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 Names:	County Executive Office (CEO)
Department No:	012
For Agenda Of:	October 18, 2022
Placement:	Departmental
Estimated Tme:	1 hour
Continued Item:	N
If Yes, date from:	N/A
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Directors	Mona Miyasato, County Executive Officer
	Contact Info:	Paul Clementi, Budget Division Chief Nancy Anderson, Assistant County Executive Officer

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SUBJECT: Proposition 172 Funding Update

Recommended Actions:

It is recommended that the Board of Supervisors:

a) Receive and file a report on the current status of Proposition 172 revenues and reserves;

b) Provide other direction, as appropriate; and

c) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist of organizational, administrative or fiscal activities of government that will not result in direct or indirect physical changes in the environment.

Summary Text:

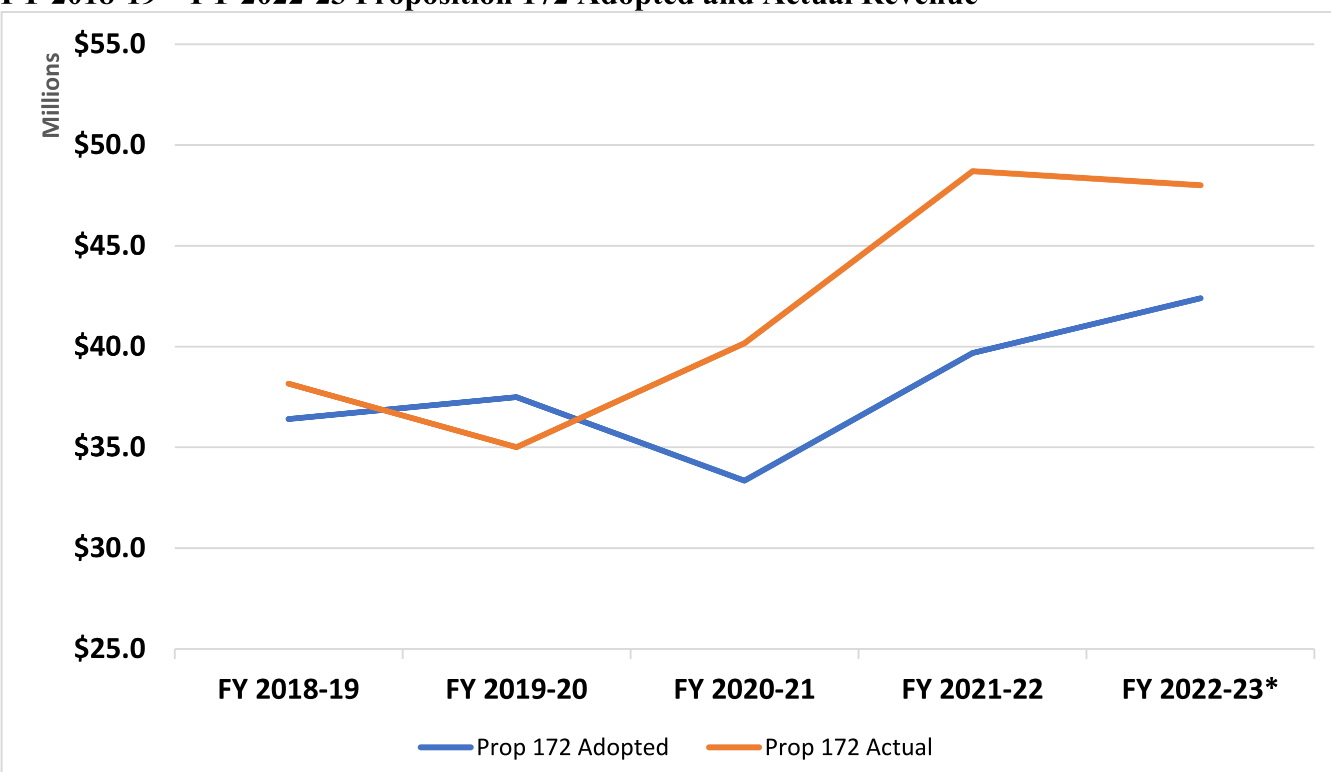
At the June 2022 budget hearings, your Board requested a report back from staff on the Proposition 172 (Prop 172) funding available after final allocations were received in July and August and determinations were made on outstanding Sheriff-Coroner Office items, including negotiated city contracts and contracted medical services at the jail. Prop 172 funds are sales tax revenues and can fluctuate based on economic changes. The County has seen growth over the past few years in this source which has helped fund many public safety funding requests. The Board revised the annual allocation methodology in 2019 from a standard growth percent allocation by department to a more flexible annual review of public safety prioritized needs and obligations. This report will update the Board on the status of Prop 172 revenues and allocations and provide options for potential use of available funds.

Background: Proposition 172, which became effective January 1, 1994, placed a one-half percent sales tax in the State's Constitution and required revenue derived from the tax to be used only for local public safety services. The Board has the authority to allocate this funding annually as it sees fit, among allowable uses. One-half percent of statewide taxable sales are first deposited into the State's Local Public Safety Pool. This revenue is then allocated to county governments throughout the State based on a factor. Each year, the factor is determined based upon prior year actual sales in the County divided by the total State sales.

On January 29, 2019, the Board of Supervisors directed staff to revise the annual allocation methodology for Prop 172 revenues to allow the CEO greater discretion in making allocation recommendations based on departmental needs and Board priorities. The previous method allocated both budgeted and unanticipated collections to public safety departments based on pre-established percentages in a 2012 Letter of Understanding (LOU) between the departments. The rigid formulaic structure restricted the CEO's ability to make allocation recommendations that differed from the 2012 LOU even when that may have better met needs and priorities.

The chart below shows the previous four years of budgeted and actual Prop 172 revenue countywide, as well as the budgeted and estimated actual amount for FY 2022-23.

FY 2018-19 – FY 2022-23 Proposition 172 Adopted and Actual Revenue



*FY 2022-23 Adopted amount includes $1,218,500 added to Sheriff's budget on 10/11/22 for Jail Medical Services contract increases; FY 2022-23 Actual amount is an estimate for the year.

In FY 2019-20, the impacts of the pandemic shutdowns are evident in the almost 10% drop in actual revenue from the prior year, over $3 million less than was received in FY 2018-19. The shortfall was covered by a release of Prop 172 fund balance held in General County Programs to help departments reach their budgeted amounts. With uncertainty around the length and severity of COVID impacts on all sales tax-based revenues in FY 2020-21, a further dip in revenues, down to $33.4 million, was assumed when the budget was adopted. However, sales tax revenues rebounded far quicker than anticipated, and $40.2 million of Prop 172 was received in FY 2020-21, a growth of 14.7% on the prior year, and 20.5% higher than budgeted amounts. Similarly, in FY 2021-22, receipts in all sales tax-based revenues jumped significantly over both the prior year actuals as well as the amounts in the adopted budget, with Prop 172 coming in at $48.7 million. This early in FY 2022-23, and with the current economic uncertainties, it is unclear where actual Prop 172 receipts will end the year, but assuming they remain close to prior year actuals at $48 million, there will be a $5.6 million surplus above budgeted amounts. Potential uses for this ongoing amount are discussed later in this report.

The significant surpluses of the prior few years has allowed for the replenishment of fund balance in General County Programs that had been depleted in FY 2019-20 to balance for Prop 172 budget deficits in departments created by the pandemic. By the close of FY 2021-22, there was $15.5 million held in Prop 172 fund balance, although much of this has planned uses discussed below. Prior to the allocation methodology change in 2019, departments received excess revenue in the same proportion they received their budgeted allocation, and were allowed to hold it in departmental fund balances to use as they wished, even if needs may have been greater elsewhere.

Prior Allocations

Since the 2019 change in allocation methodology, Prop 172 revenues have been recommended for a variety of uses, both from one-time reserves as well as new ongoing allocations. The table below shows the change between the budgeted allocation in each of the four public safety departments in FY 2018-19, the last year of the old methodology, and FY 2022-23, the current fiscal year.

Department	FY 2018-19 Adopted Budget	% of FY 2018-19 Total Allocation	FY 2022-23 Adopted Budget*	% of FY 2022-23 Total Allocation	5-Year Funding Growth %
District Attorney	$ 5,145,400	14.1%	$ 6,052,600	14.3%	17.6%
Probation	8,630,000	23.7%	10,135,300	23.9%	17.4%
Public Defender	3,833,100	10.5%	4,649,500	11.0%	21.3%
Sheriff	18,228,500	50.1%	21,556,700	50.8%	18.3%
Fire	527,000	1.4%	-	0.0%	-100.0%
CSD - Parks	43,000	0.1%	-	0.0%	-100.0%
Total	**$ 36,407,000**	**100.0%**	**$ 42,394,100**	**100.0%**	**16.4%**

*Adopted amount includes $1,218,500 added to Sheriff's budget on 10/11/22 for Jail Medical Services contract increases

What we see is that growth has been higher, and the overall share of the total Prop 172 allocation has increased most, for Sheriff and Public Defender, while District Attorney and Probation's growth was slightly lower, and their overall share of the allocation remained relatively flat. Fire was phased out of Prop 172 after receiving the Fire Tax Shift, while Parks only ever received a nominal amount for assistance with lifeguards, which was swapped with General Fund Contribution (GFC) of the same amount in FY 2021-22 to remove them from the Prop 172 calculations. The next table breaks down the funding increases to each department over the five-year period.

FY 2018-19 to FY 2022-23 Prop 172 Growth by Department

	District Attorney	Probation	Public Defender	Sheriff
18-19 Base Funding	**$ 5,145,400**	**$ 8,630,000**	**$ 3,833,100**	**$ 18,228,500**
Increases for General Operating Costs				
FY 2019-20	154,300	258,900	115,000	546,700
FY 2021-22	628,300	185,700	319,200	1,250,000
Increases for Specific Programs				
FY 2022-23 eSCARS Coordinator	124,600			
FY 2021-22 & 2022-23 Pre-trial Services		790,300		
FY 2022-23 Pre-trial Supervision		270,400		
FY 2022-23 IT, Fiscal, and Misdemeanor Staff			382,200	
FY 2022-23 Bodyworn Cameras				313,000
FY 2022-23 Jail Medical Contract Increases				1,218,500
22-23 Budgeted Allocation	**$ 6,052,600**	**$ 10,135,300**	**$ 4,649,500**	**$ 21,556,700**

The Prop 172 departments also receive additional GFC growth using a methodology similar to what is used to calculate annual GFC growth for all departments, to account for the fact that they are no longer receiving *automatic* Prop 172 formula-driven growth each year. For example, in the FY 2022-23 adopted budget the departments received a collective $500,000 of additional GFC growth on top of the $1.6 million in growth they received following the standard GFC allocation methodology.

Use of the Prop 172 fund balance in General County Programs has gone towards necessary expenses that otherwise would have required General Fund dollars. They include:

- $941,000 in FY 2018-19 towards upgrading handheld radio equipment in Sheriff;
- $1,285,500 in FY 2019-20 to backfill departments when Prop 172 revenues came in short of budget, due to the pandemic;
- $437,700 to mitigate overtime usage at year-end FY 2021-22 in Sheriff, and;
- $600,000 in FY 2021-22 for the Sheriff's data center replacement.

As mentioned above, this left $15.5 million at the start of FY 2022-23, much of which already has budgeted or recommended uses, leaving about $6.7 million available for one-time allocations.

FY 2022-23 General County Programs Prop 172 Balance

Beginning Balance - July 1, 2022	$ 15,519,100
Budgeted Uses	
Sheriff Alternate Worker's Comp 3-year Pilot (Year 1 of 3)	(215,000)
Sheriff Contract City Revenue Shortfall	(717,200)
Recommended Uses/Earmarks	
Sheriff Overtime Mitigation Pool	(2,000,000)
Sheriff Other Outstanding Claims	(1,445,000)
Sheriff Alternate Worker's Comp 3-year Pilot (Years 2 and 3)	(430,000)
Prudent Reserve	(4,000,000)
Remaining Balance	**$ 6,711,900**

Future Uses

Staff has been cautious allocating the remaining $6.7 million of one-time fund balance, as well as the estimated $5.6 million in ongoing Prop 172, beyond what was anticipated in the FY 2022-23 adopted budget for several reasons:

- Salary and benefit costs are likely to increase substantially in the coming years;
- Continuing insurance and other cost increases, related to litigation, workers compensation and information technology services;
- Ensuring funding for existing Board priorities - such as increased funding for homeless efforts to sustain them once grant and ARPA funding has expired - will put a significant strain on General Fund resources; and
- Proposition 172 could be an important revenue source for maintaining existing public safety services in the coming years. Additionally, current economic uncertainty, with the potential for a recession, could have an impact on Prop 172 revenue.

For these reasons, staff recommends waiting until FY 2023-24 budget development to allocate most of the projected ongoing surplus. However, the Board may wish to fund some level of programs or positions with Prop 172 based on community needs. The following are requests that were made previously or are potential needs:

Remaining Unfunded FY 2022-23 Expansion Requests

Department	Description	FTE	Ongoing	One-Time
Sheriff	Co-Response Team Expansion	7.0	$ 1,333,000	$ 662,600
Sheriff	Narcotics Enforcement Team Expansion	5.0	1,039,900	175,000
Sheriff	Community Resource Deputies – Orcutt*	1.0	49,850	21,250
Sheriff	Community Resource Deputies – Montecito	1.0	199,400	85,000
Sheriff	Sheriff Service Technicians – Northern Branch Jail	6.0	646,800	-
Sheriff	Supervising Accountant	1.0	164,600	2,500
Sheriff	Sheriff Service Technicians – Investigations	2.0	215,600	-
District Attorney	Cyber Crimes Investigator	1.0	182,000	-
District Attorney	Legal Office Professional - Post-Conviction Review Unit	0.5	64,300	-
Total		**24.5**	**$ 3,895,450**	**$ 946,350**

*75% of Orcutt Community Resources Deputy cost can be funded by Orcutt Community Facilities District funds

Other Potential Prop 172 Needs

Department	Description	FTE	Ongoing	One-Time
General County Programs	Annual NBJ operating costs increases	-	$ 2,200,000	$ -
General County Programs	Replenish Sheriff overtime mitigation pool*	-	2,000,000	-
General County Programs	Funding for conflict counsel contract	-	TBD	-
Multiple Departments	Policy levers identified by Michael Wilson Consulting to safely reduce jail population	TBD	TBD	TBD
Sheriff/General Services	Main Jail rehabilitation cost increases	-	TBD	TBD
Total		**TBD**	**$ 4,200,000+**	**TBD**

*Amount to replenish OT mitigation pool could vary by year, up to $2 million if pool is fully depleted each year

Northern Branch Jail Operations Funding

The final year of the Northern Branch Jail (NBJ) funding plan, FY 2022-23, allocated $19.3 million to cover operating costs at the new jail. However, due to a variety of changes over the past decade, when the plan was first adopted, the current budgeted operating and maintenance costs in FY 2022-23 are just over $23.5 million. These changes include unanticipated pension increases, a higher level of contracted medical service, and rapid growth in liability and information technology costs. While there is adequate fund balance in the NBJ operations fund in General County Programs to cover this difference for one year, ongoing increases are necessary to avoid the NBJ operating with a multi-million-dollar structural deficit, which would have unanticipated impacts on the rest of the Sheriff's budget and the General Fund. Going forward, staff will include recommended increases in the budget development policies brought to the Board each December, funded with Prop 172 dollars to the extent feasible. The increases will likely be similar to recent years, around $2.2 million, for a few more years; more specific projections will be possible after development of the five-year forecast each year. Increases will be recommended in such a way as to continue drawing down the remaining fund balance and avoid any large single year jumps.

Timing Options for the Board

The Board has several options to provide direction to staff as to the use of Prop 172 funds:

- Mid-Year (January) Expansions: Should the Board desire specific expansions now using Prop 172 funds, it could direct the CEO's office to work with the departments to bring back budget revisions at mid-year, requiring a 4/5 majority vote.
- FY 2023-24 Recommended Budget Expansion: Should the Board desire specific expansions to be included in next year's budget, it could direct the CEO's office to address the items and include in the recommended budget, prior to hearing other requests. Directing inclusion now would require a 3/5 majority vote.
- No action now: The Board could also choose to take no action now, beyond filing this report, and wait until the five-year forecast and department fiscal issues are presented in December to indicate priorities for the FY 2023-24 budget.

Fiscal Analysis

The available funding was described in the section above. If directed, staff will return with a budget revision, or revisions, in the current fiscal year, or build recommendations into the FY 2023-24 budget during development.

Authored by:

Paul Clementi, Budget Division Chief