

# 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:**  
**Department Name:** CEO & Auditor/Controller  
**Department No.:** 012 & 061  
**For Agenda Of:** 5/22/07  
**Placement:** Departmental  
**Estimate Time:** 45 minutes  
**Continued Item:** NO  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors

**FROM:** Michael F. Brown, County Executive Officer  
Robert Geis, CPA, Auditor-Controller

**STAFF CONTACT:** Ken Masuda, Edwin Price and Terri Maus-Nisich  
568-3411 568-2181 568-3412

**SUBJECT:** FY 06-07 Third Quarter Budget Update and FY 2007-08 Proposed Budget Preview

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## Recommended Actions

That the Board of Supervisors:

- A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2006-07 Financial Status Report as of March 31, 2007, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.
- B. Receive a preview of the Fiscal Year 2007-08 Proposed Budget with emphasis on General Fund undesignated fund balance estimates.

## Summary

The County's financial status shows favorable, but not excessive, positive variances through the end of the third quarter. General Fund departments, overall, are a positive \$6.85 million, with discretionary revenues accounting for over half, \$3.7 million of the total. The County's Special Revenue Funds are, in the aggregate, a positive \$9.58 million for the same point in time.

In the General Fund, one factor that could negatively affect the year-end outcome is the continuing lag in Public Safety Sales Tax (Proposition 172) revenues. This half-cent sales tax is distributed to local governments based on statewide collections. Collections have been less than anticipated and for the Proposed FY 2007-08 budget downward revisions were made to both the estimated FY 06-07 and the recommended 07-08 amounts. Since then, revenues received have been even lower than the revised estimates. The decline in this revenue source affects all public safety departments and, ultimately, the FY 2006-07 year-end undesignated fund balance. This is discussed in more detail in Section C.

Of the Special Revenue Funds, the one that bears the closest attention is the Mental Health Fund. Because of the volatility of State reimbursements, the negative audit settlements, State approved or pending shifts of funding, on a one-time basis, from the Mental Health Services Act fund to the Mental Health Fund, the status of this fund, which is currently positive, could change significantly from month to month. The \$1 million loan from the Strategic Reserve has certainly helped to bring about this result. If the positive trend holds, an early partial repayment of the loan may be possible.

Usually the third quarter report includes an update of the proposed State budget based on the Governor's update called the "May Revise." Because this update is not scheduled until May 15, an oral report with handouts, rather than a written summary in this document, will be provided on May 22.

## **Discussion:**

### **A. Introduction**

This report reviews the financial status of the County as of March 31, 2007. Staff has conducted Monthly Projection meetings (MoPros) with departments during which their actual performance was compared to their budget for the first nine months of this fiscal year. The discussion narrative which follows highlights major differences (variances) between budgeted and actual amounts identified at these meetings.

### **B. Financial Status Report as of March 31, 2007**

#### **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 \$750,000 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 nine months, add department projections for the next three months, and compare these totals to budgeted amounts.

#### **General Fund Summary**

**The General Fund**, when all of the plusses and minuses are accounted for, **has an estimated net positive variance of \$6.8 million through March 31, 2007**. Discretionary Revenues are \$3.7 million of this positive total. Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of 3/31/07 are discussed below.

#### **General Fund Departments (including General Discretionary Revenues)**

- Fire. The department has a positive variance of \$1.5 million divided almost equally between unanticipated revenue and salary savings. On the revenue side, the biggest increase is an unanticipated \$531,000 in the State contract to provide fire protection for State responsibility Areas in the County. This is due to an increase in comparable State costs, not a change in County responsibility. On the expenditure side, there are salary savings of \$554,000 from vacancies in fire operations, hazardous materials, and administration. The positive variance will be near zero by the end of the fiscal year as it will be offset by a smaller contribution from the Fire District to the General Fund.
- Sheriff. The department has a negative \$1.79 million variance. Of this total, \$1.12 million is on the expenditure side, primarily in salaries and benefits. While all deputy sheriff and corrections officer positions have been filled, the department is still incurring significant overtime and extra help costs above budgeted amounts because the new officers are either in academies or in on the job training and are not filling custody post positions or contract city patrol beats. While the expenditure variance is expected to fall before the end of the year, the department will need a large contingency transfer to have sufficient salary and benefit appropriations through the end of the fiscal year. Revenues are a negative \$670,000 through March 31. This reflects lower than anticipated Public Safety Sales Tax (Proposition 172) revenues of \$780,000 which are partly offset by early receipt of the FY 2007-08 Indian Gaming grant, an unanticipated reimbursement for housing State Parolees, and increased work furlough charges.

- Agriculture. This department's positive variance, \$303,000 is due to salary savings and unexpended amounts for agricultural studies. Approximately \$100,000 of the positive variance is current year funding for agricultural studies that will be designated for expenditure in FY 2007-08.
- Planning and Development. The trends reported for this department in December continue. The department's overall negative variance has increased from \$494,000 as of December 31 to \$592,000 as of March 31. The negative revenue trend is still running at about \$500,000 per quarter and now totals \$1.56 million, reflecting lags in both building permit and discretionary permit revenues. In relative terms, the building permit shortfall has accelerated while the discretionary permit gap has closed somewhat due to the new fee schedule implemented on January 15. Staffing vacancies which existed earlier in the year (and now have been filled) account for \$727,000 of the \$973,000 positive expenditure variance.
- Auditor-Controller. This department is currently showing a \$421,000 positive variance, with the bulk of the underexpenditure, \$332,000, due to accumulated salary savings.
- Clerk-Recorder-Assessor. This department has a larger than expected \$1.27 million positive variance. Revenues are \$312,000 more than anticipated starting with \$575,000 in unanticipated SB-90 elections (absentee voter) cost reimbursements, \$100,000 in 2005 Statewide election cost reimbursement that was not rebudgeted, and \$91,000 in additional passport fees caused by Federal passport requirements. These are somewhat offset by lower current year elections revenues (unreimbursed costs for the Measure D election) of \$174,000 and recording fees are down by \$142,000 due to a decrease in the number of recordings.

Expenditures are \$961,000 less than budgeted. Salary savings of \$516,000 include both regular staff vacancies and savings in the use of extra help for elections. Postage savings of \$191,000 due to the deferral of several elections projects also contribute to the expenditure savings. The department is expected to designate \$635,000 for use in FY 2007-08, bringing the year-end net savings to about \$600,000.

- Human Resources. The department has a \$396,000 positive variance. This is largely due to staffing vacancies, although it has also received additional money from cell site fees and Employee University fees. Vacant positions have now been filled so that further growth in the variance is not anticipated.
- Treasurer-Tax Collector. This department has a net \$554,000 positive variance. Staffing vacancies, there are currently six out of an authorized 52 positions, have resulted in \$291,000 in salary savings. Lower bank fees (expenditures) have provided additional savings but have also resulted in lower revenues as a portion of these fees charged to other funds. Other savings include \$55,000 for equipment that will be purchased next fiscal year with funds to be designated for this and other purposes. Overall, the net savings for the year should be around \$300,000.
- General County Programs. This budget, through March, has a \$224,000 positive variance. The primary cause is salary savings of \$295,000 due to staff vacancies in the information technology area.
- General Discretionary Revenues. These revenues are a positive \$3.76 million through March. There are positive trends from a variety of sources. The positive Retail Sales number, shown in the following table, is a real surprise. About \$1 million of the \$1.3 million positive variance appears to be associated with a one-time event. Interest Income is higher than adjusted budget amounts because actual interest rates are  $\frac{3}{4}$  to 1% higher than budget assumptions. Although Property (Documentary) Transfer Taxes are positive, the adopted annual appropriation for the year, \$3.5 million, is 20% less than the previous year. The volume of real estate transactions continues to fall, however, stable sales prices have contributed to this positive variance.

Revenue Source	Budgeted through 3/31	Actual through 3/31	Variance
Retail Sales	4,125,000	5,460,892	1,335,892
Interest Income	976,200	1,715,731	739,531
Property Transfer Taxes	2,086,000	2,817,329	731,329
Property Tax In-Lieu of VLF	18,200,000	18,545,032	345,032
Motor Vehicle License Fees	0	270,536	270,536
Current Secured Property Taxes	55,300,000	54,766,290	-533,710

Motor Vehicle License Fees (VLF) shown here are fees from a section of the State Revenue and Taxation Code that continues to allocate a small amount of these fees to cities and counties. The \$270,000 is a small amount compared to the \$27 million received in prior years before cities and counties “loaned” VLF revenue to the State and then had on-going VLF revenue “swapped” for property tax dollars. Cities and counties generally have benefited from receiving Property Tax revenues, passed through the ERAF fund to them in lieu of Vehicle License Fee revenues because property has been appreciating at a higher rate than vehicle license fees have been rising. This experience shows itself in the positive variance for Property Tax in Lieu of VLF revenues.

Current Secured Property Tax revenues are lower than projected because payments received through December 2006 are a lower percentage (by 56% versus 57%) of amounts owed. However, through the property tax distribution method known as “Teeter” all taxing entities, including the County, will receive an amount calculated by the Auditor-Controller in September. In the case of the County, this will be approximately \$2 million more than the adopted budget, or \$2 million more plus eliminate the current \$500,000 shortfall. As a result, we believe that total General Discretionary Revenues, at the end of the year, will be about \$182 million or \$6 million more than the adopted budget total of \$176.3 million.

**Special Revenue Funds and Other Funds Summary**

Except for the Court Activities fund, there are no large negative variances to report. The special Revenue Funds, as a whole, have a net positive variance of \$9.6 million. The positive variance in the Mental Health fund, may allow it to make an early partial repayment of the \$1 million Strategic Reserve loan.

**Special Revenue and Other Funds Detail**

- Children and Families First (Fund 0010). Through March 31 this program has a \$1.5 million positive variance, including a \$1.8 million in under-spent appropriations. The program continues to overestimate the rate of reimbursement to its various program contractors, resulting in a contractual services variance of \$1.5 million.
- Health Care (Fund 0042). This fund has a net positive variance of \$955,000 as of March 31, of this amount revenues are positive \$1.1 million. The department received a \$520,000 FQHC (Federally Qualified Health Center) “reconciliation settlement” for FY 05-06 that was not anticipated until next fiscal year. They also received a \$416,000 SB-90 payment for animal adoption costs. The department expects to end the year with a positive \$1 million to

\$1.2 million variance and will not need to release any of its designation for general operations.

- Mental Health (Fund 0044). Alcohol, Drug, and Mental Health Services (ADMHS) Department's budget shows a net positive variance of \$883,000, including a \$1.2 million positive variance on the revenue side. Of this total, \$355,000 is additional Motor Vehicle Tax revenue; the revenue estimate for the current year was under budgeted. Another \$1.1 million represents additional funds from the Mental Health Services Act (MHSA) for administrative costs and CARES-related expenses (see narrative on MHSA Fund below), and higher than anticipated funding from substance abuse program funds. The expenditure side shows a \$335,000 negative variance. The main cause, as stated in an earlier report, is that when the fund was revised earlier in the year to reflect more realistic revenue estimates, the cost of paying salary and benefit costs for existing employees was understated; as a result, through March 31, salaries and benefits are overspent by \$744,000.

If the current net positive variance holds through the end of the year, a partial early repayment of the \$1 million Strategic Reserve loan to pay for audit settlement costs may be possible.

- Mental Health Services Act (Fund 0048). The fund has a \$2.5 million positive variance with a \$2.36 million positive expenditure variance. This under expenditure has happened because programs have started up slower than expected. MHSA funds must be spent in the year received. However, the State has allowed the department to "redirect" expenditures, on a one-time basis, including using \$1.5 million for the CARES program. Any funds not approved by the State for "redirection" will be returned to the State which will distribute them in years with revenue shortfalls.
- Court Activities (Fund 0069). This fund contains County activities administered by the Superior Court. As of March 31, the fund has a negative \$885,000 variance. Approximately \$600,000 of this variance, as previously reported, is due to lower vehicle code fine and traffic school fee revenues caused by staffing vacancies in local and State law enforcement agencies. Another \$79,000 is due to the State not paying Victim Restitution rebates—a portion of the victim restitution money collected by the court is returned to offset collection costs. A budget revision will be submitted to insure that the fund does not end the year with a negative fund balance.
- Public Works – Resource Recovery and Waste Management (Fund 1930). This fund has a large, \$1.8 million positive variance. The \$1.3 million positive revenue variance has two major sources: 1) a \$910,000 settlement payment from a hauler who had been under-reporting revenues and 2) \$373,000 in higher than expected interest earnings. The \$544,000 positive expenditure variance is primarily the result of salary savings from vacant positions.
- Redevelopment Agency – Isla Vista Project (Fund 3100). This fund has a \$1.0 million positive variance, of which \$977,000 is on the revenue side. This variance is the result of property tax collections coming in higher than expected. Of this total, about half the amount is supplemental property taxes that are only passed through to other agencies and set aside for housing at one time in late June of each year. This, the true year-end revenue variance will be closer to \$500,000 rather than \$1 million.
- General Services – Workers' Compensation Self Insurance (Fund 1911). Last year at this time we reported that the fund had a \$1 million positive variance. This year, the positive variance is a bit lower, at \$1.0 million, but many of the underlying reasons are the same. Costs are \$684,000 lower than budgeted as a result of lower insurance premium payments (\$147,000) that reflect the program's claims experience, and lower than anticipated temporary disability payments (\$334,000) due to the very successful Back to Work program

and a decrease in the number of new workers' compensation claims. Unfortunately, medical costs are higher than budgeted and, may be an indication that future costs, overall will rise. (Overall workers compensation premium charges to departments have been the same for three consecutive years—included proposed rates for FY 07-08.)

**C. General Fund Unreserved, Undesignated FY 06-07 Fund Balance**

This presentation is timed to coincide with presentation of the Proposed FY 2007-08 Operating Plan and Budget. The proposed plan includes a FY 2006-07 year end General Fund undesignated fund balance of \$6.84 million. Proposed uses for this \$6.84 million are shown in the following table. Various discretionary reserves and designations are shown in the left hand column. The next column shows that, per Budget Principles, \$4.8 million of discretionary designations such as the \$2 million for deferred maintenance, \$1 million for the Strategic Reserve, and \$500,000 for the Road Fund are funded in the Proposed Budget. Recommended allocation of the estimated \$6.84 million fund balance is shown in the third column. Three of these allocations are:

- An additional \$120,000 to the Capital Designation to replenish this account as a result of the unanticipated use of \$119,000 as a final payment for the ADMHS Children's Services Building.
- \$500,000 to the Litigation Designation, bringing this designation to an estimated \$4.7 million. This increase is recommended as a result of an updated assessment of pending litigation.
- \$1.2 million to the Salary and Retirement Designation. Significant uses of this designation during FY 2006-07 included \$505,000 to the Sheriff and \$213,000 to Probation for unanticipated retirement cost increases implemented July 1, 2006, and a pending \$387,000 transfer to Alcohol, Drug, and Mental Health Services for doctor/nurse salary equity adjustments. The \$1.2 million would replenish this designation.

Reserves and Designations	Allocation per Budget Principles	Fund Balance Allocations	Total Recommended Allocations
Strategic Reserve	\$1,000,000	\$5,020,763	\$6,020,763
Deferred maintenance	2,000,000		2,000,000
Roads Designation	500,000		585,000
Capital Designation	500,000	120,000	620,000
Contingency	800,000		800,000
Litigation Designation		500,000	500,000
Salary & Retirement Designation		1,200,000	\$1,200,000
<b>Totals</b>	<b>\$4,800,000</b>	<b>\$6,840,763</b>	<b>\$11,640,763</b>

- The balance of \$5.02 million is proposed to be allocated during budget hearings to the Strategic Reserve, with any decisions on the potential use of these funds deferred until after the close of the fiscal year and adoption of the State budget.

There are three essential reasons for deferring decisions on the final allocation of the \$5.02 million. First, the exact amount of the ending fund balance will not be known until after the close of the fiscal year, June 30. Of the many factors that can lead to the final fund balance being different from the estimate, factors that could result in a lower than estimated fund balance

cause the most concern. This year, Proposition 172, Public Safety Sales Tax, revenues (revenues received by all of our public safety departments) are projected to fall short of budgeted amounts by almost \$2 million (\$33.08 million adopted; \$31.1 million estimated). Based on receipts for the month of April, the shortfall could be larger. This would negatively affect the ending fund balance.

Second, it would be prudent to wait until the State budget is adopted in order to see whether the State will reimburse counties for the cost of the February 2008 Presidential Primary election. For Santa Barbara County, the estimated net additional General Fund cost for this election is \$1.45 million; an amount that would need to be set aside out of the \$5.02 million if the State does not act to provide the reimbursement.

Finally, it is suggested that, rather than go through several hearings over several months to decide on use of the available fund balance, decisions be made at a scheduled hearing during the August-September period.

Included as Attachment C are the Powerpoint slides for the May 22 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