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

Date: May 27, 2016
Board Meeting Date: June 7, 2016
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager
Connie Juarez-Diroll, Legislative Director

Subject: FY 2016-17 May Revision

RECOMMENDATION:
Accept the report on the analysis of the FY 2016-17 Governor's Budget May Revision.

BACKGROUND:
On May 13, Governor Brown released the May Revision to his proposed FY 2016-17 state budget. Lower-than-expected revenues for FY 2014-15 through 2015-16 of $1.9 billion compared to January result in estimated General Fund spending of $122.2 billion, more than $400 million below the Administration's January proposal. As a result of lower than expected personal income tax receipts and weaker sales tax revenues in April, the May Revision stresses fiscal caution and—like the Governor's January proposal—is framed by the pending expiration of the Proposition 30 income tax increase approved by voters in 2012, as well as efforts to build the state's Rainy Day Fund.

The May Revision sets aside $2.6 billion in revenues, with half deposited in the state's Rainy Day Fund and half used to pay down state debts, as required by Proposition 2 (2014). However, the Governor's revised budget also includes some discretionary set-asides that leave significantly less funding available for other state priorities. These choices include placing an additional $2 billion in the Rainy Day Fund beyond Proposition 2's requirements, depositing $1.8 billion in a different state reserve, and allocating $1.5 billion from the General Fund this year for state building projects. The May Revision supports a Senate plan that would issue $2 billion in bonds for constructing housing for chronically homeless people with mental illness.

As of the May Revision, the state budget is in balance over the next two years. However, the Governor warns of deficits in the coming fiscal years. By 2019-20, the Administration projects the annual shortfall between revenues and expenditures to be

$4 billion, not accounting for any downturn in the overall economy. Thus, the Governor proposes very little additional ongoing spending in the May Revision.

DISCUSSION:
The Governor's FY 2016-17 May Revision proposes the following changes in state funding that would have the following impacts to County residents, programs and services:

HEALTH SYSTEM
Mental Health Services Act (MHSA) Funding—endorses a Senate plan ("No Place Like Home") that would issue $2 billion in bonds to support the construction of permanent housing for chronically homeless persons with mental illness. These bonds would be repaid with revenues from Proposition 63 (2004), which generates funds for mental health services through a surtax on very high incomes. The Department of Housing and Community Development (HCD) would develop and administer the program through the Mental Health Services Act—Supportive Housing Program and the Tenant-Based Rental Assistance Program. Counties would apply for bond funding to build or retrofit supportive housing for those who are mentally ill and chronically homeless. The funding would be available on a competitive basis, and passage of the legislation requires a two-thirds vote of the Legislature.

The Governor's proposal does not include additional elements contained in the Senate housing plan, such as a pilot program to reduce homelessness among families in the child welfare system, increased funding for the CalWORKs Housing Support Program, and increased Supplemental Security Income/State Supplementary Payment (SSI/SSP) payments, which the Senate proposed in order to prevent seniors and people with disabilities from becoming homeless.

Under the proposed plan, $130 million in MHSA funds would be used annually to fund the bonds, for a twenty-year term.

> According to the Health System, it is projected that $2 million of current MHSA funding that would otherwise come to our County would be diverted for this statewide program over this period of time. Based on current available MHSA funding projections through FY 2018-19, the implementation of this program is not anticipated to result in a decrease in funding for other County MHSA programs. However, as MHSA funds are provided, based upon state income tax revenues, an economic downturn could impact other MHSA funded services more significantly with the implementation of this program.

Affordable Care Act Implementation/Assembly Bill 85 County True-Up Reimbursements—The Governor will reimburse $177.4 million to counties that choose the formula option under AB 85 in 2016-17, such as San Mateo County. This reimbursement is part of the first "true-up" reconciliation for the first year of AB 85 redirections in 2013-14. The estimate for county AB 85 redirections for the current (2015-16) was slightly raised from $741.9 million to $749.9 million and from $564.5 million to $643.4 million in the budget year (2016-17).

Specific reimbursement amounts for FY 2013-14 are unknown at this time; however, the San Mateo County Medical Center just recently completed its audit with the state.

Sustainable Groundwater Management Act (SGMA) Implementation—proposes an increase of $1 million to support local public agencies with facilitation services as they implement the Groundwater Act and support efficient formation of groundwater sustainability agencies. The Groundwater Act enables local agencies to adopt groundwater management plans that are tailored to the resources and needs of their communities. Groundwater management provides a buffer against drought and climate changes and contributes to reliable water supplies regardless of weather patterns.

Specific funding allocations are still being determined, thus, direct impacts to the County are unknown at this time.

<u>HUMAN SERVICES AGENCY</u>

2011 Realignment—consisting of 1.0625 percent of sales tax and 0.5 percent of Vehicle License Fees, projects revenues statewide to be down by approximately $44.6 million.

The Department estimates it will receive an estimated $525,000 in growth funding, or approximately $75,000 less than anticipated in January.

CalWORKs—reflects a 1.4 percent increase in CalWORKs grants effective October 1, 2016 to reflect an increase in AB 85 redirection estimates for FY 2016-17.

Under this proposal the maximum family grant for a family of three—a direct benefit to clients—in a high-cost county would increase from $704 to $714.

Children and Family Services (CFS)/Continuum of Care Reform (CCR)—includes $147.6 million, an increase of $59 million total funds statewide from the Governor's January budget for half-year costs associated with implementation of 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. Of this amount, $38.1 million is to support the new foster care grant rate structure, and $108.2 million for child welfare and probation administrative activities. Full implementation is scheduled to begin on January 1, 2017.

Funding for the Human Services Agency and Probation Department is unknown at this time; however, the department is concerned that that the funding will only cover a small portion of actual expenses in our high cost county, particularly to implement the enhanced service component needed to retain foster homes. HSA is participating in a statewide workgroup charged with determining "true-up" methodology for CCR implementation.

<u>HOUSING</u>

In addition to supporting the Senate's "No Place Like Home" proposal, the May Revision proposes to continue existing state investments into programs designed to meet the state's affordable housing goals such as the Affordable Housing and Sustainable Communities program, which is anticipated to receive approximately $400 million in FY

2016-17 from cap and trade auction proceeds. The Governor continued to emphasize existing state support for housing and included strong statements about the ability of cities and counties to invest local dollars into affordable housing efforts, specifically $1.3 billion in discretionary property tax revenue that will be returned to local governments by the end of fiscal year 2016-17 from the dissolution of redevelopment agencies. Furthermore, successor agencies report that an additional $126 million in outstanding loans are due to cities and counties that must be transferred to Low and Moderate Income Housing Asset Funds.

The May Revision proposes legislation that would require ministerial "by-right" land use entitlement provisions for multifamily infill housing developments that include an affordable housing component. These provisions are intended to improve the pace of affordable housing construction by restricting local governments' ability to require various permits or to use other local government review processes for qualifying developments that include affordable housing. Such provisions would streamline the approval of affordable housing, provided that the development is consistent with planning and zoning standards, and where applicable, not subject to mitigating measures to address potential environmental harm.

The Governor also offered support for a number of other legislative proposals currently being contemplated by the Legislature, including:

- Assembly Bill 2299 (Bloom) which would mandate, rather than authorize, that local agencies provide by ordinance for the creation of second units in single family and multifamily residential zones.
- Assembly Bill 2501 (Bloom) which would significantly modify density bonus law.
- Senate Bill 1069 (Wieckowski) which would further restrict a local agency's ability to impose requirements on second units, which are renamed here as "accessory dwelling units."

2011 PUBLIC SAFETY REALIGNMENT

Proposition 47—anticipates net savings of $39.4 million statewide—an increase of $10.2 million compared to January estimates—for mental health, substance abuse treatment, reduced truancy, and improved victim services. Ongoing savings are now expected to be approximately $62.6 million. The Board of State and Community Corrections (BSCC) has established an Executive Steering Committee (ESC) to develop a request for proposal on how these funds will be allocated on a statewide competitive basis.

> The County Manager's Office has established a multi-departmental working group to begin the development of a County proposal for grant funding expected to be available in fall 2016.

OTHER COUNTY ISSUES

RDA Dissolution Process—continues to implement changes related to the unwinding of redevelopment agencies, as eliminated by ABx1 26 (Chapter 5, Statutes of 2011). The May Revision estimates that counties will receive $710 million in general purpose revenues in 2015-16 and 2016-17, combined. This is a slight increase over January numbers.

The County's share is unknown at this time.

Child Care—details the Administration's proposal to consolidate funding for the California State Preschool Program (CSPP) and the Transitional Kindergarten (TK) program into an Early Education Block Grant that would support subsidized preschool for certain four-year-olds. Separate funding for the CSPP Quality Rating and Improvement System (QRIS) is also removed and combined with the other funding proposed in the block grant. The Governor proposes to implement the block grant in FY 2017-18, with TK eliminated as of July 1, 2017. Initial block grant funding would be capped at $1.6 billion, which represents no new funding for child care or preschool programs and reimbursements rates. Finally, the May Revision includes $20 million in Proposition 98 funds (of which $10 million would be ongoing) to assist County Offices of Education (COEs) with the transition to the new block grant.

A review by the County Office of Education indicates that the proposal would result in the following negative consequences to the current early education system supporting The Big Lift: 1) a decrease of $43 million statewide in CalWORKs Stages 2 and 3 due to lower caseload estimates; 2) a requirement that all preschool programs contract through Local Education Agencies (LEAs) rather than as under the current system whereby CBO preschool providers may contract directly with the state; 3) the funding of services to 4-year-olds only; 4) the setting of a per-pupil funding cap of $6,200 per year for a full-day preschool program; and 5) requiring school districts to develop and adopt a 3-year early learning plan that includes goals for serving preschoolers, and replacing Local Child Care Planning Councils.

FISCAL IMPACT:

Overall, the May Revision proposes spending that reflects lower-than-expected revenues of $1.9 billion from the January budget and anticipates the potential loss of current Proposition 30 revenues. The May Revision continues to stress fiscal caution in the coming budget year, increasing deposits into the state's Rainy Day Fund and holding most state-funded program and services at the same level of funding as they received in FY 2015-16. For the County, the Administration's endorsement of the Senate's "No Place Like Home" housing proposal could mean the potential loss of MHSA funding currently flowing to the County over a sustained period of time, and decreased projections for sales and use taxes which fund 1991 and 2011 realignments, Proposition 172 funds for public safety, transportation and other local programs could translate into lower allocations to these services to the County in the out years.