COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager's Office

DATE: June 4, 2012
BOARD MEETING DATE: June 19, 2012
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: John Maltbie, County Manager

SUBJECT: County Manager's Report #5

A. Analysis of the FY 2012-13 May Revision

RECOMMENDATION:
Accept this report.

BACKGROUND:
Governor Brown released the May Revision of the FY 2012-13 State Budget that now estimates a two-year budget gap of $15.7 billion, up by $6.5 billion from a $9.2 Billion gap estimated in January. The Administration attributes the lower revenues to overly optimistic past revenue forecasts; Proposition 98 spending increases; and court and federal government blocks to previously proposed cuts in health and human service programs. The Administration proposes $16.7 billion in solutions: $8.3 billion in program cuts; $5.9 billion increased revenues; and $2.5 billion in "other" solutions (such as borrowing from special funds and extended loan repayments). The budget also includes a reserve of $1.0 billion.

The May Revision assumes that voters will pass the Governor's compromise tax measure in November 2012, which would temporarily increase the personal income tax on the state's wealthiest taxpayers for seven years and temporarily increase the sales tax by one-quarter percent for four years. Estimates are that the tax increases would generate $8.5 billion in new revenues in 2011-12 and 2012-13 combined. The measure, which represents about 51 percent of the proposed solutions, would also constitutionally protect the revenues shifted to counties to fund 2011 Realignment, specifically a portion of the sales tax and a dedicated portion of the Vehicle License Fees.

Should voters reject the tax increase, the May Revision proposes $6.1 billion in mid-year trigger cuts primarily to K-12 and higher education ($6 billion). Spending for some public safety programs, such as water patrols and Department of Justice law enforcement programs, would also be reduced.

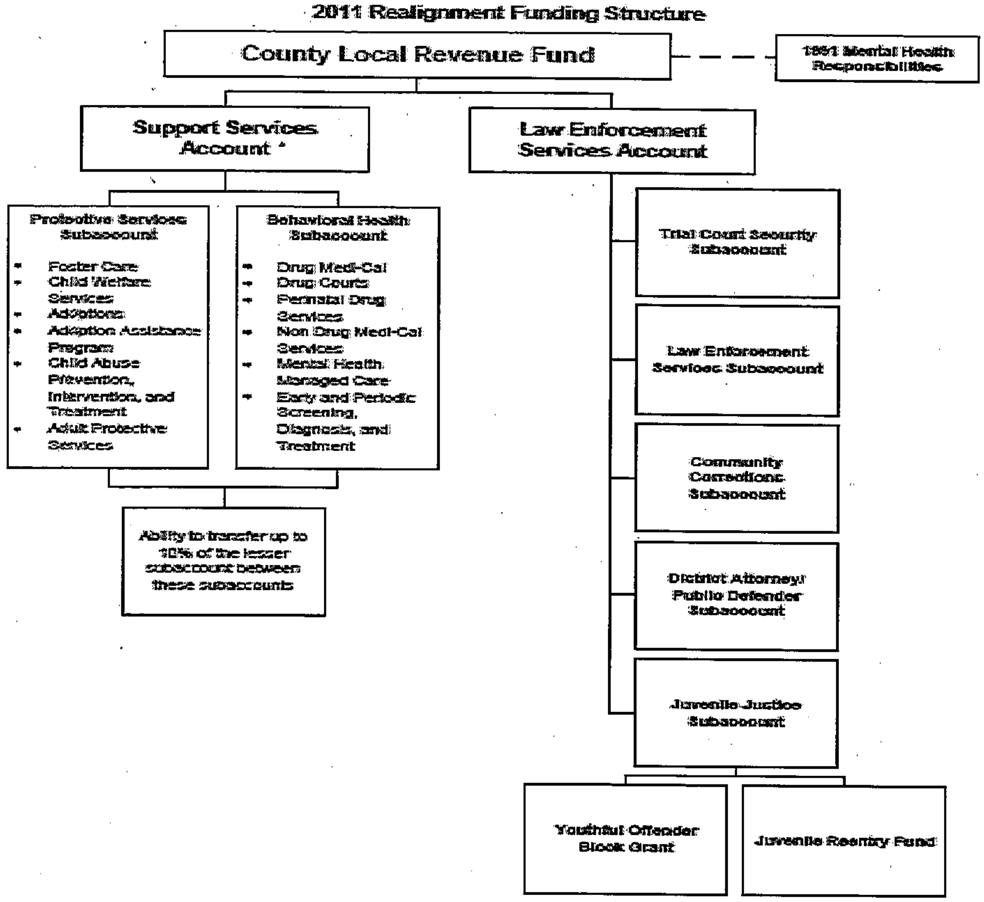
Approximately, $2.8 billion of total proposed spending cuts are to health and human service programs, specifically CalWORKs subsidized child care, Medi-Cal provider payments, IHSS and the Healthy Families program. Other notable spending reduction proposals include: a proposed $544 million cut to funding for the Judiciary and a 5 percent cut in state worker compensation.

Of specific interest to the County, the May Revision proposes to provide $500 million of additional lease revenue bond financing authority for local corrections facilities. This authority would be in addition to the $1.2 billion already authorized under Phases 1 and 2 of AB 900. The recently released trailer bill language includes "readiness" as criteria for funding and includes some of the County's suggested project milestone criteria, specifically site acquisition, documented need, architectural drawing, and completion of CEQA or a Negative Declaration.

Public Safety Realignment

The May Revision maintains the Governor's January proposal to create a permanent funding structure for public safety realignment and would increase the funding levels for several realigned program in 2011-12 and 2012-13. The proposed fiscal superstructure would include two main accounts, a Supportive Services Account and a Law Enforcement Account, with the Subaccounts detailed below:

2011 Realignment Funding Structure



The Administration states that the proposed funding structure is intended to provide local entities with a stable funding source for realigned programs. This structure would create a “rolling” base of program allocations based upon prior year allocations with adjustments for growth funding. Growth funding would be distributed on a proportional basis. Funding priority would go first to federally required programs based on caseload and cost, and counties could use their funds to draw down the maximum federal funding for these programs. In addition, counties would be granted limited transferability between Health and Human Services program accounts (i.e., no more than 10 percent on a one-time basis per year). A “firewall” would also be established between the Support Services (Health and Human Services) and Law Enforcement Services Accounts disallowing transfers between the two principal accounts.

In addition, the Administration has proposed the creation of two new subaccounts—a Local Innovation Subaccount and Support Services Reserve Subaccount. The Local Innovation Subaccount could be used by Boards of Supervisors to fund “local needs.” Funding would come from no more than 10 percent of growth funds received in the Law Enforcement Services Subaccounts, except for the Law Enforcement Services Subaccount. Boards of Supervisors could also optionally create a Support Services Reserve Subaccount to fund programs funded by the two subaccounts. This Subaccount would be capped at 5 percent of the total funds allocated to the Protective Services and Behavioral Health Subaccounts in a given year.

As part of trailer bill language, the Administration—in consultation with the California State Association of Counties and a select group of county administrative officers—is proposing the adoption of a two-year AB 109 allocation formula. The formula, which would be in effect FY 2012-13 and 2013-14, would allocate $13.5 million (or 1.60 percent of total state funding) in AB 109 programming funding to the County, and an additional $181,697 (or 1.24 percent) to the District Attorney/Private Defender for revocation activities. Under the newly proposed formula, counties would get the best result among three possible options: 1) population (ages 18-64); 2) status quo (i.e., the first year formula of 60/30/10); and 3) adjusted Average Daily Population (ADP). Counties would also be ensured a minimum base of double the amount of funding received in Year 1. Based on the revised criteria, San Mateo County’s final allocation was determined through an adjusted ADP that provided the best option for funding.

DISCUSSION:

The FY 2012-13 May Revision proposes the following program changes and funding reductions:

Human Services Agency ($1.6M)

CalWORKs ($4.3M in direct client impact)—maintains the majority of the programmatic changes proposed in the January budget with a few significant changes. The proposed “redesign” of CalWORKs includes establishing a new three-part system: 1) “CalWORKs Basic”, 2) “CalWORKs Plus”, and 3) “Child Maintenance” program. The CalWORKs Basic program would be time limited to 24 months from the current 48 months of services, with an assessment of the recipients’ progress after 12 months. The

Basic program would take effect October 2012 and serve CalWORKs recipients who are not currently meeting the federal Work Participation requirements (generally 20-30 hours per week. These families—those failing to meet the work participation requirements—would then lose the adult portion of their grant and would receive the child only payment. For a family of three currently receiving $680 a month, their grant would drop to only $308 per month (child only) payment.

- Approximately, 448 families in the County would be affected, losing $372 per month, or $4,464 a year. The proposed change equates to a loss of $2.4 million in direct aid to County families annually.

The CalWORKs Plus program would serve recipients who are working a sufficient number of hours in unsubsidized employment to meet federal work participation requirements. The program would allow families who still qualify as low-income enough to meet the program's eligibility requirements to receive a higher grant than families served by the CalWORKs Basic or Child Maintenance programs. The average monthly increase for a family of three would be $44. These benefits would continue for up to 48 months, if the adult recipient continues to meet work requirements.

The Child Maintenance program is intended to replace the current child only component of CalWORKs, including the safety net. The revised program would provide a reduced level of "basic support" (27 percent) for children whose parents are not eligible for aid (e.g., undocumented parents of U.S. citizen children) or whose parents have exceeded the new, more stringent time limits and welfare-to-work requirements. The average child only grant in the County is $422 per month and it would be reduced to $308.

- Approximately, 1,368 families receiving child only grants would be affected, losing $114 per month, or $1,368 in cash aid per year. The proposed change equates to a loss of $1.9 million in direct aid to County families annually.

The May Revision includes some changes to the above policy proposals, including counting any combination of state-allowable work activities in the first 24 months and federally allowable activities for up to 48 months toward work participation, instead of counting only paid (unsubsidized) employment. Further the May Revision also abandons the proposal to retroactively count previously exempt and sanctioned months toward the adult recipient's 48-month time limit.

CalWORKs Single Allocation ($1.6M)—continues to assume significant caseload decreases as a result of the proposed changes to the CalWORKs program.
The Department estimates a reduction of $1.6 million decrease to its current $16 million allocation for FY 2012-2013.

Child Care Programs ($1.9M to $2.7M to providers)—continues to propose significant cuts and changes to the administration of subsidized child care programs with some adjustments: lowering payment rates for both child care vouchers and state-run child care centers; and restoring eligibility to non cash-aided families who are engaged in education or training programs, but capping the amount of time to two years.

- The proposed reduction in reimbursement rates could total a loss of approximately $1.9 to $2.7 million per year to San Mateo County child care providers.

The May Revision continues to assume that county human service departments will assume administration of non-Proposition 98 child care programs beginning in 2013-14, including child care eligibility and payment functions, from alternative payment programs and Title 5 centers. Counties could contract with these agencies to provide the payment function.

Child Welfare Services (CWS)—includes funding for the majority of Child Welfare Services programs, including foster care, adoptions and child abuse and prevention, under the 2011 Realignment Funding Structure. The Department anticipates full funding for all of its CWS programs for FY 2012-2013. The current Realignment projection and revenue received for the current year looks promising.

CalFresh—continues to propose reductions in the program, although this is mitigated with an increase for caseload growth and small premise items. The proposed changes would hold the County's allocation flat for FY 2012-13 at a time when the County has experienced a 36 percent increase in caseloads over the previous year. The Department is projecting a 30 percent caseload increase in FY 2012-13.

Medi-Cal Administration—the Department anticipates that its Medi-Cal administration allocation will remain flat in FY 2012-2013. The proposed State Budget appears to continue the suspension of cost of living adjustments (COLAs) to counties for the 2012-13 budget year, which has increased the County's costs in administering the program. The Department is currently under funded receiving reimbursement for salaries and benefits at FY 2007-2008 levels. The cumulative amount cost-of-doing business owed to the County is approximately $4 million, which currently has 32,182 cases.

Healthy Families Program Client Transition to Medi-Cal (Unknown)—continues to propose to shift all children enrolled in the Healthy Families Program to Medi-Cal starting October 2012. The Department would be responsible for eligibility determinations and annual redeterminations for the 10,000 County children enrolled in the program. The Department is awaiting further detail to provide the fiscal impact.

<u>Health System—($200,000)</u>

Medi-Cal Dual Eligible/Coordinated Care Initiative (CCI) (Unknown)—maintains its proposed Coordinated Care Initiative with several modifications from the January Budget: reduces the proposed expansion from 10 counties to 8; delays implementation of the pilot from January 1, 2013 to March 1, 2013; proposes a county-specific maintenance of effort for county expenditures in the IHSS program, and shifts IHSS collective bargaining responsibilities to the State.

The Health System has worked with the Health Plan of San Mateo for many years in preparation for the CCI pilot and in April it was selected to be one of 4 initial participants in a three-year demonstration project. The Health System and Health Plan are ready to begin the pilot as originally scheduled on January 1, 2013; thus, any delay in enrollment or services will prolong the fragmentation of acute, primary, institutional, and home- and community-based care to low-income elderly and disabled residents.

In Home Supportive Services (IHSS)—proposes a 7 percent across-the-board cut to IHSS hours (a loss of approximately 6.1 hours per recipient per month) effective August 1, 2012. A previously enacted 3.6 percent reduction scheduled to sunset on June 30, 2012 would be replaced by this higher-level reduction.

- The Department estimates that the cut would result in a savings of approximately $332,500 annually in the County's share in the cost for the program.

IHSS Domestic and Related Services for Certain Recipients (Direct client impact)— continues to propose the elimination of domestic and related services to recipients who are living with others in a shared-housing situation effective October 1, 2012, except for households consisting entirely of IHSS recipients, and IHSS recipients whose need cannot be met by a household member due to a medically-verified condition. Aging and Adult Services estimates that this proposal would affect 2,626 (78 percent) of current IHSS clients by reducing their monthly hours by an average of 35 hours.

- The service elimination could result in an estimated savings of $2.0 million in the County's share of cost.

Hospital Payment Changes (Unknown)—proposes to eliminate grants to public hospitals, eliminate increases to managed care plans for supplemental payments to designated public hospitals, reduce Medi-Cal provider payments, delay the transition to a new diagnosis related group-based payment methodology for hospitals by six months, and implement co-pays for certain Medi-Cal services.

- The Department cannot quantify the potential fiscal losses or service impacts at this time because no details were provided in the May Revision.

Mental Health Realignment (Unknown)—proposes a fiscal superstructure for establishing base funding as well as annual growth for Mental Health Managed Care and Early Periodic Screening, Diagnosis and Treatment (EPSDT).

- The May Revision proposes minimal funding increases for mental health services that still leave Mental Health Realignment funding below FY 2008-09 levels.

Reorganization of Mental Health and Alcohol and Drug Administration ($200,000)—proposes the elimination of the Departments of Mental Health and Alcohol and Drug Programs with functions to be spread over six other state departments that could create administrative challenges for counties. The Administration is also proposing to create Department of State Hospitals. Behavioral Health and Recovery Services expects that this new department would increase the rate currently paid for state hospital beds, resulting in $200,000 in additional costs.

AIDS Drug Assistance Program (Unknown Direct Client Impact)—proposes increasing the client share of cost in the ADAP to the maximum percentages allowable under federal law. Public Health cannot at this time estimate the potential number of County residents impacted by this change. However, the potential share of cost could range from 5-10 percent of annual income.

Probation Department—($210,000)

Juvenile Justice Realignment ($210,000)—revises proposal to keep the Division of Juvenile Justice (DJJ) available as a placement option for youthful offenders, but makes other operational efficiencies and policy changes including: a new fee structure that would charge counties $2,000 per month ($24,000 annually) for each ward commitment to the DJJ by a juvenile court beginning July 1, 2012; a change in the DJJ age jurisdiction from 25 years to 23 years, applied prospectively; and termination of juvenile parole six months early (January 1, 2013, instead of July 1, 2014). With these changes, the trigger fee that was part of the 2011-12 budget would be forgiven.

- The Department anticipates the new DJJ commitment fee would cost approximately $210,000 per year.

Senate Bill 678 Funding—includes allocation determinations for the Community Corrections Incentive Fund for FY 2012-13.

- The Department will receive a $29,984 increase in its allocation for a total of $1,410,140.

Sheriff's Office—(No funding losses anticipated)

Court Security—Court security is not referenced in the May Revision, but is expected to be included in the budget discussions and will be included in the final budget once consensus is reached on the specific language.

- The Department anticipates being flat funded at $496,429 in FY 2012-13 for this service.

Inmate Transfer Ability—trailer bill language is expected that would allow two consenting counties to enter into a contract for the transfer of jail inmates. It is expected that the inmate transfer authority would be in place for three years to allow for review and evaluation of frequency and usage.

Local subvention grants to City Police Departments—proposes $20 million in state General Funds to create a new grant program for city departments experiencing funding reductions through the loss of redevelopment dollars. This funding is not tied to realignment funding, would be for a three-year period of time, and would be distributed through a statewide formula developed by the new Board of State and Community Corrections.

Child Support Services—($684,000)

Child Support Collections ($350,000)—maintains proposal to suspend the county share of child support collections for a second year. Under the proposal, the entire non-Federal portion of Child Support collections would benefit the State General Fund.

- The Department estimates that this amount is approximately $350,000 for the County. After receipt, Child Support forwards the funds to HSA that distributes them to either state or County accounts for use in the funding of benefits to other clients.

Local Child Support Agencies (LCSAs) ($334,000)—proposes to decrease funding for LCSAs administrative funding by $14.7 million to save $5 million in state General Funding in FY 2012-13. This is a significant cut to local agencies that will no longer be required to prepare cases for state hearings, but will need to continue their required complaint resolution process and refer cases for state administrative review.

- The Department anticipates a loss of $334,000, $267,000 in administrative and an additional $67,00 in technology funding.

Public Works—(Unknown)

Highway User Tax Account (HUTA)—proposes to appropriate $345 million to counties from new gasoline excise tax revenues, or HUTA, pursuant to the Transportation Tax Swap and formerly Proposition 42 revenues to the State General Fund. In addition, the May Revision proposes to sweep another $312 million in new HUTA on a one-time basis, which corresponds to the amount of the new gas tax collected on gasoline used for off-highway vehicles. Thereafter, the proposal would also take $128 million annually on a permanent basis beginning in 2012-13. HUTA funding are used locally for operations, maintenance, and capital improvements.

- The Department cannot at this time quantify the potential losses at this time.

Performance Measure(s):

Measure	FY 2009-10 Actual	FY 2012-13 Projected
Federal/State Measures analyzed and acted on	57	100

FISCAL IMPACT:

The FY 2012-13 May Revision proposals would result in a loss of approximately $2.7 million in funding for County programs and services. The May Revision would also establish a two-year allocation funding formula for public safety realignment that would provide $13.5 million in funding for programs and services.