Fiscal Outlook Report

County of Santa Barbara

November 15, 2011 Report Updated as of April 10,2012

INTRODUCTION

The Update to the Fiscal Outlook Report is composed of the following sections:

1. *Fiscal Issues*
2. *FY 2012-13 Projected Budget Gap*

The purpose of this report is to provide updated financial estimates of Fiscal Issues that we have become aware of since the report was originally presented on November 15, 2011. We have not performed a complete review of all items as we did during the original report; however, we have revised amounts based on any new information that has come to our attention.

The ***Fiscal Issues*** section identifies significant issues that will potentially impact the County within the next two years. The issues are organized into three tiers according to expected likelihood of occurrence. Tier 1 issues are expected to occur; Tier 2 issues will probably occur; and Tier 3 issues will possibly occur within the next two years. As new information becomes available, issues may be re-categorized and dollar amounts—which represent the best estimates available at this time—will likely change.

The issues contained in this report were originally selected based on an analysis of the areas in which the County faces a potential loss of, or reduction in, local, State or federal funding; unfunded mandates; infrastructure needs; delays in State reimbursements; audit liabilities and billing issues; and costs associated with pension benefits and the retiree health program.

The issues are included as Attachment and summarized in table form with the following column headings:

- FY 2012-13 Impact
    i. Reported 11/15/11 Estimates
    ii. Updated 4/10/12 Estimates
    iii. Variance between original and Updated Estimates
- FY 2013-14 Impact
    i. Reported 11/15/11 Estimates
    ii. Updated 4/10/12 Estimates
    iii. Variance between original and Updated Estimates
- Comments

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We have not updated the narrative sections of the Fiscal Issues that were previously included in the original report; however, we have included the original report with narratives for reference.

The ***FY 2012-13 Projected Budget Gap*** section shows the changes in revenue and expenditure assumptions that are expected to occur in the next fiscal year. The FY 2012-13 projected budget gap calculation does not include those fiscal issues that are unlikely to occur in the next fiscal year or already have identified funding sources such as grants or reserve funds. The budget gap calculation also excludes the costs associated with addressing fiscal issues on which the Board of Supervisors has yet to take action.

The Projected Budget Gap is included in Attachment B and summarized in table form with the following column headings:

- FY 2012-13 Countywide Gap
    i. Reported 11/15/11 Estimates
    ii. Updated 4/10/12 Estimates
    iii. Variance between original and Updated Estimates

It is currently anticipated that there will be a budget gap of $14.9 million in FY 2012-13 compared to the previously reported $15.2 million gap presented in November 2011. Therefore, in order to maintain current service levels—not including services currently funded by one-time sources, which would require identification of new funding sources to continue in the next fiscal year—approximately $14.9 million in revenue increases or expenditure reductions will be needed to produce a structurally balanced FY 2012-13 budget. The budget gap can be solved through a combination of strategies including ongoing measures such as increasing efficiencies, increasing revenues, and decreasing levels of service, or one-time measures such as utilizing prior year savings and existing fund balance.

Issues presented in this report represent Countywide risks, with potential impacts to all County funds. The County will look to mitigate the impacts of these issues through expenditure reductions, revenue generation, and federal and State reimbursements and grants. Departments have provided information about issues expected to impact them, and the Auditor-Controller's Office and County Executive Office are working together to refine the issues and fiscal impacts before any proposals are brought forward as part of the budget process.

Issues are categorized into three tiers according to the probability that they will occur within the next two years: Tier 1 issues are expected to occur; Tier 2 issues will probably occur; and Tier 3 issues will possibly occur within the next two years. As new information becomes available, issues may be recategorized and dollar amounts—which represent the best estimates available at this time—will likely change.

The issues contained in this report were selected based on an analysis of the areas in which the County faces a potential loss of, or reduction in, local, State or federal funding; unfunded mandates; infrastructure needs; delays in State reimbursements; audit liabilities and billing issues; and costs associated with pension benefits and the retiree health program.

Tier 1 Issues: Expected occurence within the next two years				
	Issue	FY 2012-13 Impact (in millions)	FY 2013-14 Additional Impact (in millions)	One-time or Ongoing
A	Pension fund stability	$ 4.6	$ 8.0	Ongoing
B	Workers' compensation & general liability insurance	2.9		Ongoing
C	Goleta revenue neutrality	2.3		Ongoing
D	Fire Department level of service	2.4		Ongoing
E	Health insurance	1.8	1.8	Ongoing
F	Expiration of concession agreements	1.0	3.6	Ongoing
G	State unemployment insurance	0.4		One-time
H	State suspension of vote by mail reimbursement	0.4		Ongoing
I	Indigent & uninsured clients - Public Health	0.4		Ongoing
J	Retiree healthcare	0.3	0.3	Ongoing
	Total	**$ 16.5**	**$ 13.7**	

Note: Issues labeled as "Ongoing" in a particular year will require the same level of funding in every subsequent year; "One-time" issues would require a single payment to address, with no ongoing obligation. The amounts listed in the FY 2013-14 Impact column represent the *incremental* increases over the FY 2012-13 amounts; for example, an ongoing issue with a $1 million impact in FY 2012-13 and a $0.5 million impact in FY 2013-14 would require a total of $1.5 million to address in FY 2013-14 and thereafter.

A Pension Fund Stability

The Santa Barbara County Employees' Retirement System (SBCERS) administers a cost sharing multiple-employer defined benefit pension plan for the County of Santa Barbara. The County's pension costs have steadily increased since the beginning of the decade. Costs are projected to increase further as a result of investment returns underperforming the Board of Retirement adopted long-term assumed rate of return and changes to the principles and estimates used to generate the County's Annually Required Contribution (ARC) to the pension fund. It is anticipated that costs will increase again in FY 2012-13 and while we expect the growth in costs to be moderate, we believe that there is a high probability of continued growth in pension costs over the next five years. The County has made progress towards controlling costs, by negotiating changes to general plan member benefits. Safety plan benefit provisions are still pending collective bargaining negotiations.

Fiscal Year	Normal Cost Rate	UAAL Rate	Total Retirement Contribution Rate	Funded Ratio	Unfunded Ratio	UAAL (in 1000s)
07/08	11.61%	9.29%	20.90%	85.80%	14.20%	256,880
08/09	13.93%	9.13%	23.06%	87.10%	12.90%	253,365
09/10	14.20%	9.10%	23.30%	88.60%	11.40%	244,499
10/11	14.21%	14.67%	28.88%	75.30%	24.70%	558,129
11/12	16.58%	17.90%	34.48%	73.70%	26.30%	688,918
12/13	16.52%	19.35%	35.87%	71.70%	28.30%	742,000

Note: UAAL is unfunded actuarial accrued liability

Actual investment losses for the Retirement System in both FY 2007-08 and FY 2008-09 will be only partially mitigated by investment gains in FY 2009-10 and FY 2010-11, using a five-year smoothing method, and have a high probability to continue to increase employer costs. In the latest 2011 valuation study, it is determined that the rate will increase from 34.48 to 35.87%. Employer pension costs for FY 2012-13 will increase by 1.5% or an estimated $4.6 to $108 million.

B Workers' Compensation & General Liability Insurance

General Services is recommending that the rates for workers' compensation and general liability insurance be increased in FY 2012-13; the range of the increase will be between $2.9 and $4.4 million. The increases are based on current costs and recent actuarial reports which now show the workers' compensation fund as underfunded by $4 million. Additionally, last year's general liability rates were artificially lowered as $1.7 million of the overfunded general liability balance was used to reduce the FY 2011-12 rates. The comparable amount of overfunded offset in FY 2012-13 is approximately $400,000. The proposed increases will be reviewed with the Risk Management Evaluation Team (RMET) and a recommendation will be presented in the coming months.

C Goleta Revenue Neutrality

When the City of Goleta incorporated in February 2002, a revenue neutrality agreement was approved by voters to protect the County from arbitrary funding reductions to countywide services. A mitigation period provides a 10-year transition period for a certain portion of revenue. Beginning in FY 2012-13, when the Mitigation Period of the agreement expires, the County's revenue loss is estimated to be $1 million in lost sales tax revenue and $1.3 million in lost TOT revenue for a total of $2.3 million.

D Fire Department Level of Service

The financial health of the Fire Department has deteriorated during the economic downturn and is projected to continue to deteriorate for several years as expenditures rise at a faster rate than revenues. The Fire Department used $2.4 million in one-time designations to fund operations in FY 2011-12; to maintain services in FY 2012-13, a new funding source will need to be identified.

E Health Insurance

Health insurance premiums continue to rise throughout the state. The primary driver of the increases is the skyrocketing cost of health care, as well as new regulatory requirements and taxes. It is anticipated that premium costs for the County will increase by 7.5%, or $1.8 million, in FY 2012-13. The projected increase for FY 2013-14 is expected to be similar. The challenge in projecting these costs is that many sections of the new health care legislation go into effect in January 2013. The exact impact of this legislation on employee healthcare costs is unknown at this time.

F Expiration of Concession Agreements

FY 2011-12 negotiations with bargaining units resulted in concession agreements. Some concessions were permanent (e.g., elimination of scheduled pay increases, elimination of benefit allowances) and others were temporary (e.g., furlough, deferment of scheduled pay increases, freezes on merit pay increases). As the temporary concessions expire, the following salary cost increases are anticipated:

Bargaining Unit	FY 2012-13 Increase	FY 2013-14 Additional Increase
Firefighters Local 2046	$ 1.0	$ 0.5
SEIU Local 620		2.7
Engineers & Technicians Association		0.3
Sheriffs Managers Association		0.1
Total	**$ 1.0**	**$ 3.6**

To maintain current staffing levels, new funding will need to be identified to fill the gap that will be created as temporary concessions expire.

G State Unemployment Insurance

The County currently participates in a self-funded unemployment insurance plan. The rates are set in accordance with recommendations from an annual actuarial report. The actuary determines the rates based on the following factors: 1) Claims for the past 12 months by department; 2) Size of specific department salary budgets; and 3) Sufficiency of reserves. The actuary then sets a rate based on these factors, estimating liabilities for the costs of future claims. During the last few quarters, the County has seen a steady increase in the number of unemployment claims filed. In addition, the County Unemployment Self-Insurance Fund does not meet the level of reserves recommended by the actuary. Though the actuarial report is not yet complete, contribution rates are expected to increase 15%, or $400,000, based on the increasing number of claims filed and insufficient fund balance.

H State Suspension of Vote by Mail Reimbursement

On July 29, 2011, the California Department of Finance notified local agencies that certain reimbursable State mandates would be suspended because reimbursement was not included in the State Budget Act of 2011. The State has suspended reimbursement for the cost of providing the permanent vote-by-mail program. Suspending this reimbursement does not allow the County the option of discontinuing voting by mail. Even if the County were to choose to suspend the "permanent status" of voters who choose to vote by mail, voters will still have the option, under the law, to request a vote by mail ballot. Prior to implementation of permanent vote by mail (2002) over 65,000 registered voters chose to vote by mail. Given the popular status of voting by mail, even if the permanent status is suspended, it is expected that over 100,000 voters will continue to choose to vote by mail in the 2012 Presidential General Election. It will cost the County $350,000 annually to continue this service.

I Indigent and Uninsured Clients – Public Health

Counties have a mandate under Welfare and Institutions (W&I) Code Section 17000 to provide hospital and medical services to indigent residents (currently one in five County residents). As the economy declined, so too did the revenue sources funding indigent health programs. The recession also increased the number of patient visits provided to indigent and uninsured clients by nearly 8%. The Public Health Department (PHD) is facing declines in revenue sources to support the indigent and uninsured, an increase in the number of visits provided to the indigent and uninsured in PHD Specialty Clinics, and an increase in the number of mentally ill patients transferred to the PHD Health Centers for mental health care, all contributing to projected costs of $400,000 in FY 2012-13 and FY 2013-14.

J Retiree Healthcare

The Retirement System administers the County's cost sharing multiple-employer defined benefit post-employment healthcare plan (OPEB Plan). The OPEB Plan provides medical benefits to eligible retired County employees and their eligible dependents. The County currently determines the contribution rate to the Retirement System to fund the retiree medical program. The County has adopted an initial 3% employer contribution rate of covered payroll. This contribution is intended to cover annual premium costs of the plan. Considering the current trend in benefits, it is estimated that the County contribution will need to increase by $300,000 in FY 2012-13 to order to keep up with the current "Pay-Go" method.

Tier 2 Issues: Probable occurence within the next two years				
Issue		FY 2012-13 Impact (in millions)	FY 2013-14 Additional Impact (in millions)	One-time or Ongoing
K	ADMHS Cost Report Settlement Issues	$ 8.0		One-time
L	Mental Health and Partner Agencies Medi-Cal Billing Exposure	4.8		One-time
M	Special Distribution Fund - Indian Gaming	0.6		Ongoing
N	State Budget - Redevelopment	0.5		Ongoing
	Total	$ 13.9	$ -	

Note: Issues labeled as "Ongoing" in a particular year will require the same level of funding in every subsequent year; "One-time" issues would require a single payment to address, with no ongoing obligation. The amounts listed in the FY 2013-14 Impact column represent the *incremental* increases over the FY 2012-13 amounts; for example, an ongoing issue with a $1 million impact in FY 2012-13 and a $0.5 million impact in FY 2013-14 would require a total of $1.5 million to address in FY 2013-14 and thereafter.

K ADMHS Cost Report Settlement Issues

The County has identified and reported to the State potential issues regarding cost reporting, claiming and accounting methods by the Alcohol, Drug & Mental Health Services Department and its contracted providers for FY 2002-03 through FY 2007-08 that could result in claim adjustments. In the County's Comprehensive Annual Financial Report ending June 30, 2011, the County's accrued liability related to these claim adjustments is approximately $8 million. These funds are set aside in the audit exceptions designation. This amount is subject to State cost settlement, audit procedures, an appeal process, and negotiation/settlement between the County, State and contracted providers. The County is working with the State to arrive at agreed upon calculations of the ultimate liability related to self-reported issues. It may be possible to negotiate a repayment plan when the final audit settlement amounts are determined; however, there is no guarantee that the State will agree to a payment plan. Further, based on the State's cost report filing process and long delay in the performance of audits, cost report and audit settlements will continue to occur in future years. ADMHS has improved its processes in an effort to reduce the magnitude of settlements. Processes and staff were in place by FY 2009-10 and it is anticipated that settlements for FY 2009-10 and subsequent periods will not be as large as in prior years.

L Mental Health and Partner Agencies Medi-Cal Billing Exposure

Although State funding for the Multiagency Integrated System of Care (MISC) program was suspended in 1999, the program continued subsequent to the expiration of the grant using Medi-Cal as a funding source. A State Department of Mental Health audit for FY 2002-03 made a finding that a portion of costs billed under the Medi-Cal program may be disallowed. The County disagrees with the State's position and is in a formal appeal process. These questioned costs/claims relate to services provided by County departments. The contingent liability for the period of FY 2000-01 through FY 2007-08 is estimated at $13.6 million; $8.9 million has already been paid, leaving a contingent liability of $4.8 million. Of this amount, $1.9 million is available in reserves, leaving an unreserved contingent liability of approximately $3 million. However, the contingent liability amount could be reduced pending the ongoing appeal. The funding for any prior period repayments will need to come from the General Fund, the audit exceptions designation, and any unreserved fund balance in the Mental Health Fund.

M Special Distribution Fund – Indian Gaming

The Governor signed AB 1417 on October 9, 2011, which reduced the available Indian Gaming Special Distribution Fund (SDF) by approximately half—from $18.1 million in the prior year to $9.1 million in the 2011-12 fiscal year—in order to leave the remaining $9 million in funding in the SDF to lessen the future impact on the State general fund. The County's share of the FY 2011-12 available funding will be approximately $700,000. In the FY 2011-12 Adopted Budget, the Fire Department anticipated $580,000 in grant funding from the SDF. The Sheriff's Department did not include any anticipated Indian Gaming revenue and eliminated the five deputy sheriff positions previously funded by this source. It is not anticipated that SDF funds will be provided in FY 2012-13.

N State Budget – Redevelopment

On June 28, 2011, California Governor Brown signed into law two new bills affecting all California Redevelopment Agencies including the Santa Barbara County Redevelopment Agency (RDA). ABX1 26 (the "Dissolution Bill") eliminates all redevelopment agencies effective October 1, 2011. ABX1 27 (the "Continuation Bill") would allow Redevelopment Agencies to continue to exist if certain payments to the State are made (an initial one-time payment and then subsequent annual payments). However, litigation challenged ABX1 26 and ABX1 27, and the California Supreme Court stayed most of ABX1 26 and almost all of ABX1 27. It is not clear how the Court will resolve the litigation and the Court's decision is not expected until January 2012. On September 6 and October 4, 2011, the Board voted to continue the RDA and enter the Alternative Voluntary Redevelopment program, and adopted a reimbursement agreement between the County and the RDA to provide for RDA reimbursement of required remittances to the State. Depending on the outcome of the current litigation, the County may be required to take additional actions at a later date.

If the RDA is continued, the County will be required to make a one-time remittance payment to the State of $1.95 million in FY 2011-12 and a $459 thousand annual payment thereafter (to be adjusted annually by a property tax growth factor). The Board of Supervisors approved a budget revision on October 4, 2011, to appropriate the FY 2011-12 remittance payment amount. The annual payment amount would be included in the RDA budget beginning in FY 2012-13.

The annual operating budget for the RDA would be approximately $5.5 million. Of this amount $1.95 million would be used for the one-time remittance payment to the State, $1.4 million would cover RDA outstanding debt obligations, $1.2 million would fund affordable housing programs, and $941 thousand would go towards overhead and RDA general programs.

Tier 3 Issues: Possible occurrence within the next two years				
Issue		FY 2012-13 Impact (in millions)	FY 2013-14 Additional Impact (in millions)	One-time or Ongoing
O	Social Services mandate match	$ 5.0		Ongoing
P	Property Tax Administration Fee	3.8	0.6	One-time + $600K ongoing
Q	Deferred Maintenance Backlog	2.0	2.0	Ongoing
R	Goleta Beach Long Term Protection Plan	1.5	2.3	One-time
S	Retiree Healthcare Unfunded Liability	1.2	1.2	Ongoing
T	Fire Department level of service	1.0	5.0	Ongoing
U	County Jail - Northern Branch Construction	Unknown	Unknown	One-time
V	State Budget - Trigger Cuts	Unknown	Unknown	Unknown
W	State Budget - Mental Health, Social Services, and Public Safety Realignment	Unknown	Unknown	Unknown
	Total	**$ 14.5**	**$ 11.1**	

Note: Issues labeled as "Ongoing" in a particular year will require the same level of funding in every subsequent year; "One-time" issues would require a single payment to address, with no ongoing obligation. The amounts listed in the FY 2013-14 Impact column represent the *incremental* increases over the FY 2012-13 amounts; for example, an ongoing issue with a $1 million impact in FY 2012-13 and a $0.5 million impact in FY 2013-14 would require a total of $1.5 million to address in FY 2013-14 and thereafter.

O Social Services Mandate Match

The Department of Social Services (DSS) continues to be challenged by double digit caseload growth in many programs as a result of the recessionary economy. Compounding the issue is the State's "Cost of Doing Business" funding cap. Contributions for increases in administration and overhead expenses have been frozen by the State at 2001 levels. In past years, DSS has used fund balances to close gaps between expenditures and revenues. However, DSS anticipates that most if not all all fund balances will be depleted in FY 2011-12, leaving a funding shortfall of $5 million in FY 2012-13. If the State adopts mid-year budget reductions, there could be additional impacts on DSS.

P Property Tax Administration Fee

Forty-seven cities in Los Angeles County brought a lawsuit against the County of Los Angeles regarding the calculation of Property Tax Administration Fees (PTAF). The legal issue in dispute is whether counties can include "flip" and "swap" revenues in the calculation of administrative costs that counties recover from cities. The Court of Appeal of the State of California issued a decision in favor of the cities; however, the County of Los Angeles appealed to and was granted review by the California Supreme Court. The outcome is pending and will be significant for the County of Santa Barbara because there are similar claims against this County. The potential financial impact to the County related to the outcome of this case averages approximately $513 thousand per year of tax administration fees from FY 2006-07 to FY 2010-11. If the County is required to repay the retroactive portion of the PTAF in FY 2012-13, it would cost an estimated $3.765 million plus possible interest. PTAF at issue for FY 2011-12 and beyond is estimated to be $600 thousand per year. This remains a statewide issue.

Q Deferred Maintenance Backlog

As a budget reduction measure, the County has cut spending on infrastructure maintenance. Aging County facilities, bridges, roads, and drainage systems continue to deteriorate each year and are in need of repair and maintenance to address safety and operational concerns. As a result, the Countywide deferred maintenance backlog continues to grow. In previous years, the deferred maintenance backlog has been valued at over $200 million. The County has been allocating $2-3 million per year to address the most critical maintenance needs. While this contribution amount is not ideal it is recommended that this practice continue until revenues recover to a point where more funds can be directed to deferred maintenance needs.

R Goleta Beach Long Term Protection Plan

An application to the California Coastal Commission for a permit to install a Permeable Pile Pier at Goleta Beach, a proposed long-term solution to damage caused by heavy winter storm erosion on the Goleta Beach Park, was denied by the California Coastal Commission on July 8, 2009. In response, County Parks developed "Goleta Beach 2.0," which includes a limited managed retreat alternative that is likely to be acceptable to the Coastal Commission. The Board accepted the conceptual recommendations for Goleta Beach 2.0 on September 21, 2010, and directed County Parks to return with a program for preliminary engineering and implementation. Current conceptual-level estimates are that the hard costs will likely be $3.8 million. Current available funding for this project is $1.5 million from Coastal Impact Assistance Program (CIAP) grants, leaving an unfunded balance of approximately $2.3 million.

S Retiree Healthcare Unfunded Liability

With regard to the long-term challenges, the County is currently funding the retiree medical program on a "Pay-Go" basis. The "Pay-Go" basis is a method of financing under which contributions to the plan are generally made at about the same time and amount as benefit payments and expenses become due. While providing near-term budgetary relief, the policy trade-offs of funding on a "Pay-Go" basis create the following significant fiscal issues:

- The County is required to recognize a liability for the retiree medical program in its financial statements;
- The County is not being reimbursed for the full cost of administering State and federally funded programs; and

- The County is not able to take advantage of more favorable actuarial assumptions that would lower the expense of the program over time.

The result of the County's "Pay-Go" funding approach is that the County's total liability for retiree medical benefits rose to $173.9 million at the end of FY 2010-11. It is recommended that the contribution rate be increased by 0.5%, or $1.2 million, annually in order to gradually reduce this liability.

T Fire Department Level of Service

In FY 2011-12, $1 million in one-time funding was allocated towards restoration of the helicopter program. To continue this program in FY 2012-13, a new funding source would need to be identified. In FY 2013-14, the Fire Department estimates that approximately $5 million in new funding would be needed to maintain service levels. Any funding shortfall could be addressed through use of Fire Protection District fund balance, General Fund designations, or expenditure reductions.

U County Jail – Northern Branch

Currently, the County is under a consent decree order to reduce jail overcrowding. Efforts have been underway since late 2008 for a 304-bed jail facility in the North County. The construction cost of the project is estimated to be approximately $80.2 million and the operating cost is estimated at $17.4 million at the start of operations in FY 2017-18. In 2007, the County was awarded conditional funding from the State in the amount of $56.3 million for new jail construction, requiring a County match of $23.8 million. $5.1 million has already been appropriated and expended on the purchase of land for this project. The remainder could be financed through issuance of Certificates of Participation at an estimated debt service cost of $2.4 million per year. The State recently opened a new AB 900 award cycle (Phase II) that would require only a 10% match of certain eligible costs. The County would then have the option of keeping the current award with the 25% match requirement or forfeiting the current award and reapplying for a new award with the 10% match requirement. The Sheriff's Department will bring an item to the Board of Supervisors in December 2011 to get direction on this issue.

V State Budget – Trigger Cuts

The State's adopted budget includes a $4 billion "unallocated revenue increase," which relies on tax revenues to come in $4 billion above monthly projections over the course of the year. To date, revenue receipts have not exceeded monthly targets by the necessary portion of the $4 billion. In December, the Department of Finance will determine whether the $4 billion revenue estimate is accurate. If it is not, two tiers of "trigger cuts" are built into the budget to bring expenditures in line with revenues, the first to address a revenue shortfall of $1 billion and the second to address a $2 billion shortfall. These trigger cuts, if enacted, could impact the County in the areas of In-Home Supportive Services, youth offenders sent to State correctional facilities, and Medi-Cal reimbursement rates. However, the State could alternatively decide to reopen budget discussions to revise the budget in January instead of implementing the trigger cuts.

W State Budget – Mental Health, Social Services, and Public Safety Realignment

As part of the 2011–12 budget plan, the Legislature enacted a major shift—or "realignment"—of state program responsibilities and revenues to local governments to fund various criminal justice, mental health, and social services programs. The funding for the realignment package comes from a reallocation of a portion of state sales tax and state and local VLF revenues. Specifically, the Legislature approved the diversion of 1.0625 cents of the state's sales tax rate to counties. In addition, the realignment plan redirects a portion of the VLF rate for local law enforcement grant programs. If revenues are lower than anticipated by the end of the year, each program—with the exception of CalWORKs and the local public safety grants funded by the Local Law Enforcement Services Account, which will receive funding priority—will receive its proportionate share of the shortfall based on its share of the available revenues.[1]

In the County, the realignment package provides a combination of new funding and replacement funding for public safety, mental health, and social services programs as illustrated in the table below:

Service	Department	FY 2011-12 Estimated Funding	Description of Services
New Funding			
Local Community Corrections	Sheriff, Probation, Auditor	$ 4.7	Funds the supervision, incarceration and treatment of realigned offenders.
DA & Public Defender	DA, Public Defender	0.1	Funds costs associated with revocation proceedings involving persons subject to State parole and the Post-Release Community Supervision Act of 2011
	Total New Funding	**4.8**	
Replacement Funding			
Trial Court Security	Sheriff	6.7	Court security provided by the Sheriff's Office
Supplemental Law Enforcement Services	Sheriff, Probation, DA, Cities	5.7	C.O.P.S., juvenile probation activities, juvenile camps and ranches, war on meth, rural crime prevention, booking fees
Mental Health	ADMHS	9.5	Mental health services
Juvenile Justice	Probation	1.0	Youthful Offender Block Grant, Juvenile Reentry Grant
Health & Human Services	ADMHS, DSS	15.6	Adult Protective Services, foster care assistance, foster care administration, child welfare, adoptions administration, adoptions assistance program, child abuse prevention, drug court, non-drug Medi-Cal, drug Medi-Cal, WCRTs
	Total Replacement Funding	**38.5**	
	Grand Total Realignment Funding	**$ 43.3**	

Note: The County is still analyzing the impacts of Realignment 2011 and the numerous funding formulas at the county level; therefore, the estimates may change.

[1] Adapted from: "2011 Realignment: Addressing Issues to Promote Its Long-Term Success," Legislative Analyst's Office, August 19, 2011. http://www.lao.ca.gov/reports/2011/stadm/realignment/realignment_081911.aspx.

Because funding levels are tied to State sales tax and VLF revenue receipts, there is a general uncertainty surrounding the funding the County will actually receive. Our budget concern will be whether Realignment 2011 revenues provide enough funding for the replacement funding and sufficient revenue for the Local Community Corrections Program.

3. FY 2012-13 PROJECTED BUDGET GAP

The projected budget gap is a calculation of the difference between the anticipated changes to ongoing revenues and the anticipated changes to ongoing expenditures in FY 2012-13. Assuming services are maintained at current year levels, a budget gap is an indicator that anticipated levels of spending will exceed available resources.

This budget gap calculation is intended to be a broad projection and assumes that roughly 60% of salary and benefit expenditures will occur in the General Fund and 40% will occur in Special Revenue Funds[2]. The calculation also assumes that 20% of salary and benefit expenditures will be recoverable through federal and State reimbursement and grant revenues in the General Fund and 70% will be recoverable in Special Revenue Funds. These assumptions were developed based on the most recent information available at the time this report was written. The estimates are based on trend analysis, actuarial valuations and projections supplied by departments. Throughout the budget process, the County Executive Office and Auditor-Controller's Office will work with departments to refine these estimates for cost savings, especially to reduce the use of one-time fund balance for ongoing operations.

It is anticipated that there will be a budget gap of $15.2 million in FY 2012-13. Therefore, in order to maintain current service levels—not including services currently funded by one-time sources, which would require identification of new funding sources to continue in the next fiscal year—approximately $15.2 million in revenue increases or expenditure reductions will be needed to produce a structurally balanced FY 2012-13 budget. The budget gap can be solved through a combination of strategies including ongoing measures such as increasing efficiencies, increasing revenues, and decreasing levels of service, or one-time measures such as utilizing prior year savings and existing fund balance.

The table below summarizes the anticipated changes to expenditures and revenues in FY 2012-13 that were used to calculate the projected budget gap.

[2] Major Special Revenue Funds, which are used to account for the proceeds of specific revenue sources, include the Fire Protection District, Roads, Flood Control District, Social Services, Mental Health, and Public Health.

	Total Countywide	General Fund	Special Revenue Funds
Projected Changes to Expenditures			
Retiree healthcare	$ 300,000	$ 180,000	$ 120,000
Pension fund stability	4,600,000	2,760,000	1,840,000
Workers' compensation & general liability	2,900,000	1,740,000	1,160,000
Unemployment insurance	450,000	270,000	180,000
Health insurance contribution	1,850,000	1,110,000	740,000
Increase regular salaries	400,000	240,000	160,000
Expiration of Firefighters Local 2046 concessions	1,000,000	-	1,000,000
State suspension of vote by mail reimbursement	400,000	400,000	-
Indigent & uninsured clients - Public Health	400,000	-	400,000
Total expenditure increase	12,300,000	6,700,000	5,600,000
Savings from concession agreements	*(14,870,000)*	*(8,920,000)*	*(5,950,000)*
Total change in expenditures	**(2,570,000)**	**(2,220,000)**	**(350,000)**
Projected Changes to Revenues			
State/fed reimbursement for S&B increases	4,190,000	1,250,000	2,940,000
General revenues	3,480,000	3,480,000	-
Revenue loss from Goleta revenue neutrality	(2,300,000)	(2,300,000)	-
Total revenue increase/(decrease)	5,370,000	2,430,000	2,940,000
One-time sources for on-going expenditures	*(17,230,000)*	*(7,350,000)*	*(9,880,000)*
Reduced state/fed reimbursement from concessions	*(5,940,000)*	*(1,780,000)*	*(4,160,000)*
Total changes in revenues	**(17,800,000)**	**(6,700,000)**	**(11,100,000)**
FY 12-13 Projected Budget Gap	**$ 15,230,000**	**$ 4,480,000**	**$ 10,750,000**