County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

April 15, 2014

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 2014-15 RECOMMENDED COUNTY BUDGET
(3-VOTES)

The Fiscal Year (FY) 2014-15 County of Los Angeles Recommended Budget total of $26.054 billion reflects a decrease of $45 million in total requirements. General County funds, including the General Fund and Hospital Enterprise Funds ($20.271 billion), reflect a net increase of $262 million. Special District/Special Funds reflect a decrease of $307 million.

TOTAL REQUIREMENTS – ALL FUNDS – 2014-15
(Dollars in Billions)

Fund	2013-14 Budget	2014-15 Recommended	Change	% Change
Total General County	$20.009	$20.271	$0.262	1.3%
Special Districts/Special Funds	6.090	5.783	(0.307)	-5.0%
Total Budget	$26.099	$26.054	$(0.045)	-0.2%
Budgeted Positions	103,678	105,023	1,345	1.3%

BUDGET ECONOMIC OUTLOOK

The current economic outlook for the nation and California shows positive growth for the remainder of 2014, gaining strength in 2015. Positive economic growth gained momentum towards the end of 2013 with strong gains in the stock market and continued improvement in housing, marked by increases in home prices. The labor market is also improving led by employment gains in the construction industry. As a result, the unemployment rate has continued a downward trend. In January, the unemployment rate fell to 9 percent compared to 11.8 percent for the same month last year.

Month	Unemployment Rate
January 2013	11.8%
November 2013	9.4%
December 2013	8.8%
January 2014	9.0%

The economic outlook, although positive, continues to face challenges and uncertainties. Low housing inventory and tighter lending standards remain a challenge to the housing recovery. In addition, tapering of the federal bond buying program has resulted in an increase in interest rates which can potentially hinder economic growth and place another burden on consumers. Nevertheless, the economic recovery of the last year is encouraging and we will continue to monitor economic indicators as we move forward throughout the budget process.

BUDGET OVERVIEW

Since Fiscal Year (FY) 2008-09, as a result of the past recession, the County has faced significant budget challenges that have strained locally generated revenues, which we use to finance the net County cost (NCC) portion of our budget. These challenges were managed without major 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.

As we proceed to the first stage of our annual budget process, we find that the slow pace of the economic recovery, coupled with unavoidable cost increases and the need to fund critical programs, will challenge our budget. It is important to note that although the economy is showing signs of recovery, our principle concern is whether this recovery is sustainable. Accordingly, the focus of this year’s budget is stabilization and prudent growth.

Following are the primary components of change recommended in the 2014-15 Budget:

2014-15 Net County Cost Budget Components

Unavoidable Cost Increases	$217.3 million
Program Changes	92.6 million
Total Cost Increases	**$309.9 million**
Total Revenue and Fund Balance Increases	**$309.9 million**

Unavoidable Cost Increases

The primary drivers of unavoidable cost increases are for salaries and 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 and changes in actuarial assumptions. 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. This marks the fifth and final year of smoothing of the losses suffered back in FY 2008-09. This is an important milestone since all of those losses have now been incorporated in the County budget and we anticipate our retirement costs will be more stable going forward. In addition, health insurance premiums for County employees also increased unavoidable costs.

For the first time since August 2008 for safety employees and January 2009 for the remaining employees, the County approved salary increases. During this five (5) year period of economic challenges, employee labor groups actively partnered with the County by agreeing to zero salary increases to help the County weather the crisis. The increases were approved in FY 2013-14 and now must be incorporated in the 2014-15 Recommended Budget.

Program Changes

Outlined below are some of the significant program changes that are financed with locally generated revenues.

- **Citizen's Commission on Jail Violence (CCJV)** – Provides the second year of funding ($36.5 million ongoing) to implement the CCJV recommendations. This, coupled with ongoing funding provided in FY 2013-14, brings the total ongoing funding amount for the CCJV implementation to $56.5 million.

- **Cadre of Administrative Reserve Personnel (CARP)** – Eliminates the CARPing program by providing $18.0 million to the Sheriff's Department for the second year of a two-year funding plan.

- **In-Home Supportive Services (IHSS) Program** – Increases funding for the IHSS program by $12.8 million based upon State law that requires counties to provide a 3.5 percent inflation increase to the counties maintenance of effort base amount.

- **Inpatient Bed Cost Increases** – Reflects a $6.3 million increase for the Department of Mental Health as a result of a cost-of-living adjustments (COLA) for both State hospital beds (6 percent COLA) and Institutions for Mental Disease~~s~~ (IMD) beds (4.7 percent COLA). The department contracts for these beds from private providers and the State, which provides critical care for individuals who require these services and helps to alleviate overcrowding of emergency rooms and hospital inpatient beds throughout the County.

- **Public Library Hours Restored** – Restores funding of $3.6 million to allow the Public Library to restore library hours as they were in FY 2009-10, prior to the services curtailments.

- **Juvenile Day Reporting Center (JDRC**) – Transfers $2.3 million in annual funding from the Provisional Financing Uses budget unit to the Probation Department as approved by the Board on March 4, 2014. JDRCs provide a community-based alternative to incarceration. This adjustment adds 17.0 budgeted positions to the Probation Department.

- **Animal Care and Control** – Transfers $1.1 million funding from the Provisional Financing Uses budget unit to the Department of Animal Care and Control to provide additional resources for the Antelope Valley Communication Center ($0.7 million) and to conduct criminal investigations ($0.2 million), as well as funding for the replacement of the department's voice recorder system ($0.2 million). This recommendation also adds 13.0 budgeted positions.

In addition, we are recommending important program changes that are financed with a variety of outside revenues sources, primarily with State and federal funding.

- **Child Welfare Services** – Reflects funding of $15.4 million and adds 100.0 children social workers to reduce caseloads and improve child safety along with 26.0 clerical and support staff that will assist social workers in their role to protect children. This increase is fully offset with State revenues.

- **Promoting Safe and Stable Families/Partnership for Families (PFF)** – Provides $5.0 million to continue this community-based child maltreatment prevention initiative. The initiative was designed to address the needs of families with children five years of age or younger and pregnant women who are at risk for child maltreatment in the County. The Department of Children and Family Services has identified ongoing funding from 2011 Realignment to continue this program.

- **CalWORKs Child Poverty and Family Supplemental Support** – Increases both appropriation and State revenues by $71.7 million for the Department of Public Social Services (DPSS) to support a five (5) percent increase in the CalWORKs aid grant.

- **Expanded Subsidized Employment** – Reflects a $37.3 million increase in both appropriation and revenue for DPSS as a result of additional dedicated subsidized employment funding for CalWORKs participants.

- **Family Stabilization Program** – Increases funding by $6.9 million for DPSS for the Family Stabilization program and adds 35.0 budgeted positions. The CalWORKs Family Stabilization Program is a new component of the 24-Month Early Engagement Redesign for the CalWORKs Welfare-to-Work program, effective January 1, 2014. The Family Stabilization program will provide intensive case management and services to address the needs of families who have identified barriers that are destabilizing the family and would interfere with participation in Welfare-to-Work activities or services.

Revenue Increases

Just as the economy has improved, so have a majority of 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 2014-15, the Assessor is forecasting a preliminary assessed valuation increase of 4.06 percent. The assessed valuation increase would have been greater had it not been for a recent period of low inflation. Since the forecast is preliminary and the Assessor is scheduled to release updated forecasts in May 2014, with a final assessment roll forecast in July 2014, our office will continue to work with the Assessor's office to monitor and update our property tax projection accordingly. In addition to the changes in assessed valuation, we are recommending a $40.0 million (ongoing) increase in property tax revenue residual from the dissolution of redevelopment agencies.

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 2014-15 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 and sales taxes, however, are partially offset by a $13.2 million reduction in recording fee revenues. The Registrar-Recorder/County Clerk is experiencing a significant drop in a variety of recording filings.

Health Services

The Affordable Care Act (ACA) was implemented on January 1, 2014 and the Department of Health Services (DHS) is continuing to develop its analysis of the impact of the ACA. With the support of the Board and the CEO's Health Care Reform Task Force, DHS and its many partners are working together to transform its system into an integrated care delivery model. An integrated care model will enable its system to provide the right care, at the right time, in the right location, by the right provider.

The Department has developed preliminary estimates to project the impact on its budget regarding what is likely to occur in FY 2014-15. However, because of the unpredictability of what will actually take place as the ACA implementation rolls forward, the Department cautions that significant revisions to the budget may become necessary as the estimates are refined to align with actual experience. Further, the estimates included in the budget are solely based on the impact to the Department and do not factor in any sharing with the State under Assembly Bill (AB) 85, Redirection of 1991 State Health Realignment. The Department continues to work with the State to develop data formats, procedures, and protocols that will be used to determine the amount.

The Department's 2014-15 Recommended Budget is fully funded with available resources. The Department's Hospital Enterprise Fund reserve was used in prior years to fund Departmental expenses; however, it is anticipated to be depleted in FY 2013-14. The Department is closely monitoring this issue and updates will be provided in future budget phases. The Recommended Budget provides funding for:

- A net increase of 737.0 new positions and $17.0 million in related funding for the standardized nurse staffing plan for various patient care areas, primarily to meet State mandated AB 394 nurse staffing ratios and hospital-based clinic needs.

- An increase of 26.0 new positions and $1.5 million in related funding, offset with the decrease of 26.0 vacant budgeted positions, for the first year of a two-year plan to deploy Senior Community Health Workers (SCHW) at DHS facilities to more efficiently serve the Department's sickest, and hardest to serve patients, and to support increased empanelment of patients in medical home teams.

- An increase of 20.0 new positions and $2.5 million in related funding, offset with 20.0 vacant budgeted positions, to hire Registered Nurses that have completed a training program to become Advanced Practice Registered Nurse Practitioners.

- An increase of $4.0 million to expand the Housing for Health program by increasing the number of recuperative beds in the South Los Angeles area, implementing the flexible housing subsidy pool, and increasing the number of housing units available to homeless DHS patients.

- A net increase of $15.4 million for four months of funding for DHS' support of patient care for the new MLK Community Hospital that is anticipated to open in the Spring of 2015.

Looking Forward

Looking forward, the County faces uncertainty with several programs, including the roll out of the ACA, as noted earlier, and potential recommendations from the Blue Ribbon Commission on Child Protection. Funding for the Blue Ribbon Commission recommendations will be addressed in subsequent budget phases.

During the budget crisis, we utilized reserves and capital funds to help balance our budget. We continue our work to strengthen the County's Rainy Day Fund and address the County's significant deferred maintenance and capital improvement needs. The County also utilized ongoing departmental budget curtailments to help achieve a balanced budget during the budget crisis. On average, departments suffered a 15 percent 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. Although we have restored some critical curtailments, strong consideration should be given in later stages of the budget process to strategically restore some of the remaining curtailments and addressing structural deficits as locally generated revenues increase.

The County has taken steps to prefund Other Post-Employment Benefits (OPEB), by creating a trust fund with an initial deposit of $448.8 million, updating our budget policy to earmark excess available fund balance to be deposited in the trust fund, and reaching agreement with our labor partners to reduce this benefit for future County employees. Although these are important steps in the right direction, serious consideration needs to be given to developing and implementing future actions to fund this benefit.

POTENTIAL STATE/FEDERAL BUDGET IMPACTS

State Budget

On January 9, 2014, the Governor released his 2014-15 Proposed State Budget, which includes $106.8 billion in State General Fund expenditures. Unlike recent years, the proposed budget assumes $4.0 billion in additional State revenues and contains no significant reductions to County-administered programs. Given the State's positive revenue outlook, some members of the Legislature have expressed an interest in restoring the reductions to education and health and human services programs made in recent years when the State faced significant budget shortfalls.

The proposed budget assumes $6.7 billion in federal funding to provide Medi-Cal coverage for newly eligible persons. It also continues AB 85, which among other things, modifies the 1991 Realignment revenue allocation mechanism to calculate potential County savings resulting from the ACA and to redirect a portion of the potential savings from counties to the State. AB 85 contains Los Angeles County-specific language developed by the Department of Health Services and the Brown Administration to determine the Department's expenses and revenues and how to calculate the potential savings that will be shared with the State.

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

Difficulties at the Federal level have made it difficult to enact annual appropriations bills needed to fund federal programs and operations. The Federal government was shut down during the first 16 days of Federal Fiscal Year (FFY) 2014, which began on

October 1, 2013, because Congress neither had enacted any FFY 2014 appropriations bills nor a Continuing Resolution to temporarily fund Federal programs and operations. Full-year FFY 2014 appropriations were not enacted until January 17, 2014.

Due to these difficulties, it is highly unlikely that federal legislation will be enacted that will significantly reduce mandatory (entitlement) programs, such as Medicaid, Temporary Assistance for Needy Families, Title IV-E Foster Care and Adoption Assistance, Child Support Enforcement, and the Supplemental Nutrition Assistance Program, through which the County receives the vast majority of its overall Federal revenue from mandatory (entitlement) programs. The County's total federal revenue will increase in 2014-15 since Medicaid revenue, which, by far, is the largest source of federal revenue to the County, will grow significantly due to the ACA Medicaid expansions.

The County currently receives its Title IV-E Foster Care revenue through a waiver, which expires on June 30, 2014. Under this waiver, the County receives annual capped Federal allocations which grow 2 percent a year, and which provide the County with greater flexibility over the use of funds. At this time, the State of California is negotiating the waiver's extension with the Federal government. The main waiver extension issue is its financial terms and conditions – that is, how much Federal waiver funding would be provided in future years. This is especially important because, under current State law, counties are responsible for financing all non-Federal child welfare costs.

The funding outlook for Federal discretionary programs, which are funded through annual appropriations bills, is more promising than it was one year ago. This is because, in December 2013, Congress enacted the Bipartisan Budget Act which increased the overall discretionary spending cap to $1.012 trillion in FFY 2014 and $1.014 trillion in FFY 2015 from the post-sequester FFY 2013 level of $986 billion.

CAPITAL PROJECTS/EXTRAORDINARY MAINTENANCE PROGRAMS

Capital Projects

The 2014-15 Recommended Capital Projects/Refurbishments Budget appropriates $772.5 million for continued development, design, and construction of projects that address high-priority health, public safety, recreation and infrastructure needs.

The 2014-15 Recommended Budget also reflects a decrease of $104.0 million from the 2013-14 Final Adopted Budget, due to the completion of 18 projects in 2013-14 and expenditures for ongoing projects. In addition, several bond-financed projects, which are not accounted for in the Capital Projects/Refurbishments Budget once bonds have been issued, were also completed. Such projects include the Martin Luther King, Jr. Multi-Service Ambulatory Care Center, High Desert Multi-Service Ambulatory Care Center, Harbor-UCLA Surgery and Emergency Room Expansion, Bob Hope Patriotic Hall Renovation, and Coroner Project.

The 2014-15 Recommended Budget appropriates $35.8 million for soil and groundwater investigation, monitoring, and remediation projects at County-owned sites in the cities of Downey, Carson, and throughout unincorporated Los Angeles County.

The County continues to address facility needs resulting from the enactment of AB 109, the State's Public Safety Realignment Act, which resulted in an influx of new inmates into County jails. The 2014-15 Recommended Budget appropriates $147.5 million for facility improvements to various jail facilities, and an additional $40.3 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 environmental 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 percent reduction in its facilities' 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 2014-15 Recommended Budget for Capital Projects/Refurbishments reflects the County's continued commitment to the idea of sustainability, with the incorporation of sustainable design technologies into 155, or 47 percent, of the County's 330 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 2014-15 Recommended Budget appropriates $140.9 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.

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 15, 2014
Commence Public Budget Hearings	May 14, 2014
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion	June 23, 2014

Prior to deliberations on the FY 2014-15 Adopted Budget, we will file reports on:

- May revisions to the Governor's Budget and updates on other 2014-15 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:

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 2014-15; order the publication of the necessary notices; and set May 14, 2014, as the date that public budget hearings will begin.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer