



**County of Monterey**

# County of Monterey

## 2013-14 Governor's Budget Report

*An Overview of the 2013-14 Governor's Budget, Including Potential Impacts to Monterey County.*



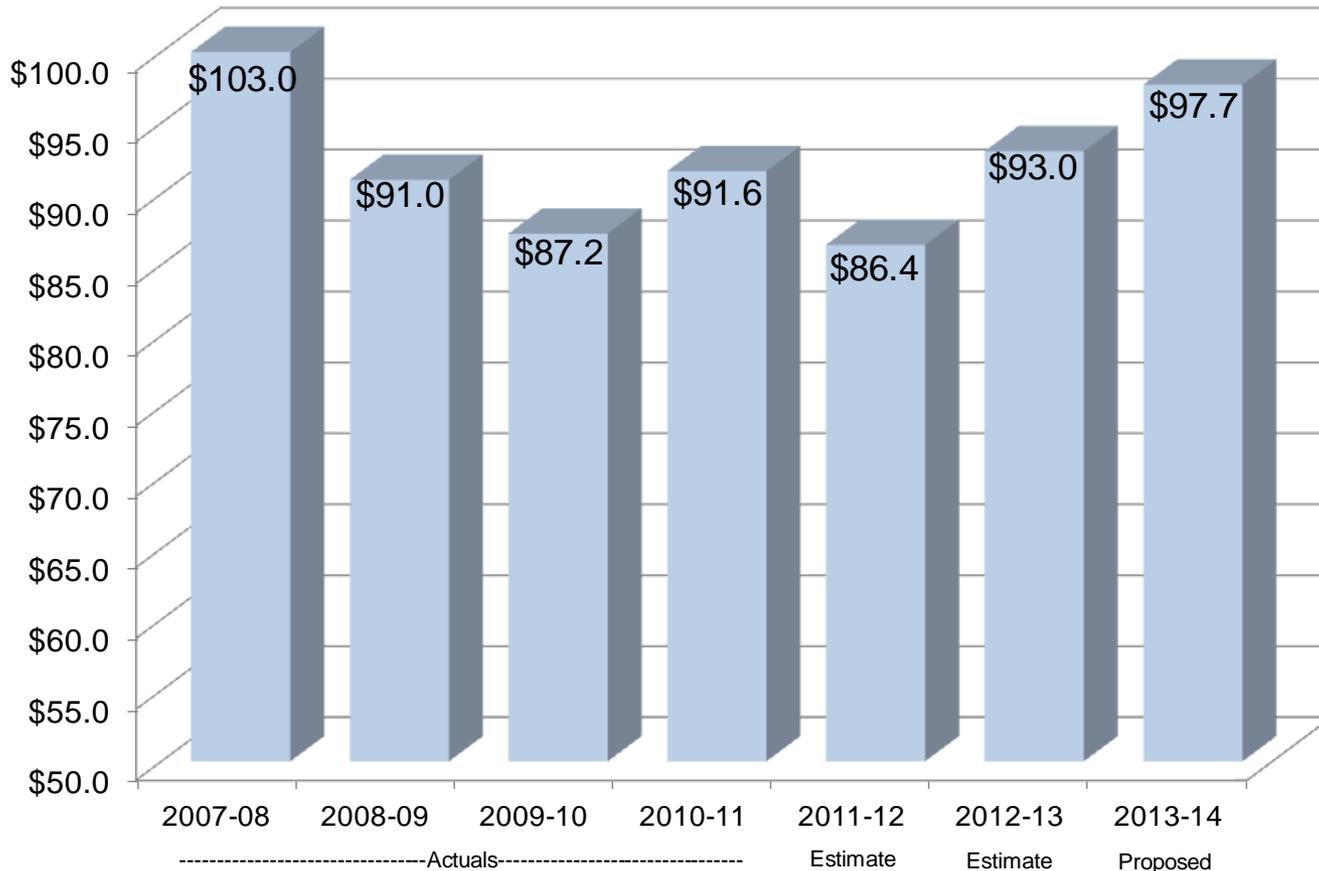
### Highlights of the 2013-14 Governor's Budget...

- ❑ Reflects significant improvement in the state's finances.
- ❑ Prior deficits of more than \$20 billion were closed with billions of dollars in program reductions, revenue increases, and borrowing.
- ❑ As a result of its inability to keep spending in line with tax revenues, California now has Standard & Poor's fourth lowest investment grade (A-) and the lowest of any state, resulting in higher borrowing costs.
- ❑ The Governor's 2013-14 Budget is a step in the right direction and could help the state in future ratings.
- ❑ The economic recovery and voter approval of Proposition 30, which increased tax rates for higher-income Californians and increased the sales tax by a quarter of a cent, help create a more balanced spending plan.



## Analysis of the Governor's 2013-14 Proposed Budget

Annual State Operating Budgets - General Fund



The Governor's 2013-14 Budget provides for \$97.7 billion in general fund expenditures.

The planned level of expenditures is \$4.7 billion higher than the current year estimate and \$11.3 billion higher than the 2011-12 amount.

The proposed budget is the highest it has been in 5 years, but still below the 2007-08 (pre-recession) budget of \$103.0 billion.

Growth is targeted to education & health care reform, with most other areas receiving "as is" funding levels.



### State General Fund Expenditures (In Billions)

	2012-13	2013-14	Change
K-12 Education	\$38.3	\$41.1	\$2.8
Health & Human Services	27.1	28.4	1.3
Higher Education	9.8	11.1	1.3
Corrections & Rehabilitation	8.8	8.8	-
Natural Resources	2.0	2.1	0.1
Legislative, Judicial, Executive	2.0	2.5	0.5
Other	<u>5.0</u>	<u>3.7</u>	<u>(1.3)</u>
Totals	\$93.0	\$97.7	\$4.7

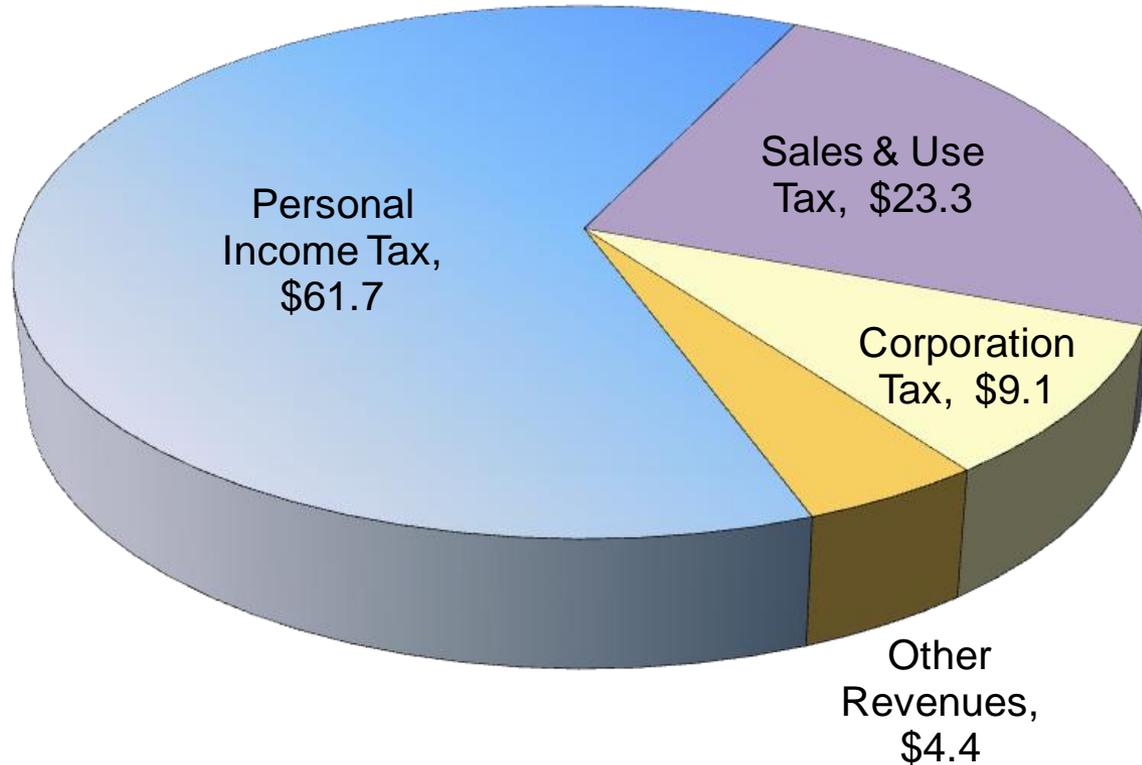
Over half the proposed budget goes to education, including both K-12 schools and higher education.

Most (\$4.2 billion) of the year-over-year growth in expenditures also goes to education.

The other significant area of growth is in health and human services to expand enrollment among the currently eligible Medi-Cal population, and for support of CalWORKS employment services.



### 2013-14 Proposed Governor's Budget: Sources of Revenue



Most of the State's general fund revenues come from 3 sources:

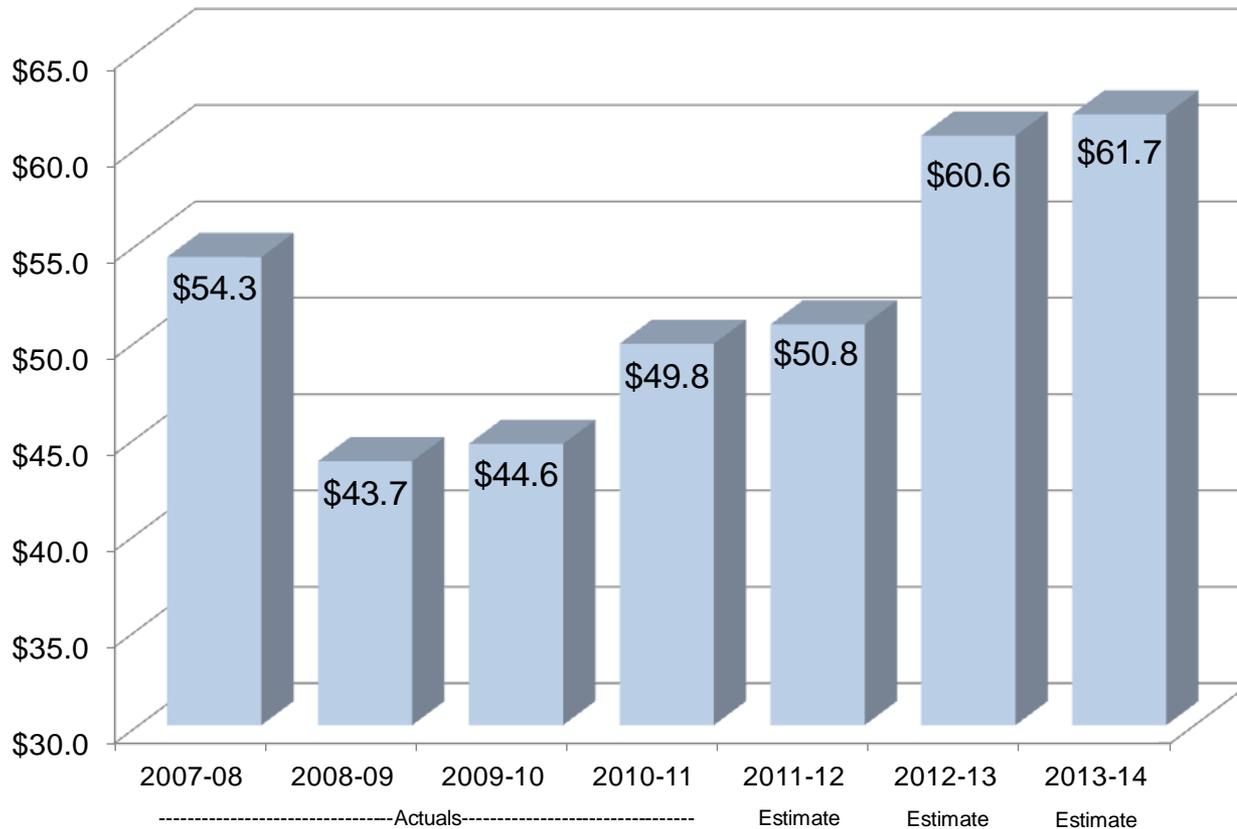
- ❑ Personal Income Tax
- ❑ Sales & Use Tax
- ❑ Corporation Tax

Personal income taxes comprise nearly 2/3rds of state's general fund revenues and are estimated at \$61.7 billion for 2013-14.

Sales and use taxes provide roughly a quarter of general fund financing, with the remaining financing coming from corporation taxes and other revenue sources.



### Annual State Personal Income Tax Revenue



Much of the improvement in state finances can be attributed to growth in personal income tax (PIT) revenues.

These revenues are expected to climb to \$61.7 billion in 2013-14, up \$18.0 billion (41%) since 2008-09 when the nation slipped into deep recession.

The improvement reflects growth in the underlying economy, including higher capital gains, and the increase in personal income tax rates for wealthier Californians under Proposition 30.



## Analysis of the Governor's 2013-14 Proposed Budget

### But the Economic Recovery is Modest and Significant Risks Remain...

The Governor's Budget assumes continuation of the payroll tax holiday in effect the last two years. This "tax holiday" has since ended, reducing disposable income and moderately weakening prospects for economic growth.

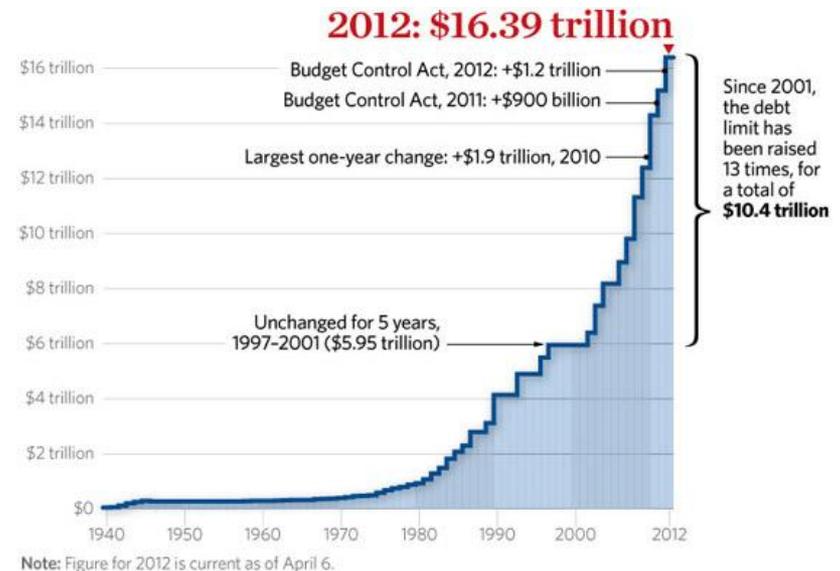
Congress just voted to extend the federal government's ability to borrow through mid-May, avoiding default and, for the time being, a repeat of the 2011 debt ceiling standoff that rattled markets and resulted in a downgrade of the government's triple-A credit rating.

The statutory cap on U.S. public debt (debt ceiling) and the 8% to 10% across-the-board cuts, known as sequestration, are now set to begin on May 20, 2013.

Without a debt ceiling increase, the federal government will have no choice but to delay payment on some of its obligations.

Even if action is taken on the debt ceiling, a prolonged debate and the associated uncertainties could weaken investor and consumer confidence and impede the recovery as it did in 2011.

In addition to these domestic issues, instability centered around the conflicts in the middle east could cause financial anxieties and oil price spikes, which could disrupt the modest economic recovery underway in the U.S.



Sources: Congressional Research Service, U.S. Treasury, and Office of Management and Budget.



# Potential County of Monterey Impacts



### Health Care Reform...

The Affordable Care Act expands coverage via the the health insurance exchange and two expansions of Medicaid.

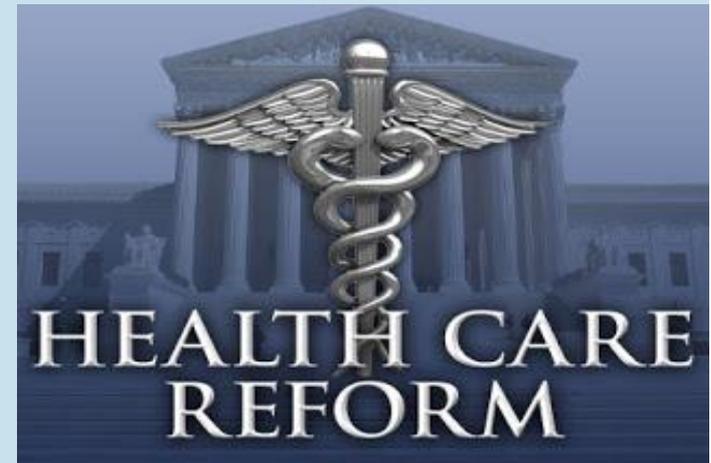
The mandatory expansion of Medicaid requires simplification of eligibility, enrollment, and retention processes. The Governor's budget includes \$350 million as a placeholder for the costs of the mandatory expansion.

An optional expansion builds upon California's "Bridge to Reform" or Low Income Health Program (LIHP), which allows counties to implement a Medi-Cal-like expansion to individuals with incomes up to 138% of the FPL through 2013.

The budget outlines two alternatives for the optional expansion: a state-based approach or a county-based approach.

The **state-based approach** would build upon the existing state-administered Medicaid program & managed care delivery system. County savings associated with medically indigent adults becoming eligible for Medi-Cal under the expansion would be redirected to the state.

Under the *county-based approach*, the counties would have operational and fiscal responsibility for the expansion and would maintain current responsibilities for indigent health care. Counties would be responsible for developing provider networks, setting rates, and processing claims.





### Social Services...

The 2013-14 Governor's Budget spares the Department of Social Services from further deep cuts enacted over the last 6 years, with potentially some restoration funding.

#### **CalWORKs**

The Governor proposes an increase of approximately \$140 million for CalWORKs, which could equate to roughly an additional \$1 million to Monterey County for increasing work participation rates, re-engagement activities and case management for recipients that have been exempted from participating due to having young children and subsidized employment for those placed jobs in collaboration with business partners.

#### **In-Home Support Services (IHSS)**

The Governor proposes to restore a 3.6% service level reduction to IHSS recipients but also assumes that the state will prevail in implementing a 20% reduction in service hours effective November. This reduction was proposed by the Schwarzenegger administration and has been in court since December 2011.

#### **Child Welfare Services (CWS), Adoptions, Foster Care**

Growth in realignment sales tax revenue is estimated to provide Monterey County with an increase of approximately \$1.5 million for these programs to help mitigate cuts from two years ago.

#### **Medi-Cal and Healthy Families**

Monterey County expects additional funding to accept transfer of Healthy Families Children into Medi-Cal in both the current year and budget year. These funds will be used to increase staffing to address an additional 18,000 cases and plan for Health Care Reform.





### Other Potential Impacts...

**Child Support Services.** The Governor proposes restoration of the roughly \$200,000 previously cut from the local child support administrative funding base. The Governor also proposes reinstatement of the county share of assistance collections, which could increase Monterey County's public assistance recoupments by \$200,000 - \$300,000 in 2013-14.

**Suspension of Election Mandates.** The Governor's Budget continues the 2011-12 suspension of major election program mandates and proposes to suspend three additional election mandates in 2013-14. The largest impact to voters continues to be the suspension of all vote by mail program mandates. Suspension of these mandates equates to an estimated annual loss of \$350,000 in revenue, thereby increasing the County's share of cost to continue these services.

**Emergency Services/Disaster Assistance.** The proposed budget includes a \$10 million statewide reduction to the California Disaster Assistance Act Program, which provides state financial assistance to local government for recovery efforts related to a disaster. Reduced emergency funding could result in counties/cities having to fund a larger portion of repairs and replacement of public infrastructure that are the lifelines for community recovery.

#### **Public Safety Realignment**

The proposed budget continues the historic public safety realignment. AB 109 transferred responsibility for managing lower level offenders and parole violators from the state to counties. State funding to the County for AB 109 realignment grew from \$4.4 in 2011-12, the first partial year (9 months) of implementation, to \$7.9 million in 2012-13. Preliminary indications are that this funding will continue growing in 2013-14.

#### **California Community Corrections Performance Incentive Act of 2009 (SB 678)**

SB 678 established a system of performance-based funding that shares state general fund savings with county probation departments when they demonstrate success in reducing adult felony probationers re-committed to state prison. The proposed 2013-14 budget would reduce the County's SB 678 funding from the current year level of \$227,711 to an estimated \$59,205, potentially impacting program staffing.



### Transportation Infrastructure Assessment...



The California Transportation Commission recently published a statewide transportation needs assessment to identify funding needs over the next decade.

The report estimated \$538.1 billion in total infrastructure needs statewide.

The needs assessment also identified \$24 billion of annual revenues dedicated to transportation infrastructure statewide, of which \$10 billion flows through the annual state budget.

Of this budgeted amount, approximately 37 percent supports local transportation needs, including local streets and roads.

Beginning in the spring of 2013, the Transportation Agency will convene a workgroup consisting of state and local transportation stakeholders to refine the transportation infrastructure needs assessment, explore long-term, pay-as-you-go funding options, and evaluate the most appropriate level of government to deliver high priority investments to meet the state's infrastructure needs.

### Next Steps...



Although the Governor's Budget does not include much growth to restore funding lost over the last five years, the absence of significant program cuts is welcome news.

As the next step, the proposed budget will be introduced in each house of the Legislature as the "budget bill", with "budget hearings" typically beginning in late February soon after the Legislative Analyst issues the "Analysis of the Budget Bill".

The traditional "May Revision" adjustments are due by May 14.

Constitutionally, the Legislature must pass the budget bill by June 15, although the deadline is seldom met.

Almost half of the County's general fund revenue comes from the state, either as direct state subventions and grants, or as "pass-through" of federal monies.

Given the County's vested interest in State budget outcomes, the County Administrative Office and departmental leadership will continue to monitor state budget deliberations closely, advocate for the interests of Monterey County and its residents, and apprise the Board of Supervisors of major developments.