May Revision

2019-20

Gavin Newsom, Governor

State of California

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INTRODUCTION

California's economy remains larger than all but four nations with an annual gross domestic product (GDP) of nearly $3 trillion in 2018. The May Revision protects the hard-won recovery and is centered on making necessary investments for a more effective government, promoting affordability and opportunity, and supporting justice and dignity for all Californians.

Data for 2018 reflect that the growth in California's GDP continues to outpace the nation as a whole. However, this growth is taking place against a backdrop of increasing risks: the International Monetary Fund recently projected that 70 percent of the world's economy would see a slowing of growth in 2019 and the Federal Reserve also projects slower U.S. growth. Federal tax reform has not resulted in increased wages for workers. Total wages and salaries in 2018 grew at almost one-half the rate of growth during the last period of low unemployment (2000).

The May Revision recognizes these risks and the inextricable linkage between fiscal prudence and the state's ability to promote affordability and economic opportunity. Accordingly, it simultaneously expands the Governor's commitment to budget resiliency and increases support for California's most vulnerable populations and working families.

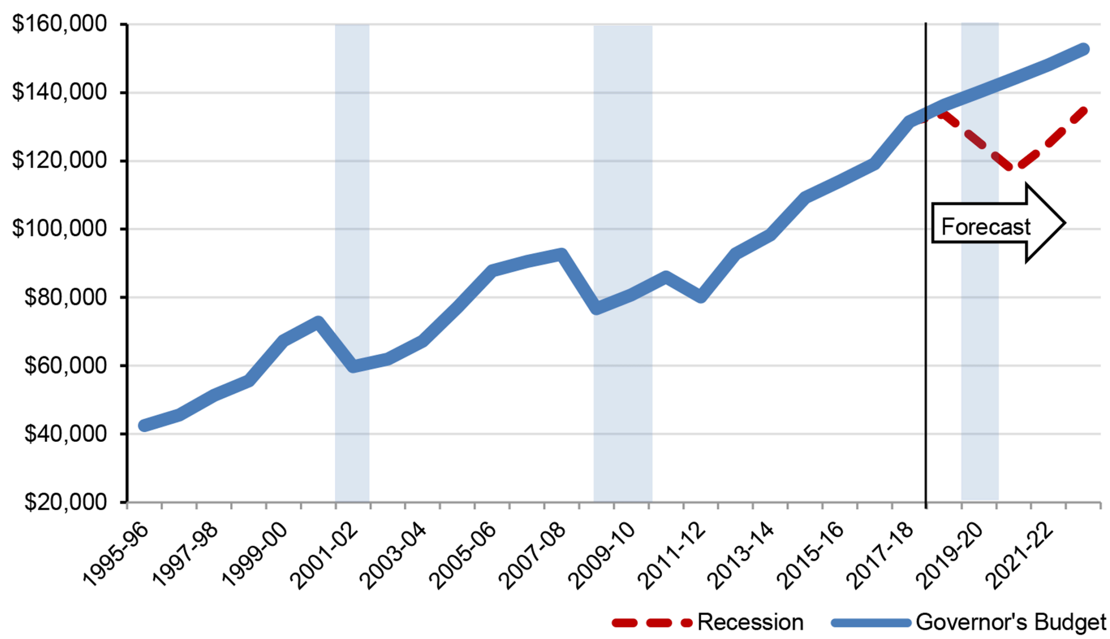
The May Revision projects short-term revenues of $3.2 billion above the Governor's Budget. However, most of the increased revenues are constitutionally obligated to reserves, debt repayment, and schools. Therefore, the budget surplus remains relatively unchanged. Despite the short-term gains, slower economic growth leads to a lower forecast in out-year revenues—$1.6 billion lower in 2022-23 compared to the forecast in January.

Strong Foundation, Intensified Risks

The state has built a strong fiscal foundation by paying down debts and liabilities and building up reserves that will help manage the effects of an economic downturn. However, growing uncertainty related to the global political and economic climate, federal policies, rising costs, and the length of the current economic expansion require that the Budget be prudent.

The May Revision forecast recognizes slower growth in the economy, but does not predict a recession. However, the state must be prepared for the possibility that even a moderate recession could result in revenue declines of nearly $70 billion and a budget deficit of $40 billion over three years.

Revenue Could Drop by Nearly $70 Billion in a Recession
(Dollars in Millions)



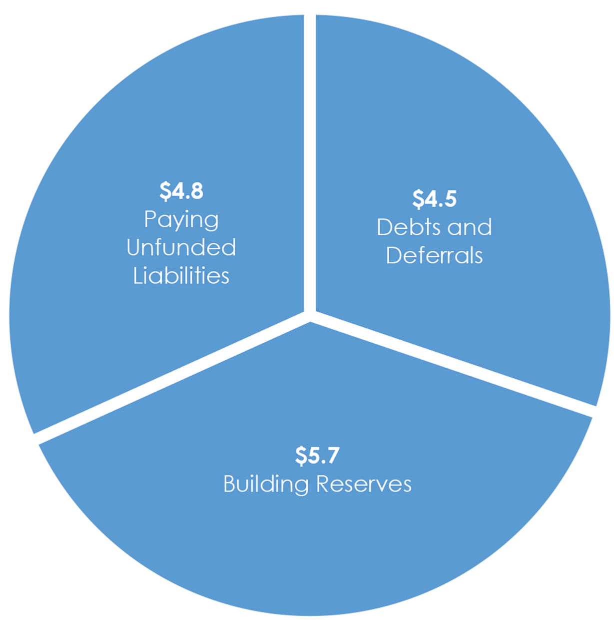
Given the slowing economic forecast and the intensified risks, the May Revision continues to save and prepare for uncertain times ahead. To maintain structural balance in each year over the forecast period, the May Revision proposes to sunset certain program expansions at the end of December 31, 2021. This includes programs in which the growth of expenditures continues to outpace long-term revenue growth, and where the Administration is committed to reforms that bend the cost curve.

Building Budget Resiliency and Paying Down Unfunded Retirement Liabilities

The May Revision allocates $15 billion to building budgetary resiliency and paying down the state's unfunded liabilities—$1.4 billion higher than proposed in January. This includes $4.5 billion to eliminate debts and reverse deferrals, $5.7 billion to build reserves, and $4.8 billion to pay down unfunded retirement liabilities. In the first two of these three categories, the May Revision reflects the following changes:

- Eliminate Debts and Reverse Deferrals—The revised total now includes a portion of the Proposition 98 settle-up that was not reflected in the Budget. This marks the first time in over a decade that all budgetary debts are completely paid off.
- Build Reserves—An additional $1.2 billion deposit into the Rainy Day Fund brings the reserve to $16.5 billion in 2019-20. The Rainy Day Fund is now expected to reach its constitutional cap of 10 percent of General Fund Revenues in 2020-21—two years earlier than predicted in January. By the end of 2022-23, the Rainy Day Fund balance is projected to be $18.7 billion. In addition, for the first time, $389 million in Proposition 98 funding is reserved in the Public School System Stabilization Account. This transfer is required by Proposition 2.

Building a Strong Foundation: $15 Billion
(Dollars in Billions)



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Effective Government

Building budget resiliency promotes a more effective government that can withstand downturns in the economy, as well as natural and human-caused emergencies and disasters.

The May Revision also includes critical investments needed to sustain and improve California's emergency readiness, response, and recovery capabilities. This includes funding to protect vulnerable populations and public safety related to power interruptions planned by utilities during the upcoming fire season.

Maintaining a balanced budget and increasing budget resiliency is non-negotiable and a predicate for expanding programs.

Affordability and Opportunity

The Governor's Budget made major investments to address the fact that far too many Californians simply cannot pay basic bills, afford health care, find an affordable place to live, or provide opportunities for their children to thrive from cradle-to-career. The May Revision maintains and expands these investments. However, based on lower growth in out-year revenues, to maintain a structurally balanced budget, more of these investments are now proposed to be temporary allowing for review of these investments in the future.

The May Revision continues to expand the Earned Income Tax Credit (EITC) and includes an additional $210 million. The Cal-EITC: A Cost-of-Living Refund will help low-income families with young children by expanding the additional credit proposed in January from $500 to $1,000. The May Revision also provides for monthly advanced payments contingent on a federal waiver to ensure participants do not lose federal benefits. This increased tax refund will help economically distressed families with the costs of food, rent, and child care.

The Administration continues to work on several strategies to improve affordability and access to health care, including addressing the rising cost of prescription drugs, increasing health insurance subsidies so that more middle-class Californians can afford health coverage through Covered California, and moving closer to universal coverage by expanding full-scope Medi-Cal coverage eligibility to young adults ages 19 through 25 regardless of immigration status.

The Administration continues to work with local governments and stakeholders to address the housing crisis head-on, including identifying excess state property that can be used for housing development. The May Revision updates the Governor’s January housing proposal to focus on accelerating housing development and leveraging private investment from newly formed Opportunity Funds. The May Revision also doubles the General Fund support to legal aid resources to help renters fight back against rent gouging and other unfair practices.

The May Revision prioritizes cradle-to-career opportunities by recognizing the crucial investments needed to support young children and their parents. These investments include increasing training for doctors so they can identify and treat issues related to childhood trauma, and additional funding for expanded investments in childcare. The Budget established the goal to expand California's Paid Family Leave program so newborns can be cared for by a parent or close relative for the first six months of the child’s life. The May Revision reflects a down payment towards this goal by expanding paid family leave for each parent from six to eight weeks. This expansion adds an additional month of paid leave for two-parent families, allowing up to a combined four months of leave after the birth or adoption of their child.

The May Revision further expands funding for K-12 schools by providing approximately $5,000 more per pupil than eight years ago, including greater investments to assist students with the greatest needs. The Governor's Budget reflected a significant increase in funding for special education and the May Revision further increases the ongoing funding by over $300 million compared to the Governor's Budget. The May Revision makes significant investments in the recruitment and retention of qualified teachers by revamping teacher training and providing targeted loan repayments.

Colleges and universities remain engines of economic mobility. The May Revision maintains funding for two free years of community college tuition for first-time full-time students, and provides significant increases for the California State University and the University of California to prevent tuition increases in the budget year.

Justice and Dignity

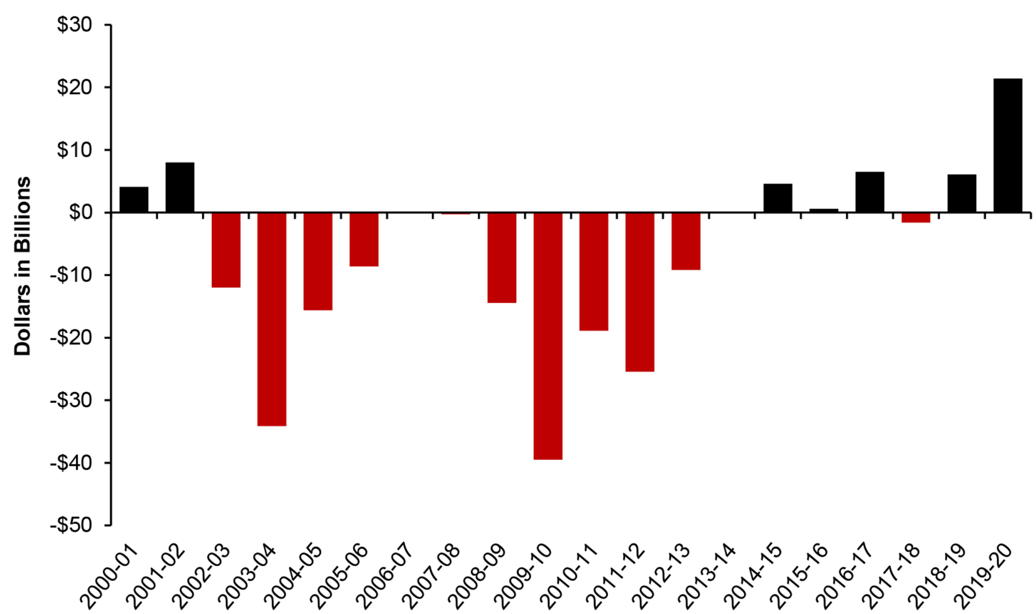
California is facing a homelessness epidemic across the state. This crisis is exacerbated by a health care system that does not adequately serve individuals with mental illness. The May Revision invests an additional $150 million for a total of $650 million one-time to support local governments on the frontline combating this epidemic. The May Revision also includes additional funding to expand the whole person care pilot projects to additional counties and makes a major investment in workforce, education, and training of mental health professionals. In total, the May Revision includes $1 billion to prevent and mitigate the homelessness epidemic.

The May Revision increases access to justice by providing funding for 25 new judgeships and expanded language access services in the courts. The May Revision also includes an overhaul of the substance use disorder programs in prison, including integrating medically assisted treatment and reentry services as appropriate. The May Revision also expands reentry beds to continue progress in closing gaps and supporting all Californians in having access to justice and dignity.

A Strong Foundation is Fundamental to a California for All

Maintaining the fiscal health of the state is an ongoing challenge given its volatile revenue base and limited spending flexibility. The Budget demands constant attention to stay in balance. Vigilance is especially needed this year given the length of the current economic expansion and federal uncertainty. The May Revision takes a careful approach by allocating $15 billion toward building more budget resiliency through paying off debts and deferrals, building reserves, and paying down unfunded liabilities. It makes strategic investments, mainly one-time, to expand affordability and opportunity, strengthen the state's readiness and emergency response, and promote access to justice and dignity. Building a strong foundation now is the best way the state can prepare for the future and continue to build a California for all.

Balanced Budgets Have Been Quickly Followed by Huge Deficits[1/]



[1/] Budget shortfalls or surplus, measured by the annual Governor's Budget.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

2019-20 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2018-19	2019-20
Prior Year Balance	$11,419	$6,224
Revenues and Transfers	$138,046	$143,839
Total Resources Available	**$149,465**	**$150,063**
Non-Proposition 98 Expenditures	$88,796	$91,129
Proposition 98 Expenditures	$54,445	$55,904
Total Expenditures	**$143,241**	**$147,033**
Fund Balance	**$6,224**	**$3,030**
Reserve for Liquidation of Encumbrances	$1,385	$1,385
Special Fund for Economic Uncertainties	$4,839	$1,645
Budget Stabilization Account/Rainy Day Fund	**$14,358**	**$16,515**

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency

(Dollars in Millions)

	2018-19	2019-20	Change from 2018-19 Dollar Change	Change from 2018-19 Percent Change
Legislative, Judicial, Executive	$4,654	$5,079	$425	9.1%
Business, Consumer Services & Housing	449	1,696	1,247	277.7%
Transportation	208	296	88	42.3%
Natural Resources	3,992	3,601	-391	-9.8%
Environmental Protection	380	131	-249	-65.5%
Health and Human Services	36,171	41,344	5,173	14.3%
Corrections and Rehabilitation	12,575	12,717	142	1.1%
K-12 Education	58,315	58,761	446	0.8%
Higher Education	16,486	17,369	883	5.4%
Labor and Workforce Development	160	126	-34	-21.3%
Government Operations	4,888	1,169	-3,719	-76.1%
General Government:				
Non-Agency Departments	1,144	906	-238	-20.8%
Tax Relief/Local Government	504	443	-61	-12.1%
Statewide Expenditures	3,315	3,395	80	2.4%
Total	**$143,241**	**$147,033**	**$3,792**	**2.6%**

Note: Numbers may not add due to rounding.

2019-20 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$5,079	$3,871	$555	$9,505
Business, Consumer Services & Housing	1,696	1,002	1,032	3,730
Transportation	296	14,781	341	15,418
Natural Resources	3,601	1,718	1,074	6,393
Environmental Protection	131	3,814	405	4,350
Health and Human Services	41,344	25,185	-	66,529
Corrections and Rehabilitation	12,717	3,004	-	15,721
K-12 Education	58,761	197	1,606	60,564
Higher Education	17,369	160	634	18,162
Labor and Workforce Development	126	811	-	937
Government Operations	1,169	346	9	1,524
General Government				
Non-Agency Departments	906	1,936	10	2,852
Tax Relief/Local Government	443	2,859	-	3,302
Statewide Expenditures	3,395	1,168	5	4,568
Total	**$147,033**	**$60,852**	**$5,671**	**$213,555**

Note: Numbers may not add due to rounding.

General Fund Revenue Sources

(Dollars in Millions)

	2018-19	2019-20	Change from 2018-19 Dollar Change	Change from 2018-19 Percent Change
Personal Income Tax	$98,304	$102,333	$4,029	4.1%
Sales and Use Tax	26,100	27,241	1,141	4.4%
Corporation Tax	13,774	13,233	-541	-3.9%
Insurance Tax	2,643	2,868	225	8.5%
Alcoholic Beverage Taxes and Fees	381	386	5	1.3%
Cigarette Tax	63	62	-1	-1.6%
Motor Vehicle Fees	31	33	2	6.5%
Other	301	-160	-461	-153.2%
Subtotal	**$141,597**	**$145,996**	**$4,399**	**3.1%**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-3,551	-2,157	1,394	-39.3%
Total	**$138,046**	**$143,839**	**$5,793**	**4.2%**

Note: Numbers may not add due to rounding.

2019-20 Revenue Sources

(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2018-19
Personal Income Tax	$102,333	$2,368	$104,701	$4,009
Sales and Use Tax	27,241	12,388	39,629	1,685
Corporation Tax	13,233	-	13,233	-541
Highway Users Taxes	-	8,387	8,387	788
Insurance Tax	2,868	-	2,868	225
Alcoholic Beverage Taxes and Fees	386	-	386	5
Cigarette Tax	62	2,009	2,071	-19
Motor Vehicle Fees	33	9,823	9,856	349
Other	-160	22,934	22,774	-4,430
Subtotal	**$145,996**	**$57,909**	**$203,905**	**$2,071**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-2,157	2,157	-	-
Total	**$143,839**	**$60,066**	**$203,905**	**$2,071**

Note: Numbers may not add due to rounding.

EARLY CHILDHOOD

The May Revision builds on the framework adopted in the Governor's Budget to promote a healthy start for all young children to improve their life outcomes and immediately reduce the impacts of poverty. It also recognizes the need for California to create a Master Plan for Early Learning and Care by investing in the building blocks needed to expand the state's existing system and plan for an integrated and comprehensive early learning system that will provide opportunities for the youngest Californians for years to come.

MASTER PLAN FOR EARLY LEARNING AND CARE

The Governor's Budget included $10 million for a long-term strategic plan that will provide a road map for a more well-aligned comprehensive early learning and care system. The Master Plan for Early Learning and Care will build on recent work by the Legislature and the California Department of Education. The Master Plan will recommend next steps to achieve universal preschool, as well as improved access to and quality of subsidized child care. It will include strategies to address facility capacity, a trained workforce, and revenue options to support the Plan. The Plan will reflect the principle of shared responsibility and outline the appropriate role for parents, government, and business in meeting child care needs to ensure California has a comprehensive plan from birth through elementary school.

INCREASING ACCESS TO CHILD CARE

The May Revision includes several new investments to increase access to subsidized child care for low-income families. These proposals expand the number of child care vouchers funded by the state, provide families receiving CalWORKs subsidies with additional continuity and stability in their access to subsidized child care, and provide options for emergency child care for families in crisis. Specifically the May Revision includes:

- $80.5 million Cannabis Fund to subsidize child care for school-age children from income-eligible families. These funds are continuously appropriated.
- $40.7 million General Fund in 2019-20 and $54.2 million ongoing General Fund to allow CalWORKs recipients to receive Stage 1 child care for up to 12 months. This will provide CalWORKs clients consistent child care access while their work activities stabilize.
- $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.
- $2.2 million ongoing federal funds to improve child care quality through Quality Counts California.

Additionally, the May Revision increases funding for CalWORKs Stages 2 and 3 child care by $38.2 million ongoing General Fund, for a total of $157.5 million in additional funding in 2019-20, reflecting an increase of almost 14,000 children in these programs (a 13.4 percent increase). This large increase in caseload is likely associated with recent policy changes increasing the income ceilings for program eligibility and allowing for 12-month eligibility.

UNIVERSAL PRESCHOOL

It is a priority of the Administration that all children have access to a high-quality preschool program before they begin kindergarten. Consistent with this priority, the Governor's Budget proposed increasing access to the existing State Preschool program by providing 30,000 full-day, full-year State Preschool slots for all eligible low-income four-year-olds.

To align the release of the proposed slots with the application process required to identify providers and to enter into contracts, the May Revision moves the release date for the first 10,000 slots to April 1, 2020. Given lower projected revenues over the forecast period, the May Revision postpones the release of the final 20,000 slots. Providing universal access to preschool for all four-year-olds remains a top priority for the Governor, and the Administration looks forward to recommendations from the proposed Master Plan for Early Learning and Care on how to balance the costs of increasing access to State Preschool with available state resources.

FULL-DAY KINDERGARTEN EXPANSION

The Governor's Budget included $750 million in one-time non-Proposition 98 General Fund to assist schools in constructing or retrofitting facilities to expand access to full-day kindergarten programs. The May Revision adjusts the proposal to $600 million one-time non-Proposition 98 General Fund.

The May Revision proposes several revisions to the program so funding is better targeted at expanding access to full-day kindergarten programs. First, the May Revision makes funding available over a three-year period, but with eligibility limited during the first two years to schools that will convert from part-day to full-day kindergarten programs.

Additionally, to provide a greater fiscal incentive and support for districts to participate in the program, the May Revision also increases the state share of the facility grant from 50 percent to 75 percent for schools converting from part-day to full-day kindergarten. The program will continue to prioritize available grants toward school districts with high rates of students receiving free and reduced price meals and enable eligible school districts to qualify for financial hardship funding similar to the traditional K-12 facilities program.

REDUCING CHILDHOOD POVERTY

TRAUMA AND DEVELOPMENTAL SCREENINGS

The Governor's Budget included funding for developmental screenings and screenings for trauma for Medi-Cal beneficiaries. The May Revision recognizes the need to train providers who will be administering screenings for trauma for children and adults, and proposes $25 million in 2019-20, $20 million in 2020-21, and $15 million in 2021-22 (all Proposition 56 funds) for this purpose.

The Trauma Screening Advisory Workgroup, as required by Chapter 700, Statutes of 2017 (AB 340), has provided recommendations to the Department of Health Care Services on the screening tools that should be offered to Medi-Cal providers for screening children.

The May Revision also includes technical adjustments to the Governor's Budget proposals on trauma and developmental screenings to reflect cash-based accounting in Medi-Cal.

HOME VISITING

The May Revision includes an additional $10.7 million General Fund and federal Temporary Assistance for Needy Families block grant funds to reflect updated projections of CalWORKs cases eligible for home visiting services. This increase brings total funding in 2019-20 for the program to $89.6 million, which is expected to serve approximately 18,500 CalWORKs cases.

The May Revision also includes $34.8 million to reflect reimbursements from the Department of Health Care Services for Medicaid-eligible activities previously not reflected in the Governor's Budget. Of this amount, $22.9 million will support the California Home Visiting Program and $12 million will support the Black Infant Health Program, including the Perinatal Equity Initiative. These funds will allow the Department of Public Health to increase and improve participation in both programs. The reimbursements leverage $30.5 million General Fund proposed in the Governor's Budget to expand the California Home Visiting and Black Infant Health Programs.

PAID FAMILY LEAVE

California's Paid Family Leave program, a component of the State's Disability Insurance program, currently allows workers to take up to six weeks of paid leave annually to care for a seriously ill family member or to bond with a newborn or newly adopted child, with wage replacement of up to 70 percent of salary based on income level. The Paid Family Leave program is funded through state-required employee payroll deductions. The contribution rate is adjusted each year based on a statutory formula designed to collect revenues sufficient to fund benefits and program administration, as well as to maintain a reserve to accommodate fluctuations in fund revenue or disbursements.

The Governor's Budget committed to expanding California's Paid Family Leave program with the goal that all newborns and newly adopted babies could be cared for by a parent or close family member for the first six months. Research has shown a strong connection between providing this duration of care with positive health and educational outcomes for children and enhanced economic security for parents. Further, given the high cost of infant child care, making it possible for children to be with their parents during this period of time is cost-effective for both families and taxpayers.

As a down payment on this commitment, the Administration proposes to expand the maximum duration of a Paid Family Leave benefit claim from six weeks to eight weeks for all bonding and care-giving claims, effective July 1, 2020. This expansion adds an additional month of paid leave for two-parent families—allowing up to a combined four months of leave after the birth or adoption of their child. The proposal will also allow claimants to take a full eight weeks to assist a family member for military deployment, pursuant to Chapter 849, Statutes of 2018 (SB 1123), when that bill takes effect on January 1, 2021.

To deliver this expanded benefit, the minimum reserve in the Disability Insurance Fund will be reduced by 15 percent, which still maintains an adequate reserve. This new reserve amount will be sufficient to absorb fluctuations in revenues due to future economic downturns as well as increased use of benefits. The reserve rate change is effective beginning July 1, 2019.

The Administration will soon convene a task force to consider different options to phase-in and expand Paid Family Leave to meet the Administration's goal that all babies can be cared for by a parent or a close relative for up to six months. The task force will also evaluate important policy considerations such as alignment of existing worker protections and non-retaliation protections for employees' use of the program, as well as adjustments to the wage replacement rate. By November, the task force will issue recommendations for consideration in the 2020-21 Governor's Budget.

CHILD SAVINGS ACCOUNTS

The Governor's Budget proposed $50 million one-time General Fund for Child Savings Account pilot programs to support and encourage families to build assets for their children's post-secondary education. As referenced in the Higher Education Chapter, the May Revision identifies the California Student Aid Commission, in consultation with First 5 California, as the administrator of the pilot programs.

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K-12 Education

California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,200 charter schools provides instruction in English, mathematics, history, science, and other core competencies.

The May Revision includes total funding of $101.8 billion ($58.9 billion General Fund and $42.9 billion other funds) for all K-12 education programs.

Proposition 98

Proposition 98 is a voter-approved constitutional amendment that guarantees minimum funding levels for K-12 schools and community colleges. The Guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline. The Local Control Funding Formula is the primary mechanism for distributing these funds to support all students attending K-12 public schools in California.

Total K-14 Proposition 98 funding at May Revision is $75.6 billion in 2017-18, $78.1 billion in 2018-19, and $81.1 billion in 2019-20.

Relative to the Governor's Budget, Proposition 98 funding at May Revision is up by $78.4 million in 2017-18, $278.8 million in 2018-19, and $389.3 million in 2019-20. This assumes that average daily attendance continues to decline slightly. These changes are largely due to increases in General Fund revenues over Governor's Budget ($2 billion in 2018-19 and $1.6 billion in 2019-20), an increase in the minimum guarantee funding level in 2017-18 due to increases in prior year apportionment costs, and a slightly slower decline in average daily attendance than projected in the Governor's Budget.

PUBLIC SCHOOL SYSTEM STABILIZATION ACCOUNT

Proposition 2, enacted by voters in 2014, established the Public School System Stabilization Account, also referred to as the Proposition 98 Rainy Day Fund, within the Proposition 98 Guarantee as a mechanism to lessen the impact of volatile state revenues on K-14 schools. In a fiscal year when all of the following conditions are met, a deposit is made into the Account:

- State General Fund revenues from capital gains exceed 8 percent of total revenues
- Proposition 98 "Test 1" is operative
- Proposition 98 maintenance factor obligations created prior to 2014-15 have been paid
- The Proposition 98 required minimum funding level is not suspended
- The Proposition 98 funding level is greater than the prior year's funding level, adjusted for attendance growth and inflation (i.e., "Test 1" is greater than "Test 2")

Deposits made into the Account can be spent in fiscal years in which the minimum Proposition 98 funding level is not sufficient to fund the prior year funded level adjusted for growth and inflation.

The May Revision projects that a deposit into the Account is required per the Constitution. Pursuant to Proposition 2, the amount deposited into the Account is the difference between the Test 1 funding level and the prior year funding level adjusted for growth and inflation, but not more than the amount of capital gains revenues in excess of 8 percent of total revenues. In 2019-20, this results in a required deposit of $389.3 million.

Under current law, there is a cap on school district reserves in fiscal years immediately succeeding those in which the balance in the Account is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 Guarantee (approximately $2.1 billion). Because the balance in 2019-20 is equal to the amount of the deposit ($389.3 million), school district reserve caps are not required in 2020-21.

K-12 FUNDING PRIORITIES

The May Revision proposes to use increased one-time and ongoing resources to improve student outcomes and support the long-term fiscal stability of school districts.

SPECIAL EDUCATION

The May Revision proposes to allocate $696.2 million ongoing Proposition 98 General Fund for special education. This is $119.2 million more than was proposed in the Governor's Budget and is a 21-percent year-over-year increase in state funding for services for students with disabilities. The Administration remains concerned about the level of coordination between local general education and special education programs, as well as program governance and accountability for special education student outcomes.

The May Revision also includes $500,000 one-time non-Proposition 98 General Fund to increase local educational agencies' ability to draw down federal funds for medically related special education services and to improve the transition of three-year-olds with disabilities from regional centers to local educational agencies. This funding will allow staff from the Department of Education, the Department of Health Care Services, the Department of Developmental Services, local educational agencies, and regional centers to coordinate and collaborate in providing services and supports for students with disabilities.

The May Revision also includes a requirement that charter schools better integrate and serve special education students, as described below in the Charter Schools section.

RETAINING AND SUPPORTING WELL-PREPARED EDUCATORS

The state has well-documented, long-term statewide teacher shortages in the areas of special education, science, and math. Certain regions of the state, including rural and high cost-of-living areas, have been more heavily impacted than others, and report difficulty hiring fully credentialed teachers regardless of subject matter area. When school districts cannot find a credentialed teacher to fill a vacancy, they will often hire teachers on temporary permits or waivers. Teachers hired on waivers or permits are more likely to lack teacher preparation/pedagogical training and sometimes content area expertise as well. According to data from the Commission on Teacher Credentialing, school districts hired approximately 6,000 teachers and 8,000 teachers on waivers or permits in fiscal years 2016-17 and 2017-18, respectively. In both 2016-17 and 2017-18, the majority of permits and waivers were issued for special education, STEM (science, technology, engineering, and mathematics), and bilingual assignments.

As referenced in the Higher Education Chapter, to recruit and retain qualified teachers in school districts with high rates of under-prepared teachers, the May Revision includes $89.8 million one-time non-Proposition 98 General Fund to provide an estimated 4,500 loan assumptions (repayments) of up to $20,000 for newly credentialed teachers to work in high-need schools for at least four years. Funds will be prioritized for teachers in hard-to-hire subject matter areas (special education and STEM) and school sites with the highest rates of non-credentialed or waiver teachers. The California Student Aid Commission will administer the program in consultation with the Commission on Teacher Credentialing.

Additionally, the May Revision includes $44.8 million one-time non-Proposition 98 General Fund to provide training and resources for classroom educators, including teachers and paraprofessionals, to build capacity around inclusive practices, social emotional learning, computer science, and restorative practices as well as subject matter competency, including STEM. Training and resources developed will be incorporated into the statewide system of support.

Finally, the May Revision includes $13.9 million ongoing federal funds for professional learning opportunities for public K-12 school administrators to provide the knowledge, skills, and competencies necessary to successfully support the diverse student population served in California public schools. The training and resources developed as a result of this proposal will be provided in alignment with the statewide system of support.

COMPUTER SCIENCE

It is a priority of the Administration that all students in the K-12 public school system are able to access computer science education to provide them with the skills they need to succeed. In an important step toward this goal, the State Board of Education adopted California's first set of Computer Science Content Standards for K-12 schools in September 2018. It is anticipated that the Board will adopt an implementation plan for these new standards in May 2019. The Administration will consider the recommendations included in the implementation plan, data on student access to technology and STEM education throughout the state, as well as input from experts.

In the year ahead, the Administration will develop a comprehensive plan to achieve the goal of providing access to computer science education for all students for consideration as part of next year's budget. In addition to STEM and computer science training for teachers, the May Revision includes the following proposals as a down payment to a more comprehensive package:

- *Broadband Infrastructure*—While the state has made significant investments in school district broadband infrastructure in recent years, persistent gaps still exist in California's schools. Some districts still need infrastructure and updates to meet the growing bandwidth needs of digital learning. To expedite these solutions, the May Revision includes $15 million one-time non-Proposition 98 General Fund for broadband infrastructure.
- *California Computer Science Coordinator*—To provide cohesive statewide organization in implementing the new computer science standards and developing a comprehensive plan to promote computer science for all California students, the May Revision includes $1 million one-time non-Proposition 98 General Fund, available over four years, to the State Board of Education to establish a state Computer Science Coordinator.

CalSTRS Employer Contribution Rate

The Governor's Budget proposed funding to reduce employer contributions to CalSTRS from 18.13 percent to 17.1 percent in 2019-20, based on current assumptions. This reduction was intended to provide some immediate fiscal relief to school districts for the rising cost of teacher pensions and was part of a larger $3 billion one-time non-Proposition 98 General Fund payment to CalSTRS to reduce long-term liabilities for employers.

The May Revision adds $150 million one-time non-Proposition 98 General Fund to reduce the employer contribution rate to 16.7 percent in 2019-20.

CHARTER SCHOOLS

The Administration is committed to a system where traditional and charter schools work together to serve the best interests of all students in a community. The May Revision proposes statute to level the playing field for both traditional and charter schools. Specifically, the May Revision includes the following proposals to prevent families from being wrongfully turned away from the public school of their choice:

- Prohibits charter schools from discouraging students from enrolling in a charter school or encouraging students to disenroll from a charter school on the basis of academic performance or student characteristic, such as special education status.
- Prohibits charter schools from requesting a pupil's academic records or requiring that a pupil's records be submitted to the charter school prior to enrollment.
- Creates a process for families of prospective and current charter school students to report concerns to the relevant authorizer.
- Requires the Department of Education to examine the feasibility of using data from the California Longitudinal Pupil Assessment Data System to identify charter school enrollment disparities that may warrant inquiry and intervention by corresponding authorizers.

These proposals build on charter school transparency legislation signed by the Governor earlier this year and other legislation proposed in the Governor's Budget that better aligns the governance, transparency, and accountability requirements of school districts and charter schools.

The Governor's Budget identified growing charter school enrollment as a factor affecting the fiscal condition of some school districts. The Governor requested that the State Superintendent of Public Instruction convene a task force to examine the fiscal impact of charter schools on school districts. The Charter Task Force is expected to deliver recommendations to the Administration by July 1.

OTHER K-12 BUDGET ISSUES

Significant Adjustments:

- LCFF Adjustments—An increase of $70 million Proposition 98 General Fund in 2018-19 and a decrease of $63.9 million Proposition 98 General Fund in 2019-20 for school districts, charter schools, and county offices of education to reflect changes in average daily attendance and cost-of-living (COLA only in 2019-20) that affect the LCFF calculation.

- Classified School Employees Summer Assistance Program—An increase of $36 million one-time Proposition 98 General Fund to provide an additional year of funding for this program, which provides a state match for classified employee savings used to provide income during summer months.
- AB 1840 Adjustments—An increase of $3.6 million one-time Proposition 98 General Fund for Inglewood Unified School District and $514,000 one-time Proposition 98 General Fund for Oakland Unified School District, amounting to 75 percent of the operating deficit of these districts, pursuant to Chapter 426, Statutes of 2018 (AB 1840).
- Local Property Tax Adjustments—An increase of $146.6 million Proposition 98 General Fund in 2018-19 and $142.1 million Proposition 98 General Fund in 2019-20 for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues in both years.
- Wildfire-Related Cost Adjustments—An increase of $2 million one-time Proposition 98 General Fund to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires. Additionally, an increase of $727,000 one-time Proposition 98 General Fund to reflect adjustments to the state's student nutrition programs resulting from wildfire-related losses.
- Categorical Program Cost-of-Living Adjustments—A decrease of $7.4 million Proposition 98 General Fund to selected categorical programs for 2019-20 to reflect a change in the cost-of-living factor from 3.46 percent at the Governor's Budget to 3.26 percent at the May Revision.
- Categorical Program Growth—An increase of $7.6 million Proposition 98 General Fund for selected categorical programs, based on updated estimates of average daily attendance.
- San Francisco Unified School District Excess Tax Correction—An increase of $149.1 million one-time Proposition 98 General Fund to reflect a technical adjustment to excess property taxes related to a misallocation of these funds in 2016-17. Specifically, San Francisco did not properly calculate the excess tax allocation for the school district, which received taxes that should have been allocated to the county and city and special districts.

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HIGHER EDUCATION

Higher Education includes the California Community Colleges (CCC), the California State University (CSU), the University of California (UC), the Student Aid Commission, and several other entities. The May Revision includes total funding of $36.6 billion ($20.6 billion General Fund and local property tax and $16 billion other funds) for all higher education entities in 2019-20.

UNIVERSITY OF CALIFORNIA

Consisting of ten campuses, the UC is the primary institution authorized to independently award doctoral degrees and professional degrees. The UC educates approximately 270,000 undergraduate and graduate students and receives the highest state subsidy per student among the state's three public higher education segments. In 2017-18, the UC awarded 75,000 degrees. An additional 400,000 students participate in continuing education programs through the University extensions.

The Governor's Budget provided $240 million ongoing General Fund and $153 million one-time General Fund investments with the expectation that the UC would not raise resident student tuition in fiscal year 2019-20. In March, the Board of Regents announced that it would not raise tuition; therefore, the May Revision maintains these funding levels.

Significant Adjustments:

- Retirement Program—The May Revision includes $25 million one-time General Fund to support the UC Retirement Program.
- UC San Francisco Dyslexia Center Pilot Program—$3.5 million one-time General Fund to support a pilot dyslexia screening and early intervention program operated through the UC San Francisco Dyslexia Center. These funds will enable the Center to deploy the Application for Readiness In Schools and Learning Evaluation, provide curriculum support, train staff on potential educational interventions, and collect data for a report on outcomes.
- Support for Students Experiencing Homelessness—Building upon the Governor's Budget investment of $15 million ongoing General Fund to address student food and housing insecurity, the May Revision proposes $3.5 million ongoing General Fund to support rapid rehousing of homeless and housing insecure students.
- Other Programs—The May Revision updates the assumed out-year costs to support the UC legal immigration services program from an average of $1.3 million per year to an average of $1.7 million per year. The May Revision continues to reflect $1 million ongoing General Fund to support the UC Davis Firearms Violence Research Center beginning in 2021-22.

CALIFORNIA STATE UNIVERSITY

The CSU serves over 410,000 undergraduate students across 23 campuses and receives funding from a variety of sources, including state General Fund, federal funds, lottery funds, and student tuition and fees. The Governor's Budget provided $300 million ongoing General Fund and $264 million one-time General Fund investments with the expectation that the CSU would not raise resident student tuition in fiscal year 2019-20. In January, the Board of Trustees announced that it would not raise tuition; therefore, the May Revision maintains these funding levels.

Significant Adjustments:

- Support for Students Experiencing Homelessness—Building upon the Governor's Budget investment of $15 million one-time General Fund to address student food and housing insecurity, the May Revision proposes $6.5 million ongoing General Fund to support rapid rehousing of homeless and housing insecure students.

- Project Rebound—$750,000 ongoing General Fund to increase support for Project Rebound from $250,000 per year to $1,000,000 per year. Project Rebound is a CSU program that provides assistance to formerly incarcerated individuals seeking to enroll in participating CSU campuses.
- First Star Foster Youth Cohort at CSU Sacramento—$740,000 one-time General Fund to support a First Star Foster Youth Program at CSU Sacramento. This program will enable a cohort of foster youth to engage in a variety of activities that support learning opportunities, such as academic courses for college credit, social and cultural activities, service learning and other recreational activities.

CALIFORNIA COMMUNITY COLLEGES

The CCCs are the largest system of higher education in the nation, serving roughly one-quarter of the nation's community college students, or approximately 2.1 million students. The CCCs provide basic skills, career education, and undergraduate transfer education with 73 districts, 115 campuses, and 78 educational centers. In 2017-18, the community colleges awarded more than 96,000 certificates, 160,000 degrees and transferred about 102,000 students to four-year institutions.

ONGOING REVIEW OF THE STUDENT-CENTERED FUNDING FORMULA

The Administration remains committed to the Student-Centered Funding Formula and its goals to increase student completion and support for low-income students.

The Governor's Budget proposed a revised implementation plan for the Student-Centered Funding Formula to provide the CCC Chancellor's Office and the Funding Formula Oversight Committee sufficient time to consider revisions that would further the goals of the formula, address its long-term fiscal stability, and improve the accuracy of the data reported by districts. The Administration plans to work with the Chancellor's Office and stakeholders in the coming months to explore revisions and recommendations that meet these goals, with the intent that revisions will be considered for inclusion as part of the development of the 2020-21 budget process.

To further align with a revised implementation and review plan, the May Revision extends the existing hold harmless provision of the Student-Centered Funding Formula by an additional year, ensuring that no district will receive less funding than they received in 2017-18 with cost-of-living adjustments for each year until 2021-22.

Significant Adjustments:

- CCC State Operations Support—An increase of $381,000 ongoing non-Proposition 98 General Fund for three new positions to support the Chancellor's Office state operations. These positions will support the Chancellor's Office's accounting office, monitor districts' fiscal health and provide technical assistance to districts in need.
- Apportionments Cost-of-Living Adjustment—A decrease of $18.3 million Proposition 98 General Fund to reflect a change in the cost-of-living adjustment from 3.46 percent to 3.26 percent.
- California College Promise—An increase of $5.2 million Proposition 98 General Fund to support the existing first year and proposed second year of the California College Promise. This estimate reflects revised estimates of eligible students for the program.
- Student Success Completion Grant—An increase of $7.5 million Proposition 98 General Fund to reflect revised estimates of participation in the financial aid program.
- Deferred Maintenance—An increase of $39.6 million one-time Proposition 98 General Fund for deferred maintenance, instructional equipment, and specified water conservation projects.
- Adult Education Program—A decrease of $1 million Proposition 98 General Fund to reflect a change in the cost-of-living adjustment from 3.46 percent to 3.26 percent.
- Categorical Program Cost-of-Living Adjustment—A decrease of $860,000 Proposition 98 General Fund to reflect a change in the cost-of-living adjustment from 3.46 percent to 3.26 percent for the Disabled Student Programs and Services program, the Extended Opportunity Programs and Services program, the Apprenticeship program, the Student Services for CalWORKs Students program, the Mandate Block Grant program, and the Campus Child Care Tax Bailout program.
- Foster Care Education Program—An increase of $400,000 ongoing Proposition 98 General Fund to backfill program funding for foster and relative or kinship care education and training, due to a projected decrease of federal matching funds.
- Local Property Tax Adjustment—An increase of $76.7 million Proposition 98 General Fund as a result of decreased offsetting local property tax revenues.
- Student Enrollment Fee Adjustment—A decrease of $15.7 million Proposition 98 General Fund as a result of increased offsetting student enrollment fees.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission administers financial aid programs, including the Cal Grant program and the Middle Class Scholarship Program.

Significant Adjustments:

- Cal Grant Program Costs—A decrease of $14 million General Fund in 2019-20 to account for the following:
  - Participation Estimates—A decrease of $19.9 million in 2019-20 to reflect a decrease in the estimated number of new recipients in 2018-19. The May Revision also reflects decreased costs of $4.9 million in 2018-19.
  - Temporary Assistance for Needy Families (TANF) Reimbursements—A decrease of $5.9 million in 2019-20, which increases the amount of General Fund needed for program costs by a like amount. Combined with reimbursements included in the Governor's Budget, the May Revision offsets approximately $1.1 billion in General Fund costs for Cal Grants with TANF.
- Cal Grant Access Awards for Student Parents—A decrease of $24.9 million to reflect revised estimates of the Governor's Budget proposal to increase or provide access awards for students with dependent children attending the UC, CSU, or the CCCs.
- Competitive Awards—An increase of $2 million to reflect revised estimates of the costs to increase the number of available competitive awards from 25,250 to 30,000.
- Teacher Service Credit Scholarship Program—An increase of $89.8 million one-time General Fund for the Commission to administer loan forgiveness grants to teachers meeting certain criteria, with priority for school sites with high percentages of teachers with permits or waivers as their authorizations.
- Tuition Award for Students at Private Nonprofit Institutions—To provide private nonprofit institutions with additional time to increase their offerings of Associate Degree for Transfer (ADT) pathways and admissions of ADT students needed to maintain the maximum Cal Grant tuition award for new students attending private nonprofit institutions at $9,084, the May Revision proposes to shift the required annual ADT admissions goals out one year. Under the revised schedule, private nonprofit institutions will need to meet a goal of 2,000 ADT students admitted in 2019-20, 3,000 students admitted in 2020-21, and 3,500 students admitted in 2021-22 and thereafter.

- State Operations Support—An increase of $414,000 General Fund to support the implementation of the Cal Grant Supplement for Students with Dependent Children.
- Child Savings Accounts Grant Program—Identifies the Commission as the agency responsible for administering the $50 million one-time child savings account proposal reflected in the Governor's Budget. The Commission is expected to consult with First 5 California to utilize its strengths in marketing, education, and parent engagement to encourage collaboration between grant applicants and their local First 5 Commissions.
- Student Loan Awareness Initiative—Transfers the administration of the proposed $5 million one-time General Fund augmentation to support an outreach initiative for student loan borrowers from the Office of Planning and Research to the Commission.

HASTINGS COLLEGE OF THE LAW

Hastings College of the Law (Hastings) is affiliated with the UC system, but is governed by its own Board of Directors. Located in San Francisco, it primarily serves students seeking a Juris Doctor degree, but also has masters programs. In 2017-18, Hastings enrolled 934 full-time equivalent students. Of these, 815 were Juris Doctor students.

Since the end of the Great Recession, Hastings has received stable ongoing funding increases. In turn, tuition at Hastings has been flat for eight years. This has kept a quality legal education within reach for hundreds of Californians. The Governor's Budget provided $1.4 million ongoing General Fund investment to support the college's operations and $1 million one-time General Fund investment to address deferred maintenance with the expectation that Hastings would not raise resident student tuition in fiscal year 2019-20. In March, the Board of Directors announced that it would not raise tuition; therefore, the May Revision maintains these funding levels.

Significant Adjustments:

- UC Path Implementation—An increase of $594,000 one-time General Fund to support the revised implementation timeline of the UC Path payroll, accounting, time keeping, and human resources system.
- Deferred Maintenance—Authorizes the use of the proposed $1 million one-time General Fund to include support for both critical deferred maintenance needs, and information technology and instructional equipment refreshes.

CALIFORNIA STATE LIBRARY

The California State Library serves as the central reference and research library for the Governor and Legislature. Additionally, the State Library provides critical assistance to the 184 library jurisdictions and nearly 1,200 libraries across the state.

Significant Adjustments:

- One-Time Funding to support Early Learning and After-School Library Program Grants—$5 million one-time General Fund to support grants for local library jurisdictions with the lowest per capita library spending to develop and implement early learning and after-school library programs.
- One-Time Funding to support Mobile Libraries—$3 million one-time General Fund for the California State Library to support grants for local library jurisdictions to purchase bookmobiles and community outreach vehicles that would be used to expand access to books and library materials in under-resourced neighborhoods.
- Augmentation to support Digitization and Cultural Preservation Activities—$1.7 million General Fund, approximately $1 million of which is ongoing, for the California State Library to coordinate with state entities to identify items for digital preservation, contract for digital preservation services, and to begin conducting or commissioning a statewide survey to inventory cultural heritage assets.
- Statewide Lesbian, Gay, Bisexual, and Transgender Historical Preservation—$500,000 one-time General Fund to support the preservation of historical Lesbian, Gay, Bisexual, and Transgender sites.

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HEALTH AND HUMAN SERVICES

The Health and Human Services Agency oversees departments and other state entities that provide health and social services to California's vulnerable and at-risk residents.

The May Revision includes $162.3 billion ($41.4 billion General Fund and $120.9 billion other funds) for all health and human services programs, an increase of $1.1 billion General Fund compared to the Governor's Budget.

EXPANDED SUBSIDIES TO PROMOTE AFFORDABLE COVERAGE

To improve affordability and access to health care, the Governor's Budget proposed subsidies to help more low and middle class Californians afford health coverage through Covered California.

The Governor's Budget proposed to make California the first state in the nation to offer financial assistance to qualified individuals with incomes between 400 percent and 600 percent of the federal poverty level, while also increasing subsidies for individuals with incomes between 250 percent and 400 percent of the federal poverty level. The May Revision expands upon this proposal by offering subsidies to individuals between 200 percent and 250 percent of the federal poverty level.

In addition to the direct assistance for consumers receiving the additional subsidies, these subsidies will benefit all individual market consumers by encouraging younger, healthier consumers to enroll in coverage. Combined with the Governor's Budget proposal to create a state individual mandate to obtain comprehensive health care coverage, the subsidies will improve the overall risk pool in the individual market, reducing future premium increases.

The expanded subsidies and the individual mandate penalty are proposed to begin on January 1, 2020 to provide immediate relief to Californians and to prevent further destabilization of the insurance market. The increased subsidies will be funded by penalty revenues, and the program design will be adjusted in coverage years 2021 and 2022 to maintain a budget-neutral program.

The May Revision includes General Fund expenditures of $295.3 million in 2019-20, $330.4 million in 2020-21, and $379.9 million in 2021-22 to provide these subsidies. These proposed expenditures are aligned with individual mandate penalty revenue projections of $317.2 million in 2020-21, $335.9 million in 2021-22, and $352.8 million in 2022-23.

To improve affordability for middle-class Californians who are ineligible for federal assistance, approximately 75 percent of subsidy expenditures would be allocated to qualified individuals with incomes between 400 percent and 600 percent of the federal poverty level. Subsidies for these individuals would average around $100 per month. Similar to the federal subsidies currently offered through Covered California, individual subsidy amounts will vary significantly depending upon an individual's income, family size, age, region, and health care premium costs. Individuals with incomes between 200 percent and 400 percent of the federal poverty level would receive average state subsides of around $10 per month, in addition to federal subsidies of hundreds of dollars per month.

In addition to the expanded subsidies program, the May Revision also proposes $8.2 million ongoing General Fund for the Franchise Tax Board to implement the individual mandate and reconcile annual subsidy payments. Finally, the May Revision proposes statutory amendments.

The expanded subsidies are proposed to sunset in three years. They provide a bridge to the work of the Healthy California for All Commission.

HEALTH CARE WORKFORCE INITIATIVES

To address the need for additional health care professionals throughout the state, the Governor's Budget invested in existing programs designed to bolster and expand workforce capacity. The supply of and demand for physicians and other health professionals are affected by a number of factors including coverage expansions, practice patterns, an aging workforce, and the complex needs of the patient population. The combination of these factors has resulted in shortages of health professionals, with shortages more pronounced in rural parts of the state and among primary care and behavioral health providers.

In recognition of the increased demand for health care providers, the Governor's Budget included $122 million as follows:

- $50 million one-time General Fund to increase training opportunities in existing mental health workforce programs administered by the Office of Statewide Health Planning and Development;
- $38.7 million Proposition 56 funds to develop residency programs at hospitals throughout California as administered and operated by the University of California in partnership with Physicians for a Healthy California, and;
- $33.3 million ongoing General Fund to the Song-Brown Health Care Workforce program beginning in 2020-21.

ADDITIONAL WORKFORCE INVESTMENTS IN THE MAY REVISION

The May Revision allocates an additional $120 million Proposition 56 funds for the Medi-Cal loan repayment program. Combined with amounts allocated in the 2018 Budget Act, the May Revision makes $340 million available for the program over the next several years. Of this total, $290 million is for physicians and $50 million for dentists. All awardees are required to make a five-year commitment to maintain a patient caseload of 30 percent or more Medi-Cal beneficiaries. In the first round of loan repayment awards, Health Care Services expects to award loan repayments to approximately 125 physicians and 20 dentists. There will be a minimum of five rounds of funding.

The May Revision also invests $100 million from the Mental Health Services Fund (one-time funding available over five years) for the new 2020-25 Workforce Education and Training (WET) Five-Year Plan. The Plan provides a framework of strategies that the state, local governments, community partners, educational institutions, and other stakeholders can pursue to begin to address the shortage of qualified mental health professionals in the public mental health system.

Combined with other recent health workforce investments, the May Revision commits over $600 million in funding in the coming years to meet our future health care workforce needs.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services. Medi-Cal is a public health care coverage program that provides comprehensive health care services at no or low cost to low-income individuals. The federal government mandates basic services be included in the program, including: physician services; family nurse practitioner services; nursing facility services; hospital inpatient and outpatient services; laboratory and radiology services; family planning; and early and periodic screening, diagnosis, and treatment services for children. In addition to these mandatory services, the state provides optional benefits such as outpatient drugs, dental, home and community-based services, and medical equipment. The Department also operates the California Children's Services and the Primary and Rural Health programs, and oversees county-operated community mental health and substance use disorder programs.

The Medi-Cal budget is $93.5 billion ($19.7 billion General Fund) in 2018-19 and $102.2 billion ($23.0 billion General Fund) in 2019-20. The May Revision assumes that caseload will decrease by approximately 2.4 percent from 2017-18 to 2018-19 and increase by 0.02 percent from 2018-19 to 2019-20. Medi-Cal is projected to cover approximately 13 million Californians in 2019-20, including 3.8 million in the optional expansion population.

In 2019-20, the May Revision reflects an 8.5-percent state share of cost for the optional expansion population. The May Revision includes $19.6 billion ($2.1 billion General Fund) in 2019-20 for this population.

PROPOSITION 56

In January, the Proposition 56 package totaled approximately $1 billion for 2019-20 for supplemental rate increases for physicians, dentists, and various other Medi-Cal providers, funds for Medi-Cal women's health, trauma and developmental screenings, and the Value-Based Payments program. The May Revision includes approximately $263 million in additional Proposition 56 revenues due to a one-time fund reconciliation.

The May Revision includes the following additional Proposition 56 investments:

- $120 million additional one-time funding for the loan repayment program for physicians and dentists who commit to serving Medi-Cal beneficiaries.
- $70 million additional one-time funding for the Value-Based Payments program, specifically for behavioral health integration. This brings the total allocation for Value-Based Payments to $250 million available for the program over the next several years.
- $25 million in 2019-20 ($60 million over three years) to train providers to conduct the trauma screenings that were proposed in the Governor's Budget.
- $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.

Given lower projected General Fund revenues over the forecast period and ongoing efforts to transform the state's health care system and lower costs, the package of Proposition 56 investments sunsets December 31, 2021. These investments remain a priority, and provide a bridge to the work of the Healthy California for All Commission.

Other Significant Adjustments:

- Current Year—The May Revision assumes decreased expenditures in the Medi-Cal program of approximately $1 billion General Fund compared to the Governor's Budget. Unlike most programs, Medi-Cal operates on a cash, rather than an accrual, basis of accounting. This means that the timing of transactions can significantly disrupt fiscal year budgetary estimates.
  - About 70 percent of the difference is due to shifts in timing for repayments to the federal government. These repayments are now assumed to be made in the budget year, resulting in relatively minor net changes across the two fiscal years.
  - Another 12 percent is attributed to increased savings for drug rebates and retroactive managed care payments, offset by increased delinquent fees owed from skilled nursing facilities and other one-time adjustments.
  - The remaining variance is primarily due to changes in fee-for-service caseload.

- Year-Over-Year—The May Revision projects General Fund expenditures of $23 billion in 2019-20, an increase of $3.3 billion compared with 2018-19. Approximately one-third of the increase is attributable to the expiration of the managed care organization tax. Another one-third is due to a higher average cost per eligible and other factors. The remaining increase results from a shift in the timing of payments from current year to budget year and other factors.

- Full-Scope Medi-Cal Expansion for Undocumented Young Adults—The May Revision includes $98 million ($74.3 million General Fund) to expand full-scope Medi-Cal coverage to eligible young adults aged 19 through 25 regardless of immigration status, starting no sooner than January 1, 2020. The assumed implementation date is six months later than assumed in the Governor's Budget. This expansion will provide full-scope coverage to approximately 90,000 undocumented young adults in the first year. Nearly 75 percent of these individuals are currently in the Medi-Cal system.
- Redirection of County Realignment Savings that Result from Medi-Cal Expansion—The May Revision maintains the Administration's proposal to change the redirection amounts for certain counties' indigent care realignment revenue with three modifications. First, the May Revision reflects Yolo County as a County Medical Services Program county. Second, the change in redirection amounts for certain counties is delayed six months to align with the assumed timing of the proposed Medi-Cal eligibility expansion. Third, the May Revision proposes to withhold realignment revenues from the County Medical Services Program Board until the Board's total reserves reach two years of total annual expenditures. At that point, the Board revenues will be reflect a 75 percent redirection amount consistent with non-formula counties.
- Pharmacy Transition to Fee-for-Service—The transition of pharmacy services from Medi-Cal managed care to a fee-for-service benefit will help the state secure better prices by allowing California to negotiate with pharmaceutical manufacturers on behalf of a much larger population of Medi-Cal beneficiaries. Savings from the transition are estimated to reach $393 million General Fund by 2022-23. While the transition is scheduled for January 1, 2021, savings will not be realized immediately due to timing of drug rebates and the managed care rate setting process.
- Medi-Cal Drug Rebate Fund Reserve—Drug rebates are a major source of General Fund spending volatility in the Medi-Cal program. To reduce this volatility, the May Revision projects a $172 million reserve in the Medi-Cal Drug Rebate Fund. In the future, the reserve in this fund will be increased when savings exceed initial drug rebate estimates. When savings fall short of initial estimates, the reserve will be accessed to reduce the impact on the General Fund.
- Medi-Cal County Administration—The May Revision includes $2.1 billion ($729 million General Fund) in 2019-20 for county eligibility determination activities, an increase of

$15.3 million total funds compared with the Governor's Budget, based on higher projected growth in the California Consumer Price Index (3.39 percent compared with 2.63 percent at Governor's Budget).

- Whole Person Care Pilots—The May Revision includes one-time $20 million Mental Health Services Fund over five years for counties that currently do not operate Whole Person Care Pilots. This is in addition to the $100 million one-time General Fund proposed in the Governor's Budget for counties that currently operate pilots. With this funding, additional counties will be able to develop and implement essential programs focused on coordinating health, behavioral health (for individuals with a mental health and/or substance use disorder), and critical social services, such as housing. Priority will be given to individuals with mental illness who are also homeless, or at risk of becoming homeless.
- Peer-Run Mental Health Crisis Line—The May Revision allocates $3.6 million Mental Health Services Fund annually for three years to the Department of Health Care Services to provide support for a statewide peer-run mental health crisis line, a critical resource for those on the brink of a mental health crisis. This proposal maintains the Administration’s focus on prevention and early intervention by providing a resource offering information, referrals, emotional support, and non-judgmental peer support to those living with mental illness. This statewide crisis line would also increase employment opportunities to those who have recovered from mental health issues.
- Cannabis Allocation—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. These funds are continuously appropriated.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department's major programs include CalWORKs, CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare Services, Community Care Licensing, and Disability Determination.

Caseload-Related Adjustments:

- IHSS—The overall cost for IHSS increased by $60.5 million General Fund in 2018-19 and $151.6 million General Fund in 2019-20, due primarily to a projected increase in caseload growth, average hours per case, and average cost per case. These increases were offset partially by decreases in IHSS provider overtime and travel costs.
- CalWORKs—A decrease of $46.8 million General Fund and federal Temporary Assistance for Needy Families (TANF) block grant funds in 2018-19 and $49.1 million General Fund and federal TANF block grant funds in 2019-20 to reflect updated caseload and average cost per case projections.
- SSI/SSP—A decrease of $5.9 million General Fund in 2018-19 and $18 million General Fund in 2019-20 to reflect updated caseload and average cost per case projections.

Other Significant Adjustments:

- CalWORKs Single Allocation Budgeting Methodology—An ongoing increase of $41.4 million General Fund and federal TANF block grant funds in 2019-20 to reflect the adoption of a revised budgeting methodology for the employment services component of the CalWORKs Single Allocation to counties. This augmentation represents a $165.5 million increase compared to the traditional methodology. Because a budgeting methodology for the administration/eligibility and employment services components have been created, the May Revision proposes to separate the child care component from the Single Allocation.
- CalWORKs Outcomes and Accountability Review (Cal-OAR)—An increase of $13.2 million General Fund and federal TANF block grant funds in 2019-20 for counties to perform required Continuous Quality Improvement activities consistent with Cal-OAR implementation.
- CalWORKs Stage One Child Care 12-Month Eligibility—An increase of $40.7 million General Fund in 2019-20 ($54.2 million annually thereafter) to establish a 12-month eligibility period for CalWORKs Stage One Child Care services. See the Early Childhood Chapter for more information.
- CalWORKs Home Visiting Initiative—An increase of $10.7 million in General Fund and federal TANF block grant funds to reflect updated projections of CalWORKs cases

eligible for home visiting services. See the Early Childhood Chapter for more information.

- Funding for County Administrative Costs for the Expanded CalFresh Population—A one-time increase of $15 million General Fund in 2019-20 for county administration efforts to process new CalFresh applicants as a result of eliminating the Supplemental Security Income Cash-Out policy.
- IHSS Restoration of the 7-percent Across-the-Board Reduction to IHSS Service Hours—An increase of $15.3 million General Fund to reflect the updated costs for the restoration of the 7-percent across-the-board reduction to IHSS service hours. The May Revision proposes to temporarily restore the 7-percent reduction through December 31, 2021, due to lower than expected revenues over the forecast period and ongoing efforts to contain costs.
- County IHSS Maintenance-of-Effort Adjustment—An increase of $55 million General Fund related to the rebenching of the County IHSS Maintenance-of-Effort to reflect revised 1991 Realignment revenue projections and revised IHSS caseload and cost projections.
- Resource Family Approval Administration and Application Backlog—A one-time increase of $14.4 million General Fund 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—A one-time increase of $21.6 million General Fund in 2019-20 for activities and services to retain, recruit, and support foster parents, relative caregivers, and resource families.
- Foster Care Emergency Assistance—An increase of $21.7 million General Fund and federal TANF block grant funds in 2019-20 to provide caregivers with up to four months of emergency assistance payments pending resource family approval. Beginning in 2020-21 and annually thereafter, the state will fund emergency assistance payments for up to three months, as local child welfare agencies and probation departments are anticipated to complete the resource family approval process within three months of application receipt. The May Revision includes a TANF reserve of $31.2 million to fund emergency assistance costs through 2020-21.
- Federal Title IV-E Administrative Costs Dependency Counsel—An ongoing increase of $34 million federal funds to support court-appointed dependency counsel representing children and parents at every stage of the dependency proceeding.

- Funding for Special Olympics—A one-time increase of $2 million General Fund in 2019-20 to support the Special Olympics, which enriches the lives of children and adults with intellectual disabilities through sports and education.
- Immigration-Related Pilot Projects—The May Revision proposes to use up to $5 million of the $10 million General Fund proposed in 2019-20 for the provision of legal services to unaccompanied undocumented minors and Temporary Protected Status beneficiaries to: (1) establish a pilot to provide mental health evaluations related to legal defense, and (2) develop a family reunification navigator pilot to connect undocumented minors and their families with services in the community.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services funds a variety of services for individuals with developmental disabilities that allow them to live and work independently or in supported environments. California is the only state that provides developmental services as an individual entitlement. The state is in the process of closing all state-operated developmental centers, but will continue to operate the secure treatment area at the Porterville Developmental Center and the Canyon Springs community facility.

By the end of 2018-19, the Department estimates it will be providing community services to approximately 333,000 individuals with developmental disabilities. In the developmental centers, the estimated population, as of July 1, 2019, is 326 residents. The population is expected to decrease to 297 residents by June 30, 2020, as the final residents transition to receiving services through the Regional Centers. The Budget includes $8.2 billion ($5 billion General Fund) for support of developmental services. Based on recent projections, base program costs are expected to grow by 10.2 percent annually.

REGIONAL CENTER REFORMS AND PROVIDER RATES

As required by Chapter 3, Statutes of 2016, Second Extraordinary Session (ABX2 1), the Department of Developmental Services submitted a rate study in March 2019, which has helped inform the Administration’s targeted rates proposal.

The May Revision includes $165 million ($100 million General Fund) beginning January 1, 2020, for supplemental provider rate increases for community developmental services. Annual costs of these rate increases are $330 million ($200 million General Fund).

The rate structure for community-based developmental services is complex and contributes to making oversight of the system difficult. These funds will focus on three specific areas to address specific service delivery elements within the Regional Center system, including:

- Stabilizing residential capacity, with a focus on compliance with the March 2014 federal Home and Community-Based Services requirements;
- Addressing rate differences between Regional Centers and vendors; and
- Enhancing consumer safety through mandated fingerprint requirements.

In addition to the proposed rate increases, the May Revision proposes the following reform efforts as a first step:

- Establishing and enforcing comprehensive Regional Center performance goals and increased accountability measures;
- Developing a statewide oversight system that regularly reviews Regional Center and provider performance and disseminates best practices and standards; and
- More frequent monitoring of Regional Center budgets.

Additional recommendations and reforms are needed for Regional Center board governance, standardization of practices, rate methodologies and categories, as well as the establishment of process and outcome measures necessary to increase transparency and accountability in this program area. These reforms will promote the provision of quality services in an efficient manner to persons with developmental disabilities.

The May Revision also includes $7 million ($5 million General Fund) for the Department and Regional Centers to begin implementing broad reform efforts as well as implementing the supplemental rate increases.

Other Significant Adjustment:

- The May Revision includes $50 million ($30.1 million General Fund) to suspend the Uniform Holiday Schedule. This change allows additional days of services to be paid.

The supplemental rates and Uniform Holiday Schedule will sunset on December 31, 2021, due to lower-than expected revenues over the forecast period and efforts to address the complexity of the current rate system as reviewed in the rate study released earlier this year and other efforts to improve transparency, accountability, and other issues in the Regional Center system.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health is charged with protecting and promoting the health and well-being of the people of California. Public Health expenditures in 2019-20 are $3.3 billion ($224.3 million General Fund).

California has some of the highest preventable infectious disease rates in the nation, and these rates have increased in the last several years. The Department is currently implementing a "Getting to Zero" HIV and AIDS prevention and treatment plan. The May Revision includes $40 million one-time General Fund to slow infectious disease epidemics. The funds will be available over a four-year period through local public health departments and tribal communities to assist in providing prevention, testing, and treatment services.

Significant Adjustments:

- California Home Visiting and Black Infant Health Programs—The May Revision includes additional reimbursements from the Department of Health Care Services for Medicaid-eligible activities previously not reflected in the Governor's Budget. See the Early Childhood Chapter for more information.
- Cannabis Surveillance and Education—The May Revision includes $12 million in Proposition 64 funds for surveillance and education activities. These funds are continuously appropriated.
- Emergency Preparedness, Response, and Recovery—The May Revision includes $959,000 ($569,000 General Fund) to support health care facilities and mass care shelters during emergencies as well as disaster preparedness, response, and recovery efforts. See the Emergency Preparedness, Response, and Recovery Chapter for more information.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed patients. The patient population is expected to reach 6,530 across the state hospitals and contracted patient programs and 795 in the Conditional Release Program by the end of 2019-20.

Significant Adjustments:

- Conditional Release Step Down Program—An increase of $5.7 million General Fund in 2019-20 ($11.5 million General Fund annually thereafter) for the Department of State Hospitals to contract for a 78-bed community step-down program to serve Mentally Disordered Offenders and Not Guilty by Reason of Insanity commitments who are preparing for conditional release from state hospitals within 18 to 24 months. This funding also includes increasing an existing Department of State Hospitals' contract by 4 beds for a total of 24 beds.
- Telepsychiatry Resources—An increase of $2.2 million General Fund in 2019-20 ($3.75 million General Fund in 2020-21 and $3.5 million General Fund annually thereafter) for the Department of State Hospitals to expand the use of telepsychiatry to treat patients remotely via video-conferencing.

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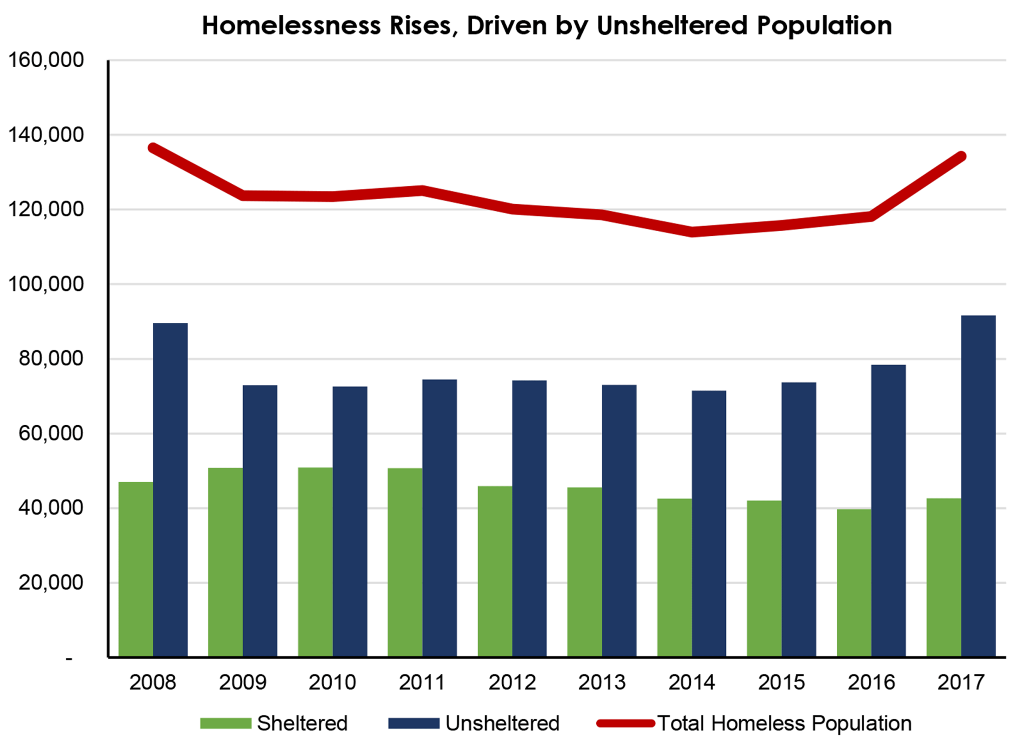
HOMELESSNESS

Homelessness is a chronic issue straining local resources and services across all of California. Despite increased state and local investments, federal data have shown an increase in California's homeless population in recent years. See the table below for more details.



Data from Federal Housing and Urban Development's Point In Time Counts.

The state has addressed homelessness through providing grants and loans to construct affordable housing for extremely low-income households. The Veterans Housing and Homelessness Prevention Act repurposed general obligation bonds totaling $600 million to provide supportive housing for veterans. The No Place Like Home Act dedicates $2 billion in bond funding to provide supportive multifamily housing for individuals experiencing mental illness who are homeless or at risk of homelessness. And the Veterans and Affordable Housing Bond Act (Chapter 365, Statutes of 2017, SB 3) provides $4 billion for various programs, of which $1.5 billion is available for the Multifamily Housing Program that can be used for supportive housing development.

The Budget Act of 2018 provided $500 million one-time funding for short-term housing operations through the Homeless Emergency Aid Program. Local jurisdictions have used these dollars for emergency housing vouchers, rapid rehousing programs, and emergency shelter construction, among other purposes.

The May Revision increases the state's support to prevent and mitigate this epidemic by $1 billion. Specifically, it provides $650 million to local governments for homeless emergency aid, $120 million for expanded Whole Person Care pilots, $150 million for strategies to address the shortage of mental health professionals in the public mental health system, $25 million for Supplemental Security Income advocacy, $40 million for student rapid rehousing and services for University of California (UC) and California State University (CSU) systems, and $20 million in legal for eviction prevention.
In addition, the Governor's Budget included $1.75 billion General Fund to increase housing production and hundreds of millions to increase grants to families in the CalWORKs program.

HOMELESS EMERGENCY AID

The Governor's Budget included $500 million one-time General Fund for jurisdictions for the construction and expansion of emergency shelters and Navigation Centers. Additionally, the Governor's Budget included $25 million ongoing General Fund for the Housing and Disability Advocacy Program to assist homeless, disabled individuals with applying for disability benefit programs, and $100 million one-time General Fund for Whole Person Care Pilot programs that provide housing services.

The May Revision increases the $500 million proposal to $650 million and updates the allocation of the grants. 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. To continue to encourage regional collaboration, funds are contingent on cities and counties submitting regional plans to their CoCs. These plans must then be approved by the state.

The May Revision also expands the eligible uses for the funds to include innovative projects for which one-time funding is well suited. This includes, but is not limited to, hotel/motel conversions, traditional and non-traditional permanent supportive housing, rapid rehousing, or jobs programs.

STUDENT RAPID REHOUSING

The May Revision builds upon the Governor's Budget investment of $15 million one-time General Fund to address student food and housing insecurity at CSU and $15 million ongoing General Fund at the UC. The May Revision proposes $6.5 million ongoing General Fund to support rapid rehousing of homeless and housing insecure students in the CSU and $3.5 million ongoing General Fund for students in the UC.

WHOLE PERSON CARE PILOT PROGRAMS

Building on the $100 million one-time General Fund proposed in the Governor's Budget for Whole Person Care Pilots, the May Revision includes a $20 million one-time augmentation from the Mental Health Services Fund for counties that do not operate Whole Person Care Pilots. With this funding, additional counties will be able to develop and implement essential programs to focus on coordinating health, behavioral health (for individuals with a mental health and/or substance use disorder), and critical social services, such as housing. Priority will be given to individuals with mental illness who are also homeless, or at risk of becoming homeless.

FAIRVIEW DEVELOPMENT CENTER

As described in the Statewide Issues and Various Departments Chapter, the Department of Developmental Services is transitioning the last developmental center clients out of the Fairview Developmental Center by the end of this calendar year. The Department of General Services (DGS) will begin a site assessment to determine the condition of the property for potential future uses.

The May Revision proposes that concurrent to this assessment taking place, DGS will identify an appropriate building or set of buildings at the site that can be leased to a local jurisdiction to be used for permanent supportive housing for up to 200 individuals who are currently homeless or in shelters in the community.

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HOUSING AND LOCAL GOVERNMENT

Recently released population estimates from the California Department of Finance show the state added only a net 77,000 completed housing units in 2018. This is down from 85,297 units in 2017, which was down from 89,457 units in 2016. The underproduction of supply continues to define the housing crisis the state is currently facing. California is home to ten of the least affordable major markets and six of the fifteen most expensive large metropolitan rental markets in the country. Rising costs continue to strain homeowners and renters statewide and negatively impact the state's quality of life and long-term economic prosperity.

The Administration is committed to confronting the housing cost crisis. The Governor's Budget introduced a comprehensive $1.75 billion proposal to spur housing production, including planning and production grants to local governments, expansion of the state's housing tax credit program and loan program for mixed-income housing, and opportunities for innovative housing projects on excess state property.

The May Revision maintains the commitment to spur housing production, but has refocused $500 million to removing barriers to building affordable housing and adding funding to assist California renters.

SHORT-TERM PLANNING AND PRODUCTION GRANTS AND INVESTMENTS IN INFRASTRUCTURE

The Governor's Budget included $750 million one-time General Fund to partner with local governments to increase housing production through technical assistance and general-purpose funding. Local governments would receive grants ($250 million of the $750 million) to support technical assistance and staffing to develop plans to reach higher statewide housing goals, and after reaching set milestones, funding ($500 million of the $750 million) would be available to cities and counties for general purposes.

Local jurisdictions can and must plan and zone for their fair share of housing. Local governments report that lack of funding for infrastructure, including sidewalks, lighting, site utilities, new sewer lines, broadband infrastructure, storm water drains, and street construction, is a barrier to building new housing. Constructing or improving infrastructure that supports housing projects will ultimately bring down the per-unit cost, spur housing development, and provide more affordable units for low-income and middle class Californians.

The May Revision adds school districts and county offices of education as jurisdictions eligible for a portion of the $250 million in planning and technical assistance support. In many locations across the state, teachers are priced out of the areas where they teach. School districts and county offices of education that have surplus property will have the ability to apply for these funds through their regions to develop plans for their excess properties to be used as teacher housing.

The May Revision also repurposes the $500 million from the $750 million previously dedicated to general purpose incentive payments for the Infill Infrastructure Grant Program administered by the Department of Housing and Community Development (HCD).

The Infill Infrastructure Grant Program provides gap funding for infrastructure that supports higher-density affordable and mixed-income housing in locations designated as infill. Under the augmented Infill Infrastructure Grant Program, developers and local governments can partner to apply for infrastructure funding. At the same time, certain areas designated as infill may also qualify as federal Opportunity Zones and provide additional tax benefits to investors to spur development of economically distressed communities by guiding investment toward mixed-income housing.

This investment, combined with the $300 million made available for the Infill Infrastructure Grant Program through Chapter 365, Statutes of 2017 (SB 3) bond funds, provides $800 million, significantly boosting infrastructure development and ultimately housing production. Moreover, these funds can leverage additional investment for projects located within federal Opportunity Zones through state and federal tax benefits, spurring more housing production.

The Administration is considering ways to streamline and improve processes at the state's Infrastructure and Economic Development Bank (IBank)to help fund infrastructure including projects in Opportunity Zones.

LONG-TERM STATEWIDE HOUSING PRODUCTION STRATEGY

The Administration is committed to meeting long-term ambitious housing production goals. The Governor's Budget proposed revamping the Regional Housing Needs Assessment (RHNA) process, which determines the amount and type of housing regions and local jurisdictions must produce to meet their need. The May Revision aligns housing production targets with forthcoming RHNA goals in the short-term. In the long-term, HCD will continue to develop long-term regional housing production targets through a new RHNA process by no later than 2022.

Housing and transportation are inextricably linked. Given this nexus and to support local jurisdictions' ability to contribute to their fair share of the state's housing supply, the Governor's Budget provided that local streets and roads funds from the Road Repair and Accountability Act of 2017 (Chapter 5, Statutes of 2017) (SB 1) be distributed upon compliance with housing element law and zoning and entitling to meet updated housing goals. This linkage remains part of the housing proposal at the May Revision.

EXPANDED STATE HOUSING TAX CREDIT PROGRAM

The Governor's Budget proposed to expand state tax credits up to $500 million in 2019-20, and up to $500 million annually thereafter upon an appropriation.
The additional authority included $500 million for a state tax credit program targeting new construction of qualified residential rental developments (for households with an average Area Median Income of 60 percent). These state credits would pair with an underutilized 4-percent federal tax credit program. Up to $200 million of newly authorized credits would be available to increase the development of mixed-income housing projects serving a broader range of incomes (between 30 to 120 percent Area Median Income) in combination with the California Housing Finance Authority's Mixed-Income Loan Program.

Currently, tax credits may be used for preservation projects which seek to retain affordable housing. Because the $500 million in tax credits proposed in the Governor's Budget applies only to new housing production, the May Revision proposes deeper subsidies for specified preservation projects through the current program. This will continue important preservation efforts of affordable housing units across the state so that they do not fall into disrepair and further decrease the state's aggregate available housing.

Additionally, developers using state tax credits may sell "certificated" credits to investors, without requiring an ownership interest in the properties being built. This has the effect of ensuring a wider investor pool. However, this ability will end in 2020. To maintain this expanded pool of investors, the May Revision proposes eliminating the sunset date.

As stated in the Governor's Budget, the expanded tax credit investment will be coupled with a future redesign of the existing tax credit programs to promote cost containment and increase the construction of new units. The May Revision proposes changing the Director of the California Housing Finance Authority and the Director of the California Department of Housing and Community Development from non-voting members of the California Tax Credit Allocation Committee to voting members to more directly include their expertise as the committee considers this redesign.

Demonstration Projects for Housing

The Governor's Budget proposed an innovation challenge for developers to build demonstration projects that use creative and streamlined approaches to building affordable and mixed-income housing on excess state property (for example, using modular construction). In January, the Governor issued Executive Order N-06-19, which directed state departments to create an inventory of all state-owned excess parcels, identify the excess parcels where housing development would be economically feasible and address regional underproduction, and issue requests for proposals for demonstration projects offering long-term ground leases to developers.

The May Revision includes $2.5 million one-time General Fund for real estate consultants for both HCD and DGS, and 4 positions and $780,000 ongoing General Fund for HCD to assist with developing request for proposals, conducting site investigations, evaluating housing developments, and monitoring projects.

LEGAL AID FOR RENTERS AND LANDLORD-TENANT DISPUTES

The Judicial Branch's budget includes funding to provide grants to over 100 nonprofit service organizations to provide legal assistance to low-income Californians, particularly the indigent, homeless, disabled, elderly, and victims of domestic violence. These services include, but are not limited to: legal technical assistance, training, advice and consultation, and representation. Recognizing the need for stable housing among renters, 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.

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JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, and the Judicial Council. The trial courts are funded with a combination of General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive most of their funding from the General Fund. The May Revision includes total funding of $4.2 billion ($2.2 billion General Fund and $2.0 billion other funds) in 2019-20 for the Judicial Branch, of which $2.4 billion is provided to support trial court operations. The Judicial Council is responsible for managing the resources of the Judicial Branch.

JUDGESHIPS

The 2017 Budget Act included the reallocation of four vacant superior court judgeships—two from Alameda County and two from Santa Clara County—to Riverside and San Bernardino Counties. This reallocation shifted judgeships to the areas of the state where workload is highest, but did not increase the overall number of judges. The 2018 Budget Act authorized two additional judgeships in Riverside County and one Justice in the Fourth Appellate District of the Court of Appeal in the San Bernardino/Riverside area.

In a continued effort to address judicial workload needs and provide timely access to justice, the May Revision includes $30.4 million General Fund in 2019-20 and $36.5 million General Fund annually thereafter, for 25 additional superior court judgeships. The judges will be allocated upon completion of the Judicial Council's Judicial Needs Assessment expected in late summer 2019.

TRIAL COURT RESERVES

Since 2013-14, trial courts have been prohibited from carrying over more than 1 percent in reserves from their prior year operating budget. In 2018-19, this equals approximately $27 million statewide. This restriction has presented operational challenges for courts and limited their flexibility to address unanticipated fiscal changes.

The May Revision includes statutory changes to increase the trial court reserve cap to 3 percent beginning June 30, 2020. This will enable courts to retain funding to cover unanticipated mid-year changes in costs (such as for payroll) or disruptions in funding (such as declines in fee revenue). It will also provide courts the flexibility to address unique local needs, as no two court jurisdictions are alike.

DEPENDENCY COUNSEL

Court-appointed dependency counsel represent children and parents at every stage of dependency proceedings. The Governor's Budget included $20 million ongoing General Fund, increasing the total dependency counsel funding to $156.7 million annually beginning in 2019-20.

The recent federal Families First Prevention Services Act expanded the list of eligible Title IV-E reimbursable activities to include court-appointed dependency counsel costs. The May Revision includes $1.5 million ongoing General Fund for the Judicial Council to administer these federal reimbursements, which are estimated to be $34 million annually. These reimbursements will be used to supplement the amount provided by the state and increase the dependency counsel budget from $156.7 million to $190.7 million annually beginning in 2019-20.

OTHER SIGNIFICANT JUDICIAL BRANCH INVESTMENTS

The May Revision also includes the following General Fund augmentations for the Judicial Branch:

- Legal Aid for Renters in Landlord-Tenant Disputes—The May Revision augments the Judicial Branch's Equal Access Fund by $20 million one-time General Fund to provide legal aid for renters in landlord-tenant disputes. Specifically, these additional funds will provide free legal services for landlord-tenant issues, including legal assistance for counseling, renter education programs, and preventing evictions as discussed in the Housing and Local Government Chapter.

- Language Access Expansion—The May Revision includes $9.6 million ongoing General Fund for the continuation of interpreter services for civil matters and to cover increased costs in criminal cases. The Judicial Council adopted a comprehensive Strategic Plan for Language Access in the California Courts in 2015, following United States Department of Justice investigations that identified an unmet federal Civil Rights Act requirement for interpreter services to be provided free of charge in all court proceedings. This expansion of interpreter services and overall increases in court interpreter costs have led to shortfalls that require ongoing resources.
- Courts of Appeal Workload—The May Revision includes $5 million ongoing General Fund to address general operational cost increases, workload due to more complex litigation, new case duties related to recent law changes requiring retroactive decisions related to criminal justice reforms, and voter approved initiatives requiring appellate review.

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PUBLIC SAFETY

Over the coming year, the Administration will map out a plan to further transform the state correctional system with a focus on public safety, increased rehabilitation, expanded opportunities for reentry, and restorative justice. The plan will address the long-term population trends, utilization and maintenance of facilities, and implications of ongoing litigation. The Governor's Budget and the May Revision make important near-term investments that will support these long-term goals. They also reflect the Administration's commitment to sound correctional practices and recidivism reduction that ensure the state meets its paramount obligations to protect the public, correctional staff, and the incarcerated population.

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates the most violent felons, supervises those released to parole, and provides rehabilitation programs to help reintegration into the community. The Department provides safe and secure detention facilities and necessary support services to inmates, including food, clothing, academic and vocational training, as well as health care services. The May Revision includes total funding of $12.8 billion ($12.5 billion General Fund and $305 million other funds) for the operation of the Department in 2019-20.

POPULATION

Compared to the Governor's Budget projections, changes in the adult inmate and parole population have resulted in a net decrease of $4.2 million General Fund in 2018-19 and 2019-20 combined. The revised average daily population projections for adult inmates are 127,993 in the current year and 126,705 in the budget year, a decrease of 341 in 2018-19 and 266 in 2019-20. The revised average daily parolee population projection is 48,535 in the current year and 50,442 in the budget year, a decrease of 166 in the current year and an increase of 497 in the budget year.

Proposition 57, the Public Safety and Rehabilitation Act of 2016, is estimated to reduce the average daily adult inmate population by approximately 6,500 in 2019-20, and approximately 10,600 in 2021-22. As of May 2, 2019, the prison population was at 134.8 percent of design capacity, which is below the federal court-ordered population cap of 137.5 percent of design capacity.

The implementation of Proposition 57 and other actions have allowed the Department to eliminate the use of out-of-state beds from its long-term court compliance strategy as all inmates will be removed from Arizona by June 2019.

INMATE REHABILITATION AND REENTRY

The May Revision includes several proposals that provide offenders greater opportunity for rehabilitation, thereby improving offender outcomes and increasing public safety.

REENTRY EXPANSION

One important component of rehabilitation programming involves the operation of reentry facilities which provide eligible offenders a variety of services, such as substance use disorder treatment, education, and employment counseling, in the communities in which they will be released during the last portion of their sentences. Recognizing the important role reentry facilities play in rehabilitation and successful reentry into the community, the May Revision includes $8.8 million ongoing General Fund to establish two new 60-bed female facilities in Los Angeles and Riverside, and expand an existing male facility in Los Angeles by 10 beds. In addition, the May Revision includes $1.5 million ongoing General Fund to provide a five-percent contract rate increase for Male Community Reentry Program providers.

INTEGRATED SUBSTANCE USE DISORDER TREATMENT PROGRAM

Across the country, substance use disorders (SUD) involving alcohol, opioids, and methamphetamines are on the rise, resulting in an increasing number of overdose-related deaths each year. Treatment of individuals suffering from substance use disorders involves long-term medical and/or behavioral modification components. Providing offenders who battle addiction with proper evidence-based treatment and medication-assisted treatment can reduce the risk for further substance use, relapse, and drug-related death, and can help prepare inmates for a successful reentry to society.

To combat alcohol and opioid addiction-related issues within the state's incarcerated population, the May Revision includes $71.3 million General Fund in 2019-20 and $161.9 million ongoing General Fund beginning in 2020-21 to implement an integrated substance use disorder treatment program throughout all 35 CDCR institutions. The proposal includes three main components: (1) the use of medication-assisted treatment (MAT) to treat inmates with opioid and alcohol use disorders; (2) a redesign of the current cognitive behavioral treatment curriculum; and (3) the development and management of inmate treatment plans and substance use disorder-specific pre-release transition planning. This new program will target three populations: (1) inmates who were receiving MAT prior to entering prison; (2) inmates already in CDCR with high substance use disorder risk factors (such as a recent overdose); and (3) inmates scheduled for release within 15 to 18 months who have been assessed as having a high need for substance use disorder services.

Medication-Assisted Treatment—The proposal creates a statewide medication-assisted treatment program that will offer buprenorphine, methadone, and naltrexone to inmates with opioid use disorders in all 35 institutions and distributes naloxone (an opioid reversal agent) to inmates slated for release who are also deemed to be at risk. Additionally, naltrexone and acamprosate will be offered to inmates with alcohol use disorders. Medication-assisted treatment services will be provided by new medical, nursing, pharmacy, and custody staff. These staff will be trained to provide needed services consistent with the medication-assisted treatment program. Medical staff will be certified to meet the federal requirements for prescribing buprenorphine.

Cognitive Behavioral Treatment—Recognizing that medication-assisted treatment must also be combined with behavioral education, the May Revision proposes several changes to the Department’s current program to provide a comprehensive behavioral modification program to all incarcerated individuals prior to release. These changes include:

- Streamlining the curriculum provided across institutions. This programming, which includes substance use disorder treatment, will now be offered to all offenders within 15 to 18 months of release. The treatment will be structured to provide the offender the opportunity to address all criminogenic needs within a structured delivery period, removing the potential for fragmented delivery of treatment components over several years prior to release.
- Increasing the total number of programming slots to provide treatment to all offenders.
- Revising curricula to support offenders in the integrated substance use disorder treatment program to meet their specific treatment needs.
- Requiring those who deliver treatment services to be certified alcohol and other drugs counselors. A rate increase is included for counselors to increase the experience level necessary for treatment delivery.

Treatment Plans and Pre-Release Transition Planning—Ongoing treatment is paramount in maintaining patient health and wellness. As part of a whole person care model, the May Revision proposes to expand nursing and licensed clinical social worker staff to coordinate several pre-release processes. These staff will work with all 58 California counties and the Division of Adult Parole Operations to facilitate the placement of inmates released to Post Release Community Supervision and parole into treatment and counseling programs in the community and minimize gaps in care.

Other Significant Adjustments:

Tattoo Removal Program—Tattoos often present an obstacle to formerly incarcerated individuals seeking to reintegrate into society. The Governor's Budget included a placeholder of $2.5 million General Fund for the Department to develop a tattoo removal program for the adult offender population. The May Revision includes a refined estimate, reducing the costs to $1.1 million General Fund in 2019-20 and $2.1 million ongoing General Fund beginning in 2020-21. The Department will provide tattoo removal to approximately 3,000 offenders annually, with a focus on those who are seeking to leave gangs or are within 1 to 2 years of release on a voluntary basis.

Sign Language Interpreter Services—The May Revision includes $1.5 million ongoing General Fund to provide equal access to rehabilitation programs and services to inmates for whom sign language is their primary method of communication.

Project Rebound—The May Revision includes an additional $750,000 ongoing General Fund to support Project Rebound, a California State University (CSU) program that provides assistance to formerly incarcerated individuals seeking to enroll in participating CSU campuses. This brings total ongoing funding for this program to $1 million General Fund and is included in the CSU's budget.

INMATE HEALTH CARE

The May Revision continues the state's significant financial commitment to improve the Department's delivery of health care services to inmates. The May Revision dedicates $3.5 billion General Fund to health care services programs which provide access to mental health, medical and dental care that is consistent with the standards and scope of services appropriate within a custodial environment.

Since the Governor's Budget, the court-ordered Receiver overseeing the Department's inmate medical program, has incurred unanticipated current year costs totaling $95.6 million General Fund related to contract medical ($61 million), pharmaceuticals ($18.8 million), clinical staffing ($12.7 million), and leased office space ($3.1 million). The May Revision includes $114.3 million General Fund (including the Medical Classification Model update discussed below) in 2019-20 to account for these costs on an ongoing basis.

MEDICAL CLASSIFICATION MODEL UPDATE

The May Revision includes $27.9 million for the Receiver's Medical Classification Model to provide increased staffing levels for health care operations throughout California's prison system. The Medical Classification Model, established in 2014-15, uses a ratio-based methodology for adjusting medical staffing levels based on inmate medical classification. Since then, the population has grown older and sicker and is experiencing an increase in trauma-related incidents. Current staffing ratios are insufficient to meet these needs. This proposal includes the reclassification of certain offender populations based on medical acuity and revises staffing methodologies based on the Receiver's update to the model.

JUVENILE JUSTICE

Over the past several decades, research on effective methods to improve juvenile justice outcomes has expanded, providing a framework for reform, enhancements, and refinement of current systems, highlighting the important need to distinguish between adult corrections and juvenile strategies. This new framework recognizes that (1) the brains of adolescents are fundamentally different from adults and these differences remain up to age 25, (2) youth involved in the juvenile justice system have typically experienced multiple traumatic events in early childhood, and (3) youth in the juvenile justice system rely on adults who can provide critical resources and support as they internalize information and learn from their experiences.

In recognition of these realities, the Governor's Budget announced a plan to reorganize the Division of Juvenile Justice (DJJ) and a new approach to operating state juvenile justice facilities. In furtherance of this plan, the May Revision includes statutory changes to move the DJJ from the CDCR to a new department under the California Health and Human Services Agency (CHHS), effective July 1, 2020. The new department will be called the Department of Youth and Community Restoration. The proposal better aligns California's approach with its rehabilitative mission and core values—providing trauma-informed and developmentally appropriate services in order to support a youth's return to their community, preventing them from entering the adult system, and further enhancing public safety. By moving the DJJ from the adult corrections system into a new department under the CHHS, California will be better positioned to achieve this mission.

The May Revision also includes $1.2 million ongoing General Fund for key staff to plan for the transition and launch of a new independent training institute that will train all staff on best practices so they can further the new Department of Youth and Community Restoration's rehabilitative mission.

In addition, the May Revision includes $1.4 million ongoing General Fund to create a partnership between DJJ and the California Conservation Corps to develop and implement an apprenticeship program. This program will provide skill building and job training opportunities to participating members and support them in accessing career pathways upon returning to their communities.

VICTIM SERVICES

Crime victims and their families bear significant physical, emotional, and financial burdens. The May Revision includes several proposals that will both assist crime victims recovering from such traumas and proactively make strategic investments to protect those who face a high risk of victimization.

CONSOLIDATION OF VICTIMS PROGRAMS

Victims and survivors need to know where to turn for services, and these services should be easily accessible. While the state offers dozens of victims' services programs, it currently administers these programs through multiple state departments in a manner that is not designed to maximize ease of access for victims. Over the coming year, the Administration will develop a plan to consolidate the Office of Emergency Services and Victim Compensation Board victims programs within a new state department under the Government Operations Agency and may identify victims programs in other departments that could also be consolidated. This will provide one central place for victims and their families to obtain information and access services when they are most in need. The Administration intends to submit the consolidation of victims' services proposal as part of the 2020-21 Budget. This timeline allows for the planning necessary to address the significant logistical challenges of transitioning the programs without disrupting services to victims and their families.

VICTIM IMPACT PROGRAMS

CDCR's Office of Victims and Survivor Rights and Services provides information, restitution, outreach, training, referral and support services to individuals, as well as their next of kin, who were victimized by offenders sentenced to state prison. The May Revision includes an additional $2 million Inmate Welfare Fund for (1) the Office's Victim Offender Dialogue program, which employs restorative justice principles to provide opportunities for offenders to understand the impacts their actions have had on victims, and (2) the Department's Division of Rehabilitative Programs to establish or expand Innovative Programming Grants targeting victim impact programs. These programs are unique to CDCR and will not be consolidated.

VIOLENCE INTERVENTION AND PREVENTION PROGRAM

The Governor's Budget included $9 million ongoing General Fund for the California Violence Intervention and Prevention Program. The May Revision proposes an additional augmentation of $18 million one-time General Fund, resulting in a total of $27 million for the program in 2019-20 for grants to eligible cities and community based organizations. These grants provide funding to support services such as community education, diversion programs, outreach to at-risk transitional age youth, and violence reduction models.

NONPROFIT SECURITY GRANT PROGRAM

The California State Nonprofit Security Grant Program, administered by the Office of Emergency Services, provides support for target hardening and other physical security enhancements to nonprofit organizations that are at high risk of a terrorist attack, particularly from hate crimes based on ideology and beliefs. Continuing previous investments to combat attacks of this sort, the May Revision includes a $15 million one-time General Fund augmentation for the grant program, to assist nonprofit organizations that have historically been targets of hate-motivated violence. Organizations can use these funds to help secure potential targets, such as places of worship.

LOCAL PUBLIC SAFETY

Standards and Training for Corrections Program—Funding for the Standards and Training for Corrections Program, which assists local corrections agencies in improving the professional competence of their staff, was reduced significantly in 2016-17, driven by a decline in criminal fine and fee revenues which was the primary funding source for this program. In 2018-19, support was shifted to the General Fund but remained at the reduced level. The May Revision includes an additional $6.2 million ongoing General Fund to restore to a level more consistent with historical funding. This proposal was released in April.

Community Corrections Performance Incentive Grant—The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The May Revision includes $112.8 million General Fund to continue this successful program. This is a decrease of $548,000 from the amount estimated in the Governor's Budget.

Post Release Community Supervision—The May Revision includes $14.8 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the implementation of Proposition 57. This is an increase of $2.9 million over the amount estimated in the Governor's Budget.

Proposition 47 Savings—Voters passed Proposition 47 in November 2014, which requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits inmates previously sentenced for these reclassified crimes to petition for resentencing. The Department of Finance currently estimates net savings of $78.4 million General Fund for Proposition 47 when comparing 2018-19 to 2013-14, a decrease of $23,000 from the Governor's Budget estimate for 2018-19. These funds will be allocated according to the formula outlined in the initiative.

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ENVIRONMENTAL PROTECTION

California's environmental protection programs promote the state's economic vitality in an environmentally sustainable manner by reducing greenhouse gas emissions, enhancing environmental quality, and protecting public health.

SUSTAINABLE PEST MANAGEMENT

Chlorpyrifos is an insecticide used primarily on nut trees and fruit, vegetable and grain crops in California. Acute exposure to chlorpyrifos presents serious risks to human health including neurological development impairments, especially in children and sensitive populations. California has taken actions to significantly reduce the use of and exposures to chlorpyrifos. The Department of Pesticide Regulation recently recommended additional mitigation measures to further restrict use of the pesticide by instituting larger buffer zones and prohibiting certain application methods, such as aerial spraying. Additionally, the Department will commence a regulatory process to cancel the registration of chlorpyrifos. Cancellation would ban use of this pesticide in California.

As California initiates the cancellation process, it is important that the state proceeds in a way that balances public health, the environment and continued agricultural productivity.

Significant Adjustment:

- Sustainable Pest Management Solutions—A one-time increase of $5.7 million General Fund to assist in the transition to safer pesticide alternatives. In partnership with growers and workers, research and development of better and safer alternatives, including non-chemical pest management, is necessary to build a stronger more resilient agricultural community in California. This proposal includes $125,000 for the Department and the California Department of Food and Agriculture to lead a newly created, cross-sector work group that will identify, evaluate and recommend alternative pest management tools. In addition, the May Revision includes $5.6 million for additional research and technical assistance for the development of safer, practical, more sustainable alternatives to chlorpyrifos. In combination, the work group and funding for the development of alternatives will produce short-term solutions and prioritize the development of long-term solutions to support a thriving agricultural sector and healthy communities.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control protects California residents and the environment from the harmful effects of toxic chemicals by restoring contaminated sites, enforcing hazardous waste laws, and compelling the development of safer products.

The Department's two main special funds, the Toxic Substances Control Account and Hazardous Waste Control Account, have structural deficits with ongoing expenditures exceeding revenues. At the time of the Governor’s Budget, the Department had not completed the reconciliation of its past year accounting records. As a result, the magnitude of the Department’s funding shortfall was unknown. The Governor’s Budget reflected several temporary and placeholder funding shifts from other special funds, including the Lead-Acid Battery Cleanup Fund, to support the Department’s current funding level. In February, the Department was able to reconcile its accounting records through the 2017-18 fiscal year.

In order to maintain current operations, the May Revision includes one-time $37.5 million General Fund. This funding is necessary on a temporary basis as the Administration considers reforms necessary to improve accountability and transparency to impacted communities and regulated entities and develops a fee package to generate sufficient revenue to support the Department’s mission. Additionally, the Office of State Audits and Evaluations is currently conducting a performance audit of the Department's accounting functions, including whether its procedures are in compliance with the state's accounting principles and practices, laws, and regulations. It is anticipated that the audit will be completed in the fall of 2019.

Safe Drinking Water

Since 2010, the state has provided over $3 billion, primarily bond funds and federal funds, in assistance to address safe and affordable drinking water needs, such as the repair, replacement, and improvement of aging infrastructure and new treatment systems for over 600 projects to comply with the federal Safe Drinking Water Act.

Despite these efforts, many local water systems in the state, particularly those serving small disadvantaged communities, will continue to fail to provide safe drinking water to their customers. Currently, approximately 1 million Californians lack access to safe drinking water. The most significant remaining challenge is the lack of a stable funding source for long-term operation and maintenance of drinking water systems.

In recognition of the continued safe drinking water issues, the Governor's Budget proposed an additional $168 million Proposition 68 to support capital water projects across the state. The Governor's Budget also included $4.9 million General Fund to support initial steps towards implementation of the Safe and Affordable Drinking Water Program and statutory changes to establish ongoing sustainable funding to assist disadvantaged communities in paying for the costs of obtaining access to safe and affordable drinking water.

Chapter 1, Statutes of 2019 (AB 72) appropriated $20 million General Fund in the current year to accelerate support for safe drinking water emergencies in disadvantaged communities.

The Administration remains committed to working in collaboration with the Legislature and stakeholders on a comprehensive package that includes a sustainable and reliable source of funding to support safe and affordable drinking water for all Californians.

Achieving a Carbon-Neutral Economy

California is committed to achieving a carbon-neutral economy, including the long-term transition away from fossil fuels. The May Revision invests in this transition by providing additional funds for transit-oriented communities; bus, truck, freight and tractor engine upgrades to reduce diesel use; methane reductions in agriculture; and providing apprenticeships and job training in careers that will build a future green economy. The May Revision also recognizes the need for careful study and planning to decrease demand and supply of fossil fuels, while managing the decline in a way that is economically responsible and sustainable.

The Cap and Trade Program is one important element of California's greenhouse gas emissions reduction strategy. It is a market-based mechanism that establishes a statewide declining cap on greenhouse gas emissions and a state-run auction of emissions allowances. Under the program, major carbon emitters must acquire allowances to represent their emissions and turn them in to the state each year. This establishes a price signal necessary to drive long-term investment in cleaner electricity and fuels, as well as more efficient energy use. The system also provides entities covered by the program the flexibility to reduce emissions in a cost-effective manner.

The Governor’s Budget included a $1 billion Cap and Trade Expenditure Plan to support programs that reduce or sequester greenhouse gases, including programs that benefit disadvantaged and low-income communities.

In recognition of the continued strength of recent Cap and Trade auctions, the May Revision proposes an additional $251.5 million that promotes affordable housing, sustainability and resiliency priorities (see 2019-20 Cap and Trade Expenditure Plan chart).

- Transformative Climate Communities—A one-time increase of $92 million to support integrated, community-scale housing, transit-oriented development, and neighborhood projects that reduce emissions in some of the state's most disadvantaged areas.
- Low Carbon Transportation—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. In addition, $15 million is proposed to help individuals replace old, highly polluting vehicles with newer, more efficient cars and trucks.
- Climate Smart Agriculture—A one-time increase of $20 million, including: (1) $10 million for the Healthy Soils program that increases carbon sequestration and

2019-20 Cap and Trade Expenditure Plan
(Dollars in Millions)

Investment Category	Department	Program	Governor's Budget	May Revision	Total
Air Toxic and Criteria Air Pollutants	Air Resources Board	AB 617 - Community Air Protection	$200	-	$200
		AB 617 - Local Air District Implementation ($50 million total, including other funds)	$20	-	$20
		Technical Assistance to Community Groups	$10	-	$10
Low Carbon Transportation	Air Resources Board	Clean Vehicle Rebate Project	$200	-	$200
		Clean Trucks, Buses, & Off-Road Freight Equipment	$132	$50	$182
		Enhanced Fleet Modernization Program & Transportation Equity Projects	$50	$15	$65
		Agricultural Diesel Engine Replacement & Upgrades	$25	$65	$90
Healthy Forests	CAL FIRE	Healthy & Resilient Forests	$165	-	$165
		Prescribed Fire & Fuel Reduction	$35	-	$35
Climate Smart Agriculture	Department of Food & Agriculture	Healthy Soils	$18	$10	$28
		Methane Reduction	$25	$10	$35
Short-Lived Climate Pollutants	CalRecycle	Waste Diversion	$25	-	$25
Integrated Climate Action: Mitigation & Resilience	Strategic Growth Council	Transformative Climate Communities	$40	$92	$132
	Coastal Commission & BCDC	Coastal Resilience	$3	-	$3
	Community Services & Development	Low-Income Weatherization	$10	-	$10
	California Conservation Corps	Energy Corps	$6	-	$6
Workforce Training	Workforce Development Board	Preparing Workers for a Carbon-Neutral Economy	$27	$8	$35
Climate and Clean Energy Research	Strategic Growth Council	Climate Change Research	$10	-	$10
	California Environmental Protection Agency	Transition to a Carbon-Neutral Economy	-	$1.5	$1.5
	Total		**$1,001**	**$252**	**$1,253**

keeps our leading agricultural industry productive and growing far into the future, and (2) $10 million for methane reduction programs that will support the state's short-lived climate pollutant goals.

- Preparing Workers for a Carbon-Neutral Economy—An ongoing increase of $8 million to increase job training and workforce development as the state transitions to a carbon-neutral economy. When combined with the funding proposed in the Governor's Budget, this proposal invests $35 million annually for five years in two key areas: (1) targeted pre-apprenticeship and apprenticeship programs for the fast-growing construction industry, which is necessary to build the infrastructure needed for climate resiliency and a carbon-neutral economy; and (2) a new High Road Training Partnership program to foster connections between employers, workers, and communities with an emphasis on regions and industries that have been traditionally dependent on fossil fuels, including Kern County, as California transitions to a carbon-neutral economy.
- Transition to a Carbon-Neutral Economy—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 emphasize environmental and economic programs and policies to dramatically reduce fossil fuel demand by 2050, in line with the state's overall climate goals. The study will inform the California Air Resources Board's Scoping Plan, which lays the foundation for achieving California's ambitious goals, including achieving carbon-neutrality by 2045 and reducing greenhouse gas emissions to 80 percent below 1990 levels by 2050.

EMERGENCY PREPAREDNESS, RESPONSE, AND RECOVERY

California is experiencing unprecedented wildfire activity with increases in the number and severity of wildfires. Fifteen of the twenty most destructive wildfires in the state's history have occurred since 2000; ten of the most destructive fires have occurred since 2015. The fire season is getting longer each year with many parts of the state experiencing nearly year-round fire danger. Climate change has led to historic periods of drought, which has created critically dangerous fuel conditions and resulted in over 147 million dead or dying trees.

Additionally, growth in the wildland urban interface has put more Californians at risk than ever before. More than 25 million acres of the state's wildlands are classified as under very high or extreme fire threat. The catastrophic wildfire activity in 2018, including the Camp, Woolsey, and Hill fires, underscores the serious dangers that current conditions pose to individuals and communities in high-risk areas of the state.

In its first 100 days, the Administration has taken decisive action to identify and implement recommendations and solutions to reduce wildfire risk; bolster the state's emergency preparedness, response, and recovery capacity; and protect vulnerable communities. The May Revision builds on these efforts.

BUILDING ON GOVERNOR'S BUDGET INVESTMENTS

The Governor's Budget proposed $769.6 million ($521.6 million General Fund) in additional funding to enhance the state's preparedness, increase capacity to respond to emergency incidents, and increase public safety. Significant investments included:

- $172.3 million ($171.3 million General Fund) for California Office of Emergency Services (Cal OES) to improve the state's emergency communication and warning systems, support the Mutual Aid system and resource pre-positioning, and fund relief efforts after disasters occur.
- $204.6 million ($202.2 million General Fund) for California Department of Forestry and Fire Protection (CAL FIRE) and the California Conservation Corps (Corps) to enhance the state's fire protection capabilities by adding 13 new year-round fire engines, 5 new CAL FIRE/Corps fire crews, and other key fire suppression resources; supporting the operation of firefighting aircraft with increased tactical effectiveness; and improving the use of technology and situational awareness capacity.
- $235 million ($8.4 million General Fund) for various departments to implement the recently-enacted Wildfire Prevention and Recovery Legislative Package and increase the pace and scale of forest health and fire prevention activities.
- $126.4 million ($108.4 million General Fund) to update and improve public safety radio communication.
- $31.3 million General Fund to backfill wildfire-related property tax revenue loss for cities, counties, and special districts as well as funding to waive the local share of debris removal costs.

COMMUNITY WILDFIRE PREVENTION AND MITIGATION REPORT

In recognition of dangerous fire conditions, the Administration issued Executive Order N-05-19 on January 8, 2019. The Executive Order directed CAL FIRE to collaborate with other state agencies and departments to recommend a series of actions and administrative, policy, and regulatory changes needed to prevent destructive wildfires. The Executive Order further emphasized the need for these actions to be targeted to protect the populations at the greatest risk from wildfires.

On March 5, 2019, CAL FIRE released the Community Wildfire Prevention and Mitigation Report with 19 recommendations for immediate, medium-term, and long-term actions to help the state decrease the risks associated with catastrophic wildfires. The report applies risk-based factors so that implementation of the recommended activities will support the protection of the most vulnerable communities across the state.

One of the report's central recommendations is to accelerate completion of 35 priority fuel reduction projects identified through CAL FIRE's risk-based assessment. Completion of these projects will reduce fire risk and increase resiliency for over 200 communities across the state. Additionally, the report recommends that the state deploy National Guard crews and other emergency response resources to complete fire prevention projects, consistent with recent action taken by the Administration to make National Guard personnel available to CAL FIRE for this purpose.

WILDFIRES AND CLIMATE CHANGE: CALIFORNIA'S ENERGY FUTURE

In early January, the Governor's strike force was created to coordinate the state's efforts to provide for the safety, reliability, and affordability of energy as well as to continue progress toward achieving the state's climate commitments. The Administration directed the strike force, within 60 days, to develop a comprehensive strategy to address the impacts of catastrophic wildfires and climate change and their destabilizing effect on the energy sector. Accordingly, the strike force's report, *Wildfires and Climate Change: California's Energy Future*, was released on April 12, 2019 and makes a series of recommendations to accomplish the following objectives:

- Reduce the frequency and severity of wildfires, strengthen emergency response, and build community resiliency.
- Mitigate climate change through clean energy policies.
- Provide a fair and equitable allocation of wildfire costs and damages.
- Make necessary changes to stabilize utilities to meet the energy needs of customers and the economy.

The report provides a roadmap for the state to meet the daunting challenges ahead and increase the safety and security of all Californians while providing continued access to safe and affordable energy.

CURRENT YEAR ACTIONS

The Administration and Legislature have already taken swift action to address urgent needs associated with disaster preparedness and response as well as state and local recovery from recent catastrophic wildfire events. This includes:

- Accelerating implementation of the 35 priority fuel reduction projects identified in the Community Wildfire Prevention and Mitigation Report to protect over 200 at-risk communities across the state using existing forest health and fire prevention funding. The recently issued State of Emergency Proclamation will support these efforts by providing waivers to suspend state administrative and regulatory requirements to enable projects to be completed more quickly.
- Redirecting up to 100 National Guard personnel to create fuel reduction and fire suppression crews that are available to CAL FIRE to undertake priority projects, as authorized through General Order 2019-01.
- Launching the California for All Emergency Preparedness Campaign, a joint initiative between Cal Volunteers and Cal OES, to connect vulnerable populations with culturally and linguistically competent support and bolster resiliency. The $50 million campaign will support dispatching of expert disaster teams to key regions and the development of targeted public awareness and outreach campaigns.
- Providing funding from the California Disaster Assistance Act and Disaster Response-Emergency Operations Account within the Special Fund for Economic Uncertainties to support critical disaster relief and recovery activities, including debris removal, shelter support, and remediation activities.

The May Revision builds upon these investments and the Administration's accomplishments over its first 100 days to further strengthen the state's emergency response capacity, reduce the threat of catastrophic wildfires, and protect communities at risk.

Disaster Preparedness, Response, and Recovery

Based on lessons learned and because of the increased magnitude, frequency, and complexity of recent disasters, the May Revision includes $39.9 million ($38.6 million General Fund) and 159.5 positions for various departments to enhance the state's disaster preparedness, response, and recovery capabilities; support the continuity of state government during disasters; and increase technical proficiency to best position the state to maximize appropriate federal reimbursements of billions of dollars. This includes resources for departments to: enhance disaster contingency planning and preparedness, provide funding to support Cal OES mission tasking, and facilitate the development of a Statewide Disaster Reserve Corps for surge capacity during disasters.

DISASTER CONTINGENCY PLANNING AND PREPAREDNESS

The May Revision proposes the following resources to support disaster contingency planning and preparedness:

- Office of Emergency Services—$5.9 million in ongoing funds ($5.1 million General Fund) and 76 positions to enhance Cal OES disaster preparedness and response capacity for future state disasters. Without the appropriate tracking and coordination of disaster costs, California would be at risk of losing federal funding.
- Department of Housing and Community Development—$2 million General Fund (with $740,000 in ongoing resources) and four positions 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 that will conduct local needs assessments related to the 2018 Camp and Woolsey fires as well as create local long-term recovery plan frameworks.
- State Water Resources Control Board—$1 million ongoing General Fund and six positions to improve emergency response capabilities between the State Water Board, regional boards, and other state entities during emergencies. These resources will enable the Water Board to lessen the impacts of disasters on vulnerable populations by addressing a wide range of issues in the periods following and between emergencies, including addressing engineering and operation issues facing drinking water systems and waste water utilities, and preventing or minimizing impacts to water quality, water supply security, and safety.
- Department of Resources Recycling and Recovery—$2.8 million ongoing General Fund and 21.5 positions for the Department to continue its significant role in emergency response mission tasking responsibilities. These resources will establish a dedicated team to help 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.
- Emergency Medical Services Authority—$979,000 ongoing General Fund and two positions 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.
- Department of Public Health—$959,000 in ongoing funds ($569,000 General Fund) and six positions to support health care facilities and mass care shelters during emergencies as well as disaster preparedness, response, and recovery efforts.

Activities will include deployment of infection control teams and continuous updates to an existing health facility mapping application used during disasters.

- Department of State Hospitals—$996,000 ongoing General Fund and six positions to improve emergency coordination and preparedness, and business continuity planning at five state hospitals and the Department of State Hospitals headquarters. The additional resources will enhance the Department's ability and capacity to more effectively care for patients and coordinate staff in the event of a disaster.
- Department of Social Services—$2.9 million ongoing General Fund and 20 positions to support the Department of Social Services' mandated disaster planning, coordination, and training activities. The Department is responsible for statewide mass care and shelter responsibilities, as designated by Cal OES.

EMERGENCY CONTINGENCY FUNDING

The May Revision includes $20 million one-time General Fund for a state mission tasking appropriation within the Cal OES budget. In addition, $1.5 million and 12 positions are proposed for Cal OES to coordinate with all state agency responders as a part of effectively managing and monitoring this appropriation given it will be responsible for the distribution of these funds. When state entities are mission tasked, some staffing costs associated with those activities are not absorbable within existing budgets, nor are these costs eligible for the California Disaster Assistance Act or Disaster Response-Emergency Operations Act funding. This proposed state mission tasking appropriation provides a resource to fund state entities for costs incurred when mission tasked, and to fund surge capacity needs of the Statewide Disaster Reserve Corps described below.

STATEWIDE DISASTER RESERVE CORPS

The May Revision includes $711,000 ongoing General Fund and 6 positions to initiate development of a statewide Disaster Reserve Corps resource pool for surge capacity needs. This resource pool will be able to backfill departments for steady-state activities, assist with continuity planning, and identify pre-screened qualified candidates to be part of needed incident support teams to assist in state preparedness and readiness.

PUBLIC SAFETY POWER SHUTDOWN

The May Revision includes a one-time investment of $75 million General Fund 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, where appropriate, as specific urgent needs are identified.

Investor-owned utilities (IOUs) have signaled their intent to significantly increase the use of PSPS on their energized power lines to prevent wildfires during high wind or other severe weather events. As a result, affected areas may be without power for several hours, days, and in some cases, over a week. Given the configuration of power grids and limited weather-monitoring capacities, at times, IOUs may be unable to implement PSPS in targeted areas, which could result in larger regional areas being impacted.

This proposal will provide a flexible source of funding to facilitate immediate response to utility initiated power shutdowns. In addition, planning grants to improve local preparedness for IOU-driven PSPS events would be available to the state's Operational Areas' (Counties) Offices of Emergency Management to convene regional stakeholders to discuss PSPS preparedness efforts, update emergency plans for PSPS events, and hold trainings, discussions, and exercises to reinforce planning assumptions.

The May Revision also includes $41 million Public Utilities Commission Utilities Reimbursement Account to fund inspections and improve review of both utility wildfire mitigation plans and PSPS reports. Specifically, this includes $38 million for one-time contract resources over three years to investigate and verify utility compliance with wildfire mitigation plans and to improve the California Public Utilities Commission's (PUC) oversight and evaluation of wildfire mitigation plans. It also includes funding to support 16 positions to oversee these contracts, facilitate these efforts, and streamline PUC regulatory processes.

PROPERTY TAX BACKFILLS

The May Revision includes one-time $518,000 General Fund to reimburse cities, counties and special districts for 2018-19 property tax losses resulting from the 2018 wildfires. This augments the $31.3 million proposed in the 2019-20 Governor's Budget, and subsequently added to the 2018 Budget Act by Chapter 1, Statutes of 2019 (AB 72).

The additional $518,000 is for the 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 these totals timely to be included in the Governor's Budget. They are now included in the May Revision.

The corresponding property tax loss for K-14 schools is $530,000. This will be backfilled under the Proposition 98 school funding mechanism.

CAMP FIRE RECOVERY

On November 8, 2018, a state of emergency was declared for Butte County due to the effects of the Camp Fire—the deadliest and most destructive wildfire in California history. The Camp Fire destroyed more than 18,000 structures and 90 percent of the Town of Paradise, which was home to almost 27,000 residents. The May Revision includes $10 million one-time General Fund to support local communities in their recovery from the unprecedented devastation of the Camp Fire.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

The May Revision includes $15.7 million one-time General Fund to build on the investments proposed in the Governor's Budget to enhance CAL FIRE's fire protection capabilities and increase the pace and scale of forest health and fire prevention activities. The funding proposed in the May Revision aligns with key recommendations from the Community Wildfire Prevention and Mitigation Report as well as the strike force's report.

- California Vegetation Treatment Program Environmental Impact Report—A one-time increase of $730,000 General Fund to support the Board of Forestry and Fire Protection in certifying the Programmatic Environmental Impact Report (EIR) for the California Vegetation Treatment Program. The EIR will help CAL FIRE and other partner agencies increase the pace and scale of fire prevention activities and work toward achieving the statewide goal of increasing forest management treatments from 250,000 to 500,000 acres per year on non-federal forest lands, as recommended in the Forest Carbon Plan.
- Innovation Procurement Sprint—A one-time increase of $15 million General Fund to enable CAL FIRE to procure innovative solutions to combat the state's wildfire crisis consistent with Executive Order N-04-19. The Executive Order directs CAL FIRE to engage in a modified procurement process, referred to as the Innovation Procurement Sprint, developed by the California Department of Technology and Department of General Services. Through this process, CAL FIRE will work collaboratively with vendors to identify and develop new and innovative solutions through the proof of concept phase and ultimately procure and deploy approved solutions to help the state address challenges associated with increased wildfire activity.

CATASTROPHIC LIVESTOCK DISEASE PREVENTION AND EMERGENCY RESPONSE

On May 16, 2018, virulent Newcastle Disease, a fatal viral disease affecting birds and poultry, was detected in Los Angeles County. While the California Department of Food and Agriculture (CDFA) engaged in efforts to contain and eradicate the disease, the virus spread into new areas of Los Angeles, San Bernardino, Riverside, Ventura and Alameda Counties, as well as to Utah and Arizona. As a result, over 1.2 million birds have been euthanized.

Although Newcastle Disease does not have significant human health impacts, if it spreads to the Central Valley, it would be devastating to poultry health, impact the supply of poultry to the West Coast, and may result in significant economic loss. This disease is one of several foreign livestock diseases that require a well-coordinated state response. An immediate and sustained response is needed to minimize the impacts before widespread infection occurs.

These disease outbreaks and recent disasters illustrate the need for enhanced prevention and response infrastructure. The May Revision includes $3.3 million ongoing General Fund and 23 positions to:

- Perform emergency response activities during catastrophic livestock or poultry disease outbreaks,
- Coordinate assistance for animal needs during disasters,
- Support community preparedness and volunteer mobilization for pet and livestock evacuation, housing, and treatment during disasters,
- Develop or update prevention and response plans that utilize current best practices,
- Train CDFA staff and other federal and local responders, maximally leveraging emergency response discipline specialists, and
- Enhance disease prevention programs in the highest risk areas of the state.

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STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

This Chapter describes items in the Budget that are statewide issues or related to various departments.

CANNABIS TAX FUND ALLOCATIONS

The Medical Marijuana Regulation and Safety Act enacted in 2015 created a regulatory framework for medical cannabis in California, and distributed the responsibility for state licensing between three state entities—the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health. In November 2016, voters approved Proposition 64, the Adult-Use of Marijuana Act, which legalized the recreational sale and use of cannabis to people over the age of 21 and levied new excise taxes on the cultivation and retail sale of all state-regulated cannabis. Chapter 27, Statutes of 2017 (SB 94), integrated medicinal and adult-use regulations to create the Medicinal and Adult-Use Cannabis Regulation and Safety Act, establishing a single regulatory system to govern the commercial cannabis industry in California.

As approved in Proposition 64, effective January 1, 2018, excise taxes are levied on the cultivation and retail sale of both adult-use and medicinal cannabis with tax revenues being deposited into the Cannabis Tax Fund. The cannabis excise tax is forecast to generate $288 million in 2018-19 and $359 million in 2019-20, a reduction of $67 million and $156 million, respectively, from the Governor's Budget forecast. The forecast assumes continued growth of more than 15 percent annually as new businesses continue to enter the marketplace and local jurisdictions adjust to the state's legal framework. It is important to note that for the near term, revenue estimates will be subject to significant uncertainty because the market has only recently been established.

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis, and the past effects of its criminalization. Once those priorities have been met, the remaining funds are allocated to youth education, prevention, early intervention, and treatment; environmental restoration; and public-safety related activities. The May Revision estimates $198.8 million will be available for these purposes, and allocates them for the first time in 2019-20 as identified below.

Education, prevention, and treatment of youth substance use disorders and school retention—60 percent ($119.3 million):

- $12 million to the Department of Public Health for cannabis surveillance and education activities.
- Remaining 75 percent ($80.5 million) to the Department of Education to subsidize child care for school-aged children of income-eligible families to keep these children occupied and engaged in a safe environment, thus discouraging potential use of cannabis.
- Remaining 20 percent ($21.5 million) to the Department of Health Care Services for competitive grants to develop and implement new youth programs in the areas of education, prevention and treatment of substance use disorders along with preventing harm from substance use.
- Remaining 5 percent ($5.3 million) to California Natural Resources Agency to support youth community access grants. These grants will fund programs to support youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities. This includes but is not limited to community education and recreational amenities to support youth substance use prevention and early intervention efforts.

Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20 percent ($39.8 million):

- Sixty percent ($23.9 million) to the Department of Fish and Wildlife, of which $13.8 million will support clean-up, remediation, and restoration of damage in watersheds affected by illegal cannabis cultivation and $10.1 million to support enforcement activities aimed at preventing further environmental degradation of public lands.
- Forty percent ($15.9 million) to the Department of Parks and Recreation, of which $7.1 million will be used to survey the impacts and identify unknown areas of cannabis cultivation to assist with prioritizing resources for effective enforcement, $5.6 million for remediation and restoration of illegal cultivation activities on state park land, and $3.2 million to make roads and trails accessible for peace officer patrol and program assessment and development.

Public safety-related activities—20 percent ($39.8 million):

- $2.6 million to the California Highway Patrol for training, research, and policy development related to impaired driving and for administrative support.
- Remaining 30 percent ($11.2 million) to the California Highway Patrol's impaired driving and traffic safety grant program for non-profits and local governments authorized in Proposition 64.
- Remaining 70 percent ($26.0 million) to the Board of State and Community Corrections for a competitive grant program for local governments that have not banned cannabis cultivation or retail activities that will prioritize various public health and safety programs, including, but not limited to, local partnerships focused on prevention and intervention programs for youth and to support collaborative enforcement efforts aimed at combating illegal cannabis cultivation and sales.

The dollar amounts above are subject to change and will be affected by actual cannabis tax receipts for the final two quarters of 2018-19.

The May Revision also includes $15 million Cannabis Tax Fund 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. The Governor's Office of Business and Economic Development will administer the grant program on behalf of the Bureau of Cannabis Control.

The May Revision includes statutory language to address technical, clean-up issues related to the California Cannabis Appeals Panel statute, streamline provisional licenses, enhance the equity grant program established in Chapter 794, Statutes of 2018 (SB 1294), strengthen administrative penalties for unlicensed cannabis activity, and extend the existing CEQA exemption.

FARM ANIMAL CONFINEMENT (PROPOSITION 12)

On November 6, 2018, California voters approved Proposition 12, which expanded current animal housing requirements and established new, more stringent minimum space standards on housing for calves raised for veal, breeding pigs and egg-laying hens. These requirements will be implemented through a phased approach over the next three years. The ballot measure also makes it illegal for businesses in California to knowingly sell eggs or uncooked pork or veal that came from animals housed in a manner that does not comply with the new confinement requirements, including products from animals raised and maintained at facilities located in California and out-of-state.

Proposition 12 mandates enforcement of its provisions by the California Department of Food and Agriculture (CDFA) and the California Department of Public Health.

The May Revision includes $4.5 million General Fund and 14 positions to perform the initial first-year program development and implementation activities associated with enforcing the new Proposition 12 mandates. CDFA is currently in the process of developing regulations to further define its role in meeting the requirements of Proposition 12 and a future comprehensive proposal is anticipated once regulations are complete and the ongoing workload needs are identified.

COUNTY VOTING SYSTEMS

The 2018 Budget Act provided one-time funding of $134 million General Fund for the replacement of voting systems and technology in all 58 counties. The funding provided reimbursement to counties by matching county funds spent on voting system replacement activities on a dollar-for-dollar basis, up to the maximum amount of funds allocated for this purpose.

To support counties in their effort to replace voting systems and strengthen the security of California's election infrastructure, the May Revision includes an additional one-time General Fund investment of $87.3 million to replace and upgrade county voting systems. This will provide an additional 25 percent of the estimated vote center model costs for counties with over 50 precincts ($65.7 million), which brings the state's investment to 75 percent of total estimated costs; full funding of the estimated polling place model costs for counties with 50 or fewer precincts ($3.6 million); and $18 million for county election management system replacements.

CALIFORNIA ARTS COUNCIL

The California Arts Council's mission is advancing California through the arts and creativity. The Council administers grants to support the state's arts and cultural communities through the development of partnerships with the public and private sectors to enhance the cultural, educational, social, and economic growth of California. The grant programs support arts education in school and community settings; system-engaged youth; recently incarcerated individuals; local and community economic development; recent immigrants and refugee communities; native communities; veterans and their families; and various arts service organizations, and are designed to serve populations and communities who are underrepresented in the arts and have reduced access to arts programs. The Governor's Budget included $10 million ongoing General Fund to expand grant programs that offer support for public access to the arts, arts education, and the state's cultural infrastructure.

The May Revision includes $5 million one-time General Fund to the Arts Council for the Los Angeles Museum of the Holocaust. The museum is the oldest survivor-founded museum in the United States and houses a large collection of artifacts donated by Holocaust survivors. The museum is expanding in Pan Pacific Park and the $5 million will assist with this effort.

The May Revision also includes $5 million one-time General Fund to the Arts Council for the Armenian American Museum. The Armenian American Museum and Cultural Center of California is a developing project that will be located in Glendale, California. The Museum's mission is to promote understanding and appreciation of America's ethnic and cultural diversity by sharing the Armenian American experience.
The Governor's Budget included $1 million one-time General Fund to the Natural Resources Agency for the Armenian American Museum, which is being transferred to the Arts Council in the May Revision. Including the additional investment in the May Revision, the state has provided $8 million since 2016 for the Armenian American Museum.

FAIRVIEW DEVELOPMENTAL CENTER

The May Revision includes one-time $2.2 million General Fund to complete a site evaluation of disposition options for the Fairview Developmental Center.
The Department of Developmental Services anticipates it will continue serving clients at the Fairview facility through the end of 2019. To facilitate the timely disposition of the property after the Department of Developmental Services ceases operation of the facility, the Department of General Services will hire a consultant to assist with the evaluation of appropriate reuse options. In January, the Governor issued Executive Order N-06-19, which directed state departments to prioritize development of housing on excess state properties, working in partnership with local government. Accordingly, the Fairview evaluation will include identifying constraints and opportunities, working with the City of Costa Mesa and Orange County to identify local stakeholder interest in the reuse of the property, particularly related to meeting housing and homelessness needs, and identifying options that will generate the greatest benefit to the state. Concurrently, the Department of General Services will explore options to immediately enter into a long-term lease with a local jurisdiction to provide housing and supportive services for up to 200 individuals with cognitive disabilities who are currently homeless.

STATE RETIREMENT CONTRIBUTIONS

The May Revision includes the following adjustments for retirement contributions:

- State contributions to the California Public Employees' Retirement System (CalPERS) have increased by a net total of $3.5 million ($8.8 million General Fund increase and a $5.3 million Other Fund decrease) relative to the Governor's Budget. The increase is a result of CalPERS' adjustment to the state's contribution rates, which is due primarily to the normal progression of the existing amortization and smoothing policy, a reduction in the discount rate from 7.25 percent to 7.00 percent, and increases in payroll.
- State contributions to the California State Teachers' Retirement System (CalSTRS) increased by $5.6 million General Fund, relative to the Governor's Budget, due to a revision in reported compensation for K-12 and community college teachers.
- Relative to the Governor's Budget, state contributions to the Judges' Retirement System (JRS) I increased by $5.7 million General Fund, and state contributions to JRS II increased by $6.4 million General Fund. These increases are attributed to an

increase in the JRS II employer contribution rate, changes in the number of JRS I and II active and retired members, and an increase in member salaries.

The State Retirement and Health Care Contributions figure provides an historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), JRS II, and the Legislators' Retirement System (LRS) for pension and health care benefits.

State Retirement and Health Care Contributions [1/] [2/]

(Dollars in Millions)

	CalPERS[3/]	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental[4/]	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding[5/]
2008-09	$3,063		$1,133	$189	$40		$2,146	$1,183		
2009-10	2,861		1,191	184	32		2,120	1,182		$3
2010-11	3,230		1,200	166	54		2,277	1,387		2
2011-12	3,174		1,259	195	58		2,439	1,505		0
2012-13	2,948 [6/]	$449 [6/]	1,303	160	51		2,567	1,365 [6/]	$222 [6/]	0
2013-14	3,269	474	1,360	188	52	$1	2,697	1,383	225	22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 [8/]
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	79	1	3,329	1,784	311	394
2019-20[7/]	6,036	723	3,323	222	85	1	3,495	1,895	331	577

[1/] The chart does not include contributions for University of California pension or retiree health care costs, and does not reflect the $6 billion supplemental pension payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84).

[2/] The 2019-20 Governor's Budget proposes multiple supplemental pension payments to CalPERS and CalSTRS, which are not reflected in the chart. The first proposal is a $3 billion General Fund supplemental pension payment to CalPERS in 2018-19. The second proposal is a $2.9 billion supplemental pension payment to CalSTRS over the next four fiscal years ($1.1 billion in 2019-20), on the state's behalf, using estimated available Proposition 2 debt repayment funding. The third proposal is a $3 billion General Fund supplemental pension payment to CalSTRS in 2018-19, on behalf of CalSTRS employers. Note that this third proposed payment was increased at the 2019-20 May Revision to $3.15 billion General Fund.

[3/] In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in this column reflect statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

[4/] These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and California State University (CSU).

[5/] Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

[6/] Beginning in 2012-13, CSU pension and health care costs are displayed separately.

[7/] Estimated as of the 2019-20 May Revision. 2019-20 General Fund costs are estimated to be $3,179 million for CalPERS, $723 million for CSU CalPERS, $1,642 million for Active Health and Dental, $2,222 million for Retiree Health & Dental (including CSU), and $289 million for OPEB Prefunding. The remaining totals are all General Fund.

[8/] Amount includes a one-time prefunding contribution of $240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The May Revision decreases employee compensation by $1.8 million to reflect updated estimates to the dental and vision premium rates, natural changes to enrollment in health and dental plans, and updated employment information for salary increases and other post-employment benefit contributions.

In addition, the Administration will continue collective bargaining negotiations with Highway Patrol Officers, whose contract expired early July 2018, and will begin or continue collective bargaining negotiations with the additional five bargaining units, representing Attorney's and Administrative Law Judges, Correctional Officers, Public Safety, Stationary Engineers, and Psychiatric Technicians, whose contracts will expire in late June or early July 2019.

STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIIIB of the California Constitution, the 2019-20 limit is estimated to be $112.1 billion. The revised limit is the result of applying the growth factor of 4.18 percent to the prior year limit. The revised 2019-20 limit is $1.5 billion below the $113.6 billion estimated in January. This decrease is primarily due to changes in the following factors:

- Per Capita Personal Income
  - January Percentage Growth: 5.07%
  - May Revision Percentage Growth: 3.85%
- State Civilian Population
  - January Percentage Growth: 0.75%
  - May Revision Percentage Growth: 0.55%
- K-14 Average Daily Attendance
  - January Percentage Growth: -0.05%
  - May Revision Percentage Growth: -0.07%

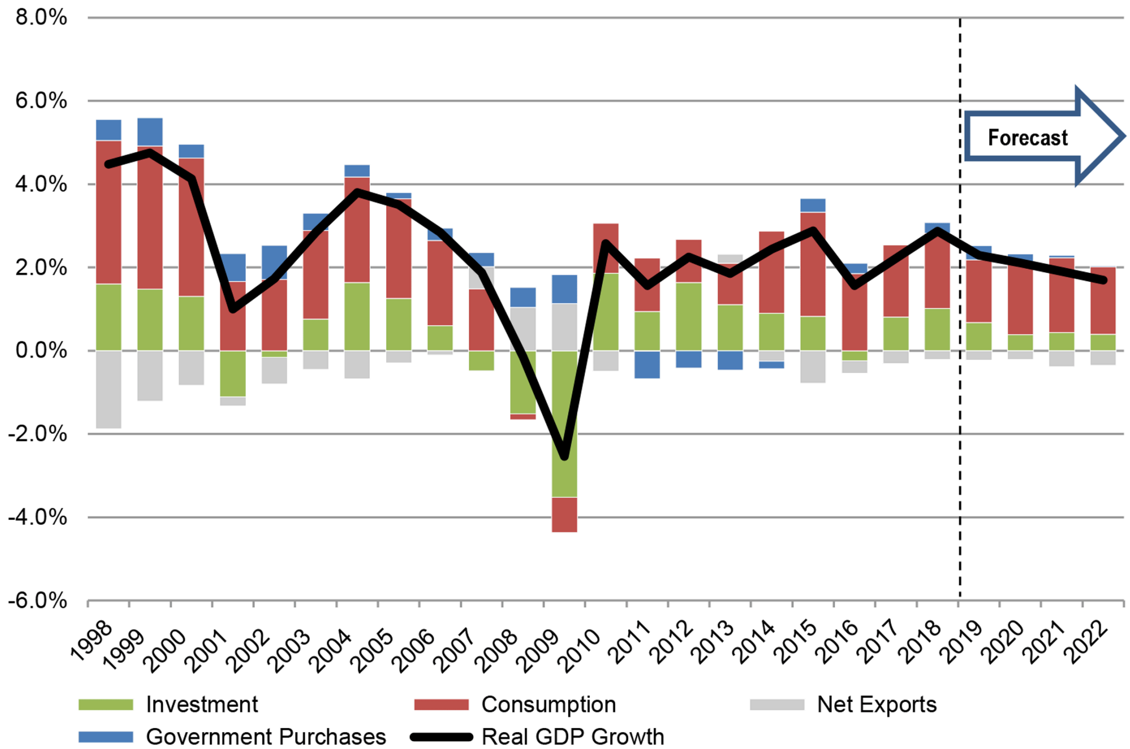
ECONOMIC OUTLOOK

Economic growth in the U.S. and California is expected to slow over the forecast, with continued growth dependent on consumers doing better and spending more. California remained the 5th largest economy in the world in 2018, with close to $3 trillion in Gross Domestic Product (GDP). The main risks to the outlook remain a stock market correction, federal policy, a global slowdown, or a recession. There are also structural vulnerabilities such as large federal deficits, increased risks from natural disasters, an aging population, and increasing consumer debt levels that may hamper a response to shocks. While forecast assumes the economy will continue growing, the risks to the outlook are increasing.

THE NATION – UNEQUAL GROWTH

As projected, U.S. real GDP growth was 2.9 percent in 2018, due largely to one-time factors such as increased federal spending, tax cuts that marginally increased consumption and investment, and accelerated exports to avoid increased tariffs (see figure with Contributions to U.S. Real GDP Growth). In contrast to federal projections, the tax cuts did not lead to increased wages for workers, with total wages and salaries rising only 4.5 percent—even at a near-record-low unemployment rate of 3.9 percent in 2018 (see figure with U.S. and California Unemployment Rates). In 2000, when the unemployment rate was 4 percent, total wages and salaries increased by 8.3 percent. The increased purchasing power from higher wages would have likely given rise to more profitable investments. Instead, many companies used the one-time gains from tax cuts to buy back their own stocks. In 2019 and on, average wages are expected to increase, and GDP growth will once again be largely dependent on consumption and investment.

Contributions to U.S. Real GDP Growth



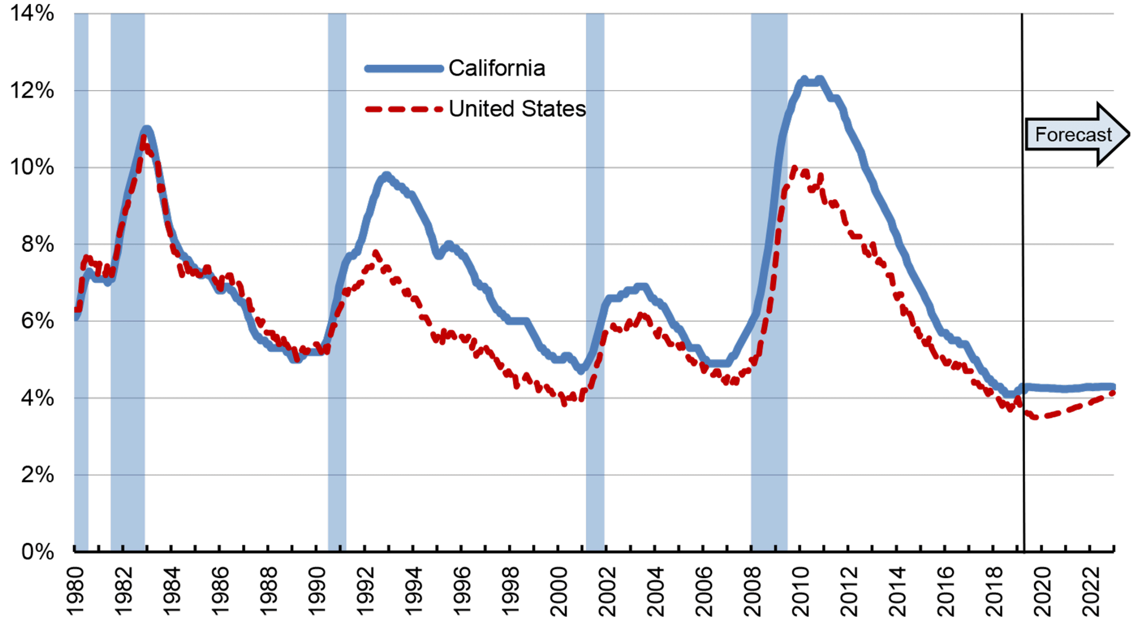
Source: U.S. Bureau of Economic Analysis; CA Department of Finance, May Revision Forecast.

U.S. inflation was 2.4 percent in 2018, and is expected to remain around the 2-percent target level for the Federal Reserve. Due to lower inflation expectations and the slowing growth, the Federal Reserve announced in February that it would leave the benchmark interest rate in the range of 2.25-2.5 percent for the foreseeable future. The Governor's Budget forecast assumed that interest rates would be increased to around 3.5 percent by 2020, while the May Revision assumes one more interest rate hike to 2.5-2.75 percent by the end of 2019. In previous economic cycles, interest rates would frequently rise to around 5 percent.

CALIFORNIA – UNEVEN GROWTH

California's unemployment rate fell to a new record low of 4.1 percent in July 2018 and remained there until gradually increasing to 4.3 percent in March 2019 (see figure with U.S. and California Unemployment Rates). The forecast assumes the state remains

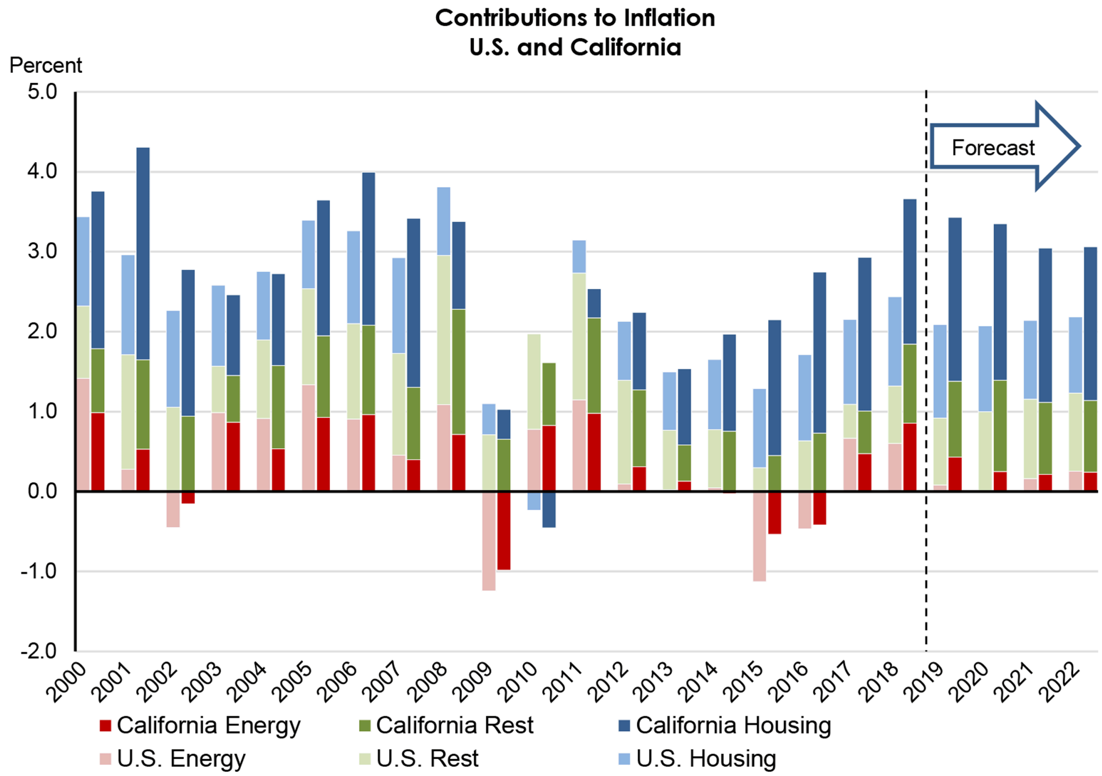
U.S. and California Unemployment Rates



Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics; CA Employment Development Department, Labor Market Information Division; CA Department of Finance, May Revision Forecast.

around this level for the next few years, despite limited durations of full employment episodes in the past. However, much like the U.S., total wages and salaries grew by 5.3 percent in 2018 compared to the 12.9 percent growth in 2000 when unemployment was 4.9 percent. With California inflation averaging 3.7 percent in 2018, and civilian employment increasing by 1.6 percent in 2018, many workers likely earned less in real terms.

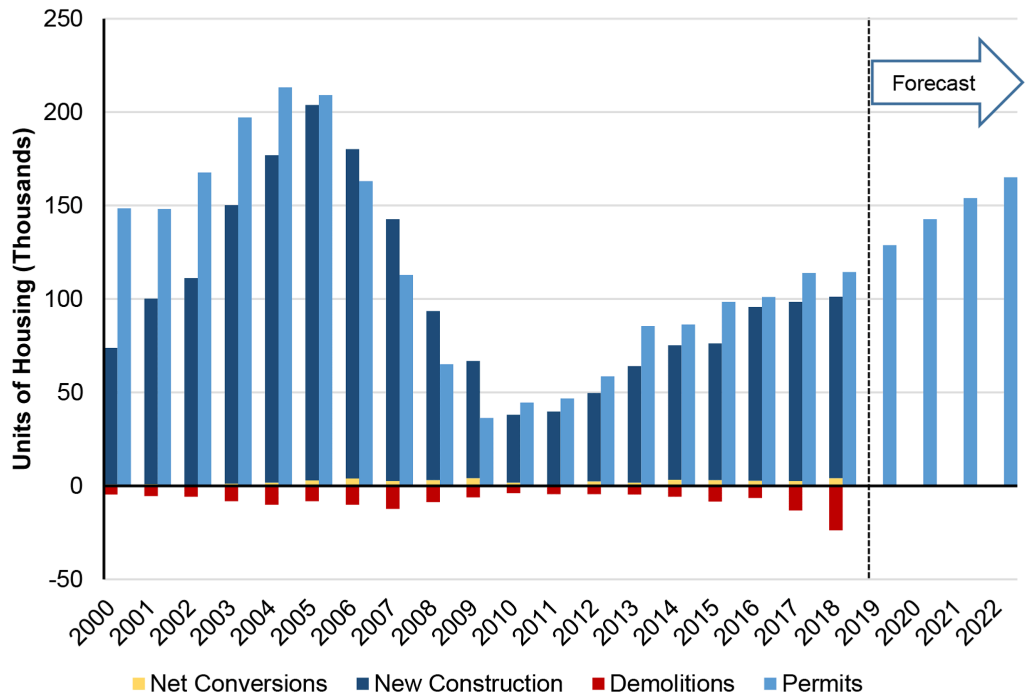
The forecast assumes that as job growth and total wages growth slow, moderate inflation of around 3 percent gives consumers more purchasing power. Housing inflation in California often exceeds 5 percent, and has largely been to blame for higher overall inflation relative to the nation as a whole (see figure with Contributions to Inflation).



Source: U.S. Bureau of Labor Statistics; CA Department of Finance, May Revision Forecast.

To allow for continued growth in jobs, housing must be built closer to where hiring occurs, and must replace the housing units lost in fires. In 2017, for example, almost 7,000 units were destroyed by fire, while almost 15,000 units were lost from the Camp Fire in 2018. Housing permits are expected to increase to around 165,000 by 2022 from 114,000 in 2018 (see the Contributions to California Housing Unit Growth figure). Construction jobs are likewise expected to increase from 860,000 in 2018 to over 1 million in 2022.

Contributions to California Housing Unit Growth



Source: California Homebuilding Foundation; CA Department of Finance, May Revision Forecast.

For more information about the U.S. and California forecasts, see the table of Selected Economic Indicators.

Selected Economic Indicators

				Forecast			
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
United States							
Nominal gross domestic product, $ billions	$ 18,707	$ 19,485	$ 20,494	$ 21,368	$ 22,315	$ 23,291	$ 24,261
Real gross domestic product, percent change	1.6%	2.2%	2.9%	2.3%	2.1%	1.9%	1.7%
Contributions to real GDP growth							
Personal consumption expenditures	1.9%	1.7%	1.8%	1.5%	1.7%	1.8%	1.6%
Gross private domestic investment	-0.2%	0.8%	1.0%	0.7%	0.4%	0.4%	0.4%
Net exports	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.4%	-0.4%
Government purchases of goods and services	0.3%	0.0%	0.3%	0.3%	0.2%	0.1%	0.0%
Personal income, $ billions	$ 16,125	$ 16,831	$ 17,582	$ 18,321	$ 19,167	$ 20,029	$ 20,902
Corporate profits, percent change	-0.2%	2.4%	-0.2%	2.5%	3.3%	4.4%	2.7%
Housing permits, thousands	1,207	1,282	1,318	--	--	--	--
Housing starts, thousands	1,177	1,208	1,249	1,228	1,276	1,325	1,352
Median sales price of existing homes	$ 235,500	$ 248,800	$ 261,600	--	--	--	--
Federal funds rate, percent	0.4%	1.0%	1.8%	2.4%	2.6%	2.6%	2.6%
Consumer price index, percent change	1.3%	2.1%	2.4%	2.1%	2.1%	2.2%	2.2%
Unemployment rate, percent	4.9%	4.4%	3.9%	3.6%	3.6%	3.8%	4.0%
Civilian labor force, millions	159.2	160.3	162.1	163.6	165.1	166.2	167.2
Nonfarm employment, millions	144.3	146.6	149.1	151.4	152.9	153.6	154.2
California							
Personal income, $ billions	$ 2,259	$ 2,364	$ 2,476	$ 2,586	$ 2,695	$ 2,804	$ 2,917
California exports, percent change	-1.2%	5.2%	3.7%	--	--	--	--
Housing permits, thousands	101	114	114	129	143	154	165
Housing unit net change, thousands	89	85	77	--	--	--	--
Median sales price of existing homes	$ 502,930	$ 537,860	$ 570,010	--	--	--	--
Consumer price index, percent change	2.3%	2.9%	3.7%	3.4%	3.4%	3.1%	3.1%
Unemployment rate, percent	5.5%	4.8%	4.2%	4.3%	4.3%	4.3%	4.3%
Civilian labor force, millions	19.0	19.2	19.4	19.6	19.7	19.8	20.0
Nonfarm employment, millions	16.5	16.8	17.2	17.3	17.5	17.6	17.7
Percent of total nonfarm employment							
Mining and logging	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Construction	4.7%	4.8%	5.0%	5.1%	5.3%	5.6%	5.8%
Manufacturing	7.9%	7.8%	7.7%	7.7%	7.6%	7.6%	7.5%
Trade, transportation, and utilities	18.0%	17.9%	17.7%	17.7%	17.6%	17.5%	17.4%
Information	3.2%	3.1%	3.2%	3.2%	3.3%	3.3%	3.3%
Financial activities	5.0%	4.9%	4.9%	4.8%	4.8%	4.8%	4.8%
Professional and business services	15.4%	15.4%	15.5%	15.5%	15.5%	15.5%	15.5%
Educational and health services	15.5%	15.7%	15.8%	15.9%	16.0%	16.1%	16.1%
Leisure and hospitality	11.5%	11.6%	11.6%	11.6%	11.5%	11.5%	11.4%
Other services	3.4%	3.4%	3.3%	3.3%	3.3%	3.3%	3.3%
Government	15.3%	15.2%	15.1%	15.0%	14.9%	14.8%	14.7%

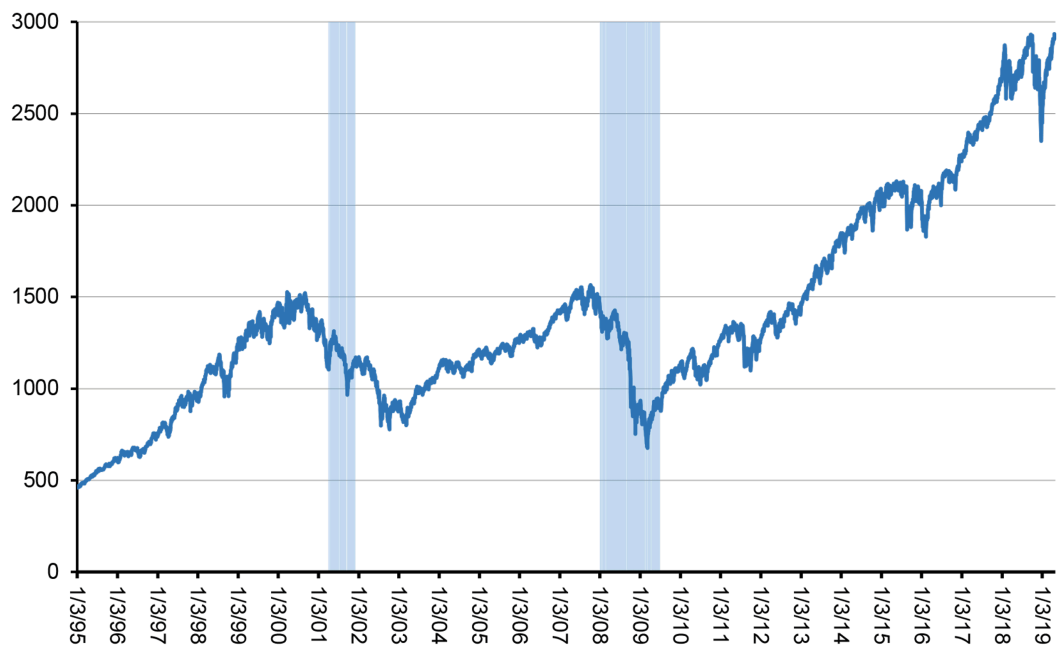
Forecast based on data available as of April 2019.
Percent changes calculated from unrounded data.

RISKS ARE INCREASING

The main risks to the California economic outlook have intensified, including a stock market correction, federal policy, slower global growth, and an eventual U.S. recession. Structural vulnerabilities such as large federal deficits, increased risks from natural disasters, an aging population, and increasing consumer debt levels may hamper a response to shocks.

The Standard & Poor's 500 index remains near record highs. Despite volatility at the end of 2018, the index remains high as corporations use their additional cash on share buybacks (see figure with S&P 500 Index). In the 2007-2009 economic downturn, the S&P 500 index decreased by more than 50 percent. Much of the increase since then has been due to technology companies headquartered in California, and a sudden correction would hit the state particularly hard.

S&P 500 Index

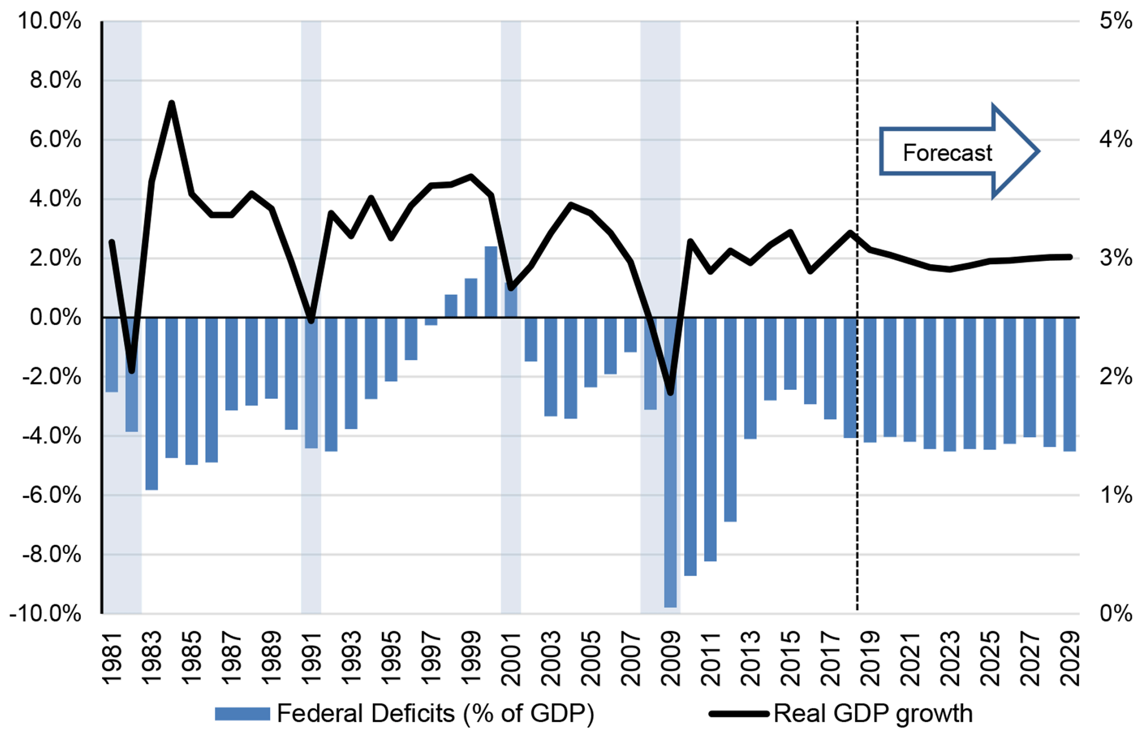


Shaded areas indicate U.S. recession.
Source: S&P Dow Jones Indices.

California and the federal government continue to pursue different policy objectives, especially with respect to environmental protection, health care access, and openness to global markets. The state chose to expand health care access through the federal Medicaid program, as well as other policy choices that are partially paid for by the federal government. The state is a globally significant producer of multiple agricultural goods, and technology and other industries are globally competitive. Attempts by the federal government to change policy in this area could reverse progress or harm California's economy.

The risks of a global slowdown and a U.S. recession also remain. The International Monetary Fund has reduced the global growth forecast for 2019 to 3.3 percent—the slowest rate since 2009. Both the U.S. and California are at near record unemployment rate lows, but history shows that these episodes do not last forever. In past recessions, interest rates have been lowered 5 percentage points or more, but are still under 3 percent. The Federal Reserve may also be constrained by a balance sheet with around $3.9 trillion in quantitative easing purchases from the last recession. In recessions, federal spending also typically increases, which can turn surpluses at the end of an expansion to deficits. With additional federal spending in recent years and revenue losses from tax cuts, deficits already exceed $1 trillion a year (see figure with U.S. Federal Deficits and Real GDP Growth).

U.S. Federal Deficits and Real GDP Growth

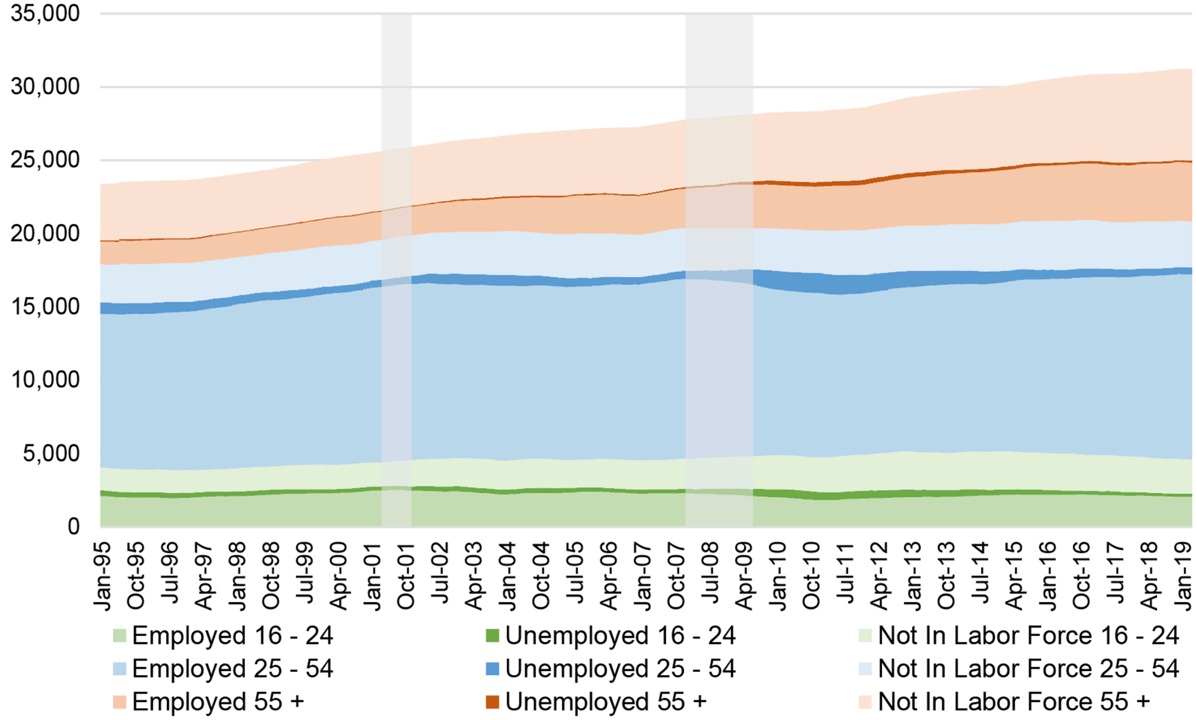


Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Economic Analysis; U.S. Congressional Budget Office; CA Department of Finance, May Revision Forecast.

The gains from the expansion have also been uneven, leading to some structural vulnerabilities if a recession begins. Homeownership rates in the U.S. fell from 67.2 percent in 2007 to 64.9 percent in 2017, and in California from 58 percent in 2007 to 54.8 percent in 2017. California in particular saw homeownership rates among 35-44 year-olds decline from 54.4 percent in 2007 to 44.6 percent in 2017, while rates among 45-54 year-olds declined from 64.8 percent to 58.3 percent. Not being tied to a mortgage can mean it is easier to move for a job, but renters may have fewer resources during unemployment. Delays in buying a home could also be related to increased student loan burdens. In 2009, the stock of student loans rose above the stock of motor vehicle loans for the first time, with the gap continuing to widen. Student loan balances in the U.S. totaled $1.57 trillion at the end of 2018, with motor vehicle loans totaling $1.15 trillion. Notably, while vehicle and mortgage loans are secured by the underlying asset and can be discharged in bankruptcy, student loans cannot.

The increasing frequency of natural disasters such as hurricanes, flooding, and fires can be enormously disruptive to people, both renters and homeowners, but can be especially difficult for the elderly. The proportion of people in California age 55 and above has been increasing (see figure with Labor Force and Working Age Population). More workers are staying in the labor force, but finding a job during recessions for older workers can be discouraging, or lead to earlier retirements. However, most growth in the adult population has been in the 55+ age range. Workers aged 25-54 tend to keep searching for longer, but long periods of unemployment make it difficult to pay down debts, buy a home, or save for retirement. Younger workers have tended to put off entering the labor force, delaying their ability to save for the future.

Labor Force and Working Age Population
(Thousands)



Shaded areas indicate U.S. recessions.
Source: CA Employment Development Department, LMID; CA Department of Finance.

REVENUE ESTIMATES

While high-income individuals and corporate profits outperformed expectations from Governor's Budget, the boost is expected to be temporary and revenues will be lower beyond the forecast window. From 2017-18 through 2019-20, the May Revision revenues have increased by approximately $3.2 billion before accounting for transfers. The changes in the three largest tax sources are:

- Personal income tax revenues are revised upwards almost $1.9 billion due to the strong stock market in 2019, which results in substantially higher capital gains in 2019 and 2020. In addition, personal income tax withholding was increased by $500 million in 2019 due to the expected number of Initial Public Offerings (IPOs) of stock in large California-based companies.
- Sales tax receipts are down by $360 million due mainly to a downgrade in the forecast for investment by businesses, as the expected boost from the federal tax cut did not materialize.
- Corporation tax revenues are up over $1.7 billion based on corporate tax receipts received through April. The stronger receipts are a result of shifting of income from 2017 to 2018 and other one-time payments such as revenues from repatriation of foreign earnings associated with the federal tax changes in late 2017.

After accounting for transfers, which includes loan repayments as well as automatic and discretionary transfers to the Rainy Day Fund, General Fund revenues at the May

Revision forecast are higher than the Governor's Budget by over $1.1 billion in 2018-19 and almost $1.2 billion in 2019-20.

The General Fund Revenue Forecast table compares the revenue forecasts by source in the Governor's Budget to the May Revision. Total May Revision revenues, including transfers, is projected to be $138 billion in 2018-19 and $143.8 billion in 2019-20.

2019-20 May Revision
General Fund Revenue Forecast
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget Forecast	
Fiscal 17-18				
Personal Income Tax	$94,272	$93,776	-$495	-0.5%
Sales & Use Tax	25,006	24,974	-32	-0.1%
Corporation Tax	12,156	12,313	156	1.3%
Insurance Tax	2,569	2,569	0	0.0%
Alcoholic Beverage	376	376	0	0.0%
Cigarette	65	65	0	0.0%
Pooled Money Interest	250	250	0	0.0%
Other Revenues	1,170	1,171	1	0.1%
Subtotal	$135,865	$135,494	-$370	-0.3%
Transfers[1/]	-4,369	-4,378	-9	0.2%
Total	**$131,495**	**$131,116**	**-$378**	-0.3%
Fiscal 18-19				
Personal Income Tax	$97,720	$98,304	$584	0.6%
Sales & Use Tax	26,244	26,100	-144	-0.5%
Corporation Tax	12,330	13,774	1,444	11.7%
Insurance Tax	2,606	2,643	37	1.4%
Alcoholic Beverage	382	381	-1	-0.3%
Cigarette	65	63	-1	-2.0%
Pooled Money Interest	554	602	48	8.7%
Other Revenues	1,088	1,045	-42	-3.9%
Subtotal	$140,988	$142,912	$1,925	1.4%
Transfers[1/]	-4,042	-4,866	-824	20.4%
Total	**$136,945**	**$138,046**	**$1,101**	0.8%
Fiscal 19-20				
Personal Income Tax	$100,547	$102,333	$1,786	1.8%
Sales & Use Tax	27,424	27,241	-184	-0.7%
Corporation Tax	13,125	13,233	108	0.8%
Insurance Tax	2,830	2,868	39	1.4%
Alcoholic Beverage	389	386	-3	-0.7%
Cigarette	63	62	-1	-2.0%
Pooled Money Interest	655	602	-53	-8.1%
Other Revenues	1,079	1,108	29	2.7%
Subtotal	$146,112	$147,833	$1,721	1.2%
Transfers[1/]	-3,494	-3,995	-501	14.3%
Total	**$142,618**	**$143,839**	**$1,221**	0.9%
Three-Year Total			**$1,943**	

Note: Numbers may not add due to rounding.

[1/]Includes transfers to Budget Stabilization Account each year.

LONG-TERM FORECAST

The May Revision economic forecast reflects slower U.S. real gross domestic product growth of 2.3 percent in 2019 and 2.1 percent in 2020, down from 2.9 percent in 2018. The projected average growth rate starting in 2021 then continues to fall below 2 percent, with more of the growth accruing to lower-wage workers who pay less in taxes. While the forecast does not project a recession, the risks to the outlook are now higher, as discussed in the Economic Outlook Chapter.

The Long-Term Revenue Forecast table below shows the forecast for the largest three sources of General Fund revenues from 2017-18 through 2022-23. Total General Fund revenues from these sources is expected to grow from $131.1 billion in 2017-18 to $151.8 billion in 2022-23. The average year-over-year growth rate over this period is 3 percent.

Long-Term Revenue Forecast — Three Largest Sources

(General Fund Revenue — Dollars in Billions)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average Year-Over-Year Growth
Personal Income Tax	$93.8	$98.3	$102.3	$103.8	$106.3	$107.6	2.8%
Sales and Use Tax	$25.0	$26.1	$27.2	$28.1	$28.8	$29.6	3.4%
Corporation Tax	$12.3	$13.8	$13.2	$13.7	$14.2	$14.7	3.7%
Total	**$131.1**	**$138.2**	**$142.8**	**$145.5**	**$149.3**	**$151.8**	3.0%
Growth	10.0%	5.4%	3.4%	1.9%	2.6%	1.7%	

Note: Numbers may not add due to rounding.

EARNED INCOME TAX CREDIT

The 2015 Budget enacted the state's first-ever Earned Income Tax Credit to help the poorest working families in California. The EITC was expanded as part of the 2017 and 2018 Budgets, and is expected to provide $400 million of credits to around 2 million households in 2018.

The May Revision proposes to rename the credit the California EITC, a cost-of-living refund, and to significantly expand the credit. The newly expanded credit will be available to roughly 3 million households in total, and will approximately triple the amount of credits provided from $400 million to about $1.2 billion. The expansion will:

- Provide a $1,000 credit for every family that otherwise qualifies for the credit and has at least one child under the age of 6.
- Increase the maximum eligible earned income to $30,000 so that those working up to full-time at the 2022 minimum wage of $15 per hour will be eligible for the credit.
- Change the structure of the credit so that it phases out more gradually, providing a more substantial credit for many eligible families.

The May Revision includes $18.7 million in 2019-20 for the Franchise Tax Board to develop and administer a program to give California EITC recipients the option to receive a portion of their EITC as monthly advance payments rather than as a lump sum at the end of the year when they file their taxes. The program is targeted to begin in 2021 and is contingent upon a Department of Finance determination that the monthly advance EITC payments will not affect taxpayer's eligibility for any income-based federal or state programs.

To pay for the entire California EITC program, the May Revision proposes conforming to a number of federal tax provisions mainly impacting business income. The provisions included are those that would constitute good tax policy or that would confer a significant administrative benefit to California taxpayers or the Franchise Tax Board. These provisions include small business accounting simplicity, limitations on employer deductibility of some fringe benefits, and limitations on the amount of non-corporate business losses that can be used to offset non-business income. The May Revision also proposes to partially conform to the federal provisions on deferred and reduced capital gains for investments in the California Opportunity Zones designated in 2018. Eligible investments include green technology and affordable housing, with criteria chosen to allow incentives to be layered with Infill Infrastructure Grants to incentivize housing. These conformity provisions are expected to generate $200 million in 2018-19, $1.7 billion in 2019-20, and then about $1.4 billion annually on an ongoing basis. The revenue estimates for these conformity provisions are subject to a high level of uncertainty as it is difficult to anticipate taxpayer behavior in response to changes such as these.

SMALL BUSINESS TAX CODE STREAMLINING

In addition to conforming to federal tax provision on accounting rules, the May Revision includes statutory changes to help businesses and individuals by expediting certain tax appeals.

Current law requires the Office of Tax Appeals to decide appeals using panels of three Administrative Law judges. The proposed statutory changes allow tax appeals to be decided by one judge, if the appellants opt-in. The appeals must involve franchise income tax matters of less than $5,000, or business tax matters of less than $50,000. The business tax appellant must also have less than $20 million in gross annual sales.

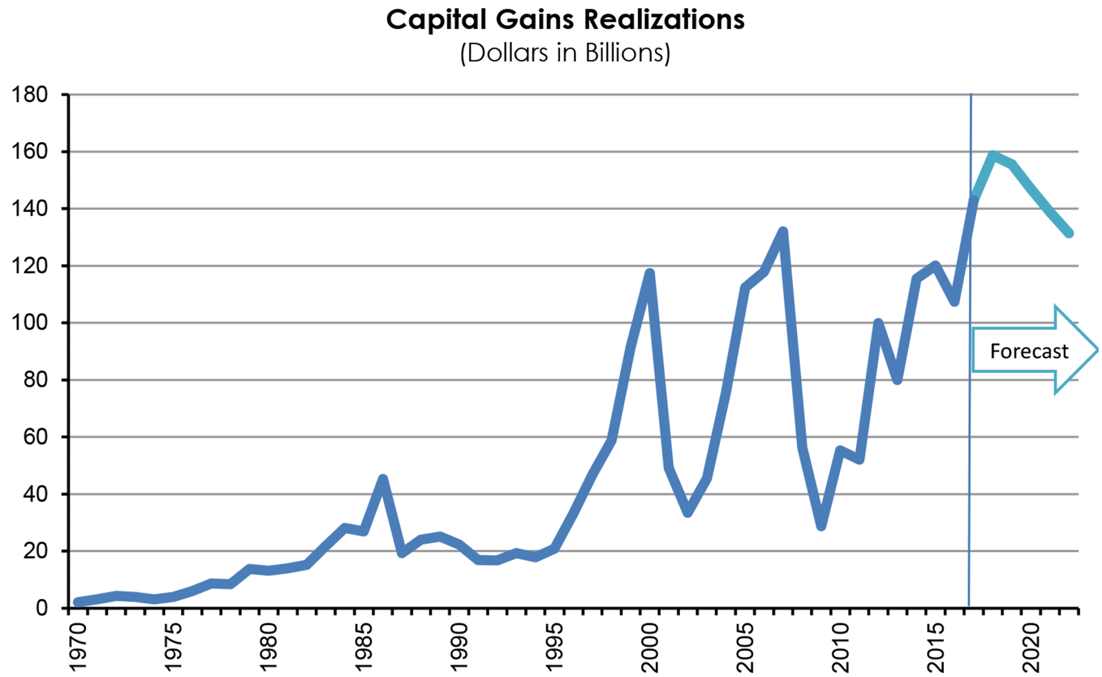
PERSONAL INCOME TAX

Compared to the Governor's Budget forecast, the personal income tax forecast is lower by $495 million in 2017-18, and higher by $584 million in 2018-19 and $1.8 billion in 2019-20. Over the three-year period, the personal income tax forecast reflects a total increase of $1.9 billion.

Despite the stock market plunge in December 2018 that saw the S&P 500 index decline by 20 percent to 2,351 from its high of 2,930 in September, stock market values fully recovered, with the S&P 500 back above 2,900 and well above the Governor's Budget forecast. The forecast assumes the S&P 500 will be at 2,905 in the second quarter of 2019, up from 2,677 at the Governor's Budget, and then grow at 0.5 percent annually for the following years. This improved market forecast leads to an increase in the forecast for capital gains realizations from $138 billion to $156 billion in 2019 (see figure with Capital Gains Realizations), and from $131 billion to $147 billion in 2020. Capital gains realizations in 2018 were revised higher from $153 billion to $159 billion. Capital gains realizations for 2017 were revised higher from $142 billion to $143 billion, based on new Franchise Tax Board taxpayer data for 2017. Capital gains realizations are forecast to return to a normal level of 4.5 percent of personal income by 2022, one year later than the assumption in the Governor's Budget.

Forecasting revenues associated with capital gains is subject to significant uncertainty because realizations are heavily dependent upon stock market performance and when taxpayers choose to buy or sell stock. Any sustained decline in the stock market below the May Revision forecast is likely to reduce capital gains realizations below the forecast.

The personal income tax forecast includes Propositions 30 and 55 revenues, which are estimated at $8.9 billion in 2018-19 and $8.9 billion in 2019-20. These estimates are higher than the Governor's Budget by $175 million and $278 million, respectively, due to higher capital gains realizations.



New tax return data for 2017 reflected a distribution of income that was less skewed toward the upper income levels than expected at the Governor's Budget, leading to a lower effective tax rate and offsetting some of the revenue gain from higher capital gains realizations. For example, the effective tax rate on capital gains realizations for Proposition 2 was calculated at 0.4 percentage point lower in 2017 compared to the Governor's Budget. Still, the highest-income Californians continue to pay a very large share of the state's personal income tax. For the 2017 tax year, the top one percent of income earners paid over 47 percent of personal income taxes. This percentage has been greater than 40 percent for 13 of the last 14 years. The top 0.1 percent of income earners — approximately 17,000— paid around 27 percent of personal income taxes—$22 billion.

SALES AND USE TAX

The sales tax forecast is lower by $144 million in 2018-19 and $184 million in 2019-20, due primarily to the expected growth for taxable capital investments in the state being revised down from 6.3 percent to 5.1 percent in 2019, and from 4.4 percent to 3.5 percent in 2020. Taxable sales are expected to grow at 4.9 percent in 2018-19 and 4.4 percent in 2019-20, which is below the Governor's Budget by 0.6 percentage point in 2018-19 and by 0.3 percentage point in 2019-20. Lower sales of cannabis reduced the forecast from the Governor's Budget by $70 million through 2019-20 and higher use of the manufacturing exemption reduced the forecast from the Governor's Budget by $58 million through fiscal year 2019-20.

The U.S. Supreme Court's ruling in *Wayfair v. South Dakota* in June 2018 gives states more authority to require out-of-state sellers to collect use tax. Chapter 5, Statutes of 2019 (AB 147) clarified the economic nexus thresholds that California will use to determine if out-of-state retailers are required to remit use tax to California, effective April 1, 2019. Additionally, AB 147 requires marketplace facilitators to collect and remit sales and use tax on behalf of their marketplace sellers, effective October 1, 2019. The *Wayfair* decision and AB 147 are expected to increase sales and use tax revenues by $174 million in 2018-19 and $616 million in 2019-20, a decrease of $45 million in 2018-19 and an increase of $62 million in 2019-20 from the Governor's Budget. The decrease in 2018-19 is due to a lower estimate of compliance among marketplace sellers due to the *Wayfair* decision prior to the October 1, 2019 effective date in AB 147 that requires marketplace facilitators to collect and remit sales and use tax for their marketplace sellers. The May Revision proposes that CDTFA limit the look-back to 3 years of back taxes, and this is consistent with the revenue forecast. This will be codified with statutory amendments.

MENSTRUAL PRODUCTS AND DIAPERS SALES TAX EXEMPTION

The May Revision proposes to exempt menstrual products and children's diapers from sales taxation beginning January 1, 2020. This exemption reduces General Fund revenues by $17.5 million in 2019-20 and $35 million each year thereafter. Total state and local revenue losses are $38 million 2019-20 and $76 million for the following full years. This tax exemption sunsets on December 31, 2021.

CORPORATION TAX

The corporation tax forecast is higher by $156 million in 2017-18, $1.4 billion in 2018-19, and $108 million in 2019-20. Tax return data for 2017 indicated that corporations left an additional $900 million on account with FTB rather than taking a refund, resulting in a large one-time gain to the forecast. While tax return data for the 2017 tax year also reflected lower liability than forecast at the Governor's Budget, tax payments related to 2018 liability were unusually strong. April final return payments and extension payments in 2019 were up more than 58 percent over 2018 levels. As a result, the forecast assumes that corporations shifted a larger share of their income—5 percent versus 1 percent—from 2017 to 2018 in response to the federal tax law change that reduced corporate tax rates in 2018. In addition, some of the unusual strength in 2018 tax year payments was assumed to be due to one-time payments such as the expected repatriation of overseas profits due to tax law changes.

INSURANCE TAX

The insurance tax forecast is higher by $37 million in 2018-19 and $39 million in 2019-20 due to moderately higher forecast for insurance tax liabilities.

LOAN REPAYMENTS TO SPECIAL FUNDS

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

PROPERTY TAX

The property tax is a local revenue source; however, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools generally offset General Fund expenditures.

Preliminary data show statewide property tax revenues increased 6.1 percent in 2018-19, which is slightly higher than the 6-percent growth rate anticipated at the Governor's Budget. Property tax revenues are expected to grow 6.5 percent in 2019-20. Approximately 42 percent ($31 billion) of 2019-20 property tax revenues will go to K-14 schools. While this amount includes $2.1 billion that schools are expected to receive in 2019-20 due to the dissolution of redevelopment agencies, it excludes the $9.1 billion shifted from schools to cities and counties to replace Vehicle License Fee (VLF) revenue losses stemming from the reduced VLF rate of 0.65 percent.

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