

FISCAL YEAR 2025-26

# 5-YEAR FORECAST & BUDGET DEVELOPMENT POLICIES

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Board of Supervisors  
January 7, 2025

County Executive Office



one  
COUNTY  
one  
FUTURE

# TODAY'S REPORT

- Budget Development Timeline
- General Fund Five-Year Forecast
- Fiscal Issues Under Review
- New Budget Development Policies
- Board Budget Priorities Discussion



# BIG PICTURE

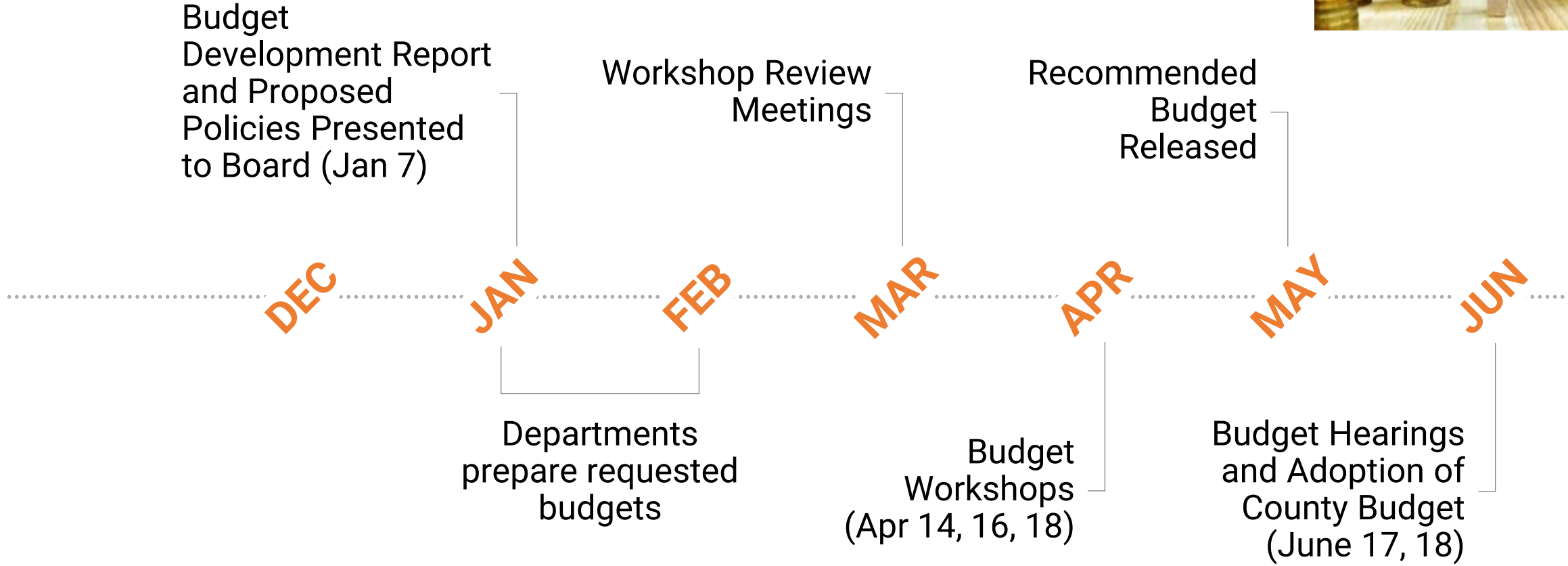
- To date, we have managed our resources with prudence and set-aside ongoing excess revenue to assist with future deficits. Allows continuity of service, employee stability and achieving Board's highest goals.
- Today, we are spending more than our revenues; the ongoing set-aside reserves have balanced our budget but will only last another year or two.
- These are the largest deficits we have seen in our forecast in many years.
- We are not alone; others are facing similar issues with more immediate deficits as high costs outpace revenues.
- We are planning a status quo budget for next year, but departments need to be thinking now about more efficiencies and cost reductions.

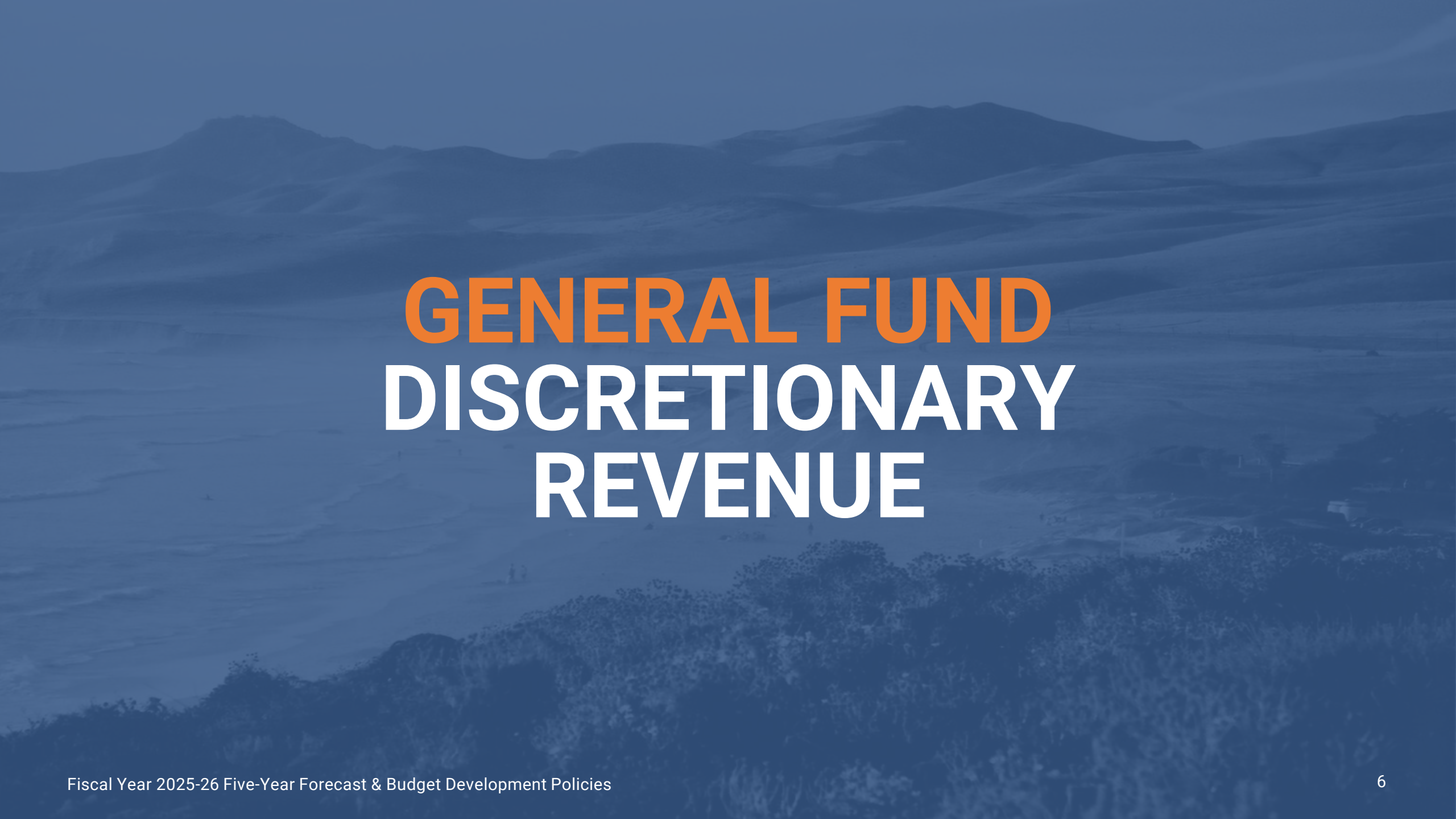
# PURPOSE OF THE FORECAST

- Provides context for balancing short-term and long-term goals during development of the FY 2025-26 budget
- Identifies potential demands on County resources in the coming years
- Identifies key areas that will need attention when preparing the FY 2025-26 budget
- Forecasts major budgetary components including discretionary revenue and labor costs
- Primary focus on General Fund with some fiscal issues in other major County funds included



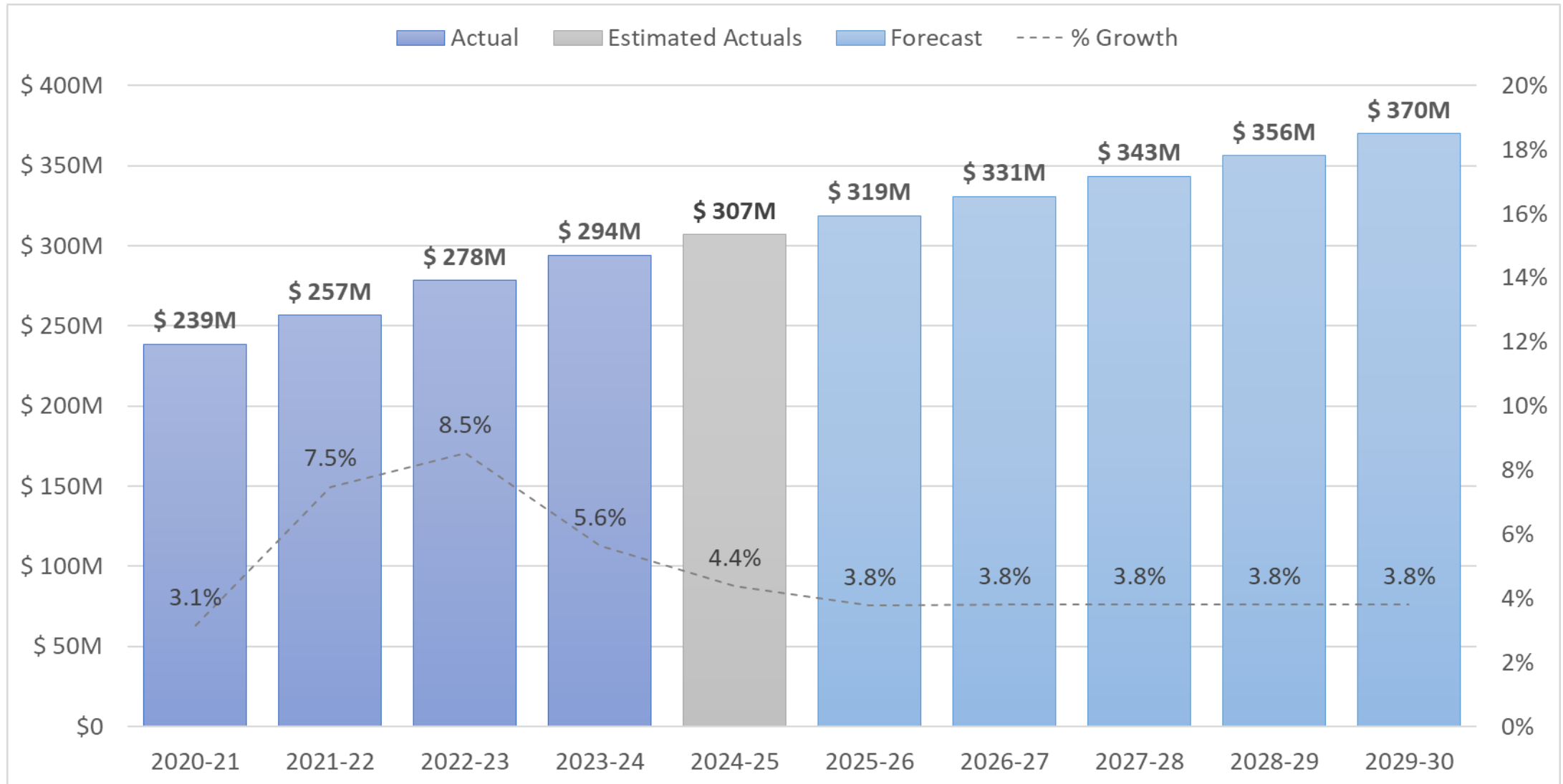
# Budget Development Timeline





# **GENERAL FUND** **DISCRETIONARY** **REVENUE**

# Property Tax growth estimated to slow driven by a decrease in volume of property transfers

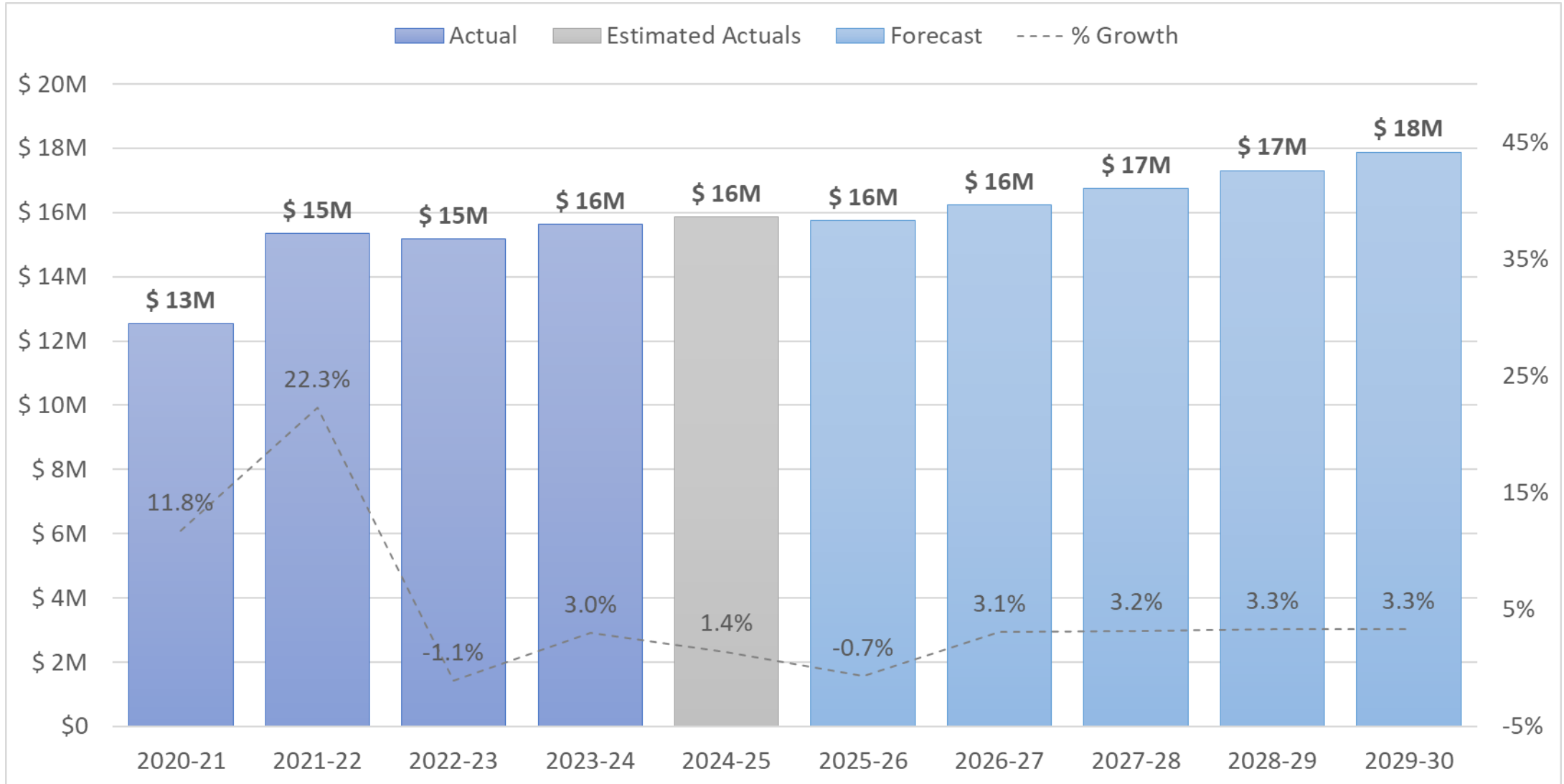


# Transient Occupancy Tax (TOT) revenue estimated to grow due to increase in the tax rate before slowing

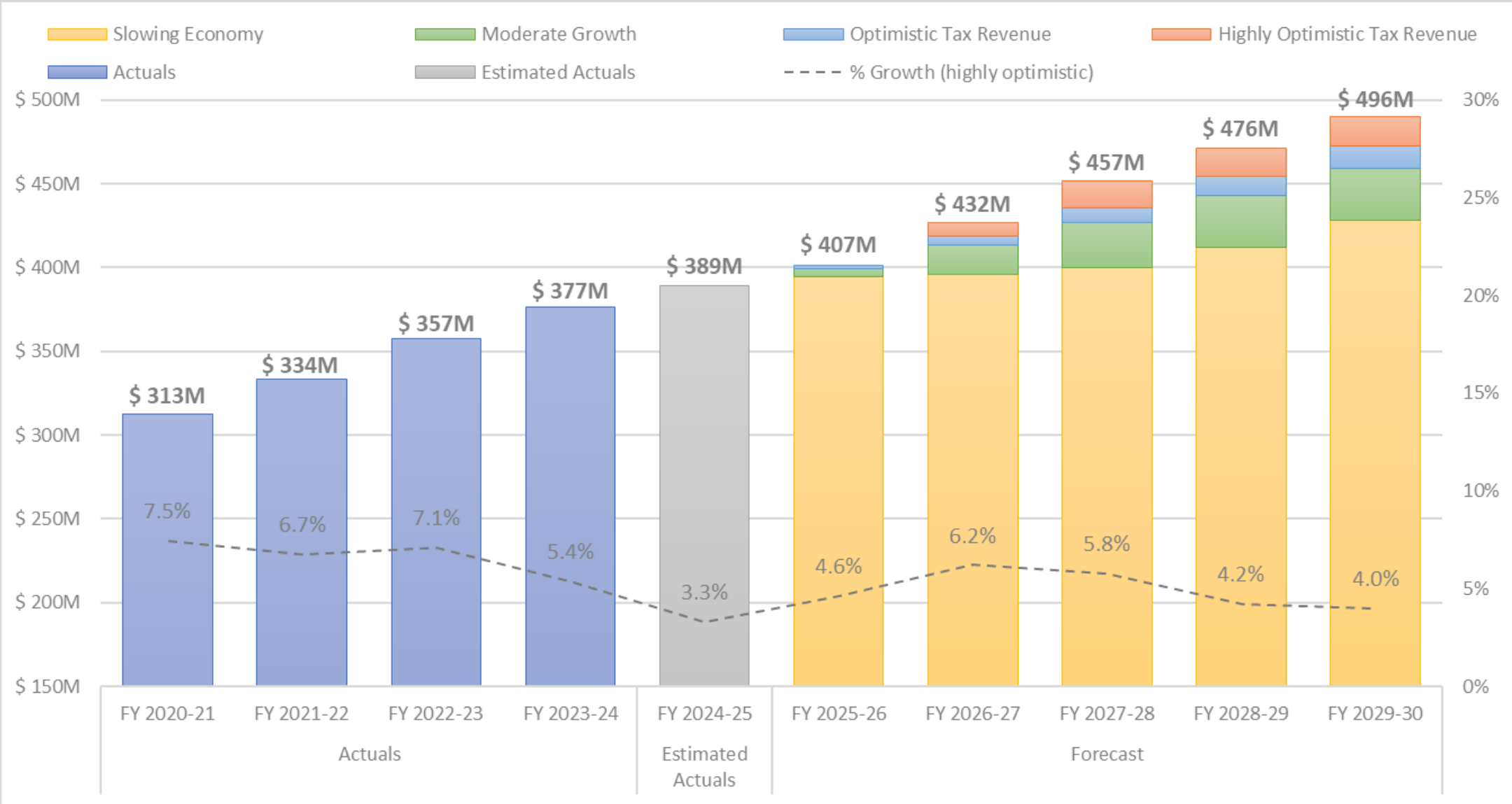




# Local Sales Tax revenue growth slows to an average of 2.4% per year due to economic uncertainty



# Moderate discretionary revenue growth the likely scenario

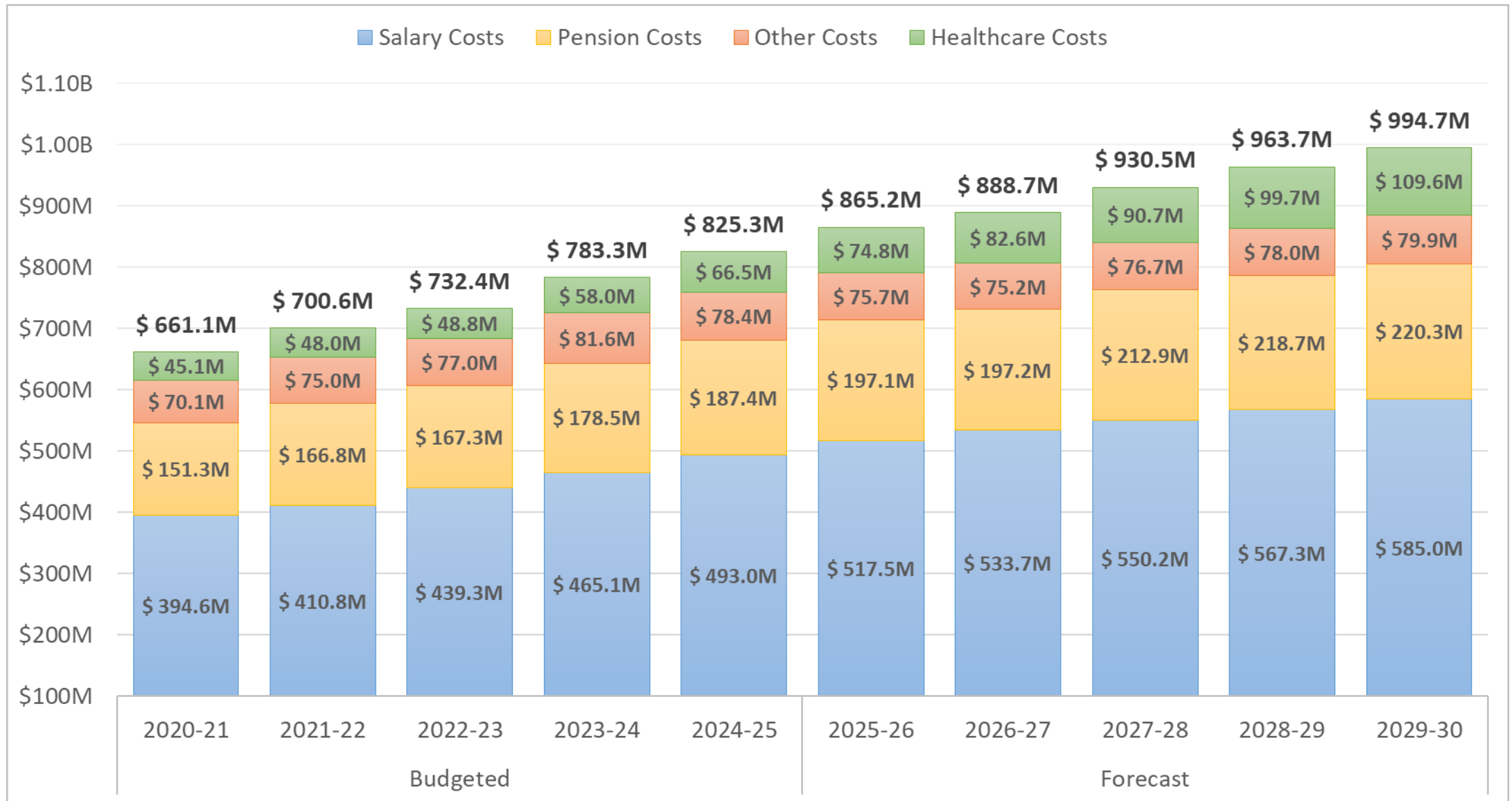




# COUNTYWIDE SALARY AND BENEFIT COSTS



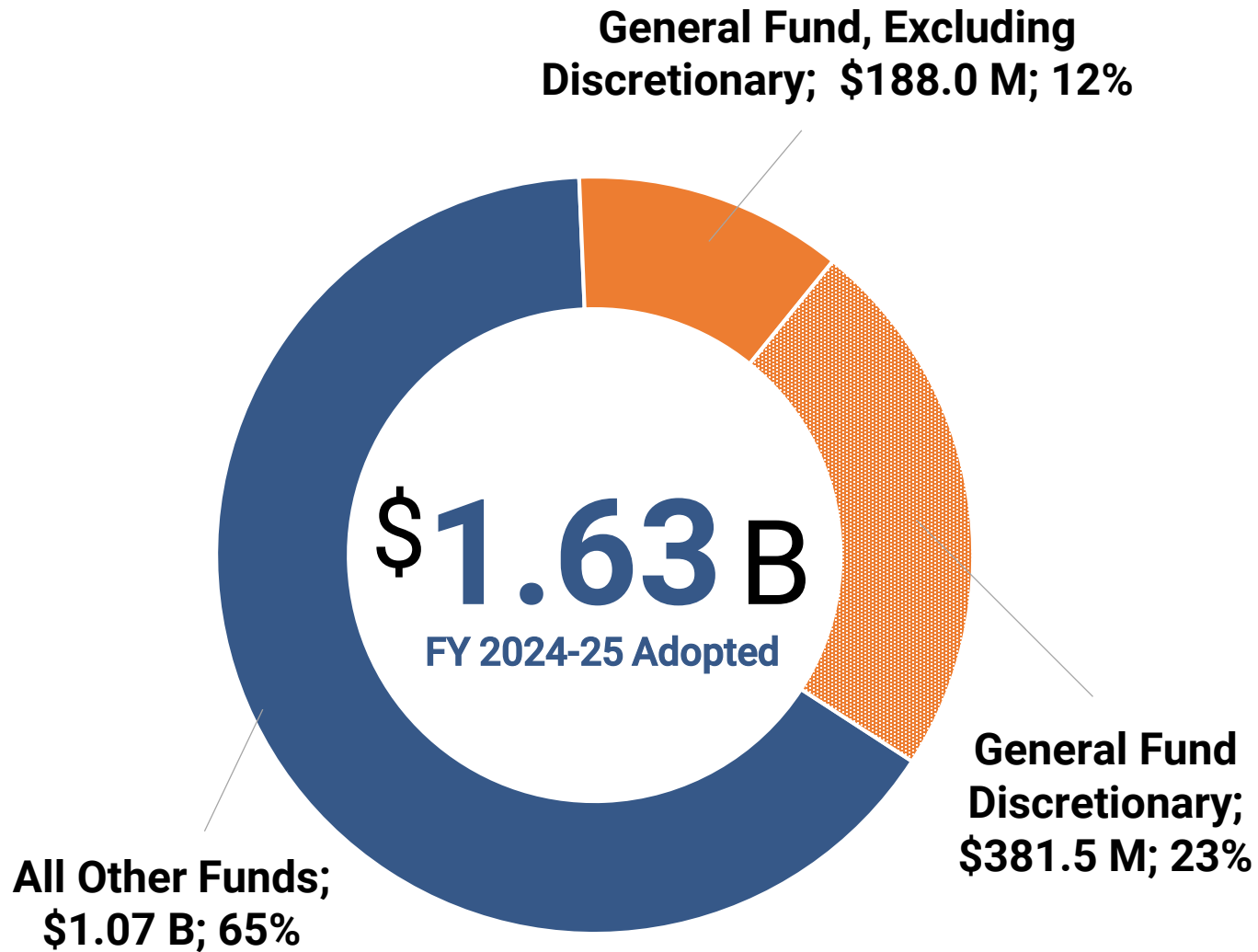
# Salary and benefit growth lower than prior years *if* salary increases around 3%





# **GENERAL FUND** **FIVE-YEAR** **FINANCIAL** **FORECAST**

# General Fund Context – Operating Revenues



- General Fund operating revenues about 35% of Countywide revenue
- Discretionary revenue about two-thirds of General Fund total; 23% of Countywide revenue
- Forecast focuses on discretionary piece
- Other revenues worked on by departments during upcoming budget development



# Five-Year Financial Forecast, Incremental Growth in General Fund

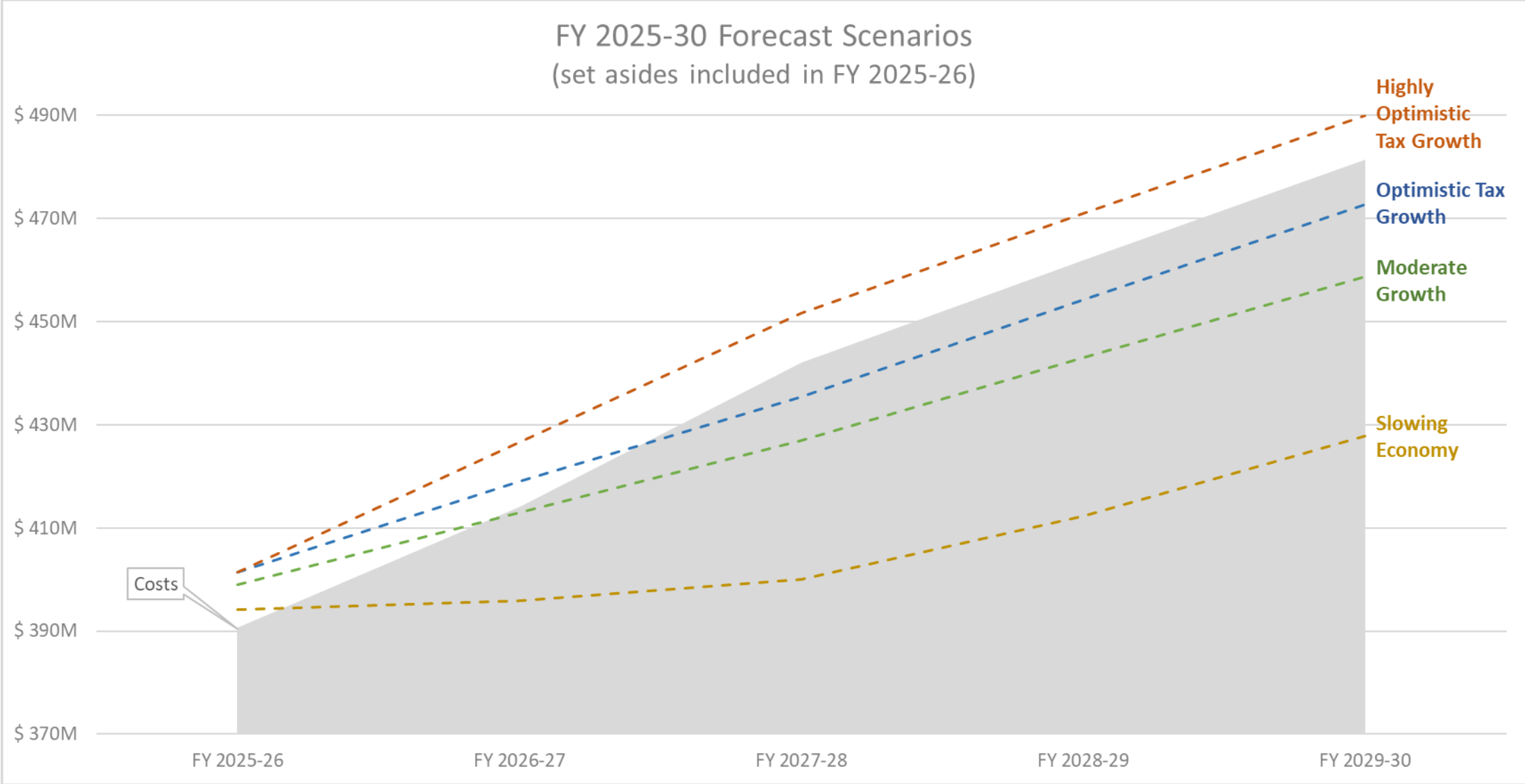
<b>Ongoing Revenue Sources:</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>FY 2029-30</b>
<b>Discretionary Revenue (moderate growth)</b>	<b>\$ 23,669,300</b>	<b>\$ 14,011,800</b>	<b>\$ 13,873,700</b>	<b>\$ 16,153,700</b>	<b>\$ 15,700,100</b>
<b>Ongoing Set Asides</b>	<b>\$ 6,562,230</b>	<b>\$ 8,431,670</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<i>Release Jail Medical Set Aside</i>	<i>1,300,000</i>				
<i>Release Other Prior Year Set Aside</i>	<i>5,262,230</i>	<i>8,431,670</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Total Revenue Change</b>	<b>\$ 30,231,530</b>	<b>\$ 22,443,470</b>	<b>\$ 13,873,700</b>	<b>\$ 16,153,700</b>	<b>\$ 15,700,100</b>

<b>Ongoing Cost Changes:</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>FY 2029-30</b>
<b>Salaries + Rates + Reserves + Deferred Maint.</b>	<b>\$ 16,683,130</b>	<b>\$ 10,867,822</b>	<b>\$ 16,103,800</b>	<b>\$ 13,776,008</b>	<b>\$ 12,588,222</b>
<i>Salary Increases</i>	<i>6,218,814</i>	<i>5,304,725</i>	<i>5,845,793</i>	<i>5,712,807</i>	<i>5,476,800</i>
<i>Pension Costs</i>	<i>1,603,323</i>	<i>33,152</i>	<i>4,624,434</i>	<i>1,733,076</i>	<i>149,413</i>
<i>Health Benefits</i>	<i>2,230,463</i>	<i>2,207,823</i>	<i>2,457,273</i>	<i>2,646,017</i>	<i>2,701,187</i>
<i>Deputy Sheriff's Association Side Letter</i>	<i>3,197,900</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Internal Service Rate Increases</i>	<i>2,550,300</i>	<i>2,983,200</i>	<i>3,176,300</i>	<i>3,601,200</i>	<i>3,994,800</i>
<i>Strategic Reserve</i>	<i>600,000</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>18% Deferred Maintenance</i>	<i>282,330</i>	<i>338,922</i>	<i>-</i>	<i>82,908</i>	<i>266,022</i>
<b>Safety Net Costs</b>	<b>\$ 1,488,400</b>	<b>\$ 2,240,100</b>	<b>\$ 1,685,200</b>	<b>\$ 678,900</b>	<b>\$ 1,595,600</b>
<i>In-Home Supportive Services Labor Increases</i>	<i>888,400</i>	<i>1,053,000</i>	<i>497,800</i>	<i>508,900</i>	<i>1,595,600</i>
<i>Homelessness Services Costs</i>	<i>600,000</i>	<i>995,000</i>	<i>385,000</i>	<i>170,000</i>	<i>-</i>
<i>Co-Response Teams</i>	<i>-</i>	<i>192,100</i>	<i>802,400</i>	<i>-</i>	<i>-</i>
<b>Criminal Justice Costs</b>	<b>\$ 12,060,000</b>	<b>\$ 10,360,800</b>	<b>\$ 10,207,800</b>	<b>\$ 5,324,200</b>	<b>\$ 5,461,800</b>
<i>AB 1869 Backfill Sunset</i>	<i>-</i>	<i>850,000</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Existing Northern Branch Jail Ops Funding Plan</i>	<i>5,700,000</i>	<i>1,600,000</i>	<i>2,100,000</i>	<i>2,000,000</i>	<i>1,900,000</i>
<i>Jail Healthcare New Costs &amp; Annual Increases</i>	<i>5,000,000</i>	<i>2,010,800</i>	<i>2,207,800</i>	<i>2,424,200</i>	<i>2,661,800</i>
<i>911 Public Safety Answering Point Funding Gap</i>	<i>660,000</i>	<i>200,000</i>	<i>200,000</i>	<i>200,000</i>	<i>200,000</i>
<i>Northern Branch Jail 512 Bed Construction Debt Svc</i>	<i>-</i>	<i>5,000,000</i>	<i>5,000,000</i>	<i>-</i>	<i>-</i>
<i>Custody Staffing Shift Relief Funding Plan</i>	<i>700,000</i>	<i>700,000</i>	<i>700,000</i>	<i>700,000</i>	<i>700,000</i>
<b>Total Change in Costs</b>	<b>\$ 30,231,530</b>	<b>\$ 23,468,722</b>	<b>\$ 27,996,800</b>	<b>\$ 19,779,108</b>	<b>\$ 19,645,622</b>

<b>Annual (Deficit)/Surplus</b>	<b>\$ -</b>	<b>\$ (1,025,252)</b>	<b>\$ (14,123,100)</b>	<b>\$ (3,625,408)</b>	<b>\$ (3,945,522)</b>
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**Cumulative deficit of \$23 million over 5 years, after depletion of revenue set asides**

# Growth in Expenses Outpacing Revenues



# Key Takeaways

- Moderate revenue growth not keeping up with rate of growth in salaries and benefits and other anticipated costs
- Budget deficits beginning in year 2. Year 3 has very large deficits predicted, which requires planning now
- Deficits avoided in year 1 and partially year 2 only by releasing prior year set-asides; deficits in all remaining years
- Costs of jail medical services and expansion of Northern Branch Jail facility are driving the deficits
- No department program expansions will be possible until financial picture improves
- Cost-cutting in the future will be necessary, departments should begin implementing strategies now
- One-time funds may be needed to bridge budget gaps in out years





# **FISCAL ISSUES** **UNDER REVIEW**

# Fiscal Issues Under Review - General Fund

- Disability Rights California (DRC) compliance requires substantial resources to fully implement
- New State funding available for Victim-Witness Advocate program; allocations not yet set
- Outside counsel costs continue to rise
- Housing Element implementation may require additional one-time funding; costs expected to grow in the next cycle
- Proposition 36 may increase local criminal justice and behavioral health costs

# Fiscal Issues Under Review - Special Revenue Funds

- Budgeted expenditures for the Inmate Welfare Fund expected to outpace revenues in future years
- Health clinics rely on \$5.2 million in Health Care Centers Fund reserves to balance structural deficit
- Institutions for Mental Disease (IMD) placement costs exceeding Realignment revenue sources
- Behavioral Health Services Act (BHSA) expands services for priority populations, but re-allocates \$9 million of existing funding for direct mental health services toward housing services

# Fiscal Issues Under Review - Special Revenue Funds

- Child Support Services addresses \$381 thousand State funding cut by reducing operating costs
- California Air Resource Board Advanced Clean Fleet Regulation requires 50 percent of new vehicle acquisitions to be zero-emission vehicles or near zero-emission vehicles by 2024 and 100 percent by 2027
- Fire District bears the risk of revenue fluctuations at the Regional Fire Communications Center (RFCC)





# **FY 2025-26 PROPOSED BUDGET DEVELOPMENT POLICIES**

# Proposed budget development policies will increase transparency, clarify trade-off options, and leverage non-General Fund dollars

- **Amend Policy 2 to require balanced GFC-funded program budgets**
  - Increases transparency in the budgeted uses of General Fund Contribution (GFC)
  - Clarifies potential trade-offs
  - Facilitates the allocation of GFC resources toward priority and urgent needs
- **Amend Policy 3 to leverage use of non-General Fund dollars on county projects**
  - Requires Special Revenue Fund programs to fund their pro rata share of county initiatives (i.e., capital projects, energy efficiency projects, information technology projects, etc.)
  - Optimizes contribution of non-General Fund dollars to county projects, where possible
- **Refine Policy 3.a to enhance accountability**
  - Requires department directors to document use of one-time funding for ongoing operations and confirm that it will not cause future ongoing obligations on the General Fund. Otherwise, use of one-time revenues for ongoing operations is discouraged.



# **FY 2025-26 BUDGET REVIEW FUNDING PRIORITIES**



# GF Unallocated Fund Balances

- \$10 million available to augment projects or programs in FY 2025-26
- Use of \$8-10 million towards capital projects is recommended
- Remaining one-time balances not enough for all identified needs
- Set asides and other funding sources exist for some, but not all, identified priorities.
- Consider these areas first when making allocation recommendations, should funding become available



# Identified Priority Areas in FY 2025-26

Items listed may or may not have sufficient funding identified

## Provide Coordinated Community Service Delivery and Strengthen Safety Net

- Future homelessness services funding gaps
  - Interim and permanent supportive housing
  - Increase affordable housing (Housing Element Update programs)
  - Workforce housing options
  - Growing IMD placement costs
  - Improved access to inpatient mental health care treatment
  - Countywide Recreation Master Plan
  - Set asides for allocation to District area special projects
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- **Advance Improvements in Criminal Justice System**
    - Northern Branch Jail design and construction
    - Main Jail accessibility and wellbeing improvements
    - Jail medical services

# Identified Priority Areas in FY 2025-26

- **Foster Financial Excellence**
  - Address forecasted deficits
  - Fully fund strategic reserve
- **Promote Sustainability and Climate Resiliency**
  - Disaster recovery projects
  - Electric vehicle replacement program
  - Climate Action Plan implementation
- **Strategically Invest in Facilities and Infrastructure**
  - New capital projects
  - Calle Real Master Plan
  - Continued funding for deferred maintenance
  - Enterprise Resource Planning system implementation
  - Countywide information technology strategic plan

# RECOMMENDED ACTIONS

- A. Receive and file the Five-Year Forecast for Fiscal Years 2025-26 through 2029-30
- B. Adopt the FY 2025-26 Budget Development Policies;
- C. Review funding priorities for Fiscal Year 2025-26 and provide staff additional direction as appropriate; and
- D. Determine pursuant to California Environmental Quality Act Guidelines §15378 that the above activity is not a project under the California Environmental Quality Act.

County Executive Office

