

FISCAL YEAR 202425

# BUDGET DEVELOPMENT REPORT INCLUDING 5 YEAR FORECAST & PROPOSED POLICIES

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Board of Supervisors  
Tuesday, December 12, 2023

County Executive Office



one  
COUNTY  
one  
FUTURE

# PURPOSE OF THE FORECAST

- Provides context for balancing short-term and long-term goals during development of the FY 2024-25 budget
- Identifies potential demands on County resources in the coming years
- Identifies key areas that will need attention when preparing the FY 2024-25 budget
- Forecasts major budgetary components including discretionary revenue and labor costs
- Primary focus on General Fund with some fiscal issues in other major County funds included



# TODAY'S REPORT

- Budget Development Timeline
- Economic Outlook
- General Fund Five-Year Forecast
- Fiscal Issues Under Review
- New Budget Development Policy
- Board Budget Priorities Discussion

# Budget Development Timeline



Budget Development Report and Proposed Policies Presented to Board (Dec 12)

Workshop Review Meetings

Recommended Budget Released

DEC

JAN

FEB

MAR

APR

MAY

JUN

Departments prepare requested budgets

Budget Workshops (Apr 8, 10 & 12)

Budget Hearings and Adoption of County Budget (June 11 & 13)



# ECONOMIC OUTLOOK

- UCLA Anderson Forecast, October 2023
  - Likely no recession in 2024
  - “Softening” of economy in 2024
  - More normal growth returns in 2025
  - While the economy has opportunities ahead, there are risks:
    - Politics, world events, and potential interest rate increases
- Legislative Analyst’s Office (LAO)
  - Extension of State tax filing deadline impacting State’s ability to budget for FY 2024-25
  - State faces \$68 Billion budget deficit in FY 2024-25 driven by FY 2022-23 revenue shortfalls
  - Governor’s preliminary budget will be issued in January and revised in May 2024

# General Fund Forecast Summary

- Revenue growth will be moderate, outpaced by rising S&B and other operational costs
- Deficits forecasted in all five fiscal years
- Deficits offset in years one and two thanks to the release of Board's prudent prior year ongoing set-asides
- Greater revenue will be needed to support current operations and programs in the near future, or budget reductions will be required.
- One-time balances are available, but not sufficient to fund all identified funding priorities



# COUNTYWIDE SALARY AND BENEFIT COSTS



# Major Salaries & Benefits

## Key takeaway

- Forecasted growth consistent with average annual increases in prior years

## Salaries

3.5%

Average annual increase

- Growth rate consistent with prior years
- Assumes status quo staffing levels
- Includes negotiated salaries for contract years and assumes 3% after contracts end

## Retirement

3.4%

Average annual increase

- Growth rate slightly lower than prior years
- Assumes 7% annual retirement investment rate of return
- Costs partially offset by pension cost-sharing

## Health Insurance

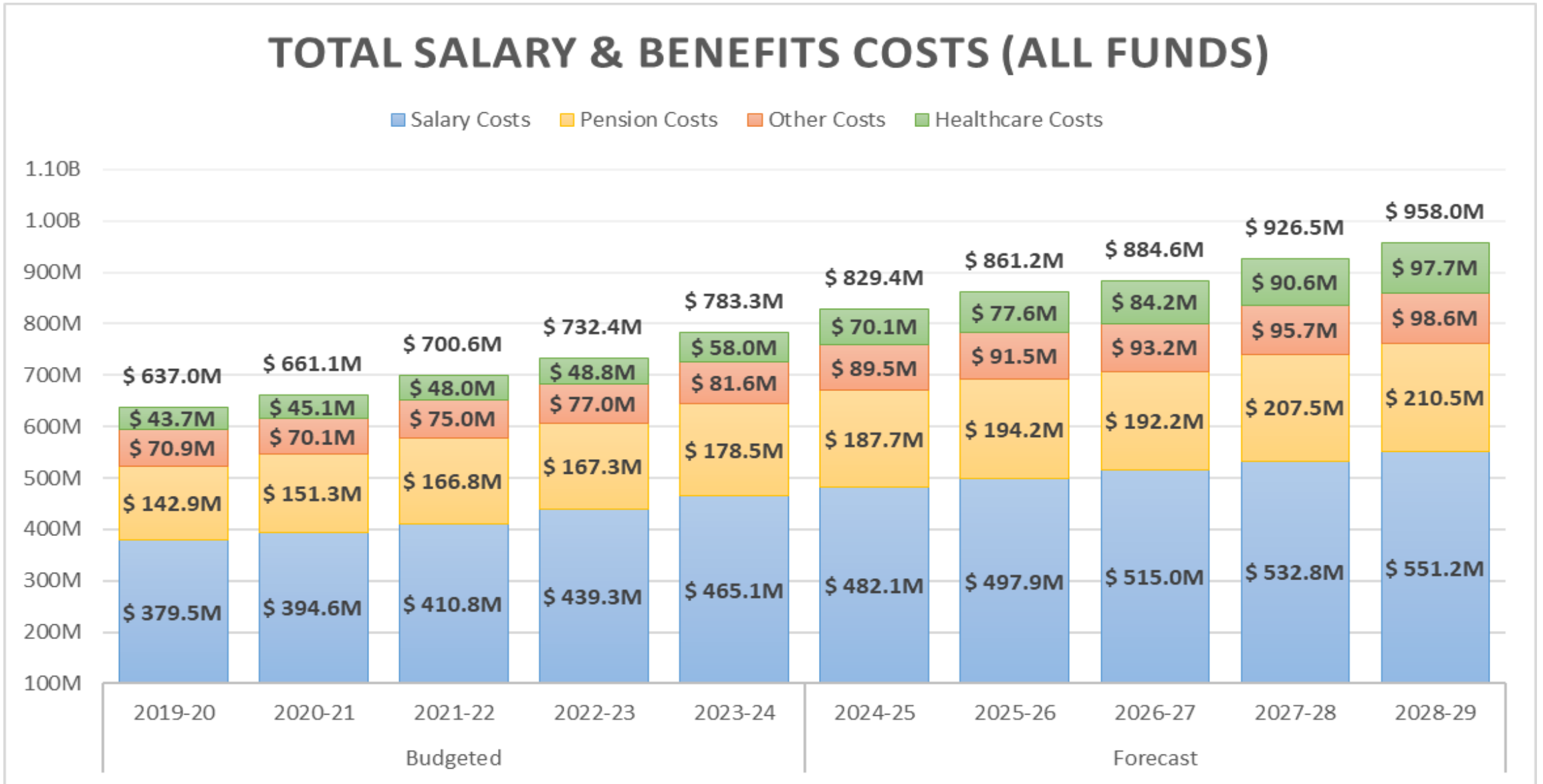
11.1%

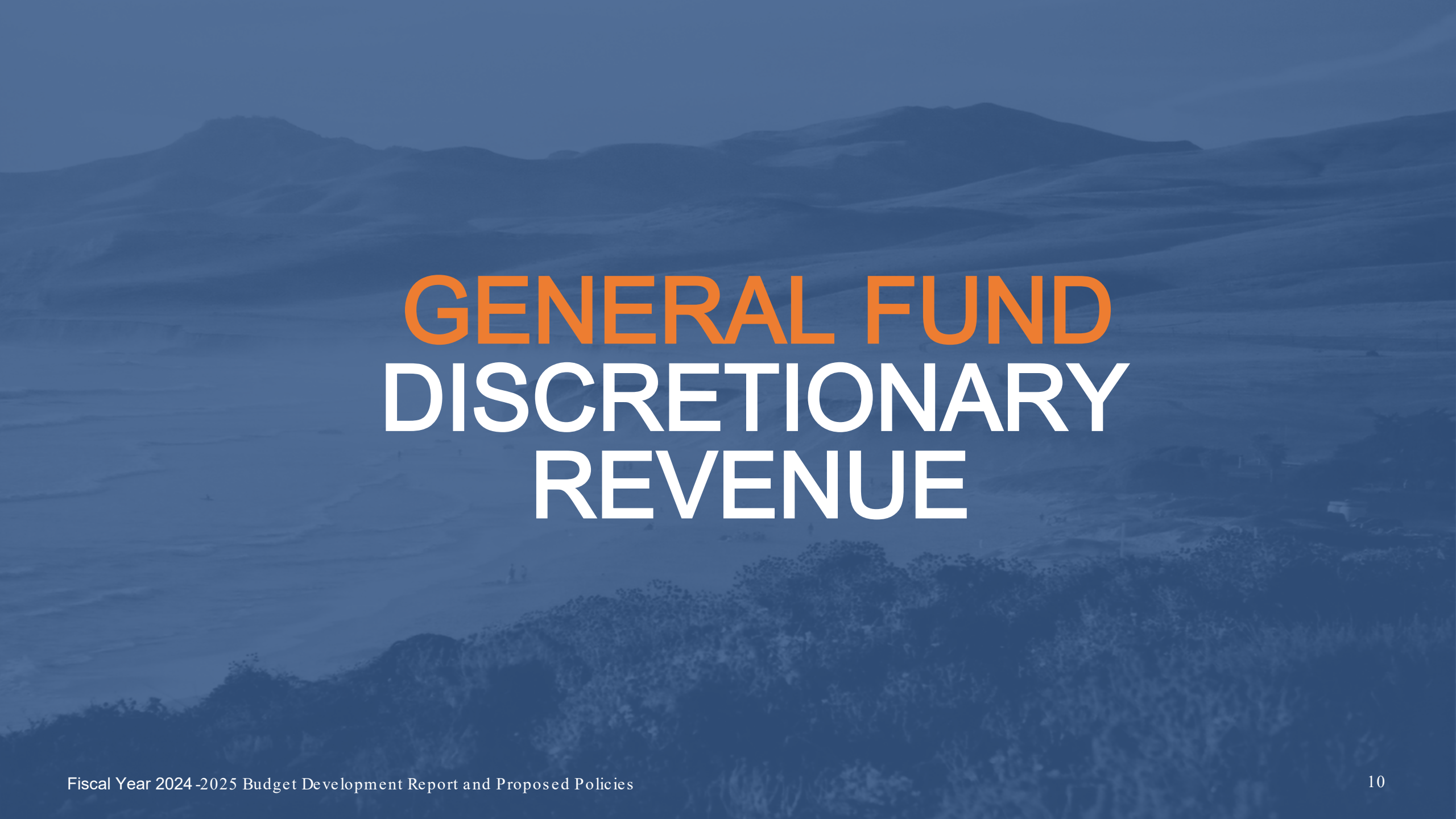
Average annual increase

- Growth rate much higher than prior years
- Assumes premiums will grow by 10% per year
- Includes increasing premium subsidies over the first two years



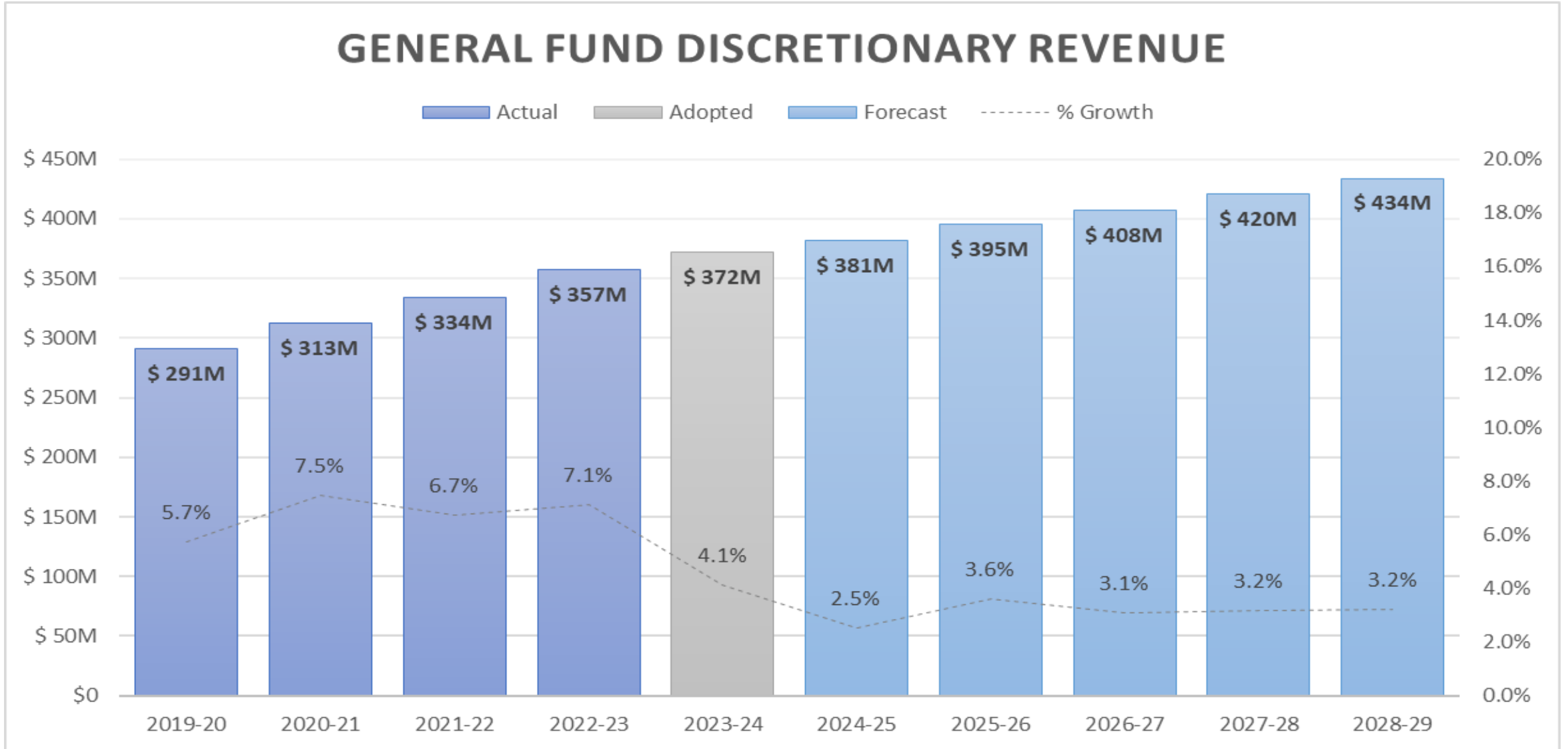
- Forecasted salary and benefit costs consistent with prior year growth





# GENERAL FUND DISCRETIONARY REVENUE

- Slower forecasted growth than in prior years





# Property Taxes

- Makes up 80% of the County's discretionary revenue (\$291.2 million in FY 2023-24)
- Forecast projects 3.4% average property tax revenue growth, lower than 6.4% average in the prior years
- Auditor-Controller staff estimates assessed value growth of 4.0% in FY 2024-25, then growth of 3.5% for remainder of the forecast years
- Impact to General Fund in FY 2024-25 is \$10.6 million over FY 2023-24 estimated actuals

# Transient Occupancy Tax

- Makes up 5% of County's discretionary revenue (\$17.1 million in FY 2023-24)
- Highly dependent on tourism and the availability of lodging in the unincorporated areas of the County
- Assumes 2.5% growth in FY 2024-25 over FY 2023-24 estimated actuals
- In years 2 – 5 of the forecast, more typical growth of 4% has been projected
- 14% average annual growth in prior years driven by post-pandemic travel and new hotel openings

# Sales Tax

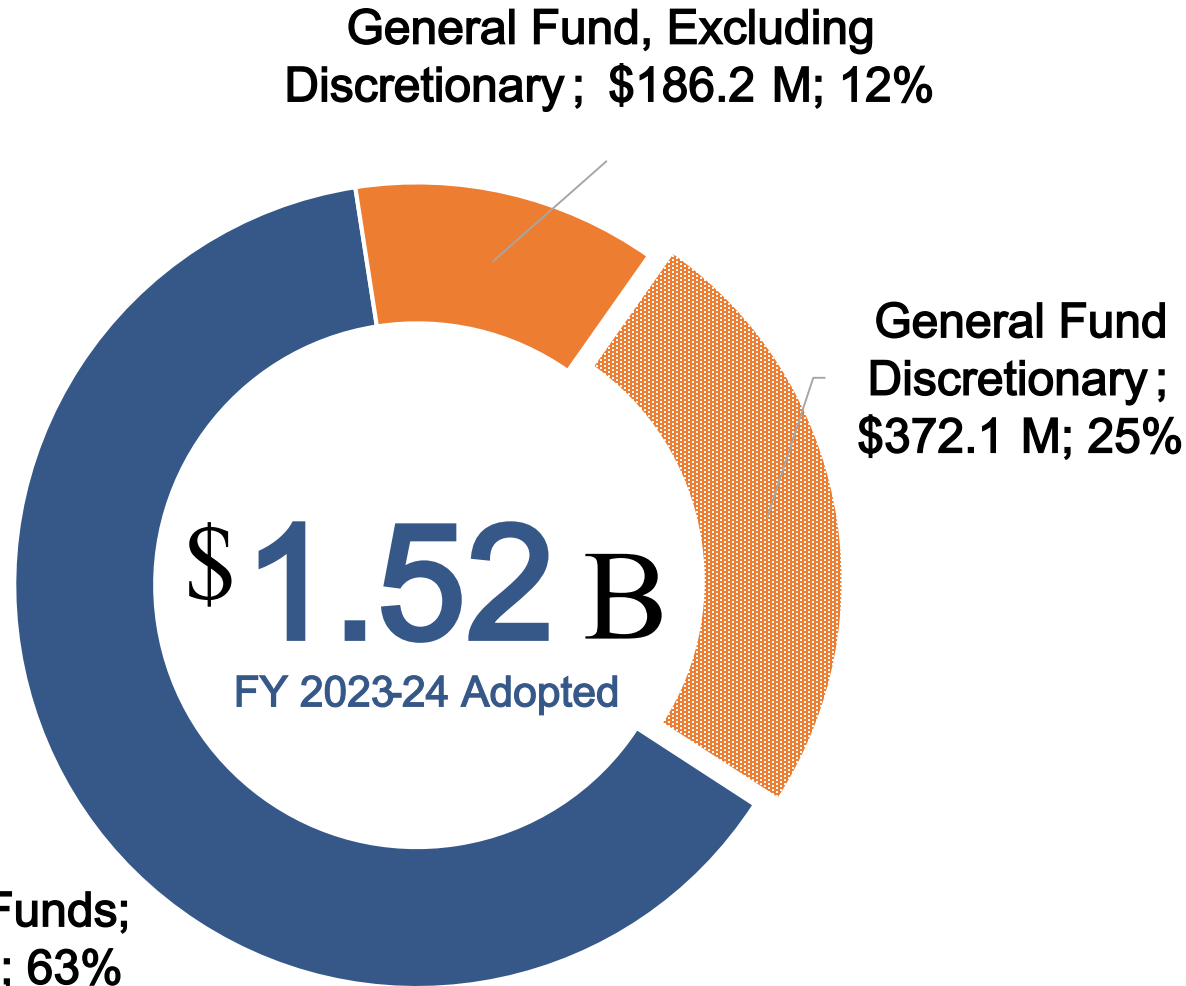
- Makes up 4% of County's discretionary revenue (\$15.1 million in FY 2023-24)
- Consumers facing a high degree of economic uncertainty but remain resilient
- Flat in current year and next year before rebounding to 3% annual growth in FY 2025-26 and beyond
- 8% average annual growth over past 5 fiscal years driven by robust spending during pandemic





# GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

# General Fund Context— Operating Revenues



- General Fund operating revenues around one-third of Countywide revenue
- Discretionary revenue about 66% of General Fund total; 25% of Countywide revenue
- Forecast focuses on discretionary piece
- Other revenues worked on by departments during upcoming budget development

**FIVE-YEAR FINANCIAL FORECAST**  
**INCREMENTAL CHANGE IN GENERAL FUND ONGOING REVENUE AND COSTS**  
**FISCAL YEARS 2024-25 THROUGH 2028-29**

<b>Row</b>	<b>Category</b>	<b>Ongoing Revenue Sources:</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>
1	Forecast	Discretionary Revenue (excludes Cannabis)	\$10,744,000	\$13,610,000	\$12,056,000	\$12,828,400	\$13,385,000
		<b>Total Revenue Change</b>	\$10,744,000	\$13,610,000	\$12,056,000	\$12,828,400	\$13,385,000
		<b>Ongoing Cost Changes:</b>					
2	Forecast	Negotiated and Assumed Salary Increases	\$6,596,560	\$5,352,860	\$5,789,847	\$6,098,646	\$6,303,848
3	Forecast	Pension Costs	2,507,160	1,941,583	(509,612)	4,639,997	1,001,471
4	Forecast	Health Benefits	3,444,981	2,278,457	1,992,865	2,002,658	2,172,581
5	Policy	Northern Branch Jail Operations	2,400,000	2,300,000	2,200,000	1,400,000	1,200,000
6	Policy	Rate Increases	1,120,000	1,625,000	1,828,000	1,932,000	2,136,000
7	Policy	18% Deferred Maintenance		42,700	158,900		127,300
8	Operational	Homelessness Services Costs	473,300	473,300	1,135,000	2,662,400	
9	Operational	IHSS MOE & Labor Increases		575,000	1,242,900	538,600	551,900
10	Operational	Voter's Choice Act Implementation	1,222,000				
11	Operational	AB 1869 Backfill Sunset			850,000		
12	Operational	Detention Facil. Healthcare Services Annual Increases	700,000	735,000	771,800	810,300	850,900
13	Operational	ARPA-funded Criminal Justice Programs			435,000	435,000	
14	Fiscal Plan	Release Board Approved Prior Year Set Aside Offset: General liability, labor/pension	(7,720,001)	(1,713,900)	(1,264,099)		
		<b>Total Change in Costs</b>	\$10,744,000	\$13,610,000	\$14,630,601	\$20,519,601	\$14,344,000
		<b>Annual (Deficit)/Surplus</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$2,574,601)</b>	<b>(\$7,691,201)</b>	<b>(\$959,000)</b>



# Policy Commitments

## Northern Branch Jail Operations

**\$9.5M** Total increase over forecast duration

- Increase of \$2.4M, to annual funding level of \$24.3M, in FY 24-25
- Average annual increases of \$1.3M in out years

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## 18% Deferred Maintenance

**\$330K** Total increase over forecast duration

- Current policy commits 18% of unallocated Discretionary revenues for maintenance needs
- Minimal growth anticipated in the forecast

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## Internal Charges Increase Mitigation

**\$8.6M** Total increase over forecast duration

- Certain internal rates charged to departments continue to rapidly increase
- Estimated \$1.1M increase in FY 2024-25

# Operational Changes

## Homelessness Services Costs

**\$4.7M** Total cost over forecast duration

- Pandemic-related homelessness funding set to expire over forecast period

## IHSS MOE & Labor Increases

**\$2.9M** Total increase over forecast duration

- County's share of costs funded by State 1991 Realignment revenue and ongoing GFC, if necessary
- Program costs expected to grow due to increasing labor contracts
- Costs expected to outpace funding sources in years 2-5 of forecast

## Voter's Choice Act (VCA) Implementation

**\$1.2M** Increase in Year 1

- Allows counties to conduct elections under model that provides greater flexibility and convenience for voters
- Ongoing costs to be offset somewhat by election billing revenue

# Operational Changes

## AB 1869 Backfill Sunset

**\$850K** Increase in Year 3

- AB 1869 repealed authority of counties to charge defendants various criminal justice fees
- Bill includes a revenue backfill provision to mitigate some lost revenue
- Backfill provision sunsets after FY 2025-26

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## Detention Facilities Healthcare Services Annual Increase

**\$3.9M** Total increase over forecast duration

- Wellpath provides medical and mental health care services in the County
- Current Wellpath contract expiring March 2024
- Future contract costs projected to increase, outpacing GFC

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## ARPA-funded Criminal Justice Programs

**\$870K** Total increase over Years 3 & 4

- Deadline of 12/31/26 to expend ARPA funds
- General Fund dollars will be required to maintain criminal justice positions
- Some funding previously set aside for this purpose

# Fiscal Planning

## Release Prior Year Set Asides

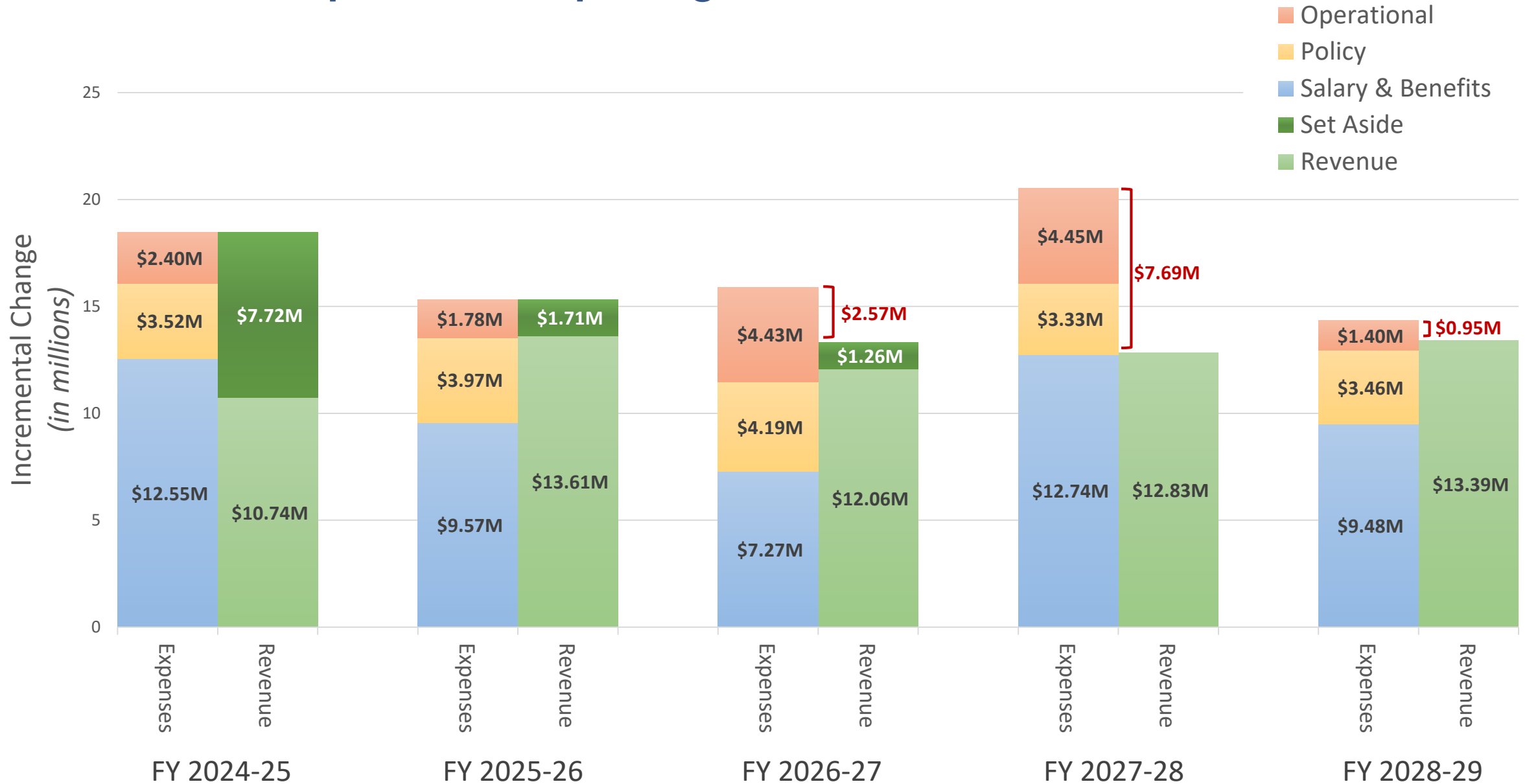
\$10.7M

Total released  
in Years 1-3

- Set asides are result of Board's fiscal prudence and careful planning
- \$10.7 million set aside in prior years, including \$7.5 million FY 2023-24
- Does not offset deficits in Years 3-5



# Growth in Expenses Outpacing Revenues





# Key Takeaways

- Projected revenue growth not enough to offset increased salary and health benefits and pension cost increases every year
- Deficits avoided in Years 1 and 2 only by releasing Board's prudent prior year set asides; deficits remain in Years 3-5
- Departments should focus on maintaining existing services, as opposed to expansions
- May need to look to cost-cutting in the future, so must continue finding efficiencies now
- One-time funds may be needed to bridge budget gaps in out years
- CEO will recommend new priorities be focused on one-time projects or needs, not ongoing costs



# FISCAL ISSUES UNDER REVIEW

# Fiscal Issues Under Review - General Fund

- Legislative Changes
  - A variety of significant legislative issues affecting criminal justice departments (e.g., postconviction mandates and SB 678 funding formula change impacts)
- Deferred Maintenance
  - \$538 million backlog in Public Works (\$305 million), Community Services (\$70 million), and General Services (\$163 million)
  - Ongoing funding allocated to projects per the existing 18% maintenance policy and one-time funds allocated as available
- Disability Rights California (DRC) Compliance
  - In compliance with the February 2021 stipulated judgement, the County continues to address improvements at adult detention facilities in the areas of medical care, mental health care, suicide prevention, ADA accommodations, environmental health and safety, and custody operations



# Fiscal Issues Under Review - Special Revenue Funds

- **Inmate Welfare Fund**
  - Provides programming for the benefit, education, and welfare of inmates in the County's jails
  - Funded by commission payments on inmate telephone calls and commissary purchases
  - 2021 legislation placed cap on telephone rates, reducing revenue; \$224 thousand fund balance draw was required to balance in FY 202223
  - Expenditures are projected to continue outpacing revenues, resulting in fund balance depletion
- **Heath Care Fund**
  - Continues to grapple with loss of 340B pharmacy benefit revenue; makes up difference with fund balance
  - Worst-case scenario projects a depletion of fund balance by FY 2028-29
  - Implementing a five-year Strategic Plan for the County's Health Care Centers to increase financial strength and resilience.

# Fiscal Issues Under Review - Special Revenue Funds

- **Mental Health Services Fund**
  - Provides mental health services for conserved individuals using Medi-Cal reimbursement, Mental Health Realignment, and General Fund dollars
  - Senate Bill 43 (SB 43), signed in October 2023, expands eligibility for conservatorship to individuals with mental health and substance use disorders and does not include dedicated funding for implementation - full cost of implementation currently unknown
  - County may delay implementation to January 1, 2026 to prepare for and quantify the financial impact of this expansion
- **Mental Health Services Act Fund**
  - Is funded through a 1% state tax on personal incomes in excess of \$1M per year
  - A vote in March 2024 may redirect 30% of funding towards housing for the chronically homeless
  - If passed, it would potentially reduce the County's available funding for mental health services by \$9 million

# Fiscal Issues Under Review - Special Revenue Funds

- Workforce Innovation and Opportunity Act Fund
  - Houses the County's Farmworker Resource Center Program – Proyecto Campesino– which provides outreach and mobile services related to emergency support services, education access and support, and labor rights
  - Program established in July 2023 and funded with an \$833,000 State AB 941 Farmworker Resource Center Grant and a \$208,250 match from the General Fund
  - Grant funding will end in May 2024, and the County will need to identify an alternative funding source for the ongoing operational costs in order to continue the program
  - Staff will return to the Board in the third quarter of FY 2023 24 to discuss the impact of the program in greater detail and discuss future service delivery and funding options.



# FY 2024-25 PROPOSED BUDGET DEVELOPMENT POLICIES



# Amend Policy

## 3.f

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CEO may recommend deletion of extended funded vacancies during budget development

- Rationale
  - Policy section 3.f. requires departments to build salary savings into their annual budgets knowing that not all positions remain filled 52 weeks a year
  - By deleting positions that have been vacant for more than two budget cycles, funding can be reallocated to other expenditures
  - Departments will have the opportunity to justify extended vacancies
- Departments Affected
  - Countywide
- Fiscal Impact
  - Could result in reallocation of existing resources to more urgent needs



# FY 2024-25 BUDGET REVIEW FUNDING PRIORITIES

# GF Unallocated Fund Balances

- \$10.7 million available in the GF Fund Balance Unallocated
- \$10.6 million available in Advanced Construction Reserve after COP issuance
- \$1.5 million available in Emerging Issues
- \$4.7 million available in Prop 172 funds
- Utilize based on existing obligations, commitments, and emerging requirements

# Identified Priority Areas

- No ongoing GFC remaining for department expansion requests or new programs
- One-time balances not enough for all identified needs
- **Bold text** denotes existing obligations, Board commitments, and emerging requirements; staff will consider first when developing recommendations in coming months



# Coordinated Community Service Delivery and Strengthened Safety Net

**Objective:** Continue to make Santa Barbara County a place where our community can lead healthy, prosperous lives

- Including:
  - **Dignity Moves projects, years 3 through 5**
  - **Housing Element implementation actions (if necessary)**
  - **Improved access to inpatient mental health care treatment**
  - Workforce housing options
  - Recreation Master Plan implementation
  - Other homeless services, projects underway and interim funding for anticipated homeless services deficits
  - Consultant services for building permit backlog
  - Set aside for allocation to District area special projects

# Improve Criminal Justice System

**Objective:** Continue to improve our Criminal Justice system so that justice is served fairly, expeditiously and with humanity

- Including:
  - **Jail improvements in accordance with Disability Rights California (DRC) settlement, including: Northern Branch Jail Design and Main Jail ADA, accessibility wellbeing improvements; potential augmentation of jail Medical Services**

# Financial and Organizational Excellence

**Objective:** Continue to improve the transparency, efficiency and effectiveness of how we do our work, and to make County of Santa Barbara a great place to work

- Including:
  - **Labor agreements**
  - **Enterprise Resource Planning (ERP) software implementation and adoption**
  - Backfill state revenue losses and set aside for future deficits

# Sustainability and Climate Resiliency

**Objective:** Continue to reduce Santa Barbara County's contribution to climate change, and improve our resilience to the impacts of a changing climate

- Including:
  - **Disaster recovery set aside and projects**
  - **Project Clean Water projects**
  - **Electric vehicle charging infrastructure**
  - Climate Action Plan implementation

# Facilities and Infrastructure

**Objective:** Continue to invest in the physical future of Santa Barbara County by building and maintaining infrastructure

- Including:
  - New capital projects and deferred maintenance
  - Calle Real Master Plan



# RECOMMENDED ACTIONS

- A. Receive and file the FY 2024-25 Budget Development Report that includes a five-year forecast of major budgetary components for the General Fund and other major funds;
- B. Adopt the FY 2024-25 Budget Development Policies;
- C. Review funding priorities for Fiscal Year 2024-25 and provide staff additional direction as appropriate; and
- D. Determine pursuant to CEQA Guidelines § 15378 that the above activity is not a project under CEQA.

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