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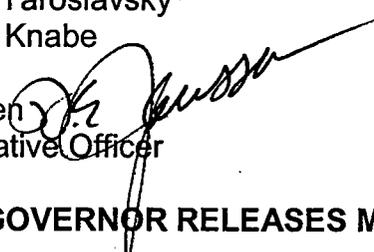
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May 12, 2006

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: David E. Janssen 
Chief Administrative Officer

SACRAMENTO UPDATE - GOVERNOR RELEASES MAY BUDGET REVISION

Governor Schwarzenegger's May Revision reflects an improving State financial outlook. State revenues are expected to be \$4.8 billion over the Administration's January estimates for the current year and \$2.7 billion for FY 2006-07, for a total of \$7.5 billion over the two year period.

The May Revision proposes to use this additional revenue to address both its short and long term requirements. Short term proposals include the use of some of the new revenues for one-time expenditures rather than new ongoing programs. Longer term, these resources would be used to address the State's fiscal stability through additional funding for K-14 schools to resolve outstanding litigation over previously disputed funds and early repayment of outstanding obligations to bondholders and to local governments for mandate reimbursement claims, and an increased reserve for economic uncertainties. The May Revision proposes the use of one-time expenditures of \$2.9 billion for K-14 school operations, \$1.6 billion in the retirement of bond obligations and other prior year obligations including prepayment of certain loans from State special funds, and \$1.6 billion to build a reserve.

The May Revision is expected to reduce the ongoing structural deficit facing the State. While there will be sufficient funds to cover expenditures in FY 2006-07 because there is a large reserve of \$9.4 billion that will be carried over from FY 2005-06, the

Administration estimates that the State will still be facing a structural deficit of \$2.5 billion in FY 2007-08.

IMPACT OF MAY REVISION ON THE COUNTY

The County's public safety agencies are the prime beneficiaries of the Governor's May Revision although other departments, such as Mental Health will also benefit. Additional funds will be available from increases in the Juvenile Justice Crime Prevention Act and the Citizens Option for Public Safety programs, and the AB 3632 Special Education Pupil Program. In addition, the May Revision includes pre-payment of mandate reimbursement claims, and funding of the Mentally Ill Offender Crime Reduction Grant Program.

The Governor's Proposed Budget would have resulted in a net loss of approximately \$26.2 million to the County. If the Governor's May Revision were to be adopted in its entirety, the County would likely experience a net gain. A subsequent report on the estimated impact will be issued shortly. The Governor did not propose the restoration of funds for the Property Tax Administration Grant Program, or provide any funds for the cost of doing business for the Department of Public Social Services, or increase funding for Proposition 36 over his January proposal to continue funding at the current Statewide level of \$120 million.

MAY REVISION HIGHLIGHTS

In our analysis of the Governor's Proposed Budget, we focused on proposals most likely to impact or to be of interest to the County and the people it serves. In order to provide a comparison of the Governor's Proposed Budget with the May Revision, the following analysis repeats the Proposed Budget recommendation and then notes the May Revision recommendations in bold print.

General Government

SB 90 State Mandated Local Programs. The Governor's Budget proposed \$98.1 million for the first year of the 15-year repayment plan to reimburse counties for mandated costs incurred prior to FY 2004-05. Of this initial amount, the County will receive approximately \$14 million. The State currently owes the County about \$197.4 million for mandate claims prior to FY 2004-05. **The May Revision continues this approach and provides \$90.3 million for the unfunded cost of FY 2005-06 claims that are required to be budgeted by Proposition 1A, and \$86 million of accelerated mandate payments in FY 2006-07.**

Property Tax Administration Grant Program (PTAP). The May Revision makes no change to the Governor's Budget proposal to continue the suspension of the County Property Tax Administration Program through FY 2006-07. This action would result in

an additional \$13.5 million loss of revenue to the County. The Administration indicated that it is willing to work with the Legislature and local government representatives to create a new PTAP program for implementation in FY 2007-08.

California State Library. The Governor's Budget proposed status quo funding for the Public Library Foundation (PLF) Program. **The May Revision provides a \$7 million General Fund increase for the program, and an additional \$7 million General Fund increase for the Transaction-Based Interlibrary Loan and Direct Loan Program (TBLP).** According to the County Librarian, the PLF increase represents approximately a \$700,000 gain for the County Library, while the impact of the TBLP increase will depend on how it is administered. If it is used to increase the rate of reimbursement, the library will see some increase in funds.

Food and Agriculture. The May Revision makes no change to the Governor's Budget proposal to provide funding of \$285 million for the prevention or eradication of animal diseases and invasive species, and maintains \$7.2 million for programs to address emerging threats to the State's food supply.

Election Cost Reimbursement. The May Revision makes no change to the Governor's Budget proposal to maintain \$54 million in FY 2006-07 to ensure sufficient funding is available for special elections and the June primary. The Registrar Recorder Department advises that the County would receive an estimated \$9 million for the November 2005 Special Election.

Minimum Wage. The May Revision makes no change to the Governor's Budget proposal to increase the State's minimum wage from \$6.75 to \$7.25 per hour, effective September 1, 2006.

Health

Medi-Cal. Expenditures are estimated to be \$33.8 billion in FY 2006-07 (\$13.2 billion General Fund) an increase of 12.8 percent above FY 2005-06. **The May Revision includes total Medi-Cal expenditures of \$35 billion (\$13.8 billion General Fund), which is a net total funds increase of \$183.5 million (\$29.7 million General Fund) from the January Governor's Budget.**

Medi-Cal Managed Care Expansion.

- Seniors and Persons with Disabilities. The May Revision makes no change to the Governor's Budget proposal to include \$2 million (\$936,000 General Fund) to expand outreach and education efforts in Medi-Cal managed care counties to increase voluntary enrollment. The proposed budget proposes to require mandatory enrollment of this population in two additional counties beginning in April 2008.

- Serious Mental Illness and Chronic Medical Conditions. The May Revision makes no change to the Governor's Budget proposal to appropriate \$473,000 (\$208,000 General Fund) to create demonstration projects to coordinate care, including primary care and disease management, for Medi-Cal beneficiaries who have serious mental illness and chronic health conditions and for those with chronic conditions who are seriously/terminally ill.

Medi-Cal County Administration Cost Control. The May Revision makes no change to the Governor's Budget proposal to freeze the State's contribution to county overhead and salaries at the FY 2005-06 level for a savings of \$42.4 million (\$21.2 million General Fund). Assembly and Senate Budget subcommittees have rejected the Administration's proposal.

Expanding Health Insurance Coverage for Children. The Governor's Budget proposal included \$72.2 million to enroll 400,000 children who are eligible but not enrolled in the Medi-Cal and Healthy Families Programs, including up to \$20 million in grants to counties for outreach and enrollment activities, and \$45.5 million to simplify the annual redetermination eligibility form for children who are already enrolled in Medi-Cal. **The May Revision includes an additional \$23 million General Fund to cover additional uninsured children who are on waiting lists for county children's health initiative programs.**

Public Health. The Governor's Budget proposal increased funding by \$49 million to bolster State and local public health capacity to prevent and respond to disease outbreaks and natural or man-made disasters. **The May Revision provides an additional \$400 million to prepare for public health emergencies, including preparedness for pandemic influenza. Local health departments would receive an additional \$4.5 million.**

Proposition 36. The May Revision makes no change to the Governor's Budget proposal to fund Proposition 36, the Substance Abuse and Crime Prevention Act of 2000, at \$120 million on a one-time basis conditioned upon the Legislature passing reforms to the program. Proposed reforms include jail sanctions to hold offenders accountable for attending and completing treatment, mandatory drug testing as a condition of probation, and judicial monitoring using the drug court model. The LAO recently reported that in FY 2004-05, actual expenditures for Proposition 36 programs were approximately \$143 million.

HIV/AIDS Treatment and Prevention. The Governor's Budget proposal included \$409.4 million for the AIDS Treatment and Prevention Program administered by the Office of AIDS, for an increase of \$24 million above the FY 2005-06 Budget. Of this amount, \$296.4 million is included in the AIDS Drug Assistance Program (ADAP) which

provides life-saving medications to low-income persons living with HIV/AIDS. **The May Revision includes an increase of \$3 million from the ADAP Rebate Fund.**

Nursing Education Initiative. **The May Revision proposes \$3.6 million in one-time funds for faculty recruitment and retention in nursing programs, and for grants to students enrolled in accelerated nursing degree programs.**

Mental Health

Proposition 63. **The May Revision proposes an additional \$75 million annually in Proposition 63 funding to construct housing for the homeless mentally ill and their families.**

AB 3632. The Governor's Budget proposal provided \$100 million in special education funding in the Department of Education budget for mental health services to special education pupils as required by the Federal Individuals with Disabilities Education Act. This included \$69 million in Federal funds for counties to provide these services under contract with local education agencies and \$31 million in Proposition 98 funds for local education agencies for pre-referral mental health services. The Proposed Budget also included \$50 million as a set-aside in the Commission on State Mandates for funding mental health services to pupils under the new categorical program. **The May Revision transfers the \$50 million General Fund previously set aside in the Commission on State Mandates to the Department of Mental Health Budget, and increases the allocation by \$19 million for a total of \$69 million in non-Proposition 98 General Fund for county mental health departments to provide AB 3632 services. The use of these funds is contingent on county offices of education and county mental health departments entering into agreements for the provision of AB 3632 services.**

Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program. **The May Revision includes a \$27 million reduction in reimbursement due to lower than projected EPSDT claims.**

Social Services

CalWORKs Administration. The May Revision makes no change to the Governor's Budget proposal to reduce the County Single Allocation for CalWORKs by \$40 million and allow counties to backfill the reduction with previously earned and allocated, but unspent performance incentive funds. Los Angeles County has spent all earned and allocated performance incentive funds. The Proposed Budget also proposes the use of \$40 million in savings in Federal TANF funds to offset State General Fund costs in Child Welfare Services and Foster Care.

Initiatives to Increase CalWORKs Work Participation Rates. The May Revision includes three initiatives to increase the CalWORKs work participation rate to 50 percent by October 1, 2006 as required under the Federal Deficit Reduction Act of 2006:

- Pay for Performance Program. The Governor's Budget proposed to delay incentive payments to counties pending full implementation of the "work first" and core work requirements for a savings of \$30 million in FY 2006-07. The May Revision sets aside \$40 million in the FY 2006-07 CalWORKs reserve to fund the Pay for Performance Program. Counties that successfully meet the desired outcomes would receive a fiscal award in FY 2007-08.
- Participation Improvement Project. The May Revision includes \$20 million in FY 2006-07 to help counties overcome barriers in engaging CalWORKs participants in work activities and to improve work participation rates. Funds will be allocated on a competitive basis.
- Performance Reviews and Best Practices. The May Revision builds upon the Pay for Performance Program through the use of \$1.5 million in existing research funds to identify best practices and obstacles to improved performance in individual counties.

TANF Reauthorization/CalWORKs Reform Reserve. The Governor's Budget proposed to reduce the FY 2005-06 allocation for Stage 1 Child Care by \$114.6 million. The May Revision sets this funding aside in the TANF Reauthorization/CalWORKs Reform Reserve to fund future program improvements identified through the TANF reauthorization stakeholders process currently underway.

Prospective Budgeting. The Governor's Budget proposed to reduce CalWORKs administrative savings associated with prospective budgeting from \$127.7 million to \$102.7 million in FY 2006-07. The May Revision assumes CalWORKs administrative savings of \$126.2 million in FY 2005-06 and \$55.4 million in FY 2006-07 which would reduce resources to counties.

Statewide Fingerprint Imaging System (SFIS). The May Revision reduces the current year funding from \$8.02 million to \$7.38 million, and provides \$7.83 million in funding for FY 2006-07.

Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) System. The Governor's Budget proposed funding of \$11.4 million for maintenance and operation of the LEADER System. The May Revision increases funding to \$11.7 million to reflect estimated expenditures for the extension of the LEADER contract beginning in May 2007.

In-Home Supportive Services (IHSS). The Governor's Budget proposed General Fund spending of \$1.3 billion in FY 2006-07, an increase of 4.1 percent over FY 2005-06 due to increased caseloads. **The May Revision increases General Fund spending by \$22.4 million in FY 2006-07.**

Cash Assistance Program for Immigrants (CAPI). Under current law, the income and resources of sponsors are deemed to the CAPI recipient for a period of 10 years for purposes of eligibility. The May Revision makes no change to the Governor's Budget proposal to extend the income deeming period from 10 to 15 years for immigrants who entered the country on or after August 22, 1996. The Budget estimates that there will be a General Fund savings of \$12.5 million in FY 2006-07 and \$40 million in FY 2007-08.

Supplemental Security Income/State Supplementary Payment (SSI/SSP) COLA. The Governor's Budget proposed to withhold the January 2007 Federal COLA until July 1, 2008 for savings of \$48.1 million. **The May Revision withdraws this proposal and allows for the COLA effective April 1, 2007.**

Foster Care. The Governor's Budget increased funding for Child Welfare Services by \$89.1 million for a total allocation of \$3.8 billion. **The May Revision decreases funding by \$8.7 million which reflects reduced caseload growth.**

Title IV-E Waiver. **The May Revision provides \$35.5 million for first year costs to implement the Title IV-E Child Welfare Waiver Demonstration "Capped Allocation" Project which will provide Title IV-E funds as block grant in a maximum of 20 counties, including Los Angeles.**

Program Improvement Plan (PIP) Initiatives. **The May Revision includes \$19.6 million to expand three specific PIP initiatives in the 11 pilot counties including Los Angeles.**

Federal Child Support Automation Penalty. The May Revision makes no change to the Governor's proposal to provide \$220 million in State funding for payment of the Federal Fiscal Year (FFY) 2006 penalty and continues to assume that there will be no penalty for FFY 2007 because the State plans to submit a request for Federal certification of the California Child Support Automation System as an Alternate System Configuration. Pursuant to Federal child support regulations, penalties will be held in abeyance while the Federal certification process is under review.

Justice and Public Safety

Booking Fees/Local Detention Facility Funds. The Governor's Budget proposal provided \$40 million to offset counties' costs to book suspects into county jails. **The May Revision proposes to create a new trust fund to ensure local governments**

have secure and modern facilities. The fund would be controlled by the county official responsible for local detention facilities. The booking fees are replaced with a new jail access fee.

Juvenile Probation Camp Funding. The May Revision makes no change to the Governor's Budget proposal to provide \$202 million from the General Fund for juvenile probation camps and comprehensive youth services. The Probation Department estimates that the County will continue receiving \$82 million.

Citizens' Options for Public Safety (COPS)/Juvenile Justice Crime Prevention Act (JJCPA). The Governor's Budget included \$100 million for the COPS Program to maintain the same level of funding in FY 2006-07 as in FY 2005-06. The Governor's Budget proposal augmented the JJCPA by \$73.9 million to restore the program to the \$100 million level for FY 2006-07, as prescribed by State statute. **The May Revision proposes a \$42.6 million General Fund increase (\$21.3 million for COPS and \$21.3 million for JJCPA) to return the funding to the FY 2000-01 level.**

Sexual Assault Felony Enforcement (SAFE). The May Revision makes no change to the Governor's Budget proposal to include \$6 million in local assistance grant funding in the Office of Emergency Services to support the activities of SAFE teams statewide. SAFE teams reduce violent sexual assault offenses through surveillance and arrest of habitual sexual offenders.

California Law Enforcement Telecommunications Systems (CLETS). The May Revision makes no change to the Governor's Budget proposal to include \$2.3 million to enhance and support CLETS which is a statewide telecommunications network available to all California law enforcement and criminal justice agencies.

Cost of State Parolee Violators. The Governor's Budget proposal provided \$85.1 million in FY 2005-06 and \$11.9 million in FY 2006-07 to reimburse local entities for the incarceration costs of parolees that are detained for State parole violations. Of this amount, \$55.4 million is set aside on a one-time basis to address outstanding prior claims for reimbursement. The remaining \$29.7 million for FY 2005-06 is to fund the anticipated shortfall in the current year. The Administration intends to pursue strategies that reduce the number of days these parole violators spend in local detention facilities. **The May Revision provides an additional \$10 million to address additional FY 2005-06 and FY 2006-07 claims from counties. A total of \$2.5 million of this augmentation will be used to fund the increase in per diem reimbursement rate from \$68.22 to \$71.57.**

New Judgeships. The May Revision makes no change to the Governor's Budget proposal to include \$5.5 million to support facilities, staff, salaries and benefits for up to 150 new judgeships phased in over a three-year period beginning in April 2007. The

expenditure of these funds is restricted until legislation authorizing new judgeships is enacted.

California Multi-jurisdictional Methamphetamine Enforcement Team Program. The May Revision includes \$20 million General Fund in anti-methamphetamine programs for allocation on a regional basis.

Vertical Prosecution Block Grants. The May Revision proposes an additional \$10.1 million General Fund to support vertical prosecution units which dedicate specialized prosecutors, investigators, and victim advocates to follow specific cases through the entire judicial process.

Mentally Ill Offender Crime Reduction Grant Program. The May Revision includes \$50 million General Fund to award competitive grants for the implementation and assessment of multi-agency projects designed to curb recidivism among mentally ill offenders (\$25 million for juveniles and \$25 million for adults). Evaluations found that the program significantly reduced the number of mentally ill inmates in jails and improved their success rate once released from custody.

Standards and Training for Local Corrections Staff. The May Revision proposes \$19.5 million to offset the costs of training local sheriffs' deputies and probation officers who work in jails and juvenile detention facilities.

Transportation

Proposition 42. The May Revision makes no change to the Governor's Budget proposal to fully fund Proposition 42 at \$1.4 billion for FY 2006-07 and prepay a portion of the FY 2004-05 loan that is due to be repaid in FY 2007-08, which will provide an additional \$255 million to cities and counties. Counties can use this funding for street paving in the unincorporated areas. Also, the Budget proposed a constitutional amendment to permanently protect Proposition 42 funds and eliminate the option for future governors and legislatures to suspend the allocation. The Legislature has placed SCA 7 (Torlakson) on the November 2006 ballot to propose a Constitutional amendment to limit the State's ability to suspend Proposition 42 transportation funding.

Rail Safety. The May Revision makes no change to the Governor's Budget proposal to include funding of \$1.4 million to enhance rail safety through additional accident investigations, evaluations of quiet zone notices, railroad inspections, and oversight of rail transit agencies' homeland security programs.

Tribal Gaming Proceeds. Due to several lawsuits, the State proposes to shift \$849 million of the \$1.0 billion in tribal gaming expenditure authority from FY 2005-06 to FY 2006-07. The State has received approximately \$150 million in revenues from tribal gaming compacts. These funds will be used to repay the

State Highway Account after which the California Transportation Commission will allocate these funds to projects in the State Transportation Improvement Program (STIP). Local jurisdictions, including Los Angeles County, are recipients of part of these STIP funds through competitive grants.

Natural Resources and Environmental Protection

Water Projects. The Governor's Budget proposed \$9 billion in General Obligation bonds for new water projects, of which \$6.5 billion would have been dedicated to Integrated Regional Water Management for projects to improve drinking water quality to protect public health, complete surface water storage planning, develop water efficiency, and for research and development efforts that will address the energy requirements, costs, and environmental issues related to desalination. The May Revision makes no change. However, this issue has been incorporated into the infrastructure bond package recently approved by the Legislature for the November ballot.

Water Quality. The May Revision makes no change to the Governor's Budget proposal to include an additional \$8.5 million to enhance existing water monitoring efforts.

Air Quality. The May Revision makes no change to the Governor's Budget proposal to include \$2 billion for actions that will directly reduce air pollution resulting from the movement of goods and people, including \$1 billion for reducing current goods movement-related air pollution in and around major ports and port-related facilities through cleanup and replacement of diesel engines in trucks and equipments.

Climate Change Initiative. The Governor's Budget proposed \$7.2 million to implement greenhouse gas emission reduction strategies. **The May Revision proposes an additional \$500,000, for a total of \$7.7 million for FY 2006-07.**

Alternative Fuels. The May Revision makes no change to the Governor's Budget proposal to include funding of \$500,000 to the Energy Resources Programs Account to implement AB 1007, which requires the development of recommendations to increase the use of alternative fuels.

Environmental Enforcement. The May Revision makes no change to the Governor's Budget proposal to include \$6.2 million in special funds to strengthen environmental enforcement efforts, including: \$4 million to the Air Resources Board to enforce heavy-duty diesel regulations, evaluate on-board diagnostic systems in vehicles, and replace older testing and diagnostic equipment; \$1.5 million to the Department of Toxic Substances Control to enhance existing enforcement efforts related to the electronic waste recycling program; \$425,000 to the Department of Pesticide Regulation to conduct additional pesticide mill assessment audits; and \$223,000 to the Integrated Waste Management Board to investigate fraud in the electronic waste program.

Hydrogen Highways. The May Revision makes no change to the Governor's Budget proposal to include funding of \$6.5 million to the Air Resources Board to continue development of the Hydrogen Highway, which is part of the Governor's Hydrogen Highway Blueprint Plan that includes a goal of establishing 50 to 100 hydrogen fueling stations in California.

Marine Life Protection Act. The May Revision includes an additional \$2.62 million in General Funds for the second phase of the Marine Life Protection Act, which provides for the development of regional implementation plans of the State's coastline to address the protection of marine ecosystems and the improvement of recreational and educational opportunities in marine protected areas. This brings the total funding for the Marine Life Protection Act to \$3.5 million for FY 2006-07.

Other Resource Programs. The May Revision proposes \$50 million in one-time funding for critical resource activities, including \$10 million for deferred maintenance in State parks, \$5 million for wetlands and riparian habitat conservation, and provides funding from the interest accrued on \$5 million for the management of coastal wetlands. In addition, the May Revision proposes to redirect the transfer of gas tax monies from the Department of Parks and Recreation to the Department of Boating and Waterways to increase funding available for grants and loans to marinas and other boating facilities.

We will continue to keep you advised.

DEJ:GK
MAL:IGR:hg

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