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:	June 6, 2023
Placement:	Administrative
Placement:	
Estimated Time:	N/A
Estimated Time:	
Continued Item:	No
If Yes, date from:	N/A
Vote Required:	Majority

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

DocuSigned by:
Nancy Anderson
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SUBJECT: **Fiscal Year 2022-23 Third Quarter Budget Status Report**

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) 2022-23 Third Quarter Budget and Status Report as of March 31, 2023, 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 2022-23 budget status report for the third quarter ending March 31, 2023 provides a fiscal-year-to-date look at the County's financial position relative to the FY 2022-23 adjusted budget. Consistent with the second quarter report, the General Fund continues to project a positive year-end variance consisting of higher than budgeted property tax revenues ($15.1 million) and other revenues ($6.9 million) and anticipated savings from departments primarily related to vacancies ($6.22 million) for a total of $28.2 million. Cannabis tax revenue continues to trend lower than budgeted with a projected $10.2 million negative variance, which is discussed in greater detail below. These base changes in property tax revenue and cannabis tax revenue were incorporated into the Five-Year Forecast for the General Fund and FY 2023-24 budget development.

The fiscal position of the General Fund is monitored and presented to the Board on a quarterly basis, with a final report brought after the close of the fiscal year. At the end of the fiscal year, any funds resulting from a positive variance are carried forward for the Board to consider as part of the next budget development cycle as priorities and fiscal issues are identified.

Additionally, the Fire Protection District, Social Services Department, General Services Communications Services division, and Public Works Resource Recovery & Waste Management division all had reportable positive variances in Special Revenue Funds totaling $8.2 million driven by several factors including unanticipated State Realignment revenue, higher than anticipated property tax, and salary savings on vacant, funded positions, while the Public Works Roads-Operations fund had a reportable negative variance of $7.8 million due to 2023 storm response costs. All reportable variances will be discussed in greater detail below.

THIRD QUARTER REPORT

The third quarter for the fiscal year includes activity through March 31, 2023. 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 nine months of FY 2022-23, and then add departmental projections for the next three 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.

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 March 31, 2023, the General Fund had a projected year-end positive variance of $28.2 million. This is the result of favorable results in most General Fund departments, partially offset by a reportable negative variance in one department and minor negative variances in three others.

General Revenues (Department 991) projects a positive year-end variance of $22.0 million, 6.5% over total budgeted revenues, shown in detail in the table below. This variance is due primarily to higher than budgeted Property Tax, Interest Income, Transient Occupancy Tax (TOT), and Sales and Use Tax. Cannabis Cultivation and Retail Storefront Taxes are projected to come in lower than budgeted but are not contributing to the projected year-end variance and are explained later in this section.

Property Taxes are the major driver of the General Revenue positive variance through the third quarter at $15.1 million more than budgeted. Secured and unsecured property taxes are mainly driving this variance as they project to exceed budget by $8.2 million, primarily due to the real estate market that flourished over the last several years resulting from historically low mortgage rates and high demand for residential and commercial properties. As expected in a strong real estate market, a high volume of property ownership changes occurred over the past two years and were reassessed upon property transfer. In many instances, the reassessed property values increased substantially, thereby contributing to robust assessed property value growth of 8.1% for the property tax year 2022-23. At the time that the current fiscal year's property tax budget was developed, Auditor-Controller staff had anticipated that assessed value growth would be strong at 4.5%; however, the Assessor finalized the tax roll at the end of June with substantially higher growth resulting in the positive variance. In addition, Property Taxes In-lieu of Vehicle License Fees (VLF) are driven by assessed value growth and are contributing to the positive variance by $2.4 million. Supplemental taxes also project higher than budget, by about $2.6 million, due primarily to the high volume of property transfers that occurred over the past couple of years and changes to the associated assessed value as properties get reappraised. Fines, forfeitures, and penalties are also contributing to the positive variance as they project higher than budget by about $962 thousand, driven by higher payments on current and prior year delinquent taxes.

Interest Income is another significant driver of the General Revenue positive variance as it projects to exceed budget by $3.4 million due to treasury interest rates that have modestly, yet consistently, increased in each quarter since the beginning of calendar year 2022 as banks enter a higher rate environment. Year-end projections have been updated accordingly to reflect this new trend in rates.

Transient Occupancy Tax (TOT), which is highly dependent on tourism, is also projecting a positive variance and expected to exceed budget by $1.9 million. Although TOT monthly receipts grew solidly in the first half of the fiscal year and are driving the positive variance, receipts for the first three months of 2023 have declined year-over-year due to economic uncertainty. This trend is expected to continue for the balance of the fiscal year as inflation begins to impact consumers and discretionary spending. Of note, the Biltmore Hotel has continued to be closed since March 2020, but prior to 2020 had been one of the County's largest TOT generators. In the FY 2022-23 Adopted Budget, the Board funded a TOT Compliance position in the Treasurer Tax Collector's office to perform proactive audits of hotels and short-term rentals. The department was able to purchase software to assist with this effort, but the position is currently vacant.

Similarly, **Sales and Use Tax** revenue also projects a positive variance of $878 thousand as consumer spending remained steady through the first half of the fiscal year. However, recent monthly receipts have shown a slight year-over-year decline. According to Sales and Use Tax consultant, HdL, the actions taken by the Federal Reserve to address inflation over the past year are expected to exert downward pressure on many of the major industry sectors, resulting in decreased consumer demand for goods and a deceleration in Sales and Use Tax growth in the second half of the current fiscal year.

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2022-23	Projected FY 2022-23	Variance Proj vs. Adjusted
Property Taxes	$ 262,545	$ 277,615	$ 15,070
Interest Income	727	4,127	3,400
Transient Occupancy Tax	15,165	17,062	1,897
Sales and Use Retail State Tax	14,240	15,118	878
Cannabis Tax	16,293	6,117	(10,176)
All Other Revenues	32,415	33,192	777
Total Discretionary Revenues	**$ 341,385**	**$ 353,231**	**$ 11,846**
Decrease to Cannabis Fund Balance	$ 16,293	$ 6,117	$ (10,176)
All Other Transfers	325,092	325,092	0
Projected Fiscal Year End Variance	**$ -**	**$ 22,022**	**$ 22,022**

Cannabis Cultivation and Retail Storefront Tax is currently projecting a negative variance of $10.2 million on an adopted budget of $16.3 million. This projected decrease continues to be primarily driven by a decline in cultivation tax due to the oversupply of wholesale cannabis product and resulting price compression that continues to persist locally and state-wide. Other major factors contributing to the decrease in revenue include cultivators withdrawing from the program for a variety of reasons and some electing not to grow, mostly due to market conditions. Retail Storefront Tax is also projecting lower than budgeted primarily due to the timing of when each retail operator is expected to complete the land use entitlement and business licensing processes, relative to the timing assumptions made when the budget was developed. Additionally, receipts for the retail storefront businesses that have commenced operations have come in lower for the first full quarter of collections than staff had projected and is likely due to those entities establishing themselves as new operations in their respective locations. Staff will continue to monitor retail storefront tax receipts as this is a new activity being conducted in the unincorporated area without any historical data available for reference.

Despite declining cannabis revenues, the projected revenues in addition to fund balance carryover from last year will be sufficient to fund the FY 2022-23 cannabis program costs and other allocations made from cannabis revenues in prior years, including funding for libraries, planners in long range planning, deferred maintenance funding, and more. At the FY 2023-24 budget workshops held in April, the Board approved a swap of about $1.2 million in General Fund Contribution (GFC) for ongoing libraries funding and three long range planner positions that were previously funded by cannabis tax revenue. This replacement of cannabis tax revenue funding with GFC will help fund Board priorities in the event that cannabis tax revenues continue to decline or remain at lower levels. Staff will continue to closely monitor cannabis tax revenues into the next fiscal year and will update the Board as information becomes available.

Probation, Auditor-Controller, Public Health-Animal Services, Public Defender, Treasurer Tax-Collector, and Clerk-Recorder-Assessor are all projecting positive year-end variances, primarily driven by salary savings associated with vacant, funded positions. The individual department variances are as follows:

- Probation - \$4.0 million (4.6% on total budget of \$86.7 million)
- Auditor-Controller - \$662 thousand (6.5% on total budget of \$10.3 million)
- Public Health-Animal Services - \$593 thousand (9.8% on total budget of \$6.1 million)
- Public Defender - \$587 thousand (3.1% on a total budget of \$18.9 million)
- Treasurer Tax-Collector - \$557 thousand (5.5% on total budget of \$10.1 million)
- Clerk-Recorder-Assessor - \$321 thousand (1.8% on total budget of \$17.4 million)

Sheriff-Coroner Office is projecting a negative year-end variance of \$931 thousand, 0.5% on a total budget of \$189.1 million, primarily due to overtime and extra help costs in excess of budget, as well as an unanticipated contract increase in jail food services. Overtime costs through the third quarter were \$12.5 million on an annual budget of \$5.0 million, exceeding budget by \$7.5 million with one quarter left. For comparison, total overtime costs for all of FY 2021-22 were \$12.4 million, meaning overtime costs by the end of this year may end up 33% higher, or more, than the prior fiscal year. However, the majority of this overage is being absorbed by salary and benefit savings as a result of numerous funded vacancies within the department. If these trends continue, the department could ultimately exceed their overtime budget by nearly \$12 million, which would be predominantly absorbed with salary savings, except for overtime related to filling behind deputies on leave or in training. Other impacts resulting from the extensive overtime being incurred include department challenges, such as an increase in disability retirements, staff fatigue, increased leave taking, and higher staff turnover.

To the extent the Sheriff's Office is successful in filling critical vacancies, there may be periods of time when unbudgeted overtime cannot be covered by salary savings. This would cause the Sheriff's projected negative variance to grow larger and is an unavoidable short-term cost as new staff come on board, which has occurred in the past several years.

In FY 2018-19, the Board authorized a \$2 million set-aside for implementation of the Sheriff's overtime reduction plan, which included "overhiring" into positions. On October 18, 2022, the Board authorized use of the \$2 million set-aside of Proposition 172 for eligible overtime costs and recruitment incentives, such as the new hiring incentive, to assist the department. The Board also directed the County Human Resources Department to develop a referral program for hard to fill positions, such as Custody Deputies, which was approved by the Board on February 14, 2023. The department recently implemented this referral program, as well as new hire incentives for lateral Sheriff and Custody deputies, and relocation incentives for out-of-county residents. Although several candidates currently going through the background process will be eligible for incentives upon hire, the department has not yet paid the incentive to anyone in the current fiscal year. The CEO's Office continues to work closely with the department to develop more robust tracking of overtime drivers, to be effective next fiscal year.

The department's projected negative variance will be reduced at year-end by the reimbursement of COVID-19 direct response costs eligible for funding under the American Rescue Plan Act (ARPA), currently totaling \$383 thousand through the third quarter of this fiscal year. Staff will return at fiscal year-end with a budget revision to address the department's negative variance, including reimbursement of eligible costs through ARPA, as well as any coverage from the Proposition 172 set-aside funds of any remaining variance related to eligible overtime and recruitment costs.

While not reported under our existing guidelines - because the variance is less than $500 thousand - the Inmate Welfare Fund is a Special Revenue fund and projects a variance of negative $372 thousand. This is due to large losses in pay phone charges as a result of changes in State law that limit how much an inmate can be charged per minute for use of phones while in custody. The Sheriff's Office plans to mitigate this loss with fund balance draw at year-end. The Inmate Welfare Fund has adequate fund balance to cover operating costs for the next few fiscal years, but if this proves to be a permanent reduction in operating revenue, the Fund will eventually need to reduce services, or seek an alternative funding source, such as the General Fund, to maintain existing services. The Inmate Welfare Fund pays for all inmate programming services, including education, recreation, alcohol and drug treatment, Drug Court support, vocational training, law library access, and indigent programs.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

As of March 31, 2023, there were six departments with reportable variances in the Special Revenue and Other Funds for the third quarter.

Public Works Transportation (Fund 0015) is projecting a negative year-end variance of $7.8 million, 22.2% on a total budget of $34.9 million, primarily driven by January 2023 storm response and recovery costs. The Transportation division estimates $32 million in damages to County roads and infrastructure from January 2023 storm events, which will require General Fund assistance for both cashflow needs and local match for State and federal disaster funding. At the time of writing this report, project descriptions and estimated costs are still being finalized, as are estimated FEMA reimbursement timelines, which will drive the overall General Fund assistance needed. $14 million is being earmarked in the Disaster Recovery fund balance to prepare for this need, particularly to help with local match. Although, the overall need in Public Works and other departments for cashflow in the coming fiscal years will likely be greater, and the Strategic Reserve may need to be utilized. Staff will return to the Board at the end of the fiscal year with a budget revision to release fund balance for this cash flow need for Public Works January 2023 Storm response costs.

Public Works Resource Recovery & Waste Management (Fund 1930) is projecting a positive year-end variance of $500 thousand, 0.7% on a total budget of $68.9 million, which is driven by salary savings associated with vacant, funded positions.

The Fire Protection District (Fund 2280) is projecting a positive year-end variance of $4.4 million, 3.9% on a budget of $112.5 million. This is primarily driven by higher property tax growth than originally anticipated, similar to the General Revenues department, and salary savings associated with unanticipated vacancies, including a four-month deferral of the firefighter recruit academy.

Social Services (Fund 0055) is projecting a positive year-end variance of $1.8 million, 1.0% on a total budget of $184.6 million, which is driven by unanticipated revenues and salary savings. 1991 Realignment and 2011 Realignment revenues are projected to exceed budgeted amounts due to the receipt of one-time sales tax growth payments of $544 thousand and $2.5 million in 1991 Realignment and 2011 Realignment revenues, respectively. Additionally, the department is projecting to underspend in Salaries and Employee Benefits by $5.6 million due to staffing vacancies. Unanticipated revenues and savings will reduce the amount of fund balance that the department will use in the current year, thereby increasing the total fund balance available to offset eligible program costs in future years.

SB IHSS Public Authority (Fund 0056) is projecting a positive year-end variance of $786 thousand, 6.0% on a total budget of $13.0 million, due to unanticipated 1991 Realignment revenue. The department received a one-time caseload growth payment of $810 thousand in 1991 Realignment revenue to support prior year increases in county costs for the In-Home Supportive Services (IHSS) program; this growth is expected to increase the program's base level of funding. As of March 31, 2023, realignment revenue is projected to fully cover this year's increase in the IHSS maintenance of effort.

Communications Services (Fund 1919) is projecting a positive year-end variance of $764 thousand, 8.6% on a total budget of $8.8 million, primarily due to salary savings associated with several vacant, funded positions.

ADVANCE CONSTRUCTION RESERVE ACTIVITY

Beginning in FY 2021-22, the budget includes the temporary transfer of General Fund cash to Public Works (Fund 0017) for costs associated with high-cost bridge construction that requires cashflow in advance of federal reimbursement. The Board has approved an estimated cashflow need for two bridge projects currently in progress. The Board also approved an estimated cashflow to General Services for design and construction of the new Probation headquarters, which is currently underway, and will be reimbursed once debt is issued for this, and other projects. The status of these transfers will be reported in each quarterly update to the Board.

Project	Board Date	Approved Maximum	Transferred To-Date	Net Remaining	Period of Cashflow Need	Anticipated Federal Funding
Floradale Bridge	6/8/2021	$6,800,000	($5,270,600)	$1,529,400	2021-2024	$17,042,025
Foothill Bridge	1/11/2022	$6,000,000	($3,000,000)	$3,000,000	2022-2025	$20,850,000
Probation HQ	3/8/2022	$2,200,200	($43,000)	$2,157,200	2022-2024	N/A
Totals		**$12,800,000**	**($8,313,600)**	**$8,420,100**		**$37,892,025**

To the extent that federal reimbursements are received throughout the projects, that cash will be used first prior to any General Fund transfer. The Board approved a Budget Development policy in December 2021 to establish an Advance Construction Reserve in General County Programs to set aside the maximum amount estimated for the projects and track the activity. Staff will process budget revision requests as cashflow is needed for the projects.

ATTACHMENTSAttachments:

A – Financial Summary Report – General Fund
B – Financial Summary Report – Special Revenue and Other Funds

Authored by:

CEO Budget and Research Division