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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
Dr. David Janssen
Chief Administrative Officer (CAO)
County of Los Angeles**

Topic: Status of the County Budget

September 5, 2002

Chairman Philibosian welcomed Dr. Janssen. He was complimentary of Dr. Janssen's six-year tenure as the Chief Administrative Officer (CAO) of Los Angeles County.

Dr. Janssen stated that the County budget as proposed in April went down a couple hundred million dollars for the first time since 1998 from a surplus position over the past 4 years. The County was looking at the County revenue shortfall – primarily in realignment and Prop 172 revenue which funds the Sheriff's Department, the District Attorney. Property tax and vehicle license fees are doing very well. In the proposed budget, there were problems in Probation, Mental Health, Sheriff, CalWorks and the Libraries. The budget proposed eliminating about 2,400 positions, \$200M in costs and using \$57M in one-time money. Even with these cuts, the deficit in the budget will have to be made up by using reserve funds to balance the budget rather than cutting further into County programs.

In June revenues had improved by about \$27M which reduced the reliance on reserve funds from \$57M to \$30M. The Board of Supervisors has been reticent to add new ongoing general fund programs and has committed hundreds of millions of dollars to infrastructure and maintenance over the past 4 years. The only change in the budget in June was to fund the libraries deficit by adding \$7M to their budget.

The economy is not good except in housing and vehicle purchases. The real problem lies with the State, which has a similar problem to counties in terms of their flexibility in expenditures. The 2002-2003 state budget is \$78B in the General Fund. \$31B goes to K-12 (education). \$22B goes into Health and Human Services (California is 48th or 49th in its per capita expenditure on MediCal). Higher education - \$10B, Youth and Correction - \$5B, Tax relief - \$4B, with their deficit at \$25B. They produced a budget that is "balanced" that borrowed heavily, securitized tobacco revenue, enhanced revenue by a couple of billion, and did some manipulation in education funding. Even so they have stated that they expect an additional \$3B shortfall in revenues this fiscal year, which hasn't been addressed.

In the next 5 years, California will be looking at a double-digit shortfall, \$10B minimum next year. They

used virtually every avenue they could, other than tax increases, to balance this year's budget. Where are they going to go next year to find the \$10B? Local government made it a huge priority to protect vehicle license fee backfill. The legislation states that if the State does not have the revenues, the tax would reinstate itself. However, the legislature has refused to act on this.

The County received slightly over \$1B in vehicle license fees with 65% of that being backfilled, at this point. Approximately \$600M of revenues could be eliminated by the state. Dr. Janssen stated that he thinks next year is going to be a difficult year for local governments. The state problem has its basis in capital gains and options - 5% of the income tax payers pay 65% of the income tax for the State budget.

Commissioner Lucente asked Dr. Janssen to explain the impact in dollar terms or percentages on the sales tax decrease. Dr. Janssen responded that \$43M in sales taxes is received from the unincorporated area. The County receives \$527M of Prop. 172 monies and \$300-400M in realignment sales taxes. The County was short about \$35M last year in our revenue assumptions on statewide taxes and may be short again this year by another \$35M.

The budget problem is that most available funding is tied up in required spending programs. If a 10% cut in all the General Fund expenditures that could be cut were made, the County would save about \$130M, \$68M of that coming out of the Sheriff's Department.

Concerning the Sheriff, after the Board made reductions and passed the budget, he made additional reductions himself. Probation assumed federal revenue to avoid closing a camp and the DA made reductions including about 70 positions. Public Social Services was saved for one year by using money that was not being used by family self-sufficiency programs and those will be gone next year. Mental Health made \$30M in reductions, which were very painful.

Los Angeles County is contributing \$1.1B of property taxes into ERAF this year. Approximately 18% of all property taxes in California now go to ERAF. The State budget is being helped by over \$4B today as a result of the transfer of property tax money to ERAF. The Prop. 172 sales tax which was intended to backfill is about \$530M for Los Angeles County.

In '92-'94, during the first health crisis, the Board reduced \$150M in the General Fund out of the Health Department. The problem in the Health Department is simple - the County is providing services to people that don't have any money. Los Angeles County has the highest ratio of uninsured residents in the nation. It also has the highest proportion of indigent patients using public health services - 600,000 people annually, 50% more than 10 years ago. The County provides 50% of the trauma care, 15% of the emergency room visits and 85% of the uncompensated care.

One of the more significant problems in the department is that it receives most of the federal money based on inpatient services, outpatient services are not funded. The first waiver was intended to demonstrate that it was more efficient to base a health system on outpatient services with the goal of increasing outpatient by 50% and decreasing inpatient by 30%. The problem is that at the end of those 5 years, the federal government was not willing to change its funding policies. Too many other states rely on DISH and they wouldn't change the policy. A 5-year waiver of \$256M a year was negotiated. Currently, in the 3rd year, it has been reduced by \$80M with more reductions in the next 2 years. The only requirement of this second waiver is that the County maintains outpatient services at 3M visits.

The Health Department is looking at a \$700M shortfall. This is a low figure and does not include the impact of the upper payment limit, which will be \$125M a year after 6 or 7 years. This also doesn't include the State waiver problem at \$80M a year. Costs are going up primarily because of employee pay - the County has to be competitive for nurses and doctors with the entire medical community. The cost of pharmaceuticals and the cost of doing business is going up while federal funding is going down. The only revenue the Health Department has is the realignment growth at \$10M.

This Board is committed to balancing the budget with the possibility of downsizing the Health Department's operations by 20-25%. The Department hired Dr. Tom Garthwaite who is both a doctor and someone who

has turned around difficult situations and is proposing the consolidation of services. Another part of the problem has to do with the medical school contracts, which are costing the County money, so the County may not be able to maintain 3 medical schools. Schools may not have a place to train doctors, which may become an issue for California.

The department came up with 2 scenarios 1) Assumes no funds from the federal or state governments forcing a cut of \$700M. 2) Assumes the federal government will extend the waiver and provide \$1.4B over the next 5 years. Based on utilization data, the County's legal obligations and other options available, the department has attempted to design a more rational system. They presented a plan that started with closing clinics. The clinics will probably have to be closed no matter which scenario takes place since \$300M will still have to be taken out of the system.

Since the deficit of \$365M begins next fiscal year, in scenario 2, LAC/USC will become the only tertiary hospital in the system. MLK remains open, but is no longer a tertiary hospital. Olive View and Harbor close and become MACs (high-end outpatient hospital). In addition, Rancho and High Desert close. All the comprehensive health centers remain open, except Royball. All 185 PPP's (Public Private Partnerships) close.

The County will have to meet its legal responsibility to provide health services as well as balance the budget. Even though Rancho is highly regarded as a rehabilitation facility, the subsidy for it is \$50M while the county obligation for indigent care is \$15M. It's cheaper to pay someone else \$15M to meet the legal obligation. These decisions will be based on our legal obligation because there simply isn't enough money. There are major changes that need to be made to our health care system apart from the current dollar situation.

The consequences to the private sector are going to be quite severe. Private emergency rooms are already overburdened with the private sector also closing hospitals.

California is carried by small businesses, but a lot of small businesses don't pay health care so their employees don't have health care, which means they end up in the public system. California, together with the nation, has a real challenge with respect to health care.

Commissioner Simmons asked about the County contracting much of its work. The County gives contractors an option of charging for services with or without insurance being provided ("Living Wage") to encourage them to provide insurance for their employees. Why can't the County require these contractors to provide insurance to their employees and why was the option given? Dr. Janssen stated that the County couldn't legally mandate health coverage. This approach was taken to encourage contracting companies to provide insurance.. Commissioner Simmons felt that it was not productive to give employees additional pay in anticipation that he/she would purchase their own health insurance and then not have the insurance purchased. Dr. Janssen commented that the County monitors the living wage ordinance, but was not sure what exactly is being monitored. He will look into this.

Chairman Philibosian mentioned several other large counties and asked how they manage this issue. Dr. Janssen responded that San Diego and Orange counties contract with providers to deliver healthcare. They put the money into a pool, define the population they will serve (e.g. they don't provide undocumented care) and distribute the money based on the pool. Expenditures were controlled by access and benefits. He believes this is an option the Board may eventually have to consider.

Commissioner Fuhrman asked about the definition of access and benefits. Access meaning who is eligible and benefits being the type of services that the County will provide? Mr. Janssen responded that once someone qualifies, they are able to receive any of the benefits that are available.

Chairman Philibosian asked about undocumented aliens. San Diego doesn't serve undocumented aliens. If Los Angeles County talks about not serving undocumented aliens, there would be absolute chaos. Dr. Janssen responded that they go to private emergency rooms or they come to Los Angeles County. Los Angeles County actually serves Orange, San Diego, Riverside, San Bernardino and Ventura Counties. There

have been studies done about the contributions of undocumented aliens to the economy and it is huge. They pay taxes and provide services that none of us wants to provide. These taxes go to the federal government and the federal government is in charge of the borders, so the County feels this is a federal obligation. There are not enough states where this is an issue, so it is not addressed by the Federal Government.

Dr. Janssen stated that there are instances where city governments are willing to help keep certain facilities open that are on the closure list, which may help alleviate the situation.

Commissioner Philibosian asked if there might be some partnering with cities, particularly the City of Los Angeles since the City has some obligation to indigents just as the County does. Commissioner Petak noted that other factors are the added burden on the not-for-profit sector and the state seismic requirement. The reality is that there is going to be either no healthcare or very poor healthcare, even for those who can afford to pay for it, based on all these factors.

Commissioner Barcelona asked about the Sheriff's budget cuts. There's been more gang activity since the cut of some of the Sheriff's programs. What is the solution to this problem? Dr. Janssen responded that the core issue is California needs to revamp its revenue base to get all the taxpayers involved. The County needs to determine how to use the federal tax laws to best advantage, which means looking at Prop. 13 and how local governments are financed. The tax structure has to be reconsidered.

Chairman Philibosian thanked Dr. Janssen for his valuable and informative presentation.

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