



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: 5/6/08  
Placement: Departmental  
Estimated Tme: 45 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 & Julie Hagen  
568-3413 568-2126  
**SUBJECT: Fiscal Year 2007-2008 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 2007-08 Financial Status Report as of March 31, 2008, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

**Summary Text:**

The County's financial status at the end of the third quarter ending March 31, 2007 is one of fragile positive variances. General Fund departments, overall, were a positive \$1.19 million. Specifically, General Fund revenue was below budget projections by \$178,492 while departments began curtailing expenditures in anticipation of reduced fiscal year 2008-09 service levels; this curtailment resulted in a positive variance of \$1,373,363 in the General Fund.

The year-end estimate for fiscal year 2007-2008, prepared for the 2008-09 budget, projects a positive variance of only \$285,294. Given the 2007-08 General Fund appropriation is over \$420 million a variance of a few hundred thousand dollars is very thin. Staff throughout the County are working to assure the General Fund ends the year positive.

Of the Special Revenue Funds, the one that bears the closest attention is the Alcohol, Drug, and Mental Health Services Fund (ADMHS). The Board has been closely monitoring this Fund and has appropriated a total of \$6.9 million from the Strategic Reserve to assure the Fund ends the year within the authorized appropriation.

Many departments have begun their proposed fiscal year 2008-2009 service level reductions. This Board letter briefly describes the reductions departments have begun to assure they will stay within fiscal year 2007-2008 appropriation limits and to prepare for anticipated further service level reductions in fiscal year 2008-2009.

**Background:**

This report reviews the financial status of the County by fund and by department as of March 31, 2008. Staff conducted Monthly Projection (MOPROs) meetings with departments during which their actual performance was compared to their budget for the first nine months of this fiscal year. Major differences (variances) between budgeted and actual amounts through March 2008 are reported to the Board.

The following narrative highlights major differences (variances) between budgeted and actual amounts identified at these meetings. In addition issues that may likely pose potential budgetary challenges for departments during the remainder of the year are mentioned as are year end budget variances and the potential budgetary status as of June 30, 2008.

**Financial Status Report**

**INTRODUCTION**

The narrative discusses projected variances over \$500,000 at the departmental level for the General Fund departments and over \$750,000 at the fund level for the Special Revenue and Other funds as shown in the Projected Annual Status Report (Attachment A). This 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.

**GENERAL FUND**

The General Fund, when all of the plusses and minuses are accounted for, has an estimated net positive variance of \$1.194 million through March 31, 2008. Discretionary revenues are below budget resulting in a negative variance of \$178,492. Decreasing revenue is impacting the majority of General Fund departments.

**Declining Revenue**

<b>REVENUE</b>	<b>SOURCE &amp; PURPOSE</b>	<b>PRIMARILY AFFECTED</b>	<b>REASON FOR DECLINE</b>
Proposition 172	Public safety sales tax	Sheriff, District Attorney, Probation, Public Defender, Fire, Parks	Economic slowdown; revenue estimates were downgraded mid-year and it now appears to be tracking the lower estimates
Title IV-E of Social Security Act	Federal reimbursement for child placement	Probation	Tightening eligibility requirements
Recording fees and tax administration fees	Real estate transaction revenues	Clerk, Recorder, Assessor	Slowdown of real estate market
Development Fees	Construction and land use	Planning and Development	Decline of real estate market

Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of March 31, 2008 are discussed below.

- Probation: the department has negative variance of \$531,552. The negative revenue variance is a result of lower Proposition 172 and Title IV-E revenues. The negative expenditure variance results from a higher juvenile hall average daily attendance thereby increasing staffing costs.
- Sheriff: the report shows the Sheriff having a negative variance of \$2,447,387. This variance is expected to grow by the end of the year. The variance is primarily a result of having more staff than budgeted. The Board received a report on the Sheriff's fiscal year 2007-08 budget challenges and authorized a transfer from the Strategic Reserve to meet the projected year-end shortfall.
- Planning and Development: the positive variance of \$822,308 is primarily a reflection of the proactive staffing level reductions initiated by the department to compensate for a projected continuing slowdown in work and development revenue. The department anticipates ending the year without a variance as revenues continue to decline.
- Clerk-Recorder-Assessor: the department has a negative variance of \$1,881,293 due to lower revenues from recording fees, supplemental tax administration fees, and SB 90 mandated costs that were anticipated this year but which have been delayed by the State until fiscal year 2008-09. In addition the department has costs related to the unbudgeted February election; these election costs may be reimbursed by the State in its next budget.
- General Revenues: discretionary revenues are two-percent ahead of budget primarily due to positive variances in retail sales taxes (\$1.4 million) and transient occupancy taxes (\$527,102) plus an aggregate variance from property tax related revenues (\$1.48 million).

#### SPECIAL REVENUE AND OTHER FUNDS

There are nine funds showing variances over \$750,000 on Attachment A. The first is the General Fund and the reasons for that variance are described above. The other eight are explained here.

- Road Fund (0015): as reported in previous quarterly financial reports and other presentations to the Board, the Public Works Department completed a reforecast of the Road Fund budget making significant revisions thereby enabling the costs of expenditures to fall within the available revenue. At the end of the third quarter that work is reflected by a positive variance in the fund of \$771,744. That variance is a result of both a positive revenue variance, primarily from \$483,000 of unanticipated revenue received for Summerland and La Purisima transportation projects, and a positive expenditure variance primarily a result of salary savings from keeping funded positions vacant.
- Health Care (0042): this is the primary fund of the Public Health Department and it has a positive variance of \$846,377 that is a result of: 1) a number of vacancies in the department that are in active recruitment, and 2) the fact that the labor agreements came in at a lower wage increase amount than was budgeted in the salary model (due to timing and amount). Since the department balanced its fiscal year 2007-08 adopted budget with the use of approximately \$2.0 million of reserves, this positive variance is expected to decrease the actual amount of reserves that will be needed to be released as the department approaches the end of the year.
- Alcohol Drug and Mental Health Services (0044): this fund has a fiscal year 2007-08 structural deficit and the Board has approved three transfers from the Strategic Reserve in

amounts totaling \$6.9 million to enable the fund to end the year with a positive variance. Attachment A shows a negative variance of \$13 million. This results from 1) a negative revenue variance of \$19.6 million from “Earned but not yet claimed” amounts for services provided, lower than budgeted Medi-Cal revenue and delayed Medi-Cal and EPSDT payments coupled with the fact that only \$2.3 million of the \$6.9 million of the reserve transfer has posted, and 2) a positive expenditure variance of \$6.6 million due to a slight lag in provider payments, and department efforts to reduce expenditures to more closely meet ongoing available revenue.

- Mental Health Services Act (0048): this fund of the Department of Alcohol, Drug and Mental Health had a negative variance of \$1.15 million at the end of the third quarter. This variance is a result of both a negative revenue variance (payment delays by the state coupled with the inability of the department’s billing system to effectively bill for services in a timely manner) and a positive expenditure variance resulting from delays in commencing new Mental Health Services Act programs.
- Social Services (0055): the Social Services Fund showed a positive variance of approximately \$786,000 at the end of the third quarter. This variance is proportionally split between revenues and expenditures. This variance is due to many different factors, however two major factors attributable to the variance are 1) the department anticipated a large growth in foster care case numbers that have been minimized due to the efforts of the department's Family Preservation program and 2) a change in the timing of foster care placement payments was implemented in December 2007 resulting in the payment of only 11 months of Foster Care payments in the current fiscal year instead of 12 months.
- Redevelopment Agency – Isla Vista Project (3100): this fund is dedicated to the Isla Vista Redevelopment Project Area. As of March 31, the fund had a positive variance of \$1 million due to higher property tax receipts. These funds will be programmed to finance the Agency’s property acquisition program.
- 2005 COP Capital Projects (0034): this fund is used to isolate the resources from the 2005 issuance of Certificates of Participation (COP) to be used for capital projects. The fund has a positive variance as a result of project delays.
- Resource Recovery and Waste (1930): at the end of the third quarter this fund had a positive variance of \$857,092 comprised of positive variances in both revenue and expenditures. The revenue variance primarily results from higher interest earnings due to project delays and the expenditure variance is a result of salary savings from nine vacancies.

### **Looking forward: budget reductions being implemented**

As the County approaches the end of the fiscal year many departments are facing budget constraints due to slowing revenue and higher expenditures. This squeeze has caused many departments to begin the reductions of services that are recommended to be eliminated in the proposed fiscal year 2008-2009 budget. Departments are doing this to assure they end fiscal year 2007-2008 within appropriation limits or to lead to a balanced budget on July 1, 2008 as reductions delayed until July 1 would not result in expenditure savings until after the beginning of the fiscal year.

The following table provides examples of some of the reductions enacted this year by departments to stay within budget limits this year and to prepare for next year’s budget reductions. This is only a sample and not all reductions initiated are articulated in the table.

**Proposed Fiscal Year 2008-09 budget reductions commenced this year**

<b>DEPARTMENT</b>	<b>ACTION</b>
County Executive Office	Three full-time equivalent (FTE) staff vacancies including the two Deputy CEOs
County Counsel	Staff clerical and attorney positions vacant
District Attorney	Three staff vacancies
Probation	Beginning a number of "Tier 1" reductions
Public Defender	Three attorney and support staff vacancies not filled
Fire	Bringing proposal to the Board to increase hazardous material fees
Sheriff	Staffing vacancies of 12-15 positions and other expenditure reductions as described to the Board to meet the goal of staying within adjusted budget that includes the \$3.4 million Strategic Reserve transfer approved by the Board
ADMHS	Staff vacancies
Child Support Services	Keep vacant all 11 funded positions that became unfilled due to attrition to avoid ongoing costs in 08-09
Agriculture and Cooperative Extension	Staff vacancies and curtailing discretionary spending
Parks	Increased fees and holding safety officer vacant
Planning and Development	Proposal to the Board to increase fees, not filling vacant positions, reducing contract services expenditures for studies
Auditor-Controller	Four staff vacancies
Clerk-Recorder-Assessor	Eleven staff vacancies
Treasurer-Tax Collector	Staffing vacancies and the elimination of non-mandated travel expenditures

**Fiscal and Facilities Impacts:** Actual and projected impacts are as stated in this letter and its attachments.

**Attachments:**

- A – Projected Annual Status Report
- B – Powerpoint presentation

**Authored by:** Jason Stilwell

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