

County Jail Northern Branch Project

Fiscal Analysis

Factors Impacting Jail Population





SANTA BARBARA COUNTY JAIL Northern Branch *Fiscal Analysis*

FACTS & FIGURES

GETTING STARTED

Choosing the most efficient and cost-effective method to fund construction and operation of a new jail is a complex process. One of the first decisions to be made is whether to seek outside sources of funding, pay cash, save, or borrow. Exploring state and federal grant funding to offset the expense is also an important consideration. Each of these funding methods is currently used by the County and is a prudent funding choice depending on the scope and nature of a particular capital improvement. When financing a capital project over time is necessary, a repayment source must be identified and evaluated to determine the stability of the revenue. This document is designed as a quick reference and guide to the multiple options available to address the \$17.4M annually required to operate the jail facility.

WHAT, WHY, WHEN, AND HOW?

What is the Project?

The Project proposes construction of a 304 bed facility located in the Northern Santa Barbara County. The total estimated construction cost of the project is \$80.2M and the estimated operating cost of the facility is estimated at \$17.4M in FY2013-14 dollars when the operations are expected to begin.

Why is it needed?

Since the early 1980s the jail has been under a court-ordered population capacity limit, requiring the Sheriff to release offenders early or not put them in jail at all. Despite the fact that 200-300 offenders are in jail-supervised alternative sentencing programs on any given day, there remain approximately 1,000 inmates housed daily in the County's jail facilities. The County jail facilities are rated by the State to hold 818 inmates. This situation means they are operating at over 120% of rated capacity.

When will it be completed?

The schematic design and construction contract awards are expected to be completed by late 2010 calendar year. The project is expected to be completed in FY2013-14.

How will it be paid for?

Project cost is:

- \$80.2M -Construction Cost
- \$17.4M -Operating Cost in FY2013-14 dollars (year of operation)

Or \$13.2M in FY2008-09 current dollars.

If AB 900 funds are accepted:

- Grant funds \$56.3M of Construction cost
- County Contribution of \$23.9M (\$3.3 expanded on land purchase, \$20.6 unfunded)
- Operating Costs are unfunded

OPERATING COSTS

Pay-As-You-Go

What are the options?

Option 1:

General Fund Contribution Reduction

Pay- as- you- go i.e. General Fund reductions -One of the options to fund ongoing operations available to the County is to redirect current discretionary revenues from other County operations toward funding of the jail. If the new jail operations were to begin in the current FY 2008-09, approximately 7% of General Fund Contribution allocations would have to be re-directed toward these operations.

A proportional 7% reduction from all General Fund Contribution allocations in FY 2008-09, would equate to the following amounts for each of the County departments receiving discretionary General Fund monies:

Department	7% Reduction
Policy & Executive	
011 BOS	\$186,172
012 County Executive	\$208,887
013 County Counsel	\$167,125
Law & Justice	
021 District Attorney	\$752,633
023 Public Defender	\$460,033
025 Court Services	\$532,427
Public Safety	
022 Probation	\$1,507,240
031 Fire	\$130,578
032 Sheriff	\$4,171,769
Health & Public Assistance	
041 Public Health - 001 (5)	\$208,824
041 Public Health - Fund 042	\$564,158
043 AD & Mental Health	\$220,353
044 Social Services (6)	\$586,530
Community Resources & Public Facilities	
051 Ag Commissioner	\$131,866
052 Parks	\$278,971
053 Planning & Develop	\$443,345
054 Public Works	\$176,841
055 Housing & Community	\$49,413
Support Services	
061 Auditor-Controller	\$304,584
062 CRA	\$660,912
063 General Services	\$555,772
064 Human Resources	\$155,813
065 Treasurer	\$212,254
066 Information Technology	\$62,020
Non-Departmental	
990 General Cnty Programs	\$583,450
Grand Total	\$ 13,311,970.00

Option 2:

Redirect Proposition 172 – Public Safety Sales Tax Funds

Proposition 172 is discretionary to the Board within the public safety framework and could be reallocated among public safety departments. Options for 172 include:

(1) Decrease current distribution by an equal percentage from all the public safety recipient departments (2) Divert 100% of the funds toward the jail and seek other revenue options to replenish the funding to public safety departments losing the revenue (3) Divert the full amount the Sheriff's department currently utilizes for other law enforcement operations toward the jail operations. FY 2008-09 budget allocated the following amounts to the aforementioned departments:

Department	Proposition 172 Revenue	Total Expenditures FY08-09 Adopted
Fire	\$2,509,270	\$53,068,419
District Attorney	\$3,828,347	\$16,863,366
Probation	\$6,945,838	\$43,731,044
Public Defender	\$2,786,329	\$10,290,180
Sheriff	\$14,311,338	\$99,231,188
Parks	\$34,258	\$11,379,624
	\$30,415,380	\$234,563,821

Note: the Sheriff's Department receives under one half of the ½ cent Public Safety Proposition 172 sales tax distribution to the County. The other half is distributed among the Fire Department, District Attorney, Probation, Public Defender and Parks.

This funding alternative, does not affect distribution of discretionary general fund revenues, however, the public safety departments currently relying on the Public Safety ½ cent Sales Tax would require voter approval.

Option 3:

Redirect Discretionary Revenue Growth

Reductions to existing County functions via a gradual transition. Thus, instead of reducing other County functions by approximately 7% in FY 2013-14, this option provides ability to phase in reductions.

In Millions of Dollars						
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total Discretionary Revenue	\$196.33	\$202.35	\$210.59	\$219.36	\$227.69	\$238.78
Total % Change from Prior Year	1.06%	3.07%	4.07%	4.17%	3.80%	4.87%
Total \$ Change from Prior Year		\$6.02	\$8.24	\$8.78	\$8.33	\$11.09 = \$19.2M

Example: Maintaining General Fund Contribution allocations flat to all other County functions for two years starting in FY 2012-13, would generate approximately \$19.2M, which is slightly more than the required \$17.4M needed for the new jail operations.

This option also generates some one-time funding available in years prior to the start of new jail operations that could be used toward capital cost of the project.

SUMMARY

	% GF Reductions	Redirect 172	Diversion of growth %
Opportunities	7% to 8% General Fund Contribution Reduction will yield the requisite funds.	The total revenue stream from this source, allocated among all public safety departments, is approximately twice the amount needed to fund the new jail operations.	This option requires redirecting 1.5% in FY09-10, 1% in FY10-11, 4.2% in FY11-12, 1.5% in FY13-14.
Threats	Requires significant reductions in other County services.	Requires significant reductions in other Public Safety services.	Requires significant reductions in other County services but allows for adjustment over time.
Action Required	BOS full discretion.	BOS full discretion.	BOS full discretion.
Yield	\$17.4M	Up to \$30M	\$17.4 + One-Time Funds for Capital Cost (\$20.6)
Timing	FY13-14	FY 13-14	FY 09-10 through FY 13-14

REVENUE OPTIONS

In order to maintain existing service levels and fund the new jail operations, it is inevitable that new revenue streams would have to be originated. Following is a review and analysis of the various revenue sources that may be available.

Option 1: Oil Revenue

State Royalty Sharing

In January 1997, a State statute was enacted providing that under certain prescribed conditions, 20% of State revenues (royalties) derived from new oil/gas leases would be allocated to counties or cities whose shoreline fronts the leases. The statute sunsetted in January 2002.

The passage of a new oil royalty revenue sharing measure for local jurisdictions whose shorelines front oil leases, (e.g. Santa Barbara

County) combined with local approval of a major offshore oil development project, could provide millions of dollars per year over the life of the project.

However, such legislation does not currently exist. If again proposed, its chances of passage would be speculative; moreover, it would take at least one (if not two) years to be enacted.

Oil Production Tax

Revenue from oil production in the County can be established with a production tax on Crude Oil in the unincorporated boundaries of the County, including State Tidelands for the County of Santa Barbara. Establishment of an oil production tax follows general guidelines and requirements of a local jurisdiction tax and requires a 2/3rd approval of the voters for a special tax or a majority for general tax.

Oil Development

Expanding the number and magnitude of projects in the County will also generate additional revenue. Tranquillion Ridge Oil Development is a significant project currently proposed in the County. Approximately \$8.5M on average per year is estimated to be generated in property taxes from this 14 year project.

Option 2: Parcel Tax

A parcel tax is a per parcel tax that can be imposed on flat basis, based on size or on use of the parcels.

The impact on an individual would depend on their current property tax bill, which vary widely. There are three options in which a parcel tax can be levied. One is to apply a flat parcel tax upon all parcels. The second is to apply parcel tax assessment based on parcel type i.e. commercial, mineral, agricultural, single family residential, multifamily, condo, and mobile home. The third is to apply the tax based on size of the parcel. There are approximately 128,000 parcels in the County. Approximately 8,000 of these parcels are exempt or are valued at zero. Below is an example of the dollar amounts required per parcel and the revenue amounts generated based on the estimated 120,000 net parcels.

In Millions of Dollars		
Parcel	\$ per Parcel	Total Generated
120,000	\$50	\$6,000,000
120,000	\$150	\$18,000,000
120,000	\$250	\$30,000,000

The parcel tax can be increased based on a built-in accelerator equal to the Consumer Price Index or the Construction Price Index to accommodate rising cost over time.

Option 3: Utility Users' Tax

With voter approval, the County could impose a Utility Users' Tax in unincorporated areas of the County. Based on a 6% tax imposed on major utilities in unincorporated areas,

the County could generate approximately \$13.5M in FY 2008-09 dollars.

For comparison, the cost of operating the new County Jail in FY 2008-09 dollars is approximately \$13.2M. Given the nature of the tax, the generated amount would be expected to increase over the years as utility prices rise.

The Utility Users' Tax could be proposed as a General tax requiring majority approval or as a special tax requiring 2/3rd approval. The California Legislative Analyst's Office states – "About one-half of the state's residents live in a city or county that levies a utility users' tax. This tax is assessed on the consumer of one or more of the following services: electricity, gas, cable television, water, and telephone. Statewide, cities and counties raised over \$1.8 billion from this source in 2004-05. Most utility users' taxes are imposed by city councils and at rates ranging from 1 percent to 11 percent. For cities that impose a utility users' tax, its revenues account for approximately 15 percent of their general-purpose tax revenues." The City of Santa Barbara and City of Guadalupe are the two jurisdictions in the County that already charge Utility Users' taxes.

Option 4: Sales Tax

Basic Sales Tax Facts

The sales tax rate in Santa Barbara County is 7 ¾ %. The distribution of the taxes from sales in Santa Barbara County is as follows:

- 5%** Distributed to the State of California General Fund for State programs.
- ¼%** Distributed to the State of California Fiscal Recovery Fund.
- ½%** Distributed to the State of California and allocated to counties for health and welfare programs (realignment).
- ½%** Distributed to the State of California and allocated to local agencies for public safety programs (Proposition 172).
- ¾%** Distributed to cities or counties (unincorporated area) to support general operations.
- ¼%** Designated by statute for county transportation purposes and may be used only for road maintenance or the operation of transit systems.
- 7 ¼%** State mandated sales tax rate.
- ½%** Designated to maintain and improve city and county roads and certain State highways throughout Santa Barbara County. Measure D is scheduled to sunset in April 2010 and the renewal Measure A is set for a vote for on November 4, 2008.
- 7 ¾%** Total sales tax rate in Santa Barbara County.
- 1%** Allowable for local uses if approved by voters.
- 8 ¾%** State allowed maximum sales tax rate.

Sales tax can be increased in ¼% increments. 1% remains available and could rise to 1 ½%, pending Measure A passage. The following increments by which the sales tax could be increased are available. The estimated revenue generated is based on current data.

Sales Tax	
1/4 %	\$16.5 M
1/2 %	\$33 M
3/4 %	\$49.5 M
1%	\$66 M
1 and 1/4 %	\$82.5 M
1 and 1/2 %	\$99 M

Given the aforementioned unfunded needs, there are a few proposals that could be presented to the voters of Santa Barbara County.

When considering these options, it should be noted that a Special Tax can be placed on a Special Election ballot or General Election ballot; whereas, a General Tax, can only be placed on a General Election Ballot.

There is no General Election until November 2010. The County could elect to have a Special Election on its own, which would cost approximately \$1.5M. There is also the likelihood that the State of California will be holding a Special Election, most likely, in June of 2009. The County can join the State Special Election, which would decrease the cost to the County.

Note:

A General Tax increase can be placed on a General Election only where members of the governing body are considered for election. 2010 elections satisfy this requirement.

I. Special Tax for County Jail Operations equal to 1/4% or \$16.5M, which is sufficient to fund the new jail operations.

1/4 % Special Sales Tax
(in millions)



II. Special Tax for County Jail Operations and Rehabilitation equal to 1/2% or \$33M, which is sufficient to fund the new jail operations, direct funds toward programming at the facility to reduce recidivism and to direct additional funds toward programs that would positively impact the at risk population in a long-run. This option could also provide an allocation to the cities for public safety and prevention programs.

1/2 % Special Sales Tax
(in millions)



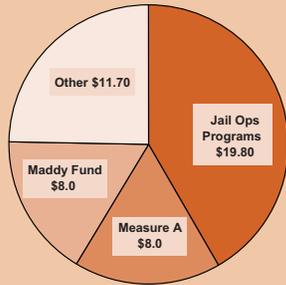
III. General Tax of 1/2% or \$33M that could be directed toward programs such as the new jail operations, Maddy Fund, or others. This option gives the County flexibility in managing funds by increasing the amount of discretionary general revenues available for all County Operations.

1/2 % General Sales Tax
(in millions)



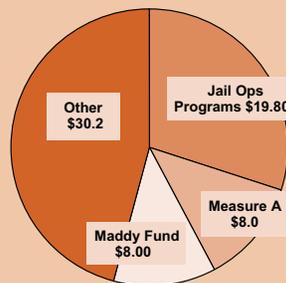
IV. General Tax of 3/4% or \$49.5M for General Fund County operations that could be used toward new jail operations and County and city roads if Measure A is not approved by the voters.

3/4 % General Sales Tax
(in millions)



V. General Tax of 1% or \$66M for General Fund County operations that could be used toward new jail operations, County and city roads if Measure A is not approved by the voters, Maddy Fund, and prevention programs recommended by the Blue Ribbon Commission.

1 % General Sales Tax
(in millions)



Insufficient or incremental Dollar Generating Revenue Options

There are two additional options that could potentially be available and generate new revenue but that combined do not generate the dollar amount sought. The identified options include Transient Occupancy Tax (TOT) and Development Impact Fees.

Transient Occupancy Tax

The TOT is currently set at 10% in the unincorporated County of Santa Barbara. The highest TOT rate in the County is charged by the City of Santa Barbara at 12%. If the County was to raise the TOT rate for unincorporated areas to 12%, the additional 2% would generate approximately \$1.2M.

Development Impact Fees

Development Impact Fees do not require voter approval but generate marginal amount and can only be used toward capital improvement.

Economic Development

The County should also continue considering long-term economic development options that could bring in new revenues indirectly through Sales Tax, added construction, increased tourism and other.

Benefit Assessment District

A benefit assessment is a charge imposed upon real property for a benefit conferred upon the real property and levied on the property tax bill.

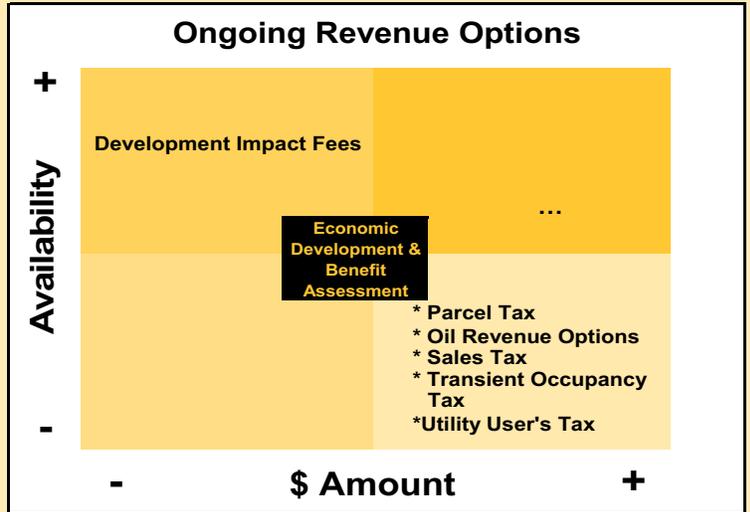
A Benefit Assessment District is not an allowable option to fund law enforcement or jail operation services. An assessment can only be placed on parcels to fund the purposes which confer benefit upon these parcels. A nexus between the use of the funds and the benefit the parcels included in the district receive is required.

However, a Benefit Assessment District could be considered to fund other expenditures in the County. Some of the examples of allowable services to be funded by a Benefit Assessment District are fire protection services and certain types of utilities that directly benefit the parcels upon which the assessment is imposed.

ANALYSIS

The construction cost funding can be challenging, however, the most significant challenge of this project is funding the ongoing cost of operations. Funding the operations from existing discretionary resources available to the County, will be detrimental to many General Fund programs. Given the slow down in the economy and the projected budget gap throughout the years, unless new revenues are found, the additional expense of the new jail operations will have significant impact on existing County operations.

Based on this projected budget imbalance, it is prudent to consider generating new revenue streams – especially streams significant enough in dollar magnitude to alleviate some of the issues. Such revenue options are a challenge of itself given the required voter approval. When ranking the availability of the considered revenue streams, most options fall within low availability ranking due to the difficulty of receiving voter approval for increased taxes.

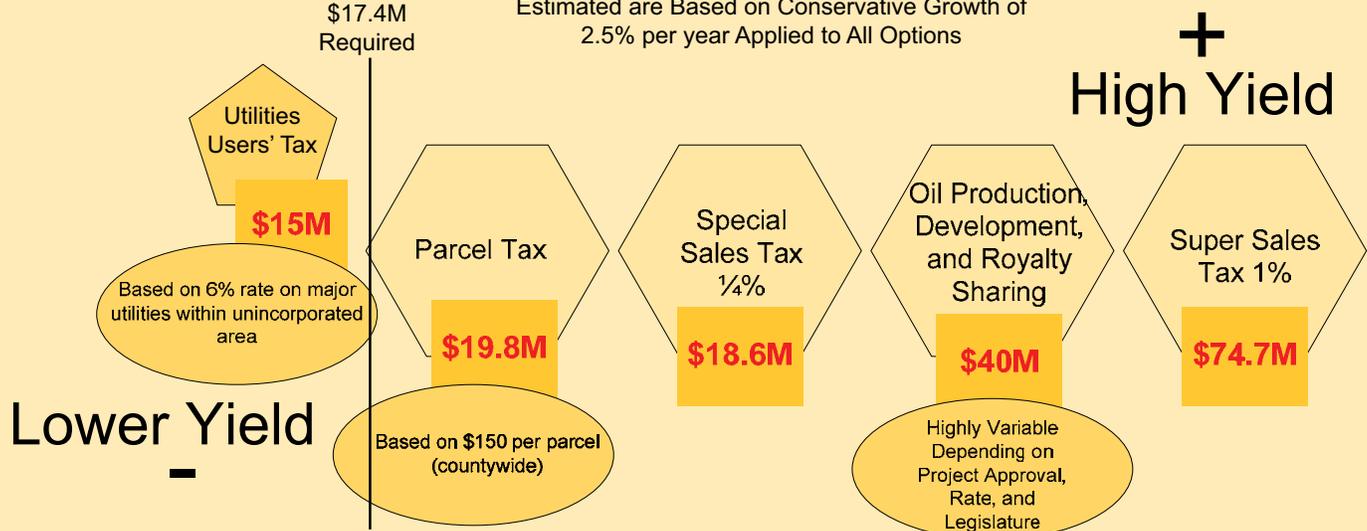


	Oil Development	Oil Revenue Sharing	Oil Production Tax	Parcel Tax	Utility Users' Tax	¼% Sales Tax (Special)	1% Super Sales Tax (General)
Action Required	BOS Limited Discretion	State Legislation Required	Voter Approval	Voter Approval	Voter Approval	¾ rd Voter Approval	50% Voter Approval
Yield	\$10M average for Tranquillion Ridge Project. Amount varies based on life of the project (bell curve).	Variable Substantial to cover the new Jail Operations.	Variable depending on % tax and approved projects.	Up to \$18M in current FY08-09 dollars based on approximately \$150 flat tax per parcel.	Up to 13.5M in current FY08-09 dollars. Based on 6% tax imposed on major utilities within unincorporated areas	Up to \$16.5M in FY08-09 dollars.	Up to \$66M in current FY08-09 dollars
Timing	Starting in FY09-10	Approx. FY11-12	FY09-10 or FY11-12	FY09-10 or FY11-12	FY09-10 or FY11-12	FY09-10	FY11-12

Selected Revenue Options Feasible for the Project

(In FY 2013-14 Dollars)

Estimated are Based on Conservative Growth of 2.5% per year Applied to All Options



INTRODUCTION

The following report provides an analysis of potential funding and financing options for the construction cost and operations cost of the proposed County Jail – Northern Branch project.

The proposed project by the Sheriff's Department is a 304 bed facility to be located in the North County. The size and scope of the project are based on the application the County submitted to the State, seeking AB 900 grant funding.

The need of the project arises out of jail overcrowding conditions in the current County jail facilities. The County of Santa Barbara is under a Court Order to reduce jail overcrowding. The Sheriff's Department has implemented a number of alternative programs to incarceration, yet, based on the latest need's assessment, given the population growth and crime rate trends, the County is projected to need an additional 600 beds by the year of 2010.

The cost of construction is estimated to be \$80.2M and the ongoing operating cost is estimated to be \$17.4M annually, starting in FY 2013-14 and growing thereafter based on salary & benefit increases and general inflationary factors. The early expenditure growth factor is estimated to be 5.5%. Originally, the start of operations was projected in FY 2012-13 and the cost was estimated at \$16.5M; however, based on the latest AB 900 legislature delays, the expected start of operations is now projected in FY 2013-14 with some potential costs of gradually beginning to hire staff in FY 2012-13.

Choosing the most efficient and cost-effective method to fund construction and operation of a new jail is a complex process. One of the first decisions to be made is whether to seek outside sources of funding, pay cash, save, or borrow. Exploring state and federal grant funding to offset the expense is also an important consideration. Each of these funding methods is currently used by the County and is a prudent funding choice depending on the scope and nature of a particular construction improvement. When financing a construction project over time is necessary, a repayment source must be identified and evaluated to determine the stability of the revenue.

In preparing this report, a wide spectrum of funding, financing, and revenue options were considered.



CONSTRUCTION COST

The one-time construction cost of the proposed project is approximately \$80.2M. The following section outlines the potentially available options for funding or financing the construction cost of the project.

Funding Options

The funding options include potential grant funds or the use of existing County savings or discretionary revenues (these are the existing funds).

Federal and State Construction Grant Programs:

In March of 2008, the County applied for AB 900 grant funds. AB 900 was signed by Governor Schwarzenegger on May 3, 2007 appropriating \$1.2 billion in jail construction funding through state lease-revenue bonds. In administering this funding, Corrections Standards Authority (CSA) utilized a competitive Request for Proposals (RFP) process for determining awards. This is the only and first Federal or State grant in the last decade that has become readily available to the County.

The County was successful in winning the competitive award and has been awarded \$56.3M in AB 900 Grant Funds. The total project cost, including \$3.3M for the land already purchased, is \$80.2M. Based on conditions of the grant, if the County accepts the funding, the County will be obligated to fund the construction cost match, amounting to 25% of the total “eligible” construction cost, or \$18,765,007, plus \$5,127,953 in other construction costs which are not eligible for consideration in the AB 900 program. The total county portion of the project cost is thus \$23,892,959. The county will also be responsible to fund any over-runs on construction cost expenditure beyond the original construction cost estimate, and begin operating the facility within 90-days after completion of the project.

The project has expended \$3.3M to purchase the land (eligible for in-kind match under the state AB 900 program), and has about \$400,000 cash on hand. If a COP is used to fund the county match, it cannot be issued until three years before the completion of construction to comply with IRS proceeds spending regulations. If COP financing is chosen as the option to fund the County contribution portion of the construction cost, there would be a “gap” of project costs between now and the recommended issuance date of that COP (June of 2010) that equals \$3.2M. It is also important to note that given AB 900 reimbursement procedures, the County will have to advance approximately \$28M worth of cash to the project for a period of a few months at the conclusion of the project, which will be later reimbursed by AB 900 funds when the facility begins its operations



The states contribution comes from the sale of lease-revenue bonds, scheduled to be sold between one and two years from now. Currently the bonds cannot be sold until a fix to the AB 900 legislation is made. That is expected to happen as part a Public-Safety trailer bill expected to go to the Legislature in December of 2008. Meanwhile, the CSA is required and funded to continue with the AB 900 process up to the time of the needed bond sale.

Given the timeline presented by the State as part of the grant application, the County will reach a decision point of committing to fund the county match for the construction cost, and to fund the operation cost of the new jail, when the County adopts the Project Delivery Agreement with the State, at which point, if the County effectively accepts the grant funding. The time frame for adoption of the agreement is estimated to be near the end of 2008. At this point, the County will become substantially exposed to the liability of not performing on the contract.

In the event the County accepts the AB900 grant and does not complete its obligations, the State would be able to pursue various contractual remedies to obtain either compliance with the contract or adherence to the regulations governing these grants. The County has not yet been provided with a draft of the Project Delivery and Construction Agreement (PDCA). Based on the regulations in force and the expected contents of the agreement, the County's liability to the State if it accepts the money falls into these categories:

1. If the money is accepted and the jail not constructed, the state could take over the property and construct any facility permitted by law to be constructed by the CDCR/CSA. The State may be expected to seek to recover the entire cost of construction. Once the PDCA is executed, the title to the property passes to the state for a period of years for bonding purposes. The expected period is 35 to 50 years.
2. If the money is accepted and the jail constructed but not funded for operation, the State could take over the constructed facility for State corrections use. It is expected that the PDCA will state the period of state possession, again between 35 and 50 years.

In any event, it is expected based on prior documents that the State will include an attorneys' fees clause requiring the defaulting party to pay fees and costs if the other party must resort to legal means to enforce its rights under the PDCA.

Pay-As-You-Go:

A pay-as-you-go plan entails using existing County General Funds that have been saved or must be diverted from other uses. If the County accepts the AB 900 grant funding, a pay-as-you-go plan can be used to pay the County match of construction costs, which would eliminate the debt issuance costs.



The primary General Fund source of funds that can be redirected to pay for the new County Jail operations and construction costs on a pay-as-you-go basis is Discretionary General Fund Revenues. The primary source of these funds is property taxes, followed by sales tax. Discretionary General Fund Revenues finance a number of mandated General Fund programs and in FY2008-09 only 38% of the Discretionary Revenues represented non-mandatory programs at the Board's discretion.

A pay-as-you-go plan to fund the County match on construction with acceptance of AB 900 funds would require the following cash-flow:

Total Capital County Contribution \$23.9M	County Contribution Unfunded	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total Cash							
Spent less							
Payments	\$ (20,582,228)	\$ (1,019,000)	\$ (2,602,000)	\$ (3,756,292)	\$ (17,417,620)	\$ (912,432)	\$ 5,125,116
Received from State							

Note: \$3.3 million in FY2007-08 has already been funded and used to acquire the land

In the event that AB 900 grant funds were not utilized as a funding choice for 75% of the construction cost, the construction cost to the County, excluding the cost of the land, which has already been expended, will increase to \$76.9M from \$20.6M and the cash flow required to build the facility under the same timeline will be as shown in the table below.

Total Capital Cost	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
\$ (76,882,228)	\$ (1,019,000)	\$ (2,602,000)	\$ (4,202,936)	\$ (39,305,900)	\$ (23,215,689)	\$ (6,536,703)

Note: \$3.3 million in FY2007-08 has been already funded and used to acquire the land

Strategic Reserve:

The use of Strategic Reserve is another option to fund the construction cost County match of approximately \$20.6M. The Strategic Reserve balance at the beginning of FY2008-09 was approximately \$25M¹. Funding the entire amount with Strategic Reserve would leave the County exposed to other unexpected financial liabilities, however, a portion of the Strategic Reserve may be available to utilize for the County match.

¹ Other liabilities: Alcohol Drugs and Mental Health Department liabilities and potential funding payback to the State exhaust the amount of funds available in the Strategic Reserve.



Without the use of AB 900 funds, Strategic Reserve is not a viable option to fund the facility based on the magnitude of the expenditure of \$80.2M.

Sale of County Property:

One possible means for generating revenue would be to designate County property as surplus and place it for sale. Before such property can be sold, however, the Board must declare it to be surplus. In addition, prior to taking any such action, it would be prudent for the County to conduct a comprehensive review of its own current and future needs for the property and the financial impact of selling land to finance a large construction project of this nature. Further, in reviewing vacant County land that could potentially be placed for sale, staff has determined that the maximum amount that could be realized would require the sale of *all* vacant County property and would only generate approximately \$40M. Almost all of the \$40M is attributable to one 40 acre property located above Cathedral Oaks in the South County. The Board also has discretion to designate certain non-vacant real estate, such as office buildings, parks, or parking lots, surplus that could increase the total dollar amount of this funding source. Finally, Counsel has advised that any County “surplus” property must first be offered for sale to other public jurisdictions before being offered for sale on the open market.

Tranquillion Ridge Oil Development Project:

The County is currently in process of considering for approval the Tranquillion Ridge Oil Development that will generate new revenues for the duration of the project. The proposed project has a 14 year life span and is expected to generate approximately \$8M on average in additional property taxes to all funds and jurisdictions per year. In addition, if the voters were to approve a 1% Oil Production Tax, this project alone would be expected to generate approximately \$10M on average per year. The production cycles of oil development projects are bell curve shaped, where the production peaks in the middle of the life of the project. Coupled with borrowing funds from the Strategic Reserve to fund immediate needs of the jail construction, the revenues from this oil development project could be utilized to fund the County match for the jail construction cost if AB 900 grant funds are accepted.



Financing Options

The financing options require borrowing and repayment of funds over time. These options require the additional expenditures involved in debt issuance and interest rate costs.

General Obligation Bonds:

General Obligation Bonds (GOs) are bonds secured either by a pledge of the full faith and credit of the issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. The GOs of such agencies are typically payable only from ad valorem (in proportion to the value) property taxes, which are required to be levied in an amount sufficient to pay interest and principal on the bonds coming due in each year. Therefore, in order to secure a GO, the jurisdiction must take the issue to the voters.

By way of background, pursuant to Article XIII A of the State Constitution, the proceeds from the sale of GOs may only be used to finance “the acquisition or improvement of real property” (the land and the building). The only component of the jail project that would benefit from this financing strategy would be the construction component, and not the operational costs. The cost of ongoing operations and the necessary furnishings and ancillary equipment and materials would require financing from another source.

The approval process for GOs includes an election in which at least two thirds of the qualified voting electorate approves the issuance of bonds, and in doing so approves the levy of an ad valorem (property) tax to pay the bonds. The unlimited taxing power supporting repayment is well received by the bond market and has historically provided issuers with their lowest cost of funds relative to other financing mechanisms.

Certificates of Participation:

Certificates of Participation (COPs) are lease financing agreements in the form of securities that can be issued and marketed to investors in a manner similar to tax-exempt debt. By entering into a tax-exempt lease financing agreement, a public agency is using its authority to acquire or dispose of property, rather than its authority to incur debt. Public agencies may enter into a leasing agreement with a non-profit organization to directly lease the asset they wish to acquire, construct, or improve. COPs are sold through an underwriter and the proceeds of the sale of the COPs are used to pay the cost of acquiring or constructing improvements.

The California Constitution requires voter approval for issuance of long-term debt paid from the general fund of a city, county, school district, or the state. Because COPs are not technically classified as debt, they do not require voter approval.

Santa Barbara County debt management policies (and prudent financial management) require that a specific source for debt service payments be identified before COPs can be issued.



Also, County debt management policies prohibit the use of COP proceeds for services or ongoing operating expenses.

COPs allow local governments to leverage long-term General Fund revenues to acquire construction assets. The benefit of financing with COPs is that construction assets can be paid off throughout the useful life of the assets, therefore, matching the benefits and the expenditures of the assets over time rather than making a large investment upfront.

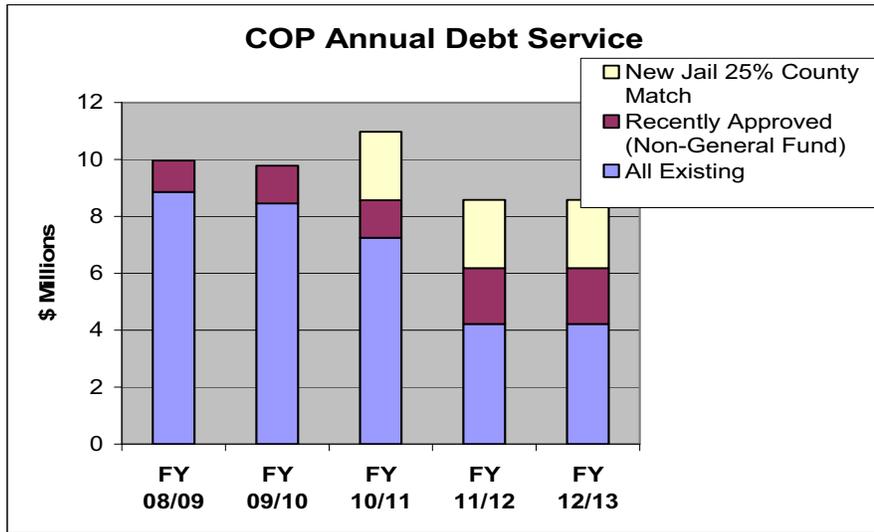
COPs would be an appropriate financing mechanism to fund the County construction cost match. The estimated issuance amount is \$20.6 million plus various costs associated with the issuance and required reserves, which would require annual debt service payments of approximately \$2.4M to \$2.7M on a 20 year repayment plan, depending on whether the County starts making payments right away or after completion of the project. If the County chooses to issue COPs for a 30 year term, which would be appropriate based on the estimated life time of the asset, the payments would be between \$2M and \$2.3M.

If this option is chosen, given the project timeline, the COP issuance date is projected for FY2010-11. FY2010-11 is the last fiscal year of payments on 1998 and 2004 COP issuances, which will provide with approximately \$2M a year of General Fund available for other uses. The total amount of all County COP payments per fiscal year with this proposed COP issuance, starting in FY2011-12 will be lower than it is currently.

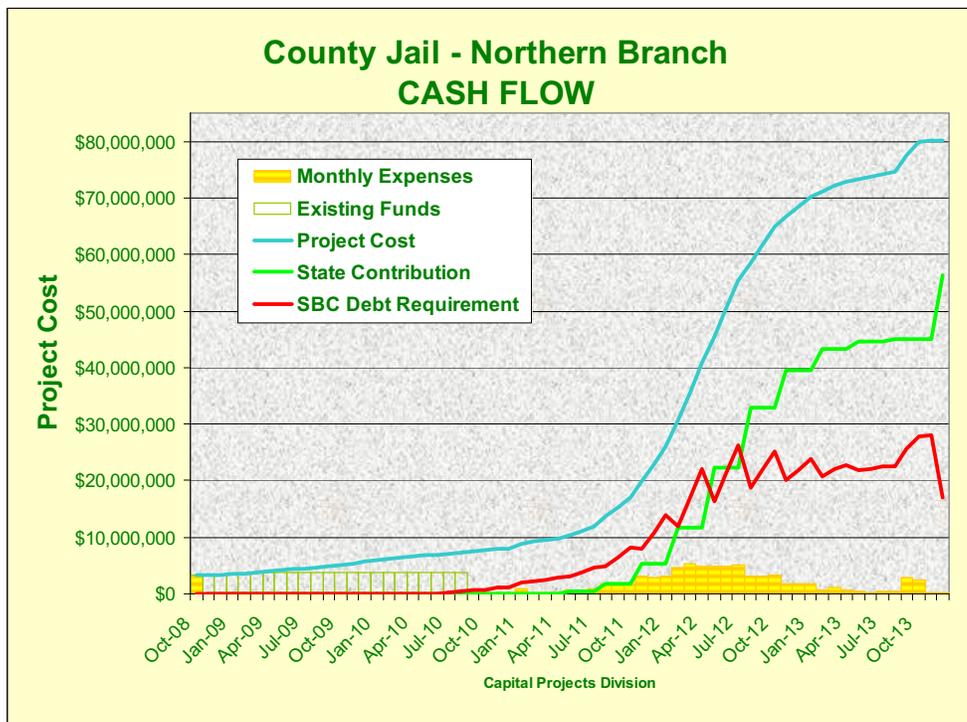
Demisable premises may present some issue for this option. If the County accepts AB 900 and uses COPs to finance the County match of the construction cost, the new jail facility itself will not be available as a demised premise due to the fact that the title of the building and land will be assigned to the State for some period of years until the bond financing used for the AB 900 legislation is paid off. There are enough demisable premises available to issue the COPs for this purpose; however, the County will only have approximately \$16M remaining as in assets available to be demised for any other issuances.

In 2011, the 1998 and 2004 COP issuances will be paid off and the demised premises used for those two issuances will be added to the pool of available premises at which point the equivalent dollar amount will rise to approximately \$57M.





The chart below illustrates the projected cash flow for the scenario of financing the project with the combination of AB 900 State grant and COP financing. Funds spent prior to COP issuance can be reimbursed in accordance with the Resolution passed by the Board of Supervisors on April 22nd 2008 and later reimbursed with the COP proceeds within IRS guidelines parameters.



The green bars represent the existing cash available, equaling approximately \$3.7M, including the \$3.3M already expended for the land. The yellow bars represent all project expenditures. The blue line shows total project cost and the green line shows the amount and timing of the state’s contribution under AB 900, which totals \$56.3M. The “Debt Requirement” (red line in chart) represents the amount of debt proceeds that will be utilized to cover the project’s costs at certain given times under the cost versus state reimbursement requirements, including the \$3.7M “gap” cost. Even though the amount the County needs to pay is only \$23.9M (including potential reimbursement of funds expended for the land purchase \$3.3M), the total sum borrowed to cover the County contribution, provide with reserve requirements, and finance potential construction interest costs may be as high as \$29M. The cash flow analysis shows the greatest debt requirement the project will experience at any point in time is \$28M, which will occur near completion of the project.

If the County no longer pursues the AB 900 funds, the annual payments on issuing COPs for the entire construction cost of \$80.2M would be \$8.5M on a 20 year term or \$7.0M on a 30 year term. The interest cost would be approximately \$61.7M if financed over 20 years or \$97.9M if financed over 30 years.

If AB 900 funds were not used, the County would have full discretion over the land and the facility being built and could therefore use this jail facility as demisable premises for the issuance.

	Capitalizing Interest until Project Complete		Start Payment Right Away	
	Payment	Interest Cost Over Life	Payment	Interest Cost Over Life
With AB 900 - Capital Cost Match Financing (\$21M)				
20 year term	\$2.7M	\$21.2M	\$2.4M	\$19M
30 year term	\$2.3M	\$34M	\$2.0M	\$29.5M
Financing of Entire Capital Cost Amount without AB 900 Funds (\$80M)				
20 year term	\$8.5M	\$61.7M	Not Available	Not Available
30 year term	\$7M	\$97.9M		



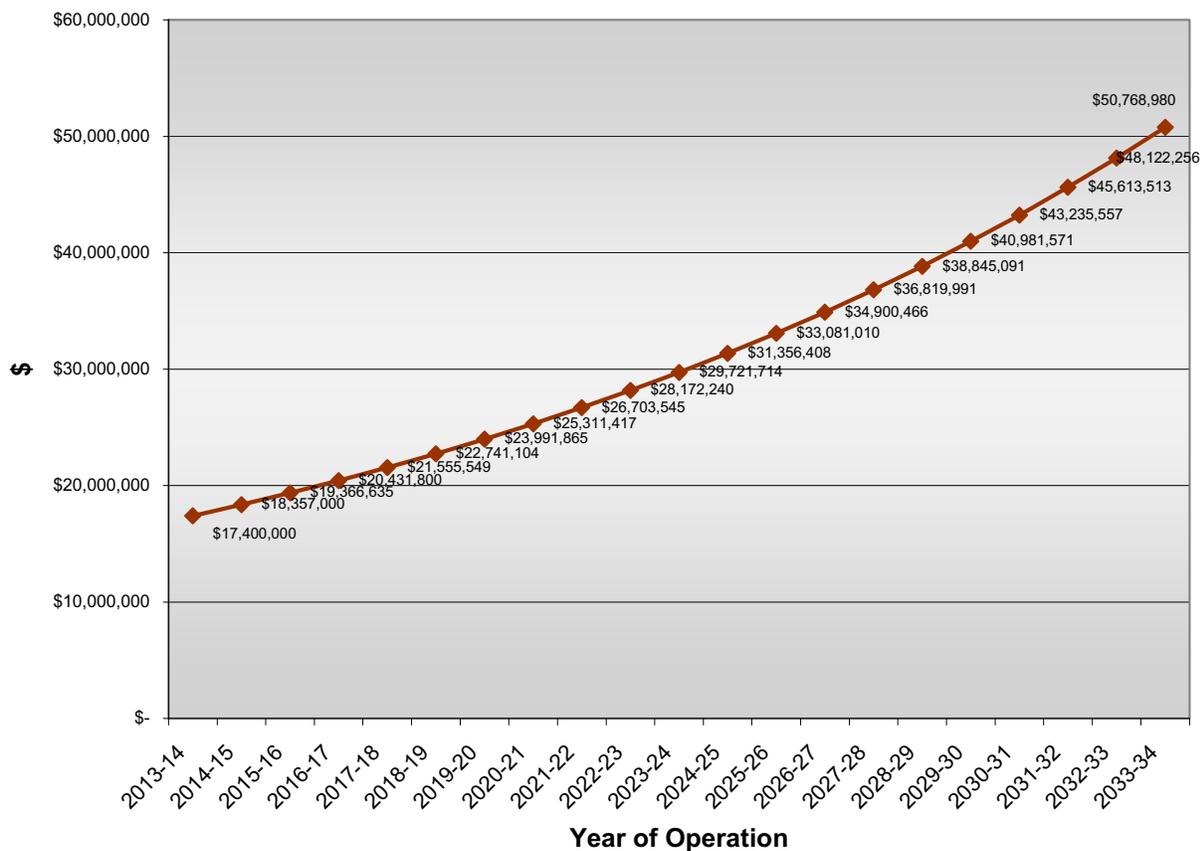
OPERATING COST

Funding Options

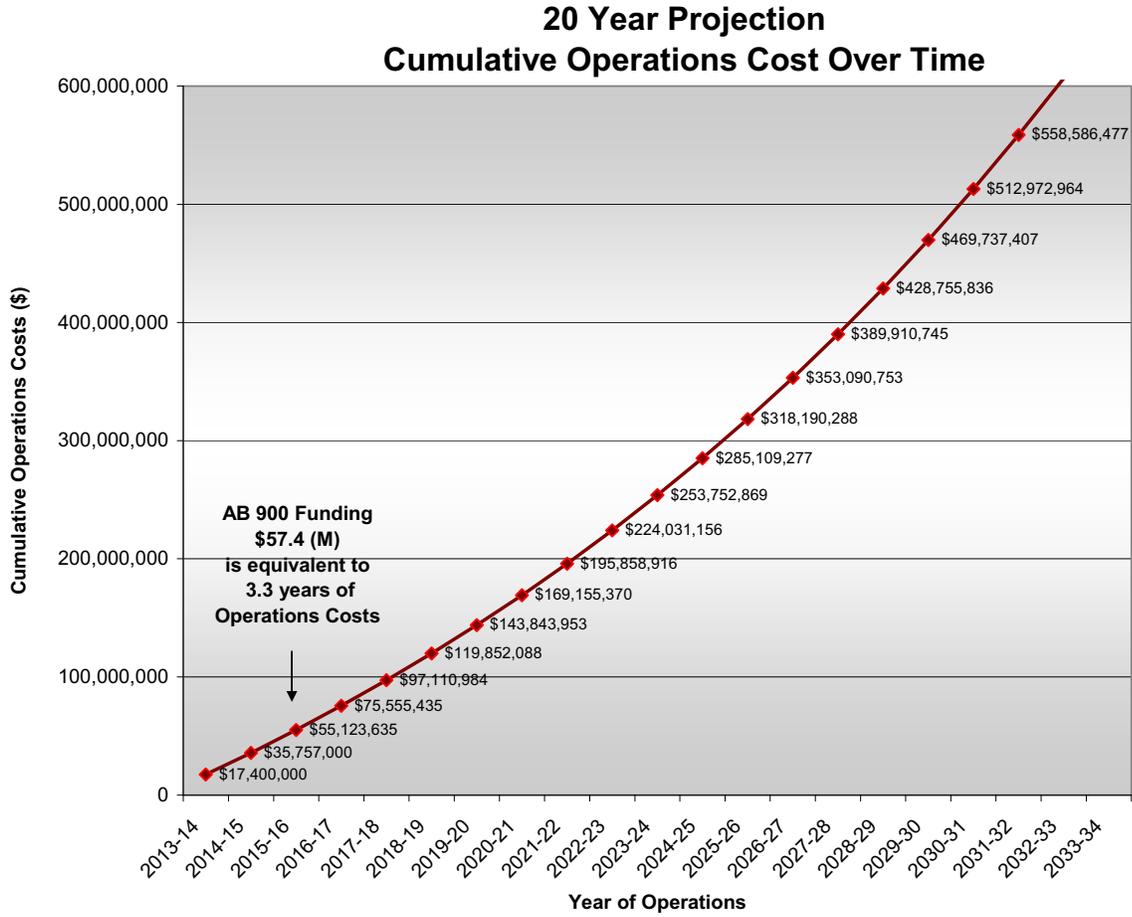
Since operating costs are an ongoing expense only funding resources utilizing existing ongoing revenues or creation of new revenues can be utilized to fund the ongoing expense. This section of the report analyzes funding of the jail operations with existing funds.

The operating cost of the facility is estimated at \$13.2M in FY2008-09 dollars and increasing at 5.5% annually thereafter. By the time the facility is expected to begin operations in FY2013-14, the cost of operations is expected to reach \$17.4M. This chart below shows the gradual increase of operating cost over time. The rate of 5.5% is based on historic data of operating cost at the existing County Jail. Given anticipated labor cost increases and inflation affecting services and supplies, the cost of operations will continue to increase.

Operating Cost Per Year



The amount of funding available from AB 900 grant is equivalent to approximately 3 years of operation expenditures.



Pay-as-you-go:

One of the options to fund ongoing operations available to the County is to redirect current discretionary revenues from other County operations toward funding of the jail. If the new jail operations were to begin in the current FY 2008-09, approximately 7% of General Fund Contribution allocations would have to be redirected toward these operations. This number is derived based on FY 2008-09 General Fund Contribution allocation and the estimated operations cost for the new jail facility in FY 2008-09 dollars. The ratio and the percentage reduction may vary slightly depending on revenue growth rates and increases in expenditures between now and the actual start of operations.

Based on the proposed project timeline, the facility is expected to begin operations in FY 2013-14. Not accounting for the added new jail operations expenditure, the latest General Fund projections show that expenditures are expected to exceed revenues by \$46.9M by FY2013-14 unless new revenue streams are be found or other expenditures are be reduced. Some of the most significant factors contributing to the budget gap of \$46.9M by FY 2013-14 are growth in salaries and retirement costs and Social Services and Fire Department maintenance of effort expenditures coupled with only moderate projections for revenue growth.

Four major venues for redirecting existing revenues to fund the new jail operations have been identified: proportional reductions from all County services, redirection of Proposition 172 funds, graduate diversion of revenue growth toward the new jail operations, and reduction in Retirement Costs.

Proportional Reductions across Existing County Services

A proportional 7% reduction from all General Fund Contribution allocations in FY 2008-09, would equate to the following amounts for each of the County departments receiving discretionary General Fund funds:



Department	7% Reduction
<u>Policy & Executive</u>	
011 BOS	\$186,172
012 County Executive	\$208,887
013 County Counsel	\$167,125
<u>Law & Justice</u>	
021 District Attorney	\$752,633
023 Public Defender	\$460,033
025 Court Services	\$532,427
<u>Public Safety</u>	
022 Probation	\$1,507,240
031 Fire	\$130,578
032 Sheriff	\$4,171,769
<u>Health & Public Assistance</u>	
041 Public Health - 001 (5)	\$208,824
041 Public Health - Fund 042	\$564,158
043 AD & Mental Health	\$220,353
044 Social Services (6)	\$586,530
<u>Community Resources & Public Facilities</u>	
051 Ag Commissioner	\$131,866
052 Parks	\$278,971
053 Planning & Develop	\$443,345
054 Public Works	\$176,841
055 Housing & Community	\$49,413
<u>Support Services</u>	
061 Auditor-Controller	\$304,584
062 CRA	\$660,912
063 General Services	\$555,772
064 Human Resources	\$155,813
065 Treasurer	\$212,254
066 Information Technology	\$62,020
<u>Non Departmental</u>	
990 General Cnty Programs	\$583,450
<u>Grand Total</u>	\$13,311,970



Redirect Proposition 172 – Public Safety Sales Tax Funds

Proposition 172 funds can be considered as a potential funding source because these funds are discretionary to the Board within the public safety framework and could be reallocated among public safety departments.

There are a number of options in which Proposition 172 funds can be redirected: (1) Decrease current distribution by an equal percentage from all the public safety recipient departments (2) Divert 100% of the funds toward the jail and seek other revenue options to replenish the funding to public safety departments losing the revenue (3) Divert the full amount the Sheriff's department currently utilizes for other law enforcement operations toward the jail operations.

Currently the Sheriff's Department receives just under one half of the ½ cent Public Safety Proposition 172 sales tax distribution to the County. The other half is distributed among the Fire Department, District Attorney, Probation, Public Defender and Parks.

FY 2008-09 budget allocated the following amounts to the aforementioned departments:

Department	Proposition 172 Revenue	Total Expenditures FY08-09 Adopted
Sheriff	\$14,311,338	\$99,231,188
Fire	\$2,509,270	\$53,068,419
District Attorney	\$3,828,347	\$16,863,366
Probation	\$6,945,838	\$43,731,044
Public Defender	\$2,786,329	\$10,290,180
Parks	\$34,258	\$11,379,624
	\$30,415,380	\$234,563,821

Reallocation of the funds from Fire, District Attorney, Probation, Public Defender, and Parks, would generate approximately \$16M in FY 2008-09. The new jail operations are estimated at \$13.2M in FY 2008-09 dollars. Given salaries and benefits growth in cost and inflation on other commodities, the cost to operate the jail is estimated at \$17.4M by FY 2013-14 when the project is expected to be complete. This increase in growth represents 5.5% growth per year. Proposition 172 Revenue growth depends on the growth in sales tax and relative distribution of sales in Santa Barbara County and the rest of the counties in California. A rough estimate for this revenue stream is an increase of 2.5% per year. Given the growth rates, in FY2013-14, the redirected revenue will equal to approximately \$18M and the jail operations will require approximately \$17.4.



This funding alternative, does not affect distribution of discretionary general fund revenues, however, the public safety departments currently relying on the Public Safety ½ cent Sales Tax would require either an increase in General Fund Contribution from existing revenues or new revenue streams to maintain the level of operations.

Diversion of Revenue Growth toward the New Jail Operations

In millions of dollars						
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total Discretionary Revenue	\$ 196.33	\$ 202.35	\$ 210.59	\$ 219.36	\$ 227.69	\$ 238.78
Total % Change from Prior Yr	1.06%	3.07%	4.07%	4.17%	3.80%	4.87%
Total \$ Change from Prior Yr		\$ 6.02	\$ 8.24	\$ 8.78	\$ 8.33	\$ 11.09

Another option for redirecting discretionary revenue funds toward the new jail operations is to redirect future revenue growth.

This option also requires reductions to other existing County functions but provides for a more gradual transition. Thus, instead of reducing other County functions by approximately 7% in FY 2013-14, this option provides with an option to phase in the reductions.

For example, maintaining General Fund Contribution allocations flat to all other County functions for two years starting in FY 2012-13, would generate approximately \$19.2M, which is enough and slightly more than the required \$17.4M needed for the new jail operations.

An even more gradual transition can be achieved if other County functions will begin reductions as early as in FY2009-10 for this purpose.

This option also generates some one-time funding available in years prior to the start of new jail operations that could be used toward construction cost of the project.

Reduce Retirement Costs

Staff is continuing to explore options to reduce the County’s cost related to providing retirement benefits. Potential options may be discussed in the future.



REVENUE OPTIONS

Funding the new jail operations with existing funds presents significant reductions in other County operations. In order to maintain the same level of service and to fund the new jail operations, it is inevitable that new revenue streams would have to be originated. Following is a review and analysis of the various revenue sources that may be available.

Oil Development:

State Royalty Sharing

In January 1997, a State statute was enacted providing that under certain prescribed conditions, 20% of State revenues (royalties) derived from new oil/gas leases would be allocated to counties or cities whose shoreline fronts the leases. The statute sunsetted in January 2002.

The passage of a new oil royalty revenue sharing measure for local jurisdictions whose shorelines front oil leases, (e.g. Santa Barbara County) combined with local approval of a major offshore oil development project, could provide the County with many tens of millions of dollars per year over the life of the project.

However, such legislation does not currently exist. If again proposed, its chances of passage would be speculative; moreover, it would take at least one (if not two) years to be enacted.

Production Tax

Another option to derive additional revenue from oil production in the County is to establish a production tax on Crude Oil in the unincorporated boundaries of the County, including State Tidelands for the County of Santa Barbara. Establishment of an oil production tax follows general guidelines and requirements of a local jurisdiction tax and requires a 2/3rd approval of the voters for a special tax or a majority for general tax.

Currently, there are five cities throughout the Los Angeles Basin that assess an oil production tax. Those taxes are largely based on a fixed dollar value per barrel of oil produced within their respective jurisdictions. The revenue amount will vary based on the tax amount and the projects approved to be developed in the County.

Significant projects could generate sufficient funds to cover the cost of new jail operations; however, it is important to know that each significant oil development project would have a life span of approximately 14 to 30 years. Therefore, when considering this option for ongoing operations, the need for continuous replacement of projects should be recognized.



Oil Development

A third venue to generate additional revenue from oil production is through expanding the number and magnitude of projects in the County. Tranquillion Ridge Oil Development is a project currently put forth for approval in the County and alone would generate approximately \$8M per year on average in property taxes throughout the life of this development. The \$8M is the total anticipated property taxes charged per year. This project has a life span of 14 years and the revenues will be received in a bell curved manner, where the development peaks in the middle of the life of the project.

Parcel Tax:

A parcel tax is a per parcel tax that can be imposed on flat basis, based on size or on use of the parcels. Determination of the method imposing the per parcel tax can be a sensitive and contentious matter. Implementation of a parcel tax would require a 2/3rds vote for a special tax or a majority vote for a general tax. The County can place a parcel tax on all parcels located within the County, in incorporated and unincorporated areas, given appropriate initiative or a referendum from the voters. However, it should be noted that the cities may place a tax within city jurisdictions themselves and, therefore, are likely to have an interest in the tax proceeds placed on incorporated jurisdictions.

The impact on an individual would depend on their current property tax bill, which varies widely. As mentioned above, there are three options in which a parcel tax can be levied. One is to apply a flat parcel tax upon all parcels. The second is to apply parcel tax assessment based on parcel type i.e. commercial, mineral, agricultural, single family residential, multifamily, condo, and mobile home. The third is to apply the tax based on size of the parcel. There are approximately 128,000 parcels in the County. Approximately 8,000 of these parcels are exempt or are valued at zero. Below is an example of the dollar amounts required per parcel and the revenue amounts generated based on the estimated 120,000 net parcels.

Parcel Tax		
Parcels	\$ per Parcel	Total Generated
120,000	\$ 50	\$ 6,000,000
120,000	\$ 150	\$ 18,000,000
120,000	\$ 250	\$ 30,000,000

The parcel tax can be increased based on a built in accelerator equal to the Consumer Price Index or the Construction Price Index in order to accommodate rising expenditures over time.



Utility Users' Tax

With voter approval, the County could impose a Utility Users' Tax in unincorporated areas of the County. The City of Santa Barbara and City of Guadalupe are the two jurisdictions in the County that already charge Utility Users' taxes. The City of Santa Barbara charges a 6% Utility Users' Tax on Gas, Water, Garbage, and Cable Television. If the County of Santa Barbara were to mirror the Santa Barbara City Utility Users' Tax structure, based on the proportional number of parcels in the County and the City, the County could generate approximately \$13.5M in FY 2008-09 dollars by imposing the Utility Users' Taxes in unincorporated areas of the County. For comparison, the cost of operating the new County Jail in FY 2008-09 dollars is approximately \$13.2M. Given the nature of the tax, the generated amount would be expected to increase over the years as utility prices rise. The Utility Users' Tax could be proposed as a General tax requiring majority approval or as a Special tax requiring 2/3rd approval.

The California Legislative Analyst's Office states – "About one-half of the state's residents live in a city or county that levies a utility users' tax. This tax is assessed on the consumer of one or more of the following services: electricity, gas, cable television, water, and telephone. Statewide, cities and counties raised over \$1.8 billion from this source in 2004-05. Most utility users' taxes are imposed by city councils and at rates ranging from 1 percent to 11 percent. For cities that impose a utility users' tax, its revenues account for approximately 15 percent of their general-purpose tax revenues."

Sales Tax

The sales tax rate in Santa Barbara County is 7 $\frac{3}{4}$ %. The distribution of the taxes from sales in Santa Barbara County is as follows:

5%	Distributed to the State of California General Fund for State programs.
$\frac{1}{4}$%	Distributed to the State of California Fiscal Recovery Fund.
$\frac{1}{2}$%	Distributed to the State of California and allocated to counties for health and welfare programs (realignment).
$\frac{1}{2}$%	Distributed to the State of California and allocated to local agencies for public safety programs (Proposition 172).
$\frac{3}{4}$%	Distributed to cities or counties (unincorporated area) to support general operations.
$\frac{1}{4}$%	Designated by statute for county transportation purposes and may be used only for road maintenance or the operation of transit systems.



7 ¼% State mandated sales tax rate.

½% Designated to maintain and improve city and County roads and certain State highways throughout Santa Barbara County. Measure D is scheduled to sunset in April 2010 and the renewal Measure A is set for a vote for on November 4, 2008.

7 ¾% Total sales tax rate in Santa Barbara County.

1% Allowable for local uses if approved by voters.

8 ¾% State allowed maximum sales tax rate.

Based on State mandates on sales tax distribution and allowable State maximum, cities and counties have 1 ½ % sales tax available to them given voter approval. Given that Proposition D was approved for ½% sales tax in Santa Barbara County, currently, 1% remains available for potential new revenue.

There are two types of sales tax: general and special. As opposed to a general tax, the proceeds of which are used for general governmental purposes and which requires a majority (50% plus 1) vote, a sales and use tax is considered a special tax, which is used for a specific purpose. A special tax which is used for a specific purpose requires an election in which at least two-thirds of the qualified voting electorate approves the additional revenue.

There are a number of unfunded needs that could be funded by the sales tax and a number of proposals that could be presented to the voters.

1. First, the new jail operations require approximately \$13.2M in FY 2008-09 dollars.
2. Secondly, the Blue Ribbon Commission on Jail Overcrowding recommended approximately another \$6M to be directed toward prevention programming. The aim is to reduce jail overcrowding by reduction in recidivism and by working with at risk population and diverting those at risk from criminal activities.
3. The Maddy Emergency Medical Funding is another outstanding issue for the County, and will require \$8M per year to fully fund the program. This is the mechanism that currently generates approximately \$1.9M a year through the assessment of penalties on motor vehicle and criminal fines and forfeitures to partially compensate health care providers for otherwise uncompensated emergency medical services. The State legislature allowing for this mechanism is due to sunset and the funding will be



completely lost to the County as of FY 2011-12. In addition, this funding compensates only a small portion of all uncompensated emergency medical services and the amount needed to for full compensation is estimated at approximately \$8M per year.

4. If Measure A does not generate the requisite number of votes for approval, in order to maintain present service level to County and city roads, another approximately \$31M will need to be generated countywide or \$8M for unincorporated areas only.
5. The budget gap is expected to grow at the current level of operations, and will reach almost \$47M by the time the new jail is projected to begin operations in FY 2013-14.

Sales tax can be increased in ¼% increments. Given that 1% remains available and could rise to 1 ½%, pending Measure A passage. The following increments by which the sales tax could be increased are available. The estimated revenue generated is based on current data.

Sales Tax	
1/4 %	\$16.5 M
1/2 %	\$33 M
3/4 %	\$49.5 M
1%	\$66 M
1 and 1/4 %	\$82.5 M
1 and 1/2 %	\$99 M

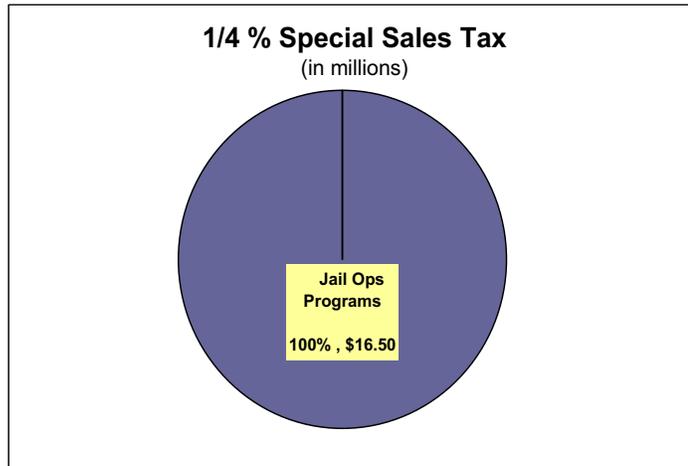
Given the aforementioned unfunded needs, there are a few proposals that could be presented to the voters of Santa Barbara County.

When considering these options, it should be noted that a Special Tax can be placed on either a Special Election ballot or a General Election ballot; whereas, a General Tax, can only be placed on a General Election ballot where members of the governing body are considered for election. There is no General Election until November 2010. The Special tax can be voted on at any countywide election, even one called for only that purpose. The County could elect to have a Special Election on its own, which would cost approximately \$1.5M. There is also the likelihood that the State of California will be holding a Special Election, most likely, in June of 2009. The County can join the State which would decrease the cost to the County.

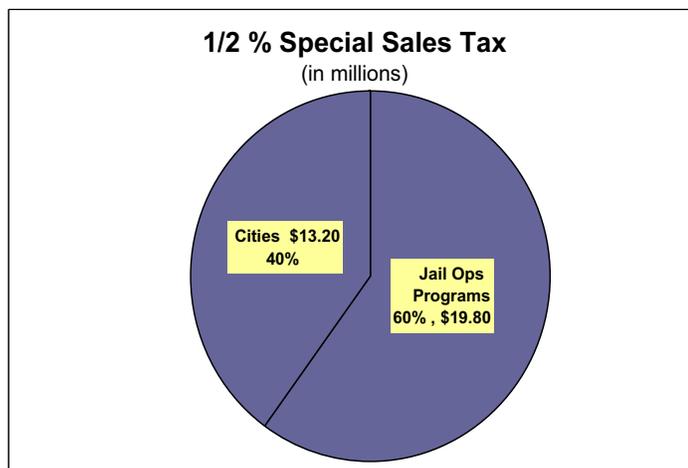
The following graphs show potential Sales Tax initiatives, the revenue that could be generated, potentially in perpetuity based on structure of the ballot, and examples of the uses that this revenue could be directed toward.



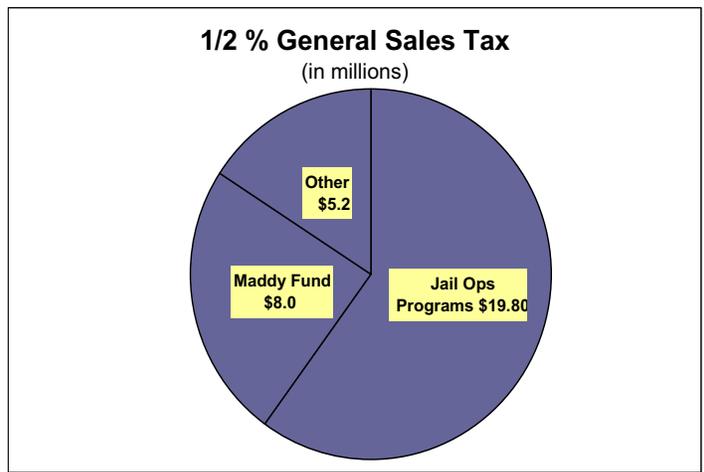
-
- I. Special Tax for County Jail Operations equal to $\frac{1}{4}\%$ or \$16.5M, which is sufficient to fund the new jail operations.



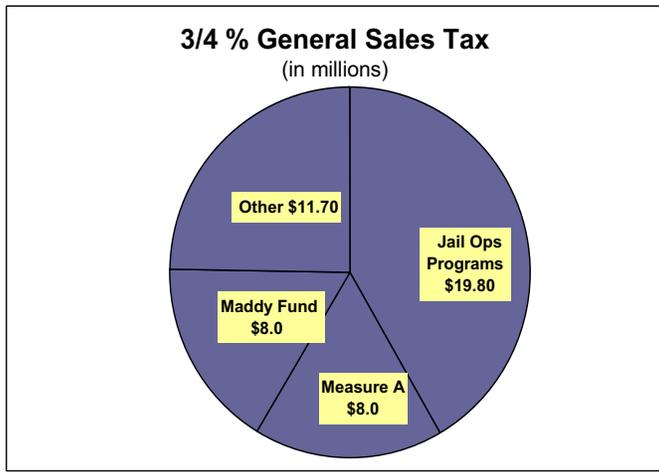
- II. Special Tax for County Jail Operations and Rehabilitation equal to $\frac{1}{2}\%$ or \$33M, which is sufficient to fund the new jail operations, direct funds toward programming at the facility to reduce recidivism and to direct additional funds toward programs that would positively impact the at risk population in a long-run. This option could also provide an allocation to the cities for public safety and prevention programs.



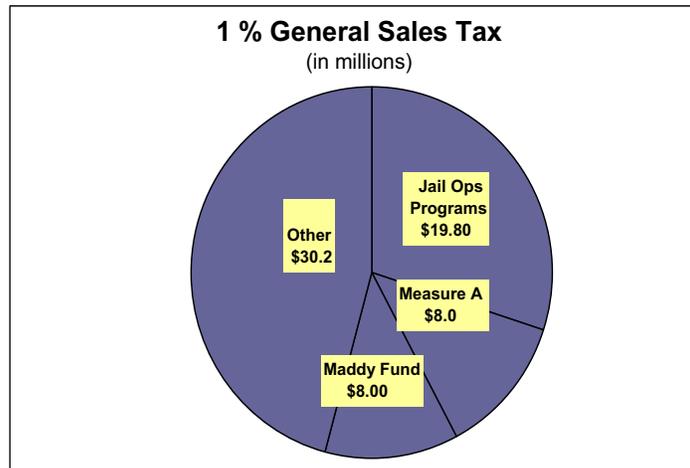
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- III. General Tax of 1/2% or \$33M that could be directed toward programs such as the new jail operations, Maddy Fund, or others. This option gives the County flexibility in managing funds by increasing the amount of discretionary general revenues available for all County Operations.



- IV. General Tax of 3/4% or \$49.5M for General Fund County operations that could be used toward new jail operations and County and city roads if Measure A is not approved by the voters.



-
- V. General Tax of 1% or \$66M for General Fund County operations that could be used toward new jail operations, County and city roads if Measure A is not approved by the voters, Maddy Fund, and prevention programs recommended by the Blue Ribbon Commission.



Insufficient Dollar Generating Revenue Options

There are two additional options that could potentially be available and generate new revenue but that combined do not generate the dollar amount sought.

Transient Occupancy Tax

The TOT is currently set at 10% in the unincorporated County of Santa Barbara. The highest TOT rate in the County is charged by the City of Santa Barbara at 12%. If the County was to raise the TOT rate for unincorporated areas to 12%, the additional 2% would generate approximately \$1.2M.

Development Impact Fees

Development Impact Fees do not require voter approval but generate marginal amount and can only be used toward construction improvement.



Economic Development

The County should also continue considering long-term economic development options that could bring in new revenues indirectly through Sales Tax, added construction, increased tourism and other.

Economic development requires planning and consideration of the added costs to the County as it may spur overall growth. Therefore, economic development options chosen that would generate the greatest net income to the County, is the type of development that generates smart growth and generates greater revenues by improving the standard of life in the County; including tourism, high revenue generating industries, cultural awareness through entertainment, and activities for the youth, etc. Smart growth should include planning to minimize population at risk which contributes to the jail population as well as other costs. The dollar amount generated through economic growth is ranked as medium based on difficulty to estimate the potential effects; however, economic development that maintains and improves the standard of life in Santa Barbara County, in the long-run, could generate the requisite revenue to be used for the benefit of the Santa Barbara County population.

Benefit Assessment District

A benefit assessment is a charge imposed upon real property for a benefit conferred upon the real property and levied on the property tax bill.

It is important to understand that an assessment district is not a separate legal entity; it has no separate governing board and no authority to act independently of the local agency that establishes it; it cannot sue or be sued; and it is not a special district akin to a community services district, water district or public utility district. Determination of the method for spreading the assessments can be a sensitive and contentious matter, especially if the owners of some of the parcels to be assessed object to one or more aspects of the assessment proceeding.

A Benefit Assessment District is not an allowable option to fund law enforcement or jail operation services. An assessment can only be placed on parcels to fund the purposes which confer benefit upon these parcels. A nexus between the use of the funds and the benefit the parcels included in the district receive is required.

However, a Benefit Assessment District could be considered to fund other expenditures in the County. Some of the examples of allowable services to be funded by a Benefit Assessment District are fire protection services and certain types of utilities that directly benefit the parcels upon which the assessment is imposed.



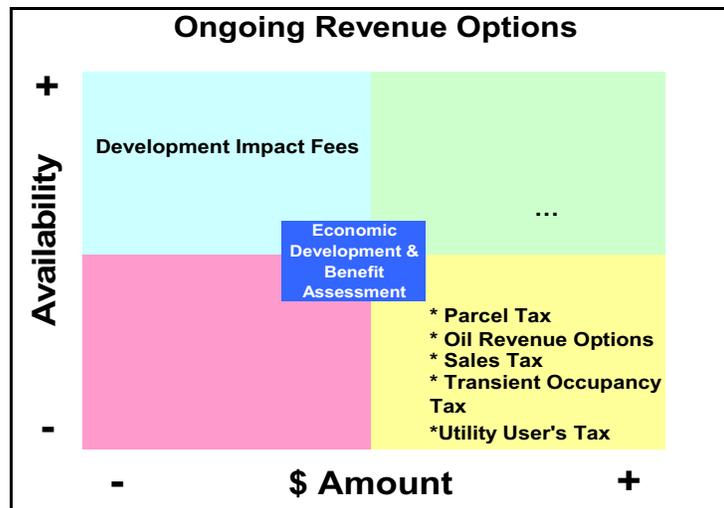
ANALYSIS

This section provides the analysis of construction and operating funding and financing options as well as outlines the advantages and disadvantages of the choices.

Even though the construction cost funding or financing can be challenging, the most significant challenge of this project is funding the ongoing cost of operations. Funding the operations from existing discretionary resources available to the County, will be a detriment to many General Fund programs. Coupled with the slow down in the economy and the projected budget gap throughout the years, unless new revenues are found, the additional expense of the new jail operations will have significant impact on existing County operations.

Given this projected budget imbalance, it is prudent to consider generating new revenue streams – especially streams significant enough in dollar magnitude to alleviate some of the issues. On the same token, such revenue options are a significant challenge of itself given the required voter approval. As shown in the graph below, when ranking the availability of the considered revenue streams i.e. the ease of obtaining the revenue, most options fall within low availability ranking due to the difficulty of receiving voter approval for increased taxes.

Finally, economic development is ranked moderate on availability as it does not require voter approval and can be achieved by appropriate planning and development of the County lands. However, economic development is not ranked high on the availability scale as it takes time to receive the benefits which are lagged and will take time to trickle through the economy as it develops.



The tables below outline the advantages and disadvantages of each of the funding, financing, and revenue generating options that were described in this report.



All Dollars are based on FY 2013-14 Estimates of Cost and Revenue		Advantages	Disadvantages
CAPITAL COST (\$99.2M)		BASED ON 304 BED FACILITY PROJECT SCOPE	
Funding		Advantages	Disadvantages
C1	AB 900 (\$56.3M)	Funds 75% of Capital Cost. Without AB 900 funding, the County can only finance the capital cost of the project by financing, which would require approximately \$7M to \$8.5M in yearly payments, depending on type of financing and the interest rates.	Requires the County to enter into a binding agreement, where one of the terms of the agreement is that the County will begin operating the facility within 90 days of completion of construction. This limits the County's discretion in allocating discretionary funds.
C2	Pay-As-You-Go (Up to \$20.6M)	This option is viable in conjunction with AB 900 grant. The 25% County construction match amounts to approximately \$20.6M. The \$20.6M expenditure is spread among four fiscal years. This option is most feasible to use in conjunction with the Diversion of Revenue Growth for the operating expenditures. Based on this option, the County would begin diverting revenue early on to fund the capital cost match and would provide with a more gradual transition in reducing other services in the County to fund the jail operations. Paying-As-You-Go also eliminates the cost of financing. County has full discretion to effectuate this option.	Pay-As-You-Go requires reductions in other County operations, which would reduce the level of service in other areas. In addition, the benefit of financing capital projects with COPs, as opposed to paying-as-you-go, is beneficial in the fact that the benefit received from the property is more accurately matched with the expenditures. COPs allow for leveraging of general funds rather than paying the cost upfront for a project that has at least a 30 year useful life term.
C3	Strategic Reserve (Up to \$20.6M)	Viable to fund or supplement the expenditures to pay for the County match of the capital cost in conjunction with AB 900 funding. The benefit of using Strategic Reserve is that the County would save on interest costs of the alternative option of financing. Strategic Reserve could also be used in conjunction with the Pay-As-You-Go options and delay service reductions into later years, when the economic cycle of slowing down economy may take a turn for the better. County has full discretion to effectuate this option.	Based on prudent financial management, it is recommended that the County should maintain reserves and limit the risk of exposure of unanticipated emergency expenditures that could negatively impact financial health of the County if reserves are not available.
C4	Sale of County Property (Up to Approx \$40M)	Provides with one-time discretionary funds that could pay for the County match or a portion of the total cost if the County does not accept AB 900 funding. County has full discretion to effectuate this option.	The County has only a limited number of vacant properties. Sale of all vacant property would generate only \$40M. Given other needs the County may have, sale of property today may cost the County more over time when new purchases will be required to accommodate County operations.
C5	Tranquillon Ridge Oil Development Project	The property tax revenue received from the project is sufficient to pay for the County match of the capital cost of the project if AB 900 grant funds are utilized.	Based on the timing of revenue generation and construction expenditures, this option would require borrowing from another source such as the Strategic Reserve to accommodate the construction schedule.
CAPITAL COST			
Financing		Advantages	Disadvantages
C6	General Obligation Bonds (Up to \$80.2M)	The benefit of financing General Obligation Bonds is that this option provides with the lower interest rates available for large scale government financing.	This option requires 2/3rd voter approval and may be challenging in execution. The Board has limited discretion in effectuating this option.
C7	Certificates of Participation (COPs) (Up to \$80.2M)	Certificates of Participation is a financing tool available to governments in California that are lease agreements rather than debt and that allow the governments to exercise their discretion to dispose of real property rather than incur debt. Because COPs are not technically debt, COPs do not require voter approval. COPs then allow government to leverage funds over time matching the benefit and useful life of the asset financed rather than paying the cost upfront.	Issuance of COPs costs the County in interest and in cost of issuance. In the event where expenditures grow at a higher rate than the interest rate of COPs, it is even more lucrative to delay the payments into the future, therefore, minimizing the impact on levels of service.
OPERATING COST		\$17.4M Starting in FY2013-14 and increasing by approximately 5.5% based on estimated cost of labor and inflation.	
Funding		Advantages	Disadvantages
Pay-As-You-Go			
O1	Countywide General Fund Contribution Reduction (approx 7%) (\$17.4M)	Delays service level impacts until the actual year when the funds are needed. Board has full discretion to effectuate this option.	Abrupt and significant reduction in other County services in one year.
O2	Redirect Proposition 172 (\$17.4M)	Uses funds under the Board's discretion. The Board has authority to determine allocation distribution of the Public Safety Sales tax among public safety County functions.	If funds are diverted toward the jail operations, other public safety services will be significantly impacted and will likely require replenishment from another source.
O3	Diversion of Revenue Growth (\$17.4M)	Provides with a smoother transition than a flat Countywide reduction of 7% in one year and can also be used to fund some of the capital costs.	Requires reductions in other County operations early on before they are necessary.
O4	Reduction of Retirement Costs (TBD)	Reducing Retirement Cost by changing amortization rates, for example, provides with short-term expenditure reductions for the County.	Increasing amortization period; however, increases long-term costs and risk to the County.
OPERATING COST			
Revenue		Advantages	Disadvantages
Oil Development			
O5	State Legislature (20% of Royalties)	This option generates sufficient revenue and eliminates the need for service level reductions in other areas in order to fund the ongoing cost of operating the new jail. This option also creates new revenue that is redirected from the State and will not place additional burden on the local taxpayers.	Requires State Legislative Action.
O6	Production Tax (Variable Depending on approval of Projects)	This option may generate sufficient revenue for as long as there are sufficient number of oil development projects in the County lands. The burden of tax is placed on the industry rather than general taxpayer.	Requires voter approval.
O7	Oil Development	Only a small portion of oil resources in the County is currently being developed: Producing leases 13.2 million barrels, Undeveloped Reserves on Developed leases 187.4 million barrels, Released State lands 761 million barrels. Oil is a natural resource that sufficient to generate significant streams of revenue both for the County and the State.	Environmental Considerations.
O8	Parcel Tax (Variable based on rate charged. Can be sufficient to cover \$17.4M)	This option generates sufficient amount of revenue and placed the burden of tax on property owners who benefit from public safety services.	Requires voter approval.
O9	Utility User's Tax (Depending on Rate and Type of Tax Imposed - Up to \$17.4M)	The benefit of Utility User's Tax is that it provides with a viable source that could be sufficient to cover the added cost of operating the jail.	Requires voter approval.
Sales Tax			
O10	1/4% Special (\$18.6M)	Provides sufficient funds to fund the jail operations. Can be brought to the voters in a Special Election. A Special Election requires a minimum of 4 months noticing requirement.	Requires 2/3rd voter approval.
O11	1/2% Special (\$37.3M)	Provides sufficient funds to fund the jail operations and provides with the option to supplement law enforcement efforts across the county including city jurisdictions. Can be brought to the voters in a Special Election.	Requires 2/3rd voter approval. If funds will be generated for both the County and the cities, this option requires multi-jurisdictional cooperation.
O12	1/2% General (\$37.3M)	Provides sufficient funds to fund the jail operations and programming. The general tax also creates discretionary funds that can be used toward general County operations. The 1/2 cent tax could also fund the Maddy Fund needs.	Requires majority voter approval. Can be placed on a General Election ballot only (Nov 2010). The higher tax amount may divert more voters from supporting of this option.
O13	3/4% General (\$56M)	Provides sufficient funds to fund the jail operations and programming. The general tax also creates discretionary funds that can be used toward general County operations. The 3/4 cent tax could also provide funds to replace Measure A funding if the measure does not pass.	Requires majority voter approval. Can be placed on a General Election ballot only (Nov 2010). The higher tax amount may divert more voters from supporting of this option.
O14	1% General (\$74.7M)	Provides sufficient funds to fund the jail operations and programming. The general tax also creates discretionary funds that can be used toward general County operations. The 1 cent tax could also fund both the Maddy Fund needs and replenish Measure A funding if measure A does not pass.	Requires majority voter approval. Can be placed on a General Election ballot only (Nov 2010). The higher tax amount may divert more voters from supporting of this option.
Options Not Recommended for the County Jail - Northern Branch Project		Advantages	Disadvantages
O15	TOT and Development Impact Fees	Even though, these options do not generate requisite revenue amount, the options could be considered to help contribute toward other County operations.	Requires voter approval. These options do not generate revenue amount sought. Development Impact Fees can be used for capital improvements only.
O16	Economic Development (Unknown)	Prudent economic development that improves the standard of life in the County, in the long-term, could generate sufficient amount of revenue to negate the negative impact of this added expense on service levels of other operations in the County.	May cause undesirable growth in the County. There also may be a significant lag between the start of economic development projects and the revenue generation for the County.
O17	Benefit Assessment District (Depends on Boundary Drawn and Assessment Value)	Could be considered to generate funds for County functions that directly benefit the parcels that could be included in a Benefit Assessment District.	Not allowable for public safety purposes.

FINANCIAL SUMMARY - APPENDIX



FUNDING/ FINANCING THE NEW COUNTY JAIL - NORTHERN BRANCH

	Total Capital Cost	*Construction Start					* 2013-14 First Year of Operation
		2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Capital Cost	\$ (76,882,228)	\$ (1,019,000)	\$ (2,602,000)	\$ (4,202,936)	\$ (39,305,900)	\$ (23,215,689)	\$ (6,536,703)
Cash Flow With AB 900 Funding (not including COP)	(\$20,582,228)	(\$1,019,000)	(\$2,602,000)	(\$3,756,292)	(\$17,417,620)	(\$912,432)	\$5,125,116
Operating Cost (ongoing)							\$ (17,400,000)

Funding/Financing of Capital Cost (Assuming AB 900 Funding) - Selected Options

Amount Needed:		\$ (1,019,000)	\$ (2,602,000)	\$ (3,756,292)	\$ (17,417,620)	\$ (912,432)	
Certificates of Participation (COP)	Borrow to be refunded at issuance in 2010		\$3,621,000	\$3,756,292	\$17,417,620	\$ 912,432	
Strategic Reserve	Eliminates Need for COP Payments	\$1,019,000	\$2,602,000	\$3,756,292	\$17,417,620	\$ 912,432	
This option can be used to fully avoid issuing a COP to fund capital cost or as a supplement with a lower issuance							
Fund with Existing Revenues	Redirect Revenue Growth (rounded to nearest million)	Percent of Revenue Redirected	Borrow from Strategic Reserve in FY 2008-09 and Reimburse in FY 2009-10	1.5%	add 1%	add 4.2% (all growth for this fiscal year)	Borrow from Strategic Reserve in FY 2011-12 and Reimburse with FY 2012-13 Growth
	Dollar Amount Generated		See FY 2009-10	\$3,000,000	\$5,000,000	\$14,000,000	\$3,500,000



Funding Operating Cost with Existing or New Revenues - Selected Options

		2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Amount Needed:							\$17.4M
Fund with Existing Revenues	Redirect Revenue Growth	Percent of Revenue Redirected Dollar Amount Generated	1.5%	add 1%	add 4.2%	Some of these funds previously expanded on capital cost can be used toward hiring of staff which will gradually begin to occur in FY 2012 13.	add 1.5%
			See Capital Cost	See Capital Cost	See Capital Cost	\$10,500,000	\$17,400,000
	Cut in Yr of Opearation	Percent Cut					7% to 8%
		Dollar Amount Generated					\$17,500,000
Election Dates			Special Election Winter 2009 (Start Collection) *Special Tax Only		General Election Nov, 2010 (Start Collection)		
Voter Approval Required New Revenue Sources (Sales Tax, Parcel Tax, Oil Tax/Royalty)	Sales Tax	1/4 cent	\$16,912,500	\$17,335,313	\$17,768,695	\$18,212,913	\$18,668,236
		1/2 cent	\$33,825,000	\$34,670,625	\$35,537,391	\$36,425,825	\$37,336,471
		3/4 cent	\$50,737,500	\$52,005,938	\$53,306,086	\$54,638,738	\$56,004,707
		1 cent	\$67,650,000	\$69,341,250	\$71,074,781	\$72,851,651	\$74,672,942
	Parcel Tax	As an example: numbers shown are based on flat tax of \$150 per parcel.	\$18,000,000	\$18,450,000	\$18,911,250	\$19,384,031	\$19,868,632
Oil Production Tax		Depending State Policies and Regulations, Project Approval and % chosen.					





Report of the County Executive Office

Presented to the Board of Supervisors November 4th, 2008

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Jason Stilwell, Assistant County Executive Officer

Terri Maus-Nisich, Assistant County Executive Officer

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Jim Peterson, Sheriff's Department

Tom Jenkins, Sheriff's Department

Nancy Tacy, Sheriff's Department

Doug Martin, Sheriff's Department

Grady Williams, General Services

Stacey Matson, Treasurer Tax Collector Public Administrator

Mark Paul, Auditor Controller

Michael Ledbetter, County Counsel