



County of Los Angeles CHIEF EXECUTIVE OFFICE

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Chief Executive Officer

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December 17, 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

Republicans Release Budget Plan

The Republicans released a \$22 billion plan which is composed of \$6.5 billion in revenues and \$15.6 billion in expenditure savings. The revenue proposals are derived primarily from the redirection of an estimated \$2.1 billion in unspent Proposition 10 funds from State and County Early Childhood Development Programs and \$3.9 billion in unspent Proposition 63 Mental Health Service Act funds. Both proposals would require voter approval. Even if approved, these funds would be one-time only and therefore would not contribute to a long-term reduction of the State's structural deficit. The remainder of the revenue would be derived by delaying certain loan payments and the transfer of money from other special accounts.

It is difficult to estimate the impact of the proposed expenditure reductions because the impact of fiscal years 2008-09 and 2009-10 are combined and the proposal does not contain any detailed information. Nevertheless, almost two-thirds of the \$15.6 billion in reductions would affect education. Republicans want to reduce monthly payments for supplemental security income recipients to \$830 from \$870 for singles, and to \$1,407 from \$1,524 for couples. They also propose to eliminate \$550 million in funding for Proposition 49, which provides funding for before and after school programs, an initiative that was authored by the Governor before he was elected to office. Other proposals, some of which were included in either the Governor's Proposed Budget or

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the May Revision, which were rejected by the Legislature, are part of the Republicans' expenditure reduction agenda. A complete list of the proposed reductions and revenue proposals is attached.

The Republican Plan also includes a number of proposals "to stimulate the economy by encouraging businesses to invest in California, thus creating jobs and increasing the State's revenues." While the list of proposals is lengthy, it includes requiring a third party to analyze the economic impact of stringent air board regulations; extending deadlines for greenhouse gas and engine retrofit regulations; and eliminating hurdles to moving forward with projects funded by infrastructure bonds.

The Plan also would expand tax credits to encourage businesses to invest in California by establishing: 1) a new employee tax credit for businesses that hire out-of-work Californians; 2) a manufacturing investment credit to help businesses purchase the equipment they need; 3) a capital gains reduction for businesses that invest in California; and 4) modification of the tax code to encourage companies to locate jobs in California. There are no estimates of the costs of these credits or of their potential impact on State revenues.

Finally, the Republicans propose to enact a strict spending limit that restricts expenditure growth each year to the combined percentage change in the State's population growth and inflation; create a new Special Reserve Account that will accumulate funds to be saved for a rainy day; increase accountability in State spending by requiring the State Auditor to conduct a performance audit of State programs; and bring stability to the State budget process by requiring the legislature to adopt a two-year budget. A complete list of these proposals is included as part of the attachment.

Legislative Democrats and the Governor's Office were both highly critical of the proposal.

Assembly Budget Committee Hears the Republican Plan

Today, the Assembly Budget Committee held a hearing on the Republicans Alternative Budget Plan, which was released on December 15, 2008, but no vote was taken. Assembly Member Roger Niello provided members with a general overview of the plan. Democratic committee members were critical of the plan, because it would cut deeper into core programs, which have already been reduced over the years.

Legislative Analyst Mac Taylor stated that proposals that need voter approval would not help the State's cash situation in the current year, but that reductions in program expenditures would help. A spokesperson for the Department of Finance emphasized

California's dire fiscal situation, and indicated that reduced expenditures would be of benefit because the State will run out of cash as early as February 2009.

Numerous advocacy groups opposed many aspects of the Republican Plan, including the California First 5 Commission, Western Center on Law and Poverty, and the County Mental Health Directors Association.

Pursuit of Position on Funding for Two County Projects

One element of the Governor's Economic Stimulus Plan would appropriate funds for projects that are ready to be constructed, which would result in the creation of new jobs. The State Department of Water Resources informed the Sacramento advocates of their intention to pursue legislation which would include appropriations for the Big Tujunga and Santa Anita Dam Projects and asked for the County's support.

The plan includes expediting \$147 million of Propositions 84 and 1E funding for water and flood projects appropriated by **County-supported SB 2X 1** (Chapter 1, 2007-08 Second Extraordinary Session). The two County projects – the Big Tujunga Dam Seismic Remediation and Spillway Modification Project and the Santa Anita Dam Seismic Modification and Sediment Removal Project – are included in the plan and the Governor proposes \$46 million for both projects.

Support for these projects is consistent with existing policy to support SB 2X 1, which allocated a minimum of \$100 million to address immediate public health and safety needs and to strengthen existing flood control facilities to address seismic safety issues; and to maximize the amount of funding available to the County for public works infrastructure. Therefore, **we will be sending letters to the Governor and legislative leadership expressing the County's support for these two projects, and indicating that we have a number of other County projects of which we can immediately begin construction if funded.**

Pursuit of Position on Potential State Budget Item

The Sacramento advocates report that the Legislature is considering a proposal to authorize voluntary tax increment revenue transfers from redevelopment agencies (RDAs) to the State in exchange for the relaxation of existing statutory requirements on the length of a project's life, project dollar limits, without a demonstration of blight. Extension of a project's life and project dollar limits for redevelopment projects without a blight finding is counter to the recent reforms in SB 1206 (Kehoe, Chapter 595, Statutes of 2006) approved by the Legislature.

The Auditor-Controller estimates that the County's annual General Fund loss to redevelopment agencies for FY 2006-07 was \$350 million. This amount will increase if

the Legislature approves the redevelopment proposal. The Chief Executive Office Community and Municipal Services Cluster indicates that this proposal would divert local revenues from critical County services. **Therefore, the Sacramento advocates will oppose proposals to extend redevelopment timelines and increase project dollar limits without the consent of the affected local agencies.** In addition, the Sacramento advocates will be joining with the California State Association of Counties (CSAC) in a letter of opposition to the legislative leadership and working with CSAC to actively oppose the proposal. For your information the letter is attached.

Opposition is consistent with existing Board policy to oppose any redevelopment legislation, which would cause the County to lose revenues, limit or repeal provisions of AB 1290, or allow RDAs to extend the life of projects beyond the statutory time frames established in AB 1290. It is also consistent with County opposition to SB 1771, which would have extended City of Industry redevelopment projects by 10 years and eliminated the requirement that an RDA show remaining blight in order to extend a project.

Senate Holds Hearing on Budget Proposals Affecting Human Services Programs

On December 10, 2008, Senate Budget and Fiscal Review Subcommittee No. 3 held a hearing to discuss human services proposals that would reduce State expenditures. This was an informational hearing and no votes were taken. Some of the proposals discussed included: 1) Cash Assistance Program for Immigrants, 2) In-Home Supportive Services, 3) California Work Opportunities and Responsibilities for Kids (CalWORKs), 4) Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting (LEADER) Replacement System, and 5) the Transitional Housing Plus-Program.

Cash Assistance Program for Immigrants (CAPI). The Sacramento advocates testified in opposition to the Governor's December Revision proposal to eliminate CAPI benefits, which would affect 5,600 aged, blind and disabled legal immigrants in Los Angeles County. The Legislative Analyst's Office (LAO) proposed an alternative to make an unspecified number of current recipients eligible for Federal benefits to take advantage of a new Federally-funded option available to states; however, this proposal will require more time to craft trailer bill language in collaboration with the California Department of Social Services, legislative staff, and the Department of Finance. The Subcommittee was interested in reviewing this proposal further at the next hearing.

In Home Supportive Services (IHSS). Labor representatives, IHSS providers and recipients opposed the Governor's December Revision proposals to: 1) reduce State participation in IHSS worker wages to the current minimum wage of \$8.00 per hour and \$.60 per hour for health benefits; and 2) eliminate IHSS domestic and related services for certain recipients, which would affect 35,000 IHSS recipients in Los Angeles County.

CalWORKs Proposals. The Subcommittee reviewed CalWORKs proposals from the Governor's December Revision, the LAO, and the Department of Finance. The Sacramento advocates testified in opposition to two CalWORKs reform proposals included in the Governor's December Revision: 1) modifying the safety net program, and 2) establishing time-limits for cash grants and other assistance, which would affect 71,000 children and over 30,000 families in Los Angeles County. Other proposals that were reviewed by the Subcommittee and described by Senator Padilla as possible budget reduction options were: 1) a CalWORKs Grant reduction of 10 percent effective May 1, 2009, and 2) the LAO's proposal to suspend the July 2009 COLA for a State savings of \$119.5 million in FY 2009-10. A representative from the California Welfare Director's Association highlighted the increased demand for CalWORKs services statewide due to the economic hardship families are currently experiencing, and requested that the Subcommittee carefully review proposals that can generate employment opportunities such as the self-sufficiency reviews for participants that are not meeting work requirements, and the LAO's proposal to make in-person interviews a condition of eligibility for adult cases.

Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting (LEADER) Replacement System. The LEADER system calculates and tracks benefits eligibility in Los Angeles County for individuals receiving, one or a combination of CalWORKs, Medi-Cal, or Food Stamps benefits. The Department of Public Social Services (DPSS) has been working with the California Office of Systems Integration to procure a contractor that will replace the LEADER system and seven other antiquated existing county systems by consolidating them into one case management system.

The LAO recommended that the Legislature delay funding for implementation of the LEADER Replacement System for two years to achieve \$14.6 million in State General Fund savings. The Department of Finance expressed concerns with this proposal because it would derail the project, and requested further discussions with the LAO to include the possibility of a six-month delay instead of two years, indicating that this action would achieve the same State General Fund savings. DPSS will be participating in the meetings with the LAO and the Department of Finance to provide technical assistance.

Transitional Housing Plus Program (THP). This program was designed to help vulnerable foster youth age 18 to 24 transition successfully into adulthood. Currently, counties do not have a share of cost for THP, but the Senate Republican proposal would require counties to have a 20 percent share of cost for the program. Senator Dave Cox indicated that THP has grown from \$1 million in FY 2005-06 to more than \$40 million in FY 2008-09, and that counties should bear some of the costs for the program. Prior to FY 2006-07, counties had a 60 percent share of cost. A representative from the California State Association of Counties (CSAC) reported that initially there were only four counties participating in the program, and that the share of

cost was eliminated to increase county participation. The CSAC representative indicated that counties already pay 100 percent of the administrative costs for THP, and that if a share of cost were imposed many counties would no longer participate. The Subcommittee agreed to look into the possibility of obtaining Federal funding for the program, and decided to revisit this issue at a later date.

First 5 California Provides Funding for the Healthy Families Program

On December 15, 2008, the First 5 California Commission voted to provide an estimated \$16.75 million to the Healthy Families Program (HFP), which will allow more children ages 0 to 5 to be enrolled into the program. According to the Governor's office, the HFP currently provides health care services to about 900,000 children. The Governor also plans to work with legislative leaders and President-Elect Obama's Administration to maximize Federal dollars so that all California children have access to health care.

We will continue to keep you advised.

WTF:GK:MAL
MR:IGA: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

Revenue Measures (\$6.5 billion total):

Proposal	Revenue (Fiscal Years 2008-09 and 2009-10)	Source
With voter approval, redirects Proposition 10 funds currently sitting unspent to children's health programs	\$2.1 billion	Republicans
With voter approval, redirects Proposition 63 funds currently sitting unspent to mental health programs.	\$3.9 billion	Republicans
Transfer from trial court improvement fund	\$61 million	Democrats
Fund transfers from Department of Parks and Recreation	\$27 million	Democrats
Delay loan repayment to Integrated Waste Management Board	\$21 million	Democrats
Delay loan repayment to Public Utilities Commission	\$5 million	Democrats
Motor Vehicle Account Fund Transfer	\$170 million	Democrats
Redirect tribal gaming payments for transportation loans.	\$200 million	Democrats

Spending savings (\$15.6 billion total):

Program	Savings (Fiscal Years 2008-09 and 2009-10)	Source
Legislature - 5 percent across-the-board cut, including cut to lawmakers' salaries	\$26.2 million	Republicans
Medi-Cal - Suspend County Eligibility Processing Cost of Living Adjustment (COLA)	\$24.6 million	LAO
SSI/SSP - Suspend June 2010 COLA	\$26.0 million	Democrats
CalWORKs - Suspend 2009 COLA	\$99.0 million	Democrats
Judicial Branch - Eliminate COLA provided in 2008-09	\$105.3 million	Democrats (Lesser Amount)
Judicial Branch - Suspend SAL adjustment for one-year	\$99.9 million	Democrats (Lesser Amount)
Employee Compensation Changes	\$802.5 million	Democrats (Lesser Amount)
OPR - Eliminate Cesar Chavez Grants	\$5.0 million	Democrats
Corrections - GPS Parole Proposal	\$57.4 million	Republicans
Hydrogen Highway - No Funding at this time	\$6.0 million	Republicans
Fi\$CAL - No Funding at this time	\$30.0 million	Republicans

Program	Savings (Fiscal Years 2008-09 and 2009-10)	Source
Medi-Cal (1) Reduce eligibility for working families and immigrants, (2) eliminate certain optional benefits, including, optometry and psychology, and (3) reduce reimbursement rates for public hospitals	\$406.1 million	Governor
Medi-Cal - Reinstate share of cost for care to 2001 eligibility level for aged, blind, and disabled	\$215.9 million	Governor
Medi-Cal - Delay implementation of SB 437. This program could increase waste, fraud and abuse in Medi-Cal	\$13.0 million	LAO
Medi-Cal - Suspend 90% Rate Increase for FPACT	\$56.9 million	Republicans
Healthy Families Program - Protects benefits for existing enrollees, freezes funding for new enrollment	\$28.4 million	LAO
3-Percent Rate Reduction for Regional Center Payments - Discount payments to regional center service providers by three percent effective December 1, 2008, some payments exempt	\$85.5 million	Democrats
DDS - Expand cost participation (parental co-pay) based on family earnings	\$10.0 million	LAO
DDS - Define Cost Effectiveness Current law refers to cost-effectiveness for Regional Center services but does not define it. Establishing a consistent definition throughout the state will ensure that taxpayer moneys are not used to fund ineffective services	\$29.0 million	Republicans
SSI/SSP - (1) Match grants to federal minimum levels. (\$830 per month for individuals and to \$1407 for couple). (2) Eliminate Cash Assistance Program for recent immigrants	\$1.3 billion	Governor
CalWORKs - (1) Make changes to welfare to work program requirements, including establishing time limits for child-only cases and work requirements for families who have reached their time limit, (2) implement self sufficiency reviews, and (3) 10 percent reduction to grants	\$913.1 million	Governor

Program	Savings (Fiscal Years 2008-09 and 2009-10)	Source
In-Home Supportive Services Program (IHSS) - Target program services to the neediest individuals - (1) provide non-medical services only to the highest need consumers and (2) increase how much some individuals will have to pay before receiving subsidized care	\$117.0 million	Governor
Reduce state participation in IHSS worker wages to the state minimum wage (\$8 per hour) plus 60 cents per hour for health benefits	\$269.5 million	Governor
Various Social Services Programs – Eliminate State Food Stamps for immigrants who are not eligible for federal assistance.	\$30.3 million	Governor
Eliminate State Funding for Transit Agencies	\$459.6 million	Democrats (Lesser Amount)
Proposition 98 (K-14) - Fund education at minimum guarantee under voter-approved Prop. 98, provide flexibility in education spending	\$8.65 billion	Democrats (Lesser Amount)
Proposition 98 (K-14) – Deferred maintenance payments	\$280 million	Republicans
Proposition 98 (K-14) – Reduce Proposition 49	\$550 million	Republicans
Proposition 98 (K-14) – Settle up to reduce base	\$1.0 billion	Democrats (Lesser Amount)
Proposition 98 (K-14) – No settlement payment needed	\$150 million	Democrats
Higher Education - 10 percent across-the-board reduction to University of California, California State University and Hastings	\$264.2 million	Democrats
Higher Education - Increase student/faculty ratio to 20.5	\$340.9 million	LAO
Higher Education - Phase out General Fund support for excess course credits	\$57.9 million	LAO
Higher Education - Repeal AB 540 which allows unlawful immigrants to pay lower tuition than lawful citizens of other states	\$75.0 million	Republicans
Office of Planning and Research – No funding for census and volunteer network.	\$1.5 million	Republicans

The Republican Budget Solution stimulates our economy by encouraging businesses to invest in California, thus creating jobs and increasing the state's revenues – without tax hikes. Ideas include:

- Expanding health care options for employees by allowing individuals and employers to purchase health insurance through any licensed provider.
- Requiring a third party to analyze the economic impact of stringent air board regulations.
- Extending deadlines for greenhouse gas and engine retrofit regulations, allowing technology to catch up with the changes in law and saving California businesses and consumers hundreds of millions of dollars
- Making changes to the Carl Moyer program to allow agriculture to use the funding to help them comply with recent air board regulations.
- Allowing regulatory flexibility for the agriculture industry which is particularly impacted by the economic downturn. The agriculture industry is overseen by a wide range of bureaucracies whose regulations are not coordinated, making compliance difficult for the agricultural industry.
- Eliminating hurdles to moving forward with projects funded by infrastructure bonds.
- Expanding apprenticeships by eliminating "needs test".
- Streamlining small business certification process for micro businesses and sole proprietorships.
- Reclassifying "destination management companies" as consumers rather than retailers.
- Expanding tax credits to encourage businesses to invest in California:
 - A new employee tax credit for businesses that hire out-of-work Californians.
 - A manufacturing investment credit to help businesses purchase the equipment they need.
 - Capital gains reduction for businesses that invest in California.
 - Modification of the tax code to encourage companies to locate jobs in California.
- Adopting recommendations supported by the Governor to create and keep jobs in California including:
 - Easing burdens on workers by allowing flexible, family-friendly scheduling
 - Keeping high-wage jobs in California by allowing certain overtime exemptions.
 - Clarifying laws regarding meal and rest breaks to eliminate costly, unnecessary litigation against businesses.
 - Accelerating hospital construction.
 - Building infrastructure faster, better and cheaper through public-private partnerships and design-build agreements.

The Republican Budget Solution provides flexibility and fairness for the classroom:

- Restores the ability for schools and community colleges to save money by contracting out for services such as student transportation, cafeteria services, landscaping, and payroll.
- Gives more local control to schools by allowing 45-day notification prior to layoffs for certificated employees.
- Eliminates unfair and illegal law authorizing financial support for illegal immigrant students at California public colleges and universities, saving tens of millions of dollars.
- Provides maximum funding flexibility to enhance local control by cutting strings to categorical programs and allowing schools to redirect funding to their highest priorities.
- Gives legislature more flexibility for after-school program funding during annual budget process.
- Amends the COLA index for Proposition 98 programs to better reflect schools' actual costs, which was recommended by the Legislative Analyst's office.

The Republican Budget Solution ensures California never again faces a deficit of this magnitude:

- Enacts a strict spending limit that restricts spending growth each year to the combined percentage change in the state's population growth and inflation, which currently increases on average by about 5 percent.
- Creates a new Special Reserve Account that will accumulate funds to be saved for a rainy day.
- Increases accountability in state spending by requiring the state auditor to conduct a performance audit of state programs.
- Brings stability to the state budget process by requiring legislature to adopt a 2-year budget.
- Infuses much-needed revenues into state coffers by eliminating hurdles to selling state surplus properties, an idea proposed by the Governor.

Earlier this year, Republicans outlined a number of ideas related to solving our state budget, without raising taxes. Those plans include:

- Easing the burdens on workers by creating workweek flexibility.
- Streamlining government to maximize limited tax dollars.
- Ensuring more money goes to our classrooms and upholding voters' commitment to give 40 cents of every tax dollar to schools.
- Establishing a spending limit and new rainy day fund to end chronic deficits.

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December 16, 2008

The Honorable Arnold Schwarzenegger
Governor, State of California
State Capitol
Sacramento, CA 94814

The Honorable Darrell Steinberg
President Pro Tempore
California State Senate
State Capitol
Sacramento, CA 95814

The Honorable Dave Cogdill
Republican Leader
California State Senate
State Capitol
Sacramento, CA 95814

The Honorable Karen Bass
Speaker
California State Assembly
State Capitol
Sacramento, CA 95814

The Honorable Mike Villines
Republican Leader
California State Assembly
State Capitol
Sacramento, CA 95814

Re: **Consideration of Extension of Redevelopment Time Limits on
Receiving Tax Increment and Incurring Debt**

Governor and Honorable Members:

On behalf of the California State Association of Counties (CSAC) and the Counties of Los Angeles, San Bernardino, and Santa Clara, we write to express our strong opposition to proposals that authorize voluntary tax increment revenue transfers from redevelopment agencies to the state in exchange for relaxing of statutory requirements on length of effectiveness and ability to incur debt. Given the state's ongoing structural budget imbalance, such proposals, which have yet to be fully vetted in public, simply fail as budget solutions. First, they are legally questionable, especially given the current litigation regarding the redevelopment ERAF shift contained in the 2008-09 budget. Second, since schools receive the majority of local property tax revenues and since the state is constitutionally required to backfill any property tax losses to schools, these proposals offer little in short-term General Fund relief and create a significant expense to the state, counties, and other local taxing entities for years to come. In short, these types of proposals are among the worst options in terms of the long-term cost to the

state General Fund and the negative impacts on state and local programs and services provided by counties.

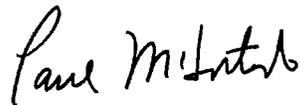
Extension of effectiveness and ability to incur debt for redevelopment projects without a blight finding flies in the face of recent reforms that the Legislature approved in a bipartisan manner (SB 1206, Kehoe, 2006 and SB 211, Torlakson, 2001). These important changes came on the heels of bitter debate over the extent of redevelopment agencies' extraordinary powers. The Legislature acted to increase enforcement of redevelopment law, tighten the blight definition, and ensure the public's ability to challenge redevelopment actions. Then, as now, counties strongly supported increasing public accountability and additional state oversight of redevelopment activities.

Most importantly, however, counties continue to oppose any extension of redevelopment timelines without the consent of the affected local agencies. Counties do not reach such a conclusion lightly, as redevelopment activities promise to revitalize communities; however, the erosion of the property tax base through decades of tax increment dedicated to redevelopment puts the people we serve at risk. Counties provide services to each and every Californian; as the state's partner in service provision, we provide services to the vulnerable, sick, and needy in our communities and, as a local service provider, to the public at large. Our bottom line is simple: counties simply cannot afford to continue involuntarily contributing to redevelopment activities beyond their statutory deadlines.

We certainly recognize that the state's severe fiscal circumstances will require difficult choices. However, the state should not retreat from strong statutory requirements for redevelopment agencies that serve to keep them accountable to the public and to those who finance their activities. Counties should not have to unwillingly subsidize redevelopment activities outside the original timelines in a redevelopment plan.

Please do not hesitate to contact me if we can be of assistance.

Sincerely,



Paul McIntosh
Executive Director
California State Association of Counties



Daniel J. Wall
Chief Legislative Advocate
County of Los Angeles



Paul Biane
Chairman, Board of Supervisors
County of San Bernardino



Michael A. Rattigan
Legislative Advocate
County of Santa Clara

cc: Mike Genest, Director of Finance
Ana Matosantos, Deputy Director, Department of Finance
Craig Cornett, Chief Fiscal Policy Advisor, Office of the President Pro Tem
Danny Alvarez, Senate Budget and Fiscal Review Committee
Brian Ehlers, Senate Budget and Fiscal Review Committee
Joe Shinstock, Senate Republican Fiscal Office
Chris Woods, Budget Director, Office of the Speaker
Dan Rabovsky, Assembly Budget Committee
Peter Schaafsma, Assembly Republican Fiscal Office
Marianne O'Malley, Legislative Analyst's Office