

STATEMENT BY
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2003-04 LOS ANGELES COUNTY PROPOSED BUDGET
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Thank you for coming to the release of the **2003-04 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 2003-04 Proposed Budget chart indicates, the Proposed Budget is \$16.526 billion and includes funding for approximately 90,500 employees **(Slide No. 4)**.

The Proposed Budget of \$16.526 billion represents a decrease of 2 percent or \$329 million from the current budget and eliminates 2.3 percent of budgeted positions or 2,158.3 positions. The General Fund is decreased by \$328.9 million, of which net County cost is reduced by \$102 million. Debt service funds are decreased by \$1.4 million, the Hospital Enterprise Funds are decreased by \$175.2 million, and special funds and districts are increased by \$176.4 million. While the Department of Health Services situation remains uncertain, existing vacancies and attrition are expected to avoid the need for layoffs in other departments

The 2003-04 Proposed Budget continues the County's conservative budgetary approach in response to ongoing economic instability on the national and State levels. In addition, a structural imbalance is emerging within our local budget as some of the County's primary

revenue sources are failing to keep pace with inflationary increases, caseload growth in mandated programs, and the emergence of other critical needs.

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 No. 5**).

	2002-03 Adopted	2003-04 Proposed
Health & Sanitation	26%	27%
Public Assistance	30%	29%
Public Protection	25%	25%
Recreation & Cultural	3%	3%
General Government	9%	10%
Other	7%	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 State and locally generated revenue (**Slide No. 6**).

	In Billions	
	2002-03 Adopted	2003-04 Proposed
State Assistance	\$3.574	\$3.228
Federal Assistance	\$4.285	\$4.391
Locally-Generated Revenue	\$3.806	\$3.704
Special Funds and Districts	\$2.934	\$3.111
Other	<u>\$2.255</u>	<u>\$2.092</u>
Total	\$16.854	\$16.526

For the General Fund, which excludes Special Funds, Special Disticts and the Hospital Enterprise Fund, State and Federal revenues account for 56 percent of all revenues. (**Slide No. 6a**)

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 (**Slide Nos. 7 and 8**).

	2002-03 Adopted	2003-04 Proposed
Health & Sanitation	19%	19%
Public Assistance	14%	17%
Public Protection	40%	41%
Recreation & Cultural	3%	3%
General Government	17%	17%
Other	7%	3%

COST COMPARISON BY FUNCTION (TOTAL COST VS. NCC) (Slide No. 9)

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 (**Slide Nos. 10 thru 14**).

STRUCTURAL DEFICIT VS. ABSORPTION OF COST INCREASES (Slide No. 15)

Structural Deficit

- A structural deficit occurs when ongoing cost increases exceed the growth in ongoing revenues. Curtailments are required to reduce services to a level supported by revenue increases.

Absorption of Cost Increases

- Current budget policy requires departments to absorb most inflationary cost increases – such as workers' compensation and contract cost increases. These cost absorptions must be offset by reductions in programs or service levels, or by identification of additional or new revenues.

CHALLENGES ADDRESSED IN THE FY 2003-04 PROPOSED BUDGET (Slide No. 16)

The Proposed Budget addresses \$804.0 million in budgetary challenges. There was a projected budget gap (expenditures exceeding revenues) of \$205.4 million (requiring \$66.1 million in budget reductions) and other reductions required to address absorption and revenue problems of \$226.6 million.

In the Department of Health Services, \$174.5 million in reductions were made to implement Scenario III of the System Redesign Plan and \$197.5 million in one-time designation was needed to cover ongoing budget needs.

FACTORS CONTRIBUTING TO THE PROJECTED BUDGET GAP (Slide No. 17)

MEASURES TAKEN TO CLOSE THE PROJECTED BUDGET GAP (Slide No. 18)

CURTAILMENTS TO CLOSE STRUCTURAL DEFICIT

Closing the budget gap required a combination of one-time and ongoing reductions. Reductions totaling \$66.1 million will impact programs and services. Curtailments in those

areas where we have flexible costs (net County cost not required under a maintenance-of-effort or as a match to State or federal funds) (**Slide Nos. 19 thru 25**).

ABSORPTION OF COST INCREASES OR FUNDING REDUCTIONS

In addition to the curtailments required to close the budget gap, there were also unavoidable cost increases and/or revenue reductions that could not be financed in the amount of \$226.6 million. Departments were required to absorb these increases/revenue losses requiring further reductions in programs and services (**Slide Nos. 26 thru 29**).

IMPACT OF STATE BUDGET CUTS (Slide No. 30)

Impact of proposed State budget cuts are incorporated as follows:

- Elimination of Performance Incentive funding (\$138.5 million) in Public Social Services
- Suspension of mandate reimbursement (\$38.9 million)
- Reduction in State funding for Local Streets and Roads (\$24.3 million)
- Reduction in CalWORKs (\$29.1 million)

Potential State budget impacts that are not included:

- Elimination of VLF Backfill (\$472.0 million)
- Shift of Court Undesignated Fees (\$26.0 million)
- Federal Child Support Penalty (\$10.6 million)
- Reduction in Library revenues (\$1.9 million)

CONTINUED RESTRUCTURING OF THE HEALTH CARE SYSTEM

(Slide Nos. 31 thru 33)

- Continued implementation of Scenario III of the System Redesign Plan, resulting in savings of \$174.5 million which provides for the closure of Rancho Los Amigos National Rehabilitation Center, the phased-in elimination of 100 acute beds at LAC+USC Medical Center, conversion of High Desert Hospital to a Multi-Service Ambulatory Care Center, closure of 16 clinics and other efficiency and cost saving measures
- Use of \$197.5 million from the Health Services designation, primarily to offset the loss of 1115 Waiver Medicaid Demonstration Project (Waiver) revenues, increased costs for budgeted positions to comply with nurse-to-patient staffing requirements and to expand Waiver-related programs, increases in pharmaceutical costs, increases in previously negotiated and Board-approved salaries and employee benefits, as well as other fixed employee benefits, and increases in overhead charges from other County departments.
- A net decrease of 642.3 positions, consisting of a decrease of 1,525.8 positions related to the closure of Rancho Los Amigos National Rehabilitation Center and the outsourcing of Office of Managed Care/Community Health Plan administrative activities, partially offset by an additional 883.5 positions for the nurse-to-patient staffing requirements and Waiver-related programs, as well as public health, environmental health, HIV/AIDS and family medicine programs.

CAPITAL PROJECTS SUMMARY (Slide Nos. 34 and 35)

- The Proposed 2003-04 Capital Projects/ Refurbishments Budget appropriates \$558.5 million for 315 high priority projects, of which \$373.9 million is revenue offset.

- Total value of the projects under development, design, or construction is estimated at nearly \$1.8 billion.

- Recommended appropriations for such high priority projects include:
 - \$196.8 million for Health projects, including the seismic retrofit of hospital facilities, the conversion of High Desert Hospital to a Multi-Service Ambulatory Care Center/Skilled Nursing Facility, and construction of the LAC+USC Medical Center Replacement Project.

 - \$132.2 million for Public Protection projects, including the replacement of four courtrooms at the Long Beach Courthouse, improvements to the Santa Monica and Criminal Courts facilities and fire stations in high-growth areas, construction of new housing units at Central and Los Padrinos Juvenile Halls, construction of three new Sheriff stations, relocation of the Sheriff's Special Enforcement Bureau, and expansion of the Coroner's autopsy and laboratory facilities.

- \$111.3 million for Recreation and Cultural projects, including the replacement of the Hollywood Bowl shell, construction or refurbishment of community centers, athletic fields, gymnasiums, trails, landscaping at County parks and beaches, and redevelopment of the El Pueblo de Los Angeles.

- \$20.5 million for improvements to general government facilities, including the redevelopment of the East Los Angeles Civic Center, and design of the Countywide Data Center.

- \$39.1 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.

LOS ANGELES COUNTY STRATEGIC PLAN (Slide Nos. 36 thru 38)

This year, the County's Strategic Plan was amended by the Board to include three new programmatic goals focused on the County's mission. They include Community Services, Health and Mental Health and Public Safety.

CHILDREN AND FAMILIES BUDGET (Slide Nos. 39 thru 43)

- Second 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, emotional and social 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 \$4.6 billion which represents a \$200 million decrease from the current year. This reflects reductions in State allocations.
- The Children and Families Budget covers programs provided by 22 County departments with 68 unique funding sources.

UNINCORPORATED AREA SERVICES (Slide Nos. 44 thru 45)

Total Appropriation of \$794.8 Million

- Includes the services provided by nine different County departments.

Strategic Plan

- Utilizes a strategic model approach to introduce service delivery enhancements to unincorporated communities.

- Represents the collaborative efforts of County departments, Commissions and Board Offices.
- Pilot programs, based upon the strategic planning models, are being implemented in various County unincorporated communities.

ECONOMIC OUTLOOK

From the UCLA Anderson Forecast (Slide No. 46)

- Stagnant global IT market will impede the State's expansion in 2003.
- California consumers are vulnerable to higher fuel prices, slow job growth, and budget cuts in 2003.
- Improvement in income, employment and sales will be evident in 2004.
- Home price gains will be moderate in 2003-04.
- Ultimate resolution to State's budget problem will send strong signals to the business community.

MAJOR LOCAL REVENUES (Slide No. 47)

On a budget to budget basis, the Proposed Budget assumes 6.2 percent growth in Property Tax, 2.3 percent growth in the local Sales Tax, a 4.5 percent decline in the Realignment Sales Tax, a 4.8 percent decline in the Public Safety Augmentation Sales Tax, 3.8 percent growth in Realignment Vehicle License Fees and 2.9 percent growth in Regular Vehicle License Fees.

USE OF LACERA SURPLUS EARNINGS (Slide No. 48)

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 2003-04 represents the sixth year of that program.

Note that overall spending increased slightly in FY 2002-03 as a result of negotiated and Board-approved revisions to selected County retirement plans.

GROSS ERAF LOSS VS. PROP 172 (Slide No. 49)

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 2003-04, we estimate the cost to the County to be \$1.216 billion. The voter-approved Prop 172, intended to backfill these property tax losses, is insufficient and the gap continues to widen since sales tax growth, over time, does not keep pace with property tax growth.

WORKERS' COMPENSATION (Slide No. 50)

Contributing to program curtailments were unavoidable employee benefits cost increases - specifically, workers' compensation (\$57.0 million), retiree health insurance (\$36.1 million), long-term disability (\$1.0 million) and unemployment insurance (\$2.0 million).

The huge increase in workers' compensation costs is largely the result of recent legislative enactments. Over a five-year period, caseloads have increased by 28.7 percent, while costs have increased by 124.8 percent.