

STATEMENT BY
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2002-03 LOS ANGELES COUNTY PROPOSED BUDGET
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Thank you for coming to the release of the 2002-03 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 **2002-03 PROPOSED COUNTY BUDGET** chart indicates, the Proposed Budget is \$16.277 billion and includes funding for over 93,000 employees.

The Proposed Budget of \$16.277 billion represents a decrease of \$205 million from the current budget and eliminates 2,342.6 positions. The General Fund is decreased \$316.0 million, of which net County cost is reduced by \$27 million. Decreases are primarily attributable to reduced State and federal assistance. Existing vacancies and attrition are expected to avoid the need for layoffs. Debt service funds are decreased by \$2.6 million, the Hospital Enterprise Funds are increased by \$148.6 million, and special funds and districts are decreased by \$35 million. Largely, the decrease in special funds and districts reflects the deletion of one-time funding and reductions in State revenues for roads and libraries. **(Slide No. 4)**

The impact of the recession is reflected in the 2002-03 Proposed Budget. The Proposed Budget represents a prudent balance between somewhat pessimistic forecasts of the

future of State and federal revenues and cautiously optimistic projections for locally generated revenues. The budget contains a gap between ongoing revenues and program expenditures of \$57 million. That gap is closed with one-time funding taken from reserves. This is done due to our continuing confidence in our local economy and a belief that the State and national economies will begin to recover in the near future.

The Proposed Budget continues the Board of Supervisors' cautious approach for the use of additional resources. By and large, programs funded with net County cost are provided only those resources necessary to address caseload and other unavoidable cost increases which cannot be absorbed or offset with other revenues.

The Proposed Budget also reflects continued investment in infrastructure, professional development, information technology, and other long-range stabilization strategies, consistent with the County Strategic Vision and Goals adopted by the Board.

The next series of charts will help illustrate the major components of the County budget.

- **TOTAL COST BY FUNCTION** (Slide No. 5)
- **TOTAL REVENUE** (Slide No. 6)
- **LOCALLY GENERATED REVENUE** (Slide No. 7)
- **NET COUNTY COST BY FUNCTION** (Slide No. 8)
- **COST COMPARISON BY FUNCTION** (Slide No. 9)
- **MANDATED VS. DISCRETIONARY COSTS** (Slide Nos. 10 thru 14)

Nearly half of the County's budget is financed with State or federal funds. Therefore, actions in Washington and Sacramento can have a significant impact upon County programs.

STATE BUDGET CUTS (Slide No. 15)

We have all read about the problems in the State budget. The deficit may be approaching \$17.5 billion, although the Governor's budget only addresses a \$12 billion State deficit. To date, the Governor has proposed to:

- Freeze the California Work Opportunities and Responsibility to Kids (CalWORKs) Single Allocation grant negatively impacting Los Angeles County Department of Public Social Services by \$100 million.
- Increase the Disproportionate Share Hospital (DSH) Administrative Fee by \$55 million. This will reduce DSH revenues to the Department of Health Services by \$11.2 million.
- Discontinue the \$25 million appropriated in 2001-02 for trauma care from which Los Angeles County received \$6.8 million.
- Reduce the appropriation to assist local public libraries by approximately \$11 million (\$1.1 million to Los Angeles County).

Despite these and other actions, the State budget shortfall remains large. Eventually, major adjustments may have to be made. We will continue to strongly advocate over the next two months to ensure that the State Budget is not balanced on the back of local government.

CHALLENGES IN FISCAL YEAR 2002-03 (Slide Nos. 16 and 17)

Protection of the Local Revenue Base

- We must be prepared to oppose any additional reduction in local government property taxes.
- We must be particularly vigilant with respect to the VLF Backfill (State replacement of revenues lost when Vehicle License Fees were reduced).

Adequate and Equitable Funding for Social Services

- The CalWORKs Single Allocation grant must be sufficiently funded to ensure the provision of services to the entire eligible population.
- Continuation of State financing for LEADER is essential.

Maintaining the Health Care Safety Net

- We need flexibility in the redesign of the County Health Care System due to a projected FY 2003-04 budget shortfall of approximately \$365 million.
- We need State financial assistance in maintaining the Trauma Network.
- The State cannot divert desperately needed DSH revenues through so-called administration fees.

No Growth in Proposition 172 Revenues

Health Services Seeks to Significantly Alter Its Design to Address an Anticipated Shortfall of Approximately \$365 Million in FY 2003-04

Minimal Increases in Realignment Sales Tax and Vehicle License Fees

Funding Shortfalls, Increased Costs for Workers' Compensation (88% over 4 years) and Other Unavoidable Cost Increases Require Some Cuts

SUMMARY OF RECOMMENDED FUNDING

The vast majority of County department budgets are maintained at current year levels, with costs associated with negotiated salary and employee benefit increases being funded with additional revenues or net County cost. Further, the fluctuations in utility pricing that created uncertainty in the current year have stabilized, and, in fact, expenditures for natural gas are expected to drop below current year appropriations by nearly \$40 million. Following is a brief discussion of budget changes by program area.

Public Safety Services (Slide No. 18)

- Sheriff - Higher costs for workers' compensation and other unavoidable cost increases exceed available financing by \$49.6 million. The Proposed Budget closes this gap with an unspecified curtailment in services and supplies. The Sheriff will provide other curtailment and/or revenue options in the near future to address this issue.
- Fire Department - As a special district, the Fire Department is self-sustaining. The Proposed Budget estimates that sufficient financing is available to continue all current emergency and support services.

Public Justice Services (Slide No. 19)

- Probation Department - Anticipated increases in workers' compensation costs and disability benefits are primarily responsible for a \$10 million shortfall in the Probation Budget in FY 2002-03. The Department proposes to close one camp, eliminate the work furlough program, and reduce juvenile and adult supervision services thereby eliminating 122 positions. However, attrition is expected to avoid the need for layoffs.

- District Attorney - Higher costs for workers' compensation, long-term disability and retiree health insurance, combined with reduced revenue from the State for the Community Law Enforcement and Recovery Program (CLEAR) and reduced reimbursements from PSS and CSS for welfare and elder abuse fraud services necessitated the reduction of \$6.5 million and deletion of 70 positions for various crime and prevention programs, welfare fraud services, elder abuse fraud services and CLEAR. It is anticipated that layoffs will be avoided through attrition.
- Trial Court Operations - Funding for trial court operations is increased due to State mandated increases of \$742,000 for judicial benefits and higher indigent defense costs of \$2.8 million.

General Government Services (Slide No. 20)

- Public Library - The depletion of fund balance, relatively flat growth in locally generated revenues and a reduction in State assistance provided insufficient financing to offset higher costs resulting from negotiated salaries and employee benefits and other unavoidable cost increases. A projected shortfall of at least \$7 million is balanced with a reduction in services and supplies. The Library will be providing alternative budget balancing proposals which will include reduced service hours and facility consolidations or closures.

Social Services (Slide Nos. 21 and 22)

- Public Social Services - The Proposed Budget projects a \$100 million deficit in the CalWORKs program necessitating the departmentwide elimination of 2,086 positions; however, layoffs are not anticipated. Over 1,600 positions are currently vacant and other reductions will likely be achieved through attrition.

- Children and Family Services - The Proposed Budget adds \$43.2 million and 42 positions to the Department of Children and Family Services. The positions are for information technology, transportation and public health activities. State and federal funds offset the majority of the increase.
- Mental Health - The Proposed Budget curtails \$32.9 million in services and supplies. The department will provide account detail by the end of April. The Department mitigated additional shortfalls with plans to increase revenues by \$16.8 million from Medi-Cal and third party payers, and reduce costs by \$23.4 million by reducing pharmaceutical purchases and utilization of State hospital beds.

Health Services (Slide Nos. 23 and 24)

- Because the Department will not produce its Strategic Operational Plan until June, \$272.6 million from their reserve will be used as a placeholder to balance the budget. However, it would be fiscally imprudent to fully deplete the reserve when the Department is facing a \$365 million deficit in 2003-04. Therefore, we will be working with the Department and the Board to implement significant reductions in 2002-03 in the operations of the Department thus spreading the availability of the reserve over several years.
- The Proposed Budget includes \$41.8 million in tobacco settlement funds. The specific recommendations for use of these funds will be provided for Board consideration during Final Changes.

Capital Projects (Slide Nos. 25 and 26)

- The Proposed 2002-03 Capital Projects/Refurbishments Budget appropriates \$480.9 million for 351 high-priority projects, of which \$292.2 million is revenue-offset.
- The total value of projects under development, design, or construction is estimated at nearly \$2.0 billion.
- Recommended appropriations for high priority projects include:
 - \$147.8 million for the renovation and expansion of the Long Beach Courthouse, improvements to 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.
 - \$120.7 million for construction or refurbishment of community centers, gymnasiums, athletic fields, trails, and landscaping at County parks and beaches.
 - \$86.8 million for the seismic retrofit of hospital facilities, design of a replacement inpatient facility at Rancho Los Amigos national Rehabilitation Center, and the initiation of construction of the LAC+USC Medical Center Replacement Project.

- \$38.2 million for improvements to general government facilities, including the redevelopment of the East Los Angeles Civic Center, design of the Countywide Data Center, redevelopment of El Pueblo de Los Angeles, and construction of the Altadena Community Center.
- \$17.6 million for the reconfiguration of MacLaren Children's Center, the development of new libraries, and the construction of childcare centers.

LOS ANGELES COUNTY STRATEGIC PLAN (Slide No. 27)

Service Excellence

Workforce Excellence

Organizational Effectiveness

Fiscal Responsibility

Children and Families' Well-Being

CHILDREN AND FAMILIES BUDGET (Slide Nos. 28 thru 32)

- Presented for the first time as an addendum to the County's Proposed Budget.
- Partnership between the Children's Planning Council, the New Directions Task Force, and the Chief Administrative Office.
- Provides a tool for looking at the performance and results of programs individually, as well as collectively, within and across agencies in relation to positively improving the lives of children and families.

- 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 education 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 \$4.8 billion which represents 29 percent of the total Proposed County Budget.
- The Children and Families Budget covers 175 programs provided by 22 County departments.

UNINCORPORATED AREA SERVICES (Slide Nos. 33 and 34)

Total Appropriation of \$687.4 Million

- Includes the services provided by nine different County departments.

Strategic Plan

- Completed and approved by the Board on July 3, 2001.
- Represents the collaborative efforts of County departments, commissions and Board Offices.
- Utilizes a strategic planning model approach to introduce service delivery enhancements for unincorporated communities.

- 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. 35)

- California is nearing the turning point of the current recession. Generally, the recession has been mild, but included a serious loss of high tech jobs.
- The effects of terrorism are receding, but foreign trade and tourism are still off prior levels.
- Economic expansion is expected to resume by mid-year, but growth will initially be slow.
- The growth in the State's economy could lag behind the national economy, depending on the timing and magnitude of the Bay Area's recovery.
- Unemployment will reach nearly 6.5 percent in 2002.

Major Local Revenues (Slide Nos. 36 and 37)

On a budget to budget basis, the Proposed budget assumes 6.7 percent growth in property tax, 3.6 percent growth in the local sales tax, 1.8 percent growth in the Realignment sales tax, zero growth in the Public Safety Augmentation sales tax, 4.0 percent growth in Regular Vehicle License Fees, and 5.7 percent growth in Realignment Vehicle License Fees.

Comparing the Proposed Budget to current-year estimates, property tax will grow by 4.0 percent, the local sales tax will grow by 3.6 percent, Realignment sales tax will grow by 4.4 percent, the Public Safety Augmentation sales tax will grow by 6.1 percent, Regular Vehicle License Fees will grow by 2.4 percent, and Realignment Vehicle License Fees will grow by 2.7 percent.

USE OF LACERA SURPLUS EARNINGS (Slide No. 38)

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 2002-03 represents the fifth year of that program.

GROSS ERAF LOSS (Slide No. 39)

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 2002-03, we estimate that the County will contribute over \$1.1 billion to ERAF. This is \$43.0 million more than in the current year.