

March 14, 2002

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

2002-03 AND MULTI-YEAR FORECAST

In preparation for development of our recommendations for the 2002-03 Proposed Budget scheduled to be presented to the Board on April 16, 2002, we have developed the attached preliminary fiscal forecast for 2002-03 and a multi-year forecast for 2003-04 and 2004-05. The forecast for 2002-03 will be further refined as the budget process progresses. The long-range forecasts for fiscal years 2003-04 and 2004-05 are projections developed with current information and consequently are more tentative.

The 2002-03 County forecast reflects a projected shortfall of \$352.3 million, \$57.0 million for the General Fund and \$295.3 for the Department of Health Services (DHS). The County forecast may be summarized by the following:

GENERAL FUND

The 2002-03 General Fund forecast (excluding Health) reflects \$689.3 million in additional costs, funded by \$632.3 million in additional funding primarily in revenues and deletion of one-time funding, resulting in a net shortfall of \$57.0 million. In summary this includes:

Expenditure/Costs

- A reduction of \$432.0 million in fund balance, leaving a projected on-going operating fund balance of \$100.0 million.

- Additional cost increases due to caseload growth, primarily in the In-Home Supportive Services and Adoptions programs.
- The General Fund commitment of an additional \$10.0 million contribution each year, through 2004-05, to the Department of Health Services as a result of the phase-out of 1115 Waiver revenue.
- Partial funding for development and implementation of the financial module of the Enterprise Resource Planning (ERP) System.
- Projected net reduction (\$18.0 million) from the Treasury Pool interest earnings revenue offset by Tax and Revenue Anticipation Note interest expense reductions.
- Funding for the negotiated and projected Salary and Employee Benefit and fringe benefits increases.
- Funding for the fifth year of the multi-year LACERA buy-down program.

Funding/Savings

The above costs are partially offset by:

- Increased revenues for Property Taxes and Vehicle License Fees.
- Savings of \$39.5 million from long-term commodity contracts for natural gas.
- The deletion of one-time funding provided in the 2001-02 budget for Capital Projects, Appropriation for Contingencies, Extraordinary Maintenance, Probation - Department of Justice Investigation and Project and Facility Development.

While the forecast estimates for 2002-03 are preliminary, it is indicative of the uncertain economic condition of the State, exacerbated by the terrorist attacks of September 11, 2001, which have negatively impacted Statewide revenues over the past year. Consequently, as we consider various fiscal and budget policies necessary to bring the \$57.0 million projected funding gap in the forecast into balance, we will be reviewing a wide range of alternatives including utilizing the current year's contingency to increase the 2002-03 fund balance, minimizing or eliminating one-time infrastructure costs to focus our limited resources on maintaining direct services, and utilizing the latest information for revenue projections.

HEALTH SERVICES

With regard to the 2002-03 forecast for the Department of Health Services (DHS), it reflects additional costs of \$229.4 million and revenue reductions of \$65.9 million for a projected shortfall of \$295.3 million. Current projections show a Designation balance of \$336.0 million available to DHS in 2002-03 which could be used to offset this shortfall. The forecast does not reflect potential changes in cost and revenues associated with implementation of the DHS Strategic Operational Plan, nor does it reflect the potential impact of other major unresolved issues, including, among others, the Medi-Cal Upper Payment Limit, nurse staffing requirements, Health Insurance Portability and Accountability Act compliance, and the impact of the proposed State and Federal budgets. Significant factors projected are:

- The first year reduction of \$56.9 million from the negotiated phase-out of 1115 Waiver revenue.
- Additional costs of \$97.8 million from negotiated salary and employee benefit increases and the retirement buy-down program.
- Net revenue reductions of \$26.9 million in SB 855 Disproportionate Share Hospital revenue.

As noted above, these forecast estimates are very preliminary, and we will continue to monitor and refine them in developing our 2002-03 Proposed and Final Budget recommendations to the Board. Please let me know if you have any questions.

DEJ:DL
SK:CH:vyg

Attachments

c: All Department Heads

2002-03 to 2004-05 FORECAST - MAJOR COMPONENTS

(\$ in millions)

General Fund Only

(excluding General Fund - Health Services)

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
EXPENDITURES / COSTS			
Fund Balance - Net Change	\$432.0	\$0.0	\$0.0
Board Orders	2.3	2.3	1.1
Caseload /Assistance Changes	31.8	30.3	20.4
Other Program Changes	52.2	23.1	7.0
Revenue Reductions	36.6	1.0	1.0
Countywide Salaries and Employee Benefits	134.4	133.0	128.8
Total Expenditures/Costs	\$689.3	\$189.7	\$158.3
FUNDING / SAVINGS			
Countywide Revenue			
-- Property Tax	100.8	64.3	66.8
-- Local Sales Tax	1.5	0.8	0.9
-- VLF - Regular	26.2	20.4	21.0
-- Realignment - Sales Tax (Disc Soc Svs Onl	0.4	22.0	22.5
-- Realignment - VLF (Disc Soc Svs Only)	1.0	0.3	0.3
-- Deed Transfer Tax	1.8	0.4	0.4
Other Revenue	9.3	14.2	14.6
Deletion of One-Time Funding	449.6	4.5	3.0
Other Savings	41.7	0.0	0.0
Total Funding/Savings	\$632.3	\$126.9	\$129.5
NET BALANCE TOTAL	-\$57.0	-\$62.8	-\$28.8

2002-03 to 2004-05 FORECAST - MAJOR COMPONENTS
(\$ in millions)

Health Services Only
(Including General Fund and Hospital Enterprise Funds)

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
DHS DESIGNATION BALANCE	\$336.0	\$40.7	\$0.0
EXPENDITURES / COSTS			
Fund Balance - Net Change	-\$25.0	\$295.3	\$0.0
Other Program Changes	94.3	19.8	63.0
Revenue Reductions	62.3	45.5	45.5
Countywide Salaries and Employee Benefits	97.8	74.2	68.9
Total Expenditures/Costs	\$229.4	\$434.8	\$177.4
FUNDING / SAVINGS			
Countywide Revenue			
-- Realignment - VLF and Sales Tax	12.9	8.4	8.5
Other Revenue	-20.2	7.5	7.8
Deletion of One-Time Funding	-68.2	0.0	0.0
Other Savings	0.0	0.0	0.0
General Fund Changes	9.6	13.3	6.7
Total Funding/Savings	-\$65.9	\$29.2	\$23.0
USE OF DHS DESIGNATION	-\$295.3	-\$405.6	-\$154.4
YEAR-END DHS DESIGNATION BALANCE	\$40.7	-\$364.9	-\$154.4