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June 16, 1994

City Council
Sacramento, California

FILED
JUN 21 1994
BY THE CITY COUNCIL
OFFICE OF THE CITY CLERK

Honorable Members in Session:

SUBJECT: 1994-95 Operating Budget Update

LOCATION AND COUNCIL DISTRICT: Citywide

RECOMMENDATION

This is an informational report, no action is required.

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FOR COUNCIL MEETING OF: June 21, 1994

SUMMARY

This report updates cost estimates contained in the 1994-95 Proposed Operating Budget relative to changes to PERS retirement costs and retiree health insurance costs. Also attached is a summary of the Governor's Budget Plan for the 1994-95 State Budget.

BACKGROUND INFORMATION

Budget Background: The City 1994-95 Operating Budget was released in May. This proposed budget reflects the culmination of an 18 month process which Council reviewed every City program, prioritized these programs, and took necessary actions to reduced the budget by $27 million and over 500 positions. Although the City has significantly reduced the General Fund deficit, a $4.5 million deficit remains. The Proposed Budget closes this gap by utilizing Gas Tax Reserves and continued expenditure freeze savings.

The Proposed Budget is "status quo" in financial terms but dynamic in terms of innovative new ways in service deliveries. With the support of the City Council, the community, and City staff, we have minimized the impacts and/or maintained service levels despite the reductions. Two major reorganizations will provide improved delivery of services. The Neighborhood Services Department has been divided into four geographic areas of interdisciplinary teams. This reorganization will provide the citizens with direct access to "big" city resources delivered in a "small" city manor.

Similarly, the Planning and Development, Public Works, and Utilities Departments have reorganized to provide improved delivery of services. "One-stop shopping" provides the user with consolidated, coordinated, and multi-disciplinary team support. A customer will no longer have to maneuver through several City departments to move expeditiously through the multi-disciplinary review process for development related projects.

Cost Estimates: The 1994-95 Proposed Operating Budget is developed based on estimated revenues and cost factors such as: sales tax receipts, retirement costs, workers' compensation rates, etc. Staff has recently received updated retirement and retiree insurance cost rates.

Each year the City receives notification from the California Public Employees' Retirement System (PERS) of the rate the City should contribute into this retirement system. The City has received updated rates for safety personnel and for miscellaneous employees (all other non-safety employees) in the PERS retirement system. The rate for miscellaneous employees has increased slightly from 5.981% to 6.361% of wages, an increase of 0.38%. The rate for safety personnel decreased by 3.426%.

In addition to the PERS retirement rate change, the City's cost for retiree health and dental insurance has decreased. This cost reduction will save approximately $200,000 due to the reduction in premium costs. This savings is partially offset by retirement contributions for retirees who started City employment prior to April 1, 1935.

State Budget: The Governor's Budget Plan was released on June 13, 1994 (Attachment A). The report details the State of California $4.0 billion budget problem. The Governor's plan addresses the deficit by receiving $0.8 billion from the federal government relating to immigration, correction of Property Tax allocations to schools $0.5 billion, Conference Committee adjustments of $0.4 billion, State budget reductions of $1.3 billion, and addressing $1.0 billion in the 1995-96 fiscal year.

Staff is reviewing the Governor's proposal and other legislative proposals to determine the possible impacts to the City of Sacramento. The Governor's Plan to correct the allocation procedures of Property Taxes to school could have an impact to the City of Sacramento. Sacramento County is one of several counties that included the School Property Tax Fund in the participation of redevelopment funding, effectively reducing the transfer of property taxes to schools. A change in this formula could impact the City of Sacramento by approximately $1.1 million.

Several changes to the Governor's plan may be introduced in the next few weeks that could negatively impact the City of Sacramento. Staff will continue to monitor the State budget process and report back to the City Council with updated information.

FINANCIAL

The Proposed Budget was based on the current 1993-94 PERS rates and retiree health insurance costs. The combined effect of a slightly higher miscellaneous retirement rate, a lower safety retirement rate, and a decrease in retiree health insurance costs is detailed below:

	General Fund	Other Funds
PERS Safety Rate Savings	1,775,000	0
PERS Misc. Rate Cost Increase	<160,000>	<90,000>
Retiree Health Insurance Savings	200,000	100,000
Charter Retiree Costs	<135,000>	<15,000>
Total Savings	$1,680,000	< 5,000>

POLICY CONSIDERATIONS

The 1994-95 General Fund Budget was balanced by using $3.0 million in Gas Tax reserves and $1.5 million from continuing an expenditure freeze. There will be other updates of assumptions used to develop the 1994-95 with both positive and negative impacts. Given the continued expenditure freeze, the uncertainty relative to the State's budget, and the continued sluggish economy, it is recommended that these PERS and insurance savings be placed in reserve and reviewed with other updated financial information at the Midyear Review.

MBE/WBE

This report has no MBE/WBE impacts.

Respectfully submitted,

Michael D. McGrane
Senior Management Analyst

Recommendation Approved:

FOR William H. Edgar
City Manager

June
Governor's Budget
Plan

Pete Wilson
Governor
State of California

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To Ken Nishimoto	From Ken Emanuels
Co. Sac. Finance	Co.
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June Budget Plan
General Fund
(Dollars in Billions)

	Revenues	Expenditures
1991-92	$42.0	$43.3
1992-93	$40.9	$40.9
1993-94	$39.8	$39.2
1994-95	$41.6	$40.7

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PROPOSED 1994-95 SOLUTIONS
GENERAL FUND
(Dollars in Billions)

The budget problem to be addressed in the 1994-95 budget is $4.0 billion.

SOLUTIONS:

Federal Funds -- Reimbursement for Immigration	**$0.8**
Correction of Property Tax Allocation	**0.5**
Conference Committee Actions	**0.4**
Budget Reduction Proposals	**1.3**
Deficit Reduction Plan	**1.0**
TOTAL	**$4.0**

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FEDERAL FUNDS
(Dollars in Millions)

	1994-95
Incarceration	$356
Health Care	296
Education	--
Refugees	111
TOTAL	$763

Based upon the State's assessment of Federal Fund participation, the June Budget proposal assumes the Federal Budget provides full reimbursement (federal fiscal year) for incarceration and health care costs for illegal immigrants and refugees. It is assumed that Federal Funding for Education costs for illegal immigrants will not be provided until 1995-96.

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CORRECTING COUNTY ALLOCATIONS OF PROPERTY TAX

The 1993 budget agreement shifted $2.6 billion in property tax revenues from local agencies to K-12 and community college districts, in order to meet the State's constitutional obligations under Proposition 98. Of the total amount transferred, $2.0 billion came from counties. This transfer is made through an Education Revenue Augmentation Fund, or ERAF, in each county.

The Department of Finance has identified 12 counties which have reduced the amount transferred to schools below the levels adopted in the budget agreement. These counties are treating ERAF as a local jurisdiction which contributes tax increment to redevelopment agencies, thereby reducing the amount of tax increment contributed by the county. This method of allocating property taxes is inconsistent with the method agreed to by the Legislature to estimate the fiscal impact of the budget agreement.

Property tax losses to K-12 and community college districts from these county decisions in 1993-94 are estimated at $159 million. The use of this method by all 58 counties in 1994-95 would result in revenue losses between $240 million and $300 million. Approximately 84 percent of these revenue losses would accrue to K-12 districts, and 16 percent to community college districts.

The administration proposed amending the statutes governing these allocations when the Governor's Budget for 1994-95 was released in January. The June budget proposal contunues to assume that legislation will be enacted to direct counties to adhere to the Legislature's original intent in the 1993 budget agreement. If this legislation is not enacted, further budget reductions of up to $759 million through the 1995-96 fiscal year will be required.

[redacted]

GENERAL FUND

1994-95
JUNE BUDGET PLAN
(Dollars in Millions)

CONFERENCE COMMITTEE ACTIONS

The June proposal includes several recommendations to increase resources or reduce expenditures that were adopted by the Conference Committee on the budget during its deliberations.

Expenditure Reductions

The June proposal includes reductions in various expenditure programs. The significant reductions are:	1994-95	$158.0
• Supplemental Drug Rebates		($20.0)
• Hospital Inpatient		($46.0)
• Prepaid Health Plans		($9.0)
• Motor Voter Program		($8.0)
• Education Now and Babies Later (ENABL)		($7.0)
• Community College Initiatives		($12.0)
• Elimination of inflation adjustments (Price) for all departments except UC, Hastings, CSU, Maritime Academy, and the Legislature		($27.0)

Revenues and Transfers

The June proposal also includes the following General Fund revenue and transfer changes adopted by Conference Committee:	1994-95	$270.0
• Franchise Tax Board Audits		($45.0)

• Tax Settlements	($50.0)
• January Tax Credit Proposals	($131.0)
• Special Fund Transfers	($44.0)

BUDGET REDUCTION PROPOSALS

4260 - Department of Health Services/Medi-Cal

Additional Disproportionate Share Hospital (DSH) (SB 855) Transfers - This proposal would require local agencies, principally counties which have county hospitals, to transfer $120 million to the General Fund, in addition to the current $154.8 million, for general Medi-Cal purposes. This transfer will be used to help continue funding for Medi-Cal optional eligibles not certain optional benefits. By maintaining these services at the State, federal matching funds will continue that otherwise would be lost if these eligibles and benefits became a county responsibility. This would reduce from $1.095 billion to $975 million the amount that could be matched by federal funds for DSH payments. DSH payments are made to all qualifying hospitals, not just those owned by the entities required to make intergovernmental transfers. — 1994-95 $120.0

County Administrative Claiming (SB 910) Monies -Chapter 1179/91 (SB 910) established a means for counties to receive federal Medicaid funding for in-kind targeted case management activities carried out by their staffs. As the program was being implemented, however, the Department of Health Services and the counties discovered that claiming for patient-related "administrative" activities (not eligibility work, for which the State already pays) also would be approved by the federal government. Currently, almost all of the county claiming under this program is for these "administrative" activities, not case management. — 1994-95 $165.0

Although actual cash payments to the counties are just commencing, the 1992-93 budget included $200 million in these federal payments to counties. The 1993-94 budget includes an estimated $740 million (a portion is attributable to one-time, retroactive payments), and the 1994-95 proposal is for approximately $500 million.

These additional funds will be utilized to help maintain certain optional eligibles and benefits under the Medi-Cal program. Maintaining these programs by the State will continue federal matching funds that would be lost if these eligibles and benefits became a county responsibility. This June Proposal would use $165 million of these federal payments in 1994-95 for general Medi-Cal use in lieu of State General Fund spending.

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Limit Prescriptions to Six for Interim Savings - This proposal would limit to six the number of prescriptions that a Medi-Cal beneficiary can receive each month without prior approval in an effort to assure appropriate drug utilization. Physicians who determine that additional prescriptions are medically necessary would be asked to submit a Treatment Authorization Request (TAR) for approval. Through the use of a TAR, those who need more than six prescriptions per month could receive them. Assuming a September 1, 1994, implementation date and termination on May 1, 1995, when the pharmacy benefit management (PBM) contracting is to commence, this interim proposal would result in 1994-95 savings of $13 million General Fund.	1994-95	$13.0
Reduce the Drug Dispensing Fee - Federal law protecting pharmacists from reductions in dispensing fees under Medicaid will expire on December 31, 1994. If Medi-Cal pharmacists were paid a $3.00 dispensing (service) fee per prescription instead of the current $4.05, about $18.6 million ($9.3 million General Fund) could be saved from January 1, 1995, until the PBM contract is implemented on May 1. The federally-protected dispensing fee is far above that paid by most third-party payers.	1994-95	$9.3
Bar Sponsored Aliens From Medi-Cal Eligibility For Five Years - Currently, sponsored aliens who otherwise meet eligibility criteria may receive services under Medi-Cal as legal residents. Under this proposal, such eligibility could not occur for five years. This assumes federal law would be changed to require the sponsors to assume responsibility for these aliens for five years, and to eliminate exclusions for agency sponsorship responsibility. Both State and federal law would have to be changed to bar sponsored aliens from Medicaid eligibility -- regardless of the number of years to be excluded. This proposal assumes that the required statutory amendments will be operative by October 1, 1994 and that the program changes will be implemented by December 1, 1994. The 1994-95 General Fund savings for Medi-Cal are estimated to be $22.0 million; the full-year value for 1995-96 would be $37.7 million.	1994-95	$22.0
Targeted Medi-Cal Fraud - Under this proposal, the Department of Health Services would add 38 positions to its Audits and Investigations Division to augment fraud investigation activities in Los Angeles, Sacramento and Santa Clara counties. The department has been unable to investigate all of the Medi-Cal fraud referrals that it receives from eligibility workers in these counties; the county staffs, as a consequence, tend not to refer all cases that they might suspect of fraud. These support costs of $3 million ($1.5 million General Fund) are expected to be offset by 1994-95 savings of $18 million ($9 million General Fund) for a net General Fund savings of $7.5 million. In 1995-96, the full year <u>net</u> General Fund savings should reach $10 million.	1994-95	$7.5

5180 - Department of Social Services

"One Strike and You're Off" Public Assistance - This fraud proposal (federal law change is required) would permanently disqualify adults who commit an intentional program violation (IPV) in the AFDC, Food Stamps, SSI/SSP, and General Assistance programs from ever receiving aid under any of these programs. Any eligible child in a case with a disqualified adult would continue to receive all benefits. This is similar to the current IPV disqualification process in AFDC and Food Stamps, except that the lifetime disqualification would take effect on the first IPV, rather than the third, and an IPV committed in one program would create a disqualification from all programs. It also expands the IPV disqualification process to cover other public assistance programs, which currently do not have such a process. Although no savings are assumed in 1994-95, this proposal would result in an estimated $47.1 million ($24.1 million General Fund) savings in 1995-96. This program would create a major deterrence to public assistance fraud, provide a cost-effective alternative to prosecution of fraud through the criminal justice system and maintain a "safety net" for children whose parents are disqualified.	1994-95	--
Bar Sponsored Aliens From Eligibility For Five Years - This proposal would increase savings by $18.1 million by barring aliens sponsored by individuals or agencies from receiving AFDC, Food Stamps, and General Assistance benefits for five years (based on a December 1 implementation date, assuming a federal law change by October 1). In addition, counties would be permitted to recover their costs from the sponsors for Emergency Medical Services provided to sponsored aliens during the five year period. It should be noted that the period during which a sponsor's income can be counted in SSI/SSP eligibility determinations was extended by Congress from three to five years effective January 1, 1994.	1994-95	$18.1
SSI/SSP Savings from Drug Convictions - This proposal would deny SSI/SSP to individuals convicted of a drug offense, including sale or possession, for a General Fund savings of $4 million. This proposal includes denying General Assistance (GA) to those deemed ineligible for SSI/SSP due to drug or alcohol addiction. Without this modification, all those made ineligible for SSI/SSP would be eligible for GA at a cost of approximately $7 million annually. This proposal is in addition to the Governor's January Budget proposal to deny SSI/SSP eligibility to alcohol and drug cases who refuse to enter treatment, and further, to limit eligibility to 2 years for these cases. Estimated General Fund savings from this proposal is $4.8 million. It is assumed that federal funds will be available for treatment slots.	1994-95	$4.0

6440 - University of California
6610 - California State University

Shift funding for deferred maintenance from GF to revenue bonds, for GF savings of $15.4 million ($10.2 million for UC and $5.2 million for CSU). Reduce expenditures by $46.6 million through an unallocated reduction, with the amount proportional to the GF May Revision totals ($25.3 million for UC and $21.3 million for CSU). UC and CSU would determine the specific reductions.	1994-95	$62.0

Debt Service

During the 1994 May Revision, an assumption was made as to the overall level of external borrowing needed in the 1994-95 fiscal year. At that time, the State planned to borrow approximately $6.5 billion in Revenue Anticipation Notes (RANs). The associated interest cost was estimated to be $260 million. This $260 million, together with $66 million in interest from the $3.2 billion Reimbursement Warrants (RAWs) maturing in the 1994-95 fiscal year totalled approximately $326 million in General Fund interest costs for external borrowing in the 1994-95 fiscal year.	1994-95	$180.0

Currently, the State plans to borrow approximately $5.0 billion of RAWs in July 1994, which will mature in April 1996. Therefore, the $6.5 billion in 1994-95 RANs assumed at May Revision is now estimated to be $2.0 billion. As a result, the decreased size of the RANs result in approximately $180 million of savings in external interest costs in the 1994-95 fiscal year.

ECONOMIC STIMULUS LEGISLATION

The Legislature has failed to adopt the Governor's Tax Credit proposal made in January. The June proposal offers the following June Economic Stimulus legislation:

Headquarters Retention (AB 1313) -- This bill would provide a tax credit to qualified taxpayers which locate a new corporate headquarters in California or maintains or expands an existing corporate headquarters in California.

Small Business Expensing (legislation pending) -- Would conform state law with federal law by increasing from $10,000 to $17,000 the amount allowed to be expensed by a small business.

KEY ASSUMPTIONS

The June proposal continues to reflect the reductions that were included in the Governor's January Budget for:

Welfare Reform	1994-95	$418.0
• AFDC -- 10% Grant Reductions		($238.0)
• AFDC -- Transitional Grants		($161.0)
• Maximum Family Grant		($3.0)
• Special Need Benefit		($19.0)
Medi-Cal	1994-95	$225.0
• Medi-Cal Optionals		($163.0)
• OBRA Prenatal		($51.0)
• Contract Pharmacy		($11.0)

Consistent with actions taken by the Legislature, the fiscal estimates in the June Budget Plan no longer assume the Restructuring proposal presented in the January Budget. The Administration remains committed to a continuing discussion on how a Restructuring proposal could best be fashioned to further the goals of local control, local flexibility and the establishment of fiscal incentives for program performance.

In addition, consistent with the revised assumptions regarding receipt of federal funds, the June Budget Plan assumes a 50-percent match, rather than a 54.41-percent federal medical assistance percentage (FMAP).

RENTERS' TAX CREDIT

In the June 7, 1994, election the voters rejected a proposed constitutional amendment to include a renters' tax credit in the Constitution. There still remains a statutorily established renters' tax credit program which has been temporarily suspended for the 1993 and 1994 tax years. If the current suspension is not extended or the program is not repealed, the potential costs would be $390 million beginning in 1995-96 and increase to $420 million in 1996-97. Given the expressed will of the people regarding the renters' tax credit, the current statutory provisions for the program should be repealed.

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FUNDING FOR EARTHQUAKE RESPONSE

The bond authorization in Proposition 1-A was intended to fund most state costs of response to the Northridge Earthquake, but was not approved by the voters in the June election. Therefore, costs previously proposed for funding from the bond authorization must be either absorbed from existing funds or not provided.

In view of the natural disasters that have befallen Californians in recent years, and given the growing signs of economic recovery in California, imposing additional taxes to fund these costs would be counter-productive.

The State's share of earthquake-related Caltrans repair work, as well as seismic retrofit activity, will be funded by reordering project priorities in the state transportation program. This will mean that some scheduled transportation and rail projects will have to be pushed back.

Repair of earthquake-damaged K-12 school facilities will be funded by utilizing balances from previous K-12 bond acts. Utilizing these balances will require action by the State Allocation Board.

The State will continue to provide local government's 10-percent matching share of costs for local infrastructure repair, which is currently estimated at $130 million for fiscal year 1994-95. This funding will be provided through federal short-term financing of state costs. Any further costs will be addressed in fiscal year 1995-96 and beyond.

While the CALDAP program was worthwhile, the Legislature has never provided a permanent source of funding for the program. Given the action of the voters, state funding will not be available. The Director of Housing and Community Development will continue to work with local and federal officials to identify potential avenues of funding priority housing needs.

Given the action of the voters, the state will not be able to provide the local government matching share for hazard mitigation programs, which are prospective in nature and do not affect structures that were damaged in the earthquake. However, local governments may still be able to take advantage of federal funds for these programs if they are able to develop an alternate funding source for their local matching share.

General Fund
June Deficit Elimination Plan

- A 22-Month Plan to Eliminate the Deficit.

- $3 billion of the $4 billion Budget Problem is Addressed in 1994-95.

- $1 billion of the Budget Problem is Addressed in Fiscal Year 1995-96.

- The Plan Provides for Market Access to Ensure That Normal Cash Flow Demands Are Met.

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