BOARD OF SUPERVISORS AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Submitted on:
(COB Stamp)

Department Name:	CEO
Department No.:	012
For Agenda Of:	September 10, 2024
Placement:	Departmental
Estimated Time:	20 minutes
Continued Item:	No
If Yes, date from:	N/A
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Mona Miyasato, County Executive Officer
	Contact Info:	Paul Clementi, Budget Director

DocuSigned by:
41846F5C725B460...

SUBJECT: **Fiscal Year 2023-24 Fourth Quarter Budget Status Report**

County Counsel Concurrence
As to form: N/A

Auditor-Controller Concurrence
As to form: N/A

Recommended Actions:

It is recommended that the Board of Supervisors:

a) Receive and file the Fiscal Year (FY) 2023-24 Fourth Quarter Budget and Status Report as of June 30, 2024, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors; and

b) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist of organizational, administrative, or fiscal activities of government that will not result in direct or indirect physical changes in the environment.

Summary:

The FY 2023-24 budget status report for the fourth quarter ending June 30, 2024, provides a look at the County's financial position at the close of the fiscal year, relative to the FY 2023-24 adjusted budget. The County ended FY 2023-24 with a net positive $10.3 million year-end balance carry-forward in the General Fund, which is $4 million more than projected at the end of the third quarter. This year-end positive variance is consistent with historical averages and is significantly less than the unusual prior year carry-forward of $27 million that was primarily related to the timing of property tax estimates for the budget.

Property taxes and cannabis taxes came in less than budgeted but overall Discretionary Revenues ended with a positive variance, which is discussed in greater detail below.

The fiscal position of the General Fund is monitored and presented to the Board on a quarterly basis, with this final report brought after the close of the fiscal year. Staff recommends maintaining the Board's prudent fiscal practice of preserving the balance for one-time needs and reserves in the FY 2025-26 budget. This is recommended, given continued inflationary pressures and known or potential needs, including capital and deferred maintenance projects, implementation costs of the Enterprise Resource Planning System, and implementation costs for countywide plans such as the Climate Action Plan and Recreation Master Plan.

Special Revenue Funds are required to end the year balanced, so those funds are not included in this update. There were no other significant year-end issues for any of these funds. All reportable variances will be discussed in greater detail below.

FOURTH QUARTER REPORT

In this report, the year-end financial results for the fiscal year are compared to the annual adjusted budget. The major differences (variances) between budgeted and actual amounts through June 30, 2024, are discussed below.

This report highlights General Fund departments (including Discretionary General Revenues) with variances at, or above, $300,000, shown in the Financial Summary Report (Attachment A), or that would have ended negative without additional assistance. As mentioned above, this report does not discuss Special Revenue Funds, which are required to end the year with a balanced budget.

Attachment A uses actual revenues and expenditures for the fiscal year 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 Attachment A).

BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board-approved budget appropriations in accordance with 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.

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)

The General Fund had a year-end net positive variance of $10.3 million. The departments with significant net financial impacts are discussed in detail below.

General Revenues (Department 991) ended the year with a positive year-end variance of $6.3 million (1.7% variance on an adjusted budget of $372.7 million), with significant variances detailed in the table below. This variance is due primarily to higher than budgeted Interest Income, Sales and Use Tax Retail State Tax, Franchise Fees, Property Transfer Tax, and Other Miscellaneous Revenue, as well as a reduction in General Fund Contribution (GFC) sent to a special revenue department. These positive variances were offset somewhat by negative variances in Property Tax. Cannabis Cultivation and Retail Storefront Tax also came in lower than budgeted but did not contribute to the year-end variance and is discussed later in this section.

Tax revenues are the primary source of general revenues. Property Taxes ended the year with a negative variance of $1.3 million which constitutes just 0.4% of the total Property Tax revenue budget of $295 million and is primarily due to budget adjustments made by the Auditor's Office late in the FY 2023-24 budget development process. Sales and Use Tax came in higher-than-anticipated with a positive variance of $551 thousand as retail consumers remained resilient in the unincorporated areas of the County despite economic headwinds that included elevated levels of inflation and interest rates, and Property Transfer Taxes ended the year with a positive variance of $461 thousand despite a significant decrease in the volume of property transfers from historical averages resulting from elevated mortgage rates, indicating that property sales prices remain high.

Interest Income in the General Fund was a primary driver of the General Fund's overall positive variance, taking in $7.9 million, a positive variance of $4.6 million above the budgeted amount of $3.3 million, mainly due to the higher rate environment. Franchise Fees also came in higher-than-budgeted with a positive year-end variance of $530 thousand, mainly attributable to increased gross receipts generated by a few of the utilities, which they are required to pay a percentage of as part of their Franchise Fee agreements. Other Miscellaneous Revenues also ended the year with a positive variance of $437 thousand, driven mostly by prior year receipts of employee Flexible Spending Account (FSA) balances that went unused and were returned to the General Fund. Additionally, Other Transfers ended with a net positive variance (the table reflects a negative expenditure which has a positive effect) of $865 thousand and is due to less GFC being transferred to the Department of Social Service's special revenue fund than was budgeted, resulting from higher-than-anticipated state revenues received.

Cannabis Cultivation and Retail Storefront Tax ended the fiscal year with about $5.8 million received, representing a negative variance of $1.7 million on an adopted budget of $7.5 million. This variance was driven by a shortfall in Retail Storefront Tax primarily due to the timing of when each retail operator was expected to complete the land use entitlement and business licensing processes, relative to the timing assumptions made when the budget was developed. Additionally, receipts for the retail storefront businesses that have commenced operations have come in lower-than-anticipated as these are still relatively new operations in their respective locations. Staff will continue to monitor retail storefront tax receipts as this is a new activity being conducted in the unincorporated area without any historical data available for reference.

Discretionary General Revenue Summary (in thousands):			
Source	**Adjusted FY 2023-24**	**Actual FY 2023-24**	**Variance Actual vs. Adjusted**
Interest Income	$ 3,283	$ 7,860	$ 4,577
Sales and Use Retail State Tax	15,082	15,633	551
Franchise Fees	3,598	4,128	530
Property Transfer Taxes	4,675	5,136	461
Other Miscellaneous Revenue	95	532	437
Property Taxes	295,453	294,175	(1,278)
Cannabis Tax	7,500	5,770	(1,730)
All Other Revenues	43,064	43,278	214
Total Discretionary Revenues	**$ 372,750**	**$ 376,512**	**$ 3,762**
Decrease to Cannabis Fund Balance	$ 7,500	$ 5,770	$ (1,730)
All Other Transfers	365,250	364,385	(865)
Fiscal Year End Variance	**$ -**	**$ 6,357**	**$ 6,357**

Probation ended the year with a positive $2.2 million variance (2.5% on an adjusted budget of $88.1 million), primarily due to salary and benefit savings.

Treasurer-Tax Collector ended the year with a positive $944 thousand variance (8.9% on an adjusted budget of $10.6 million), primarily driven by higher-than-anticipated administrative revenues and salary savings on vacant, funded positions.

Auditor-Controller ended the year with a positive $316 thousand variance (2.8% on an adjusted budget of $11.3 million), primarily driven by salary savings on vacant, funded positions, along with unanticipated Administrative Fee Revenue associated with Supplemental Property Tax that came in higher-than-budgeted.

General County Programs ended the year with a positive $301 thousand variance (0.08% on an adjusted budget of $335 million) mainly due to lower-than-budgeted services and supplies expenditures, primarily costs associated with KPMG's departmental reviews, that are funded by GFC.

Planning & Development ended the year with a negative $285 thousand variance (5.8% on an adjusted budget of $4.9 million) primarily due to the overbudgeting of grant and land use permit revenue and spending in excess of defined revenue sources. This shortfall was absorbed by the overall General Fund surplus. Circumstances contributing to the year-end deficit include problems tracking active grants within the Long-Range Planning Division, which allowed for overspending on projects that did not have a corresponding source of revenue. To remedy the oversight in FY 2024-25, the department has established procedures to enhance communication between fiscal and program staff such as including Long Range Planning grant liaisons in monthly budget monitoring meetings to provide updates on grant expenditures and anticipated revenue; and expanded its project monitoring by creating a spreadsheet to track all Long-Range Planning expenses by project, funding source, and consultant cost. Planning & Development is also working with CEO staff to conduct an analysis of Long-Range Planning operating costs relative to ongoing funding sources to identify whether the shortfall in FY 2023-24 may be related to a structural deficit in the division's budget, and if so, a plan for addressing it.

Public Works ended the year with a positive $451 thousand variance (2.3% on an adjusted budget of $19.4 million), primarily due to salary savings and lower-than-anticipated services and supplies costs in the Project Clean Water Program and Surveyor Division budgets.

Community Services-Parks ended the year with a negative $332 thousand variance (0.71% on an adjusted budget of $46.7 million), due primarily to lower than projected revenues in concessions and camping fees. Parks had originally budgeted for $870 thousand in concessionaire revenues with the anticipated opening of a new restaurant at Goleta Beach in July 2023. However, the restaurant's opening was continually postponed throughout the year due to several factors including 2023 storm interruptions and greater than anticipated structural and remodeling work on the building. The concessionaire continues to make progress on the restaurant remodel, with opening anticipated in October 2024. Impacts to camping revenues of approximately $240 thousand were also experienced as a result of inclement weather and closures related to the RV area improvement project at Cachuma Lake. Due to these factors, the department was projecting a negative variance of $618 thousand after the close of the third quarter. However, higher than budgeted revenue from the Boathouse restaurant at Arroyo Burro Beach and the Cachuma Marina Café, as well as higher than anticipated salary savings, helped partially offset the projected negative variance of $618 thousand from the third quarter, and ending the year at negative $332 thousand.

The department's fourth quarter deficit was absorbed by the overall General Fund surplus. The department is also pursuing a business interruption insurance claim to recoup at least some of the losses. If the department does receive an insurance payment, that money will come back to reimburse the General Fund.

Public Health-Animal Services ended the third quarter with a $393 thousand projected variance due to lower-than-expected Animal License sales. In the fourth quarter they balanced the budget by using transfers from fund balance. These transfers were supplemented by greater-than-expected donation revenue and lower-than-anticipated services and supplies expenditures.

The **Sheriff's Office** ended the year with a positive $31 thousand variance (0.15% on an adjusted budget of $201.8 million). Opioid settlement funds which covered some Medically Assisted Treatment program costs, Jail-Based Competency Treatment (JBCT) and Early Access and Stabilization Services (EASS) reimbursement funding, and American Rescue Plan Act (ARPA) funds that reimbursed eligible expenditures on the criminal justice data program, all helped to close the gap from the projected negative variance of $935 thousand in the third quarter. Additionally, a budgeted 5% increase in Wellpath costs for the months of April, May, and June was eliminated during contract negotiations, which held Wellpath costs at a status quo, no-increase for those three months, saving $150 thousand.

ADVANCE CONSTRUCTION RESERVE ACTIVITY

The Board approved a Budget Development Policy in December 2021 to establish an Advance Construction Reserve in General County Programs to provide cashflow for reimbursable projects and track the activity. Funds returned to General County Programs following the completion of a project are reallocated to other planned projects. Accordingly, the $5.8 million reimbursed to date (reflected in the table below) was anticipated and has already been allocated or earmarked for specific uses in the FY 2024-25 Adopted Budget, such as future high-cost bridge projects, energy efficient lighting upgrades at County facilities on Foster Road, and the Cachuma Lake RV project.

Since its establishment in FY 2021-22, the Advance Construction Reserve has provided temporary transfers of General Fund cash to Public Works (Fund 0017) for high-cost bridge construction projects that require cashflow in advance of federal reimbursement. There have also been temporary transfers to General Services for design and/or construction of several capital projects including the new Probation Headquarters project and the Main Jail Renovation, both of which are anticipated to be fully reimbursed in the first quarter of FY 2024-25, once Certificate of Participation (COP) debt proceeds are disbursed. Additionally, a transfer was made at the end of FY 2022-23 to cover costs on the Betteravia Solar Array, which was fully reimbursed by a loan from the California Energy Commission at the end of FY 2023-24. The status of these transfers and reimbursements are reported quarterly to the Board, as summarized in the below table.

Advance Construction Reserve Activity as of June 30, 2024

Project	Transferred To-Date	Reimbursed to General Fund To-Date
Floradale Bridge	($5,270,600)	$3,000,000
Foothill Bridge	($3,000,000)	$0
Probation HQ	($1,651,194)	$1,355,400
Main Jail Renovation	($659,300)	$0
Betteravia Solar Array	($1,416,379)	$1,416,379
Total	**($11,997,473)**	**$5,771,779**

FUNDED VACANCIES BY DEPARTMENT (Attachment B)

At the close of the fourth quarter, 592.5 of the County’s 4,644 adopted, funded positions were vacant, resulting in an overall funded vacancy rate of 13%. This trend is similar to the second and third quarters and slightly lower than the first quarter’s vacancy rate of 15%. The overall number of funded vacancies has decreased by over 100 positions since the first quarter. Departments with the highest rates of funded vacancies include the County Executive Office (19%; 8.0 FTE), Clerk Recorder Assessor (19%; 20.2 FTE), Information Technology (18%; 11.0 FTE), Child Support Services (17%; 12.95 FTE), and Behavioral Wellness (16%; 72.83 FTE).

The County Executive Office has since filled 2 of their 8 funded vacancies, with 3 other positions in various stages of recruitment. The Clerk Recorder Assessor's office shows 20 funded vacancies in the fourth quarter but through successful recruiting efforts have since been able to fill about 10 of these positions, which will be reflected in the upcoming first quarter report. Their remaining vacancies mainly consist of difficult to fill positions and administrative positions in the Clerk-Recorder division which are intentionally being held vacant due to low recording volume. Child Support Services is closely monitoring the recruitment for the Child Support Officer positions, which represent the majority of the department's vacancies, due to the reduced State funding allocation in FY 2024-25. The department will fill these positions as budget allows, once the full fiscal impact of current MOU negotiations is known. Many of the remaining departmental vacancies are in historically difficult to fill positions, often requiring highly technical or specialized skills, although departments continue to work closely with Human Resources to fill all funded positions.

The District Attorney, Board of Supervisors, Public Defender, Agricultural Commissioner, Auditor-Controller and Treasurer-Tax Collector all had the lowest funded vacancy rates (at 7% or lower). The Auditor-Controller in particular had great success filling positions in the fourth quarter, going from an average vacancy rate of 21% in the first three quarters to 7% in the fourth. A table of funded vacancy rates by department as of June 30, 2024, may be found in Attachment B.

As part of next year's budget strategies to address projected future year deficits, CEO staff may begin considering the elimination or freezing of certain unfilled, funded positions to balance upcoming year budgets.

ATTACHMENTS

A – Financial Summary Report – General Fund
B – Funded Vacancies by Department

Authored by:

Paul Clementi, Budget Director