



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: Auditor-Controller
County Executive
Office
Department No.: 061 & 012
For Agenda Of: August 22, 2017
Placement: Departmental
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Theo Fallati, CPA, CPFO, Auditor-Controller
Director(s) Mona Miyasato, County Executive Officer
Contact Info: Ed Price, CPA, Chief Deputy Controller x2126
Jeff Frapwell, Budget Director x3432
SUBJECT: Fiscal Year 2016-2017 Financial Status Report

County Counsel Concurrence

As to form: N/A

Other Concurrence: N/A

As to form:

Recommended Actions:

That the Board of Supervisors:

- a) Receive and file, per the provisions of Government Code Section 29126.2, the June 30, 2017 Financial Status Report showing the status of appropriations and financing for all department budgets adopted by the Board of Supervisors.
- b) Determine that the actions above are not a project under the California Environmental Quality Act (CEQA) pursuant to Section 15378(b)(4) of the CEQA Guidelines, because they are government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical effect on the environment

Summary Text:

The financial results of operations for fiscal year (FY) 16-17 reflect overall improvement for the County entity. This Financial Status Report is intended to give the Board a preliminary unaudited review of the results of operations. The Comprehensive Annual Financial Report (CAFR) is being finalized and will provide audited results of the fiscal year.

Auditor-Controller Concurrence

As to form: Yes

Discussion:

Economic Indicators

Discussing the national economy, Los Angeles economist Mark Schniepp in the August 2017 California Economic Forecast Newsletter titled *The Boring Economy* states

“Yes, the economy is both stable and boring. There is no drama. No inflation, no runaway interest rates or even rising interest rates, no scarcity of job openings or new hirings, no consumer meltdowns, no financial crises, no bubbles (that we can detect), and gasoline prices that have remained relatively constant for the last 2 years...”

In a similar vein, economists at First Trust state these observations and comments on the national economy in their weekly publication the *Monday Morning Outlook* for 7/24/2017:

“Since the start of the economic recovery in mid-2009, real GDP has grown at an average annual rate of 2.1%. The second quarter of this year doesn't look much different. Our calculations suggest real GDP grew at a 2.5% annual rate in Q2, exactly the same as the consensus forecast. That's an acceleration from the 1.4% pace in Q1 and we expect better growth ahead. ... No one should be excited or dismayed by this report. It is the epitome of the Plow Horse pace of growth we've had for the past eight years.”

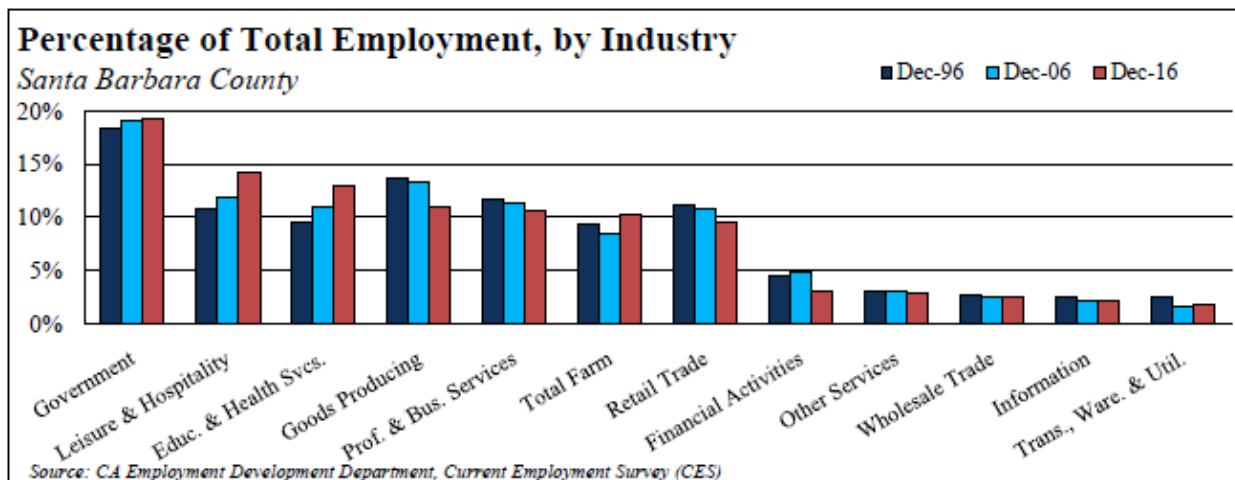
Regarding the California economy Mr. Schniepp states in his January 2017 newsletter *The 2017 California Economic Outlook: Clear and sunny for now, but resource limitations are a growing probability* “You can expect an economy that looks much like it did in 2016 but with more job openings, more pressure to raise salaries and hourly rates of pay...”

Later in his June 2017 Newsletter *Rising Home Prices: Is Another Bubble in the Making?* he concludes:

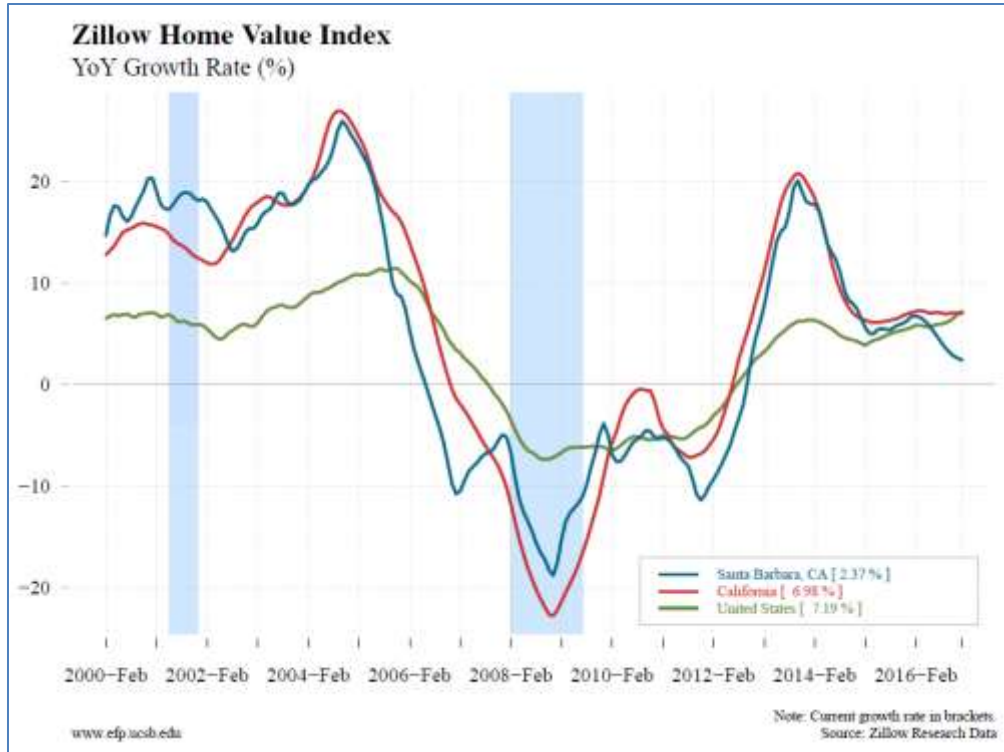
“In the current market, rising prices are the result of demand and supply conditions, and not because of easy credit or speculative conditions. Austere supply conditions, combined with solid demand for housing, are the root cause of current price inflation in housing. Consequently, we don't see any bubble forming in home prices. That said, if and when the economy softens, it is likely that housing prices will not decline that much.”

Focused at the local level, the UCSB Economic Forecast Project May 2017 publication includes the following key points regarding the Santa Barbara area economy:

- Government overtook Real Estate as the largest industry in Santa Barbara County, comprising 15.9% of GDP.



- The unemployment rate continued to decline in 2016, falling by 0.3 percentage points to 4.8%.
- For median home value, Santa Barbara County shows a declining year over year growth compared to the increasing rate for both California and the United States.
- The median home value for Santa Barbara County grew by 2.37% in 2016 which was significantly lower than the California average of 6.98% and US average of 7.29%.



- Real GDP grew at an annual rate of 4.5% in Santa Barbara County in 2015, the highest rate in a decade.
- Santa Barbara County’s real per capita income experienced strong growth for the second consecutive year, growing by 4.88%. Local per capita income remains higher than the California and United States average.
- Local real wages grew by 2.3% in 2015, the largest growth since 2010.

The momentum of the national, state and local economy drives the County’s significant revenue sources comprised of property, sales and transient occupancy taxes; payments from state and federal taxes and charges for services. In Fiscal Year 2016-17 we continued to experience **Temperate Growth** in the County’s revenues that seem to be in line with the economic recovery of California.

Looking forward, stable and sustainable revenue is needed for the County to fulfill its commitments to funding high priorities, such as the future Northern Branch Jail operations, deferred capital maintenance, public protection, negotiated employee contracts and post-employment benefit costs. To that end we anticipate **more of the same** absent any significant policy changes or destabilization occurring at the federal level. Should Mr. Schniepp’s prediction for real estate supply and demand conditions in California hold true for Santa Barbara discretionary revenue growth should not fluctuate widely.

Financial Overview – Governmental Funds

For all governmental funds, the County recorded revenues of \$889 million, expenditures of \$867 million and a net other financing use of \$1 million. This resulted in a \$22 million or 7.2% increase to existing fund balances bringing the total fund balances to \$321 million. The majority of the increase in fund balance over prior years is attributed to the Capital Projects Fund and Fire Department Fund whose fund balances increased \$11.1 million and \$7.4 million respectively.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES													
GOVERNMENTAL FUNDS													
FOR THE FISCAL YEAR ENDED June 30, 2017 (in thousands)													
	General	Roads	Public Health	Social Service	Behavioral Wellness	Flood Control District	Afford Housing	Fire Protect District	Capital Projects	Other Gov Funds	Total Current Year	Prior Year	%
Revenues													
Taxes	\$ 222,636	\$ 7,729	\$ --	\$ --	\$ --	\$ 10,827	\$ --	\$ 48,645	\$ --	\$ 5,229	\$ 295,066	\$ 281,279	4.9%
Licenses, permits, & franchise	13,678	373	66	86	--	--	--	18	--	--	14,221	14,282	-0.4%
Fines, forfeitures, & penalties	5,755	--	479	9	8	--	--	--	--	2,890	9,141	9,160	-0.2%
Use of money and property	1,775	95	130	220	178	280	38	30	26	560	3,332	4,809	-30.7%
Intergovernmental	78,224	17,409	21,102	147,513	49,571	1,007	2,826	2,952	21,914	18,874	361,392	345,428	4.6%
Charges for services	69,589	460	47,088	99	37,850	3,424	373	26,166	536	4,249	189,834	181,022	4.9%
Other	4,035	681	3,883	1,201	1,097	189	2,283	63	(80)	2,825	16,177	16,149	0.2%
Total revenues	<u>395,692</u>	<u>26,747</u>	<u>72,748</u>	<u>149,128</u>	<u>88,704</u>	<u>15,727</u>	<u>5,520</u>	<u>77,874</u>	<u>22,396</u>	<u>34,627</u>	<u>889,163</u>	<u>852,129</u>	<u>4.3%</u>
Expenditures													
Current:													
Policy & executive	16,585	--	--	--	--	--	--	--	--	--	16,585	16,484	0.6%
Public safety	218,301	--	--	--	--	--	--	68,385	73	16,392	303,151	288,174	5.2%
Health & public assistance	10,985	--	77,764	157,865	97,661	--	--	--	--	17,521	361,796	351,911	2.8%
Community resources	44,167	31,377	--	--	--	13,568	3,966	--	73	6,312	99,463	106,380	-6.5%
General gov & support	51,789	--	--	--	--	--	--	--	439	369	52,597	50,104	5.0%
General county programs	2,154	--	--	--	--	--	--	--	--	13	2,167	2,679	-19.1%
Debt service:													
Principal	2	--	--	--	--	--	--	--	--	3,872	3,874	3,764	2.9%
Interest	--	--	--	--	--	--	--	--	--	2,002	2,002	2,111	-5.2%
Capital outlay	--	--	--	--	--	--	--	--	24,983	--	24,983	6,229	301.1%
Total expenditures	<u>343,983</u>	<u>31,377</u>	<u>77,764</u>	<u>157,865</u>	<u>97,661</u>	<u>13,568</u>	<u>3,966</u>	<u>68,385</u>	<u>25,568</u>	<u>46,481</u>	<u>866,618</u>	<u>827,836</u>	<u>4.7%</u>
Excess(deficiency) revenue over (under) expenditures	51,709	(4,630)	(5,016)	(8,737)	(8,957)	2,159	1,554	9,489	(3,172)	(11,854)	22,545	24,293	
Other Financing Source(Use)													
Transfers in	5,456	5,267	7,449	8,465	11,044	40	--	917	15,137	14,828	68,603	54,535	
Transfers out	(59,150)	--	(2,051)	(75)	(936)	(96)	(1,053)	(3,030)	(830)	(2,452)	(69,673)	(55,935)	
Proceeds sale capital assets	11	112	--	--	--	--	--	19	--	--	142	205	
Long-term debt issued	--	--	--	--	--	--	--	--	--	--	--	10	
Other financing source(use)	<u>(53,683)</u>	<u>5,379</u>	<u>5,398</u>	<u>8,390</u>	<u>10,108</u>	<u>(56)</u>	<u>(1,053)</u>	<u>(2,094)</u>	<u>14,307</u>	<u>12,376</u>	<u>(928)</u>	<u>(1,185)</u>	
Net change in fund balances	(1,974)	749	382	(347)	1,151	2,103	501	7,395	11,135	522	<u>21,617</u>	23,108	
Fund balances - beginning	115,044	18,151	30,595	4,478	7,965	66,120	6,865	17,024	10,504	22,686	299,432	281,044	
Prior period adjustment	--	--	--	--	--	--	--	--	--	--	--	(4,720)	
Fund balances - ending	<u>\$ 113,070</u>	<u>\$ 18,900</u>	<u>\$ 30,977</u>	<u>\$ 4,131</u>	<u>\$ 9,116</u>	<u>\$ 68,223</u>	<u>\$ 7,366</u>	<u>\$ 24,419</u>	<u>\$ 21,639</u>	<u>\$ 23,208</u>	<u>\$ 321,049</u>	<u>\$ 299,432</u>	

Revenues

In FY 16-17, revenues increased by \$37 million or 4.3% to \$889 million.

Taxes, which provide the County with most of its discretionary revenue and provided 33% of the County’s total revenue, increased \$13.8 million or 4.9% to \$295 million. The major categories of taxes show the following results:

- Total property tax accounts increased \$10.8 million or 4.5% to \$249 million.

- Local retail sales tax increased \$1.7 million or 19.98% to \$10.4 million. Seventy-four percent (\$1.2M) of the increase was attributed to the restoration of the sales rate from 0.75% to 1% when the Triple Flip ended mid-year 15-16.
- Proceeds from the Former Redevelopment Agencies increased \$1.4 million or 18% to \$9 million.
- Supplemental taxes increased \$1.3 million or 38% to \$4.8 million. A considerable portion of this increase is due to the clearing of backlogged transactions resulting from the new property tax system.
- Transient Occupancy Taxes increased \$1 million or 11% to \$10 million. Part of this increase is due to the mid-year increase in the tax rate from 10% to 12%.

Intergovernmental revenue – increased by \$16 million or 4.6% to \$361 million. The most significant increase was in the Capital Project fund for \$21.4 million received of the \$80 million Board of State and Community Corrections grant funding the majority of the Northern Branch Jail construction project. This was offset in part by \$2.3 million decrease in the Water Agency Fund for one-time Integrated Regional Water Management grants received in 15-16 but not in 16-17 and a \$1.8 million decrease in Social Services funds related to decreases to State Food Stamp Administration.

Charges for services - increased \$8.8 million or 4.9% to \$190 million. The Fire Department (\$3.7 million) and Behavioral Wellness (\$3.5 million) Department combined made up the majority of the increase. The Fire Department increases were attributable to fire protection service allotments from the State as well as significant increases in incident reimbursements combined with Quimby Developer fees related to Station 10 in the City of Goleta. The Behavioral Wellness increase was attributed mostly to Medi-Cal reimbursements.

Additionally, the Clerk Recorder Assessor increase of \$1.4 million is attributed to reimbursements for the Consolidated Presidential General Election held November 2016 and an increase in the property tax administration fees received. Parks also saw an increase of \$1.3 million which related to both Quimby Developer fees for projects in Arroyo Burro Park and an overall increase in site usage fees primarily for special events. Smaller but notable decreases were seen in both Public Health (\$-0.8 million) and General Revenues (\$-0.7 million).

Licenses, permits, and franchises; Fines, forfeitures and penalties; and Other Revenues experienced no significant change from prior year.

Use of money and property – decreased 31% or \$1.5 million compared to prior year primarily due to the unrealized change in value of the treasury investments.

Expenditures

Expenditures increased by \$38.8 million or 4.7% to \$867 million.

Salary and benefits - costs increased by \$17.3 million or 3.4% to \$532.7 million for the governmental fund types, which accounts for 61% of total expenditures -

- The major increases in salaries and benefits is comprised of:
 - regular salaries, contractors on payroll and extra help increases of \$6.7 million or 2.2%
 - overtime increased \$4.6 million or 21.5%
 - health insurance increased \$4.2 million or 14% to \$34 million

- As shown in the table below Public Safety and Health & Public Assistance account for the majority of the increase.

Salary & Benefit Costs (in millions)				
	2016	2017	Change	%
Public Safety	\$ 231.3	\$ 239.6	\$ 8.3	3.6%
021 District Attorney	20.3	21.0	0.7	3.5%
022 Probation	42.4	43.3	0.9	2.2%
023 Public Defender	10.1	10.0	(0.1)	-0.9%
031 Fire	55.0	56.9	1.9	3.5%
032 Sheriff	103.5	108.4	4.9	4.7%
Health & Public Assistance	189.7	195.3	5.6	3.0%
041 Public Health	59.2	63.0	3.9	6.6%
043 Behavioral Wellness	41.3	42.6	1.3	3.2%
044 Social Services	81.4	81.8	0.4	0.5%
045 Child Support Services	7.9	7.9	(0.0)	-0.1%
Community Resources & Public Facilities	45.1	47.6	2.5	5.5%
051 Agricultural Commissioner/W&M	3.7	3.6	(0.0)	-1.1%
052 Parks	6.8	7.2	0.4	5.7%
053 Planning & Development	11.2	11.7	0.4	3.9%
054 Public Works	20.7	22.0	1.3	6.3%
055 Housing/Community Development	1.9	2.2	0.3	14.3%
057 Community Services	0.8	0.9	0.1	12.2%
General Government & Support Services	35.1	35.9	0.9	2.5%
061 Auditor-Controller	7.3	7.1	(0.3)	-3.5%
062 Clerk-Recorder-Assessor	11.6	12.1	0.5	4.5%
063 General Services	7.2	7.1	(0.1)	-1.3%
064 Human Resources	3.7	4.2	0.5	15.0%
065 Treasurer-Tax Collector-Public	5.3	5.4	0.1	2.6%
Policy & Executive	14.0	14.1	0.1	0.4%
011 Board of Supervisors	2.6	2.6	0.1	2.2%
012 County Executive Office	4.6	4.3	(0.3)	-5.8%
013 County Counsel	6.8	7.1	0.3	3.9%
General County Programs	0.2	0.2	(0.0)	-12.2%
990 General County Programs	0.2	0.2	(0.0)	-12.2%
Grand Total	\$ 515.4	\$ 532.7	\$ 17.3	3.4%

- The Countywide average annual full-time equivalent (FTE) count (see chart below) increased 33.6 FTE. Additions with the Public Health (26.8) mostly in health practitioners and support staff in health centers along with Behavioral Wellness (8.0) are funded by Federal and State programs while additions to Sheriff (9.4), Public Works (7.9), Fire (7.4) and Community Services (5.8) departments are funded primarily by property taxes. The Social Services Department reduced 32.4 FTE, mostly in the reduction of extra help. As measured by the Percentage of Department FTE, notable changes were in the Human Resources Department which increased FTE by 18.2% to 29.5 and the First 5, Children and Families reduced FTE 19.0% to 11.1.

Change in Average FTE Count				
	6/30/2016	6/30/2017	Change	Pct. Change
☐ Community Resources & Public Facilities	477.7	494.6	16.9	3.5%
Public Works	262.6	270.5	7.9	3.0%
Community Services	99.7	105.5	5.8	5.8%
Planning & Development	82.7	85.5	2.8	3.4%
Agricultural Commissioner/W&M	32.7	33.1	0.4	1.3%
☐ Public Safety	1,433.4	1,448.3	14.9	1.0%
Sheriff	632.7	642.1	9.4	1.5%
Fire	260.2	267.6	7.4	2.9%
District Attorney	136.0	138.8	2.9	2.1%
Public Defender	70.2	70.9	0.7	0.9%
Probation	334.3	328.9	-5.4	-1.6%
☐ General Government & Support Services	335.0	339.4	4.3	1.3%
Clerk-Recorder-Assessor	100.6	105.4	4.8	4.7%
Human Resources	25.0	29.5	4.6	18.2%
Treasurer-Tax Collector-Public	41.5	41.4	-0.1	-0.2%
Auditor-Controller	49.9	48.9	-1.0	-2.0%
General Services	118.0	114.2	-3.9	-3.3%
☐ General County Programs	1.0	1.0	0.0	0.0%
General County Programs	1.0	1.0	0.0	0.0%
☐ Policy & Executive	94.1	93.1	-1.0	-1.1%
Board of Supervisors	20.5	21.2	0.7	3.5%
County Counsel	38.1	38.6	0.5	1.4%
County Executive Office	35.4	33.2	-2.3	-6.4%
☐ Health & Public Assistance	1,854.8	1,853.2	-1.5	-0.1%
Public Health	509.5	536.3	26.8	5.3%
Behavioral Wellness	360.9	368.9	8.0	2.2%
Child Support Services	73.3	71.9	-1.4	-1.9%
First 5, Children & Families	13.7	11.1	-2.6	-19.0%
Social Services	897.5	865.1	-32.4	-3.6%
Grand Total	4,195.9	4,229.5	33.6	0.8%

Other Operational Expenditures – (includes *Services and Supplies and Other Charges*) increased by \$6.7 million or 2.4% for a total of \$283 million. There was a \$6.2 million increase in *Services and Supplies and Other Charges* increased \$0.5 million. Significant expenditures in this area include:

- \$48 million in Social Service Cash Assistance Payments,
- \$58 million in various professional and contractual services across all departments,
- \$37 million in Behavioral Wellness community based organization service contracts payments,
- \$28 million in departmental payments to the Internal Service Funds,
- \$10 million in contributions to the State for the Trial Court funding and
- a wide array of additional services provided or supplies purchased.

As seen in the table below, significant increases were seen in functional groups of Public Safety (\$5.6 million), Health & Public Assistance (\$3.6 million) and General Government (\$3.3 million). Offsetting these increases were notable decreases in Community Resources & Public Facilities (\$5.4 million) and General County Programs (\$0.8 million).

Other Operating Expenditures (in millions)				
	2016	2017	Change	%
Public Safety	\$ 56.3	\$ 61.9	\$ 5.6	9.9%
032 Sheriff	20.4	24.1	3.7	18.3%
031 Fire	8.2	10.6	2.4	29.3%
All Other Public Safety Depts	27.8	27.3	(0.5)	-1.9%
Health & Public Assistance	161.3	164.9	3.6	2.3%
043 Behavioral Wellness	51.5	55.1	3.6	6.9%
All Other Health & Public Assistance Depts	109.8	109.9	0.1	0.1%
General Government & Support Services	12.2	15.5	3.3	27.4%
063 General Services	7.3	10.0	2.6	35.9%
061 Auditor-Controller	(0.7)	(0.3)	0.4	-62.6%
All Other General Government Depts	5.5	5.8	0.3	5.1%
Policy & Executive	2.3	2.6	0.3	13.8%
General County Programs	2.7	1.9	(0.8)	-30.9%
Community Resources & Public Facilities	41.8	36.4	(5.4)	-12.9%
053 Planning & Development	3.8	3.2	(0.5)	-14.2%
054 Public Works	22.7	16.7	(6.1)	-26.8%
All Other Community Resources Depts	15.3	16.5	1.2	8.2%
Grand Total	\$ 276.5	\$ 283.2	\$ 6.7	2.4%

Debt Service Principal and Interest – Debt Service payments remained flat at \$6 million.

Capital Expenditures – Capital Expenditures increased by \$19 million and is attributed primarily to the Northern Branch Jail.

General Fund

The General Fund of the County provides the Board of Supervisors with its major sources of discretionary budget authority. The fund ended the year with a total fund balance of \$113 million, a decrease of \$2 million over the prior year. The Residual fund balance that resulted from the closing of the fiscal year operations was \$7 million.

General Fund			
	Beginning	Ending	
	Balance	Balance	
Fund Balance Category	7/1/2016	6/30/2017	Change
Fund Balance-Nonspendable	\$ 12,151,823	\$ 13,640,018	\$ 1,488,195
Fund Balance-Restricted	27,527,282	31,529,250	4,001,968
Fund Balance-Committed	67,702,973	60,161,151	(7,541,822)
Fund Balance-Unassigned	980,726	733,687	(247,040)
Fund Balance-Residual	6,681,695	7,005,908	324,213
	<u>\$ 115,044,499</u>	<u>\$ 113,070,013</u>	<u>\$ (1,974,486)</u>

Some highlighted changes to fund balance components:

- Non-spendable Fund Balance which increased \$1.5 million to \$13.6 million to reflect new impounded property taxes and the annual adjustment to the Teeter Tax Loss Reserve.
- Within Restricted Fund Balance, Local Realignment 2011 increased \$2.6 million to \$12.1 million.
- Within Committed Fund Balance:
 - ◆ The New Jail Operations Reserve was reduced by a net \$6 million to cover increased jail construction costs leaving an ending balance of \$7.8 million.
 - ◆ The Strategic Reserve was increased \$1 million (3.4%) to \$30.9 million.
 - ◆ Emerging Issues increased a net \$ 0.09 million to \$1.75 million.
 - ◆ Program Stabilization increased \$1.0 million to \$1.25 million.
 - ◆ Contingency was reduced by \$3.2 million leaving an ending balance of \$0.1 million to fund Behavioral Wellness inpatient beds, Inmate/Youth Medical and Psychiatric Services for the Sheriff and Probation departments, and the Goleta Beach storm damage repairs.

Cash Balances

The ending cash account balance of the General Fund decreased 1.6% or \$1.4 million to \$89 million. Because of its cash position, the County did not issue a cash flow borrowing known as a Tax and Revenue Anticipation Note (TRAN) for FY 16-17 and will not need to issue a TRAN in FY 17-18.

Budget to Actual Operating Results

Budget to Actual operating results were positive in the General Fund by \$7.0 million and this increased unassigned Fund Balance to \$7.7 million.

Budget to Actual Comparison - Fiscal Year Ended 6/30/2017				
General Fund				
	Adjusted Budget	Year-To-Date Actual	Variance	% of Budget
Revenues				
Taxes	\$ 220,331,000	\$ 222,635,627	\$ 2,304,627	101.1%
Licenses, Permits and Franchises	15,134,434	13,677,606	(1,456,828)	90.4%
Fines, Forfeitures, and Penalties	4,663,139	5,755,099	1,091,960	123.4%
Use of Money and Property	1,380,903	1,775,488	394,585	128.6%
Intergovernmental Revenue-State	72,696,348	72,861,251	164,903	100.2%
Intergovernmental Revenue-Federal	5,400,544	5,016,724	(383,820)	92.9%
Intergovernmental Revenue-Other	492,859	345,640	(147,219)	70.1%
Charges for Services	71,135,478	69,588,721	(1,546,757)	97.8%
Miscellaneous Revenue	3,441,512	4,034,951	593,439	117.2%
Revenues	394,676,217	395,691,108	1,014,891	100.3%
Expenditures				
Salaries and Employee Benefits	275,480,822	268,470,586	7,010,236	97.5%
Services and Supplies	57,510,054	53,161,837	4,348,217	92.4%
Other Charges	21,411,895	20,894,901	516,994	97.6%
Capital Assets	2,309,942	1,455,421	854,521	63.0%
Expenditures	356,712,713	343,982,745	12,729,968	96.4%
Other Financing Sources & Uses				
	-	-	-	0.0%
Other Financing Sources	6,562,813	5,467,224	(1,095,589)	83.3%
Other Financing Uses	60,152,719	59,150,072	1,002,647	98.3%
Other Financing Sources & Uses	(53,589,906)	(53,682,848)	(92,942)	100.2%
Changes to Fund Balances				
Decrease to Nonspendables	126,017	126,017	-	
Decrease to Restricted	4,835,787	2,658,030	(2,177,757)	
Decrease to Committed	44,707,290	39,912,429	(4,794,861)	
Decrease to Unassigned	14,531,368	12,949,368	(1,582,000)	
Decrease to Fund Balances	64,200,462	55,645,843	(8,554,619)	
Increase to Nonspendables	1,614,221	1,614,212	9	
Increase to Restricted	7,333,334	6,674,998	658,336	
Increase to Committed	32,604,472	32,355,607	248,865	
Increase to Unassigned	7,022,033	6,020,633	1,001,400	
Increase to Fund Balances	48,574,060	46,665,450	1,908,610	
Net Financial Impact	\$ -	\$ 7,005,908	\$ 7,005,908	

- **Taxes** performed better than budget estimates by \$2.3 million due to additional Property Tax, Property Taxes resulting from the dissolution of the former RDAs and transient occupancy tax (TOT) offset by decreases in Property Transfer Taxes and Supplemental Tax.
- The budgetary shortfalls of \$1.5 million in **Licenses, Permits and Franchises** and \$1.5 million in **Charges for Services** are primarily related to permits and Environmental Resources Services in the Planning & Development department offset by corresponding expenditure savings.

- The positive \$1.1 million variance in *Fines, Forfeitures, and Penalties* is attributed to higher than anticipated penalties collected on delinquent property taxes.
- *Miscellaneous Revenues* performed better than anticipated by \$0.6 million due to proceeds from the foreclosure of an affordable housing property.
- Actual expenditures at all object levels came in less than budgeted. The \$7 million variance in *Salary & Benefits* were generated by unfilled budgeted positions and partially offset by overages in overtime and extra help. There were \$4.3 million of savings in *Services and Supplies* and another \$1.4 million of savings in the combination of *Other Charges* and *Capital Assets*. It should be noted that there were corresponding revenue shortfalls because some of these expenditures are recouped via permit fees and charges for services.

Net Financial Impact

General Fund

The Annual Financial Summary Report below for the General Fund shows the Net Financial Impact of the various General Fund departments and is a measure of how departments performed against the budget revenue estimates and appropriations. The causes of the Net Financial Variances in the General Fund departments listed on the Report are described in general for variances that exceeded \$500 thousand. The overall year end result is \$7 million in increased unassigned fund balance.

Annual Financial Summary - General Fund							
Fiscal Year Ended 6/30/2017							
Department	Sources			Uses			Net Financial Variance
	Adjusted Budget	Actual	Variance	Adjusted Budget	Actual	Variance	
	011 -- Board of Supervisors	3,078,300	3,078,430	130	3,078,300	2,993,383	
012 -- County Executive Office	7,462,548	7,145,412	(317,136)	7,462,548	7,144,863	317,685	550
013 -- County Counsel	7,987,804	8,349,105	361,301	7,987,804	7,694,856	292,948	654,249
021 -- District Attorney	24,475,821	23,737,605	(738,216)	24,475,821	23,614,642	861,179	122,964
022 -- Probation	58,654,170	57,875,019	(779,151)	58,654,170	57,762,855	891,315	112,164
023 -- Public Defender	11,590,494	11,496,387	(94,107)	11,590,494	11,108,231	482,263	388,156
032 -- Sheriff	133,404,467	130,523,181	(2,881,286)	133,404,467	132,702,008	702,459	(2,178,827)
041 -- Public Health	12,389,009	11,480,878	(908,131)	12,389,009	11,480,878	908,131	-
051 -- Agricultural Commissioner/W&M	5,245,771	4,781,327	(464,444)	5,245,771	4,779,939	465,832	1,389
052 -- Parks	15,463,133	15,041,772	(421,361)	15,463,133	15,041,772	421,361	-
053 -- Planning & Development	18,744,843	14,902,836	(3,842,007)	18,744,843	14,887,462	3,857,381	15,374
054 -- Public Works	5,659,950	5,486,145	(173,805)	5,659,950	5,486,145	173,805	-
055 -- Housing/Community Development	3,726,910	3,249,960	(476,950)	3,726,910	3,247,466	479,444	2,494
057 -- Community Services	4,653,972	4,598,570	(55,402)	4,653,972	4,598,515	55,457	55
061 -- Auditor-Controller	9,101,000	8,817,708	(283,292)	9,101,000	8,094,783	1,006,217	722,925
062 -- Clerk-Recorder-Assessor	18,937,651	18,553,219	(384,432)	18,937,651	18,037,875	899,776	515,344
063 -- General Services	18,542,273	18,585,118	42,845	18,542,273	17,999,292	542,981	585,826
064 -- Human Resources	5,582,793	5,145,334	(437,459)	5,582,793	5,133,115	449,678	12,219
065 -- Treasurer-Tax Collector-Public	8,727,116	7,826,597	(900,519)	8,727,116	7,468,513	1,258,603	358,083
990 -- General County Programs	65,020,136	64,564,374	(455,762)	65,020,136	63,198,632	1,821,504	1,365,742
991 -- General Revenues	241,939,106	246,181,260	4,242,154	241,939,106	241,939,106	-	4,242,154
Total Report	680,387,267	671,420,238	(8,967,029)	680,387,267	664,414,330	15,972,937	7,005,908

Multiple Departments

With the exception of the Sheriff, all of the General Fund Departments ended the year with a positive or zero Net Financial Variance.

General Revenues

General Revenues ended the year with a positive variance of \$4.2 million. This variance is due to unanticipated revenue from property taxes, TOT and delinquent property tax revenue penalties.

General County Programs

General County Programs ended with a \$1.4 million positive variance resulting from a combination of \$.2 million of positive revenues, \$.1 million of expenditure savings and \$1.1 million of a budgeted fund balance release not actually drawn on.

Auditor-Controller

Auditor-Controller ended the year with a \$723 thousand positive variance mostly due to Salaries and Benefits savings as a result of positions not being filled for the entire year.

County Counsel

County Counsel ended the year with a \$654 thousand positive variance due to combination of Charges for Services coming in better than anticipated plus Salaries and Benefits savings as a result of positions not being filled for the entire year.

General Services

General Services ended with a positive net financial variance of \$586 thousand due to Charges for Services and Miscellaneous Revenues coming in better than anticipated by \$620 thousand and \$141 thousand respectively plus significant Salary and Benefit savings of \$370 thousand along with other expenditure savings which allowed them to not drawdown fund balances as planned.

Clerk-Recorder-Assessor

Clerk-Recorder-Assessor ended with a \$515 thousand positive variance due to significant savings of \$444 thousand in Service and Supplies and \$283 thousand Salary and Benefit which allowed them not to drawdown fund balances as planned.

Sheriff

The Sheriff ended with a negative net financial variance of \$2.2 million resulting from a \$.8 million shortfall of revenues and \$1.3 million of appropriation increases in various Service and Supplies categories, mostly in food, medical services and pharmaceutical costs.

Annual Status – All Funds

The following funds are major special revenue funds or proprietary funds that have significant variances over \$500,000.

Major Funds: (see financial statement on page 4):

Roads Operations and Capital Maintenance (Funds 0015, 0016, 0017, 0019)

The Roads Funds ended the year with an overall increase to Restricted Fund balance of \$749 thousand. The funds recorded \$31 million of expenditure activity for our local roads, bridges and infrastructure.

Behavioral Wellness (Fund 0044, 0048, 0049)

These funds ended the year with a positive \$9 million in fund balance. The funds recorded \$98 million in expenditure activity. The positive balances are in the Mental Health Services Act fund (0048) and Alcohol and Drug Program fund (0049); the Mental Health Fund (0044) ended the year with effectively

a zero balance and had been subsidized by General Fund contributions during the FY 16-17 year to cover high in-patient bed costs and lower than projected revenues.

Flood Control District (Multiple Funds)

The Flood Control District Funds ended the year with a \$2.1 million increase to fund balance primarily due to a decrease in expenditures on providing flood protection and water conservation. These funds have significant fund balances of \$68 million, and annual expenditures of \$14 million.

Affordable Housing (Fund 0064, 0065, 0066, 1940, 2270, 3122)

The six affordable housing program funds had a net increase in fund balance of \$0.5 million and annual expenditures of \$4 million. These are primarily project driven funds and accumulate funding for expenditure in future cycles.

Fire Protection District (Fund 2280)

The Fire Protection District ended the year with a positive change to fund balance in the amount of \$7.4 million. State fire contract reimbursements and other reimbursable charges for services exceeded estimates by \$4 million and salary and services and supply savings were \$1.5 million. The District expended \$68 million on local fire protection and emergency response.

Capital Projects Funds (Funds 0030, 0031, 0032)

The capital project funds increased committed fund balance by \$11 million reflecting delays in construction for North Branch Jail project and are anticipated to be expended on the project in 2017-18. The fund also incurred expenditures of \$25.5 million primarily related to the Northern Branch Jail project (\$23 million) along with smaller projects for Parks, Sheriff, and General Services.

Non Major Funds:

IHSS Public Authority (Fund 0056)

The IHSS Fund with expenditures of \$8.1 million drew down on fund balance by \$0.5 million under a planned drawdown of both restricted and committed fund balance by the Social Services department to fund a portion of annual operations.

Workers' Compensation Self Insurance (Fund 1911)

The Worker's Compensation Fund had positive results of \$2.3 million resulting from reductions in outstanding tail claim liabilities as old self-insured claims were settled and the total liability went down from \$11.2 million to \$9.5 million. The negative fund balance of \$1.1 million should be eliminated within the next two years in accordance with the 7 year deficit recovery plan.

Vehicle Operations (Fund 1900)

The Vehicle Operations Fund's total retained earnings increased by \$2 million \$34.7 million primarily due to lower than budgeted fuel expense.

Concluding Observations

Operations

The financial results of operations for FY 16-17 reflect continuing moderate improvement of County finances. With employment increasing and a continuing rebound of the housing market the County is

building its foundation for the future with long term funding commitments to a new jail facility, public protection financing, deferred capital maintenance and unfunded retirement liabilities. These commitments address important priorities and rely on increasing revenue growth in the coming years.

- The County has an underlying credit rating of SP-1+ from Standard and Poor’s (the highest possible short-term rating) and an AA+ long-term rating (the highest among California Counties). In addition, in October 2016, Moody’s upgraded the County’s series 2008 Certificates of Participation from Aa3 to AA2.
- The County slightly decreased its General Fund cash position by 1.6% ending at \$89 million and continued to avoid the need for a short-term cash flow borrowing (TRAN) for the next year.
- The County continues to shift general fund tax allocations to the fire protection district for a fifth year under the originally scheduled ten year plan. The 2016-17 increment was \$1.4 million for a total accumulated shift amount of \$12.8 million which brings the fire shift percentage to 16.03% of the 17% target.
- The County continues to set aside 18% of unallocated, discretionary General Fund revenue each year to address the deferred maintenance needs of its buildings and infrastructure. This deferred maintenance set-aside is anticipated to grow to significant ongoing amounts over a ten year period.
- The County FTE count was up 33.6 FTE in FY 16-17 compared to the prior year, 50% in Community Resources and Public Facilities, 44% in Public Safety, the remainder in General Government and Support programs.

Fund Balances

- The County was able to end the year with a \$22 million increase in overall governmental fund balance for all funds.
- The County continued to make a contribution to the Strategic Reserve of \$1.1 million and ended the year at \$30.9 million.
- The General Fund ended the year with following fund balance components that had balances over \$5 million:

Fund Balance Component	FYE Balance
☐ 2110 Fund Balance-Nonspendable	\$ 13,590,018
9610 Teeter Tax Losses	8,296,212
9602 Receivables	5,293,806
☐ 2120 Fund Balance-Restricted	12,095,648
9776 Local Realignment 2011	12,095,648
☐ 2130 Fund Balance-Committed	38,702,032
9840 Strategic Reserve	30,866,400
9880 New Jail Operations	7,835,632
Grand Total	\$ 64,387,697

Looking Forward

- The winter storms helped restore many of the local reservoirs to levels similar to when the drought began. However, as the drought continues into its 5th year it still may have financial implications on all sectors of the local economy as water purveyors pursue higher cost water sources.
- The County broke ground on construction of the Northern Branch Jail. Winter storms delayed some of the construction planned for 16-17 into 17-18. The County continues to set aside funding for the New Jail Operations account (\$6.1 million in FY 2016-17).
- The County continues to move forward with the Tajiguas Resource Recovery Project (TRRP). The planned issuance of Solid Waste bonds this past spring did not take place due to last minute permitting issues. The project is currently being re-permitted with plans for construction and funding to commence in Fiscal Year 17-18.
- The SBCERS pension portfolio returned a 10.5% for the fiscal year. This exceeded the current assumed rate of return for the plan of 7% which became effective 6/30/2016 after the Retirement Board lowered it in the fall of 2016. Over the five year period ending 6/30/2017 the fund averaged an annual return of 7%.
- Early indicators are that for budget years FY 17-18 and FY 18-19 the following local taxes will continue to increase in the 4-5.5% range: Property Taxes, Transient Occupancy Tax, and Retail Sales taxes.

Special Instructions: None

Attachments: None

Authored by: Ed Price

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