

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Agenda Number:
Prepared on: 2/10/05
Department Name: County Administrator &
Auditor
Department No.: 012
Agenda Date: 2/22/05
Placement: Departmental
Estimate Time: 45 minutes
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Michael F. Brown, County Administrator
Robert Geis, CPA, Auditor-Controller

STAFF Ken Masuda, Lori Norton, and Ed Price
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SUBJECT: FY 04-05 Financial Status Report #2 and Budget Update

Recommendations:

That the Board of Supervisors:

- A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2004-05 Financial Status Report as of December 31, 2004, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.
- B. Approve a budget revision updating anticipated discretionary General Fund revenue to reflect revenue "shifts" and "swaps" included in the adopted FY 04-05 State budget.
- C. Receive an updated forecast of the General Fund budget's financial condition on 6/30/05 with revenue and expenditure forecasts reflecting the budget revision and receive an updated financial projection for FY 05-06.

Alignment with Board Strategic Plan: [An efficient government able to anticipate and respond effectively to the needs of the community.](#)

Executive Summary

The current State budget is partially balanced with a shift of city, county and special district property tax revenues to the State and a swap of city and county Motor Vehicle License Fee (VLF) revenue for State revenue from the Education Revenue Augmentation Fund (ERAF). The FY 04-05 County General Fund impact of these budget maneuvers is \$4.1 million. Fortunately, since budget adoption, we have seen a net increase in General Fund

discretionary revenue large enough to offset these losses, thus, allowing us to continue in the current year without any negative impact to ongoing operations.

Still, there are two potential current year budget impacts which could have a substantial negative impact on the budget and which are not now accommodated in the budget figures presented here. These are the unbudgeted County costs associated with the Michael Jackson trial and costs of current litigation that may need to be borne, this year, by the County General Fund.

The current picture for next year, without any additional State impacts, is a budget that is balanced, but one which we see as limiting new initiatives to only those that are accompanied by reductions in other areas. While additional revenues are forecast for FY 05-06, the use of these revenues have been largely committed to negotiated employee cost of living adjustments (COLAs) and specific new program allocations such as those for Fire capital and operations, Sheriff's School Resource Deputies and additional Emergency Medical Dispatch personnel, and full year funding of Santa Maria Juvenile Hall operations.

Discussion:

The discussion is divided into 3 sections. Section A reviews the County's financial status as of 12/31/04. Section B looks at how the County, and the General Fund in particular, will end the fiscal year on 6/30/05 and includes a proposal to offset the State initiated funding shifts and swaps. Section C provides a new projection for FY 05-06 and provides data on how possible State budget proposals could impact the current projection.

A. Financial Status Report as of December 31, 2004. 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. During these meetings differences (variances) between budgeted and actual amounts were identified. The following narrative highlights major variances, defined as follows: 1) for General Fund departments, the narrative discusses projected variances over \$100,000 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 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.

County General Fund

Department Summary

Overall, departments show a net favorable balance—revenues greater than anticipated and expenditures less than appropriated—of approximately \$735,000. While the overall result is favorable, there are two likely negative impacts that will need to be addressed during the second half of the year. First, in the **Parks Department**, a combination of lower than budgeted Cachuma revenues and unanticipated expenditures due to Winter storms, may mean, despite staff reductions to reduce costs, a one-time net shortfall of \$275,000. Second, the Michael Jackson trial, starting on January 31, is likely to cause the **Sheriff's Department** to spend a significant amount of unbudgeted overtime. In addition, the Court has still not agreed to pay the full amount of budget bailiff services

costs (excluding Michael Jackson trial costs). More detailed information on General Fund departments with variances over \$100,000 follows.

Status of Departments

Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of 12/31/04 are as follows:

- Fire. The report shows positive variance of \$627,000. Most of the variance is on the revenue side. The department has received \$301,000 more than anticipated during the first six months in costs reimbursed from Federal and State Forest agencies for fire incidents. Another large portion, \$270,000 of the variance is due to the shift in support for extra firefighter positions at Station 32 (Santa Ynez) from Chumash Tribal funds to the Indian Gaming Special Distribution Fund which is paid in a lump sum rather than over time during the fiscal year.
- Sheriff. The department budget is showing an overall negative variance of \$330,000. Most of the variance is a timing issue related to city payments for contract patrol services that should be received in January. Public Safety Sales tax (Proposition 172) revenues are \$266,000 more than expected through the first six months, and the department also received \$116,000 more in Federal SCAAP (State Criminal Alien Assistance) reimbursements than anticipated. On the other hand, full reimbursement for Bailiff Services from the Court is still uncertain; slow reimbursement and disagreement on what are reimbursable costs contribute to a negative \$351,000 variance in this account.

On the expenditure side the department is doing a good job balancing staff vacancies, overtime, and extra help costs. Through 6 months, salary and benefit costs are \$223,000 less than budgeted.

Not an issue during the first 6 months, but on the near term horizon, are unbudgeted bailiff and perimeter security costs associated with the Michael Jackson trial, scheduled to begin jury selection on January 31. These costs will depend on the number of Deputies deployed and the length of the trial. The Sheriff's Department's goal is to hold these costs to under \$2 million for a six month trial. In addition, Senator Maldonado's office has agreed to sponsor legislation that would obligate the State to pick up these costs.

- Planning and Development. The positive \$212,000 net variance starts with expenditures. They have been lower because of vacant positions and because of many of these vacancies have been in Development Review, it is expected that revenues will be lower. Overall, the department should end the year within their approved GFC, however, the \$212,000 number probably overstates what the department will contribute to the year-end fund balance.
- Public Works. Public Works functions in the General Fund include administration, real property, and surveyor. The \$768,000 negative revenue variance reflects the significantly less work being done by real property and surveyor for the Road Fund due to funding reductions in the Road Fund. Also, internal billings from the General Fund to other funds are behind schedule. On the expenditure side, staff hiring and equipment purchases are on hold. The department has assured us that its General Fund budget will be within General Fund contribution levels by the end of the fiscal year.
- While Parks is not showing a significant net negative variance, there are several issues that concern us. Prior to the recent Winter storms, Cachuma revenue was down due to low lake levels. Now that the lake is full, the limited access through Highway 154 has deterred visitors. As a result, despite staff cutbacks, an estimated net loss of \$175,000 is

predicted for Cachuma operations. Savings from other areas in the department cannot offset this loss. As reported in the first quarter, lower Goleta City contract payments have reduced revenue from South Coast operations. In addition, the department has committed \$100,000 to stabilize Goleta Beach erosion. This an unanticipated cost, plus the Cachuma losses, means the department will probably need a contingency transfer before the end of the year.

- Auditor-Controller. The positive \$301,000 variance is the result of additional revenue, the per parcel charge of Auditor related property tax costs was increased from 50 cents to \$1, and salary and benefit savings from vacant positions.
- Clerk-Recorder-Assessor. The negative \$473,000 financing source (revenue) variance is due to a delay in the release of funds from a designation. Similar delays in increases to designations account, largely for the positive \$132,000 variance on the expenditure (use of funds) side. Two areas of additional note are: 1) the department spent \$129,000 more than expected on temporary help in the General Election because of a law change allowing registrations up to 15 days prior to the election (previous was 29 days) and because of complexities in processing absentee and provisional votes, 2) the department spent \$84,000 more than expected on voter outreach activities for the General Election, it felt that outreach should be increased because it was a Presidential election year. It is believed that State grant funds will offset these latter costs.
- General Services. The current positive \$354,000 variance is primarily the result of two factors, salary savings due to hiring freeze vacancies of \$84,000 and a delay in janitorial contract payments of \$93,000.
- Human Resources (HR). Expenditures are \$270,000 less than budgeted and the overall net favorable balance is \$242,000. The department has salary savings due to the HR director and assistant director vacancies, savings in professional services as work has not begun on the HR information system, and additional savings in marketing program costs due to the hiring freeze.
- General County Programs. The net negative \$131,000 variance is due to a delay in a designation release, it does not reflect a substantive budget issue.

Status of General Fund Discretionary Revenues

The relative importance of various types of discretionary revenue, as budgeted for Fiscal Year 04-05, is shown in the following table.

Table 1: Major Sources of General Fund Discretionary Revenue

<i>Source</i>	<i>Amount in millions</i>	<i>Percent of Total</i>
Property Taxes	\$89.13	61%
Vehicle License Fees	\$28.25	19%
Sales Taxes	\$9.16	6%
All Other Sources	\$20.60	14%
	\$147.14	100%

Amounts shown are **prior to** the shift of additional property taxes to the State via ERAF (Education Revenue Augmentation Fund) the swap of Vehicle License Fees (to the State)

and ERAF funds (back to cities and counties) and the flip of 25% of local sales taxes to the State in exchange for additional ERAF funds.

All of these State manipulations of local revenue affect the status of discretionary revenue as of 12/31 and the negative \$8.96 million negative variance shown. The variance is primarily the result of: 1) the loss of an estimated \$8.86 million in VLF fees without an offsetting receipt of ERAF funds which are scheduled to be received not later than January 31, 2) the net loss of \$819,000 in sales tax revenues, again without benefit of offsetting ERAF funds also scheduled to be received before January 31, and 3) the loss of one-half of the \$3.9 million in property taxes shifted to the ERAF. When the swap and flip money is received, these revenues will show a net positive variance of approximately \$700,000.

The major reasons for this result are positive revenue variances in property tax related and property transfer tax accounts. Detailed information is provided in Section B. However, to summarize here, Current Secured Property Tax revenues are \$1.7 million or about 3% greater than anticipated, Property Transfer Taxes are \$715,000 or 52% greater than anticipated and Supplemental Property Taxes are \$447,000 or 44% greater than anticipated for the first 6 months of the year. In the current adopted budget, we assumed that the latter two revenues would return to levels seen prior to the latest rise in the residential housing market. However, through the first 6 months of the current fiscal year, as the data shows, this has not occurred. As a result, even with the shift of property taxes to ERAF, we are in a positive position. More information will be provided in Section B, our end of year estimate.

General Fund Net Variance

When, for reasons stated above, adjusted discretionary revenue totals are added to the net positive departmental variance reviewed earlier, the estimated General Fund net positive variance is approximately \$1.4 million as of December 31, 2004.

Special Revenue Funds and Other Funds

Summary

Overall, the financial picture presented by these funds at mid-year is positive. Two of the more positive funds are the Fire Fund and the Workers Compensation Fund. In the Fire Fund, property tax revenues are \$586,000 more than anticipated. In the Workers Compensation Fund expenditures are \$597,000 less than anticipated. This positive outcome is the result of lower attorney costs, lower disability payments, and lower treatment costs.

While the Road Fund shows a positive current balance, there have been project and road maintenance cutbacks because of the loss of State revenues. The recent Winter storms have created an estimated \$18 million in damages to County roads. Even with both Federal and State disaster declarations, some local matching revenue will be required. The other fund showing significant stress is the Liability Fund. Outside attorney fees for the first six months are \$790,000 over budget. In the longer run, given the County's significant potential payments in outstanding cases, substantial insurance premium increases are expected.

Finally, while the Social Services Fund does not have, overall, a current problem, foster care costs, due to both increases in the number of cases and costs per case are

growing, and are likely to impact the FY 05-06 budget. County share of costs are 32% for federally eligible cases and 60% for non-federally eligible cases.

Fund Detail

- Road Fund (Fund 0015). Through December 31 the fund shows a \$5.7 million positive revenue variance. There are three reasons for this unexpected variance: first, the department is using an authorized, but non-County standard approach to how it is accounting for its revenues, showing revenues as received when billed, rather than when payment is received. This accounts for \$1.8 million of the variance. Most of the balance is due to timing of payments, however, locally, Measure D revenue is up \$141,000 and Road Excavation Permit revenue is up \$119,000 largely due to activity in the Orcutt area.

On the expenditure side the fund shows a positive (under expended) \$2 million variance. Staff salaries are under expended by \$318,000 and road maintenance by \$342,000. The department has taken these steps in order to not over expend relative to the revenue it expects to receive. In addition to these reductions, transfers of funds totaling \$733,000 for the North County Service Center and underground storage tank charges have been delayed.

Finally, the recent Winter storms caused an estimated \$18 million damage to County roads. With both the Federal and State Disaster Declarations in place, the County share of repair costs would be approximately 6.25% or \$1,125,000, with Federal and State governments paying the balance. While we are pleased that these funds will be available, the need to provide matching dollars will further deplete the ability of the fund to pay for new projects.

- Municipal Finance Capital Projects (Fund 0035). General Services manages the planning and construction of capital projects for various departments. Some of these departments contribute categorical (department generated) funds to pay for these projects. The \$800,000 negative variance is the result of project delays that have, in turn, delayed transfers from department budgets to this fund.
- Public Health (Fund 0042). The department has a net positive variance of \$504,000, about equally divided between revenues and expenditures. The revenue variance appears to be a timing issue, revenue received earlier than expected. On the expenditure side, salary savings have been significant, at \$796,000 through December. Hard to fill nursing and physician vacancies account for most of this variance. The hiring of temporary nurses and physicians, in lieu of permanent staff, has caused an over expenditure, in two Services and Supplies accounts, of \$392,000. Expenditures for pharmaceuticals are \$309,000 more than anticipated. Costs are rising faster than the 11% budgeted increase for this year. This looks like it will be a long-term concern.
- Alcohol, Drug, and Mental Health Services (Fund 0044). The department has a net negative variance of \$1.2 million. Revenues are a net \$7.9 million less than budgeted. Most of this is a timing difference and the department has agreed to adjust its estimated budgeted amounts to correct these variances. While most of the \$5.5 million Medi-Cal revenue lag is due to timing (reimbursements), claims to date are running \$600,000 below budgeted estimates and this amount can be considered a real deficit. On the expenditure side, salary and benefit costs are \$1.2 million less than expected. Payments to contractors are \$5 million under budget and this also largely reflects a timing difference (delayed billings). Overall, it is not expected that this department will end the year with a negative variance when all outstanding bills are considered.

Since FY 00-01, the General Fund has provided temporary cash flow loans due to the lag in reimbursements. The December 2004 loan amount was \$5.6 million, down significantly from the \$9.3 million outstanding as of December 2003.

- Affordable Housing (Fund 0065). The negative \$571,000 is due to timing in the release of designations which will be resolved before the end of the fiscal year.
- Fire Protection District (Fund 2280). The district has a net positive variance of \$619,000 with a positive \$643,000 variance in revenues. Through the first six months, the district has received \$586,000 more property tax revenues than anticipated. Included in this number is \$393,000 in additional current secured tax revenues and \$179,000 in supplemental tax revenues. Both are reflections of current conditions in the local real estate market. The department has proposed to use some of this increase to fund one-time deferred building maintenance items and, based on our analysis of their updated five-year financial plan, we have concurred with this request.
- Workers Compensation Fund (Fund 1911). The positive \$550,000 variance is quite a turnaround from prior years. This change is the result of lower attorney fees, lower disability payments which is attributed to the success of our "Back to Work" program, and lower treatment costs due, in part, to State legislation that places caps on costs in many areas.
- County Liability Fund (Fund 1912). This fund shows a negative \$809,000 net variance with \$790,000 of the variance on the expenditure side. Increased outside attorney fees are the reason for this cost increase. In addition to these costs, settlements of court cases are currently under negotiation. Fortunately, the resulting insurance premium cost increases from our insurance carrier are likely to begin in FY 06-07, when the County's financial picture should be better, rather than FY 05-06. In addition, cases being resolved now are 4 to 5 years old; we have not had new cases with large claims in recent years.
- Communications Services Fund (Fund 1919). The negative \$674,000 variance is a [timing issue that will be corrected when the north/south microwave upgrade is completed.](#)

Net Impact on General Fund

None of the Special Revenue or Other Fund variances should negatively impact the General Fund this year. However, the Road, Social Services, and Liability Insurance funds could need additional funding next year.

B. Fiscal Year-end Estimates

Accommodating Shifts, Swaps, and Flips

When the County's FY 04-05 budget was adopted, the State budget had not been finalized. As a result, the current County budget does not include several State budget impacts that must be recognized. These impacts include: 1) the further shift of property taxes from the County General Fund (other funds were also impacted) to the ERAF (Education Revenue Augmentation Fund) in the amount of \$3.894 million, 2) a net loss of approximately \$236,000 as the result of the State taking our discretionary VLF (Vehicle License Fee) revenue estimated at \$28.250 million (county estimate) and giving back property tax revenues of \$28.014 (based on State estimate of county VLF revenues) from the ERAF fund (this maneuver is called the swap) and 3) moving 25% of local sales tax revenues to the State to provide a revenue stream to pay for the State Economic Recovery Bonds, and providing a backfill to cities and counties with ERAF

revenues. This maneuver is called the triple flip because the schools revenue loss will be replaced with State General Fund dollars.

The following table traces the path our offices are proposing to accommodate these State budget maneuvers. Essentially, projected losses due to the shift and swap will be offset by revenue increases. The largest revenue increase, \$2.65 million, is current secured property tax revenues. The revenue estimates used in the Proposed Budget are based on updates from the Assessor on the status of the secured roll. Because these estimates are made in April, prior to completion of the assessment roll, some variance is expected each year.

The next largest increases are for Supplemental Property Taxes and Property Transfer Taxes, both estimated to increase \$650,000 over adopted amounts. Property Transfer Taxes reflect the state of the current real estate market and, as mentioned, we had projected a cooling trend that is not evident in the current year numbers. The increased Supplemental Property Tax revenue reflects both property sales that result in property reassessment and efficiencies implemented in the Assessor’s Office. Efficiencies implemented in the Assessor’s Office have reduced the gap between recording of a property transfer and issuance of a supplemental property tax bill from 350 days to 85 days. Thus, FY 03-04 and FY 04-05 revenues reflect approximately 9 months worth of one-time revenues associated with these improved processing efficiencies. Adding up the increases, and a slight projected decrease in the Transient Occupancy Tax, result in revenue offsets to the State impacts such that no reductions to County programs or its current reserves will be needed.

**Table 2: Updated FY 04-05 Discretionary Revenue Estimates
 Showing the “Shift,” “Swap,” and “Flip”**

<i>Revenue Source (Dollars in Millions)</i>	<i>FY02-03 Actual</i>	<i>FY03-04 Actual</i>	<i>FY04-05 Adjusted</i>	<i>FY 04-05 Shift, Swap, and Flip</i>	<i>FY 04-05 Adjustments</i>	<i>FY 04-05 New Totals</i>	<i>FY05-06 Projected</i>
AMOUNTS RECEIVED:							
Secured Property Tax	\$68.399	74.289	78.654		2.646	81.300	\$89.024
ERAF Shift				-\$3.894		-3.894	-\$3.894
Unsecured & Unitary Property Tax	6.774	6.436	6.198		0.333	6.531	6.531
Supplemental Property Tax	4.111	3.880	4.280		0.650	4.930	4.448
Property Transfer Taxes	2.601	4.398	3.200		0.650	3.850	3.440
Retail Sales Tax	8.896	9.108	9.163	-2.134		7.029	7.219
Sales Tax Flip				2.134		2.134	2.192
Transient Occupancy Tax	4.423	5.448	4.947		-0.150	4.797	4.917
Motor Vehicle License Fees*	26.932	21.507	28.250	-28.250		0.000	0.000
ERAF Swap				28.015		28.015	\$30.606
Franchise Fees	2.170	2.760	2.492			2.492	2.542
Other Revenue**	11.608	11.686	9.958			9.958	10.058
TOTAL	135.914	139.512	147.142	-4.129	4.129	147.142	157.081
Dollar Change Per Year		\$3.598	\$7.630				\$9.939

As a result of these revisions, the sources of discretionary revenue now have the proportions shown in table 3.

Table 3: Major Sources of General Fund Discretionary Revenue After Shift, Swap and Flip

<i>Source</i>	<i>Amount in millions</i>	<i>Percent of Total</i>
Property Taxes	\$88.87	60%
Vehicle License Fees	\$0	0%
Sales Taxes	\$7.03	5%
From ERAF	30.15	21%
All Other Sources	\$21.09	14%
	\$147.14	100%

These revenues are the “backbone” of the County budget. They enable us to provide the local matching share of Federal/State/Local dollars for programs in Social Services, pay for the required maintenance of effort amounts in areas like the Court where we send dollars direct to the State and an area like Alcohol, Drug and Mental Health Services where we provide funding for local programs, and enable us to pay for both mandated local services like the Sheriff, and discretionary local programs like library services. The allocation of these revenues, by department, is shown in Attachment D.

Fiscal Year-end Fund Balance Estimates

We forecast that the General Fund will end the current fiscal year with a positive variance of not more than \$3.0 million. The forecast depends on factors discussed below.

First, we expect departmental savings, which now net to approximately \$735,000, to increase in the next six months to approximately \$1.9 million. This increase assumes full regular bailiff cost reimbursement in the Sheriff’s Department as well as its continued good management of overtime and extra help. It also assumes that Michael Jackson trial costs will be handled not out of ongoing operations, but from reserves such as the Strategic Reserve, with the potential for future State reimbursement. It further assumes that any cash payout for settled lawsuits between now and the end of the year will be paid from one or more of the County’s reserves and the Liability Insurance Internal Service Fund. Finally, it projects that the General Fund Contingency will have a \$500,000 ending balance that will fall to fund balance at the end of the year.

Because we have already factored property tax revenue growth into our recent estimates in order to accommodate the shift-swap factor, we do not expect to see significant amounts of unanticipated discretionary revenue. However, depending on activity in the local real estate market, some additional revenue, perhaps as high as \$1.1 million, could materialize from Supplemental and Property Transfer Tax accounts.

C. FY 05-06 Budget Projections, with and without Potential State Budget Impacts

Building on the FY 04-05 estimated revenues; we have updated our projection of discretionary General Fund revenues for FY 05-06. Our new projection is \$157.081, an increase of \$9.9 million over the FY 04-05 total.

Much of the increase, as indicated in Table 4, has already been committed in Employee MOUs, Board approved program and budget changes such as funds for Fire capital projects and backfilling public safety departments for the shift of Proposition 172 funds to Fire, for Sheriff School Resource Deputies and additional Emergency Medical Dispatch staff, and for full year staffing costs at the Santa Maria Juvenile Hall.

Table 4: Actions to Increase Use of General Fund Contribution Amounts Following Adoption of the FY 04-05 Budget

(Dollar Amounts in Millions)

	<i>FY 04-05 New Totals</i>	<i>FY05-06 Projected</i>	<i>FY05-06 Increase</i>
<i>Discretionary Revenue</i>	\$147.14	\$157.08	\$9.94
<u><i>Uses per Board Action</i></u>			
<i>General Fund share of negot. COLAs + Retire.</i>			4.61
<i>Fire New Capital Projects</i>			0.34
<i>Fire: Prop. 172 backfill to Other Depts.</i>			0.42
<i>Sheriff School Resource Deputies</i>			0.44
<i>Sheriff Full year Emergency Medical Dispatchers</i>			0.07
<i>Probation Full year SM Juv Hall Staffing</i>			0.50
<i>Probation/Health Juv Hall Medical Contract</i>			0.10
<i>Housing Compliance Monitoring</i>			0.04
<i>Increase Deferred Maintenance per Bud. Principle</i>			0.80
<i>Restore Capital Designation per Bud. Principle</i>			0.50
<i>Increase Strategic Reserve per Bud. Principle</i>			0.50
<u><i>Uses per CAO Recommendation</i></u>			
<i>Court continuation of undesignated fee pymt</i>			0.46
<i>Public Health: Animal Services</i>			0.20
<i>Clerk-Recorder: Elections net cost increase</i>			0.25
<i>Miscellaneous Adjustments</i>			<u>0.30</u>
<u><i>Total</i></u>			\$9.52

Potential State Budget Impacts

In recent years, the State’s current and projected budget deficit and what the Governor and Legislature will do about it, has loomed over the County budget process like a hungry tiger looking for a meal. Whatever solution the Governor, the State Legislature, and perhaps ultimately the voters, craft, it may have a significant effect on the County budget.

While the Governor’s proposed budget indicates some direction of possible State action, we know from prior history that, in the end, the impacts on the County could be far different than what is now proposed. With this in mind the following table, with more detail provided in Attachment D, provides our initial assessment of how the Governor’s budget proposal would impact the County, particularly General Fund costs.

Table 4: Gross and Net Impacts of Governor's Proposed Budget on County Budget

<i>Impact</i>	<i>Amount (millions of dollars)</i>	<i>Comment</i>
Total Potential State Impact	\$9.7 to 12.0	<i>Depending on Board policy, additional In Home Supportive Services costs could range from zero to \$2.3 million</i>
<i>Less Amounts Accounted for in FY 05-06 Projection</i>	<i>\$6.3</i>	<i>Includes \$3.9 ERAF, \$0.2 VLF, \$1.5 Roads</i>
<i>Less Probation Juvenile Justice Funding Reduction</i>	<i>\$1.8</i>	<i>Would affect FY 06-07, not FY 05-06</i>
<i>Less Social Services Reductions</i>	<i>\$1.1</i>	<i>These are related to workload and caseload reductions and could have no County cost impacts</i>
<i>Less In-home Supportive Services Reductions</i>	<i>\$0-\$2.3</i>	<i>Contract with providers says that County will cut salaries and benefits if the State cuts financial support</i>
Net Impact	\$0.5 to \$2.8	

Many impacts, including the \$3.9 million ERAF shift and the \$1.5 million continued diversion of Road Fund money are already accounted for. Other State reductions, such as Social Services caseload and workload reductions, will not necessarily negatively impact the County budget. The \$500,000 number shown above is the estimated increased County cost if the State revises Medi-Cal eligibility requirements to exclude certain individuals that then become a 100% County responsibility. The Governor also proposes to limit State matching funds for in-home supportive services providers to the minimum wage of \$6.75/hour and also eliminate State funds for health insurance. If these occur and the Board, as a policy choice, decides to keep local provider wages and benefits at current levels, the additional local cost would be \$2.3 million.

Until real impacts are known, that is, until legislation passed and signed, we are proceeding with FY 05-06 budget development according to adopted budget principles, negotiated employee MOUs, and Board approved funding increases. When the State budget picture becomes clear, whether it be in early June, later this Summer, or in the Fall, CAO and Auditor staff will be ready to help the Board and County departments cope with its consequences.

Preview of the 3rd Quarter Update

In addition to reporting on the status of the current fiscal year budget through March, the next update will include a new five-year financial forecast. In FY 06-07 the two year \$3.9 million ERAF shift will be behind us, for this reason alone, the FY 06-07 year should provide a brighter revenue picture. Also in FY 06-07 we are scheduled to receive State repayment of the \$8.4 million VLF "loan" that local governments provided to the State in FY's 02-03 and 03-04.

Mandates and Service Levels: As indicated and described in the text of the letter.

Fiscal and Facilities Impacts: Actual, estimated and hypothetical impacts are stated in the text of the letter.

CC: All Department Heads
CAO Deputies
CAO Analysts
Employee Organizations

Attachment A – Projected Annual Status Report for the General Fund
Attachment B – Projected Annual Status Report for Special Revenue Funds and Other Funds
Attachment C – Budget Revision
Attachment D – Discretionary General Fund Revenue Allocation to Departments
Attachment E – Detail of Potential Impacts from the Governor's Proposed State Budget

Reading the Projected Annual Status Reports: Attachments A & B

For each report there are 4 basic areas:

1. The left two columns show the department number and name, or fund number and name.
2. The next three columns show financing sources, i.e., revenues, plus money coming in from other funds (operating transfers), plus funds set aside in a prior period being released for use now.
 - a. The projected actual column includes revenues and money from other sources actually received through December 31 plus, amounts budgeted to be received between January 1 and June 30.
 - b. The annual adjusted budget column number is the approved budget (adopted plus any adjustments approved via budget revisions) for the full fiscal year.
 - c. The projected variance column is the difference between the first two columns.
3. The next three columns show financing uses. Similar to revenues, these numbers include expenditures, plus money being sent to other funds, plus money being set aside now for use in the future.
 - a. Similar to 2.a., these are actual amounts.
 - b. Similar to 2.b., these are approved budget amounts.
 - c. Like 2.c., this is the difference between the two
4. The last column, on the far right, is the net of the financing sources and the financing uses columns.

Projected Annual Status Report

As Of: 12/31/2004

Accounting Period: CLOSED

0001 General Fund Type: General

Department	Financing Sources			Financing Uses			Variance: Favorable/ (-)Unfavorable
	Projected Actual	Annual Adj Budget	Projected Variance	Projected Actual	Annual Adj Budget	Projected Variance	
011 Board of Supervisors	3,500.00	3,500.00	0.00	2,056,617.81	2,044,676.00	-11,941.81	-11,941.81
012 County Administrator	1,219,192.06	1,216,842.00	2,350.06	2,976,600.31	3,011,146.00	34,545.69	36,895.75
013 County Counsel	3,448,949.16	3,500,112.00	-51,162.84	5,848,358.72	5,958,952.00	110,593.28	59,430.44
021 District Attorney	6,900,808.50	6,944,067.00	-43,258.50	14,264,086.26	14,320,446.00	56,359.74	13,101.24
022 Probation	20,951,374.70	20,858,926.75	92,447.95	36,198,891.64	36,074,527.75	-124,363.89	-31,915.94
023 Public Defender	2,828,341.53	2,834,494.00	-6,152.47	7,623,327.19	7,636,235.00	12,907.81	6,755.34
031 Fire	35,077,727.14	34,737,541.00	340,186.14	36,867,026.38	37,154,078.00	287,051.62	627,237.76
032 Sheriff	52,883,418.53	53,586,114.57	-702,696.04	78,418,519.09	78,790,742.57	372,223.48	-330,472.56
041 Public Health	526,424.18	511,178.98	15,245.20	2,373,077.96	2,368,481.98	-4,595.98	10,649.22
051 Agriculture & Cooperative Ext	1,659,268.74	1,657,287.00	1,981.74	3,220,102.89	3,243,733.00	23,630.11	25,611.85
052 Parks	6,652,801.05	6,827,482.42	-174,681.37	9,755,120.94	9,860,523.42	105,402.48	-69,278.89
053 Planning & Development	14,659,704.95	15,070,433.14	-410,728.19	18,447,809.91	19,070,125.14	622,315.23	211,587.04
054 Public Works	3,024,385.01	3,792,262.00	-767,876.99	3,711,597.39	4,168,090.00	456,492.61	-311,384.38
055 Housing & Community Develo	1,394,880.00	1,393,045.00	1,835.00	2,300,293.27	2,352,985.00	52,691.73	54,526.73
061 Auditor-Controller	2,535,838.62	2,453,271.00	82,567.62	5,616,515.37	5,835,042.00	218,526.63	301,094.25
062 Clerk-Recorder-Assessor	11,366,398.82	11,839,600.00	-473,201.18	17,455,632.26	17,587,870.00	132,237.74	-340,963.44
063 General Services	8,256,343.89	8,250,701.00	5,642.89	15,839,380.88	16,187,463.00	348,082.12	353,725.01
064 Human Resources	1,950,553.04	1,978,049.00	-27,495.96	3,164,818.22	3,434,712.00	269,893.78	242,397.82
065 Treasurer-Tax Collector-Publi	2,739,944.23	2,808,003.00	-68,058.77	5,402,229.76	5,489,199.00	86,969.24	18,910.47
990 General County Programs	6,818,807.63	7,068,806.00	-249,998.37	69,549,142.33	69,668,581.00	119,438.67	-130,559.70
991 General Revenues	138,176,809.49	147,142,348.32	-8,965,538.83	169,320.32	169,318.32	-2.00	-8,965,540.83
Fund Totals	323,075,471.27	334,474,064.18	-11,398,592.91	341,258,468.90	344,426,927.18	3,168,458.28	-8,230,134.63

Attachment A

Projected Annual Status Report - Fund Type

As Of: 12/31/2004
Accounting Period: CLOSED

Fund Type/Fund	Financing Sources			Financing Uses			Variance: Favorable/ (-)Unfavorable
	Projected Actual	Annual Adj Budget	Projected Variance	Projected Actual	Annual Adj Budget	Projected Variance	
General							
0001 General	323,075,471.27	334,474,064.18	-11,398,592.91	341,258,468.90	344,426,927.18	3,168,458.28	-8,230,134.63
<i>Fund Type Totals</i>	<u>323,075,471.27</u>	<u>334,474,064.18</u>	<u>-11,398,592.91</u>	<u>341,258,468.90</u>	<u>344,426,927.18</u>	<u>3,168,458.28</u>	<u>-8,230,134.63</u>
Special Revenue							
0010 Children and Families First	5,771,767.07	5,723,507.00	48,260.07	6,025,536.91	6,096,664.00	71,127.09	119,387.16
0015 Road	35,635,830.31	31,926,178.37	3,709,651.94	30,328,484.92	32,377,477.37	2,048,992.45	5,758,644.39
0040 Public and Educational Acces	264,777.93	267,959.00	-3,181.07	266,156.14	268,581.00	2,424.86	-756.21
0041 Fish and Game	20,865.38	19,502.00	1,363.38	17,370.00	25,243.00	7,873.00	9,236.38
0042 Health Care	72,984,564.39	72,737,975.28	246,589.11	72,480,265.71	72,737,975.28	257,709.57	504,298.68
0043 CA Health-Indigents Program	72,994.75	269,913.00	-196,918.25	72,433.81	269,926.00	197,492.19	573.94
0044 Alcohol,Drug,&Mental Hlth Sv	54,303,509.14	62,178,774.00	-7,875,264.86	56,141,042.30	62,795,939.00	6,654,896.70	-1,220,368.16
0045 Petroleum Department	230,765.94	264,329.00	-33,563.06	290,620.40	267,488.00	-23,132.40	-56,695.46
0046 Tobacco Settlement	8,335,691.66	8,273,260.86	62,430.80	8,258,491.04	8,273,260.86	14,769.82	77,200.62
0047 Substance Abuse & Crime Pr	3,325,586.11	2,283,341.00	1,042,245.11	2,930,673.00	2,285,803.00	-644,870.00	397,375.11
0052 Special Aviation	1,407,907.49	1,275,685.00	132,222.49	1,484,294.89	1,479,620.00	-4,674.89	127,547.60
0055 Social Services	107,329,867.11	108,569,166.00	-1,239,298.89	108,206,088.47	109,451,338.00	1,245,249.53	5,950.64
0056 SB IHSS Public Authority	5,520,755.74	5,525,284.00	-4,528.26	5,509,829.29	5,525,284.00	15,454.71	10,926.45
0057 Child Support Services	9,539,632.78	9,838,756.00	-299,123.22	9,244,386.00	9,874,515.00	630,129.00	331,005.78
0061 Fisheries Enhancement	27,109.04	27,352.95	-243.91	57,640.63	57,088.95	-551.68	-795.59
0062 Local Fishermen Contingency	34,871.40	34,600.00	271.40	39,617.91	51,055.00	11,437.09	11,708.49
0063 Coast Resource Enhanceme	1,168,129.59	1,086,394.00	81,735.59	1,675,173.28	1,715,327.00	40,153.72	121,889.31
0065 Affordable Housing	2,838,880.78	3,373,596.00	-534,715.22	3,411,074.00	3,374,471.00	-36,603.00	-571,318.22
0066 Home Program	6,642,100.70	6,448,500.00	193,600.70	6,447,041.78	6,452,073.00	5,031.22	198,631.92
0069 Court Activities	15,644,069.78	15,521,165.76	122,904.02	15,148,384.96	15,521,166.76	372,781.80	495,685.82
0070 Crim Justice Facility Constrt	1,180,193.52	1,120,000.00	60,193.52	1,129,254.38	1,120,048.00	-9,206.38	50,987.14
0071 Courthouse Construction SB6	1,331,037.87	1,216,831.93	114,205.94	1,223,981.25	1,217,640.93	-6,340.32	107,865.62
0075 Inmate Welfare	1,884,553.32	1,923,634.00	-39,080.68	1,781,369.17	1,947,925.00	166,555.83	127,475.15
2120 CSA 3	742,400.63	819,136.00	-76,735.37	856,533.30	902,191.00	45,657.70	-31,077.67
2130 CSA 4	25,582.35	26,600.00	-1,017.65	28,674.17	29,078.00	403.83	-613.82
2140 CSA 5	77,357.27	77,600.00	-242.73	81,249.53	81,459.00	209.47	-33.26
2170 CSA 11	364,579.28	359,550.00	5,029.28	730,380.73	734,864.00	4,483.27	9,512.55
2185 Mission Canyon Swr Svc Chg	363,685.88	327,500.00	36,185.88	300,446.00	327,524.00	27,078.00	63,263.88
2220 CSA 31	180,302.96	120,545.00	59,757.96	137,931.65	124,203.00	-13,728.65	46,029.31
2230 CSA 32	20,250,416.00	20,250,416.00	0.00	20,250,416.00	20,250,416.00	0.00	0.00
2242 CSA 41	26,025.32	25,350.00	675.32	26,132.24	25,460.00	-672.24	3.08

Attachment B

Projected Annual Status Report - Fund Type

As Of: 12/31/2004
Accounting Period: CLOSED

Fund Type/Fund	Financing Sources			Financing Uses			Variance: Favorable/ (-)Unfavorable
	Projected Actual	Annual Adj Budget	Projected Variance	Projected Actual	Annual Adj Budget	Projected Variance	
Special Revenue							
2270 Orcutt CFD	23,582.26	14,581.00	9,001.26	14,275.26	14,584.00	308.74	9,310.00
2280 Fire Protection Dist	23,505,281.92	22,862,670.97	642,610.95	22,937,218.50	22,913,218.97	-23,999.53	618,611.42
2400 Flood Ctrl/Wtr Cons Dst Mt	5,199,361.34	5,074,865.00	124,496.34	5,462,454.81	5,504,900.00	42,445.19	166,941.53
2420 SBFC Orcutt Area Drainage	546,333.46	534,865.00	11,468.46	539,187.90	539,352.00	164.10	11,632.56
2430 Bradley Flood Zone Number	27,804.47	23,250.00	4,554.47	30,307.28	34,386.00	4,078.72	8,633.19
2460 Guadalupe Flood Zone Numb	59,699.31	61,270.00	-1,570.69	79,805.37	101,051.00	21,245.63	19,674.94
2470 Lompoc City Flood Zone 2	377,291.55	377,595.00	-303.45	388,495.48	377,836.00	-10,659.48	-10,962.93
2480 Lompoc Valley Flood Zone 2	197,209.01	194,265.09	2,943.92	456,461.40	458,788.09	2,326.69	5,270.61
2500 Los Alamos Flood Zone Num	78,979.16	78,155.00	824.16	96,237.67	95,358.00	-879.67	-55.51
2510 Orcutt Flood Zone Number 3	253,732.48	250,475.00	3,257.48	248,280.81	259,379.00	11,098.19	14,355.67
2560 SM Flood Zone 3	2,954,983.33	2,951,068.60	3,914.73	3,322,662.33	3,308,171.60	-14,490.73	-10,576.00
2570 SM River Levee Maint Zone	217,036.64	191,685.00	25,351.64	225,963.26	220,481.00	-5,482.26	19,869.38
2590 Santa Ynez Flood Zone Num	247,022.68	254,305.00	-7,282.32	256,092.87	263,963.00	7,870.13	587.81
2610 So Coast Flood Zone 2	9,679,243.00	9,746,067.00	-66,824.00	11,657,341.77	11,572,644.00	-84,697.77	-151,521.77
2670 North County Lighting Dist	422,403.85	426,015.00	-3,611.15	444,407.01	458,550.00	14,142.99	10,531.84
2700 Mission Lighting District	4,816.32	4,855.00	-38.68	5,044.27	5,468.00	423.73	385.05
3000 Sandyland Seawall Maint Dist	75,096.87	75,000.00	96.87	82,289.20	79,154.00	-3,135.20	-3,038.33
3050 Water Agency	3,010,271.00	2,959,910.00	50,361.00	3,443,857.71	3,479,092.00	35,234.29	85,595.29
3060 Water Agency Special	919,019.54	1,137,300.00	-218,280.46	1,139,278.86	1,291,110.00	151,831.14	-66,449.32
3100 SB RDA - Isla Vista Proj	1,318,194.91	1,208,180.00	110,014.91	1,247,358.24	1,277,063.00	29,704.76	139,719.67
3102 SB RDA Housing-Isla Vista P	644,868.97	660,000.00	-15,131.03	704,509.00	704,510.00	1.00	-15,130.03
<i>Fund Type Totals</i>	<u>407,288,043.56</u>	<u>410,998,779.81</u>	<u>-3,710,736.25</u>	<u>407,362,502.86</u>	<u>418,620,164.81</u>	<u>11,257,661.95</u>	<u>7,546,925.70</u>
Debt Service							
0036 Municipal Finance Debt Svc	6,792,382.77	6,840,732.61	-48,349.84	6,875,672.89	6,866,060.61	-9,612.28	-57,962.12
3108 SB RDA - Debt Svc	406,311.10	407,552.46	-1,241.36	412,585.84	409,446.46	-3,139.38	-4,380.74
<i>Fund Type Totals</i>	<u>7,198,693.87</u>	<u>7,248,285.07</u>	<u>-49,591.20</u>	<u>7,288,258.73</u>	<u>7,275,507.07</u>	<u>-12,751.66</u>	<u>-62,342.86</u>
Capital Projects							
0030 Capital Outlay	26,482,541.88	27,026,366.93	-543,825.05	26,103,328.28	27,260,927.93	1,157,599.65	613,774.60
0035 Municipal Finance Capital Pr	368,287.01	1,230,044.00	-861,756.99	1,175,583.97	1,237,033.00	61,449.03	-800,307.96
<i>Fund Type Totals</i>	<u>26,850,828.89</u>	<u>28,256,410.93</u>	<u>-1,405,582.04</u>	<u>27,278,912.25</u>	<u>28,497,960.93</u>	<u>1,219,048.68</u>	<u>-186,533.36</u>
Enterprise							

Attachment B

Projected Annual Status Report - Fund Type

As Of: 12/31/2004
Accounting Period: CLOSED

Fund Type/Fund	Financing Sources			Financing Uses			Variance: Favorable/ (-)Unfavorable
	Projected Actual	Annual Adj Budget	Projected Variance	Projected Actual	Annual Adj Budget	Projected Variance	
Enterprise							
1930 Resource Recovery & Waste	26,938,185.77	26,725,357.00	212,828.77	26,672,892.74	26,725,398.00	52,505.26	265,334.03
1935 County Transit	74,547.94	56,845.00	17,702.94	63,023.96	56,845.00	-6,178.96	11,523.98
2870 Laguna Co Sanitation-Genera	6,418,275.42	6,830,179.00	-411,903.58	6,255,654.93	6,830,179.00	574,524.07	162,620.49
<i>Fund Type Totals</i>	<u>33,431,009.13</u>	<u>33,612,381.00</u>	<u>-181,371.87</u>	<u>32,991,571.63</u>	<u>33,612,422.00</u>	<u>620,850.37</u>	<u>439,478.50</u>
Internal Service							
1900 Vehicle Operations/Maintena	8,070,881.50	7,714,454.00	356,427.50	7,709,288.93	7,714,453.00	5,164.07	361,591.57
1910 Medical Malpractice Self Ins	929,066.90	920,783.00	8,283.90	891,510.33	920,783.00	29,272.67	37,556.57
1911 Workers' Comp Self Insuranc	15,991,094.22	16,037,483.00	-46,388.78	15,440,203.11	16,037,485.00	597,281.89	550,893.11
1912 County Liability-Self Insuranc	5,869,129.75	5,888,133.00	-19,003.25	6,678,554.01	5,888,133.00	-790,421.01	-809,424.26
1913 County Unemp Ins-Self Ins	707,875.40	681,000.00	26,875.40	336,318.05	681,000.00	344,681.95	371,557.35
1914 Dental Self-Insurance Fund	2,735,610.78	2,672,907.00	62,703.78	2,509,024.14	2,672,907.00	163,882.86	226,586.64
1915 Information Technology Svcs	6,545,254.31	6,524,404.00	20,850.31	6,359,406.76	6,524,403.00	164,996.24	185,846.55
1919 Communications Services-IS	3,179,009.16	3,857,297.00	-678,287.84	3,852,851.73	3,857,297.00	4,445.27	-673,842.57
<i>Fund Type Totals</i>	<u>44,027,922.02</u>	<u>44,296,461.00</u>	<u>-268,538.98</u>	<u>43,777,157.06</u>	<u>44,296,461.00</u>	<u>519,303.94</u>	<u>250,764.96</u>
All Funds Total	<u>841,871,968.74</u>	<u>858,886,381.99</u>	<u>-17,014,413.25</u>	<u>859,956,871.43</u>	<u>876,729,442.99</u>	<u>16,772,571.56</u>	<u>-241,841.69</u>

Fiscal Year 2004-05
Allocation of General Fund Contribution by Department
(Dollar Amounts in Millions)

Attachment D

Department	FY 04-05 GF Contribution	Subtotals	Percent
Sheriff	45.46		30.9%
Probation	15.22		10.3%
Public Health	9.61		6.5%
Social Services	8.97		6.1%
General Services	7.94		5.4%
Court Services	7.82		5.3%
District Attorney	7.38		5.0%
Largest		102.40	69.6%
Clerk-Recorder-Assessor	5.75		
Gen Co. Programs	4.90		
Public Defender	4.80		
Planning & Development	4.00		
Auditor-Controller	3.38		
Parks	3.03		
Treasurer-Tax Collector	2.68		
County Counsel	2.46		
Fire	2.42		
Board of Supervisors	2.04		
Public Works	1.85		
County Administrator	1.79		
Agriculture & Coop Ext	1.59		
Human Resources	1.46		
ADMHS	1.44		
Housing & Comm Dev	0.96		
General Revenues	0.19		
Child Support Services	0.00		
All Others		44.74	30.4%
	147.14		

Attachment D: Detail of Potential State Budget Impacts

Potential State Impacts By Functional Area:	Amounts (Millions of Dollars)	Accounted for in FY 05-06 projection	Real and Potential No County Cost Impacts
General Government			Total: \$4.6 million
<ul style="list-style-type: none"> • GF Property Tax 2nd year of increased shift 	\$3.9	✓	
<ul style="list-style-type: none"> • State Mandates (SB 90) Elections/Brown Act, Etc. 	\$.7	✓	
Law, Justice & Public Safety			Total: \$2.0 million
<ul style="list-style-type: none"> • Juvenile Justice Program Funds 	\$1.8		Would affect FY 06-07 not FY 05-06
<ul style="list-style-type: none"> • \$1.4 M plus \$.4 match fund loss 	\$.2	✓	
<ul style="list-style-type: none"> • Undesignated Court Fees 			
<ul style="list-style-type: none"> • Contrary to AB 1769 limit of 2 yrs. 			
Health & Public Assistance			Total: \$1.6 - \$3.9 million
<ul style="list-style-type: none"> • Medi-Cal Redesign 	\$.5		Ineligible residents could become an indigent cost
<ul style="list-style-type: none"> • Beneficiary Cost Sharing 			
<ul style="list-style-type: none"> • CalWorks Admin - Eligibility 	\$.4		Potentially no County cost impact
<ul style="list-style-type: none"> • State projects cost savings from Quarterly Reporting – St & Fed loss 			
<ul style="list-style-type: none"> • CalWorks Employment Serv. 	\$.6		Potentially no County cost impact
<ul style="list-style-type: none"> • State Projected decrease in caseload due to 60 month benefit limit – St & Fed loss 			
<ul style="list-style-type: none"> • Food Stamp Administration 	\$.1		Potentially no County cost impact
<ul style="list-style-type: none"> • State Projected cost savings from Quarterly Reporting – St & Fed loss 			
<ul style="list-style-type: none"> • In Home Supportive Services 	\$0-2.3		County cost of \$1.8 million if enacted and Board wants to maintain wages at \$9/hr, plus \$0.5 million if also retain health benefits
<ul style="list-style-type: none"> • -State not share in IHSS wages above minimum wage of \$6.75/hr 	\$.5		
<ul style="list-style-type: none"> • -State not share in health benefits 			
Community Resources			Total: \$1.5 million
<ul style="list-style-type: none"> • Suspend Proposition 42 	\$1.5		Board could increase GF dollars as a local priority
<ul style="list-style-type: none"> • Local Roads & Transportation Funds 		✓	
TOTAL	\$9.7-12.0 Mill.	\$6.3 Million	\$500,000-\$2.8 Million