



COUNTY WELFARE DIRECTORS ASSOCIATION OF CALIFORNIA
925 L Street, Suite 350, Sacramento, CA 95814
(916) 443-1749

CWDA

May 14, 2015

To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

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RE: State Budget Update #3 – 2015-16 May Revision

The Governor released the May Revision to the 2015-16 budget this morning. Following are the main items of interest. We will provide more details on these and other budget issues as we learn more information in the coming days. May Revision legislative budget hearings are expected to begin on Monday, May 18, with the Budget Conference Committee expected to start its work in resolving the differences between the Senate and Assembly versions of the budget the first week of June.

Overall Budget Picture

General Fund revenue growth continues to be strong and outpace previous projections. The May Revision estimates GF revenues are \$6.7 billion higher over 2013-14, 2014-15, and 2015-16 than they were projected to be in January. The bulk of the funding, \$5.5 billion, goes to Proposition 98 for K-12 school and community colleges. Proposition 2 requires that an additional \$633 million be transferred to the Rainy Day Fund and an additional \$633 be used to pay down debt. Personal Income Tax revenue are fueling most of the growth in GF revenues. Sales Tax revenues, while growing, continue to grow at a rate consistent with that estimated in January (and at a slower rate than PIT revenues).

State Earned Income Tax Credit (EITC)

The May Revision proposes a state EITC targeted at the poorest working families, households with incomes less than \$6,580 if there are no dependents or less than \$13,870 if there are three or more dependents. The state credit would match 85 percent of the federal EITC up to half of the federal phase in range and then begin to taper off relative to these maximum wage amounts. The credit will be available beginning with tax returns filed for wages earned in 2015, and it will benefit an estimated 825,000 families and 2 million individuals. The estimated average household benefit will be \$460 per year, with a maximum credit of \$2,653. The tax credit is expected to reduce GF revenues by \$380 million annually beginning in 2015-16.

Medi-Cal Administration

The May Revision proposes to continue providing in 2015-16 the \$150 million augmentation provided in the January budget for the last six months of 2014-15. (The \$150 million is in addition to the \$240 million already provided.) This amount is less than expected and fails to even cover the full-year costs of current workload. CWDA will work with the Administration to make sure they understand the administrative work that will go unperformed as a result of this underfunding.

IHSS Caseload

The May Revisions proposes \$147.6 million GF in 2014-15 and \$179.1 million GF in 2015-16 for IHSS, associated primarily with increases in caseload, hours per case, and costs per hour. IHSS caseload growth is higher at the May Revision than it was at the Governor's Budget, estimated to be 4.9 percent in 2014-15 and another 4.6 percent in 2015-16 (up from the 3.8 percent in 2014-15 and 3.7 percent in 2015-16 estimated in January).

FLSA Overtime Regulations

The May Revision continues to include funding for implementation of the federal overtime regulations pending outcome of the US Department of Labor's appeal of federal court ruling vacating the federal overtime requirement. However, the \$184 million that was provided in January for 2014-15 for implementation is being redirected to cover the IHSS caseload costs described above in the current year since a federal court decision on the appeal is unlikely before the end of this fiscal year. The May Revision continues to include \$316 million GF for 2015-16 for overtime implementation should the federal overtime rules be reinstated.

CalWORKs Caseload

The decline in overall CalWORKs caseload is projected to continue with the May Revision, dropping by 2.2 percent in 2014-15 and another 1.7 percent in 2015-16 (down from the 1.4 percent decline in 2014-15 and the 1.5 percent decline in 2015-16 estimated in January). This results in reduced CalWORKs grant expenditures of \$97 million. However, Employment Services and Stage 1 Child Care caseload growth are both up in May from the January estimates. Employment services caseload growth is estimated to be 11.6 percent in 2014-15 and another 4.7 percent in 2015-16 (up from the 7.5 percent in 2014-15 and the 3.8 percent in 2015-16 estimated in January). Stage 1 Child Care caseload growth is estimated to be 8.6 percent in 2014-15 and another 13.7 percent in 2015-16 (up from the 7.2 percent in 2014-15 and the 6.5 percent in 2015-16 estimated in January). Therefore, the impact to the CalWORKs Single Allocation of the overall reduction in CalWORKs caseload is unclear. CWDA will provide an estimate of the Single Allocation tomorrow.

CalFresh Caseload

The May Revision projects slower growth in the CalFresh caseload compared to the growth estimated in January. CalFresh caseload is projected to grow by 7.5 percent in 2014-15 and another 8.0 percent in 2015-16 (down from a growth rate of 10.1 percent in 2014-15 and 8.6 percent in 2015-16 estimated in January). The reduction in the growth rate in 2014-15 will have no impact on the current year allocation for CalFresh Administration. The impact of the reduced growth rate on the CalFresh Admin allocation in 2015-16 is not known yet. CWDA will provide an estimate of CalFresh Admin allocation tomorrow.

Commercially Sexually Exploited Children (CSEC) Funding

Consistent with the 2014-15 budget agreement on CSEC, the 2015-16 budget proposed in January included \$14 million GF to continue the county-optional CSEC program to support county efforts in providing services to child sex trafficking victims. The May Revision proposes to continue this \$14 million GF, but proposes to use a portion of it to satisfy new federal CSEC requirements enacted in HR 4980, the Preventing Sex Trafficking and Strengthening Families Act. According to CDSS budget documents, \$3.25 million of the \$14 million will be allocated to all counties to complete federal CSEC requirements and the remaining \$10.75 million will be allocated to counties based on readiness to serve the CSEC population. CWDA staff will work with CDSS to understand specifically how they propose to distribute these funds and for what specific purposes, and to ensure that federally mandated CSEC activities are adequately funded.

Extended Foster Care (AB 12) Funding

The May Revision does not include any funding to satisfy the cost-neutrality requirements of AB 12. When AB 12 was enacted in 2010 and when foster care was realigned in 2011, there was statutory language included that capped the counties' costs for extended foster care to the amount of savings that counties received for converting state Kin-Gap cases to federal Fed-Gap cases plus the specific amount of funding provided in 2011 Realignment for AB 12. This cost-neutrality requirement went into effect with AB 12 in January 2011 and is a county-by-county requirement. CWDA staff were working with Administration staff on the cost neutrality calculations and we had hoped to see payments begin in the May Revision. We will work with the Administration to determine the status of the funding and next steps.

The Governor's May Revision summary can be found at the following [link](#).