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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
The Honorable Dan Knabe
Chairman of the Board of Supervisors and Supervisor, Fourth District, Los Angeles County**

Topic: The State of the County

July 1, 2004

Chairman Philibosian introduced Supervisor Knabe and welcomed him to the Commission.

The Scope of the Presentation

Supervisor Knabe's presentation covered the current relationship between the County and State governments, the impacts of Governor Swarzenegger policies on the County, the possibility of a National Football League (NFL) coming to Los Angeles, and the actions of the US Congress in relation to the County. In addition, he also covered the status of the County budget and the importance of keeping the Los Angeles Air Force Base.

The County Budget

Supervisor Knabe stated that the County budget had been approved and the County continues to work closely with the governor to strike a deal for local government. The current County budget will restore funding to the County Library system and will increase funds for the Sheriff's Department, Lifeguards, the District Attorney and some other programs. Funding considerations are still being discussed for mental health and probations camps; but Supervisor Knabe is hopeful the funding will be approved for these endeavors as the County runs the probation camps at about one third the cost of the California Youth Authority

The County budget currently stands at a little over \$17 billion including the funding for approximately 90,000 employees. This is an increase of \$21 million over last year or about .12% of the budget – not a large amount. Staffing has been reduced by almost 400 positions and, as of the moment, the general fund has been decreased by \$63 million. The net county cost has been reduced by \$103 million. As a result of the conservative budgeting approach taken by the County it has received high ratings from the bond rating agencies and have been taken off the negative watch list.

Most of the \$21 million increase was in personnel areas of unemployment insurance - up 87%, Worker's Compensation up - 17%, and health insurance for retirees - up 24%. Although workman's compensation

reform could save the County \$50 million over the next couple of years, it still costs the County \$400 million a year and could reach \$1 billion per year by 2011.

Health services continues to be a black hole for the County and while current reserves will cover an increase for the next 2 years, by fiscal year 2007-2008 there could be a \$600-\$800 million short fall. Concerning the two issues of Rancho Los Amigos and LAC USC, both Supervisor Knabe and Supervisor Molina are on a committee that is making progress in the negotiations with the plaintiffs to arrive at a solution. Although several entities are interested in taking over Rancho, Supervisor Knabe would like to keep it in the County.

The County has been using the Governor's approach to maintain its leverage by qualifying Proposition 65 for the ballot to protect city and county budgets from appropriation by the State legislature. The Governor is also sponsoring a State constitutional amendment that will do the same thing. If it looks like the amendment will be enacted, the County will support that instead of its own initiatives.

Under the scenario proposed by the Governor the County will take a budget hit of approximately \$103 million over the next two years, capping out with a repayment. Give the current status of negotiations it might be a little higher perhaps \$108- \$110 million each year for two years, but capping. If the initiative or the amendment goes through, the legislature has lost a great deal of funding flexibility. Although this situation has yet to be resolved, the best news is that all the participants are talking. As a whole, County revenues have stabilized after a budget cut of \$500 million a year and a half ago and a reduction of \$289 million in the current budget, with the potential for an additional \$103 million for fiscal year 2004-2005 as part of the settlement with the State.

One of the greatest concerns facing the County is the State's practice of pushing state responsibilities to the County. This makes it very difficult to develop a strategy to cover contingency funding to cover any future shortfalls since the state will claim that the County has sufficient funds available. Even with all of the concerns faced by the Board, on budget matters and tough decisions there are very few split votes.

Half Cent Sales Tax

The Sheriff has gained the support of the cities for the ½ cent sales tax by insuring that they receive a portion of the resulting revenues. Supervisor Knabe thinks that there will be two votes; one to put the proposal on the ballot and a vote as to whether to support the tax. He does not want this proposal to be like the loosely written Proposition 172 where the additional funds came into the County and equal amount was able to be taken by the General Fund. This proposal should be an enhancement, as it was in the approach used by Measure B for emergency room funding.

Commissioner Selditz asked how the Board will deal with the possibility of getting an NFL team for Los Angeles. Supervisor Knabe responded that, although Los Angeles is a major market for the NFL, any stadium that will be built will be done by a private developer with no public monies. The owners, on the other hand, are concerned about impact on the current NFL cities if this kind of deal can't be made. Commissioner Selditz also expressed concern over the juvenile camps being shut down. Supervisor Knabe agreed and stated that the Board did not want to see these camps closed.

Los Angeles Air Force Base

Supervisor Knabe stated that the Los Angeles AFB is one of the best kept secrets in Los Angeles County. Very few people even know of its existence, since it is involved with satellite technologies and other classified projects rather than flight operations. This base has a very low profile for an organization that directly and indirectly employs 65 to 105 thousand people and oversees over \$70 billion per year in defense contracts. The base is a tremendous source of income for the County and the surrounding cities and the loss of it would be a major blow to the local economy. Consequently, the Supervisor and other interested parties, including several local "Councils of Governments" (C.O.G.s) have been actively lobbying the Base Re-Alignment Commission (B.R.A.C.) in Washington D.C. to keep the Los Angeles Air Force Base open, rather than having it absorbed into air force bases in Colorado Springs, Colorado or Albuquerque, New Mexico.

Commissioner Questions

Commissioner Padilla asked about the current climate in both Sacramento and Washington and about the Grand Avenue Project. Supervisor Knabe stated that climate now is very partisan as a result of the presidential election. Even so, the County is receiving bipartisan support for a number of major issues. The problem is that no one can relate to the issues in Los Angeles County. Even though there are more uninsured working poor in Los Angeles County than there are in many states, a representative from a rural district is not inclined to be sympathetic to the situation within the County. Policy in Washington is run by rural districts. Because of this, in health care for instance, the policy incentive is for in-patient care rather than the out-patient care that is needed with the County. This approach would apply to the fastest growing portion of the County population, the working poor, which doesn't have health insurance. Fortunately, the representatives and senators from California understand our situation and the climate in the State legislature is favorable and productive.

As far as Sacramento, the people are talking for the first time. This environment has been good and helpful for the County. Overall the actions that have been coming out of Sacramento have been good for everyone. Even so, the legislature should focus more on developing policy that is good for California.

As far as the Grand Avenue Project, there plans are under development to take the area between the Kenneth Hahn Hall of Administration and City Hall and create a mall area similar to the environment created in New York City. These plans are part of a larger plan to revitalize the down town area and will be good for the downtown area.

Commissioner Thierer expressed his interest in a strategic plan for the Department of Health Services. Supervisor Knabe felt that the Department was trying to put one together and it is being updated on a monthly basis. It is clearly necessary to see how the entire system fits together and address such issues as the reduction of in-patient beds and establishing as many clinics as possible.

Commissioner Sylva asked about what action the County was taking to promote economic opportunities in the County. Supervisor Knabe replied that he was working with the County's Office of Small Business to promote awareness of contract opportunities by expanding the listings of contractors on the Office of Small Business web site and by attending contract connection conferences, like the one coming up in Whittier on August 4th. He does this to promote awareness of contract opportunities and generally support city governments in facilitating retention of existing jobs and expanding employment opportunities through the contract process. As an example of these efforts was how the County worked closely with the City of El Segundo in the exchange of property taxes to support the Los Angeles Air Force Base. The cities and the Councils of Governments realize that the existence of the Air Force Base has an economic impact throughout the region.

Commissioner Hill wanted to know if Supervisor Knabe would address the issue of department head turnover. Supervisor Knabe stated that he has examined this situation and seen some departments do well in preparing subordinates and others have real problems with the quality of their executive level development. Supervisor Knabe suggested bringing back the idea of a "training academy" within the departments to prepare in-house applicants to move up to the department head position and insure the quality of performance and increase retention within departments. There have been similar programs in the past, but they have been very sensitive to budgetary problems and were usually the first things eliminated if there was a shortfall. Departments need to be encouraged to development the executive capabilities of their subordinates. This might be a possible project for the Economy and Efficiency Commission.

Chairman Philibosian thanked Supervisor Knabe for taking time out of his busy schedule to make this presentation to the Commission. He emphasized both his appreciation and the contribution that this information has made to the Commission's understanding of the state of the County and how the Economy and Efficiency Commission can make a contribution.

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