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:

Department Name:	CEO
Department No.:	012
For Agenda Of:	3/2/2021
Placement:	Departmental
Estimated Time:	30 Minutes
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Mona Miyasato, County Executive Officer
	Contact Info:	Nancy Anderson, Assistant County Executive Officer

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SUBJECT: **Fiscal Year 2020-21 Second Quarter Budget Update**

County Counsel Concurrence
As to form: NA

Auditor-Controller Concurrence
As to form: NA

Recommended Actions:

That the Board of Supervisors

a) Receive and file the Fiscal Year 2020-21 Second Quarter Budget and Financial Status Report as of December 31, 2020, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors.

Summary Text:

The Fiscal Year (FY) 2020-21 Budget and Financial Update for the second quarter ending December 31, 2020, provides a mid-fiscal year look at the County's financial position relative to the FY 2020-21 adjusted budget. The County's General Fund is currently projected to have a positive $4.9 million surplus and is tracking closely to budget for most departments. Special Revenue and Other Funds are generally tracking to budget, with the exception of three reportable variances discussed later in this report.

The $4.9 million net positive variance in the General Fund is the result of positive variances in several General Fund departments, including a reportable net positive variance of $3.0 million in General Revenues, $1.7 million in Probation and $330 thousand in Community Services. These positive variances are offset by a negative $718 thousand in the Sheriff's Office and small negative variances in a few other departments. The reportable variances are explained in the report.

Other less significant variances in both the General Fund departments as well as Special Revenue Funds are due to a variety of factors. Positive variances in many departments are largely due to higher salary savings than expected in the budget, as well as some revenues, such as funds received from the state, coming in higher than anticipated. When the FY 2020-21 budget was developed, the state was forecasting

steep impacts to many sales tax-based revenues due to COVID-19 restrictions, and while these revenues are not to the level they otherwise would have been without the pandemic, the impacts have not been as severe as initially projected. Likewise, due to the length of the pandemic certain expenditures departments anticipated resuming, such as training, travel, and motor pool charges, are projecting to come in under budget, contributing to positive variances in many departments.

There are some departments projecting slight negative variances below the reportable thresholds of this report. Some may be attributable to COVID-19 response. The CEO's Office is tracking COVID-19 expenditures in all departments, and to the extent negative variances are caused by COVID-19 expenses, applicable sources of revenue, such as CARES Act or FEMA reimbursements, will be utilized to close gaps at year-end, if necessary.

SECOND QUARTER REPORT

In this report, projected financial results for the fiscal year end are compared to the annual adjusted budget. The major differences (variances) between budgeted and actual amounts through December 31, 2020, are discussed below.

This report highlights the variances that exceed the following thresholds:

1) General Fund departments (including Discretionary General Revenues) with projected variances greater than $300 thousand per department; shown in the Financial Summary Report (Attachment A) and;

2) Special Revenue and Other Funds with projected variances greater than $500 thousand per fund; shown in the Financial Summary Report (Attachment B).

Both Attachments A and B use actual revenues and expenditures for the first six months of FY 2020-21, and then add departmental projections for the next six months to arrive at the "Projected Actual" columns. These annual Projections are then 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 the Attachment A and Attachment B reports).

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)

As of December 31, 2020, the General Fund had a projected year-end net positive variance of $4.9 million. This is the result of favorable results in most General Fund departments, including reportable positive variances in General Revenues, Probation and Community Services Departments, partially offset by a reportable negative variance in the Sheriff's Office and other minor variances.

General Revenues (Department 991) projects a positive year-end variance of $3.0 million, 1.0% over total budgeted revenues, shown in detail in the table below. This variance is due primarily to higher than budgeted Current Year Secured Property Taxes, Sales and Use Taxes, and Property Transfer Taxes, offset by lower than budgeted Prior Year Unsecured Property Tax Corrections, and Transient Occupancy Taxes.

The projected Current Year Secured Property Taxes exceeds the budgeted amount by $3.5 million due to the assessed value of properties exceeding initial projections, as the real estate market continues to demonstrate substantial growth, despite the impacts of the pandemic. Similarly, Property Transfer Taxes are projecting higher than budgeted by about $2.5 million, again driven by the strong real estate market that continues to thrive during the pandemic. The impact of Proposition 19, approved by voters in November 2020, will not be known until after April 2021 when it becomes effective. It, in part, allows homeowners who are over 55 years of age, disabled or victims of natural disasters to transfer the assessed value of their primary home to a newly purchased residence up three times anywhere in the state.

Sales and Use Retail Tax overall has been negatively impacted by the COVID-19 pandemic and subsequent business restrictions imposed locally. However, compared to budgeted expectations, it is currently projecting a year-end surplus of $1.7 million over what was forecast at the time the FY 2020-21 budget was adopted, largely due to modest growth in retail sales, holiday sales in particular, and continued strong e-commerce growth driven by a shift in consumer spending behavior via online shopping. These unanticipated revenues are offset somewhat by reductions to Transient Occupancy Tax, the discretionary revenue most sensitive to the impacts of COVID-19 state and local health orders, currently projected to end the year $2.9 million below budget. This decrease has largely been driven by the public initially limiting travel voluntarily in an effort to slow the spread of the virus, and further exacerbated by the recent travel restrictions imposed by the state, as well as the continued closure of the Biltmore Hotel. Prior year Unsecured Property Tax Corrections are also offsetting projected year-end revenues due to roll correction refunds primarily related to certain businesses, such as United Launch Alliance, after the conclusion of assessment appeals cases.

Cannabis revenue is currently projecting $3.4 million more than what was anticipated when the FY 2020-21 budget was adopted in June. This growth is attributable to an uptick in consumer demand as a result of the pandemic, as well as more accurate reporting of gross sales by operators due, in part, to the recent implementation of a tax compliance program. Limited annual trend data, as well as the timing of the quarterly tax collections (third and fourth quarter receipts come in well after the next fiscal year's budget has been prepared), continues to make this revenue difficult to forecast during budget development, but as the program matures the revenues will stabilize and become more predictable on a year-to-year basis. Any amount received in excess of budget will be added to fund balance for future allocation by your Board.

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2020-21	Projected FY 2020-21	Variance Proj vs. Adjusted
Property Tax - Current Secured	$ 147,785	$ 151,310	$ 3,525
Property Tax - Prior Year Unsecured Corrections	244	(670)	(914)
Sales and Use Retail State Tax	10,320	12,021	1,701
Cannabis Tax	10,620	14,009	3,389
Transient Occupancy Tax	12,394	9,507	(2,887)
Property Transfer Tax	4,003	6,480	2,477
All Other Revenues	115,620	114,692	(928)
Total Discretionary Revenues	**$ 300,986**	**$ 307,349**	**$ 6,363**
Increase to Cannabis Fund Balance	10,620	14,009	$ 3,389
All Other Transfers	290,366	290,366	0
Projected Fiscal Year End Variance	**$ -**	**$ 2,974**	**$ 2,974**

Probation Department is projecting a positive variance of $1.7 million, 2% on a total budget of $72.2 million, primarily due to staffing vacancies resulting in Salary and Benefits projected at $2.8 million under budget by year-end. The Department is working to fill these vacancies. However, Fines, Forfeitures, and Penalties and Charges for Services are down by $807 thousand as the department is experiencing a downward trend in collections prior to, and exacerbated by, COVID-19.

Sheriff's Office is projecting a negative variance of $718,000 for the fiscal year, 0.4% on a total budget of $168.4 million, as a result of a combination of factors. Most significantly, this negative variance is driven by COVID-related overtime ($300 thousand) and COVID testing for jail inmates and staff ($230 thousand), as well as an unanticipated mid-year increase in general liability insurance costs ($360 thousand), partially offset by salary savings. The COVID-related overages will likely be covered with CARES Act funding, to the extent available, which should reduce or eliminate the Sheriff's negative variance at year-end.

Community Services Department is projecting a favorable variance of $331 thousand, 1% on a total budget of $32.7 million, primarily due to fluctuations in Parks Division revenues. Nationwide and global travel restrictions led to unprecedented demand for Camping park sites, with reservation fees for Camping, RV Hookups, and Cabins exceeding budget by a combined $1.2 million. These increases are partially offset by lower revenues on Group Site Rentals and Group Camping, a combined $632 thousand decrease from budget, as gatherings are still not permitted for public health purposes.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

Social Services (Fund 0055) is projecting an estimated positive year-end variance of $1.7 million, 1.0% on a total operating budget of $167.5 million. This variance is driven primarily by unanticipated federal and state revenues, including state General Fund to backfill for lost realignment revenues as well as increased reimbursements and contributions for program costs. The department plans to fund balance any surplus at the end of the year and use it towards their local match requirements in FY 2021-22.

In addition to this anticipated surplus, Social Services has also determined that they will receive enough state funding to eliminate the need for the General Fund to backfill revenue, as was anticipated when the FY 2020-21 budget was adopted. At that time, the department was estimating a need for $10.8 million to backfill lost revenue, based on guidance from the state. The Board provided that backfill as one-time revenue from General County Programs, with various sources including cannabis tax revenues and the Strategic Reserve. However, by December it became clear that state revenues were coming in much stronger than initially projected and none of the backfill would be needed. On December 15, 2020, the Board approved a budget revision from Social Services recognizing $10.8 million in unanticipated revenue from the state and eliminating the one-time transfers from General County Programs, leaving this revenue available for future allocation.

Court Special Services (Fund 0069) is currently projecting estimated negative year-end variance of $691 thousand, 5% on a total operating budget of $14.9 million, due to a 40% reduction of Fees, Fines, Forfeitures and Penalties revenues collected due to COVID-19 and legislative changes impacting the ability to assess and collect these revenues. This has been an ongoing trend for Court Special Services for several years, and ongoing General Fund allocation will be increased in the FY 2021-22 budget to achieve structural balance. Services provided by this Fund continue to be looked at by both CEO and Courts staff to try to find areas of efficiency in order to achieve some cost savings, but with several high-profile cases going to trial soon utilizing conflict defense services through this Fund, costs are likely to remain elevated for some time. The General Fund will need to backfill any gap that actually materializes at year-end.

Resource Recovery and Waste Management (Fund 1930) is currently projecting a $1.7 million negative variance, 3% on a total operating budget of $51.6 million. Due to the closure of businesses related to the COVID pandemic, tonnage of waste delivered to the Tajiguas Landfill for burial and fees paid on those deliveries are less than projected. This loss will be covered by reserve balances within the fund, and revenues are expected to recover with the reopening of the economy.

Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter.

Attachments:

A – Financial Summary Report – General Fund
B – Financial Summary Report – Special Revenue and Other Funds

Authored by:

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