County of Los Angeles
CHIEF EXECUTIVE OFFICE
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WILLIAM T FUJIOKA
Chief Executive Officer

April 16, 2013

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

Dear Supervisors:

FISCAL YEAR 2013-14 RECOMMENDED COUNTY BUDGET
(3-VOTES)

The Fiscal Year (FY) 2013-14 County of Los Angeles Recommended Budget total of $24.699 billion reflects a decrease of $679 million in total requirements. General County funds, including the General Fund and Hospital Enterprise Funds ($19.217 billion), reflect a net decrease of $126 million. Special District/Special Funds reflect a decrease of $553 million.

TOTAL REQUIREMENTS – ALL FUNDS – 2013-14
(Dollars in Billions)

Fund	2012-13 Budget	2013-14 Recommended	Change	% Change
Total General County	$19.343	$19.217	$(0.126)	-0.7%
Special Districts/Special Funds	6.035	5.482	(0.553)	-9.2%
Total Budget	$25.378	$24.699	$(0.679)	-2.7%
Budgeted Positions	103,054	103,148	94	0.1%

BUDGET ECONOMIC OUTLOOK

The current economic outlook for the nation and California shows moderate growth for the remainder of 2013 and continuing into 2014. This positive economic growth has been driven by improvements in the housing market and the continued downward trend in unemployment. The housing market recovery began in early 2012, aided by historically low-interest rates and a decline in foreclosure activity. The turnaround in the housing market gained momentum towards the end of 2012 into 2013 and is expected to continue. Improvements in the housing market and the continued downward trend in unemployment have strengthened consumer confidence and increased consumer spending. As a result, we have experienced positive gains in retail sales and sales tax revenues led by increased sales of autos, gasoline, and construction materials.

The labor market is slowly improving as businesses begin to rebound, contributing to a decline in unemployment rates; however, unemployment rates in Los Angeles County remain at historically high levels.

Month	Unemployment Rate
January 2012	11.6%
November 2012	10.4%
December 2012	10.3%
January 2013	10.4%

The economic outlook, although positive, continues to face challenges and uncertainties. The impact of health care reform, sequestration, and the federal government's long-term fiscal imbalance remain to be seen. In addition, low housing inventory and tighter lending standards can potentially hinder the housing recovery. Nevertheless, economic recovery continues but the critical factor is its sustainability. We will continue to monitor economic indicators, as we move forward, throughout the budget process.

BUDGET OVERVIEW

Today, we recommend a budget to the Board without a budget gap. For the first time in four (4) years, the net County cost (NCC) portion of the County's budget is financed entirely with ongoing revenue sources. As a result of the recent recession, the County experienced a “cyclical” budget deficit. This occurred when the economy went into recession and County revenues declined, while spending on safety net programs and unavoidable costs increased. For the first time in four years, the County does not have to rely on reserves or other one-time funding solutions to balance the budget. The chart below illustrates the progress that has been made in reducing our budget gap during the economic crisis.

Fiscal Year	NCC Budget Gap
2008-09	$33.0 million
2009-10	$360.5 million
2010-11	$491.6 million
2011-12	$185.2 million
2012-13	$103.6 million
2013-14	$0

Since 2008-09 the County has faced significant budget deficits in the NCC portion of our budget. NCC is that portion of our budget financed with locally generated revenues. These deficits were managed without service reductions, layoffs, or furloughs. This achievement was made possible through the leadership of the Board, County managers, and the hard work of all County employees. The Board's long-standing conservative budget practices and our strong compliance to fiscal policies enabled us to weather these trying economic times.

To control costs the County has also aggressively pursued savings through our Efficiency Initiative Program and implemented a hard-hiring freeze and a freeze on non-essential services, supplies and equipment. Throughout this difficult period, employee labor groups have actively partnered with the County by agreeing to zero salary increases, while step increases for County managers were, and continue to be, suspended.

These collective actions to manage our budget during these trying times was recognized last fall when the credit rating agency, Standard and Poor's (S&P), raised the County's long-term credit rating. S&P underscored the County's strong financial management as one of the reasons for the upgrade. This was significant since the County was the largest municipality to have received a rating upgrade in 2012, while in the same period rating agencies downgraded 580 municipal ratings in comparison to just 191 rating upgrades across the nation. The County has also received highest short-term credit rating for the last 16 years, which contributed to record low-interest costs.

Following are the primary components of change recommended in the 2013-14 NCC Budget.

2013-14 Net County Cost Budget Components

2012-13 One-Time Budget Solutions	$(103.6) million
Unavoidable Cost Increases	(92.4) million
Program Changes	(56.5) million
Revenue Increases	218.1 million
Ongoing Funding Used for One-Time Needs in 2012-13	34.4 million
Total Budget Gap	$ 0

2012-13 One-Time Budget Solutions

Our principle strategies to deal with the past budget deficits were to judiciously use reserves, take limited departmental curtailments that did not create significant service impacts, reduce capital funding, and aggressively pursue savings from efficiencies. Had the County relied solely on departmental curtailments, the impact to County services and its residents would have been much more draconian and would have resulted in the reduction of critical services and the layoff of a large number of County employees. This would have put an even greater strain on an already fragile local economy. We believe that the effects of the recession on our budget (i.e., declines in revenues and increases in assistance caseloads) are a cyclical consequence of the recession and its aftermath. Over the last four years, structural changes to the budget came from departmental curtailments of approximately $358.6 million. These measured actions, along with the use of one-time funding sources, have allowed us to strategically achieve a balanced budget by maintaining critical core services. Through this strategy, we have sought to avoid extensive reductions to department budgets. As noted previously, the 2013-14 Recommended County budget does not include any one-time budget solutions for ongoing expenses.

Unavoidable Cost Increases

The primary drivers of unavoidable cost increases are employee benefits. The County's retirement contribution rates will increase primarily due to the losses sustained by the Los Angeles County Employees Retirement Association (LACERA) in FY 2008-09 and the reduction in the assumed investment rate of return. Under California county retirement law, liabilities not funded through member contributions are the responsibility of the employer. LACERA's funding policy calls for asset gains and losses to be smoothed over a five-year period, and the unfunded portion of the liability to be amortized over thirty years. In addition, increases in health insurance premiums for County employees.

Revenue Increases

Just as the economy has improved, so have the County's revenues and we are once again forecasting increases in a variety of locally generated revenues along with increases in statewide sales tax revenues.

For the third year in a row, the Assessor is forecasting a preliminary assessed valuation increase. For 2013-14, the change is estimated to be 2.88 percent. Since the forecast is preliminary and the Assessor is scheduled to release updated forecasts in May 2013 with a final assessment roll forecast in July 2013, our office will continue to work with the Assessor's office to monitor and update our property tax projection accordingly. In addition, we are recommending a $40.0 million (ongoing) and $20.0 million (one-time) increase in property tax revenue residual from the dissolution of redevelopment agencies.

Once again, we are seeing year-over-year growth in Proposition 172 Sales Tax and Realignment Sales Tax. Based upon this increase and a survey of local economic forecasts, we have assumed a 4.0 percent growth factor in our overall sales tax projection for the 2013-14 Recommended Budget. Like property taxes, we will continue to monitor these revenue sources and update our projections going forward, throughout the budget process.

The increases in property tax and sales tax are partially offset by a decrease in the property tax administrative fees, interest earnings, and a reduction in business license taxes due to the impending closure of the Puente Hills Landfill.

Looking Forward

Achieving a balanced budget is a notable accomplishment given the economic crisis that we have endured without service reductions, layoffs, or furloughs; however, the County still faces a number of challenges and uncertainties ahead, and we must continue with our conservative budget practices. During the budget crisis, we utilized reserves and capital funds to help balance our budget. Serious consideration should be given to restoring our reserves and working towards the County budget policy that calls for a ten percent (10%) reserve of locally generated revenues in our Rainy Day Fund, and providing funding to address the County's deferred maintenance needs. As noted above, the County also utilized ongoing departmental budget curtailments to help achieve a balanced budget. On average, departments suffered a 15% reduction to the NCC portion of their budgets while at the same time absorbing certain employee benefit cost increases. Some departments also have structural deficits caused by several years of curtailments and cost absorptions. Strategically restoring these curtailments and correcting structural deficits should be given strong consideration as we move forward. County employees have also gone without a cost-of-living adjustment since August 2008 for safety employees, and January 2009 for the remaining employees. Finally, one of the biggest areas of uncertainty concerns the impact that health care reform (Affordable Care Act) will have on the County Health Department.

OTHER FUNDING RECOMMENDATIONS

Listed below are some important recommendations included in the 2013-14 Recommended Budget.

- **Citizens' Commission on Jail Violence (CCJV)** – Reflects $1.0 million in funding and the allocation of 4.0 budgeted positions to the Sheriff's Department as recommended by the CCJV. In addition, we recommend that an additional $10.0 million be set aside in the Provisional Financing Uses budget pending completion of a program analysis by the implementation monitor and subject-matter experts along with a financial analysis by our office. It should be noted that our review will likely result in the need for additional funding. Once our analyses are complete, our office will provide recommendations to the Board for consideration during a subsequent budget phase.

- **Office of Inspector General (OIG)** – Sets aside $5.0 million in ongoing funding in the Provisional Financing Uses budget for an Inspector General. On October 2, 2012, the Board directed County Counsel and our office to evaluate the feasibility of creating an OIG. The OIG would provide comprehensive oversight and monitoring of the Sheriff's Department and its jails. This funding would be used to address the operational needs of OIG. Once the full analysis determines the cost of the OIG, we will provide the Board with recommendations for consideration.

- **Summer Gang Suppression** – Allocates $3.6 million funding in the Provisional Financing Uses budget for the Sheriff's Summer Gang Suppression program.

- **Unincorporated Area Stormwater Urban Runoff Quality Program** – Reflects $10.0 million in ongoing funding and $6.0 million in one-time funding to address regulatory stormwater and urban runoff compliance requirements in the unincorporated areas of the County.

- **Mental Health** – Recommends that $4.0 million be added to the Department of Mental Health's budget to add 50 additional Institution for Mental Diseases (IMD) beds. Adding IMD beds will provide critical care for individuals who require these services and help to alleviate overcrowding of emergency rooms and hospital inpatient beds throughout the County.

- **Probation Juvenile Day Reporting Centers (JDRC)** – Sets aside an additional $1.3 million in the Provisional Financing Uses budget, bringing the total amount set aside for JDRC to $2.3 million. JDRCs provide the Courts with an alternative to incarceration (probation camps) and help to reduce camp population by providing intensive community-based services to moderate- to high-risk juvenile probationers.

- **High-Tech Cyber Crime** – Recommends $1.0 million in funding and 7.0 budgeted positions to supplement the District Attorney's High-Tech Cyber Crime team to help protect the County's network infrastructure from cyber attacks and to address significant increases in high-tech cyber crimes.

- **Health Care Reform** – Reflects a net increase of 107.0 budgeted positions for the Department of Public Social Services' Administration budget. Enactment of the Affordable Care Act (ACA) will provide increased health coverage for hundreds of thousands of County residents. This change in health coverage eligibility will increase the Department's existing Medi-Cal caseload starting in January 2014 and will markedly increase the Medi-Cal workload thereafter.

- **Children's Welcome Center** – Recommends that $3.2 million in appropriation be added to the Department of Children and Family Services' Administration budget to improve the department's Emergency Response Command Post operations to ensure the safety of children awaiting after-hours placement. This increase in appropriation is partially offset with $2.2 million in State and federal revenues.

- **Energy Efficiency Projects** – Reflects an increase in appropriation and revenue of $26.9 million to the County's utilities budget unit to fund investor-owned utilities and other energy efficiency programs. The increase will continue and grow the County's leadership role in the State's immediate and longer term objectives towards development of a sustainable, clean-energy economy.

HEALTH SERVICES

The Department of Health Services (DHS) is continuing to develop its analysis of the impact of the Affordable Care Act (ACA), which is effective January 1, 2014. The potential impact of ACA has not yet been factored into the Department's 2013-14 Recommended Budget.

The mid-year implementation of the ACA makes projecting the impact for the entire 2013-14 fiscal year (FY) more difficult. Disproportionate Share Hospital, Medi-Cal fee-for-service, Safety Net Care Pool, and Healthy Way LA (HWLA) matched funding will be impacted in FY 2013-14 in varying degrees. The analysis is further complicated as certain Waiver-related funding streams are shared among the public hospitals statewide, based on a distribution formula that takes into account the numbers of uninsured patients and other factors. The varying impacts of the ACA in counties with public hospitals are factored into the formula. Only when that process is completed will the Department be able to determine how much of the shared funds the County will receive for FY 2013-14. The ACA will also impact the Department's payer mix and this factor will be included in the analysis. Any one of these items has the potential to materially impact the Department's projections.

Additionally, the two major features of the ACA that will have the most significant effect on DHS are: 1) patient choice; and 2) payment based on capitation or bundled payments rather than expenses. DHS must be successful in addressing these features or could face huge financial shortfalls and/or closure of facilities. DHS is rapidly taking the necessary steps to prepare for the ACA implementation, including, but not limited to:

- Developing and instituting a patient-centered medical home model
- Empanelling patients in primary care homes
- Increasing enrollment in HWLA
- Increasing the number of primary care, specialty care, and diagnostic outpatient appointments
- Implementing an electronic health record information system
- Installing a disease management registry to track necessary patient interventions
- Launching eConsultation to improve provider communication about patient care and to optimize the use of specialty care capacity
- Improving the patient experience, and
- Decreasing the cost of services while improving quality and service levels

The 2013-14 Recommended Budget is fully funded with available resources. The Department is continuing to refine its projection analysis for the various funding streams in light of these complexities and will update them in a future budget phase.

POTENTIAL STATE/FEDERAL BUDGET IMPACTS

State Budget

On January 10, 2013, the Governor released his 2013-14 Proposed State Budget, which includes $97.7 billion in State General Fund expenditures. While the Governor's budget plan contains no significant reductions to County-administered programs, it outlines his proposals to implement federal Health Care Reform, which is a critical priority to the County. The Governor's plan does contain a potential risk to the County's 1991 Realignment revenue allocation. The Brown Administration has expressed significant interest in redirecting 1991 Realignment funds from counties to the State. These funds, estimated at $395.0 million, are used to fund critical health and public health services. At the direction of the Board, we continue a comprehensive legislative strategy to address this issue.

Since the State budget situation continues to unfold and remains fluid, we are deferring recommendations to align the County budget with actions by the Governor and the Legislature until later phases of the State Budget process when their situation becomes clearer. Similarly, we are deferring Public Safety Realignment (AB 109) budget adjustments, since AB 109 allocations to counties are expected to be addressed in the Governor's May Budget Revision.

Federal Budget

Congress did not reach agreement on full-year funding for Federal Fiscal Year (FFY) 2013 (which began on October 1, 2012) until March 21, 2013. The President is required to release a proposed budget for the coming fiscal year by the first Monday in February. However, as of March 21, 2013, President Obama has not yet released his Proposed FFY 2014 Budget, and is not expected to do so until mid-April. Such delays in the Federal budget cycle have become common with the deep differences between the two parties, neither of which control both houses of Congress.

Continued gridlock on Federal budget matters, would mean that the Federal government will continue to run huge budget deficits. This year, the annual Federal budget deficit is expected to fall below $1 trillion for the first time since 2008 due to the improving economy; short-term spending increases and tax cuts that expired on December 31, 2012; and the $85 billion in across-the-board sequestration spending cuts that were imposed on March 1, 2013. These sequestration cuts will reduce the County's overall Federal revenue by less than one percent because the vast majority of the County's Federal revenue comes from mandatory (entitlement) programs, such as Medicaid, Title IV-E Foster Care and Adoption Assistance, Temporary Assistance for Needy Families, Child Support Enforcement, and the Supplemental Nutrition Assistance Program, which are exempt from such cuts. Non-defense discretionary programs for which funding levels are set through annual appropriations bills were cut by 5 percent for FFY 2013.

The County's Federal Medicaid revenue will grow in the coming years largely due to Medicaid expansions enacted under the Affordable Care Act. However, under current Federal law, the funding outlook for County revenue received through Federal discretionary programs is far less promising. Under current law, even larger sequestration cuts totaling over $109 billion a year will be applied to non-exempt programs over the next eight years. The sequestration cuts for FFY 2013 were reduced to $85 billion under the legislation that was enacted this year to avert the “fiscal cliff.” We will continue to monitor and report to the Board on the latest developments.

CAPITAL PROJECTS/EXTRAORDINARY MAINTENANCE PROGRAMS

Capital Projects

The 2013-14 Recommended Capital Projects/Refurbishments Budget appropriates $976.9 million for continued development, design, and construction of projects that address high priority health, public safety, recreation, and infrastructure needs. The funded projects reflect the new programmatic direction being undertaken on a national level with regard to health care and with respect to the State of California’s policies over the incarceration of adult and juvenile offenders.

The recommended 2013-14 appropriation also reflects a decrease of $401.1 million from the 2012-13 Final Adopted Budget, due to the completion of 19 projects in 2012-13, and the issuance of long-term bonds to finance certain projects that were initially funded in the Capital Projects/Refurbishments Budget. Bond-financed projects are no longer accounted for in the Capital Projects/Refurbishments Budget once bonds have been issued. Such projects include the seismic retrofit of the County’s acute care inpatient facilities, expansion of the County’s surgical and emergency room facilities, and rehabilitation of two historic assets.

In terms of currently funded projects, the 2013-14 Recommended Budget reflects the implementation of Public Safety Realignment (AB 109) Realignment, and Juvenile Justice Realignment (SB 81). The County is also investing in new outpatient centers at the Martin Luther King Jr., and Rancho Los Amigos Medical Center campuses, and in the High Desert area. In addition, construction of a new community hospital is underway at the Martin Luther King Jr., Medical Center campus which will provide a new inpatient care option for the residents of South Los Angeles.

The County jail system is also experiencing a major programmatic shift with the enactment of AB 109, the State’s Public Safety Realignment Act. Under AB 109 Realignment, certain State inmates are transferred to the County’s jail system. The influx of new inmates, combined with the longer sentences of State inmates, has significantly increased the County’s jail population. To mitigate this impact, the County is developing a plan to modernize and expand its detention facilities. The Recommended 2013-14 Budget appropriates $157.5 million for facility improvements under the plan. Once the Board-order consultant study is completed, we will finalize the plan to improve the County's detention services. In order to implement SB 81, an additional $41.1 million is being recommended to construct a reconfigured juvenile detention facility at Camp Kilpatrick to accommodate a new evidence-based rehabilitation and educational model. The project is partially funded by a State grant.

In addition to these health and public protection projects, the County continues to refurbish and construct new libraries, parks, and beach facilities to enrich the lives of County residents, as well as address its own governmental needs through the construction of new facilities, such as a new countywide data center.

Sustainable Design Program

In January 2007, the Board of Supervisors approved the establishment of the Sustainable Design Program as a component of the County's Energy and Environmental Policy. The purpose of the Program is to support the County's goal of a 20% reduction in its facility's energy and resource consumption by the year 2015 through the integration of sustainable, "green building" technologies into the designs of the County's capital improvement and refurbishment projects. The 2013-14 Recommended Capital Projects/Refurbishments Budget reflects the County's continued commitment to the ideal of sustainability, with the incorporation of sustainable design technologies into 144, or 46 percent of the County's 311 active building or refurbishment related projects.

Extraordinary Maintenance

The County continues to direct ongoing investment to meet performance requirements and expectations for its facilities. The 2013-14 Recommended Budget appropriates $106.0 million for high priority repairs, maintenance and accessibility modification needs at County facilities, including juvenile halls, animal shelters, County beaches, parks, and for various roof repairs throughout the County.

The 2013-14 Recommended Budget also appropriates funds for a pilot program approved by the Board of Supervisors on September 4, 2012, which will lead to an overall plan resulting in physical assessments and ongoing maintenance tracking for 21.8 million square feet of County-owned space, and allowing for long-range facility planning. The pilot program includes a typical public health center, community and senior center, park and fire station.

Countywide Efficiency Efforts

The County continues to aggressively explore efficiencies as a means to generate ongoing and one-time savings while improving operations. With the support of the

Board, our office has placed a high emphasis on both countywide and departmental efficiencies over the last four (4) years, working with departments to cut operating costs through diligent efforts and innovative reengineering of existing processes. The County's ability to avoid the serious cutbacks and layoffs that many other jurisdictions have suffered in this economic crisis is in part due to these cost-saving efforts. To date, the County has achieved over $250 million in operational efficiencies. The FY 2013-14 Recommended Budget includes the continuation of numerous efficiency projects, as well as two new efforts. Projects include:

- Refinancing of bonds issued by former Redevelopment Agencies saving ongoing funding for the County, schools, and local cities (potentially $100.0 million over 20 years);

- Fuel Management System to accurately track and monitor fuel usage;

- Dramatically lower pharmaceutical drug costs through streamlined/volume purchasing and inventory management ($100.3 million per year);

- Conversion of General Relief recipients to collect Supplemental Security Income ($18.6 million one-time savings);

- Negotiation of enterprise software licenses ($10.8 million one-time savings);

- Improved Medi-Cal claims processing and reduction of denied days ($8.0 million per year);

- Increased clinic participation and expansion of industry-sponsored assistance to reduce indigent client medication costs ($6.1 million per year);

- Systematic monitoring and termination of all unused phone/data lines ($5.5 million per year);

- Increased collections through offering payment plans at hospitals ($2.5 million per year); and

- Requiring all county contractors to be current on their personal and real property taxes ($3.7 million one-time savings).

BUDGET TIMETABLE

Below is the schedule for budget hearings and deliberations.

Board Action	Approval Date
Adopt Recommended Budget; Order Printing, Notice and Distribution; and Schedule Public Hearings	April 16, 2013
Commence Public Budget Hearings	May 15, 2013
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion	June 24, 2013

Prior to deliberations on the FY 2013-14 Adopted Budget, we will file reports on:

- May revisions to the Governor’s Budget and updates on other 2013-14 State and federal budget legislation and the impact on the County’s Recommended Budget;
- Final revisions reflecting the latest estimates of requirements and available funds;
- Issues raised in public hearings or written testimony;
- Specific matters with potential fiscal impact; and
- Issues as instructed by the Board.

APPROVAL OF RECOMMENDED BUDGET

The matter before the Board is the adoption of the Recommended Budget.

- The documents must be available for consideration by the public at least 10 days prior to the commencement of public budget hearings.
- Adjustments to the budget, including revisions to reflect the Board’s funding priorities and State and federal budget actions, can be made during budget deliberations, prior to adoption of the Budget.
- Pursuant to State law (the County Budget Act), the Board may make changes to the Recommended Budget with a simple majority (3 votes) until adoption of the Budget, if changes are based on the permanent record developed during public hearings (e.g., Recommended Budget, budget requests and all written and oral input by Supervisors, County staff and the public).

- Changes not based on the "permanent record" require 4/5 vote.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

1. Order such revisions, additions, and changes to the Chief Executive Officer's budget recommendations as deemed necessary and approve the revised figures as the Recommended Budget for 2013-14; order the publication of the necessary notices; and set May 15, 2013 as the date that public budget hearings will begin.

2. Approve discounted prepayment on the County's retirement contribution, if it is within the County economic interest to do so, and authorize the Chief Executive Officer to negotiate with LACERA on the County's behalf in this regard.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer