OVERVIEW OF GOVERNOR'S FY 2018-19 PROPOSED BUDGET

COUNTY ADMINISTRATIVE OFFICE JANUARY 22, 2018

On January 10, 2018, the Governor released his proposed budget for the fiscal year beginning July 1, 2018. The $190 billion spending plan focuses on building reserves, increasing funding to schools and community colleges, and supporting some new infrastructure projects. Proposals include:

- **Depositing an additional $5 billion into the rainy-day reserve**. Proposition 2 (2014) established a constitutional goal of reserving 10% of annual tax revenue in a rainy-day fund. The Governor's spending plan adds an additional $1.5 billion as required under Proposition 2, and proposes an additional discretionary deposit of $3.5 billion, bringing the total balance to $13.5 billion and effectively achieving the 10% constitutional target. The State also has $2.3 billion in discretionary reserves that can be used for any purpose. Citing that the current economic expansion has already matched the longest in modern history, the Governor asserts the additional reserves are needed to soften the magnitude of cuts in the next recession.
- **Increases spending on education**. The Governor's proposal provides $6.3 billion in increased spending under proposition 98 (1988). The increased spending fulfills formulaic requirements to increase spending as revenues rise. The spending is targeted to K-12 schools ($2.9 billion), community college apportionments ($396 million), creation of a new high school technical education program ($212 million), a new online community college ($120 million) targeting working adults, and funding ($70 million) for low-performing school districts flagged for improvement under the State's new accountability system.
- **Augments infrastructure spending**. The spending plan proposes $375 million for design and construction of five trial courts, $136 million for facilities improvements at State correctional facilities, and adds one-time funding for various other State infrastructure needs.

The Governor's spending proposals are made possible by continued economic growth and positive revenue results. The Governor, however, points out that if the current recovery extends into next fiscal year, it will become the longest in modern history. This fact combined with uncertainty at the federal level over policy changes warrants a cautious approach to budgeting and avoidance of new ongoing commitments. In May, the Governor will update revenue estimates and incorporate known changes in federal programs as part of the "May Revision" while the Legislature debates its own spending priorities.

Potential Impacts to Monterey County of Monterey

Enactment of the annual State budget is a dynamic process involving significant deliberation in both houses of the Legislature and culminating in outcomes that often vary significantly from the initial January budget proposal. Nevertheless, departments provided preliminary statements (provided below) of potential impacts if proposals are enacted in their current form. Staff will be monitoring these budget developments over the next six months and will advise the Board as additional information becomes available. To the extent impacts can be ascertained during the County's upcoming budget process, staff will incorporate changes into the recommended budget for discussion during the annual budget hearings.

Health and Human Services

- Realignment revenue sources continue to increase, including estimated growth of 3.8% in 1991 Realignment sales tax revenue, 4.2% for 1991 Realignment vehicle license fee revenue, and 4.3% for 2011 Realignment sales tax revenue.

- The Governor's Office estimates In-Home Supportive Services (IHSS) costs to grow 13% (statewide) next fiscal year due to increased caseloads, increasing hours per case, wage increases, and enhanced sick leave benefits. Social Services plans to use the growth in realignment revenue to help offset higher IHSS costs.

- Medicaid funding is expected to increase $54.8 million statewide, which translates to an additional $548,000 to assist Monterey County with program administration.

- Due to declining caseload, statewide funding for CalWORKS decreases by $55 million ($550,000 for Monterey County).

- The budget proposal includes a new pilot project to help first-time parents in the CalWORKS program secure employment and support the healthy development of young children living in poverty. Monterey County expects to receive $267,000 under the pilot program.

- Statewide funding for CalFresh is expected to decrease $66.6 million ($694,400 for Monterey County) due to declining caseload. *(The Department of Social Services points out that federal funds are available to match County funding beyond the State allocation).*

- The Governor's budget proposal includes continued redirection of 1991 Health Realignment monies for social services programs, potentially resulting in a loss of $363,800 in public health realignment monies and a loss of $200,000 to $330,000 in mental health realignment revenue.

- As part of the Affordable Care Act (ACA), the Children Health Insurance Program (CHIP) qualifies for an enhanced federal financial participation (FFP) rate of 88% (compared to the prior rate of 65%). In the event the FFP reverts to 65%, the program would lose an estimated $1.1 million in revenue.

- The spending plan proposes an additional $232 million statewide in Proposition 56 (2016) tobacco tax allocations for dental and physician services. The California Department of Health Care Services plans to study the effects of increased funding on access, with intent to remove funding if results are not favorable.

- Under AB 85, the State continues to redirect approximately $8.9 million in estimated indigent health care savings in Monterey County to social services. In November 2017, staff recommended both one-time and ongoing solutions. Solutions will be needed to close next fiscal year's remaining $4.4 million public health budget gap as part of the next budget process.

Public Safety

- Public safety realignment funding continues to grow, with an additional $318 million statewide expected for FY 2018-19, subject to final State calculations of sales tax and vehicle license fees in the fall of 2018.

- The budget proposal continues Community Corrections Partnership (CCP) planning grants to support continued AB 109 implementation efforts, with level funding of $150,000 for Monterey County.

- The budget continues SB 678 grant levels at or above existing levels to support evidence-based prevention and intervention efforts to reduce the number of adult felony probationers re-committed to state prison. Monterey County currently receives a grant award of $200,000.

- The proposed budget is expected to increase Post Release Community Supervision funding from the current level of $174,250 to $317,750.

- The budget proposes returning the maximum age of certain juvenile court commitments housed by the State to age 25 (the current age is 23), citing the benefits of providing rehabilitative programming for young offenders. This could increase County costs by a yet-to-be-determined amount.

- The budget proposes to limit the California Witness relocation and Assistance program funding to $10,000 per witness. For comparison, the District Attorney states it has averaged $26,000 per witness in the past and the change in funding could create a budget shortfall of approximately $300,000 annually.

- The Public Defender anticipates additional costs under SB 395 (2017), which requires law enforcement to provide an attorney to minors age 15 and under prior to waiving Miranda Rights.

Other County Services

- The budget proposes $5 million annually for the next three years for a new initiative to assist County assessors in the maintenance and equalization of property tax rolls. Details are to be provided in a proposed statutory framework.