MONTEREY COUNTY

2016 Budget and Legislative Report: Highlights and Emerging Issues

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Introduction and Highlights:

The beginning of the 2016 legislative session convened on January 4th, and two large priorities carried over from the prior year: transportation infrastructure funding and long-term healthcare funding special sessions (*see below*). During the regular session, the Legislature introduced over 2500 bills on all subject matters; however, there was a notable number on human trafficking and medical marijuana regulation clean-up.

For the veteran Governor and new Senate and Assembly leaders, 2016 was a relatively calm legislative year. There were no overly-controversial bills, like last year's death with dignity or vaccination requirements. This type of "calm" could be indicative of dire times ahead in the next year with budget revenues plateauing and the inevitable fallout from this November's election: both presidential and initiative-wise. Even with a new supermajority in the Assembly, the Governor and Legislature will be shifting its priorities from progressive and proactive to protectionary and cautious. With a downturn in the economy on the horizon and billions in federal funding at risk, it is safe to assume that the Governor will be presenting a drastically scaled-back budget in January. This budgetary shift and looming threat could most likely threaten any deal on transportation infrastructure funding if not passed before. Additionally, the state will be focused on recreational marijuana implementation, state immigration and social service policies and inevitable legal battles with the federal government. California will undoubtedly miss the "calm" of 2016.

The following are highlights summarized from this year's session:

2016 Legislative Highlights:

SPECIAL SESSIONS -

In his January Budget proposal, Governor Brown laid out two priority issues for the Legislature to address this session: transportation infrastructure funding and healthcare funding. Through an executive order in 2015, two special sessions convened to address these long-term funding solutions. The Legislature was effective in moving healthcare proposals, like the managed-care organization tax and tobacco regulation (details below), before the session closed out in mid-May. That same cannot be stated for the special session on transportation. Since the session on transportation was convened in 2015, the Legislature has been bogged with multiple proposals from both Houses, both parties, both Transportation Committees, that consensus lost to confusion. Conversely compounding the lack of progress was the Republicans new leadership that unequivocally refused to consider any proposal that levied a tax, which is near impossible when trying to accumulate over \$60 billion over the next ten years.

TRANSPORTATION -

In the last week of session, both Transportation Chairs unveiled a \$7.4-billion transportation, the latest effort to break through a yearlong logiam over the state's funding woes. The plan, highlighted by an increase of 17 cents per gallon in the gas tax, comes from Assemblyman Jim Frazier (D-Oakley) and Sen. Jim Beall (D-San Jose) in an attempt to unify the disparate proposals the pair had previously introduced in their respective houses.

The combined plan is more than double the Governor's \$3.6-billion proposal, which calls for a 6-cent gas tax hike. Last summer, the Governor called a special session of the Legislature to highlight the \$130-billion backlog in state and local road repairs, as well as the billions more in other transportation budget deficits. But lawmakers have made little progress, especially with gas tax hikes - which would require a bipartisan supermajority vote - on the table. In this proposal, Monterey County would see a little over \$16 million annually for ten years.

After the election, both the Governor and Leadership have been negotiating with moderate Democrats and Republicans on a deal. However, they were not successful in pulling together a deal before the November 30th deadline for the special session. While both the Assembly and Senate now have a supermajority after the election, many are not optimistic that the new Legislature will see transportation infrastructure as a top priority given the state's financial uncertainty with the new Trump Administration. More should come to light when the Legislature reconvenes on December 5th as to another renewal of the special session and a possible deal for the funding.

NO PLACE LIKE HOME INITIATIVE -

When the Legislature convened in January, that same day, leaders in the Senate proposed their "No Place Like Home" initiative aimed at combatting homelessness and the mental health issues perpetuating and increasing the state's crisis. The \$2 billion endeavor aimed at diverting existing mental health dollars to leverage bonds for counties to address their homeless population housing and mental health needs. After much debate with the Governor, he signed the enabling legislation AB 1618 in June. The following are some of the details

Diverts MHSA funding off the top of revenues to finance loans to counties to build permanent supportive housing for those who are mentally ill and chronically homeless.

- Includes three pots of funding in four rounds:
 - Noncompetitive Pot: \$200 million in "over the counter" funding for counties to start development process and capitalize operating reserves. Counties eligible for funding based on their homeless count, includes potential \$500,000 minimum award for counties with low homeless counts.
 - Competitive Pot: Up to \$1.8 billion in funds to counties, with counties grouped into tiers: LA, Large Counties with more than 750,00 resident, Medium Counties with between 200,001 and 749,999, and Small with less than 200,000 residents)
 - Alternative Process: Allows 4 counties with largest homeless count (Los Angeles, San Francisco, Santa Clara, and San Diego) to access funding directly but limits them in proportion to their homeless count.
- Includes \$2 million for Technical Assistance to counties based on size
- Uses up to 5% for state administrative costs; 4% of competitive pot is set aside for a default reserve in case a local project has issues.
- Requires counties to commit to providing supportive services for 20 years
- Allows these supportive housing units to be occupied by those coming from corrections and transitioning from the foster care system.

TOBACCO REGULATION -

As part of the Democrats last-minute push in the healthcare special session before it shut down, they passed the state's most sweeping tobacco regulation package to date. Subsequently, the Governor signed five out of six bills to strengthen the state's tobacco laws, as well as regulate vaping. The bills would a) raise the age of smoking to 21, b) banning vaping in all places where smoking is prohibited, c) expanding smoke-free workspaces to include hotel lobbies, bars and banquet rooms, d) expanding eligibility of tobacco prevention funds to charter schools, and e) increases tobacco retailer license fee from a one-time \$100 to an annual \$265. The Governor did however veto a bill that would have permitted counties and cities to establish their own tobacco tax.

HEALTHCARE -

1115 Waiver – After using up several extensions to the state's 1115 waiver, an agreement was made between the state and the Center for Medicare and Medicaid Services (CMS) and passed by the Legislature in mid-February. The new waiver 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.

Managed Care Organization (MCO) Tax – In his January budget, the Governor pressed the Legislature to act swiftly in passing a new MCO tax that, if not complete, would leave a gaping\$1.1 billion deficit in his May Revision. In late-February, under the healthcare special session, the Legislature, in a bipartisan effort, passed legislation extending this tax agreement. The deal will result in a net tax cut, maintain more than \$1 billion in critical federal funds, reduce debt by more than \$400 million and direct approximately \$300 million in new funding to help those with developmental disabilities. The legislation restructures the taxes assessed on the health insurance industry and is projected to reduce overall tax liability for the industry

2016 Budget Highlights:

Governor Brown signed the 2016-17 state budget on June 28th and did not exercise his line item veto authority. His approval of the main budget bill, Senate Bill 826, is part of the \$167 billion dollar budget package that provides a mix of long-term savings and one-time infrastructure spending championed by the Governor as well as on-going commitments for youth and families sought by the Legislature.

Significant details of the 2016-17 Budget:

Boosting Reserves, Paying Down Debt

In addition to the constitutionally-required \$1.3 billion deposit, the budget directs an extra \$2 billion contribution into the Rainy Day Fund - bringing the state's reserve fund to \$6.7 billion, or 54 percent of the goal. The budget also directs \$1.75 billion to the Special Fund for Economic Uncertainties, which also helps the state meet obligations in the face of declining revenue or unanticipated obligations, and pays down debts and liabilities by \$1.3 billion from Proposition 2 funds.

Counteracting Poverty

This year's budget begins implementing the state's new \$15 per hour minimum wage by raising the statewide minimum wage to \$10.50 per hour beginning on January 1, 2017. The budget also funds cost-of-living increases for Supplemental Security Income/State Supplementary Payment, the first boost since 2005.

The budget also repeals of the "maximum family grant rule" in CalWORKs, which had denied support to children born to parents who were receiving aid. It also limits the state's asset recovery from the estates of deceased Medi-Cal recipients. The County supported this budget issue and has for several years.

Reducing Housing Costs

The budget reflects \$3.6 billion in state and federal funding and award authority for many affordable housing and homelessness programs, including increased funding for CalWORKs rapid rehousing and emergency homeless shelters.

Strengthening Infrastructure

The budget includes \$2 billion for state infrastructure improvements and maintenance, including \$1.3 billion General Fund for state buildings, \$270 million in lease-revenue bond authority for local jails and \$688 million (\$485 million from the General Fund) for critical deferred maintenance at levees, state parks, universities and community colleges, prisons, state hospitals and other state facilities.

County-wide Funding -

Many key budget issues for counties were successfully addressed in the budget, these include:

- \$270 million for jail construction grants.
- \$25 million in grants for hard to site criminal justice facilities to cities and counties.
- \$127.3 million for group home reform
- \$10 million in State Responsibility Area Fire Prevention Fund grants, including \$5 million in grants to local governments specific to tree mortality and tree removal and \$5 million for general fire prevention.
- \$11 million to assist in the removal and disposal of trees in high hazard zones.
- \$30 million to support local jurisdictions using the California Disaster Assistance Act Program for tree mortality and other disasters.
- \$644,000 for PILT (Payment in Lieu of Taxes)
- \$2.5 million for Williamson Act
- Nearly \$400,000 in state backfill for counties with insufficient ERAF
- Lump-sum healthcare realignment payments to counties (\$2.25 million to Monterey County)

Budget Funding to the Monterey Region -

The budget included three funding allocations to the Monterey region:

- \$1 million to the Monterey County Water Resources Agency for use in the Salinas River, to assist in the removal of excess vegetation and trash, increase efficiency of instream flow using sediment and vegetation management strategies, and support the development and implementation of long-term management policies. The County supported Senator Cannella's legislative request, SB 1264 in April, which appropriated these funds for the same purpose, in addition to his budget request.
- \$5.5 million to the City of Salinas One-time funds to assist in counter violence and gang activity efforts. JEA & Associates and the City of Salinas began working on this proposal to Senator Cannella in December of last year.
- \$200,000 to support the Greater Monterey County Regional Water Management Group implementation of a pilot project to address drinking water and wastewater needs of the disadvantaged communities in the Salinas Valley. Essentially, this appropriation will to continue fund a disadvantage community water treatment project for Salinas Valley that the Legislature appropriated \$500,000 in 2013 to kick-start the project.

2016 Initiatives

In November's General Election, the Monterey County Board of Supervisors took several positions on the seventeen initiatives on this year's ballot. These are:

<u>Proposition 52</u> - Extends indefinitely an existing statute that imposes fees on hospitals to fund Medi-Cal health care services, care for uninsured patients, and children's health coverage. **SUPPORT (PASSED)**

<u>Proposition 53</u> - Requires statewide voter approval before any revenue bonds can be issued or sold by the state for certain projects if the bond amount exceeds \$2 billion. **OPPOSE (FAILED)**

<u>Proposition 55</u> - Extends by twelve years the temporary personal income tax increases enacted in 2012 on earnings over \$250,000, with revenues allocated to K-12 schools, California Community Colleges, and, in certain years, healthcare. **SUPPORT (PASSED)**

<u>Proposition 56</u> - Increases cigarette tax by \$2.00 per pack, with equivalent increase on other tobacco products and electronic cigarettes containing nicotine. **SUPPORT (PASSED)**

<u>Proposition 67</u> - A "Yes" vote approves, and a "No" vote rejects, a statute that prohibits grocery and other stores from providing customers single-use plastic or paper carryout bags but permits sale of recycled paper bags and reusable bags. **SUPPORT (PASSED)**

However, the big initiative of the night, Proposition 64, which will legalize the recreational use of marijuana passed steadily. The Administration and Legislature anticipated the passage and overhauled the administration of the medical cannabis industry so that recreational use would fall under its auspices. As of November 9th, personal use, transfer, cultivation and transportation rights go into effect. Medical cannabis ID cardholders immediately exempt from state sales tax on marijuana. Additionally, \$5 million will transferred from the state's general fund to the Department of Health Care Services to provide for a public information program. \$30 million transferred to regulatory agencies to begin rule making. In December, counties and cities could begin to create temporary retail licenses (e.g., stores and farms). In the first quarter of 2017, the counties and cities could begin to issue these licenses and state rule-making hearings will likely commence with draft regulations and chaptered regulations expected in the third quarter. Beginning in January 2018 is the deadline for state departments of Consumer Affairs, Food and Agriculture and Public Health to begin to issue licenses. It is also the deadline for marijuana bureau to begin to investigate the feasibility of creating nonprofit licenses. Furthermore it is the beginning of 15 percent marijuana retail sales tax, as well as the beginning of commercial cultivation taxes.

With that said, the new Trump administration could greatly impact the state's medicinal and recreational laws for marijuana. While Trump has stated that he is a supporter of medicinal marijuana, his views on recreational use is unclear, which could prompt federal interference. In regards to medicinal marijuana, he has stated that he would like to change its federal classification from a Schedule 1 drug to a Schedule 2, which would effectively legalize medical cannabis nationally and bring it under the regulation of the Department of Food & Agriculture, thus possibly conflicting with California's laws and regulations.

But more importantly, the impact of a Trump administration and Republican-controlled Congress could potentially have devastating financial ramifications for the state. With the promise to dismantle the Affordable Care Act, the state will lose billions of federal dollars, millions will lose coverage, federal funding for Planned Parenthood and other social/health programs for the low-income will come under funding fire, which will leave the state trying to backfill the damage. Adding to further this uncertainty are the effects on our global economy and foreign trade which will trickle down into our local economies, pension and retirement, inflation, General Fund, reserves, etc. While it is yet unknown how this will play out for this unabashedly blue state, it is reasonable to expect a financial and social blow that could take many year to recover from.

Monterey County 2016 Legislative Package:

Throughout this legislative session, JEA & Associates identified, tracked and monitored over 500 bills, and after much analysis and discussion, narrowed the County's position to nineteen bills and six budget items, where we actively advocated on. Of those ten, six were signed into law.

Administration -

- **AB 21 (Wood)** Repeals a 3/1/16 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. **SUPPORT**<u>Location:</u> Signed by Governor
- AB 120 (Committee on Budget) Amends the 2015-16 Budget Act to provide the Secretary of State an additional \$16.3 million for unexpected costs related to the 2016 elections. SUPPORT Location: Signed by Governor (\$156,233 to Monterey County in reimbursement costs)
- **SB 974 (Committee on Local Government)** Would allow the congressmember, state senator, and state assemblymember whose districts include the majority of Fort Ord to appoint representatives to Fort Ord Reuse Authority's (FORA) board. **SUPPORT**<u>Location:</u> Signed by Governor
- **SB 1188 (McGuire)** Requires, instead of authorizes, the Department of Fish and Wildlife (department) to pay annual in lieu payments and specified assessments to counties in which wildlife management areas are located. **SUPPORT** <u>Location</u>: VETOED
- **SB 1250 (McGuire)** Would impose, on a facilities-based provider of telecommunications services that the Federal Communications Commission requires to provide access to 911 service, certain notification and reporting requirements for a major rural outage of telecommunications services, with the requirements to be adopted by the Public Utilities Commission in consultation with the Office of Emergency Services. **SUPPORT** <u>Location:</u> Dead

Economic Development -

- **AB 2319 (Gordon)** Would add affordable housing to the list of eligible projects to which the California Infrastructure and Economic Development Bank (IBank) is authorized to provide financial assistance. **SUPPORT** Location: Dead
- AB 2475 (Gordon) Would establish within the California Infrastructure and Economic
 Development Bank the Local Government Affordable Housing Forgivable Loan Program,
 and require the bank to make loans to local government for development of affordable
 housing on terms and conditions the bank deems in the best interests of the state.
 SUPPORT Location: Dead
- **AB 2561 (Irwin)** Would establish the California Central Coast Veterans Cemetery Project Donation Fund, and would require that donations for the cemetery for a purpose specified by the donor instead be deposited in the fund, and be expended for the specific veterans cemetery maintenance or beautification project designated by the donor. This bill would

continuously appropriate the fund to the department for these purposes. **SUPPORT** Location: Bill Gutted

• **AB 2734 (Atkins)** - Would establish the Local Control Affordable Housing Act, require Dept of Finance, on or before ____ and on or before the same date each year thereafter, determine the state General Fund savings for the fiscal year as a result of the dissolution of redevelopment agencies – and upon appropriation the lesser of 50% of that amount or \$1 billion be allocated to Dept of Housing & Community Development. **SUPPORT** <u>Location:</u> Dead

Health & Human Services -

- **AB 2150 (Santiago)** This bill provides for changes to eligibility determination and redetermination for subsidized child care for purposes of promoting continuity of service for no less than 12 months, except as specified. **SUPPORT** Location: Dead
- **SB 879 (Beall)** This bill enacts the Affordable Housing Bond Act of 2016, which authorizes the sale of \$3 billion in general obligation bonds, upon approval by voters at the November 8, 2016 statewide general election. The bill further creates the Affordable Housing Bond Act Trust Fund of 2016 (Fund), and states the Legislature's intent that all bond proceeds be deposited in the Fund. **SUPPORT** <u>Location</u>: Assembly Third Reading/Dead

Budget Items:

- Child Care for Foster Children \$11 million for 2016-17 and \$22 million in the out-years to increase access to early care and educational services for abused and neglected children SUPPORT (Passed in Budget)
- Adult Protective Services Training \$5 million for statewide training of social work staff in the Adult Protective Services Program SUPPORT (Passed in Budget)
- Early Education Assembly's early education plan that includes increased reimbursement rates, an increased SMI threshold, 12-month eligibility and an additional 16,000 slots **SUPPORT** (Passed in Budget)
- Repeal of the CalWORKs Maximum Family Grant **SUPPORT** (Passed in Budget)

<u>Infrastructure</u>

- **AB 1585 (Alejo)** Appropriates \$10 million from the General Fund (GF) to the Monterey County Water Resources Agency (MCWRA) for construction of a water conveyance tunnel between Lake Nacimiento and Lake San Antonio in Monterey and San Luis Obispo Counties. <u>Location</u>: This bill was recently amended into SB 831. **SUPPORT**
- **AB 1758 (Stone)** Extends the California Advanced Services Fund (CASF) to December 31, 2020, in order to meet the program goals of approving infrastructure projects that will provide broadband access to no less than 98% of the state's population. **SUPPORT** Location: Dead

- **AB 1758 (Stone)** Extends the California Advanced Services Fund (CASF) to December 31, 2020, in order to meet the program goals of approving infrastructure projects that will provide broadband access to no less than 98% of the state's population. **SUPPORT** Location: Dead
- AB 2730 (Alejo) Would classify certain properties acquired by DOT for a replacement
 alignment of Highway 101 (formerly Prunedale Bypass) and not required for the alternative
 improvements undertaken in place of the bypass (Prunedale Improvement Project) as excess
 property and require DOT to dispose of those excess properties. SUPPORT Location:
 Dead
- **SB 831 (Committee on Budget & Fiscal Review)** Appropriates \$10 million from the General Fund (GF) to the Monterey County Water Resources Agency (MCWRA) for construction of a water conveyance tunnel between Lake Nacimiento and Lake San Antonio in Monterey and San Luis Obispo Counties. **SUPPORT** Location: Signed by Governor.
- **SB 1170 (Wieckowski)** Would prohibit a public entity, charter city, or charter county from delegating to a contractor the development of a plan to prevent/reduce water pollution/runoff on a public works contract. Would prohibit a public entity from requiring a contractor on a public works contract that includes compliance with a plan to assume responsibility for the completeness/accuracy of plan developed by that entity. **OPPOSE** Location: Dead
- **SB 1197 (Cannella)** Current law defines the boundaries of 3 intercity rail corridors, and requires the preparation of an annual business plan for the corridor by each participating joint powers board. This bill, at any time after an interagency transfer agreement between the department and a joint powers board has been entered into, would authorize the amendment of the agreement to provide for the extension of the affected rail corridor to provide intercity rail service beyond the defined boundaries of the corridor. The bill would require a proposed extension to first be recommended and justified in the business plan adopted by the joint powers board, and then would require the approval of the Secretary of Transportation. **SUPPORT** Location: Dead
- **SB 1264 (Cannella)** Would appropriate \$1,000,000 from the General Fund to the Monterey County Water Resources Agency, for use in the Salinas River, to assist in the removal of excess vegetation and trash, increase efficiency of instream flow using sediment and vegetation management strategies, and support the development and implementation of long-term management policies. **SUPPORT** Location: Done in the Budget

Budget Items -

 CA Endangered Species Act (CESA) Permit Fees – Increase of application fees for permits required to comply with the CESA OPPOSE (Passed in Budget)

Public Safety

Budget Items -

 Anti-Gang Law Enforcement: Salinas - One-time \$5.5 million augmentation to the City of Salinas for gang violence reduction efforts SUPPORT (Passed in Budget)

Emerging Issues for 2016:

With the 2015-16 legislative session closed out, many vital issues remain unresolved and/or emerging for the next year. The following is our assessment of issues that Monterey County should consider for the next session:

- Transportation Infrastructure Funding As discussed above, because the Legislature failed to pass an infrastructure funding package before November 30th, it is now uncertain, given the new federal political environment if it will be their top priority when they convene in January. In the package mentioned above, the Monterey County would receive over \$16 million annually for ten years for its transportation infrastructure. Given the significance of funding and the necessity, JEA & Associates will continue to work with transportation stakeholders, the League and our legislative delegation in moving a suitable package forward.
- Impact of Election—In an unprecedented election, the state has several high priorities as a result. There will be the implementation of the recreational use of marijuana, a tobacco tax and most significantly, the potential budget and policy impacts of a new Trump Administration. The state will be looking at protecting the ACA, open trade and foreign exports, immigration policies and progressive stances, such as gay marriage and abortion. Additionally, the Democrats in the Assembly now hold a supermajority and the Senate is still awaiting results on SD 29 race to see if they will have one as well. Regardless though, they will be able to move big policy with the help of Senator Cannella. However, it is unclear at this point in how Governor Brown and Leadership will utilize this new legislative sway.
- No Place Like Home Implementation As previously mentioned this new source of funding for housing and mental health services are going to be significant for the Monterey region. JEA & Associates will be closely monitoring the drafting of the regulations in order to maximize funding to the region, as well as allow for flexibility in funding certain projects.

Advancing and Defending Monterey County's Interests in 2016

JEA & Associates has proudly represented Monterey County and its interests before the California Legislature, the Governor's Administration and numerous regulatory bodies for the last 20 years. The County has expected and received proactive information reporting; clear and concise analysis and reports on the Governor's budget and related legislation; developed and maintained strong and effective relationships with advocacy organizations and coalitions, key members of the Administration, as well as key policy and decision makers in the Legislature.

Each year, JEA & Associates works closely with the County to assist in developing and framing your legislative priorities and then allocates JEA's resources to advance and defend those priorities. Through timely legislative bill tracks, JEA & Associates helps Monterey County informed on vital policy and political happenings, in addition to providing critical feedback and strategy on developments as they occur. JEA & Associates' Capitol Weekly Report provides current stories and analysis on legislation, hot issues, budget plays and key staff moves.

Throughout this year's legislative session, we closely watched a multitude of bills ranging from to subsidized child care to locally significant bills relating to water and transportation; drafted and delivered position letters; participated in a wide-range of meetings with regulatory agencies, legislators, their staff and stakeholders; and conveyed the County's position on bills in key policy and fiscal committees.

Despite the state's lingering fiscal, policy and political challenges in 2016, JEA & Associates is proud to have helped Monterey County understand and navigate the legislative and budget process. In those cases where specific issues or legislation loomed large on the County's priorities, we did our utmost to meet your expectations and achieve your outcome.