BOARD OF SUPERVISORS AGENDA LETTER

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

Agenda Number:

Department Name:	County Executive Office
Department No.:	012
For Agenda Of:	December 8, 2020
Placement:	Departmental
Estimated Time:	30 minutes
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:	Jeff Frapwell, Assistant County Executive Officer
SUBJECT:	**FY 2021-22 Budget Development Policies**	

County Counsel Concurrence
As to form: N/A

Auditor-Controller Concurrence
As to form: N/A

Other Concurrence: N/A

Recommended Actions:

That the Board of Supervisors:

a) Adopt the Fiscal Year 2021-22 Budget Development Policies (Attachment A);

b) Approve proposed modification to Northern Branch Jail funding plan;

c) Provide staff with any preliminary direction on Board priorities for FY 2021-22, as appropriate; and

d) Determine pursuant to CEQA Guidelines §15378 that the above activity is not a project under the California Environmental Quality Act.

Summary

The Five-Year Forecast and Significant Fiscal Issues report was presented to the Board on November 17, 2020, to set the context for budget development. Budget Development Policies represent the next stage of FY 2021-22 budget preparation, as they serve as guiding principles for development of the upcoming year’s recommended budget, which will be presented to the Board preliminarily during April budget workshops and for final adoption during June budget hearings. The FY 2021-22 policies proposed herein are similar to those adopted last year, with several additions to further guide and focus budget development. New additions are explained in this letter, and the policies are presented in full in Attachment A (new additions are presented in bold italicized text).

Policy Updates

Four new components have been added to the policies for Board consideration.

Policy 3.d) Ensure appropriate maximum reimbursement of federal and State programs and user fees that fully offset service costs as allowed by law. **In the event the Board of Supervisors adopts fees that, in the public interest, are lower than needed to fully offset service costs, the CEO will work with the impacted Department to identify funding to cover the remaining costs, including increased General Fund Contribution.** (Added language shown in bold)

Departments regularly update the fees they charge for services provided to the public, which are presented to, and approved by, the Board of Supervisors. From time to time, the Board may take an action to reduce or eliminate a proposed fee while still requiring the Department to perform the service, such that full cost recovery is not achieved by the fee alone. Typically, the Board takes these actions when it finds that the fee would be prohibitively expensive for much of the public, while the service is vital to the public interest. Examples include certain inspections or maintenance performed by Planning & Development and Environmental Health Services. The addition of this language in Policy 3.d) recognizes that in these cases, the Department will need revenue from another source, likely the General Fund, to subsidize the cost of the service not being fully offset by the established fee, and authorizes the CEO to build solutions into the Recommended Budget.

Policy 4.d) The CEO will work with the Fire and Sheriff's Departments to develop a maintenance funding plan for the Air Support Unit to ensure there is funding available for regularly scheduled maintenance of aircraft as well as a prudent reserve for unexpected expenses.

The Air Support Unit is a joint unit shared between the Fire and Sheriff's Departments, consisting of one fixed-wing aircraft and six helicopters, including the new Firehawk helicopter scheduled to enter service in the current fiscal year. These aircraft have strict maintenance schedules based on flight hours, which fluctuate from year-to-year, as well as occasional unanticipated expenses that can be hundreds of thousands of dollars. Fire and Sheriff split maintenance costs 50-50, with Sheriff's costs paid for with General Fund Contribution (GFC). Issues arise when unanticipated repairs are needed, or a more major maintenance interval is due on an aircraft, and the Sheriff has no available funds with which to pay their share. This policy would direct the CEO to work with the departments to develop a multi-year funding plan, with a stable annual contribution, that will cover regular maintenance as well as build up prudent reserves for more expensive, but less frequent, maintenance work, as well as unexpected repairs. It may require some additional GFC to the Sheriff's Department, as well as increased annual payment from the Fire District, but will lead to a stable source of funds for aircraft maintenance. If additional GFC is needed, it will be included in the FY 2021-22 Recommended Budget presented to your Board prior to adoption.

Policy 4.e) A minimum of $1.5 million will be set aside annually to build a balance to help offset the eventual purchase, implementation, and licensing costs of an Enterprise Resource Planning System.

The County is currently conducting a Business Applications Needs Assessment (BANA) to determine the business application needs of departments to conduct their optimum business operations. Business applications include all software systems that are currently used by or needed by departments to conduct accounting, budgeting, human capital management, etc., and may include general ledger, payroll, capital project management, purchasing, accounts payable, accounts receivable, and other functions. The outcome of the assessment will be a recommended set of actions and requirements to seek a new systems solution, potentially an Enterprise Resource Planning system. In addition to costs associated with purchase of a new solution, there will also be consultant costs related to implementation of the project's recommendations, as well as ongoing licensing costs. The addition of this policy will begin setting aside funds to both offset the one-time costs of purchase and implementation, as well as ensure funds are available, if needed, for ongoing licensing costs.

Policy 5.c) The CEO will work in consultation with Departments that receive 1991 and 2011 Realignment funding from the State to recommend allocations annually. Where feasible, the CEO will place 1991 Realignment revenues received in excess of the fiscal year's budgeted allocations within restricted fund balances in General County Programs. In years where actual revenue comes in below budgeted amounts, draws from these restricted fund balances will be made to make up the difference in eligible Departments.

Beginning in 1991, the State of California shifted the fiscal and programmatic responsibility of several health and social services programs from the State to counties. In 2011, the State shifted additional social services and mental health programs to counties along with the responsibility to provide certain public safety services. With the realignment of these various State services, counties were provided a portion of the State's sales tax and vehicle license fee revenue. While there are prescribed uses for these funds, the legislation, particularly 1991 Realignment, allows for some local flexibility in usage at the County level.

Currently, the allocation among departments of both budgeted and unanticipated Realignment funds has been mostly managed by the Departments, in conjunction with the Auditor-Controller. This has led to a somewhat varied approach to both Realignment budget projections across the Departments, as well as year-end revenue accruals. Furthermore, departments have been depositing Realignment revenues received above that needed to cover expenditures into their own department fund balance. This process reduces transparency into available Realignment fund balance for the various Realignment funds. Recognizing this, and to promote consistency across the County, the proposed policy would have the CEO work closer with Departments and the Auditor's Office to develop projected revenues for the next fiscal year. It would also authorize the CEO, in consultation with Departments, to determine which 1991 Realignment fund balances would be more appropriately held under General County Programs, rather than a single Department. Those balances would then be released to fill budget gaps in eligible programs if needed, and any funds received in excess of eligible expenditures would be added to the fund balance.

General Fund Allocation Policy

As in previous years, allocations from the General Fund to Departments will be distributed according to Board policy direction, historical spending, and federal and State mandates, consistent with the General Fund Contribution Policy found in Attachment A. The CEO will review Department budget submittals and, based on available funding, may recommend GFC allocations above the formulaic increase annual increase to address significant issues or structural imbalances within specific departments.

Northern Branch Jail funding plan revision

The Northern Branch Jail (NBJ) funding plan was developed and approved by the Board in FY 2011-12, to begin setting aside a gradually increasing amount of GFC over time, in order to eventually have an amount of GFC available to fund the operating costs of the NBJ. Due to a variety of changes over the past decade, including unanticipated pension increases, a higher level of contracted medical service, and other factors, the current projected operating costs in FY 2022-23 are just over $22 million, compared with the $19.7 million in the original FY 2011-12 funding plan. Assuming no changes in the overall cost of the County jail system, the funding set aside for the NBJ in FY 2021-22 will need to be $17.4 million, $300k higher than anticipated in the original plan. It's possible that changes currently being considered in the County's criminal justice system could reduce the total costs of the Custody system in the years ahead, and future modifications to the funding plan may not be necessary. The funding plan, and annual operating costs, will be monitored closely and brought to the Board as part of the Budget Development Policies each year if further modifications are necessary.

While there were slight adjustments in the early years, the annual funding increases have remained unchanged since FY 2013-14. The intent of a gradual increase over time was to avoid an overly burdensome obligation on the General Fund in any single year. Because a fund balance would grow over time, and be available to draw on for eligible operating expenses, the plan was not designed to achieve parity between revenues and expenses in the year the NBJ opened (anticipated to by FY 2017-18 in the original funding plan). Instead, increases to funding would extend for some years beyond opening, to allow the accumulated fund balance to be drawn down, while again lessening the impact of necessary increases in any single given year. The year parity was projected to be reached in the initial funding plan was FY 2022-23, with an anticipated operating cost of $19.7 million.

Over the decade since this plan was established, the County has held steadfast to the plan by continuing to gradually set aside revenues to cover the planned operating costs. Cumulatively, it has meant less discretionary General Fund revenue to satisfy other priority items of the Board or departments. The fund balance that accumulated is being drawn down to cover the costs of staff that have been hired to train and prepare to take over operations of the NBJ, now anticipated to open in the current fiscal year. Because of delays in the original construction schedule, and therefore delays in incurring operating costs, there was sufficient fund balance available to use towards unanticipated construction costs, both the higher-than-expected initial bids in FY 2016-17, as well as additional contingency costs in FYs 2018-19 and 2019-20, without which there may have been significant impacts on other fund balances in the General Fund.

In order to ensure that fund balance remains available to cover costs as drawdowns continue to occur, the funding plan needs to be modified in FY 2021-22 to set aside $17.4 million instead of $17.1 million. As mentioned above, the CEO's Office will monitor the plan and bring updates each year with the Budget Development Policies. In the year parity is achieved, the ongoing set-aside will be shifted to the Sheriff and General Services as GFC, and from that point on they will need to manage operations within their budget, as with any other program, and the funding plan will cease.

Fiscal Issues Identified for Funding

Below are certain fiscal issues presented in the November 17th Five-Year Forecast as well as funding requests presented at the December 1st update to the Board on criminal justice system changes, along with staff's recommended strategies for addressing them. Other fiscal issues presented in the Forecast will continue to be monitored, and funding will be sought to address them if they materialize.

	Fiscal Issue	Potential Impact	Recommended Action
1	Deferred Maintenance	$377.1M	18% funds & available 1x funds

2	Facility Improvements and Office Space Reconfigurations	TBD	Consider annual set-aside and 1x funds according to need
3	Enterprise Resource Planning System	10M+	Begin minimum annual $1.5M set-aside (policy 4.e)
4	Cybersecurity	1.5-2.0M	Allocate available funding according to needs
5.	Criminal Justice IT needs for data, discovery and storage	1.4 M	Provide options at Workshops for funding either with available funds or through redirection of existing resources
6.	Expand Pre-trial Services Program	1.1 M	Provide options at Workshops for funding either with available funds or through redirection of existing resources
7.	Criminal Justice Diversion and Education	1.2 M	Provide options at Workshops for funding either with available funds or through redirection of existing resources

Preliminary direction on Board priorities for FY 2021-22

The Five Year Forecast projected a slight deficit in the General Fund in the coming year under the baseline scenario and challenges for many of the special revenue funds. As with every year, we will not fully know revenue and expenditure impacts until we work on specifics with departments and refine estimates. Knowing that available ongoing funding may be limited, we will likely have available cannabis revenue to allocate. As we embark upon budget formation for FY 2021-22, the Board at this time may wish to provide priorities for us to keep in mind as we work with departments on developing the budget.

Attachments

Attachment A: FY 2021-22 Budget Development Policies & General Fund Allocation Policy

Authored by:

Paul Clementi, Principal Analyst