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First Look

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May Revision Includes a Series of Improvements, Reflects Ongoing Uncertainty About Federal Commitments

On May 11, Governor Jerry Brown released the May Revision to his proposed 2017-18 state budget. The Governor forecasts revenues $2.5 billion higher – over a three-year window – than projected in January, mostly reflecting higher personal income tax (PIT) projections due to stock market gains.

In addition to showing an upturn in the fiscal outlook, the May Revision makes several improvements over the Governor's January proposal. The revised budget provides funds to offset a large portion of the In-Home Supportive Services program costs that are being shifted to counties. In addition, the May Revision continues plans – which the Governor's January proposal had put on hold – for a multiyear reinvestment in subsidized child care and preschool. Higher-than-expected revenues result in increases in the Proposition 98 minimum guarantee for K-14 education spending. Also, the May Revision shifts funds to cover higher Cal Grant costs due to recently adopted tuition increases at the California State University and University of California.

The May Revision assumes current federal policies and funding levels, yet still reflects deep uncertainty about potential federal actions. The revised budget highlights the prospect of major changes to Medicaid, other areas of federal spending, and tax policy, among others.

The Governor's May Revision – like his January proposal – calls for continued funding of the California Earned Income Tax Credit (CalEITC). However, the revised budget does not propose any additional investments in the welfare-to-work system (CalWORKs) or in basic income support for low-income seniors and people with disabilities (SSI/SSP). In addition, the Governor's budget does not include proposals to address affordable housing.

The Governor's revised budget sets aside $3.6 billion as constitutionally required by Prop. 2 (2014), with half deposited in the state's rainy day fund and half used to pay down state budgetary debt. Under the Governor's proposal, state reserves would total $10.1 billion by the end of 2017-18.

As the Governor and Legislature work toward a budget agreement in the coming weeks, they do so amid the continuing, and in many ways troubling, prospect of federal cuts that could threaten health care coverage for millions of Californians, the social safety net, and other critical services. California's Congressional delegation needs to ensure that federal policy choices provide the necessary support to communities in California and elsewhere. The following sections summarize key provisions of the Governor's revised 2017-18 budget. Please check the Budget Center's website (calbudgetcenter.org) for our latest commentary and analysis.

May Revision Reflects Modestly Improved Fiscal Outlook

The Governor's revised budget reflects a "modestly improved fiscal outlook," with General Fund revenues over the three-year "budget window," from 2015-16 to 2017-18, expected to be $2.5 billion *higher* than projected in January. Nevertheless, General Fund revenues would still be $3.3 billion *lower* than the projections included in the 2016-17 budget agreement. (In January, the Administration projected that General Fund revenues would be $5.8 billion lower than assumed in the budget agreement.) The revised revenue forecast means that the Governor is now projecting a 2017-18 budget shortfall of about $400 million, absent any action by policymakers to address the gap. This is considerably smaller than the $1.6 billion budget gap projected by the Governor in January.

The Administration's improved revenue forecast mostly reflects higher personal income tax (PIT) projections due to recent increases in stock market values, which in turn are expected to boost capital gains revenues. Specifically, the Administration now projects that PIT revenues during the three-year budget window will be $2.9 billion *higher* than expected in January. In contrast, the May Revision reflects sales and use tax (SUT) receipts that are $1.2 billion *lower* than projected in January, while corporate tax (CT) receipts are expected to be almost $400 million *higher* than projected four months earlier.

The May Revision projects that California's economic growth will continue at a moderate pace over the next few years. However, the revised budget outlines a number of "risks to the outlook" that could weaken the state's economy and have potentially significant negative effects on the state budget. These risks include major federal policy changes, the state's ongoing housing affordability crisis, and the possibility of a national recession.

Updated Revenue Projections Lead to Increase in Proposed Reserves

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 percent of estimated General Fund revenues. An additional set-aside is required when capital gains revenues in a given year exceed 8 percent of General Fund tax revenues. For 15 years – from 2015-16 to 2029-30 – half of these funds will be deposited into the rainy day fund, and the other half will be used to reduce certain state liabilities (also known as "budgetary debt").

The Governor's revised budget continues to project that the BSA will total $6.7 billion by the end of the current fiscal year (2016-17). Based on the Governor's updated revenue projections for 2017-18, Prop. 2

would constitutionally require the state to deposit an additional $1.8 billion into the BSA (as well as set aside $1.8 billion for repaying budgetary debt), bringing the total amount in the BSA to $8.5 billion by the end of 2017-18.

The BSA is not California's only reserve fund. Each year, the state deposits additional funds into a "Special Fund for Economic Uncertainties." For 2017-18, the Governor projects $1.6 billion for this fund. This means that the Governor's revised budget would build state reserves to a total of $10.1 billion by the end of 2017-18.

May Revision Proposes Supplemental Payment for State Employee Pensions

The Governor's revised budget includes higher levels of contributions to 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 annual contributions in order to pay down unfunded liabilities. The state's unfunded liabilities in the two retirement systems have grown recently as a result of lower-than-expected investment returns and changes to the assumptions the systems make about *future* investment returns. Greater unfunded liabilities from lower investment returns, in turn, mean that state General Fund contributions to the two systems must increase.

The May Revision includes additional General Fund contributions as a result of CalPERS and CalSTRS reducing the "discount rate" – the assumed future rate of return on investments that is used to estimate the level of contributions from the state and employers – from 7.5 percent to 7.0 percent over the next several years.

In addition, the May Revision includes a supplemental payment to CalPERS of $6 billion, made through a loan from the Surplus Money Investment Fund, a state cash-flow and short-term investments account that is used to pool and invest state funds until they are needed. Comprised of a revolving mix of cash held by the state, the state portion of this fund (which also includes segregated local government funds) is valued at $50 billion. The purpose of this loan is to help offset increases in state contributions in future years – essentially refinancing a liability to CalPERS. The Administration projects that, without the loan, state contributions to CalPERS would grow from $5.8 billion ($3.4 billion General Fund) in 2017-18 to $9.2 billion ($5.3 billion General Fund) by 2023-24. The proposed loan of $6 billion will allow the loan funds to be invested at CalPERS' assumed investment return rate (discount rate) of 7 percent, as opposed to less than 1 percent currently earned by the funds. The Administration estimates that over two decades this will generate an additional $11 billion (after paying for the costs of the loan), helping to reduce state contributions to CalPERS. For example, the state's pension costs in 2023-24 would be $8.6 billion ($4.9 billion General Fund), instead of $9.2 billion ($5.3 billion General Fund), with additional savings accrued in other years across the life of the loan. The General Fund's share of the repayment of the loan would be covered by funds set aside by Prop. 2 (2014) for repayment of budgetary debt. The rest of the loan repayment would come from a series of state special funds. In other words, the intention is that repaying the loan would not come from money that could otherwise be used to increase spending for other General Fund programs.

May Revision Maintains Shift of In-Home Supportive Services (IHSS) Costs to Counties, but Reduces the Impact

Under the Coordinated Care Initiative (CCI), California integrates health care and other services – including IHSS – for certain seniors and people with disabilities. In January, the Administration indicated that because the CCI is not cost-effective, it will be discontinued in 2017-18, pursuant to current law. One key outcome of discontinuing the CCI is that counties' share of the nonfederal costs for IHSS would go up, and the state's share would go down. This is because the current cost-sharing formula – which is tied to the CCI and significantly limits counties' share of IHSS cost increases – would end this coming July and be replaced with a formula that is less favorable to counties. (The current formula is based on a "maintenance of effort," or MOE, structure that adjusts counties' annual IHSS expenditures by an inflation factor; the less favorable formula is a simple cost-sharing ratio that requires counties to pay 35 percent of nonfederal IHSS costs and the state to pay 65 percent.) While the Governor acknowledged in January that counties would experience financial hardship due to this change, he did not initially specify any proposals that could ease the fiscal impact on counties.

The May Revision maintains the IHSS cost-shift, which will increase counties' costs by an estimated $592 million in 2017-18. However, the revised budget also includes a multifaceted proposal to mitigate the impact of this cost-shift on county budgets. Included in the Governor's package are proposals to:

- **Provide counties with General Fund dollars to offset a portion of their increased costs for IHSS.** General Fund support would be set at $400 million in 2017-18; $330 million in 2018-19; $200 million in 2019-20; and $150 million in 2020-21 and each year thereafter.
- **Redirect certain growth funds generated by the "1991 realignment" funding structure for five years.** For the first three years, this proposal would redirect all Vehicle License Fee growth funds from certain 1991 realignment "subaccounts" in order "to provide additional resources for IHSS," according to the May Revision. In the fourth and fifth years, the amount of redirected revenues would be cut in half.

- **Allow counties to avoid repaying revenues that they received in error due to miscalculations by the state Board of Equalization.** This amount "ranges from $100 [million] to $300 million and would protect each county's realignment base revenues," according to an analysis by the California State Association of Counties (CSAC).
- **Maintain an MOE structure for sharing IHSS costs between the state and counties rather than switching to a 35/65 county-state cost-sharing ratio.** The state General Fund would pay the difference between the county's annual MOE contribution and the total nonfederal share of IHSS costs.
- **Calculate a new MOE base for county IHSS costs in 2017-18 and apply an annual inflation factor to that base beginning in 2018-19.** The MOE base would include the cost of IHSS services and administration. The inflation factor would be 5 percent in 2018-19. Beginning in 2019-20, the inflation factor would vary annually depending on the performance of revenues provided through the 1991 realignment. This ongoing inflation factor would range from zero to 7 percent. An inflation factor of 7 percent could "lead to county general fund impacts," according to CSAC.

Even with the changes proposed in the May Revision, counties would face additional ongoing costs for IHSS. These costs would be relatively manageable in 2017-18 ($141 million) and 2018-19 ($129 million) because they would not be much higher than the increases that counties were anticipating under the current cost-sharing formula, according to CSAC. However, counties' additional annual costs for IHSS could grow to $251 million by 2020-21, based on the Administration's estimates. The Governor's proposal would allow counties that experience financial hardship to apply to the state for "a low-interest loan to help cover" their additional IHSS costs. Moreover, the Administration indicates that it will hold ongoing discussions with counties regarding their share of IHSS costs and the impact of the proposed inflation factor.

May Revision Continues Implementation of Multiyear Plan to Reinvest in Early Care and Education, but Fails to Update Income Eligibility Limits

California's subsidized child care and development system allows parents with low and moderate incomes to find and maintain employment while providing care and education for their children. This system is composed of a variety of programs that state policymakers cut dramatically during and after the Great Recession. In recent years, policymakers have restored a portion of the funding for these programs, and the 2016-17 budget agreement included legislative intent to implement a multiyear plan to reinvest in the state's child care and development system.

Facing a forecasted budget shortfall, the Governor in his January proposal "paused" this multiyear reinvestment until the 2018-19 fiscal year. The May Revision reverses course and continues the timely implementation of the planned reinvestments in the subsidized child care and development system. Specifically, the May Revision:

- **Provides $160.3 million to increase the reimbursement rate for providers that contract directly with the state.** The 2016-17 budget agreement included a 10 percent increase in the Standard Reimbursement Rate (SRR), which is the payment rate paid for providers that contract with the state, to go into effect on January 1, 2017. Due to implementation issues related to a midyear rate increase, the SRR was increased by 5 percent, effective July 1, 2016, and was scheduled to increase by the *remaining* 5 percent effective July 1, 2017. The proposed "pause" in the 2017-18 fiscal year would have delayed this second increase until 2018-19. The May Revision *does not* delay the rate increase and provides $67.6 million ($43.7 million Prop. 98) to increase the SRR by 5 percent on July 1, 2017, as originally scheduled. Furthermore, the Governor increases the SRR by *an additional* 6 percent, also effective on July 1, 2017 ($60.7 million Prop. 98, $32 million non-Prop. 98 General Fund).
- **Updates the payment rate for voucher-based providers.** Families can access subsidized care by using a voucher to select a child care provider of their choice. The value of these vouchers is based on a Regional Market Rate (RMR) Survey, which is conducted by the state on a periodic basis. The May Revision increases the value of vouchers by updating rates based on the 2016 RMR Survey ($42.2 million General Fund), effective January 1, 2018.
- **Boosts the number of slots in the state preschool program.** The May Revision provides $7.9 million in Prop. 98 funds to add 2,959 full-day state preschool slots beginning April 1, 2018, as scheduled in the original multiyear plan.

The May Revision maintains positive momentum in restoring funding for a system that is still operating below pre-recession levels. However, the May Revision does not update income eligibility limits, which are currently based on data that are over a decade old. As state and local minimum wages increase, many families find that they are no longer eligible for subsidized care, yet do not earn enough to afford the high cost of early care and education.

May Revision Boosts the Minimum Funding Level for Schools and Community Colleges

Approved by voters in 1988, Prop. 98 constitutionally guarantees a minimum level of funding for K-12 schools, community colleges, and the state preschool program. The Prop. 98 guarantee tends to reflect changes in state General Fund revenues, and due to revised revenue estimates in the May Revision, the

Governor assumes a 2017-18 Prop. 98 funding level of $74.6 billion, $1.1 billion above the level assumed in the January budget proposal. The May Revision also assumes a 2016-17 Prop. 98 funding level of $71.4 billion, $22 million more than January; and a 2015-16 Prop. 98 funding level of $69.1 billion, $432 million more than January.

While revised estimates of 2015-16 revenues are up relative to assumptions in January's budget proposal, the May Revision assumes a 2015-16 Prop. 98 funding level that is actually *greater than* the minimum funding guarantee based on these revised revenue estimates. Because calculations of Prop. 98's annual funding levels are usually based on prior-year funding levels, this overappropriation of the Prop. 98 guarantee for 2015-16 results in higher Prop. 98 funding levels in 2016-17 and 2017-18 than the Prop. 98 minimum funding guarantee otherwise would have required. The Governor's May Revision states that this additional funding made available in 2015-16 and 2016-17, coupled with a proposed "settle-up" payment of $603 million for prior-year Prop. 98 obligations, is sufficient to eliminate the January budget proposal to defer $859 million in 2016-17 funding to 2017-18.

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 expand increases in funding for the state's K-12 education funding formula – the Local Control Funding Formula (LCFF) – and to pay off outstanding obligations to school districts.

Voter approval of Prop. 51 in November 2016 authorized $7 billion in state general obligation (GO) bonds for K-12 school facilities. However, the May Revision, continuing to note shortcomings in the School Facilities Program, states that the Administration will only support the expenditure of Prop. 51 dollars once measures are "in place to ensure that taxpayers' dollars are spent appropriately." Additionally, the May Revision:

- **Provides an additional $643 million, for a total of $1.4 billion, to continue implementation of the LCFF.** 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 May Revision would provide additional LCFF funding above the $744 million increase proposed in January. The Governor's proposal to increase LCFF funding may reduce the amount of time it takes to fully implement the LCFF, which depends on funding sufficient for all districts to reach a target base grant. (All COEs reached their LCFF funding targets in 2014-15.) According to the Administration, the proposed 2017-18 LCFF funding level would bring the LCFF formula "to 97 percent of full implementation."

- **Provides an additional $725 million in one-time funding, for a total of more than $1.0 billion, to reduce mandate debt the state owes to schools.** Mandate debt reflects the cost of state-mandated services that school districts, charter schools, and COEs provided in prior years, but for which they have not yet been reimbursed.
- **Increases the cost-of-living adjustment (COLA) for non-LCFF programs.** The Governor's May Revision provides an additional $3.2 million to fund a 1.56 percent COLA for several categorical programs that remain outside of the LCFF, including special education, child nutrition, and American Indian Education Centers. The May Revision would increase the 1.48 percent COLA ($58.1 million) proposed in the January budget.

A portion of Prop. 98 funding supports California's community colleges (CCCs), which help prepare approximately 2.4 million full-time students to transfer to four-year institutions as well as obtain training and skills for immediate employment. The May Revision increases funding for CCC operating expenses, deferred maintenance, and general-purpose apportionments. Specifically, the May Revision:

- **Increases funding for CCC operating expenses by $160 million.** The May Revision provides funding for the CCCs to pay for increased expenses in areas such as employee benefits, facilities, and professional development.
- **Boosts one-time funding for deferred maintenance and other CCC expenses by $92.1 million.** The May Revision provides funding for the CCCs to pay for deferred maintenance, instructional equipment, and certain water conservation projects.
- **Provides a net increase of $34.1 million in overall apportionment funding.** The May Revision boosts apportionments – which provide general purpose funding for CCCs – to reflect a $28.5 million increase for funding earned back by CCC districts that experienced declining enrollment during the previous three fiscal years, an increase of $23.6 million due to unused prior-year enrollment growth funding, and a $3.5 million increase to fund a 1.56 percent COLA for apportionments, up from 1.48 percent as proposed in the Governor's January budget. The May Revision also decreases apportionments by $21.5 million to adjust enrollment growth from 1.34 percent to 1 percent.

Consistent with the Governor's January budget proposal, the May Revision continues to provide CCCs with $150 million in one-time funding for grants to develop and implement the Guided Pathways Program, an institution-wide approach to support student success.

Governor Proposes Minor Adjustments to Higher Education Funding

The Governor's revised budget makes several minor adjustments to higher education funding. Specifically, the May Revision:

- **Reverses a scheduled reduction to maximum Cal Grant awards for new students attending private institutions accredited by the Western Association of Schools and Colleges (WASC).** The 2012-13 state budget adopted a reduction in Cal Grant awards for students attending independent nonprofit and accredited for-profit institutions. This reduction was to be implemented beginning in 2014-15, but subsequent budget actions postponed this reduction until 2017-18. The May Revision proposes cancelling this scheduled reduction in Cal Grant awards, contingent upon WASC-accredited institutions making "measurable achievements" in three areas: 1) enrolling the "neediest" students, 2) making it easier for students to transfer in from California community colleges, and 3) expanding online education programs. To fund this proposal, the Governor redirects $8 million that originally was intended for the California State University (CSU) and University of California (UC).
- **Shifts additional funds to the California Student Aid Commission (CSAC) to cover higher Cal Grant costs due to recently adopted tuition increases.** The May Revision estimates that recently approved tuition increases that will go into effect this fall will raise 2017-18 Cal Grant costs by $28 million for students at the CSU and $20.9 million for students at the UC. (The CSU Board of Trustees approved a 5 percent and 6.5 percent increase in tuition for undergraduate students and graduate students, respectively, and the UC Board of Regents approved a tuition hike of 2.5 percent.) To cover increased Cal Grant costs, the Governor proposes shifting an additional $194 million in federal Temporary Assistance for Needy Families (TANF) funds to the CSAC. This means that the revised budget would offset $1.1 billion in General Fund costs for Cal Grants with federal TANF dollars when combined with the TANF reimbursements included in the Governor's January budget proposal. Additionally, the May Revision summary warns that "if the universities raise tuition in the future, additional downward adjustments to state support may be needed to cover the higher Cal Grant costs."
- **Maintains the Governor's January proposal to phase out the Middle Class Scholarship Program (MCSP).** The May Revision reflects a net decrease of $10 million due to revised estimates of the cost of this proposal.
- **Proposes to withhold $50 million in funds for the UC.** These funds would be withheld until the UC has made progress implementing 1) the recommendations recently made by the State Auditor, who identified a number of concerns with UC budgeting practices and 2) a series of reforms agreed to by the Governor and the UC President in 2015 related to "activity-based

costing" – a more transparent budgeting process – and the enrollment of transfer students from community colleges.

Governor Maintains Proposal to Use Prop. 56 Funds to Pay for Typical, Year-to-Year Growth in Medi-Cal Costs

Approved by voters last November, Prop. 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. Prop. 56 requires most of the revenues raised by the measure to go to the Medi-Cal program, which provides health care services to more than 13 million Californians with low-incomes. The Administration projects that Prop. 56 will raise approximately $1.8 billion through June 2018, with more than $1.3 billion of this amount allocated to Medi-Cal. In January, the Governor proposed to use Prop. 56 revenues to pay for typical, year-to-year cost increases in Medi-Cal, rather than funding "improved payments" for health care services as Prop. 56 requires. The May Revision maintains this proposal, which the Administration argues is consistent with the requirements of Prop. 56.

May Revision Highlights New Rules Implementing Prop. 57, Which Will Help the State Reduce Incarceration

Currently, more than 130,400 people are serving their sentences at the state level. Most of these individuals – nearly 114,900 – are housed in state prisons designed to hold slightly more than 85,000 people. This level of overcrowding is equal to 135 percent of the prison system's "design capacity," which is below the prison population cap – 137.5 percent of design capacity – established by federal court order. In addition, California houses more than 15,500 individuals in facilities that are not subject to the court-ordered population cap, including fire camps, in-state contract beds, out-of-state prisons, and community-based facilities that provide rehabilitative services.

The total number of people incarcerated by the state has declined by roughly one-quarter since peaking at 173,600 in 2007. This substantial reduction resulted largely from a series of policy changes adopted by state policymakers and the voters in the wake of the 2009 federal court order requiring the state to reduce overcrowding in state prisons.

California voters added a new reform last year by approving Prop. 57, which gives state officials new policy tools to address ongoing overcrowding in state prisons. Prop. 57 requires parole consideration hearings for state prisoners who have been convicted of a nonviolent felony and have completed the full term for their primary offense. The measure also gives the California Department of Corrections and Rehabilitation (CDCR) – which is part of the Governor's administration – broad new authority to award sentencing credits to reduce the amount of time that people spend in prison. Prop. 57 requires the CDCR to adopt regulations implementing both of these provisions. Finally, Prop. 57 requires juvenile court judges to decide whether a youth should be tried in adult court.

The May Revision highlights the Administration's new emergency regulations implementing Prop. 57, which were approved by the Office of Administrative Law in April. These emergency rules, which could change prior to being finalized, stipulate that:

- The new parole consideration process for nonviolent offenders will take effect on July 1, 2017.
- New and enhanced sentencing credits for completion of education and rehabilitation programs will be implemented on August 1, 2017. (Enhanced sentencing credits *for good conduct* took effect on May 1.)

The Administration estimates that in 2017-18, Prop. 57 will reduce the number of inmates by 2,675 *below* the level that was otherwise projected (130,368). This annual drop in the inmate population is projected to grow to about 11,500 in 2020-21. According to the Administration, this reduction would allow the CDCR "to remove all inmates from one of two remaining out-of-state facilities in 2017-18, and begin removing inmates from the second facility as early as January 2018." The May Revision projects that Prop. 57 will result in net state savings of $38.8 million in 2017-18, rising to about $186 million by 2020-21.

Governor's Revised Budget Reflects Recent Transportation Funding Agreement With the Legislature

California's expansive transportation infrastructure includes 50,000 lane-miles of state and federal highways, 304,000 miles of locally owned roads, Amtrak intercity rail services, and numerous local transit systems, all of which facilitate the movement of people and goods across the state. The state's largest category of deferred maintenance is for its existing transportation facilities.

The Governor's revised budget includes a recently enacted agreement with the Legislature on a 10-year, $54 billion transportation funding package. This includes $2.8 billion for 2017-18.

The funding will be split equally between state and local transportation programs over the next 10 years. Major state-level allocations include:

- $15 billion for highway repairs.
- $4 billion in bridge repairs.

- $3 billion to improve trade corridors.
- $2.5 billion to reduce congestion on major commute corridors.

Major local-level allocations include:

- $15 billion for local road repairs.
- $8 billion for public transit and intercity rail.
- $2 billion for local "self-help" communities that are making their own investments in transportation improvements.
- $1 billion for active transportation projects to better link travelers to transit facilities.

The funding package relies on new revenues generated from a series of tax and fee increases:

- $24.4 billion from a 12-cent increase in the base gas excise tax starting on November 1, 2017.
- $10.8 billion from a 20-cent increase in the diesel fuel base excise tax and a 5.75-cent increase in the diesel fuel sales tax starting on November 1, 2017.
- $16.3 billion from a new annual transportation improvement fee that will take effect on January 1, 2018. This fee will range from $25 to $175 per vehicle based on the value of the vehicle. (For instance, a vehicle valued at less than $5,000 would incur a fee of $25, while a vehicle valued at $60,000 or more would incur a $175 fee.)
- $200 million from a new annual fee of $100 on all zero-emission vehicles starting on July 1, 2020.

In addition, the base gas and diesel fuel excise taxes, the new transportation improvement fee, and the new zero emissions vehicle fee will be annually adjusted for inflation starting 2020-21.

May Revision Adds Modest New Resources to Address Federal Actions on Immigration and Other Issues

Aggressive federal enforcement of immigration laws has been an area of particular tension between the new federal administration and California's state and local governments. The state was home to more than 10.7 million foreign-born residents as of 2015. These include a significant number of undocumented immigrants and their children, who are often US citizens or legal residents. Since the beginning of the Trump Administration, the Governor has been vocal in his support for California's immigrant residents.

New in the Governor's May Revision are two modest increases in state resources dedicated to addressing federal actions that affect California's immigrant residents and state government. The Governor's May Revision dedicates an additional $15 million General Fund to the Department of Social Services to increase the availability of legal services for people seeking help with naturalization, securing legal immigration status, and defense against deportation. To address federal actions more broadly, the Governor also proposes adding $6.5 million General Fund and 31 positions in the state's Department of Justice for "new legal workload related to various actions taken at the federal level that impact public safety, health care, the environment, consumer affairs, and general constitutional issues."

May Revision Makes No New Investments in CalEITC, CalWORKs, SSI/SSP, or Optional Medi-Cal Benefits

Consistent with the Governor's budget proposal in January, the May Revision proposes no new investments in a number of services and income supports that help Californians with low incomes. The Governor's revised budget:

- **Proposes no changes to the CalEITC.** The California Earned Income Tax Credit (CalEITC) is a refundable state tax credit designed to boost the incomes of low-earning workers and their families and help them afford basic expenses. The credit was established by the 2015-16 budget agreement and became available to claim in the 2015 tax year, providing an average credit of slightly more than $500 to over 385,000 households that year. The May Revision makes no changes to CalEITC credit amounts or eligibility. Also, while the 2016-17 budget agreement included $2 million for education and outreach efforts to increase CalEITC claims, the Governor's 2017-18 budget does not include funding to continue these efforts beyond the current year, despite evidence that many eligible workers may not be claiming the credit.
- **Makes no new investments in CalWORKs.** The California Work Opportunity and Responsibility to Kids (CalWORKs) program provides modest cash assistance for 875,000 low-income children while helping parents overcome barriers to employment and find jobs. The May Revision accounts for increases in CalWORKs grants due to last year's repeal of the punitive Maximum Family Grant (MFG) or "family cap" rule, but does not propose new increases to CalWORKs grants or time limits, though this would be necessary to reverse cuts made to the program during and after the Great Recession. CalWORKs funding overall is reduced in the May Revision, compared to the Governor's January budget proposal, due to expected lower costs based on updated projections of caseload and average cost per case.
- **Provides no state COLA 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. Last year, the state approved a 2.76 percent state COLA for the SSP portion of the grant, which took effect in January 2017, but the May Revision does not propose a new state COLA for 2017-18, though the SSI/SSP grant level for single individuals remains below the federal poverty guideline. SSI/SSP grants are still expected to increase modestly in January 2018, however, because the federal government is projected to provide a 2.6 percent COLA to the SSI portion of the grant. SSI/SSP funding overall is reduced in the May Revision compared to the Governor's January budget due to expected lower costs based on updated caseload and average cost-per-case projections.

- **Does not propose to restore Medi-Cal benefits that state policymakers eliminated during the Great Recession to help close a budget shortfall.** Under federal law, certain Medicaid benefits are provided at state option. In 2009, state policymakers eliminated several of these optional benefits from the Medi-Cal program, including adult dental services, acupuncture, audiology, optical services, and certain mental health services. Policymakers later restored acupuncture services and some dental services for adults. Fully restoring the remaining optional benefits would cost $311.1 million ($106.8 million General Fund) in 2017-18, according to the Department of Health Care Services.

May Revision Proposes No New Funding for Affordable Housing and No New Changes to Cap-and-Trade

Like the Governor's January budget proposal, the May Revision repeatedly notes the serious effects of California's housing affordability crisis, including its implications for family budgets, state sales tax revenues, job growth, and inflation. The Governor again highlights the insufficient supply of housing as one of the most serious threats to the state's economy. At the same time, however, the May Revision – like the January budget proposal – calls for no new state investment in affordable housing. Indeed, the Governor's revised budget continues to rescind the $400 million that had been set aside for affordable housing programs in the 2016-17 budget agreement. Allocation of these funds was contingent on lawmakers modifying the local review process for certain housing developments, as outlined in the Governor's "by-right" proposal from last year, which was not adopted by the Legislature.

The May Revision also makes no change to the January proposal to eliminate the $45 million Housing and Disability Advocacy Program, established in the 2016-17 budget agreement, which was intended to help individuals who are homeless or at risk of homelessness and who have a disability to access appropriate benefits.

Affordable housing is one of the areas slated to receive funding from California's "cap and trade" program, which sets a statewide limit on the emission of greenhouse gases (GHGs) and authorizes the Air Resources Board to auction off emission allowances, with proceeds invested in activities that seek to reduce GHG emissions. The Governor's May Revision includes no new proposals related to cap-and-trade relative to his January budget. The January proposal called on the Legislature to confirm with a two-thirds vote the authority of the Air Resources Board to administer the cap-and-trade program beyond 2020, in order to reduce "perceived legal uncertainty" about the program beyond that time. Contingent on this legislative action, the Governor proposed a plan to spend $2.2 billion in cap-and-trade auction proceeds on transit investments, affordable housing, pollution reduction, and other activities to promote environmental sustainability and energy efficiency.