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 10, 2019
Placement:	Departmental
Estimated Time:	
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, Budget Director
SUBJECT:	**FY 2020-21 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 2020-21 Budget Development Policies (Attachment A);

b) Provide staff with any preliminary direction on Board priorities for FY 2020-21, as appropriate; and

c) 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 19, 2019, to set the context for budget development. Budget Development Policies represent the next stage of FY 2020-21 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 2020-21 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). In addition, fiscal issues that may be candidates for one-time funding in FY 2020-21 are included in this letter to be considered for potential Board direction as we approach the starting point of building a recommended budget. The Board may also provide any specific direction as to priorities for consideration as we build the recommended budget.

Policies

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

<u>Policy 1. e)</u> Specific self-funded programs shall be moved out of the General Fund and into their own Special Revenue Funds, for greater accountability and transparency. These are the Recorder program in the Clerk-Recorder-Assessor Department; Environmental Health Services in the Public Health Department; and all of Planning & Development, with the exception of the Long Range Planning division.

There are certain programs within Departments in the General Fund that operate almost entirely with fee-driven revenue. These include the Recorder program in the Clerk-Recorder-Assessor Department, Environmental Health Services in the Public Health Department, and nearly all services in the Planning & Development Department (excluding Long Range Planning). It is more appropriate for these functions to be established in special revenue funds, rather than the General Fund, for several reasons. First, it will result in greater clarity and transparency for both budgeting and accounting, allowing for clearer tracking of fees and financial reporting for each of the special revenue funds. Next, it will further ensure the appropriate segregation of funds when they are collected, since revenues generated from fees typically have to be applied to specific purposes. Finally, it will allow better consistency with the Board's policy intent of full cost recovery, when feasible, as it will be more readily apparent whether revenues are adequate to cover expenses when the programs are segregated in their own fund.

<u>Policy 3. g)</u> To the extent feasible, eliminate the practice of Central Service Departments (CEO, Human Resources, County Counsel, Auditor-Controller, and General Services) directly charging Special Revenue Funds for services provided, and instead incorporate these expenses into the Cost Allocation Plan. The CEO's Office will recommend an allocation of General Fund Contribution to offset the lost direct charge revenue in the Central Service Departments.

The County is a Cost Plan (CAP) County which means that the costs of our central service departments must be allocated through a Countywide Cost Allocation Plan (CAP), under the State Controller's Office approved allocation bases, in order to be eligible for reimbursement from a Federal or State source. Any costs that are charged "directly" during a fiscal year from one of the central services to a user department is referred to as a "direct bill." All direct bills need to be removed from our calculated cost allocation in the CAP to ensure that we do not over allocate any costs. This results in departments recovering their costs through a hybrid billing/CAP method instead of under a pure cost plan County model. Over the years, central service departments have increased their direct billings to the user departments causing large fluctuations in CAP amounts, added complexity to the budgeting process, and increased administrative burden on the central service departments who perform the billings.

The Auditor-Controller's Office recommends removing the direct billing from departments where feasible to ensure we do not over-allocate any costs and provide more clarity into how costs are recovered in the cost center departments. To the extent feasible, FY 2020-21 should begin the transition to eliminate the direct billing practice. This transition will take two years because of the way the CAP methodology is structured. Over this two-year period, departments who direct billed for their services will receive increases to their GFC allocations in order to maintain their current budgets until the CAP cycle stabilizes under the new allocation arrangement. In addition, user departments will see increases in their CAP costs over these two years, offset by decreases to their direct billing charges. These increased CAP charges will result in increased revenue to the General Fund, which will be used to fund the increased GFC allocations to the central service departments. In this way, though the methodology for billing will change, the General Fund should remain "whole," as should the central service department funds.

Policy 7. c) A minimum of $500,000 will be recommended for Americans with Disabilities Act improvements.

The County maintains a rolling five-year prioritized list of improvements that need to be made within County-owned facilities to enhance the County's compliance with the Americans with Disabilities Act (ADA). By setting aside a minimum of $500,000, these needs can continue to be addressed in FY 2020-21. These types of improvements fall under the Priority I: Imperative (Must-do) category of the capital projects prioritization criteria found in Policy 7.f of Attachment A.

Policy 7. d) A minimum of $2,000,000 will be recommended for the Technology Replacement and Investment Fund to address critical countywide and multi-departmental information technology project needs.

In FY 2019-20, the adopted budget called for establishment of a Technology Replacement and Investment Fund account, into which $2 million was contributed. The intent of this account is to address the growing need for updated technology infrastructure, security, and data storage capabilities across the County. Over half of County department directors have identified the need for the County to invest in updated technology as one of the top issues facing the County. The County is challenged to replace our core IT infrastructure to not only implement critical security protocols and network standards, but also to create the foundation to be able to implement new business applications to address changing IT demands. The ability for departments to implement new technology solutions aimed at providing more effective processes, automation, better case management, improved coordination, data sharing and information processing is hampered until we address system-wide improvements and resolve data sharing and storage deficiencies. It is recommended that an additional $2 million be contributed into this account in FY 2020-21 to continue to build up reserve funds for critical technology infrastructure projects. The projects to be funded out of this account fall under the Priority I: Imperative (Must-do) category of the capital projects prioritization criteria found in Policy 7.f of Attachment A.

Fiscal Issues Identified for Funding

As demonstrated in the discussion of the Five-Year Forecast and Significant Fiscal Issues report, some limited discretionary revenue will likely be available next year for allocation if General Fund operations are generally kept at status-quo levels. Below are the fiscal issues and staff's recommended strategies for funding, as provided in the Fiscal Issues Report, which will be incorporated into the recommended budget as resources allow.

	Fiscal Issue	Potential Impact	Recommended Action
1	Installation of Electric Vehicles Charging Infrastructure	$ 0.5M	Implement
2	Deferred Maintenance	463.0M	18% funds & available 1x funds
3	Public Safety Communications System Replacement	45.4M	Consider debt financing portions
4	Facility Improvements and Office Space Reconfigurations	TBD	Consider annual set-aside and 1x funds according to need
5	Replacement of Legacy Financial and HR/Payroll Systems	10M+	-Continue Tech Fund contributions -Allocate funds according to prioritized needs
6	Sheriff Data Center Replacement and Redundancy	1.5M	
7	Sheriff Records Management System	0.7M	

Board Priorities

In the past, the Board has continued its commitment to our major funding goals, including funding of the Northern Branch Jail operations plan, Fire tax shift, 18% maintenance plan, and requirements such as our labor agreements and pension payments. In addition, limited funding has been provided for departmental program expansions and capital projects.

As funding is evaluated, the Board could also prioritize the following:

- Expanded services in critical or high priority areas
- Setting aside revenue to address future year deficits should a recession materialize
- Increase, at least on a temporary basis in preparation for a potential recession, the Strategic Reserve balance from the current level of 8% of the General Fund operating budget to a 10% level
- Addressing the one-time needs or capital projects shown on the list of fiscal issues above

Prior discussion with the Board on possible uses of greater than anticipated revenue generated the following requests:

- Use it for funding leverage in pursuit of active transportation grants through Public Works
- Explore providing funds to the Human Services Commission for small grants
- Enhancements to early childhood education within the County
- Additional funding for cannabis enforcement activities
- Provide more funds for maintenance
- Enhance park infrastructure
- Greater bilingual public outreach

As in prior years, departments will also be requesting expansions of services and funding to fill anticipated needs next year.

The County Executive Office will be reviewing all of these issues as the budget is developed and departments submit their information. At this time, staff is seeking preliminary direction on Board priorities to be incorporated into the budget development process as appropriate.

Attachments

Attachment A: FY 2020-21 Budget Development Policies & General Fund Allocation Policy

Authored by:

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