

BUDGET ISSUES PRESENTATION

SLIDE 3 – Where do the Resources Come From?

- The County has four primary revenue sources, along with funding earmarked for Special Funds and Districts.
- Funding for Special Funds and Districts are kept outside of the County General Fund and use of this funding is restricted.
- State and federal revenues are used primarily to reimburse the County for administering State and federal programs.
- Charges for Services are primarily related to contract cities services and patient care reimbursement at County hospitals and health centers.
- Locally generated revenue is the most important revenue source to the County and is used to finance the net County cost portion of the budget. Unlike the other revenues sources, locally generated revenue is used at the discretion of the County.

SLIDE 4 – Locally Generated Revenues

- Locally Generated Revenue has an ongoing component, which includes such things as property tax, deed transfer tax, vehicle license fees to fund 1991 realignment programs, sales tax and utility user tax. The one-time component is called fund balance and this is used to finance one-time programs or projects. Capital projects are the largest component of fund balance spending.
- Today property taxes make up almost 70% of the locally generated revenues and are the most important revenue source. Although property taxes are a stable and reliable revenue source, they are constrained by Prop 13 and its limit on the growth in assessed valuation. On average over the last 20 years, assessed value has increased approximately 4.5% each year. Unlike the state and federal government, the County cannot raise taxes in a material amount.
- Locally generated revenues are used to finance the net County cost or NCC portion of the County budget. Our ongoing base is approximately \$4.7 billion and upon this amount we would forecast future growth.

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SLIDE 5 – Where do the Resources Go?

- Although the County's budget is almost \$27 billion, the County only has discretion over one quarter of the budget. Three-fourths of the budget, as displayed in the red portion of the pie graph, is used to administer state and federal programs like CalWORKS and other social services programs, provide patient care services or contract cities etc.
- The green and yellow slices of the pie chart represent the net County cost portion of the budget and are financed with locally generated revenues.
- The yellow or MOE & Mandatory Costs section represents the local match necessary to receive state and federal funding. It also includes such things as indigent defense funding, which are the responsibility of local government.
- The Flexible Costs or green portion of the pie represents the discretionary portion of the budget and reflects the funding priorities of the County.

SLIDE 6 – Net County Cost by Function and Department

- This slide identifies how net County cost is allocated by department and budget unit. The slide also categorizes the departments and budget units by the State Controller's functional grouping.

SLIDE 7 – NCC Multi-Year Forecast

- This multi-year forecast compares on a cumulative basis the net County cost expenditures and revenue for the next five years.

SLIDE 8 – Future Budget Issues

- Looking forward, the county is facing a number of budget issues. Listed here are the major concerns.

SLIDE 9 – NCC Multi-Year Forecast with Budget Issues

- This slide reflects an updated multi-year forecast that includes the budget issues **as shown on the previous slide**. As you can see, expenditures exceed revenue estimates.

SLIDE 10 – Pre-Fund Retiree Health Benefits

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- The County faces a \$27 billion unfunded liability related to retiree health benefits and a liability that is expected to grow when the next actuarial valuation is issued in early July 2015. This unfunded liability will continue to grow unless action is taken to address it.
- Rating Agencies have expressed concern regarding future cost pressures on the County if we do not address this unfunded liability, potentially leading to an eventual credit downgrade.
- One way to reduce the liability is to begin to prefund this benefit as the county does with its pension fund.
- As outlined in the CEO's May 14 report on this matter, the County would need to use a multi-year strategy to begin to prefund this benefit. This chart assumes an initial \$10 million County cost contribution in 2015-16 and then a \$25 million additional contribution each year until 2027, when the Annual Required Contribution would be met.

SLIDE 11 – Consolidated Correctional Treatment Facility

- By 2017-18 the County expects to have approximately \$23 million of ongoing funding available for debt service payments for the CCTF. In order to reach the \$126 million annual debt service payment estimate by 2021-22, the County would have to start setting aside an additional \$17 million each year for the next six years to be ready when debt service payments begin.

SLIDE 12 – Minimum Wage Increase

- The information on this slide displays the NCC impact on the County budget for increases in the minimum wage. It assumes a countywide implementation based upon the City of Los Angeles minimum wage schedule.

SLIDE 13 – Living Wage Increase

- This slide depicts the impact to the NCC portion of the County budget for increases in the living wage. It assumes a countywide implementation based on L.A. City's proposed minimum wage schedule.

SLIDE 14 – IHSS Wage Increase

- A \$1.53 increase (from \$9.65 to \$11.18) in FY 15-16 would result in a Net County Cost of \$43.1 million. This assumes no fiscal impact to the county from an increase in the state minimum wage to \$10 on January 1, 2016

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- \$11.18 in wages is the maximum wage that still results in full state participation. The wage cap for full state participation is \$12.10.
- A \$2.07 increase (from \$11.18 to \$13.25) in FY 16-17 would result in an additional increase of \$168.3 million in County cost and a cumulative total of \$211.4 million.
- A \$2.00 increase (from \$13.25 to \$15.25) in FY 17-18 would result in an additional increase of \$162.7 million in County cost and a cumulative total of \$374.1 million.
- At present, it is unclear whether an increase in the city minimum wage that takes effect in July 2016, will reduce the County's cost for IHSS wage increases negotiated before July 1, 2015.

SLIDE 15 – FUTURE BUDGET ISSUES

- The County also faces many yet-to-be-fully-quantified budget issues for the items on this slide, which include replacing Information Technology (IT) Legacy Systems, addressing deferred maintenance needs, improving county facilities through capital infrastructure and other high-priority Board projects. These are preliminary estimates.
- **Unincorporated Stormwater - \$4 billion over 20 years**
 - The collective cost to implement the eleven Enhanced Watershed Management Programs developed throughout the unincorporated areas is estimated to be approximately \$4 billion over 20 years. The estimated cost will be further refined as the EWMP plans are updated every 2 years, taking into consideration factors such as water quality monitoring data and program effectiveness data.
- **Information Technology/Legacy Systems - \$225.3 million**
 - IT-Legacy Systems - \$198.5 million
 - Enterprise Networks Upgrades & Expansions - \$18.8 million
 - Telephone Systems Replacements - \$8.0 million
- **Deferred Maintenance and County Facilities**
 - The County's building inventory is large and old and has resulted in a backlog of deferred maintenance that exceeds \$640 million.
 - The County has 1,848 building structures, more than 80% of them over 30 years old. Half are more than 50.

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- When looking at structures only over 15,000 square feet our building total is 334 that have a combined square footage of over 33 million with a present value cost of replacement of over \$16.5 billion (\$500/sq. ft). Their average age is 45.
- Building lifecycles can be extended with proper maintenance, but at a certain age (40-60 years) buildings are likely to require massive infrastructure replacement and upgrades to continue operating and may be no less expensive than replacing.

SLIDE 16 - NCC Multi-Year Forecast with Budget Issues

- Future budget issues exceed estimated revenues by almost \$600 million by 2019-20, **if all budget issues are implemented.**

SLIDE 17 – BUDGET ISSUES CONCLUSION

- Demands on the County's budget have always and will continue to exceed the estimated revenues.
- In developing budget recommendations, we must maintain the balance between fiscal sustainability, service delivery and paying responsible wages.
- Since we cannot afford to satisfy all of our budget issues, I recommend a phased-in approach to dealing with the highest-priority budget demands.