

County of Santa Barbara



Financíal  
Analýsís  
Report



September 25, 2007

Michael F. Brown

County Executive Officer



# County of Santa Barbara Financial Analysis Report

Presented September 25, 2007

to the

**Board of Supervisors**

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Joni Gray

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by

Michael F. Brown  
County Executive Officer



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# Executive Summary

## INTRODUCTION

Recent economic and demographic trends, the loss of local, State, and Federal funding, unfunded mandates and urgent infrastructure needs, as well as delays in receiving State reimbursements, threaten the County of Santa Barbara’s overall financial capacity and its ability to continue delivering high-quality services to the public. As a result, as expenditures continue to climb, the County experiences a leveling of discretionary revenues.

If this flattening trend continues, and expenditures continue to progress at the current pace, the County will experience both medium- and long-term structural deficits that will continue into the foreseeable future<sup>1</sup>. To address this critical issue, an executive project team was formed to conduct a comprehensive review of the most pressing and significant financial issues facing the County immediately and over the next several years.

The issues reviewed included those related to construction projects; loss or reduction of local, State, or Federal funding; unfunded mandates or urgent infrastructure needs; and delays in receiving State reimbursements. While many of the issues have a certain level of probability, others have been determined to pose a known or most certain cost to the County. In order for the County to responsibly manage its financial resources and address these key issues, sound policy decisions are imperative.

## BACKGROUND

On June 27, 2007, the Santa Barbara County Board of Supervisors held a hearing to consider certain options related to Maddy funding. During the discussion, a number of key financial issues were identified:

- | <u>Costs/Cost Recovery Issues</u>  | <u>Loss of Revenue/Funding</u>   |
|--|--|
| <ul style="list-style-type: none"> <li>• 2008 Presidential Primary</li> <li>• Establishing citizenship prior to providing Medi-Cal benefits</li> <li>• Goleta Beach repairs and long term protection plan</li> </ul> | <ul style="list-style-type: none"> <li>• Reductions in Property Tax growth</li> <li>• State Budget Impacts</li> <li>• Public Works Encroachment Permits</li> </ul> |

<sup>1</sup> The 2007-2008 Fiscal Year Budget is balanced.



**Costs/Cost Recovery Issues**

**Loss of Revenue/Funding**

- North County CARES Residential Unit
- Pension Costs
- Construction of a new County jail
- Frozen state contribution to Department of Social Services (DSS) for “cost of doing business
- Healthcare reforms being explored by the State
- Lake Cachuma Surcharge
- Santa Maria River Levee Reinforcement Project
- State reimbursements in arrears for Alcohol, Drug, and Mental Health Services (ADMHS)

- Sunsetting of Measure D funding
- Maddy funding for emergency medical services
- Williamson Act Backfill

At the close of the discussion, the Board directed CEO, Michael F. Brown to form a project team that included key individuals in the organization for the purpose of conducting a comprehensive review and analysis of each of the issues and reporting back to the Board at a future date.

As a result of Board direction, a Project Team was formed including:

- |                            |                          |
|----------------------------|--------------------------|
| Susan Paul, Project Leader | CEO/Human Resources      |
| John Baker                 | Planning and Development |
| Ron Cortez                 | County Executive Office  |
| Ken Masuda                 | County Executive Office  |
| Terri Maus-Nisich          | County Executive Office  |
| John McInnes               | Planning and Development |
| Elliot Schulman            | Public Health            |
| Jason Stilwell             | County Executive Office  |
| Sharon Friedrichsen        | County Executive Office  |
| John Jayasinghe            | County Executive Office  |
| Jeri Muth                  | County Executive Office  |



During the course of the review, the Team worked closely with subject matter experts in affected County departments and in CEO/Budget in conducting the analysis of each of the issues. Each of the issues was analyzed in terms of:

- Clearly defining the issue;
- Identifying the service provided;
- Estimating the funding generated or needed to address the issue;
- Identifying whether the financial issue is a one-time event or a recurring cost;
- Addressing the timeframe at which critical decisions would need to be made;
- Discussing the impacts;
- Identifying the probability of the potential issue becoming a reality for the County; and
- Evaluating financial alternatives.

On August 24, 2007, the State Budget was signed by the Governor. The State Budget restored Williamson Act Backfill funding, however, it also included cuts that further impact the County's financial infrastructure. State Budget cuts included a reduction in Proposition 36 funding, elimination of funds from the Indian Gaming Special Distribution Fund for the FY 2007-2008 cycle, and significant grant funding cuts. These cuts resulted in approximately an estimated \$2.4M impact to the County of Santa Barbara. In addition, the Budget did not provide the approximate \$1.5M in reimbursement funding for the 2008 Presidential Primary election. Efforts are underway on a number of fronts to attempt to restore State funding.

The Team identified issues as "certain" to pose financial challenges to the County (i.e., those already occurring, unavoidable, or imminent) and those that were "potential" issues (i.e., dependent upon decisions made by the Board, subject to voter approval, dependent on legislative action, etc.).

For each of the certain and potential issues, the Team estimated associated costs or loss of revenue for each. The only issue guaranteed not to have an impact on financial resources during the next three fiscal years is the Reauthorization of Measure D. This dedicated tax will sunset in 2010 and, if not re-approved by voters prior to the sunset date, will have a significant impact on County finances the following fiscal year.

## **SUMMARY OF ISSUES – CERTAIN AND POTENTIAL**

The following summarizes the seven (7) issues that have been determined to be certain to occur, followed by the remaining nine (9) issues that have been determined to have



the potential for creating significant financial challenges for the organization in the near future. A more detailed analysis of each issue is located behind the tabs referenced in each of the issues summarized below.

**CERTAIN**

<u>Issue</u>	<u>Estimated Cost</u>	<u>Detailed Analysis</u>
2008 Presidential Primary	\$1.5M	Tab A
Citizenship Eligibility for Medi-Cal Benefits	\$102K*	Tab B
Goleta Beach Long Term Protection Plan	\$10.9M	Tab C
Loss of Revenue – Public Works Encroachment Permits	\$606K*	Tab D
North County CARES Residential Unit	\$1.3M*	Tab E
Property Tax Growth Reductions	\$6M*	Tab F
State Budget Impacts	\$2.4M	Tab G

\* Ongoing

**A - 2008 Presidential Primary**

In March 2007, the State passed Senate Bill 113 requiring a Statewide Presidential Primary in February of each presidential election year beginning with the 2008 primary; however, the State did not fund this mandated election in the FY 2007-2008 State Budget. Though the intent of the legislation is to fully reimburse counties for the costs associated with the primary, costs estimated at \$1.5M began accruing in August 2007.

In the short-term, funding could be provided through the County’s Strategic Reserve until the State forwards the reimbursement; similar to what the County did as a result of the 2005 Recall Election. The County anticipates knowing whether the Governor includes county reimbursement in the FY 2008-2009 State Budget on January 10, 2008. If the funding is included in the State Budget, the County would anticipate reimbursement by December 2008. (See Tab A.)

**B - Establishing Citizenship Eligibility for Medi-Cal Benefits**

In January 2006, the Federal Deficit Reduction Act of 2005 was passed requiring proof of citizenship/national status as a condition to receive Medi-Cal benefits. The Act requires the Department of Social Services (DSS) to assist clients in providing specified proofs of citizenship within specified time periods. DSS estimates that this requirement will apply to approximately 72% of the current Medi-Cal beneficiaries and that the Department will require additional resources estimated at a cost of \$102K in order to comply.

Additional ongoing costs and losses in revenue may also occur as a result of determining ineligibility based on citizenship. It is estimated that 2% to 3% of Medi-Cal recipients will lose eligibility or be found to be ineligible which may result in a reduction



of clients and associated revenue and expenditures for County departments such as Alcohol, Drug and Mental Health Services and Public Health. Until the verification process is complete, it is difficult to ascertain the true financial implications or to identify credible financial alternatives. (See Tab B.)

**C - Goleta Beach Long Term Protection Plan**

In order to maintain compliance with regulatory agencies, a 20-year sustainable project that protects and provides for park recreational opportunities and a wide sandy beach area is proposed for implementation at the Goleta Beach County Park. To protect utilities and park facilities threatened from historic storm erosion activities at Goleta Beach County Park, emergency rock revetments were placed along the beach in late 2002 and early 2005. The revetments were granted Coastal Development permits from the California Coastal Commission (CCC) with the understanding that a planning process was underway by the County of Santa Barbara to determine a long-term beach and park protection plan.

Beginning in 2003, the Second Supervisorial District Office and County Parks began a public community and stakeholder process to determine a long-term plan for the park that would continue to provide for recreational facilities and a sandy beach area at the park. Two long-term plan scenarios: 1) beach stabilization/ permeable groin or 2) a managed retreat have been developed and the environmental review process is underway. Per the draft Environmental Impact Report (EIR) the beach stabilization/permeable groin option does not appear to have any Class 1 impacts.

A third option is to implement neither of the first two projects and, instead, remove the revetments, which would then require providing ongoing beach nourishment.

The cost of each of these options has been estimated over a 20 year period as follows:

Option 1 - Beach Stabilization/Permeable Groin	\$1085M
Option 2 - Managed Retreat	\$12.7M
Option 3 - Rock Removal and Ongoing Beach Nourishment*	\$27.3M

\*\$23.3M is related specifically to ongoing beach nourishment from year four through twenty at a cost of \$1.46M annually.

Various funding alternatives are being reviewed for feasibility for this Project including:

- Grants
- Quimby Fees
- FEMA Funding
- County Service Area 3 Funds
- Voter Approved Funds
- Parking Fees



The deadline for completing the planning process and submitting a preferred project to the CCC is January 2008. If the County does not implement a long-term plan for the Park, it is likely that the revetments would need to be removed in order to maintain compliance with regulatory agency permits.

In November 2007, the Board will be requested to provide direction regarding a long-term protection plan for Goleta Beach County Park. (See Tab C.)

#### **D - Loss of Revenue for Public Works Encroachment Permits**

The Public Works Department Transportation Division collects fees for plan checking and inspection of road encroachment permits issued for construction on all public roadways. The Division also performs plan checks for private roadway improvements. Plan checking and inspections are necessary to ensure improvements are constructed within the public road right of way and are designed and constructed to County standards.

The fees collected by Transportation for these services have not been updated since 1989. A study prepared in January 2006 and subsequently updated by the Auditor-Controller determined that there is an annual deficit of approximately \$606K for Road Encroachment Permit fees. Currently, Public Works subsidizes this deficit with Measure D funds, which are due to sunset in 2010. Using Measure D funds to subsidize the deficit also prevents the Department from using Measure D funding for its Pavement Preservation program or as a local match for capital improvement projects.

Failing to address this issue through increasing fees and unit prices may result in the County being financially responsible for completing any construction work in the public right of way on which a contractor defaults. Financial alternatives include the General Fund or the continuation of Measure D subsidies. (See Tab D.)

#### **E - North County CARES Residential Unit**

The Alcohol, Drug and Mental Health Services Department (ADMHS) will open the long-awaited North County CARES Residential Unit in September 2007. The building was acquired to provide a short-term crisis unit on the first floor and a 12-bed psychiatric residential unit located on the second floor of the building. The North CARES Residential Unit will allow up to ten days for assessment, evaluation, and treatment of North County residents. It is anticipated that occupancy of the Residential Unit will occur in January 2008.

ADMHS is requesting a \$650K General Fund contribution for the second floor residential unit for the partial fiscal year; however, there is an estimated ongoing annual cost of \$1.3M. The residential unit will provide a potential alternative to costly hospitalizations. (The average cost for an acute hospital bed day is approximately \$800 per day as compared to the \$145 per day cost of a residential unit bed.) At this time, aside from a General Fund contribution to ADMHS, no other funding sources have been identified. (See Tab E.)



**F - Property Tax Growth Reduction**

Property Tax revenues fund the County contribution to all departments and programs that receive General Fund contribution support. Property Tax revenues account for nearly 90% of General Fund Discretionary Revenues.

Property Tax growth rates have been on the decline and will most likely continue the downward trend for the next few years. Local economists, Dr. Bill Watkins and Dr. Mark Schniepp, project that the downward trend will continue until some time in 2008, which would impact the FY 2009-2010 roll year.

The downward trend is driven by four factors:

- Significant drop in sales volume from 6,000 to 7,000+ per year to a more normal sales volume of 4,000 to 5,000 per year.
- Significant drop in new construction. Not only are the permit requests for new developments on the decline, some already approved projects are building only after securing a purchase contract.
- Significant drop in the market rate of appreciation. In certain areas, particularly Santa Maria, Orcutt, and Lompoc, the median market price has dropped approximately 10% in the last year.
- Section 51 of the California Revenue and Taxation Code provides that the assessed value of any property shall not exceed its full market value. This provision coupled with the housing market downturn results in the lowering of assessment values for an estimated 6,740 parcels by an average of \$57,270 per parcel or 0.7% of the growth rate reduction.



It is projected that in 2009-2010, the County will experience an approximate loss of \$2M in revenue and another \$4M in 2010-2011 for a total estimated loss of \$6M. Options for addressing this financial challenge for the County of Santa Barbara are in the process of being developed by the County Executive Office. (See Tab F.)

**G - State Budget Impacts**

The State passed the FY 2007-2008 Budget on August 24, 2007. With the passage of the State Budget, the County is now in a position to quantify some of the impacts of the enacted budget on the County's fiscal operations. Williamson Act subvention funding, which represents approximately \$650K to the County, was included in the State Budget, and is no longer presented as a financial issue for the County. AB 2034, funding for mentally ill homeless, was vetoed by the Governor representing a loss of \$1.4M to



Alcohol, Drug and Mental Services (ADMHS); however, this loss will be fully mitigated by a release of funds from the State Department of Mental Health.

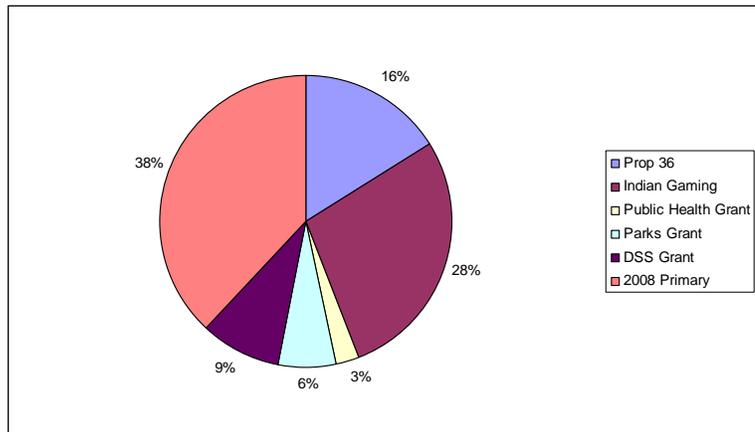
State Budget impacts include:

- **Proposition 36** - Funding that allows first- and second-time nonviolent, simple drug possession offenders to receive substance abuse treatment instead of incarceration, and funding for the Offender Treatment Program (OTP) were decreased statewide. The decreased funding represents a loss of approximately \$632K to ADMHS and will be funded for FY 2007-2008 through SACPA Trust Fund reserves.
- **Indian Gaming** - The \$30M funding allocated to mitigate the impacts of tribal casinos on local communities was eliminated for the FY 2007-2008. Funding for the Fire and Sheriff's Departments has already been received for the current cycle; however, if the County continues funding firefighter/paramedic post positions at Station 31 and patrol services 24/7 into the future, beginning in FY 2008-2009 the cost is estimated at \$1.1M, absent grant funding.

**Grant Funding:**

- Public Health anticipates a loss of \$100K toward funding of pandemic influenza preparedness and response planning.

- Parks will lose \$247K of a coastal resource grant for Jalama Beach. Since the grant has not been expended since 1999, it is not likely the County will need to supplant this funding loss.



- The Department of Social Services (DSS) lost grant funding of \$349K for the Children's Health Initiative, which could affect the number of children enrolled in Medi-Cal and Healthy Families. The Department is seeking alternative grant funding for the current year.

All the funding cuts for this year should be considered one-time except for the 1.1M in Indian Gaming funds which would be allocated to the County in FY 2008-2009. The total known loss of State funding for all programs (not including Indian Gaming) at this time is \$1,328,000 for FY 2007-2008. Legislation is pending to restore this funding.

Departments are currently examining the feasibility of using other funds or reprogramming services to absorb State cuts. Possible changes in service levels may be experienced, although Departments are currently developing strategies to prevent service changes in the immediate future. (See Tab G)



**POTENTIAL**

The following issues were identified as posing potential financial challenges to the County of Santa Barbara:

<u>Issue</u>	<u>Estimated Cost</u>	<u>Detailed Analysis</u>
Healthcare Reform	\$10.4M*	Tab H
Lake Cachuma Surcharge	\$10M	Tab I
Maddy Fund	\$1.6M*	Tab J
New County Jail	\$153M**	Tab K
Pension Fund Stability	TBD*	Tab L
Reauthorization of Measure D	\$7.9M*	Tab M
Santa Maria Levee Reinforcement Project	\$90M**	Tab N
State Contribution for Cost of Doing Business	\$6M*	Tab O
State Reimbursement	\$4.7M*	Tab P

\* Ongoing

\*\* One time; however operational costs would be ongoing

**H - Healthcare Reform**

Various healthcare reform proposals are being considered at the State level in efforts to address a variety of statewide healthcare issues including those relating to the uninsured population. If passed through the legislature, healthcare reform initiatives could cost the County an estimated \$10M annually and could conceivably be implemented as early as January 2009.

Though it is unlikely that either a plan proposed by the Governor or that of other legislative leadership will necessarily prevail as currently proposed, it does appear imminent that a compromise between the proposals will be introduced in the Legislature and may be taken to the voters next year. Such a proposal is likely to include an employer contribution mandate, a tax on hospital revenues, and a possible sales tax increase.

In addition, two other bills AB 1 and AB 32 have been introduced to cover all children up to 300% of the federal poverty level. The impact of these two bills is unknown at this time as a County contribution has not been identified.

The implementation of some or all of the identified healthcare reforms would require the Public Health Department to redesign service delivery methods for existing programs which could significantly reduce services and discretionary programs and/or reduce or eliminate General Fund match to non-mandated services. (See Tab H.)



## **I - Lake Cachuma Surcharge**

The Cachuma Lake Recreation Area encompasses 9.25 acres including Cachuma Lake and the surrounding shores and rugged hillsides. The Park provides an array of recreational amenities including boating, fishing, camping, seasonal naturalist programs, and nature cruises for approximately 700,000 visitors year-round. The Santa Barbara County Parks Department manages the recreation area pursuant to a contract between the Federal Bureau of Reclamation and the County. The current contract expires in January 2009.

The Federal Bureau of Reclamation is examining the impacts of raising the water level at Cachuma Lake for the protection of habitat for steelhead trout. If this occurs, a significant number of County facilities located at the site would need to be replaced and relocated. Facilities that would be impacted by an action of this nature include a water treatment plant, sewer lift stations, water distribution systems, the sewage collection system, roads, bridges, paths, parking lots, picnic and camping sites, boat ramps, boat docks, and other park structures and facilities.

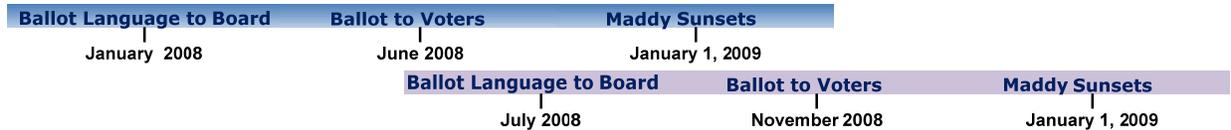
Project costs are estimated at approximately \$10M and could be phased over three years in increments of approximately \$2.45M, \$4.45M, and \$3.1M. Financial alternatives for funding the project, should the surcharge go into effect, include continued federal appropriations, increasing user fees, and applying for competitive grant programs under Propositions 50 and 84, which are not a guaranteed funding source. (See Tab I.)

## **J - Maddy Fund**

The Maddy Emergency Medical Services (EMS) Fund is a funding mechanism that generates approximately \$1.6M per year through the assessment of penalties on motor vehicles and criminal fines and forfeitures. The purpose of the funding is to partially compensate healthcare providers for otherwise uncompensated emergency medical services. It is estimated that healthcare providers lose \$8M per year, in spite of Maddy funds. The funding, which is administered by the Public Health Department, is due to sunset on January 1, 2009.

Without a source of funding, hospitals will face increasing difficulty securing medical emergency response services thereby compromising emergency care for County residents and it is anticipated hospitals will continue to seek reimbursement increases from government payors, including the County, to cover the cost of treating the uninsured.

Assembly Bill 2265, which extended the Maddy sunset date from 2007 to 2009, requires the County to place an appropriate proposed tax ordinance on a ballot on or before the November 2008 election for the purpose of ensuring the collection of sufficient funds to fully support the trauma center and EMS system. To meet this deadline would require Board approval of ballot language by January 2008 in order to appear on the June 2008 ballot or by July 2008 to appear on the November 2008 ballot.



Financial alternatives include a voter approved tax increase or redirection of Tobacco Settlement Funds from currently funded programs. Tobacco Settlement Endowment Funds are currently at approximately \$5.2M. A redirection of Tobacco Settlement Funds would impact other County departments that currently receive funds, which may place further pressure on the General Fund. (See Tab J.)

**K - New County Jail**

Jail overcrowding and the need for a new County jail was first documented more than 20 years ago and reiterated throughout the years by various Court Orders and Grand Jury reports. The New County Jail Project proposes an 800-bed facility with an infrastructure to eventually house 1,500 inmates. In December 2005, the New County Jail Project had an estimated cost of \$153M with an estimated operational cost of \$19.1M.

Funding continues to be the most significant obstacle for this Project. In December 2005, the County issued the “New Jail Planning Study,” the result of a comprehensive review of alternatives and funding options. The Study concluded that that a half-percent sales tax increase was the most viable option for funding both capital and operational costs; however, a polling firm determined that this option was not likely to achieve voter approval. Therefore, the Project remains unfunded while the need continues to grow.

The Sheriff’s Department is working on several fronts to alleviate jail overcrowding while planning for the construction of a new jail. A promising plan partners the County with the California Department of Corrections and Rehabilitation to collocate a State Secure Reentry Facility within a new County jail. This partnership would address both jail and prison overcrowding and develop new approaches to reducing recidivism. The County’s financial obligation, should this partnership move forward, would be substantially reduced to approximately 25% of the projected capital expenses; however, the County would still need to identify a funding source for ongoing operational costs. The annual COP debt service over 30 years is estimated at \$12M, with annual operating expenses estimated at \$19.2M for a total of \$31.1M. (See Tab K.)

**L - Pension Fund Stability**

The County’s retirement fund is administered by the Santa Barbara County Employee Retirement System (SBCERS). SBCERS currently administers both the basic pension benefit and retiree health benefits for the County of Santa Barbara and other plan sponsors. The County’s cost to fund the basic pension benefit, plus Social Security, continues to grow. Although providing a pension benefit is required by law under the 1937 Act and is part of the total compensation package necessary to attract and retain the talent needed to provide quality service, the County of Santa Barbara is also



committed to identifying and implementing mechanisms and changes to help the County and its workforce better manage the cost of this basic benefit.

The County's cost for the basic pension benefit is represented by contribution rates, which have been growing significantly over the last several years. County rates are developed to pay for both the annual normal cost (Normal Cost) of basic pension benefits and to pay for the unfunded liability (UAAL) over 15 years. From 1999 to June 30, 2006, the County's contribution, combined Normal Cost and UAAL, has increased from 12% to an estimated 20.9% of pensionable salaries (approximately \$57M). Primary reasons for the increase in the County's pension costs are due to fluctuations in the market, and increased benefits granted in approximately 2000. Additionally, some of the standard practices and policies of SBCERS, such as the distribution of so-called "excess earnings" to increase certain retiree benefits, including retiree health, have also contributed to the increase in the County's cost for the basic pension benefit.

In order to better understand the issues surrounding the pension fund, in 2006, the County retained the services of Mercer Human Resources Consulting to evaluate the retirement system. Mercer published their findings in November 6, 2006. Mercer found that although SBCERS is funded in a reasonably sound manner, some of the standard practices and policies could jeopardize the funded status in the future and provided recommendations to the County related to correcting issues of technical compliance, improving transparency, and developing analysis of specific system dynamics in order to develop more appropriate policies to guide SBCERS decisions. Mercer noted particular concern regarding technical compliance of retiree health care payments and the policy for distributing excess earnings.

Although the 1937 Act, which governs the administration of the pension plans managed by SBCERS, allows for the distribution of excess earnings to increase certain retiree benefits, it does not mandate it. In fact, it may be argued that it is not prudent to do so if the pension benefits are not first fully funded, and perhaps more than fully funded to guard against fluctuations in the investment market. SBCERS is funded at approximately 86% and while that indicates a good overall financial condition, a funded ratio of 125% for a consistent period of time would be an indicator of a much more sound financial condition. The County is currently working with SBCERS resolve these issues in a mutually satisfactory manner.

### **M - Reauthorization of Measure D**

In 1989, 55% of the voters in Santa Barbara County approved Measure D – a half-cent increase in local sales tax earmarked for transportation projects. The County share of Measure D funds has amounted to approximately \$129M to date and the County is scheduled to receive an additional \$21M before the Measure sunsets. On average, the Public Works Transportation Division receives \$7M in Maddy funds each year, which is over half its FY 2007-2008 budget. In addition to the loss of Measure D funds, the County would also lose approximately \$851K in maintenance of efforts (MOE) funding and Federal revenues (approximately \$9M to \$10M), as there would no longer be a source for providing matching funds.



If Measure D is not reauthorized prior to its expiration in 2010, the County can expect to implement significantly less than half of the planned road projects on an annual basis. In addition, the County's Pavement Preservation Program would be eliminated in its entirety with only corrective maintenance remaining. Other cuts would likely include: maintenance of median landscaping, urban forestry programs, traffic safety reviews, subsidization of development plan checking and the retrofit of existing neighborhoods with facilities to comply with the Americans with Disabilities Act. Replacement, rehabilitation, or seismic retrofitting of structurally deficient bridge structures would also no longer be feasible due to loss of a local source of matching funds. In short, if Measure D is not renewed or a replacement funding source is not identified prior to the 2010 sunset date, it will impact the County's infrastructure for years to come.

The Department is currently working with SBCAG and the North and South County sub-regional committees to develop expenditure plans in preparation for the renewal of Measure D at a half-cent for 30 years. SBCAG is placing this issue on the November 2008 for voter consideration and will require a 2/3 majority vote. (A ¾ cent measure placed on the ballot in November 2006 failed to achieve voter approval.) Should the ballot measure fail, possible alternative funding sources include a Transient Occupancy Tax, Utility Users Tax, a Benefit Assessment, or the General Fund. (See Tab M.)

#### **N - Santa Maria River Levee Reinforcement Project**

The Santa Maria River Levee construction project was completed by the US Army Corps of Engineers (ACOE) in 1963. The 24-mile Levee, which is constructed of sand with rock riprap facing, is designed to protect the City of Santa Maria and thousands of acres of prime agricultural land from flooding.

Over the years, the riprap facing has degraded to the point that it has reduced the Levee's ability to withstand the natural forces of the river. As a result of the condition of the Levee, the ACOE is decertifying the Levee, which will place the vast majority of the City of Santa Maria and much of the surrounding agricultural land in the FEMA 100-year floodplain. The proposed Santa Maria River Levee Reinforcement Project would improve the condition of the Levee, provide adequate flood protection to the area, and achieve recertification from the ACOE.

The Levee is funded by the Santa Maria River Levee Flood Zone; however the Zone does not generate funding for the Reinforcement Project. The cost to design and construct the Project is estimated between \$30M and \$350M, depending on the design and materials selected. The recommended alternative entails reinforcing only the most critical segments of the Levee from the Bradley Canyon Levee to Blosser Road and an estimated cost between \$30M and \$90M, depending on the design and materials selected. For the purpose of the analysis, \$90M, the high estimate of the more cost-effective alternative, was used as the estimated cost of the Project.

Options for funding the project include a voter measure to implement an assessment increase; sale of bonds; establishing financial partnerships with other agencies that have a stake in the Project; and grant funding. (See Tab N.)



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**O - State Contribution for “Cost of Doing Business”**

The State of California pays a portion of the costs (“cost of doing business”) associated with providing mandated public assistance programs for the Department of Social Services (DSS). Over the years, the State’s contribution has not kept pace with inflation and, in fact, the State has frozen funding for salaries, benefits, and overhead at the 2001 level. DSS programs affected include Adoptions, Adult Protective Services, CalWORKs, Child Welfare Services, Food Stamps, Foster Care, and In-Home Supportive Services.

Over the past seven years, DSS estimates a cumulative \$6M funding gap due to incurring local cost-of-doing-business expenses without receiving corresponding increases in State funding. An increase was proposed in the FY 2008-2009 State Budget; however, it was not approved. Therefore, it is anticipated that the gap will further widen unless local costs are contained and/or the State allocates additional funding for administration and overhead.

Continued under-funding by the State will eventually result in a decrease in staff and services, which will impact the Department’s ability to meet mandated performance measures which could lead to financial sanctions. Should sanctions be imposed, neither state nor federal funds could be used to pay them; therefore, it would place an additional burden on the General Fund. In the short term, the funding gap can be covered by the Social Services Special Revenue fund, which had been earmarked for critical needs and projects this fiscal year; however, this is not an ongoing revenue source if the cost of doing business gap continues to widen. The Board is urged to aggressively seek legislation to remedy this continuing financial issue. (See Tab O.)

**P - State Reimbursement**

The State provides reimbursement to Alcohol, Drug and Mental Services (ADMHS) for the mental health services the Department provides to Medi-Cal eligible children and adults. The State is currently in arrears in its payments to the County in the amount of approximately \$1.7M for 2005-2006 claims and \$2.6M Special Education Services from 2001-2003. In addition, the Department anticipates incurring \$350K in non-reimbursable interest in 2007-2008, or a combined total of approximately \$4.7M. Although the State is in arrears in excess of this amount in the amount of \$11.1M, reimbursement is expected by December 2007 and, therefore, has not been included as part of the financial impact analysis.

Due to the delays by the State in reimbursing ADMHS, the Department may need to delay payment or provide no payments to other departments and/or community-based organizations that provide treatment services and/or reduce mental health services provided to Medi-Cal eligible clients or other services not fully reimbursed in a timely manner. (See Tab P.)



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## **Additional Issues**

The following additional issues also factor into the County's overall financial picture.

### **Redevelopment Agencies**

Redevelopment Agencies (RDA) establish project area boundaries for the purpose of improving blighted areas through a variety of programs. Essentially, funding is established through freezing property tax at the rate in place when the RDA is enacted. Taxes collected above that rate (the increment) are used to eliminate blight. Once that is accomplished, property taxes are returned to the current rate of distribution for all the taxing agencies. There are currently Redevelopment Agencies (RDA) in effect in both the City of Santa Barbara and the City of Santa Maria.

The City of Santa Barbara's RDA collected \$4.4M in FY 2006-2007 in taxes that would have come to County General Fund, but for the RDA. The City of Santa Barbara RDA is set to cease its operation in approximately 2015, but has continuing debt through 2025. This means the City would continue to collect taxes until sufficient funds were available to pay off any debt.

The City of Santa Maria has two RDA's. They are Santa Maria Project Area II and the Santa Maria Project Area IV. In FY 2006-2007 these RDA's collected \$263K that would have been available to the General Fund, but for the RDA. These RDAs will end in approximately 2025.

### **Miramar Projections**

In the last full year of operation the Miramar generated approximately \$550K in Transient Occupancy Tax (TOT). Although all details of the new "Miramar" are not currently known, it is estimated it would generate somewhere between \$600K and \$1M in TOT. By way of comparison, the Biltmore has averaged about \$1.6M in TOT over the last 10 years.

### **Goleta Revenue Sharing Agreement**

The City of Goleta and the County of Santa Barbara have a Revenue Sharing Agreement that, in addition to property taxes, calls for the sharing of sales and Transient Occupancy Taxes (TOT). The County currently receives 50% of Sales Tax generated by the City of Goleta, and that will continue through FY 2011-2012 (ten full years following the first full fiscal year of the City's existence, which began on February 1, 2002). Revenue sharing for Sales Tax will drop to 30% in FY 2012-2013. The County currently receives 50% of the City's TOT revenue generated on hotels and motels in existence on the incorporation date, but only until FY 2012-2013, when TOT revenue sharing ends.



## CONCLUSION

The financial challenges facing the County of Santa Barbara are significant. The following chart displays the estimated costs of those issues identified as “certain,” costs from FY 2007 – 2008 through FY 2010 – 2011, and many of the costs will be ongoing beyond that time period:

<b>FY</b>	<b>Tot Est.</b>
FY 07-08	\$4,686,000
FY 08-09	\$3,656,000
FY 09-10	\$12,606,000
FY 10-11	\$6,906,000

The “potential” issues identified in the report could have additional significant financial impacts on the County’s financial picture as shown below:

<b>FY</b>	<b>Tot Est.</b>
FY 07-08	\$13,100,000
FY 08-09	\$13,800,000
FY 09-10	\$13,250,000
FY 10-11	\$22,955,000

The combined estimated costs of both certain and potential issues are as follows:

<b>FY</b>	<b>Tot Est.</b>
FY 07-08	\$17,786,000
FY 08-09	\$17,456,000
FY 09-10	\$25,856,000
FY 10-11	\$29,861,000

The Timing and Magnitude charts below demonstrate when the impacts are anticipated to occur, those that will be one-time versus ongoing costs, and those with associated costs yet to be determined.

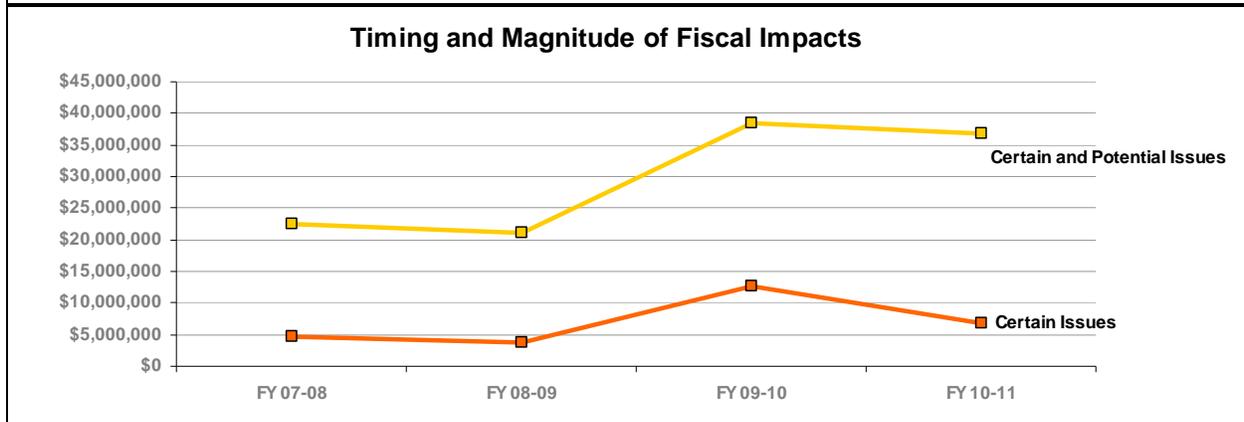


### Timing and Magnitude of Fiscal Impacts

Issue	Ongoing	Timing of Fiscal Impact				Total Est. Cost
		FY 07-08	FY 08-09	FY 09-10	FY 10-11	
<b>Certain</b>						
A Presidential Primary 2008	Onetime	\$1,500,000	\$0	\$0	\$0	\$1,500,000
B Citizenship Eligibility for MediCal	Ongoing	\$102,000	TBD	TBD	TBD	Ongoing*
C Goleta Beach Long Term Protection Plan	Onetime	\$500,000	\$650,000	\$8,700,000	\$1,000,000	\$10,850,000
D Loss of Revenue for Public Works Encroachment Permits	Ongoing	\$606,000	\$606,000	\$606,000	\$606,000	Ongoing*
E North County CARES Residential Unit	Ongoing	\$650,000	\$1,300,000	\$1,300,000	\$1,300,000	Ongoing*
F Property Tax Growth Reduction	Ongoing	\$0	\$0	\$2,000,000	\$4,000,000	Ongoing*
G State Budget Impacts	Onetime	\$1,328,000	\$1,100,000	\$0	\$0	\$2,428,000
<i>Subtotal Certain Issues</i>		<i>\$4,686,000</i>	<i>\$3,656,000</i>	<i>\$12,606,000</i>	<i>\$6,906,000</i>	
<b>Potential</b>						
H Healthcare Reform	Ongoing	\$0	\$10,000,000	\$10,200,000	\$10,404,000	Ongoing*
I Lake Cachuma Surcharge	Onetime	\$2,450,000	\$3,000,000	\$1,450,000	\$3,100,000	\$10,000,000
J Maddy Fund	Ongoing	\$0	\$800,000	\$1,600,000	\$1,600,000	Ongoing*
K New County Jail	Onetime	TBD	TBD	TBD	TBD	\$153,000,000
L Pension Fund Stability	Ongoing	TBD	TBD	TBD	TBD	Ongoing*
M Reauthorization of Measure D**	Ongoing	\$0	\$0	\$0	\$7,851,000	Ongoing*
N Santa Maria River Levee Reinforcement Project	Onetime	TBD	TBD	TBD	TBD	\$90,000,000
O State Contribution for Cost of Doing Business	Ongoing	\$6,000,000	\$0	\$0	\$0	Ongoing*
P State Reimbursement	Ongoing	\$4,650,000	TBD	TBD	TBD	Ongoing*
<i>Subtotal Potential Issues</i>		<i>\$13,100,000</i>	<i>\$13,800,000</i>	<i>\$13,250,000</i>	<i>\$22,955,000</i>	
<i>Total Certain and Potential Issues</i>		<i>\$17,786,000</i>	<i>\$17,456,000</i>	<i>\$25,856,000</i>	<i>\$29,861,000</i>	

\*Issue is ongoing so no Total Est. Cost is provided.

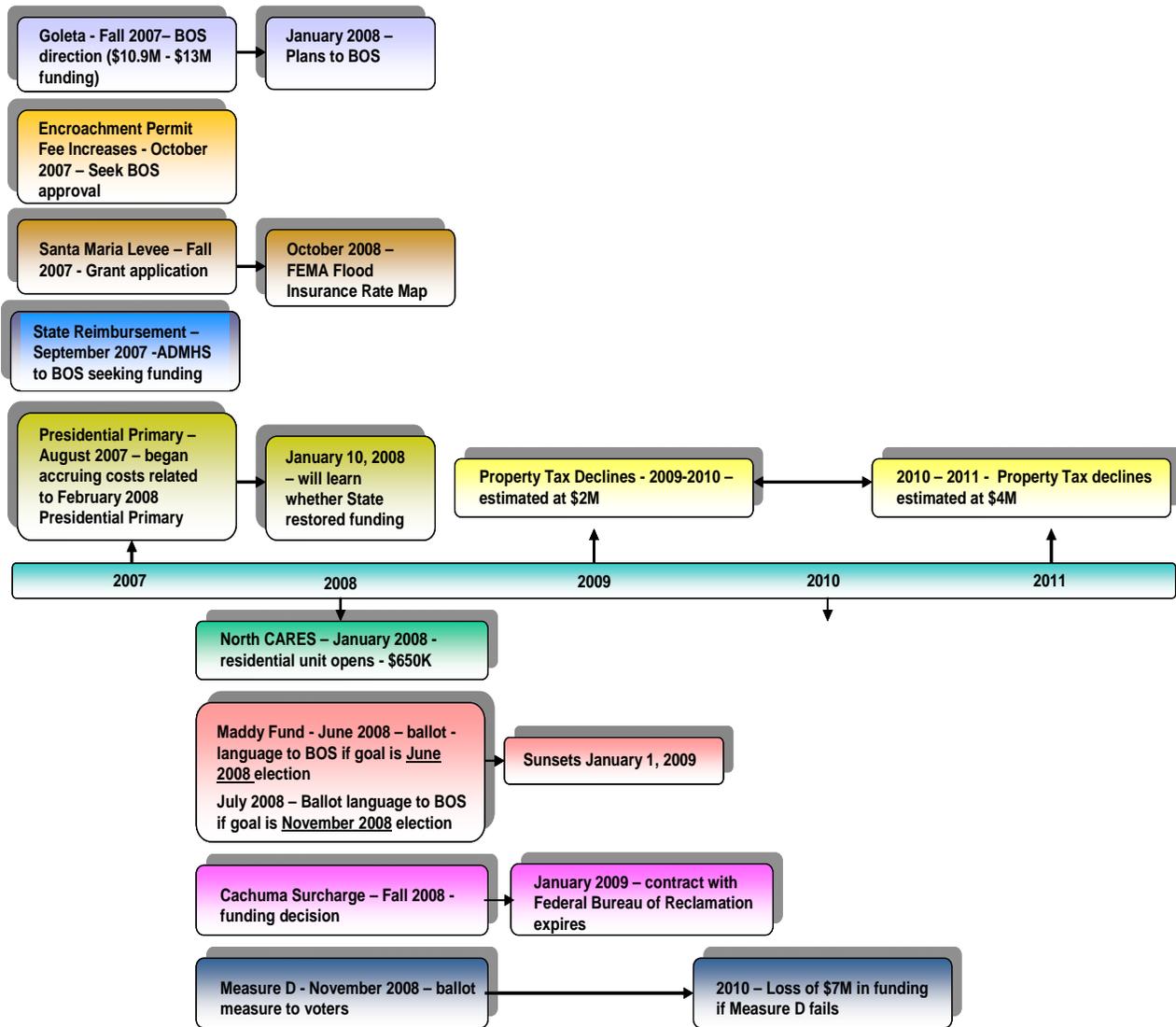
\*\*Measure D FY 10-11 amount represents revenue loss without reapproval; \$3.2M of local matching funds are needed to receive \$9M to \$10M in State and Federal funds.



Over the next three to four years, the Board will be asked to make critical decisions regarding the financial issues outlined in this report. The following “Timeline – Critical Events” is provided as a guide for those issues which have known timelines for key decisions to be made by the Board.



### TIMELINE – CRITICAL EVENTS



In the coming months, the CEO and his staff will further analyze the issues and identify key strategies for effectively addressing the challenges.



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## 2008 Presidential Primary

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### **DEFINITION OF ISSUE**

In March 2007, the State passed Senate Bill 113 requiring a Statewide Presidential Primary in February of every presidential election year; however, the State did not fund the mandated election in the FY 2007-2008 State Budget.

- Senate Bill 113 states, "It is the intent of the legislator to fully reimburse counties for the costs resulting from the presidential primary elections added by this act in an expeditious manner upon certification of those costs."
- A similar scenario occurred when the State called the 2005 Recall Election. The County funded the election and was reimbursed nearly a year later in the following fiscal year.
- AB 157, if passed, would require reimbursement within 90 days of the election.

### **SERVICE PROVIDED**

A statewide Presidential Primary in February of every presidential election year.

### **FUNDING GENERATED/NEEDED**

For FY 2007-2008, a net increase of \$1.5M in General Fund Contribution for the Clerk-Recorder-Assessor's (CRA) Election budget.

### **ONE-TIME/ONGOING FUNDING**

One time. Recurring every four years when a Presidential Primary takes place.

### **CRITICAL TIMEFRAME**

Election costs began accruing in August 2007 and continue to accrue for approximately two months after the primary election date.

### **IMPACTS**

In the short term CRA can use expense authority provided for the June 2008 Primary to cover expense.

### **FEASIBILITY ASSESSMENT**

High - Definite.



### **FINANCIAL ALTERNATIVES**

- In the short term (after January 2008), CRA could use funding from Strategic Reserve to cover expenses until the State reimburses, again, much like the Department did as a result of the 2005 Recall Election.
- The County will learn on January 10, 2008 if the Governor includes funding for reimbursement to counties in the FY 2008-2009 State Budget. If so, and CRA anticipates payment by December 2008, the Department could accrue revenues to offset election expenditures.



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## Citizenship Eligibility for Medi-Cal

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### **DEFINITION OF ISSUE**

The Federal Deficit Reduction Act of 2005, which was passed in January 2006, requires proof of citizenship/national status be verified in order to be eligible for Medi-Cal benefits. Counties are currently working to implement the State directive. The County's Department of Social Services (DSS) determines Medi-Cal eligibility and is tasked with implementing this requirement. DSS is required to assist clients in providing evidence of citizenship, track each individual's good faith efforts to comply with the requirement, and maintain permanent verification documents. Benefits for clients unable to prove citizenship are limited to restricted-scope services such as emergency medical services and serious health conditions.

### **SERVICE PROVIDED**

The Medi-Cal program pays for a variety of medical services for children and adults with limited income and resources. If an individual cannot provide citizenship documentation, there would likely be a shift from Medi-Cal to other County services. For example, there may be an increase in the use of County health clinics as individuals look for treatment options for the uninsured, and Alcohol, Drug and Mental Health Services (ADMHS) may lose revenue as the restricted-scope benefits does not include mental health services. It is important to note that Medi-Cal applicants and existing Medi-Cal beneficiaries are treated differently. New applicants, who are otherwise eligible for Medi-Cal but are not able to meet the verification requirements, will be granted restricted-scope benefits. At their annual re-determination date, current Medi-Cal beneficiaries will be asked to comply with the verification requirements. As long as current beneficiaries are making a "good faith effort" to obtain the necessary verifications, they remain eligible to receive their current level of benefits. However, once it has been determined that an existing recipient is no longer making a "good faith effort" to meet the verification requirements, the individual will be placed into the restricted-scope benefits.

### **FUNDING GENERATED/NEEDED**

DSS estimates that \$102K funding will be required to assist clients with purchasing vital record documents. It is estimated that an additional four FTEs will be required to manage the increased workload; however, the Department's Medi-Cal allocation will cover the cost of the additional staff necessary to implement this requirement.

### **ONE-TIME/ONGOING FUNDING**

Ongoing. The true cost of implementation and any spillover costs related to ineligible beneficiaries using other County services as they are placed onto restricted-scope benefits is unknown.



### **CRITICAL TIMEFRAME**

The California Department of Health Services issued guidelines in June 2007. Implementation is currently in progress.

### **FEASIBILITY ASSESSMENT**

Medium-High. While this requirement is in effect now, it is difficult to ascertain the true financial implications of citizenship verification.

### **IMPACTS**

The financial impact of eligibility requirements is uncertain at this time since: 1) citizenship eligibility verification for current beneficiaries will occur only on each individual's re-determination date, which is staggered throughout the year; 2) clients are entitled to retain benefits until DSS determines they are not making a good faith effort to prove citizenship, and it is uncertain as to whether the County will recoup the costs of providing services to current Medi-Cal beneficiaries who might ultimately be unable to prove citizenship; 3) children, pregnant women, and individuals dually eligible for Medicare and Medi-Cal are excluded from the requirement to verify citizenship status. Commencing immediately, new clients are required to provide proof of citizenship, and this may result in a reduction of new clients.

In the longer term it is estimated that 2% to 3% of Medi-Cal beneficiaries could lose eligibility or be found ineligible, and this would result in a reduction of clients and associated revenue and expenditures for County departments such as ADMHS and Public Health. These effects will be quantified as the total pool of current beneficiaries is evaluated for citizenship eligibility.

### **FINANCIAL ALTERNATIVES**

Until the true impacts are known, it is difficult to determine financial alternatives.



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## Goleta Beach Long Term Protection Plan

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### **DEFINITION OF ISSUE**

Implementation of a project at Goleta Beach County Park, sustainable over a 20-year period, that protects and provides for park recreational opportunities and a wide sandy beach area.

### **SERVICE PROVIDED**

After repeated efforts to provide protection during historic storm events, emergency rock revetments were placed along the beach area of the Goleta Beach County Park in late 2002 and early 2005 to protect utilities as well as other park facilities threatened by storm erosion activities. The revetments were granted Coastal Development Permits from the California Coastal Commission (CCC) with the understanding that the County was undertaking a planning process to determine a long term beach and park protection plan. A deadline of July 2006 was set for the County to complete the planning process and submit a preferred project to the CCC for approval. In November of 2006 the CCC extended the deadline to January 2008. The permit approved by the CCC is also specific about the study of alternative projects for shoreline protection. Other regulatory agencies with permit authority over work along the coastline include the State Lands Commission, Army Corp of Engineers, and the Regional Water Quality Control Board. All agencies have similar permit conditions for a long term plan for the Park.

Beginning in late 2003, the Second Supervisorial District Office and County Parks began a public community and stakeholder process to determine a long term plan for the Park that would continue to provide for recreational facilities and sandy beach area at the Park. Two long term plan scenarios were developed as a result of this process and environmental reviews of alternatives are currently underway. These two alternatives range in cost from \$10.9M to \$13M.

### **FUNDING GENERATED/NEEDED**

It is uncertain at this time which long term plan the Board will direct County Parks to pursue through the permitting process. The two alternatives in the plan - managed retreat and beach stabilization/permeable groin - are estimated to cost between \$10.9M and \$13M. Per the draft, Environmental Impact Report (EIR) the option for beach stabilization/permeable groin has no Class 1 impacts and states that this project is the preferred alternative.

Should the County do nothing and maintain the status quo of the Park, ongoing field monitoring and beach nourishment would be required. Beach nourishment would be required to maintain sand cover over the existing revetments and to avoid impacts to recreation at the park due to loss of sandy beach area. Underlying the physical costs and actions to do nothing, the County may also face enforcement action by the CCC which may require complete removal of all protective rock (revetments) within Goleta Beach County Park. This includes not only rock installed recently under emergency



permits but revetments protecting the Beachside Bar and Café, the base of Goleta Pier, east and end parking areas, and major public utility transmission lines (reclaimed water, gas, and sewer). Costs to provide planned ongoing beach nourishment (without benefit of revetment), including design permitting and monitoring over a 20-year period, are estimated at \$27.3M.

**ONE-TIME/ONGOING FUNDING**

One time - between \$10.9M and \$13M. This one-time capital cost could be paid with debt service over 20 years (approximately \$1.1M to \$1.3M per year).

**CRITICAL TIMEFRAME**

Project costs could be phased under the following annual need for funding:

	<b>Managed Retreat</b>	<b>Beach Stabilization/ Permeable Groin</b>	<b>Rock Removal and No Long Term Project</b>
Year 1	\$0.5 million	\$0.5 million	\$0.6million
Year 2	\$0.5 million	\$0.65 million	\$4.8 million
Year 3	\$7.5 million	\$8.7 million	
Year 4 -20	\$4.2 million*	\$1 million	\$23.3 million (\$1.46 million annually)**
<b>Est. TOTAL</b>	<b>\$12.7 million</b>	<b>\$10.85 million</b>	<b>\$27.3 million</b>

\* Necessary at such a time when/if beach reaches maximum retreat zone

\*\* Required for ongoing beach nourishment

**IMPACTS**

The CCC’s permit conditions for retention of the emergency rock revetments specifically state:

“Long-term alternatives analyses shall consider and address sand nourishment and managed retreat options in lieu of placement of hard protective structures.”

The permit also states:

“Failure by the County to: a) submit draft and final study plans acceptable to the Executive Director and in accordance with other application requirements of Special Condition 2, including relevant timelines, or b) **failure to timely submit applicable complete coastal develop permit applications** pursuant to Subparagraphs (B) and (C) (above) in this special condition



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***may lead to further action by the Commission's Enforcement Unit.***”(emphasis added)

### **FEASIBILITY ASSESSMENT**

High. In November 2007, the Board of Supervisors will be requested to provide direction to County staff regarding a long term protection plan for Goleta Beach County Park. As provided previously, a project or maintaining the status quo with the potential removal of revetments at the Park are imminent if the County is to maintain compliance with current regulatory agency permits.

### **FINANCIAL ALTERNATIVES**

Several funding options have been explored for the funding of a final project at Goleta Beach County Park.

Following are the key funding alternatives considered and a brief analysis of each.

#### ***Grants***

There are various options for applying for State and Federal Grants. A majority of the grant programs available for this type of construction are competitively awarded, often times requiring the grantee to provide a percentage of matching funds and identify a project with a high degree of successful implementation in regard to preliminary design, environmental approvals, and adequate land tenure. Grant funding for a project or portion of a project should be considered supplemental to a more reliable funding source. If awarded, grant funds could offset or reduce the total required from other more secure funding sources.

#### ***Quimby Fees***

The Quimby Act allows local jurisdictions to establish fees on new residential subdivisions to fund development of park and recreational facilities. Funds collected are to be used to acquire, construct, and install park and recreational facilities. Quimby fees may not be used for periodic or routine maintenance.

Revenues generated through the collection of Quimby fees could be used to fund portions of the project(s). However, the main issue with respect to Quimby Fees is that they are dependent on the level of development activity in the community. As the level of development activity fluctuates with the economy and other factors, it is difficult to project a reliable revenue stream for financing a project of this magnitude. Nevertheless, Quimby fees may provide a source of revenue for funding parks in the Goleta area.

#### ***FEMA***

As a result of the beach loss suffered in the El Nino storms of 2005, the Parks Department was successful in receiving approximately \$1.1 million in FEMA funding to replace up to 97,000 cubic yards of sand lost during the storm. Prior to awarding the final allocation for replacement of sand at the park, adequate mitigation must be found.



Per FEMA, it will not be responsible for any further storm damage loss (e.g. FEMA will not support payment of similar type of damage at the Park if it occurs in the future).

### **County Service Area 3 Funds**

- Goleta Beach is located within this service area boundary
- Open Space and Park District or other mechanism that would require vote

Regional Park and Open Space Districts can use special taxes, benefit assessments, and general obligation bonds for capital improvements or to acquire property by purchase or eminent domain. Some of these districts have their own directly-elected boards of directors and County Supervisors govern others, ex officio.

### **Proposition 218**

Guidelines relating to Prop 218 require that no local general tax may be imposed, extended, or increased until it has been submitted to and approved by a majority of the voters in the jurisdiction. Tax proposals can only be considered at scheduled general elections, unless the governing body of the city, county, or special district unanimously votes to place the question on the ballot at a special election.

### **Revenue Source**

When financing a capital improvement over time is necessary, a repayment source must be identified and evaluated to determine the stability of the revenue. Options for consideration include parking fees or increasing other park user fees (i.e., camping, group reservation).

### **Parking Fees**

A preliminary analysis of a \$2, \$5 and \$7 per vehicle per day fee with the first 90 minutes free at Arroyo Burro, Goleta Beach, Rincon Beach, Ocean Beach, Lookout Park, and Rancho Guadalupe Dunes County parks are estimated to generate ongoing annual net revenue of \$1.1M, \$3.1M and \$4.2M respectively. This assumes 50% of current park users would actually pay the fee due to: (1) loss of some users because of new fee; (2) 90-minute free parking feature; and (3) some users would park on adjacent streets rather than pay the fee. This includes approximately \$203K of operating costs (Extra Help kiosk attendants). From this amount, approximately \$600K to \$2.1M is estimated to be derived from Goleta Beach County Park. A program would not be ready to collect parking fees until year two of project initiation.



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## Loss of Revenue for Public Works Encroachment Permits

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### **DEFINITION OF ISSUE**

The Public Works Transportation Division collects fees for plan checking and inspection of road encroachment permits issued for construction on all public roadways. In addition, the Transportation Division also performs plan checks for private roadway improvements. The fees collected by the Transportation Division for these services have not been updated since 1989. In that same time period, the Consumer Price Index (CPI) has increased almost 68% and the California Highway Construction Cost Index has risen by over 260%. A study was prepared by Maximus in January 2006 to review the actual costs to perform plan checking and inspection services; this study was subsequently updated by the Auditor-Controller to reflect current costs for FY 2007-2008. It has been determined that there is a current annual deficit of \$606K for the Road Encroachment Permit fees. Public Works currently subsidizes this deficit using Measure D funds.

### **SERVICE PROVIDED**

The Road Encroachment Permit Section provides plan checking and inspection for small projects such as sidewalk repairs, driveways, landscaping in the public right of way, and utility installations as well as large projects including new housing subdivision tracts. Plan checking and the inspections are necessary to ensure that all improvements constructed within the public road right of way are designed and constructed to County standards.

Construction unit prices are used to determine not only some of the fees, but also the amount of bond required for construction. With current low construction unit prices, the bonding amount is also too low. If a contractor defaults on the construction of a public roadway, the County would be liable for the funds required to complete the work, and if the bond is insufficient, the County would be financially responsible for the difference in cost.

Another service provided by the Road Encroachment Permits Section is the issuance of Transportation/Haul Permits for non-legal loads that travel on County roadways. Staff reviews the loads and the proposed route to determine if the roadway and bridges are adequate to handle the non-legal loads.

### **FUNDING GENERATED/NEEDED**

Currently there is a \$606K annual deficit for Road Encroachment Permit fees.

### **ONE-TIME/ONGOING FUNDING**

Ongoing.

### **CRITICAL TIMEFRAME**

Current. Each year the Public Works Department continues to incur a deficit with fees. The current deficit for FY 2007 - 2008 is \$606K, and this will continue to grow each year. Currently this deficit is funded using Measure D revenues; however, Measure D is due to sunset in 2010.



### **FEASIBILITY ASSESSMENT**

Currently, Road Encroachment Permits staff is able to provide a three-week turnaround on plan checking and provides prompt inspection services; however, if the fees and unit costs are not increased, and Measure D is not reauthorized or the funds are reduced for local agencies, staffing levels would need to be reduced and the Department would no longer be able to provide this level of service. This would result in increased timelines for plans to be reviewed and approved, and possibly forgoing some field inspections which could result in a decrease in the quality of the County's transportation infrastructure.

### **IMPACTS**

As a result of using Measure D funding to offset the deficit, the Department is unable to use this funding source for its Pavement Preservation Program or as a local match for Capital Improvement Projects. It is estimated that over the last five fiscal years a deficit of \$2.5M has occurred. This equates to treating 50 lane miles with a scrub seal treatment.

If the fees and unit prices are not increased, then the County would be continuing to under-bond construction projects which could result in the County being financially responsible for completing any construction work in the public right of way on which a contractor may default.

### **FINANCIAL ALTERNATIVES**

Possible funding sources may include County General Fund or the continuation of Measure D subsidies.



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## North County CARES Residential Unit

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### **DEFINITION OF ISSUE**

Alcohol, Drug and Mental Health Services (ADMHS) is opening the long-awaited North County CARES (Crisis Center) in September of 2007. The building was acquired and built-out for utilization of a short-term crisis unit located on the first floor and a 12-bed psychiatric residential unit housed on the second floor. ADMHS is requesting a General Fund contribution of \$650K in order to fulfill the second floor residential component which is expected to be open for business in January, 2008.

### **SERVICE PROVIDED**

Twelve-bed short-term psychiatric residential unit - the residential unit will provide a potential alternative to costly hospitalizations. The average cost for residential bed is \$145 per day as opposed to an approximate \$800 per day cost for an acute hospital bed day. Currently because of the lack of acute psychiatric hospital beds in Santa Barbara County, it is not infrequent for North County clients who require hospitalizations to be transported to Ventura County, thus distancing individuals from family and support systems.

### **FUNDING GENERATED/NEEDED**

The \$650K represents the anticipated net cost of the contract for six months (annual net cost \$1.3M) with Telecare to provide these services. Net cost reflects the anticipated MediCal revenue associated with these services.

### **ONE-TIME/ONGOING FUNDING**

Ongoing.

### **CRITICAL TIMEFRAME**

Expect occupancy of Residential Unit in January 2008. This date is dependent on the ability to obtain licensing from Community Care Licensing/State Department of Social Services as a Social Rehabilitation Facility.

### **IMPACTS**

Hospitals continue to be very costly in both Santa Barbara and Ventura County. Waiting times in local emergency rooms are significant as CARES and MHAT Teams search the minimal resources available to place clients in secure, safe settings. Jail inmates with overriding psychiatric conditions are often seen in jail settings due to lack of community psychiatric beds.

Currently there are no inpatient or residential psychiatric beds in the North County despite the growing population and the corresponding mental health needs. The



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CARES residential unit will allow for short-term (up to 10 days) assessment, evaluation, and treatment for North County residents.

**FEASIBILITY ASSESSMENT**

High.

**FINANCIAL ALTERNATIVES**

At this time there are no alternatives for funding this much needed service.



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## Property Tax Growth Reduction

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### **DEFINITION OF ISSUE**

Property Tax Growth Rates will most likely continue a downward trend for the next few years. This trend is driven by four related factors.

- A significant drop in sales volume from the 6,000 to 7,000+ per year range to a more normal 4,000 to 5,000 sales per year.
- A significant drop in new construction volume. Not only have permit requests for new developments declined, some of those already approved are only building after a contract is secured (as opposed to building and then contracting for the sale).
- A significant drop in the rate of appreciation in market prices has occurred (in the early 2000s it was 20+% per year). In certain areas, particularly Santa Maria, Orcutt, and Lompoc, the median market price has dropped approximately 10% in the last year.
- Section 51 of the California Revenue and Taxation Code provides that the assessed value of any property shall not exceed its full market value. This provision coupled with the housing market downturn results in the County lowering assessment values of an estimated 6,740 parcels by an average of \$57,270 per parcel. This results in about 0.7% of the growth rate reduction.

### **SERVICE PROVIDED**

Property Tax revenues fund the County contribution to all departments and programs receiving General Fund Contribution support.

### **FUNDING GENERATED/NEEDED**

Property Tax related revenues account for almost 90% of General Fund Discretionary Revenues.

### **ONE-TIME/ONGOING FUNDING**

Ongoing.

### **CRITICAL TIMEFRAME**

Estimated secured Property Tax growth rates for the next few years are as follows:

- FY 06-07 actual secured PT growth rate about 10.7%
- FY 07-08 actual secured PT growth rate about 7.6%



- FY 08-09 estimated growth rate between 4.5 and 6.5%
- FY 09-10 estimated growth rate between 3.5 and 5.5%
- FY 10-11 estimated growth rate between 4-7%

**IMPACTS**

Based upon local economists projections (Dr. Bill Watkins and Dr. Mark Schniepp), it appears the current downward trend will continue until some time in 2008 at the earliest. Since events occurring in calendar year 2008 are the basis for the FY 2009-2010 roll year, it is anticipated that the downward trend to continue through that year as well.

(Secured Property Tax Account 3010 assumes FY 2007-08 at \$107M)

	<b>FY 07-08</b>	<b>FY 08-09</b>	<b>FY 09-10</b>	<b>FY 10-11</b>
Prior Forecast %	6.50%	5.50%	6.00%	6.50%
Current Forecast %	7.60%	5.50%	4.50%	5.50%
Net Change %	+1.10 %	0.00%	-1.50%	-1.00%
Prior Forecast \$	\$107M	\$113M	\$120M	\$128M
Current Forecast \$*	\$107M	\$113M	\$118M	\$124M
<b>Net Change \$</b>	<b>\$0</b>	<b>\$0</b>	<b>-\$2M</b>	<b>-\$4M</b>

\* Updated forecast; reflects current actuals rather than projected budget forecast

**FEASIBILITY ASSESSMENT**

High for FY 2009-2010 and medium for FY 2010-2011.

**FINANCIAL ALTERNATIVES**

Options to be developed by the County Executive Office.



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## State Budget Impacts

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### DEFINITION OF ISSUE

With the State passage of the FY 2007-2008 Budget on August 24, 2007, the County is now able to quantify some of the impacts the enacted budget will have on County fiscal operations. It should be noted that Williamson Act subvention funding, which represents approximately \$650K to the County, has no impact since as it was ultimately included in the State Budget. As previously identified to the Board, reimbursement for the cost of conducting the 2008 Presidential Primary election is not included within the Budget (cost of \$1.5M as outlined in a separate issue brief). AB 2034, funding for mentally ill homeless, was monitored through budget deliberations. Ultimately, the funding was vetoed by the Governor, representing a loss of \$1.4M to the Alcohol, Drug and Mental Health Services (ADMHS) budget, however, this loss will be mitigated in full by a release of funds from the State Department of Mental Health. Other items that were vetoed and their corresponding impact to the County are listed below.

### SERVICE PROVIDED and FUNDING GENERATED/NEEDED

- The funding for Proposition 36, which allows first- and second-time nonviolent, simple drug possession offenders the opportunity to receive substance abuse treatment instead of incarceration, and funding for the Offender Treatment Program (OTP) were decreased by \$25M statewide over last year's funding levels. Together, the decreased funding represents a loss of approximately \$632K to ADMHS and will be funded for FY 2007-2008 through SACPA Trust Fund reserves.
- The \$30M funding allocated to local government grants to mitigate the impacts of tribal casinos on local communities was eliminated for the FY 2007-2008 cycle of the Indian Gaming Special Distribution Fund. Funding for the Fire and Sheriff's Departments was already received for the current cycle; however, if the County wishes to continue to fund the costs of the firefighter/paramedic post position at Station 31 and patrol services 24/7 (the equivalent of five deputy positions) in FY 2008-2009 and forward without any grant assistance, the cost would be approximately \$1.1M.
- Public Health expects to lose \$100K toward funding for pandemic influenza preparedness and response planning. In terms of the initial programmatic reductions, the Department may need to terminate a major drill and exercise that had been planned around flu shots. In addition, other staff training, exercises, and drills will be reduced or eliminated and reductions in equipment and supplies costs will be necessary.
- Parks will lose \$247K of a coastal resource grant for Jalama Beach. Since the grant has not been expended since 1999, it is not likely the County will need to supplant this funding loss.



- The Department of Social Services (DSS) has lost grant funding of \$349K for this fiscal year for the Children's Health Initiative, which could affect the number of children enrolled in Medi-Cal and Healthy Families. The Department is seeking alternative grant funding for the current year. The Department is also assessing the impact of funding cuts at the State level in the areas of Adult Protective Services and hardware and equipment replacement.

### **ONE-TIME/ONGOING FUNDING**

All the funding cuts for this year should be considered one-time except for the 1.1M in Indian Gaming funds which would be allocated to the County in FY 2008-2009. The Board should note that legislation is pending to restore this funding. The total known loss of State funding for all programs (not including Indian Gaming) at this time is \$1,328,000 for FY 2007-2008.

### **CRITICAL TIMEFRAME**

Departments are currently examining the feasibility of using other funds (continued lobbying of the State, grants, redirecting existing programmatic monies, or using reserves) or reprogramming services in order to absorb the State cuts.

### **IMPACTS**

Possible changes in service levels may be experienced, although Departments are currently developing strategies to prevent service changes in the immediate future.

### **FEASIBILITY ASSESSMENT**

These costs occurred on August 24, 2007.

### **FINANCIAL ALTERNATIVES**

Departments will need to make programmatic changes, reallocate existing programmatic resources, or use reserves to compensate for the loss of funding.



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## Healthcare Reform

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### **DEFINITION OF ISSUE**

Various healthcare reform proposals are being discussed at the State level in an effort to address problems associated with the current state of healthcare, including the uninsured population. A proposal promulgated by the Governor would have the greatest financial impact on the County as it assumes the County will be assessed a share of the cost for each new enrollee in healthcare based on the County's share of uninsured individuals likely to be served by newly created or expanded State healthcare programs. In this scenario, the County would be obligated to contribute \$10M to the Governor's healthcare proposal. The County would determine the appropriate funding source to use (i.e. General Fund or use of existing funds such as redirecting the Realignment dollars it receives from the State for services related to indigent care and other public health programs, such as communicable disease surveillance). The redirecting of funds could occur as early as January 2009.

An alternative proposal crafted by the Democratic leadership of the Legislature (Assembly Bill 8) has passed through the Legislature. It would require employers to pay 7.5% of their payroll on medical care for their workers or pay a fee to the state. (The Governor's proposal includes an employer contribution of only 4%, but funding would come from other sources as well). Although this proposal does not explicitly include a redirecting of existing funds, it is very likely that a County contribution would be needed to fund a proposal of this magnitude.

In addition, the mandated employer contribution would apply to the In-Home Supportive Services (IHSS) providers. Although the IHSS and Public Authority are State mandates and the State should be required to pay the IHSS caregivers health care costs, there is concern from counties that the State will require counties to incur this new cost. It should be noted that the Governor has threatened to veto AB 8. If AB 8 is vetoed, a special session of the Legislature will be called to focus on healthcare reform.

In addition, two other bills have been introduced, Assembly Bill 1 and Senate Bill 32, to cover all children up to 300% of the Federal poverty level. To date, these "children's health bills" would require funding from the State General Fund, and California First Five has pledged \$20M in one-time monies. The impact to the County for these Bills is unknown as a County contribution has not been identified (the County of Santa Barbara has independently allocated \$1 million toward coverage of children which may be negated by the passage of a children's healthcare bill.)

### **SERVICE PROVIDED**

Under the Governor's healthcare proposal, all legal residents of the State would be required to have health insurance coverage. Coverage would be provided through expanded eligibility in existing State health insurance programs, participation in insurance pools funded from employers, healthcare providers, and hospitals, and County contributions via the redirecting of existing funds. Public Health and local



healthcare providers may recoup some savings if the individuals who receive healthcare services are insured.

The services currently funded that would be jeopardized if healthcare proposal were enacted include:

- \$10.8M for care for indigent populations provided via seven County clinics, three County pharmacies, three hospitals, and various specialty providers throughout the County.
- \$2.3M for statutory communicable disease surveillance, public health laboratory, and prevention and health promotion programs.

### **FUNDING GENERATED/NEEDED**

The County's contribution is estimated to be \$10M for the first year.

### **ONE-TIME/ONGOING FUNDING**

Ongoing, with a Consumer Price Index assumed for year two of the program.

### **CRITICAL TIMEFRAME**

It is possible that healthcare reform could be enacted in the autumn of 2007 and likely be implemented in January 2009. Current discussions have suggested that a ballot initiative will be taken to the voters next year with a proposal that includes an employer mandate, a tax on hospital revenues, and a possible sales tax increase.

### **FEASIBILITY ASSESSMENT**

High-Medium: While it is possible that some form of healthcare reform will be enacted this year, the likelihood of the Governor's proposal prevailing as currently crafted is low. The Governor's proposal has yet to be formulated into a bill. If it should become a bill, it would require 2/3 majority of the Legislature for passage. Several businesses such as the California Retailers Association, the California Restaurant Association and the California Small Business Association support a one-cent hike in the State sales tax to pay for healthcare reform.

### **IMPACTS**

Although there is no real way to estimate how much existing or new uncompensated care the County would incur or to determine the revenue effect of "mandatory" coverage of the County's existing Medically Indigent Adult (MIA) population, the following impacts are possible:

- Potential decrease in access to services provided



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- Possible closing of clinic sites
  - Possible discontinuation of County's role in Cottage Residency Program
  - Possible reduction in benefits provided (i.e. Pharmaceuticals)
  - Possible reduction in mandated communicable disease/tuberculosis programs
  - Possible reduction of Public Health discretionary programs (such the Geriatric Assessment Program (GAP); Women, Infants, and Children's program (WIC); and Maternal, Child, Health Program (MCH)) and redirection of general fund to Indigent care and/or communicable disease programs

It should be noted that the Governor's plan promulgates that all counties are responsible for the undocumented, which is in conflict with the Welfare and Institutions Code Section 17000 mandate, which states "Every county and every city and county shall relieve and support all incompetent, poor, indigent persons, and those incapacitated by age, disease, or accident, lawfully resident therein, when such persons are not supported and relieved by their relatives or friends, by their own means, or by state hospitals or other state or private institutions.

#### **FINANCIAL ALTERNATIVES**

- Redesign the method of service delivery for existing programs which are currently funded through realignment.
- Reduce or eliminate General Fund match to non-mandated services to redirect to Indigent Care and/or Communicable Disease programs.
- Redirect Tobacco Settlement Funds allocated to Hospitals, Specialists, and ED physicians to County Indigent Care (approximately \$2M)
- Redirect Human Services funding to County Indigent Care and/or Communicable Disease Control (approximately \$1.2M).
- Redirect the \$1M authorized by the Board for health insurance for uninsured children toward the County's overall costs of healthcare reform, contingent on passage of legislation to provide coverage to all children statewide.



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## Lake Cachuma Surcharge

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### **DEFINITION OF ISSUE**

As a result of a biological opinion issued by the National Marine Fisheries Service, the Federal Bureau of Reclamation is in the process of evaluating the impacts of raising Lake Cachuma to capture, retain, and subsequently release additional water for the protection of habitat for the endangered steelhead trout. This surcharge will impact various existing improvements around the Lake and in particular facilities and improvements at the Park.

The County of Santa Barbara has undertaken a preliminary study to determine the impacts on Park facilities of various elevation changes. The facilities impacted include a water treatment plant, sewer lift stations, water distribution systems, the sewage collections system, roads, bridges, paths, parking lots, picnic and camping sites, boat ramps, boat docks, and other facilities associated with the Park. The study reveals that at an inundation level of 750' to 753', the most likely sustained level of surcharge, the facilities that would be compromised from a health and safety perspective and considered a priority include: water intake facility, water treatment plant, and the sewer lift stations. Access to private marina facilities must be closed under current surcharge conditions and water damage to existing concessionaire facilities may occur under repeated and long term surcharge conditions. The main boat launch ramp has been designed to improve and raise the boat ramp to accommodate full-time boat launching at the surcharge elevation and construction commenced in early September 2007. This project is funded with grants from the State Department of Boating and Waterways and the Bureau of Reclamation.

The utility infrastructure at Lake Cachuma County Park is in excess of 40 years old and still uses much of the original equipment, including electrical, water, and sewer systems. Many of the necessary equipment spare parts are no longer manufactured and must be custom fabricated at an increased cost and extended time period. The electrical system and equipment motors are incapable of obtaining potential energy efficiency benefits and reduced operations cost that would be available by using current technology. Specific facilities include: sewer treatment plant, water storage reservoir, and the water and fire distribution system. Live Oak Camp, a popular large group event area that can accommodate 2,500 person events, has no restroom facility; portable toilets are brought in for each event and pumped numerous times during the event. Waste is then hauled away along Hwy 154 to the sewer treatment plant.

### **SERVICE PROVIDED**

The Cachuma Lake Recreation Area encompasses 9,250 acres including Cachuma Lake (3,043 acres at full level) and the surrounding shores and rugged hillsides. The County of Santa Barbara currently provides an array of recreational amenities including but not limited to boating, fishing, camping (tent, RV and yurt), seasonal naturalist programs, and nature cruises to approximately 700,000 visitors year-round at Lake Cachuma. The Parks Department manages the recreation area pursuant to a contract



between the Bureau of Reclamation and the County. The contract expired in January 2003 and was subsequently extended (in two year increments) until January 2009. The Bureau and the County have not begun long term lease negotiations and cannot proceed until the Bureau first completes a Resource Management Plan (RMP) for guidance on future land, resource, and recreation management. There are a number of administrative, technical, and environmental issues complicating a new lease as well as events currently underway which relate to environmental mitigation and water supply needs that have a direct impact on the overall management of the Park.

### **FUNDING GENERATED / NEEDED**

Estimated current unfunded need is \$10M. Funding generated to date includes: 1) a grant from the Bureau of Reclamation in the amount of \$1.2M to prepare conceptual design reports for the water and sewer treatment plants, the design of the water and fire distribution system, and partial funding for the design and construction to relocate one of the three sewer lift stations impacted by a surcharge and 2) a \$2.7M grant from Boating and Waterways for the installation of the boat ramp. An additional \$2M is currently under consideration at the federal level but must go through the appropriate congressional committees before final funding approval is guaranteed. This \$2M, as is standard with most Bureau grants, may require an equal local funding match. Currently the County's federal lobbyists in Washington D.C. are pursuing the potential for elimination of this match requirement. This \$2M is included in the \$10M unfunded need.

### **ONE-TIME/ONGOING FUNDING**

One time capital costs of approximately \$10M.

### **CRITICAL TIMEFRAME**

Project costs could be phased under the following annual estimated need for funding:

Year 1 - \$2.45M (Lift station 1, 2, 3 construction; water treatment plant design)

Year 2 - \$3.0M (Water plant construction; sewer plant design)

Year 3 - \$ 1.45M (Marina surcharge mitigation design; water reservoir and distribution system construction)

Year 4 - \$3.1M (Sewer plant construction; marina surcharge mitigation construction; restroom at Live Oak design and construction)

### **IMPACTS**

Facilities impacted by lake surcharge that are repeatedly inundated could face total failure and pose a health and safety risk from waste water or chemical spills into the lake. Lack of water and sewer facilities could cause temporary to full time closure of the County Park. Current fire protection infrastructure at the park is minimal and facilities are at risk from locally generated fire as well as encroachment from surrounding wildfire



potential. Real or perceived public threat or reduced quality of service at the Lake could reduce revenue generated at the Park to maintain operations.

### **FEASIBILITY ASSESSMENT**

Medium. As a result of a biological opinion issued by the National Marine Fisheries Service, the Federal Bureau of Reclamation must meet conditions within Lake Cachuma and downstream of Bradbury Dam to capture, retain, and subsequently release additional water for the protection of habitat for the endangered steelhead trout. As rain and late winter flow into the Lake allow, the Bureau will retain water within Lake Cachuma up to elevation 753'. Unanticipated very late winter storm impacts present a risk (albeit low) of increase to lake elevation above 753', which could cause further damage. Facilities will be designed and will be relocated out of the risk area. Facilities now in excess of 40 years old (installed in the early 1960's with the creation of Lake Cachuma) face risk of failure. Continued drought conditions in this geographic area also increase fire risk at the Park.

### **FINANCIAL ALTERNATIVES**

- Continued federal appropriations directly to Lake Cachuma.
- Substantial increase in user fees to generate additional revenue. Caution must be used in setting a fee out of market range or there is a risk of reduced visitor usage. No analysis of substantial increase in user fees has been completed for purposes of funding the projects outlined herein.
- Proposition 50 and 84 competitive grant programs may be available but will require applicant match of between 25% - 50%. In addition, most state grant programs require the applicant to demonstrate long term tenure in the project area. With no long term lease currently in place, project grant applications for Lake Cachuma may not receive funding.



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## Maddy Fund

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### **DEFINITION OF ISSUE**

The term “Maddy Emergency Medical Services (EMS) Fund” refers to a funding mechanism that currently generates approximately \$1.6M per year through the assessment of penalties on motor vehicle and criminal fines and forfeitures to partially compensate health care providers for otherwise uncompensated emergency medical services. This funding, which is administered by the Public Health Department, is expected to sunset on January 1, 2009. In addition to the loss of funding, another critical factor associated with Maddy funding involves Assembly Bill 2265, which extended the sunset date from 2007 to 2009 and states that the County of Santa Barbara shall place, as a County measure, an appropriate proposed tax ordinance that ensures the collection of sufficient funds to fully support the trauma center and the emergency medical system on the ballot for or before the November 2008 election.

### **SERVICE PROVIDED**

- Reimbursements to hospitals, physicians, and surgeons to offset the costs of providing emergency medical and trauma services to the uninsured population throughout the County
- Funding to retain specialists for on-call coverage at emergency rooms

### **FUNDING GENERATED/NEEDED**

While the Maddy Fund generates \$1.6M per year, it is estimated that healthcare providers are losing \$8M a year.

### **ONE-TIME/ONGOING FUNDING**

Ongoing.

### **CRITICAL TIMEFRAME**

- January 2008: Ballot language approval by the Board for the June 2008 Primary election
- July 2008: Ballot language approval by the Board for the November 2008 presidential general election
- January 1, 2009: Maddy EMS Fund sunsets

### **FEASIBILITY ASSESSMENT**

High: The sunset date of the Maddy Fund is prescribed in government statute.



## **IMPACTS**

- Hospitals will face increasing difficulty getting Specialists to respond to calls and Emergency Department care could be compromised for all County residents.
- Hospitals will continue to seek reimbursement increases from government payors (including the County) to cover the cost of treating the uninsured. SBRHA has increased hospital rates by an average of 16% for FY 2007-2008 and the County has had to follow suit (as local Medi-Cal rates are considered the "community standard"). This will cost the County an additional projected \$600K for hospital services to Medically Indigent Adults (MIA).

## **FINANCIAL ALTERNATIVES**

- Tax Revenue: Parcel tax, if approved by 2/3 of the electorate.
- Tax Revenue: Sales tax, if approved by 2/3 of the electorate (sales tax would generate more funds than needed so the replacement of Maddy would need to be combined with the funding of other services as part of a ballot measure.)
- Redirect \$1.6M in existing Tobacco Settlement Funds from currently funded programs to provider reimbursements previously funded by the Maddy EMS Fund. However, it should be noted that these funds are currently utilized by County departments. If redirected, additional General Fund dollars may be required to keep the County departments whole or reductions in service may be required.
- Use Tobacco Settlement Endowment Funds until balance of endowment is exhausted. Current balance is approximately \$5.2M.



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## New County Jail

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### **DEFINITION OF ISSUE**

The need for a new County Jail was first documented more than 20 years ago and reiterated throughout the years by various Court Orders and Grand Jury reports. The New County Jail Project proposes an 800-bed facility with an infrastructure to eventually house 1,500 inmates. In December 2005, the New County Jail Project had an estimated project cost of \$153M.

### **SERVICE PROVIDED**

Main Jail - located in Santa Barbara, is a Type II facility, as prescribed by the California Code of Regulations, Title 15, and is used for the detention of persons pending arraignment, during trial and upon sentence commitment. This facility was built in 1971 and rated for 352 inmates. At that time, the population in the County of Santa Barbara was 264,000. The facility has been overcrowded since the early 1980's. Beginning in 1987 and ending in 1999 several additions were constructed in attempts to deal with the jail overcrowding, bringing the rated capacity to 618 beds. The Main Jail facility has an additional 95 non-rated beds. Non-rated beds do not meet Title 24, California Code of Regulations for Adult Detention Facilities. Non-rated beds are used to mitigate the overcrowding conditions of inmates sleeping on the floor; however, the use of these beds continues to be a concern for officer and inmate safety as well as litigation issues that could arise from not meeting Title 24 Standards.

### **FUNDING GENERATED/NEEDED**

Based on design estimates from the schematic design phase prepared in December 2005 and verified by two independent cost estimators, the cost to construct a new County Jail (capital cost) was estimated at \$153M. The estimated gross cost to operate the new County Jail was \$23,333,000 per year. The estimate assumes that approximately 44 staff would be reassigned from the Main Jail to the new facility, thus, the adjusted net operating cost estimate would be reduced to \$19,150,000. Funding continues to be the most significant obstacle for this critical need. The study considered numerous funding options and concluded that a half-percent sales tax was the most viable option to cover both the capital and operational costs. At that time, a polling firm determined that this option was not likely to achieve voter approval; therefore, this Project is currently unfunded while the need continues to grow.

The Sheriff's Department has been working on several fronts to alleviate jail overcrowding while still planning for the construction of a new Jail. A promising plan partners the County with the California Department of Corrections and Rehabilitation (CDCR) to collocate a State Secure Reentry Facility with a new County Jail. This partnership would address both jail and prison overcrowding and develop new approaches for reducing criminal recidivism. The County's financial obligation would be 25% for the jail portion of the capital project and the County would need to identify a revenue source for its ongoing operation costs. These efforts may place the County in



a primary position to develop a contractual relationship with the CDCR that would enable both entities to complete projects and objectives in an efficient, cost-effective, and timely manner.

### **ONE-TIME/ONGOING FUNDING**

Ongoing. The annual COP debt service payment over 30 years is estimated to be approximately \$12M, with annual operating expenses estimated at \$19.2M for a total of \$31.1M.

### **CRITICAL TIMEFRAME**

In 2005, the New County Jail Planning Study identified various alternatives to reduce jail overcrowding. Several options have already been implemented, but these stopgap measures have not changed the need for a new County Jail.

### **IMPACTS**

The need for a new County Jail has been the subject of numerous Court Orders and the recommendation of many Grand Jury Reports. In spite of creative approaches to reducing overcrowding, the Average Daily Population (ADP) and inmate-on-inmate assaults have steadily increased from 2003 to the present. Additionally, the number of inmates transported between North County and Santa Barbara continues to escalate. Failure to address the issue of overcrowding could result in Court-imposed sanctions, including the possibility of monetary penalties that would place a long-term financial burden on the County. In addition, if the criteria for alternative sentencing programs continue to be relaxed, inmates charged with more serious crimes would be released, inmates not currently eligible for early release could be excused from completing their sentences and misdemeanors of a more serious nature (i.e., assaults against peace officers, failure to register as a sex offender, annoying or molesting children under the age of 18, carrying a concealed weapon, etc.) could be cited and released directly into the community. This would pose a serious issue to public safety.

### **FEASIBILITY ASSESSMENT**

Medium.

### **FINANCIAL ALTERNATIVES**

The Sheriff's Department continues to proactively review other alternatives. A Blue Ribbon Commission on Jail Overcrowding has been established to develop alternatives and identify better business practices to further reduce jail overcrowding. Other projects being implemented or studied include converting the County's Santa Maria Jail to a Type II facility to house inmates longer than 96 hours (implemented); expanding the Work Furlough Program; establishing a Day Reporting Center, and converting/remodeling parts of the Main Jail to housing areas. Although all of these programs and projects will assist with the overcrowding issue, the definitive solution is the construction and ongoing operations of a new County Jail.



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## Pension Fund Stability

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### **DEFINITION OF ISSUE**

The County's retirement fund is administered by the Santa Barbara County Employee Retirement System (SBCERS). SBCERS currently administers both the basic pension benefit and certain retiree benefits, including health benefits, for the County of Santa Barbara and other plan sponsors such as the County, Courts, Air Pollution Control, Santa Barbara Association of Governments, and Special Districts.

Under existing State law, California counties must provide retirement benefits to their employees in one of three ways: 1) establish an independent system, 2) contract with the California Public Employees' Retirement System (CalPERS), or 3) establish a system under the County Employees' Retirement Law of 1937 (California Government Code Section 31450 et seq), commonly referred to as the "1937 Act." Santa Barbara County established a retirement system under the 1937 Act January 1, 1944 (Ord.553). Twenty counties, including Santa Barbara, operate separate retirement systems under the provisions of the 1937 Act. Thirty seven counties contract with CalPERS and two counties, San Luis Obispo County, and San Francisco City/County have established independent systems.

The County's cost to fund the basic pension benefit, plus Social Security, continues to grow. Not only is the provision of a pension benefit a legal requirement, providing the pension benefit is also part of the total compensation package for the County of Santa Barbara and necessary in order to attract and retain the talent necessary to provide quality service. At the same time, the County of Santa Barbara is also committed to identifying and implementing mechanisms and changes to help the County and its workforce better manage the cost of this basic benefit.

Some of the standard practices and policies of SBCERS, such as the distribution of so-called "excess earnings" to increase certain retiree benefits, including health benefits, places ongoing stress on the County's budget. In addition, this practice redirects money from the basic pension benefit. Each time excess earnings are distributed in this way, it has a direct correlation with increased County costs for the basic pension benefit. In addition, when a deficit occurs (i.e., decline in investment earnings or new benefits granted), plan sponsors (the County) are required to payoff the deficit through increases in contribution rates.

In order to better understand the issues surrounding the pension fund, in 2006, the County retained the services of Mercer Human Resources Consulting to evaluate the retirement system. Mercer published their findings in November 6, 2006. Mercer found that although SBCERS is funded in a reasonably sound manner, some of the standard practices and policies could jeopardize the funded status in the future. Mercer provided recommendations to the County related to correcting issues of technical compliance, improving transparency, and developing analysis of specific system dynamics in order to develop more appropriate policies to guide SBCERS decisions. Mercer noted



particular concern regarding technical compliance of retiree health care payments and the policy for distributing excess earnings.

The County must identify means and systems to more effectively manage growing pension-related costs for both the County and its workforce while ensuring that the basic pension benefit remains competitive in the workforce marketplace.

### **SERVICE PROVIDED**

The pension system administered by SBCERS is a multi-employer plan that includes the County, County, Courts, Air Pollution Control, Santa Barbara Association of Governments, and six Special Districts. SBCERS administers a variety of pension plans for both General and Safety members as well as other retiree benefits, including health benefits. The pension benefit is part of the total compensation package offered by the County to attract and retain a qualified workforce.

### **FUNDING GENERATED/NEEDED**

The County's cost for the basic pension benefit is represented by contribution rates, which have been growing significantly over the last several years. County rates are developed to pay for both the annual normal cost (Normal Cost) of basic pension benefits and to pay for the unfunded liability (UAAL) over 15 years. From 1999 to June 30, 2006, the County's contribution, combined Normal Cost and UAAL, has increased from 12% to an estimated 20.9% of pensionable salaries (approximately \$57M). In addition to the Retirement System rate, the County must also pay Social Security for General Members at an additional 6.2%. With Social Security included, the County paid almost \$68M for the basic pension benefit in Fiscal Year 2005-2006.

The primary reason for the increase in the County's pension costs is the increase in the unfunded liability. In December 1999, for example, the pension fund was fully funded and the rates reflected normal costs. At June 30, 2006, the fund was 86% funded, with the 14% unfunded portion (\$257M) amortized and built into the rates. This translates into an annual cost of approximately \$25.3M, a significant part of the \$57M total annual pension cost. Unfunded liability and pension costs will fluctuate from year to year based on the fund's investment returns, pension benefits, salary costs, actuarial assumptions, and actual experience.

### **ONE-TIME/ONGOING FUNDING**

Ongoing.

### **CRITICAL TIMEFRAME**

To be determined.

### **IMPACTS**



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Although the 1937 Act, which governs the administration of the pension plans managed by SBCERS, allows for the distribution of excess earnings to increase certain retiree benefits, it does not mandate it. In fact, it may be argued that it is not prudent to do so if the pension benefits are not first fully funded, and perhaps more than fully funded to guard against fluctuations in the investment market. SBCERS is funded at approximately 86% and while that indicates a good overall financial condition, a funded ratio of 125% for a consistent period of time would be an indicator of a much more sound financial condition. The County is currently working with SBCERS resolve these issues in a mutually satisfactory manner.

### **FEASIBILITY ASSESSMENT**

The feasibility of implementing significant changes that can help both the County and its workforce better manage rising pension costs are currently being evaluated.

### **FINANCIAL ALTERNATIVES**

Financial alternatives are currently being evaluated by the County.



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## Reauthorization of Measure D

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### **DEFINITION OF ISSUE**

In 1989, 55% of the voters in Santa Barbara County approved the current Measure D, a half-cent increase in local sales tax for transportation projects. Measure D has generated over \$370M for local and regional projects and is anticipated to generate up to \$500M before sunsetting in June 2010. From these funds, the County has received approximately \$129M and is scheduled to receive an additional \$21M before the current Measure D sunsets.

### **SERVICE PROVIDED**

Of the Transportation Division's \$14M Road Maintenance Annual Plan (RdMap) budget for FY 2007-2008, over half is funded by Measure D. The remaining half is primarily funded through State (e.g. tax on gasoline) and Federal sources. On average, the Transportation Division receives \$7M of Measure D revenue each year. If Measure D is not reauthorized prior to its expiration in 2010, the County can expect on an annual basis to implement significantly less than half of the level of effort contained in this year's RdMap. The County's Pavement Preservation Program would be eliminated in its entirety with corrective maintenance remaining. The County would not only lose Measure D revenues, but also \$851K in maintenance of effort (MOE) funding associated with Measure D, and all Federal revenues as there would no longer be a source for the required local matching funds. (The Department receives approximately \$9 to \$10M per year in State and Federal funds as a result of using \$3.2M in Measure D revenue as a source of local matching funds.) Absent Measure D funding or a replacement funding source, and in years that the State reduces or delays promised funding from sources like Propositions 42 and 1B, this level of effort for even basic maintenance activities are severely reduced.

As an example, if Measure D is not renewed or a replacement funding source is not identified, it would be infeasible to continue the Department's Pavement Preservation Program for roadways to which the community is accustomed. In its place would be rudimentary corrective maintenance programs focusing on filling potholes, sealing cracks, mowing along road shoulders, and removing fallen tree limbs. The County currently has a Pavement Condition Index (PCI) of 68; however, if Measure D is not renewed or if replacement funding is not identified, it is projected that the PCI will fall to below 40 in 15 years. Replacement and repair of roadway drainage systems would be non-existent. Bike paths would deteriorate and transit assistance would end. Repairs to sidewalks being uplifted by tree roots would cease, exposing the County to additional trip and fall claims. Other items the County would not be able to afford include: maintenance of median landscaping, urban forestry programs, traffic safety reviews, subsidization of development plan checking, and the retrofit of existing neighborhoods with facilities to comply with the Americans with Disabilities Act. Replacement, rehabilitation, or seismic retrofitting of structurally deficient bridge structures would also no longer be feasible due to the lack of a local source of matching funds. The recent



collapse of the I-35W Bridge in Minnesota serves as a reminder of the dangers when a public entity does not replace, rehabilitate, or retrofit local structures.

### **FUNDING GENERATED/NEEDED**

On average, the Transportation Division receives \$7M in Measure D revenue each year.

### **ONE-TIME/ONGOING FUNDING**

Ongoing.

### **CRITICAL TIMEFRAME**

If Measure D is not renewed or a replacement funding source is not identified prior to the sunset date in 2010, it will impact the operations and infrastructure of the Transportation Division for years to come.

### **IMPACTS**

The loss of Measure D will have a pronounced affect on the County's transportation infrastructure and staffing levels within Public Works. Loss of Measure D funds absent a replacement funding source, would result in Public Works' staff no longer producing designs or performing construction inspections for roadway safety improvement projects, bridge replacement projects, sidewalk infill projects, or storm damage repair projects, as the funding for these important programs are derived either directly from Measure D or Measure D is used as a source for the required matching funds for State and Federal grants. The Transportation Engineering, Traffic, and Construction Section's within Public Works would be reduced to minimal staffing. Reductions in staffing levels will impair the Department's ability to respond to constituent complaints thoroughly and efficiently, as well as the Department's ability to work on high priority projects as directed by the Board of Supervisors and the County Executive Officer. Measure D is also subsidizing Road Encroachment Permit staff, as the Public Works Road Encroachment Permit fees have not been adjusted since 1990.

Another impact from the loss of Measure D funds and the Department's annual budget occurs during times of disasters, such as the 2005 storm event. The Department redirects Measure D revenues to fund the necessary storm damage repairs to the County's transportation infrastructure while awaiting the trickling in of State and Federal Government reimbursements. In addition, the County only receives approximately 70% reimbursement for these disasters; remaining costs are funded by Measure D.

### **FEASIBILITY ASSESSMENT**

Medium. The Department is currently working with SBCAG and the North and South County sub-regional committees to develop expenditure plans for North and South County in preparation for the renewal of Measure D at a half-cent for 30 years. This Measure will be placed on the November 2008 ballot. The Measure will require a 2/3



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majority vote for approval. A  $\frac{3}{4}$ -cent Measure with a countywide expenditure plan was placed on the ballot in November of 2006 and failed.

**FINANCIAL ALTERNATIVES**

Possible funding sources could be a Transient Occupancy Tax, Utility Users Tax, Benefit Assessment, or the County General Fund.



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## Santa Maria River Levee Reinforcement Project

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### **DEFINITION OF ISSUE**

The Santa Maria River Levee was constructed by the US Army Corps of Engineers (ACOE) between 1959 and 1963, the year it was completed and the Levee is now over 40 years old. The Levee is 24 miles long and protects the City of Santa Maria as well as thousands of acres of prime agricultural land from the Santa Maria River. The Levee is constructed of sand with rock riprap facing. The riprap facing has degraded over the years to the point that it has reduced effectiveness in withstanding the natural forces of the river.

The entire Levee is being decertified by the ACOE, which will result in the placement of the vast majority of the City of Santa Maria and much of the surrounding agricultural land within the FEMA 100-year floodplain. The Santa Maria River Levee Reinforcement Project is intended to improve the condition of the Levee so as to provide adequate flood protection to the City of Santa Maria and surrounding areas from the Santa Maria River and obtain recertification of the Levee from the ACOE.

### **SERVICE PROVIDED**

The Santa Maria River Levee provides flood protection for the City of Santa Maria and surrounding areas. The Reinforcement Project primarily aligns with Board Strategic Plan Goal No.2, a safe community in which to live, work, and visit.

### **FUNDING GENERATED/NEEDED**

Maintenance of the Santa Maria River Levee is funded by the Santa Maria River Levee Flood Zone. The Flood Zone does not generate any funding for the Reinforcement Project. Depending on the design alternative selected, design and construction costs to reinforce the entire Levee are estimated to be approximately \$100M (slurry cement) to \$350M (sheet pile). The design and construction costs to reinforce only the most critical segments of the levee, from the Bradley Canyon Levee to Blosser Road, are estimated to be approximately \$30M to \$90M, again depending on the design alternative selected.

### **ONE-TIME/ONGOING FUNDING**

Onetime. This Project would require a one-time funding source; however additional ongoing maintenance funding is needed to ensure the project is maintained in the future.

### **CRITICAL TIMEFRAME**

- Fall 2008: This is a very approximate tentative date for the revised FEMA Flood Insurance Rate Map (FIRM), accounting for the decertification of the Levee, to become active and trigger certain Flood Insurance requirements on property owners within the 100-year floodplain.



- Fall 2007: This is the approximate deadline for the State's Local Levee Urgent Repair (LLUR) Program grant application, which is funded by State Proposition 84. It is expected to be a one-time grant opportunity with no additional cycles expected in the future unless other funding becomes available. This grant requires a 50-50 cost share with the local sponsor and at this time no other funding sources are available to cover the Flood Control District's portion.

### **FEASIBILITY ASSESSMENT**

Designing and constructing the Levee Reinforcement for only the most critical segments of the Levee has been determined to be the most feasible approach.

### **IMPACTS**

- Until the Santa Maria River Levee Reinforcement Project is complete, the City of Santa Maria and surrounding areas are at an increased risk of flooding. An analysis of the economic benefits of this Project is not yet complete but the value of the benefits is expected to be significant due to the approximately 17,000 properties located within the proposed floodplain limits. The benefits will exceed the total cost of the project.
- Property owners within the Floodplain will be subject to certain Flood Insurance requirements when the revised FIRM is made active. Money paid into the Flood Insurance program is not reinvested into the community and is not an eligible funding source for the Levee Reinforcement Project.

### **FINANCIAL ALTERNATIVES**

- Flood Control Benefit assessment increase: a measure requiring voter approval which would increase assessment revenue to fund this Project. Such a measure could potentially allow the District to secure financing to pay for one-time design and construction costs.
- Sale of Bonds: Another voter approved measure to secure project funding.
- Partner Agencies: Exploring obtaining funding from other governmental entities (including, but not limited to, the City of Santa Maria and the ACOE) which have a stake in the project.
- Grant Funding: Exploring obtaining grant funding from State and Federal sources (including, but not limited to, the FloodSafe California grant programs administered by the California Department of Water resources).



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## State Contribution for Cost of Doing Business

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### **DEFINITION OF ISSUE**

For the Department Social Services (DSS), the State pays a portion of the costs associated with providing mandated public assistance programs (“cost of doing business”). This is not a reimbursement issue since the State covers caseload growth. However, the State’s contribution to the County has not kept pace with inflation or the actual costs of salaries and benefits for a number of years. Rather, the State has frozen its funding for administration (salaries and benefits) and overhead at the 2001 level. The Department has deferred funding other needs in lieu of programmatic cuts, but cannot continue this practice indefinitely if the State does not increase its contribution levels.

### **SERVICE PROVIDED**

DSS programs affected include Adoptions, Adult Protective Services, CalWORKs, Child Welfare Services, Food Stamps, Foster Care, and In-Home Supportive Services.

### **FUNDING GENERATED/NEEDED**

The Department estimates a cumulative \$6M funding gap over the past seven years due to costs of administering programs without corresponding increases in State funding since 2001. The Department has used reserves and deferred spending on building maintenance, computer and other equipment upgrades, ergonomic furniture, and equity increases to staff as strategies to absorb the funding gap each year. For example, there has not been an equity adjustment to the salaries of eligibility and social workers to bring the County to parity with other counties. While these strategies may temporarily make up the funding shortfall, there are both short and long-term impacts to the Department’s operations.

### **ONE-TIME/ONGOING FUNDING**

Ongoing. The funding gap between costs incurred at the local level and the State contribution are likely to further widen unless local costs are contained and/or the State allocates additional funding for administration and overhead.

### **CRITICAL TIMEFRAME**

A cost-of-doing-business increase was proposed in early versions of the FY 2008-2009 State Budget, however, the increase was not approved.

### **IMPACTS**

Continued under-funding by the State has resulted in staffing decreases without a comparable decrease in State-mandated programs. Should this continue it would mean a decrease in service delivery and impact the ability to meet mandated timeframes for all programs. Additionally, failure to meet mandated performance measures in



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programs may lead to fiscal sanctions being imposed by the federal and state governments. Federal and State monies cannot be used to pay fiscal sanctions; therefore, any sanctions would need to be paid by the County's General Fund.

### **FEASIBILITY ASSESSMENT**

Low-Medium. While initially there was agreement by the Legislature to move the issue of State funding for the "cost of doing business" forward, the issue reached a stopping point.

### **FINANCIAL ALTERNATIVES**

Use DSS Special Revenue: the funds have been earmarked for Social Services' critical needs and projects for the current fiscal year. This is not an ongoing source of revenue.

It is recommended that the Board take aggressive action to pursue this issue legislatively.



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## State Reimbursement

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### **DEFINITION OF ISSUE**

The State funds certain services that the County provides to its residents. Specifically, the State provides reimbursement to Alcohol, Drug and Mental Health Services (ADMHS) for mental health services to Medi-Cal eligible children and adults. State reimbursement payments are significantly in arrears for prior years' services. In addition, ADMHS is also owed funds for Special Education services mandated by the State (SB 90) for FY 2001-2003 which the State has promised to pay sometime in the future.

### **SERVICE PROVIDED**

ADMHS provided mental health services to 7,800 adults, children, and families last fiscal year. 73% of all clients served were Medi-Cal eligible. This included payments for Medi-Cal Federal Financial Participation (FFP) and Early Periodic Screening, Diagnosis, and Treatment (EPSDT), which is the State match for children receiving services. Together, claims for services provided to these clients represent a combined total of \$35.6M, or 48% of the Department's current year's operating budget.

### **FUNDING GENERATED/NEEDED**

The State currently owes ADMHS \$11.1M for Medi-Cal services for FY 2006-2007. Although this amount is in arrears, reimbursement is expected by December 2007 and, therefore, it has not been included as part of the "One-Time/Ongoing Funding" analysis below. In addition, \$1.7M for FY 2005-2006 children's services (EPSDT) remains outstanding and is expected to be received over FY 2008-2009 and FY 2009-2010. Due to late payments by the State, ADMHS will incur interest charges of approximately \$350K in FY 2007-2008.

### **ONE-TIME/ONGOING FUNDING**

Onetime. The \$1.7M reimbursement for FY 2005-06 claims is now more than one year in arrears and is not accrued or included in the FY 2007-2008 budget. It is estimated that the Department will be charged for non-reimbursable interest charges of approximately \$350K in FY 2007-2008 due to late reimbursements. In addition, the State owes one-time funding of \$2.6M for mandated Special Education services for FY 2001-2003, a combined total of approximately \$4.7M.

### **CRITICAL TIMEFRAME**

Although the FY 2006-2007 outstanding amount of \$11.1M is expected by December 2007, the Department has enacted cost-savings measures as part of its FY 2007-2008 budget due to the \$4.7M in arrears.



### **IMPACTS**

- Delayed payments to Probation, Public Health, and Social Services departments.
- Delayed payments to community-based organizations for services to ADMHS clients.

### **FEASIBILITY ASSESSMENT**

Medium. The State is allocating funds to pay the prior years' claims for EPSDT and the County has already received a portion and expects the remaining \$1.7M over the next two years. However, Medi-Cal payments continue to be several months in arrears.

### **FINANCIAL ALTERNATIVES**

- Scale back mental health services provided to Medi-Cal eligible clients and/or other services that are not fully reimbursed in a timely manner.
- ADMHS is reviewing alternatives and will present adjustments to the FY 2007-2008 adopted budget for the Board's consideration in the fall.