

FISCAL OUTLOOK REPORT & 5 YEAR FORECAST

Presented to the Board of Supervisors

December 2, 2014

Fiscal Outlook Agenda

- I. Fiscal Outlook Summary
- II. Economic Outlook
- III. Fiscal Issues
- IV. 5 Year Forecast
- V. Closing Comments/Conclusions

I. Fiscal Outlook Summary

Positive signs

- National & Local economy/real estate markets are improving, potentially greater Fed/State/Local revenue
- After years of minimal growth, property tax revenues up 4.3% in 2013-14 and 5% in FY 2014-15
- Property Tax revenues are expected to grow 4%-7%
- Retirement costs stabilized

I. Fiscal Outlook Summary (cont.)

Areas of caution or concern

- Limited opportunities for new programs; existing priorities:
 - Northern Branch Jail operating costs
 - Fire Tax Shift
 - Maintenance Backlog
- Increased health insurance and workers' compensation costs
- Reduced State funding (gas tax) for Roads
- Increased Sheriff overtime and training costs
- Continued cost increases for inpatient system of care
- Continued Other Post-Employment Benefit (OPEB) liability
- Continued operating gaps in department budgets
- Employee retention and turnover
- Desire for expanded programs

II. Economic Outlook

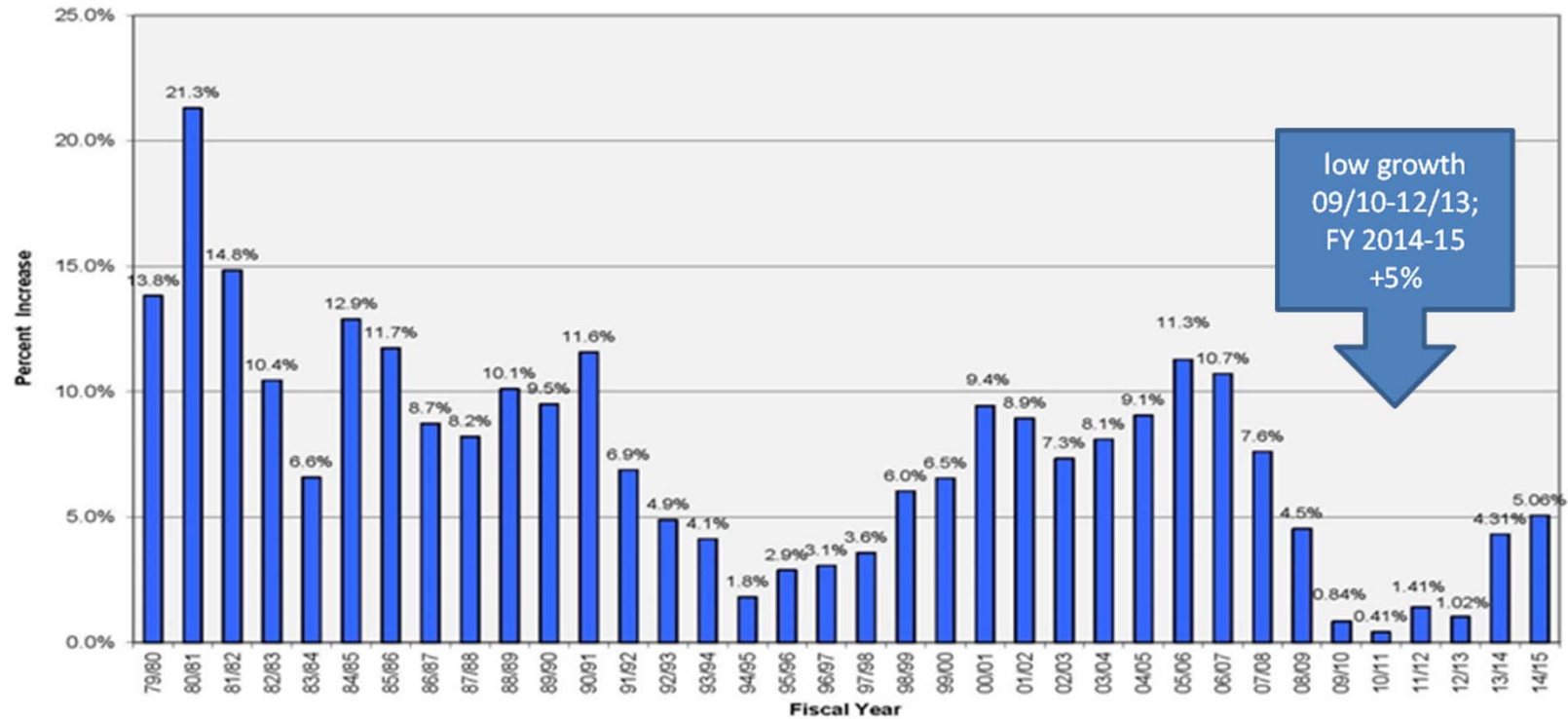
- National and Local Unemployment Rate is improving
- Gross Domestic Product (GDP) has been positive 19 of 21 quarters
- GDP forecast is positive 3% per quarter for near term
- Santa Barbara County Secured Tax Roll improving

Increase in Tax Roll – 35 Yr. Trend



JOSEPH E. HOLLAND
COUNTY CLERK, RECORDER AND ASSESSOR
REGISTRAR OF VOTERS

PERCENT INCREASE IN SECURED ROLL VALUE 1979/80 - 2014/15



III. Fiscal Issues - Tier 1

Tier 1 Issues: Expected occurrence within the next two fiscal years						
Issue		FY 2015-16 Impact (\$ in millions)	FY 2016-17 Additional Impact	Onetime or Ongoing	FY 2015-16 Discretionary Impact	FY 2016-17 Discretionary Impact
1	Health Insurance	\$ 4.2	\$ 5.6	Ongoing	\$ 1.4	\$ 1.8
2	Deferred Maintenance Backlog	3.0	1.5	Ongoing	3.0	1.5
3	Workers' Compensation	2.7	1.3	Ongoing	0.9	0.4
4	ADMHS Inpatient System	2.6	-	Ongoing	2.6	-
5	Sheriff Overtime and Staffing Levels (New)	2.0	-	Ongoing	2.0	-
6A	Northern Branch Jail Operations Funding	1.5	1.5	Ongoing	1.5	1.5
6B	Northern Branch Jail Operations New Hires	Unknown	Unknown	Onetime	Unknown	Unknown
7	HUTA – Gas Tax Swap True-Up (New)	1.0	-	Onetime	1.0	-
8	Retiree Healthcare (OPEB)	0.8	0.8	Ongoing	0.3	0.3
9	Assessor Funding Gap	0.7	(0.5)	Ongoing	0.7	(0.5)
10	Compensation and Workforce Planning	Unknown	Unknown	Ongoing	Unknown	Unknown
Total		\$ 18.5	\$ 10.2		\$ 13.3	\$ 5.0

1. Health Insurance

We expect a significant increase in health insurance premiums, despite a continued improvement in our claims performance, because County costs are still above the experience of those in our risk pool.

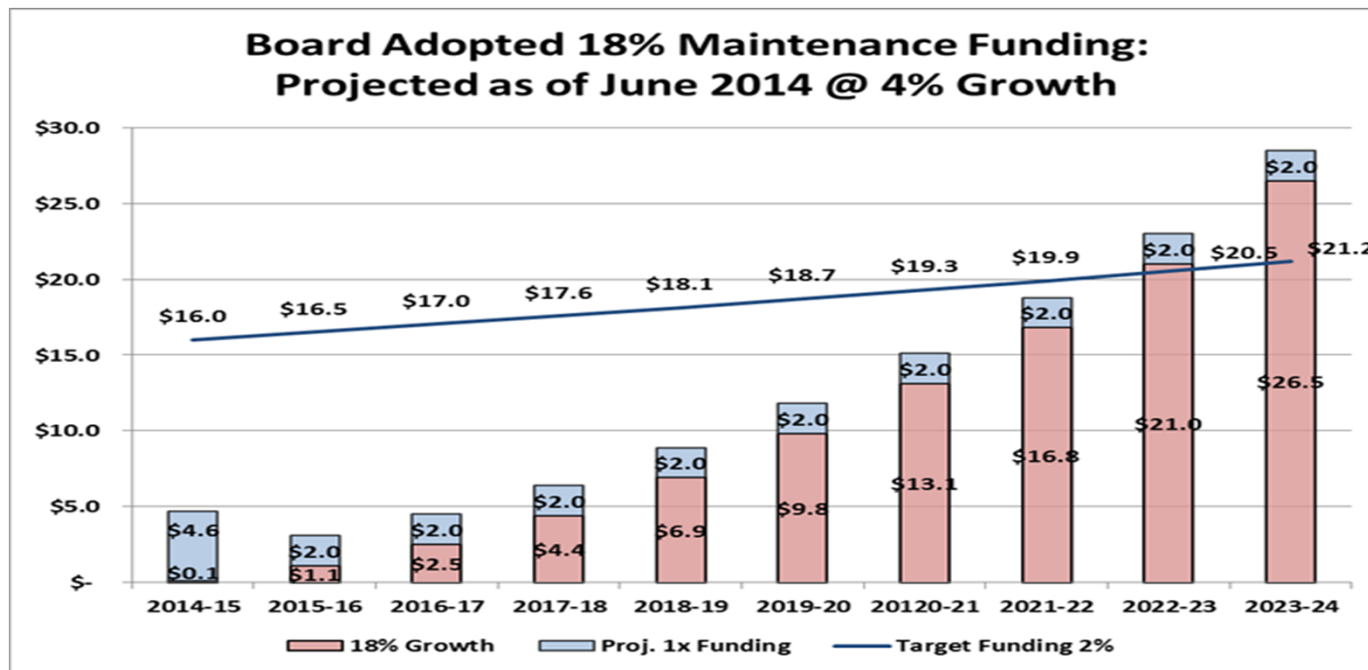
- Higher number of “large medical claims”,
- Workforce that is older than the average of the pool
- Higher utilization of inpatient services.

2. Deferred Maintenance Backlog

- Deferred maintenance needs are significant
- Board approved a Maintenance Funding Plan
 - Projected new funding \$24.7 million (over 5 years)
 - Projected new funding \$100 million (10 years)
 - Based on 4% growth in property taxes, may be 6%
- Public Works unfunded need for pavement preservation is estimated at \$9 million per year
- Staff will be bringing maintenance expenditure plan and the final Jorgensen report to the Board in February 2015

2. Deferred Maintenance Jorgensen Summary & Orig. Funding Plan

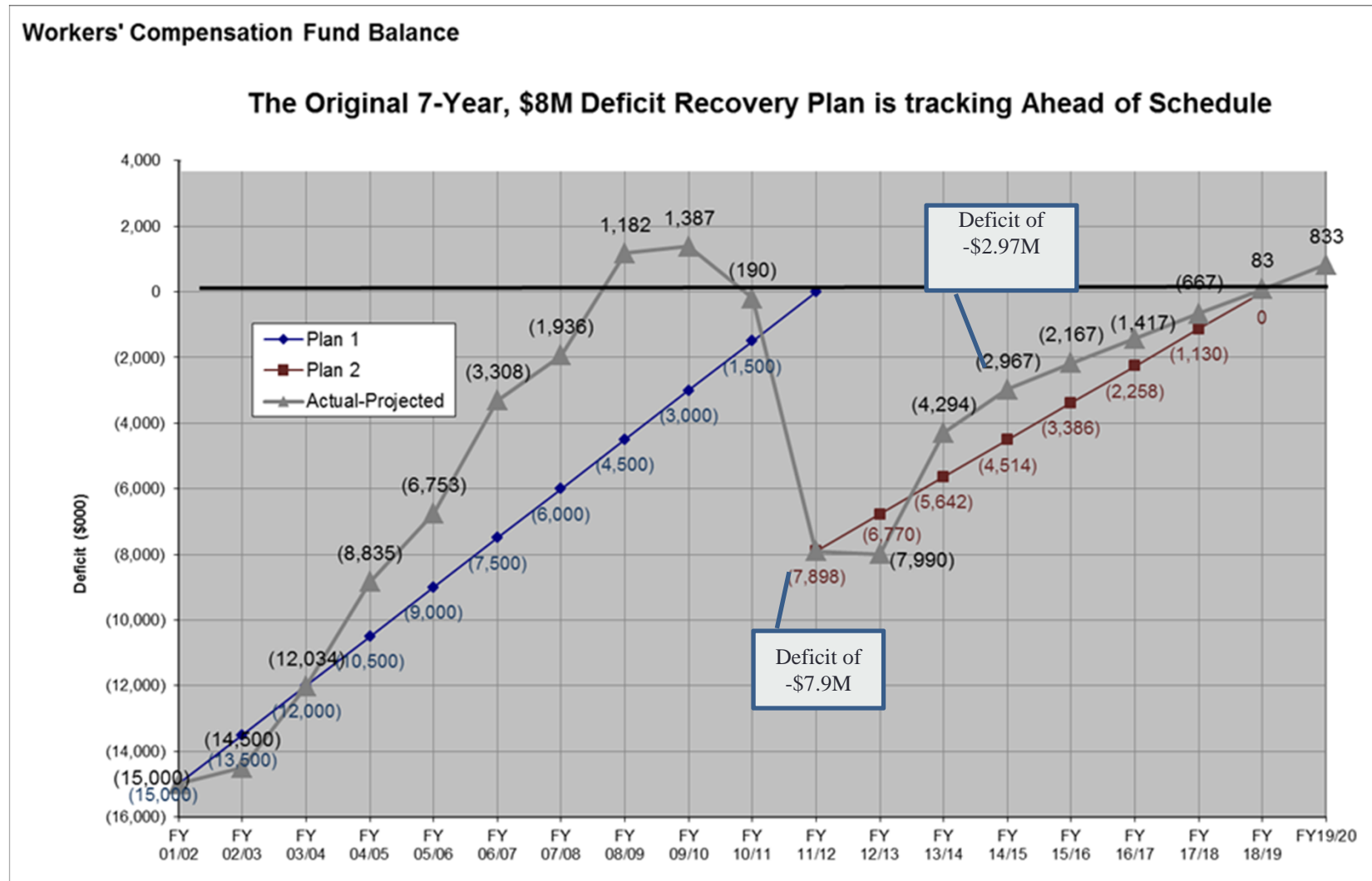
Jorgensen Maintenance Management Plan					
<i>(dollars in millions)</i>	Yr. 1-5	Yr. 6-10	Yr. 11-15	Yr. 16-20	Total
Parks	\$ 3.6	\$ 22.4	\$ 0.4	\$ 1.1	\$ 27.5
GS Building/Facilities	\$ 7.3	\$ 36.6	\$ 1.6	\$ -	\$ 45.5
Combined	\$ 10.9	\$ 59.0	\$ 2.0	\$ 1.1	\$ 73.0



3. Workers' Compensation

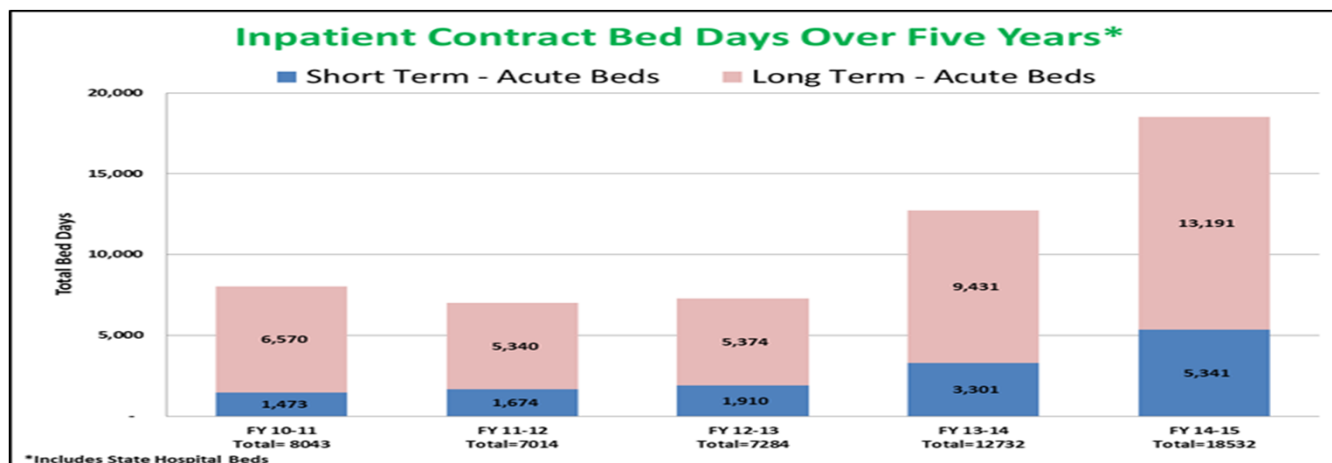
- Workers' Compensation premium costs are increasing
- Frequency of claims is below benchmark average
- Severity of claims is on the high end
- County on track with seven year deficit reduction plan for pre June 2010 tail claims
- Recent development - higher CSAC-Excess Insurance Agency premiums
- 2010 Claim Reserves initially understated
- Premium costs expected to normalize in the coming years

3. Workers' Compensation Deficit Reduction Plan



4. ADMHS Inpatient Beds

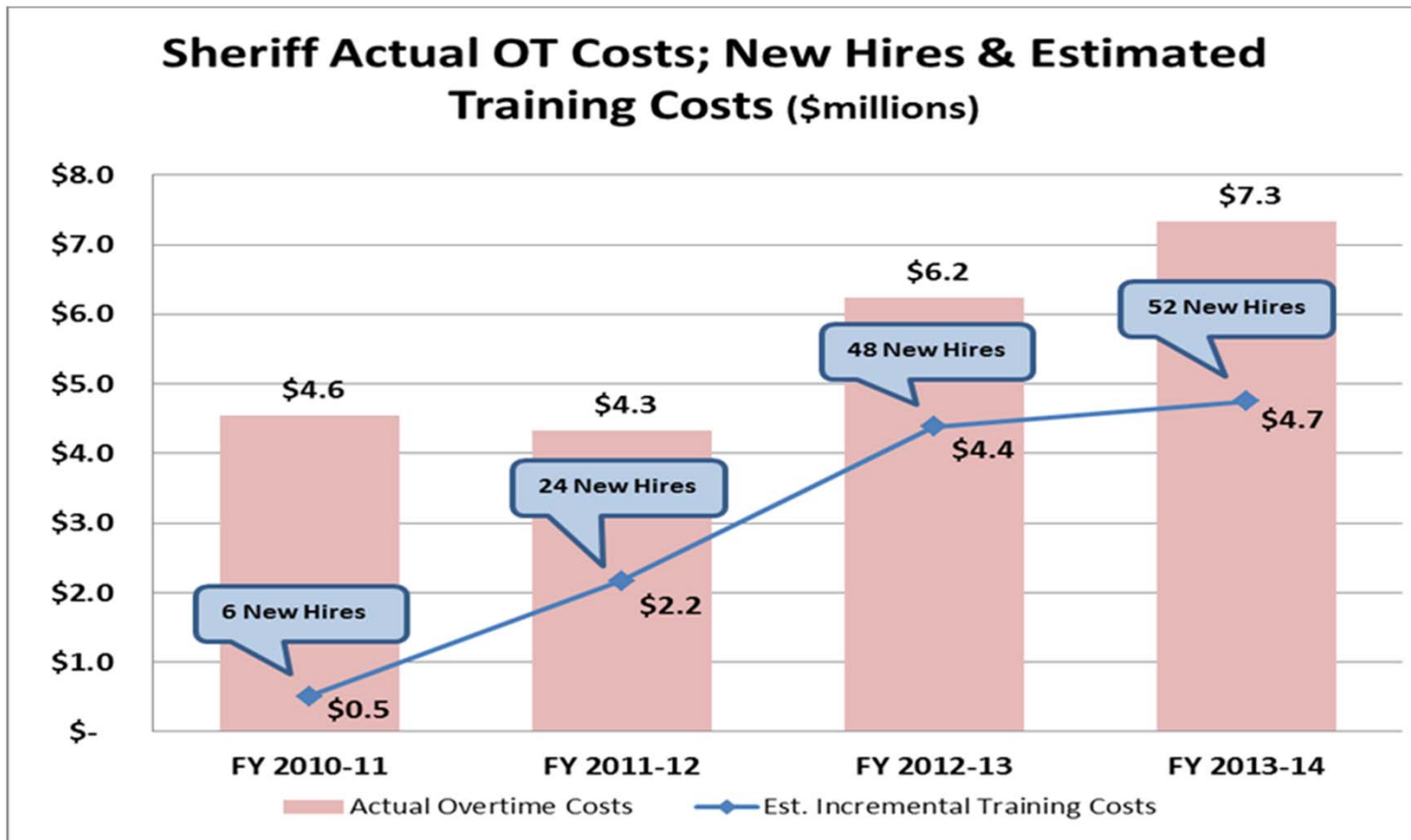
- An increase in costs for contracted beds when PHF is full
- Expected to continue in the short-term
 - Increased demand
 - Court ordered placements of individuals referred for Incompetent to Stand Trial (IST) assessments and restorations
- ADMHS new programs will enhance services & expected to reduce contracted inpatient beds in the future



5. Sheriff Overtime (OT) and Staffing Levels

- Sheriff's FY2014-15 budget est. over budget \$2 million
- Represents 1.6% of the Department's overall budget
- Largely due to increase in OT associated with backfill costs incurred from new hires
- CEO's office will be working with the Sheriff to explore options to address the issue

5. Sheriff Overtime (OT) and Staffing Levels (cont.)



6. Northern Branch Jail (NBJ) Operations Funding

- County continues to set aside incrementally increasing funding for NBJ, per Operations Funding Plan
- Original, annual operating costs ~\$17.3 million
- July 2014, estimate increase by \$0.6 million per year
- Potential cost reductions identified & communicated to Sheriff staff; awaiting feedback
- No recommendation to the Board to change the original funding plan at this time

6. Northern Branch Jail (NBJ) Operations Funding

Fiscal Year	GFC Base	GFC Increase	Total Annual GFC	Construction Match	Annual Operating Costs	Year End Op. Fund Balance
2011-12	\$ -	\$ 1.0	\$ 1.0	\$ -	\$ -	\$ 1.0
2012-13	1.0	1.0	\$ 2.0	(3.0)	-	-
2013-14	2.0	1.3	\$ 3.3	-	-	3.3
2014-15	3.3	1.3	\$ 4.6	-	-	7.9
2015-16	4.6	1.5	\$ 6.1	-	(0.3)	13.7
2016-17	6.1	1.5	\$ 7.6	-	(2.7)	18.6
2017-18	7.6	1.5	\$ 9.1	-	(10.5)	17.2
2018-19	9.1	1.8	\$ 10.9	-	(17.3)	10.7
2019-20	10.9	1.8	\$ 12.7	-	(17.9)	5.6
2020-21	12.7	2.2	\$ 14.9	-	(18.4)	2.1
2021-22	14.9	2.2	\$ 17.1	-	(19.0)	0.2
2022-23	\$ 17.1	\$ 2.2	\$ 19.3	\$ -	\$ (19.5)	\$ 0.0

7. Highway User Tax Account (HUTA)

- State adjustment \$1.0 million in gas tax payments expected in FY 2015-16
- Will impact maintenance activities such as:
 - pavement patching,
 - traffic striping, and
 - concrete repairs.
- In summer of 2015, County will have a better indication of whether this is a one-time cost or ongoing trend
- If ongoing, may need additional ongoing funding to maintain service levels

8. Retiree Healthcare OPEB

- Continue plan - increase annual OPEB funding by 25 basis points each year
- Will gradually increase funding and reduce our liability
- Board took actions to terminate OPEB benefits for all new General Members in 2012

9. Assessor Funding Gap

- Department continues to have an ongoing funding gap
- Created by decreased property tax administration fees and budget reductions during the recession
- Assessor's deficit highlighted as its operations potentially impact the County's property tax roll, which provides for most of the County's discretionary revenue

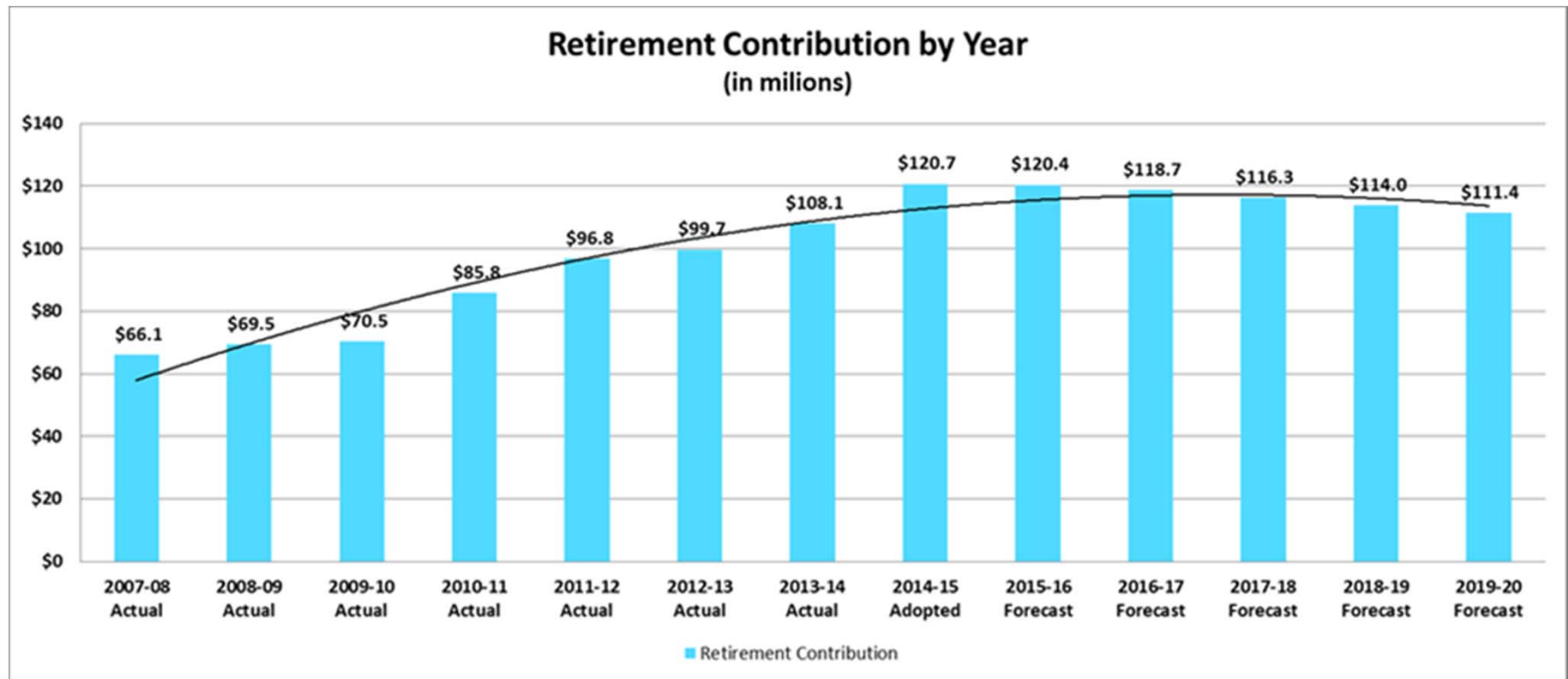
10. Compensation & Workforce Planning

- Employee Salary & Benefit costs = 58% of County expenditures
- Board's policies = focus on attracting, retaining and developing a high performing workforce
- Improving economy will increase pressure to adjust wages and/or benefits with market
- Turnover expected; 24% of employees likely to retire in the next 3-5 years
- Opportunity & risk of costs to replace employees' knowledge and experience

Pension Fund Stability

- Pension costs have been one of the largest Fiscal Issues in every year since the Reports' inception
- FY 2015-16 - costs have now stabilized
- No projected increase to retirement contribution rate, modest decrease (hence, not in the Tier 1 Table)
- Large unfunded liability still exists
- Unfunded liability down to -\$575M vs. -\$818M
- Plan is now 81.4% Funded
- Unfunded Actuarial Liability predicted to be fully amortized in 16 years

Stabilization of Retirement Costs



Fiscal Issues

Tier II Issues

Tier 2 Issues: Probable occurrence within the next two fiscal years				
Issue		FY 2015-16 Impact	FY 2016-17 Additional Impact	Onetime or Ongoing
		(\$ in millions)		
11	Wireless Network Access	\$ 1.0	\$ -	Onetime
12	Assessor Property System (New)	0.3	0.3	Onetime
13	Health Care Reform Act (ADMHS, PH & DSS)	Unknown	Unknown	Ongoing
14	TB and Other Diseases	Unknown	Unknown	Ongoing
15	ADMHS Cost Report Settlement Issues	-	-	Ongoing
16	Public Health Loss of 1991 Realignment Funding	-	-	Ongoing
17	Elections Systems	-	Unknown	Onetime
Total		\$ 1.3	\$ 0.3	

Also: FY 2014-15 included \$20.6M in unfunded departmental requests.

IV. 5 Year Forecast - Assumptions

Significant Assumptions:

- Secured Property Taxes +4.5% (gross 6%, Fire Tax Shift of $\frac{1}{4}$ of growth)
- Fire tax allocation projected to reach 17% in FY 2018-19
- Sales tax growth rate of 4%
- Transient Occupancy Tax (TOT) growth of 5%
- Salary increases 3% per year
- Retirement contribution rate, slightly decreasing (based on latest actuarial study)

IV. 5 Year Forecast – Assumptions (cont.)

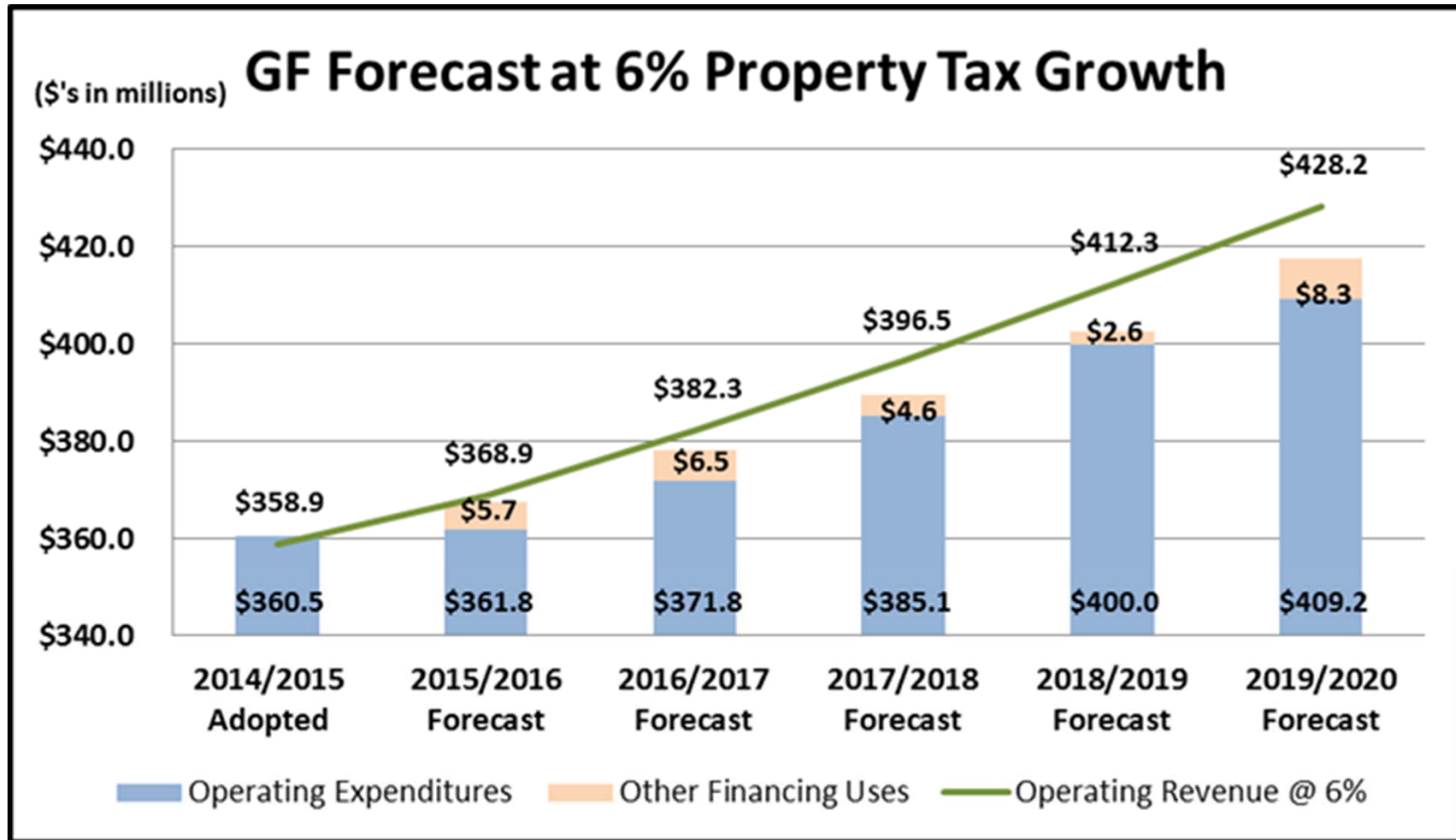
- Healthcare costs, projected to increase 5% - 9% through the forecast period (recent CSAC input suggests it may be higher in 2015-16 and 2016-17)
- Workers' Compensation projected to have modest increases; now expect 20% premium increases in 2015-16
- OPEB; contribution +25 basis points per year (as a % of covered payroll)
- Utilities +5% per year
- Departmental program expansions are not assumed

Countywide 5 Year Forecast

(\$ in millions)		2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Source and Use		Adopted	Forecast	Forecast	Forecast	Forecast	Forecast
Fund Type 01 – General							
S -- Source of Funds	*	\$ 573.4	\$ 571.8	\$ 595.1	\$ 623.0	\$ 654.8	\$ 680.6
U -- Use of Funds	*	573.4	570.4	591.1	616.2	645.2	669.7
	General	-	1.4	4.0	6.7	9.6	10.8
Fund Type 02 – Special Revenue		-	-	-	-	-	-
S -- Source of Funds		552.0	538.4	537.2	554.7	563.6	589.9
U -- Use of Funds		552.0	542.6	543.1	561.9	578.6	602.9
	Special Revenue	-	(4.1)	(5.9)	(7.2)	(15.0)	(13.0)
Fund Type 03 – Debt Service		-	-	-	-	-	-
S -- Source of Funds		6.6	6.1	6.1	6.1	6.0	5.9
U -- Use of Funds		6.6	6.1	6.1	6.1	6.0	5.9
	Debt Service	-	0.0	0.0	0.0	0.0	0.0
Fund Type 04 – Capital Projects		-	-	-	-	-	-
S -- Source of Funds		10.8	31.4	56.7	42.7	21.5	7.0
U -- Use of Funds		10.8	31.4	56.7	42.7	21.5	7.0
	Capital Projects	-	0.0	0.0	0.0	0.0	0.0
Fund Type 05 – Enterprise		-	-	-	-	-	-
S -- Source of Funds		47.4	52.5	56.0	40.8	43.7	43.6
U -- Use of Funds		47.4	52.5	56.0	40.8	43.7	43.6
	Enterprise	-	-	-	-	-	-
Fund Type 06 – Internal Service		-	-	-	-	-	-
S -- Source of Funds		68.4	66.5	68.8	71.5	72.0	73.8
U -- Use of Funds		68.4	66.9	69.4	71.2	71.1	72.0
	Internal Service	-	(0.4)	(0.6)	0.3	0.9	1.7
Net Financial Impact		\$ -	\$ (3.1)	\$ (2.5)	\$ (0.2)	\$ (4.5)	\$ (0.4)

* General Fund Contributions of approximately \$200 million are included as Intrafund Transfers and are both Sources and Uses; effectively grossing up both figures in the General Fund

General Fund 5 Year Forecast



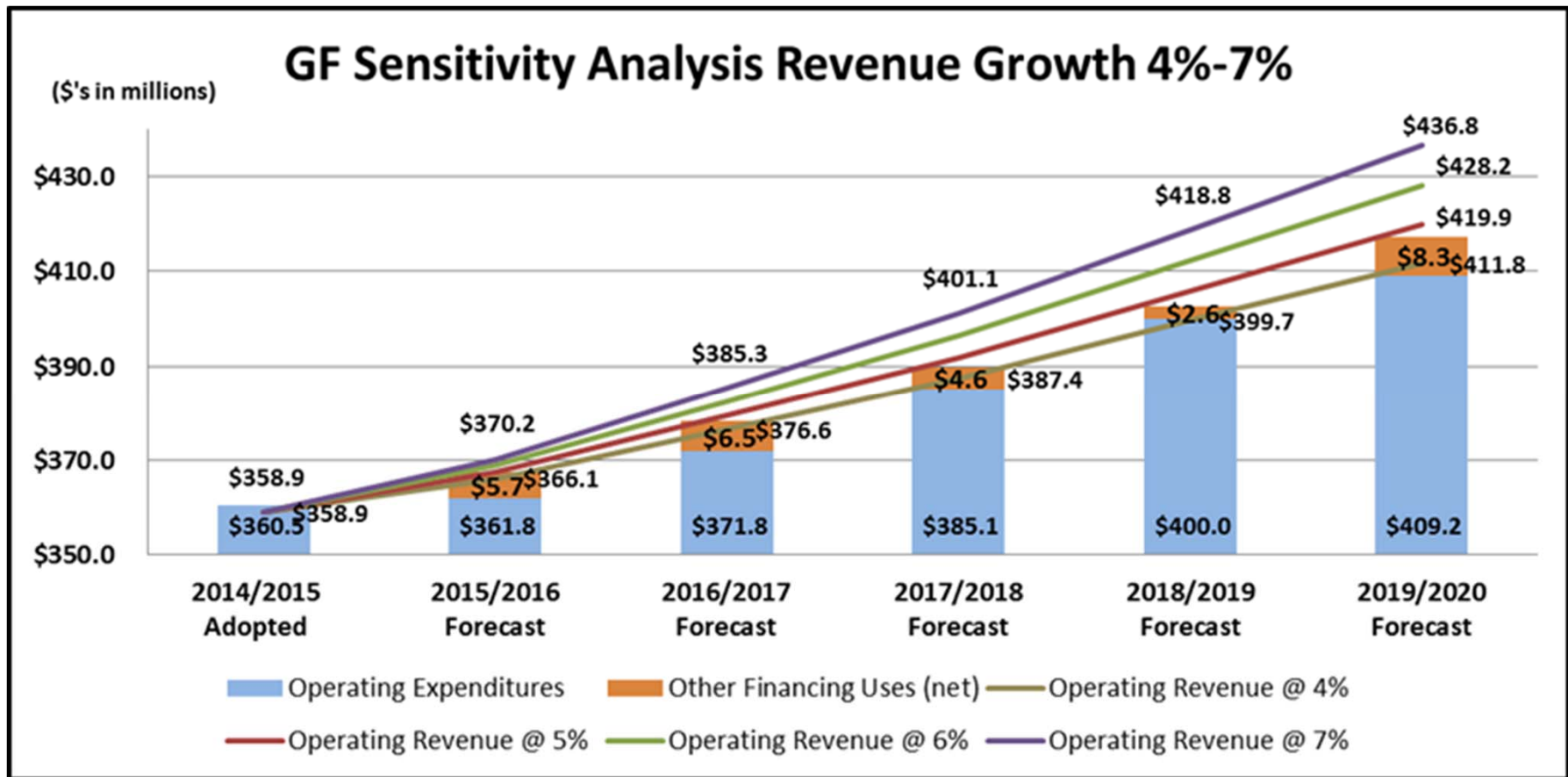
General Fund 5 Year Forecast By Object Level

(\$ in millions)	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Object Level	Adopted	Forecast	Forecast	Forecast	Forecast	Forecast
Source of Funds						
05 -- Taxes	\$ 199.5	\$ 209.9	\$ 220.7	\$ 231.8	\$ 243.4	\$ 255.7
10 -- Licenses, Permits and Franchises	14.3	13.9	14.3	14.6	14.9	15.2
15 -- Fines, Forfeitures, and Penalties	4.4	3.6	3.3	3.4	3.6	3.8
20 -- Use of Money and Property	1.9	2.0	2.0	2.0	2.0	2.1
25 -- Intergovernmental Revenue-State	64.5	66.2	68.1	70.0	72.1	74.1
26 -- Intergovernmental Revenue-	3.8	3.1	3.0	3.0	3.1	3.1
27 -- Intergovernmental Revenue-Other	0.4	0.4	0.2	0.2	0.2	0.2
30 -- Charges for Services	61.8	62.7	63.5	64.2	65.7	66.7
40 -- Other Financing Sources	4.8	4.5	4.5	4.5	4.5	4.5
45 -- Miscellaneous Revenue	3.3	2.7	2.7	2.7	2.8	2.8
Sources	\$ 358.9	\$ 368.9	\$ 382.3	\$ 396.5	\$ 412.3	\$ 428.2
Use of Funds						
50 -- Salaries and Employee Benefits	\$ 257.3	\$ 263.6	\$ 272.8	\$ 284.6	\$ 293.5	\$ 299.8
55 -- Services and Supplies	48.6	45.1	45.5	46.1	50.5	52.0
60 -- Other Charges	19.2	19.6	20.2	21.0	22.4	23.3
65 -- Capital Assets	1.8	0.6	0.3	0.3	0.3	0.4
70 -- Other Financing Uses	33.7	32.9	33.1	33.2	33.4	33.6
Uses	\$ 360.5	\$ 361.8	\$ 371.8	\$ 385.1	\$ 400.0	\$ 409.2
Other Financing						
Transfers In	\$ 192.0	\$ 195.8	\$ 202.6	\$ 210.2	\$ 219.0	\$ 228.4
Transfers Out	(192.0)	(195.9)	(202.7)	(210.3)	(219.1)	(228.4)
Change to Fund Balance	1.7	(5.6)	(6.4)	(4.6)	(2.6)	(8.2)
Other Financing (Uses)	\$ 1.7	\$ (5.7)	\$ (6.5)	\$ (4.6)	\$ (2.6)	\$ (8.3)
Net Financial Impact	\$ (0.0)	\$ 1.4	\$ 4.0	\$ 6.7	\$ 9.6	\$ 10.8

General Fund 5 Year Forecast By Department

(\$ in millions)	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Department	Adopted	Forecast	Forecast	Forecast	Forecast	Forecast
011 -- Board of Supervisors	\$ -	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ (0.0)
012 -- County Executive Office	-	0.0	0.0	0.0	0.0	0.0
013 -- County Counsel	-	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)
021 -- District Attorney	-	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
022 -- Probation	-	-	(0.1)	(0.1)	(0.1)	(1.2)
023 -- Public Defender	-	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
032 -- Sheriff	-	(1.3)	(1.5)	(1.8)	(2.0)	(2.2)
041 -- Public Health	-	-	-	-	-	-
051 -- Agricultural Commissioner/W&M	-	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)
052 -- Parks	-	(0.1)	(0.3)	(0.3)	(0.5)	(0.6)
053 -- Planning & Development	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
054 -- Public Works	-	-	-	-	-	-
055 -- Housing/Community Development	-	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)
057 -- Community Services	-	(0.0)	(0.0)	(0.0)	0.0	0.0
061 -- Auditor-Controller	-	-	(0.1)	(0.3)	(0.3)	(0.3)
062 -- Clerk-Recorder-Assessor	-	(0.7)	(0.3)	(0.7)	(0.5)	(0.8)
063 -- General Services	-	(0.6)	(0.7)	(0.8)	(0.9)	(1.0)
064 -- Human Resources	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
065 -- Treasurer-Tax Collector-Public	-	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
990 -- General County Programs	-	(0.0)	0.0	-	(0.0)	(0.0)
991 -- General Revenues	-	5.7	8.7	12.6	15.9	19.0
992 -- Debt Service						
Net Financial Impact	\$ -	\$ 1.4	\$ 4.0	\$ 6.7	\$ 9.6	\$ 10.8

General Fund 5 Year Forecast Sensitivity Analysis



5 Year Forecast – Special Revenue Funds

Fund	(\$ in millions)	2014/2015 Adopted	2015/2016 Forecast	2016/2017 Forecast	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast
0015 -- Roads-Operations		\$ -	\$ -	\$ -	\$ (0.1)	\$ (7.0)	\$ (4.3)
0042 -- Health Care		-	-	-	(0.6)	(1.1)	(1.6)
0044 -- Mental Health Services		-	(2.5)	(2.5)	(2.4)	(2.3)	(2.2)
0055 -- Social Services		-	(1.5)	(3.1)	(3.4)	(3.6)	(3.5)
0057 -- Child Support Services		-	(0.1)	(0.3)	(0.5)	(0.8)	(1.0)
All Other Special Revenue Funds		-	(0.0)	(0.0)	(0.2)	(0.3)	(0.4)
Net Financial Impact		\$ -	\$ (4.1)	\$ (5.9)	\$ (7.2)	\$ (15.0)	\$ (13.0)

V. Closing Comments/Conclusions

- National, State and local economies improving
- County's revenues from these three sources is now increasing
- No significant service level reductions are expected next year
- Expansion in Health Service departments has been occurring for the past few years
- Property taxes, major revenue source, have also been improving and are expected to grow between 4%-7% in the coming years

V. Closing Comments/Conclusions (cont.)

- Increasing revenues present opportunities; however...
 - County has committed future funding to:
 - Fire District through a tax shift
 - Increased employee compensation
 - Northern Branch Jail Operations fund
 - Strategic Reserves
 - Maintenance Funding Policy