



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

**AS AMENDED AND ADOPTED BY
THE BOARD OF SUPERVISORS
OF JANUARY 17, 2006**

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

January 10, 2006

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**STATE LEGISLATIVE AGENDA FOR THE SECOND YEAR
OF THE 2005-06 SESSION
(ALL DISTRICTS AFFECTED) (3 VOTES)**

This letter recommends policies and proposals for the second year of the 2005-06 State Legislative Session. This package, together with other positions adopted by your Board, will guide our State advocacy efforts. They have been developed in coordination with County departments, the Legislative Strategist, and our Sacramento advocates.

THEREFORE, IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the updated policies and proposals contained in this letter and attachments, which seek to minimize the adverse impact of State actions on the County, achieve greater flexibility over the use of State funds, secure State assistance whenever possible, especially from non-General Fund sources, and promote the growth of the State and local economy.
2. Instruct the Chief Administrative Officer, affected departments, the Legislative Strategist, and our Sacramento advocates to work with the County delegation, other counties and local governments, and interest groups to pursue these policies and proposals.

INTRODUCTION

Last year at this time, the Legislative Analyst's Office (LAO) forecasted a budget deficit of \$6.7 billion with the shortfall increasing to almost \$10 billion at the end of FY 2006-07 in the absence of ongoing actions to reduce the imbalance between expenditures and revenues. This outlook was reflected in the County's initial assessment of the Governor's Proposed Budget for FY 2005-06. Even with the removal of property taxes from the State's potential menu of budget solutions as a result of the passage of Proposition 1A, the County was still vulnerable to State reductions in program funding. The County faced potential losses of approximately \$172 million with about 40 percent of this amount (\$74 million) attributable to the State's reduction of its participation in the level of In-Home Supportive Services provider wages and benefits from \$10.10 per hour to \$6.75 per hour. Other potential losses were from the continued suspension of Proposition 42 transportation funds (\$24.7 million), the elimination of current year grant funding from the Juvenile Justice Crime Prevention Act (\$27.9 million), and suspension of various State mandates (\$33.3 million).

By the time the Governor signed the budget in early July, the County's fiscal exposure had been reduced to \$8.6 million. This improvement in the impact of the State budget on the County foreshadowed an overall improvement in California's fiscal condition. Since July, the State's budget outlook has benefited greatly from a major increase in revenues and significant savings adopted in the FY 2005-06 budget. Through November, revenues are up 6.3 percent with 47 percent of the increase attributable to the personal income tax.

According to the LAO, the additional revenues will result in a reserve balance of \$5.2 billion by the end of the current fiscal year. This represents an increase of \$3.9 billion from the estimates assumed when the budget was adopted. A reserve of this magnitude, in the LAO's view, is sufficient to fund current obligations for the FY 2006-07 budget under current law and maintain a \$1.2 billion year end reserve notwithstanding a projected structural shortfall of \$4 billion.

While the outlook is considerably improved over prior years, there are a number of fiscal pressures on the State that will place demands on the available resources. A November 2005 Sacramento Superior Court (*Pension Obligation Bonds Committee v. All Persons*) decision against the State on the sale of pension bonds without the vote of the people has the potential of reducing revenue by \$525 million. Further, the minimum guarantee to K-14 schools under the law will not be sufficient to fund enrollment growth and inflation. This would require an additional \$2.5 billion. When added to the triggering of Proposition 49 (for after school funding) at an estimated \$428 million, it would raise the pressure on education funding by nearly \$3 billion.

Most economic forecasters believe that there will be some slowing in the State economy in FY 2006-07, but are not forecasting a strong downturn. However, the State's revenue structure is highly volatile which means that a small change in economic growth would result in a large impact on revenue. In addition, even with a prediction of a healthy economy, the State, under current law, faces operational shortfalls between revenues and expenditures through FY 2010-11.

BUDGET AND LEGISLATIVE PRIORITIES

Even if the LAO's forecast for the budget year is on target, the County still faces a number of important issues involving the continued stability of its health system, its budget, and the preservation of local control.

County Health System Funding

Last session was highlighted by some notable legislation which affected the Department of Health Services (DHS). In addition to providing State funding for trauma care and extending the County's access to Medi-Cal cost-based outpatient reimbursement in the FY 2005-06 budget, the Legislature passed and the Governor signed, SB 1100 (Perata, Chapter 560, Statutes of 2005) which implements major elements of Governor Schwarzenegger's five-year Medicaid Waiver agreement with the Federal Government to transform the way safety net hospitals, such as the County's, are paid under the Medi-Cal Program.

SB 1100 shifts California from the use of intergovernmental transfers to certified public expenditures (CPEs) as the non-federal share for supplemental Medi-Cal hospital payments, establishes a process and methodology to ensure that baseline funding for public and private safety net hospitals will continue, and allocates growth funds, if available, between public and private hospitals.

While the Waiver and SB 1100 have the potential to improve the DHS fiscal outlook, there are important pieces of the financing reform that are not yet in place such as the scope and definition of CPEs which is pending approval by the Federal Centers for Medicare and Medicaid Services. At the State level, the Waiver permits California to access \$180 million in unallocated Federal funds contingent upon expansion of Medi-Cal managed care in the first and second year of the waiver, and development of a health coverage initiative for uninsured persons in the waiver during the third through fifth years.

In the upcoming year, the County will seek, in collaboration with other public hospitals, to ensure favorable implementation of the Medi-Cal hospital financing waiver, and other revenues to support the safety net.

Other Key Health and Social Service Issues

Counties are heavily dependent on State funding for their budgets, especially for health and social service programs. Consequently, the County will continue to support adequate funding for the programs it operates and oppose program reductions unaccompanied by a commensurate diminution of responsibility, and any attempt to shift costs to counties. In this regard, the County will pursue continuation of funding for Proposition 36, the Substance Abuse and Crime Prevention Act of 2000, which contained funding for five years ending in FY 2005-06. It will also seek continued funding for AB 3632, the Special Education Pupils Program and juvenile probation camps.

Revision and Refunding of Proposition 36. Proposition 36, the Substance Abuse and Crime Prevention Act of 2000, directs first and second time non-violent adult drug offenders who use, possess, or transport illegal drugs for personal use to receive drug treatment as a condition of probation in-lieu of incarceration. The Act appropriated \$120 million per year to fund local costs for treatment programs and other necessary services. Los Angeles County has received approximately \$30 million per year for these purposes. Under Proposition 36, the State's funding obligation ceases in FY 2005-06, although county responsibility to provide drug treatment services continues.

County-supported SB 803 (Ducheny) would revise Proposition 36 and appropriate \$120 million annually to fund the Act through FY 2010-11. SB 803 would make changes to Proposition 36 to strengthen the program through close monitoring of defendants under a collaborative model involving treatment providers, the court, probation, and parole. It would extend treatment services beyond the current 12-month limit to 24 months when warranted, provide for frequent drug testing, and use short-term jail sanctions as a tool to enhance treatment compliance. SB 803 is patterned after the Drug Court Program that requires frequent drug testing and ensures accountability of drug offenders. **Because SB 803 would appropriate funds needed for the County to continue to provide drug treatment services mandated by Proposition 36, and would make changes to enhance the substance abuse treatment program, the County will continue to strongly support and work for passage of the measure. Since the ongoing level of programming is expending at a rate of \$143 million a year, the County will support the continuation of Proposition 36 at this level of funding in order to avoid reductions in State support.**

AB 3632 Mandate. As part of the FY 2005-06 budget, the Governor approved a one-time legislative augmentation of \$120 million to reimburse counties for special education mental health services under the AB 3632 State mandate. In his budget message, the Governor indicated that the funding will allow for the transition from a State-mandated program to a categorical program effective FY 2006-07. The new categorical program is to be developed

in collaboration with counties, schools, community mental health providers, and other stakeholders interested in mental health and special education issues. However, the Administration has not yet convened any meetings to develop the plan that would address the roles and responsibilities of local education agencies and counties in providing these Federally mandated services, including the scope of services, the necessary statutory changes, and funding levels. **Therefore, it is critical that we work closely with the State and other stakeholders to pursue those options that will ensure adequate long-term funding and address issues related to the delivery of these Federally mandated services.**

Continued Funding For Juvenile Probation. Over the past years, a number of budget proposals have been introduced recommending the elimination or reduction of funding for juvenile probation services provided by counties. Although the Administration and the Legislature have subsequently restored funding, counties have faced the possibility of major curtailments. In the case of Los Angeles County, we would have lost approximately \$83 million annually, which would have required the closure of all of the 18 probation camps, resulting in over 1,000 annual commitments to the California Youth Authority and 1,000 additional group home placements.

In addition, in the FY 2005-06 budget, the State reduced funding for the Schiff-Cardenas Juvenile Justice grants by nearly 75 percent. Due to the funding structure of the grant, it did not have an impact on current year programs. However, there are no statutory requirements to continue this funding for FY 2006-07. The statewide level of funding for this grant is \$100 million. Of this amount, the County's share is nearly \$28 million.

Over the past two years, there have been numerous discussions about a potential juvenile justice reform that would transfer certain responsibilities from the State to counties. The Administration has been working on various tracks to address the many issues facing the juvenile justice system, and it is anticipated that a reform proposal may be included in the January Proposed Budget. **Therefore, it is critical that we continue working with the State to preserve funding, and ensure that any realignment proposals are fully funded and accompanied by decision-making authority at the county level.**

Restoration of Property Tax Administration Program (PTAP)

Statewide funding in the amount of \$60 million for PTAP was eliminated from the FY 2005-06 State budget despite approval by both Assembly and Senate Budget Subcommittees. This represents a loss to the County of \$13.5 million. According to the California Assessors' Association, since its inception, the PTAP program has generated 12 dollars in additional property tax revenue for every dollar granted. The school's share was \$6.40 for every dollar invested in the program. Thus, it is in the State's financial

interest to continue the program because the State General Fund is its largest beneficiary. **Therefore it is important that we continue to seek to restore funding for this program that is cost effective for both State and local governments.**

Infrastructure Bonds

For the second year of the 2005-06 Legislative Session, the State will be considering a number of bills which would present a number opportunities for the County to compete for funding for transportation improvements, housing projects, environmental restoration and preservation projects, flood control, watershed management, and other infrastructure projects.

Some of the legislative proposals include: 1) **County-supported and amended SB 253 (Chesbro)**, would enact the California Clean Water, Safe Neighborhood Parks, and Coastal Protection Act of 2006, which would authorize the issuance of \$3.945 billion in State General Obligation bonds for acquisition, development, restoration and preservation projects; 2) **County-supported and amended AB 1269 (Pavley)**, would enact the Clean Air, Clean Water, Coastal Protection, and Parks Act of 2007, which would authorize an unspecified amount in State General Obligation Bonds for resource protection, acquisition, restoration and development; and **SB 1024 (Perata)**, would enact the Safe Facilities, Improved Mobility, and Clean Air Bond Act of 2005, which would authorize \$10.275 billion in State General Obligation bonds for specified purposes, including the State transportation improvement program, levee improvements, flood control, restoration of Proposition 42 transportation funds, port infrastructure and security projects, trade corridors of significance, emissions reduction projects, transit-oriented development, transportation needs in cities and counties that meet certain requirements, and housing, regional growth, and infill development purposes.

In addition to these proposals, Governor Schwarzenegger and legislative leaders have also indicated their desire to pursue a bond package that goes beyond the traditional bond-and-build approach currently used for school and transportation projects. According to recent newspaper articles, the bond package could raise as much as \$50 billion to enhance the quality of life for residents of the State. Details of the Governor's proposal are not available yet, but it is anticipated that the bond proceeds would be used to speed transportation projects to relieve traffic congestion, expedite transportation of goods, build power plants, increase affordable housing, hospital seismic retrofitting, and other infrastructure projects.

Because potential bond funding would provide valuable resources to address critical infrastructure needs, the County will work with appropriate groups to strongly support and work for passage of the infrastructure bond measures.

PRESERVATION OF LOCAL CONTROL

During the last session, the Schwarzenegger Administration formed a cabinet level Business Transportation and Housing and Resources Agencies Advisory Group to deal with the issues of Housing, Land Use and the California Environment Quality Act (CEQA). The problems of affordable housing, land use and redevelopment, traffic congestion, and air pollution are likely to be discussed during the second year of the legislative session under the general rubric of infrastructure revitalization including a requirement that every jurisdiction develop a long-term supply of land suitable, available and zoned for a full range of housing types. If the aforementioned infrastructure bond is submitted to the voters, it could be accompanied by legislation containing various incentives, restrictions, and matching requirements which could undermine local control.

Legislation is likely to be considered dealing with infill development including re-zoning and density requirements, a lessening of environmental impact review requirements once an urban specific plan has been adopted and subjected to appropriate environmental review, establishment of a permanent source of State funding for affordable housing, a suspension of prevailing wages linked to the production of affordable housing, and new lines of responsibility for planning and approving housing within a local, sub-regional and regional context. Each of these potential legislative initiatives represents both a challenge and an opportunity for the Board and several major County departments including Regional Planning, Public Works, and Parks and Recreation. The County opposes legislation that infringes upon County Board of Supervisors' local land use decision-making authority. Thus, in evaluating infrastructure related legislation, Statewide goals and State intervention must be balanced against the preservation of local control.

The California State Association of Counties (CSAC) sent a letter to the Governor in early September 2005 suggesting that the approach to infrastructure in general and affordable housing in particular requires development of a comprehensive statewide growth strategy that "recognizes diversity and provides flexibility for various regions in the State to grapple with these issues in a way that is appropriate to their unique circumstances."

Redevelopment

The Legislature is anticipated to propose legislation that affects the operations of redevelopment agencies and redevelopment projects. Of concern would be the issue of the extension or expansion of redevelopment projects through statute. This could potentially occur without all of the stakeholders, including the County, from reaching agreement on the terms of operation and distribution of fiscal benefits related to the projects. These would contrast with provisions that require such an agreement during the development of new project areas. Therefore, it is important that combined and extended

