



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

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December 12, 2008

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

State Budget

Since an agreement was not reached last month prior to the end of the 2007-08 legislative session addressing the State's budget shortfall, which is projected to be \$28 billion by the end of FY 2009-10, Governor Schwarzenegger declared a fiscal emergency on December 1, 2008, pursuant to Proposition 58 requiring the Legislature to address legislation within 45 days. In addition, on December 10, 2008, the Governor held a press conference to urge legislators to act quickly, because the projected shortfall has increased from \$11.2 billion to \$14.8 billion for the current year. Administration officials also indicated that the overall deficit for the fiscal year ending on June 30, 2010 could be as high as \$40 billion.

Amidst this deepening fiscal crisis, Senate Budget subcommittees have begun hearings on the Governor's Proposed December Budget adjustments, various options suggested by the Legislative Analyst's Office (LAO), the Democrats' alternative to the Governor's November Revision, and Senate Republican alternatives. The Assembly began a similar process yesterday with hearings held before a special 20-member Assembly Budget Committee chaired by Assembly Member Noreen Evans (D-Santa Rosa). The list of committee members is included in Attachment I.

"To Enrich Lives Through Effective And Caring Service"

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The Governor's Proposed December Budget adjustments are not available in print, and the Sacramento advocates were unable to obtain any information from the Department of Finance. The details can only be gleaned indirectly from a report produced by the Assembly Budget Committee entitled "Summary of Governor's Proposed December 2008-09 Budget Adjustments." The report indicates that the Governor's December recommendations are identical to those proposed in the FY 2008-09 Fourth Extraordinary Session, except that the implementation date for many of the proposals has been delayed to either February 1, 2009, and May 1, 2009, which results in lower revenue and savings estimates for the current year than original projections included in the November Revision. In addition, in some cases, the Administration's estimates of new revenues from an increase in the sales tax and a new oil extraction tax appear to reflect an expected decline from a delay in the effective date and a further weakening in the economy.

Estimated Impact on the County

As reported in the November 14, 2008 Sacramento Update, the impact of the Governor's November Revision proposals would have resulted in losses to the County of \$74.1 million in FY 2008-09, and \$195.8 million in FY 2009-10. **However, based on our review of the limited information contained in the Assembly Budget Committee report, we now estimate that the County would lose \$47.8 million in FY 2008-09 and a projected \$204.3 million in FY 2009-10 if the Governor's Proposed December Budget adjustments are enacted.** The variance is the result of the proposed delayed implementation of many of the budget proposals. The estimated impact on the County by program is contained in Attachment II, and a description of the program changes are contained in Attachment III.

Estimated Impact of the Sales Tax Increase and the Sales Tax Base Expansion

The Governor's Proposed December Budget adjustments retains the November Revision proposal to increase the sales tax rate by 1.5 percent for a three-year period and broaden the sales tax base to include certain types of services such as appliance, furniture, and vehicle repairs, golf, amusement parks, and sporting events.

As reported in our November 14, 2008 Sacramento Update, the proposed expansion of the sales tax base would yield: 1) additional funding for Proposition 172 local public safety agencies; 2) increased receipts from the County one-cent sales tax; and 3) increased Realignment Program sales tax revenues, which fund health, social services, and mental health programs. The sales tax increase would also result in increased revenue for Proposition 42 transportation projects. However, as a result of the anticipated delayed implementation of the sales tax increase from January 1, 2009 to February 1, 2009, and the sales tax expansion from February 1, 2009 to March 1, 2009, the statewide revenue projections for the current fiscal year have been lowered.

The table below provides a comparison of the estimated revenue changes affecting the County.

FY 2008-09 Proposed Sales Tax Changes Affecting the County				
Type of Sales Tax	Governor's November Revision	Proposed December Budget Adjustments	Variance	Percentage Change
Proposition 172 - Public Safety	\$ 5,900,000	\$ 4,484,000	-\$ 1,416,000	-24.00%
County One-cent	\$ 578,000	\$ 439,000	-\$ 139,000	-24.00%
Realignment Programs	\$ 8,100,000	\$ 6,156,000	-\$ 1,944,000	-24.00%
Proposition 42	0	0	0	0.00%

The following table provides a breakdown of the estimated revenue increases in FY 2009-10.

FY 2009-10 Proposed Sales Tax Changes Affecting the County				
Type of Sales Tax	Governor's November Revision	Proposed December Budget Adjustments	Variance	Percentage Change
Proposition 172 - Public Safety	\$ 19,400,000	\$ 19,400,000	0	0.00%
County One-cent	\$ 1,900,000	\$ 1,900,000	0	0.00%
Realignment Programs	\$ 26,700,000	\$ 26,700,000	0	0.00%
Proposition 42	\$ 26,000,000	\$ 26,000,000	0	0.00%

In addition, the sales tax increase and sales tax expansion will affect the cost of County purchases and add to the cost of certain services such as vehicle repair. The Governor's Proposed December Budget adjustments did not provide sufficient information to determine the impact on the County; however, **based on the Governor's November Revision proposals, we estimate that the sales tax changes could result in cost increases to the County of up to \$9.3 million in FY 2008-09 and \$19.8 million in FY 2009-10.**

Each Supervisor
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We will continue to keep you advised.

WTF:GK
MAL:MR:sb

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

2009-10 First Extraordinary Special Session
Assembly Budget Committee

Noreen Evans, Chair (D-Santa Rosa)

Roger Niello (R-Fair Oaks)

Juan Arambullo (D-Fresno)

Sam Blakeslee (R-San Luis Obispo)

Bob Blumenfield (D-Woodland Hills)

Julia Brownely (D-Santa Monica)

Anna Caballero (D-Salinas)

Wesley Chesbro (D-Arcata)

Bill Emmerson (R-Redlands)

Mike Feuer (D-Los Angeles)

Jean Fuller (R-Bakersfield)

Martin Garrick (R-Carlsbad)

Danny Gilmore (R-Hanford)

Jerry Hill (D-San Mateo)

Bill Monning (D-Monterey)

Pedro Nava (D-Santa Barbara)

Ira Ruskin (D-Redwood City)

Jim Silva (R-Huntington Beach)

Nancy Skinner (D-Berkeley)

Sandre Swanson (D-Oakland)

**ESTIMATED IMPACT TO LOS ANGELES COUNTY
OF THE GOVERNOR'S PROPOSED FY 2008-09 DECEMBER BUDGET ADJUSTMENTS**

Programs:	May Revision FY 2008-09	Adopted Budget FY 2008-09	December Revision FY 2008-09	December Revision FY 2009-10
<u>Health</u>				
Medi-Cal Provider and Managed Care Rates	(\$12,714,000)	(\$8,738,000)	\$0	\$0
Federal Safety Net Care Pool Payments	(14,393,000)	0	0	(14,393,000)
South Los Angeles Preservation Fund	(10,000,000)	0	0	(10,000,000)
California Healthcare for Indigents Program	(5,300,000)	(5,300,000)	0	0
Section 1931(b) Medi-Cal Eligibility	(5,000,000)	0	(2,100,000)	(5,000,000)
Medi-Cal Eligibility for Legal Immigrants	(1,500,000)	0	? ⁽¹⁾	? ⁽¹⁾
<u>Public Health</u>				
HIV/AIDS Treatment and Prevention	(1,000,000)	(1,200,000)	0	0
Family and Health Programs	(202,000)	(202,000)	0	0
Alcohol and Other Drug Programs / Drug Medi-Cal Program	(6,628,000)	(6,400,000)	0	0
Proposition 36 Program/Offender Treatment Program	(3,049,000)	(3,049,000)	0	0
Other State-Funded Programs	(1,427,000)	0	0	0
Children's Medical Services / California Children's Services	(4,500,000)	0	0	0
Tuberculosis Control Program	(151,000)	0	0	0
Immunization Program	(827,000)	(81,000)	0	0
Drug Court Programs	0	(626,000)	0	0
Perinatal Substance Abuse Treatment Programs	0	(610,000)	0	0
Other Non-Medi-Cal Drug Programs	0	(180,000)	0	0
<u>Mental Health</u>				
State Maximum Allowance Rate Cut (EPSDT & Adult Services)	(23,100,000)	0	0	0
Mental Health Managed Care Program	(7,140,000)	(3,800,000)	0	0
Institutes for Mental Disease	0	(6,300,000)	0	0
SSI/SSP for Residential Treatment and Housing	--	--	(50,000)	(546,000)
<u>Social Services</u>				
Child Welfare Services Administration	(25,000,000)	0	0	0
Foster Care Provider Payments Savings	14,900,000	0	0	0
Adult Protective Services Administration	(2,600,000)	(2,600,000)	0	0
Medi-Cal Administration	(55,300,000)	(33,400,000)	0	0
In-Home Supportive Services (IHSS) Administration	(7,600,000)	(5,100,000)	0	0
IHSS Program Savings	10,400,000	0	2,300,000	14,200,000
Reduced State Participation in IHSS Wages	(48,600,000)	0	(10,800,000) ⁽²⁾	(64,800,000) ⁽²⁾
Food Stamps Administration	--	(6,900,000)	0	0
CalWORKs Program - Grant Reductions (General Relief Cost Shift)	(105,000,000)	0	(13,400,000) ⁽³⁾	(80,400,000) ⁽³⁾
CalWORKs Single Allocation Funding	0	(17,600,000)	0	0
Cash Assistance Program for Immigrants	(13,700,000)	0	(2,500,000)	(14,900,000)
Community Treatment Facilities Differential Rate	(1,500,000)	0	0	0
<u>Justice and Public Safety</u>				
Juvenile Probation Camp Funding	(8,000,000)	(8,000,000)	(13,540,000)	(18,600,000)
Juvenile Justice Crime Prevention Act (JJCPA) Program	(3,300,000)	(3,300,000)	(4,000,000)	(3,871,000)
Citizens Option for Public Safety (COPS) Program	(1,000,000)	(1,000,000)	(1,175,000)	(929,000)
California Multi-Jurisdictional Methamphetamine Enforcement Grants	--	--	(828,000)	(1,655,000)
Other Public Safety Grants	--	--	(1,669,000)	(3,338,000)
<u>General Government</u>				
Delay of Third Installment of the Deferred Mandate Payments	(14,000,000)	(14,000,000)	0	0
February 2008 Presidential Primary Election	0	0	0	0
Public Library Fund	(190,000)	(182,000)	0	0
Military and Veteran Affairs Programs	(29,000)	0	0	0
Subventions for Open Space (Williamson Act)	(4,000)	(4,000)	0	(40,000)
Total	(\$357,454,000)	(\$128,572,000)	(\$47,762,000)	(\$204,272,000)

Notes: (1) There is insufficient data to determine the impact on the County. We are working with the State to determine the impact of this proposal.

(2) Estimates assume the County would pay the State's share of cost of wages above \$8.00 per hour. If not, the County will realize an estimated \$34.8 million annual savings.

(3) Estimated impact represents the County cost if 50 percent of the children who lose CalWORKs benefits receive General Relief benefits.

This table represents the estimated loss/gain of State funds based upon the Governor's May Revision, the Adopted Budget, and the Special Session proposals. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able

**GOVERNOR'S PROPOSED FY 2008-09 DECEMBER BUDGET ADJUSTMENTS
ITEMS OF COUNTY INTEREST**

Health

Federal Safety Net Care Pool Payments. The Governor's December Revision reintroduces a proposal from the Governor's FY 2008-09 January Budget to shift Federal Safety Net Care Pool (SNCP) funding from designated public hospitals to portions of the California Children's Services, Genetically Handicapped Persons, Medically Indigent Adult Long-Term Care, and Breast and Cervical Cancer Treatment programs which are eligible for these funds. The Administration assumes no State savings in FY 2008-09 because of the lengthy implementation process, and they estimate \$54.2 million in FY 2009-10 with implementation effective February 1, 2008. The Department of Health Services (DHS) estimates a loss of \$14.4 million in SNCP payments and \$10 million for the South Los Angeles Preservation Fund, for a total loss of \$24.4 million in FY 2009-10.

Medi-Cal 1931(b) Program. The Governor's December Revision reintroduces a proposal from the FY 2008-09 May Revision to roll back the income eligibility level from 100 percent of the Federal Poverty Level (FPL) to 72 percent of the FPL for applicant families who currently qualify for Medi-Cal benefits without a share of cost, and define under-employment as the principal wage earner working less than 100 hours per month. Parents with higher incomes who meet the eligibility requirements would be eligible for Medi-Cal with a share of cost payment.

The proposed changes to the Medi-Cal 1931(b) Program would be effective February 1, 2009 and phased in over 33 months for an estimated State savings of \$2.6 million in FY 2008-09 and \$342.5 million in FY 2011-12 when the proposal is fully implemented. This proposal would result in the loss of Medi-Cal benefits for approximately 157,000 parents in Los Angeles County when fully implemented by FY 2011-12. These individuals would add to the ranks of the estimated 2.1 million already uninsured County residents. According to DHS there is insufficient information available from the State Department of Health Care Services to develop a reliable estimate of the impact of this proposal; however, based on countywide caseload data for the population, the potential impact to the County is a loss of approximately \$2.1 million in FY 2008-09 and \$5 million in FY 2009-10.

Medi-Cal Monthly Reporting Requirement for Undocumented Immigrants. The Governor's December Revision reintroduces a proposal from the FY 2008-09 May Revision to implement a monthly eligibility reporting requirement for undocumented immigrants who receive emergency Medi-Cal benefits. The Administration assumes a State savings of \$4.8 million in FY 2008-09 and \$71.2 million in FY 2009-10 with

implementation on February 1, 2009. It also should be noted that this proposal does not include funding for additional County administrative costs to complete monthly reporting requirements. The Chief Executive Office (CEO) will continue to work with the Departments of Public Social Services and DHS to determine the impact of this proposal to the County.

Medi-Cal Eligibility for Legal Immigrants. The Governor's December Revision reintroduces a proposal from the FY 2008-09 May Revision to eliminate full-scope Medi-Cal benefits for newly qualified immigrants who have been in the United States for less than five years and immigrants who are permanently residing in the United States under the color of law. The Administration assumes State savings of \$9.4 million in FY 2008-09 and \$139.9 million in FY 2009-10 with implementation on February 1, 2009. DHS indicates there is no data available from the State Department of Health Care Services to estimate the impact on the County from this proposal.

Mental Health

Supplemental Security Income/State Supplementary Payment (SSI/SSP). The Governor's December Revision proposes to reduce SSI/SSP grants to the Federal minimum effective May 1, 2009 for a State savings of \$176.5 million in FY 2008-09 and \$1.062 billion in FY 2009-10. The Department of Mental Health indicates that it collects SSI/SSP payments to offset costs for clients who reside in Institutes for Mental Disease, Intensive Residential Treatment Programs, Specialized Housing Programs and who pay rent through the housing component of Proposition 63, the Mental Health Services Act. This proposal would result in an estimated County loss of \$50,000 in FY 2008-09 and \$546,000 in FY 2009-10. Under this proposal, the current SSI/SSP monthly grant for an individual would be reduced from \$870 to \$830.

Social Services

CalWORKs Reforms. The Governor's December Revision reintroduces the following two CalWORKs reforms from the FY 2008-09 Proposed Budget, which were rejected by the Legislature. The reforms would be effective on May 1, 2009 for a State savings of \$78.7 million in FY 2008-09 and \$472.3 million in FY 2009-10.

- **Modify the Safety Net Program.** Maintain the child-only CalWORKs grant beyond the 60-month time limit only when the able-bodied adult meets the Federal work participation requirements. Safety net benefits would be eliminated if the adult does not meet the work participation requirements. This proposal would potentially impact approximately 13,551 families in Los Angeles County and 32,311 children in those families.
- **Child-Only Benefits.** Limit child-only benefits to 60 months when the parent or caretaker is an undocumented non-citizen, a convicted drug felon or a fleeing felon. This proposal would impact approximately 16,167 families in Los Angeles County and 39,377 children in those families.

These proposals would result in the loss of \$25.9 million in cash grants to CalWORKs families in Los Angeles County in FY 2008-09 and \$155.3 million in FY 2009-10. **If 50 percent of the children terminated from CalWORKs cash assistance apply for, and are determined eligible for General Relief, there would be an estimated increased County cost of \$13.4 million in FY 2008-09 and \$80.4 million in FY 2009-10.** Additionally, the loss of CalWORKs cash benefits could place families at greater risk of homelessness.

CalWORKs Grant Reduction. The Governor's December Revision proposes to reduce recipients grants by 10 percent effective May 1, 2009 for a State savings of \$46.6 million in FY 2008-09 and \$279.6 million in FY 2009-10. The proposal would reduce the CalWORKs grant for a family of three from \$723 per month to \$651 per month.

CalWORKs Self-Sufficiency Review. The Governor's December Revision reintroduces a proposal from the FY 2008-09 May Revision to require county eligibility workers to conduct semi-annual face-to-face self-sufficiency of CalWORKs participants who are not meeting the work requirement to assess the type of services needed to assist the participant to remove any barriers to work participation. The Administration assumes this proposal would result in State savings of \$11.7 million in FY 2008-09 and \$94.8 million in FY 2009-10 with implementation on May 1, 2009.

In-Home Supportive Services (IHSS). The Governor's December Revision reintroduces a proposal from the FY 2008-09 May Revision to eliminate IHSS domestic and related services for recipients determined to have lower services needs. The Administration assumes a State savings of \$11.6 million in FY 2008-09 and \$71.4 million in FY 2009-10 with implementation on May 1, 2009. This would result in a reduction in domestic and related services for approximately 35,000 IHSS recipients in Los Angeles County and an estimated net County cost savings of \$2.3 million in FY 2008-09 and \$14.2 million in FY 2009-10.

IHSS Provider Wages. The Governor's December Revision retains a proposal from the FY 2008-09 May Revision to reduce State participation in IHSS provider wages to the State minimum wage of \$8.00 per hour and retain State participation in health benefits at the level of 60 cents per hour. The Administration assumes a State savings of \$41.5 million in FY 2008-09 with implementation on May 1, 2009 and \$248.8 million in FY 2009-10. The current County wage rate is \$9.00 per hour. The current agreement with Los Angeles County Personal Assistance Services Council specifies that if the State's share of IHSS wages becomes unavailable, IHSS wages shall revert to the State minimum wage without further action of the Board. If IHSS provider wages were reduced to the minimum wage, the County would realize an estimated annual savings of \$34.8 million. However, **if the County opted to maintain the current wage of \$9.00 per hour without State participation above the minimum wage, the additional cost to the County would be \$10.8 million in FY 2008-09 and \$64.8 million annually thereafter.**

Cash Assistance Program for Immigrants (CAPI). The Governor's December Revision retains a proposal from the FY 2008-09 May Revision to eliminate CAPI, which was rejected by the Legislature. The Administration assumes State savings of \$18.9 million in FY 2008-09 with implementation on May 1, 2009 and \$114.1 million in FY 2009-10. This proposal would result in the loss of cash benefits for approximately 5,600 aged and disabled legal immigrants in Los Angeles County. **If 100 percent of these individuals apply for, and are determined eligible for General Relief, this proposal would result in an estimated net County cost of \$2.5 million for the period from May 1, 2009 to June 30, 2009, and an estimated annual cost of \$14.9 million thereafter.** Elimination of CAPI could place aged and disabled legal immigrants at greater risk for homelessness.

CalWORKs Child Care. The Governor's December Revision proposes to reduce funding for CalWORKs Stage 2 Child Care by \$27 million and funding for CalWORKs Stage 3 Child Care by \$15 million to reflect lower caseload estimates since enactment of the State budget. There is no direct impact to the County; however, if the funding for CalWORKs State 2 Child Care proves to be inadequate, there could be a resulting increase in Stage 1 Child Care costs which are funded by the County out of the CalWORKs single allocation. In addition, the Governor's December revision rolls over \$108 million from prior year child care savings for CalWORKs Stages 2 and 3 costs in FY 2008-09. According to the Administration, the FY 2008-09 State Budget used anticipated one-time savings from the After School Safety and Education (ASES) program to fund CalWORKs; however, the ASES savings did not materialize.

Justice and Public Safety

Citizens' Option for Public Safety (COPS)/Juvenile Justice Crime Prevention Act (JJCPA) Grants. The Governor's December Revision reintroduces the November Revision proposal to transfer of funding for the COPS/JJCPA Grants from the State General Fund to the Vehicle License Fee (VLF) as part of a plan to save \$250 million in State General Fund spending. These funds were used previously to support the Department of Motor Vehicles which would now be funded by a \$12 increase in the annual vehicle registration fee. In addition, the Governor proposes to reduce funding for these grants by a total of \$28.6 million by reducing funding for each program from \$107 million to \$93 million in FY 2008-09. For FY 2009-10, these programs are expected to receive \$95.8 million each. The impact to the County is a loss of \$4 million in FY 2008-09 and \$3.9 million in FY 2009-10 for the JJCPA Program, and a loss of \$1.2 million in FY 2008-09 and \$929,000 in FY 2009-10 for the COPS Program.

Juvenile Probation and Camp Funding. The Governor's December Revision reintroduces the November Revision proposal for State savings of \$35 million in FY 2008-09 by reducing the Juvenile Probation and Camp Funding from \$181.3 million to \$146.3 million. In FY 2009-10, program funding will be reduced by an additional \$10.5 million to an estimated \$135.8 annually. The estimated impact to the County is a loss of \$13.5 million in FY 2008-09 and \$18.6 million in FY 2009-10. After FY 2009-10, this program will be funded from the VLF.

California Multi-Jurisdictional Methamphetamine Enforcement Team Grants. The Governor's December Revision reintroduces the November Revision proposal to reduce \$9.75 million from the current level of \$19.5 million to the California Multi-Jurisdictional Methamphetamine Enforcement Team grants for State and local law enforcement agencies in FY 2008-09. In addition, the Administration proposes to eliminate this program in FY 2009-10 for a total annual reduction of \$19.5 million. The estimated impact to the County is a loss of \$828,000 in FY 2008-09 and \$1.7 million in FY 2009-10.

Other Public Safety Grants. The Governor's December Revision reintroduces the November Revision proposal to reduce, by 50 percent, in FY 2008-09 to a number of local public safety grants including the High Tech Theft Apprehension and Prosecution Program, the Identity Theft Task Force, and Sexual Assault Felony Enforcement Teams. These grants are scheduled for elimination in FY 2009-10. The estimated impact to the County is a loss of \$1.7 million in FY 2008-09 and \$3.3 million in FY 2009-10.

General Government

Subventions for Open Space Act. The Governor's December Revision reintroduces the November Revision proposal to eliminate \$34.7 million in State reimbursements for the Subventions for Open Space Act (Williamson Act) Tax Relief Program. The Williamson Act authorizes any city or county to enter into a contract with the owner of agricultural land to preserve that land in accordance with the conditions established by the Act and the contract. This proposal would result in an estimated loss of \$40,000 to the County.