



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: County Executive Office
Department No.: 012
For Agenda Of: June 13, 2016
Placement: Departmental
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Director(s)
Mona Miyasato, County Executive Officer
Contact Info: Tom Alvarez, Budget Director (568-3432)

SUBJECT: Fiscal Year 2016-17 Recommended Budget

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

It is recommended that the Board of Supervisors:

- a) Consider and amend the Fiscal Year 2016-2017 Recommended Budget, including CEO Recommended Budget Expansions and Restorations;
- b) Adopt the Resolution of the Board of Supervisors entitled Assisted Outpatient Treatment (Laura's Law, Attachment F-1) and approve the final budget adjustment (Attachment F-2); and
- c) Adopt the Resolution of the Board of Supervisors entitled Updated Funding Contribution Certificate (Attachment G-1) for the Northern Branch Jail and approve the final budget adjustment (Attachment G-2); and
- d) Approve all remaining final budget adjustments to, and approve, the Fiscal Year 2016-17 Recommended Budget; including Attachments A-1, A-2 and E and
- e) Delegate authority to the County Executive Officer to execute renewal of single-year grants and contracts ("ongoing grants and contracts") included in the Recommended Budget that had previously been approved by the Board, where contract amounts are up to 10% greater or less than previously contracted amounts; and
- f) Adopt the Resolution of the Board of Supervisors entitled In the Matter of Adopting the Budget for Fiscal Year 2016-17; and
- g) Determine pursuant to CEQA Guidelines §15378(b)(4) that the above fiscal activities are not a project subject to the California Environmental Quality Act.

Summary Text:

The Fiscal Year (FY) 2016-17 Recommended Operating Plan and Budget, that consists of The Recommended Operational Plan (Budget Book), CEO Recommended Adjustments (A-1), Final Budget Adjustments (A-2) and the Board Final Adjustment to the FY 2016-17 Recommended Budget (E) is hereby submitted to the Board of Supervisors. The information in this letter, attachments, and Hearing binder is provided to enable the Board to adopt a Fiscal Year 2016-17 operating plan and budget during the Budget Hearings. Budget Hearings are scheduled for June 13, 15 and June 17, 2016 and, if necessary, may be continued into the week of June 20-24, 2016.

The Recommended Budget is largely a status quo budget, with less than ½% increase in full-time equivalent (FTE) positions and a 3% increase in operating expenditures countywide (excluding the CEO Recommended Expansions A-1). Taking the recommended expansions into account, the budget reflects a 1% increase in FTE and 3.7% increase in operating expenditures countywide.

Discussion of individual department work initiatives and budgets for the coming year were reviewed with the Board in April. At the June Hearings, staff will provide an overview of the budget, respond to unanswered Board requests made at the workshops and provide updates to department budgets, if any, since the April workshops.

Background:

As we look to the upcoming 2016-17 Fiscal Year, the County's fiscal situation is projected to be positive, and continues to improve at a moderate pace. As federal, state and local revenues have strengthened, the past two budgets have allowed for our ability to restore some previous budget cuts and enabled the expansion of some services to address mandated or emerging needs. In this time period, the County fully funded its General Fund strategic reserve (or 30-day operating reserve) and developed plans to address long-term liabilities, such as paying down unfunded pension and retiree health liabilities over the next two decades, and annually increasing funding toward deferred maintenance needs.

All of this is good news, but caution is still required. In the past, the Board has made difficult choices and tradeoffs to ensure a balanced budget. After reducing 580 positions and cutting operations by approximately \$60 million during the Great Recession, financial and operational challenges continue. Maintaining fiscal stability and ensuring a balanced budget in the coming years requires continued prudence, realistic expectations and restraint.

This year's budget theme, "Challenges, Changes and Choices Ahead," reflects the need to maintain existing levels of service amid growing demands and high expectations. Given limited available revenues and the need to address existing liabilities and prior funding commitments, we face continued challenges. These prior commitments, which obligate future ongoing revenue, reduce our capacity for significant expansions of programs and services, or other expenditure increases, in the near term. These challenges will require a continued commitment to responsible choices to deliver the level and quality of programs and services desired by the residents of Santa Barbara County. Next year also signifies important changes in the County, with newly elected and appointed leadership, in addition to expected employee retirements.

Yet even with these challenges, your County government continues to strive to provide high quality work, advancing major initiatives and fulfilling priorities to serve Santa Barbara County residents. Significant services are provided day in and day out by County departments and all have made substantial progress to accomplish goals set by the Board to better serve our communities. These achievements are listed in their budget narratives.

All Funds Budget at a Glance

The CEO Recommended Budget for Fiscal Year (FY) 2016-17 presents a balanced budget, with FY 2016-17 Operating Expenditures of \$1,008.1 million and Operating Revenues of \$1,018.5 million resulting in an operating surplus of \$10 million. This is the third year since FY 2009-10 that overall Recommended Operating Revenues exceed Recommended Operating Expenditures and points to an improving financial position. Balance was achieved through improving revenues, up \$46.9 million (4.8%) combined with controlled expenditure growth of \$28.9 million (3.0%).

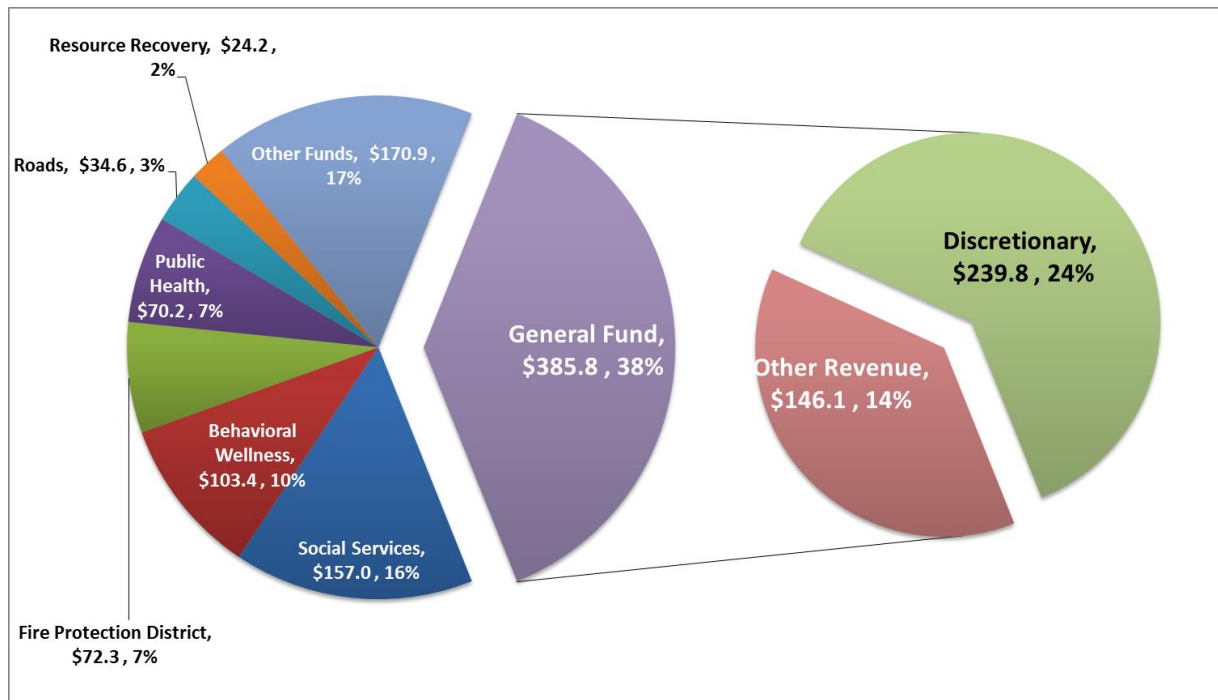
Staffing levels in the Recommended FY 2016-17 Operating Plan are 4,350.0 Full Time Equivalent (FTE) positions. This is an increase of 9.1 FTE compared with 4,340.9 FTE in the FY 2015-16 Adopted Budget. The increase in recommended FTEs is primarily due to increases in state and federal funding in Health and Human Services Departments. These totals exclude positions included in the CEO's recommended expansions.

FY 2016-18 Recommended and Proposed Budgets at a Glance
 (\$'s in millions)

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
	Actual	Adopted	Recommended	Proposed
Total Operating Revenues	924.9	971.6	1,018.5	1,049.3
Total Operating Expenditures	882.9	979.2	\$ 1,008.1	1,035.2
Net Operating Impact*	\$ 42.0	\$ (7.6)	\$ 10.4	\$ 14.1
Staffing FTE's	4,141.4	4,340.9	4,350.0	4,348.0

*Net Operating Impact is funded by Other Financing Sources or use of Fund Balances

The All Funds (county-wide) Recommended Operating Revenues (\$1,018.5 million) can also be viewed by major fund, as seen in the chart below. The General Fund is further broken down into Discretionary General Funds and other Revenues.



General Fund Budget

The CEO Recommended General Fund Budget for FY 2016-17 continues to display improvement, with Operating Expenditures of \$344.8 million and Operating Revenues of \$385.8 million. Operating Revenues increased \$12.4 million or 3.3% from \$373.5 million in FY 2015-16, while Operating Expenditures increased \$8.4 million or 2.5% from \$336.4 million in FY 2014-15. The remaining amount or the Net Operating Impact of \$41.0 million is primarily used to provide General Funds to Special Revenue Funds in the amount of \$29.9 million and increase fund balances in areas such as the Northern Branch Jail Operations Fund.

Staffing levels in the Recommended FY 2016-17 General Fund Budget are 1,871.7 Full Time Equivalent (FTE) positions. This is an increase of 1.7 FTE compared with 1,870.0 FTE in the FY 2015-16 Adopted Budget.

FY 2016-17 Recommended and Proposed General Fund at a Glance
 (in millions)

	FY 2014-15 Actual	FY 2015-16 Adopted	FY 2016-17 Recommended	FY 2017-18 Proposed
Total Operating Revenues	370.1	373.5	385.8	395.8
Total Operating Expenditures	319.0	336.4	\$ 344.8	353.2
Net Operating Impact*	\$ 51.1	\$ 37.1	\$ 41.0	\$ 42.6
Staffing FTE's	1,825.0	1,870.0	1,871.7	1,871.7

*Net Operating Impact is funded by Other Financing Sources or use of Fund Balances

Service Level Reductions

If anticipated funding is not sufficient to cover expenditures, the department will propose Service Level Reductions to balance the department’s budget in accordance with the adopted Budget Development policies. Service Level Reductions are proposed in the budgets for the Sheriff, Child Support Services, Behavioral Wellness, and Public Works departments. A \$257,000 Service Level Reduction was also proposed in County Counsel, related to a vacant Senior Deputy County Counsel position, but given discussion at the Budget Workshops and the need for the immediate hire, the CEO directed the early restoration of the position. Both the position and funding were added to the FY 2016-17 Recommended Budget. The remaining reductions are listed in the table below; **however, the CEO’s recommended expansions mitigate all of these Service Level Reductions, except for the loss of State gas tax in Public Works, which will be partially backfilled (\$1.25 million).**

Service Level Reduction Summary			
Department	Amount	FTE	Description
Behavioral Wellness	\$ 2,800,000	0.00	Reduction of contracted out of county services (\$2,500,000): Short term acute bed usage from 11 beds/day to 3 beds/day and Reduction of contracted out of county services (\$300,000): Long term IMD bed usage from 43 beds/day to 38.3 beds/day
Child Support Services	146,000	1.70	Case Management and Collections Program: Child support officers retirements
Public Works	2,500,000	0.00	Reductions in Road Maintenance Annual Plan of \$3,000,000 resulting in the reduction of approximately 23 lane miles of pavement preservation that will be deferred
Public Works	800,000	3.00	Road Operations - Reduction of 3 vacant maintenance workers, reductions of Services & Supplies, and reductions in Capital Equipment
Sheriff	951,898	6.00	Close the Santa Maria Branch Jail for all Custodial and booking activities. All staff are shifted to the Main Jail and 6 Custody Deputy positions are zero-funded
Total \$ 7,197,898 10.70			

Key Issues in FY 2016-17 and Near Term:

While this Recommended Operating Plan is largely a status quo budget, several key factors have influenced our operations next year.

- State funding to the County for roads continues to decline. As was the case last year, the State provided \$2.7 million less to the County for roads. This reduction in State funding has put pressure on the General Fund to contribute towards maintaining our roads. If no relief is provided by the State, this is an unsustainable situation for local roads, faced by all local governments in California.
- We continue to experience a higher demand for inpatient mental health services than in the recent past. The addition of new crisis services and safe and stable housing beds appear to be helping reduce this pressure.

- As County services have expanded in the last few years, largely due to state and federal programs such as the Affordable Care Act, there has been a greater demand on internal service departments, particularly Human Resources.
- A recent increase in violent crime in North County has affected our public safety and justice departments. According to the District Attorney's office, the caseload for serious and violent crimes in North County (defined as murder, non-negligent manslaughter, rape, robbery, and aggravated assault) increased 42% between calendar years 2012 and 2015.
- We also continue to face increased employee-related costs, such as a higher health care and general liability costs. Pension costs have stabilized for now but could be increased in FY 17-18 pending the performance of the pension portfolio and decisions by the Retirement Board in the fall. Contracts for our largest labor groups terminate throughout fiscal year 2016, and negotiations for these successor agreements are now in process. This is a significant factor that is unknown at this time.
- Departments are experiencing retirements of experienced employees, necessitating the need for increased efforts in workforce (succession) planning, retention and recruitment.
- Recent events have also put a spotlight on employee security and safety; as a result, since January 2016, an interdepartmental working group has been meeting to develop short, medium and longer-term recommendations. Facility improvements in public areas have been requested and General Services has been coordinating those evaluations.
- During the Recession, few new capital projects funded by the General Fund were possible. Prior to the recession, the General Fund contributed \$0.5 million annually for various capital projects, and several larger projects employed debt financing. The County stopped allocating funding for new capital projects and shifted these funds for maintenance needs. With a growing list of capital needs, work has resumed to identify high priority projects and the funding to begin addressing them adequately.

To address some of these issues, the CEO is recommending enhancing services in select areas using available, discretionary General Fund revenue (see Attachment A-1, CEO Recommended Budget Expansions). Departments are also reallocating resources within their operations to address these and other emerging needs. Unfortunately, the County's capacity for significant expansions of programs, services, staff or other increases is limited in the near term given our projected revenue growth and prior funding commitments.

Continued Commitments to Board Priorities:

The FY 2016-17 Recommended Budget continues prior funding commitments.

- The County has significant deferred maintenance needs. In recognition of our aging infrastructure and facilities, the Board approved and began a funding plan in FY 2015-16 to allocate additional resources for maintenance and infrastructure needs. As a result, \$2.5 million in additional funding is being added in FY 2016-17 with an estimated \$100 million accumulated over 10 years. The

County's maintenance need for roads, buildings, and park structures continue to be a significant challenge, and staff continues to effectively prioritize the use of these funds.

- For several years, the County has proceeded in developing the Northern Branch Jail (NBJ), a 376-bed new jail outside of Santa Maria. While the State is providing most of the construction funding, the operations are expected to cost about \$18 million annually beginning in FY 2019-20 (the first full year of operation) funded by the General Fund. The County's funding plan guides setting aside increasing amounts of General Fund revenues each year to cover the operating costs. The Recommended Budget includes \$7.6 million for the eventual operations, per the funding plan. In April 2016, construction bids for the project were received and exceeded staff's estimates by about \$14.7 million. On May 23, 2016, the Board directed staff to include a transfer of \$12.2 million (of the \$14.0 million current balance) from the NBJ Operations Fund to the NBJ Construction Fund. Adequate funds are projected to be available based on the reduced operating costs due to the delay in opening the new jail.
- The Board had also committed an ongoing shift of property tax revenue to the Fire District to ensure adequate funding for staffing, equipment and facilities. One quarter percent of property tax growth that would have otherwise been allocated to the General Fund is shifted to the Fire District until the District's allocation reaches a 17% share of property taxes (from 14.3% in FY 2012-13). This shift continues, resulting in an additional \$6.5 million in revenue to the Fire District in FY 16-17, increasing Fire's allocation to 16.05% share of the property taxes.
- Employee agreements are being satisfied. The Recommended Budget for FY 2016-17 includes increases for employee salary and benefits, pursuant to negotiated labor agreements approved to date and expected costs.

Updates to be Addressed at the Hearings:

Department Updates: Departments will address issues raised at the budget workshops or updates since the workshops. These include:

Northern Branch Jail - On May 23, 2016, the Board directed staff to return in the June Budget Adoption Hearings with a comprehensive budget proposal for funding as outlined in Funding Option 3 at the May 23rd Hearing. The Attachment G-2 transfers \$14.7 million of funds (due to construction bids exceeding estimates) into the NBJ Construction fund, from: NBJ Operations Fund (\$12.2 million), SB 1022 (\$2.0 million) and AB 900 Contingency (\$500,000). Additionally, the Board deferred the Sheriff's presentation on transitional jail staffing costs for the NBJ from the April Budget Workshops. These will be discussed and reviewed at the Hearings, and include \$1.3 million to hire 15 Custody Deputies in October 2016, added via a CEO Recommended Expansion.

Property Tax update from the Assessor, including pipeline closure impacts.

- Addition of an Assisted Outpatient Treatment Services pilot program in FY 2016-17 within the Department of Behavioral Wellness.
- District Attorney – \$300,000 added, via CEO Recommended Expansion, to the FY 2016-17 budget to support prosecution efforts of the MS-13 gang murder case in North County.

- Treasurer Tax Collector-Public Administrator – additional Veteran’s assistance request \$159,800; 2.0 FTE Veterans Services Officers.
- Non-departmental requests – additional requests from Women’s Commission \$8,300 to enhance their outreach; 211 system to backfill for reduced revenue from cities, additional \$50,000.

State & Federal Budget Updates:

The Governor’s May Revise for FY 2016-17 projects growth of \$4.6 billion in revenue over FY 2015-16 with revenues at \$123 billion and expenditures at \$122 billion. The \$4.6 billion revenue growth is actually \$1.9 billion less than was anticipated in the original January Budget Proposal. If tax revenue continues to decline, there could be ramifications for Prop 172, Realignment, and MHSA revenues, amongst others, to the County. The State budget will not be adopted until June 15, 2016; any changes that impact the County’s FY 2016-17 budget will be reviewed and brought to the Board for action as appropriate.

Key highlights of the State May Revise for the County are:

- \$3.2 billion in state and federal funding and award authority for various affordable housing. The County should receive some of these funds, through Emergency Solutions Grants (ESG) within the Housing and Community Development Division of the Community Services Department; however, the amount is not yet known.
- Housing of the chronically mentally ill, through “No Place Like Home” legislation, will divert MHSA funding to finance up to \$2.0 billion worth of bonds for counties to build and retrofit supportive housing for mentally ill and chronically homeless. Potential \$1.4 million redirected from Santa Barbara County annually to a competitive grant program to build housing for the “chronically homeless.” While all counties will contribute funds, only some will compete successfully for the housing grant.
- \$30.0 million increase for disaster assistance, including tree mortality and \$11.0 million to Cal Fire for tree removal and disposal. The County has experienced a large number of dying trees and will seek out grants.
- \$36.0 billion over 10 years (or \$3.6 billion per year) for transportation infrastructure, which could provide an estimated \$6.2 million to the County if the proposal is accepted by the Legislature.
- \$39.4 million as a result of Proposition 47, an increase of \$10.1 million from January, with ongoing funding expected to be about \$62.6 million. The County will seek out grants through the program

Federal Payments in Lieu of Taxes (PILT) are provided for Federal lands within the County that do not generate property taxes. These will be funded at the FY 2014-15 level for FY 2015-16. The County received approximately \$1.8 million in PILT payments in FY 2014-15, and it is expected that 90% of Santa Barbara’s normal allocation (about \$1.6 million) will be paid by June 30, 2016. These funds will be available by the end of FY 2015-16 and will be appropriated as one-time funds in the FY 2016-17 Recommended Budget. Future allocations are subject to appropriation and the County will continue to advocate for full funding.

CEO Recommended Budget Expansions and Restorations

After the departmental General Fund Allocations were made, unassigned discretionary General Fund “ongoing” and “one-time revenues” remained. These funds are available for appropriation in the FY 2016-17 Plan.

The CEO considers the following criteria for evaluating expansion requests: new or existing mandates or requirements; Board established priorities and policies; significant financial, legal, health or safety risk or liability; well documented need based on past studies or data; or self-funded or cost-covering initiatives. As stated earlier, to minimize impacts to the public, expansions are also recommended to mitigate service level reductions.

The CEO recommendations are based on these criteria and evaluation of the departments’ requests for restoration or expansion, Board discussion at the April workshops, consideration of overall Board priorities, County-adopted goals, and organizational needs. These recommendations are submitted with the Recommended Operating Plan for the Board’s consideration, amendment and adoption. The recommended expansions and restorations of proposed service level impacts are as follows:

- \$4,363,371 from ongoing unassigned General Funds
- \$4,946,454 from one-time unassigned General Funds
- \$2,682,422 from other sources (primarily federal, state, Jail Operations Fund, and Fire Protection District funding)

The above CEO Recommended Expansions and Restorations are included in **Attachment A-1**.

Subsequent to the printing of the Operating Plan, additional PILT revenues of \$1.6 million were added to the 2015-16 budget for one-time allocation in FY 2016-17.

After the above allocations and adjustments, there remains an estimated \$731 thousand of ongoing unassigned General Fund and \$264 thousand of one-time, unassigned General Fund for your Board’s consideration and allocation. The subsequent adjustments discussed above and available fund balance accounts will be reviewed during the Budget Hearings in the review of Key Fund Balance accounts.

Final Budget Adjustments:

As is the case each year, events have occurred since the Recommended Budget was prepared which prompt staff to recommend adjustments to various appropriations and revenues. The recommended adjustments are listed here and detailed in **Attachment A-2**:

- Appropriations included in the Fiscal Year 2015-16 budget that were not spent but are planned to be spent in FY 2016-17. These planned expenditures were moved to a fund balance account via a Budget Revision during Fiscal Year 2015-16
- Other recommended changes that adjust General Fund and non-General Fund budgets.

Ongoing Grants and Contracts:

The County has numerous ongoing grants and contracts that are renewed each year with the funding and expenditures approved by the Board during the annual budget hearings. The execution then becomes ministerial and has been delegated to the County Executive Officer, who verifies their inclusion in the Adopted Budget and signs the contracts for the County, thus reducing the number of administrative agenda items that come before the Board during the year.

The Board has customarily delegated this authority to include grants and contracts where amounts are up to 10% more or less than indicated amounts.

This process is only for single year contracts, not multi-year agreements. To qualify for this process:

1. All contract terms and conditions, including contract scope of work, must remain unchanged from the prior contract, and
2. The value of the contract cannot change by more than 10% of the prior year

Ongoing contracts or grants in amounts that exceed 10% must be individually presented to the Board for approval. *If rates or units of service change, the contract may qualify for the on-going contracts process if these changes are clearly disclosed on the ongoing contract list.*

The list of on-going grants and contracts, by department, is included in the Attachments with a recommendation that the Board approve, as a group, their renewal for FY 2016-17.

The grants to be included in this year's budget hearings are identified in **Attachment B**. The contracts to be included in this year's budget hearings are identified in **Attachment C**. The contract list could include *part-year* contracts that would have been for the same amount as the prior year if the request had been to renew them for a *full year*. For example, a contractor was paid \$100,000 for a full year's work last year but the proposed contract is for \$50,000 for 6 months work in Fiscal Year 2016-17.

Budget Resolution:

The Resolution of the Board of Supervisors follows as **Attachment D**. Note the resolution allows the County Executive Officer, under limited circumstances, to approve changes to appropriations for previously approved equipment purchases.

Assisted Outpatient Treatment Services Resolution and Budget Adjustment

On May 10, 2016, the Board of Supervisors directed the County Executive Officer to prepare recommended actions for consideration at the FY 2016-17 Budget Hearings through which the Board can consider the statutory findings, and consider a comprehensive budget proposal (including the use of \$121,000 previously allocated), authorizing the application for Assisted Outpatient Treatment Services (also known as Laura's Law) for an initial 3 year period, subject to annual appropriations and targeted to serve about 10 adults annually with a start date of approximately November 1, 2016. Attachment F-1 is a Resolution presenting statutory findings for consideration, and Attachment F-2 is the budget adjustment transferring \$606,888 in one-time General Funds to Behavioral Wellness for implementation of the pilot program. Total budget appropriations for the project in FY 2016-17 will be \$755,496, funded by \$606,888 General Funds and \$148,608 of Medi-Cal revenue.

Northern Branch Jail Resolution and Budget Adjustment

On May 23, 2016, the Board directed staff to return in the June Budget Adoption Hearings with a comprehensive budget proposal for funding as outlined in Funding Option 3 at the May 23rd Hearing. This option transfers \$14.7 million of funds (due to construction bids exceeding the project budget) into the NBJ Construction fund, from: NBJ Operations Fund (\$12.2 million), SB 1022 unspent fund balance (\$2.0 million) and AB 900 Contingency fund balance (\$0.5 million). The State of California, as part of the terms of the AB 900 Phase III conditional award, requires that the County provide certification that additional funds have been set aside to cover the construction bid overages. Attachment G-1 is a Resolution attesting to the fact that additional funds of \$14.7 million have been set aside for this purpose, and Attachment G-2 is the budget adjustment transferring the \$14.7 million into the NBJ Construction Fund.

County Budget Act:

Among its requirements, the “County Budget Act” at California Government Code § 29000 et seq. requires that each year the Board of Supervisors must adopt a balanced budget, where funding sources equal uses.

Fiscal Impacts:

Approval of these recommendations adopts the Fiscal Year 2016-17 Recommended Budget (with any modifications determined by the Board) and authorizes the County Executive Officer and/or the County Auditor-Controller to take necessary related fiscal action.

Attachments:

- A-1 – CEO Recommended Budget Adjustments
- A-2 – Final Budget Adjustments
- A-3 – Department Expansion Requests - Deferred to Hearings
- B – Ongoing Grants
- C – Ongoing Contracts
- D – Budget Resolution of the Board of Supervisors
- E – Board Approved Budget Expansions (pending Board Deliberations)
- F-1 – Assisted Outpatient Treatment Services (Laura’s Law) Resolution
- F-2 – Assisted Outpatient Treatment Services (Laura’s Law) Budget Adjustment
- G-1 – Northern Branch Jail Updated Funding Contribution Certificate Resolution
- G-2 – Northern Branch Jail Budget Adjustment

Authored by:

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Cc:

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