



**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:** CEO & Auditor-Controller  
**Department No.:** 012 & 061  
**For Agenda Of:** 5/4/10  
**Placement:** Departmental  
**Estimated Tme:** 30 minutes  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Department Michael F. Brown, County Executive Officer  
Director(s) Robert Geis, CPA, Auditor- Controller  
Contact Info: Jason Stilwell, Assistant CEO, 568-3413  
Julie Hagen, CPA, Chief Deputy Controller, 568-2126  
**SUBJECT: Fiscal Year 2009-2010 Third Quarter Budget and Financial Update**

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**County Counsel Concurrence**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2009-10 Financial Status Report as of March 31, 2010, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

**Summary Text:**

The FY 2009-10 third quarter fiscal report, ending March 31, 2010, provides the Board an important snapshot of the County's financial position three-quarters through a challenging fiscal year. In addition, the third quarter report focuses on fiscal year end estimates that are necessary to understand how the County is projected to end the year. The third quarter analysis shows the General Fund may end the year in deficit, requiring release of reserves and designations, and certain other special revenue funds will be required to have adjustments to assure they end the year balanced.

Also included as part of this agenda item is an update of the potential fiscal issues summary. This is a summary of the Fiscal Issues Report presented to the Board in October 2009. The report included sixteen fiscal issues on the horizon for the County. The last update to the Board was on February 9, 2010 with the second quarter budget and financial update. Since then, two items have updates; the State budget and Indian gaming.

- State budget: The Governor's Budget was released on January 8, 2010. It seeks to address a deficit of \$19.9 billion over the next 18 months: \$6.6 billion in FY 2009-10, \$12.3 billion in FY 2010-11, \$1.0 billion reserve. It includes significant reliance on federal "fairness" funds of \$6.9

billion. It includes severe additional program cuts if federal funds do not materialize by June 2010 (for example-elimination of CalWORKS, Healthy Families, and IHSS programs). The Legislature passed almost \$4 billion in cuts and the Governor signed a mid-year budget package on March 23, 2010 that addressed approximately \$2.2 billion in cuts. Sales tax on gasoline and Proposition 42 was eliminated and replaced with excise tax (short cuts the constitutional protection).

- **Indian Gaming:** Senate Bill 357 was introduced on February 25, 2009 and amended on April 1, 2009 to extend the Special Distribution Fund (SDF) grants for mitigation of gaming until January 1, 2021. The Bill passed in the Governmental Organization Committee by a vote of 17 in favor and zero opposed. The Bill is currently on the Appropriations Suspense File. There is no SDF funding in the FY 2009-10 State budget. Prior legislation extended the sunset date to 2021, but did not appropriate funding. However, there is a current bill, Assembly Bill 2198, being considered in the Legislature to appropriate \$30 million from the SDF to local jurisdictions. No hearing date has been set yet on the new legislation.

### **Background:**

This report presents a financial status by fund and by department. Staff conducted Monthly Projection (MOPROs) meetings with departments during which actual performance was compared to budget for the first nine months of this fiscal year. Major differences (variances) between budgeted and actual amounts through March 2010 will be reported to the Board. In addition, issues that may likely pose potential budgetary challenges for departments during the remainder of the year will be highlighted.

This report highlights the following thresholds for variances: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected variances greater than \$400,000 as shown in the Financial Summary Report (first page, Attachment A) and 2) for non-General Fund departments, the narrative discusses projected variances over \$1,500,000 per fund as shown in the Financial Summary Report (pages 2 through 13, Attachment A). The Financial Summary Report takes actual revenues and expenditures for the first nine months, adds department projections for the next three months, and compares these totals to budgeted amounts to produce a projection for the end of the fiscal year; this projection is the far right column of the report.

### **GENERAL FUND SUMMARY**

The General Fund, when all of the positive and negative amounts are accounted for, had a projected net negative variance of \$1.812 million at March 31, 2010. Significant individual General Fund department variances are discussed below.

- District Attorney. Due to current year costs associated with the retirement incentive program, the projection is for the department to end the year over budget by \$753 thousand. The department experienced eleven retirements including nine who were part of the retirement incentive program with an estimated cost of \$1.1 million. Positions are being held vacant to absorb much of the cost of the retirement and the department is diligently controlling expenditures. While the department will absorb nearly half of the costs it is unable to cover the full cost of the retirements. As such, the department estimates using \$509,000 from the salary and benefit designation. The County Executive Office is closely monitoring the District Attorney budget and will bring a budget revision request to the Board for its consideration if it appears the transfer is required to enable the General Fund to end the year balanced.

- Probation. The department has a projected \$1.443 million net negative variance due to revenue loss. The revenue variance consists of realignment revenue projected to be short (-\$134,000), Proposition 172 revenue to be below target (-\$131,000), lower Federal child welfare services Title IV-E funding (-\$700,000), and vehicle license fees to be down for camp funding (-\$700,000). The department has made mid-year service level reductions to partially mitigate the revenue shortfall, however it is estimating to end the year with a negative variance of \$1,400,000.
- Public Defender. The projection report shows the department to end the year over budget by \$411 thousand however the department is estimating a shortfall of \$566 thousand. During the third quarter the department experienced costs relating to the retirement incentive program of nearly \$1 million and projects to be able to absorb nearly half of those costs but estimates using \$500,000 from the salary and benefit designation. The County Executive Office is closely monitoring the Public Defender budget and will bring a budget revision request to the Board for its consideration if it appears the transfer is required to enable the General Fund to end the year balanced. In addition, the Public Defender has been assigned an unusual fraud case that will require additional resources and which may further impact the department's budget; a Board letter is being prepared to present options for addressing this assignment.
- Sheriff. The department shows a \$463 thousand net negative variance. This variance is on both the revenue and expenditure side of the budget. The department is experiencing revenue shortfalls due to the economy primarily experienced in Proposition 172 sales tax declines. Also the department's salaries and benefits are slightly above budget but the department is holding vacancies and restricting the use of overtime and extra help in an effort to keep that object level within its appropriation limit. After the close of the third quarter, the department received a \$1.2 million reimbursement for Jesusita Fire expenditures borne by the department and mutual aid agencies. As a result projections are the department will end the year balanced subject to any extraordinary events that occur in the final fiscal quarter.
- Parks. Parks shows a projected negative variance of \$793 thousand resulting from lower revenues and higher expenditures. On the revenue side, camping revenue has been lower than budgeted throughout the year. The department expects an uptick as the weather improves and as Lake Cachuma water levels are high. However, overall revenues will likely not meet budget by the end of the year. As a result the department is significantly constraining spending. Nevertheless, the department has a projected negative expenditure variance of \$384 thousand. That variance is a result of utility charges (primarily for water, refuse and electricity) costing more than anticipated, and costs related to the Retirement Incentive Program. The department is holding ten funded vacancies in efforts to close the budget gap by the end of the year.
- Planning and Development. The department shows a positive variance of \$1.4 million primarily due to revenue variances. The department received funding due to a large one-time violation from a code enforcement settlement as well as higher than anticipated building and grading permit revenue. The department has several budget revisions pending and unbudgeted costs for relocation of the Office of Long Range Planning, which will reduce the variance significantly by the end of the fiscal year.
- Auditor-Controller. The department shows a \$685 thousand net positive variance. On the revenue side the department received an unanticipated IRS refund because of a payroll tax deposit penalty reversal. The expenditure variance is a result of salary savings.

- Clerk Recorder Assessor. The projection report shows the department ending the year over budget by \$604 thousand. This is a timing variance due to reimbursement from the State for Vote By Mail election related costs. The Department has contacted the State and has been told reimbursement will happen June 1, 2010 which will then eliminate the variance.

To summarize, the projection report shows the General Fund ending the year short of budget by \$1.812 million and recent estimates prepared during the budget development process also show a modest year end shortfall. The General Fund budget is approximately \$430 million. With multiple budget variables and such a narrow projection, it can swing to a year-end positive projection or could become more negative with only a few significant transactions. The CEO and departmental staff are working to reduce projected year end budget gaps and will bring forward budget revision requests, as needed, during the fourth quarter as part of year end budget balancing strategies. However notwithstanding these efforts, it is still possible the General Fund will require a transfer from the Strategic Reserve or another one-time source to enable the fund to end positive on June 30, 2010.

#### SPECIAL REVENUE AND OTHER FUND SUMMARY

Two special revenue funds have reportable variances.

- The Public Works Department's Road Operations Fund (0015) has a net positive variance of \$2.079 million due to increased service charges to various grants and staffing vacancies the department is holding. This fund provides the cash flow to the two other road funds (0016 and 0017) so all three funds need to be considered as a unit. Taken as a whole the three funds have a net positive variance of \$1.3 million. Of note, Measure D revenues are below budget estimates due to the drop in sales tax revenues (-\$800,000). These three funds are expected to end the year positive \$572,000.
- The Mental Health Services Fund (0044) has a net negative variance of \$2.4 million. The negative revenue variances of \$4.4 million are primarily related to lower Medi-Cal revenues resulting from an adjustment in services provided, a reduction in EPSDT due to changes in the mix of children and adult programs, and lower AB 3632 (Mental Health Services for Special Education Pupils) revenue. The expenditure variance is a positive \$2 million as the department has been controlling costs and realigning services. Regular and temporary staffing savings comprise \$530 thousand of the expenditure variance. The remainder of the variance is attributable to lower than expected costs and Medi-Cal claims by non-profit providers. Additional cost cutting measures will need to be taken before the end of the fiscal year to end the year within budget.

**Fiscal and Facilities Impacts:** Actual and hypothetical impacts are stated in the Board letter.

#### **Attachments:**

- A – Financial Summary Report
- B – PowerPoint presentation
- C – Potential Fiscal Issues Report Update

**Authored by:** Jason Stilwell, Assistant County Executive Officer/Budget Director

**cc:** Each Department Head  
Assistant County Executive Officers  
CEO Fiscal and Policy Analysts  
Recognized Employee Organizations