

COUNTY OF SANTA BARBARA
GENERAL FUND DISCRETIONARY REVENUE

ATTACHMENT A

Revenue Source	FY 21-22 Actual	FY 22-23 Budgeted	Five-Year Forecast				
			FY 23-24 Forecast	FY 24-25 Forecast	FY 25-26 Forecast	FY 26-27 Forecast	FY 27-28 Forecast
Cannabis Taxes	\$8,718,777	\$16,293,300	\$14,768,400	\$16,725,800	\$17,505,900	\$18,779,000	\$20,306,700
Current Property Taxes	171,702,570	176,476,000	208,842,600	214,425,800	220,614,600	226,986,300	233,546,700
Countywide Cost Allocation Plan	19,611,146	20,037,800	20,109,300	23,050,700	23,143,200	22,293,300	22,716,700
Federal In Lieu and Reimbursements	2,068,213	2,015,800	2,151,800	2,194,800	2,238,700	2,283,500	2,329,200
Franchise Fees	3,850,207	3,193,100	3,587,100	3,717,700	3,859,800	4,014,000	4,181,300
Interest Income	1,238,852	727,000	1,889,000	1,945,700	2,004,100	2,064,200	2,126,100
Penalties and Interest - Property Taxes	7,725,006	4,883,000	5,078,000	5,230,500	5,387,200	5,548,900	5,715,400
Property Taxes In-Lieu of VLF	65,141,618	68,073,000	73,248,000	75,445,400	77,708,800	80,040,100	82,441,300
Real Property Transfer Taxes	7,746,529	5,500,000	4,675,000	4,207,500	4,207,500	4,207,500	4,207,500
Redevelopment Agency Funds	12,005,725	12,410,000	3,784,000	3,894,800	4,008,900	4,126,500	4,247,500
Sales and Use Tax	15,341,316	14,239,500	15,758,800	16,215,800	16,750,900	17,320,400	17,909,300
Transient Occupancy Tax	16,983,701	15,165,100	17,108,700	16,766,500	16,850,300	17,187,300	17,703,000
All Other Discretionary Revenue	1,498,452	1,545,600	1,545,900	1,568,100	1,591,500	1,616,000	1,641,700
TOTAL	\$333,632,109	\$340,559,200	\$372,546,600	\$385,389,100	\$395,871,400	\$406,467,000	\$419,072,400
Dollar Change Per Year	\$21,094,743	\$6,927,091	\$31,987,400	\$12,842,500	\$10,482,300	\$10,595,600	\$12,605,400
Overall Growth Per Year		2.1%	9.4%	3.4%	2.7%	2.7%	3.1%

GROWTH RATES:
Cannabis Taxes -44.6%
Current Property Taxes 2.8%
Countywide Cost Allocation Plan 13.0%
Federal In Lieu and Reimbursements 2.6%
Franchise Fees 27.9%
Interest Income 83.3%
Penalties and Interest - Property Taxes 100.2%
Property Taxes In-Lieu of VLF 3.8%
Real Property Transfer Taxes -3.5%
Redevelopment Agency Revenues 5.3%
Sales and Use Tax 22.3%
Transient Occupancy Tax 35.5%
All Other Discretionary Revenue -21.6%

Discretionary Revenue Forecast Assumptions:
Cannabis Taxes - Cannabis cultivation taxes began to decline substantially in FY 2021-22, and continue to decline, due to the oversupply of wholesale cannabis product that continues to persist statewide, thereby compressing prices and adversely impacting gross receipts, which is the basis for which cannabis taxes are calculated. Six new retail storefront operators are expected to commence operations throughout FYs 2022-23 and 2023-24 which will contribute to the overall cannabis tax revenue base. A decline in growth of 9.4% is expected in year one of the forecast and is mainly due to the continued price compression of cannabis wholesale product. Growth of 13.3% is anticipated in year two with price compression expected to continue, but to a lesser extent, and is offset by the assumption that all new operators that have applied for a cannabis business license will be issued one, and commence operations within the fiscal year. Year three assumes growth of 4.7% due to price compression still persisting, but steadily improving, then increasing to 7.3% and 8.1% in the final years of the forecast.
Current Property Taxes - Property tax receipts are projected to increase significantly in FY 2022-23 due in large part to the increased quantity of residential and commercial property transfers that occurred as a result of a strong real estate market over the past couple of years, and the corresponding increases in their reassessed values. The dissolution of the City of Santa Barbara RDA is also driving the increase in property taxes as the need for a City of Santa Barbara RDA contribution has been eliminated. Year one of the forecast assumes growth of 18.3% as a result of the two conditions mentioned above, then leveling off to 2.7% growth in year two, and 2.9% growth in the out years of the forecast.
Countywide Cost Allocation Plan (CAP) - The cost allocation plan reimburses the General Fund for costs of services incurred by proprietary (Enterprise and ISF) and subvented funds (Mental Health, Social Services, etc.). The plan is developed based on the actual costs identified in the previous two fiscal years. Year one of the forecast assumes negligible growth of 0.4% before spiking to 14.6% in year two due to increases in central service department's costs. Year three reverts back to a flattening of growth at 0.4% as costs are anticipated to hold steady, then decreases to -3.7% in year four, before leveling off at 1.9% in the final forecast year. Ultimately, cost allocation plan revenue is forecasted by estimating costs incurred by General Fund departments.
Federal In Lieu and Reimbursements - These funds primarily represent Federal Payments in Lieu of Taxes (PILT) funds. PILT funds help to offset the loss of property tax revenues caused by the presence of tax-exempt federal land. Year one of the forecast assumes growth of 6.7% over the current fiscal year budget, then flattening to the historical average of 2% for the remainder of the forecast years.
Franchise Fees - These fees are generated from cable and road right of way usage by several utility type companies. The General Services Department collects the fees, which are typically based on a percentage of the payor's gross receipts. Year one of the forecast projects growth of 12.3% based on strong receipts received in FY 2021-22. Year two assumes solid growth of 3.6% and grows modestly in each subsequent year, ending with 4.2% growth in the final forecast year.

**COUNTY OF SANTA BARBARA
GENERAL FUND DISCRETIONARY REVENUE
Discretionary Revenue Forecast Assumptions Continued:**

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Interest Income - The Treasury Pool interest rate decreased substantially over the first two years of the pandemic but has since reversed course and is now trending upward as banks enter a higher interest rate environment. The FY 2022-23 budget assumed that rates would continue to remain low, however given the new trend, that does not appear to be the case. Year one of the forecast reflects this new, positive outlook with growth of 160% over the current fiscal year's adopted budget, then grows by 3% in each of the remaining forecast years.

Penalties and interest - Property tax penalties and delinquencies are projected to increase by 4% in year one of the forecast due to a rebound from an assumed slowdown of the economy, where more property tax delinquencies typically occur, then returns to normal expectations of 3.0% growth prospectively.

Property Taxes In-Lieu of VLF - This "VLF Swap" adjustment is calculated by the Auditor-Controller and represents the annual growth of assessed valuation for the General Fund (less annexation transfers) that is allocated to the County in lieu of vehicle license fees (VLF). Propositions 1A set the VLF rate at 0.65% and dedicated the revenue source for counties and cities. Under the Proposition, the State cannot decrease VLF revenues without providing replacement funding. The VLF swap began in FY 2004-05 and is a permanent adjustment. The revenue grows or declines in conjunction with changing gross property tax valuation. The forecast assumes solid growth of 7.6% in year one due to the continued growth in the assessed value of residential and commercial properties, then levels off to 3% for the balance of the forecast.

Real Property Transfer Taxes - The County charges \$0.55 for every \$500 in value of property on each deed, instrument, etc. pursuant to Revenue and Taxation Code 11911. The forecast assumes a slowdown in the real estate market driven by an uncertain economy and increased mortgage rates, resulting in a decrease in property transfer growth of -15% in year one, followed by a decrease of -10% in year two, before flattening out to 0% growth for the remaining forecast years.

Redevelopment Agency Revenues - The County receives revenues from City Redevelopment Agencies (RDA). RDA-related revenues fall into the following three categories: 1) pass-through payments received by RDAs, 2) dissolution proceeds from Successor Agencies, and 3) distributions of residual balances remaining in trust funds of former RDA successor agencies. Dissolution Proceed amounts are a result of legal agreements and are therefore uniform and fixed. The remaining RDA revenues are projecting a substantial decline in growth of -69.5% in year one of the forecast due to the complete dissolution of the Santa Barbara City RDA effective FY 2022-23, which eliminates the need for a Santa Barbara City RDA residual contribution. This decrease in RDA revenues is offset by a proportionate increase in secured and unsecured property tax revenue as those revenues formerly contributed to the Santa Barbara City RDA have ceased. The balance of the forecast assumes steady RDA revenue growth of 2.9% prospectively.

Sales and Use Tax - This tax represents the local portion of the retail sales tax collected by the State from sales generated within the unincorporated areas of the County. Despite an uncertain economy that is being driven by the increased cost of goods due to high inflation, coupled with the Federal Reserve's actions to curb inflation, consumer demand for taxable goods is forecasted to remain steady. Year one of the forecast assumes growth of 10.7%, then decreases to 2.9% in year two, before leveling off to between 3.3% and 3.4% growth in the out years.

Transient Occupancy Tax - The County collects a Transient Occupancy Tax (TOT) that is charged to occupants of every hotel, motel, and individual vacation rental in the unincorporated areas, who stay for a period of thirty days or less. This discretionary tax revenue surged in the wake of the pandemic due to the general public's pent-up demand to travel and the County's status as a highly desired tourist destination. The forecast assumes considerable growth of 12.8% in year one of the forecast, then declines to -2% in year two due to a slowing economy. Modest growth of 0.5% is expected in year three with incremental increases of 2% and 3% assumed in the final forecast years.

All Other Discretionary Revenue - This category consists of revenue from varying sources. The forecast assumes that this category will remain flat in year one, then growing modestly to 1.6% by the final forecast year.

**COUNTY OF SANTA BARBARA
COUNTYWIDE MAJOR SALARY AND BENEFITS CHANGE**

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Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Countywide Projected Salary Costs	\$ 452,492,800	\$ 469,262,400	\$ 484,617,100	\$ 500,980,000	\$ 518,140,600
Change from prior year (\$)	13,175,210	16,769,600	15,354,700	16,362,900	17,160,600
Change from prior year (%)	3.0%	3.7%	3.3%	3.4%	3.4%
Countywide Projected Pension Costs	176,618,300	186,510,900	195,939,700	199,780,500	219,779,700
Change from prior year (\$)	9,356,706	9,892,600	9,428,800	3,840,800	19,999,200
Change from prior year (%)	5.6%	5.6%	5.1%	2.0%	10.0%
Countywide Projected Healthcare Costs	57,940,000	66,041,100	73,043,800	78,480,200	84,425,600
Change from prior year (\$)	9,108,865	8,101,100	7,002,700	5,436,400	5,945,400
Change from prior year (%)	18.7%	14.0%	10.6%	7.4%	7.6%
Total Major Salary and Benefits Costs	\$ 687,051,100	\$ 721,814,400	\$ 753,600,600	\$ 779,240,700	\$ 822,345,900
Change from prior year (\$)	\$ 31,640,781	\$ 34,763,300	\$ 31,786,200	\$ 25,640,100	\$ 43,105,200
Change from prior year (%)	4.8%	5.1%	4.4%	3.4%	5.5%

Salary and Benefit Assumptions:

Salaries - Salary increases matched MOUs for all bargaining groups with agreements in place. In general, this was between 2.0% and 2.5%, with additional equity adjustments where negotiated, in FY 23-24 and FY 24-25. Assumptions for years beyond the MOUs had an assumed annual increase of 3%.

Pensions - A pension rate model was created that assumed smoothing in of the returns the pension fund experienced well below the 7% discount rate in FY 2021-22, as well as continued smoothing in of gains and losses from prior fiscal years. The SBCERS Board is scheduled to adopted FY 2023-24 pension rates on December 7, 2022. The overall trend in the forecast is increasing pension plan rates and salaries, which both drive pension contributions upwards. In the fourth year of the forecast, the plan rates have a smaller increase, due to the FY 2019-20 losses being fully smoothed into the rates by FY 2025-26, while the large gains of FY 2020-21 are smoothed in for one more year. Conversely, the much larger increase in FY 2027-28 is driven by those same gains now being fully smoothed in, while the losses of FY 2021-22 are smoothed in for one more year, with no offsets.

Healthcare - Calendar year 2023 saw higher premiums than anticipated when the FY 2022-23 budget was adopted. These higher premiums have an upward effect on the FY 2023-24 rates, which is exacerbated by an assumed increase of 9% in calendar year 2024, and each subsequent year of the forecast. On top of this are negotiated healthcare premium subsidies built in over the first three years of the forecast, for dependent and family plans, which are leading to larger increases in the early years than in the later years of the forecast.

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GENERAL FUND RESERVES
 GENERAL COUNTY PROGRAMS - BUDGET UNIT 990
 Estimated Balances for FY 2023-24

Reserve Account	FY 2022-23 Adopted Budget					
	Beg Balance	Budgeted Net Increases	Budgeted Net Uses	Earmarks Future Use	Prudent Reserve	Ending Balance
1 9768 -- Public Safety Prop 172	\$ 15,519,100	\$ -	\$ 215,000	\$ 4,641,200	\$ 4,000,000	\$ 6,662,900
2 9775 -- Local Innovation Sub-Account	739,300	100,000	200,000	-	-	639,300
3 9811 -- Behavioral Wellness	5,723,200	1,000,000	3,923,200	-	-	2,800,000
4 9815 -- Props 215/64 - Cannabis	13,568,100	16,293,300	16,727,500	9,242,300	3,891,600	-
5 9818 -- 18% Deferred Maintenance	-	11,607,000	11,607,000	-	-	-
6 9819 - Advance Construction Reserve	8,957,000	-	7,507,000	1,450,000	-	-
7 9830 -- Capital	41,291,700	5,300,000	27,955,000	18,636,700	-	-
8 9833 -- Technology Replacement	9,180,100	11,450,000	6,959,800	12,765,600	-	904,700
9 9835 -- In-Car Video Replacement	735,000	185,000	-	-	-	920,000
10 9836 -- Roads - Baseline	-	500,000	500,000	-	-	-
11 9840 -- Strategic Reserve	38,785,300	1,791,400	-	-	-	40,576,700
12 9845 -- Litigation	10,932,400	31,511,000	1,364,100	41,079,300	-	-
13 9846 -- Disaster Recovery	9,097,900	-	-	9,097,900	-	-
14 9849 -- Program Stabilization	9,048,000	5,550,000	6,412,800	8,185,200	-	-
15 9851 -- Facilities Maintenance - Baseline	3,435,500	3,600,000	3,850,000	3,185,500	-	-
16 9852 -- Assessment Appeals Support	-	-	-	-	-	-
17 9853 -- Hazardous Tree Mitigation	-	500,000	500,000	-	-	-
18 9880 -- New Jail Operations	11,753,200	19,300,000	23,606,400	480,000	-	6,966,800
19 9890 -- Emerging Issues(one-time funding)	8,599,600	5,976,200	6,585,900	7,989,900	-	-
20 9898 -- Contingencies	5,355,400	2,632,900	348,100	3,180,300	-	4,459,900
21 9940 -- Fund Balance-Residual (One-time)	7,829,800	22,398,900	4,437,800	16,144,700	-	9,646,200
	\$ 200,550,600	\$ 139,695,700	\$ 122,699,600	\$ 136,078,600	\$ 7,891,600	\$ 73,576,500