

TO: Members, Board of Supervisors
County of Santa Barbara

FROM: Cliff Berg, Legislative Advocate
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RE: 2011 End of Year Update

DATE: December 22, 2011

Budget update

With the state facing a \$13 billion budget shortfall, Governor Jerry Brown announced Tuesday, December 13th that the state budget "trigger cuts" would be enacted thereby authorizing \$1 billion in automatic spending reductions, including \$100 million in cuts to In-Home Supportive Services and \$100 million in cuts in spending to the overall developmental services budget that funds certain services through the 21 non-profit regional centers and 4 state operated developmental centers for eligible children and adults with developmental disabilities. Those cuts take effect on or sometime after January 1, 2012 (the exact effective date varies depending on the specific reduction).

The only glimmer of good news is that the Governor does not expect to propose any additional mid-year cuts beyond what will be implemented through the \$1 billion "trigger cuts".

Higher education was also hard hit with major reductions, though cuts to K-12 education was far less than feared by education advocates. The cuts to IHSS have been blunted - at least for now - by a federal court order until a January 19th court date. No details yet have been released on the specific cuts to developmental services.

While everyone is hopeful that the state's economy will continue to improve and hopeful that voters will approve the Governor's proposed temporary tax increases, the Governor warned that his proposed 2012-2013 State Budget that he will release on January 10th will contain more proposed reductions - though not additional mid-year spending cuts beyond the \$1 billion from the state budget "trigger cuts" pulled.

Other health and human services programs - including those impacting directly people with disabilities, mental health needs, seniors and low income families - were not targeted with specific trigger cuts - other than a \$15 million reduction to Medi-Cal managed care plans. The "trigger cuts" however did not authorize any other additional cuts to Medi-Cal.

The Governor and Department of Finance Director, Ana Matosantos, presented updated and revised 2011-2012 State Budget numbers which showed state revenues falling below what the Governor and lawmakers had hoped for last June when the budget was passed

and signed into law. Also of note, in mid-November the non-partisan Legislative Analyst released his mid-year report on the 2011-2012 State Budget, showing that California is facing a \$13 billion budget deficit by June 30, 2012 unless the Governor and Legislature take action to correct the problem in this next round of budget discussions. We will continue to keep you updated as this process unfolds.

Status of Reapportionment lawsuits

Although the state's high Court rejected the petitions filed by Republican activists against the maps for California's 40 state Senate districts and 53 congressional districts, the Senate Republicans were successful at obtaining the necessary signatures to potential have the courts intervene based on the language in Prop. 20 that stated if there was a possible referendum, the courts must get involved. The only issue is that Prop. 20 does not specify what the courts must do, so that will be determined in early January of 2012.

Pension Reform Update

As we reported at the end of the legislative session that they legislature had called for a conference committee to review pension reform. In late November the legislature held their first informational hearing on the Administrations 12-point pension reform which revealed that many local government workers would pay more under an even employer-employee cost split.

Nearly all state workers with the exception of the Highway Patrol, firefighters and judges are already paying half of the “normal” cost of their pensions, which does not include the “unfunded liability” that can cause the employer share to more than double.

But a CalPERS fact sheet prepared for a legislative hearing last week showed that nearly all of the local government employees in the giant system, with the exception of non-teaching school employees, are paying less than half of the normal cost.

A boost in what employees pay for their pensions would allow employers to cut their pension payments by a similar amount. So the governor's pension plan could provide budget relief for struggling local governments, which is something he believes is important. This hearing was so important that the Governor himself showed up to present the 12 point plan.

Some of the new equal-share policy could be enacted through legislation. About a third of state workers, the Governor said, are managers and supervisors not covered by collective bargaining.

“Setting minimum and maximum annual rate increases until the base line is achieved could be a reasonable way to implement this, we think,” his officials told the legislators.

He said the plan calls for an equal split of normal costs, not the full cost that includes the unfunded liability, because “we don't want to attach that to the new members coming in.”

The “normal” cost is the amount actuaries say is needed, with investment earnings, to pay for pension obligations accrued in the current year. The “unfunded liability” is the pension debt from previous years, mostly due to investment losses.

The fact sheet said the California Public Employees Retirement System, which covers about half of all non-federal government workers in the state, was about 75 percent funded as of last June 30 with an unfunded liability of \$85-90 billion.

Investment earnings are expected to provide most of the revenue for California public pension funds. The CalPERS investment fund, \$225 billion last week, is still well below its peak of \$260 billion four years ago.

The fact sheet gave this breakdown of the sources of the typical CalPERS dollar: investment earnings 66 cents (historically as high as 75 cents), employers 21 cents, and employees 13 cents.

Governor Brown reminded the legislators that he proposed never-enacted pension reform in the last budget of his previous term, 1982, and was mayor of Oakland in 1999 when the Legislature enacted a major pension increase for state workers, SB 400.

CalPERS told legislators the cost of the pension increase would be covered by a surplus and investment earnings. But the state CalPERS payment, dropped to \$150 million as the stock market boomed in 2000, soared to \$2.5 billion five years later.

The best-known provision in SB 400 was a 50 percent pension increase for the Highway Patrol, providing retirement at age 50 with 3 percent of final pay for each year served.

To remain competitive with the trendsetting Highway Patrol, many local police and firefighters have bargained similar pension increases. And personnel costs are a major part of local government budgets.

Governor Brown referred to the state’s role in increasing local pensions and the Legislative Analysis last month that state CalPERS payments, \$3.6 billion this year, will increase to \$3.8 billion by fiscal 2016-17.

“PERS contributions over the next three or four years only grow by a couple hundred million,” Brown said in reply to a question from Sen. Joe Simitian, D-Palo Alto, about whether his plan puts “parameters” around local pensions.

“That percentage is smaller relative to our overall general fund than is faced by San Jose, Los Angeles, San Francisco or Oakland,” the governor said. “I think because there has been a resort to state action in local benefits, and then it’s reasonable to continue in that tradition to bolster the funds and make them more solvent.

The Legislative Analyst doubts that an equal split of normal costs can be applied to current workers without infringing on their vested rights, which limit most cost-cutting pension changes to new hires.

But there is legislative and union support for parts of the Brown plan that curb abuses, such as “spiking” to boost pension payments. The two-house committee is expected to issue a reform package next year, probably before budget action heats up in June.

Sponsored Legislation by the County of Santa Barbara

AB 412 (Williams) The bill has received bi-partisan support to date. The bill made it through the Assembly and the Senate. The bill became law on September 7, 2011 without a Governor’s signature; he had many concerns about fines and the ability for individuals to keep up with them in addition to locals using them as a way to balance their books. With this bill now becoming law it has the potential to bring the county \$600,000 per year for the next two years to support the trauma system.

AB 537 (Williams) This bill co-sponsored with SBCAG and is related to the highway 154 issue. The bill was a two year bill as the County continued to work with CHP and others to gather the necessary data to substantiate our claims. We have talked with Assembly Member Williams staff and the SBCAG lobbyist and after many meetings it was determined that a resolution is the best course of action at this time, this will be introduced when the legislature returns in January.

AB 765 (Achadjian) This bill was introduced at our request by Assembly Member Katcho Achadjian on behalf of our DA, Joyce Dudley and is part of the Board of Supervisor’s platform. The bill had bi-partisan support but was held in the Senate Public Safety Committee on June 28, 2011 due to concerns that the bill would create a new crime. This measure will allow the penal code to catch up with modern day life related to sexually violent crimes and allow for DA’s to properly prosecute offenders. The bill is considered a two-year bill but since we are in the second house, we will plan to move it later in 2012.

AB 1356 (Eng) This bill attempted to address a local issues related to wine tasting rooms and better regulation of them in our local communities. We had several stakeholder meetings on this bill with ABC, The Family Wine Makers, the Wine Institute and various vintners’ associations throughout California. In an effort to get the best outcomes we have decided to make this bill a two-year bill to ensure we have a strong and successful bill to move forward next year. We also continue to work with Assembly Member Williams office as he is trying to address the constituents concerns as well at the local level along with our Board.

Quagga Mussels/Zebra Mussels – while this continues to be part of the platform, there was not a formal bill introduced in 2011. We have begun meetings with our delegation on this issue and there seems to be some general interest in possibly pursuing a bill in 2012. We are continue to work out the details and will keep you posted on the outcome.

Legislation of interests to the County of Santa Barbara

AB 1417 (Hall) This bill is supported by the County. The bill is sitting on the Senate floor waiting to be heard and will then have to go back to the Assembly for concurrence in the Senate amendments. The bill would have appropriated \$18,200,000 for the Indian Gaming Special Distribution Fund to the California Gambling Control Commission to provide grants to local government agencies impacted by tribal gaming; however in the Senate Appropriations Committee they amended the bill down to \$9.1 million. While this funding is less than what is owed, keep in mind that the legislature has attempted to release this funding over the last few years unsuccessfully. This measure was signed into law on October 9, 2011.