Chief Executive Office.

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CHIEF EXECUTIVE OFFICER
Fesia A. Davenport

April 18, 2023

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:

2023-24 RECOMMENDED COUNTY BUDGET
(3-VOTES)

The 2023-24 Recommended Budget marks Los Angeles County's first spending blueprint since the end of the COVID-19 emergency and the start of the local emergency for homelessness—two defining milestones of this transformative moment in which we are also addressing longstanding racial, social, and economic inequities; realizing the Board's *Care First, Jails Last* vision; and delivering extensive safety net services to our residents.

Guided by the priorities established by your Board, this Recommended Budget sustains the ambitious work underway across multiple County departments and strengthens the County workforce as it serves the public with expanding and existing programs. It does not include significant funding to launch new programs at this time, although critical needs may be considered later in the budget process as a fuller picture of our revenues and obligations becomes available.

This $43.0 billion budget reflects a decrease of $1.6 billion when compared to the 2022-23 Final Adopted Budget (approved in October 2022). It increases the total number of budgeted positions by 514, for a total of 114,106.

The Recommended Budget—the first step in the County's multi-phase budget process—was developed against a backdrop of growing fiscal uncertainty, including a looming State budget deficit, a significant slowdown in local real estate transactions, and an unsettled economic environment in which recession remains a very real possibility.

As always, funding requests far exceed available resources. Although, we are recommending $551.7 million in new funding, there are more than $1.9 billion in unmet needs requests. Of this amount, we are deferring $813.2 million funding requests to future budget phases, leaving $1.1 billion as an unmet need.

Among other actions, the 2023-24 Recommended Budget focuses on funding some of the County's most urgent priorities—including homelessness, Care First and Community Investment (CFCI) programming, addressing unacceptable conditions in the County jail system, and setting up reform and compliance mechanisms within the Sheriff's Department—in the following ways:

- Mobilizing an emergency response to the humanitarian crisis of homelessness. The Recommended Budget includes $692.0 million in resources, including extensive investments in mental health outreach, supportive services, and a wide range of housing programs to increase the supply of affordable housing and move people off the streets and into safe living conditions.

- Delivering on the County's commitment to allocate a full 10 percent of its locally generated unrestricted revenues to direct community investment and alternatives to incarceration by providing an additional $88.3 million, for a total ongoing investment of $288.3 million, for Year Three of CFCI projects and programs to address racial disparities in the justice system. Approval of this amount will allow the County to reach the 10 percent target by June 2024, as originally specified in Measure J and later memorialized in the Board's budget policy.

- Advancing the *Care First, Jails Last* vision and improving mental health services and unacceptable conditions in the County's jails. Ongoing funding of $49.6 million is recommended for Integrated Correctional Health Services (ICHS) and the Sheriff's Department to work toward meeting the terms of the U.S. Department of Justice (DOJ) consent decree and *Rutherford* settlement with the support of the County's new DOJ Compliance Officer.

- Supporting Sheriff's Department reforms, from addressing deputy gangs to providing more transparency. This budget recommends funding for the Sheriff to establish the Office of Constitutional Policing to, among other things, oversee and monitor consent decrees and investigate deputy gang issues.

This year's Recommended Budget reflects modest increases in property and sales tax revenues, although at markedly lower growth rates than reflected in the prior year's budget. This lower anticipated rate of revenue growth coupled with unavoidable rising cost increases and existing County commitments made it challenging to balance this year's budget. Following are the primary cost drivers in the 2023-24 Recommended Budget:

- Rising employee wages and benefits;
- Increasing public assistance caseloads;
- Addressing a few departmental structural deficits;
- Existing Board/County policies/commitments; and
- Paying all contractual and legal settlements.

Going forward, the County faces sobering budget challenges and pressures. The County's $1.9 billion in American Rescue Plan Act (ARPA) funding is required to be fully expended by 2026, and with no similar federal funding program expected to take its place, important programs will not be sustainable. A significant overhaul of the County's Probation system is anticipated, potentially leading to the need for greater investments in facilities, programs, and staff.

Perhaps the most significant long-term challenge is posed by the liability and settlement costs associated with Child Victims Act (AB 218) claims discussed in more detail later in this letter. Early and preliminary estimates of this liability are in the billions of dollars. The cost to settle these claims will have a profound impact on the County budget for decades. Since costs associated with this law, which extends the statute of limitations for prosecution of childhood sexual assault cases, are still emerging, we will return at a later date to provide budget recommendations to the Board.

On the more immediate horizon, the housing market in the County has cooled considerably after the rebound in home sales in the early months of the pandemic. January and February home sales for 2023 were at their lowest levels in more than a decade due to higher mortgage interest rates driven by Federal Reserve (Fed) Board increases in the federal funds borrowing rate. If this trend continues, the County property tax growth for 2024-25 budget year will be at risk and may require us to downgrade our property tax forecast for that year, which would significantly curtail the amount of locally generated revenue available to fund key programs and services.

BUDGET OVERVIEW

As displayed below, the 2023-24 Recommended Budget total of $43.0 billion reflects a decrease of $1.6 billion in total financing uses when compared to the 2022-23 Final Adopted Budget from October 2022. This is due to decreases in the Total General County Fund group (comprised of the General Fund and Hospital Enterprise Funds) and Special Districts/Special Funds.

Fund Group ($ in billions)	2022-23 Final Adopted Budget	2023-24 Recommended	Change	% Change
Total General County	$33.333	$33.099	-$0.234	-0.7%
Special Districts/ Special Funds	11.309	9.897	-1.412	-12.5%
Total Budget	**$44.642**	**$42.996**	**-$1.646***	**-3.7%**
Budgeted Positions	113,592	114,106	514**	0.5%

**Though this represents nearly a four percent reduction from the Fiscal Year (FY) 2022-23 Final Adopted Budget, additional funding may be allocated over the coming budget phases.*

***The net increase in position count is primarily funded with outside revenue sources, including State and federal funding.*

The total number of budgeted positions increased by 514, bringing the total number of budgeted positions to 114,106. The new budgeted positions are largely offset by federal or State revenue and special district funding and include:

- 195 positions within the Department of Mental Health (DMH) to support community care in the Hollywood and Antelope Valley communities; expand urgent care mental health services, reentry services for women, and outreach to homeless veterans on skid row; and increase the number of System-wide Mental Evaluation and Response Teams (SMART) that partner DMH mental health clinicians with Los Angeles Police Department personnel, among other roles;

- 86 positions for clinicians at various levels to fill various roles in the County's hospital and clinic system;

- 70 positions for the Department of Children and Family Services (DCFS), more than half of which will support the expansion of the Upfront Family Finding Program, which seeks to place children with relatives or family friends;
- 60 positions to support wildfire suppression; and
- 29 positions for the Justice, Care, and Opportunities Department to continue to fulfill staffing plan commitments and provide Care First services consistent with your Board's classifications approvals for the Department on November 1, 2022.

ECONOMIC OUTLOOK

At the start of 2023, the U.S. economy showed continued strength from strong hiring and consumer spending that was resilient in the face of rising prices, while the Fed's rate hikes have made borrowing more expensive. Although the economy remains strong, there is much economic uncertainty from continuing high inflation that may lead to a slowdown in the economy.

The forecast for our statewide sales tax and locally generated revenues reflects moderate growth based on current revenue trends and in relation to the 2022-23 Final Adopted Budget. For the 2023-24 Recommended Budget, the Proposition 172 Public Safety sales tax revenue reflects a projected increase of 2.6 percent, or $26.1 million, while local sales and use tax collected in unincorporated areas reflects an estimated increase of 8.3 percent, or $6.7 million. These revenues have remained positive from sustained consumer spending despite higher prices and a strong labor market that has raised wages.

Over the past year, the Fed's rapid hikes in the federal funds borrowing rate to combat inflation have led to significant increases in both interest earnings rates and mortgage rates. On the positive side, the average interest earnings rate on our cash deposits has increased by approximately 2.8 percent from February 2022 to February 2023. As a result, we are projecting an additional $101.5 million in interest earnings revenue for fiscal year 2023-24.

However, mortgage rates have also surged, making it more expensive for prospective buyers to borrow, while applying downward pressure on home prices. In consultation with the County Assessor, we are forecasting an approximate five percent increase to the 2023 tax assessment roll, which results in a $385.7 million increase in property tax revenue. This forecast is preliminary as the Assessor is scheduled to issue its official forecast in May 2023 and release the final roll in the summer of 2023. Our office will continue to work with the Assessor's Office and, if needed, update assessed value projections in future budget phases.

Despite strength in recent consumer spending and employment reports, persistently high inflation poses a significant risk to the economy. The Fed's rate hikes to control inflation have yet to effectively reduce inflation to their two percent target. Consequently, they are now expected to increase rates again and for longer than previously anticipated. The Fed's monetary tightening actions are aimed at bringing down prices by curbing investment, spending, and hiring. However, the Fed acknowledges that this could result in economic contraction as demand falls and further result in job cuts as business slows. In turn, a pullback in consumer and business spending could lead to a risk of a recession if the Fed's monetary policy proves to be too aggressive.

Additionally, the recent failure of two large U.S. banks has stirred further economic uncertainty and market volatility. The fallout of these bank collapses has prompted fears of a potential banking crisis and added complexity to the Fed's future monetary actions.

We are aware that some economists and financial institutions have continued to forecast a recession later this year or in 2024. Our office is closely monitoring the latest economic data and remains vigilant to address any signs of an economic slowdown or increased risk of a recession.

ABOUT THE BUDGET PROCESS

The Recommended Budget is the first step in the County's multi-part budget process, which includes Public Hearings in May; deliberations leading to the approval of the Adopted Budget in June; and the Supplemental Budget culminating with the approval of the Final Adopted Budget in the fall. This multi-part process enables the County to respond nimbly to fiscal and economic changes and opportunities that may not be available at the start of the budget year. In some cases, funding is set aside in the Provisional Financing Uses (PFU) budget unit as part of the Recommended Budget, while program implementation plans are being developed and finalized.

Most of the County's budget is funded from State and federal sources or from charges or fees for services provided to contract cities or the public. These revenues are tied to specific programs and may not be repurposed. Similarly, the bulk of locally generated revenues is committed to ongoing programs and services previously approved by the Board. As a result, the Recommended Budget highlights below focus primarily on programmatic changes rather than ongoing operations.

HIGHLIGHTS OF SIGNIFICANT PROGRAM CHANGES

Below are some notable changes included in the 2023-24 Recommended Budget.

Continued Momentum for Care First, Jails Last

This Recommended Budget marks the final year of a three-year plan to allocate a full 10 percent of ongoing locally generated unrestricted revenues to CFCI programs that carry out the Board's vision of a justice system rooted in *Care First, Jails Last*. As directed by Board budget policy, our office calculated the amount equivalent to 10 percent of ongoing locally generated unrestricted revenues for 2023-24, which totals $288.3 million. As a result, the Recommended Budget includes an additional allocation of $88.3 million in ongoing funding for the CFCI budget unit. This new funding, along with the $200.0 million currently allocated to the CFCI budget, brings the total ongoing commitment for 2023-24 to $288.3 million and the Board's total investment in CFCI since 2021 to $676.0 million.

It should be noted that CFCI is the only budget entity which by Board policy automatically rolls over all unspent funds from year-to-year. Together with $197.7 million in one-time carryover funding being advanced in this budget phase, the total recommended investment in CFCI programs is $486.0 million for 2023-24.

Funding set aside in the CFCI budget is aimed at addressing racial injustice in the criminal justice system by providing direct community investments and alternatives to incarceration. Specific recommendations for these investments, reflecting the input of the CFCI Advisory Committee, are scheduled to be presented to the Board for approval later in spring 2023 and, upon Board approval, to be included in the Final Changes Budget in June 2023. The 10-percent "set-aside" will be recalculated every year, in accordance with the Board's budget policy.

Homelessness, Mental Health and Affordable Housing

- **Measure H Homeless Services and Housing** – Reflects a total budget of $692.0 million, to fund the County's New Framework to combat homelessness.

The New Framework is divided into five categories of action to urgently drive results:

- Coordinate – Create a coordinated system that links critical infrastructure and drives best practices;
- Prevent – Provide targeted prevention services to avoid entry or a return to homelessness;
- Connect – Link and navigate everyone to an exit pathway;
- House – Rapidly rehouse using temporary and permanent housing; and
- Stabilize – Scale services critical to rehousing and stabilization success.

The budget includes $25.5 million to support city-specific programs and services through the Local Solutions Fund and Cities and Council of Governments Interim Housing Fund. The focus for these funds is helping individuals experiencing homelessness move out of encampments and into housing and to pay for supportive services at interim housing sites.

The budget also supports Board-directed housing developments and the administration of various homeless programs and services.

- **Mental Health Services Act (MHSA) Spending** – Adds $60.2 million and 168 positions needed for various mental health services, including the following: 68 positions to expand Full-Service Partnership services needed to ensure adequate capacity in the mental health care network; 54 positions for the Hollywood Mental Health Cooperative, a new, comprehensive approach to serving those with severe and persistent mental illness in the Hollywood community; and 32 positions for the new Antelope Valley Children and Family Mental Health Clinic, focused on providing mental health services to children and families.

- **Affordable Housing** – Provides $30.0 million to maintain a total of $100.0 million for the development and preservation of affordable housing. This funding will support affordable housing for very low- and extremely low-income households, individuals and/or families experiencing homelessness, as well as other supportive services such as eviction defense, mortgage relief, rapid re-housing, homeownership, and acquisition.

- **Veterans' Services** – Provides $0.4 million in MHSA funding from DMH to the Department of Military and Veterans Affairs for 2 positions to support the Veterans Navigator Program, which assists veterans as they transition from military to civilian life.

Health Care Delivery

- **Sexually Transmitted Infections (STI)** – Allocates $2.5 million in Tobacco Settlement funding to the Department of Public Health to support the County's response to the rise in STI.

- **Martin Luther King, Jr. Outpatient Center (MLK) Urgent Care Expansion** – Provides $1.5 million and 10 positions for the Department of Health Services (DHS) to support the MLK Urgent Care expansion.

- **Clinical Social Work Staffing** – Adds $2.5 million and 16 positions, fully offset with DHS revenues, at various departmental facilities to oversee clinical social work operations.

Other Justice-Related Programs

- **Establishing the Office of Constitutional Policing** – Adds $6.6 million and 24 non-sworn positions to the Sheriff's Department for the establishment of the Office of Constitutional Policing, which will oversee and monitor consent decrees, deputy gang issues, audit and investigations, compliance, risk management, and policy development. Also restores the Assistant Sheriff, Administration position.

- **DOJ Consent Decree** – Sets aside $49.6 million in ongoing funding to improve the conditions and mental health services in the County's jails under the terms of the DOJ settlement. This amount is allocated to the PFU budget unit for ICHS and the Sheriff's Department.

- **Academy Classes** – Allocates a net $1.8 million in one-time funding to the Sheriff's Department to hold four academy classes initially funded in FY 2022-23, and support recruitment efforts. These classes are needed to address the recent DOJ consent decree and the Department's significant sworn vacancy gap, as well as to train a new generation of deputies. The related budgeted positions were previously approved as part of the FY 2022-23 budget.

Jobs and Workforce Development

- **Youth@Work Program** – Provides $16.0 million to the Department of Economic Opportunity (DEO) to continue the Youth@Work Program. This Program is committed to the development and success of young people, providing them with first-time work experience and supporting their development as part of our future adult workforce.

- **Regional Equity and Recovery Partnership (RERP) Program** – Allocates $3.3 million in State funding to DEO for the RERP program, which provides job training and placement opportunities targeting the underserved, underrepresented, and most vulnerable populations.

- **Re-Entry Employment, Navigation, Engagement and Well-Being (RENEW) Program** – Adds $2.6 million to DEO for the RENEW program. This Program assists justice-involved individuals with employment and training services, transitional subsidized employment opportunities, supportive services, incentives, and peer mentorship.

- **Prison to Employment Program** – Allocates $2.2 million in State funding to DEO to support the integration of workforce, re-entry and supportive services to formerly incarcerated and justice-involved individuals, with the goal of preparing them for and helping place them in unsubsidized employment.

Public Services Cost Increases

- **Foster Care Caseloads** – Provides $17.5 million to the DCFS to pay for rate increases to foster families, as well as to make up for the loss of federal funding due to the expiration of the Title IV-E Waiver. Foster care assistance is paid on behalf of children in out-of-home placements who meet the eligibility requirements specified in applicable State and federal regulations and laws.

- **General Relief (GR) Caseloads** – Adds $25.8 million to the Department of Public Social Services (DPSS) for projected GR caseload increases.

- **In-Home Supportive Services (IHSS) Providers** – Adds $51.6 million to DPSS to pay for a $1.00 an hour wage supplement for IHSS providers who provide at-home assistance to older and/or disabled residents.

Support for Children, Families, Seniors and People with Disabilities

- **Medical Hubs** – Provides $2.0 million for DCFS to maintain medical hub services. These services are critical and include forensic evaluation and other health-related needs for children in the child welfare system.

- **Upfront Family Finding** – Adds $8.3 million to DCFS to continue and expand Upfront Family Finding services. These services are designed to identify relatives and family friends who may be able to care for a detained child or youth. Such placements have been shown to result in better outcomes.

- **Bringing Families Home** – Allocates $1.5 million in State funding to DCFS to provide case management and outreach services to families in the child welfare system experiencing homelessness.

- **Dependency Court Expansion** – Provides $4.2 million in State funding to DCFS for 4 positions and County Counsel services needed for two additional dependency courtrooms located at the Edmund D. Edelman Children's Court.

- **California Work Opportunity and Responsibility to Kids (CalWORKs) Stage One Child Care Program** – Adds $65.7 million to DPSS, fully offset with State and federal revenues, to meet projected caseload increases for full-time childcare services for CalWORKs participants.

- **Housing and Disability Advocacy** – Provides $3.9 million to DPSS, fully offset with State revenues, for DHS-provided services designed to expand interim housing opportunities and community outreach.

- **Adult Protective Services (APS)** – Provides an additional $3.4 million in State funding to the Department of Aging and Disabilities for the expansion of the APS program as the minimum eligibility age shifted from 65 to 60 years old.

Recreation

- **Water Awareness, Training, Education and Recreation (WATER) Program** – Adds $0.5 million and 4 lifeguard positions, fully offset by Marina and grant revenues, to the Department of Beaches and Harbors to fully staff the WATER Program, which teaches ocean safety skills to youth from diverse, underserved, and special needs populations.

Critical Voting Systems

- **Voting Choice Act (VCA)** – Sets aside $8.7 million in ongoing funding in the PFU budget unit for the Department of Registrar-Recorder/County Clerk's (RR/CC) Voting Solutions for All People system and to ensure compliance with California's VCA of 2016. This adjustment is a down payment on a multi-year funding plan needed to support the County's election model with ongoing funding, which will require an additional $34.8 million in ongoing funding in future years.

- **Election Management System (EMS)** – Provides $5.9 million to RR/CC for the new EMS that contains critical election information including voter registration, candidate filing, and vote center and election worker management data; the new EMS also provides a direct interface to the State's voter registration database. The Recommended Budget also sets aside a contingency of $3.6 million in PFU.

Investing in Public Assets

- **Capital Projects (CP)** – Allocates $2.0 billion for continued development, design, and construction of CPs 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. The CP budget unit reflects a decrease of $23.2 million and the completion of 45 projects included in the 2022-23 Final Adopted Budget.

- **Environmental Stewardship** – Provides $214.6 million for continued water conservation projects, including 44 stormwater projects, which are part of a countywide program to capture, divert, and treat polluted stormwater runoff and comply with federal and State clean water regulations. Since October 2022, the County has captured more than 93 billion gallons of stormwater within its dams and spreading grounds — enough water to meet the needs of 2,284,800 people for a full year.

- **Enhancing Public Interaction with Recreational Opportunities** – Includes $176.3 million to enhance and expand access to County facilities, such as the Ruben F. Salazar Park multi-phase remodeling project and various pool lighting projects, which will provide safer and enhanced recreational opportunities, as well as extend pool hours.

- **Reinvesting in County Facilities** – Provides $303.0 million for the rehabilitation of County facilities funded by the Extraordinary Maintenance (EM) budget unit and long-term financing to support goals of the Strategic Asset Management Plan, primarily through the Facility Reinvestment Program. This program includes the highest-priority projects to sustain and/or rehabilitate County-owned facilities. This recommended allocation will:

  - Extend the useful life of County facilities and reduce facility replacement costs in the long run;
  - Allow the County to undertake the highest priority deferred maintenance projects to optimize the use of assets in their highest and best uses;
  - Establish stronger connections between County service priorities and asset decisions, better aligning our CPs with the most pressing needs of County residents; and
  - Create a better enterprise-wide understanding of asset needs and priorities.

FOLLOW-UP BUDGET ACTIONS

The Board requested the Chief Executive Officer (CEO) to report back on the following items during the 2023-24 Recommended Budget.

Cooling Strategies in Our Parks

On October 4, 2022, the Board directed the CEO and the Director of Parks and Recreation to consult with the Chief Sustainability Office and report back in the 2023-24 Recommended Budget with high-priority locations for new park cooling features in alignment with the Climate Resilience Initiative, and to develop a funding plan to erect shade structures, install hydration stations, and plant trees in line with County Sustainability goals in County-operated parks. As part of the 2023-24 Recommended Budget, the Department of Parks and Recreation (DPR) will submit a comprehensive examination of correcting shade deficiencies in parks in underserved communities. The CEO will work with DPR to determine the financial viability of a phased approach to funding the proposed cooling features. We will make a recommendation in the 2023-24 Supplemental Budget phase, which will allow our budget recommendations to be made within the context of the overall budget and numerous competing requests.

Sustainably Expanding Eviction Defense Services in Los Angeles County

On September 27, 2022, the Board directed the CEO to report back during the 2023-24 Recommended Budget with funding recommendations to make the Stay Housed LA program permanent, including but not limited to the feasibility of utilizing existing funding sources intended to prevent residents becoming unhoused and to support housing stability.

Stay Housed LA is a partnership between the County, tenant-led community organizations, and legal aid organizations to provide low-income tenants living in the County with free, limited, and full-scope legal representation; short-term rental assistance; and other complementary services to stabilize their housing while facing potential eviction and/or homelessness due to financial hardship. The Department of Consumer and Business Affairs (DCBA) currently has $40.6 million in one-time funding allocated to the program, comprised of ARPA and State funds. DCBA is expected to expend approximately $13.0 million by June 30, 2023, and expects to carry over and fully spend the remaining $27.6 million in 2023-24.

In response to this September 27, 2022 motion, DCBA is finalizing its report back to the Board. However, given the 2023-24 Recommended Budget production timeline and the necessity to review the as-yet-unfinished DCBA report, our office is unable to provide any cost estimates or funding recommendations at this time. DCBA's report will include projected implementation, administrative, and any program-related costs tied to making Stay Housed LA a permanent program. Once the report is completed, we will work with DCBA to refine cost estimates and DCBA can subsequently submit a budget request to the CEO for consideration during the 2023-24 Final Changes budget phase. Funding consideration will be based on available resources and reviewed within the context of the larger countywide budget. The CEO will report back in the 2023-24 Final Changes with funding recommendations.

Strengthening the County's Permanent Protections for Unincorporated Los Angeles in Response to Lessons Learned during the COVID-19 Crisis

On September 27, 2022, the Board directed DCBA, as the lead department, to: 1) develop an ordinance to limit discriminatory and/or arbitrary landlord screening practices; 2) amend County Code Chapters 8.52 – Rent Stabilization and Tenant Protections, and 8.57 – Mobile Home Rent Stabilization and Mobile Home Owner Protections, to temporarily cap allowable rent increases; and 3) identify opportunities to provide financial support to low-income tenants and mom-and-pop landlords with rental arrears; recommend a framework to provide relocation assistance to tenants who will be displaced due to unaffordable rent increases; assess the need to reevaluate the current cost recovery model to account for any increased costs associated with support of these initiatives; and develop a plan to support incorporated cities seeking to create/adopt their own permanent tenant protections, including a cost recovery model for programmatic services. In addition, the Board: 4) provided DCBA with delegated authority to enter into agreements with consultants/contractors and to support incorporated cities interested in creating/adopting tenant protections; and 5) directed the CEO, in consultation with DCBA and County Counsel, to identify overall proposed cost and funding sources to implement Directives Nos. 1 through 4 and report back in the 2023-24 Recommended Budget.

The following are status updates on Directives Nos. 1 through 5:

Directive No. 1: DCBA is currently developing their report back to the Board with a draft ordinance to establish certain limitations on landlord screening practices.

Directive No. 2: DCBA has completed ordinance amendments, approved by the Board on November 15, 2022, for Rent Stabilization and Tenant Protections (County Code Chapter 8.52), and Mobile Home Rent Stabilization and Mobile Home Owner Protections (County Code Chapter 8.57); these ordinances became effective on December 15, 2022, and had no fiscal impact.

Directive No. 3: DCBA is currently developing their report back to the Board on opportunities to provide financial assistance to low-income tenants and mom-and-pop landlords and supporting other jurisdictions looking to establish their own tenant protections.

Directive No. 4: DCBA has not exercised its delegated authority to enter into agreements with consultants to develop a plan to support incorporated cities; it is unclear if the department will exercise this authority given that they are still developing their report back to the Board.

Directive No. 5: As stated above, DCBA is currently developing reports for Directives Nos. 1 and 3, which will also provide information on Directive No. 4. Given the CEO's 2023-24 Recommended Budget production timeline and the necessity to review DCBA's report backs, we are unable to provide proposed cost estimates and potential funding sources at this time. DCBA's report backs will include any applicable projected implementation, administrative, and program-related costs tied to Directives Nos. 1 through 4. As such, once the reports have been completed, the CEO will work with DCBA to refine the cost estimates and DCBA can subsequently submit a budget request to the CEO for consideration as part of the 2023-24 Final Changes budget phase. Funding consideration will be based on available resources and reviewed within the context of the broader countywide budget impact. The CEO will report back in 2023-24 Final Changes with funding recommendations.

Implementing the Priority Strategies of the Equity in County Contracting (ECC) Project Team

On August 9, 2022, the Board directed the CEO to identify staff and resources to develop and operationalize a Centralized Contracting and Procurement Office (Office) within the Internal Services Department (ISD), effective in 2023-24. The proposed centralized contracting unit would be both an internal resource to County departments and an external resource to small employers looking to more easily contract with the County. As outlined in the Board motion, the new office would, among other priorities, institutionalize the work of the ECC process; lead continuous, equitable and efficient improvements to the County's contracting and procurement processes; develop and provide contracting training; develop recommendations to address barriers to equitable reimbursement and compensation of contractors; and meet regularly with community-based organizations and nonprofit stakeholders on issues related to County contracting. The 2023-24 Recommended Budget includes the addition of $3.4 million in ongoing appropriation for 12 positions as well as services and supplies for the initial creation and establishment of the Office within ISD. Key priorities to establish in the first year will include detailed planning and assessment of the Office's structure and needs, while also institutionalizing and continuing to address the ECC findings and recommendations. Upon full build-out of this Office, the CEO will work with ISD to consider an additional 6 positions and include appropriate funding recommendations in future budget phases.

Review and Assessment of County Commissions' Needs

On August 9, 2022, as part of the Establishing Our Commitment to the Los Angeles City/County Native American Indian Commission motion, the Board directed the CEO to review and assess County commissions' needs, including administrative staff, funding, and other needs and report with recommendations to ensure all commissions are supported and effective. On November 18, 2022, the CEO report back indicated additional staffing resources would need to be considered based on specific needs identified by each department to ensure effective support. The CEO committed to report back with funding recommendations, as appropriate, based on competing budget priorities and available funding as part of the 2023-24 Recommended Budget. These departments requested: 5 positions to support the Executive Office of the Board, Commission Services Division; 1 position to support the Civil Service Commission; and 2 positions to support the Los Angeles Beach and Small Craft Harbor Commissions and the Small Craft Harbor Design Control Board. After careful consideration and review within the context of the larger countywide budget impact, the requests have been deferred to the 2023-24 Final Changes budget phase for further consideration.

POTENTIAL STATE AND FEDERAL BUDGET IMPACTS

A significant portion of the County budget is comprised of revenues from the State and federal governments. State and federal budget highlights and anticipated impact on the County budget are outlined below.

State Budget

On January 10, 2023, Governor Gavin Newsom released his 2023-24 January Proposed Budget (Proposed Budget). At the time of its release, the $297.0 billion Proposed Budget forecast that State General Fund revenues will be $29.5 billion lower than projected, with an estimated budget gap of $22.5 billion. (The latest estimates since then indicate that the budget gap might be closer to $40.0 billion). To close the projected revenue shortfall, the Proposed Budget includes a combination of funding delays, inflationary adjustments, and fund payments; fund shifts, trigger reductions, limited revenue generation and borrowing; as well as the use of resiliency measures included in the 2022 State Budget Act. None of the State budgetary reserves, whose combined balance is projected to be $35.6 billion at the end of 2023-24, are proposed to be used to address the projected $22.5 billion revenue shortfall to preserve the State's ability to address a potential recession if economic and revenue conditions continue to deteriorate.

Despite the projected revenue shortfall, the Proposed Budget sustains key investments made in prior fiscal years of importance to the County, including but not limited to:

- $44.0 billion for infrastructure investments;
- $10.0 billion for California Advancing and Innovating Medi-Cal (CalAIM);
- More than $8.0 billion to expand the continuum of behavioral health treatment and infrastructure capacity;
- More than $2.0 billion annually to expand subsidized child care;
- $1.2 billion to improve services for the developmentally disabled;
- More than $1.0 billion to provide increased cash assistance to individuals with disabilities and older adults in the Supplemental Security Income/State Supplementary Payment program, and low-income children and families in the CalWORKs program;
- $844.5 million to continue expanding Medi-Cal to all income-eligible Californians, regardless of immigration status; and
- More than $200.0 million for safe and accessible reproductive healthcare.

The Proposed Budget also includes the following County-supported State budget proposals:

- $646.4 million to cover the costs of the Providing Access and Transforming Health and CalAIM justice initiatives;
- $76.5 million over three years to pursue security upgrades and Electronic Benefits Transfer (EBT) card technology to prevent theft of EBT benefits and $198.0 million over two years for reimbursement of stolen benefits;
- $200.0 million to support access to family planning and related services, system transformation, capacity, and sustainability of California's safety net;
- $93.0 million in additional Opioid Settlement Funds over four years to support youth- and fentanyl-focused investments;
- $87.0 million, to reflect a 2.9 percent increase to the CalWORKs Maximum Aid Payment levels;
- $83.4 million increase to the Medi-Cal County Administration allocation to reflect a projected 3.68 percent increase to the California Consumer Price Index;
- $74.6 million increase for Stage One Child Care to reflect 0.5 percent growth in the projected monthly caseload;

- $35.8 million statewide increase to the Local Child Support Administrative allocation for increased caseload/workload, increased call volumes, and increased personnel costs;
- $17.0 million statewide increase to the CalFresh State Administration allocation to reflect growth in the projected monthly caseload; and
- $13.6 million statewide increase to the IHSS County Administration allocation to reflect growth in the projected monthly caseload.

Since the State Budget plays an important role in funding many important programs administered by the County, we will continue to monitor State Budget activities and advocate for County-supported proposals currently being considered by both the Governor and the Legislature.

Federal Budget

On December 29, 2022, President Joseph R. Biden, Jr. signed into law H.R. 2617 (Connolly), the Consolidated Appropriations Act, 2023, which contains $1.7 trillion in omnibus spending consisting of all 12 Federal Fiscal Year (FFY) 2023 appropriations bills, as well as $44.9 billion in emergency assistance to Ukraine and North Atlantic Treaty Organization allies. In total, the omnibus package provided $772.5 billion in non-defense funding and $858.0 billion in defense funding. Additionally, H.R. 2617 contains five of the County's Community Project Funding and Congressional Directed Spending requests (also known as earmarks).

The measure includes additional funding to: 1) continue programs authorized by the Infrastructure Investment and Jobs Act (P.L. No. 117-58); 2) make investments in health care and research including President Biden's initiative to fight cancer; 3) support nutrition programs for men, women, and children; 4) provide housing assistance for people experiencing homeless, the elderly, and persons with disabilities, and for incremental Section 8 Housing Choice Vouchers; 5) invest in education to help low-income first generation students to get into college and succeed ; 6) support child care; 7) help families address the rising cost of energy; and 8) combat violence against women.

On March 13, 2023, President Biden released his $6.9 trillion budget request for FFY 2024. The budget request proposes $839.7 billion in non-defense discretionary funding, a $90.0 billion or 5.5 percent total increase above the FFY 2023 enacted level, and $842.0 billion in defense and security-related spending, a $26.0 billion or 3.2 percent increase from the FFY 2023 enacted budget.

The President's budget proposes new spending to extend the solvency of Medicare, build affordable housing, invest in climate resiliency, fund national paid family leave, and subsidize childcare. The proposal also seeks to reduce the federal deficit by nearly $2.9 trillion over the next decade, by proposing tax increases on wealthy households and corporations. While the Budget Request is not binding and will not be enacted, it provides a preview of the proposed investments the Administration would make in the areas of health care and public health, climate change, housing/homelessness, education, justice/civil rights, immigration, energy, and other domestic priorities. The looming debt ceiling debate, which likely will begin in earnest in May or June, will undoubtedly impact overall spending and the timing of the appropriations process. The Congressional Budget Office forecasts that the federal government will reach the limits of its borrowing authority sometime between July and September 2023, depending on revenue collections in the coming months.

The House and Senate Appropriations Committees will begin their budget hearings on appropriations for FFY 2024 in March 2023. Additionally, Members of both chambers are accepting Community Project Funding and Congressionally Directed Spending requests for FFY 2024.

SHORT- AND LONG-TERM BUDGET ISSUES

As we begin another budget year, the County is again faced with the difficult task of balancing the increased demand on its services with limited available resources. This is made more challenging as providing these services is becoming more costly, while financing sources are not growing at the same pace to offset the increases.

The County has prepared to address a few long-term budget issues by taking several actions:

- Implementing the Board-approved, multi-year plan to prefund retiree healthcare benefits.
- Augmenting the Rainy Day Fund annually to reach a healthy balance of $854.9 million.
- Setting aside $67.2 million, in accordance with County budget and fiscal policies, in Appropriations for Contingencies as a hedge against unforeseen fiscal issues throughout the fiscal year.
- Increasing the EM budget unit to help address deferred maintenance needs throughout the County. This budget phase we are adding another $5.0 million for this effort.

However, many long-term budgetary issues will require significant investments by the County through a longer, multi-year funding approach. Outlined below are some of our more significant budget issues:

- **Child Victims Act - AB 218** – The County is facing one of its most serious fiscal challenges in recent history – impending claims spurred by AB 218. Also known as the Child Victims Act, AB 218 extended the statute of limitations for reporting childhood sexual assault claims and opened a three-year window for victims of any age to file civil lawsuit claims through December 31, 2022. Early information estimates that the County's financial exposure ranges from $1.6 billion to more than $3.0 billion from more than 3,000 claims alleging childhood sexual assault at various County and non-County facilities. Because of the gravity of these claims and the staggering potential liability, we are assessing the impact this will have on the County's finances and future programmatic funding needs. Any outcome from these claims will put further pressure on the County's budget, which is already strained by increased costs and slowing revenue growth.

- **Additional County Liability** – The State legislature recently introduced two bills, AB 452 and AB 1547. AB 452 would remove all time limitations for childhood sexual assault survivors to file lawsuits, while AB 1547 would allow claims arising out of assaults by an employee of either a juvenile probation camp or detention facility owned and operated by a county, or a youth facility owned and operated by the Division of Juvenile Justice to file their lawsuits in 2024. If enacted, these bills would further increase the County's potential liability.

- **Other Postemployment Benefits (OPEB)** – The Recommended Budget adds $62.3 million in pre-funding contributions to the OPEB Trust Fund. This is the ninth year of a multi-year plan to reach the $1.5 billion actuarially determined contribution (ADC). The ADC is recognized as the measuring stick indicating that we are adequately funding OPEB. Based on current projections for the OPEB prefunding plan, the OPEB ADC will be fully achieved by 2026-27.

- **DCFS** – With the prior expiration of the Title IV-E Waiver and federal bridge funding under the Families First Transition Act Funding Certainty Grant, coupled with rising staff and placement costs, and the substantial expansion of State-mandated services for children and youth through age 21, DCFS is forecasting a structural deficit of more than $200.0 million. The Department continues to be actively engaged in planning efforts to ensure a seamless integration of enhanced prevention and aftercare services under the Families First Prevention Services Act. The Department also is advocating with the State to maintain additional funding to assist in meeting service delivery requirements under the State's mandates, including expanding programs and populations to be served per these mandates.

- **Information Technology Systems Replacement** – The unfunded cost to replace and modernize the County's critical information technology legacy systems is expected to exceed $450.0 million.

- **Deferred Maintenance** – The Facility Reinvestment Program is a $750.0 million program approved by the Board to address deferred maintenance of existing County buildings and facilities. The $750.0 million is an initial plan to address a larger backlog of the highest-priority deferred maintenance and building systems replacement projects.

- **Seismic Safety** – In order to improve the County's ability to survive a major earthquake and to provide public services following an earthquake, additional funding to upgrade County buildings and facilities will be determined following the completion of the ongoing assessment and prioritization of high-risk buildings. Additional requirements might also be needed as a result of the report back for the February 28, 2023 Board motion for Equitable Earthquake Resilience in the County.

- **Stormwater and Urban Runoff** – To address regulatory stormwater and urban runoff compliance in unincorporated areas, we estimate that $362.7 million will be needed over the next five years. This amount may be partially offset with Measure W tax revenue.

- **Structural Deficits for Special Fund/District Departments** – Two County departments, which are separate from the County general fund because they receive a dedicated portion of property taxes for services provided, are projecting structural deficits. These deficit amounts are continuously being evaluated and updated as new information is known.

- **LA County Library** – Historically, the amount of property tax revenues collected for services in the unincorporated areas and the 49 cities served by the County's library system has been insufficient to fully offset the Department's operating costs. The Library's operating deficit is projected to be $9.5 million for 2023-24.

- **Fire District** – Revenue from property taxes and other sources does not sufficiently fund ongoing operating costs and required investments in equipment, facilities, and vehicles. The projected deficit is $27.7 million for 2023-24.

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 18, 2023
Commence Public Budget Hearings	May 10, 2023
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion of Deliberations	June 26, 2023

Prior to deliberations on the Budget Year 2023-24 Adopted Budget, we will file reports on:

- May 2023 revisions to the Governor's Budget and updates on other 2023-24 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
- Other 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 four votes.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

Approve the Recommended Budget for 2023-24; order the publication of the necessary notices; and set May 10, 2023, as the date that public budget hearings will begin.

Respectfully submitted,

FESIA A. DAVENPORT
Chief Executive Officer