



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 & Auditor-Controller
Department No.: 012 & 061
For Agenda Of: 5/3/11
Placement: Departmental
Estimated Time: 30 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Chandra L. Wallar, County Executive Officer
Director(s) Robert Geis, CPA, Auditor-Controller
Contact Info: Jason Stilwell & Julie Hagen
568-3413 568-2126
SUBJECT: Fiscal Year 2010-2011 Third Quarter Budget and Financial Update

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2010-2011 Financial Status Report as of March 31, 2011, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors, and

Summary Text:

The FY 2010-11 third quarter fiscal report, ending March 31, 2011, provides the Board an important snapshot of the County's financial position three-quarters through the fiscal year. In addition, the third quarter report focuses on fiscal year end estimates that are necessary to understand how the County is projected to end the year. The third quarter financial summary report shows the General Fund is anticipated to end the year with a one-half of one-percent surplus and certain other special revenue funds will be required to have adjustments to assure they end the year balanced. Additional analysis demonstrates the General Fund will end the year closer to balanced with only a slight surplus. The reporting and analysis is described in this report below.

Background:

Financial Status Report

This report presents a financial status by fund and by department. Staff conducted Monthly Projection (MOPROs) meetings with departments during which actual performance was compared to budget for the first nine months of this fiscal year. Major differences (variances) between budgeted and actual amounts through March 2011 will be reported to the Board. In addition, issues that may likely pose potential budgetary challenges for departments during the remainder of the year will be highlighted.

This report highlights the following thresholds for variances: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected variances greater than \$300,000 per department in the General Fund as shown in the Financial Summary Report (first page, Attachment B) and 2) for non-General Fund departments, the narrative discusses projected variances over \$500,000 per fund as shown in the Financial Summary Report (pages 2 through 13, Attachment B). The Financial Summary Report takes actual revenues and expenditures for the nine months, adds department projections for the next three months, and compares these totals to budgeted amounts to produce a projection for the end of the fiscal year; this projection is the far right column of the report.

GENERAL FUND SUMMARY

The General Fund, when all of the positive and negative amounts are accounted for, had a projected net positive variance of \$2.233 million at March 31, 2011. Overall, in the General Fund, sixteen departments show positive variances and four departments project negative variances indicating the estimates used to develop the budget are generally tracking actual performance. Of note this year ten departments are anticipating ending the year with a net financial impact of \$0; departments are doing this by managing the releases of their departmental designations. Departments are striving to achieve operational savings in the current year budget which allows them to draw less of their one-time designation funding for this fiscal year. These departments are anticipating the Board will re-appropriate this one-time funding in Fiscal Year 2011-2012 to maintain levels of service and to minimize staff reductions.

Significant individual General Fund department variances are discussed below.

- Parks. Parks shows a negative variance on the source side due to lower than budgeted park fee revenues. Fee increases and seasonality are built into this estimate but it is possible that actual revenue for the fourth quarter could exceed the fourth quarter estimates however revenue will still be short for the year. The department has not reduced expenditures to meet available revenue estimates as required by the County's Budget Controls and Accountability Policy¹. As a result the department is projected to end the year \$600,000 over budget.
- Auditor-Controller. The Auditor-Controller is projecting positive variances in both revenues and expenditures. The revenue variance is a result of unanticipated revenue from charges for service. The expenditure variance is primarily the result of the department maintaining vacancies. The projected year end positive variance is nearly \$600,000 with the department estimating using \$300,000 in Fiscal Year 2011-2012 to maintain service levels.
- General Revenues. General Revenues show a projected \$1.911 million net positive variance as a result of slightly higher County discretionary revenues. As a whole discretionary revenues are projected to be approximately one-percent higher than adopted budget. The strongest growth is in transient occupancy tax with a projected twelve-percent (\$750,000) growth above adopted budget. Property tax revenues are projected to be \$1.2 million better than budget.

¹ The policy, as provided on page F-2 of the Proposed Fiscal Year 2010-2011 Budget, part 2, reads "If budgeted revenue is projected to be under-achieving, the department director responsible for that budget shall take one or more of the following steps in the following order: 1) Attempt to speed up revenue collections or obtain additional revenues, 2) Lower expenditure levels so that originally budgeted County Contribution is not exceeded and notify the County Executive Officer, 3) Request a transfer reducing appropriations from a reserve or designation within the same department or fund under the department director's control, 4) Prepare a transfer request from the Contingency account and an agenda item for the Board of Supervisors with a memo providing adequate justification."

There are other projected variances anticipated in the fourth quarter that will impact the General Fund. These do not show on the third quarter financial reports but will impact year end projections:

- Courts Services. The County is required by Government Code to make a contribution to courts. Court revenue offsets the net County contribution. To the extent court revenue underperforms the County contribution must increase.

In addition, certain other costs must be paid by the County. Conflict defense costs related to cases involving multiple indigent defendants are a primary example. The Public Defender's Office defends one of the defendants but is prohibited from defending the other accused in the case. The courts appoint contract defense attorneys in these cases to provide criminal conflict defense to the remaining defendants. It is a County cost for providing such defense whether through the Public Defender's Office or the Courts. There has been a sharp increase in cases of multiple indigent defendants. The Courts Services budget is anticipated to end the year negative \$600,000. This will reduce the projected year end General Fund estimate by a like amount.

- Alcohol, Drug and Mental Health Services (ADMHS). The projected variance in ADMHS is discussed below. The Mental Health Services fund (Fund 044) has a negative fund balance due to outstanding liabilities requiring an appropriation of Strategic Reserve to remain legally balanced. The fund does not have additional reserves for annual budget shortfalls. The fund is projected to end Fiscal Year 2010-2011 with a negative variance of \$1.4 million. It is possible this negative variance will be borne by the General Fund thereby reducing the projected year end positive variance in the General Fund.
- Clerk Recorder Assessor. The department budgeted approximately \$500,000 in State revenue (SB-90) to offset the cost of the State mandated vote by mail program for elections already held. Under current law the state would have been required to reimburse the county in Aug 2011 for prior years voting by mail expenses. However, the Governor's budget has delayed any reimbursement until some future, undetermined date.

The department anticipated mandate reimbursement from the State in both the adopted Fiscal Year 2010-2011 budget and the requested Fiscal Year 2011-2012 budget. The \$500,000 revenue shortfall for Fiscal Year 2010-2011 will likely negatively impact the projected year-end General Fund balance. The Department is anticipating providing the vote by mail service in Fiscal Year 2011-2012, even though the Governor has proposed suspending this mandate, but will now no longer have the revenue to do so. Even though the mandate is suspended, the Elections Code currently requires the Vote-by-Mail program. As an unfunded mandate the Board will have the opportunity to continue providing vote by mail in Fiscal Year 2011-2012 at the cost of approximately \$350,000 or eliminating the service.

- Reprographics. Reprographics is a distinct operation within the General Services Department and is accounted for with an internal services fund (Fund 1921). As an internal service fund the fees charged are balanced to the cost of service. As the costs of service have increased, primarily the salary and benefit costs, the service became non-competitive relative to commercial providers and departments reduced use of Reprographics services. This resulted in the Fund consistently missing revenue projections and having to utilize reserves to maintain a balanced budget. It is clear the current model of County reprographics is financially unsustainable. Transitioning to a different model or eliminating the service could have fiscal impacts on the County General Fund of several hundred thousand dollars between now through next fiscal year.

To summarize, the projection report shows the General Fund ending the year with a positive variance of \$2.233 million with other items listed above further reducing this amount. The County Executive Office and departmental staff are working to reduce projected year end budget gaps and will bring forward budget revision requests, as needed, during the fourth quarter as part of year end budget balancing strategies. However notwithstanding these efforts, it is still possible the General Fund will require a transfer from the Strategic Reserve or another one-time source to enable the fund to end positive on June 30, 2010. Thirteen departments are anticipating using savings from this fiscal year to maintain levels of service in Fiscal Year 2011-2012. Ten of those departments anticipate utilizing less than the Fiscal Year 2011-2012 one-time appropriation to enable them to recommend to the Board utilizing the funding in Fiscal Year 2011-2012 to further preserve levels of service. The Board's fiscal discretion to allocate year-end undesignated fund balance is impeded this fiscal year by departments designating savings; however the Board will have the opportunity to appropriate these savings to preserve services in Fiscal Year 2011-2012.

SPECIAL REVENUE AND OTHER FUND SUMMARY

Seven special revenue funds have reportable variances.

- The Public Works Department's Road Operations Fund (0015) has a net positive variance of \$720 thousand due to increased service charges to various grants and staffing vacancies the department is holding. This fund provides the cash flow to the two other road funds (0016 and 0017) on a project basis so all three funds need to be considered as a unit. Taken as a whole the three funds have a net positive variance of \$723 thousand. These three funds are expected to end the year positive.
- Capital Funds (0030). Capital project funds tend to have variances as a result of delays in capital project construction or delays in receiving grant or other capital project revenue. Fund 0030 has an overall variance of positive \$893 thousand as a result of project timing. The Parks Department portion of this fund accounts for most of the variance and results from both delays in grant revenue reimbursement and project completion delays. The Parks activity in this fund is currently under review due to potential shortfalls in project funding.
- The Mental Health Services Fund (0044) has a projected net negative variance of \$9.833 million. This variance is a combination of timing and actual variances; the largest of which was a timing variance relating to the budgeted \$7.5 million General Fund transfer related to prior year liabilities now scheduled to occur in Fiscal Year 2011-2012. The true year-end variance for the Mental Health Services Fund is projected to be -\$1.4 million. Nearly all this negative variance results from revenues being lower than anticipated. The two primary factors are over-accrued revenue from the prior fiscal year in the amount of \$750,000 and lower Medicare revenue than anticipated for the Psychiatric Health Facility (PHF) due to the percentage of non-paying indigent clients increasing significantly (\$600,000).
- Social Services (0055 and 0056) has an overall projected positive fund variance of \$1.366 million in the Social Services Fund (0055) and \$2.051 million for the In-home Support Services (IHSS) Public Authority Fund (0056). The Social Services Department has historically made significant budget adjustments to its current year budget *after* submitting its proposed budget for the next year. It is anticipating doing so again in the fourth quarter of this fiscal year to align year end projections and State allocations with the County's adjusted budget.

In total between the two funds the department anticipates a positive year end variance of \$2.4 million. In the Social Services Fund, Realignment revenue has performed better than anticipated (+\$400,000) and categorical aid savings amount to \$900,000; the estimated actual for the Social Services Fund is a positive variance of \$1.7 million. The IHSS Fund has a year end estimated actual positive variance of \$700,000 resulting from lower than budgeted wages attributable to lower than budgeted Individual Provider (IP) hours.

- Workers' Compensation Self Insurance (1911) shows a projected net positive variance of \$2.441 million. This variance is primarily expenditure driven resulting from lower than anticipated costs of transitioning workers' compensation coverage to the California State Association of Counties (CSAC). The Board approved entering into an agreement with CSAC for Primary Worker Compensation first dollar coverage as part of the adopted Fiscal Year 2010-2011 budget. Certain savings were assumed in the adopted budget based on the initial proposal but the actual savings exceeded that estimate. In addition, the adopted budget did not anticipate that the Workers' Compensation Program would be transitioned to a Primary Workers' Compensation program; hence, the fund was budgeted as if it would remain a self-insured program.
- County Unemployment Insurance (1913) shows a projected net positive variance of \$687 thousand. Certain claims were expected to occur in the first three quarters of the year and the actual level of claims were lower than expected. This may be a timing variance (with claims increasing in the fourth quarter) or a true variance (with the fund ending with a positive variance at year end). Any positive variance will remain with the fund for use in Fiscal Year 2011-12. Departments contribute premiums to this fund based on an actuarial study.

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

Attachments:

- A – Signal Chart
- B – Financial Summary Report
- C – PowerPoint presentation
- D – Budget Reserves and Designation Balances

Authored by: Jason Stilwell

cc: Each Department Director
Assistant County Executive Officers and CEO Fiscal and Policy Analysts
Recognized Employee Organizations

ATTACHMENT A – Signal Chart

ATTACHMENT B – Financial Summary Report

ATTACHMENT C – Presentation Slides

ATTACHMENT D – Reserves and Designations