



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:** February 26, 2019  
**Placement:** Departmental  
**Estimated Time:** 45 minutes  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors

**FROM:** Department Director(s) Contact Info: Mona Miyasato, County Executive Officer   
Jeff Frapwell, Assistant County Executive Officer

**SUBJECT:** Budget Priorities

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**County Counsel Concurrence**

As to form: N/A

**Other Concurrence:** N/A

**Auditor-Controller Concurrence**

As to form: N/A

**Recommended Actions:**

That the Board of Supervisors:

- a) Receive and file an update on budget development and context for the FY 2019-20 Recommended Budget;
- b) Direct staff to allocate available current year and FY 2019-20 cannabis tax revenue to enforcement costs and one-time needs as part of the budget development process;
- c) Provide staff with any preliminary direction on Board priorities for FY 2019-20, as needed;
- d) Provide guidance to staff regarding top projects to advocate for federal or state funding as requested by the Legislative Committee; and
- e) Determine pursuant to CEQA Guidelines §15378 that the above activity is not a project under the California Environmental Quality Act.

**Summary**

Over the past several months, the CEO's office has been working closely with departments to develop a recommended FY 2019-20 budget that aligns with Board priorities, provides departments with the resources they need to meet community needs, and considers the well-being of the county as a whole to ensure future fiscal sustainability and success. Budget Workshops will be held April 15, 17 and 19, 2019, to give the Board and public an opportunity to review proposed department budgets and work plans, and

provide direction to the CEO before finalization of the recommended budget. Adoption of the budget is scheduled for June 11 and 13, 2019.

As staff continues development of the recommended budget, we are seeking direction from the Board so that the budget presented to the Board in April will reflect the Board’s preferences in these areas:

- Allocation of available current year and FY 2019-20 cannabis tax revenue. Staff is recommending that funding go first to enforcement costs (as was done this budget year), and remaining funds be allocated to one-time needs as part of the budget development process;
- Preliminary direction on Board priorities for FY 2019-20 for evaluation as part of the budget development process; and
- Guidance regarding top projects to advocate for federal or state funding as requested by the Legislative Committee.

**Discussion**

***Recap of the Five-Year Forecast***

In November 2018, staff presented the Five-Year Forecast Report, which showed discretionary revenue continuing to grow modestly in FY 2019-20 and the possibility of a recession in the middle of the forecast period, specifically:

- A potential General Fund surplus of \$3.5 million in FY 2019-20, resulting from revenue growth expected to outpace expenditure growth.
- This assumed no expansion of staff or services (beyond what is planned for the Northern Branch Jail), and no new policies or disasters.
- It also assumed no significant ongoing additional revenue (it assumed cannabis revenue grows by 3% to \$5.7 million next year, and 5% thereafter, compared to \$5.5 million assumed for the current year).
- Future deficits in the General Fund starting at \$5.5 million in FY 2020-21 and beyond due to a projected recession in the forecast, causing a revenue slowdown.
- Deficits in the major special revenue funds due to anticipation that state and federal revenue levels will not keep pace with increases in County salaries and benefit costs.
- These assumptions are being reviewed as part of the budget development process.

**Five Year Forecast Gaps (\$ millions) - November 2018**

<b>Fund</b>	<b>2019/2020 Fiscal Year Forecast</b>	<b>2020/2021 Fiscal Year Forecast</b>	<b>2021/2022 Fiscal Year Forecast</b>	<b>2022/2023 Fiscal Year Forecast</b>	<b>2023/2024 Fiscal Year Forecast</b>
0001 -- General	\$ 3.5	\$ (5.5)	\$ (14.5)	\$ (16.1)	\$ (14.9)
0044 -- Mental Health Services	(0.6)	(0.9)	(1.3)	(1.6)	(1.9)
0055 -- Social Services	(1.5)	(3.0)	(5.6)	(7.8)	(9.8)
0069 -- Court Activities	(0.3)	(0.6)	(0.8)	(1.1)	(1.3)
All Other Funds	0.1	0.2	0.1	(0.1)	(0.2)
<b>Net Surplus/(Deficit)</b>	<b>\$ 1.2</b>	<b>\$ (9.7)</b>	<b>\$ (22.1)</b>	<b>\$ (26.7)</b>	<b>\$ (28.1)</b>

Note that gap numbers are cumulative; each year the County balances its budget so the gap will never grow to this degree. The chart shows the projected trend if no offsetting mitigation were to occur.

### ***Fiscal Issues***

The report also included fiscal issues that compete for General Fund resources (see Attachment A).

- These issues, valued at millions of dollars, ranged from the relatively small—a one-time need of \$1.1 million for Sheriff’s replacement of in-car video and computer systems—to the very large—\$438 million in deferred maintenance needs that have been identified every year without sufficient revenues to significantly address.
- Though not all will be able to be addressed in full in FY 2019-20, many may be candidates for one-time funding during this budget cycle.
- In addition to the original list presented in November, two new critical items for potential one-time funding were added: a \$2 million investment to create a Technology Replacement and Investment Fund and a \$500,000 project to transition the County’s website to a cloud-based solution. These are related to the County’s ability to address the County’s technology infrastructure.

#### Cloud-Based Website

The cloud-based website project would address the County’s ability to disseminate information to the public, particularly during large events, such as natural disasters, when there is a high demand for information related to public safety. The County’s current IT infrastructure does not have the capacity to accommodate demand spikes from concerned citizens, leading to periods of delay during critical events. This would convert the current outdated content management tool and an internally hosted website to a cloud-based hosting structure. A cloud-based hosting solution will ensure website reliability by always being available and will provide for flexible capacity.

#### Technology Replacement and Investment Fund

The establishment of a new technology replacement and investment fund is needed, similar to maintenance and other replacement funds, and would allow the adoption of common technology platforms countywide, in order to reduce costs and mitigate the risk of expiring services and technologies. The current funding structure for IT operations provides enough funding to maintain status quo operations, but limits the resources available to focus on growing the functionality of technology and enabling better business services. Departments pay depreciation on current assets in order to build up sufficient funding for like-for-like replacements. While this model is predictable and transparent, it is not responsive to departments’ changing needs or advancements in technology. To be able to innovate and transform the way in which IT is delivered, including development of multi-departmental initiatives, the establishment of a special fund would provide funds to invest in such ventures when there is no other funding source available.

Based on General Services’ analysis of government standards, it is recommended that a Technology Replacement and Investment Fund be established with a fund balance target of between \$1.8 and \$2.4 million. This would provide a revolving funding source for technology system upgrades that will increase efficiencies or mitigate risks countywide. Repayment by departments benefiting from an investment will help to replenish the fund over time. Projects to be funded will be vetted and selected through the Executive Information Technology Council, and considered by the Board through the annual budget adoption process.

- In May 2018, General Services presented your Board with an early list of projects eligible for COP funding. Since that time the department has continued to refine the project list and update the associated cost estimates, and will be returning to your Board in March 2019 to seek further Board

direction. The preliminary list of these projects (which includes some overlap with the fiscal issues presented in November) is also included on Attachment A.

The CEO's Office will continue to evaluate funding for these fiscal issues during the next months of the budget development process and will provide information at the April Workshops as to what can be achieved in FY 2019-20.

### ***Cannabis Tax Revenue***

Cannabis tax revenue was included in development of the current year budget as a new and potentially significant source of revenue. Expenses related to the permitting and licensing of cannabis operations are fully recovered by fees. The costs of enforcement are covered by the tax revenues generated by Measure T, approved by voters in June 2018.

Because cannabis tax revenue is a new funding source in FY 2018-19, without historical trends to consult or full knowledge of the value of taxable operations, any estimate of total receipts for the fiscal year remains speculative. Although it appears that the budgeted amount will be realized—with \$3.1 million of a budgeted \$5.5 million received as of January—significant uncertainty remains, and will likely remain for several years until the market stabilizes and trend data becomes available.

While staff believes revenue will be sufficient to cover the costs of enforcement each year, it is not recommended at this time that revenues in excess of the enforcement costs be appropriated to ongoing operations. It is recommended that the current-year practice be continued, with any tax revenues beyond those needed for enforcement allocated towards one-time needs, until such time when revenue estimates can be more reliably and accurately predicted. Measure T stated that revenue raised from the tax would be used for general governmental purposes such as law enforcement, health care, parks, roads, and other needs.

It is recommended that the Board direct the CEO, as part of the budget development process, to first allocate cannabis tax revenues to enforcement costs within various departments, and then allocate any remaining tax revenues towards one-time needs in line with the June 2018 voter-approved Measure T.

### ***Board Priorities***

For the last several years following the recession, the County has had limited discretionary revenue growth, and any growth has largely been dedicated to the following funding priorities: 1) ongoing annual commitments to the Northern Branch Jail operations funding plan, 2) 18% maintenance funding plan, 3) Fire Tax Shift, and 4) Strategic Reserve replenishment, if possible. In the past, any additional revenue growth has been allocated to departments to meet new mandates or requirements, address desired service expansions, restore services previously eliminated, or other Board priorities.

As demonstrated in the discussion of the Five-Year Forecast, some limited ongoing discretionary revenue will likely be available next year for allocation. These revenues can be used for expanded services in priority areas, saved to address future year deficits should there be another recession, or used for one-time uses shown on the list of fiscal issues. Departments will also be requesting expansions of services and funding to fill anticipated deficits next year.

At this time, staff is seeking preliminary direction, if any, on Board priorities to be evaluated in the budget development process.

***Legislative Priorities***

At the February 4, 2019 meeting of the Legislative Program Committee, members were provided a list of funding requests identified in the County's 2019 Legislative Platform. In reviewing those funding requests, the Committee recognized some prioritization of funding requests was necessary because of the large number of requests. The committee suggested that the entire Board should be given an opportunity to identify priority requests for funding from the state and federal government. The committee further suggested that these priorities might fall into one of the following three general categories:

- Specific program funding requests;
- Specific project based funding requests; or
- Requests for categorical or formula-based funding enhancements due to unique circumstances for the County of Santa Barbara.

The Legislative Committee seeks the Board's guidance on the top County projects for which to advocate for state or federal funding.

**Attachments:**

Attachment A: Fiscal Issues with One-Time Funding Needs and Preliminary Projects Eligible for Debt Financing

**Authored by:**

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