



Report on the Governor's FY 2016-17 Proposed Budget

On Thursday January 7, 2016, Governor Edmund G. Brown unveiled his FY 2016-17 proposed budget. With current economic conditions which continue to push revenues higher, Governor Brown shared a positive budget proposal for counties while at the same time cautioning lawmakers about the inevitable economic downturn approaching California. This budget package proposes an increased general fund spending plan of \$122.6 billion, that is 5.6 percent more than the revised FY 15-16 budget plan mostly due to higher than expected capital gains. The proposed budget uses most of the constitutionally required increase in Proposition 98 spending for school districts. After satisfying the requirements for higher reserves and spending on education, the Governor proposes significant extra reserve deposits. He then uses the remaining money for new spending commitments, primarily one-time infrastructure spending. The Governor sets aside funds to address the two biggest liabilities facing the state which are: infrastructure and state retiree benefits. The Budget also sets aside money to pay for potential increases in employee compensation.

One of the Governor's priorities in this budget is to increase reserves. Under the Governor's plan, by the end of FY 2016-17 reserves would increase by \$10.2 billion, consisting of \$2.2 billion in the Special Fund for Economic Uncertainties (SFEU) and \$8 billion in the Budget Stabilization Account (BSA), the state's constitutional rainy day fund.

The economy is finishing its seventh year of expansion, which as history tells us is two years longer than the average recovery. California may be reaching the peak of the current economic cycle. The Governor therefore urges lawmakers to prepare for the next recession, even though the timing is uncertain.

"The Governor's budget proposal recognizes that while revenue is up, there are still economic uncertainties and being prudent with the resources we have now is the key to long-term stability," said CSAC Executive Director Matt Cate



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The budget includes \$200 million in new ongoing funding to implement recommendations from the Board of Governors Task Force on workforce, job creation, and a stronger economy to help California more readily bounce back from the next recession through workforce training and education transition assistance. The budget also includes \$48 million in ongoing funding to support the Carrier Technical Education (CTE) Pathways Program.

2016-17 Governor's Budget

Forecast of Key General Fund Revenues

Reconciliation with the 2015 Budget Act

(Dollars in Millions)

Revenues

The FY 2016-17 Governor's Budget Summary states that taxes on wages and capital gains are coming in higher than the administration's expectations, as of last May. Wages and capital gains income are taxed via California's personal income tax (PIT), which makes up around two-thirds of General Fund revenues. The PIT is responsible for virtually the entire change in the administration's key tax projections in FY 2015-16 and FY 2016-17. However we must keep in mind, as the Governor points out during a moderate recession, revenue losses to the General Fund will easily total \$55 billion over three years. The current fiscal year is the last one with the full revenues of Proposition 30. As it was intended, this measure has provided the state with increased resources on a short-term basis to give the economy time to recover.

Source	2015 Budget Act	2016-17 Proposed	Change from Budget Act	
			Dollar	Percent
Fiscal 14-15: Preliminary				
Personal Income Tax	\$ 75,384	\$ 76,079	\$ 695	0.9%
Sales and Use Tax	\$ 23,684	\$ 23,709	\$ 25	0.1%
Corporate Tax	\$ 9,809	\$ 9,007	\$ (802)	-8.2%
Insurance Tax	\$ 2,486	\$ 2,445	\$ (41)	-1.6%
Totals	\$ 111,363	\$ 111,240	\$ (123)	-0.1%
FISCAL 15-16				
Personal Income Tax	\$ 77,700	\$ 81,354	\$ 3,654	4.7%
Sales and Use Tax	\$ 25,240	\$ 25,246	\$ 6	0.0%
Corporate Tax	\$ 10,342	\$ 10,304	\$ (38)	-0.4%
Insurance Tax	\$ 2,556	\$ 2,493	\$ (63)	-2.5%
Totals	\$ 115,838	\$ 119,397	\$3,559	3.1%
FISCAL 16-17				
Personal Income Tax	\$ 81,652	\$ 83,841	\$ 2,189	2.7%
Sales and Use Tax	\$ 25,761	\$ 25,942	\$ 181	0.7%
Corporate Tax	\$ 11,073	\$ 10,956	\$ (117)	-1.1%
Insurance Tax	\$ 2,635	\$ 2,546	\$ (89)	-3.4%
Totals	\$ 121,121	\$ 123,285	\$2,164	1.8%

Three Year Total \$5,600

Overall this budget package proposes an increased spending plan of \$168 billion, comprised of \$122.9 billion in General Fund and \$45.1 billion from special funds. The



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administration's revised revenue estimates for FY 2015-16 and FY 2016-17 are up compared to the previous year's budget act by more than \$11.9 billion.

Reserves

The Governor proposes contributions to both state budget reserves: the Special Fund for Economic Uncertainties (SFEU), the state's discretionary reserve, and the Budget Stabilization Account (BSA), the state's constitutional rainy day fund. The proposed budget increases the balance of the SFEU by \$1.1 billion over the level assumed in the FY 2015-16 budget; by the end of FY 2016-17 reserves would total \$10.2 billion, consisting of \$2.2 billion in the SFEU and \$8 billion in the BSA.

Infrastructure

In addition to increasing reserves, the Governor's plan includes funding for statewide construction and repair/maintenance, of state office buildings, the state highway system, local roads, university campuses, and county jails using both General Fund and special fund sources. Governor Brown allocates most other discretionary resources to one-time infrastructure spending for renovating Sacramento's aged and inadequate state office infrastructure.

The proposed budget includes an \$879 million commitment from the General Fund to accelerate the repayment of transportation projects loans. The Budget also includes \$807 million (\$500 million General Fund) for deferred maintenance of levees, state parks, universities, community colleges, prisons, state hospitals, and other state facilities.

Administration's General Fund Summary				
	<i>(in Millions)</i>	2014-15	2015-16	2016-17
General Fund * Condition		Revised	Revised	Proposed
Prior-year fund balance		\$ 5,356	\$ 3,699	\$ 5,172
Revenues and transfers		\$ 111,318	\$ 117,537	\$ 120,633
Expenditures		\$ 112,974	\$ 116,064	\$ 122,609
Ending fund balance		\$ 3,700	\$ 5,172	\$ 3,196
Encumbrances		\$ 966	\$ 966	\$ 966
Reserve Balances at the End of the Fiscal Year				
SFEU balance		\$ 2,733	\$ 4,206	\$ 2,230
BSA balance		\$ 1,606	\$ 4,455	\$ 8,011
Total Reserves		\$ 4,339	\$ 8,661	\$ 10,241
Revenues and Transfers *				
Personal income taxes		\$ 76,079	\$ 81,354	\$ 83,841
Sales and use taxes		\$ 23,709	\$ 25,246	\$ 25,942
Corporation taxes		\$ 9,007	\$ 10,304	\$ 10,956
Other revenues		\$ 4,503	\$ 4,562	\$ 4,340
Subtotal, Revenues		\$ 113,298	\$ 121,466	\$ 125,079
Transfers to BSA		\$ 1,606	\$ 2,849	\$ 3,556
Other transfers (net)		\$ 374	\$ 1,080	\$ 889
Totals		\$ 111,318	\$ 117,537	\$ 120,634
Spending				
Proposition 98 (General Fund)		\$ 49,554	\$ 49,992	\$ 50,972
Non-Proposition		\$ 63,420	\$ 66,072	\$ 71,637
Totals		\$ 112,974	\$ 116,064	\$ 122,609

* Includes Education Protection Account created by Proposition 30 (2012).
SFEU = Special Fund for Economic Uncertainties and BSA = Budget Stabilization Account.



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Although state tax revenues continue to grow modestly with the improving economy, Governor Brown warns of a looming economic decline. The Governor spent his press conference urging restraint to avoid even more drastic cuts in the coming years. With California's complicated budget, there will continue to be fluctuations in spending, with cost pressures from the federal government and ballot initiatives.

Summary of Potential Impacts to Monterey County

After an preliminary review of the Governor's January proposal, departments provided input on items that may have an impact on the County of Monterey's budget. Over the course of the next 6 months, the CAO's office will work with departments to monitor the state budget development and report back with any potential implication to the County of Monterey.

Education

The new Strong Workforce Program would require community colleges to collaborate with education, business, labor, and civic groups to develop regional plans for career technical education (CTE). The regions would be based on existing planning boundaries for the federal Workforce Innovation and Opportunity Act (WIOA). The increase in WIOA federal funding will be distributed by the State to local Workforce Development Boards. For Monterey County this would represent about a \$250,000 increase in funding.

Health Services

California stands to lose with the possible expiration of the Managed Care Organization (MCO) tax on June 30 of this year. The expiration of the 3.9% tax on MCO's, is expected to create a \$1.3 billion hole in the state's General fund, resulting in cuts to multiple programs. Depending on how the Central California Alliance for Health (CCAH) chooses to disburse its tax amongst its members with Monterey County being one of them, there may be a reduction in the level of reimbursement amounts of 10% to the County. In the past, CCAH has not reduced rates by 10% when Medi-cal rates were reduced at the state level. However the county is now on capitation, which may result in Monterey County being treated like other CCAH members.

Other Potential Impacts include:

- Undocumented children up to age 19 will now be eligible for full scope Medi-Cal at 100% reimbursement.
- AB 85 FY 2013-14 takeback of \$2.3 million may be returned to our county in FY 2016-17.



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- California's 1115 Waiver Renewal, was approved by the Centers for Medicare and Medicaid Services and it provides an opportunity for funding of systems development for continuum of care which will benefit NMC, MCHD clinics and behavioral health.
- Medical Marijuana Regulation and Safety Act may bring in permit and use fees to environmental health if they serve as local regulator. However it's too early in process to determine this impact.
- Drug Medi-Cal waiver will allow reimbursement for residential services which currently are funded by grant money and a larger percentage of the population will be eligible for substance use disorder services.

General Fund Expenditures by Agency

(Dollars in Millions)

	2015-16	2016-17	Change from 2014-15	
			Dollar	Percent
Legislative, Judicial, Executive	\$3,227	\$3,330	\$103	3.2%
Business, Consumer Services & Housing	\$636	\$434	(\$202)	-31.8%
Transportation	\$267	\$222	(\$45)	-16.9%
Natural Resources	\$2,730	\$2,909	\$179	6.6%
Environmental Protection	\$325	(\$31)	(\$356)	-109.5%
Health and Human Services	\$31,666	\$33,742	\$2,076	6.6%
Corrections and Rehabilitation	\$10,276	\$10,620	\$344	3.3%
K-12 Education	\$49,859	\$51,230	\$1,371	2.7%
Higher Education	\$14,312	\$14,567	\$255	1.8%
Labor and Workforce Development	\$212	\$166	(\$46)	-21.7%
Government Operations	\$761	\$2,245	\$1,484	195.0%
General Government:				
Non-Agency Departments	\$711	\$729	\$18	2.5%
Tax Relief/Local Government	\$455	\$483	\$28	6.2%
Statewide Expenditures	<u>\$637</u>	<u>\$1,963</u>	<u>\$1,326</u>	<u>208.2%</u>
Total	\$116,074	\$122,609	\$6,535	5.6%

Social Services

The Governor's proposed FY 2016-17 budget proposes to augment programs where there are new program initiatives and/or caseload growth. Where there is a caseload decline in CalWORKs, funding levels are decreased. It does not include service level reductions; however, it also does not include any additional funding for the cost of doing business. There are no impacts on County General Fund Contributions that can be projected at this time. The CAO's office will continue to monitor this and report back when the state publishes its May.



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The governor proposes the following changes statewide:

- California Work Opportunity and Responsibility to Kids better known as CalWORKs is to decrease by \$106 million (approximately 5% on a base of \$2.0 billion) due to the decline in caseload;
- CalFresh otherwise known as the food stamp program, has a slight increase by \$20.9 million or about 3.3% due to a steady increase in caseload; and
- Medi-Cal Administration has a current year increase of \$169 million to address caseload growth and continue to assist counties with manual processing issues related to the lack of functionality in the California Healthcare Eligibility, Enrollment and Retention (CALHEERS) automated system for Covered California.
- **CalWORKs Family Stabilization, Expanded Subsidized Employment and Housing Support Programs**

The CalWORKs Family Stabilization (\$29.8 million), Expanded Subsidized Employment (\$134 million), and Housing Support Programs (\$35 million) have been funded at the same level as FY 2015-16. These program dollars assist the county'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 Supportive Services Program (IHSS)**
 - **Overtime, wait time and travel time**

The FY 2016-17 Budget includes implementation costs associated with the Federal Department of Labor regulations which are scheduled to be implemented on February 1, 2016. The Governor and the Legislature passed reforms as part of last year's Budget Act which includes 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. Local costs for IHSS are established through a maintenance of effort (MOE) requirement that will not be impacted by the additional payroll costs. It should be noted under existing law, each year the (MOE) increases by 3.5%.
 - **7% Service Restoration/Managed Care Organization (MCO) Tax**

The FY 2015-16 budget restored the 7% reduction in authorized service hours for one year, with future funding dependent upon the continuation of the MCO tax which is due to expire on June 30, 2016. The Governor's budget assumes passage of the MCO tax.
- **Child Welfare – Continuum of Care Reform (CCR) / AB403**

The proposed budget includes \$88.6 million for implementation of several components of the CCR effort that includes transition of group homes into Short Term Residential Treatment Centers (STRTCs) and movement of the youth placed in these homes to other placement settings.



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Existing Cost Drivers

The existing cost drivers that effect the County General Fund which are affirmed in the Governor's budget proposal includes:

- COLA's in Foster Care/Adoptions Assistance payments – projected to be 2.96%;
- The increase in the IHSS Maintenance of Effort – fixed at 3.5%; and
- The second year of the four-year phase-out of the CalFresh match waiver.

Elections

Proposition 47 permits offenders charged for certain types of property or drug crimes to seek a misdemeanor sentence. This will create a new pool of voters who were not previously eligible that may now wish to register for the first time or have their application to vote reconsidered. Given the proportion of Monterey County population and voters and the processing and verification time required for voter registration cards, this potentially will create an increased need for temporary staff.

The DMV's Motor Voter Program will integrate the voter registration process with the license application renewal process. The goal is to increase the number of registered voters and it is anticipated that additional time will be required to process and verify a higher volume of registration cards. While the impact of this new law is as of yet unknown, CAO's office will work with elections office to monitor DMV registrations closely and report back when the state publishes its May revision of the proposed Budget.

Road Fund

Under the Governor's proposed budget there is a potential positive impact to County's Road Fund. The Governor proposes placing a \$65 per vehicle charge on registered vehicles in the State (estimated 30.9 million vehicles) estimated to bring in an additional \$2 billion per year. In addition, existing revenue and reform measures such as Greenhouse Gas Reduction, Low Carbon Road Program, and Caltrans Reforms are anticipated to generate \$.6 billion per year. However at this time, we are unable to quantify how much the County would potentially receive from these initiatives.

However the County's Road Fund has experienced significant reductions in the Highway User Tax Allocation (HUTA) receipts over the past few years and this trend is projected to continue into FY 2016-17. Since FY 2013-14 HUTA funds have declined 33.8% over the last three years. The latest projections reflect HUTA receipts to further decline another \$750,006 or 8.23% to \$8,358,432 in FY 2016-17. The compounding consequence of reduced HUTA receipts into FY 2016-17 will result in significant operational impacts to the Road Fund if alternative funding is not identified. The CAO's office will work with RMA to monitor this issue closely and report back when the state publishes its May revision of the proposed Budget.



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SUMMARY

Major Features of the Governor's FY 2016-17 Proposed Budget

Revenues

- Increases revenue estimates by \$5.6 billion for FY 2014-15 through FY 2016-17 combined.

Reserves

- Makes required deposit of \$2.6 billion into rainy day reserve.
- Proposes extra deposit of \$2 billion into rainy day reserve.
- Increases discretionary reserve by \$1.1 billion. *

Infrastructure

- Proposes \$1.5 billion to replace and renovate state office buildings.
- Provides \$807 million (\$500 million non-Proposition 98 General Fund) for statewide deferred maintenance projects.
- Proposes \$250 million grant program for replacing or renovating county jails.
- Continues to propose transportation package of \$3.6 billion in annualized funding.

Education

- Augments LCFF by \$2.8 billion.
- Shifts \$1.7 billion from existing preschool programs into new preschool block grant.
- Provides \$1.2 billion for K-14 discretionary one-time purposes (counts against K-14 mandate backlog).
- Augments UC and CSU by a combined \$250 million.
- Designates \$200 million for new community college workforce program.

Health and Human Services

- Raises \$1.3 billion (on net) annually with restructured MCO tax, while reducing other taxes on affected health plans.
- Uses \$236 million from MCO tax to maintain restoration of IHSS service hours.
- Includes augmentations in DDS and SSI/SSP.

Other

- Proposes to allocate \$3.1 billion in cap-and-trade auction revenues.
- Meets Proposition 2 debt payment requirement (\$1.6 billion in FY 2016-17) by repaying special fund loans and other obligations.
- Sets aside \$350 million (including \$300 million General Fund) for 2016 collective bargaining process.
- Provides \$323 million (\$212 million General Fund) for various drought-related response activities.

* Amount by which the Special Fund for Economic Uncertainties grows relative to 2015-16 Budget Act.

LCFF = Local Control Funding Formula; MCO = managed care organization; DDS = Department of Developmental Services; IHSS = In-Home Supportive Services; and SSI/SSP = Supplemental Security Income/State Supplementary Payment.