County of Los Angeles

2011-12 Recommended Budget

“To Enrich Lives Through Effective and Caring Service”
Submitted to the
Board of Supervisors
by
William T Fujioka, Chief Executive Officer
and
Wendy L. Watanabe, Auditor-Controller
2011-12 Recommended Budget ($23.303 Billion)

<table>
<thead>
<tr>
<th>Fund (in Billions)</th>
<th>Adopted Budget</th>
<th>Recommended Budget</th>
<th>From Prior Year</th>
<th>From Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total General County</td>
<td>$18.508</td>
<td>$18.019</td>
<td>($0.489)</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Special Funds/Districts</td>
<td>5.737</td>
<td>5.284</td>
<td>(0.453)</td>
<td>-7.9%</td>
</tr>
<tr>
<td>Total Budget</td>
<td>$24.245</td>
<td>$23.303</td>
<td>*</td>
<td>($0.942)</td>
</tr>
<tr>
<td>Budgeted Positions</td>
<td>101,296</td>
<td>101,039</td>
<td>(257)</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

* Does not include all year-end fund balances.
Primary Drivers of Budget Changes

2011-12 NCC Budget Gap – ($220.9) Million

✓ 2010-11 One-Time Budget Solutions – ($262.0 Million)
✓ Expiration of Federal Stimulus Funding – ($63.9 Million)
✓ Unavoidable Cost Increases – ($89.0 Million)
✓ Assistance Caseload Changes – ($32.7 Million)
✓ Revenue Increases - $78.0 Million
✓ Retirement of Pension Obligation Bonds - $106.6M ($248.1 Million Countywide savings)
✓ Labor-Management Savings - $42.1M ($75.7 Million Countywide savings)
Sales Tax Projection ($ in Millions)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Local Sales Tax</td>
<td>$44.8</td>
<td>$43.0</td>
<td>$38.9</td>
<td>$33.3</td>
<td>$34.0</td>
<td>$35.7</td>
<td>$37.5</td>
</tr>
<tr>
<td>Realignment Sales Tax (Social Services Only)</td>
<td>471.3</td>
<td>469.9</td>
<td>417.5</td>
<td>392.9</td>
<td>398.1</td>
<td>418.1</td>
<td>439.0</td>
</tr>
<tr>
<td>Prop 172 Sales Tax</td>
<td>634.2</td>
<td>623.0</td>
<td>547.9</td>
<td>533.1</td>
<td>539.3</td>
<td>566.2</td>
<td>594.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,150.3</strong></td>
<td><strong>$1,135.9</strong></td>
<td><strong>$1,004.3</strong></td>
<td><strong>$959.3</strong></td>
<td><strong>$971.4</strong></td>
<td><strong>$1,020.0</strong></td>
<td><strong>$1,071.0</strong></td>
</tr>
</tbody>
</table>

Change from previous year
- Local Sales Tax: $ (14.4)
- Realignment Sales Tax: $ (131.6)
- Prop 172 Sales Tax: $ (45.0)
- **Total**: $ 12.1

% Change from previous year
- Local Sales Tax: -1.3%
- Realignment Sales Tax: -11.6%
- Prop 172 Sales Tax: -4.5%
- **Total**: 1.3%
### Property Taxes Projection ($ in Billions)

<table>
<thead>
<tr>
<th></th>
<th>Actual 2008-09</th>
<th>Actual 2009-10</th>
<th>Estimate 2010-11</th>
<th>Recommended Budget 2011-12</th>
<th>Projected 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property Taxes (Billions)</strong></td>
<td>$3.803</td>
<td>$3.721</td>
<td>$3.676</td>
<td>$3.704</td>
<td>$3.815</td>
</tr>
<tr>
<td><strong>Change from previous year</strong></td>
<td>$-0.082</td>
<td>$-0.045</td>
<td>$0.028</td>
<td>$0.111</td>
<td></td>
</tr>
<tr>
<td><strong>% Change from previous year</strong></td>
<td>-2.16%</td>
<td>-1.21%</td>
<td>0.76%</td>
<td>3.00%</td>
<td></td>
</tr>
</tbody>
</table>
Investment Earnings Projection ($ in Millions)

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<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>202.0</td>
<td>169.8</td>
<td>84.0</td>
<td>54.1</td>
<td>50.0</td>
<td>50.9</td>
<td>65.0</td>
</tr>
<tr>
<td>Change from previous year</td>
<td>$ (32.2)</td>
<td>$ (85.8)</td>
<td>$ (29.9)</td>
<td>$ (4.1)</td>
<td>$ 0.9</td>
<td>$ 14.1</td>
<td></td>
</tr>
<tr>
<td>% Change from previous year</td>
<td>-15.9%</td>
<td>-50.5%</td>
<td>-35.6%</td>
<td>-7.6%</td>
<td>1.8%</td>
<td>27.7%</td>
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</tbody>
</table>
COMPARISON: Los Angeles County
Unemployment Rate and General Relief (GR) Caseload
(Jan 2007 – Jun 2011)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual 2007-08</th>
<th>Actual 2008-09</th>
<th>Actual 2009-10</th>
<th>Estimate 2010-11</th>
<th>Change from 2007-08</th>
<th>% Change from 2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>GR Caseload (monthly)</td>
<td>62,897</td>
<td>74,763</td>
<td>91,499</td>
<td>106,894</td>
<td>43,997</td>
<td>70.0%</td>
</tr>
<tr>
<td>GR Net County Cost (Millions)</td>
<td>$147.7</td>
<td>$178.4</td>
<td>$219.0</td>
<td>$257.1</td>
<td>$109.4</td>
<td>74.1%</td>
</tr>
</tbody>
</table>

GR benefits $221/month ($2,652/annual)
COUNTY CONTINUES TO MAINTAIN
CORE SERVICES THROUGH THESE CHALLENGING TIMES

✓ Department of Health Services

✓ Sheriff’s Department

✓ Internal Services Department
Department of Health Services (DHS)

- DHS continues to provide the same level of services without additional County funds during this period of economic downturn
  
  - Developed a financial stabilization plan that currently saves $139 million annually
  
  - Avoided service reductions and layoffs through revenue maximization and other efficiencies
  
  - Absorbed an influx of new patients who lost their private health insurance during the recession
  
  - Secured additional State 1115 Waiver revenues and increased the amount of federal revenue that can potentially be drawn down to the County
Sheriff’s Department

- Overall decrease in reported crimes as of January 2011
  - Violent crimes declined 8 percent
  - Homicides decreased 33 percent
  - Serious property crimes decreased 4 percent
  - Five years continuous decrease in homicide
  - Lowest homicide rate since 1965

- Unincorporated areas patrol minutes are in line with contract cities

- Successfully transitioned the Office of Public Safety into the newly created County Services Bureau
Internal Services Department

- **Energy Efficiency Projects (Lighting Retrofits/Controls, HVAC, Retro-commissioning)**
  - $21 million Countywide annual savings in electric and natural gas costs
  - Cumulative savings of $152 million since FY 1994-95 (cumulative project costs of $51 million)

- **Telecommunications Efficiencies**
  - $4 million Countywide annual savings from reduction in low usage phone lines
  - $1 million per year savings from renegotiated Cisco maintenance contract

- **Information Technology Efficiencies**
  - Windows server virtualization has saved approximately $5 million over the last 5 years
  - $2 million + savings from Desktop (“thin client”) virtualization project
  - Software license management program has saved $28 million over 5 years through agreement negotiations, cancellations, etc.

- **Elimination of 261 vacant budgeted positions over the last 3 years**
Efficiency Initiatives

Over the last two years, the County has instituted efficiency measures that have resulted in savings of $145 million through FY 2010-11 and is projected to achieve savings of over $200 million by the end of FY 2011-12.

- **Health Services Department ($121 million)**
  - Standardizing drug formulary options and improved inventory management $87.8 million
  - Reduced discretionary services, supplies, and fixed assets spending $11.6 million
  - Overtime reduction $3.6 million
  - Reduce reimbursement claim denials through physician education and monitoring $2.8 million
  - Sterilized and repacked medical and surgical instruments $1.2 million

- **Public Health Department ($28 million)**
  - Pharmaceutical drug savings and improved inventory management $7.5 million
  - Increased third-party fund matching for Children’s Medical Services $4.2 million
  - Enhanced staff training on Medi-Cal claims to capture reimbursable activities $2.8 million
  - Aggressive monitoring of laboratory expenditures $1.9 million

- **Assessor ($5 million) through various systems automation, server consolidation, and cross-training of staff to reduce overtime**

- **All other efficiency initiatives ($64 million)**

- **Chief Information Office is leading departments to implement various technology efficiency projects such as server virtualization, managed print services, PC power savings, video conferencing, and paper reduction/automation**
Through the leadership of the Board of Supervisors and our partnership with County labor unions over the last three years, we have achieved:

✓ No Layoffs
✓ No Furloughs
✓ Labor Agreed to $0 Cost of Living Adjustments
✓ Labor Agreed to Reduced Employee Benefits
✓ County Reduced the Use of Temporary Employees
USE OF RESERVES TO BALANCE THE BUDGET

✓ Use of reserves has been balanced with permanent curtailments

✓ No debt issued to fund operations or retirement

✓ County still maintains reserves - $228 million

✓ Any unanticipated revenues should be used to supplement reserves and address State budget issues
Over the past four years, the County has implemented structural changes to our budget by cutting $406.1 million in net County cost and by eliminating 2,735 budgeted positions.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net County Cost Reductions (Millions)</td>
<td>$ 33.0</td>
<td>$ 162.9</td>
<td>$ 175.0</td>
<td>$ 35.2</td>
<td>$ 406.1</td>
</tr>
<tr>
<td>Budgeted Positions Changes</td>
<td>96</td>
<td>(1,748)</td>
<td>(826)</td>
<td>(257)</td>
<td>(2,735)</td>
</tr>
</tbody>
</table>
County Pensions

✓ In 2000, governmental officials across the state began enhancing retirement benefits as a result of changes in retirement laws.

✓ Despite statewide and national trend towards increase in pension benefits, the Los Angeles County Board of Supervisors held firm and resisted pension increases.
County Pensions

✓ County instituted pension reform 30 years ago that State and local governments are embracing today including
  ✓ One of the lowest retirement benefits plans in the state
  ✓ Significant employee contributions

✓ Pension trust is well funded and the County has always made timely payments to the fund

✓ Pension fund investment earnings of 11.6 percent in 2009-10 exceeded the actuarial benchmark rate of 7.75 percent and are on track to exceed it again this year
Long-Term Financial Stability

✓ All three rating agencies assigned their highest short-term rating to the County for the 14th consecutive year in 2010-11

✓ County debt burden falls substantially in 2011-12 with retirement of Pension Obligation Bonds

✓ Last year Standard & Poor’s assigned a positive outlook to the County long-term bonds

✓ County is pursuing retiree healthcare reform

✓ County is in the process of establishing Other Post Employee Benefits (OPEB) trust fund
State Budget Actions

✓ State budget changes not included in the County Recommended Budget

✓ State budget solutions of $11.2 billion were approved after County budget went to print

✓ State budget impact to County-administered health and social services programs - $366.4 million

✓ Public Safety Realignment on hold until funding is identified by the Governor
Economic Outlook

Economic indicators pointing towards recovery

✓ Increased hiring and a reduction in unemployment rate nationally and statewide

✓ New jobs create an increase in demand for goods and services, which leads to higher sales tax revenues
## 2011-12 Budget Calendar

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommended Budget Released</td>
<td>April 19, 2011</td>
</tr>
<tr>
<td>Public Hearings</td>
<td>May 11, 2011</td>
</tr>
<tr>
<td>Budget Deliberations</td>
<td>June 20, 2011 until conclusion</td>
</tr>
</tbody>
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