



**BOARD OF SUPERVISORS
AGENDA LETTER**

Agenda Number:

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

Department Names: County Executive Office
(CEO)
Department No: 012
For Agenda Of: April 18, 19, 21, 2023
Placement: Departmental
Estimated Tme: 3 days
Continued Item:
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Directors Mona Miyasato, County Executive Officer

Contact Info: Paul Clementi, Budget Director

SUBJECT: Fiscal Year 2023-24 Preliminary Budget and Budget Development Workshops

Recommended Actions:

It is recommended that the Board of Supervisors:

- a) Receive and file information about the Fiscal Year 2023-24 preliminary budget;
- b) Provide direction, if any, regarding items to be addressed or included in the CEO's Recommended Budget, scheduled for release in May and Board adoption scheduled for June 16 and 20;
- c) Provide direction regarding Special Issues, including:
 - i. Affirmation of priority capital projects recommended for funding;
 - ii. Use of available discretionary revenues for certain non-cannabis program ongoing and one-time costs currently funded by cannabis tax revenue;
 - iii. Next steps in evaluating revenue tax measures including polling, where appropriate;
- d) Provide other direction, if any, as appropriate; and
- e) Determine pursuant to CEQA Guidelines 15378(b)(4) that the above actions are not a project subject to CEQA review, because it is a government fiscal activity that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

Summary:

The purpose of this week’s workshops is for the Board of Supervisors and the public to receive information on, and provide input to, the preliminary FY 2023-24 County budget. The preliminary budget is still in draft form, and materials provided at the workshops are not intended to be inclusive of the entire Recommended Budget, which will be finalized and released in May. The workshop discussions assist the County Executive Office in preparing the Recommended Budget and other adjustments for Board consideration at the Budget Adoption hearings in June.

Last year, as we emerged from the pandemic, the County budget development process focused on resetting, reimagining, and reconnecting as we adapted to our changing environment and new ways of serving the needs of our residents. County efforts to implement federally funded recovery plans are now well underway and departments are focusing on core services and current needs while planning for the future. The theme for the Fiscal Year (FY) 2023-24 budget is ***Ready for Today, Preparing for Tomorrow***, signifying the progress made on Board priorities and investments and continued prudent planning for the known and emerging issues on the horizon.

Ready for Today....

Several years of setting aside funds for anticipated cost increases, maintaining predominantly status quo budgets for General Fund departments and adopting fiscally sound budget development policies have resulted in a sustained stable budgetary environment for the County. This long-term fiscal planning has enabled support and progress to be made on many of the Board’s priorities, including homeless and housing services, mental health services, systems upgrades, long-range planning, electric vehicle infrastructure and energy efficiency solutions, deferred maintenance, diversity, equity, and inclusion efforts, and criminal justice initiatives, to name a few.

Fiscal stability today is lending toward next year’s budget development, to include considerable growth in health and human services programs from State Realignment revenues and the ability to maintain service levels for General Fund departments and continue progress on Board priorities despite high inflation and increased costs of doing business, lower cannabis tax revenue than in prior years, and a \$22.5 billion deficit at the State.

Preparing for Tomorrow....

However, maintaining fiscal stability requires constant vigilance and an eye towards the future. State budget shortfalls, unforeseen disasters, legislative changes and workforce instability can significantly impact the County’s position despite diligent planning efforts. The following are notable budgetary and operational impacts seen on the horizon:

- State and federal resources make up roughly 40% of the County’s budget. The State is indicating a shortfall and delay in primarily personal income revenue that may impact the County but to what extent won’t be known until the May Revise is issued.
- County residents have endured several significant storms in 2023 that have resulted in property and infrastructure damage. Public Works Transportation division estimates \$32 million in damages to County roads and infrastructure from January 2023 storm events, which will require cashflow assistance and some level of General Fund contribution well into the next fiscal year.

- Legislative and State action related to CARES Court, California Advancing and Innovating Medi-Cal (CalAIM) implementation, Felony Incompetent to Stand Trial (IST) mitigation requirements and the Mental Health Services Act are impacting departments and causing uncertainty in available resources and service delivery.
- Some of the operational challenges common to departments next year involve staffing difficulties (recruitment and retention) given the high cost of housing, and recent and upcoming retirements. These will be discussed at length in department presentations during these workshops.

Overall, this means a year without significant program expansion or new ongoing expenditures that are supported by discretionary General Fund revenue. Additionally, setting aside ongoing funding for future deficits given the uncertainty of the State budget and known cost increases identified in the five-year forecast will be critical.

Fiscal challenges were forecasted in December and restraint urged in developing department budgets

In December, staff presented the Budget Development Report with the five-year forecast. Projections at that time indicated a slowing of local discretionary revenue growth as compared to recent fiscal years during the pandemic, as well as a \$25 billion deficit forecasted at the State level by the Legislative Analyst's Office (LAO). Since revenue growth helps offset the General Fund portion of negotiated salary increases and increased costs for health benefits, retirement contribution, and insurance premiums, minimal General Fund resources were projected to be available for expansion of services. Additional funding was anticipated to be needed to mitigate rate increases in general liability and workers compensation premiums, internal service charges, and to address projected deficits in future years or possible reductions in State and federal revenues. Cannabis revenue was projected to decrease as a result of the continued decline in wholesale cannabis prices. Departments were informed that due to these issues, the budget development objective was to maintain current service levels to the extent possible, while funding required cost increases related to negotiated labor contracts, increasing pension and insurance rates, additional mandated costs, setting aside funding now to mitigate future cost increases, and leveraging one-time funding to continue investing in priority projects and initiatives.

Since that time, the Governor's proposed January budget forecasts a deficit of \$22.5 billion and relies on budget solutions like fund shifts, trigger reductions, and limited revenue generation and borrowing to address the budget shortfall. While most of the proposed reductions and delays do not appear to directly impact the County at this time, an added challenge during the budgeting process will be prolonged uncertainty due to the State postponing the tax filing deadline to October, which may result in further funding reductions and delays in the May Revise.

Preliminary operating budget is \$1.48 billion, a 6.2% increase compared to the FY 2022-23 adopted operating budget

The County's preliminary operating budget is estimated at \$1.48 billion for FY 2023-24 and marks a fifth year in a row that service level reductions are not necessary in any County department. Some of the major drivers countywide are salaries and benefits, particularly negotiated wage increases and rising pension and healthcare costs, as well as increasing internal service fund charges and general liability insurance costs, all of which are discussed in Attachment A in greater detail.

The General Fund preliminary operating budget is \$498.1 million, an increase of \$40.9 million (8.9%) over the current year's adopted budget, due to the same drivers mentioned above, as well as increasing

contract and maintenance costs in multiple departments. These costs are partially being funded by growth in discretionary General Fund revenue that includes property, transient occupancy, and sales tax revenue. Critical State revenues, including Proposition 172 and Realignment funds, are also assisting with balancing rising costs and, in some cases, enhancing operational efforts. All of these resources have been essential to mitigating increasing costs and supporting critical department needs.

Total General Fund Contribution to departments is \$359.9 million (excluding cannabis revenue) an increase of \$35.6 million (10.9%) over the current year, to fund salary and benefit increases, Northern Branch Jail operations, general liability insurance and workers' compensation cost increases, and more. Specifics on the entire recommended allocation of the \$35.6 million can be found in Attachment A.

However, continued uncertainty around the State's FY 2023-24 budget means caution must be exercised in allocation of the County's resources, as any unexpected reductions in State programs could either mean cuts to important departmental programs, or the need to backfill with County funding to avoid cuts. 2023 storm repair costs and possible penalty payments to the State related to the number of individuals in the County deemed IST on felony charges are additional developing issues that may require funding from County reserves.

The budget outlook next year is stable, despite uncertainties, as a result of the Board's prudence and fiscal planning

The County's stable fiscal outlook today results from years of strong fiscal management and prudent budgetary practices led by the Board to promote organizational resilience and fiscal stability. The preliminary budget continues to represent the Board's policies on program-based budgeting, sustainability, identifying and mitigating risks, and maintaining prudent reserves. Additionally, it recommends measures to strengthen the County's current fiscal position and our ability to navigate what the future may bring. While cost pressures have restricted the ability to expand General Fund programs and services, the Board's foresight and careful planning in managing limited resources has enabled the County to preserve stability in operations, while also setting aside funding to address future known, and unknown, challenges. Despite the County's ability to avoid service level reductions and maintain fiscal stability, in future years the budget will continue to be challenged by rising labor, pension, and insurance premium costs, recruiting and retention of critical staff, economic pressures, legislative changes, and deferred maintenance needs. It is imperative to remain vigilant in continuing to strive for organizational excellence as we build a budget that not only achieves the objectives of today but prepares the County for the needs of tomorrow.

The following is a summary of programmatic priorities and/or strategic investments included in the FY 2023-24 preliminary budget.

Budget Highlights

County Financial Stability

Board-adopted budget development policies continue to prioritize financial stability, to help mitigate risks and prepare for future challenges. This budget implements steps to strengthen our current financial stability and prepare for what the future might bring, including, but not limited

to, maintaining a strategic reserve at 8% of General Fund operating revenue according to policy, and setting aside ongoing General Fund resources for future deficits and priority needs identified in a five-year forecast. The balance of the Strategic Reserve for FY 2023-24 is \$44.0 million, and the preliminary budget includes additional set asides totaling \$13.5 million for deficits identified in the five-year forecast as well as for future employee benefits and initiatives.

Repair and recovery costs from the 2023 storms continue to be monitored and will likely require some level of funding from General Fund reserves before State and federal reimbursements are received, although at this time those numbers are still unknown.

American Rescue Plan Act

Departments are well underway on many projects approved by the Board that are federally funded by the American Rescue Plan Act (ARPA). The County received a total of \$86.7 million from the State and Local Fiscal Recovery Fund (SLFRF), signed into legislation in March 2021. The Board fully allocated this funding last fiscal year, and the preliminary budget includes \$30 million for ARPA SLFRF projects in the upcoming fiscal year. The full list of ARPA SLFRF projects funded in FY 2023-24 is included in Attachment A. As projects continue to move forward, any needed adjustments or remaining funding will be brought back to the Board for reallocation, prior to the U.S. Treasury's expenditure deadline of December 31, 2026.

Additionally, the County is receiving \$2.3 million from the ARPA Local Assistance and Tribal Consistency Fund (LATCF), which has broader allowable uses than the SLFRF, and is a one-time source available for allocation in the FY 2023-24 preliminary budget.

Homelessness and Housing

The Board has approved a total allocation of approximately \$24.3 million in ARPA SLFRF funding towards homelessness efforts through the Health and Human Services Recovery Plan. The FY 2023-24 preliminary budget contains \$16 million of this funding, including \$3 million to serve as required local match for a to-be-awarded State HomeKey Round 3 housing project. Homeless housing developments partially funded by ARPA SLFRF in current and previous years include the Hedges House of Hope in Isla Vista (60 beds), Pallet Shelters at Bridgehouse in Lompoc (20 units), DignityMoves South in Santa Barbara (30 units),

and Hope Village in Santa Maria (90 units). In addition, the Community Services Department will be allocating approximately \$30.1 million in State and federal funding to address and prevent homelessness in FY 2023-24. This includes funding for facilities, outreach and support services, rental assistance, and an encampment strategy.

Supporting Disadvantaged and Vulnerable Populations

The preliminary budget includes Board approved funding to support some of our most disadvantaged and vulnerable populations. Of the \$2 million in the Health and Human Services Recovery Plan for Childcare Recovery and Resiliency, \$730,000 is budgeted in FY 2023-24. Half of the \$400,000 Digital Literacy HHS Recovery Plan project is included in this year's budget, and the Community Services Department anticipates awarding \$600,000 of ARPA SLFRF to senior meals providers. The FY 2023-24 Department of Social Services preliminary budget includes grant match and administrative costs to stand up a County Farmworker Resource Center to assist farmworkers in navigating public agencies, receiving information regarding wage and hour laws, health and safety laws, resolving workplace disputes, and pursuing other legal rights. Social Services is also utilizing State funding to add 24 FTE in Protective Services for Children, Adults and Disabled to align Social Worker caseloads with the rapid growth over the past few years and 20 Eligibility Workers in Economic Assistance and Employment Services due to resumption of annual Medi-Cal redeterminations after expiration of the waiver for re-determinations during the COVID-19 pandemic.

The Department of Behavioral Wellness is proposing to add 16.9 FTE funded with State Realignment in Quality Care Management, Alcohol and Drug Programs, Mental Health Outpatient and Community, and Administration and Support programs to continue implementation of CalAIM. Behavioral Wellness will continue to staff three co-response teams in

the unincorporated areas of the County in partnership with the Sheriff's Office. A new co-response team, to be focused in Lompoc, is also being recommended for funding by the Community Corrections Partnership (CCP), for a total of four teams. In addition, Fire and Behavioral Wellness departments are in discussions to launch a pilot EMT co-response team.

Economic Vitality

Funding was allocated from ARPA SLFRF to fund two economic vitality initiatives beginning in 2022, the Countywide Broadband Strategic Plan (\$200,000) and the Comprehensive Economic Development Strategy (CEDS - \$150,000). The Broadband Strategic Plan was completed in FY 2022-23 and will continue to be implemented in FY 2023-24. Efforts on broadband include plan implementation and identifying and applying for State and/or federal grant funding. The CEDS will be completed in FY 2023-24 and implementation efforts will commence upon plan completion in August 2023. The CEDS will give the County access to federal funding opportunities for economic development efforts. Additionally, in FY 2023-24, economic vitality efforts such as the Vandenberg Space Force Base Master Plan will continue, which includes working with REACH, the regional economic action coalition, on exploring possible expansion of the VSFB Memorandum of Understanding (MOU) with other local agencies.

Regional Parks and Libraries

The budget continues to prioritize outdoor activities by providing funding for improvements and maintenance at many of our regional parks, including planned recreational improvements at Cachuma Lake, Manning Park, Arroyo Burro and Lookout Park. A draft of the Countywide Recreation Master Plan is anticipated to be released to the public in Summer 2023, followed by the release of a programmatic Environmental Impact Report (EIR) and final adoption of the Plan by FY 2024-25. Additionally, after some delays resulting from unanticipated renovation

challenges with existing infrastructure, a new restaurant at Goleta Beach is anticipated to open by FY 2023-24. Finally, ongoing CPI growth continues to be included for library funding, and solutions are being considered among all library partners for more equitable and sustainable library funding.

Climate Change Adaptation

As part of the County's continued efforts to address climate change, a number of projects are anticipated for FY 2023-24. General Services continues making investments and expansions in the County's electric vehicle (EV) program, including completion of the \$1.5 million EV infrastructure upgrades begun in FY 2022-23, and will continue to implement energy efficiency upgrades to increase the County's renewable energy profile. The Community Services Department plans to complete development of the 2030 Climate Action Plan including pursuing new funding, such as grant opportunities, to support the plan's implementation. Focus areas for emissions reductions measures include transportation, buildings, and opportunities for carbon sequestration. Additionally, the department plans to complete a draft Energy Assurance Plan which will outline strategies for the County, businesses, and community members to take to increase energy resilience, as well as completing a draft Zero Emission Vehicle and Mobility Plan.

Capital Improvements

Continued strategic investments in County facilities will help ensure we provide efficient and sustainable services to our residents and investors. The Community Services Department has budgeted for a variety of updates to Parks facilities, including ADA restrooms at Rincon Park, replacement of the amphitheater at Cachuma Lake, and replacement of tennis courts at Manning Park. Several projects managed by General Services are also budgeted including the anticipated start of construction for the new Probation Headquarters, anticipated completion of the Regional Fire Communications Center, completion of RV park renovations at Cachuma

Lake, and continued progress on the Public Safety Radio Network project. Public Works has numerous large capital projects planned for FY 2023-24 including completion of the Foothill Bridge replacement near Cuyama and continued work on the Lower Mission Creek Flood Control project. A special issue presented at the workshops will provide more detail on capital projects.

Deferred Maintenance

The 18% funding plan continues to allocate funding for deferred maintenance, increasing by \$3.3 million in FY 2023-24, to a total of \$15.0 million in ongoing General Fund, distributed to Public Works, General Services, and Community Services Departments. Additional funding of \$3.6 million is being used for critical capital and maintenance projects, including countywide accessibility improvements, roof replacements, energy efficiency upgrades, and more. The Public Works Department also anticipates \$9.6 million in SB 1 funding for roads maintenance, for a total of \$17.3 million towards capital maintenance of local roads, hardscape and trees, bridges, and more. Deferred maintenance projects and funding will be presented in more detail during a special issue at the workshops.

Innovation & Technology

To effectively facilitate the County's technology needs and priorities, the Information Communications and Technology (ICT) division within General Services, is transitioning to a standalone department, a change that will take full effect on July 1, 2023. Headed by Chief Information Officer Chris Chirgwin, the new Information Technology Department (ITD) will focus on taking a strategic and proactive approach to providing technology services to departments—working to modernize more services by taking a cloud-first approach, emphasizing the need for improved standardization, integration and automation, improving geographic information systems (GIS) capabilities, leveraging data more effectively, and prioritizing cybersecurity. This transition was born from the Renew '22 initiative

and is the culmination of a multi-year effort, supported by the Board with ongoing resources set aside in previous budgets to facilitate the creation of a standalone IT department.

The Board adopted set-aside of \$2 million annually for critical information technology needs continues to assist with technology replacement that is prioritized through the Executive Information Technology Committee (EITC). Planned projects in FY 2023-24 include implementation of a digital evidence management system among the criminal justice partners, cyber security projects, and expansion of the County's wireless network. Many other major systems updates will be occurring in FY 2023-24, including implementation of two phases of the new Enterprise Resource Planning system (ERP), Statewide Automated Welfare system for Department of Social Services economic assistance client management, adoption of an Electronic Health Record (EHR) for County Health and Human Services departments, and other projects that benefit several service departments.

Criminal Justice Initiatives

The intersection of criminal justice and behavioral health is increasingly a central focus of work to achieve the Board priorities as well as the goals of the Community Corrections Partnership. In collaboration with CEO staff, the criminal justice partner agencies have closely considered the report prepared by Michael Wilson Consulting regarding the jail population and identified policy levers focused on safely reducing the jail population. They are making significant progress in data integration efforts that are necessary in order to continue to advance their shared priorities and initiatives as well as better partnering around behavioral health focused efforts.

Initiatives coming in FY 2023-24 include: optimizing existing diversion programs as well as creating additional felony diversion opportunities; expanding the alternative sentencing population as well as enhancing

supports and field supervision; continuation of pretrial expansion efforts while also enhancing assessment and support for the most vulnerable; recruitment of an Assessment and Re-entry Coordinator to support re-entry of justice-involved into the community; and improved coordination of data analysis across the criminal justice and behavioral health continuum that supports studying and addressing disparities.

Diversity, Equity & Inclusion Initiatives

The County continues to value and embrace a culture of diversity, equity and inclusion (DEI) and is committed to promoting these values in FY 2023-24 and beyond. All departments remain committed to continuing efforts to refine and deploy their DEI plans and provide training to employees, while departments such as the Agricultural Commissioner will also look externally to develop more training and workshop opportunities for agricultural workers in Spanish and Mixteco languages. The preliminary budget also includes \$851,000 of

ARPA funds that are being appropriated to engage in translation services to improve language access, and consultant services to develop a comprehensive community-facing DEI plan.

Next Phases of Renew

Renew is the County’s internal initiative to transform our organization by rethinking how we leverage technology, people and processes to meet new expectations, community needs, and changing economic, social and environmental conditions. It succeeds the original, five-year *Renew* ’22 initiative that kickstarted many of the innovations and changes witnessed over the past 5 years. The Countywide Big Picture Goals (BPGs) were updated and revised to build on our successes. These new BPGs will be incorporated into the departmental pages in the FY 2023-24 Recommended Budget document to meet new Government Finance Officers Association (GFOA) budget award criteria that is effective for FY 2023-24.

The above priorities and investments are highlighted as they speak directly to the County’s ongoing efforts to achieve the Countywide vision and address the goals and objectives of *Renew* and the budget development policies adopted by the Board of Supervisors. Details regarding changes to the budget, staffing, and Discretionary General Funding can be found in the Preliminary Budget Summary (Attachment A) and workshop binder material.

Purpose of the Budget Workshops

This letter and attached workshop documents are provided to present the Board of Supervisors with a preliminary budget for FY 2023-24. The County Budget Act requires the County to approve a budget before June 30 (Government Code section 29064). Budget Workshops are scheduled for April 18th, 19th, and 21st.

At the workshops, department directors will provide presentations on their preliminary budgets, significant issues impacting their operations, accomplishments, goals for the upcoming fiscal year, budget expansion requests, and updates on their *Renew* initiatives. The County Executive Office, in conjunction with the Auditor-Controller’s Office, has completed the review of departments’ preliminary budgets and revenue estimates, which remain subject to change until the tax roll is completed and the State budget is adopted.

The workshops also provide an opportunity for the Board to receive information and provide direction to staff, as appropriate, on particular policy issues that affect department budgets. This year, the workshops include three special issue reports:

1. **Maintenance and Capital Projects** (Wednesday, following Information Technology Department presentation). Board direction will be requested on affirming the list of recommended capital projects or making adjustments.
2. **Cannabis Revenue Update** (Friday, following General County Programs presentation). Board direction will be requested on staff's recommendation to use discretionary General Fund revenue to pay for certain ongoing and one-time expenditures currently funded by cannabis tax revenue.
3. **Revenue Tax Measures** (Friday, following Cannabis special issue). Board direction will be requested on next steps to evaluate any of the potential tax measures in time for the 2024 primary or general elections.

The materials provided at the workshops are not intended to be inclusive of the entire Recommended Budget, which will be finalized with all financial schedules and department detail pages and released in May. Budget hearings are scheduled to be held on June 16, and June 20 if necessary. At those hearings, staff will present the Recommended Budget for the Board's consideration, amendment, and adoption.

Fiscal Impacts:

There are no fiscal impacts associated with holding the Budget Workshops. Addressing the information presented during the workshops will provide staff direction in finalizing revenues and expenditures, which will be incorporated into the Fiscal Year 2023-24 Recommended Budget for adoption at the June budget hearings.

Attachments:

Attachment A: FY 2023-24 Preliminary Budget Summary

Attachment B: FY 2023-24 Budget Workshop Binder

Authored by:

CEO Budget & Research Division

cc:

Assistant CEOs

Department Directors

CEO Fiscal and Policy Analysts