



**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: 12/08/15
Placement: Departmental
Estimated Tme: 1 Hour
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Mona Miyasato, County Executive Officer
Contact Info: Tom Alvarez, Budget Director, 568-3432
SUBJECT: FY 2016-18 Fiscal Outlook Report

Recommended Actions:

That the Board of Supervisors:

- a) Receive the Fiscal Years 2016-18 Fiscal Outlook Report and a presentation on the economic context and impending financial challenges faced by the County in FYs 2016-17 and 2017-18 and
- b) Provide direction as appropriate on priorities for preparation of the FY2016-17 and FY 2017-18 budgets.

Background:

The Fiscal Outlook Report is the second of six annual Budget Development presentations to the Board and provides context of the overall economy, specific countywide events, and their estimated financial impact on the County.

Summary Text:

The national and local economies continue to strengthen and we are nearing full employment levels. In Santa Barbara County, property values and businesses continue to grow at a moderate rate, allowing the County to continue rebuilding the organization and finances as we continue to provide residents with high quality services. The budget is in the early stages of development but we anticipate modest growth in Discretionary General Revenues; between \$7.0 – \$9.0 million.

While the budget has stabilized, there will always be more need than funding. As detailed in the Fiscal Outlook Report, there will be a combination of increases to existing costs, new issues requiring

additional funding and the County will continue to fulfill its prior strategic commitments. The combination of these cost increases will limit our growth and flexibility in other areas.

The estimated cost of expected issues identified in the Fiscal Outlook Report is \$15.7 million. (This does not include any additional funding beyond Board policies for deferred maintenance or capital items, new initiatives or continued funding for one-time expansions provided last year). To fund these needs identified in this report is projected to require approximately \$10.2 million in Discretionary General Revenues and \$5.5 million of departmental funds. Departments will need to allocate additional funding towards their portion of these issues or reduce costs and services in other areas to balance their budgets.

Highlighted below are positive signs described in the Report as well as a summary of the Fiscal Issues that are detailed in the Report.

Positive Signs

- National and Local labor market is nearing full employment
- Average earnings have risen over the past year and consumer spending is up
- Santa Barbara property values continue to display moderate growth
- Increased federal, state and local funding towards Health and Human Services departments
- Minimal service reductions and impacts to the public during recent years
- Adapting and strategically planning for the future
- New efforts to create a thriving and engaged workforce
- Departments have created efficiencies in operations through process improvements, technology and innovation

Fiscal Issues:

Tier 1 Issues: Expected occurrence within the next two fiscal years						
	Issue	FY 2016-17 Impact	FY 2017-18 Additional Impact	Onetime or Ongoing	FY 2016-17 Discretionary Impact	FY 2017-18 Discretionary Impact
		(\$ in millions)				
1	Health Insurance	\$ 4.2	\$ 4.5	Ongoing	\$ 1.4	\$ 1.5
2	HUTA Revenues – Gas Tax Swap True-Up for 14-15	2.5	-	Onetime	2.5	-
3	ADMHS Inpatient System	2.0	-	Ongoing	2.0	-
4	Compensation & Workforce Planning	2.1	2.3	Ongoing	0.7	0.7
5	Workers' Compensation	1.1	0.6	Ongoing	0.4	0.2
6	Northern Branch Jail Operations Funding	1.5	1.5	Ongoing	1.5	1.5
7	Deferred Maintenance Backlog	1.4	1.9	Ongoing	1.4	1.9
8	Retiree Healthcare (OPEB)	0.8	0.8	Ongoing	0.3	0.3
9	Jail Management System Replacement	0.1	0.8	Onetime	0.1	0.8
10	Cadillac Tax	-	2.3	Ongoing	-	0.7
	Total	\$ 15.7	\$ 14.7		\$ 10.2	\$ 7.6

In the coming months and years as we address known, evolving and new issues we will continue to communicate the changing landscape and allocation of available resources.

Please refer to the Fiscal Outlook Report for an in depth discussion and analysis of these matters.

Priorities for Next Year

Discretionary revenue growth, after fulfilling commitments, is projected to be modest in the next year, and the fiscal issues identified in this report will require use of that funding. There will be little opportunity for significant expansions. New initiatives will require other funding or redirection of existing resources.

The Board has already directed the CEO's office to review the process and amount of funding for outside agency requests. Staff will return to the Board in the new year to provide options.

Similar to last year, priorities were implemented to guide the budget development process. The following are suggested for the coming year:

- 1) **Continue the Board's prior commitments**
 - Northern Branch Jail – continue project and funding plan for AB900
 - Maintenance – continue 18% plan and evaluate debt options for financing major deferred maintenance projects and needed capital improvements
 - ADMHS Systems Change –continue improvements for client service and systems of delivery
 - Enhanced Fire Service – continue Fire Tax Shift to augment revenue for the Fire Department
- 2) **Create a thriving and engaged workforce**, with focus on compensation, attraction and retention issues.
- 3) **Measured growth** - As we experience moderate revenue growth, rebuild our financial reserves and organization.
 - Continue to fully fund the Strategic Reserve
 - Limit funding to highest need requests that address mandates and core missions
- 4) **Create efficiencies** through process improvements, technology and innovation to better serve the public.
- 5) **Minimize service reductions** and impacts to the public to the extent possible.
- 6) **Adapt and strategically plan for the future, including** initiating a Countywide organizational, internal-facing strategic plan.
- 7) **Address new and emerging issues**, such as disaster recovery (El Nino, Drought, etc.)

CC:

Robert Geis, CPA, Auditor Controller

Attachments:

Attachment A - Fiscal Outlook Report

Attachment B – Tier 2 Fiscal Issues

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Fiscal Outlook Report:

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