Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: County Manager's Report #10 of 2017

RECOMMENDATION:
Accept this informational report.

BACKGROUND:
This report will provide you with updates on a variety of County initiatives focusing on Public Safety, Health and Human Services, Community Services and Performance, in addition to reports on legislation and issues that require your action. We also will keep you and the public informed about new services, upcoming events and general updates.

DISCUSSION:

Performance
Controller's Office continues award-winning streak for CAFR
For the 17th straight year, the San Mateo County Controller's Office was honored with the highest recognition in governmental accounting and financial reporting. The Government Finance Officers Association (GFOA) awarded its Certificate of Achievement for Excellence in Financial Report to the County's FY 2015-2016 Comprehensive Annual Financial Report (CAFR). The CAFR contains information on the County's assets, liabilities, revenues and expenditures in conformity with financial reporting standards. The CAFR also highlights financial, economic and demographic trends.

This latest honor should again assure taxpayers that the County is being a good steward of their money and living up to our goal of financial transparency.

Measure K
Youth Mental Health First Aid Reaches Milestone
Approximately 1,500 members of our community have successfully completed an 8-hour course in Youth Mental Health First Aid, which helps participants learn the warning signs of a youth undergoing a mental health challenge or crisis and ways to assist. Our Behavioral Health and Recovery Services partners with the San Mateo County Office of Education to deliver the Youth Mental Health First Aid curriculum to all interested schools and school districts. The training is targeted for adults who work with youth ages 12 to 24.

While we celebrated Mental Health Awareness Month in May, the need to educate adults on a proven five-step action plan when dealing with a youth exhibiting warning signs and risk factors is year-round. The next course open to all school staff is June 27. Youth Mental Health First Aid is funded by Measure K and is a key component of our overall strategy of prevention and early intervention.

News, Events and Updates

Arts Commission awards $87K in local grants

The San Mateo County Arts Commission awarded $86,500 in 2017 local arts grants to 18 organizations providing a broad spectrum of programs including music, dance and theater to children and adults. The recipients received either project/program support which can be used to present free or low cost performances, screenings or similar events, and organizational support which offers unrestricted funding to help maintain a group while pursuing its mission. Among the several grantees are Harmony Project Bay Area in Daly City, Mural Music & Arts Project in East Palo Alto, Djerassi Resident Artists Program in Woodside and Music at Kohl Mansion in Burlingame.

Hardworking staff leads smooth agenda management conversion

As your Board knows, the County has officially moved to the Granicus Board of Supervisors agenda management system. We hope you are enjoying the new functionality this system provides. Now that the current agendas are working on Granicus, we are moving past agendas and meeting videos onto the Granicus platform. Starting later this summer, we'll be implementing the Boards and Commissions management system that is part of the Granicus suite and also linking the new contract management system to Granicus.

But now that the Board agenda process is up and running on Granicus, I'd like to recognize the hardworking team that made this conversion run so smoothly. As you may recall, Alicia Garcia ran the initial system selection process which included input from more than 50 County staff, your Board and your aides. The installation of Granicus was led by our clerk staff, Sukhmani Purewal and Sherry Golestan. They were very capably supported by project lead Diane Webster and Amandeep Takhar. Oversight of the ISD team was provided by Bev Thames and Sean Thakkar. Although we're still working on the final aspects of this conversion, the bulk of the work is complete so we wanted to recognize a job well done.

Legislative Update

State's FY 17-18 May budget revise analyzed

BACKGROUND:

On May 11, Gov. Jerry Brown released the May Revision to his proposed FY 2017-18 state budget. The governor forecasts revenues $2.5 billion higher — over a three-year period — than projected in January, mostly reflecting higher personal income tax projections due to stock market gains. In many ways the governor's January budget served as a placeholder given the long list of unknowns facing the State: the ever-volatile source of major state funding from personal income taxes and capital gains; the impending sluggish economy following unprecedented growth over the last eight years; and a new Administration in Washington, D.C. that has proposed to make significant changes to federal programs and state funding levels.

The May Revision assumes current federal policies and funding levels, yet still reflects deep uncertainty about potential federal actions. The revised budget highlights the prospect of major changes to Medicaid, other areas of federal spending, and tax policy, among others.

The governor’s revised budget sets aside $3.6 billion as constitutionally required by Prop. 2 (2014), with half deposited in the state’s rainy day fund and half used to pay down state budgetary debt. Under the governor’s proposal, state reserves would total $10.1 billion by the end of 2017-18. In terms of new spending, the revised budget continues plans, which the Governor’s January budget had put on hold, for a multiyear reinvestment in subsidized child care and preschool. Higher-than-expected revenues will result in creases in the Proposition 98 minimum guarantee for K-14 education spending. Finally, the governor’s budget does not include proposals to address affordable housing.

DISCUSSION:

The FY 2017-18 May Revision would have the following impacts to County programs and services:

HEALTH SYSTEM

COORDINATED CARE INITIATIVE (CCI)—Under the Coordinated Care Initiative (CCI), California integrates health care and other services—including IHSS—for certain seniors and persons with disabilities. In January, the Administration indicated that because the CCI is not cost-effective, it would be discontinued in 2017-18, pursuant to current law. One key outcome of discontinuing the CCI is that counties’ share of the nonfederal costs for IHSS would go up, and the state’s share would go down. This is because the current cost-sharing formula — which is tied to the CCI and significantly limits counties’ share of IHSS costs increases — would end this coming July and be replaced with a formula that is less favorable to counties. (The current formula is based on a “maintenance of effort,” or MOE, structure that adjusts counties’ annual IHSS expenditures by an inflation factor; the less favorable formula is a simple cost-sharing ratio that requires counties to pay 35 percent of nonfederal IHSS costs and the state to pay 65 percent.)

Total IHSS MOE costs include IHSS provider wages and benefits, Public Authority and IHSS program administration, and contractor payments for complex IHSS client expenditures. Thus, under the existing MOE, program costs that exceeded the total MOE level were shifted 100 percent to the state General Fund, limiting the County’s program.

Under the existing MOE, program costs that exceeded the total MOE level were shifted 100 percent to the state General Fund. Thus, San Mateo County's IHSS MOE costs for FY 16-17 were $12,979,683 and were funded through a combination of $3.7 million in Net County Cost and 1991 Realignment.

In January, the Health System estimated that a return to the old cost sharing ratios (50% Federal/65% State/35% County) would come at an additional cost of **$9 million in FY 2017-18** and beyond. The Health System also indicated that the increased cost could be absorbed by the IHSS trust fund, but would quickly be depleted and unavailable to fully cover the estimated FY 2018-19 costs.

Finally, while the Department of Finance Director's action include the elimination of the enhanced rates for health plans, the eradication of the Statewide Public Authority, and a return to the pre-MOE state-county costs sharing, the Governor's budget proposes to continue to the Cal-Medi-Connect program, continue mandatory enrollment for dual eligible, and include long-term services and supports — but not IHSS — into managed care plans. The May Revision continues to encourage cooperation between plans and counties, but without funding for these activities, and it is unclear how the policy directives would be carried out.

In the months since the release of the Governor's Budget proposal, the California State Association of Counties (CSAC) and the Administration worked to negotiate a new financial arrangement between the state and counties for the IHSS program. The main elements of this proposal include:

- **Providing counties with state General Fund dollars to offset a portion of their increased costs for IHSS.** General Fund support would be set at $400 million in 2017-18 ($141 million estimated counties' responsibility); $330 million in 2018-19 ($129 million estimated counties' responsibility); $200 million in 2019-20 ($230 million estimated counties' responsibility); and $150 million in 2020-21 and each year thereafter ($251 million estimated counties' responsibility).
- **Redirecting certain growth funds generated by "1991 realignment" funding structure for five years.** For the first three years, the state would redirect all Vehicle License Fee growth funds from certain 1991 realignment "subaccounts" in order to provide additional resources for IHSS. In the fourth and fifth years, the amount of redirected revenues would be cut in half.
- **Allowing counties to avoid repaying revenues that they received in error due to miscalculations by the Board of Equalization.** This amount ranges from $100 to $300 million and would protect each county's realignment base revenues.
- **Recalculating current costs data.** Changes the methodology for calculating the IHSS caseload in the Social Services Subaccount to use the current estimate of caseload and cost information.
- **Maintain an MOE structure for sharing IHSS costs between the state and counties rather than switching for a 35/65 county-state cost-sharing ratio.**

The state General Fund would pay the difference between the county's annual MOE contribution and the total nonfederal share of IHSS costs.
- **Calculate a new MOE base for county IHSS costs in 2017-18 and apply an annual inflation factor to that base beginning in 2018-19.** The MOE base would include the cost of IHSS services and administration. The inflation factor would be 5 percent. Beginning in 2019-20, the inflation factor would vary annually depending on the performance of revenues provided through the 1991 realignment. This ongoing inflation factor would range from zero to 7 percent.

Other provisions include:

- **Institutions for Mental Disease (IMD).** In recognition of the reduced amount of growth funding going to the Mental Health Subaccount, the May Revision proposes that in any year the Mental Health Subaccount does not receive its full growth allocation, the IMD rate increase requirement will be suspended.
- **Financial hardship.** Proposes that counties experiencing financial hardship due to the increased costs of IHSS may apply to the Department of Finance for a low-interest loan to help cover those costs.
- **Wage Cap.** Under the CCI, if a county negotiated a wage and benefit increase, the MOE increased by the 35 percent share. State participation has been capped at $12.10 per hour for wages and benefits since 2007-08. The May Revision maintains the 35 percent county share and proposes that the state cap should float to always be $1.10 above the hourly minimum wage for large employers. For counties that are at or exceed the current state cap, the state would agree to participate at its 65 percent share of costs up to a 10 percent increase in wages and benefits over three years.
- **Collective Bargaining.** The May Revision proposes that if any county does not conclude bargaining with its IHSS workers within nine months, the union may appeal to the Public Employment Relations Board.
- **Administrative Costs.** The Administration has agreed to fund all county administrative costs associated with the IHSS program through the current budget year.

Overall, given significant state General Fund contributions, a low annual inflator, the use of existing 1991 realignment, and other proposed changes in how counties are reimbursed for costs in the IHSS program, the governor's proposal helps to largely protect county general funds in years one and two. However, the seven percent inflator beginning in year three is extremely problematic for counties and would lead to county general fund impacts, despite the continued state general fund contribution proposed for those years. Because of the significant concerns for county general funds beginning in year three, the May Revision includes a reopener clause for counties.

IMPACTS ON SAN MATEO COUNTY

According to the Health System, the IHSS program proposal included in the May Revision is better than the Governor's January plan but not as favorable as under the previous MOE. Under the newly proposed plan, it is estimated that the County will be required to pay **$980,000** in FY 2017-18, **$2 million** in FY 2018-19, and **$3.9 million** in FY 2019-20 with the number growing exponentially in the out years — assuming there are no wage increases from the current $12.65 hourly wage. Thus, the first and second year estimated costs under the revised proposal are far better than the $9 million gap that was estimated in January.

In addition, it is important to keep in mind that the Administration is proposing to redirect all 1991 realignment growth funding to the IHSS program, which means that Health Realignment and Mental Health Realignment funding will be flat for the foreseeable future. The Health System has not budgeted growth funding for mental health programs; however, under the previous funding formula the County would have been entitled to an estimated $878,000, which would have rolled into the base funding the following year. To mitigate the impact of loss of 1991 Mental Health Realignment growth, the annual 3.5 percent IMD rate increase will be frozen for any year in which counties do not receive the full growth funding allocation. Elimination of the mandated 3.5 percent IMD rate increase will not, unfortunately, result in an equivalent cost savings because the demand for IMD beds exceeds the supply and most providers receive patches to rates that exceed the state rate.

After much debate with county representatives, CSAC and its affiliate organizations supported the governor's IHSS program proposal earlier this month and continues to negotiate the details of the trailer bill language, particularly the areas related to bargaining and the reopener clause.

AB 85 Redirection—Includes an increase in the estimated amount of revenue that will be redirected from each county's 1991 Realignment Health Subaccount under AB 85 (Chapter 24, Statutes of 2013). The current estimate was for $585.9 million, and the 2017-18 year redirection has been increased by $143 million from January estimates to $688.8 million. Further, the 2014-15 reconciliation is preliminarily showing that counties saved $255.6 million more in that year than was redirected; the May Revision assumes reimbursement to the state by counties of this funding. Final reconciliation will be completed in June 2017.

- The Health System is reporting that additional $3.7 million in Health Realignment funds will be redirected to the State as compared to the original FY 2017-18 proposed state budget. The total amount of redirected Health Realignment funding is now at $11.8 million out of a total of $20.3 million in Realignment funds.

HUMAN SERVICES AGENCY

CalWORKS—The Administration continues to propose lower funding levels for this program due to lower projected caseloads. It is estimated that this will result in an additional loss of $500,000 in funding on top of the previously estimated $1.5 million reduction in current funding levels for a total of $2 million. These funding losses come at a time when clients are presenting more difficult barriers to self-sufficiency and are much more costly to move to self-sufficiency.

PUBLIC SAFETY

2011 Realignment Funding—updates revenue assumptions for 2011 Realignment programs. While the 2016-17 statewide basis for the Community Corrections Subaccount (AB 109) remains $1.61 billion, the estimated growth funds that counties will receive this fall have substantially decreased from the previous estimate of $59.1 million to a revised estimate of $24.7 million, or a 55 percent drop. The drop in overall growth funding will have an impact on the County's FY 2017-18 base funding.

- According to the Probation Department, the County is expected to receive approximately $440,000 less in AB 109 programmatic funding in FY 2017-18 and an estimated $564,000 less in AB 109 growth funding.

PUBLIC WORKS

Transportation Funding—includes the first partial year of revenues from the April passage of Senate Bill 1 (Beall). While SB 1 will raise an average of $5.2 billion per year in new transportation funding at full implementation, $2.8 billion is expected in FY 2017-18. The first new fuel tax rates imposed by the bill will begin in November 2017 and the value-based "transportation improvement fee" will be implemented in January 2018.

Cities and counties will split Road Maintenance and Rehabilitation Account (RMRA) funding from SB 1 evenly with the State. In 2017-18, $445 million, which includes $75 million in loan repayments, will be allocated to cities and counties by formula and equal amounts will be allocated to state highways. RMRA funds will be continuously appropriated and will begin to flow to counties in monthly appointments from the State Controller's Office by February 2018.

The new local RMRA funds will be accompanied by additional reporting and eligibility requirements, and may be used for transportation projects that include, but are not limited to the following:

- Road maintenance and rehabilitation:
- Safety projects:
- Railroad grade separations:
- Complete street components, including active transportation, bicycle and pedestrian facilities, transit facilities, drainage, and stormwater capture projects:
- Traffic control devices, and
- Local match for state/federal funds for eligible projects.

As a condition of the receipt of funding, counties will be required to submit to the California Transportation Commission an annual list of projects proposed to be constructed with RMRA funding pursuant to a budget adopted at a public meeting.

- It is estimated that the County will receive an estimated $3.3 million in new RMRA funding in FY 2017-18; $9.2 million in FY 2018-19; and $10.4 million in FY 2019-20 with funding growing exponentially in the out years.

FISCAL IMPACT:
Overall, the May Revision continues to hold most state funded programs and services at the same level of funding as in FY 2016-17 and provides welcome relief in the form of additional and sustainable revenues for the County's Road Fund. Moreover, it also provides a financial respite to counties with regards to IHSS program costs for FY 2017-18 and FY 2018-19 as compared to the January budget proposal. Unfortunately, the Administration's IHSS program funding proposal is unsustainable and will need to be renegotiated prior to the end of year two or counties will be facing mounting programs costs with little state support. Finally, as the May Revision remains silent on the potential fiscal impacts of the repeal of the ACA, and thus it is unclear what exactly those impacts might be to San Mateo County should significant changes be made at the federal level.