

October 1, 2002

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

USE OF ADDITIONAL FY 2001-02 GENERAL FUND, HOSPITAL ENTERPRISE, AND SPECIAL FUNDS' FUND BALANCE IN FY 2002-03 COUNTY BUDGET (ALL DISTRICTS AFFECTED) (4 VOTES)

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve an appropriation adjustment to transfer \$9,958,000 from the Appropriation for Contingencies to account for carryover adjustments in Assessor, capital projects, community-based contracts, the Courts Drug Court Grant Program, the Employee Home Computer Program, Museum of Art, Museum of Natural History, and Project and Facility Development. In addition transfer \$25,000 from the Beaches and Harbors operating budget to Capital Projects for the Marina North Jetty project.
2. Approve an appropriation adjustment transferring \$38,925,000 from the Appropriation for Contingencies to the Designation for Budgetary Uncertainties to replenish funds originally used to establish the Designation for SB90 programs.
3. Approve an appropriation adjustment in the amount of \$8,197,000 from the Appropriation for Contingencies to correct budgetary action in the Adopted Budget which erroneously utilized the Designation for Budgetary Uncertainties, relating to funding for the new San Dimas Sheriff Station.
4. Approve an appropriation adjustment transferring \$33,100,000 from the Appropriation for Contingencies to Provisional Financing Uses to fund

- Los Angeles County's Food Stamp error rate penalty (\$22,000,000) for federal FY 2001 and projects to improve Food Stamp payment accuracy (\$11,100,000).
5. Approve an appropriation adjustment transferring \$370,000 resulting from increased court revenues related to the collection enhancement program initiated at the Burbank and Lancaster Courthouses to the Department of Consumer Affairs for expansion of the Self Help Legal Access Centers at Pomona and Inglewood Courthouses. The \$370,000 will fund the ongoing operational costs of the program expansion.
 6. Approve an appropriation adjustment to reflect corrections in funding sources for revenue in the amount of \$3,857,000 in various programs in the Department of Children and Family Services - Public Assistance Administration.
 7. Approve an appropriation adjustment to reflect the transfer of SB 163 Wraparound funding and related net County cost of \$254,000 from the Administration Budget to the Assistance Budget in the Department of Children and Family Services. Revised claiming instructions were received too late to include the revisions in the FY 2002-03 Adopted Budget.
 8. Approve an appropriation adjustment transferring \$628,000 from the Appropriation for Contingencies to the Department of Children and Family Services to satisfy a match requirement to receive \$9,100,000 in State revenue for the Child Welfare Administration Program. The previous State funding source did not require a match.
 9. Approve an appropriation adjustment increasing appropriation by \$2,774,000 in the Department of Children and Family Services, fully offset by additional federal revenue for the Promoting Safe and Stable Families Program and to transfer \$66,000 from the Appropriation for Contingencies and reflect \$371,000 in additional Temporary Assistance to Needy Families (TANF) revenue for administration of the Emergency Assistance (EA) Eligibility TANF Program.

10. Approve an appropriation adjustment transferring \$70,000 from the Appropriation for Contingencies to the Department of Community and Senior Services to fund FY 2002-03 case management services provided by the Los Angeles Homeless Services Authority (LAHSA) at its homeless shelters during the winter season.
11. Approve an appropriation adjustment decreasing appropriation in the Department of Public Social Services - Public Assistance Administration for salaries and employee benefits by \$926,000 to reflect a reduction in federal revenue, and to redirect the associated net County cost to the Supplemental Security Income Advocacy Program.
12. Approve an appropriation adjustment in the amount of \$2,139,000 increasing the appropriation in the Department of Mental Health (DMH), to reflect an increase in State funding for Community Treatment Facilities, Supportive Housing Initiative Act projects and the Home for Life Cedar Street Project at Metropolitan State Hospital and other local programs.
13. Approve an appropriation adjustment within the Department of Mental Health, to realign net appropriation of \$957,000 between Other Charges and Services and Supplies to cover the cost of contract providers and for personnel and incidental expense for the Sunnyside Rehabilitation Center.
14. Approve an appropriation adjustment to transfer \$1,717,000 from the Appropriation for Contingencies to the Internal Services Department for Internet infrastructure support for software, e-commerce, geographical information services, list server, web content management projects and equipment for system maintenance.
15. Approve an appropriation adjustment to transfer \$2,160,000 from the Appropriation for Contingencies to the Insurance Budget, Rent Expense Budget and various departments, for increased property insurance premiums.
16. Approve an appropriation adjustment transferring \$30,000,000 from the Employee Benefits Budget to County General Fund departments to cover

- retirement costs associated with the effort to reduce the County's reliance on LACERA's excess earnings.
17. Approve an appropriation adjustment transferring \$30,023,000 from the Enterprise Fund Designation for the Department of Health Services (DHS) to fund capital projects and operational needs in DHS, and to make other necessary transfers of appropriation within DHS to carry out the intent of the FY 2002-03 Budget as adopted.
 18. Approve an appropriate adjustment to increase the appropriation for the Compton Airport Runway Lighting and Signage Project by \$661,000, offset by a transfer of \$66,000 from the Appropriation For Contingency in the Public Works Aviation Capital Projects Fund, and \$595,000 in additional revenue from developer fees.
 19. Approve an appropriation adjustment within the Fire Department Accumulated Capital Outlay Fund, in the amount of \$1,277,000, to reflect a reallocation of fund balance and an increase in developer fees to fund FY 2002-03 capital project expenditures.
 20. Approve an appropriation adjustment, within the Courthouse Construction Fund, transferring \$1,311,000 from the Appropriation for Contingency to Other Financing Uses.
 21. Approve an appropriation adjustment within the Criminal Justice Facilities Temporary Construction Fund to increase the appropriation in Other Financing Uses, offset by a decrease in Services and Supplies of \$413,000 and a decrease of \$1,151,000 from the Appropriation for Contingency.
 22. Approve an appropriation adjustment within the Accumulated Outlay Funds - Parks In Lieu Fees to transfer \$251,000 from the Appropriation For Contingency to Other Charges.

In addition to the above recommendations, submitted for your Board's consideration is the allocation of \$18,000,000 to the Department of Public Social Services to increase

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wages for In-Home Supportive Services (IHSS) workers to \$7.50 per hour and authorize the provision of health benefits for individuals who work 80 hours or more a month.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

If your Board adopts all of the recommendations contained in this letter, then \$94,821,000 of the Appropriation for Contingencies will have been utilized, leaving a balance of \$100,322,000.

The net available fund balance from FY 2001-02 is \$195,143,000 above the amount anticipated at the time the FY 2002-03 County Budget was adopted. The Auditor-Controller is recommending allocating this additional fund balance to the Appropriation for Contingencies.

The \$195.1 million net fund balance is derived from a gross balance of \$603,356,000, less \$408,213,000 already included in the FY 2002-03 Adopted Budget. The \$408.2 million is primarily composed of \$231.8 million in capital project and extraordinary maintenance carryover funds, \$100 million of projected operating fund balance, \$40.2 million of one time unspent FY 2000-01 excess fund balance and \$36.2 million for departmental program carryover funds for such programs as Department of Justice investigation costs in Probation, anticipated legal settlements, Health Insurance Portability and Accountability Act (HIPAA) related costs and implementation of the County's Security Action Plan.

The \$195.1 million excess fund balance for FY 2001-02 (as compared to the FY 2000-01 excess balance of \$170.5 million) includes \$144.0 million in unspent fund balance carried over from FY 2000-01. If you exclude the \$144.0 million in savings which was placed in reserve, the actual net fund balance generated in FY 2001-02 is \$51.1 million. This is over \$100 million less than the actual \$170.5 million excess fund balance for FY 2000-01.

The actions recommended herein are necessary to make accounting adjustments between estimates contained in the Adopted Budget and actual operational outcomes; to provide sufficient appropriation to implement programs or changes as a result of the identification of increases or decreases in revenues, and to make miscellaneous adjustments within various funds. The adjustments could not be made prior to adoption

of the FY 2002-03 budget as the financial books had not yet closed, and the impact of State budget actions were unknown.

GENERAL FUND

Carryovers: When the financial books close at the end of each fiscal year (and contained in the Adopted Budget), it is necessary to reconcile the amounts estimated for certain projects and programs against the actual numbers at the time the books closed. Where differences exist, it is necessary to make budgetary adjustments to bring the amounts in line. This adjustment of \$9,958,000 accomplishes this task.

Designation For Budgetary Uncertainties: The Designation for Budgetary Uncertainties is used to set aside funds for potential liabilities primarily related to Proposition 62 and 218. In the Adopted Budget, \$47,122,000 in funds from the Designation for Budgetary Uncertainties were utilized to reflect the potential inability to collect SB90 revenue (\$38,925,000) from the State and to reflect additional funding necessary for capital projects (\$8,197,000). We are instead recommending the restoration of those funds to the Designation for Budgetary Uncertainties, and the use of the Appropriation for Contingencies.

Provisional Financing Uses: Specific departmental expenditures that are provisional in nature, as the expenditure may or may not occur, are budgeted in Provisional Financing Uses. Since the budget was adopted, the following provisional expenditures, in the amount of \$33,100,000, has been identified:

- \$22,000,000 for the Los Angeles County Food Stamp sanction liability, and \$11,100,000 for Food Stamp payment accuracy projects.

Consumer Affairs: This adjustment of \$370,000 will fund the ongoing operational program expansion costs for the Self Help Legal Access Centers in Pomona and Inglewood. This increase is fully offset by increased court revenues.

Department of Children and Family Services: The following adjustments reflect:

- Correction of the funding source, from State to federal, and replaces recovery of costs from other County departments with revenue from the State for a total adjustment of \$3,857,000.
- This adjustment reflects the transfer of SB 163 wraparound funding and related county costs of \$254,000 from the Administration Budget to the Assistance Budget within the Department. Revised claiming instructions were received too late to include the revisions in the FY 2002-03 Adopted Budget.
- Change in funding sources, at the State level, imposed a funding match of \$628,000 on the County. This adjustment is necessary in order to avoid a \$50.5 million program reduction related to the State for Child Welfare Services Administration (CWS). The CWS Basic and CWS Augmentation allocations are DCFS' largest revenue streams providing about 75 percent of DCFS' revenue. These allocations provide the funding for the administration of many child welfare activities such as emergency response, emergency response assessment, family maintenance, family reunification and permanency planning.

The CWS Basic allocation includes many components, most of which require a County match. The CWS Augmentation funding does not require a County match. However, in order to access Augmentation, the County must fully utilize its CWS Basic allocation.

- Allocates additional budget authority in the amount of \$437,000 offset by \$371,000 in additional EA-TANF revenue and \$66,000 in County funds to satisfy the required matching funds. The EA-TANF funding provides for administration of emergency assistance including emergency shelter care, emergency response and case management. There is a County match requirement.
- Allocates \$2,774,000 in additional appropriation, fully offset by additional federal revenue for the administration of the Promoting Safe and Stable Families (PSSF) Program. The PSSF allocation provides federal funding for certain family support/family preservation activities and requires no County match. The allocation funds coordinated, multi-disciplinary, community-based supportive services for families who have experienced abuse/neglect within their homes or whose children are unable to remain in the community due to severe emotional

disturbance or delinquency. The program is designed to strengthen families in order to prevent out-of-home placement or to limit out-of-home stays by expediting the safe return of children to their families.

Community and Senior Services: This adjustment will provide \$70,000 for shelters for the homeless population during the winter season of FY 2002-03.

Public Social Services: This adjustment redirects \$926,000 of budgetary resources within the Department of Public Social Services to the Supplemental Security Income Advocacy Program to restore 14 positions that were eliminated from the Department's budget due to an anticipated budget shortfall for FY 2002-03. The Auditor-Controller completed an analysis that concluded that elimination of these positions would result in an estimated loss of Interim Assistance Payment revenue and result in additional General Relief assistance payments of \$2.7 million and \$2.0 million respectively, for a total of \$4.7 million. Therefore, the Department reconfigured its staffing to redirect budgetary resources to fund these positions.

Mental Health: The following adjustments reflect:

- Increase in Mental Health's budget of \$2,139,000 to allow for increases in services provided to patients in Community Treatment Facilities, allocate additional resources to the Supportive Housing Initiative Act and realign the budget allocation to provide appropriate funds for contract providers.
- Realignment of existing budgetary funds in the amount of \$957,000 between budgetary accounts to address costs associated with contract providers and the Sunnyside Rehabilitation Center.

Internal Services: The funds provided by this adjustment in the amount of \$1,717,000 in the Internal Services Department will provide for upgrades to the Internet infrastructure support for software, e-commerce, geographical information services, list server, web content management and equipment for system maintenance.

Insurance: This adjustment in the amount of \$2,160,000 will provide funds to cover the increase in property insurance premiums.

Employee Benefits: This adjustment of \$30 million allocates funding already in the FY 2002-03 Adopted Budget to County departments for the fifth year of a multi-year plan to reduce the General Fund's reliance on Los Angeles County Retirement Association excess surplus earnings.

In-Home Supportive Services (IHSS) workers: The current wage for IHSS workers is \$6.75 per hour. In November 2001, \$18 million was set aside in excess fund balance to increase IHSS workers' salaries to \$7.50 per hour. The union, at that time, chose the initiative process to increase wages. Since that time, the minimum wage has increased from \$6.25 to \$6.75, the State has increased its authorized match to \$9.50 per hour and the court has determined that the Home Care workers initiative was unconstitutional. The \$18 million is still available as part of this year's excess fund balance should the Board choose to allocate it to DPSS for a wage increase to \$7.50 an hour. The Board has previously approved health benefits for individuals who work 112 hours a month. The change to 80 hours would allow the county to take full advantage of additional state and federal dollars approved for this purpose. However, Health Services would need to consider the impact of the health benefits on its system redesign.

HEALTH SERVICES

In the FY 2001-02 closing, the Department of Health Services (DHS) identified \$55.8 million available fund balance in DHS' Enterprise Fund, which included \$2,871,000 of capital projects surplus funds.

This adjustment would use \$30,023,000 of the available fund balance to fund \$1,032,000 in capital projects needs, and \$28,991,000 for adjustments identified below. These adjustments are reflected in the DHS fiscal outlook.

- Reduction of \$13.0 million and 165.8 positions for clinical consolidations, administrative consolidations, and public health programs previously approved by the Board.
- As previously approved by the Board, add 246.0 positions, fully revenue offset, for Children's Medical Services, Office of AIDS Programs and Policy, the Workforce Development Program, and the Bioterrorism Augmentation Grant.

- Increase of \$5.5 million and 68.0 positions for the Clinical Resource Management Program, Disease Management/Clinical Pathways, and for itemized coding/billing activities to ensure revenue maximization, related to 115 Waiver commitments.
- Increase of \$0.5 million and 48.2 positions for Public Health programs (e.g., sexually transmitted disease prevention, occupational lead poisoning prevention), Antelope Valley and Coastal radiology services, Antelope Valley Proposition 36 alcohol and drug treatment services, San Fernando Valley Newborn Hearing Screening program, Children's Medical Services, and Office of Aids Program and Policy services provided to the Sheriff's Department.
- Increase of \$40.1 million and 5.1 positions for services and supplies increases, implementation of the Health Insurance Portability and Accountability Act (HIPAA), various salaries and employee benefits adjustments, and adjustments for intra-and interdepartmental services.
- Net reduction of \$4.1 million for revenue and fund balance adjustments, from the SB 855 Disproportionate Share Hospital (DSH) administrative fee increase, Cost-Based Reimbursement Clinic (CBRC) and Medi-Cal revenue, Proposition 99 Tobacco Tax, and the Community Health Plan.
- Transfer of \$15.5 million in Tobacco Settlement funds from the Tobacco Settlement Unit to Health Services Administration for the Public/Private Partnership/General Relief Health Care Program, for no net change.

The balance in the DHS Enterprise Fund Designation, with the addition of the \$55.8 million identified in the FY 2001-02 closing, is \$366.9 million. The use of \$272.6 million of the Designation in the 2002-03 Proposed Budget was reduced by \$56.8 million, consistent with Board actions on June 26, 2002 and August 20, 2002. The current recommended use of \$30,023,000, as identified above, leaves a balance of \$121.1 million in the DHS Enterprise Fund Designation for future years.

SPECIAL FUNDS

Services and programs provided by Special Funds are entirely financed by sources other than the General Fund. Revenue resources include state and federal subventions, property taxes, fines and forfeitures, fees, and operating revenue.

Public Works Aviation Capital Projects Fund: The adjustment reflects the re-appropriation of \$661,000 in unexpended revenue and fund balance for the Compton Airport Runway Lighting and Signage Project based upon actual expenditures in FY 2001-02.

Fire Department Accumulated Capital Outlay Fund: This adjustment reallocates \$1,277,000 in FY 2001-02 fund balance and additional developer fees to the following projects:

- Upgrade the water system at Camp 13
- Develop new fire stations in the Santa Clarita Valley, Stevenson Ranch, Valencia, and Agoura, and remodel, replace, refurbish or renovate fire stations in Pomona, Malibu, the Klinger Headquarters and various other sites.

Courthouse Construction Fund: The adjustment reflects a reallocation of \$1,311,000 in fund balance to capital expenditures at the Long Beach Courthouse.

Criminal Justice Facilities Temporary Construction Fund: The adjustment reflects a reallocation of \$1,151,000 in FY 2001-02 fund balance to fund capital expenditures at various Probation facilities and the jury assembly room in the Clara Foltz Criminal Court building.

Accumulated Capital Outlay Fund - Parks In Lieu Fees: The adjustment reflects a reallocation of \$251,000 in FY 2001-02 fund balance to fund capital expenditures at Val Verde, Roosevelt, Lennox, and Manzanita Parks.

Budget Issues

The State's fiscal crisis, combined with the County's own cost and revenue pressures, are likely to reduce the County's discretionary funding and available fund balance even

further during FY 2002-03. It is our belief that the Governor will be required to call a special session of the legislature to address additional budget issues. Therefore, this letter reflects this offices' recommendations for prudent one-time spending uses due to the weak economy and the State budgetary crisis. In order to mitigate some of the impact of further State budget cuts, and to offset other budgetary pressures, we recommend that you retain as much of the excess fund balance in reserve as possible. Examples of the budgetary pressures that the County faces now or anticipates in the future include:

- Long Term Family Self Sufficiency (LTFSS) Program: The Board approved the use of \$138.5 million in one-time Performance Incentive funding for the LTFSS program in FY 2002-03. This FY 2003-04 funding loss is expected to eliminate a wide range of contract services in DPSS, District Attorney, Probation, DMH, DCSS, DHS, and other departments, plus approximately 229 County positions.
- Food Stamp Error Rate Penalty: Due to its high error rate in administering the food stamp program, the County has been assessed a federal penalty estimated at \$88 million. Negotiations remain underway, but it is currently anticipated that the County will be required to make cash payments of \$22 million in FY 2002-03, \$22 million in FY 2003-04, plus invest an additional \$22 million in projects to improve the County's Food Stamp payment accuracy during this period. (The remaining \$22 million would be held at risk over three years if established targets are not met). This penalty was assessed against the error rate experienced in the federal fiscal year ending September 30, 2001, and the County may be facing further penalties based upon federal fiscal year 2002 experience.
- SB 90 Program: As part of the FY 2002-03 budget, the State temporarily suspended funding for the State mandate reimbursement (SB 90) program. The County's FY 2002-03 Adopted Budget includes a \$38.9 million reserve to maintain budgeted services. It is uncertain when the State will resume funding for this program and the impact will compound in future years if the State continues to suspend reimbursement.
- CalWORKs Single Allocation: DPSS' FY 2002-03 Adopted Budget includes \$30.2 million in CalWORKs Single Allocation funds. Since this is one-time funding resulting from augmentation to CalWORKs employment services, DPSS

may face a \$30.2 million problem in FY 2003-04. DPSS used this amount to fund 608 positions to provide CalWORKs eligibility and Welfare-to-Work case management services. The potential continuation of this funding in FY 2003-04 is uncertain at this time.

- Early and Periodic Screening, Diagnosis, and Treatment (EPSDT): Due to State payment delays for the EPSDT program, DMH cannot use resources, estimated at \$54 million as of June 30, 2002, that would otherwise be available to fund other mental health programs and services. DMH and the Auditor-Controller are working with the State to accelerate EPSDT collections. Further, in the Governor's vetoes of the FY 2002-03 appropriation items, he indicated his intent to administratively establish a 10 percent county share of cost to cover the cost of growth in the EPSDT program. The additional County cost impact is estimated at \$1.9 million annually.
- Public Safety Augmentation (Prop 172): Proposition 172 revenue in FY 2001-02 was \$37.8 million below the budgeted figure of \$527.4 million. In FY 2002-03, the previous budgeted amount was maintained based on economic forecasts of a recovering economy in California. However the predicted recovery has not materialized.
- Realignment - Sales Tax: In FY 2001-02, Realignment - Sales Tax revenue was approximately \$36 million below the budgeted level and \$18 below the actual FY 2000-01 collections. Although the FY 2002-03 Adopted Budget projected a minimal 1.8 percent increase over the FY 2001-02 budgeted level, the FY 2001-02 shortfall now requires an approximate 7.2 percent increase to achieve budget. In light of the continued weakness in California's consumer spending, the FY 2002-03 budgeted amount may face a substantial shortfall.
- Use of One-Time Funding: In FY 2002-03, one-time funding in the amount of \$40,223,000 was used for ongoing operations: 1) \$32,885,000 was used to balance the FY 2002-03 budget; 2) \$74,000 was provided to the Coroner; and \$7,264,000 was used for the Public Library.

- Fire Department (ERAF): The FY 2002-03 Budget maintains current service levels for both emergency and business operations and includes \$16 million in revenue from the proposed partial recovery of ERAF revenue owed to the Fire District by the State. Although the Fire District prevailed in the Superior Court on July 11, 2002, the State will probably appeal the ruling, and it is uncertain when the District will begin receiving the ERAF revenue. Therefore, the Fire District has implemented a two year Contingency Funding Plan to continue current emergency operations without the annual \$16 million from the State.
- Labor Negotiations: During FY 2002-03 labor negotiations will commence with bargaining units for Fire, Association for Los Angeles Deputy Sheriffs (ALADS), Probation, California Association for Professional Employees (CAPE), and social workers.

Implementation of Strategic Plan Goals

These actions support the County's Strategic Plan Goal #4 of Fiscal Responsibility.

FISCAL IMPACT/FINANCING

If the Board adopts all of the above recommendations, \$94,821,000 of the Appropriation for Contingencies will be utilized, leaving a remaining balance of \$100,322,000. Should the Board consider and approve the \$18 million increase in IHSS funding, by separate action, the remaining balance will be \$82,322,000.

Financing for all recommendations is available in the designation accounts, and/or the special funds budgets, as appropriate.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Not applicable.

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IMPACT ON CURRENT SERVICES (OR PROJECTS)

Adoption of these recommendations would allow your Board to:

- Address additional budgetary impact resulting from budget actions at the State level; and
- Retain a balance in the General Fund Appropriation for Contingencies for future Board priorities.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer

DEJ:DL
JW:vyg

c: Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Each Department