



SACHI A. HAMAI
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

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April 16, 2019

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 2019-20 RECOMMENDED COUNTY BUDGET (3-VOTES)

The Fiscal Year (FY) 2019-20 Recommended Budget marks the first step in our annual budget process and culminates with the Supplemental Budget scheduled for early October 2019.

This Recommended Budget reflects the County's values and vision, along with its ambitious commitment to improving life for all County residents, especially the vulnerable and underserved. The projects and programs recommended for funding advance key priorities of the Board of Supervisors (Board), bringing to life a progressive agenda of fighting homelessness, promoting health and well-being, improving our justice system, championing the rights and needs of immigrants, creating better lives for children and families, and enriching communities through the arts, recreation and sustainability projects.

Notably, this Recommended Budget invests extensively in the mental health needs of our residents, including an expanded school safety program, enhanced efforts to address the needs of women leaving incarceration, an increase in the number of treatment beds and investment in diverting mentally ill inmates out of the criminal justice system.

Along with funding to promote affordable housing, rent stabilization, job creation and safer roads, the Recommended Budget also establishes the County's new Department of Arts and Culture. It also invests in technology to modernize our voting systems in advance of the 2020 elections.

Although this Recommended Budget is ambitious, it is also realistic, reflecting this Board's long-standing commitment to responsible, sustainable fiscal practices, including a multi-year effort to fully fund our Rainy Day Fund.

"To Enrich Lives Through Effective And Caring Service"

BUDGET OVERVIEW

The FY 2019-20 Recommended Budget total of \$32.5 billion reflects a decrease of \$299.4 million in total requirements when compared to the FY 2018-19 Final Adopted Budget. General County funds, comprised of the General Fund and Hospital Enterprise Funds, reflect a decrease of \$55.0 million. Special Districts/Special Funds reflect a decrease of \$244.5 million. The total number of budgeted positions will increase by 188, bringing the total to 111,993 budgeted positions.

Fund Group (\$ in Billions)	2018-19 Final Adopted Budget	2019-20 Recommended	Change	% Change
Total General County	\$25.699	\$25.644	(\$0.055)	-0.2%
Special Districts/ Special Funds	7.100	6.856	(0.244)	-3.4%
Total Budget	\$32.799	\$32.500	(\$0.299)*	-0.9%
Budgeted Positions	111,805	111,993	188	0.2%

*This decrease is primarily due to reductions in fund balances across all fund groups.

Economic Outlook

Since the Great Recession, the County has experienced slow and steady growth as the economy recovered and expanded. Based on a number of key indicators, we remain cautiously optimistic that growth will continue to be positive for the remainder of 2019 and into 2020. We have observed slowing rates of growth in recent years, which adhere to the natural progression of economic cycles. My office continues to carefully monitor economic indicators and will analyze their implications throughout the budget process.

My office, in consultation with the Assessor, is forecasting a 5.72 percent increase to the 2019 tax assessment roll. This forecast is preliminary, as the Assessor is scheduled to issue its official forecast in May 2019 and release the final roll in July 2019. We will continue to work with the Assessor to update assessed value projections. We are also forecasting a 2 percent increase in statewide sales tax growth.

RECOMMENDED BUDGET HIGHLIGHTS

Confronting Homelessness: Powering the movement with life-changing investments

- **Measure H**—The Recommended Budget reflects \$424.0 million, an increase of \$14.8 million, as Measure H moves into its third year. Since the passage of Measure H in March 2017, thousands of individuals and family members have already been helped through a major expansion of outreach, emergency shelter, rapid re-housing, permanent supportive housing and benefits advocacy. Between July 2017 through December 2018, more than 23,000 people entered crisis, bridge and interim housing and over 11,500 homeless families and individuals secured permanent housing.
- **Permanent Supportive Housing**—Adds \$23.7 million for the Office of Diversion and Reentry to increase its supply of permanent supportive housing from 1,500 to 2,000 slots. This increase is funded by Diversion and Reentry and Pay-for-Success investors, bringing its FY 2019-20 budget for such housing to \$68.8 million for justice-involved individuals with mental health needs.
- **General Relief (GR)**—Updates personal and family asset limits for GR program eligibility related to motor vehicles, liquid assets and personal property. This change is expected to allow 3,000 additional individuals to qualify for GR benefits with an estimated cost of \$8.0 million.

Mental Health Rising: Investing in help, hope and stability

- **Increased Mental Health Inpatient Bed Capacity**—Provides \$16.7 million to fund increased costs, 60 additional Institutions for Mental Disease beds, and approximately 14 additional State hospital beds.
- **Mental Health Services Act (MHSA) Spending**—Reflects \$18.5 million for mental health services as part of the updated MHSA plan, and adds 181 positions primarily to assist clients requiring intensive mental health interventions. This funding will improve care for women diverted or released from incarceration, and to mitigate potential threats in school settings.
- **Mental Health Division**—Provides \$1.0 million and 4 positions to the District Attorney's office to address workload needs of their new Mental Health Division. The Division will seek opportunities to expand alternative sentencing and diversion to treatment and other services for mentally ill inmates in the criminal justice system.

- **Mental Evaluation Teams (MET)**—Adds \$3.1 million to fully fund 33 highly effective multi-disciplinary MET teams, a triage desk and the Risk Assessment and Management Program (RAMP). RAMP personnel help to identify threats and address the needs of patients with serious mental illness who require intense case management.
- **Mental Health Program Support**—Adds \$6.6 million and 55 positions, fully offset by Medi-Cal administrative revenue, primarily to meet new federal mandates and time frames for initiating, documenting, and certifying treatment authorization requests for patient admissions.
- **Lanterman Petris Short Conservatorship**—Adds \$792,000 and 3 positions for the Public Defender's Office and 1 position for the Department of Mental Health, partially offset with State 2011 Realignment revenue. This will expand resources dedicated to supporting Lanterman Petris Short conserved minors.

Focus on Children, Families and the Elderly: *Expanded services to enhance lives*

- **Resource Family Approval**—Adds \$23.0 million in ongoing funding and 37 positions, fully offset by State and federal revenue, for the Resource Family Approval program mandated by the State. Funding will be used for new items and to finance positions previously added and financed with one-time funding. The program improves the way that foster and adoptive caregivers, as well as relative care providers, are assessed, approved and prepared to parent these vulnerable children.
- **Continuum of Care Reform (CCR)**—Adds \$1.8 million and 12 positions, offset by Medi-Cal revenue, for the continued implementation of CCR. The program aims to give young people a chance to live in a family environment. For those who cannot make the transition to family-based placement, the program strengthens existing group homes, where youngsters can receive short-term, intensive treatment to help them make that transition.
- **Adoption Assistance Program (AAP) and Kinship Guardianship Assistance Program (KinGAP)**—Adds \$22.0 million for projected AAP and KinGAP placement rate increases. The AAP helps prospective adoptive parents meet additional expenses of children, including those with special needs. KinGAP provides funding to children and transition-age youth who leave the juvenile court dependency system to live with a relative legal guardian. Placement rates are projected to increase due to the annual California Necessities Index increase.

- **LA Found**—Provides Year 2 funding of \$517,000, partially offset with Family Caregiver Support Program revenue, to help return individuals suffering from dementia, Alzheimer's disease, or autism who wander from their families and caregivers.

The Affordability Crisis: Addressing the high cost of housing

- **Affordable Housing**—Provides \$35.0 million of new funding as part of the five-year plan to reach an annual allocation of \$100.0 million for the development and preservation of affordable housing. The funding will support affordable housing for very low and extremely low-income or homeless households, as well as other support services such as rental assistance, rapid re-housing and move-in assistance.
- **Rent Stabilization Program**—Provides \$1.8 million and 12 positions to the Department of Consumer and Business Affairs to support the County's Interim Rent Stabilization Ordinance. The Ordinance imposes a moratorium on rent increases in excess of 3 percent per year commencing September 11, 2018, and prohibits evictions without just cause for rental properties in the unincorporated areas.

Quality of Life: From arts to parks, a commitment to cultural equity

- **Department of Arts and Culture**—Establishes the new Department of Arts and Culture and allocates \$3.8 million and 32 positions, partially offset by \$1.0 million previously set aside in the Provisional Financing Uses (PFU) budget unit. The Department transition will be completed by July 1, 2019.
- **Parks and Cultural Facilities**—Includes \$74.7 million to maintain, construct, and refurbish various parks and cultural facilities, following voter-approval of the Safe, Clean Neighborhood Parks and Beaches Protection and Water Conservation Measure (Measure A) on November 8, 2016.
- **Community Impact Grants Program**—Allocates \$750,000 to provide arts services to County residents.

Jobs and Economic Development: Growing a more equitable economy

- **Youth@Work Program**—Allocates \$17.9 million to the Department of Workforce Development, Aging and Community Services for youth jobs. This funding will provide support for approximately 10,000 participants in FY 2019-20.

- **Economic Development**—Reflects \$3.0 million of new funding for economic development programs to support a more equitable and sustainable economy through business growth and increases in private sector employment.
- **In-Home Supportive Services Program (IHSS)**—Adds \$37.6 million in additional funding to support costs associated with wage increases and healthcare benefits for IHSS workers. In addition, the IHSS Maintenance of Effort (MOE) reflects a \$10.7 million increase based upon State law that requires counties to adjust the MOE base amount by a 7 percent inflation factor in 2019-20.

Justice System: Advancing oversight, accountability and innovation

- **Probation Accountability Project**—Allocates 11 positions, fully offset with the deletion of existing vacancies, to address use of force standards and compliance, internal criminal investigations, performance management, population control and caseload management.
- **Probation Closed-Circuit Television (CCTV) Cameras**—Allocates \$14.3 million for the purchase and installation of CCTV cameras at the Barry J. Nidorf Juvenile Hall and Dorothy Kirby Center.
- **Body-Worn Cameras**—Sets aside \$19.4 million in the PFU budget unit for the potential implementation of body-worn cameras.
- **Portable Radios**—Adds \$18.7 million, partially offset with contracted services revenue, for the replacement of portable radios at the Sheriff's Department and District Attorney's Office.
- **Integrated Correctional Health Services**—Sets aside \$10.0 million in the PFU budget unit for the Department of Health Services to provide improved patient care to inmates.
- **Law Enforcement Assisted Diversion (LEAD) Expansion**—Adds \$500,000 in funding from the Department of Justice, which will be leveraged with an additional \$1.5 million in Proposition 47 funding, for the Office of Diversion and Reentry to expand the LEAD program to a site in Hollywood. The Hollywood LEAD program will provide support and services in lieu of arrest and prosecution for low-level drug and prostitution-related offenses to 100 homeless individuals with histories of engagement with the criminal justice system and opioid use.

- **Victims and Witness Assistance Program**—Adds \$1.2 million and 12 positions, fully offset with federal revenue, to the District Attorney’s Office to expand victim services throughout the County. These services include crisis intervention, emergency assistance, counseling referrals, court escort and orientation, restitution assistance, returning of property, assistance with employers and case status notification. Victim services personnel work with prosecutors and are specially trained to help children, elders, people with disabilities, and victims of sexual assault, domestic violence and gang crime. Specialized language and multicultural assistance is also available.

Other Key Board Initiatives: *Investing in our communities*

- **Office of Immigrant Affairs**—Adds \$371,000 and 2 positions to the Department of Consumer and Business Affairs for the expansion of the program to protect the rights and advance the well-being of all immigrants.
- **Voting Solutions for All People (VSAP)**—Sets aside \$28.0 million in local funding to develop, manufacture and implement the VSAP system. VSAP will make its debut in the March 2020 election.

Building a Better County: *Enhancing assets and improving lives*

- **Capital Projects (CP)**—Allocates \$1.0 billion for continued development, design, and construction of capital projects in support of Board-directed priorities. This investment will improve the County’s ability to serve the public and protect the County’s real estate portfolio. In addition, sustainability initiatives including solar energy and water conservation projects are being implemented in various County facilities. The CP Budget reflects a decrease of \$128.4 million and the completion of 41 projects from the FY 2018-19 Final Adopted Budget.
- **Road Repairs and Safety Projects**—Provides a \$52.8 million increase in Highway User Tax (gas tax) primarily due to the passage of the Road Repair and Accountability Act of 2017 (Senate Bill 1). These funds will be used for road maintenance, repair and safety projects throughout the County.
- **Environmental Stewardship**—Provides \$78.6 million to further energy efficiency and water conservation through projects including the East LA Sustainable Median project, which is part of a countywide program to capture, divert and treat polluted stormwater runoff and comply with federal and State clean water regulations.

- **Enhancing Public Interaction with Cultural Institutions**—Enhances and expands access to the County’s unique cultural institutions. Refinements at the Music Center Plaza will improve access and amenities.
- **Seismic Safety**—Continues investments in projects to meet seismic standards identified in Senate Bill 1953. This includes the Harbor-UCLA Replacement project that will replace the acute care inpatient tower with a new hospital tower.
- **Reinvesting in County Facilities**—Provides \$101.5 million for the rehabilitation of County facilities funded by the Extraordinary Maintenance Budget to support the goals of the Strategic Asset Management (SAM) Plan, primarily through the Facility Reinvestment program. This program aims to recommend and implement the highest-priority projects to sustain and/or rehabilitate County-owned facilities. The SAM system considers condition, attributes and functions of County-owned buildings to systematically prioritize the most critical deferred maintenance needs countywide. This allocation recommended in the FY 2019-20 Extraordinary Maintenance budget will:
 - Optimize the use of assets to their highest and best use;
 - Establish stronger connections between service priorities and asset decisions; and
 - Create an enterprise-wide understanding of asset needs and priorities.

POTENTIAL STATE AND FEDERAL BUDGET IMPACTS

Because a significant portion of the County budget is comprised of revenues received from the State and federal governments, we continue to monitor budget actions by those entities to determine the impact on the County budget.

State Budget

On January 10, 2019, Governor Gavin Newsom released his \$209.1 billion FY 2019-20 Proposed Budget. The budget provides \$144.2 billion in State General Fund (SGF) expenditures and \$18.5 billion in reserves, including \$15.3 billion for the Budget Stabilization Account, \$2.3 billion for Special Funds for Economic Uncertainties and \$900.0 million for the Safety Net Reserve.

The Governor’s FY 2019-20 Proposed Budget projects \$142.6 billion in SGF revenue largely driven by higher projections for personal income tax and corporation tax revenues. However, the Administration cautions that while the State currently has a strong foundation, growing uncertainty related to the global political and economic climate, federal policies, rising costs and the length of the current economic expansion,

require that the State budget be prudent. The Administration assumes moderate growth over the forecast period but warns that even a moderate recession could result in significant revenue declines.

In addition, the Governor's Proposed Budget reflects several items with new or increased statewide funding of interest to the County, including:

- \$1.3 billion to increase long-term affordable housing;
- \$1.2 billion for transportation and infrastructure;
- \$700.0 million to increase the Safety Net Reserve Fund to \$900.0 million;
- \$500.0 million to build emergency shelters, navigation centers and supportive housing to address homelessness;
- \$347.6 million to raise California Work Opportunity and Responsibility to Kids grant levels by 13.1 percent;
- \$342.3 million to continue the restoration of the 7 percent reduction in IHSS service hours;
- \$241.7 million to reduce the 2017 statewide IHSS MOE;
- \$155.2 million in local debris removal cost savings;
- \$100.0 million for the Whole Person Care Pilot program;
- \$75.0 million for pretrial release pilot projects in eight to ten courts;
- \$50.0 million to accelerate the Exide cleanup of approximately 700 additional properties;
- \$50.0 million for the 2020 decennial census outreach efforts;
- \$31.3 million to backfill wildfire-related property tax revenue losses for local governments; and
- \$17.2 million to implement a new contract with the County for oversight of health care facilities.

The Legislature is currently conducting budget subcommittee hearings on the Governor's Proposed Budget. However, most actions on the State budget will be held pending the release of the Governor's May Budget Revision that will contain updated revenue estimates and budget allocations.

Federal Budget

On March 11, 2019, the President released an initial summary of his \$4.7 trillion proposed budget for Federal Fiscal Year (FFY) 2020, followed by additional details on March 18, 2019. The budget includes changes to major mandatory spending programs of interest to the County that would result in \$2.8 trillion in spending cuts over the next ten years. This includes \$845.0 billion from Medicare, \$1.5 trillion for Medicaid, \$219.8 billion for the Supplemental Nutrition Assistance Program, \$21.0 billion for the Temporary Assistance for Needy Families benefits and \$1.6 billion for the Social Services Block Grant.

Additionally, the President's Budget summary proposes to eliminate or significantly curtail funding for a number of discretionary programs through which the County receives funding. These proposed eliminations include the Community Development Block Grant (\$3.3 billion), HOME Investment Partnerships program (\$1.3 billion), Public Housing Capital Fund (\$2.8 million), Choice Neighborhoods (\$150.0 million), Senior Community Service Employment program (\$400.0 million), Low Income Home Energy Assistance (\$3.7 billion), and the Economic Development Administration (\$265.0 million). It also proposes to reduce funding for programs such as the Public Housing Operating Fund, the State Homeland Security Grant program, and the Urban Area Security Initiative, among other programs.

Specific to the County, the President's Budget proposes \$13.1 million for operations and maintenance of the Los Angeles County Drainage Area (LACDA), \$50,000 in new funding to initiate a LACDA disposition study, and \$2.5 million for the Whittier Narrows Dam Safety program.

The President's Budget generally serves as a messaging proposal that articulates the President's recommendations and priorities on funding to Congress for the following fiscal year. The President's proposal already has been met with opposition from Democrats as well as some Republicans. The President's Budget proposal has little chance of adoption into law with a Democrat-controlled majority in the House.

Over the next couple of months, Congress will consider funding proposals and will be tasked with passing appropriation legislation to fund the federal government for FFY 2020 which begins on October 1, 2019.

SHORT- AND LONG-TERM BUDGET ISSUES

The County, like all governmental entities, must balance the demands for new services and unavoidable cost increases within the amount of new revenue estimates. Given the County's limited authority to raise revenues, the Board has adhered to conservative budget practices, which helped the County weather the last recession without major

service reductions, layoffs or furloughs. As we begin this initial stage of the budget process, we once again are challenged by the demand for County services that far exceeds the available financing sources.

The County has taken steps to address long-term budget issues over the last few years. The Board approved a multi-year plan to prefund retiree healthcare benefits and since emerging from the Great Recession, we have also increased our Rainy Day Fund each year. In FY 2018-19 we supplemented the Rainy Day Fund by \$46.8 million.

In addition, in accordance with County budget and fiscal policies, we are recommending that \$32.5 million be set aside in Appropriation for Contingencies as a hedge against unforeseen fiscal issues throughout the year. We are also adding \$5.0 million to the Extraordinary Maintenance budget unit to help address deferred maintenance needs throughout the County.

Looking forward, we recognize that many long-term budgetary issues will require significant investment by the County and may require a multi-year funding approach. Outlined below are some of the more significant budget issues:

- **Expiration of the Title IV-E Waiver**—Set to expire on September 30, 2019, the Waiver relaxes federal eligibility requirements for federal foster care funding and allows flexibility in the use of federal funding in the areas of prevention and after-care services. The expiration of the Waiver would result in the potential annual loss of \$213.0 million to the County.
- **VSAP**—Over the next three years, we estimate that \$72.3 million in funding will be needed to develop and implement the County's voting system.
- **Rainy Day Fund**—To reach the prescribed level, the County has embarked on a multi-year plan to supplement this reserve by approximately \$117.0 million over the next three years.
- **Information Technology Systems Replacement**—The unfunded cost to replace and modernize the County's most critical information technology legacy systems is expected to exceed \$350.0 million over the next five years.
- **Deferred Maintenance**—The Facility Reinvestment program is a \$750.0 million five-year program to address deferred maintenance of existing County buildings and facilities. This is an initial plan to begin to address a much larger backlog of the highest priority deferred maintenance and building systems replacement projects, currently estimated at \$2.6 billion based on completed building assessments.

- Pensions**—In December 2016, the Los Angeles County Employees Retirement Association (LACERA) lowered the rate of return assumption used for the valuation of pension plan assets from 7.50 to 7.25 percent, and changed the mortality assumptions used to value plan liabilities. These changes, along with adjustments for prior-year investment performance, resulted in increased retirement contribution costs beginning in FY 2017-18 and continuing through FY 2019-20. As the California Public Employees’ Retirement System and other local government retirement systems across the nation move to lower their rate of return assumptions to 7.00 percent, a similar adjustment of its assumed rate of return by LACERA would result in significant increases in the County’s retirement contribution costs over the next three years.
- Other Postemployment Benefits (OPEB)**—The Recommended Budget adds \$63.5 million in pre-funding contributions to the OPEB Trust Fund. This is the fifth year of a multi-year plan to fully fund the \$2.2 billion annual required contribution (ARC). Based on current projections for the OPEB pre-funding plan, the OPEB ARC will be fully funded by Fiscal Year 2027-28.
- Stormwater and Urban Runoff**—To address regulatory stormwater and urban runoff compliance in the unincorporated areas, we estimate that \$511.3 million will be needed over the next five years. This amount may be partially offset with Measure W taxes (Safe Clean Water Parcel Tax).

BUDGET TIMETABLE

Below is the schedule for budget hearings and deliberations.

Board Action	Approval Date
Adopt Recommended Budget; Order the Publication of the Necessary Notices; Distribute the Recommended Budget; and Schedule Public Hearings	April 16, 2019
Commence Public Budget Hearings	May 15, 2019
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion	June 24, 2019

Prior to deliberations on the FY 2019-20 Adopted Budget, we will file reports on:

- May 2019 revisions to the Governor’s Budget and updates on other 2019-20 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 ten 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.

The Honorable Board of Supervisors
April 16, 2019
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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 2019-20; order the publication of the necessary notices; and set May 15, 2019, as the date that public budget hearings will begin.

Respectfully submitted,


SACHI A. HAMAI
Chief Executive Officer