

FISCAL YEAR 2025-26

5-YEAR FORECAST & BUDGET DEVELOPMENT POLICIES

Board of Supervisors
January 7, 2025

County Executive Office



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COUNTY
one
FUTURE

TODAY'S REPORT

- Budget Development Timeline
- General Fund Five-Year Forecast
- Fiscal Issues Under Review
- New Budget Development Policies
- Board Budget Priorities Discussion

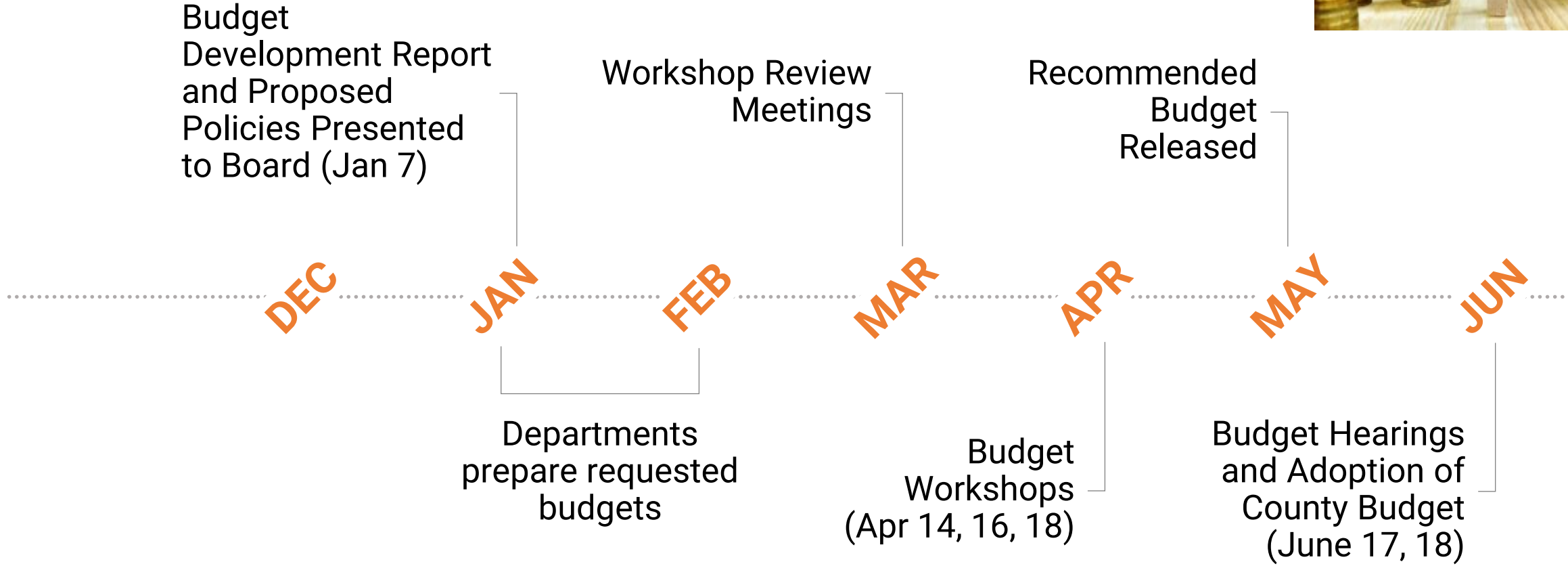
BIG PICTURE

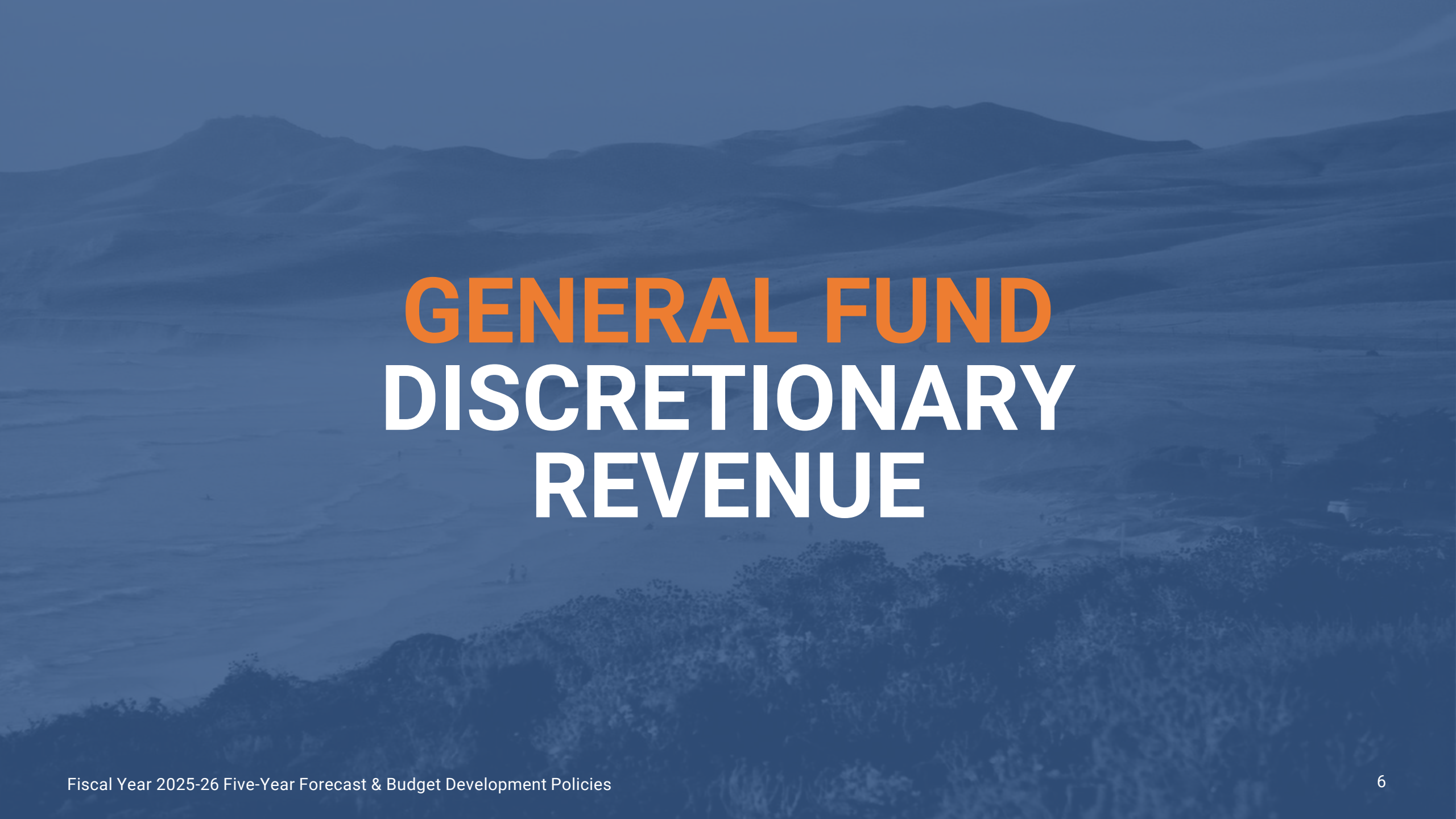
- To date, we have managed our resources with prudence and set-aside ongoing excess revenue to assist with future deficits. Allows continuity of service, employee stability and achieving Board's highest goals.
- Today, we are spending more than our revenues; the ongoing set-aside reserves have balanced our budget but will only last another year or two.
- These are the largest deficits we have seen in our forecast in many years.
- We are not alone; others are facing similar issues with more immediate deficits as high costs outpace revenues.
- We are planning a status quo budget for next year, but departments need to be thinking now about more efficiencies and cost reductions.

PURPOSE OF THE FORECAST

- Provides context for balancing short-term and long-term goals during development of the FY 2025-26 budget
- Identifies potential demands on County resources in the coming years
- Identifies key areas that will need attention when preparing the FY 2025-26 budget
- Forecasts major budgetary components including discretionary revenue and labor costs
- Primary focus on General Fund with some fiscal issues in other major County funds included

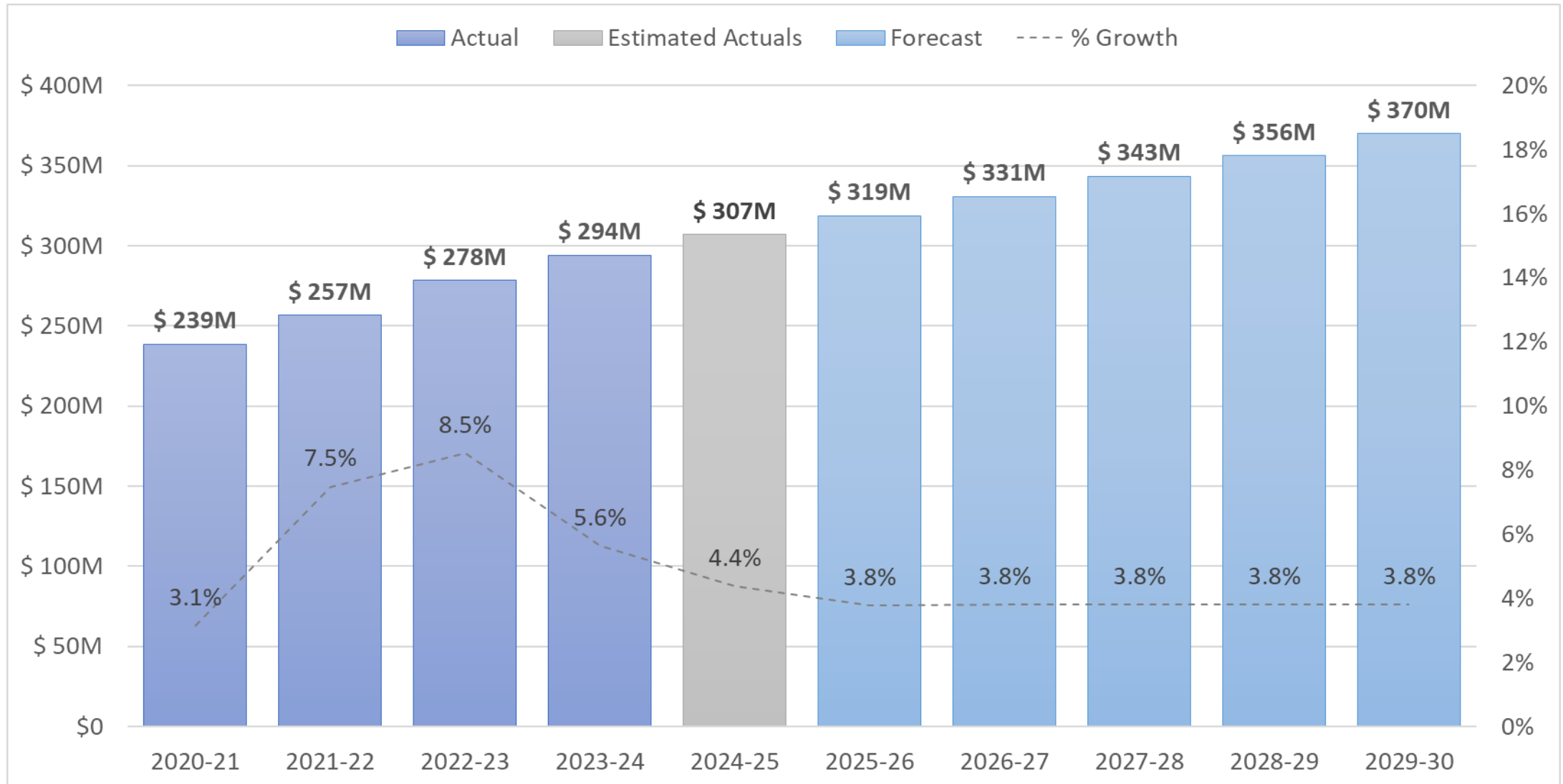
Budget Development Timeline



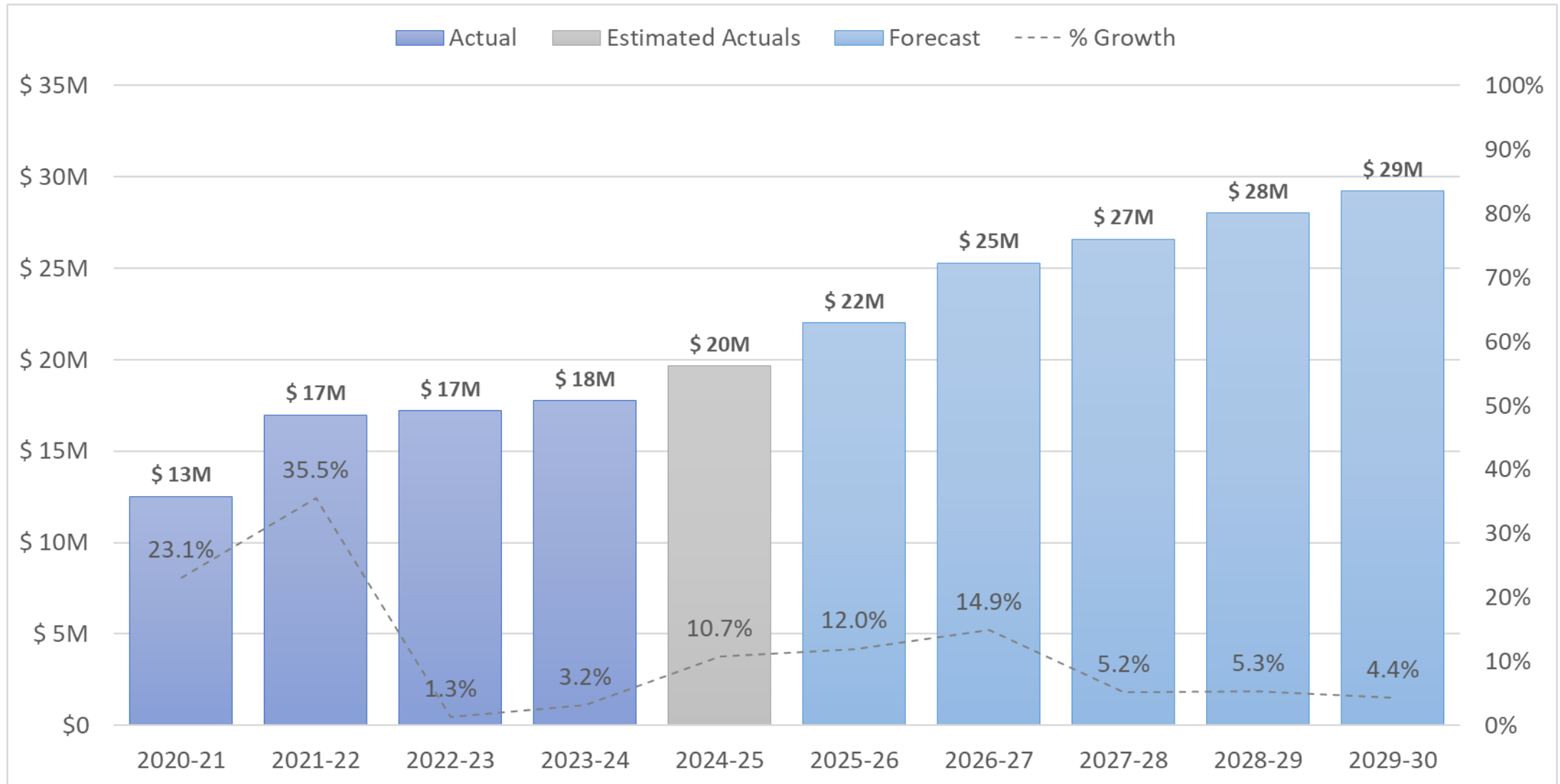


GENERAL FUND **DISCRETIONARY** **REVENUE**

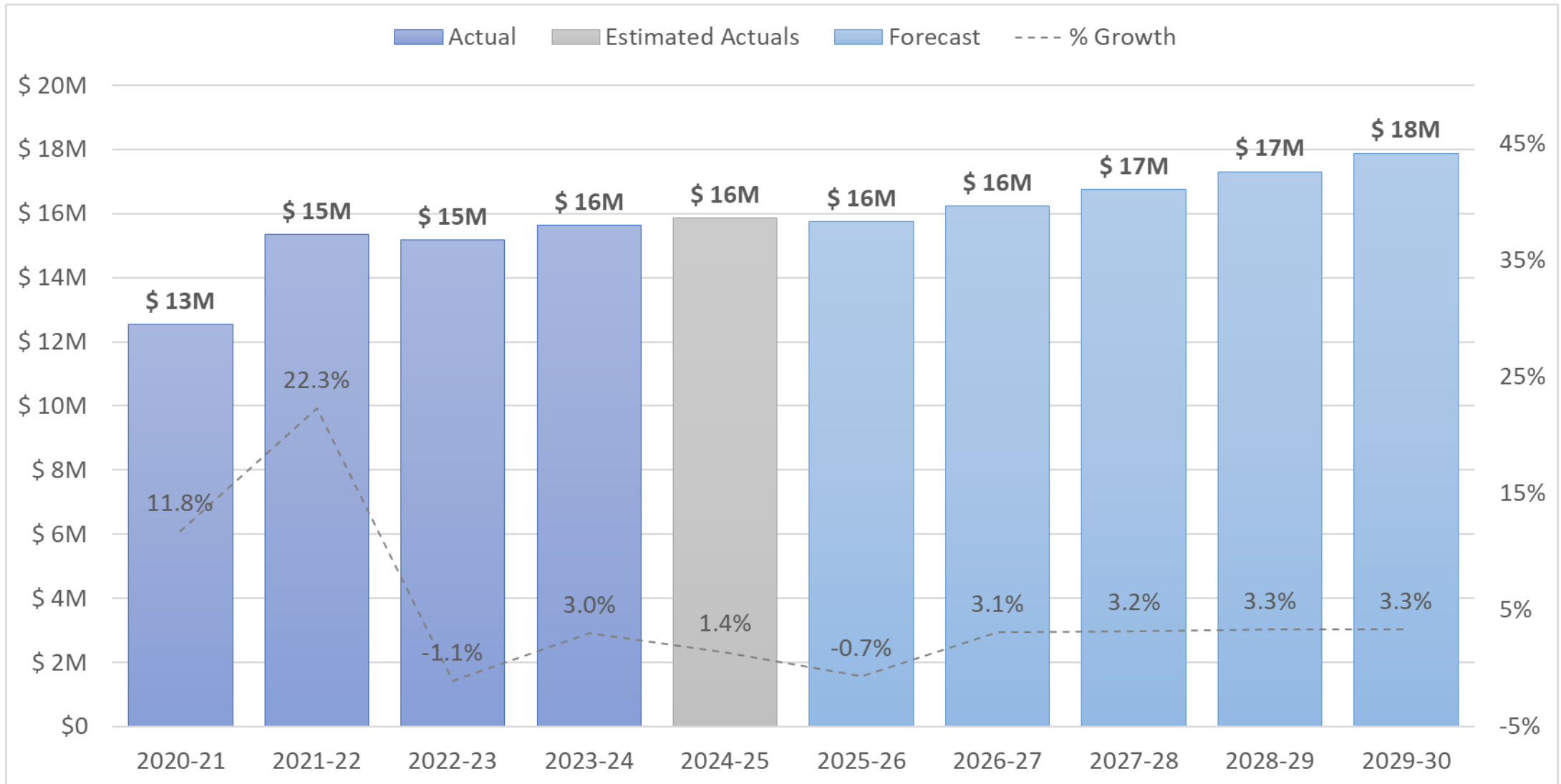
Property Tax growth estimated to slow driven by a decrease in volume of property transfers



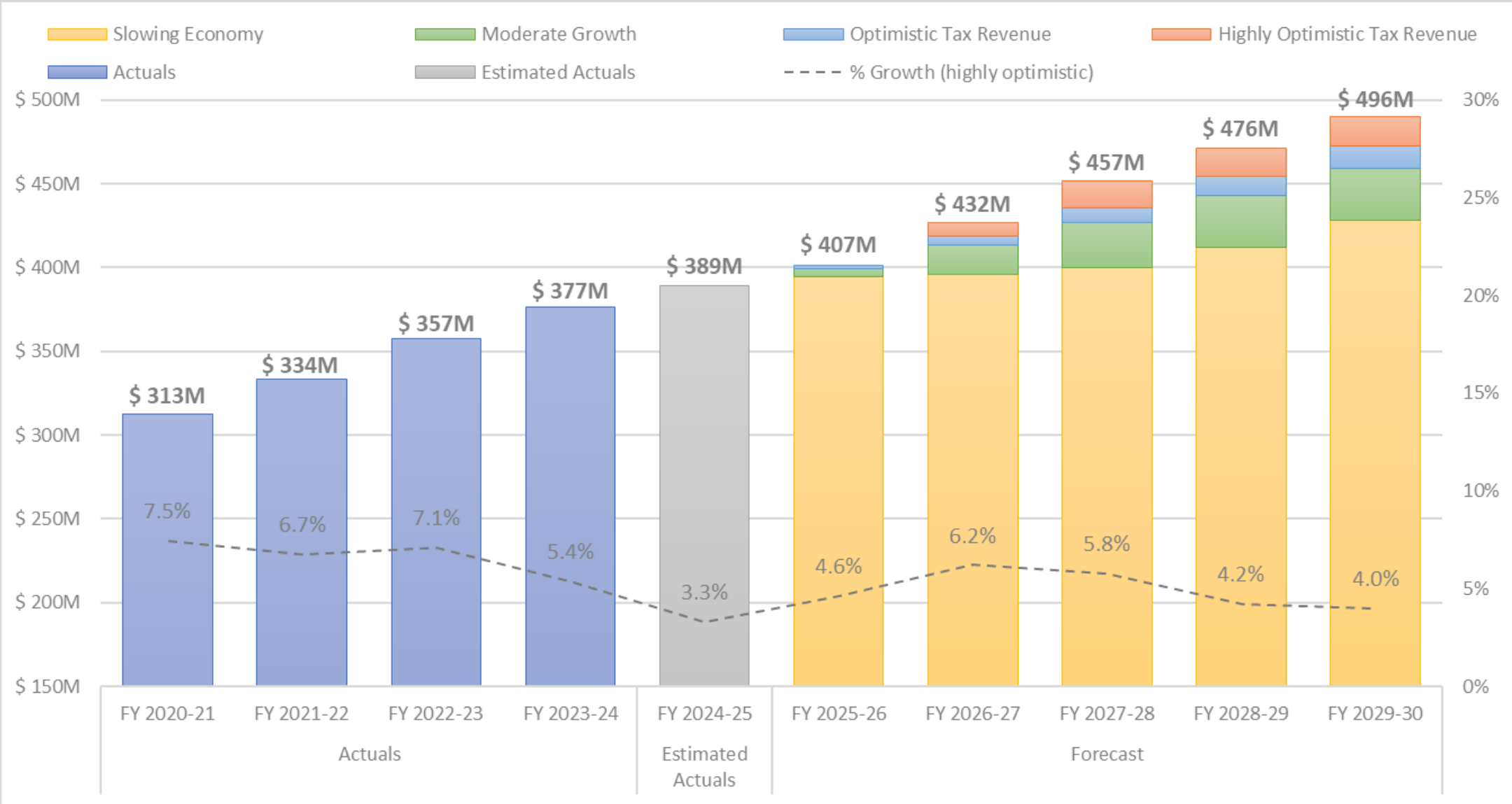
Transient Occupancy Tax (TOT) revenue estimated to grow due to increase in the tax rate before slowing



Local Sales Tax revenue growth slows to an average of 2.4% per year due to economic uncertainty



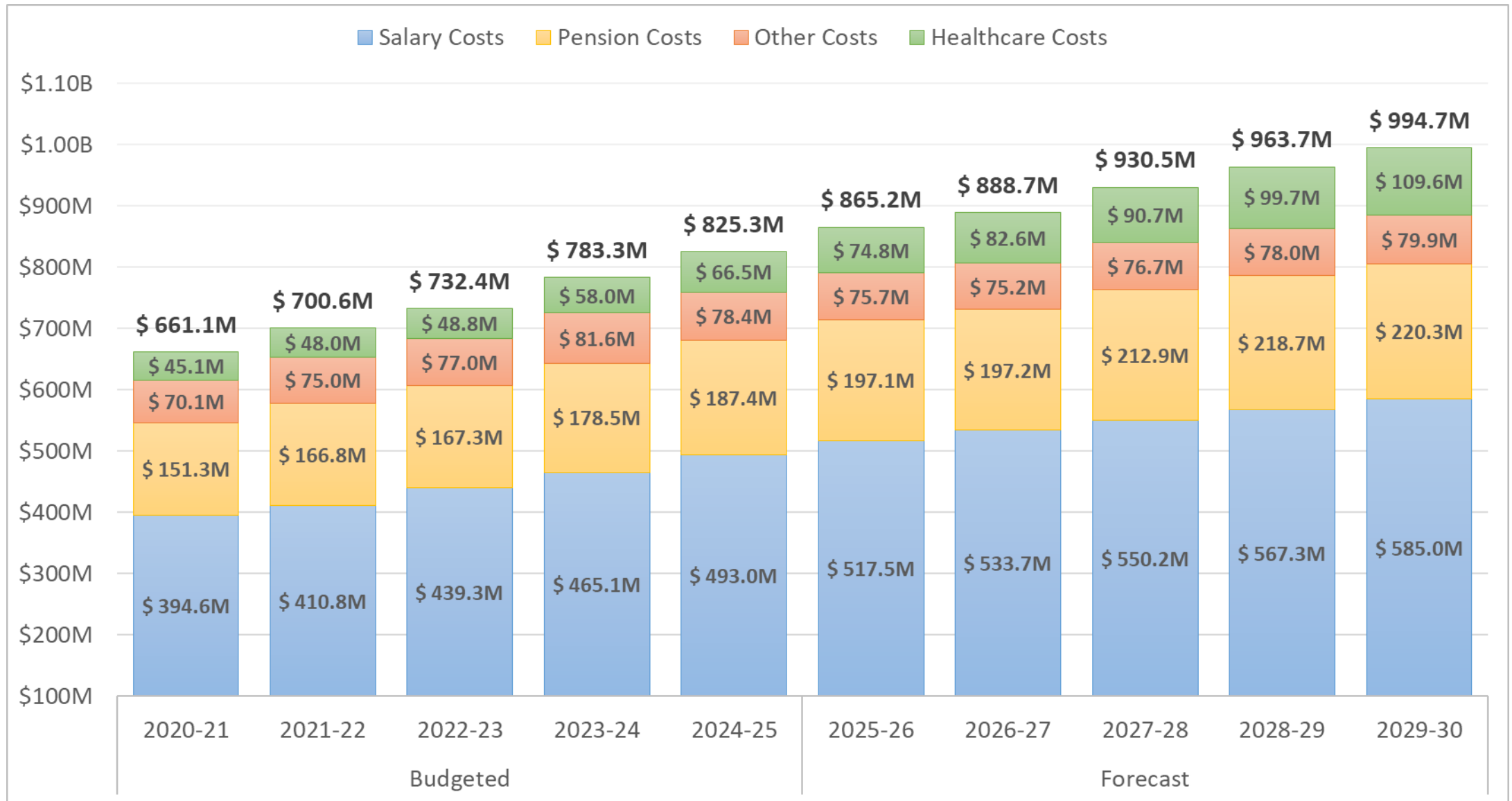
Moderate discretionary revenue growth the likely scenario





COUNTYWIDE SALARY AND BENEFIT COSTS

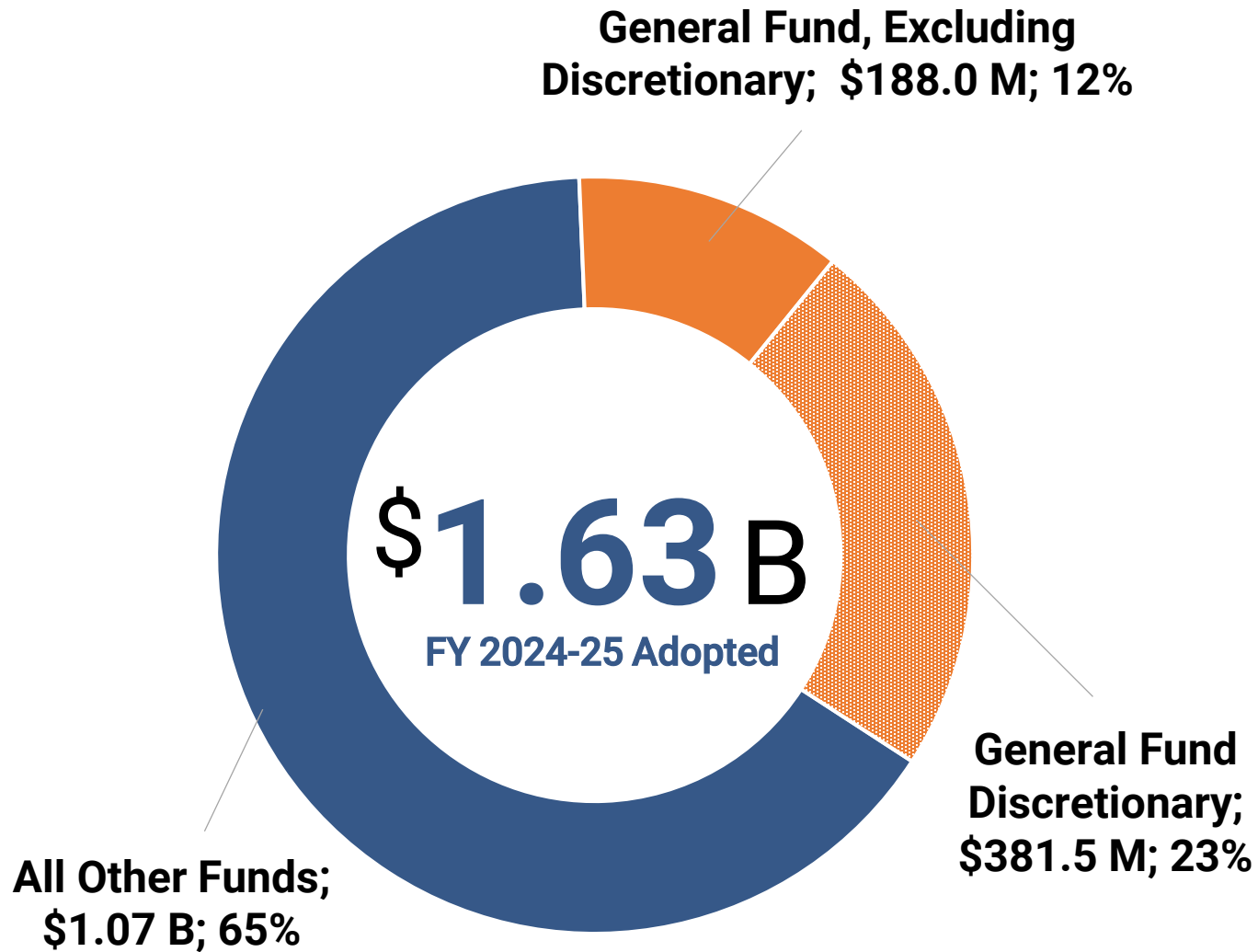
Salary and benefit growth lower than prior years *if* salary increases around 3%





GENERAL FUND **FIVE-YEAR** **FINANCIAL** **FORECAST**

General Fund Context – Operating Revenues



- General Fund operating revenues about 35% of Countywide revenue
- Discretionary revenue about two-thirds of General Fund total; 23% of Countywide revenue
- Forecast focuses on discretionary piece
- Other revenues worked on by departments during upcoming budget development

Five-Year Financial Forecast, Incremental Growth in General Fund

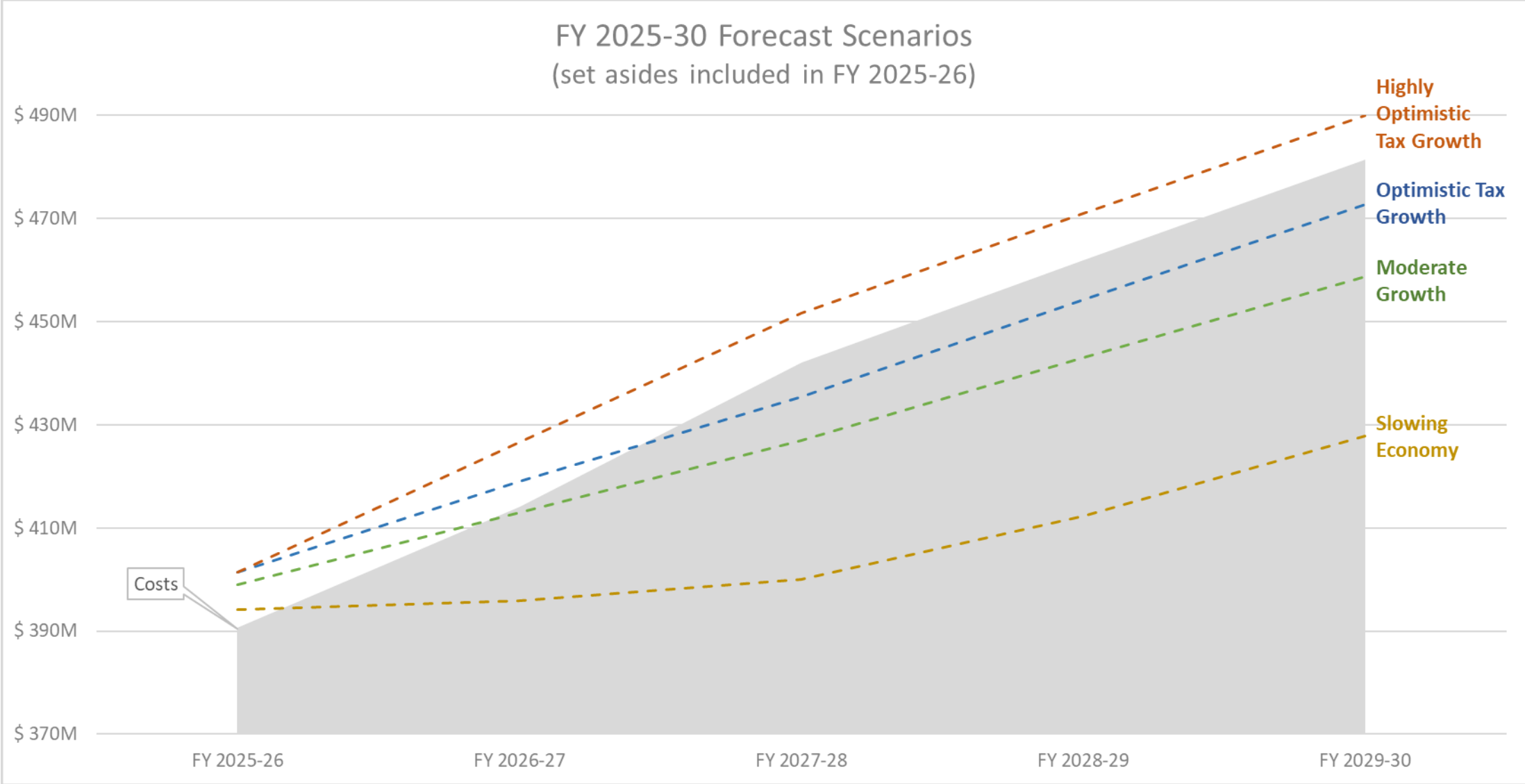
Ongoing Revenue Sources:	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Discretionary Revenue (moderate growth)	\$ 23,669,300	\$ 14,011,800	\$ 13,873,700	\$ 16,153,700	\$ 15,700,100
Ongoing Set Asides	\$ 6,562,230	\$ 8,431,670	\$ -	\$ -	\$ -
<i>Release Jail Medical Set Aside</i>	<i>1,300,000</i>				
<i>Release Other Prior Year Set Aside</i>	<i>5,262,230</i>	<i>8,431,670</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total Revenue Change	\$ 30,231,530	\$ 22,443,470	\$ 13,873,700	\$ 16,153,700	\$ 15,700,100

Ongoing Cost Changes:	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Salaries + Rates + Reserves + Deferred Maint.	\$ 16,683,130	\$ 10,867,822	\$ 16,103,800	\$ 13,776,008	\$ 12,588,222
<i>Salary Increases</i>	<i>6,218,814</i>	<i>5,304,725</i>	<i>5,845,793</i>	<i>5,712,807</i>	<i>5,476,800</i>
<i>Pension Costs</i>	<i>1,603,323</i>	<i>33,152</i>	<i>4,624,434</i>	<i>1,733,076</i>	<i>149,413</i>
<i>Health Benefits</i>	<i>2,230,463</i>	<i>2,207,823</i>	<i>2,457,273</i>	<i>2,646,017</i>	<i>2,701,187</i>
<i>Deputy Sheriff's Association Side Letter</i>	<i>3,197,900</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Internal Service Rate Increases</i>	<i>2,550,300</i>	<i>2,983,200</i>	<i>3,176,300</i>	<i>3,601,200</i>	<i>3,994,800</i>
<i>Strategic Reserve</i>	<i>600,000</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>18% Deferred Maintenance</i>	<i>282,330</i>	<i>338,922</i>	<i>-</i>	<i>82,908</i>	<i>266,022</i>
Safety Net Costs	\$ 1,488,400	\$ 2,240,100	\$ 1,685,200	\$ 678,900	\$ 1,595,600
<i>In-Home Supportive Services Labor Increases</i>	<i>888,400</i>	<i>1,053,000</i>	<i>497,800</i>	<i>508,900</i>	<i>1,595,600</i>
<i>Homelessness Services Costs</i>	<i>600,000</i>	<i>995,000</i>	<i>385,000</i>	<i>170,000</i>	<i>-</i>
<i>Co-Response Teams</i>	<i>-</i>	<i>192,100</i>	<i>802,400</i>	<i>-</i>	<i>-</i>
Criminal Justice Costs	\$ 12,060,000	\$ 10,360,800	\$ 10,207,800	\$ 5,324,200	\$ 5,461,800
<i>AB 1869 Backfill Sunset</i>	<i>-</i>	<i>850,000</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Existing Northern Branch Jail Ops Funding Plan</i>	<i>5,700,000</i>	<i>1,600,000</i>	<i>2,100,000</i>	<i>2,000,000</i>	<i>1,900,000</i>
<i>Jail Healthcare New Costs & Annual Increases</i>	<i>5,000,000</i>	<i>2,010,800</i>	<i>2,207,800</i>	<i>2,424,200</i>	<i>2,661,800</i>
<i>911 Public Safety Answering Point Funding Gap</i>	<i>660,000</i>	<i>200,000</i>	<i>200,000</i>	<i>200,000</i>	<i>200,000</i>
<i>Northern Branch Jail 512 Bed Construction Debt Svc</i>	<i>-</i>	<i>5,000,000</i>	<i>5,000,000</i>	<i>-</i>	<i>-</i>
<i>Custody Staffing Shift Relief Funding Plan</i>	<i>700,000</i>	<i>700,000</i>	<i>700,000</i>	<i>700,000</i>	<i>700,000</i>
Total Change in Costs	\$ 30,231,530	\$ 23,468,722	\$ 27,996,800	\$ 19,779,108	\$ 19,645,622

Annual (Deficit)/Surplus	\$ -	\$ (1,025,252)	\$ (14,123,100)	\$ (3,625,408)	\$ (3,945,522)
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Cumulative deficit of \$23 million over 5 years, after depletion of revenue set asides

Growth in Expenses Outpacing Revenues



Key Takeaways

- Moderate revenue growth not keeping up with rate of growth in salaries and benefits and other anticipated costs
- Budget deficits beginning in year 2. Year 3 has very large deficits predicted, which requires planning now
- Deficits avoided in year 1 and partially year 2 only by releasing prior year set-asides; deficits in all remaining years
- Costs of jail medical services and expansion of Northern Branch Jail facility are driving the deficits
- No department program expansions will be possible until financial picture improves
- Cost-cutting in the future will be necessary, departments should begin implementing strategies now
- One-time funds may be needed to bridge budget gaps in out years



FISCAL ISSUES **UNDER REVIEW**

Fiscal Issues Under Review - General Fund

- Disability Rights California (DRC) compliance requires substantial resources to fully implement
- New State funding available for Victim-Witness Advocate program; allocations not yet set
- Outside counsel costs continue to rise
- Housing Element implementation may require additional one-time funding; costs expected to grow in the next cycle
- Proposition 36 may increase local criminal justice and behavioral health costs

Fiscal Issues Under Review - Special Revenue Funds

- Budgeted expenditures for the Inmate Welfare Fund expected to outpace revenues in future years
- Health clinics rely on \$5.2 million in Health Care Centers Fund reserves to balance structural deficit
- Institutions for Mental Disease (IMD) placement costs exceeding Realignment revenue sources
- Behavioral Health Services Act (BHSA) expands services for priority populations, but re-allocates \$9 million of existing funding for direct mental health services toward housing services

Fiscal Issues Under Review - Special Revenue Funds

- Child Support Services addresses \$381 thousand State funding cut by reducing operating costs
- California Air Resource Board Advanced Clean Fleet Regulation requires 50 percent of new vehicle acquisitions to be zero-emission vehicles or near zero-emission vehicles by 2024 and 100 percent by 2027
- Fire District bears the risk of revenue fluctuations at the Regional Fire Communications Center (RFCC)



FY 2025-26 PROPOSED BUDGET DEVELOPMENT POLICIES

Proposed budget development policies will increase transparency, clarify trade-off options, and leverage non-General Fund dollars

- Amend Policy 2 to require balanced GFC-funded program budgets
 - Increases transparency in the budgeted uses of General Fund Contribution (GFC)
 - Clarifies potential trade-offs
 - Facilitates the allocation of GFC resources toward priority and urgent needs
- Amend Policy 3 to leverage use of non-General Fund dollars on county projects
 - Requires Special Revenue Fund programs to fund their pro rata share of county initiatives (i.e., capital projects, energy efficiency projects, information technology projects, etc.)
 - Optimizes contribution of non-General Fund dollars to county projects, where possible
- Refine Policy 3.a to enhance accountability
 - Requires department directors to document use of one-time funding for ongoing operations and confirm that it will not cause future ongoing obligations on the General Fund. Otherwise, use of one-time revenues for ongoing operations is discouraged.



FY 2025-26 BUDGET REVIEW FUNDING PRIORITIES

GF Unallocated Fund Balances

- \$10 million available to augment projects or programs in FY 2025-26
- Use of \$8-10 million towards capital projects is recommended
- Remaining one-time balances not enough for all identified needs
- Set asides and other funding sources exist for some, but not all, identified priorities.
- Consider these areas first when making allocation recommendations, should funding become available

Identified Priority Areas in FY 2025-26

Items listed may or may not have sufficient funding identified

Provide Coordinated Community Service Delivery and Strengthen Safety Net

- Future homelessness services funding gaps
 - Interim and permanent supportive housing
 - Increase affordable housing (Housing Element Update programs)
 - Workforce housing options
 - Growing IMD placement costs
 - Improved access to inpatient mental health care treatment
 - Countywide Recreation Master Plan
 - Set asides for allocation to District area special projects
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- **Advance Improvements in Criminal Justice System**
 - Northern Branch Jail design and construction
 - Main Jail accessibility and wellbeing improvements
 - Jail medical services

Identified Priority Areas in FY 2025-26

- **Foster Financial Excellence**
 - Address forecasted deficits
 - Fully fund strategic reserve
- **Promote Sustainability and Climate Resiliency**
 - Disaster recovery projects
 - Electric vehicle replacement program
 - Climate Action Plan implementation
- **Strategically Invest in Facilities and Infrastructure**
 - New capital projects
 - Calle Real Master Plan
 - Continued funding for deferred maintenance
 - Enterprise Resource Planning system implementation
 - Countywide information technology strategic plan

Focused Priority Area for 2025

- Housing progress and streamline permitting and processes, particularly related to housing
 - Reflects Board remarks this morning
 - Helps departments to incorporate into work plans for coming year, as appropriate
 - Prioritizes scarce funding, should it become available
 - Board could adopt today as its focused priority area

RECOMMENDED ACTIONS

- A. Receive and file the Five-Year Forecast for Fiscal Years 2025-26 through 2029-30
- B. Adopt the FY 2025-26 Budget Development Policies;
- C. Review funding priorities for Fiscal Year 2025-26 and provide staff additional direction as appropriate; and
- D. Determine pursuant to California Environmental Quality Act Guidelines §15378 that the above activity is not a project under the California Environmental Quality Act.

County Executive Office

