BOARD OF SUPERVISORS AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Department Names:	County Executive Office (CEO)
Department No:	012
For Agenda Of:	April 7,8,9, 2014
Placement:	Departmental
Estimated Tme:	
Continued Item:	15.0 Hours
If Yes, date from:	
Vote Required:	Majority

TO: Board of Supervisors

FROM: Department Directors Mona Miyasato, County Executive Officer

Contact Info: Tom Alvarez, Budget Director

SUBJECT: Fiscal Year 2014-16 Budget Development Workshops

Recommended Actions:

It is recommended that the Board of Supervisors:

a) Hold budget workshops April 7-9, 2014 to receive presentations on Fiscal Year 2014-15 Recommended and FY 2015-16 Proposed Budget, including departments' proposed budgets, staffing, accomplishments, objectives, service level reductions and requests for the coming year;

b) Direct staff to proceed with the budget development process in accordance with the Board's adopted budget principles for Fiscal Year 2014-2015 Recommended and FY 2015-16 Proposed Budgets; and

c) Provide direction, if any, regarding items to be addressed or included in the CEO's Recommended Budget, scheduled for release on May 15 and Board adoption on June 11.

Summary Text:

The purpose of the April budget workshops is to provide the Board an opportunity to 1) hear and discuss departments' proposed budgets, staffing plans, accomplishments, work objectives, service level reductions, and requests for expansion; 2) receive public input; and 3) give the CEO direction on policy issues or specific items for consideration prior to completion of the Recommended Budget.

The budget workshops are being advanced two months compared to prior years to provide information earlier to your Board and receive input prior to finalizing the Recommended Budget. The workshops follow the March 10, 2014 budget working session, which provided a countywide fiscal update, revised 5-year forecast, and summary of department unmet needs and major fiscal issues. Board members also discussed future priorities and areas of focus.

The basis for the workshops are the departments' draft budgets and work objectives, commonly referred to as their "D pages" (in reference to their section in the Recommended Budget). The County Executive Office in conjunction with the Auditor Controller's Office has completed the review of submitted draft department budgets and revenue estimates; which are subject to change until the tax roll is completed. Following the workshop and any Board-requested changes, staff will finalize the Recommended Budget, scheduled for release on May 15, followed by Budget Adoption hearings on June 9 and 11, 2014.

Background:

Countywide Fiscal Outlook is Stabilizing

The County's financial outlook is improving and stabilizing. The primary driver of County General Fund revenue, assessed property value, is rising after five years of low growth (less than 1% in some years). While property tax growth was 1.0% in FY12-13, it grew to 4.3% in FY13-14 and is projected to be 3.5% in FY 14-15. Anticipated growth for FY14-15 is tempered because properties that are not transferred or improved will be assessed with only a 0.454% inflation increase, rather than the 2% maximum allowed under Prop 13. The FY 2014-15 Recommended Budget for secured property tax revenue reflects a 3.5% growth (before the Fire Tax Shift which allocates 25% of the general fund property growth to the Fire District).

State revenues are also improving yet state reform over the last few years has had mixed impact on the County. Realignment of Public Health funding has produced a significant reduction in revenue ($7.5 million) to the County, and AB109 Public Safety funding is expected to decrease by 7% next year. Other programs are faring better: Alcohol Drug and Mental Health Services (ADMHS) is receiving expanded funding from the Mental Health Services Act and greater revenue from changes to federal reimbursement rules associated with the Affordable Care Act. ADMHS is no longer projected to need greater General Fund assistance as has been the case over most of the last 7 years. Unfortunately, new funding from the federal and state government for municipal programs, such as roads, bridges, parks, and affordable housing has not kept up with inflation or has been dramatically cut as a result of the ban on earmarks and the decline in revenue during the recession. This funding is not adequate to meet the current need.

Some Service Level Reductions Required but Fewer Than in the Past

As the economy recovers, the County is in better position than in prior years but still has difficult choices to make. After six years of reductions, eliminating over 580 positions and approximately $60 million of ongoing expenditures, County departments have continued to provide core services and meet mandates but express they are not at optimal levels. Several themes emerge in the coming year:

Structural Department Budget Issues. For some departments, structural budget issues continue, with ongoing expenditures exceeding available ongoing revenues, requiring use of one-time funds for critical needs, resulting in deficits when funds are depleted. The Board has asked for a more thorough discussion at these workshops of funding issues related to specific projects or proposals brought forward by the following departments: Public Health (clinical lab) and Planning and Development (annual work plan). The Community Services Department may also provide more information on funding related to homeless, following direction provided at the April 1 Board meeting.

- Service level reductions. Though fewer than in previous years, some departments are proposing service level reductions next year. These total $1,088,000 in reductions. Options for addressing the reductions are provided in the materials.

- Budget Expansion Requests. After six years of reductions, departments have expressed a need for restorations or expansions, exceeding available revenue. This list is also provided in the materials submitted and also includes the cost to restore identified proposed service level reductions.

- Efficiency changes. Departments are proposing changes to reduce expenditures or create savings instigated by an increased use of technology or improved processes, a reduced demand for a particular service, or the ability to collaborate with other departments or organizations for the services. Some of these changes involve staff reductions and others not and will be discussed in the department presentations.

- Achievements and Performance Measurement. Despite these challenges, significant achievements have been made in the past year and are planned for the coming year, which departments will share in their presentations. In response to the Board's request last year, departments have included more performance measures in their budget documents which they will highlight in their presentations.

Unallocated Revenues are Available to be Assigned for High Priority Needs

As in past years, unassigned, available revenue is projected to be available for your Board to assign. The amounts of ongoing and one-time funding are being finalized. Ongoing revenue may mitigate reductions, expand services or enhance reserves. One-time funding is the accumulation of temporarily increased cost-allocation revenue, assumed federal payment in lieu of taxes funds (PILT), and other sources that are variable in nature and therefore considered one-time. Per your Board's policy, the funds should be spent on one-time uses to the degree possible to avoid deficits in the future. One-time funds have been used in the past to provide a "bridge" or "phase in" but only for a limited time until other ongoing funding, new revenue or other service changes are implemented. Your Board also has other General Fund reserves for various purposes set aside. This information is also provided in the Workshop Binder.

Focus Areas or Priorities will be Addressed by Departments

At the March 10 meeting, Board members mentioned areas of focus or priority for the coming year and beyond. Departments will discuss within the context of their budgets or at future Board meetings. Some of the areas mentioned are discussed below.

- **Pension Unfunded Liability** - As discussed at the March 10 session, the County's retirement contribution is stabilizing compared to prior years. The employer's blended contribution rate is approximately 38% in FY 2014-15 or $119.4 million. The County's unfunded pension liability was $818 million as of June 30, 2013. Assuming SBCERs actuarial assumptions and rate of return on investments, the unfunded liability will be fully amortized after 17 years, resulting in a significant contribution rate reduction to a level around 11% for the employer contribution (and 9% for the employee share).

- **Northern Branch Jail** - The project is on track, with construction scheduled to begin in 2015. A project update and review of the operational plan, including staffing and budget, will be presented to

the Board on April 15. One-time funds are requested in FY14-15 by the Sheriff for reopening the existing Santa Maria Jail until the opening of the new jail in the spring of 2018.

- **Maintenance** – The County has an estimated $94.0 million in deferred maintenance for its County-owned buildings and parks and $114.0 million for roads. Additionally, there is approximately $144.0 million of needed maintenance for bridges, culverts, concrete and other assets within the County; however, the majority of funding for these non-roads assets has historically come from Federal and State sources. In October 2013, a consultant was hired to conduct a facility condition assessment to determine the County's maintenance needs for County-owned buildings and parks. While that consultant's report is not yet completed, preliminary information will be discussed along with various funding options for addressing the County's maintenance needs for its buildings, parks and roads.

- **Information Technology Plan** – General Services will update the IT Strategic Plan within existing resources in FY 14-15. The update will also include proposed policies for better coordination of technology in the County.

- **Public Communication** – To provide greater transparency and more accurate and timely information to the public, the CEO's office in FY 14-15 will fund an extra help staff or contractor to train staff and/or provide greater public information services and coordination. This will be accomplished from the Department's existing resources and/or savings.

- **Animal Services** – Public Health has submitted a budget expansion request for three positions to augment services in Animal Control, with the most critical being a Community Outreach Coordinator.

- **Safety net services (211)** – Staff will continue to seek participation by the cities in funding the 211 service unless otherwise directed by the Board on April 1. The total program annual cost is $189,000, of which the County is seeking $63,000 from city participation.

- **Economic development** – A consortium of the chambers of commerce in the county have proposed an Economic Vitality Team (EVT), which would create and oversee implementation of a regional economic development strategy for county, which would include marketing outreach, in-market business assistance and entrepreneurship support. The effort would be a joint public-private partnership. The EVT is requesting $150,000 (one-time) as start-up seed funding in matching funds from the County. Staff could also research other options should the Board direct.

Cautious Optimism and Managing Expectations Will Continue

As the economy recovers, expectations will need to be managed and tempered so that the County can make financially prudent choices while still addressing critical needs, mitigating risks, and delivering on the Board's highest priorities. Achieving structural balance in the future and rebuilding reserves will ensure the County prepares for and adapts to unanticipated issues, such as an enduring drought, reductions to state or federal funding or other emerging needs or changes. As we look to FY 2014-15 and 15-16, the County remains cautiously optimistic, continuing its commitment to high quality service for our community, financial stability and an engaged and accountable workforce.

Budget Schedule 2014

- April 7-9 – Budget Workshops
- May 2014 – Release of Recommended Budget FY14-16
- June 9, 11 2014 – Budget Hearings for Board to adopt Recommended Budget FY14-15 and Proposed FY 15-16

Fiscal Impacts:

There are no fiscal impacts associated with holding the Budget Workshops. Addressing the information presented during the workshops will provide staff direction in finalizing the Fiscal Year 2014-15 Recommended and FY 2015-16 Proposed Budgets for adoption at the June Budget hearings.

Attachments:

Fiscal Year 2014-16 Budget Development Workshop Binder

Authored by:

Richard Morgantini, CEO Fiscal and Policy Analyst 568-3551

cc:

All Assistant CEOs
All Department Directors
All CEO Fiscal and Policy Analysts