

Five-Year Forecast & Fiscal Issues Report

FY 2021-22 through FY 2025-26

This five-year forecast report is presented to the Board of Supervisors to provide a context for balancing short-term objectives with long-term goals during the upcoming budget development cycle. A similar report has been presented to the Board each year for over a decade. This forecast report includes five years of revenue and expenditure projections for major County operating funds, and examines the drivers of any major anticipated gaps, including the impacts of COVID-19 on the County’s budget. This report also identifies fiscal issues that have the potential to impact demands on County resources during the forecast period. Some are broad issues with countywide impact and others are smaller, specific issues within departments. These represent fiscal items that the County Executive Office believes will be necessary to fund in the immediate or near-term to set the fiscal context for the coming years.

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THE CONTEXT: A RECESSION AND A PANDEMIC

WHAT THE EXPERTS SAY

In June 2020, the National Bureau of Economic Research declared that the nation has officially been in a recession since February, more than 12 years since the beginning of the Great Recession. Though the prior recession can be used as a reference when forecasting future impacts of the current recession, it is important to acknowledge key differences that may preclude a direct comparison. The Brookings Institution notes that the underlying cause of the current recession is fundamentally different from that of the Great Recession. The Great Recession was a result of financial imbalances, while the current recession was brought on by a totally external factor, COVID-19.¹ In addition, recovery from the current recession will be highly dependent on the progression of the pandemic, whether and when a vaccine becomes widely available, and how widespread the economic impacts are. Another difference noted by the Brookings Institution concerns human behavior. During the Great Recession, some were concerned that the federal relief initiatives could have negative unintended consequences, specifically that people would take out riskier loans in the knowledge that they could be bailed out if things went wrong. In the current recession there exists no such perverse incentive; people will not seek to contract the virus to receive government aid.

Three months after its economists issued a bleak outlook for the national economy, the UCLA Anderson Forecast projected stronger growth in 2020 than previously expected but weaker growth in 2021 and full recovery more than a year away in its September 2020 Economic Forecast Report. The improved outlook is driven by the reopening of the economy earlier than expected, no new shutdown orders despite a surge in COVID-19 cases over the summer, rapid adaptation to remote-working and social distancing, continued monetary policy support by the Federal Reserve, and the fiscal stimulus approved in March, the effects of which continued to be felt throughout the economy. As with prior forecasts, the UCLA Anderson Forecast cautioned that uncertainties remain and its forecast may be too optimistic if its assumptions do not come to pass, not least of which concerns the pandemic and a possible resurgence of cases that result in new shutdown orders or the availability of a viable vaccine or treatments that lower the severity of COVID-19. Additionally, the forecast assumes an additional round of fiscal stimulus in 2020. Although it does not assume this round of stimulus will include assistance to state and local governments to offset revenue losses, the UCLA Anderson Forecast assumes that consumers would spend down additional income from a fiscal stimulus gradually over time and provide a similar benefit to the economy as the earlier round. Other uncertainties and downside risks include global instability and the impact that election uncertainty would have on consumer sentiment and business investment.

COVID-19 IMPACTS

The COVID-19 pandemic has caused a national recession, a sudden reduction in state and local revenues, and severe economic distress for businesses, families, community organizations and public agencies. It has jeopardized the health of our communities and our economic livelihood. For more than half a year,

¹ Sheiner, Louise 2020, "How does the coronavirus pandemic compare to the Great Recession, and what should fiscal policy do now?", Brookings Institution, accessed November 6, 2020, <https://www.brookings.edu/blog/up-front/2020/03/12/how-does-the-coronavirus-pandemic-compare-to-the-great-recession-and-what-should-fiscal-policy-do-now/>.

the County has been under the State Public Health Officer’s “Stay-at-Home” Order, with limited easing of restrictions.

It is worth noting that while all organizations are facing similar challenges, county governments are at the forefront of fighting the pandemic, expanding and intensifying health, public safety and safety net services, and leading emergency operations countywide. Public Health employees have been working around the clock in this crisis, and at their side have been employees from almost every County department serving in various capacities to protect our residents. The total impact to the County for lost revenues and additional costs were estimated at \$25.1 million in the FY 2019-20 year and are expected to reach \$27.3 million in FY 2020-21. The CARES Act will provide some offset for the cost portion of these impacts, though additional impacts are anticipated in the forecast period and there is no commitment from the State or federal government to provide additional relief to local governments. Though some COVID-related revenue impacts are expected during the forecast period, the uncertainties surrounding the pandemic—including a potential spike in the winter and the possibility of a vaccine in the near future—will impact any estimates about its fiscal impacts.

Thus far, the County of Santa Barbara has been fortunate in that our major revenue sources have remained relatively stable. We will continue to pursue efficiencies and improvements in the way we do business through Renew ’22 initiatives, many of which are well into the implementation stage, and which will help position us to mitigate or avoid the difficult funding choices that were necessary during the last recession.

THE PRELIMINARY FORECAST

EXPENDITURE ASSUMPTIONS

The major countywide cost drivers are salaries and benefits, which make up 55.6% of total operating costs in the FY 2020-21 adopted budget. The largest components of salary and benefit costs are regular salaries, retirement, and health insurance. In the current budget year, total salary and benefit costs equate to just over \$661 million countywide of a \$1.2 billion operating budget.

Salaries and Benefits

Salaries. Memoranda of Understanding for the majority of non-safety represented employees have been negotiated through the end of FY 2020-21, with safety MOUs ending in FY 2021-22. These have resulted in an average annual increase of 3.1% across all employee groups (although the increase varies by bargaining group) and include salary increases, step and merit increases, and other negotiated allowances. Employee costs are assumed to continue at approximately this rate in the forecast years. For the purposes of this forecast, staffing was assumed to remain at the adopted FY 2020-21 levels, with the exception of a few decreases in departments to reflect the removal of positions funded with grant funds or other one-time allocations.

Retirement contribution. In the current year, the County has budgeted \$151.3 million for net retirement costs. Retirement costs are driven by salary increases, pension investment returns, and expectations regarding existing and future retirees. Costs are anticipated to increase nearly 12% (\$17.7 million) in the first year of the forecast, largely due to the impacts of COVID-19 on FY 2019-20 investment

returns. The investment fund earned 1% return on investments as of June 30, 2020, compared to a 7% assumed rate of return. Pursuant to retirement board policy, the shortfalls are smoothed in over a five-year period when calculating the required contributions to the fund. Cost increases in subsequent years of the forecast average about 5% each year as the impact of the FY 2017-18 reduction in the assumed rate of return, from 7.5% to 7.0%, is fully smoothed in by FY 2021-22. For comparison, retirement costs increased over 25% in FY 2010-11 during the Great Recession, the largest single-year increase of the past 15 years. The cost increases are slightly offset by the negotiated employee retirement pickup, which will be fully phased in for all bargaining groups in FY 2021-22.

Health insurance. In the current year, health insurance costs are budgeted at just over \$43 million. Health insurance costs are assumed to increase by about 4.6% per year based on recent premium increases for the County health plans. Increases in premiums from one year to the next can be unpredictable, as they are driven by the total costs experienced by the plan in the prior year, but, given current trends, a 5% annual increase is assumed in the forecast. This amounts to an increase of \$12.4 million countywide from the FY 2020-21 adopted budget to the final forecast year.

Other Expenditure Growth Areas

In addition to salary and benefit increases, departments experience escalating costs in other areas that often do not have offsetting revenue sources.

General liability insurance. These costs have been increasing in recent years as a result of increasing settlement amounts across California as well as growing experience ratings in the County. In the first year of the forecast, we assumed growth of nearly 21% from the current year adopted budget based on preliminary information, equating to increased costs of nearly \$3 million countywide, which must be absorbed by departments within their existing resources. More recent information indicates that costs may grow by as much as 25% countywide in FY 2021-22. Every additional percent increase in general liability insurance costs would equate to an impact of approximately \$150,000 to county departments.

Information technology. Departments are responsible for many IT expenditures throughout the year, including hardware and software purchases and maintenance, IT-related professional services, as well as contributions to countywide IT services. Increases of nearly \$2 million, or 8%, are expected in the first forecast year. While the total dollar amount of IT spending is not high when compared to other expenditure areas, these increases do have cumulative impacts over time on departments' ability to maintain services when there is no revenue source to cover increased costs. In addition, as a result of the acceleration to a remote workforce spurred by the pandemic, departments have seen the need for unplanned technology upgrades without additional funding. During budget development, these pressures will be considered at a countywide level as has been common practice in areas such as cybersecurity. In addition to regular cost increases and these pandemic-related IT pressures, departments have also identified significant IT needs, which are documented in the fiscal issues section of this report.

Other services and supplies. Other costs to departments, including utilities, professional services, and office supplies, often increase by an inflation factor each year—utilities, for example, are expected to increase by 3% in each of the forecast years—which, much like IT costs, may not have large impacts to a department in any one year but, over time, add to the cost pool that departments are responsible for covering. In some cases, departments receive additional GFC allocations to mitigate these costs, particularly in those instances where a countywide policy has fiscal impacts on departments or where

there are countywide uncontrollable cost increases. Some examples include the planned county migration to Office 365, insurance premium increases, DocuSign licensing costs, Zoom subscription costs, and a transition to VoIP phones to create telework office phone capabilities through use of laptops.

Ongoing Commitments

Northern Branch Jail Set-Aside. The annual set-aside for Northern Branch Jail operations is increasing according to the funding plan approved and implemented in FY 2011-12. The contribution of \$14.9 million in FY 2020-21 will grow annually to a funding level of \$19.9 million by FY 2022-23, which is \$600,000 more than initially expected in the FY 2011-12 funding plan, primarily due to jail medical costs above FY 2011-12 estimates as well as salary and benefit growth. The forecast also assumes additional increases of \$2.1 million and \$1.8 million in the two years following FY 2022-23, to cover annual cost increases and medical contract costs that will likely be higher than were anticipated when this funding plan was first developed. Salary and benefit increases, as well as the Northern Branch Jail set aside amount are addressed each year through adoption of the County's budget policies, and are then ultimately included in the adopted budget.

Fire Tax Shift. The Board adopted a plan that diverted an increasing portion of General Fund property tax revenue to the Fire District beginning in FY 2014-15, with a goal of building up to a 17% allocation to the district (at the time of plan adoption, the district was receiving 12% of County property tax revenues). This 17% target was met in FY 2019-20, such that 17% of General Fund property tax revenue is now and will continue to be allocated to the district every year. As the County experiences property tax growth, the district's 17% share grows in real dollars.

18% Maintenance Funding Plan. In June 2014, the Board directed staff to implement a maintenance funding plan that directs 18% of unallocated discretionary general revenues towards maintenance projects to address the deferred maintenance backlog. There is currently an estimated \$377 million in deferred maintenance needs, which is discussed in more detail in the fiscal issues section of this report. Because budget gaps are projected in all forecast years, it is not anticipated that any unallocated discretionary revenues will be available to increase the amount dedicated to the maintenance funding plan, and therefore this forecast assumes that the 18% maintenance allocation will remain at the FY 2020-21 adopted budget level of \$8.1 million throughout the five-year period. Specific maintenance project needs are evaluated during the annual budget process, and funding will be considered for allocation according to Board priorities should one-time monies become available.

Strategic Reserve. The forecast assumes the General Fund Strategic Reserve will be fully funded at over \$38 million in both FY 2020-21 and FY 2021-22 with no additional funding likely needed. At the time the County's FY 2020-21 budget was adopted, it was expected that \$3.8 million in strategic reserve funds would be needed to backfill realignment revenue losses within the Social Services Department. However, the State subsequently adopted a budget that included State General Fund backfill for realignment revenue loss as well as augmentation in funding for other specific programs, and there is no longer a need to draw from the strategic reserve as previously anticipated. However, based on average annual operating revenue growth, the Strategic Reserve policy would call for an account balance of \$44.9 million by FY 2025-26, which equates to an average contribution of \$1.5 million to the account in each of the remaining four years of the forecast period.

GENERAL FUND REVENUE ASSUMPTIONS: THREE SCENARIOS

For many years, the primary discretionary General Fund revenue sources have been property, sales, and transient occupancy taxes. With several years of cannabis tax revenue receipts, this additional discretionary revenue source has now joined that list. Because of the uncertainties in the stability of the cannabis market while the program was being established, cannabis revenue has been primarily used to cover enforcement costs, with any remaining available funds dedicated to one-time uses. Steady growth has occurred in these four taxes over the last several years (with the exception of sales tax and TOT losses following the Thomas Fire and subsequent debris flow), and the forecast presents three scenarios with differing revenue assumptions: the **baseline scenario** assumes a gradual economic recovery and moderate growth in tax revenues from FY 2022-23 onward; the **pronounced recession scenario** assumes lingering disruption to economic activity due to the pandemic and slow recovery as a result; and the **mild recession scenario** 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.

Figure 1. Projected growth in major discretionary revenues (property, sales, and transient occupancy taxes) based on recession severity.

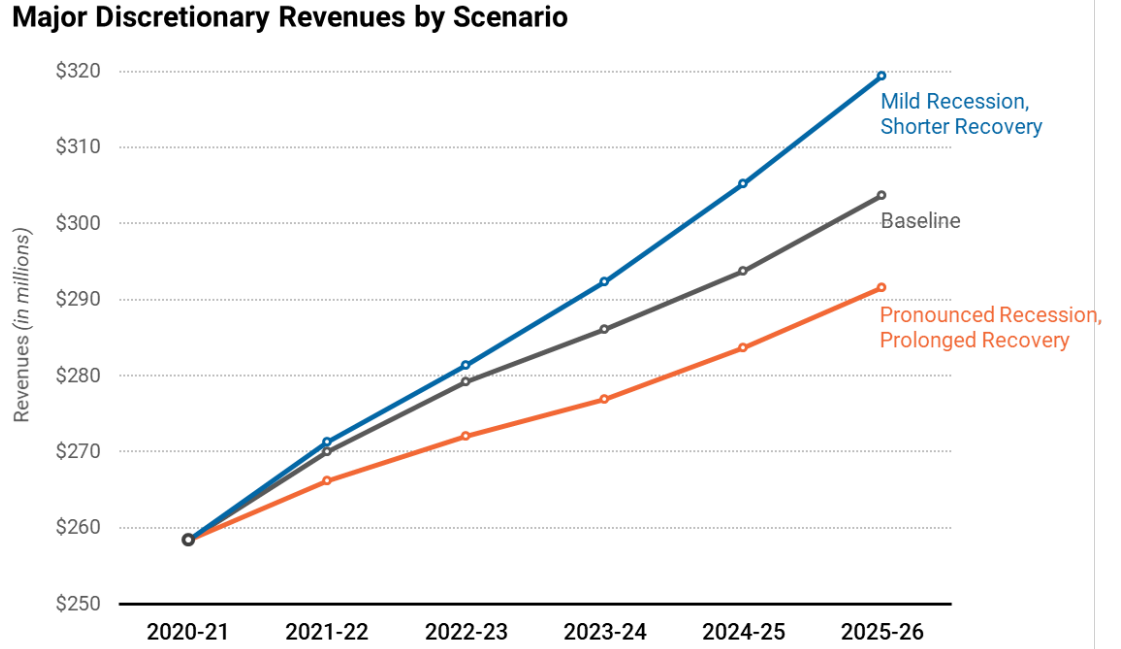


Figure 1a. Comparison of revenue growth projections in the Baseline Scenario and Mild Recession Scenario.

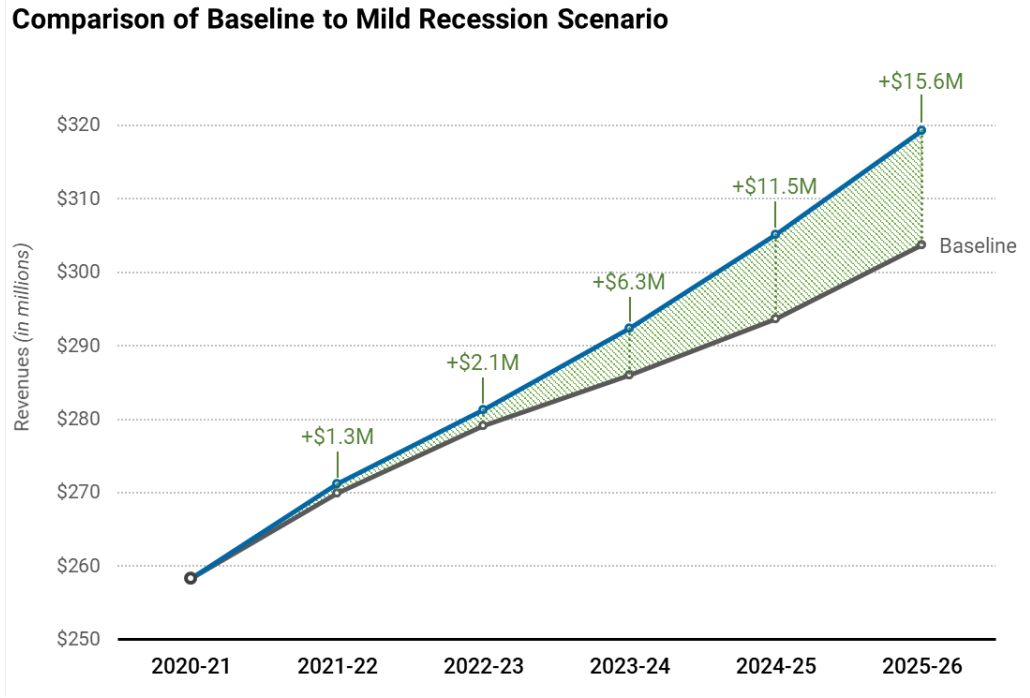
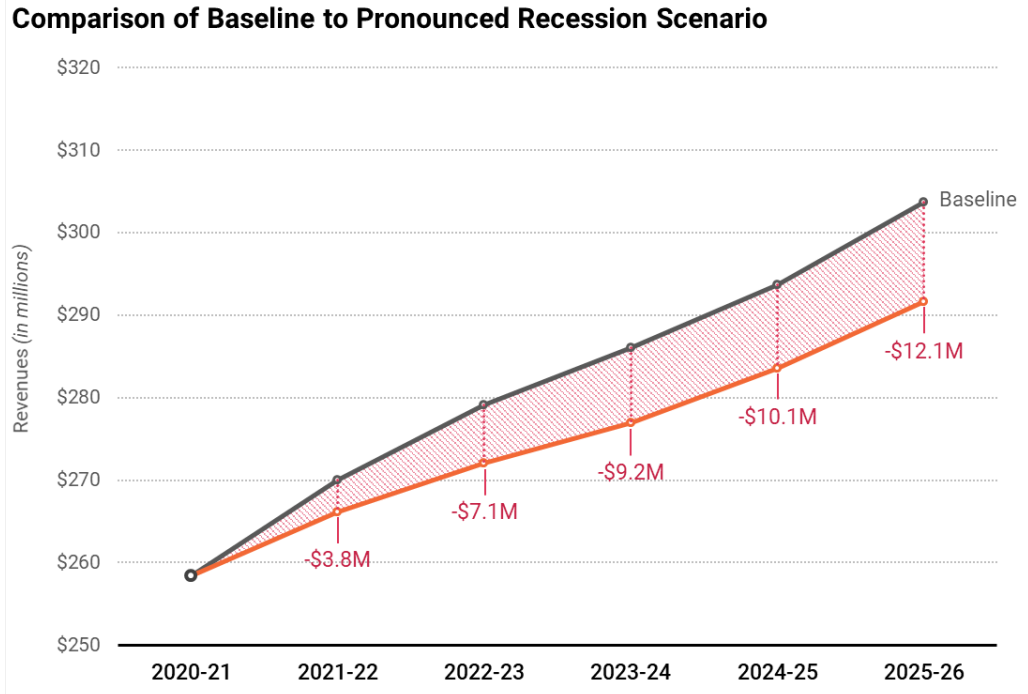


Figure 1b.
Comparison of revenue growth projections in the Baseline Scenario and Pronounced Recession Scenario.



Property Tax. In the current year, FY 2020-21, the County expects to receive \$235.7 million in property taxes, which constitutes an estimated 76% of the County’s discretionary revenue. In recent years, property tax revenues have grown by 4%-5% annually, tracking the growth in assessed value of properties in our county. In the baseline scenario, this growth is anticipated to continue at a rate of 3.5% in the first year of the forecast and then slow in future years to 2.3%. In the pronounced recession scenario, growth is assumed to decline to 2% by FY 2023-24 before climbing to 3% by FY 2025-26. In the mild recession scenario, growth is projected to hold steady at or above 4.3% through FY 2023-24 before increasing to 5% by FY 2025-26. The County’s historic growth in secured property values is shown below and demonstrates that, while year-over-year growth has always been positive, the recent rate of growth has been lower than in prior recovery periods. The potential impact of Prop 19, which allows residents 55 years and older to blend the taxable value of their old home with the value of a new, more expensive home they purchase, has not been estimated.

Increase in Secured Roll Value, Santa Barbara County

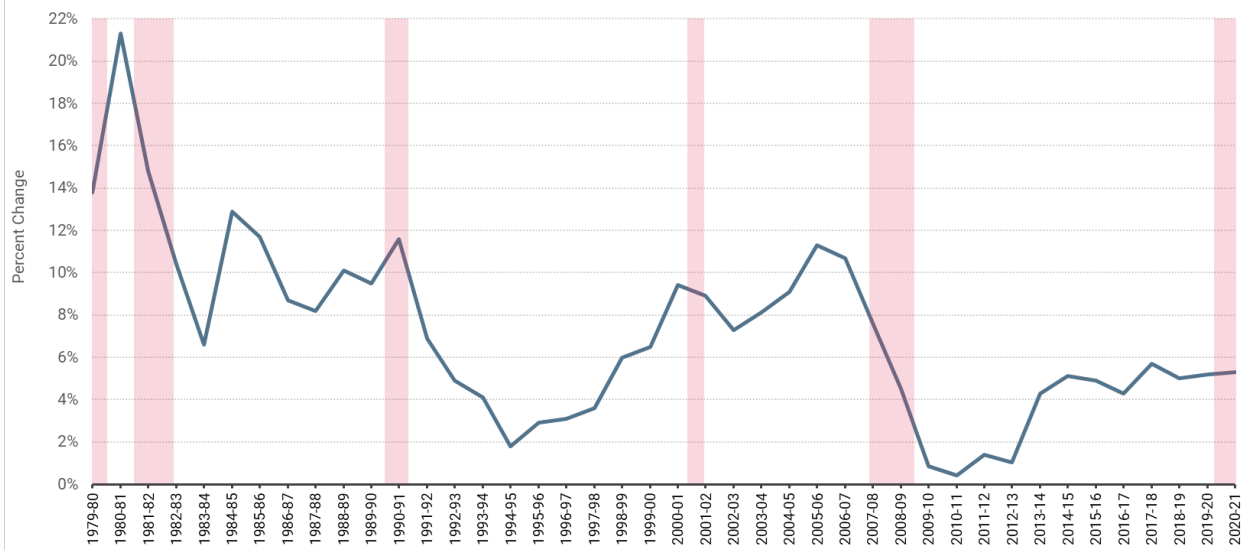


Figure 2. Percent increase in secured property tax roll value in Santa Barbara County from fiscal years 1989-90 to 2020-21. Shading denotes National Bureau of Economic Research-dated recessions.

Sources: Santa Barbara County Assessor’s Division, October 2020
 Business Cycle Dating Committee, National Bureau of Economic Research

Sales Tax. Making up 4% of discretionary revenue, sales tax is expected to reach \$11.2 million in the first year of the forecast under the baseline scenario; annual growth of 2% is projected through the end of the forecast period. Compared to the baseline scenario, a pronounced recession would slightly worsen the decline in sales tax revenue in FY 2021-22 and impair its recovery—growth is not expected until FY 2023-24 and, although it reaches 2% in FY 2025-26, sales tax revenue is not projected to fully recover from the decline. In the event of a mild recession, sales tax revenue is expected to experience no growth in FY 2021-22 but increase steadily thereafter; growth is projected to reach 2.25% in FY 2024-25 and FY 2025-26.

Transient Occupancy Tax (TOT). Hit the hardest by COVID-19 related declines in tourism, TOT revenue has dropped from the second largest discretionary revenue source into third place, with a current year projection of \$10.5 million. However, TOT is expected to increase significantly—by nearly 30%—in the first forecast year, with the anticipated reopening of the Biltmore, to \$13.3 million. Modest 2% year-over-year growth is then anticipated in future forecast years in the baseline scenario as the tourism industry is expected to rebound. In the case of a mild recession with the pandemic’s impact on economic activity abating in 2021, TOT revenue is still forecasted to increase by nearly 30% in the first forecast year and experience robust growth for the remainder of the forecast period, with growth projected to reach 4% in FY 2025-26. If the pandemic continues to disrupt economic activity and deepen the recession, TOT revenue growth in FY 2021-22 is expected to achieve only 12%, less than half of the nearly 30% growth projected in the baseline scenario. Additionally, the pronounced recession and slow recovery would impair TOT revenue growth for much of the forecast period; growth is only projected to reach 2% in FY 2025-26.

Cannabis Tax Revenue. In FY 2019-20, the second full year of receipts, cannabis tax revenue totaled \$12.2 million, \$5.5 million of which was received in the fourth quarter. The FY 2020-21 budget, adopted before the fourth quarter of receipts had come in, assumed revenue of \$10.6 million; however, current projections anticipate FY 2020-21 revenues of \$14.0 million based on the fourth quarter trend. The large increase in reporting amounts year-over-year can be attributed to an increase in compliance and enforcement efforts, as well as more operators reporting sales. The forecast assumes cannabis tax revenue of \$16.7 million in FY 2021-22, representing 15% growth in cannabis cultivation tax revenues as well as the first year of cannabis retail storefront operations. Continued growth of 15% in each year of the forecast period is assumed for cultivation tax revenue, with significant increases in retail storefront as the businesses become established. Although other major discretionary revenue sources are expected to experience declines during the forecast recession, the cannabis industry is assumed to be relatively recession-resistant, much like the alcohol market. Additionally, in FY 2020-21 the Cannabis Tax Compliance Audit will begin, prompting more accurate disclosure of sales reporting. This audit directly contributes to the expected growth throughout the forecast period.

As of September 1, 2020, three hundred acres were being cultivated by licensed operators throughout the County. In FY 2020-21, there is expected to be an increase in new cultivation operators entering the market. While acreage caps are in place at 186 acres in the Carpinteria Agricultural Overlay District and 1,575 acres in the unincorporated areas of the County outside the Carpinteria Agricultural Overlay District, proposed acreage associated with land use entitlement applications currently submitted to the Planning and Development department total 2,800 acres. The forecast assumes there will be an increase in permitted cultivation and related cannabis tax revenue based on this information.

In addition, the forecast assumes new tax revenue from cannabis storefront operations. On January 14, 2020, the Board adopted an ordinance amendment to Chapter 50 of the County Code that allows a maximum of one storefront retail license to be awarded in each of the six community plan areas. Because of zoning limitations and other provisions, such as required distance from school sites, for example, as well as availability of vacant retail storefront property, it is assumed that the opening of six potential retail operations will be phased in over the forecast period with sales increasing over time. However, it is a possibility that fewer than six will eventually be put into operation.

In FY 2021-22 it is assumed that three retail storefronts will begin operations, with total revenue of \$625,000 in that first forecast year. By the third year of the forecast, retail storefront revenue is expected to reach \$1.25 million as the number of retail outlets increases and sales in existing storefronts ramp up over time. By the end of the forecast period, total revenue is projected to reach \$1.5 million, reflecting increased sales volume.

As has been the case since the County's cannabis program launched in FY 2017-18, all cannabis enforcement and regulatory activities are fully offset by cannabis tax revenue and fees throughout the forecast period. Revenue above and beyond the amount needed to offset enforcement and administration costs and provide funding for maintenance per the 18% maintenance policy has primarily been used for one-time expenditures, including backfill of COVID-related Prop 172 revenue loss, establishment of social justice equity set-aside funds, and to prevent services level reductions in the Social Services Department, along with certain other board priorities (these include the funding of two planner positions in Long Range Planning and enhanced library funding). This has been judicious practice while the cannabis program has become established, given the uncertainties surrounding introducing a new

industry with a new set of regulations to the County. The forecast assumes continuation of this practice, with any cannabis revenue in excess of existing ongoing funding commitments set aside into a reserve account instead of matched against ongoing expenditures. As such, this additional unallocated cannabis revenue is not included in the General Fund discretionary revenues and therefore excluded from the gap calculation presented in the next section of this report.

Now that the County has experienced several years of steady growth in the cannabis cultivation market, with a full slate of operators in the permit pipeline as well as new revenues expected from retail storefront operations, as well as continued growth despite the pandemic-related economic slowdown, the volatility risk appears to be stabilizing. Moving forward, the County may consider using some portion of cannabis revenues toward ongoing expenditures to mitigate any otherwise necessary service reductions. As was done in the current year with the uncertain fiscal situation, cannabis tax revenue, with its recession-proof strength, may allow the County to preserve services that would otherwise have been at risk of reduction given the current recession and possibility that other major discretionary revenue sources could experience further declines within the next several years.

THE GENERAL FUND GAP

State and local governments are facing fiscal challenges as general fund revenues have been affected by the pandemic-induced recession. Local governments with large exposure to economically sensitive revenues, such as sales tax, or significant dependence on tourism may be more vulnerable to the pandemic shock. Actual revenues received in FY 2019-20 only capture a few months of the fiscal effects of the pandemic but offer some insight into making near-term revenue growth projections.

In all revenue growth scenarios modeled, we project budget shortfalls through the forecast period ranging from \$0.7 million, or 0.1% of total General Fund expenditures, in FY 2021-22 in the mild recession scenario to \$39.3 million, or 4.2% of expenditures, in FY 2025-26 in the pronounced recession scenario. The forecast budget gaps displayed in this report are cumulative over the five-year forecast period. However, by law, the Board must adopt a balanced budget and, as such, the deficits in each of the forecast years would necessarily diminish by the amount of the prior year's gap that is closed with ongoing expenditure reductions or revenue increases. The gaps presented in this report, therefore, represent the differences between expenditures and revenues if no mitigating actions were to be taken in any of the forecast years.

All scenarios assume no new staffing or program expansions, and no significant policy or environmental events. However, as we have experienced in the recent past, with events such as the Thomas Fire and subsequent debris flow, as well as the current pandemic, we can never predict with certainty all of the variables that will ultimately impact the County, in terms of revenues, costs, as well as State and federal pressures. As such, these forecast scenarios are provided not as incontrovertible predictions of our future fiscal status, but as stress tests of our fiscal health as we enter another budget development cycle given the known challenges we expect to face in the coming years.

In our baseline scenario in which a modest recession takes hold and economic recovery is gradual, the General Fund budget deficit will grow from 0.2% of total expenditures in FY 2021-22 to 2.9% in FY 2025-26. The incremental change in the General Fund gap—the amount by which the gap grows from one year to the next—is the greatest between the second and third years of the forecast as property tax revenue growth is projected to hit its nadir in FY 2023-24. As expenditures steadily grow through the forecast

period and outpace revenue growth, the County would need to implement \$27.2 million in cost reductions or identify additional revenues to eliminate the gaps across all forecast years in the baseline scenario.

General Fund Cumulative Gaps (Baseline Scenario)

Dollars in millions

	2021-22	2022-23	2023-24	2024-25	2025-26
General Fund	-\$1.9	-\$5.0	-\$15.7	-\$23.5	-\$27.2
Incremental Change		-\$3.1	-\$10.7	-\$7.8	-\$3.7

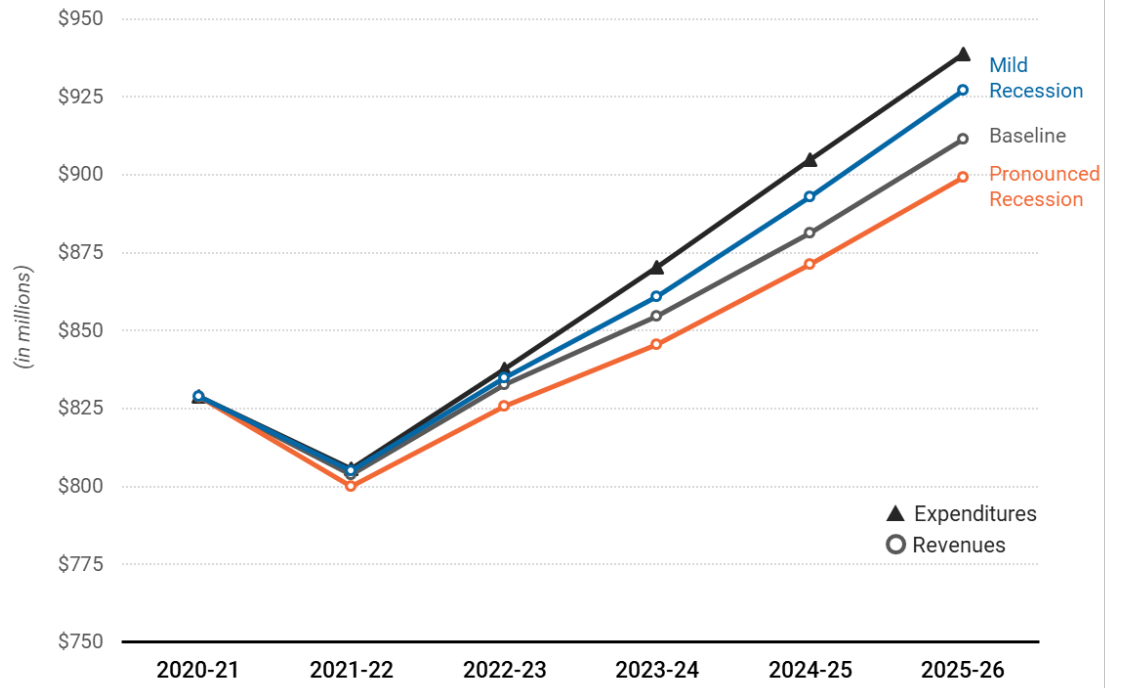
Should these projected budget gaps materialize, it will be challenging for the County to fulfill its ongoing commitments to funding priorities, such as the Northern Branch Jail operations, deferred capital maintenance, public safety, negotiated employee contracts, and pension costs without service reductions elsewhere.

Most General Fund departments are projecting expenditures in excess of revenues throughout the forecast period, which is not uncommon. Departments are allocated an increasing amount of discretionary revenues to cover a portion of their salaries and employee benefit costs; nevertheless, the net impact of projected cost increases and revenue levels still results in funding gaps each year of the forecast. The County Executive Office will work with all departments during FY 2021-22 budget development and in the coming years to monitor revenues and ensure sustainability in their operations to mitigate the need for, and impacts of, any service level reductions.

The following chart shows the projected gaps between expenditures and revenues over the forecast period by scenario. Note that funding gaps are projected in all scenarios. Even if additional revenue from cannabis taxes were included in the forecast, some gaps would persist. Under the baseline scenario, nearly the first three years of gaps could be solved; under the mild recession scenario, all gaps would be solved, but under the pronounced recession nearly two years of gaps could be solved.

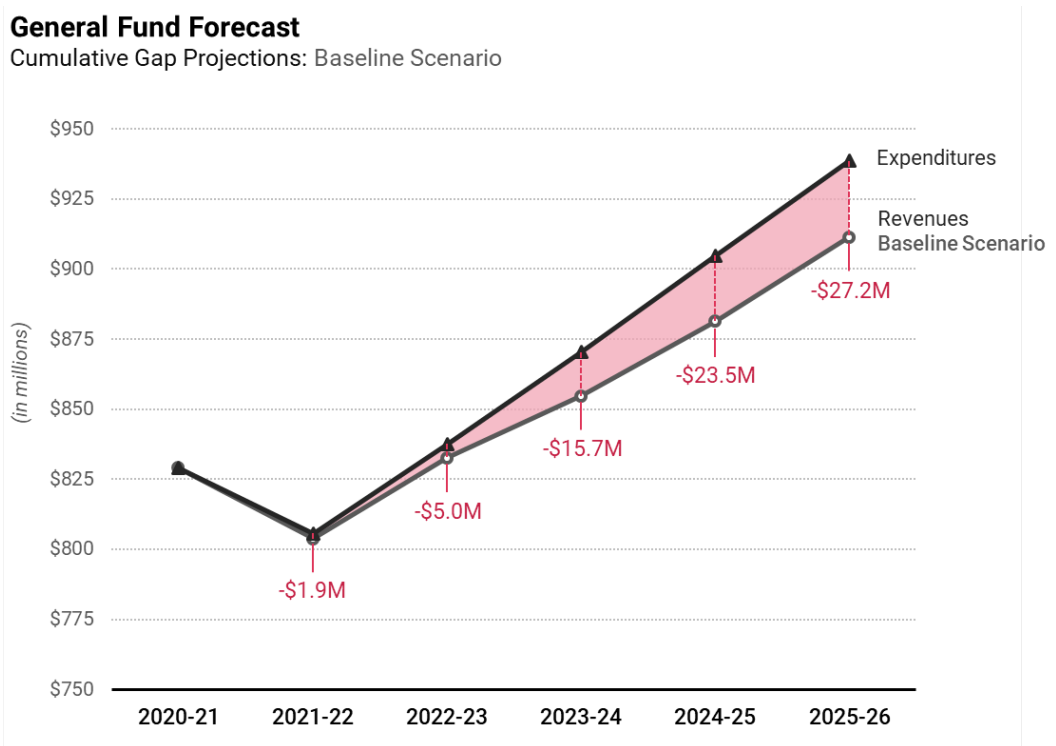
Figure 3.
 Total General Fund expenditures and revenues - forecasted through FY 2025-26. Revenue scenarios reflect differences in discretionary revenue growth based on recession severity.

General Fund Expenditures and Revenues by Scenario



Baseline Scenario. Considered the most likely scenario, the baseline scenario projects a budget deficit of \$1.9 million, or 0.2% of total expenditures, in FY 2021-22 and more than doubling the following year. As growth in discretionary revenues declines to its lowest point in FY 2023-24, the gap between expenditures and revenues widens considerably. The revenue shortfall is projected to reach \$27.2 million, or 2.9% of total expenditures, by the end of the forecast period.

Figure 3a.
Cumulative General Fund gap projection using Baseline Scenario.

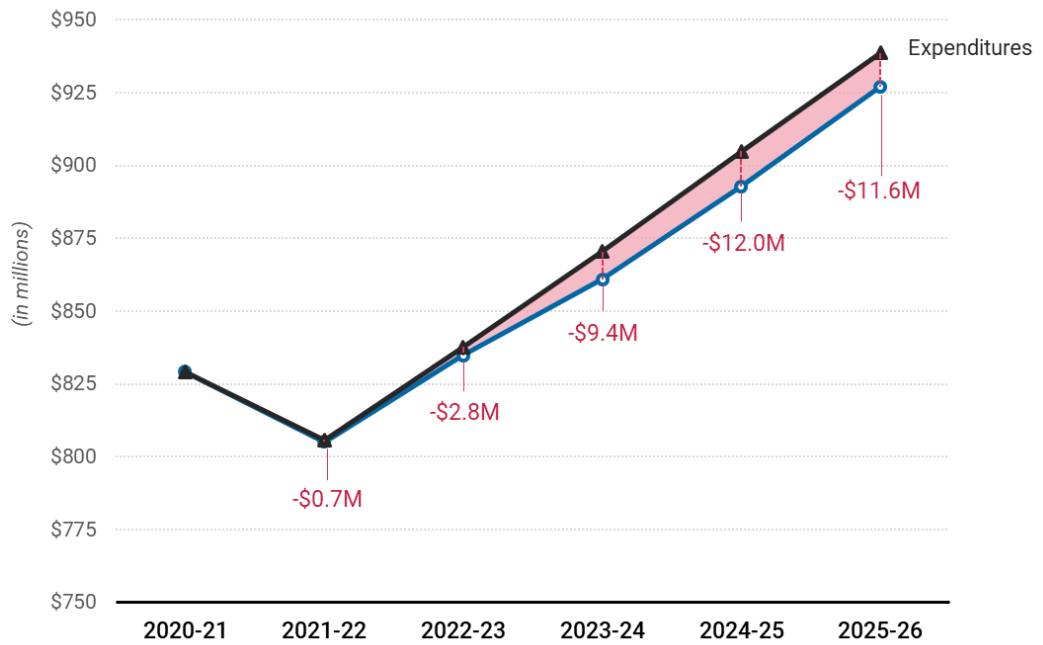


Mild Recession Scenario. In a mild recession scenario, a budget deficit of \$0.7 million—equal to 0.1% of total expenditures—is projected in FY 2021-22, which is less than half the deficit projected in the baseline scenario. A faster economic recovery would reduce some of the negative pressures on discretionary revenues anticipated in the baseline scenario. Nevertheless, gaps between expenditures and revenues grow to \$11.6 million—approximately 1.2% of total expenditures—in FY 2025-26 as cost increases outpace revenue growth through the forecast period.

Figure 3b.
Cumulative General Fund gap projection using Mild Recession Scenario.

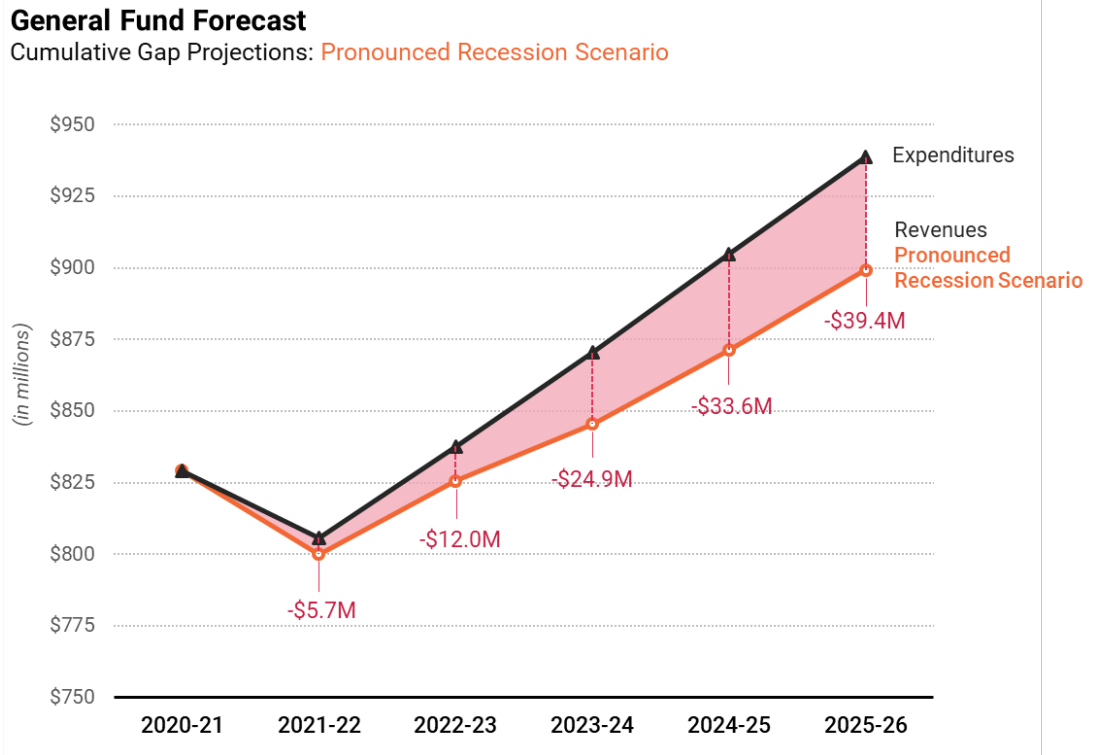
General Fund Forecast

Cumulative Gap Projections: [Mild Recession Scenario](#)



Pronounced Recession Scenario. A pronounced recession is projected to create a \$5.7 million gap in FY 2021-22 as the pandemic and disruptions in economic activity continue to adversely impact discretionary revenues. A protracted economic recovery would lead to slow revenue growth after a slight decline in FY 2022-23, resulting in gaps equal to nearly 3% in the third year of the forecast and growing to over 4% by the end of the forecast period. Cumulatively, the gap is projected to exceed \$39 million.

Figure 3b.
Cumulative General Fund gap projection using Pronounced Recession scenario.



While all General Fund departments will experience general cost increases throughout the forecast period, some departments expect additional fiscal challenges during this period, which will be addressed during the budget development process. There are also major fiscal issues on the horizon, discussed later in this report, which would require significant investment of discretionary revenues to address. Regardless of the severity and longevity of the current recession, it will be necessary to look to cost-savings and revenue-generating initiatives to prepare for next fiscal year and beyond, given the uncertainties surrounding our recovery from a pandemic-induced recession.

OTHER MAJOR OPERATING FUNDS

Many major funds anticipate gaps between revenues and expenditures in the forecast period, as presented in the table below.

Major Special Revenue Funds Cumulative Gaps

Dollars in millions

	2021-22	2022-23	2023-24	2024-25	2025-26
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

Major Drivers of Gaps in Other Funds

COVID-19 Related Revenue Losses. Many special revenue funds depend on state revenues to fund operations. The 1991 and 2011 Realignment revenues, which are based mainly on state sales tax receipts and are allocated out based on state formulas, have experienced significant losses during COVID-19, and impacts are expected to linger throughout the forecast period because of the way the state formulas are structured. In the **Social Services Department**, these Realignment revenue losses are the main drivers of the gaps in their funds, in addition to expected unfunded caseload growth. In the **Behavioral Wellness Department**, losses in Realignment revenues as well as in the “millionaire tax” (a special 1% state income tax assessed on those making \$1 million or more per year), are driving gaps in both major funds. The **Public Health Department’s** Health Care Fund is projected to experience a growing deficit throughout the forecast period as a result of decreased usage of the County Health Centers during the pandemic. If usage increases, the deficit will be reduced in size; conversely, if usage does not increase, the department is exploring strategies to reduce costs to bring the budget into balance.

Fees Are Below Full Cost Recovery. The **Public Health Department’s** Environmental Health Services Fund and the **Planning and Development Department’s** major operating fund are forecasting operating deficits in all forecast years. These gaps are the result of fee revenue that is not keeping pace with expenditure growth. These departments will be undertaking fee reviews in accordance with the County’s policy directing full cost recovery wherever feasible.

Ongoing Deficits and Depletion of Fund Balances. For the past several years the **Behavioral Wellness Department’s** Mental Health Services Fund has seen costs rising at a faster rate than revenues, driven by the increasing costs of state hospitals as well as out-of-county IMD (Institution for Mental Disease) beds. With Champion Center expected to open in the current fiscal year, additional Medi-Cal revenues would be able to be drawn down to close a portion of the gaps. In prior years, the department has closed

their gap using departmental fund balance. In the current fiscal year, the department anticipates the use of \$2.4 million in General Fund set-aside to close their funding gap, and the remainder of the department's available fund balance will be used to partially close the gap in the first year of the forecast. There is a \$1.0 million contingency for mental health services, based on Board policy, built into the General County Programs five-year forecast, though additional solutions will likely be needed given the size of the projected gaps.

The **Public Health Department's** Health Care Fund has relied on a minimal use of fund balance in previous years to close the budget gap. Due to unknowns from changes in the federal 340B Pharmacy program and in response to the COVID-19 pandemic from both the Community Health and Primary Care and Family Health Divisions, the department may need to rely on the use of fund balance to manage during these uncertain times. Depending on the use of fund necessary to balance, by 2023-24 or 2024-25, the fund balance may be fully depleted if no changes are made.

The **Public Works Department's** Roads Operations Fund forecasts a gap between ongoing revenues and expenditures gradually increasing over the forecast period. In prior years, the department has drawn fund balance to close the gaps (\$1-2 million annually). In the current year due to COVID impacts on gas taxes, the Board approved the department plans to use the 18% maintenance funding to support operations in order to preserve the remaining fund balance. The department must maintain a prudent reserve—much like the General Fund—for contingencies, adequate disaster response, capital equipment replacement, as well as a balance to be used as cash flow for projects that draw down federal or state funds on a reimbursement basis. Because of this need to maintain a prudent reserve balance, the department will no longer be able to draw down fund balance to close the deficit in the forecast years.

These special revenue funds are projecting deficits in anticipation of state and federal revenue levels that will not keep pace with increases in salaries and benefits and reinforce the importance of limiting ongoing expansions in the coming years to ensure that these funds remain self-sufficient. As the recession continues, we could see further declines in federal or state revenue levels during times when our communities may need increased support.

FISCAL ISSUES: POTENTIAL FUNDING DEMANDS

In addition to countywide and department-specific factors driving the budget gaps discussed above, departments have identified potential issues that could have significant fiscal impacts over the next five years. These are not all included in the forecast assumptions because of the uncertainty surrounding their occurrence or because they would require Board policy to pursue; however, if some or all of these do occur, they have the potential to present difficult choices about where to direct our limited discretionary resources. Many of these issues were previously identified in last year's fiscal issues report. Information about these issues is provided to serve as context for future decisions about allocation of one-time and ongoing resources, potential establishment of reserves for specific projects, and scope of fiscal demands within the next several years.

Fiscal Issues and FY 2021-22 Potential Impacts	Status
Legislative and Policy Changes: Mandates will increase costs and/or workload	
Elimination of Revenue Sources and Cost Savings: \$4.6M annually	
AB 1869 eliminates criminal justice administrative fees Probation: \$1.9M ongoing Sheriff: \$465K ongoing Public Defender: \$50K ongoing	\$65M backfill is included in legislation but no distribution formula has been established
Federal 340B Drug Discount Program will be eliminated Public Health: \$2.2M ongoing	Legislation slated to become effective on January 1, 2021; backfill expected but details not yet finalized.
Impacts on Criminal Justice System: \$3M-\$6M annually	
Discovery process and materials District Attorney estimates workload equivalent to \$250K annually to address discovery complexity and volume; impact to other departments not quantified.	Sheriff, DA, and Public Defender impacted by lack of data integration and labor-intensity of sharing discovery materials.
Technology Estimated \$1.5M-\$3.0M across criminal justice departments	Criminal justice departments report need for digital storage space and system upgrades to meet legislative requirements.
Lack of State funding for pre-trial assessments Probation: \$1.4M annually for pretrial assessments	State funding was to have been provided through SB 10, which was overturned with the failure of Prop 25. There is now no ongoing funding source identified.
Deferred Maintenance Backlog: Continues to grow and is addressed as funding is available	
Current deferred maintenance backlog is valued at \$377M	
Public Works: \$311M	Board policy allocates ongoing funding per the 18% maintenance policy and available one-time funds to maintenance projects based on prioritized needs.
Community Services: \$53.5M	
General Services: \$12.6M	
Investment in Technology: Upgrade countywide systems to meet complex and changing demands	
Cybersecurity \$1.5M-\$2.0M annually Countywide	
	The cost for tools, services and licenses to achieve the goals and objectives of the cybersecurity plan will need to be phased in over the next few fiscal years.
Business Applications Needs Assessment recommended software solution and implementation \$10M+ one-time plus Countywide annual licensing and maintenance costs	
	The needs assessment, currently underway, will determine the business application needs of departments to conduct their optimum business operations, and the product will be a recommended set of actions and requirements to seek a new systems solution for accounting, budgeting HR, payroll, and other functions.
Facility Conditions and Workspace Configurations: Aging facilities and the need to adapt workspaces to today's operations	
Many of the County's 300 facilities are aging and in need of repair or upgrades, as well as in need of reconfiguration to meet today's workplace demands.	Because of insufficient replacement funds for deteriorating facilities, repairs and upgrades are prioritized in the annual CIP process. Departments have relied on their own resources in many cases to reconfigure workspaces.
Innovations: Data-driven improvements in service delivery often have accompanying costs	
Holistic defense model (Public Defender) Public Defender: to fully implement the holistic defense model, the department estimates an annual cost of \$650K	
	Public Defender currently employs a holistic defense model, though is not able to expand as recommended by KPMG because of resource constraints.
Reform efforts in criminal justice to reduce the jail population and reduce recidivism Not yet quantified	
	These are being reviewed by KPMG as it completes its reports of the other criminal justice
Whole Person Care to address social determinants of health: Potential CalAIM Medi-Cal reform No impacts in the first year of the forecast, but possibly significant impacts or benefits to Behavioral Wellness and Public Health if and when the reform is budgeted at the State level	
	CalAIM is not yet budgeted at the State level.

LEGISLATIVE AND POLICY CHANGES — MANDATES WILL INCREASE COSTS AND/OR WORKLOAD.

When federal and state legislation is enacted, there can be significant impacts on our county departments. While additional state funding will at times be available to cover new mandates or backfill losses in funding, many times the state does not establish any funding mechanism to address changing or increasing responsibilities, in which case the county or specific departments will engage in advocacy efforts to address the unfunded mandates through industry groups or local lobbying efforts. However, and often at the beginning of new legislative requirements taking effect, departments find themselves without the additional resources necessary to address increased demands on their staff workload and responsibilities. Several areas of potential legislative change are discussed below, and categorized according to legislative status.

Elimination of Revenue Sources and Cost Savings

Criminal Justice AB 1869: Probation, Sheriff, and Public Defender; loss of \$2.4 million ongoing, beginning FY 2021-22.

AB 1869 will permanently end the assessment and collection of 23 administrative fees in the criminal system effective July 1, 2021. Currently, California law permits counties to charge people administrative fees related to their legal representation, probation, and incarceration. The Probation, Sheriff, and Public Defender Departments will be impacted as they rely on this fee revenue to support operations. The Probation Department will no longer be able to charge for supervision of probationers or administrative fees, but will still be responsible for collecting court fines and victim restitution, so staff costs will continue to be incurred unless the process is transferred entirely to the Courts. The expected impact of this bill is an ongoing \$1.9 million beginning in FY 2021-22. The Sheriff's budget relies upon \$460,000 per year in electronic monitoring and work furlough fees, plus \$5,000 in jail booking fees, which the department will no longer collect. In the case of Public Defender, while the department will continue to defend clients, an annual revenue loss of \$50,000 is expected throughout the forecast period. While there is \$65 million in backfill provided in the legislation, a distribution formula has not yet been decided by the State.

Federal 340B Drug Discount Program: Public Health; loss of \$2.2 million ongoing, beginning January 2021.

Since 1992, the Federal 340B Drug Discount Program has helped provide low-cost medications and better health outcomes for millions of Americans and the non-profit clinics, such as those operated by the Public Health Department (PHD), and the hospitals who serve them. PHD invests all of the savings from the 340B program into additional services for patients, savings which allow PHD to support health care centers, pharmacies, and homeless shelter clinics serving the County's most vulnerable residents. In January 2019, Governor Newsom signed an executive order to create a single-purchaser system for prescription drugs in California, which will eliminate savings that PHD's health centers receive from the 340B program beginning on January 1, 2021. Unless there is a reversal of policy on the state level that exempts Federally Qualified Health Centers (FQHCs), PHD could lose up to \$2.2 in ongoing funding beginning in the first year of the forecast. If the 340B savings are eliminated, and there is no backfill to offset the loss of revenues, PHD will engage internal and external stakeholders in prioritizing services to be realigned and will work with the community and partners to suggest other options for access to pharmacy and specialty services. The County will continue to actively lobby for a change to assist our situation.

Status: Legislation enacted but not yet in effect. The County Executive Office will continue to monitor and work with departments to actively lobby for possible change or backfill of lost revenue.

Impacts on Criminal Justice System

Discovery process changes, technology, pre-trial expansion: Probation, District Attorney, Public Defender, and Sheriff; estimated \$3-6 million in ongoing additional costs, impacts already affecting departments.

Systemic challenges in the criminal justice departments have been included in prior-year fiscal issues reports, such as those surrounding workload impacts of recent legislation. These legislative impacts on workload demands have been exacerbated during the pandemic, as the criminal justice system has had to adapt to a new way of doing business, including video arraignment, new court schedules, and changes in access to clients. There have also been technology demands, including ensuring that attorneys can work from anywhere and that systems can accommodate operational changes.

KPMG is concluding its review of the last criminal justice departments, and the common themes to date have included the need to address systemic challenges through data analysis and integration, as well as

enhancing inter-agency coordination to improve outcomes for individuals involved in the criminal justice system. Each criminal justice partner department is challenged to fulfill their mandated obligations amidst the challenges of workloads increasing in both volume and complexity, and these partners are committed to finding ways to sustain diversion and support programs, which often times do not have sustainable ongoing funding sources. The KPMG reports included series of recommended actions to drive the departments towards sustainable service models with a focus on improving outcomes for criminal justice involved individuals, and it is expected that the criminal justice partner departments will implement these recommendations. However, it will take time for the system to see improvements, and in the meantime, it is important to remain aware of the many challenges that face the departments today. Below are some examples of these issues.

- **Discovery process and materials:** The District Attorney's Office has seen an increased volume and complexity of discovery that the office is constitutionally obligated to provide. For example, discovery may include data from body-worn cameras from law enforcement officers, social media feeds, text messages, and other sources that did not exist—or at least did not exist in such abundance—in prior years. Providing discovery is one of the most important core functions of the District Attorney's office, and with current staffing levels this obligation is struggling to be met. The process of sharing discovery materials, which involves law enforcement, the DA, and the Public Defender's Office, is labor-intensive as there is no integrated data sharing platform to allow paperless and/or digital sharing of materials.
- **Technology:** Because of the increasing volume and complexity of discovery, among other reasons, criminal justice departments are continually running up against the limits of file storage space, and it is expected that these demands for storage space will continue to increase. In addition, costs to maintain or implement systems integral to performing the departments' legal duties, including case management systems, are increasing.
- **Lack of State funding:** The Probation Department is also experiencing an increase in responsibilities with no corresponding funding. In FY 2020-21, responsibility for pretrial assessments was transferred from the Courts to the Probation Department; however, in anticipation of ongoing State funding being provided through SB 10, less than \$100,000 in ongoing funding was provided, and the adopted budget included one-time funding of \$1.28 million to support the assessments in the current year. Proposition 25 on the November 2020 ballot, which would have upheld SB 10, failed, meaning SB 10 will not be enacted. Therefore, there will be no State funding available to support pretrial assessment services in the Probation Department, and the department anticipates an annual need of \$1.4 million beginning in FY 2021-22 to sustain this required program.

In addition, the criminal justice partners, along with the Behavioral Wellness Department, have received several large multi-year grants to fund diversion programs and other programs designed to support the needs of individuals either involved in—or at risk of becoming involved in—the criminal justice system. Once these grants expire, many of which will do so by the second or third year of the forecast period, there is a risk that these beneficial programs may need to be terminated. The departments are rigorously collecting data to prove the effectiveness of these programs, as well as the systemwide efficiencies they can achieve, in order to promote the case for continued or new funding when the original funding sources expire.

Status: Resource needs for implementation of KPMG recommendations will be evaluated during the budget development process, and the County will continue to advocate at the State and federal level for funding to address increasing workload demands stemming from legislative changes.

DEFERRED MAINTENANCE BACKLOG (PUBLIC WORKS, COMMUNITY SERVICES, AND GENERAL SERVICES)

- CONTINUES TO GROW AND IS ADDRESSED AS FUNDING IS AVAILABLE.

Deferred Maintenance: Public Works, Community Services, and General Services; \$377 million in one-time costs for backlog.

The estimated backlog of deferred maintenance projects is approximately \$377 million countywide according to inventories maintained by the three departments with maintenance responsibilities—Public Works, Community Services, and General Services. Backlog estimates are updated annually by departments. Funding dedicated to addressing the maintenance backlog includes the 18% funding plan. In addition to the ongoing funding allocated through the plan, there is also one-time funding that is allocated to specific projects each year and is dependent on available revenues, and therefore any prospective projects must be prioritized.

The **Public Works** backlog of deferred maintenance is \$311 million and the County's road Pavement Condition Index (PCI) is 56 on a scale from 0 (worst) to 100 (best). Overall, there is a higher PCI in more urban areas (61) compared to rural areas (49). To maintain the current condition would require an estimated \$14 million annually. With the passage of Senate Bill 1, the Department will spend between \$8.0 and \$8.5 million on pavement preservation, leaving an annual need of approximately \$6 million.

Nearly half of the deferred maintenance backlog is in pavement preservation needs. The remainder is bridges, hardscape and trees, drainage facilities, and traffic operations devices. Road maintenance priorities include rehabilitation of failing roads before they create structural and safety issues, like extensive potholes and deep cracks, and preserving roads in good condition so they don't deteriorate into at-risk condition. For every \$1 million in funding, the department is able to rehabilitate 2 lane miles or apply preventive treatments to 9 lane miles of road. Other priorities are to improve safety, replacement and repair of deficient or failing bridges, sidewalks, and drainages, as well as traffic operations improvements.

The **Community Services Department** has a deferred maintenance backlog of \$53.5 million, which includes identified needs at County park amenities, systems, and infrastructure. Critical maintenance issues would cost approximately \$6.7 million to address. In 2019, CSD completed a tree risk assessment survey to determine the number of trees needing to be maintained in the County's parks and open spaces. The report found there are approximately 3,500 trees in the park system that need maintenance or removal. This equates to a backlog of approximately \$7 million in tree maintenance needs. CSD was given additional funding has used this funding to address trees in order of priority. CDS also completed a pavement assessment in the spring of 2019 which identified a Pavement Condition Index of 55. The overall paving maintenance backlog needs are \$23.7 million and are incorporated in the \$53.5 million of overall park maintenance needs. CSD would need approximately \$6 million to address the most critical pavement maintenance needs, plus an additional \$1.4 million per year just to maintain current pavement conditions during the final 4 fiscal years of the forecast period.

For FY 2020-21, the **General Services Department** identified approximately \$12.6 million in Facilities deferred maintenance projects for the five-year countywide maintenance program with the use of the County’s Maintenance Connection (MC) software. MC serves as the County’s Work Order system, while also capturing information in an asset management format to provide data on all facilities' major component systems. MC software now provides specific conditional analysis of facility component data allowing GS to make better investment decisions by focusing on the areas of greatest need. This next step in our process is consistent with the Renew ‘22 approach of taking a more data-driven approach. Aside from the \$12.6 million in Facilities deferred maintenance projects, GS staff has also identified approximately \$82.4 million of Countywide capital maintenance needs that exceed the available funding in the upcoming fiscal year. The information generated from this expanded list not only provides a larger framework for future maintenance investments, but it also informs larger project development and nomination outside of the maintenance categories.

Status: The Board’s policy is to allocate 18% ongoing funding and available one-time funds to maintenance projects based on prioritized needs. During budget development, to the extent there is unallocated discretionary revenue, including cannabis revenues, a portion will be allocated per the 18% maintenance policy.

FY 2020-21 Departmental Estimated Unfunded Deferred Maintenance	
Source: Departmental Data	
(\$'s in thousands)	
Public Works - Preventive Maintenance (PM)	
PM - 5 Year Countywide Concrete Program	40,800
PM - 5 Year Countywide Surface Treatment Program	143,400
PM - 5 Year Bridge Repair & Rehabilitation Program	70,900
PM - 5 Year Repair/Replace Traffic Devices Program	7,800
PM - 5 Year Culvert Repair & Rehabilitation Program	48,400
Total Public Works	\$311,000
General Services - Facilities Maintenance (FM)	
FM - 5 Year Countywide Maintenance Program ¹	12,642
Total General Services	\$12,642
Community Services - Parks	
Parks - 5 Year Infrastructure Maintenance Program	29,861
Parks - 5 Year Repaving/Restriping Maintenance Program	23,714
Total Community Services - Parks	\$53,575
Grand Total	\$377,217

INVESTMENT IN TECHNOLOGY – UPGRADE COUNTYWIDE SYSTEMS TO MEET COMPLEX AND CHANGING DEMANDS

The County relies upon hundreds of technology systems to support operations throughout County departments. Some systems are managed centrally in the General Services Department or the Auditor-Controller’s Office and others are maintained by individual departments to support specialized services. Many of these individually maintained systems, in particular, were purchased many years ago without a plan to build up funds for eventual replacement. Because of this, many systems have now reached the ends of their useful lives and are in need of upgrade or full replacement. In addition, the County has systems that were developed in-house decades ago that no longer are able to meet the

complex demands of the County's business operations. When departments are able to upgrade their systems, there are often accompanying high-cost annual license fees. Another challenge for many departments is insufficient storage space as the volume of electronic resources has surged, which carries upfront purchase costs as well as ongoing charges. The pandemic has only shed more light on the outdated or insufficient technology systems as many departments have had employees and operations go virtual. For example, some departments have seen a need to speed up computer replacement cycles, replacing desktops with more costly laptops with specialized software or features to accommodate teleworking employees. Two large projects, detailed below, have been identified as fiscal issues during the forecast period.

Cybersecurity Implementation Plan (Countywide)

Address critical IT security needs Countywide: \$1.5 to \$2.0 million annually.

In September of 2019, the County began an IT security assessment of all departments' governance, risk, compliance, and IT security technical postures, and this assessment was recently completed in October 2020. The report identified critical IT security needs related to governance, risk and compliance strategy, Countywide compliance program development, development of a unified cybersecurity operation center, datacenter and cloud 'go forward' strategy, identification and access management modernization and development of a Countywide data governance model. The cost for tools, services, and licenses to achieve the goals and objectives of the plan are estimated at \$1.5 - \$2 million annually which will need to be phased in over the next few fiscal years.

Business Applications Needs Assessment Recommended Software Solution and Implementation (Countywide)

Software implementation for accounting, budgeting, HR, payroll and other functions: estimated over \$10 million in one-time funding plus some annual costs of licensing and maintenance.

As part of Renew '22 initiatives to reduce redundant systems, improve business operations efficiencies, and facilitate Countywide data access and sharing, the Auditor's Office, in cooperation with the Executive Information Technology Committee (EITC), sponsored the Business Applications Needs Assessment (BANA) project. Business applications include all software systems that are currently used by or needed by departments to conduct accounting, budgeting, human capital management, etc, and may include general ledger, payroll, capital project management, purchasing, accounts payable, accounts receivable, and other functions. The needs assessment, currently underway, will determine the business application needs of departments to conduct their optimum business operations, and the product will be a recommended set of actions and requirements to seek a new systems solution, potentially an ERP system. In addition to costs associated with purchase of a new solution, there will also be consultant costs related to implementation of the project's recommendations. The fiscal impact of recommended solutions developed through BANA during the forecast period is unknown at this time.

Status: In recent years, the Board has allocated funds through the budget process for high priority technology replacement needs, which have grown in recent years. As in past years, the County Executive Office, based on a prioritized needs assessment, will allocate funding to address technology requirements, with a focus on supporting foundational technology systems and continue to set aside funding in the Technology Replacement and Investment fund. The pandemic will play a role in deciding the highest priority technology replacements.

FACILITY CONDITIONS AND OFFICE SPACE RECONFIGURATION — AGING FACILITIES AND THE NEED TO ADAPT WORKSPACES TO TODAY’S OPERATIONS

Facility improvement costs: Estimated annually based on priority

There are in excess of 300 Countywide facilities that support a wide range of County operations, spanning from first responders, mental health services, administration functions, to public health, recreation and law enforcement services. A 2014 facility condition assessment of County facilities reviewed over 8.5 million square feet of space and found that the average age of County buildings was between 35 and 45 years old. Because of the age of the buildings, in combination with historical underfunding of routine maintenance and repair, many buildings are in deteriorating condition and are not equipped with appropriate equipment, space allocation, or general amenities necessary for today’s operations and programmatic needs. Each year County General Services staff, in conjunction with staff from multiple other departments, identify critical repair, rehab, maintenance, and in some cases, replacement for these facilities. This is a core service of the County and is crucial to deliver customer focused services to the community.

On October 20, 2020, the General Services Department brought the five-year Capital Improvement Program to the Board for approval. Since the CIP includes estimates of capital needs, it provides the basis for setting priorities, reviewing schedules, developing a funding policy for proposed improvements, monitoring and evaluating the progress of capital projects, and informing the public of projected capital improvements and future funding needs. Two areas of focus in the current CIP are the ADA transition plan and parking lot pavement repair program, both of which include strategies to address deficiencies in these areas on an ongoing basis. In addition, the CIP comprises office space condition and configuration upgrades, with those projects with health or safety concerns given top priority, as well as an upgrade plan to systematically address the identified deficiencies, conditions, and space needs. An option to fund these needs would be the establishment of a set amount of one-time funds each year, to be leveraged or matched with department reserves or budget savings.

Status: Based on historic funding restraints, the only internal remodel or improvement projects that have been done are those which departments were able to fund using fund balances or other departmental sources of revenue. The CEO’s office with General Services will continue to work with departments to prioritize available funding for ADA, and health and safety needs.

INNOVATIONS — DATA-DRIVEN IMPROVEMENTS IN SERVICE DELIVERY OFTEN HAVE ACCOMPANYING COSTS

There are additional issues that may not meet the criteria to be presented as fiscal issues, but which nevertheless can exert pressure on departmental budgets. Some of these reflect the impacts of advancing technology on department workloads, while others are the result of departments adapting operations towards data-driven ways of improving services.

Holistic Defense Innovation (Public Defender)

Expansion of the holistic defense program: \$650,000 ongoing in additional costs

Traditional public defense focuses on criminal representation and courtroom advocacy; holistic defense, in contrast, involves public defenders working in interdisciplinary teams with social workers to address both the immediate case and the underlying life circumstances—such as drug addiction, mental illness, or

family or housing instability—that contribute to client contact with the criminal justice system. Proponents contend that holistic defense improves case outcomes and reduces recidivism by better addressing clients' underlying needs, and the Public Defender's Office has been working over the past few years to build up holistic defense in both the adult and juvenile practices and, in partnership with other criminal justice agencies, to establish diversion programs for individuals in the criminal justice system. A study published in the Harvard Law Review found that while holistic defense does not affect conviction rates, it does reduce the likelihood of a custodial sentence by 16% and expected sentence length by 24%.²

Other Reform Efforts in Criminal Justice

Expansion of other criminal justice programs to reduce the jail population and reduce recidivism: Cost not yet estimated

In addition to the Holistic Defense program, other programs exist in the criminal justice departments that could be expanded with additional resources to maintain the lower jail population or further contribute to the attrition experienced due to COVID and reduce recidivism. Such programs include diversion programs, jail-based competency program, and co-response programs, among others. These are being reviewed by KPMG as it completes its reports of the other criminal justice departments.

Status: The Public Defender's Office has developed a holistic defense program by leveraging outside funding and community resources, but does not have ongoing funding to operate a full holistic defense practice. The KPMG study recommended enhancing holistic defense in order to improve outcomes for clients, and noted that the department's ability to fully implement holistic defense is hindered by a lack of sufficient resources. The Public Defender's Office will continue to seek funding opportunities to expand the holistic defense program. Other programs are being reviewed by KPMG with recommendations forthcoming.

Potential Reform of Medi-Cal through Implementation of CalAIM (Behavioral Wellness and Public Health)

Medi-Cal Cost Recovery through CalAIM: Cost or benefit not yet determined.

CalAIM, while not yet budgeted at the state level, is proposed to launch in January 2022, and could have significant impacts on the two departments reliant on Medi-Cal revenue. The reform has three primary goals: identify and manage member risk and need through Whole Person Care approaches and addressing social determinants of health; move Medi-Cal to a more consistent and seamless system by reducing complexity and increasing flexibility; and Improve quality outcomes and drive delivery system transformation through value-based initiatives, modernization of systems and payment reform. In the case of the Behavioral Wellness Department, the impacts of CalAIM could impact their ability to achieve full cost recovery. A key tenet of this reform requires a shift away from full cost-based reimbursement via the Certified Public Expenditure (CPE) process to a value-based payment structure using quality and outcomes to determine payments, which subsequently could exceed actual costs. In order to implement this payment method, the county non-federal share will be satisfied using the intergovernmental transfers (IGT) mechanism instead of CPE. While the state's publications focus on the potential of this new model to increase payments beyond just cost reimbursement, this does at the same time introduce a potential

² "The Effects of Holistic Defense on Criminal Justice Outcomes," Harvard Law Review, Volume 132, Number 3 (January 2019), Posted on RAND.org on January 29, 2019, https://www.rand.org/pubs/external_publications/EP67784.html.

risk not previously encountered, as payments may not cover the full cost of services if quality and outcome targets are not met. Physical health, in contrast to mental health, has a different funding structure and the impacts of CalAIM may be more positive. The Public Health Department anticipates that clients would benefit by the primary goals of CalAIM through a more consistent system by reducing complexity and increasing flexibility. In addition, more Medi-Cal programs will be managed at the local level through the County's Medi-Cal Managed Care Plans and it is expected that there would be new incentives that would reward providers on service quality.

Status: Monitor CalAIM legislation and continue to advocate at the state level.

CONCLUSION: PREPARING FOR THE “NEXT NORMAL” AMID A PANDEMIC

This five-year forecast and fiscal issues report is intended to serve as a backdrop to the FY 2022-23 budget development process. The numbers presented in this forecast are preliminary and will change throughout the coming months leading up to budget development; however, they provide a starting point as we look forward towards mitigating negative trends and future anticipated budget gaps. Over the next five years, retirement and other personnel-related costs will continue to rise, state and federal revenues will continue to provide uncertainty, the impacts of the pandemic will be fully borne out, new federal and state legislation will be enacted, and community needs will continue to evolve.

We continue to face the daunting challenge of responding quickly to the pandemic and acting amid uncertainty. We prepared and positioned ourselves to adopt new practices, be responsive and resilient, and rethink what the public needs and expects of us through our Renew '22 initiative. The pandemic has caused an acceleration of Renew '22, which was initiated in 2017 to fortify the organization against the next economic or natural emergency, which is occurring now.

As part of Renew '22, we are refocusing our efforts to build on recent adaptations and leverage our new knowledge and ways of operating while continuing internal process improvement and innovation efforts:

- **Process Improvement and Innovation Training** through the County's InnovateSBC program, which launched in July 2020, has already trained more than 60 employees, with a goal of training 225 by June 2022. This training provides staff at all levels with tools to review processes and practices, and empowers them to implement innovations in the ways we deliver services to our customers, with the ultimate result of streamlining and improving our outcomes.
- **KPMG Departmental Management Reviews** will continue and are expected to be completed within the next two fiscal years to improve departmental operations, management, efficiency and performance.
- **Additional or improved digital and online service**, which was part of the “Big Picture Goals,” shared by all departments, will leverage and build upon what has been done during the pandemic to provide greater efficiency and customer service. Countywide, these include a new website platform making it easier to update content and new Microsoft Office tools in 2021.
- **More employee engagement**, in the form of regular feedback surveys to employees from County HR; expansion of e-learning opportunities; supervisorial, management and leadership trainings; and dissemination of our countywide values. These practices help fortify connections among

employees, remind them of our purpose in serving the public, and accentuate the positive parts of our County culture. Strengthening the ties that bind us together is important in times of stress and uncertainty for employees, as we continue a hybrid workforce of virtual and on-site employees.

The next stage in budget development will be will be adoption of budget development policies in December, followed by budget workshops in April, where we will bring forward information about how certain issues have been or will be addressed through the recommended budget, and will provide a framework for Board consideration of options to prepare for and address anticipated fiscal demands in the coming years.