



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: CEO  
Department No.: 012  
For Agenda Of: 4/21/09  
Placement: Departmental  
Estimated Tme:  
Continued Item: 4/7/09  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Legislative Program Committee  
Director(s)  
Contact Info: Terri Nisich, Assistant CEO, 568.3412  
**SUBJECT: May 19, 2009 Election: Propositions 1A, 1B, 1C, 1D, 1E, 1F**

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**County Counsel Concurrence**

As to form: Yes

**Auditor-Controller Concurrence**

As to form: N/A

**Other Concurrence:**

As to form:

**Recommended Actions:**

That the Board of Supervisors

- (A) Receive a presentation regarding initiatives on the May 19, 2009 election known as Propositions 1A, 1B, 1C, 1D, 1E and 1F.
- (B) Determine whether the Board of Supervisors will issue a position on any and/or all of the propositions.

**Summary Text:**

On February 19, 2009, the State Legislature adopted a 17 month budget to address a \$42 billion budget shortfall, which included six propositions to be placed on the May 19, 2009 election ballot. This budget was subsequently signed into law by the Governor on February 20, 2009. These propositions include Proposition 1A (rainy day budget stabilization fund); Proposition 1B (education funding); Proposition 1C (lottery modernization); Proposition 1D (protects children' services funding), Proposition 1E (mental health services funding) and Proposition 1F (elected officials' salaries). The propositions are considered to be part of the budget compromise reached by the Legislature and Propositions 1C, 1D and 1E provide revenues directly to the State General Fund for fiscal year 2009-2010. Propositions 1A, 1C, 1D and 1E also impact revenues in additional fiscal years through 2012-2013. If the propositions fail, then the State budget will not be considered balanced and the Legislature will need to consider alternatives to address the budget shortfall.

Regardless of the outcome of the election, the State's current budget is already considered fragile, as the CA Legislative Analyst's Office released a report entitled "2009-10 Budget Analysis Series: The Fiscal Outlook under the February Budget Package" on March 13, 2009 that projects a budget shortfall of \$8

million for fiscal year 2009-10 due to the continued decline in revenues. The report notes that, without corrective action, the deficit will grow to \$12.6 billion in 2010-11 and \$26 billion in 2013-14.

However, two of these propositions, Propositions 1D and 1E, redirect funding sources to the State General Fund. Proposition 1D would redirect between 50-65 percent of local Proposition 10/First 5 to the State General Fund. Such a proposal is contrary to the County's legislative principle of local control and the Board of Supervisors' position on preserving Proposition 10 funds (on July 1, 2008, the Board unanimously adopted a resolution supporting the preservation of Proposition 10 funds and opposing diversion of Proposition 10 funds). Proposition 1E amends the Proposition 63/ Mental Health Services Act to transfer funds for two-year period to the State General Fund to pay for mental health services for children and young adults provided through the Early and Periodic Screening, Diagnosis and Treatment Program. Therefore, this item is on the Board of Supervisors' agenda to receive a presentation on the propositions and determine whether the Board will issue a "support," "oppose" or "neutral" position on any and/or all of the propositions.

**Background:** *Proposition 1A – Rainy day budget stabilization fund*

This proposition increases the State's rainy day fund from five percent to 12.5 percent of the State's General Fund. In addition to increasing the amount of money set aside in the fund, the proposition also limits the use, or withdrawal, of these funds for education, infrastructure, debt repayment and declared emergencies. Proposition 1A gives the Governor more authority to cut spending, specifically by (1) reducing spending for general state operations or capital outlays up to seven percent and (2) reducing cost-of-living-adjustments for any program within the annual budget. If Proposition 1A is approved by the voters, tax increases included within the February 2009 budget would be extended for one to two years. The one cent sales and use tax will be extended one year from 2011 to 2012, the personal income tax increase of .25 percentage points for each tax bracket will be increased and the tax credit for dependents reduced from \$309 to \$99 for two additional years through the 2012 tax year and the vehicle license fee increase from .65 percent to 1.15 percent of a vehicle's value will be extended for two years through 2012-2013. Of the 1.15 percent increase, .15 percent will be dedicated to local public safety programs previously funded by the State General Fund. In total, Proposition 1A will generate about \$16 billion in revenue through 2012-2013. If this measure is approved, then the tax increases will be extended and the State will be in the position to realize the projected revenue associated with these increases.

*Proposition 1B-Education Funding Payment Plan*

This proposition requires supplemental payments totaling \$9.3 billion to be made to local school districts and community colleges beginning in 2011-2012 with payments made from the State's Budget Stabilization Fund until the total amount has been paid. This measure is linked to the passage of Proposition 1A. Proposition 1A creates a Supplemental Education Payment Account and requires the State to annually deposit 1.5 percent of General Fund revenues into the account starting in 2011-2012 until the \$9.3 billion in supplemental payments has been reached. Therefore, if the electorate does not approve Proposition 1A, Proposition 1B also fails. If both Propositions 1A and 1B are approved, then supplemental payments will be made to education.

*Proposition 1C- Lottery Modernization Act*

This proposition allows the State lottery to be modernized, requires the State to maintain ownership of the lottery, protects funding for schools from the lottery and allows the State to borrow \$5 billion from future lottery profits to balance the fiscal year 2009-2010 budget. If this measure is approved, the State will be allowed to borrow \$5 billion from future lottery profits to balance the fiscal year 2009-2010

budget and educational institutions will no longer receive payments from the lottery, but rather, from the State General Fund.

*Proposition 1D- Protects Children's Services Funding*

This proposition redirects between half and two-thirds of the annual Proposition 10/ First 5 revenue for the fiscal years 2009-2010 through 2013-2014, to the State General Fund. Proposition 10 was passed in 1998 and funds early childhood development programs for children up to age five from tobacco taxes. Specific program areas funded through Proposition 10 include family functioning, child development and child health. The annual redirection from the State Commission and local commission funds will be \$268 million, for a five-year total of about \$1.6 billion. The Proposition also redirects up to \$340 million of available unspent reserves held by the State Commission as of July 1, 2009 toward other State health and human services programs for children up to age five.

In addition Proposition 1D changes how First 5 commissions receive their funding, stating that First 5 commissions will receive their funds only after the full \$268 million has been raised for the state budget. Currently First 5 commissions receive tobacco tax revenue on a monthly basis, allowing them to plan their spending and manage their operations responsibly. The new requirement in Proposition 1D will radically alter commission operations, potentially closing the doors of some commissions for a portion of each year.

Currently, First 5 Santa Barbara County receives an allocation of \$5,010,000 from the Proposition 10 tobacco tax. A 50 percent funding reduction will equate to \$2,543,000 and will also impact First 5's ability to leverage additional funding through public and private partnerships. Over five years, First 5 will lose about \$12,600,000. These funds have been programmed over a long range fiscal and strategic plan. The loss of dollars will require re-programming and will result in less dollars being dispersed to local public and non-profit partnering agencies. In addition to the direct loss of First 5 monies, the ability of these agencies to leverage dollars with other public and private agencies is compromised. In addition, redirected funds will be spent at the discretion of the Legislature, albeit for health and human services, rather than for locally-determined needs and priorities pertaining to children.

Proposition 1D also requires First 5 revenues to be used for "direct services," even though direct services are only one aspect of First 5's investment in children. County shared funding of such initiatives as the children's health initiative, insurance premiums, renovation of childcare facilities and training and recruitment of childcare, preschool and medical providers might not be considered "direct" services; therefore, First 5's ability to contribute to these types of initiatives may be jeopardized.

Impacts specific to State First 5 funding include that Proposition 1D omits the six percent allocation to mass media and increases the allocation for general program purposes to eight percent from the State First 5 funding formula; ensures that every county commission has a base level funding of \$400,000 and allows a county controller to borrow local commission funds for a county's general fund, with borrowed funds subject to repayment with interest.

Furthermore, Proposition 1D amends the California Children and Families Trust Fund (State First 5) to allow funds to be used for direct health care services, human services, including services for at-risk families who are involved with the child welfare system administered by the county welfare department and direct early education services, including preschool and childcare. Furthermore, reserves greater than \$275 million that have not been encumbered or expended by July 1, 2009, may be redirected to support State health and human services program for children up to five years of age. State health and human services programs includes, but is not limited to, early intervention and prevention services for

infants and toddlers with development disabilities, child welfare services, adoption assistance, foster care, kinship guardian assistance payments and direct health care services.

For Fiscal Year 2009-10, the amount of First 5 monies that would be transferred to Social Service children's programs statewide would be approximately \$276 million. This amount partially offsets the \$635 million of State General fund dollars currently allocated (43%) to various social service children's programs. Since Proposition 1D funding offsets State General Fund dollars in many different programs, all with different funding requirements, it is still premature to determine the fiscal impact on the County's Department of Social Services. However if Proposition 1D does not pass and the State Legislature and State Administration does not backfill the revenue loss in these programs, the County Department of Social Services would experience critical losses that may limit its ability to provide services to at risk children and limit its ability to generate additional federal revenue.

At the crux of this proposition is a potential tradeoff between utilizing funding for local community programs, decided upon locally, for children age 0 to five in exchange for possible funding of other health and human services. The recently adopted State budget has already made funding cuts to health and human service programs. Should this proposition not pass, there may be additional cuts to the State programs, which may likely be in the area of corrections or and/or health and human services as these are the largest categorical expenditures within the State budget. If this proposition is approved, then funding pressure on the State General Fund for health and human services may be mitigated.

#### *Proposition 1E- Mental Health Services Funding*

This proposition amends the Mental Health Services Act, Proposition 63, to transfer funds to mental health services provided through the Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT) for two years. Proposition 63 was approved by the voters in 2004 and provides funding for new or expanded mental health programs through a personal income surcharge (one percent for every \$1 million). Specifically, Proposition 63 funds expanding community services, workforce education and training, building capital facilities, expanding prevention and early intervention programs and establishing innovative programs. Under this proposal, \$230 million will be redirected from Proposition 63 funds to the State General Fund for the EPSDT program for two years, starting in fiscal year 2009-2010. EPSDT is a federally mandated program that requires States to provide screening, diagnosis and medically necessary treatment, including mental health services, for Medi-cal beneficiaries under the age of 21. The State Department of Mental Health contracts with the County's Alcohol, Drug and Mental Health Services Department (ADMHS) to provide these services.

If the measure is approved, ADMHS is currently unsure of the impacts. Unlike Proposition 1D, Proposition 1E does not describe which MHSA funds will be diverted. The California Mental Health Directors Association (CMHDA), an affiliate of California State Association of Counties (CSAC), has taken a position of "neutral" on the ballot initiative. If the voters approve this initiative, CMHDA's principles on how the MHSA funds should be prioritized for this purpose is to ensure that whatever solution is implemented is done with the intention of doing the least harm possible to already existing mental health services. This would include both Community Services and Supports (CSS) and Prevention and Early Intervention (PEI) – funded services and supports. In addition any component or program of state-administered and statewide programs should be prioritized for redirection needed to support the EPSDT program. One of ADMHS' functions is to protect direct mental health services for people in need. Any diversion of MHSA funding will impact ADMHS's ability to provide these types of services. ADMHS has received \$14 million from MHSA in fiscal year 2008-09 and is projected to receive \$24 million in fiscal year 2009-10. At a time when State funding for all health and human services programs is being reduced, MHSA provides one of the few flexible funding streams available to

meet the needs of persons with serious mental illness. Major cutbacks due to reduced sales tax and vehicle license fees, and the elimination of state funded programs such as the supportive services for persons with mental illness who are also homeless as required through AB2034 have occurred in the past several years and are expected to continue, resulting in funding losses to mental health programs. If this proposition is approved, then funding pressure on the State General Fund for certain mental health services may be mitigated.

*Proposition 1F- Elected Officials' Salaries*

This proposition prevents elected members of the Legislature and statewide constitutional officers from a pay raise in years when the State is running a deficit. If this proposition is approved, there will be no pay raise for these individuals in certain years, which will achieve minor statewide savings.

*Other considerations*

The California State Association of Counties (CSAC) Board of Directors voted a position of "neutral" on all six propositions during its March 19, 2009 meeting. A copy of the memo prepared by CSAC staff on the measures is attached for reference. While CSAC is cognizant that some of the propositions would affect programs managed by counties, the propositions are tied to the adopted State budget. If any of the propositions fail, the State's volatile budget (and cash flow) could be further jeopardized. CSAC represents the organization as a whole and its 58 county members. Individual counties may consider the propositions and take action as determined by the local board of supervisors.

A coalition of taxpayers, business, labor, seniors, public safety organization has formed "California Budget Reform Now" ([www.cabudgetreformnow.com](http://www.cabudgetreformnow.com)) and is supporting all of the propositions. Howard Jarvis Taxpayer Association and Health Access have filed a lawsuit on Proposition 1A claiming the measure summary is misleading and does not specifically mention the tax extensions. These two organizations are also part of the "No on Prop. 1A" Coalition (more information is available at <http://www.hjta.org/proposition-1a/who-opposition-coalition-fighting-prop-1aw>) The argument in favor of this proposition including within the voter guide is signed by "California Budget Reform Now", the California Taxpayers' Association, the California State Sheriffs' Association and the California Secretary of Education. Arguments against Proposition 1A are signed by the Congress of California Seniors, the California Faculty Association and the Consumer Federation of California.

The California Teacher's Association is in support of Proposition 1B. No organization has submitted an argument against Proposition 1B within the voter guide. Proposition 1C supporters include California Budget Reform Now, California State Sheriffs' Association, California Secretary of Education and California Business for Education Excellence. State Senator Bob Huff has written the argument against Proposition 1C.

The Association of Regional Center Agencies has written the argument in favor of Proposition 1D while the argument against the measure has been signed by a Maternal-Child Health Specialist, the Associate Director of Medical Education Children's Hospital & Research Center, Oakland and the Executive Director of the California Family Resource Association. Organizations, including the First 5 Association of California, are part of the "No on Proposition 1D" campaign ([www.NoOnProposition1D.com](http://www.NoOnProposition1D.com)). The California Welfare Directors Association has taken a "neutral" position on the proposition. The argument in favor of Proposition 1E has been written by Senate President pro Temp Darrell Steinberg, whom also co-authored Proposition 63. State Senator Lou Correa has written the argument against the measure. The California Council of Community Mental Health Agencies is also opposed to this measure and is part of the "No on Proposition 1E" campaign ([www.noprop1e.com](http://www.noprop1e.com)). The California Mental Health Directors Association (CMHDA), an affiliate of California State Association of Counties (CSAC), has taken a position of "neutral" on the ballot initiative.

The argument in favor of Proposition 1E is written by Senator Maldonado and is supported by the National Tax Limitation Committee and the Small Business Action Committee. The argument against the measure is written by Pete Stahl, Pete Rates the Propositions.

**Performance Measure:**

**Fiscal and Facilities Impacts:**

Budgeted: No

Proposition	State General Fund FY 09-10 Impact	County FY 09-10 Impact	State General Fund Impact Through FY 2013-2014	County Impact Through FY 2013-2014
1A	Not significant	Not significant	\$15 billion in revenue	Unknown/indirect impact.
1B	None	None	\$800 million in costs	Unknown, local school districts and community colleges may receive portion of supplemental payments
1C	\$5 billion in revenue	Unknown/indirect impact. Revenue used to balance budget and fund multiple programs.	\$400 million annual costs	Unknown/indirect impact.
1D	\$608 million savings	\$2.5 million loss to County First 5; impact to County Social Services is under analysis as measure does not clearly state impacts to local social services.	\$268 million savings annually	\$12.6 million loss to First 5. Impact to County Social Services is under analysis as measure does not clearly state impacts to local social services.
1E	\$230 million savings	Impact to County ADMHS is under analysis as measure does not clearly state impact to local mental health departments.	\$230 million savings in 2010-11	Impact would be for two years, although the impact to ADMHS is under analysis as measure does not clearly state impact to local mental health departments.
1F	Not significant	None	Not significant	None

See "California Fiscal Outlook" produced by the CA Legislative Analyst Office on March 24, 2009, available at [http://www.lao.ca.gov/handouts/state\\_admin/2009/California's\\_Fiscal\\_Outlook\\_03\\_24\\_09.pdf](http://www.lao.ca.gov/handouts/state_admin/2009/California's_Fiscal_Outlook_03_24_09.pdf)

Proposition 1A: No significant effect on the fiscal year 2009-2010 budget; however, it generates tax revenues of \$15-16 billion from 2010-11 through 2012-2013.

Proposition 1B: No significant effect on the fiscal year 2009-2010 budget; however, it generates higher annual costs of about \$800 million by 2013-2014.

Proposition 1C: Revenue is estimated to generate \$5 billion in fiscal year 2009-2010 and this revenue source has been used to balance the State's current budget. There is also a projected net increased cost of \$400 million annually through 2013-2014.

Proposition 1D is estimated to generate \$608 million in fiscal year 2009-2010 and \$268 million each year thereafter. While Proposition 1D will shift local First 5 revenues to the State, the funds will be used for health and human services for children, including services for at-risk families, services for children with disabilities, and services for foster children, and temporarily allows the redirection of existing money to fund health and human service programs for children 5 years old and under. A 50 percent funding reduction would equate to a loss of \$2,543,000 to First 5 Santa Barbara County. For Fiscal Year 2009-10, the amount of First 5 monies that would be transferred to Social Service children's programs statewide would be approximately \$276 million. This amount partially offsets the \$635 million of State General fund dollars currently allocated (43%) to various social service children's programs. However, the financial impact to the County Department of Social Services is not known at this time.

Proposition 1E is estimated to generate \$230 million a year and transfer Proposition 63 funds to the State General Fund to pay for mental health services for children and young adults provided through the Early and Periodic Screening, Diagnosis, and Treatment Program.

Proposition 1F has minor statewide cost savings.

Overall, the State budget comprise reached in February 2009 assumed the passage of these various propositions, which tie to over \$20 billion in revenue, borrowing ,potential cuts and increases in education spending. If Proposition 1A fails, there will be revenue shortfalls in future years. If Proposition 1A fails, so does Proposition 1B. The failure of Proposition 1C will result in a \$5 billion budget shortfall. If Propositions 1D and 1E fail, there cannot be a redirecting of these funds as any redirect does require voter approval. However, if these two propositions fail, the State will be required to make up the funding shortfall offset by the proposed redirecting of funds through other programmatic cuts, which will likely be in health and human services programs.

**Fiscal Analysis:** \*

**Staffing Impacts:**

**Legal Positions:**

**FTEs:**

**Special Instructions:**

**Attachments:**

1. Text of Proposed Laws from the CA Secretary of State, Official Voter Information Guide, May 19, 2009
2. Propositions Title and Summary/Analysis from the CA Secretary of State, Official Voter Information Guide, May 19, 2009
3. March 5, 2009 CSAC Staff memo to CSAC Executive Committee Re: Measures on May 19 Special Election Ballot
4. Impact Report: Impact of Prop 1D on First 5 Programs Serving Children & Families prepared by County of Santa Barbara First 5

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April 21, 2009  
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**Authored by:**

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**cc:**

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