Section B

Executive Summary

COUNTY OF SANTA BARBARA
CALIFORNIA

Executive Summary

Navigating Towards a Stable Future

Members of the Board of Supervisors,

In adopting the last two budgets for the County of Santa Barbara, this organization successfully moved from reacting to an unprecedented budgetary crisis to anticipating and preparing for upcoming challenges. This financial turnaround has required leadership by the Board of Supervisors and County staff. This Fiscal Year's 2013-15 County Executive Office (CEO) Recommended Operational Plan was developed with the understanding that the County of Santa Barbara would need to have a financially disciplined operating budget. Now, through the Recommended 2013-14 and Proposed 2014-15 Operational Plans presented on the following pages, we have become an organization poised to **Navigate Towards a Stable Future** with a sustainable level of service.

Fiscal Years 2013-15 At-A-Glance

The CEO *Recommended Operational Plan for Fiscal Years 2013-14 and 2014-15 (Plan)* proposes a balanced budget, with Operating Expenditures of $844.5 million for Fiscal Year (FY) 2013-14 and Operating Revenues of $839.5 million, with the balance funded by Other Financing Sources and/or use of Fund Balance (Figure 1) . The budget is balanced with less use of one-time funds for ongoing operations than in the past, however many departments are nearing the end of available financial reserves that have been used in recent years. The gap between Operating Revenues and Operating Expenditures widens to a negative $13.7 million in the FY 2014-15 Proposed Budget, as other costs, primarily retirement are predicted to peak in this year.

Staffing levels are proposed to decrease by 32.5 Full Time Equivalents (FTEs) from the FY 2012-13 Adopted Budget to 3,891.2 FTEs, down 572.5 FTEs since FY 2007-08. The Plan was prepared in accordance with the Board's adopted budget and General Fund allocation policies with consideration of the Board's focus on maintaining public safety, protecting children and families, and supporting sustainable communities.

Figure 1: FY 2013-15 Recommended and Proposed Budgets at a Glance
(Dollars in millions)

	FY 2011-12 Actual	FY 2012-13 Adopted	FY 2013-14 Recommended	FY 14-15 Proposed
Total Operating Revenues	$ 836.3	$ 815.5	$ 839.5	$ 847.1
Total Operating Expenditures	$ 801.0	$ 833.3	$ 844.5	$ 860.8
Net Operating Impact *	$ 35.3	$ (17.8)	$ (5.0)	$ (13.7)
Staffing FTE's	3,845.9	3,923.7	3,891.2	3,894.0

* Net Operating Impact is funded by Other Financing Sources or use of Fund Balances.

Executive Summary

CEO Recommended Operational Plan Fiscal Year 2013-14

Navigating a Course to Stability

Future stability will require a structurally balanced budget. The County of Santa Barbara has made progress toward structural balance, in which ongoing operating revenues equal ongoing operating expenses. With the Fiscal Year 2013-14 Recommended, 99.4% of the County's total budget is now structurally balanced at the Operating level and General Fund departments operating revenue is budgeted to slightly exceed operating expenditures. However maintaining and enhancing structural balance will necessitate growth in revenues to balance expected increases in expenditures and the need to address issues such as: tax transfer to the Fire District, operation of the Northern Branch Jail, deferred maintenance of critical infrastructure, increases in retirement and healthcare costs, and uncertainty of Affordable Care Act (ACA) implementation impacts.

- **Expiration of Concessions and Other Salary Changes**

  Employee concession agreements from FY 2011-12 included both permanent and temporary salary decreases and freezes on merit pay (step) increases. Expiration of these agreements will result in an estimated additional $3.6 million of costs in FY 2013-14 and $0.8 million additional in FY 2014-15.

  Also the Firefighters' contract includes an additional $1.9 million of salary and benefit increases in FY 2013-14 and $0.9 million additional in FY 2014-15. Firefighter salary increases of 4% will occur during FY 2013-14, additional 4% in FY 2014-15 and additional 4.5% increase will occur at the beginning of FY 2015-16.

- **Tax Transfer to the Fire District**

  In 2012, the Board of Supervisors approved a plan to transfer property tax revenue from the General Fund to the Fire District. In FY 2012-13, the Fire District received an average of 11% of the property tax collected within the District's boundaries. The tax transfer plan established a gradual phase-in of the transfer by assigning 25% of the County's growth in property tax revenue each year to the Fire District until the District was receiving 17% of the property taxes within its boundaries.

  The resulting increased property tax allocations to the Fire District are projected to be $0.7 million in FY 2013-14 and an incremental $0.9 million in FY 2014-15. The revenue increases will partially offset rising District costs but are not projected to close the funding gap until FY 2016-17.

- **Northern Branch Jail Operations**

  The FY 2013-14 CEO Recommended Operational Plan maintains the commitment made by the Board of Supervisors to a funding plan which sets aside sufficient discretionary revenue to prepare and implement operations (staffing, services, and supplies) for the Northern Branch Jail. In FY 2013-14, $3.3 million will be set aside for future jail operations and $4.6 million in FY 2014-15. The Northern Branch Jail is expected to open late in FY 2017-18, which is in line with the conditions of the capital funding provided by the State of California.

- **Deferred Maintenance Backlog**
  The unfunded backlog for the County of Santa Barbara is estimated at $292 million. This includes: Public Works estimated at just over $250 million; General Services Department, estimated at $35

million for County facilities; and Community Services Department, with estimated deferred maintenance for County Parks of $7 million.

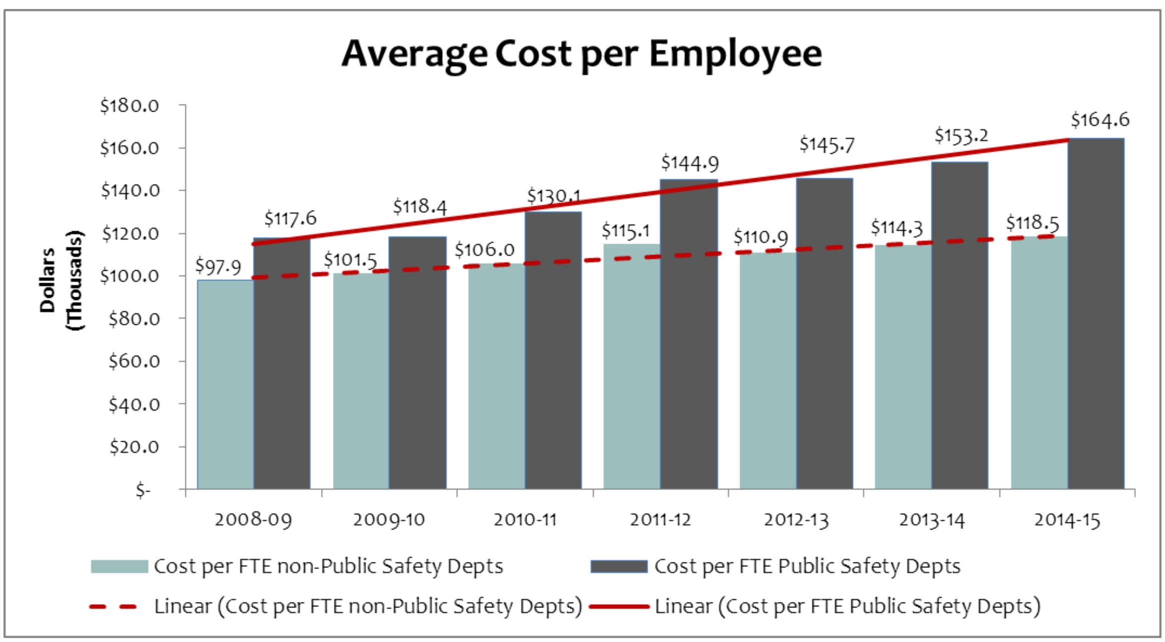
The unfunded backlog for County facilities and infrastructure are projected to continue to grow. The CEO's office has revised its Capital Improvement Program to include a section on Ongoing Countywide Maintenance Needs which will be the basis for developing a long term funding plan to address the growing Countywide increase in unmet maintenance needs.

- **Escalating Retirement and Health Care Costs**

The October 2012 Santa Barbara County Employee Retirement System (SBCERS) actuarial valuation study, determined that the average contribution rates for General Plan members will be 31.7% and Safety members will be 56.8%, resulting in a weighted average contribution rate of 38.3%. The new rates result in a projected cost of $113.9 million for FY 2013-14. The increase over the FY 2012-13 adopted contribution of FY $105.8 million is anticipated to be $8.1 million.

The FY 2013-14 health insurance cost is anticipated to be $27 million. The projected health care increase for calendar year 2015 is expected to be 12%, resulting in a net FY 2014-15 increase of $3.0 million. The cost of providing pension benefits and health insurance to employees in FY 2013-14 is projected to increase to over $141 million. The total of all salary and benefit costs for employees has increased significantly over the last several years. As can be seen in Figure 2, the rate of increase for Public Safety employees is outpacing non-Public Safety employees and the spread between the average cost per employee is widening.

Figure 2: Average Cost per Employee - Safety and Other Departments



- **<u>Uncertainty of Affordable Care Act (ACA) Implementation Impacts</u>**

  The federal Patient Protection and Affordable Care Act (ACA), also referred to as Health Care Reform, was signed into law on March 23, 2010, and established comprehensive health insurance reforms that will roll out over several years with most changes taking place by January 2014.

  The major element of the ACA is the expansion of health coverage to individuals who were previously uninsured, including the expansion of Medicaid (in California Medi-Cal), the federal health insurance for people with low incomes. The Medi-Cal expansion, which will take effect on January 1, 2014, will impact the Alcohol, Drug and Mental Health Services (ADMHS), Social Services, and the Public Health Departments, all of which provide enrollment, health services, and substance abuse services to Medi-Cal and indigent beneficiaries.

  The ACA will present many opportunities and challenges for these three County departments. These changes include the possibility of an increase in demand for services, and increased expenditures to provide services. All three departments anticipate higher revenues in future years related to increased service demand as federal funds will cover 100% of costs for the first three years, and 90% thereafter. However, sources of revenue to cover the future costs of providing services and funding for other programs not related to the ACA are uncertain at this time.

Executive Summary

Service Level Reductions

The budget development and General Fund Allocation Policy adopted by the Board were closely followed during the development of the FY 2013-15 Recommended Operational Plan. Policy-based budgeting provides an increased level of transparency for the public and consistency throughout the organization. Application of Board approved budget allocation policies resulted in the need for Service Level Reductions (SLRs) to balance expenditures with revenues. These SLRs are summarized in Figure 3. The reductions will further diminish the level of services provided to the public by many departments. Additional reductions are anticipated in coming fiscal years to balance expenditures with available revenues.

As a result of available revenues and the expected increases to expenditures, it will be necessary to reduce service levels by $8.3 million which includes an impact to 55.3 full time equivalent (FTE) positions. If the Board elects to restore any service levels with one-time General Fund dollars this will further widen the funding gap for the 2014-15 fiscal year.

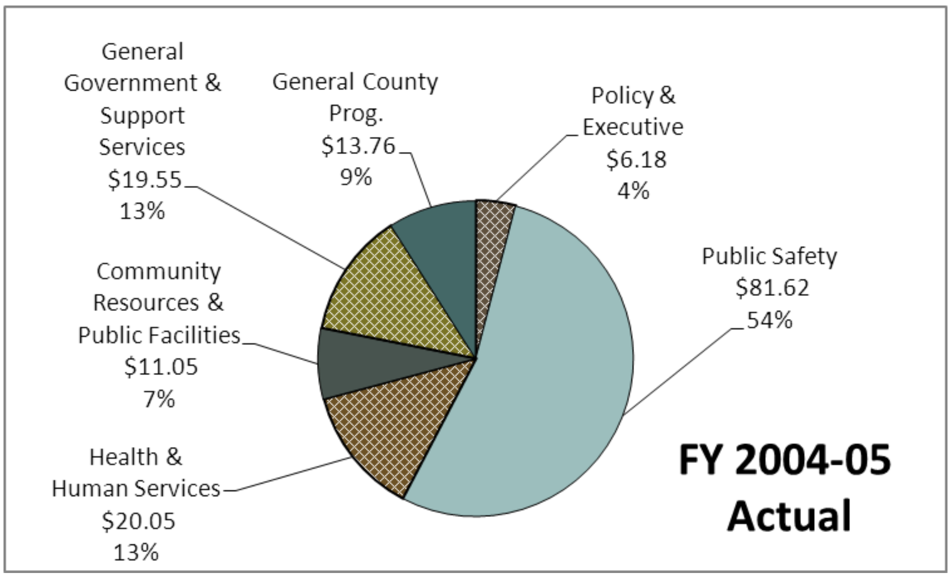
Figure 3: Proposed FY 2013-14 Service Level Reduction Summary

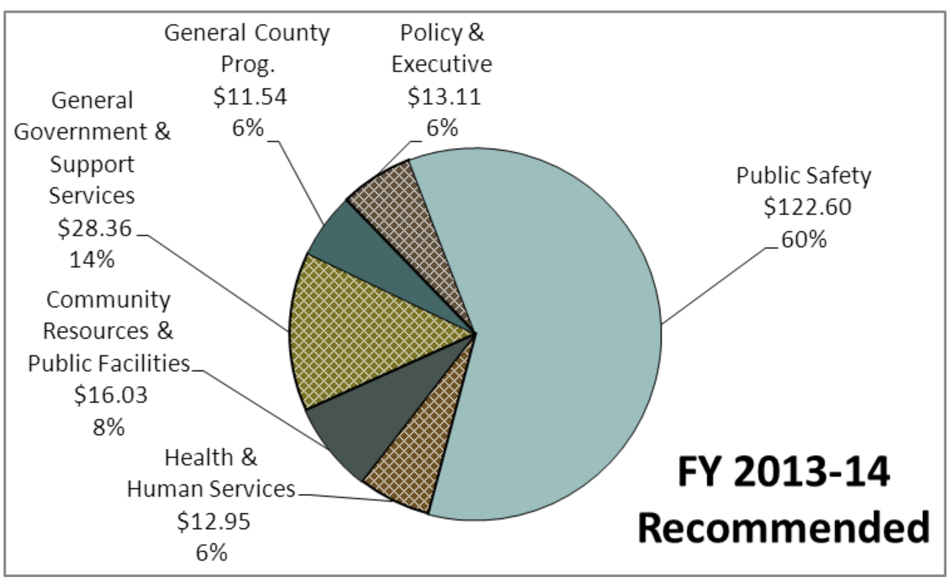
Department	Amount	Description
CEO	$50,000	Reduce Clerk of the Board staffing by 0.5 FTE (Extra Help)
County Counsel	$246,000	Reduce Advisory Program by 2.0 FTE Deputy County Counsel
Probation	$1,601,000	Eliminate the targeted gang intervention program Eliminate transportation services at the Santa Barbara Receiving and Transportation Center Reduce the capacity of the Santa Maria Juvenile Hall
Fire	$1,956,000	Shut down Engine 11 in Goleta Reduce 3 Firefighter positions (1 Post) at Station 22 in Orcutt
Sheriff	$1,065,000	Reduce Custody Deputy staffing by 3.0 FTE Reduce Custody Deputy staffing by 4.0 FTE with a concurrent reduction in Jail capacity Reduce Aviation Support Unit (ASU) budget
Public Health	$2,427,000	Reduce 3.0 FTE as of 12/31/13 with the implementation of the Affordable Care Act (ACA) Reduce 1.0 FTE in the Santa Maria Health Center Reduce 0.3 FTE due to reduced clinic patient load Reduce 5.0 FTE in Health Information Management Consolidate the Santa Maria Women's Center with the primary care practice at the Betteravia County Government Center
ADMHS	$216,000	Reduce number of inpatient contracted acute and long term beds Eliminate the Juvenile Justice program
Ag. Comm.	$289,000	Eliminate one Agricultural Biologist inspector Eliminate the contract with UC for their Cooperative Extension services Eliminate Wildlife Services contract for urban areas
P & D	$145,000	Reduce 0.7 FTE in the Long Range Planning Division
CSD	$282,000	Eliminate contributions to 14 regional conference and visitors bureaus Reduce contribution to shelters Reduce Orcutt Park landscaping currently provided by the developer
Total	$8,277,000	

Continued Focus on Public Safety

In the FY 2013-14 CEO Recommended Operational Plan, the percentage of Public Safety expenditures from the General Fund continues to be significantly greater than was spent ten years ago (Figure 4). Sixty cents of every General Fund dollar are now going to Public Safety departments (Sheriff, Fire, Probation, District Attorney, Public Defender, and Courts). If the tax transfer to the Fire District combined with the Northern Branch Jail operations funding were included in the pie charts, the amount would increase to nearly sixty-five cents of every discretionary revenue dollar.

Figure 4: General Fund Contribution by Functional Group - Ten Year Comparison
(In millions)





Executive Summary

Arriving at a Stable Future

Many organizations, including the County of Santa Barbara, are pursuing a budget that provides the resources needed for the short term necessities, such as providing core public services, and anticipates long-term needs such as infrastructure investment. The Board of Supervisors can be proud of the tough choices and reforms made in the past which focused on the delivery of core public services. County staff, with clear policy direction from the Board, is prepared to follow a course, avoiding hazards along the way, and arrive at a stable and sustainable future state where services we provide are aligned with the needs of our residents.

Continued Focus on County Goals and Values

The Board of Supervisors adopted six goals on April 21, 1998, and revised them on November 21, 2006. These adopted organizational goals help to unify, focus, and align the wide variety of services provided by the County of Santa Barbara and identifies how the organization should operate. The goals are:

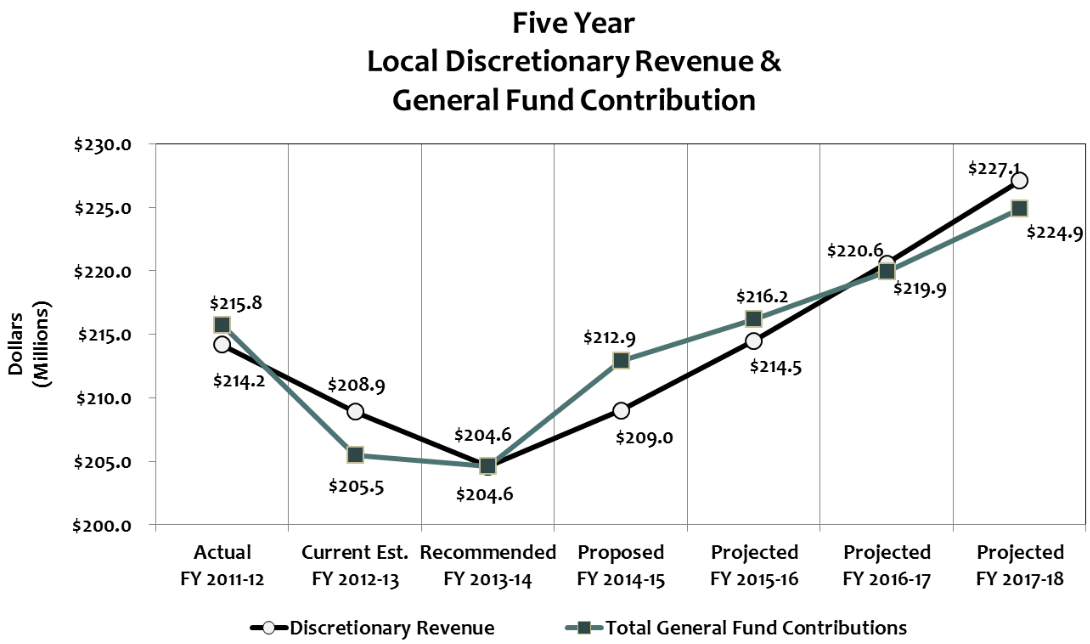
- Goal 1: EFFICIENT AND RESPONSIVE GOVERNMENT: An efficient professionally managed government able to anticipate and to effectively respond to the needs of the community;
- Goal 2: HEALTH AND SAFETY: Safe and healthy communities in which to live, work, and visit;
- Goal 3: ECONOMIC VITALITY: A community that is economically vital & sustainable;
- Goal 4: QUALITY OF LIFE: A high quality of life for all residents;
- Goal 5: CITIZEN INVOLVEMENT: A County government that is accessible, open, and citizen-friendly; and
- Goal 6: FAMILIES AND CHILDREN: A community that fosters the safety and well-being of families and children.

Financial Overview – Discretionary Revenue and Expenditures

Discretionary revenues are synonymous with General Revenues, which are shown on Schedule C-22 and are primarily property taxes, sales taxes, and transient occupancy taxes. These revenues are those tax dollars available for appropriation by the Board of Supervisors. Non-discretionary revenues (e.g. grants, state/federal program revenues) are designated for a specific purpose. Discretionary expenses are those costs not fixed in amount by legal obligation prior to adoption of the annual budget by the Board of Supervisors. The current revenue projections, as illustrated in Figure 5 below, show a $4.3 million decrease for FY 2013-14 due to significant one-time revenues from the disposition of RDA assets in FY 2012-13 (see Figure 5). Revenues after FY 2013-14 are projected to make steady increases through FY 2017-18 with ongoing revenues reaching $227.1 million, a $22.5 million or 11.0% increase from FY 2013-14.

The graph below displays that a balanced budget is achieved in FY 2012-13 and FY 2013-14; however, it then goes negative in FY 2014-15, primarily as a result of increasing retirement costs described later in this section. Thereafter, the "gap" narrows towards a structurally balanced budget, which is again attained in FY 2016-17. In the last few years, this chart was termed a "jaws" chart as it previously reflected a widening gap with expenditures projected to significantly outpace revenues. As we move towards structural balance, it will provide the opportunity to solve upcoming fiscal issues such as: deferred maintenance, deteriorating road infrastructure, incremental increasing allocations towards the new jail operating costs, and other Countywide issues identified in this document.

Figure 5: Five-year Forecast of Local Discretionary Revenue and General Fund Contribution



Note: The GFC in FY2011-12 was adjusted for the replacement of Cost Allocation reveune for General Fund ($9.0 million)

Revenue Projections

There have been 14 straight quarters of positive growth in the gross domestic product (GDP) and unemployment is now at 7.6% at the national level. In the County, the unemployment rate in March 2013 was 7.2% and economic growth appears to be improving. After several years of decline, the housing market has stabilized and now appears to be in recovery. The recent 2012 Santa Barbara County Agriculture Production Report identified $1.3 billion in products grown in Santa Barbara, a $96.6 million (8.1%) increase over the past year and tourism is projected to continue to improve.

The County's discretionary revenues reflect a decrease in FY 2012-13 of $5.3 million, composed of property taxes, sales taxes, and transient occupancy taxes. The decrease is primarily attributable to the Fire District tax transfer ($5.9 million), the expiration of the Goleta Neutrality Agreement ($2.7 million), and reduced Cost Allocation revenue ($2.3 million). These reductions were partially offset by one-time RDA Dissolution proceeds of $5.1 million in FY 2012-13.

Total property tax accounts, the County's largest discretionary revenue source, had an increase of 1.0% in FY 2012-13. Property taxes are estimated to grow by approximately 2.0% in FY 2013-14, well below the average growth rate of approximately 8.0% over the past 30 years; however, they are expected to gradually increase in the coming years. The expiration of the Goleta Neutrality Agreement impacted Local Sales Tax and Transient Occupancy Taxes (TOT), both of which show decreases from FY 2011-12 revenue levels. The decrease in Cost

Allocation Service revenues reflects the budget cuts to County support departments over the past several years which result in lower reimbursement from other entities for such support services. Sales taxes, TOT, and Cost Allocation reimbursements are expected to stabilize and modestly grow in the coming years.

Figure 6: Five-year FY 2013-14 through FY 2017-18 Discretionary Revenue Projections
(In millions)

Source	FY 2011-12 Actual	FY 2012-13 Current Est.	FY 2013-14 Recommend	FY 2014-15 Proposed	FY 2015-16 Projected	FY 2016-17 Projected	FY 2017-18 Projected
Significant Property Taxes	$ 172.6	$ 174.3	$ 177.7	$ 182.3	$ 188.0	$ 194.1	$ 200.6
RDA Dissolution Proceeds - One time	-	5.1	-	-	-	-	-
RDA Prop. Tax - Ongoing	3.9	4.2	4.3	4.4	4.5	4.6	4.7
Fire: Trans Tax	-	(5.9)	(6.6)	(7.5)	(8.5)	(9.6)	(10.7)
Subtotal Property Taxes	**$ 176.5**	**$ 177.7**	**$ 175.4**	**$ 179.2**	**$ 184.0**	**$ 189.1**	**$ 194.6**
Cost Allocation Services	10.2	7.9	6.5	6.5	6.7	6.8	6.9
Local Sales Tax	7.9	6.7	6.9	7.2	7.5	7.8	8.1
Transient Occupancy Tax	7.6	6.7	6.8	7.2	7.5	7.9	8.3
Payments in Lieu of Tax	1.8	1.6	-	-	-	-	-
All Other (Franchise, interest, misc State)	10.2	8.3	8.9	8.9	8.8	9.0	9.2
Total Discretionary Revenues	**$ 214.2**	**$ 208.9**	**$ 204.6**	**$ 209.0**	**$ 214.5**	**$ 220.6**	**$ 227.1**

The main drivers of the revenue changes depicted above are as follows:

Significant Property Tax Growth

A positive sign for the economy and the County is the projected growth of property taxes. The projected increase signifies a strengthening housing market and home values. Property Taxes are the largest component of discretionary revenue and therefore the major foundation for the County's recovery and budget. Current projections indicate that this revenue source will incrementally increase from a growth rate of 1.0% ($1.7 million) in FY 2012-13 to 3.4% ($6.6 million) in FY 2017-18. Additional detail of Significant Property tax components are shown in Figure 7, below.

Dissolved Redevelopment Agencies (RDA)

The County General Fund will receive $4.2 million in FY 2012-13 and $4.3 million in FY 2013-14 from ongoing Redevelopment Property Tax Trust Funds that distribute RDA dissolution proceeds from the seven dissolved redevelopment agencies in the County. These ongoing revenues are currently estimated to ultimately grow to approximately $9.0 million dollars in annual taxes for the County General Fund, once all outstanding RDA debt obligations of the dissolved agencies are paid. The Fire District anticipates receiving $0.6 million in ongoing Redevelopment Agency dissolution tax increment for FY 2013-14.

In addition, the legislation required a one-time dissolution proceed of RDA Low and Moderate Housing Fund cash balances on-hand as of February 1, 2011, and RDA Other Funds and Account cash balances on-hand as of February 1, 2011, be distributed to taxing agencies. The most current information indicates that the County General Fund is expected to receive one-time proceeds of $6.1 million with an additional $1.4 million being withheld and disputed by two agencies (in the FY 2012-13 Current Estimate, these one-time funds are shown as $5.1 million and potentially could increase by year end). The Fire District anticipates receiving $0.6 million in one-time proceeds for FY 2012-13. There are numerous lawsuits being filed by dissolved agencies throughout the State that could affect future distributions.

Goleta Revenue Neutrality

When the City of Goleta incorporated in February 2002, a revenue neutrality agreement went into effect to protect the County from arbitrary funding reductions to Countywide services. Beginning in FY 2012-13, when the mitigation period of the agreement expired, the County's annual sales tax revenue sharing with the City of Goleta was reduced by $1.3 million and the County's annual transient occupancy tax revenue sharing with the City was reduced by $1.4 million, a total revenue decrease of $2.7 million. The County's FY 2012-13 final and balanced budget included this reduction in revenues. This is an on-going reduction in revenues for FY 2013-14 and subsequent years.

Local Sales Tax

Local or Retail sales tax represents the local portion of the retail sales tax collected by the State from sales generated within the unincorporated areas of the County. Retail sales tax is an economically sensitive revenue source that is used to support the general operations of the County.

Sales taxes are currently estimated to show a -$1.2 million decrease (-15.2%) in FY 2012-13 over FY 2011-12 as a result of the Goleta Neutrality Agreement described above, but expected to increase by 3.0% for FY 2013-14 over current estimates for FY 2012-13. Beginning in FY 2014-15, sales taxes should experience an approximate 4.0% growth annually through FY 2017-18.

Transient Occupancy Tax (TOT)

This source of revenue is highly dependent on tourism and the quantity of lodging in the unincorporated County. The County is estimating decreases in the transient occupancy tax revenue in FY 2012-13 of $0.9 million (-11.4%), primarily due to the loss of revenue from the shift in the City of Goleta Revenue Neutrality Agreement as mentioned above. The County expects more tourism as the economy continues to improve and consumer discretionary spending increases. The County anticipates 1.5% growth in FY 2013-14 and approximately 5.0% growth annually thereafter through FY 2017-18.

All Other Revenues

This category is made up of Franchise Fees, Interest Income, State, and Federal Payments, as well as property tax delinquency penalties. These revenues will remain relatively flat for the next five fiscal years.

Figure 7: Five-year FY 2013-14 through FY 2017-18 Significant Property Tax Projections
(In millions)

Source	FY 2011-12 Actual	FY 2012-13 Current Est.	FY 2013-14 Recommend	FY 2014-15 Proposed	FY 2015-16 Projected	FY 2016-17 Projected	FY 2017-18 Projected
Property Tax - Secured	$ 113.6	$ 114.8	$ 117.4	$ 120.5	$ 124.0	$ 127.7	$ 131.8
Property Tax In-Lieu of VLF	42.7	43.1	44.0	45.2	46.4	47.8	49.3
Property Tax: Fines, Penalties	5.3	4.7	4.0	3.5	3.6	3.7	3.9
Property Tax - Unsecured	4.8	4.4	4.6	4.7	4.8	4.9	5.1
Property Tax - Unitary	2.1	2.4	2.5	2.5	2.5	2.5	2.5
Property Tax - Supplemental	1.6	2.0	2.2	2.6	3.2	3.5	3.8
Property Tax Transfer	2.5	2.9	3.1	3.3	3.6	3.9	4.2
Significant Property Taxes	**$ 172.6**	**$ 174.3**	**$ 177.7**	**$ 182.3**	**$ 188.1**	**$ 194.0**	**$ 200.6**
Growth Year over Year		**$ 1.7**	**$ 3.4**	**$ 4.6**	**$ 5.8**	**$ 5.9**	**$ 6.6**
Rate of Growth		**1.0%**	**2.0%**	**2.6%**	**3.2%**	**3.1%**	**3.4%**

Secured Property Taxes

Secured property taxes are generated from local and State assessed property values. The tax is generated annually by multiplying the assessed values of these properties by a tax rate of 1.0%. Factors that influence the assessed values include the inflation rate of real properties, changes in ownership, improvements/additions to property, and temporary declines in market value.

Secured property taxes are the largest element of Discretionary Revenues and generally represent 53% - 58% of total Discretionary Revenues. The Recommended FY 2013-14 Budget for secured property tax revenue is based on a 2.2% increase in secured property tax from the FY 2012-13 estimate. The growth rate shows continued increases of 2.7% in FY 2014-15, strengthening to 2.9% in FY 2015-16, and approximately 3.0% growth in both FY 2016-17 and FY 2017-18.

Property Tax In-Lieu of Motor Vehicle License Fees

Prior to FY 2004-05, the County received a share of vehicle license fee revenues collected Statewide based on a population formula. Beginning with FY 2004-05, the State, as part of a complicated revenue reduction and refunding plan, has replaced (swapped) this source with property taxes. A portion of the property tax revenues that are taken from local governments to fund schools are returned to cities and counties in lieu of vehicle license fees. From the FY 2004-05 base, now adjusted, revenue growth is based on property tax growth. Thus, increases in these revenues mirror secured property tax revenue projections.

Unsecured and Unitary Property Taxes

Unsecured property taxes are generated from locally assessed property values. Property that is considered unsecured includes business fixtures, business personal property, boats, and aircrafts. A Unitary tax roll contains properties such as railroads and utilities crossing the County and is valued by the State Board of Equalization.

Both Unsecured and Unitary taxes have remained stable and are projected to have minimal growth over the next five years.

Supplemental Property Taxes and Property Transfer Taxes

The supplemental assessment roll contains a listing of all property that has undergone a change in ownership or experienced new construction. The amount of each supplemental assessment is the difference between the property's new base year value, determined as of the date of change in ownership or completion of new construction, and the existing taxable value. This tax source generally rises as property sales accelerate and sales prices increase. In periods of decreasing sales activity and/or decreasing sales prices supplemental taxes tend to fall. Supplemental taxes are expected to increase to $2.2 million for a growth of 10.0% ($0.2 million) in FY 2013-14 over FY 2012-13 estimates. Growth is projected to continue annually thereafter from FY 2014-15 through FY 2017-18 by 72.7% or $1.6 million over FY 2013-14 levels.

Property Transfer Tax is a tax charged to buyers when a property is transferred or sold. Property Transfer Tax revenues accruing to the County are based upon the assessed value of properties sold and a tax rate of $0.55 per $500 of that assessed value. This tax has historically been a leading indicator of future increases or decreases in Supplemental and Secured Property Taxes. Projections indicate that transfer taxes will increase by 8.0% annually, beginning in FY 2014-15.

Expenditure Projections

Discretionary expenses are those costs not fixed in amount by legal obligation prior to adoption of the annual budget by the Board of Supervisors. The forecast in Figure 8 is comprised of three categories:

1. General Fund Allocations to all departments,
2. Incremental Changes to Salaries and Benefits (i.e. requiring additional General Fund allocations), and
3. Incremental Changes to Other Items, such as committing funds for the new jail operations or increased funding for deferred maintenance costs.

The Five-year Expenditure Projections in the following table (Figure 8) include actual and projected numbers. Actual amounts are included for FY 2011-12; FY 2012-13 figures reflect current departmental year end estimates; FY 2013-14 and FY 2014-15 amounts are the CEO Recommended and Proposed Budgets and the FY 2015-16 – FY 2017-18 amounts (to the right of the vertical line) are CEO projected figures.

Figure 8: Five-year FY 2013-14 through FY 2017-18 Expenditure Projections
(In millions)

	FY 2011-12 Actual	FY 2012-13 Current Est.	FY 2013-14 Recommend	FY 2014-15 Proposed	FY 2015-16 Projected	FY 2016-17 Projected	FY 2017-18 Projected
Discretionary Revenue	**$ 214.2**	**$ 208.9**	**$ 204.6**	**$ 209.0**	**$ 214.5**	**$ 220.6**	**$ 227.1**
General Fund Allocations:							
GF Departments	169.2	170.4	173.3	169.3	177.5	178.4	179.9
Other Funds	31.0	28.8	22.5	26.5	27.3	28.2	29.0
Committed Fund Balance	6.6	5.2	8.6	7.6	8.9	10.4	11.9
Subtotal	**$ 206.7**	**$ 204.5**	**$ 204.4**	**$ 203.5**	**$ 213.7**	**$ 217.0**	**$ 220.8**
Incremental Changes:							
Salaries & Benefits:							
Salaries & Misc. Benefits			(3.0)	1.2	2.0	2.0	2.1
Healthcare Costs			0.4	0.8	0.5	0.5	0.5
Retirement			1.3	5.9	(1.7)	(1.3)	(0.2)
OPEB			0.2	0.3	0.2	0.2	0.3
Sub-total S&B	**$ -**	**$ -**	**$ (1.1)**	**$ 8.2**	**$ 1.0**	**$ 1.4**	**$ 2.6**
Other Items:							
Northern Branch Jail		1.0	1.3	1.3	1.5	1.5	1.5
Deferred Maintenance			-	-	-	-	-
Subtotal	**$ -**	**$ 1.0**	**$ 1.3**	**$ 1.3**	**$ 1.5**	**$ 1.5**	**$ 1.5**
Total Discretionary Expenditures	**$ 206.7**	**$ 205.5**	**$ 204.6**	**$ 212.9**	**$ 216.2**	**$ 219.9**	**$ 224.9**
Net Discretionary Financial Impact	**$ 7.5**	**$ 3.4**	**$ (0.0)**	**$ (3.9)**	**$ (1.7)**	**$ 0.7**	**$ 2.2**

<u>Category Descriptions and Key Assumptions -</u>

- **<u>General Fund Allocations</u>**

  General Fund allocations are the most significant revenue source for General Fund departments in the delivery of services to the community. Other Funds are allocated based on Federal and State maintenance of effort requirements or payments for specific purposes, such as local match for transportation funding in the Roads Fund. Projected General Fund allocations in Fiscal Years 2015-16 forward, assume the prior year's allocation plus incremental ongoing changes as described in the middle and lower section of the above table.

- **<u>Committed Fund Balance</u>**

  Committed fund balance is used to set aside General Funds for deferred maintenance, Northern Branch Jail operations funding, and building of the strategic reserve or other requirements that arise over time.

- **<u>Use of One-time Funds</u>**

  Use of one-time funds is an estimate of the remaining portion of structural imbalances within General Fund departments, where non-reoccurring sources are budgeted to fund ongoing expenditures. The elimination of such one-time funding is included in the County's Budget Policies and Fiscal Strategies wherein it states that "the use of one-time funds may be permitted to ease the transition to downsized or reorganized operations, but is strongly discouraged." The amount of structural imbalance has been declining in recent years, from $23.6 million in the FY 2011-12 Recommended Operating Budget, to $1.6 million for the FY 2013-14 Recommended Operating Plan. This has been accomplished through a combination of cost control and increased General Fund allocations. These amounts are included in the General Fund Allocations.

Salary and Benefit Changes –

The middle section of Figure 8 above details the major categories of Salary and Benefit changes which include anticipated personnel related expenditures. They are determined based on negotiated Memoranda of Understanding (MOU), health insurance and retirement benefit cost projections, and mandated costs such as Social Security contributions. Additionally, the County is currently funding certain Other Post-Employment Benefits (OPEB) related to providing medical coverage to retirees.

Generally, salaries for FY 2013-14 and 2014-15 are based on detailed positions by department (salary model), existing wages, concessions (temporary and permanent), and any scheduled wage increases per MOU with the various bargaining units. These wage increases will begin to come into effect in FY 2013-14 as concessions expire. Salary cost estimates for FY 2013-14 and FY 2014-15 of this forecast incorporate current terms of negotiated MOU. The chart below lists the expiration dates of the MOU by Employee Organization. Executive and management salaries have been subject to a wage freeze since January 2008.

Figure 9: Memoranda of Understanding (MOU); Listing by Expiration Date

Group	Current MOU Expires
Engineers and Technicians Association	6/23/2013
SEIU Local 620	6/23/2013
Probation Peace Officers' Association	9/29/2013
Union of American Physicians and Dentists	11/24/2013
Deputy District Attorneys' Association	12/8/2013
SEIU Local 721	6/22/2014
Deputy Sheriffs' Association	2/15/2015
Sheriff's Managers' Association	4/12/2015
Fire Fighters Local 2046	2/28/2016

Two of the groups, in Figure 9 above, have long term contracts that provide for general wage increases that have delayed previously negotiated increases. The first group, Sheriff's Managers' Association, is scheduled to receive a 3.0% wage increase at the beginning of Fiscal Year 2013-14. The second group, the Fire Fighters Local 2046, is scheduled to receive a 4.0% increase at the beginning of Fiscal Year 2013-14, a 4.0% increase at the beginning of Fiscal Year 20014-15, and a 4.5% increase at the beginning of Fiscal Year 2015-16.

No enhancements of health or retirement benefits are projected; however, retirement costs, especially those for public safety members, are projected to increase based on the most recent actuarial report.

In January 2013, the County implemented a new retirement plan as part of the State mandated Public Employees Retirement Reform Act (PEPRA) for new employees hired on or after January 1, 2013. Savings from implementing this plan will be relatively modest at first and will increase gradually over time as new County employees are enrolled in the PEPRA plan.

- **Salaries and Miscellaneous Benefits**

  Salaries and miscellaneous benefits included in Figure 8 above reflect a net incremental reduction of $3.0 million in FY 2013-14, primarily due to the Fire District moving from the General Fund to its own fund. There is a corresponding reduction to General Revenues (see Tax Transfer to the Fire District as previously described in the CEO Recommended Plan). A 2.0% increase to all employee salaries and miscellaneous benefits was assumed for the projected years, FY 2015-16 to FY 2017-18.

- **Healthcare Costs**

  Healthcare costs are expected to increase significantly with calendar years 2014 and 2015 (15% and 12%) as a result of the Affordable Care Act. Projected costs beyond FY 2014-15 are assumed to increase 5% per year.

- **Retirement Costs**

  The employer's share of retirement costs are set by the independent Santa Barbara County Employees' Retirement System (SBCERS) Board and paid by the County. The annual County Contribution is projected to peak in FY 2014-15 to $130.9 million, an increase of $60.4 million or 85.7% since FY 2009-10 (see Figure 10). The investment losses during FY 2008-09 had a major impact on FY's 2010-11 through 2014-15 retirement rates as these losses needed to be absorbed into the ongoing rates. Smoothing formulas have enabled the rates to increase incrementally during these periods. At the same time, the projected rate of return included in the actuarial assumptions was reduced from 8.16% to 7.75% for FY 2011-12 and the projected figures assume another rate of return reduction from 7.75% to 7.50% in FY 2014-15.

  The discretionary General Fund portion of retirement costs in FY 2014-15 are expected to increase $5.9 million over FY 2013-14 as a result of:

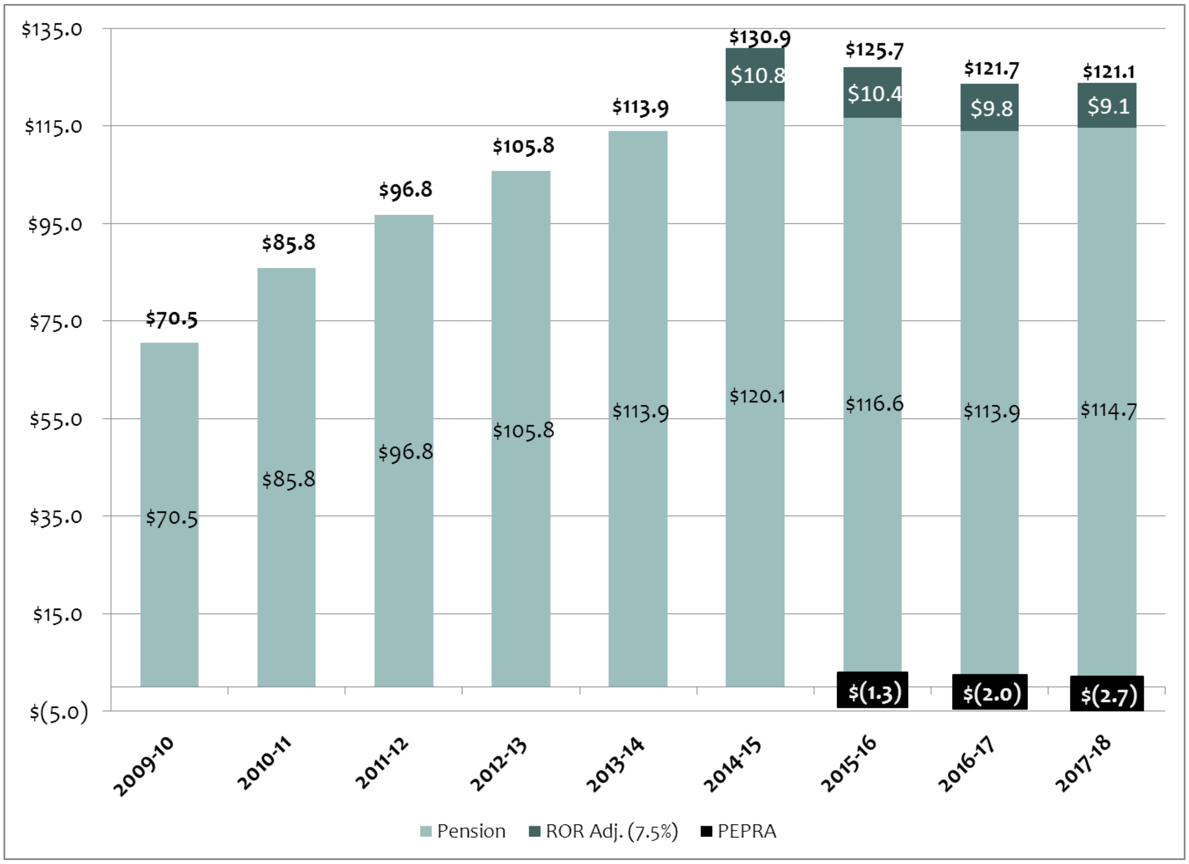
  - Investment losses from 2008 and 2009 (these are absorbed into the rates over 5 years and after FY 2014-15, they will be fully absorbed)
  - The projected 25 basis point reduction in the assumed rate of return to 7.5%

  The above increases have been anticipated and unspent concession savings from FY 2011-12 remain in the General Fund Committed Fund Balance and could be used to fund a majority of such an increase in FY 2014-15. The ongoing employer contribution, as a percentage of payroll is anticipated to begin to decrease in FY 2015-16 (excluding potential further reductions to the rate of return or other demographic factors).

  A graph of actual and projected countywide pension contributions is included below. The retirement contribution amounts reflected in the projections are based on SBCERS actuarial projections developed during FY 2012-13 and include the impact of the Public Employee's Pension Reform Act (PEPRA) beginning in FY 2015-16. The bars reflect the changes associated with a) decrease in the rate of return, b) changes to existing payroll assumptions, and c) the estimated impact of PEPRA.

Executive Summary

Figure 10: Increasing Pension Contributions since FY 2011-12
(In millions)



- <u>**Other Post-Employment Benefits (OPEB)**</u>

  In September 2008, the County and the Retirement System adopted an Internal Revenue Code Section 401(h) account that provides for Other Post-Employment Benefits with the County currently assuming a portion of the costs of retiree medical coverage, dependent upon years of service. The contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years.

  OPEB costs have been recorded and funded on a pay as you go method. In the FY 2013-14 Recommended Budget, the funding level was increased by approximately 8.3% (0.25% of covered payroll) to increase the accumulation of a fund balance for these unfunded costs. The projections in Figure 8 above reflect annual increases to OPEB funding of approximately 8.0% per year that are expected to continue to build the fund balance.

Other Items -

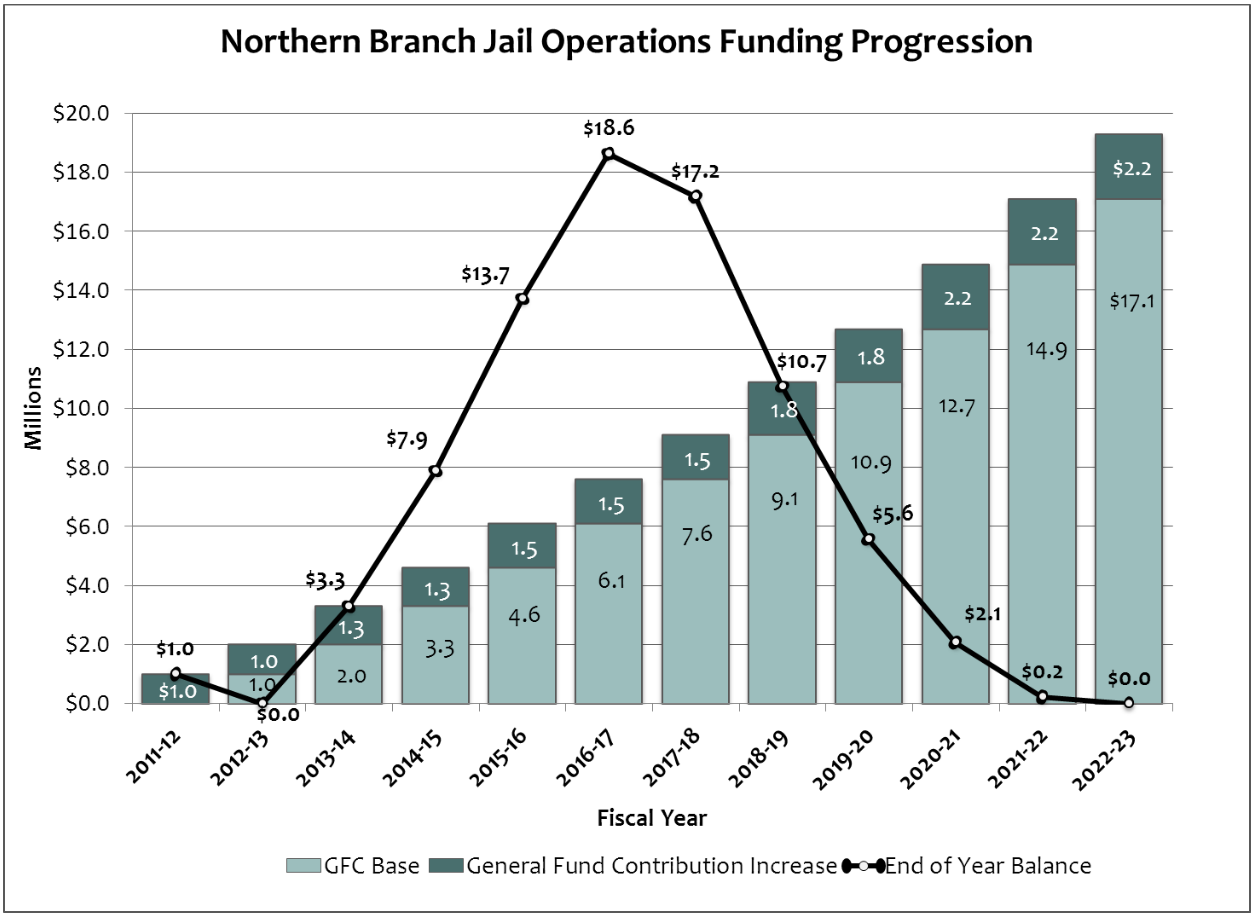
- **Northern Branch Jail – Operations Funding**

  The Northern Branch Jail Project is located near the City of Santa Maria and will provide capacity to hold 376 individuals, in a facility estimated to be approximately 139,000 square feet, built on a 16-acre portion of a 50-acre County-owned property located at Black and Betteravia Roads.

  On January 15, 2013, the Board of Supervisors approved a Project Construction and Delivery Agreement with the State of California that stipulated the terms of an $80 million conditional award of funds towards the construction of a new Northern Branch jail. The total cost of the jail is currently anticipated to be $96.1 million.

  In addition to the construction costs mentioned above, the annual costs to operate the new jail are projected to be approximately $17.3 million when it opens, currently scheduled for May 2018. In order to establish such a significant annual General Fund allocation, the Board of Supervisors adopted a Budget Policy in FY 2011-12 to establish an incrementally increasing annual General Fund Contribution to this jail operating fund. A schedule of the planned operating debt service payments is included in Figure 11 below.

Figure 11: Plan for Future Jail Operations Funding



Data for Figure 11

Fiscal Year	GFC Base	GFC Increase	County Match	Operating Costs	End of Year
2011-12	$ -	$ 1.0	$ -	$ -	$ 1.0
2012-13	1.0	1.0	(3.0)	-	-
2013-14	2.0	1.3	-	-	3.3
2014-15	3.3	1.3	-	-	7.9
2015-16	4.6	1.5	-	(0.3)	13.7
2016-17	6.1	1.5	-	(2.7)	18.6
2017-18	7.6	1.5	-	(10.5)	17.2
2018-19	9.1	1.8	-	(17.3)	10.7
2019-20	10.9	1.8	-	(17.9)	5.6
2020-21	12.7	2.2	-	(18.4)	2.1
2021-22	14.9	2.2	-	(19.0)	0.2
2022-23	17.1	2.2	-	(19.5)	-

- **Deferred Maintenance**

During FY 2012-13, the County increased its focus on deferred maintenance of public buildings, facilities, and road infrastructure needs. This was accomplished by modifying the Budget Policies that call for the identification of such cost and development of a proposed funding plan. The current allocation of General Funds totaling $2.8 million per year is distributed as follows:

- $1.3 million: General Services
- $0.5 million: Parks
- $0.5 million: Roads
- $0.5 million: Capital Designation used for small unbudgeted projects

In prior years, only Public Works had included a comprehensive list of deferred maintenance projects. This year, General Services and Community Services Departments have also included their complete list of projects in the County's Capital Improvement Program (CIP). Identified deferred maintenance projects are only those known at this time and there may be other projects that have not yet been identified. It is expected that these initial lists will be refined over time and may require assistance from consultants to thoroughly evaluate. The main purpose is to quantify the magnitude of deferred maintenance and to begin to develop a funding strategy.

The table below displays the unfunded deferred maintenance needs identified by departments and included in the County's CIP. Identified amounts were spread over a five year period.

Figure 12: Departmental Estimated Unfunded Deferred Maintenance Backlog (As of April 5, 2013 as submitted in CIP Database)
(In millions)

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	5 Yr Total
Public Works	$ 50.0	$ 50.0	$ 50.0	$ 50.0	$ 50.0	$ 250.1
General Services	6.6	6.7	10.2	6.1	5.6	35.2
Parks	1.4	1.4	1.4	1.4	1.4	6.9
Total	**$ 58.0**	**$ 58.2**	**$ 61.6**	**$ 57.5**	**$ 57.0**	**$ 292.2**

Investing in the Future

As the gap between revenues and expenditures closes and we move into structural balance it will be essential that we strategically evaluate all County needs as funding becomes available. Prior Fiscal Outlook Reports and this document have highlighted several issues that will require additional funding including:

Items addressed in the Recommended, Proposed and Projected FY 2014-18 Budgets:

- Increased pension funding per SBCERS
- Expiration of employee concessions
- Increasing healthcare and Workers' Compensation costs
- Use of one-time sources to fund ongoing operations

Executive Summary

- Funding the increased operating costs of the Northern Branch Jail
- Increased funding for other post-employee benefits (OPEB)
- Continued tax transfer to the Fire District to maintain levels of service

The following items are anticipated to require additional funding needs over those presented in these budgets:

- Increase funding for unmet maintenance and infrastructure needs
- Potential negative impacts of the Affordable Care Act (unknown at this time)
- Employee compaction and compensation issues

The County Executive Officer recommends that any unanticipated growth in ongoing revenue streams, such as property and sales taxes, which become available in FY 2013-14 or 2014-15 be used to:

- Reduce the remaining use of one-time sources to fund ongoing operations
- Fund deferred maintenance projects

Service levels proposed in this budget do not adequately meet the needs of County residents. Core services will focus on maintaining public safety, protecting our children and families and supporting sustainable communities. Staff will continue to prioritize efforts to reduce the cost of providing these services by seeking efficiencies wherever possible. However, it is critical to note that the ongoing cycle of service reductions is not sustainable and therefore the County must consider revenue enhancement strategies resulting from increased economic activity and resident supported tax increases.