



**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: February 27, 2024
Placement: Administrative
Estimated Time: N/A
Continued Item: No
If Yes, date from: N/A
Vote Required: Majority

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

DocuSigned by:

41846F5C725B460...

SUBJECT: Fiscal Year 2023-24 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) 2023-24 Second Quarter Budget and Status Report as of December 31, 2023, 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 FY 2023-24 budget status report for the second quarter ending December 31, 2023 provides a fiscal year-to-date look at the County’s financial position relative to the FY 2023-24 adjusted budget. As of the end of the second quarter, the General Fund is projecting a positive year-end variance of \$3.3 million driven primarily by four departments with reportable positive variances due primarily to salary savings on vacant funded positions, in addition to one department with a reportable positive variance due to higher-than-budgeted administrative revenue. As reported in the first quarter update, this continues to be significantly less of a positive variance than last year, which ended with a \$27 million General Fund

Board of Supervisors
February 27, 2024
Page 2 of 6

surplus, and more in line with years where a softening of the economy has occurred. Projections for property taxes, transient occupancy taxes, and cannabis taxes are all trending less than budgeted.

The fiscal position of the General Fund is monitored and presented to the Board on a quarterly basis, with a final report brought after the close of the fiscal year. At the end of the fiscal year, any funds resulting from a positive variance are carried forward for the Board to consider as part of the next budget development cycle as priorities and fiscal issues are identified.

Additionally, there was one Fund with a reportable variance in the Special Revenue and Other Funds for the second quarter. All reportable variances will be discussed in greater detail below.

SECOND QUARTER REPORT

The second quarter for the fiscal year includes activity through December 31, 2023. 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 2023-24, 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.

Board of Supervisors
February 27, 2024
Page 3 of 6

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, 2023, the General Fund had a projected year-end positive variance of \$3.3 million. This is the result of favorable results in most General Fund departments, partially offset by minor, non-reportable negative variances in four others.

General Revenues (Department 991) projects a positive year-end variance of \$426 thousand (0.10% on an adopted budget of \$372.7 million), with significant variances detailed in the table below. This variance is due primarily to higher than budgeted Interest Income and Franchise Fees, as well as a reduction in General Fund Contribution (GFC) sent to a special revenue department. These positive variances are offset somewhat by negative variances in Property Tax, Property Transfer Tax, and Transient Occupancy Tax (TOT). Cannabis Cultivation and Retail Storefront Taxes are 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 negative variance of \$3.3 million which constitutes just 1.1% of the total Property Tax revenue budget. Property Transfer Tax is also trending lower-than-budgeted by about \$645 thousand and is mainly attributable to the significant decrease in the volume of property purchases resulting from an increase in mortgage rates over the past two years. TOT revenue is also projecting lower-than-budgeted by about \$317 thousand, mainly driven by a slowdown in consumer's discretionary spending. These negative variances are being offset by unanticipated growth in Interest Income and Franchise Fee revenue. Interest Income remains robust with \$6.1 million projected through year-end resulting in a positive variance of \$2.8 million, primarily driven by the higher rate environment. Franchise Fees are also projecting higher-than-budgeted at \$4.3 million through the fiscal year which would result in a positive year-end variance of \$705 thousand. This is mainly attributable to increased gross receipts generated by a few of the utilities, which they are required to pay a percentage of as part of their Franchise Fee agreements. Additionally, Other Transfers show a net positive variance (the table reflects a negative expenditure which has a positive effect) of \$865 thousand and is due to less GFC being allocated to the Department of Social Service's special revenue fund than was budgeted, due to higher than anticipated state revenues received. Overall, projections of discretionary revenues through the second quarter remain on target to meet budgetary expectations.

Cannabis Cultivation and Retail Storefront Tax is currently projecting a negative variance of \$1.5 million on an adopted budget of \$7.5 million. This projected variance is being driven by Retail Storefront Tax which is projecting lower than budgeted primarily due to the timing of when each retail operator is expected to complete the land use entitlement and business licensing processes, relative to the timing assumptions made when the budget was developed. Additionally, receipts for the retail storefront businesses that have commenced operations have come in lower than anticipated as these are new operations in their respective locations. Staff will continue to monitor retail storefront tax receipts as this is a new activity being conducted in the unincorporated area without any historical data available for reference.

Board of Supervisors
February 27, 2024
Page 4 of 6

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2023-24	Projected FY 2023-24	Variance Proj vs. Adjusted
Interest Income	3,283	6,130	2,847
Franchise Fees	3,598	4,303	705
Transient Occupancy Tax	17,562	17,245	(317)
Property Transfer Taxes	4,675	4,030	(645)
Cannabis Tax	7,500	6,000	(1,500)
Property Taxes	295,362	292,044	(3,318)
All Other Revenues	40,770	41,059	289
Total Discretionary Revenues	\$ 372,750	\$ 370,811	\$ (1,939)
Decrease to Cannabis Fund Balance	\$ 7,500	\$ 6,000	\$ (1,500)
All Other Transfers	365,250	364,385	(865)
Projected Fiscal Year End Variance	\$ -	\$ 426	\$ 426

Probation is currently projecting a positive \$1 million variance (1.2% on an adopted budget of \$87.5 million), primarily due to salary and benefit savings. Although total excess salary savings is currently \$1.7 million, a portion of those savings are due to vacant grant funded positions and won't impact the net financial impact as they will result in a corresponding decrease in funding.

Treasurer-Tax Collector is currently projecting a positive \$764 thousand variance (7.2% on an adopted budget of \$10.6 million), primarily driven by higher-than-anticipated administrative revenues and salary savings on vacant, funded positions.

County Counsel is currently projecting a positive \$297 thousand variance (2.4% on an adopted budget of \$12.6 million), due to vacant, funded positions in the first two quarters of the fiscal year. These positions will be filled by March of this year.

Public Health-Animal Services is currently projecting a negative \$256 thousand variance (4.3% on a total budget of \$5.9 million), due to decreased animal licensing revenues and increases in animal food costs and other expenses such as pharmaceuticals resulting from an increase in animals at the shelter. Staff will monitor the issue and are hopeful that online license sales will increase with the recent contracting of licensing administration services through DocuPet. If needed, the department will pull from available fund balances at year-end to cover the gap.

The **Sheriff's Office** is currently projecting a \$177 thousand deficit, mainly due to greater than anticipated overtime, as well as higher pharmaceutical costs for custody inmates. Pharmaceutical costs are estimated to be about \$111 thousand dollars over budget, primarily due to higher costs and higher use than anticipated. Overtime costs through the first half of the year were \$9 million on an annual budget of \$5 million, already exceeding the full year's budget by \$4 million. If trends continue, the department is on track to exceed the annual overtime budget by \$13 million at year-end, but is also projecting to offset most of these costs with salary and benefit savings from vacant positions. Overtime costs are \$300 thousand higher in the first half of the current year, as compared to the first half of FY 2022-23, when they were \$8.7 million.

There may be periods of time when unbudgeted overtime cannot be covered by salary savings, particularly to the extent new deputies are hired and undergo mandatory academy and custody or field training, which requires overtime to backfill and is not offset with salary savings. The Sheriff's Office just welcomed 9

Board of Supervisors
February 27, 2024
Page 5 of 6

new Deputy hires to begin the custody academy on December 26. Six Custody Deputies and 3 Dispatchers were conditionally hired as of the writing of this report.

The department received unbudgeted revenue from a \$527 thousand award from the State Criminal Alien Assistance Program (SCAAP) for 2022, which will be used to offset existing overtime costs in the jails. The department also recently received a \$600 thousand SCAAP award for 2023, which will be used to replace two custody buses as well as to offset additional overtime costs.

Consistent with prior Board direction, to the extent there is a budget deficit at year-end, the department may receive reimbursement for eligible overtime costs and recruitment incentives from the \$2 million set-aside of Proposition 172 funds, subject to Board approval. CEO staff continues to work with the Sheriff's Office to vet the department's proposed overtime validation process, with the goal of accurately accounting for the various drivers of overtime costs, including the impact of vacancies, academy and field/custody training time, lost time (e.g. sick leave, vacation leave etc.), and special needs (e.g. emergencies, investigations, seasonal). The validation process is underway to determine to what extent the proposed methodology can be applied in future years; progress has been made over the quarter and CEO staff anticipates it will be substantially completed by the end of the fiscal year. The ultimate goal is to determine a baseline level of overtime that can be used to assess what level of additional ongoing resources may be needed to address overtime costs in excess of budget.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

As of December 31, 2023, there was only one department with a reportable variance in the Special Revenue and Other Funds for the second quarter.

The **Fire Protection District (Fund 2280)** is currently projecting a positive \$3.84 million variance (2.6% on an adopted budget of \$143.2 million), due to deferred hiring related to the Regional Fire Communication Center (RFCC) Dispatch project, in addition to several unanticipated vacancies across multiple sections within the Fire Department. Not included in the Attachment C vacancy report are 139 vacant, funded positions related to ambulance services that, at this time, are not planned to be filled in the current fiscal year.

ADVANCE CONSTRUCTION RESERVE ACTIVITY

Beginning in FY 2021-22, the budget included the temporary transfer of General Fund cash to Public Works (Fund 0017) for costs associated with high-cost bridge construction that requires cashflow in advance of federal reimbursement. There have also been temporary transfers to General Services for design and construction of the new Probation headquarters, which is currently underway, as well as the EOC portion of the Fire Dispatch Center project. Both transfers will be reimbursed once debt is issued for this, and other projects. Additionally, a transfer was made at the end of the 2022-23 fiscal year to cover costs on the Betteravia Solar Array, which will be reimbursed by a loan from the California Energy Commission upon project completion. Finally, the Board approved temporary transfers of funds in the current fiscal year to support construction costs for the Cachuma Lake RV Renovation project as well as design services associated with the Main Jail Renovation project. Although funds on these last two projects have yet to be transferred, any amount that does get expended will be reimbursed once debt is issued for these projects later this fiscal year. The status of these transfers and reimbursements will be reported in each quarterly update to the Board, as summarized in the below table.

Board of Supervisors
 February 27, 2024
 Page 6 of 6

Project	Transferred To-Date	Reimbursed to General Fund To-Date
Floradale Bridge	(\$5,270,600)	\$3,000,000
Foothill Bridge	(\$3,000,000)	\$0
Probation HQ	(\$1,281,194)	\$0
EOC/Fire Dispatch Center	(\$309,418)	\$0
Betteravia Solar Array	(\$1,416,379)	\$0

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. Staff will process budget revision requests as cashflow is needed for the projects.

FUNDED VACANCIES BY DEPARTMENT (Attachment C)

At the close of the second quarter, 596 of the County's 4,644 adopted, funded positions were vacant, resulting in a funded vacancy rate of 13%, slightly lower than the first quarter. Most of the funded vacancies are concentrated in the Sheriff, Behavioral Wellness, Social Services, Public Health, and Fire departments. All departments' vacancy rates, besides the Information Technology Department (28%) and Auditor-Controller (21%), were below 20% for the second quarter. The Board of Supervisors, District Attorney, and County Counsel had the lowest funded vacancy rates (5%, 4% and 2% respectively). A table of funded vacancy rates by department as of December 31, 2023, may be found in Attachment C.

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