BOARD OF SUPERVISORS
AGENDA LETTER

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

Agenda Number:

Department Name:	CEO & Auditor-Controller
Department No.:	012 & 061
For Agenda Of:	November 7, 2017
Placement:	Departmental
Estimated Time:	30 minutes
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department	Mona Miyasato, County Executive Officer
	Director(s)	Theodore A. Fallati, CPA, Auditor-Controller
	Contact Info:	Jeff Frapwell and Ed Price

SUBJECT: **Fiscal Year 2017-2018 First Quarter Budget Update**

County Counsel Concurrence
As to form: NA

Auditor-Controller Concurrence
As to form: Yes

Recommended Actions:

That the Board of Supervisors

a) Receive and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2017-2018 Budget and Financial Status Report as of September 30, 2017, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

Summary Text:

The Fiscal Year 2017-2018 Budget and Financial Update for the first quarter ended September 30, 2017 provides a look at 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 $661 thousand positive variance by fiscal year end when compared to the Adjusted Budget. This variance is due to projected positive variances in most General Fund Departments, partially offset by a -$1.3 million negative variance in the Sheriff's Office. Special Revenue and Other Funds are generally tracking to budget with the exception of a negative -$3.7 million variance in Behavioral Wellness' Mental Health Services Fund and a positive variance in Workers Compensation Self Insurance of $1.5 million. These variances will be explained later in this report.

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, 2017, 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 2017-18, 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)

As of September 30, 2017, the General Fund had a projected year-end net positive variance of $661 thousand. This is the result of favorable results across most departments, offset by a negative variance in the Sheriff's Department (-$1.3 million).

General Revenues (Department 991) is projected to have a positive year-end variance of $411 thousand due mostly to one-time proceeds in RDA Distributions, offset by positive and negative projections in other sources. The largest negative projection is in significant property tax revenues, which shows a negative -$1.6 million variance. However, data for significant property tax revenues is preliminary and subject to change, as it is early in the fiscal year, and a large portion of the negative variance, -$1.2 million, appears to be due to a timing variance in supplemental and transfer property taxes. General Revenues will continue to be monitored, and a clearer trend will be seen by the end of the second quarter. The table below outlines the largest sources of funds in General Revenues.

Discretionary General Revenue Summary (in thousands):			
Source	Adopted FY 2017-18	Projected FY 2017-18	Variance Proj. vs. Adjusted
Significant Property Taxes	$ 205,338	$ 203,748	$ (1,590)
RDA Dissolution Proceeds - One time	-	1,430	1,430
RDA Prop. Tax - Ongoing	5,977	5,977	-
Subtotal Property Taxes	$ 211,315	$ 211,155	$ (160)
Cost Allocation Services	10,686	10,686	0
Local Sales Tax	10,658	10,535	(123)
Transient Occupancy Tax	11,797	11,974	177
Payments in Lieu of Tax	18	18	-
All Other Revenues	5,086	5,638	552
Total Discretionary Revenues	**$ 249,560**	**$ 250,007**	**$ 447**
Use of Funds - Other Financing Uses	$ 33,032	$ 33,068	$ (36)
Projected Fiscal Year End Variance			**$ 411**

The Sheriff's Office has a projected negative variance of -$1.3 million, due to Salaries and Employee Benefits (S&B) that are projected to be approximately $1.3 million (1.17%) over budget for the fiscal year. Within S&B, Sheriff's staff is projecting overtime to be $2.2 million over budget while non-overtime S&B accounts are currently projected to be $900 thousand under budget, primarily due to salary savings from vacancies. The first quarter overtime spending is $3.3 million, which represents 75.8% of the total FY 2017-18 budgeted amount. Of this $3.3 million, about $450,000 is a result of Minimum Staffing requirements, almost entirely in the Law Enforcement budget program. The $3.3 million represents a 13% decrease from the amount spent in the first quarter of FY 2016-17, a year in which the Sheriff's Department ultimately ended the year with a $2.2 million deficit. 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 (about 1% over budget each quarter), S&B costs could be as high as $5.0 million over budget (4.6%) for the fiscal year.

At the end of the first quarter, there were 17 Patrol vacancies, 11 Custody Deputy vacancies, and 16 civilian vacancies. Additionally, 8 Patrol Deputies and 10 Custody Deputies were out on worker's compensation leave, who not only continue to draw salary, but also create vacancies that are often covered with overtime. The Sheriff was allocated $1.25 million in one-time funds in the FY 2017-18 budget to add Patrol Deputies in order to mitigate this type of lost time. This appears to have already had an impact on overtime usage in the Law Enforcement budget program, which experienced an approximately 30% reduction in overtime compared to first quarter last year. That said, the Custody budget program has seen a 10% *increase* in overtime over the same period, which has helped keep total Department overtime close to the elevated levels seen last fiscal year. As Patrol and Custody vacancies are filled, salary savings could diminish even further (depending on other separations).

Actions to Address Fiscal Issues: The Sheriff's Office has undertaken a series of actions designed to reduce patrol overtime. Using the one-time funds mentioned above to mitigate lost time, the Sheriff's Office moved eight additional deputies to the Santa Maria station. This movement was completed at the end of the first quarter of FY 2017-18, and impacts on overtime will be thoroughly evaluated after the second quarter. Additionally, the Sheriff has become more proactive about moving staff between stations to cover lost time, implemented a time-based methodology for staffing contract cities, and reduced minimum staffing levels for certain hours of the day.

The Sheriff's Office has less flexibility in their ability to adjust staffing in the Custody budget program. Ongoing issues with vacancies have been exacerbated by the need to reassign eight Custody Deputies from post positions to provide medical escorts, due to the increased level of service provided by the new medical services provider. Furthermore, while 15 additional Custody Deputy positions were authorized as part of the Northern Branch Jail (NBJ) transitional hiring plan, and may temporarily assist at the Main Jail after training is completed, 10 regular Custody Deputy positions were also cut in the FY 2017-18 budget. These staffing issues have led to the 10% increase in Custody overtime mentioned above. Potential solutions could include: reducing the jail population to the rated bed capacity; accelerating the hiring of NBJ transition staff to provide temporary additional coverage at the Main Jail until the NBJ opens, or; consider increasing funding either for overtime or to increase staffing to provide shift relief (as discussed in the 2015 CGL report).

Planning and Development (P&D) is projecting a positive variance of $441 thousand. This is primarily due to building permit revenues tracking above budget at $284 thousand, and S&B projected to be below budget by $183 thousand due to staffing vacancies. P&D will examine the effects of permit volumes and the amended fee schedule, approved by the Board in April 2017, on permit revenues later in the fiscal year.

General Services is projecting to end the year with a positive variance of $355 thousand. The main drivers of this positive projection are an estimated salary savings of $493 thousand, partially offset by a $151 thousand expected overage in deferred maintenance. Through the first three months of the fiscal year there have not been any major maintenance emergencies, and emergency projects are projected to remain within budget.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

The Mental Health Services Fund (0044, Inpatient Services) is projecting a negative variance of -$3.7 million. During the FY 2017-18 budget development process, efforts were made to ensure that the department received additional funding to help mitigate the rising costs associated with greater than planned purchase of inpatient contract beds when the PHF is full, and a loss of revenue due to an unfavorable mix of Acute vs. Administrative services. In FY 2017-18, Behavioral Wellness was allocated an additional one-time funding of $1.2 million (General Funds) and an additional $1.5 million in Tobacco Settlement Advisory Committee (TSAC) funding. See the table below for funding enhancements (General Fund and TSAC) received by the Department in the past four fiscal years.

General Fund Transfers to Behavioral Wellness (in thousands)				
Description	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 YTD
Expansions Approved During Budget Development				
Inpatient beds (One-time)	$ 2,481	$ 5,000	$ 2,350	$ 2,200
Step-Down Placements (On-going)	1,020	-	-	-
Intensive Outpatient Treatment (One-time)	121	-	303	275
Capital for Mental Health Treatment Beds (One-time)	-	-	243	-
Mid-Year Budget Revisions				
Audit Settlements (One-time)	4,868	-	-	-
PHF Revenue Shortfall (One-time)	554	462	3,054	-
Total Annual Transfers to BeWell	**$ 9,045**	**$ 5,462**	**$ 5,951**	**$ 2,475**

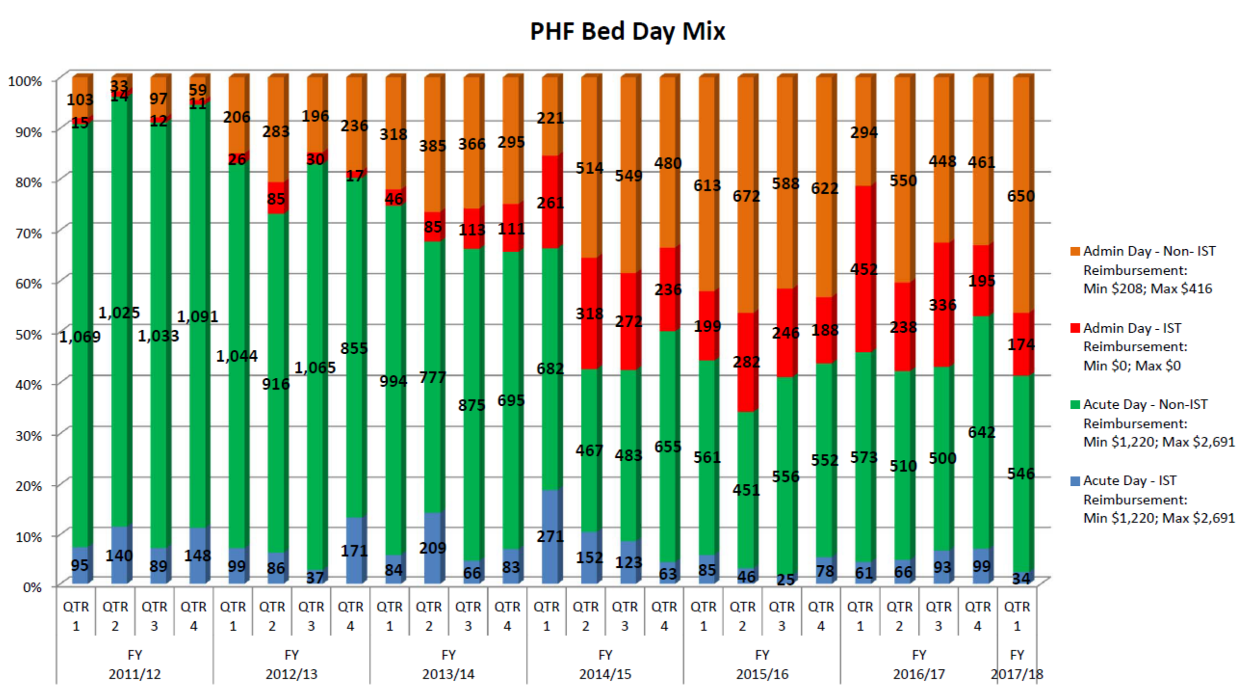
In spite of this additional funding the department is still projecting a significant negative variance. The following are the main drivers of the variance:

- Utilization of State Hospital Beds has risen to an average of approximately 8 paid beds per day, as compared to 3 beds per day budgeted; a projected current fiscal year variance of -$1.2 million.
- Utilization of beds at Aurora Vista Del Mar is averaging approximately 9 Beds per day, as compared to 7 beds per day budgeted; a projected current fiscal year variance of -$600 thousand.
- Out-of-County use of Institute for Mental Disease (IMD) beds has seen a continued increase in demand and is currently averaging 63 Beds per day, as compared to 54 beds per day budgeted; a projected current fiscal year variance of -$900 thousand.
- In addition to the above, PHF revenue is projected to be down -$1.4 million due to an increase in non-Incompetent to Stand Trial (IST) Administrative Days that bill at a rate less than 20% of Acute day.
- These unfavorable variances are partially offset by unanticipated revenue from VLF (Vehicle License Fees) of $400 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, and a loss of revenue due to unfavorable mix of Acute vs. Administrative services. Contracted inpatient beds experienced a significant increase in the first quarter and were impacted by:

- Increase in client demand for acute services
- Increase in the number of non-IST Administrative Bed days at the PHF due to a lack of available locations to release clients to (home, family or "step down" facilities)

Medi-Cal & Medicare Revenue: As discussed in prior reports, IST Administrative Days at the PHF are **not billable** and non-IST Administrative Days are billable at much lower rates than for acute services. While there appears to be a trend towards lower IST Administrative Days in the most recent two quarters, the non-IST Administrative Days have increased significantly, and as a result, billable revenues are decreasing. The graph below highlights this issue (green and blue bars are billable at full rates).



To counter the Administrative 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 to reduce the number of contracted beds and to improve revenues through:

- Assess the reasons for the growth in non-IST Administrative Days and possible solutions (specifically increased length of stay)
- Identifying the cause of the significant increase in the IST referrals
- Expand the IST Task Group's work to address issues beyond IST clients
- Research alternative placement for non-acute IST clients
- Evaluate how individuals enter the system, and 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 department will continue to monitor these issues and mitigate fiscal impacts when possible, but anticipates a year-end budget shortfall of -$3.7M at this time.

The Workers' Compensation Self-Insurance (1911) is projecting a positive variance of $1.5 million due to the following drivers:

The actual Workers' Compensation insurance premium of $14.8 million is less than the $15.8 million estimate set during the FY 2017-18 budget development process in December 2016, a difference of $1.0 million. Additionally, the County received a dividend credit from California State Association of Counties (CSAC), in the amount of $500 thousand, further reducing the Workers' Compensation premium to $14.3 million.

The savings above will positively impact the FY 2017-18 Workers' Compensation Self-Insurance Fund estimated ending balance and will be taken into account when the Risk Management Evaluation Team (RMET) determines the FY 2018-19 Workers' Compensation departmental cost allocation in December 2017.

The In-Home Supportive Services (IHSS) Public Authority Fund (0056) is not projecting a variance and, as such, does not meet the reporting threshold of $500,000 per fund for Special Revenue Funds. However, changes to the IHSS Maintenance of Effort (MOE), which were originally announced with the Governor's proposed FY 2017-18 Budget and have since evolved, warrant an update. Instead of eliminating the MOE and reverting to historical cost-sharing ratios, which would have significantly increased counties' costs in FY 2017-18, the State established a new MOE that shifts more IHSS costs to counties in a phased approach. State General Fund and redirected realignment growth revenues will help offset increased IHSS costs in the initial years of the new MOE. Counties' share of IHSS costs are expected to increase significantly beginning in FY 2019-20 due to an annual cost inflator of 7 percent and less State General Fund offset. The State will reexamine the MOE structure in consultation with counties and other impacted stakeholders during the development of the FY 2019-20 State budget.

The Department of Social Services (DSS) budgeted $7.45 million in FY 2017-18 for the MOE. Based on information provided by the California State Association of Counties, the FY 2017-18 net MOE impact for Santa Barbara County may range from $7.29 million to $7.80 million depending on the amount of offsetting revenues provided by the State; the State is refining its estimates of offsetting revenues and will provide updated amounts in January 2018. If the net MOE impact exceeds the $7.45 million budgeted, the CEO and DSS will identify a viable funding source to address the gap.

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

Authored by:

Richard Morgantini, Fiscal & Policy Analyst

Quarterly Financial Update Signal Chart

For Quarter ending September 30, 2017

- ● 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