Attachment

Governor's FY 2017-18 Proposed Budget

Overview of the Governor's FY 2017-18 Proposed Budget

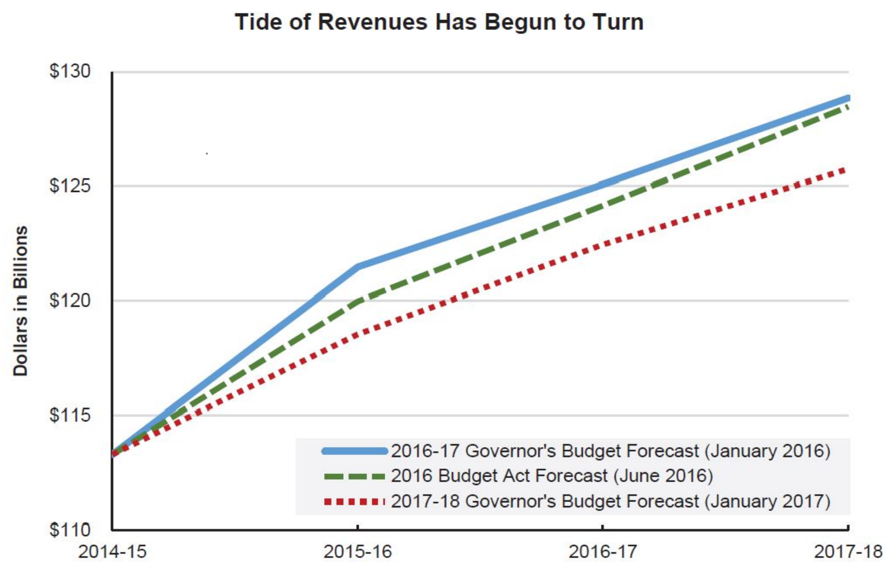
On January 10, 2017, Governor Edmund G. Brown released the Fiscal Year (FY) 2017-18 proposed budget of $179.5 billion. It consists of $122.5 billion in General Funds, $54.6 billion in special funds, and $2.4 billion in bond funds. The $122.5 billion in General Fund expenditures reflects a decrease of 0.2% from the previous year. The state's economy has enjoyed eight years of expansion, but as the Governor has pointed out, the recovery has been longer than average and a downturn will follow sooner or later. Though the proposed budget assumes the continued expansion of the economy, California may have reached its peak in the current economic cycle as indicated by what the Governor called," the most challenging budget proposal since 2012."

2017-18 Total State Expenditures by Agency
(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$3,322	$3,379	$154	$6,855
Business, Consumer Services & Housing	388	852	383	1,623
Transportation	243	10,254	881	11,378
Natural Resources	2,811	1,359	564	4,734
Environmental Protection	89	2,795	23	2,907
Health and Human Services	33,994	25,829	-	59,823
Corrections and Rehabilitation	11,088	2,678	-	13,766
K-12 Education	52,169	104	64	52,337
Higher Education	14,627	171	277	15,075
Labor and Workforce Development	122	697	-	819
Government Operations	741	230	6	977
General Government				
Non-Agency Departments	691	1,961	5	2,657
Tax Relief/Local Government	435	1,613	-	2,048
Statewide Expenditures	1,800	2,651	-	4,451
Total	**$122,520**	**$54,573**	**$2,357**	**$179,450**

Note: Numbers may not add due to rounding.

As the state economically recovered from the Great Recession, revenue surged leading to expanded government spending. However, revenue is now beginning to fall below expectations steering toward lower revenue projections for FY 2017-18. Revenues are projected to continue to grow, but at a slower rate than estimated in the 2016 Budget Act. Over three fiscal years, revenue growth has declined from the 2016 Budget Act in three major revenue sources: personal income $2.1 billion, sales tax $1.9 billion, and corporation tax $1.7 billion. These decreases mirror lower growth in wages, proprietorship income, consumption and investment.



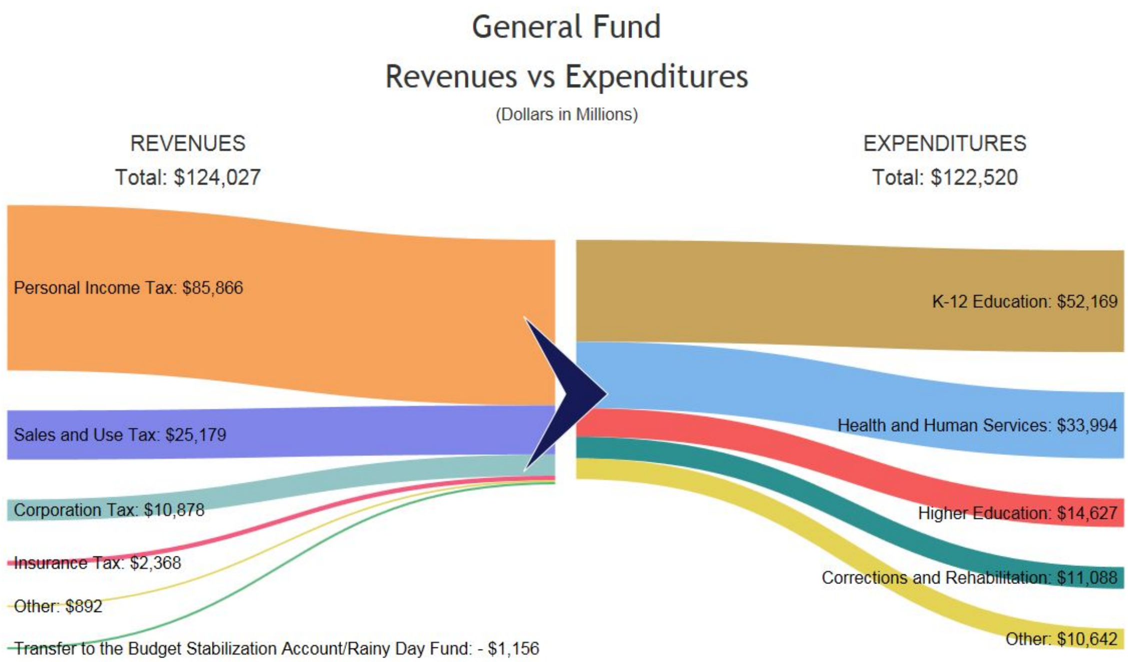
Due to the forecasted decrease in revenue growth, the Governor incorporated corrective actions into the proposed budget; without these actions the state would face a deficit of nearly $1.6 billion. The spending reductions amount to $3.2 billion in proposed budget actions to address the deficit in current and future years while still rebuilding the state's operating reserve as follows:

- Adjust Proposition 98 ($1.7 billion) - Without action, appropriations made in FY 2015-16 and FY 2016-17 would over appropriate the Proposition 98 minimum guarantee. The budget proposes adjustments designed to fund K-14 education at the guarantee for FY 2015-16 through FY 2017-18. Overall, K-14 funding still grows by $2.1 billion for FY 2017-18.

- Recapture 2016 Allocations ($0.9 billion) - The FY 2016-17 budget contained a large package of one-time spending of which much remains uncommitted. The budget proposes to eliminate the authority to spend the dollars. The two largest components of this action eliminate the $400 million set-aside for affordable housing that was never allocated and a $300 million transfer to modernize state office buildings planned for FY 2017-18.

- Constrain Spending Growth ($90.6 billion) - The proposed budget limits spending proposals to keep spending flat at about $123 billion in FY 2017-18. This involves pausing rate increases for child care, not providing Middle Class Scholarships to any new students, and not submitting a variety of spending proposals (including those to implement new legislation) from state departments that otherwise were justified.

- Save for a Rainy Day ($1.2 billion) - The state has experienced eight years of economic growth which is three years more than the average recovery cycle. In planning for the next recession, the Governor proposes to continue building up the state's Rainy Day Fund by contributing $1.2 billion, bringing the total balance at the end of FY 2017-18 to $7.9 billion which represents 63% of the constitutional target.



The proposed budget protects the Governor's accomplishments over the past four years by maintaining growth in education, preserving the state's first earned income tax credit, increasing the minimum wage over time to $15, expanding health care coverage and paying down long-term liabilities. Significant areas of budgetary action include:

- *K-12 Education* – In K-12 Education the adjustments to Proposition 98 guarantee allow for minimum guarantee to be met without over-appropriating for the period of FY 2015-16 to FY 2017-18, reducing funding over the period by $1.8 billion.

- *Higher Education* – The Governor's proposed budget reflects flat tuition rates and includes funding for higher education with an additional $131 million for the University of California and $161 million for the California State University system.

- *Counteracting the Effects of Poverty* – The state budget continues to fund poverty focused obligations:

  - Rising state minimum wage, which is scheduled to increase to $11 per hour in 2018 and to $15 per hour over time.

- ➢ Expanding health care coverage under the federal Affordable Care Act, which provides millions of Californians with insurance.
- ➢ Providing the first cost-of-living adjustment for Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients since 2005.
- ➢ Repealing the maximum family grant rule in CalWORKs, which denied aid to children who were born while their parents were receiving aid.
- ➢ Increasing child care and early education provider rates and children served totaling $837 million.

- *Combating Climate Change* – The budget proposal includes $2.2 billion in expenditures from Cap and Trade auction proceeds to continue the reduction of emissions with emphasis on disadvantage communities.
- *Strengthening Infrastructure* – The proposed budget provides $4.2 billion to improve maintenance of highways, local roads, public transit expansion and critical trade routes as presented in Governor's transportation package in September 2015.
- *Paying Down Debts and Liabilities* – The Governor's proposal allocates $258 million from the General Fund for additional payments to be made toward state retirement programs.

Still looming are the effects of possible changes at the federal level in terms of the Affordable Care Act, trade policy, immigration policy and the federal tax structure. Once these impacts are known, adjustments may be presented in the Governor's May Revision.

Potential Impacts to Monterey County

After reviewing the Governor's proposed budget, departments provided input on items that may have an impact on the County of Monterey's budget. Over the course of the next six months, the County Administrative Office will work with departments to monitor the state budget development and report back with any potential implication to the County of Monterey.

Assessor-County Clerk/Recorder's Office

State-County Assessors' Partnership Program (SCAPP)
The State-County Assessors' Partnership Program (SCAPP) is a three-year pilot program with the California Department of Finance which provides funding to enhance county property tax collection efforts. SCAPP is approaching the end of the third year at which time a determination will be made if the program is continued. Through SCAPP, $200,000 is

annually received from the state by the Assessor-County Clerk/Recorder's Office with a county match from the Productivity Investment Program Account. If the program is discontinued in FY 2017-18 funding for four Appraisers positions will be lost. This would result in not only a loss of staff, but a loss of property tax dollars.

Child Support Services

State Department of Child Support Services

The State Department of Child Support Services allocation to Monterey County in the proposed budget remains flat with no increase in the last fourteen years. Operating costs for the County's Child Support Services however continue to rise each year. Due to rising costs, the department faces a reduction of eight Caseworker positions and a loss of $8 million collected by the caseworkers which in turn is distributed back to the community.

Health Department

Passage of Proposition 56 – Tobacco Tax Initiative

A small portion of Proposition 56 revenue will go to the California Department of Public Health and Department of Education for tobacco prevention. The actual amount anticipated to be received by County Tobacco Control Programs is yet to be finalized.

Children's Health Insurance Program (CHIP)

The budget assumes reauthorization of CHIP at the federal level but at a reduced non-enhanced federal match of 65% effective October 1, 2017 (from 88% in prior months) resulting in an increase in local contribution from 12% to 35%.

AB 85 Realignment

FY 2017-18 marks the second year of the true-up/reconciliation process for counties that opted for the formula method. It is anticipated that approximately $245.6 million will be repaid to the State by these counties. Approximately $3.3 million will be repaid by Monterey County to the state based on preliminary calculation for uninsured care provided in FY 2014-15. Additionally, $546.2 million will be redirected from counties in FY 2017-18. Actual County allocations are yet to be released.

Coordinated Care Initiative

The state has determined that the CCI is not cost-effective. It will re-establish the state-county share cost arrangements for In-Home Supportive Services (IHSS) that existed prior to establishment of CCI. Dissolution of this will result in elimination of the IHSS Maintenance of Effort. Counties will be responsible for the payment of the 35% non-federal portion of the IHSS program costs.

The projected growth for FY 2017-18 in 1991 Realignment is not anticipated to be sufficient to cover the additional IHSS costs. It is anticipated that Counties will not be receiving any growth dollars in their health and mental health realignment allocations. Actual County allocations are yet to be released. The state says it is committed to working with counties to address potential impacts resulting from this change.

Child Health and Disability Prevention (CHDP) – State Only

Due to the passage of SB 75 which expands full scope benefits to undocumented children, the State has determined that it will end CHDP – state only services in FY 2017-18. There are certain services that are provided to this population that are not Medi-cal eligible through managed care, such as vision, dental, and severe mental illness.

Whole Child Model – California Children's Services

Implementation of the Whole Child Model for California Children's Services as part of the 2020 Medi-Cal waiver will not be sooner than July 1, 2018. The Whole Child Model shifts the care coordination and service authorization responsibility from counties to County Organized Health System. Once implemented a proportional amount of county allocation funds for CCS will shift to county organized systems.

Federally Qualified Health Center (FHQC) Alternative Payment Methodology

The pilot will not be implemented sooner than January 1, 2018. Monterey County is anticipated to be part of the pilot group. The pilot will test alternative payment methodologies for federally qualified health centers by shifting from current payment prospective system to capitation payments.

No Place Like Home Initiative

The proposed budget includes $262 million for this initiative to be funded by Mental Health Service Act (MHSA) dollars. Actual County allocations for MHSA are yet to be released.

Pathways to Wellbeing – Katie A

The County mandate is expanded to include services to youth in foster care as well as training for foster care parents to become Medi-cal billable providers. Costs for services are to be shared equally between the counties and the federal government. The current allocations of 2011 Behavioral Health realignment for Katie A services are not anticipated to be sufficient to cover the expanded mandates.

Probation Department

Post Release Community Supervision

The state provides funding to support probation supervision of limited-term offenders on Post Release Community Supervision due to the implementation of court-ordered measures to increase credit earnings for certain offenders and Proposition 57. Monterey County's portion of this funding for FY 2017-18 is estimated to be $123,000, which is 46% less than the current fiscal year.

Division of Juvenile Justice
Proposition 57 requires that all juvenile offenders who committed crimes prior to age 18 have a hearing in juvenile court before being transferred to adult court. This may increase costs for the probation departments as additional resources may be needed to support the added number of juvenile court hearings and additional cost may be incurred for state housing of juvenile offenders if committed to the Division of Juvenile Justice (DJJ). County probation departments are required to pay the state $24,000 per year per juvenile for certain court commitments to the DJJ. The estimated cost increase to the County for these effects is unknown, but will continue to be assessed as the implementation of Proposition 57 moves forward.

Office of the Public Defender

Assembly Bill 260 (AB260)
Under AB260, the defense counsel is required to prepare a mitigation report to be used for youth offender parole hearings. The defendant must be sentenced to 15 years or more in the state prison for crime(s) committed when the defendant was under the age of 23 or must be under the age of 23 facing 15 or more years of incarceration. Preparation of the report requires the defense to expend extensive attorney and investigator time. The Governor's proposed budget does not take into consideration the new expenses to be borne by the Public Defender's Office because of AB260.

Proposition 57
Compliance with court-ordered measures and Proposition 57 requires increasing the average daily population of offenders on Post Release Community Supervision (PRCS), shifting thousands of offenders from the parole jurisdiction to the jurisdiction of the Superior Court. Thousands of hours of attorney services formerly handled and paid for by the Department of Corrections will be shifted to the Public Defender Office. While the Governor's budget funds county probation departments for their increased costs, it fails to do so for the Public Defender.

In addition, Proposition 57 requires that criminal court cases against a defendant under the age of 18 during the commission of the alleged crime be filed in the juvenile court rather than criminal court. The case may only be filed in criminal court after a juvenile judge conducts a hearing to determine the amenability of the accused to juvenile court services. In cases where the case is adjudicated to be proper for transfer to the adult court, these additional costs will not be offset.

Elimination of the Gang Reduction, Intervention, and Prevention Program

A large percentage of Public Defender cases are related to gangs and youth violence. The proposed budget eliminates local funding for collaboration and coordination to reduce gang and youth violence. Elimination of this budget item is likely to increase the demand for Public Defender services without the required attendant funding.

Social Services Department

CalFresh Eligibility
Funding will decrease by $175.2 million due to a drop in statewide caseload. This reduction could decrease allocations for CalFresh eligibility statewide by $35 million (General Fund) and $100 million in total funds. Monterey County's allocation is 1.21% of the statewide allocation and could reduce local funding for CalFresh eligibility and outreach by $1.2 million total funds ($606,828 federal, $424,780 state and $182,049 county). The department states federal funding does not have a cap and that the federal government matches county expenditures beyond the state allocation.

CalWORKs
Statewide funding for the CalWORKs Single Allocation is proposed to decrease by $198.4 million due to the decline in the CalWORKs caseload. Monterey County's allocation is 1.20% of the statewide allocation. This action could reduce local funding for CalWORKs employment, child care and eligibility services by $2.4 million total funds. As part of the Federal Temporary Assistance to Needy Families Block Grant, additional federal funds are not available to match any county funds spent in the program beyond the state allocation.

In-Home Supportive Services Program (IHSS):

Coordinated Care Initiative (CCI)
As noted under the Health Department section, the Governor's proposed FY 2017-18 budget proposal includes a significant funding change for the In-Home Supportive Services program. Although the proposal does not include service level reductions, it does find the CCI not cost-effective and looks to re-establish the state-county cost sharing arrangement by abolishing the Maintenance of Effort (MOE), resulting in increased cost to the county. The increase in cost to counties statewide is estimated to be $623 million; the increased cost to Monterey County is estimated to be $7.2 million.

The Governor states he is committed to working with counties to ease the immediate burden of the cost increase. Possible scenarios for providing relief include low cost loans until caseload growth in 1991 Realignment can cover the cost, but the earliest this would happen is two years. It is also important to reiterate that the commitment on 1991 Realignment funding could impact the funding available for health and mental health programs.

Resource Management Agency - Road Fund

Governor's September 2015 Transportation Funding and Reform Package
Under the Governor's proposed budget there is a potential positive impact to the County's Road Fund. The proposal includes a reintroduction of the Governor's September 2015 transportation funding and reform package which includes an additional $3.6 billion annually for ten-years for maintenance and rehabilitation of state and local transportation system and investment in transit. The updated plan also includes:

- Stabilizing the gas excise tax by increasing the price-based rate from 11.7 cents to 21.5 cents in FY 2017-18 by indexing the gas tax to inflation.
- Increasing the diesel excise tax by 11 cents.
- Charging a "road improvement charge" of $65 per year on registered vehicles in California.
- Increasing the gasoline excise tax by 1.9 cents in July, increasing the overall state excise rate from 27.8 cents to 29.7 cents.

At this time, the Resource Management Agency states it is not possible to quantify how much the County would potentially receive from these initiatives.

Next Steps

As of the writing of this report, county staff have had eight days to analyze potential impacts of the Governor's proposed budget. As such, this report provides a preliminary assessment of potential impacts. As the proposed budget progresses through the state budget process, county staff will continue to assess developments and apprise the Board of potential impacts.