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 & Auditor-Controller
Department No.:	012 & 061
For Agenda Of:	2/3/09
Placement:	Departmental
Estimated Tme:	60 minutes
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department	Michael F. Brown, County Executive Officer
	Director(s)	Robert Geis, CPA, Auditor-Controller
	Contact Info:	Jason Stilwell & Julie Hagen
		568-3413 568-2126
SUBJECT:	**Fiscal Year 2008-2009 Second Quarter Budget and Financial Update**	

County Counsel Concurrence	**Auditor-Controller Concurrence**
As to form: N/A	As to form: Yes

Recommended Actions:

That the Board of Supervisors:

A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2008-2009 Financial Status Report as of December 31, 2008, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors,

B. Accept and file a report on the Governor's Proposed Fiscal Year 2009-2010 Budget with emphasis on possible impacts on County departments.

Summary Text:

This agenda item consists of two parts: the second of four financial status reports for Fiscal Year 2008-2009 and a report on the Governor's Proposed Budget emphasizing the impact on County service levels. The second quarter report is a key report for the Board of Supervisors as it marks the halfway point of the fiscal year and reveals trends for both the current fiscal year and the upcoming fiscal year. This information proves valuable in the budget development process. The Governor's Proposed Budget often sets the framework for policy changes that can have significant impacts on the County. Assessing the budget impacts can prove beneficial for the County to determine the potential policy options being contemplated in Sacramento.

Background:

Financial Status Report

The County Executive Office staff conducted Monthly Projection (MoPros) meetings with departments during which actual performance was compared to budget for the first six months of this fiscal year. There are several major differences (variances) between budgeted and actual amounts through December 2008.

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 as shown in the Financial Summary Report (first page, Attachment A) and 2) for non-General Fund departments, the narrative discusses projected variances over $1,000,000 per fund as shown in the Financial Summary Report (pages 1 of 4 through 4 of 4, Attachment A). The Financial Summary Report takes actual revenues and expenditures for the first six months, adds department projections for the next six 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 plusses and minuses are accounted for, had an estimated net negative variance of $8.953 million at December 31, 2008. The largest negative variance is the Fire department which has budgeted $7 million in anticipated reimbursement revenue for work relating to recent fires.[1]

Other significant individual department variances are discussed below.

- District Attorney. The department forecasts a $508 thousand net negative variance. This variance is a result of both revenue and expenditure variances. On the revenue side, the Proposition 172 public safety sales tax revenue is below budget and is expected to under perform significantly in the next six months. On the expenditure side the department is spending at a rate which would exceed its adopted Fiscal Year 2008-2009 legal appropriation by June 30, 2009.
- Probation. The department currently has a projected $515 thousand net negative variance. Revenue shortfalls account for the projected budget shortfall. The department has been impacted by several revenue losses; Proposition 172 public safety sales taxes are down, anticipated revenue from Title IV-E a Federal revenue will not materialize, and the adopted State budget included several cuts to Probation revenue. In addition the department will likely lose another large revenue source, Medi-Cal reimbursement, as this multi-departmental program is suspended. As a result of the significant revenue impacts the department has initiated a number of mid-year expenditure reductions, begun initiating certain proposed 2009-2010 reductions this fiscal year, and is pursuing alternative ways to provide service in the future that will be less costly. The continued degradation of the department revenue and constraints in immediately being able to realize expenditure reductions grow the apparent $515 thousand problem to a deficit of $1.3 million by the end of the fiscal year.
- Sheriff. The department shows a $560 thousand net negative variance. This variance is on both the revenue and expenditure side of the ledger. The department is experiencing revenue shortfalls, primarily Proposition 172 sales tax declines, due to the recessing economy. Also the

[1] The fire department received $4.6 million of the Federal portion on January 27 and the fire chief predicts the remaining State portion will be received by the end of the fiscal year but the State is currently overwhelmed with invoices from multiple agencies throughout the State due to the quantity of last season's fires.

department has unbudgeted expenditures for overtime relating to the Gap and Tea fire incidents which should be reimbursable due to the fires being declared emergencies.

- Planning and Development. The department shows a positive variance of $1.045 million. This variance consists of both a revenue variance (more funds than anticipated carried over for work begun last year) and an expenditure variance relating to salary and benefit savings primarily from vacancies and the Board adopted cost savings efforts. This timing variance will abate as the department completes the prior year projects resulting in a true projected year end variance of zero.

- Clerk Recorder Assessor. The department shows a $387 thousand net positive variance primarily from expenditures. The expenditure variance is primarily a result of salary savings and a delay in capital project costs. As discussed below this positive trend could be turned into a negative if the County must fund an unreimbursed special state election in May.

- General Revenues. At this time the general revenues have a net negative variance of $2.755 million. This is primarily a timing variance as the budget anticipated a certain proportion of property taxes to be paid at the first installment whereas the actual percentage was less; staff anticipates therefore that the property tax revenue shortfall will be erased when the second installments are paid later in the fiscal year. However, a true variance is projected but is not apparent as of the second quarter. Four of the County's general county revenues will likely end the year below budget. These include supplemental property taxes ($500 thousand below), retail sales taxes ($1.2 million below), franchise fees ($500 thousand below), and interest earnings ($400 thousand below).

To summarize, staff anticipates the General Fund will end the year with a deficit as revenues of nearly all types fall below budget estimates. Several departments have begun expenditure reductions and the Board has authorized certain other expenditure reduction plans during this fiscal year; such efforts are critical but will not be sufficient to close the budget gap. This deficit will need to be erased by program reductions and appropriated one time reserves and designations such as the Strategic Reserve,[2] any departmental reserves which may be available and reserves set up to protect employees and services derived from the furlough.

SPECIAL REVENUE AND OTHER FUND SUMMARY

Two special revenue funds have significant variances.

- The Public Works Department's Road Operations Fund (0015) has a net positive variance of $1,252,215 a result of staffing vacancies and lower vehicle maintenance costs.

- The Mental Health Services Fund (0044) of ADMHS has an apparent net positive variance of $3,454,044 which is temporary largely the result of timing differences. Staff expects a positive variance in salary savings to hold through the end of the year.

  Even though there is a positive variance at the end of this quarter, there must be a continuing focus on the large liability that exists in this fund and in resolving the issues that lead to this situation. At the end of Fiscal Year 2007-2008 the County booked $17 million in liabilities and disclosed, but did not book an additional contingent liability of $15 million. This situation could impair the strategic reserve.

[2] The Strategic Reserve has an unencumbered balance of $13 million

Governor's Budget

Summary: The Governor's proposed fiscal year 2009-2010 budget was submitted on December 31, 2008 (a week ahead of the constitutional deadline of January 10) projecting a State General Fund deficit of $41.6 billion through the end of fiscal year 2009-2010. This projection is a combination of the current fiscal year deficit of $14.8 billion, which remains unresolved at this time at its continuation into 2009-2010. The deficit is the result of two compounding issues, a structural deficit from new spending commitments and a significant decline in revenues. The Administration proposes to close the deficit through increasing revenues, reducing spending, securitizing the lottery (part of the fiscal year 2008-2009 Adopted budget) and issuing Revenue Anticipation Warrants and Loans (RAWs) in July 2009; (unlike the Revenue Anticipation Notes, RAWs do not require payment until June 30, 2010). Spending reductions are largely in the areas of public safety and health and human services.

Sequence of Events: The fiscal year 2008-2009 budget was adopted nearly 3 months after the Constitutional deadline, which coincided with the onset of the economic downturn. Less than one month after the budget was adopted, the Governor declared a special session of the Legislature to deal with mid-year reductions as the State's deficit had amassed to $14.8 billion. The Governor proposed a series of revenues and spending reduction as part of the November package, but it did not garner passage by the Legislature. After the conclusion of two additional special sessions, the Legislature passed, through a majority vote, sixteen legislative bills to address the deficit largely through various income, gas, oil and sales taxes on December 18, 2008. The Governor subsequently vetoed by these bills and released the FY 09-10 Proposed Budget that largely incorporates his November mid-year proposals. (Because the Proposed Budget also includes mid-year reductions, County impacts are presented for both the current and future fiscal years.)

In addition to projecting a deficit of nearly $42 billion, the Administration indicated that the State would run out of **cash** in March *even if* the Legislature *enacted all of the budget solutions* promulgated during the November special session. This forecast has come to fruition as the State Controller, on January 15, 2009, announced that February payments for tax refunds, student aid grants for education, social service payments to counties and recipients and payments to counties for Medi-Cal, mental health and drug and alcohol treatment services would be delayed. The following week, the Administration announced a proposal to suspend the allocation of the entire local share of the state gas tax to counties and cities from January thru July of 2009 with a payback due in September and October of 2009. Further, the proposal would suspend the 4th quarter payment of the county/city portion of Proposition 42 due in June with a payback scheduled for October 2009. This is equivalent to close to $1 billion in total with half of that negatively impacting counties. The County currently receives an average of $538,000 a month for the gas tax and $277,000 for Proposition 42 for use by the Public Works Department for road maintenance and repair.

Proposed FY 2009-10 Budget: As previously indicated, the current year deficit of $14.8 billion is expected to grow to $41.6 billion as indicated below (Table 1):

Table1: Summary of Deficit Escalation

Initial Deficit FY 08-09	-14.8
Revenues and Transfers	+86.3
Total Available Resources	+71.5
Use of Target Reserve	+2.0
Expenditures	+111.1
09-10 Deficit	-41.6

To resolve the deficit, the Administration has proposed revenues and spending reductions (Table 2), which includes a combination of mid-year reductions (Table 3):

Table 2: Solutions to Resolve FY 09-10 Deficit

Tax increases and other revenues	$14.3 billion
Spending reductions	$17.4 billion
State Lottery securitization	$5.0 billion
Revenue Anticipation Warrants and Loans	$5.0 billion
Total	**$41.7 billion**

Table 3: Solutions to Resolve FY 09-10 Deficit, Including Mid-Year Reductions

Category	Dec 19 Proposal	Additional Proposals	Proposals Enacted July 1	Total
Expenditure Reductions	$9.8B	$4.0B	$3.5B	$17B
Revenues	$12.5B	$236M	$1.5B	$14.2B
Lottery	0	0	$5.0B	$5B
Borrowing	0	$358M	0	$358M
RAWS	0	0	$4.7B	$4.6B
Total	**$22.3B**	**$4.6B**	**$14.8B**	**$41.7B**

New revenues are estimated to raise $3.6 billion in 2008-09 and nearly $11 billion in FY 09-10 for a total of $14.5 billion. Some $9 billion of the $14.5 billion would come from a temporary 1.5 cent sales tax increase. Other revenue proposals include applying sales and use taxes to services that were previously exempt for being taxed, increasing the excise tax on alcohol by five cents per drink, placing a 9.9 percent severance tax on oil extraction, reducing the personal income tax dependent exemption credit, shifting revenues from tribal gaming and transportation to the General Fund and borrowing from other special funds. The Administration also proposed to increase vehicle registration fees by $12 to be directed to a Local Safety and Protection Account. (see public safety analysis). At the State level, spending reductions total about $6 billion in FY 2008-2009, of which $5 billion is from K-14 education, and nearly $11 billion in FY 2009-10, with the largest reductions being from health and human services ($4 billion) and from K-14 education ($2.6 billion), for a total of $17.4 billion over two years. These spending reductions translate into impacts at the local level to County departments and programs, primarily in the social services and public safety areas.

Potential County Impacts: Some of the proposed impacts of the Governor's Proposed FY 2009-10 Budget are illustrated below.

Agriculture/Natural Resources: The Governor has proposed the elimination of the Williamson Act subvention program, which contributes about $650,000 to the County's General Fund.

Elections: The Governor has proposed redirecting funding from voter-approved initiatives (Proposition 10 and 63). This strategy, as well as a sales tax increase and securitizing the lottery, which was included within the FY 08-09 Adopted budget, would require a special election in June 2009 (if not earlier). Therefore, the County may be required to absorb the cost of the election ($1.5 million) and wait to be reimbursed by the State.

Children: The Governor has proposed to seek voter approval to redirect the use of $275 million in Proposition 10 funds to social services programs serving children. Proposition 10 places a tax on tobacco products to fund programs for children age 0- 5 through First 5. The diversion would eliminate the State Children and Families Commission and take 50 percent of the local commission's revenues. Currently First 5 Santa Barbara County receives an annual allocation from Proposition 10 tobacco tax of approximately $5,010,000, which is used to fund programs addressing early care and education, early child health, home visitation of newborns and family strengthening. Through additional funding from public and private partnerships First 5 has an overall budget of $7,759,225. Of those dollars, $790,000 is brought down through State First 5 for targeted initiatives. A 50% decrease in funding from Proposition 10 would not only decrease the allocation to approximately $2,505,000, but would significantly impact the Commission's ability to draw down additional funding through matching grants. In addition, the agencies funded by First 5 are able to generate over $2,211,749 in State, Federal and private dollars directly supporting the key initiatives focusing on young children. Most of those dollars would be lost through the decrease in funding if the allocation is reduced.

Health and Mental Health: The Governor intends to seek voter approval to redirect the use of $227 million in Proposition 63 funds, the Mental Health Service Act of 2004, to backfill the State's Mental Health Managed Care program.

Public Safety: The Governor has proposed funding reductions in COPS, Juvenile Probation and the Juvenile Justice Crime Prevention Act (JJCPA), with a majority of the funding for these programs restored through the redirecting of a new $12 vehicle license fee. The Governor has proposed the elimination of the juvenile camps and ranches funding. Grants administered by the Office of Emergency Services for such programs vertical prosecution, sexual assault enforcement (SAFE), gang suppression and methamphetamine enforcement (CAL-MMET) are also proposed for elimination, which would primarily impact the Sheriff's Department.

The County's Probation Department has been negatively impacted by the FY 2008-09 Adopted budget, by mid-year adjustments and may be further affected by the proposed FY 09-10 budget. In FY 2008-09, as a result of State and local revenue shortfalls, the Probation Department is in the process of implementing midyear reductions that annualize to $1.6 million (20.5 FTE). The State budget for FY 2008-09 was approved in September and reduced Juvenile Probation and Camps Funding (JPCF) by $345,000; the Governor is proposing a mid-year JPCF reduction of an additional $659,000-- for a total of one million dollars in the current fiscal year. It is unlikely that Probation would be able to implement additional 2008-09 expenditure reductions during the remainder of the fiscal year sufficient to absorb the one million dollar loss of revenue. Collective current fiscal year revenue loss, plus an additional $200,000 reduction for JCPF in FY 2009-10 would involve significant program reductions such as closing the Counseling and Education Centers and consolidating and reducing Los Prietos Boys Camp and Academy, for a loss of 19 beds. The Governor is also proposing a midyear reduction of $198,000 to the Juvenile Justice Crime Prevention Act, in addition to the $134,000 loss of State funds already sustained and incorporated in the 2008-09 budget. This funding source supports Early Intervention/First Offender programs and Truancy/School Based Probation Officers. The two budget curtailments combined are a 25% reduction to JJCPA funds. CEC and/or Camp reductions/closures could have significant cost impacts in the Department of Social Services (DSS). The General Fund cost of a successful Camp placement is $14,000. Each of the 19 beds that would be lost during a consolidation would serve at least 2 wards during a twelve month period. The cost in local match of a successful group home placement is $22,500 for approximately 10 months per placement. In broad terms, the

County could serve two minors at the Camp for $28,000 of General Fund; the same two minors at a group home would cost $45,000 in local match from DSS. There would be an increase of $17,000 per year for each of the 19 Camp beds lost, for an additional $323,000 in local match required by DSS. Within the Probation budget there would be additional costs for transportation to and from the group homes, the salary and travel associated with the supervision of and monthly visits to each minor placed in a group home, for a conservative minimum of $112,000. This projection does not include losses to local vendors, reduced family reunification rates, higher re-offense rates for placement graduates, or parental expenses associated with visitation.

Social Services: Social Services sustained a funding loss of $2.4 million as a result of the adopted FY 2008-09 State budget and is subject to the suspension of the COLA for County administration of Medi-Cal in the Proposed FY 2009-10 Budget. Many of the proposals contained within the Budget would directly impact the recipient of the service (no cost of living increase, changes in benefits and eligibility etc.). The attached spreadsheet illustrates the potential impact of these proposals.

Conclusion: The Proposed FY 2009-10 Budget is one snapshot in time and illustrates the Administration's solutions to balancing the budget through increased revenues and spending reductions. This is just one proposal under consideration and other budget proposals will emerge before the FY 2009-10 State Budget is adopted. Thus, budget proposals are fluid and in constant flux. In addition to the Proposed FY 2009-10 Budget, the County is monitoring the proposed mid-year reduction and the more immediate fiscal situation regarding cash flow and delayed payments to counties.

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

Attachments:

A – Financial Summary Report

B – Powerpoint presentation

Authored by: Jason Stilwell and Sharon Friedrichsen

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