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:**

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| **Department Names:** | County Executive Office (CEO) |
| **Department No:** | 012 |
| **For Agenda Of:** | April 16, 18, & 20, 2018 |
| **Placement:** | Departmental |
| **Estimated Tme:** | 20 hours |
| **Continued Item:** | No |
| **If Yes, date from:** | |
| **Vote Required:** | Majority |

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|---|---|---|
| **TO:** | Board of Supervisors | |
| **FROM:** | Department Directors | Mona Miyasato, County Executive Officer |
| | Contact Info: | Jeff Frapwell, Assistant CEO, Budget & Research |
| **SUBJECT:** | Fiscal Year 2018-19 Budget Development Workshops | |

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**Recommended Actions:**

It is recommended that the Board of Supervisors:

a) Hold budget workshops on April 16, 18, and 20, 2018, to receive presentations on the Fiscal Year 2018-19 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 11, 13 and 15, 2018.

c) Provide direction, if any, regarding Special Issues or other items; and

d) 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:**

As we approach the 2018-19 fiscal year, in the aftermath of unprecedented fire and debris flow disasters, we are challenged to administer the laws of the State and ordinances and policies of the Board, in the highest traditions of civic professionalism and competency, to serve our citizens and visitors. A central component of this challenge is to develop a balanced budget in light of salary and benefit cost increases, increasing and changing federal and State mandates, growing technological demands, unmet service needs, infrastructure maintenance issues, and the continuing threats of natural disasters.

As we plan for FY 2018-19, two primary themes emerge: **renewal and resilience**. Renew '22 started last year and will continue, even as we plan and prepare for additional impacts of, and recovery from, the

Thomas Fire and 1/9 Debris Flow, which will affect our revenue base for several years. While the property loss occurred in a relatively small portion of the County, Montecito constitutes approximately 17% of the property tax base and 62% of the transient occupancy tax to the County's General Fund, and its impact is therefore felt on services provided throughout the county.

Next year we will still be under threat of debris flows, yet must plan for the future and, at the same time, continue to recover from the disaster. Measures to mitigate future hazards are being developed and will be proposed to the Federal Emergency Management Agency (FEMA) for funding. But, for now, a less intense event may end up ours alone to address, without federal and State assistance. The Board's foresight to build up the Strategic Reserve has mitigated the impact of the disaster on our current year budget. Therefore, it is critical that we plan, prepare, and continue to set aside resources for these uncertain times.

Overall, budget development for FY 2018-19 has entailed consideration of the following:

- Expenditure growth continues to outpace revenue growth, particularly next year, with the loss of property tax and transient occupancy taxes due to the 1/9 Debris flow. On the positive side, State revenues grew in some areas, mitigating the need for cuts to the Department of Social Services. Unfortunately, service level reductions are still required in many departments (County Counsel, District Attorney, Public Defender, Sheriff, Behavioral Wellness, Child Support, and Community Services).

- This year, service level reductions totaling $5.2 million, and 10.9 FTE, are proposed, which is significantly less than last year. An estimated budget shortfall (as forecast in the fall) of up to $23 million was addressed through a variety of measures (e.g., efficiencies, department restructuring, use of one-time funding, revenue increases, and refinement of revenue and expenditure estimates), resulting in service level reductions much lower than the budget gap. Restorations and expansions are requested in the amount of $26.6 million in GFC ($5.2 million ongoing and $21.4 million one-time), which exceeds existing revenue capacity. A full list of requested restorations and expansions is included in Tab 3 of the budget workshop binder.

- We face a potentially precarious position next year with regard to future debris flows; in addition, a future recession could be possible. Therefore, caution is urged next year, and until new revenue is realized, any new or restored spending should be limited to addressing required levels of mandated services, essential health and safety functions, reduction of imminent legal liabilities, fixes to chronic financial problems, investments leading to greater cost savings or revenue generation, or organizational Renew '22 improvements.

- A few early restorations or expansions were made prior to workshops to meet mandates, address litigation issues, and address our disaster threat. These include the following items:
    - Set aside funding for local match for disaster costs and other related costs
    - Funding to address conditions of confinement issues in the Main Jail raised by disability advocates
    - Funding for call takers for County public safety dispatch, as recommended by the consultant report, which will be needed in whichever model we select in the future
    - Funding to restore some position reductions in the Public Defender's Office, caused by a structural deficit, without which that office could not meet its mandated functions and could result in declarations of unavailability

  - Set aside funding for potential costs related to Institutes for Mental Disease (IMD)/mental health beds for conserved clients
  - Set aside funding for excess printing costs associated with the November 2018 election

- Cannabis tax revenue, subject to voter approval on the June ballot, has been estimated at $5 million to $25 million annually. Should it pass, it will fund enforcement costs as a priority use. This revenue could also at some point fund other public services that are requested for restoration or expansion, such as public safety, criminal justice, mental health, and infrastructure needs. However, the timing and actual amount of revenue is difficult to determine, and may not fully be realized in the 2018-19 fiscal year; also, revenue will fluctuate until the market stabilizes. This budget does not include any revenues or cost impacts related to cannabis efforts, but the FY 2018-19 Recommended Budget presented in June will incorporate direction given by the Board in the coming months.

- Potential savings from pension cost sharing with employees is currently under negotiation with all our labor unions. The savings generated by this cost share will vary depending on department and employee bargaining group, and are unknown until negotiations are completed.

- Key challenges continue from last year, including retention and succession planning, addressing State and federal mandates, adjusting to growing technology demands and processing of data, serving the mentally ill in and out of the criminal justice system, and funding prior Board commitments such as deferred maintenance and the Northern Branch jail operations.

Despite these challenges, County staff continue to achieve or make progress on many significant projects and initiatives to further departments' missions and your Board's priorities. Departments are pursing Renew '22 initiatives to be more effective and efficient in their work and developing plans for future proposals. Departments will present their achievements over the last year and their proposed work for next year in their workshop presentations.

Attachment A: *Fiscal Year 2018-19 Preliminary Budget Overview* provides greater detail on the following:

- Key challenges and issues
- An update to the fiscal issues report
- Discussion of preliminary revenues and expenditures
- How departments closed their budget gaps
- Summary of restoration and expansion requests

**Purpose of the Budget Workshops**

Budget workshops are held one month prior to release of the Recommended Budget and two months prior to Budget Hearings to provide the Board an opportunity to review and discuss departments' preliminary budgets and special issues, receive public input on these items, and provide the CEO direction on policy issues or specific items for consideration prior to completion of the final Recommended Budget.

At the workshops, department directors will provide presentations on their budgets, significant issues impacting their operations, accomplishments, goals for the upcoming fiscal year, service level reductions, budget restoration and expansion requests, and updates on their Renew '22 initiatives. The County Executive Office, in conjunction with the Auditor-Controller's Office, has completed the review of submitted department budgets and revenue estimates, which are subject to change until the tax roll is completed.

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 special presentations on Renew ’22 and the Main Jail/Northern Branch Jail Transition Plan.

The materials provided at the workshop 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 11, 13, and 15, 2018. At those hearings, staff will present and review the Recommended Budget for the Board’s consideration, amendment, and adoption.

**Looking Forward, Beyond FY 2018-19**

Although the FY 2018-19 anticipated budget shortfalls have been resolved by departments through restructuring, service level reductions, and other measures, significant fiscal challenges remain on the horizon, such as the need for a public safety communications system replacement, large deferred maintenance funding deficits, unknown future salary and benefit costs, and changing legislation and regulations.

Renew ’22 initiatives are in various stages, and have the potential to completely transform our County organization. Many of these initiatives are not quantifiable at present, and the benefits will be borne out over many years. The County’s priorities for next year must pay special heed to potential disaster response preparation. We must be a financially secure and nimble organization, able to address the impacts of the next disaster through efficient and strong systems of service.

There will be difficult choices in the coming months and years for the County, and we will continue to focus on decisions that allow balancing of short-term needs with long-term impacts, strategic realigning of services and the costs to provide those services, and opportunities for new ways of doing business. We can do anything, but we cannot do everything, and we must continue to focus on doing the most essential and important things well to best serve our community.

**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 the Fiscal Year 2018-19 Recommended Budget for adoption at the June Budget hearings.

**Attachments:**

Attachment A: Fiscal Year 2018-19 Preliminary Budget Overview
Attachment B: Fiscal Year 2018-19 Budget Development Workshop Binder

**Authored by:**

Rachel Lipman, CEO Fiscal and Policy Analyst

**cc:**

Assistant CEOs
Department Directors
CEO Fiscal and Policy Analysts

# Attachment A
# Fiscal Year 2018-19 Preliminary Budget Overview

As we approach the 2018-19 fiscal year, we are challenged to administer the laws of the State and ordinances and policies of the Board, in the highest traditions of civic professionalism and competency, to serve our citizens and visitors. A central component of this challenge is to develop a balanced budget in light of salary and benefit cost increases, increasing and changing federal and State mandates, growing technological demands, and the impacts of natural disasters. Nearly all departments had projected budget gaps looking into FY 2018-19, and departments closed these gaps through a variety of measures, including service level reductions, use of one-time funding, efficiencies and operational restructuring, and refinement of revenue and expenditure estimates. The purpose of this budget workshop is to provide a forum for the Board to review and discuss departments' preliminary budgets and special issues, receive public input on these items, and provide the CEO direction on policy issues or specific items for consideration prior to completion of the final Recommended Budget.

## BACKGROUND

The FY 2017-18 budget included service level reductions as a result of expenditure growth, particularly salary and retirement costs, outpacing revenue growth. At the time of budget adoption, it was anticipated that additional service level reductions would be required in the coming years as the growth differential was projected to continue. In October 2017, the Board received the FY 2018-23 Five-year Forecast Report, which included early estimates of funding gaps and impending financial challenges expected to confront the County over the next several years. The forecast projected a shortfall of up to $23 million ($12 million General Fund) in FY 2018-19, if operations continued at the same level as FY 2017-18 and GFC were held flat at FY 2017-18 adopted levels. In December 2017, the Board received the FY 2018-20 Fiscal Issues Report, which outlined the significant fiscal challenges expected to impact the County in the next two fiscal years. This report presented an additional $16 million in potential FY 2018-19 costs for a variety of issues such as expected losses of State or federal funding, maintenance and capital needs, and commitments to established funding plans.

Since the forecast and fiscal issues reports were presented, revenue and expenditure estimates have been revised based on new information, trends, as well as the financial impacts of the Thomas Fire and subsequent 1/9 Debris Flow events. In addition, departments have continued to focus on finding efficiencies and new ways of doing business with an overarching goal of preserving service levels to the extent possible. Departments' preliminary FY 2018-19 budgets are balanced, and reflect a combination of service level reductions, efficiencies, investments in Renew '22 initiatives, revenue and expenditure adjustments, and very limited use of one-time fund balances for ongoing operations.

## INTRODUCTION

As we plan for FY 2018-19, two primary themes emerge: **renewal and resilience**. Renew '22 started last year and will continue, even as the County continues the recovery efforts from the Thomas Fire and 1/9 Debris Flow and plans and prepares for future events. Recognizing that in order to successfully address our challenges ahead, we will need to do so as a coordinated and interconnected organization, building upon the strengths of individual departments and coming together to work towards shared goals. Our fiscal challenges also call for a reallocation of limited discretionary revenue not just within—but also among—our departments to ensure the Board's highest priorities for the community and organization are met.

Many County departments made significant service reductions in FY 2017-18 in the face of discretionary revenue growth unable to meet increasing costs, particularly in the area of salary and benefits. Moving toward FY 2018-19, departments began thinking about how to balance their budgets in August 2017 with the preparation of their five-year financial forecasts, which were presented to the Board in an October 2017 report. Since that time, departments have refined their revenue and expenditure estimates, analyzed their operations to seek efficiencies, and proposed reductions to bring their recommended budgets into balance. In the nearly eight months that have elapsed since development of the five-year forecast, much has changed in terms of fiscal planning information, and departments' preliminary budgets reflect these updated assumptions.

**RENEW '22**

As a follow up to the January 2018 Board item, Renew '22 will be presented as a special issue on the first day of budget workshops, and will provide an update on the status of Countywide initiatives, including what has already been accomplished, what is in the process of being implemented, and what is planned for the future. Initiatives that either significantly impact multiple department operations or require the development of new or revised County policies will be highlighted.

In addition to the special issue discussion, department presentations will include slides on departmental Renew '22 initiatives that will be implemented in FY 2018-19 and beyond. These slides present initiatives from the first three categories—those already underway (Category 1), those consistent with existing Board policy (Category 2), and those involving a change in Board policy or direction (Category 3). For those initiatives falling under Category 3, departments have included additional slides providing detailed descriptions of the proposals, pros and cons, and a discussion of next steps.

**KEY CHALLENGES AND EMERGING ISSUES**

Every year, the County takes on the challenge of developing a balanced budget while maintaining focus on community priorities, State and federal mandates, legislative and regulatory changes, and building a strong future. Some challenges are unique to Santa Barbara County, and some are common among most local government agencies. As departments identified their key challenges, some common themes emerged.

***Cannabis legalization:*** The goal for FY 2018-19 will be to provide adequate funding for enforcement, permitting, licensing, and administration of the County's adopted program. In December 2017, staff presented the anticipated FTE impact of cannabis legalization, and will be returning with a detailed staffing plan, which includes augmentations for application processing, compliance monitoring, and enforcement on April 10, 2018 (prior to these Budget Workshops). **Therefore, this budget does not include any revenues or cost impacts related to the County's cannabis efforts, but the FY 2018-19 Recommended Budget presented in June *will* incorporate direction given by the Board in the coming months.**

***Recruitment, retention, and succession planning:*** Since the recession, when departments refrained from hiring, departments have been challenged with rebuilding staff to ensure they will be well-positioned for success once senior leadership retires. A FY 2018-19 priority will be to ensure knowledgeable and skilled leaders to continue to guide the County in future years.

***Increasing and changing State and federal mandates:*** These legislative and regulatory changes have impacts on funding, workload, and service delivery systems that often must be immediately implemented. These changes are particularly prevalent among the social service and criminal justice departments.

***Growing capabilities and demands of technology:*** With the growing capabilities of technology come many challenges. The County must adapt to changing standards, invest in new systems, and implement new ways of working and processing information. Even in an environment of scarce resources, recognizing that investments in technology will have long-term efficiency and effectiveness benefits, the County must fund new and replacement technology without sacrificing the quality of core services.

***Serving the mentally ill in the criminal justice system:*** Many departments are impacted and involved with this multi-faceted issue. When our mentally ill community members do not receive needed services early on, they often move on to more intensive—and more expensive—parts of our systems of care, such as acute care facilities, emergency rooms, and the criminal justice system. County departments must work together towards the common goal of managing and maintaining a holistic approach to meeting the needs of the mentally ill.

In addition to these items, there are other issues that are expected to have an impact in FY 2018-19, such as those identified in the Fiscal Issues Report, the Thomas Fire and 1/9 Debris Flow disaster recovery, and the ongoing funding commitments identified in the Five-year Forecast Report, including the deferred maintenance and North County Jail funding plans.

***Northern Branch Jail Commitment:*** The County continues construction of the Northern Branch Jail, which, after some delays, is anticipated to open in the summer of 2019. The Northern Branch Jail project represents a significant ongoing commitment of future General Fund revenue. While the State provided a majority of the funding for construction, the ongoing operating costs are the responsibility of the County General Fund, and are currently estimated at $18.2 million for the first year of operations (FY 2019-20), with annual increases in future years.

By adding incrementally higher amounts of GFC each year to a dedicated jail fund, we are slowly building towards the annual funding amount needed to operate the new jail. As shown below, $10.9 million is allocated to this fund in the FY 2018-19 budget, of which the Sheriff anticipates drawing $10.6 million as they continue the hiring and training of staff necessary to operate the new jail, and the fund balance at year-end is estimated to be $13.7 million. Currently, we are a little over halfway to building up sufficient ongoing funding to fully operate the new jail.

**Northern Branch Jail Funding Plan**

| Fiscal Year | GFC Base | GFC Increase | Total GFC | County Match Construction | Operating Costs | End of Year Balance |
|---|---|---|---|---|---|---|
| 2011-12 | $ - | $ 1.0 | $ 1.0 | $ - | $ - | $ 1.0 |
| 2012-13 | 1.0 | 1.0 | $ 2.0 | (3.0) | - | - |
| 2013-14 | 2.0 | 1.3 | $ 3.3 | - | - | 3.3 |
| 2014-15 | 3.3 | 1.3 | $ 4.6 | - | - | 7.9 |
| 2015-16 | 4.6 | 1.5 | $ 6.1 | - | (0.2) | 13.8 |
| 2016-17 | 6.1 | 1.5 | $ 7.6 | (12.3) | (1.3) | 7.8 |
| 2017-18 | 7.6 | 1.5 | $ 9.1 | - | (3.5) | 13.4 |
| 2018-19 | 9.1 | 1.8 | $ 10.9 | - | (10.6) | 13.7 |
| 2019-20 | 10.9 | 1.8 | $ 12.7 | - | (18.2) | 8.2 |
| 2020-21 | 12.7 | 2.2 | $ 14.9 | - | (18.8) | 4.3 |
| 2021-22 | 14.9 | 2.2 | $ 17.1 | - | (19.3) | 2.1 |
| 2022-23 | $ 17.1 | $ 2.2 | $ 19.3 | $ - | (19.9) | **1.5** |

***Deferred Maintenance Commitment:*** In response to growing deferred maintenance needs, the Board developed a funding policy, effective in July 2015, providing a mechanism to increase ongoing funding available for maintenance projects. The policy commits 18% of unallocated discretionary general revenue growth to address maintenance needs on an annual basis, thereby increasing the ongoing funding every year that experiences growth in discretionary revenues. At the time, the growth projections showed that funding would cumulatively provide approximately $100 million toward maintenance over a 10-year period. However, because the projection used a percentage of unallocated discretionary revenue growth as the basis of annual calculated dollar amounts, the actual amounts allocated to deferred maintenance needs vary from year-to-year based on revenue growth, salary and benefit growth, and other funding needs.

It is anticipated that $4 million in deferred maintenance funding from the 18% formula will be available in FY 2018-19, reflecting growth of $750,000 from the current $3.26 million ongoing level. FY 2018-19 department budgets include funding at the FY 2017-18 adopted budget levels, with the $750,000 growth amount remaining set aside but unallocated at this time. The CEO will allocate this growth amount in the Recommended Budget based on a review of pending needs between the three maintenance departments (Public Works, General Services, and Community Services). Despite the annual growth anticipated in funding, the backlog of deferred maintenance projects countywide remains in the $400 million range, leaving a very significant gap between allocated funding and current need.

## FISCAL ISSUES REPORT UPDATE

The Fiscal Issues Report identified a number of items requiring, collectively, as much as $16 million ($10.8 million ongoing) funding needed in FY 2018-19 to address these expected—and largely unbudgeted—issues. Some of these issues have been addressed through service level reductions, some appear as expansion requests, and others are part of larger Countywide initiatives.

**Fiscal Issues Update**

| Fiscal Issue and Impacted Department | Estimated FY 2018-19 Impact as Presented in December | FY 18-19 Budget Workshop Update |
|---|---|---|
| Deferred Maintenance (Public Works, Community Services, and General Services) | $5.4 million (ongoing) | Partially included |
| IHSS Mandated County Share (Social Services) | $0-$75,000 (ongoing) | Resolved for FY 2018-19 |
| In-Car Video and Computer Systems Replacement (Sheriff) | $1 million (one-time) | Deferred |
| Inpatient System of Care & IMD Cost Increases (Behavioral Wellness) | $4 million (ongoing) | Budget balanced through service level reductions and revenue restructuring; service level restorations under review for inclusion in recommended budget |
| Public Safety Portable Radio Replacement (Sheriff, Fire, and Probation) | $420,000 (ongoing for five years) | Included |
| Solar Projects (General Services) | $4 million (one-time) | Under review for inclusion in recommended budget |
| Vintage Ranch Bridge Project (Public Works) | $400,000-$500,000 (one-time) | Under review for inclusion in recommended budget – submitted as an expansion request |
| Waller Park Irrigation Well Replacement (Community Services) | $750,000 (one-time) | Under review for inclusion in recommended budget – submitted as an expansion request |

Of the issues that were presented as potential one-time costs for FY 2018-19, three are not included in departments' preliminary budgets and remain outstanding issues:

- The Sheriff in-car video and computer systems replacement project, estimated at $1 million, is not funded in the preliminary budget the Sheriff has not submitted a related expansion request.
- The Waller Park irrigation well replacement project, estimated at $750,000, was submitted as an expansion request by the Community Services Department.
- The developer of the Vintage Ranch project appears to be ready to move forward with the project in 2018, and funding for the bridge project, now estimated to cost $700,000, was submitted as an expansion request by General County Programs.

In addition, General Services' solar projects are not funded in the preliminary budget; however, they remain under consideration for future investment. Deferred maintenance also remains with a large unfunded ongoing need, and is discussed in more detail below.

Departments have addressed all of the ongoing issues identified with expected FY 2018-19 impacts in the preliminary budget:

- An amount of $678,000 has been set aside to continue the public safety portable radio replacement multi-year project, which will eventually replace radios for the Sheriff and Probation Departments (Fire will fund radio replacements through their special revenue fund).
- Social Services was able to take advantage of revenue growth to offset expected increases in IHSS costs. In addition, $625,000 that was set aside in the current year to offset IHSS MOU increases will not be needed this year or in FY 2018-19, and can be carried over to offset future increases.
- Behavioral Wellness anticipated a need of $4 million to maintain inpatient system of care and Institute for Mental Disease services and address growing demand. The department significantly

restructured their FY 2018-19 budget to address this shortfall through a combination of service level reductions and programmatic changes allowing redirection of discretionary revenue. The department has submitted a budget restoration request to increase the number of funded bed days to current levels, which, because of programmatic and revenue restructuring, is estimated to cost $2.4 million.

**DISASTER RECOVERY IMPACTS**

The recent natural disasters are of particular note in preparing the FY 2018-19 budget due to the short-term and long-term impacts. The Thomas Fire and subsequent 1/9 debris flow events affected areas throughout southern Santa Barbara County, but primarily the Montecito area. Complete recovery throughout the Montecito area is estimated to take several years. As of early March, the total estimated cost of responding to and recovering from the Thomas Fire and 1/9 Debris Flow was projected to exceed $55 million in County government costs, with the County's share totaling approximately $12.3 million ($6.3 million General Fund). Potential revenue losses (property tax, transient occupancy tax, and sales tax) are estimated at $2.9 million in FY 2017-18 and $3.6 million in FY 2018-19, largely due to disaster impacts.

The County is responsible for the non-reimbursable portion of disaster recovery costs as well as 6.25% of reimbursable costs, which are collectively estimated at $12.3 million, though this number will not be final until the County's proposed permanent rebuilding projects are approved by FEMA and the State and costs are agreed upon. County staff is continuing to monitor appropriations within all departments, and expects to return to the Board with further budget revisions as costs and reimbursement timing becomes clearer. Future draws on the Strategic Reserve may include non-General Fund departments, and may be needed to cover the local portion of the emergency and permanent disaster-related repair costs as well as address cash flow needs until federal and State reimbursements are received.

**These outstanding costs will compel us to set aside a significant portion of available ongoing and one-time reserves to address the local match and cash flow obligations in FY 2018-19.** This budget includes funding of $6.25 million ($3 million ongoing and $3.25 million one-time) set aside for this purpose.

**CLOSING THE BUDGET GAP**

With the progression of the fiscal year since development of the five-year forecast, departments have had access to more definitive information from funding sources and better trend data, and were able to refine their expenditure and revenue estimates in developing their preliminary FY 2018-19 budgets. Departments were also able to take advantage of efficiency measures, such as reducing long-vacant funded positions and restructuring staff, to reduce their budget gaps. However, service level reductions in some departments were still necessary to bring revenues and expenditures into balance.

Departments' preliminary budgets include staffing decreases of 10.9 FTE to partially offset negotiated and other salary and benefit increases. Overall, salaries and benefits are anticipated to increase by about 2.8% from FY 2017-18 to FY 2018-19. The main components of this increase are regular salaries (increasing by 3.5%), followed by retirement contribution (increasing by 4.6%) and health insurance contribution (increasing by 2.1%).

On the revenue side, growth across all funds is anticipated at 1.3%. General Fund operating revenues, which fund basic services, are expected to increase by 3.0% in FY 2018-19. Growth assumptions for key discretionary revenue sources have been lowered from the levels presented in the forecast, reflecting primarily the expected impacts from the Thomas Fire and subsequent 1/9 debris flow on property values, tourism, and local businesses.

**Impacts of Disasters and Other Updates to Revenue Assumptions**

| Revenue Source | Budget Workshop | Five-year Forecast |
|---|---|---|
| Property taxes | 2.4% growth | 4% growth |
| Sales tax | 0.9% growth | 3% growth |
| Transient Occupancy Tax | 20.8% reduction | 2.6% growth |

Significant non-General Fund revenues were not impacted by the disaster, and budgeted amounts are consistent with the five-year forecast assumptions. Prop 172, the public safety sales tax, is expected to grow by 3% in FY 2018-19 as anticipated in the forecast. Also as anticipated, Public Works' SB 1 revenue, a relatively new State funding source for local street and road repair, is expected to more than double to nearly $6.4 million in FY 2018-19.

The table below summarizes the measures that were taken by departments to close their projected FY 2018-19 budget gaps, reflecting a mix of service level reductions, one-time use of fund balance, and revenue and expenditure estimate refinements resulting from better information about trends, reductions not resulting in service impacts, State and federal funding availability, new mandates, and efficiency savings.

**How Departments Arrived at Balanced FY 2018-19 Budgets**

| | | Components of Balanced Budget | | | |
|---|---|---|---|---|---|
| Fund 0001 - General Fund | FY 2018-19 Forecast Gap | Service Level Reductions | Use of One-time Funds for Ongoing Operations | Revenue Changes | Expenditure Changes |
| 011 -- Board of Supervisors | (101,800) | - | - | - | 101,800 |
| 012 -- County Executive Office | (378,600) | - | 409,400 | 71,500 | (102,300) |
| 013 -- County Counsel | (177,000) | 159,800 | - | 341,900 | (324,700) |
| 021 -- District Attorney | (594,600) | 241,500 | 460,000 | 295,100 | (402,000) |
| 022 -- Probation | (2,442,200) | - | - | 3,014,000 | (571,800) |
| 023 -- Public Defender | (344,800) | 478,600 | - | 489,200 | (623,000) |
| 032 -- Sheriff | (2,447,800) | 1,579,000 | - | 2,440,200 | (1,571,400) |
| 041 -- Public Health | (41,200) | - | - | (188,800) | 230,000 |
| 051 -- Agricultural Commissioner/W&M | (2,900) | - | - | 177,800 | (174,900) |
| 053 -- Planning & Development | (172,400) | - | - | 2,374,500 | (2,202,100) |
| 054 -- Public Works | - | - | - | 444,300 | (444,300) |
| 057 -- Community Services | (462,900) | 186,000 | 329,000 | 1,458,000 | (1,510,100) |
| 061 -- Auditor-Controller | (373,800) | - | - | 218,400 | 155,400 |
| 062 -- Clerk-Recorder-Assessor | (741,200) | - | 634,400 | 2,854,100 | (2,747,300) |
| 063 -- General Services | (1,710,700) | - | - | 290,700 | 1,420,000 |
| 064 -- Human Resources | (179,700) | - | 140,000 | 113,100 | (73,400) |
| 065 -- Treasurer-Tax Collector-Public | (342,300) | - | - | 1,385,900 | (1,043,600) |
| 990 -- General County Programs | (1,720,700) | - | - | (1,538,200) | 3,258,900 |
| General Fund Subtotal | (12,234,600) | 2,644,900 | 1,972,800 | 14,241,700 | (6,624,800) |
| **Major Special Revenue Funds** | | | | | |
| 0010 -- First 5 Child & Families Comm | (465,000) | - | 468,400 | (199,000) | 195,600 |
| 0015 -- Roads-Operations | - | - | 2,306,400 | (289,700) | (2,016,700) |
| 0042 -- Health Care | (486,200) | - | 1,986,600 | (109,100) | (1,391,300) |
| 0044 -- Mental Health Services | (307,800) | 2,350,850 | - | 4,207,500 | (6,250,550) |
| 0048 -- Mental Health Services Act | (3,192,600) | - | - | 5,110,900 | (1,918,300) |
| 0049 -- Alcohol and Drug Programs | - | - | - | 6,832,700 | (6,832,700) |
| 0055 -- Social Services | (4,133,200) | - | 3,745,000 | 1,526,100 | (1,137,900) |
| 0056 -- SB IHSS Public Authority | (1,655,100) | - | - | 2,832,000 | (1,176,900) |
| 0057 -- Child Support Services | (355,500) | 221,700 | 51,900 | 3,900 | 78,000 |
| 0058 -- WIOA-WDB | (61,700) | - | - | 409,700 | (348,000) |
| 0069 -- Court Activities | (879,100) | - | - | 94,900 | 784,200 |
| Special Revenue Funds Subtotal | (11,536,200) | 2,572,550 | 8,558,300 | 20,419,900 | (20,014,550) |
| Grand Totals | (23,770,800) | 5,217,450 | 10,531,100 | 34,661,600 | (26,639,350) |

***Service Level Reductions:*** Many departments were able to absorb cost increases by finding efficiencies, identifying revenue growth, and restructuring services. The remaining gaps between expenditures and revenues were addressed through service level reductions, which are summarized in the table below and explained in detail in the departmental budget workshop presentations and Tab 4 of the budget workshop binder.

**Summary of Service Level Reductions**

| Department | Reduction Amount | Total FTE Impact |
|---|---|---|
| County Counsel | 159,800 | 1.5 |
| District Attorney | 241,500 | 1.0 |
| Public Defender | 478,600 | 2.0 |
| Sheriff | 1,579,000 | 3.7 |
| Behavioral Wellness | 2,350,850 | - |
| Child Support Services | 221,700 | 2.0 |
| Community Services | 186,000 | 0.7 |
| **Total** | **5,217,450** | **10.9** |

Of particular note are the reductions in the Sheriff, Behavioral Wellness, and Public Defender Departments:

- The Sheriff's Department made a number of staffing and efficiency changes to help close their gap, but ultimately needed to make $1.6 million in service level reductions, including 1.0 FTE in the Air Support Unit, 2.7 FTE in Isla Vista law enforcement, and a reduction to budgeted overtime funding.
- Behavioral Wellness has consistently encountered mid-year budget shortfalls requiring General Fund support. The FY 2018-19 budget, as submitted by the department, is built on revenue estimates based on a more conservative client mix in mental health facilities as well as a thorough analysis of the extent to which various services, and service levels, are mandated or discretionary.
- Public Defender resolved a long-standing structural deficit by making significant service level reductions in the FY 2018-19 budget. The department eliminated a Chief Deputy Public Defender position and reduced legal support positions by 2.5 effective positions (in prior years, many positions were budgeted as extra help, and therefore are not reflected in the FTE reduction numbers in the table above).

***Use of One-time Funds for Ongoing Operations:*** In reviewing trends of the last several years, departments have taken a disciplined approach to use of fund balance for ongoing operational costs. Departments have often budgeted the use of fund balance, but been able to prudently manage operations to contain costs and prevent the need to draw on one-time sources for these ongoing costs of doing business. The County is therefore well-positioned in terms of structural deficit, with very few departments relying regularly on one-time sources of funding for their ongoing operational costs.

Although the County maintains a fiscal policy of using ongoing funding for ongoing operations and one-time funding for one-time expenditures, some departments are relying on use of one-time funds for ongoing operations to balance their FY 2018-19 preliminary budgets. In some cases, this may be done to ease the impacts of service level reductions over a multi-year period. Alternatively, some departments have chosen to use fund balance to close their gaps entirely, in lieu of service level reductions.

## RESTORATION AND EXPANSION REQUESTS

Departments prepared budgets in accordance with departmental revenue and expenditure assumptions and flat GFC funding. In advance of the budget workshop, CEO executive and budget staff met with department directors and fiscal staff to review anticipated service level reductions and other department budget changes. After consideration of the impacts of particular department service level reductions on the County as a whole, certain departments were granted restorations or expansions in advance of the budget workshops.

**Restorations and Expansions Included in Departments' Preliminary Budgets**

| Department | Description | On-Going GFC | One-Time GFC | Total GFC | FTE Impact |
|---|---|---|---|---|---|
| **Pre-workshop Restorations** | | | | | |
| Public Defender | Restore 3 Deputy Public Defender positions | 325,300 | - | 325,300 | 3.0 |
| **Pre-workshop Expansions** | | | | | |
| Clerk-Recorder-Assessor | Motor voter cost increases | - | 340,000 | 340,000 | - |
| Sheriff | Add 5 dispatch call takers | 442,500 | - | 442,500 | 5.0 |
| Sheriff | Add 10 service technicians at main jail | 945,500 | - | 945,500 | 10.0 |
| General County Programs | Set aside funding for disaster recovery | 3,000,000 | 3,250,000 | 6,250,000 | - |
| General County Programs | Behavioral Wellness contingency funds | - | 1,000,000 | 1,000,000 | - |
| | **Total** | **4,713,300** | **4,590,000** | **9,303,300** | **18.0** |

Departments have submitted requests for additional restorations of service level reductions and budget expansions, which will be discussed in detail in department presentations and summarized in Tab 3 of the budget workshop binder.

**Summary of Funding Requests for Restorations and Expansions**

| Request Type | On-Going GFC | One-Time GFC | Total GFC | Non-GFC | Total Cost Impact | FTE Impact |
|---|---|---|---|---|---|---|
| Restorations | 1,257,500 | 2,350,900 | 3,608,400 | - | **3,608,400** | 6.8 |
| Expansions | 3,899,800 | 19,048,600 | 22,948,400 | 774,400 | **23,722,800** | 37.0 |
| **Total** | **5,157,300** | **21,399,500** | **26,556,800** | **774,400** | **27,331,200** | **43.8** |

| Department | On-Going GFC | One-Time GFC | Total GFC | Non-GFC | Total Cost Impact | FTE Impact |
|---|---|---|---|---|---|---|
| County Executive Office | - | 325,000 | 325,000 | - | **325,000** | - |
| County Counsel | 282,200 | - | 282,200 | - | **282,200** | 2.0 |
| District Attorney | 464,400 | - | 464,400 | - | **464,400** | 3.0 |
| Probation | 240,800 | - | 240,800 | - | **240,800** | 2.0 |
| Public Defender | 163,500 | - | 163,500 | - | **163,500** | 1.0 |
| Fire | - | - | - | 116,200 | **116,200** | 2.0 |
| Sheriff | 3,931,400 | 1,753,600 | 5,685,000 | - | **5,685,000** | 27.8 |
| Public Health | - | - | - | 227,000 | **227,000** | 3.0 |
| Behavioral Wellness | - | 2,350,900 | 2,350,900 | - | **2,350,900** | - |
| Public Works | - | 13,730,000 | 13,730,000 | - | **13,730,000** | - |
| Community Services | 75,000 | 1,015,000 | 1,090,000 | 75,000 | **1,165,000** | 1.0 |
| General Services | - | 650,000 | 650,000 | 356,200 | **1,006,200** | 2.0 |
| General County Programs | - | 1,575,000 | 1,575,000 | - | **1,575,000** | - |
| **Total** | **5,157,300** | **21,399,500** | **26,556,800** | **774,400** | **27,331,200** | **43.8** |

In total, departments are requesting ongoing restorations of $1.3 million and one-time restorations of $2.4 million. Departments have also requested funding for new or expanded programs of $3.9 million in ongoing GFC, $19.0 million in one-time GFC, and $0.8 million in non-GFC. The vast majority of the expansion requests are from Public Works and Sheriff:

- Public Works is requesting $13.7 million to maintain the Pavement Condition Index at its current level of 56, $1.4 million to repair damage to County roads due to the 2017 winter storms, and $3.8 million to cover the potentially unfunded portion of costs related to disaster recovery. All of these requests are for one-time funds.
- Sheriff is requesting $2.1 million to add 14 deputies to mitigate employee lost time, $1.6 million to create an 8-FTE Disaster Response Bureau, $0.7 million to expand on-side CAD support, $0.1 million to implement new scheduling software, $0.05 million for maintenance fees on enhanced radio services, and $0.1 million to fund the workers' compensation carve-out program. Of these requests, $3.9 million is for ongoing and $1.8 million is for one-time funds.

**LOOKING FORWARD, BEYOND FY 2018-19**

Although the FY 2018-19 anticipated budget shortfalls have been resolved by departments through restructuring, service level reductions, and other measures, significant fiscal challenges remain on the horizon.

Departments' FY 2018-19 preliminary budgets address many of the fiscal issues identified in the Fiscal Issues Report. Additional issues identified in the report remain with potential FY 2019-20 impacts. If the Sheriff is able to fund the in-car video and computer systems replacement project with a one-time investment of $1 million, an ongoing obligation of $125,000 will need to be funded. The public safety communications system replacement project, which is expected to cost tens of millions of dollars for several years, with an ongoing set aside required for future replacement, will need to be funded soon to replace our aging systems. In addition, large deferred maintenance funding deficits remain.

There also remain many unknown factors that will impact FY 2019-20 and beyond. Future salary and benefit costs are not known with certainty, as MOUs with employee bargaining groups are not established beyond FY 2018-19. In addition, changing legislation and regulations remain unpredictable and potentially highly impactful.

Renew '22 initiatives are still in the beginning stages, and have the potential to completely transform our County organization. Many of these initiatives are not quantifiable at present, and the benefits will be borne out over many years. The County's priorities for next year must pay special heed to potential disaster response preparation. We must be a financially secure and nimble organization, able to address the impacts of the next disaster through efficient and strong systems of service.

There will be difficult choices in the coming months and years for the County, and we will continue to focus on decisions that allow balancing of short-term needs with long-term impacts, strategic realigning of services and the costs to provide those services, and opportunities for new ways of doing business. We can do anything, but we cannot do everything, and must continue to focus on doing the most essential and important things well to best serve our community.