



**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

**Submitted on:  
(COB Stamp)**

**Department Name:** CEO  
**Department No.:** 012  
**For Agenda Of:** December 3, 2024  
**Placement:** Administrative  
**Estimated Time:** N/A  
**Continued Item:** No  
**If Yes, date from:** N/A  
**Vote Required:** Majority

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

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**SUBJECT: Fiscal Year 2024-25 First Quarter Budget Status Report**

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**County Counsel Concurrence**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: N/A

**Recommended Actions:**

It is recommended that the Board of Supervisors:

- a) Receive and file the Fiscal Year (FY) 2024-25 First Quarter Budget and Status Report as of September 30, 2024, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors; and
- b) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist of organizational, administrative, or fiscal activities of government that will not result in direct or indirect physical changes in the environment.

**Summary:**

The FY 2024-25 budget status report for the first quarter ending September 30, 2024, provides a fiscal year-to-date look at the County’s financial position relative to the FY 2024-25 adjusted budget. As of the end of the first quarter, the General Fund is projecting a positive year-end variance of \$7.2 million driven primarily by multiple departments with positive variances, including four with reportable variances. Discretionary revenue is the primary driver of the overall positive variance, with property tax specifically projecting a \$5 million positive variance due to better than anticipated assessed value growth. These positive variances are offset somewhat by lower than budgeted revenues in Community Services-Parks, and greater than budgeted overtime costs in the Sheriff’s Office. Additionally, the Information Technology

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Department's Communications Fund is showing a reportable negative variance greater than \$500 thousand.

This projected year-end positive variance is less than the prior year, which ended with a \$10.4 million General Fund surplus, and represents a significant reduction from the most recent five-year historical surplus average of about \$14.6 million. These anticipated year-end revenues are the primary funding source for fiscal issues, capital needs and Board priorities in the coming year's budget from the General Fund.

## **FIRST QUARTER REPORT**

The first quarter for the fiscal year includes activity through September 30, 2024. 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 are discussed on the following pages.

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 2024-25, and then add departmental projections for the remaining 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 in accordance with 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.

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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, 2024, the General Fund had a projected year-end positive variance of \$7.2 million. This is the result of favorable results in most General Fund departments, offset by reportable negative variances in two departments as described below.

**General Revenues (Department 991) projects a positive year-end variance of \$7.2 million** (1.9% on an adjusted budget of \$382.2 million), with significant variances detailed in the table below. This variance is due primarily to higher than budgeted Property, Property Transfer, Transient Occupancy, and Sales Taxes. These positive variances are offset somewhat by a negative variance in Franchise Fees. Cannabis Cultivation Taxes are also projected to come in lower than budgeted but are not contributing to the projected year-end variance and are discussed later in this section.

**Property Taxes are projecting a positive variance of \$5.0 million** which constitutes just 1.6% of the total FY 2024-25 adopted Property Tax revenue budget of \$302 million and is primarily due to higher than anticipated assessed value (AV) growth for the FY 2024-25 tax year. When the FY 2024-25 budget was developed in the spring of 2024, Auditor-Controller staff had estimated overall assessed property values to grow by 3.75%, however, the roll closed reflecting growth of 5.5%. AV growth is a critical factor as it drives major revenue line items such as Current Secured and Property Tax In-Lieu of Vehicle License Fees (VLF). Due to higher than anticipated AV growth Current Secured taxes are projected to end the year at \$199.2 million which reflects a positive variance of \$3.3 million, while Property Tax In-Lieu of VLF is projected at \$79.1 million representing a positive variance of about \$1.2 million. In addition to the projected positive variance in property tax, property transfer tax also projects a positive variance of \$1.3 million on an adopted budget of \$4.1 million. This is due to property sales prices generally increasing in value when transfers occur, despite a significant decrease in the historical average of the volume of transfers due to the persistence of elevated mortgage rates.

**Transient Occupancy Tax (TOT) and Sales Tax project greater than budgeted revenues**, with positive variances of \$598 thousand and \$561 thousand, respectively, and are mainly attributable to better than anticipated consumer and discretionary spending despite uncertainty in the economy.

**Franchise Fees project a negative variance compared to budget.** A negative variance of \$467 thousand is projected in Franchise Fees which are paid by several utility companies as a negotiated percentage of their gross receipts for cable and road right of way usage. Staff overestimated growth in franchise fees over the last two fiscal years. The current year's projected shortfall is due to this overly optimistic growth

estimate in both FY 2023-24 and FY 2024-25. Franchise Fee revenue is more likely to grow by the more typical 2.5% in FY 2024-25 (compared to the previously assumed 7%).

**Cannabis Cultivation and Retail Storefront Tax is currently projecting a negative variance** with actuals of \$5.4 million which is \$745 thousand less than budgeted, on an adopted budget of \$6.1 million. This variance is being driven by a projected shortfall in cultivation tax revenue mainly due to the attrition of licensed cultivators in the County that had paid taxes in prior years but have recently surrendered their licenses. The current year projected revenue reflects a decrease from the \$5.8 million collected in the prior fiscal year, representing a reduction of about \$372 thousand or 6.5%.

<b>Discretionary General Revenue Summary (in thousands):</b>			
<b>Source</b>	<b>Adjusted FY 2024-25</b>	<b>Projected FY 2024-25</b>	<b>Variance Actual vs. Projected</b>
Property Tax	\$ 302,677	\$ 307,663	\$ 4,986
Property Transfer Taxes	4,111	5,367	1,256
Transient Occupancy Tax	17,676	18,274	598
Sales & Use Tax	15,108	15,669	561
Franchise Fees	4,605	4,138	(467)
Cannabis Tax	6,143	5,398	(745)
All Other Revenues	31,832	32,057	225
<b>Total Discretionary Revenues</b>	<b>\$ 382,152</b>	<b>\$ 388,566</b>	<b>\$ 6,414</b>
Decrease to Cannabis Fund Balance	\$ 6,143	\$ 5,398	\$ (745)
All Other Transfers	376,009	376,009	0
<b>Projected Fiscal Year End Variance</b>	<b>\$ -</b>	<b>\$ 7,159</b>	<b>\$ 7,159</b>

**Community Services-Parks is currently projecting a negative \$718 thousand variance** (1.7% on an adjusted budget of \$41 million), due primarily to lower than projected revenues in Parks concessions at Goleta Beach and RV hookup fees at Cachuma Lake. Parks is expecting a \$380 thousand shortfall in concessionaire revenues, on a \$2.68 million budget, due to the continual delay in the opening of the restaurant at Goleta Beach, which has been caused by several factors including winter 2023 storm interruptions and greater than anticipated structural and remodeling work on the building being performed by the concessionaire. As a result, the restaurant is not expected to open prior to late November 2024. Parks is also expecting an approximately \$820 thousand shortfall in hookup revenues, on a \$1.6 million budget, due to closures related to the RV area improvement project at Cachuma Lake. The RV area project improvements were originally expected to be done in June 2024, but due mostly to equipment delays, are now expected to be completed by March 2025.

The department’s net \$718 thousand variance assumes that salary savings continue at the level experienced in Q1 and that the Cachuma Lake RV hookups are ready by March 2025. To mitigate this negative variance, the department will proactively monitor and manage authorized funding to identify opportunities to reduce expenditures, both operational and capital, to end the year balanced. This will include not filling

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non-essential staffing vacancies to generate salary savings and using their remaining \$300,000 in available fund balance.

**The Sheriff's Office is currently projecting an \$862 thousand deficit** (0.4% on an adjusted budget of \$207 million), mainly due to greater than anticipated overtime. Overtime costs through the first quarter of the year were \$6 million on an annual budget of \$5.1 million, already exceeding the full year's budget by \$835 thousand. If trends continue, the department is on track to exceed the annual overtime budget by \$16 million at year-end but is also projecting to offset most of these costs with salary and benefit savings from vacant positions. First quarter overtime costs include about \$280 thousand from the Lake Fire and President Biden's trip to Santa Barbara County, in July and August, respectively. The Sheriff's Office hired thirteen new Custody Deputies in the last two weeks of September, which could help to alleviate some of the overtime needs in the long-term, but in the short-term will reduce available salary savings while the new hires go through training. In August 2024, salary increases for Custody Deputies were implemented to assist in retention and attraction.

**Other departments are projecting positive variances. Probation** is currently projecting a positive \$710 thousand variance (0.8% on an adjusted budget of \$89.4 million), primarily due to salary and benefit savings. The department had 53 vacancies at the end of the first quarter; however, 32 of those positions were in interviews or background, and were expected to be filled by the end of the second quarter. Of the 53 vacancies, fifteen were Probation Officers and eight were Juvenile Institutions Officers. **Agricultural Commissioner** is currently projecting a positive \$322 thousand variance (4.0% on an adjusted budget of \$8.1 million), primarily due to higher-than-anticipated revenue from Phytosanitary Certificates service. Revenue for these services exceeded budgeted amount, which is partially driven by the volume of agricultural exports. Additionally, Q1 Phytosanitary Certificates services revenue includes a \$130K adjustment for under-accrued revenue from last fiscal year.

#### **SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)**

As of September 30, 2024, there was one Fund with a reportable variance in the Special Revenue and Other Funds for the quarter.

**The Information Technology Communications Services (Fund 1919) is projecting a \$1.25 million negative variance** (3.9% on an unadjusted budget of \$31.7 million), mainly due to unexpected monthly costs from its former telephone service provider, Lumen Technologies. In response to a significant increase in Lumen's monthly service charges at the start of 2024, the department made the decision to switch telephone service providers to Frontier in May 2024. The switch was expected to save approximately \$100K per month. However, the cutover to Frontier has taken longer than expected due to the unanticipated need for infrastructure upgrades and in the interim Lumen has almost tripled its monthly costs in the first three months of this fiscal year resulting in \$1.4 million of unbudgeted expenses. In October 2024 the department fully cutover to Frontier and plans to cover its projected revenue shortfall with the use of reserves in FY 2024-25. The department may replenish those reserves in future years through increased communications charges to departments.

**ADVANCE CONSTRUCTION RESERVE ACTIVITY**

**To date, the Advance Construction Fund was repaid \$6.2 Million and has \$4.3 Million still owed.** The Board approved a Budget Development Policy in December 2021 to establish an Advance Construction Reserve in General County Programs to provide cashflow for reimbursable projects and track the activity. Funds returned to General County Programs following the completion of a project are reallocated to other planned projects. Accordingly, the \$6.3 million reimbursed to date (reflected in the table below) was anticipated and has already been allocated or earmarked for specific uses in the FY 2024-25 Adopted Budget, such as future high-cost bridge projects, energy efficient lighting upgrades at County facilities on Foster Road, and the Cachuma Lake RV project.

Since its establishment in FY 2021-22, the Advance Construction Reserve has provided temporary transfers of General Fund cash to Public Works (Fund 0017) for high-cost bridge construction projects that require cashflow in advance of federal reimbursement. There have also been temporary transfers to General Services for design and/or construction of several projects including the new Probation Headquarters project and the Main Jail Renovation, both of which were reimbursed this fiscal year, following the disbursement of Certificate of Participation (COP) debt proceeds. The status of these transfers and reimbursements are reported in each quarterly update to the Board, as summarized in the below table.

**Advance Construction Reserve Activity as of September 30, 2024**

<b>Project</b>	<b>Transferred To-Date</b>	<b>Reimbursed to General Fund To-Date</b>	<b>Outstanding Balance Owed</b>
Floradale Bridge	\$ (5,270,600)	\$ 3,000,000	\$2,270,600
Foothill Bridge	(3,000,000)	1,000,000	2,000,000
Probation HQ	(1,651,194)	1,592,624	58,570
Main Jail Renovation	(659,236)	659,236	0
<b>Total</b>	<b>\$ (10,581,030)</b>	<b>\$ 6,251,860</b>	<b>\$4,329,170</b>

**FUNDED VACANCIES BY DEPARTMENT (Attachment C)**

**The overall funded vacancy rate at the close of the first quarter was 12%, which is the same as last fiscal year.** At the end of September, 559.63 of the County’s 4,767 adopted, funded positions were vacant, Departments with the highest rates of funded vacancies include Information Technology (25%), Child Support Services (19%), County Executive Office (16%), Probation (16%), and Behavioral Wellness (16%). Increased vacancies in the Information Technology Department (up from 18% in the fourth quarter of FY 2023-24) are largely due to the addition of seven positions this fiscal year, two of which have been filled and five are currently in recruitment and expected to be filled in the next fiscal quarter. Probation and Child Support vacancy rates have also increased slightly since the fourth quarter of the prior year, but both departments report recruitment success since the end of the first quarter which, if sustained over the remaining months of the fiscal year, will show positive results. The increased vacancy rate in the County Executive Office is largely due to the addition of two positions in FY 2024-25, which the department

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plans to fill later this year. Overall vacancies in the County Executive Office have actually decreased by one since the fourth quarter of FY 2023-24 and some positions are being intentionally held until there is more clarity on the County's General Fund forecast. Many of the remaining vacancies, especially in Behavioral Wellness, are in historically difficult to fill positions, often requiring highly technical or specialized skills, although departments continue to work closely with Human Resources to fill all funded positions.

Agricultural Commissioner, Planning & Development, Board of Supervisors, and Public Defender all had the lowest funded vacancy rates (at 8% or lower). A table of funded vacancy rates by department as of September 30, 2024, may be found in Attachment C. As part of budget strategies to address projected future year deficits, CEO staff may begin considering the elimination or freezing of certain unfilled, funded positions to balance upcoming year budgets.

**Attachments:**

- A – Financial Summary Report – General Fund
- B – Financial Summary Report – Special Revenue and Other Funds
- C – Funded Vacancies by Department

**Authored by:**

Paul Clementi, Budget Director