



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
Department No.: 012
For Agenda Of: 11/10/20
Placement: Administrative
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department: Mona Miyasato, County Executive Officer
Director(s)
Contact Info: Jeff Frapwell, Budget Director

SUBJECT: Fiscal Year 2020-21 First Quarter Budget Update

County Counsel Concurrence

As to form: NA

Auditor-Controller Concurrence

As to form: NA

Recommended Actions:

That the Board of Supervisors

- a) Receive and file the Fiscal Year 2020-21 First Quarter Budget and Financial Status Report as of September 30, 2020, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors.

Summary Text:

The Fiscal Year 2020-21 Budget and Financial Update for the first quarter ending September 30, 2020, provides an early look at the County's financial position relative to the FY 2020-21 adjusted budget. The County is currently projected to have a positive \$3.5 million surplus relative to the budget in the General Fund. Special Revenue and Other Funds are generally tracking to budget with no reportable variances.

The \$3.5 million net positive variance in the General Fund is due to positive variances in many General Fund departments, including a reportable net positive variance of \$3.1 million in General Revenues and \$359 thousand in Probation. These positive variances are offset by a negative \$292 thousand variance in General Services and small negative variances in a few other departments. The reportable variances are explained later in this report.

Background:

FIRST QUARTER REPORT

In this report, projected financial results for the fiscal year end are compared to the annual adjusted budget. The major differences (variances) between budgeted and actual amounts through September 30, 2020, are discussed below.

This report highlights the variances that exceed the following thresholds:

- 1) General Fund departments (including Discretionary General Revenues) with projected variances greater than \$300 thousand per department; shown in the Financial Summary Report (Attachment A) and;
- 2) Special Revenue and Other Funds with projected variances greater than \$500 thousand per fund; shown in the Financial Summary Report (Attachment B).

Both Attachments A and B use actual revenues and expenditures for the first three months of FY 2020-21, and then add departmental projections for the next nine months to arrive at the “Projected Actual” columns. These annual Projections are then compared to Adjusted Budgets for both Sources and Uses to produce a “Net Financial Projected Variance” for the end of the fiscal year (shown in the far right column of the Attachment A and Attachment B reports).

BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board-approved budget appropriations per Board-adopted policy and procedure *‘Budgetary Control & Responsibility’* as the following abbreviated excerpt states:

- A. If expenditures are projected to exceed appropriations, the department head responsible for the budget shall perform one or more of the following steps in the following order:
 - 1) Lower the expenditure level to maintain overall expenditures within the total amount budgeted,
 - 2) Request a transfer from fund balance within the same department and fund under the department head's control (if available for appropriation),
 - 3) Prepare a transfer request from General Fund Contingency and an agenda item for the Board of Supervisors with a memo to the County Executive Office, providing adequate justification.

In addition, the County Budget Act, Section 29121, California Government Code, places liability for over-expenditure upon the department director authorizing the expenditure:

Except as otherwise provided by law, obligations incurred or paid in excess of the amounts authorized in the budget unit appropriations are not a liability of the county or dependent special district, but a personal liability of the official authorizing the obligation.

GENERAL FUND SUMMARY (Attachment A)

As of September 30, 2020, the General Fund had a projected year-end net positive variance of \$3.5 million. This is the result of favorable results in most General Fund departments, including reportable positive variances in General Revenues and the Probation Department.

General Revenues (Department 991) projects a positive year-end variance of \$3.1 million, 1.0% over total budgeted revenues, shown in detail in the table below. This variance is due primarily to higher than budgeted Current Year Secured Property Taxes and Current Year Unsecured Property Tax Delinquency payments, Sales and Use Taxes, and Property Transfer Taxes, offset by lower than budgeted Transient Occupancy Taxes.

The projected Current Year Secured Property Taxes exceeds the budgeted amount by \$2.4 million due to the assessed value of properties exceeding initial projections, as the real estate market continues to remain strong despite the impacts of the pandemic. The Current Year Property Tax Delinquency payment is also projecting higher than budgeted due to a correction based on an analysis of historical trends. Property Transfer Taxes are also projecting higher than budgeted, again driven by the strong real estate market that continues to thrive despite the economic impacts of the pandemic.

Sales and Use Retail Tax, which has been negatively impacted by the COVID-19 pandemic and subsequent restrictions imposed locally, is currently projecting better year-end actuals than what was forecasted at the time the FY 2020-21 budget was developed, due to modest growth in retail sales over the past five consecutive months, in addition to strong e-commerce growth driven by a shift in consumer spending via online shopping. These unanticipated revenues are offset somewhat by reductions to Transient Occupancy Tax, one of the discretionary revenues most sensitive to the impacts of COVID-19, currently projected to end the year \$1.9 million below budget. This is largely driven by the public limiting travel in an effort to slow or eliminate the spread of the virus, as well as the continued closure of the Biltmore Hotel.

During development of the FY 2020-21 budget, staff used cannabis tax receipt information available through the third quarter of FY 2019-20, plus anticipated growth in the coming year, to arrive at a projection of \$10.6 million in the adopted FY 2020-21 budget. However, the FY 2019-20 fourth quarter receipts came in well above what was anticipated, ultimately totaling to \$5.5 million, 45% of the entire fiscal year's receipts. Since this data was not available at the time of the FY 2020-21 budget's adoption, staff is now incorporating this information to project actual receipts in FY 2020-21 to exceed the adopted budget by about \$3.4 million. This growth is attributable to more accurate reporting of gross sales by operators due, in part, to the recent implementation of a tax compliance program, in addition to new operators being licensed and entering the market, thus generating new, taxable sales. Any amount received in excess of budget will be added to fund balance for future allocation by your Board.

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2020-21	Projected FY 2020-21	Variance Proj vs. Adjusted
Property Tax - Current Secured	\$ 147,785	\$ 150,140	\$ 2,355
Property Tax - Current Year Delinquent Penalty	1,843	2,901	1,058
Sales and Use Retail State Tax	10,320	12,153	1,833
Cannabis Tax	10,620	14,009	3,389
Transient Occupancy Tax	12,394	10,521	(1,873)
Property Transfer Tax	4,003	5,092	1,089
All Other Revenues	113,555	112,194	(1,361)
Total Discretionary Revenues	\$ 300,520	\$ 307,010	\$ 6,490
Increase to Cannabis Fund Balance	10,620	14,009	\$ 3,389
All Other Transfers	289,900	289,900	0
Projected Fiscal Year End Variance	\$ -	\$ 3,101	\$ 3,101

Probation Department is projecting a positive variance of \$359 thousand, 0.05% on a total budget of \$64.8 million, mostly due to staffing vacancies and salary savings beyond budgeted amounts, resulting in Salary and Benefits being \$964 thousand under budget for the first quarter. The Department is working to fill these vacancies. However, Fines, Forfeitures, and Penalties and Charges for Services are down by \$205 thousand as the department is experiencing a downward trend in collections prior to, and exacerbated by, COVID-19. Sales tax driven 2011 Realignment is also coming in under budget by \$147 thousand mainly due to COVID-19, although state backfill may ultimately cover some of this loss.

General Services is projecting a negative variance of \$292 thousand, 1.3% on a total budget of \$21.8 million, mostly driven by projected shortfalls in Charges for Services (\$1.25 million) due to staffing vacancies in the Capital Projects Division, not entirely offset by salary savings of \$1.02 million. Additionally, a projected Services and Supplies negative variance of \$192 thousand, due mainly to higher COVID-19 related costs for Security Services, is adding to the projected deficit.

Sheriff's Office is currently projecting a negative variance of \$214,000 for the fiscal year, driven entirely by unbudgeted Covid related expenses. Notably, through the first quarter, the department's net salary and benefit expenses are tracking better than previous fiscal years and, at the department level, net negative variance is below the established reportable threshold. At the close of FY 2019-20, the Sheriff had a negative variance of \$4.4 million that was covered by a combination of unanticipated additional revenue in the General Fund and the positive variances from other General Fund departments. Based on our current projections, the General Fund will not be in a position to absorb any significant negative variances from the Sheriff's Office or any other GF County department in the current fiscal year, and therefore, close management and monitoring will be necessary by departments.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

Special Revenue and Other Funds are generally tracking to budget with no reportable variances.

Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter.

Attachments:

A – Financial Summary Report – General Fund

B – Financial Summary Report – Special Revenue and Other Funds

Authored by:

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