



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

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

Department Name: CEO & Auditor-
Controller
Department No.: 012 & 061
For Agenda Of: 10/21/2014
Placement: Departmental
Estimated Tme: 45 Minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Mona Miyasato, County Executive Officer *MM*
Director(s) Robert Geis, CPA, Auditor-Controller *RG*
Contact Info: Tom Alvarez, 568-3432
Betsy Schaffer, 568-2134
SUBJECT: FY 2015-17 Budget Process, Budget Development Policies, General Fund
Allocation Policies and Supporting Policy Briefs

County Counsel Concurrence

As to form: NA

Auditor-Controller Concurrence

As to form: NA

Recommended Actions:

Consider recommendations regarding the budget development process and Budget Development Policies for the Fiscal Years 2015-17 Operating Plan, as follows:

- a) Receive and file the Fiscal Years 2015-17 Budget Development Calendar outlining the six Budget Development Updates.
- b) Receive and file the:
 - i. Strategic Reserve Funding Policy Brief and
 - ii. Maintenance Funding Policy Brief.
- c) Adopt the Budget Development Policies and General Fund Allocation Policy.

Summary Text:

The County Executive Officer is charged with developing a balanced budget to recommend to the Board of Supervisors.¹ The County Executive Office, in coordination with the Auditor Controller and other County Departments, will implement the policy direction adopted by the Board to develop the FYs 2015-17 recommended budget.

¹ Santa Barbara County, Ca Code of Ordinances: Ch. 2 Article X Sec. 2-71(k) (Ord. No. 4564, § 1; Ord. No. 4708, §§ 1, 2, 3-17-2009). See also, California, County Budget Act: Government Code 29062 (2010 edition, revision #1, effective 1-1-2013).

To facilitate this process, a series of Budget Development Updates will be presented to keep the Board well-informed of the various budget developments. Additionally, through approval of the FYs 2015-17 Budget Development Policies and Policy Briefs, the Board will provide the necessary framework and direction to develop a balanced budget that the County Executive Officer can recommend to the Board.

Background:

Budget Adoption Process

Staff utilizes an incremental approach from adoption of budget policies and strategies to adoption of the operating budget. Consistent with the prior year, the Budget Development Policies and the Fiscal Outlook Report (FOR) will be presented to the Board in October and December; respectively. Last year a Five-Year Forecast was added to the FOR presentation to provide additional perspective on upcoming budgets. Staff then works with the Departments from December through April to develop their budgets and ultimately submit the recommended budget in May. In an effort to provide information to the Board as it becomes available, a series of Budget Development Updates are being proposed. These include:

#	Date	<u>Proposed Budget Development Updates Presented to Board</u>
1.	10/21/2014	Budget Calendar, Budget Development and GF Allocation Policies and supporting Policy Briefs
2.	12/2/2014	Fiscal Outlook Report & Five-Year Forecast
3.	3/17/2015	Budget Update (Fiscal Issues and Service Level Reductions)
4.	4/6/2015 - 4/10/2015	Budget Workshops (6 th , 8 th and 10 th)
5.	5/5/2015	Capital Improvement Program
	5/7/2015	FY's 2015-17 Operating Plan distribution and posting
6.	6/8/2015 - 6/12/2015	Budget Hearings (8 th , 10 th and 12 th)

Communicating this information via Budget Development Updates will enable the Board and public to participate in the process leading up to submittal of the County Executive Office (CEO) recommended operating plan and budget deliberations. A copy of the complete Budget Development Calendar is included (Attachment A) and Budget Development Updates are identified in peach colored boxes, numbered B1 - B6.

Budget Development and General Fund Allocation Policies

The FY 2014-15 Budget process was based on a budget development schedule, Budget Development Policies, and the General Fund Allocation Policy, approved by the Board in the fall of 2013. On June 11th, 2014, the Board adopted a balanced FY 2014-15 budget as a result of a comprehensive development process which involved contributions from all departments and the CEO. Based on improving financial conditions, the targeted Strategic Reserve will be attained in FY 2014-15 and now requires additional clarification regarding continued funding. Additionally, the Board directed staff to develop a new Maintenance Funding Plan. Accordingly, staff has revised policies and included Policy Briefs to detail the reasons for and impact of these revisions to existing policies.

By contrast, the Board adopted only one new Budget Development Policy for the prior FY 2014-15 budget development process which addressed employee retention per Board direction from the fall of 2012. The new Employee Retention policy remains and is intended to attract, retain and develop a high performing workforce committed to excellent customer service and is included as Policy #8 in Attachment B.

FY 2014-15 Proposed Budget Policy Changes:

(A) Policy #5, *Reserves*, has been modified to confirm that once the Strategic Reserve target is achieved, any excess fiscal year-end unassigned General Funds will lapse to the Residual Fund Balance account for future Board appropriation. The annual \$1 million contribution to the Strategic Reserve will only occur up to the target amount. These modifications are a result of the County achieving the targeted Strategic Reserve amount as part of the FY 2014-15 Board Adopted Budget. A detailed Strategic Reserve Policy Brief is included as Attachment D.

(B) Policy #7, *Capital and Infrastructure*, on June 11th, 2014, during the FY 2014-15 Budget Hearings the Board approved development of a deferred maintenance funding plan to be incorporated into future recommended budgets beginning in FY 2015-16. This funding plan will provide, as a year to year policy decision by the Board, that 18% of future unallocated Discretionary General Fund Revenues will be allocated to deferred maintenance needs. The Board also directed that the County Executive Officer make recommendations as appropriate with respect to specific projects to be funded. Policy #7 has been amended to incorporate the aforementioned Board approved deferred maintenance funding plan. A proposed Maintenance Funding Policy Brief describing the issue and detailing the computation of annual maintenance funding is included as Attachment E.

(C) The majority of other changes are in the Fiscal Strategies associated with Policy #4, *Identify and Mitigate Fiscal Risks*, and reflect the specific nature of these strategies. Most notably staff is proposing a balance of \$1 million be established (using one-time funds) within the Contingency Fund Balance account to be available for costs attributable to behavioral health inpatient beds in excess of budget, where there is no other available departmental funding.

A General Fund Allocation Policy was developed and approved by the Board last year and is included as Attachment C. There are no proposed changes to the calculation portion of this policy. Staff is proposing two changes to the process portion of this policy as follows:

- That the CEO may recommend additional General Fund Contribution to address long standing departmental structural imbalances; and
- Unallocated Discretionary General Fund Revenues (excess funds) will remain in the Residual Fund Balance account for future Board appropriation.

The Budget Calendar, Budget Development Policies and supporting briefs are recommended for Board consideration, possible amendment and adoption. The adoption of these documents will provide the necessary structure and framework to facilitate Departments and the CEO to develop their budgets in-line with Board priorities.

Attachments:

- A) FYs 2015-17 Budget Development Calendar
- B) FYs 2015-17 Budget Development Policies
- C) FYs 2015-17 General Fund Allocation Policy
- D) Strategic Reserve Policy Brief
- E) Maintenance Funding Policy Brief

Authored by:

John Jayasinghe, CEO Fiscal and Policy Analyst, 568-2246
Richard Morgantini, CEO Fiscal and Policy Analyst, 568-3351
Joseph Toney, CEO Fiscal and Policy Analyst, 568-2060

CC:

Assistant County Executive Officers
Department Directors
Budget Preparers

2015-17 RECOMMENDED BUDGET DEVELOPMENT CALENDAR

OCTOBER 2014

S	M	T	W	Th	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

- 09** Docket Budget Policies, GF Targets Policy & Budget Schedule
- 10** 5-YR Forecasts due from Depts (loaded into FIN)
- 21** Budget Policies, GF Targets Policy & Budget Schedule to BOS **B1**

MARCH 2015

S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

- 13** 1st Draft Section C Due from AC
- 17** Budget Update **B3**
- 20** 2nd draft D-Pages with CEO changes due from Depts
- 26** Docket Workshop materials

NOVEMBER 2014

S	M	T	W	Th	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

- 11** Veteran's Day
- 14** ISF Rates due from Preparers
- 18** Docket Fiscal Outlook & 5-YR Forecast
- 27-28** Thanksgiving

APRIL 2015

S	M	T	W	Th	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

- 06,08,10** Budget Workshops **B4**
- 20** Final Sections A, B, C, E, F, G & Functional Summaries due
- 24** Initial print-ready version of book to CEO
- 28** Finalized review of book by CEO due to AC
- 30** Operating Plan to Printer!

DECEMBER 2014

S	M	T	W	Th	F	S
30	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

- 02** 1st Qtr Budget Update Budget Schedule
- 02** Fiscal Outlook & 5-YR Forecast **B2**
- 10** Budget Kick-off
- 12** Targets Issued to Depts
- 25** Christmas Day

MAY 2015

S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

- 05** Capital Improve Plan to BOS **B5**
- 07** Distribute Op Plan to BOS, Public & Depts; Docket Set Hearing BL & Attachs & Docket for Hearings
- 19** 3rd Qtr Budget Update
- 25** Memorial Day

JANUARY 2015

S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

- 01** New Year's Day
- 19** M.L. King Day
- 30** ALL Budget Numbers Loaded (**both years**)

JUNE 2015

S	M	T	W	Th	F	S
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

- 08,10,12** Budget Hearings **B6**
- 26** Final Budget Adjs Due

FEBRUARY 2015

S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28

- 10** 2nd Qtr Budget Update
- 09** Variance Analysis, Fund Balances, Agency Funds, Grants Due from Depts
- 16** Presidents Day
- 20** Service Level Impacts Due
- 2/23-3/13** Financial review meetings
- 26** 1st draft Financials, D-Pages to CEO/AC

Legend

	Holiday
	Department activity
	BOS Item
	CEO activity
	Auditor-Controller activity

Notes:

- Salary Model will be loaded by or shortly after kick-off.
- ISF rates will be provided at budget kick-off
- Estimated-Actuals need to be loaded at line-item account level even though they will not be printed in budget book.

Training:

- Salary Model system, budget upload process, and D-Pages training will be provided on an "as-requested" basis.

B Item to BOS as part of Budget Update Plan

**FISCAL YEARS 2015 – 2017 OPERATING PLAN
BUDGET DEVELOPMENT POLICIES**

Policy Statement	Fiscal Strategies
1) Accountability / Transparency	
<p>Information about how public monies are spent and the outcomes they achieve are to be clear, transparent and understandable.</p>	<ul style="list-style-type: none"> a) Budget information will include recommended expenditures and revenues by category (Object Level) at the Department level and will be newly included at the Budget Program level for FY 2015-16. Sources of revenue will be identified as well as staffing trends. b) Maintain consistent oversight of spending, contracts and grants through financial and program monitoring
2) Policy-Based Budgeting	
<p>Allocations from the General Fund to departments will be distributed according to Board policy direction, historical spending and Federal/State mandates.</p>	<ul style="list-style-type: none"> a) Allocate resources in a manner that supports Board strategic and programmatic goals without across-the-board reductions or increases.
3) Balanced Budget / Fiscal Stability	
<p>A structurally balanced budget (ongoing revenues equal to ongoing expenditures) for all County operating funds will be presented to the Board of Supervisors for scheduled public hearings.</p>	<ul style="list-style-type: none"> a) Fund ongoing operations with ongoing revenue. Onetime revenues should be dedicated for onetime expenditures. The use of onetime funds may be permitted to ease the transition to downsized or reorganized operations, but strongly discouraged. b) Recommend organization-wide cost-saving strategies such as mandate relief, reorganizations, consolidations, reengineering, public-private partnerships, information technology innovations and other efficiency efforts. c) Enhance revenue through efforts that stimulate economic vitality which will result in an increased tax base. d) Ensure appropriate maximum reimbursement of Federal and State programs and user fees that fully offset service costs as allowed by law. e) Program increase requests must fully document the need and identify the new ongoing funding source or reduction of funding elsewhere.

**FISCAL YEARS 2015 – 2017 OPERATING PLAN
BUDGET DEVELOPMENT POLICIES**

Policy Statement	Fiscal Strategies
<p>4) Identify and Mitigate Fiscal Risks</p>	
<p>The County Executive Office, in coordination with County Departments, will identify fiscal issues, events and circumstances which pose significant risks and reduce the impact of those risks.</p>	<ul style="list-style-type: none"> a) <u>Future New Jail Operations</u> – Consistent with the funding plan presented at the June 2014 Budget Hearings, a General Fund Contribution of \$6.1 million will be recommended for future jail operations in the FY 2015-16 budget. Additionally, an ongoing request to increase this allocation each fiscal year will be recommended, until such time as the annual jail operations funding equals the incremental annual operating cost of the new facility, pursuant to the Board adopted funding plan for jail operations. b) <u>Other Post-Employment Benefits (OPEB)</u> - OPEB costs have been funded on a “pay as you go method” and funding needs are expected to increase in the coming years. The FY 2015-16 OPEB funding is proposed to increase by 0.25% of covered payroll (approximately \$800,000), bringing the total OPEB rate to 3.75% of covered payroll. c) <u>Workers’ Compensation Costs</u> – To counter rising Workers’ Compensation costs, a strategy to spread these increases over a fixed seven year period was implemented in FY 2012-13 and will continue until FY 2018-19. d) <u>Employee Health Insurance Costs</u> – Health insurance costs continue to rise each year; however, internal efforts to control cost increases, such as on-site health clinics have been implemented. Such efforts will continue and further discussion of any potential benefit changes will occur with employee representatives as costs increase in future years. e) <u>Alcohol, Drug and Mental Health Services (ADMHS) Operations</u> – In recent years, the demand for inpatient beds has been significantly increasing without corresponding funding. The need can vary significantly from month to month but if this trend continues it is likely that the department will require additional funding to address this community need. A balance of \$1 million will be established (using one-time funds) within the Contingency Fund Balance account to be available for behavioral health inpatient bed costs in excess of budget where there is no other available departmental funding. Subsequent replenishment of this balance within the Contingency account will be evaluated annually in the budget process. (NEW)

**FISCAL YEARS 2015 – 2017 OPERATING PLAN
BUDGET DEVELOPMENT POLICIES**

Policy Statement	Fiscal Strategies
5) Reserves	
<p>Establish and maintain a strategic reserve equal to 8% of the General Fund operating revenue (approximately 30 days working capital). Once the target is achieved, any excess fiscal year-end unassigned General Funds will lapse to the Residual Fund Balance account for future Board appropriation.</p>	<p>a) A minimum \$1 million annual strategic reserve contribution will be recommended, until the Strategic Reserve target has been met.</p>
6) Service Levels	
<p>Service level impacts, positive or negative will be identified in departmental budget requests and communicated to the public.</p>	<p>a) Each recommended departmental budget will identify the major programs, services and outcomes for each department. Significant service level impacts will be detailed and presented to the Board prior to Budget Hearings.</p>
7) Capital and Infrastructure	
<p>Provide funding for necessary capital improvements and maintenance of existing facilities (deferred, preventative and predictive maintenance).</p>	<p>a) Capital Plans will identify necessary capital improvements and maintenance needs. Prioritization and funding strategies will be developed to address these needs through a Facilities Condition Assessment and ongoing Maintenance Management and Preservation Plans.</p> <p>b) A minimum of \$3.0 million will be recommended for capital improvements and infrastructure maintenance.</p> <p>c) As discretionary revenues grow, 18% of the unallocated Discretionary General Fund Revenues will be committed for deferred maintenance needs and will be allocated to Public Works, General Services and Parks in the budget development process based on existing needs and priorities. This funding will be allocated as part of the budget development process. (NEW)</p>
8) Employee Retention	
<p>Attract, retain and develop a high performing workforce committed to excellent customer service.</p>	<p>a) Design future compensation and benefits strategies to ensure Santa Barbara County employees are fairly and adequately compensated in alignment with their job markets.</p> <p>b) Implement a Countywide Workforce Plan that will assist the County in addressing critical workforce issues over the next two years.</p> <p>c) Implement strategies to increase employee engagement.</p> <p>d) Continue to provide training and development programs designed to develop skills, competencies, and leadership potential.</p>

ATTACHMENT C

FISCAL YEAR 2015 – 2017 GENERAL FUND ALLOCATION POLICY BASED ON BUDGET POLICY #2: POLICY BASED BUDGETING

POLICY STATEMENT: Allocations from the General Fund to departments will be distributed according to Board policy direction, historical spending and Federal/State mandates.

FISCAL STRATEGY: Allocate resources in a manner that supports Board strategic and programmatic goals without across-the-board reductions or increases.

GENERAL FUND ALLOCATIONS IMPLEMENTATION POLICIES

CALCULATIONS:

1. Each department's base General Fund Contribution for the Fiscal Year 2015-2016 budget will be the adopted contribution for Fiscal Year 2014-2015, reduced by onetime allocations during the FY 2014-2015 Board adoption hearings. (Ongoing expansions will have already been added to the GFC base; onetime allocations will be deducted if they were included in the base).
2. Where not prohibited by law, departments must use all non-General Fund revenues, such as special revenues, grants and agency funds, before General Fund Contribution amounts will be allocated to fund programs and anticipated liabilities. Unanticipated revenues should be used to eliminate departmental use of one time funds for ongoing operations.
3. In general, the base General Fund Contribution will be adjusted by an amount equal to the proportional FY 2015-2016 impact of approved wage and employee benefit adjustments, not otherwise funded, that were included in the adopted Fiscal Year 2014-2015 amount. For example, if the wage increases and benefit cost impacts total \$100, and the General Fund Contribution makes up 30% of the department's funding, then the increase would be no more than \$30.
4. In the event that projected County-wide General revenues do not meet the General Fund Contribution allocation, the departmental allocations will be reduced as necessary to balance the budget.

PROCESS:

5. When submitted budgets reflect significant service level reductions from Fiscal Year 2014-2015 levels, departments will document service level impacts by program in order of severity from most to least detrimental as defined by the Department Director, while identifying mandate levels and outcome measures.
6. Based on available funding, the CEO may recommend additional General Fund Contribution to address long standing structural imbalances within specific departments.
7. Any requested amount over the County Executive Office's approved budgeted General Fund Allocation amount will be submitted as a budget adjustment request (restoration/expansion).
8. No budget submission will be considered complete unless the requested General Fund Contribution is equal to or less than the County Executive Office's approved General Fund allocation amount.
9. Requests for additional FTE's added during the budget process, including contractors on payroll must be submitted as a budget adjustment request and will identify the ongoing funding source.

ATTACHMENT C

**FISCAL YEAR 2015 – 2017 GENERAL FUND ALLOCATION POLICY
BASED ON BUDGET POLICY #2: POLICY BASED BUDGETING**

10. Special Revenue Funds will be evaluated at year end and any appropriate adjustments to the General Fund Contribution will be made to the following year's General Fund allocation.
11. Unallocated Discretionary General Fund Revenues will remain in the Residual Fund Balance account for future Board appropriation.



Strategic Reserve Policy Brief

SUMMARY OF THE ISSUE

For the first time since the Strategic Reserve Policy was established, the County will attain its Strategic Reserve target in FY 2014-15. The policy should now be modified or clarified to redefine appropriations that would be in excess of the Policy's targeted amount. The purpose of this brief is to review the necessity of a policy change.

BACKGROUND

The County of Santa Barbara first established a Strategic Reserve in FY 1997-98 at approximately \$1.8 million. The policy evolved to a target level of \$25 million; then to 30 days of working capital and ultimately to 8% of General Fund Operating Revenues. The policy has continued to be approved with subsequent Budget Policies and Fiscal Strategies.

The County's Strategic Reserve policy establishes a target balance of 8% of General Fund Operating Revenues (about 30 days working capital). It also identifies various instances in which these funds should be used to support the operating budget and only when general revenue increases are less than 3.0% from the prior fiscal year (see Strategic Reserve Policy following this brief). Included with the policy is a minimum \$1 million annual contribution to the reserve with adoption of the operating budget until the target is met. Any unassigned year end funds will lapse to the Strategic Reserve.

The Strategic Reserve is part of the larger Unrestricted Fund Balance (committed, assigned and unassigned) policy that is targeted to be 15.0% of General Fund operating revenue or approximately 60 days working capital (balance at June 30, 2014 of \$61.4 million, or 17.3%).

The Strategic Reserve has a Fiscal Year 2014-15 Beginning Fund Balance of \$27.6 million, or 7.8% of operating revenues with an additional \$2.0 million appropriated in the current year's budget. This totals \$29.6 million and would increase the funding to 8.4% of operating revenues; thereby exceeding the targeted level. The policy should be modified to address:

- a) Appropriations to the Strategic Reserve, and
- b) Appropriation of year end unassigned funds.



In order to better qualify the status of Fund Balance and the Strategic Reserve, a comparison of the eight benchmark counties was conducted. The following table illustrates the level of reserve policy in Santa Barbara compared to other like-counties.

County	Fund Balance Policy	Strategic Reserve	Notes
Tulare	2 months	NA	Per GFOA - minimum two months of GF operating expenditures
Santa Barbara	15.0%	8.0%	Maintain approximately 60 days working capital
Sonoma	5% - 15%	NA	GFOA, and 3 tiers: Red(5-10%)/Yellow(10-15%)/Green(15%)
San Luis Obispo	5.0% ≤ Balance ≥ 15.0%	NA	Contingencies and Reserves for economic downturn or major catastrophe
Solano	10.0%, \$20M ≤ Balance	Contingency 10%	Fund Balance is 10% of Total Budget, Contingency is 10% of General Fund
Santa Cruz	7.0%	Annual Resolution	7% of Revenue, and Economic Uncertainty reserve per annual resolution
Placer	5.0%	NA	5% accumulated over time for GF, additional 5% for Non-GF Contingencies
Monterey	NA	10.0%	Excess of 10% can go to reserve, pay capital, or pay debt. 1% Contingency
Marin	NA	5.0%	Contingency or Uncertainty. 50% of any excess to deferred road and bridges

The above analysis indicates the County of Santa Barbara has a comparatively conservative policy that is in line with GFOA recommendations.

“The Government Finance Officers Association (GFOA) recommends that governments...adequacy of unrestricted fund balance in the general fund should be assessed based upon a government’s own specific circumstances...at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.”

COST TO THE GOVERNMENT

The cost of modifying the Strategic Reserve Policy is wholly dependent on the actions of the Board of Supervisors. Adjusting the target could have numerous fiscal implications. Increase of the reserve would further improve the County’s financial stability in turbulent times, whereas lowering or leaving the existing target could increase funds available for other uses. If the policy remains at 8% of operating revenues and is capped at 8%, it is expected that additional one-time and ongoing funds would be available for other needs.

REQUESTED ACTION AND STRATEGY

That the Board evaluate the current target amount and determine if a modification is necessary. Options include:

- A. Leave the current target at 8% and limit contributions to the targeted level
- B. Increase the targeted level of Strategic Reserve
- C. Fix the Strategic Reserve target at a specific dollar amount

Staff recommends option A above, which would appropriately grow the Strategic Reserve in relation to growth in County operations while increasing future funding for County services and infrastructure.



If option A is selected, it would necessitate pre-defined instructions for appropriation of any unassigned year end funds. This would allow the Auditor-Controller to close the accounting records in a timely manner.

A suggested strategy is to keep any excess (unassigned) funds above the Strategic Reserve goal in the Residual Fund Balance account for future use. These funds could be used to tackle issues pertaining to but not limited to safety and/or infrastructure. Further appropriation of the unassigned funds to specific projects could be made during the subsequent fiscal year or could be appropriated as part of the following year's budget process. These funds will allow the Board to solve interim issues without dipping into the Strategic Reserve.

POLICY STATEMENT AND FISCAL STRATEGY

Policy Statement	Fiscal Strategies
Reserves	
Establish and maintain a strategic reserve equal to 8% of the General Fund operating revenue (approximately 30 days working capital). Once the target is achieved, any excess fiscal year-end unassigned General Funds will lapse to the Residual Fund Balance account for future Board appropriation.	a) A minimum \$1 million annual strategic reserve contribution will be recommended, until the Strategic Reserve target has been met.



Strategic Reserve Policy

The County has established a separate committed fund balance account known as the Strategic Reserve. The target funding level for the Strategic Reserve is an amount equivalent to 8% of operating revenue (approximately 30 days working capital) for the General Fund. Funding for the Strategic Reserve is appropriated annually by the Board of Supervisors as part of the budget approval process.

The purpose of the County's Strategic Reserve is to:

1. Mitigate economic downturns that reduce County general revenue;
2. Mitigate state or federal budget actions that may reduce County revenue;
3. Maintain core service levels essential to public health, safety, and welfare;
4. Front-fund or completely fund, if necessary, disaster costs or costs associated with emergencies. Only those events that have been legally declared to be a disaster at the local, state or federal level are eligible for funding from the Strategic Reserve; and
5. Absorb liability settlements in excess of available resources in the County's committed litigation fund balance.

The monies in the Strategic Reserve are separate monies used only for the purposes stated above. The funds are used only to support the operating budget when general revenue increases less than 3% from the prior fiscal year. Any transfer of funds is approved by the Board of Supervisors and does not exceed the amount sufficient to balance the General Fund. Transfers require approval by 3/5 vote during budget hearings and 4/5 vote at all other times during the fiscal year in accordance with the County Budget Act.



Maintenance Funding Policy Brief

SUMMARY OF THE ISSUE

The County of Santa Barbara has reported an estimated backlog of Deferred Maintenance of approximately \$197 million (including \$113.7 million in Public Works (PW) pavement only, \$45.1 in Parks and \$38.5 million in General Services) as of June 30, 2014. To address this backlog the Board of Supervisors requested a funding plan to allocate a portion (18%) of Unallocated Discretionary General Fund (GF) Revenues* to maintenance projects. The following is the requested Maintenance Funding Plan.

BACKGROUND

The County of Santa Barbara's deferred maintenance has grown over time and this funding plan has been developed to address this issue. Some background information follows:

- Funding has been static for several years pre and post-recession.
 - Prior Fiscal Year's policies have allocated approximately \$2.5 million per year since FY 2005-06 for capital, roads maintenance and repairs.
- Deferred maintenance is increasing
 - Deferred maintenance backlog was \$127 million in FY 2004-05 and is now approximately \$197 million (includes buildings, parks and pavement only for County roads);
 - Deferred maintenance amounts presented in June 2014 and above do not include PW's bridge repair and rehabilitation (\$57.4M), culverts/drainage (\$41.1M), concrete (\$40.2M) and other items (\$5.7M). Bridges were previously excluded as significant funding was provided by Federal sources. Culverts and concrete were not included as we had focused on the Pavement Condition Index (PCI) that measures the road condition.
 - Going forward, these road amounts will also be included in the total deferred maintenance backlog figures to ensure that the entire backlog is addressed. The total deferred maintenance backlog, including all elements described above is approximately \$341.0 million at June 2014.
- As the financial picture improves, the Board has directed staff to increase funding to address this issue by assigning 18% of Unallocated Discretionary GF Revenues* to ongoing maintenance funding. The preliminary June 2014 projections indicate annual ongoing increased incremental funding of \$26.5 million per year will be achieved within ten years (FY 2023-24) and the cumulative incremental funding will be approximately \$100 million.

* **Unallocated Discretionary GF Revenues:** are defined as County General Revenues recorded in Department 991, including Property Taxes, Sales Taxes, TOT and certain other revenues, less existing General Fund Contributions for the provision of departmental services and other required funding required by Board Adopted Budget Policies, such as:

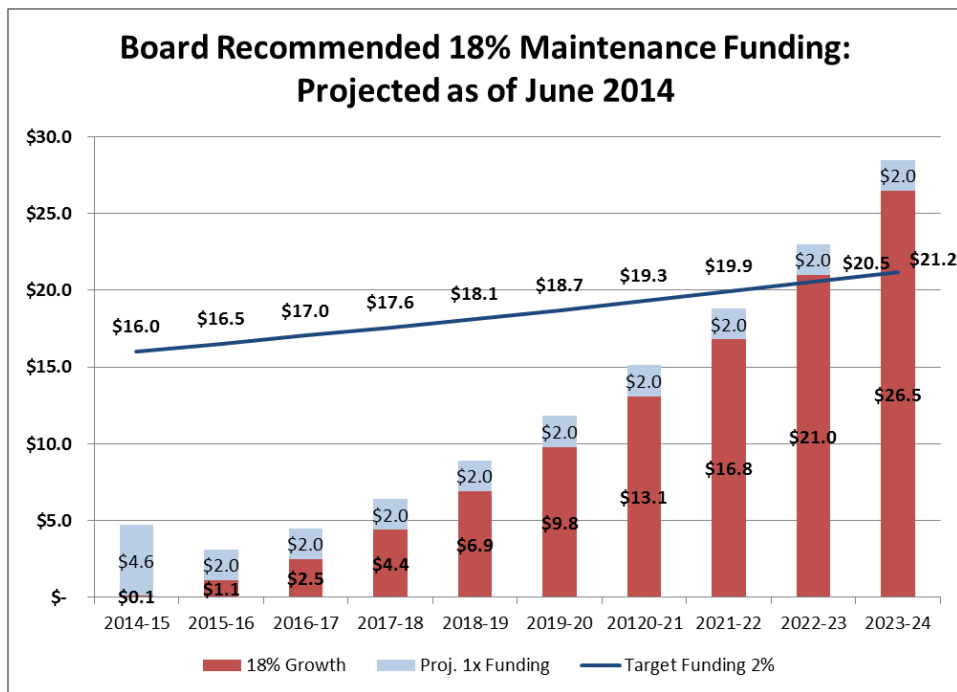
- Proportional increased funding for changes to salaries and benefits (based on completed and assumed contract negotiations)
- Strategic reserve funding
- Roads, buildings & parks maintenance funding
- Contingency funding
- Northern Branch Jail Operations Fund



ALLOCATION OF FUNDS

The allocation of funds will depend upon future Discretionary GF Revenues over the coming years. Pegged at 18% of Unallocated Discretionary GF Revenues*, a growing allocation of funds will be provided for maintenance; however, during year’s where there is limited growth, the maintenance allocation will be impacted by revenue growth. If there is no revenue growth, such that there are no Unallocated Discretionary GF Revenues*, the policy would not add funding to the maintenance allocation in that year. The Board does have the option to allocate additional funding, at their discretion, outside of this policy.

During the June 2014 Budget Hearings, projections of anticipated growth in maintenance funding were presented. The following graph utilizes the same assumptions from the 2014 Budget Hearings except that an 18% contribution was used.



ACTION AND STRATEGY

On June 11, 2014, the Board of Supervisors approved the development of a maintenance funding plan to be incorporated into future recommended budgets beginning in FY 2015-16 that will provide, as a year to year policy decision by the Board, 18% of future Unallocated Discretionary GF Revenues* to deferred maintenance needs.

The Board also directed the County Executive Officer to make recommendations as appropriate with respect to specific projects to be funded. These will be evaluated and prioritized on an annual basis.



To illustrate this recommended policy, an **example** of the calculation is shown below:

Example of Unallocated Discretionary General Funds:		
Description	Recommended Budget	Notes
Discretionary GF Revenue	\$ 200,000,000	Assume \$9M growth
Existing Dept. GF Contributions	\$ (187,700,000)	<i>Policy Based</i> ↓
Existing Contingency Contribution	\$ (500,000)	
Existing Roads Maintenance Funding	\$ (500,000)	
Existing Deferred Maintenance Funding	\$ (2,300,000)	
Increased GF Portion for Salaries & Benefits	\$ (3,000,000)	
Increased Strategic Reserve Funding	\$ (480,000)	
Increased Jail Funding	\$ (1,500,000)	
Unallocated Disc. General Funds	\$ 4,020,000	
18% (for Deferred Maintenance)	\$ 723,600	<i>Allocated per new policy</i>
Balance Available for other needs	\$ 3,296,400	

A part of the suggested strategy for changes to the Strategic Reserve Policy, it is recommended that any unassigned year end funds above the Strategic Reserve goal will lapse to the Residual Fund Balance account for future Board appropriation. These funds could be used to tackle issues pertaining to but not limited to safety or infrastructure, including deferred maintenance. Such funds would then be appropriated by budget revisions for urgent needs or as part of the next budget cycle.

**PROPOSED REVISED POLICY STATEMENT AND FISCAL STRATEGY
FY 2015-17 Policy on Capital and Infrastructure**

7) Capital and Infrastructure	
Provide funding for necessary capital improvements and maintenance of existing facilities (deferred, preventative and predictive maintenance).	<ul style="list-style-type: none"> a) Capital Plans will identify necessary capital improvements and maintenance needs. Prioritization and funding strategies will be developed to address these needs through a Facilities Condition Assessment and ongoing Maintenance Management and Preservation Plans. b) A minimum of \$3.0 million will be recommended for capital improvements and infrastructure maintenance. c) As discretionary revenues grow, 18% of the unallocated Discretionary General Fund Revenues will be committed for deferred maintenance needs and will be allocated to Public Works, General Services and Parks in the budget development process based on existing needs and priorities. This funding will be allocated as part of the budget development process. (NEW)