COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager

Date: Feb. 9, 2017
Board Meeting Date: Feb. 14, 2017
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: County Manager's Report # 3

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:

Health and Human Services
County, partners held free citizenship workshop
The Human Services Agency, in partnership with the office of Supervisor Carole Groom and local nonprofits that provide legal assistance, held a free daylong Citizenship Workshop Feb. 11 at the San Mateo Event Center. The workshop was similar to citizenship events held last year in other supervisorial districts — specifically at locations in Daly City, Redwood City and East Palo Alto — to help participants complete their naturalization application. HSA invited participants from their client rolls and coupled with the attendance at the previous events, hundreds of our residents have been assisted. Thank you to all involved, and in particular the County staff who volunteered their personal time on a Saturday to benefit others.

Community Services
Public Works brings LED lights to County-administered districts
Let there be light — LED lights, to be exact. As you may recall, the Board in 2012 adopted its Government Operations Climate Action Plan. To help achieve the plan's carbon emissions and energy use reduction goals, the Department of Public Works

contracted with PG&E to complete the conversion to LED of streetlights operated and maintained by eight County-administered lighting districts such as County Service Area No. 6 in Princeton-by-the-Sea, Granada Highway lighting District, La Honda Lighting Maintenance District and Montara Highway Lighting District. The benefits of converting include a reduction in energy costs, longer life expectancy, less maintenance and improved night visibility.

<u>Legislative Update</u>

Governor's proposed 2017-18 budget carries local impacts

On Jan. 10, Gov. Jerry Brown released a proposed FY 2017-18 state budget that reflects both deep uncertainty about looming federal actions and a tempered economic and fiscal outlook for the state. The governor forecasts revenues that are $5.8 billion lower—over a three-year period—than previously projected. Specifically, the governor expects personal income tax revenues to be $2.1 billion lower, sales and use tax revenues to be $1.9 billion lower, and corporation tax revenues to be $1.7 billion lower than expected when the budget for the current fiscal year was signed into law.

Furthermore, according to the administration absent new budget solutions, the state would face a deficit of $1.6 billion at the end of 2016-17. To address this estimated budget shortfall, the governor's budget includes more than $3.2 billion in actions to reduce General Fund spending growth. Proposed solutions include rescinding certain one-time spending commitments included in the FY 2016-17 state budget, including: 1) $400 million set aside for affordable housing programs and to be provided only if lawmakers modified the local review process for certain housing developments as proposed by the governor; 2) $300 million that was intended to begin the process of renovating or replacing certain state office buildings; and 3) delaying a multiyear plan adopted in 2016 to reinvest in the state's child care and development system.

The governor's proposal includes setting aside $2.3 billion as constitutionally required by Proposition 2 (2014), with half deposited in the state's rainy day fund and half used to pay down state debts. Under the governor's proposal, state reserves would total $9.5 billion by the end of 2017-18.

The governor's FY 2017-18 proposed state budget would have the following impacts to County programs and services:

<u>HEALTH SYSTEM</u>

COORDINATED CARE INITIATIVE (CCI)—In June 2012, the Legislature authorized the CCI as a county pilot project that would ultimately be implemented in seven counties, including San Mateo County. Under CCI, the state integrates health care and other services—including In-Home Supportive Services (IHSS)—for certain seniors and persons with disabilities (SPDs) with an expectation that overall costs to the state for caring this population would be reduced.

To achieve these goals, the CCI made the following major policy changes in the demonstration counties: 1) integration of Medi-Cal and Medicare benefits under Medi-Cal managed care for SPDs eligible for both Medi-Cal and Medicare ("dual eligible") opting into the demonstration program (known as Cal MediConnect or Duals Demonstration Pilot Project); 2) mandatory enrollment of Medi-Cal recipients who are also on Medicare in managed care for their Medi-Cal benefits; 3) integration of long-term services and supports, including the IHSS program and other long-term care programs, into Medi-Cal managed care; and 4) shifting of collective bargaining responsibilities for IHSS workers from local public authorities in the demonstration counties to the new California In-Home Supportive Services Authority (IHSS Statewide Authority). The IHSS Statewide Authority was to serve as the employer of record for IHSS workers in the demonstration counties and inherit existing contracts for IHSS worker wages and benefits. The IHSS Statewide Authority took over union negotiations on Feb. 23, 2015 for San Mateo County. This meant that the IHSS Statewide Authority, not the San Mateo County IHSS Public Authority, was to negotiate any changes to administer wages and health benefits on behalf of San Mateo County IHSS workers. The IHSS Statewide Authority, however, has not yet negotiated a new contract.

In addition, beginning July 1, 2014 and on a statewide basis, the CCI replaced counties' share of IHSS program costs (historically 35 percent of the nonfederal portion of costs) with an IHSS maintenance-of-effort (MOE) requirement whereby counties have been required to maintain their 2011-12 expenditure levels for IHSS, with an annual growth factor of 3.5 percent plus any additional costs associated with locally negotiated IHSS wage increases. Total IHSS MOE costs include IHSS provider wages and benefits, Public Authority and IHSS program administration, and contractor payments for complex IHSS client expenditures. Program costs that exceed the total MOE level have been shifted 100 percent to the state General Fund. San Mateo County's IHSS MOE for FY 16-17 is $12,979,683 and is funded through a combination of $3.7 million in Net County Cost and 1991 Realignment.

State law authorizing the CCI contains a "poison pill" provision that automatically discontinues the pilot program if the director of the Department of Finance determines that the CCI does not generate annual net state General Fund savings and is therefore not cost-effective. According to the Legislative Analyst, IHSS program costs have grown at an average rate of 20 percent annually from $1.7 billion in 2012-13 to an estimated $3.5 billion in 2016-17 since the MOE was instituted. By contrast, County IHSS program costs have increased at an average rate of around 5 percent annually over the same period.

The governor's budget reflects the determination that the CCI is not cost-effective, automatically ending the IHSS MOE capping the County's liability beginning July 1, 2017, and the CCI program on Dec. 31, 2017. According to the administration, the increased General Fund costs associated with the IHSS MOE were the primary factor in its determination that the CCI does not produce net General Fund savings. The cessation of the IHSS MOE would reestablish the prior funding formula, which requires counties to pay 35 percent of the non-federal portion of IHSS costs, with the state paying the other 65 percent. Preliminary estimates indicate that this action will cost counties $4.4 billion over the next six years. It is also important to note that in addition to the original cost sharing agreement (35 percent counties and 65 percent state), the governor is also including the costs for the state minimum wage increase, pay sick leave for IHSS workers, and additional costs due to federal action to require overtime pay.

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 budget also encourages continued cooperation between plans and counties, but without funding for these activities, and it is unclear how the policy directives would be carried out.

IMPACTS ON SAN MATEO COUNTY

While the governor's proposed budget purports to have no impact on beneficiaries, the Health System believes that absent a tenable financial solution for counties these changes will impact beneficiaries across the state.

The elimination of the IHSS Statewide Authority will mean the return of IHSS collective bargaining responsibilities back to the County. The last negotiated Memorandum of Understanding (MOU) between San Mateo County IHSS Public Authority and Service Employees International (SEIU) which represents IHSS providers expired on Dec. 31, 2015. The MOU was approved by the Board on Jan. 25, 2015 under Resolution #078633. The SEIU contract includes provider wages of $12.65 per hour, up to 1,000 healthcare slots with $20 per month share of premiums for providers and up to 2,200 vision and dental slots with $5 per month share of premiums for providers. In addition, the MOU allows for monthly Clipper Cards for 125 providers with a value of $50 per month.

The Health System estimates that a return to the old cost sharing ratios (50 percent Federal/65 percent State/35 percent County) will come at an additional cost of **$6.9 million in FY 2017-18** and at least that in FY 2018-19. While the increased FY 2017-18 cost can currently be absorbed by the trust fund, the trust fund will then be depleted and unavailable to fully cover the estimated FY 2018-19 costs.

The California Department of Social Services (CDSS) has indicated that counties will be able to cover the increased costs from 1991 Realignment caseload growth funding. However, this assumption does not acknowledge the impact to counties that the redirection of 1991 Realignment funding will have on other services, such as mental health. In any case, based on analysis by the California Welfare Directors Association (CWDA), the projected 1991 Realignment in the governor's budget for FY 2017-18 are not sufficient to cover the increase. The governor did note in his budget proposal that he is willing to work with counties to mitigate the cash flow impact due to the elimination of the IHSS MOE.

The governor's budget contains significant impacts for Aging and Adult Services, IHSS and the Public Authority. County responsibilities for IHSS program and services are anticipated to increase with the elimination of the IHSS MOE.

HUMAN SERVICES AGENCY

AFFORDABLE CARE ACT (ACA)—The governor's budget highlights the uncertainty surrounding the federal Affordable Care Act. Under ACA, state policymakers expanded Californian's access to health care coverage, cutting the state's uninsured rate in half. President Trump campaigned on repealing the ACA, and Republicans in Congress have begun the process of dismantling the law. However, it is unclear how much of the ACA will ultimately be repealed, when any such repeal would actually take effect, and what the Republicans' replacement for the ACA — if any — would look like.

California would lose well over $20 billion in federal funding each year if Republicans succeed in repealing two key components of the ACA, specifically the Medicaid expansion (the coverage of low-income adults under age 65 who previously were excluded from the program) and subsidies for private coverage purchased through Covered California.

MEDI-CAL ADMNISTRATION—The governor's budget continues to include all of the augmentations that have been added to the administration base over the last 6 years to cover the ongoing need for manual work created by on-going programming issues with CalHEERs and caseload growth. For HSA, the Governor's budget maintains approximately $13.5 million, of 38.8 percent of its Medi-Cal administration allocation for FY 2017-18. Changes to the Affordable Care Act have the possibility of reducing the County's allocation over the next few years, making it more difficult to continue the current service levels.

CalWORKS—The administration is proposing lower funding levels for this program due to lower projected caseloads. It is estimated that this will result in a $1.5 million reduction in current funding levels to the department at a time when clients are presenting more difficult barriers to self-sufficiency.

HOUSING

AFFORDABLE HOUSING—Although the administration views the housing crisis as one of the major challenges facing the state, the proposed budget includes no new funding to address the problem. Instead, the governor eliminates $400 million set aside for affordable housing programs in the FY 2016-17 budget agreement. These dollars were to be allocated only if lawmakers modified the local review process for certain housing developments, as proposed by the Governor last year. Given that the Legislature did not adopt the governor's so-called 'by-right" proposal, these dollars will not be available for affordable housing.

The governor's budget states that the administration is "committed to working with the Legislature on the development of a legislative package to further address the state's housing shortage and affordability pressures." However, the governor makes clear that he is not willing to provide resources through the state budget to finance any solutions. Instead, the governor outlines several principles for housing policy, which include reducing local barriers that prevent, slow down, or drive up the cost of housing developments.

PUBLIC SAFETY

CRIMINAL FINES AND FEE REVENUES (STATE PENALTY FUND)—The Governor's budget proposes to reduce the number of programs supported by the State Penalty Fund due to a significant decrease in revenues over recent years. These funds, which have been declining over the last decade — due largely to a significant decrease in traffic citations — are distributed based on a statutory formula into eight special funds for various programs. The administration is proposing to amend the process to which the state portion of the assessment is distributed including eliminating the state funding to the Commission on Peace Officers Standards and Training (POST), Internet Crimes Against Children Task Forces, Local Public Prosecutors and Public Defenders Training Program, and the California Gang Reduction, Intervention Program.

Reductions to the POST program, which is focused on the providing training to law enforcement officers, would impact funding currently available to the Sheriff's Office, the Probation Department and District Attorney's Office. In addition, the following programs administered by the District Attorney's Office would also be impacted: Victims Witness and Assistance Program, which funds 6 FTEs; Restitution Fund that funds 0.57 FTEs; and the California Witness Relocation and Protection Program (CalWRAP).

OTHER COUNTY ISSUES

TRANSPORTATION—The governor's proposed budget includes a 10-year, $43 billion transportation funding and reform package that would provide $1.8 billion in FY 2017-

18. The package was first introduced in 2015 and includes a mix of new revenues, additional investments of “cap and trade” auction proceeds, accelerated loan repayments, and efficiencies in the California Department of Transportation (CalTrans).

While the governor’s revised plan would provide approximately $1.16 billion in new annual formula subventions to jurisdictions to support local streets and roads and $250 million annually for state-local partnership grants, two leading legislative funding plans stand to provide more. AB 1 (Frazier) and SB 1 (Beall) would provide approximately $2.2 billion in new funding for local streets and roads in addition to $200 million annually for a state-local partnership program.

The most recent roads/streets needs assessment illustrates that at least $3 billion in new funding for cities and counties would be necessary to see a reduction in the deferred maintenance backlog and an improvement in local pavement conditions over the next decade.

FISCAL IMPACT:

Overall, the governor’s budget proposes to hold most state funded programs and services at the same level funding received in FY 2016-17 with the exception of proposed reductions to programs supported by the State Penalty Fund and a reduction in funding for the CalWORKs program due to lower projected caseload levels. The discontinuation of the Coordinated Care Initiative effective Jan. 1, 2018 and the unwinding of the IHSS MOE would come at an additional cost of $6.9 million in FY 2017-18 and potentially more in FY 2018-19. Finally, as the governor’s budget proposal is silent on the potential fiscal impacts of the repeal of the ACA, it is unclear what exactly those impacts might be to San Mateo County. It is expected that the administration will provide counties with more information on the repeal of the ACA in the May Revision.