



February 13, 2017

To: Nicholas E. Chiulos, Assistant County Administrative Officer

Fr: John E. Arriaga, JEA & Associates

Re: State Report

Budget

While the Governor and the Legislative Analysts' Office (LAO) continue to battle over true revenue projections – State Controller Betty Yee released her December fiscals that clearly indicate that the Governor is correct in being cautious. Shortly after the release of the Governor's 2017-18 proposed budget, the Controller released her monthly statements showing that the state missed its projections by \$1.87 billion, more than 12.7%. She reiterated that the “big three” revenue sources for the state were all below expectations – retail and sales tax, income tax and corporation tax. All three sources since the beginning of the budget in July are \$1.66 billion (13.9%) below projections. Additionally, Controller Yee is a Board Member of both CalSTRS and CalPERS, and stressed that the state needed to get these investments and benefits under control quickly, though their recent decision to reduce the discount rate and the proposed budget's increase of \$172 million for state employer contributions is helping.

But like the Governor, the Controller expressed trepidation at any significant bounce-back citing an inevitable future economic downturn, coupled with unpredictable federal funding under the new Trump Administration. Budget sub-committees will begin convening in mid-March.

IHSS MOE

After the release of the Governor's proposed budget, the dismantling of the Coordinated Care Initiative (CCI) that triggered the elimination of the In-Home Support Services Maintenance of Effort (IHSS MOE) became CSAC's and every county's top priority. With the threat of reverting back to the local share of cost (35% rather than 2011-12 base with a 3.5% inflator) and assuming a \$625 million cost in just the first year, CSAC is looking towards a cooperative and workable solution with the State. Understanding that the 1991 Realignment dollars would not even cover a fraction of the costs and the fact that the General Fund will not be able to fully backfill for a sustainable future,

if at all, CSAC is looking towards ways of avoiding the problem altogether. At CSAC's weekly county lobby meeting, Executive Director Matt Cate addressed the issue, stating that their executive board members and staff would be meeting with the Department of Finance (DOF) to begin negotiations on February 13th. Their goal is to explain the impacts on the counties and their views on the transfer itself. Furthermore, Mr. Cate stated that to prevent the reversion of the IHSS MOE, the CCI must remain intact. DOF's assertion that the CCI is not workable can be characterized as false; the CCI was beneficial in the participating seven counties, but not producing enough savings for the Administration's liking. The hope is to work with the Legislature and the Administration in tweaking the CCI to make it more programmatically and fiscally efficient, thus not triggering the elimination of the MOE. JEA & Associates will report back to the Legislative Committee and county staff on the meeting as well as any pertinent updates.

Transportation

Both the Assembly and the Senate Transportation Committees will be taking up AB 1 (Frazier) and SB 1 (Beall) in the next week. With an exhaustive list of supporters, including Monterey County, both bills are expected to pass their first policy committees. However, they will face the similar political roadblocks as their previous legislation. In a meeting last week, Senator Monning stated that while both houses have a super-majority to pass the funding package, that they will still need Republican votes. There are several members in both houses that had tough elections and are considered "marginal", and are not willing to vote for tax increases of any size or measure unless there are some Republican votes for "cover". JEA & Associates will monitor and testify on behalf of the County in both of the policy committees and report back any developments.

Legislative Update

On February 17th, the Legislature will reach its first major deadline – bill introduction. We anticipate a significant amount of bills to be introduced at that time, in fact more than in prior years, due to the Assembly Leadership and Rules Committee increasing the number of bills Assemblymembers can introduce in a two-year legislative session from forty to fifty. JEA & Associates and County staff have been analyzing and vetting bills through department staff for positions, and will be updating the Legislative Committee as we progress. Since the last Legislative Committee, the County has taken a support position on SCA 3 (Dodd), which would amend the State Constitution to allow cities, counties, and special districts to issue bonded indebtedness for library related capital outlay, as specified with 55% voter approval. Additionally, the County has taken a support position on SB 3 (Beall), which would provide \$3 billion to fund affordable housing programs via a statewide general obligation bond that would be implemented over five years. This bill is almost identical to the one the County supported last year, SB 879 (Beall).

Legislative/Issues Track

Currently, the County has positions on five (5) bills. 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.