SANTA BARBARA COUNTY
BOARD AGENDA LETTER

Clerk of the Board of Supervisors
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Agenda Number:	
Prepared on:	11/28/05
Department Name:	CEO & Auditor/Controller
Department No.:	012 & 061
Agenda Date:	12/06/05
Placement:	Departmental
Estimate Time:	60 minutes
Continued Item:	NO
If Yes, date from:	

TO: Board of Supervisors

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

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SUBJECT: FY 05-06 Budget Update & FY 06-07 Budget Workshop # 1

Recommendation(s):

That the Board of Supervisors:

A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2005-06 Financial Status Report as of September 30, 2005, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

B. Receive an update of the General Fund 5-year financial forecast, and new five year financial forecasts of the Public Health (fund 0042), Alcohol, Drug, and Mental Health Services (fund 0044), and Social Services (fund 0055), funds and Fire Department operations (funds 0001 and 2280--Fire Protection District).

C. Approve Budget Principles for use in development of the FY 06-07 Operating Budget.

Alignment with Board Strategic Plan:

An efficient government able to anticipate and respond effectively to the needs of the community.

Introduction

This report is divided into 3 sections. Section A reviews the financial status of the County as of 09/30/05. Staff has conducted Monthly Projection (MOPROs) meetings with departments during which their actual performance was compared to their budget for the first three months of this fiscal year. The Section A narrative discusses major differences (variances) between budgeted and actual amounts identified at these meetings.

Section B presents our updated 5-year General Fund financial forecast and compares it with the update which was included in the *FY 2005-06 Proposed Budget*. Forecast numbers are updated to reflect actual instead of projected FY 04-05 revenues, include revised FY 050-06 revenue data and include new information on employee COLAs and other benefits including future retirement costs based on the latest retirement fund actuarial study. Section B also includes, for the first time, new five year financial forecasts of the Public Health, Alcohol, Drug, and Mental Health Services, and Social Services Special Revenue Funds and Fire Department operations (including both the General Fund and Fire Protection District.

Section C presents our recommended Budget Principles. These principles, with the exception of an amended "balanced budget" principle are the same as those used for development of the FY 05-06 budget. These principles will again be used by departments and the County Executive Office to shape the FY 05-06 Proposed Budget.

Discussion:

A. Financial Status Report as of September 30, 2005

Introduction

Variances to be discussed are defined as follows: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected negative variances over $100,000 and positive variances over $200,000 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 (Attachments B and C). Both these reports take actual revenues and expenditures for the first three months, add department projections for the next nine months, and compare these totals to budgeted amounts.

General Fund Summary

The General Fund, when all of the plusses and minuses are accounted for, **had an estimated net positive variance of $10.95 million through September 30, 2005**. The unappropriated VLF gap loan repayment revenue, which totaled a net of $6.8 million as of September 30 ($1.6 million having been appropriated prior to September 30) was the primary contributor to the positive variance. As this money is appropriated, the positive variance will shrink, but discretionary revenue totals should still be positive when we present our 2nd Quarter Report in February 2006. The second largest variance, $1.5 million, is in General Services; however, $1.1 million is due to accounting practices, not an actual revenue or expenditure variance. Significant individual department variances are discussed below.

General Fund Departments (excluding General Discretionary Revenues)

Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of 9/30/05 are as follows:

- Fire. The department shows a $733,000 net negative variance, and a $972,000 net negative revenue variance. This is due to Federal revenue that was expected but has not yet been received.
- Sheriff. The negative $281,000 variance, which includes a $413,000 reported negative revenue variance, is largely due to payment delays from the Superior Court for bailiff services and one city contract. Our office has no significant concerns about the Sheriff's budget at this time.
- Parks. The $173,000 negative variance has both on-going and one-time causes. Charges for Services, primarily camping revenues, are down $116,000 during the first quarter. The department does not attribute this decline to gas prices or road closures, rather, there has been a decline in the popularity of camping attributable to changes in the population and the availability of competing recreational options. Because revenues over the next 9 months are unlikely to make up for this shortfall, the department is reviewing expenditure reductions for the rest of the year. Expenditures for the first three months were greater than budgeted; however, these mainly reflect one-time expenses.

- Planning and Development. For the first quarter, the department has a $435,000 overall positive variance including a $364,000 positive (under-spent) expenditure variance. *However, this lack of spending has more negative than positive features.* The department has 18.5 vacant positions including 8.5 vacant planner positions. It is finding that these positions, especially positions requiring experienced planners, are hard to fill. The department is also experiencing difficulty finding qualified consultants to backfill for staff vacancies and hiring consultants generally for planned contractual work. At the same time, new unfunded projects continue to be identified as the department continues with its process improvement, ordinance amendment and customer service initiatives. Vacant positions result in less time (and resulting revenue) billed on development reviews. Effort on unfunded projects also takes staff away from revenue generating activities. As a result, revenue shortfalls, though not yet apparent, are forecast. The County Executive Office is directing attention to the resolution of these issues.

- Clerk-Recorder-Assessor. The $291,000 net positive variance reflects $205,000 in unanticipated SB-90 revenue from the State which is a partial reimbursement for mandated Absentee Voter costs and $174,000 in higher than anticipated fee revenue on supplemental property tax billings. Both of these revenues are one-time in nature. The department slightly over-expended its first quarter budget, however in our analysis there were no specific outstanding items.

- General Services. The variances shown are due to accounting protocols and timing differences and are not areas of concern. What is a concern, and what does not yet show up as a variance, are anticipated *increases in natural gas and electricity costs*. It has been predicted that natural gas prices to increase between 45 and 55%; this would cost the County around $400,000. Also, because Southern California Edison uses natural gas to generate electricity, they are predicting a 15% increase in electricity prices; this would cost another $200,000.

General Fund Discretionary Revenues

These revenues are a positive $8.4 million through September. Of this total, **$6.8 million is unappropriated Vehicle License Fee (VLF) gap loan repayment revenues**. Half of the remaining $1.6 million is from **higher than budgeted Supplemental Property Tax and Property Transfer Tax revenues**. While the volume of these transactions has declined, the value of the transactions has remained high. Also during the **first quarter Transient Occupancy Tax (TOT) revenue** exceeded expectations by $401,000. Analysis indicates that $225,000 reflects a real revenue increase and, of the remaining difference, $92,000 is one-time revenue generated by hotel/motel audits, and the rest, $82,000, is due to timing differences in the deposit of TOT payments. The $225,000 increase represents 12.8% more revenue than was collected in FY 04-05 for the same period. Moreover, all unincorporated areas, plus the County's share of Goleta City TOT revenues, show increases for this period.

Special Revenue Funds and Other Funds

Summary

Both the Road and Mental Health funds have significant negative revenue variances and resulting negative cash balances. The Mental Health fund's situation is chronic, due to the Federal/State reimbursement process. As of September 30, this fund had a negative cash balance of $3.77 million. The Road Fund cash situation is more recent, and is the result of slow Federal/State reimbursement for 2005 storm damage repairs. As of September 30, this fund had a $6.73 million negative cash balance. Neither situation, however, creates an ongoing burden on the General Fund as both funds pay interest on cash advanced.

Fund Detail

- Roads (Fund 0015). This fund shows a $5.9 million negative financing sources variance. Of this total, $2.1 million is a revenue variance due to primarily to slow reimbursement by both Federal and State governments for 2005 storm damage repairs. The other $3.8 million negative variance is the result of designated funds not being released for projects because of the lack of cash in this fund. On the expenditure side the positive $2.7 million variance is largely due to delays in projects that lack Federal approval to begin permanent storm related repairs.
- Mental Health (Fund 0044). As in previous years, the Alcohol, Drug, and Mental Health Services (ADMHS) Department budget's net negative variance of $6.5 million is the result of a diverse set of circumstances. Revenues show a negative variance of $7.8 million. This is primarily due to delays in receiving cost reimbursements on amounts accrued and approved for FY 04-05 and amounts billed for FY 05-06 that have not yet been received. Revenues, both amounts reimbursed and amounts claimed, are closely monitored by the department and reviewed by our office at every MoPro meeting. Expenditures through September 30 are $1.3 million less than expected; over half of this amount, $737,000 is because of delays in payments to contract organizations who submit their invoices after services are provided. Another $166,000 is salary savings due to staff vacancies; savings that have occurred even with an assumed 9.8% vacancy rate.
- Affordable Housing (Fund 0065). This fund, which is administered by Housing and Community Development, shows a $693,000 negative variance. A delay in the release of $554,000 for the Mercy Housing project is the primary reason for this variance.
- Capital Outlay (Fund 0030). There are five departments with projects in this fund, the main ones being Sheriff, Parks, and General Services. This fund shows a $973,000 positive variance including a $1.6 million positive expenditure variance. This variance is primarily due to an accounting (audit) adjustments for Sheriff and General Services projects which reduced appropriations in the current year for expenditures actually made in the prior year. The $644,000 negative revenue variance is due to delay in the receipt of funds for the Recorder Remodel at the Santa Barbara Courthouse while waiting for a report on final project costs.
- General Services – Workers' Compensation Self Insurance (Fund 1911). The $1.2 million positive variance is largely the result of retained earnings budgeting and accounting. When these factors are removed, the remaining variance is less than $300,000. The fund has higher than anticipated revenues because of higher interest earnings and prepayment of premium contributions.

B. Expanded Five Year Financial Forecast

We are providing an expanded five-year forecast. The forecast includes an update (below and Attachment D) to the General Fund financial forecast included in the Proposed Budget, and new forecasts for the ADMHS, Public Health, and Social Services funds, and Fire Operations (a combination of the General Fund and the Fire Fund). Our prognosis is summarized in Chart A.

Chart A	Five Year Forecast Summary			
General Fund	**ADMHS**	**Public Health**	**Social Services**	**Fire Operations**
FY 06-07 looks positive, no gap, assuming current service levels, due to revenue growth. Gap starts in subsequent years.	Key issue is whether State will continue funding of voter mandated Prop. 36-substance abuse treatment court-program.	End of operating subsidies from Public Health reserves will require decisions on dept. mission, services, and GF allocations during the 5 year time horizon.	Continuation of Federal/ State revenues to match caseload growth is key to future GF impacts.	Property tax and Prop. 172 revenue growth should allow GF subsidy to remain at moderate levels.

General Fund. As usual, the General Fund forecast focuses on changes in discretionary general fund revenues and the general fund share of total salary and benefit costs. The new General Fund forecast is shown below as chart B. Key differences between this forecast and the FY 2005-06 *Proposed Budget* forecast are:

- Continued revenue growth from property taxes and base motor vehicle revenues (for the property tax for MVIL swap) has closed the revenue-expenditure funding gap for FY 06-07 and
- The funding gap is not as large as, and does not expand in, the “out” years because actuary studies show relative retirement cost declines offset increased costs from the Deputy Sheriff’s Association (DSA) MOU. However, the Auditor-Controller does not share the same optimism that retirement cost will decline because of the recent pattern of benefit increases to active members, and the continued granting of other post employment benefits by the retirement system.

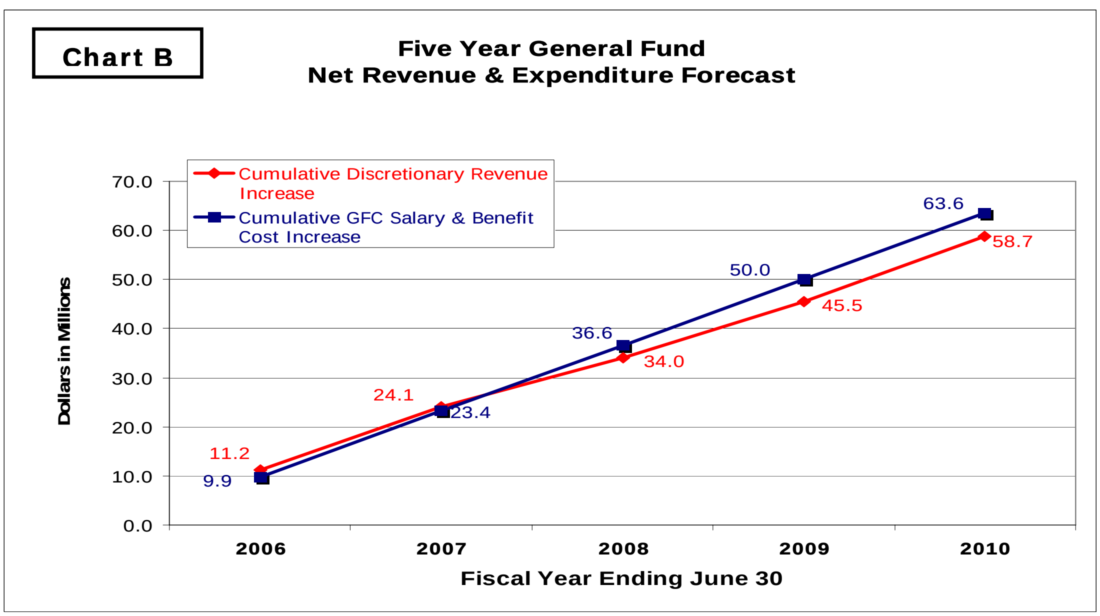


Chart C compares net General Fund expenditure growth estimates for the last two forecasts. Significant differences are:

- The forecast uses FY 04-05 actual salary and benefit costs as the base instead of FY 03-04 actual amounts plus an estimate for FY 04-05. Actual FY 04-05 costs were $4 million or 1% lower than estimated.
- Expenditure numbers through FY 07-08, and later for some bargaining units, reflect negotiated agreements rather than estimated amounts. In addition, retirement cost numbers have been adjusted to reflect the latest (November 2005) estimates. The new numbers are pretty much in line with earlier estimates. However, equity adjustments included in negotiated agreements are not projected for years beyond existing agreements.

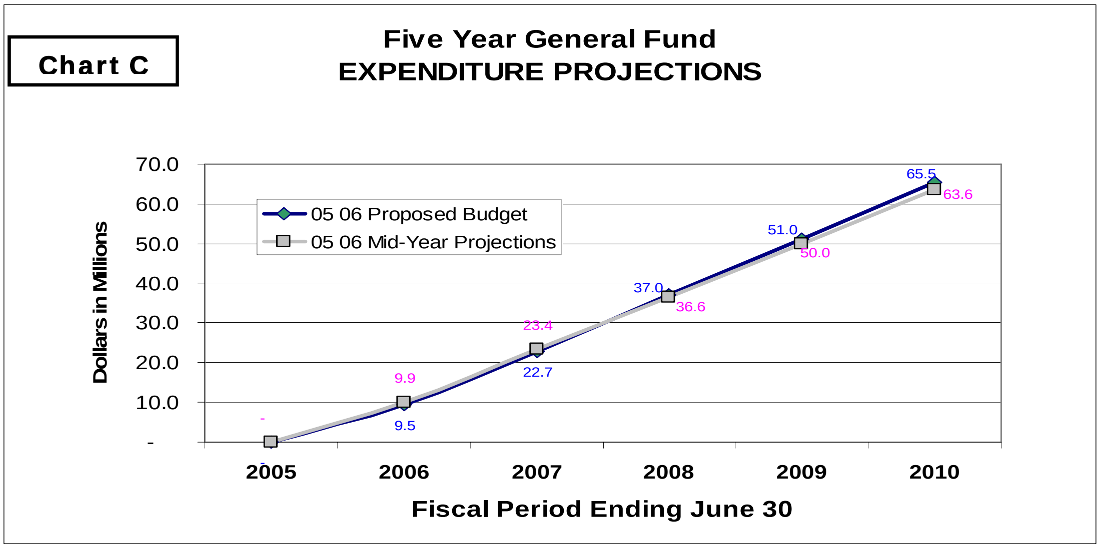
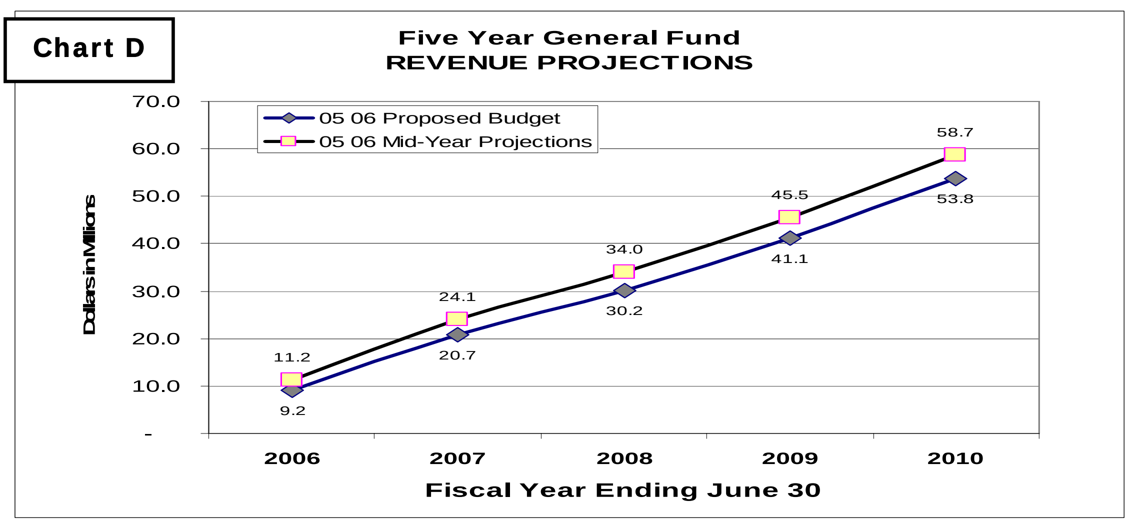


Chart D compares net General Fund revenue growth estimates for the last two forecasts. New revenue estimates are higher than the previous forecast for two primary reasons:

- Secured property tax growth for FY 06-07 has been increased from 6.8% to 8.0% based on Assessor estimates. This increases revenue by approximately $1 million, and
- When the State "flipped" and "swapped" revenues in FY 04-05, they did so with the understanding that their estimates would be adjusted to actual amounts after the end of the FY 04-05 fiscal year. These adjustments, or "true-ups," have now been calculated and they result in a net on-going increase to the county of approximately $2.3 million in FY 05-06, with further increases each year based on property tax growth.



The short-term forecast, meaning FY 06-07, looks positive from a General Fund perspective. In the longer run there are issues but, if the gap does not widen, they could be managed if service levels are not expanded and if the General Fund is not called on to backfill revenue shortfalls in other funds. The financial condition of four of these other major funds is discussed below.

Alcohol, Drug, and Mental Health Services (ADMHS) Fund. Our overriding concern is whether the State will continue to provide funding for the Substance Abuse Crime Prevention Act program, also known as SACPA or Proposition 36 after FY 05-06. Following the current fiscal year, the State funding mandate ends, but the County services mandate continues. FY 05-06 State funding is $2,025,000. The ADMHS forecast presents three different funding scenarios, the most dire, from a County General Fund viewpoint, shows a FY 2006-07 General Fund substitution for lost State funding of $1.9 million, decreasing in subsequent years. This forecast is included as Attachment E.

Public Health Department (PHD) Special Revenue Fund. The five-year financial forecast for the Department (Attachment F) indicates that, at current levels of General Fund support, it will be necessary to restructure, reduce, and relocate services during the five year period. Alternatively, increased General Fund amounts would be needed if current service levels are maintained.

- As a Federally Qualified Health Center (FQHC) by virtue of the acceptance of a grant to provide services to homeless individuals, Public Health was able to receive higher reimbursement from the governmental insurers of Medicaid (Medi-Cal) and Medicare.
- This allowed the PHD Special Revenue Fund to reach a $20 million fund balance on June 30, 2002.
- However, with FQHC revenues now "capped," expenditures have and are expected to continue to exceed revenues, resulting in a significant shortfall during the latter part of the five year forecast.

Chart E-1 shows the PHD revenue/expenditure trend:

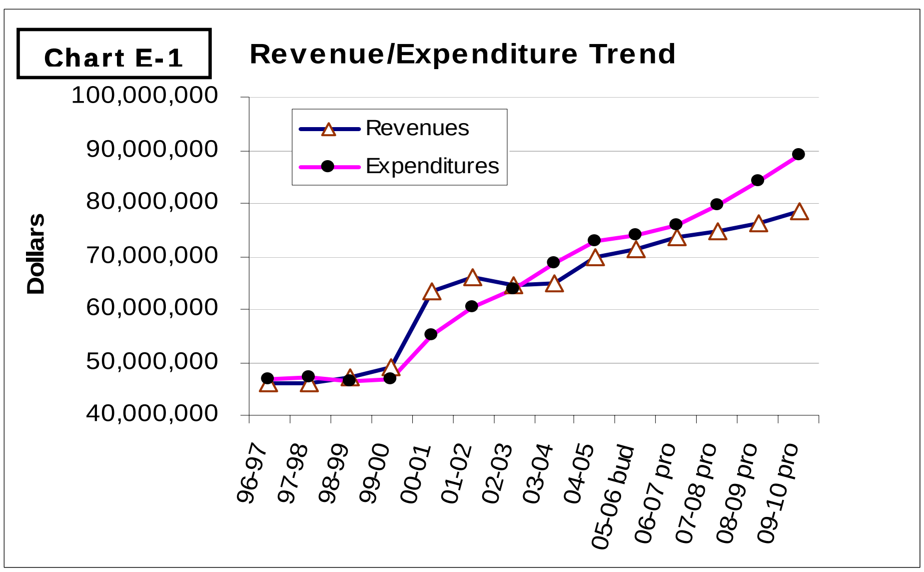
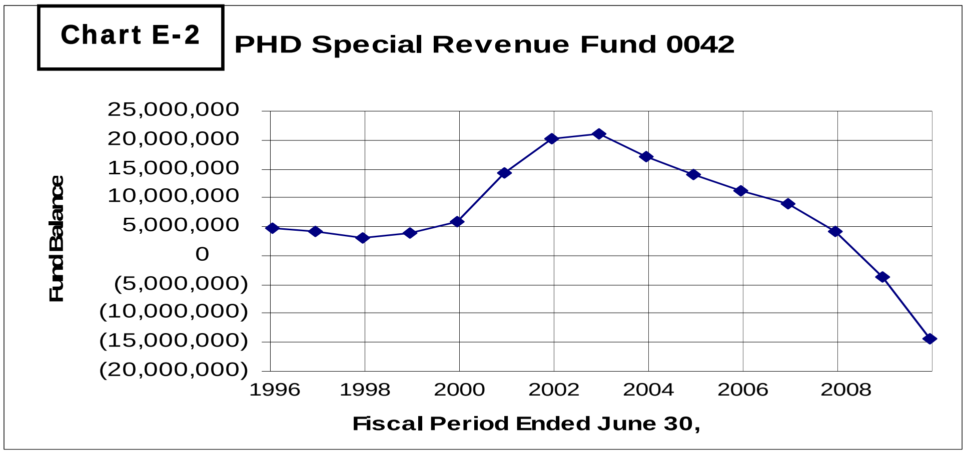


Chart E-2 shows prior year-end balances and a five-year projection fund balances for the PHD Special Revenue Fund:



Social Services Special Revenue Fund. The current year General Fund Contribution to Social Services is $9.1 million. In its five year forecast, the department presents a set of assumptions where "*as costs and/or caseloads increase and revenues remain flat or decrease*" General Fund Contribution amounts could grow to $12.7 million in FY 06-07, a $3.6 million increase. The department's projection assumptions, detailed in Attachment G, are based on current policies and prior year revenue receipts. They do not include potential impacts from the pending Federal budget reconciliation bill. We will work with the department to refine estimates, monitor pending State and Federal legislative proposals, and look at opportunities to reduce future cost impacts by reducing service levels. We do acknowledge, however, that some of the increases, such as the child welfare services/foster care caseload, will require increased General Fund matching funds. Regarding this matter, the department notes that:

> [I]ncreased substance abuse involvement, particularly involving methamphetamine abuse or manufacture, may be a major factor behind our increasing foster care numbers. In FY 2000-01, the percentage of substantiated CWS referrals with law enforcement involvement which resulted in opening a CWS case was only 17%. By FY 2004-05, it had risen to 32%, and thus far this fiscal year, the projected percentage for this year is 37%. Early law enforcement is an indicator of greater family dysfunctional and increased likelihood of detention. These are more high activity cases. The children receiving services are younger, more dysfunctional and staying on foster care longer. The intensity of services provided impacts staff time and additional staff is needed to service these families.

The department's five year forecast is shown in Chart F-1.

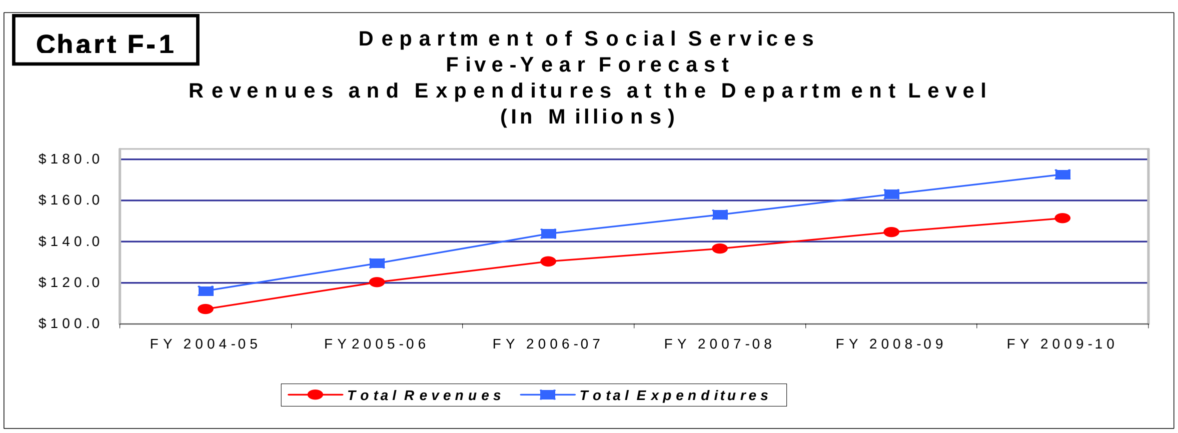


Table A provides the numbers indicated in the above projection.

Table A

	FY 2004-05	FY2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Revenues	$107.1	$120.3	$131.1	$136.6	$144.6	$151.3
County Contribution	$8.9	$9.1	$12.7	$16.4	$18.4	$21.3
Total Sources	$116.1	$129.4	$143.8	$153.0	$163.0	$172.6
Expenditures	$116.1	$129.4	$143.8	$153.0	$163.0	$172.6

Fire Operations. The forecast for the next five years shows that the Fire Department's financial health is relatively stable and positive and that General Fund support to maintain current service levels ranges from a low of $2.3M to a high of $2.6M. Included in the department forecast is spending of just under $6M over the next five years on facility improvements and apparatus acquisitions. The department notes, however, that this spending on capital improvement will still leave certain unfunded capital needs.

Chart G shows the Fire Operations revenue/expenditure projections with number detail shown in Table B. Assumptions regarding these projections are detailed in Attachment H. Note that in several of the years revenues including General Fund contribution exceed operating expenses. It is these revenues, plus the current available fund balance, that enable the County to pay for the projected capital outlay including new apparatus.

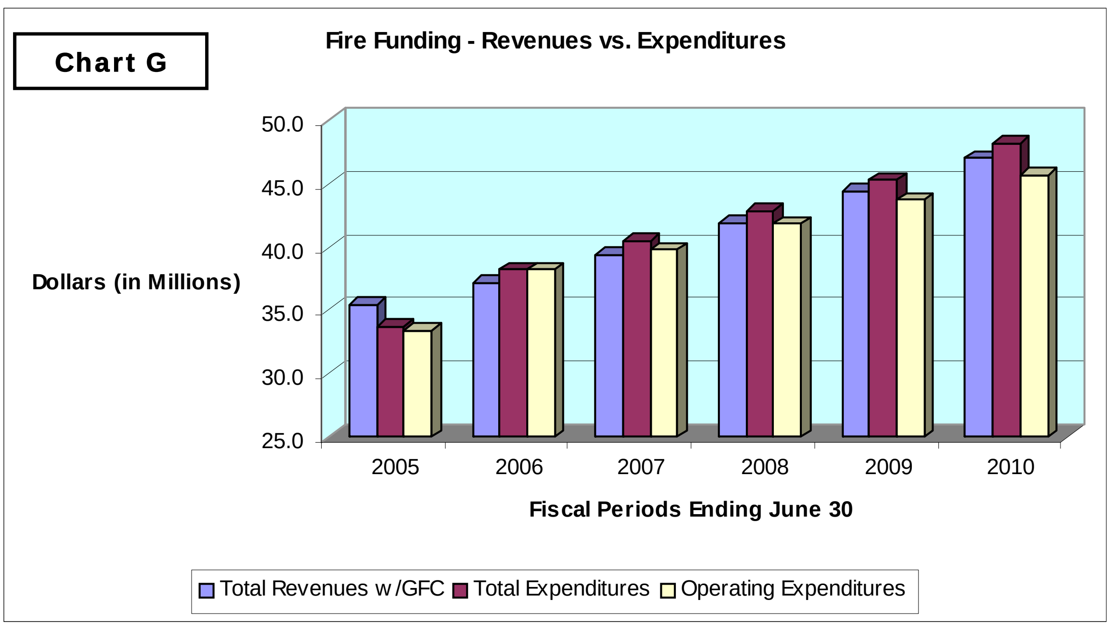


Table B

Dollars (in millions)	2005	2006	2007	2008	2009	2010
Total Revenues w/GFC	35.5	37.2	39.4	41.9	44.4	47.0
Total Expenditures	33.7	38.2	40.5	42.8	45.3	48.2
Operating Expenditures	33.4	38.2	39.8	41.8	43.7	45.7
Use of Fire District Fund Bal	-	1.0	1.1	0.9	1.0	1.1
General Fund Contribution	2.1	2.4	2.3	2.4	2.5	2.6

On the revenue side the department has benefited from recent property tax growth, an increasing share of Public Safety Sales Tax (Proposition 172) revenue per Board direction on July 13, 2004, and increased revenue from the new ambulance contract for emergency medical response.

Expenditure projections assume that salary and benefit growth will be at the same average level as all other negotiated contracts. Other than this it makes no specific assumptions about the new firefighters' contract which would start in March 2006. Projections also assume, as stated, the use of $6 million for capital needs.

In conclusion, based on these forecasts we can summarize FY 2006-07 positives and perils (need for additional General Fund Contribution) as follows:

Table C	**Projected FY 2006-07 Fund Status**	
Fund	Projected 2006-07 Status/Need for General Fund Contribution	Comment
General	+$700,000	Boosted by revenue growth. If Property Tax Administration Program is not funded, would be $900,000 impact or program reduction.
ADMHS	$0 up to $1.9 million	Depending on continued State funding for Prop. 36. Will work with department on alternative funding strategies.
Public Health	At levels in accord with budget principles	Significant concern over future year projections.
Social Services	Department projects impact of up to $3.6 million	Certain level of cost increase appears unavoidable. Will work with department on possible reductions elsewhere.
Fire Operations	At levels in accord with budget principles	No significant future year impact projected, however current firefighter MOU ends in February 2006.

At our next budget update, in February, we will update discretionary revenue projections and provide a first look at the Governor's Proposed FY 06-07 budget and its impacts.

C. Principles for Development of the FY 2006-07 Budget

The proposed principles (Attachment I) will be used by departments and the County Executive Office in development of the FY 06-07 proposed budget. The balanced budget principle, now shown as item #1, has been expanded to provide more detail. Aside from this change, these principles are identical to those used in development of the FY 05-06 budget.

Mandates and Service Levels: Neither Quarterly reports nor financial forecasts are mandated. They are a part of the ongoing effort of our two departments to keep the Board informed as to the financial condition of the County.

Fiscal and Facilities Impacts: Actual and hypothetical impacts are stated in this letter, its attachments, and the updated Five Year Forecast.

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

Attachments A through I