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From: William T Fujioka
Chief Executive Officer

STATE BUDGET UPDATE – ANALYSIS OF THE GOVERNOR'S FY 2011-12 PROPOSED BUDGET AND POTENTIAL IMPACT ON THE COUNTY

OVERVIEW

On January 10, 2011, Governor Jerry Brown released his \$127.4 billion FY 2011-12 Proposed Budget, which includes \$84.6 billion in State General Fund expenditures. The spending plan projects a deficit of \$8.2 billion in the current year and \$17.2 billion in FY 2011-12 for a total deficit of \$25.4 billion through June 30, 2012. The Governor proposes to solve the 18-month deficit through a combination of: 1) expenditure reductions (\$12.5 billion); 2) extension of tax increases set to expire this year (\$12.0 billion); 3) various fund-shifts and borrowing from special funds (\$1.9 billion); and 4) establishes a modest reserve (\$1.0 billion).

While the State Budget plan attempts to achieve a balanced approach between expenditure reductions and the extension of the expiring taxes, the proposal relies most heavily on solutions that impact County programs and the residents we serve. **Of the proposed \$25.4 billion in solutions to address the State Budget deficit, an estimated \$11.7 billion (46.0 percent) is attributed to proposals that have a direct impact on counties, including: \$5.8 billion from major reductions to health and human services programs, and \$5.9 billion from a complex Realignment Proposal, which would shift State program and financing responsibilities for various public safety, child welfare services, adult protective services and mental health programs to counties.** The Governor's Budget proposes to fund K-12

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education at the Proposition 98 level which spares this program from any reductions and maintains funding at the same level as FY 2010-11.

The Proposed Budget calls for an accelerated timeline to address the State's fiscal problems immediately and assumes that all necessary statutory changes to implement budget solutions will be adopted by the Legislature and signed by the Governor by March 2011. This timeline will allow the necessary ballot measures to be placed before California voters at a June 2011 Special Election, and will include a measure to approve the extension of an estimated \$11.2 billion in tax revenue increases for a five-year period.

The Senate and Assembly Budget Committees are scheduled to start considering the Governor's State Budget proposal on January 13, 2011.

In addition, today, the Legislative Analyst's Office (LAO) issued its overview of the Governor's Budget. The LAO indicates that the Governor's proposal is a good starting point for legislative deliberations; however, there are still some significant risks in his plan and some optimistic savings assumptions, and there is significant work ahead to fill in the details of the Governor's proposals, such as the complex Realignment Proposal.

Estimated County Impact

Based on a preliminary analysis of the information available at this time, **we estimate that the County would experience a loss of \$754.1 million from the proposed expenditure reductions included in the Governor's Budget. In addition, if the Realignment Proposal is enacted, the County would assume an estimated \$1.8 billion in additional program and financing responsibilities from the State starting in FY 2011-12.** This office is working with affected departments and will provide a complete impact analysis once additional details of the Governor's Budget are released. The Administration is expected to release additional information the week of January 17, 2011.

Attachment I provides the estimated impact of the Governor's expenditure reduction proposals by program and a preliminary estimate of the fiscal responsibility to be assumed by the County from the Realignment Proposal.

Attachment II illustrates the impact of the Governor's proposals by program and Attachment III contains the County impact of the Realignment Proposal.

Expenditure Reductions

The Governor proposes to address about half of the \$24.5 billion State Budget deficit by reducing program expenditures by \$12.5 billion over the next 18 months, including:

Statewide Impact	Major Expenditure Reductions
\$ 1.7 billion	Reduction to the Medi-Cal Program
\$ 1.7 billion	Reduction from the elimination of Redevelopment Agencies
\$ 1.5 billion	Reduction to the CalWORKs Program
\$ 1.0 billion	Reduction to the University of California and California State University systems
\$ 1.0 billion	Reduction in State General Fund spending on transportation debt, which will be paid by transportation weight fees instead
\$ 861.2 million	Reduction due to a one-time redirection of Mental Health Services Act funds
\$ 750.0 million	Reduction to the Department of Developmental Services
\$ 500.0 million	Reduction to In-Home Supportive Services
\$ 308.0 million	Savings from State employee compensation reductions
\$ 190.0 million	Reduction to Social Security Income/State Supplemental Program

Revenue Solutions

The Governor's Budget plan includes \$12.0 billion in revenue solutions which heavily rely on California voters approving a five-year extension of approximately \$11.2 billion in tax rate increases which are scheduled to expire this year. The following are the most significant proposals:

Projected Revenue	Proposed Revenue Solutions
\$ 4.5 billion	Extension of the current Sales Tax rate at the 6.0 percent level
\$ 3.3 billion	Extension of the 0.25 percent Personal Income Tax surcharge
\$ 2.0 billion	Maintain the dependent exemption credit at the current level
\$ 1.4 billion	Extension of the Vehicle License Fee at the 1.15 percent level
\$ 1.4 billion	Mandatory single-sales factor Corporate Tax
\$ 924.0 million	Elimination of Enterprise Zone Tax Credits
\$ 360.0 million	Tax enforcement and tax amnesty proposals

Realignment Proposal

The Governor's Budget contains a proposal that would shift an estimated \$10.0 billion in major program responsibilities from the State to counties by FY 2014-15. According to the Administration, the Realignment Proposal will allow governments at all levels to focus on becoming more efficient and effective. The proposal consists of two phases:

- **Phase One:** The first phase would transfer \$5.9 billion in program responsibilities from the State to counties and will cover various public safety programs, including: emergency services and fire, court security, local public safety program, lower-level offenders, adult parole and juvenile justice. The proposal also expands the definition of public safety to include: child welfare services, foster care, adult protective services, and certain mental health services.

The Governor proposes to fund the realigned programs by extending the 1.0 percent sales tax rate increase (\$4.5 billion) and the 0.5 percent Vehicle License Fee rate increase (\$1.4 billion) for five years. Governor Brown is proposing a June 2011 Special Election to ask voters to approve this measure.

In FY 2011-12, the mental health services realignment will be funded through the redirection of \$861.0 million in one-time Mental Health Services Act funds. The Governor's Budget indicates that these services will be funded in future years with Realignment funding, which has not yet been identified.

- **Phase Two:** According to the Governor's Budget, the second phase of the Realignment Proposal assumes that the State will become responsible for costs associated with health care programs, including the California Children Services and In-Home Supportive Services, while the counties would assume responsibility for CalWORKs, Food Stamp administration, and child support.

The proposal indicates that with the increase of low-income individuals, currently served in the county indigent health system, becoming eligible for Medi-Cal, there will be a natural shift of costs from counties to the State, and according to the Administration, this will necessitate an examination of the 1991 Realignment and which level of government is best suited to provide health-related programs.

Redevelopment Proposal

The Governor's Budget proposes a new approach to fund economic development activities at the local level and proposes to phase out the existing funding mechanism for redevelopment agencies (RDAs). According to the Administration, the proposal will

return billions in property tax revenues to schools, cities, and counties to help sustain core functions including law enforcement, fire protection, and education. Below is a summary of the proposal:

- Amend the Constitution to provide for 55.0 percent voter approval for limited tax increases and bonding against local revenues for development projects such as are currently done by RDAs.
- After FY 2011-12, the money available after payment of RDA debt would be distributed to schools, counties, cities, and non-enterprise special districts for general uses. These distributions will generally reflect the distribution of property tax in each county under existing law.

Pursuit of County Position On State Budget Items

Consistent with your Board motion of December 14, 2010, County staff will pursue partnership with the Governor and the Legislature on State funding reductions to Los Angeles County and will indicate the County's willingness to assume a fair share of budget reductions, if fashioned with reasonable solutions to address the State's fiscal crisis.

The County is committed to working with the Governor and the Legislature in developing legislative solutions for the restructuring of the State-County relationship, which would allow for any program realignment or restructuring to be shifted with appropriate local control, administrative flexibility, and a dedicated, long-term, stable source of revenue to fund the additional responsibilities undertaken by the County.

We will continue to keep you advised.

WTF:RA
MR:IGEA:sb

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 2011-12 GOVERNOR'S BUDGET PROPOSALS

	Governor's Budget Proposals	Realignment Proposals (Cost Shift)
<u>Health</u>		
Medi-Cal Provider Payments Reduction	(10,000,000)	0
Medi-Cal Share of Cost for Services	(10,000,000)	0
<u>Mental Health</u>		
Redirection of Mental Health Services Act	(241,100,000)	0
Realignment of the AB 3632, Managed Care, & EPSDT Programs	0	241,100,000
<u>Public Health</u>		
Realignment of Substance Abuse Treatment Programs	0	46,000,000
<u>Social Services</u>		
CalWORKs Program Reductions ⁽¹⁾	(450,000,000) ⁽²⁾	0
Cost Shift from CalWORKs Program Reductions	(77,400,000) ⁽³⁾	0
Savings from CalWORKs Program Reductions	3,900,000 ⁽²⁾	0
Savings from IHSS Program Reductions ⁽⁴⁾	96,900,000	0
Transitional Housing Program-Plus Reduction	(564,000)	0
Child Support Services Collections Suspension	(3,620,000)	0
Senior Employment Program Reduction	(1,100,000)	0
Realignment of Foster Care and Child Welfare Services		557,000,000
Realignment of Adult Protective Services		14,300,000
<u>Realignment of Public Safety Programs</u>		
Shift of Low-Level Offenders to Counties	0	450,500,000
Adult Parole Services	0	185,300,000
Remaining Juvenile Justice Programs	0	64,400,000
Vehicle License Fee Funding for Public Safety Programs	0	126,600,000
Court Security	0	132,500,000
CAL FIRE	0	? ⁽⁵⁾
<u>General Government</u>		
Delay of Deferred Mandate Payments (Prior to FY 2004-05)	(16,500,000)	0
Suspension of Most SB 90 Mandate Claims	(6,900,000)	0
Public Library Funds	(1,400,000)	0
Elimination of State Funds for Military & Veterans Programs	(344,000)	0
Elimination of Redevelopment Agencies	(36,000,000)	0
TOTAL	(\$754,128,000)	\$1,817,700,000

Notes:

- (1) CalWORKs Program reductions include: Single Allocation reduction included in the 2009 and 2010 State Budget Acts, Grant Reductions, and 48-Month Time Limit.
- (2) Estimate reflects 1-month impact in FY 2010-11 because Governor's proposal assumes June 1, 2011 implementation.
- (3) Estimate assumes 50 percent of CalWORKs children/families apply for and are determined eligible for the County's General Relief Program.
- (4) IHSS Program Reductions include: Across-the-Board Reduction to Service Hours, Elimination of Domestic and Related Services, and Elimination of Services for Recipients Without Physician Certification.
- (5) There is insufficient information to assess the County impact of this proposal.

This table represents the estimated loss/gain of State funds based upon the Governor's 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 FY 2011-12 PROPOSED BUDGET

Health

Medi-Cal Reduction. The Governor's Budget proposes a reduction of \$1.7 billion which includes: a 10.0 percent reduction in provider payments (\$709.4 million), requiring Medi-Cal beneficiaries to pay a share of cost for services (\$557.1 million), establishing annual dollar caps on services (\$217.4 million) and eliminating Adult Day Health Care (\$193.2 million). **The Department of Health Services estimates that the reduction in provider payments would result in a County loss of \$10.0 million. Requiring Medi-Cal beneficiaries to pay a share of cost for services would result in an estimated County loss of \$10.0 million, to the extent that the payments are uncollected.**

Mental Health

Mental Health Services Act Funds. The Governor's Budget proposes a one-time shift of \$861.2 million from the Mental Health Services Act (Proposition 63), which would have gone to counties, to the State General Fund to pay the State's obligation for the Mental Health Managed Care (\$183.6 million), Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) (\$579.0 million) and the AB 3632 Special Education (\$104.0 million) programs. Beginning in FY 2012-13, funding and administration of these programs would be shifted from the State to counties under the Governor's Realignment Proposal. Although the Governor's Budget indicates the shift of Proposition 63 funds could be enacted by the Legislature, the Department of Mental Health believes that this proposal would violate the non-supplantation provision of Proposition 63 and requires passage of a voter-approved initiative. A similar ballot initiative failed in the May 2009 Special Election. **The Department of Mental Health indicates that this proposal would redirect approximately \$241.1 million in Proposition 63 funds that would have been available for the County to pay for Mental Health Managed Care, EPSDT and AB 3632 services in FY 2011-12.**

Social Services

CalWORKs. The Governor's Budget proposes a reduction of \$1.5 billion to the CalWORKs Program which includes: establishing a 48-month time limit (\$698.1 million), a 13.0 percent grant reduction (\$405.0 million), and maintaining the FY 2010-11 Single Allocation reduction (\$376.9 million). **The Department of Public Social Services (DPSS) estimates that this proposal could result in a County loss of approximately \$450.0 million annually and loss of benefits to over 67,000 children in 37,000 families in the County.** The major proposals are described below:

- **48-Month Time Limit.** Reduce the time limit for CalWORKs benefits from 60 cumulative months to 48 cumulative months for most families with certain exceptions for an estimated State General Fund savings of \$698.1 million in

FY 2011-12. DPSS indicates that between 59,000 and 62,000 children in 34,500 families would lose CalWORKs services effective July 1, 2011, because the 48-month time limit would be retroactive to 1998 and any month of aid received by any member of an assistance unit would be counted toward the 48-month time limit. According to DPSS, under current State law, the vast majority of children losing CalWORKs under this proposal could be eligible for County-funded General Relief.

In addition, if 50.0 percent of the children/families terminated from cash assistance applied for and are determined eligible for the County's General Relief Program, there would be an increased County cost of \$77.4 million annually.

- **CalWORKs Grant Reduction.** Reduce the cash assistance grants by 13.0 percent, reducing the maximum grant for a family of three from \$694.0 per month to \$604.0 per month effective June 1, 2011, for a State General Fund savings of \$13.9 million in FY 2010-11 and \$405.0 million in FY 2011-12.

DPSS estimates that approximately 176,500 families who currently receive CalWORKs benefits in Los Angeles County would lose \$11.9 million in cash assistance and the County would save \$300,000 in FY 2010-11. In FY 2011-12, the estimated loss of cash assistance to CalWORKs families would be \$143.1 million with County savings of \$3.6 million.

- **County Single Allocation Reduction.** Maintain the CalWORKs Single Allocation reduction included in the 2009 and 2010 State Budget Acts for a State General Fund savings of \$376.9 million in FY 2011-12. The CalWORKs Single Allocation funds eligibility administration, employment services, CalWORKs Stage One Childcare and Cal-LEARN. In FY 2009-10, this reduction resulted in a County loss of \$114.2 million.

In Home Supportive Services (IHSS). The Governor's Budget proposes a reduction of \$486.1 million which includes an 8.4 percent reduction in service hours for all recipients, elimination of domestic and related services, elimination of services for recipients without physician certifications, and elimination of State funding for IHSS Advisory Committees. **DPSS estimates that this proposal could result in a net County savings of approximately \$96.9 million of the total \$355.0 million County share of cost.** The Governor's IHSS proposals are:

- **Across-the-Board Reduction to Service Hours.** Implement an 8.4 percent reduction in assessed service hours for all IHSS recipients for a State General Fund savings of \$127.5 million in FY 2011-12. According to DPSS, the County would lose receipt of \$47.3 million in State General funds and \$70.7 million in Federal funds if this proposal is enacted. **DPSS estimates that this proposal would impact about 184,000 IHSS recipients, with a net County savings of approximately \$25.5 million in FY 2011-12.**

- **Domestic and Related Services for Certain Recipients.** Eliminate domestic and related services for recipients in shared living arrangements and minor recipients living with their parent(s) for a State General Fund savings of \$236.6 million in FY 2011-12. According to DPSS, the County would lose \$87.8 million in State General Funds and \$131.2 million in Federal funds. **DPSS estimates that this proposal would impact about 115,382 IHSS recipients, for an estimated annual County savings of \$47.3 million in IHSS provider wages.**
- **IHSS Services for Recipients Without Physician Certification.** Eliminate IHSS services for recipients without a physician certification for a State General Fund savings of \$120.5 million in FY 2011-12. According to DPSS, this proposal would result in a County loss of \$44.7 million in State General Funds and \$66.8 million in Federal funds. **DPSS estimates that this proposal would result in the loss of services to approximately 17,970 IHSS recipients, with an estimated County savings of approximately \$24.1 million in FY 2011-12.**
- **State Funding for IHSS Advisory Committees.** The Governor's Budget proposes to eliminate State General Fund support for local IHSS Advisory Committees for an estimated savings of \$1.6 million in FY 2011-12. **This office and DPSS are working to determine the impact of this proposal to the County.**

Supplement Security Income/State Supplemental Payment (SSI/SSP) Reduction.

The Governor's Budget proposes to reduce the SSI/SSP grant for individuals by \$15.0 per month, to the federally-required minimum payment standard, effective June 1, 2011, for an estimated State General Fund savings of \$14.7 million in FY 2010-11 and \$177.3 million in FY 2011-12. DPSS estimates that approximately 414,000 SSI/SSP recipients in the County would lose \$6.21 million in cash assistance annually. In addition, approximately 3,860 Cash Assistance Program recipients would have their grants reduced by \$15.0 per month.

Transitional Housing Program-Plus Reduction. The Governor's Budget proposes a \$19.0 million reduction to the Transitional Housing Program-Plus for 18 and 19 year olds. **The Department of Children and Family Services (DCFS) indicates that this proposal would result in an estimated County loss of \$564,000 and 21 beds.** Additionally, DCFS indicates that as AB 12, which extends Foster Care benefits to youth over 18 years of age, does not go into effect until January 1, 2012, and only 18-year olds will be eligible in 2012 for Federal participation in foster care placement, the Governor's proposal eliminates the only limited housing and services option currently available to 19 year-olds existing in the foster care system.

Child Support Collections Suspension. The Governor's Budget proposes to suspend the county share of child support collections in FY 2011-12 estimated to be \$24.4 million. Under the proposal, the entire non-Federal portion of Child Support collections would benefit the State General Fund. **The Department of Child Support**

Services indicates that the County collects and retains approximately \$3.62 million in collections per year which would be suspended under the Governor's Budget proposal.

Senior Employment Program Reduction. The Governor's Budget proposes to reduce Federal funding by \$4.1 million, for the Title V - Senior Employment Program which provides part-time, work-based training opportunities for seniors aged 55 and over who have challenging employment prospects and assists with the transition of individuals to unsubsidized employment. **The Department of Community and Senior Services estimates that the County will lose approximately \$1.1 million in one-time only Federal funding, resulting in the elimination of about 115 slots for employment services for seniors.**

Child Care and Development Programs. The Governor's Budget contains \$716.0 million in funding reductions to child care and development services. The proposal includes: 1) the elimination of subsidized services for 11 and 12 year old children; 2) the reduction of eligibility for subsidized child development services from 75.0 percent to 60.0 percent of the State Median Income; 3) reducing the level of subsidies across the board; and 4) providing greater flexibility at the local level to administer remaining child care and development funds. Families would be required to contribute to the overall cost of care at higher rates than they currently pay.

General Government

State Mandates. The Governor's Budget proposes to maintain suspension of \$227.8 million in mandates not related to law enforcement or property taxes. The Governor's Budget also proposes to develop a process with the Legislature whereby all reimbursable mandates are reviewed. The review would determine which statutes should be maintained, modified to reduce costs, repealed to eliminate the mandate entirely, or amended to make the activity permissive using best practices or guidelines. Additionally, it proposes the deferral of \$94.0 million for costs incurred by local governments prior to FY 2004-05. **The deferral of mandate payments would result in an estimated County loss of \$16.5 million, and based on limited information available, the suspension of State mandates would result in a County loss of \$6.9 million.**

Military and Veterans Programs. The Governor's Budget proposes to eliminate State support for County Veterans Services Offices (CVSOs) and Operation Welcome Home for a savings of \$9.9 million. CVSOs assist veterans in receiving Federal benefits. Operation Welcome Home provides services such as job placement, housing, health care and assistance with the transition into civilian life for veterans returning from the wars in Iraq and Afghanistan. **The Department of Military and Veterans Affairs indicates that this proposal would result in an estimated loss of \$344,000 for services to veterans and a potential loss of \$60,000 in Proposition 63 funding to provide mental health services for veterans.** Additionally, if enacted, the elimination of these programs would result in: 1) elimination of five Veteran Benefit Counselors and

one Intermediate Typist Clerk; 2) increasing the County-wide ratio of veterans to counselor from 23,500:1 to 36,000:1; 3) loss of Federal funding due to unfiled veteran compensation claims; 4) closing the College-Fee Waiver Program; 5) closing the Section 8 Housing Program; and 6) reductions to veteran outreach programs.

Public Library Funds. The Governor's Budget proposes to reduce State General Fund support for local libraries by \$30.4 million, resulting in the elimination of the Public Library Foundation, California Library Literacy and English Acquisition Services, and the California Library Services Act. **The Public Library indicates that this proposal would result in the County loss of \$1.4 million funding for books and materials.**

Economic Development

Redevelopment Agencies. The Governor's Budget proposes to eliminate redevelopment agencies (RDAs) by prohibiting additional contract obligations, retiring existing RDA indebtedness and reallocating property tax revenues to schools, cities, counties, and non-enterprise special districts. According to the Governor, this proposal will help sustain core functions including law enforcement, fire protection, and education. The Governor's Budget also proposes that the unused funds in the RDA balances reserved for low- and moderate-income housing be shifted to local authorities for low- and moderate-income housing.

In FY 2011-12, the proposal would shift an estimated \$5.2 billion in property tax increment revenues to provide:

- \$2.2 billion to retire RDA debts and contractual obligations in accordance with existing payments schedules.
- \$1.1 billion to agencies as an amount equal to the pass-through payments that would otherwise be received.
- \$1.7 billion to offset State General Fund costs for Medi-Cal (\$840.0 million) and trial courts (\$860.0 million).
- \$210.0 million to cities, counties, and special districts proportionate to their current share of the countywide property tax allocation.

In FY 2012-13, the proposal is expected to result in an increase in annual local revenues (over the amount they would have received in pass-through payments) to provide:

- \$1.0 billion for schools. Funds received by K-14 schools would not count toward Proposition 98 guarantee.
- \$490.0 million for cities.
- \$290.0 million for counties.
- \$100.0 million for non-enterprise special districts.

The Governor's Budget also includes a new option for funding economic development at the local level by calling for a constitutional amendment to provide for 55.0 percent voter approval for limited tax increases and bonding against local revenues for development projects similar to those currently funded through redevelopment and for infrastructure.

The Chief Executive Office Operations Cluster indicates that there are currently 315 redevelopment project areas within the County. Determining the impact of this proposal and estimating future property taxes for those project areas will depend on many significant features of the proposal that have not been specified or defined. **However, the CEO estimates that the County represents 25.0 percent of the statewide RDAs and the County's General Fund current share of property tax revenue is approximately 29.0 to 40.0 percent. Therefore, the reallocation of \$210.0 million in FY 2011-12 to cities, counties and special districts, would result in an estimated \$52.5 million for all taxing entities in the County and approximately \$15.0 million to \$21.0 million for the County General Fund in FY 2011-12.**

In addition, the CEO indicates that there is not enough detail in the Governor's Budget to estimate future property taxes for the 315 redevelopment project areas. However, in FY 2009-10 the loss to community redevelopment agencies (net of pass-through payments) was \$530.8 million, including \$452.7 million to the County General Fund; \$51.3 million to the Fire District; \$18.3 million to Flood Districts; and \$8.5 million to the Public Library. In general, the proposal to divert tax increment from RDAs to the local taxing entities would significantly benefit the County General Fund, Fire, Flood and Library Districts. **The CEO will work with the Auditor Controller and County Counsel to determine the overall impact once details of the proposal are released by the Administration.**

The Community Development Commission (CDC) indicates that it serves as the Redevelopment Agency for Los Angeles County, and oversees five redevelopment project areas including Maravilla, West Altadena, East Rancho Dominguez, Willowbrook, and Whiteside. The CDC indicates that the elimination of the redevelopment agency would mean the elimination of one of the CDC's core functions mandated by the Board. **According to the CDC, this proposal would result in an estimated loss of over \$36.0 million in redevelopment property tax increment and low- and moderate-income housing funds over the lives of the County's existing redevelopment projects and would result in a loss of at least \$100.0 million in City of Industry funds for affordable housing over the next 6 years.** The CDC currently owns 95 properties in its redevelopment project areas that are being held for future development, and if the redevelopment agency is forced to dissolve, it is unclear under what legal authority these properties could be developed or even sold. The CDC indicates that the full extent of future activities and projects that will be halted cannot be known.

Enterprise Zones. The Governor's Budget proposes to eliminate all Enterprise Zone tax incentives and similar tax incentives for specific areas for tax years beginning on or after January 1, 2011. This proposal would eliminate all tax benefits, both for newly earned credits and deductions, as well as for credits that had been earned in prior years, but had not yet been used. The elimination of Enterprise Zone tax incentives and similar tax incentives is estimated to generate additional revenues of \$924.0 million to the State. The CDC indicates that it administers State Enterprise Zones, including the East Los Angeles Enterprise Zone. In addition, in December 2010 the California Department of Housing and Community Development awarded the County the conditional designation of two Enterprise Zones; the Santa Clarita Valley Enterprise Zone and the Harbor Gateway Communities Enterprise Zone.

The CDC indicates that it currently accepts and administers Employee Hiring Tax Credit Vouchers for businesses located in East Los Angeles, Harbor Gateway Communities and the Santa Clarita Valley. According to the CDC, each hiring credit is worth up to \$37,440 over five years. The CDC indicates that this proposal would negatively impact three County Enterprise Zones. Additionally, if 5.0 percent of the approximately 365,000 jobs available in these zones qualify for the hiring credits, this proposal would result in the loss of about \$680.0 million to the local economy over the life of the zones. The CEO is working with affected County departments to determine the impact of this proposal.

Housing Bonds Reduction. The Governor's Budget proposes a reduction of \$99.0 million in FY 2011-12 to reflect a one-time pause in the issuance of State bonds for new loans and grants for housing projects. According to the Administration, this does not affect projects that are already underway. The CDC indicates that this proposal would negatively impact the development of new projects reliant upon State subsidies as part of their financing mechanism and would have a detrimental effect on the progress being made to address the lack of affordable housing in the County.

Environment and Natural Resources

State Parks Reduction. The Governor's Budget proposes a State General Fund reduction of \$11.0 million which would result in the partial or full closing of some State Park units and reductions to the California Department of Parks and Recreation (CDPR) headquarters. CDPR would work with stakeholders and local communities to explore partnership opportunities. When fully implemented, the closures and transfers are expected to achieve \$22.0 million in ongoing State General Fund savings. The Department of Beaches and Harbors (DBH) indicates that the proposal may have an undetermined indirect impact on County facilities adjacent to the State park facilities that would be closed. **DBH and the Department of Parks and Recreation indicate that the proposal to close some State parks may result in increased attendance at the County facilities; however, the County impact cannot be determined at this time because no specific State facilities are available.**

Transportation

Re-enactment of Gas Tax Swap. The Governor's Budget proposal recommends the passage of trailer bill legislation to re-enact the 2010 gas tax swap in response to the passage of Proposition 26 in November 2010, which requires a two-thirds vote threshold for any tax measures occurring after October of 2009. The proposed trailer bill language is intended to protect the revenue sources for highways and transit and continue the State General Fund relief provided in the 2010 Budget Act.

The Department of Public Works (DPW) indicates that without the two-thirds vote required by Proposition 26, the new excise tax on gasoline could be repealed in November 2011 without reinstatement of the sales taxes on gasoline (Proposition 42). **If the two-thirds vote by the Legislature is not obtained, the impact of the elimination of the fuel tax swap to DPW is approximately \$60.0 million per year for the maintenance and operation of streets and roads in the unincorporated areas of the County. DPW will review the trailer bill language once it is available to determine the impact to the department and the County.**

Local Bridge Seismic Retrofit Program. The Governor's Budget proposal includes \$22.0 million for the Local Bridge Seismic Retrofit Program. This program provides local match funding for the seismic retrofit of the bridges, which will provide funding for the few bridges remaining to be retrofitted by DPW.

Water Resources

State Water Resources Control Board. The Governor's Budget proposal includes an ongoing State General Fund reduction of \$12.8 million and a corresponding increase in the Waste Discharge Permit Fund and Water Rights Fund. Discharge permit development is facilitated by Regional Water Quality Control Board-implemented basin plans in accordance with the Federal Clean Water Act. Under the Governor's proposal, statutory changes will be necessary in order for the State Water Resources Control Board or the Regional Board to assess fees for basin planning activities.

The Department of Public Works indicates that a basin planning fee in addition to the current National Pollutant Discharge Elimination System permit fee could affect the department if the State shifted the cost of basin planning to permittees, including the County, the Flood Control District, and local municipalities. DPW will review the proposed statutory changes once the language is available to determine the impact to the department and the County.

GOVERNOR'S REALIGNMENT PROPOSAL ESTIMATED COUNTY IMPACT

The statewide amounts cited in the Governor's Budget estimates and may not reflect actual program costs incurred by counties to administer these programs.

Mental Health

Mental Health Programs. The Governor's Realignment Proposal would transfer administration and funding for the Mental Health Managed Care Early Periodic Screening, Diagnosis, and Treatment (EPSDT), and AB 3632 Special Education programs from the State to the counties. In FY 2011-12, the Governor proposes a one-time shift of \$861.2 million from the Mental Health Services Act (Proposition 63), which would have gone to counties, to fund these programs. Although the Governor's Budget indicates the shift of Proposition 63 funds could be enacted by the Legislature, the Department of Mental Health believes that this proposal would violate the non-supplantation provision of Proposition 63 and requires passage of a voter-approved initiative. A similar ballot initiative failed in the May 2009 Special Election. **The Department of Mental Health (DMH) indicates that the County's share of redirected Proposition 63 funding would be approximately \$241.1 million.**

Beginning in FY 2012-13, the Governor proposes to provide \$866.6 million in realignment funding for the Mental Health Managed, EPDST and AB 3632 programs, subject to voter approval of the tax extensions. DMH indicates that the County's share of this funding responsibility would be approximately \$242.6 million.

Public Health

Substance Abuse Treatment. The Governor's Realignment Proposal would transfer \$184.0 million in funding from the California Department of Alcohol and Drug Programs to counties to administer prevention, treatment and recovery services for alcohol and drug abuse. At this time, there is no detailed information for the programs which would be realigned. However, **based on 25.0 percent of the statewide caseload, the County would assume an estimated \$46.0 million in additional program responsibilities.**

Social Services

Foster Care and Child Welfare Services. The Governor's Realignment Proposal would transfer to counties the State share of financing and responsibilities for Foster Care and Child Welfare Services, including Kin-GAP and adoptions, totaling approximately \$1.605 billion in FY 2011-12 and FY 2014-15. **According to the Department of Children and Family Services (DCFS), the County's estimated annual State share for these programs is approximately \$557.0 million, which**

helps serve a caseload of over 77,000 including adoption, Kin-GAP, child welfare services and foster care.

It is important to note that the amount of \$557.0 million in State revenue would be even higher if one-time Federal funding from the American Recovery and Reinvestment Act had not reduced the State share of costs. **The fiscal impact on the County of the Governor's proposal will depend on how the future amount of revenues received by the County compared with its increased share of costs**, which would be affected by future changes in Federal laws and policies over which the State and County do not have control over. Most of the increased county share of costs under the proposal would be used to finance the non-Federal share of Foster Care and Adoption Assistance costs, including any costs associated with implementing the Fostering Connections Act. **As more details are released on the proposal, the CEO will continue to work with DCFS to determine the impact of the proposal on the County.**

Adult Protective Services. The Governor's Realignment Proposal would transfer \$55.0 million in funding and all responsibilities for the Adult Protective Services Program from the State to counties. According to the Department of Community and Senior Services, **the County's current allocation is \$14.3 million, which helps serve approximately 30,000 seniors and dependent adults.**

Public Safety

Shift of Low-Level Offenders. The Governor's Realignment Proposal would shift \$1.802 billion from the State to counties and transfer the responsibility for approximately 37,000 non-violent, non-serious, non-sex offenders to counties to serve their terms locally either in jail and/or on probation.

The Sheriff's Department estimates that approximately 13,550 convicted felons would serve their sentences in Los Angeles County jails. The Sheriff's Department indicates that this proposal would have a major impact on the County jails. Considering jail overcrowding in the County, many lower level offenders could be released back into the community having served only a fraction of their sentences.

The Governor's Budget does not contain sufficient information to determine net County impact at this time. **However, based on 25.0 percent of the statewide caseload, the County would assume an estimated \$450.5 million in additional program responsibilities. In addition, DMH indicates that approximately 2,800 offenders may be in need of mental health services.** The CEO will continue to work with the affected departments to determine the County impact as more details are released by the Administration.

Adult Parole. The Governor's Realignment Proposal would shift \$741.1 million from the State to counties for supervision of all parolees upon their release from State prison. The expected implementation date has not been determined at this time.

According to the Probation Department the County would assume responsibility for 30,000 or more serious adult parolees, including violent and sexual offenders. Assuming that Los Angeles County has 25.0 percent of the statewide caseload this would result in \$185.3 million funds transferred from the State for these activities. The Probation Department indicates that this proposal would require the hiring and training of over 700 staff to supervise these offenders. Many of the probation officers would need to be armed to safely carry out their duties.

The District Attorney's Office indicates that this proposal would result in a significant workload increase since it is not currently involved in parole violations. With a 70.0 percent State parolee recidivism rate, as many as 25,000 or more new cases would be shifted from the State to the District Attorney's Office.

Juvenile Justice Programs. The Governor's Realignment Proposal would eliminate the Division of Juvenile Justice by June 30, 2014 and shift \$257.6 million from the State to counties to house, treat, and supervise all juvenile offenders. The Governor's Budget does not contain sufficient information to determine the net County impact at this time. **However, based on 25.0 percent of the statewide caseload, the County would assume an estimated \$64.4 million in additional program responsibilities.** The Probation Department indicates that it does not currently have the facilities, staffing or long-term treatment plans in place to handle youth who have committed violent crimes or sex offenses. The Department of Mental Health estimates that approximately 400 juvenile offenders may be in need of mental health services.

Vehicle License Fee Public Safety Programs. The Governor's Realignment Proposal intends to extend the existing 1.15 percent Vehicle License Fee (VLF) rate for an additional five years. The extension would require a two-thirds vote of the Legislature to place an initiative on the June 2011 Special Election Ballot for voter approval. This proposal would provide \$506.4 million to support a number of programs including:

- \$181.3 million to support juvenile probation efforts at the county level;
- \$107.1 million for the Citizens Option for Public Safety Program;
- \$107.1 million for the Juvenile Justice Crime Prevention Program;
- \$ 57.4 million for a variety of public safety program grants;
- \$ 35.0 million for Jail Booking Fee Subventions; and
- \$ 18.5 million for the Small/Rural Sheriffs program.

The Governor's Budget does not contain sufficient information to determine net County impact at this time. **However, given that Los Angeles County accounts for an estimated 25.0 percent of the State, the County's share of these funds would be approximately \$126.6 million.**

The County's Public Safety departments indicate that the proposal does not include a funding alternative source if the extension of the 1.15 percent VLF rate is not approved. **According to the Probation Department, the loss of the VLF revenues without a funding alternative would result in the closing of up to 12 juvenile probation camps and the elimination or reduction of several juvenile community-based prevention, supervision and treatment programs. The District Attorney's Office indicates that the loss of VLF revenues would result in a 33.0 percent reduction in attorneys assigned to the Hardcore Gang and Major Narcotics Divisions and the Elder Abuse Section.**

Court Security. The Governor's Realignment Proposal would shift \$530.0 million in funding from the State to the counties for court security activities. Under this proposal, funding and responsibility for court security would transfer to the counties, allowing courts and counties to negotiate service levels and agreements locally. Responsibility for the provision of court security would remain with county sheriff's departments. **The Governor's Budget does not contain sufficient information to determine net County impact at this time. However, based on 25.0 percent of the statewide caseload, the County would assume an estimated \$132.5 million in additional program responsibilities. The CEO will continue to work with the Sheriff's Department to determine the impact of this proposal as details are released by the Administration.**

Judicial Branch. The Governor's Realignment Proposal would make significant, ongoing reductions to court operations. The spending plan proposes a permanent reduction of \$200.0 million for courts beginning in FY 2011-12 and indicates the Administration's interest in working with the judicial branch and stakeholders to identify ways to operationalize and determine the best way to implement this cut over the long-term in a manner that is least harmful to the courts and preserves service levels provided to the public. **The Governor's Budget does not contain sufficient information to determine net County impact at this time. The CEO will work with affected County departments to determine the impact of this proposal once details of this proposal are released by the Administration.**

CAL FIRE. The Governor's Realignment Proposal would shift fire protection services and medical emergency response responsibilities from CAL FIRE to local jurisdictions in State Responsibility Areas (SRAs). Currently CAL FIRE responds to over 60,000 medical emergencies in these areas each year which is outside its core wildland fire protection mission. This will result in an estimated \$250.0 million transfer of duties from the State to local jurisdictions. The actual amount of redefined acreage, and corresponding level of realignment, will depend on the Board of Forestry's reclassification of existing SRAs. The CEO will continue to work with the Fire Department to determine the impact of this proposal as details become available.