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

WILLIAM T FUJIOKA
Chief Executive Officer

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES
#56 of SEPTEMBER 30, 2014
Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

September 30, 2014

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

Dear Supervisors:

RECOMMENDED REVISIONS TO BOARD POLICY 4.030
BUDGET POLICIES AND PRIORITIES
(ALL DISTRICTS) (3-VOTES)

SUBJECT

Recommendation to approve revisions to Board Policy 4.030 "Budget Policies and Priorities" to strengthen reserves, address major unfunded liabilities, and set aside funding for various budget priorities.

IT IS RECOMMENDED THAT THE BOARD:

1. Adopt the attached revised fiscal policy.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On a motion by Supervisor Knabe, as amended on August 12, 2014 by Supervisors Molina, Ridley-Thomas and Antonovich, the Board instructed the Chief Executive Officer in conjunction with the Auditor-Controller, Treasurer and Tax Collector, and County Counsel to review the existing Fiscal Policies and report back during the Supplemental Budget with the necessary recommendations to enact the policy amendments as specified by the motion. In addition, the Board instructed the Executive Director of the Community Development Commission, in collaboration with the Chief Executive Officer and the Directors of the Departments of Regional Planning and Public Works to:

1. Immediately seek any necessary consulting resources in order to develop an Implementation Plan for an Economic and Community Development Program;

2. Report back, in writing, to the Board, before the Board's consideration of the Fiscal Year 2014-15 Supplemental Budget, a status update on the Implementation Plan and recommendations on the next steps, referencing and/or incorporating the recommendations on the proposed additional Fiscal Policies regarding set-aside and use of future Community Redevelopment Agency asset sale proceeds and residual revenue; and

3. Report back on fee holidays to help small businesses cope with burdensome fees and regulations.

The County's strong financial management, strong financial policies, and strong budget performance has been consistently recognized by credit rating agencies. This recognition resulted in the County's long and short-term credit rating being upgraded. These factors, along with the Board's long-standing commitment to conservative budget practices, helped the County weather the severe budget shortfalls from the Great Recession without layoffs, furloughs or major service reductions.

As the County moves forward and continues to recover from the effects of the recession, it is important to update and strengthen its fiscal policies to better position itself to handle future economic challenges and uncertainties. The proposed policy revisions will allow the County to continue to keep abreast of changing financial conditions and adequately prepare for large future expenditures. In addition, the revised policies will provide greater budget stability by establishing prudent reserves, minimizing future financial risks and volatility in service delivery, and identifying and appropriately planning for large expenditures in advance of committing funds.

Our office met with the departmentments of the Auditor-Controller, Treasurer and Tax Collector, and County Counsel to review the existing Fiscal Policies. The proposed policy revisions are based on feedback and concurrence by all departments.

Our office also met with representatives from the Community Development Commission (CDC), the Department of Regional Planning, and the Department of Public Works to discuss the development of an Implementation Plan for an Economic and Community Development Program (Implementation Plan). On September 18, 2014, the CDC provided the Board with a memorandum stating the CDC's recommendation to contract with Estolano LeSar Perez Advisors (ELP) to develop an Implementation Plan including a review of a fee holiday. CDC has worked with ELP to create a scope of work and intends to submit a contract with ELP for the Board's consideration at the October 7, 2014 meeting.

Implementation of Strategic Plan Goals

The Countywide Strategic Plan of Operational Effectiveness/Fiscal Sustainability (Goal 1) directs that we maximize the effectiveness of processes, structure, operations, and strong fiscal management to support timely delivery of customer-oriented and efficient public services. Adoption of the proposed policy revisions advances this goal by establishing a stronger fiscal foundation and enabling the County to be better equipped to handle economic challenges with minimal impact to critical services.

FISCAL IMPACT/FINANCING

Approval of the revised policies will allow the County to continue its conservative budget practices by providing for the strengthening of reserves, addressing major unfunded liabilities, and setting aside funding for various budget priorities.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

As County Counsel advised the Board when this matter was last discussed on August 12, 2014, a simple majority of the Board could adopt the proposed revised fiscal policies, even the policy requiring a super-majority (four-fifths vote) to approve certain actions. However, County Counsel further advised that a simple majority of your Board could also suspend, waive, or repeal the policy calling for a super-majority vote.

This advice is based upon a formal California Attorney General opinion, which addressed this very issue following a request for a legal opinion from the County of Mono. After reviewing applicable legal precedent, the Attorney General concluded that while a board of supervisors may adopt a rule that mandates a four-fifths vote of the board to act regarding specified matters which otherwise would require only a majority vote for adoption, such a rule may itself be amended or repealed by a majority vote of the board. The Attorney General reasoned that a majority does not have the power to make a rule which cannot be modified or repealed by a majority. The Attorney General concluded that if a majority of an official body has the authority in the first instance to pass a rule, a majority has the authority to annul or repeal the same rule, even a rule which provides that no rule can be repealed or amended without a super-majority vote. The Attorney General also noted that no meeting of a legislative body can bind a subsequent one by irrepealable acts or rules of procedure. 66 Cal.Ops.Atty.Gen. 336, 338-339 (1983).

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Approval of the recommended actions will have no impact or current services or projects.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer

WTF:SHK:SK
MM:GS:yjf

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Treasurer and Tax Collector

4.030 Budget Policies and Priorities

Policy #:	Title:	Effective Date:
4.030	**Budget Policies and Priorities**	**12/17/96**

PURPOSE

Fosters fiscal prudence and long-term strategic fiscal planning by establishing policies and priorities that will assist departments in preparing their budget requests, provides direction to the Chief Executive Officer in developing the Recommended ~~Proposed~~ Budget and provides a context to help guide Board decision-making consistent with deliberations on the Final Budget.

REFERENCE

December 17, 1996 Board Order, Synopsis 67

September 21, 2004, Board Order 13

January 27, 2009, Board Order 15

February 3, 1998 Board Motion

June 20, 2011, Board Motion

May 15, 2012, Board Order 20

June 24, 2013 Board Order 3

September 30, 2014 Board Order XX

POLICY

The initial policy has been amended and augmented with additional polices which are consistent with the general budget policy direction indicated by recent Board actions and discussions.

Budget Policies:

1. In developing recommendations that may require operational reductions, departments should ensure that administrative and non-service areas have been reduced to the maximum extent possible. In general, any service reduction, which may be necessary, should include commensurate reductions in administrative functions, such as management/supervisory, payroll, or other support staff. Reductions should include an overall review of management structure with the objective of reducing layers of management. Further, reductions should focus on positions most recently added and/or programs most recently augmented.

2. Focus reductions in programs which are discretionary or where the service level is discretionary.

3. Ongoing costs should be funded with ongoing revenues. Aligning continuing expenditures with continuing revenues, on a level that can be reasonably sustained, will foster stability, predictability, and long-range planning, while avoiding volatility in service levels. Before expanding services, use new, ongoing revenues to meet current obligations and reduce reliance on one-time funding. New programs should not be proposed without identification of (a) specific and continuous funding source(s).

4. The budget should be based on realistic revenue estimates. Future costs should only be budgeted if there is a high probability that the funds will be available to support them. Reliance on new revenues from anticipated growth or revenues contingent upon passage of legislation, unless reasonably assured, can place the budget at risk and raise false expectations.

5. Mandated programs should normally be implemented at the level of funding provided by the State or federal government; continuing to provide supplemental local funding for unfunded or under-funded State/federal mandates allows other levels of government to escape responsibility for providing adequate funding for mandates they place on the County. Similarly, to the extent that public health and safety are not jeopardized, County overmatches should be reduced or eliminated.

6. All new requests for program funding should be accompanied with clear and concise statements of the program's mission, objectives, and intended measurable outcomes; managers will be evaluated, in part, on achievement of outcomes.

7. Unless there is a clear compelling reason for a particular service to be provided by County employees, the choice of a service provider should be based on which entity can provide the service most effectively at lowest cost, whether it be the County, a non-profit organization, a private business, or another jurisdiction.

8. The feasibility and legality of imposing fees or other charges should be evaluated for any service provided by the County where full cost recovery is not currently achieved, particularly services which benefit other jurisdictions.

9. A Reserve for Rainy Day Funds should be maintained to protect essential County programs against unforeseen emergencies and economic downturns. The Reserve cap should be 10% of on-going locally generated revenue. Transfers, at a minimum of ten percent (10%) of excess fund balance, less Board approved carryovers, shall be set aside in the Rainy Day Fund and/or the Other Post Employment Benefits (OPEB) trust fund each year until the 10% cap is met. Excess fund balance is defined as the difference between the actual year-end fund balance amount as determined by the Auditor-Controller, less the estimated fund balance amount included in the Adopted Budget. Board approved carryover is defined as unspent funding that was previously approved by the Board for critical programs and/or uncompleted projects.

   When the reserve cap of 10% is reached, the annual 10% of excess fund balance amount should be deposited into the OPEB trust fund to be made available for unfunded retiree health obligations. The objective is to avoid on-going commitments with funding that may not be sustainable in an economic downturn.

10. A percentage (5% - 10%) of new ongoing discretionary revenues should be set aside annually, during the budget process, in Appropriation for Contingencies, as a hedge against any unforeseen fiscal issues during the year. At year end, these funds will be transferred to reserves or used to buy down the Retiree Health Unfunded Liability.

~~10.~~11. Additionally, a fixed one-time amount (minimum $5.0 million) should be set aside annually, during the budget process, to address deferred maintenance and/or an on-going amount in the Recommended Budget phase, if on-going funding allows.

12. Budget decisions should be considered within the context of revenue and expenses projected beyond a single fiscal year. A long-range forecast should be developed and maintained to reflect continuing programs, anticipated new initiatives, revenue changes, cost increases, potential problem issues and other

factors that may impact strategy for maintaining a balanced budget over several years.

~~11.~~13. The status of expenses and revenue for each department should be closely and thoroughly monitored, with reports provided to the Board on a regular basis. Department Heads should be responsible for tracking deviations from planned revenue receipts and expenses, and for recommending adjustments as needed to end fiscal year in balance.

~~12.~~14. The County should phase in funding of unfunded liabilities. The County currently budgets a number of unfunded incurred liabilities, such as Workers' Compensation, on a pay-as-you-go basis, instead of funding reserves to cover future payments. Failure to address unfunded liabilities is a form of deficit spending, which if left unchecked, will eventually consume larger and larger portions of the annual budget. Accepted actuarial and accounting practices require that reserves be established so that future payouts of today's costs do not impact future operating budgets. To address the major unfunded actuarial liabilities of the County, a structured multi-year plan based on an incrementally increased on-going annual funding should be developed and implemented. These costs will be incorporated into the County's long-range forecast.

~~13.~~15. The County provides Health Care and Dependent Care Spending Account benefits that help participating employees save money by using pre-tax dollars to pay for certain eligible expenses. Under applicable federal tax rules, plan participants must forfeit any money that is not spent on unreimbursed, eligible expenses during the plan year. Forfeited spending account funds should be used as follows: a) Forfeited employees' Dependent Care Spending Account monies shall not revert to the General Fund at the end of the year. The monies should be equally divided amongst County-operated child care centers for facility and/or program enhancements. The County's child care coordinator should work with the operator and advisory committee of each site to develop a plan to utilize the funds; and b) Forfeited employee Health Care Spending Account monies, as determined by the Department of Human Resources, shall be transferred to the Reserve for Rainy Day Funds each fiscal year on an annual basis.

16. The Los Angeles County Employee Retirement Association (LACERA) administers the County's Retiree Healthcare Program on behalf of the County and maintains a prudent premium reserve to offset expected premium increases among other things. Should the amount of premium reserve exceed the prudent reserve level established by LACERA, the County will direct LACERA to transfer the County's share of the excess premium reserves to the Other Post Employee Benefits (OPEB) trust fund. The OPEB trust fund serves as the vehicle to pre-

fund retiree health care benefits and reduce the County's financial burden. The County shall review the premium reserve funding level on an annual basis and communicate their request to LACERA accordingly.

17. The 2011-12 State Budget Act included ABx1 26 ("the Redevelopment Dissolution Act") prohibiting redevelopment agencies from engaging in new business and providing for their wind down and dissolution. Beginning in FY 2011-12 property tax increment formerly diverted to redevelopment agencies is deposited into the Redevelopment Property Tax Trust Fund to pay enforceable obligations, pass through payments, and administrative costs. Remaining funds are distributed to affected taxing entities as "residual" property tax revenue. In addition to residual property tax revenue, the County will receive funds from the disposition of redevelopment agencies' fixed assets. Residual property tax revenue and revenue received from the disposition of redevelopment agencies' fixed assets should be used as follows:

    Beginning in FY 2014-15, use all revenue received from Redevelopment Asset sales to provide funding for General Fund Capital Projects and Deferred Maintenance, Low to Moderate Income Housing, and/ or economic development.

    Beginning in FY 2016-17, set aside 50% of Residual Property Tax incremental growth for General Fund Capital Expenditures including Debt Service requirements. Residual Property Tax incremental growth is defined as increases in Residual Property Tax the General Fund is projected to receive above the FY 2015-16 budgeted levels. Debt service amounts shall not exceed the Board's debt management guidelines as outlined in Board policy 4.040.

18. Require a four/fifths vote of the Board of Supervisors, on the following:

    Any revisions to the Board's "Budget and Fiscal Policies."

    Labor Agreements impacting salaries and employee benefits cost increases.

19. Unless directed by the Board, exempt Board-adopted changes to these policies from Audit Committee review and remove all sunset dates and sunset review dates associated with this policy.

* * * * * * * * * * * * * * * * * * *

Budget Priorities:

1. Public Safety and Justice (includes all law enforcement, justice, and public related operations)

2. Public Health and Welfare/Prevention (includes all health, welfare, and social service operations)

3. Direct Public Services (includes all recreational, cultural, consumer protection, and many regulatory operations)

4. Internal and Support Services (includes all central staff and support operations)

RESPONSIBLE DEPARTMENT

Chief Executive Office

DATE ISSUED/SUNSET DATE

Issue Date: December 17, 1996
Sunset Review Date: December 17, 2003

Re-issue Date: September 21, 2004
Sunset Review Date: December 17, 2008

Review Date: December 18, 2008
Sunset Review Date: December 17, 2012

Re-issue Date: January 27, 2009
Sunset Review Date: December 17, 2012

Review Date: May 21, 2009
Sunset Review Date: December 17, 2012

Review Date: October 25, 2012
Sunset Review Date: December 17, 2016

Review Date: March 19, 2014
~~Sunset Review Date: December 17, 2014~~