

OVERVIEW OF GOVERNOR'S FY 2020-21 PROPOSED BUDGET - MAY REVISION

COUNTY ADMINISTRATIVE OFFICE

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On May 14, 2020, Governor Newsom released the May Revision to the State's proposed budget for the fiscal year beginning July 1, 2020. In a normal year, this estimate would provide minor revisions to the budget released in January. However, due to the COVID-19 pandemic this is not a normal year, therefore the May Revision reflects major changes to the January budget.

Initially, the State budget projected a surplus of \$5.6 billion, but after the May Revision, the State is now projecting a \$54.3 billion deficit. The budget proposes spending reductions to balance the budget while addressing the State's economic recovery from the pandemic. State employees may face a 10% pay reduction and the State has suspended non-essential State contracts and purchases.

The major proposals affecting counties include:

- Taxable sales are projected to decrease by 4.6% in FY 2019-20 and 17.3% in FY 2020-21. This decline is directly related to consumer spending which is expected to decrease by 15.6%.
- Realignment is projected to fall short of meeting FY 2019-20 base amounts by an average of 13% and no growth is projected for FY 2020-21.
- Realigning responsibility from the California Division of Juvenile Justice to counties for juvenile offenders.
- Distribution of \$1.3 billion to all counties from the Coronavirus Relief Fund as part of the CARES Act.
- Negotiating purchase of hotels for Project Roomkey using additional money from the Coronavirus Relief Fund.
- Eliminating most of the funding for CalWORKs Subsidized Employment, which helps small businesses hire recently unemployed individuals.

The budget organizes these proposals and many others into two tiers. Some proposals will not go into effect unless the federal government fails to provide additional funding in the HEROES act. If Congress fails to pass this Act, reductions to Health programs, human services, schools and State workers will be significant.

Overall, the Legislative Analyst's Office (LAO) indicates that the proposal is well-balanced in terms of a mix of solutions, but suggests that the Legislature may wish to evaluate the proposals and make different choices. While the LAO believes the proposed revenue solutions are a reasonable starting point for conversations, it is concerned that the Administration's estimates of revenue generated by these approaches are on the high side. The adopted budget may therefore impact

local government further due to potentially lower revenue estimates, requiring counties to incorporate additional reductions.

Transportation Revenue Estimates

Gasoline and other transportation excise taxes are projected to decrease as a result of the pandemic., including an estimated \$386 million reduction in diesel sales, and \$546 million reduction in gasoline excise. This means our County will receive fewer gas tax and SB1 revenues than originally estimated for FY 2019-20 and FY 2020-21. Preliminary estimates indicate the overall revenue impact for our County amounts to \$1.7 million less in FY 2019-20 and \$1.5 million less in FY 2020-21.

CARES Act Funds

The Governor's budget proposes distribution of \$5.8 billion to protect public health and public safety of which \$1.3 billion would be distributed to public health, behavioral health and other health and human services programs. Based on the CSAC's bulletin, it is anticipated Monterey County will receive approximately \$44.4 million in coronavirus relief allocations from these funds. However, this funding can only be used for new expenses incurred as a direct result of the pandemic and prohibits the usage of funds to replace lost revenues. Counties will be expected to distribute a portion of their State allocation of CARE funding to cities within their boundaries with populations below 300,000. Cities with populations over 300,000 will receive \$450 million as a direct allocation from the State. The funds will be released upon jurisdictions' certification that the spending adheres to federal guidance and the State's stay-at-home orders.

Elections

The State received \$36.3 million from the CARES Act for voting activities, but the budget does not address if these funds will be used to help counties with the November election.

Homelessness

- **California Access to Housing and Services Fund:** The January budget proposal included one-time funding of \$750 million for the California Access to Housing and Services fund. Funding will provide rent payments for those facing homelessness, support new dwelling units, and stabilization of board and care facilities and homes. This proposal has been removed from the budget due to COVID-19 revenue impacts. However, the budget plans to allocate \$750 million from federal funds to purchase hotels and motels to be owned and operated by local governments or non-profit providers.

Public Safety

- **Post Release Community Supervision:** The May Revision includes \$12.9 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision (PRCS) as a result of the implementation of Proposition 57.

- **Adult Probation Reform:** The Governor's January Budget included \$60 million General Fund annually for three years and \$30 million General Fund in 2023-24, to supervise and provide probation services for misdemeanants and reduce felony and misdemeanor probation terms to two years. While the Administration is still supportive of the policy objectives included in these reforms, given the State's current fiscal situation, the May Revision withdraws the probation reform proposed in the January budget.
- **Indigent Defense:** The budget provides \$2.1 million for the State Public Defender to improve the quality of indigent defense provided by counties through training and technical assistance for attorneys. This funding level represents a reduction of \$1.4 million from the January budget.
- **SB 678 Funding (Community Performance Incentive Grant):** This funding stream supports probation's important evidence-based prevention and intervention efforts in reducing the number of adult felony probationers re-committed to state prison because of new crimes or violation of probation. For FY 2020-21, the May Revision withdraws the January 2020 Governor's Budget proposal to make this funding stream in block grant form which would have stabilized the fund at the local level and increased Monterey County's portion to \$300,463. Monterey County's proposed portion of this funding from the May Revision will be \$200,000 which is the same as the current year's allocation.
- **Proposition 47 Savings Estimate:** \$102.9 million in savings (down from \$122 million) from implementation of Proposition 47 are to be transferred and reallocated to fund behavioral health treatment programs for qualifying inmates. Specific impacts to the County have not been determined.

Emergency Preparedness and Response

- **Community Power Resiliency:** The May proposed budget contains \$50 million for preparedness measures that bolster community resiliency by supporting critical services vulnerable to outage events such as county election offices. Monterey County Elections along with the Office of Emergency Services has begun exploring leveraging any funding received to further ensure continuity of election services for voters.

Health and Human Services

- **Medi-Cal Healthier California for All (formerly CalAIM):** The proposal to provide \$695 million to transform the Medi-Cal preventative care system is delayed, therefore, this funding is not available. The original intent of this funding was to provide a more consistent and seamless system for individuals, particularly those experiencing homelessness, substance use disorder, or those in foster care or in the justice system. The

investment would have provided enhanced care management, infrastructure to expand whole person care, and built on dental initiatives Statewide. This affects the Whole Person Care program for the Health Department and Social Services.

Targeted Case Management (TCM) and Nurse Family Partnership (NFP) in the Health Department will be impacted when federal funding ends on December 31, 2020. This situation is being carefully monitored as the Health Department works with Central California Alliance to fund care management services and reassign staff from impacted programs to care management.

- **Child Support Programs:** The May Revision proposes reducing funding for child support agencies to 2018 funding levels. This means our local agency will see a reduction of State funding and will very likely not be able to sustain current service levels without local subsidies.
- **Medi-Cal Expansion:** The Governor announced in January that he wanted to increase health care coverage for full-scope Medi-Cal to all individuals 65 years and older, regardless of immigration status. The Governor's May Revision withdraws this proposal.
- **In-Home Supportive Services Program (IHSS):** The State's budget imposes a 7% reduction in the number of hours provided to the IHSS beneficiaries, effective January 1, 2021 and freezes IHSS Administration at FY 2019-20 levels. (These two proposals are trigger cuts that may be restored if the State receives Federal funds).
- **Public Health:** The budget proposes the use for \$4.8 million to fund the State's public health lab, but no funding is provided for local public health labs.
- **Behavioral Health Quality Improvement Program:** The January budget included \$45.1 million for county-operated community mental health and substance abuse disorder systems to incentivize system changes and process improvements in preparation for opportunities through Medi-Cal Healthier California for All. This program is suspended by the May Revision.
- **CalWORKS:** Maintains CalWORKs program eligibility, in order to support the State's response towards low-income residents during the COVID-19 pandemic. In addition, the May Revision includes an increase of \$82.3 million General Fund/TANF Block Grant for CalWORKs county administration to facilitate enrollment in the program and services to beneficiaries. Statewide funding for the CalWORKs Single Allocation has a significant funding increase of approximately \$412 million for the Eligibility, Employment Services and CalLearn, while reducing the Child Care components of the Single Allocation. The County share increase is estimated to be \$4,811,265.

- **Child Welfare, Foster Care:** The May Revised budget proposes a reduction of \$90.5 million for child welfare and foster care services and programs. However, it continues to provide funding to reflect the amount due to counties for FY 2016-17 and 2017-18 for implementation for the Child and Family Teams. Approximately an additional \$6.7 million of RFA backlog funding is proposed to sunset on June 30, 2020. The reduction results in a local funding loss of \$120,986.

Foster Parent Recruitment, Retention (FPRRS): The May Revise confirms the January proposed elimination of this program, resulting in a Statewide cut of \$21.6 million General Fund; a loss estimated at \$307,949 for Monterey County.

Family Urgent Response System (FURS): The May Revise proposes the elimination of this new program which would have established a state level hotline and county mobile response teams to support resource families and foster children and youth.

Foster Family Agency (FFA): The May Revise eliminates the 4.15% rate increase for social work staff, resulting in a \$52 per month reduction to the overall per-child FFA rate.

- **1991 Realignment:** In January, 1991 Realignment revenue was expected to increase, including estimated growth of 3.4% in 1991 sales tax and 3% Vehicle License Fees (VLF). The Governor's May Revision instead projects a reduction of 12.5% in the current year. The base reduction for social services in our County would be an estimated \$2.9 million. The allocation to health services will also be negatively affected for FY 2019-20. However, due to a delay in the redirection of health realignment for FY 2020-21 (\$6.2 million) prescribed by AB85; the County's Health realignment revenue is estimated at \$4.9 million better than budget.
- **2011 Realignment:** During the January budget, 2011 Realignment sales tax was estimated to grow by 4.1%. However, this funding source is now estimated to be lower and accordingly the State estimates it could experience a 13.4% reduction in the current fiscal year and 1.4% growth in FY 2020-21. This affects public safety, health, and social services.

The Public Safety Realignment budget for the Community Corrections Subaccount (AB109) projects a 13% reduction from FY 2019-20 to FY 2020-21 funding levels. Total State funding for AB 109 Community Corrections Account for FY 2020-21 is \$1.17 billion (down from \$1.46 billion in the January 2020 Governor's Budget proposal) with no growth projected for FY 2019-20 or FY 2020-21. Probation is monitoring release of County specific information. It anticipates that the current estimate reduction can be mitigated for FY 2020-21 with use of the AB109 Community Corrections reserve resulting from the Community Corrections Partnership prudent fiscal management.

Additionally, the Community Corrections Partnership (CCP) planning grant funds (\$7.9 million Statewide) to support continued AB109 implementation efforts will be issued for another year. The County grant amount is \$150,000 for FY 2020-21, the same amount that was issued in the current year.

CSAC along with other local government collaboratives worked with the Governor's office and State representatives requesting a \$1 billion backfill for realignment loss to local governments, of which \$600 million is subject to federal trigger solutions. This proposal is under review at the State level.

- **Mental Health Services Act (MHSA):** The May Revise estimates MHSA revenues to decrease by \$2.9 million for FY 2020-21.

Statewide Issues and Various Departments

- **Closure of the State Division of Juvenile Justice:** This proposal would close the State Division of Juvenile Justice and shift a portion of the counties probation departments. It is unclear if this also means the shifting of responsibilities to the local level.

This report briefly reviews the major potential impacts in Monterey County of the Governor's proposed budget and is not intended to serve as an exhaustive analysis. A more thorough explanation may be found in the attached California State Association of Counties (CSAC) report. Departments are also available for details specific to their corresponding programmatic areas.