Overview of FY 2017-19 Budget Workshops

Introduction

The upcoming 2017-18 Fiscal Year will be the first of several years where anticipated, increased costs will exceed available revenue at the current service levels, producing budget gaps if no mitigating actions are taken. This impact will affect the organization differently, with some departments minimally impacted, and others facing significant shortfalls and budget cuts. These effects depend on the funding sources for these services and the type and manner of the departments' operations. Despite these challenges, we are well poised to address these issues and make strategic decisions that position us for success in the future.

Our local economy continues to grow at a moderate pace and federal, state and other local revenues have increased overall, although recent State reductions and funding caps in some areas are significantly impacting our ability to provide service next year, particularly in the Department of Social Services. In the past, this moderate growth has allowed us to restore some previous budget cuts and enabled the expansion of some services to address mandated or emerging needs. It also allowed us to fully fund the General Fund strategic reserve (or 30-day operating reserve) and keep on track with plans to address long-term liabilities, such as paying down unfunded pension and retiree health liabilities over the next two decades, and annually increasing funding toward deferred maintenance needs.

This year's budget theme, "One County, One Future" recognizes that to successfully address our challenges ahead, we will need to do so as a coordinated and interconnected organization, building upon the strengths of individual departments. Our fiscal challenges also call for a reallocation of limited discretionary revenue not just within but among our departments to ensure the Board's highest priorities for the community and organization are met.

Next year, we face fiscal challenges driven by increased salary and pension costs, continuing budget shortfalls in public safety departments and Behavioral Wellness, and higher costs of providing state and federal programs than available revenue for these programs. We also continue to encounter deferred maintenance issues while ensuring our major funding priorities continue. Impacts on department services vary, depending on their funding sources and operations, but all will need to address increased costs in the near term. These challenges will continue unless we can reduce spending, increase or reallocate revenue, or change operations.

With this coming year's budget, we have the opportunity to address these challenges and make decisions that will position the County for success in the future. We have started a rebalancing process to reshape the organization and strategically realign services and costs to provide those services. The Board has prudently rebuilt the Strategic Reserve over the last few years, and the County has not incurred much debt. Departments are collaborating, making their organizations more efficient, and reducing costs or maximizing revenue. All of these actions allow us to chart a course for a sustainable and sound future so that we can continue to serve our community and meet your Board's highest priorities, and make responsible decisions that balance short-term and long-term impacts.

As will be discussed at the Budget Workshops, even with these challenges, your County government continues to strive to provide high quality work, advancing major initiatives and fulfilling priorities to serve Santa Barbara County residents. Significant services are provided day in and day out by County departments, and all have made substantial progress to accomplish goals set by the Board to better serve our communities. These achievements will be discussed in the department presentations and are listed in their draft budget narratives.

Similar to last year, even with service level reductions required, general priorities to guide the budget development process are as follows:

- Continue the Board's prior commitments
- Maintain our financial reserves at prudent levels and incrementally address organizational needs, addressing the highest needs that meet mandates and core missions
- Create efficiencies through technology and process improvements
- Strategically plan for the future
- Minimize service reductions and impacts to the public, to the extent possible
- Address new and emerging needs

Also, the Board in March reviewed the following FY 2017-18 countywide work initiatives:

- Possible cannabis ordinance and ballot measure
- Enhance Public Safety Dispatch services
- Reducing the inmate population where feasible, and in particular, mentally ill individuals in the jail
- Reducing costs of mental health inpatient services
- Continual improvement in the organization
- Internal-facing Strategic Plan (improved HR, IT practices, etc.)
- Technology investments
- One-time funding for program audits or evaluations/other Budget Rebalancing suggestions

Following the Budget Workshops and receipt of the community's and the Board's input, departments will revise their budgets, and the County Executive Office will develop the Recommended Budget, to be released in May 2017. Budget hearings are scheduled for the week of June 12, 2017.

The following information is a summary of many of the major countywide issues to be presented at the workshops, which were discussed in more detail in the December 2016 Fiscal Outlook Report, January 2017 Fiscal Update Report and March 2017 Gap Update. As new information is received, some information will continue to evolve up until the budget hearings.

Projected Revenue and Expenditure Trends

Overall (all funds) revenue growth is anticipated at 1.9%. The General Fund, which funds basic services, is expected to grow 3.7% in FY 2017-18.

Property Tax revenue – General Fund growth is closely correlated to growth in assessed property values. Given that the Assessor does not close the roll until June 2017, projections for FY 2017-18 currently estimate an assessed value growth in secured property tax of 3.46% net of the Fire Tax Shift. The gross increase is projected to be 4.5%.

Transient Occupancy Tax (TOT) and Sales Tax Growth – TOT is projected to grow by 16.3% ($1.7 million) to a total of $11.8 million. Sales tax is expected to grow by 2.0% ($0.3 million) to $10.7 million. The increases in TOT are largely due to TOT measure on the November 2016 ballot that raised the TOT from 10% to 12%, consistent with the rate in several cities of the county. Since the passing of that ballot measure, TOT revenues have increased by approximately $1.9 million and will be used to help maintain basic County services that residents and visitors use and rely on, such as clean parks, safe public buildings and roads, mental health services and available public safety services.

Prop 172 funds – Prop 172 funds (the 0.5% sales tax for local public safety) will provide approximately $35.3 million in funding for the Sheriff, Fire, Probation, District Attorney and Public Defender departments in FY 2017-18

The Fire Department is estimated to receive approximately $2.0 million of Prop. 172 funds in FY 2017-18. The Tax Shift is now expected to achieve the targeted 17% during FY 2019-20 and your Board may want to consider that the Fire District's share of Prop 172 be re-amortized to end in FY 2019-20 as well. As part of the Fire Tax Shift, most of the Public Safety departments recommended to the Board that the Fire District's share of Prop 172 funding be reduced from 9.75% in FY 2011-12 to zero in FY 2022-23. If the allocation is re-amortized as recommended, it would reduce the District's allocation to about $862k in FY 2017-18, $439k in FY 2018-19 and zero in FY 2019-20. These funds could then be re-allocated for other public safety needs, possibly dispatch services. This change is not reflected in the Fire Department's FY 2017-18 proposed budget.

State Gas Tax funding - The state legislature announced recently that they had reached a tentative deal on a unified transportation funding and reform proposal. If approved, the transportation proposal will raise $5.2 billion per year in new revenues, which would represent the most significant statewide investment in transportation infrastructure in many years.

This reform deal would mean additional funds to the County of approximately $4.5 million. State Funding shortfalls have put pressure on the General Fund to contribute towards maintaining our roads. If no relief is provided by the State, this is an unsustainable situation for local roads, faced by all local governments in California.

State funding - State funding is also flat (not growing) or has a cap (spending limit) for some programs, such as Child Support Services, or has been reduced next year. This means no additional funding is provided by the State to cover normal increases in labor costs or supplies and expenses, or less funding is provided.

Next year, the State, in attempting to address its budget, has made reductions to the funding of In Home Supportive Services Programs (IHSS). Discussions are occurring in the Legislature to allow some relief to counties with this significant change. In addition, due to statewide caseload decline, the County's share of funding for CalFresh (Food Stamps) and CalWORKs programs has significantly decreased even though Santa Barbara County's CalFresh caseload has actually grown. The Department of Social Services has been working with the County Welfare Directors Association of California (CWDA) to adjust our distribution to better align with our actual caseload. These impacts result in significant shortfalls in the Department of Social Services for these programs, and while for the most part, clients' benefits will not be impaired, the processing times to provide these services would be extended.

Employee salary and benefit costs: When certain union contracts were being finalized, the County did not know the full extent of increasing pension costs. Salary and pension cost increases have created deficits in some departments' budgets. Given the increasing cost of pensions anticipated over the coming years, employee compensation, pension and other benefit packages should be reviewed. This will occur as part of our rebalancing process and through labor negotiations.

Pension funding – In the current year, the County Board of Retirement moved to reduce the assumed rate of return from 7.5% to 7.0%, phased in over a 5 year period, per policy. This determination was based on actuarial studies, historical performance and future expectations of investment returns, inflation, and demographics. The change in assumption will significantly increase the County's retirement contribution rate for the next five years. The increase in costs to the County is estimated to be $10.8 million in FY 2017-18.

Retiree Health – In recent years, the Board approved a budget policy to address requirements to fund current retiree health care costs and the unfunded liability for Other Post-Employment Benefits (OPEB). Last year, the Board formalized that policy and approved a plan to pay down the unfunded liability by contributing 4% of payroll annually. This plan would eliminate the unfunded liability by 2034, if all investment return assumptions are met. In next year's budget, funding is included to reflect this policy.

Deferred Maintenance – In recognition of our aging infrastructure and facilities, the Board developed a policy of annually setting aside 18 percent of available revenue to fund deferred maintenance needs. This has resulted in $3.0 million of ongoing, dedicated maintenance funding in FY 2017-18, which is in addition to a minimum of $2.3 million annual funding previously authorized by Board policy for these needs.

Unbudgeted emergency repairs for County buildings have increased over the last few years and these unplanned emergency repairs will likely continue in the near future until ongoing funding and deferred maintenance levels stabilize. The General Services Department is experiencing an overrun of these emergency projects at nearly $1.0 million annually and more one-time funding may be needed in the near term for these needs.

General Services, Public Works and Community Services departments will discuss this issue in the presentation "Special Issue: Update on Maintenance" as part of the Budget Workshops.

Mental Health Inpatient Beds and New Behavior Wellness Programs – The County's inpatient mental health costs continue to increase. The County has a psychiatric hospital limited to 16 beds (due to federal regulations regarding reimbursement). The County is paid by federal and state sources for some, but not all, costs associated with the hospital. For those costs not reimbursed, the Mental Health Fund, General Fund and/or other mental health funds must pay for those costs.

In FY 2015-16, the County provided $5.4 million of one-time funds over the budgeted allocation to the department for inpatient costs. In the current year, the Department is still experiencing a high need for inpatient beds and a high number of conserved clients, and projects to be $3.7 million over budget by year-end. The Department is moving forward with a facility feasibility study for a Forensic Mental Health Rehabilitation Center with 15 beds at the site of the SB Juvenile Hall, for which capital funds of $4 Million has been allocated by the Community Corrections Partnership. Operating funds for the facility have not been fully determined but is under discussion.

The Department is requesting an additional $1.5 million to maintain the 47 beds/day for inpatient services adopted in the FY 16-17 budget, and is also requesting $600 thousand to meet the current demand of 54 beds/day. Expenditures will be monitored to track the benefit of new beds added during this current year and their ultimate impact on the need for additional beds.

Priority Initiatives - Prior Commitments of Funds

The Northern Branch Jail (NBJ): In recognition of the need to develop a modern, safe and secure new jail for the County, the County approved a 376-bed new jail outside the City of Santa Maria.

The new jail is planned to be operational in late FY 2018-19 and represents a significant ongoing commitment of future General Fund revenue. While the State provided a majority of construction funding, the jail is currently projected to cost approximately $17.9 million to operate annually, funded by the General Fund, during the first full year of operations in FY 2019-20, and increasing yearly thereafter. In light of escalating salary and benefit costs, the CEO’s Office will work with the Sheriff’s Department to update our estimate of annual operating costs, which may necessitate a revision to the County’s funding plan for future years.

By adding incrementally higher amounts of GFC each year, we are slowly building towards the estimated $17.9 million of annual operating funds available to operate the new jail upon opening. As shown below, we plan to allocate $9.1M to this fund in next year’s budget and the balance is estimated to be $12.9 million at the end of the year. Currently, we are only a little more than half way to having sufficient ongoing funds set aside to operate the new jail, which is scheduled to open in 2019. Changing the Operations Funding Plan is not recommended at this time.

If Jail Opens Fully Staffed March 1, 2019						
Fiscal Year	**GFC Base**	**GFC Increase**	**Total GFC**	**County Match Construction**	**Operating Costs**	**End of Year Balance**
2011-12	$ -	$ 1.0	$ 1.0	$ -	$ -	$ 1.0
2012-13	1.0	1.0	$ 2.0	(3.0)	-	-
2013-14	2.0	1.3	$ 3.3	-	-	3.3
2014-15	3.3	1.3	$ 4.6	-	-	7.9
2015-16	4.6	1.5	$ 6.1	-	(0.2)	13.8
2016-17	6.1	1.5	$ 7.6	(12.3)	(1.4)	7.7
2017-18	7.6	1.5	$ 9.1	-	(4.0)	12.9
2018-19	9.1	1.8	$ 10.9	-	(11.4)	12.3
2019-20	10.9	1.8	$ 12.7	-	(17.9)	7.2
2020-21	12.7	2.2	$ 14.9	-	(18.4)	3.7
2021-22	14.9	2.2	$ 17.1	-	(19.0)	1.8
2022-23	$ 17.1	$ 2.2	$ 19.3	$ -	(19.5)	**1.6**

Fire District Property Tax Shift – Fire services are vital to Santa Barbara County, to ensure adequate staffing, equipment and fire station facilities, the County shifted future property tax revenue from the General Fund to the Fire District. The target is 17% of property taxes to the Fire District (from about 14.3% in FY 2012-13). The new revenue gained by the Fire District through this shift of taxes would otherwise have been General Fund revenue. As part of this tax shift agreement, the Fire District also forgoes a share of other revenue it had previously received. It is estimated that the Tax Shift will provide an additional $8.0 million per year to the Fire Department in FY 2017-18 and about $11.3 million per year in FY 2019-20 when the 17% allocation is attained.

Common Themes in Departments Draft Budgets and Work Plans for FY 2017-19

A few common themes among departments in their preparation of the FY17-19 budget:

Challenge of accommodating increased salary and benefit costs – The General Fund provides funding for a share of the increased employee costs, based on expected levels of non-General Fund typically received by the department. General liability and health care costs have increased for many departments. Some departments with flat or reduced revenue sources, or less charges for service, are challenged to cover these increased employee costs.

Retirements and Workforce (Succession) Planning – Retirement of experienced managers, supervisors or technical experts is causing concern by departments. The loss of experienced employees without sufficient knowledge transfer can result in reduction in response times, inconsistency, and liability regarding state and federal regulated programs. This trend was identified over two years ago, and departments where this will have a substantial impact have developed their own programs or initiatives to address the change. Human Resources will be continuing efforts to develop effective workforce initiatives to help departments address this issue.

Need for and use of Technology Improvements – Departments also continue their exploration of better technology, such as case management systems, and assistance in this area to become more efficient and productive.

Service Level Reductions and Budget Expansion Requests

Service Level Reductions – Service level reductions are proposed when departments are without sufficient revenue to meet current expenditure levels. Reductions are proposed in a majority of Departments.

The proposed budget reductions are anticipated to be more severe next year than the past few years. Generally, vacant positions are eliminated first but layoffs of staff are currently anticipated. Service level reductions are anticipated for a majority of departments at approximately $39.5 million with the most severe service level reductions anticipated in the DSS, Sheriff and Behavioral Wellness.

Request for Budget Restorations / Enhancements - After reductions made in the Great Recession, departments continue to face financial and operational challenges of new or changing regulations, reductions in state or federal funding, and other activities beyond local government's control that increase their workload. These pressures require a refocus of staff and resources, requiring a reduction of existing work, reassignment or re-prioritization of efforts, or an increase of resources.

Departments are requesting on-going restorations and expansions to their budgets for additional funding, totaling $30.3 million in ongoing General Fund and $5.8 million in one-time General Fund funding.

All departments receiving General Fund Contribution (or discretionary General Fund allocations) were provided five percent less than what they typically would have received as a way to create a pool of funding to address high priority or unavoidable needs, given the lack of excess revenue next year. This allows flexibility for the Board to address these needs, but there is not enough funding to address these requests in the near term, and expectations will need to be adjusted.

FY 2017 – 22 Five Year Forecast

The FY 2017-22 Five Year Forecast uses countywide revenue and expenditure projections to monitor and highlight potential budget issues on the horizon. Although the economy continues to recover from the recession, projected revenue growth remains modest and existing Board commitments and departmental needs continue to increase expenditure levels. If the County does not take any actions necessary to mitigate or abate these fiscal issues, the funding gap is anticipated to grow to $40.5 million in FY 2021-22.

Sources and Uses ($ in millions)	2017/2018 Recommended	2018/2019 Forecast	2019/2020 Forecast	2020/2021 Forecast	2021/2022 Forecast
Fund Type 01 – General					
S -- Source of Funds	$ 431.2	$ 431.4	$ 443.2	$ 456.8	$ 470.4
U -- Use of Funds	423.9	427.1	440.7	457.8	473.8
	7.4	4.3	2.6	(1.0)	(3.4)
Fund Type 02 – Special Revenue					
S -- Source of Funds	583.3	563.8	570.1	576.9	589.2
U -- Use of Funds	583.3	577.5	597.3	609.1	626.3
	-	(13.8)	(27.2)	(32.3)	(37.1)
Net Financial Impact	$ 7.4	$ (9.4)	$ (24.7)	$ (33.3)	$ (40.5)

Summary

There will be difficult choices in the coming months and years for the County, and we will continue to focus on decisions that allow balancing of short-term versus long-term impacts, strategic realigning of services and costs to provide those services, and opportunities for new ways of doing business. We will continue to look to make the right decisions today to position ourselves for success in the future.

Following the Budget Workshops and receipt of the community and Board's input, departments will revise their budgets and work plans for next year, as appropriate, and the County Executive Office will develop the Recommended Budget, to be released in May 2017. Final budget adoption hearings are scheduled for the week of June 12, 2017.