

FISCAL YEARS 2021-26

# FIVE-YEAR FORECAST & FISCAL ISSUES REPORT

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**Board of Supervisors**  
Tuesday, November 17, 2020



County Executive Office

# TODAY'S REPORT

- Five-Year Forecast
- Significant Fiscal Issues
- Preparing for FY 2021-22 Budget Development



2020

**NOVEMBER**

Five-Year Forecast &  
Significant Fiscal Issues

2021

**DECEMBER**

Budget Development  
Priorities

**APRIL**

Budget  
Workshops

**JUNE**

Budget  
Hearings

**MAY**

Recommended  
Budget Released

BUDGET **DEVELOPMENT**

# ABOUT THE FORECAST

- Provides context for balancing short-term and long-term goals during development of the FY 2021-22 budget; not intended to solve gaps today
- Identifies potential demands on County resources in the coming years
- Projects gaps beginning in FY 2021-22 resulting from COVID-induced recession, with three scenarios considered
- Identifies key areas, including certain Special Revenue Funds, that will need attention when preparing the FY 2021-22 budget

# Context

- Recession officially began in February
- County at the forefront of fighting the pandemic
- Major discretionary revenue sources relatively stable, with cannabis tax moving into top four
- Assumptions based on current estimates of expenditure and revenue growth
- Assumes a status quo level of services





# EXPENDITURE ASSUMPTIONS

# Salaries & Benefits

## Salaries

**3.1%** avg. annual increase

- Negotiated salary increases; MOUs will end in FY 2020-21 and FY 2021-22
- Step and merit increases for represented employees
- Status quo staffing

## Retirement

**12%\*** increase in Year 1

- Salary increases + SBCERS plan rates
- Costs partially offset by pension cost-sharing
- Low investment return last year drives Y1 increase

## Health Insurance

**5%** annual increase

- Relatively low premium increases for County health plans in recent years
- Year-to-year increases unpredictable; driven by prior year cost experience and market factors

\* 5% average increase in Years 2 through 5

# Other Expenditure Drivers

## Information Technology

**8%** avg. annual increase

- Software & hardware costs are departments' responsibilities
- Unplanned costs to prepare for telework
- GFC considered for some increases outside department control

## General Liability

**21%\*** increase in Year 1

- Upward trend continues
- Increasing California settlement amounts
- Growing County experience ratings

## Other Services & Supplies

**5%** annual increase

- Utilities, professional services, general office costs are departments' responsibilities
- GFC considered for some increases outside department control

\* 7% average increase in Years 2 through 5



# Ongoing Commitments



## Northern Branch Jail Set-Aside

- Grows to the annual funding level of **\$19.9M** by FY 2022-23
  - **\$600K** more than anticipated in FY 2011-12 plan for jail medical and salaries & benefits growth
- Updated funding plan will be included with December budget development policies

## Fire Tax Shift

- Target of 17% of property tax revenues was met in FY 2019-20
- Dollar value of 17% Fire share increases with property tax growth

# Ongoing Commitments



## 18% Maintenance Funding Plan

- Annual increases track unallocated discretionary revenue growth (includes cannabis tax revenue)
- Forecast assumes \$8.1M in all years (continuation of FY 2020-21 adopted funding level)
- During budget development, 18% of unallocated growth will be apportioned to maintenance

## Strategic Reserve

- Fully funded in each of the 5 forecast years
- Fully funded at over \$38M in Y1 with no additional contribution
  - FY 2020-21 budget assumed DSS would need Realignment backfill, but State provided backfill and no draw will be required
- Requires annual contribution of \$1.5M in Y2-Y5 to maintain target





# REVENUE ASSUMPTIONS



# Three Growth Scenarios

## Mild Recession

Assumes that the adverse impacts of the pandemic on the economy improve in 2021 and most tax revenues experience growth beginning in FY 2021-22

## Baseline Scenario

*Assumes Gradual Recovery in Y2*

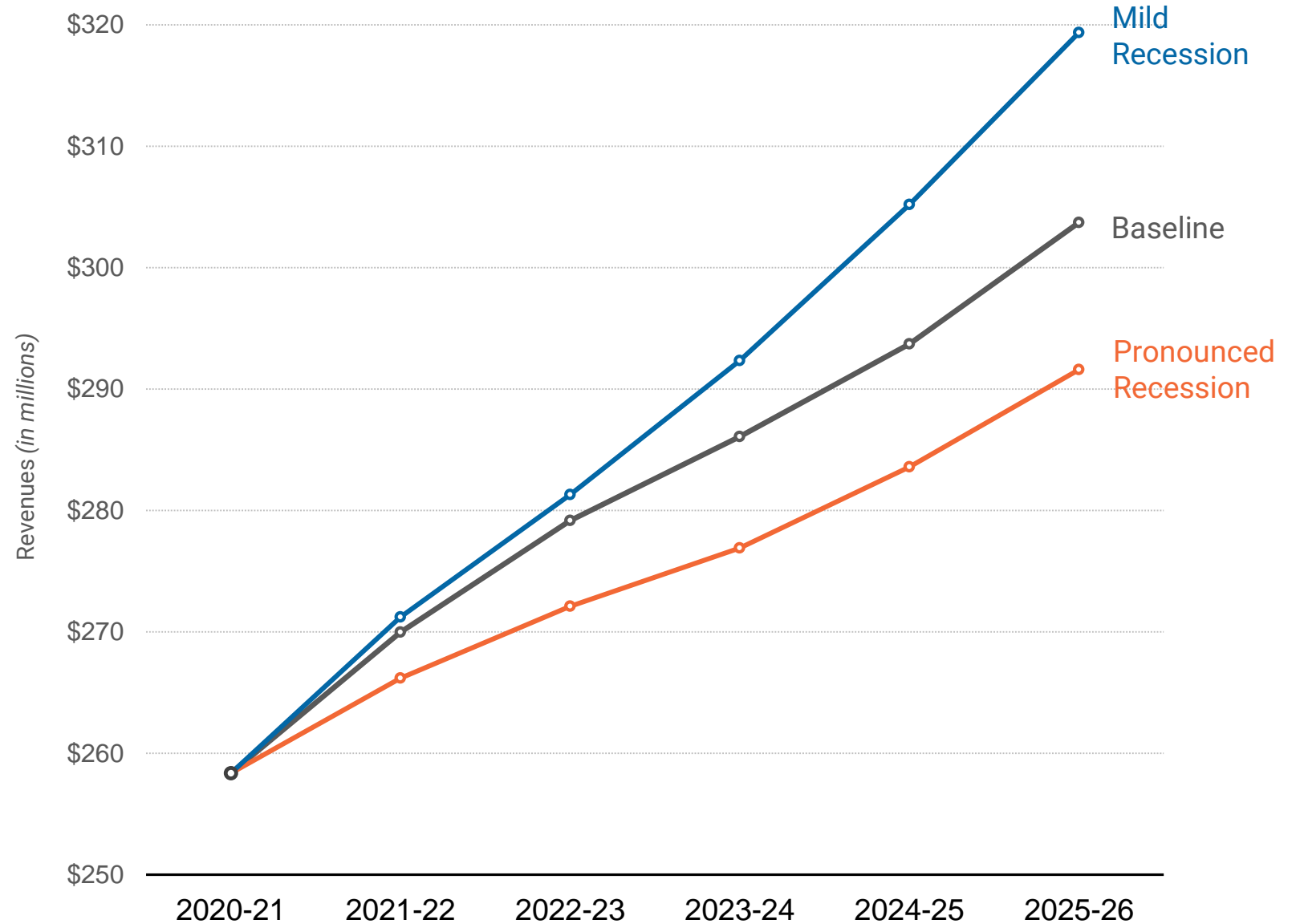
Assumes gradual economic recovery and moderate growth in tax revenues from FY 2022-23 onward

## Pronounced Recession

Assumes lingering disruption to economic activity due to the pandemic and slow recovery as a result

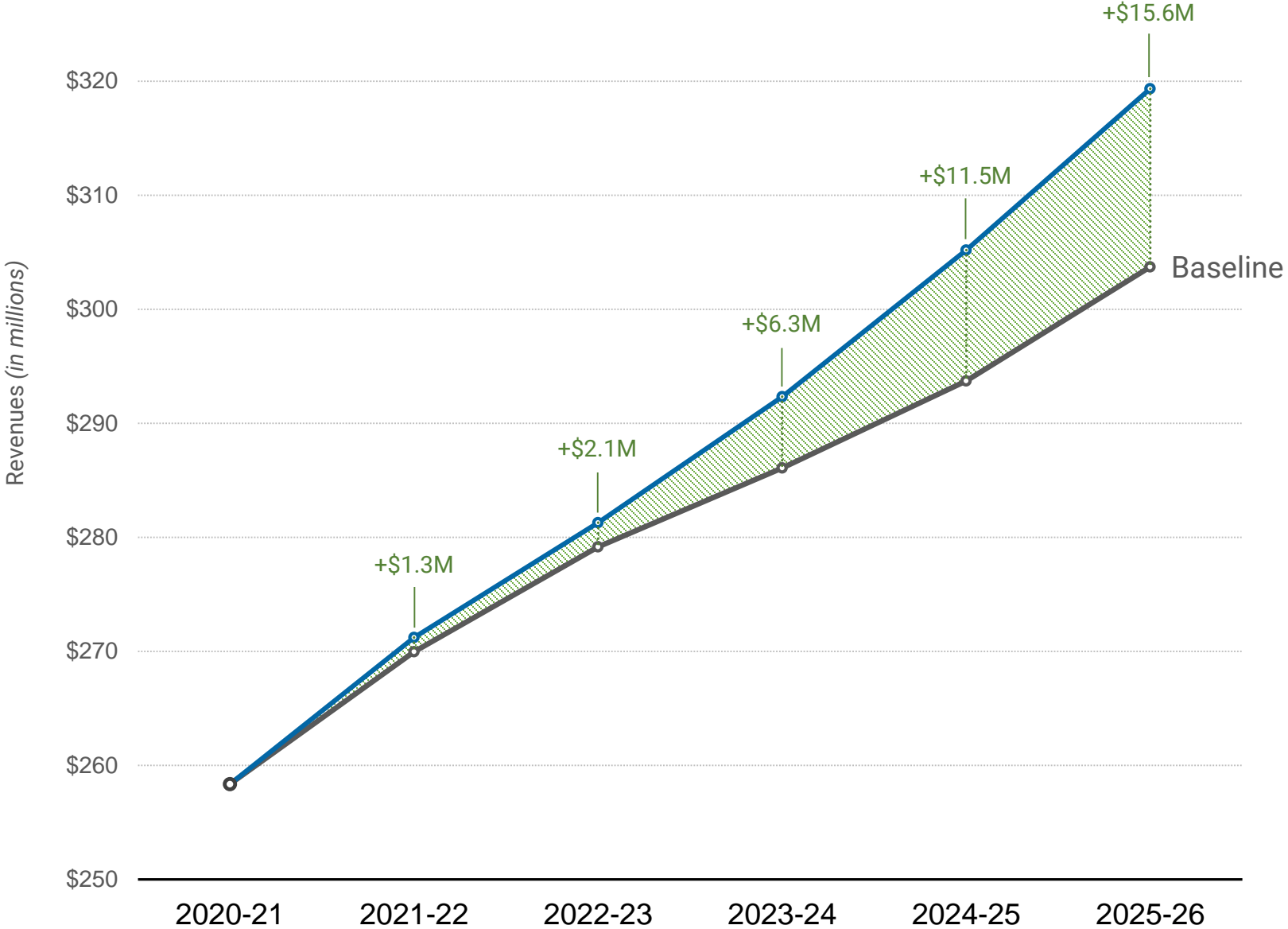
# Major Discretionary Revenues

Potential Revenue Changes in the Event of a Recession



# Major Discretionary Revenues

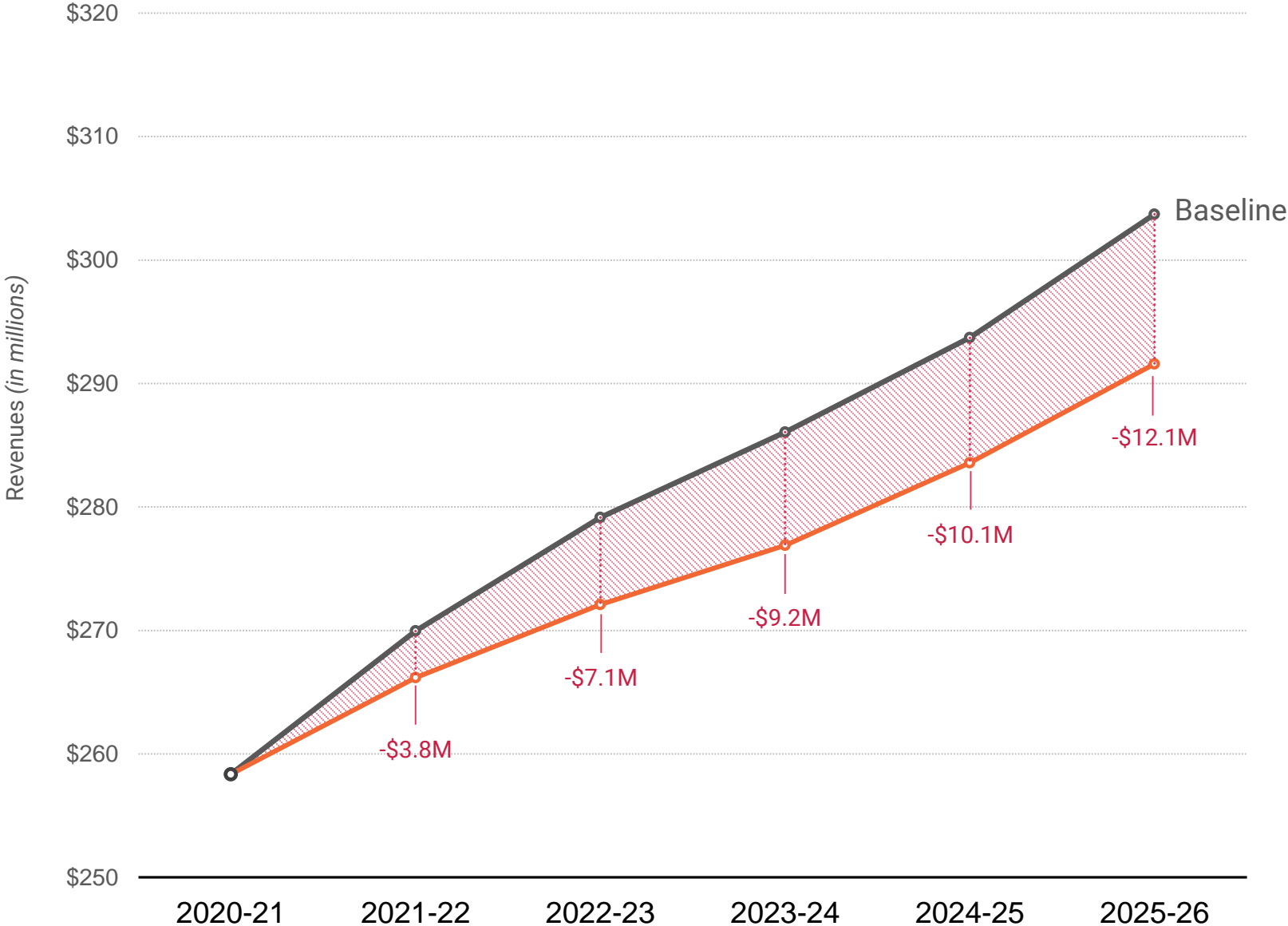
Comparison of Baseline to Mild Recession Scenario





# Major Discretionary Revenues

Comparison of Baseline to Pronounced Recession Scenario



# Property Taxes

- Make up 76% of the County's discretionary revenue
- **MILD RECESSION** scenario assumes growth of 4% in Y1-Y3 increasing to 5% by Y5
- **BASELINE** scenario assumes growth of 4% in Y1, followed by 3.5% growth in Y2, 2.5% in Y3, 2.7% in Y4, and 3.5% in Y5
- **PRONOUNCED RECESSION** scenario assumes growth of 3% in Y1, followed by 2% growth in Y2, 2% growth in Y3, 2.5% growth in Y4, and 3% growth in Y5

# Sales Tax

- Makes up 4% of the County's discretionary revenue
- **MILD RECESSION** scenario assumes little to no growth in Y1, increasing to 1.5%, 2%, and then 2.25% for Y4-Y5
- **BASELINE** scenario assumes no growth in Y1, followed by 1.5% growth in Y2 and then 2% growth in Y3-Y5
- **PRONOUNCED RECESSION** scenario assumes no growth in Y1 and Y2, and then slowly increasing from 1% to 2% by Y5



# Transient Occupancy Tax

- Makes up 3.6% of the County's discretionary revenue
- **MILD RECESSION** scenario assumes growth of 29% in Y1, followed by growth of 2.5% in Y2, steadily increasing to 4% growth by Y5
- **BASELINE** scenario assumes growth of 26% in Y1, followed by 2% growth in Y2-Y5
- **PRONOUNCED RECESSION** scenario assumes growth of 12% in Y1, followed by no growth in Y2, and then 1% growth in Y3 steadily increasing to 2% growth by Y5

# Cannabis Tax Revenue

**\$12.2M**

FY 2019-20  
Receipts

**\$14.0M**

FY 2020-21  
Preliminary Estimate

- Forecast assumes **\$16.7M** in FY 2021-22 and annual increases of 15% thereafter
  - Cannabis considered relatively recession-resistant
  - Fully funds cannabis enforcement and administration activities within County departments
  - Includes cultivation tax and storefront retail revenue
- Forecast assumes phased opening of up to six retail storefronts and increasing sales volume, with revenue increasing from **\$650K** to **\$1.5M** over the five-year period

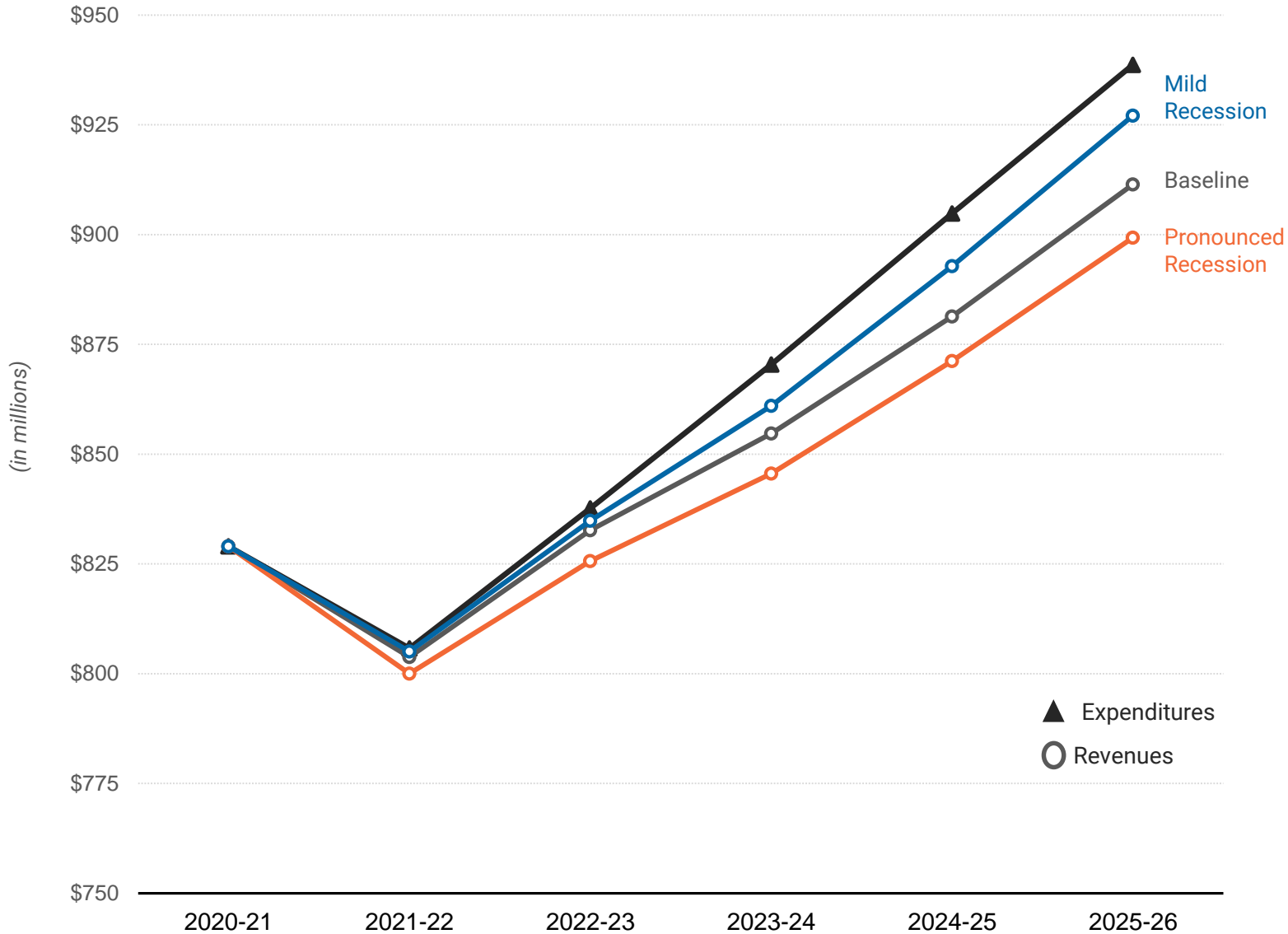


# REVENUES & EXPENDITURES



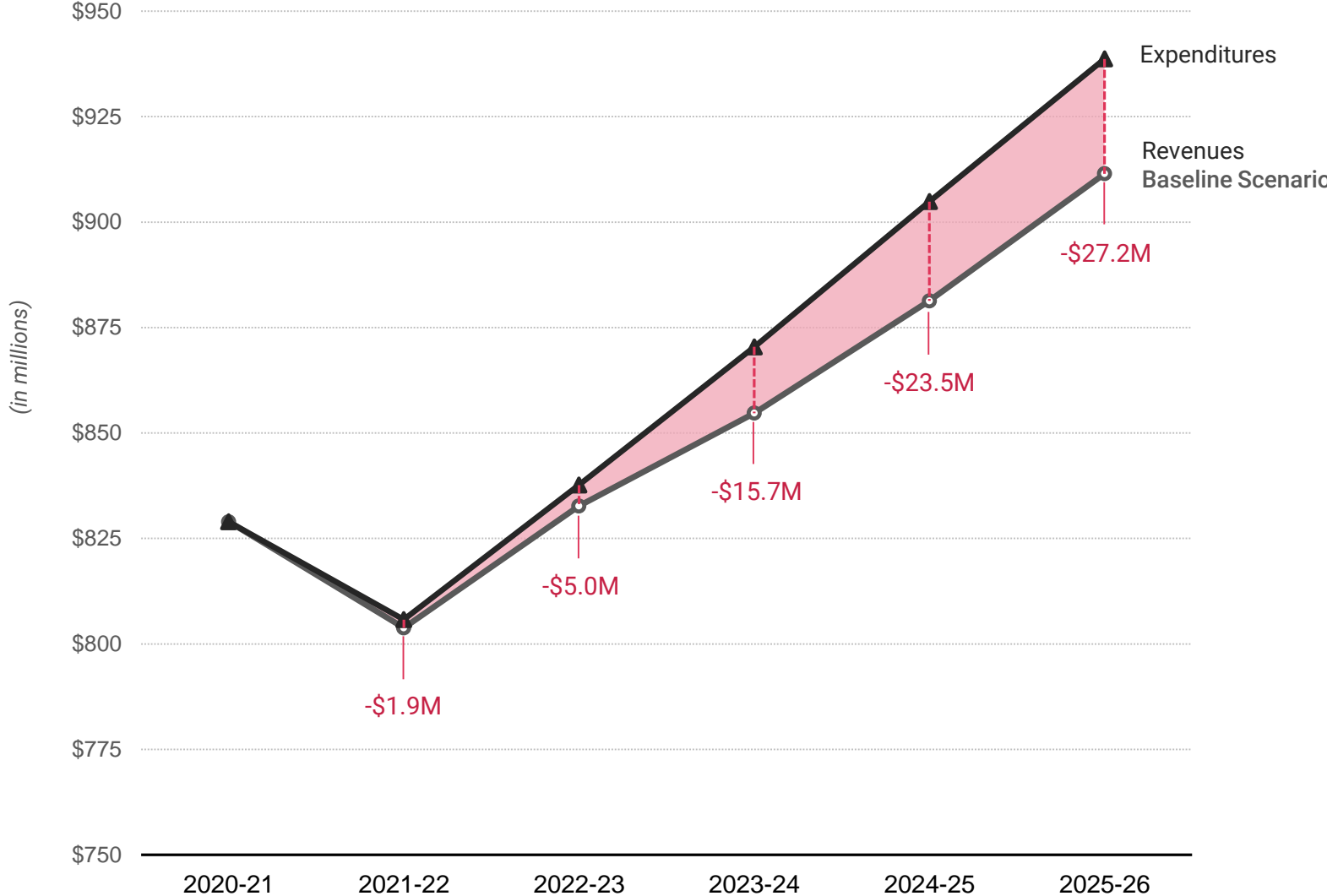
# General Fund Forecast

Expenditures Exceed Revenues in All Scenarios in All Years



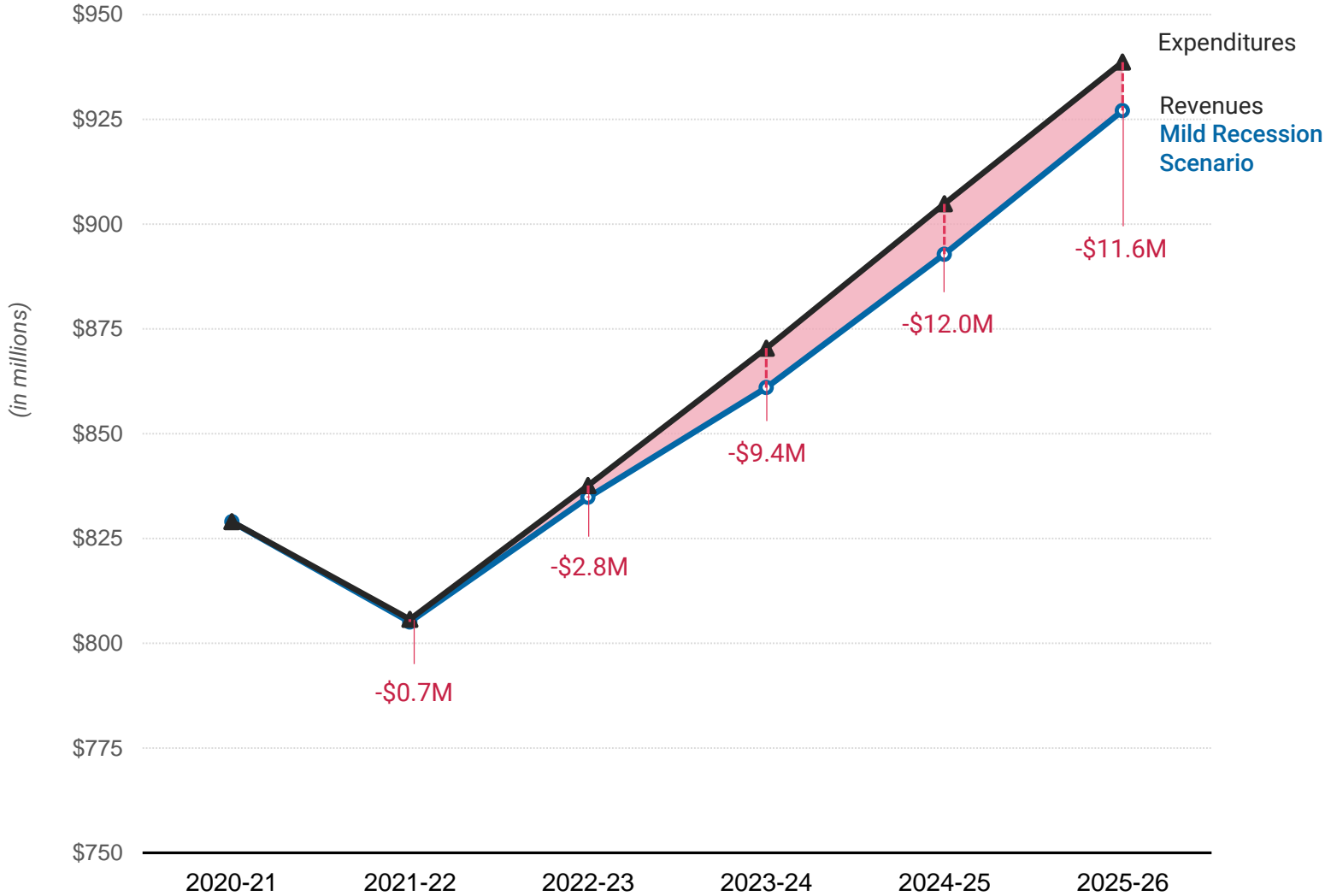
# General Fund Forecast

Cumulative Gap Projections:  
Baseline Scenario



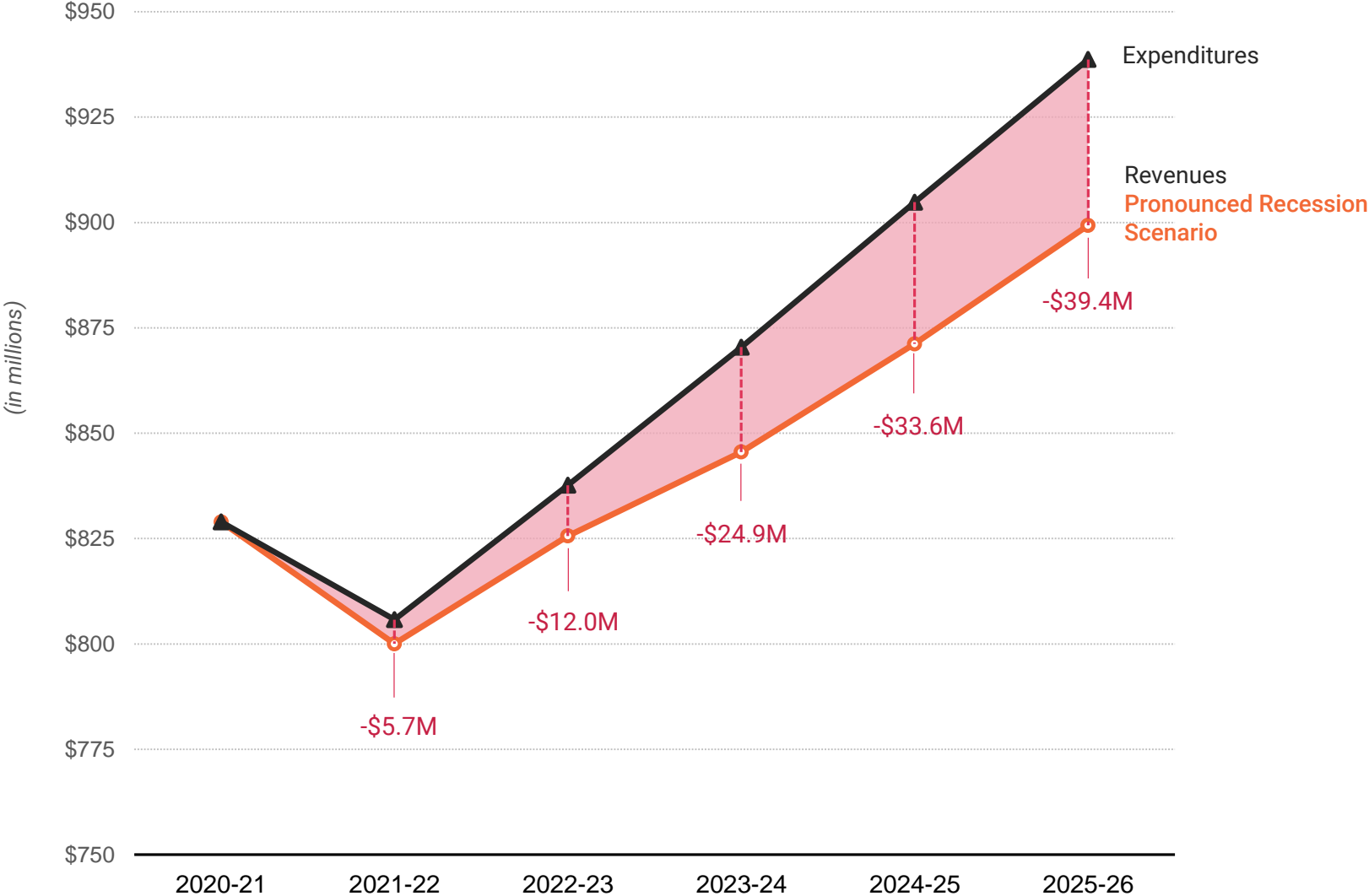
# General Fund Forecast

## Cumulative Gap Projections: Mild Scenario



# General Fund Forecast

Cumulative Gap Projections:  
Pronounced Recession Scenario



# General Fund Forecast

## Cumulative Gaps and Incremental Changes by Year

*\$ in millions*

Scenario	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
<b>Mild Recession</b>	\$ (0.7)	\$ (2.8)	\$ (9.4)	\$ (12.0)	\$ (11.6)
Incremental Change by Year		(2.2)	(6.6)	(2.6)	0.4
<b>Baseline Scenario</b>	(1.9)	(5.0)	(15.7)	(23.5)	(27.2)
Incremental Change by Year		(3.1)	(10.7)	(7.8)	(3.7)
<b>Pronounced Recession</b>	(5.7)	(12.0)	(24.9)	(33.6)	(39.4)
Incremental Change by Year		(6.3)	(12.8)	(8.8)	(5.7)

- Gaps represent differences between revenues and expenditures if no mitigating actions are taken
- However, by County Code, budget must be balanced and gaps will therefore be solved each year



# Other Major Operating Funds

## Forecast

*\$ in millions*

<b>Fund</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
Roads-Operations (Public Works)	\$ (2.6)	\$ (3.1)	\$ (3.5)	\$ (4.0)	\$ (4.4)
Health Care (Public Health)	(2.8)	(4.8)	(5.9)	(8.0)	(9.7)
Mental Health Services (Behavioral Wellness)	(4.2)	(4.6)	(4.6)	(4.6)	(4.6)
Mental Health Services Act (Behavioral Wellness)	(2.5)	(10.6)	(9.3)	(8.4)	(8.4)
Environmental Health Services (Public Health)	(0.3)	(0.6)	(0.3)	(0.7)	(0.9)
Social Services	(3.7)	(5.9)	(7.0)	(8.2)	(9.8)
SB IHSS Public Authority (Social Services)	(1.5)	(1.0)	(1.1)	(1.1)	(1.0)
Planning and Development	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)

### Various drivers of gaps

- Federal and State revenues that will not keep pace with salary and benefit increases
- Fees below full-cost recovery during forecast period
- COVID-19 related impacts
- Ongoing deficits and depletion of fund balances

## Key Takeaways

- Depending on course of recession, we could see further declines in State and federal revenues during times when our communities need increased support
- Unknowns surrounding pandemic mean prudence must remain a guiding principle
- May need to look to cost-cutting and revenue-generating initiatives



# FISCAL ISSUES

# Significant Fiscal Issues

## Key Themes



Legislative & Policy Changes



Deferred Maintenance Backlog



Investment in Technology



Facility Conditions and Office Reconfiguration



Innovations



## Legislative & Policy Changes

State and federal legislation impacts our departments but new requirements are often not accompanied by new funding

Issue	Department	Potential Impact	Recommended Action
Elimination of Criminal Justice Admin Fees (AB 1869)	<ul style="list-style-type: none"><li>• Probation</li><li>• Sheriff</li><li>• Public Defender</li></ul>	\$1.9M per year \$465K per year \$50K per year	Advocate for favorable backfill formula
Elimination of 340B Savings	Public Health	\$2.2M per year	Monitor and advocate for backfill
Criminal Justice Discovery Volume & Complexity	Sheriff, District Attorney, Public Defender	\$250K+ per year	Resource needs for implementation of KPMG recs will be evaluated during the budget development process
Criminal Justice Technology Needs	All Criminal Justice Departments	\$1.5M-\$2.0M per year	
Lack of Funding for Pretrial Assessments (Prop 25 failure)	Probation	\$1.4M per year	Advocate for State funding





# Deferred Maintenance Backlog

Total backlog estimated at **\$377M**

Department	Potential Impact	Recommended Action
Public Works	\$311M	Allocate 18% ongoing maintenance funding and any available one-time funds according to prioritized needs
Community Services	\$53.5M	
General Services	\$12.6M	



# Aging Technology Systems

- Many systems have reached end of life, including many smaller systems throughout departments that are not included in the table below
- In many cases, replacement funds are not available
- Complex demands of County business operations have changed over time and require new technologies

Issue	Department	Potential Impact	Recommended Action
Cybersecurity	Countywide	\$1.5M-\$2.0M ongoing	<ul style="list-style-type: none"><li>• Allocate available funding according to prioritized needs</li></ul>
Enterprise Resource Planning System	Countywide	\$10M+ plus ongoing licensing & maintenance	<ul style="list-style-type: none"><li>• Continue to contribute to Technology Replacement and Investment Fund</li></ul>



# Facility Conditions and Office Reconfiguration

- More than 300 countywide facilities
- Average age of County buildings is around 40 years old

Issue	Department	Potential Impact	Recommended Action
Aging facilities with inadequate replacement funds	Countywide	Impacts are estimated through the CIP process	<ul style="list-style-type: none"><li>• Allocate available funding according to prioritized needs through the CIP</li></ul>
Facility configurations don't meet current needs for the way we work	Countywide		<ul style="list-style-type: none"><li>• Consider establishing an annual set-aside of one-time General Fund revenues to be leveraged or matched with other funding sources</li></ul>



# Innovations

Data-driven improvements in service delivery often have accompanying costs

Issue	Potential Impact	Recommended Action
Holistic Defense Program (Public Defender)	\$650K ongoing	Resource needs for implementation of KPMG recs will be evaluated during the budget development process
Other Criminal Justice Reform Efforts	Unknown	
Medi-Cal CalAIM Reform	Unknown	Monitor legislation and continue to advocate at the State level



The background of the slide is a dark, blue-tinted photograph of a large, classical stone archway. The arch is made of rectangular blocks and frames a view of a courtyard with trees and a few people walking. The overall mood is forward-looking and institutional.

# LOOKING FORWARD

# Preparing for the “Next Normal” amid a Pandemic

- Daunting challenge of responding quickly to the pandemic and acting amid uncertainty
- Renew ‘22 has prepared and positioned us to adopt new practices, be responsive and resilient, and rethink what the public needs and expects of us
- We are refocusing our efforts to build on recent adaptations and leverage our new knowledge and ways of operating

# Preparing for the “Next Normal” amid a Pandemic

- Internal process improvement and innovation efforts continue:
  - InnovateSBC process improvement and innovation training
  - KPMG departmental management reviews
  - Additional or improved digital and online service
  - More employee engagement

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2021

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**JUNE**  
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**NEXT STEPS**



# RECOMMENDED ACTIONS

- A. Receive and file the FY 2021-26 Five-Year Forecast and Fiscal Issues Report
- B. Determine pursuant to CEQA Guidelines §15378 that the above activity is not a project under CEQA.