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## **Economy & Efficiency Commission Presentation**

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*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. David Janssen  
Chief Administrative Officer**

**Los Angeles County**

**Topic: The Adopted County Budget  
July 8, 1999**

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Chairman Abel introduced Mr. Janssen by making some general comments on the improved economic conditions within the County. Mr. Janssen began his remarks stating that this is the second year in which the local economy has been improving. Last year the County had a \$30-40 million surplus. This year there is an approximate \$80 million surplus. Since the surplus situation is unlikely to remain forever, the challenge in having new money is putting it into one-time expenditures. This situation provides an opportunity to do something about infrastructure, automation, and capital projects. The Board has been fiscally conservative on the use of the surplus with last year's fund balance going into one-time expenditures. This approach has resulted in improved ratings from Moody's, and hopefully from Standard and Poor's in the fall.

Commissioner Crowley asked Mr. Janssen about the funding of reserves. Mr. Janssen stated that the County currently has about \$240 million in reserve. He argues that no reserve is better since it forces the County to manage better, but this approach to reserves doesn't sell very well. Currently, the tobacco settlement monies have not been budgeted, although the Board has made a commitment of these funds to the Health Department. The General Operating Reserve is about \$50 million, which is relatively small.

The County budget has grown year-to-year about \$1.2 billion, with almost all of the growth in state and federal money. As a result a significant number of staff has been added. Welfare is going to have a \$350 million reserve by the end of next year. Considering the County's situation three years ago, a significant number of problems (salaries, MTA loan, etc) have been resolved.

Two structural problems that have existed within the County have been, (1) the use of excess earnings in LACERA and (2) the funding requirements of the Health Department. After 5-6 years the LACERA problem will be resolved with the contribution of the \$30 million each year. The Health Department continues to be the biggest challenge. The waiver expires in June, 2000 and the County has filed a request with the State to extend it for five years with three additional elements:

1. school children help program
2. hospital based outpatient reimbursement

### 3. \$20 million labor initiative.

Commissioner Fuhrman asked about the details of the waiver. Mr. Janssen responded that in addition to the above new programs, the County is asking that the current four revenue streams that were developed over the last three years continue.

During the 80s there were a series of Federal Programs in health that started and died. SB910 was the largest disaster that triggered the problem in 1995. It had followed previous programs that had disappeared. So, even though the Federal contribution to the County has increased over the years, it hasn't increased that much over the last 10 years.

Referring to charts Mr. Janssen explained that 66% of the Health Department's budget is in the hospitals. Hospitals are reimbursed primarily by the Federal Government based upon inpatient occupancy. The current waiver is intended to reduce inpatient by 30% and increase outpatient by 50% over a five-year period. It is anticipated that this will somehow stabilize the system. If the waiver goes away, and the basic funding streams from the Federal Government have not changed, the County would revert to an inpatient based system. The interest of the County would be to start building up inpatient, eliminate all the outpatient that has been added, and the County would be back where it was. Until someone can figure out how to fix way the Federal Government funds programs the County will be dealing with this issue for a long period of time.

Over the past ten years there have not been many program additions in health. The cost increases have been primarily in the area of salaries and there was a five period in which there were no salary increases. Given the dynamic environment in the health field, the Health Department will continue to face major challenges. The continuation of the waiver (\$225 million per year) is an important component to this situation.

Disproportionate Share of Hospital (DSH) cap relief is another example of a problem area. In 1993 Congress capped the DSH Program. This was a Federal reimbursement program for public hospitals that provides a large portion of indigent care. There were several areas of the country that were abusing the program. Many were putting this money into other non-health programs, e.g. New Hampshire balanced their budget on DSH. California, on the other hand, was putting this money into public hospitals, and much of this was going into Los Angeles County hospitals. In 1993 this cap cost the Health Department \$200 million a year, which is close to the deficit that they continue to see. For the past two years we have received a relief of that cap allowing us to claim up to 175%. The County is trying to get a permanent extension of the DISH cap, but, currently, there is no vehicle available to make this happen.

Commissioner Padilla complemented the CAO on the inclusion of an unincorporated area services budget. He requested that the CAO comment on the interest of the Supervisors in the unincorporated areas and on how the County is doing in face of an improved economy and the present Public Policy Institute Study . Mr. Janssen responded that in September 1998 the Board approved the creation of an Unincorporated Area Services Office. This Office is being staffed and is actively involved in a number of issues. The major effort now is the development of a strategic plan and meeting with departments that deliver services to the unincorporated areas. The objective is to create an overall service delivery system. Both the Sheriff and the DA are supportive (the Sheriff's program of creating a town Sheriff.) and in the long term there is the possibility of creating real value

Regarding the Public Policy Institute, Mr. Janssen is waiting to see what the report will say. In many ways the County has struggled to resolve State funding issues. The Legislature has passed legislation which is presently on the Governor's desk. This legislation proposed returning about \$150 million of ERAF to counties this year on a one-time basis, and a permanent return of ERAF based upon constitutional amendment that deals with the financial problem, but perhaps narrow enough so that it just deals with the fiscalization of land use. If this is signed it can be combined with the products of all the entities working on this issue and a constitutional amendment that the Legislature can put place on the ballot. If these things can be accomplished a basic change between the State and counties can be achieved.

Referring to a set of charts that were distributed, Mr. Janssen pointed out that 4.9% of the County Budget is

in flexible costs vs. 3.3% a few years ago. For the first time in years this percentage is moving in the right direction, resulting in the County having more discretionary revenue.

Sacramento has done a number of things that are positive for counties, from realignment, to trial court funding, bailout, and the funding of welfare reform. Also they have been not taking county money. Vice-Chairman Breslauer clarified that the \$97.8 million of unincorporated services for the Sheriff is inclusive within the total Sheriff budget. Mr. Janssen commented that this is the first attempt to arrive at this number and that the Public Works number in unincorporated service is very large. Commissioner Padilla stated that the attempt to develop such a budget is a major accomplishment.

Commissioner Lucente asked for a clarification of the property tax number. Mr. Janssen responded that the property tax transfer to schools was \$231 million in FY 1992-93 and \$577 million in FY 1993-94. The property tax shift growth from FY 1994-95 through FY 1998-99 was \$138 million. The total transfer loss was \$946 million against a local base of 2.5 billion. The State returned \$437 million in Prop 172 monies. Trial courts received \$97 million dollars and the \$9 million in COPS money. The County is \$403 million short in discretionary funds. Because of this, Los Angeles is unwilling to let ERAF get lost in the discussion since it is still a significant amount of money to the County.

The County is looking to fund balance in September to finance three Sheriff substations in Palmdale, San Dimas and Lennox. Other capital projects will be looked at to determine what can be cash financed. Commissioner Fuhrman asked if there would be a focus on capital improvements in the Health Department with the objective of reducing operating costs. At this point, recognizing the time limitation, Chairman Abel asked what action Mr. Janssen expected as a result of his budget presentation. Mr Janssen responded that he thought that it was important to reinforce the concept that the best use of money at this time is for infrastructure and automation improvements. Also, continued support of unincorporated area issues would be helpful. The CAO currently has a list of \$1.4 billion in capital requests that have yet to be prioritized and no system currently exists to develop priorities to allocate this money.

Commissioner Farrar notified that the Commission had received the 1999 Exemplary State and Local Award from the National Center for Public Productivity for its Asset Management Strategies for Los Angeles County Report. He further commented that since the issuance of the report, the Commission has been attempting to work to implement the recommendations that it made. The County community is at a pivotal point in this process. He expressed concerns that the people that are working on asset management see this stage as a conclusion of the project and the Commission sees it as a beginning. The tasks ahead are to determine how to do the job and who should do the job. Commissioner Farrar was concerned with how can we, as citizens, best provide constructive and meaningful guidance to the County without stepping over the line as policy advisors and infringing upon the people that are managing operations. The second of his concerns was on a recommendation in the Commission's report to provide a significant automation investment to integrate 17 separate data management systems. This action would enable the County to more easily understand the system as a whole. Mr. Janssen responded that he is committed to work with the Commission to figure out the best way of accomplishing these goals.

Commissioner Jimenez felt that it would be of value for the County to put together a report on the recommendations made in the EEC report and that this report would most appropriately come from the CAO's office. Commissioner Balderrama asked if there was a report by the County concerning the living wage issue. Mr. Janssen replied that his office has done some rough estimates of the potential costs in Prop A. Additionally, since the County provides health care, it was estimated that additional costs would be incurred. Commissioner Balderrama pointed that the original reason for contracting out was for the County to save on the costs of benefits and now the County is requiring that costs to contractors be increased.

Commissioner Fuhrman suggested that the CAO give his budget briefing to state legislators. Mr Janssen said that the briefing is given to legislators when the County goes to Sacramento, in addition to every other opportunity that is provided. Commissioner Philibosian commented that the Commission had recommended years ago a meeting the legislators to discuss the County's financial situation. At that time they were not interested in do so in public session.

Recognizing the limitation of time, Chairman Abel thanked Mr. Janssen for his presentation to the EEC.

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