



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

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

Department Names: County Executive  
Office (CEO)  
Department No: 012  
For Agenda Of: April 6,8,10, 2015  
Placement: Departmental  
Estimated Tme:  
Continued Item: 15.0 Hours  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Directors  
Mona Miyasato, County Executive Officer   
Contact Info: Tom Alvarez, Budget Director

**SUBJECT:** Fiscal Year 2015-17 Budget Development Workshops

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**Recommended Actions:**

It is recommended that the Board of Supervisors:

- a) Hold budget workshops on April 6, 8 and 10, 2015 to receive presentations on the Fiscal Year 2015-16 Recommended and FY 2016-17 Proposed Budgets,;
- b) Direct staff to proceed with the budget development process in accordance with the Board's adopted budget principles for the Fiscal Year 2015-2016 Recommended and FY 2016-17 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 7 and Board adoption scheduled for June 8, 10 and 12, 2015.
- d) Regarding Planning and Development's Proposed FY 2015-2016 Long Range Planning Annual Work Program:
  - i. Receive and review the proposed Annual Work Program; and
  - ii. Provide direction to continue current projects and initiate recommended new projects;
- e) Regarding other Special Issues discussed, provide direction as appropriate; and
- f) Determine pursuant to CEQA Guidelines 15378(b)(4) that the above actions are not a project subject to CEQA review, because it is a government fiscal activity that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

**Summary Text:**

The purpose of the April budget workshops is to provide the Board an early opportunity to 1) review and discuss departments' proposed budgets, special issues, staffing plans, accomplishments, work objectives, service level reductions, and budget enhancement requests; 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 workshops are held one month prior to release of the Recommended Budget and two months prior to the Budget Adoption hearings (at which the Board will adopt the FY 15-16 Recommended Budget and FY2016-17 Proposed Budget) to allow for this early review.

At the workshops, staff will present a summary of their 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.

The materials provided at the workshop are **not** intended to be inclusive of the entire Recommended Budget, which is being finalized with all financial schedules and other information. The workshops are intended to provide the Board and public an early review of departments' work plans and highlight significant issues. **No final budget decisions are requested or required of the Board at this time.**

Following the workshop and any Board-requested changes, staff will complete the Recommended Budget, scheduled for release on May 7, followed by Budget Adoption hearings on June 8, 10 and 12, 2015. At those hearings, staff will present and review the Recommended Budget for the Board's consideration, amendment and adoption.

This year, in response to comments from the Board and public made last year, more detail has been provided in the departments' budgets for each program area, to more fully describe the activities, staffing levels and positions, revenues and expenditures at the program level. In addition, departments have provided more performance measures than in the prior year.

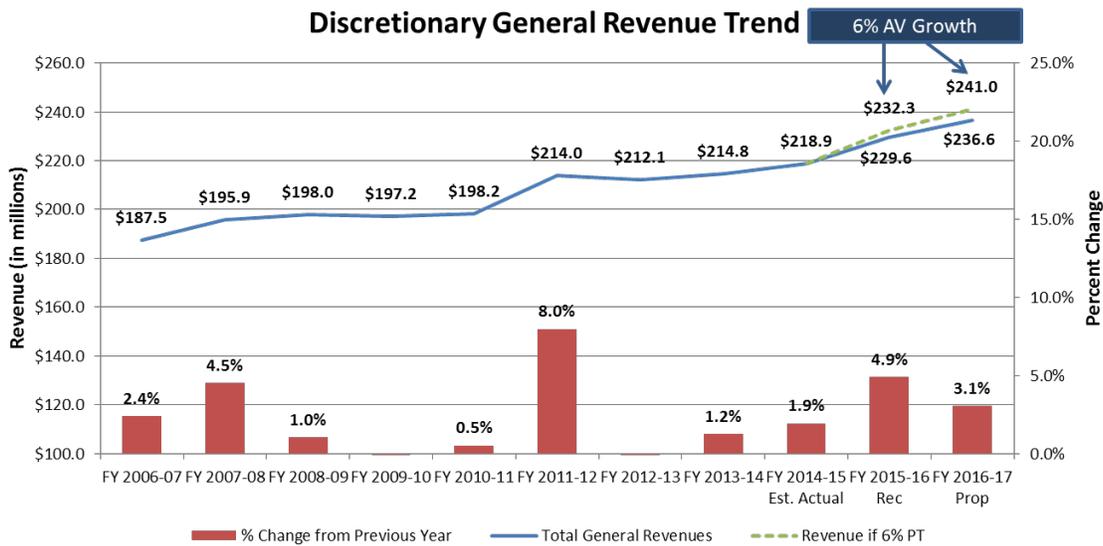
The workshops also provide an opportunity for the Board to receive information and provide direction to staff, as appropriate, on particular policy issues ("Special Issues") that affect certain departments' budgets. This year, the workshops include discussion of the following:

- **Northern Branch Jail operating costs** (Sheriff) – review and discussion of any changes to the projected operating costs and funding plan for the Northern Branch Jail, scheduled to open in 2018.
- **Inpatient services** (Alcohol Drug and Mental Health Services) – review and discussion of drivers of inpatient costs, funding requirements and potential solutions.
- **Distribution method of discretionary revenues for roads deferred maintenance** (Public Works) – review and discussion of the methodology used to allocate discretionary revenue for roads projects by supervisorial district.
- **Long Range Planning Work Program for FY 15-16** (Planning and Development) – review and discussion of the department's proposed work program for the Long Range Planning division. The department is seeking Board direction at this time on current and new projects for its LRP FY15-16 Work Program.

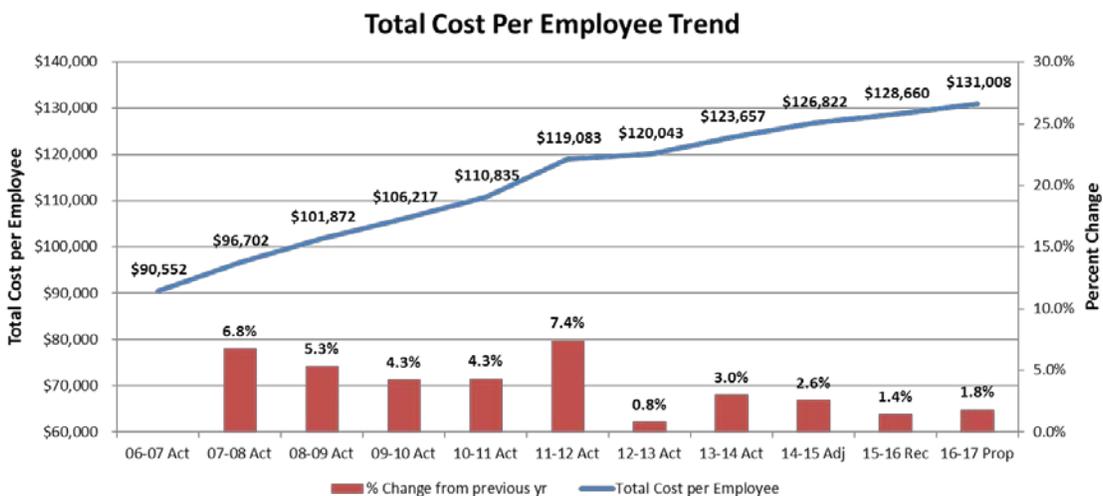
**Background:**

**The County’s Fiscal Outlook Continues to be Positive**

The County’s financial outlook is improving and stabilizing, with secured assessed property values assumed to grow by 4% in FY 15-16. In December, growth was estimated at a 6% rate, which was reduced last month after consultation with the Assessor and Auditor-Controller, given the reduction in oil prices. Even with this reduction to 4% of growth in assessed value, Discretionary General Revenues are still projected to increase by 4.9% in FY15-16. The chart below shows the growth of this revenue based on the original 6% growth in assessed values (dotted line) compared to 4% growth (solid line). The solid bars on the bottom half of the chart indicate the year over year percentage increase in Discretionary General Revenues.



As revenues are modestly increasing, pension costs, one of the drivers of the County’s budget issues during the recession, have stabilized. While countywide salaries and benefits have modestly increased, the rate of growth (as shown in the year over year percentage increase) has slowed since FY 2011-12 (see graph).



While the Governor's January proposed budget shows overall improving conditions, reductions in gas tax revenues will prove challenging for County road maintenance, due to a projected \$2.9 million loss of Highway User Tax Account (HUTA) payments from the State. Public Works will highlight these concerns during their presentation. Various other departments may be affected by the State budget, but impacts are still speculative until further details are released in May.

### **County Continues to Rebuild and Invest in the Future**

The theme of the FY 2015-16 Budget is "Foundations for the Future" to highlight our goals to improve the organization and our financial position after the recession, continue high quality services to the public, and invest in the future by fulfilling significant existing commitments. These commitments include the shift of property tax revenues to the Fire District for improved services and safety; allocating funding for the future operations of the Northern Branch Jail planned to open in 2018; dedicating revenue for maintenance of roads, parks and buildings; and fulfilling existing multi-year labor agreements with our employee groups. These will require diligence and measure spending to ensure we continue to live within our means.

Goals for the FY 15-16 Budget are as follows:

- Continue rebuilding the organization and finances after the recession
  - Maintain funded strategic reserve
  - Continue to address other liabilities
  - Spend within our means
- Create efficiencies in department operations through process improvements, technology, innovation
- Provide high quality public services and minimize impacts to the public, when possible, if budget reductions are necessary
- Create a thriving and engaged workforce
- Adapt to, and strategically plan for, the future
- Continue to advance Board priorities and fulfill prior commitments

### **Common Themes Emerge in Departments' Proposed Budgets**

Departments continue to accomplish major milestones and initiatives, operate efficiently, strive for improved services to the public and their customers, and develop and engage their employees. Departments will discuss trends that are or will be impacting their operations. Revenues (other than General Fund) are moderately improving, or at least not worsening, for most departments, and many are continuing multi-year work efforts, with some new initiatives achieved within existing resources. Technology improvements to improve efficiency are common in the coming year as a means to adapt to fewer resources, improve data management, and migrate off legacy or outdated software. After years of staff reductions, some departments express that they are not optimally staffed to meet community and customer expectations.

Statewide changes beyond our control (such as passage of Prop 47) and funding changes (such as decreases in highway users' tax) are affecting services and workload of departments. Our safety net departments continue to implement program changes related to the Affordable Care Act and face impacts of statewide phenomena (such as increased need for mental health inpatient services). Departments continue to monitor the ongoing drought for potential impacts, such as increased risk of fire, effect on agricultural production, and public awareness and conservation.

As outward-facing departments serve the needs of the community, internal service departments are challenged to meet demands of their customer departments within their resources, for such services as recruitment and training, financial evaluation and auditing, legal advice and public communication assistance. Increasing medical costs impact all departmental budgets in healthcare and Workers' Compensation benefit costs.

## Summary of Department Budgets Issues

Service Level Reductions and Efficiency Changes As the County's fiscal position improves, there continues to be less budget reductions compared to prior years. However, some departments are proposing service level reductions next year to balance their budgets, totaling \$450,834 in General Fund and \$633,490 in non-General Fund reductions.

- **Probation** – reduction of one vacant Deputy Probation Officer position for the narcotics enforcement team due to the loss of grant funding (\$370,000 of which \$83,000 General Funds).
- **Sheriff** –transfer two custody deputies from the Santa Maria Branch Jail to the Main Jail to reduce overtime costs; this would result in housing of longer term inmates only at the Main Jail, reducing bed count by 28 (\$203,000 all General Funds).
- **Child Support Services** – reduction of 3.6 positions through attrition as retirements occur; this is necessary to meet increased expenses and fixed State funding, resulting in increased casework per caseworker (\$346,000, no General Funds)
- **Community Services Department** – reduction in shelter services of \$165,000. Shelter services funding is a pass-through from the General Fund to shelter providers. The FY14-15 allocation is \$365,000. Of this amount, \$165,000 has been provided as one-time funding. The department does not have ongoing or one-time funds to backfill these services. (\$165,000 all General Funds).

Other department issues:

- **ADMHS** – ADMHS does not face a reduction compared to its ongoing Board-approved services levels (adopted FY14-15 budget); however, service demand for inpatient mental health beds far exceed budgeted levels. The department is requesting \$2.3 million in FY 2015-16 to meet existing (FY 14-15) usage of short and long term beds including IMD beds. The department is also requesting \$1.0 million to purchase additional in-county contracted board and care beds to increase the availability of necessary step-down beds.
- **Public Works** - Loss of gas tax creates a reduction to Public Works of funding used for corrective maintenance and operation support related to roads. The loss is \$2.9 million. While the department has fund balance to assist next year, this is not sustainable and would deplete the fund.

Options for addressing the reductions are provided in the materials, including requests for restorations included in the Budget Expansion Request list. Additionally, efficiency reductions are proposed, which are the result of reduced workload, for which a department is not seeking restoration of these funds.

- **Probation** - reduction of six positions due to reduced workload demand as a result of anticipated reduction in Prop 109 caseloads and reduction of average daily population at the Los Prietos Boys Camp (\$241,054 in General Fund and \$301,276 in non-General Fund)

Budget Expansion Requests. Departments continue to express a need for restorations of reductions taken in previous fiscal years or expansions to meet new service demands, exceeding available revenue.

This list totals over \$12.6 million in ongoing and \$11.6 million of onetime General Fund requests and over 110 requested FTE's. Details of these requests are provided in the materials submitted.

Achievements and Performance Measurement. Significant achievements have been made in the past year and are planned for the coming year, which departments will share in their presentations. As requested by the Board last year, departments have included more performance measures in their budget documents which they will highlight in their presentations.

Funding of Long Standing Departmental Structural Imbalances. To stabilize services, the Board adopted the FY 2015-16 General Fund Allocation Policy that allows the CEO to recommend additional General Fund Contribution to address long standing structural imbalances within specific departments. The policy was adopted to address departments for which there are limited revenue opportunities other than the General Fund, little or depleting fund balance or reserves, and where baseline services have not been consistently funded. The draft departmental budgets include \$1.3 million intended to address such structural imbalances and to prevent service impacts and staff reductions in the following departments:

- Clerk, Recorder Assessor - (\$500,000, which includes funding for biannual increases for even-year elections);
- CSD – Parks (\$184,000) and Housing and Community Development (\$275,000);
- County Counsel - (\$273,000, partially offset by a \$250,000 reduction in the planned use of fund balance for outside counsel costs);
- Planning and Development Long Range Planning - (\$110,000).

Unfunded Liabilities: Amortization of the unfunded liability for pension costs is in place, resulting in the planned elimination of the County's June 30, 2013 unfunded actuarial accrued liability of approximately \$817 million over 17 years at the assumed rate of return. As of June 30, 2014, the unfunded liability was reduced to \$584 million as a result of amortization of the unfunded liability, investment gains and a change in methodology. The pension plan is now 81% funded on a Market value basis. However, the County has not optimally funded its Retiree Medical Health benefit and will be evaluating and developing a revised, comprehensive funding plan for this retiree benefit, also known as Other Post-Employment Benefits (OPEB).

Limited unallocated revenues are available to be assigned for high priority needs: Ongoing unallocated revenue in FY 2015-16 is projected to be available for your Board to assign, but based on various department needs, these funds may be limited. The amounts of ongoing and one-time unallocated funding are being finalized. The current estimate of ongoing unallocated discretionary general funds is expected to be \$4.0 - \$4.5 million. This amount will likely change as we finalize the Recommended Budget, and will not be known for certain until the tax roll is finalized. These unallocated amounts are after FY 2015-16 allocation for the Fire Tax Shift, NBJ Operations funding, the recent maintenance funding plan, and departmental baseline General Fund Allocations, including adjustments for anticipated salary and benefit changes.

One-time revenue may mitigate reductions, expand services or enhance reserves. Estimated one-time funding is currently limited to the accumulation of temporarily increased cost-allocation revenues of approximately \$800,000. Year-end savings are not anticipated given current year shortfalls. Your Board also has other General Fund reserves (fund balances) set aside for various purposes which could be used for higher priority one-time needs. In prior years, the federal payment in lieu of taxes funds (PILT) has been included as one-time funds; however, the allocation is uncertain and current year

funding won't be known until late May or June (\$1.8 million in FY 2013-14). Per your Board's policy, one-time 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" funding but only for a limited time until other ongoing funding, new revenue or other service changes are implemented.

### **Managing Expectations Continues**

We continue to strive towards a common understanding of available funds 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 current and future years will ensure the County prepares for and adapts to unanticipated issues, such as an enduring drought, changes to state or federal funding or other emerging needs. As we look to FY 2015-16 and 2016-17, challenges exist but the organization continues to strive for high quality service for our community, financial stability and an engaged and accountable workforce. We will be successful if we continue to manage our expectations and live within our financial means.

### **Budget Schedule 2015**

- April 6, 8,10 – Budget Workshops
- May 2014 – Release of Recommended Budget FY15-17
- June 8, 10, 12 – Budget Hearings for Board to adopt Recommended Budget FY15-16 and Proposed FY 16-17

### **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 2015-16 Recommended and FY 2016-17 Proposed Budgets for adoption at the June Budget hearings.

### **Attachments:**

Attachment A: Fiscal Year 2015-17 Budget Development Workshop Binder

Attachment B: Long Range Planning Work Program

### **Authored by:**

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### **cc:**

All Assistant CEOs

All Department Directors

All CEO Fiscal and Policy Analysts