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

Date: January 22, 2016
Board Meeting Date: February 9, 2016
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: FY 2016-17 Proposed State Budget

RECOMMENDATION:
Accept this report on an analysis of the FY 2016-17 Proposed State Budget

BACKGROUND:
The Governor's Budget, released January 7, 2014, proposes total state General Fund (GF) expenditures of $122.6 billion in 2016-17, a $6.5 billion (5.6 percent) increase over revised 2015-16 levels. Health and human services spending accounts for $2.1 billion of the increase (driven largely by Medi-Cal spending) and K-12 education spending accounts for $1.4 billion. Also proposed are over $2 billion of GF expenditures that are one-time in nature, including $879 million to accelerate loan repayments for transportation projects; $500 million for deferred maintenance projects at levees, state parks, universities, community colleges, prisons, state hospitals, and other state facilities; and $719 million to pay the costs of wildfires and for other effects of the drought.

California's budget outlook for FY 2016-17 is strong, with GF revenues exceeding the expectations of the budget adopted last summer. Total GF revenues are projected to be $121.5 billion in FY 2015-16 and $125.1 billion in FY 2016-17, a 2.9 percent annual increase. Compared to GF revenues adopted for the budget last June, GF revenues are forecast to be $5.9 billion higher over FYs 2015-16 and 2016-17.

Despite the projected budget surplus, Governor Brown continues to strongly emphasize fiscal prudence. He notes, for instance, that the state economy is now in its seventh year of expansion, which is two years longer than the average recovery. Although a recession is not assumed in the revenue projections, the proposed budget includes contingency planning for a moderate one-year recession occurring in FY 2017-18 with an additional $2 billion transfer from the GF to the Rainy Day Fund beyond that which would otherwise be required under Proposition 2. Total additional deposits into the

Rainy Day Fund, established by Proposition 2 in the proposed budget are $995 million in FY 2015-16 and $3.6 billion in FY 2016-17. This would bring the total amount in the Rainy Day Fund to $8.0 billion, which is 65 percent of its constitutional maximum amount.

In addition to the continued investment in the state's Rainy Day Fund, the Governor's budget addresses two key issues left unresolved from last year—the Managed Care Organization (MCO) tax and transportation funding. The expiration of the MCO tax on June 30, 2016 is expected to create a $1.3 billion hole in the state's General Fund, which would result in program cuts. Instead, the Governor is offering a series of revisions through a tax reform package that would fully cover, if not exceed, the necessary MCO tax revenue. In the area of transportation funding, the Governor has reintroduced his September 2015 funding and reform package that would spend an additional $3.6 billion annually for ten years on maintenance and rehabilitation of state and local transportation systems and investments in transit.

DISCUSSION:
The Governor's FY 2016-17 proposed budget would have the following impacts to County residents, programs and services:

HEALTH SYSTEM
California's Section 1115 Federal Waiver Renewal—Throughout 2015, the state negotiated with the federal government to renew the Medi-Cal Section 1115 "Bridge to Reform" Waiver, which was fundamental to the successful implementation of the Affordable Care Act. California subsequently received approval for the Waiver renewal, called Medi-Cal 2020, effective January 1, 2016 through December 31, 2020. The total initial federal funding in the renewal is $6.2 billion over five years, with the potential for additional funding in the global payment program that includes:

- A delivery system transformation and alignment incentive program (PRIME), which is a redesigned delivery system transformation and alignment incentive program (DSRIP) for Designated Public Hospitals (DPHs) and District/Municipal Hospitals (DMPHs). Funding for this program declines in years 4 and 5.
- A Global Payment Program (GPP) for designated public hospitals for services to the remaining uninsured. Federal funds for this program include $1 billion in Disproportionate Share Hospital (DSH) Funding annually and an initial $276 million uncompensated care funding. The non-DSH funding in years 2 through 5 will be determined following an independent assessment of uncompensated care due to be completed in the spring of 2016.
- A Whole Person Care Pilot program that would integrate care for high-risk, vulnerable populations in a county-based, voluntary program. The funding for this program would be up to $1.5 billion.
- A Dental Transformation Initiative (DTI) totaling $750 million in federal funds.

The new Medi-Cal 2020 funding streams are focused on performance with a shift away from cost based reimbursement.

- The San Mateo County Medical Center (SMMC) will participate in PRIME and the GPP. Its financial impact is uncertain as the state and the participating hospitals have not finalized the funding distribution methodology.
- SMMC's participation in the Whole Person Care Pilot and Dental Transformation Initiative has not yet been determined.

Managed Care Organization (MCO) Tax/Coordinated Care Initiative (CCI)/Restoration of In-Home Supportive Services (IHSS) Hours—provides approximately $1.1 billion for Medi-Cal Services, including administrative funding for the Coordinated Care Initiative ($130 million) and other critical health care services. The Governor is proposing a three-year tiered MCO tax plan based on the type of health plan (either commercial, closed system such as Kaiser, or Medi-Cal) that would net about $1.3 billion. This funding would be placed into a special fund and be used to fund current Medi-Cal activities, including parts of the Coordinated Care Initiative plus the full-year restoration of the 7 percent across-the-board cuts in the In-Home-Supportive Services hours.

In addition, the Governor's budget continues the operation of the CCI. However, the budget proposal also notes that if the MCO tax is not extended, participation in the CCI is not improved, and/or the Department of Finance determines that CCI is not cost effective by January 2017, CCI would cease operating effective January 2018.

- Because the County's IHSS MOE is tied to the continuation of the CCI, its elimination could have a significant impact on the Aging and Adult Services (AAS) budget in the next budget cycle.

IHSS Fair Labor Standards Act (FLSA) Implementation/Payment of Overtime— proposes to restore the 7 percent cut in service hours—estimated to cost $236 million statewide in FY 2016-17—with proceeds from the pending MCO tax in lieu of General fund. Funding will also cover travel time between multiple consumers, and wait times.

- No fiscal impact is expected to Aging and Adult Services given that cost to implement the FLSA is covered as part of the IHSS MOE; however, it is expected that there will be significant workload increases for AAS staff involved in the IHSS and Public Authority program related to FLSA implementation.

Medi-Cal Expansion to Undocumented Children—includes $145 million statewide for the expansion of full-scope Medi-Cal to undocumented children. Children will be eligible starting May 1, 2016, and the budget estimates that up to 170,000 children will be eligible. This expansion was signed into law last year under Senate Bill 75 (Chapter 18, Statutes of 2015).

- There are approximately 3,000 children who will transition from Health Kids to Medi-Cal as a result of this new legislation. There may be additional undocumented children in the County who are not already enrolled in Healthy Kids; however, there is no good way to estimate this number.
- Approximately 2,000 of the 3,000 eligible children are currently assigned to the SMMC. It is anticipated that FQHC revenue for ambulatory services could be

used to serve the population; however, the department is uncertain of the potential net revenue impact at this time.

Affordable Care Act Implementation/Assembly Bill 85 County Reimbursements— indicates that the state will need to reimburse counties $151.7 million in FY 2016-17 for AB 85 redirection from FY 2013-14.

Specific reimbursement amounts are unknown as how and when those reimbursements will be made is still under discussion.

HUMAN SERVICES AGENCY

Medi-Cal Administration—proposes to carry forward $244 million and adds an additional $169 million to cover the ongoing need for manual work created by continued program issues with CAIHEERs and caseload growth, and carries this funding level through FY 2017-18. Proposes to conduct time studies to inform a new Medi-Cal county administration budgeting methodology.

The Department estimates it could receive approximately $1.69 million in additional funding.

CalWORKs—proposes $7.5 billion in program expenditures statewide despite an estimated 5.5 percent decline in the average monthly CalWORKs caseload from 2015.

The Human Services Agency estimates a decrease of approximately $1 million in program funding.

Children and Family Services (CFS)/Continuum of Care Reform (CCR)—assumes modest increases in caseloads within CFS programs, specifically child welfare, foster care (1.4 percent), and adoptions (0.9 percent). Includes $94.9 million statewide, with some funding earmarked for county child welfare agencies and probation departments ($26.8 million dedicated exclusively to probation departments), to implement CCR (AB 403, Chapter 773, Statutes of 2015) that seeks to transition foster youth from the use of group homes to more home and family-based settings with the necessary services and supports.

Funding for the Human Services Agency and Probation Department is unknown at this time.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)—includes $40.7 million statewide for cost-of-living increases to the SSP portion of the grant equivalent to the California Necessities Index (estimated at 2.96 percent). This is the first SSI/SSP grant increase proposed since the Great Recession.

The maximum combined SSI grant for most individuals will be increased from $881 to $898 in the current year and from $898 to $915 in 2017.

CHILD SUPPORT SERVICES

While the proposed state budget provides modest increases to the State Department of Child Support Services, the Local Child Support Agencies receive no new additional funding. State budget allocations have remained flat for over a decade with state allocations representing 34 percent of the department's overall budget. Approximately, 2. 5 percent of the state share is passed to the County's General Fund.

The Local Child Support Agencies are working with the State Department of Child Support Services to develop a new budget allocation methodology. It is anticipated that the department may experience a budget shortfall in FY 2017-18 as a result and would need to request a drawdown of the County Federal Financial Participation Rates to balance the budget.

HOUSING

The Governor's proposed budget does not substantially increase the state's role in expanding access to affordable housing. While the proposed budget does continue the required allocation of "Cap and Trade" revenues to the Affordable Housing and Sustainable Communities Program ($400 million in FY 2016-17), which helps fund the construction of affordable housing, there are no major proposals for affordable housing. In public remarks, however, the Administration noted that a recent major legislative proposal to reduce homelessness would be considered.

2011 PUBLIC SAFETY REALIGNMENT

2011 Public Safety Realignment Revenues—updates revenue assumptions for 2011 Realignment programs and details base and growth estimates for FY 2016-17.

- Base funding estimated to be $1.107 billion.
- Growth funding estimated to be $96.8 million for FY 2015-16.

AB 109 Implementation—includes a number of proposals to assist counties in the implementation of Public Safety Realignment:

- CCP Implementation Grants—proposes an additional one-year appropriation of $7.9 million statewide to fund grants that support the work of the Community Correction Partnerships in their AB 109 implementation efforts. Funds are distributed by population and the County anticipates receiving $150,000 for FY 2016-17
- City Law Enforcement Grants—proposes an additional $20 million in grant funding to city law enforcement agencies statewide to increase positive outcomes between city police and at risk populations. Funding is distributed through the Board of State and Community Corrections (BSCC) that has established detailed guidelines and reporting requirements for cities that apply for these funds.

Proposition 47—estimates $29.3 million in savings statewide. Sixty-five percent of the savings ($19.039 million) will be allocated to the BSCC for mental health and substance abuse treatment, housing, and work force development. Twenty-five percent ($7.3 million) will be allocated to the State Department of Education to reduce truancy and support students at-risk of dropping out, and ten percent ($2.9 million) will be allocated to the Victims Compensation and Government Claims Board supporting trauma recovery centers that serve victims.

The Department will be working closely with the County Manager's Office to monitor the release of the BSCC's Request for Proposals for the recidivism-reduction grants, and determine whether or not to apply for funding.

Siting Incentive Grants—proposes $25 million statewide for incentive payments to cities and counties that approve, between January 1, 2016 and June 30, 2017, new long-term permits for rehabilitation facilities that improve public safety.

PROBATION

Senate Bill 678 Funding—includes $129.7 million statewide to continue SB 678, or the Community Corrections Performance Incentive Grant Program, based on the revised formula adopted last year. Overall, the formula is based on prison revocation rates on all supervised populations for felony probation, PRCS and Mandatory Supervision.

The Probation Department expects to receive approximately $846,084, a potential decrease of $400,000 from the previous year.

SHERIFF'S OFFICE

Trial Court Security—proposes a $13.8 million increase statewide funding.

The amount that would be allocated to the County is unknown at this time, but when received the funds are deposited into a County trust dedicated for Court security.

Racial and Identify Profiling Act of 2015—proposes $10 million statewide for local law enforcement agencies costs related to the implementation of AB 953 (Chapter 466, Statutes of 2015), which revised the definition of racial profiling. There are increased costs for law enforcement reporting.

Sheriff Office impacts are unknown at this time; however, the Administration will work with law enforcement to develop an allocation methodology for these funds and for the overall program.

Peace Officers Standards and Training (POST) Fund—augments the budget by $13 million on a one-time basis with the expectation that there will be additional work necessary to address long-term solvency issues with the POST budget. The fund was created as a depository for assessments on specified fines, penalties and forfeitures imposed and collected by the courts for criminal offenses.

Impacts to the Sheriff's Office reimbursement are unknown at this time.

OTHER COUNTY ISSUES

Excess Educational Revenue Augmentation Fund (ERAF)—includes $178,000 in funding for San Mateo County to partially fund a Triple Flip funding deficit identified for FY 14-15. The CMO is currently working with CSAC and the Department of Finance to secure an additional $130,286 in back funding owed for FY 2011-12.

RDA Dissolution Process—anticipates that in FY 2015-16 and FY 2016-17, counties will receive an additional $684 million in general-purpose revenues.

The County's share is unknown at this time.

Child Care—proposes trailer bill language that will require the Department of Education to develop a plan to convert all contracted programs and funding into vouchers over the next five years. Currently, the Department of Education directly administers contracts with providers for about one third of the state's child care funding, and the other two thirds is provided through vouchers that families use for providers they choose.

A preliminary review by the County Office of Education indicates that the proposal includes no new funding and that the restructured funding would serve fewer children and potentially destabilize the County's centers serving special populations such as teen mothers, homeless families, and children with special needs.

Transportation Funding—includes a combination of new revenues, additional investments in Cap and Trade auction proceeds, accelerated loan repayments, CalTrans efficiencies and streamlined project delivery, accountability measures, and constitutional protections for the new revenues. The Governor's package of revenues will be split evenly between state and local transportation priorities. The ten-year funding plan will provide a total of $36 billion for transportation with an emphasis on repairing and maintaining the existing transportation infrastructure.

For FY 2016-17, the Governor's Budget reflects a partial first-year resources from the proposed transportation package of over $1.7 billion, which includes an increase of $342 million in Shared Revenues to be allocated by the State Controller to cities and counties for local road maintenance according to existing statutory formula.

The specific impact to the San Mateo County JPA is unknown at this time.

FISCAL IMPACT:

Overall, and despite stronger than expected revenue growth, the proposed FY 2016-17 State Budget continues to provide a cautious outlook in the coming budget year, holding most state funded County programs and services at the same level of funding as they received in FY 2015-16. Should the Administration fail to secure the necessary legislative approval for the MCO tax, the revenue loss would create a $1.3-billion-dollar hole in the State's General Fund, which would result in cuts across multiple programs, including the County's Coordinated Care Initiative and IHSS MOE.