



**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 Names: County Executive Office
(CEO)
Department No: 012
For Agenda Of: April 13, 2020
Placement: Departmental
Estimated Tme: 1 day
Continued Item:
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Directors
Mona Miyasato, County Executive Officer 
Contact Info: Jeff Frapwell, Assistant CEO, Budget & Research

SUBJECT: Fiscal Year 2020-21 Budget Development Workshops

Recommended Actions:

It is recommended that the Board of Supervisors:

- a) Receive and file information about the Fiscal Year 2020-21 preliminary budget;
- b) Provide direction, if any, regarding items to be addressed or included in the CEO's Recommended Budget, scheduled for release in May and Board adoption scheduled for June 9 and 11, 2020.
- c) Provide direction, if any, regarding Special Issues or other items; and
- d) Determine pursuant to CEQA Guidelines 15378(b)(4) that the above actions are not a project subject to CEQA review, because it is a government fiscal activity that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

Discussion:

Purpose of the Budget Workshops

This letter and attached workshop binder are provided to present the Board of Supervisors with a preliminary budget for Fiscal Year (FY) 2020-21. The information provided was developed prior to the COVID-19 health emergency and generally presents a status quo budget. With revenues likely to be less than previously projected, staff will return with more information and potential changes to the FY 2020-21 Budget at the June budget hearings.

Given the uncertainty of the pandemic, and absent sufficient information at this point, the workshops this year are condensed to one day. The budget workshops still provide an opportunity for the Board to receive information and provide direction to staff, as appropriate, on particular policy issues that affect department budgets. This year, the workshops include special issue reports on funding for libraries and an update on the Long Range Planning Work Program. Budget workshops are scheduled for April 13 and, if necessary, can be extended to April 15 and 17.

Budget workshops are held one month before the release of the Recommended Budget and two months before budget hearings to provide the Board an opportunity to review and discuss departments' preliminary budgets and special issues, receive public input on these items, and provide the CEO direction on policy issues or specific items for consideration prior to completion of the final Recommended Budget.

The materials provided at the workshop are not intended to be inclusive of the entire Recommended Budget, which will be finalized with all financial schedules and department detail pages and released in May. Budget hearings are scheduled to be held on June 9 and 11, 2020. At those hearings, staff will present and review the Recommended Budget for the Board's consideration, amendment, and adoption.

Overview

As the County approaches FY 2020-21, our fiscal position is uncertain, with revenues previously expected to meet current operational needs now looking increasingly at risk of declines. In November, staff presented the Five-Year Forecast and Fiscal Issues Report, which projected a slight surplus in FY 2020-21 in the General Fund and included impacts of a mild recession beginning in FY 2021-22, and cautioned against making new ongoing funding commitments given the fiscal uncertainty. This continues to be a prudent warning, particularly as the County faces potential and unpredictable impacts of the COVID-19 pandemic on the local economy. The UCLA Anderson Forecast reports a solid start to 2020, but has reduced projections of growth in the first three quarters of this year, followed by a return to normal activity by the fourth quarter (assuming the pandemic has ended and business returns to function as before).¹ However, economic growth is expected to be slow and UCLA forecasts that California will be hardest hit because of the reliance on tourism. UCLA also warns that if the pandemic is worse than assumed, the forecast is too optimistic; conversely, if the pandemic ends more quickly, the economic recovery could accelerate.

We don't know how long this will last and the **objective is to maintain current service levels to the extent possible, while continuing to invest in priority projects and initiatives. If we do have decreases in key revenues that create gaps between needs and funding, we will need to rely on cannabis tax revenues** as a potential backfill during this time. As we near budget workshops, things are changing daily, and some information contained in this letter may already be outdated by the time we reach budget workshops. However, recognizing that we are moving through an unprecedented time locally and globally, the intent of this letter is to present the preliminary budget to the Board, with enough safeguards and cautions included to help protect our communities and keep services operating at the levels needed.

¹ Nickelsburg, Jerry. "California Forecast: The 2020 Recession in the Golden State." <https://www.anderson.ucla.edu/centers/ucla-anderson-forecast/2020-recession/the-2020-recession-in-the-golden-state>. UCLA Anderson Forecast, March 2020. Accessed March 16, 2020.

COVID-19: Projected and Unknown Impacts

The impacts of the COVID-19 pandemic won't be known until we are able to look back with hindsight. Economically driven revenues, including TOT, sales tax (comprising the local portion as well as Proposition 172 public safety revenue and Realignment revenues), and gas tax, will be especially susceptible to losses resulting from decreased tourism and decreased retail activity. Current estimates of revenue loss in these categories exceed \$3.6 million in FY 2019-20, and this number will likely increase as events unfold. Property taxes may see some mild losses in future years related to reassessments of commercial properties that receive revenue-based appraisals. In fact, with mortgage rates quite low, we may see a boost in home sales.² Cannabis tax revenue, which is considered relatively recession-proof, is not expected to decline significantly. In addition to these major discretionary revenue sources, interest income on the County's investment pool may also decrease.

Revenues dedicated to specific department services, or that flow in as reimbursements for staff time spent on particular activities, are also at risk of decline. For example, Mental Health Services Act (MHSA) revenues are generated through a 1% tax on earnings of more than \$1 million in personal income to provide funding for mental health services and programs; if personal incomes decline, this revenue source will also decrease. Fee-based revenues, should people stop using services such as those offered for land use planning, park usage, or Clerk-Recorder functions, would also decrease.

In addition to revenue impacts, a pandemic has cost impacts on local governments and, in particular, county governments, which provide safety net services to the most vulnerable. Below are examples of the many local government costs impacts that may occur.

- Increase in medical-related services, supplies, and costs
- Increase in human services and safety net costs, including In Home Support Services (IHSS), General Relief, adult protective services, Public Guardian, 211 helpline capacity-building, meal delivery services and food bank services for those in need, and homeless services
- Increase in retirement costs if investment pool earnings come in below the 7% assumed rate of return built into rates
- Increase in other general government costs related to specialized technology to accommodate social distancing requirements

Because of these uncertainties and vulnerabilities we face in terms of our core discretionary revenue sources, special revenue sources that fund specific services, as well as our costs, we are compelled to take a more cautioned approach to budget development this year.

FY 2020-21 Preliminary Budget Strategy

The preliminary budget is built with the primary objectives of continuing essential services needed for response and recovery, maintaining status quo budgets for departments to the extent possible, and refraining from granting any budget expansions at this time. Preliminary budgets have been prepared with minimal service level impacts—reductions in Probation and Sheriff are discussed in budget workshop presentations included in the attachments—and no service expansions. We will continue to closely monitor revenues and expenditures in the lead-up to budget hearings in June and will refine numbers based on federal, state, and local economic factors.

² Richardson, Brenda. "Coronavirus Fears Cause Mortgage Rates to Tumble as Investors Flee to Safe Havens." <https://www.forbes.com/sites/brendarichardson/2020/02/25/coronavirus-fears-cause-mortgage-rates-to-tumble-as-investors-flee-to-safe-havens/#6a2f4176635b>. Forbes, February 25, 2020. Accessed April 3, 2020.

The preliminary budget includes strategies that will help us weather losses in discretionary revenues expected to occur in FY 2020-21. By adding to reserves with available residual FY 2018-19 funding we have on hand now, we expect to help mitigate impacts that will be more clearly known in summer or fall. These actions include the following:

- An increase to the Strategic Reserve to bring the balance from 8% to 9% of operating revenues, an increase of \$3.1 million in FY 2020-21 from FY 2019-20
- An increased balance of \$5 million in the Contingencies account (compared with a \$4 million balance in FY 2019-20)

Additional actions we plan to incorporate into the Recommended Budget include the following strategies:

- Use cannabis tax revenues to backfill potential losses in 1991 and 2011 Realignment revenues and Prop 172 revenues in those departments that rely on these funding sources to maintain core operations
- Defer major initiatives until the recession ends

The Recommended Budget presented in June may not have full information about what is to come—in particular, the State budget will likely not be adopted yet—so there will be uncertainty as the FY 2020-21 fiscal year begins. We will return to your Board in FY 2020-21 with mid-year budget adjustments and potential service level reductions, with a focus on continuing essential COVID-19 response and recovery services. In the meantime, departments will begin examining mandated, essential services versus non-essential services to assist in this analysis. We will also be utilizing the work of KPMG to assess improved efficiencies in departments reviewed.

Beyond 2020-21: Preparing for an Uncertain Future

Looking ahead, we face the unprecedented challenge of the myriad impacts we are already experiencing and will experience related to the global COVID-19 pandemic. With so many unknowns, we will continue to follow responsible fiscal practices in an effort to buffer the County's finances from COVID-19 impacts as well as a possible future recession, including the following:

- Ensuring use of one-time funds for one-time (not ongoing) uses
- Allocating cannabis revenue, after enforcement costs, to one-time uses only or to support core services should COVID-19 impacts result in a revenue shortfall
- Setting aside funding for initiatives that have been identified by departments as highest priority, including technology enhancements and capital needs
- Continuing efficiencies and process improvements, and training employees to be able to identify and implement opportunities for improved operations and innovative solutions

The essence of Renew '22 has been to fortify the organization to be resilient and prepared for the next economic or natural emergency. That event is occurring now in this unprecedented time. As we continue to address this pandemic, which will impact our revenues, our expenditures, and the health and well-being of our communities, we do not know what the full impact will be, but we do know our resilience will be tested. After the emergency, we must continue—and invariably, will be forced to—transform how we do our work, constantly learning to work differently. Your County employees are equipped to thrive in the present, adapt to tomorrow, and anticipate the future. When we have the benefit of looking back on the COVID-19 pandemic, we hope—and are optimistic—that we will be proud of the strength the County

was able to draw on through departments working together to develop innovative, evidence-based strategies to move the County's communities forward during an extremely difficult and uncertain time.

Fiscal Impacts:

There are no fiscal impacts associated with holding the Budget Workshops. Addressing the information presented during the workshops will provide staff direction in finalizing the Fiscal Year 2020-21 Recommended Budget for adoption at the June budget hearings.

Attachments:

Attachment A: FY 2020-21 Budget Workshop Binder

Authored by:

Rachel Lipman, Fiscal & Policy Analyst

cc:

Assistant CEOs

Department Directors

CEO Fiscal and Policy Analysts