



County of Los Angeles  
**CHIEF EXECUTIVE OFFICE**

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WILLIAM T FUJIOKA  
 Chief Executive Officer

October 14, 2010

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

**SACRAMENTO UPDATE – 2010 STATE BUDGET ACT**

This memorandum provides an analysis of the Governor’s line-item vetoes and an overview of FY 2010-11 State Budget actions affecting the County.

On October 8, 2010, Governor Schwarzenegger signed **SB 870**, the Omnibus Budget Bill, which enacts the *2010 State Budget Act*. The final budget plan includes \$86.6 billion in State General Fund expenditures for FY 2010-11, which is essentially the same level of expenditures as last fiscal year. As previously reported, the Final Budget Agreement addressed the State’s \$18.2 billion budget deficit through a combination of expenditure reductions (\$7.5 billion), Federal assistance (\$5.3 billion), other solutions such as fund shifts and revised revenue projections (\$5.4 billion), and established a \$364.0 million reserve. **However, the Governor used his line-item veto authority to reduce the final budget plan by an additional \$963.0 million in order to increase the State’s year-end reserves from \$364.0 million to \$1.3 billion.**

Consistent with actions taken over the last two years, over 96 percent of the Governor’s line-item vetoes occurred in the health and social services areas, including:

Statewide Impact	Governor’s Line-Item Vetoes
\$ 365.9 million	Reduction to the CalWORKs Program
\$ 256.0 million	Reduction to the CalWORKs Stage 3 Child Care Program
\$ 132.9 million	Reduction from the suspension of the AB 3632 Program, which provides mental health services to special education pupils
\$ 80.0 million	Reduction to Child Welfare Services & Title IV-E Waiver Counties
\$ 52.0 million	Reduction to AIDS Local Assistance Programs
\$ 22.0 million	Reduction to County Administration of the Medi-Cal Program
\$ 17.7 million	Reduction to the Substance Abuse Offender Treatment Program

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**Impact on the County**

**Based on our review of the Governor’s line-item vetoes, we estimate that the impact of State Budget actions on the County would be a net loss of \$88.6 million in FY 2010-11.** Attachment I is a chart illustrating the overall impact on the County from the enactment of the *2010 State Budget Act*. Additional County losses as a result of the Governor’s vetoes include:

<b>Estimated County Impact</b>	<b>Governor’s Line-Item Vetoes</b>
\$ 53.5 million	Suspension of the AB 3632 Program
\$ 19.3 million	Foster Care Program – AB 3632 Program Mandate Suspension
\$ 17.1 million	Elimination of the Title IV-E Waiver Restoration
\$ 5.5 million	Reduction to the Substance Abuse Offender Treatment Program (Proposition 36)
\$ 3.9 million	Reduction to the AIDS Drug Assistance Program
\$ 1.4 million	Reduction to the Black Infant Health Program
\$ 1.4 million	Elimination of the Child Welfare Services Restoration
\$ 0.5 million	Elimination of the Community-Based Services Program Restoration

Attachment II provides the impact of the Governor’s vetoes by County program.

In addition to the Governor’s vetoes, the Final Budget Agreement contained the following major budget actions of interest to the County:

<b>Estimated County Impact</b>	<b>Major Actions Included in the Final Budget Agreement</b>
\$ 15.0 million	Delay of deferred mandate payments
\$ 15.0 million	Potential savings from a reduction in the In-Home Supportive Services (IHSS) caseload growth
\$ 11.9 million	Reimbursement of prior year election costs to the County
\$ 7.0 million	Potential savings from a 3.6 percent reduction in authorized IHSS recipient hours
\$ 4.6 million	Suspension of various SB 90 mandate claims

Attachment III provides the County impact of actions included in the Final Budget Agreement by program.

## **Reform Measures Included in the Final Budget Agreement**

**Constitutional Amendment to Strengthen Budget Reserves.** The Final Budget Agreement contains a proposed 2012 ballot measure to pursue a Constitutional amendment to increase the State's budgetary reserves and stabilize the State's financial health over time. The measure would increase the maximum size of the existing Budget Stabilization Account from 5 percent to 10 percent of annual State General Fund revenues. The measure also calls for new requirements for depositing State funds into that account and it would restrict withdrawals to certain situations.

**Reductions in Pension Benefits for Future State Employees.** The Final Budget Agreement includes a measure to reduce pension benefits for newly hired State employees. In general, the measure sets benefit levels for future State employees at levels that were in place for employees prior to 1999. In addition, all future State employees would have their pension benefits calculated based on their highest average annual pay over any consecutive three years of employment, unlike the one-year period applicable for some current State employees. The measure would not affect pension benefits for current State employees and retirees.

WTF:RA  
MR:OR:GA: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

**ESTIMATED IMPACT TO LOS ANGELES COUNTY  
FROM THE FY 2010-11 STATE BUDGET PROPOSALS**

	<b>Governor's May Budget Revision</b>	<b>Budget Conference Committee</b>	<b>Final Legislative Budget</b>	<b>State Budget Act <small>(including Gov.'s vetoes)</small></b>
<b>Health</b>				
Safety Net Care Pool & South L. A. Preservation Fund	(24,400,000)	0	0	0
Medi-Cal Eligibility for Legal Immigrants Elimination	(3,500,000)	0	0	0
Medi-Cal Cost Containment Measures	? <sup>(1)</sup>	0	0	0
<b>Mental Health</b>				
Redirection of Mental Health Realignment Funds	(195,000,000)	0	0	0
Suspension of AB 3632 Program Mandate Payments	(43,700,000)	0	0	(53,500,000)
<b>Public Health</b>				
Elimination of AIDS Drug Assistance Program County Jails	(3,900,000)	0	0	(3,900,000)
Proposition 36 Program/Offender Treatment Program	(5,500,000)	0	0	(5,500,000)
Drug Medi-Cal Reductions	(18,200,000) <sup>(2)</sup>	0	0	0
Immunization Program Reductions	--	0	? <sup>(1)</sup>	(1,300,000)
Maternal Child Health/Black Infant Health Program Restoration	--	? <sup>(1)</sup>	? <sup>(1)</sup>	(1,400,000) <sup>(1)</sup>
<b>Social Services</b>				
CalWORKs Program Reductions - Gov's Veto (\$365.9 million)	--	--	--	0 <sup>(6)</sup>
CalWORKs Program Elimination - Single Allocation	(459,100,000) <sup>(2)</sup>	0 <sup>(5)</sup>	0	0
CalWORKs Mental Health Services Elimination	(17,200,000) <sup>(2)</sup>	0 <sup>(5)</sup>	0	0
CalWORKs Substance Abuse Services Elimination	(12,300,000) <sup>(2)</sup>	0 <sup>(5)</sup>	0	0
Cost Shift from CalWORKs Program Elimination <sup>(3)</sup>	(339,400,000) <sup>(2)</sup>	0 <sup>(5)</sup>	0	0
Cash Assistance Program for Immigrants Elimination <sup>(4)</sup>	(7,200,000) <sup>(2)</sup>	0	0	0
Redirection of County Savings	? <sup>(1)</sup>	0	0	0
Child Care Programs Elimination	? <sup>(1)</sup>	0	0	0
Medi-Cal Administration	(13,500,000)	(6,750,000)	(8,000,000)	(18,000,000) <sup>(7)</sup>
IHSS Program - Caseload Growth & Provider Hours Reduction	--	? <sup>(1)</sup>	22,000,000	22,000,000
Community Based Services Programs (CBSP) Restoration	--	536,000	536,000	0
Restoration of Child Welfare Services	--	0	1,400,000	0
Foster Care Program - AB 3632 Program Mandate Suspension	--	--	--	(19,300,000)
<b>Justice and Public Safety</b>				
Jail Time Instead of Prison for Specified Felonies Proposal	(96,400,000)	0	0	0
Shift Wobbler Offenders to Counties	--	? <sup>(1)</sup>	0	0
<b>General Government</b>				
Suspension of Most SB 90 Mandate Claims	(4,920,000)	(4,650,000)	(4,650,000)	(4,650,000)
Open Meetings / Brown Act Mandate - Suspension	--	(270,000)	(270,000)	0 <sup>(8)</sup>
Delay of Deferred Mandate Payments (Prior to FY 2004-05)	(15,000,000)	(15,000,000)	(15,000,000)	(15,000,000)
Elections Reimbursement	11,900,000	11,900,000	11,900,000	11,900,000
<b>TOTAL</b>	<b>(\$1,247,320,000)</b>	<b>(\$14,234,000)</b>	<b>\$7,916,000</b>	<b>(\$88,650,000)</b>

## Notes:

- (1) There is insufficient information to assess the County impact of this proposal.
- (2) Estimate reflects 9-month impact in FY 2010-11 because Governor's proposal assumes October 1, 2010 implementation.
- (3) Estimate assumes 50 percent of CalWORKs participants apply for and are determined eligible for the County's General Relief Program.
- (4) Estimate assumes 100 percent of CAPI recipients apply for and are determined eligible for the County's General Relief Program.
- (5) The Conference Committee Budget rejected the proposed CalWORKs Program Elimination.
- (6) The Governor's line-item veto to reduce \$365.9 million from the CalWORKs Program would have no impact on the County according to DPSS.
- (7) Reflects adoption of proposals to reduce Medi-Cal Administration funding by \$58.8 million in State General Fund support.
- (8) The Final Legislative Budget restored funding for the Brown Act Mandate.

*This table represents the estimated loss/gain of State funds based upon the State Budget 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 to offset lost revenue.*

## Governor's Line-Item Vetoes of Interest to the County

On October 8, 2010, Governor Schwarzenegger used his line-item veto authority to reduce State spending by \$963.0 million. In his veto message, the Governor indicated that his line-item vetoes reflect his continued determination to build a reserve and reduce spending to the greatest extent possible given the Constitutional, statutory, and court-ordered spending requirements.

The following includes line-item vetoes of interest to the County.

### Mental Health

- **AB 3632 Program Mandate.** The Governor reduced State General Fund support for the AB 3632 Program by \$132.9 million statewide for prior year mandate claims and declared that the AB 3632 mandate on counties is suspended for FY 2010-11. **The Department of Mental Health (DMH) estimates that the Governor's actions would result in a County loss of \$53.5 million.** DMH estimates that a total of 573 children in specialized residential treatment programs and 4,000 children served in 81 school districts will be affected by this action.

### Public Health

- **Substance Abuse Offender Treatment Program (Proposition 36).** The Governor reduced State General Fund support for the Substance Abuse Offender Treatment Program by \$18.0 million statewide. **The Department of Public Health indicates that this reduction will result in a County loss of \$5.5 million.** This action will affect court-supervised drug treatment services.
- **AIDS Drug Assistance Program (ADAP) Services at County Jails.** The Governor deleted a \$52.1 million restoration for various AIDS programs, including \$7.6 million for the ADAP Program for services at county jails. **It is estimated that the Governor's veto would result in an estimated County loss of \$3.9 million for the Sheriff's Department.** This action will impact AIDS Program services provided to inmates at County jails.
- **Maternal and Child Health Programs.** The Governor reduced State General Fund support by \$5.0 million statewide for Maternal and Child Health programs, including the Black Infant Health and Adolescent Family Life Program. This action eliminated the restoration of funding which was vetoed by the Governor from the 2009 State Budget Act. **The Department of Public Health indicates that this action will result in a County loss of \$1.4 million.** An estimated 780 African-American women will not receive services as a result of this action.

## Social Services

- **Medi-Cal Administration.** The Governor reduced \$22.0 million in State General Fund support for county Medi-Cal caseload growth. This is in addition to a \$26.0 million cut approved by the Legislature for Medi-Cal caseload growth and \$10.8 million from suspension of the Medi-Cal Administration COLA, for a total reduction of \$58.8 million statewide. **The Department of Public Social Services (DPSS) estimates that these actions will result in a County loss of approximately \$18.0 million. In addition, DPSS is waiting for further information from the State to determine whether other funding assumptions will be included in the final funding allocation to determine the net impact to the County.**
- **CalWORKs Program Reduction.** The Governor reduced \$365.9 million in State General Fund support for the CalWORKs Program. The Administration intends to backfill with an advance of Federal Temporary Assistance for Needy Families (TANF) block grant funds. If the Federal advance is approved, the State would receive its July-September 2011 TANF allotment in the last quarter of FY 2010-11. **According to DPSS, if the Federal government approves this request, the Governor's veto would result in no impact to the CalWORKs Program.** If the Federal government does not approve the advance request, based on available information, the veto is structured so that CalWORKs Single Allocations to counties would not be impacted. Specifically, the State would need to absorb the potential impact by shifting funding from the State General Fund to fully fund CalWORKs grants in FY 2010-11.
- **Foster Care Program – Mandate Suspension.** The Governor reduced \$70 million in State General Fund support for the Seriously Emotionally Disturbed portion of the Foster Care Program as part of a statewide reduction of \$365.0 million suspension of mandates. **The Department of Children and Family Services estimates that the Governor's actions would result in a County loss of \$19.3 million.**
- **Title IV-E Capped Allocation Waiver.** The Governor reduced \$19.0 million in funding to Los Angeles and Alameda Counties for the Title IV-E Capped Allocation Waiver previously restored by the Legislature in the FY 2010-11 State Budget. **The Department of Children and Family Services indicates that this action will result in an estimated loss of \$17.1 million.**
- **Child Welfare Services.** The Governor reduced \$80.0 million for Child Welfare Services administration previously restored by the Legislature in the FY 2010-11 State Budget. **The estimated loss to the County's non-waiver programs is \$1.4 million.**

- **Community-Based Services Programs.** The Governor reduced \$6.4 million for the Community-Based Services Program previously restored by the Legislature in the FY 2010-11 State Budget. **The Department of Community and Senior Services indicates that this action will result in a loss of approximately \$536,000 for the County's Linkages and Alzheimer's Day Care Resource Centers Programs.**
- **Child Care Program.** The Governor reduced \$256.0 million in funding from the CalWORKs Stage 3 Child Care Program. These funds provide child care services to working families who have successfully transitioned off of CalWORKs cash assistance. There is no fiscal impact to the County; however, **the Office of Child Care indicates that this action will result in over 17,000 child care slots throughout the County being eliminated effective November 1, 2010.** Additionally, this reduction could result in a number of families subsequently losing employment due to lack of child care and re-applying for the CalWORKs Program.

## FY 2010-11 STATE BUDGET ACTIONS OF COUNTY INTEREST

### Health

**Safety Net Care Pool and South Los Angeles Preservation Fund.** The Final Budget Agreement rejects the Governor's January Budget proposal to reduce funding for the Safety Net Care Pool and the South Los Angeles Preservation Fund by 10 percent which would have resulted in an estimated County loss of \$24.4 million.

**Medi-Cal Eligibility for Legal Immigrants.** The Final Budget Agreement rejects the Governor's May Revision proposal to eliminate full-scope Medi-Cal for adult Newly Qualified Immigrants who have been residing in the United States for less than five years which would have resulted in an estimated County loss of \$3.5 million.

**Medi-Cal Cost Containment Strategies.** The Final Budget Agreement rejects the Governor's May Revision proposal to implement initiatives to reduce Medi-Cal expenditures for an estimated State General Fund savings of \$523.0 million.

### Mental Health

**Redirection of Mental Health Realignment Funds.** The Final Budget Agreement rejects the Governor's May Revision proposal to redirect \$602.0 million in local County Mental Health Realignment funds to offset State General Fund costs for the Child Welfare Services and Food Stamp Programs which would have resulted in an estimated County loss of \$195.0 million.

### Public Health

**Immunization Programs.** The Final Budget Agreement reduced State General Fund support for immunizations by \$18.0 million statewide. **The Department of Public Health indicates that this reduction will result in a County loss of \$1.3 million.** The Department anticipates that 24 community service contracts will be terminated as a result of this action.

**Drug Medi-Cal Programs.** The Final Budget Agreement rejects the Governor's May Revision proposal to eliminate Drug Medi-Cal programs with the exception of the Perinatal and Minor Consent Programs which would have resulted in a County loss of \$18.2 million.

**HIV/AIDS Programs.** The Final Budget Agreement restores \$52.0 million in State General Funds for HIV/AIDS Programs vetoed by the Governor from the FY 2009-10 State Budget Act. **This office is working with the Department of Public Health to determine the impact of this action to the County.**

## **Social Services**

**CalWORKs Program Elimination.** The Final Budget Agreement rejects the Governor's May Revision proposal to eliminate the CalWORKs Program which would have resulted in an estimated County loss of \$488.6 million for CalWORKs Program administration, employment services, child care, substance abuse, and mental health services and a cost shift to the County of \$339.4 million for families moving to the General Relief Program.

**In-Home Supportive Services (IHSS) Program Anti-Fraud Funding.** The Final Budget Agreement provides \$10.0 million to counties for IHSS anti-fraud initiatives. Participating counties are required to provide local matching funds. The County's IHSS Anti-Fraud Plan established 11 IHSS Program integrity initiatives for a combined annual Federal/State/County cost of \$9.4 million, which includes \$1.5 million net County cost.

**IHSS Program Reductions.** The Final Budget Agreement contains \$300.0 million in State General Fund savings which would be achieved through the following:

- Assumes \$190.0 million in State General Fund savings from the establishment of an IHSS provider fee effective July 1, 2010. Each IHSS provider would pay a fee which would be deducted from the provider's paychecks. This will be transparent to both providers, recipients, and the County but will allow the State to draw down the cost in additional Federal funds. **This action results in no impact to the County.**
- Assumes \$35.0 million in State General Fund savings from a 3.6 percent across-the-board reduction in authorized hours for IHSS recipients. The reductions would sunset on June 30, 2012. **The Department of Public Social Services estimates that this action will result in a County savings of approximately \$7.0 million.**
- Assumes \$75.0 million in State General Fund savings from a 2.3 percent reduction in projected IHSS caseload growth. **The Department of Public Social Services estimates that this action will result in a County savings of \$15.0 million.**

**Suspension of IHSS Reductions Enacted in the FY 2009-10 State Budget Act.** The Final Budget Agreement suspends the reductions in IHSS recipient services enacted in the FY 2009-10 State Budget Act until July 1, 2012. The implementation of the reductions was suspended in 2009 due to ongoing litigation. These reductions would have resulted in an estimated annual savings of \$10.8 million in IHSS provider wages and benefits in FY 2009-10.

**Cash Assistance Program for Immigrants (CAPI).** The Final Budget Agreement rejects the Governor's May Revision proposal to eliminate CAPI. If 100 percent of individuals who applied for, and were determined eligible for the County's General Relief Program, this proposal would have resulted in an estimated net County cost of \$7.2 million in FY 2010-11 and \$9.6 million annually thereafter.

**Statewide Fingerprint Imaging System (SFIS) Elimination.** The Final Budget Agreement restores \$12.1 million in funding for SFIS for the CalWORKs and Food Stamp Programs. The Senate and Assembly Budget Committees had rejected the Governor's proposal for SFIS funding. The elimination of funding for SFIS would have resulted in an increase in fraud and an associated increase in grant costs, including costs for the General Relief Program for which the County also uses and funds SFIS.

**Food Stamp Administration Match Waiver.** The Final Budget Agreement includes the County Food Stamp Match Waiver for FY 2010-11 and FY 2011-12, that waives counties' match requirement above their CalWORKs/Food Stamp Maintenance-of-Effort (MOE) requirement to enable counties to draw down the full State General Fund allocation for Food Stamp administration without needing to pay the counties' share of the non-Federal costs above the required MOE.

**Los Angeles Eligibility Automated Determination, Evaluation, and Reporting (LEADER) Replacement System Project.** The Final Budget Agreement maintains \$23.3 million State General Fund (\$45.6 million, including Federal funds) for FY 2010-11 to enable the County to begin the design and development phase of the LEADER Replacement System Project.

### **Public Safety**

**Local Custody of Felony Offenders and Wobblers.** The Final Budget Agreement does not include the Governor's May Revision proposal to shift non-serious, non-violent, and non-sex offenders convicted with felony sentences of three years or less to serve in county jails or the Democratic Budget Proposal to shift wobbler offenders from State prisons to county jails.

**Local Probation Supervision of Juvenile Offenders.** The Final Budget Agreement shifts supervision of juvenile parolees from the State to county probation departments. Counties will receive \$15,000 per parolee, per year, for up to 24 months and \$115,000 per ward, per year for juveniles detained in county detention facilities. The Probation Department indicates that this proposal would increase the number of juvenile parolees under supervision of the Department by 100 to 150 juveniles in FY 2010-11, increasing by 450 to 500 juveniles in FY 2012-13. **The Probation Department estimates that the funding provided should be sufficient to cover the County costs for supervising juvenile parolees.**

**Local Safety and Protection Account.** The Final Budget Agreement does not include the Governor's May Revision proposal to allocate \$502.9 million in State General Funds beginning in FY 2011-12 for the Local Safety and Protection Account to fund local public safety programs including: Citizens' Options for Public Safety (COPS), booking fees, Juvenile Justice Crime Prevention Act grants and the Juvenile Justice Probation Camp (JJCPA) Fund or the Democratic Budget Proposal to extend the 0.15 percent increase in the Vehicle License Fee (VLF) for local public safety programs. These programs are currently funded by a temporary increase in the VLF which is set to expire on June 30, 2011.

### **General Government**

**State Mandates.** The Final Budget Agreement suspends and defers various mandate payments for a State General Fund savings of \$232.0 million. This includes \$137.0 million due to the suspension of all State mandates except those related to elections, law enforcement, or property taxes, and \$95.0 million in mandate deferral payments for FY 2010-11 that are due to counties for costs incurred prior to FY 2004-05. **This will result in an estimated County loss of \$19.65 million, which includes suspension of SB 90 State mandates with a County loss of \$4.65 million and delay of deferred mandate payments (prior to FY 2004-05) with a County loss of \$15.0 million.**

**Open Meetings/Brown Act Mandate – Suspension.** The Final Budget Agreement rejected a plan by the Legislative Analyst Office to end State reimbursement to local governments for complying with portions of the Brown Act and to make reimbursable aspects of the Brown Act optional. The Executive Office indicates that this action would have resulted in an estimated County loss of \$270,000 annually.

**Mandate Securitization.** The Final Budget Agreement also contains the authorization for cities, counties and special districts to securitize future payments associated with deferred mandate payments owed by the State to local governments for FY 2004-05 and prior years. **The State owes local governments an estimated \$1.0 billion, of which, the County is owed approximately \$186.7 million. However, unlike the Proposition 1A of 2004 agreement, which was part of FY 2009-10 State Budget Act, local governments will be required to pay the financing costs of the loan, which are estimated to be at least \$70.0 million for the County.**

**Election Reimbursement.** The Final Budget Agreement provides a one-time increase of \$68.2 million in local assistance to reimburse counties for costs incurred in the May 19, 2009 Statewide Special Election. **The estimated County share is \$11.9 million.**