COUNTY OF SANTA BARBARA

Fiscal Outlook Report Fiscal Years 2017-19 & Forecast 2017-21

County Executive Office

Budget and Research

December 13, 2016

The Fiscal Outlook Report describes the Economic Outlook and Fiscal Issues facing the County of Santa Barbara over the next two fiscal years. Issues are not meant to be solved in this report, but highlighted for budget and planning purposes.

Fiscal Outlook Report

TABLE OF CONTENTS

Fiscal Outlook Report

INTRODUCTION

The Fiscal Outlook Report is intended to provide the Board and public with an early look at issues and factor that will influence our FY 2017-18 and future budgets. The main sections of the Report are:

I. *Economic Outlook*
II. *Early Estimated Gap Charts*
III. *Fiscal Issues*

The *Economic Outlook* section describes recent economic trends and projections at the federal and local levels. Additional Information in the Auditor-Controller's Financial Highlights for the Fiscal Year ending June 30, 2016 (http://cosb.countyofsb.org/uploadedFiles/auditor/Publications/FY2015-16FinancialHighlights.pdf) provides a good look at how the County and to some extent the region is preforming.

The following information identifies some of the leading economic indicators that drive the County's primary revenue sources such as property, sales, and transient occupancy taxes. This section also serves as context for the fiscal issues and framework for budget development.

The *Gap Charts* recently have been provided later in the Budget Process; however, given significant recent developments, we have added early estimates of this information. A more precise calculation of these projections will be prepared in February once departments have better revenue estimates, but we will work with departments on addressing the gap while projections are being refined.

The *Fiscal Issues* section identifies significant issues that are expected to impact the County within the next two years. The issues are organized into two tiers according to expected likelihood of occurrence.

- Tier 1 Issues are expected to occur within this period and the County or department are proposing to budget for these issues within the recommended budget. These Tier 1 issues are described in this report.

- Tier 2 Issues are probable but some aspects of the fiscal issue are uncertain and consequently the County or department may not propose to budget for these issues at this time. Tier 2 issues are also described in this report.

These reports are not intended to solve issues at this time but rather to point them out. During the budget development, a more precise calculation of the impacts and strategies to balance budgets will be created and communicated to the Board.

Fiscal Outlook Report

EXECUTIVE SUMMARY

The national and local economies continue to slowly strengthen and we are nearing full employment levels. In Santa Barbara County, property values and businesses continue to grow at a modest rate, which has allowed the County finances to stabilize in recent years. We are now entering a fiscal environment of modest County revenue growth, offset by existing Board priorities and increasing salary and benefit costs. In particular, a recent decision by the Santa Barbara County Employee Retirement System (SBCERS) to lower the assumed rate of return by 50 basis points is expected to significantly increase County pension contributions. The revised pension costs exceed prior forecasts and will be phased in over five years. Funds had been set aside in the FY 2016-17 budget for anticipated pension cost increases; however, the magnitude of the increase far exceeds the amount set aside.

In addition to the pension issue, the following Fiscal Issues will impact future budgets and are described later in this report:

- Behavioral Wellness – Inpatient System of Care
- Health Insurance
- State Gas Tax (HUTA) Revenue Reduction
- Countywide Deferred Maintenance
- Northern Branch Jail Operations Funding
- Mail Jail – Inmate Medical Services and Capital Needs
- Social Services – Increase in Required Local Match (CalFresh and In-Home Supportive Services)

The combination of all factors is projected to create a structural imbalance to the County's budget unless a fiscal re-balancing occurs.

Our early estimates of the General Discretionary Revenue gaps, under three scenarios range from a positive $2.2 million to a negative $13.6 million in FY 2017-18 and increase to a positive $3.3 million to a negative $37.2 million in FY 2020-21, if no actions are taken, as summarized below:

	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast	2020/2021 Forecast
Disc. General Revenue	**247.6**	**256.2**	**266.9**	**278.2**
Scenario #1 Gap	2.2	0.4	2.1	3.3
Scenario #2 Gap	(8.5)	(12.1)	(14.5)	(14.6)
Scenario #3 Gap	(13.6)	(23.8)	(31.8)	(37.2)

These Scenarios are defined later in this report. A more detailed and accurate "bottom up" budget and 5 Year Forecast will be developed in January/February 2017 and will be used in our fiscal Re-Balancing efforts.

Service level reductions, greater revenue generation and/or policy changes are expected to be necessary to balance next year and future year's budgets. By way of context, the expected size of this increase in pension cost is similar to that faced by the County during the Great Recession (when pension costs increased by $42.5 million over 5 years). After the Great Recession the County implemented several cost saving measures to balance to available funding levels, including the reduction of almost 600 funded positions. Most Functional Groups, excluding Health and Human Services (those providing Affordable Care Act services), remain at reduced staffing levels today as shown in the table below.

Functional Group		Adjusted FY 2007-08*	Adopted FY 2016-17	Change	% Change
Policy & Executive		111.4	95.5	(15.9)	-14.3%
Public Safety		1,588.8	1,487.4	(101.4)	-6.4%
Health & Human Services		1,740.3	1,960.5	220.2	12.7%
Community Resources & Public Facilities		631.3	514.9	(116.4)	-18.4%
General Government & Support Services		422.8	341.6	(81.1)	-19.2%
Other - General County Programs		1.0	1.0	-	0.0%
Total FTEs		4,495.4	4,400.9	(94.6)	-2.1%
* - Adjustments made to 2007-08 FTEs to make them consistent with 2016-17 groupings.					

Re-Balancing the Organization is Critical

The current financial challenges being faced by the County are unlike challenges in the past. The County Executive Office is prepared to work with department leaders, employees and stakeholders to eliminate the structural imbalance, prioritize mandated services and align levels of service with available resources. The Financial Re-balancing and Resiliency Planning Process will review for possible implementation common cost reduction strategies for the short term but will also determine feasible solutions to the eliminate the imbalance between revenue and expenditures.

The Financial Re-balancing and Resiliency Planning Process will consider the following opportunities to stabilize the current financial challenges and secure future financial resiliency by:

- Identifying mandatory and discretionary services;
- Maximizing the organization's ability to collaborate, innovate and automate to improve service results at a lower cost;
- Increasing understanding of what and how county services produce value for residents; and
- Balancing highly-valued public services with financial resources, then focusing service delivery systems to optimize results.

The Financial Re-balancing and Resiliency Planning Process is anticipated to develop in four phases:

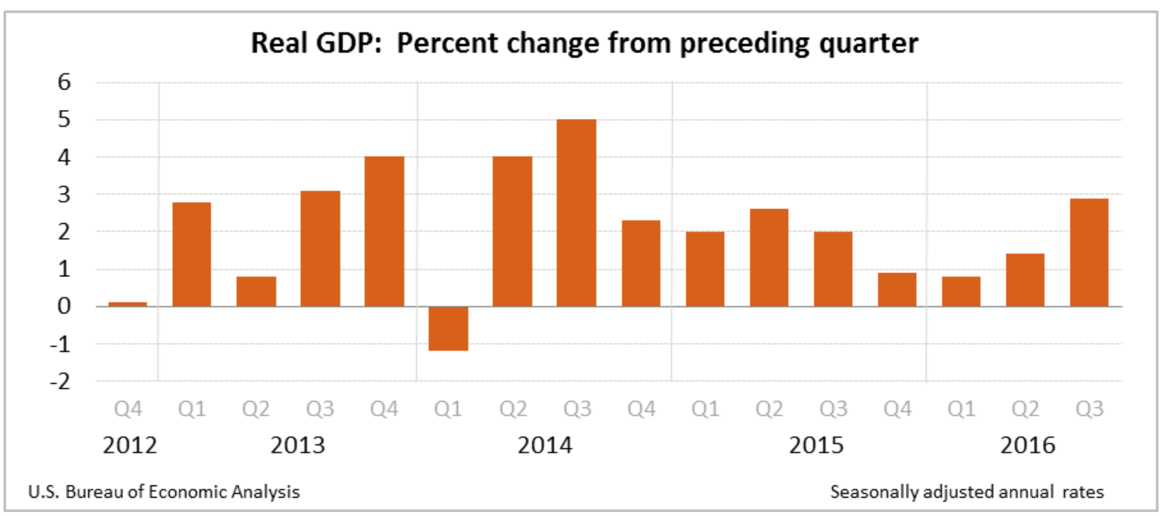
- Phase 1 – Stabilize the current financial situation through engaging department leaders and the workforce and implement actions that provide positive financial impacts quickly in order to balance the FY 2017-18 budget. This phase is currently underway and will continue through early 2017.

- Phase 2 – Develop a FY 2017-19 budget that includes coherent rebalancing strategies consistent with County's policy directions and priorities. The strategies will be developed and/or reviewed by an inter-departmental work group. This phase will start in January 2017 and continue until a presentation and discussion at the Board's April Budget Workshops.
- Phase 3 – Identify Financial Re-balancing and Resiliency Policy Options for FY 2018-20 that will examine our budgeting techniques, innovative service delivery options, streamlining of processes, eliminating barriers to inter-departmental collaboration on services, define accountability for service results and determine needed management practices to support these policies. This phase would kick off in July 2017 and be completed with revised budget and service policies coming to the Board of Supervisors in December 2017.
- Phase 4 – Develop a FY 2018-20 budget that integrates policy options with available resources. This phase would take place during our budget development period of January through March 2018.

ECONOMIC OUTLOOK

The 2016 UCSB Economic Forecast Project stated, *"The US economy, as well as California and Santa Barbara County, all continue to improve on most measures. The growth has been slow coming out the recession, but the recovery is now mature and will likely continue at the current pace over the next year."* The real median home value for Santa Barbara County grew at a significantly greater rate than the California average, 17.5% vs. 5.7%.

The Gross Domestic Product (GDP) is another indicator of the U.S Economy, and increased at an approximate annual rate of 0.75% in the first calendar quarter, 1.4% in the second quarter and 2.9% in the third quarter of 2016, as visible in the following table from the Bureau of Economic Analysis.

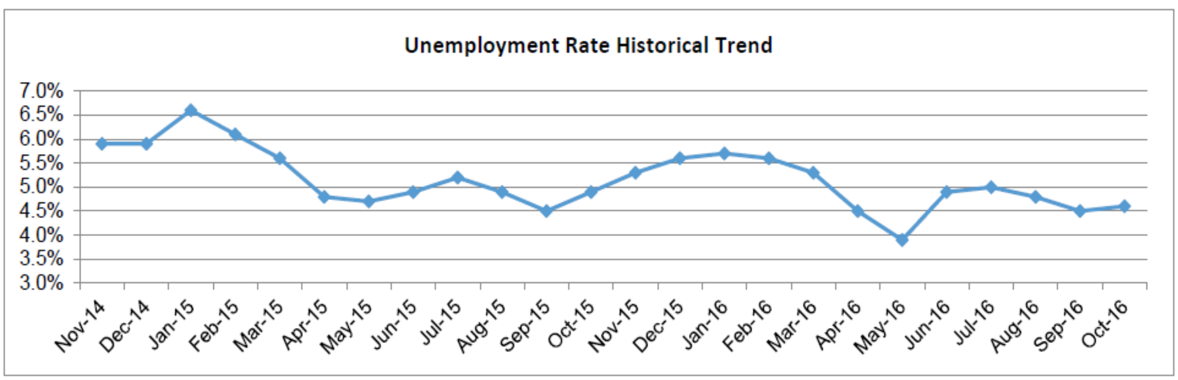


Fiscal Outlook Report

The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and nonresidential fixed investment that were partly offset by negative contributions from residential fixed investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The acceleration in real GDP growth in the third quarter reflected an upturn in private inventory investment, acceleration in exports, a smaller decrease in state and local government spending, and an upturn in federal government spending. These were partly offset by a smaller increase in PCE, and a larger increase in imports. This represents the highest quarterly growth since the quarter ending September 2014.

The California Legislative Analyst's Office (LAO) in its November 2016 Outlook describes a near-term projection that the economic expansion is likely to continue in the country over the next couple of years. However, the LAO also states that the possibility exists that a slowdown or recession could emerge in the short term and provides an economic growth scenario and mild recession scenario, which assumes an economic downturn that begins in the middle of calendar year 2018.



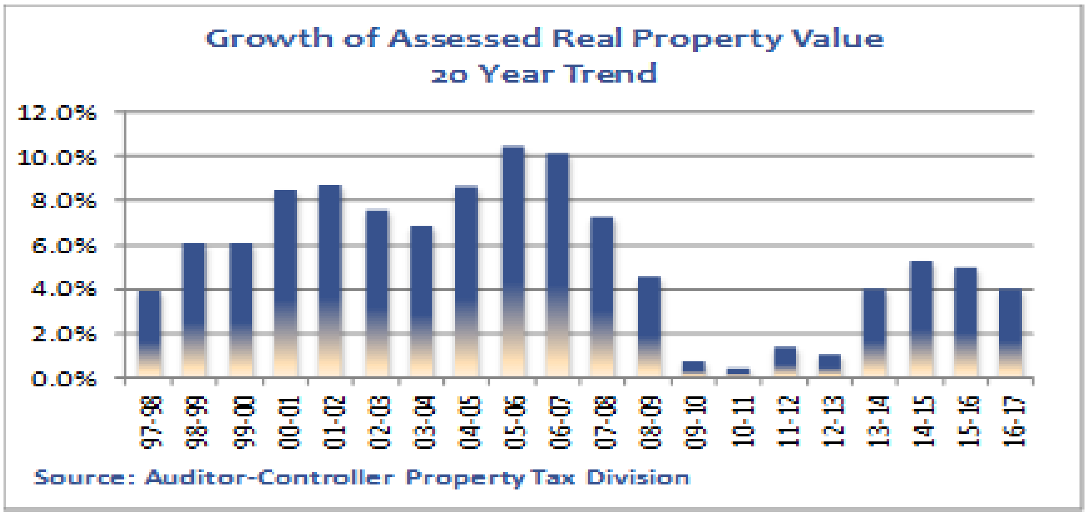
Santa Barbara County Unemployment Rate Historical Trend
California Employment Development Department

The October 2016 Unemployment table above has latest unemployment numbers for Santa Barbara County. The unemployment rate was 4.6%, slightly higher than last month's 4.5% but below the October 2015 rate of 4.9%. California is at 5.3% and the national average is 4.7%. Santa Barbara County has the 12th lowest unemployment in the State; the lowest is San Mateo County at 3.1% and the highest is Imperial County at 22.0%. Overall county employment was up by 3,900 jobs over last year (October 2015) to a total of 208,800 jobs.

The largest employment sector in the County is Government (Federal, State, Local, and Education) with 40,400 jobs followed by Leisure & Hospitality with 28,900 jobs and Trade, Transportation & Utilities with 28,600. There were a total of 21,500 farm jobs in October 2016.

Fiscal Outlook Report

Santa Barbara County housing prices have experienced four years of 4% or greater growth in the assessed values of Santa Barbara properties, although the rate of growth is slightly declining in the past two years. The following chart displays the increase in the value of properties in the County from one year to the next expressed in percentages. It is noteworthy to point out that the assessed values over the past 30 years have had growth every year. We are projecting that assessed value growth rates will be comparable to those experienced in recent years.



While growth in FY 2013-14 and FY 2014-15 was encouraging, the rate of property assessed value growth has been slightly declining in the past two years. In FY 2016-17, growth was projected to be 4.5% but ended at 4.25%. The modest growth rate combined with existing Board commitments, fiscal issues and recent news that the County's pension contribution rates will be increasing will result in expenses increasing at a faster rate than revenues. The impacts of these changes is summarized in the next section, update to the 5 Year Forecast and Gap Charts.

EARLY ESTIMATES OF GAP CHARTS

The 5 Year Forecast is a planned element of our Budget Process and is prepared in January as part of the normal budget development.

To understand the forecast and charts, it is important to review how the County budgets its General Fund revenues.

Discretionary General Revenues only fund a portion of General Fund Department expenditures. Per the Board's budget policy, discretionary revenues in the General Fund (i.e. property and other taxes) are allocated to departments to fund only a portion of their services, given the limited availability of these funds. The portion varies by department, depending on past allocations, the department's ability to access other funds (such as state Prop 172 or Prop 109 funds for public safety), reimbursements, and ability to charge for service (such as Planning and Development fees). For example, Human Resources receives 91% of its budget from Discretionary General Revenues, while the Sheriff receives 55%, and Planning and Development

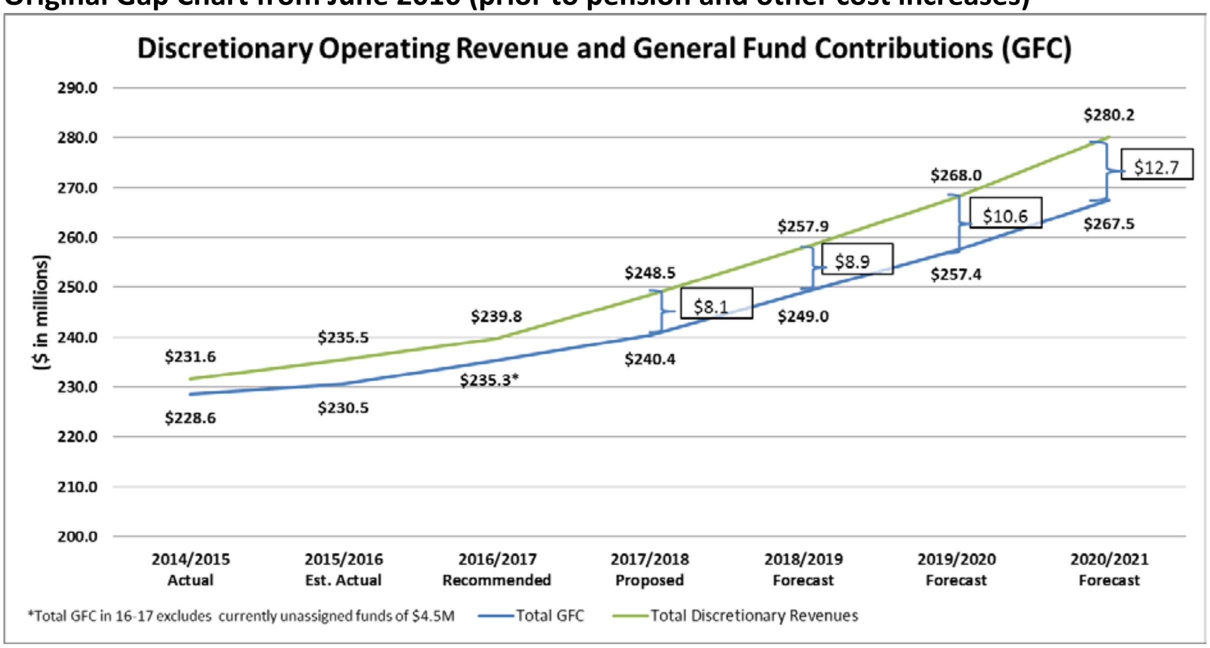
25%. The Discretionary General Revenue (DGR) funding allocated to departments is known as its General Fund Contribution (GFC).

<u>Major expenditure increases need to be funded by other revenues or reductions.</u> When departments' salary and benefit costs increase, the General Fund Contribution also will be increased to offset a portion of, but not all, the costs (assuming there is adequate growth in Discretionary General Revenues) in the same proportion as described above. Departments are required to access other funds to offset the costs or reduce their expenditures. When significant cost increases are expected, as is the case next year for pension costs, it is more difficult for departments to fully offset these costs with their normal sources of revenue. Reductions or new sources of revenue therefore are required to balance their budgets.

<u>Fiscal and emerging issues that require more funding.</u> In addition to balancing the annual budget, fiscal issues emerge that require additional funding because of new mandates or requirements, or previous Board policies. These expansions are often funded by growth in Discretionary General Revenues if available. If there is not sufficient Discretionary General Revenue growth to fund these fiscal issues, and these issues are required or are a priority, new revenues sources musts be found or cost reductions must occur in other areas to provide funding.

Last year's Gap Chart showed positive results. Last year, the General Discretionary Revenue (GDR) versus General Fund Contributions (GFCs, i.e. expenses funded by GDR), showed the General Discretionary Revenues exceeding the General Fund Contributions by $8.0 - $12 million per year (positive results, or unallocated discretionary funds) as shown below.

Original Gap Chart from June 2016 (prior to pension and other cost increases)



The issue we face now is greater expenditures than anticipated or previously projected. In the current projections, the previously positive $8.0 million and $9.0 million gaps using the Scenario

#1 assumptions for FY 2017-18 and FY 2018-19 are now much lower, ranging from negative $23.8 million to positive $2.2 million (see Gap Summary table for gaps or surplus by year). The main reasons for the worsening projections are:

- $0.9 million decrease in General Discretionary Revenues in FY 2017-18, mainly from certain accounts now being projected lower than the previous Gap Chart, including Secured Property Tax and Property Transfer Taxes, offset in part by projected increases in Transient Occupancy Tax, as explained later in this report.
- Previously mentioned countywide estimated increases in pension costs of $12.2 million in FY 2017-18, growing to $46.1 million in FY 2021-22.
- Generally a 3% increase in employee compensation vs. a previously projected 2% increase.
- Modest improvements projected in Retiree Healthcare Benefits (OPEB) and Workers' Compensation costs.

Updated Projections and Scenarios

An Early Estimate of the projected surplus or deficits (gaps) for the following scenarios are shown:

Scenario #1 – Discretionary General Revenues and General Fund Contributions. This illustrates the normal General Fund Contribution level and uses the same methodology as the June 2016 graph above. It shows there is adequate growth in discretionary revenues to fund the normal portion of costs (General Fund Contribution) even with increases in salary and benefit costs, assuming current levels of service and employees. This scenario, however, ignores what departments would be required to fund for their portion of costs.

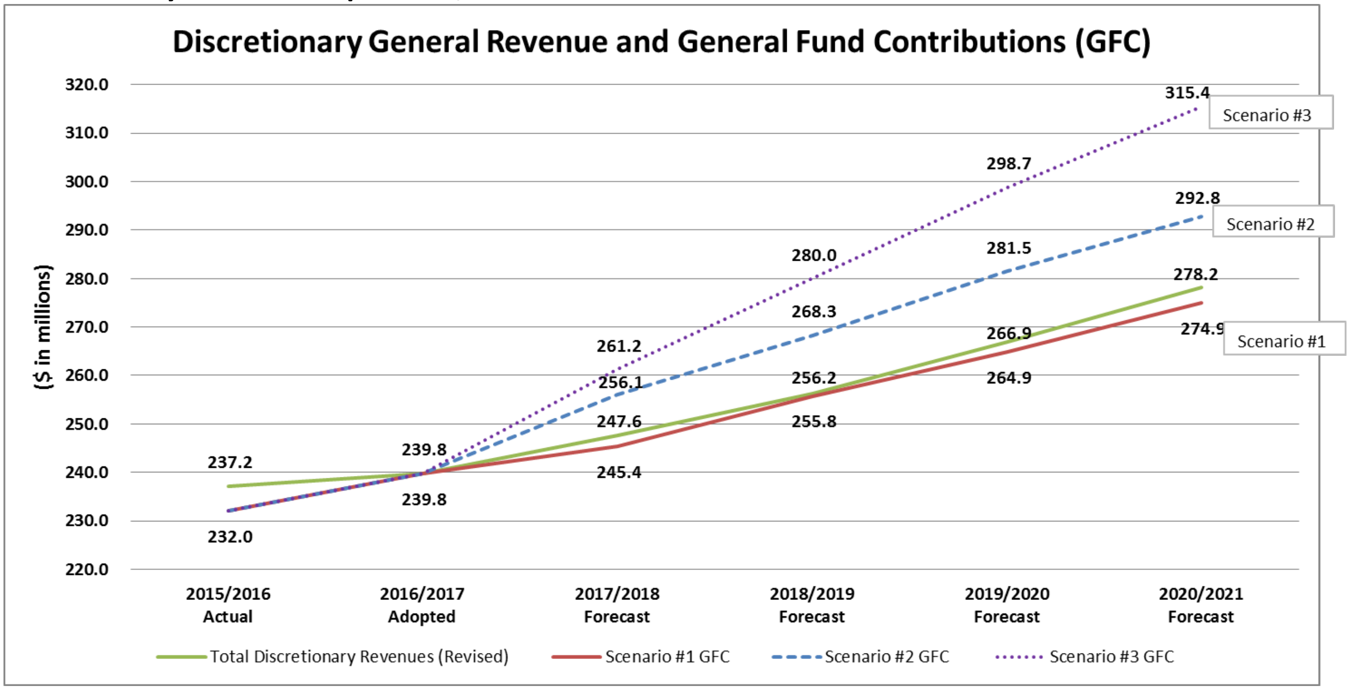
Scenario #2 – Scenario #1 above plus recurring or new fiscal issues. This illustrates the normal General Fund Contribution level to departments as in Scenario #1 plus the costs of funding the fiscal issues discussed in this report. Some of these issues are mandated and others are at the discretion of the Board.

Scenario #3 – Scenario #1 and #2 above plus funding gaps (deficits) in General Fund departments. This illustrates the total increased costs in the General Fund departments, acknowledging the normal General Fund Contribution plus the expenditures departments would need to fund for their portion of costs. This shows the full magnitude of the increased salary and benefit cost increases within the General Fund. Departments will have some offsetting revenues, but those are not yet estimated and not illustrated here. This is effectively a worst case scenario in the General Fund.

Special Revenue Funds/Non-General Fund will also have increased costs and funding gaps. Not shown on this graph, are the projections for some of the major special revenue funds. If state and federal revenues are not adequate to fund these increases, service reductions will be required to balance these funds.

Fiscal Outlook Report

Revised Early Estimate Gap Charts; Scenarios #1 - #3: December 2016



Gap Summary:

	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast	2020/2021 Forecast
Disc. General Revenue	**247.6**	**256.2**	**266.9**	**278.2**
Scenario #1 Gap	2.2	0.4	2.1	3.3
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Key Assumptions:

General Discretionary Revenues:

- Assessed property values assume growth of 4.5% growth. Although the possibility of a national recession is being discussed, it is not reflected in this estimate.
- Continue allocation of revenues for the Fire Tax Shift (25% of Secured Property Tax Growth, about $8.0 million cumulatively as of FY 2017-18). However, in FY 2019-20, the Fire Tax Shift is projected to reach its 17% goal and therefore the County's share of Property Tax revenue will no longer be reduced by 25% of the normal growth (about $1.6M in revenue).
- Transient Occupancy Tax includes the recent increase of 2%; no offset from a possible reduction of short term rentals due to BOS policy changes has been included.
- Miramar is estimated to open mid-year in FY 2018-19.
- Property Transfer Taxes are assumed to be flat in this projection.
- FY 2019-20, portions of the Redevelopment Agencies (RDA) obligations are fully paid off and the County's Property Tax allocation increases almost $2.0 million in this year.

Other Revenue Assumptions:

- Prop 172 Revenues (Public Safety) are projected to slow to 2% growth
- Local Sales Tax, also slowing to 2% growth
- 1991 and 2011 Realignment Growth (major funding source in Behavioral Wellness, [DBW] and Social Services [DSS]) are projected to have zero growth. This will significantly impact the DBW and DSS as they won't have additional funding to address the projected higher Salary and Benefit costs.

Scenario #1:

Scenario #1 applies our existing Budget Policies to calculate GFCs.

Key assumptions include:

- The impact of higher pension and healthcare costs are included but only funded to the Policy Based General Fund Allocation levels (e.g. if a department is 20% funded with GDR and their increase in S&B's is $100,000; the GFC will increase $20,000)
- Increased employee compensation, which now assumes a 3% increase vs. a previously projected 2% increase (in most cases)
- $9.1 million - NBJ Operations Fund
- $3.0 million – 18% Maintenance Funding (based on original funding plan formula)
- $1.4 million set aside for funding debt for capital needs (debt not yet incurred)
- $1.25 million set aside for Pension Fund Stabilization (not yet applied)
- $1.2 million – Human Services Commission
- $0.7 million – Strategic Reserve

Scenario #2

In Scenario #2, we include all items included in Scenario #1 but have added the following additional funding for identified Fiscal Issues:

Potential Fiscal Issues - Scenario #2 ***($'s in millions)***	**2017/2018 Proposed**	**2018/2019 Forecast**	**2019/2020 Forecast**	**2020/2021 Forecast**
Sheriff Main Jail Capital Needs	2.57	1.55	1.55	-
Sheriff Relief Factor (after NBJ opens)*			1.40	1.40
Jail - Medical & MH Enhanced Inmate Services	1.00	1.03	1.06	1.09
PHF Audit - Ongoing Costs	0.69	0.47	0.47	0.47
DBW Inpatient Services (Fund 0044)	4.00	4.00	4.00	4.00
DSS MOE's	1.06	1.63	1.88	2.13
Deferred Maintenance	1.41	3.82	6.26	8.83
Expected Additional GFC Needs	**10.73**	**12.50**	**16.62**	**17.92**

** NBJ transitional staff will provide shift relief at the Main Jail until the new jail opens.*

The Sheriff one-time capital costs and PHF Audit issues have only recently surfaced as Fiscal Issues. The other items above have been long standing and/or previous issues that have been funded with one-time costs but are recurring matters.

Scenario #3 (A Worst Case General Fund Scenario)
In Scenario #3, we include all items included in Scenario's #1 and #2 but have added funding to address the General Fund departments projected deficits.

The implication of these scenarios is that there won't be enough General Discretionary Revenues available to address normal funding and known Fiscal Issues. Further, pension costs are projected to increase over the next five years and thus additional reductions are expected to be needed to balance future years. Finally, no funds will be available to address emerging issues in the coming years. Therefore, reductions or revenues will be needed within departments to cover these costs, and/or reallocation of funding among departments will be needed to ensure the Board of Supervisor's highest priorities are being addressed.

FISCAL ISSUES

A. Tier 1 Fiscal Issues:

This year's Fiscal Issues are greater when compared to last year's primarily because last year's report did not predict significant increases in pension costs. Pension costs had largely stabilized in the past two years. The recent increase in pension costs, caused by changes in actuarial assumptions and need to make up for shortfalls in the fund's investment earnings, results in $12.2 million needed next year, and accounts for most of the change. The table below summarizes the estimated cost of the Fiscal Issues and detailed descriptions of each follows.

Tier 1 Issues: Expected occurrence within the next two fiscal years						
	Issue	FY 2017-18 Impact ($ in millions)	FY 2018-19 Additional Impact ($ in millions)	One-time or Ongoing	FY 2017-18 Discretionary Impact ($ in millions)	FY 2018-19 Discretionary Impact ($ in millions)
1	Pension Fund Stability	$ 12.2	$ 8.2	Ongoing	$ 3.9	$ 2.6
2	Behavioral Wellness Inpatient System of Care	4.7	-	Ongoing	4.7	-
3	Health Insurance	3.7	4.5	Ongoing	1.2	1.4
4	State Gas Tax (HUTA) Revenue Reduction	3.0	-	Ongoing	3.0	-
5	Northern Branch Jail Operations Funding	1.5	1.8	Ongoing	1.5	1.8
6	Deferred Maintenance	1.4	2.4	Ongoing	1.4	2.4
7a	Main Jail Medical/Mental Health Services	1.0	-	Ongoing	1.0	-
7b	Main Jail – Capital Needs	2.6	1.6	One-time	2.6	1.6
8	Social Services Local Share for CalFresh	0.6	0.3	Ongoing	0.6	0.3
9	Social Services IHSS MOE Increase	0.5	0.2	Ongoing	0.5	0.2
	Total	**$ 31.2**	**$ 19.0**		**$ 20.3**	**$ 10.3**

1. PENSION FUND STABILITY

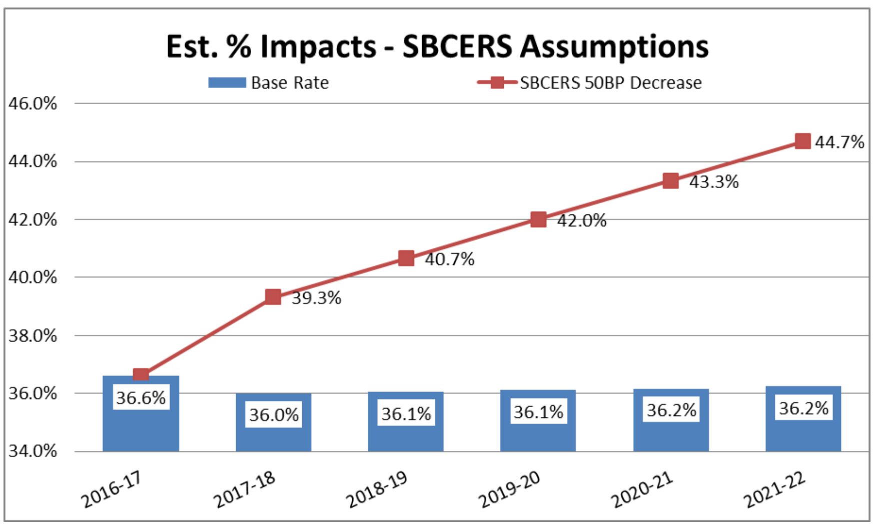
The County's pension contribution is expected to increase $12.2 in FY 2017-18 growing to an estimated $46.1 million by the fifth year, resulting from several factors, including a decrease to the assumed rate of return by the Board of Retirement and normal salary increases for employees. The magnitude of these cost increases was greater than anticipated and will require offsetting cost reductions or revenue enhancements.

On October 26, 2016, the Board of Retirement approved actuarial assumptions changes, including a 50-basis point decrease to the assumed rate of return (from 7.5% to 7.0%). These assumption changes are currently estimated to equate to an increase in the County's blended pension contribution rates (all funds) from 36.0% of pensionable payroll to 39.3% of pensionable payroll next year, which grows to 44.7% of pensionable payroll by the fifth year. In dollar terms, this is estimated to be an additional $12.2 million next year ($10.8 million due to assumption changes and $1.4 million related to assumed wage increases) which is expected to increase by $46.1 million by the fifth year to $161.9 million ($30.6 million due to assumption changes and $15.5 million related to assumed wage increases).

This calculation includes smoothing in of cost increases over 5 years and also assumes the impact of wage increases on the retirement contribution (i.e., higher wages result in greater retirement contributions). Per the SBCERS actuary, the positive impacts of adding new employees under the Public Employee Pension Reform Act (PEPRA) retirement plans are offset by the negative impact of the previous year's investment shortfalls (i.e. the fund earned only 0.8% and 1.4% in the last two years vs. a target of 7.5%), and therefore, the PEPRA savings do not mitigate the cost increases described above.

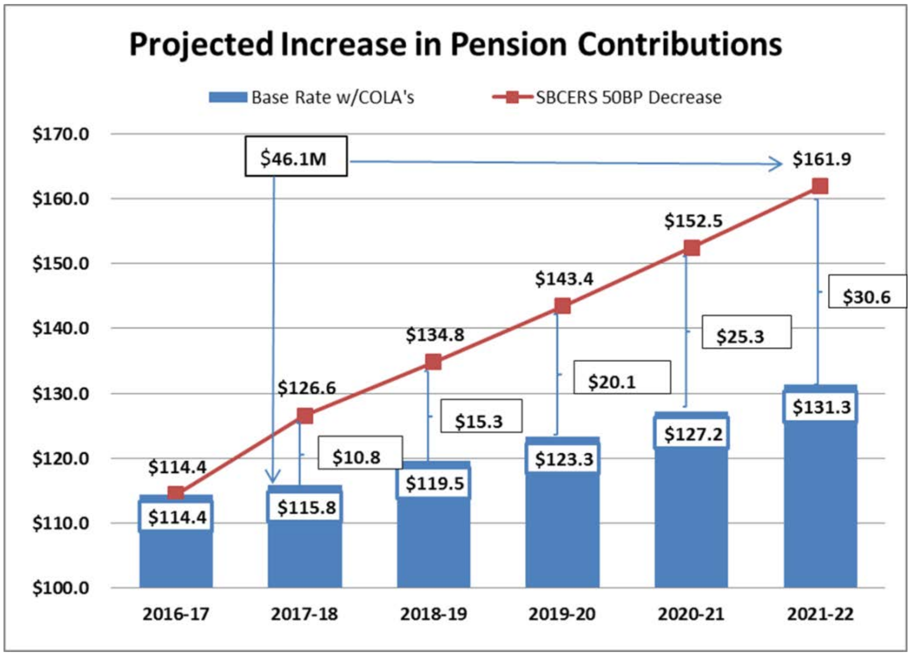
The graphs below demonstrate the estimated percentage and dollar increases.

5 Year % Impact of SBCERS Changes
Grows from 36.6% - 44.7%



Fiscal Outlook Report

5 Year $ Impact of Changes
Grows from $115.8M - $161.9M



Anticipated Budget Impact of Pension Contribution Increases

The costs described above will be partially offset by reimbursements from state, federal or local programs, which will vary by program. Staff will update these financial projections and calculations to determine the size of the overall budget gap taking these into account.

Even with anticipated offsets, it is expected that these cost increases cannot be absorbed by most departments at current service levels. Service level reductions, greater revenue generation and/or policy changes will be necessary to balance next year and future year budgets. By way of context, the expected size of this increase in pension cost is similar to that faced by the County during the Great Recession (when pension costs increased by $42.5 million over 5 years).

Approaches to Address Impact: Fiscal Rebalancing and Restructuring

Discussions are underway now on ways to address this issue, given its anticipated impact over the next five years. CEO staff is now communicating with departments on immediate (next year) service level reduction scenarios and longer-term (2-5 year) strategies to achieve the required budget equilibrium.

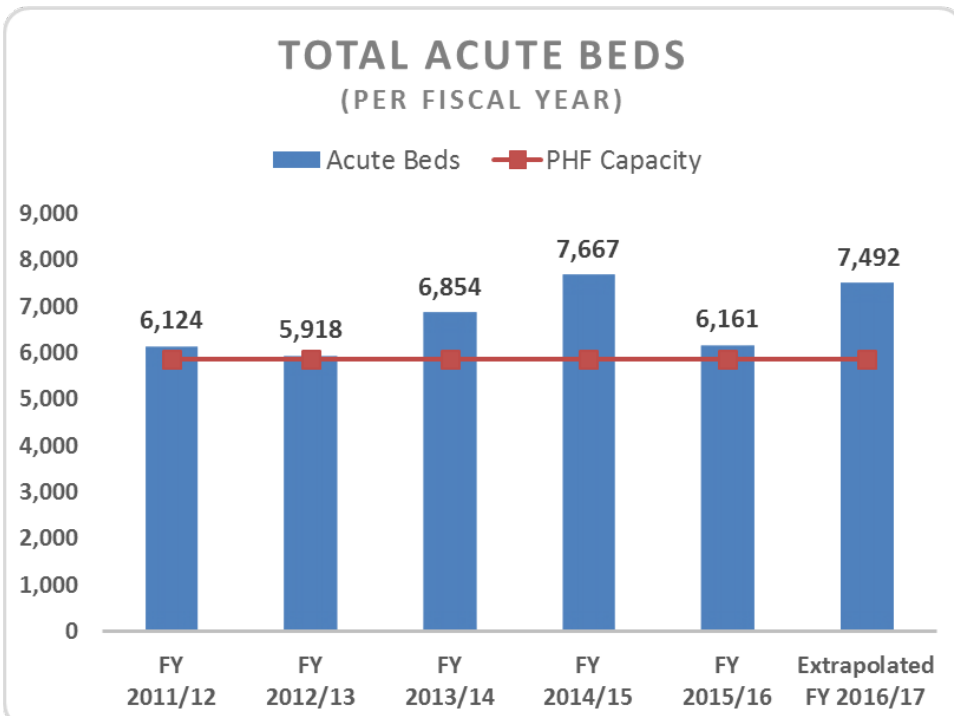
Reductions, re-balancing and/or new revenues will be needed and must be aligned with the Board's priorities and the organization's longer-term sustainability. Meetings were held with Department Directors and employee bargaining group representatives in November to begin explaining the issue. CEO staff has been working with Human Resources staff and is recommending a hiring review process to allow only critical positions be filled at this time. Staff will be providing regular updates to the Board on these issues as changes occur. Pension impacts will begin to affect the budget next fiscal year but they won't be fully phased in until year five. Staff will monitor current year impacts and evaluate possible cost containment or other strategies that could potentially occur this year to assist with next year's re-balancing.

2. BEHAVIORAL WELLNESS - INPATIENT SYSTEM OF CARE

A Fiscal Issue of approximately $4.5 million is shown for the Inpatient System of Care. This amount is comprised of $2.0 million for contracted acute inpatient beds, a reduction in PHF revenue of $2.0 million and about $500 thousand of additional ongoing staffing and service costs related to a recent PHF audit. These are expected to continue in the short-term due to increased demand, length of stay (Admin Days) and court ordered placements of individuals referred for Incompetent to Stand Trial (IST) assessments and restorations.

The Department of Behavioral Wellness (DBW) and the CEO's office have been reporting for some time on the changing mix of clients in the PHF and its impact on contracted acute beds at Aurora Vista del Mar (AVDM). In evaluating the magnitude of these issues we wanted to not only show the bed day changes but also the related lost revenue and additional cost incurred in purchasing additional contracted beds. To do this we assigned current revenue rates and costs to the bed utilization at various points in time. While actual rates have varied over the years, this analysis uses only the current rates to demonstrate impacts and trends.

Acute Bed Utilization:



Total acute bed days include PHF acute days (IST and regular clients) plus the number of AVDM bed days. The PHF capacity is the number of beds (16) times 365 days = 5,840.

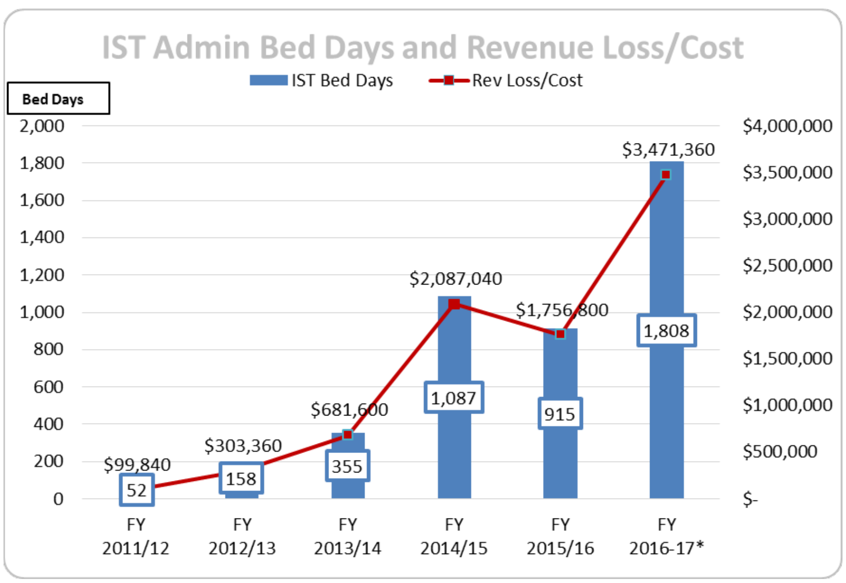
- FY 2016-17 acute days is an extrapolation of the first quarter acute days
- The annual acute days were in a range from 5,918 – 6,854 in four of the five completed years above. This is relatively consistent and would not account for the volatility in costs that we have seen over the past several years.
- As communicated in prior materials, there has been a significant increase court ordered placements to the PHF of potential incompetent to stand trial (IST) individuals. This has

been shown to "clog" the PHF with longer, non-acute stays. These needs are examined below.

- The other issue identified as causing a reduction in PHF revenues and an increase in the cost of contracted beds are administrative stays at the PHF, often a result of delays or availability of "step down" beds. The impacts of these are also examined below.

Incompetent to Stand Trial (IST):

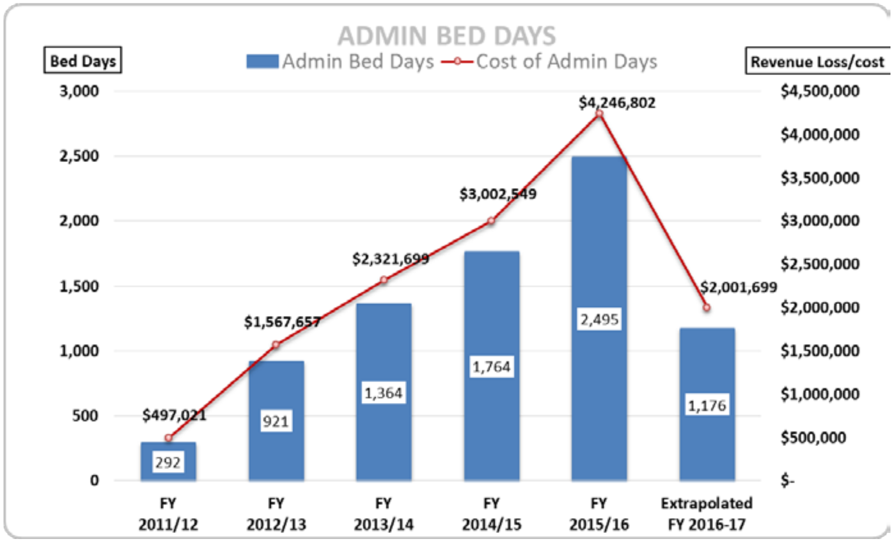
In certain cases, the court will order placement of individuals to the PHF to evaluate if the individual is incompetent to stand trial (IST) and if so to attempt begin restorative treatment (where appropriate). Prior to Fiscal Year 2012-13, very few PHF beds were utilized for IST clients staying beyond the acute period. Further, the average length of stay for an IST client is typically 30-90 days versus 5-9 days for an acute stay at the PHF. In recent years, this usage has exploded from 52 beds in FY 2011-12 to 1,087 in FY 2014-15 and will reach 1,808 if the Q1 rate continues for the balance of this year. The current daily gross billing rate for a PHF bed is $2,000 per day (note that billing rates are adjusted for Medi-Cal participation rates and Federal reimbursement rates); however, we cannot bill for IST Admin days. Additionally, because the PHF beds are now unavailable due to the IST stays the Department has been purchasing contract beds at AVDM at a cost of $870/day. As can be seen in the graph below this cost has increased from about $100,000 in FY 2011-12 to $1.8 million last fiscal year and if the current rate continues, it will have the biggest negative impact on record. To bring inpatient costs back down to originally budgeted levels a solution to the IST Admin days must be found.



*** - extrapolated based on Q1 results.**

Admin Days (Non-IST):

In FY 2012-13 we started to notice a steep increase in the number of Admin days growing from 292 to 921 days in that year. We have now increased to 2,495 days in the most recent full fiscal year, FY 2015-16. As mentioned above, the Medi-Cal daily gross billing rate for an acute bed at the PHF is $2,000 per day but only $415 for a non-IST Admin day. This difference is $1,585 per bed/day and also clogs the PHF, requiring purchase of additional contracted beds at AVDM. The combined impact of lost revenue and purchase of contracted beds can be seen in the graph below (note that billing rates are adjusted for Medi-Cal participation rates and Federal reimbursement rates):



To address the increasing Admin Days, additional beds were added in FY 2015-16 to provide an ability to step clients down to a lower level of care as their condition stabilizes. We have seen an improvement in the first quarter of FY 2016-17 with 294 Admin Days or an annualized rate of 1,176. If this rate continues for the year, it would result in a decrease of 1,319 beds or a 53% improvement. The department will need to continue to monitor the movement of clients to the appropriate level of beds to enable a consistent flow to step down beds.

Actions to Address Inpatient Revenues and Costs:
The Department is continuing its efforts reduce the number of contracted beds and to improve revenues through:

- Identifying the cause of the significant increase in the IST referrals
- Reconvening the IST Task Group to identify solutions
- Researching alternative placement for non-acute IST clients
- Evaluating the movement (length of stay) at AVDM and in the available step down beds
- Assessing the effectiveness of crisis services and beds
- Working with system partners on identifying solutions to address issues

PHF Audit:
In FY 2016-17 the PHF operations were audited for compliance with Federal Conditions of Participation, under Title 42, of the Federal Code of Regulations. As a result of the findings, and per recommendation of the PHF Governing Board, the PHF will address identified facility deficiencies and staffing needs in both clinical and quality control areas. The estimated ongoing staffing and maintenance costs of these enhancements in FY 2017-18 will be a gross expense of approximately $837 thousand, offset by $143 thousand of additional revenue, for a net impact of $694 thousand. In FY 2018-19, the Gross expense will be approximately $850 thousand, with offsetting revenue of $377 thousand, for a net impact of $473 thousand. In addition to the

ongoing staffing costs, an estimated $2.0 million in one-time capital and consulting fees will also be necessary.

3. HEALTH INSURANCE

We expect an increase in the health insurance premium cost, despite a continued improvement in claims performance, because County costs are still above the experience of those in the risk pool. This is largely due to rising specialty drug prices and high in-patient treatment costs.

Health insurance premiums continue to rise throughout the State ranging from 8.5% to 17% depending on plan type and region. The primary driver of the increase is the rising cost of prescription drug coverage and inpatient hospital procedures. The continuing premium increases to the County of Santa Barbara's health plans are due to rising costs of new prescription drugs (with no generic availability), specialty prescription drugs and high inpatient treatment costs.

Since moving to the California State Association of Counties - Excess Insurance Authority (CSAC-EIA) Health program in 2010, implementing the County's Employee Health Clinic Program, and introducing other health-benefit cost cutting strategies, the County's health plan's loss ratio has continued to decrease and now stands at a seven-year average of 93%. Although this is a great improvement over 159% in 2009, it is still 5% above the risk pool's loss ratio of 88%. As the County's loss ratio is above the risk pool's loss ratio, the County received an overall increase of 7.4%, of which 6% is based on claims experience and 1.4% is a result of Affordable Care Act (ACA) related fees and costs. Actual healthcare rate increases in recent years have been in the 4.0% to 15.3% range and, as stated above, the increase for calendar year 2017 is 7.4%.

Based on the uncertainty surrounding rapidly rising prescription and specialty drug costs, the increased consolidation of health care providers in Santa Barbara County, such as the possible Sansum and Cottage Healthcare system merger, thereby removing competition from the marketplace, and the uncertainty about the future costs of the Affordable Care Act, Human Resources estimates a rate increase of 12.0%, in calendar year 2018 and 10.0% in calendar year 2019. Health Insurance costs, specifically in California, are at risk for volatility between FYs 2017-2020. Assuming Human Resources' recommended rate increases would result in a fiscal year blended rate increase of $3.7 million for FY 2017-18, and an additional $4.5 million in FY 2018-19.

4. STATE GAS TAX (HUTA) REVENUE REDUCTION

FY 2017-18 State Gas Tax revenue estimates a $3.0 million reduction. This will impact projects to address deferred maintenance, contributing to degradation of the transportation network, including pavement condition index, pedestrian facilities, traffic devices, drainages, and the urban forest.

State Gas Tax (Highway User Tax Account, or HUTA) payments are made based on Board of Equalization (BOE) estimates of fuel to be sold, and the price per gallon. In FY 2014-15, Santa Barbara County received approximately $11 million in HUTA. Since that baseline year, revenues have steadily declined. Based on the current lower price of gasoline, forecasts are suggesting that FY 2017-18 will be yet another down year from the prior year. Current FY 2017-18 estimates project a $3 million shortfall in HUTA. The FY 2017-18 shortfall could necessitate further service level reductions for the Transportation Division within Public Works. If HUTA revenues aren't restored by the State it will impact operations and corrective maintenance activities such as pavement patching, traffic safety, tree trimming, culvert cleaning and concrete repairs.

Public Works' Transportation Division uses State Gas Tax (HUTA) to fund its operations and road maintenance work. Previous shortfalls were addressed with General Fund (GF) revenue sources on a one-time basis and reductions in maintenance operations. Maintenance operations have been reduced to the point where the County's ability to respond to, and correct, maintenance and safety issues will be impacted with any further cuts. As a result, funding typically used to address deferred maintenance, like paving roads and replacing or building sidewalks, will be used to fund operations and corrective maintenance. These reductions have occurred for three consecutive years at this point.

5. NORTHERN BRANCH JAIL OPERATIONS FUNDING PLAN

The County continues to set aside incrementally increasing appropriations from General Fund discretionary revenues for the Northern Branch Jail (NBJ) Operations Fund. The new NBJ is scheduled to open in FY 2018-19. In November 2015 the Board directed staff to continue with only the AB900 jail project, and not the SB1022 jail project; and to continue with the existing Northern Branch Jail Operations Funding Plan at the current levels. The original funding plan calls for an additional $1.5 million of General Funds to be added to the existing funding in FY 2017-18 and $1.8 million in FY 2018-19.

To address jail overcrowding conditions, limit the early release of persons convicted of crimes, and to upgrade and replace aged existing facilities; construction of a Northern Branch Jail has begun. The project scope is for a 376 bed jail facility, of which 32 beds are for medical and mental health needs. Construction of the new facility is estimated to cost approximately $111 million and is funded in large part by a State conditional award totaling approximately $80 million and the balance with County General Funds. The NBJ will be built on a portion of the 50 acre property located at Black and Betteravia Roads just outside the City of Santa Maria.

Annual operating costs upon opening of the jail were originally estimated at $17.3 million, which is net of staffing and other costs transferred from existing jail facilities. Using these estimates, the Jail Operations Funding Plan started in FY 2011-12 and set aside incrementally increasing appropriations from General Fund discretionary revenues.

Subsequent to the original funding plan, the operating costs for the existing jail and the AB 900 facilities were revised by Sheriffs' staff, reviewed by CEO staff and reviewed by an independent consultant, Carter Goble Associates (Consultant). The estimated operating cost per the Consultant were within $30,000 of the revised Sheriffs' staff figures, although the Consultant figures included adding 20 new staff for shift relief at the Main Jail. On November 17, 2015, the Board directed staff to continue with only the AB900 project (376 beds), and discontinue the

SB1022 project (228 beds); and to continue with the existing Northern Branch Jail Operations Funding Plan at the current levels.

Additionally, $12.2 million was transferred out of the NBJ Operations Funding Plan in the FY 2016-17 budget to fund construction bids that came in over estimates. This $12.2 million was available in the fund due to delays in the original targeted opening date of the NBJ, as well as timing changes to the transitional hiring plan, and the transfer is not projected to have a negative impact on the funds available for operations.

The following table illustrates the Jail Operations Funding Plan, including:

- Base General Fund Contribution (GFC),
- The annual incremental General Fund Contribution
- Transitional staffing costs
- Additional maintenance costs for the new facility
- The Consultants operating cost figures
- The $12.2 million transfer out of the fund in FY 16-17, and
- The fiscal year-end fund balance in the North County Jail Operations Fund,

Assuming shift relief is provided and service levels are enhanced at the Main Jail (about 20 Custody Deputies) a one-time surplus of $1.2 million is attained by FY 2022-23. However, none of the operating numbers below account for deferred maintenance costs of the Main Jail that will remain in operations (see Deferred Maintenance section below).

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	(12.2)	(2.0)	7.2
2017-18	7.6	1.5	$ 9.1	-	(3.8)	12.5
2018-19	9.1	1.8	$ 10.9	-	(11.4)	11.9
2019-20	10.9	1.8	$ 12.7	-	(17.9)	6.8
2020-21	12.7	2.2	$ 14.9	-	(18.4)	3.3
2021-22	14.9	2.2	$ 17.1	-	(19.0)	1.4
2022-23	$ 17.1	$ 2.2	$ 19.3	$ -	(19.5)	**1.2**

Impact of recent Pension Contribution Rates:

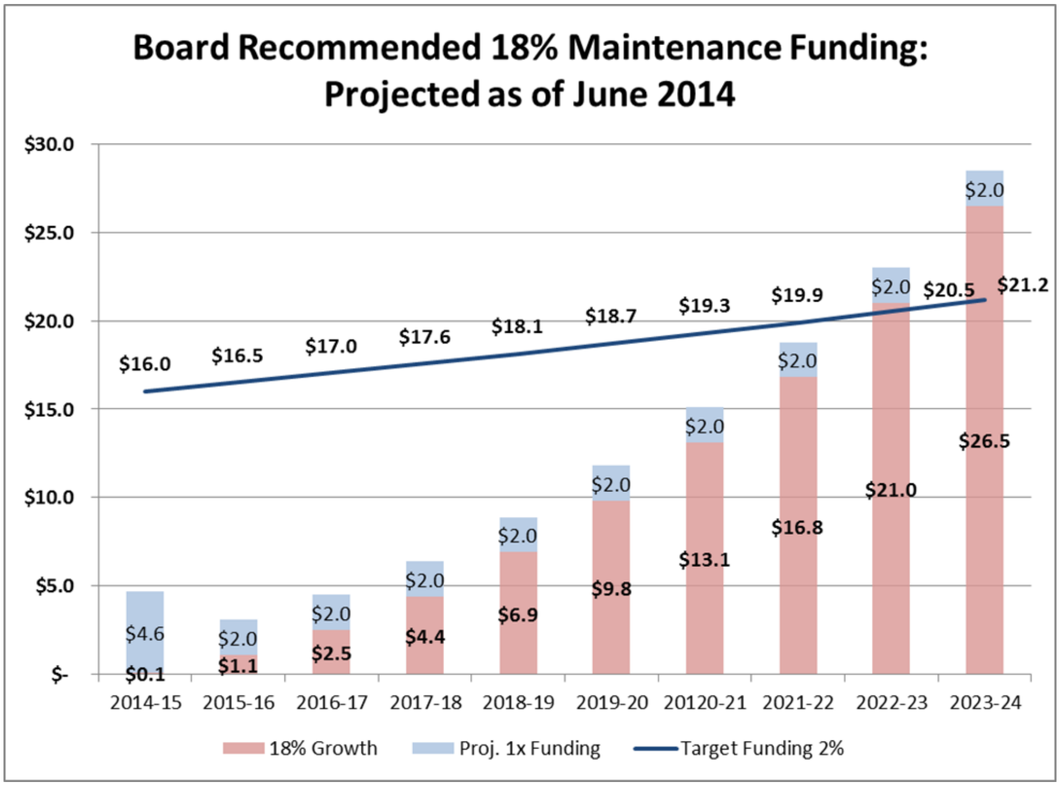
Based on the anticipated increase to pension contribution rates, we project that the incremental cost of hiring approximately 100 new employees for the NBJ will increase about $900,000 in the first full year of operations (FY 2019-20). A more complete analysis will be prepared and the existing funding plan will be revisited during the budget process.

6. DEFERRED MAINTENANCE

Deferred maintenance needs are significant and as a result, the Board approved a Maintenance Funding Plan, effective July 1, 2015 which was projected to provide $51 million in accumulated new funding over the first five years to help address the maintenance needs. In the first ten years, it was estimated that $100 million in new funding would be accumulated. The original calculation will be impacted by the recent pension cost increases, which will reduce previously unallocated funds subject to the maintenance calculation. The original calculation was based upon a 4% growth in property taxes, and will be updated during the budget process. The need for Deferred Maintenance Funding is significant; however, the amount reflected for this Fiscal Issue is identified as the difference between the targeted funding per the original 2014 Maintenance Funding Plan ($1.9 million in FY 2017-18 and $2.5 million in FY 2018-19) and the calculated amounts ($490 thousand and $90 thousand, respectively) based on currently projected unallocated discretionary funds. This results in funding lower than the original plan of $1.4 million in FY 2017-18 and $2.4 million in FY 2018-19.

The County of Santa Barbara's deferred maintenance has grown over time while funding has remained relatively static. In June 2014, the Board directed staff to implement a maintenance funding plan that would increase ongoing General Fund Contributions (GFC) for maintenance projects by allocating 18% of unallocated Discretionary General Revenues towards maintenance projects. It was envisioned that the ongoing funding would build over time as a new layer of additional GFC is added annually. The incremental cost for each new layer of additional GFC to implement the maintenance funding in the original plan was $1.9 million for FY 2017-18 and an additional $2.5 million for FY 2018-19. However, the recent changes to the pension contribution rates will absorb more of the previously unallocated Discretionary General Revenues (assuming no changes) which will reduce the calculated amount of maintenance funding. The Original 2014 18% Maintenance Funding Plan is shown below:

Fiscal Outlook Report



The estimated backlog of Deferred Maintenance projects at June 30, 2016 is approximately $350.8 million ($259.1 million in Public Works pavement, bridges, drainage, concrete/other and an estimated $91.7 million in Parks and General Services). The $91.7 million for Parks and General Services reflects Observed Deferred Maintenance of $71.7 million, $10.0 million of extrapolated/unobserved maintenance (per Jorgensen report as of March 2015) and an additional $10 million for Main Jail maintenance (per Marx-Okubo report, as of October 2015). Public Works has indicated that to maintain the existing Pavement Condition Index, an additional $12 million in annual funding would be needed.

In the current year (FY 2016-17), we have become aware of additional renovation needs at the Main Jail that are expected to increase the backlog of deferred maintenance by about $4.0 million. This matter is addressed in Fiscal Issue #7, Main Jail Medical/Mental Health Services and Capital Needs.

As described in the Policy, these funds will be allocated to departments based on existing needs and priorities. The additional funding, per policy, will be calculated and allocated to departments during the budget process. Preliminary estimates are that funding for FY 2017-18 will be lower than the original plan of by $1.4 million in FY 2017-18 and $2.4 million in FY 2018-19. Staff will continue to review additional options to provide funding for critical deferred maintenance needs. One time funding, the use of Certificates of Participation (bonds) for capital maintenance needs as well as Federal and State program funding are being considered. The table below identifies General Fund support in FY 2016-17 for deferred maintenance projects and has grown by the new 18% Maintenance Funding $2.5 million and $2.85 million in one-time and Capital Debt Service funds.

Maintenance Funding for FY 2016-17	Public Works		General Services		Comm. Services Department		Maintenance Total	
Baseline	$ 500,000		$ 1,300,000		$ 500,000		$ 2,300,000	
18% Maintenance Funding	1,250,000		875,000		375,000		$ 2,500,000	
One Time Maintenance Funds	1,250,000	1	100,000	2	100,000	3	$ 1,450,000	*
Subtotal	**$ 3,000,000**		**$ 2,275,000**		**$ 975,000**		**$ 6,250,000**	
Funding for Capital Debt Service	-		1,400,000	4	-		1,400,000	*
	$ 3,000,000		**$ 3,675,000**		**$ 975,000**		**$ 7,650,000**	

Notes

1 Public Works one-time maintenance funds include CEO Recommended Expansions for road maintenance.

2 General Services one-time maintenance funds include CEO Recommendations for water reduction measures.

3 CSD one-time maintenance funds include CEO Recommendations for dead tree clearing.

4 General Services debt service to support acceleration of needed capital projects is included in CEO Recommendations. Proceeds could be used for non-General Service projects.

* - Additional FY 2016-17 funding, in excess of policy is $2,850,000

7. MAIN JAIL – MEDICAL/MENTAL HEALTH SERVICES AND CAPITAL NEEDS

Medical and Mental Health Services - During the past year, the Sheriff's Department has conducted a competitive bid for their inmate medical and mental health service contract. This contract process is still underway; however, the current recommended proposal appears to be approximately $1.0 million higher than the existing contract. The increase is primarily the result of increased staffing to be provided by the contractor.

Sheriff Capital issues – The Sheriff has become aware of certain areas within the jail that are in need of physical and operational upgrades. A consultant was hired to evaluate the jail and has made a series of recommendations that are grouped into immediate, short term (start in 1-2 years) and long term (start after 2 years) projects. The estimated one-time capital costs and including temporary staffing costs during construction are:

- Immediate $600 thousand
- Short Term $2.6 million
- Long Term $2.4 million

The immediate projects have already begun and the other projects are included as one time funding needs in our 5 Year Forecast.

8. SOCIAL SERVICES LOCAL SHARE FOR CALFRESH

The Department of Social Services is transitioning from a Maintenance of Effort (MOE) to a mandate to pay 30% of the nonfederal share of CalFresh eligibility costs, creating an increased local match requirement. The estimated additional need for local funds is $584,723 in FY 2017-18 and $910,391 in FY 2018-19.

The California Welfare and Institution Code (WIC) Section 18906.5 mandates that Counties contribute 30% of the nonfederal share of all CalFresh eligibility determination costs. During the economic downturn, the State provided relief to Counties by allowing them to contribute a fixed Maintenance of Effort (MOE) instead. The MOE benefitted counties because it was less than 30% of the nonfederal share of costs.

In recognition of the increased level of State funding provided in the CalFresh program, the State Legislature during the FY 2014-15 budget process, adopted new local cost requirements that will slowly move the County mandated CalFresh share back to the 30% of the nonfederal share, as outlined in WIC Section 18906.5. Beginning FY 2015-16, the relief provided to counties began phasing out in equal increments over three fiscal years until it is zeroed out in FY 2018-19 (WIC 18906.55(a)(2)). The gradual phase-out of the relief means that the County, or certain Realignment funds, must be incrementally increased to meet its contribution to support CalFresh as the program fully reverts to the original 30% of the nonfederal share. The level of the County's share of cost will depend on the County's CalFresh funding received in the future.

Failure to fund the 30% nonfederal required match will result in personnel reductions above and beyond those required based on initial State funding levels. For every dollar the County does not fund, the County would lose an additional $6 of Federal and State reimbursement for personnel, significantly impacting clients applying for and receiving CalFresh benefits. Not funding the required match would result in the loss of Federal revenue of $1.9 million in FY 2017-18 and $3.0 million FY 2018-19.

9. SOCIAL SERVICES IHSS MOE INCREASE

Beginning in FY 2012-13, the County transitioned from a 17.5% County share of In-Home Supportive Services (IHSS) services and administration costs to a specified Maintenance of Effort (MOE). The California Welfare and Institutions Code (WIC) 12306.15 requires counties' IHSS MOE increase by 3.5% each year beginning July 1, 2014. The anticipated increase is $239,586 in FY 2017-18, $247,972 in FY 18-19, and an additional 3.5 percent ongoing. Any Board-approved increases in IHSS Individual Provider wages would also increase the MOE in current and future years. In FY 2016-17, DSS received one-time funding for the required 3.5% MOE increase, but it was not ongoing revenue. This means the FY 2016-17 increase of $231k will need ongoing funding in FY 2017-18, in addition to the $239,586 FY 2017-18 increase.

In accordance with WIC 12306.15, commencing July 1, 2012, all counties were required to have a County IHSS Maintenance of Effort (MOE). In lieu of paying the nonfederal share of IHSS costs as specified in Sections 10101.1, 12306, and 12306.1, counties now pay the County IHSS MOE. The County IHSS MOE base year shall be the 2011-12 state fiscal year. The County IHSS MOE base was defined as the amount actually expended by each county on IHSS services and administration in the County IHSS MOE base year.

On July 1, 2014, the County IHSS MOE base shall be adjusted by an inflation factor of 3.5 percent. Beginning on July 1, 2015, and annually thereafter, the County IHSS MOE from the previous year shall be adjusted by an inflation factor of 3.5 percent.

In years when 1991 Realignment revenues decline (year-over-year negative growth), the inflation factor is zero. The Department of Finance shall provide notification to the appropriate legislative fiscal committees and the California State Association of Counties by May 14 of each year whether the inflation factor will apply for the following fiscal year.

Failure to fund the 3.5% MOE increase as required by WIC 12306.15 could potentially impact the entire IHSS program, since without contributing the entire MOE, it is possible the County would not be reimbursed for all IHSS expenditures.

B. Tier 2 Fiscal Issues:
Tier 2 Fiscal Issues are probable fiscal issues.

Tier 2 Issues: Probable occurrence within the next two fiscal years				
	Issue	FY 2017-18 Impact ($ in millions)	FY 2018-19 Additional Impact ($ in millions)	One-time or Ongoing
1	Goleta Sanitary District Capacity Fee	0.5	-	One-time
2	Vintage Ranch Bridge	-	0.5	One-time
3	Sheriff Overtime and Staffing Levels	Unknown	Unknown	Ongoing
	Total	**$ 0.5**	**$ 0.5**	

1. Goleta Sanitary District Capacity Fee

In July of 2016 the County of Santa Barbara (County) was contacted by the Goleta Sanitary District (the District) regarding a one-time capacity fee in the amount of $545,000. The District has based this one-time capacity fee on census information using a 10 year historical average of flow volume that shows the County is approximately 50 percent over the its permitted capacity as allowed under the County's 1978 capacity entitlement agreement with the District. This is independent of the annual service charge. Over time as the County has grown and the usage of public facilities (e.g. Parks' Goleta Beach) has expanded its usage or the flow volume.

The County and the District are actively working together on this issue; verifying past billings and volumes. The County has proposed a payment plan of up to five years for the payment of any verified amounts.

2. Vintage Ranch Bridge

Orcutt Community Plan (OCP) Development Standard (KS7-4) requires the applicant to construct a bridge for trail users and wildlife to pass under Black Oak Road. OCP Development Standard KS7-3 states that the bridge will be funded through the Orcutt Transportation Improvement Plan (OTIP) fees. However, the bridge was not identified on the list of funded projects in the OTIP. Therefore OTIP fees were never assessed for this bridge. The applicant has stated its estimated cost is $400,000-$500,000, and that applicant will seek reimbursement from the County based on the OCP language.

The Key Site 7 (Vintage Ranch) project site is located on a 33.07-acre property located within the Orcutt Community Planning area. The proposed project includes a Vesting Tentative Tract

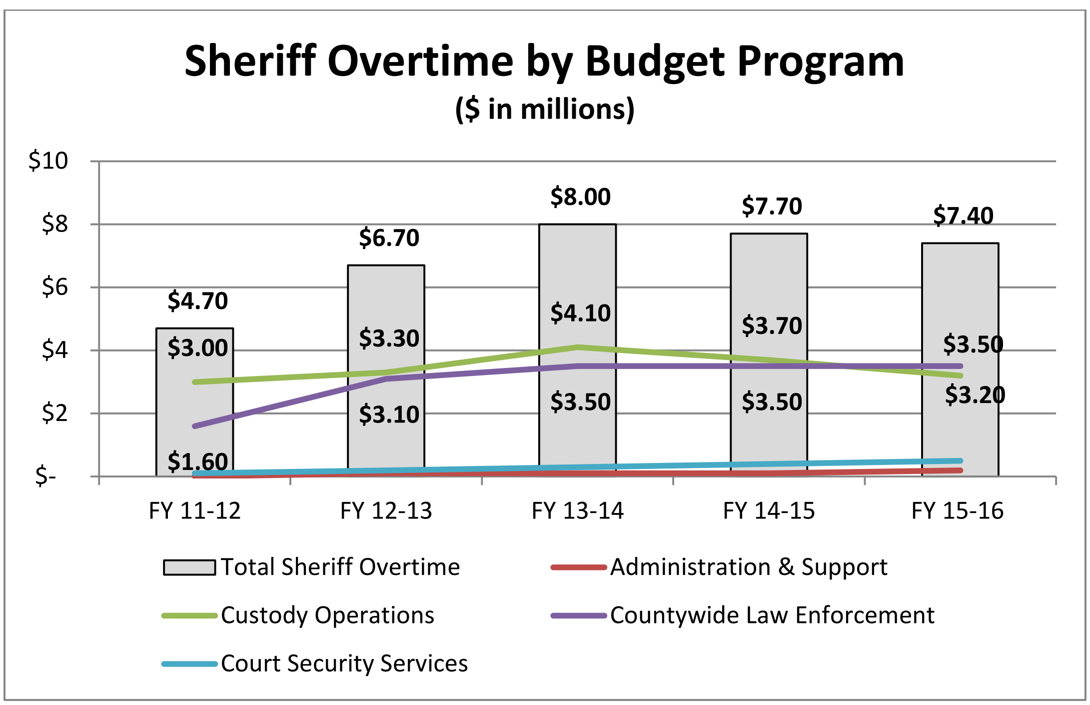
Map to subdivide the 33.07-acre site into 41 residential lots. The project also includes 2 public open space lots consisting of approximately 18.46 acres. A Final Development Plan for the construction of 41 market rate single family residences is also proposed. The Development Plan includes construction of a precast free span bridge and construction of a public hiking trail through the public open space area. This is probable to occur within the next two fiscal years. The timing depends on how quickly the project moves through the design review and approval process.

3. Sheriff Overtime and Staffing Levels

Sheriff staffing levels affect overtime costs for custody and law enforcement operations which impact the usage of overtime to backfill 24/7 post positions, often the result of vacancies and training. This issue negatively impacts the budget as both overtime of existing staff and regular salaries of the new staff are incurred simultaneously during training periods (6 months training for a Custody Deputy and 9 months for a Deputy).

During FYs 2012-13 and 2013-14 new hires increased significantly to 48 and 52, respectively, and overtime costs increased from $4.7 million in FY 2011-12 to $6.7 million in FY 2012-13 and $8.0 million in FY 2013-14. In 2014, the trend continued, with the Sheriff adding 59 new hires, and overspending the Board Adopted FY 2014-15 budget by approximately $2 million, mostly due to overtime costs of $7.7 million. In FY 2015-16, the Department spent $7.4 million on overtime (approximately $3 million over budget), but had significant vacancies for most of the year, so salary savings in that fiscal year was able to offset the overages in overtime.

The following chart shows annual spending on overtime from FY 2011-12 thru FY 2015-16, both in total and by Budget Program. The past 3 years has seen overtime spending in excess of $7 million; furthermore, FY 2016-17 overtime spending is on track to be at least as high as previous years.



Fiscal Outlook Report

Salary savings due to vacancies offset the overtime costs in FY 2015-16, but as the Department fills vacancies, the savings will diminish, and overtime will also increase as staff is trained. As of October 2016, the Sheriff had only 1 Custody Deputy vacancy, but 17 Sheriff Deputy vacancies, (and 32 vacancies Department-wide). Furthermore, there were 17 Sheriff's Deputies and 13 Custody Deputies out on Worker's Compensation leave. Whether overtime becomes a fiscal issue in 2017-18 and beyond depends on the level of turnover the Department experiences, the ability to fill positions timely and the number of post positions being staffed. If they are consistently hiring and training large groups of Deputies, overtime will remain high, and salary savings will not materialize at the level needed to offset the expense. However, if they're able to fill most of their vacancies, and turnover remains low, overtime would be expected to decline from previous years. Conversely, if vacancies remain high and unfilled, there will be high use of overtime, but it will likely be offset by salary savings (such as in FY 2015-16). Sheriff's Office management is meeting regularly to implement strategies for addressing this problem, including analyzing the causes of the recent spike in an attempt to identify potential reduction opportunities, reviewing patrol schedules for possible adjustments, and reviewing the mandatory overtime schedule to potentially reduce the amount required per pay period.

CLOSING COMMENTS/CONCLUSIONS:

Over the next five years, pension-related cost increases will be a significant challenge. Discretionary General Revenues are normally adequate to fund annual increases in policy-based funding (GFCs). Next year, however, identified Fiscal Issues will require funding which exceeds available Discretionary General funds. In addition, because General Fund departments' salary and benefit increases are only partially funded by GFCs, General Fund departments will require additional funding, and absent that, propose service level reductions. These may be severe in some departments.

For Special Revenue Funds, such as Behavioral Wellness (DBW), Social Services (DSS), Child Support Services (CSS) and others are projecting flat revenues from key funding sources (such as State Realignment funds); as a result, they will require additional funding or service level reductions to balance the resulting structural imbalances.

As a result, strategic planning and budgeting will be more important than usual. Longer term solutions will be necessary to address the anticipated structural imbalance, and therefore, multi-year approaches are being developed to respond to this issue.