



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: 3/6/2012
Placement: Departmental
Estimated Time: 45 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Chandra L. Wallar, County Executive Officer
Director(s) Robert Geis, CPA, Auditor-Controller
Contact Info: Tom Alvarez & Julie Hagen
568-3432 568-2126

SUBJECT: Fiscal Year 2011-2012 Second Quarter Budget and Financial Update

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 2011-2012 Financial Status Report as of December 31, 2011, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

Summary Text:

The fiscal year 2011-2012 second quarter fiscal report, for the quarter ending December 31, 2011, marks the halfway point in the year and provides a valuable update of where the County is headed for this fiscal year relative to the adopted budget.

The Governor's Proposed Budget for fiscal year 2012-2013 was released on January 5, 2012. The Proposed Budget again includes cuts to funding for the Counties. The Proposed Budget is being analyzed by County Executive Office Staff and the issue will be brought back to your Board as part of the third quarter Financial Status Update. The State budget will have an impact on setting the framework for policy changes and will be reflected in the FY 12-13 budgeting process.

Background:

The County Executive Office staff and Auditor-Controller Office staff conducted Operational Review Meetings (ORMs) with departments during which actual financial results were compared to budget for the first two quarters of this fiscal year. The major differences (variances) between budgeted and actual amounts through December 2011 will be discussed below.

This report highlights the following thresholds for variances: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected variances greater than \$300,000 per department as shown in the Financial Summary Report (Attachment A) and 2) for non-General Fund departments, the narrative discusses projected variances over \$500,000 per fund as shown in the Financial Summary Report (Attachment B). This report takes actual revenues and expenditures for the first six months, adds department projections for the next six months, and compares these totals to budgeted amounts to produce a projected variance for the end of the fiscal year; this variance is in the far right column of the report.

GENERAL FUND SUMMARY

The General Fund had a projected net positive variance of \$4.2 million at December 31, 2011. This is primarily generated by positive general revenues of \$1.6 million, positive Prop 172 revenues of \$1.4 million, and salary and benefit savings of \$0.5 million, and other expenditure savings across all departments of \$1 million.

General Revenues show a positive variance of \$1.6 million due in part to unanticipated revenues related to the receipt of four years of excess Vehicle License Fees (VLF) of \$930 thousand previously held by the State of California and recently released. In addition, the other major variance is a projected positive variance of \$514 thousand in property tax penalties reflective of increased collections of delinquent tax.

Property transfer tax and supplemental tax are tracking behind our estimates, by \$170 thousand and \$340 thousand respectively, which are leading indicators for next year property tax growth indicating continued slow growth in the real estate sector. Local retail sales tax has shown a slight improvement from last quarter with the projection now very close to the estimated amount. Transient occupancy taxes (TOT) are \$376 thousand ahead of our estimates and are reflective of an improving tourist market in Santa Barbara County and increased tax collection efforts on hotels and vacation rentals.

The County took a proactive position to transfer \$8.1 million of General Fund employee concession savings to committed fund balance for use in addressing future budget needs in FY 2012-13 and FY 2013-14. After accounting for the transfer, there is a positive variance across all departments in General Fund salaries and benefits of \$443 thousand.

Overall, the adopted General Fund budgets appear to be stable through the second quarter. Departments generally are controlling expenditures and revenues are projected to be slightly up. This should enable the General Fund to end the year balanced and will preserve savings and fund balance that the County would be able to utilize next fiscal year to partially offset fiscal challenges.

Significant individual General Fund department variances are discussed below:

The District Attorney is projecting a positive variance of \$340 thousand mostly due to unanticipated revenue in Fines, Forfeitures & Penalties of \$107 thousand and unanticipated State revenue of \$278 thousand including Proposition 172 revenue coming in at \$133 thousand higher than expected.

The Sheriff's Office has a positive variance of \$1.2 million due to revenues tracking higher than budgeted. This is mostly attributable to the Proposition 172 funding is coming in higher than projected by \$800 thousand. In addition, the new Local Realignment 2011, which includes revenues from the Community Corrections Program and Court Security Services is \$490 thousand higher than budgeted but is expected to land on target at year-end. The Sheriff's expenditures are tracking to budget.

The Parks Division of the Community Services Department has a net negative variance in both revenues and expenditures of \$347 thousand. The negative revenue variance is mostly due to duplicate revenue accruals from the previous year in the amount of \$175 thousand. The negative expenditure variance of \$90 thousand is due to Services & Supplies and Other Charges projected to end the year higher than budgeted.

The Clerk-Recorder-Assessor shows a projected negative variance of \$301 thousand. This is due to \$350 thousand in SB 90 revenue that was not received and revenue from the Charges for Services object level is projected to be less than budget. The total negative revenue variance of \$995 thousand is mostly offset by expenditure savings of \$694 thousand.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY

Historically there has been one Capital Outlay Fund (0030) to account for capital projects in the County. The departments that generally have multiple projects in this fund include General Services, Sheriff, Parks, and Fire. The Parks Capital Projects Fund (0031) is a new fund this fiscal year. It was set up to separate the Parks projects from the other departments in the Capital Projects Fund due to the large number of projects Parks manages. The on-going Parks projects were moved to this new fund. The completed Parks projects have remained in the Capital Outlay Fund (0030) as they wind down for accounting close-out purposes.

The Capital Outlay Fund (0030) has a negative overall variance of \$1.3 million. This variance is due mostly to a Parks \$1.8 million accrual of revenues from Federal and State sources at the end of last fiscal year. As of the second quarter end, \$920 thousand of those revenues have materialized. The remaining \$880 thousand accounts for the negative overall variance.

The Parks new Capital Projects Fund (0031) currently has a positive variance of \$629 thousand. This is made up of a positive variance of \$1 million in expenditures on projects that are not progressing in the timeframe as currently budgeted (timing variances). There are two main projects causing these timing variances, the Goleta Beach Lift Station for \$600 thousand and the Cachuma Fire Suppression Project for \$445 thousand.

Health Care (0042) has a projected negative variance of \$1.7 million. This variance is due to \$1.53 million less revenues than anticipated from Charges for Services due to a smaller volume of patients being seen and \$731 thousand less in Intergovernmental Revenues-State due to lower Realignment Vehicle License fees and delayed grant revenues for California Children's services. These reductions were offset by \$123 thousand in increased Intergovernmental Revenues-Federal, \$242 thousand in reduced salary and benefits costs, \$202 thousand in reduced services and supplies, with remaining offset due to minor reductions in other costs and increases in miscellaneous revenue. This could result in a draw on their fund balance for operations at year end.

The Mental Health Services Fund (0044) has a projected net negative variance of \$10.4 million due to a timing difference (\$4.0 million) and several operating issues totaling \$6.4 that will require operational changes, program reductions, additional General Fund contribution and/or other restructuring.

\$4.0 million of the above \$10.4 million variance is a timing difference that relates to cost report settlement liabilities from prior years. Specifically, \$9.2 million was budgeted in FY 11-12 for cost settlement issues covering fiscal years 2002-2003 through 2007-2008. The department currently estimates that \$5.2 million will be paid in FY 11-12. This creates a variance of \$4 million, which will remain in the General Fund for at least another year.

The balance of the variance, \$6.4 million is attributable to the following:

- 1) \$3.7 million - revised revenue estimate related to the FY2010/11 year end accrual (\$1 million for FY 09-10 and \$2.7 million for FY 10-11). ADMHS continues to reclaim and appeal denied services; however, the majority of this accrual balance is not expected to be realized.
- 2) \$1.5 million - net loss due to inpatient system of care: additional costs related to recent Medicare Audits at the Psychiatric Hospital Facility (PHF), higher than anticipated indigent costs, and lower than anticipated Medicare revenue.
- 3) \$630 thousand – primarily in lack of staffing vacancies (the Department budgeted a 5% vacancy factor, but it is currently below 1% due to lower than planned employee turn over and the department quickly filling revenue generating positions).
- 4) \$570 thousand – reduced clinic claiming due to furlough.

To counter some of the above negative variances, the Department's plans to:

- a) \$1.2 million - Prepare a Budget Revision to release Fund Balance to offset reimbursement losses related to concessions (furlough and other cost reimbursement reductions).
- b) \$1.4 million - the Department plans to relocate the Crisis and Recovery Emergency Services (CARES) clinics from the Mental Health Fund (0044) to the Mental Health Services Act Fund (0048).
- c) \$500 thousand - the Department has an allocation from the State for children's services which is \$500 thousand higher than the departments' projected year-end amount (this allocation will need to be supported by Medi-Cal related costs).

The above actions would offset approximately \$3.1 million or half of the above referenced negative variances.

There is a potential for improvement to the \$3.7 million FY 2010-11 revenue estimate; however, the above figures reflect currently known claims. The claiming process is very long and final revenue figures are not known until several years after the fiscal year has ended. We understand that Statewide, Medi-Cal denial of claims has increased from under 2% to approximately 9% since the State's implementation of their new claiming system and subsequent modifications.

The remaining negative net financial impact of \$3.3 million will need to be funded by the General Fund and/or additional Departmental reductions or changes. The Department will return to the Board of Supervisors on March 20th to provide more detail on the above issues including proposed solutions and processes in place to minimize future fiscal issues.

The Mental Health Services Act (MHSA, Fund 0048) is currently projected to have a \$4.2 million negative variance. \$2.2 million of this variance relates to the timing of receipts and is not anticipated to result in a negative year end variance. The remaining \$2.0 million anticipated negative variance will be funded by MHSA Fund Balance (reserves) and is the result of:

1. A projected increase in personnel costs of \$1.7 million.
 - a. \$824 thousand is due to Mental Health Fund (0044) staff providing a higher level of support to the MHSA Fund (0048) programs than originally planned.
 - b. \$343 thousand is due to the new Prevention and Early Intervention (PEI) School Outreach program. This is a short term program that took advantage of one time PEI funds and was not known at the time the budget was prepared. The funds are currently in the MHSA Fund Balance.
 - c. The remaining \$553 thousand is due to Mental Health Fund 0044 administrative staff supporting MHSA Fund 0048 programs and the lack of a 5% budgeted vacancy factor.
2. The department is projecting increased services, supplies and other costs of \$295 thousand.
 - a. \$245 thousand is due to the new PEI School Outreach program (see 1b above).
 - b. \$50 thousand is due to the need for two additional cars for ACT programs.

The Social Services Fund (0055) has a negative variance of \$755 thousand. This variance is made up of a negative revenue variance of \$1 million due to delays in the receipt of Federal and State Revenues. The expenditure side shows a positive variance of \$295 thousand. This amount reflects spending over current budget in Salaries and Benefits annualized at \$4 million as well as reduced spending in cash assistance payments annualized at \$5.5 million due to legislative caseload reductions. The Department is in the process of submitting a budget revision that will reflect increased federal and state allocations, received from the State after adoption of the FY 2011/12 budget, that will be used to fund the increased Salary and Benefit appropriations. The CEO and the Department are working together on the development of forecasting methodologies to be used during the development of future budgets.

Risk Management Internal Service Funds:

The Workers Compensation Fund (1911) has a positive projected variance of \$739 thousand resulting from the FY 2011-12 premiums that were lower than the budgeted amount. However, the most recent actuarial report indicates that the fund has a deficit balance of approximately \$4 million and rates will be rising in FY 2012-13. Any savings generated by this fund will be applied to the deficit balance within the fund.

The County Liability Self Insurance Fund (1912) has a positive projected positive variance of \$889 thousand due to actual premiums for excess property and liability insurance being less than anticipated and actual paid losses on claims are lower than budgeted. In addition, the most recent actuarial report indicates that this fund has sufficient funds to provide for the ultimate liabilities. Any savings generated by this fund will be used to reduce rates in subsequent years.

REDEVELOPMENT AGENCY DISSOLUTION

In December of 2011, the California Supreme Court upheld ABX1 26 (the Act) that dissolves redevelopment agencies in the State of California. The Act dissolves the Redevelopment Agencies (RDA's) as of February 1, 2012 and authorizes successor agencies to wind down operations, pay off outstanding debt or enforceable obligations and liquidate the assets. RDA's are funded by property tax growth that occurs within a Redevelopment Project Area after the formation of the Redevelopment Area (tax increment). Over time, as enforceable obligations are paid off, the property taxes will be returned to the taxing agencies. Once the agencies are dissolved and the successor agencies have analyzed the results, we will bring information to your Board regarding the financial impact this development will

have on the County. Beginning with the third quarter report, the RDA funds will be transferred to the successor agency (County) funds.

Fiscal and Facilities Impacts: Impacts are stated above in this Board letter.

Attachments:

- A – Financial Summary Report – General Fund
- B – Financial Summary Report – non-General Fund
- C –PowerPoint presentation

Authored by: Tom Alvarez, Julie Hagen

cc: Each Department Director
Assistant County Executive Officers and CEO Fiscal and Policy Analysts
Recognized Employee Organizations

Quarterly Financial Update Signal Chart	
For Quarter ending September 30, 2011	<ul style="list-style-type: none"> ● Actuals Are Generally Tracking Budget ▲ Actuals Materially Vary from Budget ■ Actuals Expected to End Year in Deficit
General Fund	Other Funds
● Board of Supervisors	Parks
● County Executive Office	▼ Capital
● County Counsel	● Providence Landing CFD
▲ District Attorney	Planning and Development
● Probation	● Fish and Game
● Public Defender	● Petroleum
● Courts	● CREF
● Fire	● IV RDA
▲ Sheriff	Public Works
● Public Health	● Roads
● Agriculture Commissioner	● Resource Recovery and Waste Mgt.
▼ Parks	● CSA 3 - Goleta
● Planning and Development	● Flood Control
● Public Works	● North County Lighting
● Housing & Commt. Devmnt.	● Laguna Sanitation
● Auditor Controller	● Water Agency
▼ Clerk-Recorder-Assessor	Housing & Commt. Devmnt.
● General Services	● CDBG
▲ Human Resources	● Affordable Housing
● Treasurer-Tax Collector	● HOME
● General County Programs	● Municipal Energy Financing
● Debt Service	● Orcutt CFD
	General Services
Other Funds	▼ Capital
Fire	● Special Aviation
● Fire Protection	● Vehicles
Sheriff	● Medical Malpractice Insurance
● Inmate Welfare	▲ Workers' Comp Insurance
Public Health	▲ County Liability Insurance
▼ Health Care	● Information Technology
● Tobacco Settlement	● Communications
ADMHS	● Utilities
■ Mental Health Services	
● Substance Abuse and Crime Prevention	Human Resources
▼ Mental Health Services Act	● County Unemployment Insurance
● Alcohol and Drug Programs	● Dental Insurance
Social Services	Treasurer-Tax Collector
▼ Social Services	● Debt Service
● IHSS Public Authority	General County Programs
● ARRA - WIA	● First Five
Child Support	● Public and Educational Access
● Child Support Services	● Criminal Justice Facility Const.
	● Courthouse Construction