



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

March 12, 2010

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To: Supervisor Gloria Molina, Chair  
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Supervisor Don Knabe  
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From: William T Fujioka  
Chief Executive Officer

## SACRAMENTO UPDATE

This memorandum provides an update on actions taken in the Eighth Extraordinary Legislative Session and a status of the Governor's FY 2010-11 State Budget Proposal.

### Eighth Extraordinary Legislative Session

On March 11, 2010, the Legislature adjourned the Eighth Extraordinary Legislative Session, which was called by the Governor in January 2010 to address \$8.9 billion of the State's \$19.9 billion fiscal shortfall. At that time, the Governor stated that failure to adopt the reductions before the enactment of the FY 2010-11 State Budget would result in the loss of up to \$2.4 billion in potential solutions and thereby require deeper cuts in the budget-year. However, the Session closed with the Governor and the Legislature agreeing to only \$200.0 million in spending cuts. The Governor has indicated that he wants the Legislature to make cuts in the current year to immediately address the State's Budget crisis.

### Estimated County Impact of Actions Taken in the Eighth Extraordinary Legislative Session

The following actions taken in the Eighth Extraordinary Session impact the County:

- **Payment Deferrals.** On March 1, 2010, the Governor signed ABX8 5 which would enact a cash flow management plan to authorize the State Controller, the State Treasurer, and the Director of Finance to defer payments to counties in

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FY 2010-11 for various health, mental health, and social services programs, and gasoline excise tax payments from the Highway Users Tax Account. Payment deferrals will not be enacted if the State Controller, State Treasurer, and Director of Finance determine that the State's cash flow is sufficient to maintain a prudent cash reserve.

**Based on information provided by the Departments of Public Social Services, Children and Family Services, Mental Health, and Public Works, the County's exposure from payment deferrals could be up to \$500.6 million in FY 2010-11.** If a determination is made that the cash flow is insufficient to meet the State's financial obligations, payment deferrals would be implemented and could last between 60 days up to 11 months.

If payment deferrals are enacted, the following County programs would be affected:

Program	Description	Deferral Impact
CalWORKs, Food Stamps, Adult Protective Services, and Community Services Block Grant Administration and CalWORKs Assistance	Defers July 2010 and March 2011 payments for 60 days.	\$170.5 million
	Defers the October 2010 payment for 90 days.	\$94.1 million
Medi-Cal Administration	Defers the March 2011 Quarterly payment for 60 days.	\$53.3 million
Foster Care, Child Welfare Services, Adoption Assistance, Licensing, and the Child Abuse Prevention & Treatment Program Administration	Defers July 2010 and March 2011 payments for 60 days.	\$32.6 million
	Defers the October 2010 payment for 90 days.	\$15.6 million
(Proposition 63) – Mental Health Services Act	Defers \$300.0 million due to counties in July 2010 and schedules repayment in May 2011.	\$86.0 million
Highway Users Tax Account	Defers \$50.0 million due to cities and counties each month from July 2010 to March 2011.	\$48.5 million*
<b>Potential Impact from State Payment Deferrals</b>		<b>\$500.6 million</b>

\*Reflects 9 months.

Consistent with the Board's action of January 13, 2009 to oppose any proposals to delay payments to counties for health and human services, **the Sacramento advocates will oppose any proposals for additional State payment deferrals, and**

**will work with the County's Legislative Delegation to mitigate and prevent enactment of deferrals that affect County programs.**

- **Mandate Payments.** On March 8, 2010, Governor Schwarzenegger vetoed **County-opposed ABX8 2**, which would have: 1) adopted mandate suspensions and deferral of mandate payments to local governments for State General Funds savings of \$228.0 million; and 2) reduced State corrections programs for an estimated State General Fund savings of \$2.2 billion. In his veto message, the Governor indicated that the bill does not implement spending reductions needed to close the State Budget gap, and encouraged the Legislature to return to work in the Extraordinary Session and act on actual spending reductions to address the State's fiscal crisis. If enacted, this measure would have resulted in a **County loss of \$4.0 million from mandate suspensions and the deferral of \$15.0 million from prior year mandate payments due to the County in FY 2010-11.**
- **Federal Funds for Foster Care.** On March 8, 2010, the Governor signed **County-supported SBX8 4**, which would expand eligibility for Federal Financial Participation to current State-only foster care cases. This measure is subject to Federal approval and the State would need to renegotiate the existing Title IV-E Waiver to allow Los Angeles County to receive increased funding. **If Federal approval is granted, the Department of Children and Family Services indicates that this action will result in an estimated County savings of \$42.4 million annually.**

### Overview of the Governor's Proposed Budget

As previously reported, on January 8, 2010, Governor Schwarzenegger released his \$118.8 billion FY 2010-11 Proposed Budget, which includes \$82.9 billion for State General Fund expenditures, closes a \$19.9 billion shortfall, and establishes a \$1.0 billion reserve. Concurrently, pursuant to Proposition 58 of 2004, the California Balanced Budget Act, the Governor declared a fiscal emergency and called the Legislature into a Special Session to address \$8.9 billion of the budget deficit.

The overall State Budget deficit is comprised of shortfalls of \$6.6 billion in FY 2009-10 and \$13.3 billion in FY 2010-11. The Governor proposes to solve the 18-month deficit through a combination of: 1) expenditure reductions (\$8.5 billion); 2) increased Federal funding (\$6.9 billion); and 3) various fund-shifts and alternative funding options (\$4.5 billion) such as the extension of certain temporary tax increases. It is important to note that as a result of the Governor's commitment not to cut K-12 schools or higher education spending, a large portion of the \$8.5 billion in expenditure reductions further

impacts various health and human services programs which have been severely reduced in recent budgets.

**Revised Estimated County Impact**

Based on additional information and further analysis of the Governor's Proposed Budget, **we estimate that the County would lose \$188.9 million from the Governor's Budget proposals and a projected \$1.26 billion from additional reductions if the State does not receive increased Federal funds as proposed by the Governor, for an overall County loss of \$1.45 billion.** These estimates do not account for proposals which generate potential County savings.

Attachment I provides the estimated County impact of the Governor's Budget proposals by program and the additional reductions recommended by the Governor if the State does not receive \$6.9 billion in increased Federal funding.

The following proposals would result in the loss of funds or cost shifts to the following County programs:

<b>Budget Proposal</b>	<b>Estimated County Impact</b>
Redirection of Mental Health Services Act Funds	\$121.8 million
Safety Net Care Pool/South Los Angeles Preservation Fund	\$ 24.4 million
Deferral of State Mandates	\$ 15.0 million
Elimination of the Cash Assistance Program for Immigrants – Cost Shift to General Relief	\$ 11.9 million
Elimination of the Substance Abuse Offender Treatment Program	\$ 4.3 million
Suspension of State Mandates	\$ 4.0 million
Elimination of the AIDS Drug Assistance Program for County Jails	\$ 3.9 million
Elimination of Medi-Cal for Legal Immigrants	\$ 3.5 million

The Governor's Budget proposes other major program reductions for which the Administration has not released details and are necessary to determine County impact. These reductions include: a) implementation of Medi-Cal cost containment measures (\$750.0 million); b) redirection of County savings due to CalWORKs and In-Home Supportive Services (IHSS) Program reductions (\$505.5 million); and c) modification of existing statutes for certain felonies which would result in offenders being subject to jail time as opposed to prison incarceration (\$291.6 million).

In addition, the Governor's Budget includes reductions to the CalWORKs and IHSS Programs which would result in significant County savings, but would have a detrimental impact on program participants. The reductions include:

- In-Home Supportive Services:
  - Over 161,000 IHSS recipients would lose services;
  - \$310.6 million in County savings from service reductions; and
  - \$ 33.6 million in County savings from the IHSS wage reduction.
  
- CalWORKs Program:
  - 165,129 CalWORKs families would experience grant reductions; and
  - \$ 4.4 million in County savings from the reduction in cash assistance.

**Federal Funds Trigger - Additional Reductions**

The Governor's Budget relies on the assumption that the Federal Government will approve his proposal to restructure the "Federal-State relationship," which would result in \$6.9 billion in increased Federal funds. To date, the Administration has not determined if Federal funds will be received. However, if the funds are not received, the Governor proposes to "Trigger" an additional \$4.6 billion in funding reductions which would impact the following County programs:

Federal Funds Trigger Reductions	Estimated County Impact
Elimination of the CalWORKs Program – Loss of Funding for: <ul style="list-style-type: none"> <li>• Program Administration/Employment Services/Child Care, etc.</li> <li>• Mental Health Services</li> <li>• Substance Abuse Services</li> </ul>	\$577.3 million \$ 24.2 million \$ 19.0 million
Cost Shift to the County's General Relief Program	\$375.7 million
Redirection of Mental Health Service Act Funds – Funding Loss	\$254.0 million
Elimination of the Healthy Families Program – Funding Loss	\$ 11.5 million
Elimination of the Transitional Housing Placement Program-Plus – Funding Loss	\$ 2.6 million

Other "Federal Funds Trigger" reductions for which details are not yet available and are necessary to determine impact on County programs include: a) reduction in the Medi-Cal eligibility to the level allowed under Federal law (\$532.0 million); b) redirection of additional County savings from the elimination of the CalWORKs, IHSS, and Healthy Families Programs (\$325.0 million); c) elimination of non-court required inmate

Each Supervisor  
March 12, 2010  
Page 6

rehabilitation programs, parole changes, and revisions to existing statutes to expand the number of crimes where convicted felons would serve time in County jails (\$280.0 million); and d) elimination of various health programs funded by Proposition 99 tobacco tax (\$115.0 million).

The Governor's Budget proposal to eliminate the IHSS Program under the "Federal Funds Trigger" provision would result in an estimated \$332.9 million savings to the County. However, over 185,000 IHSS recipients in the County would lose services.

### **Status of the State Budget**

This week, the Senate and Assembly Budget Subcommittees began hearings on the Governor's Proposed Budget. To date, the committees have taken no significant action on the Governor's Budget proposals. The hearings are scheduled through early May 2010. It is anticipated that the Budget Committees will hold off taking significant actions on the Governor's Budget until he releases his May Budget Revision.

### **Pursuit of County Position On State Budget Items**

Based on general Board policy to seek restoration of State Budget reductions and other policies included in the Board-approved State Legislative Agenda for 2009-10, **the Sacramento advocates will advocate against proposed funding reductions, seek preservation of County funding, and pursue mitigation of the adverse impact of recommendations affecting Los Angeles County residents.**

We will continue to keep you advised.

WTF:RA  
MR:IGEA:er

### **Attachment**

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

**PRELIMINARY IMPACT TO LOS ANGELES COUNTY  
FROM THE FY 2010-11 GOVERNOR'S PROPOSED BUDGET**

	(A) Governor's Proposed Budget	(B) Federal Trigger Additional Reductions	(A + B) Potential County Impact
<b><u>Program Reductions</u></b>			
<b><u>Health</u></b>			
Safety Net Care Pool/South Los Angeles Preservation Fund	(24,400,000)	--	(24,400,000)
Medi-Cal Eligibility for Legal Immigrants Elimination	(3,500,000)	--	(3,500,000)
Medi-Cal Eligibility Reductions	--	? <sup>(1)</sup>	0
Medi-Cal Cost Containment Measures	? <sup>(1)</sup>	--	0
Healthy Families Program Elimination	--	(1,500,000)	(1,500,000)
<b><u>Public Health</u></b>			
Elimination of AIDS Drug Assistance Program County Jails	(3,900,000)	--	(3,900,000)
Proposition 36 Program/Offender Treatment Program	(4,300,000)	--	(4,300,000)
<b><u>Mental Health</u></b>			
Mental Health Services Act (Proposition 63) Funds Redirection	(121,800,000) <sup>(2)</sup>	(254,000,000) <sup>(2)</sup>	(375,800,000)
Healthy Families Program Elimination	0 <sup>(2)</sup>	(10,000,000)	(10,000,000)
<b><u>Social Services</u></b>			
CalWORKs Program Elimination - Single Allocation	--	(577,300,000)	(577,300,000)
CalWORKs Substance Abuse Services Elimination	--	(19,000,000)	(19,000,000)
CalWORKs Mental Health Services Elimination	--	(24,200,000)	(24,200,000)
Cost Shift as a Result of CalWORKs Program Elimination	--	(375,700,000)	(375,700,000)
Cash Assistance Program for Immigrants Elimination <sup>(3)</sup>	(11,900,000) <sup>(4)</sup>	--	(11,900,000)
Redirection of County Savings	? <sup>(1)</sup>	? <sup>(1)</sup>	0
Transitional Housing Program Plus Elimination	--	(2,600,000)	(2,600,000)
<b><u>Justice and Public Safety</u></b>			
Jail Time Instead of Prison for Specified Felonies Proposal	? <sup>(1)</sup>	--	0
Expansion of Crimes Where Convicted Felons Serve in Local Jails	--	? <sup>(1)</sup>	0
<b><u>General Government</u></b>			
Suspension of SB 90 Mandate Claims	(4,070,000)	--	(4,070,000)
Delay of Deferred Mandate Payments (Prior to FY 2004-05)	(15,000,000)	--	(15,000,000)
Elections Reimbursement	11,900,000	--	11,900,000
<b>TOTAL</b>	<b>(\$188,870,000)</b>	<b>(\$1,264,300,000)</b>	<b>(\$1,453,170,000)</b>
<b><u>Potential Program Savings <sup>(5)</sup></u></b>			
IHSS Recipient Services Reduction	277,000,000 <sup>(4)</sup>	--	277,000,000
IHSS Program Elimination	--	43,300,000	43,300,000
IHSS Provider Wage Reduction <sup>(6)</sup>	33,600,000 <sup>(4)</sup>	--	33,600,000
CalWORKs Program Reductions	4,400,000 <sup>(4)</sup>	--	4,400,000
<b>Estimated Savings</b>	<b>\$315,000,000</b>	<b>\$43,300,000</b>	<b>\$358,300,000</b>
<b>Overall County Impact <sup>(7)</sup></b>	<b>\$126,130,000</b>	<b>(\$1,221,000,000)</b>	<b>(\$1,094,870,000)</b>

## Notes:

- (1) There is insufficient information in the Governor's Budget to assess the County impact of this proposal at this time.
- (2) Voter approval is required to redirect Proposition 63 funds from counties to the State to fund mental health services obligations.
- (3) Estimate assumes 100% of CAPI recipients apply for and are determined eligible for the County's General Relief Program.
- (4) Estimate reflects impact for FY 2009-10 and FY 2010-11 assuming implementation on June 1, 2010.
- (5) These proposals would result in net County cost savings because the County's share of cost in these programs would be reduced.
- (6) Reflects savings from reducing IHSS provider wages in the County to the minimum wage. If the County maintains current wage, NCC increases by \$62.4 million.
- (7) If the temporary FMAP rate increase, scheduled to expire 12/31/10, is extended for an additional 6 months by Congress, many of the Governor's proposed reductions to Medicaid funded programs, such as Medi-Cal and IHSS, would not occur. Existing law prohibits reductions to these programs as a condition of receiving additional Federal funds.

*This table represents the estimated loss/gain of State funds based upon the Governor's Budget and additional reductions from the Federal Funds Trigger. 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 to offset lost revenue.*