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
Department No.:	012
For Agenda Of:	5/19/20
Placement:	Departmental
Estimated Time:	1 hour
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Mona Miyasato, County Executive Officer
	Contact Info:	Jeff Frapwell, Assistant County Executive Officer

SUBJECT: **Fiscal Year 2019-20 Third Quarter Budget Update**

County Counsel Concurrence
As to form: NA

Auditor-Controller Concurrence
As to form: NA

Recommended Actions:

That the Board of Supervisors

a) Receive and file the Fiscal Year 2019-20 3rd Quarter Budget Update as of March 31, 2020, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors.

Summary Text:

The Fiscal Year 2019-20 Budget Update for the third quarter ending March 31, 2020, provides a look at the County's financial status relative to the FY 2019-20 adjusted budget. In total, we expect COVID-19 additional costs and revenue reductions to total over $25 million (all funds) in the current fiscal year, and potentially another $27.3 million in FY 2020-21 year.

Even with this cost, the General Fund is projected to have a modest positive $2.1 million surplus by fiscal year-end when compared to budget. This is largely due to underspending (budget savings) in some departments as a result of vacancies. This projected year-end position is much less than the $5-$7 million realized in recent prior years.

However, many Special Revenue and Other Funds will be significantly impacted and are showing negative reportable variances in Roads, Health Care, Mental Health Services Act, Social Services, Courts, and Resource Recovery and Waste Management Funds. In total, these amount to $12.4 million negative compared to the adjusted budget. Should these projections be realized, the departments' special revenue fund balances will absorb these costs in the current year. Only the Vehicle Operations Fund has a reportable positive variance, due to operational savings and a suspension in vehicle manufacturing causing vehicle purchase delays into next fiscal year.

The $2.1 million net positive variance in the General Fund is due to positive variances in many General Fund departments due to salary savings largely from vacant positions, including $2.6 million in Probation, $524,000 in Auditor-Controller, and $437,000 in Treasurer-Tax Collector. General Revenues has a net positive variance of $2.3 million due to strong property tax revenue and interest income, partially offset by COVID related impacts on the Transient Occupancy Tax revenues. Although not included in the net positive variance for the General Fund, cannabis tax revenue is currently projected to end the year with $3.6 million more than the adjusted budget. These, and the remaining positive variances, are dampened by negative variances of: $644,000 in Parks due to reduced recreational fee revenue; $438,000 in Planning & Development due to reduced permitting revenue; and, $3.0 million in Sheriff primarily due to higher than budgeted overtime expense.

Anticipated impacts of the COVID-19 pandemic on both expenditures and revenues are included in Department projections, and are also discussed in more detail later in this report.

Background:

THIRD QUARTER REPORT

This report compares projected year-end actuals to the adjusted budget as of March 31, 2020. Variances that exceed the following thresholds are considered reportable for the purposes of this quarterly budget update:

- General Fund departments (including Discretionary General Revenues) with projected variances greater than $300,000 per department as shown in Attachment A
- Special Revenue and Other Funds with projected variances greater than $500,000 per fund as shown in Attachment B

The Financial Summary Reports included as Attachments A and B calculate the projected year-end balances by adding the actual revenue and expenditure amounts for the first nine months of FY 2019-20 with departmental projections for the next three months. These year-end balance projections are then compared to the adjusted budgets to produce a “Net Financial Projected Variance” for the fiscal year-end (shown in the right-hand columns of the attached reports) for each General Fund department and each non-General Fund.

BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board-approved budget appropriations. The Board-adopted policy and procedure entitled “Budgetary Control & Responsibility” states the following (abbreviated):

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, 2020, the General Fund has a projected year-end net positive variance of $2.1 million. Most General Fund departments are projecting to end the year with positive net financial impacts, including significant positive variances in the Probation Department, Auditor/Controller, Treasurer-Tax Collector, and General Revenues, and these positives are partially offset by significant negative variances projected in the Sheriff's Office, Parks, and Planning & Development.

Probation (Department 022) projects a positive year-end variance of $2.6 million, 4% over the total budget of $67.5 million, due to higher than budgeted salary savings as a result of a significant number of vacancies. However, redeployment of staff within the department to the EOC, Public Health Department, and other essential services for COVID-19 response has increased the use of overtime, which could impact this variance at year-end. The department has also incurred expenditures for services and supplies related to the response to COVID-19. Potential impacts to departmental revenues is undetermined at this time and could also impact year-end balances, though the department still expects to end the year with a positive net variance.

Sheriff's Department (Department 032) is projecting a negative year-end variance of $3.0 million, 1.9% on a total General Fund budget of $156.9 million, mostly due to overtime expenses expected to exceed salary savings in the Salaries & Benefits object level. While overtime across many programs in the Sheriff's Office is contributing to this issue, a large portion, $3.9 million, is attributed to minimum staffing due to an increase in new hires and lost time. After three quarters, the Sheriff's Office has expended $7.4 million, or 207%, of a $3.6 million overtime budget. Also contributing to the negative variance, the department expects to incur approximately $340,000 in COVID-19 related expenditures that were not anticipated in the budget. Any changes to the projected negative year-end balance over the remaining quarter will depend on the determination of safe and appropriate staffing levels, and the department's ability to address lost time and control overtime expenditures.

Parks (Department 052) projects a negative year-end variance of $644,000, 4% on a total budget of $17.5 million, due primarily to losses in camping revenues and charges for services due to the COVID-19 shutdown of Park facilities. These actions resulted in the canceling of approximately 3,700 camping, day use, wedding, and special event reservations. Other COVID-related costs in the overall Community Services budget are expected to be covered with FEMA reimbursements and emergency State grant funding and will not severely impact the year-end budget.

Planning & Development (Department 053) projects a negative year-end variance of $438,000, 2% on a total budget of $23.8 million. While the COVID-19 pandemic is expected to have some impact on permitting activity levels, additional drivers of the projected negative variance are decreased revenues from cannabis and development planning permits. Of the 12 cannabis cultivation projects approved in FY 2019-20, four have been appealed to the Planning Commission and Board of Supervisors. Additionally, P&D is processing appeal cases for five projects approved in the prior fiscal year. The cost of processing these appeals are marginally offset by a fixed appeal fee paid by the appellant with some exceptions, as the balance of staff costs incurred to process these appeals are not recoverable from permit revenues. P&D also projects a year-end shortfall in development planning permit revenues. Some of this shortfall is attributed to staffing vacancies earlier in the fiscal year and lower billable rates for entry-level planners and planners in training.

Auditor-Controller (Department 061) projects a positive year-end variance of $524,000, 6% over the total budget of $9.2 million, due primarily to salary savings.

Treasurer Tax Collector (Department 065) projects a positive year-end variance of $437,000, 5% over the total budget of $9.1 million, due to a combination of salary savings and unanticipated Charges for Services and Miscellaneous revenues.

General Revenues (Department 991) projects a positive year-end variance of $2.3 million, 0.8% over a total budget of $277.7 million, due primarily to higher than anticipated Property Tax revenues, RDA Distributions, and Interest Income, offset by a reduction in Transient Occupancy Tax revenue, compared to adjusted budget.

- Cannabis tax revenues are projected to end the year with a positive variance of $3.6 million. Total cannabis tax revenue collected through April 30, 2020, representing the amount received from cultivators for the first three quarters, totaled $6.7 million and year-end projections have been increased accordingly. This report assumes that any surplus in these revenues will be set aside into fund balance in the current year, consistent with our practice of segregating cannabis tax revenues, and be available for allocation as part of the FY 2020-21 budget development process.

- Property Taxes are projected to end the year with a positive variance of $2.6 million due to FY 2019-20 actual assessed value growth that was higher than anticipated in the budget.

- Interest income is contributing to the positive projected variance in the amount of $902,000 due to modestly higher rate of returns by the Treasurer and larger than anticipated average daily cash balances held in the Treasury.

- Transient Occupancy Tax (TOT) revenues collected through February were on track to exceed the adopted budget by more than $600,000; however, due to the Governor’s stay at home order, the majority of hotels halted operations beginning at the end of March and remain closed. TOT is projected to end the year with a negative variance of $1.9 million compared to budget.

- Similar to TOT, Sales and Use Tax revenue was experiencing growth in receipts collected through February in comparison to the same period in the prior fiscal year and was trending to out-perform expectations in the adopted budget by nearly $300,000. However, due to the closure of all non-essential businesses, previously projected Sales and Use Tax revenue has been decreased. The current projections therefore are expected to meet, but not exceed, the adopted budget assumptions.

The table below provides detail on General Revenues.

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2019-20	Projected FY 2019-20	Variance Proj vs. Adjusted
Property Taxes	$ 216,248	$ 218,893	$ 2,645
RDA RPTTF Resid Distributions	9,449	9,693	244
Sales and Use Retail Tax State	10,964	10,972	8
Cannabis Tax	5,615	9,200	3,585
Transient Occupancy Tax	13,214	11,300	(1,914)
Interest Income	1,500	2,402	902
All Other Revenues	20,705	21,145	440
Total Discretionary Revenues	**$ 277,695**	**$ 283,605**	**$ 5,910**
Increase to Cannabis Fund Balance	$ 5,615	$ 9,200	$ 3,585
All Other Transfers	272,080	272,080	0
Projected Fiscal Year End Variance	**$ -**	**$ 2,325**	**$ 2,325**

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

Roads-Operations (Fund 0015) is projecting an estimated negative year-end variance of $2.9 million, 8.8% on a total operating budget of $33.2 million. Early estimates based on four months of COVID-19 impacts indicate a $2.4 million reduction in State Highway Users Tax (HUTA) revenues and a $0.5 million reduction in Measure A funding. HUTA revenues, generated largely through state excise (per gallon) taxes on gasoline and diesel, and Measure A funds, based on sales tax revenues, are used to fund staffing and operations. To the extent necessary, Public Works Department will use fund balance draws to balance at year-end.

Roads-Capital Maintenance (Fund 0016) is projecting an estimated negative year end variance of $1.0 million, 3.2% on a total operating budget of $30.9 million. Early estimates based on four months of COVID-19 impacts indicate a $1.1 million reduction in SB 1 Road Maintenance and Rehabilitation Account (RMRA) revenues, which are used for deferred maintenance. These revenues are generated through state excise (per gallon) taxes on gasoline and diesel as well as vehicle registration fees and electric vehicle fees. To the extent necessary, Public Works Department will use fund balance draws to balance at year-end.

Health Care (Fund 0042) is projecting an estimated negative year-end variance of $3.2 million, 3.8% on a total operating budget of $83.8 million, due to the impacts of responding to COVID-19. Staff has been redirected from grant and health center programs, which has created negative revenue impacts, along with increased costs of overtime, contractors, and extra help to provide the staffing necessary to support and provide the core public health response of Epidemiology, Contract Tracing, Isolation and Quarantine, Public Information, and Laboratory testing. To the extent necessary, the Department will utilize Fund Balance to balance the fund at fiscal year-end.

Social Services (Fund 0055) is projecting an estimated negative year-end variance of $4.5 million, 2.7% on a total operating budget of $164.4 million, which is driven primarily by projected shortfalls in 1991 Realignment and 2011 Realignment revenues. Declines in taxable sales—brought on by the spread of the COVID-19 pandemic across the State and the closure of nonessential businesses—will result in lower realignment revenues distributed by the State to counties for social services and safety net programs. Local revenue projections are based on current modeling of statewide losses in realignment revenues and will be updated as data becomes available. To the extent necessary, the department will use its fund balance to address any year-end deficit.

Court Activities (Fund 0069) is projecting an estimated negative year-end variance of $755,000, 5% on a total operating budget of $14.8 million, due to a combination of reductions in Fees, Fines, Forfeitures and Penalties revenue due to COVID-19 and unanticipated increased expenditures for Court-appointed attorneys for complex cases. The General Fund will need to backfill any gap that actually materializes at year-end.

Vehicle Operations/Maintenance Fund (Fund 1900) is projecting a positive year-end variance of $1.2 million, 6.5% on a total budget of $18.6 million. This positive NFI is primarily due to projected favorable variances in Charges for Services for assigned and operating cost vehicle usage, salary savings resulting from vacancies and a COVID-19 related halt in vehicle manufacturing causing vehicle purchase delays into next fiscal year.

Resource Recovery & Waste Management (Fund 1930) is projecting an estimated negative year-end variance of $1.7 million, 3.8% on a total operating budget of $45.0 million, due to the anticipated impacts of COVID-19. Early estimates on the impact of COVID-19 for FY 2019-20 indicate a decline of incoming tonnages at RR&WM facilities impacting Charges for Services Revenue in the amount of $1.1 million. In addition, the receipt of a CalRecycle grant in the amount of $800,000 is expected to be delayed until FY 2020-21. Lastly, a reduction in commercial waste hauling is expected to cause a reduction in revenue of approximately $100,000. These revenue losses are slightly offset by salary savings. The Public Works Department will use fund balance draws to balance at year-end.

SUMMARY OF PROJECTED COVID-19 IMPACTS

Year-end projections included in this report reflect anticipated impacts of COVID-19 on departments' expenditures and revenues. In the General Fund, discretionary revenues are expected to be impacted, as discussed in the General Revenues (Department 991) section above. Non-General Fund impacts are expected to be the most significant in the Public Health, Behavioral Wellness, Social Services, and Public Works departments. To solve current year budgetary impacts, we will be using one-time fund balance draws in the impacted departments where necessary. Significant projected impacts are summarized in the table below:

FY 2019-20 Estimated COVID-19 Budgetary Impacts	
Major Revenue Categories	
991 Discretionary Revenues	$ 2,245,300
1991 & 2011 Realignment (Public Health, Behavioral Wellness, and Social Services Departments)	11,513,300
Transportation Revenues (SB 1 gas tax, HUTA, and Measure A)	3,989,000
Prop 172 Public Safety Sales Tax	2,000,000
Total Estimated Revenue Loss	**19,747,600**
Response Cost Categories	
Alternative Care Sites	450,000
EOC operations, Public Health DOC, and overtime response staffing	2,682,000
Temporary shelter and accommodations	500,000
COVID testing and contact tracing	500,000
Paid leave time provided to employees	1,250,000
Total Estimated Response Cost	**5,382,000**
TOTAL ESTIMATED FY 2019-20 IMPACT	**$ 25,129,600**

In addition to the current fiscal year impacts summarized in the table above, the budgetary impact of the current COVID-19 pandemic will continue into FY 2020-21 in terms of both higher costs and reduced revenues. The table below summarizes next fiscal year's anticipated impacts, which will be incorporated in the CEO's FY 2020-21 Recommended Budget due out later this month.

FY 2020-21 Estimated COVID-19 Budgetary Impacts	
Major Revenue Categories	
991 Discretionary Revenues	$ 3,597,000
1991 & 2011 Realignment (Public Health, Behavioral Wellness, and Social Services Departments)	10,618,000
Transportation Revenues (SB 1 gas tax, HUTA, and Measure A)	3,916,000
Prop 172 Public Safety Sales Tax	3,616,000
Total Estimated Revenue Loss	**21,747,000**
Response Cost Categories	
Alternative Care Sites	2,750,000
EOC operations, Public Health DOC, and overtime response staffing	1,000,000
Temporary shelter and accommodations	850,000
COVID testing and contact tracing	750,000
Paid leave time provided to employees	250,000
Total Estimated Response Cost	**5,600,000**
TOTAL ESTIMATED FY 2020-21 IMPACT	**$ 27,347,000**

Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter.

Attachments:

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

Authored by:

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