



**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: May 19, 2015
Placement: Departmental
Estimated Time: 45 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department: Mona Miyasato, County Executive Officer
Director(s): Robert Geis, CPA, Auditor-Controller
Contact Info: Tom Alvarez and Julie Hagen
568-3432 568-2126

SUBJECT: Fiscal Year 2014-2015 Third Quarter Budget and Financial Update

County Counsel Concurrence

As to form: NA

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

A. That the Board of Supervisors accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2014-2015 Budget and Financial Status Report as of March 31, 2015, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

Summary Text:

The Fiscal Year 2014-2015 Budget and Financial Update for the Third Fiscal Quarter, ending March 31, 2015, provides a snapshot of the County's financial position relative to the adjusted budget for the first nine months of this fiscal year for the Board's review.

Background:

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 March 31, 2015, 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 \$300,000 per department; shown in the Financial Summary Report (Attachment A) and

- 2) Non-General Fund departments with projected variances over \$500,000 per fund; shown in the Financial Summary Report (Attachment B).

Both Attachments A and B use actual revenues and expenditures for the first nine months of FY 2014-15, and then add departmental projections for the next three 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 positive variance of \$274 thousand at March 31, 2015. This is the result of a negative \$1.9 million variance in the Sheriff’s Department; that is offset by a positive \$1.4 million variance in General Revenues, a positive variance of \$399 thousand in Clerk Recorder Assessor, and favorable results in several other departments.

General Revenues currently show a positive variance of \$1.4 million when compared to the Adjusted Budget. This is a result of Property Taxes having a positive year to date variance of \$887 thousand, Transient Occupancy Tax positive by \$585 thousand, RDA residual distribution up by \$325 thousand and Sales Tax up by \$296 thousand. These positives are slightly offset by various negatives across other revenue accounts. General Revenues are expected to finish the year in a positive position.

Discretionary General Revenue Summary (in thousands):				
Source	Adopted FY 2014-15	Adjusted FY 2014-15	Projected FY 2014-15	Variance Proj. vs. Adjusted
Significant Property Taxes	\$ 180,356	\$ 180,759	\$ 181,321	\$ 562
RDA Prop. Tax - Ongoing	4,919	4,919	5,244	325
Subtotal Property Taxes	\$ 185,275	\$ 185,678	\$ 186,566	\$ 887
Cost Allocation Services	9,387	9,387	9,355	(32)
Local Sales Tax	7,309	7,309	7,605	296
Transient Occupancy Tax	7,401	7,401	7,986	585
Payments in Lieu of Tax	18	18	18	-
All Other	8,365	8,294	7,953	(341)
Total Discretionary Revenues	\$ 217,755	\$ 218,087	\$ 219,483	\$ 1,396

The positive variance of \$887 thousand in Property Taxes is driven mainly by Secured and by In-Lieu of Vehicle License Fees. As previously reported to the Board and reiterated in the Second Quarter Report, the implementation of the new Property Tax System has delayed the normal issuance of Supplemental Property Tax bills. These tax bills are anticipated to be issued before year-end and are currently not projected to have a negative impact on the budget.

Significant individual General Fund department variances (Attachment A, total positive \$273 thousand) are discussed below:

There are three reportable departments; General Revenues, Sheriff, and Clerk Recorder Assessor. The favorable results for General Revenues were discussed above.

The Sheriff's Department has a projected negative variance of \$1.9 million (same as reported in the Second Quarter), comprised of Salaries & Benefits projected to be over budget by \$2.7 million partially offset by Services & Supplies projected to be under budget by \$404 thousand and Proposition 172 Public Safety Sales Tax revenue being over budget by \$303 thousand.

Within Salaries & Benefits, Overtime is projected to be over budget by \$4.5 million, partially offset by positive variances in Regular Salaries (\$1.9 million), Retirement costs (\$865 thousand) and Health Insurance (\$431 thousand).

Some of the overtime is occurring due to vacancies. As vacancies are filled, overtime is incurred to cover the duties of the new employees while training is completed (6 to 9 months). As training is completed, overtime costs per pay period should decline and it was expected that overtime costs would be reduced in the third and fourth quarters of this year. Total overtime year-to-date through March 31st is \$5.5 million, compared to \$5.8 million during the same period last year (an improvement of \$300 thousand). Further analysis is currently being prepared and will be reviewed with Sheriff's staff.

Other costs that are over budget within Salaries & Benefits include annual vacation payouts (\$325 thousand) and overtime payouts (\$387 thousand).

On March 17, 2015, as part of the Budget Preview presentation, possible options were presented to help address the projected negative balance: close a portion of the Medium Security Facility for remainder of FY 2014-15; temporarily reduce the Santa Maria Branch Jail post positions by one position; and defer hiring of most employees until FY 2015-16. The Sheriff has implemented these changes and the savings are expected to improve their financial position during the final quarter of the fiscal year.

The Clerk Recorder Assessor has a projected positive variance of \$398 thousand mainly from lower than anticipated costs in the Assessor's Election Division from vacancy salary savings.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B, +\$4.9 million)

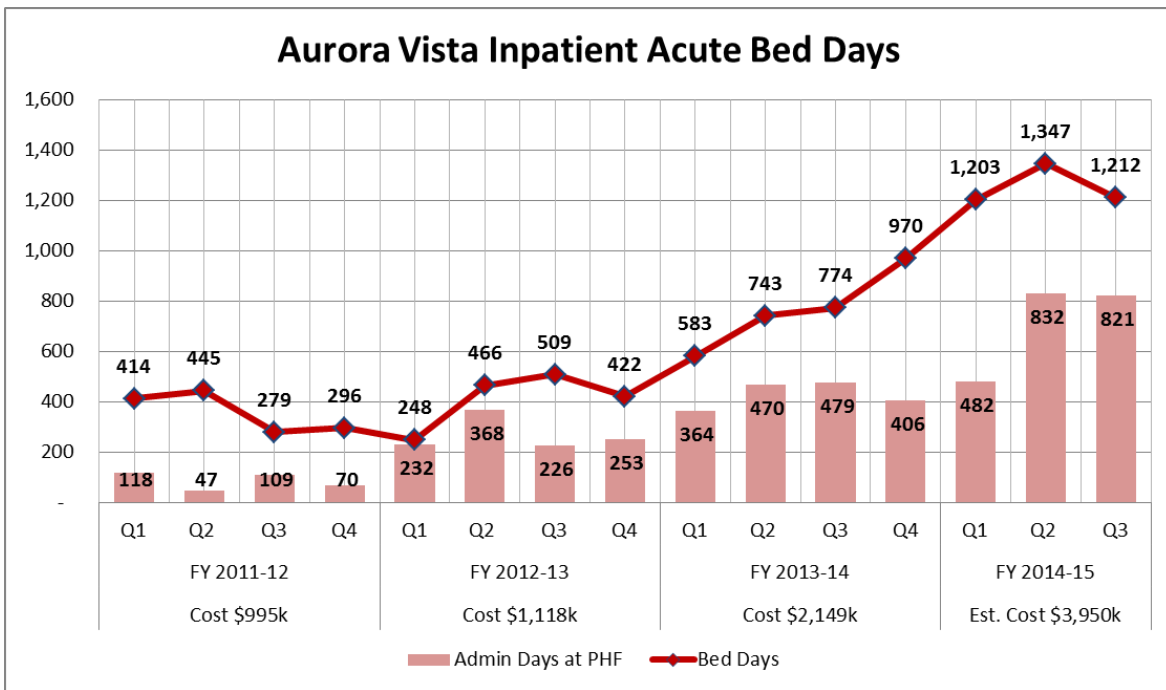
The Roads Operations Fund (0015) has an estimated positive variance of \$2.3 million, reducing a planned use of Fund Balance from \$4.4 million to \$2.1 million. Savings consist of \$1.4 million in salary savings due to purposely keeping six positions open and delays in filling other vacant positions. As Public Works has previously reported to the Board, revenues have been declining and have required the Departments' use of fund balance and carrying vacancies to manage their budget and minimize the impact.

The Health Care Fund (0042) reflects a projected positive variance of \$490 thousand, which is not a reportable variance but is a reduction from the Second Quarter reported variance of a positive variance of \$2.7 million. The reduction is largely due to the redirection of Tobacco Settlement Funds (TSAC). To accomplish this, \$2.0 million of unanticipated Medi-Cal revenue will be recognized and a budgeted transfer from TSAC of the same amount will be canceled. These funds will ultimately be transferred to ADMHS for additional inpatient beds. The use is anticipated to span over two fiscal years, FY 2014-15 and FY 2015-16.

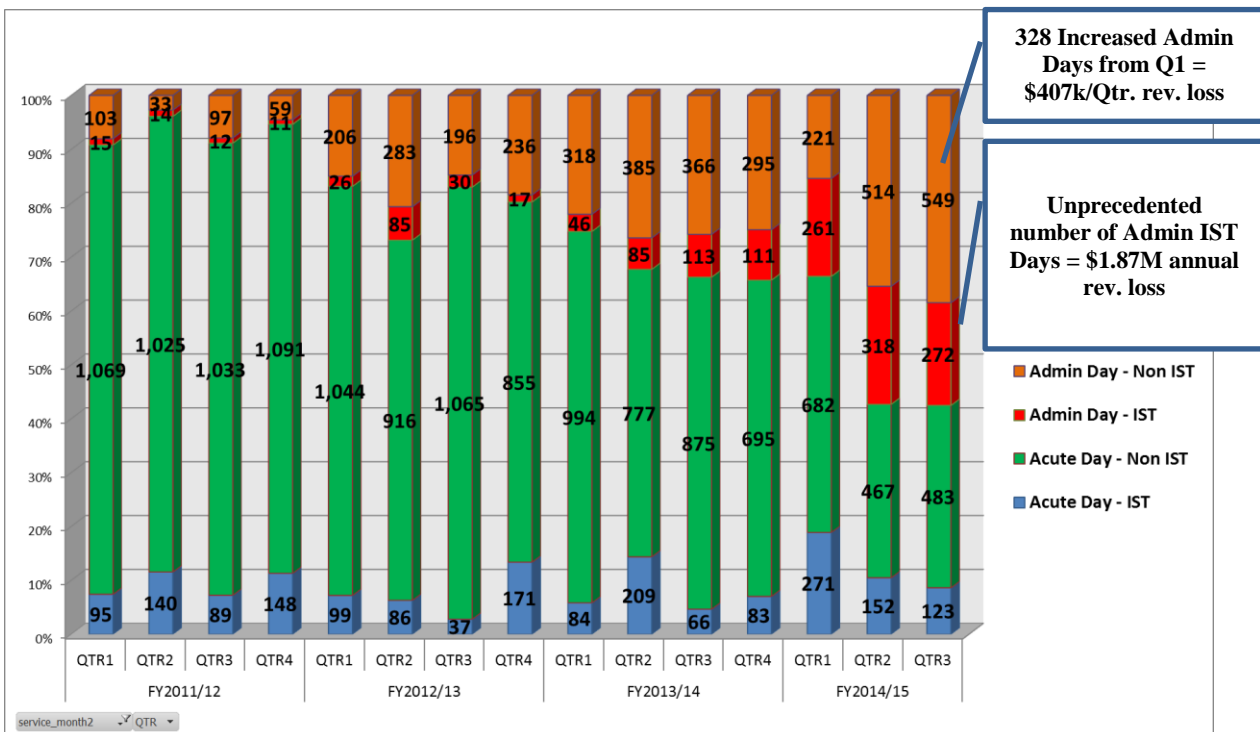
The \$490 thousand variance may be overstated due to the fact that the PHD is in process of preparing several additional budget revisions for additional capital needs for PH Lab equipment; Ultrasound(s); and copiers. In addition, a large purchase of replacement computers has not yet been completed - all will decrease this Net Financial Impact.

The Mental Health Services Fund (0044) is projecting a negative variance of \$4.6 million (same as reported in Second Quarter). As with the Second Quarter, the main drivers are Inpatient Contract Beds, lower than expected Medi-Cal and Medicare revenue, and allocated administration costs.

Inpatient Costs: The primary and continuing cause of the variance is the purchase of inpatient contract bed costs, which account for about \$3.5 million of the variance. Contracted inpatient beds have experienced a rapid increasing trend, in part due to a significant increase in the length of stay associated with a) court ordered clients to be evaluated to determine their competency to stand trial and b) lack of available locations to release clients to (home, family or "step down" facilities). These extended stays in the Psychiatric Health Facility (PHF) reduce the normal flow in the PHF, yield the purchase of additional contracted beds and result in clients staying longer than medically necessary at the PHF (beyond the period of being acute). The last two quarters have seen the highest level of bed usage in recent history and it is unclear as to when the usage might slow. The contracts were expanded in April to increase the limit for contract bed usage and the purchase of more beds was pursued. The graph below illustrates the recent increase in contracted inpatient beds at Aurora Vista del Mar (AVDM, the primary source of contracted acute inpatient beds) and the number of Administrative beds per quarter.



Medi-Cal & Medicare Revenue: As mentioned above, court ordered clients being evaluated for competency to stand trial are remaining in the PHF beyond the period of acute medical need as placement options are identified. This results in clients moving to “administrative” status, which results in lower or zero billing to Medi-Cal and Medicare. The daily acute Medi-Cal billing rate for the PHF is \$1,655 but drops to \$415 for administrative days and zero for administrative IST days. The billing impact on FY 2014-15 of IST administrative days are significant and estimated to be \$1.87 million in lost revenue (current annual rate of 1,123 days x \$1,655/day = \$1.87 million). See the PHF trend table below.



On March 17, 2015, the Department provided potential options to reduce the high cost of acute beds through various actions: provide restoration on an outpatient basis; establish a robust forensic team; make outpatient psychiatry available to forensic clients; establish crisis stabilization and residential facilities; establish crisis triage teams and in-jail intervention; immediately fill forensic liaison position and housing placement coordinator. Also, the department was beginning to implement a strategy to replace housing (beds) lost during the recession with safe and stable, local beds. These activities are in progress, already in place and/or are expected to be implemented by the end of the fiscal year.

Working with County Counsel, the Department also has engaged the Public Defender, the Courts and Probation to find a solution to the recent surge in IST Administrative days. This includes identifying and working toward the outpatient restoration option that is allowed by statute and that may serve some IST defendants at significantly lower costs. The projected FY 2014-15 revenue loss and related additional bed cost at AVDM to support the IST clients is \$2.9 million. FY 2014-15 revenue estimates are based on current levels and should improve as new programs are fully implemented. Programmatically, the Department has begun to ramp up efforts for implementing the Crisis Triage units, Crisis Residential and delivery of care improvements, which are expected to alleviate some of the current need for purchased beds. These changes were adopted within the FY 2014-15 budget; however, the programs are not fully implemented causing a lag in direct and administrative revenues and additional bed costs.

Funding of the shortfall in the Department is being done in three steps. ADMHS has received \$1.7 million from Contingency to extend the contracts related to inpatient beds at AVDM. The Department is requesting an additional \$1.8 million at the Board hearing today, May 19th, to support the contracts for IMD beds and psychiatric support at AVDM. The balance of the shortfall will be dependent on actual Medi-Cal and Medicare billing at the PHF, which are currently projected to be below budgeted levels.

The Department will also be updating the Board during the 4th Quarter on the status of their cost settlement liabilities and available funding for these liabilities.

The Vehicle Operations Maintenance Fund (Fund 1900) has a positive projected variance of \$627 thousand primarily due to gas prices being consistently lower than budgeted throughout the year. Gas was budgeted at \$4.50 per gallon, but has averaged below \$4.00. The savings in gas is estimated to be about \$1.1 million, and this is offset by about \$500 thousand in lower revenue from Charges for Services to departments as the lower gas prices necessitate lower charges to departments.

The Fire Protection District Fund (2280), similar to the Second Quarter, has a projected positive variance of \$1.8 million primarily due to increased property taxes and funded vacancies. Property tax growth is positive \$766 thousand from the Adjusted Budget. Staffing vacancies have a projected positive variance of \$577 thousand. There are currently 18 firefighter recruits who were hired and began intensive training in February 2015. These recruits will complete their academy training on May 22nd.

The Water Agency Fund (3050) projects a savings of \$1.3 million due to budgeted water studies started in this current fiscal year, but won't be completed until FY 2015-16. The funds will be carried over into the next fiscal year.

Potential Funding - Summary of Contingency Account and Projected Year End General Fund Surplus: The Contingency balance to begin the year was \$3.6 million and the General Fund is projected to have a small FY 2014-15 surplus. The table below illustrates the current projected balance of the Contingency Account.

7/1/2014			
Beginning Balance		\$ 3,072,705	
Detail of Board Approved Changes:			Status
FY 2014-15 Adopted Budget Development Policy	FY 2014-15		
	General Fund	\$ 500,000	Completed
YE Adjustments		\$ -	
FY 2014-15 Board Adjustments			
3/10/15 ADMHS: Funding for Inpatient Contract Beds		\$(1,700,000)	Completed
6/30/2015 Adjusted Budget Ending Balance		\$ 1,872,705	
Expected Use in FY 2014-15:			
FEMA (BRR on 5/19/15)		\$ (833,000)	
ADMHS - Partial funding for additional IMD beds (to Board on 5/19/15)		\$ (800,000)	
ADMHS - Contingency Funds for Mental Wellness Contract (step down - Board & Care beds, June 2015)		\$ (122,000)	
Easement Settlement		\$ (68,536)	
		<u>\$ 49,169</u>	
Litigation settlement (BRR on 5/19/15)		\$ 100,000	
Projected Available Contingency Balance at 5/12/15		<u>\$ 149,169</u>	

Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter.

Key Contract Risks:

None

Attachments:

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

Authored by:

CEO Fiscal and Policy Analysts: John Jayasinghe, Richard Morgantini, Joseph Toney and Paul Clementi

CC:

Department Directors
 Assistant County Executive Officers and CEO Fiscal and Policy Analysts
 Recognized Employee Organizations

Quarterly Financial Update Signal Chart

For Quarter ending March 31, 2015

- 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	Parks
● Board of Supervisors	● Capital
● County Executive Office	● Providence Landing CFD
● County Counsel	Planning and Development
● District Attorney	● Fish and Game
● Probation	● Petroleum
● Public Defender	● CREF
● Courts	Public Works
● Fire	▲ Roads
■ Sheriff	● Resource Recovery and Waste Mgt.
● Public Health	● CSA 3 - Goleta
● Agriculture Commissioner	● Flood Control
● Parks	● North County Lighting
● Planning and Development	● Laguna Sanitation
● Public Works	▲ Water Agency
● Housing & Comnty. Devmnt.	Housing & Comnty. Devmnt.
● Community Services Dept.	● CDBG
● Auditor Controller	● Affordable Housing
▲ Clerk-Recorder-Assessor	● HOME
● General Services	● Municipal Energy Financing
● Human Resources	● Orcutt CFD
● Treasurer-Tax Collector	● Low/Mod Inc Housing Asset Fund
● General County Programs	General Services
● Debt Service	● Capital
Other Funds	● Special Aviation
Fire	▲ Vehicles
▲ Fire Protection	● Information Technology
Sheriff	● Communications
● Inmate Welfare	● Utilities
Public Health	CEO-Human Resources
● Health Care	● County Unemployment Insurance
● Tobacco Settlement	● Dental Insurance
ADMHS	● Medical Malpractice Insurance
■ Mental Health Services	● Workers' Comp Insurance
● Mental Health Services Act	● County Liability Insurance
● Alcohol and Drug Programs	Treasurer-Tax Collector
Social Services	● Debt Service
● Social Services	General County Programs
● IHSS Public Authority	● Public and Educational Access
Child Support	● Criminal Justice Facility Const.
● Child Support Services	● Courthouse Construction
Sheriff	First Five
● Capital Projects - Jail	● First Five Child & Families Comm.