



February 8, 2016

To: Nicholas E. Chiulos, Assistant County Administrative Officer

Fr: John E. Arriaga, JEA & Associates

Re: State Report

Budget Update

A week after the Governor released his 2016 proposed budget; the Legislative Analyst's Office (LAO) is recommending that state lawmakers budget carefully this year in preparation for the next recession – even as tax revenues continue to exceed expectations.

The LAO warns the state may very well be reaching the peak of this long economic expansion. Therefore, it's encouraging the Legislature to set a major target for reserves – although it suggests that if the Legislature does not want to put the money into the Proposition 2 rainy day fund created by voters, which is largely controlled by the governor, it could instead put the money into a different state budget reserve controlled to a greater degree by the Legislature.

The report states that even after building a larger budget reserve, there would likely be money available for new ongoing spending commitments, which is, of course, a top priority of the Legislature's majority Democrats.

Subsequently, the state controller's office released their monthly report stating that California budget revenues are now nearly \$400 million ahead of projections from the state's current spending plan passed last June.

In regards to the top two budget fixes: transportation and healthcare, that remains more unclear. Republicans in both Houses have remained united on not voting for any tax increases, and just last week, Senate Democrats lost a key vote with Senator Galgiani stating that she would not vote for the tax packages due to a tight upcoming election. However, stakeholders are optimistic that a compromise on the managed-care organization (MCO) tax will have the votes next week when it is heard in Senate Health.

Legislative Update

On January 29th, hundreds of two-year bills died in both Houses, as the deadline passed for each house to pass bills introduced last year. The policy committees have taken a hiatus as the scurrying begins to meet the February 19th deadline to introduce new bills. The County and JEA & Associates have been reviewing and identifying bills as they are introduced and will bring them to the Legislative Committee at a later time to take positions.

Marijuana Update – On January 7th, the County sent a support letter for AB 21 (Woods), which repeals a March 1, 2016 deadline by which cities and counties must act on ordinances to regulate or ban medical marijuana cultivation and allows local governments to exercise their police powers over certain cultivators of medical marijuana. The bill is currently at the Governor's Desk and a signature is expected. Additionally, numerous "clean-up" bills have been introduced, as well as new proposals pertaining to the regulation of medical marijuana. As previously discussed, several initiatives pertaining to the legalization of the recreational use of marijuana are pending at various stages of the ballot initiative process. JEA & Associates and the County will continue to monitor all policy developments and bring them to the Legislative Committee.

1115 Waiver Update - Throughout 2015, California negotiated with the federal government to renew the Medi-Cal Section 1115 "Bridge to Reform" Waiver, which was fundamental to the successful implementation of the Affordable Care Act. California subsequently received approval for the Waiver renewal, called Medi-Cal 2020, effective January 1, 2016 through December 31, 2020. The total initial federal funding in the renewal is \$6.2 billion over five years, with the potential for additional funding in the global payment program outlined below. Medi-Cal 2020 will enable California to continue the delivery system transformation of public hospital systems begun under the Bridge to Reform Waiver. It will also implement new efforts to further improve services across the Medi-Cal program, including in the Medi-Cal dental program and in the treatment of high-risk, vulnerable populations.

The agreement includes the following core elements:

- A delivery system transformation and alignment incentive program for designated public hospitals and district/municipal hospitals that totals \$3.3 billion.
- A global payment program for designated public hospitals for services to the remaining uninsured. The program transitions around \$1 billion in current federal Disproportionate Share Hospital funding annually along with federal uncompensated care funding (initially \$276 million) into a value-based system aimed at improving care for the remaining uninsured.
- A whole person care pilot program that would integrate care for high-risk, vulnerable populations in a county-based, voluntary program. The funding for this program would be up to \$1.5 billion.
- A dental transformation incentive program totaling \$750 million.

In addition to these programs outlined above, the federal government requires as a condition of the waiver an independent assessment of access to care and network adequacy for Medi-Cal managed care beneficiaries and independent studies of uncompensated care and hospital financing.

Meeting with Secretary Laird (Resources Agency) re: Regulatory Challenges towards Flood Preparation – The County has requested a meeting with Secretary Laird through JEA & Associates, which was submitted early last week to discuss regulatory challenges to flood preparation. Specifically, the County would like the Secretary's help in 1) establishing a single lead permit agency, 2) develop a pre-impact hazard mitigation permit process and provide CEQA relief for flood preparations, and 3) waive fees, except minor administrative fees to cover costs. The conference call is scheduled for February 9th at 11:30AM.

AB 1585 (Alejo) – Monterey County Water Resources Agency: Water Conveyance – AB 1585 was introduced on January 6th by Assemblymember Alejo. The bill would require no less than \$25,000,000 from an unspecified source to be allocated, upon appropriation by the Legislature, to the agency for the purpose of constructing a water conveyance tunnel between Lake Nacimiento and Lake San Antonio. The County and the Water Agency have been in discussions with the Assemblymember and the State Building Trades Association on the specifics pertaining to a project labor agreement (PLA). The bill is eligible to be heard after February 6th. The County has yet to take a position on the bill.

Initiative Update

In previous reports, we have discussed several pending initiatives for the upcoming General Election ballot. Due to the anticipated volume of qualifying measures, we will begin making recommendations to the Legislative Committee on positions in the upcoming meetings in order to consolidate the discussion.

A request has been made to the Board of Supervisors to endorse the Medi-Cal Funding and Accountability Act ("Act") which will appear on the November 2016 ballot.

Background on the initiative: In the fall of 2013, Governor Brown signed Senate Bill 239 (Hernandez), which was passed by the state Legislature unanimously. The legislation established an initial three-year Medi-Cal hospital fee program to ensure that California can unlock billions annually in federal matching funds for supplemental Medi-Cal payments to hospitals. However, the law expires at the end of this year. This initiative would make the existing program permanent and guarantees ongoing federal health care funding to support these important health care services. The Act makes the fee program and the protections permanent to create more certainty and to deliver approximately \$10 billion in matching funds during the first three years.

The Act also ensures that these funds cannot be diverted for other purposes. Without ongoing protections for the hospital fee program, hospitals that care for children, seniors and low-income residents will be vulnerable to payment cuts or other budget politics. Funding protected by the Act will help prevent closures or cutbacks in local hospitals and will help preserve access for millions of men, women and children. California is home to more than 12 million Medi-Cal beneficiaries, more than half of which are children.

The Medi-Cal Funding and Accountability Act is endorsed by a diverse coalition of sectors in California, including approximately 800 hospitals and health systems, health care advocacy groups, medical and dental groups, community benefit organizations, senior and children's organizations and the business community.

The California State Association of Counties (CSAC) Board of Directors unanimously supported the measure at their recently annual meeting. Additionally, it is the recommendation of the Director of Health, Ray Bullick that the County take a support position.

Legislative/Issues Track

Currently, the County has positions on eight (8) bills carried over from last year that are still moving through the legislative process. As mentioned in the Legislative Update, the County continues to work with JEA & Associates on monitoring legislative introductions and amendments that directly impact the County and bring them forth to the Legislative Committee.