

Date of Hearing: March 22, 2023

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
AB 562 (Wendy Carrillo) – As Introduced February 8, 2023

SUBJECT: Local government finance: the County of Los Angeles.

SUMMARY: Repeals financial reporting requirements and associated fiscal oversight for the County of Los Angeles (LA County). Specifically, **this bill:**

- 1) Repeals the following requirements for LA County:
 - a) In reporting on all fiscal matters, LA County shall comply with the Accounting Standards and Procedures for Counties as promulgated by the Controller.
 - b) LA County shall annually submit its proposed budget to the Governor, the Legislature, and the State Auditor, including estimated annual expenditures and revenues for the current year, an analysis of the impact of the Governor’s Budget for the next fiscal year, and any other pertinent information which may impact LA County’s fiscal situation for the next fiscal year.
 - c) LA County shall, for each program in the budget, provide actual expenditure data to enable comparison of actual expenditures with the current estimated and proposed levels and to show expenditures by funding source.
- 2) Repeals requirements for the Legislative Analyst’s Office (LAO) to conduct a review including the identification of the principal factors contributing to LA County’s fiscal emergency and making recommendations concerning the following:
 - a) Structural changes in federal, state, and county fiscal program relationships.
 - b) County operations that will minimize future county fiscal emergencies and promote long-term fiscal viability.

FISCAL EFFECT: This bill is keyed fiscal.

COMMENTS:

- 1) **Bill Summary.** LA County is currently required to annually submit its proposed budget to the Governor, the Legislature, and the State Auditor, including estimated actual expenditures and revenues for the current year, an analysis of the impact of the Governor’s Budget for the next fiscal year, and any other pertinent information, as specified. Existing law also requires LA County to provide actual expenditure data for each program in its budget, as specified. Existing law also required the LAO to conduct a review of the county fiscal emergency and to make specified recommendations. This bill repeals all of these provisions. LA County is the sponsor of this bill.

- 2) **Los Angeles County Fiscal Crisis.** The County's Chief Administrative Officer estimated in June 1995 that LA County was facing a \$1.3 billion budget shortfall in 1995-96. Total LA County spending in the previous fiscal year was approximately \$12.4 billion and the estimated shortfall represented about 10% of LA County's overall 1994-95 budget. The LAO published a study on LA County's fiscal crisis on July 11, 1995 and found that the following factors contributed to LA County's budget problems:
- b) Property tax shifts: The state's 1992-93 and 1993-94 Budget Acts shifted about \$1 billion of property taxes from LA County to public schools.
 - c) Costs related to LA County health program utilization and financing.
 - d) Major loss of federal funds: Total federal Medi-Cal related payments to the county Department of Health Services were estimated to fall from \$1.3 billion in 1994-95 to \$982 million in 1995-96.
 - e) State offset: The loss in federal funding had been compounded by the state offset of specified federal funds that would otherwise go to counties. In 1995-96, LA County estimated that its loss due to the state offset would be \$120 million.
 - f) Slow growth in local taxes: Property taxes, sales taxes, and vehicle license fees were impacted by the recession. For example, the single largest general purpose revenue source, property taxes, increased by almost 10% per year in the 1980s, but was projected by LA County to decline by 1.6% in 1995-96.
 - g) Employee pay increases: In many county departments, employee salaries increased faster than inflation since 1988-89. The salary increases contributed to cost pressures within LA County's budget.
 - h) One-time measures: LA County had relied on one-time measures to cover recent budget shortfalls, including the issuance of bonds, it depleted its reserves, deferred obligations to its workers' compensation fund, and deferred certain employee costs.

In response to the fiscal emergency, the Legislature adopted SB 727 (Hayden & Polanco), Chapter 518, Statutes of 1995, which, among other things, imposed the requirements that this bill would repeal. LA County proclaims it has since recovered from the emergency and currently enjoys a strong financial position, including the highest possible credit rating from S&P Global and that these are now obsolete.

- 3) **Author's Statement.** According to the author, "AB 562 repeals outdated reporting requirements, bringing what the State requires of Los Angeles County in line with the requirements for other counties. The County of Los Angeles has long since recovered from the fiscal crisis that necessitated Government Code Sections 30600-30608. The County has earned an AAA credit rating, the highest possible rating from S&P Global, as well as credit ratings of Aa1 and AA+ from Fitch Ratings and Moody's Investors Services, respectively.

- 4) Even more so, since the passage of these provisions nearly 30 years ago, technological improvements now allow the County to post its recommended and approved budget on its website for the public to view, including the Governor, the Legislature, and the State Auditor. Additionally, the County's website provides budget resources in multiple languages, including English and Spanish, as well as a budget archive that dates back to Fiscal Year 1997-98."
- 5) **Controller Reports.** Each city, county, and special district is currently required to provide to the State Controller's Office (SCO) a report of all the financial transactions during the preceding year. The report must contain data from financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP), if the data is available. The report must be provided seven months after the close of each fiscal year or within the time prescribed by the SCO, whichever is later, and shall be in the form required by the SCO.

Once submitted, the SCO must compile, publish, and make publicly available on its website, in a format that can be printed and downloaded, reports on the financial transactions and information on annual compensation of each county, city, and special district. The SCO must publish the reports of the financial transactions on or before November 1 of each year following the end of the annual reporting period. This data is available upon request of the Legislature on or before April 1 of each year.

- 6) **County Accounting Procedures.** The SCO currently prescribes uniform accounting procedures for counties that conform to the GAAP. The SCO prescribes such procedures after consultation with and approval by the Committee on County Accounting Procedures (CCAP). CCAP consists of 10 members appointed by the SCO. Five members must be county auditors or county officers in equivalent positions, three must be county administrative officers, and two shall be members of a county board of supervisors.
- 7) **Arguments in Support.** According to LA County "AB 562 would delete outdated provisions that are specific to the County of Los Angeles (County). These provisions were enacted nearly 30 years ago when the County was facing a fiscal emergency, requiring the County to annually submit its proposed budget to the Governor, the Legislature, and the State Auditor.

"Government Code § 30600-30608 is no longer needed, as the County no longer experiences a fiscal emergency. Considering technological advancements since these provisions took effect nearly 30 years ago, the County currently publishes budget information on its website for the public to view, including the Governor, the Legislature, and the State Auditor. Additionally, the County's website provides budget resources in multiple languages, including English and Spanish, as well as a budget archive dating back to Fiscal Year 1997-98. The County of Los Angeles has utilized its website to provide greater transparency and accessibility to its budget process. AB 562 simply removes obsolete provisions to align with the 21st century."

- 8) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

Los Angeles County [SPONSOR]

Opposition

None on file

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958