CALIFORNIA Counties

CALIFORNIA STATE ASSOCIATION OF COUNTIES
EXECUTIVE COMMITTEE

SPECIAL MEETING

Thursday, February 18, 2010
10:00am - 4:00pm
CSAC Conference Center

AGENDA

Presiding: Tony Oliveira, President

PROCEDURAL ITEM

1. Roll Call

DISCUSSION ITEM

2. Discussion of Budget Impacts on Counties

3. Other Items

Note: Lunch will be served during a break in the discussion at Noon.

Governor's Proposed 2010-11 Budget: Counties Respond

Transportation Funding Swap Means Significant Long-Term Losses to Transportation Funding

The Governor's proposed "transportation funding swap" would eliminate the sales tax on gasoline (Proposition 42) and the four core transit revenue streams and replace it with a 10.8-cent excise tax on gasoline (Highway User Tax Account or HUTA).

The state scores $1.765 billion in general fund savings under the proposed revenue swap from transportation by funding transportation-related bond debt service and through a reduction in the Proposition 98 guarantee.

Additionally, the Administration touts that the swap provides a tax cut to consumers equivalent to 5-cents per gallon, which would gradually be reinstated as the debt service obligation increases.

Significant Issues

- ✓ The swap is NOT revenue neutral for future transportation investments. The proposed swap removes any state obligation for funding transit by eliminating four core revenue streams with no replacement revenue. Further, while providing replacement revenue for highways and local streets and roads, the proposal exchanges sales taxes on fuels with an average growth rate of 4% annually for an excise tax with an average growth rate of 1% annually.

  When comparing what transportation would get under existing law over the next five years to the revenues generated under the swap scenario, transportation revenues would decline by an estimated $2.53 billion between 2010-11 and 2014-15.

- ✓ The proposal means a loss of substantial constitutional protections and certainty. The proposed funding swap eliminates the substantial constitutional protections afforded to Proposition 42 as they do not apply to HUTA funds. Proposition 42 revenues can only be borrowed twice in ten years and requires payback before borrowing again. Further, payback must occur within three years and with interest. Currently, the constitution allows the state to borrow HUTA with required payback within three fiscal years, but with no interest requirements and no restriction on consecutive or limited year borrowing.

The Bottom Line

While the proposal does not affect the current distribution of the 18-cent HUTA of which counties receive about $500 million annually, it does jeopardize the future growth potential and protections for counties' share of Proposition 42, which is currently estimated at about $300 million in 2010-11.

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Further, the Governor's proposed swap reduces the growth potential for all transportation funding in the state for the state system, cities and transit resulting in the reduction of job growth and economic development into the future.

Lastly, the swap would provide less certainty and stability by reducing restrictions on the borrowing of transportation funds into the future.

CSAC Staff Contacts. For further information regarding this budget proposal, please contact CSAC Housing, Land Use and Transportation staff: DeAnn Baker at 916/327-7500 x509 or dbaker@counties.org or Kiana Buss at 916/327-7500 x566 or kbuss@counties.org.

Recipe for Chaos: Shift of Responsibility for Felons to County Jails

The Governor is proposing to modify sentencing practices by allowing offenders convicted of specified non-serious, nonviolent, non-sex felonies to be incarcerated for up to one year and one day in local jails. The state would achieve savings of $291.6 million as a result. Crimes eligible under this proposal include auto theft, check fraud, grand theft, drug possession, grand theft, petty theft with a prior, possession for sale, receiving stolen property and theft with felony prior.

Why does this matter to counties? Currently, 32 county jails are operating under either a court- or self-imposed population cap. Further, approximately 200,000 county jail inmates are released early every year. The Governor's proposal to shift certain felons to county jails would further exacerbate overcrowding at the local level. While the state would benefit from cost savings and reduced prison populations, this proposal would wreak chaos in our county criminal justice systems, making population management of county jails more complex, pushing more county jail systems to the breaking point, forcing counties to release more offenders early with no services and supports to aid in the transition from detention back into the community, and impacting a range of county service departments from probation to mental health and drug and alcohol treatment. The Governor's proposal estimates that approximately 12,600 offenders would serve out felony sentences of up to 366 days in a county jail during 2010-11.

The state can't escape its obligation. The state appears to be relying on a theory that the mandate exemption regarding the creation of a new crime or changing the definition of a crime would allow them to shift the detention responsibility for felons to counties without triggering a violation of Proposition 1A (2004). Counties are not convinced that this theory will stand up given that the function of housing felons is one presently carried out by the state and the act of pushing down that responsibility to counties is indeed a cost shift, because it would require the counties to provide a new or higher level of service. As a practical matter, the shift of this population will result in nothing more that a push of offenders back into our communities. And with no transition plan or targeted treatment to create a smooth reentry, the proposal will only exacerbate the persistent cycle of recidivism that plagues our state. Further, it will do nothing in the short- or long-term to reverse the cycle of reoffending or to alleviate the unsustainable population levels in our state and local detention facilities.

Systemic reform needed. Counties oppose this approach unequivocally. Real solutions will result from comprehensive reform. CSAC's corrections reform policy acknowledges that "local and state corrections systems are interconnected, [and that] true reform must consider the advantage — if not necessity — of investing in local programs and services to help the state reduce the rate of growth in the prison population."

CSAC Staff Contacts. For further information regarding this budget proposal, please contact CSAC Administration of Justice staff: Elizabeth Howard Espinosa at 916.650.8131 or ehoward@counties.org or Rosemary Lamb at 916.650.8116 or rlamb@counties.org.

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GOVERNOR'S PROPOSED 2010-11 BUDGET: COUNTIES RESPOND

County "Savings" Proposal Shifts Costs for Children's Programs

The Administration proposes redirecting the county "savings" created by reductions to the CalWORKs and IHSS programs in the 2010-11 budget year. According to the Governor, these program reductions will create an estimated $505.5 million in county savings; in turn, the state would decrease state General Fund expenditures for certain children's programs and impose an increased county share of cost for Foster Care, Adoptions Assistance, and Child Welfare Services.

CUTS

Program	Description	Estimated State Savings	Estimated County Savings
CalWORKs	Reduce grants by 15.7 percent	$604 million	$15 million
CalWORKs	Eliminate services for legal immigrants	$57.6 million	$2.2 million
IHSS	Limit services to recipients with FI score 4 and below	$1.1 billion	$618.6 million
IHSS	Reduce state wage participation to $8.00 per hour	$338 million	Would not create any county savings
TOTALS		**$2.1 billion**	**$635.8 million**

The Administration proposes redirecting the county "savings" created by the proposed reductions above by decreasing state General Fund expenditures for children's programs and imposing an increased county share of cost.

SHARING RATIO CHANGES

Program	Current Sharing Ratio (State/County)	Proposed Sharing Ratio (State/County)
Foster Care	40/60	25/75
Adoptions Assistance	75/25	41/59
Child Welfare Services	70/30	30/70

NOTE: The sharing ratio adjustments would be permanent and the Administration's language provides no mechanism to halt them if the estimated savings fail to materialize.

CSAC Staff Contacts. For further information regarding this budget proposal, please contact CSAC Health and Human Services staff: Kelly Brooks at 916/327-7500 x531 or kbrooks@counties.org or Farrah McDaid Ting at 916/327-7500 x 559 or fmcdaid@counties.org.

CALIFORNIA Counties

GOVERNOR'S PROPOSED 2010-11 BUDGET: COUNTIES RESPOND

Governor's Proposals Could Shift $200 Million in Costs to Counties as General Relief Cases Rise

California's counties will bear the potentially large fiscal impact – up to $200 million a year – of the Governor's proposals to eliminate three immigrant assistance programs in 2010-11. Once the programs – CAPI, CFAP, and CalWORKs for recent non-citizen legal immigrants – are eliminated, former recipients, many of whom are seniors and/or disabled, will turn to the last aid available: County General Relief/ General Assistance.

Using data from the Department of Social Services on the number of cases and statewide average grant amount for November 2009, CSAC estimates that the Governor's proposals to eliminate CAPI, CFAP, and CalWORKs benefits for recent immigrants could result in 72,144 new General Relief and General Assistance cases. With the average monthly grant of $232, these cuts could cost counties nearly $17 million a month and $200 million a year – a direct cost shift to counties almost equivalent to the estimated savings for the state.

Each county is solely responsible for funding General Assistance or General Relief benefits. The program is designed to provide support to indigent adults who are not supported by their own means, other public funds, or assistance programs. Grants include cash aid and may include transportation and housing vouchers, gift cards and/or donations of needed supplies such as clothing and toiletries.

Governor's Budget Proposals

Program	Proposed Cut	Population	Estimated State Savings	Number of Recipients
Cash Assistance Program for Immigrants (CAPI)	Eliminate the program	Aged, blind, and disabled immigrants	$107.3 million GF	10,886
California Food Assistance Program (CFAP)	Eliminate the program	Aged, blind, and disabled immigrants	$56.2 million	37,258
CalWORKs for Legal Immigrants	Eliminate CalWORKs Grants for Recent Non-Citizen Legal Immigrants	All non-citizen legal immigrants who have been in the U.S. less than five years	$57.6 million	24,000
TOTALS			**$221 million**	**72,144 recipients**

All proposals assume an effective date of June 1, 2010, but estimated state savings are listed only for the 2010-11 fiscal year.

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NOTES

Source: General Relief/General Assistance Data, November 2009; California Department of Social Services; http://www.cdss.ca.gov/research/PG343.htm

GENERAL RELIEF/GENRAL ASSITANCE: County General Assistance or General Relief is designed to provide relief and support to indigent adults who are not supported by their own means, other public funds, or assistance programs. Each county's GA program is established by the Board of Supervisors, and benefits, payment levels, number of recipients, and eligibility requirements vary among each of California's 58 counties. Each county is solely responsible for funding General Assistance or General Relief benefits.

CAPI: Created in 1997, the CAPI assists aged, blind, and disabled people who do not qualify for federal Supplemental Security Income (SSI) because of their immigration status.

CFAP: Created in 1997, the CFAP provides state-funded food stamp benefits to qualified non-citizens who are not eligible for federal food stamp benefits.

CalWORKs: The Governor's proposed cut would affect non-citizen legal immigrants who have been in the U.S. less than five years, including the following individuals: Parolees; Conditional Entrants; Legal Permanent Residents; Permanently Residing in the U.S. Under Color of Law (PRUCOL); and Battered Non-citizens.

Sweeping Proposition 63 Funds for Two Years Would Gut Local Mental Health Services

The Governor has recycled a proposal from last year to sweep Mental Health Services Act (MHSA) funds for two years, but has upped the ante by doubling the amount to be taken each year to $452 million. Just last May, the voters soundly rejected his previous attempt at sweeping these funds.

The Governor proposes to use these MHSA funds to backfill the state funding in the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program and Medi-Cal Mental Health Managed Care. In other words, it would raid the MHSA to backfill the state's General Fund spending in other areas. However, the cost of decimating community mental health programs will be far larger, as untreated mental illness is the leading cause of disability and suicide and costs state and county governments billions of dollars each year in emergency medical care, long-term nursing home care, unemployment, state hospitals, juvenile justice, and jails and prisons.

This proposal comes at a time when the behavioral health needs of our communities are increasing due to the influx of Iraq and Afghanistan veterans, the stress of the economic crisis, and the elimination of funding for prevention and drug and alcohol treatment programs statewide. Furthermore, disinvestments out of mental health services will certainly lead to increased homelessness and increased pressure on General Assistance programs in our counties.

The Facts

- **County MHSA allocations will be reduced by:**
  - 50 percent in 2011-12
  - 29 percent in 2012-13

- **Loss of Federal Funding**
  California receives approximately $1.6 billion in FFP for the Medi-Cal program each year. If the Governor's proposal were to pass, the state would lose approximately $250 million in FFP each year.

- **Jobs and Opportunities Will Be Lost**
  With revenue losses of that magnitude, counties will layoff employees and eliminate contracts with private providers and community based organizations. In addition, fewer individuals will be served by the mental health system – imperiling the ability of individuals to recover and lead productive lives, with tax-paying jobs. The *indirect costs* of all mental illness imposed a nearly $79 billion loss on the U.S. economy in 1990 (the most recent year for which estimates are available) (*Rice & Miller, 1996*).

- **The Ballot Measure Includes Language to Divert an Additional $847 Million**
  The proposed ballot measure would also include language to allow the state to take and additional $847 million in 2010-11 if sufficient federal revenues do not materialize.

Where would the proposal leave us? The community mental heath safety net is the only tool we have to prevent individuals with serious mental illness from becoming homeless, institutionalized, or incarcerated. The Governor's scheme to use MHSA funding to reduce the state's funding responsibilities for other existing key statewide mental health programs is complicated and ill-conceived and will have long-term implications for counties' ability to provide services to our communities.

CSAC Staff Contacts. For further information regarding this budget proposal, please contact CSAC Health and Human Services staff: Kelly Brooks at 916/327-7500 x531 or kbrooks@counties.org or Farrah McDaid Ting at 916/327-7500 x 559 or fmcdaid@counties.org.

Our View: California Counties Respond to the Governor's 2010-11 Budget

The California State Association of Counties (CSAC), recognizing the serious and significant budget deficit facing state government, offers the following for consideration as the Legislature begins to address the Governor's budget proposals in the Eighth Extraordinary Session.

Regrettably, the Governor's proposed budget is based on unrealistic assumptions, significant risks, and cost shifts to counties. Just as the Governor seeks a fair and flexible relationship with the federal government, counties urge an equally fair and flexible relationship between the state and local governments as partners in the provision of services to all Californians.

Below we have offered other suggestions for approaching this fiscal crisis. Additionally, understanding that cuts must be made, we offer options for county fiscal relief and alternatives to the Governor's budget proposals, where possible. Our suggestions include the following alternatives proposed for your consideration and discussion:

- **Avoid new mandates/suspend pipeline mandates**
- **Seek alternative transportation funding proposal**
- **Consider options to mitigate corrections cost shifts**
- **Save on administration, spend on services**
- **Eliminate program growth and funding restoration**
- **Maximize federal funds**
- **Improve the state-county partnership**
- **Preserve programs that prevent costs in other systems**
- **Eliminate/consolidate state programs and services**
- **Consider new revenues and modernize the state's tax structure**
- **Seek broad government reforms**
- **Support pension reform**

AVOID NEW MANDATES/REPEAL SUSPENDED MANDATES/SUSPEND PIPELINE MANDATES

Given the serious fiscal crises facing the state and local governments, counties urge the Legislature to stop approving new mandates and consider suspending mandates that are currently awaiting adjudication by the Commission on State Mandates. The state has suspended funding for most reimbursable mandates and owes more than $1 billion in payments to local governments. It is irresponsible to continue to pass new laws that will likely require eventual reimbursement, while requiring local agencies to foot the bill for the near future when the state cannot fund the services required by existing law.

Since a number of mandates have been long-suspended, and counties consider a second year of mandate suspensions, CSAC supports two options for managing the problem of unpaid mandates:

1. **Repeal suspended mandates.** While many mandated services and programs are worthy policy objectives, it is unlikely that the state will be able to afford appropriate reimbursement of such mandates in the near term. Thus, counties support repeal of suspended mandates, so as to not shift the costs of these programs to local governments.
2. **Give a time-certain for mandate suspensions.** If the state is not willing to repeal suspended mandates, it should provide a time certain for suspension to allow counties some predictability in managing their own budgets and services.

Further, while awaiting action by the Commission on mandate claims, local agencies are required to provide the services outlined by new legislation. Given that the mandate determination process can take years to finalize, counties suggest that the Legislature suspend provisions of law associated with mandate claims awaiting action by the Commission. (The mandate adjudication process at the Commission could continue as usual.) Undoubtedly, many of these claims will result in reimbursable mandates that the state can ill afford.

> ***Budget alternative:***
> *Hold bills that mandate new programs or higher levels of service on local governments. Either repeal suspended mandates or provide a time certain for suspension of such mandates. Consider suspending provisions of law that are the subject of mandate claims currently before the Commission.*

SEEK ALTERNATIVE TRANSPORTATION FUNDING PROPOSAL

The Governor proposes to eliminate the sales tax on gasoline and diesel fuel, proceeds of which would fund the following in 2010-11:

- Proposition 42, valued at $1.573 billion for State Transportation Improvement Program (STIP), counties, cities and transit,
- Transit spillover valued at $879 million, and
- $475 million in additional transit revenue.

As a replacement for the sales tax elimination, the Governor proposes to institute a 10.8-cent excise tax on gasoline (Highway User Tax Account or HUTA) for allocation of $629 million to the STIP, $629 million to local streets and roads and $603 million to the General Fund for transportation bond debt service. This excise tax increase falls short of being revenue neutral by approximately $976 million, or the equivalent of a 5-cent per gallon tax cut in the initial year. Under the proposal, the total excise tax would increase to 28.8-cents per gallon in 2010-11, whereas the existing combined Proposition 42 and HUTA taxes currently equal 34-cents. The proposal would allow the State to increase the gas tax up to 5-cents for increasing debt service, but it is unclear how revenue available beyond the debt service obligation would be distributed.

Significant transportation deficits exist across all systems and modes. Based on the findings of the CSAC and League of California Cities comprehensive needs assessment, the local system preservation funding shortfall is $71 billion over the next ten years, with the State facing a similar shortfall for state system preservation. One alternative under consideration includes the imposition of a 5-cent fee on gasoline to pay the debt service. Regular meetings of transportation stakeholders continue to examine proposals that will address the General Fund needs, restore the transit funds, and avoid long-term reductions in the transportation system at a time when needs significantly outstrip available revenue streams today.

Budget alternatives:
Option 1—CSAC supports an additional 5-cent fee on gasoline to assist the state in meeting its transportation debt service requirements to alleviate the need for the swap.
Option 2—CSAC supports a modification to the swap that includes a replacement revenue stream for transit in lieu of the 5-cent tax cut, along with an indexing of the gas tax and additional constitutional protections equivalent to Proposition 42 revenues. Counties continue to work with transportation stakeholders to develop creative means for financing the state's critical transportation needs.

CONSIDER OPTIONS TO MITIGATE CORRECTIONS COST SHIFTS

The Governor's budget includes a proposal to increase county responsibility for incarceration of certain felons in county jails at a time when the state also is implementing a range of legislatively approved policy changes designed to offload prison costs and populations. The 2010-11 budget proposal contemplates changing sentencing law so that certain felons would serve time in jail rather than state prison. This proposal is nothing short of a wholesale cost shift to counties that many – if not all – jurisdictions are ill-equipped to manage, given that 32 counties currently are operating under a jail population cap. Further, counties contend that the state cannot escape paying for this obligation because it is effectively requiring the counties to take on a new or higher level of service – a clear violation of Proposition 1A (2004).

This proposal will undoubtedly result in more offenders being released early from our jails and expose counties to more lawsuits regarding overcrowding conditions. Further, these offenders — and others who likely will end up in our communities as a result of policy changes enacted in 2009 — will require reentry services if there is any hope of mitigating recidivism rates. This proposal — along with continued pressures to reduce state prison costs and population — will impact not only our criminal justice system and public safety partners, but will increase demands for alcohol and drug treatment, mental health care and vocational education programs.

Is it appropriate, for example, to consider dedicating a new revenue source, like the VLF, to counties to address the detention and service needs of this new population? Shedding of prison costs and population shifts the burden – directly or indirectly – to local government. Counties are being asked to deal with a population of criminal offenders in great need of services with few resources available to provide such services. Without action, the state is likely to see little progress in addressing its chronic recidivism problem and all levels of government will face increased costs. If counties do not advocate for funding to address the needs of this group – even while opposing the "jail dump" proposal outright – we will acquire more offenders locally and be forced to address their needs within our current program capacity.

> ***Budget alternative:***
> *The Legislature should consider increasing the VLF back to 2% and dedicate the new increment (0.85%) to build service capacity locally to manage this population.*

SAVE ON ADMINISTRATION, SPEND ON SERVICES

As a result of declining revenues and state budget cuts, counties have laid off and/or furloughed thousands of employees. The state, too, should review its administrative structures and begin to reduce administrative costs to better reflect the significant reductions in services the Legislature and Governor have approved and to more effectively direct scarce state resources to direct services. CSAC supports the Governor's proposal to reduce the state workforce by five percent, but we also suggest that the Governor and Legislature look at all of state government and, like counties must do, determine what is the appropriate and necessary level of staffing relative to the services now being provided.

A recent PPIC Survey (Neiman, Krimm, "Perceptions of Local Fiscal Stress During a State Budget Crisis"), with 37 counties responding, contained the following findings:

- 63% laid off employees
- 29% utilized work furloughs
- 29% reduced benefits for new employees
- 5% reduced benefits for current employees

Responding counties, in open-ended comments, said they took additional actions such as voluntary agreements to forego scheduled wage increases, voluntary salary decreases, and requests to reopen labor agreements to freeze COLAs, merit increases, or step increases resulting in significant deterioration in services and community conditions.

Budget alternative:
The state should consider measures to reduce the state workforce or scale back administrative costs to better match the levels of services now provided by state government.

ELIMINATE PROGRAM GROWTH AND FUNDING RESTORATION

With the exception of federally mandated funding for caseload growth, no program or department should be provided funding for growth of any kind, whether it be caseload or enrollment growth. When significant program reduction and elimination is considered for the basic safety net for California's most vulnerable—seniors and children—funding growth does not make sense. State departments should be forced to live with what they have for at least another year. Likewise, any restoration of funding should be delayed until at least next year.

Budget alternative:
Given the severity of the budget reductions currently on the table, it is reasonable to ask the state to hold programs and services to base funding for another year.

MAXIMIZE FEDERAL FUNDS

A number of the Governor's proposed budget cuts will be counterproductive if the federal government extends federal funding to states. For example, it appears likely that the federal government may extend temporary enhancements for Medicaid, Temporary Assistance for Needy Families (TANF), and other programs for at least two additional quarters. Therefore, counties suggest the Legislature take no action on the reductions in the Special Session that may impact these opportunities for federal funding. For example, the proposals to reduce CalWORKs will interact with any extension of the TANF Emergency Contingency funding. Until the extent of federal funding is known later this spring, counties strongly urge the Legislature to withhold action. As the Legislative Analyst points out, savings from CalWORKs grant cuts would be seriously eroded if the TANF Emergency Contingency is extended.

Budget alternative:
Focus on securing additional federal funds where possible and avoid action in the Special Session on any budget proposal that will negatively impact the ability of the state to secure additional federal flexibility or funding. CSAC will coordinate federal advocacy efforts with those of the Administration and Legislature.

IMPROVE THE STATE-COUNTY PARTNERSHIP

The Governor's budget includes a number of proposals that would permanently shift new populations to counties for services and eligibility. Other proposals shift costs to counties. While the Governor is critical of the federal government for dumping significant costs on states, his own spending plan does exactly that to counties. Such actions only further damage the government-to-government spirit of partnership that counties believe is integral to the success of any fiscal solutions. The Legislature should engage counties directly in discussions about implementation of budget solutions and should consider the broader implications of state budget decisions on local governments. Additionally, we encourage the Legislature to take meaningful action to offer at least some flexibility or fiscal relief to counties, as we grapple with the same economic realities as those facing the state. CSAC has prepared a list of options for local fiscal relief and mitigations, attached.

> ***Budget alternative:***
> *While counties realize that state budget reductions are imminent and that counties will likely see caseload and service increases as a result, we urge the Legislature to consider mitigations and other opportunities for local fiscal relief to allow counties to better manage the impacts.*

PRESERVE PROGRAMS THAT PREVENT COSTS IN OTHER SYSTEMS

Counties are very concerned that cuts to alcohol and drug treatment, mental health services, CalWORKs, and child welfare will lead to costs in other systems, particularly the justice system. The Governor proposes to eliminate the remaining $18 million for the Offender Treatment Program and shift $452 million out of local mental health (Proposition 63 ballot measure). In addition, CalWORKs grants would be cut by 16 percent. As the state struggles to reduce costs in the corrections systems, cuts to prevention programs are exceedingly short-sighted.

> ***Budget alternative:***
> *The state should place a priority on funding programs that reduce or avoid out-year costs in other programs. Given the state's chronic structural imbalance, investment in programs that reduce costs in other systems makes sense for long-term state fiscal planning.*

ELIMINATE/CONSOLIDATE STATE PROGRAMS AND SERVICES

Over the years, there have been numerous proposals to eliminate and consolidate state programs and services (primarily through the California Performance Review, but others as well). Counties have been forced to take similar actions locally in the face of declining local revenue and state support.

> ***Budget alternative:***
> *Seek all opportunities to move programs outside the General Fund to fee-supported or grant-supported financing. Consider elimination or consolidation of programs and services to fund priority programs.*

CONSIDER NEW REVENUES AND MODERNIZE THE STATE'S TAX STRUCTURE

Over the last two fiscal years, $60 billion in spending has been cut from the budget and yet the state remains $19 billion in deficit. The Governor's proposal to rely on nearly $7 billion in federal revenue has been widely panned by experts, including members of California's Congressional delegation. In all likelihood, the Governor's assumption about the receipt of federal funds will not materialize, meaning draconian "trigger cuts" to eliminate basic safety net programs will be on the table this year. Many believe at this point that the long-term budget crisis cannot be solved through additional cuts alone and that the one-time tricks and gimmicks have been exhausted. A number of interest groups, and even the non-partisan Legislative Analyst's Office, have urged the Legislature and Governor to consider new revenues. It is time that the state, with its county partners, consider which programs are vital and must be preserved. Once that determination is made, those priorities must be reconciled with the funding available. Potential ways to close the gap include, but are not limited to: closing tax loopholes, extending the tax increases that will expire in 2011, revisiting the VLF reduction, and pursuing some of the tax issues that have long been part of CSAC's platform – like lowering the vote threshold for local revenues to support local programs.

CSAC also supports modernizing the state's outdated tax structure, which relies heavily on revenue from a very few Californians and a goods-based economy. Broadening the sales tax base and reducing the overall sales tax rate, for example, could be an important step to restoring stability to state and local revenues.

> ***Budget alternative:***
> *The Legislature should consider reasonable revenue reforms that stabilize the state's boom-and-bust revenue cycle and provide stable and adequate funding for public services.*

SEEK BROAD GOVERNMENT REFORMS

Counties support broad government reforms that:

- Align responsibility with authority among state and local governments.
- Result in responsible and transparent decisions in state government.
- Reestablish accountability and responsibility between California residents and their elected leaders.

CSAC is continuing to evaluate the various reform proposals currently in circulation and will work with the Legislature on its own reform plans. However, it is imperative that reform proposals address the serious dysfunction that exists between the state and local governments.

> ***Budget alternative:***
> *The state's long-term fiscal stability requires meaningful government reforms, including appropriate financial support of jointly administered programs, flexibility to allow locals to adapt services and operations to meet local needs, reasonable local revenue-raising authority, focused legislative oversight, open and public legislative hearings, thorough fiscal review of legislative proposals, sound budgeting practices, and rational limits on legislative terms.*

SUPPORT PENSION REFORM

The unprecedented market decline of 2008 has serious and long-term consequences for public retirement funds. As employer rate changes begin to take effect, counties can expect employer contributions for pensions to account for a larger and growing share of their budgets. Because increased employer costs are coming at a time when counties are facing severe state budget cuts and unprecedented declines in local revenue, the sustainability of public pensions and public scrutiny is an evermore present issue.

The basic principle of county employer-employee relations is one of balancing the legitimate desires and needs of employees against the public's right to economical, effective, and stable government.

CSAC approaches the concept of pension reform and ongoing local negotiations over pension benefits with the overarching goal of ensuring trust in public pension systems and empowering local elected officials to exercise sound fiduciary management. To this end, CSAC has adopted a set of guiding principles that reflect local priorities and values. (A copy of these guiding principles, along with a catalogue of can be found in the Appendix.)

Pension Spiking Reform Proposal. A coalition of labor unions is expected to sponsor legislation to address "pension spiking". Spiking is the practice of granting pay increases or maximizing opportunities to cash out vacation or other benefits for the purpose of increasing a retirement allowance beyond what it would have otherwise been. The details of the proposal are unknown at this time, but to the extent the legislation is consistent with the reform guidelines discussed above, CSAC would likely support such a proposal. It is important to note however, that spiking reform is only one element of broader pension reform that should be discussed. Additionally, any spiking reform proposal must include the requirement that final compensation be determined based on a highest three-year average of employee salary and not the common twelve-month average which allows for mischief in attempting to maximize retirement benefits in the final year of employment.

Budget alternative:

The state's long-term fiscal stability requires meaningful government reforms, including appropriate financial support of jointly administered programs, flexibility to allow locals to adapt services and operations to meet local needs, reasonable local revenue-raising authority, focused legislative oversight, open and public legislative hearings, thorough fiscal review of legislative proposals, sound budgeting practices, and rational limits on legislative terms.

Appendix A. Additional Resources on Pension Reform

Pension Reform Guiding Principles

Protect Local Control and Flexibility
Local elected officials should be able to develop pension systems that meet the needs of their workforce, maintain principles of sound fiduciary management, and preserve their ability to recruit and retain quality employees for key positions that frequently pay less than comparable positions in the private sector. A statewide mandated retirement system is neither appropriate nor practical, given the diversity of California's communities. Further, a mandated defined contribution retirement system could force a reconsideration of the decision of local governments not to participate in Social Security.

Eliminate Abuse
Public pension systems provide an important public benefit by assisting public agencies to recruit and retain quality employees. Any fraud or abuse must be eliminated to ensure the public trust and to preserve the overall public value of these systems.

Reduce and Contain Costs
Public pension reform should provide for cost relief for government, public employees, and taxpayers.

Increase Predictability of Costs and Benefits for Employee and Employer
Responsible financial planning requires predictability. Employers must be able to predict their financial obligations in future years. Employees should have the security of an appropriate and predictable level of income for their retirement after a career in public service.

Strengthen Local Control to Develop Plans with Equitable Sharing of Costs and Risks between Employee and Employer
Equitable sharing of pension costs and risks promotes shared responsibility for the financial health of pension systems and reduces the incentive for either employees or employers to advocate changes that result in disproportionate costs to the other party, while diminishing the exclusive impact on employers for costs resulting from increases in unfunded liability.

Increase Pension System Accountability
Public pension systems boards have a constitutional duty to (a) protect administration of the system to ensure benefits are available to members and (b) minimize employer costs. The constitutional provisions and state statutes governing such boards should promote responsible financial management and discourage conflicts of interest.

Reform Proposals Endorsed by CSAC in 2005

The courts have ruled that vested retirement benefits cannot be reduced or eliminated without providing employees with offsetting benefit increases. Consequently, certain elements of the guiding principles and any complementary proposals are intended to apply to new public employees in both CalPERS and 1937 Act retirement systems.

- Restrict public safety retirement eligibility to only those groups of employees who must endanger their own physical safety to protect the public as a major component of their employment.
- Establish a formula cap for public safety at 2% at 50 and a formula cap of 2% at 60 for miscellaneous employees. The cost of any defined benefit or defined contribution retirement enhancements beyond the base pension formula must be paid in full by employee contributions unless the employer agrees to share not more than 50% of the cost.
- Require that "final compensation" be calculated using highest consecutive three-year average, as opposed to a single highest year.
- Provide local agencies the option to implement defined contribution retirement plans within both PERS and 1937 Act systems, as stand-alone benefits or hybrid systems. Remove barriers to providing defined contribution plans to individual employee units within retirement membership categories.
- Amend the County Employees Retirement Act to eliminate the cost of the Ventura court decision by removing factors outside direct salary in determining "final compensation." Note: awaiting definition of "direct salary."
- Limit application of pension formula increases to prospective service in order to avoid unfunded liability resulting from extension of benefits retroactively. All costs for the extension of retroactive benefits are the sole responsibility of the employee.
- Limit pension benefits to career employees by excluding from eligibility temporary employees and contract employees. Within the PERS system, seek a definition of "employee" that restricts the effect of the Cargill v. Metropolitan Water District case.
- Require that surplus excess earnings be used according to the following priorities: pay down unfounded liability, offset employer cost for Pension Obligation Bond (POB) debt service, and pay for benefits in effect as of January 1, 2006. Surplus excess earnings may not be used to pay for enhanced pension benefits.
- Utilization of rate stabilization "best practices" including: 5-year direct rate smoothing; establish a rate funding corridor of 85%-115% of assets after system is 100% funded; if funding level is outside of the corridor, provide a 5-15 year time frame for adjustment of rates to get back into the funding corridor; rate funding corridor should not be utilized to pay for new benefits; rate stabilization surcharge may be utilized.

- Pension Obligation Bond debt service should be disclosed in both employer and pension system actuarial reports.
- Upon agreement, permit employers and employees to share responsibility for all retirement system costs, including unfunded liabilities.
- Retirement boards and arbiters should not have the authority to grant pension formula increases nor should they act as advocates for pension formula increases. Note the PERS mission statement: "Our mission is to advance the financial and health security for all who participate in the System."
- Clarify the two-fold responsibility of retirement boards to (a) protect retirement system assets for the benefit of participants and (b) minimize employer contributions.
- Reform Industrial Disability Retirement (IDR).

GOVERNOR'S PROPOSED 2010-11 BUDGET: COUNTIES RESPOND

What can be done locally and with your legislative delegation?

Last year, CSAC provided various tools for communicating with the public and the Legislature. For example, when the state budget contained billions of dollars in program reductions, CSAC staff provided counties talking points during final adoption of county budgets, in an attempt to "connect the dots." Specifically, that state reductions to programs, which counties administer on behalf of the state, translate to cuts at the local level. It is evident that we must find ways that generate political pressure from the local level and assert that pressure directly to State legislators.

Staff has compiled a list of ideas to achieve this goal that is designed to assist in this discussion. Below are a number of approaches you may wish to discuss further for potential use at the local level, depending on how each county chooses to approach crafting a local response.

- Adopt resolutions/letters of objection to reductions
- Write letters to editors. Respond to articles/letters to the editor with facts about state budget reductions.
- Explain budget reductions to editorial boards.
- Author guest opinion-editorials and/or letters to the editor.
- Set up editorial board meetings on a key issue or service that is being affected by state budget actions.
- Provide weekly status reports from CAO to the board on state budget status/local impacts.
- Choose a day or week in April — which is County Government Month — to focus on local services (i.e. public safety day, public works day, etc.)
- Host a delegation "town hall" – video record it and put it up on You Tube.
- Utilize social media (Twitter, Facebook) to post facts about the state budget and how it impacts your constituents.
- Prepare a list of services that have been eliminated or reduced and are on the block because of the state budget cuts.
- Put a human face on the problem: Identify real people impacted by state budget cuts and help them write guest opinion-editorials or host press conferences locally with real service recipients.
- Partner with others impacted by budget proposals – community-based organizations, private sector employers, hospitals, clinics, etc. – for joint press conference to explain community impacts.
- Invite legislators to tour facilities and programs impacted by proposed cuts. Have staff and consumers prepared to talk about how they will impacted by proposed cuts.
- Direct letters to recipients receiving reductions with suggestions on who to contact to protest.
- Track and post the budget votes of your delegation on a web page. Have links to the delegation emails on the same web site as the vote tracking so constituents can easily see the vote and send a message to their representative.
- Attend district events with local legislators and engage them in public discussions about the state budget.