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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. Howard Fine
Reporter
Los Angeles Business Journal**

Topic: The Effect of the State Budget, Workers' Compensation and Economic Development on Los Angeles County

March 6, 2003

Chairman Philibosian introduced Mr. Fine and welcomed him to the meeting.

Mr. Fine indicated his presentation would focus on 5 areas: the local economy, the state budget, workers' compensation, the business climate/economic development and board redistricting.

The Economy

Mr. Fine began by stating that although the area economy is flat, it is not the deep recession of the San Francisco Bay Area. Real estate continues to do well, while tourism continues to suffer. Although there has been some growth in the defense industry as a result of homeland security spending programs, other manufacturing jobs have been lost. The port shut down was only a temporary drag on the economy. Although the future for the economy, in the near term, depends on the pending war in the Middle East, the longer view will be impacted by the state budget cuts and the resulting layoffs.

The State Budget

Mr. Fine spoke of the items being discussed to relieve the crisis. Although the Governor is proposing \$12 billion in tax cuts, the approval process is stalled as the Democrats work to reenact the vehicle licensing fee. Mr. Fine declared this tax represents too much revenue-\$4 billion-to give up, so it is just a question of whether it goes into effect this year or next. The biggest change in the budget is the hand off of health and welfare programs to the counties. Governor Davis assures that state funds will flow with the shift, but Mr. Fine speculates it is just a matter of time before LA County will have to assume much of the cost for these services. The structural reform of the state tax system is under consideration to eliminate the boom-bust cycle of recent years. Mr. Fine feels the proposal most likely to be approved is one to remove Prop 13 exemption from tax increases on commercial property. He considers this to be likely since the Howard Jarvis Tax Payers' Association, a powerful lobby on tax issues, is neutral on this proposal and it is a simple proposal to implement.

Workers' compensation

Mr. Fine recalled the economic recession of the early 90's and the run up of workers' compensation fraud. Reforms enacted in 1993 deregulated the insurance market but reductions in premiums were short-lived. Insurance companies wrote policies below cost to gain market share and never got the cost per claim under control. By 2000, there was a meltdown in the market as companies became insolvent or discontinued coverage. Mr. Fine strongly encouraged the county to remain self insured as the average premium for all employers in California has more than doubled in the last 4 years. The crisis escalated last year when Governor Davis approved a benefit increase. As benefit levels increase over the next 3 years, this trend will continue. Mr. Fine suggested the county strive to limit claims paid out by paying attention to ergonomic and work place safety issues. Even if some of the other reforms, for example caps on medical costs or revised eligibility standards, go into effect, it could be 3-4 years before the change would be noticeable (in lower premiums).

Economic Development

Mr. Fine suggested that business is looking to government for relief from taxes and fees, even if only temporarily, in order to avoid layoffs. However, just the opposite is happening in Sacramento. A proposal to hike the upper level income tax rate would seriously impact small business and S-Corporations. Mayor Hahn has said that tax reduction and reform in the city of Los Angeles must wait for the budget situation to clear, even though the city has the highest business tax rate in the region. Short term, there is no relief in sight if the city loses the vehicle tax back fill. Long term, reform of the business tax system is going to happen. In the absence of reform, local government can simplify processes and become more business friendly.

County Board of Supervisors Redistricting

Mr. Fine cautioned that the recent challenge filed with the U.S. Department of Justice, to move Supervisor Yaroslavsky's district to the East County with the intention of increasing Latino representation on the Board, should not be taken lightly. If the challenge is upheld, it will mean a year of intense negotiations, with the possibility of Supervisor Yaroslavsky either challenging Supervisor Knabe or Supervisor Yaroslavsky seeking to represent a district of unfamiliar constituents. Chairman Philibosian thanked Mr. Fine for his comments and opened the floor to questions.

Commissioner Fuhman inquired if the sales tax revenues are on track with predictions. Mr. Fine responded that revenues are a bit behind, enough to increase short term borrowing, but not a dramatic difference.

Commissioner Hill asked Mr. Fine to elaborate on his reference to a S-Corporation tax increase. Mr. Fine explained that Senate President Burton, the bill's sponsor and powerful champion, is going all out on this one. However, many question if Senator Burton's proposal isn't another form of over reliance on income tax and the boom-bust scenario that created the current budget crisis.

Commissioner Sylva requested any suggestions to add revenue to the General Fund. Mr Fine offered that the county play a role with the private sector to appeal to Washington for funding of the infrastructure - port, rail, freeways, etc. - so companies can do business here. Mr. Fine advised this is not the time to launch major initiatives. Also, the economy is changing and what's been hot is not hot now. The county should identify and track the emerging industries so when funds become available, the county will know where to channel those funds to attract the corresponding private sectors.

Commissioner Fuhman wanted to know where the State Compensation Insurance Fund emergency measures and potential insolvency stands. Mr. Fine explained that at the time of the meltdown and as the carrier of last resort, the State Fund was required to take on the companies abandoned by their insurance companies. The State Fund has been forced to raise its rates and will continue do so to head off insolvency. It will not be allowed to fail as it would trigger the collapse of the entire workers' compensation system.

Chairman Philibosian asked Mr. Fine to comment on the recent local election. Mr. Fine speculated that Mr. Villaraigosa benefited from labor turn out and the Los Angeles Times editorial critical of Mr. Pacheco. The surprise defeat of Ms. Caprice Young appeared due to a new district and a complete change of her views on LAUSD breakup.

Commissioner Barcelona inquired about Mr. Cardenas victory over Mr. Garcia. Mr. Fine found this one of the easy results to foresee. Mr. Cardenas had the organization, name recognition and the funding.

Commissioner Sylva asked for a comment on the city council races. Mr. Fine observed that the new combination of personalities and egos points to a council whose actions will be very unpredictable. Rather than going after Mayor Hahn, Mr. Villaraigosa and Mr. Parks need to show results, in order to get re-elected. The composition of the council represents a real leadership challenge to any council President, so Mr. Padilla could be at risk to maintain that position.

Chairman Philibosian thanked Mr. Fine for his valuable and informative presentation.

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