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**REVISED
AGENDA ITEM #12**

Board of Supervisors
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December 16, 2008

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

Dear Supervisors:

**STATE BUDGET REDUCTIONS, DEFERRALS,
AND TARGET HIRING FREEZE SAVINGS - FISCAL YEAR 2008-09
(ALL DISTRICTS AFFECTED) (3-VOTES)**

SUBJECT

Board approval is recommended for budget adjustments to realign the County budget with State budget reductions and transfer funding from various budget units to supplement funding set aside as an economic reserve.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the attached appropriation adjustment (Attachment I) that transfers \$17,932,000 in net County cost from the Provisional Financing Uses budget unit to various County departments to provide bridge funding related to State budget reductions.
2. Approve the attached appropriation adjustment (Attachment II) that transfers \$144,203,000 in net County cost from various budget units to the Provisional Financing Uses budget unit to be set aside to supplement the County's economic reserve.

"To Enrich Lives Through Effective And Caring Service"

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PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On October 7, 2008, we reported to your Board as part of the 2008-09 Supplemental Budget recommendations, that due to worsening economic conditions and budget uncertainties at both the State and federal levels, we would return to your Board with recommendations on the following:

- Implement initial actions to align the County budget with the State adopted budget;
- Defer or eliminate funding provided during the 2008-09 Proposed and Final Changes Budget phase; and
- Develop recommendations regarding Countywide hiring freeze targets.

State Budget Impacts

Our office, in consultation with County departments, reviewed the adopted State budget cuts and analyzed their impact on County administered programs and the County Budget. Given the sharply deteriorating economic conditions facing the County, the extremely negative near-term economic outlook, the prospect of additional State budget actions, and the County's Budget Policy [4.030(5)] not to backfill State and federal programs, we are recommending that the County provide funding to backfill only two State budget actions for the remainder of the fiscal year, both related to inpatient psychiatric care.

Overall, the impact of the State adopted budget creates a \$113.8 million shortfall. The majority of the shortfall has been already addressed in the County's adopted budget. The action requested today is to realign the remaining County programs impacted by the State budget, which totals \$17.9 million.

We recommend that your Board provide a total of \$11.6 million in one-time funding for mental health programs to continue to keep 224 inpatient psychiatric beds open. The first recommendation provides \$6.3 million for ancillary services for Institutions for Mental Diseases (IMD) beds to preserve 192 beds. The second is \$5.2 million to cover a cost increase for State hospital beds that would require the Department of Mental Health to shut down 32 inpatient psychiatric care beds. Funding for these services has

enabled the Department of Mental Health (DMH) to relieve the long-standing problem of overcrowding of mental health patients in County hospitals and County jails. We are recommending the use of one-time funding for this fiscal year until these reductions can be considered along with other reductions the County may be facing in Fiscal Year 2009-10. Our office and DMH are examining expanding capacity by using Mental Health Services Act (MHSA) funding for IMD Step Down facilities. However, developing these sites is a lengthy process and cannot be implemented immediately. Currently, IMD step-down programs funded with MHSA dollars are full.

Due to delays in adopting the State budget, the County plans to implement most of the State budget impacts effective January 1, 2009, except as noted above. In addition to the \$11.6 million noted above, we are recommending that an additional \$6.3 million in one-time net County cost be transferred from the Provisional Financing Uses budget to County departments impacted by the State budget cuts. This transfer will provide six (6) months of funding and allow for an orderly process to implement the program reductions. Attachment III is a listing of the recommended amounts to be transferred along with other adjustments to the budget for State budget action.

A more detailed description of how State budget actions impact the County appears in the Impact to Current Services section of this letter.

Given that the State is now facing an \$11.2 billion current year shortfall and a \$27.8 billion shortfall next year, we may return to your Board at a later date with additional recommendations to further realign the County Budget with State budget actions as a result of subsequent actions the State may take. As a consequence of this, coupled with the grim economic outlook we face, the County should continue to build on our early successes of new initiatives and efficiencies while eliminating unnecessary spending. The actions recommended in this report are a first step to addressing what will be a more significant budgetary shortfall in the future.

Review of New or Expanded Programs

Our office, in consultation with County departments, reviewed new or expanded programs that received additional funding during the 2008-09 Proposed and Final Changes Budget phases to determine if the program funding could be deferred or eliminated. We also reviewed funding earmarked for capital programs. We are recommending that \$144.2 million be transferred to the Provisional Financing Uses budget as outlined in Attachment IV. This amount would be used to supplement \$80.5 million already set aside as an economic reserve, bolstering the economic reserve amount to \$224.7 million. This reserve is critical to the County's ability to address the economic situation the County is facing.

We are recommending that \$2.5 million in funding be transferred from the Department of Parks and Recreation's (\$1.0 million) and the Auditor-Controller's (\$1.5 million) operating budgets. This includes \$1.0 million in funding for Parks and Recreation's staff and operations associated with new and refurbished park facilities that were scheduled to open in the current fiscal year but will be deferred due to construction delays. In addition, \$1.5 million in funding provided to the Auditor-Controller for a feasibility study for a new integrated property tax system could be deferred since funding for the overall new integrated property tax system is unlikely in the current economic environment. We will work with the Auditor-Controller to explore alternative funding sources for the project including the Information Technology Infrastructure Fund.

We are also recommending that \$141.7 million from various capital project budgets also be transferred to the Provisional Financing Uses budget. The largest recommended transfer would come from the Hall of Administration Replacement budget in the amount of \$84.8 million. This recommended transfer would leave \$80.0 million, which would be an amount sufficient to get the project moving forward in combination with debt financing. For the Hall of Justice, Coroner, and Patriotic Hall refurbishments, we recommend that \$7.0 million remain in each capital project budget with the balance of the project being funded through long-term financing. The Sheriff's Department projects and the remainder of Health Services projects are being placed in the Provisional Financing Uses budget pending future consideration of capital priorities of the departments.

Countywide Structured Hiring Freeze Targets

It is widely accepted that the current economic environment is likely to deteriorate further, causing additional erosion to the County's general purpose revenues. In anticipation of this, our office worked with County departments to develop targeted savings goals for the current year. These savings goals could serve as the basis for future year's budget reductions that may be necessary. Working with the departments, we were able to identify \$33.1 million in savings from County departments. This is in-lieu of a hard hiring freeze and will allow departments the flexibility to determine how best to meet their target. This is likely the first step in many to reduce the size of the County budget given the dire economic crisis the nation is facing.

The savings goals avoid service curtailments and do not impact high-priority programs. These savings goals will be achieved through a variety of measures including departmental hiring freezes, reduction in purchases of services and supplies and fixed assets, and the generation of additional revenues. Attachment V identifies the savings goal target by department. Some departments were unable to identify a savings target

due to significant reductions in State revenues already taken. However, our office will continue to work with them to focus on efficiencies wherever possible.

Looking Forward - Future Board Reports

As noted in our supplemental budget request, we plan to return to your Board on January 27, 2009 to provide you information on the following items:

- Updated multi-year fiscal forecast including property tax and general purpose revenue projections;
- Budget Status Report;
- Report on the October 7, 2008 Board order pertaining to Fiscal Stability that directs our office to establish financial targets, set and meet cost reduction goals, and identify and eliminate areas of duplication while looking for opportunities to consolidate key functions and responsibilities; and
- Report on the October 7, 2008 Board order regarding establishing a County "Rainy-Day Fund", which could serve to protect County assets by systematically setting aside funds during good times and accessing them during times of need.

FISCAL IMPACT/FINANCING

Earlier this year, our office reported that the impact of State budget actions on the County was estimated to be \$128.6 million. We now estimate the total impact to be ~~\$137.6~~ **\$113.8** million. Since some of the State budget impacts were either already incorporated into the County budget, absorbed by departments, or departments were able to realign their budget to accommodate the State changes, we recommend that \$17.9 million be transferred from the Provisional Financing Uses budget. The recommended adjustments have no overall net County cost impact since they are financed with the transfer of existing funding from one budget unit to another.

We are also recommending the transfer of \$144.2 million of existing funding to supplement the economic reserve in the Provisional Financing Uses budget.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommended action is consistent with the County Strategic Plan Goal of Fiscal Responsibility by not extending the County's fiscal capacity beyond available financing sources.

IMPACT ON CURRENT SERVICES

Reduction in State funding will have the following impacts.

Children and Families' Well-Being

The adopted State budget reduced the Department of Community and Senior Services (CSS) funding by \$4.3 million with cuts in Adult Protective Services (\$2.6M), Title V (employment program for seniors - \$0.9 million), Ombudsman Program (advocacy of residents in long-term care - \$0.6 million), Supportive Services for seniors to prevent institutionalization (\$0.2 million), and the Disease and Health Promotion Program (programs that increase quality of seniors' lives - \$0.2 million).

While the impact to Adult Protective Services was significant, CSS was able to draw down additional federal funds to mitigate the impact of the State's cut. The primary impact of the cuts affected the services provided to seniors. For Title V, about 100,000 hours of paid job training had to be cut; the Ombudsman contractor had to lay off 17 employees, reducing the ability to follow-up on complaints related to nursing home care; the cut to Supportive Services will minimally reduce the number of seniors that can be provided the services (homemaker chore, light housekeeping, transportation, etc.) that are needed to enable seniors to remain in their homes as long as possible; and the cut to the Health Promotion Program will eliminate providers' "Be Well Program" which assessed and tracked seniors' health/well-being.

The State's Budget also reduced funding for CalWORKs, In Home Supportive Services, and Medi-Cal Administration. These reductions significantly impacted the Department of Public Social Services (DPSS), and required that the Department, in collaboration with our office and the Board of Supervisors' offices, identify curtailments in DPSS services and administration costs. The primary objective of this effort was to preserve the most critical services, while avoiding layoffs and demotions. As a result, a hiring freeze was imposed, at a time when caseloads are increasing due to the current economic conditions and rising unemployment rate.

The curtailments have resulted in increased workloads for employees and increased wait times for the public. The Department also reduced the eligibility period for transportation and ancillary costs for some welfare-to-work participants, and reallocated unspent funding, including unspent homeless and housing funds, to backfill a portion of the funding reduced in the State Budget. In addition, DPSS postponed and/or suspended vital Information Technology and Customer Service Center projects. These projects will be reconsidered at a future date.

Public Safety

The adopted State budget resulted in a loss of public safety funding of \$1.4 million (including 1.0 positions) for the Sheriff; \$0.4 million (including 2.5 positions) for the District Attorney, and \$11.3 million (including 126.0 positions) for the Probation Department. Programs impacted include Juvenile Camps, Community Oriented Policing Services (COPS), California Multi-jurisdictional Methamphetamine Enforcement Teams, Mentally Ill Offender Crime Reduction, Hardcore Gang Prosecution, Abolish Chronic Truancy, and Community-Based Substance Abuse Treatment Programs (Proposition 36). These reductions adversely impact ongoing efforts to reduce juvenile crime and ensure successful reintegration of youthful offenders back into the community, efforts to provide mental health treatment to individuals in the justice system, and efforts to fight crimes associated with gang violence and the manufacture of illegal drugs.

The shift of existing funding to backfill State reductions will result in reductions in other program areas. However, this may be necessary as departments complete the review of current operations in an effort to continue to provide the most critically needed services. In addition, departments continue to seek new funding sources.

Health and Mental Health Services

Department of Health Services

The 2008-09 State budget cut to the Department of Health Services (DHS) was \$13.9 million. Medi-Cal rates were reduced by \$8.6 million and \$5.3 million in California Healthcare for Indigents Program (CHIP) was eliminated. The noted revenue loss impacts a portion of DHS' overall program costs and not a specific patient service. At this time, DHS will utilize one-time funds to backfill the loss of revenue.

It is important to note that although DHS did not reduce services this fiscal year, a reduction of \$13.9 million equates to the loss of approximately 34,000 non-hospital based outpatient visits per year. Additionally, the State's action has increased DHS' deficit, which is currently projected at \$360.5 million for fiscal year 2009-10.

Department of Mental Health

The State budget cut to the Department of Mental Health (DMH) was approximately \$14.4 million, and the reduction impacts the Mental Health Managed Care Program (\$2.9 million), ancillary services provided to patients in Institutions for Mental Disease (IMD) beds (\$6.3 million), and the cost of State Hospital beds (\$5.2 million). As noted above, we are recommending that the County backfill the cost increases associated with ancillary services provided to patients in Institutions for Mental Disease (IMD) beds and the State Hospital beds in order to keep 224 inpatient psychiatric beds open.

The loss of funding from the Mental Health Managed Care Program will decrease and ration services to the uninsured and undocumented clients that need mental health services. The reduction of funding will be shared by directly operated programs and contract providers. Discontinuing mental health services to unfunded clients could result in increases in admissions to psychiatric emergency rooms and inpatient facilities. It is possible that increases in arrests and incarcerations could result as individuals who require mental health assistance may go untreated.

Department of Mental Health and its stakeholders are currently reviewing mitigation strategies for this curtailment, including looking at opportunities for transformation of services under the Mental Health Services Act (MHSA). These curtailments and/or transformations will be effective July 1, 2008.

Department of Public Health

The State budget cut to the Department of Public Health (DPH) was approximately \$20.4 million and reduces approximately 146.5 budgeted positions. The reduction primarily impacts the California Children's Services (CCS) (\$9.1 million and 143.0 budgeted positions), the Substance Abuse and Crime Prevention Act (Prop. 36) and Offender Treatment Programs (OTP) (\$8.9 million), programs within Alcohol and Drug Program Administration (ADPA) (\$1.5 million), the Office of AIDS Programs and Policy (OAPP) (\$0.7 million) and Public Health Programs (PHP) (\$0.2 million and 3.5 budgeted positions).

For the CCS program, DPH estimates a 45 percent reduction in the number of medical authorizations completed on a monthly basis (11,000 fewer), eligibility determination waiting periods increasing from 5 to 15 days, the elimination of 40 outreach events serving approximately 3,000 children, and the elimination of pediatric and palliative care for as many as 2,000 children in the County.

Of approximately 143.0 budgeted positions, 55.0 are currently filled and our office is recommending funding for DPH to develop and implement a staffing mitigation plan to avoid layoffs.

Based on the State funding reductions for Prop 36 and OTP, DPH estimates a loss of approximately 20,000 inpatient bed days, 265 outpatient slots/visits, and 4,000 substance abuse assessments. In order to align contracted service levels with the revised available funding resources, DPH will implement contract reductions targeted to be effective in mid-January.

Based on the State funding reductions for Drug Court, Perinatal and State General Fund Programs, DPH estimates a loss of approximately 1,400 inpatient bed days and 29 outpatient slots/visits. In order to align contracted service levels with the revised available funding resources, DPH will implement contract reductions targeted to be effective in mid-January.

Though DPH anticipates being able to mitigate a majority of the State funding reductions to OAPP with available and unobligated grant resources, DPH will not be able to mitigate the funding reduction to their allocation for counseling and testing and, as a result, estimates a reduction of approximately 1,000 HIV/AIDS tests to be conducted/available. Such reduction will inevitably result in a delay of the provision of HIV/AIDS treatment services. In the event DPH is unsuccessful in mitigating the funding reductions to their treatment, education, and prevention allocations, fewer individuals and their conditions will be treated and/or delays in treatment will arise. Furthermore, OAPP's education and prevention efforts throughout the County will be impacted. In order to align the contracted number of HIV/AIDS tests being conducted in the County with the revised available funding resources, DPH will implement contract reductions targeted to be effective in mid-January.

Although DPH anticipates being able to mitigate the State funding reductions for both TB and maternal, child, and adolescent health services, should DPH be unsuccessful, the potential result could be a delay in the identification and analysis of reported TB cases/suspects in the County and a decrease in the amount of services provided to infants, mothers, and families through the MCAH program.

Community and Municipal Services

The adopted State budget reduced funding from the State Public Library Fund (PLF) by \$0.2 million, which is used to augment Public Library's base budget for books and materials (B&M). The B&M budget funds the purchase of books, periodicals, audiovisual formats, electronic database subscriptions, and other items for circulation to the public at 85 libraries and four bookmobiles throughout the County. Funding also supports the purchase of materials for various programming activities such as textbooks and curriculum support materials used in homework centers, workbooks and reading materials used in literacy centers, and a variety of materials used in programs for children, teens and adults. The funding reduction will reduce the amounts allocated to these programs and will impact all library facilities in the County.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer

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SK:MM:yjf

Attachments

c: Department Heads