



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: 2/2/10
Placement: Departmental
Estimated Tme: 30 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 2009-2010 Second 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 2009-2010 Financial Status Report as of December 31, 2009, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors, including the amounts, impacts and services being provided by American Recovery and Reinvestment Act (ARRA) funding.

Summary Text:

This agenda item consists of the second of four financial status reports for Fiscal Year 2009-2010 including the amounts, impacts and services being provided by ARRA funding. 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.

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 2009.

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 2 through 13, 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 positive and negative amounts are accounted for, had a projected net negative variance of \$1.675 million at December 31, 2009. The largest negative variance is in General Revenues and is due to lower property taxes, supplemental property taxes, and other revenue. Other key revenues showing decline are:

- Proposition 172 Public Safety Sales Tax: estimated to be \$600,000 below FY 2009-2010 year-end budget projections,
- Realignment sales tax: estimated to be \$1,600,000 below FY 2009-2010 year-end budget projections,
- Realignment vehicle license fees: estimated to be \$365,000 below FY 2009-2010 year-end budget projections.

Other significant individual General Fund department variances are discussed below.

- County Counsel. The department forecasts a \$434 thousand net positive variance. This variance is primarily a result of a revenue variance as the department is receiving more direct billing revenue than projected in the budget.
- Probation. The department has a projected \$554 thousand net negative variance due to revenue loss and the projection is anticipated to grow sharply as additional revenue reductions materialize. The revenue variance consists of realignment revenue projected to be short by (\$73,000), Proposition 172 revenue to be below target (-\$62,000), Federal child welfare services Title IV-E funding (-\$166,000), vehicle license fees are down for camp funding (-\$93,000) and lower child support collections of bed day revenue (-\$160,000). The department has made mid-year service level reductions to partially mitigate the revenue shortfall. However given the potential additional revenue shortfalls and the department's mitigation efforts it may still end the year with a negative variance of \$1,500,000.
- Sheriff. The department shows a \$587 thousand net negative variance. This variance is on both the revenue and expenditure side of the budget. The department is experiencing revenue shortfalls, primarily Proposition 172 sales tax declines, due to the economy. Also the department's salaries and benefits are slightly above budget but the department is holding vacancies and restricting the use of overtime and extra help in an effort to keep that object level within its appropriation limit.
- Agriculture and Cooperative Extension. The department shows a positive variance of \$310 thousand resulting from slightly higher departmental revenues coupled with salary savings.
- Parks. Parks shows a projected negative variance of \$644 thousand resulting from both lower revenues and higher expenditures. On the revenue side the department anticipates increased seasonal usage and a recently updated fee schedule could enable the department to end the year

without a negative revenue variance. On the expenditure side the department will be maintaining vacancies to keep expenditures within appropriation limits. In the long term, staff will be re-evaluating vacancies to determine additional department restructuring to reduce expenditures. The department's utility costs are running higher than projected and the department is investigating the specific causes and is employing additional conservation practices.

- Planning and Development. The department shows a positive variance of \$1.2 million. On the revenue side the department received funding due to a large one-time violation from a code enforcement settlement as well as higher than anticipated building permit revenue. On the expenditure side the department is holding vacancies resulting in salary savings. Revenue and expenditure variances are not expected to continue at this level for the remainder of the year as building activity slows during the winter months and the department fills critical vacancies.
- Auditor-Controller. The department shows a \$570 thousand net positive variance. On the revenue side the department received an unanticipated IRS refund because of a payroll tax deposit penalty reversal. The expenditure variance is a result of salary savings.
- General Revenues. At this time the general revenues have a net negative variance of \$2.57 million. The various property tax accounts all show weakness with negative variances; the one exception is current unsecured property taxes which has a positive variance of \$624,000. Property transfer taxes also show a positive variance which may either indicate simply an increase in year-end transfers or a harbinger of greater activity in the real estate market. Retail sales taxes are also below budget estimates and are being monitored closely to determine if the revenue will continue to be below budget for the final two quarters of the fiscal year.

To summarize, staff anticipates the General Fund will end the year in shortfall as various revenues fall below budget estimates. The CEO and departmental staff are assiduously working to reduce the projected year end budget gap. However notwithstanding these efforts, it is still very likely 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.

SPECIAL REVENUE AND OTHER FUND SUMMARY

Four special revenue funds have reportable variances.

- The Public Works Department's Road Operations Fund (0015) has a net positive variance of \$1.75 million due to higher gas taxes and staffing vacancies the department is holding. This fund provides the cash flow to the two other road funds (0016 and 0017) so all three funds need to be considered as a unit. Taken as a whole the three funds have a net positive variance of \$794,000. Of note, Measure D revenues are below budget estimates due to the drop in sales tax revenues.
- The Mental Health Services Fund (0044) has a net negative variance of \$7.5 million. The variance is comprised of a combination of a \$1.6 million over-accrual of revenues in FY 08-09 (the over-accrual occurred by an over-estimate of the revenue earned and recognized in 08-09), the Medi-Cal billed revenues for the first six months of the year are lower than expected by \$2 million, and \$4.2 million of the revenue variance is timing related to the audit reserve payment.
- The Mental Health Services Act (0048) of ADMHS has a projected net positive variance of \$3.5 million. The revenue side variance is a timing variance due to the department receiving more than they have estimated/projected at this point in the year. The expenditure variance is primarily salary savings and also includes an expenditure timing variance for services.

- Workers’ Compensation Self Insurance (1911) shows a projected net positive variance of \$1,272,635, consisting of both positive revenue and expenditure variances. On the revenue side, the fund received excess insurance reimbursements of claims over the amount of the self-insured retention. The expenditure variance is due to the fund holding vacancies and CSAC excess insurance premiums were lower than budgeted.

RETIREMENT INCENTIVE PROGRAM

The fiscal impacts of the County’s retirement incentive program are not included in the second quarter report; the impact of the program will occur in the third quarter as the deadline for retirees to take advantage of the program was January 22, 2010 and the costs for the incentive materialize in the departmental budgets.

The program is designed to enable the County to reduce the County workforce this fiscal year to realize savings in Fiscal Year 2010-11 and beyond. Twenty-one departments have employees who participated in the program. Nearly all those departments have devised ways to reorganize, restructure, or reduce costs to accommodate the costs of the program this fiscal year. Two departments, the District Attorney and Public Defender will not be able to absorb the costs of the program within their budgets. As a result, these two departments will have negative variances greater than those depicted on the second quarter report. These departments are both General Fund departments and as such these variances will negatively impact the year end estimates of the General Fund.

American Recovery and Reinvestment Act (ARRA)

On February 17, 2009, H. R. 1, the American Recovery and Reinvestment Act of 2009 (“ARRA”), was enacted to promote economic recovery as well as stimulate job creation and retention. Federal funds were dispersed to federal, state and local agencies, largely to existing programs, through formula-based allocations, competitive grants and increased share of federal matches toward states’ costs of certain social services, assistance and medical insurance programs.

As illustrated in Attachment D, “Summary of ARRA Funding and Expenditures,” the County anticipates ARRA related funding to total \$41.2 million, largely based upon the increase in Federal Medical Assistance Percentages (FMAP) and transportation funding. FMAP refers to the amount of federal matching funds, or federal participation, for State expenditures for various assistance and social services programs and medical insurance. As part of ARRA, the FMAP for Medicaid was temporarily increased from October 1, 2008 through December 31, 2010. (H.R. 2847 was recently enacted that extends the FMAP increase through June 2011.) The FMAP increase is reflected in the table below and reduces mandated County contributions for various programs.

Table: ARRA- Related FMAP Increase by Program

Department	Program	Previous Rate	ARRA Temporary Rate
Public Health	Targeted Case management for Medi-Cal programs	50%	61.5%
Social Services	Adoption Assistance	50%	56.2%
Social Services	Foster Care	50%	56.2%
Social Services	In Home Supportive Services	50%	61.5%

In addition, the increase in FMAP has resulted in a change in the reimbursement levels for Medi-Cal clients receiving adult and children’s mental health services by the Alcohol, Drug and Mental Health Services Department (ADMHS) as illustrated in the tables below.

Table: ARRA- Related FMAP Increase for Adult Mental Health Programs

Funding Source	Previous Rate	ARRA Temporary Rate
Federal	50%	61%
State Realignment	50%	39%
General Fund	n/a	n/a

Table: ARRA- Related FMAP Increase for Children’s Mental Health Programs

Funding Source	Previous Rate	ARRA Temporary Rate
Federal	50%	61%
State Realignment	45%	39%
General Fund	5%	0%

County departments have also received, or anticipate receiving, ARRA funding through formula and competitive grants. In some cases, even with a formula-based allocation, the County may be required to submit supplemental applications/verification documents to the federal or state agency in order to formally receive the funding allocation. In other cases, due to ARRA-specific rules, the County may be required to modify current programming processes (i.e. amending administrative guidelines, financial processes, or modifying work plans) in order to receive pre-allocated funding. Accordingly, these ARRA-specific administrative requirements have delayed the ability of the County to expend ARRA-derived funds in a timely manner. It is also important to note that funding for programs often spans multiple fiscal years so expenditures in FY 2008-2009 may be minimal as programs ramp up over time. As of December 31, 2009, reimbursable expenditures total approximately \$10.4 million.

Highlights of activities accomplished to date include:

- ADMHS: ADMHS submitted its Byrne/JAG grant to the State (Cal EMA) on December 14, 2009 for the Substance Abuse Offender Treatment program, which will provide funding for alcohol and other drug treatment services to clients convicted of non-violent drug offenses.
- District Attorney: The Department is using the Violence Against Women STOP funds to sustain staffing levels (a 70% Deputy District Attorney, 50% Criminal Investigator and a 55% Victim Advocate) serving North County victims of sexual assault and domestic violence.
- Food stamps: ARRA increased the monthly benefit for food stamps by 13.6% or about \$80 per month for a family of four. County households have received \$3.5 million in benefits .
- Housing and Community Development-Community Development Block Grant-R: There are three projects funded through this grant. The California Environmental Policy Act Environmental Review (CEQA) has been completed and National Environmental Policy Act Environmental Review (NEPA) is underway on two rehabilitation projects—a women’s emergency shelter and of a foster care facility. An MOU with County General Services has been executed to enable the procurement of General contractor and sub-contractors to perform the rehabilitation work, which will include energy conservation and efficiency improvements. The third funded project, the City of Lompoc’s Street and

Sidewalk Repair and Replacement Program, began construction on September 21 and finished on November 25, 2009. Anticipated actual expenditures for the Lompoc project are \$121,985 and HCD is currently awaiting invoices from the City.

- Housing and Community Development- Energy Efficiency Block Grant (State Sub-Grant): HCD submitted an application to the State to receive its formula allocation on January 12, 2009. The County intends to use the full allocation toward implementation of the Central Coast Energy Independence Program, a new countywide municipal energy finance district currently being developed by County staff.

- Housing and Community Development- Homelessness Prevention and Rapid Re-housing Program: Upon the completion of a Notice of Funds Available process, funding was awarded to six local non-profit organizations: Good Samaritan Shelters, Catholic Charities, Legal Aid Foundation, Casa Esperanza, Transition House and Rental Housing Mediation Task Force. \$50,000 has been expended by non-profit organizations so far benefitting 45 households and over 150 people and HCD will continue to reimburse these organizations upon receipt of invoices and other required supporting documentation required under ARRA.

- Probation: Probation submitted its Byrne /JAG grant to Cal EMA on December 16, 2009 for the Evidence-Based Probation Supervision Program, which is intended to help reduce recidivism of adult felons on probation. Probation has also received two other Byrne grants. The “Enhanced Electronic Supervision Program for High Risk Probationers” will allow the most high risk offenders’ movements to be closely monitored utilizing Global Positioning System (GPS). This type of enhanced supervision has shown a decrease in criminal activity by the targeted offenders in jurisdictions, as well as serving as a beneficial tool in crime scene analysis. A Senior Deputy Probation Officer previously displaced due to fiscal year 2008-09 midyear reductions will be reinstated and will serve as the primary staff for the program. The grant for “Targeted Gang Intervention” is being used to reinstate three senior Deputy Probation Officers and a halftime Administrative Office Professional displaced due to fiscal year 2008-09 midyear budget reductions. The Officers will be deployed in all three geographic regions of the County to supervise a hybrid caseload of juveniles and adults with gang-related terms and conditions and/or identified gang affiliations. This grant is also intended to continue the funding for the probation officer under the “Enhanced Electronic Supervision Program for High Risk Probationers” in the second year of the program.

- Public Health- Health Care Centers CIP/IDS: Regarding capital improvements, planning is underway for the Carpinteria clinic renovation to install air conditioning and a door security system; x-ray equipment has been purchased for the Santa Barbara neighborhood clinics; the radiology waiting room renovation is complete, while both the lab interface and the negative air pressure components are partially complete at the Santa Barbara clinic; and the HVAC renovation is complete at the Santa Maria clinic. Increased Demand for Services (IDS) funding has been used to purchase bus tokens and additional services through Easy Lift, a local transportation company to ensure clients have access to clinics. Additional dental services are also being provided at neighborhood clinics.

- Public Works- Surface Treatment Program: Concrete repair, minor bridge repair projects and Road Rehabilitation Phase I have been completed. Construction is expected to be completed on Road Rehabilitation Phase II and Summerland in spring 2010. Construction is expected to begin in the spring/summer of 2010 for Old Town Orcutt Improvements, Union Valley Parkway at Bradley Improvements and the Santa Ynez Bike Lanes projects.

- **Social Services- TANF Emergency Contingency Fund Subsidized Employment:** This program is intended to provide an immediate source of income through subsidized employment opportunities to low-income families (CalWorks recipients or individuals at or below 200% of the poverty level). DSS implemented the Paid Work Experience program in September 2009 and has made 113 placements.

- **Social Services-Workforce Investment Act (WIA):** A graduation was held in December 2009 for participants in the first module of group-sized training classes for both the WIA Adult and Dislocated Worker programs. The 2009 Summer Youth Employment program was completed and planning is underway for the 2010 Summer Youth Employment program. A case management system has been implemented for the Rapid Response program.

Potential Fiscal Issues Report Update

Attachment C is the quarterly update of the Fiscal Issues Report. The Board received the Fiscal Issues Report in October 2009. That report describes sixteen issues certain or expected to occur this fiscal year or in the near term beyond. These issues change and evolve for a number of reasons and this update is intended to describe the changes to these issues that can impact the Board's fiscal decision making.

Two of these fiscal issues have been revised since the last report to the Board. The items are listed and a description of the change is included:

- **State budget impacts:** The Governor's proposed budget was released on January 8, 2010 and estimates that, without corrective action by the Legislature and Governor, the state would end FY 2010-11 with a \$19.9 billion deficit. Various proposals to close the budget gap could impact the County and an agenda item to discuss the proposed State budget is scheduled for February 9, 2010.
- **Pension fund stability:** On November 18, 2009 the Board of Retirement adopted FY 2010-11 rates. The rates paid by plan sponsors increased by 5.58% for FY 2010-11 (\$20.2M or 28.5%). Rates increased primarily due to significant investment losses during FY 2008-09 but are mitigated to a degree by the Retirement Board's change in the amortization from 15 years to a 17-Year Open/Rolling Amortization Method.

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

Attachments:

- A – Financial Summary Report
- B – PowerPoint presentation
- C – Potential Fiscal Issues Report Update
- D – Summary of ARRA Funding and Expenditures

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