

COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office

DATE: May 2, 2002

BOARD MEETING DATE: May 7, 2002

TO: Honorable Board of Supervisors
FROM: John L. Maltbie, County Manager
SUBJECT: County Manager's Report #4

1. 2002-03 State Budget Update

In January, Governor Davis proposed the 2002-03 State Budget of \$100 billion, which anticipated a \$12.5 billion shortfall. Last week, the Legislative Analysts Office indicated that deficit could reach \$22 billion -- nearly one quarter of the budget -- as tax receipts dipped below forecasts. If so, it would be the worst deficit in the history of the state.

State Controller Kathleen Connell announced her plan to secure up to \$11 billion in short-term, multi-year loans. Connell blamed the "lagging economy, weak income-tax receipts and the high cost of bailing the state out of the energy crisis."

Seriously compounding the problem was the report that the state will be required to pay \$831 million more than expected to meet the Proposition 98 school-funding requirements; and the California Department of Corrections has reportedly over spent its budget by \$277 million due in part to personnel overruns at a time when the state prison population has declined to 156,000 inmates down from a high of 162,000.

The annual budget revision is scheduled for May 14. I will bring back a more through analysis of the state budget upon receipt of the May Revision.

What a Difference a Year Makes

When the so-called "new economy" was soaring in fiscal year 2000-01, stock options and capital gains generated \$17.5 million in taxes or about one-quarter of the state's general fund.

This year, that revenue is estimated to be 63 percent lower; and has significantly cut into the state's number one revenue source the income-tax. For the month of April the state's income-tax receipts are 64 percent of what they were this same time last year.

Conformity

On a related issue, the state has passed two tax measures that would conform state to federal retirement allowances: Senate Bill 657 and Assembly Bill 1122. The federal rules raised the maximum amount of savings that taxpayers can put into their tax-deferred 401 (k)s and retirement plans. These measures allow California workers to save \$3,000 in an IRA and \$11,000 in a 401 (k) and provides for a special "catch-up" provision for older works. Additionally, the bills allow savers to withdraw from college-saving plans tax-free.

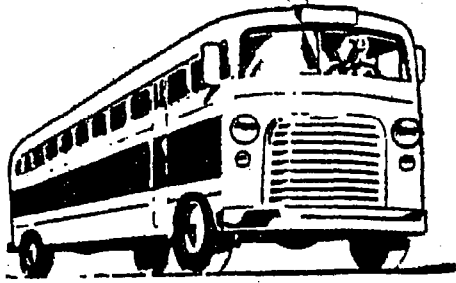
The objectionable provisions contained in the measures -- to eliminate deductions for lobbying expenses, club dues, executive compensation and other business costs totaling \$212 million over the next three years -- were also approved.

Doing Our Part

Since August 2001, San Mateo County staff has participated in the California State Association of Counties (CSAC) State Budget Task Force that has produced an extensive list of budget reduction and revenue enhancement options. Approximately \$5 billion worth of reductions, restructuring and economies have already been embraced by the Administration. The CSAC Budget Action Bulletin is attached.

Additionally, San Mateo County is participating in the Legislative Action Day with the League of Cities on May 15.

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LEGISLATIVE ACTION DAY

WEDNESDAY MAY 15, 2002

Hop on the bus and leave the driving to us! Legislative Action Day – May 15th – MAKE YOUR VOICE HEARD in the State’s capitol.

NEW THIS YEAR – a one-day bus trip for elected officials, city leaders, staff and city supporters. Your participation is critical in delivering our message that cities are serious about protecting local revenues and control.

Can't make it for the League's 2-day Legislative Action Days? Don't worry - you can still join hundreds of California's elected officials and department heads in Sacramento. **Cost for transportation, lunch and the League's Legislative Reception is only \$50 per person.** (If you are planning to drive or attend for both days, you can still join us for a full day's activities. The cost remains the same.)

The tentative schedule for this important and informative day:

- | | |
|---------------|--|
| 9:15 a.m. | Bus departs from San Mateo and Santa Clara County (see back for parking and pick-up information)
<i>Santa Clara Cities Assn. will provide refreshments for SCC bus</i>
<i>San Mateo Chamber of Commerce will provide refreshments for SMC bus.</i> |
| 11:15 am | Bus arrives in Sacramento |
| 11:15-12:45 | Lunch at the Sterling Hotel
Speaker: Diane Cummins, Fiscal Policy Advisor to Sen. Burton. |
| 1:15-4:30 pm. | Legislative meetings, Capitol Building, Room 2040
Assemblymembers Simitian, and Salinas, chair of Local Government, Sen. Sher (confirmed). Invited: Shelly, Papan, Cohn, Speier. |
| 5:30 – 7:00 | League of California Cities Legislative Reception
Sheraton Grand Hotel, Camellia Room |
| 7:00 p.m. | Buses depart for home |

Bus Pick-up/Parking:

Santa Clara County: I-880 Park and Ride for Light Rail at Tasman. Tasman exit off I-880.

San Mateo County: Park and Ride lot near 101/92. Hwy 101 Northbound. Take Hwy 92 West, to Delaware Street exit. At the bottom of the ramp turn right onto Concar Dr. Stay on Concar Drive, turn right on South Grant, turn left on 19th Avenue, right at the light (remains 19th Avenue). Park and Ride lot is on your left.

From Hwy 101 Southbound: Take the Hwy 92 East/Fashion Island Blvd. exit onto Fashion Island Blvd. Turn right on Fashion Island Blvd. Turn left at the first light (19th Avenue). The Park and Ride Lot is on your left.

Briefing packets, sample questions and talking points will be provided on the bus.

Questions? Contact Rebecca at (408) 859-9424 or via email relliot@cacities.org

RESERVATION FORM

Name: _____

Department/Title: _____

City: _____

Email: _____ Phone: _____

Credit Card: Visa _____ MC _____

Number: _____ Exp. Date _____

Send check, payable to League of California Cities, to:
Rebecca Elliot, Regional Representative
League of California Cities
P.O. Box 54216, San Jose, CA 95154-4216

Budget Action Bulletin No. 3

Local Government Budget Advocacy Strategy for 2002-03

Week of April 22, 2002

Via Electronic Mail

DATE: April 19, 2002

TO: CSAC Board of Directors
County Administrative Officers
CSAC State Budget Task Force
CSAC Corporate Associates

FROM: Steve Keil, CSAC Legislative Coordinator
Pat Leary, CSAC Legislative Representative

RE: **Budget Action Bulletin #3**

Our campaign to get the county budget message to the Legislature and the Governor is off to a running start. CSAC staff are still making contacts with counties and securing supervisors and county staff to participate in this grassroots effort. We have urged county supervisors and other county officials to begin (if they haven't already) ongoing discussions with their legislative representatives to communicate the potential impacts of state budget actions. This dialogue must begin immediately and continue throughout the budget process.

Our Budget Action Bulletins are intended to serve as a road map. They will let you know the items are coming up in budget subcommittees in the next two weeks, our message to legislators for that period, and what actions have taken place over the last two weeks.

How many contacts have you made? If you haven't yet, now is the time to kick-start this effort with a personal meeting in your legislator's district office. Meet for coffee at the local diner or deli. Face to face meetings are always the most effective means of communication. Make sure to follow-up with phone calls or e-mails. Keep track of their budget votes. Thank them for their support whenever appropriate. Let them know when they've done a good job for their communities! (Please let us know if you would like assistance preparing press releases for your local papers to thank members for their actions on important issues.)

WHAT YOU SHOULD DO:

Contact your legislators. Phone. Visit. Do lunch. TALK, TALK, TALK.

The Grassroots Message for 4/22/02 through 5/03/02 is...

For your introductory session with your legislator, we encourage you to discuss your county's present budget situation. If appropriate, begin with your own county budget situation. Are you already facing a shortfall? Let your legislator know. Point out any proposed service reductions you are already considering **before** any hits from the state. This discussion can include a dialogue about the **valuable public services** that are currently being provided by the county to the citizens you jointly serve. Discuss how your county service delivery has already been

limited by revenue reductions and cost increases. Let them know what services your county would be forced to **sacrifice** if the state were to shift costs from the state level to counties. Conclude by indicating that you would like to have **regular discussions** about state budget issues of significance to counties throughout the **duration of the state budget crisis**.

Keep in mind that legislators may respond by saying that the state faces a multi-billion dollar budget crisis and, if counties don't assume their share of the shortfall, other interests will suffer even more greatly. They may even ask you to identify where they should cut. In response, please share with them the following:

- Your statewide organization, CSAC, has been actively working with the administration since August 2001 through its State Budget Task Force, chaired by Santa Clara County Supervisor Jim Beall. The Task Force has offered numerous proposals to assist the state (please see **Recommendations of the CSAC State Budget Task Force** at the end of this Bulletin) in resolving its budget crisis. **Approximately \$5 billion** worth of solutions have been embraced by the Governor, and additional options remain.
- You can turn the question around. Ask your legislator which **county** programs they would like to see cut if the state takes local revenue. We recognize that they have a hard job to do, but counties face similar challenges, as well. Relatively speaking, in many cases, counties have less discretion and less control over their spending than the state.
- Ask them to acknowledge that hundreds of millions of dollars of state-county partnership programs are already proposed for funding reductions and it is crucial to counties that such reductions be made in a way that does not require the counties to continue to provide the same level of service by backfilling lost state funding with county general funds. This is simply a fund shift, requiring counties to pay for the state's obligations.

Once you have established an open line of communication, continue to follow-up to check in on budget matters. Keep pointing out specific issues that affect your county and stress the need to protect local services.

TARGETED BUDGET SUBCOMMITTEES: 4/22/02 through 5/3/02

Monday, April 22: Assembly Subcommittee No. 1 (Health and Human Services) is scheduled to vote on the Disproportionate Share Hospital (DSH) program, as well as the County Medical Services Program (CMSP) budget. The subcommittee is scheduled to hear the Alcohol and Drug Programs budget, as well. Please see **What's Going to Happen Next?** for additional information.

Tuesday, April 23: Assembly Budget Subcommittee No. 4 (State Administration) is scheduled to hear Item 5460 – Department of Youth Authority. The subcommittee is scheduled to reconsider the LAO's proposal to increase by approximately 17 percent sliding scale fees paid by counties for placement of juvenile offenders into CYA. At its April 2 hearing, the subcommittee considered but took no action on the proposed increase, based in part on CSAC's challenge to the LAO's policy argument that the increase is needed to maintain a fiscal incentive for counties to place more serious youth offenders into the CYA. The subcommittee may seek input from counties on developing mitigations to the proposed increase. **If you have specific suggestions that would mitigate the impact or application of sliding scale fees,**

please contact CSAC Administration of Justice staff as soon as possible. Contact Elizabeth Howard at 916/327-7500 ext. 537 or ehoward@counties.org.

Thursday, April 25: Senate Budget and Fiscal Review Subcommittee No. 3 (Health, Human Services, Labor, Veterans) will consider the Governor's Budget proposal for CalWORKS, Child Support Services. The Governor's Budget contains a \$58.4 million General Fund reduction in the Community College (CCC) budget for job placement services, work-study, and other educational related work experience. CSAC has heard from credible sources that the Community Colleges are advocating for the restoration of these funds with county CalWORKs performance incentive funds. CSAC strenuously objects to this approach. **We strongly encourage counties to write and call your legislative delegation and subcommittee members to: 1) relay the importance of performance incentive funds to your CalWORKs program and 2) outline how you are spending your funds and what services you would have to cut if the county lost its performance incentive funds.**

WHAT'S BEEN HAPPENING:

A number of actions have already been taken at the budget subcommittee levels that affect counties. Here's an update on actions to date:

HEALTH AND HUMAN SERVICES

Senate Budget and Fiscal Review Subcommittee No. 3 (Health, Human Services, Labor, Veterans): Senate Budget and Fiscal Review Subcommittee No. 3 met on April 11 to discuss a variety of issues, including child welfare services and foster care. Among other items, the Subcommittee discussed the following:

- Supportive Transitional Emancipation Program (STEP): The Legislative Analyst's Office (LAO) estimates that STEP program is over-budgeted by \$1.1 million General Fund in the current year and by \$4.6 million General Fund in the budget year. The STEP program provides cash assistance to eligible former foster youth. The Budget proposes \$3.7 million (\$1.5 million General Fund) for the program in the current year and \$33.5 million (\$13.4 million General Fund) in the budget year. The Subcommittee voted to reduce the STEP budget by the amount recommended by the LAO; this reduction will not impact the program.
- Adoptions Initiative: The Governor's Budget proposes a reduction of \$12.8 million (\$7.3 million GF) due to a redirection of federal adoption incentives to programs currently supported by the General Fund. This is a direct reduction in adoption services of \$5.5 million. Senator Wes Chesbro, Chair of Subcommittee No. 3, directed the LAO to estimate the costs of the reduction (i.e. increased costs in longer foster care placements). The Subcommittee held this item open.
- Foster Family Agencies: The LAO has expressed concerns about the role of Foster Family Agencies (FFAs) in the out-of-home care system, especially around length of placement and costs. The Analyst provided three options for reducing FFA placements and costs: 1) holding the FFA funding constant at current year levels; 2) decreasing the number of FFA treatment placements; and 3) adjusting the FFA treatment rate over time to encourage timely exit of children from FFAs. A number of stakeholders, including the County Welfare Directors Association, expressed concern about how any of these proposals will impact foster care capacity. The Subcommittee held this item open.

- **Foster and Kinship Care Education Program:** The Governor's Budget proposes to reduce the Foster Children and Parent Training Fund by \$1 million. This would reduce federal reimbursements by approximately \$1.5 million. The total reduction is 21.3 percent of the training program's budget. A number of stakeholders, including the County Welfare Directors Association, expressed concern about how reduced funding will impact foster parent recruitment and training activities. The Subcommittee held this item open.

Assembly Budget Subcommittee No. 1 (Health and Human Services): Assembly Budget Subcommittee No. 1 met on April 10. Items on the agenda included foster care and child welfare services. Highlights of some of the Subcommittee's discussions are summarized below.

- **Supportive Transitional Emancipation Program (STEP):** The Subcommittee voted to reduce the STEP budget by the amount recommended by the LAO. This was a consent calendar item. Please note that Senate Budget and Fiscal Review Subcommittee No. 3 took the same action on April 11.
- **CaWORKs Exemption:** The Subcommittee had a policy discussion about the impact of exempting CaWORKs recipients with children under age the age of three from participating in the CaWORKs program. This item was held open.
- **Foster Care Emergency Assistance Fund Shift:** The LAO proposed a fund shift for the Foster Care Emergency Assistance (EA) program. The LAO suggests replacing TANF funding used for EA with Federal IV-E funds. The freed-up TANF funds could be transferred into the Title XX Social Services block grant. Once transferred, the funds may be used to offset GF costs in the community-based programs in the Department of Developmental Services. The proposal would save \$34.5 million General Fund, but cost counties \$2.9 million. The LAO recommends reimbursing counties the \$2.9 million. This item was held open.

ADMINISTRATION OF JUSTICE

Senate Budget and Fiscal Review Subcommittee No. 2 (Resources, Environmental Protection, Judiciary, Transportation, Energy): The Subcommittee met on April 15 to consider Item 0450 – Trial Court Funding. The Subcommittee took the following actions:

- Approved the Judicial Council's request for negotiated salary increases (NSIs) for both court security staff (\$13.4 million) and for trial court employees (\$51.7 million).
- Approved the Governor's proposal to increase criminal fines (by 20 percent) and civil filing fees (by 10 percent), but placed a two-year sunset on the civil filing fee increase.

AGRICULTURE AND NATURAL RESOURCES

Senate Budget Subcommittee No. 2 (Resources): On April 18, the Subcommittee discussed the potential impacts of the Governor's proposed \$20 million General Fund reduction in the California Department of Forest and Fire Protection's budget for day-to-day firefighting costs in State Responsibility Areas (SRAs). The Governor's proposal would require reimbursements from local governments by a similar amount. The Senate Subcommittee did not adopt the reimbursement proposal and instead withheld approval until the department provides a detailed proposal for increasing reimbursements.

The Senate Subcommittee directed the department to look at the recommendation by the Legislative Analyst's Office that suggested an increase in fees to property owners in SRAs, and to come back with a detailed plan. It was also suggested that the department review what other western states have adopted for fire protection in SRAs.

WHAT'S GOING TO HAPPEN NEXT:

Meeting Schedule

Monday, April 22

Senate Budget Subcommittee #3

Emergency Medical Services Authority, Department of Health Services – Selected Public Health Issues

Senate Budget Subcommittee #4

Assembly Budget Subcommittee #1

Emergency Medical Services Authority, Medi-Cal, Public Health, Alcohol and Drug Programs, Mental Health

Disproportionate Share Hospital (DSH) Program: *The Governor's Budget proposes to increase the Disproportionate Share Hospital (DSH) Program "administrative fee" from \$29.8 million to \$85 million. CSAC opposes this fee increase and encourages counties to send letters to your legislators and subcommittee members detailing the impact of this fee increase on your county.*

County Medical Services Program: *The Governor's Budget proposes to charge CMSP counties a \$5 million fee to reimburse the state for the cost of administrative support. The Budget also proposes to permanently eliminate the state's \$20.2 million General Fund contribution to counties for CMSP. CSAC opposes the Governor's Budget and encourages counties to send letters to your legislators and subcommittee members detailing the impact of this proposal on your county.*

Alcohol and Drug Programs: *The 2002-03 Budget contains a \$14.8 million General Fund reduction in local assistance programs, which includes the following: Technical Assistance Contracts by \$850,000, regular County AOD services (discretionary) by \$7.46 million, and regular perinatal services by \$2.5 million. The Governor's proposal eliminates all remaining funding for the Drug Court Partnership Act, leaving \$7 million to support the Comprehensive Drug Court Implementation program. CSAC opposes the reductions and urges counties to send letters to your legislators and subcommittee members detailing the impact of these reductions on your county.*

Tuesday, April 23

Assembly Budget Subcommittee #2

Assembly Budget Subcommittee #4

Department of Youth Authority: *Scheduled to reconsider the LAO's proposal to increase by approximately 17 percent sliding scale fees paid by counties for placement of juvenile offenders into CYA. At its April 2 hearing, the subcommittee considered but took no action on the proposed increase, based in part on CSAC's challenge to the LAO's policy argument that the increase is needed to maintain a fiscal incentive for counties to place more serious youth offenders into the CYA. The subcommittee may seek input from counties on developing mitigations to the proposed increase. If you have specific suggestions that would mitigate the impact or application of sliding scale fees, please contact CSAC Administration of Justice staff as soon as possible.*

Wednesday, April 24

Senate Budget Subcommittee #1

- Senate Budget Subcommittee #4
- Assembly Budget Subcommittee #1
Childcare Licensing
- Assembly Budget Subcommittee #2
- Assembly Budget Subcommittee #3
- Assembly Budget Subcommittee #4

Department of Justice: Set to discuss the LAO's proposal to transfer costs for regional forensic laboratories run by the DOJ to the local law enforcement agencies that use the service. CSAC joins the Attorney General in urging the rejection of this proposal.

- Assembly Budget Subcommittee #5

Thursday, April 25

- Senate Budget Subcommittee #2
Capital Outlay - All Departments
- Senate Budget Subcommittee #3

CalWORKs, Child Support Services: The Governor's Budget contains a \$58.4 million General Fund reduction in the Community College (CCC) budget for job placement services, work-study, and other educational related work experience. CSAC has heard from credible sources that the Community Colleges are advocating for the restoration of these funds with county CalWORKs performance incentive funds. CSAC strenuously objects to this approach. We strongly encourage counties to write and call your legislative delegation and subcommittee members to: 1) relay the importance of performance incentive funds to your CalWORKs program and 2) outline how you are spending your funds and what services you would have to cut if the county lost its performance incentive funds.

Please note that the Governor's CalWORKs child care proposal, including the elimination of Stage 3 child care, will also be discussed.

- Senate Budget Subcommittee #4

Monday, April 29

- Senate Budget Subcommittee #2
Informational Hearing: Energy Oversight
- Senate Budget Subcommittee #3
Selected Medi-Cal and Public Health issues
- Senate Budget Subcommittee #4
- Assembly Budget Subcommittee #1
Medi-Cal, Public Health, Managed Risk Medical Insurance Board

Tuesday, April 30

- Assembly Budget Subcommittee #2
- Assembly Budget Subcommittee #4

Wednesday, May 1

- Senate Budget Subcommittee #1
- Senate Budget Subcommittee #4
Local Government Financing
- Assembly Budget Subcommittee #1
- Assembly Budget Subcommittee #2
- Assembly Budget Subcommittee #3
- Assembly Budget Subcommittee #4
Open Issues

Assembly Budget Subcommittee #5

Thursday, May 2

Senate Budget and Fiscal Review Committee

Revenue Update

Senate Budget Subcommittee #2

Senate Budget Subcommittee #3

Department of Alcohol and Drug Programs: The Subcommittee will hear the Alcohol and Drug Programs budget. The 2002-03 Budget contains a \$14.8 million General Fund reduction in local assistance programs, which includes the following: Technical Assistance Contracts by \$850,000, regular County AOD services (discretionary) by \$7.46 million, and regular perinatal services by \$2.5 million. The Governor's proposal eliminates all remaining funding for the Drug Court Partnership Act, leaving \$7 million to support the Comprehensive Drug Court Implementation program. CSAC opposes the reductions and urges counties to send letters to your legislators and subcommittee members detailing the impact of these reductions on your county.

CONTACT YOUR LEGISLATOR!

Assembly Budget Subcommittees

(e-mail addresses: assemblymember.lastname@asm.ca.gov)

No.1 Health and Human Services

- Gil Cedillo (D-Los Angeles), Chair
- Dion Aroner (D-Alameda, Contra Costa)
- Judy Chu (D-Los Angeles)
- Jay LaSuer (R-San Diego)
- Keith Richman (R-Los Angeles, Ventura)

Consultants: Michael Dimmitt (Health) michael.dimmitt@asm.ca.gov
Christian Griffith (Human Services) christian.griffith@asm.ca.gov

Rep. Consult: Seren Taylor (Health) seren.taylor@asm.ca.gov
Gregson Porteous (Human Services) gregson.porteous@asm.ca.gov

No. 2 Education Finance

- Joe Simitian (D-San Mateo, Santa Clara), Chair
- Wilma Chan (D-Alameda)
- Lynn Daucher (R-Orange)
- Jackie Goldberg (D-Los Angeles)
- Bill Leonard (R-San Bernardino)

Consultants: Leonor Ehling leonor.ehling@asm.ca.gov
Max Espinoza max.espinoza@asm.ca.gov

Rep. Consult: Sarah Swan sarah.swan@asm.ca.gov

No. 3 Resources

- Fran Pavley (D-Los Angeles), Chair
- Joe Canciamilla (D-Contra Costa)
- Dario Frommer (D-Los Angeles)
- Tom Harman (R-Orange)
- Fred Keeley (D-Monterey, Santa Cruz)
- George Runner (R-Los Angeles)

Consultants: Kasey Schimke kasey.schimke@asm.ca.gov

Rep. Consult: Catherine Kennard catherine.kennard@asm.ca.gov

No. 4 State Administration

George Nakano (D-Los Angeles), Chair
 Dave Cogdill (R-Fresno, Madera, Mariposa, Stanislaus, Tuolumne)
 Rod Pacheco (R-Riverside)
 Lou Papan (D-San Mateo)
 Rod Wright (D-Los Angeles)

Consultants: Steve Kawamura steve.kawamura@sen.ca.gov
 Dan Rabovsky dan.rabovsky@sen.ca.gov
 Alyssa McKrell alyssa.mckrell@asm.ca.gov
 Donna Estacio donna.estacio@asm.ca.gov

Rep. Consult: Paul Diero paul.diero@asm.ca.gov
 Eric Czismar eric.czismar@asm.ca.gov

No. 5 Information Technology/Transportation

Manny Diaz (D-Santa Clara), Chair
 Tony Cardenas (D-Los Angeles)
 John Dutra (D-Alameda, Santa Clara)
 Christine Kehoe (D-San Diego)
 Dave Kelley (R-Imperial, Riverside)

Abel Maldonado (R-San Luis Obispo, Santa Barbara)
Consultants: Alyssa McKrell alyssa.mckrell@asm.ca.gov
 Chris Woods chris.woods@asm.ca.gov

Rep Consult: Catherine Kennard (Transportation) catherine.kennard@asm.ca.gov
 Eric Czismar (Info Tech) eric.czismar@asm.ca.gov

Senate Budget Subcommittees

(e-mail addresses: senator.lastname@sen.ca.gov)

No. 1 Education

Jack O'Connell (D-San Luis Obispo, Santa Barbara, Ventura), Chair
 Bob Margett (R-Los Angeles)
 John Vasconcellos (D-Santa Clara)

Consultants: Susan Ronnback susan.ronnback@sen.ca.gov
 Amy Supinger amy.supinger@sen.ca.gov

Rep. Consult: Roger Mackensen roger.mackensen@sen.ca.gov

No. 2 Resources, Environmental Protection, Judiciary, Transportation, Energy

Byron Sher (D-San Mateo, Santa Clara), Chair
 Sheila Kuehl (D-Los Angeles)
 Bruce McPherson (R-Monterey, San Benito, Santa Clara, Santa Cruz)

Consultants: Frank Vega frank.vega@sen.ca.gov
 Alex MacBain alex.macbain@sen.ca.gov
 John Decker john.decker@sen.ca.gov

Rep. Consult: Alex Alanis (Resources, Trans) alex.alanis@sen.ca.gov
 Dave Harper (Judiciary, Justice) dave.harper@sen.ca.gov
 Curtiss Cobb (Energy) curtiss.cobb@sen.ca.gov

No. 3 Health, Human Services, Labor, Veterans

Wes Chesbro (D-Del Norte, Humboldt, Lake, Mendocino, Napa, Sonoma, Solano), Chair
 Ray Haynes (R-Riverside, San Diego)
 Deborah Ortiz (D-Sacramento)

Consultants: Diane Van Maren (Health) diane.vanmaren@sen.ca.gov
 Catherine Camp (Human Services) catherine.camp@sen.ca.gov

Rep. Consult: Sharon Bishop (Health) sharon.bishop@sen.ca.gov
 Therese Tran (Human Services) therese.tran@sen.ca.gov

No. 4 Legislative, Executive, Public Safety, General Government

Richard Polanco (D-Los Angeles), Chair

Dick Ackerman (R-Orange)

Joseph Dunn (D-Orange)

Consultants: Alex MacBain alex.macbain@sen.ca.govJudi Smith judi.smith@sen.ca.govRep. Consult: Tom Sheehy (General Government) tom.sheehy@sen.ca.govDave Harper (Public Safety) dave.harper@sen.ca.gov**RECOMMENDATIONS OF THE CSAC STATE BUDGET TASK FORCE:****Proposals Accepted by the Administration**

- **Eliminate the capital outlay budget in favor of additional debt financing.** In today's interest rate environment, tax exempt funding is available at very low rates, thus pay-as-you-go funding of capital projects is not optimal. This option, as put forward by the Governor, will save the state an estimated **\$586 million**.
- **Securitization of future tobacco master settlement receipts.** The state may realize \$1.5 million to \$6.0 million in cash by securitizing MSA revenues, depending on the structure of the bond. This option, as proposed by the Governor, will result in **\$2.4 billion** in cash to the state. The Legislative Analyst's Office has proposed increasing the amount of MSA revenues for securitization, resulting in a greater cash flow to the state.
- **Restructuring of state bonded debt and converting fixed rate debt to lower cost variable rate debt.** The state could restructure its declining debt service repayment pattern to a more level payment, creating significant budget relief over the next few years. Also, short term, variable rate debt has consistently cost less than long term fixed rate debt. The Governor and the Treasurer have embraced both of these proposals. The Treasurer's plan will result in an estimated **\$2.2 billion** in savings over two years.
- **Create a state-county partnership to develop a joint strategy regarding federal issues,** including reducing federal restrictions, leveraging additional federal funds, advocating for additional federal funds, etc. The Governor has proposed seeking additional funds from the federal governments in a number of areas, with an estimate of **\$1.1 billion** to the state.

Other Proposals

- **Convene joint committees,** including Administration, legislative, and county representatives, to discuss and implement any proposed budget cut to state-county partnership programs.
- **Leaseback bonds for state-owned buildings.**
- **Early retirement program** closely monitored to ensure no ability to fill resulting vacant positions. Program costs could be deferred with the use of pension obligation bonds or by legislation to draw from any existing surplus.
- **Substituting bond surety policies for funded debt service reserves.** An effective and popular strategy used by many municipal bond issuers to generate additional cash resources is to use a surety policy in lieu of a cash-funded reserve.

- **Financing of information technology assets.** Consider using three-year leasing programs that include they system, software, and maintenance of IT assets.
- Establish a **JPA program** between the state and local agencies to hire, on contract, existing state workers to fill critical local vacancies, with the local agency reimbursing the state for payroll costs.
- **Pension obligation bonds** to address potential deficiencies in PERS and STRS.

Stay tuned for the next Budget Action Bulletin!

If you did not receive this Budget Action Bulletin electronically and would like to, please e-mail Jean Hurst, CSAC Legislative Analyst, at jhurst@counties.org. We're happy to accommodate you!

Governor's Budget Outlook— How the Governor "Bridges the Gap"

(Dollars in Billions)

Major Spending Reductions	\$5.2
Fund Shifts	0.6
Federal Funding Increases	1.1
Loans/Accelerations/Transfers	5.6
	<hr/>
Total	\$12.5



LAO Budget Outlook

- ⊕ **Additional Shortfall of \$5 Billion**
 - \$3.9 Billion—Revenues
 - \$1.1 Billion —Expenditures
- ⊕ **Assumption of Energy Bond Sale**
 - \$6 billion owed to General Fund
- ⊕ **Shortfall Grows if Federal Funds Not Received**
- ⊕ **Ongoing Budgetary Imbalance Would Persist**
 - Operating Shortfall About \$7 Billion



Ways to Reduce Budget Shortfalls—First Choices

- ⊕ Cut “New” Programs
- ⊕ Borrow Money
- ⊕ Lobby Washington D.C.
- ⊕ Remember Value of Audits
- ⊕ Eliminate Reserves
- ⊕ Defer Expenditures
- ⊕ Hiring Freeze



Ways to Reduce Budget Shortfalls—Second Choices

- ⊕ Baseline Program Cuts
- ⊕ Revenue Increases
- ⊕ Shifts to Local Government
 - Program Costs
 - State-controlled Local Revenues

