MEASURE J BUDGET MEETING – CEO, CEO BUDGET TEAM, AND

MEMBERS OF THE ADVISORY COMMITTEE

On May 18, 2021, CEO Fesia Davenport hosted a meeting with members of the Measure J Advisory Committee. The meeting opened with the CEO providing her background in the County, moved to Advisory Committee members sharing what they wanted to get out of the meeting, and concluded with a question and answer period first with the CEO and then the budget team. The meeting lasted approximately 1 hour and 45 minutes. This document summarizes the questions and responses from that meeting.

Meeting expectations shared by Advisory Committee members and CEO Davenport's responses:

Q1. (Veronica) Provide clarity on what is "restricted" and "unrestricted".

Answer: State law requires the county budget to be balanced: our revenue must equal our expenses. There are two components in our budget, the expenditure side (think costs) and a revenue side. Net County Cost is what we call the expense side of the County budget which is paid by using locally generated revenues, ie. property taxes.

A portion of Net County Cost includes those expenses we are *required* to pay and they fall into three general categories:

1) Contractual obligations,

2) Federal and State statute/regulations/mandates that impose certain financial duties, and

3) County codified duties/obligations.

The locally generated revenue used to pay the *required* Net County Cost is considered "restricted". Therefore, the remaining Net County Cost is paid using the remaining locally generated revenue which is considered unrestricted.

Q2. (Dan) Provide clarity on amount budgeted for Measure J this year and subsequent years. The five subcommittees came up with at least 50 recommendations each. The $100M is not sufficient to cover those recommendations.

Answer: The amount that has been budgeted for Measure J as the year one down payment is $100M. The Board Offices have requested that the CEO try to identify additional funding for the down payment. The CEO's Office will report back to the Board on those efforts during Final Changes Budget in June and Supplemental Changes Budget in October.

In terms of the amount of the Measure J set aside in subsequent years, we are unable to provide an exact figure. This is because the expenses and revenues that make-up the budget changes each year. Therefore, we are unable to tell you today what the full set-aside amount will be in 2024. Today, we can only provide an estimated projection based on the revenue amounts for FY 2020-21.

Q3. (Bill) Understanding how the State can be flush with money and LA County is broke, especially with property taxes at an all-time high?

Answer: The State's main revenue source is income tax. The portion of the State's budget surplus, due to income taxes, is a testament to the fact that not everyone was negatively impacted by the pandemic. In addition, the State Legislative Analyst Office has declared that some of the surplus is due to borrowing money, including funding from the federal government (like the American Rescue Plan), and due to the State including multiple years of funding in their FY 2021-22 budget.

The County's main source of revenue (locally generated revenue) is property tax. Although we have seen some growth in our property tax, it is not at the rate of pre-COVID levels.

Q4. (Eunisses) Understand what is the difference between restricted revenue or restricted costs?

Answer: Revenue is money coming into the County. Costs are the expenses incurred by the County. Revenue is used to pay costs. Under state law, the County is required to have a balanced budget where revenue equals expenses.

The County first uses its federal and State dollars to pay its expenses. Locally generated revenue is then used to pay all the remaining expenses – these expenses are called Net County Cost.

The portion of Net County Cost that falls into the three categories (identified in the answer to Q1) are the required (i.e. restricted) costs. Since Net County Cost is paid using locally generated revenue, the portion of those revenues used to pay the restricted costs are considered restricted.

Q5. (Hector) Explain how the new State funding streams will impact the budget.

Answer: The State funding we receive is not locally generated revenue and is therefore not subject to the Measure J set aside calculation.

The Governor has proposed a generous budget that proposes funding many of the same investment areas that are the subject of the recommendations developed by the ATI Workgroup, e.g. housing, jobs, education, etc. The Governor's May Revise was issued a few days ago (as of May 18th when this meeting was held) and the CEO team is working with County departments to analyze the amount of funding that will be coming to the County. Our objective is to leverage all revenue sources and complement investments in community resource development and availability and access to services.

Q6. (Hector) Explain how will the new federal funding streams be used to support Measure J efforts? e.g. CARES, ARP, American Jobs Plan, American Families Plan

Answer: The federal dollars we receive are not locally generated revenue and therefore not subject to the Measure J set-aside calculation.

However, federal dollars can be used to support Measure J investments. We are developing a spending plan proposal for the American Rescue Plan to strengthen the County's safety net and to support infrastructure for prevention and community-based supports.

Q7. (Mandy) How can we allocate money for programs without knowing what the amount will be in 2024?

Answer: Although we don't know what the amount of the Measure J set-aside will be in 2024, we have to start somewhere. This is a common occurrence when developing programs and budgets. One does not always know what the needs and resources will be in future years. The Measure J ordinance allows for three years to build up to the set aside amount. Although we don't know exactly what the set aside amount will be in 2024, that does not prevent the County from putting money aside starting in July 2021. The Measure J Advisory Committee can start to design and develop programs using the $100M down-payment and then add programming as new funding is allocated to Measure J in future budget phases.

CEO Davenport's responses to Advisory Committee members' direct questions:

Q8. Youth Justice Reimagined is a community priority, how will the Youth Development Department be expanded in the coming fiscal year?

Answer: The Board directed the CEO to: i) conduct a fiscal analysis of the funding necessary to commence implementation of Phase 1 (mentioned in the consultant's report); and ii) to identify funding sources that could be transferred to support the expansion of YDD. There was no Board direction or consultant recommendation to set up a new department by July 2021.

Since the CEO's report has not yet been submitted to the Board, no funding recommendations were included in the Recommended Budget which is the first phase of the County's three-phase annual budget process. Rather the Board of Supervisors, should first receive and consider the CEO's report and if the recommendations are adopted then funding recommendations can be included in subsequent budget phases.

Q9. (Hector) Why does Measure J get the leftovers after all the other obligations are paid?

Answer: Measure J is not getting "leftovers". Rather the CEO is complying with the language of Measure J which specifically sets aside 10% of "locally generated unrestricted revenue" as the basis for Measure funding. In order to determine what is unrestricted, a determination must be made as to what is restricted. During the Board's discussions about placing Measure J on the ballot, they acknowledged that there are restrictions and costs that needed to be factored into the calculation.

Q10. (Veronica) What are "contract obligations"?

Answer: Contract obligations are legally binding agreements and include operating agreements, building leases, settlement agreements.

Q11. (Eunisses) For contractual obligations, such as lawsuits against LASD use of force, other jurisdictions pull the settlement money out of the department's budget. Why does the County pay settlements out of the general fund instead of having the department directly pay for their settlement and have it come out of their bottom line?

Answer: The Sheriff's Department and all other departments' budget are part of the larger County budget. No county department can exist separate from the County of Los Angeles – i.e. the County as a governmental entity. What that means is, when there is a judgment/settlement entered against/by a county department, the ultimate responsibility for paying that judgment or settlement rests with the County – whether the department can pay it or not. This is what the law requires.

Each year we provide funding for departments for lawsuits and claims that have been filed and we anticipate will come to a final disposition during the fiscal year. Most of the time, the amount resulting from a lawsuit or settlement can be paid from that funding allocation within the department's budget (i.e. the settlement is "pulled out of the department's budget"). However, sometimes there is not enough funding in the department's budget to pay the judgment/settlement and when that happens the settlement amount must be paid from the county's budget since at the end of the day it is a county obligation.

Q12. (Bill) Have the obligation this past year vastly increased compared to prior years? Is this the reason why the Measure J amount is so low (the general community consensus is the CEO's funding is only 1/3 of the expected $900 million for Measure J)?

Answer: The $900M estimate for Measure J funding came from other sources and was never cited by the CEO's Office.

During the Board meetings where the they deliberated on the motion to place Measure J on the ballot, including questions to the CEO's Office, there was discussion about revenues, Net County Cost, and acknowledgement that there are restricted and unrestricted revenues. The CEO's office gave a back-of-the envelope estimate that the set-aside called for by the proposed ballot measure might produce approximately $360 million. The Board could have challenged the estimated figure or rejected the estimated amount but did not.

Q13. (Bill) Why is CEO staff saying there is a reduction in property taxes – this runs counter to the current hot real estate market?

Answer: Residential real estate is doing well. Our concern is the commercial side of the real estate market. Many commercial buildings have lost and may continue to lose tenants during COVID as employers have allowed employees to telecommute, buildings were closed under the Health Officer Orders, or people leasing commercial space could no longer maintain the leased space. Therefore, we anticipate that there will be some impact to property taxes from commercial real estate but don't know what those will be.

Additional Information: At the January 2021 (during the COVID surge) Advisory Committee meeting, we explained that the growth we projected in property taxes was roughly ½ of the growth we projected in January 2020 (before COVID). The important point here is that the CEO has never projected a decline in property taxes only a decline compared to the prior year's rate of growth. The section below explains property tax growth and how it impacts the County's revenue.

Proposition 13 governs how much property tax is due and when property tax reassessments occur:

1. Annual property tax increase. After a property is sold, Proposition 13 restricts the property tax increase in each subsequent year: the annual property tax increase in assessed value is limited to 2% or the value of the consumer price index, whichever is less. This provision protects owners from jumps in property tax when the property's market value climbs. Note: as a consequence of the pandemic, the actual FY 2021-22 consumer price index is 1%, which is below the 2% maximum.

2. Property sales/transfers. Proposition 13 restricts when property tax reassessments occur based on a property's actual market value: property tax reassessments only occurs when there is a change in ownership or new construction. Although the media reports the real estate market is rebounding and property values are climbing, <u>the corresponding increase in property tax revenue will only be realized if those properties are sold or transferred</u>.

3. Assessment appeals. Proposition 13 provides owners an opportunity to appeal the assessed property value and corresponding property tax if there is a decline in property's market value. As a result of the pandemic (ie. office and hotel vacancies and the closures of brick and mortar stores), we anticipate an increase in appeals of assessed property values for commercial properties – the extent and amount is yet to be determined.

Q14. (Bill) Measure J wasn't the first time County had to identify unrestricted revenue – why it is so complicated this year.

Answer: Previously the County would determine amounts that were flexible and inflexible - that has changed with Measure J. The Measure J 10% set aside involves a review of over sixty (60) budget units within the County General Fund to determine which portion of each budget unit's net County cost (NCC) is restricted. For example, our analysis requires a review of all General Fund budget units to determine which portion of each budget unit is already allocated to pre-Measure J ATI and Direct Community Investment investments before a determination can be made as to which amounts are restricted and unrestricted-this determination was not previously required when calculating what was flexible and inflexible. This tedious and detailed review required interaction with each County department along with due diligence review by CEO budget analysts to ensure a consistent and uniform application of the Measure J methodology. Since, Measure J does not produce new revenue, it is important that we complete this detailed analysis to ensure that the set aside calculation is as accurate as possible to provide a projected estimate of the what the Measure J budget might be when fully implemented.

Q15. (Dan) What is the Measure J budget this year and subsequent years.

Answer: Please see answer to Q2 above.

Q16. (Hector) County departments submitted proposals for Measure J funding. Can the Advisory Committee remove those County proposals from Measure J consideration if the County can pay for it with these other revenues, e.g. DMH can be funded by CalAIM?

Answer: The Advisory Committee will need to look at the Governor's May Revise and decide what they believe should be recommended. Note: The May Revise budget proposals are subject to change with the adoption of the State's final budget in June.

Q17. (Mandie) If the County will not know full Measure J amount until 2024, how can the Advisory Committee plan for the recommendations?

Answer: Please see answer to Q7 above.

Q18. (Veronica) The Advisory Committee will try to have its recommendations reflect federal and State leverage. However, we ask the CEO's commitment to take blended funding strategy for Measure J needs.

Answer: The Board has the ultimate decision authority, including equity investments from other revenue sources.

CEO budget analyst work to identify ways to leverage funding from other sources. However, we know that federal and State revenues may have certain restrictions on use, such as CARES is restricted to COVID related uses and the American rescue Plan is expected to be even more restrictive. In contrast, Measure J use is broad. As a hypothetical example of leveraging revenue sources for a common goal: a youth jobs program may be able to combine American Rescue Plan funding for certain costs (those that meet federal restrictions) while the remaining costs are covered by Measure J.

Finally, the Board may want to standup their own program that may be comparable to an Advisory Committee recommendation but not exactly the same. e.g. housing for justice involved TAY using while the Advisory Committee uses Measure J for a similar project in a different geographic location. The important point is, funding is going towards Measure J investment areas but may not fund the exact same program.

Q19. (Eunisses) How will the County get funds to CBOs.

Answer: The CEO has been examining options to expedite and simplify the contracting process. CEO funding distribution will also take into consideration what is the best mechanism for a program – whether that is through a County department, TPA, or direct contract with a CBO.

Finally, funding CBOs will be expedited if Advisory Committee recommendations are drafted to include operational details so programs are ready for immediate implementation.

Advisory Committee members' additional questions for post-meeting written response:

Q20. (Eunisses) How much NCC is used for health services in the jails?

Answer:

INTEGRATED CORRECTIONAL HEALTH SERVICES (ICHS)
FY 2020-21 FINAL ADOPTED BUDGET

	ICHS
Appropriation	$395,757,000
Intrafund Transfer	$33,437,000
Revenue	$27,436,000
Net County Cost	**$334,884,000**

Q21. (Eunisses) What are the public safety budgets - how much NCC goes to LASD, Probation, and courts?

Answer:

PUBLIC SAFTEY DEPARTMENTS FY 2020-21 FINAL ADOPTED BUDGET

	Sheriff	Probation	District Attorney	Trial Courts*
Appropriation	3,437,994,000	1,003,749,000	459,675,000	404,270,000
Intrafund Transfer	103,282,000	3,444,000	5,162,000	-
Revenue	1,584,297,000	381,807,000	175,323,000	63,095,000
Net County Cost	**1,750,415,000**	**618,498,000**	**279,190,000**	**341,175,000**

*Trial Courts NCC Detail**	
Maintenance of Effort	204,143,000
County Facility Payment	37,754,000
Indigent Defense	62,247,000
Judicial Benefits	36,881,000
Edelman Children's Court	150,000
Collection Enhancement	-
Total	**341,175,000**

Q22. (Eunisses) How much from the public safety budgets will move to Measure J?

Answer: Measure J directs that 10% of locally generated unrestricted revenue be set aside for direct community investments and alternatives to incarceration investments. It does not require cuts to any department.

Due to the economic downturn, extensive cuts were made countywide as part of the current fiscal year's (FY 2020-21) budget, including:

- Sheriff's Department budget included a NCC cut of $145.4 million that resulted in a net reduction of 1,392 positions. In addition, the County has engaged a consultant to provide an independent analysis of Sheriff's Department staffing and budget size.

- The Probation Department budget included an NCC cut of $49.1 million and reduction of 425.0 positions, and a $11.6 million reduction in AB109 funding and elimination of 78.0 positions; for a total reduction of 503.0 positions.

Q23. (Roberto) How can we bridge the information gap – County has lots of programming but community not aware of what is available.

Answer: Raising and maintaining awareness within our communities of the broad array of County programs and services has been a longstanding struggle; even among and within County departments there are unintentional silos that limit our ability to see cross-functional opportunities for collaboration and leveraging of resources toward a common goal. We agree there is a need to develop better technological solutions to help push information out to social media and the digital spaces that individuals, families, and communities already frequent. In addition, rather than expecting those in need to rely exclusively on County websites, facilities and/or call centers, we need to do better partnering with organizations (i.e. schools, faith institutions, childcare facilities, etc.) who know what resources their neighbors need and to help proactively spread the word and connect them to services. The CEO's Office is working on several initiatives to address this issue, including a digital hub for transitional aged youth and an app to map bed availability for justice-involved individuals.

Q24. (Bill) Provide the last three years of unrestricted and flexible amounts so the Advisory Committee can compare those prior years and the CEO's current funding amount.

Answer: As explained in the response to Q14, Measure J created a new term "locally generated unrestricted revenue" which is distinct from "flexible amounts". As such, we don't have 3 years of prior calculations of "locally generated unrestricted revenue."

Q25. (Eunisses/Veronica) How much NCC did each department start with, how much is in each restricted categories (1) Contracts, 2) Fed/State mandates, 3) County codified duties/obligations), how much is unrestricted, and what is available for Measure J.

Answer: Please see the attached spreadsheet "Measure J Departmental Summary".

Q26. (**Hector) Are there alternative contracting options for CBOs and tribal nations since they have a different tax status?**

Answer: For tribal nations, recognized tribes with tribal revenue are not subject to Federal taxes per the IRS.

For CBO contracting options, please see the response to Q19. Additionally, some CBOs may not have 501(c)(3) nonprofit status and tribal nations can't qualify to be a 501(c)(3). For a CBO to attain 501(c)(3) status they need bylaws, a board of directors and some other things that small CBOs often don't have yet. As we consider how contracting opportunities will move forward under ATI/Measure J, we will not be limiting types of providers (unless there is a restriction from a non-County funding source being leveraged for certain programs).

Q27. (Hector) What can CBOs do to prepare for expediting contracting process?

Answer: The CEO has been examining options to expedite and simplify the contracting process – particularly for CBOs. This effort is still a work in progress. As such, we are unable to provide details at this time.

Q28. (Hector) How are disability accommodations funded? There should be a standard as default.

Answer: Funding for disability accommodations that County departments provide in their day to day operations should be included in each department's budget for services and supplies. This portion of the budget allows departments to procure services as needed to support delivery of services.

For new services implemented under Measure J, the CBO/provider/vendor budget and/or rates should include provisions for disability accommodations to the extent they are needed and/or they are required by the ADA. The entity would be reimbursed through the method indicated in their Measure J contract, just like they would be reimbursed for the cost of mileage, staffing, space, etc.