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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: May 16, 2017
Placement: Departmental
Estimated Time: 30 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department: Mona Miyasato, County Executive Officer
Director(s): Theodore A. Fallati, CPA, Auditor-Controller
Contact Info: Jeff Frapwell and Ed Price
568-3432 568-2126
SUBJECT: Fiscal Year 2016-2017 Third Quarter Budget Update

County Counsel Concurrence

As to form: NA

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors

- a) Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2016-2017 Budget and Financial Status Report as of March 31, 2017, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors, and;
- b) Approve Budget Revision Request No. 0004789 to increase Appropriations of \$2,212,000 in the Behavioral Wellness Department, Mental Health Services Fund for Services and Supplies (\$1,812,000) and Capital Assets (\$400,000) funded by a transfer-in from the General Fund (\$3,740,000) and an increase to Intergovernmental Revenue (\$682,000) offset by a decrease to Charges for Services (\$2,210,000) for PHF Audit Remediation, PHF Revenue Shortfalls, and IMD Overruns.

Summary Text:

The Fiscal Year 2016-2017 Budget and Financial Update for the third quarter ended March 31, 2017 provides a snapshot of the County's financial position relative to the adjusted budget for the first nine months of this fiscal year for the Board's review.

The General Fund projects a \$750 thousand positive variance by year end when compared to the Adjusted Budget. This variance is due to projected positive variances in most General Fund Departments, partially offset by a growing negative variance in the Sheriff's Office, as well as tax impounds from the Auditor-Controller that sets aside \$1 million in General County Programs as nonspendable. Special Revenue and Other Funds are generally tracking to budget with the exception of a negative -\$3.7 million variance in Behavioral Wellness' Mental Health Services Fund and a positive

\$2.7 million variance in the Fire Protection District Fund. These variances will be explained later in this report.

Background:

THIRD QUARTER REPORT

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 through March 31, 2017, are discussed below.

This report highlights the following variances that exceed the 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) Non-General Fund departments 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 2016-17, 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 reports Attachment A and Attachment B).

BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board-approved budget appropriations per 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.

GENERAL FUND SUMMARY (Attachment A)

The General Fund had a projected year-end net positive variance of \$750 thousand as of March 31, 2017. This is the result of favorable results across most departments, offset by negative variances in the Sheriff's Department (-\$1.4 million) and General County Programs (-\$736 thousand). The table below reflects the General Revenues Significant Property Tax projections:

Property Tax Summary (in thousands):			
Source	Adjusted FY 2016-17	Projected FY 2016-17	Variance Proj. vs. Adjusted
Property Tax - Current Secured	\$ 126,445	\$ 126,481	36
Property Tax In-Lieu of VLF	\$ 51,736	\$ 51,485	(251)
Property Tax: Fines, Penalties	\$ 3,482	\$ 3,549	67
Property Tax - Unsecured	\$ 5,130	\$ 4,808	(322)
Property Tax - Unitary	\$ 2,713	\$ 2,845	132
Property Tax - Supplemental	\$ 3,867	\$ 2,717	(1,150)
Property Transfer Tax	\$ 4,755	\$ 3,605	(1,150)
Significant Prop Taxes	\$ 198,128	\$ 195,490	\$ (2,638)

Property Tax components are projecting to end below budget at year-end due mostly to underperformance in Supplemental Property Tax and Property Transfer Tax revenues.

The table below reflects the current General Revenue Fiscal Year End projections:

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2016-17	Projected FY 2016-17	Variance Proj. vs. Adjusted
Significant Property Taxes	\$ 198,128	\$ 195,490	\$ (2,638)
Secured Prop Tax Escapes - One-time	\$ (392)	\$ 989	1,381
RDA Prop. Tax - Ongoing	5,720	6,346	626
Subtotal Property Taxes	\$ 203,456	\$ 202,825	\$ (631)
Cost Allocation Services	11,152	11,152	0
Local Sales Tax	10,216	10,461	245
Transient Occupancy Tax	9,429	10,075	646
Payments in Lieu of Tax	18	18	-
All Other Revenues	5,589	5,761	172
Total Discretionary Revenues	\$ 239,860	\$ 240,291	\$ 431
Use of Funds - Other Financing Uses	\$ 30,031	\$ 29,984	\$ 47
Projected Fiscal Year End Variance			\$ 478

General Revenues (Department 991) is projected to have a positive year-end variance of \$478 thousand. This positive variance is primarily due to a one-time clearing of backlogged or escaped secured property tax bills from prior years, along with positive variances in RDA Distributions, local sales taxes, and transient occupancy taxes (TOT). These positive variances are largely offset by property tax revenues showing a negative -\$2.6 million projected variance, as shown above.

The Sheriff's Office has a projected negative variance of -\$1.4 million, due mainly to Salaries and Employee Benefits (S&B) that are projected to be approximately \$953 thousand (0.9%) over budget for the fiscal year. Within S&B, Sheriff's staff is projecting overtime to be \$6.4 million over budget while non-overtime S&B accounts are currently projected to be \$5.4 million under budget, primarily due to salary savings from vacancies. As of March 31, 2017, actual overtime spending is 200% of the total annual FY 2016-17 budgeted amount.

At the end of the third quarter, there were 17 Patrol vacancies, 9 Custody Deputy vacancies and 23 civilian vacancies. Further exacerbating the vacancy issue, an additional 17 Patrol deputies and 12 Custody Deputies were on worker's compensation leave, who not only continue to draw salary, but also create vacancies that are often covered with overtime. As Patrol and Custody vacancies are filled, salary savings will most likely diminish (depending on other separations).

The Sheriff's Department has been implementing strategies since the first quarter to address the overtime problem, and notes that while overtime expended in the first quarter was \$3.7 million, in the second and third quarters it totaled \$2.3 million and \$2.4 million, respectively. The Sheriff's Office is projecting to spend \$2.1 million on overtime in the fourth quarter, based on averages from the most recent pay periods.

If the Department ends the year with a negative net financial impact, as is currently projected, it will need to use year-end savings from other Departments within the General Fund to balance. This assumption has already been factored into the projected year-end net positive variance of \$750 thousand in the General Fund.

General County Programs is projecting a negative variance of -\$736 thousand, due mostly to the Auditor-Controller impounding \$1 million in FY 2016-17 property tax revenues, making them nonspendable. This amount is partially offset by positive variances in other fund balances within General County Programs. As with the Sheriff's Department, this projected negative variance will be offset by savings in other Departments within the General Fund, and has already been factored into the \$750 thousand positive variance.

County Counsel, Auditor-Controller, and Public Defender are projecting positive variances. County Counsel has a \$443 thousand positive variance, mostly due to increased work in risk litigation and Behavioral Wellness issues, as well as savings in salaries & benefits. Auditor-Controller and Public Defender are projecting positive variances of \$399 thousand and \$350 thousand, respectively, which are due mostly to salary savings.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

The Mental Health Services Fund (0044, Inpatient Services) is projecting a negative variance of \$3.7 million. The following are the main drivers of the variance:

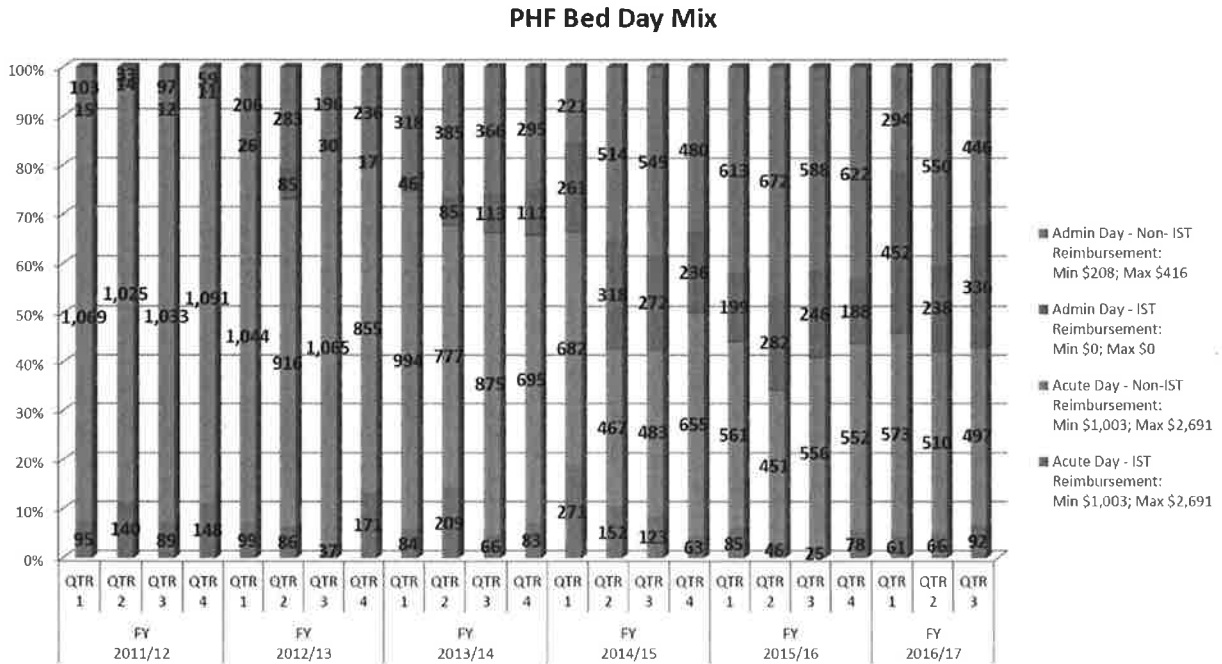
- Psychiatric Health Facility (PHF) audit compliance required unbudgeted expenditures of \$1.5 million which include one-time capital, legal or consulting fees (also includes \$400K for HVAC system).
- PHF revenue is down \$2.2 million due to extended non-billable days associated with Court ordered clients whose competency to stand trial is in question and an increase in non-IST Administrative Days that bill at a lower rates.
- In addition to the issues mentioned above, the Department experienced a higher than anticipated
 - Utilization of beds at Aurora Vista Del Mar is in excess of adopted budget
 - Out of County use of IMD (Institutes for Mental Disease) beds has seen a continued increase in demand and is trending towards exceeding originally adopted budget
 - These drivers were partially offset by a positive audit settlement for FY 2008-09, in the amount of \$730 thousand and unanticipated VLF (Vehicle License Fees) Growth of \$411 thousand.

Inpatient Costs:

A significant and ongoing cause of the negative variance in the Mental Health Services Fund is the greater than planned purchase of inpatient contract beds when the PHF is full. Contracted inpatient beds experienced a significant increase in the first three quarters and was impacted by:

- Increased bed days in the PHF for court ordered clients to be evaluated to determine their competency to stand trial. These Incompetent to Stand Trial (IST) non-billable bed days have been increasing in recent years.
- Increase in client demand for acute services
- Increase in the number of non-IST Administrative Bed days at the PHF
- Lack of available locations to release clients to (home, family or “step down” facilities), believed to result in increased length of stay at Aurora Vista Del Mar (AVDM)

Medi-Cal & Medicare Revenue: As discussed in prior reports, IST Administrative Days at the PHF are not billable and non-IST Administrative Days are billable at a much lower rates than for acute services. Administrative Days have been steadily increasing and as a result, billable revenues are decreasing. The graph below highlights this issue (green and blue bars are billable at full rates).



The bed days and estimated dollar impact of the non-IST Admin usage, (i.e. both lost revenue and additional beds at AVDM) is projected on the graph below:

To counter the Admin Day issue and related increasing out-of-County Inpatient hospital costs, Behavioral Wellness has utilized State grants and increased General Funds to create crisis and residential programs to enhance supportive services with the intention of reducing the overall inpatient demand. While this strategy was initially effective in reducing contracted beds, the numbers are once again rising.

Actions to Address Fiscal Issues: The Department is continuing its efforts reduce the number of contracted beds and to improve revenues through:

- Identifying the cause of the significant increase in the IST referrals
- Reconvening the IST Task Group to identify solutions
- Research alternative placement for non-acute IST clients
- Assess the reasons for the growth in non-IST Admin Days and possible solutions
- Evaluate the movement (length of stay) at AVDM and in the available step down beds
- Evaluate the effectiveness of crisis services and beds
- Work with system partners to address issues and identify solutions

Other Costs:

PHF Audit: In FY 2016-17 the PHF operations were audited for compliance with Federal Conditions of Participation, under Title 42, of the Federal Code of Regulations. As a result of the findings, and per recommendation of the PHF Governing Board, the PHF will address identified facility deficiencies and staffing needs in both clinical and quality control areas. The total impact is estimated to be approximately \$1.5 million in one-time consulting, legal and capital improvement costs and ongoing costs of about \$500 thousand per year, net of federal reimbursements.

The department will continue to monitor these issues, and mitigate fiscal impacts when possible, but anticipates a year-end budget shortfall of -\$3.7M at this time. The Behavioral Wellness Department is requesting additional one-time general funds to cover the PHF audit remediation costs and revenue shortfalls related to admin days at the PHF with the attached budget revision.

The Fire Protection District Fund (2280) is projecting a positive variance of \$2.7 million. This is primarily due to the net effect of additional Charges for Services of \$5.6 million received for incident reimbursements, and the reduction of \$5.0 million in capital expenditures as a result of putting the Fire Station 41 rebuild project on hold while the Department reevaluates the current project and options. These savings are partially offset with the reduction of \$8.2 million in planned fund balance draw; due to the hold on the Fire Station 41 rebuild, as well as the higher than anticipated incident reimbursements, the Department is not anticipating the need to draw any fund balance in FY 16-17.

Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter. Additionally, the Governor's May budget revise for the 2017-18 fiscal year will be released on May 11, 2017, and CEO staff will present an update to the Board as part of this item.

Key Contract Risks:

NA

Attachments:

- A – Financial Summary Report – General Fund
- B – Financial Summary Report – Special Revenue and Other Funds
- C – Budget Revision Request No. 0004789

Authored by:

Paul Clementi, Fiscal & Policy Analyst

CC:

Department Directors
Assistant County Executive Officers and CEO Fiscal and Policy Analysts

Quarterly Financial Update Signal Chart

For Quarter Ending March 31, 2017

- Actuals Are Generally Tracking Budget
- ▲ Actuals Materially Vary from Budget-Positive
- ▼ Actuals Materially Vary from Budget-Negative
- 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
■ Sheriff	RDA Successor Agency
■ Public Health - EHS, AS, HazMat	Public Works
■ Agriculture Commissioner	Roads: Funds 0015, 0016, 0017, 0019
■ Parks	Resource Recovery and Waste Mgt.
■ Planning and Development	CSA
■ Public Works	Flood Control
■ Housing & Commt. Devmnt.	North County Lighting
■ Community Services Dept.	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
▲ General Revenues	Orcutt CFD
	General Services
	Capital
	Special Aviation
	Vehicles
	Information Technology
	Communications
	Utilities
	CEO-Human Resources
	County Unemployment Insurance
	Dental Insurance
	Medical Malpractice Insurance
	Workers' Comp Insurance
	County Liability Insurance
	Treasurer-Tax Collector
	Debt Service
	General County Programs
	Public and Educational Access
	Criminal Justice Facility Const.
	Courthouse Construction
	First Five
	First Five Child & Families Comm.
	RDA Successor Agency
	Successor Agency Housing
Other Funds	
Fire	
▲ Fire Protection	
Sheriff	
■ Inmate Welfare	
Public Health	
■ Health Care	
■ Tobacco Settlement	
Behavioral Wellness	
■ Mental Health Services	
■ Mental Health Services Act	
■ Alcohol and Drug Programs	
Social Services	
■ Social Services	
■ IHSS Public Authority	
Child Support	
■ Child Support Services	
Sheriff	
■ Capital Projects - Jail	

Budget Journal Entry

Document Number: BJE - 0004789 Batch ID: 1978196
 Document Description: BW: Transfer to Mental Health Fund for PHF Audit, Revenue Shortfalls, IMD Processed On: 5/23/2017 3:05:31 PM Created On: 10/4/2016 11:28:10 AM
 Post On: 5/16/2017 Processed By: Parcho Occiano

References

Audit Trail: Actualizing JE:

Budget Revision Request

Agenda Item: #4 Agenda Date: 5/16/2017 Approval: BOS 4/5 Has Board Letter: Yes
 Title: BW: 1617 Transfer to Mental Health Fund for PHF Audit, Revenue Shortfalls, IMD Overruns
 Budget Action: Increase Appropriations of \$2,212,000 in the Behavioral Wellness Department, Mental Health Services Fund for Services and Supplies (\$1,812,000) and Capital Assets (\$400,000) funded by a transfer-in from the General Fund (\$3,740,000) and an increase to Intergovernmental Revenue (\$682,000) offset by a decrease to Charges for Services (\$2,210,000).

Justification: The Behavioral Wellness Department is experiencing a budget shortfall in FY1617 due to the following issues:

Psychiatric Health Facility (PHF) audit compliance required unbudgeted expenditures of \$1.5 million which include capital, legal or consulting fees (also includes \$400K for HVAC system). PHF revenue is down \$2.2 million due to extended non-billable days associated with Court ordered clients whose competency to stand trial is in question and an increase in non-IST Administrative Days that bill at a lower rates.
 The department will continue to monitor these issues, and mitigate fiscal impacts when possible, but anticipates a year-end budget shortfall of -\$3.7 million at this time. Unanticipated VLF revenue of \$682K will help offset these costs, but is requesting additional one-time general funds to cover this shortfall.

The proposed sources from the General Fund are \$1.0 million from Mental Health Committed Fund Balance and \$2.7 million from Unassigned Fund Balance.

Budget Revision Request Financial Summary

Fund	Department	Project	Object Level	Source Amount	Use Amount
0044 - Mental Health Services	043 - Behavioral Wellness		25 - Intergovernmental Revenue-State	682,000.00	0.00
0044 - Mental Health Services	043 - Behavioral Wellness		30 - Charges for Services	(2,210,000.00)	0.00
0044 - Mental Health Services	043 - Behavioral Wellness		40 - Other Financing Sources	3,740,000.00	0.00
0044 - Mental Health Services	043 - Behavioral Wellness		55 - Services and Supplies	0.00	1,812,000.00
0044 - Mental Health Services	043 - Behavioral Wellness		65 - Capital Assets	0.00	400,000.00
			Fund: 0044 - Mental Health Services, Department: 043 - Behavioral Wellness Total:	2,212,000.00	2,212,000.00
0001 - General	990 - General County Programs		70 - Other Financing Uses	0.00	3,740,000.00

Budget Journal Entry

0001 - General	990 - General County Programs	93 - Changes to Committed	1,000,000.00	0.00
0001 - General	990 - General County Programs	95 - Changes to Unassigned	2,740,000.00	0.00
Fund: 0001 - General, Department: 990 - General County Programs Total:			<u>3,740,000.00</u>	<u>3,740,000.00</u>

Accounting

Fund	Dept	GL Acct	LI Acct	Debit Amount	Credit Amount	Prog	Unit	Proj	Budget Period	Description
0044	043	2430	5404		1,220,000.00	3500			201706	PHF Medi-Cal Revenue loss from IST
0044	043	2430	5402		990,000.00	3500			201706	PHF Medicare Revenue loss from IST
0044	043	2420	3541	682,000.00		3500			201706	Unanticipated VLF revenue - FY1617 New Base
0044	043	2420	5910	3,040,000.00		3500			201706	General Fund Contrib to balance
0044	043	2420	5910	700,000.00		3550			201706	General Fund Contrib to balance
0044	043	2530	7200		192,000.00	3500			201706	PHF Audit remediation -facility/structure imprv
0044	043	2530	7460		779,000.00	3500			201706	PHF Audit remediation -Prof. Consultation
0044	043	2530	7508		141,000.00	3500			201706	PHF Audit remediation -Legal
0044	043	2530	8200		400,000.00	3500			201706	PHF Audit remediation -HVAC
0044	043	2530	7462		700,000.00	3550			201706	Inpatient Hospital Cost overrun
0001	990	2530	7901		3,740,000.00	3143			201706	Transfer to 0044 - PHF Audit, Rev Shortfalls, IMDs
0001	990	2420	9940	2,740,000.00		3143			201706	Transfer to 0044 - PHF Audit, Rev Shortfalls, IMDs
0001	990	2420	9811	1,000,000.00		3143			201706	Transfer to 0044 - PHF Audit, Rev Shortfalls, IMDs
Total				<u>8,162,000.00</u>	<u>8,162,000.00</u>					

Signatures

Signed By	Signed On	Department/Agency	Approval Level	Valid
Shawna Jorgensen	5/2/2017 10:49:11 AM	012 - County Executive Office	CEO Analyst	N
Andrew Myung	5/3/2017 2:30:25 PM	057 - Community Services	CEO Analyst	Y
Emma Loethen	5/3/2017 2:52:17 PM	043 - Behavioral Wellness	Fund/Department	Y
Shawna Jorgensen	5/3/2017 2:54:33 PM	012 - County Executive Office	CEO Analyst	Y
Juan Izquierdo	5/4/2017 11:29:08 AM	061 - Auditor-Controller	Fund/Department	Y
Juan Izquierdo	5/4/2017 11:29:08 AM	061 - Auditor-Controller	FACS	Y
Juan Izquierdo	5/4/2017 11:29:08 AM	061 - Auditor-Controller	FACS Supervisor	Y
Betsy Schaffer	5/4/2017 1:33:33 PM	061 - Auditor-Controller	Chief Deputy Controller	Y
Jeff Frapwell	5/4/2017 1:49:47 PM	012 - County Executive Office	Budget Director	Y

Budget Journal Entry

Jacquelyne Alexander 5/23/2017 2:41:57 PM 012 - County Executive Office Clerk of the Board Y
