BOARD OF SUPERVISORS
AGENDA LETTER

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

Agenda Number:

Department Name:	County Executive Office
Department No.:	012
For Agenda Of:	June 9, 2014
Placement:	Departmental
Estimated Tme:	
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Mona Miyasato, County Executive Officer
	Contact Info:	Tom Alvarez, Budget Director (568-3432)
SUBJECT:	**Fiscal Year 2014-15 Recommended Budget**	

County Counsel Concurrence
As to form: Yes

Auditor-Controller Concurrence
As to form: Yes

Recommended Actions:

It is recommended that the Board of Supervisors:

1. Consider, amend and adopt the Fiscal Year 2014-2015 Recommended Budget, including CEO Recommended Budget Expansions and Restorations;
2. Approve final budget adjustments to the Fiscal Year 2014-15 Recommended Budget;
3. Delegate authority to the County Executive Officer to
   a. execute renewal of single-year grants and contracts ("ongoing grants and contracts") included in the Recommended Budget that had previously been approved by the Board and for which no significant scope change is requested; and
   b. for these contracts, approve changes in cost up to 10% of the contract, without returning to the Board for approval; and
4. Adopt the Resolution of the Board of Supervisors entitled In the Matter of Adopting the Budget for Fiscal Year 2014-15; and
5. Receive maintenance funding options and provide direction to staff.
6. Approve a FY 2014-15 work objective for the CEO office to coordinate an interdepartmental, countywide Isla Vista initiative, within existing, budgeted resources.

Summary Text: The Fiscal Year 2014-15 Recommended Operating Plan and Budget is hereby submitted to the Board of Supervisors. The information in this letter, attachments, and hearing binder is provided to enable the Board to adopt a Fiscal Year 2014-15 operating plan and budget during the

budget hearings. Budget hearings are scheduled for June 9 and 11, 2014 and, if necessary, may be continued into the week of June 16-20, 2014.

Background:

The coming fiscal year marks the first time since the recession that the County of Santa Barbara's immediate fiscal outlook is positive and improving. Over the last several years, your Board, with assistance from our workforce and community, navigated the County towards greater stability through an unprecedented economic recession resulting in budget shortfalls, an uncertain federal and state fiscal climate, and significant organizational change. The CEO Recommended Budget for Fiscal Year (FY) 2014-15 continues to move the organization on a path of stability and recovery, delivering on core services and maintaining the Board's commitment to public safety, the well-being of families and children, and healthy and livable communities.

All Funds Budget

The CEO Recommended Budget for Fiscal Year (FY) 2014-15 presents a balanced budget, with FY 2014-15 Operating Expenditures of $903.2 million and Operating Revenues of $905.0 million resulting in an operating surplus of $1.8 million. This is the first year since FY 2009-10 that overall Recommended Operating Revenues exceed Recommended Operating Expenditures and points to an improving financial position. Balance was achieved through improving revenues, up $53.8 million (6.2%) combined with controlled expenditure growth of $41.1 million (4.8%).

Staffing levels in the Recommended FY 2014-15 Operating Plan are 4,119.2 Full Time Equivalent (FTE) positions. This is an increase of 115.3 FTE compared with 4,003.9 FTE in the FY 2013-14 Adopted Budget. The increase in recommended FTEs is primarily due to increases in state and federal funding in Social Services and Alcohol, Drug and Mental Health Services.

Budget at a Glance:				
(Dollars in Millions)	FY 2012-13 Actual	FY 2013-14 Adopted	FY 2014-15 Recommended	FY 2015-16 Proposed
Total Operating Revenues	$ 851.6	$ 851.2	$ 905.0	$ 926.2
Total Operating Expenditures	807.8	862.0	903.2	915.0
Net Operating Impact *	$ 43.7	$ (10.9)	$ 1.8	$ 11.2
Staffing FTE's	3,879.1	4,003.9	4,119.2	4,102.4

* Net Operating Impact is funded by Other Financing Sources or use of Fund Balances.

General Fund Budget

The CEO Recommended General Fund Budget for FY 2014-15 also displays improvement, with Operating Expenditures of $320.9 million and Operating Revenues of $353.9 million. Operating Revenues increased $16.0 million or 4.7% from $337.9 million in FY 2013-14, while Operating Expenditures increased $6.9 million or 2.2% from $314.0 million in FY 2013-14.

Staffing levels in the Recommended FY 2014-15 General Fund Budget are 1,827 Full Time Equivalent (FTE) positions. This is a decrease of 9.4 FTE compared with 1,836.8 FTE in the FY 2013-14 Adopted Budget. The decrease in recommended FTEs is primarily attributed to fewer staff in the Probation Department as a result of consolidating the Los Prietos Camp and Academy programs.

Budget at a Glance:				
General Fund (in millions)	**FY 2012-13 Actual**	**FY 2013-14 Adopted**	**FY 2014-15 Recommended**	**FY 2015-16 Proposed**
Total Operating Revenues	$ 354.8	$ 337.9	$ 353.9	$ 359.1
Total Operating Expenditures	344.9	314.0	320.9	322.7
Net Operating Impact *	$ 9.8	$ 23.9	$ 33.0	$ 36.4
Staffing FTE's	1,979.0	1,836.8	1,827.4	1,827.4

* Net Operating Impact is funded by Other Financing Sources or use of Fund Balances.

Service Level Reductions

Proposed Service Level Reductions of $1.7 million are fewer this year than in recent years. The Budget Development and General Fund Allocation Policies adopted by the Board were closely followed during the development of the FY 2014-16 Recommended Operational Plan. Policy-based budgeting provides an increased level of transparency for the public and consistency throughout the organization. The policy requires that each department's General Fund Contribution (GFC) be the prior year adopted contribution, reduced by one-time allocations; departments must use all non-General Fund revenues before GFC amounts are allocated; and in general, base GFC are increased proportional to the impact of approved wage and employee benefit adjustments not otherwise funded. If anticipated funding is not sufficient to cover expenditures, the department will propose Service Level Reductions to balance the departments' budget.

Trends and Issues Reflected in the Budget

Significant trends and policy issues were considered and are reflected in the Budget. A few are highlighted below.

- ***Slowly improving revenue growth***: The County's largest discretionary revenue source, property taxes, is projected to increase from 2.3% growth to 3.5% growth in FY 2018-19. This is modest compared to pre-recessionary levels. Overall revenues are improving at a pace of 6.2% compared to the prior year. Expenditure growth is at 4.8%, which is slower than revenue growth. Ensuring expenditure growth does not outpace revenue growth will require continued restraint and caution in the future.

- ***Stabilized retirement funding:*** Santa Barbara County Employee Retirement System sets pension rates for member agencies. The increases in pension contribution are projected to level off. The FY 2014-15 rate is 38.94%, a small 0.64% rate increase over the FY 2103-14 contribution rate of 38.3%. The increase is largely due to increases related to the amortization of prior fund losses and economic assumptions (primarily a decrease in the assumed rate of return of 25 basis points to 7.5%)

which are partially offset by demographic assumptions (mortality changes) and other smaller adjustments.

- ***Impact of Affordable Care Act implementation:*** The FY 2014-15 Plan reflects expansions in Social Services (65.3 FTEs) and Alcohol Drug and Mental Health Services (ADMHS) (19.0 FTEs) due to expanded funding related to the Affordable Care Act (ACA) Implementation. Social Services revenues have significantly increased over the past two years (+$27.4 million, 21.4%) primarily related to eligibility and enrollment activities for the ACA. However, the revenue picture for Public Health remains uncertain.

- ***Service Transformation of ADMHS:*** The provisions of behavioral health services through Alcohol, Drug and Mental Health Services department (ADMHS) has been one of the most significant challenges of the County in recent times. To improve upon service delivery, the Department completed a comprehensive Department evaluation and is in the process of implementing various recommendations, including expansions to crisis services, funded by newly obtained grants ($11.0 million), filling of key management positions and increased collaboration with the community and other stakeholders.

- ***Northern Branch Jail:*** The 2014-15 Budget includes pre-construction related costs for the North Branch Jail of $2.6 million. The Board adopted a plan to fund the estimated $17.3 million in net increased annual operating costs of the new facility upon its opening in 2018, which sets aside ongoing General Funds in prior, current and future budgets. Earlier in 2014, the new jail's estimated transition plan was revised to include accelerated staff hiring and training well in advance of the opening. This acceleration of staff hiring is estimated to increase costs by $1.8 million more than the existing plan provides. Operating cost estimates for the Sheriff's Treatment and Rehabilitation (STAR) complex may change after the design development for that facility is completed. Adjustments to the funding plan therefore will be revisited and brought to the Board for approval as better estimates for this work is completed.

- ***Workforce Planning:*** In FY 2013-14 Employee Retention was added as a new Budget Development Policy and has evolved into Workforce Planning as we look ahead to FY 2014-15. Human Resources Department staff, working with a cross section of employees from all departments, will spearhead the effort, which has the goal to attract, retain and train the right people, with the right skills, in the right jobs, at the right time.

- ***Debt Obligations:*** The funding status of liabilities is described in the Debt Management and Obligations section of the Budget Book on pages D200-D203. The County has no General Obligation Bonds outstanding and has never issued Pension Obligation Bonds. The County has long-term budgetary plans in place to fund all the short-term and long-term obligations of the County within current and on-going resources. The County maintains a Standard & Poor's SP-1+ rating for short-term notes and both a Standard & Poor's AA+ and a Moody's A1 for its long-term certificates of participation. This is among the highest ratings for counties in California. Overall, the County has low debt levels when compared to other counties in California.

CEO Recommended Budget Expansions and Restorations

After the departmental General Fund Allocations were made, unassigned General Fund discretionary "ongoing" and "one-time revenue" remained. These funds are available for appropriation in the FY 2014-15 Plan.

At the March 2014 Budget Working Session, the CEO presented a list of criteria for evaluating expansion requests: 1) avoids cost or reduces risk ; 2) generates revenue; 3) provides an investment in the future; 4) makes progress on key initiatives; and 5) is significant but can be prioritized next year.

The CEO recommendations are based on these criteria and evaluation of the departments' requests for restoration or expansion, Board discussion at the March and April workshops, consideration of overall Board priorities, County-adopted goals and organizational needs. These recommendations are submitted with the Recommended Operating Plan for the Board's consideration, amendment and adoption. The recommended expansions and restorations of proposed service level impacts are from the following sources:

- $ 673,000 from ongoing unassigned General Funds
- $ 4,844,000 from one-time unassigned General Funds
- $14,307,000 from other (primarily federal and state funding)

After these allocations, there remains an estimated $180,100 of ongoing unassigned General Fund and $1,119,212 of one-time, unassigned General Fund for your Board's consideration and allocation.

The above CEO Recommended Expansion and Restorations are included in the Final Budget Adjustments and are detailed in **Attachment A-1**.

Interdepartmental Isla Vista Initiative

Due to recent and ongoing events in Isla Vista, the CEO's office is coordinating interdepartmental cooperation to help improve safety and security and enhance community well-being in Isla Vista, working closely with the Third District. As part of the 2014-15 fiscal year, the CEO is requesting an initiative be added that gives focus to these efforts, working within existing resources. There are a number of departments that have the experience or expertise that have been and will be involved to help promote such improvements including Public Works, Planning and Development, Community Services, Sheriff's Office, County Counsel, General Services and the Auditor-Controller. In a separate but complementary effort, the District Attorney has been and is continuing to coordinate a group discussing broader community issues, involving partners such as UCSB and City College, with a focus on safety.

Specific County projects have already been in progress related to Isla Vista; new initiatives may also be developed. The staff team will be exploring physical safety improvements from sidewalks to street lights to fences, to more strategic issues such as amending ordinance related to rental properties and festivals/street parties. On behavioral health issues, Alcohol Drug and Mental Health will be implementing programs to expand outpatient treatment and increase field services through crisis triage programs throughout the county. Staff will utilize resources within existing budgets to address what it can. If the team requires additional resources, we will return to the Board with those requests as well as provide updates to the Board.

Maintenance Needs and Funding Options for Roads, Buildings and Parks

The County has a backlog of deferred maintenance for roads and County building and parks as well as need for greater ongoing funding for preventative maintenance. Your Board requested staff provide as part of the budget discussion a phased-in funding plan to address maintenance funding needs, as a follow up to the April Budget Workshop. A strategy and options are provided below. Expanded funding is provided in the Recommended FY 2014-15 Budget. The CEO would implement an approved funding plan by including it within future Recommended Budgets that the Board would consider for adoption in FY 2015-16 and future years.

Recommended Funding for Maintenance for FY 2014-15 - The Recommended Budget includes the following in proposed spending from General Fund and special revenue funds to address maintenance needs for FY 2014-15. In total this includes $7.1 million of ***additional resources*** (denoted by * below).

Roads

- $3.6 M for deferred road maintenance
- $10.4 M for corrective road maintenance
- $1.1 M* for roads maintenance needs (GF – additional - CEO recommended expansion)
- $0.9 M* for federal match (GF – additional – allocated by BOS from contingency to be spent in FY 2014-15)
- $3.7 M* in federal grant (Federal – additional - to be spent in FY 2014-15) for access to federal lands

General Services Buildings/Facilities and Parks

- 14 M for facility and park maintenance
- $1.4 M* (GF – additional – CEO recommended expansion)

Funding Needs: While significant funding is currently allocated to maintenance and deferred maintenance, there remains a backlog of deferred maintenance projects and ongoing preventative maintenance needs. There is $114.0 million and $83.6 million in deferred maintenance projects associated with roads and buildings/parks; respectively. There is also an estimated $17.0 million to $39.0 million of annual "renewal maintenance" funding needed to maintain the existing condition of roads, buildings and parks. For buildings and parks, the estimated is created by using a standard range of is 2% - 4% of the Current Replacement Value (CRV).

The deferred maintenance needs for road and facility/park maintenance are identified in the County's Road Map (for roads) and Phase I of the Jorgenson Facility Assessment Report (for facilities, parks and park amenities). For facilities, parks and park amenities, a Maintenance Management Plan (Phase II) is expected in August 2014, with department review and a finalized management plan by October 2014. The plan will review the existing list of projects, establish a prioritized list of maintenance projects in alignment with resource scenarios and maintenance service delivery recommendations. It may also provide the County with an evaluation of which facilities are the end of their useful life and should be demolished, mothballed or removed from the County inventory.

Public Works currently prioritizes and maximizes its use of available funding; General Services and Parks do the same and would continue with greater information once the Maintenance Management Plan is completed. The departments would allocate any new funding by balancing the priority of specific deferred maintenance projects with ongoing maintenance and preventative maintenance efforts.

Funding Strategy and Options: A strategy to provide annual funding to address these needs, beyond the current level, with options is provided below. These funds could be used to address "renewal," deferred maintenance or new (capital replacement or significant rebuild) projects related to roads, facilities, and park buildings/park amenities. In general, these are intended to increase funding of GF and Other Funds available for maintenance needs. Specific use would be determined each year as part of the budget and CIP process, with General Services, Parks and Public Works reviewing their needs and priorities for preventative maintenance and specific deferred maintenance projects.

1. Dedicate an ongoing stream of unallocated, discretionary General fund for addressing maintenance needs to reach $17 million annually - Options: 10%, 15%, 20%, 25%

(dollars in millions)	**Required Renewal Funding In Yr. 10**	**Projected Annual Funding In Yr. 10**	**Cumulative Ongoing Funding Over 10 Yrs.**
10% Option	$ 21.2	$ 14.7	$ 56.7
15% Option	$ 21.2	$ 22.1	$ 85.1
20% Option	$ 21.2	$ 29.4	$ 113.4
25% Option	$ 21.2	$ 36.8	$ 141.8

Note: Cumulative Ongoing Funding assumes only % of growth: no one time funding;

This dedicated stream of revenue could also be used to support debt for large projects or groups of projects, depending on the most immediate needs.
2. Allocate available one-time discretionary General Fund – Options: year-end (savings) or unallocated revenue at budget adoption
3. Of these amounts, allocate 50% percent to roads and 50% percent to facilities/parks, with adjustments depending on availability of other funding sources or needs.
4. Adjust service fees based on increased costs for maintenance ("renewal funding" or specific deferred maintenance project costs)
5. Increase Other Fund revenue for maintenance by "charging" non-General Fund departments for maintenance to the degree allowed by law (Note: most non-GF departments already pay for their department's maintenance and deferred maintenance capital projects)
6. Continue to seek grant funding and advocate for new regional, state and federal dollars for maintenance needs
7. Monitor and adjust as needed

The funding of maintenance for the various County operations will vary by the department as they have various funding sources available to them. Half of the need, however, would be in roads, and could not be funded by reimbursement from federal, state or other funds (unless a grant specifically for roads purposes).

State and Federal Budget Impacts

As part of the Governor's commitment to paying off the Wall of Debt by FY 2017-18, the May revise includes an additional $100 million to repay a portion of existing mandate reimbursement claims that have been owed to local governments (counties, cities, and special districts) prior to 2004. Santa Barbara's outstanding claims are $7.4 million which represents about 1.3% of all county claims submitted for this period.

The May Revision also provides an additional $142 million ($121 million in General Fund dollars) to reflect higher costs in firefighting, emergency response, and other critical activities related to the ongoing drought. The Governor's agreement with legislative leaders further creates a Rainy Day Fund, noting that the proposed plan requires both paying down liabilities and saving for a rainy day. Another element of the May Revision updates sales tax forecast reflecting a downward trend. The FY 2013-14 estimated growth attributable to AB 109 stands at $50.8 million (down $13.5 million from January 2014 estimates). Finally, there is $11.3 million to be allocated directly to probation departments to mitigate the increase in workload associated with the Post Release Community Supervision (PRCS) offenders.

Final Budget Adjustments:

As is the case each year, events have occurred since the Recommended Budget was prepared which prompts staff to recommend adjustments to various appropriations and revenues. The recommended adjustments fall into two main categories listed here and are detailed in **Attachment A-1 and A-2**:

1. CEO Recommended Budget expansions or restorations as detailed in Attachment A-1.
2. Re-budgeting appropriations included in the Fiscal Year 2013-14 budget, but not spent during the fiscal year, and moved to a fund balance account via a Budget Revision during Fiscal Year 2013-14 for use in Fiscal Year 2014-15, Attachment A-2.
3. Other recommended changes that adjust General Fund and non-General Fund budgets Attachment A-2.

Attachment A-2 is a list of all final budget adjustments recommended for approval by the Board.

Ongoing Grants and Contracts:

The County has numerous ongoing grants and contracts that are renewed each year with the funding and expenditures approved by the Board during the annual budget hearings. The execution then becomes ministerial and has been delegated to the County Executive Officer, who verifies their inclusion in the Adopted Budget and signs the contracts for the County, thus reducing the number of administrative agenda items that come before the Board during the year.

The Board has customarily delegated this authority to include grants and contracts where amounts are up to 10% more or less than indicated amounts.

This process is only for single year contracts, not multi-year agreements. To qualify for this process:

1. all contract terms and conditions, including contract scope of work, must remain unchanged from the prior contract, and
2. the value of the contract cannot change by more than 10% of the prior year

Ongoing contracts or grants in amounts that exceed 10% must be individually presented to the Board for approval. *If rates or units of service change, the contract may qualify for the on-going contracts process if these changes are clearly disclosed on the ongoing contract list.* As compared to the prior year, this process now only applies to single year contracts, only applies to contracts > $100,000 and the rate or units of service disclosure requirements noted above are new.

The list of on-going grants and contracts, by department, is included in the Attachments with a recommendation that the Board approve, as a group, their renewal for FY 2014-15.

The grants to be included in this year's delegation are identified in **Attachment B**. The contracts to be included in this year's delegation are identified in **Attachment C**. The contract list could include *part-year* contracts that would have been for the same amount as the prior year if the request had been to renew them for a *full year*. For example, a contractor was paid $100,000 for a full year's work last year but the proposed contract is for $50,000 for 6 months work in Fiscal Year 2014-15.

Reduction in Positions:

While the overall number of FTE's is the budget is projected to increase, the Recommended Budget includes reductions of 11.17 FTE positions resulting from Service Level Reductions and 17.75 FTE positions associated with efficiency changes (total 28.92 positions). Of these, 14.8 FTE are currently filled. With adoption of the Budget, Human Resources staff will issue required notices to affected staff pursuant to County bargaining agreements and policies. As has been the County's practice in the past, all efforts will be made to place displaced employees to the extent possible.

Budget Resolution:

The Resolution of the Board of Supervisors follows as **Attachment D**. Note the resolution allows the County Executive Officer, under limited circumstances, to approve changes to appropriations for previously approved equipment purchases.

Mandates and Service Levels:

Board approval of these proposed changes (final budget adjustments and ongoing grants and contracts) during budget hearings is discretionary. The budget hearings, Recommended Budget and the Budget Resolution are controlled by the County Budget Act, which is found at California Government Code sections 29000 and following

Fiscal Impacts:

Approval of these recommendations adopts the Fiscal Year 2014-15 Recommended Budget (with any modifications determined by the board) and authorizes the County Executive Officer and/or the County Auditor-Controller to take necessary related fiscal action.

Attachments:

A-1 – CEO Recommended Budget Adjustments
A-2 – Final Budget Adjustments
B – Ongoing Grants
C – Ongoing Contracts
D – Resolution of the Board of Supervisors

Authored by:

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Cc: Department Directors
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Fiscal and Policy Analysts