



County of Los Angeles CHIEF EXECUTIVE OFFICE

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SACHI A. HAMAI
Chief Executive Officer

April 12, 2016

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Board of Supervisors
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First District

MARK RIDLEY-THOMAS
Second District

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Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

Dear Supervisors:

FISCAL YEAR 2016-17 RECOMMENDED COUNTY BUDGET (3-VOTES)

The Fiscal Year (FY) 2016-17 Recommended Budget marks the first step in our annual budget process and culminates with the Supplemental Budget scheduled for late September 2016. The Recommended Budget maintains a balance between service delivery and fiscal sustainability, while addressing the Board of Supervisors (Board's) programmatic priorities, including funding for homeless initiatives, wage enforcement, economic development, affordable housing, diversion and reentry, Proposition 47 programs, and employee cost of living adjustments.

The FY 2016-17 Recommended Budget total of \$28.5 billion reflects an increase of \$282 million in total requirements when compared to the FY 2015-16 Final Adopted Budget. General County funds, comprised of the General Fund and Hospital Enterprise Funds (\$22.2 billion), reflect a net increase of \$441 million. Special Districts/Special Funds reflect a decrease of \$159 million.

Fund	2015-16 Final Adopted Budget	2016-17 Recommended	Change	% Change
Total General County	\$21.729	\$22.170	\$0.441	2.0%
Special Districts/Special Funds	6.466	6.307	-\$0.159	-2.5%
Total Budget	\$28.195	\$28.477	\$0.282	1.0%
Budgeted Positions	108,093	108,309	216	0.2%

"To Enrich Lives Through Effective And Caring Service"

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Economic Outlook

The current economic outlook for the nation, California, and the County shows positive growth for the remainder of 2016 and into 2017. Growth in the labor market is strong, with experts asserting that the national economy is back to full employment levels and forecasting higher wages supported by market conditions. The housing market continues to improve as prices grow moderately and demand persists for single-family homes, as well as rental units. Consumer spending has demonstrated strong growth, which will bolster the local economy.

The economic outlook also faces some challenges. Instability in global markets and declining oil prices have resulted in uncertainties over manufacturing, exports, and the financial markets. We will continue to monitor economic indicators and analyze their implications throughout the budget process. We must remain mindful that the current expansion will eventually give way to another economic slowdown that will likely challenge our budget. Since World War II, economic expansions have averaged approximately five (5) years. The current economic expansion has already exceeded this average.

Our office, in consultation with the Assessor's office, is forecasting a 5.0 percent increase to the 2016 tax assessment roll. This forecast is preliminary, as the Assessor is scheduled to issue its official forecast in May 2016, and release the final roll in July 2016. Our office will continue to work with the Assessor's office to update our property tax projections accordingly. We are also forecasting a 4.0 percent increase in statewide sales tax growth.

Program Changes

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

- **Office of Homelessness** - Reflects \$0.7 million increase to the Chief Executive Officer's (CEO) budget to establish an Office of Homelessness. On February 9, 2016, the Board directed the CEO to establish such an office as part of the FY 2016-17 Recommended Budget to provide executive leadership for this important initiative. We have determined that this office would best be housed within the CEO. This office will oversee, coordinate, and ensure implementation of the 47 Homeless Initiative strategies approved by the Board, as well as act as the County's central point of contact and lead for coordinating with departments on all on-going efforts related to homelessness.

- **Homeless and Housing Programs** - Contains \$98.7 million in appropriation authority for the Homelessness and Housing budget unit, aside from the hundreds of millions of dollars being spent by the various County departments to provide services to the homeless. This budget serves as the central funding source for the Homeless Initiative. This includes \$21.6 million in new one-time funding financed by AB 109 revenues, which was approved by the Board on February 9, 2016, as part of the Homelessness Initiative strategies.
- **In-Home Supportive Services (IHSS) Program** – Increases funding for the IHSS program by \$37.0 million for the following changes:
 - ✓ **Maintenance of Effort (MOE)** – Reflects a \$14.9 million increase based upon State law that requires counties to adjust the MOE base amount by an annual 3.5 percent inflation factor.
 - ✓ **IHSS Wage Increase** – Provides an \$18.7 million increase to annualize the IHSS wage increase approved by the Board on June 16, 2015.
 - ✓ **IHSS Healthcare Benefits** – Allocates \$3.4 million in additional funding to support costs associated with healthcare benefits for IHSS workers.
- **General Relief (GR) Caseload** – Reflects a \$5.0 million reduction in the Department of Public Social Services' Assistance budget unit due to a projected decline in the GR caseload.
- **Sheriff's Department** – Allocates \$4.5 million in additional funding, and adds 21.0 budgeted positions for the following Sheriff priority programs:
 - ✓ **Human Trafficking Bureau** – Adds \$1.6 million and 6.0 budgeted positions to the Sheriff's Detective budget unit to help investigate and combat human trafficking and exploitation cases.
 - ✓ **Emergency Operations Bureau** – Reflects an increase of \$2.9 million in funding, and adds 15.0 budgeted positions to provide around-the-clock operational presence at the Sheriff's Department Operational Center (DOC). Although the Sheriff's DOC opened in August 2015, it remains the only major law enforcement DOC in the nation that does not have a 24-hour and 7-day operational presence.
- **Unincorporated Area Stormwater Program:** Sets aside \$7.4 million in the Provisional Financing Uses (PFU) budget unit to help comply with the 2012 adopted National Pollutant Discharge Elimination System (NPDES) permit in the unincorporated areas.

- **Fire-Lifeguards** – Restores \$2.0 million in funding that was curtailed from the Fire-Lifeguard budget during the Great Recession. This adjustment will restore funding for the rescue boat replacement program along with other operating costs that were curtailed.
- **Budget and Fiscal Policies** – In accordance with County budget and fiscal policies, we are recommending that \$10.4 million be added to the Appropriation for Contingencies to be used as a hedge against any unforeseen fiscal issues during the year, and \$5.0 million be added to the County Extraordinary Maintenance budget unit to help address deferred maintenance needs throughout the County. In addition, FY 2016-17 marks the second year of our multi-year Board-approved plan to prefund retiree healthcare benefits.

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

- **Health Services** – The FY 2016-17 Recommended Budget is fully funded with available resources and also reflects the use of \$84.4 million in fund balance to be transferred to the four hospital enterprise funds for ongoing health care costs. Below are some important changes to the Health Services' Budget.
 - ✓ Provides a \$7.2 million increase for Housing for Health activities to help address the issues of homelessness, primarily in areas such as rapid rehousing, case management services, and employment services;
 - ✓ Allocates an additional \$2.1 million in related funding to establish additional primary care medical homes; and
 - ✓ Reflects an increase of \$0.9 million to establish leadership positions to oversee the implementation of the Integrated Correctional Health Services Plan.
- **Office of Diversion and Re-Entry (ODR)** – On August 11, 2015, the Board created ODR and directed the CEO to finance diversion and re-entry (DR) activities with a combination of one-time and ongoing funding sources. The Department of Health Services was charged with providing oversight and coordination of all countywide DR activities for persons who have mental illness or substance use issues, and persons who are homeless or at risk of being homeless upon discharge from incarceration. ODR supports the redirection of persons in need of physical, mental and public health services from the criminal justice system to appropriate care and treatment in lieu of incarceration. A separate General Fund budget unit was created to account for DR funds, which will be provided to various County departments for approved diversion activities. The DR Recommended Budget reflects the following:

- ✓ Provides \$10.7 million increase in new appropriation and revenue funded by ongoing Public Safety Realignment (AB 109);
 - ✓ Allocates program funding of \$9.1 million for ODR staffing costs; to open a Sobering Center, including space, staffing and overhead costs; and for contracted housing, including interim housing, rental subsidies and move-in assistance costs; and
 - ✓ Earmarks \$1.4 million in first-year funding as part of a multi-year plan to provide Crisis Intervention Training to Sheriff's Department to improve tactics when dealing with the mentally ill and reduce the use of force.
- **Mental Health Services Act (MHSA)** – Reflects the addition of \$141.7 million in appropriation that is completely offset with MHSA funding, and 40.0 budgeted positions for continued implementation of MHSA plans approved by the Board on October 20, 2015 and January 6, 2016.
 - **Children and Family Services** – Provides \$11.8 million in funding and adds 40.0 budgeted positions for the following programs:
 - ✓ **Child Welfare Services** – Adds \$4.5 million in appropriation, and 40.0 budgeted positions that are completely offset with State and federal revenues. This includes 33.0 positions to primarily support the County's effort to combat the commercial and sexual exploitation of children. We are also recommending 7.0 positions for critically needed administrative support (\$1.0 million), and adding 273.0 ordinance only positions to provide the department with flexibility in hiring additional social workers throughout the fiscal year.
 - ✓ **Parent-in-Partnership (PIP) Program** – Provides an increase in appropriation and revenue of \$1.3 million for the PIP program. Parent engagement through the PIP program is an important component of family reunification goals of the department.
 - ✓ **High-Risk Youth Services** – Provides an increase in appropriation and revenue of \$1.0 million to improve child safety and placement opportunities for youth with severe behavioral issues.
 - ✓ **Childcare Program** – Reflects a \$4.0 million increase in appropriation and revenue based upon an increased allocation of funding from the State. This program funds childcare services for children who are with their parents/relatives or are in first-time placements with non-related caregivers (foster parents) in order to ensure the child's safety and to assist in avoiding out-of-home placements.

CAPITAL PROJECTS/EXTRAORDINARY MAINTENANCE PROGRAMS

Capital Projects

The FY 2016-17 Recommended Capital Projects/Refurbishments budget appropriates \$695.9 million for continued development, design, and construction of projects that address high-priority health, public safety, recreation, and infrastructure needs.

The FY 2016-17 Recommended Budget for Capital Projects/Refurbishments reflects a decrease of \$66.3 million from the FY 2015-16 Final Adopted Budget, due to the completion of 30 projects in FY 2015-16. In addition, several bond-financed projects, which are not accounted for in the Capital Projects/Refurbishments Budget once bonds have been issued, were also completed, including the Zev Yaroslavsky Family Support Center Project.

The 2016-17 Recommended Budget allocates \$78.4 million for soil and groundwater investigation, monitoring, and remediation projects at County-owned sites in the cities of Downey, Carson, and portions the unincorporated area.

The 2016-17 Recommended Budget appropriates \$148.0 million to address custody and law enforcement facility improvements throughout the County, including \$5.1 million for the Men's Central Jail replacement planning effort and \$118.2 million for the Mira Loma Detention Center refurbishment.

In addition to these environmental and public protection projects, the County continues to refurbish and construct new libraries, parks, and beach facilities, as well as address its own governmental needs through the construction of new facilities.

Extraordinary Maintenance

The County continues to invest in deferred maintenance to meet performance requirements and expectations for its facilities. The FY 2016-17 Recommended Budget earmarks \$191.7 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, the second phase of building condition assessments of County-owned and/or County-maintained facilities will continue with the development of prioritized capital plans to address deferred maintenance. It is anticipated that the condition of approximately 12.6 million square feet of buildings will be assessed during the fiscal year.

POTENTIAL STATE AND FEDERAL BUDGET IMPACTS

Since 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 to the County budget.

State Budget

On January 7, 2016, Governor Jerry Brown released his \$170.7 billion FY 2016-17 Proposed Budget, which provides \$122.6 billion in State General Fund expenditures, includes \$3.2 billion in total reserves, and projects a \$8.0 billion Rainy Day Fund balance by June 2017. The Administration reports that State revenues are expected to increase by \$3.7 billion in FY 2015-16 and \$2.2 billion in FY 2016-17 above the amounts projected in the FY 2015-16 State Budget Act.

Governor Brown indicated that a strengthening State economy continues to push revenues higher, but he cautioned that maintaining a balanced budget for the long-term will be an ongoing challenge requiring fiscal restraint and prudence. The Governor also noted that since the year 2000, short periods of balanced State Budgets have been followed by massive budget shortfalls. The Governor also reported that the State still has billions of dollars in existing liabilities for deferred maintenance projects, infrastructure needs, and for State retiree healthcare benefits, which must be addressed.

The Governor's proposed budget contains no reductions to County-administered programs. The proposed budget reflects an increase in the base allocation for the AB 109/2011 Public Safety Realignment from \$1.1 billion to \$1.2 billion, and it provides an additional \$169.9 million in FY 2016-17 and FY 2017-18 for counties to determine Medi-Cal eligibility. The Governor also proposes \$36.0 billion over the next decade to maintain highways and roads, expand public transit, and improve critical trade routes with funding split evenly between State and local transportation priorities. The Department of Public Works reports that in FY 2016-17, the transportation funding package would provide the County with approximately \$34.0 million in additional revenue that will soften the impact of the recent decline in gas tax revenues. Thereafter, the County would receive approximately \$100.0 million in additional annual funding to address the immediate backlog of maintenance, repair, and rehabilitation needs of the County's streets and highways and to sustain good repair practices in future years.

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

The overall federal budget outlook for the County in FY 2016-17 is positive. The current 114th Congress has not enacted, and is unlikely to enact, legislation that would significantly reduce the County's federal revenue in FY 2016-17. The County receives most of its federal revenue through mandatory spending programs, such as Medicaid and Title IV-E Foster Care and Adoption Assistance, for which continued funding does not require the enactment of federal legislation. This means that most of the County's federal revenue will remain safe, especially this year when divided government, deep partisan differences, and a short legislative calendar should result in the enactment of relatively few federal bills.

The risk of any significant reduction in the County's remaining federal revenue that is received through appropriated discretionary programs also is low. The Bipartisan Budget Act of 2015, which was enacted in November 2015, increased the non-defense discretionary spending cap by a total of \$40 billion in Federal Fiscal Years (FFY) 2016 and 2017, thereby increasing the total pool of funds available for funding discretionary programs through which the County receives funding. Moreover, in recent years, Congress has funded the vast majority of discretionary programs, which the County receives funding at or near their prior year levels.

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.

The County has taken steps to address some of its long-term budget issues over the last year. The Board approved a multi-year plan to prefund retiree healthcare benefits, supplemented the County's Rainy Day by \$81.4 million, and added \$20.0 million to a reserve to address information technology capital planning. Looking forward, we recognize that many budgetary hurdles lie ahead and 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. 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 these 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 12, 2016
Commence Public Budget Hearings	May 11, 2016
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion	June 27, 2016

Prior to deliberations on the FY 2016-17 Adopted Budget, we will file reports on:

- May revisions to the Governor's Budget and updates on other 2016-17 State and federal budget legislation and the impact on the County's Recommended Budget;
- Final revisions reflecting the latest estimates of requirements and available funds;
- Issues raised in public hearings or written testimony;
- Specific matters with potential fiscal impact; and
- Issues as instructed by the Board.

APPROVAL OF RECOMMENDED BUDGET

The matter before the Board is the adoption of the Recommended Budget.

- The documents must be available for consideration by the public at least 10 days prior to the commencement of public budget hearings.
- Adjustments to the budget, including revisions to reflect the Board's funding priorities and State and federal budget actions, can be made during budget deliberations, prior to adoption of the Budget.

- Pursuant to State law (the County Budget Act), the Board may make changes to the Recommended Budget with a simple majority (3 votes) until adoption of the Budget, if changes are based on the permanent record developed during public hearings (e.g., Recommended Budget, budget requests and all written and oral input by Supervisors, County staff and the public).
- Changes not based on the “permanent record” require 4/5 vote.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

Order such revisions, additions, and changes to the Chief Executive Officer’s budget recommendations as deemed necessary, and approve the revised figures as the Recommended Budget for 2016-17; order the publication of the necessary notices; and set May 11, 2016, as the date that public budget hearings will begin.

Respectfully submitted,


SACHI A. HAMAI
Chief Executive Officer