Chief Executive Office.

COUNTY OF LOS ANGELES
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CHIEF EXECUTIVE OFFICER
Fesia A. Davenport

April 15, 2025

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:

2025-26 RECOMMENDED COUNTY BUDGET
(3-VOTES)

The 2025-26 Recommended Budget marks the start of an unprecedented season of budgetary pressure and constraint in Los Angeles County (County) as we confront an array of major fiscal challenges against the backdrop of a highly unsettling economic landscape.

This Recommended Budget—the first step in the County's three-part annual budget process—reflects the daunting fiscal realities we are facing with a prudent, pared-down spending plan that we hope to build upon in future budget phases as our financial picture comes into greater focus.

The $47.9 billion Recommended Budget reflects a decrease of nearly $1.3 billion compared to the 2024-25 Final Adopted Budget of October 2024. It includes 14 new positions, a small number when compared to prior Recommended Budgets, bringing the County's total budgeted workforce to 117,100.

The Recommended Budget includes $230.5 million in new net revenues—a stark decrease from the $390.2 million in new net revenues available in the 2024-25 budget year and an even greater decrease from the $551.7 million available in 2023-24. These dollars will be used to fund key existing obligations, including:

- Previously contracted increases in wages and benefits for the County's workforce;
- Growing public assistance caseload costs;

- Previously approved Board policies and County commitments; and
- Compliance with a Department of Justice consent decree.

After funding these existing obligations, relatively little funding remains to fund new programs and initiatives in this budget phase. Additionally, this Recommended Budget includes $88.9 million in ongoing savings resulting from three percent net County cost (NCC) reductions in departmental budgets.

As always, funding requests far exceed available resources. This year we received budget requests totaling $2.4 billion. We are recommending funding for $230.5 million of these requests, deferring over $815.0 million in funding requests to future budget phases, leaving $1.3 billion as an unmet need.

The Challenges

The County is facing a daunting array of challenges in a dynamic economic and political landscape full of uncertainties, yet like all other local governments in California, we are required by State law to balance our budget. Our challenges include:

Assembly Bill (AB) 218

The County has reached a tentative $4.0 billion settlement—the largest in County history—to resolve thousands of lawsuits filed under AB 218, a law which became effective in 2020, waived the statute of limitations to file a claim of childhood sexual assault by providing a 3-year window to allow victims of childhood sexual abuse to come forward. If the settlement is approved by your Board, the settlement financing plan will require annual payments totaling hundreds of millions of dollars through 2030 and substantial continuing annual payments through fiscal year (FY) 2050-51. This settlement will resolve most—but not all—of the AB 218 cases filed to date.

Wildfires

The Eaton and Palisades wildfires are among the worst natural disasters to strike the County in modern times. Beyond the human toll of these deadly, destructive and unprecedented fires, some early forecasts place the overall economic impact on the County region at more than $250.0 billion. As a vital player in the regional economy, the County expects decreases in some locally generated revenues, including decreases in property tax revenues from the full or partial loss of properties in the affected areas and further decreases in our local sales tax-based revenues due to the loss and closure of businesses. Extending, through April 2026, the deadline for property owners in fire impacted areas to pay their real property taxes without penalties and interest will further impact our revenue assumptions.

While revenues will face significant fire-driven declines, we anticipate significant increases in County costs to provide essential aid to impacted residents and to invest in clean-up and rebuilding efforts to help our communities recover as quickly as possible. As recovery and rebuilding gets underway, we are actively calculating these costs, which we expect to be substantial as departments confront sharply increased workloads, the need to replace County structures destroyed by the fires, and other new responsibilities to meet the challenge.

We expect these costs to negatively impact current departmental budgets which were adopted prior to this emergency—and these multi-year costs, will reverberate well beyond the 2024-25 budget year. The County will shoulder most of the response and rebuilding costs initially while we work with the Federal Emergency Management Agency (FEMA) to claim eligible costs for future reimbursement. Based on our experience with prior natural disasters, FEMA does not typically cover all claimed costs, and reimbursements are not fully repaid until years after claims are submitted. While the costs will be substantial, supporting our communities as they move toward full recovery will ultimately create a stronger, safer, more resilient County for all our residents.

Federal Impacts
The new federal administration’s policy changes jeopardize hundreds of millions of federal dollars that support vital County services and programs. For example, Public Health was recently notified that more than $45.0 million in previously awarded grant funds—intended to last through July 2026—were rescinded, although that decision is being challenged in court by 22 State Attorneys General and the District of Columbia and a temporary restraining order has been granted. If this rescission does move forward, it will be reflected in a later budget phase. My office continues to evaluate the impact these potential funding losses will have on services and the County workforce providing these services. Thirteen percent of this year’s Recommended Budget comes from direct federal assistance and billions more comes from sources reliant on federal funding which means we have thousands of employees paid, in whole or part, with federal funding. Even absent the budgetary pressures listed above, the County would be unable to support the cost of hundreds of employees currently paid with federal funding if that funding were to disappear. We are closely monitoring these shifts in federal policy and their potential impact on our federal revenue streams and on our budget. We will return to the Board with additional recommendations in a later budget phase to address any federal funding changes, as appropriate.

Declining Growth in Property Tax Revenues
Rising mortgage rates contributed to a sharp decline in home sales since 2022. Over the same period, the County's share of property tax revenue growth has declined from $450.5 million in 2022-23 to a projected $233.9 million in 2025-26, a $216.6 million decline.

Complete Spend Down of American Rescue Plan Act Funding
The County is nearing the complete spend-down of nearly $2.0 billion of American Rescue Plan Act funds. This one-time federal funding was allocated to various countywide programs to serve communities most heavily affected by the COVID-19 pandemic. The County lacks the resources to sustain these programs and services on an ongoing basis once these funds have been exhausted by December 2026.

More Budgetary Pressure
We are currently in negotiations with our valued labor partners negotiating in good faith at 49 open tables representing 14 unions in 46 bargaining units. Although negotiations are occurring during a time of heightened budgetary challenges and new constraints in an uncertain and evolving broader economic landscape, we remain hopeful of reaching agreements that are fair to our valued workforce, enable us to sustain vital services to the public, in alignment with our budgetary reality.

Preparing to Do More with Less

In the face of mounting pressures on our budget, my office instructed departments to submit three percent NCC reduction scenarios to generate ongoing savings, to help mitigate the impact of these challenges like the multi-billion dollar AB 218 settlement. Our aim, as always, is to strategically target reductions that minimize impacts on the public.

Following a review of departmental submissions—in which some proposed cuts were modified or rejected—we are recommending an $88.9 million decrease in NCC allocated to departments and a reduction of 310 positions. These vacant positions are not expected to materially impact overall departmental operations and should leave departments with capacity to manage their recruiting and staffing needs for the year.

My office continues to work with departments to refine their reduction plans and any changes will be included in subsequent budget phases.

Budgeting for Change

Both Measure G (related to County governance reform) and Measure A (related to homelessness funding), were passed by County voters on November 5, 2024 and will drive changes to the County's budget, budgeting process and the lives of our residents, this year and for decades to come.

Measure G requires important changes in the County's organizational design by: establishing an Ethics Commission and Office of Ethics Compliance by 2026, creating an elected County Executive by 2028, and expanding the Board from five to nine members starting in 2032. These changes are intended to create accountability, efficiency and transparency while increasing representation for its residents. We have already seen Measure G reforms on display through the County's first-ever public departmental budget presentations, which took place in February and March of this year. This Recommended Budget adds $1.9 million in one-time fund balance to support implementation costs to establish the Governance Reform Task Force, and sets aside $10.0 million in ongoing funding for governance reform related costs, such as the ongoing operations of the Ethics Commission and Office of Ethics Compliance which must be established by 2026.

Measure A replaces Measure H (which was passed by voters in 2017), and establishes a new half-cent sales tax expected to generate over $1.0 billion annually for the County, the Los Angeles County Development Authority, and the Los Angeles County Affordable Housing Solutions Agency (LACAHSA). More than half of this funding will remain in the County to maintain vital programs and services aimed at combating homelessness-services previously funded by Measure H. Although this Recommended Budget includes the projected revenue from Measure A, we will return in a subsequent budget phase to allocate the County's share to align with the Board-approved spending plan. In a separate action, LACHASA will submit its spending plan to the LACAHSA board for approval.

More details of the 2025-26 Recommended Budget are provided below.

BUDGET OVERVIEW

As stated above, the 2025-26 Recommended Budget totals $47.9 billion, which is a decrease of nearly $1.3 billion in total financing uses when compared to the 2024-25 Final Adopted Budget of October 2024. This decrease is due primarily from the deletion of one-time funding provided for one-time needs in FY 2024-25.

Fund Group ($ in billions)	2024-25 Final Adopted Budget	2025-26 Recommended	Change	% Change
Total General County	$37.995	$37.352	-$0.642	-1.7%
Special Districts/ Special Funds	11.178	10.569	-0.609	-5.5%
Total Budget	**$49.173**	**$47.921**	**-$1.252***	**-2.7%**
Budgeted Positions	117,086	117,100	14	0.01%

**Though this represents an almost three percent reduction from the 2024-25 Final Adopted Budget, additional funding may be allocated over the coming budget phases.*

ECONOMIC OUTLOOK

The forecast for the U.S. economy has recently changed. While initial projections pointed to slow growth in 2025, the outlook is increasingly becoming negative. A strong labor market and consumer spending are projected to remain relatively stable. However, recent actions by the new Presidential administration have increased uncertainty and market volatility and prompted discussions of a potential recession. On March 19, 2025, the Federal Reserve held interest rates unchanged after three straight rate cuts in 2024, further raising concerns over the economic outlook. The uncertainty at the national level coupled with local budgetary pressures is painting a bleak picture of the County's economic outlook in the coming years.

The wildfires put further stress on the County's fiscal outlook with increases in unforeseen expenditures, as well as decreases in property tax revenues from the full or partial loss of properties in the affected areas and in sales tax-based revenues due to the loss and closure of businesses. The financial impacts of the fires are expected to be felt beyond 2025-26.

Our forecast for sales tax revenues reflects a mix of moderate and nominal growth based on current revenue trends. The 2025-26 Recommended Budget includes an estimated increase of two percent, or $1.8 million, from sales and use tax collections in the County unincorporated areas. For Proposition 172 Public Safety statewide sales tax revenues, the 2025-26 Recommended Budget reflects a 0.5 percent decline, or $5.0 million, from the 2024-25 Final Adopted Budget. This is due primarily to the County's decreased percentage allocation of statewide sales and use tax revenues, as well as weaker than budgeted revenue growth in 2024-25.

The local housing market continues to experience a slowdown in the form of year-over-year declines in home sales due to elevated interest rates. Further straining property tax revenues, the County's main source of NCC, is the impact from the recent devastation caused by wildfires. After consulting with the County Assessor, we are forecasting a very moderate three percent increase to the 2025 tax assessment roll, resulting in a $233.9 million increase in property tax revenue. Since the Assessor is scheduled to issue his official forecast in May 2025 and release the final roll in the summer of 2025, our office will update assessed value projections in future budget phases, if needed.

In light of the current economic instability, it is important to remain adaptable and resilient. My office is committed to carefully monitoring emerging trends and making informed decisions to ensure the continued delivery of essential services. We will refine our revenue forecasts as needed throughout the year.

ABOUT THE BUDGET PROCESS

The Recommended Budget is the first step in the County's multi-part budget process, which includes Public Hearings in May; deliberations leading to the approval of the Adopted Budget in June; and the Supplemental Budget culminating with the approval of the Final Adopted Budget in September. This multi-phase process enables the County to respond to fiscal and economic changes, that may have been absent, and opportunities, that may have been unavailable, at the start of the budget year.

Although the County's budget is very large – most of it is already "spoken for." Most of the County's budget comes from State and federal sources, as well as charges and fees for services provided to contract cities or to the public. Generally speaking, these revenues are tied to specific programs and services and may not be repurposed for uses that are different from the use restrictions tied to the program or service unless a waiver is obtained from the funding entity. This funding covers the existing costs to implement the programs including costs for: staff, salaries, employee benefits, office space, and benefits to service recipients. Similarly, the bulk of our locally generated revenues is already committed to ongoing programs and services previously approved by the Board. As part of our budget process, we focus on the changes (i.e., additional revenue) to our budget – a budgeting convention known as incremental budgeting. As a result, the

Recommended Budget highlights listed in APPENDIX A focus on how anticipated additional revenue and funding sources are allocated rather than how the County's entire, existing budget resources are allocated. The budget process is guided by the fiscal policy which has kept the County's budget sound for many years. Those policy mandates include directives to fund ongoing costs with ongoing revenue/resources and fund mandatory obligations before discretionary ones.

FOLLOW-UP BUDGET ACTIONS

Your Board requested my office to report back on the following items during the 2025-26 Recommended Budget.

Proclaiming November 2024 as Native American Heritage Month

On October 22, 2024, the Board adopted a motion directing the Chief Executive Office (CEO) and the Department of Arts and Culture (Arts) to determine the feasibility of funding a new Office of Tribal Affairs (Tribal Affairs) and include funding in the 2025-26 Recommended Budget. A funding request for four positions and services and supplies to establish Tribal Affairs was submitted by Arts as a Tier 3 – "Other Unmet Needs" request in the 2025-26 Recommended Budget request. Other Unmet Needs requests are not characterized by urgency and are included to establish a record of the request or to signal intent to submit the same request in a future budget phase. Arts included this request to ensure its visibility at this stage in the budget process, and has indicated that renegotiating the Memorandum of Understanding, pursuant to directives A and B of the October 22, 2024 motion, with the City of Los Angeles about their participation and relationship to the Los Angeles City/County Native American Indian Commission is a priority and will likely be a yearlong process Arts also reported that the establishment of the Office of Tribal Affairs requires further discussion with Board offices to identify its most critical functions and to inform what the beginning steps of implementation will resemble. As such, no funding to support the establishment of Tribal Affairs is recommended in the 2025-26 Recommended Budget and the Arts may request funding consideration consistent with the Board's motion during a subsequent budget phase once the aforementioned tasks have been addressed. This motion is reflected in the Fiscal Resilience Protocol as Tier 3 pursuant to my office's Fiscal Resilience Protocol (Step 3) memorandum dated April 4, 2025.

Increasing Support for County Immigrants

On November 26, 2024, the Board adopted a motion directing the CEO in partnership with the Office of Immigrant Affairs to identify a minimum of $5.5 million in ongoing funding to continue supporting the existing RepresentLA program. DCBA's submitted a funding request of $5.5 million as a Tier 1 – Critical Unmet Needs request in the 2025-26 Recommended Budget request. Due to limited new ongoing revenue, the 2025-26 Recommended Budget includes $5.5 million in one-time funding to continue to support the existing RepresentLA program through June 30, 2026. DCBA may request funding for the program in the 2026-27 Recommended Budget phase once all directives in the November 2024 motion have been addressed. The CEO and DCBA will report back no later than May 15, 2025, with updates on the appropriate number and level of staff to adequately respond to immigrant communities' need for outreach and education, linkage to services, and language access and/or consider the option of creating a County Department of Immigrant Affairs; and efforts made to engage the City of Los Angeles and philanthropic partners on continued partnership to fund RepresentLA. This motion is reflected in the Fiscal Resilience Protocol as Tier 1 pursuant to my office's Fiscal Resilience Protocol (Step 3) memorandum dated April 4, 2025.

Trans, Gender Expansive, and Intersex (TGI) Wellness and Equity Initiative

On November 26, 2024, the Board adopted a motion that directed the Department of Public Health, in consultation with the LGBTQ+ Commission, to establish a pilot two-year TGI Wellness and Equity Initiative to enhance services being provided to the TGI community and to build the capacity of organizations serving the TGI community. The Board further directed the CEO to identify $7.0 million in funding over a 24-month period ($3.5 million per year) to initiate the program, including the use of NCC. Given the vast budgetary pressures on the County at this time and the constraint on available NCC, the CEO is actively exploring alternative funding sources to support this program, including one-time Care First and Community Investment funding. We plan to return to the Board during a subsequent budget phase with budget recommendations, as available. This motion is reflected in the Fiscal Resilience Protocol as Tier 1 pursuant to my office's Fiscal Resilience Protocol (Step 3) memorandum dated April 4, 2025.

The State of Latinos in Los Angeles County: Recognizing their Importance and Addressing Disparities

On December 3, 2024, the Board adopted a motion on the State of Latinos in the County, recognizing their importance and addressing disparities. The motion instructed the Executive Director of Racial Equity to consult with a representative group of Latino stakeholders and academic and/or research institutions and create A State of Latinidad County report, with the report to be presented to the Board biennially. Additionally, it directed the CEO to identify $0.6 million in one-time funding to produce the report. The CEO has identified one-time funding within its FY 2024-25 budget to fund the report. Initial planning for a consulting agreement is underway. This motion is reflected in the Fiscal Resilience Protocol as Tier 4 pursuant to my office's Fiscal Resilience Protocol (Step 3) memorandum dated April 4, 2025.

LONG-TERM BUDGET CONCERNS

In addition to the budget pressures identified earlier in this letter, we have identified several needs that will require significant investments through a longer, multi-year funding approach. The most significant of these are outlined below:

- **Department of Children and Family Services** – The Department is forecasting a structural deficit of more than $200.0 million, due to the prior expiration of the Title IV-E Waiver and federal bridge funding under the Families First Transition Act Funding Certainty Grant, rising staff and placement costs, and the substantial expansion of State-mandated services for children and youth through age 21.
- **Other Department Deficits** – Another department with an unresolved structural deficit is the LA County Library, which is anticipated in 2029-30. The Department of Health Services is also facing a future deficit based on a gap between revenues and operating costs. Registrar-Recorder/County Clerk also has an unresolved ongoing structural deficit due to the reliance on one-time funding for the VSAP election system model.
- **Information Technology Systems Replacement** – The unfunded cost to replace and modernize the County's critical information technology legacy systems is expected to exceed $450.0 million.
- **Deferred Maintenance** – The Facility Reinvestment Program is a $750.0 million program previously approved by the Board to address deferred maintenance of existing County buildings and facilities. The $750.0 million funds an initial plan to address a larger backlog of the highest-priority deferred maintenance and building systems replacement projects. This is comprised of $546.0 million in previously approved one-time NCC and $204.0 million in short-term borrowing, which is planned to be long-term debt-financed in FY 2029-30 at $20 million annually for 15 years.
- **Seismic Safety** – Over $1.5 billion in funding is estimated to be needed in the next 20 years to improve the County's ability to withstand a major earthquake and provide public services following an earthquake. This is a decrease of approximately $500 million due to the acquisition of the Gas Company Tower,

allowing the County to reposition its County assets, including the Hall of Administration, thereby substantially reducing seismic costs associated with older, existing buildings. Public Works is currently performing an assessment and prioritization of high-risk buildings. A proposed building code ordinance requiring the seismic retrofitting of high rise non-ductile concrete buildings is targeting Board adoption in May 2025.

- **Stormwater and Urban Runoff** – To address regulatory stormwater and urban runoff compliance in unincorporated areas, we estimate that $502.0 million will be needed over the next five years. This amount will be partially offset with Measure W tax revenue as awards are made annually to County stormwater projects.
- **Other Post-Employment Benefits (OPEB)** – The 2025-26 Recommended Budget adds $75.4 million in pre-funding contributions to the OPEB Trust Fund. This is the 11th year of a multi-year plan to reach the estimated $1.5 billion actuarially determined contribution (ADC). The ADC is recognized as the measuring stick indicating that these health benefits for retired members of our County workforce are adequately funded. This multi-year plan will ensure that we have a secure and stable funding source for these expenses.

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 15, 2025
Commence Public Budget Hearings	May 7, 2025
Commence Final Budget Deliberations and Adopt Budget Upon Conclusion of Deliberations	June 23, 2025

Prior to deliberations on the 2025-26 Adopted Budget, we will file reports on:

- May revisions to the Governor's Budget and updates on other 2025-26 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, including the potential impacts from federal policy changes; and
- Other issues as instructed by the Board.

APPROVAL OF RECOMMENDED BUDGET

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

- The documents must be available for consideration by the public at least 10 days prior to the commencement of public budget hearings in May.
- Adjustments to the budget, can be made during budget deliberations, prior to adoption of the Budget in June.
- 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 four votes.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

Approve the Recommended Budget for 2025-26; order the publication of the necessary notices; and set May 7, 2025, as the date that public budget hearings will begin.

Respectfully submitted,

FESIA A. DAVENPORT
Chief Executive Officer

Enclosure