County of Los Angeles
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SACHI A. HAMAI
Chief Executive Officer

April 10, 2018

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 2018-19 RECOMMENDED COUNTY BUDGET
(3-VOTES)

The Fiscal Year (FY) 2018-19 Recommended Budget marks the first step in our annual budget process and culminates with the Supplemental Budget scheduled for early October 2018.

This Recommended Budget reflects the County's ongoing determination to confront our region's most difficult social challenges while building a foundation for future progress through a wide array of proven programs and services. At its heart, this spending plan's essential mission is this: to improve the quality of life for all County residents, particularly those struggling on the margins of society.

This proposed budget advances key priorities of the Board of Supervisors, providing funding to fight homelessness, to enrich the lives of children, to expand health services, to create jobs and to invest in criminal justice reforms that prioritize individual potential and maintain the safety of our neighborhoods.

At the same time, this Recommended Budget champions the County's long history of responsible, sustainable fiscal practices. And, among other innovations, it applies cutting-edge analytics and new technology to help foster efficiency, effectiveness and accountability in County government.

Here are just two examples of far-reaching, multifaceted undertakings represented in this Recommended Budget:

Confronting Homelessness

The Recommended Budget reflects appropriation funding of $374.0 million, an increase of almost $108.0 million, as Measure H moves into its second year. Since the passage of Measure H in March 2017, thousands of individuals and families have already been helped through a major expansion of outreach, emergency shelter, rapid rehousing, permanent supportive housing and benefits advocacy. Among the early successes between July and December of 2017: more than 7,000 people entered crisis, bridge and interim housing and over 3,000 homeless families and individuals secured permanent housing.

Continuum Care Reform and Resource Family Approval

These State-mandated programs are designed to dramatically increase the odds of success for foster and adoptive youth. To that end, the Recommended Budget provides $52.2 million and 104 budgeted positions to the Departments of Children and Family Services and Mental Health, fully offset by State and federal revenues. The Continuum Care program aims to give young people 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 youngsters can receive short-term, intensive treatment to help them make that transition. The Resource Family program, meanwhile, improves the way in which foster and adoptive caregivers, as well as relative care providers, are assessed, approved and prepared to parent these vulnerable children.

BUDGET OVERVIEW

The FY 2018-19 Recommended Budget total of $30.8 billion reflects a decrease of $800.0 million in total requirements when compared to the FY 2017-18 Final Adopted Budget. General County funds, comprised of the General Fund and Hospital Enterprise Funds, reflect a decrease of $37.0 million. Special Districts/Special Funds reflect a decrease of $763.0 million. The total number of budgeted positions will increase by 477, bringing the total to 111,111 budgeted positions.

Fund Group ($ in Billions)	**2017-18 Final Adopted Budget**	**2018-19 Recommended**	**Change**	**% Change**
Total General County	$24.323	$24.286	($0.037)	-0.2%
Special Districts/Special Funds	7.282	6.519	(0.763)	-10.5%
Total Budget	$31.605	$30.805	($0.800)*	-2.5%
Budgeted Positions	110,634	111,111	477	0.4%

*This decrease is primarily due to reductions in fund balances across all fund groups.

Economic Outlook

Since the Great Recession, the County has experienced slow and steady growth as the economy recovered and expanded. Based on a number of key indicators, we remain cautiously optimistic that growth will continue to be positive for the remainder of 2018 and into 2019. However, the rate of growth may slow compared to past years, adhering to the natural progression of economic cycles. The County continues to carefully monitor economic indicators and analyze their implications throughout the budget process.

Our office, in consultation with the Assessor's office, is forecasting a 5.74 percent increase to the 2018 tax assessment roll. This forecast is preliminary, as the Assessor is scheduled to issue its official forecast in May 2018 and release the final roll in July 2018. Our office will continue to work with the Assessor's office to update property tax projections. We are also forecasting a 2 percent increase in statewide sales tax growth.

HIGHLIGHTS OF SIGNIFICANT PROGRAM CHANGES

Investing in Children, Youth and Families: New and expanded services and programs will enhance the lives of the County's youngest residents while strengthening families and communities.

- **Adoption Assistance Program**—Adds $17.8 million for projected caseload growth and adoption placement rate increases. Caseloads are projected to increase as strategies to ensure the safety and stability of children continue.

- **Child Care Services**—Allocates $13.6 million, offset by State funding, for the Emergency Child Care Bridge program along with an increased allocation from the California Alternative Payment program for additional subsidized child care slots.

These two programs will aid in securing essential child care services for both children entering foster care and those children at risk of abuse or neglect where they live. Lack of access to child care immediately following the removal of the child is one of the primary barriers for potential families seeking to take in a foster child. Subsidized child care is an essential component in keeping children safe and preserving families.

- **Youth@Work and Youth Bridges Programs**—Allocates $8.0 million to the Department of Workforce Development, Aging and Community Services (WDACS) for the Youth@Work program and provides $100,000 and 1 budgeted position to the Department of Human Resources for the Youth Bridges program. These programs are committed to the development and success of our youth, providing them with first-time work experience and developing them into our future workforce.

- **Youth Diversion and Development**—Reflects the addition of $4.8 million and 4 positions to establish the Youth Diversion and Development unit to identify and support diversion programming targeted at youths.

- **Parks After Dark**—Adds $4.9 million for the Parks After Dark program at 23 existing parks, plus eight new parks, and also extends the program's season. The program brings residents and communities closer together, decreases crime, encourages recreation, and promotes good health and well-being. During the season, parks stay open late Thursday through Saturday evenings to provide a safe and welcoming space for youth and their families to participate in a variety of free recreational, educational and entertainment programming.

- **Bringing Our Loved Ones Home**—Provides $511,000 and 4 budgeted positions to implement this initiative and explore options to return individuals suffering from dementia, Alzheimer's disease, or autism who wander from their families and caregivers.

Affordable Housing and the Fight Against Homelessness: The County continues to boost the stock of supportive and affordable housing.

- **Permanent Supportive Housing**—Adds $14.0 million for the Office of Diversion and Reentry to increase its supply of permanent supportive housing from 1,000 to 1,500 slots, bringing its FY 2018-19 budget for such housing to $34.3 million to serve justice-involved individuals with justice and mental health needs.

- **Affordable Housing**—Provides an additional $30.0 million of funding as part of the five-year plan to reach an annual allocation of $100.0 million for the development and preservation of affordable housing. The funding will support affordable housing for very low and extremely low-income or homeless households, as well as other support services such as rental assistance, rapid re-housing and move-in assistance.

Innovation and Growth in Health Care Delivery: The County's integrated health care delivery system is expanding patient care.

- **Increased Mental Health Inpatient Bed Capacity**—Provides $21.5 million in additional appropriation for increased rates for Institutions for Mental Disease beds and increased utilization of State hospital beds.

- **Mental Health Services Act (MHSA) Spending**—Reflects $18.9 million for an array of mental health services included in the updated MHSA three-year plan, including 20 positions to provide prevention and early intervention services to residents in permanent supportive housing.

- **Hospital Care Companions**—Allocates 152 budgeted positions, fully offset with reductions in overtime costs and contracted registry personnel, for the second phase of adding "Care Companions" to the medical-surgical areas of medical centers. Care Companions are required for patients who need constant observation. These positions will facilitate a more stable workforce by using County employees instead of contract registry staff.

- **Contract Staff Conversion**—Allocates 27 budgeted positions, partially offset with a reduction in contract costs, to reduce dependency on registry staff in phlebotomy, medical coding, ophthalmology, anesthesiology and diagnostic imaging.

- **Patient-Centered Medical Homes**—Reflects the addition of $1.9 million and 20 budgeted positions, fully offset with revenue, to fund two new patient-centered medical homes that will expand outpatient primary care and be co-located with the Department of Mental Health clinics in Lincoln Heights and Canoga Park.

- **Drug Medi-Cal Organized Delivery System Waiver**—Provides additional appropriation of $79.2 million, including funding for 9 positions for enhanced substance use disorder services at the Antelope Valley Rehabilitation Centers, offset with federal revenue to continue the implementation and expansion of substance abuse services in the County to Medi-Cal eligible individuals with substance use disorders.

- **Proposition 56: Supporting Tobacco Control and Prevention**—Provides funding of $20.6 million, offset by a California Department of Public Health grant award, that will allow the Department to implement and enhance various tobacco control objectives and activities throughout the County, including 6 positions for oral health.

Jobs, Equity and Economic Development: Inside and outside the County workforce, new programs foster greater equity and stability.

- **Economic Development**—Reflects an additional $4.6 million of one-time funding for economic development programs that will support a more equitable and sustainable economy through business growth and increases in private sector employment.

- **Bringing County Jobs In-house**—Adds nearly 200 positions to provide workforce continuity and stability, and enhance the quality of care for patients by reducing dependency on temporary registry and contract staff.

- **Pathway to Permanency**—Reflects the conversion of part-time temporary Library Aide positions to part-time permanent positions to provide a pathway for existing staff to transition to permanent County employment. This brings the total converted positions under this program to 100.

- **Fair Chance Employment**—Allocates $170,000 to the Department of Consumer and Business Affairs to conduct outreach, education and workshops, and provide factsheets to the business community on their rights and responsibilities related to Fair Chance Employment.

- **In-Home Supportive Services (IHSS) Program**—Provides $6.1 million in additional funding to support costs associated with healthcare benefits for IHSS workers. In addition, the Maintenance of Effort (MOE) reflects a $57.3 million increase based upon State law that requires counties to adjust the MOE base amount by a 5 percent inflation factor in 2018-19.

Enhancing Public Safety: The County is continuing to make investments to transform the lives of those involved with the justice system.

- **Anti-Recidivism Programs for Probationers (Senate Bill 678 Program)**—Reflects an increase of $26.9 million and 8 positions, offset by State funding, for several re-entry services and activities targeted towards probationers. Funding will be allocated for intensive case management services; workforce development, aging and community services; social program agreements; consultant services to advise on gender-specific and emerging adults programs; community re-entry centers; and evaluation services to measure the effectiveness of each program.

- **Probation Accountability Project**—Sets aside $4.0 million in the Provisional Financing Uses budget for the Probation Department (Probation) to enhance critical operational administrative support services that focus on improved metric systems, self-auditing, sustained quality improvement processes, staff training and improved communication systems.

Quality of Life, Environment and Public Assets: Funding will improve quality of life for residents while enhancing and expanding County facilities.

- **Capital Projects**—Appropriates $974.4 million for continued development, design and construction of capital projects. In addition, sustainability initiatives including solar energy and water conservation projects are being implemented in various County facilities. This reflects a decrease of $262.8 million from the FY 2017-18 Final Adopted Budget and the completion of 57 projects.

- **Road Repairs and Safety Projects**—Provides a $67.5 million increase in Highway User Tax revenue (gas tax) primarily due to the legislative passing of the Road Repair and Accountability Act of 2017 (Senate Bill 1). These funds will be used for road maintenance and repair and safety projects throughout the County.

- **Parks and Cultural Facilities**—Includes $98.6 million to maintain, construct, and refurbish various parks and cultural facilities, following voter approval of the Safe, Clean Neighborhood Parks and Beaches protection and water conservation Measure (Measure A) on November 8, 2016.

- **Environmental Stewardship**—Furthers energy efficiency and water conservation through projects including the Franklin D. Roosevelt Regional Park Stormwater Capture Project, part of a countywide program to reduce stormwater pollution and comply with federal and State clean water regulations.

- **Enhancing Public Interaction with Cultural Institutions**—Facilitates public-private partnerships to enhance and expand access to the County's unique cultural institutions. Refinements at the Music Center Plaza will improve access and amenities. The Los Angeles County Museum of Art East Campus Replacement Building Project will leverage private resources to replace four existing buildings with a new museum building.

- **Seismic Safety**—Continues investments in projects to meet seismic standards identified in Senate Bill 1953, including the Harbor-UCLA Replacement Project that will replace the acute care inpatient tower with a new hospital tower.

Creating a More Efficient, Strategy-driven County: Consolidation and analytics aim to improve County operations.

- **Analytics Center for Excellence**—Allocates $540,000 and 3 budgeted positions to the Chief Executive Office to establish the analytics center. The center will provide analytics and business intelligence to support Board priorities and to facilitate the use of the Information Hub for departmental performance management and data science initiatives.

- **Public Health Consolidation**—Consolidates five separate budget units into a single budget unit. This will allow the Department of Public Health to better align its budget with its recently implemented bureau structure and improve efficiency, avoid duplicative efforts and centralize certain budget functions.

- **Ambulatory Care Network**—Establishes the new Ambulatory Care Network budget unit to restructure ambulatory clinic-based outpatient services previously included in the Department of Health Services' hospital enterprise funds. The network includes one regional health center, six comprehensive health centers, eleven health centers, and two community clinics as well as other program and administrative functions.

- **One-Stop Community Re-Entry Center**—Adds a new one-stop community re-entry center to serve adult probationers as part of the 3965 South Vermont Avenue Office Renovation, which will consolidate Probation staff and functions into a single location.

POTENTIAL STATE AND FEDERAL BUDGET IMPACTS

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

State Budget

On January 10, 2018, Governor Jerry Brown released his $190.3 billion FY 2018-19 Proposed Budget. The budget provides $131.7 billion in State General Fund expenditures and includes a $3.5 billion supplemental transfer to the Rainy Day Fund beyond the $1.5 billion required by Proposition 2. This brings the Rainy Day Fund to a projected balance of $13.5 billion, meeting the Constitutional goal of reserving 10 percent of tax revenues.

The Governor's FY 2018-19 Proposed Budget projects $134.8 billion in State General Fund revenue largely driven by higher projections for personal income tax and sales and use tax revenues. However, the Administration cautions that its revenue projections do not yet account for the recently enacted federal Tax Reform legislation. The May Revision will include a preliminary analysis of the projected impact on the State economy and revenues. The Administration also promotes caution and prudence due to the uncertainties surrounding the potential risk of a near-term economic downturn, as well as the continued prospect of major reductions or changes at the federal level.

In addition, the Governor's Proposed Budget reflects items with new or increased funding of interest to the County, including a one-time augmentation of $134.3 million to support the replacement of voting systems, $40.3 million for statewide outreach and other activities related to the 2020 Census count, $106.4 million statewide for the Community Corrections Performance Incentive Grant, and a $1.7 billion increase for the Road Maintenance and Accountability Act, including an $828.0 million increase for local allocations.

The Legislature is currently conducting budget subcommittee hearings on the Governor's Proposed Budget. However, most actions on the State Budget will be held pending the release of the Governor's May Budget Revision that will contain updated revenue estimates and budget allocations.

Federal Budget

On February 9, 2018, the President signed the Bipartisan Budget Act of 2018 (H.R. 1892) into law, a comprehensive budget agreement that includes a Continuing Resolution to fund federal government operations through March 23, 2018, and top-line spending limits for federal Fiscal Years (FFY) 2018 and 2019. The agreement contains provisions of interest to the County, including a ten-year extension of the Children's Health Insurance program, a two-year delay in scheduled cuts to Disproportionate Share Hospital payments, and provisions related to the Family First Prevention Services Act. Additionally, the agreement includes $100.0 billion in spending cuts over ten years, including $1.4 billion from the Prevention and Public Health Fund, to partially offset the increases in non-defense programs.

On February 12, 2018, the President released his Proposed Federal Budget for FFY 2019, which accounts for the new top-line spending limit enacted in the Bipartisan Budget Act. The $4.4 trillion budget proposes $200.0 billion in new infrastructure spending in the form of grants designed to leverage $1.5 trillion in non-federal funding.

The proposal also includes $3.0 trillion in spending cuts over the next ten years, including $1.7 trillion in cuts to mandatory entitlement programs such as Medicaid ($199.0 billion), Medicare ($554.0 billion), Supplemental Nutrition Assistance program ($213.5 billion), and Temporary Assistance for Needy Families ($21.3 billion). It also proposes to eliminate or significantly curtail several discretionary spending programs of interest to the County, including the elimination of the Community Development Block Grant, HOME Investment Partnership program, Community Services Block Grant, State Criminal Alien Assistance program grants and the Public Housing Capital Fund.

The President's Proposed Budget is unlikely to be enacted, but rather serves as a messaging document highlighting his priorities. Congress is responsible for passing appropriations legislation to fund the federal government. On March 23, 2018, the President signed a $1.3 billion spending bill that funds the federal government through September 2018. The bipartisan legislation provides increases in both defense and domestic spending and averts government shutdown.

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, which helped the County 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.

In the near term, we continue to seek funding sources to address Board priorities including additional support for the Youth Bridges program and a proposed plan to provide year-round operation of the Belvedere, Castaic and San Fernando aquatic centers and extended swimming hours at pools and lake swim beaches. In addition, we will continue to work with both the Probation and the Sheriff's Departments to address ongoing budget issues.

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. Since emerging from the Great Recession, we have also increased our Rainy Day Fund each year. In FY 2017-18 we supplemented the Rainy Day Fund by $39.0 million.

In addition, in accordance with County budget and fiscal policies, we are recommending that $1.2 million be added to Appropriation for Contingencies, raising the amount to $30.9 million for FY 2018-19. This funding is set aside as a hedge against unforeseen fiscal issues throughout the year. We are also adding $5.0 million to the Extraordinary

Maintenance budget unit to help address deferred maintenance needs throughout the County.

Looking forward, we recognize that many long-term budgetary hurdles lie ahead that will require significant investment by the County and will require a multi-year funding approach. Outlined below are some of the most significant budget issues facing the County.

- **Expiration of the Title IV-E Waiver**—Set to expire on September 30, 2019, the Waiver relaxes federal eligibility requirements for federal foster care funding and allows flexibility in the use of federal funding in the areas of prevention and after-care services. Under the Waiver, the County currently receives over $440.0 million in Title IV-E funding.

- **IHSS Program**—Based upon current law, we estimate the County will have to provide an additional $159.0 million in local funds over the next five years to address the escalating costs of the IHSS program.

- **Voting Solutions for All People (VSAP)**—Over the next three years, we estimate that $225.3 million in funding will be needed to develop and implement the County's voting system, VSAP.

- **Rainy Day Fund**—To reach the prescribed level, the County has embarked on a multi-year plan to supplement this reserve by approximately $156.0 million over the next four years.

- **Stormwater and Urban Runoff**—To address regulatory stormwater and urban runoff compliance in the unincorporated areas, we estimate that $501.3 million will be needed over the next five years.

- **Information Technology (IT) Systems Replacement**—The unfunded cost to replace and modernize the County's most critical IT legacy systems is expected to exceed $400.0 million over the next five years.

- **Deferred Maintenance**—We project an additional need of approximately $750.0 million to fund deferred maintenance in County buildings and facilities. This five-year plan addresses the highest priority deficiencies and building systems replacement needs of existing County facilities. This is an initial plan to begin to address a much larger backlog of deferred maintenance projects and will be reassessed following the completion of facility condition assessments of all County building assets.

- **Pensions**—Pension costs are expected to increase over the next five years, as local governments across the nation move to lower their rate of return assumptions. For example, the Los Angeles County Employees Retirement Association (LACERA) lowered the rate of return assumption used for the valuation of pension plan assets from 7.50 to 7.25 percent, and changed the mortality assumptions used to value plan liabilities. These changes, along with adjustments for prior-year investment performance, resulted in increased retirement contribution costs beginning in FY 2017-18 and continuing through FY 2019-20.

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 10, 2018
Commence Public Budget Hearings	May 16, 2018
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion	June 25, 2018

Prior to deliberations on the FY 2018-19 Adopted Budget, we will file reports on:

- May revisions to the Governor's Budget and updates on other 2018-19 State and federal budget legislation and the impact on the County's Recommended Budget;
- Final revisions reflecting the latest estimates of requirements and available funds;
- Issues raised in public hearings or written testimony;
- Specific matters with potential fiscal impact; and
- Issues as instructed by the Board.

APPROVAL OF RECOMMENDED BUDGET

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

- The documents must be available for consideration by the public at least ten days prior to the commencement of public budget hearings.
- Adjustments to the budget, including revisions to reflect the Board's funding priorities and State and federal budget actions, can be made during budget deliberations, prior to adoption of the Budget.
- Pursuant to State law (the County Budget Act), the Board may make changes to the Recommended Budget with a simple majority (3 votes) until adoption of the Budget, if changes are based on the permanent record developed during public hearings (e.g., Recommended Budget, budget requests and all written and oral input by Supervisors, County staff and the public).
- Changes not based on the "permanent record" require 4/5 vote.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

Order such revisions, additions, and changes to the Chief Executive Officer's budget recommendations as deemed necessary, and approve the revised figures as the Recommended Budget for 2018-19; order the publication of the necessary notices; and set May 16, 2018, as the date that public budget hearings will begin.

Respectfully submitted,

Sachi A. Hamai

SACHI A. HAMAI
Chief Executive Officer