



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: 11/6/07
Placement: Departmental
Estimated Time: 60 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority & 4/5

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 2007-2008 First Quarter Financial Status Report and Budget
Expansion Requests**

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions: That the Board of Supervisors:

- A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2007-08 Financial Status Report as of September 30, 2007, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.
- B. Consider budget expansion requests deferred from budget hearings. (4/5 vote required for approving any expansion request).

Summary Text:

The County Executive Officer and Auditor-Controller, at least quarterly, report to the Board the budget and financial status of the County. This report is for the fiscal first quarter ending September 30th. The report demonstrates that the financial challenges often reported to the Board, such as softening of revenue sources and rising expenditures, are beginning to affect the County's budget. The majority of County departments have budgets that are fragile or over budget. Departmental and County Executive Office staff will continue to work to keep these budgets within balance by year end but a few departments, as noted in this report, may end the year in a negative position.

The second item in this report focuses on the Road Fund. As reported to the Board at the fiscal year 2006-2007 year-end financial report, the Road Fund required thorough analysis to determine the causes of the declining financial condition of the fund. The analysis determined a mismatch of restricted revenue and discretionary expenditures. The results, although summarized in this Board letter, are under further examination and financial issues and service impacts will be brought to the Board in the future.

The third item in this report is consideration of the remaining fiscal year 2007-2008 budget expansion requests. The Board was presented with a list of budget expansion requests at the June budget hearings. The majority of these expansion requests were deferred to the first quarter to enable the Board to better ascertain the County's financial position. Those requests are now back before the Board for consideration. Certain expansions have been withdrawn. The remaining budget expansion requests total \$5,871,582 which includes \$4,111,233 from departments and \$1,760,349 from outside agencies.

Background:

This Board letter includes three related issues. These include 1) the fiscal year first quarter financial status report, 2) a summary report on the financial condition of the Road Fund, and 3) consideration of budget expansion requests the Board continued in June. Each of these items will be discussed in separate sections of this Board letter.

Fiscal Year 2007-2008 First Quarter Financial Status Report

County Executive Office 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. During these meetings we have found a number of major differences (variances) between budgeted and actual amounts through September 2007. The Sheriff, Parks, Alcohol, Drug, and Mental Health (ADMHS), and the Road Fund budgets are four areas of concern.

In addition, a large revenue source for public safety, the Proposition 172 sales tax, is lower than anticipated which affects the District Attorney, Public Defender, Probation, Sheriff, Fire and Parks departments. Proposition 172 revenues may be \$2.4 million below projections by June 30, 2008. Nearly half of this revenue source is allocated to the Sheriff's department. This revenue shortfall is putting pressure on all the Proposition 172 the departments' finances. The Sheriff and Probation anticipate ending the year in a negative financial position and the other Proposition 172 departments are working to control their budgets.

Other variances to be discussed below 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 \$300,000 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/Department (Attachment B). 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 negative variance of \$1.09 million through September 30, 2007. The largest negative variance is the Sheriff's department, with salary costs being the major factor. The department overspent its salaries object budget by \$803,000 as of September 30th. Approximately half this overage is a result of the Zaca fire. However, the remaining amount is primarily due to full staffing in sworn positions coupled with a high number of deputy positions still in training, which leads to low salary savings and no reduction in the use of overtime until the newly hired deputies complete training. The department also remains nearly fully staffed overall for both sworn and civilian positions with only 12-15 vacancies on average through the first quarter out of a total of nearly 700 budgeted positions. In addition, the department will fill all of its unfunded deputy positions in the in anticipation of a large number of retirements after the first of the

calendar year when enhanced retirement benefits go into effect. The use of over hiring is planned to reduce the need for additional overtime expenditures in the event of a high number of retirements.

These three factors of having the lowest vacancy rate in recent history, over hiring staff, and not reducing expenditures to meet budget requirements have led to the department being significantly over budget on the expenditure side. Coupled with the projected Proposition 172 revenue shortfall, the department is on track to end the fiscal year with a deficit of approximately \$2.7 million. Unanticipated revenue is not likely to become available to abate this condition and the Board will have to determine if it is going to expand the Sheriff's budget at the end of the year by allocating strategic reserve or if it is going to request the Sheriff utilize all available means to stay within the appropriated budget.

Other significant individual department variances are discussed below.

- Parks. The department shows a \$760 thousand net negative variance. This variance is on the revenue side and results from a significant drop in fees at Cachuma Lake County Park due to the Zaca fire and low lake level due to drought.
- Public Defender. The department shows a \$510 thousand net negative variance. This variance is a timing variance of the department's Proposition 172 revenue and this timing variance will be corrected although the department, like other Proposition 172 departments, will still have a negative variance in Proposition 172 revenue.
- General Revenues. The general revenues show a net positive variance of \$687 thousand. The first quarter is too early to make any forecasting conclusions as only 2.4% of the budgeted revenue has been collected. Overall revenues appear to be tracking budget projections. The mid-year report, with three months of additional data, will provide an initial assessment of how discretionary revenues will perform this fiscal year.

SPECIAL REVENUE AND OTHER FUND SUMMARY

Two special revenue funds have significant variances. The Alcohol, Drug, Mental Health Services (ADMHS) Fund has a net negative variance of \$11.4 million and the Road Fund shows a net negative variance of \$4.7 million. The fund is under thorough review to ascertain if there indeed is a true variance or a mismatch of categorical funds and expenditures which can be managed.

The primary fund used by the Department of Alcohol, Drug and Mental Health Services is the ADMHS Fund. The \$11.4 net negative variance results from a revenue shortfall of \$12.8 million comprised of Medi-cal payment delays of \$9 million and other state intergovernmental revenues not materializing as budgeted. Although state payments are significantly delayed, the Department continues to spend money on services thereby resulting in the large net negative variance. ADMHS will likely require a mid-year budget reforecast to more accurately reflect projected revenues and expenditures.

Other significant fund variances are discussed below.

- Mental Health Services Act (0048). This fund, managed by ADMHS to isolate Proposition 63 activities, has a net positive variance of \$1.8 million. The primary reasons for the variance are a delay in new program expenditures and a timing variance relating to a \$1.4 million transfer.
- Capital Outlay (0030). This fund has a net positive variance of \$571 thousand as a result of the delay in certain capital construction projects.

Road Fund

The Road Fund nearly ended fiscal year 2006-2007 in a negative financial position. As a result of this and other indicators the County Executive Officer and Auditor-Controller established the need to thoroughly analyze the fund's finances to determine the root causes of the financial condition and to determine ways to resolve the issue and put into place measures to facilitate the financial management of the fund moving forward.

A team consisting of staff from the County Executive Office, Auditor-Controller's Office, and Public Works has been analyzing the financial condition of the Road Fund. The team determined that certain revenues were mis-matched with expenditures, other revenues were budgeted at a higher level than could be realized, and certain accounting errors occurred. The Road Fund ended the first quarter with a net negative variance of \$4.7 million that was a timing variance.

Budget Expansions

At the close of budget hearings in June, the Board deferred, to the end of the first quarter, requests in the amounts of \$6,951,546 for departmental budget expansions and \$1,760,349 for outside agency funding. The departmental budget expansion requests have evolved with some being withdrawn. The current departmental budget expansion requests total \$4,111,233 and the outside agency requests remain \$1,760,349. Details of the remaining budget expansion requests are included in Attachment C.

The Board has discretion in funding any or all of these expansion requests. Given the financial challenges outlined in this Board letter it is recommended the Board not fund any budget expansion requests at this time to help assure the County is able to fund existing budget appropriations. If the Board does decide to fund an expansion request the appropriation requires a four-fifths affirmative vote.

Performance Measure: The quarterly financial status report is associated with a number of performance measures on pages D-26 and D-27 of the 2007-2008 County budget including controlling revenue and expenditure variances, presenting quarterly financial reports to the Board, conducting MoPros and reviewing variances, and rational allocation of resources through performance management.

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

Attachments: Attachment A - Projected Annual Status Report, General Fund

Attachment B - Projected Annual Status Report, Special Revenue and Other Funds

Attachment C – Fiscal Year 2007-2008 budget expansion requests

Attachment D – Presentation slides

Authored by: Jason Stilwell

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