County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER
File #: 18-438 Board Meeting Date: 6/5/2018

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: Analysis of the FY 2018-19 May Revision

RECOMMENDATION:
Accept this analysis of the FY 2018-19 May Revision.

BACKGROUND:
On May 11, Governor Jerry Brown released the May Revision to his proposed 2018-19 state budget, which provides a total budget of $199 billion. The Governor forecasts revenues $8.0 billion higher-over a three-year period-than projected in January, mostly reflecting higher tax collections due to strong economic growth and stock market gains. In fact, growth projections for the big three State General Fund sources, personal income taxes, sales and use taxes, and corporation taxes, are all higher.

Despite this significant increase, the Governor continues to caution that these revenues are largely one-time and commitments for spending should not be done on a permanent basis. Thus, the Governor is proposing to use the additional revenues to build up reserves, pay down budgetary debts, and make one-time investments in infrastructure. The May Revision provides $6.1 billion for reserves and paying down debt-$3.5 billion as constitutionally required by Proposition 2 (2014), with half deposited in the Rainy Day Fund and half used to pay down debts-and an additional discretionary $2.6 billion deposit to the Rainy Day Fund. The Administration also proposes to deposit $3.2 billion into the Special Fund for Economic Uncertainties, which is the State's short-term reserve fund. This fund's purpose is to pay for unforeseen circumstances that arise during the fiscal year, such as higher than-anticipated costs for disaster response. With these deposits, State reserves should total $17.0 billion by the end of 2018-19-bringing it to 100 percent of the constitutional target. The May Revision also emphasizes impending risks to the State's economy, such as a stock market correction, an eventual national recession, and geopolitical risks that affect national growth. Furthermore, the full impacts of the federal tax reforms that took effect earlier this year are still unknown.

One-time expenditures for state and local programs include, $2 billion for state infrastructure, $359 million for additional homelessness resources and nearly $60 million for mental health training. Ongoing commitments include funding for K-12 education, higher education, counteracting the effects of poverty through expanded health services and combating climate change, which are continuations of the January Budget proposal.

DISCUSSION:
The FY 2018-19 May Revision would have the following impacts to County programs and Services:

HEALTH SYSTEM
1991 Realignment and IHSS Maintenance of Effort (IHSS MOE)-estimates that IHSS costs will increase by $105.6 million General Fund in 2017-18 and $174.7 million General Fund in 2018-19. These result from increases in overtime, hours per case, and costs per case. The increases are partially offset by slower caseload growth, which has been adjusted to more than 544,000 statewide, slightly down from 545,000 in January.

With regards to IHSS revenues, the May Revision projects increases in sales tax revenues of 5.1 percent in FY 18-19 as compared to 3.84 percent in the January Budget. The revised budget projects no change in vehicle license fee (VLF) revenues, and will remain at 4.2 percent like in the January budget. Because 100 percent of 1991 Realignment VLF growth is now redirected to IHSS costs in the first three years as per the new MOE, these funds are no longer available to cover mental health cost increases through Behavioral Health and Recovery Services.

While the May Revision indicates that there will be sufficient 1991 Realignment to fund all increased IHSS costs since the implementation of the new IHSS MOE through FY 19-20, this statement is not confirmed by the California State Association of Counties' (CSAC) analysis as this continues to show that there will be out-year costs to counties because of the new IHSS MOE structure. In addition, as counties are negotiating new wages and benefits for IHSS providers, those additional costs will further increase the IHSS MOE and create a demand on 1991 Realignment funds.

- The May Revision only accounts for rate changes prior to April 1, 2018, which does not include San Mateo County's most recent rate change. The Department estimates a $1.5 million increase to the County's IHSS MOE due to the recently adopted wage and benefit increase that will be effective July 1, 2018. The exact financial impact to the County is unknown at this time.
- The Department further estimates that the cost of the IHSS MOE to be funded outside of 1991 Realignment to grow from $3.6 million in FY 17-18 to $5.5 million in FY 18-19. These additional costs will be covered in part from the County's annual general fund contribution for IHSS of $3.7 million and the balance of $1.8 million from the Realignment Trust Fund. The Realignment Trust Fund will be depleted by April 2023.

IHSS and Public Authority (PA) Administration-provides an increase of $24 million, or 12 percent, General Fund for county IHSS administrative costs in 2018-19 compared to the January Budget Proposal.

- The Health System anticipates that will receive $452,000 in State General Fund for IHSS Administration and $40,000 in PA Administration in FY 18-19. Despite these increases, the Department anticipates that the allocation is still below the State's contribution level for administrative costs under the previous IHSS MOE in FY 16-17 by 5.6 percent.

It is worth noting that due to significant concerns for county general funds beginning with year three of the new IHSS MOE, the IHSS trailer bill includes a reopener clause for counties. Specifically, it includes a requirement to reexamine the funding structure during the development of the FY 2019-20 state budget in consultation with counties and other impacted stakeholders.

- The Department will work with the CMO to engage in these discussions when they occur.

Mental Health Services Act (MHSA) funding-includes $6.7 million for staff at the Department of Health Care Services (DHCS) for staffing to oversee county mental health programs, review Mental Health Services Act (MHSA) expenditures, and plan for system and data improvements to support the evaluation of county mental health programs.

- ➢ The Department does not have any specific details on this proposal but assumes it will place increased demands on day-to-day operations.

Federal Mental Health Audit Repayment-the U.S. Department of Health and Human Services Office of Inspector General has nearly completed an audit of county mental health services billing practices in 2014. The draft audit initially indicated that the state-and by extension counties-owe $230.1 million in repayments identified by the audit. After considerable work between the DHCS and counties, that figure has been reduced to $180.7 million. The Governor proposes to use state dollars to make the initial full repayment and give counties four years to repay the full amount.

- ➢ BHRS's potential obligation is up to $5.0 - $6.0 million. The Department is working with the State and County Behavioral Health Directors Association (CBHDA) as to how the findings were determined and how the repayment will be allocated among the counties. The prolonged payment schedule should help to reduce the initial impact.

340B Drug Pricing Program-maintains the Administration's proposal to prohibit the use of federal 340B Drug Pricing Reimbursements beginning July 1, 2019 to prevent duplicate discounts and overpayments.

The 340B drug pricing program was designed to allow certain safety-net providers to purchase outpatient drugs at a discount from drug manufacturers. According to the program's official language, it is intended "to stretch scarce federal resources as far as possible, reaching more eligible patients and providing more comprehensive services." California's public health care system use savings from the 340B program to provide critical services and otherwise high-cost pharmaceuticals to low-income patients.

- ➢ The San Mateo County Medical Center estimates that based on pharmacy Medi-Cal volumes from calendar 2017, the elimination of this program would increase their drug costs by approximately $9 million. The increase in drug costs, in return, would be reflected in their billing to the State, resulting in higher reimbursements to the SMMC. While the SMMC is in the process of calculating the additional reimbursement, it anticipates that the increase in reimbursement will fall short of offsetting the additional drug costs.

Mentally Ill Outreach and Treatment-proposes $50 million in one-time funding to provide counties for multi-disciplinary teams to support intensive outreach, treatment and related services for homeless persons with mental illness. Funding will be targeted to local entities based on the principles of Chapter 518, Statutes of 2000 (AB 2034) and Chapter 617, Statutes of 1999 (AB 34). At the time of this writing, it is unclear what the process will be for allocating the funds and whether all counties will benefit. Counties are being encouraged to match these funds with local mental health funds, where appropriate. This type of intervention is expected to result in earlier identification of mental health needs, prevention of criminal justice involvement, and improved coordination of care for this population at the local level.

- The Department will continue to monitor the proposal to see if this is something that might be available to the County.

No Place Like Home (NPLH)-proposes placing NPLH program on the November 2018 ballot for voter validation. This program, if approved, will allocate $2 billion from Mental Health Services Act funds to provide housing for individuals in need of mental health services and experiencing homelessness or who are at risk of homelessness.

- The Health System has already received $150,000 in technical assistance funding from the Department of Housing and Community Development to begin preparing to apply for this funding and will do so as the state moves forward with the application process.

Adult Protective Services (APS)-provides funding to the Home Safe Pilot Program, a homelessness demonstration grant program for victims of elder and dependent adult abuse and neglect served by county-run APS. The proposed one-time funding would allow approximately 15 county APS programs to demonstrate over three years how providing short-term housing crisis intervention can help reduce the incidence and risk of homelessness among California's older and dependent adults.

- Aging and Adult Services would like to be a pilot APS Home Safe county. It anticipates applying for $1 million in funding, which would require a dollar-for-dollar match from the County. The Division plans to use County funds that already cover residual APS costs not funded by Medicaid funds to be able to draw down State APS Home Safe dollars.

<u>HUMAN SERVICES AGENCY</u>

2011 Realignment Revenues-approximately 62 percent of this revenue source funds Child Welfare Services (CWS). Of total funds received, 52.8 percent is allocated to CWS to cover a portion of their program activities. The May Revision estimates an increase in the sales tax growth rate from what was proposed in the January Budget.

- The Department estimates that increased sales tax growth rates for both 2017-18 and 2018-19 should result in the receipt of approximately $2.2 million over the two-year time frame allowing the Department to continue providing clients with the same level of service.

1991 Realignment and VLF Revenues-this funding source pays for various programs provided by HSA. The May Revision does not increase projections for 2017-18 sales tax revenues from the January Budget, but does project a 1.26 percent increase in 2018-19 of 1.26 percent. VLF growth projections are slightly lower for 2017-18 and remain flat for 2018-19.

- HSA estimates that it will only receive $181,000 in Caseload Growth funding.

Medi-Cal Administration-includes an increase in county administration funding with adjustments to current levels based on the Consumer Price Index of 2.89 percent. This brings the total State administration budget to $2.12 billion.

- The Department anticipates that Medi-Cal spending will continue to increase while County caseloads remain flat.

Going forward, the State is working with counties to develop a new yearly allocation funding methodology that addresses both caseloads and expenditures. They will no longer reallocate unspent funds to counties that overspend their allocation. Instead, the State is proposing to take $11 million off the top and divide it among six (6) historic over spenders as a one-time allocation bump to their base funding.

- ➢ It is estimated that this one-time allocation bump will be about $2.3 million in funding to the County.

CalWORKs (Single Allocation)-funding provided by the state to counties to administer the CalWORKs program. The May Revision includes an increase of $55.8 million TANF for the Single Allocation in 2018-19, essentially restoring the proposed cut that was included in the January budget proposal and reflecting a new budget methodology for the eligibility administration component of Single Allocation. This measure was introduced to mitigate the fluctuation in funding levels counties experience from year-to-year due to declining caseloads. The methodology establishes a fixed-base funding level that adjusts only if there is a caseload variance of 5 percent in either direction. The increase is offset by a $4 million decrease to the employment services component due to declining caseloads, resulting in a net increase of $51.8 million.

- ➢ HSA's portion of the increase is $430,000.

CalWORKs (Homeless Assistance Program)-includes $8.1 million statewide to increase the daily rate for temporary assistance to families experiencing homelessness from $65 to $85 dollars per day for up to 16 days.

- ➢ The proposed funding increase will add $80,000 to the Department's Motel Voucher Program budget and help it to keep costs flat.

CalWORKs (Housing Support Program)-proposes an additional $24.2 million in additional funding in FY 2018-19 to help CalWORKs families secure permanent housing by allowing counties to provide move-in assistance, temporary rental subsidies, and case management.

- ➢ HSA has received $3 million in funding over the last two years for this program and it is projecting to spend all the funds by the end of the fiscal year. The Department intends to reapply for funding in FY 2018-19 and anticipates its funding will remain flat.

The May Revision also includes an additional augmentation in FY 2019-20 to increase total funding for the program from $47 million to $95 million annually; however, details have not yet been provided by the Administration.

- ➢ The Department plans to invest resources to develop a plan to access this increased ongoing funding opportunity.

CALFRESH-estimates that caseloads statewide will decrease at a rate of 2.2 percent, but not as quickly as estimated in the January Budget. The January Budget also assumed an additional small decrease in caseload due to the anticipated reinstatement of Able-Bodied Adults Without Dependents (ABAWD) work requirements during the budget year, which has been modified to only account for a caseload decrease across the state in three counties that will lose their ABAWD waiver in September 2018: San Francisco, Santa Clara and San Mateo. The CalFresh Employment and Training Program will be impacted by the elimination of the ABAWD waiver, but details are not yet clear.

- ➢ Based on past allocations, the Department is estimating to receive $6.5 million (state and federal combined), up 4.9 percent from what was proposed in the January budget.

Children and Family Services (CFS)-includes an increase of $49.5 million State General Fund in 2017-18 and $56 million in 2018-19 statewide. However, County CFS caseloads (e.g., foster care and adoption programs) continue to decline. The May Revision also provides an increase of $2.5 million statewide for county workload associated with the implementation of the Level of Care (LOC)

Assessment tool, which should help to determine the rate level for Resource Families.

- The Department expects to be flat funding in 2018-19, and is unclear as to how LOC funding will be allocated to make an assessment regarding the potential impacts to caseload and placement changes at this time.

PUBLIC SAFETY

AB 109 Public Safety Realignment-updates revenue expectations for 2011 Realignment public safety programs (AB 109) and assumes that for 2017-18 base revenues will remain at $1.241 billion statewide and that growth funds will increase from $84.3 million to $87 million. The 2011 Public Safety Realignment growth funds are still subject to change because they are not finalized until the fall.

Juvenile Justice funding-shows an overall increase of $3.2 million, or $13.3 million, statewide to the juvenile justice funding subaccount from the January estimate of $10.3 million.

- Probation is estimating a yet-to-be determined increase in funding for JJCPA, JPCF and YOBG.

SB 678-includes an increase of $2.9 million from the January proposal to $109.3 million in 2018-19.

- Probation anticipates receiving approximately $200,000 in increased funding in FY 2018-19.

Law Enforcement Training-restores proposed expenditure reductions of $17.3 million for Peace Officer Standards and Training (POST), and the Standards and Training for Corrections (STC) programs. These programs deliver ongoing training and provide critical knowledge and skills necessary to render high quality law enforcement services.

- The Sheriff's Office receives approximately $150,000 annually from this funding source to train an average of 536 officer annually.

MANDATE REIMBURSEMENT

Mandate Debt Reimbursement to Local Agencies-proposes to repay local agencies for the costs of providing certain mandates between 2004 and 2011, which have since expired or been repealed. The proposed allocation totals $282.2 million plus interest. Most of the funds, over $250 million, are to pay debt related to AB 3632 mandates, which required certain services for seriously emotionally disturbed children. These services were previously provided by counties but were shifted to schools pursuant to federal program requirements

- The repayment to BHRS is estimated at $7.4 million, which has been accrued during this time waiting for payment.

To date, the State owes local agencies approximately $1.04 billion statewide for mandate services provided. The debts derive from two circumstances: from when the State suspends the mandate, making them optional but keeping the statutes on the books, and from a mandate that is repealed entirely. The May Revision proposes to pay all the debt related to 14 mandates that have been repealed entirely, but did not specify which ones. The debt owed for suspended mandates remains outstanding.

- To-date, the County is owed approximately $25.1 million in mandate reimbursements.

FISCAL IMPACT:

Despite an estimated State General Fund surplus of approximately $8 billion statewide, the May Revision continues to hold most state funded programs and services at same level of funding as in

FY 2017-18, and new funding proposals to target the growing homelessness crisis are one-time in nature. To that end, the County will be closely monitoring potential funding opportunities through the NPLH, Home Safe and mentally ill outreach and treatment proposals. The County is also expected to receive approximately $7.4 million in AB 3632 reimbursement funding for services provided through this program between 2004 and 2011. Furthermore, despite receipt of 1991 Realignment funding and the standing IHSS MOE agreement, it is expected that growing IHSS program and administration costs will continue to outpace available revenues. Thus, estimates are the cost of the IHSS MOE to be funded outside of 1991 Realignment to grow from $3.6 million in FY 17-18 to $5.5 million in FY 18-19, and that the County’s Realignment Trust Fund will be depleted by April 2023. Finally, the County will need to remain vigilant on newly proposed Administration efforts to review MHSA funding and will have four years to repay between $5.0 to $6.0 million in mental health reimbursement funding as a result of the findings of a 2014 audit of county mental health services billing practices.