January 21, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE BUDGET REPORT

Attached is a paper outlining the County's position on the three main State budget issues that impact the County at this time: the vehicle license fee backfill, realignment, and the deferral of SB 90 reimbursement. There is existing Board policy on all three general issues, although the specific goals of seeking budget year reimbursement for the Mental Health - special education mandates, as well as the request for a date certain for the repayment of SB 90 reimbursements, reflect our assessment of what *might* be possible given the State budget situation.

As requested by the Governor, the Budget will be dealt with by the Legislature in two stages: the current special session which is considering the Governor's December proposals to save $10 billion in the current and budget year; and the regular session which will take up the remainder of the budget gap starting sometime after the Legislative Analyst's Office publishes its analysis of the Governor's January budget on February 19, 2003. In addition, there seems to be growing support within the Legislature to immediately consider restoration of the original vehicle license fee rate as an alternative to the Governor's recommendation to eliminate the general government backfill.

Consequently, at this time we are focusing on the special-session issues that impact the County directly, especially the maintenance of the VLF backfill which, if eliminated, would cost the County $663 million over the next seventeen months. In addition, the following Governor's December proposals impact the County:

Deferral of SB 90 Reimbursement to Local Governments: Another year's deferral will delay reimbursement of an additional $61 million in claims, on top of the $87 million from last year and prior years. We oppose based on existing Board policy.

Local Street and Road Fund: The Governor eliminated $90 million in payments in the current year to solve a cash flow problem in the State Highway Account costing Public Works approximately $12.6 million. However, the Controller last week released the second quarter payment, reducing the potential impact on the County to approximately $8 million. We oppose based on existing policy.

Workers Compensation User Fee: The Governor has proposed to make the administrative costs 100% supported by users, rather than 20% as at present, which will result in a 500% increase that will cost the County $1.7 million. We oppose as a cost shift.

Public Library Fund: The Governor's $15.8 million reduction in State grants will cost the County Library system $1.6 million which will be difficult to absorb given all the cuts the Library has had to absorb in the last decade. We oppose based on existing policy.

Community Redevelopment Authority Transfer: The proposed transfer of unencumbered funds in the low - and moderate - income housing account to the State will cost the Community Development Commission around $275,000, depending upon the definition of unencumbered. **There does not seem to be existing policy to cover this proposal.**

Public Safety Grants: The Governor proposed a $3.8 million reduction in the overall program in the current year which may impact grants received by the Sheriff, the District Attorney and Public Defender.

In addition to these direct impacts, there are three Medi-Cal related proposals that could indirectly impact the County by increasing the number of uninsured seeking County health services.

Restoration of Quarterly Reporting: Eliminated in January 2000 in order to increase enrollment, restoration of quarterly reporting will eliminate Medi-Cal coverage for 193,000 adults statewide in FY 2003-04. We oppose based on existing policy.

Rescinding of 1931b Income Eligibility: Reduction of the income eligibility limits for working families from 100% to 61% of the Federal poverty level, would eliminate coverage for an undetermined number of new applicants. We oppose based on existing policy.

Elimination of Optional Benefits: In both his December and January proposals, the Governor has called for the elimination of 18 of 34 optional services. **While the County has supported efforts to add specific optional benefits in the past, the Board has never had to take a position on such a major contraction of optional services.**

Finally, the Governor has proposed the elimination of Stage 3 Child Care for former CalWORKs recipients, a proposal that the County will oppose based on existing policy.

If you have any questions or need additional information, please let me know.

We will continue to keep you advised.

DEJ:GK
MAL:JR:ib

Attachment

c: Executive Officer, Board of Supervisors
County Counsel
Local 660
All Department Heads
Legislative Strategist
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

LOS ANGELES COUNTY

KEY ISSUES FOR FY 2003-04

The key issues for Los Angeles County in the Governor's Proposed Budget are the permanent elimination of the general government portion of the State backfill that reimburses local governments for their loss of revenue due to the State's reduction in the vehicle license fee (VLF); the shifting of over $8 billion in program responsibilities to counties through an expansion of realignment; and the continued deferral State reimbursement to local governments of SB 90 claims. Though these issues are shared by all counties, their impact on Los Angeles County is devastating.

The County's positions on these issues are as follows:

VLF: Oppose the Loss of the General Government Backfill

- The Governor's proposal would result in a loss of $663 million over the next seventeen months, resulting in a reduction in the County's discretionary revenue by over 30 percent on an annualized basis.

- Discretionary revenues help to finance local services such as public protection, parks, and health care, as well as State mandated local government services such as the Assessor and Auditor.

- Only $1.5 billion (9.1 percent) of the County Budget is discretionary and over one-third of that amount is attributable to one time costs, capital expenditures, and reserves and contingencies. (Please see the attached chart.) **Consequently, a reduction of $472 million would require major reductions in funding for the County's public protection agencies, primarily the Sheriff, Probation, the District Attorney, Fire-Life Guards, and the Coroner, which receive approximately one-third of the County's discretionary funds.**

- The County has no authority to raise revenues to replace these funds.

Elimination of the backfill breaks an agreement entered into by the Governor and the Legislature in 1998 to hold local governments, including cities, harmless from VLF rate reductions, if necessary by increasing the VLF whenever the State could not afford to fund it.

Realignment: Insure that Revenues Match the Cost of Program Shifts in the Current and Future Years and Provide Flexibility to Counties Over the Programs Realigned

- The County has generally been supportive of realignment, but there are reasons for concern about the Governor's proposal.

- The sales tax and the income tax on higher income earners are sensitive to the overall economy and tend to decline in bad economic times when the demand for these services is likely to increase. The cigarette tax is projected to decline as a result of reduced consumption.

- Many of the programs to be transferred, particularly the four largest which account for 62 percent of the cost shift (Medi-Cal Long Term Care, In Home Supportive Services, Child Care, and a 15 percent share of Med-Cal benefits,) are fast growing or are likely to be in the next decade with the aging of the State's population.

- California's total Med-Cal costs increased an average of 15 percent annually between 1990-91 and 2000-01. And at the end of the current budget year, IHSS costs per person served and case load will have increased by approximately 10 percent and 8 percent respectively on an annual basis since 1996-97.

- Many of the programs to be transferred are Federal entitlements or State mandates for which counties have little or no authority over eligibility or benefit levels. Counties would be given the responsibility of paying for programs that they cannot control.

- Preliminary analysis suggests that the $8.2 billion in funding may not fully cover the costs of the programs being transferred in the base year. And according to the Department of Finance, the proposal would be underfunded by at least $700 million in the second year, due to the projected falloff in revenue from the new rates on high income taxpayers.

- Much works remains to be done to produce a realignment proposal that works for counties as well as the State.

SB 90 Reimbursements: Support Legislation to Establish a Date or Schedule for the State's Reimbursement of SB 90 Reimbursements Claims, and Seek Budget Year Funding for Special Education Programs Administered by the County .

- SB 90 requires the State to reimburse local government for the costs resulting from a law or regulation that imposes a new program or increases the service level of an existing program.

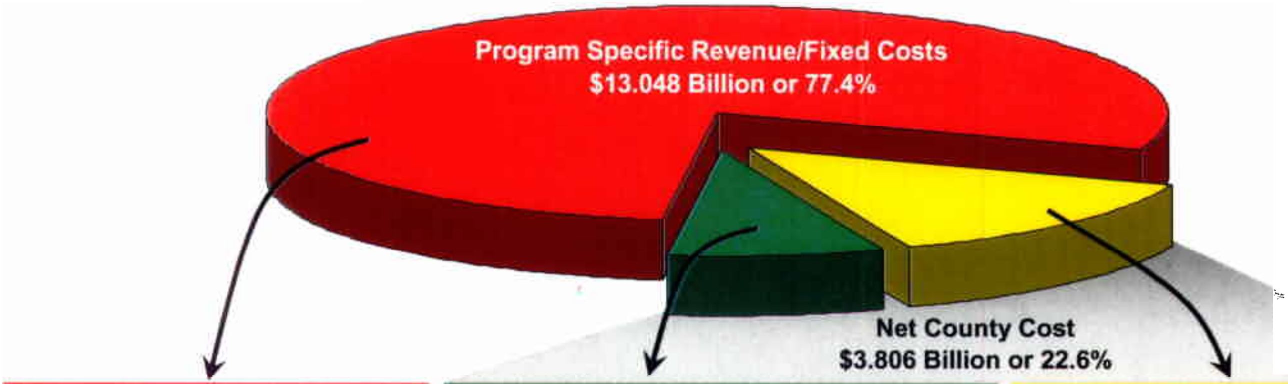
- The continued deferral of SB 90 reimbursements amounts to an indefinite low interest loan to the State without any certainty of repayment. If a date for repayment was specified, local governments might be able to borrow against the anticipated revenue.

- If the deferral is extended another year, the State will owe local governments over $1.2 billion dollars, including over $210 million to the County.

- Approximately 50 percent of the County's deferred claims are for special education services provided to seriously emotionally disturbed pupils and handicapped students which should be exempt like other education mandates.

- These mandates could be paid for from over $100 million in additional Federal funds the State will receive in the budget year for these programs, or they could be included within the State's Proposition 98 commitments.

Los Angeles County
2002-03 Final Adopted Budget
$16.854 Billion*
Mandated vs. Discretionary Costs



Fixed Costs
$13.048 Billion or 77.4%

(in Millions)

Debt Service Funds
$ 44.5
Health/Social Services
$ 7,693.2
Property Tax Administration
$ 66.7
Proposition 172 - Public Safety Augmentation Fund
$ 527.4
Sheriff $ 446.8
District Attorney $ 80.6
Special Funds/Districts
$ 2,934.6
Subventions/Revenues That Offset Costs
$ 1,606.7
Trial Court Funding
$ 175.3

Flexible Costs
$1.531 Billion or 9.1%

Public Protection
$511.5 Million or 3.0%

Community-Based Contracts
$ 3.3
Coroner
$ 18.4
Justice-Related
$ 2.0
District Attorney - Criminal
$ 64.9
Emergency Preparedness
$ 4.2
Fire - Lifeguards
$ 19.8
Office of Public Safety
$ 11.1
Probation - Camps/ Support Services
$ 100.8
Sheriff
$ 287.0

All Other Costs
$1,019.2 Million or 6.1%

Agricultural Commissioner/ Weights and Measures
$ 4.9
Animal Care & Control
$ 6.4
Capital Projects
$ 201.3
Consumer Affairs
$ 2.2
Countywide Services
$ 8.4
Extraordinary Maintenance
$ 50.5
General Government
$ 261.3
Health-Drug Court
$ 1.8
Health-GF Contribution
$ 20.0
Health-Others
$ 1.4
Health-Tobacco
$ 90.3
Human Relations Commission
$ 2.1
Ombudsman
$ 0.8
Other Public Services
$ 4.7
Parks & Recreation
$ 63.1
Other Recreation & Cultural
$ 19.4
Regional Planning
$ 7.9
Reserves/Designation
$ 172.4
Approp for Contingency
$ 100.3

Nonflexible Costs
$2.275 Billion or 13.5%

MOE & Mandatory Costs/Services
$2,172.5 Million or 12.9%

Alternate Public Defender
$ 30.9
Assessor
$ 70.2
Other Court Related (Indigent Defense $40.6)
$ 209.0
District Attorney - Criminal
$ 52.7
Health/Mental Health
$ 596.6
Local Agency Formation Commission
$ 0.6
Probation-Other
$ 206.3
Public Defender
$ 121.2
Social Services
$ 495.1
Sheriff
$ 389.9

Other Nonflexible Costs
$102.8 Million or 0.6%

Capital Projects-Seismic Retrofit
$ 13.9
Grand Jury
$ 1.2
Judgments & Damages/Insurance
$ 25.2
Museums Obligation
$ 29.3
Social Services
$ 33.1
Special Assessments
$ 0.1

* Excludes major interfund transfers of revenue that would artificially inflate the size of the total County budget.