

STATE BUDGET UPDATE

Governor Gavin Newsom submitted his 2019-20 "California for All" budget proposal to the Legislature on January 10, 2019, only three days after his swearing-in. He characterized this document as "a fiscal blueprint that builds a strong financial foundation by investing an unprecedented \$13.6 billion in budget resiliency and paying down unfunded pension liabilities."

The Governor noted that while the state currently has a strong foundation, growing uncertainty related to the global political and economic climate, federal policies, rising costs, and the length of the current economic expansion requires that the Budget be prudent.

Further, since the release of his January budget, the monthly cash receipts reports from December 2018 and January 2019 from the State Controller's Office were released; revenues were under-collected by a total of approximately \$4 billion. If this trend continues, the Governor's expenditure plan would have to be substantially revised. His plan is approximately \$8 billion larger than the current year budget.

Health and Social Services

In-Home Supportive Services (IHSS) Program

Heading into the FY 2019-2020 budget, the biggest known out-year financial risk for counties was the rapidly escalating costs associated with the In-Home Supportive Services program. Two years ago, then-Governor Brown unwound an agreement with the counties related to the cost-sharing agreement which had the direct result of increasing county costs. The unwinding of the previous arrangement was phased over three years, and 2019-2020 would have been the first year for counties to absorb a large share of costs, potentially impacting local government sustainability.

Governor Newsom's proposal revises these impacts by bringing much of the cost increases back to the State General Fund, which alleviates county costs into the future for the next 2 years.

The Budget proposes to adjust the IHSS MOE inflation factor, redirect 1991 Realignment back to county indigent health and mental health services, and **reduce counties' IHSS MOE to \$1.56 billion**, thereby increasing state General Fund costs by \$241.7 million in 2019-20. A four percent annual inflation factor will be applied to the MOE beginning in 2020-21. This action addresses in part the state and federal government actions that increase IHSS costs beyond available 1991 Realignment revenues for this program.

The Budget includes an ongoing increase of \$15.4 million General Fund for IHSS county administration to reflect revised benefit rate assumptions, for a total of \$326 million General Fund for IHSS county administration.

Changes Regarding AB 85 Funding

The Governor has proposed an expansion of Medi-Cal to undocumented persons between 18-25 years of age. The mechanism to fund this would be re-shaping a county funding stream that

currently funds public health and by stopping payments to the County Medical Services Program. There are concerns related to this proposal, particularly given what counties have established and funded locally to provide services to this same population.

Health Care

The Medi-Cal Budget is \$98.5 billion (\$20.7 billion General Fund) in 2018-19 and \$100.7 billion (\$22.9 billion General Fund) in 2019-20. The Budget assumes that caseload will decrease approximately 1.19 percent from 2017-18 to 2018-19 and increase 0.39 percent from 2018-19 to 2019-20. Medi-Cal is projected to cover approximately 13.2 million Californians in 2019-20, including 3.8 million in the optional expansion population.

The Budget assumes decreased expenditures in the Medi-Cal program of approximately \$2.3 billion General Fund compared to the 2018 Budget Act. Unlike most programs, Medi-Cal operates on a cash, rather than an accrual, basis of accounting. This means that the timing of transactions can significantly disrupt fiscal year budgetary estimates. Approximately 30 percent of the current year decrease results from the Hospital Quality Assurance Fee and drug rebate timing. Another one-third of the estimated decrease is attributable to one-time reconciliations for activity in several prior fiscal years—specifically, lower payments for deferred claims to the federal government and higher withhold payments to skilled nursing facilities. Over half of the remaining variance is due to updated data, including lower-than-expected managed care costs and ACA optional expansion caseload, as well as higher-than-expected drug rebate savings.

The budget proposes to increase subsidies through Covered California for individuals with incomes between 250 and 400 percent of the federal poverty level and expand subsidies to individuals with incomes between 400 and 600 percent of the federal poverty level to increase coverage and promote affordability. The increased subsidies are proposed to be funded by revenues generated by establishing a state individual mandate, modeled on the federal requirement enacted as part of the ACA, to obtain comprehensive health care coverage or pay a penalty.

Other key proposals:

- Medi-Cal Admin - \$2.1 billion (\$723.6 million General Fund) in 2019-20 for county eligibility determination activities, an increase of \$53 million over the 2018-19 level of funding based on growth in the California Consumer Price Index (2.63 percent).
- \$100 million over three years to support health care workforce initiatives at the Office of Statewide
- Health Planning and Development. The funding encourages universities and primary care health professionals to provide health care in medically underserved areas by providing financial support to a variety of medical education programs throughout California.
- \$60 million (\$30 million Proposition 56 funds) to provide early developmental screenings for children and \$45 million (\$22.5 million Proposition 56 funds) for adverse childhood experiences (ACEs) screenings for children and adults in the Medi-Cal program. The Budget

also includes funding for home visiting programs and other services to meet the needs of children and their parents. Additionally, the Budget increases CalWORKs grants for the state's lowest income families so parents can better meet their children's needs for safe housing, food, and other basic needs.

- To increase the availability of care, including mental health, primary care, family planning services, and dental care, the Budget extends the supplemental payments to Medi-Cal providers and the increased funding for the family PACT program.
- Additional \$50 million in Proposition 56 funds for family planning services in the Medi-Cal program.
- \$360 million (\$180 million in Proposition 56 funds) for a program that encourages Medi-Cal managed care providers to meet goals in critical areas, such as management of chronic disease and behavioral health integration. It also provides \$100 million for supportive housing and other supports through the Whole Person Care Pilot Program. According to a 2015 analysis by the Department of Health Care Services, 5 percent of Medi-Cal beneficiaries account for 51 percent of costs, and the top 1 percent account for 27 percent of costs.

Social Services

Electronic Visit Verification—Federal law requires states to implement an electronic visit verification system for personal care services by January 1, 2020, and for home health care services by January 1, 2023. Failure to comply with the electronic visit verification requirement would result in an escalating fiscal penalty in the form of a percentage point reduction in federal matching funds. To comply with federal law, the Budget includes \$34.9 million (\$5.3 million General Fund) to implement an electronic visit verification solution and enhancements to the Case Management, Information and Payrolling System for personal care services.

Home Visiting Services—The Budget includes \$78.9 million to provide home visiting services to an anticipated 16,000 eligible CalWORKs families in 2019-20. Approximately 15,000 cases are estimated to be served on an annual basis beginning in 2020-21. See the Early Childhood chapter for additional information.

Single Allocation Methodology—The Budget includes a one-time augmentation of \$93.6 million for the county single allocation. The Administration will continue to work with representatives of counties and county welfare directors to develop recommendations for revising the single allocation budgeting methodology for the Employment Services component as part of the May Revision.

County Indigent Health Savings—The Budget reflects \$617.7 million in projected county indigent health savings in 2019-20 to offset General Fund costs in the CalWORKs program, a decrease of \$155.5 million from 2018-19. This decrease is more than offset by additional indigent health savings (based on the latest reconciliation) of \$315 million available from 2016-17.

Safety Net Reserve Increase—The Budget increases the Safety Net Reserve Fund by \$700 million, bringing the total amount in the fund to \$900 million. These funds will be available for CalWORKs and Medi-Cal services and benefits during an economic downturn.

SSI / SSP - \$2.75 billion General Fund. This represents a 0.5-percent decrease from the revised 2018-19 budget. The average monthly caseload in this program is estimated to be 1.22 million recipients in 2019-20, a 1.2-percent decrease from the 2018-19 projection. The SSI/SSP caseload consists of 70 percent disabled persons, 28.8 percent aged, and 1.2 percent blind. Effective January 2019, the maximum SSI/SSP grant levels are \$931 per month for individuals and \$1,564 per month for couples. The federal cost of living adjustments based on the current Consumer Price Index growth factors is 2.8 percent for 2019 and a projected 2.5 percent for 2020. As a result, the maximum SSI/SSP monthly grant levels will increase by approximately \$19 and \$29 for individuals and couples, respectively, effective January 2020. CAPI benefits are equivalent to SSI/SSP benefits, less \$10 per month for individuals and \$20 per month for couples. Beginning June 1, 2019, due to the SSI Cash-Out Reversal, CAPI benefits will be equivalent to SSI/SSP payment standards.

Elimination of SSI Cash-Out Policy—Last year's budget made SSI recipients eligible for federal CalFresh benefits and provided one-time funding to offset any reduction in benefits due to this policy change. The Budget includes \$86.7 million General Fund in 2019-20 and makes permanent the offset of the loss of food benefits for households that would otherwise experience a reduction resulting from the elimination of the SSI Cash-Out policy.

SSI Advocacy—The Budget proposes an annual appropriation of \$25 million General Fund beginning in 2019-20 for the Housing and Disability Advocacy Program. For more information on SSI Advocacy, refer to the Homelessness chapter.

Continuum of Care Reform—The Budget includes \$416.9 million (\$301.7 million General Fund) to continue implementation of CCR. This funding reflects ongoing support for child and family teams, approval of resource families, and continued emphasis of home-based, family care placements with supportive services rather than group home care placements for children in foster care. Although significant progress has been made with the transition of youth in foster care from group homes to Short-Term Residential Therapeutic Programs beginning January 1, 2017, assumptions on caseload movement were revised to more accurately reflect the pace of implementation.

Immigration Services - \$75 million in 2019-20 and annually thereafter, which maintains the funding levels included in the 2018 Budget Act, except for the University of California funding, which will receive \$1.3 million General Fund ongoing beginning in 2022-23. Additionally, \$20 million General Fund to establish an Immigration Rapid Response Program. These funds will be available over a three-year period to assist qualified community-based organizations and nonprofit entities in providing services during immigration or human trafficking emergency situations when federal funding is not available. These funds will also be available to support the redirection of state-level staff who directly assist in response efforts. The Budget also includes one-time funding of \$5 million General Fund to address immigration-related emergencies that occur during the 2018-19 fiscal year.

California Statewide Automated Welfare System (CalSAWS)—As a condition of federal financial participation, the federal government requires the state to create a single SAWS by 2023. The current SAWS consist of three separate county-administered systems: the Consortium-IV system, the Los Angeles County LEADER Replacement System, and the CalWORKs Information Network system. The state will integrate all three into one system, known as CalSAWS. The Budget includes \$148.2 million (\$31.2 million General Fund) in 2019-20 to design, develop, and implement CalSAWS.

The CalFood Program and Food Bank Capacity Improvements—The Budget continues to provide \$8 million General Fund for the CalFood program. In addition, the Budget includes one-time \$20 million General Fund in 2019-20 to support infrastructure needs of California food banks' emergency food delivery system, including capital investments needed to support food collection, storage, and distribution.

Incompetent to Stand Trial - \$18.6 million General Fund and 119.3 positions for the second phase of the Metropolitan State Hospital's secured treatment area expansion. When completed in 2019, it will provide a total of 236 additional secured forensic beds for the treatment of ISTs at the Metropolitan State Hospital. Furthermore, the Budget includes \$12.3 million General Fund to allow the Department to contract for up to 74 additional jail-based competency restoration treatment beds through the county jail treatment programs. These efforts are intended to reduce the pending placement time for ISTs and the waitlist.

CalWORKS

CalWORKs Grant Increase—The Budget includes \$347.6 million General Fund in 2019-20 to raise grant levels to 50 percent of the projected 2019 federal poverty level, effective October 1, 2019. Full-year costs of the proposed grant increase are estimated to be \$455.4 million. As a result, the maximum grant level for an assistance unit of three will increase from \$785 to \$888 per month.

Public Safety

The Department of Corrections and Rehabilitation

CDCR funding will be renewed for Inmate Rehabilitation and Reentry. The Budget includes \$475.3 million General Fund specifically for the Division of Rehabilitative Programs. In addition, the Budget includes \$5.5 million general fund for a package of programs specifically aimed at improving literacy rates among the offender population as well as \$2.5 million to operate tattoo removal programs.

Cannabis Regulation

Proposition 64, also referred to as the Adult Use of Marijuana Act, levies new excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018. The cultivation tax is \$9.25 per ounce of flower, \$2.75 per ounce of leaves, and \$1.29 per ounce of

fresh cannabis plant to be paid on all recreational and medicinal cultivation of cannabis. In addition, there is a 15-percent tax on the retail price of cannabis. Cannabis excise taxes generated \$84 million in 2017-18 and are expected to generate \$355 million in 2018-19 and \$514 million in 2019-20.

The Budget includes \$200.6 million from the Cannabis Tax Fund and the Cannabis Control Fund, which receive revenues from cannabis licensing fees, for cannabis-related activities, as approved in the 2018 Budget Act. The Budget also includes an additional \$2.9 million for the California Department of Tax and Fee Administration for a cannabis tax enforcement program, to increase cannabis tax compliance.

There is proposed legislation that has been introduced that would reduce the State excise tax in order to encourage more of the illegal market to become legal operators.

Resource Management

Cap and Trade

The Governor's proposed budget identifies \$2.41 billion in Greenhouse Gas Reduction Fund revenues in Fiscal Year 2019-20. Please note that 60% of this revenue is currently continuously appropriated to the California high-speed rail project, the Affordable Housing and Sustainable Communities Program, the Transit and Intercity Rail Capital Program, and the Low Carbon Transit Operations Program.

The Governor's proposed budget includes a \$1 billion Cap and Trade Expenditure Plan sourced from the 40% of the Greenhouse Gas Reduction Fund that is not continuously appropriated.

The Governor's proposed budget specifically calls out the following continued investments:

- \$407 million for the purchase of zero-emission vehicles, trucks, and freight equipment, as well as the replacement of older diesel school buses with electric or renewable-fueled schools buses;
- \$230 million for AB 617 communities;
- \$200 million to support forest improvement, fire prevention, fuel reduction and prescribed burn projects consistent with SB 901 (Dodd) [Chapter 626, Statutes of 2018]; and,
- \$40 million for the Strategic Growth Council's Transformative Climate Communities Program.

Water

Safe Drinking Water Projects—\$168.5 million in Proposition 68 funds for the State Water Resources Control Board to provide technical assistance, grants, and loans to public water systems in disadvantaged communities for infrastructure improvements to meet safe and

affordable drinking water standards, including both drinking water and wastewater treatment projects.

Emergency Water Supplies—\$10 million General Fund for the State Water Resources Control Board to address safe drinking water emergencies in disadvantaged communities, such as provision of interim alternate water supplies, including bottled or hauled water, and emergency improvements or repairs to existing water systems, such as well rehabilitation or replacement, extension of service, consolidation projects, or treatment systems.

Technical Assistance—\$10 million General Fund for the State Water Resources Control Board to contract with, or provide grants to, an administrator to provide administrative, technical, operational, or managerial services to a designated water system to achieve compliance with current drinking water standards. Technical assistance could also include the development of a community-based needs assessment and preparation of grant applications for capital projects.

Safe and Affordable Drinking Water Fund—Establish a new special fund, with a dedicated funding source from new water, fertilizer, and dairy fees, to enable the State Water Resources Control Board to assist communities, particularly disadvantaged communities, in paying for the short-term and long-term costs of obtaining access to safe and affordable drinking water. This proposal is consistent with the policy framework of SB 623, introduced in the 2017-18 legislative session. The Budget also includes \$4.9 million General Fund on a one-time basis for the State Water Resources Control Board and the Department of Food and Agriculture to take initial steps toward implementation of this new Safe and Affordable Drinking Water Program, including (1) implementation of fee collection systems, (2) adoption of an annual implementation plan, and (3) development of a map of high-risk aquifers used as drinking water sources.

Housing

- \$750 million General Fund one-time to partner with and incentivize local governments to jump-start housing production through technical assistance and general-purpose funding. The Department of Housing and Community Development (HCD) will establish higher short-term statewide goals for new housing production across all income levels and will allocate these goals to local jurisdictions. Local governments will receive grants (\$250 million of the \$750 million) to support technical assistance and staffing to develop plans to reach these higher goals. This includes but is not limited to rezoning for greater density, completing environmental clearance, permitting units, and revamping local processes to speed up production. The state will review these efforts and certify that certain milestones have been reached. As jurisdictions reach these milestones, funding (\$500 million of the \$750 million) will be available to cities and counties for general purposes.
- \$500 million General Fund one-time in the development of housing for moderate-income households. The California Housing Finance Agency (CalHFA) will expand its Mixed-Income Loan Program, which provides loans to developers for mixed-income developments that include housing for moderate-income households at a lower subsidy level than traditional

state programs. This additional investment will jump-start the estimated \$43 million in annual Chapter 364, Statutes of 2017 (SB 2) revenues dedicated for this purpose, and pair with the proposed tax credit program targeting households with incomes between 60 to 80 percent of Area Median Income (see below). In subsidies for the “missing middle” housing, through an expansion of state low-income housing tax credits.

- The state credit program supplements two federal credits and can be allocated over four years. The state credits pair with federal credits to reduce a given housing development project’s remaining funding gap. From 2011-2018, the state program allocated \$819 million to support approximately 18,000 affordable units, for an average of \$45,500 per unit.

The Budget proposes to expand the state tax credit program in 2019-20 up to \$500 million, and up to \$500 million annually thereafter, upon an appropriation. The additional authority includes \$300 million for the existing state tax credit program, targeted at new construction projects that pair with the underutilized 4 percent federal tax credit program. The remaining \$200 million will be allocated through a new program that targets housing development for households with incomes between 60 to 80 percent of Area Median Income, a population not typically served by the state’s housing programs. This investment will serve as a down payment toward producing more mixed-income housing, in combination with CalHFA’s Mixed-Income Loan Program expansion detailed above.

In addition to new funding for housing, the Governor intends to pursue policy changes to also aid in the construction of housing. Those concepts, as outlined at the budget release, are as follows:

- Revising the Regional Housing Needs Allocation (RHNA) and giving HCD an active role in enforcing local government housing elements.
- Look at statewide underutilized land and make available to developers.
- Look at development impact fees, and referred to some of them as usurious. There will be a task force.
- Expand the use of EIDS (with changes) as an economic development tool.

Other Local Government Matters

Emergency Preparedness

The Budget proposes an additional \$172.3 million to improve the state’s emergency response and preparedness capabilities through the following OES proposals.

- State Emergency Telephone Number Account (SETNA) and 9-1-1 Advancements—one-time investment of \$60 million General Fund—\$10 million in 2018-19 and \$50 million in 2019-20—that will be deposited in SETNA to continue implementing improvements to the state’s 9-1-1 system. This initial General Fund investment partially reduces reliance on the SETNA fee during the build-out of 9-1-1 enhancements but is contingent upon legislation to modernize the fee structure. The Budget assumes that the new fee structure will be implemented on January 1, 2020, generating approximately \$170 million annually during the build-out, but will be adjusted annually based on actual costs.

- Broadband Communication and 9-1-1 Integration—\$1 million SETNA to support the implementation and ongoing workload associated with emergency communications coordination and First Responder Network Authority broadband network services. These resources will ensure that the state has an established 9-1-1 and emergency management system, while further enhancing and assisting the transition towards the Next Generation 9-1-1 system.
- California Earthquake Early Warning—\$16.3 million General Fund one-time is set-aside to finish the build-out of the California Earthquake Early Warning System.
- Mutual Aid System—\$25 million General Fund ongoing for repositioning of existing OES and local government resources that are part of the statewide mutual aid system with the goal of enhancing disaster response readiness. Repositioning occurs in areas of identified potential fire threat, which is determined through various means such as weather modeling, high wind zones, low humidity, and dense fire load. The repositioned resources include, but are not limited to, fire engines, trucks, personnel, and strike teams.
- Public Education—\$50 million General Fund one-time in 2018-19 to immediately begin a comprehensive, statewide education campaign on disaster preparedness and safety. This effort will focus on community engagement and public education in high-risk areas with an emphasis on public health and safety and will make local grants available to address local and regional needs.
- California Disaster Assistance Act (CDAA)—\$20 million General Fund one-time to increase the amount of funding available through CDAA, which is used to repair, restore, or replace public real property damaged or destroyed by a disaster, and to reimburse local government costs associated with certain emergency activities undertaken in response to a state of emergency. This augmentation increases total CDAA funding to \$82.6 million in 2019-20.

Child Support

The Budget proposes an additional \$56 million (\$36.9 million federal funds and \$19.1 million General Fund) for Local Child Support Agency administrative costs. This increase represents the first year of a three-year, phased-in implementation of a new budgeting methodology. These resources create more equitable funding across all local agencies, reducing geographic disparities in funding for child support case management. The additional funding strengthens supports for families with young children by increasing the ability of local agencies to collect and remit child support payments. Upon full implementation, the additional resources are anticipated to increase annual child support collections by hundreds of millions. The funding will be allocated to 21 counties with relatively lower funding levels, many of which have a high proportion of low-income households.

Homelessness

There is roughly \$1.9b proposed in mostly one-time funding for homelessness and housing-related initiatives:

- \$500 million in grants for cities and counties that work together in regional partnerships, similar to HEAP. Only plans that come with regional buy-in will be considered.

- \$300 million to fund regional plans, navigation centers and homeless shelters. \$100 million is reserved for the 11 largest cities. \$200 million for "federally designated areas." (*this definition will need further clarity). The Governor says he wants to see real plans in order to get the money.
- \$200 million general purpose grants that would be awarded to cities that meet milestones for developing navigation centers and shelters. They will work with us to develop these benchmarks.
- \$25 million in ongoing funding for SSI advocacy. (reported under Social Services as well)
- \$100 million to extend the whole person care pilot program. (reported under Health Care as well).

The budget also proposes to expedite the No Place Like Home funding.

The Census

- The proposed budget includes an additional \$50 million for statewide outreach efforts related to increasing the participation rate of Californians in the decennial census, bringing the total funding available to \$140.3 million. This effort will span multiple years, be conducted in multiple languages, and implement specific strategies to obtain a complete and accurate count of all California residents.