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From: William T Fujioka
Chief Executive Officer

STATE BUDGET – PRELIMINARY ANALYSIS OF THE GOVERNOR'S FY 2012-13 PROPOSED BUDGET AND POTENTIAL IMPACT ON THE COUNTY

OVERVIEW

On January 5, 2012, Governor Jerry Brown released his $137.3 billion FY 2012-13 Proposed Budget, which includes $92.6 billion in State General Fund expenditures. The spending plan projects a deficit of $4.1 billion in the current year and $5.1 billion in FY 2012-13 for a total deficit of $9.2 billion through June 30, 2013. The Governor proposes to solve the 18-month deficit through a combination of: 1) expenditure reductions ($4.2 billion); 2) temporary tax increases and other revenues ($4.7 billion); and 3) other solutions including borrowing and repayment extensions ($1.4 billion). The Governor's Budget establishes a modest reserve of $1.1 billion.

The Governor's Budget plan attempts to achieve a balanced approach between expenditure reductions and temporary increases in taxes; **however, of the proposed $4.2 billion in expenditure reductions, approximately 70.0 percent of his reductions ($2.8 billion) is attributed to proposals that would have a direct impact on counties and the residents we serve, including major cuts to health and human services programs ($2.0 billion) and the suspension or repeal of State mandated programs ($828.3 million).**

In releasing his Proposed Budget, the Governor noted that when he entered office in December 2010, the State was facing a $26.6 billion budget deficit in FY 2011-12 and future deficits of $20.0 billion annually. He acknowledged that the significant reduction in the current year deficit was achieved through the enactment of $16.0 billion in funding reductions. This consisted primarily in reductions to health and human services programs, and the enactment of the 2011 Public Safety Realignment which shifted responsibility for various public safety, mental health, substance abuse treatment, child welfare, and adult protective services programs from the State to counties. The

Governor's Budget retains the FY 2011-12 reductions and includes $4.2 billion in additional reductions for FY 2012-13.

The Governor's Budget relies on voter approval of his November 2012 Ballot Initiative which he estimates would generate approximately $6.9 billion in revenue through temporary increases in the State Sales and User Tax and personal income taxes for persons earning over $250,000. **Absent voter approval, the Governor's Budget proposes to enact an additional $5.3 billion in trigger cuts including $4.8 billion to education.**

Estimated County Impact

Based on a preliminary analysis of the information available at this time, **we estimate that the County would experience a net loss of $16.9 million from the proposed expenditure reductions. However, approximately half of the Governor's Budget cuts affect health and human services programs ($2.0 billion) and would have a major impact on County residents.** This office is currently working with affected departments and will provide a complete impact analysis once additional details of the Governor's Budget are released.

Attachment I provides the estimated fiscal impact of the Governor's expenditure reduction proposals by program and Attachment II illustrates the impact of the Governor's proposals by program.

Expenditure Reductions

The Governor's Budget proposes to address $4.2 billion of the $9.2 billion State deficit through the enactment of major expenditure reductions over the next 18 months, including:

Statewide Impact	Major Expenditure Reductions
$ 946.2 million	Reduction to the CalWORKs Program
$ 842.3 million	Savings Achieved from Merging Service Delivery for Dual Eligible Medi-Cal/Medicare Beneficiaries, Medi-Cal Managed Care Enrollment and Other Changes
$ 828.3 million	Suspension, Repeal, or Making Permissive State Mandates
$ 544.4 million	Adjustments to Proposition 98 (K-12 Education) Funding
$ 446.9 million	Reduction to Child Care
$ 329.7 million	Reduction to the Cal Grant Program and Other Education Reductions
$ 163.8 million	Reduction to In-Home Supportive Services
$ 86.9 million	Reduction to the Healthy Families Managed Care Rates and Other Health and Human Services Reductions

The following reductions would significantly impact the County:

- **CalWORKs** - Proposes a statewide reduction of $1.4 billion which includes a net $946.2 million reduction in FY 2012-13 as a result of the proposed significant and complex changes to the program that include: 1) restructuring the program into two components, CalWORKs Basic and CalWORKs Plus; 2) retroactive eligibility determinations; 3) time-limit clock stopper and sanction changes; 4) implementing a 27.0 percent reduction to child-only grants; and 5) other key changes.

  The Department of Public Social Services (DPSS) estimates that this proposal could result in a CalWORKs Program loss of approximately $302.8 million in FY 2012-13. This proposal will affect the vast majority of the 179,000 families, including 342,000 children, in the County who will experience a loss of CalWORKs benefits. In addition, there may be an administrative impact to DPSS.

- **State Mandates** - Proposes a $728.8 million reduction from the suspension, repeal, or making permissive State mandates to local governments except those related to law enforcement or property taxes. **Based on information currently available, the suspension of State mandates would result in an estimated County loss of $16.5 million in FY 2012-13.**

  The Governor's Budget also proposes the deferral of pre-2004 mandate payment obligations totaling $99.5 million. This would be accomplished by deferring the FY 2012-13 payment for costs incurred by counties prior to FY 2004-05, which is statutorily required to be fully paid by FY 2020-21. **Based on information currently available, the deferral of the pre-2004 mandate payment would result in an estimated County loss of $13.0 million in FY 2012-13.**

Other Budget Solutions

The Governor's Budget proposal assumes voter approval of his November 2012 Ballot Initiative which he estimates would generate approximately $6.9 billion in State revenue through a temporary 0.5 cent increase in the State Sales and Use Tax and a temporary increase in the income tax rates for persons earning over $250,000. After accounting for the Proposition 98 funding guarantee to education, the tax increases are expected to provide $4.4 billion to the State General Fund. The taxes would expire on December 31, 2016. The Governor's measure also would lock in existing sales and vehicle tax revenues and provide constitutional protections for the 2011 Public Safety Realignment funding for counties. The Governor's Budget solutions also include $1.4 billion in additional revenues from special funds, loan repayment extensions, interest payments and additional fees as follows:

Statewide Impact	Other Budget Solutions
$ 4.4 billion	Sales Tax and Personal Income Tax Increases
$ 630.5 million	Loan Repayment Extensions
$ 417.0 million	Use the Unemployment Compensation Fund to Pay Interest on the Federal Unemployment Insurance Loan
$ 349.5 million	Additional Weight Fee Revenues
$ 161.8 million	Gross Premiums Insurance Tax on Medi-Cal Managed Care Plans
$ 88.8 million	Other General Fund Revenues
$ 34.5 million	Suspension of the County Share of Child Support Collections

Juvenile Justice Realignment

The Governor's Budget proposes to continue ongoing efforts to realign juvenile justice responsibilities from the State to counties. **Beginning January 1, 2013, the Division of Juvenile Justice (DJJ) would cease accepting new commitments, with all youthful offenders remaining locally.** The Governor's Budget proposes to allocate $10.0 million to counties in FY 2011-12 to plan for the transfer. As a result of this proposal, the Governor's Budget would delay the collection of increased fees from counties for DJJ placements enacted as part of the FY 2011-12 State Budget Act trigger reductions.

Proposed Trigger Reductions

The Governor's Budget proposal includes $5.4 billion in triggered budget reductions which would be enacted if the November 2012 Ballot Initiative to increase revenues fails to pass. If enacted, the triggered reductions would go into effect on January 1, 2013, and primarily impact K-12 schools, higher education, the courts, and State public safety programs:

Statewide Impact	Major Expenditure Reductions
$ 4.8 billion	Reduction to K-12 Schools and Community Colleges
$ 200.0 million	Reduction to University of California
$ 200.0 million	Reduction to California State University
$ 125.0 million	Reduction to Courts
$ 15.0 million	Reduction to State Department of Forestry and Fire Protection
$ 6.6 million	Reduction to State Department of Water Resources
$ 3.5 million	Reduction to State Department of Fish and Game
$ 2.0 million	Reduction to State Department of Parks and Recreation
$ 1.0 million	Reduction to State Department of Justice

While there would be no direct fiscal impact to the County from the triggered budget reductions, there may be operational and programmatic impact to various County departments if the cuts are enacted.

Attachment III provides detailed information on the proposed trigger reductions.

2011 Public Safety Realignment

The Governor's Budget proposal notes the Administration's plan to pursue constitutional protections and funding guarantees for counties, and the proposed funding structure for the 2011 Public Safety Realignment (Attachment IV).

- **Constitutional Protections** - Restates the Administration's commitment to ensuring constitutional guarantees are in place to protect the revenue dedicated to the 2011 Public Safety Realignment and to protect counties from new and future costs to the realigned programs as stipulated in the Governor's November 2012 Ballot Initiative.

- **Funding** - Assumes continued funding for the 2011 Public Safety Realignment from the two State sources identified in the FY 2011-12 State Budget Act of 1.0625 percent of State Sales Tax revenue and a specified portion of the Vehicle License Fees. The Governor's Budget projects statewide funding levels for the 2011 Public Safety Realignment of $5.8 billion for FY 2012-13 to $6.7 billion in FY 2014-15.

- **Funding Structure** - Proposes a permanent funding structure and outlines general principles related to base and growth funding, transferability and reserve accounting.

Future Realignment

The Governor's Budget proposal does not recommend the realignment of additional programs at this time; however, the Administration indicates that the budget plan lays the foundation for further realignment and notes that the CalWORKs and Child Care Programs restructuring emphasizes support for those individuals who meet Federal work requirements and that counties will be leaders in implementing these changes. The Proposed Budget also indicates that as the State implements Federal health care reform, there will be a natural shift of health care costs from the county indigent health care system to Medi-Cal. Therefore, the Administration indicates that it will make sense for the State to assume more responsibility for health care funding, while shifting other programs to the local level.

Redevelopment Proposal

On December 29, 2011, the California Supreme Court upheld ABX1 26 of 2011, which eliminated Redevelopment Agencies (RDAs), and invalidated ABX1 27 of 2011, which would have created Voluntary Alternative Redevelopment Programs. As a result of this ruling, RDAs will be dissolved on February 1, 2012.

The Governor's Budget proposal assumes that this action will provide approximately $1.05 billion in additional property tax revenue for K-14 schools which will offset a portion of the State's Proposition 98 General Fund obligation to education. Additional property tax revenues are estimated to provide:

- $340.0 million for counties;
- $220.0 million for cities; and
- $170.0 million for special districts.

The Governor's Budget proposal also assumes these amounts will increase as property tax values increase and RDA debts are retired. Additional revenues will also be distributed in the next several years as RDA assets are monetized.

We will continue to keep you advised.

WTF:RA
MR:IGEA: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 2012-13 GOVERNOR'S BUDGET PROPOSALS

	Governor's Budget Proposals
Health	
Dual Medi-Cal and Medicare Eligibles	TBD [1]
Mental Health	
County Beds for Civil Commitments Adjustment Rate	(8,000,000)
Social Services	
CalWORKs Program Reductions and Restructuring [2]	TBD [1]
Savings from IHSS Program Reductions	32,000,000 [3]
Child Support Services Collections Suspension	(11,360,000) [4]
Public Safety	
Juvenile Justice Realignment	TBD [1]
General Government	
Suspension or Repeal of Most SB 90 Mandate Claims	(16,500,000)
Delay of Deferred Mandate Payments (Prior to FY 2004-05)	(13,000,000)
TOTAL	($16,860,000)

Notes:

(1) Chief Executive Office is working with appropriate departments to assess the County impact of this proposal.

(2) CalWORKs reductions include: 1) Restructuring the program into two components, CalWORKs Basic and CalWORKs Plus; and 2) 27.0 percent reduction to child-only grants; among other key changes. These reductions would result in a loss of approximately $302.8 million in benefits and services to CalWORKs recipients, which may also have an additional impact on DPSS administration.

(3) Estimate reflects County share of the statewide IHSS Program Reductions which include savings from the elimination of domestic and related services for consumers living in a shared living arrangement; and minors living with an able and available parent.

(4) Estimate reflects loss of $3.86 million from State recoupment collections and loss of Federal match of $7.5 million.

This table represents the estimated loss/gain of State funds based upon the Governor's FY 2012-13 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 2012-13 PROPOSED BUDGET

Health

Dual Eligibles. The Governor's Budget proposes a series of initiatives to improve care coordination for persons receiving both Medi-Cal and Medicare to be phased in over a three-year period beginning January 1, 2013 for savings of $678.8 million in FY 2012-13 and $1.0 billion in FY 2013-14. The Administration estimates that there are 1.2 million dual eligibles in California, and that the majority of the 423,000 In-Home Supportive Services (IHSS) recipients are dual eligible beneficiaries, and represent some of the most expensive and medically complicated cases. The Governor's proposal would:

- **Promote Coordinated Care** – Provide managed care plans with a blended payment consisting of Federal, State, and county funding for the delivery of the full array of health and social services to dual eligible beneficiaries.

- **Enhance the Quality of Home and Community-Based Services** – 1) Coordinate medical services within the full continuum of long-term care services, including IHSS, Community-Based Adult Services, and nursing home services; 2) Merge long-term care services into managed care to increase access to home and community-based care to allow beneficiaries to remain in their own homes and out of institutions; and 3) Coordinate with behavioral health services when necessary.

In year one, IHSS and other community-based services, and nursing home care funded by Medi-Cal, would become managed care benefits. The IHSS Program would continue to operate as it currently does, except all authorized IHSS benefits would be included in managed care rates. Over time, managed care plans would take on increased responsibility for home and community based services, including the IHSS Program.

The Administration assumes that delivering Medi-Cal services through managed care plans would make the State the single point of entry for services to these beneficiaries and that important issues must be considered including, but not limited to: 1) consumer protections for acute, long-term care, and home and community-based services within managed care; 2) development of a uniform assessment tool for home and community-based services; and 3) consumer choice and protection when selecting an IHSS provider. The Administration would work with counties and other stakeholders to develop this proposal.

The Administration assumes that savings would be generated due to a reduction in hospitalization and nursing homes costs. However, because Medi-Cal is budgeted on a cash basis, there would be a delay in realizing these savings. To accelerate these savings in FY 2012-13, the Governor's Budget proposes a payment deferral and alignment of payments policies for all managed care counties. **This office is working**

with the Departments of Health Services, Mental Health and Public Social Services to determine the impact of this proposal to the County.

Healthy Families Shift to Medi-Cal. The Governor's Budget proposes transferring approximately 875,000 Healthy Families beneficiaries to Medi-Cal over a nine-month period beginning in October 2012. **The Department of Health Services indicates that this proposal would have a minimum impact to its department.** The Department of Mental Health (DMH) indicates that this proposal may expand eligibility for the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program to individuals between 19 and 20 years of age, and that an additional 900 clients in the County may be eligible for EPSDT. **This office is working with DMH to determine the impact of this proposal to the County.**

Mental Health

County Bed Adjustment Rate. The Governor's Budget proposes $20.0 million in State General Fund savings from an increase in the bed rates charged to counties for civil commitments of individuals needing specialized mental health services. **The Department of Mental Health estimates that this proposal would result in an additional annual cost of approximately $8.0 million.**

Public Health

AIDS Drug Assistance Program (ADAP). The Governor's Budget proposes $14.5 million in State General Fund savings by increasing the client share of cost in the ADAP to the maximum allowed under Federal law which would result in average monthly co-payments ranging from $28 to $385, depending on the client's income. **The Department of Public Health indicates that this proposal would not have a direct impact to the department, but would impact persons receiving ADAP benefits.**

Social Services

CalWORKs. The Governor's Budget proposes a statewide reduction of $1.4 billion which includes a net $946.2 million reduction in FY 2012-13 as a result of the proposed significant and complex changes to the program that include: 1) restructuring the program into two components, CalWORKs Basic and CalWORKs Plus; 2) retroactive eligibility determinations; 3) time-limit clock stopper and sanction changes; 4) implementing a 27.0 percent reduction to child-only grants; and 5) other key changes. **The Department of Public Social Services (DPSS) estimates that this proposal could result in a CalWORKs Program loss of approximately $302.8 million in FY 2012-13. This proposal will affect the vast majority of the 179,000 families, including 342,000 children, in the County who will experience a loss of CalWORKs benefits. In addition, there may be an administrative impact to DPSS.**

The major proposed changes are described below:

- **Restructure of CalWORKs Program.** Restructures the program into two components, CalWORKs Basic and CalWORKs Plus.

  - CalWORKs Basic: The CalWORKs Basic program would be similar to the existing CalWORKs Program, with the significant difference being a reduction in the time limit from 48 months to 24 months. CalWORKs recipients would be in the CalWORKs Basic Program if they are not meeting Federal work participation requirements (WPR) fully through unsubsidized employment. All supportive services, including child care, would be available to CalWORKs Basic recipients until their 24-month clock is exhausted. The CalWORKs Basic Program would take effect in October 2012, if enacted in March 2012 as proposed by the Governor.

  - CalWORKs Plus: CalWORKs recipients who are meeting the Federal WPR fully through unsubsidized employment would be in the CalWORKs Plus Program. All supportive services, including child care, would be provided through the CalWORKs Plus Program and recipients would receive a higher earned income disregard (first $200 earned and 50.0 percent of subsequent income disregarded) than in the Basic Program. The adult portion of the assistance grant would continue to be provided to CalWORKs Plus recipients for 48 months, and after this time, the adult portion of the grant is removed, although eligibility for child care and the higher income disregard would remain for the child-only case as long as the parent continues to meet the Federal WPR through unsubsidized employment.

- **Retroactive Eligibility Determinations.** Eligibility for CalWORKs Basic and CalWORKs Plus would be determined on a retroactive basis. Months of assistance already provided to existing CalWORKs recipients would count toward the 24 and 48 month time limits.

- **Time-Limit Clock Stopper and Sanction Changes.** All time-limit clock stoppers would be eliminated under this proposal, except those few required by Federal law. Although welfare-to-work exemptions would continue to be granted under CalWORKs Basic, being exempt would no longer stop the time clock. Nor would being in sanction status stop the time clock. In addition, recipients sanctioned for three cumulative months, in any 12 month period, would no longer be eligible for CalWORKs Basic, and would be moved to the new Child Maintenance Program.

This office is working with DPSS to determine the impact of the above proposals to the County.

- **CalWORKs Child-Only Grants Reduction for CalWORKs Maintenance Program.** Reduce child-only grants by 27.0 percent beginning in October 2012, decreasing the average monthly grant by about $72 per month. The Governor estimates that the grant reduction would impact approximately 296,000 families statewide. **DPSS estimates this proposal would affect approximately 91,460 families in the County**. Adult participants in the Child Maintenance Program who meet the Federal WPR and who have not exhausted 48 months of aid would be able to re-enter CalWORKs Plus.

The Governor also proposes to eliminate the temporary CalWORKs welfare-to-work exemptions for families with young children and the associated reduction in CalWORKs Single Allocation which have been in effect since FY 2009-10. The CalWORKs Single Allocation funds eligibility administration, employment services, and CalWORKs Stage One Childcare. The Governor is proposing other reductions in the Single Allocation, as a result of the proposed restructuring to the CalWORKs Program. The detail and the extent of the Governor's reduction to the Single Allocation is unknown at this time.

In-Home Supportive Services (IHSS) Reduction. The Governor's Budget proposes a statewide reduction of $163.8 million in State General Funds to IHSS by eliminating domestic and related services to persons living in shared living arrangements and minors living with an able and available parent. This reduction is estimated to impact approximately 254,000 consumers statewide beginning July 1, 2012. **DPSS estimates that over 105,000 IHSS consumers would be impacted in the County. If enacted, the reduction would result in a program reduction of approximately $180.2 million, comprised of State and Federal funding, and a net County savings of approximately $32.0 million in FY 2012-13.**

Furthermore, the Governor's Budget assumes that the 20.0 percent across-the-board trigger cut to IHSS would be implemented April 1, 2012. However, a court injunction has precluded implementation. The Proposed Budget also includes a set-aside to fully fund the IHSS Program in the event the court permanently upholds the injunction.

LEADER Replacement System. The Governor's Budget proposes to fund the LEADER Replacement System (LRS) at $35.3 million in FY 2012-13. DPSS indicates that since development and implementation of LRS is pending Federal approval, funding for FY 2012-13 would be determined when final Federal approval of the project is received and the project start date, applicable Federal financial participation rates, and cost allocation formulas have been determined.

Child Support Collections Suspension. The Governor's Budget proposes to suspend the county share of child support welfare collections in FY 2012-13 which is estimated to be $34.5 million statewide. Under this proposal, the entire non-Federal portion of child support welfare collections would be retained by the State. **The Child Support Services Department (CSSD) indicates that approximately $3.86 million of that amount would be from Los Angeles County collections. These funds are important in that they provide the basis for drawing down additional Federal matching funds at a 2:1 ratio. The $3.86 million, using an enhanced Federal**

Financial Participation Rate, results in an additional $7.5 million in Federal dollars, for a total of $11.36 million in the CSSD budget. CSSD indicates that it is working with the State Department of Child Support Services to mitigate the impact of this proposal to the County.

Child Care and Development Programs. The Governor's Budget proposes to restructure all child care and child development programs except part-time State preschool programs for a $446.9 million statewide reduction in child development programs funded from non-Proposition 98 General Fund and a $69.9 million statewide reduction in Proposition 98 General Fund expenditures for part-day State preschool by:

- Limiting subsidized child care only to those individuals who meet Federal work participation requirements, whether or not the family ever participates in the CalWORKs Program;

- Shifting the eligibility determination and payment functions for subsidized child care programs (except part-day State preschool programs) from the Alternative Payment Programs and California Department of Education (CDE) - contracted centers to the counties beginning in FY 2013-14. Counties would be allowed to contract with the existing agencies to perform the payment function. Once fully implemented, the new structure would replace the three-stage CalWORKs child care system for current and former CalWORKs recipients and replace programs already serving low-income parents with a work-based subsidized child care system administered by county welfare departments.

- Reducing the income eligibility cap for subsidized child care which would result in fewer spaces for children of low-income families; and

- Reducing the reimbursement rates paid to child care and development programs required to meet higher standards of quality as well as voucher-based programs that allow for families to select either licensed or license-exempt providers.

This office is working with the Department of Public Social Services and the CEO Office of Child Care to determine potential impact.

General Government

State Mandates. The Governor's Budget proposes a $728.8 million reduction from the suspension, repeal, or making permissive State mandates to local governments except those related to law enforcement or property taxes. **Based on information currently available, the suspension of State mandates would result in an estimated County loss of $16.5 million in FY 2012-13.**

The Governor's Budget also proposes the deferral of pre-2004 mandate obligations totaling $99.5 million. This would be accomplished by deferring the FY 2012-13 payment for costs incurred by counties prior to FY 2004-05, which is statutorily required to be fully paid by FY 2020-21. **Based on information currently available the**

deferral of the pre-2004 mandate payment would result in an estimated County loss of $13.0 million in FY 2012-13.

Economic Development

Redevelopment Agencies. The Governor's Budget proposal includes a summary of the recent California Supreme Court (Court) decision which upheld ABX1 26 of 2011, which eliminated Redevelopment Agencies (RDAs), and invalidated ABX1 27 of 2011, that would have created Voluntary Alternative Redevelopment Programs, if cities and counties elected to make voluntary payments primarily to fund schools. These payments were expected to generate $1.7 billion in Proposition 98 General Fund savings in FY 2011-12.

The California Redevelopment Association and other entities challenged both bills before the Court in the case *California Redevelopment Association et al. v. Matosantos et al.* In a ruling released on December 29, 2011, the Court upheld ABX1 26, but ruled that ABX1 27 was invalid. In accordance with the Court's order, RDAs will be dissolved on February 1, 2012. Revenues that would have been directed to the RDAs will be distributed to make pass-through payments to local agencies that they would have received under prior law and to successor agencies for retirement of the RDAs' debts and for limited administrative costs. The remaining revenues will be distributed as property taxes to cities, counties, school and community college districts and special districts under existing law.

As a result of the dissolution of RDAs, the Governor's Budget proposal estimates that approximately $1.05 billion in additional property tax revenue will be received by K-14 schools in FY 2011-12, which will offset the State's Proposition 98 General Fund obligation. Additional property tax revenues are estimated to provide:

- $340.0 million for counties;
- $220.0 million for cities; and
- $170.0 million for special districts.

According to the Governor's Budget, these amounts are expected to increase as property values increase and debts are retired. Additional revenues will also be distributed in the next several years as RDAs' assets are monetized. The CEO Operations Cluster indicates that any tax increment remaining after the payment of former RDA enforceable legal obligations, pass-through payments and limited administrative costs will be distributed to the taxing entities as property tax. At present, the annual net loss to all RDAs for the County General Fund is approximately $453.0 million. Additionally, the annual loss to RDAs for the Fire District is $51.0 million, $18.0 million for the Flood Districts and $8.5 million for the Public Library District.

The Chief Executive Office Operations Cluster indicates that the breakdown of the estimated $340.0 million by county is unknown at this time. This office will work with County Counsel and the Auditor-Controller to determine the impact of this proposal when further details are released by the Administration.

Enterprise Zone Program Reform. The Governor's Budget proposes to introduce legislation to reform the Enterprise Zone Program.

Single Sales Factor. The Governor's Budget proposes to introduce legislation to move to a mandatory single sales factor for apportioning multistate business income.

Environment and Natural Resources

State Parks Reduction. The Governor's Budget proposes a State General Fund reduction of $11.0 million to the California Department of Parks and Recreation (CDPR) in FY 2012-13. The proposed reduction, which when combined with the $11.0 million cut from FY 2011-12, achieves $22.0 million in ongoing State General Fund savings, would necessitate the closure of up to 70 parks effective July 1, 2012.

Last year, CDPR issued a list of State parks to be closed to achieve the reductions in the current year and in FY 2012-13. Five of the 70 State park units scheduled to close are located in Los Angeles County. The affected State parks are: 1) Antelope Valley Indian Museum; 2) Los Encinos State Historic Park; 3) Pio Pico State Historic Park; 4) Saddleback Butte State Park; and 5) Santa Susana Pass State Historic Park. **As previously reported, the Departments of Beaches and Harbors and Parks and Recreation indicate that the closure of State park units operated by CDPR may have an undetermined indirect impact on the County due to an expected increase in attendance at surrounding County-operated park and beach facilities which may lead to an increase in operation and maintenance costs.**

Department of Food and Agriculture Baseline Reduction. The Governor's Budget proposes a State General Fund reduction of $12.0 million to the California Department of Food and Agriculture (CDFA) in FY 2012-13, as part of a two-year effort to achieve $31.0 million in ongoing State General Fund savings. The proposal includes reductions to State border agricultural inspection stations, pest prevention, and food safety activities. Some of these activities are proposed to be backfilled by new revenue programs. The Department of Agricultural Commissioner/Weights and Measures (ACWM) indicates that this proposal includes $2.4 million in cuts that are yet to be finalized by CDFA. **According to the ACWM, while approximately $9.6 million of the cuts will not directly affect funding of County programs, the remaining $2.4 million in reductions are all but certain to come from local assistance to county agricultural commissioner departments, likely from funding for Pest Detection Programs and High Risk Pest Exclusion activities for which CDFA contracts with county agricultural commissioners.** ACWM is continuing discussions with CDFA and agricultural industry representatives to identify these reductions and minimize the potential impact to the County.

Exposition Park/California Science Center. The Governor's Budget proposes expenditure levels for the California Science Center (CSC) and the Office of Exposition Park Management (OEPM) to remain approximately even with the current year, with OEPM's expenditure level at approximately $5.7 million in FY 2012-13. The Natural History Museum (NHM) indicates that a key concern remains how much of these expenditures are to be supported by the draw-down of the Exposition Park Improvement Fund (Fund) and how much of that goes to actual Exposition Park management services as opposed to being diverted to the operations of the CSC. According to NHM, it appears the Fund will continue to decline at a rate of approximately $2.0 million a year and it seems that all of that draw-down being applied to CSC's increasing reliance on the Fund instead of on State General Funds. NHM indicates that this is both unsustainable over more than one to two more years given the Fund balance and a diversion of funds each year from funding that was to be used to support park-wide services including those that benefit NHM. **This office is working with NHM to fully determine the County impact of this proposal as further details become available.**

Consolidating, Restructuring, and Reorganizing State Government

The Governor's Budget proposes to reorganize, consolidate, and eliminate two State agencies, 39 State entities, and nine State programs. According to the Governor, the proposal would make State government less costly and more efficient, more sensible and easier to manage effectively. Recent media reports indicated that the Governor also proposes to reduce the State workforce by approximately 3,000 positions, mostly from the Department of Corrections and Rehabilitation.

The major proposals for reorganization of interest to the County would:

- Eliminate the California Department of Boating and Waterways, transferring the functions into the California Department of Parks and Recreation;
- Eliminate the Commission on the Status of Women;
- Reduce the number of Regional Water Boards from nine to eight, as well as, reducing the number of members on the boards from nine to seven;
- Consolidate CalTrans, the Department of Motor Vehicles, the High Speed Rail Authority, the California Highway Patrol, the California Transportation Commission and the Board of Pilot Commissioners into a new Transportation Agency;
- Consolidate the Departments of Consumer Affairs, Housing and Community Development, Fair Employment and Housing, Alcoholic Beverage Control, and the newly restructured Department of Business Oversight into a new Business and Consumer Services Agency;
- Transfer the functions of the California Housing Finance Agency to the Department of Housing and Community Development; and
- Transfer the Infrastructure Bank, the Film and Tourism Commissions, the Small Business Centers and the Small Business Guarantee Loan Program to the Governor's Office of Business and Economic Development.

Attachment III

PROPOSED TRIGGERED BUDGET REDUCTIONS

The Governor's Budget proposes $5.4 billion in triggered budget reductions that would be enacted if his November 2012 Ballot Initiative to increase revenues fails to pass. If enacted, the triggered reductions would go into effect on January 1, 2013 and primarily impact K-12 schools, higher education, the courts, and State public safety programs. While there would be no direct fiscal impact to the County of the triggered budget reductions, there may be operational and programmatic impact to various County departments if the triggered cuts are enacted.

The trigger cuts outlined in the Governor's proposal include:

- **K-12 Schools and Community Colleges.** $4.8 billion reduction to K-12 schools and community colleges. A reduction of this magnitude would be equivalent to a reduction of three weeks of school and would generate State General Fund savings through the reduction in the Proposition 98 minimum funding guarantee for education. The Budget also proposes to continue to provide 20.0 percent of program funds in arrears.

- **Higher Education.** $400.0 million cut to the University of California and California State University systems.

- **Courts.** $125.0 million reduction in funding to the courts, which would be the equivalent of three days of court closures per month. **The impact to County departments would be dependent on how the Los Angeles Superior Court chooses to implement the cut.**

- **CAL FIRE.** $15.0 million reduction to the State Department of Forestry and Fire Protection. This cut would reduce the State's fire fighting capabilities and result in the closure of fire stations and a reduction in emergency air response.

- **Flood Control.** $6.6 million reduction to the State Department of Water Resources for flood control resulting in reduced channel and levee maintenance and floodplain mapping. **According to the Department of Public Works, there would be no direct fiscal impact to the County from this reduction.**

- **Fish and Game.** $3.5 million reduction to the Department of Fish and Game. This reduction would result in a 20.0 percent reduction in the number of game wardens within the Department and reductions in non-warden programs such as the Marine Life Protection Act and fish and wildlife monitoring and management programs.

- **Parks and Recreation.** $2.0 million reduction to the State Department of Parks and Recreation resulting in a 20.0 percent reduction in the number of park rangers at State-run park facilities as well as the elimination of lifeguards at all State-operated beaches.

- **Department of Justice.** $1.0 million reduction to the Department of Justice's Division of Law Enforcement.

2011 PUBLIC SAFETY REALIGNMENT AND PROPOSED FUNDING STRUCTURE

The Governor's Budget discusses 2011 Public Safety Realignment and includes proposals for: 1) the pursuit of the November 2012 Ballot Initiative on constitutional protections for realignment funding; 2) allocation of funds; and 3) the overall funding structure. The Budget does not include any cuts to or additional programmatic responsibilities for the realigned programs.

- **Constitutional Protections.** Restates the Administration's commitment to ensuring constitutional guarantees are in place to protect the revenue dedicated to the 2011 Public Safety Realignment and protects counties from new and future costs to the realigned programs. The Governor's November 2012 Ballot Initiative includes these constitutional protections coupled with proposed tax increases to be dedicated to education.

- **2011 Public Safety Realignment Funding.** Assumes continued funding for the 2011 Public Safety Realignment from the two State sources identified in the FY 2011-12 State Budget Act – 1.0625 percent of State Sales Tax revenue and a portion of the Vehicle License Fees (VLF). For FY 2011-12, the Governor's Budget includes revised estimates of $5.1 billion from State Sales Tax and $462.1 million from VLF for a total of $5.6 billion. The Governor's Budget also projects funding levels of $5.8 billion in FY 2012-13 increasing to $6.7 billion in FY 2014-15. (See Attachment IV-A)

- **Funding Structure.** Proposes a permanent funding structure for the 2011 Public Safety Realignment and outlines general principles related to base and growth funding, transferability and reserve accounting. The proposed structure includes the following key elements:

    - **Account Structure:** Creates two main accounts – a Support Services Account and a Law Enforcement Services Account – with various subaccounts in each. (See Attachment IV-B)

    - **Base Funding:** Base funding for each subaccount should not experience a year-over-year decrease. A statutory mechanism will be needed to deal with the possibility of a year's base being short due to reduced revenues.

    - **Growth Funding:** Funding for program growth should be distributed proportionally among accounts and subaccounts. Within subaccounts, federally required programs should receive priority for funding as warranted by caseload and costs.

- **Transferability:** Counties should have the ability to transfer a maximum of 10.0 percent of the lesser subaccount between subaccounts within the Support Services Account. Beginning in FY 2015-16, a local option should be available to transfer a portion of the growth among subaccounts within the Law Enforcement Services Account. Transfers should be for one year only and not increase the base of any program.

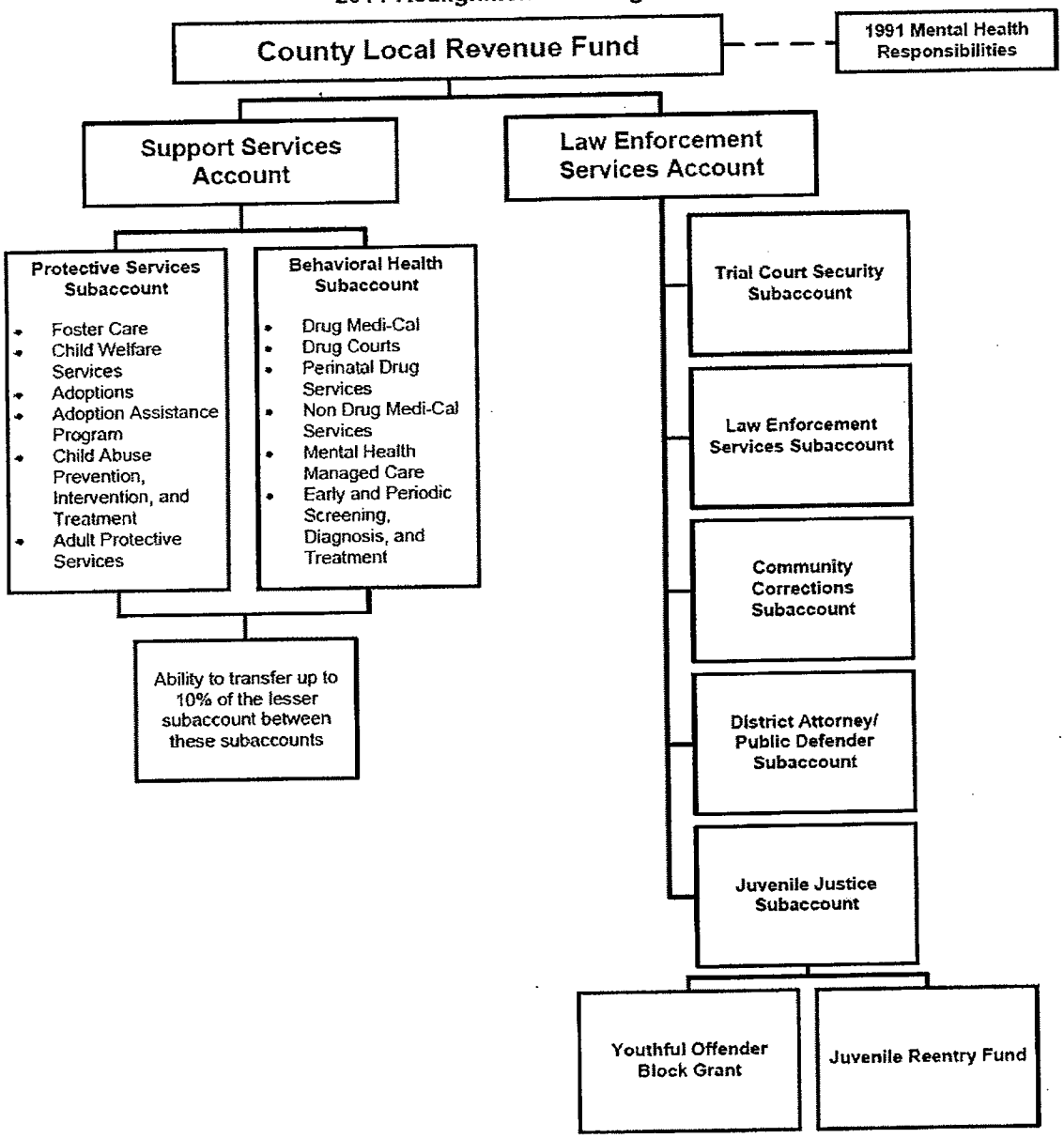
- **Reserve Account:** A Reserve Account should be established when Sales and Use Tax revenues exceed a specified threshold.

- **Funding Allocation Formula.** The Governor's Budget discusses the current allocation methodology for the realigned public safety programs noting that the FY 2011-12 allocation formula was identified for nine months only and that the Administration will continue to work with the California State Association of Counties to determine the realignment allocation methodology for FY 2012-13 and beyond.

2011 Realignment Funding
($ in millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	$496.4	$496.4	$496.4	$496.4
Local Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	957.0	-	-	-
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs.	262.6	-	-	-
Mental Health Services				
EPSDT	-	544.0	544.0	544.0
Mental Health Managed Care	-	188.8	188.8	188.8
Existing Community Mental Health Programs	1,104.8	1,164.4	1,164.4	1,164.4
Substance Abuse Treatment	179.7	179.7	179.7	179.7
Foster Care and Child Welfare Services	1,562.1	1,562.1	1,562.1	1,562.1
Adult Protective Services	54.6	54.6	54.6	54.6
Existing Juvenile Justice Realignment	95.0	98.8	100.4	101.3
Program Cost Growth	-	180.1	443.6	988.8
Total	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**
Vehicle License Fee Funds	462.1	496.3	491.9	491.9
1.0625% Sales Tax	5,107.0	5,320.1	5,748.0	6,228.0
Total Revenues	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**

2011 Realignment Funding Structure



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WILLIAM T FUJIOKA
Chief Executive Officer

January 10, 2012

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

STATE BUDGET – PRELIMINARY ANALYSIS OF THE GOVERNOR'S FY 2012-13 PROPOSED BUDGET AND POTENTIAL IMPACT ON THE COUNTY

OVERVIEW

On January 5, 2012, Governor Jerry Brown released his $137.3 billion FY 2012-13 Proposed Budget, which includes $92.6 billion in State General Fund expenditures. The spending plan projects a deficit of $4.1 billion in the current year and $5.1 billion in FY 2012-13 for a total deficit of $9.2 billion through June 30, 2013. The Governor proposes to solve the 18-month deficit through a combination of: 1) expenditure reductions ($4.2 billion); 2) temporary tax increases and other revenues ($4.7 billion); and 3) other solutions including borrowing and repayment extensions ($1.4 billion). The Governor's Budget establishes a modest reserve of $1.1 billion.

The Governor's Budget plan attempts to achieve a balanced approach between expenditure reductions and temporary increases in taxes; **however, of the proposed $4.2 billion in expenditure reductions, approximately 70.0 percent of his reductions ($2.8 billion) is attributed to proposals that would have a direct impact on counties and the residents we serve, including major cuts to health and human services programs ($2.0 billion) and the suspension or repeal of State mandated programs ($828.3 million).**

In releasing his Proposed Budget, the Governor noted that when he entered office in December 2010, the State was facing a $26.6 billion budget deficit in FY 2011-12 and future deficits of $20.0 billion annually. He acknowledged that the significant reduction in the current year deficit was achieved through the enactment of $16.0 billion in funding reductions. This consisted primarily in reductions to health and human services programs, and the enactment of the 2011 Public Safety Realignment which shifted responsibility for various public safety, mental health, substance abuse treatment, child welfare, and adult protective services programs from the State to counties. The

Governor's Budget retains the FY 2011-12 reductions and includes $4.2 billion in additional reductions for FY 2012-13.

The Governor's Budget relies on voter approval of his November 2012 Ballot Initiative which he estimates would generate approximately $6.9 billion in revenue through temporary increases in the State Sales and User Tax and personal income taxes for persons earning over $250,000. **Absent voter approval, the Governor's Budget proposes to enact an additional $5.3 billion in trigger cuts including $4.8 billion to education.**

Estimated County Impact

Based on a preliminary analysis of the information available at this time, **we estimate that the County would experience a net loss of $16.9 million from the proposed expenditure reductions. However, approximately half of the Governor's Budget cuts affect health and human services programs ($2.0 billion) and would have a major impact on County residents.** This office is currently working with affected departments and will provide a complete impact analysis once additional details of the Governor's Budget are released.

Attachment I provides the estimated fiscal impact of the Governor's expenditure reduction proposals by program and Attachment II illustrates the impact of the Governor's proposals by program.

Expenditure Reductions

The Governor's Budget proposes to address $4.2 billion of the $9.2 billion State deficit through the enactment of major expenditure reductions over the next 18 months, including:

Statewide Impact	Major Expenditure Reductions
$ 946.2 million	Reduction to the CalWORKs Program
$ 842.3 million	Savings Achieved from Merging Service Delivery for Dual Eligible Medi-Cal/Medicare Beneficiaries, Medi-Cal Managed Care Enrollment and Other Changes
$ 828.3 million	Suspension, Repeal, or Making Permissive State Mandates
$ 544.4 million	Adjustments to Proposition 98 (K-12 Education) Funding
$ 446.9 million	Reduction to Child Care
$ 329.7 million	Reduction to the Cal Grant Program and Other Education Reductions
$ 163.8 million	Reduction to In-Home Supportive Services
$ 86.9 million	Reduction to the Healthy Families Managed Care Rates and Other Health and Human Services Reductions

The following reductions would significantly impact the County:

- **CalWORKs -** Proposes a statewide reduction of $1.4 billion which includes a net $946.2 million reduction in FY 2012-13 as a result of the proposed significant and complex changes to the program that include: 1) restructuring the program into two components, CalWORKs Basic and CalWORKs Plus; 2) retroactive eligibility determinations; 3) time-limit clock stopper and sanction changes; 4) implementing a 27.0 percent reduction to child-only grants; and 5) other key changes.

  The Department of Public Social Services (DPSS) estimates that this proposal could result in a CalWORKs Program loss of approximately $302.8 million in FY 2012-13. This proposal will affect the vast majority of the 179,000 families, including 342,000 children, in the County who will experience a loss of CalWORKs benefits. In addition, there may be an administrative impact to DPSS.

- **State Mandates -** Proposes a $728.8 million reduction from the suspension, repeal, or making permissive State mandates to local governments except those related to law enforcement or property taxes. **Based on information currently available, the suspension of State mandates would result in an estimated County loss of $16.5 million in FY 2012-13.**

  The Governor's Budget also proposes the deferral of pre-2004 mandate payment obligations totaling $99.5 million. This would be accomplished by deferring the FY 2012-13 payment for costs incurred by counties prior to FY 2004-05, which is statutorily required to be fully paid by FY 2020-21. **Based on information currently available, the deferral of the pre-2004 mandate payment would result in an estimated County loss of $13.0 million in FY 2012-13.**

Other Budget Solutions

The Governor's Budget proposal assumes voter approval of his November 2012 Ballot Initiative which he estimates would generate approximately $6.9 billion in State revenue through a temporary 0.5 cent increase in the State Sales and Use Tax and a temporary increase in the income tax rates for persons earning over $250,000. After accounting for the Proposition 98 funding guarantee to education, the tax increases are expected to provide $4.4 billion to the State General Fund. The taxes would expire on December 31, 2016. The Governor's measure also would lock in existing sales and vehicle tax revenues and provide constitutional protections for the 2011 Public Safety Realignment funding for counties. The Governor's Budget solutions also include $1.4 billion in additional revenues from special funds, loan repayment extensions, interest payments and additional fees as follows:

Statewide Impact	Other Budget Solutions
$ 4.4 billion	Sales Tax and Personal Income Tax Increases
$ 630.5 million	Loan Repayment Extensions
$ 417.0 million	Use the Unemployment Compensation Fund to Pay Interest on the Federal Unemployment Insurance Loan
$ 349.5 million	Additional Weight Fee Revenues
$ 161.8 million	Gross Premiums Insurance Tax on Medi-Cal Managed Care Plans
$ 88.8 million	Other General Fund Revenues
$ 34.5 million	Suspension of the County Share of Child Support Collections

Juvenile Justice Realignment

The Governor's Budget proposes to continue ongoing efforts to realign juvenile justice responsibilities from the State to counties. **Beginning January 1, 2013, the Division of Juvenile Justice (DJJ) would cease accepting new commitments, with all youthful offenders remaining locally.** The Governor's Budget proposes to allocate $10.0 million to counties in FY 2011-12 to plan for the transfer. As a result of this proposal, the Governor's Budget would delay the collection of increased fees from counties for DJJ placements enacted as part of the FY 2011-12 State Budget Act trigger reductions.

Proposed Trigger Reductions

The Governor's Budget proposal includes $5.4 billion in triggered budget reductions which would be enacted if the November 2012 Ballot Initiative to increase revenues fails to pass. If enacted, the triggered reductions would go into effect on January 1, 2013, and primarily impact K-12 schools, higher education, the courts, and State public safety programs:

Statewide Impact	Major Expenditure Reductions
$ 4.8 billion	Reduction to K-12 Schools and Community Colleges
$ 200.0 million	Reduction to University of California
$ 200.0 million	Reduction to California State University
$ 125.0 million	Reduction to Courts
$ 15.0 million	Reduction to State Department of Forestry and Fire Protection
$ 6.6 million	Reduction to State Department of Water Resources
$ 3.5 million	Reduction to State Department of Fish and Game
$ 2.0 million	Reduction to State Department of Parks and Recreation
$ 1.0 million	Reduction to State Department of Justice

While there would be no direct fiscal impact to the County from the triggered budget reductions, there may be operational and programmatic impact to various County departments if the cuts are enacted.

Attachment III provides detailed information on the proposed trigger reductions.

2011 Public Safety Realignment

The Governor's Budget proposal notes the Administration's plan to pursue constitutional protections and funding guarantees for counties, and the proposed funding structure for the 2011 Public Safety Realignment (Attachment IV).

- **Constitutional Protections** - Restates the Administration's commitment to ensuring constitutional guarantees are in place to protect the revenue dedicated to the 2011 Public Safety Realignment and to protect counties from new and future costs to the realigned programs as stipulated in the Governor's November 2012 Ballot Initiative.

- **Funding** - Assumes continued funding for the 2011 Public Safety Realignment from the two State sources identified in the FY 2011-12 State Budget Act of 1.0625 percent of State Sales Tax revenue and a specified portion of the Vehicle License Fees. The Governor's Budget projects statewide funding levels for the 2011 Public Safety Realignment of $5.8 billion for FY 2012-13 to $6.7 billion in FY 2014-15.

- **Funding Structure** - Proposes a permanent funding structure and outlines general principles related to base and growth funding, transferability and reserve accounting.

Future Realignment

The Governor's Budget proposal does not recommend the realignment of additional programs at this time; however, the Administration indicates that the budget plan lays the foundation for further realignment and notes that the CalWORKs and Child Care Programs restructuring emphasizes support for those individuals who meet Federal work requirements and that counties will be leaders in implementing these changes. The Proposed Budget also indicates that as the State implements Federal health care reform, there will be a natural shift of health care costs from the county indigent health care system to Medi-Cal. Therefore, the Administration indicates that it will make sense for the State to assume more responsibility for health care funding, while shifting other programs to the local level.

Redevelopment Proposal

On December 29, 2011, the California Supreme Court upheld ABX1 26 of 2011, which eliminated Redevelopment Agencies (RDAs), and invalidated ABX1 27 of 2011, which would have created Voluntary Alternative Redevelopment Programs. As a result of this ruling, RDAs will be dissolved on February 1, 2012.

The Governor's Budget proposal assumes that this action will provide approximately $1.05 billion in additional property tax revenue for K-14 schools which will offset a portion of the State's Proposition 98 General Fund obligation to education. Additional property tax revenues are estimated to provide:

- $340.0 million for counties;
- $220.0 million for cities; and
- $170.0 million for special districts.

The Governor's Budget proposal also assumes these amounts will increase as property tax values increase and RDA debts are retired. Additional revenues will also be distributed in the next several years as RDA assets are monetized.

We will continue to keep you advised.

WTF:RA
MR:IGEA: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 2012-13 GOVERNOR'S BUDGET PROPOSALS

	Governor's Budget Proposals
Health	
Dual Medi-Cal and Medicare Eligibles	TBD [1]
Mental Health	
County Beds for Civil Commitments Adjustment Rate	(8,000,000)
Social Services	
CalWORKs Program Reductions and Restructuring [2]	TBD [1]
Savings from IHSS Program Reductions	32,000,000 [3]
Child Support Services Collections Suspension	(11,360,000) [4]
Public Safety	
Juvenile Justice Realignment	TBD [1]
General Government	
Suspension or Repeal of Most SB 90 Mandate Claims	(16,500,000)
Delay of Deferred Mandate Payments (Prior to FY 2004-05)	(13,000,000)
TOTAL	($16,860,000)

Notes:

(1) Chief Executive Office is working with appropriate departments to assess the County impact of this proposal.

(2) CalWORKs reductions include: 1) Restructuring the program into two components, CalWORKs Basic and CalWORKs Plus; and 2) 27.0 percent reduction to child-only grants; among other key changes. These reductions would result in a loss of approximately $302.8 million in benefits and services to CalWORKs recipients, which may also have an additional impact on DPSS administration.

(3) Estimate reflects County share of the statewide IHSS Program Reductions which include savings from the elimination of domestic and related services for consumers living in a shared living arrangement; and minors living with an able and available parent.

(4) Estimate reflects loss of $3.86 million from State recoupment collections and loss of Federal match of $7.5 million.

This table represents the estimated loss/gain of State funds based upon the Governor's FY 2012-13 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 2012-13 PROPOSED BUDGET

Health

Dual Eligibles. The Governor's Budget proposes a series of initiatives to improve care coordination for persons receiving both Medi-Cal and Medicare to be phased in over a three-year period beginning January 1, 2013 for savings of $678.8 million in FY 2012-13 and $1.0 billion in FY 2013-14. The Administration estimates that there are 1.2 million dual eligibles in California, and that the majority of the 423,000 In-Home Supportive Services (IHSS) recipients are dual eligible beneficiaries, and represent some of the most expensive and medically complicated cases. The Governor's proposal would:

- **Promote Coordinated Care** – Provide managed care plans with a blended payment consisting of Federal, State, and county funding for the delivery of the full array of health and social services to dual eligible beneficiaries.

- **Enhance the Quality of Home and Community-Based Services** – 1) Coordinate medical services within the full continuum of long-term care services, including IHSS, Community-Based Adult Services, and nursing home services; 2) Merge long-term care services into managed care to increase access to home and community-based care to allow beneficiaries to remain in their own homes and out of institutions; and 3) Coordinate with behavioral health services when necessary.

In year one, IHSS and other community-based services, and nursing home care funded by Medi-Cal, would become managed care benefits. The IHSS Program would continue to operate as it currently does, except all authorized IHSS benefits would be included in managed care rates. Over time, managed care plans would take on increased responsibility for home and community based services, including the IHSS Program.

The Administration assumes that delivering Medi-Cal services through managed care plans would make the State the single point of entry for services to these beneficiaries and that important issues must be considered including, but not limited to: 1) consumer protections for acute, long-term care, and home and community-based services within managed care; 2) development of a uniform assessment tool for home and community-based services; and 3) consumer choice and protection when selecting an IHSS provider. The Administration would work with counties and other stakeholders to develop this proposal.

The Administration assumes that savings would be generated due to a reduction in hospitalization and nursing homes costs. However, because Medi-Cal is budgeted on a cash basis, there would be a delay in realizing these savings. To accelerate these savings in FY 2012-13, the Governor's Budget proposes a payment deferral and alignment of payments policies for all managed care counties. **This office is working**

with the Departments of Health Services, Mental Health and Public Social Services to determine the impact of this proposal to the County.

Healthy Families Shift to Medi-Cal. The Governor's Budget proposes transferring approximately 875,000 Healthy Families beneficiaries to Medi-Cal over a nine-month period beginning in October 2012. **The Department of Health Services indicates that this proposal would have a minimum impact to its department.** The Department of Mental Health (DMH) indicates that this proposal may expand eligibility for the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program to individuals between 19 and 20 years of age, and that an additional 900 clients in the County may be eligible for EPSDT. **This office is working with DMH to determine the impact of this proposal to the County.**

Mental Health

County Bed Adjustment Rate. The Governor's Budget proposes $20.0 million in State General Fund savings from an increase in the bed rates charged to counties for civil commitments of individuals needing specialized mental health services. **The Department of Mental Health estimates that this proposal would result in an additional annual cost of approximately $8.0 million.**

Public Health

AIDS Drug Assistance Program (ADAP). The Governor's Budget proposes $14.5 million in State General Fund savings by increasing the client share of cost in the ADAP to the maximum allowed under Federal law which would result in average monthly co-payments ranging from $28 to $385, depending on the client's income. **The Department of Public Health indicates that this proposal would not have a direct impact to the department, but would impact persons receiving ADAP benefits.**

Social Services

CalWORKs. The Governor's Budget proposes a statewide reduction of $1.4 billion which includes a net $946.2 million reduction in FY 2012-13 as a result of the proposed significant and complex changes to the program that include: 1) restructuring the program into two components, CalWORKs Basic and CalWORKs Plus; 2) retroactive eligibility determinations; 3) time-limit clock stopper and sanction changes; 4) implementing a 27.0 percent reduction to child-only grants; and 5) other key changes. **The Department of Public Social Services (DPSS) estimates that this proposal could result in a CalWORKs Program loss of approximately $302.8 million in FY 2012-13. This proposal will affect the vast majority of the 179,000 families, including 342,000 children, in the County who will experience a loss of CalWORKs benefits. In addition, there may be an administrative impact to DPSS.**

The major proposed changes are described below:

- **Restructure of CalWORKs Program.** Restructures the program into two components, CalWORKs Basic and CalWORKs Plus.

  - CalWORKs Basic: The CalWORKs Basic program would be similar to the existing CalWORKs Program, with the significant difference being a reduction in the time limit from 48 months to 24 months. CalWORKs recipients would be in the CalWORKs Basic Program if they are not meeting Federal work participation requirements (WPR) fully through unsubsidized employment. All supportive services, including child care, would be available to CalWORKs Basic recipients until their 24-month clock is exhausted. The CalWORKs Basic Program would take effect in October 2012, if enacted in March 2012 as proposed by the Governor.

  - CalWORKs Plus: CalWORKs recipients who are meeting the Federal WPR fully through unsubsidized employment would be in the CalWORKs Plus Program. All supportive services, including child care, would be provided through the CalWORKs Plus Program and recipients would receive a higher earned income disregard (first $200 earned and 50.0 percent of subsequent income disregarded) than in the Basic Program. The adult portion of the assistance grant would continue to be provided to CalWORKs Plus recipients for 48 months, and after this time, the adult portion of the grant is removed, although eligibility for child care and the higher income disregard would remain for the child-only case as long as the parent continues to meet the Federal WPR through unsubsidized employment.

- **Retroactive Eligibility Determinations.** Eligibility for CalWORKs Basic and CalWORKs Plus would be determined on a retroactive basis. Months of assistance already provided to existing CalWORKs recipients would count toward the 24 and 48 month time limits.

- **Time-Limit Clock Stopper and Sanction Changes.** All time-limit clock stoppers would be eliminated under this proposal, except those few required by Federal law. Although welfare-to-work exemptions would continue to be granted under CalWORKs Basic, being exempt would no longer stop the time clock. Nor would being in sanction status stop the time clock. In addition, recipients sanctioned for three cumulative months, in any 12 month period, would no longer be eligible for CalWORKs Basic, and would be moved to the new Child Maintenance Program.

This office is working with DPSS to determine the impact of the above proposals to the County.

- **CalWORKs Child-Only Grants Reduction for CalWORKs Maintenance Program.** Reduce child-only grants by 27.0 percent beginning in October 2012, decreasing the average monthly grant by about $72 per month. The Governor estimates that the grant reduction would impact approximately 296,000 families statewide. **DPSS estimates this proposal would affect approximately 91,460 families in the County**. Adult participants in the Child Maintenance Program who meet the Federal WPR and who have not exhausted 48 months of aid would be able to re-enter CalWORKs Plus.

The Governor also proposes to eliminate the temporary CalWORKs welfare-to-work exemptions for families with young children and the associated reduction in CalWORKs Single Allocation which have been in effect since FY 2009-10. The CalWORKs Single Allocation funds eligibility administration, employment services, and CalWORKs Stage One Childcare. The Governor is proposing other reductions in the Single Allocation, as a result of the proposed restructuring to the CalWORKs Program. The detail and the extent of the Governor's reduction to the Single Allocation is unknown at this time.

In-Home Supportive Services (IHSS) Reduction. The Governor's Budget proposes a statewide reduction of $163.8 million in State General Funds to IHSS by eliminating domestic and related services to persons living in shared living arrangements and minors living with an able and available parent. This reduction is estimated to impact approximately 254,000 consumers statewide beginning July 1, 2012. **DPSS estimates that over 105,000 IHSS consumers would be impacted in the County. If enacted, the reduction would result in a program reduction of approximately $180.2 million, comprised of State and Federal funding, and a net County savings of approximately $32.0 million in FY 2012-13.**

Furthermore, the Governor's Budget assumes that the 20.0 percent across-the-board trigger cut to IHSS would be implemented April 1, 2012. However, a court injunction has precluded implementation. The Proposed Budget also includes a set-aside to fully fund the IHSS Program in the event the court permanently upholds the injunction.

LEADER Replacement System. The Governor's Budget proposes to fund the LEADER Replacement System (LRS) at $35.3 million in FY 2012-13. DPSS indicates that since development and implementation of LRS is pending Federal approval, funding for FY 2012-13 would be determined when final Federal approval of the project is received and the project start date, applicable Federal financial participation rates, and cost allocation formulas have been determined.

Child Support Collections Suspension. The Governor's Budget proposes to suspend the county share of child support welfare collections in FY 2012-13 which is estimated to be $34.5 million statewide. Under this proposal, the entire non-Federal portion of child support welfare collections would be retained by the State. **The Child Support Services Department (CSSD) indicates that approximately $3.86 million of that amount would be from Los Angeles County collections. These funds are important in that they provide the basis for drawing down additional Federal matching funds at a 2:1 ratio. The $3.86 million, using an enhanced Federal**

Financial Participation Rate, results in an additional $7.5 million in Federal dollars, for a total of $11.36 million in the CSSD budget. CSSD indicates that it is working with the State Department of Child Support Services to mitigate the impact of this proposal to the County.

Child Care and Development Programs. The Governor's Budget proposes to restructure all child care and child development programs except part-time State preschool programs for a $446.9 million statewide reduction in child development programs funded from non-Proposition 98 General Fund and a $69.9 million statewide reduction in Proposition 98 General Fund expenditures for part-day State preschool by:

- Limiting subsidized child care only to those individuals who meet Federal work participation requirements, whether or not the family ever participates in the CalWORKs Program;

- Shifting the eligibility determination and payment functions for subsidized child care programs (except part-day State preschool programs) from the Alternative Payment Programs and California Department of Education (CDE) - contracted centers to the counties beginning in FY 2013-14. Counties would be allowed to contract with the existing agencies to perform the payment function. Once fully implemented, the new structure would replace the three-stage CalWORKs child care system for current and former CalWORKs recipients and replace programs already serving low-income parents with a work-based subsidized child care system administered by county welfare departments.

- Reducing the income eligibility cap for subsidized child care which would result in fewer spaces for children of low-income families; and

- Reducing the reimbursement rates paid to child care and development programs required to meet higher standards of quality as well as voucher-based programs that allow for families to select either licensed or license-exempt providers.

This office is working with the Department of Public Social Services and the CEO Office of Child Care to determine potential impact.

General Government

State Mandates. The Governor's Budget proposes a $728.8 million reduction from the suspension, repeal, or making permissive State mandates to local governments except those related to law enforcement or property taxes. **Based on information currently available, the suspension of State mandates would result in an estimated County loss of $16.5 million in FY 2012-13.**

The Governor's Budget also proposes the deferral of pre-2004 mandate obligations totaling $99.5 million. This would be accomplished by deferring the FY 2012-13 payment for costs incurred by counties prior to FY 2004-05, which is statutorily required to be fully paid by FY 2020-21. **Based on information currently available the**

deferral of the pre-2004 mandate payment would result in an estimated County loss of $13.0 million in FY 2012-13.

Economic Development

Redevelopment Agencies. The Governor's Budget proposal includes a summary of the recent California Supreme Court (Court) decision which upheld ABX1 26 of 2011, which eliminated Redevelopment Agencies (RDAs), and invalidated ABX1 27 of 2011, that would have created Voluntary Alternative Redevelopment Programs, if cities and counties elected to make voluntary payments primarily to fund schools. These payments were expected to generate $1.7 billion in Proposition 98 General Fund savings in FY 2011-12.

The California Redevelopment Association and other entities challenged both bills before the Court in the case *California Redevelopment Association et al. v. Matosantos et al.* In a ruling released on December 29, 2011, the Court upheld ABX1 26, but ruled that ABX1 27 was invalid. In accordance with the Court's order, RDAs will be dissolved on February 1, 2012. Revenues that would have been directed to the RDAs will be distributed to make pass-through payments to local agencies that they would have received under prior law and to successor agencies for retirement of the RDAs' debts and for limited administrative costs. The remaining revenues will be distributed as property taxes to cities, counties, school and community college districts and special districts under existing law.

As a result of the dissolution of RDAs, the Governor's Budget proposal estimates that approximately $1.05 billion in additional property tax revenue will be received by K-14 schools in FY 2011-12, which will offset the State's Proposition 98 General Fund obligation. Additional property tax revenues are estimated to provide:

- $340.0 million for counties;
- $220.0 million for cities; and
- $170.0 million for special districts.

According to the Governor's Budget, these amounts are expected to increase as property values increase and debts are retired. Additional revenues will also be distributed in the next several years as RDAs' assets are monetized. The CEO Operations Cluster indicates that any tax increment remaining after the payment of former RDA enforceable legal obligations, pass-through payments and limited administrative costs will be distributed to the taxing entities as property tax. At present, the annual net loss to all RDAs for the County General Fund is approximately $453.0 million. Additionally, the annual loss to RDAs for the Fire District is $51.0 million, $18.0 million for the Flood Districts and $8.5 million for the Public Library District.

The Chief Executive Office Operations Cluster indicates that the breakdown of the estimated $340.0 million by county is unknown at this time. This office will work with County Counsel and the Auditor-Controller to determine the impact of this proposal when further details are released by the Administration.

Enterprise Zone Program Reform. The Governor's Budget proposes to introduce legislation to reform the Enterprise Zone Program.

Single Sales Factor. The Governor's Budget proposes to introduce legislation to move to a mandatory single sales factor for apportioning multistate business income.

Environment and Natural Resources

State Parks Reduction. The Governor's Budget proposes a State General Fund reduction of $11.0 million to the California Department of Parks and Recreation (CDPR) in FY 2012-13. The proposed reduction, which when combined with the $11.0 million cut from FY 2011-12, achieves $22.0 million in ongoing State General Fund savings, would necessitate the closure of up to 70 parks effective July 1, 2012.

Last year, CDPR issued a list of State parks to be closed to achieve the reductions in the current year and in FY 2012-13. Five of the 70 State park units scheduled to close are located in Los Angeles County. The affected State parks are: 1) Antelope Valley Indian Museum; 2) Los Encinos State Historic Park; 3) Pio Pico State Historic Park; 4) Saddleback Butte State Park; and 5) Santa Susana Pass State Historic Park. **As previously reported, the Departments of Beaches and Harbors and Parks and Recreation indicate that the closure of State park units operated by CDPR may have an undetermined indirect impact on the County due to an expected increase in attendance at surrounding County-operated park and beach facilities which may lead to an increase in operation and maintenance costs.**

Department of Food and Agriculture Baseline Reduction. The Governor's Budget proposes a State General Fund reduction of $12.0 million to the California Department of Food and Agriculture (CDFA) in FY 2012-13, as part of a two-year effort to achieve $31.0 million in ongoing State General Fund savings. The proposal includes reductions to State border agricultural inspection stations, pest prevention, and food safety activities. Some of these activities are proposed to be backfilled by new revenue programs. The Department of Agricultural Commissioner/Weights and Measures (ACWM) indicates that this proposal includes $2.4 million in cuts that are yet to be finalized by CDFA. **According to the ACWM, while approximately $9.6 million of the cuts will not directly affect funding of County programs, the remaining $2.4 million in reductions are all but certain to come from local assistance to county agricultural commissioner departments, likely from funding for Pest Detection Programs and High Risk Pest Exclusion activities for which CDFA contracts with county agricultural commissioners.** ACWM is continuing discussions with CDFA and agricultural industry representatives to identify these reductions and minimize the potential impact to the County.

Exposition Park/California Science Center. The Governor's Budget proposes expenditure levels for the California Science Center (CSC) and the Office of Exposition Park Management (OEPM) to remain approximately even with the current year, with OEPM's expenditure level at approximately $5.7 million in FY 2012-13. The Natural History Museum (NHM) indicates that a key concern remains how much of these expenditures are to be supported by the draw-down of the Exposition Park Improvement Fund (Fund) and how much of that goes to actual Exposition Park management services as opposed to being diverted to the operations of the CSC. According to NHM, it appears the Fund will continue to decline at a rate of approximately $2.0 million a year and it seems that all of that draw-down being applied to CSC's increasing reliance on the Fund instead of on State General Funds. NHM indicates that this is both unsustainable over more than one to two more years given the Fund balance and a diversion of funds each year from funding that was to be used to support park-wide services including those that benefit NHM. **This office is working with NHM to fully determine the County impact of this proposal as further details become available.**

Consolidating, Restructuring, and Reorganizing State Government

The Governor's Budget proposes to reorganize, consolidate, and eliminate two State agencies, 39 State entities, and nine State programs. According to the Governor, the proposal would make State government less costly and more efficient, more sensible and easier to manage effectively. Recent media reports indicated that the Governor also proposes to reduce the State workforce by approximately 3,000 positions, mostly from the Department of Corrections and Rehabilitation.

The major proposals for reorganization of interest to the County would:

- Eliminate the California Department of Boating and Waterways, transferring the functions into the California Department of Parks and Recreation;
- Eliminate the Commission on the Status of Women;
- Reduce the number of Regional Water Boards from nine to eight, as well as, reducing the number of members on the boards from nine to seven;
- Consolidate CalTrans, the Department of Motor Vehicles, the High Speed Rail Authority, the California Highway Patrol, the California Transportation Commission and the Board of Pilot Commissioners into a new Transportation Agency;
- Consolidate the Departments of Consumer Affairs, Housing and Community Development, Fair Employment and Housing, Alcoholic Beverage Control, and the newly restructured Department of Business Oversight into a new Business and Consumer Services Agency;
- Transfer the functions of the California Housing Finance Agency to the Department of Housing and Community Development; and
- Transfer the Infrastructure Bank, the Film and Tourism Commissions, the Small Business Centers and the Small Business Guarantee Loan Program to the Governor's Office of Business and Economic Development.

Attachment III

PROPOSED TRIGGERED BUDGET REDUCTIONS

The Governor's Budget proposes $5.4 billion in triggered budget reductions that would be enacted if his November 2012 Ballot Initiative to increase revenues fails to pass. If enacted, the triggered reductions would go into effect on January 1, 2013 and primarily impact K-12 schools, higher education, the courts, and State public safety programs. While there would be no direct fiscal impact to the County of the triggered budget reductions, there may be operational and programmatic impact to various County departments if the triggered cuts are enacted.

The trigger cuts outlined in the Governor's proposal include:

- **K-12 Schools and Community Colleges.** $4.8 billion reduction to K-12 schools and community colleges. A reduction of this magnitude would be equivalent to a reduction of three weeks of school and would generate State General Fund savings through the reduction in the Proposition 98 minimum funding guarantee for education. The Budget also proposes to continue to provide 20.0 percent of program funds in arrears.

- **Higher Education.** $400.0 million cut to the University of California and California State University systems.

- **Courts.** $125.0 million reduction in funding to the courts, which would be the equivalent of three days of court closures per month. **The impact to County departments would be dependent on how the Los Angeles Superior Court chooses to implement the cut.**

- **CAL FIRE.** $15.0 million reduction to the State Department of Forestry and Fire Protection. This cut would reduce the State's fire fighting capabilities and result in the closure of fire stations and a reduction in emergency air response.

- **Flood Control.** $6.6 million reduction to the State Department of Water Resources for flood control resulting in reduced channel and levee maintenance and floodplain mapping. **According to the Department of Public Works, there would be no direct fiscal impact to the County from this reduction.**

- **Fish and Game.** $3.5 million reduction to the Department of Fish and Game. This reduction would result in a 20.0 percent reduction in the number of game wardens within the Department and reductions in non-warden programs such as the Marine Life Protection Act and fish and wildlife monitoring and management programs.

- **Parks and Recreation.** $2.0 million reduction to the State Department of Parks and Recreation resulting in a 20.0 percent reduction in the number of park rangers at State-run park facilities as well as the elimination of lifeguards at all State-operated beaches.

- **Department of Justice.** $1.0 million reduction to the Department of Justice's Division of Law Enforcement.

2011 PUBLIC SAFETY REALIGNMENT AND PROPOSED FUNDING STRUCTURE

The Governor's Budget discusses 2011 Public Safety Realignment and includes proposals for: 1) the pursuit of the November 2012 Ballot Initiative on constitutional protections for realignment funding; 2) allocation of funds; and 3) the overall funding structure. The Budget does not include any cuts to or additional programmatic responsibilities for the realigned programs.

- **Constitutional Protections.** Restates the Administration's commitment to ensuring constitutional guarantees are in place to protect the revenue dedicated to the 2011 Public Safety Realignment and protects counties from new and future costs to the realigned programs. The Governor's November 2012 Ballot Initiative includes these constitutional protections coupled with proposed tax increases to be dedicated to education.

- **2011 Public Safety Realignment Funding.** Assumes continued funding for the 2011 Public Safety Realignment from the two State sources identified in the FY 2011-12 State Budget Act – 1.0625 percent of State Sales Tax revenue and a portion of the Vehicle License Fees (VLF). For FY 2011-12, the Governor's Budget includes revised estimates of $5.1 billion from State Sales Tax and $462.1 million from VLF for a total of $5.6 billion. The Governor's Budget also projects funding levels of $5.8 billion in FY 2012-13 increasing to $6.7 billion in FY 2014-15. (See Attachment IV-A)

- **Funding Structure.** Proposes a permanent funding structure for the 2011 Public Safety Realignment and outlines general principles related to base and growth funding, transferability and reserve accounting. The proposed structure includes the following key elements:

    - **Account Structure:** Creates two main accounts – a Support Services Account and a Law Enforcement Services Account – with various subaccounts in each. (See Attachment IV-B)

    - **Base Funding:** Base funding for each subaccount should not experience a year-over-year decrease. A statutory mechanism will be needed to deal with the possibility of a year's base being short due to reduced revenues.

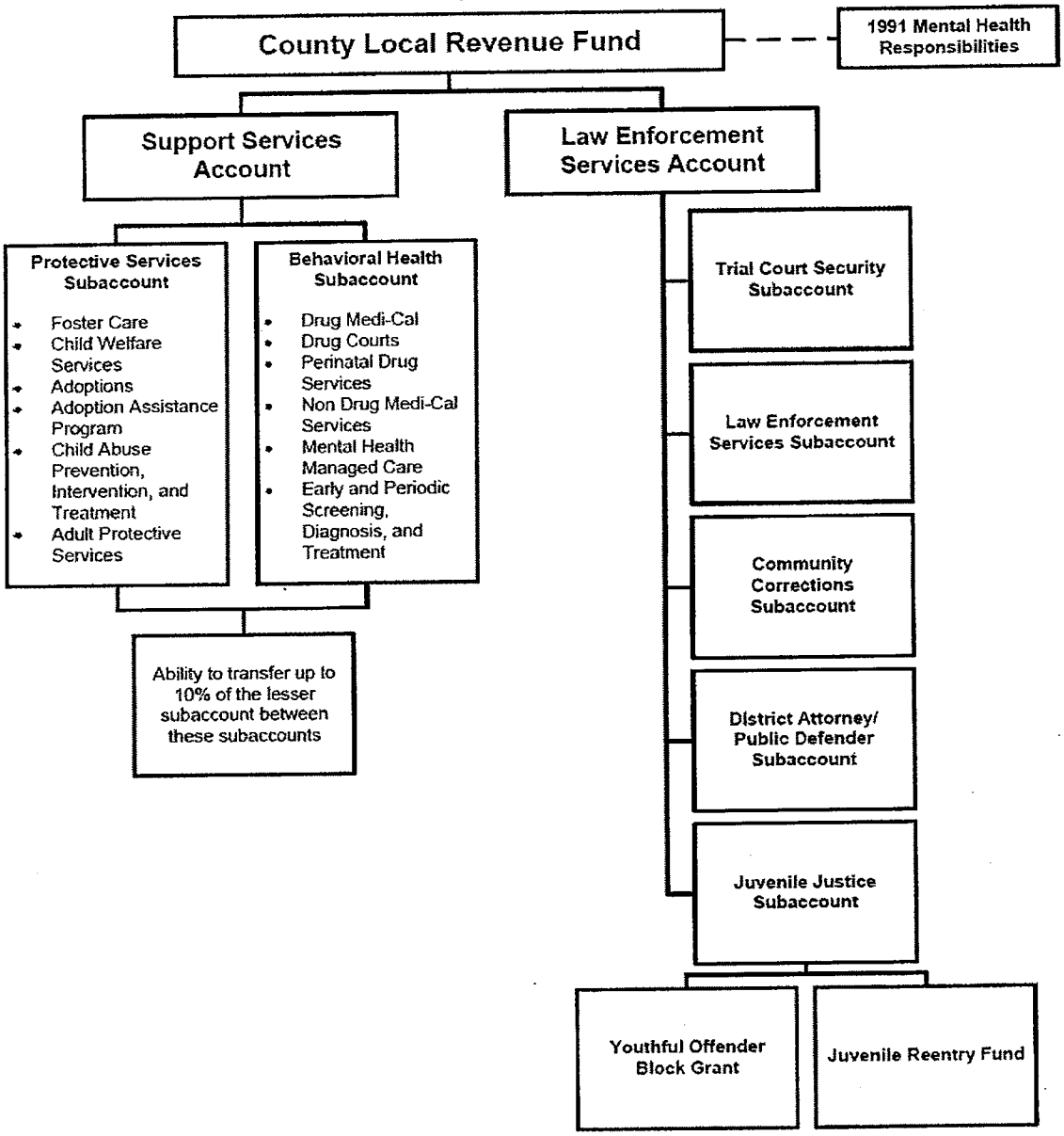
    - **Growth Funding:** Funding for program growth should be distributed proportionally among accounts and subaccounts. Within subaccounts, federally required programs should receive priority for funding as warranted by caseload and costs.

- **Transferability:** Counties should have the ability to transfer a maximum of 10.0 percent of the lesser subaccount between subaccounts within the Support Services Account. Beginning in FY 2015-16, a local option should be available to transfer a portion of the growth among subaccounts within the Law Enforcement Services Account. Transfers should be for one year only and not increase the base of any program.

- **Reserve Account:** A Reserve Account should be established when Sales and Use Tax revenues exceed a specified threshold.

- **Funding Allocation Formula.** The Governor's Budget discusses the current allocation methodology for the realigned public safety programs noting that the FY 2011-12 allocation formula was identified for nine months only and that the Administration will continue to work with the California State Association of Counties to determine the realignment allocation methodology for FY 2012-13 and beyond.

2011 Realignment Funding
($ in millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	$496.4	$496.4	$496.4	$496.4
Local Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	957.0	-	-	-
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs.	262.6	-	-	-
Mental Health Services				
EPSDT	-	544.0	544.0	544.0
Mental Health Managed Care	-	188.8	188.8	188.8
Existing Community Mental Health Programs	1,104.8	1,164.4	1,164.4	1,164.4
Substance Abuse Treatment	179.7	179.7	179.7	179.7
Foster Care and Child Welfare Services	1,562.1	1,562.1	1,562.1	1,562.1
Adult Protective Services	54.6	54.6	54.6	54.6
Existing Juvenile Justice Realignment	95.0	98.8	100.4	101.3
Program Cost Growth	-	180.1	443.6	988.8
Total	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**
Vehicle License Fee Funds	462.1	496.3	491.9	491.9
1.0625% Sales Tax	5,107.0	5,320.1	5,748.0	6,228.0
Total Revenues	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**

2011 Realignment Funding Structure