



FY 2019-24

Five-Year Forecast

BOARD OF SUPERVISORS

November 13, 2018

About the Forecast

Provides context for **balancing short-term and long-term goals** during development of the FY 2019-20 budget; not intended to solve gaps today

Identifies **potential demands on County resources** in the coming years

Building the Forecast



Context

- County is in the ninth year of discretionary revenue growth
- Recession possible during forecast period beginning in FY 2020-21
- Renew '22 initiatives underway
 - Improve operational efficiency and effectiveness
 - Position the County to mitigate difficult funding choices made during the last recession
- Assumptions based on current estimates of expenditure and revenue growth
- Assumes a status quo level of services (no departmental expansions)

Expenditure Assumptions

Salaries

3% avg. annual increase

DRIVERS

- Negotiated salary increases
- Step and merit increases for represented employees
- Status quo staffing except for Northern Branch Jail final FTE allocations

Retirement

5% avg. annual increase

DRIVERS

- Salary increases + SBCERS plan rates
- Costs partially offset by pension cost-sharing with employees
Expected to generate **\$8.5M in annual savings** by FY 2023-24

Health Insurance

5% annual increase

DRIVERS

- Relatively low premium increases for County health plans in recent years
- Year-to-year increases unpredictable; driven by prior year cost experience and market factors

Expenditure Assumptions

Northern Branch Jail Set-Aside

- Grows to the annual targeted funding level of **\$19.3M** by FY 2022-23
- Assumes operating costs remain in line with projections updated in FY 2017-18

18% Maintenance Funding Plan

- Grows annually by \$500K in General Fund
- Reaches **\$6.9M** in ongoing GFC by FY 2023-24
- In addition to SB 1 funding and other maintenance funding from non-General Fund sources

Strategic Reserve

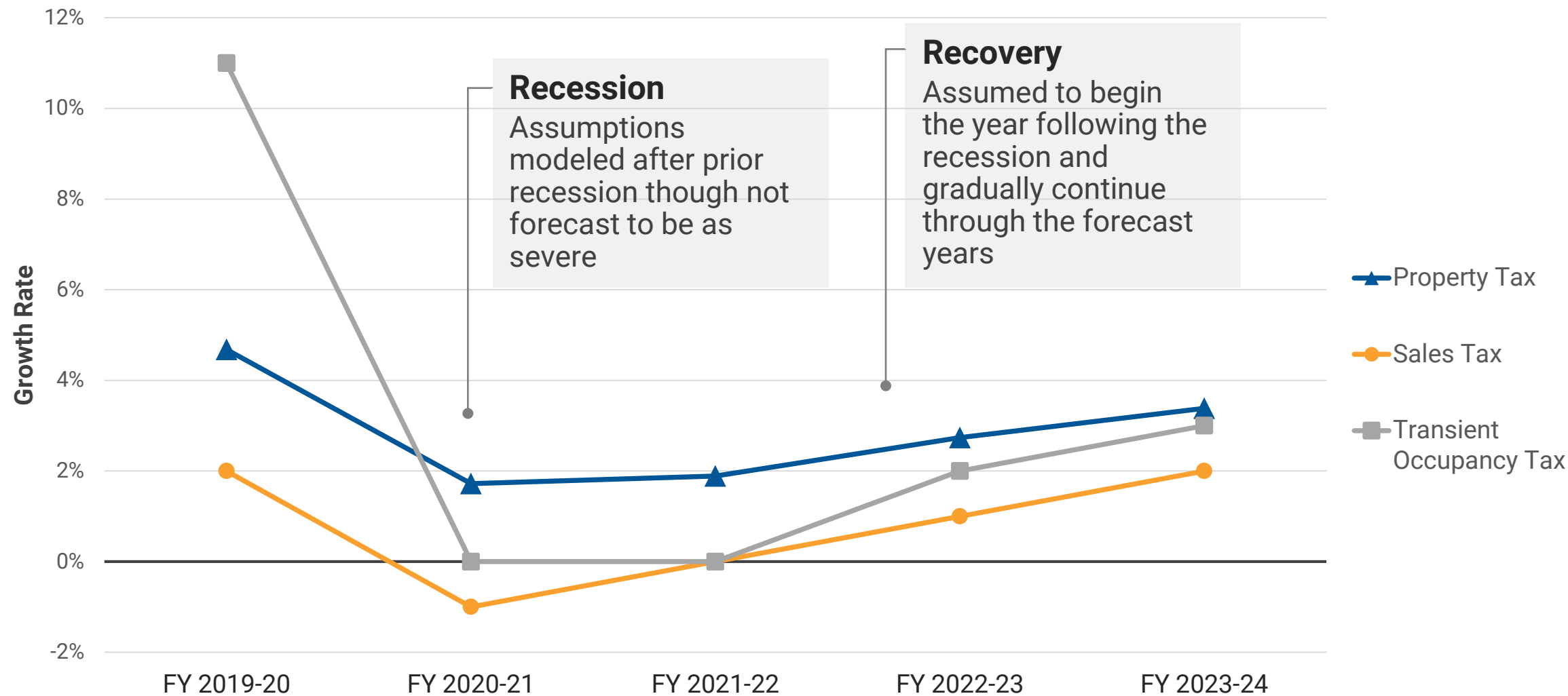
- Reaches **\$29.6M** by the end of FY 2018-19
- Assumes target of **\$44.4M** in FY 2023-24 based on avg. operating revenue growth

Requires annual contribution of **\$2.9M** to reach FY 2023-24 target

Uncertainties

- **Ongoing threat of another debris flow or other natural disaster**
 - Significant disasters can cause tens of millions of dollars in damage
 - Critical to maintain sufficient reserve funds to finance a recovery
 - FEMA/Cal OES reimbursement subject to President/Governor proclamations and available funding
- **Forecast excludes factors that are unquantifiable or uncertain**
 - Recent issues include Sheriff overtime costs, inpatient psychiatric bed shortages, unanticipated Goleta Beach remediation measures
 - Continuous monitoring to address issues that arise

Major Discretionary Revenues



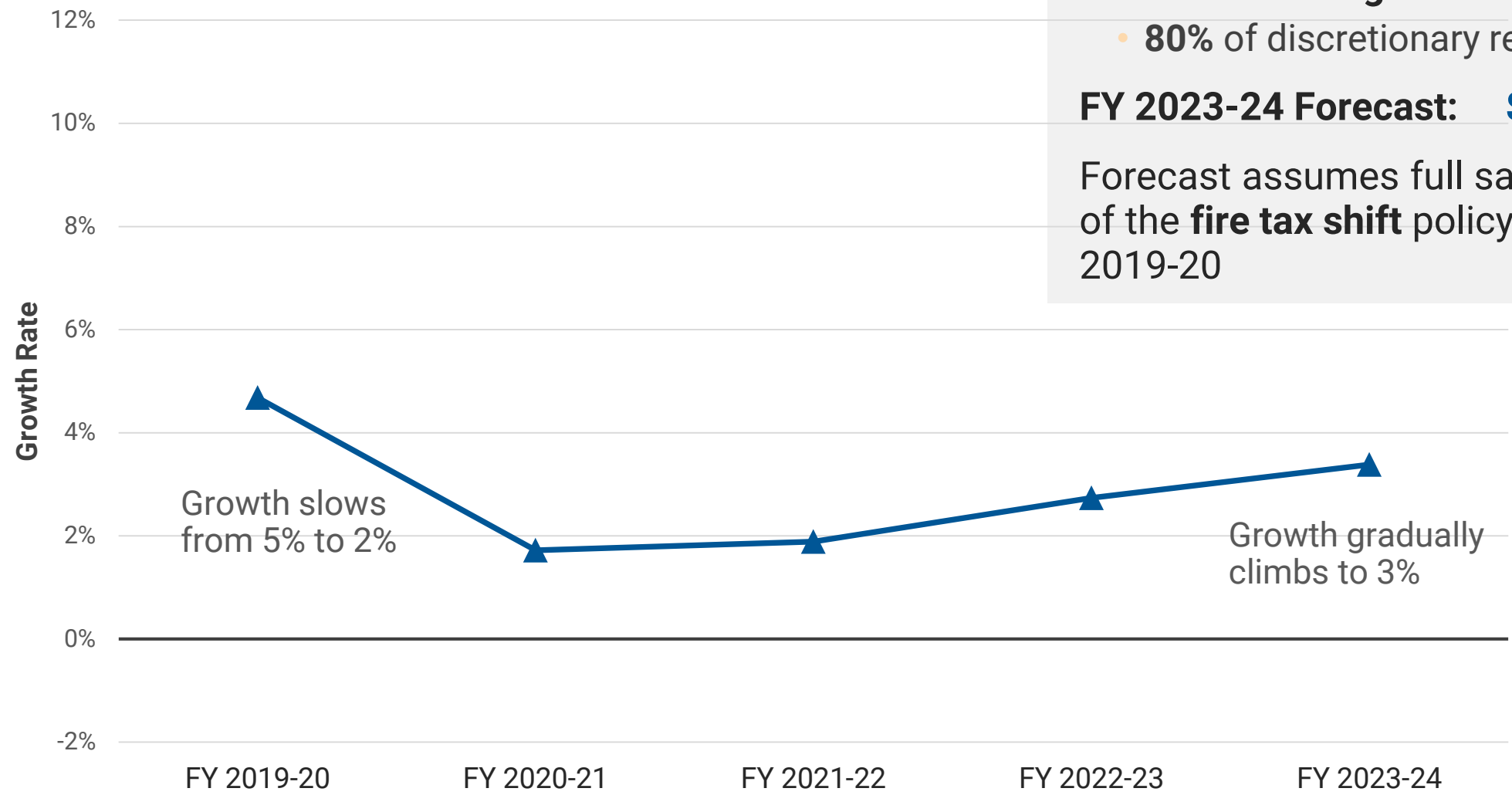
Property Tax

FY 2018-19 Budget: **\$210M**

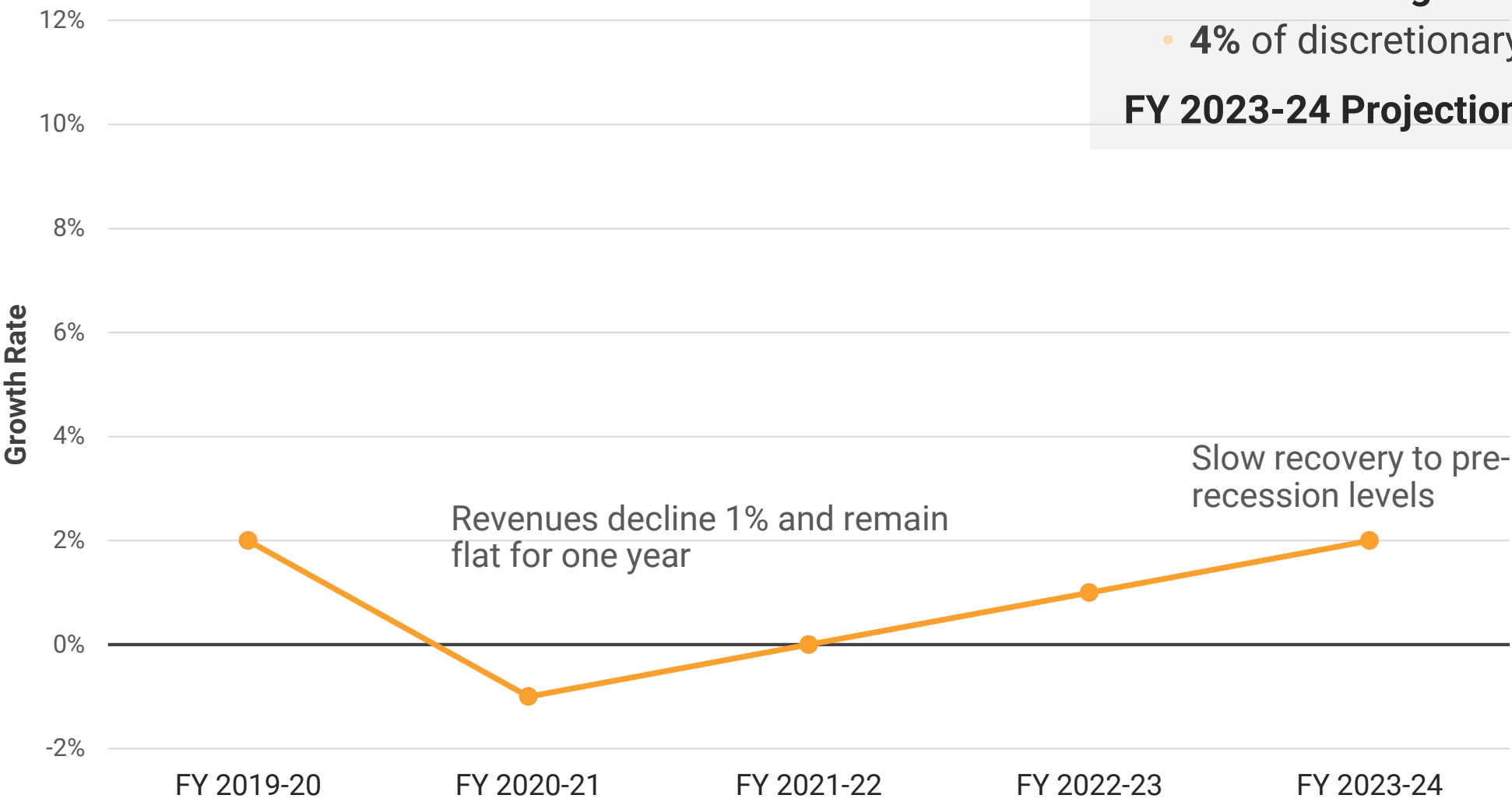
- 80% of discretionary revenue

FY 2023-24 Forecast: **\$243M**

Forecast assumes full satisfaction of the **fire tax shift** policy in FY 2019-20



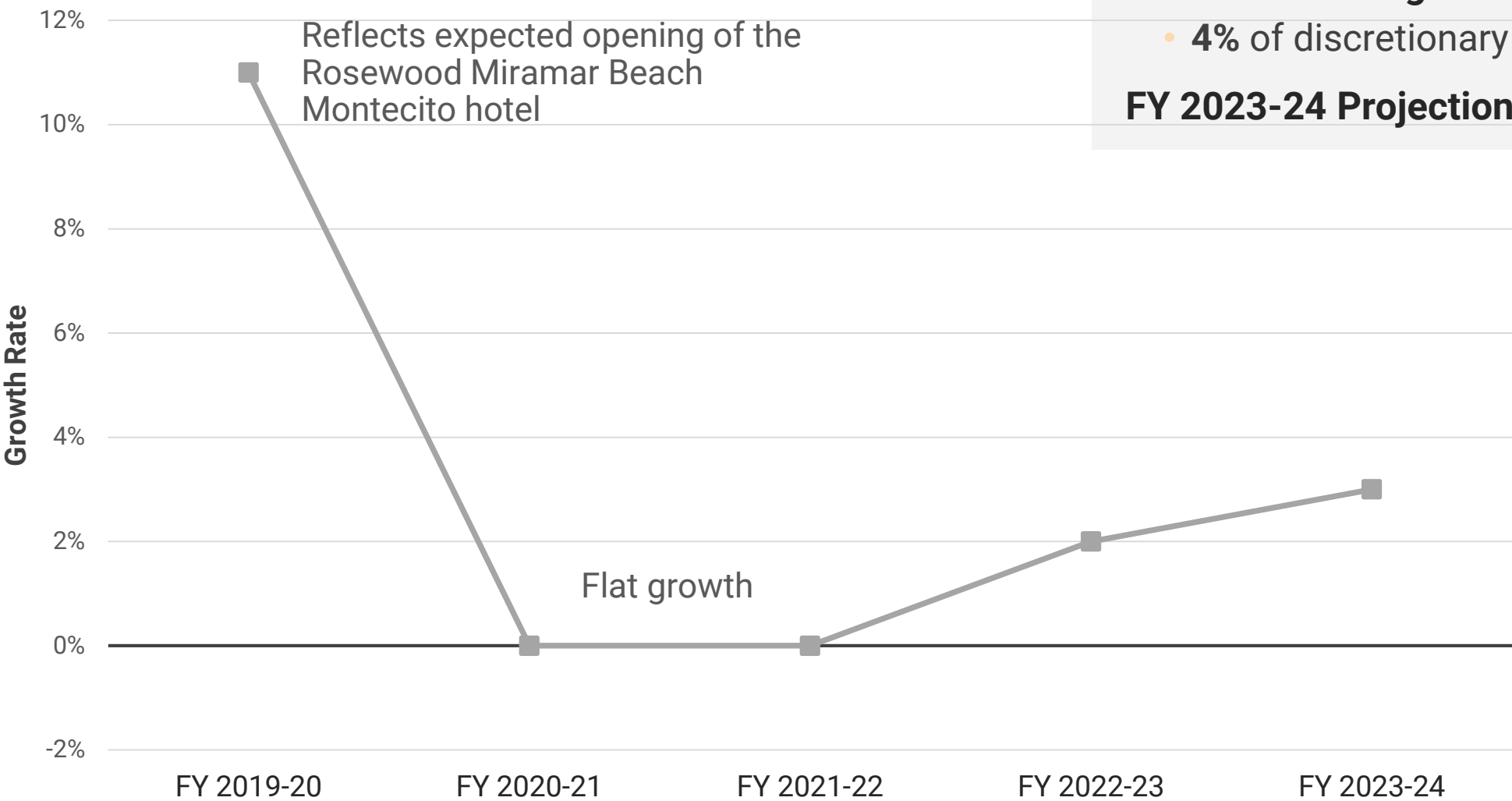
Sales Tax



FY 2018-19 Budget: \$10.7M
• 4% of discretionary revenue
FY 2023-24 Projection: \$11.2M



Transient Occupancy Tax



FY 2018-19 Budget: \$11.2M
• 4% of discretionary revenue
FY 2023-24 Projection: \$13.1M



Other Revenues

Proposition 172 Public Safety Revenue

- FY 2018-19 Budget: **\$36.4M**
- Provides significant funding to public safety departments
- Tracks pattern of sales tax but with more volatility
- Rate of growth/decline based on statewide sales
- Deeper recession impact in FY 2020-21 (-5%)
- Faster recovery through FY 2023-24 (+5%)

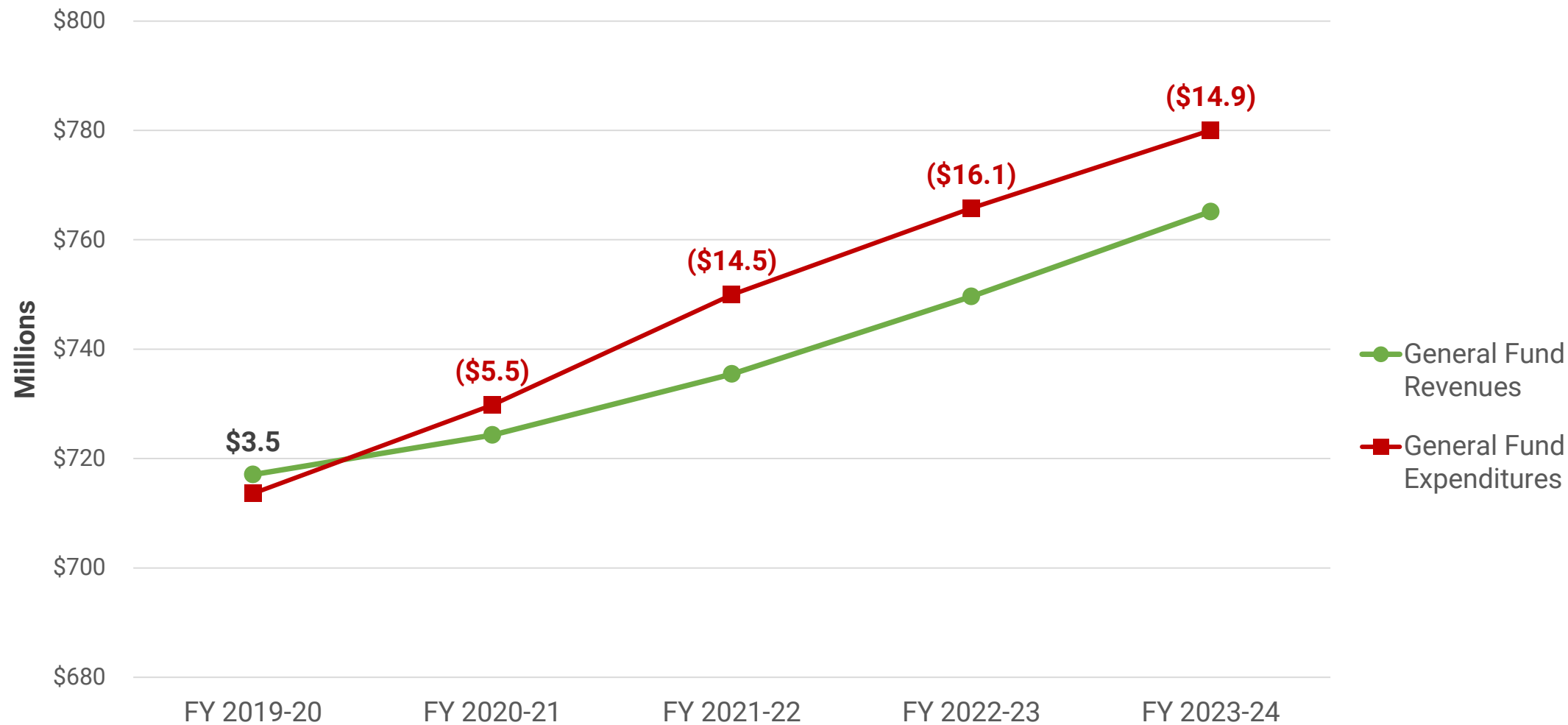
Cannabis Tax Revenue

- FY 2018-19 Budget: **\$5.5M**
- Forecast to increase by 3% in FY 2019-20 and 5% each year thereafter
- Unable to estimate future revenues with certainty
- Fully funds enforcement activities within County departments
- Recommended that revenues in excess of those included in the budget and forecast years be treated as one-time

Five-Year Forecast



General Fund Gap Forecast



Projected Budget Gaps

in millions

Fund	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
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)

Fiscally Stable

Assumes no new staffing or program expansions beyond Northern Branch Jail and no significant policy or environmental events

Growing Funding Shortfalls

Cumulative gaps representing differences between expenditures and revenues if no mitigating actions were to be taken

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General Fund Surplus

Includes all available discretionary general revenues

Special Revenue Fund Deficits

Anticipates that federal and State revenues will not keep pace with salary and benefit increases



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Insufficient Discretionary Revenue to Cover Rising Costs

If all discretionary revenue were used to close gaps, discretionary revenue would already be insufficient to balance all funds in FY 2020-21

Takeaways

- General revenue increases can't be sole mechanism to balance budgets in FY 2019-20 and beyond
- Need to look to cost-cutting and revenue-generating initiatives

Potential Ongoing Fiscal Issues

in millions

Issue		Department	Potential Impact
1	Deferred Maintenance	Public Works, General Services and Community Services	\$ 438.0
2	Solar Projects	General Services	4.5
3	Elimination of 340B Savings	Public Health	4.2
		Total	\$ 446.7



Potential One-time Fiscal Issues

in millions

Issue		Department	Potential Impact
4	Public Safety Communications System Replacement	General Services	\$ 50.0
5	South County Main Jail Facilities, Deferred Maintenance, and Other Operational Costs	General Services and Sheriff	25.0
6	Hazard Mitigation Grant Program	Public Works	10.4
7	Electronic Security System and CCTV Upgrade/Replacement	Sheriff	1.4
8	Data Center Replacement and Redundancy	Sheriff	1.3
9	In-Car Video and Computer System Replacement	Sheriff	1.1
		Total	\$ 89.2



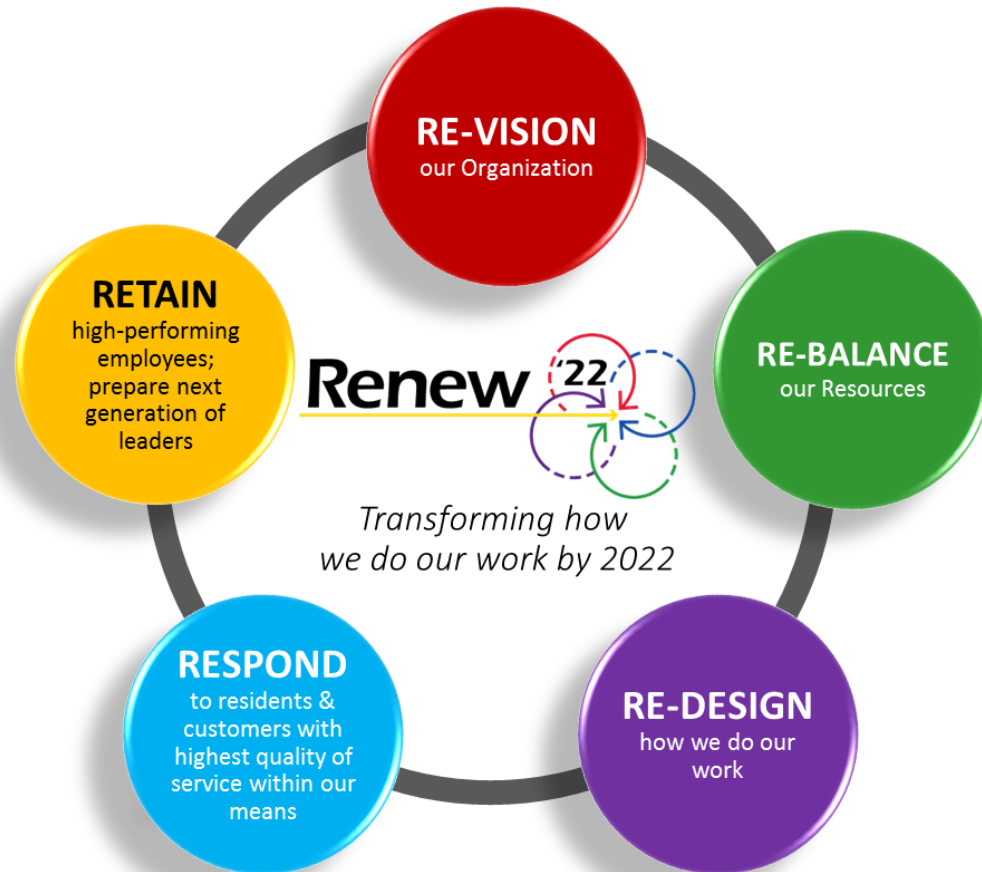
Looking Forward

- Forecast serves as a backdrop to the FY 2019-20 budget and starting point for mitigating negative trends and anticipated future budget gaps
- Although impossible to predict when a recession may occur, or the potential severity of its impact, we believe that it is prudent to incorporate a recession into our forecast model for planning purposes
- Rising costs, uncertain State and federal revenues, and growing and changing community needs
- Stabilizing cannabis market and regulations
- Threat of future debris flows remains in the Thomas Fire burn areas until the mountains revegetate

FY 2019-20 Budget Development

- Critical to build a disciplined FY 2019-20 budget
- Develop strategies to prepare for future year deficits
 - Allocate ongoing revenue growth to one-time purposes
 - Set aside revenues for future use
 - Fund initiatives with countywide benefit/efficiencies
- Cost of any departmental service level expansions must be offset by increased and sustainable revenue

Renew '22: Positioning to Thrive



- Entering the second year of five-year plan
- Many initiatives underway within departments and countywide
- Designed to:
 - Allow the County to remain effective even in times of fiscal uncertainty
 - Improve how we do our work

Preparing for the Future

Focus on what is **essential** to serve our communities

Maintain a financially **sustainable** organization

Do the most important things well – we can do *anything*, but not *everything*

Recommended Actions

- A. Receive and file the FY 2019-24 Five-Year Forecast, including potential fiscal issues facing the County in the coming fiscal years
- B. Determine pursuant to CEQA Guidelines §15378 that the above activity is not a project under the California Environmental Quality Act.