



Monterey County

Board Order

168 West Alisal Street,
1st Floor
Salinas, CA 93901
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Upon motion of Supervisor Potter, seconded by Supervisor Armenta and carried by those members present, the Board of Supervisors hereby:

Received a report on the Governor's 2015-16 Proposed Budget

PASSED AND ADOPTED on this 3rd day of February 2015, by the following vote, to wit:

AYES: Supervisors Armenta, Phillips, Salinas, Parker and Potter

NOES: None

ABSENT: None

I, Gail T. Borkowski, Clerk of the Board of Supervisors of the County of Monterey, State of California, hereby certify that the foregoing is a true copy of an original order of said Board of Supervisors duly made and entered in the minutes thereof of Minute Book 77 for the meeting on February 3, 2015.

Dated: February 3, 2015
File ID: 15-0077

Gail T. Borkowski, Clerk of the Board of Supervisors
County of Monterey, State of California

By Denise Hancock
Deputy

**County of Monterey**

Report on the Governor's FY 2015-16 Proposed Budget

On January 9, 2015 Governor Edmund G. Brown unveiled his FY 2015-16 budget plan. At the state Capitol cautiously and ever mindful that the next economic downturn could be right around the corner, Brown released a record \$113 billion spending plan. At the unveiling the Governor said "We saw the boom and the bust, and I'm trying to avoid that," undoubtedly he will continue to work in the coming months to pass the final version in June later this year.

The budget plan includes higher revenue projections, and spending increases. Gov. Brown is committed to paying down debt, and saving for a rainy day. By law the Governor must use much of the new revenue on K-14 education and community colleges, as a result Brown did not propose any new programs, but instead focused on the growing costs. "It's precariously balanced, and it's going to get even more challenging as we get down the road," Brown said.

The Governor's plan identifies cost pressures and budget risks in health and human services programs, and new program commitments outside of Proposition 98 are limited. The Governor is proposing to pay local governments \$533 million for pre-2004 mandate debt, as required by the current year budget. \$390 million or about 73 percent of those funds would go to counties. Governor Brown has proposed an increase of \$150 million for county Medi-Cal administration. He has also made a number of proposals and outlined factors that together could affect counties' Maintenance of Effort (MOE) requirement for In-Home Support Services. SB 678 has been calculated at \$125 million for 2015-16 for county probation efforts, to provide incentives for those on probation from reoffending.

To help govern the dissolution of redevelopment agencies, Governor Brown proposes new laws which by streamlining and clarifying various ambiguities in the statutes he hopes will minimize the loss of property tax revenues.

On Education the Governor is proposing an increase of \$2.5 billion from mostly from Proposition 98, that's an increase of \$2,600 per student, including \$1 billion for community colleges. The Governor said at the unveiling that the state has already made massive financial commitments to health and human services, and education. Brown provided a \$120 million boost in his budget proposal to both the University of California (UC), and California State University (CSU) systems in addition to the \$25 million one-time money for degree completion efforts. That is however not as much as they had requested. Brown defended his proposal, saying that's "not chump change" due to the fact that other departments received no increases.



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Report on the Governor's FY 2015-16 Proposed Budget

General Fund

The budget package proposes total spending of \$158.8 billion, an increase of 1 percent over revised levels for 2014-15. That's comprised of \$113.3 billion in the General Fund and \$45.5 billion from special funds. Recent strong economic data and a surge in state income tax collections in December lead us to conclude that the State will likely collect more tax revenue in 2014-15 than the administration now estimates.

The General Fund's three major taxes collectively will increase by over \$5.6 billion in 2015-16 to a level that is more than \$1 billion above administration estimates from last June.

General Fund spending for Medi-Cal, the state's primary health care program for low-income people, is up by hundreds of millions of dollars. To account for an increase in caseload and continued system functionality problems, the Governor has proposed an increase of \$150 million for county Medi-Cal administration. In this new state spending plan, the general fund will increase about by 5 percent from the current \$107.4 billion budget, reflecting California's current economic momentum.

General Fund Revenue Sources (Dollars in Millions)

	2014-15	2015-16	Change from 2014-15	
			Dollar	Percent
Personal Income Tax	\$71,699	\$75,213	\$3,514	4.9%
Sales and Use Tax	\$23,438	\$25,166	\$1,728	7.4%
Corporate Tax	\$9,618	\$10,173	\$555	5.8%
Insurance Tax	\$2,490	\$2,531	\$41	1.6%
Alcohol Tax & Fees	\$367	\$374	\$7	1.9%
Tobacco Tax	\$84	\$82	(\$2)	-2.4%
Motor Vehicle Tax	\$20	\$21	\$1	5.0%
Other	\$1,932	\$1,040	(\$892)	-46.2%
Subtotal	\$109,648	\$114,600	\$4,952	4.5%
Transfers to Rainy Day Fund	(\$1,606)	(\$1,220)	\$386	-24.0%
Totals	\$108,042	\$113,380	\$5,338	4.9%

Governor's Budget General Fund Summary

(Dollars in Millions) 2014-15 2015-16

Prior-year fund balance	\$5,100	\$1,423
Revenues and transfers	\$108,042	\$113,380
Total resources available	\$113,142	\$114,803
Expenditures	\$111,719	\$113,298
Ending fund balance	\$1,423	\$1,505
Encumbrances	\$971	\$971
Budget Stabilization Account (Rainy-Day Fund)	\$1,606	\$2,826
Special Fund for Economic Uncertainties	\$452	\$534

Governor's Budget Expenditures (Dollars in Millions)

	2014-15	2015-16	Change from 2014-15	
			Dollar	Percent
General Fund [a]	\$111,720	\$113,298	\$1,578	1.4%
Special Funds	\$45,559	\$45,520	(\$39)	-0.1%
Budget Totals	\$157,279	\$158,818	\$1,539	1.0%
Selected bond funds	\$5,252	\$5,885	\$633	12.1%
Federal Funds	\$96,505	\$100,376	\$3,871	4.0%



Major features of the governor's Proposed Budget 2015-16

- \$3.4 billion in total reserves.
 - Includes \$2.8 billion in the Budget Stabilization Account and \$534 million in the state's traditional budget reserve.
- Pays down state debt by over \$5.4 billion
 - Including, paying back \$533 million to cities and counties for mandates under 2014-15 budget "trigger."
- Provides over \$5.6 billion in education assistance.
 - Including \$4 billion for K-12 schools
- Provides increased funding in Health and Human Services
 - Including an increase in Medi-Cal assistance.
 - Restores IHSS hours
 - Funds previously approved CalWORKs grant increases.
- \$2.7 billion for Environmental and Natural Resources.
 - Including \$1.1 billion flood prevention bond
 - \$532.5 million Prop-1 bond
 - \$115 for drought response

General Fund Expenditures by Agency

(Dollars in Millions)

	2014-15	2015-16	Change from 2014-15	
			Dollar	Percent
Legislative, Judicial, Executive	\$3,007	\$3,131	\$124	4.12%
Business, Consumer Services & Housing	\$839	\$639	(\$200)	-23.84%
Transportation	\$158	\$237	\$79	50.00%
Natural Resources	\$2,497	\$2,561	\$64	2.56%
Environmental Protection	\$78	\$68	(\$10)	-12.82%
Health and Human Services	\$30,490	\$31,929	\$1,439	4.72%
Corrections and Rehabilitation	\$9,995	\$10,160	\$165	1.65%
K-12 Education	\$47,121	\$47,173	\$52	0.11%
Higher Education	\$12,947	\$14,063	\$1,116	8.62%
Labor and Workforce Development	\$282	\$265	(\$17)	-6.03%
Government Operations	\$730	\$701	(\$29)	-3.97%
General Government:				
Non-Agency Departments	\$1,267	\$676	(\$591)	-46.65%
Tax Relief/Local Government	\$446	\$444	(\$2)	-0.45%
Statewide Expenditures	\$256	\$1,251	\$995	388.67%
Supplemental Payment to the Economic Recovery Bonds	\$1,606	\$0	(\$1,606)	-100 %
Total	\$111,719	\$113,298	\$1,579	1.41%



Education

Proposition 98

The California Community Colleges (CCC), subsidized preschool, and various other state education programs are governed largely by Proposition 98, passed by voters in 1988. This measure established a minimum funding guarantee; both general fund dollars and local property tax revenue are used toward meeting the minimum guarantee. The proposed budget includes substantial spending, mostly from Prop 98, a total of \$7.8 billion.

Redevelopment Dissolution Process

The Governor's proposal to streamline the redevelopment dissolution process lacks clarity and there is obvious considerable work still required of the Department of Finance with their reviewing of the biannual Recognized Obligation Payment Schedules (ROPS). The Administration proposes to transition all successor agencies from a biannual ROPS process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board.

The Governor's proposal seeks to achieve the following objectives:

- Minimize the potential erosion of property tax residuals being returned to the local affected taxing entities (short and long term) while transition the state from detailed review of enforceable obligations to a streamlined process.
- Clarify and refine various provisions in statute to eliminate ambiguity, where appropriate, and make the statutes operate more successfully for all parties without rewarding previous questionable behavior.
- Maintain the expeditious wind-down of former RDA activities while adding new incentives for substantial compliance with the law.

Mandates

The Governor proposes to pay an additional \$533 million toward the pre-2004 mandate debt. Proposition 2, the Rainy Day Fund measure that voters approved in November, requires certain funds to be used to pay down certain debts. The pre-2004 mandate debt is specifically included as an allowable expense for those purposes. Also the Governor seeks to pay back the cost for Public Records Act mandate, about \$9.6 million. Monterey County stands to receive about \$8,786,580, however the Governor is also considering suspending, Interagency Child Abuse and Neglect Investigation Reports mandate (ICAN)/ this does not allow any flexibility for local agencies to modify these requirements to better suit local situations.



Economic Recovery Bonds "Triple Flip"

The Governor proposed budget, seeks to pay off the last of the Economic Recovery Bonds, these bonds are funded by the famously referenced "triple flip." The triple flip approved by voters as Proposition 57, dedicates a quarter-cent of local sales tax to paying off the state's bonds and reimburses them with similar amount of property sale taxes. As the trip flip ends, the quarter-cent will automatically shift back to counties and cities.

Administration of Justice

Senate Bill 1020-Public Safety Realignment

Juvenile Justice Realignment and Public Safety realignment formulas appear to remain unchanged. The State continues to support a county-based decision making model allowing for local control, flexibility and program incentives. State Administration acknowledges establishing a permanent AB109 allocation formula would be premature at this time. Counties' are still in the process of implementing evidence-based practices in their respective counties.

The Public Safety Realignment FY 2015-16 budget reflects a statewide Community Corrections allocation increase of \$127.6 million and a projected \$14 million decrease in growth funds for Community Corrections. Overall, the FY 2015-16 budget for 2011 Public Safety Realignment is stable.

The Community Correction Partnership (CCP) planning grant funds will be issued for another year. The Probation Department's grant amount would be \$150,000 in FY 2015-16.

California Community Corrections Performance Incentive Act of 2009 SB 678 Funding

SB678 established a system of performance-based funding that shares state General Fund savings with County Probation Departments when they demonstrate success in reducing the number of adult felony probationers re-committed to state prison because of new crimes or violating the terms of probation.

The Governor's proposed FY 2015-16 SB678 budget of \$125 million contains the Probation Department allocation of \$200,000, the same amount as last fiscal year.

The Governor's proposed budget includes an additional \$16 million in funding that will be directed to county probation departments to cover costs associated with the increase in post-release community supervision population as the result of the two measures implemented in January 2015.



Natural Resources

Emergency Drought Response

The Governor's Budget also proposes, should existing drought conditions continue through next year, \$115 million (\$93.5 million General Fund) on a one-time basis to continue the critical drought response efforts by various state departments and offices.

The Monterey County Water Recourses Agency (WRA) is working with the County's legislative Committee with regards to the Governor's Water Bond. The Agency is looking for approximately \$50 million in funding from this Bond. However, there has been no confirmation that the Agency will in fact receive any funding from it. In addition, the Agency is seeking funding under the Governor's Action Plan for sustainable groundwater management policies, but until the Agency is CASGEM compliant, therefore currently the Agency is not eligible for these funds.

Health and Human Services

The Governor's Proposed 2015-16 Budget recommends only minor changes from the 2014-2015 Budget in that it again spares the Department of Social Services from any deep cuts that have been experienced through the great recession years. The governor proposes small increases/decreases in a number of Social Service programs that reflect caseload and workload increases. CalWORKs is proposed to increase by \$73 million (approximately 3% on a base of \$2.2 billion); CalFresh is slightly decreased by \$24.5 million or about 3.5% and Medi-Cal Administration has a current year increase \$150 million to help counties with manual processing issues related to the lack of functionality in the CALHEERS automated system for Covered California. Other items of interest include:

- **CalWORKs** - The CalWORKs Family Stabilization (\$30.3 million), Expanded Subsidized Employment (\$134 million), and Housing Support Programs (\$20 million) have been fully funded for the year. These program dollars will assist the department's efforts in locating employment, housing assistance and generally provide critical services to CalWORKs families so that barriers to employment can be mitigated.
- **In Home Support Services Program restoration of across the board cut in hours** - The Governor has proposed a restoration of hours for recipients of the IHSS program. During the recession years, the hours of services for recipients were reduced by 8%. Last July, a restoration of 1% was enacted so this proposal would fully restore the remaining 7% in prior year cuts. Given that counties have an MOE requirement in this program, the increase in paid hours will not increase the county fiscal obligation.
- **In Home Support Services Program overtime, wait time and travel time** - Under Federal Department of Labor regulations which were scheduled to take effect on January 1st, there was a new requirement for payment of overtime for



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over 40 hours per week worked by domestic workers. The Governor and the Legislature passed reforms as part last year's Budget Act which included payment of overtime, wait time, and travel time to be consistent with the new Federal requirements. These reforms also include limitations on overtime and weekly assignment of IHSS hours. At the current time, Federal courts have overturned the Department of Labor regulations. Since the State law only becomes effective when the Federal regulation is effective, the changes to the IHSS program for overtime, wait time and travel time are suspended.

Ongoing changes that are affirmed in the Governor's budget proposal that will affect our local County General fund budget include a projected 2.28 percent COLA in Foster Care/Adoptions Assistance payments, the 3.5% increase in the IHSS Maintenance of Effort mentioned above and the phase-out over three years of the CalFresh match waiver.

Highway Use Tax Account (HUTA)

The proposed FY 2015-16 budget, projects a continued decrease in gas tax revenues to HUTA, which is the sole source of state funding for county road maintenance. These revenues are anticipated to decrease by 23.3 percent, from \$1.89 billion in FY 2014-15 to \$1.45 billion in FY 2015-16. CSAC will distribute county-by-county estimates of HUTA revenues as soon as the shared revenues budget detail is published

"There are thousands of competing needs in California," said CSAC President Vito Chiesa, as history repeats itself, this tells us that the current strength of state revenues, supported by a strong stock market last year, may not continue for too long. The Governor said, "The budget remains vulnerable to downturns that may re-emerge with little or no warning." This proposed budget continues building reserves and paying down state debts, these remain important goals in this Administrations proposed FY 2015-16 budget.