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Chief Executive Officer



April 20, 2021

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 2021-22 RECOMMENDED COUNTY BUDGET**
**(3-VOTES)**

Like the rest of the nation, Los Angeles County has recently passed the one-year mark in its response to the unprecedented COVID-19 public health emergency and ensuing economic crisis. The Fiscal Year (FY) 2021-22 Recommended Budget is a multi-faceted, transitional spending plan that balances the need to equitably address our current critical needs while maintaining our ability to focus on our fundamental regional safety net responsibilities.

Even at this initial stage in the annual budget process, this recommended spending blueprint recognizes and addresses some of Los Angeles County's most urgent priorities, including advancing racial equity and justice system reform; setting aside a year-one down payment of $100 million to fund direct community investments and alternatives to incarceration (ATI) under Measure J; supporting those disproportionately affected by the COVID-19 pandemic; investing in affordable housing; and continuing our ongoing commitment to fighting homelessness.

This $36.2 billion Recommended Budget is built on a leaner baseline established during an earlier phase of the COVID-19-related economic decline in 2020. At that time, proactive and fiscally prudent measures—including a freeze on non-essential hiring and $369 million in NCC departmental curtailments—enabled the County to avert layoffs while providing extensive safety net services during the pandemic to residents, businesses, and communities in need.

The Recommended Budget reflects a relatively large decrease of $2.1 billion when compared to the FY 2020-21 Final Adopted Budget. That is due in part to the County's extensive use of one-time funding—including $1.22 billion in Coronavirus Aid, Relief, and Economic Security (CARES) Act Coronavirus Relief Fund (CRF) allocations—to meet pandemic-related public needs in 2020 and 2021.

This Recommended Budget does not reflect allocations from, or descriptions of programs that will likely be funded with, the latest round of stimulus funding—an estimated $950 million (out of $1.9 billion) expected to be provided to the County in May 2021 as part of the American Rescue Plan (ARP) signed by President Biden on March 11, 2021. We are working with your Board to develop an effective, equity-focused spending plan for these resources. ARP funding presents an opportunity for the County to sustain its response to the COVID-19 emergency; support regional economic recovery efforts; address drivers and manifestations of systemic inequity to help make the County better than before the pandemic; and rebuild County resources depleted by extensive COVID-19-related revenue losses to strengthen our capacity to meet the needs of those who rely on us and whatever new challenges may lie ahead.

This memorandum highlights major or notable recommended program changes, particularly those funded with locally generated revenue. The vast majority of funds allocated in this $36.2 billion Recommended Budget are dedicated to sustaining County operations and delivery of services, including funding our extensive COVID-19 response, which we expect to augment with ARP funding in the months ahead. Department-by-department details of all budget allocations can be found in the Recommended Budget books posted online at https://ceo.lacounty.gov/budget/. Our largest budget category (33 percent or $12 billion) continues to be health, followed by public assistance (26 percent or $9.3 billion), public safety (25 percent or $9.1 billion), with the rest going to culture, recreation, and other costs.

While the County continues to face budgetary challenges from the pandemic, reasons for optimism are starting to emerge including the development and rollout of vaccines and the arrival of ARP funds. Since its low point in April 2020, the economy has charted a slow yet steady path toward recovery. Recent reports by economists and our consultants forecast that economic recovery will speed up later this year. We remain cognizant of the need to ensure economic recovery is equitable in the County, which has been your Board's priority and is reflected in the County's COVID-19 response efforts.

As the economy improves, we are projecting increased revenues for FY 2021-22. We have already started to see major revenue streams coming in higher than projected, albeit they remain below pre-pandemic collection levels. Given the foregoing, and notwithstanding, the County faces in this budget phase a $50 million budget gap to meet its obligations and priorities in several key areas, as outlined below.

**BUDGET OVERVIEW**

As displayed below, the FY 2021-22 Recommended Budget total of $36.2 billion reflects a decrease of $2.1 billion in total financing uses when compared to the FY 2020-21 Final Adopted Budget. The Total General County Fund group, comprised of the General Fund and Hospital Enterprise Funds, reflect a decrease of $1.2 billion. Special Districts/Special Funds reflect a decrease of $875.8 million. The total number of budgeted positions will increase by 304, bringing the total number of budgeted positions to 110,499.

| Fund Group ($ in Billions) | 2020-21 Final Adopted Budget | 2021-22 Recommended | Change | % Change |
|---|---|---|---|---|
| Total General County | $29.272 | $28.098 | ($1.174) | -4.0% |
| Special Districts/ Special Funds | 8.962 | 8.086 | (0.876) | -9.8% |
| **Total Budget** | $38.234 | $36.184 | ($2.050)* | -5.4% |
| Budgeted Positions | 110,195 | 110,499 | 304** | 0.3% |

*This decrease is primarily due to reductions in fund balances across all fund groups and the reversal of one-time revenues and grants, including but not limited to the reversal of approximately $1.22 billion in CARES Act CRF allocation.

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

**BUDGET GAP: ISSUES AND SOLUTION**

While we are recommending an increase of $399.8 million in revenues due to improving economic conditions, we are also projecting a $449.8 million increase in appropriation for unavoidable costs increases and essential programs.

These cost increases result in a net County cost (NCC) budget gap of $50 million. NCC is the portion of our budget (i.e., portion of our costs) financed with the County's locally generated revenue. Below are the major components of the 2021-22 NCC Budget Gap in chart form, followed by a brief description of each component:

**<u>2021-22 NCC Budget Gap</u>**

| | | | |
|---|---|---|---|
| Revenue Changes | $ | 399.8 | million |
| Unavoidable Cost Increases | | (245.1) | million |
| Measure J Year 1 Funding | | (100.0) | million |
| Program Changes | | (47.7) | million |
| Assistance Caseload Changes | | (57.0) | million |
| **Total Budget Gap** | $ | (50.0) | million |

***2021-22 NCC Budget Gap Solution***

We recommend closing the budget gap through the use of one-time funding in this budget phase rather than recommend curtailments. By the time any curtailments could be implemented, the County will have received funding from the ARP, and will likely see increased revenue consistent with applicable forecasts and projections. Since it appears that we have weathered the worst of the economic crisis and the economy is growing, we believe that it is fiscally responsible to utilize this one-time funding source to help bridge the gap.

***Revenue Changes***

As the economy continues to recover, we are forecasting increases in a variety of locally generated revenues along with increases in statewide sales tax revenues. These increases help to close our budget gap and could fully close the gap once a sustained economic recovery takes hold.

After consultation with the Assessor, we are forecasting a 3.6 percent increase to the 2021 tax assessment roll, which results in a $207 million increase in revenue. The $207 million increase in revenue is a decline from pre-COVID-19 projections primarily related to a lower than anticipated Consumer Price Index and declines in the assessed valuation of commercial properties such as offices, hotels, and retail spaces due to business closures as a result of the COVID-19 pandemic. This forecast is preliminary, as the Assessor is scheduled to issue its official forecast in May 2021 and release the final roll in July 2021. We will continue to work with the Assessor to update assessed value projections.

We have worked with our consultants and are projecting a $135.5 million increase in Proposition 172 Public Safety sales tax. This increase in statewide sales tax collections is due primarily to a projected rise in consumer spending and pent up demand as the various sectors of the economy reopen. Additionally, the County's sales tax revenues have benefitted from the State's recent implementation of Assembly Bill (AB) 147, the Marketplace Facilitator Act. This legislation now requires out-of-state retailers and marketplace facilitators to collect and remit California's sales and use taxes on sales of tangible personal property into the State. This tax change and the consumer shift to online shopping during the pandemic has boosted these sales tax revenues. For these reasons, we are also projecting a net increase of $34.7 million in 1991 Realignment sales tax revenues. We will continue to monitor these revenue sources along with property tax revenues and will update our projections throughout the budget process.

***Unavoidable Cost Increases***

The primary drivers of unavoidable cost increases are employee benefits and Board-approved salary increases for cost of living and sustainability bonuses provided in FY 2020-21. In addition, the County's retirement contribution rates will increase by nine percent primarily due to lower than anticipated returns realized by the Los Angeles County Employees Retirement Association (LACERA) in FY 2019-20, as well as the phase-in of revised economic assumptions. LACERA investment returns were less than expected, due in part to the COVID-19-related stock market decline, which increased the unfunded actuarial accrued liability to $18.5 billion as of June 30, 2020. Additionally, increases in health insurance premiums for County employees and the potential restoration of the deferred compensation match are also included in these cost increases.

***Measure J – Community Investment and ATI***

Last year, County voters approved Measure J which requires that, by 2024, no less than ten percent of the County's locally generated unrestricted revenues in the General Fund be allocated to address the impact of racial injustice within our criminal justice systems. The measure also prohibits using these funds for carceral systems and law enforcement agencies. The ten percent allocation is to be implemented over three years, with the full set-aside in effect by June 30, 2024. Measure J does not require a specific amount be set aside during the three-year build up so long as the full set-aside is reached by June 30, 2024. We do not know today what the full amount of the set-aside will be in 2024, because we don't know what our revenues will be in future budget years. We can only provide estimated projections based on what the revenues are today.

The Recommended Budget sets aside $100 million in the Provisional Financing Uses (PFU) budget unit as first-year funding for Measure J while we continue to build up the full set-aside amount by June 2024—an amount which has not yet been determined.

The Measure J Advisory Panel is currently working on spending priorities and is scheduled to provide recommendations to the Chief Executive Office (CEO). The Panel's recommendations will lay the foundation upon which the CEO, in consultation with the ATI and Anti-Racism, Diversity, and Inclusion (ARDI) Initiatives, will make recommendations to the Board regarding first-year programming for Measure J.

Measure J requires that funds subject to the ten percent set-aside be dedicated to two major categories, "Direct Community Investments" and "Alternatives to Incarceration." The Direct Community Investments area consists of:

- Community-based youth development;
- Job training and jobs to low-income residents;
- Access to capital for small minority-owned businesses, with a focus on black-owned businesses;
- Rent assistance, housing vouchers, and accompanying supportive services to those at risk of losing their housing or those without stable housing; and
- Capital funding for transitional housing, affordable housing, supportive housing, and restorative care villages, with a priority for shovel-ready projects.

ATI investments to implement the Board's vision of "Care First, Jails Last" include:

- Community-based restorative justice programs;
- Pre-trial non-custody services and treatment;
- Community-based health services, health promotion, counseling, wellness and prevention programs, and mental health and substance use disorder services; and
- Non-custodial diversion and reentry programs, including housing and services.

***Program Changes***

Outlined below are some of the significant program changes that are recommended to be financed using NCC.

- **ATI**—Adds $2.1 million and 6 positions to the CEO to expand ATI efforts in vetting, planning, coordinating, and overseeing the implementation of the recommendations developed by the ATI workgroup.

- **ARDI**—Allocates $1.5 million and 4 positions to the CEO to maintain and expand the ARDI initiative to develop and implement a strategic plan to address systemic racism and bias in the County.

- **Affordable Housing**—Provides $25 million, comprised of $10 million in NCC and $15 million in one-time funding, to maintain a total of $100 million for the development and preservation of affordable housing. The funding will support affordable housing for very low and extremely low-income households or homeless individuals and/or families, as well as other support services such as eviction defense, mortgage relief, rapid re-housing, homeownership, and acquisition.

- **Cyber Security**—Adds $17.2 million, comprised of $5 million in NCC and $12.2 million in one-time funding, to protect and prevent threats to the County's information technology infrastructure and assets.

- **Voting Solutions for All People**—Sets aside $35 million in the PFU budget unit, comprised of $15.6 million in NCC and $19.4 million in one-time funding, for future election costs.

- **Department of Justice (DOJ) Settlement**—Sets aside $9.8 million in the PFU budget unit for the Departments of Probation (Probation), Mental Health (DMH), and Juvenile Court Health Services to improve the conditions and education services in the County's juvenile halls under the terms of the DOJ settlement.

- **Homeless Outreach Services Team**—Provides $2.3 million for the continuation of homeless outreach services provided by the Sheriff's Department (LASD) and its collaboration among other police agencies through the Los Angeles County Police Chiefs' Association.

- **Mental Evaluation Teams (MET)**—Provides $1.5 million to LASD for the continuation of multi-disciplinary MET teams to obviate or reduce the use of force and prevent or mitigate potentially violent encounters between law enforcement and people with mental illness by de-escalating interactions, providing evaluations, and transporting those persons directly to urgent care centers or psychiatric emergency rooms for acute care and treatment.

***Assistance Caseload Changes***

These changes reflect the County's share of costs for mandated public assistance and social services programs. This includes such things as direct payments to those receiving aid, payments to support children in out-of-home care, and in-home assistance programs.

- **Foster Care Assistance**—Provides $21 million to the Department of Children and Family Services (DCFS) primarily for projected caseload growth and placement rate increases. 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.

- **In-Home Supportive Services (IHSS) Program**—Adds $24.6 million to the Department of Public Social Services (DPSS) for the IHSS Maintenance of Effort increase based upon State law that requires counties to adjust this base amount by a four percent inflation factor in 2021-22.

- **General Relief (GR)**—Reflects an $11.5 million increase, made up of $8 million in NCC and $3.5 million in one-time funding, to DPSS primarily for projected caseload increases and a decrease in the estimated Interim Assistance Reimbursement collections. Consistent with the Board's directive, also reflects one-time funding to allow the Department to temporarily waive GR terminations for individual recipients who cannot be contacted for purposes of renewing their annual agreements and those who are determined employable and required to participate in the GR Opportunities for Work program.

## OTHER FUNDING RECOMMENDATIONS

In addition to the recommendations above, we also highlight below important program changes financed with one-time funds or a variety of outside revenue sources, primarily State and federal funding.

### ***Health Care and Mental Health***

- **Promotores de Salud Mental Health Program**—Adds $9.8 million and 300 positions to DMH, fully offset with Mental Health Services Act revenue, to expand its existing Promotores De Salud Mental Health outreach and education program, and to adapt the program to additional underserved cultural communities.

- **Mental Health Outreach and Triage**—Adds $29.9 million to DMH, fully offset with State funding, to augment crisis and intervention services due to an increase in referrals from the Department's crisis response, outreach, and engagement efforts.

- **Continuum of Care Reform (CCR)**—Adds $2.7 million and 20 positions to DMH for the continued implementation of CCR. This program aims to give young people in foster care a chance to live in a family environment. For those who cannot make the transition to family-based placement, the program strengthens existing group homes, where youth can receive short-term intensive treatment to help them make that transition.

***Public Health***

- **Substance Abuse Prevention and Control (SAPC)**—Adds $23.1 million and 3 positions to the Department of Public Health (DPH), fully offset with federal and State funding, to continue the transformation of SAPC into a specialty substance use disorder managed care plan.

- **Health Facilities Inspection Services**—Adds $19.1 million and 80 positions, fully offset with State funding, to continue the transition of the federal certification, State licensing, and investigation of complaints and reported incidents from the State to DPH.

***Health Services***

- **Specialty Health Care**—Reflects an increase of $11.9 million and 62 positions, partially offset with the deletion of vacant positions, to the Department of Health Services (DHS) to expand specialty care services, such as ophthalmology, gastrointestinal endoscopy, dermatology, and diagnostic echocardiogram services.

- **Cancer Navigation Program**—Adds $4 million and 36 positions, partially offset with the deletion of vacant positions, to DHS to establish the Cancer Navigation Program. This program aims to align with a standard of care, recognized by organizations such as the National Cancer Institute, to help patients understand their diseases, comply with recommended therapies, and assist with scheduled appointments, with the goal to improve outcomes and patient satisfaction.

- **Integrated Correctional Health Services (ICHS) Mental Health Services Expansion**—Reflects the addition of $10.1 million previously set aside in the PFU budget unit and 80 positions, partially offset with the deletion of vacant positions. This funding will support ICHS' compliance with the provisions of a DOJ settlement concerning mental health services and suicide prevention in the jails.

- **Workforce Management and Scheduling System**—Reflects an increase of $28.1 million and 35 positions, partially offset with the deletion of vacant positions, primarily for DHS to implement the new integrated acuity system that will enable the Department to provide consistent placement of clinical staff based on acuity needs and accurately track each placement, ensuring all patients receive appropriate and timely care across the Department's care continuum.

***Homelessness***

**Measure H - Homeless and Housing**—Allocates an additional $16.6 million, for a total budget of $426.7 million, to fund Measure H strategies focused on: a bed reservation application for interim housing beds; facilitating use of federal housing vouchers; increasing and sustaining interim/bridge housing beds and motel vouchers; and Permanent Supportive Housing service costs in new project-based vouchers.

***Jobs and Workforce Development***

- **Youth@Work Program**—Allocates $15.7 million in one-time funding to the Department of Workforce Development, Aging and Community Services (WDACS) for 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 into our future workforce.

- **National Dislocated Worker Grant COVID-19**—Allocates $2.2 million to WDACS, fully offset with revenue from the Employment Development Department (EDD), to provide temporary jobs to workers who lost jobs due to the pandemic

- **Temporary Megafire Cleanup Jobs**—Allocates $1.7 million to WDACS, fully offset with revenue from EDD, to provide temporary jobs to dislocated workers to assist the County in the clean-up and repairs caused by the 2018 megafire disasters.

- **Public Works**—Reflects an increase of $3.4 million and 32 positions to insource the operations and maintenance of the County airports, fully offset with rents and concessions revenues.

***Children, Families, and Seniors***

- **Family First Prevention Services Act (FFPSA)**—Adds $28.2 million to DCFS, fully offset with State and federal funding, to implement the FFPSA. This Act reforms the federal child welfare financing streams, Title IV-E and Title IV-B of the Social Security Act, to provide services to families who are at risk of entering the child welfare system. The bill aims to prevent children from entering foster care by allowing federal reimbursement for mental health services, substance use treatment, and in-home parenting skills training. It also seeks to improve the well-being of children already in foster care by incentivizing states to reduce placement of children in congregate care.

- **Extended Foster Care Program (AB 12)**— Reflects an increase of $33.0 million to DCFS, fully offset with $20.2 million in State revenue for extended eligibility of AB 12 during the COVID-19 pandemic and $12.8 million in federal revenue for AB 12 financial eligibility determinations for non-minor participants.

- **California Work Opportunity and Responsibility to Kids (CalWORKs) Stage One Child Care Program**—Provides $17.2 million to DPSS, fully offset with State and federal revenues, to align the Department's childcare services budget with State and federal allocations. The Stage One Child Care Program increases access to childcare services for CalWORKs participants continuously for 12 months or until the participants are transferred to Stage Two.

- **LA Found**—Sets aside $551,000 of one-time funding in the PFU budget unit for the LA Found Program, which helps return individuals suffering from dementia, Alzheimer's disease, or autism who wander from their families and caregivers.

***Energy Efficiency***

- **Energy Efficiency Project Master Agreements**—Adds $10 million to the Internal Services Department (ISD), fully offset with funding from other County departments for design, engineering, retrofitting, and equipment installation for building-related energy efficiency projects. This delivery method will augment ISD's ability to effectively and efficiently maintain, refurbish, and increase energy efficiency for County infrastructure and facilities.

***Sativa Water District***

- **Sativa Water System Fund**—Adds $1.4 million in one-time funding to the Sativa Water System Fund for the operation and maintenance of the Sativa Water District. This fund was established by the Board in 2019 to account for Sativa's accounting and budgetary activities as the Successor Agency for the dissolved Sativa Water District.

***Investing in Public Assets***

- **Capital Projects (CP)**—Allocates $1.3 billion for continued development, design, and construction of capital projects in support of Board-directed priorities. This investment will improve the County's ability to serve the public and protect the County's real estate portfolio. In addition, sustainability initiatives including water conservation projects are being implemented at various County facilities. The CP budget unit reflects a decrease of $618.4 million and the completion of 70 projects from the FY 2020-21 Final Adopted Budget.

- **Environmental Stewardship**—Provides $160.9 million for continued water conservation projects including 20 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.

- **Enhancing Public Interaction with Recreational Opportunities**—Includes $70.5 million to enhance and expand access to County facilities, such as the Walnut Park Pocket Park and 92nd Street Linear Park development projects as well as the John Anson Ford Theater Trail Project, which provides open space recreational opportunities.

- **Reinvesting in County Facilities**—Provides $205 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 recommendations for and the implementation of the highest-priority projects to sustain and/or rehabilitate County-owned facilities. This allocation recommended in the FY 2021-22 EM budget unit and long-term financing will:

    - Extend the useful life of County facilities;
    - Allow the County to undertake the highest priority deferred maintenance projects in order to optimize the use of assets to their highest and best use;
    - Establish stronger connections between service priorities and asset decisions; and
    - Create a better enterprise-wide understanding of asset needs and priorities.

## FOLLOW-UP BUDGET ACTIONS

The Board requested the CEO to report back on the following items during the FY 2021-22 Recommended Budget.

### Fire-Lifeguard Revenue Replacement

On January 5, 2021, the Board accepted $2.1 million in grant funds from the California Department of Parks and Recreation, Division of Boating and Waterways (DBW) and divided it equally between LASD and Fire Department (Fire) with each receiving $1.1 million. Fire's $1.1 million represents a 50 percent reduction from its previous awards and directly impacts the safety operations of its Lifeguard Division. The Board directed the CEO to report back in 60 days with alternative funding options to backfill the loss of Fire's $1.1 million. The CEO requested and received an extension until April 20, 2021 to include its recommendation as part of the FY 2021-22 Recommended Budget. The FY 2021-22 Recommended Budget reflects an increase of $1.1 million in ongoing funds to Fire and a corresponding decrease in LASD's ongoing funding for a zero NCC impact, resulting in no operational impact to the DBW grant program.

### Countywide Investigations and Enforcement of Workplace Retaliation

On November 10, 2020, the Board directed the CEO to report back during the FY 2021-22 Recommended Budget with funding recommendations for investigation and enforcement activities within the Department of Consumer and Business Affairs, resulting from workplace retaliation issues associated with the Public Health Councils Program (PHCP) established during the COVID-19 emergency. The PHCP encourages voluntary cooperation with reporting violations of the Health Officer Orders (HOO) and Public Health protocols. Based on our review, we have identified approximately $2.3 million in available Consumer Protection Settlement funding to finance the investigative and enforcement portion of the PHCP through June 30, 2022. We will allocate funding, as appropriate during the FY 2021-22 Supplemental Budget. The CEO will continue to work with DPH to determine if any future HOO will require funding beyond FY 2021-22.

### Department of Parks and Recreation (DPR) Budget Restoration Motion

On February 23, 2021, the Board directed the CEO to report back during the FY 2021-22 Recommended Budget to identify financing sources for the aquatics, recreation, and lakes programs as well as the Parks After Dark program. Due to the continued impact of the COVID-19 pandemic on the County's funding requirements and the need for additional time to analyze the Department's request, we will return in June 2021 with funding recommendations in the Final Changes budget phase. We will continue to meet with and advise DPR to coordinate with DMH, Probation, DPH, and DCFS to cover the funding requirements for the Summer 2021 Parks After Dark program.

## POTENTIAL STATE AND FEDERAL BUDGET IMPACTS

A significant portion (38 percent) of the County budget is comprised of revenues received 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 8, 2021, Governor Gavin Newsom released his $227.2 billion FY 2021-22 Proposed Budget. The Budget provides $164.5 billion in State General Fund expenditures and $21.9 billion in reserves, including $15.6 billion for the Budget Stabilization Account, $2.9 billion for the Special Funds for Economic Uncertainties, $3 billion for the Public School System Stabilization Account, and $450 million for the Safety Net Reserve.

The Governor's Proposed Budget included several County-supported proposals including:

- $750 million in one-time funding for behavioral health infrastructure;
- $281 million in additional administrative funding for the IHSS, Medi-Cal, and CalFresh programs to address caseload increases as a result of the COVID-19 pandemic;
- $61.1 million in additional funding for both the Extended Foster Care program and the FFPSA to support the quarantine needs for foster youth and caregivers, and implement the new criteria for non-foster home placement settings, respectively; and
- $31.4 million for the immediate cleanup of all residential properties and other properties contaminated by the Exide facility.

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 legislature.

### Federal Budget

In calendar year 2020, five COVID-19 relief bills were signed into law, providing significant funding and resources to state and local governments to respond to the COVID-19 pandemic. These bills provided funding and other assistance that have enabled the County to deliver essential services to respond to the public health emergency. This included a direct allocation to the County of $1.057 billion in funding from the CRF; funding for COVID-19 testing, contact tracing, and vaccine distribution; assistance to hospitals and healthcare facilities; emergency food assistance; and emergency housing and homeless assistance. Additionally, these measures provided economic assistance directly to residents, businesses, and agencies in the form of small business assistance, direct Economic Impact Payments, an extension of unemployment benefits, funding to childcare providers, and aid for schools. For a listing and explanation of the extensive programs funded by the CARES Act CRF, please see the Report on Impact of CARES Act CRF in Los Angeles County and Lessons Learned for a New Stimulus Package posted at http://file.lacounty.gov/SDSInter/bos/bc/1103904_BM-CARESActReport_finalsigned.pdf.

As previously referenced in this memorandum, on March 11, 2021, President Biden signed into law H.R. 1319, the ARP Act (P.L. 117-2), the sixth federal measure to provide COVID-19 relief. This $1.9 trillion measure includes a number of the County's federal legislative priorities including the County's top priority of additional direct funding for local governments. The ARP contains $350 billion for the Coronavirus State and Local Fiscal Recovery Fund, which provides $65.1 billion directly to counties based on each county's population relative to the population of all counties. Los Angeles County is estimated to receive approximately $1.9 billion from this fund, based on available information. Each city in Los Angeles County will also receive a separate direct allocation based on population. In close consultation with your Board, we are developing a proposed strategic spending plan, and anticipate returning to your Board in May 2021 with our recommendations.

The ARP also provides important flexibility regarding the use of funds for state and local governments compared to the CRF monies from the CARES Act. Counties will be able to use the funds for costs incurred until December 31, 2024 to make various investments including those designed:

- To respond to the public health emergency with respect to COVID-19 or its negative economic impacts, including assistance to households, small businesses and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- To address reductions in revenue due to the COVID-19 public health emergency, relative to revenues collected in the most recent full fiscal year prior to the emergency; and/or
- To make necessary investments in water, sewer, or broadband infrastructure.

Additionally, the ARP contains other important funding, including: $160 billion for the expansion of vaccination and testing centers; $27.5 billion in Emergency Rental Assistance; $5 billion in homelessness funding to provide shelter that facilitates social distancing and supportive services; $50 billion for the Federal Emergency Management Agency's Disaster Relief Fund for reimbursement to state and local governments; and other funding for which the County advocated.

**SHORT AND LONG-TERM BUDGET ISSUES**

The County, like all governmental entities, must balance the demands for new services and unavoidable cost increases within the amount of new revenue estimates. Given the County's limited authority to raise revenues, the Board has adhered to conservative budget practices. As we begin this initial stage of the budget process, we are once again challenged by the demand for County services that far exceeds the available financing sources—a situation that is even more pronounced during these times. During the Recommended Budget process, departments submitted over $2 billion in unmet needs requests, which we are not recommending to fund in this budget phase. Of this amount, we have deferred the most critical of these requests totaling $530.2 million to be considered in future budget phases.

The County has taken steps to address long-term budget issues over the last few years. The Board approved a multi-year plan to prefund retiree healthcare benefits and, since emerging from the Great Recession, we have also increased our Rainy Day Fund each year. In addition, and in accordance with County budget and fiscal policies, we are recommending that $23.8 million be set aside in Appropriations for Contingencies as a hedge against unforeseen fiscal issues throughout the year.

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

- **Pensions**—On January 8, 2020, LACERA lowered the rate of return assumption used for the valuation of pension plan assets from 7.25 to 7.00 percent, and changed the 30-year layered amortization methodology used to fund future unanticipated changes in unfunded liabilities, such as assumption changes or actuarial gains and losses, to a maximum of 22 years. These changes, along with adjustments for prior-year investment performance, resulted in increased retirement contribution costs beginning in FY 2020-21 and continuing through FY 2022-23.

- **Expiration of Title IV-E Waiver**—With the sunsetting of the federal Title IV-E Waiver, the budget reflects a $104-million reduction in federal revenues. DCFS is working to minimize this revenue loss by aligning existing services with provisions of the new FFPSA. This will allow those services to be reimbursed under the FFPSA. While this effort is underway, DCFS will use one-time bridge funding to offset the $104 million federal revenue reduction.

- **Information Technology Systems Replacement**—The unfunded cost to replace and modernize the County's critical information technology legacy systems is expected to exceed $450 million.

- **Deferred Maintenance**—The Facility Reinvestment Program is a $750 million program to address deferred maintenance of existing County buildings and facilities. The $750 million is an initial plan to begin to address a much larger backlog of the highest priority deferred maintenance and building systems replacement projects, currently estimated at $910 million based on completed building assessments.

- **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, estimated to exceed $2 billion, is needed to upgrade County buildings and facilities following completion of the ongoing assessment of high-risk buildings.

- **Other Postemployment Benefits (OPEB)**—The Recommended Budget adds $63.1 million in pre-funding contributions to the OPEB Trust Fund. This is the seventh year of a multi-year plan to fully fund the $2.2 billion actuarially determined contribution (ADC). Based on current projections for the OPEB pre-funding plan, the OPEB ADC will be fully funded by FY 2027-28.

- **Stormwater and Urban Runoff**—To address regulatory stormwater and urban runoff compliance in the unincorporated areas, we estimate that $334 million will be needed over the next five years. This amount may be partially offset with Measure W tax revenue.

**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 20, 2021 |
| Commence Public Budget Hearings | May 12, 2021 |
| Commence Final Budget Deliberations and Adopt Budget Upon Conclusion | June 28, 2021 |

Prior to deliberations on the FY 2021-22 Adopted Budget, we will file reports on:

- May 2021 revisions to the Governor's Budget and updates on other 2021-22 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 a four-fifths 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 2021-22; order the publication of the necessary notices; and set May 12, 2021, as the date that public budget hearings will begin.

Respectfully submitted,

FESIA A. DAVENPORT
Chief Executive Officer