

STATEMENT BY
DAVID E. JANSSEN, CHIEF ADMINISTRATIVE OFFICER
2004-05 LOS ANGELES COUNTY PROPOSED BUDGET
APRIL 19, 2004

Thank you for coming to the release of the **2004-05 Proposed Budget for Los Angeles County**. We've prepared a presentation to help illustrate some of the major elements of the budget recommendations. As the 2004-05 Proposed Budget chart indicates, the Proposed Budget is \$17.148 billion and includes funding for approximately 92,300 employees **(Slide 4)**.

The Proposed Budget of \$17.148 billion represents an increase of 0.12 percent or approximately \$21 million from the current budget and eliminates 0.41 percent of budgeted positions or 379 positions. The General Fund is decreased by \$63.0 million, of which net County cost is reduced by \$103 million. Debt service funds are decreased by \$0.5 million, the Hospital Enterprise Funds are increased by \$66.2 million, and special funds and districts are increased by \$18.1 million. Except for Child Support Services, four positions in the Public Defender's Office, and possibly the Public Library and Mental Health once specific curtailments are identified, existing vacancies and attrition are expected to avoid the need for layoffs in departments.

The FY 2004-05 Proposed Budget continues the County's conservative budgetary approach in response to the ongoing economic instability on the State and national levels and the rapid growth of unavoidable costs. While prior State budgetary impacts have been addressed, impacts from the Governor's Proposed Budget for FY 2004-05 are not.

Therefore, additional reductions will be necessary if the Governor's proposals are adopted by the State.

The distribution of funding among major program areas remains nearly the same as the current year. Over eighty percent of the County's budget is committed to health and sanitation, public assistance and public protection (**Slide 5**).

	<u>2003-04 Adopted</u>	<u>2004-05 Proposed</u>
Health & Sanitation	27%	27%
Public Assistance	29%	30%
Public Protection	25%	24%
Recreation & Cultural	3%	3%
General Government	10%	10%
Other	6%	6%

The County's funding comes from a variety of sources. Nearly half comes in the form of State and federal assistance. The balance is made up of locally generated tax revenues and fees and assessments that support specific programs. The mix of funding is changing slightly and we see declines in federal and locally generated revenue (**Slide 6**).

	In Billions	
	<u>2003-04 Adopted</u>	<u>2004-05 Proposed</u>
State Assistance	\$3.274	\$3.290
Federal Assistance	\$4.511	\$4.430
Locally-Generated Revenue	\$3.933	\$3.830
Special Funds and Districts	\$3.338	\$3.356
Other	<u>\$2.071</u>	<u>\$2.242</u>
Total	\$17.127	\$17.148

For the General Fund, which excludes Special Funds, Special Districts and the Hospital Enterprise Fund, State and Federal revenues account for 55 percent of all revenues.

(Slide 7)

The allocation of locally generated revenue, also referred to as net County cost (NCC), primarily reflects maintenance-of-effort and State and federal matching requirements as well as priorities of the Board, with emphasis on services to children, public health and public safety/anti-terrorism **(Slides 8 and 9)**.

	<u>2003-04</u> <u>Adopted</u>	<u>2004-05</u> <u>Proposed</u>
Health & Sanitation	18%	19%
Public Assistance	19%	19%
Public Protection	41%	41%
Recreation & Cultural	3%	3%
General Government	16%	16%
Other	3%	2%

COST COMPARISON BY FUNCTION (TOTAL COST VS. NCC) (Slide 10)

The first pie chart shows the total cost by function while the pie chart to the right shows the NCC by function. For example: The total cost for Public Assistance represents 30 percent of the budget but only 19 percent of the NCC.

MANDATED VS. DISCRETIONARY COSTS

The County has very limited actual control over program spending. Over ninety percent of the County’s budget is spent on mandated programs or in meeting maintenance-of-effort requirements to avoid losing State or federal funds **(Slides 11 thru 15)**. That leaves \$1.414 billion or 8.2 percent in flexible costs and much of that relates to one-time funding such as Capital Projects, reserves, etc.

GOVERNOR'S PROPOSED BUDGET (Slide 16)

Potential Impacts:

To address shortfalls at the State level, the Governor's proposed budget contains many actions that would impact counties. These actions are not addressed in the County's Fiscal Year 2004-05 Proposed Budget.

- \$470.4 million loss to Los Angeles County - including \$289 million in property taxes.
- Property tax losses will require a 37.71 percent reduction in General Fund Departments.

ESTIMATED LOSS TO L.A. COUNTY IN FY 2004-05 FROM GOVERNOR'S PROPOSED BUDGET (Slides 17 and 18)

The more significant impacts are:

- Property Tax Shift: General Fund.
- Probation: Elimination of TANF Funding Effective October 31, 2004.
- DCFS: Group Home Placement for 1,000 Probation Camp Youths.
- Mandate Reimbursements: Indefinite Deferral.
- Public Works: Suspension of Proposition 42 Transportation Funds.
- Federal Child Support Penalty.
- Property Tax Shift: Special Districts (Flood Control, Library, Garbage, Waterworks, Lighting).

GOVERNOR'S PROPOSED BUDGET (Slides 19 thru 21)

Potential service impacts

Some of the significant items include:

- Elimination of Special Prosecution Programs in District Attorney.

- Reduction of Lifeguard Services at local beaches.
- Closure of Recreational and Pool Programs and various parks and nature areas.
- Reduction in Adult Supervision and Pretrial Services in Probation.
- Closure of all Probation Camps.
- Closure of 10 libraries, elimination of one bookmobile and a 34 percent reduction in service hours.
- Closure of jail facilities, release of all misdemeanor inmates, reduction of patrol in unincorporated area, elimination special investigation and anti-gang services and suspension of search and rescue and homeland security.

FINANCIAL CHALLENGES IN THE COUNTY'S FY 2004-05 BUDGET (Slide 22)

Los Angeles County continues to deal with its own structural imbalance. Unavoidable costs continue to escalate at a faster rate than offsetting revenues.

- Absorptions of Escalating Costs for:
 - Projected 17.3 percent increase in Workers' Compensation costs to \$397.9 million.
 - Projected 22.8 percent increase in retiree health insurance costs to \$232.3 million.
 - Projected 87 percent increase in unemployment insurance to \$7.6 million.
- Reductions in State and federal support for various programs, including the elimination of grants and the loss of one-time funding.

ABSORPTIONS OF COST INCREASES (Slides 23 thru 26)

Departments had to absorb \$167.5 million in unavoidable costs.

Curtailments resulting from these absorptions include:

- Reduction of staff assigned to defense of adults in Alternate Public Defender and Public Defender.
- Reduction of administrative support positions and supply costs in Department of Children and Family Services.
- Reduction of 73 positions (including 40 potential layoffs) and services and supplies costs in Child Support Services.
- Deletion of 23 attorneys in Special Prosecution Units in District Attorney.
- Use of \$87.3 million from Health Services Designation.
- Closure of Roosevelt and Jesse Owens Park Pools between November 1 and January 31, elimination of Sunday recreation programs and closure of the Catalina Island Interpretive Center.
- Deletion of 54 Probation Officers and 7 support positions in School-Based Supervision, Adult Investigation and Supervision, the Kirby Intensive Continuing Care Programs and reduction of management positions.
- Reduction of \$34.8 million in unspecified reductions in the Sheriff's Department.

FUNDING REDUCTIONS (Slides 27 thru 31)

Curtailments due to the loss of State or federal revenue or the deletion of one-time funding include:

- Elimination of 233 positions and a reduction in services and supplies, other charges and fixed assets in Children and Family Services.
- Deletion of 79 positions in Child Support Services.
- Reduction in Los Angeles Homeless Services, Employment and Training, Aging and Adult Services and Refugee Assistance Programs in Community and Senior Services.

- Reduction in substance abuse programs in Health Services.
- Elimination of 2 positions and \$1.8 million for the Community Access Program in Health Services.
- \$44.6 million in unspecified reductions in Mental Health.
- Elimination of 29 positions for the Community Reintegration of Mentally Ill Offenders, Mentally Ill Offender Crime Reduction and Supportive Housing Initiative Programs.
- Deletion of 30.0 Deputy Probation Officers and 3.0 support positions for Operation Read and School Based Supervision in Probation and reduction in Voluntary Action Centers and STC training.
- Deletion of 4.0 Psychiatric Social Workers and \$340,000 for the Post Disposition Program in Public Defender.
- Reduction of \$8.8 million in the books and materials budget in the Public Library as a placeholder pending identification of a specific curtailment plan.
- Reduction of \$2.0 million and 28.0 positions in the Sheriff's Department due to reduction in COPS funding and loss of State Cold Hit Grant.

OTHER CHANGES (Slides 32 thru 35)

Other Changes Include:

- Continuation of the Retirement Buydown Program.
- Addition of \$521,000 for implementation of the Compromise of Arrears Program in Child Support Services.
- Reinstatement of 21.2 positions and \$856,000 to restore operations at Castaic Lake and Placerita Canyon Natural Area in Department of Parks and Recreation.

- Addition of \$5.852 million and 48.0 positions for fire and emergency services for Signal Hill and annexation of City of La Habra into Consolidated Fire Protection District.
- Addition of \$2.666 million and 21.0 positions to provide emergency services to Santa Clarita Valley and establishment of a hazardous materials squad in the Antelope Valley.
- \$14.1 million and 339.3 positions to help achieve Health Services' System Redesign initiatives, to enhance patient care and emergency/trauma services, and to address other operational needs.
- \$174 million in Measure B funding for trauma and emergency service costs in Health Services; readiness for bioterrorism response in County Fire and Sheriff; and air transport for patients in the East San Gabriel Valley, Antelope Valley and Malibu.
- \$15.0 million in Help America Vote Act funding for hardware and software to ensure the InkaVote System is in compliance (fully revenue offset).
- \$600,000 and 4.0 positions for the Traffic School Monitoring Program in Sheriff (fully revenue offset).

HEALTH SERVICES (Slide 36)

Department of Health Services is projected to spend \$3.257 billion in FY 2004-05 for health care programs and support compared to \$3.074 billion in FY 2003-04.

CAPITAL PROJECTS SUMMARY (Slides 37 and 38)

- The Proposed 2004-05 Capital Projects/Refurbishments Budget appropriates \$521.9 million for 270 high priority projects, of which \$382.9 million is revenue-offset.
- Total value of the projects under development, design, or construction is estimated at nearly \$1.6 billion.
- Recommended appropriations for such high priority projects include:
 - \$234.4 million for Health projects.
 - \$114.1 million for Recreation and Cultural projects.
 - \$79.6 million for Public Protection projects.
 - \$40.8 million for improvements to general government facilities.
 - \$25.3 million for improvements to Public Works' facilities and the County's infrastructure, the development and construction of new libraries, and the construction of childcare centers.

PERFORMANCE COUNTS (Slides 39 thru 41)

Performance Counts! Represents the County of Los Angeles' performance measurement framework to report:

- What is the intended result of the County's efforts (Program Results).
- What data is available to measure achievement of the result (Indicators).
- How well the service was provided (Operational Measures).
- Are we doing the right things?
- Are we doing them in the right way?
- Performance Counts! (PC!) measures are included for all County departments for the first time in the 2004-05 Proposed Budget; not all departmental programs are included in this initial effort, however.

- During calendar year 2004, seven departments will participate in a pilot to align budget and PC! programs, thereby initiating integration of PC! into County resource and management decision-making; pilot results will be reflected in the 2005-06 Proposed Budget.
- Over the next three to five years, we will continue to build the momentum by refining and enhancing the quality of PC! measures, expanding PC! to all programs, and expanding the integration process.

CHILDREN AND FAMILIES BUDGET (Slides 42 thru 48)

- Third year that the Children and Families Budget is presented as an addendum to the County's Proposed Budget.
- Represents a partnership between the Children's Planning Council, the New Directions Task Force, and the Chief Administrative Office.
- The Proposed Budget supports the evaluation of the performance and results of program efforts toward achieving the Board-approved outcomes of good health, safety and survival, economic well-being, social and emotional well-being, and educational and workforce readiness.
- The Proposed Children and Families Budget begins the process of linking program performance measures with budget allocations, actual expenditures, and funding sources.
- Total proposed spending for Children and Families is \$5.15 billion which represents a 2 percent increase in net appropriation.
- The Children and Families Budget covers programs provided by 22 County departments with 119 unique funding sources.

UNINCORPORATED AREA SERVICES (Slides 49 thru 50)

Total Appropriation of \$849.4 Million

- Includes the services provided by nine different County departments.

Strategic Plan

Pilot programs, based upon the strategic planning models, are being implemented in various County unincorporated communities:

- Civic Center Model: East Los Angeles.
- Community Enhancement Team: Florence-Firestone, Lennox.
- Emergency Management Planning: Topanga Canyon.
- Access (Countywide):
 - Resource guides - Whittier, Altadena, Lennox, Florence-Firestone, Rowland Heights, Hacienda Heights.
 - Websites - East Los Angeles, Whittier.
 - Help Line - all unincorporated areas.
- Economic Development Model: Walnut Park.

ECONOMIC OUTLOOK

Based on the UCLA Anderson Forecast (Slide 51)

- The recession appears to be over, but the growth path is modest.
- California has some big issues to deal with, primarily Outsourcing, Workers' Compensation, Housing Prices, and Housing Availability.
- The recession was focused on the Bay Area. Stakeholders are watching to see if new technology, such as biotech, can bring its economy back rapidly.
- Need to solve national problems - budget and trade deficits. Falling dollar value could be an inflation - interest rate trigger.

MAJOR LOCAL REVENUES (Slide 52)

On a budget to budget basis, the Proposed Budget assumes 5.0 percent growth in Property Tax, 2.5 percent growth in the local Sales Tax and the Realignment Sales Tax, a 7.9 percent increase in the Public Safety Augmentation Sales Tax, 3.2 percent decline in Realignment Vehicle License Fees and 31.0 percent growth in Regular Vehicle License Fees. Please refer to the footnotes for additional details in slide 52.

USE OF LACERA SURPLUS EARNINGS (Slide 53)

During the mid and late 1990s, the County had grown to rely heavily upon the use of unpredictable surplus retirement system (LACERA) earnings to meet its ongoing financing requirements. Consistent with the Board's cautious approach to the use of one-time or uncertain funding, we began reducing the County's reliance upon surplus LACERA earnings by \$30 million per year over a multi-year period. FY 2004-05 represents the seventh year of that program.

GROSS ERAF LOSS VS. PROP 172 (Slide 54)

The State-mandated County contribution of property tax to the Educational Revenue Augmentation Fund (ERAF) to meet the State's school funding obligation continues to have a severe impact upon the County's ability to provide both mandated and discretionary services. The amount contributed to the fund grows in proportion to the normal growth in property tax revenues. For FY 2004-05, we estimate the cost to the County to be \$1.323 billion. The voter-approved Prop 172, intended to backfill these property tax losses, is insufficient and the gap, projected for FY 2004-05 of over \$780 million, continues to widen since sales tax growth, over time, does not keep pace with property tax growth. In addition, the Governor's January Proposed Budget would increase this gap by another \$289 million.

WORKERS' COMPENSATION (Slide 55)

Contributing to program curtailments were unavoidable employee benefits cost increases - specifically, workers' compensation (\$58.6 million), retiree health insurance (\$43.1 million) and unemployment insurance (\$3.6 million).

The huge increase in workers' compensation costs is largely the result of past legislative enactments, which has been a focal point of this Governor for reform. Over the last five-year period, caseloads have increased by 22.2 percent, while costs have increased by 114.7 percent.

Although some legislative progress has been made to reduce the cost for Workers Compensation, Worker's Compensation continues to be a major cost factor.