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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. Sid Kikkawa
Division Chief, Budget
Chief Administrative Office, Los Angeles County

Topic: Impact of the State's Budget on County Operations

February 5, 2004

Chairman Philibosian introduced Mr. Kikkawa and welcomed him to the Commission.

California's Budget

Mr. Kikkawa reminded the Commission that Governor Schwarzenegger's January budget was a proposal – as such it attempts to recognize most or all of the problems that are faced by the State's budget.

The budget for the next fiscal year carries approximately $9.2 billion in accumulated deficit from previous years. In addition, there may be an approximately $3 billion shortfall in the current year. Next year, the total deficit is anticipated to be approximately $14 billion, or $26 billion which must be addressed in the 2004-05 budget. The Legislative Analyst's Office has predicted that the 2005-6 budget will have a shortfall of up to $6 billion.

The recovery bond proposal is currently on the March Ballot in the amount of $15 billion. If the measure does not pass, further cuts or other measures will be necessary.

Local Government Impact

The "backfill" of the vehicle license fees ("VLF") is still a prime area of concern. The 66% reduction in VLF has reduced the revenues which came to counties and other local governments. The resulting shortfall of $4.1 billion to local government will need to be made up from other sources of State revenue.

Governor Schwarzenegger has proposed that the State, county and local governments "share the pain." One facet of this proposal can be seen in the property tax shift, known as ERAF, or the Educational Revenue Augmentation Fund – a program that the County has been under since 1992. Mr. Kikkawa emphasized that the County has had this property tax shift from County revenue for more than ten years. The County shifts to local schools more than $1.2 billion, which is offset by $500 million in revenues from the Public Safety Augmentation Tax, but there is still a net $700 million loss to Los Angeles County.

The County plans to address this issue by asking all county departments to participate in a curtailment – totaling approximately $289 million county-wide. This number represents the potential loss due to the property tax shift. The cuts will affect almost all departments – including most of the County's discretionary revenue. Affected departments will include the District Attorney, the Sheriff, the Public Defender, the Alternate Public Defender, etc. – almost every general fund department.

The net result will be that this will be the first year that Los Angeles County will transfer more property tax revenues to local schools than it receives.

The State budget will also suspend Proposition 42, resulting in reduced highway and street maintenance, and improvements in unincorporated areas affecting some 23 miles of streets and roads. The State has also deferred payment to the County on State mandated programs for the third year, in the amount of approximately $40 million.

In the area of Health and Human Services the Temporary Assistance for Needy Families (TANF) program is faced with $61.9 million in cuts. This is prior to their curtailment of another $37 million, and possibly $83 million next year. Also sharing the pain is the Child Support Automation Penalty, which requires an $11 million payment for Los Angeles County. The local share of child-support collections for children in the County's custody will also be reduced by $40 million statewide, and $8.6 million in Los Angeles County. Another Statewide program, Children's System of Care, serving high risk children and families in an effort to keep the children in school, will lose $20 million statewide, and $4.8 million in the County.

$289 Million in Curtialments

The County has asked its departments to curtail their spending by a total of some $289 million. Every Los Angeles County department will be affected. The Sheriff's department has noted that almost every program within that agency will need to be reduced. It is important to note that the update of the Governor's budget will not arrive until May, so these numbers may need to be adjusted accordingly. It will certainly be a difficult year.

Commissioner Questions

Commissioner Fuhrman inquired whether there was any good news. Mr. Kikkawa responded that the growth in the property tax would help, but would need to offset the numerous other cuts that have been made, along with slight increases in the VLF and sales tax revenues. Commissioner Fuhrman asked about the sense at the County regarding the outcome of the lawsuit challenging the County's assessment methodology, and whether the County will be responsible for refunding taxes collected in prior years. Mr. Kikkawa responded that the outlook is guarded. The County Board of Supervisors is continuing to face the challenges presented by the budget, and has faced them squarely. The County has also maintained a strong tie to Local 660. The parties to the contract have an understanding about the current state of budget affairs and are working closely to hold the line. The County has done everything it can to control the budget and keep it balanced locally – the remaining uncertainties remain with the State's budget woes.

Commissioner Ikejiri asked if there were cuts at the Sheriff's Department, how many of those would be achieved through attrition. Mr. Kikkawa responded that the Sheriff's Department is still looking into that.

Commissioner Fuhrman asked if we had looked at salary reductions as opposed to services reductions. Mr. Kikkawa responded that the current contracts with Local 660 allow for reductions in the COLA adjustments based on financial crisis, and so that remains an option in the coming years.

Mr. Kikkawa again reminded the Commissioners that these cuts were projected, but had not yet been finalized.

Mr. Philibosian asked how much the Sheriff's proposed local tax increase would generate. Mr. Kikkawa responded that it would probably be somewhere in line with the current revenues of $500 million (which would be shared with other local law enforcement agencies).

Mr. Philibosian thanked Mr. Kikkawa for his time and the informative update to the Commission.

Return to Top of Presentation

Return to Agenda

Kenneth Hahn Hall of Administration, Room 163, 500 West Temple St.,
Los Angeles, CA 90012
Phone (213) 974-1491 FAX (213) 620-1437 EMail eecomm@co.la.ca.us
WEB eec.co.la.ca.us