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:	November 15, 2016
Placement:	Departmental
Estimated Time:	30 minutes
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Mona Miyasato, County Executive Officer Theodore A Fallati, CPA, Auditor-Controller
	Contact Info:	Tom Alvarez and Katie Roth 568-3432 568-2126
SUBJECT:	**Fiscal Year 2016-2017 First Quarter Budget Update and Financial Update on Pension Increases for FY 2017-18**	

County Counsel Concurrence
As to form: NA

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 2016-2017 Budget and Financial Status Report as of September 30, 2016, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors; and

b) Receive an update on anticipated pension cost increases.

Summary Text:

The Fiscal Year 2016-2017 Budget and Financial Update for the first fiscal quarter, ending September 30, 2016, provides a snapshot of the County's financial position relative to the adjusted budget for the first three months of this fiscal year for the Board's review.

The General Fund projects a $332 thousand negative variance by year end when compared to the Adjusted Budget. This is largely due to tax revenues trending lower than budgeted, and salaries and benefits projected to be greater than budget in the Sheriff's Office. Special Revenue Funds are generally tracking to budget with the exception of Behavioral Wellness' Mental Health Services Fund as explained later in this report. Departments will continue to monitor their budgets and take appropriate actions to correct these variances.

This report also provides an update on FY 2017-18 anticipated pension contribution increases, pursuant to recent actions by the Santa Barbara County Employee Retiree System (SBCERS) Board of Retirement.

Background:

FIRST QUARTER REPORT

In this report, projected financial results for the fiscal year end are compared to the annual adjusted budget. The major differences (variances) between budgeted and actual amounts through September 30, 2016, are discussed below.

This report highlights the following variances that exceed the thresholds:

1) General Fund departments (including Discretionary General Revenues) with projected variances greater than $300 thousand per department; shown in the Financial Summary Report (Attachment A) and

2) Non-General Fund departments with projected variances greater than $500 thousand per fund; shown in the Financial Summary Report (Attachment B).

Both Attachments A and B use actual revenues and expenditures for the first three months of FY 2016-17, and then add departmental projections for the next nine months to arrive at the "Projected Actual" columns. These annual Projections are then compared to Adjusted Budgets for both Sources and Uses to produce a "Net Financial Projected Variance" for the end of the fiscal year (shown in the far right column of the reports Attachment A and Attachment B).

BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board approved budget appropriations per Board adopted policy and procedure *'Budgetary Control & Responsibility'* as the following abbreviated excerpt states:

A. If expenditures are projected to exceed appropriations; the department head responsible for the budget shall perform one or more of the following steps in the following order:

    1) Lower the expenditure level to maintain overall expenditures within the total amount budgeted,
    2) Request a transfer from fund balance within the same department and fund under the department head's control (if available for appropriation),
    3) Prepare a transfer request from General Fund Contingency and an agenda item for the Board of Supervisors with a memo to the County Executive Office, providing adequate justification.

GENERAL FUND SUMMARY (Attachment A)

The General Fund had a projected net negative variance of $332 thousand at September 30, 2016. This is the result of favorable results across most departments, offset by negative variances in Sheriff (-$695 thousand) and General Revenues (-$1.087 million).

General Revenues (Department 991) are currently estimated to be under budget with a projected negative year end variance of $1.087 million. Property Tax components are trending below budget year to date due in part to budgeting property tax on a 4.5% assessed value growth for FY 2016-17 compared to the actual growth of 4.25%. Specifically:

- -$472 thousand - Secured Property Tax
- -$311 thousand - Current Unsecured Property Tax
- -$250 thousand - Supplemental Property Tax
- -$250 thousand - Property Tax In-Lieu of VLF
- -$123 thousand - Property Transfer Tax
- +$210 thousand - Unitary Property Tax

In addition, Transient Occupancy Tax is also projected to be under budget by $279 thousand. These negative variances are partially offset by smaller positive variances resulting in a net negative variance of $1.087 million. With the potential approval of the increase in the TOT from 10% to 12% by voters on the November 8th ballot, it is estimated that an additional $1.8 million annually will be raised for the General Fund, assuming no other changes to those assessed.

The table below reflects the current General Revenue Fiscal Year End projections.

Discretionary General Revenue Summary (in thousands):				
Source	**Adopted FY 2016-17**	**Adjusted FY 2016-17**	**Projected FY 2016-17**	**Variance Proj. vs. Adjusted**
Significant Property Taxes	$ 198,128	$ 198,128	$ 196,932	$ (1,196)
RDA Dissolution Proceeds - One time	-	-	-	-
RDA Prop. Tax - Ongoing	5,720	5,720	5,720	-
Subtotal Property Taxes	$ 203,848	$ 203,848	$ 202,652	$ (1,196)
Cost Allocation Services	11,152	11,152	11,152	0
Local Sales Tax	10,216	10,216	10,320	104
Transient Occupancy Tax	9,429	9,429	9,150	(279)
Payments in Lieu of Tax	18	18	18	-
All Other Revenues	5,197	5,197	5,367	170
Total Discretionary Revenues	**$ 239,860**	**$ 239,860**	**$ 238,659**	**$ (1,201)**
Use of Funds - Other Financing Uses	$ 30,031	$ 30,031	$ 29,917	$ 114
Projected Fiscal Year End Variance				**$ (1,087)**

The Sheriff's Office has a projected negative variance of $695 thousand, due to Salaries and Employee Benefits (S&B) that are projected to be approximately $1.0 million (0.91%) over budget for the fiscal year. Within Salaries and Employee Benefits, Sheriff's staff is projecting overtime to be $2.7 million over budget while non-overtime S&B accounts are currently projected to be $1.7 million under budget, primarily due to salary savings from vacancies. The first quarter overtime spending represents 88.5% of the total FY 2016-17 budgeted amount. In FY 2014-15, when the Sheriff's Department ultimately ended the year $2 million negative, the first quarter overtime expenditures were at 111.8% of the total budgeted amount. In FY 2015-16, when the Department ended the year with a surplus, the first quarter overtime expenditures were at 48% of the total budgeted amount. Given these trends, it is likely that the Department will end the year with a deficit. If the Sheriff Salaries and Employee Benefits expenditures for the remaining three quarters continue at the same rate (1% over budget each quarter), costs could be as high as $4.0 million over budget (4%) for the fiscal year. The Sheriff's Department is budgeted to hire 15 new custody deputies in the second quarter as part of the North Branch Jail transitional hiring plan which should reduce overtime in the fourth quarter of this fiscal year. These staff will also address the issue of a staffing relief factor as identified in the CGL consultant report.

At the end of the first quarter, there were 17 Patrol vacancies, 1 Custody Deputy vacancy and 14 civilian vacancies. As Patrol and Custody vacancies are filled, salary savings will most likely diminish even further (depending on other separations) and overtime costs may increase during the extensive training periods.

Actions to Address Fiscal Issues: CEO staff will continue to monitor Sheriff overtime usage, which has been a historic issue for the Department. Additionally, Sheriff's Office management is meeting regularly to implement strategies for addressing this problem, including analyzing the causes of the recent spike in an attempt to identify potential reduction opportunities, reviewing patrol schedules for possible adjustments, and reviewing the recently implemented mandatory overtime schedule to potentially reduce the amount required per pay period.

The Sheriff is measuring and monitoring new hires and overtime usage and will be responsible for maintaining departmental expenditure levels per the policies stated above.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

The Mental Health Services Fund (0044) is projecting a negative variance of $5.9 million. The following are the main drivers of the variance:

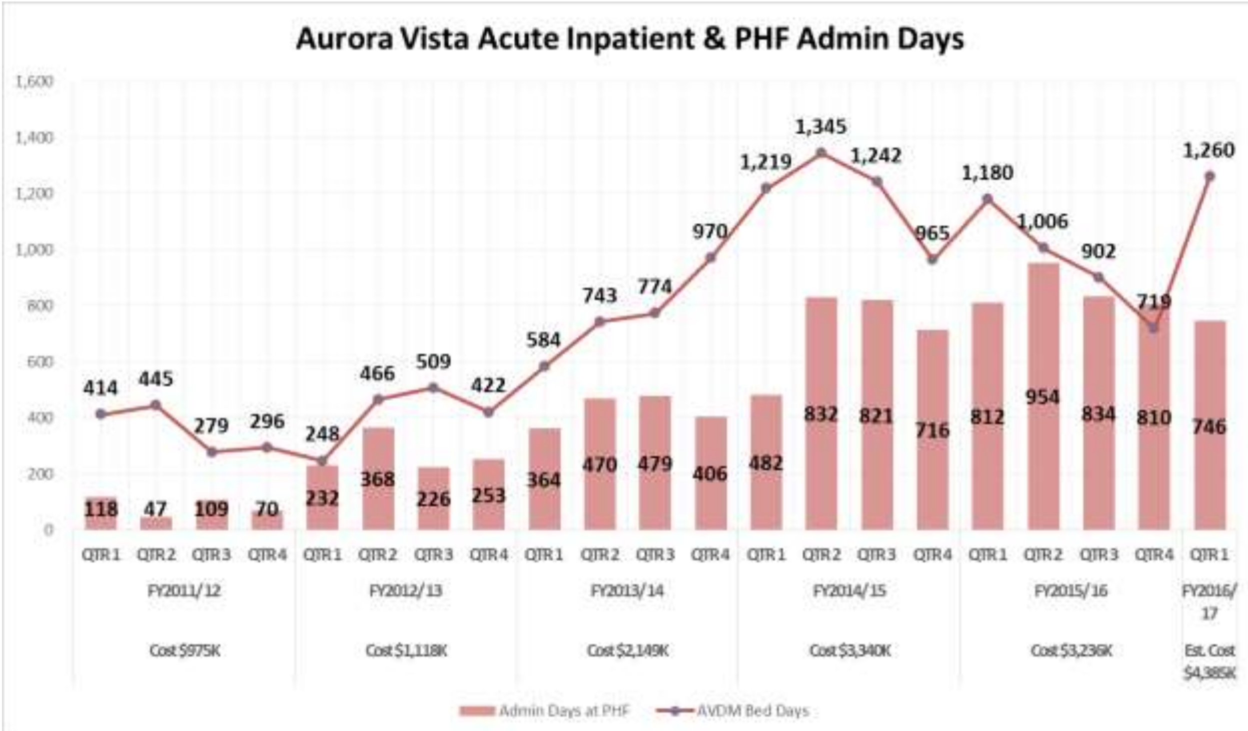
- Psychiatric Health Facility (PHF) audit compliance required unbudgeted expenditures of $2.4 million ($2.0 million of which are one-time capital or consulting fees).
- PHF revenue is down $2.1 million due to extended non-billable days associated with Court ordered clients whose competency to stand trial is in question.
- Utilization of beds at Aurora Vista Del Mar trend exceeding budget by $2.2 million.

These drivers are partially offset by a positive audit settlement, for FY 2008-09, in the amount of $730 thousand.

Inpatient Costs:
A significant and ongoing cause of the negative variance in the Mental Health Services Fund is the greater than planned purchase of inpatient contract beds when the PHF is full. Contracted inpatient beds experienced a significant increase in the first quarter as can be seen in the graph on the following page and was in part impacted by:

- Increased bed days in the PHF for court ordered clients to be evaluated to determine their competency to stand trial. These Incompetent to Stand Trial (IST) non-billable bed days were up by 264 days in the first quarter
- Increase in client demand for acute services
- Lack of available locations to release clients to (home, family or "step down" facilities), believed to result in increased length of stay at AVDM from 7.5 to 8.9 days (about 135 bed days)
- Less PHF beds available due to recent renovations at the PHF (about 90 bed days)

These extended stays in the PHF reduce the normal flow, resulting in the need for additional contracted beds, primarily from Aurora Vista del Mar (AVDM).



In FYs 2014-16, BW Department opened 28 additional beds/"slots" with the intent to reduce the number of Admin Days in the PHF by creating alternative crisis and step down beds. This was expected to enhance bed capacity and reduce the number of contracted beds. Below are the additional beds added in FY 2015-16, by category:

- 8 Beds – South County Crisis Residential Beds
- 8 Slots* – Crisis Stabilization Unit (CSU)
- 6 Beds – Safe & Stable Housing, Alameda House
- 6 Beds – Safe & Stable Housing, Cottage Grove
- Total new beds/slots = 28

  ** The CSU "slots" are for stabilization and are not residential beds*

The graph above highlights that between the second and fourth quarter of FY 2015-16 there was a reduction in contracted beds as the additional beds were placed into operation. However, in the first quarter of FY 2016-17 the contracted beds spiked. As stated above, it is believed that the increase in AVDM bed days in the first quarter is due to renovations at the PHF, an increase in client demand and an increased length of stay at AVDM.

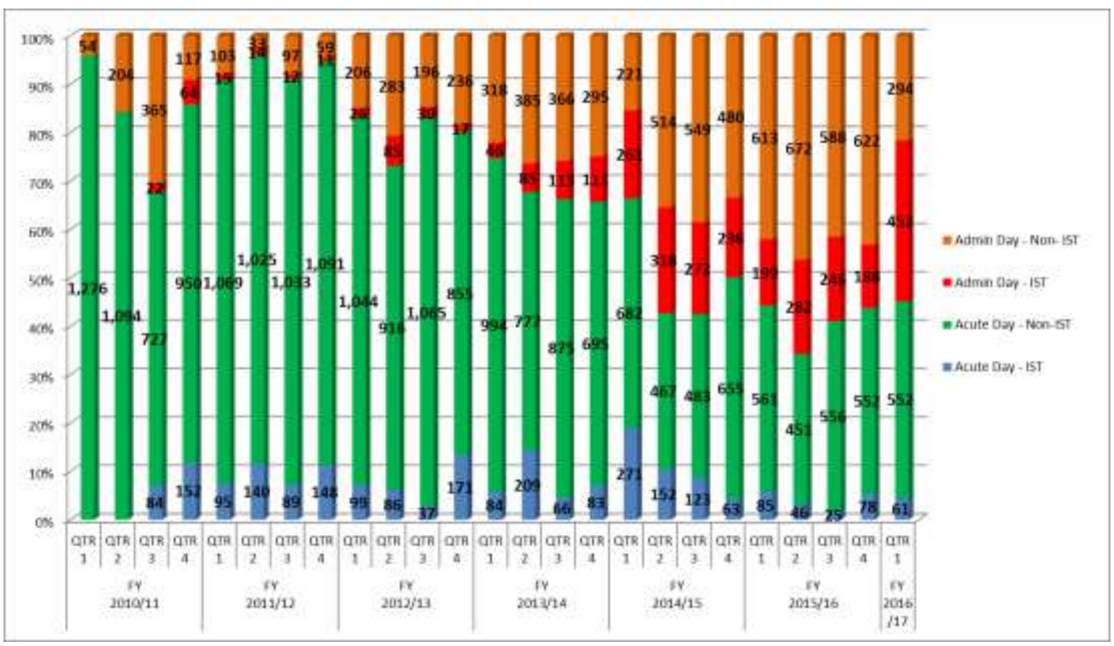
Medi-Cal & Medicare Revenue: In the first quarter of FY 2016-17 the department experienced 452 IST non-billable Admin Days; the highest level of IST Admin Days on record and compares to 188 days last quarter (see graph below). The overall service mix at the PHF remains well below the department's minimum target of 65% Acute beds and 35% Admin beds; the actual first quarter mix was 47% Acute / 53% Admin. IST Admin Days result in $0 revenue while Acute Days result in up to $2,006.34 per day. These record levels of IST Admin Days are resulting in a significant revenue loss. The unfavorable service mix also results in higher costs via higher usage of Out of County Inpatient Hospital services. As new clients requiring inpatient services are identified, and the PHF beds are occupied with Admin Day clients, the department has been sending these clients to an out-of-county inpatient hospital (AVDM).

To counter the IST Admin Day issue and related increasing out-of-County Inpatient hospital costs, Behavioral Wellness has utilized State grants and increased General Funds to create crisis and residential programs to enhance supportive services with the intention of reducing the overall inpatient demand. While this strategy was initially effective in reducing contracted beds, the numbers are once again rising.

Actions to Address Fiscal Issues: The Department is continuing its efforts reduce the number of contracted beds and to improve revenues through:

- Identifying the cause of the significant increase in the IST referrals
- Reconvening the IST Task Group to identify solutions
- Research alternative placement for non-acute IST clients
- Evaluate the movement (length of stay) at AVDM and in the available step down beds
- Evaluate the effectiveness of crisis services and beds
- Work with system partners to address issues and identify solutions

The BW Department and the CEO's office will continue to closely monitor the PHF revenue mix and contracted bed levels to reduce the currently projected deficit position. Changes to policy or practices will be evaluated and brought forward to the Board as appropriate.



Other Costs:

PHF Audit: In FY 2016-17 the PHF operations were audited for compliance with Federal Conditions of Participation, under Title 42, of the Federal Code of Regulations. As a result of the findings, and per recommendation of the PHF Governing Board, the PHF will address identified facility deficiencies and staffing needs in both clinical and quality control areas. The estimated ongoing staffing and maintenance costs of these enhancements in FY 2017-18 will be a gross expense of approximately $837 thousand, offset by $143 thousand of additional revenue, for a net impact of $694 thousand. In FY 2018-19, the Gross expense will be approximately $850 thousand, with offsetting revenue of $377 thousand, for a net impact of $473 thousand. As mentioned above, an estimated $2.0 million in one-time capital or consulting fees will also be necessary.

OIG Audit: In the first quarter of FY 2016-17, the OIG began the first phase to audit of the department's Medi-Cal and Medi-Care billing practices. The department is complying with the OIG audit requests and has provided all the requested data for the first phase. It has not yet been determined what the full scope of the audit entails but it can include up to 450 patient records.

PENSION IMPACTS UPDATE

SBCERS Board of Retirement Action

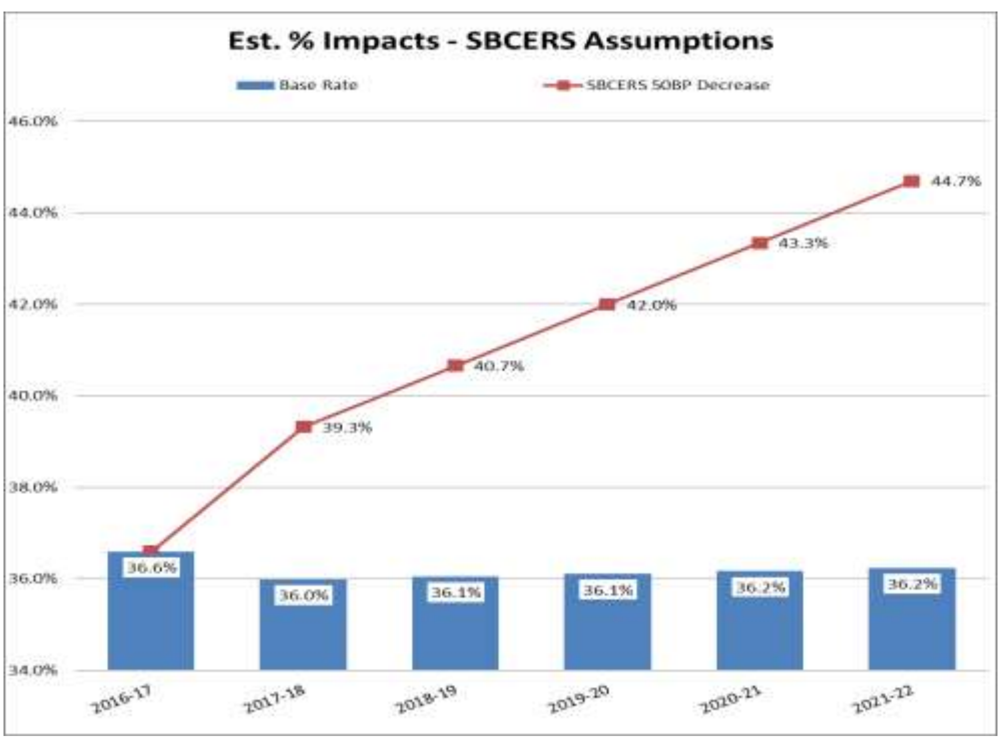
On October 26, 2016, by a 5-3 vote, the Board of Retirement approved actuarial assumptions changes, including a 50-basis point change to the assumed rate of return. This action occurred despite a request by the Board of Supervisors that changes be made gradually, rather than in one year, to reduce negative impacts on County services, residents and employees. The Board of Retirement will take final action on the County's required pension contribution at its December 14, 2016 meeting.

The assumption changes approved by the Board of Retirement equate to an increase in the County's pension contribution (all funds) from 36.0% of pensionable payroll to 39.3% of pensionable payroll next year, which grows to 44.7% of pensionable payroll by the fifth year. In dollar terms, this is estimated to be an additional $10.8 million next year (from $115.8 million to $126.6 million) which is expected to grow to over $30.6 million in the fifth year, or FY 2021-22 (from $115.8 million to $161.9 million) in pension contributions.

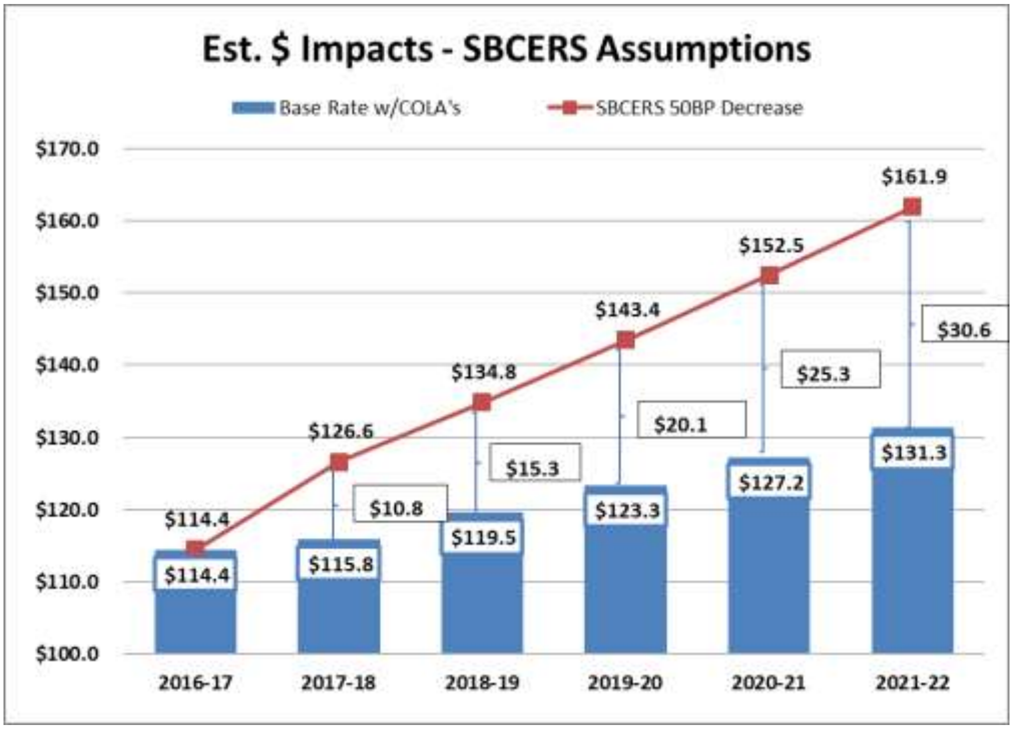
This calculation includes smoothing in of cost increases over 5 years and also assumes the impact of wage increases on the retirement contribution (i.e., higher wages results in greater retirement contributions). Per the SBCERS actuary, the positive impacts of adding new employees under the PEPRA retirement plan are offset by the negative impact of the previous years' investment shortfalls (i.e. the fund earned only 0.8% and 1.4% in the last two years), and therefore, the PEPRA savings do not mitigate the cost increases described.

Negotiated wage increases will also result in additional costs that will need to be addressed in next year and future year budgets. The graphs below demonstrate the estimated percentage and dollar increases.

5 Year % Impact of SBCERS Changes
Grows from 36.6% - 44.7%



5 Year $ Impact of SBCERS Changes
Grows from $114.4M - $161.9M



Anticipated Budget Impact

The costs described above will be partially offset by reimbursements from state, federal or local programs, which will vary by program. Staff is updating the Five-Year Forecast to determine the size of the overall budget gap taking these into account. These costs and other issues will be discussed with the Board in December, when staff brings forward the annual Fiscal Outlook Report.

Even with anticipated offsets, it is expected that these cost increases cannot be absorbed by most departments at current service levels. Service level reductions, greater revenue generation and/or policy changes will be necessary to balance next year and future year budgets. By way of context, the expected size of this increase in pension cost is similar to that faced by the County during the Great Recession (when pension costs increased by $42.5 million over 5 years).

Approaches to Address Impact: Fiscal Re-balancing and Restructuring

Discussions are underway now on ways to address this issue, given its anticipated impact over the next five years. The typical budget process does not begin until December, but CEO staff is communicating with departments now on immediate (next year) service level reduction scenarios and longer-term (2-5 year) strategies to achieve the required budget reductions.

The longer term plans will require more time and analysis to achieve the reductions projected to be needed. Reductions and/or new revenues will be needed and must be aligned with the Board's priorities and the organization's longer-term sustainability. Meetings are scheduled with Department Directors and employee bargaining group representatives this month to begin explaining the issue. CEO staff will also be working with Human Resource staff to evaluate hiring reviews or freezes to allow departments time to generate savings, and will bring forward in December any recommendations for any immediate actions. Staff will be providing regular updates to the Board on these issues over the coming months. While the pension impacts will affect the budget next fiscal year, staff will continue to monitor current year impacts and evaluate possible cost containment or reductions that could potentially occur this year to assist with next year's issue.

Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter.

Key_Contract_Risks:

NA

Attachments:

A – Financial Summary Report – General Fund
B – Financial Summary Report – Special Revenue and Other Funds
C – PowerPoint presentation

Authored by:

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CC:

Department Directors
Assistant County Executive Officers and CEO Fiscal and Policy Analysts

Quarterly Financial Update Signal Chart

For Quarter ending September 30, 2016

- ● Actuals Are Generally Tracking Budget
- ▲ Actuals Materially Vary from Budget-Positive
- ▼ Actuals Materially Vary from Budget-Negative
- ■ Actuals Expected to End Year in Deficit

	General Fund
●	**Board of Supervisors**
●	**County Executive Office**
●	**County Counsel**
●	**District Attorney**
●	**Probation**
●	**Public Defender**
●	**Courts**
■	**Sheriff**
●	**Public Health - EHS, AS, HazMat**
●	**Agriculture Commissioner**
●	**Parks**
●	**Planning and Development**
●	**Public Works**
●	**Housing & Commty. Devmnt.**
●	**Community Services Dept.**
●	**Auditor Controller**
●	**Clerk-Recorder-Assessor**
●	**General Services**
●	**Human Resources**
●	**Treasurer-Tax Collector**
●	**General County Programs**
▼	**General Revenues**

	Other Funds
	Fire
●	Fire Protection
	Sheriff
●	Inmate Welfare
	Public Health
●	Health Care
●	Tobacco Settlement
	Behavioral Wellness
■	Mental Health Services
●	Mental Health Services Act
●	Alcohol and Drug Programs
	Social Services
●	Social Services
●	IHSS Public Authority
	Child Support
●	Child Support Services
	Sheriff
●	Capital Projects - Jail

	Other Funds
	Parks
●	Capital
●	Providence Landing CFD
	Planning and Development
●	Fish and Game
●	Petroleum
●	CREF
●	RDA Successor Agency
	Public Works
●	Roads: Funds 0015, 0016, 0017, 0019
●	Resource Recovery and Waste Mgt.
●	CSA
●	Flood Control
●	North County Lighting
●	Laguna Sanitation
●	Water Agency
	Housing & Commty. Devmnt.
●	CDBG
●	Affordable Housing
●	HOME
●	Municipal Energy Financing
●	Orcutt CFD
	General Services
●	Capital
●	Special Aviation
●	Vehicles
●	Information Technology
●	Communications
●	Utilities
	CEO-Human Resources
●	County Unemployment Insurance
●	Dental Insurance
●	Medical Malpractice Insurance
●	Workers' Comp Insurance
●	County Liability Insurance
	Treasurer-Tax Collector
●	Debt Service
	General County Programs
●	Public and Educational Access
●	Criminal Justice Facility Const.
●	Courthouse Construction
	First Five
●	First Five Child & Families Comm.
	RDA Successor Agency
●	Successor Agency Housing