Fiscal Year 2011-2012 Forecast

FY 2011-12 Expenditure Issues

ISSUE	GENERAL FUND	TOTAL	UPDATE
Use of one-time funds to maintain service levels	$14,421,576	$31,837,188	$21,477,765
Pension Fund Stability	$12,600,000	$30,000,000	$20,678,909
Increased costs from expiration of concession agreements	$4,844,630	$9,145,560	$9,183,795
Previously forecast increases*	$17,310,000	$17,310,000	$19,800,000
Certificates of Participation	$1,001,000	$1,001,000	$1,050,178
Total	**$50,177,206**	**$89,293,748**	**$72,190,647**

* Includes currently projected base benefit cost increases (health insurance, retirement, and mandated costs such as Social Security contributions), negotiated compensation increases, and anticipated increases in public safety and social services funding to maintain service levels.

DEFINITION OF ISSUE

The FY 2010-11 Adopted Budget included several types of ongoing expenditures that were funded with one-time sources totaling approximately $14.4 million in the General Fund. In order to maintain these service levels in the next fiscal year, new funding sources or expenditure reductions in other areas will need to be identified. Adding to this, as illustrated in the chart above, are previously identified costs in the amount of $23.2 million, for a total projected General Fund shortfall of $37.6 million.

General Fund discretionary revenues in FY 2011-12 are projected to remain relatively flat compared to FY 2010-11 adopted levels, with a nominal increase of $130,000. Therefore, major Countywide discretionary revenue alone will not provide adequate funding for the $37.6 million identified need required to preserve current service levels.

Following are discussions of the four issues listed above causing the projected $37.6 million General Fund shortfall:

Issue 1: Use of one-time funds to maintain service levels in FY 2010-11

ISSUE	GENERAL FUND	TOTAL	UPDATE
Use of one-time funds to maintain service levels	$14,421,576	$31,837,188	$21,477,765

To balance the current FY 2010-11 Budget, non-recurring one-time funds were used from designations, reserves, and other sources. The table below illustrates the specific designations and reserves used to enable maintenance of departmental service levels in the current budget. Column A shows the one-time sources included in the Recommended Budget. Column B shows additional one-time sources that were identified by the Board of Supervisors during the budget adoption hearings. The final column sums Columns A and B to show the total amount of one-time sources in the FY 2010-11 Adopted Budget.

FY 2010-11 One-time Sources	Recommended Budget	Budget Hearing Restorations*	Total Adopted Budget	Update
General Fund Sources				
General Fund Capital Designation	$ 3,387,300	$ 1,947,675	$ 5,334,975	$ 3,937,300
GF Salaries & Retirement Designation	1,225,675	1,140,251	2,365,926	1,225,675
General Fund Strategic Reserve	7,087,064	(5,126,000)	1,961,064	(1,539,104)
General Fund Litigation Designation	500,000	1,443,561	1,943,561	900,000
One-time GFC Increase to DSS**	1,008,000		1,008,000	1,008,000
ARRA Match		580,400	580,400	0
Board of Supervisors Contingency		227,650	227,650	
Deferred Maintenance Designation		1,000,000	1,000,000	1,000,000
Subtotal General Fund	**$ 13,208,039**	**$ 1,213,537**	**$ 14,421,576**	**$ 6,531,871**
Non-General Fund Sources				
Departmental Designations	$ 7,065,812		$ 7,065,812	$ 4,596,094
TSAC Reserve	1,213,613		1,213,613	1,213,613
Special Revenue Fund Balances	6,326,430		6,326,430	6,326,430
Internal Service Fund Balances	833,442		833,442	833,442
Coastal Resource Enhancement Fund	637,101		637,101	637,101
Mitigation Fund Interest	197,867		197,867	197,867
Miscellaneous Transfers	57,347		57,347	57,347
Capital Fund Roads Designation		500,000	500,000	500,000
Project Clean Water		100,000	100,000	100,000
IT Savings		90,000	90,000	90,000
Vehicle Internal Service Fund (Fire)		394,000	394,000	394,000
Total Non-General Fund	**$ 16,331,612**	**$ 1,084,000**	**$ 17,415,612**	**$ 14,945,894**
Total All Funds	**$ 29,539,651**	**$ 2,297,537**	**$ 31,837,188**	**$ 21,477,765**

* These sources are documented on Attachment E to the budget adoption packet.
** For Child Welfare Services and Adult Protective Services

Given that these prior year balances were used to support ongoing services in the current fiscal year, these sources will not be available to maintain 2010-11 levels of service and to balance departmental budgets in FY 2011-12. In other words, they will be gone if actual expenditures remain at budgeted levels.

Issue 2: Increased costs from expiration of concession agreements

ISSUE	GENERAL FUND	TOTAL	UPDATE
Increased costs from expiration of concession agreements	$4,844,630	$9,145,560	$9,183,795

Several employee bargaining groups offered concessions during development of the FY 2010-11 budget to prevent layoffs during the fiscal year. Concessions included deferrals of negotiated scheduled pay increases and benefit allowances. Most of these deferrals expire in FY 2011-12, which will lead to increased costs for salaries and benefits. These deferred increases are in addition to other increases that were negotiated to take effect in FY 2011-12. Scheduled negotiated pay increases and benefit allowances are accounted for in the discussion for *Issue 3: Previously forecast increases*.

Concession agreements span multiple fiscal years and specific savings and concession expirations vary by bargaining unit across this time period. The forecast impact of the concessions expiring in FY 2011-12 is $4.8 million in the General Fund and $9.1 million Countywide, as illustrated in the table below.

Bargaining Unit	Estimated Cost of Concessions Expiring		
	General Fund	All Funds	Update
Confidential	$ 154,555	$ 166,000	$ 202,741
Deputy Sheriffs Association	819,830	819,830	1,676,795
Engineers & Technicians Association	218,780	482,000	424,898
Firefighters Local 2046	1,225,730	1,225,730	1,240,488
SEIU Local 620	2,418,755	6,190,000	5,321,601
UAPD	6,980	262,000	317,272
Total	$ 4,844,630	$ 9,145,560	$ 9,183,795

The savings generated in FY 2010-11 from these concession agreements were set aside in a special designation to be used for layoff prevention. These savings totaled $8.9 million, of which $3.9 million is in the General Fund. If there are funds remaining in this designation at the end of FY 2010-11, they may be used to offset the anticipated FY 2011-12 increases. However, it is unknown how much, if any, of the designated savings will be available at the end of the fiscal year to mitigate the FY 2011-12 problem. This in part is a function of how many vacancies the departments are able to hold open during FY 2010-11.

Issue 3: Previously forecast increases

ISSUE	GENERAL FUND	TOTAL	UPDATE
Previously forecast increases	$17,310,000	$17,310,000	$19,800,000

To identify and plan for emerging fiscal issues, the County continuously updates a 5-year General Fund Contribution Forecast (GFC Forecast). This GFC forecast anticipates the resources that will be required to maintain base service levels for departments, as well as any increased funding needs, some of which are expressed through department-specific 5-year forecasts. The GFC Forecast is published annually in Section A of the County's Budget.

Compared to the Adopted FY 2010-11 Budget, it is estimated that approximately $17.3 million in increased GFC will be required in FY 2011-12 to address the following:

- Previously negotiated and recommended salary and benefits costs for County employees (see Table 1)
- Maintenance of Effort and other programmatic resource needs that may not be directly attributable to employee salaries and benefits (see Table 2)

Table 1: Salary & Benefit GFC Increases

Salary and Benefit GFC Increases (in millions)	**FY 2011-12 Projected**	**FY 2011-12 Update**
Salaries	$5.02	$5.41
Health*	$0.43	$0.97
Retirement	$0.85	$0
OPEB	$0.16	$0.15
Total Salary and Benefit Increases	***$6.46***	***$6.53***

* This number was an estimate at the time of budget submission. It should be noted that it may increase as a result of the rates recently negotiated with the County's health service providers.

From a base General Fund budget of approximately $271 million in employee salaries and benefits for FY 2010-11, cost increases of approximately $6.46 million are forecast to be funded by GFC in FY 2011-12. This is based on existing Memoranda of Understanding, health insurance, retirement benefit cost projections, and mandated costs such as Social Security contributions. The assumptions behind this increase include: 1) no net increase in FTE, 2) no enhancements of health or retirement benefits, and 3) all costs associated with salaries are relatively flat and projected at 3% or lower. Any changes to health insurance, retirement, or other benefits as discussed in other sections of this report are not included in the assumptions.

These increases are *in addition* to the deferred wage increases, or negotiated concessions, which expire towards the beginning of FY 2011-12, as discussed above in the section *Issue 2: Increased costs from expiration of concession agreements.*

Table 2: Non-Salary GFC Increases

Non-Salary GFC Increases (in millions)	FY 2011-12 Projected	FY 2011-12 Update
General Revenue	$0	($3.00)
Child Support Services	$0	$0.11
Courts	$0	$1.28
ADMHS	$0	$1.06
Public Health	$0	$2.92
Fire Department Level of Service*	$5.50	$6.40
Completed COP Payments	($1.90)	($1.90)
Jail COP**	$2.40	$2.40
Social Services (MOE Match)	$4.85	$4.00
Total Non Salary GFC Increases	***$10.85***	***$13.27***

* If Measure S passes on November 2, 2010, the Fire Department would receive approximately $2.75 million in revenue in FY 2011-12, thereby reducing the need for a General Fund Contribution increase.
** If Measure S passes, no Jail COP issuance would be necessary.

Table 2 anticipates additional GFC resources that will be required by departments or programs to meet Maintenance of Effort (MOE) requirements or to maintain service levels. Anticipated GFC increases to the Fire Department and Social Services have been derived from updated department-specific 5-year forecasts. Notably, the Jail Certificate of Participation (COP) has been included in the County's 5-year GFC forecast (Section A of the Budget Book) for FY 2010-11 and is included in Table 2 to illustrate a feasible scenario of financing the debt service for a new jail. If Measure S, the ½ percent transaction (sales) and use tax ballot measure, passes in the November 2, 2010, election, revenue would be generated to fund the County's share of construction of the new jail, thereby reducing the impact of non-salary GFC increases by $2.4 million in FY 2011-12. In addition, approximately $1.9 million in COP debt service payments will mature in FY 2011-12.

Issue 4: Certificates of Participation

ISSUE	GENERAL FUND	TOTAL	UPDATE
Certificates of Participation	$1,001,000	$1,001,000	$1,050,178

Per the Board's prior action, $18.64 million in Certificates of Participation (COPs) were issued on June 3, 2010, to finance the construction of three County projects:

- $6.1 million for the Betteravia Administration Building
- $5.6 million for the Public Defender's Courthouse Safety and Modernization Improvements
- $5.4 million for the Emergency Operations Center (EOC)

A new program initiated under the American Recovery and Reinvestment Act (ARRA) allowed the County to structure a significant portion of the COPs as Recovery Zone Economic Development Bonds. This has enabled the County to realize lower annual debt service payments than would otherwise occur, because the federal government has pledged to subsidize 45% of the County's payments to bondholders.

For FY 2010-11, the net COP debt service payment of $641,000 will be covered using one-time resources that were returned to the General Fund because project costs previously paid by the General Fund were reimbursable through the COP. However, an ongoing payment source for the debt service still must be identified for FY 2011-12 through maturity in 2040. The required net debt service for FY 2011-12 is approximately $1,001,000 as planned.

Likelihood of Issues

It is certain that a multi-million dollar General Fund problem will materialize in FY 2011-12. However, the initial projected amount of $37.6 million could be mitigated to the extent that FY 2010-11 actual Countywide discretionary revenues exceed budgeted expectations and department General Fund spending comes in and remains under budget. This in turn would be a function of the speed and intensity of economic recovery and in part the will of the departments to underspend their respective budgets.

Level of Board of Supervisors' Discretion

The Board of Supervisors has limited discretion to take measures to increase revenues (for example, through fee increases) and to decrease expenditures (through efficiency measures or service level reductions) to solve the projected FY 2011-12 budget shortfall. The Board has very limited ability in the short term to increase revenue for FY 2011-12 aside from fee increases and targeted revenues. The major revenue source for general discretionary use is the property tax, which is limited by the provisions of Proposition 13. Therefore, the Board's short-term discretion rests nearly entirely in the area of service level reductions.

SERVICE LEVEL IMPACTS

To the extent that the Board of Supervisors chooses to use expenditure reductions to solve the problem, service levels in terms of amount, frequency, and velocity will decline or cease.

FINANCIAL ALTERNATIVES

The County is required by law to adopt a balanced budget. Actions which could be taken to reduce the potential service level reductions include the following:

Short-term Actions

- Negotiated wage reductions
- Privatization of services
- Increased employee contributions for health insurance and retirement plans (requires negotiation)

- Reduction of retirement formula benefits for future employees
- Increase age for retirement eligibility
- Consolidation of duplicative information technology operations
- Require all employees to pay full retirement contribution rates (subject to negotiation)
- Consolidation of geographically dispersed services
- Work furloughs (subject to negotiation)
- Elimination of discretionary (non-mandated) services from the budget
- Hiring freeze to create current year savings, to provide options for reducing future year expenditures, and to decrease the number of future layoffs
- Consolidation of departments, eliminating some management and staff functions
- Elimination of vacation buybacks
- Implementation of fixed cell phone stipends instead of County-sponsored cell phones and concomitant elimination of office desk set phones

Potential Long-term Strategic Actions

- Expedited regulatory processing of high value projects
- Enhancement of existing village centers
- Economic gardening – enhancement, retooling of older obsolescing strip malls and office parks through form-based zoning
- Enhancement of agricultural retailing, agricultural tourism, and vertical processing
- More active recruitment of the cinematography industries – movies, advertisements, production of web-based content
- Partner with UCSB and others to create a high-tech corporate park (like Stanford Research Park)
- Expedited deployment of green energy facilities including wind farms and solar array fields and promotion of manufacturing of the required equipment that support these facilities
- Entertainment retailing
- Enhancement and promotion of the County's existing thoroughbred horse industry
- Enhanced tourism promotion
- Obtain share of oil and gas production royalties

In addition, holding vacancies during this fiscal year could allow the Board to reduce services in FY 2011-12 with fewer layoffs and, to the extent the vacancies save money in FY 2010-11, the savings could be set aside to ameliorate the FY 2011-12 gap. To the extent holding vacancies prevents layoffs of individuals in represented groups that provided concessions in FY 2010-11, funds could be saved from these concessions to forestall layoffs in FY 2011-12.

Caveat: The impacts of potential retirement rate contribution increases resulting from current experience studies undertaken by the retirement system are as yet not specified and not included as of this writing.

CRITICAL TIMEFRAME

- October-November 2010: Board of Supervisors receives financial reports to provide information about the fiscal context for FY 2011-12.
- November 2010: Board of Supervisors considers and adopts budget principles that will guide the County Executive Officer in developing a balanced FY 2011-12 recommended budget.
- January 2011: Departments submit initial requested budgets.
- March 2011: CEO's recommended budget is developed.
- May 2011: Board of Supervisors receives recommended FY 2011-12 budget.
- June 2011: Board of Supervisors holds budget hearings and adopts a balanced FY 2011-12 budget.
- July 1, 2011: FY 2011-12 begins.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

The County continued to rely on one-time sources to fund ongoing operations, leading to a projected FY 2010-11 potential revenue-expenditure gap of approximately $41.5 million. During the FY 2010-11 budget development cycle, this budget gap was closed through a combination of use of one-time funding sources and expenditure reductions, largely achieved through eliminating funded vacant positions and negotiated salary and benefit concessions.