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First Look

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2018-19 State Budget Invests in Reserves and an Array of Vital Services, Sets Course for Future Advances

Earlier today, Governor Jerry Brown signed more than 20 bills in the 2018-19 state budget package, his final budget as Governor. The new budget package forecasts revenues that are $8.0 billion higher – over a three-year window – than projected in January, due to strong economic growth.

The budget agreement prioritizes building up state reserves. As required by Proposition 2 (2014), $3.5 billion is set aside, with half going to the state's rainy day fund and half to pay down debts. An optional $2.6 billion is deposited into a new, temporary reserve; $2 billion is placed in a discretionary reserve; and a new $200 million "safety net reserve" is created to help support CalWORKs and Medi-Cal services in an economic downturn. State reserves are expected to total almost $16.0 billion by the end of 2018-19.

The 2018-19 budget makes some notable investments in the economic security of Californians. It strengthens the California Earned Income Tax Credit (CalEITC) by extending eligibility to young adults and seniors who are currently excluded and raising the income eligibility limit to account for the rising state minimum wage. The budget also includes key investments in the safety net: providing funding for CalWORKs grant increases to help address deep poverty; establishing a CalWORKs home visiting pilot; and ending the "SSI cash-out," a state policy that prohibits many low-income seniors and people with disabilities from receiving federal food assistance through the CalFresh program.

Significant investments are also made in education. Growth in state revenues means increased funding for K-14 education under the Prop. 98 minimum guarantee, including funding to support full implementation of the Local Control Funding Formula for K-12 schools. The budget also provides additional support for California's Community Colleges (CCCs), creates a new formula allocating CCC funds, and establishes an online community college. The California State University and University of California receive increases in one-time and ongoing funding. In addition, the new budget package provides modest increases for early childhood education and to address homelessness, though far less than what the Legislature had sought.

In several areas, the budget provides a roadmap for investments in coming years, calling for future savings in excess of the state's rainy day fund cap to be split among construction and maintenance of state buildings, housing, and rail projects; cost-of-living-adjustments (COLAs) to be reinstated for CalWORKs and SSI/SSP by 2022-23; and a plan for achieving unified financing of health care delivery in California.

The following sections summarize key provisions of the 2018-19 budget. Please check the Budget Center's website (calbudgetcenter.org) for our latest commentary and analysis.

Budget Package Brings Constitutional Rainy Day Fund Balance to Its Maximum Level

California voters approved Proposition 2 in November 2014, amending the California Constitution's 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 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 2018-19 budget package assumes that Prop. 2 will constitutionally require the state to deposit $1.75 billion into the BSA and to use an additional $1.75 billion to repay budgetary debt. Moreover, the budget deal includes the Governor's proposal to make an optional deposit of $2.6 billion into the BSA in 2018-19 in order to bring the rainy day fund to its constitutional maximum – 10% of General Fund tax revenue. (As explained in the section titled "Budget Agreement Creates Two New Reserves," this additional $2.6 billion will temporarily be held in a new reserve called the Budget Deficit Savings Account.) Overall, the 2018-19 budget agreement assumes a $4.4 billion transfer from the General Fund to the BSA: $1.75 billion as required by the state Constitution, plus the $2.6 billion optional deposit. With these funds, the BSA balance is projected to grow to $13.8 billion by the end of the 2018-19 fiscal year, which ends on June 30, 2019. If future mandatory deposits exceed the BSA's maximum capacity, Prop. 2 would require these "overflow" funds to be spent on infrastructure. The 2018-19 budget package includes a plan for allocating any such excess funds, beginning in 2019-20, for "state buildings and their deferred maintenance, housing, and rail projects," according to the Assembly Floor Report.

Along with the constitutional rainy day fund, the state has a separate *discretionary* reserve called the Special Fund for Economic Uncertainties (SFEU), which was established in the early 1980s. The budget package assumes that the state will end the 2018-19 fiscal year with an SFEU balance of $2.0 billion.

Budget Agreement Creates Two New Reserves

The 2018-19 budget deal creates two new reserves: the Safety Net Reserve Fund, which includes both a CalWORKs subaccount and a Medi-Cal subaccount, and the Budget Deficit Savings Account (BDSA). The purpose of the Safety Net Reserve Fund is to set aside funds that can be used to maintain benefits and services for CalWORKs and Medi-Cal participants during economic downturns when state revenues decline and need rises. The budget agreement deposits $200 million General Fund into the CalWORKs subaccount and requires the Department of Finance (DOF), in consultation with certain other departments, to establish a process for making future deposits into the reserve and for withdrawing and distributing funds from the reserve.

The BDSA will temporarily hold a $2.6 billion discretionary deposit (above what is constitutionally required to be deposited) into the state's existing rainy day fund, the Budget Stabilization Account (BSA). This reflects the amount of additional funds the Administration currently projects are needed to bring the BSA up to its constitutional maximum in 2018-19. The Administration will revise this amount based on updated budget projections in May 2019 and that amount will be transferred from the BDSA to the BSA no earlier than May 31, 2019. Half of any funds remaining in the BDSA will be transferred to the Safety Net Reserve Fund, while the remainder will stay in the BDSA.

Budget Agreement Strengthens the CalEITC

The 2018-19 budget deal strengthens the California Earned Income Tax Credit (CalEITC) – a refundable state tax credit that boosts the incomes of low-earning workers and their families, helping them afford necessities. Specifically, the agreement:

- **Extends the CalEITC to low-earning young adults and seniors who are ineligible for the credit.** Currently, workers without dependents have to be between the ages of 25 and 64 to qualify for the CalEITC. The budget deal would change this requirement beginning in tax year 2018 so that workers without dependents could qualify for the credit as long they are at least age 18.
- **Modestly increases the income limit to qualify for the credit to account for the rising state minimum wage.** Currently, workers with dependents have to earn less than about $22,000 annually to qualify for the credit – roughly equal to full-time, year-round earnings for a worker earning $10.50 per hour (the state's minimum wage for large businesses in 2017). The budget deal would raise this income limit beginning in tax year 2018 to just under $25,000 – equivalent to full-time, year-round earnings for workers earning $12 per hour (the state's minimum wage for large businesses in 2019.) The CalEITC income limit would also increase for workers who do not have dependents, going from about $15,000 currently to almost $17,000.

These two provisions are expected to reduce General Fund revenues by $60 million in 2018-19.

The budget agreement also provides $10 million General Fund to support community-based efforts to promote the CalEITC and evaluate those efforts as well as to support organizations that provide free tax preparation services.

The budget deal does not include an Assembly proposal to extend the CalEITC to low-earning immigrants who are currently ineligible for the credit because they file their taxes using Individual Taxpayer Identification Numbers (ITINs).

Budget Package Creates New Process for Certifying Proposition 98 Minimum Funding Guarantee

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. The 2018-19 budget agreement assumes the same Prop. 98 funding levels as were reflected in the May Revision: $78.4 billion in 2018-19, $75.6 billion in 2017-18, and $71.6 billion in 2016-17.

The budget agreement establishes a new process for how the state certifies the final annual funding level guaranteed under Prop. 98. Specifically, the budget package requires the Department of Finance (DOF) to calculate and publish the Prop. 98 guarantee no later than May 14 for the *prior* fiscal year and, after a period of public comment, to issue a final certification of the minimum funding obligation and publish this amount by August 15. (For example, the final certification for fiscal year 2017-18 must be published by August 15, 2019.) Any legal challenge to a final certification must be filed within 90 days of DOF's publication of the Prop. 98 guarantee. The budget agreement also establishes a new process for finalizing prior-year Prop. 98 spending, adjusts the Prop. 98 guarantee to include the cost of wraparound preschool provided by K-12 school districts and county offices of education (COEs), and requires DOF to certify the Prop. 98 guarantee for 2009-10 through 2015-16.

Budget Supports Full Implementation of the Local Control Funding Formula (LCFF) for K-12 Education

The largest share of Proposition 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 2018-19 budget agreement increases funding for the state's K-12 education funding formula – the Local Control Funding Formula (LCFF) – and, consistent with the Governor's January proposal and his May Revision, provides sufficient dollars to reach the LCFF's target funding level in 2018-19. Specifically, the budget agreement:

- **Provides $3.7 billion to support full implementation of the LCFF, an increase of $407 million above the May Revision.** 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 budget agreement provides a 3.7% cost-of-living adjustment (COLA) in 2018-19 for the purpose of calculating LCFF grant targets for K-12 districts and charter schools and provides the remaining funds needed to reach those grant targets and fully implement the LCFF in 2018-19. (All COEs reached their LCFF funding targets in 2014-15.) The budget agreement also includes a provision that would appropriate LCFF dollars to K-12 school districts in future years even if the Legislature does not act and, further, automatically adjusts this appropriation for increases in the cost of living and for changes in enrollment.

- **Provides $1.1 billion in one-time funding to reduce mandate debt the state owes to schools, down from $2.0 billion proposed in the May Revision.** 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.
- **Rejects an Assembly proposal to create an ongoing LCFF grant for low-performing students.** However, the budget agreement provides $300 million in one-time funding to establish the Low-Performing Students Block Grant to support students who do not meet academic standards on English and mathematics assessments and who are not eligible to receive supplemental grant funding under the LCFF nor identified to receive special education services.
- **Provides $164 million to support the Strong Workforce Program, down from $212 million proposed in the Governor's January budget proposal.** The budget agreement provides $150 million for a K-12-specific component of the Strong Workforce Program, which was established as part of the 2016-17 budget for the purpose of expanding community college career technical education (CTE) and workforce development programs. The budget package also allocates $14 million for K–12 Workforce Pathway Coordinators and K–14 Technical Assistance Providers to provide technical support to K-12 districts that operate CTE programs.
- **Allocates $125 million in one-time funding to address the state's teacher shortage in special education and other areas.** The budget package establishes two new competitive grant programs to address areas in which California currently has teacher shortages. The budget allocates $75 million for a new Teacher Residency Grant Program, including $50 million to recruit and prepare special education teachers and $25 million to recruit and prepare science, technology, engineering, mathematics, or bilingual education teachers. The budget also includes $50 million for a new Local Solutions Grant Program to provide "locally identified solutions" that address the need for special education teachers.
- **Maintains the COLA for non-LCFF programs proposed in the May Revision.** The budget agreement provides $114 million to fund a 2.71% COLA proposed in the May Revision for several categorical programs that remain outside of the LCFF, up from the January proposal of a 2.51% COLA. These programs include special education, child nutrition, and American Indian Education Centers.

- **Provides $27.1 million for the English Language Proficiency Assessment for California (ELPAC).** The budget agreement approves the Governor's May Revision proposal to convert the ELPAC to a computer-based assessment from one that is paper-based as well as to develop a computer-based alternative for children with exceptional needs. The budget agreement makes these one-time dollars available for fiscal years 2018-19 through 2021-22.
- **Provides $15 million in one-time funding to expand the state's Multi-Tiered System of Support (MTSS).** The budget agreement approves the May Revision proposal to provide funding to the Orange County Department of Education to contract, jointly with the Butte County Office of Education, a to-be-identified California higher education institution to expand the state's MTSS with the goal of fostering positive school climate in both academic and behavioral areas.
- **Provides $13.3 million in one-time funding to create the Community Engagement Initiative.** The budget agreement approves the May Revision proposal to create this initiative to build the capacity of communities and school districts to deepen community engagement with the goal of improving student outcomes. The budget agreement allocates these one-time dollars to the California Collaborative for Educational Excellence, includes several performance benchmarks for their use, and makes funding available through the 2023-24 fiscal year.

Budget Agreement Moves Forward With New Community College Funding Formula and Online College

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 2018-19 budget agreement approves two new community college proposals:

- **Provides a $522.8 million increase for the new CCC funding formula and adjusts apportionments.** The spending plan adopts a new funding formula that apportions funding to districts based on three grant components: a base grant, a supplemental grant, and a student success incentive grant. Funding is allocated as follows:
  - A 70% *base grant* for each district, based on enrollment of per-Full-Time Equivalent Students (FTES).
  - A 20% *supplemental grant* based on the number of low-income College Promise Grant fee waiver recipients; specified undocumented students qualifying for resident tuition; and all Pell grant recipients.
  - A 10% *student success incentive grant* based on performance outcomes of economically disadvantaged students, student transfer rates to four-year institutions,

wages of students who have completed a degree or certification program, and other factors.

The final budget includes a "hold harmless" provision that maintains funding for all CCC districts for three years at no less than the amount of funding received in 2017-18 and provides an increase for each district to reflect a cost-of-living adjustment.

- **Approves new fully online community college.** The final budget agreement allocates $120 million ($100 million in one-time funding and $20 million in ongoing funding) for the creation of a new online college. The agreement specifies that this online college will develop unique courses and programs that lead to short-term credentials that are not available at local campuses and that lead into pathways offered at existing colleges. The plan permits the online college to establish its own fee structure, but prohibits it from charging fees higher than a traditional college. The final agreement requires the online college to provide evidence to the Department of Finance (DOF) and the Legislature that it has achieved accreditation candidacy by April 1, 2022 and full accreditation by April 1, 2025.
- **Consolidates the Student Success and Support Program, the Student Success for Basic Skills Program, and the Student Equity Program into a single block grant.** These three categorical programs, which target similar communities of students, will be integrated with the intent of increasing program flexibility.
- **Consolidates the Student Success and Support Program, the Student Success for Basic Skills Program, and the Student Equity Program into a single block grant.** These three categorical programs, which target similar communities of students, will be integrated with the intent of increasing program flexibility.
- **Provides $23 million for deferred maintenance and other CCC expenses.**

Budget Package Increases Funding for CSU and UC, While Making Several Adjustments Regarding Financial Aid Programs

The budget package significantly boosts the funding levels in the May Revision for the California State University (CSU) and the University of California (UC). Specifically, the revised spending plan:

- **Increases CSU ongoing funding by nearly $200 million and also provides significant one-time funding.** The budget agreement allocates $197.1 million in ongoing funding and $161.6 million in one-time funding to support legal services for undocumented students, faculty, and staff and to address student hunger and basic needs, deferred maintenance, and enrollment growth, among others.

- **Increases UC ongoing funding by nearly $100 million and also provides significant one-time funding.** The budget agreement allocates $98.1 million in ongoing support (includes enrollment growth) and $248.8 million in one-time funding to support legal services for undocumented students, faculty, and staff, and to address student hunger and basic needs and deferred maintenance, among others.

The spending plan also makes the following adjustments regarding the state's financial aid programs:

- **Creates a new stipulation for addressing the potential impact of tuition increases.** The plan allows the Department of Finance (DOF) to reduce primary appropriations for the CSU and UC by the amount of estimated Cal Grant and Middle Class Scholarship program cost increases if tuition is increased in 2018-19.
- **Increases admission goals for private nonprofit institutions to maintain the maximum Cal Grant tuition awards.** The final budget agreement maintains the maximum award for new students attending private nonprofits at $9,084, but adjusts the annual admissions goal for students who have earned an Associate Degree for Transfer (ADT) required to maintain the maximum award level. The budget requires the private nonprofit sector to admit at least 2,000 ADT students in award year 2019-20; 3,000 students in award year 2020-21; and 3,500 in award year 2021-22.
- **Expands grant eligibility for current and former foster youth.** The Cal Grant B Entitlement award provides low-income students with a "living allowance" to help pay for basic expenses. Currently, this award is restricted to students who attend college within one year of graduating high school. The budget agreement extends the Cal Grant B Entitlement award eligibility for current and former foster youth up to age 26. The age limit for current or former foster youth receiving the Chafee Grant has also been extended from 22 to 26.

Budget Package Uses Federal Funds to Provide Additional Subsidized Child Care Slots

California's child care and development system allows parents with low and moderate incomes to find jobs and remain employed while caring for and preparing their children for school. The state's subsidized child care and development system is funded with state and federal dollars, but after adjusting for inflation, overall funding for this system is lower than it was 10 years ago due to both state budget cuts made during and after the Great Recession and relatively flat federal funding.

The 2018-19 state budget package utilizes newly available federal funds and continues to reinvest state resources in California's subsidized child care and development system, but does not adopt the expansive proposals put forth by both the Assembly and the Senate. Specifically, the budget package:

- **Utilizes newly available federal funding to create time-limited subsidized child care and development slots and to conduct annual inspections.** Federal policymakers appropriated additional federal dollars for subsidized child care as part of the omnibus spending legislation for the 2018 federal fiscal year. California will receive $232 million in newly available federal funds as a result. The final state budget package creates 11,307 Alternative Payment Program (AP) slots with $204.6 million of the newly available dollars to be used over two state fiscal years: 2018-19 and 2019-20, which means that the slots are only available to eligible families until June 30, 2020. If federal policymakers appropriate the same amount of money for the 2019 federal fiscal year, then these 11,307 slots will be available through June 30, 2022. The budget package also includes $26.4 million in federal funds for annual inspections of licensed child care providers, as required by federal law.
- **Modestly increases the number of subsidized child care and state preschool slots with state funds.** The budget package includes $15.8 million to add 2,100 AP slots on September 1, 2018. In addition, the budget package provides $8.5 million in Proposition 98 funding to add 2,959 full-day state preschool slots beginning on April 1, 2019, as agreed upon in the 2016-17 budget agreement.
- **Increases payment rates for providers that contract with the state.** The final budget agreement includes a 2.8% rate increase and a 2.7% cost-of-living adjustment for the Standard Reimbursement Rate (SRR), which is the base rate paid to child care providers that contract directly with the state. The budget package also includes $40.2 million to increase the adjustment factors for the SRR for infants, toddlers, and children with special needs, effective January 1, 2019, which will boost payment rates for providers caring for these children.
- **Increases funding for quality improvement programs.** The budget package provides one-time funding for a number of quality and support programs, including $5.0 million for professional development for child care teachers, $5.0 million for the California Child Care Initiative, and $6.0 million in federal funding for other one-time quality activities, such as consumer education.
- **Provides $109.2 million General Fund for CalWORKs Stage 2 and Stage 3 caseload adjustments.** The 2017-18 budget agreement included $25 million to increase the decade-old income eligibility limits and implement a 12-month eligibility period. Based on communication with the Administration, the budget agreement adjusts funding for CalWORKs Stage 2 and Stage 3 child care mainly to reflect a larger-than-expected increase in caseload due to these provisions.

- **Includes provisions to increase access to early care and education for children with special needs.** The 2018-19 budget package creates two new grant programs and establishes a stakeholder workgroup to focus on expanding access to early care and education for children with special needs.
  - The budget package provides $167.2 million in one-time Prop. 98 funding to create the Inclusive Early Education Expansion Program with the goal of increasing access to inclusive subsidized early care and education programs. This new program will provide grantees with resources for "infrastructure costs" such as facilities renovation or professional development. Because the new program is funded with Prop. 98 dollars, only Local Education Agencies (LEA) are eligible to apply for the grant program, but the Administration is encouraging partnerships with non-LEAs. Grant funds will be available through June 30, 2023. Grant funds will not be available to provide additional subsidized slots, though that is a requirement of the grant program.
  - The final budget agreement includes $10.0 million in Prop. 98 funding to create the Inclusive Early Care Pilot program for county offices of education. This new grant program will also focus on increasing access to subsidized child care and development programs for children with special needs, including children with severe disabilities. Ongoing funding for this grant program will be contingent upon an appropriation in the annual budget act.
  - Trailer bill language also creates a stakeholder group – including grantees from the aforementioned programs – to focus on continuously improving access to early care and education for children with special needs. The stakeholder group will work on this issue through June 30, 2023.

The final budget agreement does not include a variety of proposals put forth by both the Senate and Assembly to increase access to subsidized child care for families with low and moderate incomes. For example, the Assembly and the Senate both proposed additional funding for AP slots and General Child Care slots as well as a rate increase for license-exempt providers – often family, friends or neighbors – who care for children on a part-time basis. These providers often are reimbursed at a rate that is well below the minimum wage, which could limit families access to license-exempt care if providers are unwilling to accept the sub-minimum wage rate.

Enacted Budget Takes Preliminary Steps to Raise CalWORKs Grants and Indicates Intent to Reinstate the State COLA

The California Work Opportunity and Responsibility to Kids (CalWORKs) program provides modest cash assistance for over 830,000 low-income children while helping parents overcome barriers to employment and find jobs. 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 the past 11 years. In this year's budget deliberations, the Senate proposed to end deep child poverty in CalWORKs by 2021-22 with phased-in increases to the maximum grant, starting with $400 million in 2018-19 and growing to $1.5 billion by 2021-22. However, the 2018-19 budget package reflects a more modest increase, providing $90 million for a 10% grant increase beginning April 1, 2019. This increase would amount to $360 million in ongoing full-year costs starting 2019-20, if no further increases followed. However, this act is intended as the first of three tentative steps to raise grants above deep poverty potentially over three years. After this initial step, the Legislature plans to halve the gap between the new maximum grant and 50% FPL and then finally close the gap. However, these last two increases are not yet funded and so would depend upon future budget appropriations.

The statutory annual state cost-of-living adjustment (COLA) allows grants to maintain their purchasing power despite inflation, though state policymakers eliminated the COLA for CalWORKs in 2009. In its set of proposals aimed at ending deep poverty in CalWORKs, the Senate called for reinstating the COLA to allow grants to keep pace with the cost of living. Though the enacted budget does not actually reinstate the COLA, it expresses the *intent* to do so starting July 1, 2022, setting it at 0% with the potential for funding in future budgets.

Enacted Budget Revises Governor's Proposal for CalWORKs Home Visiting Initiative

In January, the Governor proposed allocating $158.5 million in one-time Temporary Assistance for Needy Families (TANF) funds for a new CalWORKs home visiting pilot initiative, with $26.7 million in TANF dollars allocated in the 2018-19 state budget year and the remaining $131.8 million to be available through calendar year 2021. Under the Administration's proposal, the initiative would provide up to 24 months of home visiting for first-time CalWORKs parents under age 25, who would have to be either pregnant or parenting a child under age 2. (Participation in this new program would be voluntary.) These eligibility requirements would have excluded many families, as the average CalWORKs household has two children and is headed by a 34-year-old caregiver. The 2018-19 budget package addressed this by extending home visiting services to participants of any age and lifting the restriction on the number of children participants may have, though continuing to prioritize first-time parents. The enacted budget funds the initiative for the first three years, subject to appropriation in the annual Budget Act.

Budget Agreement Ends the "SSI Cash-Out," Allowing People Enrolled in SSI/SSP to Receive Federal Food Benefits for the First Time Since the 1970s

Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants help well over 1 million low-income seniors and people with disabilities in California pay for housing, food, and other basic necessities. Grants are funded with both federal (SSI) and state (SSP) dollars. Since the mid-1970s, the state has prohibited people enrolled in SSI/SSP from receiving federal food benefits provided through the Supplemental Nutrition Assistance Program (SNAP), which is called CalFresh in California. This state policy is known as the "SSI cash-out."

The 2018-19 budget package ends the state's SSI cash-out policy. SSI/SSP recipients will become eligible for CalFresh food assistance as soon as June 1, 2019, or no later than August 1, 2019, depending on how rapidly the state can implement this change. Ending the SSI cash-out will primarily benefit households that consist *solely* of one or more SSI/SSP recipients; the state projects that 369,000 such households will sign up for CalFresh after gaining eligibility, which assumes a 75% participation rate among these households. In addition, the budget agreement creates a state-funded food benefit for certain households whose *current* CalFresh benefits will be reduced or eliminated when the SSI cash-out ends. These households contain a mix of SSI/SSP recipients and other people with low incomes who 1) are *not* enrolled in SSI/SSP and 2) receive CalFresh benefits. Because of how CalFresh benefits are calculated, once SSI/SSP recipients become eligible for CalFresh about 80,000 of these mixed households will see their CalFresh assistance reduced or lose eligibility for CalFresh, according to state projections.

The state budget provides $230 million to end the SSI-cash out. Of this amount, $199.3 million will pay for the new state-funded food benefit and the remainder will support automation changes (reprogramming computer systems) and counties' additional costs for administering the CalFresh program. The budget package authorizes the Department of Finance (DOF) to transfer additional funds, as needed, to pay for other costs associated with ending the SSI cash-out.

Budget Package Does Not Provide a State Cost-of-Living Adjustment for SSI/SSP Grants, but Sets the Stage for Annual Increases Beginning in 2022-23

For many years, California law required the state to provide an annual cost-of-living adjustment (COLA) for SSI/SSP grants. The Legislature often suspended these automatic annual increases in order to limit the state's General Fund obligations for SSI/SSP. Nonetheless, this requirement for an annual state COLA remained in place until the 2011 calendar year, when a new policy – approved by the Legislature in 2009 – took effect: The state COLA for SSI/SSP grants became *optional* rather than mandatory. In the wake of this change, state policymakers have provided only a single discretionary COLA for SSI/SSP grants: a 2.76% increase to the SSP portion that took effect on January 1, 2017.

The new budget package does not provide a state increase for SSI/SSP grants in 2018-19. However, the budget agreement does revise state law to once again *require* annual state COLAs for SSI/SSP grants beginning on July 1, 2022. However, this new requirement is substantially watered down compared to the "statutory COLA" that existed prior to 2011. This is because the annual state COLA will be set at 0% each year starting in 2022-23 and can only exceed that level if the Legislature specifies a higher percentage in the budget bill. This means that – as under current law – decisions about whether to provide a COLA will be subject to annual negotiations between state lawmakers and the Governor. Nonetheless, by essentially signaling the Legislature's intent to begin providing COLAs for SSI/SSP grants within a few years, the 2018-19 budget package sets the stage for annual state increases to this critical source of basic income for low-income seniors and people with disabilities.

Budget Package Aims to Address Health Care Affordability and Financing, but Includes None of the Policy Expansions Advanced by the Legislature

The 2018-19 budget agreement includes provisions that aim to boost the affordability of health insurance, reform health care financing, and develop a statewide database to collect information on health care prices and utilization. Specifically, the budget package:

- **Requires Covered California – the state's health insurance exchange – to develop options for providing financial assistance to help Californians purchase health care coverage.** These options must include a focus on Californians with incomes up to 600% of the federal poverty line, which equals $72,840 for an individual or $150,600 for a family of four in 2018. Covered California is required to report these options to state policymakers by February 1, 2019.

- **Creates a state council to examine pathways toward achieving "unified financing" of health care delivery in California.** This new five-member council is required to consider a number of factors in developing a plan, including key design elements (such as eligibility and benefits), financing options, and whether any proposed changes would require approval by the federal government and/or by California voters. This plan must be submitted to state policymakers by October 1, 2021.
- **Provides $60 million to help create a statewide database to collect information on health care prices and utilization in California.** This database is intended to be "substantially completed" by July 1, 2023, with the goal of providing "greater transparency regarding health care costs" as well as informing health care policy decisions, according to Assembly Bill 1810, the health care "trailer bill." The development of this database will be led by the Office of Statewide Health Planning and Development (OSHPD) with input from an advisory committee made up of health care policy experts. OSHPD is required to submit a report to the Legislature by July 1, 2020, that addresses a number of considerations, including recommending "a plan for long-term, non-General Fund financing to support the ongoing costs of maintaining the database."

While the budget agreement promotes long-term efforts to improve California's health care system, it does *not* incorporate any health care coverage expansions or affordability policies that the Legislature had advanced. For example, the budget package:

- **Does not expand eligibility for Medi-Cal to undocumented immigrant adults.** The Assembly's spending plan proposed to expand Medi-Cal eligibility to undocumented adults up to age 26; the Senate's plan would have expanded eligibility to undocumented adults age 65 or older.
- **Does not provide state-funded assistance to moderate-income Californians who buy health insurance on the individual market, including through Covered California.** The Assembly's spending plan included new premium assistance or tax credits to help Californians with incomes up to 600% of the federal poverty line pay for health insurance.
- **Does not end Medi-Cal's "senior penalty."** Currently, Californians age 65 and older can qualify for *no-cost* Medi-Cal only if their income is at or below about 123% of the poverty line. In contrast, for younger adults the income limit for no-cost Medi-Cal is 138% of the poverty line. Seniors who fall into this coverage gap must pay a deductible (known as a "share of cost") that can amount to hundreds of dollars per month in order to access Medi-Cal services. Both the Assembly and the Senate proposed to eliminate this senior penalty by increasing the income limit for adults age 65 and older to 138% of the poverty line.

Budget Package Allocates More Than $1 Billion in Proposition 56 Tobacco Tax Revenues for Medi-Cal Provider Payment Increases and a New Loan Assistance 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. The 2018-19 budget package allocates more than $1 billion of Medi-Cal's share of Prop. 56 dollars for 1) payment increases for doctors, dentists, and other Medi-Cal providers ($821.3 million) and 2) a new loan assistance program for recent medical and dental school graduates who serve Medi-Cal beneficiaries ($220 million). The state Department of Health Care Services will develop the eligibility rules and other criteria for the loan assistance program, which is called the "Proposition 56 Medi-Cal Physicians and Dentists Loan Repayment Act Program."

Budget Includes Some New Funding for Legal Services for Immigrants, but Leaves Other Immigrant-Focused Proposals

California has the largest share of immigrant residents of any state, and immigrants make up a third of the state's workforce. Given the prominence of immigrants in California's population and the state's economy, recent and ongoing federal actions to limit immigration and aggressively enforce immigration laws particularly impact California. Despite the significance of immigrants to California, and the heightened attention to immigration issues nationally, the budget agreement includes only relatively modest new investments to address the specific needs of immigrants.

The 2018-19 budget agreement provides a total of $31 million in one-time funding for legal services for immigrants, adding to the increased funding for immigrant legal services already included in the current year's budget. This one-time funding includes a $10 million augmentation to the Department of Social Services for legal services for immigrants, including undocumented unaccompanied minors and individuals with current or past Temporary Protected Status (TPS). The budget also includes one-time allocations for legal services for undocumented and other immigrant students, faculty, and staff at California's public colleges and universities, including $4 million General Fund for those at the University of California and $7 million for those at the California State University, as well as $10 million Proposition 98 General Fund for those at California community colleges. In addition, the budget includes a new allocation of $670,000 ongoing in Mental Health Services Act (Prop. 63) funding to address mental health needs of immigrants and refugees.

The 2018-19 budget agreement does not include funding for other proposals to address the needs of immigrants that had been introduced in the Legislature. These included proposals to extend Medi-Cal eligibility to undocumented immigrant young adults (which would have cost an estimated $125 million in 2018-19 and $250 million ongoing) and to undocumented seniors (which would have cost an estimated $75 million in 2018-19 and $150 million ongoing), as mentioned above (in the section titled "Budget Package Aims to Address Health Care Affordability and Financing, but Includes None of the Policy Expansions Advanced by the Legislature"), and to extend eligibility for the CalEITC to immigrant workers who file taxes with an Individual Taxpayer Identification Number (ITIN), as mentioned above (in the section titled "Budget Agreement Strengthens the CalEITC").

Budget Package Dramatically Increases State Funding for the 2020 Census

The 2018-19 budget includes $90.3 million in state funding for the 2020 federal census, more than double the $40.3 million proposed by the Governor in January. Funding will support the California Complete Count Committee, which oversees census outreach, awareness, and coordination efforts – particularly for hard-to-count residents. The committee was created after the undercount of the state's population in the 1990 decennial federal census. This undercount 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. This funding in the 2018-19 budget package aims to ensure an accurate count of California's population through statewide coordination of a multiyear, multilingual campaign.

There are a number of issues that raise concerns about the 2020 Census. First, federal funding for the 2020 Census has not been adequate to fully prepare for the count. Second, the US Census Bureau has significantly changed the way in which it plans to administer the 2020 survey, and the agency will be hiring far fewer field workers to follow up with households who are late to respond. Third, the Trump Administration has announced that it will be adding a citizenship question to the census, which could depress response rates given the administration's virulent attitude toward immigrants.

The decennial census is an important tool that provides indispensable social and economic data about the state and the country. The census count also determines how federal dollars are distributed to states and how many seats each state has in the House of Representatives. It is in California's best interest to ensure that the 2020 census is as accurate as possible, a goal reflected in this state funding for census outreach, awareness, and coordination.

Budget Includes New Funding to Address Homelessness and Proposes Future Investment in Affordable Housing

California has nearly 25% of the nation's population of homeless individuals, with an estimated 134,000 homeless residents as of January 2017. More than two-thirds of California's homeless residents are unsheltered, sleeping in locations such as in a vehicle, in a park, or on the street. The 2018-19 budget agreement dedicates a share of the higher-than-projected revenues received this year to address homelessness, incorporating proposals introduced by both the Governor and the Legislature. These include significant one-time investments as well as some smaller new ongoing expenditures. Specifically, the budget:

- **Allocates $500 million to one-time Homeless Emergency Aid block grants.** These grants will be available to localities that declare a local shelter crisis (or receive a waiver of that requirement). Grants can be used for one-time activities to address homelessness that may include, but are not limited to, "prevention, criminal justice diversion programs to homeless individuals with mental health needs, and emergency aid," with at least 5% of funds dedicated to addressing the needs of homeless youth. Of the total amount available for these block grants, $350 million will be administered through existing Continuum of Cares (local homelessness planning bodies), of which $250 million will be distributed according to a formula based on the size of the local homeless population, and an additional $100 million will be distributed based on each locality's share of the total statewide homeless population. The remaining $150 million in block grants will be awarded to cities that have a population of 330,000 or more, with these grants proportionate to the size of the local homeless population.
- **Increases funding for two CalWORKs programs that assist homeless families.** The budget agreement adopts the proposal in the Governor's May Revision to increase funding for these two ongoing programs. The CalWORKs Housing Support Program, which helps families secure permanent housing, receives an additional $24.2 million in 2018-19, increasing to an additional $48.4 million in 2019 and beyond (for total ongoing funding of $95 million annually). The CalWORKs Homeless Assistance Program, which provides up to 16 days per year of temporary housing for homeless CalWORKs participants via vouchers for temporary shelter or hotels/motels, receives an additional $8.1 million in 2018-19 in order to raise the daily voucher rate, so that a family of four would be allowed $85 per night rather than the current $65 per night, beginning January 1, 2019.
- **Dedicates $15 million in one-time funding over three years for a pilot program to prevent and address homelessness among seniors.** The budget adopts the Governor's May Revision proposal to create the Home Safe Pilot Program, housed within Adult Protective Services, which

will provide funds to address homelessness among seniors. Funds are available to counties that provide a local match.

- **Increases General Fund dollars on a one-time basis to address homelessness among domestic violence survivors and youth.** The budget adopts the proposal in the Governor's May Revision to allocate an additional $10 million to support domestic violence shelter services and an additional $1 million to support homeless youth shelters through the Office of Emergency Services.
- **Makes a one-time $50 million allocation to the Department of Health Care Services to provide services for homeless individuals with mental illness.** The budget adopts the Governor's May Revision proposal to allocate one-time funds for county mental health services for homeless individuals. Counties will submit requests for funds, and allocations will consider the local number of homeless individuals with serious mental illness, county population, and the population of homeless individuals with recent criminal justice system involvement.

The budget agreement also adopts the proposal in the Governor's May revision to dedicate $500,000 to expand staffing and provide ongoing support for the Homeless Coordinating and Financing Council, which was created in 2016 to identify and oversee implementation of homeless programs at the state level. The Council will be elevated from its current location within the Department of Housing and Community Development (HCD) to its own department-level status within the Business, Consumer Affairs, and Housing Agency.

A final homelessness item included in the budget agreement does not allocate new funding, but rather provides that the No Place Like Home program will be placed on the November 2018 statewide ballot for voter validation. This program was developed as a legislative proposal and dedicates $2.0 billion in bond proceeds, to be repaid with funds from the Mental Health Services Act (MHSA), for permanent supportive housing for individuals with mental illness who are homeless or at risk of homelessness. Though the Governor signed the legislation in July 2016, it has not been implemented due to a legal challenge asserting that MHSA funds cannot be used for this purpose. Voter validation of this use of MHSA funds would allow the program to proceed. The budget agreement includes a provision that $1.2 million General Fund will be loaned to HCD, which the Governor had proposed in his May Revision to allow the Department to issue an initial Notice of Funding Availability prior to November. This way, if voters approve the No Place Like Home measure, the first funding awards can be announced by December. The November ballot will also include the $4 billion bond for affordable housing that was part of the legislative housing package signed in September 2017. With the No Place Like Home proposal on the ballot as well, voters will be asked to approve two major housing-related bond measures in November.

In addition to the above provisions related to homelessness, the 2018-19 budget agreement includes details of the first-year allocations from the Building Homes and Jobs Trust Fund, which is funded by the new real estate recording fee created last year by Senate Bill 2 (Atkins) as part of the 2017 legislative housing package. Half of the recording fee funds available for local assistance in this first year ($122.6 million) are dedicated to supporting housing planning by local jurisdictions. The remaining $122.6 million available for local assistance in 2018-19 are dedicated to addressing homelessness, and the budget agreement allocates $56.3 million of these funds to Continuum of Cares to support specific eligible activities to prevent and address homelessness. Another $56.3 million of these funds are allocated to the Housing for a Healthy California program, which supports interim and long-term housing for homeless individuals who receive Medi-Cal, are eligible for Supplemental Security Income, are eligible to receive services that promote housing stability, and are likely to improve their health with supportive housing. The budget agreement also allocates $10 million of the recording fee funds to specific homelessness projects in Orange County and Merced County.

A final housing-related provision in the 2018-19 budget agreement is a proposal to allocate *future* state dollars to support affordable housing development. As described above (in the section titled "Budget Package Brings Constitutional Rainy Day Fund Balance to Its Maximum Level"), the budget includes an optional deposit into the state's constitutionally-required "rainy day fund" in order to bring the rainy day fund balance up to its constitutional maximum of 10% of General Fund tax revenue in 2018-19. In future years, if the rainy day fund balance remains at this maximum level, the "overflow" revenue that would have been required to be set aside in the rainy day fund must be spent on infrastructure instead, and housing qualifies as infrastructure under the applicable definition. The 2018-19 budget agreement specifies that if "overflow" infrastructure funds are available in fiscal years 2019-20 through 2021-22, the first $415 million of these funds shall be used for state buildings and their deferred maintenance. Any "overflow" infrastructure funds beyond this first $415 million shall be split evenly between spending on rail infrastructure and spending on affordable housing development through the Multifamily Housing Program. Though this future spending plan for "overflow" funds is outlined in this year's budget, policymakers in future years can choose to follow this plan or allocate these funds differently, as long as any "overflow" funds are spent on items that qualify as infrastructure.

Budget Agreement Includes a $1.4 Billion Plan for Allocating Cap-and-Trade Revenues

Established by the California Global Warming Solutions Act of 2006 (Assembly Bill 32), California's "cap and trade" program sets a statewide limit on the emission of greenhouse gases and authorizes the Air Resources Board to auction off emission allowances. Proceeds from these auctions are deposited in the state's Greenhouse Gas Reduction Fund (GGRF), with these funds generally invested in activities that seek to reduce greenhouse gas emissions. The budget package allocates $1.4 billion in GGRF revenues in 2018-19, with 80% of these funds ($1.1 billion) going to three state entities: the Air Resources Board ($845 million), the Department of Forestry and Fire Protection ($195 million), and the Energy Commission ($80.5 million). The remaining funds are allocated primarily to the Department of Food and Agriculture ($104 million) and the Strategic Growth Council ($60 million).

Budget Agreement Creates a Roadmap for Reducing the Capacity of the State Correctional System if the Number of Incarcerated Adults Continues to Decline

In recent years, California has made substantial progress in reducing the number of adults incarcerated at the state level. This reduction has resulted largely from a series of criminal justice reforms adopted by state policymakers and the voters – reforms that came on the heels of a 2009 federal court order that required California to reduce overcrowding in state prisons and established a prison population cap. (This court order is still in effect.) The Governor's Administration anticipates that state-level incarceration will continue falling in the near term, which will allow California to end the use of *out-of-state* prisons by early 2019. Currently, well over 2,000 Californians are housed in facilities in Arizona and Mississippi because there is no room for them in state prisons in light of the court-imposed prison population cap.

The 2018-19 budget package establishes a roadmap for reducing the capacity of the state correctional system if the number of prisoners continues to decline. The top priority is to close "private in-state male contract correctional facilities that are primarily staffed" by workers who are *not* employed by the California Department of Corrections and Rehabilitation (CDCR). If there are further declines in state-level incarceration, the CDCR would be required to reduce "the capacity of state-owned and operated prisons or in-state leased or contract correctional facilities, in a manner that maximizes long-term state facility savings, leverages long-term investments, and maintains sufficient flexibility to comply with the federal court order to maintain the prison population at or below 137.5% of design capacity."

In addition, the 2018-19 budget agreement:

- **Provides $50 million to help formerly incarcerated adults transition back to their communities.** The Board of State and Community Corrections (BSCC) will distribute these funds through a competitive grant process to community-based organizations (CBOs) to support people who have been released from prison. Of the total funding, $25 million is available for rental assistance, $15 million will be used to upgrade existing buildings that will be used to house formerly incarcerated adults, and $9.4 million is set aside "to support the warm hand-off and reentry" of people transitioning out of prison. Nearly all of the remaining funds will be used to support program administration.

- **Provides $37.3 million to establish a new Youth Reinvestment Grant Program to support local "trauma-informed" diversion programs for minors.** The BSCC will distribute the vast majority of funds (94%) through a competitive grant process to cities and counties, which must provide a match of between 10% and 25%. Local jurisdictions then must pass through most of these funds to CBOs to "deliver services in underserved communities with high rates of juvenile arrests." Services must include education, mentoring, and mental and behavioral health services, along with "diversion programs and alternatives to arrest, incarceration, and formal involvement with the juvenile justice system." The remaining Youth Reinvestment Grant Program funding will go to Indian tribes (3%) or be used to support program administration (3%).