

A Commitment to Service

County Executive Office

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Nancy Watt County Executive Officer

To:

Board of Supervisors

From:

County Executive Officer

Date:

March 5, 2012

Subject:

MID-YEAR FISCAL REVIEW - FISCAL YEAR 2011-12

Introduction

As you are aware, a mid-year review of the County's fiscal status, focusing particularly on the General Fund, is an important part of our on-going fiscal monitoring process. Using six months worth of actual revenue and expenditures, we work with departments and the Auditor's Office to forecast revenues, expenditures and Net County Cost, or General Fund Contribution, through the end of the fiscal year. This review enables us to address any current-year budget problems in a timely manner. It also assists us in preparing the FY2012-13 Budget, in part by providing an estimate of the FY2011-12 General Fund ending fund balance. As you know, the current year ending fund balance becomes the beginning fund balance, and thus a major budget source, for the next fiscal year.

As you are also aware, there are still many uncertainties with regard to future revenues and expenditures and these projections are, of necessity, somewhat problematic. After we have nine months worth of actual expenditure and revenue data, staff will be conducting a Third Quarter Fiscal Review which will provide a more accurate picture of what our year-end fiscal status is likely to be.

In addition to providing your Board with a Mid-Year fiscal status report, we typically take this opportunity to give you an update on the State's fiscal situation, focusing on its potential impact on the County's financial condition.

Mid-Year Fiscal Review

General Fund Current Year Fiscal Status

Using the most current information available, we believe that the General Fund will likely complete this fiscal year (2011-12) with an unreserved/undesignated ending balance of approximately \$7.6 million. This is roughly a \$14.8 million, or 66%, decrease compared to the actual FY2011-12 undesignated/unreserved beginning balance. However, the FY2011-12 actual beginning balance reflected the receipt of over \$9 million in one-time prior year Excess ERAF revenue in FY2010-11 as well as additional accumulated Excess ERAF revenue and, in accordance

with the Board's new Fund Balance Policy, approximately \$14.6 million of the unreserved/undesignated fund balance was used to either build General Reserves or increase the Designation for Fiscal Uncertainties. If the portion of the undesignated/unreserved fund balance used for these purposes is excluded, the actual FY2011-12 undesignated/unreserved fund balance used to balance the General Fund's appropriations was approximately \$7.9 million — essentially the same as the projected FY2011-12 ending undesignated/unreserved balance.

GENERAL FUND SUMMARY

	2011-12 Adjusted Budget ¹	<u>Estimate</u>	2011-12 <u>Difference</u>
Resources:			
Fund Balance ²	\$ 25,500,000	\$ 22,428,926	\$ (3,071,074)
Discret. Revenue	95,635,019	95,912,861	277,842
Deptl. Revenue	125,872,911	120,763,799	(5,109,112)
Total Revenue	221,507,930	216,676,660	(4,831,270)
Total Resources	247,007,930	239,105,586	(7,902,344)
Requirements:			
Expenditures	226,866,218	216,625,883	(10,240,335)
Contingency	5,696,570	0	(5,696,570)
Increase Reserves	11,474,086	11,474,086	0
Increase Designations	3,090,168	3,390,480	300,312
Total Required:	247,127,042	231,490,449	(15,636,593)
Difference:	(119,112)	7,615,137	7,734,249

The following is a brief explanation for the "differences" in each resource or requirement category identified in the above table.

1. Fund Balance: The General Fund's undesignated/unreserved beginning balance is approximately \$3.1 million, or 12%, lower than the level assumed in the FY2011-12 Adjusted Budget. This is due primarily to the fact that, in FY2010-11 departments provided more accurate Mid-Year and Third Quarter revenue and expenditure estimates than has historically been the case. Mid-Year and Third Quarter estimates are used to calculate an estimated ending fund balance, which becomes the beginning fund balance for the next fiscal year. Prior to FY2010-11, departmental Mid-Year and Third Quarter estimates tended to be overly conservative and so our office typically added a compensatory adjustment when calculating the General Fund ending balance for the upcoming fiscal year budget— and even then the actual ending

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¹ Reflecting budget adjustments as of December 31, 2011.

² Undesignated/Unreserved beginning balance

fund balance typically came in higher than projected. In FY2010-11, departmental revenue and expenditure projections came in closer to the actual year-end numbers and the compensatory adjustment resulted in a higher ending fund balance than actually turned out to be the case. One reason for this situation might be that, with declining economic conditions, departments' generally conservative projections comported more with reality.

2. <u>Discretionary Revenue</u>: Discretionary, or general purpose, revenues are projected to total approximately \$95.9 million, which is approximately \$280,000, or 0.2%, higher than the budgeted level. The following table shows the budgeted and projected actual levels for the County's major discretionary revenue sources.

Revenue	FY11-12	FY11-12	Difference	Percent Difference
	Budgeted	Projected		
Property Tax (No E. ERAF)	65,085,522	64,989,319	(96,203)	(0.1)%
Excess ERAF	10,000,000	10,000,000	0	0
Transient Occ. Tax	9,002,392	9,300,000	297,608	3.3%
Sales & Use Tax	5,000,000	5,200,000	200,000	4%
Other Discret. Rev.	6,547,105	6,423,542	(123,563)	(1.9)%
Total Discret. Rev.	95,635,019	95,912,861	277,842	0.2%

- 3. <u>Departmental Revenue:</u> Departmental revenues are projected to be approximately \$5.1 million, or 4%, lower than the budgeted level. This is due primarily to:
 - A projected \$5.2 million (42%) reduction in General Fund Capital Improvement Program (CIP) revenues from various sources, due primarily to delays in various capital construction projects. Appropriations for some of these projects and related revenue will be re-budgeted in FY2012-13.
 - A projected \$550,000 (5%) reduction in Child Welfare Services revenue, due largely to a decrease in foster care expenditures and revenue.
 - A projected \$402,000 (8%) reduction in revenue in the Public Works/Engineering budget. This is due in part to the delays in various capital construction projects described above and, in part, to billable revenue due to position vacancies.
 - A projected \$187,000 (6%) reduction in revenue in the Agricultural Commissioner/Sealer of Weights and Measures budget, due principally to the State reducing funds available for pest management programs. This revenue reduction is largely offset with expenditure reductions for these programs.
 - A projected \$182,000 (92%) reduction in Napa Pipe reimbursement revenue in the Housing and Intergovernmental Affairs (HIA) Division budget. Under an agreement, the County is reimbursed for staff time and certain other costs associated with the Napa Pipe project by Napa Redevelopment Partners. Based on recent and anticipated activity levels, it is anticipated that costs will be significantly lower than budgeted this fiscal year, but may increase in FY2012-13.

These and other departmental revenue decreases are partially offset by certain revenue increases, including a \$370,000 increase in Realignment revenue to various Health & Human Services programs, a

\$400,000 increase in Proposition 172 revenue to various public safety departments, and increased State and federal revenue for Children's Mental Health services to cover increased costs in certain programs, including mental health services for students with disabilities (funded with Mental Health Services Act monies), additional EPSDT revenue and deferred revenue from FY2010-11.

- 4. Expenditures: Departmental expenditures are projected to be approximately \$10.2 million (5%) lower than the Adjusted Budget level. This is due primarily to: (1) a \$7.9 million reduction in capital project expenditures in the CIP budget (as indicated above, in some cases these expenditures will be made in future years); (2) a \$630,000 reduction in Central Services expenditures due, in part, to revised estimates for the annual Teeter transfer and, in part, to projected reductions in expenditures on contracts for various services; (3) a \$669,000 reduction in Child Welfare Services expenditures, due largely to the reduction in foster care expenditures discussed above; and (4) \$455,000 in expenditure reductions in the Probation and Juvenile Hall budgets, due, in part, to employee vacancies, hiring of new employees at lower salary levels and lower number of juvenile hall inmates. These projected expenditure decreases are partially offset by expenditure increases in a number of areas, including the increase in Mental Health expenditures mentioned above and a \$780,000 increase in the Health & Human Services Agency's Self Sufficiency budget, due largely to Napa County's contracting with Lake County to provide Workforce Investment Act (WIA) One Stop services in Lake County.
- 5. <u>Contingency:</u> This review assumes that none of the remaining Contingency will be "spent" this fiscal year (and any "use" of the Contingency that may be necessary will is reflected in the above-projected expenditures).
- 6. <u>Increase Designations:</u> This reflects the Board's decision on January 24, 2012 to increase the Designation for New Office Space for the Agricultural Commissioner, using excess Un-refunded Gas Tax revenue from the State. Since this designation increase was approved after December 31, 2011, it is not reflected in the Adjusted Budget column.

An estimated unreserved/undesignated ending fund balance of approximately \$7.6 million indicates that the General Fund will likely have the necessary resources to make it through the rest of this fiscal year without the need to make expenditure reductions beyond those that have already been made or assumed in these projections. However, over the last five fiscal years, it has typically been necessary to use between \$7 million and \$15 million of fund balance to balance the General Fund budget at adoption, not including things like transfers to the ACO Fund, building reserves or one-time payments toward the County's unfunded OPEB liability. This does not mean this money has actually been spent – it helps provide for the General Fund Operating Contingency, for example – but if this amount of beginning undesignated/unreserved fund balance is not available it will require appropriation reductions or cancellation of a portion of the Designation for Fiscal Uncertainties.

Whether it is necessary to use \$7 million or \$15 million, or some other amount, of fund balance to balance the General Fund budget when it is adopted, depends on a number of factors including how much salary and benefit and other costs are increasing, whether new General Fund supported programs are being proposed and the rate at which revenues — particularly discretionary revenues— are increasing or declining. We will be better able to assess the amount of fund balance that may be needed to balance the FY2012-13 budget when a new Five Year General Fund Forecast is prepared and presented to your Board in April. For point of reference, though, the Baseline Five Year General Fund Forecast presented to the Board on January 24, projected a FY2011-12 undesignated/unreserved General Fund ending fund balance of approximately \$7 million which, based on the

assumptions used in that Forecast, would have been sufficient to balance the FY2012-13 budget without cancelling any designations. That Forecast also suggested that the General Fund would likely be in structural balance over the next five years, though the balance is somewhat precarious.

Mid-Year Review of Department Budgets

This section generally focuses on current year General Fund, special revenue fund and enterprise fund departments, where expenditures and/or Net County Cost/General Fund Contributions are projected to exceed the budgeted level by \$50,000 or more. In addition, information may be provided about certain other budget units where there are significant fiscal issues that the Board may need to address. Information concerning the Mid-Year status of all budget units is provided in Attachment A.

In General, where a budget unit is projected to exceed the approved appropriation level or Net County Cost, it is recommended that the department be directed to make every effort to come in within the budgeted Net County Cost level and that the department's fiscal status be revisited as part of the Third Quarter Fiscal Review. Any needed budget adjustments will be made at that time. Budget adjustments would be recommended at this time if it is estimated that there is insufficient appropriation authority to cover projected expenditures that will occur between now and the Third Quarter Review.

General Administration/Finance

General Fund Budget Units:

<u>Primary-General Elections (13600):</u> Expenditures are projected to be approximately \$31,000 (3%) higher than the Adjusted Budget level, revenues are projected to be approximately \$300 higher and Net County Cost is projected to increase by approximately \$30,000 (3%). The primary reasons for the projected increase in expenditures are higher than expected costs associated with the redistricting of Board of Supervisors and school board boundaries, the addition of 41 new election precincts and a new requirement to provide bilingual election materials in both English and Spanish. The new precincts and the requirement to provide bilingual election material are a result of the 2010 census. A budget adjustment is requested increasing appropriations by \$33,950, with an offsetting reduction in the General Fund's Operating Contingency.

Recorder/County Clerk (28000): Expenditures are projected to be approximately \$53,000 (6%) higher than the Adjusted Budget level, revenues are projected to be approximately \$83,000 (8%) higher and there will be no Net County Cost. As projected, the budget unit will contribute \$120,000 to the General Fund, a \$30,000 increase over the budgeted contribution. The primary reason for the projected increase in expenditures and revenues is the anticipated transfer-in of approximately \$78,000 from the Modernization Non-operating special revenue fund to pay for a contractor that will provide image conversion/indexing services for files from 1951 through 1965. This increase in expenditures will be partially offset by a reduction in salaries and benefits due to the fact that two vacant positions were filled at a lower salary level than budgeted. A budget adjustment is requested, increasing appropriations by \$77,900, with offsetting revenue from the Modernization Non-operating Fund

Community Resources/Infrastructure

General Fund Budget Units:

<u>Public Works/Engineering:</u> Expenditures are projected to be approximately \$277,000 (4%) lower than the Adjusted Budget level, revenues are projected to be \$402,000 (8%) lower, and Net County Cost is projected to increase by approximately \$125,000 (9%). The projected decrease in expenditures is due primarily to salary and benefit savings resulting from unanticipated position vacancies, partially offset by the cost of the contract for interim Public Works Director services. The projected decrease in revenue is due to the previously mentioned position vacancies and delays in various capital projects. When positions are vacant and cannot perform engineering or other services for internal clients, the Public Works Department cannot bill for those services.

Non-General Fund Budget Units:

Fleet Management (18000)/Vehicle Replacement (4030): Expenditures are projected to be approximately \$90,000 (9%) higher than the Adjusted Budget, revenues are projected to be approximately \$16,000 (3%) lower and the Budget Unit is projected to use \$106,000 (25%) more of fund balance than budgeted. The projected increase in expenditures is due to the anticipated purchase this fiscal year of 5 replacement Sheriff/Probation vehicles that are scheduled to fully depreciate next fiscal year at a cost of \$148,000. The current police patrol model (Crown Victoria) has been discontinued by the manufacturer and purchase of these vehicles now will save the County money in the short term since the vehicle equipment (light bar, etc.) on the depreciated vehicles can be transferred to the new Crown Victorias. New vehicle equipment will need to be purchased for the new patrol model. The Vehicle Replacement Fund began FY2011-12 with a \$4,974,000 fund balance and the Adjusted Budget reflected that that fund balance would be spent down by \$422,000. A budget adjustment will be requested when the Department brings the request to purchase the vehicles to the Board.

Law and Justice

General Fund Budget Units:

<u>Grand Jury (21700)</u>: Expenditures and Net County Cost are projected to be approximately \$5,000 (9%) higher than the Adjusted Budget level. The primary reason for the projected increase in expenditures is that an FY2010-11 invoice was incorrectly charged to this year's budget. There has also been an increase in the amount of full Grand Jury meetings which has led to increased mileage and attendance costs. These costs are somewhat offset by reduced travel expenditures related to the annual training. A budget adjustment is requested increasing appropriations by \$5,500, with an offsetting reduction in the General Fund's Operating Contingency.

District Attorney Grants (22200): Expenditures are projected to be approximately \$39,000 (3%) lower than the Adjusted Budget level, revenues are projected to be approximately \$90,000 (11%) lower and Net County Cost is projected to increase by approximately \$51,000 (10%). The reduction in revenue is due primarily to the elimination of the Vertical Prosecution Grant program as a part of the Governor's "trigger" cuts enacted in January 2012. The District Attorney Grants budget includes \$80,000 from this source and, at this point, it is unclear how much of this amount will not be received. This Department's Mid-Year estimate assumes that none of the \$80,000 will be distributed to the County, but it is possible that we could receive half or more of this money. The projected expenditure reduction is due to salary savings from staff vacancies, but the Department is not proposing staff or program changes to offset the reduction in grant revenue at this time. The Net County

Cost increase in this budget is fully offset by a projected Net County Cost decrease in the District Attorney (22400) budget.

Human Services

General Fund Budget Units:

Overall, the Health & Human Services Agency is projecting that General Fund expenditures will be approximately \$1,033,000 (1.3%) higher than the Adjusted Budget level, revenue will be approximately \$785,000 (1.2%) higher and Net County Cost will increase by approximately \$255,000 (2.4%). Under Board policy, the Health & Human Services Agency has a fixed Net County Cost of approximately \$10.6 million. However, increases in In-Home Supportive Services (IHSS) provider costs are not included within that fixed Net County Cost and that accounts for approximately \$220,000 of the projected \$255,000 increase in Net County Cost compared to the Adjusted Budget level. The remaining Net County Cost increase is due to the transfer of a legal Clerk from County Counsel to Child Welfare Services and the addition of a Staff Services Analyst in Operations to deal with the HHSA Campus Redevelopment project, both approved by the Board during this fiscal year.

Five of the Agency's 11 General Fund budget units are projected to exceed their appropriations and/or Net County Cost level by more than \$50,000 as described below.

Mental Health (42000): Expenditures are projected to be approximately \$1,054,000 (6%) higher than the Adjusted Budget level, revenues are projected to be approximately \$1,233,000 (8%) higher and Net County Cost will decrease by approximately \$179,000 (7%). The primary reason for the increase in expenditures and revenue is an increase in the number of children receiving mental health services, due in part to the State providing Mental Health Services Act funding to counties for certain services for students with disabilities. Other contributors to the projected expenditure increase include increased salary and benefit costs due to the 1.5% COLA provided all employees and an increase in payments to inpatient mental health contractors due to an increase in the number of placements. Increased revenue includes approximately \$478,000 in Mental Health Services Act funds, \$442,000 in Early and Periodic Screening, Diagnosis and Treatment (EPSDT) funds for children's mental health services and a combined increase of \$312,000 in other revenue sources including deferred revenue from FY2010-11. A budget adjustment is requested, increasing appropriations by \$762,535, with offsetting revenue as follows: \$185,295 from a transfer-in from the Community Mental Health Nonoperating Fund; \$400,000 in additional EPSDT revenue; and \$177,240 in FY2011 Realignment revenue that was originally budgeted in the Comprehensive Services to Older Adults (CSOA) budget unit.

Alcohol and Drug Services (42200): Expenditures are projected to be approximately \$15,000 (0.4%) higher than the Adjusted Budget level, revenues are projected to be \$70,000 (3%) lower and Net County Cost will increase by approximately \$85,000 (5%). The primary reason for the increase in expenditures is higher salary and benefit costs due to the 1.5% COLA granted to all employees. The projected decrease in revenue is due primarily to staff spending less time on activities billable to the Medi-Cal Administrative Activities (MAA) program. Projected revenues and expenditures reflect the receipt of an additional \$35,433 in State Tobacco Control monies that will be transferred in from the Tobacco Control Non-operating Fund. A budget adjustment is requested increasing appropriations by \$35,433, offset by a transfer-in of that amount of revenue from the Tobacco Control Fund.

HHSA Operations (50030): Expenditures are projected to be approximately \$90,000 (4%) lower than the Adjusted Budget level, revenues are projected to be approximately \$152,000 (11%) lower and Net County Cost is projected to increase by \$62,000 (7%). The primary reason for the decrease in expenditures is that the \$93,000

contract award of Tobacco Master Settlement Agreement (MSA) funding for Project 90 will not be spent due to the closure of that program. This is also part of the reason for the projected reduction in revenue (funding for the Tobacco MSA contracts comes to this budget unit as a transfer from the Tobacco MSA Fund). The reduction in expenditures related to the Project 90 contract and certain other expenditure decreases is partially offset by the cost of a new Staff Services Analyst position (\$20,000 this fiscal year) added to deal with the HHSA Campus Redevelopment Project. This contributes to the projected increase in Net County Cost (though it will actually likely end up being funded by a transfer from the Accumulated Capital Outlay (ACO) Fund). The projected reduction in revenue is also due to the reassignment of staff to non-reimbursable activities and to complications associated with allocation of revenue generated by the County Welfare Expense Claim to multiple administrative divisions (this is the first year the Agency split the administrative divisions into multiple budget units).

HHSA Comprehensive Services for Older Adults (50180): Expenditures are projected to be approximately \$242,000 (4%) higher than the Adjusted Budget level, revenues are projected to be approximately \$11,000 higher and Net County Cost will increase by a projected \$231,000 (32%). The primary reason for the projected increase in expenditures is increased In Home Supportive Services (IHSS) provider costs, as a result of more hours of service being provided to care recipients. The County's practice has been to hold the Agency harmless for increases in IHSS provider costs. Projected revenues to this budget unit would have been higher, except that the Department is projecting that \$177,240 in 2011 Realignment revenue that was budgeted as revenue to this budget unit will instead be received in the Mental Health budget unit. This reallocation reflects the actual split of 2011 Realignment funded mental health-related expenditures between the Mental Health and CSOA budget units. This reduction in 2011 Realignment revenue is offset by increases in other revenues.

HHSA Self-Sufficiency Services (50190): Expenditures are projected to be approximately \$780,000 (6%) higher than the Adjusted Budget level, revenues are projected to be approximately \$201,000 (1%) higher and Net County Cost is projected to increase by \$578,000 (the Self Sufficiency Services budget actually reflects a reduction in Net County Cost, so that reduction will be reduced by \$578,000). Part of the increase in expenditures and revenue is a new \$670,000 contract with Lake One Stop, Inc., to provide a One Stop employment assistance center in Lake County, funded with additional Workforce Investment Act (WIA) revenue. The additional WIA revenue associated with the Lake One Stop contract is partially offset by a \$350,000 Medi-Cal payback due to the fact that the County did not spend all of the FY2009-10 allocation (the State previously sent the entire FY2009-10 allocation to the County and will now reduce current year payments accordingly) and a reduction in other WIA grant funds. The projected increase in expenditures also reflects increased salary and benefit costs due to the 1.5% COLA awarded to all employees this fiscal year. A budget adjustment is requested, increasing appropriations and revenue by \$670,000.

Non-Operating Funds

General Administration/Finance:

Local Community Corrections Account (Fund 3024): Expenditures are projected to be approximately \$279,000 (126%) higher than the Adjusted Appropriation level and revenues are projected to remain as budgeted. This Fund was created this fiscal year with the passage of Public Safety Realignment (AB 109). Realignment revenues received from the State are held in this account until they are transferred to appropriate operating budgets to implement the County's corrections realignment plan. The projected increase in expenditures reflects the anticipated implementation of a number of realignment programs, including a new Corrections Work Alternative program and additional electronic monitoring costs. Recommendations for new programs and related budget

adjustments are brought to the Board throughout the fiscal year. Any appropriation increase would be offset by a reduction in the Fund's Designation for Future Needs.

Modernization (Fund 3283): Expenditures are projected to be approximately \$78,000 (433%) higher than the Adjusted Budget level and revenue is projected to remain as budgeted. The projected increase in expenditures will allow for a transfer to the Recorder/County Clerk budget unit to pay for a contractor to provide image conversion/indexing services of files from 1951 through 1965. A budget adjustment is requested, increasing appropriations by \$77,900, with an offsetting designation reduction. The fund currently has a designation balance of approximately \$2.1 million.

Human Services:

Community Mental Health (Fund 3040): Expenditures and revenues are projected to be approximately \$185,000 (3%) higher than the Adjusted Budget level. The increase in revenue reflects a change in methodology related to shifting funding responsibility for CalWORKS to 1991 Realignment. Revenue received in this Fund is transferred to the relevant Health & Human Services operating divisions. A budget adjustment is requested, increasing revenue and appropriations by \$185,295. The increase in appropriations will allow for a transfer to the Mental Health budget unit.

<u>Foster Care Assistance Sub-Account (Fund 3053):</u> Expenditures and revenues are projected to be approximately \$70,000 (4%) higher than the Adjusted Budget level. The increase in revenue reflects adjustments to the way the State apportions this revenue to the counties. Revenue received in this Fund is transferred to the relevant Health & Human Services operating divisions.

<u>Public Health Emergency Response (Fund 3407):</u> It is projected that this Fund will receive and spend approximately \$207,000. This Fund was established to receive federal grant monies to help respond to the H1N1 epidemic. When the FY2011-12 Budget was prepared, it was anticipated that funding under this grant would end in FY2010-11 and no appropriation was requested for FY2011-12. The US Department of Health and Human Services has now notified the County that we will receive \$207,000 this fiscal year. Resources in this Fund are transferred to the Public Health Division.

<u>Tobacco Control (Fund 3454):</u> Expenditures are projected to be \$35,433 (23%) higher than the Adjusted Budget level. The increase reflects the requested expenditure of approximately \$35,000 in additional State Tobacco Control funds received at the end of FY2010-11. Revenue received in this fund is transferred to the Alcohol and Drug Services budget. A budget adjustment is requested, increasing appropriations and cancelling designations in the amount of \$35,433, to allow a transfer of \$35,433 in resources to the Alcohol and Drug Services budget.

With the adjustments described above, the General Fund Contingency will stand at \$5,356,808.

State Budget Issues

On January 5th, the Governor released his proposed FY2012-13 State Budget, outlining a plan to eliminate an estimated \$9.2 billion deficit (\$4.1 billion in FY2011-12 and \$5.1 billion in FY2012-13). To help address the deficit, the Governor's Budget included \$4.2 million in expenditure reductions (primarily in Health & Human Services programs, education and various State mandates) and \$4.6 billion in new revenue, including approximately \$4.4 billion in revenue from a temporary increase in the sales tax and income tax that would require voter approval.

As proposed by the Governor, the temporary increase in sales and income taxes would be part of a November 2012 ballot measure that would also provide a constitutional protection for counties' 2011 Public Safety Realignment revenues (from Vehicle License Fees and Sales Tax revenue). The Governor's proposed FY2012-13 Budget includes \$5.8 billion in funding for 2011 Public Safety Realignment, which is a \$247 million (4%) increase from the FY2011-12 budget level, but the FY2012-13 Budget includes two new Realigned Mental Health programs – Mental Health Managed Care and Early Periodic Screening, Diagnosis and Treatment (EPSDT) – that are slated to receive approximately \$732 million in funding. The FY2012-13 Proposed Budget does not, however, include Realignment funding to reimburse the State for parole costs (\$957 million was included in the FY2010-11 State Budget for this purpose). When both of these factors are accounted for, the Governor's FY2012-13 Proposed Budget includes approximately \$472 million, or 10%, more in 2011 Public Safety Realignment funding for counties than was included in the FY2010-11 State Budget. The amount of Realignment funding included in the Governor's Proposed Budget for supervision of "lower level" offenders transferred to the counties is \$581.1 million, which is a 142% increase over the amount included in the FY2011-12 budget (and, in fact, we have been told by the State to expect to receive double the amount received in FY2011-12 for this purpose—for Napa County this would mean we would receive approximately \$2 million). It needs to be kept in mind, however, that the transfer of responsibility for offenders from the State to the counties took effect on October 1, 2011, three months after the 2011-12 fiscal year began and the number of offenders in county custody is expected to ramp up over a roughly two year period.

With regard to Realignment, the Governor's Budget outlines a revised juvenile justice proposal whereby the State would stop intake of juvenile offenders to the Division of Juvenile Justice facilities on January 1, 2013. In order to prepare counties for this shift in responsibilities the Budget proposed to provide \$10 million in planning funding to counties in FY2011-12.

If the November 2012 ballot measure proposed by the Governor is not approved, the Proposed Budget identifies \$5.395 billion in "Trigger Cuts" to take effect on January 1, 2013. \$4.8 million of those cuts are to K-12 education and community college funding, \$400 million are to the University of California and California State University systems and the rest target various State departments, including the courts.

In terms of counties, the bulk of the proposed changes in the Health & Human Services area will impact our clients, but it appears that the impact on County budgets and staffing will be limited in FY2012-13. The three most significant changes in terms of State cost savings are:

- <u>CalWORKS</u>: The Governor is proposing a major restructuring of CalWORKS, involving a number of different components, including a two-track system, with one track providing assistance to all eligible participants at a certain level for 24 months, with a progress assessment at 12 months. The second track would be for those aid recipients who meet certain employment goals. Recipients in this track would receive a higher level of assistance for up to 48 months. The Governor's proposal also would include shifting responsibility for determining Child Care eligibility to counties in FY2013-14, changing the Child Care income eligibility criteria and reducing the child care reimbursement rate ceiling. Total cost savings from all of the Governor's CalWORKS changes are estimated to be \$946 million.
- <u>In Home Supportive Services:</u> The Governor is proposing a number of reductions to the In Home Supportive Services (IHSS) program, including eliminating "domestic and related services" for IHSS consumers living with other adults who are not participants in the IHSS program, unless those adults are

found to be unable to perform those services. This proposal would affect 254,000 recipients and save an estimated \$164 million a year. If this proposal were adopted, it would likely save the County money.

• Medi-Cal: The Governor is also proposing a number of changes to the Medi-Cal program, including various actions to improve coordination of persons who are "dual eligible" for Medi-care and Medi-Cal (at first involving the implementation and then expansion of pilot projects in a number of counties) and making long-term care services a Medi-Cal Managed Care benefit. The Governor's Budget estimates that there will be nursing home and hospital cost savings from the pilot projects and is proposing a payment deferral and alignment of policies for all Managed Care counties. This proposal is projected to save the State \$678 million in FY2012-13 and \$1 billion in FY2013-14. The Governor is also proposing the expansion of Medi-Cal Managed Care into all counties, starting in June 2013 and enrolling all current Medi-Cal beneficiaries, including IHSS recipients and those in the institutional long-term care program. The Governor's Budget also includes implementing an annual open enrollment for Medi-Cal beneficiaries. Currently, beneficiaries can change plans up to 12 times a year. Napa County is already a Managed Care county.

There are a number of other proposals that could impact counties, including:

- A proposal to suspend the County share of Child Support Collections in FY2012-13, and redirect the \$34.5 million to the State's General Fund (this funding was also suspended in FY2011-12). Napa County's Child Welfare Services Division has historically received about \$177,000 from this source.
- A proposal to once again defer the State's payment for pre-2004 State mandates, as well as proposals to repeal or suspend numerous State mandates, though, in most cases, Napa County has not received funding related to these mandates for a number of years.
- The continuation of trigger cuts implemented in January 2012, when State revenue was forecast to fall below the statutory threshold level. These include cuts to library funding that will reduce revenue to the Napa County Library by more than \$300,000.

Staff is continuing to evaluate the Governor's Proposed Budget to determine its impact on Napa County and to track its progress through the Legislature. As the Board knows, we often do not know what the ultimate impact of the State budget will be on the County until a number of months after the budget is adopted.

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