SANTA BARBARA COUNTY
BOARD AGENDA LETTER

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

Agenda Number:	
Prepared on:	2/08/06
Department Name:	CEO & Auditor/Controller
Department No.:	012 & 061
Agenda Date:	2/21/06
Placement:	Departmental
Estimate Time:	20 minutes
Continued Item:	NO
If Yes, date from:	

TO:	Board of Supervisors
FROM:	Michael F. Brown, County Executive Officer Robert Geis, CPA, Auditor-Controller
STAFF CONTACT:	Ken Masuda, Edwin Price and Lori Norton 568-3411 568-2181 568-3421
SUBJECT:	FY 05-06 Budget Update #2 (Mid-Year)

Recommendation(s):

That the Board of Supervisors:

A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2005-06 Financial Status Report as of December 31, 2005, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

Alignment with Board Strategic Plan:

An efficient government able to anticipate and respond effectively to the needs of the community.

Executive Summary

The County's financial status shows improved circumstances when compared with our first quarter report for this fiscal year and in comparison to the mid-year report of one year ago. At that time the General Fund had a positive net variance of $1.4 million. At the mid-point of this fiscal year the General Fund's net positive variance was $7.9 million.

Discretionary revenues are a key component of this trend. Supplemental Property Tax revenues are a positive $1.3 million, and $800,000 of this amount is due to the General Fund's increased share of Supplemental Taxes as a result of the Vehicle License Fee for Property Tax revenue swap approved by the State last year. Property Transfer Tax revenues are positive $771,000. We projected a decline in real estate market activity beginning in July. However, data shows that the decline did not begin until the 2nd quarter (October-December). Transient Occupancy (bed) Tax revenues and Interest Income have also exceeded expectations by over $500,000.

On the expenditure side, there are many more departments with significant salary savings due to vacant positions. We have become used to seeing vacancies in hard to fill positions such as physicians, nurses, emergency dispatchers, and corrections officers. Now we are also seeing recruiting difficulties spread to other professional and technical positions like physical therapists, entomologists (in Agricultural Commissioner) and auditors.

On the non-General Fund side there are no new problem areas to report. The Road Fund's accounts receivable/cash flow problem continues. This, along with the County split election and certain outstanding litigation claims are the most significant uncertainties we see as clouding our currently improving financial picture.

Discussion:

A. Introduction

This report reviews the financial status of the County as of 12/31/05. 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. The discussion narrative which follows highlights major differences (variances) between budgeted and actual amounts identified at these meetings. In addition, we have included information on the potential impact of recent federal legislation, the Federal Deficit Reduction Act of 2005, on the County budget.

B. Financial Status Report as of December 31, 2005

Introduction

Variances to be discussed are defined as follows: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected variances over $200,000 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 of these 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.

General Fund Summary

The General Fund, when all of the plusses and minuses are accounted for, **had an estimated net positive variance of $7.9 million through December 31, 2005**. In contrast, one year ago the net positive variance was only $1.4 million. This year, there are significant positive variances in salary savings and discretionary revenues, both of these variances should continue at least at current levels for the remainder of the year. Significant individual department variances are discussed below.

General Fund Departments (excluding General Discretionary Revenues)

Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of 12/31/05 are as follows:

- District Attorney. The department has a $269,000 positive variance. The department has received $104,000 in unanticipated SB 90 mandated cost reimbursements for costs related to certain types of prosecutions such as sexually violent predators. Also, through December, Public Safety Sales Tax (Proposition 172) revenues are $108,000 more than expected.
- Fire. The department shows a $388,000 net negative variance, and a $423,000 negative revenue variance. This is due to delays in revenue reimbursements from the Federal Department of Homeland Security.
- Sheriff. The large positive variance, $948,000, is largely due to salary savings of $971,000 which have occurred as a result of a continuing large number of vacant Sheriff's deputy, corrections officer and dispatcher positions. Active recruitments are on-going for all of these positions.
- Agriculture. This department's positive variance, $215,000 is also largely due to salary savings of $140,000 from staff vacancies. Many of these vacancies have now been filled.
- Planning and Development. For the first six months, the department has a $372,000 overall positive variance including a $707,000 positive (under-spent) expenditure variance. A

majority of the net expenditure variance, $410,000 is due to staff vacancies. As reported earlier, the department is finding that planner positions, especially positions needing experienced planners, are becoming hard to fill. The department also has a $278,000 positive variance in its Services and Supplies accounts. Of this, $103,000 is due to a decision to delay its digital imaging project because of staff commitments to process improvement activities.

- Public Works. A large portion of the reported $462,000 positive variance is temporary; $193,000 of disaster funds deposited here need to be redistributed to other Public Works funds. The department does have salary savings, reported at $195,000, due to vacancies in the Surveyor Division that are related to the financial condition of the Road Fund (discussed in a following section).
- Auditor-Controller. Again, the positive variance, reported at $246,000, is largely due to accumulated salary savings. The department has recently filled some hard-to-recruit positions, however, in the mean time, other vacancies have occurred.
- Clerk-Recorder-Assessor. The $908,000 positive variance has two main components. First, fees collected for Supplemental Tax Administration are $290,000 over budgeted amounts because of the continued high volume of work in this area. Fee revenues for other services such as recording fees and passport fees are also higher than anticipated. Total revenues are $413,000 over budget through December. Second, costs of the Statewide Special Election were lower than anticipated, resulting in an expenditure savings of approximately $284,000. These lower costs, coupled with salary savings account for most of the expenditure savings.
- General Services. This department has a positive variance of $251,000. This is not a large amount considering that the General Services General Fund expenditure budget totals $16.5 million for the year. Revenues are slightly higher than projected and expenditures slightly lower than projected. There is no one significant variance.
- Treasurer-Tax Collector. This department has a net $420,000 positive variance. Fee charges from banks are lower because more transactions are being processed electronically; this accounts for the $204,000 under expenditure in Professional and Special Services. Also at mid-year, the department had $178,000 in salary savings.

General Fund Discretionary Revenues

These revenues are a positive $3.63 million through December. With half the year passed, discretionary revenues continue to reflect current and immediate past activity in the real estate market. Thus, Supplemental Property Tax revenues are $1.3 million higher than estimated and Property Transfer Tax revenues are $771,000 higher than estimated. For the current year, we had projected a decline for both revenue sources beginning in July. However, the latest data shows that a downturn in the number of real estate transactions did not begin until the second quarter (October-December) and that even though the number of transactions decreased the value of transactions remains high.

Major Discretionary Revenue Variances through 12/31/05			
Revenue Source	Budgeted	Actual	Variance
Supplemental Property Taxes	$914,000	2,229,179	1,315,179
Property Transfer Taxes	1,369,000	2,140,522	771,522
Transient Occupancy Taxes	2,274,000	2,862,173	588,173
Interest Income	1,390,000	1,940,774	550,774

Also, when these estimates were made last Spring, we were not aware of the impact that the Swap of Vehicle License Fee revenue for additional property tax revenue would have on the allocation of Supplemental Taxes. Because Supplemental Taxes are distributed proportionately based on Secured Property Tax allocations, overall, the impact is that the County General Fund share of Supplemental Taxes has increased from roughly 19% to 26%. This translates into $800,000 of the $1.3 million increase for the first half of the fiscal year.

In addition, Transient Occupancy Tax (TOT) revenue with a positive variance of $588,000 continues to exceed expectations for the year by wide margins. The TOT revenue is up 26% from a year ago but only up 5% from two years ago. A variety of factors, including rooms closed for remodeling, contributed to the drop in revenues during fiscal year 2004-05. Interest income is a positive $550,000 as interest rates have exceeded our own conservative estimates. Finally, there is a balance of $1.8 million in unappropriated Vehicle License Fee (VLF) Gap Loan repayment revenues. Of this total, $1.33 million remains unallocated; $262,000 is money committed by the Board of Supervisors to Fire Fuels Crew, $160,000 is for the Housing Element environmental impact report and $43,000 is for the Goleta Valley Visioning process. Budget Revisions for these allocations have not yet been processed.

Special Revenue Funds and Other Funds Summary

Both the Road and Mental Health funds have significant negative revenue variances and resulting negative cash balances. The Mental Health fund's situation is chronic, due to the Federal/State reimbursement process. As of December 31, this fund had a negative cash balance of $7.4 million, which is up from the December 31, 2004 amount of $5.6 million, but less than the $9.3 million amount a year earlier. The Road fund cash situation is more recent, and is the result of slow Federal/State reimbursement for 2005 storm damage repairs. As of December 31 this fund had had over $9 million in accounts receivable and a $5.1 million negative cash balance.

On February 7, the Alcohol, Drug, and Mental Health Services (ADMHS) Department received a $6 million payment from the State, reducing the Mental Health fund's outstanding accounts receivable to approximately $3 million. We will provide the Board with an oral update at the February 21st presentation if there are any new concrete developments regarding the Road Fund reimbursement issue.

Other Funds Detail

- Road Fund (Fund 0015). The overriding issue in this fund, as the Board of Supervisors knows, is that the Federal Highway Administration (FHWA) has not reimbursed the County for either emergency or permanent repairs caused by the 2005 storms, and State matching amounts for these costs have also not been received pending the Federal reimbursement. For these reasons, the fund had over $9 million in accounts receivable as of December 31. The reported net $1.53 million negative variance for this fund as of December 31 is not related to their overriding problem. On the source of funds side, the $899,000 negative variance is a timing issue related to the release of available designations. The actual receipt of the Federal and State reimbursements discussed above has been pushed back until later this year. On the expenditure side, the $631,000 negative variance is due to spending for traffic congestion relief work. The adopted budget did not include traffic congestion relief projects because no funding was expected. With funds now being available, work has started and a budget revision recognizing both the revenue and appropriations will be forthcoming.
- Public Health (Fund 0042). The $549,000 net positive variance has two primary causes. First, the ever present under spending of salaries and benefits due to physician, physician assistant and nurse practitioner vacancies, and second, lower revenues because staff vacancies are resulting in fewer patient visits. A secondary reason for the lower revenues is because a new non-profit clinic in Lompoc is taking Medi-Cal patients away from the County.

- Mental Health (Fund 0044). As in previous years, the Alcohol, Drug, and Mental Health Services (ADMHS) Department budget's net negative variance of $1.4 million is the result of a diverse set of circumstances. Revenues show a negative variance of only $892,000. Medi-Cal revenues are a negative $1.5 million due to a combination of slow State payments and delayed local billings. The smaller than usual overall negative revenue variance is due, in part to a $953,000 SB-90 payment which may be a duplicate payment and need to be reimbursed. Expenditures show a $2.3 million positive variance (under spending). Of this total, $2.1 million reflects payments to agencies contracted by ADMHS to provide services. The department is reviewing how much of this is due to claim delays and how much is due to lower than anticipated service costs.
- General Services – Workers' Compensation Self Insurance (Fund 1911). The $809,000 positive variance is largely the result of higher than anticipated revenues because of higher interest earnings, prepayment of certain premium contributions, and receipt of insurance proceeds from CSAC-EIA (California State Association of Counties-Excess Insurance Authority) for claims expenses that exceed the County's self-insured limit.

C. Recent Federal Legislation

The Federal Deficit Reduction Act of 2005, passed by Congress on February 1, will have a significant fiscal impact on California. The State Legislative Analysts Office (LAO) estimates that the fiscal impact of this legislation on California will be $3.1 billion over a 5 year period beginning last October 2005 and continuing through Federal Fiscal Year (FFY) 2010 (September 2010). The estimate is a combination of $1.7 billion in reduced federal funds and $1.4 billion in increased state costs for. The reduction in federal funds and increased state costs (which may be passed on to counties) will "trickle down" to Santa Barbara and other counties which are the local provider of the impacted services.

Although we cannot yet quantify financial impacts on the County, the primary program areas which will be impacted are as follows:

- Foster Care — Retroactive to October 2005, certain children would become ineligible for federal foster care. This would result in the children being shifted to State funded programs (CalWorks) or State and County funded programs. In addition, federal reimbursement is reduced to one month for case management services (such as those provided by a probation officer) to minors moved into foster care from a non-eligible facility (like a juvenile hall). Despite the reduction in reimbursement, case management services are required for up to one year or more depending on the needs of the minor. These reductions will impact the Department of Social Services and Probation.
- Child Support — Child Support costs are shared; 66% Federal and 34% State funding. Beginning in FFY 2008 (October 2007 – September 2008), new Federal rules regarding the use of incentive funds will go into effect. The resulting statewide loss is estimated at $90 million annually. The "trickle down" effect to the County is not yet known. This reduction will impact the Child Support Services Department.
- Temporary Assistance to Needy Families (TANF) — The program is reauthorized through September, 2010. However, beginning in FFY 2009 States will be penalized for failing to meet work participation targets. Essentially, California will be required to meet a 50% work participation rate— an increase of 27% over the State's current work participation rate which is approximately 23%. Failure to meet the work participation rate will result in penalties. This reduction will impact the Department of Social Services.

Included as Attachment C are the Powerpoint slides for the February 21st presentation.

Mandates and Service Levels: These quarterly financial status reports are not mandated. They are a part of the ongoing effort of our two departments to keep the Board of Supervisors informed as to the financial condition of the County.

Fiscal and Facilities Impacts: Actual and projected impacts are as stated in this letter and its attachments.

Cc: Each Department Head
Deputy/Assistant County Executive Officers and CEO Analysts
Recognized Employee Organizations

Attachments A through C