

NEWS RELEASE

County of Los Angeles

April 20, 1998

FOR IMMEDIATE RELEASE

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COUNTY BUDGET - - NO DEFICIT TO CLOSE

Saying he is optimistic about Los Angeles County's future, Chief Administrative Officer David Janssen today presented a proposed 1998-99 budget that for the first time in many years does not require the county officials to struggle to close a deficit as it begins its new fiscal year.

The \$13.2 billion spending plan, in fact, proposes some modest restoration of critical services, provides funds for infrastructure and automation, and begins a five-year effort to eliminate the county's reliance on excess pensions funds to finance its ongoing programs.

The budget, to be presented formally to the Board of Supervisors on Tuesday, is 5.3 percent higher than 1997-98's \$12.6 billion, the largest factor being increased federal funding for the CalWorks welfare reform program.

Although the number of budgeted positions drops from 84,425 to 81,932, it actually represents an increase of 2,500 employees as 5,000 positions have been transferred to the state payroll due to the restructuring of court financing.

"The budget proposed this year is quite different than the one proposed at this time last year," said Janssen, recalling that document was based on many precarious assumptions -- such as voter approval of special taxes for fire and libraries, additional state funding for welfare and probation, and not having to pay \$186 million in contested legal judgments.

"I noted then that we would, with the strong leadership of the Board of Supervisors, manage our problems one at a time, and we have done so," he said.

Janssen said the improved economy has helped enormously and growth in local funding is expected to continue for several years.

However, he cautioned that despite the positive fiscal condition, there are two structural problems that must be addressed to prevent potential dire cuts in the future --

discontinuing the use of excess pension funds to finance operations and restructuring health care.

Janssen proposes to begin weaning off use of the pension funds -- which are projected to be depleted in four years if the County continues to use \$348 million annually.

"It is not easy, with all the pressing program needs, to deal with a problem four years down the road, but it is the fiscally prudent thing to do," Janssen said.

Under Janssen's plan, the General Fund this year would finance \$30 million of its approximate \$175 million portion of the annual retirement payment. Next year that amount would increase to \$60 million. The remainder of the \$348 million is the responsibility of departments not financed through the General Fund, like Fire and Public Works. They would be required to participate in the five-year plan as well.

This structural problem is the result of the state's transfer of county property taxes to the schools, which began in 1992-93. The County continues to argue for the return of those local dollars, but has yet to be successful.

In addition to the \$30 million buy-down of the pension obligation, Janssen's budget calls for the remainder of \$49 million in new General Fund dollars to be spent on infrastructure and automation (\$ 10 million); restoring services, primarily to unincorporated areas (\$6 million); and purchasing vehicles (\$3 million).

Janssen said the County has neglected its infrastructure due to its budget problems. "This is not something that can be done indefinitely, and although \$10 million is only a drop in the bucket for an expense that is worth several hundred million, it is a start. Similarly, our fleets are wearing out and becoming dangerous, and we must restart a replacement program for our vehicles."

The program restorations proposed include: 14 positions for park recreational programs for children; nine positions for animal control; five positions for enforcement of zoning codes; \$400,000 for library books; 82 deputy sheriff positions for community policing (to avoid their layoff with the discontinuation of federal funding for the program); 32 probation officers to ease caseload; and nine coroner positions to improve service.

Janssen said the Health Department has made great strides in restructuring but must do even more to overcome a projected \$318 million deficit when a federal waiver expires in two years. The 1998-99 budget proposes no significant program changes, but projects a \$120 million savings through reengineering. More than 1,700 employees are involved in redesigning work processes to cut costs.

Janssen said most of the significant increases in the budget are largely offset by state and federal revenues or grants, and most have been approved by the Board in recent months. They include:

-- \$424.9 million in the Department of Public Social Services for the CalWorks welfare reform program.

--\$58.9 million in Mental Health for managed care consolidation, funding related to CalWorks and expanded services at MacLaren Children's Center

--\$30 million in Department of Public Social Services to begin repayment of benefits to welfare recipients, as ordered by the courts..

--\$24 million in Sheriff for improved mental health services in the jails.

--\$15.4 million in Probation for early intervention programs, a case-tracking system, and residential case management.

--\$2.5 million in District Attorney for 42 positions to counter welfare fraud, sexually violent predators, violence against women and child abduction.

Public hearings on the proposed budget begin May 13. Deliberations are scheduled to begin June 22, with adoption by the start of the new fiscal year, July 1.

STATEMENT BY DAVID E. JANSSEN, CHIEF ADMINISTRATIVE OFFICER

1998-99 LOS ANGELES COUNTY PROPOSED BUDGET

APRIL 20, 1998

Thank you for coming to the release of the 1998-99 Proposed Budget for Los Angeles County. As you know from my forecast released in January, the budget proposed this year is quite different than the one proposed at this time last year. The overall budget will increase to \$13.2 billion, a 5.3percent increase (most in CalWORKs). Budgeted positions will decrease by 2,493 for a total of 81,932, largely due to the deletion of 5,139 trial court positions, offset by an increase of 2,646 positions in various other County programs. As you know, understanding a County budget is extremely difficult, because of all the State and Federal funding changes throughout the year. So you will see significant increases in certain departments, and virtually, none in others. Nevertheless, this is the first County budget in many years that is not struggling to overcome a deficit.

Where were we last year at this time? You may not remember, but we do; there were many unknowns built into last year's budget:

- we did not include money for salary increases (and it had been years since there had been any adjustments);
- we assumed voter approval of special taxes for Fire and Libraries;
- we assumed the State would approve our match waiver for DPSS;
- we assumed that the Probation camp money would be appropriated out of TANF funds;
- we did not assume repayment of the MTA \$50 million loan;
- we did not include the \$136 million judgment to pay retroactive General Relief benefits per the Gardner decision;
- we did not include money to address potential impact of welfare reform (legal immigrants at that time were excluded); and
- we used approximately \$308 million in excess LACERA earnings to offset the cost of retirement system contributions.

My objective in that budget, my first as CAO, was to present the full picture of our fiscal condition--to not overstate our problems, but to be clear about the assumptions we were making. I also noted that we would, with the strong leadership of the Board of Supervisors, manage our problems one at a time, as we are obligated to do on behalf of the citizens of the County.

- Where are we today on these issues?
- We have negotiated three year COLA agreements with all but one of our bargaining units.

- We received over 2/3 approval for fire and library services.
- Our waiver for DPSS was approved.
- We won approval to use TANF funds to pay for our Probation Camps.
- Legislation was enacted to eliminate any required repayment of the \$50 million transfer from MTA.
- Congress restored most benefits to legal immigrants.
- The Board made a tough fiscal decision to pay for the Gardner decision by imposing time limits (and improving services) in our General Relief program.
- The State reduced its share of DSH administration fee, improving the DHS budget by \$34 million.
- An amendment to the OBRA cap was passed that allows the Health Department to substantially increase its revenues for a two-year period.
- The Legislature passed an omnibus Trial Court Funding bill capping the County contribution to fund the courts and shifted \$350 million to counties to begin to address the fiscal strain that has been caused by the property tax shift.

Resolution on many of these challenges was achieved only through the strong support of the Board, our legislative delegations, the State and Federal governments, as well as our employee unions.

- And of course, an improved economy has help enormously.

Although the short-term fiscal condition looks pretty good there are still two structural problems that remain in the budget and must be addressed: the use of approximately \$308 million in LACERA excess earnings to offset the impact of the property tax transfer; and the restructuring of the healthcare system. (This is not to say that the reductions that were made in the Sheriff, Parks, Library, etc. are not still ongoing issues, and the unmet needs of departments still amount to millions of dollars.)

Before discussing these two issues, let me run through the budget charts behind me. They explain pretty clearly the complexity of County budgeting.....

As I indicated earlier, this is the first budget in a long time that does not have to deal with a deficit. In fact, there is approximately \$49million in new general fund dollars available for appropriation. I am proposing that the Board allocate it as follows:

- \$30 million to buy down the use of excess earnings
- \$10 million for infrastructure/automation
- \$6 million to restore County services (primarily in the unincorporated area)
- \$3 million for vehicle purchases

	Proposed Budget (in millions)	Final Changes (in millions)	Change (in millions)
LACERA Buy Down	\$25	\$30	\$5.0

Infrastructure/Automation	15	10	(-5.0)
	\$40	\$40	\$ --

First, the LACERA buy down. As you know, in 1992-93 and 1993-94, the State transferred almost \$1 billion in LA County property tax to schools and backfilled part of it with Prop 172 sales tax for public safety. For this year, the transfer is \$918 million; the sales tax is worth \$425 million and the trial court funding shift is worth \$91 million, for an ongoing shortfall of \$402 million per year of discretionary general fund money.

The County has been fortunate since that time to have excess earnings from its retirement investments to cover the costs of contributions to the retirement system. However, these earnings are expected to run out in a little over 4 years. I think it is important that we plan ahead for this eventuality, so I am proposing a 5-year plan of \$30 million a year to deal with this structural problem in our budget. It is not easy with all of the pressing program needs, to deal with a problem 4 years down the road (particularly, since it is not one we caused), but it is the fiscally prudent thing to do in my mind. The long-term fiscal stability of the County is, in the final analysis, our problem here locally.

Likewise, the County over the last 7 years, has not been able to identify resources to deal with infrastructure requirements. We are not unique in this regard as most public jurisdictions in California have made the decision to keep services going and put off less visible infrastructure decisions. However, like salaries, this is not something that can be done indefinitely, and although \$10 million is only a drop in the bucket for an expense that is worth several hundred million, it is a start. Similarly, our fleets are wearing out and becoming dangerous, and we must restart a replacement program for our vehicles.

And finally, I am proposing some modest program restorations, mostly in the unincorporated area and law enforcement: 14 positions in the Parks Department to restore recreational programs focusing on after school programs for kids; 9 positions in Animal Control to develop full-time dangerous animal control squads; 5 zoning enforcement officers in the Planning Department to deal with the growing problem of code violations; \$400,000 for the Library to modestly expand its book purchasing program (still \$5 million down from requirements). I am also proposing to continue funding for 82 deputy sheriffs in our community policing program as the Federal revenues run out and to restore funding for 32 probation officers to maintain a caseload of 50 per officer for juvenile placements. And lastly, the restoration of 9 positions in the Coroner's Office to improve the quality of services.

Beyond these recommendations, we are anticipating that year-end fund balance will exceed initial estimates, and I am recommending that any such additional fund balance be allocated to further infrastructure/automation investments.

The Health Department is the other critical concern that I have for our long-term stability. We received approval for the final three years of the 1115 Waiver; and also for

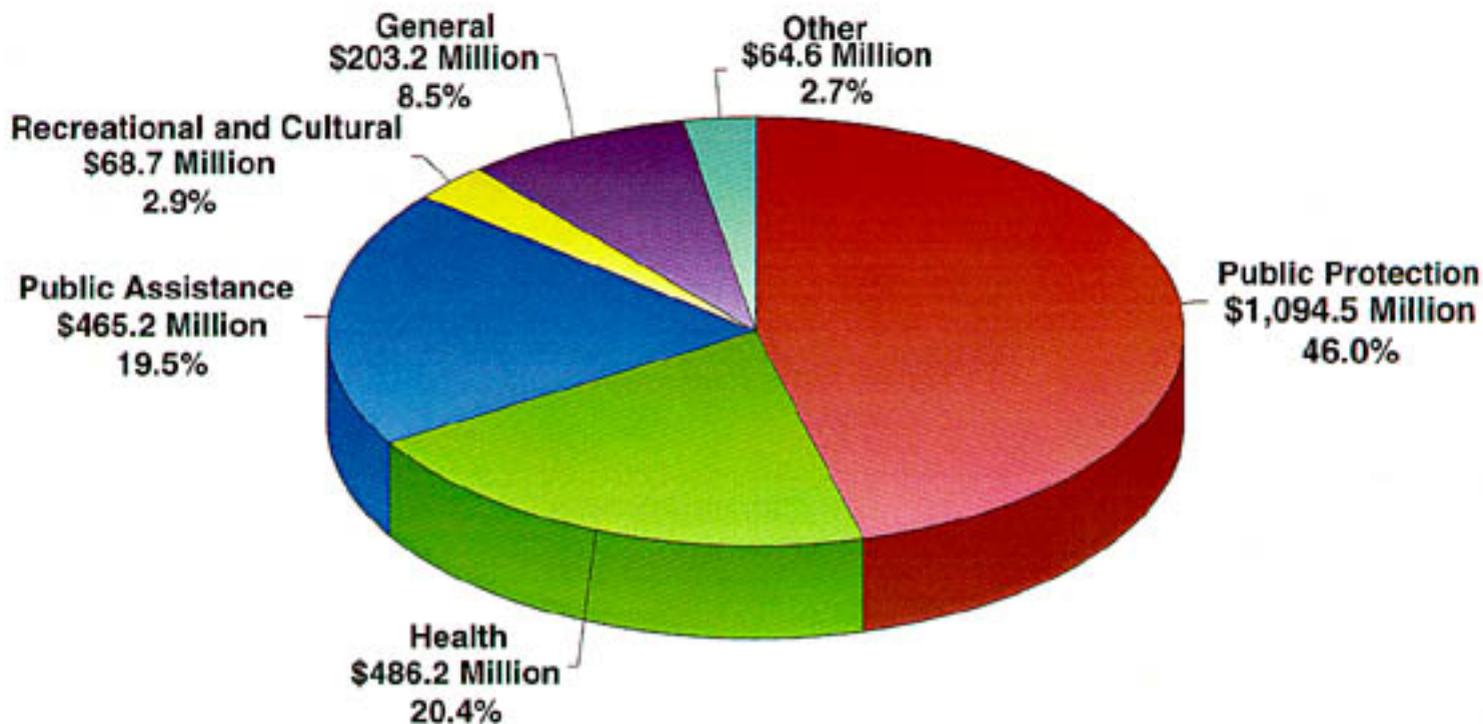
a two-year period have additional room under the OBRA 93 cap to claim additional Federal revenues. This means for the next two fiscal years, the Department has adequate resources to maintain its programs. However, in the first year, after the waiver, we are looking a potential deficit of \$318 million (\$218 waiver-related). In the last 2 _years, the Department has made great strides in restructuring the safety net system: increased the number of primary care sites to 151; continued the reduction of inpatient capacity by 25 percent since 1994-95; eliminated almost 5,500 positions; and begun a comprehensive, aggressive reengineering effort. Next year's budget assumes a savings of \$120 million gross (net\$83 million) growing to \$143 million net in the year after the waiver ends. The Department has more than 100 design teams, with over 1,700 participating employees in this process to fundamentally redesign work processes throughout the Department. We cannot become lax in dealing with the long-term challenge facing us in our health care delivery system, and the Department is actively preparing a post-waiver implementation plan to address this problem. While there are no significant program changes being proposed in the Health budget at this time, at a minimum, details of the reengineering effort will be reflected in final changes.

In other areas of the budget, I am recommending increases largely offset by State and Federal revenues or grants; and most have been acted on by the Board in the current fiscal year:

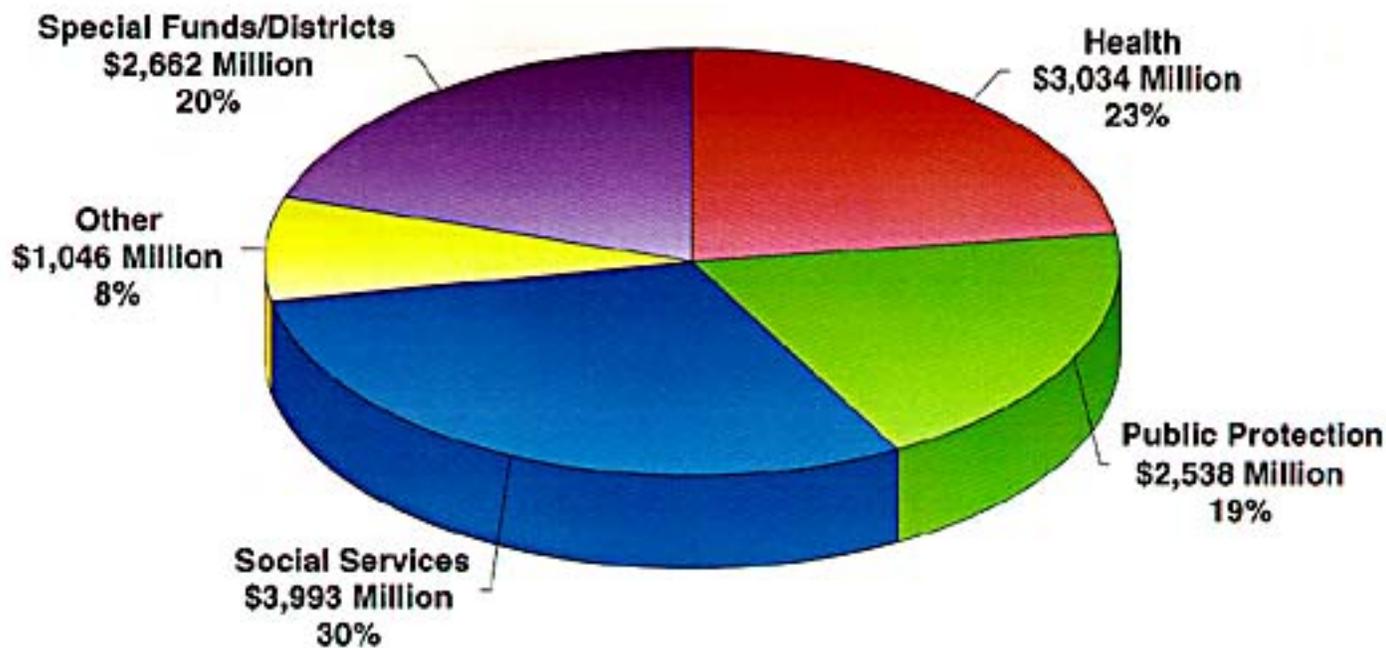
- \$2.5 million and 42 positions for the DA for welfare fraud, sexually-violent predators, violence against women, and child abduction.
- \$15.4 million in TANF funds for Probation focus on early intervention programs; a case tracking system; and residential case management.
- \$424.9 million in DPSS for CalWORKs; and \$30 million for the first payment of the Gardner decision.
- \$58.9 million in Mental Health that includes Phase II managed care consolidation; funding related to CalWORKs; and expanded services at Mac Laren Hall.
- \$24.0 million in the Sheriff's budget for improved mental health services in the jails.

This concludes my formal presentation. I am optimistic about our future. There remain structural issues both in our budget and between the State and counties, but there are good people working on them.⁹⁰

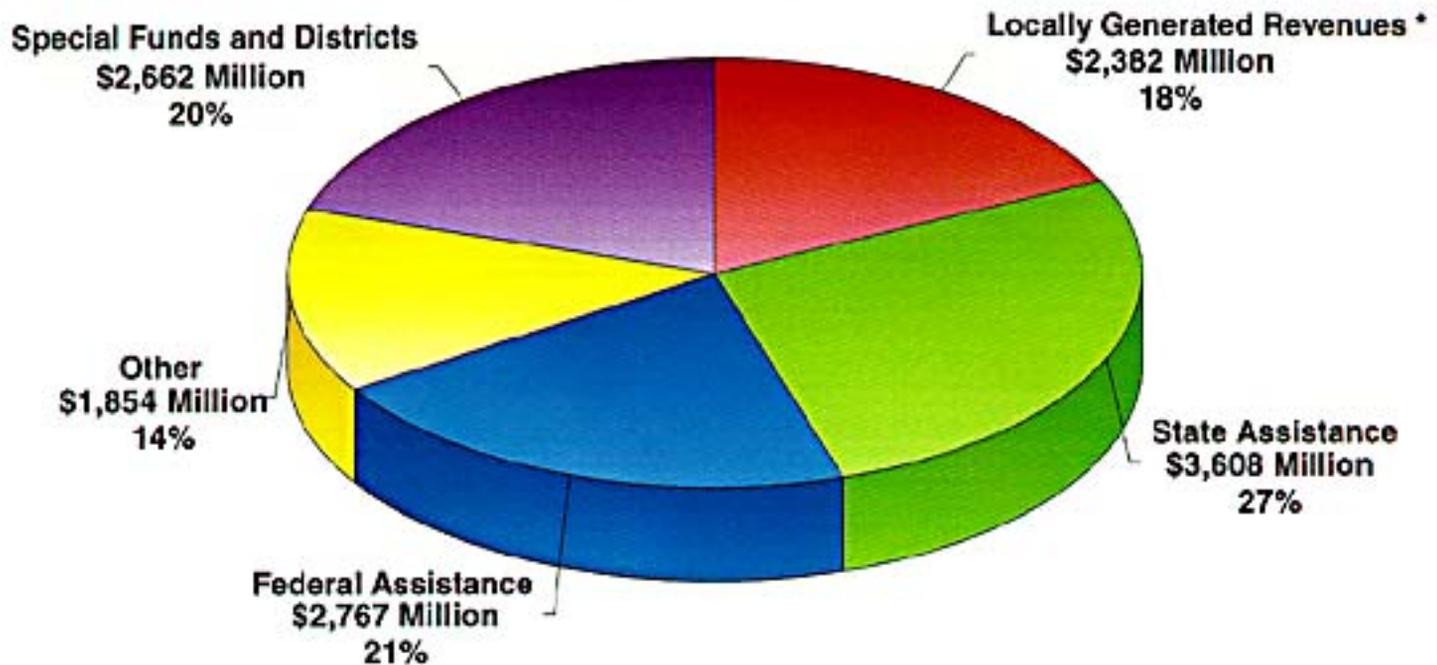
**Los Angeles County
1998-99 Proposed Budget
Net County Cost by Function
Total \$2,382.4 Million**



Los Angeles County 1998-99 Proposed Budget Total Costs \$13,273 Million

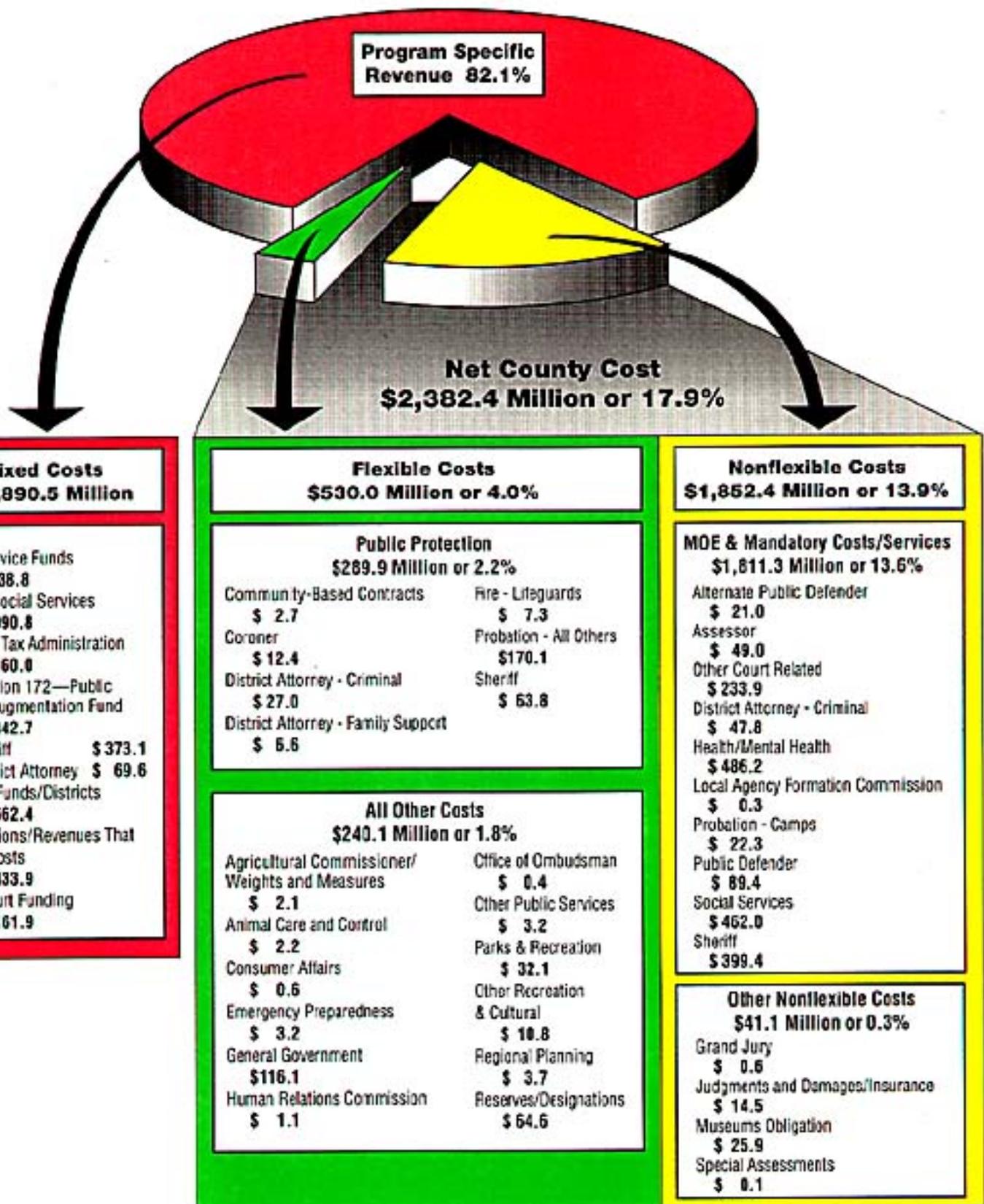


Los Angeles County 1998-99 Proposed Budget Total Revenue \$13,273 Million



* **Locally Generated Revenues** includes property tax (\$1,209 million), sales tax (\$34 million), other taxes (\$83 million), State motor vehicle license fees (\$501 million), State realignment-motor vehicle license fees (\$315 million), homeowner property tax relief (\$21 million), fund balance (\$100 million), cancelled reserves (\$3 million), and other nondepartmental revenues (\$116 million).

Los Angeles County FY 1998-99 Proposed Budget \$13,272.9 Million*



*Excludes major interfund transfers of revenue that would artificially inflate the size of the total County budget.