County of Los Angeles
CHIEF EXECUTIVE OFFICE
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SACHI A. HAMAI
Chief Executive Officer

April 18, 2017

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 2017-18 RECOMMENDED COUNTY BUDGET
(3-VOTES)

The Fiscal Year (FY) 2017-18 Recommended Budget marks the first step in our annual budget process and culminates with the Supplemental Budget scheduled for late September 2017. This Recommended Budget reflects the County's ongoing determination to confront the needs of our most vulnerable residents while improving the quality of life in communities across the region. Despite budgetary uncertainties at the federal and State levels, the County is committed to advancing the ambitious but achievable agenda set by the Board of Supervisors (Board) to target key priorities, including homelessness, child protection and the continuing integration of the County's health agencies. At the same time, this Recommended Budget maintains the County's long history of responsible, sustainable fiscal practices. Highlighted below are several of the targeted and integrated programs that are hallmarks of this Recommended Budget.

- **County Action Plan to Prevent and Combat Homelessness** – Approved by voters in March with a 69.3 percent majority, Measure H is expected to generate approximately $355.0 million in sales tax revenues annually to fund 21 strategies approved by the Board for homeless services and housing assistance throughout the County. These ongoing monies will be allocated through a transparent, public process—with mandated accountability—to ensure effective and efficient use every step of the way.

- **Child Welfare Services** – The Recommended Budget provides $45.1 million and adds 220 children social workers to reduce caseloads and to implement the Department's mentoring initiative for new case-carrying social workers. The spending plan also provides funding for 107 support staff to assist social workers in their role to keep children safe. These increases, which are fully offset with State and federal revenues, are a crucial component of a multi-faceted effort by departments across the County to protect and assist children.

- **Whole Person Care Los Angeles (WPC-LA)** – This five-year initiative will provide comprehensive and coordinated services to the sickest, most vulnerable Medi-Cal beneficiaries in the County. Health and social service agencies throughout the County will be brought together through 11 innovative programs to provide coordinated services for individuals who are homeless, justice-involved, have serious mental illnesses, severe and/or persistent substance use disorders, or medical issues. Funded through the Medi-Cal 2020 waiver, this budget adjustment provides $90.0 million in new net funding to the Department of Health Services (DHS) and adds 25.0 budgeted positions for the initiative's implementation. DHS is expected to submit refinements to the WPC-LA budget in subsequent budget phases.

- **Mental Evaluation Teams (METs)** – These highly effective multi-disciplinary teams will be increased by five and potentially additional teams may be added in a later budget phase. Under the Recommended Budget, $3.7 million and 19.0 budgeted positions will be added to the Sheriff's Department and the Department of Mental Health for these new field teams and to establish a triage call-desk—fully offset with Public Safety Realignment (AB 109) revenue and Mental Health Services Act (MHSA) revenue.

The FY 2017-18 Recommended Budget total of $30.0 billion reflects an increase of $137.0 million in total requirements when compared to the FY 2016-17 Final Adopted Budget. General County funds, comprised of the General Fund and Hospital Enterprise Funds ($23.3 billion), reflect an increase of $333.0 million. Special Districts/Special Funds reflect a decrease of $196.0 million. The total number of budgeted positions will increase by 635, bringing the total to 109,630 budgeted positions.

Fund Group ($ in Billions)	**2016-17 Final Adopted Budget**	**2017-18 Recommended**	**Change**	**% Change**
Total General County	$22.991	$23.324	$0.333	1.4%
Special Districts/Special Funds	6.892	6.696	(0.196)	-2.8%
Total Budget	$29.883	$30.020	$0.137	0.5%
Budgeted Positions	108,995	109,630	635	0.6%

This year's Recommended Budget was prepared under the uncertainty of budget proposals from both the federal and State governments that could create significant short- and long-term budget challenges for the County. Given these potential challenges, County departments prepared and submitted several net County cost (NCC) budget reduction scenarios for the upcoming fiscal year. NCC is the portion of the budget financed with locally generated revenues. Although it is our hope that budget reductions can be avoided, the County must be prepared to act, if necessary, to implement budget reductions in a timely manner. Since the budget proposals from the federal and State governments have not been formally adopted, our 2017-18 spending plan does not propose any reductions. If required, budget reductions would be implemented in a subsequent budget phase.

Economic Outlook

National and global uncertainties make it difficult to forecast with strong assurance the outlook for the local and State economy. But we are cautiously optimistic, given a number of key indicators, that growth will be positive for the nation, California and the County, for the remainder of 2017 and into 2018, although slower than in recent years. Unemployment, for example, has declined and housing values are continuing to climb with increased confidence in sustaining prices in the local region.

Still, possible trade and immigration policy changes may pose wide impacts across multiple sectors. Global instability continues to raise uncertainty in manufacturing, exports, and financial markets, as well as a projected slowdown in local tourism. We will continue to monitor economic indicators and analyze their implications throughout the budget process.

Our office, in consultation with the Assessor's office, is forecasting a 5.79 percent increase to the 2017 tax assessment roll. This forecast is preliminary, as the Assessor is scheduled to issue its official forecast in May 2017, and release the final roll in July 2017. Our office will continue to work with the Assessor's office to update property tax projections. We are also forecasting a 3.5 percent increase in statewide sales tax growth.

Program Changes

Outlined below are some of the significant program changes included in the 2017-18 Recommended Budget:

- **Children and Family Services** – Provides additional funding and adds numerous budgeted positions for the following programs:

- ✓ **Continuum Care Reform (CCR)** – Provides $7.4 million and 59.0 budgeted positions, fully offset by State revenue, to implement the CCR and the Resource Family Approval (RFA) programs mandated by the State. The CCR program aims to ensure that all youth have the chance to live in a family environment, where their needs are met. The RFA program improves how caregivers of children in foster care are approved and prepared to parent vulnerable children.

- ✓ **Relative Support Services** – Reflects an increase of $17.2 million in appropriation and State and federal revenues to train and prepare relatives to become resource foster care placements for court-supervised and non-supervised children.

- ✓ **Foster Parent Recruitment, Retention, and Support (FPRRS)** – Allocates increased funding of $8.5 million for FPRRS as part of the Department's Foster Parent Recruitment efforts for emergency placement stipends, recruitment expos, respite care, caregiver support groups and training. This increase is fully offset with State revenue.

- **General Relief (GR) Caseload** – Reflects a $6.2 million reduction in the Department of Public Social Services’ Assistance budget unit due to a projected decline in the GR caseload.

- **California Work Opportunity and Responsibility to Kids (CalWORKs)** – Provides a $54.7 million increase in CalWORKs funding for the Department of Public Social Services, mostly offset with State and federal revenues. The increase is due primarily to the repeal of the Maximum Family Grant, which increased the average monthly cost per case, and increases in the Maximum Aid Payment.

- **Hospital Nursing Attendants** – Allocates an additional 153.0 budgeted positions to DHS, fully offset with reductions in overtime costs and contracted registry personnel to serve as “sitters” at medical-surgical areas at three of the department’s medical centers. Sitters are required for patients who need constant observation. These positions will facilitate a more stable workforce by using County employees instead of contract registry staff, who must be scheduled in short-term increments.

- **Mental Health** – Adds $9.8 million and 58.0 budgeted positions for the following programs:

  - ✓ **Immersion Strategy Resources** – Reflects an increase of $7.2 million in appropriation and 58.0 budgeted positions to enhance the implementation of the core practice model among children and youth involved in the child welfare system, and to expand intensive in-home and community-based services to identify and meet children's mental health needs.

- ✓ **New Direction Early Intervention and Diversion Program** – Provides an increase of $2.6 million in appropriation and related funding from the Probation Department for the expansion of contracted services targeted at reducing the number of youth entering the delinquency system by identifying, assessing, and providing intensive case management services to first-time offenders.

- **INVEST Program** – Reflects an increase of $5.0 million for this collaborative effort between the Probation Department and the Workforce Development, Aging and Community Services Department**,** which aims to establish effective employment solutions for the County's jail reentry population.

- **Affordable Housing** – Provides an additional $5.0 million of ongoing NCC funding for the development and preservation of affordable housing. This includes funding for support services such as rental assistance, rapid re-housing and move-in assistance.

- **The Women and Girls Initiative (WGI)** – Allocates funding for 4.0 budgeted positions and adds $1.1 million to the Chief Executive Officer's budget to establish the WGI Governing Council. During the next five years, the WGI Governing Council will work to alleviate disadvantages and burdens faced by women and girls.

- **Sheriff Oversight Commission** – Allocates $1.5 million in funding and adds 10.0 budgeted positions and 9.0 commissioners to this Board-created panel, which will serve as a permanent review board over the Sheriff's Department. This cost increase is partially offset by $0.8 million that had been previously set aside in the Provisional Financing Uses budget unit.

- **Juvenile Indigent Defense** – Reflects $4.2 million and 22.0 budgeted positions for the Alternate Public Defender to implement the countywide Juvenile Indigent Defense program to provide the highest quality legal representation to County youth within the juvenile justice systems.

- **Emergency Medical Services** – Adds $2.1 million and 10.0 budgeted positions to the Fire Department's budget to support patient care operations due to changes in patient care standards, an increase in incidents and geographical challenges in the County.

- **Enterprise Data Center** – Provides the Internal Services Department with $13.3 million to centrally fund the new County Data Center, which includes the Data Center facility, utilities, network and computing infrastructure, security and designated recovery sites. This new funding model will reduce costs to user departments for data center services.

- **Retirement Costs** – Earlier this year, the Los Angeles County Retirement Association (LACERA) lowered the rate of return assumption used for the valuation of pension plan assets from 7.50 percent to 7.25 percent along with changes, in the mortality assumptions used to value plan liabilities. These changes along with adjustments for prior-year investment performance, will result in increases in retirement contribution costs starting in 2017-18 and will continue for the next three years.

- **Budget and Fiscal Policies** – In accordance with County budget and fiscal policies, we are recommending that $1.1 million be added to the Appropriation for Contingencies, raising the amount to $28.5 million for 2017-18. This funding is set aside 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. In addition, FY 2017-18 marks the third year of our multi-year Board-approved plan to prefund retiree healthcare benefits.

CAPITAL PROJECTS/EXTRAORDINARY MAINTENANCE PROGRAMS

Capital Projects

The 2017-18 Recommended Capital Programs/Refurbishments Budget (CP Budget) appropriates $758.7 million for continued development, design, and construction of projects that address high-priority health, public safety, recreation and infrastructure needs. The CP Budget reflects an increase of $24.2 million from the 2016-17 Final Adopted Budget due to the funding of new projects in 2016-17, primarily the Consolidated Corrections and Treatment Facility Project (CCTF), offset by the completion of 30 projects, including the first phase of the Rancho Los Amigos National Rehabilitation Center Renovation Project, Quartz Hill Library Project, and the Camp Kilpatrick Replacement Camp Project.

Additionally, the CP Budget allocates $78.8 million for soil and groundwater investigation, monitoring and remediation projects at County-owned sites in the cities of Downey, Carson and portions of the unincorporated area. It appropriates $30.3 million dedicated to stormwater quality projects in the unincorporated areas of Los Angeles

County to capture and treat stormwater runoff to reduce contamination in the Santa Monica Bay and comply with regulatory agency requirements.

In addition to these environmental and public protection projects, the County continues to refurbish and construct new facilities to promote effective delivery of County services to the public. With the passage of Measure H and the approval of the WPC-LA, the development of facilities to serve the homeless and other vulnerable individuals is a key program priority. Similarly, based on the voters' approval of Measure A in November 2016, the construction and refurbishment of parks will likewise be a strategic priority.

Extraordinary Maintenance

The County continues to invest resources to eliminate its backlog of deferred maintenance to meet performance requirements and expectations for its facilities. The 2017-18 Recommended Budget dedicates $225.1 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.

In FY 2016-17, building condition assessments were completed for approximately half of the County's inventory of owned properties and an estimated $394.2 million of immediate deferred maintenance needs were identified and documented. The current estimate for replacing major building systems that have outlived their useful life is $4.2 billion. As the County continues to assess the remaining half (Sheriff and Health facilities) of the County's owned properties, we anticipate this estimate will increase. The need for additional funding for this program will remain a priority for the near future. Through the implementation of the Strategic Asset Management Plan, we are taking steps to extend the life of County assets, and to plan for a long-term funding stream that is aligned with future needs.

POTENTIAL STATE AND FEDERAL BUDGET IMPACTS

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

State Budget

On January 10, 2017, Governor Jerry Brown released his $179.5 billion FY 2017-18 Proposed Budget, which provides $122.5 billion in State General Fund expenditures, includes $2.5 billion in total reserves and projects a $7.9 billion Rainy Day Fund balance by June 2018.

The Administration indicated that State revenues are below the amounts forecasted in the FY 2016-17 State Budget Act and projected a budget shortfall of $1.5 billion in FY 2016-17 and $1.7 billion in FY 2017-18, with future deficits of $1.0 billion to $2.0 billion annually without corrective action. The Governor's Budget proposed $3.2 billion in corrective actions to close the State budget shortfall and to rebuild the State's operating reserve. The Governor's Budget also cited potential uncertainty in the State's Medi-Cal Program related to the potential repeal and replacement of the Affordable Care Act (ACA) and to cap or block grant federal Medicaid funding. The Governor indicated that because it was not clear what those changes would be, or when they would take effect, the budget plan continues to reflect existing federal and State law. However, the Administration reported that the complete repeal of the ACA, without a replacement program, would not only affect millions of Californians, but also disrupt the State's health care market.

Of significant impact to the County, the Governor's Budget proposes to end the Coordinated Care Initiative demonstration projects and the In-Home Supportive Services Maintenance of Effort (IHSS MOE) effective FY 2017-18 for a State General Fund savings of $626.2 million. This action will result in additional County costs of approximately $220.0 million effective July 1, 2017. These costs will increase to over $500.0 million by FY 2020-21, as the IHSS population grows and State-imposed actions become effective, including the statewide minimum wage increase to $15.00 per hour, paid sick leave benefits, restoration of IHSS service hours and overtime pay for IHSS providers. As directed by the Board, our office and the Sacramento advocates are working with stakeholders to strongly oppose the elimination of the IHSS MOE and to mitigate any negative impact to counties if it is ultimately eliminated.

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 16, 2017, President Trump released his "America First" budget blueprint, which outlines his federal Fiscal Year (FFY) 2018 discretionary spending plan, and a $30.0 billion FFY 2017 supplemental appropriations request for the Departments of Defense and Homeland Security. The President's FFY 2018 budget blueprint neither covers mandatory spending, such as Social Security, Medicare, and Medicaid, nor revenues. Instead, it presents only broadly described discretionary spending proposals for federal departments and major agencies without specifying proposed funding levels for individual programs and activities, as normally included in proposed budgets. His budget blueprint calls for a $54.0 billion increase in FFY 2018 discretionary defense spending that would be offset by a corresponding reduction of $54.0 billion in non-defense spending.

If the President's budget blueprint were to be enacted, the County would suffer a major reduction in federal funding since it proposes a 16.2 percent reduction for the Department of Health and Human Services and a 13.2 percent cut for the Department of Housing and Urban Development - the two departments through which the County receives most of its discretionary funding. It also would eliminate funding for a number of programs through which the County receives funding, including the Community Development Block Grant, HOME Investment Partnership Program, Community Services Block Grant, and the State Criminal Alien Assistance Program, among other important programs. However, the President has far less influence over the federal budget than the Governor has over the State budget as the President lacks line-item veto authority. Moreover, Republicans are eight votes short of the 60-vote Senate majority needed to pass appropriations legislation without support from Democrats, who would oppose major non-defense discretionary spending cuts.

President Trump is not expected to release his detailed proposed FFY 2018 Budget until May 2017, after Congress finalizes FFY 2017 appropriations. Federal programs and operations currently are temporarily funded under a Continuing Resolution through April 28, 2017.

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 maintained a long-standing adherence to conservative budget practices, which helped weather the Great 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. This ongoing struggle could be exacerbated by budget proposals by the State and federal governments.

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 the emergence from the Great Recession, we have increased our Rainy Day Fund each year. Over the last year, we supplemented the Rainy Day Fund by $44.2 million.

Looking forward, we recognize that many budgetary hurdles lie ahead that will require significant investment by the County. Most of these challenges require a multi-year funding approach that includes replenishing the County's Rainy Day Fund up to its prescribed level and further supplementing funding for the replacement of legacy information technology systems. Pension costs are expected to increase over the next six years, as local governments across the nation move to lower their rate of return assumption. In addition, we have forecasted a need of approximately $1.0 billion to fund deferred maintenance in County buildings and facilities. This does not include ongoing depreciation of facilities, nor does it account for the cost of replacing or conducting major refurbishment of buildings, as the facilities exceed their useful life.

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 18, 2017
Commence Public Budget Hearings	May 17, 2017
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion	June 26, 2017

Prior to deliberations on the FY 2017-18 Adopted Budget, we will file reports on:

- May revisions to the Governor's Budget and updates on other 2017-18 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.

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 2017-18; order the publication of the necessary notices; and set May 17, 2017, as the date that public budget hearings will begin.

Respectfully submitted,

Sachi A. Hamai

SACHI A. HAMAI
Chief Executive Officer