County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE
713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
http://cao.co.la.ca.us

DAVID E. JANSSEN
Chief Administrative Officer

May 13, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE -- GOVERNOR RELEASES MAY REVISION

Late yesterday afternoon, the Governor released his May Revision to his January Budget Proposal. As has been reported in the press for the past week, the Governor's revised budget relies heavily on a series of agreements that the Administration has reached with most of the major communities that are heavily dependent upon State funding including K-14 education, the judicial system, higher education, and local governments. In general, these agreements reflect a willingness by these communities to accept significant short-term funding reductions for one or two years in return for modest increases and/or more stable funding in the future. Health and social service communities, which were targeted for significant cuts in the January proposal, have not been a party to an agreement. Medi-Cal reform will not be part of the May Revision, as originally planned, but will be delayed until August. Also, reorganization of State government agencies and services has been postponed to the FY 2005-06 Budget.

The local government agreement with the Governor replaces the January Budget proposal to permanently shift $1.3 billion in local property taxes from counties, cities, special districts and redevelopment agencies to schools. Instead, local governments will contribute $1.3 billion for two years. In addition, cities and counties will swap $4.1 billion in Vehicle License Fee (VLF) backfill revenues annually for an equal amount of property taxes. In return, the Governor has

committed to actively supporting a constitutional amendment that would protect local revenues from the State after FY 2005-06 and repeal any State mandate that is not funded after one year. In addition, the Administration will seek a permanent fix of VLF realignment funding and repayment of over $2 billion in deferred mandate reimbursement payments to local governments and schools over a five-year period starting in FY 2006-07.

THE BUDGET GAP

The January Budget proposal addressed a $26 billion budget gap from prior years as well as the budget year. By using most of the proceeds from the $15 billion Economic Recovery Bond approved by the voters in March, the January Budget reduced the gap in the budget year to approximately $14 billion which it closed through a combination of budget reductions and additional borrowing. However, since January the budget gap has grown by about $1.6 billion as the result of increased costs ($1.2 billion) and the fact that the Legislature did not adopt all of the Governor's proposed mid-year reductions ($419 million). In addition, the Governor has chosen to recommend restoration of $1.9 billion of the proposed January reduction. In effect, total General Fund spending will increase almost $3.6 billion in the revised budget. As a result, the budget gap to be closed has grown by a like amount to approximately $18 billion.

THE BUDGET SOLUTION

Perhaps the most significant feature of the revised budget is that it closes the almost $18 billion budget gap without increasing taxes. To pay for these additions, the revised budget assumes $3.1 billion in additional revenue (only $1.2 billion in the current year), $756 million in savings (including $292 million in health and human services), and a little over $1 billion in miscellaneous transfers or operational efficiencies. As a result, the revised budget is able to reduce the use of Economic Recovery Bonds by $1 billion and add over $300 million to the projected reserve to bring it to $998 million.

The Administration claims its budget proposal also eliminates the ongoing $7 billion structural budget deficit by the end of FY 2005-06, but provides no documentation on how this is accomplished. Moreover, the budget does not project beyond FY 2005-06 when the structural deficit is likely to return, given the spending commitments that have been made as in the agreements with local governments and other groups. The Legislative Analyst's review will be available within a week.

THE LOCAL GOVERNMENT AGREEMENT

The Governor's agreement with local government has both a short-term and a long-term component. In the short term, local governments will contribute $1.3 billion for two years to the State with counties, cities and special districts each contributing $350 million per year. The balance of $250 million would be paid by redevelopment agencies. By comparison, under the Governor's January proposal, counties would have contributed $914 million, cities $188 million, redevelopment agencies $135 million and special districts $98 million. For the longer term, cities and counties will give up $4.1 billion of VLF backfill revenue in return for an equal amount of property taxes (except in the first two years). The VLF rate would be reduced from the current statutory rate of 2 percent to the effective rate of .65 percent which would be in the State Constitution. Also to be added to the Constitution, pending voter approval in November, are provisions that would protect local revenues including property taxes, sales taxes, and the remaining vehicle license fees (including repayment of this year's $1.3 billion VLF gap loan to the State), and provide for the automatic repeal of any mandate on local governments that is not funded within 12 months. In return for the Governor's support of this proposed constitutional amendment, local governments will not actively pursue passage of their initiative which contains similar protections. The agreement also states the Administration's intent to seek another realignment of State and county programs in FY 2006-07.

Finally, beginning in FY 2006-07, the State will begin paying counties and other local governments for the backlog of unreimbursed State mandates in installments over five fiscal years. The Governor also pledged to pay interest to counties and cities on the $1.3 billion VLF "gap" loan that will be repaid in FY 2006-07.

Under the agreement, each type of local government is allowed to determine how it will make its contribution. For counties, the contribution will be based upon their VLF share which is essentially on a per capita basis. Cities are considering an allocation method that will be one-third VLF, one-third property tax and one-third sales tax. Special districts have not announced the method they will use, but preliminary indications are that fire, library and hospital districts will be exempt, resulting in much of the burden on enterprise special districts – sewer, water, and refuse collection – that have the ability to raise fees without voter approval.

COUNTY IMPACT

In the short term, the County will contribute $103 million of the $350 million two-year contribution by counties. In return for the approximately $650 million in VLF backfill revenue that the County will surrender, it will receive approximately $550 million in property taxes in each of the first two years, after which the full VLF loss will be restored with an additional $103 million in property taxes. In addition, in FY 2006-07 the State will reimburse local governments for the discretionary VLF revenue they did not receive this year due to the gap between the termination of the backfill and the imposition of the full 2 percent rate, which will provide the County with a one-time payment of approximately $200 million. Finally, in FY 2006-07, the State will begin to reimburse local governments for their deferred mandate payments which for the County will amount to $35 million to $40 million for five years. As noted above, some of the County's special districts will be required to contribute some of their property taxes to schools, but the special districts have not determined an allocation formula. Therefore, we cannot estimate the impact.

As for some of the County's other major budget priorities – TANF/Juvenile Probation funding, AB 3632 mental health services for special education children and the Federal Child Support Penalty – there is no change in the Governor's January recommendation to allow TANF funding for juvenile probation to expire at the end of October 2004. However, the Governor did propose a $31 million increase in AB 3632 funding to $100 million which could fund as much as 80 percent of the cost of the program.

The Administration did not change its position to make counties pay 25 percent of the child support penalty, because they are not far enough along in their negotiations with the Federal Government to be sure that the penalty will be waived. However, they have promised to eliminate the county contribution if the negotiations are successful. Finally, it appears the State has reached an agreement with the Federal Government related to Food Stamp penalty relief.

The Governor's January Proposed Budget would have resulted in an estimated loss of $472.3 million to the County. The May Revision is estimated to reduce the loss to $273.2 million. Details of the estimated impact of the Governor's May Revision on the County are shown in the attached table.

BUDGET HIGHLIGHTS

Based on a preliminary analysis, the following appear to be the main programmatic impacts of the May Revision.

General Government

SB 90 State Mandates. Continues the reimbursement deferral, but commits to a repayment of past reimbursements over a five-year period starting in FY 2006-07. In addition, the Administration will seek major reform of the mandate process.

Public Libraries. Calls for a three percent reduction in Public Library Foundation funding of $1.4 million, as well as a new need-based allocation formula to replace the per capita formula.

Health

Healthy Families Program. Rescinds the January proposal's enrollment caps and tiered benefits, but proposes to increase premiums.

Medi-Cal Redesign. Removes the Medi-Cal Redesign effort from the FY 2004-05 budget process and declares its intent to submit a Federal Medicaid waiver proposal, and requisite statutory changes to the Legislature on August 2, 2004. The Administration has added stabilization of safety net hospital financing to its list of objectives for Medi-Cal Redesign which also includes program simplification, tiered benefit structures, co-payments, and expansion of managed care.

Alternative Medi-Cal Savings. Proposes $267.2 million in various alternative Medi-Cal savings to replace various eligibility caps in programs such as Healthy Families and California Children's Services. Among the alternative savings are quarterly Medi-Cal eligibility reconciliation of persons determined ineligible by counties, but still on the State's database ($9 million), reconciliation of the State and Los Angeles County eligibility records ($33 million), and a one-week delay in the Medi-Cal checkwrite from FY 2004-05 to FY 2005-06 ($143 million).

Medi-Cal Provider Rate Reductions. Proposes restoration of the additional 10 percent provider rate reduction at a cost of $947 million. The previous 5 percent reduction, which is in litigation, would be maintained.

Health Program Caps. Proposes to eliminate eligibility and enrollment caps recommended in January for the AIDS Drug Assistance Program, Healthy Families, California Children's Services, the Genetically Handicapped Persons Program, and Medi-Cal for immigrants.

Proposition 99. Projects Proposition 99 revenues to increase by approximately $8.2 million, and proposes to augment the following programs: Breast Cancer Early Detection ($1.7 million), Competitive Grants ($411,000), Local Lead Agencies ($432,000), Anti-Tobacco Media Campaign ($418,000), and the California Healthcare for Indigents Program ($611,000).

Medical Marijuana. Includes $983,000 to establish and implement the Medical Marijuana Identification Card Program and registry.

AIDS Drug Assistance Program. Increases the AIDS Drug Assistance Program by $27 million over the Governor's January Budget, for a total of $234.2 million, to fully address projected caseload and eliminate proposed enrollment caps.

West Nile Virus. Includes approximately $1 million for the development of a long-term strategic plan and program for West Nile Virus surveillance, prevention, and control.

Mental Health

Early Periodic Screening, Diagnosis, and Treatment Program (EPSDT). Reduces program funding by $43.9 million to reflect revised caseload projections and proposes to increase the county share of costs from 10 percent to 20 percent while promising to seek additional Federal reimbursement to offset the higher-match requirement. Preliminary estimates indicate this will cost the County $5.1 million.

Proposition 99. Provides $5.9 million in Proposition 99 funds for population growth in State psychiatric hospitals.

AB 3632 Mental Health Services for Special Education Students. Sets aside an additional $31 million for a total of $100 million in Federal Individuals with Disabilities Education Act (IDEA) funds for mental health services for special education students. The additional funds will increase reimbursement to the County from approximately $14 million to $20 million. The Administration will work with the Legislature to: 1) encourage cost containment; 2) outline clear roles and responsibilities for local agencies and mental health providers; 3) distinguish "educationally necessary" treatment from "medically necessary" treatment; 4) address quality control issues; and (5) allow flexibility for providers, in accordance with professional standards, to alter frequency and duration of treatments based on the pupil's response.

Children's System of Care. Continues the elimination of the program for a savings of $20 million.

Social Services

Child Care. Includes additional funding to continue subsidized child care for 11 and 12 year olds not likely to receive before and after-school care. Elements of the proposal include: elimination of the two-year restriction for families pursuing education and requiring child care extensions; a tiered reimbursement rate structure; and a transition of families in Stage 3 CalWORKs to the Alternative Payment Program with no loss or time-limit to services. Former CalWORKs families in Stage 1 and 2 not receiving cash aid as of June 30, 2004 will be eligible to receive Stage 3 for up to two years, and families in Stages 2 and 3 still receiving CalWORKs cash aid as of June 30, 2004 will be eligible for one year in Stage 3 child care.

CalWORKs Grant. Maintains the proposal to reduce CalWORKs grants by 5 percent to save $178 million, and the proposal to tighten work participation requirements and reduce grants for noncompliant participants and participants reaching time-limits, for an additional savings of $26.4 million.

CalWORKs Cost-of-Living-Adjustment (COLA). Maintains the proposal to save $98.5 million by suspending the July 2004 grant COLA.

CalWORKs Job Search. Maintains the proposal to make optional the requirement that applicants begin job search activities immediately, even prior to eligibility verification.

IHSS. Provides a General Fund increase of $88.8 million in FY 2003-04 due to the delay in eliminating the Residual Program and an increase of $135.2 million in

FY 2004-05 to pursue a Federal Independence Plus Waiver for the IHSS Residual Program in lieu of its elimination. Provides for a decrease of $14 million in FY 2004-05 resulting from proposed implementation of an IHSS Quality Assurance Initiative to improve the quality of IHSS needs assessments and reduce over utilization of service hours.

The Administration maintains other proposals to limit the State share-of-cost for provider wages and benefits to the minimum wage, make optional the requirement that counties establish an employer of record for providers, and make optional the requirement that counties maintain IHSS Advisory Committees.

Immigrant Programs. Restores $6.6 million to rescind the proposal to combine funding for four immigrant related programs into a block grant, allowing full benefits to continue.

Food Stamp Sanction Penalties. According to the California Health and Human Services Agency, the State has been successful in obtaining administrative relief from the Federal Government for FFY 2001 and FFY 2002 penalties of $174.9 million.

Transitional Food Stamps Program. Withdraws the January proposal to discontinue funding for the Transitional Food Stamps Program and provides an increase of $1.2 million in FY 2003-04 and $3.5 million in FY 2004-05.

Temporary Assistance for Needy Families (TANF). Transfers $20 million from TANF to the Department of Health Services to restore funding for Community Challenge Grants which seek to promote responsible parenting and reduce the number of teenage and unintended pregnancies.

Child Welfare Services (CWS). Eliminates the existing 30 percent non-Federal county share-of-cost waiver for the CWS Augmentation, forcing counties to pay the 30 percent for a savings of $17.1 million, including the impact of a reduction in the Federal discount rate. The cost to the County is approximately $5.1 million.

Foster Care. Provides details of the foster care reforms discussed in the January Budget, including: 1) strategies to establish equity in foster care payments and standardized rates paid for Foster Family Agencies (FFAs); 2) stronger incentives for relatives to commit to adoption and guardianship; 3) reduction in the administrative requirement for redetermination of Federal foster care eligibility from every six months to annually, with no effect on child welfare services or social worker activities; and 4) a series of audit reforms designed to improve the level of services for children placed in Group Homes and FFAs. These reforms are expected to save $15.2 million.

The Administration projects General Fund savings of $17.3 million in FY 2004-05 due to a reduced caseload in Foster Family Homes, Group Homes, and FFAs, for a total savings of $32.5 million.

County Share of Child Support Collections. Maintains the proposal to eliminate the county share of child support collections in lieu of further reductions to the Child Support Program.

Child Support. Provides an increase of $8.2 million General Fund in FY 2004-05, mostly for interface modifications to local automation systems needed to achieve Federal certification for the statewide child support automation system.

Justice and Public Safety

Government Exemption from Civil Court Filing Fees. Proposes elimination of this exemption which is estimated to affect only 2,315 filings per year and cost local governments an estimated $312,000. The impact on the County is being determined.

Elimination of Juror Pay for Governmental Employees. Estimates a savings of $2.3 million.

Sexually Violent Predators. Increases funding by $218,000 for community treatment programs for sexually violent predators.

COPS. Calls for trailer bill language to require Citizens Option for Public Safety funds to first cover mandated costs associated with the Peace Officer Procedural Bill of Rights. Late yesterday, the Administration indicated that it will not pursue this proposal.

Court Security. Increases funding for court security contracts with Sheriffs by $28.8 million. This is not new money, but reflects what Sheriffs are expected to bill the courts.

Southern California Wildfires. Proposes to reduce the FY 2003-04 Budget by $28.1 million and FY 2004-05 Budget by $4.1 million due to new estimates of damage and a new assessment of program eligibility at the Federal level.

Transportation

Proposition 42 Suspension. Proposes to change the suspension of Proposition 42 funding to a loan and to accelerate the repayment of the outstanding General Fund obligations using anticipated one-time tribal gaming revenue.

Traffic Congestion Relief Program. Includes $163 million in expenditures for projects with existing allocations, subject to evaluation by the Business, Transportation and Housing Agency based on economic impact and job creation, the movement of goods, and leveraging of local, Federal and private funds.

Resources and Environmental Protection

Drinking Water. Proposes an additional $10.1 million from Proposition 13 bond funds for CALFED Bay-Delta Program projects to improve drinking water quality, raising the total for CALFED in the FY 2004-05 Budget to $381 million.

We will continue to keep you advised.

DEJ:GK
MAL:JR:ib

Attachment

c: Executive Officer, Board of Supervisors
County Counsel
Local 660
All Department Heads
Legislative Strategist
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

ESTIMATED LOSS TO LOS ANGELES COUNTY
FROM THE GOVERNOR'S PROPOSED FY 04-05 BUDGET
(Dollars in Millions)

		January	May Revise
Property Tax Shift/Loss		$289.0	$103.0
Probation: Elimination of TANF Funding Effective October 31, 2004*		55.3	53.3
DCFS: Group Home Placement for 1,000 Probation Camp Youths		19.2	19.2
Probation: CYA Fee for 1,034 New Commitments Due to Camp Closures		1.2	1.2
Mandate Reimbursements: Indefinite Deferral		41.0	35.0
Public Works: Suspension of Proposition 42 Transportation Funds		18.0	18.0
Federal Child Support Penalty		11.0	11.0
County Share of Child Support Collections: DPSS/DCFS		6.4	6.4
EPSDT: Increased Share of Costs			5.1
Child Welfare Services: Loss of Waiver			5.1
Medi-Cal Administration: COLA Limit		5.4	5.4
Children's System of Care: Elimination		4.8	4.8
VLF: Elimination of Realignment Backfill for Trailers		3.7	3.7
Medi-Cal: Provider Rate Reduction: Community Health Plan		1.9	0
AG: High Risk Pest Exclusion		1.2	1.2
Sheriff: Booking Fees Eliminated		.8	.8
Property Tax Shift: Special Districts		13.4	?**
Flood Control District	9.70		
Library District	2.50		
Garbage Districts	.75		
Waterworks Districts	.25		
Lighting Districts	.20		
Total Loss		**$472.3**	**273.2**

*Full year impact in FY 2005-06 would be an $83 million loss.
**Unknown until special districts determine allocation formula.

This table represents the loss or deferral (in the case of Mandate Reimbursement) of State funds based upon the Governor's January Budget and May Revision. It does not reflect the actual impact on the County or a department's budget which may assume a different level of State funding or be able to offset lost revenue.