Chief Executive Office.

COUNTY OF LOS ANGELES
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CHIEF EXECUTIVE OFFICER
Fesia A. Davenport

March 6, 2025

To: Supervisor Kathryn Barger, Chair
Supervisor Hilda L. Solis
Supervisor Holly J. Mitchell
Supervisor Lindsey P. Horvath
Supervisor Janice Hahn

From: Fesia A. Davenport
Chief Executive Officer

REPORT BACK ON LOS ANGELES COUNTY GOVERNANCE REFORM: IMPLEMENTING THE VOTER MANDATE FOR A MORE REPRESENTATIVE, ACCOUNTABLE AND TRANSPARENT LOS ANGELES COUNTY (ITEM NO. 19, AGENDA OF NOVEMBER 26, 2024)

On November 26, 2024, the Board of Supervisors (Board) adopted a motion directing the Chief Executive Officer (CEO) to, within 60 days, identify available funding to support the Measure G Governance Reform Task Force (GRTF) in the current fiscal year and for Fiscal Years 2025-26 and 2026-27, including budget, staffing, and placement within the Executive Office of the Board of Supervisors (Executive Office) and ensure that direct services are not impacted to achieve this directive. This memo is responsive to the motion and recommends/concludes:

- My office will adopt the Auditor-Controller's interpretation of "implementation costs" as we prepare funding recommendations related to the Charter Amendment, to ensure consistency with what voters understood based on the Auditor-Controller's Fiscal Impact Statement.
- The Executive Office should use the remaining $305,000 to pay for its anticipated $270,000 in costs for the GRTF this fiscal year.
- The November 26, 2024, motion is not subject to the Fiscal Resilience Process because we have identified funding currently in the Executive Office's operating budget (transferred from savings set aside in the PFU budget), no new NCC is needed.
- The CEO's office will make recommendations regarding requested GRTF resources for the Fiscal Year 2025-26 during the 2025-26 budget process.

- The CEO's office will make recommendations regarding requested GRTF resources for Fiscal Year 2026-27 during the 2026-27 budget process.

Under Measure G, the voters approved an amendment to the County Charter (referred to in this report as the "Charter Amendment") requiring, among other things, that the County establish the GRTF within 180 days after certification of the vote. The GRTF will advise the Board and be responsible for implementation of the Charter Amendment and disband when the implementation is complete. The Charter Amendment ushers in a new governance structure for the County, including an expanded Board of Supervisors, a new elected County Executive, and new permanent and temporary bodies like the GRTF.

This report marks the first time my office is making budgetary recommendations regarding the implementation of the Charter Amendment. While establishing the GRTF is a key step in implementing the Charter Amendment, we are mindful that it is but one of many steps the County must take to fully realize the Charter Amendment's new governance structure. We are also mindful that my office's budgetary recommendations for the GRTF will set the tone for the overall approach to identifying implementation costs savings and offset which are important because the Charter Amendment expressly requires that the County limit implementation costs.

For this reason, prior to discussing our funding recommendations for the GRTF, we will first discuss the Charter Amendment's funding parameters to ensure your Board and the public understand how my office will review budget recommendations consistent with those parameters.

<u>The Charter Amendment Requires the County to Limit Implementation Costs but Leaves the Details to the Annual Budget Process</u>

The Charter Amendment specifically addresses the cost to operationalize new structures governance bodies. Section 10.14 of the Charter Amendment provides:

> The Board of Supervisors is authorized, and it shall be the duty of the Board:. . .G) To limit implementation costs necessary to expand the membership of the Board of Supervisors from five to nine members, to establish the positions of elected County Executive, Director of Budget and Management, County Legislative Analyst, and Ethics Compliance Officer, and to establish the Los Angeles County Ethics Commission, the Office of Ethics Compliance, the Governance Reform Task Force, and the Charter Review Commission, so that such implementation costs are funded with existing County funding sources and result in no additional costs to, or taxes imposed on taxpayers, with any implementation costs

> to be offset by cost savings, as determined through the annual County budget process and in coordination with the County Executive.

Based on the language above, all implementation costs must be:
- Necessary,
- Limited,
- Funded with existing County funding sources,
- Result in no additional costs to taxpayers,
- Result in no additional taxes imposed on taxpayers, and
- With any implementation costs offset by cost savings.

During the annual budget process, your Board must "determine" how to fund Charter Amendment implementation in keeping with its mandates to limit and control implementation costs.

Because my office is responsible for making budget recommendations to your Board, we explain in this memo our approach to funding requests which in turn demonstrates how the County will comply with all Charter Amendment requirements.

1. "Implementation Costs"

The Auditor-Controller clarified in its Measure G Fiscal Impact Statement, which was included in ballot language put before the voters, that "implementation costs" were onetime in nature and required to stand up the governance structure and new governing bodies, including office space for new elected officials, establishing new departments and officials, and additional technology and election costs. The Auditor-Controller estimated approximately $8.8 million in onetime implementation costs.

The Auditor-Controller distinguished ongoing costs for salaries and benefits, office space, and other administrative and support needs from "implementation costs." The Auditor-Controller was unable to estimate future ongoing costs and specified that the Charter Amendment's limitations on costs only applied to the one-time implementation costs.

To ensure consistency with what voters understood based on the Auditor-Controller's Fiscal Impact Statement, my office will adopt the Auditor-Controller's interpretation of "implementation costs" as we prepare funding recommendations related to the Charter Amendment.

2. "Limited" and "Necessary"

The Charter Amendment requires your Board to "limit implementation costs necessary to" create the new governance structure. We interpret this language as first requiring that all implementation costs be "necessary," meaning that the costs are needed to operationalize the new governance structure required by the Charter Amendment. In other words, the implementation costs must be "must-haves," not "nice-to-haves."

As part of the CEO's existing responsibilities to make budget recommendations to your Board, my office will work with requesting departments and your Board, in the normal course of our annual budget process, to evaluate budget requests related to the Charter Amendment to determine whether they are necessary.

Second, even where costs are necessary, they must be "limited." The language quoted above states that the Board must "limit implementation costs. . . *so that* such implementation costs are funded with existing County funding sources and result in no additional costs to, or taxes impose on taxpayers, with any implementation costs to be offset by cost savings." We interpret the phrase "so that" to be the equivalent of "with the result that," meaning that your Board successfully "limits" implementation costs under the Charter Amendment where such costs are funded with existing County funding sources, result in no new costs or taxes for taxpayers, because they are offset by cost savings. Stated differently, implementation costs that are necessary, funded with existing County funding sources, result in no new cost impact or taxes for taxpayers because they offset by cost savings, are appropriately "limited" under the Charter Amendment.

3. "Funded with existing County funding sources" and "No Additional Costs to, or Taxes Imposed on Taxpayers"

Consistent with our budget practices, we interpret the phrase "funded with existing County funding sources" to mean that all implementation costs must be paid for with revenue sources the County received as of the date the voters approved the Charter Amendment. Consistent with the Auditor-Controller's Fiscal Impact Statement, this refers not to the amount of revenue received as of the date voters approved Measure G, but the type of funding. For example, property taxes are the County's largest locally generated revenue source. While the amount of property tax revenue may fluctuate annually, because the County received property tax revenue as a funding source when voters approved the Charter Amendment, property tax revenue can be used to fund implementation.

"No additional costs to, or taxes imposed on taxpayers" is the related concept that, in using existing revenue sources for implementation, the County will not need to – and in fact is prohibited from – imposing any additional taxes or other costs on taxpayers to fund implementation. In other words, for the purposes of Charter Amendment implementation, a taxpayer will not have to pay a penny more than what the taxpayer is obligated to pay under existing taxes and assessments, even if though the amount the taxpayer pays each year fluctuates.

4. "With any Implementation Costs to be Offset by Cost Savings"

The County generally does not rely on the phrase "cost savings" during its annual budget process. However, the phrase is commonly understood to mean money that was saved by avoiding costs altogether, or by reducing planned costs.

In the context of the County's annual budget process, this could be applied in two distinct ways. First, cost savings can be achieved by reducing or eliminating programs or positions and redirecting the funding to implement the Charter Amendment. This way of achieving savings is explained in the concept of "program prioritization" in the County's annual budget book (see page 72.4 of Volume I of the County's Fiscal Year 2024-25 Budget Book).

A second way of understanding cost savings in the context of the County's budget is by reference to unspent funding from the prior fiscal year that is available to reallocate in a later fiscal year for a different purpose. During the annual Supplemental Budget phase, your Board considers the Auditor-Controller's recommendation to close the financial records for the prior fiscal year and establish the ending fund balance available.[1] Some of this funding is restricted or encumbered (e.g., by contract) and is carried over to the next fiscal year for the same purpose for which it was originally budgeted. Other funds are "available" in the sense that they are not obligated and can be used to finance new or different costs in the next fiscal year. This is the concept of "fund balance available" as described in the County's annual budget book (see page 72.2 of Volume I of the County's Fiscal Year 2024-25 Budget Book).

Often, in planning for future costs, the County sets aside one-time savings (i.e., fund balance available) into a holding account, which we call the Provisional Financing Uses (PFU) budget unit. When the County is ready to incur the cost, your Board approves moving the funding out of PFU into the operating budget that will bear the cost for the fiscal year in which the cost will be incurred. (See the PFU discussion at page 53.1 Volume I of the County's Fiscal Year 2024-25 Budget Book.)

[1] See, for example, the Auditor-Controller's Board letter requesting to close the books for Fiscal Year 2023-24, at https://file.lacounty.gov/SDSInter/bos/supdocs/196009.pdf.

Paying future costs in this way is appropriately considered offset by cost savings even though budgeting savings in PFU happens in an earlier fiscal year than when the costs are actually incurred and paid.

The above interpretations of "cost savings" are consistent with the types of savings identified by the Auditor-Controller in its Fiscal Impact Statement. Moving forward, we will use these interpretations of costs savings to make funding recommendations related to implementing the new governance structure required by the Charter Amendment.

Funding Recommendations for GRTF in the Current Fiscal Year

The Executive Office of the Board is responsible for operationalizing and resourcing the GRTF. In the current fiscal year, the Executive Office estimates it will spend approximately $270,000 on GRTF implementation. This cost is necessary as the department works to form the GRTF and launch its work, with future additional costs expected next fiscal year.

On February 28, 2023, the Board directed the CEO to identify funding for the Executive Office to conduct an expedited Request for Statement of Interest competitive solicitation for a consultant to convene stakeholders, conduct a review of the Board's governance model, and identify best practices from across the country. The CEO subsequently identified $1.0 million in one-time available fund balance (i.e., savings) which was set aside in PFU in the 2023-24 Supplemental Changes budget phase.

In the midyear budget adjustment in February 2025, the Board approved transferring approximately $700,000 from the PFU to the Executive Office's operating budget to support work on governance reform. Of the $700,000, the Executive Office anticipates spending approximately $395,000 this fiscal year for consultant work required by your Board's February 28, 2023, motion. We recommend the Executive Office use the remaining $305,000 to pay for its anticipated $270,000 in costs for the GRTF this fiscal year. This is consistent with the requirement that implementation costs be limited – i.e., are funded with existing County funding sources, result in no new costs or taxes for taxpayers, and offset by cost savings.

GRTF Funding for the Current Fiscal Year Will Not Be Included in the Fiscal Resilience Process for 2025-26 Recommended Budget

Your Board implemented the Fiscal Resilience Process on September 12, 2023, to ensure that all Board motions requiring new NCC funding are properly evaluated and vetted by your Board prior to approval. Because we have identified funding which is already in the Executive Office's operating budget (transferred from savings set aside in the PFU budget), no new NCC is needed and, therefore, this request is exempt from the Fiscal Resilience Process for the 2025-26 Recommended Budget phase.

Funding Recommendations for GRTF in the Future Fiscal Years

Your Board directed my office to report back on funding for GRTF for Fiscal Years 2025-26 and 2026-27. My office is currently preparing the 2025-26 Recommended Budget, and we will make recommendations on resource requests for the GRTF. The Executive Office has submitted a budget request for $2.0 million in ongoing funding for additional positions and other funding needs identified for GRTF. We will work with the Executive Office to ensure that any additional implementation costs for GRTF comply with the requirements of the Charter Amendment. We will make recommendations regarding requested GRTF resources for Fiscal Year 2026-27 during the 2026-27 budget process.

Should you have any questions or concerns, please contact me or Rene Phillips at (213) 974-1478 or rphillips@ceo.lacounty.gov.

FAD:JMN:MM
RP:AB:MN:kn

c: Executive Office, Board of Supervisors
County Counsel