



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: August 18, 2009
Placement: Departmental
Estimated Time: 1 Hour
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Michael F. Brown, County Executive Officer
Director(s)
Contact Info: Jason Stilwell, Asst. County Executive Officer/Budget Director,
568-3413

SUBJECT: State Budget Impacts and Solution Strategies

Recommended Actions:

It is recommended that the Board of Supervisors:

- a) Receive a report on amendments to the Fiscal Year 2009-10 State budget that impact the County, including the State borrowing local government funds (Proposition 1A);
- b) Consider borrowing strategies to mitigate the impact of the Proposition 1A suspension and select the State Finance Securitization option;
- c) Enact other solutions in addition to borrowing, including establishing greater efficiencies, enhancing revenues, modifying salary and benefit options, and/or reducing service levels;
- d) Direct staff to return on September 22, 2009 with Budget Revision Requests, resolution(s), and or other necessary instruments to implement the above recommendations; and
- e) Consider budget revision requests to modify Board adopted budget as a result of State budget impacts.

It is recommended that the Santa Barbara County Redevelopment Agency Board of Directors:

- a) Consider a budget revision request to modify Agency Board of Directors adopted budget as a result of State budget impacts.

Summary Text:

On February 20, 2009, the State adopted a 17-month budget that included \$36 billion in solutions to solve the budget deficit and required voter approval of certain budget referenda. However, the failure of the propositions to garner passage by the voters during the special election in May 2009 and the further decline in revenues resulted in an additional \$24 billion budget gap. On July 28, 2009, the State adopted amendments to the Fiscal Year 2009-10 Budget to address the ongoing budget shortfall exacerbated by the continued decline in revenues. The accumulation of \$60 billion in budget solutions adopted this year attempts to address the largest budget gap the state has ever faced.

However, one-third of the budget includes the use of local government monies (Proposition 1A and redevelopment agencies), one-time fixes (for example changing the payday of State employees from June 30 to July 1), and borrowing. Amendments to the State budget were necessary in light of the economic realities facing the State.

The impacts of the recently enacted amendments constrain Santa Barbara County's fiscal stability and ability to deliver services, largely based upon State funding reductions in the area of local government and health and human services. Most significantly, the State's budget includes borrowing \$1.9 billion from local governments through the suspension of Proposition 1A. The suspension allows the State to redirect local tax revenues to the State's General Fund, with the condition of repayment within three years, or by no later than June 30, 2013. The borrowing of Proposition 1A equates to a total loss of approximately \$16 million to the County in Fiscal Year 2009-10: \$13 million to the County's General Fund; \$2 million to the County Fire District; and about \$1 million to various dependent special districts, such as the flood zones that are managed by the County. Consequently, the County is faced with policy options of securitizing, or borrowing, funds to replace the Proposition 1A suspension and enacting funding reductions across County departments to temper the impacts of the State budget.

The County will also be impacted by significant funding reductions to categorical revenue. The State budget authorizes a \$1.7 billion takeaway of redevelopment funds from redevelopment agencies across California. The California Redevelopment Association estimates this will result in a loss of \$1.5 million from the Santa Barbara County Redevelopment Agency (RDA). In addition, some of the largest reductions occur in health and human services. While the specific fiscal and operational impacts to County departments and their clients are still being assessed, preliminary estimates for Public Health, Alcohol, Drug and Mental Health Services, and Social Services total more than \$4 million in reductions. Significant impacts occur in: Medi-Cal; CalWORKs; child welfare services; HIV/AIDS programs; Healthy Families; Proposition 36 Substance Abuse and Crime Prevention Act (SACPA); and various mental health reductions.

The State budget impacts hit the County at the same time as other financial challenges. First, future budgets will be severely constrained by rising retirement costs even if the recession ends and the economy improves. As previously reported, FY 2010-11 retirement costs could increase by nearly \$55 million, resulting in a 69% expenditure increase if no action is taken. Second, the County is also facing a cost of approximately \$3.5 million in unplanned and unbudgeted health plan premium rates. At the same time, the County's primary revenue sources have sharply declined. Third, the County's future fiscal stability is challenged by the potential for payment of liabilities owed by the Alcohol, Drug and Mental Health Services department. Finally, the uncertain financial future of the State and its questionable ability to repay Proposition 1A funds within three years complicates the County's fiscal outlook.

In order to detail the State budget impacts and address other critical **County** financial issues, staff has prepared a report entitled "State Budget Impacts and Solution Strategies." The report is designed to inform the Board of Supervisors about the impacts of the State budget **on the County** and present options for mitigating those impacts.

Fiscal and Facilities Impacts:

The impacts to the General Fund of various funding reductions and borrowing schemes by the State total \$16 million. In addition, categorical funding to the County's health and human services departments, ADMHS, Public Health, and Social Services, is estimated to be reduced by more than \$4 million. Finally, funding reductions to the Redevelopment Agency are approximately \$1.5 million.

Special Instructions:

None

Attachments:

- (A) CEO Report "FY 2009-10 State Budget Impacts and Solution Strategies"
- (B) County Budget Revision Requests
- (C) Redevelopment Agency Budget Revision Requests
- (D) Legislative Analyst Office Report "July 2009 Budget Package" dated July 29, 2009
- (E) Presentation material

Authored by:

Jason Stilwell, Assistant County Executive Officer/Budget Director (568-3413)

cc:

Department Directors
CEO Budget and Research