



**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

**Submitted on:
(COB Stamp)**

Department Name: CEO
Department No.: 012
For Agenda Of: March 4, 2025
Placement: Departmental
Estimated Time: 30 Minutes
Continued Item: No
If Yes, date from: N/A
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Director(s) Mona Miyasato, County Executive Officer
Contact Info: Paul Clementi, Budget Director

DocuSigned by:

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SUBJECT: Fiscal Year 2024-25 Second Quarter Budget Status Report

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: N/A

Recommended Actions:

It is recommended that the Board of Supervisors:

- a) Receive and file the Fiscal Year (FY) 2024-25 Second Quarter Budget and Status Report as of December 31, 2024, 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.

Summary:

The Fiscal Year (FY) 2024-25 budget status report for the second quarter ending December 31, 2024, provides a fiscal year-to-date look at the County's financial position relative to the FY 2024-25 adjusted budget. As of the end of the second quarter, the General Fund is projecting a positive year-end variance of \$11.9 million driven primarily by positive variances in several departments and five reportable variances overall. Discretionary revenue is the primary driver of the overall positive variance, with property tax specifically projecting a \$5 million positive variance due to better than anticipated assessed value growth. These positive variances are offset somewhat by lower than budgeted revenues in Community Services-Parks, and greater than budgeted overtime costs in the Sheriff's Office. Outside of

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the General Fund, the Information Technology Department's Communications Fund continues to show a reportable negative variance of slightly over \$1 million and the projected surplus in its Shared Services Fund has grown to \$1.2 million.

Year-end surpluses in the General Fund are used as the primary funding source for fiscal issues, capital needs and Board priorities in the following year's budget.

SECOND QUARTER REPORT

The second quarter for the fiscal year includes activity through December 31, 2024. 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 are discussed on the following pages.

This report highlights the variances that exceed the following 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) Special Revenue and Other Funds 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 six months of FY 2024-25 and then add departmental projections for the remaining six 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 Attachment A and Attachment B reports).

BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board-approved budget appropriations in accordance with 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.

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In addition, the County Budget Act, Section 29121, California Government Code, places liability for over-expenditure upon the department director authorizing the expenditure:

Except as otherwise provided by law, obligations incurred or paid in excess of the amounts authorized in the budget unit appropriations are not a liability of the county or dependent special district, but a personal liability of the official authorizing the obligation.

GENERAL FUND SUMMARY (Attachment A)

As of December 31, 2024, the General Fund had a projected year-end positive variance of \$11.9 million. This is the result of favorable results in most General Fund departments, offset by reportable negative variances in two departments as described below.

General Revenues (Department 991) projects a positive year-end variance of \$10.0 million (2.6% on an adjusted budget of \$382.2 million), with significant variances detailed in the table below. This variance is due primarily to higher than budgeted Property, Property Transfer, Transient Occupancy, and Sales Taxes, as well as higher-than-budgeted Interest Income. Cannabis Cultivation Taxes are also projected to come in lower than budgeted but are not contributing to the projected year-end variance and are discussed later in this section.

Property Taxes are projecting a positive variance of \$5.1 million which constitutes just 1.7% of the total FY 2024-25 adopted Property Tax revenue budget of \$303 million and is primarily due to higher than anticipated assessed value (AV) growth for the FY 2024-25 tax year. When the FY 2024-25 budget was developed in the spring of 2024, Auditor-Controller staff had estimated overall assessed property values to grow by 3.75%, however, the roll closed reflecting growth of 5.5%. AV growth is a critical factor as it drives major revenue line items such as Current Secured and Property Tax In-Lieu of Vehicle License Fees (VLF). Due to higher than anticipated AV growth Current Secured taxes are projected to end the year at \$199.2 million which reflects a positive variance of \$3.3 million, while Property Tax In-Lieu of VLF is projected at \$79.1 million representing a positive variance of about \$1.2 million. In addition to the projected positive variance in property tax, property transfer tax also projects a positive variance of \$1.4 million on an adopted budget of \$4.1 million. This is mainly attributable to property sales prices generally increasing in value when transfers occur despite a significant decrease in the volume of transfers from historical averages due to the persistence of elevated mortgage rates.

Interest Income projects higher than budgeted by \$1.1 million (16.4% on an adjusted budget of \$6.4 million) as interest earned on General Fund cash balances held by the treasury continues to remain robust in this higher rate environment.

Transient Occupancy Tax (TOT) and Sales Tax project greater than budgeted revenues, with positive variances of \$2.3 million and \$540 thousand, respectively. The large, projected variance in TOT is mainly due to the recent approval of a ballot measure to increase the TOT tax rate in the unincorporated areas of the county from 12% to 14% which took effect on January 1, 2025. The projected positive variance in Sales Tax revenue is mainly attributable to better than anticipated consumer and discretionary spending on taxable goods despite uncertainty in the economy.

Cannabis Cultivation and Retail Storefront Tax is currently projecting a negative variance with actuals of \$5.4 million which is \$732 thousand less than budgeted, on an adopted budget of \$6.1 million. This variance is being driven by a projected shortfall in cultivation tax revenue mainly due to the attrition of licensed cultivators in the County that had paid taxes in prior years but have recently surrendered their licenses. The current year projected revenue reflects a decrease from the \$5.8 million collected in the prior fiscal year, representing a reduction of about \$359 thousand or 6.2%. Despite the projected shortfall in tax revenue, this variance is not contributing to the Department 991 projected year end variance as a cannabis prudent reserve is held in fund balance to mitigate revenue volatility and is available to cover this shortfall.

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2024-25	Projected FY 2024-25	Variance Actual vs. Projected
Property Tax	\$ 302,677	\$ 307,744	\$ 5,067
Transient Occupancy Tax	17,676	19,996	2,320
Interest Income	6,437	7,495	1,058
Property Transfer Taxes	4,111	5,511	1,400
Sales & Use Tax	15,108	15,648	540
Cannabis Tax	6,143	5,411	(732)
All Other Revenues	30,000	29,663	(337)
Total Discretionary Revenues	\$ 382,152	\$ 391,468	\$ 9,316
Decrease to Cannabis Fund Balance	\$ 6,143	\$ 5,411	\$ (732)
All Other Transfers	376,009	376,009	0
Projected Fiscal Year End Variance	\$ -	\$ 10,048	\$ 10,048

Community Services-Parks is currently projecting a negative \$570 thousand variance (1.4% on an adjusted budget of \$41 million), due to lower-than-projected revenues from Parks concessions at Goleta Beach and RV hookup fees at Cachuma Lake. Concessionaire revenue is expected to fall short by \$660 thousand due to delays opening the restaurant at Goleta Beach, which has been caused by several factors including winter 2023 storm interruptions and greater than anticipated structural and remodeling work on the building being performed by the concessionaire. The restaurant is now expected to open in the third quarter of FY 2024-25. RV hookup revenue at Cachuma Lake is also projected to be down by approximately \$1.06 million due to closures related to the RV area improvement project at Cachuma Lake. The RV area improvement project, initially slated for completion in June 2024, is now expected to be finished by May 2025, largely due to electrical equipment delays.

The department's net \$570 thousand negative variance projection assumes continued salary savings at the level experienced in Q2 and availability of Cachuma Lake RV hookups by May 2025. It also accounts for the department keeping \$167 thousand of business interruption insurance proceeds, which were intended to reimburse the General Fund for covering the department's prior-year deficit. If these insurance proceeds were returned to the General Fund as planned, Parks' projected negative variance would increase to approximately \$737 thousand. To mitigate the department's negative variance, the department will proactively monitor and manage authorized funding, identifying opportunities to reduce operational and

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capital expenditures to end the year balanced. This will include holding non-essential staffing vacancies to generate salary savings and utilizing the department's available fund balance. Without more significant mid-year cuts, the department's projected negative variance is unlikely to decrease substantially, and General Fund support will likely be necessary to balance the budget at the Fiscal Year End.

The Sheriff's Office is currently projecting a negative \$748 thousand variance (0.36% on an adjusted budget of \$207 million), mainly due to greater than anticipated overtime. Overtime costs through the second quarter of the year were \$10.7 million on an annual budget of \$4.9 million, already exceeding the full year's budget by \$5.8 million. If trends continue, the department is on track to exceed the annual overtime budget by \$16 million at year-end but is also projecting to offset most of these costs with salary and benefit savings from vacant positions. In August 2024, salary increases and one-time lump sum and longevity payments for members of the Deputy Sheriff's Association (DSA) were approved by the Board to assist in retention and attraction. This added approximately \$3.48 million in unbudgeted costs, which will be covered with a release of funds at year-end held in General County Programs for this purpose. Additionally, the increased costs that came with the one-year extension of the current Jail Medical Healthcare contract, as well as the anticipated cost increases of a new contract beginning April 1, could be as much as \$2.35 million (after credits) above budget in the current fiscal year, for which funding is also being held in General County Programs for release at year-end. Neither the additional medical contract costs, nor the impacts of the DSA agreement, are contributors to the \$748 thousand deficit reflected in the Sheriff's projections, due to planned release of fund balances for these purposes.

Probation is currently projecting a positive \$1.38 million variance (1.5% on an adjusted budget of \$89.4 million), primarily due to salary and benefit savings. The department had 50 vacancies at the end of the second quarter; however, 6 staff started at the beginning of January, and 22 of the vacant positions were in interviews or background. Of the 50 vacancies, sixteen were Probation Officers and nine were Juvenile Institutions Officers.

County Executive Office is projecting a positive variance of \$644 thousand (6.1% on an adjusted budget of \$10.5 million) mainly driven by salary savings on vacant, funded positions. As of the end of the second quarter the department reported a total of 10 vacant, funded positions, however, two of these positions have recently been filled. Recruitments are currently underway for five of the positions. The remaining three positions are intentionally being held vacant as the department completes current recruitments and assesses future budget uncertainties.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

As of December 31, 2024, there were two Internal Service Funds with a reportable variance for the quarter.

The Information Technology Shared Services (Fund 1915) is projecting a \$1.2 million positive variance (3.7% on an unadjusted budget of \$32 million), mainly due to a \$917,000 positive variance in salaries and benefits caused by vacancies in several roles. The department has filled a few of those roles recently and is actively recruiting for a number of other roles. The department also has a positive variance of \$390,000 in services and supplies, mainly due to hardware costs and professional services coming underbudget. The department anticipates using most of this balance on a large hardware purchase this spring as well as storage expansion, data governance planning, and Microsoft Co-Pilot costs.

The Information Technology Communications Services (Fund 1919) is projecting a \$1 million negative variance (3.2% on an unadjusted budget of \$31.7 million), mainly due to unexpected monthly costs from its former telephone service provider, Lumen Technologies. This deficit was estimated at \$1.25 million in the first quarter of the fiscal year but has since been reduced due to \$1 million mostly due to salary savings. The department plans to cover its projected revenue shortfall with the use of reserves in FY 2024-25. The department may replenish those reserves in future years, if necessary to meet working capital reserve targets, through increased communications charges to departments.

ADVANCE CONSTRUCTION RESERVE ACTIVITY

To date, the Advance Construction Fund was repaid \$6.3 Million and has \$4.3 Million still owed. The Board approved a Budget Development Policy in December 2021 to establish an Advance Construction Reserve in General County Programs to provide cashflow for reimbursable projects and track the activity. Funds returned to General County Programs following the completion of a project are reallocated to other planned projects. Accordingly, the \$6.3 million reimbursed to date (reflected in the table below) was anticipated and has already been allocated or earmarked for specific uses in the FY 2024-25 Adopted Budget, such as future high-cost bridge projects, energy efficient lighting upgrades at County facilities on Foster Road, and the Cachuma Lake RV project.

Since its establishment in FY 2021-22, the Advance Construction Reserve has provided temporary transfers of General Fund cash to Public Works (Fund 0017) for high-cost bridge construction projects that require cashflow in advance of federal reimbursement. There have also been temporary transfers to General Services for design and/or construction of several projects including the new Probation Headquarters project and the Main Jail Renovation, both of which were reimbursed this fiscal year, following the disbursement of Certificate of Participation (COP) debt proceeds. The status of these transfers and reimbursements are reported in each quarterly update to the Board, as summarized in the below table.

Advance Construction Reserve Activity as of December 31, 2024

Project	Transferred To-Date	Reimbursed to General Fund To-Date	Outstanding Balance Owed
Floradale Bridge	\$ (5,270,600)	\$ 3,000,000	\$2,270,600
Foothill Bridge	(3,000,000)	1,000,000	2,000,000
Probation HQ	(1,651,194)	1,592,624	58,570
Main Jail Renovation	(659,236)	659,236	0
Total	\$ (10,581,030)	\$ 6,251,860	\$4,329,170

FUNDED VACANCIES BY DEPARTMENT (Attachment C)

The overall funded vacancy rate at the close of the second quarter was 11%, which is slightly lower than the 12% vacancy rate reported in Q1. At the end of December, 528.38 of the County’s 4,767 adopted, funded positions were vacant. Departments with the highest rates of funded vacancies include

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the County Executive Office (22%), Child Support Services (21%), Information Technology (18%), Behavioral Wellness (16%), and Probation (15%). Unused funds due to vacancies return to the General Fund or associated funding source at the end of the fiscal year, unless authorization is given otherwise.

The vacancy rate in the County Executive Office increased to 22% (up from 16% in the first quarter) with 10 vacant, funded positions reported as of the end of the second quarter. As mentioned above, two of these positions have recently been filled. Recruitments are currently in progress for five of the positions while the remaining three positions are intentionally being held vacant as the department completes current recruitments and assesses future budget uncertainties.

Vacancies in the Information Technology Department (down from 25% in Q1) are largely due to the addition of seven positions this fiscal year, three of which have been filled and four are currently in recruitment. Child Support vacancy rates have increased slightly from 19% in the first quarter due to a staff departure and another employee transitioning to part-time, however, the department reports that they are in the final stages of recruitment for multiple positions. Probation vacancies have decreased by three positions compared to Q1. The department has hired six staff in January, and is actively working to fill the remaining vacancies. Many of the remaining vacancies, especially in Behavioral Wellness, are in historically difficult to fill positions, often requiring highly technical or specialized skills, although departments continue to work closely with Human Resources to fill all funded positions.

Planning & Development, Board of Supervisors, County Counsel, District Attorney, and Human Resources all had the lowest funded vacancy rates (at 7% or lower). A table of funded vacancy rates by department as of December 31, 2024, may be found in Attachment C. As part of budget strategies to address projected future year deficits, CEO staff may begin considering the elimination or freezing of certain unfilled, funded positions to balance upcoming year budgets.

Attachments:

A – Financial Summary Report – General Fund

B – Financial Summary Report – Special Revenue and Other Funds

C – Funded Vacancies by Department

Authored by:

Paul Clementi, Budget Director