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CSAC RESPONDS TO MAY BUDGET REVISION

SACRAMENTO – California State Association of Counties' (CSAC) Executive Director Matt Cate issued the following statement in response to Governor Brown's May Budget Revision today:

"California's counties understand and respect the Governor's fiscal prudence in putting much of the available surplus into paying down debt and establishing a robust rainy day reserve fund.

We greatly appreciate that the Governor saw the value and benefit of proposing a repayment of $100 million to local agencies for mandate reimbursements that are more than a decade old. Seventy-three percent of that revenue will be directed to counties as general purpose revenues.

We also remain steadfast in our commitment to providing the programs and services to criminal offenders now under county jurisdiction as a result of AB 109, Public Safety Realignment. The scope of these new responsibilities is significant, and we are seeing a growing intersection between criminal justice and mental health.

The criminal offenders now being housed, supervised, and treated at the county level often need intensive mental health services, substance use disorder treatment programs, as well as job training and housing assistance. Additional resources will help counties meet these needs in ways that increase public safety, decrease prison admissions, and result in better outcomes for the offenders and our communities.

We will continue working with the Governor, his staff and the Legislature to make sure they are aware of our resource needs to more fully address this issue."

The California State Association of Counties is the voice of California's 58 counties at the state and federal level.

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2014-15 Governor's May Revision
Week of May 12, 2014

May 13, 2014

TO: CSAC Board of Directors
County Administrative Officers
CSAC Corporate Associates

FROM: Matt Cate, CSAC Executive Director
DeAnn Baker, CSAC Director of Legislative Affairs

RE: **Summary of the Governor's 2014-15 May Revision**

Even with an additional $2.4 billion in state revenues, the Governor's May Revision to the 2014-15 state budget proposes a healthy dose of fiscal prudence, focusing on debt repayment and one-time expenditures to maintain a budget balance. The Governor pointed to three particular areas of cost pressures (detailed later in this *Budget Action Bulletin*): (1) unanticipated increases in Medi-Cal costs associated with the expansion under the Affordable Care Act; (2) increased costs of drought management, including firefighting, emergency response, enforcement, monitoring, wildlife preservation, food assistance and other activities; and (3) additional costs associated with CalPERS and CalSTRS pension obligations.

California's Long-Term Liabilities
As of 2014-15 May Revision
($ in billions)

Proposition 98 Maintenance Factor	$4.0
Unemployment Insurance Debt	6.8
Wall of Debt	14.8
Unfunded Retirement Liabilities	217.3
Deferred Maintenance	64.6
Unissued Bonds	30.0
Total	**$337.5**

In light of these significant ongoing financial risks to the state, the Governor touted the recent agreement with legislative leaders on the Rainy Day Fund (Fund), noting that the proposed plan requires both paying down liabilities and saving for a rainy day.

Language on the Fund has been amended in Assembly Constitutional Amendment X2 1 (Pérez), which includes the following provisions:

- Requires an annual deposit 1.5 percent of General Fund revenues to the Fund and the deposit of revenues associated with capital gains that exceed eight percent of total General Fund revenue
- Increases the maximum size of the reserve fund to ten percent of General Fund revenue
- Requires half of each year's deposits for the next 15 years to be used for supplemental payments to the Wall of Debt or other long-term liabilities
- Requires a multiyear budget forecast to help better manage the state's longer term finances
- Authorizes the withdrawal of funds only when state revenues are lower than state spending in the previous three years or in the case of a disaster. The maximum amount that could be withdrawn in the first year of a recession would be limited to half the Fund's balance
- Establishes a new Proposition 98 reserve to capture certain funding for schools, but maintains the Proposition 98 guaranteed funding levels. The Proposition 98 reserve would not take effect until the existing maintenance factor is fully paid off.

The May Revision models the new Rainy Day Fund proposal for current budget projections as follows.

Calculation of Rainy Day Fund Amounts
At 2014-15 May Revision
($ in millions, rounded)

	2015-16	2016-17	2017-18
Annual 1.5 percent of General Fund Revenues	$1,698	$1,773	$1,854
Capital Gains Tax Revenue in Excess of 8 percent of General Fund Taxes (net amount attributable to Prop. 98)	$174	$233	$341
Total Rainy Day Amount	**$1,872**	**$2,005**	**$2,195**
Debt Repayment (50 percent)	$936	$1,003	$1,097
Deposit to Rainy Day Fund (50 percent)	$936	$1,003	$1,097

However, this May Revision sets aside the required 3 percent of revenues in 2014-15 as required by Proposition 58. Half of this deposit will go toward a supplemental payment to fully pay off the Economic Recovery Bonds and the other half ($1.6 billion) will be saved.

The Governor reiterated his commitment to paying off the Wall of Debt by 2017-18, including an additional $100 million to repay a portion of existing mandate reimbursement claims that have been owed to local governments (counties, cities, and special districts) prior to 2004.

This *Budget Action Bulletin* outlines the May Revision components of relevance to counties. Items previously detailed in the January proposed budget have not changed, unless noted here. For additional details on the Governor's May Revision, visit www.ebudget.ca.gov. Please do not hesitate to contact CSAC staff with your questions and we will do our best to assist you.

2014-15 May Revision
General Fund Budget Summary
($ in millions)

	2013-14	2014-15
Prior Year Balance	$2,429	$3,903
Revenue and Transfers	$102,185	$105,346
Total Resources Available	**$104,614**	**109,249**
Non-Proposition 98 Expenditures	$57,980	$63,304
Proposition 98 Expenditures	$42,731	$44,462
Total Expenditures	**$100,711**	**$107,766**
Fund Balance	**$3,903**	**$1,483**
Reserve for Liquidation of Encumbrances	$955	$955
Special Fund for Economic Uncertainties	$2,948	$528
Budget Stabilization Account / Rainy Day Fund	-	**$1,604**

General Fund Expenditures by Agency
Compared to Current Year
($ in millions)

	2013-14	2014-15	$ Change	% Change
Legislative, Judicial, Executive	$2,696	$2,919	$233	8.3%
Business, Consumer Services & Housing	643	750	107	16.6%
Transportation	73	216	143	195.9%
Natural Resources	2,234	2,258	24	1.1%
Environmental Protection	51	63	12	23.5%
Health and Human Services	28,858	29,633	775	2.7%
Corrections and Rehabilitation	9,332	9,600	268	2.9%
K-12 Education	42,892	44,743	1,851	4.3%
Higher Education	11,373	12,495	1,851	4.3%
Labor and Workforce Development	300	303	3	1.0%
Government Operations	754	692	-62	-8.2%
General Government:				
Non-Agency Departments	504	701	197	39.1%
Tax Relief/Local Government	420	442	22	5.2%
Statewide Expenditures	581	1,347	766	131.8%
Supplemental Payment to the ERBs	-	1,604	1,604	100.0%
Total	**$100,711**	**$107,766**	**$7,055**	**7.0%**

General Fund Expenditures by Agency
Compared to January Budget
($ in millions)

	January Budget	May Revision	$ Change	% Change
Legislative, Judicial, Executive	$2,844	$2,919	$75	2.6%
Business, Consumer Services & Housing	745	750	5	0.7%
Transportation	212	216	4	1.9%
Natural Resources	2,175	2,258	83	3.8%
Environmental Protection	54	63	9	16.7%
Health and Human Services	28,793	29,633	840	2.9%
Corrections and Rehabilitation	9,560	9,600	40	0.4%
K-12 Education	45,251	44,743	-508	-1.1%
Higher Education	12,377	12,495	118	1.0%
Labor and Workforce Development	268	303	35	13.1%
Government Operations	685	692	7	1.0%
General Government:				
Non-Agency Departments	610	701	91	14.9%
Tax Relief/Local Government	437	442	5	1.1%
Statewide Expenditures	1,191	1,347	156	13.1%
Supplemental Payment to the ERBs	1,591	1,604	13	0.8%
Total	**$106,793**	**$107,766**	**$973**	**0.9%**

General Fund Revenue Sources
Compared to Current Year
($ in millions)

	2013-14	2014-15	$ Change	% Change
Personal Income Tax	$66,522	$70,238	$3,716	5.6%
Sales and Use Tax	22,759	23,823	1,064	4.7%
Corporation Tax	8,107	8,910	803	9.9%
Insurance Tax	2,287	2,382	95	4.2%
Alcoholic Beverage Taxes and Fees	351	359	8	2.3%
Cigarette Tax	86	84	-2	-2.3
Motor Vehicle Fees	19	20	1	5.3%
Other	2,054	1,134	-920	-44.8
Subtotal	**$102,185**	**$106,950**	**$4,765**	**4.7%**
Transfer to Budget Stabilization / Rainy Day Fund	-	-1,604	-1,604	-100.0%
Total	**$102,185**	**$105,346**	**$3,161**	**3.1%**

General Fund Revenue Sources
Compared to January Budget
($ in millions)

	January Budget	May Revision	$ Change	% Change
Personal Income Tax	$69,764	$70,238	$474	0.7%
Sales and Use Tax	24,071	23,823	-248	-1.0%
Corporation Tax	8,682	8,910	228	2.6%
Insurance Tax	2,297	2,382	82	3.7%
Alcoholic Beverage Taxes and Fees	357	359	2	0.5%
Cigarette Tax	86	84	-2	-2.3%
Motor Vehicle Fees	20	20	0	0.0%
Other	817	1,134	317	38.8
Subtotal	**$106,094**	**$106,950**	**856**	**0.8%**
Transfer to Budget Stabilization / Rainy Day Fund	-1,591	-1,604	13	0.8%
Total	**$104,503**	**$105,346**	**843**	**0.8%**

2011 Realignment

The Governor's May Revision includes updated estimates of allocations of base and growth amounts for 2011 Realignment through 2014-15 as detailed in the table below. Please reference the Administration of Justice section of this *Bulletin* for more information.

2011 Realignment Estimate[1] - at 2014 May Revision

	2012-13	2012-13 Growth	2013-14	2013-14 Growth	2014-15	2014-15 Growth
Law Enforcement Services	**$1,942.6**		**$2,124.3**		**$2,071.8**	
Trial Court Security Subaccount	496.4	11.6	508.0	5.8	514.8	20.3
Enhancing Law Enforcement Activities Subaccount[2]	489.9	-	489.9	-	489.9	7.2
Community Corrections Subaccount[3]	842.9	86.7	998.9	50.8	934.1	151.8
District Attorney and Public Defender Subaccount[3]	14.6	5.8	17.1	3.4	15.8	10.1
Juvenile Justice Subaccount	98.8	11.6	110.4	5.8	117.2	20.3
Youthful Offender Block Grant Special Account	*(93.4)*	*(11.0)*	*(104.3)*	*(5.4)*	*(110.7)*	*(19.2)*
Juvenile Reentry Grant Special Account	*(5.6)*	*(0.6)*	*(6.1)*	*(0.4)*	*(6.6)*	*(1.1)*
Growth, Law Enforcement Services	**116.7**	**116.7**	**67.8**	**67.8**	**208.6**	**208.7**
Mental Health[4]	**1,120.6**	**10.7**	**1,120.6**	**5.3**	**1,120.6**	**15.8**
Support Services	**2,804.8**		**2,828.3**		**2,864.4**	
Protective Services Subaccount	1,640.4	176.2	1,837.0	77.8	1,930.2	186.5
Behavioral Health Subaccount[5]	964.5	27.9	992.3	41.7	1,034.2	170.7
Women and Children's Residential Treatment Services	*(5.1)*	-	*(5.1)*	-	*(5.1)*	-
Growth, Support Services	**214.8**	**214.8**	**126.8**	**126.8**	**378.1**	**378.1**
Account Total and Growth	**$5,888.8**		**$6,267.8**		**$6,742.6**	
Revenue						
1.0625% Sales Tax	5,516.6		5,829.1		6,245.4	
Motor Vehicle License Fee	482.0		438.8		497.1	
Revenue Total	**$5,998.6**		**$6,267.9**		**$6,742.5**	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

[1] Dollars in millions.

[2] Allocation is capped at $489.9 million.

[3] 2012-13 and 2013-14 growth is not added to subsequent fiscal year's subaccount base allocations.

[4] Growth does not add to base.

[5] The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.

ADMINISTRATION OF JUSTICE

Building on an already strong January budget proposal that demonstrated the Administration's commitment to supporting counties' success with our assumption of vast new criminal justice system responsibilities, the May Revision contains several new and expanded investments of interest to counties.

Trial Court Security in New Facilities. The Governor's May Revision includes a $1 million appropriation and proposes trailer bill language to establish a mechanism by which counties may seek funding to address increased levels of service following activation of a new court facility. As discussed in the May Revision narrative, Proposition 30 requires the state to provide annual funding for newly required activities (after October 9, 2011) that have the overall effect of increasing county costs in a realigned program. Recognizing that new court facilities built by the state and occupied on or after October

9, 2011 may impose additional court security responsibilities, the May Revision includes funding and a process for evaluating changed service requirements in new facilities.

Federal Court Order Impact. As counties recall, the federal court issued its final order February 10, 2014 dictating the means and timing by which the state must meet the 137.5 percent prison population threshold was. A key element of the state's plan to reduce prison population is the application of enhanced credit earning for non-violent, non-sexual second strikers (increasing from 20 to 30 percent). Many of these prison inmates, under the provisions of 2011 public safety realignment, already would be released onto Post Release Community Supervision (PRCS), a responsibility of county probation departments. The federal court order does not change who is eligible for PRCS; it only changes when the population a county would otherwise be supervising arrives in its jurisdiction. The May Revision includes $11.3 million to be allocated directly to probation departments to mitigate the increment of workload associated with the PRCS offenders benefiting from the accelerated credit earning. Statewide, the average daily population impact is projected to be 216 in 2013-14 and 819 in 2014-15.

Recidivism Reduction Fund. The Governor and the Legislature arrived at a negotiated agreement on how to manage the state's compliance with the federal court order regarding prison overcrowding. SB 105 (2012) codified the elements of that agreement, which included a specification that any unexpended portion of the $315 million authorized for in- and out-of-state beds would be dedicated to a Recidivism Reduction Fund, if certain conditions were met. Now that the federal court has granted the state two additional years (through February 2016) to meet the prison population cap, the May Revision affirms and augments the Recidivism Reduction Fund Investment, bringing the total amount available in 2014-15 to $91 million (an increase of $9.9 million over the January budget proposal).

Of interest to counties, the majority of the augmentation will be dedicated to funding reentry facilities and programming specifically targeted at the mental health population that is within six to 12 months of release. It is contemplated that the facilities could house probation or parole populations and would offer case management services, employment services and assistance with other supports (e.g., identification cards, housing, enrollment in Medi-Cal and CalWORKs) to facilitate successful community reintegration.

Judiciary Budget. The Governor's May Revision commits an additional $60 million to the judicial branch, for a total 2014-15 augmentation of $160 million as part of a two-year budget stabilization strategy. These resources would be targeted to covering trial court employee costs ($42.8 million), meeting court workload obligations ($86.3 million), and addressing trial court fee revenue shortfalls ($30.9 million). In addition, the May

Revision recommends the Chief Justice and Judicial Council to conduct further exploration of branch efficiencies and operational changes.

Restoration of Competency Program. A commitment of $3.9 million and 13.5 Department of State Hospital staff positions are proposed in the May Revision to expand local Restoration of Competency programs in county jails for specified persons deemed to be Incompetent to Stand Trial.

2011 Realignment. Counties should recall that the May Revision updates the revenue estimates associated with the broad array of programs realigned to counties in 2011. Consistent with lower-than-estimated cash receipts through March, the sales tax forecast reflects a downward trend. Overall, sales tax growth for the entire 2011 realignment account is down $51.5 million from January projections. As detailed in the chart shown on page 6, the 2013-14 estimated growth attributable to AB 109 stands at $50.8 million (down $13.5 million from January estimates).

Municipal Law Enforcement Grants. The Governor's May Revision increases the 2014-15 investment in municipal law enforcement services by $12.5 million, bringing the grant program for local law enforcement activities to $40 million. As in previous years, the Board of State and Community Corrections would continue to have an administrative role in allocating the funds to identified municipalities that will serve as the fiduciary agent within each county.

AGRICULTURE, ENVIRONMENT AND NATURAL RESOURCES

The Governor's May Revision includes additional funds for drought-related expenditures, including expanded fire protection to address needed actions to address elevated fire risk as a result of drought conditions, and additional assistance to the Department of Water Resources (DWR), Department of Social Services (DSS), and Office of Emergency Services (OES) to continue to provide immediate drought-related efforts. In addition, the May Revision includes additional funds for sustainable groundwater management. There were no changes to the Governor's Cap and Trade investment plan included in the May Revision.

Emergency Drought Response. As you may recall, the Governor signed emergency drought legislation into law earlier this year that provides assistance for drought relief including emergency response, financial assistance for housing and food for workers directly impacted, as well as funding to secure emergency drinking water supplies for impacted communities. The bill the Governor signed into law includes $687 million in new expenditures, most of which comes from accelerated bond funds. The May Revision provides an additional $142 million ($121 million in General Fund dollars) to

reflect higher costs in firefighting, emergency response, and other critical activities. Specifically, this number includes:

- $53.8 million General Fund and $12.2 million in other funds to CAL Fire to increase its firefighting capabilities and fire prevention activities
- $30.3 million General Fund and $8.5 million in other funds to the Department of Fish and Wildlife for fisheries restoration, sensitive habitats and removal of barriers for fish passage;
- $18.1 General Fund to DWR to assess current surface and groundwater conditions, expedite water transfers, technical assistances and additional public outreach
- $5 million General Fund to DSS to provide food assistance to impacted communities
- $4.4 million in General Fund to OES for the State Operations Center to provide communities with technical guidance related to the drought
- $5.4 million Special Funds to the Department of General Services to implement water efficiency and conservation measures in state-owned facilities
- $4.3 million General Fund to the State Water Resources Control Board to continue enforcement of drought-related water rights and water curtailment actions.

Groundwater Management. The Governor's May Revision includes additional revenues to help implement the State's Water Action Plan with a specific focus on groundwater management. The May Revision includes an increase of $2.5 million General Fund in 2014-15 to the Department of Water Resources and $5 million annually for four additional years to support local groundwater management efforts, including:

- *Planning and Oversight Activities* – A portion of increased revenues will be directed towards the development of groundwater basin sustainability metrics, tracking the development and implementation of groundwater monitoring programs by local agencies and the review of local groundwater management plans.
- *Local and Regional Technical Assistance* – Additional revenues will be directed towards technical assistances and guidance tools for local and regional agencies.

As a reminder, the Governor's January budget also includes $1.9 million in General Fund dollars for ten positions at the State Water Resources Control Board (SWRCB) to begin to identify and potentially regulate basins that are in danger of suffering permanent damage due to groundwater overdraft, which occurs when water withdrawals consistently exceed the water entering the basin. The Administration intends to propose budget trailer legislation to grant SWRCB expanded regulatory authority. The details of the budget trailer legislation have yet to be released.

Employee Relations

CalPERS. The Governor's May Revision includes an increase in state retirement contributions for 2014-15 to the California Public Employees' Retirement System (CalPERS) in the amount of $342.7 million General Fund. Counties will recall that the CalPERS Board of Administration in February approved new actuarial assumptions used to determine contribution rates for public employee retirement benefits, effectively raising those rates for public agency employers. This action came after an experience study produced data reflecting substantially earlier retirement ages and longer life expectancies among public employees. While rate increases for local agencies will be phased in over five years beginning in 2016, the Governor proposed phasing in the increase for state employees over three years, with a 20-year amortization, to begin in 2014-15.

CalSTRS. To return the California State Teachers' Retirement System (CalSTRS) fund to sustainability, Governor Brown's May Revision includes $73.2 million General Fund in additional 2014-15 funding as the start of a funding plan that will eliminate CalSTRS' unfunded liability by 2045-46. Under this plan, teacher contributions will increase from eight to 10.5 percent of pay (phased in over the next three years) and school contributions will rise from 8.25 to 10.1 percent of payroll (phased in over the next seven years). The State's total contribution will increase from three percent to 6.3 percent of payroll in 2016-17 and ongoing.

Government Finance and Operations

Mandates

The Governor's May Revision includes $100 million to local governments for the pre-2004 mandate debt. The Administration notes that about 73 percent of the payment will go to counties, 25 percent to cities, and 2 percent to special districts. Funds will be allocated based on the proportional of the total pre-2004 mandate debt owed. These are general purpose revenues; however, the Administration notes that it expects that most of the spending will be focused on improving implementation of 2011 Realignment and public safety, generally.

In January, the Administration had proposed to pay off the $900 million debt over two years beginning in 2015-16. The May Revision adjusts that payment plan as follows: $100 million in 2014-15, $748 million in 2015-16, and $52 million in 2016-17.

There are no changes to which mandates are suspended, including elections mandates.

INFRASTRUCTURE FINANCING DISTRICTS (IFDS)

In the wake of the dissolution of redevelopment agencies, the Governor proposed in January to strengthen and broaden the powers of infrastructure financing districts. IFDs, like redevelopment agencies (RDAs), are financing tools that rely on tax increment financing. Unlike redevelopment, they cannot utilize schools' property tax shares and require the consent of any other taxing entities before their property taxes can be diverted. An IFD can therefore use the tax increment of only some—or even one—of the taxing entities.

The Governor's original proposal in January would expand the types of projects IFDs can fund to more closely mirror RDAs: transit priority projects, infill, affordable housing, military base reuse, etc. He also proposed to reduce voter approval to 55 percent and allow them to overlap redevelopment project areas (with certain conditions).

The May Revision revises this proposal somewhat, though not in any of its fundamental aspects. First, it would establish this new type of IFD in a new, separate statute, leaving the current IFD law intact without modification. Second, it requires that any affordable housing include long-term affordability covenants of 55 or 45 years, for rental and owner-occupied units.

The rest of the changes are clarifications. For instance, the revised proposal would clarify that counties and cities may securitize the Vehicle License Fee (VLF) Swap revenues to fund IFDs, and clarifies that IFD participants may seek voter approval for new fees or assessments to support IFD projects. Finally, the new proposal clarifies that any low- or moderate-income housing removed as part of a project plan must be replaced.

STATE-COUNTY ASSESSORS' PARTNERSHIP AGREEMENT PROGRAM

The Governor's proposed budget included $7.5 million for a pilot program to provide nine county assessors' offices with grant funds to enhance local property assessment efforts. The May Revision proposes the following changes to the State-County Assessors' Partnership Agreement Program:

- Clarifies program funds may be used to assess and reassess business personal property as well as real property.
- Provides more flexibility in the distribution of grant funds.

INSUFFICIENT ERAF

The May Revision updates the amount necessary to fully fund the Triple Flip and VLF Swap amounts for Alpine, Amador, and San Mateo Counties and the cities therein. The total amount to cover those obligations is now $12.7 million.

MEDI-CAL

The Governor cites the adoption of the optional Medi-Cal expansion under the Affordable Care Act (ACA) as one of the cost drivers in the May Revision. The Administration has made significant adjustments to their projections in the Medi-Cal program, projecting that Medi-Cal caseload will rise from 7.9 million (pre-ACA) to 11.5 million in 2014-15 – a 46 percent increase. In this scenario, Medi-Cal will provide health coverage to nearly 30 percent of Californians. In January, the Administration estimated a two-year General Fund cost increase for Medi-Cal of $1.2 billion; they now estimate the two-year cost to be $2.4 billion for the expansion of Medi-Cal.

Previously Eligible. In January, the Administration estimated that 508,000 of new Medi-Cal enrollees were previously eligible (and therefore eligible for 50-50 state-federal cost sharing). In May, the Administration has updated that estimate to 815,000. The May Revision also assumes net General Fund cost increases related to this population of $89.3 million in 2013-14 (for a total General Fund cost of $193 million) and $513 million in 2014-15 (for a total General Fund cost of $918 million).

Newly Eligible. In January, the Administration estimated that approximately 800,000 newly eligible individuals would enroll in Medi-Cal in 2014-15 (eligible for 100 percent federal cost sharing until 2017). The Administration now estimates that 1.6 million newly eligible individuals will enroll in Medi-Cal. The state assumes $6 billion in new costs, all paid for by the federal government. By 2020-21, the state will have a 10 percent share of costs for the newly eligible population.

Mental Health & Substance Use Disorder Benefits. As part of the Medi-Cal expansion, California increased mental health and substance use disorder benefits, which the Administration estimates will cost $191.2 million in 2014-15.

Managed Care Rates. The May Revision also includes $187.2 million General Fund for managed care rate increases in 2014-15.

AB 85 Diversion. The May Revision estimates that $724.9 million will be diverted from county health realignment funds for CalWORKs costs. In January, this estimate was $900 million. Please note that the Administration had worked with counties over the spring to develop county-by-county estimates. The DHCS is contacting counties today to share county specific numbers. Between the time that counties worked with the DHCS on the methodology for the estimate and the release of the May Revision, the Administration made changes to the underlying formula for the public hospital counties. The methodology counts 16-months' worth of Delivery System Reform Incentive Payments (DSRIP) funding in 2014-15. The result of this methodology change is approximately $75

million in additional funding for the state. Please recall that the $724.9 million for 2014-15 included in the May Revision is an estimate and that a final reconciliation or "true-up" will occur in 2016 once final data is submitted by counties to the state.

Enrollment. The May Revision acknowledges the ongoing computer problems associated with the California Health Eligibility and Enrollment Retention System (CalHEERS), which processes Covered California applications and determines eligibility for the Modified Adjusted Gross Income (MAGI) for Medi-Cal. There is a backlog of approximately 900,000 Medi-Cal applications pending verification of residency and income. The Administration already suspended the requirement for paper verification of residency until July 2014. In January, the Administration assumed Medi-Cal redeterminations would be delayed until April 2014. The Administration now believes CalHEERS functionality will not be available until at least July. The May Revision assumes further delays in resuming redeterminations will cost $68.6 million in 2013-14 and $25.8 million in 2014-15.

Katie A. Settlement Costs

The May Revision includes $2 million ($1 million General Fund) as a placeholder for county administrative costs associated with semi-annual progress reports that are new requirements under the *Katie A. v. Bonta* settlement agreement. The settlement agreement was entered into by the state in 2012 to improve mental health and supportive services for children and youth in, or at imminent risk of placement in, foster care in California. As a result, there may be new administrative activities that increase county costs in accordance with Proposition 30; the distribution and use of the funding is subject to further discussion between the Administration and counties.

CalWORKs

March Grant Increase. The Governor's estimate in January for the state's General Fund contribution toward the March 1 CalWORKs grant increase – largely funded with the AB 85 health realignment funding redirection – was too low by $6.8 million, so the Governor is now proposing to contribute $13 million General Fund in 2014-15 to pay for the statutory increase.

CalWORKs Caseload. The Governor revised his caseload projections for CalWORKs from January and proposes to increase General Fund spending by $35 million in the current year and $95.2 million in 2014-15. Please note that the CalWORKs caseload is not rising; instead, the number of people participating is declining at a slower rate than previously estimated.

Child Welfare Services

Title IV-E Waiver Extension. The Governor included $3.1 million ($1.5 million General Fund) for positions at the Department of Social Services to facilitate the participation of

additional counties in the state's federal Title IV-E Waiver for improving child welfare program outcomes. The Governor estimates that up to 18 additional counties may participate.

CalFresh

State Utility Assistance Subsidy. The Governor proposes an increase of $10.5 million General Fund in 2014-15 to continue providing an energy assistance subsidy to CalFresh recipients. This proposal comes in response to recent changes in federal law that reduced eligibility levels for up to 320,000 households in California.

Caseload. The Governor proposes spending $20.7 million General Fund for administrative costs associated with the rise in CalFresh caseload attributed to the implementation of the ACA. The Governor anticipates an additional 134,000 new CalFresh households by the end of the next fiscal year (June 2015), for a total ACA-driven caseload increase of 279,000 households.

Food Assistance

Drought Relief. The Governor includes an additional $5 million General Fund for food assistance to areas severely impacted by the state's drought. Details on how food assistance will be coordinated and distributed are still being worked out. The new $5 million comes on top of nearly $15 million already earmarked for drought-related food assistance efforts.

In Home Supportive Services (IHSS)

The Governor proposes increasing state General Fund spending by $107.9 million in the current year and $134.3 million in 2014-15 due to increases in caseload, hour per case, and costs per hour.

Pediatric Vision Services

The May Revision proposes $2 million ($1 million in General Fund) for a pilot program in Los Angeles County to increase utilization of pediatric vision services. Qualified mobile vision providers will contract with school districts to provide vision exams and eyeglasses to children enrolled in Medi-Cal managed care plans.

Public Health

AIDS Drug Assistance Program (ADAP). The May Revision includes $26.1 million in federal funds to add two new Hepatitis C virus drugs to the ADAP drug formulary.

MANAGED RISK MEDICAL INSURANCE BOARD (MRMIB)

Major Risk Medical Insurance Program. The May Revision eliminates the Major Risk Medical Insurance Program (MRMIP) effective January 1, 2015. The elimination is due to a 50 percent decrease in program utilization. The proposal includes statutory changes requiring health care plans to offer Medicare supplemental insurance products to individuals unable to obtain coverage through Covered California or the individual market.

STATE HOSPITALS

For a write up on the Governor's proposal to increase funding for local Restoration of Competency programs please see the Administration of Justice section.

STAY TUNED FOR THE NEXT *BUDGET ACTION BULLETIN*!

If you would like to receive the Budget Action Bulletin electronically, please e-mail Stanicia Boatner, CSAC Senior Legislative Assistant at sboatner@counties.org. We're happy to accommodate you!