

**SANTA BARBARA COUNTY  
BOARD AGENDA LETTER**



Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Agenda Number:**

**Prepared on:** 5/1/02  
**Department Name:** County Administrator & Auditor  
**Department No.:** 012  
**Agenda Date:** 5/14/02  
**Placement:** Departmental  
**Estimated Time:** 2.0 Hours  
**Continued Item:** NO  
**If Yes, date from:**

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**TO:** Board of Supervisors

**FROM:** Michael F. Brown , County Administrator  
Robert Geis, Auditor-Controller

**STAFF CONTACT:** Jim McClure  
568-3413

**SUBJECT:** FY 01-02 Budget Update & FY 02-03 Operating Plan Workshop # 3

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**Recommendations:**

That the Board of Supervisors:

- A. Accept and file, per the provisions of Government Code Section 29126.2, the fiscal year 2001-02 Financial Status Report as of March 31, 2002 showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.
- B. Accept an update on the forecasted FY 01-02 financial condition on 6/30/02, significant exposures facing the County and some leading indicators of possible financial challenges facing the County starting in FY 02-03.

**Alignment with Board Strategic Plan:**

[An efficient government able to anticipate and respond effectively to the needs of the community.](#)

**Executive Summary and Discussion:**

Fiscal year 2001-02 continues to track relatively closely to what is budgeted. General Fund discretionary revenues will exceed the budgeted amount by between \$2-3 million before compensating for the amounts transferred to the new city of Goleta.....about that same amount will be transferred. Departments are managing their budgets well and most will end the year in a positive position....therefore, overall we would say FY 01-02 would be a good year. The major exception would be in Public Safety which, as a group, is

most impacted by the statewide economic downturn in sales tax revenue (Prop 172). Through the end of March 2002 these departments are about 10% or \$1.5M below budgeted amounts in Prop 172 Revenues.

Unfortunately, the same cannot be said for fiscal year 2002-03. As required by law we are proposing a balanced budget and it will meet most of the Board's Budget Principles. However, it is currently between \$2-3M short of being able to maintain FY 01-02 service levels. As we informed you in our last update, the Public Safety departments would be challenged to live within the budget principles due to the significant pay and benefit increases, coupled with a downturn in Prop 172 revenues and increases in various Internal Service Funds (ISFs for Workers Comp, Liability and Information Technology) charges. That, in fact, is the current situation. Budget Principle #3 (Proportional sharing of salary & benefit increases) was waived for Public Safety and about \$3 million of General Fund Contribution over and above the normal proportional share was added to this group...and they are still short of being able to continue FY 01-02 levels of service by about \$2 M..... even though their county contribution was increased by over \$6M from the FY 01-02 level. Overall, the Board should be pleased with the tremendous team effort maintained during the budget development process. ....at times our projected shortfall was approaching \$10 million....many departments kept positions vacant & delayed purchases to help generate a greater fund balance to help other departments. It was very satisfying to see this type of cooperation and concern for the overall good of county customers and clients.

The most prominent issue on the horizon, however, is where and by how much the State budget will impact county operations and customers. By almost any account the Governor's Budget is out of balance by between \$20 and \$22 billion dollars and reductions impacting local government, will most likely be announced sometime later this summer. This then is the framework that the FY 02-03 Budget process must work within.....not a pretty picture.

**A. FINANCIAL STATUS REPORT FOR FY 01-02:**

We are filing a Financial Status Report as of March 31, 2002 to apprise the Board of the County's financial condition at the end of the third quarter of FY 01-02. We have held Monthly Projection (MOPROs) meetings with departments during which we have reviewed their actual performance as compared to their budget. As a result, the confidence level is much higher in our revenue and expenditure forecast. These meetings also provided an opportunity for departments to bring forward issues and concerns that may influence budget decisions to be made over the next few months. We appreciate the time and effort the departments devote to the MOPROs, which help to provide more accurate financial data to assist your Board in making more informed decisions.

***Key Points of Fiscal Interest as of 3/31/02.... General Fund***

***General Revenues (County's Discretionary Revenues)***

- Property Taxes (Secured, Unsecured and Unitary) are projected to end the year at over \$1.5M million dollars greater than budgeted. The actual growth of over 8% is higher than what was projected in the FY 01-02 Budget development. This growth is driven by a combination of the 2% allowed CPI under Prop 13, new construction, change of ownership, and reinstatement of previously lowered (Section 51s)

property tax values. The Assessor's Office has been working for some time to develop reports out of their new system that would identify the contribution of each of these factors. This capability would help us better understand the current growth as well as use this understanding to make better forecasts of future growth. The Assessor has advised us that these reports might be available prior to the May 14<sup>th</sup> meeting... should this occur we will share that information with the Board. **Taking into account the approximately \$650K in Property Taxes that will be transferred to the new city of Goleta, we expect to end the year with a net increase of about \$ 1 million.**

- Supplemental Property Taxes are running \$700K above budget indicating a continued strong real estate market...the most recent UCSB Economic Forecast report confirms this observation.
- Retail Sales Taxes are right on budget. **The Auditor's Office estimates Sales Tax Revenues over the remainder of the year will be reduced by about \$1.2 million. This is the estimated amount that will accrue to the new city of Goleta.**
- Transient Occupancy Taxes (TOT) at the end of the 3rd quarter were above plan by \$300K. **The Auditor's Office estimates TOT Revenues over the remainder of the year will be reduced by about \$985K, which will accrue to the new city of Goleta.**
- Interest Earnings are significantly lower ... almost \$700K less than budgeted. The multiple occasions of lowering of interest rates by the Federal Reserve over the past year is obviously impacting us. Given this, we are projecting annual interest earning to be down by about \$800K for FY 01-02 and are projecting this trend to continue into FY 02-03.
- Motor Vehicle In-Lieu continued to perform above expectations. As of March 31, 2002 it was about \$900K ahead of what we budgeted for FY 00-01.
- Federal-in-Lieu taxes have come in at a little over \$200K above budget as a result of an increased federal allocation to this program. This is a welcome increase and, as we understand, establishes a new base level.
- **NET IMPACT. Overall, the General Fund Discretionary Revenues are about \$2.8 million above our budgeted amount through 3/31/02. For the fiscal year we expect to maintain or slightly increase this amount. This is approximately the same amount that will be transferred to the new city of Goleta as a result of incorporation.**

### *Departmental*

Given information provided during our March MOPROs most General Fund departments will end the year in a slightly positive position except as described below.

- **The Clerk-Recorder-Assessor** has projected to end the year using approximately \$500K less in GF Contribution than budgeted. This is primarily due to unanticipated revenues driven by the increased Supplemental Taxes described above and significantly increased recording fees driven by home sales and refinancing.
- **The Sheriff's** department is projecting a shortfall between \$500-800K driven by a combination of salary & benefit increases over and above what was budgeted and the projected reduction in Prop 172 revenues of over \$1 million as a result of state-wide retail sales reductions. The department has been aggressively addressing this issue and is releasing departmental designations, reducing and delaying expenditures and holding open vacant positions to close the gap as much as possible. We are working closely with the department to close the gap even further; nevertheless, some assistance will be required at year-end.

- **The Public Defender's** department is projecting a shortfall of about \$300K driven by the same combination of events as describe above under the Sheriff. They too, are working hard to address the problem but have fewer options than their counterparts in the Sheriff's department. As with the Sheriff, they too will require assistance at year-end.
- **General Fund Departmental summary. No significant issues other than those noted. Expect a slightly positive fund balance on 6/30/02.**

#### ***Key Points of Fiscal Interest.... Special Revenue & Enterprise Funds***

With the exception of the Workers Compensation and Social Services Funds, all significant variances in our Special Revenue and Enterprise Funds were the result of timing of receipt of revenues, releasing designations or when expenditures will actually occur.

- **Alcohol, Drug & Mental Health department.** While the department's true variances at the end of the third quarter do not necessarily warrant discussion, we would be remiss in not acknowledging the truly amazing turnaround of this department's financial condition (particularly on revenue collections) as described to the BOS on April 16, 2002 by the team made up of members from AD&MS and the Auditor-Controller's Office. In less than a year they have gone from being on the verge of bankruptcy to now projecting a slightly positive fund balance on 6/30/02. ....a remarkable accomplishment with the outcome of happier providers and better-served clients ☺. There are, however, numerous potential exposures that could reverse their fortunes quickly. We will continue to monitor progress at our monthly meetings and advise the BOS should conditions change dramatically
- **Workers Compensation Fund:** At the end of the third quarter the Workers Compensation Fund shows a negative variance of about \$1.5M....meaning it has paid out this much more for workers compensation claims than anticipated/budgeted. Normally this would be entirely bad news. However, when viewed in the context that the matching reserved amounts for these claims dropped by even a greater amount it may be a positive sign that we have turned the corner on escalating reserve requirements which have driven rates significantly higher over the last few years. As the department reported to you with their recent update General Services has established a project team with representatives from the Auditor-Controller's Office, the Treasurer's, the County Administrator and General Services. The team has been meeting about every two weeks; they have had two actuarial studies performed, which has helped us better understand where we are and how we got there. Additionally, General Services is now providing web based Workers Compensation information to departments to assist them in monitoring and identifying underlying causes so that we can minimize future claims. We will continue to track this closely and monitor progress at our monthly projection meeting.

#### **FIN REPORTS**

Our Financial Information Network (FIN) is designed to accurately track revenues and expenditures on a monthly basis and projects results by adding actual receipts and expenditures in past months to remaining estimates. This system is designed to produce accurate management information and to facilitate more informed management decision-making. *The attached reports (enclosures 1, 2 & 3) are available to you on FIN at the end of each month.*

### ***Significant Concerns***

- **The Goleta Incorporation** has impacted the FY 01-02 Budget and will impact future years as well. In FY 01-02 the County's General revenues will be reduced by approximately \$3.0M. With incorporation on February 1, 2002, the County is responsible for providing services to that area for the remainder of the fiscal year (Feb 1, 2002 to June 30, 2002). However, at the same time, the County will lose certain revenues (Property Taxes, Retail Sales and Transient Occupancy Tax are the major ones) generated from that area. Additionally, as part of the Revenue Neutrality agreement we have loaned the City \$1.5 million from the Strategic Reserve until 2011. We have reconstituted the Goleta Project Team made up of impacted departments and are working with the city representatives during the transition. Over the next 3 months we will continue to devote significant resources to ensure a smooth transition with no reductions in service levels while finalizing contracts with the new city for continued services from the Sheriff, PW, Parks and Animal Control.
- **Various Grants ending:** Social Services, Probation, Public Health and AD&MHS all have grants or significant funding sources that are terminating in FY 01-02 which could result in several million dollars of reductions. These departments are meeting to develop alternatives where possible and phase out plans that will focus on minimizing impacts on our customers and clients. This too has impacted the FY 02-03 Budget.
- **Proposed Mission County:** The creation of Mission County would have a profound impact upon county government and the residents of both the current and proposed counties. Our latest information indicates that the proponents will begin gathering signatures some time in May 2002. They will have six months from the first signature to reach the approximately 25,000 that will be required to move to the next stage. The county Elections Office would then certify the signatures, and bring the proposal to the BOS for forwarding to the Governor. The Governor will then appoint a five-person commission (2 from North county...2 from South county...and one external to the existing county), which will have six months to gather information and provide a report to the electorate.

**The State Budget Crisis. This is by far our biggest area of concern for FY 02-03 and for, at least, the following 2-3 years. For the first time since the early 1990s, the state is experiencing a substantial budget shortfall. Its primary cause is two-fold—a moderate economic downturn and an accompanying sharp drop-off in taxable income from stock options and capital gains. In this challenging environment, the State faces the difficult task of developing a budget plan that both preserves funding for its highest priorities but also addresses a projected deficit of \$20-22 Billion.**

The state budget identifies a cumulative shortfall of \$20-22 billion as of year-end 2002-03, consisting of a current-year (FY 01-02) year-end deficit of \$3 billion, a budget-year (FY 02-03) imbalance between expenditures and revenues of about \$16 – 18 billion, and a rebuilding of the reserve to \$511 million. In January, the Governor proposed to close the funding gap through a variety of actions. These included:

- **Spending Reductions (\$5.2 Billion).** The January budget assumes implementation of the mostly current-year reductions that the Governor proposed in November 2001. These reductions were largely enacted by the Legislature in late January. The budget plan also contains an additional \$2.7 billion in budget-year reductions, including suspensions of cost-of-living adjustments (COLAs) in various

social services programs, reduced inflationary adjustments for higher education, and various other program reductions.

- **Funding Shifts (\$586 Million).** These include shifts of capital outlay support from the General Fund to lease-payment bonds and various spending shifts from the General Fund to special funds.
- **Federal Funding Increases (\$1.1 Billion).** The budget assumes additional federal funds to offset state costs for Medi-Cal, undocumented felon incarceration, and security activities. It also assumes elimination of federal child support penalties.
- **Revenue Accelerations, Spending Deferrals, Loans, and Transfers (\$7.0 Billion).** About \$4.0 billion of this total would come from the Governor's tobacco securitization proposal, whereby the state would sell investors a revenue bond whose debt service payments are backed by future tobacco settlement receipts (sells 9 years worth of anticipated revenue stream). These settlement receipts are currently earmarked for a variety of recently adopted health expansions. Also included is a loan from the Traffic Congestion Relief Fund, and various other special fund loans and transfers. **The Governor's January proposal also included deferral of payments to the Public Employees Retirement Fund and the State Teachers' Retirement System. The Governor has subsequently substituted a debt-refinancing proposal that would reduce the state's short-term debt service expense by approximately \$1 billion.**

**Recap of recommendations:**

- A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2001-02 Financial Status Report as of September 30, 2001 showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.
- B. Accept the update on the forecasted FY 01-02 financial condition on 6/30/02, significant exposures facing the county and some leading indicators of possible financial challenges facing the county starting in FY 02-03.

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