



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

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April 21, 2009

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 2009-10 PROPOSED COUNTY BUDGET (3-VOTES)

The Fiscal Year 2009-10 County of Los Angeles Proposed Budget total of \$22.799 billion reflects a decrease of \$415 million in total requirements. General County funds, including the General Fund and Hospital Enterprise Funds (\$18.044 billion), reflect a net decrease of \$127 million. Special District/Special Funds reflect a decrease of \$288 million.

TOTAL REQUIREMENTS – ALL FUNDS – 2009-10 (Billions of Dollars)				
Fund	2008-09 Budget	2009-10 Proposed	Change	% Change
Total General County	\$18.171	\$18.044	-0.127	-0.7%
Special District/Special Funds	5.043	4.755	-0.288	-5.7%
Total Budget	\$23.214	\$22.799	-\$0.415	-1.8%
Budgeted Positions	102,458.0	100,774.0	-1,684.0	-1.6%

"To Enrich Lives Through Effective And Caring Service"

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BUDGET ECONOMIC OUTLOOK

The nation, California, and the County continue to struggle with what may be the worst recession and economic crisis in many decades. Although the recession officially began in December 2007, the economy took a turn for the worse in the fall of 2008 when the troubles in the housing, financial, and automotive related sectors spread to the rest of the economy. This downward spiral was heightened by a sudden and deep financial crisis to the nation's capital markets. The crisis in turn dried up credit and contributed to the contraction of almost all sectors of the economy. With the economy contracting and sales slumping, unemployment soared as businesses cut costs to help balance their books. The County was hit especially hard as unemployment in the County soared to 10.9 percent in February 2009, climbing 4.8 percent from February 2008, which was 6.1 percent. The unemployment rate in Los Angeles County has increased for 24 consecutive months.

The near-term outlook for the nation and California remains poor as most economists project that the national and State economy will continue to shrink through 2009. Although a number of uncertainties make forecasting the economy risky, some economists are forecasting a slow recovery starting in 2010.

BUDGET OVERVIEW

Unfortunately, the 2009-10 Proposed Budget is shaped largely by the impact of the deep recession that we are enduring. The County continues to see an erosion in a number of key revenue sources, including Deed Transfer Tax, Proposition 172 Sales Tax, Vehicle License Fees-Realignment and Realignment Sales Tax. Now, for the first time since the mid-1990's, the Assessor is projecting an overall reduction of approximately one percent (1%) in assessed property valuation due to the continued downward spiral of housing values. The rise of unemployment has swelled the ranks of those seeking public assistance from the County causing caseloads and costs to increase accordingly. In addition, program cost changes, along with other unavoidable cost changes, are also impacting the County budget. All of these demands on the budget are projected to create a \$300.4 million net County cost (NCC) structural deficit that has to be addressed. NCC is the portion of our budget that is financed with County discretionary funding (also known as locally generated revenues). Below are the major components of the 2009-10 NCC Budget Gap:

2009-10 NCC Budget Gap

Revenue Reductions	\$ 145.5 million
Assistance Caseload Increases	94.9 million
Net Program Cost Changes	5.6 million
Unavoidable Cost Changes	54.4 million
Projected Budget Gap	\$ 300.4 million

To close this budget gap we are recommending a three-step balanced approach that combines the use of ongoing funding solutions, one-time funding from reserves and the federal stimulus funding.

2009-10 NCC Budget Gap Solutions

Ongoing Departmental Budget Curtailment	\$ 107.2 million
One-Time Bridge Funding	115.5 million
Federal Stimulus Funding	77.7 million
Budget Gap Solutions	\$ 300.4 million

Subsequent Event

Subsequent to our office balancing the 2009-10 County Budget, we were notified by the Assessor of a potential additional 2.3 percent decrease to their assessed valuation forecast for 2009-10. This coupled with the one-percent (1%) decrease included in our budget estimates as noted above brings the overall assessed valuation reduction to 3.3 percent for 2009-10. The change in assessment is primarily driven by the Assessor's proactive reassessment of properties. This subsequent event, which would decrease property taxes by as much as \$88.3 million and increase our budget gap accordingly, will need to be addressed in June during the Final Changes phase of the 2009-10 budget process. This will also give our office time to review and validate the increase.

Departmental Budget Curtailments

Each County department, with the exception of the Health Department, was asked to submit their 2009-10 budget request that included a five-percent (5%) NCC reduction. After reviewing the results of the curtailment exercise and weighing the potential impact, our office modified some of the curtailments or eliminated them all together. In other cases, departments who have consistently generated savings year-after-year from vacant positions or unspent funds, were asked to reduce their budget beyond the five-percent (5%) target. These curtailments result in an ongoing NCC budget decrease of \$107.2 million.

Listed below are some of material curtailments that are recommended in the 2009-10 Proposed Budget.

- The Sheriff's budget reflects a reduction of 51.0 budgeted positions from a variety of administrative functions totaling \$6.1 million along with a \$23.8 million reduction in services and supplies (\$14.0 million) and fixed assets (\$9.8 million) and \$1.7 million in revenue increases.
- The District Attorney's budget reflects reductions of 51.0 budgeted positions along with a reduction in services and supplies from various operational units that totals a funding reduction of \$9.5 million.
- The Coroner's budget reflects a reduction of \$1.2 million along with the deletion of 9.0 vacant budgeted positions.
- The Fire Department's Lifeguard budget reflects a reduction of \$1.1 million in services and supplies.
- The Department of Public Social Services' administrative budget reflects a reduction of 925.0 vacant budgeted positions along with a NCC reduction of \$5.8 million.
- The Department of Public Health's budget reflects a curtailment of \$2.5 million and a reduction of 17.0 budgeted positions that affects ten different departmental programs.
- The Department of Mental Health's budget reflects a curtailment of \$1.1 million with reductions to contract providers utilized to decompress the Department of Health Services psychiatric emergency rooms.
- The Department of Parks and Recreation's budget reflects a curtailment of \$3.3 million and the elimination of 75.0 temporary and vacant positions that will impact grounds maintenance, recreation programs and nature areas.
- The Public Library's budget reflects curtailments of \$1.2 million and the elimination of 3.0 vacant budgeted positions.
- The Department of Regional Planning's budget reflects a curtailment of \$0.7 million and the elimination 7.0 budgeted positions that will impact land use regulations and current and advance planning.

- The Department of Human Resources' budget reflects a curtailment of \$1.9 million and the elimination of 7.0 budgeted positions. A majority of the curtailment comes from the elimination of the California State University, Northridge (CSUN) Certificate Program.
- The Registrar-Recorder/County Clerk's budget reflects a curtailment of \$1.2 million. In addition, the department is also cutting 79.0 budgeted positions and 92.0 temporary positions to address a severe decline in recorder fees that has occurred from the downturn in the real estate sector.

Consistent with your Board's direction, we also looked for opportunities to consolidate departments to optimize organizational efficiencies. As a result, we are recommending that the Ombudsman and the Human Relations Commission be merged with the Department of Community and Senior Services. In addition, we are recommending that the Commission on Aging be consolidated under the Area Agency on Aging Advisory Council. The mergers, which result in a savings of \$0.7 million and the reduction of 6.0 budgeted positions, will afford these newly configured units with greater access to resources under the umbrella of the Department of Community and Senior Services.

One-Time Bridge Funding

Bolstered by a strong real estate market and healthy local economy over the past few years, the County was able to set aside funds for a "rainy day" to, among other things, protect against reducing service levels due to temporary revenue shortfalls. We are recommending that a portion of these funds that were set aside in the economic reserve be used to offset cost increases or revenue losses that are directly related to the cyclical nature of the current economic environment and could be considered one-time or short-term in nature.

As the recession deepened, unemployment soared, swelling the ranks of those seeking and receiving public assistance. The spiraling cost of providing General Relief assistance is particularly acute since the County bears the entire cost of providing this relief assistance. In addition, deed recording fee revenues are down significantly due to the decline in the housing sector. Since the recession is unlikely to be an ongoing economic condition, we recommend using one-time bridge funding to address these budget gaps until the economy recovers.

We are also recommending using one-time funding to reduce the Sheriff's five-percent (5%) curtailment to \$31.6 million. In order to retain jail beds, we are providing the Sheriff with \$26.8 million in one-time funding while we work with the Sheriff, the Superior Court, and other agencies of the criminal justice system to implement efficiencies to reduce the jail population in the County.

Since the full extent and duration of the current economic situation remains uncertain, we must be prudent in the use of one-time funding solutions to address budget gaps to ensure that we do not spend beyond our means. Using one-time funding solutions over long periods will lead to a structural imbalance in the County budget.

Federal Economic Stimulus

The American Recovery and Reinvestment Act, among other things, temporarily increases the Federal Medical Assistance Percentage (FMAP), which is the federal match rate for non-administrative costs. The FMAP change is projected to temporarily decrease the County's contribution to the In-Home Supportive Services (IHSS) program by \$77.7 million during 2009-10. A change in the FMAP percentage also affects other County administered programs and is discussed in more detail in other sections of this report.

The Act also provides a temporary increase of \$105.8 million through the CalWORKS program for transitional subsidized employment programs and \$30.8 million through the Workforce Investment Act program to create employment for adults, youths and dislocated workers.

FUNDING RECOMMENDATIONS

Listed below are some important budget recommendations included in the 2009-10 Proposed Budget.

- **Health Services Budget Deficit** - Reflects a \$257.3 million placeholder reduction in the Health Department's 2009-10 Proposed Budget. We are working with the department on proposals to address the structural deficit in their operating budget.
- **Elimination of Vacant Positions** - Reflects the reduction of 154.0 vacant budgeted positions and a savings of \$7.6 million at the LAC+USC Medical Center consistent with needed and projected staffing levels at the replacement hospital.
- **Medical School Operating Agreements (MSOA)** - Reflects a \$16.9 million increase in funding related to the MSOA with the University of Southern California and the University of California at Los Angeles and the elimination of 11.0 vacant budgeted positions.

- **Public Health State and Federal Funding Reductions** - Reflects a reduction of \$26.6 million in appropriation and the elimination of 149.0 budgeted positions for a variety public health programs as a result of State budget cuts and/or federal revenue reductions to County-administered programs.
- **Mental Health Budget Deficit** - Reflects a \$3.6 million placeholder reduction for the remaining deficit in the Department of Mental Health's services and supplies appropriation to address the department's projected budget deficit.
- **Katie A. Strategic Plan** - Reflects additional resources for the Department of Children and Family Services (72.0 budgeted positions) and the Department of Mental Health (39.0 budgeted positions) to further implement the Katie A. Settlement Agreement Strategic Plan.
- **Domestic Violence Program** - Transfers the Domestic Violence Program from the Department of Community and Senior Services to the Department of Public Social Services in order to eliminate duplicative efforts and increase response times.
- **Parks and Recreation Cost Increases** - Reflects the elimination of 39.0 vacant budgeted positions to address departmental revenue shortfalls and unavoidable cost increases. This will result in a budgetary reduction of \$0.5 million.
- **Public Library Revenue Shortfall** - Reflects the elimination of 48.0 budgeted positions and 92.0 temporary positions along with a reduction in services and supplies to address the anticipated reduction in property tax revenues. This will result in a budget reduction of \$6.2 million.
- **Museum of Art Base Funding Agreement** - Reflects a \$2.0 million increase for the second year of a three-year adjustment of the base funding agreement to sustain County support of physical and programmatic expansion.
- **Unincorporated County Roads** - Reflects a \$41.1 million increase in the Road Fund that will be used to finance road construction and maintenance activities on roads, highways, bridges and tunnels in the unincorporated areas.

- **Information Technology (IT) Shared Services** - Reflects the change in funding to continue the transfer of IT operations from the Department of Children and Family Services to the Internal Services Department. This initiative allows DCFS to better focus on its core mission while avoiding administrative distractions and updates its information technology functions.
- **Arts for All Initiative** - Reflects the addition of 8.0 grant funded positions for the Arts Commission as approved by your Board to further implement the *Arts for All: Los Angeles County Regional Blueprint for Arts Education Initiative*.
- **Employment Discrimination Investigations** - Reflects changes in funding of \$0.9 million to consolidate the responsibility for employment discrimination investigation for seven departments under the Department of Affirmative Action Compliance.

POTENTIAL STATE/FEDERAL BUDGET IMPACTS

State Budget

On February 20, 2009, after a three month budget impasse, the State enacted the 2008-09 Special Session Budget and the 2009-10 State Budget Act. The acts may result in the loss of \$21.5 million in 2008-09 and \$103.0 million in 2009-10. This combined potential loss to the County, coupled with a \$128.6 million loss in 2008-09, now stands at \$253.1 million.

Although the State Budget has been adopted, we are not recommending any changes in our Proposed Budget at this time since a number of outstanding issues may trigger additional cuts and/or restore cuts in the State budget. The unresolved issues include the outcome of the May 19, 2009 special election, and the further deterioration of State revenues, which the Legislative Analyst's Office projects to be \$8.0 billion. The State Treasurer and Director of Finance announced that the \$10.0 billion federal stimulus trigger will not be activated and therefore, funding to restore State budget cuts to the County's Safety Net Care Pool and South Los Angeles Preservation Fund of \$24.4 million and \$5.6 million for Medi-Cal optional benefits will not occur.

In some areas where the State budget situation remains fluid, we are deferring some of the recommendations to align the County budget with State budget action until later phases of the budget process when we hope the State budget situation becomes clearer.

Federal Budget

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act, a major economic stimulus and fiscal relief package. The Act's biggest financial impact to the County comes from the temporary increase in the FMAP. Early estimates indicate that over a 27-month period, starting from October 2008 through December 2010, the County may realize \$441.7 million in additional federal revenue for non-administrative Medicaid costs and Title IV-E foster care maintenance and adoption assistance payments. For fiscal year 2009-10, we estimate the Departments of Public Social Services (\$82.6 million), Health Services (\$68.9 million), Mental Health (\$49.9 million) and Children and Family Services (\$3.1 million) will be eligible for \$204.5 million in revenue and/or cost reductions.

Also, included in the package is funding for the following areas:

- Medicaid Disproportionate Share Hospitals - \$5.5 million
- Highway Account Funding - \$32.6 million
- Workforce Investment Act (WIA) Grants - \$30.7 million
- Older American Nutrition Services - \$1.6 million
- Community Services Block Grant - \$9.8 million
- Byrne Justice Assistance Grants - \$8.9 million

On February 26, 2009, President Obama released his proposed budget for Federal Fiscal Year 2009, which begins on October 1, 2009. The President has proposed a \$3.6 trillion budget. Unlike previous years, the budget is an outline with few specific details. At the time of printing, a complete budget containing program-by-program information was not available. Once the detailed federal budget is released, we will advise your Board of its impact to the County. In addition to these amounts, there may be additional Safety Net Care Pool FMAP and Managed Care Rate Supplement funding that could further reduce the Department of Health Services budget deficit.

As previously mentioned, we are certain to see further reductions to State-funded programs. This, coupled with the Assessor's 3.3 percent decline in assessed valuation, our projected deficit for 2010-11, the temporary nature of FMAP, and our use of one-time bridge funding, it is critical that we address further ongoing budget deficits with ongoing budgetary solutions.

Because of the temporary nature of FMAP and our use of one-time budget funding, it is critical that we address further ongoing budget deficits with ongoing budgetary solutions.

Reserves and Designations

Rainy Day Fund

On January 27, 2009, your Board directed the CEO to update County budget policies to ensure that a more significant and disciplined strategy to set aside reserves was established. The key elements of the strategy are to: 1) increase the reserve cap from five percent (5%) to ten percent (10%) of ongoing locally generated revenue; 2) set aside three percent (3%) of ongoing locally generated revenue at the end of fiscal year from unrestricted fund balance, when feasible; and 3) transfer \$101.4 million from the Designation for Budgetary Uncertainties to the newly established Reserve for Rainy-Day Funds. We plan to return to your Board later in the fiscal year to transfer the \$101.4 million from the Designation for Budgetary Uncertainties to the Reserve for Rainy Day Funds to form the basis of the County's new rainy-day fund.

Utility User Tax

We also plan to return to your Board later in the fiscal year with recommendations to transfer funds from the Designation for Budgetary Uncertainties to the newly established Designation for Utility User Tax. Our office is working in collaboration with Board offices and County departments and will, under separate cover, return to your Board with a plan to allocate one-time funds for essential services, facilities and other expenditures that appropriate one-time funds and enhance County services.

CAPITAL PROJECTS/EXTRAORDINARY MAINTENANCE PROGRAMS

Capital Projects

The 2009-10 Proposed Capital Projects/Refurbishments Budget appropriates \$1.4 billion for continued development, design, and construction of projects that address high-priority health, public safety, recreation, and infrastructure needs. The Proposed Budget appropriation reflects a decrease of \$289.9 million from the 2008-09 Final Adopt Budget, due to the completion of 116 projects in 2008-09. The Proposed 2009-10 appropriation is highlighted by the following appropriations:

- \$493.1 million for public protection facilities, such as the Jail Master Plan, new construction at the Biscailuz Center Training Academy, construction of new fire stations in the Santa Clarita Valley, refurbishment and expansion of the Coroner's facility, security improvements at Probation juvenile halls and camps, and construction of a new animal shelter in the east Antelope Valley, and four new spay/neuter clinics;

- \$214.6 million for recreational facilities including construction of community rooms and refurbishment of swimming pools at County parks, and facility refurbishments at County beaches;
- \$161.4 million for general government facilities highlighted by the construction of a new Countywide data center in Downey;
- \$155.3 million for health, public health, and mental health facilities, including construction of a Mental Health Urgent Care Center on the Olive View Medical Center site, construction of replacement surgery and emergency suites at Harbor-UCLA Medical Center, and expansion of the emergency room and construction of a tuberculosis unit at Olive View Medical Center;
- \$92.8 million for construction of new or replacement libraries in the unincorporated area of the San Gabriel Valley, Topanga Canyon, and East Rancho Dominguez and refurbishment of the historic Patriotic Hall; and
- \$106.4 million for high-priority infrastructure improvements in the County's flood control and aviation facilities, soil and groundwater investigation and remediation activities, and watershed testing efforts.

Sustainable Design Program

In January 2007, your Board 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 percent 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.

Your Board further mandated that new structures exceeding 10,000 square feet be certified at a "Silver" level, or higher, under the United States Green Building Council's Leadership in Energy and Environmental Design (LEED) Program. The LEED Program is designed to recognize projects that:

- optimize energy and water use efficiency;
- enhance environmental sustainability;
- improve the quality of indoor and outdoor environment; and
- maximize the use and reuse of sustainable resources.

The 2009-10 Capital Projects/Refurbishments Proposed Budget reflects the County's commitment to environmental sustainability through the incorporation of sustainable design technologies into nearly 50 percent of the County's active projects and the active pursuit of Leadership in Energy and Environmental Design certification. A formal and complete report on the incorporation of these technologies into projects will be presented in the Final 2009-10 Capital Projects/Refurbishments Budget Addendum, which will be published in November 2009.

Extraordinary Maintenance

The Extraordinary Maintenance proposed budget reflects a proposed appropriation of \$94.2 million in 2009-10 for high priority repairs and maintenance needs at County facilities including Probation camps and juvenile halls, animal shelters, parks in unincorporated areas, and other departmental facilities.

Federal Stimulus Impact on the County Capital Program

The impact of the American Recovery and Reinvestment Act of 2009 on the County's capital program has yet to be finalized. Projects that could potentially benefit from federal stimulus funding include transportation, energy, water infrastructure, wild land fire management, healthcare, and information technology projects. Final impacts of the Act on the County's capital program will be presented in the Final 2009-10 Capital Projects/Refurbishments Budget Addendum.

TIMETABLE

Approved schedule for budget hearings and deliberation is as follows:

Board Action	Approval Date
Adopt Proposed Budget; Order Printing, Notice and Distribution; and Schedule Hearings	April 21, 2009
Commence Public Budget Hearings	May 13, 2009
Commence Final Budget Deliberations and Adopt Final Budget Upon Conclusion	June 22, 2009

Prior to deliberations on the FY 2009-10 Final Budget, we will file reports on:

- June revisions to the Governor's Budget and updates on other FY 2009-10 State and federal budget legislation and the impact on the County's Proposed 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 your Board.

APPROVAL OF PROPOSED BUDGET

The matter before your Board is the adoption of the Proposed 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 your Board's funding priorities and State and federal budget actions, can be made during budget deliberations, prior to adoption of the Final Budget.
- Pursuant to State law, your Board may make changes to the Proposed Budget with a simple majority (3 votes) until adoption of the Final Budget, if changes are based on the permanent record developed during public hearings (e.g., Proposed 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 YOUR 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 Proposed Budget for FY 2009-10; order the publication of the necessary notices; and set May 13, 2009 as the date that public budget hearings will begin.

The Honorable Board of Supervisors
April 21, 2009
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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 Los Angeles County Employee's Retirement Association on the County's behalf in this regard.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. T. Fujioka', with a long horizontal stroke extending to the right.

WILLIAM T FUJIOKA
Chief Executive Officer