



County of Los Angeles CHIEF EXECUTIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION
LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

February 15, 2008

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

From: William T Fujioka
Chief Executive Officer

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SACRAMENTO UPDATE

State Budget – Special Session

This morning, the Legislature passed a package of bills to address the fiscal emergency declared by Governor Schwarzenegger on January 10, 2008. The Legislature's actions primarily affected the FY 2007-08 Budget Act. Many of the Governor's FY 2007-08 proposed reductions were rejected by the Legislature by not taking any action on the items. While the Legislature did make modifications to a few of the Governor's FY 2008-09 proposals, many members, despite voting for these bills, indicated a strong interest in reconsidering some of the items in the legislation. The Governor's FY 2008-09 proposals will be considered when budget subcommittee hearings begin next month in each house.

Our February 1, 2008 Sacramento Update estimated the impact of the Governor's proposed reductions for FY 2007-08 to be \$18.4 million. **The actions taken by the Legislature would effectively eliminate \$17.8 million of this reduction leaving a negative impact of \$570,000.** The remaining amount represents the Legislature's decision not to fund a cost-of-living adjustment (COLA) for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program. The Department of Mental Health (DMH) indicates that this amount was not budgeted in the current year.

In addition, the Legislature decided not fund the COLA for EPSDT for FY 2008-09 resulting in a potential \$2.2 million negative impact on the County. DMH had not anticipated receiving this funding. The February 1, 2008 Sacramento Update did not

include this reduction which would increase the estimated impact for FY 2008-09 from \$276.3 million to \$278.5 million.

All of the Governor's proposals related to deferral of payments to programs will be implemented. The resulting impact to the County of the estimated \$453.5 million in deferred payments is unchanged from our February 1, 2008 estimate resulting in \$2.1 million in lost interest and a potential cost to borrow funds of \$9.0 million. These deferrals take place at different times for different programs and span both FY 2007-08 and FY 2008-09.

Attachment I summarizes the variance in impact on the County of the Governor's Proposed Budget and Legislative actions for FY 2007-08. A summary of the Legislature's actions is provided in Attachment II.

The following bills were considered by the Legislature as part of the Third Extraordinary Session.

ABX3 3 makes amendments to the FY 2007-08 Budget Act to make current year reductions to State agencies, delays appointments of new judgeships, reduces the COLA for the EPSDT, suspends the June SSP COLA until October, and redirects funds from the Public Transportation Account to home-to-school transportation in response to a recent court decision regarding the use of these funds.

ABX3 4 makes various statutory changes to implement FY 2007-08 reductions to education through Proposition 98 (K-14 Education) deferrals and other cuts.

ABX3 5 makes various statutory changes related to health programs including Medi-Cal reimbursement, Medi-Cal payments to institutional providers, managed care plans, California Children's Services (CCS) and Genetically Handicapped Persons Program providers, and developmental services programs.

ABX3 6 makes statutory changes to delay the July and August 2008 advance payments to counties for human services programs until September 2008. In addition, the bill provides for the delay of CalWORKS and SSI/SSP COLAs.

ABX3 7 defers gasoline tax disbursements to counties and cities for the months of April through August of 2008 with a scheduled repayment in September 2008. In addition, ABX3 7 authorizes local governments to use their Proposition 1B funds to meet cash flow needs during the deferral period.

ABX3 8 discontinues the payment of estimated non-Proposition 98 mandates. In addition, ABX3 8 delays 10 new judgeships until July 2008 and 50 additional judgeships until June 2009.

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SBX3 8 provides for the reinstatement of the one-year offshore holding period for sales and use tax on yachts and planes. The Assembly version of this bill (ABX3 10) failed passage by a vote of 45 to 20; however, the Senate passed SBX3 8 and sent the bill to the Assembly.

We will continue to keep you advised.

WTF:GK
MAL:DD:hg

Attachments

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

**ESTIMATED IMPACT TO LOS ANGELES COUNTY
FY 2007-08**

<u>Programs:</u>	Governor's Proposed Budget	Legislative Actions
<u>Health</u>		
Medi-Cal Provider and Managed Care Rates	(\$1,000,000)	\$0
Federal Safety Net Care Pool Payments/ South L.A. Preservation Fund	(2,026,000)	0
<u>Public Health</u>		
Alcohol and Other Drug Programs	(1,025,000)	0
Proposition 36 Program/Offender Treatment Program	(1,041,000)	0
Other State-Funded Programs	(495,000)	0
<u>Mental Health</u>		
Mental Health Managed Care Program	(1,500,000)	0
Early and Periodic Screening, Diagnosis and Treatment*	0	(570,000)
<u>Social Services</u>		
CalWORKs Program Reforms	(11,300,000)	0
Total	(\$18,387,000)	(\$570,000)

* The \$570,000 impact related to the deletion of a COLA for this program was not budgeted/anticipated by the Department of Mental Health.

Summary of Legislative Actions – County Impact

HEALTH

Medi-Cal Provider and Managed Care Rates. The Governor's Proposed Budget would reduce Medi-Cal provider rates Statewide by \$33.4 million for physicians and other medical and service providers and propose proportionate reductions in Medi-Cal managed care rates in FY 2007-08. There are no reductions in the Medi-Cal provider rates for inpatient services. The Governor's Proposed Budget would have reduced payments to the County's Cost Based Reimbursement Clinics (CBRC) by \$866,000 in FY 2007-08. Similarly, the County would have experienced a loss of \$134,000 in Managed Care payments in the same fiscal year. The combined impact on the County for these two programs in FY 2007-08 is \$1.0 million. **The Legislature took no action on these items for FY 2007-08 thereby eliminating the combined \$1.0 million impact on the County.**

In FY 2008-09, the Governor's Proposed Budget would reduce Medi-Cal provider rates Statewide by \$602.4 million for physicians and other medical and service providers and make a proportionate reduction in Medi-Cal managed care rates. **The Legislature approved a modified version of the Governor's FY 2008-09 proposal that provides for a reduction of \$544.3 million effective July 1, 2008, delaying the Governor's proposal by one month to the start of the new fiscal year.** The Assembly Budget Committee indicated that the purpose of the delay is to allow time for further review of provider rates during the regular budget process to identify any critical consequences of the reduction and determine if there is a better way to achieve savings.

The Department of Health Services (DHS) indicates that the estimated impact to the County for FY 2008-09 continues to be a reduction of \$11.14 million for outpatient services reimbursed by CBRC payments, which will result in a reduction of 30,580 outpatient visits. The estimated impact of the rate reduction for Managed Care payments remains \$1.574 million for the County's directly operated health facilities.

Federal Safety Net Care Pool Payments (SNCP) and South L.A. Preservation Fund. The Governor's Proposed Budget would shift \$54.2 million in FY 2007-08, and \$54.2 million in FY 2008-09 of Federal Safety Net Care Pool and South L.A. Preservation Fund payments from designated public hospitals to the portions of the California Children's Services (CCS), Genetically Handicapped Persons, Medically Indigent Adult Long-Term Care, and Breast and Cervical Cancer Treatment programs, which are eligible for these funds. The South L.A. Preservation Fund was created by the passage in October 2007 of County-supported SB 474 (Kuehl), which provides \$100 million annually to preserve services to the South Los Angeles population previously served by MLK-Harbor Hospital. This shift will allow a corresponding reduction in the State General Fund for these programs. In FY 2007-08, the impact begins June 1, 2008. The estimated reduction to the County in FY 2007-08 is \$1.206 million from the SNCP and \$820,000 from the South L.A. Preservation Fund.

The Legislature took no action on the Federal Safety Net Care Pool and South L.A. Preservation Fund for FY 2007-08 thereby eliminating a potential \$2,026,000 reduction to the County for FY 2007-08.

PUBLIC HEALTH

Alcohol and Other Drug Programs. The Governor's Proposed Budget reduces \$2.5 million in FY 2007-08 and \$16.1 million in FY 2008-09 for Alcohol and Other Drug Programs, primarily through a reduction in Drug Medi-Cal provider rates. The number of Drug Medi-Cal programs to be monitored and administratively supported will remain the same. However, total program funds for the County will decrease by approximately \$1.025 million in FY 2007-08 and \$6.628 million in FY 2008-09. This will result in a rate reduction for contracted services. **The Legislature took no action on Alcohol and Other Drug Programs which affect County programs for FY 2007-08, thus eliminating a potential negative impact to the County of \$1.025 million.**

Proposition 36. The Governor's proposed reductions for Proposition 36 are \$3.3 million in FY 2007-08 and \$10 million in FY 2008-09. The reductions will not change the sentencing law requirement under Proposition 36. The impact to the County is estimated at \$872,000 in FY 2007-08. These reductions will be passed on to the community-based agencies. For both the Substance Abuse Crime Prevention Act (Proposition 36) and Substance Abuse Offender Treatment Program, there will be a loss of 6,037 residential bed days and 73 outpatient slots in FY 2007-08 resulting in fewer clients being served. **The Legislature took no action on Proposition 36 for FY 2007-08 thereby eliminating a potential loss to the County of \$872,000.**

Substance Abuse Offender Treatment Program (OTP). The proposed reduction for the Substance Abuse Offender Treatment Program is \$667,000 in FY 2007-08. This program serves offenders eligible for treatment under Proposition 36 and is contingent upon a State Budget Act appropriation. The impact to the County is estimated at \$169,000 in FY 2007-08. The reduction will be passed on to community-based agencies. The reduction in OTP funds will also result in a reduced local match, as ADPA is using Statham funds for the match. Thus, there is not a projected savings in net County cost. **The Legislature took no action on the OTP for FY 2007-08 thereby eliminating a negative County impact of \$169,000.**

Other State-Funded Programs. The impact of the Governor's proposal on the County for Drug Court funding is estimated at \$214,000 in FY 2007-08. This translates to a loss of 920 residential bed days and 143 outpatient slots in FY 2007-08. The impact to the Perinatal program is estimated at \$206,000 in FY 2007-08 which translates to a loss of 480 residential bed days and 21 outpatient slots in FY 2007-08. A reduction in the State General Fund contributions is estimated to reduce funding to the County by \$75,000 in FY 2007-08. The estimated impact includes a loss of 599 residential bed days and five outpatient slots in FY 2007-08. **The Legislature took no action on these programs for FY 2007-08 thus eliminating a potential loss to the County of \$495,000.**

Children's Medical Services. In FY 2008-09, the Governor's has proposed reductions for these programs of \$28.3 million. The County's CCS program estimates this reduction will result in a \$1.8 million decrease in State General Fund for the program in FY 2008-09. The reduction in State General Funds will result in the reduction of \$2.7 million in Federal Funds (Title XIX), resulting in a combined impact to the County of \$4.5 million. The County CCS program serves one-third of the entire State CCS program's medically fragile clientele. **The Legislature instead approved a reduction in payments to CCS providers of \$10 million in FY 2008-09, effective July 1, 2008. CCS indicates that the impact remains \$4.5 million.**

MENTAL HEALTH

Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program. The Governor's Proposed Budget would reduce EPSDT by \$6.7 million in FY 2007-08 and \$46.3 million in FY 2008-09. The program provides comprehensive and preventive health services, including mental health services, to Medi-Cal recipients under the age of 21. Reductions would be achieved by requiring prior authorization by mental health providers for EPSDT day treatment that exceeds six months, eliminating the annual cost-of-living increase, and reducing the non-inpatient State Maximum Allowance (SMA). In addition, it delays \$92 million for the quarterly advance to counties for the EPSDT Program from July 2008 to September 2008. **The Legislature only approved elimination of the EPSDT program annual cost-of-living increase, for a savings of \$1.9 million in FY 2007-08 and \$7.5 million in FY 2008-09 and reductions of \$1.8 million in FY 2007-08 and \$7.1 million in FY 2008-09 from improved California Department of Mental Health oversight.**

The Department of Mental Health (DMH) estimates that the reduction in the EPSDT cost-of-living increase would result in a loss of \$570,000 in FY 2007-08 and \$2.2 million in FY 2008-09. However, DMH indicates that the COLA was not budgeted in the current year or anticipated in the upcoming budget year.

Mental Health Managed Care. The Governor's Proposed Budget would make a reduction of \$8.2 million in FY 2007-08 for Mental Health Managed Care primarily by eliminating the annual cost-of-living increase and reducing the non-inpatient State Maximum Allowance. The estimated impact to the County is \$1.5 million in FY 2007-08. **The Legislature took no action on Mental Health Managed Care for FY 2007-08 thereby eliminating a \$1.5 million negative impact to the County.**

SOCIAL SERVICES

CalWORKs Reforms. The Governor's Budget proposed reforms to the CalWORKs Program, effective June 1, 2008, for an estimated State savings of \$73.7 million in FY 2007-08 and \$389.1 million in FY 2008-09 by: 1) reducing the child-only portion of the CalWORKs grant by 50 percent when the adult fails to comply with the work

requirements for an accumulated total of six months and terminating the remaining grant amount when the adult remains non-compliant for a total of 12 months; 2) eliminating the child-only portion of the CalWORKs grant when the able-bodied parent reaches the 60-month time limit unless the adult meets the Federal work participation requirements; and, 3) imposing a 60-month time limit to CalWORKs assistance to children when the unaided parent or caretaker is an undocumented non-citizen, a convicted drug felon, or a fleeing felon. **The Legislature took no action on these proposals for FY 2007-08 thereby eliminating a potential negative impact on the County of \$11.3 million.**

TRANSPORTATION

As a result of a court ruling (Shaw v. Chiang) related to the proper use of Public Transportation Account funds, \$409 million from the Public Transportation Account was redirected to the Home-to-School Transportation program which is deemed to be an appropriate use.

OTHER ITEMS OF INTEREST

State Parks. The Governor's Proposed Budget proposes reductions of \$1.0 million in FY 2007-08 and \$13.3 million in FY 2008-09 for the State Department of Parks and Recreation. The proposed reductions would result in the elimination of positions and the closure of forty-eight State parks including five facilities located in Los Angeles County. The affected State parks are Topanga State Park, Will Rogers State Historic Park, Pío Pico State Historic Park, Santa Susana Pass State Historic Park, and Los Encinos State Historic Park.

The Legislature approved the proposed reduction of \$1.0 million in FY 2007-08 to the State Department of Park and Recreation operating budget. This reduction would be achieved by delaying equipment purchases and reducing the temporary workforce hours, but it would **not result in the closure of any State parks in the current year.** Further reductions, as proposed in the budget year, will continue to be discussed through the course of the regular budget process.

CalWORKs Cost of Living Adjustment (COLA). The Budget proposes \$134.4 million to increase CalWORKs grants 4.25 percent effective July 1, 2008. **The Legislature delayed the COLA until October 1, 2008 for a State savings of \$41.5 million.**

Supplemental Security Income/State Supplemental Payment (SSI/SSP) Cost of Living Adjustment (COLA). The Proposed Budget would suspend the June 1, 2008 and 2009 SSP COLAs for State savings of \$330.2 million. **The Legislature delayed the June 1, 2008 COLA until October 1, 2008 for State savings of \$67.8 million in FY 2008-09.**

Public Safety and Justice. The Legislature did not include the Governor's proposal to shift lower-risk parolees into a "summary" parole system in which the parolee would not be returned to prison for technical violations. In addition, the appointment of 10 judgeships will be delayed until July 1, 2008, and an additional 50 judgeships by one year to July 2009.