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:	November 13, 2018
Placement:	Departmental
Estimated Time:	1 hour
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Mona Miyasato, County Executive Officer
	Contact Info:	Jeff Frapwell, Budget Director
SUBJECT:	**FY 2019-24 Five-Year Forecast**	

County Counsel Concurrence

As to form: N/A

Other Concurrence: N/A

Auditor-Controller Concurrence

As to form: N/A

Recommended Actions:

That the Board of Supervisors:

a) Receive and file the FY 2019-24 Five-Year Forecast, including potential fiscal issues facing the County in the coming fiscal years; and

b) Determine pursuant to CEQA Guidelines §15378 that the above activity is not a project under the California Environmental Quality Act.

Summary

This five-year forecast report is presented to the Board of Supervisors in advance of budget development to provide a context for balancing short-term and long-term goals during budget consideration. Included in this report are identification of fiscal issues (previously presented as a separate report) to detail potential demands on County resources expected to occur within a two-year period.

The five-year forecast shows discretionary revenue continuing to grow modestly in FY 2019-20, and includes the possibility of a recession in the middle of the forecast period. Though it is unknown whether a recession will occur, the forecast is built conservatively to show the potential impacts if revenue growth does slow significantly, which would mean increasing budget gaps in the forecast years beyond FY 2019-20. In addition to regular cost increases, there are fiscal issues valued at millions of dollars that the Board may wish to fund during the next five years. It is therefore time to be disciplined in our spending, even in

FY 2019-20 when discretionary revenues are expected to modestly exceed countywide costs. We must begin preparing now for future funding shortfalls.

Background

The FY 2018-19 budget saw very few service level reductions as discretionary revenue growth was sufficient to avoid most potential cuts and some impacted departments were able to restructure programs and maximize federal and state funding to avoid service impacts. In addition, despite the losses incurred as a result of the Thomas Fire and 1/9 debris flow impacts, we have seen continued growth in our major revenue sources.

We have now experienced an unprecedented 110+ consecutive months of economic expansion, and economists are warning that a recession is likely to occur within the next few years. A Wall Street Journal poll showed more than 80% of the economists surveyed expecting a recession in 2020 or 2021.[1] However, the Wall Street Journal also asserts that recessions are difficult to predict, and in fact economists had predicted recessions in 2011 and 2016, neither of which materialized. Despite the uncertainty surrounding predictions of recession, due to the possibility of a recession during the forecast period, we have built in an assumption that net rate of total discretionary revenue growth will slow in FY 2020-21, and then begin a gradual recovery in the following three years, in an effort to conservatively “stress-test” the forecast and set expectations for the amount of discretionary revenue that would be available if a recession does occur.

Regardless of whether we experience a recession, we will continue to pursue efficiency and effectiveness improvements in the way we do business through Renew ’22 initiatives, many of which are well into planning or implementation stages, and which may position us to mitigate or avoid the difficult funding choices that were necessary during the last recession.

Departments developed five-year forecasts of revenues and expenditures for the General Fund and other operating funds based on the assumptions detailed below. These forecasts are based on best estimates of expenditure and revenue growth rates available at the time of this report. As FY 2019-20 budget development approaches, estimates will be refined, and will continue to be refined until budget adoption to ensure available funds are appropriated responsibly and according to Board priorities.

Expenditure Assumptions

Salary and Benefit Growth

The major countywide cost drivers are salaries and benefits, which make up about half of total operating costs in the FY 2018-19 adopted budget and the forecast years. The largest components of salary and benefit costs are regular salaries, retirement, and health insurance. In the current budget year, total salary and benefit costs equate to nearly $613 million countywide.

<u>Salary Costs</u>

Memoranda of Understanding for the majority of non-safety represented employees have been negotiated through the end of FY 2020-21, with safety MOUs ending in FY 2021-22. These result in an average annual increase of approximately 3% across all employee groups (although the increase varies by bargaining group) and include salary increases, step and merit increases, and other negotiated allowances. Employee costs are assumed to continue at this rate in the forecast years. For the purposes of this forecast,

[1] Leubsdorf, B. (2018, May 10). Economists Think the Next U.S. Recession Could Begin in 2020. Retrieved from https://www.wsj.com/articles/economists-think-the-next-u-s-recession-could-begin-in-2020-1525961127.

staffing was assumed to remain at the adopted FY 2018-19 levels, with the exception of staffing increases related to Northern Branch Jail operations as well as a few decreases in departments to reflect the removal of positions funded with one-time allocations. These assumptions resulted in employee salary cost increases of about $58 million from the FY 2018-19 adopted budget to the FY 2023-24 final forecast year.

Pension increases

In the current year, the County has budgeted $144 million for retirement costs. Retirement costs are anticipated to increase by an average of 5% in each year of the forecast, reflecting salary increases, pension investment return assumptions, and expectations regarding existing and future retirees. However, these increased costs will be partially offset by the recently enacted pension cost-sharing provisions between the County and labor unions as well as unrepresented employees. The cost sharing will be phased in over a three-year period beginning in FY 2018-19, and is expected to generate $5.6 million in savings in the first forecast year, growing to $8.5 million by the fifth year. Over the five-year forecast period, retirement costs are expected to increase by over $30 million, though this increase will be offset by an average of $7.6 million per year in increased employee cost-sharing.

The Board of Retirement commissions annual actuarial evaluations as well as triennial experience studies, which update the annual actuarial valuations for economic and non-economic assumptions. The current assumptions, upon which the five-year forecast is based, include a rate of return of 7%. The retirement board will adopt the FY 2019-20 assumed rate of return in December 2018, and that rate will be incorporated into the FY 2019-20 budget (the Board of Supervisors will adopt the employer contribution rates for FY 2019-20 in June 2019). In addition, the next triennial study will be prepared as of June 30, 2019, and the retirement board may choose to make additional changes in the fall of 2019 based on the results.

Health insurance

In the current year, health insurance costs are budgeted at over $43 million. Health insurance costs are assumed to increase by 5% per year, based on recent premium increases for the County health plans. In years past, the County experienced significant year-to-year increases, reaching as high as 15.3% in 2015, but, more recently, the County has taken steps to bring costs down and premium increases in 2018 and 2019 were under 4%. Year-to-year increases can be unpredictable, as they are driven by the total costs experienced by the plan in the prior year, but, given the recent downward trend, a 5% increase was assumed. This amounts to an increase of over $9 million countywide over the five-year period.

Other Growth Areas

Northern Branch Jail Set-Aside

The annual set-aside for Northern Branch Jail (NBJ) operations is increasing according to the funding plan approved and implemented in FY 2011-12. The contribution of $10.9 million in FY 2018-19 will grow annually to the final targeted funding level of $19.3 million by FY 2022-23, at which time the contribution will become part of the Sheriff's custody program budget and grow by increases similar to the rest of County operations. The forecast, in accordance with the funding plan, assumes that the costs of operating the NBJ remain in line with projections developed in FY 2015-16 and updated in FY 2017-18. A further review will occur in the coming months as the NBJ becomes operational in the spring of 2019 and annual operating costs become clearer.

18% Maintenance Funding Plan

In the current year, the County has allocated about $30 million in all funds for maintenance work, of which $7.8 million is General Fund. In June 2014, the Board directed staff to implement a maintenance funding plan that would direct 18% of unallocated discretionary general revenues towards maintenance projects to address deferred maintenance needs. There is currently an estimated $438 million in deferred maintenance needs, which is discussed in more detail in the fiscal issues section of this report.

This forecast assumes that the maintenance allocation will increase by $500,000 in General Fund in each of the forecast years, growing from $4.4 million in the FY 2018-19 budget to $6.9 million in the FY 2023-24 forecast year. This is in addition to SB 1 transportation funding and other projected maintenance funding by the departments from sources other than the General Fund. For the purposes of the forecast, additional one-time maintenance funds provided in the adopted FY 2018-19 budget and previous years are not assumed as these are discretionary budget decisions made each year by the Board depending on available funding. However, maintenance funding needs are given priority consideration during budget development.

Strategic Reserve

The General Fund Strategic Reserve will reach a balance of $29.6 million by the end of FY 2018-19 due to the $5.9 million contribution added by the Board during the FY 2018-19 budget hearings. At this level, the reserve will be $5 million below what is called for in the County's Strategic Reserve policy, which would require an account balance of $34.6 million by year end. The Board had suspended the policy in FY 2017-18 when the fund reached $30.9 million to provide flexibility given that significant budget reductions were taken that year.

Based on average annual operating revenue growth, the Strategic Reserve policy would call for an account balance of $44.4 million in FY 2023-24, which equates to a contribution of $2.9 million of discretionary General Fund revenues to the account in each year of the forecast period. Funding sources for this contribution could be filled by FEMA reimbursements for funds expended from the Strategic Reserve for damages following the Thomas Fire and 1/9 Debris flow or other one-time sources, which would reduce the amount of discretionary General Fund needed to maintain a fully funded Strategic Reserve.

Other Uncertainties

Some significant potential fiscal issues are discussed later in this report. In addition to those issues, there are uncertainties that are not quantifiable or predictable, including the ongoing threat of another debris flow or other natural disaster, particularly as we approach the rainy season in the coming months. The Thomas Fire and 1/9 debris flow disasters resulted in $50.9 million in local costs, of which $44.3 million is expected to be reimbursed by FEMA or the state over several years. As we saw with the recovery efforts, a disaster of such significant scope can cause tens of millions of dollars in damages, and maintaining sufficient reserve funds to finance the recovery—as a stopgap until state or federal funds are received and to fund recovery efforts that are not reimbursable—is therefore crucial.

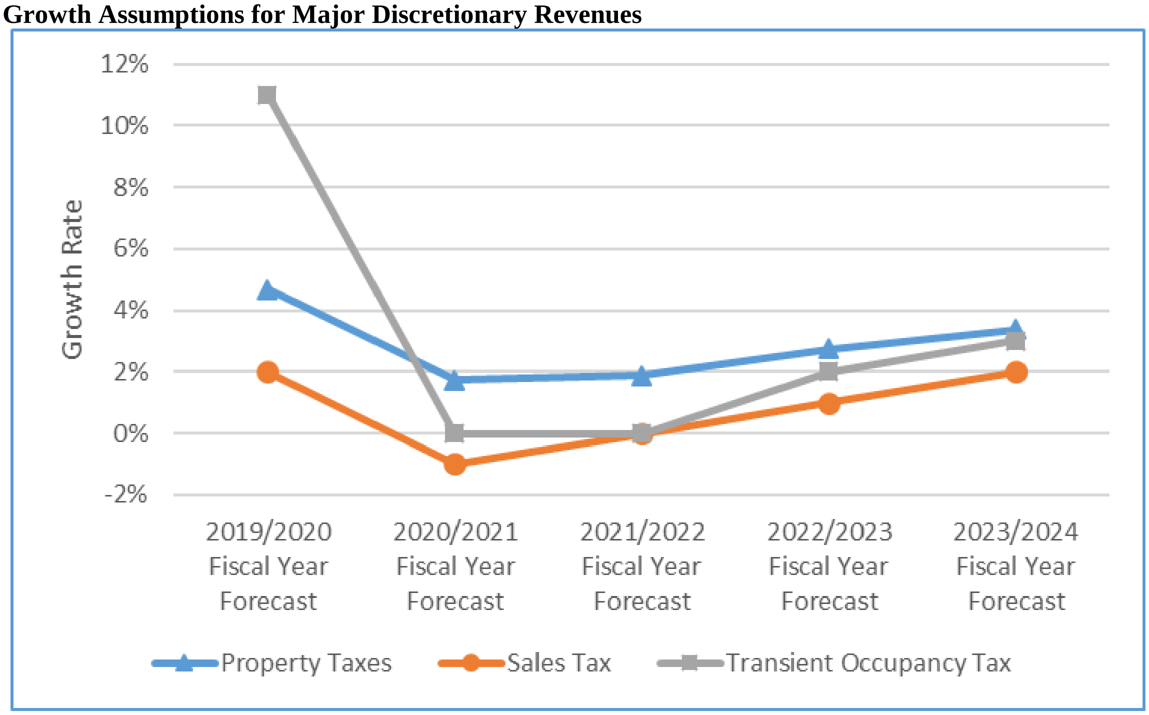
Additional factors may impact expenditures in the forecast years that are not included in this report, either because they are not quantifiable or not certain enough to reasonably assume, and these will be monitored on an ongoing basis to ensure funding needs are planned for and addressed adequately. In the recent past, factors have included Sheriff overtime costs in excess of budget, inpatient psychiatric bed shortages, and unanticipated Goleta Beach remediation measures.

Revenue Assumptions

Major Discretionary Revenues

The primary discretionary General Fund revenue sources are property, sales, and transient occupancy taxes. While steady growth has occurred in these taxes over the last 5 years (with the exception of sales tax and TOT losses following the Thomas Fire and debris flow), the forecast assumes a recession and reduced growth in the forecast period. The assumptions presented are modeled after those experienced in the prior recession, though the recession is not forecast to last as long or be as deep. The chart below shows the major discretionary revenue assumptions, which include a recession beginning in FY 2020-21 and a gradual recovery in the following years. The cumulative impact of the assumed recession is approximately $7 million in FY 2020-2021, $14 million by FY 2021-22, $18 million by FY 2022-23, and $22 million by FY 2023-24.

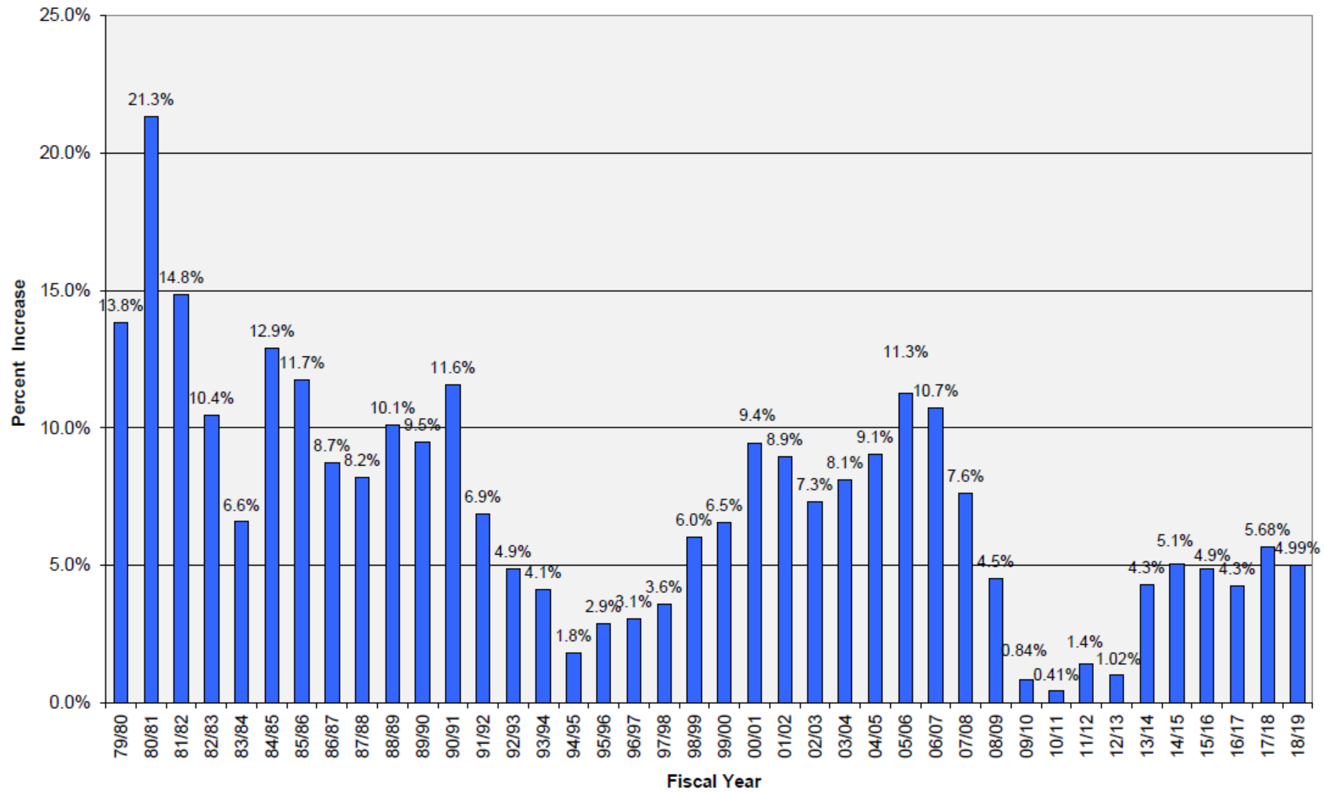
Growth Assumptions for Major Discretionary Revenues



<u>Property Tax</u>

In the current year, the County is expected to receive $210 million in property taxes, which constitutes about 80% of our discretionary revenue. In recent years, property tax revenues have grown by 4%-5% annually, tracking the growth in assessed value of properties in our county. In the forecast, growth is assumed to slow to around 2% in FYs 2020-21 and 2021-22, before climbing to slightly over 3% by the fifth year. Without a recession, property tax revenue would be $20 million higher by the end of the forecast period (nearly $263 million instead of the forecast $243 million). These projections include the end of the fire tax shift, which is expected to reach full funding in FY 2019-20. The County's historic growth in secured property values is shown below and demonstrates that, while year-over-year growth has always been positive, the recent rate of growth has been lower than in prior recovery periods.

Percent Increase in Secured Property Tax Roll Value, 1979-80 to 2018-19



<u>Sales Tax</u>

In the current year, sales tax revenue is budgeted at $10.7 million, which makes up 4% of discretionary revenue. Because of the potential recession, sales tax revenues are forecast to experience a decline of 1% in FY 2020-21, with no growth the following year, and then a slow recovery to a 2% increase in FY 2023-24. In dollar amounts, this means sales tax revenue, projected at $11 million in FY 2019-20, wouldn't return to that level until FY 2022-23. Absent a recession, sales tax revenue would grow from $11 million in the first year of the forecast to nearly $12 million by the fifth year.

<u>Transient Occupancy Tax</u>

Finally, Transient Occupancy Tax (TOT) revenue, currently budgeted at $11.2 million, is projected to achieve 11% growth in FY 2019-20 to $12.5 million, reflecting the first full year of revenue from the expected opening of the Rosewood Miramar Beach Montecito hotel in January 2019, but then remains flat until growth of 2% returns in FY 2022-23 and 3% in FY 2023-24 for projected revenue of $13 million. These trends are modeled after those experienced during the prior recession, though not as dramatic. Without a recession, TOT revenue would increase to an estimated $14 million by FY 2023-24.

Other Revenues

<u>Proposition 172 Public Safety Revenue</u>

The County has budgeted $36.4 million in Prop 172 public safety sales tax revenue in the current year, which provides significant funding to our public safety departments. The public safety sales tax revenue is expected to track the pattern of general sales tax, but with more volatility, projecting growth of 4% in FY 2019-20, a deeper recession impact of -5%, and faster recovery of 0%, 3%, and 5% in the last three years of the forecast period. General sales tax revenues reflect taxable sales in Santa Barbara County, whereas the public safety sales tax revenue is allocated based on a different formula that takes into account each county's share of taxable sales in California in the prior calendar year.

Cannabis tax revenue

As of the close of the first quarter, cannabis tax receipts totaled approximately $1.78 million. The adopted budget assumes $5.5 million in revenue in FY 2018-19. Cannabis tax revenue is forecast to increase by 3% in FY 2019-20 and 5% for each year after that, growing to $6.8 million by the end of the forecast period. Because we are at the beginning stages of cannabis licensing, taxation, and enforcement operations, we are not able to estimate future revenues with certainty, and it is therefore recommended that cannabis revenues in excess of those included in the budget and forecast years be treated as one-time in nature. As such, ongoing operational costs of programs and services will not be reliant on those uncertain revenues. Use of cannabis revenue will be consistent with the ballot measure language and Board priorities, with continued focus on enforcement against illegal operations.

Projected Budget Gaps in Major Operating Funds

We anticipate that FY 2019-20 will be a fiscally healthy year, assuming no new staffing or program expansions, and no significant policy or environmental events. However, the years beyond FY 2019-20 are expected to show growing funding shortfalls. Looking forward, stable and sustainable revenue is needed for the County to fulfill its commitments to funding priorities, such as the future Northern Branch Jail operations, deferred capital maintenance, public protection, negotiated employee contracts, and pension and other post-employment benefit (OPEB) costs.

The table below presents the projected budget gaps through the five-year forecast period. The gaps displayed are cumulative, though by law the Board must adopt a balanced budget. Therefore, these gaps represent the differences between expenditures and revenues if no mitigating actions were to be taken.

Five-Year Forecast Gaps ($ in millions)

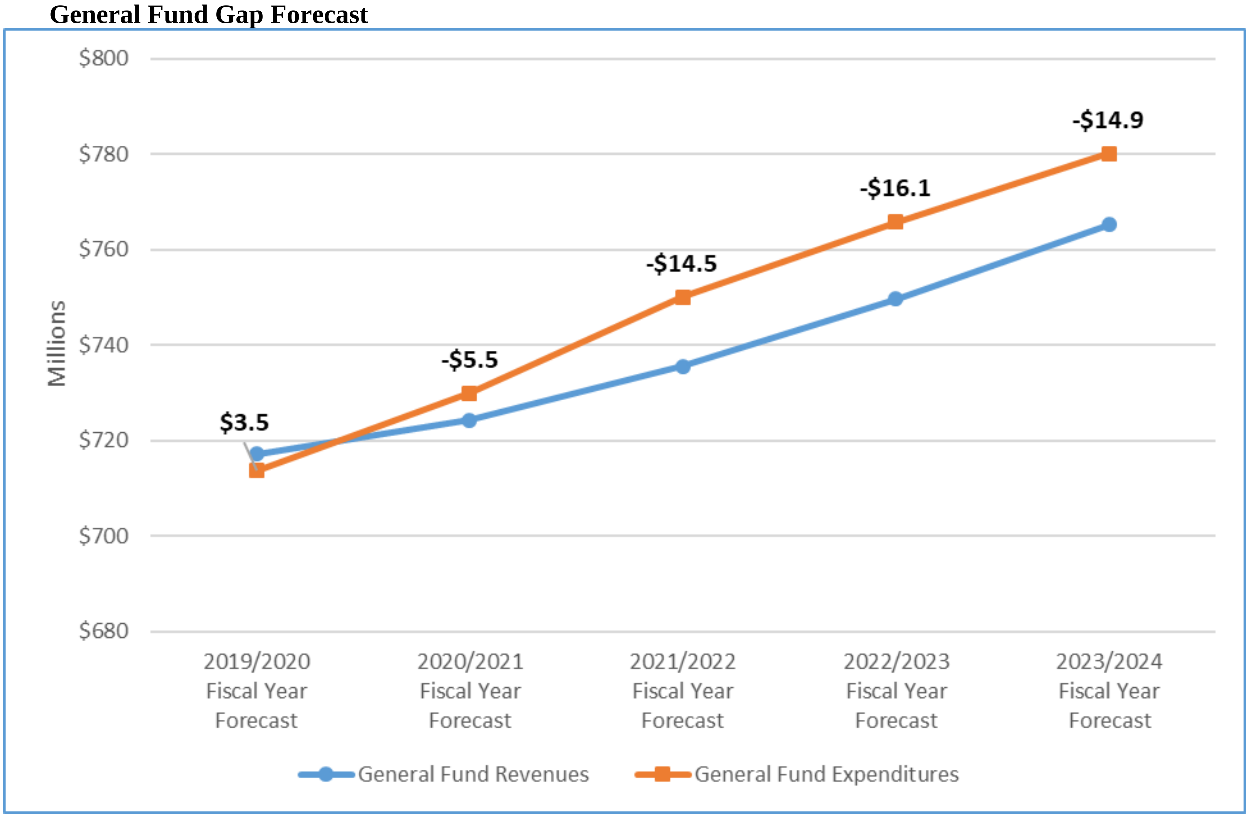
Fund	2019/2020 Fiscal Year Forecast	2020/2021 Fiscal Year Forecast	2021/2022 Fiscal Year Forecast	2022/2023 Fiscal Year Forecast	2023/2024 Fiscal Year Forecast
0001 -- General	$ 3.5	$ (5.5)	$ (14.5)	$ (16.1)	$ (14.9)
0044 -- Mental Health Services	(0.6)	(0.9)	(1.3)	(1.6)	(1.9)
0055 -- Social Services	(1.5)	(3.0)	(5.6)	(7.8)	(9.8)
0069 -- Court Activities	(0.3)	(0.6)	(0.8)	(1.1)	(1.3)
All Other Funds	0.1	0.2	0.1	(0.1)	(0.2)
Net Surplus/(Deficit)	$ 1.2	$ (9.7)	$ (22.1)	$ (26.7)	$ (28.1)

The General Fund line includes all available discretionary general revenues, and the surplus in the first forecast year therefore represents discretionary revenues in excess of expenditures. Three major special revenue funds are projecting deficits in anticipation of state and federal revenue levels that will not keep pace with increases in salaries and benefits. To bring all county funds into balance, all but $1.2 million in discretionary general revenue would be used for this purpose in FY 2019-20, with a significant deficit appearing in the following year. This is in large part due to the assumed recession built into the forecast revenues, as discussed above, and reinforces the importance of limiting expansions in the coming years.

General Fund

Over the next five years, the gap between General Fund revenues and expenditures is expected to progress from a $3.5 million surplus in FY 2019-20 to a cumulative $14.9 million deficit in FY 2023-24, as depicted in the chart below. Because the County is required to adopt a balanced budget each year, the gaps in each of the forecast years would necessarily diminish by the amount of the prior-year's gap solved with ongoing expenditure reductions or revenue increases. A majority of the General Fund gap each year is driven by the public safety departments, and we will therefore focus on the fiscal challenges in these departments as we develop a balanced FY 2019-20 budget.

General Fund Gap Forecast



The forecast FY 2019-20 budget surplus of $3.5 million reflects general discretionary revenues in excess of projected expenditures. If this surplus were used to close gaps in special revenue funds, the surplus would drop to $1.2 million. However, if all discretionary revenue were used to close gaps within General Fund departments and other funds, discretionary revenue would already be insufficient to keep pace with cost increases and departmental revenue shortfalls by the next forecast year. As such, general revenue increases cannot be the only mechanism to bring budgets into balance in the next fiscal year and beyond, and it will be necessary to look to cost-cutting and revenue-generating initiatives to prepare for the out-years.

While all General Fund departments will experience general cost increases throughout the forecast period, some departments expect additional fiscal challenges during this period, which will be addressed during the budget development process. For example, the Public Defender expects to no longer receive any legal services fee revenue by the middle of the forecast period as a result of a nationwide trend to abolish these fees. Planning and Development may not achieve full cost recovery through fees, as the CPI applied annually to department fees is not sufficient to cover increasing salary and benefit costs, and the

Department would need to return to the Board with a fee adjustment to bring revenues in line with expenditures. Clerk-Recorder-Assessor will likely have ongoing costs associated with the implementation of the Motor Voter Program, which is not funded beyond the current year. Other departments, such as District Attorney and Auditor-Controller, have relied on fund balance to balance their budgets in recent budget years and, though they have been fortunate to have savings to prevent the need to actually draw from these departmental savings accounts, it is possible they will need to draw from these funds in the future. In addition to these anticipated challenges, there are also major fiscal issues on the horizon, discussed later in this report, which would require significant investment of discretionary revenues to fund.

Mental Health Services Fund

The Mental Health Services Fund projects a gap of $0.6 million in FY 2019-20, increasing to $1.9 million by FY 2023-24 if no mitigating actions were to be taken. These gaps are driven by the increasing costs of state hospitals as well as out-of-county IMD beds. If in-county beds can be secured within the forecast period, additional Medi-Cal revenues would be able to be drawn down to close a portion of the gaps. These gaps do not anticipate any one-time transfer of funds from General County Programs, though there is a $2 million contingency for mental health services built into the General County Programs five-year forecast.

Social Services Fund

The Department's projected revenue growth does not keep pace with increases in salaries and benefits. Because of the uncertainty surrounding the Department's primary sources of revenue—state and federal funding—the Department forecasts them conservatively, with no growth assumed in FY 2019-20 and FY 2020-21 and only slight growth in the remaining forecast years. Revenue projections align with state revenue projections for social services programs for which caseloads are expected to remain flat or decrease, as well as those that cover increases in the County's Maintenance of Effort for the In-Home Supportive Services Program with redirected and offsetting revenues. However, in last year's five-year forecast, the Department projected a FY 2018-19 gap of $4.1 million in this fund, but by the time the FY 2018-19 budget was adopted, the revenue outlook had brightened considerably, and the Department adopted a budget that included no service level reductions and required no additional GFC.

Court Activities Fund

Legislation enacted that prevents the courts from suspending a person's driver's license because of unpaid fees, fines, and penalties has impacted, and continues to impact, Court Special Services revenues. The loss of revenue and the trend of large multi-defendant court case costs result in the forecast budget gaps. It is anticipated that such revenues accounted for in this fund will continue to decrease as a result of the legislature's actions, leading to a projected gap of $0.3 million in FY 2019-20 and growing to $1.3 million by FY 2023-24 if no mitigating actions were to be taken.

Other Funds

Taken together, other funds appear nearly balanced throughout the five-year forecast period, with only small swings of $100k-$200k at the bottom line for all other funds. Although not specifically mentioned as issues in this report, some funds included here do anticipate use of balancing measures to bring revenues and expenditures in line during the forecast period. The Child Support Services Fund assumes salary and benefit reductions to bring the budget into balance, while the First 5, Roads Operations, and Health Care Funds rely on fund balance draws throughout the five-year period.

Significant Fiscal Issues

In addition to countywide and department-specific factors driving the budget gaps discussed above, departments have identified potential issues that could have significant fiscal impacts over the next five years. These are not included in the forecast assumptions because of the uncertainty surrounding their occurrence or because they would require Board policy to pursue; however, if some or all of these do occur, they have the potential to present difficult choices about where to direct our limited discretionary resources. Many of these issues were previously identified in last year's fiscal issues report.

Information about these issues is provided to serve as context for future decisions about allocation of one-time and ongoing funding sources, potential establishment of reserves for specific projects, and scope of fiscal demands within the next several years.

Potential Fiscal Issues

Issue		Department	Potential Impact
Ongoing Issues			
1	Deferred Maintenance	Public Works, General Services, and Community Services	$ 438,000,000
2	Solar Projects	General Services	4,500,000
3	Elimination of 340B Savings	Public Health	4,200,000
		Total Potential Ongoing Issues	**446,700,000**
One-time Issues			
4	Public Safety Communications System Replacement	General Services	50,000,000
5	South County Main Jail Facilities, Deferred Maintenance, and Other Operational Costs	General Services and Sheriff	25,000,000
6	Hazard Mitigation Grant Program	Public Works	10,437,500
7	Electronic Security System and CCTV Upgrade/Replacement	Sheriff	1,350,000
8	Data Center Replacement and Redundancy	Sheriff	1,335,000
9	In-Car Video and Computer System Replacement	Sheriff	1,100,000
		Total Potential One-time Issues	**89,222,500**
		Total All Issues	**$ 535,922,500**

Ongoing Issues

1. Deferred Maintenance (Public Works, General Services, and Community Services)
   The estimated backlog of deferred maintenance projects is approximately $438 million countywide according to inventories maintained by the three departments with maintenance responsibilities—Public Works, Community Services, and General Services.

   The Public Works backlog of deferred maintenance for FY 2018-19 is $315 million, an increase of $31 million from last fiscal year. The County's current road Pavement Condition Index (PCI) is 56 on a scale from 0 (worst) to 100 (best), and $151 million of the backlog is in pavement preservation needs. The remainder is bridges, hardscape and trees, drainage facilities, and traffic operations devices. Road maintenance priorities include rehabilitation of failing roads before they create structural and safety issues, like extensive potholes and deep cracks, and preserving roads in good condition so they don't deteriorate into at-risk condition. For every $1 million in funding, the department is able to rehabilitate 2 lane miles and apply preventive treatments to over 9 lane miles of road. Priorities for other funding are projects to improve safety, including replacement and repair of deficient or failing bridges, sidewalks, and drainages, as well as traffic operations improvements.

Parks has a deferred maintenance backlog of $50 million, which includes identified needs at County park amenities, systems, and infrastructure. Critical maintenance issues would cost approximately $6.3 million to address. Top priorities include Montecito trail ($100k County match to $1.2 million in potential FEMA funding) and Toro Canyon road ($410k County match to $250k in potential FEMA funding) repairs needed as a result of debris flow damage, as well as Cachuma pool and safety repairs ($1 million), Cachuma main water intake structural repair ($150k), Jalama waterline replacement ($220k in additional funding needed), Goleta Beach irrigation system and park area repairs ($675k), countywide paving repairs and maintenance ($1.7 million), and countywide tree maintenance ($700k).

General Services has identified a deferred maintenance backlog of $73 million for County buildings, systems, and facility infrastructure needs. The backlog of critical deferred maintenance needs (those with health and safety risk or legal mandates) is estimated at $20 million. Top priorities include Public Health roof replacement ($200k), Engineering Building roof repair and maintenance ($125k), Lompoc public health clinic roof repair ($60k), and Lompoc Vet's building parking lot repairs ($400k).

2. <u>Solar Projects</u>

More than a decade ago, the County began evaluating the feasibility of installing photovoltaic systems to help reduce the County's electricity costs, and the County's first solar array project began operations in 2012 on the Calle Real campus. The County is pursuing the installation of additional solar and wind-generated energy and energy retrofits to provide environmental and financial benefits to the County. By installing renewable energy systems, the County can reduce its monthly electric and gas bills, receive rebates to subsidize system costs, reduce its carbon footprint, and play an important role in moving the state toward a cleaner energy future. The Calle Real solar array has produced more power than originally anticipated and the total utility savings after 25 years of operation are expected to be over $9 million.

The next solar projects are planned for the Betteravia Campus and Fire Station 12. The annual cost for the first fiscal year of operation are estimated at between $0.3 and $0.4 million, including bond financing costs and annual maintenance costs. This cost will continue for 15 additional years with repayment of the $4.5 million bond financing. The bond payment amount will be offset by reduced utility bills and reduced maintenance costs of new building equipment as well as rebates for the battery system and lighting.

Additional locations in succeeding years include the Foster Road Campus followed by additional solar on the Calle Real campus and at other County facilities. Costs are estimated at $2 million per year beyond FY 2019-20.

3. <u>Elimination of 340B Savings</u>

Since 1992, the Federal 340B Drug Program has helped provide low-cost medications and better health outcomes for millions of Americans and the non-profit clinics, such as those operated by the Public Health Department, and hospitals who serve them.

340B savings enable safety net providers to fund services and care for uninsured and underinsured patients. Recent proposals in California have indicated momentum towards the possible elimination of access to 340B savings, especially related to Medi-Cal. The elimination of 340B discounts in Medi-Cal would require the Public Health Department to purchase drugs at much higher prices totaling over $4 million annually. These increased costs would lead to difficult service level reductions, including reduced staffing, limited hours and facilities, limited access to pharmacies, and potentially discontinuation of treatment programs for services that require costly drugs, such as cancer and Hepatitis C.

One-time Issues

4. Public Safety Communications System Replacement
   The County's public safety communications system is at the end of its useful life. The current system has been in place for more than 20 years and is beyond manufacturer support. The current system is not able to support new technologies, such as video capabilities. In addition, there are coverage issues as land development has expanded in the County. The replacement system must meet public safety standards for performance and reliability and provide radio communications for the next 10 to 20 years.

   The County contracted with Federal Engineering Consultants to provide options for a cutover plan to best address the County's needs. Federal Engineering is preparing options considering technology, regulatory and interoperability issues and will consider regional solutions and existing County investments, including radio communications sites, infrastructure, and radios. The report will include system and site drawings and coverage maps, implementation plans, schedules and costs, systems alternatives analysis, conceptual design and recommendations. At the end of this engagement with Federal Engineering, the County will understand the costs for replacing the current radio system and will have the information needed to determine next steps. The report will be completed by December 2018. The needed actions and steps for the next two fiscal years will be outlined in that report.

   Based on cost estimates from other counties, potential costs are likely to be in the tens of millions of dollars, and implementation may be phased in over a number of years. There is currently $4 million set aside to be used for system replacement, but the need will be significantly greater to fund the entire system. Once the report is received, staff will define timelines and funding options for this project.

5. South County Main Jail Facilities, Deferred Maintenance, and Other Operational Costs
   Many years of deferred maintenance have caused a significant backlog of needed repairs at the South County Main Jail Facilities. General Services engaged the firm Vanir to develop a multi-year phased implementation plan to accomplish the needed repairs and accessibility improvements. The results of the report and staff's recommendations are expected to be presented to the Board in February 2019. Preliminary estimates suggest that the cost of renovation could reach as high as $26 million, which would be phased in over several years. Work is expected to begin in FY 2019-20 once the Northern Branch Jail opens in order to provide the Sheriff's Office with flexibility to move inmates during renovation.

   Other costs to address operational needs at the Main Jail are also being identified. While areas of the Main Jail are to be closed down with the opening of the new Northern Branch Jail, and impacted staff transferred to the new jail, a study by CGL consultants in 2015 indicated shift relief staffing would be needed at the Main Jail if the overall jail population did not decrease. An additional 20-30 positions at the jail may be necessary as a result of CGL recommendations and FY 2017-18 budget reductions. However, as part of the Sheriff's Renew '22 proposals, the Sheriff will be looking at the feasibility of consolidating certain functions at the Main Jail to reduce staffing needs. We will also closely monitor the impacts of the new bail reform legislation, which will eliminate cash bail beginning October 2019, and could impact jail overcrowding.

6. Hazard Mitigation Grant Program

In response to damages incurred during the 1/9 debris flow, the Public Works Department has applied to the FEMA Hazard Mitigation Grant Program (administered by Cal OES) for funding for seven projects. Total estimated project costs are $41.8 million, with a $10.4 million local share requirement. The local share would likely be funded through flood zone and road funds.

Schedule of Santa Barbara County HMGP Projects

Project	Federal Share Requested 75%	Local Share 25%	Total Project Amount
Flood Control Division (Local Share Funding Source -- South Coast Flood Zone Funds)			
South Coast Stockpile	$ 6,000,000	$ 2,000,000	$ 8,000,000
Debris Basin Property Acquisition	18,750,000	6,250,000	25,000,000
Santa Monica Debris Basin	750,000	250,000	1,000,000
Cold Springs Debris Basin	1,875,000	625,000	2,500,000
San Ysidro Debris Basin	1,875,000	625,000	2,500,000
Romero Debris Basin	1,875,000	625,000	2,500,000
Transportation (Local Share Funding Source -- Road Funds)			
Alisos Drive Culvert	187,500	62,500	250,000
Total	**$ 31,312,500**	**$ 10,437,500**	**$ 41,750,000**

7. Electronic Security System and CCTV Upgrade/Replacement

The Main Jail (built in 1971), Inmate Receiving Center (built in 1993), and Northwest (built in 1987) facilities are interconnected correctional buildings that are located at the Sheriff's Office Main Jail Campus and house the majority of the inmate population held by the Sheriff. The need for integrated security controls and life safety systems is integral to the safe and secure operation of the facilities.

The security control system currently in use in these facilities is a proprietary system which neither the Sheriff nor County IT has the expertise to modify, reconfigure, or provide software or specialized hardware maintenance. The life expectancy for a server-based system that is operated 24/7/365 is between 5 and 6 years; the current system is much older than this, with some components over 10 years old. While the system has performed well over the years, there is no guarantee that this will continue, and it would be prudent to pursue a replacement system before the current one begins to fail.

Fiscal impacts are estimated at a one-time cost of $1.4 million to purchase a new system, followed by a contribution of $150,000 per year for 10 years to build up funding for future replacement.

8. Data Center Replacement and Redundancy

The Sheriff's Office uses a data center (an architecture of server and networking hardware) for all patrol, dispatching, custody, and administrative processes and business applications. This data center must be kept up-to-date and reliable for the safety of the public and first responders who depend on the applications and services provided by this equipment. The normal life expectancy of this type of hardware is five years; currently, this hardware is seven years old and is several years overdue for replacement. The General Services Department's Information and Communications Technology Division and the Sheriff's Office are working together to design and implement the most cost-effective solution to meet the Sheriff's data requirements and satisfy the stringent security protocols attendant to criminal justice data. The cost for replacing this equipment is estimated at $1.3 million, followed by an annual contribution of $300,000 for five years to build up replacement funds.

9. In-Car Video and Computer System Replacement

   Sheriff's deputies use COBAN Titan M7 computer systems (MDTs) in their patrol vehicles to assist them in many functions of their job. These workstations bring the Computer Aided Dispatch System (CAD) and other research and safety tools to the mobile office environment, offering real-time safety information, mapping, and call data to deputies in the field for expedited response time and improved safety for community members as well as first responders.

   Sheriff's deputies also use an In-Car Video system that supplies the Sheriff's Office, District Attorney's Office, and Courts with digital evidence. These digital recordings have begun to play an increasingly important role in the judicial system and the increased need for law enforcement transparency.

   These technologies are important tools for law enforcement, and while technology is constantly improving in function and ability, these computer systems are utilized under demanding conditions that impact their life expectancies. They are generally expected to last 4-5 years. The current MDTs in patrol vehicles, purchased in FY-2011-12, are now overdue for replacement and components are beginning to fail. Another driving factor in keeping this equipment up-to-date is the mandated requirements placed on systems that access confidential Criminal History (CJIS) and Personal Identifier Information (PII).

   The estimated cost of replacing these systems is $1.1 million, and if the Sheriff wants to set aside funds to regularly replace these systems going forward, it is anticipated to need an additional $200,000 annually.

When considering these fiscal issues in conjunction with the five-year forecast, it is clear that the County will be challenged in the coming years to align expenditures with revenues. In the near-term, salary and benefit costs will continue to rise, state and federal revenues will continue to provide uncertainty, and service demands will continue to change and, in some cases, expand.

Looking Forward

This five-year forecast and fiscal issues report is intended to serve as a backdrop to the FY 2019-20 budget development process. The numbers presented in this forecast are preliminary and will change throughout the coming months leading up to budget development; however, they provide a starting point as we look forward towards mitigating negative trends and future anticipated budget gaps. Over the next five years, retirement and other personnel-related costs will continue to rise, state and federal revenues will continue to provide uncertainty, and community needs will continue to grow and change. The cannabis market and regulations will become stabilized, and mountains will revegetate in the Thomas Fire burn areas, reducing the possibility of future debris flows.

Though discretionary revenues continue to increase, a recession during the next several years is possible, and it is critical that we build a disciplined FY 2019-20 budget, with a plan to address future year deficits. Strategies to prepare for future deficits may include allocation of ongoing revenue growth to one-time purposes and setting aside revenues for future use.

The Renew ’22 initiative is a five-year plan just entering its second year, and many initiatives are underway within departments and countywide. Some are designed to enhance revenues or reduce expenditures, and still others are focused on more holistic change within the County. The initiative as a whole is designed to allow the County to thrive as an organization in times of fiscal uncertainty and improve how we do our work.

While we focus on improvements to the organization over the next five years, the Board and County departments will also be focusing on what is essential to serve our communities and maintain a financially sustainable organization. This will mean doing the most important things well, and acknowledging that our organization can do anything, but not everything, over the next five years.

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