



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: 11/04/08
Placement: Departmental
Estimated Tme: 30 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority and 4/5

TO: Board of Supervisors
FROM: Department Michael F. Brown, County Executive Officer
Director(s) Robert Geis, CPA, Auditor-Controller
Contact Info: Jason Stilwell & Julie Hagen
568-3413 568-2126
SUBJECT: FY 2008-2009 First Quarter Budget Update

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2008-09 Financial Status Report as of September 30, 2008, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.
- B. Approve a budget revision request to transfer salary and benefit savings to the Salary and Benefit Reduction designation (4/5 vote required).

Summary Text: This hearing includes two items. First is a financial status report for the quarter ending September 30, 2008. Second is a budget revision to adjust departmental budgets to reflect negotiated employee cost reductions and to designate those savings into a new designation to be used per the Board's direction.

The financial status report demonstrates that the Fiscal Year 2008-2009 budget, adopted by the Board on June 17, 2008, is holding without significant variances except for those described in this Board letter. However, the financial status of the County remains very fragile as revenues remain flat or declining and expenditures generally remain in line with budget projections. This fragility appears to be manageable based on first quarter trends, however any new developments, such as a mid-year State budget session or furthering of economic crises, could require the Board to consider mid-year service level reductions.

The budget revision request is the culmination of efforts by employees to negotiate certain salary and benefit cost savings and the efforts of the County Executive Office and departmental budget staff to quantify those savings and earmark them for designation. This designation is intended to be used, per Board policy, to avoid layoffs of employees who participated in these cost reduction strategies.

Background:

This Board letter includes two items. These are: 1) the fiscal year first quarter financial status report, 2) budget revision requests to make necessary adjustments to departmental budgets to reflect savings related to negotiated salary and benefit cost savings for Fiscal Year 2008-2009.

Financial Status Report

This section will focus on the financial status of the first quarter Fiscal Year 2008-2009. The first quarter financial status report may be the most important of the four quarterly financial status reports for two reasons.

- First, it enables the Board to determine if the estimates included in the budget adopted in June, based on projections developed in the prior fiscal year, are accurate and if the actual revenue and spending patterns follow budget calculations. Staff found by and large all revenue and spending patterns are in-line with the budget except for certain variances discussed in this Board letter.
- Second, the actual performance of revenue and expenditures in the first quarter provides current and actual information to be used as a basis for refining projections for the upcoming fiscal year. The budget development process for the next fiscal year is underway. The first quarter financial data factors into budget principles, budget development guidelines, target setting, estimates, and projections that will be used to anticipate the County's financial condition for the following fiscal year.

County Executive Office staff has conducted Monthly Projection (MoPros) meetings with departments during which actual performance was compared to budget for the first three months of this fiscal year. There are several major differences (variances) between budgeted and actual amounts through September 2008. Most departments have positive variances as the budget at the end of the first quarter included appropriations for salary and benefits that are not being spent; this issue is being remedied with the budget revision request that is part of the recommendations for this Board letter.

This report highlights the following thresholds for variances: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected negative variances over \$100,000 and positive variances over \$300,000 as shown in the Projected Annual Status Report, General Fund (Attachment A) and 2) for non-General Fund departments, the narrative discusses projected variances over \$1,000,000 per fund as shown in the Projected Annual Status Report - Fund Type (Attachment B). Both these reports take actual revenues and expenditures for the first three months, add department projections for the next nine months, and compare these totals to budgeted amounts.

GENERAL FUND SUMMARY

The General Fund, when all of the plusses and minuses are accounted for, had an estimated net negative variance of \$4.984 million through September 30, 2008. The largest negative variance is the Fire

department which has budgeted nearly \$7 million in anticipated reimbursement revenue for work relating to the Gap Fire.

Other significant individual department variances are discussed below.

- County Counsel. The department shows a \$455 thousand net negative variance. This variance is on the expenditure side and results from outside counsel costs for issues involving potential litigation and salaries and benefit costs and payments to the Retirement Board for early retirements. The potential litigation costs can be reimbursed by releasing Litigation Designation funds. The early retirement payment to the Retirement Board will be offset as the year progresses and the savings from these unfilled positions materialize.
- Public Defender. The department currently shows a \$583 thousand net negative variance. This is primarily a timing variance in the release of designations. The Department will use an estimated \$354 thousand in one-time designations to fund current year operations; anticipated reductions in Prop 172 revenues and staffing issues also contribute to the projected variance. The current estimated year-end variance is negative \$185 thousand when these other factors are considered. This estimate does not anticipate any additional capital level cases which are complicated, lengthy, and expensive.
- Sheriff. The department shows a \$333 thousand net negative variance. This timing variance results from revenue delays due to the State's late adoption of its Fiscal Year 2008-2009 budget.
- Planning and Development. The department shows a positive variance of \$1.134 million. This variance consists of both a revenue variance (more funds than anticipated carried over for work begun last year) and an expenditure variance relating to salary and benefit savings primarily from vacancies and the Board adopted cost savings efforts.
- Clerk Recorder Assessor. The department shows a \$525 thousand net positive variance primarily from expenditures. The department has salary and benefit cost savings resulting from the Board adopted cost savings efforts and has capital construction savings resulting from the delay in the archive building construction schedule.
- General Revenues. The general revenues show a net positive variance of \$956 thousand. This is a timing variance resulting from a posting of \$743 thousand in the first quarter that was reversed in October.

SPECIAL REVENUE AND OTHER FUND SUMMARY

Three special revenue funds have significant variances. The Public Health Department's Health Care Fund (0042) has a net negative variance of \$1,529,323 primarily a result of State FQHC payment delays due to the late adoption of the State budget. Housing and Community Development's Affordable Housing Fund (0066) has a net positive variance of \$2,311,430 due to spending delays in the affordable housing program. The Capital Project Fund of the Isla Vista Redevelopment Agency (3107) had a net negative variance of two million dollars stemming from a timing variance due to a delay in actualizing the use of reserves.

Budget Revision Request

In order to address the County's fiscal challenges and maintain service levels the Board and the County Executive Office determined that deferrals of pending salary increases and mandatory furloughs would be necessary subsequent to the Board adoption of the Fiscal Year 2008-2009 budget.

Staff was directed to meet and confer with the County's labor organizations on these topics and to implement wage freezes for managers and executives. Both management and other unrepresented employees and employees represented by certain labor organizations will incur the same number of mandatory furlough hours. As a result of discussions with labor, the Service Employees International Union (SEIU) Local 620 (Local 620), the Engineers and Technicians Association (ETA), and the Union of American Physicians and Dentists (UAPD) have entered into agreements for a 64 hour Mandatory Furlough Program and for deferral of pending salary increases. There is also an estimated 15% savings for health insurance costs countywide due to the final negotiated cost of employee health benefit plans.

These issues result in countywide expenditure savings totaling \$10.08 million. That savings is in: Regular Salaries (\$6.56 million), FICA Contribution (\$0.42 million), FICA/Medicare (\$0.13 million) and 6600 Health Insurance Contribution (\$2.97 million) within the Salaries & Benefits Object Level. The savings is approximately \$4.84 million for the General Fund and \$5.24 million for all other funds. Labor organizations have agreed to these actions to preserve positions slated for layoff. In some cases, these savings will not be enough in an individual fund or department to prevent layoffs. By designating the expenditure savings by fund, sources will be available to preserve positions as needed through Fiscal Year 2008-2009 to meet the agreements negotiated with the respective labor organizations.

Looking Forward

Through the first quarter of Fiscal Year 2008-2009 the revenue and spending patterns generally follow the adopted budget. Two broad areas of variance, the delay in State revenues and the additional salary and benefit cost reductions that were not included in the adopted budget, impact many of the departments. Both these issues should abate. State payments are beginning to be received by the County. The budget revision that is included as part of this agenda item will realign the salary and benefit budget with the Board's policy.

There are a number of financial concerns looking forward as have been described to the Board separately in the Financial Issues Report and other hearings. One issue that could significantly impact this year's budget would be mid-year State budget adjustments. The State may hold a special legislative session and the Governor may declare a fiscal emergency. These actions could result in further cuts in intergovernmental revenue and, through the suspension of Proposition 1A, the use of County revenues to balance the State budget. Mid-year reductions to the County's budget may be necessary.

A second issue is revenue softening. Proposition 172 Public Safety Sales tax showed some early signs of lower than anticipated growth by approximately 2% of the budget. The variance to date is not significant, however, given the economic framework with low construction and still declining vehicle sales, it is likely that this trend will continue throughout the year and the negative variance between the budget and the actual revenue received may increase.

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

Attachments: Presentation

Attachment A - Projected Annual Status Report, General Fund

Attachment B - Projected Annual Status Report, Special Revenue and Other Funds
Attachment C – Budget Revision Requests
Attachment D – Presentation slides

Authored by: Jason Stilwell

cc: Each Department Head
Deputy/Assistant County Executive Officers and CEO Analysts
Recognized Employee Organizations