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Economy & Efficiency Commission Presentation

Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.

PRESENTATION BY

**Mr. Jonathan Freedman, Chief State Legislative Policy
Mr. Mark Tajima, Chief Federal Legislative Policy**

**Topic: The Current Status of Legislation Affecting Los Angeles County
October 6, 2005**

Chairman Philibosian introduced Mr. Freedman and Mr. Tajima and welcomed them to the Commission.

Mr. Freedman began his presentation with a description of the structure of the Chief Administrative Office (CAO)'s legislative policy program.

With responsibility for implementing a 2005-2006 budget of \$19.6 billion, the Board of Supervisors control programs with a combined budget greater than that of 42 state governments. However, there are numerous constraints on the Board's authority over the resources they expend. Often, federal and state grants are dependent on complicated matching fund arrangements. In most cases, funding is dependent upon the implementation of specific policies. Finally, for entitlement programs, the County acts as a contractor providing services within the rules of a nationally administered program. As a result, more than 75% of the budget is in "program specific revenues" or "fixed costs".

The CAO is tasked by the Board of Supervisors with coordinating all the legislative activity for the County. So the CAO communicates with county departments and the Board to identify issues of concern and to develop priorities. This legislative agenda is presented to the Board annually in December or January. The legislative policy teams then analyze legislation, and lobby legislators to protect the County's interests.

Mr. Freedman and Mr. Tajima lead teams that are equivalent to "product development" teams in the private sector. They analyze initiatives for both operational and financial impact on the County. They then craft a strategy that utilizes their limited resources to achieve the best results. Their product, the legislative agenda, is then implemented by county lobbyists, many of whom are contractors possessing specific areas of expertise. These lobbyists would be the equivalent of "sales and marketing" teams in the private sector.

Budget Overview

For the past five years, the budget situation has been very challenging due to deficits at the state and federal levels. This has kept the County in a defensive posture as it attempts to maintain state and federal funding for programs the County administers.

Mr. Freedman referred the commissioners to charts detailing the structure of the County budget. (Refer to: LACountyBudget2005-2006Charts.pdf).

- The first chart describes the percentage of the budget expended for different categories of services: Public Protection, 24%; Health & Sanitation, 27%; Public Assistance, 26%, Recreation & Cultural, 3%; General, 12%; Other, 8%.
- The second chart details the level of federal and state funding (approximately \$8 billion or 40%) within the County budget.
- The third chart details the total net county cost (\$4.8 billion) by function.
- The fourth chart details the sources of the locally generated revenue utilized in the budget: Property Taxes, 56%; Other Taxes - Triple Flip, 1%; Other Taxes - NDR, 3%; Sales Tax, 1%; Home Owner Property Tax, 1%; State Realignment – VLF, 10%; Fund Balance, 14%; Cancelled Reserves, 11%; Other Non-departmental Revenue, 3%.
- The fifth chart in the handout details these mandated vs. discretionary costs. The only portion of the County budget that is truly discretionary is the “flexible costs” (about 5% of the total). However, included in the definition of “discretionary” spending are functions such as the Sheriff’s Department, Fire Department, and the Coroner. All of these are arguably basic government services.

One of the key objectives of the CAO’s legislative policy is to gain more local control over its budget. This will be accomplished by reducing the constraints on the funds obtained from state and federal sources including the requirements that tie up County funds with state and federal grants.

Entitlement Programs

The bulk of the state and federal assistance in the County budget is focused on programs in the following areas: child welfare, welfare services, public social services, and health services.

The County manages welfare eligibility, dispersing cash assistance through programs like the one that used to be called Aid to Families with Dependent Children (AFDC). Today that program is called Temporary Assistance for Needy Families (TANF) nationally, and is known as CalWorks in California. For this program the County receives about \$2 billion. In addition, the County provides health care services under the federal Medicaid program which is called MediCal in California. These funds equal another \$1 billion of the \$19.6 billion County budget.

As a major public provider of health services, the County is concerned about changes to the Medicaid program. The President proposed a \$60 billion Medicaid cut over ten years. The Congress scaled it back to \$10 billion over five years. Depending on how the cuts are made to Medicaid there could be a very large impact to the County.

While the County will lobby against any proposal to cut payments to public providers, other approaches to modifying the program like cutting reimbursements for certain pharmaceuticals might be acceptable. Medicaid funds are very important for the County because just like a private provider, certain patient groups subsidize other patient groups. The County tries to “earn” money from the MediCal program using the funds from that group of “insured” patients to cover the services provided to the uninsured.

About two thirds of the funds that come from the federal government are part of mandatory entitlement programs. In these cases, the funding levels are set by statute. So, if Congress does nothing, then the County budget in these areas is not at risk.

Discretionary Programs

Mr. Tajima then referred the Commission to the charts in the handout which provide the nationwide total funding for various federal discretionary programs.

One area of interest and attention for the County in the federal discretionary funding is in the Justice Department’s State Criminal Aliens Assistance Program which reimburses the County for undocumented

criminal alien costs. This is an important County priority as money that the Sheriff's Department spends on jailing those who are not citizens is money that could be spent on other law enforcement priorities.

Also, Homeland Security grant funding is of growing concern. The CAO is concerned about the formula used for determining funding levels as this formula is based on a large minimum guarantee for all states. This formula results in an unbalanced distribution where California with 12% of the population only receives 8% of the money.

In contrast to the Homeland Security grant, California gets 40% of the total federal money for undocumented criminal alien costs due to its large need. The contrast in the administration of these two programs is an example of how the County strategically lobbies, focused on those initiatives which will generate the most dollars for the County.

Conclusion

Mr. Freedman then described the process by which the CAO ensures the County's interests are protected in Sacramento.

Each year 1500 - 2000 bills are introduced in the state Legislature. The CAO identifies about 800 of these bills that may have an impact on County programs. From these, about 400 bills are identified as requiring further analysis. This distillation process results in the development of positions on about 200 bills per legislative session.

This is in addition to the attention that is placed on the State budget development process.

Referencing the handout, Mr. Freedman walked the commissioners through the CAO's state budget analysis process. For fiscal year 2005-2006, a potential \$172 million cut in State funding to the County ended up being trimmed to an \$8.6 million cut. In 2004-2005, a potential \$479 million cut was reduced to a \$189 million cut. In order to cope with these recent cuts, the County has utilized its one-time reserves.

All the best forecasts project that the State's \$6 billion yearly deficit will persist for at least 3 more years.

Commissioner Questions

Chairman Philibosian noted that \$20 billion is a number that has changed significance over the years. In 1983, when George Deukmajian was inaugurated, the state budget was \$20 billion. When Governor Schwarzenegger won the recall, the state budget deficit was \$20 billion.

Chairman Philibosian asked if the County has employees in both Sacramento and in Washington D.C. Mr. Freedman replied that there are 4 Los Angeles County employees in an office in Sacramento. The District Attorney, the Sheriff, and the County Counsel all have a staff person in the Sacramento office. These employees are augmented by a small number of contract lobbyists.

Mr. Tajima described the situation in Washington. There are two county employees and seven firms under contract there. The contracted firms specialize in areas of importance to the County like health.

Over the next twenty years, the threat to funding may be at the federal level rather than at the state level. This is due to burgeoning federal deficit, and the aging of the baby boom generation which will increase entitlement spending.

Commissioner Parks referenced the discussion about the disparity in funding for Homeland Security versus Criminal Aliens. He wondered whether the County can exercise any discretion and merge those funds. Mr. Tajima replied in the negative commenting that Homeland Security money is very prescriptive. It is micromanaged to the point where the County is required to report the specific pieces of equipment purchased with the grant money.

Commissioner Parks commented on Mr. Freedman's mention of the issue of arming probation officers. Mr. Freedman had used that issue as an example of a state mandated initiative that could have both operational and financial impacts. Commissioner Parks asserted that he's always been against it. His experience in law enforcement taught him that the "power of the pen" in revoking probation is enough protection. Mr. Freedman commented that the bill in question was defeated. He mentioned that part of the sentiment behind the bill was the probation officers' union's hope that arming officers would be a pathway to safety retirements for them.

Commissioner Cole asked whether any grant money ever needs to be returned. Mr. Freedman referred to his own previous role as a grant manager. He described how funding from a grant can be affected by numerous factors. Such things as delays in staffing or procurement can reduce the total dollars granted.

Mr. Tajima pointed out that most federal money is not in the form of grants but rather in the form of reimbursements for services rendered by the County.

Chairman Philibosian thanked both Mr. Freedman and Mr. Tajima for taking time from their busy schedule to make an extremely informative presentation to the Commission.

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