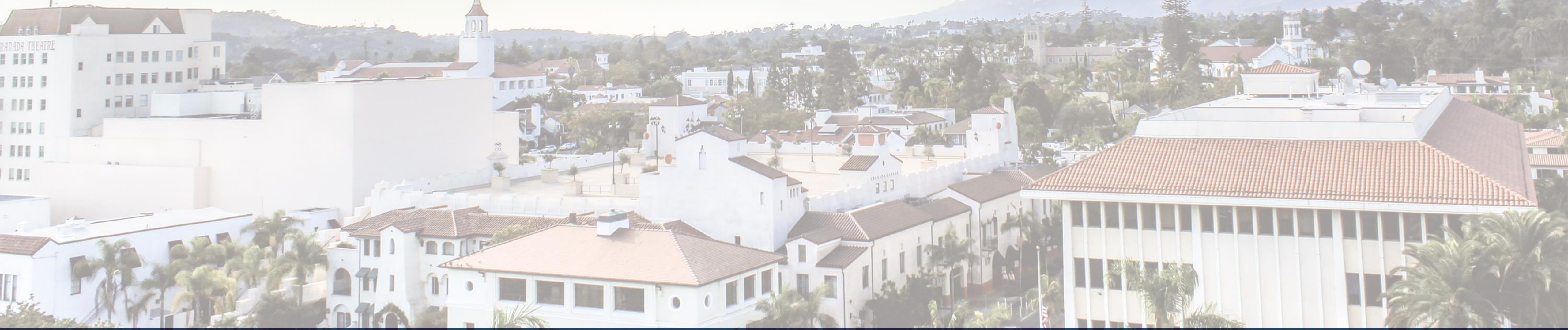
FY 2020-25

FIVE-YEAR FORECAST & SIGNIFICANT FISCAL ISSUES

Board of Supervisors

November 19, 2019



- Five-Year Forecast
- Significant Fiscal Issues
- Preparing for FY 2020-21 Budget Development

Today's **Report**

FY 2020-21 **Budget Development**

2019

NOVEMBER
Five-Year Forecast & Significant Fiscal Issues

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Budget Development Guidelines

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About the **Forecast**

- Provides context for balancing short-term and long-term goals during development of the FY 2020-21 budget; not intended to solve gaps today
- Identifies potential demands on County resources in the coming years
- Projects balanced budget in FY 2020-21 and gaps in out years, with assumption of recession

Context

- County has experienced over a decade of discretionary revenue growth
- Recession possible during forecast period
- Renew '22 initiatives underway
  - Improve operational efficiency and effectiveness
  - Position the County to mitigate difficult funding choices in the event of a recession
- Assumptions based on current estimates of expenditure and revenue growth
- Assumes a status quo level of services

Expenditure **Assumptions**

Major Expenditure Drivers

Salaries

3.1% avg. annual increase

- Negotiated salary increases; MOUs will end in FY 2020-21 and FY 2021-22
- Step and merit increases for represented employees
- Status quo staffing

Retirement

4.7% avg. annual increase

- Salary increases + SBCERS plan rates
- Costs partially offset by pension cost-sharing, which is expected to generate $7.7M in savings in FY 2020-21

Health Insurance

4.8% annual increase

- Relatively low premium increases for County health plans in recent years
- Year-to-year increases unpredictable; driven by prior year cost experience and market factors

Ongoing Commitments

Northern Branch Jail Set-Aside

- Grows to the annual targeted funding level of $19.3M by FY 2022-23
- Assumes annual growth of $1.2M in each of the final 2 forecast years to cover cost increases

Fire Tax Shift

- Target of 17% of property tax revenues will be met in FY 2019-20
- Amount of incremental property tax growth shifted to the Fire District in FY 2019-20 is $11.7M; will grow with property tax growth annually

Ongoing Commitments

18% Maintenance Funding Plan

- Annual increases track unallocated discretionary revenue growth
- Reaches $7.5M in ongoing GFC by FY 2024-25
- In addition to SB 1 funding and other maintenance funding from non-General Fund sources

Strategic Reserve

- Fully funded in each of the 5 forecast years
- Balance grows from $36.4M in FY 2019-20 to $45.6M in FY 2024-25 based on average operating revenue growth
- Requires annual contribution of $1.8M each year to maintain target

Revenue **Assumptions**

Three Growth Scenarios

No Recession

Assumes revenues continue recent trends with growth in all five forecast years

Mild Recession

Considered the most likely scenario

Assumes growth in the first year, recession beginning in second year, and moderate recovery beginning in third year

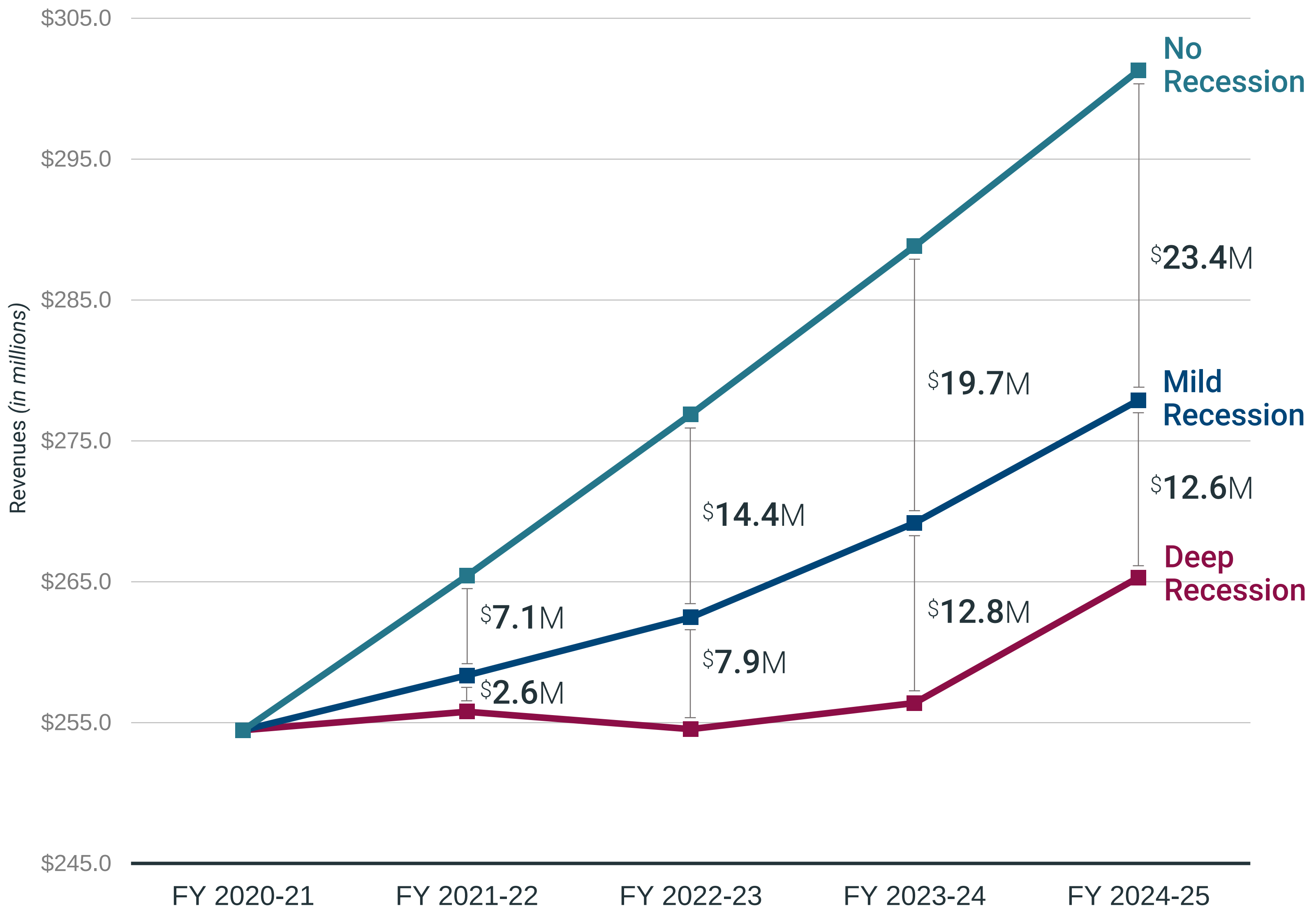
Deep Recession

Assumes growth in first year, deeper recession beginning in second year, and slower recovery beginning in fourth year

Major Discretionary Revenues:

Property Tax, Sales Tax, & Transient Occupancy Tax

Potential Revenue Changes in the Event of a Recession



Property Taxes

- Makes up about 80% of the County’s discretionary revenue
- **NO RECESSION** scenario assumed growth of 4.5% in each forecast year
- **MILD RECESSION** scenario assumed growth of 4.5% in year one, 2% in years two and three, and 3% in years four and five
- **DEEP RECESSION** scenario assumed growth of 4.5% in year one, 0% in years two and three, 1% in year four, and 2% in year five

Sales Tax

- Makes up 4% of the County's discretionary revenue
- **NO RECESSION** scenario assumed 2% growth in each forecast year
- **MILD RECESSION** scenario assumed growth of 2% in year one, followed by -1%, 0%, 1%, and 2% in years two through five
- **DEEP RECESSION** scenario assumed growth of 2% in year one, followed by -2%, -1%, 0%, and 1% in years two through five

Transient Occupancy Tax

- Makes up 4.8% of the County's discretionary revenue
- **NO RECESSION** scenario assumed 3% growth in each forecast year
- **MILD RECESSION** scenario assumed growth of 3% in year one, followed by 0% in years two and three, 2% in year four, and 3% in year five
- **DEEP RECESSION** scenario assumed growth of 3% in year one, followed by -2%, 0%, 1%, and 2% in years two through five

Cannabis Tax Revenue

$6.9M
FY 2018-19
Receipts

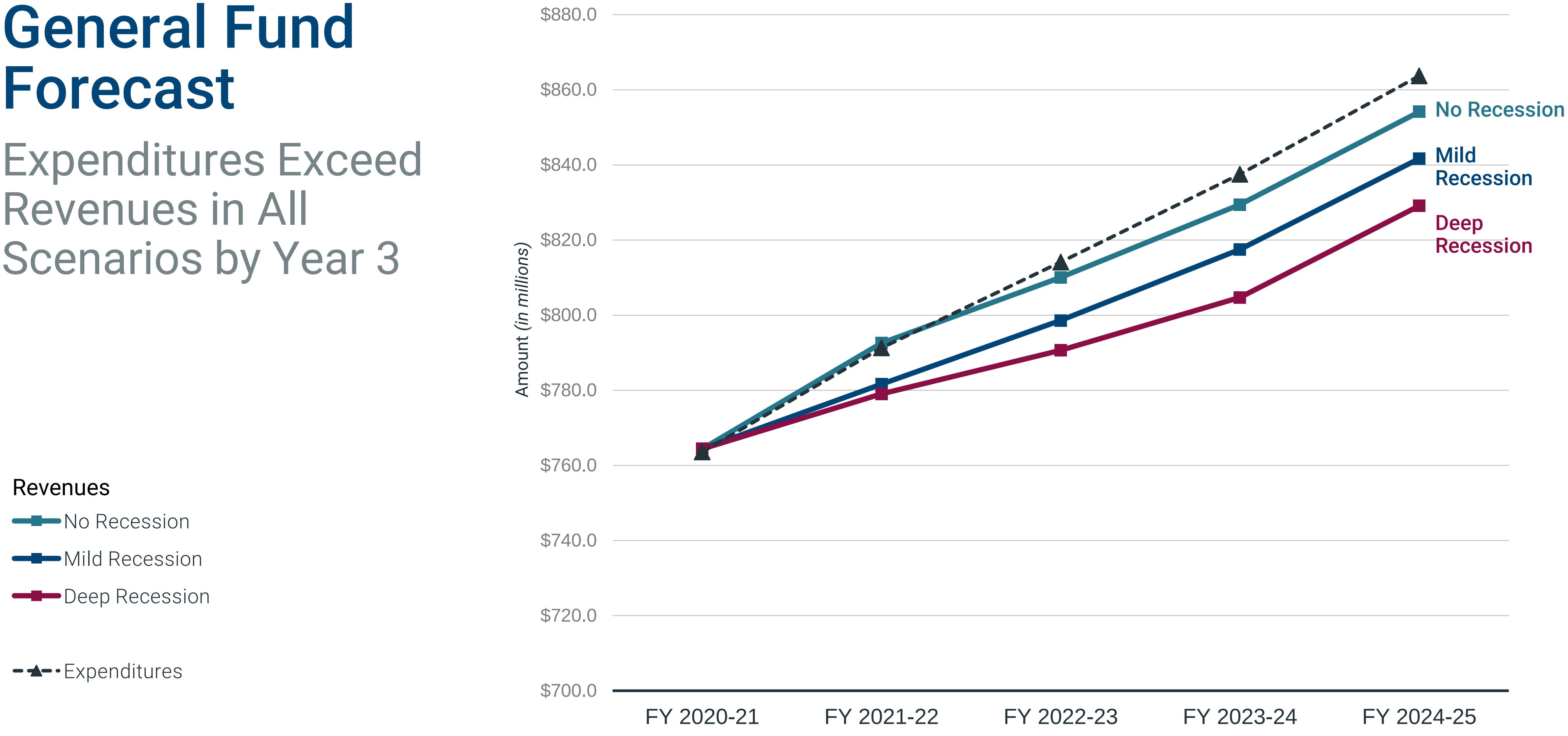
$7.0M
FY 2019-20
Preliminary Estimate

- Forecast assumes **$8.0M** in FY 2020-21 and annual increases of 5% thereafter
  - Cannabis considered relatively recession-resistant
  - Fully funds enforcement activities within County departments
  - FY 2019-20 actuals will be closely monitored and estimates revised during budget development
- Storefront retail revenue not included; will be included in FY 2020-21 budget

Revenues & Expenditures

General Fund Forecast

Expenditures Exceed Revenues in All Scenarios by Year 3



General Fund Forecast

Cumulative Gaps and Incremental Changes by Year

$ in millions

Scenario	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
No Recession	$ 0.8	$ 1.3	$ (4.1)	$ (8.1)	$ (9.6)
Incremental Change by Year		0.5	(5.4)	(4.0)	(1.5)
Mild Recession	0.8	(9.7)	(15.5)	(20.0)	(22.0)
Incremental Change by Year		(10.5)	(5.9)	(4.5)	(2.0)
Deep Recession	0.8	(12.2)	(23.5)	(32.8)	(34.6)
Incremental Change by Year		(13.1)	(11.2)	(9.3)	(1.8)

- Gaps represent differences between revenues and expenditures if no mitigating actions are taken
- However, by County Code, budget must be balanced and gaps will therefore be solved each year

Other Major Operating Funds

Forecast

$ in millions

Fund	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Roads Operations (PW)	$	$	$	$ (3.1)	$ (3.4)
Health Care (PHD)	--	--	--	(1.0)	(5.3)
Mental Health Services (BW)	(0.3)	(0.6)	(0.9)	(1.3)	(5.3)
Social Services (DSS)	(3.3)	(7.4)	(8.8)	(10.6)	(12.4)
IHSS Public Authority (DSS)	(0.5)	(0.8)	(0.1)	(0.5)	(0.5)

- Gaps are in anticipation of federal and State revenues that will not keep pace with salary and benefit increases
- Reinforces the importance of limiting ongoing expansions to ensure these funds remain self-sufficient
- General Fund discretionary revenue is insufficient to cover special revenue gaps

Key Takeaways

- If recession occurs, we could see declines in State and federal revenues during times when our communities need increased support

- General revenue increases can’t be sole mechanism to balance budgets

- May need to look to cost-cutting and revenue-generating initiatives

Fiscal **Issues**

Significant Fiscal Issues

Key Themes

- Legislative & Policy Changes
- Deferred Maintenance Backlog
- Aging Technology Systems
- Facility Conditions and Office Reconfiguration
- Escalating Workers' Compensation and General Liability Insurance Premiums

Legislative & Policy Changes

State and federal legislation impacts our departments and new funding often does not accompany new requirements

Issue	Department	Potential Impact	Recommended Action
Elimination of 340B Savings	Public Health	$6.0M per year	Monitor and advocate for backfill
Adult Fee Collections	Probation	$2.0M per year	Monitor and advocate for backfill
Criminal Justice Legislation	• District Attorney • Public Defender	Additional Mandates/ Workload	Monitor
Conversion of County Fleet to Electric Vehicles	General Services	$0.5M (one-time)	Implement

Deferred Maintenance Backlog

Total backlog estimated at **$463M**

Department	Potential Impact	Recommended Action
Public Works	$315M	Allocate 18% ongoing maintenance funding and any available one-time funds according to prioritized needs
Community Services	$52M	
General Services	$96M	

Aging Technology Systems

- Many systems have reached end of life, including many smaller systems throughout departments that are not included in the table below
- In many cases, replacement funds are not available
- Complex demands of County business operations have changed over time and require new technologies

Issue	Department	Potential Impact	Recommended Action
Public Safety Communications System Replacement	Countywide	$45.4M over 3 years	Debt financing being considered
Data Center Replacement and Redundancy	Sheriff	$1.5M (one-time) $0.4M (ongoing)	• Allocate available funding according to prioritized needs • Continue to contribute to Technology Replacement and Investment Fund • Work with departments on funding options
Records Management System	Sheriff	$0.7M (one-time) $0.15M (ongoing)	
Enterprise Resource Planning System	Countywide	$10M+	

Facility Conditions and Office Reconfiguration

- Average age of County buildings is around 40 years old
- Facility configurations don't meet current needs for the way we work
- Table below includes a sample of facility needs

Issue	Department	Potential Impact	Recommended Action
Santa Maria Substation	Sheriff	Impact being determined	• Allocate available funding according to prioritized needs through the CIP • Consider establishing an annual set-aside of one-time General Fund revenues to be leveraged or matched with other funding sources
Santa Maria Office Space and Renovation	District Attorney		
Santa Barbara, Lompoc, and Santa Maria Office Space	Public Defender		

Escalating Insurance Premiums

Workers’ compensation and general liability insurance markets experiencing increasing costs across California entities

Issue	Potential Impact	Recommended Action
Workers’ Compensation Insurance	$0.7M	Incorporate any increases into budget
General Liability Insurance	$2.2M	

Looking **Forward**

FY 2020-21 Budget Development

- Critical to build a disciplined FY 2020-21 budget
- Develop strategies to prepare for possible future year deficits
  - Allocate ongoing revenue growth to one-time purposes
  - Set aside revenues for future use
  - Build up fund balances in year 1 to cushion recessionary impacts
  - Support initiatives with countywide benefit or that promote efficiencies

FY 2020-21 Budget Development

- Any funding requests for service level expansions must be evaluated through the lens of long-term costs and potential recessionary impacts
- Important to consider how to address broad, Countywide fiscal issues that have developed over the years

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Preparing for the **Future**

- Focus on what is essential to serve our communities and do the most important things well
- Maintain a financially sustainable organization
- We can do anything, but not everything

Recommended **Actions**

A. Receive and file the FY 2020-25 Five-Year Forecast, including potential fiscal issues facing the County in the coming fiscal years

B. Determine pursuant to CEQA Guidelines §15378 that the above activity is not a project under CEQA.