# Fiscal Outlook Report

## County of Santa Barbara
## November 5, 2013

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### INTRODUCTION

The Fiscal Outlook Report is composed of the following three sections:

I. *Economic Outlook*
II. *Fiscal Issues*
III. *Projected Budget Gap and 5 Year Forecast*

The *Economic Outlook* section describes current economic trends and projections at the federal and local levels. This outlook identifies leading economic indicators that drive the County's primary revenue sources such as property, sales, and transient occupancy taxes. This section serves as context for the fiscal issues and budget gap identified in this report.

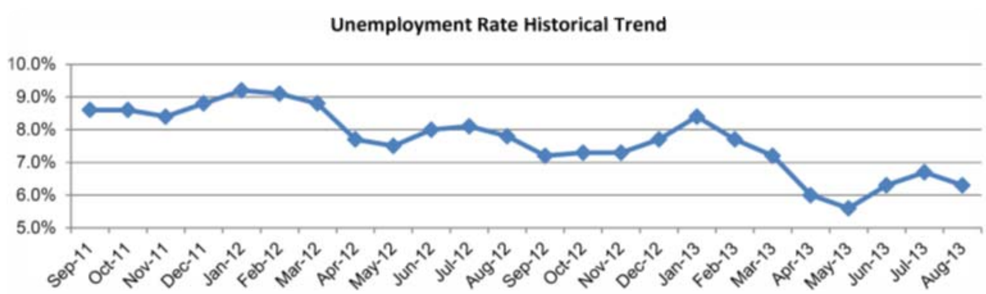
The *Fiscal Issues* section identifies significant issues that will potentially impact the County within the next two years. The issues are organized into two tiers according to expected likelihood of occurrence. The issues are summarized in table form and explained in narrative form below the summary tables.

The *Projected Budget Gap & 5 Year Forecast* show the impacts of Fiscal Issues and various assumptions on the County for the period FY 2014-15 through FY 2018-19 to assist with long term planning. Department executives and staff, in partnership with the County Executive Office, have worked to anticipate, analyze and quantify the County's revenue and expenditure environment over the five years. These financial forecasts take into account conditions that can be reasonably anticipated over the time period and will require annual updates to continuously improve their value for policy planning.

The projected budget gaps do not include those fiscal issues that are unlikely to occur or already have identified funding sources such as reserve funds. The reports will highlight anticipated trends based on a set of assumptions and anticipated Fiscal Issues. These reports are not intended to solve issues but rather to point them out. During the budget development, a more precise calculation of the impacts and strategies to balance budgets will be created and communicated to the Board.

# I. ECONOMIC OUTLOOK

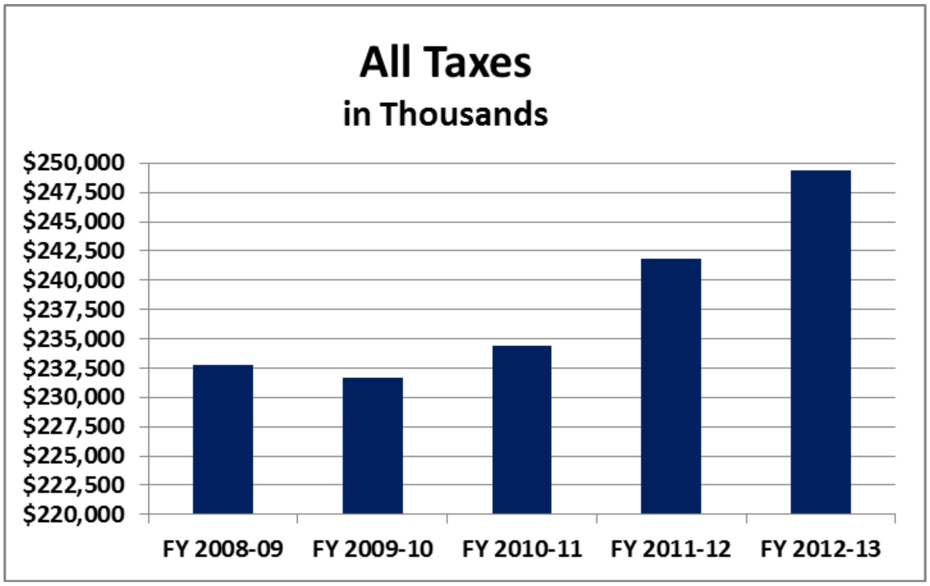
The Auditor Controller's Financial Highlights report released August 26th, shows there has been continued positive growth in the gross domestic product (GDP) at the national level for the last sixteen quarters. The County economy is also continuing to show growth as consumer spending and tourism improved for the third consecutive year. County unemployment rates have continued to drop as August's 6.3% rate was down 1.5% from the prior year's August rate of 7.8%. Increases in jobs in the construction, Professional & Business Services and hospitality sectors point to an increase in economic activity.




In the County, economic growth continued to improve in FY 2012-13 with lower unemployment and a real estate market that has stabilized and is now recovering. The County's major revenues (property taxes, sales taxes, and transient occupancy taxes) had an overall 3.4% increase in FY 2012-13 compared to a 2.9% increase in FY 2011-12. These revenues are forecasted to continue to increase in FY 2013-14.

Taxes are the County's main source of discretionary revenue and the various property tax components are the largest part of those revenues. Property Tax had an increase of 0.3% in FY 2012-13 while the Supplemental Property Tax increased 31.9% and the Property Transfer Tax grew 52.8%. Property tax assessed value increased by 4.0% for FY 2013-14. While this is marked improvement over recent years, it is still well below the average growth rate of 8.0% seen over the past 30 years. Due to the City of Goleta Revenue Neutrality Agreement (GRNA) retail sales taxes and Transient Occupancy Taxes decreased by 12.7% and 7.6% respectively. Absent the GRNA, retail sales tax increased by 4.0% and Transient Occupancy Tax increased by 6.5% in FY 2012-13. Continuing the previous two fiscal year's growth, Proposition 172 (the statewide public safety ½-cent sales tax) increased 8.4%. Despite signs of continuing economic recovery in the County, operating expenditures are expected to continue to grow at a faster rate than revenues due to Fiscal Issues highlighted in this report.

The chart below illustrates the County's overall tax growth over the last five fiscal years.

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The decline over the last two years for the number of notices of default in the housing market is another positive sign and is illustrated in the following chart.

## II. FISCAL ISSUES

### A. Tier 1 Fiscal Issues:

| Tier 1 Issues: Expected occurrence within the next two fiscal years | | | | |
|---|---|---|---|---|
| | Issue | FY 2014-15 Impact (in millions) | FY 2015-16 Additional Impact (in millions) | Onetime or Ongoing |
| 1A | Pension Fund Stability | $ 17.4 | $ (2.4) | Ongoing |
| 1B | Pension Administrative Costs (New) | 4.0 | | Ongoing |
| 2 | Public Health Loss of 1991 Realignment Funding (New) | 2.5 | - | Ongoing |
| 3 | Health insurance | 2.0 | 2.0 | Ongoing |
| 4 | ADMHS Inpatient System (New) | 1.4 | - | Ongoing |
| 5 | Northern Branch Jail Operations Funding (AB 900) | 1.3 | 1.5 | Ongoing |
| 6 | Workers' Compensation | 1.2 | - | Ongoing |
| 7 | ADMHS 2011 Realignment Revenue (New) | 1.1 | - | Ongoing |
| 8 | Retiree Healthcare OPEB | 0.7 | 0.7 | Ongoing |
| 9 | CREF Funding for P&D (New) | 0.4 | - | Ongoing |
| 10 | Assessor Funding Gap | 0.3 | 0.4 | Ongoing |
| | **Total** | **$ 32.3** | **$ 2.2** | |

**1. A. Pension Fund Stability**

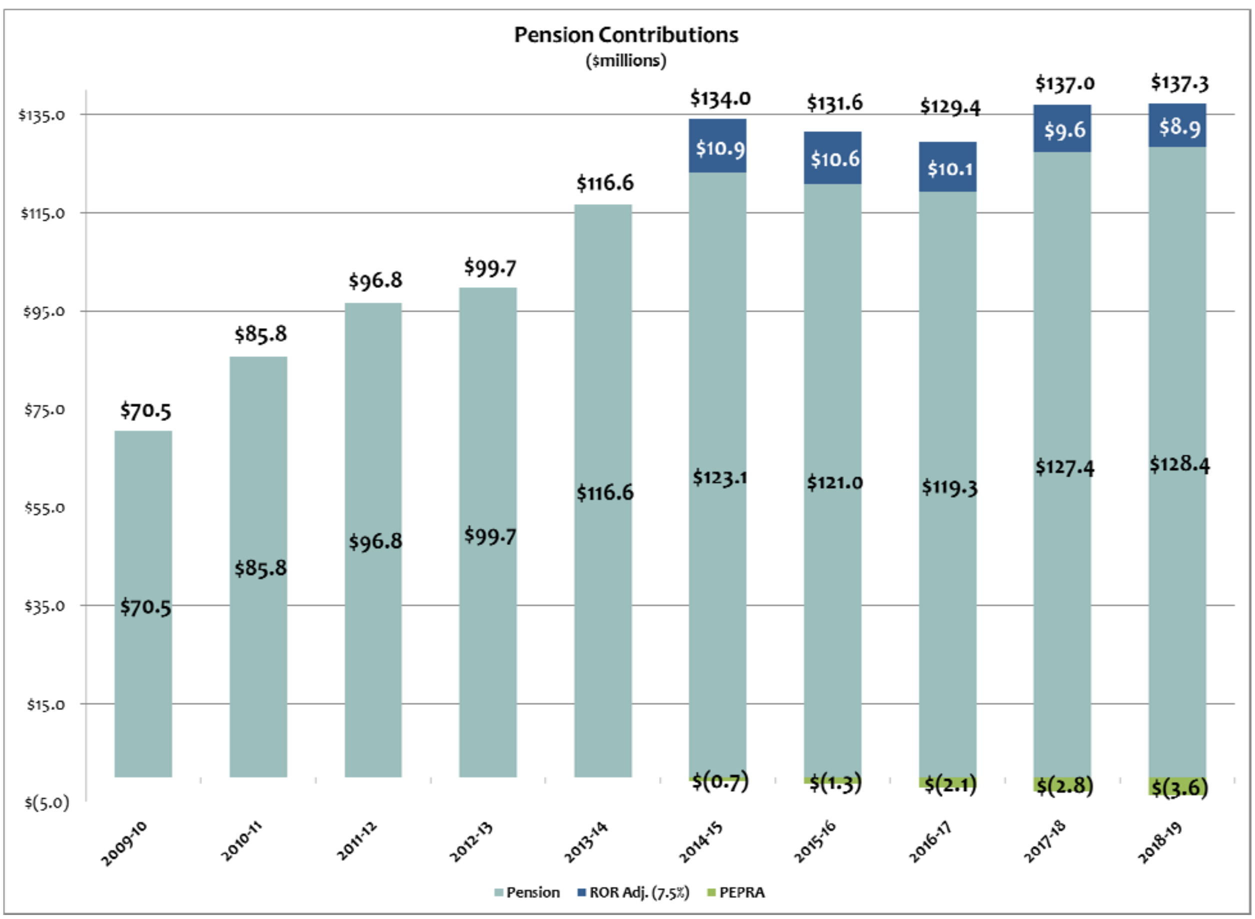
The Santa Barbara County Employees' Retirement System (SBCERS) administers a cost sharing multiple-employer defined benefit pension plan for the County of Santa Barbara and nine other independent local agencies. The County's pension costs have steadily increased since FY 2002-03 when the retirement contribution was $32.4 million. Over the subsequent 10 years, retirement costs through FY 2012-13 have increased to $99.7 million or 208.2% while pensionable payroll has risen 14.3%. Retirement costs are projected to increase significantly in FYs 2013-14 and 2014-15 due to a several factors including:

- During the Great Recession, the Retirement System experienced significant investment losses creating a large unfunded liability. Such investment losses for the Retirement System are amortized into the rates using a five-year smoothing method and FY 2013-14 is the fifth and final year of increased rates associated with FY 2008-2009 investment losses.
- The FY 2014-15 retirement contribution assumes a reduction in the assumed rate of return on invested funds from 7.75% to 7.5%; the projected impact would be to increase the contribution by $10.9 million.
- SBCERS Retirement Board is considering breaking out administrative costs (more than $4 million per year) previously included in the net assumed rate of return and assessing these costs separately. The impact would be increased annual funding for the County's share of these administrative costs (the majority of such costs).

- Salary and wage concessions in place over the last several years are budgeted to expire in FY 2013-14 and future years, which will thereby increase pensionable payroll and retirement costs. See Fiscal Issue #15 for further discussion.
- As a result of the Affordable Care Act, the department of Social Services has received Federal and State funding and Board approval to hire 180 employees at an estimated cost of $8.7 million. This is projected to increase retirement costs by approximately $2.8 million (also using a blended rate).
- Public Employees' Pension Reform Act of 2013 (PEPRA), will reduce the retirement contribution at an accelerating rate over time as new employees are hired. The impact to FY 2014-15 is expected to be less than $1.0 million.

**1. B. Administration**

The impact of the above factors; excluding the potential administrative cost issue, are reflected in the following graph. The recently developed 5-Year Forecast tool was used to help estimate these costs. Using the most recent actuarial reports, blended rates by department were developed and an overall increase to covered payroll of 2.0% per year was assumed. These figures will be more accurately projected in the budget process when detailed salary models are completed in January 2014. Stacked bars are included to highlight projected new assumptions for the change in rate of return and PEPRA. Notice that pension costs are projected to peak in FY 2014-15 and then level off.



The Public Employees' Pension Reform Act of 2013 (PEPRA) will impact employees hired after January 1, 2013, who have no prior reciprocal government employment, as PEPRA changes several main components of the public employee retirement systems. Retirement provisions of PEPRA include a retirement benefit of 2.0% per year of service at age 62 for non-safety members and 2.7% at age 57 for safety members. Final compensation will be the highest average annual compensation over a three-year period. PEPRA would also require all new members to contribute at least 50 percent of the annual normal cost of their pension benefit. PEPRA establishes a cap on the amount of compensation that can be used to calculate a retirement benefit for all new members of a public retirement system. This cap is initially equal to the Social Security wage index limit for employees who participate in Social Security or 120.0% of that limit if they do not participate in Social Security. PEPRA is expected to generate savings; however, the impact is currently unknown and these savings will gradually occur over time as new employees are hired.

On November 20th, a special meeting of the SBCERS Board will be held and an actuarial report will be presented at which time the Board is scheduled to vote on that report and the assumptions. These assumptions, including but not limited to the stated rate of return treatment of administrative costs, will be used to determine future funding amounts. On December 11th, the SBCERS Board will receive the Valuation Report and is scheduled to vote on the employers' contribution rate. Final contribution rates for FY 2014-15 will be identified at this time and will be incorporated into the upcoming budget.

***Unfunded Pension Liability:*** The October 15, 2012 SBCERS Actuarial Valuation Report identified an unfunded pension liability for the system of $827.7 million as of June 30, 2012. As funding rates are established, "Normal" and the "Unfunded Actuarial Accrued Liability (UAAL) Amortization" are determined. The report identified that 58.0% of current contributions are assessed to reduce the unfunded liability. Thus, if these percentages are consistent in future years, the contribution towards the unfunded liability in FY 2014-15 would be estimated at $77.6 million.

**2. Public Health Loss of 1991 Realignment Funding**

While Counties are mandated by the State to provide healthcare to residents who are indigent or have limited ability to pay for health care services, the implementation of the benefit expansions of the ACA significantly alters the traditional role that counties fill in providing healthcare services to indigent adults. While there are new sources of revenue for the indigent and uninsured, there are also significant risks that will need to be managed because of the State redirection of 1991 Health Realignment and the fact that the indigent care mandates stay in place. Although there are many unknowns and much uncertainty, the PHD projects that there will be a negative fiscal impact of approximately $2.5 million for the next two fiscal years and approximately $3.0 million ongoing in following fiscal years.

In response, the PHD is in the process of developing and implementing financial alternatives to try to maximize the opportunities under the ACA to sustain and increase Medi-Cal revenues to help offset the loss of 1991 Health Realignment. In addition, the PHD will be looking for new ways of providing services through community partnerships, making aggressive outreach and enrollment efforts to get patients connected to a funding source, educating newly enrolled patients to have them seek care early and in the county setting, and proposing changes to its indigent health services program to encourage individuals to avail themselves of the new opportunities through the ACA.

**3. Health Insurance**

Health insurance premiums continue to rise throughout the State. The primary driver of the increase is the rising cost of health care. The increases are due in part to new regulatory requirements that increased the eligibility age of children to twenty-six for health coverage through their parent's plan, as well as the requirement for the health plan to cover specific types of care, such as preventative care at no cost. As a result of ongoing efforts to improve employee health and keep rates low, the County's calendar year 2012 loss ratio (the difference between the cost of medical care and the amount of premiums paid to insurance plans) dropped to 90.0% from 159.0%. This was the primary contributor to the calendar year 2014 renewal rate of a relatively modest 4.5% increase (FY 2013-14 budget assumed a 15.0% increase in 2014).

The federal Patient Protection and Affordable Care Act (ACA), goes into effect in January 2014 and therefore projecting future rates becomes more difficult. Based on the uncertainty surrounding the new ACA, CSAC-Excess Insurance Authority (EIA), a risk sharing pool of California public agencies, continues to recommend a rate increase of 15.0%, in calendar year 2014 and 2015. Using CSAC guidance would result in a $2.5 million increase over FY 2013-14 (using these blended rates 4.5% and 15.0%) for FY 2014-15 and an additional $4.5 million in FY 2015-16 (assuming an additional 15.0% increase in calendar year 2015).

Our actual healthcare rate increases in recent years have been in the 4.0% to 5.0% range and as stated above, the increase for calendar year 2014 is 4.5%. If we assume a 5.0% increase in calendar year 2015, the premium increases would be about $1.5 million in FY 2014-15 and FY 2015-16. Given the uncertainty of actual results, we have estimated the annual impact for this Fiscal Issue at $2.0 million per year.

**4. ADMHS Inpatient System**

During FY 2012-13, ADMHS developed policies and procedures related to the involuntary hold process which reflected changes to the time limit clients will spend in emergency rooms. The result of this change combined with an overall increase in the demand for inpatient services, has been an increase in costs to the Inpatient System of Care. The ongoing increase in costs is estimated to be $1.4 million annually.

Emergency Room dispositions are generally now determined within 24 hours and all efforts are made to transfer consumers from hospital emergency rooms into acute psychiatric inpatient facilities within 24 hours if there is available capacity. The changes were implemented in October 2012. The impact of the changes resulted in reduced timeframes for clients accessing these critical crisis services. The department also began to experience increased costs related to inpatient contract bed services.

The FY 2013-14 Adopted Budget has $1.3 million budgeted to cover the costs of acute and long term inpatient contract beds, but as illustrated below, the cost for these beds continue to increase significantly each year.

| Fiscal Year | Inpatient Contract Bed Costs |
|---|---|
| 2011-12 | $1,680,000 |
| 2012-13 | $1,903,650 |
| 2013-14 "Projected" | $2,700,000 |

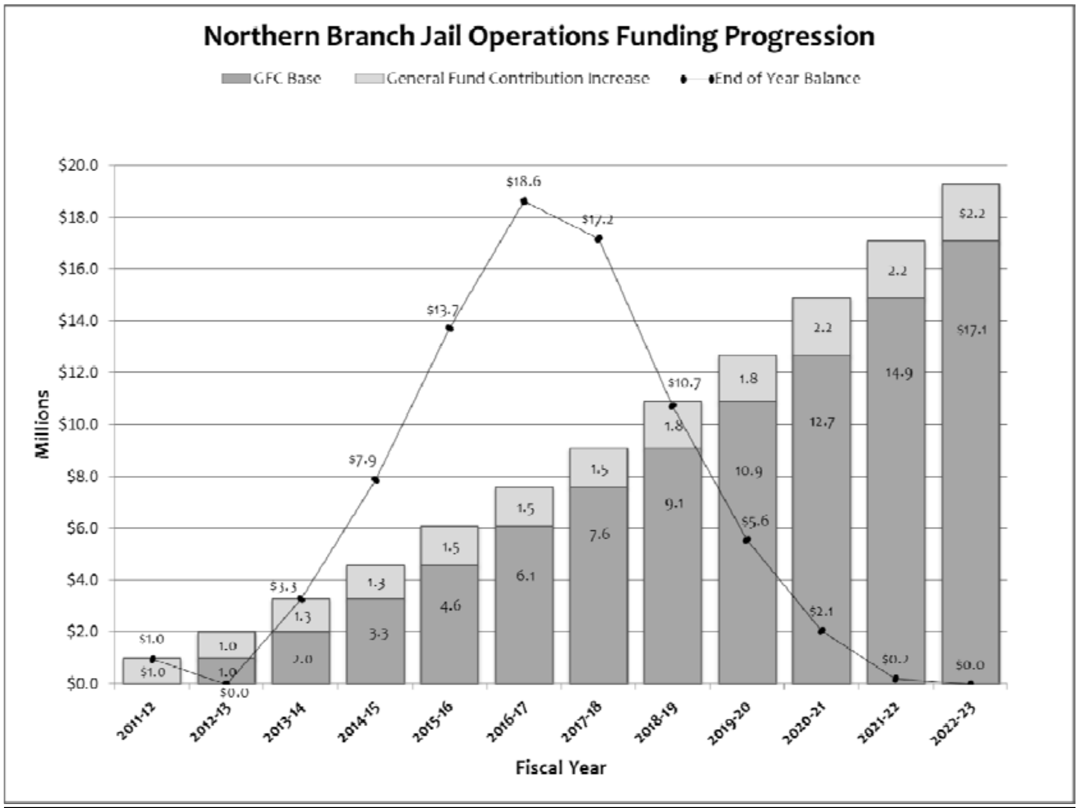
**5. Northern Branch Jail Operations Funding (AB 900)**

Presently, the County is under a stipulated order to reduce jail overcrowding. To address this condition, construction of a Northern Branch Jail has been approved. The project scope is for a 376 bed jail facility, of which 32 beds are for medical and mental health needs. The facility will be built on a portion of the 50 acre property located at Black and Betteravia Roads just outside the City of Santa Maria.

The construction costs of the project are estimated to be approximately $96.1 million. In 2012, the County was awarded conditional funding from the State in the amount of $80.0 million for new jail construction, leaving a one-time capital cash match cost to the County of approximately $8.9 million (balance due after prior County costs, primarily land acquisition). In February 2013, the Board approved budget revisions of $8.9 million which provide the required County construction matching funds for the Northern Branch Jail.

Annual operating costs were originally estimated at $17.3 million, which is net of staffing and other costs transferred from existing jail facilities. This original estimate is expected to change based on several factors but won't be updated in the Funding Plan until after schematic designs are completed. The Northern Branch Jail is expected to open in FY 2017-18. Operating costs for the new jail are being accumulated through a General Fund - North County Jail Operating Fund. The County developed a Funding Plan to set aside incrementally increasing amounts of General Fund to accommodate the estimated annual operational funding needs of the new jail.

The following graph and table illustrate the Funding Plan, including the Base General Fund Contribution, the incremental General Fund Contribution and the ending Fund Balance of the North County Jail Operating Fund.




Annual GFC and operating costs for the Northern Branch Jail are shown below:

| Fiscal Year | GFC Base | GFC Increase | Total Annual GFC | Construction Match | Annual Operating Costs | Year End Op. Fund Balance |
|---|---|---|---|---|---|---|
| 2011-12 | $ - | $ 1.0 | $ 1.0 | $ - | $ - | $ 1.0 |
| 2012-13 | 1.0 | 1.0 | $ 2.0 | (3.0) | - | - |
| 2013-14 | 2.0 | 1.3 | $ 3.3 | - | - | 3.3 |
| 2014-15 | 3.3 | 1.3 | $ 4.6 | - | - | 7.9 |
| 2015-16 | 4.6 | 1.5 | $ 6.1 | - | (0.3) | 13.7 |
| 2016-17 | 6.1 | 1.5 | $ 7.6 | - | (2.7) | 18.6 |
| 2017-18 | 7.6 | 1.5 | $ 9.1 | - | (10.5) | 17.2 |
| 2018-19 | 9.1 | 1.8 | $ 10.9 | - | (17.3) | 10.7 |
| 2019-20 | 10.9 | 1.8 | $ 12.7 | - | (17.9) | 5.6 |
| 2020-21 | 12.7 | 2.2 | $ 14.9 | - | (18.4) | 2.1 |
| 2021-22 | 14.9 | 2.2 | $ 17.1 | - | (19.0) | 0.2 |
| 2022-23 | $ 17.1 | $ 2.2 | $ 19.3 | $ - | $ (19.5) | $ 0.0 |

In October 2013, the Board of Supervisors authorized the Sheriff to apply for SB 1022 funds, which would contribute $39 million of State funding towards the construction of a separate Sheriff Treatment and Rehabilitation (S.T.A.R.) complex. The STAR complex would add an additional 228 beds to the Northern Branch Jail site. These grant funds would be combined with a County match of $4.6 million, providing total construction funds of $43.6 million. Annual operating costs are initially estimated to be $1.4 million, which are net of staffing and other costs transferred from existing jail facilities. The impacts of SB 1022 are not presented in this report as the grant is not expected to be awarded until January 2014.

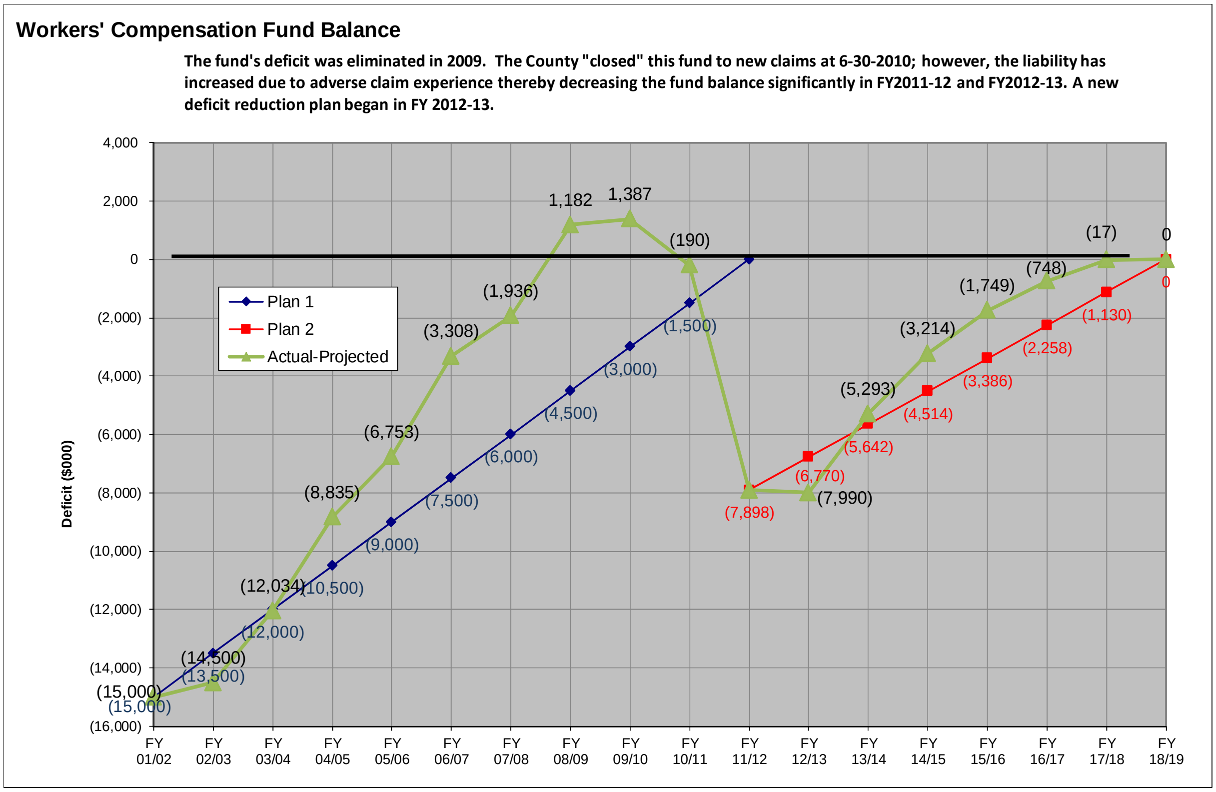
**6. Workers' Compensation**

The County was self-insured for WC claims incurred through 06/30/10 (tail claims). These claims are not closing as quickly as initially thought and the actuarially projected ultimate loss has been rising over the past four years as can be seen in the table below.

| Fiscal Yr. | Report Date | Ultimate Liability | Change to Liab. |
|---|---|---|---|
| 6/30/2010 | Nov-10 | 178,142,000 | |
| 6/30/2011 | Nov 2011 | 181,107,000 | 2,965,000 |
| 6/30/2012 | Jul 2012 | 185,124,000 | 4,017,000 |
| 6/30/2013 | Jul-13 | 187,823,000 | 2,699,000 |
| | | | 9,681,000 |

These increases have resulted in a fund balance deficit of $8.0 million at 6/30/13. To improve the fund balance, a seven year amortization of the deficit was put in place in FY 2012-13, resulting in the assessment of additional premiums. We have been increasing the premium assessment to keep pace with the escalating value of the projected ultimate loss. The adopted budget for WC premiums (tail and current claims) for FY 2013-14 is $13.6 million. Based on the most recent actuarial information, a mid-year increase of $1.2 million will be implemented in FY 2013-14 for a total premium of $14.8 million. The mid-year increase can be funded with savings from healthcare, unemployment and general liability insurance costs. The proposed WC premiums for FY 2014-15 will be $14.8 million ($2.3 million is associated with tail claims). The cost of post 6/30/2010 claims in FY 2014-15 is projected to be $12.5 million and is relatively unchanged from the amount included in the FY 2013-14 rates($12.4 million).

A graph of the fund balance recovery plan is shown below and includes the prior recovery plan that spanned FY 2001-02 through FY 2008-09.




## 7. ADMHS 2011 Realignment Revenue

The State Department of Finance reviewed and updated every county's initial 2011 Realignment, Behavioral Health Subaccount, Early Periodic Screening, Diagnosis and Treatment (EPSDT)/Managed Care allocation percentage for FY 2013-14 based on program expenditures and populations. As a result, Santa Barbara County's allocation percentage was reduced from 1.12% to 1.00%, resulting in a reduction in realignment revenue of approximately $1.1 million. ADMHS anticipates that this will be an ongoing reduction.

## 8. Retiree Healthcare OPEB

The Santa Barbara County Employees' Retirement System (SBCERS) administers a cost sharing multiple-employer defined benefit pension plan and the County's cost sharing multiple-employer defined benefit post-employment healthcare plan (OPEB Plan). The OPEB Plan provides medical benefits to eligible retired County employees and their eligible dependents. The County determines the contribution rate to the Retirement System to fund the retiree healthcare program. The County adopted a base employer contribution rate of 3.0% of covered payroll in FY 2012-13. This contribution is intended to cover annual premium costs of the plan. The County contribution was $8.1 million in FY 2012-13 and it is estimated that the County contribution will remain at a similar amount for FYs 2014-16 in order to keep up with the current "Pay-as-you-Go" funding method.

The "Pay as you Go" method of financing requires contributions to the plan that are generally made at the same time and amount as benefit payments and expenses become due. While providing near-term budgetary relief, the policy trade-offs of funding on a "Pay as you Go" basis create the following significant fiscal issues:

- The County is required to disclose and ultimately recognize a liability for the unfunded portion of the retiree medical program in its financial statements;
- The County is not being reimbursed for the full cost of administering State and federally funded programs
- The County is not able to take advantage of more favorable actuarial assumptions and longer term interest rates that would lower the expense of the program over time.

The result of the County's "Pay as you Go" funding approach is that the County's total unfunded liability for retiree medical benefits was $173.9 million at the end of FY 2012-13. The recommended policy includes an increased contribution rate of 0.25% of covered payroll per year ($0.7 million currently), in order to gradually increase funding and reduce this liability. The rate in FY 2013-14 is 3.25%, then 3.50% in FY 2014-15 and so on in the out years. Assuming moderate wage inflation and interest income, the County estimates that the current unfunded liability will be eliminated in approximately 20 years (assuming no growth in the liability).

**9. CREF Funding for P&D**

During the FY 2010-11 budget development cycle, the Planning and Development Department (P&D) received a significant reduction in General Fund Contribution (GFC). To offset this loss of GFC, P&D was awarded Coastal Resource Enhancement Fund (CREF) grant funding for applicable Long Range Planning projects. P&D has since continued to receive CREF grant award funding every year in place of ongoing GFC. The grants to P&D may not be renewed in FY 2014-15, which would leave a gap in the Long Range Planning Division of P&D.

Grant funding is one-time in nature, and the loss of this revenue source, without a corresponding replenishment of another revenue source, will leave the department susceptible to staffing and service level reductions. The impact of the loss of funding is approximately $420,000 per year in ongoing revenue for every year that the funding is not renewed or replaced (impact would be 3.0 FTE's). In order to retain the current level of Long Range Planning, additional funding would need to be identified.

**10. Assessor Funding Gap**

The prior Fiscal Outlook Report estimated a FY 2013-14 budget gap of $1.6 million for the Clerk-Recorder-Assessor (CRA) Department and was largely created by decreased property tax administration fees. This was solved with a $0.6 million increase to the CRA's ongoing General Fund Contribution (GFC); $0.4 million in one-time GFC combined with departmental salary savings and use of fund balance.

The projected funding gap for FY 2014-15 is estimated to decrease to $0.3 million due to the ongoing FY 2013-14 General Fund Contribution increase of $0.6 million mentioned above; an increase in property tax administration fees of $0.2 million, and an increase of $0.5 million in election costs reimbursements for the cost of the FY 2014-15 consolidated General Election.

Property tax administration fees are expected to slowly keep recovering over the next few years, with an additional increase of $0.2 million expected in FY 2015-16. However, election cost reimbursements for the FY 2015-16 Primary Election will decrease by $0.5 million as this election is for State/Federal/County issues for which the County generally receives no reimbursement. These revenue impacts are projected to create an additional $0.4 million budget gap in FY 2015-16.

The on-going budget gap in the department will likely impact the Assessor division as this is the functional area with the greatest discretionary level of funding. Failure to adequately fund the Assessor function impacts the Assessor's ability to create and maintain the County's property tax roll which provides for most of the County's discretionary revenue.

**B. Tier 2 Fiscal Issues:**

| Tier 2 Issues: Probable occurrence within the next two fiscal years | | | | |
|---|---|---|---|---|
| | Issue | FY 2014-15 Impact | FY 2015-16 Additional Impact | Onetime or Ongoing |
| | | (in millions) | | |
| 11 | 2005 Emergency Storm Damage Repair Second FEMA Appeal – Audit Report | 1.1 | - | Onetime |
| 12 | ADMHS Cost Report Settlement Issues | 1.0 | - | Ongoing |
| 13 | Wireless Network Access (New) | 0.6 | 0.5 | Onetime |
| 14 | Deferred Maintenance Backlog | Unknown | Unknown | Ongoing |
| 15 | Salary and Staffing | Unknown | Unknown | Ongoing |
| 16 | Health Care Reform Act (ADMHS, PH & DSS) | Unknown | Unknown | Ongoing |
| | **Total** | **$ 2.7** | **$ 0.5** | |

**11. 2005 Emergency Storm Damage Repair Second FEMA Appeal – Audit Report**

The amount in dispute at this time is $1.7 million. The majority of the findings ($1.2 million) are related to purchasing procedures by Roads Division used during the storm. An additional finding ($0.5 million) is related to the amount of work Flood Control Division provided after the storm period.

Public Works has requested re-obligation of $1.1 million in road repairs supported by additional documentation. The California Legislative Counsel Bureau prepared an opinion supporting the County's position of the Road Commissioner's authority. The amount related to Flood Control work ($0.5 million) was not disputed and the Department will utilize existing fund balance to pay for the undisputed reimbursements. If the Roads Division appeal is unsuccessful, funding would need to be identified.

**12. ADMHS Cost Report Settlement Issues**

The County has liability exposure with each fiscal year's submitted cost report until the cost reports are audited by the State. In the County's Comprehensive Annual Financial Report (CAFR) ending June 30, 2013, the County currently estimates a potential liability exposure of up to $19.0 million for outstanding issues with the State dating back to FY 2006-07. The County has identified sources to pay all but $0.7 million of these liabilities. The Department will be preparing proposed budget revisions to address the $0.7 million in November 2013.

Based on the State's cost report filing process and long delay in the performance of audits, cost report settlements will continue to occur many years after costs have been incurred and reports submitted. ADMHS has improved its processes in an effort to reduce the magnitude of such settlements. Processes and staff were in place by FY 2009-10 and it is anticipated that settlements for FY 2010-11 and subsequent periods will not be as large as in prior years. In the FY 2013-15 Recommended Budget Policies, additional funding of the audit exception reserve was recommended to provide funding for such future State settlements and a strategy of adding $1 million per year to the audit exception reserve was adopted with the Fiscal Years 2014-16 Budget Development Policies. This policy will be reviewed annually until the audit liabilities are fully funded.

**13. Wireless Network Access**

The existing County wireless infrastructure requires a technology refresh. The County user community is demanding ubiquitous wireless coverage for the increased efficiency that mobile applications deliver. Providing universal coverage requires increasing the distribution and density of wireless access points (APs). Replacing existing wireless locations with upgraded components will cost $200,000. General Services-Information and Communications Technology (ICT) has $144,000 budgeted ($128,000 depreciated, $16,000 New Technologies) with the need for an additional $56,000. Expanded coverage to all major County campuses beyond the current infrastructure replacement would cost the County $1,080,000 ($70,000 of ICT costs and $1,010,000 to other departments). If a capital expansion funding source were available, ICT could purchase and depreciate the replacement and enhanced wireless infrastructure (core and APs) ensuring replacement funds for the entire wireless infrastructure in future refresh cycles.

**14. Deferred Maintenance Backlog**

The County has an increasing backlog of unmet maintenance needs for its public buildings, facilities, parks and road infrastructure; currently estimated to be $292 million. These deferred maintenance needs, if not addressed, will continue to increase at potentially accelerated rates.

The County is responsible for maintaining:

- 1,670 lane miles of roadways, adjacent bike lanes plus related traffic signs and signals, bridges, drainage culverts, sidewalks and curbs.
- 1.8 million square feet of floor space in 286 buildings, and
- 8,500 acres of park and open space as well as 90 miles of trails.

During the FY2014-18 Capital Improvement Program (CIP) process, presented in April 2013, General Services and Parks deferred maintenance needs were added to the CIP. Previously only Public works had included a comprehensive list of these needs in the CIP. In so doing, the County is focusing attention on its deferred maintenance and repair projects for public buildings, facilities, and unfunded preventive road infrastructure needs. At the June 2013 Budget Hearings, additional road infrastructure onetime funding of $2.0 million was appropriated to the Public Works department for the FY 2013-14 budget. The following table displays the Deferred Maintenance Backlog funding in the FY 2013-14 Adopted Budget.

**Maintenance Funding**
**FY 2013-14 Adopted**
**($'s in Millions)**

| | FY 2013-14 |
|---|---|
| **Public Works:** | |
| *Road Fund Contribution* | $ 3.0 |
| *General Fund Contribution to Roads* | 0.5 |
| *General Fund FY 2013-14 Onetime Contribution for Roads* | 2.0 |
| **Total Public Works** | $ 5.5 |
| **General Services:** | |
| *General Fund Contribution* | $ 1.2 |
| *General Services Maintenance Budget* | 1.0 |
| **Total General Services** | $ 2.2 |
| **Parks:** | |
| *General Fund Contribution* | $ 0.5 |
| *Parks Maintenance Budget* | 0.3 |
| **Total Parks** | $ 0.8 |
| **Total** | **$ 8.5** |

On June 4, 2013, the Board received a report that provided options, cost estimates and timelines for conducting a comprehensive assessment of the County facilities to identify the true cost of the deferred maintenance backlog for General Services and CSD-Parks. Following this presentation, the Board on October 15, 2013, approved a consultant contract for a facilities condition assessment and a 20 year asset management and maintenance plan. The consultant assessments and reports will be completed and presented to the Board in spring of 2014.

The table below displays the historic estimates of unfunded deferred maintenance needs identified by department. It is likely that the General Services and CSD-Parks figures will change as a result of the consultants Facilities Condition Assessment project which is currently underway.

**Historic Departmental Estimated Deferred Maintenance Backlog**
**As of March 29, 2013**
**($'s in Millions)**

| | FY 12-13 | FY 11-12 | FY 10-11 | FY 09-10 | FY 08-09 | FY 07-08 | FY 06-07 | FY 05-06 | FY 04-05 |
|---|---|---|---|---|---|---|---|---|---|
| **Public Works:** | | | | | | | | | |
| *Pavement* | $ 125.1 | $ 110.0 | $ 102.0 | $ 117.0 | $ 104.0 | $ 78.0 | $ 70.0 | $ 64.0 | $ 55.9 |
| *Concrete* | 38.0 | 32.0 | 40.0 | 39.0 | 42.0 | 25.0 | 22.0 | 20.0 | 16.0 |
| *Bridge Maintenance* | 54.0 | 45.0 | 46.0 | 36.0 | 35.0 | 20.0 | 18.0 | 19.0 | 22.5 |
| *Drainage* | 33.0 | 33.0 | 33.0 | 34.0 | 33.0 | 32.0 | 25.0 | 17.0 | 17.0 |
| **Total Public Works** | $ 250.1 | $ 220.0 | $ 221.0 | $ 226.0 | $ 214.0 | $ 155.0 | $ 135.0 | $ 120.0 | $ 111.4 |
| **General Services** | 35.2 | 28.0 | 28.0 | 26.0 | 24.0 | 14.0 | 14.0 | 13.0 | 12.0 |
| **Parks** | 6.9 | 6.9 | 3.9 | 2.6 | 3.2 | 3.8 | 4.0 | 4.0 | 4.1 |
| **Total** | **$ 292.2** | **$ 254.9** | **$ 252.9** | **$ 254.6** | **$ 241.2** | **$ 172.8** | **$ 153.0** | **$ 137.0** | **$ 127.5** |

### 15. Salary and Staffing

As indicated in last year's Fiscal Outlook Report, the savings from the concession agreements are projected to end in FY 2014-15, as the last concession elements expire. The savings achieved from staffing reductions and concessions in FY 2007-08 to 2012-13 of $17.0 million or 5.9% were critical to the County balancing its budgets for these periods and helped temper the rapidly increasing retirement costs during these years. As the concessions expire, salary costs, will revert to the prior base and are expected to increase in FYs 2013-15 as the freeze on wage increases is projected to be lifted.

The table below displays Countywide salaries and benefits, regular salaries (includes contractors on payroll) and Full Time Equivalents (FTEs) for the eight year period ending FY 2014-15. For comparative purposes, the additional staff authorized to support the implementation and administration of the Affordable Care Act (Federal and State funded) were omitted.

| ($'s in millions) | FY 2007-08 Actual | FY 2008-09 Actual | FY 2009-10 Actual | FY 2010-11 Actual | FY 2011-12 Actual | FY 2012-13 Actual | FY 2013-14 Adopted | FY 2014-15 Forecast |
|---|---|---|---|---|---|---|---|---|
| Total Salaries & Benefits* | $ 419.4 | $ 428.7 | $ 440.8 | $ 450.0 | $ 458.1 | $ 465.3 | $ 491.6 | $ 529.2 |
| $ Change | $ 30.9 | $ 9.3 | $ 12.1 | $ 9.2 | $ 8.1 | $ 7.2 | $ 26.3 | $ 37.6 |
| % Change | 8.0% | 2.2% | 2.8% | 2.1% | 1.8% | 1.6% | 5.7% | 7.6% |
| | | | | | | | | |
| Salaries* | $ 290.1 | $ 278.3 | $ 283.4 | $ 280.4 | $ 275.0 | $ 273.1 | $ 292.5 | $ 302.5 |
| $ Change | $ 26.9 | $ (11.7) | $ 5.1 | $ (3.0) | $ (5.4) | $ (1.9) | $ 19.4 | $ 10.0 |
| % Change | 10.2% | -4.0% | 1.8% | -1.1% | -1.9% | -0.7% | 7.1% | 3.4% |
| | | | | | | | | |
| FTEs~ | 4,337.0 | 4,208.0 | 4,150.0 | 4,060.0 | 3,847.0 | 3,876.0 | 3,919.0 | |
| # Change | 47.0 | (129.0) | (58.0) | (90.0) | (213.0) | 29.0 | 43.0 | |
| % Change | 1.1% | -3.0% | -1.4% | -2.2% | -5.2% | 0.8% | 1.1% | |

*** Includes regular salaries and contractors on payroll. FY 2013-14 and FY 2014-15 reduced by $8.7 million in Social Services staff added for the ACA and funded with Federal and State funds.**

**~ FY 2013-14 reduced by 77 FTEs in Social Services added for the ACA and funded with Federal and State funds.**

The above figures assume that the freeze on step increases will be lifted in FY 2013-14. The actual impact for FY 2014-15 is shown as unknown as certain union agreements are not completed. However, a 1% salary increase to all General Members (estimated at $214.5 million in salaries and benefits) would result in an estimated salary and benefit increase of approximately $2.5 million. These costs then add to the base and increase with future salary or benefit increases.

Also, salary savings have historically helped keep costs down and could reduce the figures displayed in FY 2013-14 and FY 2014-15 (for FY 2012-13, $9.0 million in salary savings were achieved compared to the Adopted Budget).

### 16. Health Care Reform Act (ADMHS, PH & DSS)

The Federal Patient Protection and Affordable Care Act (ACA), also referred to as **Health Care Reform,** was signed into law on March 23, 2010, and established comprehensive health insurance reforms that will roll out over several years with most changes taking place by 2014.

The major element of the ACA is the expansion of health coverage to individuals who were previously uninsured, including the expansion of Medicaid, the Federal health insurance for people with low incomes. The Medicaid expansion, which will take effect on January 1, 2014, will impact the Alcohol, Drug and Mental Health Services (ADMHS), Department of Social Services and the Public Health Departments, all of which provide enrollment, health services and substance abuse services to Medicaid, Medi-Cal and indigent beneficiaries.

The ACA presents many opportunities and challenges for these three county departments. These changes include the possibility of an increase in demand for services, and increased expenditures to provide for services. All three departments anticipate higher revenues correlated with the demand, as Federal funds will cover 100% of costs for the first three years, and 90% thereafter. However, sources of revenue to cover the future costs of providing services and funding for other programs not related to the ACA are uncertain at this time.

***Alcohol Drug and Mental Health:*** It is unknown what percentage of the clients ADMHS already serves are eligible for the Medicaid expansion, although the nature of the population receiving mental health services indicates the majority would be covered. The Department estimates the following newly eligible clients for the Alcohol and Drug Programs (ADP) in the range of 1,500 to 1,900 individuals in Santa Barbara County seeking substance abuse services. Estimates for newly eligible Medi-Cal Mental Health clients are between 1,100 to 1,400 seeking specialty mental health services. A significant share of costs for Medi-Cal covered residents under the expansion will now be covered through an increase in Federal funds to ADMHS. The essential benefit package remains the same for all Medi-Cal clients who receive mental health services and was expanded for all Medi-Cal clients who receive substance abuse services. As a result, ADMHS expects the demand for substance abuse services to increase, which in turn will require the expansion of programs and contracts to meet this need. The increased demand for specialty mental health services (which ADMHS is responsible to provide) related to the Medi-Cal expansion population is unknown at this time, as ADMHS currently provides services to a significant amount of indigent clients who will become part of the Medi-Cal expansion population. The increased demand for non-specialty mental health services will affect primary care providers and the managed care plan for Santa Barbara County (CenCal). ADMHS continues to work on estimating the specific impacts on service level needs and workforce needs for the department as it simultaneously undertakes changes to its systems of cares with the assistance of the Board of Supervisors-approved consultants.

***Department of Social Services (DSS):*** As a result of the Affordable Care Act it is estimated that an additional 36,000 individuals may become eligible for Medi-Cal coverage as a result of the new eligibility standards on January 1, 2014, causing a roughly 70% increase in caseloads from current levels. In September 2013, the Department received approval to add 53 new positions in anticipation of this influx of new clients, as well as improving operations to provide faster, more efficient services. The Department will continue to receive the same 100% funding for eligibility services as we currently receive under Medi-Cal. As January, 2014 approaches, DSS will continue to analyze the local impact and provide the Board with updated information

***Public Health Department (PHD):*** Counties are mandated by the State to provide healthcare to residents who are indigent or have limited ability to pay for health care services. The implementation of the ACA significantly alters the traditional role that counties fill in providing healthcare services to indigent adults, because of the benefits expansions – particularly the Medicaid expansion- that will now provide paid or subsidized coverage to the same population. Because the ACA provided these new options for healthcare for indigent and uninsured adults, the State intends to redirect every potential dollar of "county savings" to a State obligation, effective January 1, 2014. This will result in an ongoing loss of 1991 Health Realignment of approximately $7.3M annually starting in FY 14-15, which is described in Fiscal Issue "Public Health Loss of 1991 Realignment Revenue."

## III. PROJECTED BUDGET GAP & 5 YEAR FORECAST

To enable enhanced analysis, a 5 Year Forecast (the "Forecast") project was started this year. The purpose is to evaluate the impacts of various assumptions on the County's budget to allow for long term planning. A module was developed and added in the County's Financial Information Network (FIN) by the Auditor-Controller so that the extensive reporting capability of FIN could be utilized in analyzing the results. Assumptions were then developed and provided to the Departments for completion of the required data.

In prior reports, the Gap was calculated for the Discretionary portion of the General Fund (General Revenues vs. General Fund Contributions) only and did not show the entire County results. Activities in these other areas also impact the budget and are now projected at the Countywide, General Fund, Special Revenue Funds and Discretionary General Fund levels.

***The 5 Year Forecast includes general departmental assumptions (i.e. inflation) that are not necessarily listed in the FOR set of issues, but are imbedded in GAP.***

**Countywide Forecast – GAP**

| Tier 1 Issues: Year 1 GAP | | | | |
|---|---|---|---|---|
| | **Issue** | **FY 2014-15 Impact** | **Other Funds 52%** | **General Fund 48%** |
| | | **(in millions)** | | |
| 1A | Pension Fund Stability | $ 17.4 | $ 9.0 | $ 8.4 |
| 1B | Pension Administrative Costs (New)* | 4.0 | - | - |
| 2 | Public Health Loss of 1991 Realignment Funding (New) | 2.5 | 2.5 | - |
| 3 | Health insurance | 2.0 | 1.0 | 1.0 |
| 4 | ADMHS Inpatient System (New) | 1.4 | 1.4 | - |
| 5 | Northern Branch Jail Operations Funding (AB 900) | 1.3 | - | 1.3 |
| 6 | Workers' Compensation | 1.2 | 0.6 | 0.6 |
| 7 | ADMHS 2011 Realignment Revenue (New) | 1.1 | 1.1 | - |
| 8 | Retiree Healthcare OPEB | 0.7 | 0.4 | 0.3 |
| 9 | CREF Funding for P&D (New) | 0.4 | - | 0.4 |
| 10 | Assessor Funding Gap | 0.3 | - | 0.3 |
| | **Total** | **$ (32.3)** | **$ (16.1)** | **$ (12.2)** |
| | Change in Revenue | | | 9.3 |
| | Change in Other Financing (onetime ADMHS & Roads) | | | (7.4) |
| | Change in other expenditures | | | 2.4 |
| | **GF FY 2014-15 Gap per 5 Yr. Forecast** | | | **(7.9)** |
| | | | | |

*New item, not included in the 5 Year Forecast

The Countywide forecast projects a Gap for FY 2014-15 of $13.3 million and reflects estimated increases in Salaries and Benefits as concessions and wage freezes are set to expire (Fiscal Issue #15); combined with increased pension contribution rates as described in Fiscal Issue #1, Pension Fund Stability. Departments did not try to solve out of balance conditions through changes to staffing levels but did use available fund balances to help balance their funds. The General Fund is projected to recover in future years as pension contribution rates stabilize and General Revenues increase. The Special Revenue funds are projecting limited revenue growth based on uncertainties surrounding the implementation of the Affordable Care Act as described earlier in this report and other ongoing funding changes, such as limited growth or a decline in Realignment revenues. It should be noted that Departments regularly have significant salary savings, which have not been projected in the Forecast. Both the General Fund and Special Revenue funds are discussed in more detail later in this report.

The table below displays the projected Countywide Gap (or Net Financial Impact) by Fund Type and Fiscal Year. Special Revenue Funds include such funds as Roads, Public Health, Social Services, Mental Health and many others.

| ($ in millions)<br>Fund Type | FY 2013-14<br>Adopted | FY 2014-15<br>Forecast | FY 2015-16<br>Forecast | FY 2016-17<br>Forecast | FY 2017-18<br>Forecast | FY 2018-19<br>Forecast |
|---|---|---|---|---|---|---|
| **Net Financial Impact** | | | | | | |
| 01 -- General | $ (8.1) | $ (7.9) | $ (4.4) | $ 1.7 | $ 2.2 | $ 6.8 |
| 02 -- Special Revenue | (1.0) | (5.5) | (5.6) | (7.7) | (12.4) | (14.4) |
| 03 -- Debt Service | - | - | - | - | - | - |
| 04 -- Capital Projects | (1.9) | - | - | - | - | - |
| 05 -- Enterprise | - | - | - | - | - | - |
| 06 -- Internal Service | (3.0) | 0.1 | 0.4 | 0.9 | 1.1 | 1.6 |
| Net Financial Impact | $ (13.9) | $ (13.3) | $ (9.7) | $ (5.2) | $ (9.0) | $ (6.0) |

## GENERAL FUND SUMMARY

The table below displays the forecast of the General Fund:

| ($ in millions)<br>Object Level | FY 2013-14<br>Adopted | FY 2014-15<br>Forecast | FY 2015-16<br>Forecast | FY 2016-17<br>Forecast | FY 2017-18<br>Forecast | FY 2018-19<br>Forecast |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| 05 -- Taxes | 188.7 | 196.0 | 203.2 | 210.4 | 217.9 | 225.7 |
| 10 -- Licenses, Permits and Franchises | 12.9 | 13.3 | 13.6 | 13.8 | 14.2 | 14.4 |
| 15 -- Fines, Forfeitures, and Penalties | 4.7 | 4.2 | 4.2 | 4.3 | 4.5 | 4.6 |
| 20 -- Use of Money and Property | 2.2 | 2.2 | 2.2 | 2.3 | 2.3 | 2.3 |
| 25 -- Intergovernmental Revenue-State | 62.1 | 64.6 | 67.0 | 69.5 | 72.2 | 75.0 |
| 26 -- Intergovernmental Revenue-Federal | 4.5 | 3.6 | 3.6 | 3.6 | 3.6 | 3.7 |
| 27 -- Intergovernmental Revenue-Other | 0.8 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| 30 -- Charges for Services | 58.1 | 60.2 | 61.2 | 62.7 | 63.5 | 65.2 |
| 40 -- Other Financing Sources | 5.4 | 5.2 | 5.1 | 5.1 | 5.3 | 5.9 |
| 45 -- Miscellaneous Revenue | 3.9 | 3.1 | 2.5 | 2.5 | 2.5 | 2.6 |
| Revenues | 343.3 | 352.6 | 362.7 | 374.4 | 386.2 | 399.5 |
| **Expenditures** | | | | | | |
| 50 -- Salaries and Employee Benefits | 250.6 | 262.5 | 267.2 | 273.1 | 287.9 | 296.0 |
| 55 -- Services and Supplies | 43.2 | 42.6 | 43.1 | 43.8 | 44.5 | 48.2 |
| 60 -- Other Charges | 20.1 | 20.5 | 21.0 | 21.6 | 22.3 | 23.4 |
| 65 -- Capital Assets | 1.8 | 1.0 | 0.2 | 0.2 | 0.2 | 0.3 |
| 70 -- Other Financing Uses | 33.3 | 32.4 | 31.8 | 31.8 | 31.1 | 31.2 |
| Expenditures | 349.1 | 358.9 | 363.3 | 370.6 | 386.1 | 399.1 |
| **Other Financing** | | | | | | |
| Transfers In | 193.8 | 190.5 | 193.1 | 194.1 | 198.7 | 201.8 |
| Transfers Out | (193.8) | (190.6) | (193.1) | (194.2) | (198.8) | (201.9) |
| Change to Fund Balance | (2.3) | (1.6) | (3.8) | (2.0) | 2.2 | 6.5 |
| *Pro-forma Adj.-Close Unassigned FB** | 8.1 | - | - | - | - | - |
| Other Financing (Uses) | 5.8 | (1.6) | (3.8) | (2.1) | 2.1 | 6.4 |
| **Net Financial Impact** | 0.0 | (7.9) | (4.4) | 1.7 | 2.2 | 6.8 |

***Reflects transfer of FY 2012-13 year end unassigned Fund Balance to Strategic Reserve***

The above table reflects a current year deficit in FY 2014-15 of $7.9 million which improves and ultimately shows a positive balance of $6.8 million in FY 2018-19. The FY 2014-15 deficit is comprised of a $9.3 million (2.7%) increase in revenues, offset by a $9.8 million increase to expenditures (includes impacts of most Tier 1 issues) and a $7.4 million reduction in Other Financing Sources. These variances are described below.

### Revenues:

In recent years, deficits have been the result of a lack of revenue growth to match increasing expenses. The County has started to observe improvement in taxes and is estimating continued growth in revenue over the next five years as the housing market has stabilized and shown growth in the past year. The challenge of keeping pace with expenditures will remain, but the County will be in a better position if revenue growth continues as projected. Overall General Fund revenues are estimated to grow by $9.3 million (2.7%) in FY 2014-15, and a total of $56.2 million (16.4%) by year five of the forecast.

Fiscal Year 2012-13 witnessed a year-end property tax roll that came in significantly higher than projected and helped balance the County's operating budget. With this new growth in property taxes as a baseline, the County projects continued property tax growth over the next five years. The estimate is 4.0% per year, less the Fire Transfer, for a net growth rate of 3.0% per year of both Secured and Un-secured Property Taxes. Supplemental Property Tax revenue had an assumption of 10.0% per year. Property taxes are the largest component of tax revenue and help the County attain an estimate of $7.3 million (3.9%) more tax revenue in FY 2014-15. Taxes are expected to grow by $36.9 million in five years, which is 19.6% greater than the FY 2013-14 Adopted Budget. The projection of increased property tax revenues improves the County's outlook, but does not resolve all structural imbalances.

Intergovernmental Revenues (Federal, State and Other) are forecast to grow by $1.0 million (1.5%), in year one (FY 2014-15) and cumulatively to $11.5 million (17.1%) over the next five years. The other major component of the revenue growth is Charges for Services. Year one forecasts significant growth of $2.5 million (3.7%) that will increase to a total of $7.1 million (12.2%) over the next five years. The remaining balance of revenue is in Licenses, Permits and Franchises that are mostly offset by a decline in Miscellaneous Revenue.

**Expenditures and Other Financing:**
As in prior years, year one of the forecast (FY 2014-15) displays expenditures growing faster than revenues and creates a negative net financial position or gap. The gap in year one (FY 2014-15) is forecasted at -$7.9 million; improving to +$6.8 million in year five.

The largest cost increases in FY 2014-15 are in Salaries and Employee Benefits and are specified below. In addition, increases to the Maintenance of Effort (MOE) contribution for Special Revenue funds, Northern Branch Jail Operations funding and establishing additional Cost Settlement reserves for ADMHS are adding to the deficit position.

*Salaries & Benefits Up $12.5 million –*

> *Retirement* **-** As described in the Fiscal Issues, the FY 2014-15 budget will be significantly impacted by increased retirement costs. It is projected that the GF retirement increase will be $8.1 million.
>
> *Regular Salaries* **–** Also described in the Fiscal Issues was the elimination of concession and project inflation of salaries; this results in a forecast increase of $2.9 million.
>
> *Other S&B Costs* **–** The balance of the increase is primarily from Health Insurance, Workers' Compensation and OPEB; these total a $1.5 million.

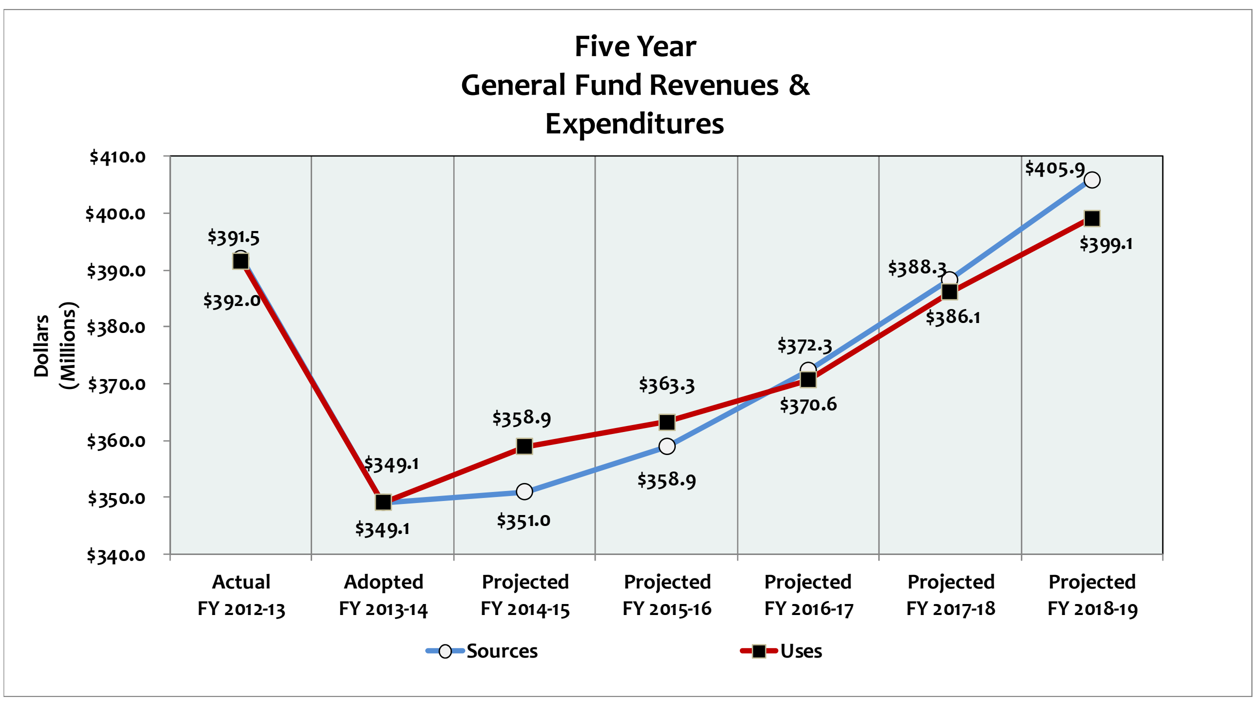
*Other Expenditures; Down $2.7 million* **–** Other expenditures do not display a significant variance; however, $6.4 million of the Other Financing Uses in FY 2013-14 were funded with existing fund balances which will not recur in FY 2014-15. This will add to the imbalance in FY 2014-15 and is described in Other Financing below.

*Other Financing; Down $7.4 million* – FY 2013-14 included use of Audit Exception reserves to fund $4.4 million in ADMHS liabilities and $2.0 million towards additional funding for Roads projects. In FY 2014-15, these items don't recur; however, the amount of Other Financing Uses remained approximately the same due to increased GFC for Maintenance of Effort (MOE) to Special Revenue Funds ($4.1 million) and increased funding for the North County Jail Operations Fund ($1.3 million) and funding to increase the ADMHS Cost Settlement Audit Exception reserve ($1.0 million). The new FY 2014-15 funding needs described above are forecast to be funded with General Revenues.

**General Fund Department Variances (Attachment A)**
To evaluate the General Fund changes by Department, we have included Attachment A, which displays this information. There are 22 GF Departments, 11 of which are forecasting a deficit balance in FY 2014-15, which increases to 15 out of 22 by FY 2018-19. Most of the Departments showing negative balances are the result of salary and benefit increases in FY 2014-15. General Fund contributions to these departments are adjusted for salary and benefit increases but other funding sources, such as Safety Realignment and Prop 172 may not increase sufficiently to balance these departments.

The General Fund Departmental deficits are offset in future forecast years by increases to General Revenues (Department #991); as General Fund Revenues are forecast to exceed the calculated Expenditures. The change from prior projections is primarily in the revenue growth and is related to the improved tax roll at June 30, 2013.

The General Fund revenue and expenditure chart has been historically identified as the Gap Chart and is shown below. You can see that the projected revenues slowly begin to outpace the calculated expenditures, but not without near term deficits.



**SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)**

*Projected deficits in the Special Revenue funds will ultimately not materialize as these funds are required to operate within their revenue sources.*

| ($ in millions) Fund | FY 2013-14 Adopted | FY 2014-15 Forecast | FY 2015-16 Forecast | FY 2016-17 Forecast | FY 2017-18 Forecast | FY 2018-19 Forecast |
|---|---|---|---|---|---|---|
| All Other Special Rev Funds | $ (2.7) | $ (0.2) | $ (0.2) | $ (0.4) | $ (0.5) | $ (0.6) |
| 0015 -- Roads-Operations | - | - | - | - | (2.6) | (3.1) |
| 0042 -- Health Care | - | (2.6) | (2.0) | (2.3) | (3.0) | (3.6) |
| 0044 -- Mental Health Services | 3.0 | (2.4) | (2.8) | (2.9) | (3.5) | (3.7) |
| 0055 -- Social Services | (1.3) | - | - | (1.4) | (1.8) | (2.2) |
| 0057 -- Child Support Services | - | (0.5) | (0.6) | (0.7) | (1.0) | (1.2) |
| Net Financial Impacts | $ (1.0) | $ (5.6) | $ (5.6) | $ (7.7) | $ (12.4) | $ (14.4) |

The majority of funds (56 out of 63) are projecting essentially balanced budgets (<$100,000 negative variance). There were five funds that have projected challenges that will be described below.

*Roads-Operations Fund*

The fund is revealing a deficit of $2.6 million and $3.1 million in years four and five respectively, due to forecasted operating costs continuing to increase at a greater rate than revenues. The primary driver of the deficits are Salary and Benefits outpacing State Highway User Tax Account (HUTA) gas tax and local Measure “A” sales tax revenue. These main Roads-Operations Fund revenue sources are not projected to increase at a rate that allows operations and capital maintenance to continue at previous levels. Any projected deficits will ultimately not materialize and expenditures will be balanced based on revenues received, but the fund will require additional revenue or expenditure efficiencies in order to maintain current service levels in the future.

*Health Care*

With the passage of the Governor’s 2013 Budget (AB 85), the redirection of 1991 Health Realignment became a reality and is set to commence with the implementation of the ACA on January 1, 2014. The Public Health Department (PHD) projects that there will be a fiscal impact of approximately $2.5 million for the next two fiscal years and approximately $3.0 million ongoing in following fiscal years on the Health Care Fund.

In response, the PHD is in the process of developing and implementing financial alternatives to try to maximize the opportunities under the ACA to sustain and increase Medi-Cal revenues to help offset the loss of 1991 Health Realignment. In addition, the PHD will be looking for new ways of providing services through community partnerships, making aggressive outreach and enrollment efforts to get patients connected to a funding source, educating newly enrolled patients to have them seek care early and in the county setting, and proposing changes to its indigent health services program to encourage individuals to avail themselves of the new opportunities through the ACA.

*Mental Health Services Fund*
The primary drivers of the deficits in this fund are due to the fiscal issues of decreased 2011 Realignment Revenue and Increased Inpatient costs. The fund anticipates receiving less realignment revenue by $1.1 million per year. Realignment revenue is a significant funding source at about 38.7% of all sources. The fund will be additionally impacted by increasing Inpatient costs that are projected to impact the budget by $1.4 million annually. Furthermore, the fund has no projected Fund Balance remaining after FY 2013-14.

Although the current forecast shows an impending problem, the fund has many unknowns in the next five years. Federal and State grant funding could change, as well as Medi-Cal related revenues. Much of the lack of clarity is a result of uncertainties surrounding implementation of the Affordable Care Act. In addition, ADMHS is making significant changes to its systems of care as it provides client-centered integrated services. ADMHS will be returning to the BOS with the FY 2014-15 MHSA Plan Update in March 2014, which could impact the client-centered integrated services approach and funding options. The fund has included modest inflation assumptions to expenditures.

*Social Services*
The Fund is showing a gap of $1.4 million starting in FY 2016-17 and growing to $2.2 million in FY 2018-19. This is mainly a result of increasing costs in salaries and benefits that are beyond what is reimbursable/claimable from State and Federal Sources (CalWORKs, CalFresh, and Child Welfare). Beginning in FY 2016-17, it is projected that the Fund Balance will be insufficient to continue to financing ongoing operations. The Department does not anticipate any further increase in funding beyond basic caseload growth in Realignment Revenues. It is important to note that the recent staffing increases in support of ACA and the Medi-Cal expansion will not be a significant cause of the anticipated gap since there are non-county revenues available to fully fund those positions.

*Child Support Services Fund*
The fund is displaying a significant deficit of $2.2 million by year five due to assumed Salary and Benefit growth of 2.0% year over year while Federal and State Revenues are expected to stay flat. Historical revenue trends have indicated fluctuations in grant dollars, but no real growth. Child Support is funded directly from grants and therefore can only provide services that the funding will finance. Any projected deficits will ultimately not materialize, but the Fund will require additional revenue or expenditure efficiencies in order to maintain current service levels.

**Final Comments:**

The 5 Year Forecast is just that, a forecast. The Tier 1 Fiscal Issues are expected to happen within the next two fiscal years, but the projections beyond these issues are imprecise. This report serves as a guide to foreshadow possible hurdles that may appear before 2019. With this understanding in mind, the document operates as a strategic financial tool. Answers to the fiscal questions are not suggested here, but will be worked out in each year's budget development process.

The County currently estimates that FY 2014-15 will have a General Fund deficit of -$7.9 million, but if revenues continue to grow and County expenses are able to be limited then there may be a surplus of $6.8 million in five years. Review of near term fiscal issues in concert with the 5 Year Forecast illustrates that assumed Salary and Benefit increases with limited departmental revenue growth are the major components of the 5 Year Forecast. Continued cost control and full cost recovery will be important elements in achieving future structurally balanced budgets. In addition, the Affordable Care Act is a large unknown for the Health Services departments. Lastly, the Special Revenue funds have structural issues that will require solutions.

The Fiscal Years 2014-15 edition of the Fiscal Outlook Report is a culmination of countywide commitment and teamwork to assimilate a multiyear outlook. Even though there are still issues to be resolved and fiscal uncertainties to navigate, the County is in a better position than it has been for the better part of the past decade as departments and employees have delivered beyond expectations. Such determination and dedication to the community will continue during and beyond this forecast.

# County of Santa Barbara 5-Yr Forecast



***Sources and Uses - By Fund Type***

| Source/Use ($ in millions) | FY 2013-14 Adopted | FY 2014-15 Forecast | FY 2015-16 Forecast | FY 2016-17 Forecast | FY 2017-18 Forecast | FY 2018-19 Forecast |
|---|---|---|---|---|---|---|
| **Fund Type 01 -- General** | | | | | | |
| S -- Source of Funds | $ 553.9 | $ 551.8 | $ 563.7 | $ 578.7 | $ 600.8 | $ 623.2 |
| U -- Use of Funds | 561.9 | 559.7 | 568.2 | 577.1 | 598.5 | 616.4 |
| General | $ (8.1) | $ (7.9) | $ (4.4) | $ 1.7 | $ 2.2 | $ 6.8 |
| **Fund Type 02 -- Special Revenue** | | | | | | |
| S -- Source of Funds | $ 523.7 | $ 489.8 | $ 503.6 | $ 502.5 | $ 493.2 | $ 506.3 |
| U -- Use of Funds | 524.6 | 495.3 | 509.2 | 510.2 | 505.6 | 520.7 |
| Special Revenue | $ (1.0) | $ (5.5) | $ (5.6) | $ (7.7) | $ (12.4) | $ (14.4) |
| **Fund Type 03 -- Debt Service** | | | | | | |
| S -- Source of Funds | $ 7.1 | $ 6.6 | $ 6.5 | $ 6.5 | $ 6.4 | $ 6.4 |
| U -- Use of Funds | 7.1 | 6.6 | 6.5 | 6.5 | 6.4 | 6.4 |
| Debt Service | $ - | $ - | $ - | $ - | $ - | $ - |
| **Fund Type 04 -- Capital Projects** | | | | | | |
| S -- Source of Funds | $ 9.2 | $ 5.4 | $ 3.3 | $ 3.2 | $ 3.2 | $ 3.2 |
| U -- Use of Funds | 11.1 | 5.4 | 3.3 | 3.2 | 3.2 | 3.2 |
| Capital Projects | $ (1.9) | $ - | $ - | $ - | $ - | $ - |
| **Fund Type 05 -- Enterprise** | | | | | | |
| S -- Source of Funds | $ 42.3 | $ 39.8 | $ 47.6 | $ 55.9 | $ 43.6 | $ 44.4 |
| U -- Use of Funds | 42.3 | 39.8 | 47.6 | 55.9 | 43.6 | 44.4 |
| Enterprise | $ - | $ - | $ - | $ - | $ - | $ - |
| **Fund Type 06 -- Internal Service** | | | | | | |
| S -- Source of Funds | $ 66.2 | $ 61.8 | $ 63.0 | $ 64.5 | $ 64.9 | $ 66.5 |
| U -- Use of Funds | 69.2 | 61.7 | 62.6 | 63.6 | 63.8 | 64.8 |
| Internal Service | $ (3.0) | $ 0.1 | $ 0.4 | $ 0.9 | $ 1.1 | $ 1.6 |
| Net Financial Impact | $ (13.9) | $ (13.3) | $ (9.7) | $ (5.2) | $ (9.0) | $ (6.0) |

Note: Totals may include rounding differences.

# County of Santa Barbara 5-Yr Forecast

*Net Financial Impact -All Funds*



| Fund ($ In Millions) | FY 2013-14 Adopted | FY 2014-15 Forecast | FY 2015-16 Forecast | FY 2016-17 Forecast | FY 2017-18 Forecast | FY 2018-19 Forecast |
|---|---|---|---|---|---|---|
| **Fund Type 01 -- General** | | | | | | |
| 0001 -- General | $ (8.1) | $ (7.9) | $ (4.4) | $ 1.7 | $ 2.2 | $ 6.8 |
| | | | | | | |
| **Fund Type 02 -- Special Revenue** | | | | | | |
| 0010 -- First 5 Child & Families Comm | $ 0.1 | $ - | $ - | $ - | $ - | $ - |
| 0015 -- Roads-Operations | - | - | - | - | (2.6) | (3.1) |
| 0016 -- Roads-Capital Maintenance | - | - | - | - | - | - |
| 0017 -- Roads-Capital Infrastructure | - | - | - | - | - | - |
| 0019 -- Roads-Alternative Transport | - | - | - | - | - | - |
| 0040 -- Public and Educational Access | - | - | - | - | - | - |
| 0041 -- Fish and Game | - | - | - | - | - | - |
| 0042 -- Health Care | - | (2.6) | (2.0) | (2.3) | (3.0) | (3.6) |
| 0044 -- Mental Health Services | 3.0 | (2.4) | (2.8) | (2.9) | (3.5) | (3.7) |
| 0045 -- Petroleum Department | (0.1) | - | - | - | - | - |
| 0046 -- Tobacco Settlement | - | - | - | - | - | - |
| 0047 -- Substance Abuse & Crime Prev | - | - | - | - | - | - |
| 0048 -- Mental Health Services Act | - | - | - | - | - | - |
| 0049 -- Alcohol and Drug Programs | (0.2) | - | - | - | - | - |
| 0052 -- Special Aviation | - | - | - | - | - | - |
| 0055 -- Social Services | (1.3) | - | - | (1.4) | (1.8) | (2.2) |
| 0056 -- SB IHSS Public Authority | (0.3) | - | - | - | - | - |
| 0057 -- Child Support Services | - | (0.5) | (0.6) | (0.7) | (1.0) | (1.2) |
| 0058 -- ARRA-WIA | - | - | - | - | - | - |
| 0061 -- Fisheries Enhancement | - | - | - | - | - | - |
| 0062 -- Local Fishermen Contingency | - | - | - | - | - | - |
| 0063 -- Coast Resource Enhancement | - | - | - | - | - | - |
| 0064 -- CDBG Federal | - | - | - | - | - | - |
| 0065 -- Affordable Housing | - | (0.1) | (0.2) | (0.3) | (0.3) | (0.3) |
| 0066 -- HOME Program | (0.2) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| 0069 -- Court Activities | - | - | - | - | - | - |
| 0070 -- Crim Justice Facility Constrt | - | - | - | (0.1) | (0.1) | (0.1) |
| 0071 -- Courthouse Construction SB668 | - | - | - | - | - | - |
| 0075 -- Inmate Welfare | (0.1) | - | - | - | - | - |
| 1940 -- Municipal Energy Finance Prog | (0.1) | - | - | - | - | - |
| 2120 -- CSA 3 Unincorp Goleta Valley | - | - | - | - | - | - |
| 2130 -- CSA 4 | - | - | - | - | - | - |
| 2140 -- CSA 5 | - | - | - | - | - | - |
| 2170 -- CSA 11 Carp Valley/Summerland | - | - | - | - | - | - |
| 2185 -- CSA 12 Mission Cyn Swr Svc Chg | - | - | - | - | - | - |
| 2220 -- CSA 31 Isla Vista | - | - | - | - | - | - |
| 2242 -- CSA 41 Rancho SantaRita-Rd Mtc | - | - | - | - | - | - |
| 2270 -- Orcutt CFD | - | - | - | - | - | - |
| 2271 -- Providence Landing CFD | (0.1) | - | - | - | - | - |
| 2280 -- Fire Protection Dist | (1.7) | - | - | - | - | - |

*Net Financial Impact -All Funds*

| Fund ($ In Millions) | FY 2013-14 Adopted | FY 2014-15 Forecast | FY 2015-16 Forecast | FY 2016-17 Forecast | FY 2017-18 Forecast | FY 2018-19 Forecast |
|---|---|---|---|---|---|---|
| **Fund Type 02 -- Special Revenue - Continued** | | | | | | |
| 2400 -- Flood Ctrl/Wtr Cons Dst Mt | - | - | - | - | - | - |
| 2420 -- SBFC Orcutt Area Drainage | - | - | - | - | - | - |
| 2430 -- Bradley Flood Zone Number 3 | - | - | - | - | - | - |
| 2460 -- Guadalupe Flood Zone Number 3 | - | - | - | - | - | - |
| 2470 -- Lompoc City Flood Zone 2 | - | - | - | - | - | - |
| 2480 -- Lompoc Valley Flood Zone 2 | - | - | - | - | - | - |
| 2500 -- Los Alamos Flood Zone Number 1 | - | - | - | - | - | - |
| 2510 -- Orcutt Flood Zone Number 3 | - | - | - | - | - | - |
| 2560 -- SM Flood Zone 3 | - | - | - | - | - | - |
| 2570 -- SM River Levee Maint Zone | - | - | - | - | - | - |
| 2590 -- Santa Ynez Flood Zone Number 1 | - | - | - | - | - | - |
| 2610 -- So Coast Flood Zone 2 | - | - | - | - | - | - |
| 2670 -- North County Lighting Dist | - | - | - | - | - | - |
| 2700 -- Mission Lighting District | - | - | - | - | - | - |
| 3000 -- Sandyland Seawall Maint Dist | - | - | - | - | - | - |
| 3050 -- Water Agency | - | - | - | - | - | - |
| 3060 -- Water Agency Special | - | - | - | - | (0.1) | (0.2) |
| 3100 -- SB RDA - Isla Vista Proj | - | - | - | - | - | - |
| 3102 -- SB RDA Housing-Isla Vista Proj | - | - | - | - | - | - |
| 3107 -- SB RDA - Projects | - | - | - | - | - | - |
| 3120 -- RDA Successor AgencyOperations | - | - | - | - | - | - |
| 3122 -- RDA Successor Agency Housing | - | - | - | - | - | - |
| 3127 -- RDA Successor Agency Projects | - | - | - | - | - | - |
| Special Revenue | $ (1.0) | $ (5.5) | $ (5.6) | $ (7.7) | $ (12.4) | $ (14.4) |
| **Fund Type 03 -- Debt Service** | | | | | | |
| 0036 -- Municipal Finance Debt Svc | $ - | $ - | $ - | $ - | $ - | $ - |
| 0037 -- RDA Successor Agency Debt | - | - | - | - | - | - |
| 3104 -- SB RDA - 2008 Loan | - | - | - | - | - | - |
| Debt Service | $ - | $ - | $ - | $ - | $ - | $ - |
| **Fund Type 04 -- Capital Projects** | | | | | | |
| 0030 -- Capital Outlay | $ (1.0) | $ - | $ - | $ - | $ - | $ - |
| 0031 -- Parks Dept Capital Projects | (0.9) | - | - | - | - | - |
| 0032 -- Sheriff Capital Projects-Jail | - | - | - | - | - | - |
| 0034 -- 2005 COP Capital Projects | - | - | - | - | - | - |
| Capital Projects | $ (1.9) | $ - | $ - | $ - | $ - | $ - |
| **Fund Type 05 -- Enterprise** | | | | | | |
| 1930 -- Resource Recovery & Waste Mgt | $ - | $ - | $ - | $ - | $ - | $ - |
| 2870 -- Laguna Co Sanitation-General | - | - | - | - | - | - |
| Enterprise | $ - | $ - | $ - | $ - | $ - | $ - |

| Fund ($ In Millions) | FY 2013-14 Adopted | FY 2014-15 Forecast | FY 2015-16 Forecast | FY 2016-17 Forecast | FY 2017-18 Forecast | FY 2018-19 Forecast |
|---|---|---|---|---|---|---|
| **Fund Type 06 -- Internal Service** | | | | | | |
| 1900 -- Vehicle Operations/Maintenance | $ - | $ (0.1) | $ 0.1 | $ 0.4 | $ 0.7 | $ 1.0 |
| 1910 -- Medical Malpratice Self Ins | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| 1911 -- Workers' Comp Self Insurance | (2.0) | - | - | - | - | - |
| 1912 -- County Liability-Self Insuranc | (0.8) | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| 1913 -- County Unemp Ins-Self Ins | - | - | - | - | - | - |
| 1914 -- Dental Self-Insurance Fund | - | - | - | - | - | - |
| 1915 -- Information Technology Srvcs | - | (0.2) | - | 0.1 | 0.2 | 0.3 |
| 1919 -- Communications Services-ISF | (0.1) | (0.2) | (0.4) | (0.3) | (0.5) | (0.4) |
| 1920 -- Utilities ISF | - | - | - | - | - | - |
| 1921 -- Reprographics & Digital Svcs | - | - | - | - | - | - |
| Internal Service | $ (3.0) | $ 0.1 | $ 0.4 | $ 0.9 | $ 1.1 | $ 1.6 |
| Net Financial Impact | $ (13.9) | $ (13.3) | $ (9.7) | $ (5.2) | $ (9.0) | $ (6.0) |

Note: Totals may include rounding differences.

# County of Santa Barbara 5-Yr Forecast

*GF Dept. Net Financial Impact's*



| Department ($ in millions) | FY 2013-14 Adopted | FY 2014-15 Forecast | FY 2015-16 Forecast | FY 2016-17 Forecast | FY 2017-18 Forecast | FY 2018-19 Forecast |
|---|---|---|---|---|---|---|
| 011 -- Board of Supervisors | $ - | $ - | $ - | $ - | $ - | $ - |
| 012 -- County Executive Office | - | - | - | - | - | - |
| 013 -- County Counsel | - | (0.5) | (0.4) | (0.3) | (0.3) | (0.3) |
| 021 -- District Attorney | - | - | - | - | (0.5) | (0.6) |
| 022 -- Probation | - | (0.6) | (0.6) | (0.6) | (0.8) | (0.9) |
| 023 -- Public Defender | - | - | (0.2) | (0.2) | (0.2) | (0.2) |
| 032 -- Sheriff | - | (1.0) | (1.2) | (1.5) | (2.0) | (2.4) |
| 041 -- Public Health | - | - | - | (0.1) | - | (0.1) |
| 051 -- Agricultural Commissioner/W&M | - | (0.2) | (0.3) | (0.4) | (0.4) | (0.3) |
| 052 -- Parks | - | (0.3) | (0.4) | (0.5) | (0.7) | (0.8) |
| 053 -- Planning & Development | - | (0.4) | (0.4) | (0.5) | (0.5) | (0.5) |
| 054 -- Public Works | - | - | - | - | - | - |
| 055 -- Housing/Community Development | - | (0.1) | (0.2) | (0.2) | (0.2) | (0.3) |
| 057 -- Community Services | - | - | - | - | - | - |
| 061 -- Auditor-Controller | - | (0.5) | (0.3) | (0.4) | (0.4) | (0.5) |
| 062 -- Clerk-Recorder-Assessor | - | (0.3) | (0.7) | (0.2) | (0.8) | (0.2) |
| 063 -- General Services | - | (1.0) | (1.1) | (1.2) | (1.4) | (1.5) |
| 064 -- Human Resources | - | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| 065 -- Treasurer-Tax Collector-Public | - | (0.1) | (0.2) | (0.3) | (0.4) | (0.4) |
| 990 -- General County Programs | - | - | - | - | - | - |
| 991 -- General Revenues | (8.1) | (2.8) | 1.7 | 8.1 | 11.1 | 16.1 |
| 992 -- Debt Service | - | - | - | - | - | - |
| Net Financial Impact | $ (8.1) | $ (7.9) | $ (4.4) | $ 1.7 | $ 2.2 | $ 6.8 |

Note: Totals may include rounding differences.