Introduction

Choosing the most efficient and cost-effective method to fund construction and operation of a new jail is a complex process. One of the first decisions to be made is whether to seek outside sources of funding, pay cash, save, or borrow. Exploring state and federal grant funding to offset the expense is also an important consideration. Each of these funding methods is currently used by the County and is a prudent funding choice depending on the scope and nature of a particular capital improvement. When financing a capital project over time is necessary, a repayment source must be identified and evaluated to determine the stability of the revenue.

In preparing this report, a wide spectrum of funding, financing, and revenue options were carefully considered and thoroughly analyzed.

Funding Options

Due to the significant cost of a jail, a review of all funding options was necessary. The following are key funding alternatives which were considered and a brief analysis of each.

Federal and State Construction Grant Programs:
One option considered and analyzed was applying for a State and/or Federal Construction Grant. Construction Grants cannot be applied toward ongoing operational costs and can require matching funds from the grant recipient.

- **VOI/TIS Incentive Grant Program**: The Violent Offender Incarceration and Truth–in-Sentencing (VOI/TIS) Incentive Grant Program funds the construction of local adult and juvenile facilities. The Corrections Standards Authority (CSA), formerly known as the Board of Corrections, administers the allocation of federal and state grant funding for such construction projects. All appropriations of VOI/TIS funds are subject to the availability of funds and reflect annual federal funding determinations and adjustments.

  Under this federal grant program, from 1997-2002 all states were eligible to receive annual formula-driven grants for local adult and juvenile detention facility construction. Federal law allows up to 15 percent of a state's grant to be used for adult and juvenile detention facility construction by counties. However, states may declare "exigent circumstances" in order to allocate more than 15 percent to counties, but exigent circumstances funds can only be used for local juvenile facility construction.

  Since 1997, the Legislature has appropriated approximately $318 million in federal VOI/TIS funds to the CSA for distribution to counties on a competitive basis for the construction of local adult jail and juvenile detention facilities. The vast majority of the available funds ($280 million) was appropriated to build or expand local *juvenile* detention facilities as a result of the Legislature's declaration of exigent circumstances. All state appropriations of VOI/TIS funds are subject to the availability of funds and reflect annual federal funding determinations or adjustments.

Currently, all VOI/TIS funds have been appropriated and allocated, and at this time there are no further federal funds expected to be available to states under this program. All construction projects are slated to be completed by 2007.

- **State Funded Grant Construction Projects**: Since FY 1998-99, the State legislature has appropriated $172 million from the State's General Fund for competitive grants supporting the renovation, reconstruction, construction, and replacement of county juvenile facilities and the performance of deferred maintenance. Since federal construction grant funds are limited to adding bed space and related support space, this provides counties with needed renovation and deferred maintenance funds not otherwise available. Currently, all state funds have been appropriated and allocated. All construction projects are slated to be completed by 2007

A list of statewide facility construction projects under construction, on the drawing board, and completed is included as an attachment at the end of this section (Attachment 1). As shown on the list:

- All available funds have been committed;
- Only one adult facility is under construction at this time;
- Most Federal and State funds have been allocated to the construction of juvenile facilities or renovating existing facilities;
- There are no additional construction grant funds currently available.

Based on the preceding, seeking Construction Grant Funding for this project does not appear to be a viable option for the County. However, should a Construction Grant become available in the future, in order to be competitive it would be important that the County would have already secured the land upon which to build a jail. Thus, it is important that the County continue with the land acquisition process.

There has been some discussion at the State of placing a statewide bond measure on the ballot in the future for jail capital expenses but there is no initiative pending at this time.

Pay-As-You-Go:

A pay-as-you-go plan entails using existing County General Funds to pay capital and operational costs as they are incurred, including any annual debt service charges for capital costs. It can be the least expensive alternative if financing is not used because there would be no debt and no payments. An additional benefit is that future revenues are not encumbered and actual expenditures can be handled more efficiently when the revenues are appropriated from the current budget.

Therefore, funding a jail with a pay-as-you-go plan would involve using existing County revenues for capital costs and would also require appropriating significant annual funding for

ongoing operational costs. Employing this strategy is a fiscally sound approach for short-term projects with costs that are recurrent as to purpose or amount; however, it is not prudent with expensive long-term projects, such as a jail.

It is usually the case that jail projects are financed over the course of their useful lives. Large projects like a jail with long, useful lives are better suited for financing over the estimated life of the asset. Smaller projects with shorter useful lives can be better planned, managed, and funded from current revenues on a pay-as-you-go basis. Capital projects that lend themselves to a pay-as-you-go strategy include certain equipment acquisitions, such as telephone systems, computer and software upgrades, and capital maintenance projects such as roof replacements.

Further, using a pay-as-you-go plan without securing financing, burdens current taxpayers to the benefit of future generations that have the use and corresponding benefit of the asset. This issue is particularly relevant when trying to fund a jail that will last 30 years or more. Not only do current taxpayers not realize the benefit while funds are being expended, undue pressure is placed on the overall operating budget of the County, thereby negatively impacting the other priority programs and levels of services delivered to the local taxpayers.

The General Fund (GF) would be the payment source for a pay-as-you-go plan. With an estimated capital cost of $153 million, construction is too costly to be charged to a single-years' budget. Even if the County were to finance the capital costs over 30 years and use the GF as the payment source, the annual debt payment would be approximately $12 million and would require massive GF budget cuts, shifts in allocations, and severe reductions in program and service levels countywide. Additionally, these cuts and reductions would not account for the cost of ongoing operations of the new jail which is $19.2 million a year (increasing each year) for a total requirement of $31.2 million in the first year for a pay-as-you go plan. Therefore, it is unlikely that a new jail would be built if pay-as-you-go were the only funding alternative.

The pay-as-you-go plan is not a financially sound alterative for the County as $31.2 million/year represents 18% of the $168.2 million in discretionary GF revenue in the 2005-06 Adopted Budget. Further, most of the GF is mandated and, as indicated in the 2005-06 Budget Hearings presentation, only 9% is truly discretionary, leaving only approximately $15.1 that is available for curtailments. This would require major service reductions and even so, is clearly insufficient to cover the projected annual $31.2 million cost of a new jail.

Funding Alternatives

However, the following is a hypothetical list of the type of General Fund curtailments that would need to be considered to reach $31.2 million per year.

IT SHOULD BE NOTED THAT THIS DATA IS HYPOTHETICAL AND DOES NOT CONSTITUTE A RECOMMENDATION BY THE COUNTY EXECUTIVE OFFICER. IT IS ONLY AN ILLUSTRATION AND SOME OF THE ILLUSTRATED CURTAILMENTS MAY EVEN IMPINGE UPON FEDERAL, STATE OR COURT MANDATES.

New County Jail Estimated Annual Ongoing Costs			
Capital Annual Debt Service		$	11,974,000
Operational Annual Net Cost			19,150,000
Total Annual Jail Requirement		$	31,124,000

Hypothetical General Fund Discretionary Ongoing Cuts			
Eliminate Contributions to Unrestricted Reserves			
Eliminate Annual Contribution to Capital Maintenance		$	2,000,000
Eliminate Annual Contribution to Strategic Reserve			1,500,000
Eliminate Annual Contribution to Capital Projects			500,000
Eliminate Annual Contribution to Roads			500,000
	Sub Total	$	4,500,000
Miscellaneous Non-Departmental Reductions			
Reduce Non-Clinical TSAC Programs		$	2,128,049
Reduce 20% of Contributions to Libraries			488,688
	Sub Total	$	2,616,737
General Fund Program Reductions and Eliminations			
Eliminate Parks Day Use North and South Funding		$	2,063,357
Eliminate Human Services Commission Funding			1,339,473
Eliminate Sheriff Aviation Funding			1,185,641
Reduce 50% of Comprehensive Planning Funding			881,254
Eliminate Fire Helicopter Operations Funding			860,400
Eliminate Economic Development Funding			646,831
Eliminate Clean Water Funding			400,000
Eliminate Government Access TV Funding			309,412
Eliminate Cooperative Extension Funding			213,070
Eliminate Project Management Funding			144,803
	Sub Total	$	8,044,241
	Total General Fund Discretionary Cuts	$	15,160,978

Proportionate Department Ongoing Cuts to Reach $31,124,000			13% Cut
Sheriff		$	5,951,440
Probation			2,068,501
Social Services			1,160,565
General Services			1,100,422
District Attorney			1,009,011
Clerk-Recorder-Assessor			819,747
Public Defender			644,677
Auditor Controller			458,819
Treasurer-Tax Collector-Public Administrator			351,803
County Executive Office			338,670
Planning & Development			306,085
Board of Supervisors			272,569
Human Resources			254,978
Fire			234,151
County Counsel			231,091
Public Works			213,825
Agriculture & Cooperative Extension			212,061
Alcohol, Drug & Mental Health Services			204,211
Public Health (Animal Services)			130,398
	Sub Total	$	15,963,022
	Total Annual General Fund Curtailments	$	31,124,000

In addition, if new jail financing is secured in conjunction with employing a pay-as-you-go plan, the County's total debt affordability capacity and credit rating would need to be taken into consideration. That is, rating services (eg. Moody's and Standard & Poor's) would need to be convinced that the County has sufficient funding to repay any debt issued; simply committing to reduce expenditures may not be sufficient to so convince them. In addition, the ability to pursue other capital financing may be limited, and likely more expensive, based on potential credit rating reductions.

Designation (Savings) Account:

One alternative to pay-as-you-go funding for the jail is to set aside monies over time in an accumulated "designation" account until the balance reaches the level necessary to acquire the facility. This "savings account" approach is the opposite of borrowing. A designation account reflects monies available to be budgeted or spent in the current year but are not spent as policy makers have chosen to set them aside for a future capital project. The size of the project is limited only by the amount of money and the number of years over which a jurisdiction is willing to contribute to the designation. This method of funding was used for the jail schematic design costs. Currently, the Sheriff's jail designation account contains prior unanticipated Federal revenue from the State Criminal Alien Assistance Program, a reimbursement program for costs related to jailing illegal immigrants who commit crimes.

The revenue source for a capital designation account could be any unspent appropriation or unanticipated reserves. The funding of a capital designation can either be set formally, as a certain percentage of annual General Fund revenues or implemented informally, with contributions dependent on the amount of discretionary revenues available each year. Capital designation funding does not require the payment of interest or the encumbrance of future revenues, as is the case with financing. In fact, through interest accrued on of the reserved funds, the amount of the capital ultimately available typically exceeds the sum of the installments.

The main disadvantage to this approach is that the acquisition of assets is deferred and the cost of deferral, both in terms of actual costs and public safety, is significant when the need for a jail is immediate. For instance, even if the County was able to put away $5 million a year in a designation account, it would take over 30 years to save enough to build the jail. That estimate is conservative, as it does not take into account the inflation of construction costs over the 30-year period. Additionally, this approach places a burden on current citizens and taxpayers by setting aside revenues *today* which are used to acquire *future* assets. Because paying cash or saving to acquire the jail are not considered feasible choices, the alternatives are to either forgo the project or choose to acquire it by borrowing the funds.

Funding Alternatives

Financing Options

Following are the key financing alternatives considered and a brief analysis of each.

General Obligation Bonds:
General Obligation Bonds (GOs) are bonds secured either by a pledge of the full faith and credit of the issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. With very few exceptions, local agencies are not authorized to issue "full faith and credit" bonds. The GOs of such agencies are typically payable only from ad valorem (in proportion to the value) property taxes, which are required to be levied in an amount sufficient to pay interest and principal on the bonds coming due in each year. Therefore, in order to secure a GO, the jurisdiction must take the issue to the voters.

By way of background, pursuant to Article XIIIA of the State Constitution, the proceeds from the sale of GOs may only be used to finance "the acquisition or improvement of real property" (the land and the building). There is general agreement among practitioners and issuers that the limitation to "real property" means that vehicles, equipment, furnishings and supplies may not be financed with GOs. Generally, anything which is truly portable, or which can be removed from land or a building without causing damage to the land or building, may not be financed. Due to these restrictions placed on GOs, the only component of the jail project that would benefit from this financing strategy would be the capital component and not the operational costs. The cost of ongoing operations and the necessary furnishings and ancillary equipment and materials would require financing from another source.

Additionally, GOs are restricted to those purposes approved by the voters. Taken together, the statutes (or charter provisions) authorizing the election and the issuance of the bonds, the resolution calling for an election and the specific language contained in the ballot measure itself, create a contract which is binding upon the local agency once the voters have given their assent. GOs are secured by the legal obligation to levy an ad valorem property tax upon taxable property in the jurisdiction of the issuer in an amount sufficient to pay the debt service without limitation as to rate or amount. There is no General Fund (GF) impact as the repayment is from an off-budget revenue source and the GF is not liable for the payment of debt service on the bonds. Therefore, operating funds are not required to pay debt service on the bonds.

The approval process for GOs includes an election in which at least two thirds of the qualified voting electorate approves the issuance of bonds, and in doing so approves the levy of an ad valorem (property) tax to pay the bonds. The unlimited taxing power supporting repayment is well received by the bond market and has historically provided issuers with their lowest cost of funds relative to other financing mechanisms.

The main disadvantage to financing through GOs is that they provide incomplete financing in that they can only finance capital and not operational costs. The jail project requires a $19.2 million annual allotment (plus any needed COLA adjustments for salaries, utilities, etc. over time) for operations and cannot be completed without additional alternative funds. In order to provide this funding, a GO would have to be coupled with another revenue source.

Certificates of Participation:
Certificates of participation (COPs) are lease financing agreements in the form of securities that can be issued and marketed to investors in a manner similar to tax-exempt debt. By entering into a tax-exempt lease financing agreement, a public agency is using its authority to acquire or dispose of property, rather than its authority to incur debt. Public agencies may enter into a leasing agreement with a non-profit organization to directly lease the asset they wish to acquire, construct, or improve. COPs are sold through an underwriter and the proceeds of the sale of the COPs are used to pay the cost of acquiring or constructing improvements.

The California Constitution requires voter approval for issuance of long-term debt paid from the general fund of a city, county, school district, or the state. Because COPs are not technically classified as debt, they do not require voter approval.

Santa Barbara County debt management policies (and common sense) require that a specific source for debt service payments be identified before COPs can be issued. Also, County debt management policies prohibit the use of COP proceeds for services or ongoing operating expenses.

In order to issue COPs and provide a source for the ongoing operations, revenue sources and debt affordability need to be identified. The options would be to absorb the additional costs within existing financial resources or look at alternative funding. As previously outlined in the pay-as-you-go discussion, absorption is not a viable option. Borrowing to finance the jail is not a feasible option if the funds necessary to make the annual debt payments and operation costs are unavailable. Although COPs are a proven successful financing mechanism when a reliable revenue source exists, they do not come with a specific revenue source. Therefore, in order to successfully use a COP, the County would need to generate new revenues (eg. a sales tax) for both financing and operational expenses.

Revenue Options

It is clear that the County needs to identify revenue options in order to successfully fund and finance a project of this scope. Following is a review and analysis of the various revenue sources that were considered.

Sale of County Property:
One possible means for generating revenue would be to designate County property as surplus and place it for sale. Before such property can be sold, however, the Board must declare it to be surplus. In addition, prior to taking any such action, it would be prudent for the County to conduct a comprehensive review of its own current and future needs for the property and the financial impact of selling land to finance a large capital project of this nature. Further, in reviewing vacant County land that could potentially be placed for sale, there is insufficient potentially "surplus" real estate to generate the kind of revenue needed to construct and operate a jail. Finally, Counsel has advised that any County "surplus" property must first be offered for sale to other public jurisdictions before being offered for sale on the open market.

Staff has determined that the maximum amount that could be realized would require the sale of *all* vacant County property and would only generate approximately $40 million, which would include a significant County parcel and would still be insufficient to fund the project. Therefore this does not appear to be a viable revenue option for the project.

Oil Development:
In January 1997, a State statute was enacted providing that under certain prescribed conditions, 20% of State revenues (royalties) derived from new oil/gas leases would be allocated to counties or cities whose shoreline fronts the leases. The statute sunsetted in January 2002. Since that time, the County has sponsored various measures to reinstate the statute only to have the language removed by the Governor or at the end of the annual legislative process.

The passage of a new oil royalty revenue sharing measure for local jurisdictions whose shorelines front oil leases, (e.g. Santa Barbara County) combined with local approval of a major offshore oil development project, could provide the County with many tens of millions of dollars per year over the life of the project.

However, such legislation does not currently exist. If again proposed, its chances of passage would be speculative; moreover, it would take at least one (if not two) years to be enacted. Further, whether a major potential offshore oil project fronting the County's shoreline would be approved is speculative. In any event, the regulatory/hearing process for such a project would take significant time to complete, and, if a project were approved, additional time would be required to make it operational.

Therefore, staff has concluded that the potential for new oil development off our coast is speculative, and its potential revenue to the County would take too long to obtain to be seriously considered at this time as a part of funding the new jail.

Sales Tax:
In conducting the funding alternatives analysis, a variety of taxes such as utility, transient occupancy, motor vehicle fuel, business license, and documentary transfer taxes were reviewed. None of these options were considered viable as they would not generate adequate revenue, and all require a two-thirds vote. The single tax that generates adequate revenue is the sales tax.

A sales tax is one that is imposed upon every retailer in the County based upon that retailer's sale or lease of tangible personal property. As opposed to a general tax, in which proceeds are used for general governmental purposes and requires a majority (50% plus 1 vote), a sales and use tax is considered a special tax, which is used for a specific purpose. A special tax which is used for a specific purpose requires an election in which at least two-thirds of the qualified voting electorate approves the additional revenue.

Although there are a variety of issues including timing considerations involved in employing a sales tax revenue strategy, it appears to be the clearest, most direct and timely manner in which to secure the necessary funding for a long-term project of this nature.

The County is authorized to impose additional transactions and use (sales) taxes of up to 1.5%. Currently, 0.5% of this allotment is taken up by Measure D which is designated to maintain and improve city and county roads and certain State highways throughout Santa Barbara County. This leaves an additional 1% which could be implemented countywide within Santa Barbara County.

Current Use in Santa Barbara County:

The sales tax rate in Santa Barbara County is 7 ¾ %. The distribution of the taxes from sales in Santa Barbara County is as follows:

5%	Distributed to the State of California General Fund for State programs.
¼%	Distributed to the State of California Fiscal Recovery Fund.
½%	Distributed to the State of California and allocated to counties for health and welfare programs (realignment).
½%	Distributed to the State of California and allocated to local agencies for public safety programs (Proposition 172).
¾%	Distributed to cities or counties (unincorporated area) to support general operations.
¼%	Designated by statute for county transportation purposes and may be used only for road maintenance or the operation of transit systems.
_ _ _ _ _ _ _	
7 ¼%	State mandated sales tax rate.
½%	Designated to maintain and improve city and county roads and certain State highways throughout Santa Barbara County (Measure D).
_ _ _ _ _ _ _	
7 ¾%	Total sales tax rate in Santa Barbara County.
1%	Allowable for local uses if approved by voters.
_ _ _ _ _ _ _	
8 ¾%	State allowed maximum sales tax rate.

Funding Alternatives

Financing Scenarios

On November 7, 2005, the Debt Advisory Committee (DAC) reviewed various financing scenarios for both an 808-bed and 512-bed jail facility. The DAC discussed the advantages of an 808 bed facility and the minimal incremental savings of a 512-bed facility. In other words, not only does a 512-bed facility fail to meet the 30-year lifespan required of a large capital project of this nature, due to economies of scale, the 37% reduction in jail bed capacity (as opposed to an 808-bed design) would only reduce costs by approximately 17%. The Sheriff, Courts, and other criminal justice system partners have also agreed that a 512-bed is not a viable long term solution.

In reviewing the financing scenarios, the DAC directed staff to conduct further study and pursue GOs and sales tax strategies to provide the funds necessary to construct and operate a new jail.

The following tables and graphs illustrate the various financing scenarios and the degree of potential funding gaps, opportunities, shortfalls, and financial cliffs in each of the scenarios. The tables and graphs illustrate that the best alternative involves a ½% sales tax increase.

The following table illustrates the Pay-As-You-Go alternatives and the 3 scenarios endorsed by the DAC for further study. The table summarizes financing scenarios for the first full year of jail operations based on utilizing COPs and GOs for financing coupled with ¼% sales tax and ½% sales tax increase as revenue options for annual capital debt service and operational costs.

Summary of Financing Scenarios
First Full Year of Operations
($000)

Scenario	A	B	C	D
	Pay-As-You-Go	GO / 1/4% Sales Tax Ongoing / Pay- As-You-Go	1/4% Sales Tax 30 Yr Term / 1/4% Sales Tax Ongoing	1/2% Sales Tax Ongoing
Capital Component ($153 million financed over 30 years)				
Financing Type	COPs	GOs	COPs	COPs
Sources of Funds				
Property Taxes	$ -	$ 10,643	$ -	$ -
Uses of Funds				
Annual Debt Service	11,974	10,643	11,974	11,974
General Fund Impact	$ (11,974)	$ -	$ (11,974)	$ (11,974)
Operational Component ($19.2 million - year 1)				
Sources of Funds				
Sales Taxes	$ -	$ 15,427	$ 30,855	$ 30,855
Uses of Funds				
Expenditures	19,150	19,150	19,150	19,150
General Fund Impact	$ (19,150)	$ (3,723)	$ 11,705	$ 11,705
Summary of Impact on General Fund				
First Year Total General Fund Surplus (Shortfall)	**$ (31,124)**	**$ (3,723)**	**$ (269)**	**$ (269)**

Scenario A:
This scenario proposes utilizing COPs for financing with Pay-As-You-Go as the source of funds. The annual COP debt service payment over 30 years is estimated to be approximately $12 million. With annual operating expenses estimated at $19.2 million, this scenario would have a first year annual shortfall of $31.1 million.

Scenario B:
This scenario proposes utilizing GOs for financing using an ad valorem property tax and a ¼% sales tax into perpetuity as the sources of funds. The annual GO debt service payment over 30 years is estimated to be approximately $10.6 million per year with first year annual operating expenses estimated at $19.2 million. Using an estimated sales tax revenue of $15.4 million, this scenario would have a first year annual shortfall of $3.7 million.

Scenario C:
This scenario proposes utilizing COPs for financing using a ¼% sales tax for 30 years and a ¼% sales into perpetuity as the sources of funds. The annual COP debt service payment over 30 years is estimated to be approximately $12 million with first year annual operating expenses estimated at $19.2 million. Using an estimated sales tax revenue of $30.9 million, this scenario would have a first year annual shortfall of $269 thousand.

Scenario D:
This scenario proposes utilizing COPs for financing using a ½% sales tax into perpetuity as the source of funds. The annual COP debt service payment over 30 years is estimated to be approximately $12 million, with first year annual operating expenses estimated at $19.2 million. Using an estimated sales tax revenue of $30.9 million this scenario would also have a first year annual shortfall of $269 thousand.

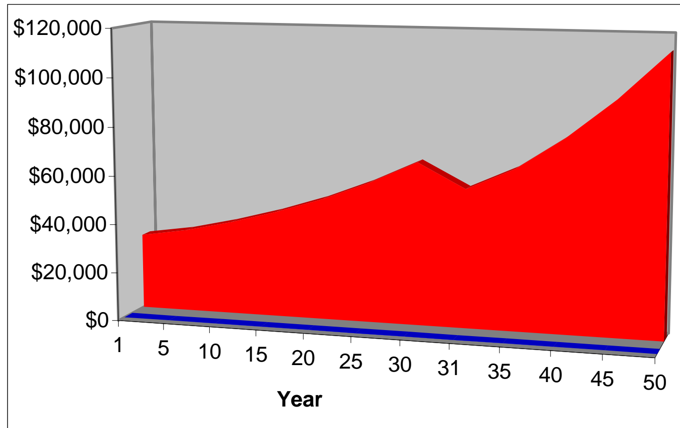
Scenario - 50 Year Trend Analysis Tables and Graphs:
The following tables and graphs trend the various financing scenarios estimated over a fifty year period. The graphs take the annual COP and GO debt service payments over 30 years and incorporate an estimated 3.7% increase on operational expenses each year. Sales tax revenues are estimated to increase at 2.7% per year[1]. These graphs are only estimates and used here as an aid to help identify large potential funding gaps, shortfalls, and financial cliffs.

[1] The UCSB Economic Forecast Project, 2005 Santa Barbara County Economic Outlook contains a 2.7% retails sales tax forecast percent change through 2009.

Funding Alternatives

Scenario A (Pay As You Go)

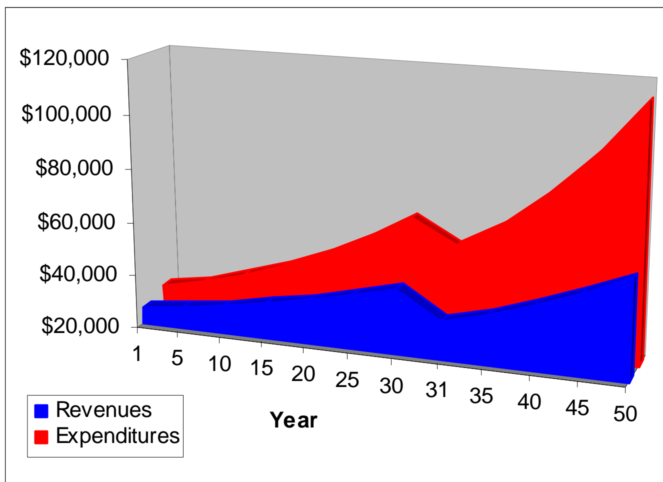
Yr	Expenditures ($000)	Revenues ($000)	Surplus/ (Shortfall)
1	$ 31,124	$ -	$ (31,124)
5	34,119	-	(34,119)
10	38,531	-	(38,531)
15	43,821	-	(43,821)
20	50,165	-	(50,165)
25	57,773	-	(57,773)
30	66,897	-	(66,897)
31	56,955	-	(56,955)
35	65,864	-	(65,864)
40	78,984	-	(78,984)
45	94,718	-	(94,718)
50	$ 113,587	$ -	$ (113,587)



Scenario A is estimated to develop into very large annual shortfalls from $31.1 million to $66.9 million in year thirty. Even after a decrease of expenses due to the debt service payoff in year thirty-one, operational expenses continue to rise in the scenario (3.7% annually), and by year thirty-five the annual shortfall is back up to $65.9 million with a maximum shortfall in year fifty of $113.6 million.

Scenario B (GOs, ¼% Sales Tax Ongoing and Pay As You Go)

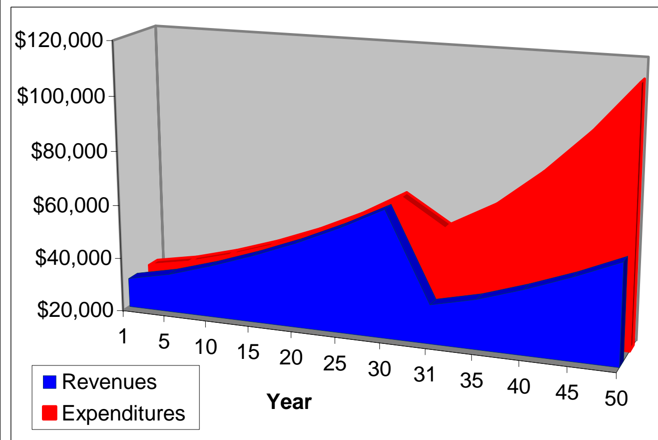
Yr	Expenditures ($000)	Revenues ($000)	Surplus/ (Shortfall)
1	$ 29,793	$ 26,070	$ (3,723)
5	32,789	27,805	(4,984)
10	37,200	30,251	(6,950)
15	42,491	33,044	(9,446)
20	48,835	36,236	(12,598)
25	56,443	39,883	(16,560)
30	65,566	44,049	(21,517)
31	56,955	34,308	(22,647)
35	65,864	38,166	(27,698)
40	78,984	43,604	(35,380)
45	94,718	49,817	(44,901)
50	$ 113,587	$ 56,916	$ (56,671)



Scenario B is estimated to begin with a relatively smaller shortfall of $3.7 million in year one (shortfall is -13% of expenditures), and develop into relatively large shortfall of $21.5 million in year thirty (shortfall is -33% of expenditures). Even after a decrease of expenses due to the debt service payoff in year thirty-one, with operational expenses continuing to rise in the scenario (3.7% annually); by year thirty-five the annual shortfall is back up to $27.7 million or -42% of expenditures with a maximum shortfall in year fifty of $56.7 million.

Scenario C (¼% Sales Tax 30 Years and ¼% Sales Tax Ongoing)

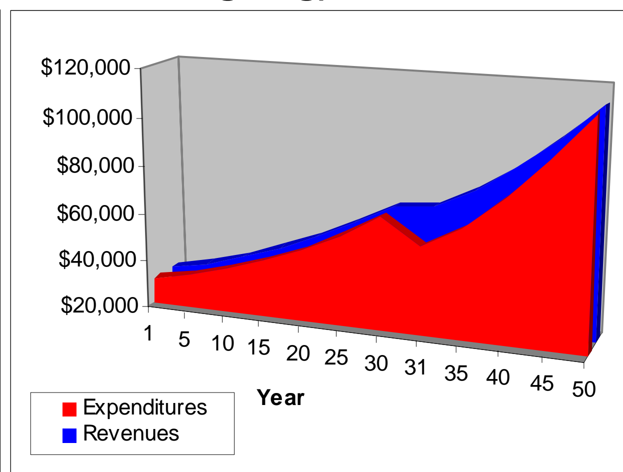
Yr	Expenditures ($000)	Revenues ($000)	Surplus/ (Shortfall)
1	$ 31,124	$ 30,855	$ (269)
5	34,119	34,325	205
10	38,531	39,216	685
15	43,821	44,803	982
20	50,165	51,188	1,022
25	57,773	58,481	708
30	66,897	66,814	(83)
31	56,955	34,309	(22,646)
35	65,864	38,167	(27,697)
40	78,984	43,606	(35,379)
45	94,718	49,819	(44,899)
50	$ 113,587	$ 56,918	$ (56,669)



Scenario C is estimated to begin with a relatively small shortfall of $269 thousand in year one (shortfall is -1% of expenditures), and maintain this relatively small shortfall of $83 thousand in year thirty. However in this scenario it is proposed that the ¼% Sales Tax would end after year thirty to match the debt service payoff; therefore in year thirty-one with operational expenses continuing to rise in the scenario (3.7% annually), the annual shortfall has shot up to $22.6 million or -42% of expenditures creating a financial cliff, maximized at $56.7 million in year fifty.

Scenario D (½% Sales Tax Ongoing)

Yr	Expenditures ($000)	Revenues ($000)	Surplus/ (Shortfall)
1	$ 31,124	$ 30,855	$ (269)
5	34,119	34,325	205
10	38,531	39,216	685
15	43,821	44,803	982
20	50,165	51,188	1,022
25	57,773	58,481	708
30	66,897	66,814	(83)
31	56,955	68,618	11,663
35	65,864	76,334	10,471
40	78,984	87,211	8,227
45	94,718	99,638	4,920
50	$ 113,587	$ 113,835	$ 249



Scenario D is also estimated to begin with a relatively small shortfall of $269 thousand in year one (shortfall is -1% of expenditures), which could easily be repaid with surpluses in future years. In this scenario it is proposed that the ½% Sales Tax would remain into perpetuity; therefore after a decrease of expenses due to debt service payoff in year thirty-one and sales tax revenue expenses continuing to rise in the scenario (2.7% annually), by year thirty-one the annual surplus is $11.7 million or 21% of expenditures. This surplus condition in the scenario

lasts for 15 years and could create the potential to do some capital maintenance and replacement at the existing Main Jail or for unanticipated expenses at the new jail. By year fifty the annual surplus is estimated to level off to $249 thousand; thus, this demonstrates that increasing sales tax by ½% seems to provide sufficient annual revenue for capital and operational costs for a new jail. Scenario D appears to be the most viable scenario.

Summary

The funding, financing and revenue alternatives that have been reviewed in this section are:

- Construction Grants – not available at this time.

- Pay-As-You-Go – not a financially sound alterative for the County as $31.2 million annually represents 18% of the $168.2 million in “discretionary” General (GF) Fund revenue in the 2005-06 Adopted Budget. Further, most of GF Revenue is mandated, only 9% ($15.1 million) is truly discretionary, which clearly is insufficient for the $31.2 million annual cost of the jail.

- Designation (Savings) Account – not the recommended strategy as it would significantly delay the implementation of a jail facility that is needed today and requires current taxpayers to shoulder the financial burden of an asset that would not be realized for decades.

- General Obligation Bonds plus ¼% sales tax – not the recommended strategy as GOs cannot cover any ongoing operation costs. Due to the $153 million estimated cost of an 808-bed facility, GOs would fall short by approximately $3.7 million and continue to increase, even including an additional ¼% sales tax into perpetuity.

- Certificates of Participation – cannot be used to cover the cost of ongoing operating expenses. In order to successfully use a COP, the County would need to generate new revenues for both financing and operational expenses.

- Sale of County Property - the sale of all vacant County property would only generate approximately $40 million in one time funds which would still be insufficient to fund the project and would take significant time to process.

- Oil Development - the potential for new oil development off our coast is speculative, and its potential revenue to the County would take too long to obtain to be seriously considered at this time as a part of funding the new jail.

- Sales Tax – requires a 2/3 vote of the electorate; would cover both the capital and operational costs. Based on the preceding analysis, it appears that the most viable and timely option is to pursue a ½% sales tax increase.

To enact a ½% sales tax, the Board would first have to adopt, by a two-thirds vote, an ordinance proposing the tax. Next, the tax measure would have to be put before the electorate.

The earliest the measure could be taken to the voters would be June 6, 2006; this would require that the ordinance with the exact wording of the Measure would need to be adopted by the Board by February 14, 2006 according to the Registrar of Voters June 6, 2006 Primary Election measure calendar.

The Board may want to consider the timing of the election, should the sales tax option be selected. The County Split proposition is slated for the June 6, 2006 election; continuation of Measure D has been discussed for the November 7, 2006 election, and there will not be another General Election (countywide) until June 2008. The cost of placing the measure on the 2007 consolidated district election (non-countywide) would be approximately $1.4 million.