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January 12, 2009

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

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE – GOVERNOR'S FY 2009-10 PROPOSED BUDGET

Overview

On Friday, Governor Schwarzenegger released his FY 2009-10 Proposed Budget, which recommends a net decrease in State General Fund spending from $103.4 billion in FY 2008-09 to $95.5 billion in FY 2009-10. The Governor's plan characterizes the State's fiscal situation as "the most challenging budget in the State's history" because it requires quick resolution to eliminate the current year projected deficit of $14.8 billion, which, if unaddressed, could grow to $41.6 billion by the end of FY 2009-10. Despite three Extraordinary Special Sessions on the State's fiscal crisis since the enactment of the *FY 2008-09 Budget Act*, no agreement has been reached.

Estimated Impact on the County

Based on our preliminary analysis of the Governor's Proposed Budget, **we estimate that the County would lose an additional $50.5 million in FY 2008-09 and a projected $268.6 million in FY 2009-10 for a total loss of $319.1 million through June 30, 2010. In addition, if a proposal to increase the sales and use tax rate from 5 percent to 6.5 percent is enacted, we estimate the County would experience an estimated $29.4 million in additional costs.**

The FY 2008-09 major budget proposals impacting the County include:

- Juvenile Probation and Camp Funding - $13.5 million reduction;
- CalWORKs Program Grant Reductions - $13.4 million cost shift to General Relief;
- Reduced State Participation in IHSS Provider Wages - $10.8 million cost shift to the County; and
- Juvenile Justice Crime Prevention Act - $4.0 million reduction.

The FY 2009-10 major budget proposals impacting the County are:

- CalWORKs Program Grant Reductions - $80.4 million cost shift to General Relief;
- Mental Health Services Act Funds - $73.5 million reduction;
- Reduced State Participation in IHSS Provider Wages - $70.5 million cost shift to the County;
- Federal Safety Net Care Pool & South L.A. Preservation Fund - $24.4 million reduction;
- Juvenile Probation and Camp Funding - $18.6 million reduction;
- Medi-Cal Program Administration - $15.4 million reduction;
- Delay of Deferred Mandate Payments - $14.0 million reduction;
- Cash Assistance Program for Immigrants - $13.7 million cost shift to General Relief;
- Medi-Cal Optional Benefits Reductions - $5.6 million cost shift to the County;
- Medi-Cal Section 1931(b) Eligibility - $5.0 million reduction; and
- Various Public Safety Grants - $ 4.5 million reduction.

The estimated impact on the County by program is contained in Attachments I and II, and the effect of the sales and use tax proposals is explained in Attachment III.

Governor's Budget Solutions

On December 31, 2008, the Director of Finance, Mike Genest, held a press conference where he released a summary of the Governor's Proposed Budget and explained that the State's current financial condition is a product of massive and unsustainable new spending commitments which began in the late 1990s and the dramatic decline in revenues resulting from the current recession.

Mr. Genest indicated that the budget gap is too large to close through spending cuts or tax hikes alone, and that it requires a balanced approached that utilizes every type of possible solution, including major spending reductions, revenue increases, borrowing, and cash management strategies. As such, the Governor's Proposed Budget is a compilation of the Governor's previous Special Session recommendations, some Democratic and Republican ideas, and some new proposals.

The proposed solutions to address the $41.6 billion deficit include:

GOVERNOR'S PROPOSED BUDGET SOLUTIONS	
Expenditure Reductions	$ 17.4 billion
New Revenues	$ 14.2 billion
Lottery Securitization	$ 5.0 billion
Borrowing through Revenue Anticipation Warrants	$ 4.7 billion
Special Funds Borrowing	$ 0.3 billion
Total Budget Solutions	**$ 41.6 billion**

While the largest component of the Governor's proposed budget solution is $17.4 billion in expenditure reductions through the end of FY 2009-10, the plan reintroduces many of the Governor's November and December Special Session revenue proposals which previously failed to obtain legislative approval. Some of the key revenue proposals are:

- A temporary 1.5-cent increase in the State's sales and use tax rate ($9.1 billion);
- Broadening of the sales and use tax base for certain services ($1.38 billion);
- A new 9.9 percent severance tax on oil production ($1.18 billion);
- An increase to the alcohol excise tax by a per-gallon surtax equivalent to a nickel-a-drink tax ($830 million); and
- Borrowing money from various special funds ($358 million).

Another major component includes new revenue solutions such as:

- Carrying over part of the budget deficit into FY 2010-11 through the issuance of $4.7 billion in Revenue Anticipation Warrants;
- Reducing the dependent care exemption on State income tax returns from the current $309 per dependent to $103, to generate $1.44 billion;
- Elimination of the State's Proposition 10 First-5 Commission to redirect all State funds and one-half of county funds from the tobacco tax to existing children's services for a State General Fund savings of $275 million; and
- Transfer of $226.7 million from the Mental Health Services Act of 2004 (Proposition 63) to fund State costs for Mental Health Managed Care.

It is important to note that the recommendations to redirect Proposition 10 and Proposition 63 funds for other State responsibilities, and to securitize $5.0 billion in future lottery revenues, which was approved as part of the *FY 2008-09 Budget Act,* are subject to voter approval. In addition, other proposed solutions such as the $4.7 billion from the issuance of Revenue Anticipation Warrants, and the $358 million in additional borrowing from various special funds are one-time in nature and would not reduce the ongoing structural budget deficit.

Pursuit of Position On Budget Items

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

We will continue to keep you advised.

WTF:GK:ML
MR:IGA:lm

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

Attachment I

ESTIMATED IMPACT TO LOS ANGELES COUNTY FROM THE GOVERNOR'S FY 2009-10 PROPOSED BUDGET

Programs:	Adopted Budget FY 2008-09	(A) Governor's Proposed Budget FY 2008-09	(B) Governor's Proposed Budget FY 2009-10	(A + B) Total on-going County Loss (1)
Health				
Medi-Cal Provider and Managed Care Rates	($8,738,000)	$0	$0	$0
Federal Safety Net Care Pool Payments	0	0	(14,400,000)	(14,400,000)
South Los Angeles Preservation Fund	0	0	(10,000,000)	(10,000,000)
California Healthcare for Indigents Program	(5,300,000)	0	0	0
Section 1931(b) Medi-Cal Eligibility	0	(2,100,000)	(2,900,000)	(5,000,000)
Medi-Cal Eligibility for Legal Immigrants	0	(625,000)	(875,000)	(1,500,000)
Medi-Cal Optional Benefits Reductions	0	(2,300,000)	(3,300,000)	(5,600,000)
Public Health				
HIV/AIDS Treatment and Prevention	(1,200,000)	0	? (2)	? (2)
Family and Health Programs	(202,000)	0	0	0
Alcohol and Other Drug Programs / Drug Medi-Cal Program	(6,400,000)	0	0	0
Proposition 36 Program/Offender Treatment Program	(3,049,000)	0	0	0
Immunization Program	(81,000)	0	0	0
Drug Court Programs	(626,000)	0	0	0
Perinatal Substance Abuse Treatment Programs	(610,000)	0	0	0
Other Non-Medi-Cal Drug Programs	(180,000)	0	0	0
New Drug and Alcohol Prevention and Treatment Fund	0	0	? (2)	? (2)
Cigarette and Tobacco Products Surtax Fund	0	0	? (2)	? (2)
Mental Health				
Mental Health Managed Care Program	(3,800,000)	0	0	0
Institutes for Mental Disease	(6,300,000)	0	0	0
Mental Health Services Act (Proposition 63) Funds	0	0	(73,500,000) (3)	(73,500,000) (3)
Social Services				
Adult Protective Services Administration	(2,600,000)	0	0	0
Medi-Cal Program Administration	(33,400,000)	0	(15,400,000)	(15,400,000)
In-Home Supportive Services (IHSS) Administration	(5,100,000)	0	0	0
IHSS Program - Reduction of Recipient Services	0	2,300,000	11,900,000	14,200,000
Reduced State Participation in IHSS Wages	0	(10,800,000)	(59,700,000) (4)	(70,500,000) (4)
Food Stamps Administration	(6,900,000)	0	0	0
CalWORKs Program - Grant Reductions	0	(13,400,000)	(67,000,000) (5)	(80,400,000) (5)
CalWORKs Single Allocation Funding	(17,600,000)	0	0	0
Cash Assistance Program for Immigrants	0	(2,500,000)	(11,200,000)	(13,700,000)
Justice and Public Safety				
Juvenile Probation and Camp Funding	(8,000,000)	(13,500,000)	(5,100,000)	(18,600,000)
Juvenile Justice Crime Prevention Act (JJCPA) Program	(3,300,000)	(4,000,000)	100,000	(3,900,000)
Citizens Option for Public Safety (COPS) Program	(1,000,000)	(1,200,000)	271,000	(929,000)
Multi-Jurisdictional Methamphetamine Enforcement Grants	0	(425,000)	(875,000)	(1,300,000)
Other Public Safety Grants	0	(1,900,000)	(2,600,000)	(4,500,000)
General Government				
Delay of Deferred Mandate Payments	(14,000,000)	0	(14,000,000)	(14,000,000)
Public Library Fund	(182,000)	0	0	0
Subventions for Open Space (Williamson Act)	(4,000)	(40,000)	0	(40,000)
Total	**($128,572,000)**	**($50,490,000)**	**($268,579,000)**	**($319,069,000)**

Notes: (1) This column represents the total ongoing County loss if the Governor's Budget Proposals are enacted.
(2) There is insufficient data to determine the impact on the County. We are working with the State to determine the impact of this proposal.
(3) Requires voter approval for the State to shift Proposition 63 funds from counties to fund other State costs.
(4) Estimates assume the County would pay the State's share of cost of wages above $8.00 per hour. If not, the County will realize an estimated $34.8 million savings.
(5) Estimated impact represents the County cost if 50 percent of the children who lose CalWORKs benefits receive General Relief benefits.

This table represents the estimated loss/gain of State funds based upon the Governor's Proposed Budget. 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.

Attachment II

GOVERNOR'S FY 2009-10 PROPOSED BUDGET

BUDGET HIGHLIGHTS

The following is a summary of County-interest proposals contained in the Governor's Proposed Budget.

General Government

State Mandates. The Governor's Budget proposes to defer the FY 2009-10 payment of the mandates obligation for costs incurred by local governments prior to FY 2004-05. While the State is statutorily required to fully repay counties by FY 2020-21, this is the second year that the Administration recommends payment deferral, which resulted in a loss of $14.0 million to the County in FY 2008-09. If this action is approved, the County will lose an additional $14.0 million in the budget year for an estimated two-year loss of $28 million.

Subventions for Open Space Act (Williamson Act). The Governor's Budget proposes to eliminate $34.7 million in State reimbursements for the Subventions for Open Space Act (Williamson Act) Tax Relief Program in both FY 2008-09 and FY 2009-10. The Williamson Act authorizes any city or county to enter into a contract with the owner of agricultural land to preserve that land in accordance with the conditions established by the Act. This proposal would result in an estimated loss of $40,000 to the County in both FY 2008-09 and FY 2009-10.

Military and Veterans Programs. The Governor's Budget proposes an increase of $18.5 million for the California Department of Veterans Affairs for the continued activation of veterans' homes in West Los Angeles, Lancaster and Ventura. It also indicates that these homes will provide residential care, skilled nursing, memory care, and adult day health care. When fully functional, they will serve approximately 500 veterans.

Elections. The Governor's Budget does not include any reference to Statewide reimbursement for special elections conducted by counties. In its *Overview of the Governor's Budget*, the Legislative Analyst's Office (LAO) indicates that a quick election is necessary to determine if proposed solutions such as selling future California Lottery revenues to raise $5 billion or taking funds from dedicated tax streams would be approved by voters. The LAO also recommends that an election be called for April 2009 to ask voters if taxes should be raised to close the budget gap. The Registrar-Recorder indicates that there is uncertainty as to the number, size, and costs that may be associated with conducting special elections for the remainder of this fiscal year. However, the cost to the County would be significant.

Health

Federal Safety Net Care Pool Payments. The Governor's Budget proposes to shift Federal Safety Net Care Pool (SNCP) funding from public hospitals to unspecified public health programs. The Administration assumes State General Fund savings of $54.2 million in FY 2009-10. The Department of Health Services (DHS) estimates a loss of $14.4 million in SNCP payments and $10 million for the South Los Angeles Preservation Fund, for a total loss of $24.4 million in FY 2009-10.

Medi-Cal Optional Benefits. The Governor's Budget proposes to eliminate Medi-Cal optional benefits for adults, including dental, optometry, and psychological services, with estimated State General Fund expenditure reductions of $19.7 million in FY 2008-09 and $129.4 million in FY 2009-10. DHS indicates that the Department provides dental and psychological services, and to a lesser extent optometry services, in County facilities. DHS estimates cost increases of $2.3 million in FY 2008-09 and $5.6 million in FY 2009-10 from the loss of these services which are currently funded by Medi-Cal.

Medi-Cal Eligibility for Legal Immigrants. The Governor's Budget proposes to eliminate full-scope Medi-Cal benefits for newly qualified immigrants who have been in the United States for less than five years and immigrants who permanently reside under the color of law. The Administration assumes State General Fund savings of $9.4 million in FY 2008-09 and $139.9 million in FY 2009-10. DHS indicates that they have very little data available from the State Department of Health Care Services to estimate the impact on those residing in the country without permanent immigrant status and those legal immigrants in the United States for less than five years. However, based on available data, the estimated potential impact to the County is the loss of $625,000 in FY 2008-09 and $1.5 million in FY 2009-10.

Medi-Cal Monthly Reporting Requirement for Undocumented Immigrants. The Governor's Budget proposes to implement a monthly eligibility reporting requirement for undocumented immigrants, unless a subsequent emergency arises, for an estimated State General Fund savings of $4.8 million in FY 2008-09 and $71.2 million in FY 2009-10. DHS indicates that this change will increase the number of Medi-Cal applications taken for this population, resulting in increased County fee revenue.

Medi-Cal Section 1931(b) Program. The Governor's Budget proposes to roll back the income eligibility level for the Medi-Cal Section 1931(b) Program for applicant families who currently qualify for Medi-Cal benefits without a share of cost, and defines under-employment as the principal wage earner working less than 100 hours per month. Based on previous proposals by the Administration, if the proposed changes to the Medi-Cal 1931(b) Program are phased in over 33 months, the estimated State savings would be $2.6 million in FY 2008-09 and $342.5 million in FY 2011-12 when the proposal is fully implemented. This proposal would result in the loss of Medi-Cal benefits for approximately 157,000 parents in Los Angeles County when fully implemented by FY 2011-12. These individuals would add to the ranks of the estimated 2.1 million already uninsured County residents. According to DHS, there is insufficient information available from the State Department of Health Care Services to develop a

reliable estimate of the impact of this proposal; however, based on countywide caseload data for the population, the potential impact to the County is a loss of approximately $2.1 million in FY 2008-09 and $5 million in FY 2009-10.

Medi-Cal Aged, Blind, and Disabled Program. The Governor's Budget proposes to increase the Medi-Cal share of cost requirement for the Medi-Cal Aged, Blind, and Disabled Program to the 2001 eligibility level for State General Fund savings of $14.3 million in FY 2008-09 and $185.8 million in FY 2009-10. DHS indicates that this change would shift the Department's source of revenue from Medi-Cal to those who are required to pay a share of cost.

Delay in Payments to Medi-Cal Providers. The Governor's Budget proposes a one-month delay in payments to Medi-Cal fee-for-service providers for a shift of $85 million from FY 2008-09 to FY 2009-10. This proposal is in addition to a previously authorized two-week delay under current law. DHS indicates that a one-month delay in payments to the Department would result in a cash flow delay and a reduction in potential interest earned by the County for that period.

Public Health

AIDS Drug Assistance. The Governor's Budget proposes an increase of $86.1 million in the AIDS Drug Assistance Program Rebate Fund to address a projected increase in prescription drug costs and number of clients served. The Department of Public Health (DPH) indicates that determining the impact of this proposal is not possible without additional information.

New Drug and Alcohol Prevention and Treatment Fund. The Governor's Budget proposes to shift $365.5 million from the State General Fund to a newly created Drug and Alcohol Prevention and Treatment Fund to support existing alcohol and drug programs. Beginning July 1, 2009, these programs are to be supported by a proposed increase in the existing alcohol excise tax, which is estimated to generate $585 million in State General Fund revenues annually. A portion of these revenues is proposed to offset $219.5 million in State General Fund costs for alcohol and drug programs administered by the California Department of Corrections and Rehabilitation. DPH indicates that determining the impact of this proposal is not possible without additional information.

Cigarette and Tobacco Products Surtax Fund. The Governor's Budget proposes to shift $8.3 million from the Cigarette and Tobacco Products Surtax Fund, with a corresponding reduction in State funds, for certain hospital services reimbursed by the Medi-Cal Program. DPH is continuing to evaluate the impact of this proposal.

Mental Health

Mental Health Services Act. The Governor's Budget proposes to shift $226.7 million from the Mental Health Services Act (Proposition 63) to fund State costs for Mental Health Managed Care in FY 2009-10. The Administration acknowledges that the use of

these funds would require amending the non-supplantation provision of Proposition 63 by passage of a voter initiative. The Budget also directs the State Department of Mental Health to work with counties and other stakeholders on changes necessary to provide greater local flexibility regarding the maintenance of effort and non-supplantation requirements of the Act. The Department of Mental Health (DMH) indicates that the loss to the County may be as much as $73.5 million and, to the extent that funds would come from existing County allocations, as opposed to Statewide allocations, would require a reduction in both existing and planned Proposition 63 programs and/or a reduction in other services.

Early and Periodic Screening, Diagnosis, and Treatment Program. The Governor's Budget proposes to include an additional $38.7 million for the Early and Periodic Screening, Diagnosis, and Treatment Program due to higher service costs, and increased utilization and caseload. DMH indicates that depending on the specific components contained within the additional funding, it could support the Department's planned expansion of EPSDT services, including Specialized Foster Care services. To the extent the additional funds provide for an increase in the State Maximum Allowance, DMH would be able to draw down additional Federal Financial Participation.

Social Services

CalWORKs Program. The Governor's Budget proposes the following reductions to the CalWORKs Program:

- **Modify the Safety Net Program.** Maintain the child-only CalWORKs grant beyond the 60-month time limit only when the able-bodied adult meets the Federal work participation requirements. Safety net benefits would be eliminated if the adult does not meet the work participation requirements. This proposal would result in State General Fund savings of $36.4 million in FY 2008-09 and $260.7 million in FY 2009-10 assuming implementation on May 1, 2009. This proposal would potentially impact approximately 13,551 families in Los Angeles County and 32,311 children in those families.

- **Child-Only Benefits.** Limit child-only benefits to 60 months when the parent or caretaker is an undocumented non-citizen, a convicted drug felon or a fleeing felon. This proposal would result in State General Fund savings of $38.4 million in FY 2008-09 and $261.7 million in FY 2009-10 assuming implementation on May 1, 2009. This proposal would impact approximately 16,167 families in Los Angeles County and 39,377 children in those families.

These proposals would result in the estimated loss of $25.9 million in cash grants to CalWORKs families in FY 2008-09 and $155.3 million in FY 2009-10. **If 50 percent of the children terminated from CalWORKs cash assistance apply for, and are determined eligible for General Relief, there would be an estimated increased net County cost of $13.4 million in FY 2008-09 and $80.4 million in FY 2009-10.**

Additionally, the loss of CalWORKs cash benefits could place families at greater risk of homelessness.

CalWORKs Grant Reduction. The Governor's Budget proposes to reduce recipient grants by 10 percent. This proposal would result in State General Fund savings of $45.2 million in FY 2008-09 and $294.1 million in FY 2009-10, assuming implementation on May 1, 2009. This proposal would reduce the CalWORKs grant for a family of three from $723 per month to $651 per month.

CalWORKs Self-Sufficiency Review. The Governor's Budget proposes to implement a mandatory face-to-face self-sufficiency review of CalWORKs participants who are not meeting the work requirement to assess the type of services needed to assist the participant to remove any barriers to work participation. The review would be required for continued eligibility and must be conducted at six-month intervals by a county eligibility worker. This proposal would result in State General Fund savings of $3.5 million in FY 2008-09 and $97.2 million in FY 2009-10, assuming implementation on May 1, 2009.

CalWORKs Child Care. The Governor's Budget proposes to appropriate $108 million savings from prior-year child care funds to address budget shortfalls in the CalWORKs Stages 2 and 3 Child Care costs in FY 2008-09. The Administration previously indicated that the FY 2008-09 State Budget anticipated one-time savings from the After School Safety and Education (ASES) program to fund CalWORKs; however, the ASES savings did not materialize.

County Administration of Medi-Cal. The Governor's Budget proposes to suspend the statutory cost-of-living-adjustment for county administration of the Medi-Cal Program, anticipating a State General Fund expenditure reduction of $24.7 million. Assuming a total reduction of $49.4 million in combined State and Federal funds, the Department of Public Social Services estimates that this proposal would result in a County loss of approximately $15.4 million in FY 2009-10.

In-Home Supportive Services (IHSS) - Reduction of Recipient Services. The Governor's Budget proposes to eliminate IHSS domestic and related services for recipients who have lower services needs which would result in estimated State General Fund savings of $11.9 million in FY 2008-09 and $71.4 million in FY 2009-10, assuming implementation on May 1, 2009. This proposal would result in a reduction in domestic and related services for approximately 35,000 IHSS recipients in Los Angeles County and an estimated net County cost savings of $2.3 million in FY 2008-09 and $14.2 million in FY 2009-10.

IHSS Provider Wages. The Governor's Budget proposes to reduce State participation in IHSS provider wages to the State minimum wage of $8.00 per hour, and retain State participation in the health benefits at $0.60 per hour. This proposal would result in estimated State General Fund savings of $44.5 million in FY 2008-09 and $266.8 million in FY 2009-10, assuming implementation on May 1, 2009.

The current County wage rate is $9.00 per hour. The current agreement with the Los Angeles County Personal Assistance Services Council specifies that if the State's share of IHSS wages becomes unavailable, IHSS wages shall revert to the State minimum wage rate without further action of the Board. If IHSS provider wages were reduced to the State minimum wage rate, the County would realize an estimated annual savings of $34.8 million or $5.8 million in FY 2008-09, if implemented May 1, 2009. However, **if the County opted to maintain the current wage of $9.00 per hour, without State participation above the minimum wage, the additional cost to the County would be $10.8 million in FY 2008-09 and $70.5 million annually thereafter.**

Cash Assistance Program for Immigrants (CAPI). The Governor's Budget proposes to eliminate CAPI, which would result in State General Fund savings of $20 million in FY 2008-09 and $129.6 million in FY 2009-10, assuming implementation on May 1, 2009. This proposal would result in the loss of cash benefits for approximately 5,600 aged and disabled legal immigrants in Los Angeles County. **If 100 percent of these individuals apply for, and are determined eligible for General Relief, this proposal would result in an estimated net County cost of $2.5 million for the period from May 1, 2009 to June 30, 2009, and an estimated annual County cost of $13.7 million in FY 2009-10 thereafter.** Elimination of CAPI could place aged and disabled legal immigrants at greater risk for homelessness.

LEADER Replacement System. The Governor's Budget proposes to delay funding for the implementation, design and development of the LEADER Replacement System by six months, from January 2010 to July 2010, for an estimated State savings of $14.6 million. DPSS is evaluating this proposal and will also evaluate future trailer bill language that may address the revised timeline for the LEADER Replacement System project.

California Children and Families Act of 1998 - Proposition 10 Funds. The Governor's Budget proposes to redirect all of the State funds and 50 percent of local Proposition 10 funds to support children's programs administered by the California Department of Social Services for an estimated State General Fund savings of $275 million in FY 2009-10. The redirected Proposition 10 funds would be for Child Welfare, Foster Care, and the Title IV-E Waiver Programs. The CEO will work with the Department of Children and Family Services to analyze this proposal and will provide your Board with a report on the impact of this proposal to the County. Enactment of this proposal would require voter approval.

Justice and Public Safety

Juvenile Probation and Camp Funding. The Governor's Budget proposes State savings of $37.4 million in FY 2008-09 by reducing funding for the Juvenile Probation and Camp grants from $181.3 million to $143.9 million. In FY 2009-10, funding for these programs will be reduced by an additional $8 million to $135.9 annually. This would reduce funding to the County by $13.5 million in FY 2008-09 and $18.6 million in FY 2009-10. Beginning in FY 2009-10 these programs will be funded from vehicle license fees.

Citizens' Option for Public Safety (COPS)/Juvenile Justice Crime Prevention Act (JJCPA) Grants. The Governor's Budget proposes a transfer of funding for the COPS/JJCPA Grants from the State General Fund to the Vehicle License Fee (VLF) Account as part of an overall plan to save $451 million in State General Fund spending through FY 2009-10. These funds were used previously to support the Department of Motor Vehicles, which would now be funded by a $12 increase in the annual Vehicle Registration Fee.

In addition, the Governor proposes to reduce funding for each program from $107.1 million to $89.4 million in FY 2008-09, for a total reduction of $35.4 million. In FY 2009-10, these programs are expected to be allocated $95.8 million each. This reduction is expected to reduce County funding by $4 million in FY 2008-09 and $3.9 million in FY 2009-10 for the JJCPA Program, and result in a reduction of $1.2 million in FY 2008-09 and $929,000 in FY 2009-10 for the COPS Program.

California Multi-Jurisdictional Methamphetamine Enforcement Team Grants. The Governor's Budget proposes to reduce $8.1 million from the California Multi-Jurisdictional Methamphetamine Enforcement Team grants for State and local law enforcement agencies in FY 2008-09. In addition, the Administration proposes to eliminate this program in FY 2009-10 for an additional reduction of $11.4 million. The estimated impact to the County is a loss of $425,000 in FY 2008-09 and $1.3 million in FY 2009-10.

Other Public Safety Grants. The Governor's Budget proposes a current year reduction to a number of local public safety grants, including the High Tech Theft Apprehension and Prosecution Program, the Identity Theft Task Force, Sexual Assault Felony Enforcement Teams, and Vertical Prosecution. These grants are scheduled for elimination in FY 2009-10. The estimated reduction in funding to the County is $1.9 million in FY 2008-09 and $4.5 million in FY 2009-10.

Corrections

Substance Abuse Treatment Program Shift. The Governor's Budget proposes a shift of $219.5 million for correctional drug and alcohol treatment programs from the State General Fund to a newly created Drug and Alcohol Prevention and Treatment Fund, to be supported by revenues derived from a new alcohol excise tax beginning on July 1, 2009.

Direct Discharge of Inmates. The Governor's Budget proposes that inmates released into the community without a history of serious, violent or sexual crimes no longer be under parole supervision. In November 2008, the State estimated savings of $78.7 million in FY 2008-09 and $535.9 million in FY 2009-10. This proposal is expected to reduce the number of persons returning to prison from violations in their terms of parole or from the commission of new crimes. This is part of a package of prison and parole reforms estimated to save the State $598.4 million in FY 2009-10.

Enhanced Sentencing Credits. The Governor's Budget proposes a program to allow inmates to reduce their sentence for time served in county jails pending transfer to a State prison, and upon completion of an unspecified program designed to reduce violence in prison and to facilitate their integration into the community upon release. The plan would provide an inmate up to four months of credit for each completed class. The use of additional sentencing credits is intended to accelerate the release of inmates into the community and to reduce recidivism rates. In November 2008, this proposal was estimated to result in additional State costs of $3.4 million in FY 2008-09 and annual savings of $90.5 million beginning in FY 2009-10. This is part of a package of prison and parole reforms estimated to save the State $598.4 million in FY 2009-10.

Threshold for Felony Property Crimes. The Governor's Budget proposes that the dollar threshold values for determining when property crimes are prosecuted as a felony be increased to reflect inflation since 1982. The new threshold level is not specified. This will reduce the number of offenders that are sentenced to prison. In November 2008, the Administration estimated savings of $2.9 million in FY 2008-09, and annual savings of $51.3 million beginning in FY 2009-10. The impact on the County related to sentencing these offenders to county jail or probation rather than State prison is unknown. This is part of a package of prison and parole reforms estimated to save the State $598.4 million in FY 2009-10.

Youthful Offender Block Grant. The Governor's Budget proposes to allocate $92 million from the State General Fund to support the Youthful Offender Block Grant in FY 2009-10. This program provides funding to counties to reimburse them for the costs of retaining serious and violent juvenile offenders within their juvenile halls and camps rather than sending them to State facilities. The State has not determined the allocation of funds to counties in FY 2009-10; however, the County was allocated $16.4 million from this program in FY 2008-09. The Administration does not propose a reduction in this grant in the current year.

Transportation

Proposition 42. The Governor's Budget proposes a temporary increase from 5 percent to 6.5 percent in the State's sales and use tax rate effective March 1, 2009 through December 2011. On January 1, 2012, the sales and use tax rate will return to its present level of 5 percent. This proposal is expected to generate additional sales tax revenues of $2.35 billion in FY 2008-09 and $7.11 billion in FY 2009-10. Of these amounts, $356 million is proposed to be transferred under Proposition 42 to the Transportation Investment Fund. This amount will offset an estimated Statewide decline of $81.3 million in Proposition 42 revenues in FY 2008-09 and $233.6 million in FY 2009-10 due to economic conditions.

According to DPW, the County is expected to receive $51.9 million in Proposition 42 funds in FY 2008-09, and $60 million in FY 2009-10. The County's anticipated allocation in FY 2009-10 will be reduced from an anticipated $26 million to a net amount of $4.9 million due to a decline in gasoline consumption as a result of the economic downturn.

Article XIX County Gas Tax. The Governor's Proposed Budget estimates a reduction in the consumption of gasoline and diesel fuel in FY 2008-09 and FY 2009-10, which would result in a decrease of gas tax revenues received by the County. Based on the statewide figures, DPW indicates that the County is expected to receive $119 million in gas tax revenues in FY 2008-09, which is a decrease of approximately $5 million from FY 2007-08, and $117 million in FY 2009-10, which results in an additional decrease of $2 million.

Proposition 1B Local Streets and Road Program. The Governor's Budget includes an economic stimulus proposal that would accelerate the appropriation of $700 million in remaining bond funds from the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for improvements to local streets and roads. These funds would be available for cities and counties that agree to encumber the funds by December 31, 2009.

According to DPW, the State has $450 million remaining in Proposition 1B Local Streets and Roads Program funds to allocate to counties by formula distribution. If approved as proposed, the County could receive early payment of approximately $86.7 million, which is the balance of its remaining Proposition 1B Local Streets and Roads funds.

State Transit Assistance Program. The Governor's Budget projects a decline in spillover revenues from the projected $1.4 billion in FY 2008-09 to $1 billion and forecasts that the spillover revenues will be only $90 million in FY 2009-10 due to the steep decline in gasoline prices. The Governor's Budget proposes the elimination of $153.2 million in FY 2008-09 and $306 million in FY 2009-10 for local transit grants previously funded with sales tax on fuels.

This funding reduction in the State Transit Assistance Program does not directly affect funding for DPW's transit services. Funding from this program is provided for local mass transportation programs for which DPW is not eligible. The proposed reduction will impact many of the large service providers throughout the County, including the Metropolitan Transportation Authority (Metro), and may result in a reduction of revenues for Metro's bi-annual competitive Call For Projects grant program. Local jurisdictions, including the County of Los Angeles, are recipients of Metro's Call For Projects grant funding.

Housing

Housing and Community Development. The Governor's Budget includes Proposition 1C funding of $487 million to assist in the development of affordable housing, including $190 million for the Infill Incentive Grant program, $34 million for the Transit Oriented Development program, and $10 million for the Housing-Related Parks program. However, Proposition 1C funding was halted last month due to the State budget impasse. Although the Community Development Commission (CDC) is not a direct recipient of Proposition 1C funds, many of the developers with whom they partner may apply for these competitive grant funds. The CDC is very concerned that this delay in State funding will result in a freeze on any current or future affordable housing

development projects being funded jointly by the CDC and developers who rely on Proposition 1C funding.

In addition, the Governor's Budget includes Federal funding of $140 million in FY 2008-09 for local governments to rehabilitate neighborhoods with abandoned or foreclosed homes. Funding may be used to purchase and rehabilitate these homes for sale or lease to low- or moderate-income families. In addition to the $140 million California received from the U. S. Department of Housing and Development (HUD), the County was directly allocated approximately $16 million for HUD's new Neighborhood Stabilization Program (NSP). The California Department of Housing and Community Development will distribute the State funding to eligible cities or counties and approximately $13.9 million is available to 37 jurisdictions eligible within Los Angeles County. If the jurisdictions do not apply to the State for their share of funding, it will be available to the County; however, the CDC is unable to determine the amount of additional NPS funding that may become available to the County.

Natural Resources

California Department of Parks and Recreation. The Governor's Budget proposes a fund shift of $11 million in FY 2008-09 and $8 million in FY 2009-10 to Proposition 84 funds for implementation of the California Department of Parks and Recreation's Americans with Disabilities Act multi-year compliance plan. The Departments of Beaches and Harbors (DBH) and Parks and Recreation indicate that the proposal may provide an opportunity for the County to compete for grant funding; however, there is not enough detail in the Governor's Budget proposal to estimate an impact.

State Water Project Facilities. The Governor's Budget proposes an increase of $38.4 million, including $30.9 million in Proposition 84 funds and an annual transfer of $7.5 million from the Harbors and Watercraft Fund, to the California Department of Water Resources for boating related recreation and fish and wildlife enhancements at State Water Project facilities. DBH indicates that the proposal may divert funding away from programs administered by the California Department of Boating and Waterways; however, there is not enough detail in the Governor's Budget proposal to estimate an impact.

Impact of the Sales and Use Tax Rate Increase and Base Expansion on County Revenues and Costs

The Governor's Budget proposes to increase the sales and use tax rate temporarily from 5 percent to 6.5 percent and to broaden the sales tax base to include appliance and furniture repair, vehicle repair and veterinarian services effective March 1, 2009. The Governor's Budget also proposes to extend the sales and use tax to amusement parks, sporting events and golf effective April 1, 2009.

The proposed expansion of the sales and use tax base would yield: 1) additional funding for Proposition 172 local public safety agencies; 2) increased receipts from the County one-cent sales tax; and 3) increased Realignment Program sales tax revenues, which fund health, social services, and mental health programs. The expansion of the sales and use tax base also would result in increased revenue for Proposition 42 transportation projects. The table below provides a comparison of the estimated revenue changes affecting the County.

Impact of Sales and Use Tax Base Expansion on County Revenues		
Type of Sales Tax	**FY 2008-09**	**FY 2009-10**
Proposition 172 – Public Safety	$ 4,433,000	$ 18,787,000
County One-Cent	$ 417,000	$ 1,805,000
Realignment	$ 5,848,000	$ 25,365,000
Proposition 42	--	$ 4,900,000*

* Estimate reflects net increase to the County which is partially offset due to a decline in gasoline consumption.

The sales tax increase will affect the cost of County purchases and add to the cost of vehicle repair. In addition, the Department of Parks and Recreation estimates losses in golf course green fees and amusement park revenues from a decline in demand. **The Governor's sales tax increase could result in estimated increased County costs of up to $9.5 million in FY 2008-09 and $19.8 million in FY 2009-10 as illustrated in the table below:**

Impact of Sales Tax Increase on County Costs		
Department	**FY 2008 - 09**	**FY 2009 – 10**
Department of Public Works		
- Purchasing	$ 220,000	$ 660,000
- Vehicle Repair	$ 47,000	$ 141,000
Internal Services Department (on behalf of all other departments except those listed in this table.)		
- Purchasing	$ 6,500,000	$ 12,900,000
- Vehicle Repair	$ 258,000	$ 549,000
Sheriff's Department		
- Purchasing	$ 1,038,000	$ 2,076,000
- Vehicle Repair	$ 321,000	$ 770,000
Fire Department		
- Purchasing	$ 655,000	$ 1,300,000
- Vehicle Repair	$ 225,000	$ 536,000
Parks and Recreation		
- Golf Fees	$ 240,000	$ 825,000
- Amusement Park	$ 32,000	$ 85,000
Total	**$ 9,536,000**	**$ 19,842,000**