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First Look

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Governor's Revised Budget Emphasizes Bold Proposals and Fiscal Resilience, Leaves Room for Other Investments

On May 9, Governor Gavin Newsom released the May Revision to his proposed 2019-20 state budget that continues to call for a series of bold investments in creating economic security and opportunities for Californians, while also fostering the state's fiscal health.

The Governor forecasts revenues that are $3.2 billion higher (over a three-year "budget window" from 2017-18 to 2019-20) than projected in January, driven largely by continued economic growth.

The Governor's proposal includes a mix of one-time and ongoing investments vital to low- and middle-income California's economic prosperity, including: a significant expansion of the state's Earned Income Tax Credit (EITC), investment in early childhood development, extending paid family leave, continuing to expand health coverage, increasing investment in K-12 and state higher education systems, and working toward greater access to mental health services. The Governor's revised budget also provides additional support for housing and homelessness supports, recognizing that the high cost of housing continues to burden and destabilize many Californians. These proposals, individually and in combination, would significantly improve the health and well-being of millions of Californians, most notably low- and middle-income people of color, immigrants, and women and children.

The May Revision also continues to bolster the state's fiscal resilience by building up reserves and paying down state debts and liabilities. While the Governor's revised budget continues to call for a variety of program expansions, the May Revision sunsets some of those investments within a few years.

These proposals – a combination of one-time and ongoing investments, building up reserves, and paying down debts – represent a mostly balanced approach to managing the state's fiscal health. But, there are opportunities to further enhance the state's fiscal health and extend support to more Californians in need. By seeking an extension of California's tax on health insurance plans – also known as MCOs – the state could move even closer to universal health coverage. The state also has room to further improve the economic and social well-being for all Californians, including older adults and people with disabilities, working immigrants who file their taxes and who are left out of the EITC expansion, and families with young children who are struggling to find affordable child care.

The following sections summarize key provisions of the Governor's revised 2019-20 budget. Please check the Budget Center's website (calbudgetcenter.org) for our latest commentary and analysis.

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Economic and Revenue Conditions

May Revision Reflects Short-Term Improvements in the Revenue Outlook, but Slowing Growth in the Long Term

The Governor's revised budget assumes that General Fund revenues for the three-year budget window, spanning 2017-18 to 2019-20, will be $3.2 billion higher than projected in January, before accounting for transfers. After accounting for transfers, including deposits into the state's rainy day fund and loan repayments, General Fund revenues are expected to be $1.9 billion higher than in the January forecast. However, these improvements are expected to be temporary, and the revised forecast reflects increasing risks and slower economic and revenue growth beyond the budget window.

The improved short-term outlook is driven by higher Personal Income Tax (PIT) and Corporation Tax (CT) receipts, while Sales and Use Tax (SUT) projections have been revised downward. PIT revenues for 2017-18 to 2019-20 are expected to be nearly $1.9 billion higher than projected in January, primarily reflecting upward revisions in capital gains realizations due to an improved stock market forecast. Capital gains realizations are now expected to return to a normal level by 2022 – one year later than was forecast in the January budget proposal. The revised budget notes that new tax return data for 2017 shows that the income distribution was less skewed toward higher-income taxpayers than previously assumed, which offsets some of the expected revenue increases.

Expected CT revenues have been revised upward by over $1.7 billion, but this is largely due to the shifting of income from 2017 to 2018 and one-time payments associated with the 2017 federal tax law. The projection for SUT revenues was adjusted downward by $360 million, reflecting lower than expected growth in capital investments, lower cannabis sales, and higher utilization of the sales tax exemption for manufacturing equipment. Slightly offsetting these decreases is a modest increase in the expected revenue boost resulting from the US Supreme Court ruling in *Wayfair v. South Dakota* and the state's recently enacted AB 147, which expand the state's ability to require out-of-state retailers and marketplace facilitators to collect use tax.

The May Revision includes some policy proposals that, while well-intended, would reduce available revenues. As in the January budget proposal, the revised budget includes a proposal to adopt (or "conform to") certain provisions of the 2017 federal tax law, some of which would decrease state revenues. One of these items would allow for deferred and reduced capital gains taxes for individuals and corporations that make investments in economically-distressed census tracts designated as Opportunity Zones. The Governor proposes to limit these tax incentives to investments in affordable housing and green technology within the state. Additionally, the tax conformity package includes a provision that would allow small businesses more flexibility in the accounting methods used for tax purposes.

The May Revision also contains a new proposal to exempt diapers and menstrual products from sales taxes for two years, beginning in January 2020. This would result in decreased General Fund revenues of $17.5 million in 2019-20 and $35 million in the following year. Additionally, since a portion of sales tax revenues are allocated to local governments, cities and counties would see revenue reductions. The total state and local revenue losses due to these exemptions is projected to be $38 million in 2019-20 and $76 million in 2020-21.

Revised Budget Proposal Continues to Build Up Reserves to Bolster State's Fiscal Resilience

California voters approved Proposition 2 in November 2014, amending the California Constitution to revise the rules for the state's Budget Stabilization Account (BSA), commonly referred to as the rainy day fund. Prop. 2 requires an annual set-aside equal to 1.5% of estimated General Fund revenues. An additional set-aside is required when capital gains revenues in a given year exceed 8% of General Fund tax revenues. For 15 years – from 2015-16 to 2029-30 – half of these funds must be deposited into the rainy day fund and the other half is to be used to reduce certain state liabilities (also known as "budgetary debt"). Prop. 2 also established a new state budget reserve for K-12 schools and community colleges called the Public School System Stabilization Account (PSSSA). The PSSSA requires that, when certain conditions are met, the state deposit a portion of General Fund revenues into the new reserve as part of California's Proposition 98 funding guarantee (See section on Prop. 98).

The Governor's May Revision includes a total transfer of $2.2 billion to the BSA for 2019-20, which will bring the reserve's balance to $16.5 billion by the end of the fiscal year. Prop. 2 requires that when the BSA balance has reached its constitutional maximum of 10% of General Fund tax revenues, any additional dollars that would otherwise go into the BSA must be spent on infrastructure, including spending on deferred maintenance. However, while the BSA has already reached this maximum (total proposed General Fund Expenditures for 2019-20 are $147 billion), the Governor's budget assumes that constitutionally required deposits will continue to be made because the account's current balance was achieved in part through supplemental payments in prior years. This assumption is based on an opinion by the Legislative Counsel, but could be subject to a legal challenge.

The revised budget also includes a deposit of $389.3 million into the PSSSA, the first time such a deposit would be made into this reserve.

Additionally, the 2018-19 budget agreement created the Safety Net Reserve Fund, which holds funds that can be used to maintain benefits and services for CalWORKs and Medi-Cal participants in the event of an economic downturn. The May Revision maintains a proposed $700 million deposit into the Safety Net Reserve, bringing the fund's balance to $900 million.

Each year, the state also deposits additional funds into a "Special Fund for Economic Uncertainties" (SFEU). The Governor's proposed budget assumes an SFEU balance of $1.6 billion.

Taking into account the BSA, PSSSA, Safety Net Reserve, and SFEU, the Governor's proposal would build state reserves to a total of $19.4 billion in 2019-20.

Paying Down Debts Prioritized in the May Revision

Governor's revised proposal continues to prioritize paying down state and local unfunded pension liabilities and paying off outstanding budgetary debt incurred during the Great Recession and its aftermath.

The May Revision continues to include required and supplemental contributions to two state-run retirement systems: the California Public Employees' Retirement System (CalPERS) and the California

State Teachers' Retirement System (CalSTRS). CalPERS and CalSTRS, like many retirement systems, are not funded at levels that will keep up with future benefits, resulting in the state needing to make higher annual contributions in order to pay down unfunded liabilities.

Beyond statutorily required contributions, the Governor's revised budget maintains the January proposal to provide a $3 billion supplemental pension payment to CalPERS that would be made in the current fiscal year (2018-19).

In the case of CalSTRS, the budget proposal continues to devote an additional $1.1 billion toward the state's share of CalSTRS unfunded liabilities. The $1.1 billion comes from Prop. 2 funds (see Reserves section) that are required to be set aside for reducing state liabilities.

In addition, the Governor's revised budget includes a one-time $3.2 billion non-Proposition 98 payment to CalSTRS to reduce the employers' (local educational agencies and community colleges) share of unfunded liabilities in response to prior changes in contribution levels and pressures confronting employers. This is slightly higher than the $3 billion proposed in January for this purpose. In 2014, the state enacted AB 1469, increasing the share of CalSTRS costs borne by all parties (the state, employers, and teachers), but particularly increasing the contribution rate of employers. Confronting a series of other pressures, including enrollment decline and increases in the costs of local services, some local educational agencies are in danger of not being able to meet their financial obligations. Overall, the proposed supplemental payment would free up local dollars for investment in education, allow employers to pay down retirement obligations, or close budget deficits.

As with the January proposal, the revised budget would pay off all remaining outstanding budgetary debts and deferrals incurred during the Great Recession.

Economic Security for Children and Families

May Revision Further Expands the California Earned Income Tax Credit

The California Earned Income Tax Credit is a refundable state tax credit that boosts the incomes of low-earning workers and their families, helping them to afford necessities, such as utilities or food. The May Revision proposes to further expand the credit beyond the plan included in the Governor's January budget and also to rename the credit the "California EITC, a cost-of-living refund." Specifically, the revised budget would double a component of the California EITC that the Governor proposed creating in January. This component, the "young child tax credit," would provide an additional $1,000 – up from $500 proposed in January – for each tax filer who is eligible for the California EITC and has at least one qualifying child under age 6. This revised proposal would increase the maximum California EITC for families with at least one qualifying child under age 6 from:

- Nearly $2,900 currently to nearly $3,900 if the family has a total of 3 or more qualifying children;
- From more than $2,500 to more than $3,500 if the family has two qualifying children; and
- From more than $1,500 to more than $2,500 if the family has one qualifying child.

As proposed in January, the young child tax credit would "phase-out" (decline) for families with annual earnings over $28,000. The credit would fully phase out for families with annual earnings of $30,000.

The Administration estimates that the Governor's revised California EITC expansion plan will reduce state personal income tax (PIT) revenue by $190 million more than in January, increasing the cost of the proposed expansion from $600 million to $790 million. As a result, the total cost of the California EITC is estimated to be about $1.2 billion under the revised proposal, up from $1 billion under the January proposal.

The May Revision maintains the Governor's January proposal to offset the cost of the expanded California EITC by conforming to several federal tax law provisions – mainly affecting business income – that would, on net, increase state revenue. However, the May Revision increases the number of provisions to which the Governor is proposing that California conform, according to Administration officials. One notable addition is the proposal to conform to federal law that generally prohibits corporations and other taxpayers to carry back a net operating loss (NOL). (A NOL occurs when a taxpayer's total tax deductions exceed total income for the tax year. NOLs can be claimed by both corporate and individual taxpayers, but are usually related to losses from operating a business.) The Administration projects that, collectively, its conformity package will increase state revenue by $1.7 billion in 2019-20 and by roughly $1.4 billion per year thereafter. Because this package would raise revenue by increasing state taxes – primarily on corporations and other businesses – it would require a two-thirds vote of each house of the Legislature.

The May Revision also proposes to provide $18.7 million in 2019-20 for the Franchise Tax Board (FTB) to develop and administer a program that would give tax filers who qualify for the California EITC the option to receive a portion of their credit as advance monthly payments. Budget documents state that this program "is targeted to begin in 2021," contingent upon determination by the Department of Finance that this program will not affect tax filers' eligibility for any state or federal income-based supports. This contingency is in response to concerns that have been raised by the Legislative Analyst's

Office and others that providing periodic, advanced payments of the California EITC could reduce the amount of support families receive from other sources. According to Administration officials, tax filers who expect to qualify for a California EITC of more than $1,200 would be eligible to receive half of their expected credit in advance monthly payments. This would allow participants in the program to receive advance payments of at least $50 per month.

Budget documents do not provide any additional details about the Governor's January proposal to provide $5 million one-time General Fund to nonprofits, community-based organizations, or governmental entities that provide increased awareness of the California EITC and free tax preparation services.

The Governor's May Revision also does not extend the California EITC to low-earning immigrants and their children who are currently ineligible due to a rule requiring tax filers and all of the children they claim to have Social Security Numbers (SSNs) valid for work in order to qualify for the credit. Hundreds of thousands of additional low-income working families would become eligible for the California EITC – at relatively little cost – if California permitted tax filers to claim the credit using a federally assigned Individual Taxpayer Identification Number (ITIN) or any federally assigned SSN.

Governor Maintains Proposal to Raise CalWORKs Grants to the Deep Poverty Threshold for Some Families

The California Work Opportunity and Responsibility to Kids (CalWORKs) program provides modest cash assistance for over 775,000 low-income children while helping parents overcome barriers to employment and find jobs. Monthly grants are adjusted according to the size of the CalWORKs assistance unit (AU), which is the number of people in the household who are eligible for CalWORKs. According to the Legislative Analyst's Office, at least one family member is ineligible for cash assistance in about 55% of CalWORKs cases. In these cases, the AU size is smaller than the family size. A family member may be ineligible if they have exceeded the 48-month time limit, have not met work requirements, or due to their immigration status.

The annualized maximum CalWORKs grant for a family of three has been well below the deep poverty threshold (50% of the federal poverty line) for over a decade. To better serve CalWORKs families, the state took the first of three proposed steps in the 2018-19 budget package to raise the maximum grant to the deep poverty threshold. The first step was an across-the-board 10% increase that began April 1, 2019. The proposed second and third steps (subject to annual appropriations in 2019-20 and 2020-21) would seek to close the gap between the new maximum grants and the deep poverty threshold for all CalWORKs families.

In January, Governor Newsom presented a different plan to raise CalWORKs grants. He proposed allocating $347.6 million General Fund in 2019-20 for an additional 13.1% grant increase for all assistance units, effective October 1, 2019. This increase would immediately raise the maximum grant to 50% of the federal poverty line *for a three-person AU* where the AU size equals the family size. However, the proposed increase would still leave children in a one-person AU (which represent over a quarter of all CalWORKs cases) at 43% of the federal poverty line. Additionally, because the Administration's proposed budget does not provide funding for ineligible family members, children in all AUs sharing resources with ineligible members (about 55% of all CalWORKs cases) would still live in deep poverty.

Revised Budget Extends the Duration of California's Paid Family Leave Program

Paid family leave has the potential to benefit both children and parents, boosting health and well-being, while also providing savings for both businesses and the state. California leads the nation in paid family leave policy, but the state and the nation lag other wealthy countries in terms of the length of leave and the level of benefits. The California Paid Family Leave (PFL) program is funded entirely by workers' contributions to the state's Disability Insurance Program. These contributions are housed in a special fund that provides 60% to 70% of a worker's weekly earnings based on income when a worker takes family leave. Caregivers can currently take up to six weeks of paid time off to care for a family member or bond with a newborn or adopted child. Birth mothers are generally allowed another six weeks to recover from the birth, for a total of 12 weeks.

In January, the Governor expressed a commitment to expand the PFL program to six months in future years. The May Revision takes the first step towards this goal by extending the duration of the PFL program from six weeks to eight weeks, effective July 1, 2020. In order to ensure that the special fund that pays PFL claims can provide additional benefits, the state would reduce the minimum reserve balance to a lower level, which the Administration states will be adequate. Finally, the May Revision affirms the plan to convene a PFL task force in the near future in order to provide recommendations on how to expand the program. The task force recommendations would be due in November and could be included in the 2020-21 budget.

May Revision Maintains Funding for Child Care "Infrastructure" While Expanding Access to Care for Older Children

Subsidized child care allows parents with low and moderate incomes to find jobs and remain employed, but the high cost of care across California often forces parents to make difficult choices about who cares for their child while they go to work. Due to a lack of state and federal funding, in 2017 just 1 in 9 children eligible for subsidized child care and development programs in California were enrolled in a program that could accommodate families for more than a couple hours per day and throughout the entire year.

The Governor's May Revision maintains provisions included in the January proposal to invest $490 million General Fund in child care "infrastructure," split equally between a facilities grant program and a workforce development program, as well as $10 million General Fund for a comprehensive plan to increase access to the subsidized child care and development system. The May Revision expands upon the January proposal by proposing new investments that would increase access to subsidized child care for certain children. Specifically, the Administration:

- **Provides $80.5 million from the Cannabis Tax Fund to add spaces for school-age children.** After certain administrative, regulatory, and research activities have been funded, remaining resources in the Cannabis Tax fund are to be directed to a number of programs and services, including youth-related drug education, prevention, and treatment. The Governor proposes using $80.5 million from the estimated $198.8 million available in the Cannabis Tax Fund to increase access to subsidized child care for income-eligible families with school-age kids to "keep these children occupied and engaged in a safe environment, thus discouraging potential use of cannabis." In a phone call with the Administration, it was noted that this level of funding would serve about 8,700 children.
- **Provides $40.7 million General Fund to implement a 12-month eligibility period for certain CalWORKs families.** Currently, upon initial determination of eligibility, most families participating in the state's subsidized child care and development system establish a 12-month period of eligibility. However, CalWORKs Stage 1 child care, which is available to families newly enrolling in the welfare-to-work program, do not have this same benefit. The May Revision would extend 12-month eligibility to families participating in CalWORKs Stage 1 child care, which is intended to stabilize childcare for these welfare-to-work families. The ongoing cost is estimated to increase to $54.2 million General Fund in future years.
- **Provides $12.8 million in federal funds for a pilot emergency child care program.** The May Revision creates a pilot program that would provide subsidized child care for families in crisis that are currently waiting for subsidized care in the Alternative Payment Program. The Speaker of the Assembly's Blue Ribbon Commission on Early Childhood Education proposed a similar program in their recent comprehensive report.

The Administration has made it clear that they intend to invest in the state's subsidized child care and development system. The May Revision reinforces this intention by maintaining funding for child care infrastructure and a comprehensive plan to increase access to the system, while also providing additional slots for certain children. Yet, the May Revision does not provide more low- and moderate-income families with *young* children with access to subsidized child care, despite years-long waiting lists and a high level of unmet need.

Governor Maintains Investment in Child Savings Accounts for Kindergarteners

A Child Savings Account (CSA) is an account established for children as early as birth that builds assets over time. CSAs are generally seeded with an initial deposit from a government agency or another sponsoring organization, then built with contributions from family, friends, or the child. Once the child reaches adulthood, the savings are typically used for higher education, though they can also support homeownership or other asset-building investments.

The May Revision maintains a one-time investment of $50 million General Fund for Child Savings Account pilot programs and identifies the California Student Aid Commission, with consultation from First 5 California, as the administrator of the pilot programs.

May Revision Keeps Housing Production Expenditures, Adds Funds for Legal Aid for Renters

More than half of California renter households pay more than 30% of their income toward rent. The state's lowest-income households are most likely to struggle with housing affordability, and high housing costs are a key driver of California's high poverty rate. The Governor's May Revision generally maintains the state investment in housing production proposed in January, with some modification of funding allocation and some minor increases in spending.

Several proposals relate to local housing production goals and accountability. Specifically, the May Revision:

- **Reallocates $500 million in local incentive funds for housing production**. In January, the Administration proposed $750 million one-time General Fund to support local planning and incentives for housing production, including $500 million to be awarded for "general purposes" as local jurisdictions meet housing production milestones. The May Revision reallocates this $500 million to the Infill Infrastructure Grant Program administered by the Department of Housing and Community Development, which funds infrastructure needed to support development of higher-density and mixed-income housing in infill locations. For the $250 million proposed in the January budget for planning, the Administration also adds school districts and county offices of education to the jurisdictions eligible for support (e.g., for planning for teacher housing).

- **Maintains the Governor's January proposal to link local transportation funding to housing production goals.** Specifically, the Administration proposes that transportation funds available through Senate Bill 1, the Road Repair and Accountability Act of 2017 (the "gas tax"), be distributed to local jurisdictions "upon compliance with housing element law and zoning and entitling to meet updated housing goals.
- **Retains the January plan to "revamp" the Regional Housing Needs Allocation (RHNA) process through which local housing production goals are set, but proposes maintaining the current RHNA process for the short-term.** The Department of Housing and Community Development would work toward developing long-term housing production targets through a new RHNA process by 2022.

The Governor proposes no additional state tax expenditures in the May Revision for affordable housing production through the state Low Income Housing Tax Credit (LIHTC), maintaining the boost of $500 million proposed in January as well as the January budget's increased commitment to supporting mixed-income housing with both tax credits and loans. To support preservation and rehabilitation of existing affordable housing units, the May Revision includes a new proposal to modify the existing LIHTC program to allow for "deeper subsidies for specified preservation projects," but no increase in overall LIHTC expenditures for this purpose is proposed.

Additional proposals relate to use of excess state property and cap and trade proceeds. Building on the January proposal to make excess state property available for affordable and mixed-income housing demonstration projects, the May Revision adds $2.5 million one-time General Fund, as well as $780,000 ongoing and four staff positions, to enable the Department of Housing and Community Development to facilitate and monitor the use of state land for these housing projects. Funding from cap and trade auction proceeds is available to support housing production and other neighborhood projects through the Transformative Climate Communities program. The Governor's January budget proposed $40 million for this program, and the May Revision allocates an additional $92 million one-time from higher-than-anticipated cap and trade revenues, bringing the total to $132 million.

As a new proposal, the May Revision proposes allocating $20 million one-time to support legal aid for renters to resolve landlord-tenant disputes. Funds would be distributed as grants to nonprofit legal aid organizations through the Judicial Branch's Equal Access Fund.

Revised Budget Proposes Some Additional Funding to Address Homelessness

California has nearly 25% of the nation's population of homeless individuals, with an estimated 134,000 homeless residents as of January 2017. In the May Revision, the Administration continues to highlight homelessness as a key challenge facing California. The revised budget includes increases in funding for some specific proposals that address the needs of individuals who are homeless or at risk of homelessness:

- **The January proposal's allocation of $500 million in one-time General Fund dollars for local jurisdictions to support homeless emergency aid would be increased by $150 million, for a new total of $650 million.** The January proposal divided these funds between $300 million for activities directly related to shelter or navigation center development and $200 million as incentive funds available "for general purposes," but the May Revision does not make this distinction. The May Revision also specifies how these funds would be allocated among jurisdictions, with $275 million for the state's 13 most populous cities, $275 million for counties, and $100 million for Continuums of Care. Eligible uses for the funds would also be expanded to include hotel/motel conversions, permanent supportive housing, rapid re-housing, and jobs programs.
- **A $20 million one-time augmentation from the Mental Health Services Fund is proposed for counties that do not currently operate Whole Person Care Pilot Programs, adding to the $100 million for Whole Person Care Pilots included in the January budget.** The increase in funding in the May Revision would allow these additional counties to coordinate health, behavioral health, and social services, including housing, for targeted individuals, with priority for individuals with mental illness who are homeless or at risk of homelessness (see also the Mental Health section).
- **To support college students who are homeless or housing insecure, the May Revision proposes $10 million in new ongoing General Fund for the state's public four-year universities ($6.5 million for the California State University and $3.5 million for the University of California).** This proposal builds on the $30 million dedicated to addressing student food and housing insecurity in the January budget (see also the CSU and UC section).

The Administration notes that with these additions, overall state funding to address homelessness would total $1 billion more than the amount dedicated to homelessness in the current state budget. This $1 billion increase includes all funding for housing and mental health services for homeless individuals proposed in Governor Newsom's January budget, the new funding described above, and additional spending proposed in the May Revision to address staffing shortfalls in the public mental health system and to provide legal aid for renters.

The May Revision also proposes that after the closure of the state's Fairview Developmental Center in Orange County (expected by the end of 2019), the state repurpose the site by leasing a building or buildings to a local jurisdiction to provide permanent supportive housing for individuals who are homeless or at risk of homelessness.

May Revision Makes Modest Adjustments to Immigration Proposals

California has the largest share of immigrant residents of any state, and half of all California workers are immigrants or children of immigrants. Given the prominence of immigrants in California's population and the state's economy, recent and ongoing federal actions that limit immigration, aggressively enforce immigration laws, and seek to exclude immigrant communities have significant negative implications for California. The May Revision creates two new pilot programs but otherwise maintains the proposals included in the January budget with minor adjustments. Specifically, the updated spending plan:

- **Creates two pilot projects to support unaccompanied minors and Temporary Protected Status beneficiaries.** The January budget proposal allocated $10 million out of the $58 million total for immigrant legal services to the Department of Social Services to unaccompanied undocumented minors and Temporary Protected Status beneficiaries. The Governor proposes to use up to $5 million of these funds for two pilot projects. The first pilot project would provide "mental health evaluations related to legal defense" and the second pilot project would develop a family reunification navigator to connect undocumented minors and their families with services in the community.
- **Maintains expansion of eligibility for comprehensive Medi-Cal coverage to undocumented young adults ages 19 through 25.** This proposal remains unchanged from January but reflects a decrease in state funding as a result of a later start date and revised estimates of the number of people eligible. The revised budget delays the implementation date to January 1, 2020, six months later than the initial proposed start date. The May Revision estimates that 90,000 undocumented young adults would enroll in full-scope Medi-Cal coverage during the first year, a decrease from the Governor's 138,000 projection in January.
- **Provides a modest increase in funding for legal services for undocumented immigrant students and their families at the UC beginning in 2022-23.** The May Revision increased funding for legal services at the UC to $1.7 million, a modest increase from $1.3 million initially

allocated in the Governor's January budget proposal. The Administration noted in January that the 2018-19 budget allocated sufficient funding to sustain legal services through 2021-22.

The Governor remains adamant that the state "be a part of a multi-lateral solution" to address immigration issues nationally and in California. Still, the revised budget proposal omits key priorities advocates and legislators have pushed for in the recent months. Proposals not included in the May Revision include extending the CalEITC to immigrant workers who file taxes with an Individual Taxpayer Identification Number (ITIN) and expanding full scope Medi-Cal coverage to immigrants 26 years and older. While California continues to make strides to provide support and create safe communities for immigrants, ensuring that all Californians are protected and can access economic opportunity requires enacting policies that extend vital state supports to immigrants and their families.

Health

May Revision Maintains Proposals to Improve Health Insurance Affordability and Move Toward Universal Coverage

Building on the federal Affordable Care Act (ACA), California has substantially expanded access to health coverage in recent years. For example, more than 13 million Californians with modest incomes receive free or low-cost health care through Medi-Cal (California's Medicaid program) – several million more than before the ACA took effect. Another 1.2 million Californians with incomes up to 400% of the federal poverty line – $48,560 for an individual in 2019 – receive federal premium subsidies to reduce the cost of coverage purchased through Covered California, our state's health insurance marketplace. Despite these gains, around 3 million Californians remain uninsured, health care costs continue to rise, and many people face both high monthly premiums and excessive out-of-pocket costs – such as copays and deductibles – when they use health care services.

The May Revision maintains, with some changes, key proposals that the Governor introduced in January to help move California toward universal health coverage. Specifically, the revised budget:

- **Maintains the Governor's proposal to create state subsidies to reduce the cost of health insurance purchased on the individual market.** The Governor's original proposal allowed Californians with incomes between 250% and 600% of the federal poverty line to receive these new subsidies. The May Revision would extend these subsidies to Californians with incomes between 200% and 250% of the poverty line as well. Overall, these new state subsidies would cost an estimated $295 million in 2019-20, rising to $380 million by 2021-22, and would be paid for with revenues from a new state penalty on residents who do not obtain comprehensive health coverage (see next bullet). The May Revision assumes that about three-quarters of subsidy expenditures would benefit Californians with incomes between 400% and 600% of the poverty line, with an average subsidy of around $100 per month. Subsidies would average around $10 per month for residents with incomes between 200% and 400% of the poverty line. (Californians in this income range would continue to be eligible for *federal* ACA subsidies if they purchase health insurance through Covered California.) Finally, the May Revision assumes the subsidies would take effect on January 1, 2020, and expire in three years.

- **Continues to assume the state will impose a new requirement for Californians to carry health insurance or pay a penalty.** The ACA included an "individual mandate" to encourage young and healthy people to buy health insurance. The goal was to create healthier "risk pools" and keep premiums lower than they otherwise would be if only older and sicker people signed up for coverage. With limited exceptions, people who failed to comply with this requirement had to pay a penalty to the federal government. However, Congress and President Trump eliminated the individual mandate penalty effective January 1, 2019. The Governor proposes to establish an individual mandate at the state level, which would require Californians to obtain comprehensive health care coverage or pay a penalty. The May Revision assumes this penalty would take effect on January 1, 2020, and would raise an estimated $317 million in 2020-21, rising to $353 million in 2022-23. As described above, these revenues would be used to fund the proposed state subsidies.
- **Maintains the Governor's proposal to expand eligibility for comprehensive Medi-Cal coverage to undocumented young adults who otherwise meet the program's requirements, but changes the implementation date.** States are prohibited from using *federal* dollars to provide comprehensive, or "full-scope," Medicaid coverage to undocumented immigrants. States, however, may use their own funds to provide such coverage. In 2016, California expanded full-scope Medi-Cal coverage to undocumented children and youth through age 18 who meet all other eligibility requirements, including income limits. In January, the Governor proposed to extend this policy to undocumented Californians ages 19 through 25, effective no sooner than July 1, 2019. At the time, it was estimated that 138,000 undocumented young adults would sign up for full-scope Medi-Cal under this policy. In contrast, the May Revision assumes that this change would take effect no sooner than January 1, 2020, with about 90,000 young adults signing up during the first year.

May Revision Allocates an Additional $263 Million in Proposition 56 Revenues to Support the Medi-Cal Program

Approved by California voters in 2016, Proposition 56 raised the state's excise tax on cigarettes by $2 per pack and triggered an equivalent increase in the state excise tax on other tobacco products. These increases took effect on April 1, 2017. Prop. 56 requires most of the revenues raised by the measure to go to Medi-Cal, which provides health care services to more than 13 million Californians with low or moderate incomes.

In January, the Administration projected that Medi-Cal will receive around $1 billion in Prop. 56 revenues in 2019-20. The Governor proposed to use these funds to increase payments to doctors, dentists, and other providers as well as to support other services, including early developmental screenings for children, screenings for trauma for children and adults, and family planning services.

The May Revision indicates that Medi-Cal will receive an additional $263 million in Prop. 56 revenues "due to a one-time fund reallocation." The revised budget allocates these funds to several purposes, including $120 million for a loan repayment program for doctors and dentists who commit to serve Medi-Cal beneficiaries and $60 million to train providers to conduct trauma screenings. In addition, the Governor proposes to use $11.3 million of these Prop. 56 funds to restore optician and optical lab services for adults enrolled in Medi-Cal, effective no sooner than January 1, 2020. This optional Medi-Cal benefit was cut during the Great Recession to help close a state budget shortfall. Finally, the May Revision assumes that "the package of Proposition 56 investments" will expire on December 31, 2021.

Revised Budget Increases Funding for Home Visiting and Black Infant Health Programs

A new home visiting initiative in the California Work Opportunity and Responsibility to Kids (CalWORKs) program was instituted in the 2018-19 budget and began on January 1, 2019. The program provides up to 24 months of evidence-based home visiting for CalWORKs parents who are either pregnant or parenting a child under age 2, with a priority for first-time parents. A total of $158.4 million in federal TANF and state General Fund dollars was set aside to fund home visiting through calendar year 2021, after which the initiative will be subject to annual appropriation. In January, Governor Newsom proposed allocating $78.9 million for the 2019-20 budget year. His revised budget includes an additional $10.7 million to reflect updated caseload projections for a total of $89.6 million in 2019-20. The home visiting program is expected to serve 18,500 CalWORKs cases.

The Governor's January proposal also called for $30.5 million General Fund to the Department of Public Health to support the Black Infant Health program ($7.5 million) and to expand home visiting outside of CalWORKs ($23 million). The proposed $23 million represented the state's first financial investment in home visiting for non-CalWORKs families. In the revised proposal, the Administration includes an additional $34.8 million in reimbursements from the Department of Health Care Services to support Medicaid-eligible activities. Of the $34.8 million, $12 million ($11.95 million unrounded) will support Black Infant Health and $22.9 million ($22.87 million unrounded) will support the California Home Visiting program. With these reimbursements, the total proposed investment to these programs is $65.3 million in 2019-20.

May Revision Builds on Investments in Mental Health Services

Mental health services in California are primarily provided by counties, with funding from the state and federal government. The mental health system confronts many challenges, such as rising homelessness (a substantial share of individuals who are homeless struggle with mental illness) and the need for crisis services. To help address these challenges, the revised budget includes additional funding and new proposals to improve mental health outcomes. Specifically, the May Revision:

- Includes a one-time investment of $20 million Mental Health Services Fund over five years for counties that currently do not operate Whole Person Care Pilot Programs – which provide additional supportive housing services for people who are homeless or at risk of becoming homeless, with a focus on mental health. This is in addition to the $100 million one-time General Fund proposed in the Governor's budget for counties that currently operate pilots.
- Allocates $3.6 million Mental Health Services Fund annually for three years to the Department of Health Care Services to establish a Peer-Run Mental Health Crisis Line. This crisis line would be a resource for those "on the brink of a mental health crisis," according to the Governor's budget summary.

The Governor's Revised Budget Includes Additional Funding for State Hospitals

The Governor's revised budget proposes additional funding to the Department of State Hospitals (DSH), which manages the state mental health hospital system. Specifically, the May Revision:

- Provides $5.7 million General Fund for DSH to contract for a 78-bed community step-down program to serve individuals with a mental illness – both "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 contract by four beds for a total of 24 beds.

- Provides $2.2 million General Fund for DSH to expand the use of telepsychiatry to treat patients remotely via video-conferencing.

Revised Budget Includes Additional Investments in the Health Care Workforce

In order to address increasing demand for health care providers, the Governor's revised budget:

- Maintains $50 million one-time General Fund to increase support for mental health workforce programs. This funding would be administered by the Office of Statewide Health Planning and Development.
- Includes $38.7 million Proposition 56 funds to develop residency programs at hospitals throughout the state. These programs would be administered and operated by the University of California in partnership with Physicians for a Healthy California. (see Prop. 56 section)
- Includes $33.3 million ongoing General Fund to the Song-Brown Health Care Workforce program, which provides grants to support primary care residency training programs in California.
- Invests $100 million from the Mental Health Services Fund in the new Workforce Education and Training (WET) 5-year plan. The program aims to address the shortage of mental health practitioners in the public mental health system.

Education

The May Revision Scales Back Early Learning Investments

State policymakers have taken steps in recent years to expand access to full-day early learning opportunities for preschool-age children. The Governor's January budget proposal continued this trend by providing 30,000 full-day California State Preschool Program (CSPP) slots over a three-year period and investing $750 million one-time General Fund in grants for kindergarten facilities. The May Revision scales back on these proposals. Specifically, the Administration:

- **Provides $600 million one-time General Fund for grants for full-day kindergarten.** The May Revision reduces the proposed one-time funding for the grant program by $150 million. The $600 million is to be used over a three-year period, but grants administered during the first two years would be restricted to schools that will be transitioning from part-day to full-day kindergarten programs. The state is also proposing to increase the state share of the grant from 50% to 75% for programs moving to a full day to incentivize participation.
- **Provides $31.4 million General Fund to increase the number of full-day slots in the CSPP.** This is down from the proposed $124.9 million included in the January proposal – a difference of $93.5 million. The January proposal signaled the intent to continue expanding the CSPP over the next two fiscal years, but in the May Revision the Governor notes that additional spaces for children will be subject to available revenues in future years, given lower projected revenues.

The May Revision maintains other CSPP provisions included in the January proposal, such as shifting a share of CSPP funding to the General Fund to free up funding for non-profit providers, and eliminating the parental work or school requirement for the full-day CSPP. The May Revision also maintains $10 million one-time General Fund for a comprehensive plan to increase access to the subsidized child care and development system, including the CSPP.

Increased Revenues Boost the Minimum Funding Level for Schools and Community Colleges, May Revision Includes First-Ever K-14 Education Rainy Day Fund Deposit

Approved by voters in 1988, Proposition 98 constitutionally guarantees a minimum level of funding for K-12 schools, community colleges, and the state preschool program. Changes in state General Fund revenues tend to affect the Proposition 98 guarantee, and the May Revision's estimates of 2018-19 and 2019-20 revenues are up compared to those made in January's budget proposal. As a result, the May Revision assumes a 2019-20 Prop. 98 funding level of $81.1 billion, $389.3 million above the level assumed in the Governor's proposed budget. The May Revision also assumes Prop. 98 funding levels of $78.1 billion in 2018-19 and $75.6 billion in 2017-18, up $278.8 million and $78.4 million, respectively, from the levels assumed in January. The revised spending plan reflects a 2017-18 Prop. 98 funding level that is approximately $117 million above that year's minimum funding guarantee.

The revised budget projects that a deposit of $389.3 million into the Public School System Stabilization Account (PSSSA) will be required in 2019-20, which would reflect the entire increase in 2019-20 Prop. 98 funding above the level assumed in the January budget proposal. The deposit to the PSSSA would be the first made into this state budget reserve for K-12 schools and community colleges. The PSSSA was established by Proposition 2, a ballot measure voters approved in November 2014 that amended the state constitution. In a fiscal year immediately after the balance of the PSSSA is equal to or greater than 3% of the total share of the Prop. 98 minimum funding guarantee allocated to K-12 school districts, current law limits the amount that local school districts may keep in their budget reserves. However, because the $389.3 million deposit to the PSSSA in 2019-20 would be significantly below the 3% threshold (approximately $2.1 billion), limits on school district reserves would not be required in 2020-21.

The May Revision also maintains a January budget proposal that would change how the final funding level guaranteed under Prop. 98 is certified, a process established by the 2018-19 budget agreement. The overall effect of the Governor's January proposal would shift the risk associated with the uncertainty in the annual Prop. 98 guarantee from K-12 school and community college districts to the state.

The largest share of Prop. 98 funding goes to California's school districts, charter schools, and county offices of education (COEs), which provide instruction to approximately 6.2 million students in grades kindergarten through 12. The May Revision proposes to increase support for special education services and to further reduce school districts' spending obligations for retirement costs. Specifically, the May Revision:

- **Increases funding by $119.2 million to support special education services, for a total of $696.2 million in ongoing funding.** The Governor's January budget proposed $577 million to provide grants to school districts with large shares of students with disabilities and other disadvantaged students – English learners, students from low-income families, and foster youth – to supplement services for students in special education programs and for preventative services. The May Revision references concerns about coordination between local general education and special education programs, but does not provide information about how the proposed increase in funding would be used.
- **Provides $44.8 million in one-time funding to support classroom educators.** The revised budget proposes to use this funding to provide training and resources to build capacity around a variety of subjects including social emotional learning and computer science.
- **Increases funding for the Local Control Funding Formula (LCFF) by $70 million in 2018-19 and reduces LCFF funding by $63.9 million in 2019-20.** The LCFF provides school districts, charter schools, and COEs a base grant per student, adjusted to reflect the number of students at various grade levels, as well as additional grants for the costs of educating English learners, students from low-income families, and foster youth. The proposal for LCFF funding under the revised spending plan reflects changes in average daily attendance for both 2018-19 and 2019-20 and the cost-of-living adjustment (COLA) for 2019-20.

- **Slightly increases funding for non-LCFF programs in 2019-20.** The revised budget reflects an increase of approximately $200,000 for several categorical programs that remain outside of the LCFF. The proposed increase in funding reflects an additional $7.6 million based on updated average daily attendance estimates and a decrease of $7.4 million that reflects a 3.26% COLA, revised down from the 3.46% COLA included in the January budget.

The May Revision also includes several proposals related to charter schools intended to prevent families from "being wrongfully turned away from the public school of their choice." These proposals include prohibitions that would prevent charter schools from discouraging enrollment based on student characteristics, such as special education status, and requiring that a student's academic records be submitted to the charter school before enrollment.

Governor Maintains Increased Funding for Community Colleges

A portion of Proposition 98 funding provides support for California's community colleges (CCCs), which help prepare over 2 million students to transfer to four-year institutions as well as obtain training and employment skills. The May Revision maintains commitments made in the January proposal, with minor adjustments to the proposed expansion of the community college's Promise Program and funding formula plans. Specifically, the revised budget:

- **Increases cost estimates for expanding Promise Program.** The Governor's January budget proposal increased funding for the Promise Program by $40 million – the amount needed to extend the California College Promise to a second year of tuition-free college for first-time, full-time students. The May Revision provides an additional $5.2 million, which reflects revised estimates of eligible students for the program.
- **Maintains commitment to Student Centered Funding Formula, extends hold harmless provision.** The 2018-19 budget created a new funding formula for CCC general-purpose apportionments. The May Revision notes that the Governor remains committed to the goals of the new formula and will work with the Chancellor's Office and stakeholders to continue to explore revisions that further the goals of the formula. The revised spending plan extends the hold harmless provision by an additional year – ensuring that no district will receive less funding than they did in 2017-18 with cost-of-living adjustments every year until 2021-22.
- **Proposes a $39.6 million increase in one-time Prop. 98 General Fund for deferred maintenance, instructional equipment, and water conservation projects.**
- **Does not include funding to support rapid rehousing for homeless and housing insecure students.**

Revised Budget Continues Increases for CSU and UC, Includes Additional Support for Homeless, Incarcerated, and Foster Youth Students

California supports two public four-year higher education institutions: the California State University (CSU) and the University of California (UC). The CSU provides undergraduate and graduate education to roughly 481,000 students on 23 campuses, and the UC provides undergraduate, graduate, and professional education to about 273,000 students on 10 campuses.

In January, the Governor proposed increasing funding for the CSU and UC with the expectation that the institutions would not raise tuition. The revised spending plan maintains these proposed funding increases, as both institutions voted earlier this year to not raise tuition.

Updates for the CSU include the following:

- **Maintains the Governor's January proposal to increase CSU funding by $300 million.** The CSU is requesting a $554 million increase – $254 million higher than the Governor's proposal.
- **Maintains $15 million one-time funding for the Basic Needs initiative and proposes $6.5 million ongoing General Fund to support rapid rehousing for homeless and housing insecure students.**
- **Significantly boosts funding for Project Rebound, which supports formerly incarcerated individuals.** The May Revision increases Project Rebound funding from $250,000 per year ongoing General Fund to $1 million per year.
- **Provides $740,000 one-time General Fund for First Star Foster Youth program at CSU Sacramento.** First Star programs support foster youth with academic and life skills needed to successfully transition to higher education.

At the UC, the revised budget:

- **Maintains the Governor's January proposal to increase UC funding by $240 million.** The UC is requesting a $378 million increase – $138 million higher than the Governor's proposal.
- **Maintains $15 million ongoing funding to address food and housing insecurity and provides an additional $3.5 million ongoing General Fund to support rapid rehousing for homeless and housing insecure students.**
- **Allocates $25 million one-time General Fund to support the UC Retirement program.**

May Revision Maintains Increases in Cal Grant Program

Cal Grants are the foundation of California's financial aid program for low- and middle-income students pursuing higher education in the state. Cal Grants provide aid for tuition and living expenses that do not have to be paid back. The revised spending plan maintains increased support for nontraditional students and students with dependent children and updates the cost estimates for these programs. Specifically, the revised budget:

- **Maintains increased Cal Grant awards for students with dependent children.** The Governor's January proposal allocated $121.6 million to increase Cal Grant Awards for UC, CSU, and CCC students with dependent children. The May Revision maintains the increased award amounts and decreases the total program cost by $24.9 million to reflect revised estimates.
- **Maintains increased number of Competitive Cal Grant awards.** Competitive Cal Grants support students who attend college more than a year after high school graduation and meet certain income and GPA requirements. The number of awards is limited to 25,750 students, though more than 340,000 qualified for them in 2017-18. The revised spending plan maintains the Governor's January proposal to expand the number of available grants to 30,000 and increases the program funding by $2 million to reflect revised cost estimates.
- **Provides $89.8 million in one-time funding for teacher loan forgiveness grants.** The May Revise allocates these dollars to the California Student Aid Commission to administer a loan forgiveness grant program for teachers that obtain credentials in high-need subjects such as special education and bilingual education. The revised budget indicates the program will prioritize applicants who agree to teach in schools that have a high percentage of teachers with emergency permits.
- **Revises timeline to meet Associate Degree for Transfers (ADT) goals.** In order for students attending private nonprofit institutions to receive the maximum Cal Grant tuition award of $9,084, the institutions must meet certain goals determined by the state. The May Revision provides an additional year for institutions to increase the number of ADTs provided. Under the revised schedule, institutions will need to admit 2,000 ADT students in 2019-20, 3,000 students in 2020-21, and 3,500 students in 2021-22 and subsequent years.
- **Does not include funding to address students' total cost of attendance – which includes food and housing.**

Revised Budget Keeps Funding for the Cradle-to-Career Data Insights Act

The May Revision maintains $10 million in one-time General Fund for a statewide longitudinal "cradle-to-career" data system. Of the $10 million, $6.7 million would support the development of the data system with the goal of integrating data from a number of state entities. The remaining funds would support a workgroup with representatives from a variety of stakeholders in the Administration including the State Board of Education, California Department of Education, University of California, California State University, California Community Colleges, California Student Aid Commission, Commission on Teacher Credentialing, Employment Development Department, Labor and Workforce Development Agency, and the California Health and Human Services Agency. The "Cradle-to-Career Data Insights Workgroup" would be tasked with developing two reports. The first would provide recommendations on the structure of the new data system and the second would provide recommendations on expanding the functionality of the data system. These reports would be due to the Department of Finance and the Legislature on March 1, 2020 and September 1, 2020, respectively.

Criminal Justice and Juvenile Justice

May Revision Calls for Improved Addiction Treatment and Health Care Staffing in State Prisons, Proposes New Reentry Facilities

Currently, more than 126,500 adults who have been convicted of a felony offense are serving their sentences at the state level – down from a peak of around 173,600 in 2007. Most of these individuals – nearly 114,500 – are housed in state prisons designed to hold slightly more than 85,000 people. This level of overcrowding is equal to 134.5% of the prison system's "design capacity," which is below the prison population cap – 137.5 % of design capacity – established by a 2009 federal court order. (In other words, the state is in compliance with the court order.) In addition, California houses nearly 12,100 people in facilities that are not subject to the court-ordered cap, including fire camps, in-state "contract beds," out-of-state prisons, and community-based facilities that provide rehabilitative services. The sizeable drop in incarceration has resulted largely from a series of policy changes adopted by state policymakers and California voters in the wake of the federal court order.

The May Revision indicates that the Administration "will map out a plan to further transform" California's correctional system "over the coming year." In the meantime, the Governor's revised budget:

- Calls for implementing an integrated substance use disorder treatment program throughout the state prison system in order "to combat alcohol and opioid addiction-related issues" among incarcerated adults. This proposal consists of 1) the use of medication-assisted treatment; 2) a redesigned curriculum for cognitive behavioral treatment; and 3) the development of treatment plans and appropriate pre-release transition planning for program participants. This proposal is estimated to cost $71.3 million General Fund in 2019-20, growing to an annual cost of $161.9 million General Fund in 2020-21 and subsequent years.
- Includes $27.9 million to increase health care staffing levels in state prisons. The May Revision notes that the prison population "has grown older and sicker and is experiencing an increase in trauma-related incidents," and also states that "current staffing ratios are insufficient to meet these needs."
- Proposes to establish two 60-bed reentry facilities for women in Los Angeles and Riverside and to expand a male reentry facility in Los Angeles by 10 beds. The revised budget provides annual General Fund support of $8.8 million ongoing for these facilities.
- Provides a 5% rate increase for service providers in the Male Community Reentry Program, for an ongoing annual General Fund cost of $1.5 million.
- Projects that all Californians who are housed in out-of-state correctional facilities – currently numbering over 600 – will be returned to California by June 2019. California first began sending incarcerated adults out of state in late 2006 in order to help reduce state prison overcrowding.

Revised Budget Maintains Proposal to Shift Responsibility for Justice-Involved Youth to Health and Human Services Agency

The May Revision maintains the Governor's January proposal to shift responsibility for youth correctional facilities from the California Department of Corrections and Rehabilitation to a new department under the state Health and Human Services Agency. The "Department of Youth and Community Restoration" would begin operations on July 1, 2020. The May Revision argues that this new approach would better allow California to provide "trauma-informed and developmentally appropriate services" to justice-involved youth.

Missed Opportunities

May Revision Misses Opportunity to Make the California EITC More Inclusive

The Governor's May Revision misses an opportunity to make the California Earned Income Tax Credit (EITC) more inclusive by extending it to low-earning immigrants who are currently ineligible for the credit. Hundreds of thousands of additional workers and their children, many of whom are US-born citizens, would become eligible for the California EITC – at relatively little additional cost to the state – if California permitted tax filers to claim the credit using a federally assigned Individual Taxpayer Identification Number (ITIN) or any federally assigned Social Security Number.

Revised Budget Revision Assumes Expiration of "MCO Tax," Foregoing an Annual State General Fund Benefit of More Than $1 Billion

California imposes a tax on health insurance plans – known as "managed care organizations" (MCOs) – and uses the proceeds to leverage federal funding for Medi-Cal, our state's Medicaid program. Through a complex financing arrangement, the full MCO tax package – which includes offsetting state tax cuts for the health insurance industry – provides a net annual General Fund benefit of around $1.5 billion. These freed-up dollars support an array of public services and systems, including health care. However, the MCO tax is temporary and will expire on July 1, 2019, if California does not request an extension from the federal government.

The May Revision continues to reflect the Governor's view that California should let the MCO tax expire. (Extending the tax would require a two-thirds vote of each house of the Legislature and federal approval.) In his May 9 press conference, the Governor repeated his administration's concern that pursuing an MCO tax extension with the federal government would be "too risky" given other Medi-Cal-related negotiations that will soon be under way with the Trump Administration. In February, the nonpartisan Legislative Analyst's Office (LAO) evaluated this concern and concluded that the Governor "has not laid out a convincing rationale" for letting the MCO tax package lapse. Moreover, the LAO noted that "California's prospects of receiving federal approval of a reauthorized MCO tax are strong."

If the MCO tax is allowed to expire, state General Fund costs for Medi-Cal would ultimately increase by more than $1 billion per year, but without any additional benefit to Medi-Cal. This is because state policymakers would have to replace the lost MCO tax revenues with General Fund dollars in order to maintain current federal Medicaid matching funds and keep the Medi-Cal program whole. In fact, the May Revision assumes that the General Fund would "backfill" the foregone MCO tax revenues, thus reducing the capacity of the state budget to support public services and systems, including efforts to improve and expand Medi-Cal.

May Revision Lacks a State Increase for SSI/SSP Grants

Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants help well over 1 million low-income seniors and people with disabilities to pay for housing, food, and other basic necessities. Grants are funded with both federal (SSI) and state (SSP) dollars. State policymakers made deep cuts to the SSP portion of these grants in order to help close budget shortfalls that emerged following the onset of the Great Recession in 2007. The SSP portions for couples and for individuals were reduced to federal minimums in 2009 and 2011, respectively. Moreover, the annual statutory state cost-of-living adjustment (COLA) for SSI/SSP grants was eliminated beginning in 2010-11. Since then, state policymakers have provided only one discretionary COLA for the state's SSP portion of the grant – a 2.76% boost that took effect in January 2017, resulting in monthly state SSP grant levels of $160.72 for individuals and $407.14 for couples, which remain in effect today.

The May Revision does not propose a state increase for the SSP portion of SSI/SSP grants in 2019-20. However, the Administration does project that the federal government will boost the SSI portion of the grant by 2.8% effective January 1, 2020. As a result of this projected *federal* increase:

- **The maximum monthly combined SSI/SSP grant for individuals who live independently would increase from the current level of $931.72 to $953.72 on January 1, 2020.** This projected 2020 grant level equals about 92% of the current (2019) federal poverty guideline for an individual ($1,041 per month).
- **The maximum monthly combined SSI/SSP grant for couples who live independently would increase from the current level of $1,564.14 to $1,596.14 on January 1, 2020.** This projected 2020 grant level equals about 113% of the current (2019) federal poverty guideline for a couple ($1,409 per month).

Other Key Priorities in the Proposed Budget

Revised Budget Includes Some Additional Investments in Disaster Preparedness, Response, and Recovery

In the January budget proposal, the Administration called for a series of new investments in disaster preparedness, response, and recovery. The May Revision would dedicate additional funding to enhance the state's ability to prepare for and respond to disasters, such as wildfires. The revised budget includes $39.9 million ($38.6 million General Fund) to support these activities. This includes $20 million one-time General Fund for a "state mission tasking appropriation" in the Office of Emergency Services budget that will fund state entities for costs incurred when they are mission tasked, and $711,000 in ongoing General Fund to develop a statewide "Disaster Reserve Corps." Most of the remainder of the $39.9 million would be allocated to various departments for planning and preparedness efforts, including the Office of Emergency Services, the Department of Housing and Community Development, the State Water Resources Control Board, the Department of Resources Recycling and Recovery, the Emergency Medical Services Authority, the Department of Public Health, the Department of State Hospitals, and the Department of Social Services. Another $15.7 million investment of one-time General Fund dollars would be added to the Department of Forestry and Fire Protection budget, primarily to "procure innovative solutions to combat the state's wildfire crisis."

The May Revision also includes $75 million in one-time General Fund to facilitate state responses to investor-owned utility Public Safety Power Shutdown (PSPS) actions (power shutdowns initiated to prevent wildfires during high wind or other severe weather events), and $41 million for the Public Utilities Commission for inspections and review of utility wildfire mitigation plans and PSPS reports.

Finally, the revised budget includes $10 million in one-time General Fund for local communities recovering from the 2018 Camp Fire in Butte County.

May Revision Includes Additional Support to Improve 2020 Census Outreach Efforts

The upcoming 2020 Census is critical to California. Census data guide the distribution of federal funds to state and local governments. It also determines the number of seats each state has in the US House of Representatives. California faces significant challenges to ensure an accurate count. First, many Californians are considered "hard to count," including foreign-born residents, renters, and young children. Second, the US Census Bureau changed the way in which it plans to administer the 2020 survey, and the agency reduced the number of local census offices and field workers. Third, the Trump Administration plans to add a citizenship question to the Census, which could depress response rates.

In 2017-18, the California Complete Count Committee was launched to oversee Census outreach, awareness, and coordination efforts. The committee was created after the undercount of the state's population in the 1990 Census, which likely resulted in California losing a seat in the US House of Representatives as well as about $2 billion in federal funding over a 10-year period.

In January, the Governor's proposed budget included an additional $50 million to support statewide efforts to increase participation in the 2020 Census, bringing total state support for this effort to $140.3 million. The May Revision reflects an additional $2.9 million General Fund and $1 million in reimbursements to support additional outreach efforts for the 2020 Census. These new funds will be used for Native American outreach, translation services, and state agency outreach. The May Revision also includes a proposal to allow the Department of Finance to spend up to an additional $22.5 million to boost participation in the Census.