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## Highlights from Governor Brown's 2017-18 Revised Budget

### Bulletin

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Governor Jerry Brown released his May Revision of the California State Budget for 2017-18 today (full budget summary can be found [here](#)), noting that while state spending has increased over the past four years by billions of dollars, significant spending at this time "won't be possible." The total General Fund spending proposed is \$124 billion, which is an increase of \$1.5 billion from the January Budget. The overall revised plan contains \$183.4 billion in total state spending and projects a net increase of \$7.4 billion in General Fund revenues compared to the 2016-17 Budget. This increase is based largely on the surging stock market and higher capital gains revenues. The revised budget also retains \$1.8 billion in spending for the State's Rainy Day Fund, bringing the fund to \$8.5 billion, which continues to be one of Governor Brown's top priorities.

Many potential repercussions or impacts to the state budget due to policy changes coming out of Washington, DC are still to be determined; however, Governor Brown has stated that until those actions occur, the state will move forward as planned. Brown does continue to emphasize fiscal vigilance, stressing that commitments the state has made in recent years will strain state finances and the focus going forward should be planning for the next recession.

Because Governor Brown was able to pass his \$52 billion transportation funding package last month (SB 1), the May Revision focuses on implementing that package by enhancing oversight of Caltrans and adding \$2.8 billion in new funding. Brown and Democratic leaders worked until close to midnight on April 6<sup>th</sup> to secure the two-thirds votes needed to pass SB 1, which included a controversial \$0.12/gallon gas tax. All Democrats except Assemblyman Rudy Salas (D-Bakersfield) and Senator Steve Glazer (D-Orinda) voted in favor. Salas felt the repercussions of his "no" vote on April 17<sup>th</sup> when Speaker Rendon stripped him of his Assembly Business & Professions Committee chairmanship. One sole Republican – Senator Anthony Cannella (R-Ceres) - negotiated special funding for his district in exchange for his "aye" vote on SB 1.

Additional funding priorities in the Governor's May Revision include increasing funding for K-12 schools (while sequestering \$50 million in UC funding in response to a recent, scathing audit); maintaining child care funding; helping counties cover costs associated with changes to the Coordinated Care Initiative; and reducing pension liabilities.

Highlights of the Governor's 2017-18 revised budget include:

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## Health and Human Services

Health and Human Services spending has decreased since the Governor's January budget. The May Revision proposes \$158.7 billion (\$33.7 billion General Fund and \$125.1 billion other funds) in health and human services program spending, which is a \$324.8 million decrease from January. Although President Trump and Congress were unsuccessful in their first attempt to repeal the Affordable Care Act (ACA), the federal healthcare policy landscape and its potential impact on California remains uncertain given current federal attempts to overhaul the ACA. In releasing the May Revision, Governor Brown emphasized that Trumpcare would cost California billions of dollars in lost federal funds, which would be "really bad news." The California Department of Healthcare Services (DHCS) issued a [fiscal analysis](#) of the first, failed federal healthcare bill, finding that costs to California would have been \$6 billion in 2020 (\$4.3 billion GF) and up to \$24.3 billion (\$18.6 billion GF) in 2027. Like the January Budget, the May Revision assumes the ACA will remain in place, and Governor Brown has pledged to "fight as hard as we can" to ensure Trumpcare does not pass.

The May Revision continues to assume the Coordinated Care Initiative (CCI) will no longer be cost effective and will be discontinued in 2017-18 in its current form. The managed care portion of the Cal MediConnect program, continuing the duals demonstration and mandatory enrollment of dual eligibles, remains in tact, as does integrating LTSS into managed care. Funding for In-Home Supportive Services (IHSS) will still be discontinued, but the Budget includes an additional \$592.2 million to help counties assume this cost.

### **Significant Adjustments:**

- The Medi-Cal shortfall decreased by roughly \$620 million GF compared to January, mainly attributable to savings from drug rebates in Medi-Cal.
- Reflects \$8 million GF savings based on the proposed continuation of the Cal MediConnect duals demonstration pilot, which is a decrease of \$12 million in GF savings compared to the January Budget.
- Includes an increase of \$19.8 million in the Prop 56 allocation to Medi-Cal to help cover an accounting error that caused an erroneous budget projection in 2016. Overall Prop 56 (tobacco tax) revenue increased by \$23.3 million compared to the January Budget.
- Includes \$14.9 million for the Medicaid Management Information Systems (CA-MMIS) to support operations of the claims processing system and continue the design, development and implementation efforts to modernize MMIS using a modular approach.
- Proposes statutory changes to implement the covered outpatient drug final rule, codifying a new drug ingredient reimbursement methodology and dispensing fee based on a study of Medi-Cal pharmacy provider costs.
- Includes \$44.7 million in federal funding to reflect the award of the federal Opioid State Targeted Response grant.
- Decreases SSI-SSP by \$34.1 million in 2016-17 and \$37.3 million in 2017-18.
- Includes \$3.1 million GF to establish additional jail-based competency treatment programs for up to 24 beds with respect to Incompetent to Stand Trial (IST) admissions under the Department of State Hospitals, the referrals of which continue to outpace capacity. The May Revision notes that approx. 550 individuals are currently on the IST pending placement list.
- Proposed \$7.5 million GF to establish acute crisis services to mitigate the closure of the Fairview and Sonoma Developmental Centers.

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## Natural Resources/Environmental Protection

The May Revision includes \$9.4 billion for all programs under the Natural Resources Agency. Because the drought in California has ended, the May Revision reflects shifts from immediate emergency drought actions to ongoing efforts to combat climate change and continue water conservation. The May Revision also includes funding to enhance dam safety in light of the recent Oroville dam failure, support for state parks, resources for fire protection.

### **Highlights:**

- Includes \$38.7 million GF for expanded fire protection to CAL FIRE in recognition of continuing tree mortality and in anticipation of the 2017 fire season.
- Includes five additional positions on the Water Board to implement the California Water Action Plan, including establishing new urban water use efficiency standards, enhance state and local enforcement, and more.
- Includes an increase of \$50 million Prop 1 funds to support Central Valley multi-benefit flood management projects.

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## Transportation

With the passage of the Governor's \$54 billion transportation package last month – the Road Repair and Accountability Act of 2017 – the focus of the May Revision with respect to transportation is on implementation of that package. The May Revision includes \$2.8 billion in new appropriations toward the Act.

### **Transportation Reform Package highlights:**

- 12-cent gas tax increase, which is expected to generate \$2.4 billion.

-11-cent diesel tax increase, which is expected to generate \$725 million.

-\$1.6 billion to be generated from increasing the transportation improvement fee gradually from \$25 to \$175.

-Annual fee on zero emission vehicles of \$100, expected to generate \$19 million.

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### Education

The May Revision includes total funding of \$92.3 billion (\$54.2 billion General Fund and \$38.1 billion other funds) for all K-12 education programs. Due to the fluctuation in revenues, Proposition 98 funding at the minimum guaranteed level is up by more than \$2.5 billion in 2017-18. To provide stability to school districts, the May Revision proposes suspending the statutory Proposition 98 Test 3B supplemental appropriation in 2016-17, through the 2020-21 fiscal years. Test 3B provides the ability for school funding to grow at the same rate between budget years, but restores funding long-term. Overall, the increase in the Proposition 98 guarantee includes the following:

-Increase funding for the Local Control Funding Formula (LCFF) of \$1.4 billion.

-Increase per pupil spending by about \$4,058 over 2011-12 levels.

#### **Significant Adjustments:**

-Increase of \$188.7 million Prop 98 GF in 2016-17 and \$327.9 million in 2017-18.

-Increase LCFF funding by an additional \$661 million, on top of the \$770 million from the January Budget (\$1.4 billion total).

-Increase \$750 million in one-time discretionary funding to implement state-adopted academic standards, teacher retention and professional development, and address infrastructure needs.

-Increase of \$26.2 million in 2016-17 and \$74.1 million in 2017-18 for Average Daily Attendance (ADA).

-Increase of \$3.2 million to reflect cost-of-living change from 1.48% in the January Budget to 1.56% at the May Revision.

-Total funding for higher education is \$33 billion (\$18 billion General Fund and local property tax and \$15 billion other funds). Due to the UC Regents and CSU Trustees increasing tuition this year, the cost of Cal Grants is estimated to grow by \$48.9 million more than projected in the January Budget.

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### Public Safety

Total proposed funding for the Department of Corrections and Rehabilitation is \$11.4 billion (\$11.1 billion General Fund and \$308 million other funds).

-The revised average daily adult inmate population are 129,275 in the current year and 127,693 in the budget year, an increase of 260 inmates in 2016-17 and a decrease of 466 inmates in 2017-18.

#### **Significant Adjustments:**

-The prison population is now at 135% of design capacity, below the court-ordered cap of 137.5%.

-Proposition 57 implementation of emergency regulations results in a net savings of \$38.8 million in 2017-18, growing to \$186 million in 2020-21.

-Increased augmentation of \$1 million GF, a total of \$6.7 million to implement Proposition 57.

-Proposition 47 estimated savings of \$45.6 million when comparing 2016-17 to 2013-14, with an increase of \$2.6 million over the January Budget estimate. Total savings are estimated to increase to \$75 million by 2019-20.

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### Statewide/General Issues

The May Revision makes adjustments to various other programs departments, including the California Public Utilities Commission (CPUC), CalPERS and the Board of Equalization (BOE). These and other noteworthy adjustments include:

-Transfers some transportation oversight from the California Public Utilities Commission to other departments, including private carrier of passengers to the Department of Motor Vehicles; for-hire vessels to the Department of Boating and Waterways; and commercial air operators to local jurisdictions.

-Makes a one-time, \$10 million GF augmentation to the Office of Planning and Research for the Precision Medicine Initiative.

-Makes a \$6 billion one-time supplemental payment to CalPERS in 2017-18 to mitigate increasing pension contributions due to the state's large unfunded liabilities.

-Includes a \$20 million GF increase for adjustments in state employee compensation due to increase enrollment in health and dental plans.

-Notes that the Board of Equalization, currently undergoing significant legislative and administrative scrutiny, was informed by the Governor in April that its delegated authority for personnel, contracting, and technology is indefinitely suspended. The Governor also plans to convene legislative leaders to enact changes by June to address the problems at the BOE. When asked whether the BOE should remain a constitutional office, the Brown replies that he is "always ready to dust off the idea to combine financial institutions into one agency but (it) has always been nonstarter."

-Reflects ongoing efforts of the Administration to implement Prop 64, which legalized recreational cannabis, and includes an additional \$43.2 million for cannabis-related activities, including \$1.3 million to the Department of Pesticide Regulation to develop guidelines for pesticide use on cannabis, and \$9.3 million to the Department of Public Health to implement cannabis manufacturer regulations.

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Now that the May Revise has been released, budget subcommittees in the Senate and Assembly will meet quickly over the next few weeks to review and approve the Governor's budget. Ongoing negotiations between the Governor and Democratic leaders will rapidly proceed in an effort to resolve major differences in spending and revenue until a budget deal is reached. The Legislature will pass the budget by June

15<sup>th</sup>.