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

Date: May 22, 2013
Board Meeting Date: June 4, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: County Manager's Report #5

RECOMMENDATION:
Accept this report: Analysis of the FY 2013-14 May Revision

BACKGROUND:
On May 14, Governor Brown released the May Revision of the FY 2013-14 State Budget. The Revision assumes $98.1 million in revenue and $96.4 million in expenditures for 2013-14, as well as a $1.1 billion reserve. The Governor's revised budget also reflects a fiscal and economic outlook for the coming year that is worse than had been expected, due to recent federal actions and weak economic growth. It projects a $2.8 billion increase in the current year (2012-13), but a $1.8 billion decrease in the budget year (2013-14). It also cautions that higher-than-expected revenue collections for 2012-13 are spread out over several fiscal years and expected to be short-lived. The Governor's revised budget maintains a plan for reducing the state's budgetary debt from $35 billion in 2010-11 to less than $5 billion in 2016-17 and does not include any major restorations in funding for health and human service programs.

At the core of the May Revision are the Governor's proposed changes to K-12 education funding through the adoption of the Local Control Funding Formula (LCFF). The LCFF proposed in the Governor's January Budget would in essence provide schools with base grant funding ($6,816 per student) for all schools, plus adjustments to support lower class sizes in the lower grades, English-language learners, low-income families, and foster youth. The May Revision also provides an additional $240 million in General Fund revenues to increase base resources to the LCFF in 2013-14 providing a total of $1.9 billion toward first-year LCFF funding. The May Revision also includes $1.8 billion in 2012-13 to partially restore previously deferred payments to schools and community colleges and $1 billion in one-time 2012-13 funding to support implementation of the Common Core State Standards.

The May Revision increases the Proposition 98 minimum guarantee in the current year by $2.9 billion, but reduces it by $941.4 million in FY 13-14. The reduction in the guarantee is primarily driven by decreases in 2013-14 General Fund revenue estimates, which the Administration estimates to be $1.8 billion lower than January levels. The May Revision proposes to accelerate the repayment of inter-year budget deferrals in FY 12-13 and increasing first-year funding for the Local Control Funding Formula (LCFF). Additionally, the Administration proposes a one-time $1 billion augmentation to implement the new Common Core academic standards. Because the specific elements of the proposed LCFF are still being debated by the Legislature and Administration, the Controller's Office cannot quantify the specific fiscal impacts to the County. However, it is important to note that the adoption of a new school funding formula that would increase school revenue limits will have a negative impact on the County's Excess ERAF revenues. Estimates indicate that the new formula could result in a $30 million loss to the County in FY 2013-14.

The May Revision estimates that, due to the dissolution of redevelopment agencies and the resulting return of property taxes, counties are receiving $1.4 billion, cities $1.1 billion, and special districts $500 million in property tax revenues for FY 12-13 and FY 13-14 combined. The May Revision projects an ongoing annual return of about $675 million. The County of San Mateo received an estimated $17.7 million in FY 12-13 from the former RDAs.

DISCUSSION:
The FY 2013-14 May Revision proposes the following key changes and new policy proposals:

HEALTH SYSTEM (UNKNOWN)
Affordable Care Act Expansion—would implement a state-based approach of the Medi-Cal program optional expansion, rather than a county-based approach. While the Administration recognizes that counties' obligation to provide indigent health services will continue, the May Revision continues to propose to redirect 1991 health realignment funds to the state. The amounts to be withheld are proposed to be: $300 million in FY 2013-14; $900 million in FY 2014-15; and $1.3 billion in 2015-16. A new mechanism would be established to determine the level of county costs and savings and "true up" assumptions at the end of each fiscal year. The Administration indicates that each county would measure actual costs for providing services to Medi-Cal and uninsured patients, and actual revenues, including patient care revenue (federal funds, health realignment dollars and net county contributions). Savings would then be determined by the difference between actual costs and revenues and these savings would be redirected to support a new fiscal realignment of human service programs (i.e., CalWORKs, CalWORKs-related child care programs and CalFresh) to the counties. The May Revision also includes a proposed cost containment mechanism that would cap county cost growth based on historic trends. This mechanism would remain in place until health care reform is fully implemented. The Administration also proposes to develop a new Medicaid Waiver to replace the existing Bridge to Reform Waiver that

expires in 2015, in order to maximize federal funding that supports county-run hospitals and clinics.

While the Health System believes that the Governor's formula-based proposal to calculate shifts in county funding is the right starting point for discussions, it has a number of concerns with Medi-Cal expansion proposal. First, it believes that any shift of realignment funding should not start any earlier than FY 15-16 or even FY 2016-17 (when federal financing for the expansion goes down). Second, any split of savings between the counties and the state should be done on a 50-50 basis and based on realistic enrollment and other assumptions. Third, the May Revision calculates much larger projected saving than CAPH's modeling. For example, the Governor's budget estimates that San Mateo County will owe $3,938,984 in FY 13-14, $11,816,953 in FY 14-15, and $17,068,932 in FY 15-16.

- The Department's own internal estimates show health care reform as being net neutral at least in FY 13-14, and not nearly as high a savings in the out years. A taking of projected savings in advance of the final determination of the size of such savings, could cause cash flow problems for some counties.

Health System staff continue to be engaged in discussions through CAPH to ensure that health realignment take-backs do not affect the County's ability to serve the County's patients and and those that will remain uninsured.

Medi-Cal Expansion Benefit Package—proposes to provide the same benefits to those who are newly eligible that are received by existing eligible. This would include the Drug Medi-Cal carve-out and specialty mental health services carve-out. The Revise suggests that counties could, at their option, provide enhanced services for substance abuse disorders to both existing and new enrollees. According to the Health System, if a county chooses to offer expanded substance use treatment to new eligible, 100 percent of the cost would be borne by the federal government for 3 years and even thereafter for a maximum 10 share-of-cost for counties. Finally, long-term care services, which include IHSS, are proposed to be covered for new eligible, provided the federal government allows the state to impose and asset test for these services.

In-Home Supportive Services (IHSS)—implements the IHSS Settlement Agreement which will replace the 3.6 percent across-the-board reduction with an 8 percent across-the-board reduction in services effective July 1, 2013. There are approximately 3,630 current IHSS recipients who will be affected by this reduction in hours.

Coordinated Care Initiative (CCI)—delays the start date of the CCI, now renamed "Cal Medi-Connect," for all eight demonstration counties to January 1,2014. Los Angeles, Orange, San Diego, San Bernardino, Riverside, Alameda, and Santa Clara Counties would phase in their enrollees over 12 months. San Mateo County would do so over a three month period. Under this initiative, the Health Plan of San Mateo (HPSM) will take over responsibility for providing all care needed for all Medi-Cal beneficiaries and beneficiaries of both Medi-Cal and Medicare enrolled in HPSM. The Department has adjusted their planning with the HPSM to reflect this new timeline.

California Children's Services (CCS)—proposes to shift over an unspecified period of time from the counties to the state responsibility for the county's share of the CCS. The Department believes that this signals that the state plans to replicate in other counties the San Mateo County CCS pilot between the Health System and the Health Plan of San Mateo. The proposal implies that counties would retain fiscal responsibility for the Medical Therapy Program (MTP). This does not represent a change for the County.

<u>HUMAN SERVICES AGENCY</u>

Human Services Realignment as part of the ACA Implementation—proposes that counties assume greater financial responsibility for CalWORKs, CalWORKs-related child care programs, and CalFresh administrative costs. Counties would be responsible for the coordination of all client services and would be allowed to reinvest caseload savings and revenue growth in CalWORKs and related child care programs based on their local needs and priorities. Eligibility, grant levels, and rates would continue to be set at the state level. The state would continue to provide funding for above-average costs that result from economic downturns or policy changes outside counties' control.

- The Human Services Agency opposes any new realignment of human service programs as it would leave the County fiscally responsible for programs that it would not control.

Medi-Cal Administration—proposes the same level of base administrative funding as it did in the January Budget, which showed a small increases for FY 13-14. It also allocates $71.9 million statewide to counties to hire staff and conduct other ACA implementation activities. While this is a good start, it is expected that counties will need approximately $20 million more in order to meet anticipated demand.

- The County's base growth increase is estimated at $400,000 for FY 13-14. The County currently receives a total of $21.9 million for administration of the program.
- The County's ACA-related administrative funding for FY 13-14 is estimated to be $600,000 in FY 13-14. The County is expected to serve between 10,000 to 15,000 additional households that will seek health insurance over the next year.

The May Revision continues to fund the transition of Healthy Families children into Medi-Cal, but at a lower level than was proposed in the January Budget. For FY 13-14, the Administration proposes a total increase of approximately $33.7 million, a reduction of $26.1 million statewide, to fund ongoing case management and intake activities.

- The County is estimated to receive $300,000 in FY 13-14.

2011 Health and Human Services Realignment Growth Fund—lowers the anticipated growth revenues—now estimated to be approximately .7 percent in FY 13-14—in the 2011 Realignment Growth Fund. This funding is used by the Department to cover the state share of the County's Children and Family Services (CFS) programs.

- The County is expected to receive an estimated $600,000 in growth funding for human service programs in FY 13-14. The growth in realignment funding should help; however, CFS has been under-funded for over five years and it will take years to fully fund the program.

Children and Family Services (CFS)—assumes a downward trend in foster care caseloads statewide, while the County is experiencing growing caseloads. It also provides for an annual cost-of-living (COLA) adjustment of 2.65 percent effective July 1, 2013 to foster caregivers based on changes to the California Necessities Index. Counties are now responsible for the non-federal share of cost for the COLA.

- The County's share of the COLA is approximately $300,000 in FY 13-14.

CalWORKs—provides an additional $48.3 million statewide to fund several programmatic enhancements to the program intended to provide recipients with the greatest likelihood of success during their 24-months of programmatic services. These services include: Enhanced Subsidized Employment; Welfare to Work Reengagement; funding for childcare; implementation of a new robust appraisal tool and process for early identification of barriers to employment; and Family Stabilization and Barrier Removal services.

- The County is expected to receive approximately $1.2 million in FY 13-14 to fund these services.

Child Care—holds total funding for services flat with a small increase in CalWORKs Stage One. Overall, the Revision continues to make downward adjustments for caseload shifts between Stage Two and Stage Three.

- The County is expected to receive a $180,00 increase in funding in FY 13-14 for Stage One child care services. The Department is also continuing to work with its child care providers to determine the impact of the changes in funding between the stages.

The May Revision shows increases in funding for non-CalWORKs child care (capped child care programs and the state preschool programs) due to increases in the zero to four population.

CalFresh—includes $621.4 statewide in CalFresh administration, down by about $14.1 million from the January Budget due to revised caseload growth estimates. It also projects that caseloads will continue to increase at a rate of 10.79 percent statewide in FY 13-14, but at a slower rate than projected in January. The Administration has included $151.1 million total funds for caseload growth in FY 13-14 statewide.

- The County is expected to receive $1 million in FY 13-14.

Cal-Learn—continues to reflect the full implementation of this program in FY 13-14 for case management.

- The County's funding for the program will increase by approximately $40,000, from $117,000 to $157,000, in FY 13-14.

2011 PUBLIC SAFETY REALIGNMENT

Law Enforcement Growth Fund—As with human service programs, the May Revision updates revenue estimates associated with the range of law enforcement programs for which counties assumed responsibility in 2011. The forecast reflects a downward projection in sales tax in FY 12-13 and FY 13-14, resulting in an approximately 40 percent decrease in the amount of growth attributable to the various program elements. Thus, the 2012-13 growth for AB 109—projected in January to be $77.3 million—has been revised downward to $45.3 million. The base program allocations have not been affected.

Prior to the release of the May Revision, the Realignment Allocation Committee (RAC), a group of nine County Administrative Officers, had developed a recommended formula for the distribution of AB 109 growth funding to counties. Under this mechanism which included a county minimum, caseload, legislative intent, community corrections practices, and prison impacts, the County's recommended allocation would have been $978,005 in FY 12-13. The RAC will meet again in the coming weeks to review the revised Administration's estimates for the growth account and make a determination regarding potential adjustments to the proposed formula and plans to begin work on the development of a new long-term formula for counties.

Community Corrections Planning Grants (CCP)—continues to assume a $7.9 million General Fund appropriation to provide planning grants to local CCPs. The fixed amount grants will be allocated as in previous years, with specified amounts designated based on a county's population. It is expected that receipt of the funds will be conditioned on the submission of a report on CCP plan implementation to the Board of State and Community Corrections. The County received a $150,000 CCP Planning Grant in FY 11-12.

PROBATION

Senate Bill 678 Funding—increases funding for county probation departments by $72.1 million to provide resources to county probation departments that demonstrate success in reducing the number of adult felony probationers going to prison or jail for committing new crimes or violating the terms of probation. These efforts are targeted at reducing recidivism and encouraging alternatives to incarceration.

- The County is expected to receive $541,986 in FY 13-14 under the revised SB 678 formula.

SHERIFF'S OFFICE

Long-Term Offenders—proposes additional tools to assist counties in managing long-term offenders. The proposal authorizes the California Department of Corrections (CDCR) and Rehabilitation to house long-term offenders, provided the county agrees to an equivalent average daily population of short-term offenders. The proposal relies on County Parole Boards to make the determination to send long-term inmates to state prison after inmates have served three years of their sentence in a county jail. Lastly, the proposal establishes a presumption of a minimum level of split sentencing but authorizes a judge to make an exception if the judge determines that a split sentence is not appropriate.

- The Sheriff's Office has expressed a number of concerns regarding the proposal, specifically ensuring that any prisoner swap ensure that CDCR prisoners match the care and supervision needs of our local facilities.

PUBLIC WORKS

Proposition 39—adjusts Proposition 39 revenues up by $12.5 million and makes some changes to the allocation formula for K-12 education, including a minimum grant level of $15,000 for small educational agencies. Most significantly, the May Revision continues to exclude local governments as eligible entities for Proposition 39 funding.

PERFORMANCE MEASURE(S):

Measure	FY 2012-13 Actual	FY 2013-14 Projected
Federal/State Measures analyzed and acted on	57	100

FISCAL IMPACT:

Adoption of a revised new school funding formula that would increase school revenue limits would result in the loss of approximately $30 million of the County's Excess ERAF revenues in FY 13-14. The potential take-back of 1991 Realignment Funding related to ACA implementation would also have a negative impact on the County's General Fund. Finally, a downward projection of revenues in both the 2011 Health and Human Services and Law Enforcement Growth Funds for FY 12-13 will result in a lower than expected growth allocation for both HSA and all departments implementing Public Safety Realignment.