CALIFORNIA SENATE REPUBLICANS

Highlights and Analysis of the Governor's May Revision

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Executive Summary

Overview. The Governor's May Revision maintains the January estimate that the state has a $21.5 billion General Fund surplus. Tax revenues continue to adjust upward for now and would set another record high at $146 billion, or $1.6 billion higher than expected just a few months ago. However, the May Revision now forecasts slowing revenue growth a couple years down the road, and proposes that $1.8 billion in spending would sunset at the end of 2021. Total General Fund spending would reach a record $147 billion in 2019-20, up by $2.8 billion from January, including nearly $1 billion in new spending proposals. Total state spending would reach nearly $214 billion, while adding federal funds would bring the grand total to nearly $320 billion. State reserves would exceed $19 billion and would include for the first time a rainy day fund specifically for public schools, which is required when the budget meets certain constitutional tests. Unfortunately, despite the record revenues, the May Revision does not reverse any of the Governor's major tax proposals from January.

Revenues Surpass Expectations. Compared to the Governor's January budget proposal, General Fund tax revenues are projected to be higher by $1.9 billion in the current year and $1.6 billion in 2019-20. Following a monthly shortfall in January personal income taxes, April showed stronger-than-expected personal income returns as well as stronger corporate income taxes. The May Revision also assumes $500 million in one-time tax revenues resulting from high-profile initial stock offerings by California-based companies such as Lyft and Uber. In all, General Fund tax revenues would set a new record high of $146 billion, which is 6 percent above the 2018 Budget Act. These record revenues (which do not include gas taxes) indicate that the state does not need to raise taxes further on Californians to take care of issues that are a priority.

Higher Spending Now, But Some Proposals Allegedly Would Sunset. Total General Fund spending would reach a record $147 billion in 2019-20, up by $2.8 billion from January. In order to curtail future spending to align with lower revenue growth, the May Revision proposes a sunset date of December 31, 2021 for $1.8 billion in larger spending items. However, the proposals selected to sunset are ongoing in nature, and assuming they would actually end is likely unrealistic. If the sunsets are not built into the budget forecast, the state would return to operating deficits in 2021-22 and the following year, even under current revenue projections.

Combined Reserves Would Exceed $19 Billion. The state's Rainy Day Fund (Proposition 2 of 2014) would grow to $16.5 billion by the end of 2019-20, reflecting an increase of $1.2 billion compared to January's estimate due to higher revenues. The May Revision also projects that, for the first time, the public school rainy day fund authorized by Proposition 2 would take effect with a balance of $389 million. Combined with the state's other reserve accounts, total General Fund budget reserves would exceed $19.4 billion.

Unnecessary New Taxes Maintained. Despite even higher tax revenues from existing sources, the May Revision does not unwind the Governor's major proposed new taxes from January, including a water tax, various business taxes, a health insurance mandate tax, and a 9-1-1 tax. These proposals are now projected to reach $2.4 billion combined, primarily as a result of $1.7 billion from discretionary taxes on businesses associated with federal tax reform. Given the state's massive surplus and that Californians already pay among the highest taxes in the country, there is no reason to raise taxes again. Priorities like clean drinking water and tax credits for working families should be funded through existing resources.

Temporary Rate Increases for Providers of Developmental Disability Services. The May Revision proposes $330 million ($200 million General Fund) to fund rate increases for specified service providers in the developmental disability system. Senate Republicans applaud these targeted rate increases but note that providers across the board are suffering from low rates. The total amount is also less than

Senate Republicans requested, but is a significant step in the right direction. Unfortunately, this rate increase is one of the proposals the May Revision would sunset December 31, 2021, which would be a devastating and unworkable setback for community services, unless replaced with real rate reform and sufficient additional funds.

Early Childhood Care Proposals and Adjustments. The May Revision reflects new proposals for early childhood care and education but also adjusts January proposals downward to reflect potentially lower future revenues. These proposals and adjustments include:

- ***Cannabis-Funded Child Care.*** Nearly $80 million in cannabis revenues to subsidize child care for school-age children from income-eligible families.
- ***CalWORKs Child Care.*** Nearly $41 million in 2019-20 and $54 million annually to allow CalWORKs recipients to receive Stage 1 child care for up to 12 months.
- ***Reduced Preschool Slots.*** The May Revision postpones the release of 20,000 preschool slots, bringing January's proposal down to 10,000 slots that would begin in April 2020.
- ***Lower Kindergarten Construction Proposal.*** The May Revision reduces the January proposal for $750 million in kindergarten construction funds by $150 million and seeks to target the program more closely at promoting full-day kindergarten.

Additional Special Education Funding. The May Revision adds $119 million to the Governor's January proposal for special education, bringing the total to $696 million in ongoing Proposition 98 funds. The method to distribute funds among schools would remain the same as proposed in January, which included low-income pupils and English learners as well as students with disabilities. Senate Republicans agree special education is a critical need to address, but the specific distribution method is questionable.

Assistance for Teachers in Target Areas and Subjects. The May Revision proposes nearly $90 million in one-time non-Proposition 98 funds to provide school loan assistance of up to $20,000 in high-need areas, with priority given to hard-to-hire subjects like special education and math and school sites with high rates of non-credentialed teachers. In addition, nearly $45 million would provide training and resources for classroom educators, including STEM subject matter competency, computer science, social emotional learning, and restorative practices.

Additional Funds for Relief of School Districts' Pension Payments. The May Revision proposes an additional $150 million in one-time General Fund, bringing the total to $850 million to make teacher pension payments on behalf of school districts. This supplemental payment provides relief to school district budgets and lowers their expected pension contribution from the projected 17.1 percent in January to 16.7 percent.

Earned Income Tax Credit Expansion Funded With New Taxes. As the Governor announced two days prior to the May Revision release, the revised budget would go further than the January proposal to expand the Earned Income Tax Credit (EITC) program. The cost would now reach $1.2 billion (from $1 billion in January; the current program is $400 million) by increasing a special supplement for families with children under six years of age. The January budget proposed a $500 annual supplement, but the May Revision would increase the supplement to $1,000 per family and would provide the supplement on a monthly basis. The May Revision would still pay for the program with several tax increases. While providing relief to working California families has been a long-term goal of Senate Republicans, there is no reason why Californians and small businesses should pay more to support an expanded program while existing General Fund revenues continue to reach record highs.

Emergency Preparedness and Response Funding. The May Revision includes $115 million in new General Fund spending on emergency response and recovery for 2019-20. Of these funds, $75 million would be provided on a one-time basis to support vulnerable populations that may be affected by increased power interruptions implemented by utility companies to prevent wildfires. Of the remainder, $20 million would be set aside to provide immediate funding for state agencies that are deployed in response to emergencies. Given the size and costs of recent large-scale disasters, including unprecedented loss of life, this additional investment in critical response efforts is prudent.

Improving Access to the Justice System. The May Revision provides about $45 million in increased funding for the State Judiciary, including $30 million to fund 25 of the 50 judgeships established in 2007 by AB 159 (Jones). These resources are long overdue and will provide much needed relief to litigants and courts in extremely under-resourced counties like San Bernardino, Riverside, and Kern.

Curbing Drug Use in Prisons. The May Revision proposes $71 million General Fund, increasing to $162 million annually thereafter, to implement a substance use disorder treatment program at all state prisons. The proposal is intended to break the cycle of drug addiction before returning inmates to their communities, while giving them resources to help them stay clean after release. While the proposal sounds promising, the Department of Corrections and Rehabilitation has a horrible track record implementing these kinds of programs. Oversight and accountability measures will be essential if this proposal is to achieve the intended results.

Housing and Homelessness. The May Revision would still provide more than $2.2 billion in one-time General Fund to increase the level of housing construction for all income levels and reduce homelessness across the state. The Governor's housing plan is amended in the May Revision, however, with local governments no longer eligible to receive general purpose funds as a reward for meeting housing milestones. Instead, the May Revision provides $500 million for the Infill Infrastructure Grant program, allowing local governments to use funding for housing-related infrastructure such as water, sewers, roads, and public parks.

The May Revision continues to propose withholding transportation funds in an attempt to motivate local governments to work with developers to increase housing through various reforms such as rezoning for density and revamping local processes to speed up production. Such a punitive measure would be a bait-and-switch with respect to recently hiked transportation taxes.

The May Revision proposes $650 million to address homelessness across the state, a $150 million General Fund increase from the January budget. Big cities would be eligible for $275 million, counties would receive $275 million, and $100 million would be distributed to the state's Continuums of Care.

Sales Tax Exemptions. The May Revision reflects the sales tax exemptions for diapers and menstrual products that the Governor announced a couple days prior to the May Revision release. These exemptions are projected to reduce revenues by $17.5 million in 2019-20 and $35 million annually. Local sales taxes would also decrease, bringing total revenue losses to $38 million initially and $76 million annually. These exemptions would be effective for two years only, expiring December 31, 2021.

Delay in Medi-Cal Expansion to Undocumented Young Adults. The May Revision delays the start date by six months for undocumented adults ages 19 to 25 to be eligible for full-scope Medi-Cal benefits. The Governor's January budget proposed a July 1, 2019 start date, while the May Revision moves it to January 1, 2020.

Governor Yields on Taking County Public Health Funds but Still Threatens Rural Health Programs for the Uninsured. Recognizing the potential negative impact to local public health programs, Governor Newsom has agreed not to redirect realignment funds allocated to the counties back to the state, but his May Revision does propose to withhold realignment funds allocated to the County Medical Services Program Board that administers indigent health care programs on behalf of 35 rural counties.

Bigger Individual Healthcare Mandate Tax Penalty Needed to Repay General Fund for Upfront Covered California Subsidies. The May Revision proposes $295 million in General Fund to begin state subsidies on insurance purchases at Covered California for incomes between $50,200 and $150,600 for a family of four. The Administration states that the revenues from the individual mandate tax penalty will eventually cover both the subsidies and repay the General Fund. The Governor estimates penalty tax revenues of $317 million in 2020-21.

In-Home Supportive Services (IHSS) Restoration to Sunset in 2020-21. The Administration, as part of an effort to check ongoing spending in future budget years, proposes sunsetting the 7 percent restoration of authorized hours for IHSS providers. The program took a 7 percent cut in authorized hours during the recession, which was restored as part of the Managed Care Organization tax agreement in 2016.

Proposition 98 Education Spending Increases. Compared to January, higher tax revenue estimates mean that Proposition 98 funding for K-14 education would be higher by $389 million in 2019-20, reaching a total record of $81.1 billion.

Higher Education Proposals. The May Revision makes relatively small adjustments to proposed funding for the University of California and the California State University systems. These include a combined $10 million for the two systems to support "rapid rehousing" for homeless or housing insecure students. In addition, the May Revision proposes a one-time payment of $25 million to support the UC Retirement Program.

Revenues, Expenditures, Surpluses, and Reserves

Key Points

- **Revenues Higher Now but Slower Growth Projected.** Revenues are now projected to be even higher than anticipated in January, but growth is projected to slow significantly in the near future.
- **Some Spending Now Proposed to Sunset.** The May Revision adds sunset dates for $1.8 billion in General Fund spending to slow future budget growth, but these sunsets may not be realistic.
- **Record Reserves Include Public School Funds.** The Rainy Day Fund reserve would grow by another $1.2 billion, and the public school reserve would be triggered for the first time. Combined reserves would reach $19.4 billion, or 13.3 percent of revenue.

Revenues Surpass Expectations for Now... Compared to the Governor's January budget proposal, General Fund tax revenues are projected to be higher by $1.9 billion in the current year and $1.6 billion in 2019-20. Following a monthly shortfall in January personal income taxes, April showed stronger-than-expected personal income returns as well as stronger corporate income taxes.

The May Revision also assumes $500 million in one-time tax revenues resulting from high-profile initial stock offerings by California-based companies such as Lyft and Uber. In all, General Fund tax revenues would set a new record high of $146 billion, which is 6 percent above the 2018 Budget Act. These record revenues (which do not include gas taxes) indicate that the state does not need to raise taxes further on Californians to take care of priority issues.

…But Slower Growth Projected. Citing slowing global economic conditions and other risks, the May Revision lowers the rate of revenue growth in future years. While revenue in 2019-20 is forecast to grow by 3.1 percent, growth in 2022-23 would be only 1.7 percent. This means that revenue would be less in 2022-23 by $1.6 billion compared to the January forecast.

Higher Spending Now… Total General Fund spending would reach a record $147 billion in 2019-20, an increase of $8.3 billion (6.0 percent) compared to the Budget Act of 2018 and up by $2.8 billion from January. Compared to a low point of $86.4 billion in 2011-12 following the recession, General Fund expenditures would be higher by over $60 billion, or 70 percent.

The May Revision maintains the January budget's major proposals to eliminate past deferrals and to pay down unfunded liabilities. Adjustments to discretionary January proposals add a net total of $345 million General Fund, while new May proposals add nearly another $1 billion in spending. Mandatory Proposition 98 spending also increases due to the higher revenue estimates.

…But Some Proposals Allegedly Would Sunset. In order to curtail future spending to align with lower revenue growth, the May Revision proposes a sunset date of December 31, 2021 for $1.8 billion in larger spending items, including a developmental services provider rate increase, the restoration of In-Home Supportive Services hours, Medi-Cal provider rates now paid by tobacco taxes, and Covered California subsidies.

Adding these sunset dates may be more of an accounting gimmick to make the budget appear balanced in the long term, since realistically there would be substantial pressure to continue these programs, which are ongoing in nature. For example, the presumption is that the currently proposed developmental services rate increases would be replaced with a reformed rate structure that likely would also have higher costs (an effort that Senate Republicans support).

Surplus Consistent With January, but Short-Lived. The May Revision estimates a budget surplus of $21.5 billion, nearly the same as that estimated in January. Increased revenues are largely devoted to higher constitutional requirements for school spending, reserve payments, and debt reduction.

However, as revenue growth slows and expenditures continue to rise steadily, the May Revision forecasts operating surpluses of only 0.5 percent, 0.4 percent, and 0.1 percent in the three years following 2019-20. This outlook certainly is more positive than deficits, which some of Governor Brown's recent forecasts projected, but it displays the precariousness of the state's current strong fiscal position. If the programs proposed to sunset in fact continue, the forecast would include operating deficits potentially beginning in 2021-22.

The Governor prudently noted that a moderate recession could reduce the state's revenue by $70 billion over three years, resulting in combined deficits of $40 billion over the same time. Billions of dollars in discretionary long-term spending commitments made by Sacramento Democrats over the past several years mean that, despite the Governor's focus on one-time spending this year, the state budget will be under constant pressure each year in the future.

Combined Reserves Would Exceed $19 Billion. The state's general Rainy Day Fund, authorized by Proposition 2 in 2014, would grow to $16.5 billion by the end of 2019-20, reflecting an increase of $1.2 billion compared to January's estimate due to higher revenues. The Rainy Day Fund would reach the constitutional 10 percent cap in 2020-21 under the Governor's forecast (which does not count past optional deposits into the fund against the 10 percent cap).

Combined with the state's discretionary reserve of $1.6 billion, Safety Net Reserve of $900 million, and new school reserve of $389 million (discussed under the *K-12 Education* section), total General Fund budget reserves would reach $19.4 billion, or 13.3 percent of General Fund revenue.

Unnecessary New Taxes Maintained. Despite the record-setting taxes from existing sources, the May Revision does not unwind the Governor's major proposed new taxes from January, including a water tax, various business taxes, a health insurance mandate tax, and a 9-1-1 tax. These proposals are now projected to reach $2.4 billion combined, primarily as a result of $1.7 billion from various taxes on businesses. The Governor attributes the business taxes to federal tax "conformity," though the changes are actually discretionary. Given the state's massive surplus and that Californians already pay among the highest taxes in the country, there is no reason to raise taxes again. Priorities like clean drinking water and tax credits for working families should be funded through existing resources.

Legislative Analyst Projects Slightly Higher Revenue. The nonpartisan Legislative Analyst's Office (LAO) projects that revenues will be higher than the Governor's estimates by $639 million General Fund in 2019-20. Legislative Democrats will likely use these higher estimates to argue for more ongoing spending. Governor Brown routinely prevailed in past debates when Democrats sought to use higher revenue estimates, but it remains to be seen how much Governor Newsom will adhere to more conservative projections.

Health

Key Points

- **Bigger Health Insurance Mandate Tax Penalty Needed to Repay General Fund for Upfront Covered California Subsidies.** The May Revision proposes to use General Fund to begin state subsidies for insurance purchases at Covered California. Revenues from the individual mandate tax penalty will eventually cover both the subsidies and repay the General Fund.
- **Delay in Medi-Cal Expansion to Undocumented Young Adults**. The May Revision delays the start date from July 1, 2019 to January 1, 2020 for undocumented adults ages 19 to 25 to be eligible for full-scope Medi-Cal benefits.
- **Governor Yields on the Reduction of County Health Funds but Still Threatens Rural Health Programs for the Uninsured.** Recognizing the potential negative impact to local public health programs, Governor Newsom will not redirect realignment funds allocated to the counties back to the state, but will withhold realignment funds allocated to the board that oversees indigent health care programs for 35 rural counties.

Individual Mandate Tax Penalty to Repay General Fund for Upfront Subsidies. Governor Newsom's January budget called for a mandate on all Californians to obtain health insurance coverage or face a new state income tax penalty collected by the Franchise Tax Board. The plan had the penalty revenues funding health insurance subsidies at Covered California. But because the $317.2 million in estimated penalty revenues would not be collected until after the 2020 tax year, the May Revision proposes $295 million in General Fund to begin the subsidies on January 1, 2020 for purchasers with incomes between 200 percent and 600 percent of the federal poverty level ($50,200-$150,600 for a family of four). The Governor wants to allocate 75 percent of the funds to those above 400 percent of federal poverty level ($100,400 for a family of four), the current maximum income for federal subsidy eligibility. To maintain "budget neutrality" over a three-year window until the state subsidy program would sunset, the tax penalty (which oddly does not sunset) would have to be large enough to cover both the cost of the subsidies and to repay the General Fund.

Apart from the absurdity of imposing this tax penalty at a time when the state has a $21.5 billion General Fund surplus, using the penalty revenues for subsidies appears to be self-defeating. If more people obtain insurance, thus avoiding the penalties, less revenue will be available to fund the subsidies for the additional enrollees.

Delay in Medi-Cal Expansion to Undocumented Adults Under Age 26. The Governor's January budget proposed to expand full-scope Medi-Cal coverage to income-eligible adults ages 19 to 25 who are living in the state illegally. The May Revision delays the start date from July 1, 2019 to January 1, 2020, shifting roughly $122 million General Fund from 2019-20 to future years. The delay is primarily to recognize the time needed to make computer system changes and other adjustments to implement the policy.

Newsom Yields on Local Health Fund Sweep, but Plans to Withhold Funds to the Health Program Board that Serves Rural Counties. Yielding to recent pressure by the counties over the public health impact, the Governor has agreed not to pursue his January proposal to decrease the amount of realignment funds allocated to counties for local health programs. While the counties themselves will not experience direct reductions, the May Revision does propose to withhold realignment funds to the County Medical Services Program (CMSP) Board, which oversees county indigent care programs on behalf of 35 rural counties, until their reserves decrease to a balance of two-years-worth of annual expenditures. This would result in no new realignment allocations to the CMSP Board for several years and could negatively affect how rural counties deliver care to the uninsured.

While the CMSP Board acknowledges that some reduction in realignment funds is acceptable given that most young undocumented adults currently served by the CMSP would shift to Medi-Cal under the Governor's expansion proposal, the Board opposes the May Revise proposal stating it would have a "chilling effect" on current programs and on any program expansion. The Board has offered a compromise of an annual redirection of $20 million from the CSMP back to the state. This will reduce the CMSP reserve without harming the health programs provided to the uninsured population.

One-Time Health Workforce Investments. The May Revision allocates an additional $120 million in tobacco tax revenue (Proposition 56) to an existing loan repayment program designed to attract more Medi-Cal providers and $100 million in mental health act funds (Proposition 63) to retain and recruit more mental health professionals.

Human Services

Key Points

- **In-Home Supportive Services (IHSS) Continues to Grow as Governor Proposes Sunsetting Approved Service Hours.** In an effort to control ongoing General Fund pressure, the Administration proposes sunsetting the 7 percent restoration of approved hours for IHSS providers in 2021.
- **Master Plan on Aging.** The May Revision includes funding to begin work on the state's first Master Plan on Aging.
- **Increased Funding for County Administration of CalWORKs.** Despite declining caseload, the Administration proposes additional funding for county administration of CalWORKs to reflect a revised budgeting methodology.

Overview. The Department of Social Services saw an overall increase at May Revision of $261 million General Fund over the Governor's Budget. Cost drivers continue to be the rapidly growing IHSS program, which saw cost increases of $263 million General Fund from Governor's Budget due to increasing caseload, more hours per case, and higher costs per case than estimated. Additionally, General Fund costs were higher due to locally negotiated wages and health care benefits. These increases were partially offset by the steady decline of 5.9 percent in the CalWORKs caseload, as well as a slight decline in the SSI/SSP population.

IHSS Authorized Hours to Sunset. The May Revision proposes to sunset the 7 percent restoration in IHSS service hours in 2021 that was part of the Managed Care Organization tax renewal in 2016 for an ongoing General Fund savings of approximately $357 million. Senate Republicans support a balanced budget, especially given the rapid growth of the IHSS program.

State Share of IHSS to Increase Due to Union Negotiations. As a result of locally negotiated wages and benefits, the state share of the IHSS program increased by $55 million General Fund over the Governor's Budget. Senate Republicans question the fiscal incentives and prudence of a state-share in locally negotiated wages and benefits, especially given the rapid caseload growth in IHSS.

Master Plan on Aging. The Governor proposes developing a statewide Master Plan on Aging—modelled after the state's Master Plan on Higher Education. Senate Republicans applaud this effort and support steps that prepare the state to meet the needs of the aged and elderly.

More Funds for County Administration of CalWORKs. Despite continued decline and a historical low in the CalWORKs caseload, the May Revision proposes $41.3 million in additional funding for counties to administer the CalWORKs program due to a revised budgeting methodology. The new methodology recognizes that CalWORKs cases require different levels of intensive case management. However, there is no link between funding and actual performance measures, such as moving families towards self-sufficiency.

Foster Family Recruitment and Retention Funds. The May Revision proposes to continue $21.6 million General Fund in funding from the enacted 2018-19 budget. This funding is used by counties to recruit and retain foster families, especially those willing to care for foster youth coming out of group homes. Senate Republicans applaud the Administration's support of families, who are the backbone of the state's foster system.

State Funds for Counties to Process Foster Family Applications. The May Revision proposes an additional $20.6 million one-time General and Federal funds for counties to speed up the processing of foster family applications. Counties have struggled to approve foster family applications in a timely manner due to some of the changes from the Continuum of Care Reform (AB 403, Stone) in 2016.

Developmental Services

Key Points

- **Targeted Rate Increase for Some Service Providers**. The May Revision proposes $200 million General Fund ($330 million total funds) to increase rates for specific service providers in the developmental disability system. The proposal targets service categories with the most disparate rates and those that are in compliance with the new federal regulations.
- **Suspension of Uniform Holiday Schedule.** The May Revision proposes a suspension of the Uniform Holiday Schedule, which mandates 14 unpaid holidays on service providers.
- **Disposal of Sonoma Developmental Center Property.** Despite advocate proposals to use this valuable property to generate revenue for the developmentally disabled (DD), the Budget proposes a joint planning effort between the County of Sonoma and the Department of General Services (DGS) with no guarantee the property will benefit the DD community.

Rapid Caseload Growth and Rising Costs. The Department of Developmental Services (DDS) estimates it will serve approximately 351,000 developmentally disabled Californians in 2019-20 in community settings and institutional developmental centers (DCs). While the vast majority of these individuals receive community-based services, the May Revision projects that DCs will serve 326 residents in 2018-19 and 292 residents in 2019-20, a decline of 34 residents (10.4 percent). Despite serving only 326 residents, the DC budget is $323 million. In contrast, the number of individuals served in community settings is projected to grow to 350,161 in 2019-20, an increase of 555 consumers over estimates at Governor's Budget. The May Revision estimates $7.8 billion for the Community Services budget. In the last ten years, caseload has increased by 44 percent, adding over 100,000 consumers to the DDS system. Growth is primarily attributable to an increased number of children entering the system with autism.

Targeted But Not Across-the-Board Rate Increases. In March the administration released a long-awaited rate survey, which indicated community services are underfunded by more than $1 billion annually. Senate Republicans issued a unanimous letter calling for a placeholder rate increase of $490 million total funds for an across-the-board 8 percent rate increase for providers. Instead, the May Revision proposes targeted rate increases to select service categories with the intention of stabilizing services, addressing rate inequities between regional centers and vendors, and setting the stage for implementing future rate reforms. The service categories receiving rate increases are residential care facilities, supported living services, family home agency, supported employment, personal assistance, and transportation assistance.

Senate Republicans believe this is a positive step to provide some rate relief for providers, but note that the service categories receiving rate increases serve a relatively small percentage of overall DD consumers. ***Additional funds and real rate reform are needed to create a sustainable system of high-quality community services for DD consumers.***

Sonoma Property Disposal Plan. Sonoma Developmental Center moved its last resident out in December 2018. Community advocates have reasonably called for the state to use this valuable property to generate revenues for reinvestment in housing opportunities and other community services for disabled residents. Senate Republicans' DDS budget letter also supported this proposal. However, the May Revision proposes a joint planning effort between the County of Sonoma and DGS to dispose of the property but the proposal does not directly benefit DD consumers or the DD system.

Suspension But Not Repeal of Uniform Holiday Schedule. The May Revision proposes suspending through 2021, but not repealing, the Uniform Holiday Schedule, which forces DD providers to take unpaid holidays and interrupts service to DD consumers. Suspending the Uniform Holiday Schedule will cost the state approximately $50.3 million General Fund. Senate Republicans applaud the efforts of the Administration to restore recessionary cuts in light of a $22 billion budget surplus, however, as outlined in their DDS budget letter, Senate Republicans support a full repeal of these unpaid holidays in order to ensure that providers are not forced to take unnecessary furlough days in the future.

Transparency and Accountability Efforts. The Administration proposes $7 million General and Federal funds for DDS and the regional centers to implement broad reforms. DDS has not released trailer bill language at this time, but have indicated that these reforms will work to establish and enforce comprehensive regional center performance goals and develop a statewide oversight system that regularly reviews regional center and provider performance and disseminates best practices.

K-12 Education

Key Points

- **Proposition 98 Continues to Surge.** Proposition 98 funding grows to an all-time high of $81.1 billion in 2019-20, up $389 million from January.
- **Special Education Funds Increased and Extended.** The May Revision increases the Governor's January proposal for special education to $696 million in ongoing Proposition 98 funds.
- **Assisting Teachers in Underserved Locations and Subjects.** The May Revision proposes nearly $150 million to provide school loan assistance to teachers in underserved areas and subjects and to improve science and math education.
- **Proposition 98 Reserve Triggered.** A voter-enacted reserve specifically for public schools would be triggered for the first time under the May Revision's estimates.
- **Adjustments to Early Childhood Education Proposals.** The May Revision makes several adjustments to January's package of proposals to expand childcare and early education.
- **Non-Fiscal Charter School Proposal.** The May Revision seeks to jam charter school policy changes with no fiscal effects through the budget process.

Proposition 98 Funds Increase to Another All-Time High. Under the Governor's May Revision proposal, total Proposition 98 funding for K-14 education hits an all-time high of $81.1 billion in 2019-20, up from $80.7 billion in January. In addition, revised estimates of past-year Proposition 98 obligations rise by $78 million for 2017-18 and by $279 million in 2018-19. The cost-of-living adjustment is now projected to be 3.26 percent, rather than the 3.46 percent estimated in January.

Additional Special Education Funding. The May Revision adds $119 million to the Governor's January proposal for special education, bringing the total to $696 million in Proposition 98 funds. All these funds would be ongoing, however, compared to only $390 million ongoing in the previous version. The method to distribute funds among schools would remain the same as proposed in January, which included low-income pupils and English learners as well as students with disabilities. Senate Republicans agree special education is a critical need to address, but the specific distribution method is questionable. The nonpartisan Legislative Analyst's Office (LAO) has raised a concern that the proposal penalizes school districts that have already done a better job of serving kids with disabilities and that this proposal would actually reward schools for keeping kids in special education.

Assistance for Teachers in Targeted Areas and Subjects. The May Revision proposes several items related to addressing teacher shortages and computer science education, including:

- ***Loan Assistance.*** Nearly $90 million in one-time non-Proposition 98 funds to provide school loan assistance of up to $20,000 in high-need areas, with priority given to hard-to-hire subjects, such as special education and math, and school sites with high rates of non-credentialed teachers.
- ***STEM Education.*** Nearly $45 million to provide training and resources for classroom educators, including STEM subject matter competency, social emotional learning, and restorative practices.
- ***Broadband Infrastructure.*** $15 million in one-time non-Proposition 98 funds to address gaps in broadband infrastructure among school districts.

Early Childhood Care Proposals and Adjustments. The May Revision reflects new proposals for early childhood care and education, but also adjusts January proposals downward to reflect potentially lower future revenues. These proposals and adjustments include:

- ***Cannabis-Funded Child Care.*** Nearly $80 million in cannabis revenues to subsidize child care for school-age children from income-eligible families. (This proposal is discussed in more length under the *Cannabis* section.)
- ***CalWORKs Child Care.*** Nearly $41 million in 2019-20 and $54 million annually to allow CalWORKs recipients to receive Stage 1 child care for up to 12 months. The Governor announced this proposal two days before the May Revision release.
- ***Reduced Preschool Slots.*** The May Revision postpones the release of 20,000 preschool slots, bringing January's proposal down to 10,000 slots that would begin in April 2020. The LAO previously raised concerns with the scope of the January proposal, so this version is likely more achievable.
- ***Lower Kindergarten Construction Proposal.*** The May Revision reduces the January proposal for $750 million in kindergarten construction funds by $150 million and seeks to target the program more closely at promoting full-day kindergarten. The LAO has raised a concern that there would be insufficient demand for even this reduced funding level.

State Proposition 98 Rainy Day Fund To Take Effect. The May Revision projects that, for the first time, the Proposition 98 Rainy Day Fund authorized by Proposition 2 (2014) would take effect in 2019-20. Proposition 2 included several criteria that must all be met to trigger this reserve requirement, which is intended to smooth the effects of the state's volatile revenues on public schools. These criteria include capital gains taxes that exceed 8 percent of overall revenues, the repayment of previous school "maintenance factor" obligations, and certain measures for Proposition 98's "Test 1" and "Test 2."

The May Revision funds this reserve account with an initial deposit of $389 million, which is set by a formula in Proposition 2. The LAO agrees that the reserve should be triggered but estimates the deposit should be $313 million instead, based on its differing revenue estimates. Funds in this reserve could be spent in fiscal years in which the minimum Proposition 98 funding level growth does not match enrollment and inflation.

Additional Funds for School Districts' Pension Payments. The May Revision proposes an additional $150 million in one-time, non-Proposition 98 General Fund to reduce school district contributions to pensions, thus bringing the total for that purpose to $850 million. The new $150 million would further reduce school districts' expected contributions from 17.1 percent to 16.7 percent, thus freeing up additional school funds that could be used elsewhere. This would not reduce actual teacher pension liabilities, though the May Revision maintains the $2.3 billion proposed in January to pay down that liability at the state level.

Non-Fiscal Charter School Proposals. The May Revision seeks to jam charter school policy changes with no fiscal effects through the budget process. These policies would prohibit charter schools from encouraging or discouraging enrollment on the basis of academic performance or other characteristics, among other policy changes. Regardless of the specifics of these policies, the accelerated budget process is not the right avenue to implement non-fiscal policies in complex areas. Attempting to implement such policies through the budget is typically an effort to undermine the public's ability to review the proposals thoroughly.

Higher Education

Key Points

- **University of California (UC) Retirement Payment.** Proposes a $25 million one-time payment to reduce the UC's unfunded pension liabilities.
- **"Rapid Rehousing" for Homeless Students.** Includes $10 million to assist homeless or at-risk students at UC and the California State University (CSU) through rapid rehousing programs.
- **Assistance for Targeted Student Populations.** Proposes nearly $5 million for several narrowly targeted programs to assist students with unique challenges associates with dyslexia, previous incarceration, and the foster care system.

Universities Announce Flat Tuition. The Governor's January proposal included an increase of $540 million General Fund combined for the UC and CSU, based on the assumption that tuition would remain flat. The boards at both systems have since announced that tuition will in fact be flat for the upcoming year.

UC Retirement Payment. The May Revision proposes a one-time payment of $25 million to reduce the unfunded pension obligation of the UC Retirement Program. Like the state government, UC faces massive unfunded liabilities, which total over $30 billion for pensions and retiree health combined. However, the UC board controls decisions over its pension plan's benefits and requirements, not the state. That fact, as well as the state's own massive liabilities, suggest the state should do more to reduce its own obligations instead.

"Rapid Rehousing" for Homeless Students. The May Revision adds $6.5 million for CSU and $3.5 million for UC to implement rapid rehousing programs for students who are either homeless or "housing insecure." California's overall housing crisis has clearly raised challenges for many students, and this proposal could assist a small number of students. However, housing challenges are too large for the state to spend its way out, as discussed in the *Housing and Homelessness* section.

Assistance for Targeted Student Populations. The May Revision proposes nearly $5 million combined for several narrowly targeted programs to assist students as follows:

- $3.5 million to UC San Francisco to support a dyslexia screening and early intervention program pilot.
- $750,000 to support a CSU program called Project Rebound that provides assistance to previously incarcerated individuals.
- $740,000 to support the First Star Foster Youth Program at CSU Sacramento, which intends to help a cohort of foster youth engage in various learning opportunities.

These proposals show promise and are consistent with previous Republicans efforts to expand opportunities for foster youth and for those with disabilities.

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Public Safety and Judiciary

Key Points

- **Emergency Preparedness and Response Funding is a Welcome Start.** The May Revision includes funding to enhance the state's immediate response capabilities and mitigate the impact of preventive power shutdowns.
- **New Judgeships, Trial Court Reserves Plan Give Needed Relief to Local Courts.** May Revision proposals include long overdue relief for under-resourced trial courts to address caseloads and cash flow problems.
- **Integrated Drug Treatment Plan for Offenders Shows Promise.** The Governor's proposal to combat drug abuse by prison inmates would expand medically assisted treatment and improve transition planning.
- **Debt Financing Proposal for Prison Health Care Disrespects Taxpayers.** The Governor's plan to issue more bond debt to fund rising costs of prison health care facility improvement projects bypasses voter approval and unnecessarily risks legal action against the state.

Emergency Preparedness and Response

Proposed Readiness Funding is a Good Start. The May Revision includes $115 million in new General Fund spending on emergency response and recovery for 2019-20. Of these funds, $75 million would be provided on a one-time basis to enhance the state's ability to support vulnerable populations that may be affected by increased power interruptions implemented by utility companies to prevent wildfires. Most of this funding would be used to bolster state and local infrastructure to ensure essential services remain available when the power is off. An example of work that might be done is installing backup generators to ensure that call centers and warming/cooling stations remain open and functioning during blackout periods.

Of the remaining $40 million, $20 million would be set aside to provide immediate response funding as needed for state agencies that are deployed during emergencies. The rest would be allocated to specific state agencies that have been regularly deployed during recent emergencies and have demonstrated an ongoing need for more baseline staffing and resources. Given the size and costs of recent large-scale disasters, in terms of both dollars and lives, this additional investment in critical response capabilities is prudent and appreciated. That said, Senate Republicans believe much more remains to be done to correct the misinformed policies that contribute to the state's poor management of resources, like our water and forests. Until we address these policies, Californians will continue to see the effects of natural and manmade disasters unnecessarily amplified.

Judicial Branch

Funding for New Judgeships Will Help to Reduce Case Backlogs. The May Revision includes about $45 million in increased funding for the courts, including $30 million to fund 25 of the 50 judgeships established in 2007 by AB 159 (Jones). These resources are long overdue and will provide much needed relief to litigants and courts in extremely under-resourced counties like San Bernardino, Riverside, and Kern.

Trial Court Reserves Proposal Seeks to Address Operational Needs. As part of the budget solutions implemented near the end of the last recession, trial courts were prohibited from carrying over more than one percent of their operational budget from one fiscal year to another, despite a long-standing practice of doing so. This operational constraint proved to be untenable for many courts.

Some had difficulty meeting payroll. Others lacked the cushion they needed to be able to adjust to declining revenues. The May Revision proposes to increase the carryover cap from one percent to three percent, giving courts more flexibility to adapt to changing conditions at the local level. Senate Republicans did not support the cap in the first place, and while it would be better if the cap were simply eliminated, increasing it to three percent would certainly help those courts that struggle with cash flow issues.

Department of Corrections and Rehabilitation (CDCR)

The Governor's January budget included 2019-20 General Fund spending for CDCR of approximately $12.4 billion. The May Revision proposes an additional $208 million, bringing total General Fund spending by the Department to $12.6 billion. This increase is mostly accounted for by increased inmate medical costs ($114 million) and the Governor's integrated offender drug treatment plan ($71 million). The average daily population (ADP) of adult inmates remains virtually unchanged from January's projections. CDCR projects an ADP of 127,993 for 2018-19 and 126,705 for 2019-20. The administration expects all remaining out-of-state facilities to be emptied of California inmates by June 2019.

Integrated Approach Proposed to Curb Drug Use in Prisons and After Release. The May Revision includes $71 million General Fund in 2019-20, increasing to $162 million annually thereafter, to implement a three-pronged, system-wide substance use disorder treatment program at all state prison facilities. The proposal incorporates medication-assisted treatment (MAT), a revamped cognitive behavioral therapy (CBT) model, and intensive, individualized pre-release transition planning into a comprehensive program intended to break the cycle of drug addiction before returning inmates to their communities. The key element of the proposal, one that has been largely absent in previous efforts to end inmate drug addiction, is the pre-release transition planning. Neither CBT nor MAT is completely new to CDCR inmates. However upon release, virtually all past offenders have been left to fend for themselves in terms of remaining clean, especially in the first few hours and days when the temptations and pressures on the outside are greatest. This proposal would incorporate pre-release planning to better prepare higher-risk inmates to face these challenges. The idea is to provide a "warm handoff" from a CDCR facility to community based transition services by doing things like providing a supply of medication for offenders at greatest risk of relapse, pre-enrolling eligible offenders in Medi-Cal, and linking parolees with community-based transitional and treatment services.

Breaking the offender addiction cycle is a goal shared by Republicans and Democrats alike, and elements of this proposal arguably show more promise than previous efforts. However, it should be noted that CDCR has been largely unsuccessful implementing these kinds of sweeping rehabilitative efforts in the past, in part perhaps because the department has not taken adequate steps to measure whether the programs it delivers are actually effective. In fact, a January 2019 report by the State Auditor found just that. In addition, according to the report, nearly 20 percent of the Department's CBT programs are not evidence based.[1] If this new approach to breaking the cycle of offender drug abuse is to have any hope of success, there must be adequate oversight, the programming offered must be evidence based, and CDCR must measure outcomes to ensure accountability.

Juvenile Justice Transition Proposal Still Lacks Details. In January, the Governor introduced what was little more than a notion for a major change in the way the state manages its population of juvenile offenders. The proposal, for which the administration continues to advocate, would remove the Division of Juvenile Justice (DJJ) from within CDCR and reestablish it as a new department (the Department of Youth and Community Restoration) under the Health and Human Services Agency. The May Revision requests $1.2 million General Fund and 8 positions to create the administrative core that would be

[1] https://www.auditor.ca.gov/reports/2018-113/index.html

responsible for standing up the new department. Unfortunately, details about the proposal are still sparse. It appears to employ a "make-it-up-as-we-go" approach. Information critical to evaluating the proposal remains unclear, like whether existing wards would remain in the same facilities or if new space would be needed, and how staff of the new department would maintain the safety of the public, the wards, and themselves, given that a high percentage of DJJ wards have extremely violent tendencies. Until a more complete plan is available, it is impossible to determine whether this proposal would improve juvenile justice or make things worse.

More Debt for Prison Health Care Projects is Wrong Solution. The May Revision includes a request to provide $49.9 million of additional lease-revenue bond authority for the Receiver's Health Care Facility Improvement Program projects. These projects at 25 state prison facilities are intended to provide necessary infrastructure to improve outpatient health care services at institutions where this capacity is lacking. The Legislature originally authorized $900 million in lease-revenue bonds for their completion. Poor design, construction delays, and unanticipated code compliance requirements have contributed (and continue to contribute) to costs exceeding original estimates. Since initial project authorization, bond authority for the projects has already been increased by almost $222 million (roughly 25 percent). This request would bring total lease-revenue bond funding for the projects to nearly $1.2 billion (an increase of almost 30 percent overall).

Lease-revenue bonds circumvent voter approval that is otherwise required for General Obligation Bonds. Furthermore, when the state increases the amount of debt securitized by a project, the original bondholders' security is diluted, which could theoretically result in costly litigation. To avoid the risk of legal action and restore the right of voters to weigh in on long-term debt obligations, the state should instead use a portion of the $21.5 billion General Fund surplus to complete these projects.

Transportation

Key Points

- **Nation's Most Expensive Gas Set to Increase Again.** California's gas prices are the highest in the country at $4.07 for a regular gallon of gas, with more increases soon to come. The national average is $2.86 per gallon.
- **More Money for the Troubled Department of Motor Vehicles.** The May Revision proposes $242 million to improve operations of the Department of Motor Vehicles (DMV), nearly quadruple the Governor's January proposal, but accountability is lacking.
- **Scaled-Back High-Speed Rail Project Still Problematic.** The Governor moves forward with a scaled-back high-speed rail line, but costs continue increasing as viability continues dwindling.

California Gas Prices are the Highest in the Country. According to AAA as of May 13, 2018, California's gas prices are the highest in the country at an average price of $4.07 for a regular gallon of gas. This is 42 percent higher than the national average of $2.86 per gallon. Hawaii is the next closest at $3.63 per gallon, and within the continental U.S., Washington is the next closest at $3.53 per gallon. California's high gas prices continue to be driven up by high taxes on gasoline and state environmental policies that attempt to modify behavior, like the state's summer gasoline blend requirement, the Cap and Trade program, and the Low Carbon Fuel Standard.

More Tax Increases on the Horizon. Pursuant to SB 1, the 2017 gas and car tax bill, the tax on gasoline will increase yet again by 5.6 cent per gallon on July 1, 2019. Beginning July 1, 2020, gas taxes will increase annually, as SB 1 included an annual inflation adjustment. The first inflation adjustment occurring July 1, 2020 will account for inflation from November 1, 2017 to November 1, 2019. The annual adjustments thereafter will cover subsequent 12 month periods.

Department of Motor Vehicles

DMV Struggles Widely Known. During the summer of 2018, motorists would need several hours, and in some instances all day, to conduct business with the DMV as lines wrapped around DMV offices. DMV pointed to issuing federally compliant drivers' licenses and identification cards, known as Real ID cards, as the reason for the extended wait times even though they were given more than $100 million in resources and had years to prepare to issue the cards.

Additional Current Year Resources. The 2018-19 budget included $47 million and 550 positions for DMV to address the increased workload associated with issuing Real ID cards. Since the budget, DMV has requested and the Legislature has granted an additional $63 million for operations in 2018-19. This funding supports 120 additional temporary positions, overtime, Saturday and extended hours at select offices, and the early hire of 300 temporary positions in an attempt to have staff trained in time for the anticipated summer rush.

Budget Year Proposal Nearly Quadruples. The Governor's January budget proposal included $63.7 million annually for the next four years to support 780 temporary positions to serve DMV customers applying for Real ID cards. Following completion of the Administration's audit and the findings of the Governor's Strike Team, the Governor has nearly quadrupled the budget proposal to an increase of $242 million for the 2019-20 budget. This funding would support 178.8 new permanent positions, the continuance of 900 existing temporary positions, and up to 970 new temporary positions. The funding will also support technology upgrades to accept credit cards in DMV offices, complete a website redesign, allow customers to live chat and email DMV agents, enhance the appointment system and call center, and enable the use of a chatbot to assist customers on the website. There would be a revised management structure, establishment of mobile command vehicles, more self-service terminals deployed, and more public outreach.

Beyond the Budget Year. The DMV estimates 22.1 million current licensed drivers and identification card holders will convert to Real IDs over the next five years. Once the current cardholders are converted, the workload should drop as those people return to their regular renewal schedule and methods. Some increased workload remains as new driver's license and identification applicants choosing Real ID cards continue to drive increased transaction times, since Real ID transactions take longer than the transactions for standard cards. The following table summarizes the resources requested for future years:

Fiscal Year	Funding Requested (in millions)	Permanent Positions Requested	Temporary Positions
2020-21	$178.5	201.1	1,847.3
2021-22	$64.8	201.1	1,791.5
2022-23	$51.1	201.1	415.2
2023-24	$23.9	201.1	342.7

Fund Rip-Off Temporarily Suspended. Substantial increases to the DMV's budget mean revenues are hundreds of millions of dollars short of planned expenditures, risking insolvency of the Motor Vehicle Account. To avoid insolvency, the Governor proposes to finance multiple CHP office replacement projects, rather than fund them on a pay-as-you-go basis, resulting in nearly $100 million in future interest costs. Other construction projects for CHP and DMV are proposed to be suspended and loan repayments are delayed. Additionally, annual transfers to the General Fund of about $90 million are temporarily suspended. These transfers move all revenues collected by the DMV that are not specifically dedicated to transportation purposes by the California Constitution to the General Fund. Over the last decade, these transfers total more than $740 million. Given the improved condition of the General Fund, the transfers should be ended, and the previously ripped-off funds should be returned to the Motor Vehicle Account to support improved operations at the DMV.

More Money Without Accountability Unlikely to Succeed. The Legislature will need to decide how best to address difficulties at the DMV. The Governor's proposal throws a lot of money at the perceived problems with no performance goals and little accountability. Also, the proposal encompasses many efforts, including, increased field staff, mobile operations, website and IT systems overhauls, increased public communication channels, and a revised management structure. The DMV's recent failures are unacceptable, but tasking the DMV with too many fixes at one time could be overwhelming and result in failure and more cost increases. Senate Republicans believe California motorists should get what they already pay for, a functional and efficient DMV, and will continue to pursue that on behalf of Californians.

California High-Speed Rail Authority

High-Speed Rail Project Scaled Back. During the State of the State address, Governor Newsom admitted, "there simply isn't a path to get from Sacramento to San Diego, let alone from San Francisco to L.A." With this announcement, the project was to be scaled back to a line between Merced and Bakersfield. Subsequent clarification from the Governor's Office indicated that environmental work will continue for all of Phase I (San Francisco to Los Angeles) and the previous regional commitments will be fulfilled. However, absent more state money, federal dollars, or private investment, there is not enough money to build beyond the Merced-Fresno-Bakersfield line.

Cost Estimates Increase Yet Again. On May 1, 2019, the California High-Speed Rail Authority (Authority) released a Project Update Report outlining increased costs of $1.8 billion for the 119-mile Central Valley Segment (Madera to Poplar Avenue) currently under construction. Including this increase, the cost for the 171-mile Merced-Fresno-Bakersfield line, which includes the Central Valley Segment, is $20.4 billion. Should building Phase I remain a consideration, the Phase I middle-cost scenario increases to $79.1 billion and the high-cost scenario increases to $99.9 billion. At this time, the Authority expects to begin service between Merced and Bakersfield in 2028.

Project Funding. In total, the Authority estimates $20.5-$23.5 billion in project funding is available through 2030. This includes future Cap and Trade auction proceeds of $500-$750 million annually. With a cost of $20.4 billion, funding to build even this much smaller high-speed rail line may fall short. Even a relatively small cost increase or slightly less Cap and Trade revenue could result in a funding gap. Likewise, a decrease in federal funding, as discussed below, would almost certainly create a funding shortfall for the project. Additionally, funding anticipated between 2028 and 2030 will need to be advanced if operations are to begin in 2028.

Federal Funding in Danger. After the Governor's announcement to scale-back the project, the Federal Railroad Administration (FRA) notified California of its intent to de-obligate $928.6 million. The FRA determined the Authority has materially failed to comply with terms of the funding agreement, failed to make reasonable progress on the project, and that the project has fundamentally changed. The FRA also indicated it was looking into legal options for recovering an additional $2.5 billion in federal money previously granted and spent on the project. The Authority argued that it is meeting the required commitments of the funding terms and funds should not be de-obligated. At the time of this writing, the FRA has not responded to California's objections or issued a final decision on the funding.

Potentially Illegal Subsidies and Other Project Concerns. The Project Update Report revealed a plan to improve bus service from southern California to Bakersfield and from the central coast to the planned Kings/Tulare station. The plan also makes the Merced station, at the northern end of the high-speed rail line, a hub for connecting with the Altamont Corridor Express (ACE) trains and the San Joaquins train service operated by the San Joaquin Joint Powers Authority (San Joaquin JPA). The Authority will require a subsidy to operate high-speed rail service on the Merced-Fresno-Bakersfield line, which is a clear violation of Proposition 1A (2008). As a potential solution, the Authority is considering leasing the high-speed rail assets to the San Joaquin JPA for operation. However, the San Joaquin JPA's existing train service receives state subsidies from Caltrans. It is unclear how such an arrangement avoids violating Proposition 1A.

Course Correction Still Possible. Despite what the majority party may say, it is not too late to change course on high-speed rail. Stopping the project now will save California at least $70 billion dollars in the long run. The investments already made could perhaps be of interest to a private company looking to build privately operated high-speed rail or existing passenger rail could be moved from shared freight lines to dedicated lines. Billions of cap and trade dollars could be freed up over time to improve forest health and reduce greenhouse gas emissions. Senate Republicans will continue to advocate for a course correction that results in commonsense investments rather than the boondoggle that is California High-Speed Rail.

Housing and Homelessness

Key Points

- **More Money for Infrastructure, Less Money for Houses.** The May Revision repurposes $500 million in one-time General Fund included in the January budget for incentives to local governments and instead would provide funding for infill infrastructure projects.
- **Governor Still Threatening to Withhold Gas Tax Funds.** The May Revision links SB 1 gas tax funds to housing element compliance but $500 million in one-time General Fund for development of housing would be expanded to include both low- and moderate-income projects.
- **Larger Subsidies, Preservation Projects Included in Tax Credit Program.** The May Revision continues to propose expansion of the State Housing Tax Credit Program, but expands eligibility to preservation projects rather than focusing on new construction. The May Revision also proposes larger subsidies for very low-income projects.
- **Excess State Property For Housing Development Moving Forward.** The May Revision includes $2.5 million General Fund for real estate consultants intended to help the state move forward on the Governor's proposal to use excess state property as a way to entice affordable housing developers to build demonstration projects on the property.
- **School Districts and County Offices of Education Eligible for Planning Grants.** The January budget included $250 million General Fund for local planning grants intended to support local governments with short-term housing goals. The May Revision extends eligibility for these funds to school districts and county offices of education.
- **Additional Money, Expanded Activities for Homelessness Program.** The May Revision provides a total of $650 million General Fund (up from $500 million General Fund in the January budget), revises allocation of the grants, and expands eligible activities.
- **Fairview Development Center to Provide Supportive Housing.** The May Revision provides funding for site assessment at the Fairview Development Center and proposes lease opportunities to local jurisdictions for supportive housing on the grounds.
- **Legal Assistance, Not Housing.** The May Revision includes $20 million legal aid with claims to help the state's housing crisis, but rental affordability stems from a lack of home building, not evictions.

Housing Production Still Falling Short. California needs to build 200,000 new units of housing a year for the next ten years simply to keep pace with demand. For 2018, the state added 77,000 completed housing units, down 8,297 units from 2017 (10 percent decrease), and down 12,457 units from 2016 (14 percent decrease). Even with recent housing reform legislation intended to increase housing production, it is clear that what the state is doing to address this crisis is not working. While the May Revision continues to provide $1.75 billion intended to spur housing production, none of the proposals begin to address the root of the problem: the high cost to build in this state. Excessive regulations, restrictions on building, anonymous environmental litigation, and soaring development fees have raised the cost of building and slowed down the production of housing units. Senate Republicans are encouraged that January's proposed streamlining of the California Environmental Quality Act for homeless shelters remains in the May Revision. Unfortunately, Senate Democrats rejected that proposal in a recent subcommittee hearing. Until restrictions are loosened for housing production, and other cost drivers mitigated, Californians will continue to struggle to find housing across the state.

Incentive Funds Eliminated for Local Governments. The May Revision revises the January housing plan, with local governments no longer eligible to receive general purpose funds as a reward for meeting housing milestones. Instead, the May Revision provides $500 million for the Infill Infrastructure Grant (IIG) program, allowing local governments to use funding for housing-related infrastructure such as water, sewers, roads, and public parks. Combined with SB 3 bond funds, the IIG would receive $800 million in 2019-20. The IIG program, while helpful as a tool to mitigate infrastructure needs linked to new housing, would not result in more housing units built, moving the state away from incentivizing and increasing housing production.

SB 1 Gas Tax Funds Linked to Housing Element Compliance. The May Revision continues to propose $500 million in one-time General Fund to increase development of housing, but the program would be expanded to both low- and moderate-income projects, as opposed to just moderate-income developments. The budget also continues to propose withholding transportation funds in an attempt to motivate local governments to work with developers to increase housing through various reforms such as rezoning for density and revamping local processes to speed up production. Such a punitive measure would be a bait-and-switch on California voters with respect to recently hiked transportation taxes.

Larger Subsidies, Preservation Projects Included in Tax Credit Program. The May Revision continues to propose expansion of the State Housing Tax Credit Program, but expands eligibility to preservation projects rather than focusing on new construction. The May Revision also proposes larger subsidies for very low-income projects. Allowing preservation projects to participate could preserve much needed low-income housing that may otherwise fall into disrepair, but providing larger subsidies could reduce the number of projects that could benefit from the program.

Excess State Property For Housing Development Moving Forward. The May Revision includes $2.5 million General Fund for the Department of Housing and Community Development to contract with outside real estate consultants to conduct site assessments of identified excess state surplus property and evaluate potential housing developments. The Governor requested state departments to create an inventory of all state-owned excess property and to identify those parcels where housing development would be feasible, with the long-term goal of enticing developers to build demonstration projects on the property, a creative solution to the state's long-term housing problem.

School Districts and County Offices of Education Eligible for Planning Grants. The January budget included $250 million General Fund for local planning grants intended to support local governments with short-term housing production goals in order to increase housing production. The May Revision extends eligibility for these funds to school districts and county offices of education that may have excess property available for development to support teacher housing.

Additional Money, Expanded Activities for Homelessness Program. The May Revision provides a total of $650 million General Fund (up from $500 million General Fund in the January budget) intended to alleviate homelessness across the state. The May Revision includes a new allocation methodology, including $275 million General Fund to the largest 13 cities, $275 million General Fund to counties, and $100 million General Fund distributed to the state's Continuums of Care, local entities that coordinate housing and services for the homeless. The May Revision expands the eligible use of the funds to include hotel/motel conversions, traditional and non-traditional supportive housing, rapid re-housing, or jobs programs. While the May Revision proposes greater flexibility of the funds, the budget continues to propose a new program instead of funding the state's Homeless Emergency Aid Program, which would be a more efficient and streamlined approach that is supported by cities and counties.

Fairview Development Center to Provide Supportive Housing. The May Revision provides $2.2 million for the Department of General Services (DGS) to begin a site assessment at the Fairview Development Center to determine the condition of the property for potential future use. Concurrent with the development of the assessment, the May Revision would require DGS to identify space that can be leased to local entities for permanent supportive housing, with a goal of housing 200 people with cognitive disabilities who are homeless. It is unclear if the proposal would result in a financial benefit to the developmentally disabled community, or if the revenue generated by the lease would return to the General Fund, to fund other priorities of legislative Democrats such as health care for undocumented immigrants. All members of the Senate Republican Caucus submitted a budget letter requesting that developmental centers be used to generate revenue to help fund community services for the developmentally disabled, but the Governor's proposal thus far does not seem to meet that goal.

Legal Assistance Proposal Needlessly Chooses Sides. The Governor's May Revision proposes $20 million in 2019-20 for nonprofit legal aid organizations to provide free legal services to renters, including training, advice and representation in landlord-tenant disputes. A goal of the proposal would be to provide stable housing for renters by preventing evictions. This is a goal that Senate Republicans share, but this proposal does not address the primary causes of rental affordability, namely the misguided policies that make housing in California artificially expensive and slow to build. According to national data, 80 percent of single-family rentals are owned by individuals who rent out one or two homes, not corporations. California law is in many ways already slanted heavily in favor of tenants, but this proposal appears to presume that it is landlords who are primarily at fault.

Resources & Environmental Protection

Key Points

- **Additional Funding for Forest Health.** $15.7 million to build on the proposed investments for forest health and fire prevention activities.
- **Pesticide Ban.** $5.7 million to assist in the transition to safer pesticide alternatives and ban the use of chlorpyrifos in California.
- **Cap and Trade.** $251.5 million to support programs that reduce greenhouse gases (GHGs).
- **Catastrophic Livestock Disease.** $3.3 million for enhanced prevention and response infrastructure to mitigate the impacts of livestock and poultry disease outbreaks.

Incorporation of Recommendations from CAL FIRE Report. CAL FIRE issued the Community Wildfire Prevention and Mitigation Report (45-Day Report) in March 2019, consistent with the requirements of Executive Order N-05-19 (EO). The report identified near-term, mid-term, and long-term actions to reduce the dangerous threat posed by wildfires and protect vulnerable communities. One of the central recommendations of the report is to have the Board of Forestry and Fire Protection certify the Programmatic Environmental Impact Report for the California Vegetation Treatment Program (CalVTP) as soon as possible to facilitate increases in the pace and scale of forest health and fire prevention activities. Once completed, CAL FIRE and other agencies will be able to rely on the CalVTP to streamline the environmental review process for future treatment projects to increase the pace and scale of projects. The Administration proposes a one-time increase of $730,000 General Fund to support the Board of Forestry and Fire Protection in certifying the CalVTP.

The EO also directs CAL FIRE to engage in a modified procurement process, referred to as the Innovation Procurement Sprint, developed by the California Department of Technology and Department of General Services. Through this process, CAL FIRE will work collaboratively with vendors to identify and develop new and innovative solutions through the proof of concept phase and ultimately procure and deploy approved solutions to help the state address challenges associated with increased wildfire activity. The May Revision proposes a one-time increase of $15 million General Fund to enable CAL FIRE to procure innovative solutions to combat the state's wildfire crisis consistent with the EO. Given the devastating effects of wildfires in California, Senate Republicans support efforts to streamline prevention and response activities.

Funding for Sustainable Pest Management Solutions. The May Revision proposes a one-time increase of $5.7 million General Fund to assist in the transition to safer pesticide alternatives. The initial proposal included $125,000 for staff for the Department of Pesticide Regulation (DPR). The revision would support efforts for DPR and the California Department of Food and Agriculture (CDFA) to lead a newly created, cross-sector workgroup that will identify, evaluate and recommend alternative pest management tools. In addition, the May Revision includes $5.6 million for additional research and technical assistance for the development of safer, practical, more sustainable alternatives to chlorpyrifos.

Pest Management Research Grants will be augmented by $2.1 million to foster reduced-risk and sustainable integrated pest management strategies that provide for the following activities:

- Public safety.
- Environmental stewardship.
- Effective pest management.
- Increase compliance with environmental laws and regulations.

The $3.5 million will support the following Programs:

- $1.5 million to CDFA's Agriculture's Pesticides Alternative Grant Program to support and accelerate the registration of pest management tools on specialty crops in support of safer alternatives.
- $2 million to the Biologically Integrated Farming System Program to conduct projects aimed at replacing environmentally damaging agricultural chemicals, while allowing growers to maintain profitable businesses.

Additional Funding for $1 Billion Cap and Trade Expenditure Plan. Compared to the January budget, the May Revision proposes an additional $251.5 million Greenhouse Gas Reduction Fund to support additional projects and programs. These funds would be allocated to the following departments:

Air Resources Board

$130 million to the proposed $407 million to support the following:

- $50 million one-time to provide more incentives for zero-emission, hybrid and low pollutant trucks, transit buses, and freight equipment in the early stages of commercialization.
- $15 million one-time for more equity-based investments for low-income consumers to promote the replacement of high-pollutant vehicles with newer, more efficient vehicles.
- $65 million one-time for farmers and agricultural businesses to replace existing diesel vehicles with more efficient alternatives.

Department of Agriculture

$20 million one-time in addition to the proposed $43 million to support the Healthy Soils Program and methane reduction programs.

Strategic Growth Council

One-time $92 million in addition to the proposed $40 million to support more integrated housing, transit-oriented development and neighborhood projects that reduce GHG emissions in disadvantaged areas.

Workforce Development Board

$8 million ongoing in addition to the proposed $27 million to prepare workers for a carbon-neutral economy. Combined with the Governor's Budget, this proposal invests $35 million annually for the next five years to support the following:

- Targeted pre-apprenticeship and apprenticeship programs for the construction industry.
- A new High Road Training Partnership program to connect employers, workers and communities in fossil fuel dependent regions and industries to aid with the transition to a carbon –neutral economy.

Environmental Protection Agency

$1.5 million for a study to identify the actions needed to transition toward a carbon-neutral economy with an emphasis on reducing fossil fuel demand by 2050 to meet the state's ambitious climate goals.

Virulent Newcastle Disease (vND) Prompts Ongoing Emergency Response Funding. The May Revision provides $3.3 million ongoing General Fund to the CDFA to protect California's $3.5 billion poultry industry and millions of backyard flock owners from the disease. This funding is critical to the CDFA's ongoing efforts to eradicate the virus and prevent the potential for a future $200 million response if the vND and other diseases are not mitigated before they spread.

The Governor's proposal would fund 23 new positions for CDFA to support the following activities:

- Perform emergency response activities during catastrophic livestock or poultry disease outbreaks.
- Coordinate assistance for animal needs during disasters.
- Support community preparedness and volunteer mobilization for pet and livestock evacuation, housing, and treatment during disasters.
- Develop or update prevention and response plans that utilize current best practices.
- Train CDFA staff and other federal and local responders, maximally leveraging emergency response discipline specialists.
- Enhance disease prevention programs in the highest risk areas of the state.

Cannabis

Key Points

- **Cannabis Tax Revenue Projections Down.** Cannabis tax revenue projections decreased by $222.7 million total for the current and budget years since the Governor's Budget forecast.
- **Some Questionable Uses of Proposition 64 Funds.** Provides $198.8 million to fund Proposition 64 programs, though proposals for child care subsidies and access to recreational amenities uses are legally questionable under the proposition.

Cannabis Tax Revenue Projections Down. The May Revision forecasts cannabis excise taxes at $288 million in 2018-19 and $359 million in 2019-20, a reduction of $222.7 million over the two-year period. Cannabis businesses have been slower to enter the legal market than anticipated, likely because of the high initial cost to become licensed, the heavy taxes that reduce profit margins, and the high profits that can be realized by illegally exporting products out of California.

Funding for Proposition 64 Programs. The May Revision includes $198.8 million to fund the required programs under Proposition 64 (2016, Adult Use of Marijuana Act). After specified prioritized activities such as regulatory administration and research are funded, the remaining funds are allocated between youth education, prevention, and treatment programs (60 percent), environmental remediation of illegal grows (20 percent), and public safety (20 percent). The funding provided in the May Revision includes:

- Education, prevention, and treatment of youth substance use disorders and school retention:
    - $80.5 million to the Department of Education to subsidize child care for school-aged children of income-eligible families.
    - $21.5 million to the Department of Health Care Services for competitive grants to develop and implement new youth substance prevention and treatment programs.
    - $5.3 million to the California Natural Resources Agency for grants to fund youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities.
    - $12 million to the Department of Public Health for cannabis surveillance and education.
- Clean-up remediation, and enforcement of environmental impacts of illegal cannabis grows:
    - $23.9 million to the Department of Fish and Wildlife for clean-up, remediation, and restoration of watersheds and enforcement activities on public lands.
    - $15.9 million to the Department of Parks and Recreation to identify illegal cannabis grows, remediate and restore illegal grow sites on state park land, and to make road and trails accessible for peace officer patrol.
- Public safety-related activities:
    - $26 million to the Board of State and Community Corrections to fund a competitive grant program for local health and safety programs in localities that have not imposed cannabis bans.
    - $11.2 million to the California Highway Patrol's (CHP's) impaired driving and traffic safety grant program.
    - $2.6 million to the CHP for training, research, and policy development related to impaired driving.

Proposition 64 Spending Bypasses Legislature. Proposition 64 states that cannabis tax revenues are continuously appropriated, meaning the funds are spent without any further action by the Legislature. The general categories for spending are spelled out in Proposition 64, but the Governor's Department of Finance asserts that it can select the specific activities to fund within those categories and enact them unilaterally. Any changes to Proposition 64's general spending categories prior to July 1, 2028 would need voter approval.

Cannabis Taxes Spent as Intended by Voters? As mentioned above, the May Revision includes the expenditure of cannabis tax money on child care and youth access to cultural or natural resources. The use of cannabis taxes for these purposes is questionable, at best. Both of these expenditures are planned to come out of the allowance for youth programs "designed to educate about and to prevent substance use disorders and to prevent harm from substance use." In his budget press conference, the Governor justified the child care subsidies by asserting the children would be "occupied and engaged in a safe environment, thus discouraging potential use of cannabis." The funds for youth access to natural or cultural resources include "recreational amenities". This sounds a lot like a proposal made in the 2017-18 May Revision to use gas tax dollars to increase disadvantaged youth access to California state parks. The question remains whether these were the types of youth substance abuse and treatment programs envisioned by voters and stakeholders in Proposition 64.

General Government

Key Points

- **Earned Income Tax Credit Expansion.** The May Revision expands the Earned Income Tax Credit (EITC) program beyond that proposed in January and would provide the benefit on a monthly basis. Unfortunately, the Governor still proposes to pay for the expansion through higher taxes on businesses.
- **Paid Family Leave.** In the short term, the Administration proposes an additional two weeks of Paid Family Leave, which could be funded by changing the existing program's reserve requirements.
- **Risk Continues for Voter Data.** The May Revision acknowledges the continued risk associated with the integrity of voter data coming out of the Department of Motor Vehicles by providing $2.9 million General Fund to the Secretary of State for oversight.
- **Sales Tax Exemption.** The May Revision includes projected revenue loss of $17.5 million in 2019-20 as a result of providing a sales tax exemption for diapers and personal products.
- **Critical Voting Equipment Funding.** The May Revision provides $87.3 million General Fund, with some counties expected to provide a 25 percent match, but it may not be enough to replace aging equipment statewide.
- **State Funding for Museums.** The May Revision would provide $11 million General Fund for two museums through the California Arts Council.
- **Property Tax Backfill Adjustment.** The May Revision updates the amount already authorized to provide much-needed property tax relief to disaster-stricken areas across the state.

Earned Income Tax Credit Expansion Funded With New Taxes. The May Revision would go further than the January proposal to expand the Earned Income Tax Credit (EITC) program, increasing now to $1.2 billion (from $1 billion in January; the current program is $400 million) by increasing a new supplement for families with children under six years of age. The proposed expansion would provide the tax credit benefit to 3 million households, up from 2 million households currently.

The January budget proposed a $500 annual supplement, but the May Revision would increase the supplement to $1,000 per family and would allow all EITC benefits to be distributed on a monthly basis. The proposal to provide advanced payments would be contingent upon a determination by the Director of the Department of Finance that advance EITC payments would not affect a taxpayer's eligibility for any income-based federal or state programs, such as CalFresh. Providing advanced payments could open the door for fraudulent claims in the program, a concern given the fraud rate has been growing in recent years, and has now reached 15 percent of claims.

Unfortunately, the May Revision would still pay for the expanded EITC program with several tax increases on businesses that the Governor attributes to federal tax "conformity" though the changes are discretionary for the states. The May Revision updates the estimate of the tax increases to $1.7 billion in 2019-20 and $1.4 billion annually. While providing relief to working California families has been a long-term goal of Senate Republicans, it is difficult to understand why Californians and small businesses should pay more to support an expanded program while existing General Fund revenues continue to reach record highs.

Paid Family Leave. The Administration proposes an additional two weeks of Paid Family Leave and calls for a Task Force to provide recommendations to meet the Governor's goal of providing 6 months paid family leave for each child or family member in need of care. The additional two weeks would be funded through lowering the existing reserve requirement on the Disability Insurance Fund. These changes are not likely to affect employee payroll contribution rates, but an expansion to six months of paid leave under the Governor's longer-term plan would likely increase employee payroll contributions or require a new employer tax.

New Motor Voter System Struggles with Registration Data Integrity. The May Revision includes $2.9 million General Fund for the Secretary of State (SOS) to continue to provide oversight of the Department of Motor Vehicles' (DMV) New Motor Voter system. The funding would allow the SOS to contract with the VoteCal IT vendor to improve processes necessary to verify the integrity of voter registration information coming from the DMV before it is included in the state's voter registration system and transmitted to counties. Senate Republicans remain concerned with the lack of accountability and ineffective efforts to verify voter information within the DMV's system. The DMV's New Motor Voter process has led to significant errors and ultimately increases the risk of voter fraud throughout the state.

Sales Tax Exemptions. The May Revision reflects the sales tax exemptions for diapers and menstrual products that the Governor announced a couple days prior to the May Revision release. These exemptions are projected to reduce revenues by $17.5 million in 2019-20 and $35 million in 2020-21. Local sales taxes would also decrease, bringing total revenue losses to $38 million in 2019-20 and $76 million in 2020-21. The proposed exemption would only be for two years, beginning January 1, 2020 with a sunset date of December 31, 2021, though some advocates are calling for a permanent revocation of these sales taxes.

Second Year of Voting Equipment Funds. The May Revision provides $87.3 million General Fund (with counties required to provide either no matching funds or 25 percent matching funds) for the continued replacement of voting equipment across the state. The 2018 Budget Act included $134 million General Fund for counties to replace aging voting equipment. The distribution of funds assumes counties with 50 or more precincts would move to the vote center model, consistent with SB 450 (Allen, 2016), which allows counties to implement an all vote-by-mail election system that eliminates polling places in favor of vote centers. Senate Republicans are encouraged to see a second year of funding but remain concerned that funding may not be sufficient for rural counties to replace their aging equipment, increasing the risk of fraudulent election activities as the shift towards the SB 450 model creates higher risks to the integrity of our election system.

Los Angeles Museum of the Holocaust and the Armenian American Museum. The May Revision includes $5 million each for the Los Angeles Museum of the Holocaust and the Armenian American Museum, through the California Arts Council. The Governor's January budget included $1 million General Fund for the Armenian American Museum, and the May Revision increases the funding to $6 million. Including a $2 million General Fund appropriation in 2016, the state will have provided $8 million General Fund for the Armenian American Museum.

Disaster-Related Property Tax Funds Adjusted. The May Revision includes one-time funding of $518,000 General Fund to adjust the reimbursement to cities, counties, and special districts for 2018-19 property tax losses resulting from the 2018 wildfires. This augments the $31.3 million proposed in January and already enacted through AB 72 (Committee on Budget) in February. Property tax loss information from Los Angeles, Mendocino, Napa, Orange, San Diego, Solano, Tuolumne, and Ventura counties came in too late to be included in the January budget. Senate Republicans applaud the inclusion of funding for these hard-hit communities and encourage local agencies to mitigate some of the devastating losses with the one-time General Fund.

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