

FY 2022-23

# BUDGET UPDATE

## Second Quarter



one  
COUNTY  
one  
FUTURE

COUNTY OF  
SANTA BARBARA

March 14, 2023  
County Executive Office

# Today's Report

## FY 2022-23 Budget and Financial Recap

Update on the County's 2<sup>nd</sup> Quarter financial position relative to the adjusted budget

Update on Cannabis taxation, compliance, and enforcement activities

## Background

- Compares 2<sup>nd</sup> Quarter financial position as of December 31, 2022 against the adjusted budget
- Reportable variance threshold:

General Fund

>**\$300K** per department, and;

Special Revenue Funds

>**\$500K** per department

# General Fund

Significant Net  
Financial Impacts

## General Revenues Cannabis Taxes

Variance	% Budget
\$23.1M	6.8%
-\$10.5M	64.5%

## Unanticipated Revenues

- Higher than budgeted Property Taxes, Interest Income, Transient Occupancy Tax, and Sales and Use Tax
- Higher Property Tax base already built into FY 2023-24 budget numbers

## Notable Variances by Source

	Variance
Property Taxes	\$17.1M
Interest Income	\$2.5M
Transient Occupancy Tax	\$2.2M
Sales and Use Tax	\$980K

- Cannabis Cultivation and Retail Taxes projected \$10.5M lower than budgeted.

# General Fund

Significant Net  
Financial Impacts

## Sheriff-Coroner Office

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Variance	% Budget
<b>-\$369K</b>	<b>0.02%</b>

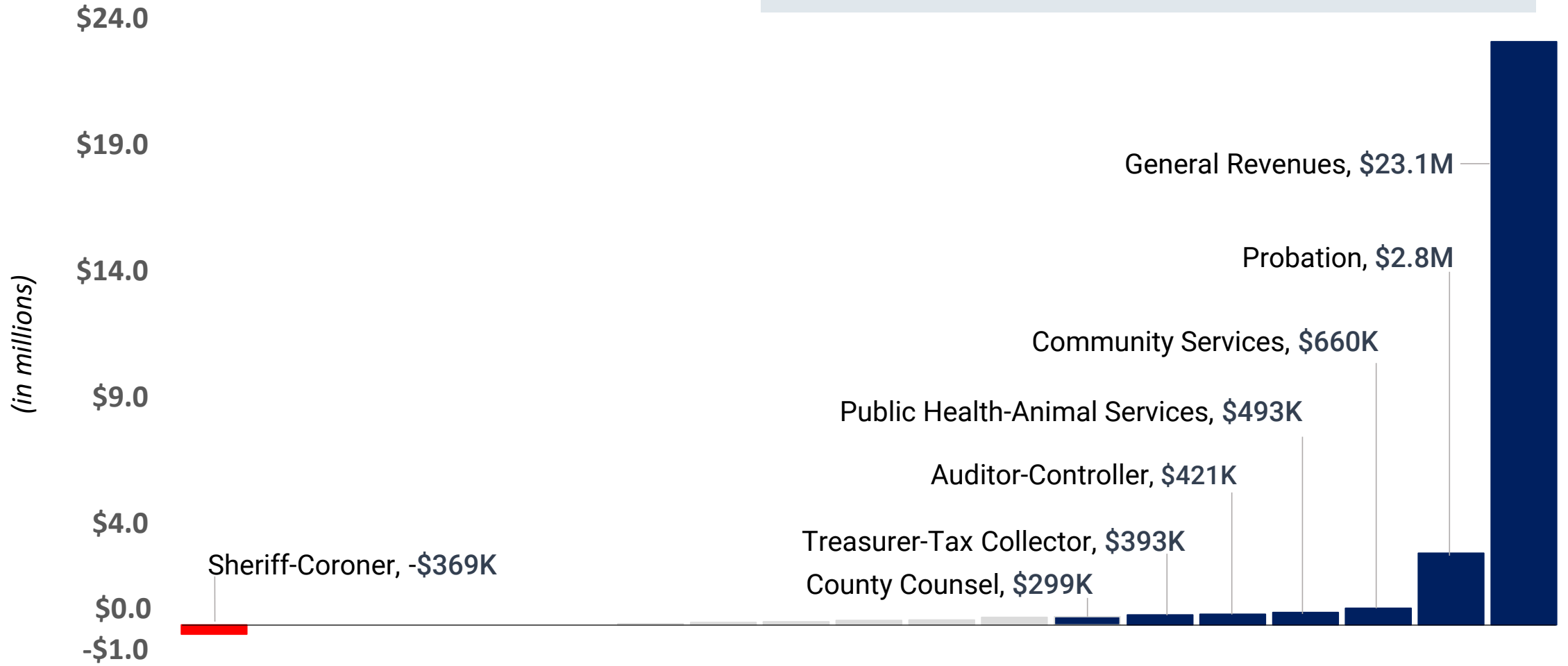
### Overtime costs exceeding budget

- \$8.7 million as of Dec. 31 on annual budget of \$5 million; could reach \$18 million for the year
- Most overtime costs absorbed by salary savings on numerous funded vacancies
- Unsustainable levels of overtime: staff fatigue, increased leave absences, increases in disability-related retirements, and higher staff turnover

# General Fund

## Summary by Department

**\$28.5 M** Projected Positive Variance



**Special Revenue Funds**  
 Significant Net Financial Impacts

	Variance	% Budget
Fire Protection District (Fund 2280)	\$3.5M	3.2%
Social Services (Fund 0055)	\$1.8M	1.0%
SB IHSS Public Authority (Fund 0056)	\$786K	6.0%

**Salary and benefit savings**

Savings generated by vacant, funded positions in the Fire and Social Services funds

**Unanticipated Revenue**

- Higher-than-anticipated property tax revenue in the Fire fund
- Higher-than-anticipated 1991 and 2011 Realignment revenues in the Social Services and SB IHSS Public Authority funds

# Cannabis Update

## Taxation, Compliance, and Enforcement

## Cannabis Operations

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Gross receipts	Collected \$1.1M in cannabis gross tax receipts during Q2 by the filing deadline
Enforcement	Completed 5 enforcement actions against illegal cannabis operations, confiscating 1,969 plants and 586 pounds of cannabis product (est. \$1.6 million street value)
Business licenses	14 new business licenses issued (76 total)
Acreage cap	<ul style="list-style-type: none"><li>• Enough cultivation acreage approved in land use entitlements to exceed cap in unincorporated inland area</li><li>• 14 operators on the waiting list (235 acres)</li></ul>
Sunset date for legal non-conforming operations	One operation failed to obtain a business license and was removed from the acreage eligibility list on December 31, 2022



# Cannabis Update Revenue Shortfall

## Decline in Gross Sales Receipts

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Significant drop in  
wholesale pricing

Severe supply glut, too much product in CA

Price per pound dropped by 35-40% on  
average from 21/22 to 22/23

Enforcement

Continued evolution of illegal market

Attrition

- Lack of capital
- Compliance
- Board Policies, i.e. sunset date for legal, non-conforming operations

Timing

Projected license issuance dates and  
operators coming on-line

# Cannabis Update

## Revenue by Fiscal Year

### Change in Revenue

	Fiscal Year	Revenue	Percent Change
	18/19	\$ 6,760,662	-
	19/20	\$ 12,182,206	45%
	20/21	\$ 15,746,620	23%
	21/22	\$ 8,718,776	-81%
<i>Estimated Actual*</i>	22/23	\$ 5,779,700	-51%
<i>Projection*</i>	23/24	\$ 7,000,000	17%

\*estimate based on Q2 revenues filed by the deadline

# Cannabis Update

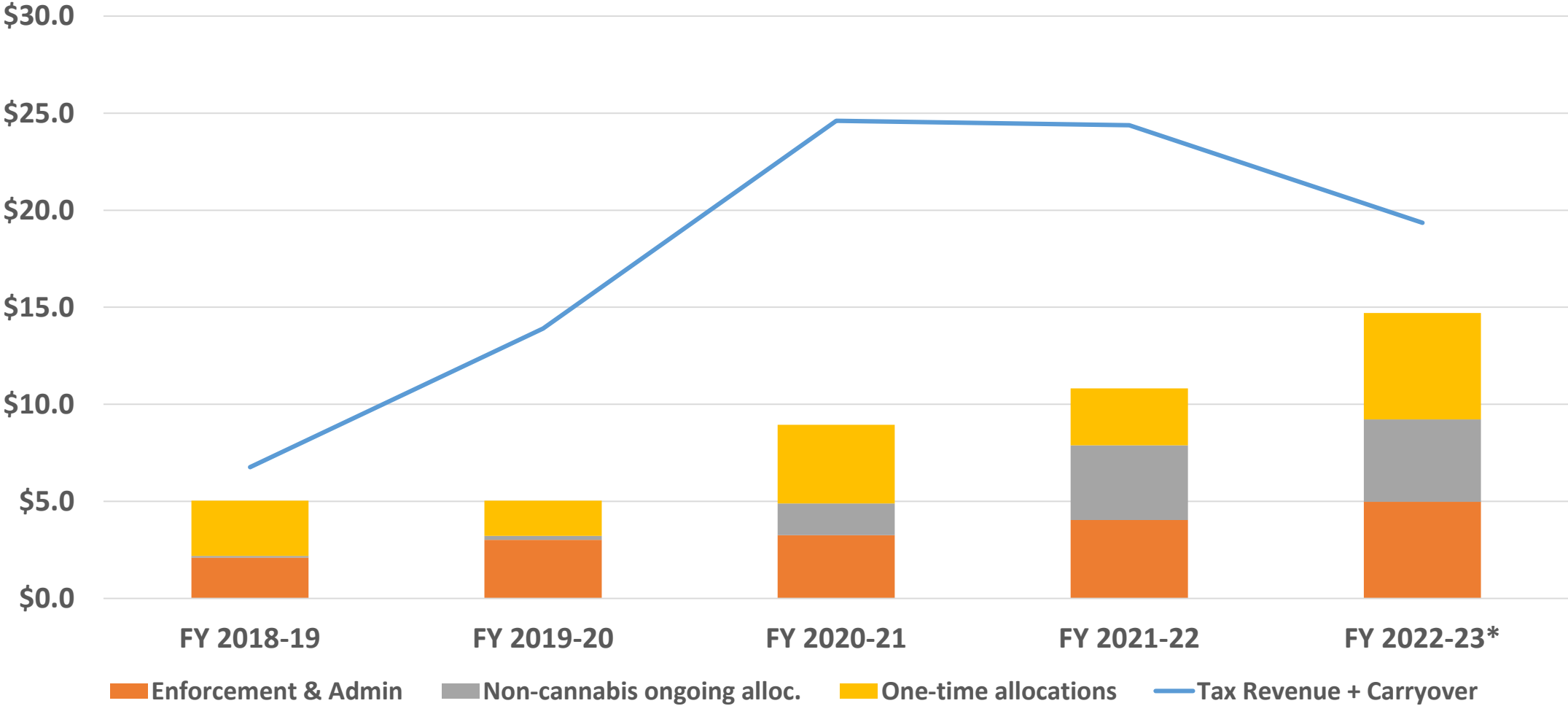
## Tax Revenue and Uses

	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
<b>Prior Year Carryover Balance</b>	-	\$1,722,400	\$8,865,800	\$15,665,800	\$13,568,000
<b>Actual Revenue</b>	\$6,760,700	\$12,182,200	\$15,746,600	\$8,718,800	\$5,779,700*
<b>Actual Expenditures</b>					
Ongoing Cannabis Enforcement and Program Admin	(\$2,104,300)	(\$3,013,000)	(\$3,259,900)	(\$4,034,600)	(\$4,979,600)*
Non-cannabis Ongoing Allocations	(\$86,200)	(\$203,500)	(\$1,629,800)	(\$3,848,600)	(\$4,243,300)*
One-time Allocations	(\$2,847,800)	(\$1,822,300)	(\$4,056,900)	(\$2,933,400)	(\$5,479,100)*
<b>Ending Balance</b>	\$1,722,400	\$8,865,800	\$15,665,800	\$13,568,000	\$4,645,700*

\*estimated values

# Cannabis Update

Tax Revenue and Uses (in millions)



\*estimated values

# Cannabis Update

## Cannabis Permitting, Licensing, and Enforcement

Table 1.	Fiscal Year 2022-23 Total Program Costs				
Source	Cannabis Permitting & Enforcement/Admin	FTE	Non-Cannabis		Total Costs
			On-going	One-time	
Permitting Fees	\$ 1,628,350	10	\$ -	\$ -	\$ 1,628,350
Business License Fees	\$ 503,954	3.2	\$ -	\$ -	\$ 503,954
Cannabis Tax Revenue	\$ <b>4,979,600</b>	17.1	\$ <b>4,243,300</b>	\$ <b>5,479,100</b>	\$ <b>14,702,000</b>
Total	\$ 7,111,904	30.3	\$ 4,243,300	\$ 5,479,100	\$ 16,834,304

Table 2. FTE by Program

Cannabis Program	FTE
Permitting	10.0
Program Administration/Licensing	8.4
Compliance/Enforcement	11.9
<b>Total</b>	<b>30.3</b>

# Recommended Action

- a) Receive and file the Fiscal Year 2022-23 Second Quarter Budget and Status Report as of December 31, 2022, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors; and
- b) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist of organizational, administrative, or fiscal activities of government that will not result in direct or indirect physical changes in the environment.