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DAVID E. JANSSEN
Chief Administrative Officer

January 30, 2004

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

From: David E. Janssen
Chief Administrative Officer

ESTIMATED LOSS TO LOS ANGELES COUNTY FROM THE GOVERNOR'S BUDGET

Attached is a table (Attachment I) containing our current estimate of the loss to the County from various proposals in the Governor's Budget. The net loss is approximately $459 million, not including the Governor's proposals for In Home Supportive Services (IHSS) which are dealt with separately on Attachment II.

In reading these tables, it is important to keep in mind that the numbers represent loss of funds rather than the actual budget impact on either the County's or a department's budget because departments may have assumed a different level of funding in their budget or be able to offset some of the lost revenue. Moreover, the real budget impact cannot be known until the Board of Supervisors actually adopts a County budget that reflects its response to whatever loss of funding results from the Governor's proposals and the budget adopted by the Legislature. However, the table illustrates the potential State funding losses that the County faces as it begins to prepare its budget for FY 2004-05. Some of the major losses are described below.

Property Tax Shift

Over 60 percent of the County's loss is a result of the Governor's proposal to shift $1.3 billion of local government property taxes to schools in order to reduce the State cost of funding public education. In essence, local governments would be required to fund almost two-thirds of the increase in education funding that the Governor agreed to in his pre-budget agreement with education groups. Because of their heavier reliance on property taxes, as well as the fact that the shift is patterned after the existing one, counties would be disproportionately affected by the proposed shift, contributing 68 percent of the total shift (despite the fact that they levy only 40 percent of non-school property taxes statewide). The shift would have a major impact on Los Angeles County with the County contributing $289 million or 31.6 percent of the total contributed by counties. In addition, County special districts would lose an additional $13.4 million bringing the total loss to the County to over $300 million.

A loss of $289 million would require curtailments in County discretionary spending of around 37 percent which would fall most heavily on public safety departments which receive the largest share of discretionary funds. Over 63 percent of the reduction would occur in the budgets for the Sheriff ($108.3 M), Probation ($37.2 M), District Attorney ($24.7 M), Fire/Lifeguards ($7 M), and Coroner ($7 M). Overall, the reduction would result in a reduction of approximately 3,300 positions, including over 2,000 in public safety agencies. Because of the major impacts such a loss of discretionary funds would have on the County and its services, it is addressed in a separate report that details the potential budget curtailments that would be required if the County lost $289 million of property taxes.

Probation: Loss of TANF Funding

The Governor's proposal to eliminate TANF funding for county juvenile probation services effective October 1, 2004 would result in a significant loss of funding and a major impact on County services. The loss to the County Probation Department in the budget year would be $61.9 million, on top of a $37 million curtailment from the property tax shift. (In FY 2005-06, the full year impact of the TANF loss would increase to $83 million.) The combined impact of the TANF loss and the shift would necessitate drastic reductions in Probation services including: closure of all of its camps and the Dorothy Kirby Center, as well as elimination of Pretrial Services, the Work Crew Program, the Intensive Gang Program, DISARM, the Operation Read Program, and the Community Camp Transition Program. An estimated 1,700 positions would be eliminated.

Continued Deferral of Mandate Reimbursement

As in the previous two years, the Governor has proposed to continue the deferral of local government reimbursement for State mandates. While the State Budget again includes $69 million in Federal Individual Disabilities Act funds which will reimburse about 61 percent of the County's AB 3632/special education mental health costs, new County claims of around $41 million will not be reimbursed, in addition to approximately $154 million in claims from prior years. The continuing deferral amounts to an involuntary $195 million loan to the State with interest, but no specified payment date. Some of the other major programs impacted include out-of-state placement of seriously emotionally disturbed pupils, AIDS testing of certain criminal defendants, the Peace Officers Procedural Bill of Rights requirements, commitment procedures for continued detention of sexually violent defenders, the requirement to provide absentee ballots, and the Child Abduction and Recovery Program. The County must fund and provide these programs despite the State's continued refusal to meet their constitutional requirement to pay for them. In addition, while not technically a State mandate, the County's cost of conducting the October recall – $11.3 million – has yet to be funded by the State.

Suspension of Proposition 42 Transportation Funds

For the second year in a row, the Governor's Budget proposes a reduction in local government funds for repaving streets and roads. This year's reduction, which results from the suspension of Proposition 42, the initiative which dedicated sales tax revenue from gasoline sales to transportation programs, will result in a loss of $18 million to the Department of Public Works and result in approximately 23 miles of deteriorated pavement that will go unimproved.

Federal Child Support Penalty

For the second year in a row, the Governor is proposing that counties pay 25 percent of the Federal penalty for the State's failure to have an automated system to track child support that meets Federal requirements. The cost to the County would be $11 million. In addition, the Governor proposes to make the County share permanent until the State meets the requirements, which is estimated to be in 2008 at the earliest.

Elimination of the Children's System of Care

Elimination of this Mental Health program, which serves high-risk children and families by assisting children to remain at home, stay in school and avoid commitment to the juvenile system, will cost the County $4.8 million and result in a two-thirds reduction in the funding available for this program. It would result in higher costs in other programs if children losing services end up in more restrictive and more costly placements. In addition, it would result in the elimination of 30 positions in Mental Health, 6 positions in Probation, and would adversely affect 18 contract providers.

In Home Supportive Services Proposals

The Governor's Budget contains two proposals to reduce the State's cost of supporting IHSS that are interrelated and would have an impact on the County. The first is the elimination of the Residual Program which covers individuals and services for which the Federal Government does not share in the cost because the service is provided by an immediate family member or is simply not eligible. The Budget also contains a proposal to cap the State's share of the non-Federal share for the Personal Care Services Provider Program at the State minimum wage level of $6.75 rather than the current maximum of $10.10. Since the County's current IHSS wage level is $7.50, $.75 above the minimum wage, the County would have to absorb the entire cost of the additional $.75.

Attachment II illustrates three possible scenarios. Scenario A assumes both of the Governor's proposals are adopted, resulting in a net savings to the County of $41.3 million. Scenario B reflects only the elimination of the Residual Program which would save the County $52.2 million. Scenario C assumes that the Residual Program is not abolished but the wage cap is adopted which would result in a cost to the County of $40.9 million unless the current wage of $7.50 is reduced.

VLF Gap Loan

In addition to potential losses from the Governor's Budget, the Administration in December 2003 announced that the Finance Department estimate of the VLF gap loan had increased from $825 million to $1.3 billion. The gap loan was supposed to equal the net loss to local governments from the delay between the elimination of the backfill replacement revenue on June 20, 2003 and the reinstatement of the full 2 percent rate on October 1, 2003. In announcing the new estimate, the Administration proposed to pay local governments for the additional $475 million "gap" loss. However, they then included that amount on their proposed list of mid-year budget reductions. Consequently, barring action by the Legislature, the gap loan will increase, pushing the County's share to over $200 million.

While the gap loan will be repaid (without interest) in 2006-07, our concern is that it is difficult to understand how the amount – which roughly equals the two-thirds of the VLF revenue not being collected during the gap period – could increase 57 percent while actual collections – the remaining one-third – remained flat or declined. Even allowing for an error in the original estimate, a change of this magnitude would not seem warranted. No explanation has been provided by the Administration, but we are concerned that VLF revenue for the current year could fall significantly short of our budget estimate.

Additional detail on these and other potential curtailments is being developed.

We will continue to keep you informed.

DEJ:GK
MAL:JR:ib

Attachments

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

ESTIMATED LOSS TO LOS ANGELES COUNTY FROM GOVERNOR'S PROPOSED BUDGET*
(Dollars in Millions)

	FY 03-04	FY 04-05
Property Tax Shift: General Fund		$289.0
Probation: Elimination of TANF Funding Effective October 2004**		61.9
Mandate Reimbursements: Indefinite Deferral		41.0
Public Works: Suspension of Proposition 42 Transportation Funds		18.0
Federal Child Support Penalty		11.0
County Share of Child Support Collections: DPSS/DCFS		8.6
Medi-Cal Administration: COLA Limit		5.4
Children's System of Care: Elimination		4.8
VLF: Elimination of Realignment Backfill for Trailers	$1.8	3.7
Medi-Cal: Provider Rate Reduction: Community Health Plan	1.2	1.9
AG: High Risk Pest Exclusion		1.2
Sheriff: Booking Fees Eliminated		.8
Property Tax Shift: Special Districts Flood Control District 9.70 Library District 2.50 Garbage Districts .75 Waterworks Districts .25 Lighting Districts .20		13.4
Total Loss	**$3.0**	**$460.7**
<u>Offsetting Savings/Revenue</u>		
CalWORKs 5% Grant Reduction	.4	1.4
AG: Unclaimed Gas Revenue	.5	.5
Total Gain	**+ .9**	**+ 1.9**
Net Loss	**$2.1**	**$458.8**

*Does not include impact of IHSS recommendations.

**Full year impact in FY 2005-06 would be an $83 million loss.

This table represents the loss or deferral (in the case of Mandate Reimbursement) of State funds based upon the Governor's January Budget. It does not reflect the actual impact on the County or a department's budget which may be different because they assume a different level of State funding or may be able to offset some or all of the lost revenue.

ESTIMATED IMPACT ON LOS ANGELES COUNTY'S IHSS PROGRAM FROM THE GOVERNOR'S PROPOSED BUDGET - THREE SCENARIOS
(Dollars in Millions)

	FY 03-04	FY 04-05
Scenario A		
Elimination of the Residual Program (eff. 04/01/04)	11.9	52.2
State Caps Participation at Minimum Wage (eff. 07/01/04) and County Maintains Wage of $7.50 for PCSP cases only	-	(10.9)
Net Savings	**11.9**	**41.3**

Assumes elimination of 14 million hours based on eliminating cases with No Personal Care services and cases for Protective Supervision. Also assumes, cases with Family Providers and receiving Advance Payments are converted to PCSP elibible cases.
Does not include impact on IHSS Worker Health Care Plan currently under review.
Assumes the Board of Supervisors does not change the $7.50 IHSS wage

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	FY 03-04	FY 04-05
Scenario B		
Elimination of the Residual Program (eff. 04/01/04)	11.9	52.2

Assumes elimination of 14 million hours based on eliminating cases with No Personal Care services and cases for Protective Supervision. Also assumes, cases with Family Providers and receiving Advance Payments are converted to PCSP elibible cases.
Does not include impact on IHSS Worker Health Care Plan currently under review.

	FY 03-04	FY 04-05
Scenario C		
State Caps Participation at Minimum Wage (eff. 07/01/04) and County Maintains Wage of $7.50.	-	(40.9)

Assumes the Board of Supervisors does not change the $7.50 IHSS wage
Assumes current caseloads for both PCSP and Residual Programs.
Does not include impact on IHSS Worker Health Care Plan currently under review.