SANTA BARBARA COUNTY
BOARD AGENDA LETTER

Clerk of the Board of Supervisors
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Agenda Number:	
Prepared on:	2/10/04
Department Name:	County Administrator & Auditor
Department No.:	012
Agenda Date:	2/17/03
Placement:	Departmental
Estimate Time:	1.0 Hour
Continued Item:	NO
If Yes, date from:	

TO: Board of Supervisors

FROM: Michael F. Brown, County Administrator
Robert Geis, CPA, Auditor-Controller

STAFF CONTACT: Ken Masuda and Brian Richard
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SUBJECT: FY 03-04 Financial Status Report #2 and Budget Update

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Recommendation(s):

That the Board of Supervisors:

A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2003-04 Financial Status Report as of December 31, 2003, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

B. Accept a status report on Vehicle License Fee (VLF) revenue as of February 10, 2004 and recommended action, if necessary.

C. Accept an updated forecast of the General Fund budget's financial condition on 6/30/04

D. Accept a report on mandated, "business necessity," and "discretionary" programs, and their FY 03-04 adopted appropriations, revenues, and County General Fund contribution amounts.

Alignment with Board Strategic Plan: An efficient government able to anticipate and respond effectively to the needs of the community.

Executive Summary

There are two ways to look at the County's financial condition as of December 31, 2003. Either: 1) we are in reasonably good shape and, barring a further "jolt" from the State due to its on-going budget crisis, will be in good shape on June 30, or 2) through December we have lost approximately $7.7 million in VLF revenues, as well as incurring other unanticipated costs or revenue losses related to the State budget situation totaling another

$1.9 million, which required one-time and on-going reductions to the County budget that will have long-term effects on the County's ability to provide services. As a matter of fact, both are true.

Next fiscal year, of course, could be an entirely different matter depending on how much and what kind of resolution to the State budget crisis ultimately occurs. As indicated on January 20, the Governor's budget proposal could result in an overall loss of $24.6 million to the County, with $16.6 million of that amount being a General Fund impact.

Against this backdrop, preparation of the FY 2004-05 budget is proceeding in accordance with adopted budget principles. This budget will provide a baseline from which reductions will be made—should they be necessary.

At the same time, information on the impacts of possible reductions has been gathered, presented, and will be continually monitored. When the State budget picture becomes clear, whether it be before June, later this Summer, or in the Fall, your staff will be prepared to deal with the consequences, under your Board's direction, using a combination of the information already provided such as Schedule D of January 5, with adjustments for factual changes, and be available to facilitate a deliberate priority setting process.

The letter is divided into 4 sections. Section A reviews the financial status of the County as of 12/31/03. In Section B, the latest financial projections through 6/30/04 are summarized. For both periods, the County looks to be in good financial condition, of course, this is after considering the total of $9.6 million in budget reductions already taken this year and assuming no further loss of VLF revenues through June 30, 2004. Section C briefly looks at the status of VLF revenues through February 10, and Section D provides a detailed look at program funding. This latter section provides a context, another way of looking at what the county does, for future budget deliberations.

Discussion:

A. **Financial Status Report as of December 31, 2003**

Staff has conducted Monthly Projection (MOPROs) meetings with departments during which their actual performance was compared to their budget for the first six months of this fiscal year. During these meetings differences (variances) between budgeted and actual amounts were identified. The following narrative highlights major variances, defined as follows: 1) for General Fund departments, the narrative discusses projected variances over $100,000 as shown in the Projected Annual Status Report, General Fund (Attachment A) and 2) for non-General Fund departments, the narrative discusses projected variances over $500,000 per fund as shown in the Projected Annual Status Report, by Fund Type (Attachment B). Both reports take actual revenues and expenditures for the first six months, add department projections for the next six months, and compare these totals to budgeted amounts. In addition to using these sources, this status report contains comments on three Special Revenue Funds that have particular issues which are not due to their budget variances but which are related to their current cash balances.

County General Fund

Status of General Fund Discretionary Revenues

Property taxes are a positive $645,000 through December, however; roughly two-thirds of this amount is in account 3040 "Property Tax-Prior Secured." This account is usually negative because assessment roll decreases due to successful assessment appeals exceed assessment roll increases caused by "escaped" assessments. This year's change is due to the Assessor reducing an historic backlog of escaped assessments. Transient Occupancy Taxes (TOT) are a positive $428,591, almost 19% more than budgeted, as tourism continues to rebound. Interest income is a negative $323,516 as interest rates have been lower than expected.

The biggest loss through December is the negative (-$2,078,329) Vehicle License Fee revenue. Anticipated VLF revenue was reduced by $4,690,000 in November, based on prior Board action. An additional $1,410,000 reduction in anticipated VLF revenue was approved on February 3, bringing total VLF revenue budget reductions to $6.1 million. Then again, in January, a further $1.6 million to offset anticipated VLF revenue losses were approved. Thus, the losses currently shown will be offset by these Board actions. Taking these factors into account, General Fund Discretionary Revenues would be a positive $1,347,000 through December 31, rather than the negative $731,000 shown.

Status of Departments

Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of 12/31/03 are as follows:

- County Counsel. The positive $129,000 variance is primarily due to reduced use of outside counsel, particularly on assessment appeal and liability cases.
- District Attorney. Various factors account for the current positive $150,000 variance, the largest one being a positive $48,000 variance in Proposition 172, Public Safety Sales tax, revenue.
- Probation. A negative $206,000 is shown. Two major impacts on revenue are: 1) Ventura County left the boot camp earlier than expected resulting in a $151,000 revenue loss through 6 months and 2) the department was $93,000 too optimistic in its ability to collect Federal Medi-Cal revenues. The Ventura County withdrawal should have resulted in a savings in salary and benefit expenditures however, salaries are actually over expended by $89,000. This increased cost is largely due to the State Board of Corrections adopting new staffing standards for juvenile institutions that have required the Probation department to increase "graveyard" shift staffing in both juvenile halls. The estimated annual cost increase is somewhat more than $200,000.
- Fire. The report shows positive variance of $153,000, with savings of $241,000 on the expenditure side. Generally, the department has attempted to hold off on purchasing due to the current and projected condition of the Fire Fund (#2280). So, while this year the budget looks OK, there are significant problems down the road. The department has budgeted an expenditure of $1,969,000 from its operating reserve to balance this year's budget. In addition, current year

property tax revenues in the Fire Fund are $207,000 less than budgeted. Both factors, plus increased workers compensation, liability, and retirement costs, mean there will be considerable difficulty balancing the FY 04-05 fire budget.

- Sheriff. The department budget is showing an overall positive variance of $154,000. It is unlikely that the current positive revenue variance of $329,000 will continue through the end of the year. On the positive side, Public Safety Sales tax (Proposition 172) revenues are $262,000 more than expected though the first six months, and the department also received an unexpected State payment of $87,000 for maintenance of State parolees in the County jail. On the other hand, Bailiff Services revenue from the Court is currently down $147,000 and as reported in October, without an agreement on bailiff services reimbursements, revenue could be as much as $600,000 less than budgeted.

  The expenditure side shows a negative $175,000 variance. Overtime costs are running $410,000 more than budgeted. A joint Sheriff-CAO analysis of overtime is currently underway. Overtime costs and related employee salary increases for the past three years are displayed below.

Sheriff's Department Overtime and Related Salary Adjustments, by Year					
Year	Overtime: Actual and 03-04 Estimated.	% Overtime Change from Prior Year	Deputy & Sergeant COLAs	Corrections Officer & Sgt COLAs	Dispatcher COLAs
2001-02	$1,467,931	12.66%	5.5%	7.5%	23.0%
2002-03	$2,083,990	41.97%	16.0%	2.0%	4.5%
2003-04	$2,800,000	34.35%	2.0%	2.0%	2.0%

  The FY 03-04 COLA numbers do not include an increase due, but not yet in effect, for this year. The FY 03-04 estimated overtime number is a combination of actual expenditures through December 31 plus a projection based on actual overtime expenditures during January through June for the past three years.

- Planning and Development. The positive revenue variance of $192,376 is due to building, counter, and discretionary permit revenue all exceeding budgeted amounts for the first 6 months of the fiscal year. At the same time, staff vacancies have resulted in significant salary savings of $394,564 for the same time period. However, based on an analysis of trends for the second half of this year, the year-end favorable variance of $989,000, projected as of December 31, overstates the contribution this department will make to the General Fund fund balance at year-end.

- Public Works. The $100,000 positive overall variance in the Public Works General Fund budget reflects less surveyor work and thus less revenue from other Public Works funds. On the expenditure side, staff hiring and equipment purchases are on hold in order to stay within General Fund contribution levels.

- Auditor-Controller. The positive $184,000 variance is due to salary savings from vacant positions, and one-time unanticipated revenue.

- Clerk-Recorder-Assessor. The positive $311,000 variance is largely due to increased Recording Fee revenues. When this year's budget was put together, it was believed that the refinancing boom was largely over and hence, recording fee revenue would fall from prior year levels. However, that has not yet happened. Two things to note, however, are first; this unanticipated revenue is being recognized to offset part of the VLF revenue loss so that the variance will largely go away. Also, the budget includes $800,000 in one-time contingency funds which were used to pay for the Recall Election.
- General Services. There is no one single factor accounting for the current positive $168,000 variance, and no significant variance to report for this department. Most of this positive variance will go away once budget revisions related to the VLF revenue shortfall are completed.
- Human Resources. Expenditures are less than budgeted due to the timing of certain contract payments and reductions in the scope of the marketing program. As with General Services, some of the $173,000 overall positive variance will go away once budget revisions related to the VLF revenue shortfall are completed.
- General County Programs. As the Board knows, this department contains a variety of programs including Early Care, Organizational Effectiveness, and Employees University, as well as General Fund contributions to a variety of other funds. Except for current savings of $78,000 in the Organizational Effectiveness program due to keeping the Director of Organizational Effectiveness position vacant, there are no large significant factors contributing to the $235,000 positive variance. Most of the current salary savings mentioned will go away once a budget revision related to the VLF revenue shortfall is completed.

General Fund Net Variance

The General Fund net positive variance of $1,975,000 is an accurate reflection of the condition of the fund through December 31, 2003. By this we mean that it reflects both the negative $2.1 million in VLF revenues and the departmental and non-departmental positive variances that, through budget revisions, will offset the revenue loss. Our year-end projection follows the next section.

Special Revenue Funds and Other Funds

- Children and Families (Fund 0010). The main reasons for the $682,000 current positive variance are: 1) Proposition 10 revenues for the Children and Families program currently exceed estimates by $182,000, and 2) monthly estimates of claims paid to contractors need to be adjusted to reflect contractor invoice patterns.
- Road Fund (Fund 0015). Although this fund currently shows only a small negative variance, the revenue side of the ledger shows a $2,072,000 negative variance. The Road Fund may not realize revenues because of State cuts to its programs. In addition, as the Road Fund completes projects it has significant receivables from the GTIP and the new City of Goleta has not used the services of the Public Works/Roads Division as planned. If the fund draws on the majority of its fund balances through the end of the year, and State cuts continue, future projects may be put on hold due to a lack of matching funds.

- Alcohol, Drug, and Mental Health Services (Fund 0044). Although the department has a positive overall variance, the revenue side of the ledger indicates a $1,566,000 negative variance. The County General Fund has provided temporary cash flow loans of $8,265,000 at 1/31/04, as compared to $4,575,738 at 1/31/03. This reflects the continued non-timely payments from the State for ADMHS programs. The department also has a $2,600,000 EPSDT program accrual for the previous year that the State has not settled and provided payment.
- Substance Abuse (Proposition 36) Fund (Fund 0047). The $2.4 million positive variance is due to timing differences regarding the receipt of revenues and payment of contractors and does not reflect a real variance over budgeted numbers.
- Social Services (Fund 0055). The current positive revenue variance of $654,000 reflects revised budget numbers from the State, primarily in three programs Child Welfare Services (CWS), Cal-Works Administration, and Medi-Cal Eligibility. In CWS, State allocations have not kept up with expenditures, and this Special Revenue Fund will likely need to use $500,000 more of its fund balance this year to offset program expenses. In contrast, for Medi-Cal eligibility, State funding allocations will be $1.4 million over the adopted budget and the use of $376,000 of Special Revenue Fund fund balance will not be needed this year. The department will be submitting a budget revision reflecting final State budget allocations.

  Other impacts include an unanticipated $130,000 additional cost for the Casa Nueva building project, and increased costs for migration of the department's mainframe computer capability from the County to the State, the latter being State funded. Looking at the budget as a whole, Social Services estimates it will use $844,000 of its fund balance this year, compared to a budgeted use of $679,000. No increase in General Fund contribution is anticipated unless In-home Supportive Services negotiations result in a compensation agreement greater than current budget amounts.
- Fire Protection District (Fund 2280). As noted on the prior section, the Fire District budgeted draw on its fund balance could leave the District with only capital reserves at year-end. The District may be faced with decisions next year to draw on capital reserves or request subsidies from the General Fund if the Fire Department is to maintain current service levels.
- Water Agency (Fund 3050). The $682,000 net positive variance includes $215,000 lower expenditures ($265,000 originally budgeted) for water efficient clothes washer rebates, and delays in various Cachuma Projects. In addition, there is $250,000 in reduced expenditures and revenues due to non-receipt of a $250,000 grant to trace the effects of cloud seeding.
- Workers Compensation Fund (Fund 1911). Although the negative $414,000 variance does not meet our reporting threshold, there is an issue here that warrants the Board's attention. The Superior Court has refused to pay its annual premium of $503,000. This premium is for the "tail claims," claims incurred during the time the Superior Court was part of this fund but which are being paid

subsequent to the Court leaving this fund. This is a statewide unresolved issue, which, if not favorably resolved, could result in a General Fund cost in a future fiscal year.

Net Impact on General Fund

None of the Special Revenue or Other Fund variances should negatively impact the General Fund this year. As a double check on the budgetary analysis based on FIN (Financial Information Network) documents, the County Auditor-Controller also performed an analysis of the county cash balances for the County operating funds at January 31, 2004. The analysis of cash balances can be used as a general measure of the overall fund balance position of the County. Last year at this time, the County had $206,000,000 in cash and ended the year with $202,000,000. This year at January 31,2004 the County has $183,000,000, a decline of approximately 11%, or $26 million in cash and related fund balance.

However, almost 2/3 of the decrease is in the Road and Capital Outlay funds which decreased by $16,000,000 of the $26,000,000. This reflects the draw on cash balances as projects are constructed and completed. The other components of this decline are as follows:

- The General Fund has decreased only slightly by $1,000,000 to $18,600,000.
- The County special revenue funds, combined, decreased by $8,000,000 to $84,000,000 mainly in the Health Care Services, Mental Health, and Fire District funds.
- Internal service funds stayed the same when compared to last year, with $39,000,000 in cash.
- Enterprise funds increased $2,000,000 to $14,000,000.

B. Fiscal Year-end Estimates

We forecast that the General Fund will end the current fiscal year with a positive variance of not more than $4.5 million. The forecast depends on four major factors, discussed below.

First, we do not expect departmental savings (all department except 990 and 991), which now net to approximately $2.5 million, to increase significantly in the next six months. Bailiff cost reimbursement and overtime issues in the Sheriff's Department are seen as a major drag on overall departmental savings through the second half of the year. Also, Planning and Development does not expect revenue increases to continue and costs will increase during the second half of the year. Growth in department savings, and therefore the fund balance, will also partly depend on continuation of the current hiring freeze.

In the discretionary revenues area, the continued State backfill of VLF revenues is a major variable. The year-end projection assumes continued State payments to backfill VLF revenues through the end of the fiscal year. Some of the discretionary designations in Department 990, General County Programs, will be used to offset current and anticipated VLF revenue shortfalls. If the shortfall is greater than expected, it could further deplete these designations and result in fewer resources being released into the fund balance at year-end.

General Fund property tax revenues may be marginally higher than budgeted (Current Secured Property Taxes are 1% higher), but the positive $645,000 from property tax sources as of December 31 is already factored in to the projection. Both Retail Sales and TOT revenues are performing above expectations and our year-end projection is based on continued good performance by these revenue sources. Thus, growth from all tax revenue sources could reach $1 million above budgeted amounts during the second half of the year, but this amount would be partially offset by continued lower interest earnings.

C. Status Report on VLF Revenue and the FY 04-05 Budget Development Process

VLF Revenues. On February 10 the County received $2,591,998 in VLF revenues. This amount is approximately $1.5 million more than the minimum expected for the month and, as a result, and in combination with the $3.34 million received in January, reduces our possible deficit to under $11 million. (On January 5 we estimated a possible deficit of $15.1 million.) As a result of this payment, no action on further reductions is recommended at this time. Details, for both General Fund and Public Health Realignment VLF payments, are provided in Attachment C, a Powerpoint Presentation. We will continue with monthly reports on the amount of scheduled VLF payments received. If payments, with backfill amounts, continue, future action will not be necessary.

The County Budget Development Process. Looming over the entire County budget process is the State's current and projected budget deficit—and the variety of proposals to carryover, and to reduce the deficit over a number of years. Whatever solution the Governor, the State Legislature, and perhaps ultimately the voters craft, it will have a profound effect on the County budget.

Until real impacts are "known," that is, legislation passed and signed, we are proceeding with FY 04-05 budget development according to adopted budget principles and assuming no new COLA's for 04-05 other than those already under contract. When the State budget picture becomes clear, whether it be before June, later this Summer, or in the Fall, your staff will be prepared to deal with the consequences, under your Board's direction, using a combination of the information already provided such as Schedule D of January 5, with adjustments for proposed changes that actually become law.

We will also be prepared to assist your Board with establishing budget reduction priorities at some future meeting. The material in Section D could be a useful part of a priority setting process.

D. County Programs and Their Mandate Status

Last year, the County Administrator's Office, with assistance from the Auditor's Office, General Services/Information Technology and department input, developed a Cost Center Inventory Database or CCID, which categorized every county program with respect to its mandate status and identified the extent to which it received General Fund discretionary revenue. In a report last Spring, this data was reported to you on a countywide basis.

With technical assistance from General Services and the Auditor's Office, County departments and the County Administrator's Office have updated the CCID information to reflect FY 2003-04 adopted budget data in order to provide program-level detail so that answers can be given to a question asked on several occasions by one or more Board members: "What are our mandated programs and how much do they cost?"

All County programs currently in use, over 900 in all, have been classified as falling into one of four categories as defined in Table 1.

Table 1 Service Level Categories

• **Mandated – Absolute**	Federal and State law, or Court decisions specify program requirements, and County decision makers have no discretion as to service and expenditure levels.
• **Mandated - Practical**	Federal and State law, or Court decisions specify program requirements, but County decision makers have some discretion as to service and expenditure level.
• **Business Necessity**	Program is essential to providing basic county services. All programs in this category have some level of discretion as to service and expenditure levels.
• **Discretionary**	Program is a local policy choice (e.g. through acceptance of a Federal/State grant, adoption of a local ordinance, or Board Policy direction). All programs in this category are discretionary as to service and expenditure levels. Grant programs may be inflexible during the life of the grant agreement.

Provided are two views of the information. The first one, Attachment D, lists programs in each category from the one with the most General Fund Contribution amount to the one with the least—probably a negative number based on how the programs function with respect to where revenue is assigned in some departments. The second, Attachment E, follows the familiar department/division/subdivision structure. This gives the Board a second view, by department.

Mandates and Service Levels: As indicated and described in the text of the letter.

Fiscal and Facilities Impacts: Actual and hypothetical impacts are stated in the text of the letter.

CC: All Department Heads
CAO Deputies
CAO Analysts
Employee Organizations

Attachment A – Projected Annual Status Report for the General Fund
Attachment B – Projected Annual Status Report for Special Revenue Funds and other funds
Attachment C – Powerpoint Presentation, including VLF Revenue Status Update
Attachment D – Mandate Status and Service Level, by Program
Attachment E – Mandate Status and Service Level, by Department and Program