the Governor's January proposed Budget to establish the Marijuana Cultivation Enforcement Team. These funds will help implement and enforce new waste discharge requirements on cannabis growers to protect water quality and wildlife.

### **Education**

**California State Library.** The Governor's May Revision provides an additional \$1.7 million in General Fund to support the California Public Library Broadband Project. This increase includes a one-time apportionment of \$1.5 million for grants to assist public libraries that require equipment upgrades to connect to a high-speed network. In rural communities, where broadband access is limited, the California Public Library Broadband Project may be the foundation by which residents can obtain access to broadband.

**California State Universities and University of California.** Consistent with the Governor's January proposed Budget, the Governor's May Revision continues to focus on improving access and keeping education affordable, while supporting innovative efforts that aim to reduce the time it takes for a student to complete a college degree program. The Governor's May Revision provides an additional \$38 million to the California State University System (CSU), under the assumption CSUs will use the monies to improve timelier completion rates and increase enrollment numbers for transfer students. The Administration estimates the additional monies will allow CSUs to increase community college transfer student enrollment by more than 1,500 by the Spring of 2016.

The Governor's May Revision provides \$35 million from the Greenhouse Gas Reduction Fund to support energy efficiency projects at CSU campuses.

Following action by the University of California (UC) Regents in November 2014 to authorize a 28 percent tuition increase structure, the Administration and the UC President convened an advisory committee to address tuition costs, access, and student success and outcomes. After lengthy discussions, the Governor and UC President have agreed on a series of reforms designed to reduce future operating costs which will improve access and affordability for future students. Under this arrangement, the UC has committed to freezing tuition for California residents through 2016-17. Additionally, the UC President will call for a review of existing policies on how Advance Placement credits are awarded, providing students the opportunity to graduate sooner

than they otherwise may have. Each UC campus will develop an accelerated three-year degree pathways program for 10 of its top majors by March 16, 2016, which will provide yet another opportunity for students to earn a UC degree.

The CSU and UC systems provide undergraduate and graduate education to approximately 697,000 students. Four RCRC Member counties house higher education institutions: Butte, Humboldt, Merced and Yolo.

**California Student Aid Commission.** The Governor's May Revision decreases funding to the Middle Class Scholarship Fund in 2015-16 by \$18 million. The reduction reflects adjusted estimates in costs to implement the program. The Middle Class Scholarship Program provides undergraduate students with family incomes of \$100,000 to \$150,000 scholarship grants covering up to 10 percent of their tuition cost. The Student Aid Commission reports that the average student award is \$895 (\$1,206 for UC students, and \$584 for CSU students). To date, more than 81,000 students have received awards. This program provides additional financial resources to students whose families may not be able to afford college otherwise.

**Career Technical Education.** The Governor's May Revision includes an additional \$150 million in 2015-16, an additional \$50 million in 2016-17, and a decrease of \$50 million in 2017-18 to fund the transition of the Career Technical Education Incentive Program (Program). The Program requires a dollar-for-dollar match by school districts and county offices of education that receive funding. The Administration has indicated that priority funding will be given to school districts and county offices of education that manage programs in rural school districts, or areas with particularly high dropout numbers.

**Community Colleges.** The Governor's May Revision continues to focus on improving student success and outcomes by expanding technical education opportunities and incentive programs within the community college network. The Governor's May Revision provides an increase of \$15 million in Proposition 98 funds to expand student success programs and assist underrepresented students, as well as an additional \$2 million for the Basic Skills Partnership Pilot Program, which will provide incentives to community colleges and CSUs who collaborate their efforts to provide basic skill instruction to incoming CSU students.

**K-12 Education.** The Governor's May Revision continues significant investments in K-12 education, and maintains repayment of deferred payments owed to schools. The Governor's May Revision provides an additional \$2.1 billion over the \$4 billion allocated in the Governor's January proposed Budget. Under the Governor's May Revision, schools will have more than \$3.5 billion in discretionary funds, thereby granting schools much needed flexibility to invest in professional development, instructional materials, and technology upgrades. Approximately \$40 million of this new funding will go directly to county offices of education to assist schools in the ongoing implementation of the Local Control Funding Formula.

The Governor's May Revision decreases Proposition 39 funds to K-12 schools and community colleges to support energy efficiency projects by \$6.7 million. The

Governor's January proposed Budget provides \$368 million. The reduction is due primarily to lower revenue projections.

**Rural and Low-Income School Program.** The Governor's May Revision includes an additional \$206,000 for the Rural and Low-Income School Program. The Governor's January proposed Budget provides \$1.17 million for the program. The Rural and Low-Income School Program provides funds to rural, Local Educational Agencies that primarily serve districts that have a high number of children from low-income families. Funds are allocated on a formula basis and determined by the U.S. Department of Education.

### **General Government**

**County Revenues/Basic Aid Districts/Property Tax Allocations.** The Governor's May Revision provides an additional \$700,000 to reimburse Alpine, Amador, and San Mateo Counties, and the cities located within, for funding shortfalls in their Sales & Use Tax and Vehicle License Fee Adjustment Amounts ("the Triple Flip" and "Swap"). The increase is primarily from shortfalls in payments incurred in previous fiscal years. The Governor's January proposed Budget included nearly \$5.1 million to reimburse Alpine, Amador, and San Mateo Counties for funding shortfalls in their "Triple Flip" and "Swap." These shortfalls are triggered under a complex formula associated with having Basic Aid school districts within their counties.

The Governor's May Revision allows San Benito County to participate in a property tax allocation program which ultimately forgives the county for obligations associated with allocating property tax proceeds from previous fiscal years. In past years, several other counties, including Riverside, Plumas, Santa Clara, and Santa Barbara have successfully attained relief in similar disputes of interpretation with the State Controller over the allocation of local property taxes.

The Governor's May Revision provides \$6.9 million in annual payments to "negative bailout" counties. Stemming from the passage of Proposition 13 in 1978 and subsequent legislation, the method for retaining and sharing proceeds from local property taxes has created a unique situation for Alpine, Lassen, Mariposa, Plumas, Stanislaus, and Trinity Counties. In essence, the counties' share of property tax proceeds were negatively impacted as these counties were required to shift a significant portion of their proceeds to other local entities (commonly referred to as the 'negative bailout'). Complicating matters is the formula used in this method is in perpetuity, and continues to grow, to the detriment of each county. Monies provided in the Governor's May Revision would compensate those negative bailout counties for their "lost" property taxes on an ongoing manner, thereby ending the "negative bailout" situation.

**Debt Service.** The Governor's May Revision provides a reduction of \$161.7 million in General Fund debt service expenditures relative to the Governor's January proposed Budget, for a total of \$5.4 billion, which includes \$4.8 billion in General Obligation, and \$535.8 million in lease revenue bond debt service. The reduction has been attributed to a smaller Spring 2015 bond sale than projected, an increased estimated premium on future bond sales, and savings from bond refinancing this Spring.

The General Obligation debt service continues to hover at approximately 6 percent of the proposed State General Fund Budget, which has been noted as an acceptable level of debt by the Legislative Analyst's Office and the State Treasurer. General Obligation debt service is constitutionally one of the highest priority General Fund expenditures, which allows for a lower interest repayment, and provides security for the bond investor.

**Fairs.** The Governor's May Revision does not propose any changes to local fairs from the Governor's January proposed Budget, which includes \$10.1 million for the support of local fairs. Specifically, the Governor's January proposed Budget provides \$3.1 million for the 2015-16 budget year, and \$3.1 million ongoing to be directed to the Fairs and Expositions Fund for redistribution to improve the financial situation of smaller fairs, as well as provide training for Fair Board members. In addition, \$7 million from the Governor's *Five-Year Infrastructure Plan* is proposed for deferred maintenance for fairs across the network based on their need.

The respective Budget Subcommittees of the Senate and Assembly have both approved the funding as outlined in the Governor's January proposed Budget. However, the Assembly Budget Subcommittee included proposed Budget bill language requiring the California Department of Food and Agriculture (CDFA) to provide a report in the 2016-17 State Budget that identifies the fairs at greatest risk of closure due to their financial conditions.

**State Mandates.** The Governor's May Revision provides for an additional \$232 million to fully repay local governments for pre-2004 mandate claims. This payment is a result of a trigger mechanism approved by the Legislature and the Governor in last year's State Budget Package. Last year, the State paid \$100 million of the approximately \$900 million owed to local governments for pre-2004 mandates; however, the Budget Package stipulated that if revenues exceed expectation during the 2014-15 fiscal year, additional repayment monies would be provided. Noting an increase in State revenues, the Governor's January proposed Budget estimated a repayment of \$533 million to local governments for pre-2004 mandates. Because State revenues have dramatically increased since January forecasts, the Governor's May Revision allows for the final completion of these repayments. It should be noted that nearly 75 percent of these monies will be distributed to counties, proportionate to what each county is owed. Payments are expected to be made to counties before the end of June 2015.

The Legislature will be considering the suspension of two mandates not included in the Governor's January proposed Budget – Medi-Cal Eligibility of Juvenile Offenders, and State Authorized Risk Assessment Tool for Sex Offenders, before a final 2015-16 State Budget is adopted in June. The Commission on State Mandates adopted statewide cost estimates for the two mandates in January 2015, subsequent to the release of the Governor's January proposed Budget. These mandates will join the Interagency Child Abuse and Neglect Investigation Reports Mandate (ICAN), which was eligible for repayment for the first time in 2014, as newly proposed for suspension in the 2015-16 Budget. The Legislature has reviewed the continuation of a variety of mandate suspensions that are not related to law enforcement or property taxes as outlined in the Governor's January proposed Budget. Most of these mandate suspensions have

occurred over the past several years, and the overall mandates discussion will continue during upcoming budget deliberations.

The Legislature has also reviewed, but not taken action on, the Governor's January proposed Budget item which includes a one-time payment to local governments of \$9.6 million to fund the back costs incurred from 2001-2013 for activities performed under the Public Records Act (Act) mandate. The Act was placed in the California Constitution by voters via Proposition 42 in 2014, removing the State's responsibility to fund local responsibilities related to the Act going forward.

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

**Workforce Innovation and Opportunity Act.** The Governor's May Revision increases funding for various federally-funded State workforce programs by nearly \$18 million to reflect new funding levels contained in the recently-enacted federal Workforce Innovation and Opportunity Act. The programs scheduled to benefit include the SlingShot Initiative, the Regional Workforce Accelerator Grant Program, and the Governor's Award for Veteran's Grants Program. The Governor's SlingShot initiative provides grants to help develop innovative workforce training programs, engage local and regional employers, and invests in regional career education, and the Regional Workforce Accelerator Grant Program supports job training programs, supportive services, and job placement assistance for jobseekers that have barriers to employment.

### **Health and Human Services**

The Governor's May Revision does not shift away much from the Health and Human Services goals outlined in January, which include continued implementation of ongoing programs, while addressing federal activities as well as legal challenges and ongoing technical difficulties.

**Behavioral Health.** The Governor's May Revision provides \$341 million for mental health and substance abuse disorder benefits. This benefit, known as the "mental health/behavioral health parity" is required by the Affordable Care Act (ACA). This funding will ease the burden on counties by ensuring that treatment and care for individuals with behavioral health conditions is funded through the Medicaid system, rather than through a cash-strapped county behavioral health department.

**CalHEERS.** The Governor’s May Revision includes an additional \$150 million to address ongoing issues related to the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS). CalHEERS is the new Medi-Cal application process software system mandated as part of the Affordable Care Act (ACA) implementation.

Small and rural counties have struggled since the inception of ACA, and the requirement to manage eligibility through CalHEERS. Complaints from all counties highlight that it takes longer to process applications, therefore requiring more staff time per client. RCRC will continue to advocate for improvements to the CalHEERS system, and for continued funding to account for its deficiencies at the local level.

**California Work Opportunity and Responsibility to Kids.** The Governor’s May Revision decreases funding by \$97 million in General Fund for the California Work Opportunity and Responsibility to Kids (CalWORKs) program. The reduction reflects continuing drops in caseload participation.

The Governor’s May Revision increases CalWORKs Stage Two funding by \$46.8 million, and increases Stage Three funding by \$2 million. CalWORKs provides cash grants and services to low income families with children in all 58 California counties. Many rural areas have high utilization rates of CalWORKs programs and services, so grant levels and child care availability are especially relevant to those areas.

**Changes in Immigration Laws.** The Governor’s May Revision includes \$62 million to fund part of the predicted costs for 2015-16 of providing services to the potentially newly-legal U.S. residents under President Obama’s Administrative actions. Should the courts ultimately rule in the Obama Administration’s favor, individuals deemed to be in this country legally will be eligible for State-funded, full-scope Medi-Cal, In Home Support Services (IHSS), and Cash Assistance Payments for Immigrants – the full cost is expected to reach \$200 million in 2015-16. Because of uncertainty regarding the legality of the President’s action, and ongoing litigation, the fiscal ramifications of the President’s November action were not addressed in the Governor’s January proposed Budget. While not a direct impact to counties so long as these individuals remain Medi-Cal eligible, any indigent population that is ineligible for other health benefits falls to counties to serve under their Welfare and Institutions Section 17000 obligation. So, if at any point these new U.S. residents become ineligible for Medi-Cal, they may become the obligation of counties to serve.

**Foster Care.** The Governor’s May Revision maintains the Governor’s January proposed Budget allocation of \$9.6 million to implement the “Continuum of Care Reform.” This enhancement will 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. The Assembly Budget Subcommittee approved the Governor’s January proposed Budget item as presented. State-funded foster care services and improvements to the existing system are important in rural areas where other safety net services are often thin or non-existent. Improved services at the State-level, the official “parent” of these children, can reduce the burden these youth often pose to counties and improve their lives such that they have better opportunities to thrive.

**In-Home Supportive Services.** The Governor's May Revision allocates an increase to In-Home Supportive Services (IHSS) of \$147.6 million in the current fiscal year, and \$179.1 million in 2015-16. The increases are to account for a rise in caseload, hours per case, and costs per hour. The Governor's January proposed Budget restored the 7 percent across the board cut to allowable hours under the IHSS program. In order to fund this, among other items, the Governor's January proposed Budget presented passing a new Managed Care Organization tax (MCO). The current MCO tax helps pay the non-federal share of certain Medi-Cal plans, however, the federal government recently announced that California's MCO tax structure is impermissible. The Administration will seek a new MCO tax to backfill the loss of the current tax and to fund the restoration of the IHSS cut. The Assembly Budget Subcommittee approved the Governor's January proposed Budget item, not contingent on the MCO proposal. The Senate Budget Committee held the item open for further discussion. IHSS is critical in rural and remote areas where institutional – or clinic-based medicine – is often difficult to reach, or unavailable altogether. IHSS fills a gap in need experienced by these communities.

**IHSS - Implementation of Overtime Pay.** The Governor's May Revision maintains full-year funding in 2015-16 for implementation of the federal Home Care Rule. The Governor's January proposed Budget provided a total of \$758 million to comply with the new labor regulations for IHSS and Department of Developmental Services (DDS). The Assembly Budget Subcommittee approved the Governor's January proposed Budget item, but adopted placeholder trailer bill language to remove any obstacles to the State implementing the new regulation. The Senate Subcommittee held the item open for further discussion.

In 2013, the U.S. Department of Labor's Fair Labor Standards Act (FLSA) established a Home Care Final Rule, effective January 1, 2015, which requires the State to pay overtime to IHSS and DDS providers, including compensation for travel time, mandatory provider training, and wait times for medical appointments. A lawsuit filed by the Associations of Home Care Companies challenged the Rule and the court overturned the DOL's regulation, eliminating the requirement for the State to provide overtime pay. The DOL appealed the ruling the Court of Appeals heard oral argument on May 7, 2015.

In rural areas where a skilled workforce of IHSS and DDS providers is already thin and often difficult for patients to access, stricter regulations regarding compensation, training, and wait times would not only be an issue of cost, but also one of access, in that it would further limit the pool of available skilled individuals. Moreover, when these rules went into place previously, in an attempt to limit costs, the State chose to pass rules disallowing overtime payments, even further limiting access to providers in underserved areas.

**Managed Care.** The Governor's May Revision includes \$125 million for managed care rate increases in 2015-16. This is new funding not discussed in the Governor's January proposed Budget. This is particularly relevant in rural counties following the rollout of Medi-Cal managed care in rural counties. Medi-Cal recipients in rural areas were the last to become managed care enrollees due to the geographic difficulties for plans to

cover this population. Enrollees have found it difficult to find providers who cover certain areas. This rate increase will likely make it easier for plans to expand their networks of providers, thereby making access to care easier in some of the underserved areas of California.

**Medi-Cal.** The Governor's May Revision includes \$1.4 billion in General Fund costs in 2015-16 for the mandatory Medi-Cal population of 1.4 million new estimated enrollees. The total \$2.9 billion cost of the program is shared with the federal government. The optional expansion population (approximately 2.3 million enrollees joining in 2015-16) will cost \$14 billion, and will continue to be 100 percent funded by the federal government through 2015-16. California will begin to contribute in 2016-17. Total Medi-Cal enrollment by 2015-16 is estimated to be at 12.4 million people, or one-third the total population of the state.

The Governor's May Revision assumes a \$381 million General Fund savings recognizing the reauthorization of the Children's Health Insurance Program (CHIP). California's CHIP program, "Healthy Families," was phased into Medi-Cal over several previous Budget cycles

**Provider Rate Reimbursement.** The Governor's May Revision does not address the issue of the reimbursement rate cuts to Medi-Cal providers from the 2011 Budget. Two measures in this year's legislative session seek to repeal the actions taken by the Assembly Bill 97 rate cuts from the 2011 Budget - Assembly Bill 366 (Bonta, D-Alameda), and Senate Bill 243 (Hernandez, D-Azusa). The Governor's January proposed Budget maintained exemptions to certain providers both from the cut, and the retroactive payment, and allocated \$130 million to account for these increases in State costs over the predicted savings under the cut. Medi-Cal provider rates are a key component of ensuring access to healthcare in rural areas. Rural counties have high utilization rates of Medi-Cal. Without adequate reimbursement rates in place, more and more providers and facilities will be forced to either stop accepting Medi-Cal patients, or will go out of practice, both of which effectively deny access to healthcare for many rural residents.

**State Hospitals.** The Governor's May Revision includes \$1.7 billion to fund the Department of State Hospitals, which principally focuses on corrections issues. Included in this funding is \$10.1 million for the Restoration of Competency program, addressing capacity issues for Incompetent to Stand Trial (IST) inmates. This proposal to address the shortfall of IST beds is to contract with counties to house and develop treatment programs locally rather than shipping those inmates to over-utilized State facilities. The proposal could reduce the backlog of cases waiting to be heard, and could benefit counties with availability in their corrections or health facilities, where inmates could be housed and treated locally, but at the State's cost, thereby reducing the time that inmate has to stay prior to trial.

**Supplemental Security Income/State Supplementary Payment.** The Governor's May Revision did not alter the Governor's January proposed Budget item of a one percent increase over the 2014-15 State Budget to a maximum of \$881 per month for an individual, and \$1,483 per month for a couple for the Supplemental Security

Income/State Supplementary Payment (SSI/SSP) program, for a total cost of \$2.8 billion to the State. The Assembly and Senate Subcommittees held this item open for further discussion. Rural counties have a high percentage of SSI/SSP utilization, so changes to the maximum allowance have a direct impact upon how much this population utilizes county services that are not met through their SSI/SSP grant.

### **Resources**

**California Conservation Corps.** The Governor's May Revision provides an additional \$3.3 million to begin an expansion of the California Conservation Corps (CCC) residential program, primarily for fire protection services. The California Department of Forestry and Fire Protection (CAL FIRE) will partner with CCC on forest health projects in the highest fire risk areas of the state throughout the fire season, with approximately \$5 million in funding provided through the CAL FIRE budget for the CCC.

The funding also includes an additional \$3.1 million in General Fund revenue to make needed repairs to the Butte County Fire Camp (Camp), which closed in 2004. The Camp is scheduled to reopen mid-year. The funding also includes an additional \$200,000 in General Fund revenue to begin identifying sites for additional residential centers on existing State property.

The Governor's January proposed Budget included \$92.8 million for the California Conservation Corps' Training and Work Program. The Training and Work Program focuses on four areas: natural resource work (such as fire hazard reduction and meadow restoration); emergency response (such as fire and flood support); Corpsmember education to advance member academic skills; and, development and training in the areas of teamwork, leadership, and firefighting certification.

The CCC is intended to provide youth work experience in public service responding to fires, floods, and other natural disasters, as well as environmental restoration work, and educational opportunities. In addition to the CCC, there are 14 local Conservation Corps entities operating in all 34 RCRC Member counties.

**Department of Forestry and Fire Protection.** The Governor's May Revision allots \$50 million to CAL FIRE from Cap-and-Trade revenues for forest health projects. This is in addition to the \$42 million allocated in the Governor's January proposed Budget. The Governor's May Revision includes \$7.3 million General Fund and \$1.6 million in reimbursements to expand CAL FIRE's training academy, and allow for adequate position coverage while new permanent hires attend basic fire control classes at the academy. The Governor's May Revision carries over language to allow CAL FIRE to proceed with the procurement process for replacement of 12 Vietnam-era helicopters, funding is not allocated for the helicopters in this Budget year.

Additionally, the Governor's May Revision provides \$6.09 million in 2015-16, and \$3.6 million in 2016-17 in funding to replace the aerial firefighting tanker plane lost while fighting a fire in Yosemite in October 2014, and to cover the cost of contracting the services of a hired air tanker until a purchased replacement can be completed.

**Department of Parks and Recreation.** The Governor's May Revision provides \$1.85 million on a one-time basis for the continued evaluation and implementation of remediation actions at Empire Mine in Nevada County. The proposed funding will support the removal of contaminated materials and stormwater management, among other activities. This funding is in addition to the \$220,000 in the Governor's January proposed Budget targeted for the operation and maintenance of a passive treatment water system.

The Governor's May Revision also provides an additional \$1.37 million for the design and construction of the Hollister Hills State Vehicular Recreation Area: Waterline Expansion Project in San Benito County, which has incurred increased material costs due to seismic/soil conditions.

The Governor's May Revision includes Budget trailer bill language to streamline the process of accepting gifts and donations with cash values under \$100,000 without the approval of the Department of Finance.

**State Payment in Lieu of Taxes.** The Governor's May Revision is consistent with the Governor's January proposed Budget, which includes \$644,000 in funding for State Payment in Lieu of Taxes (PILT) to local governments for the 2015-16 fiscal year. As part of the January proposed Budget, the Brown Administration also proposed Budget trailer bill language that would make payment of State PILT to counties permissive.

Both the Senate and Assembly Budget Subcommittees have approved the Budget item as proposed by the Administration, added an \$8 million General Fund appropriation for payment of State PILT arrears owed to 36 counties, and approved the Administration's trailer bill but only after striking the language which would make the payments permissive.

In addition to efforts on the State Budget front, RCRC is the sponsor of Senate Bill 234, authored by Senators Lois Wolk (D-Davis) and Jim Nielsen (R-Gerber), which would appropriate funding for the arrears owed to 36 counties.

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.

**State Responsibility Area Fees.** The Governor's May Revision makes no changes to the State Responsibility Area (SRA) Fee funding mechanism, and still funds several components of CAL FIRE and other state agencies' budgets, including California Conservation Corps, with revenue generated from the fee, estimated at \$73 million for 2015-16. No local grants are currently planned from the SRA Fee for the 2015-16 fiscal year, as Department of Finance is currently holding most of the funding in reserve against the possibility of refunds due following resolution of the Howard Jarvis Taxpayer Association lawsuit against implementation.

**Tahoe Regional Planning Agency.** The Governor's May Revision provides \$375,000 to continue a bi-state invasive species boat inspection program at Lake Tahoe to which the state of Nevada is also contributing \$375,000. The respective Budget Subcommittees of the Senate and Assembly have both approved the funding as outlined in the Administration's Finance Letter. The Governor's January proposed Budget did not provide funding for this program.

### **Transportation**

The Governor's May Revision does not address the estimated \$5.7 billion State or \$8 billion local annual deferred maintenance backlog for the State and local transportation systems. While the Governor's January proposed Budget emphasized the need to address the State's deferred maintenance needs of the highway system, the theme of the Governor's May Revision focuses on Cap-and-Trade investments in various transportation-related programs. Senate Bill 16, authored by Senator Jim Beall (D-San Jose), addresses the State and local transportation maintenance backlog, which would provide approximately \$3.5 billion in new transportation revenues.

**Cap-and-Trade Transportation Investments.** The Governor's May Revision proposes to maintain, and, in some instances, drastically increase Cap-and-Trade investments due to increased revenues from fuels being placed under the cap. These increased revenues will support the Governor's 2030 Greenhouse Gas Emission reduction targets through investments in a variety of transportation-related projects, including the High-Speed Rail Project, Low Carbon Transit Operations Program, Transit and Intercity Rail Capital Program, Affordable Housing and Sustainable Communities Program, and the Low Carbon Transportation.

**Road Users Charge.** The Governor's May Revision proposes an additional \$1.3 million to implement the Road User Charge (RUC) Pilot Program. The Governor's January proposed Budget includes \$9.4 million for the cost of developing an alternative transportation funding model under the enactment of Senate Bill 1077 (DeSaulnier) from last year. These additional monies will allow the state to complete the pilot program one year earlier than required by SB 1077.

**State Highway Relinquishment.** The Governor's May Revision does not address a provision from the Governor's January proposed Budget to broaden and streamline the State process for relinquishing portions of the State highway system to local governments. The Budget subcommittees in both houses charged with reviewing the Governor's highway relinquishment proposal deferred the issue to their respective policy committees for further review and consideration. In response, Senator Ben Allen (D-Santa Monica) is authoring Senate Bill 254, which would streamline the relinquishment process for non-interregional routes as identified in Streets and Highways Code Section 164.3. SB 254 contains a variety of aspects that RCRC has advocated for and therefore, RCRC is in support of that measure.

## **Water**

**California Water Plan.** The Governor's May Revision continues funding actions to implement the California Water Plan, including \$22 million for the removal of the temporary barrier currently under construction in the Delta to prevent contamination of water quality for municipal, industrial, agricultural and environmental needs. The barrier must be removed in November 2015 to avoid the flood season, and prevent harm to migratory fish.

The Governor's May Revision also proposes to provide an additional \$40 million for Delta wetland restoration projects as part of Cal EcoRestore. California EcoRestore proposes to accelerate habitat restoration projects that support the long-term health of the Delta's native fish and wildlife species.

**Drought Response.** The Governor's May Revision includes an additional \$2.2 billion of one-time resources for 2015-16 to continue immediate response to the drought. This includes the acceleration of \$1.8 billion from Proposition 1, combined with new dollars from the General Fund and Cap-and-Trade monies.

**Emergency Response.** The Governor's May Revision includes \$37.1 million to assist drought-impacted communities and enforce water use restrictions, including: \$22 million for the Office of Emergency Services to support local jurisdictions using the California Disaster Assistance Act program for approved drought-related projects; \$7.5 million for the Department of Community Services Development to provide emergency assistance to unemployed farmworkers; \$6 million for the Department of Housing and Community Development to assist and relocate households without potable water sources due to drought; and, \$1.4 million for the State Water Resources Control Board to increase enforcement of water use restrictions and conduct additional inspections of diversion facilities to verify compliance with water right laws. These monies will provide assistance to rural residents who have become unemployed and those who are without potable water as a result of the drought.

Figure DRT-01  
**Emergency Drought Response**  
(Dollars in Millions)

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>May Revision</i>	<i>Fund Source</i>
Protecting and Expanding Local Water Supplies	Water Board	Groundwater Contamination	\$784.0	Proposition 1
	Water Board	Water Recycling	\$475.0	Proposition 1
	Water Board	Safe Drinking Water in Disadvantaged Communities	\$180.0	Proposition 1
	Water Board	Wastewater Treatment Projects	\$160.0	Proposition 1
	Water Board	Stormwater Management	\$100.0	Proposition 1
	Department of Water Resources*	Groundwater Sustainability	\$60.0	Proposition 1
	Department of Water Resources*	Desalination Projects	\$50.0	Proposition 1
Water Conservation	Department of Water Resources*/Energy Commission	Urban Water Conservation	\$104.0	Proposition 1/ Cap and Trade
	Department of Water Resources*/Department of Food and Agriculture	Agricultural Water Conservation	\$75.0	Proposition 1/ Cap and Trade
	Department of Water Resources/Energy Commission	Make Water Conservation a Way of Life	\$43.0	Proposition 1/ Cap and Trade
	Department of General Services	Water Conservation at State Facilities	\$23.4	General Fund/ Special Funds
Emergency Response	Department of Forestry and Fire Protection**	Enhanced Fire Protection	\$61.8	General Fund
	Office of Emergency Services	California Disaster Assistance Act	\$22.2	General Fund
	Department of Water Resources	Removal of Emergency Salinity Barriers in the Delta	\$22.0	General Fund
	Department of Community Services and Development	Farmworker Assistance	\$7.5	General Fund
	Department of Housing and Community Development	Rental Relocation Assistance	\$6.0	General Fund
	Water Board	Executive Order Implementation	\$1.4	General Fund
<b>Total</b>			<b>\$2,175</b>	

\* Amounts include funding proposed in Governor's Budget and additional funding in May Revision.

\*\* Proposed in the Governor's Budget

**Local Enforcement Authority.** The Governor's May Revision proposes legislation to enhance enforcement authority by providing all water agencies and local governments a consistent, minimum set of enforcement authorities to achieve required water conservation goals. Under this proposed legislation, any monetary penalties will be used for local conservation efforts.

The proposed legislation specifically allows penalties to be issued administratively by wholesale and retail water agencies, as well as city and county governments, and enables these entities to enforce local water waste restrictions and State Water Resources Control Board conservation restrictions.

**Water Conservation.** The Governor's May Revision includes \$245 million to fund water conservation programs and projects as follows: \$43 million for consumer rebate programs for the replacement of inefficient appliances; \$27 million to replace lawns in underserved communities with water efficient landscaping; \$20 million for the Department of Water Resources Water-Energy Grant Program; \$10 million to implement the CalConserve Program to enable homeowners and businesses to finance water efficiency upgrades through a revolving-loan program; \$4 million to augment the Save Our Water campaign; \$75 million to the Department of Food and Agriculture and the Department of Water Resources for agricultural water efficiency programs; \$30 million to begin implementing the Water Energy Technology Program; \$13 million to the Department of Water Resources to provide technical assistance, data collection, and applied research that supports long-term water use efficiency; and \$23 million for water conservation projects at state facilities. These monies will help both the agricultural industry and rural residents reduce water use and increase water efficiency.

**Water Supply.** The Governor's May Revision will make \$1.7 billion available over the next three years to the State Water Resources Control Board for various programs, including: \$784 million for projects that prevent or clean up the contamination of groundwater that serves as a source of drinking water; \$475 million for water recycling and advanced treatment projects to enhance local water supply resiliency; \$180 million for safe drinking water projects, with priority given to small systems in disadvantaged communities; \$160 million for small communities to build or upgrade wastewater systems to meet current standards; and, \$100 million for multi-benefit stormwater management projects that also contribute to local water supplies. These monies will help small and disadvantaged rural communities address their pressing drinking water and wastewater needs.

The Governor's May Revision will also make \$110 million available to the Department of Water Resources as follows: \$60 million to support local groundwater planning efforts, \$50 million of which is available over the next three years for technical and direct assistance and grants to local agencies for groundwater sustainability governance and planning; and, \$10 million for counties with stressed groundwater basins to update or develop local ordinances and plans that protect basins and their beneficial uses and to help facilitate basin-wide sustainable groundwater management under the Sustainable Groundwater Management Act, in coordination with other local water managers. These monies will help local agencies, including counties, comply with the requirements of the Sustainable Groundwater Management Act.

The Governor's May Revision will also make available over the next two years \$50 million for local agency desalination projects that develop new local water supplies through the construction of brackish water and ocean water desalination projects.