



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 2, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: CASH FLOW PROJECTION

Our most recent cash flow projection (December 18, 2008) estimated the June 30, 2009 combined cash balances for the General Fund and Hospital Funds at positive \$783 million. The projected amount assumed that State payments would be made in their normal time frames and in amounts that approximate the County's budget. A substantial portion of the County's cash flows rely on a predictable pattern of State payments to the County.

The State Controller has announced that certain health, mental health, and social service payments due to counties in February will be delayed by 30 days. The Chief Executive Office (CEO), in consultation with County departments, has estimated the County's share of these deferrals at \$105.6 million. Although the County is able to withstand a 30-day delay, the severity of the State's cash flow crisis remains an ongoing challenge in predicting the County's future cash flows.

On January 26, 2009, the CEO issued a memo to your Board regarding the programs impacted by the February deferrals and the potential for additional deferrals. We are working with the CEO to update all cash receipts and disbursements, including those unrelated to the State. We will revise the June 30, 2009 estimated cash balances when there is sufficient information to reasonably predict the County's cash position.

Short-Term Outlook

Our previous report estimated the December 31, 2008 cash balances at positive \$245 million. The actual cash balances were positive \$80 million, a shortfall of \$165 million. A portion of the shortfall was due to a \$74.67 million intergovernmental transfer payment that was due to the State on December 30, 2008. Although the timing of this payment was previously uncertain, it was anticipated in the County budget as part of the Medi-Cal Managed Care initiative. The remaining shortfall of approximately \$90 million was primarily related to cash receipts from the State, which fell short of estimates in the areas of mental health, probation, and social services. These collections are being closely analyzed to determine if they are timing differences or whether they represent under-realized budget variances. The January 31, 2009 combined cash balances were approximately \$600 million.

If you have any questions, please contact me, or your staff may call John Naimo at (213) 974-8484.

WLW:JN:CY:leh
Acctg/Admin/Admin/cfp2

c: William T Fujioka, Chief Executive Officer
Mark J. Saladino, Treasurer and Tax Collector
Sachi A. Hamai, Executive Officer