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:	4/25/01
Department Name:	County Administrator & Auditor
Department No.:	012
Agenda Date:	5/15/01
Placement:	Departmental
Estimated Time	2 Hours
Continued Item:	NO
If Yes, date from:	

TO: Board of Supervisors

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

STAFF CONTACT: Jim McClure
568-3413

SUBJECT: FY 00-01 Budget Update & FY 01-02 Workshop # 3

Recommendations:

That the Board of Supervisors set a hearing on May 15, 2001 for the third quarter FY 00-01 Budget Update and FY 01-02 Budget Workshop # 3 to:

A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal year 2000-01 Financial Status Report as of March 31, 2000 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 00-01 financial condition on 6/30/01, 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:

FY 00-01 LOOKS GOOD….FY 01-02 CURENTLY BALALNCED…FY 02-03 CURRENLTY SHOWS A DEFICIT AND LOOKS TO BE A VERY CHALLENGING BUDGET CYCLE.

A. **FINANCIAL STATUS REPORT FOR FY 00-01:**

We are filing the FY 00-01 Financial Status Report as of March 31, 2001 to apprise the Board of the County's financial condition at the end of the third quarter. 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 and helping provide more accurate financial data which hopefully will assist your board in making more informed decisions.

Key Points of Fiscal Interest as of 3/31/01…. General Fund

General Revenues (County's Discretionary Revenues)

- Property Taxes (Secured, Unsecured and Unitary) should end the year at over a million dollars greater than budgeted, subject to any material roll corrections. 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. Included in this year's roll were major increases related to the Camio Real Shopping Center & the Bacara Resort for example. In our last report we alerted your board to the possibility that Southern California Edison (SCE) and Pacific Gas & Electric (PG&E) may not pay their 2nd increment of property taxes due April 10, 2001. SCE did pay in full their taxes due. PG & E paid only a proportional amount based upon their bankruptcy date. This currently leaves a little less than $200K due for the current year.
- Partially offsetting the above growth, Supplemental Property Taxes are running almost $300K below budget. (The Assessor's Office is working down an approximate 7 month backlog, about 6000, of property transfers that may be impacting these revenues)
- Property Transfer Tax is now projected to be about $100K below our budgeted amount….**this is a reversal of direction from our report through December 2000 when we were showing an increasing trend**. **Since December, every month has come in lower than the budgeted amount.** If this trend holds true through the end of the fiscal year it could be the signal that our property tax growth rate has peaked and is turning down. As we discussed with your board previously, the transfer tax has been a leading indicator of direction of growth for both supplemental and secured property taxes.
- Retail Sales Taxes are about $400K ahead of budget. However, here too we see the rate of growth slowing.
- Transient Occupancy Tax at the end of the 3rd quarter was above plan by $260K, roughly the same amount we reported through the December quarter.
- While there is no significant variance in Franchise Fee revenues we did want to report to your board that both SCE and PG&E paid their franchise fees due in late March.
- Interest Earnings are significantly above our Budget. As your Board may remember, there are two components to our interest earnings- the distribution of income earned from investments which for the estimated revenue budget for FY 00-01 is approximately $375K ahead of budget. The second component required by GASB 31 beginning in FY 98-99 is to apportion unrealized gains or losses on investments as part of interest income. Although this accounting rule creates volatility in the recording of revenue it correctly reflects the actual position of the investment portfolio. Since we had already taken our losses

when the fair market value of investments decreased, increases in fair market value up to book value of the investments provide the County with unanticipated revenue. By the end of the third quarter this amounted to $1.79 M. At our Feb 2001 update we recommended and your board approved allocating these unanticipated revenues to pay back a temporary loan of $996K from the strategic reserve, which was used to offset the losses in FY 99-00 and the remainder being used to provide additional funding for FY 00-01 Deferred Maintenance & Repair projects. This funding will be used to cover unforeseen additional work on some of the current projects as well as several energy efficiency related projects, which were recently discussed with your board during the General Services Energy update.

- Motor Vehicle In-Lieu continues to perform above expectations. As of March 31, 2001 it was about $1.2 million ahead of what we budgeted for FY 00-01. As is the case with several previous accounts, almost all of this positive variance was realized in the first two quarters with very little, if any growth in the third quarter….again seeming to validate that the economy is truly slowing.
- **<u>NET EFFECT.</u> Overall General Fund Discretionary Revenues are about $3 million above our budgeted amount through 3/31/01. Our year-end projection is to come in approximately $4M ahead. This projection has been used in preparing the FY 01-02 Proposed Budget**.

Departmental

- When the books closed on 3/31/01 County Counsel showed a positive variance of over $500K driven by unanticipated reimbursement from several insurance companies (about $300K) and salary saving approaching $200K.
- The District Attorney ‘s department had a significant positive variance of approximately $500K split almost equally between greater revenues from Prop 172 and Fines & Forfeitures as well as Salary Savings due to much higher than expected vacancies in the first half of the fiscal year. We expect the Salary Savings to continue to decline in the second half of the fiscal year as the DA COLAs and the management equity adjustments have a greater impact.
- The Sheriff’s department had a significant positive variance of approximately $900K. Most of the variance results from unanticipated revenues (Acct 3343 Fines-Drug/Alcohol Lab Tests, Acct 3350 Drug Fines, Prop 172, State COPS Grant and State Law Enforcement Technology Grant) ....much of which has a restricted use, will be offset with pending payments and/or adjusted by Budget Revision before FY end. The current estimated overall impact at FY end is no positive or negative variance.
- Alcohol, Drug and Mental Health Department. Your Board approved a contract between Mental Health and the Auditor-Controller on Jan 23, 2001 whereby the Controller's Office agreed to provide fiscal services over the next 30 months. The Auditor and ADMHS are scheduled to return to your Board on May 22, 2001 with an interim report and recommendations on the fiscal and organizational status of ADMHS. ***For FY 01-02 Budget we have increased the County Contribution by approximately $800K in order to help reduce their apparent funding gap.***
- The General Services Department showed a negative variance of approximately $350K as of 3/31/01. This variance is a combination of revenues from several departments lagging and the impacts of increased energy (natural gas & electricity) cost. Natural Gas was budgeted @ $445K and has been increased to $660K and Electricity from $1775K to $2000K. General Services recently provided your board with an update on the energy crisis and its’ impact including a contingency transfer of a little over $400K to bring their budget into balance. With this transfer, the department expects to be on budget 6/30/01.

- General County Programs showed a positive variance of $1.5 million as of 3/31/01. The majority of this was due to timing issues of when certain expenditures were scheduled (about $750K in reserves for receivables and over $350K in delayed debt service payments…. these timing issues have subsequently been corrected. The underlying positive variance is closer to $300-400K from less than anticipated expenses for interest on our transnote and in several services & supplies accounts. These have been taken into account in projecting our year end fund balance.
- General Fund salary savings at the end of the third quarter are approximately $1.3 million or about 1%. This is down from the $2.3 million reported at the close of the second quarter 12/31/00. This reduction was expected as higher than budgeted COLAs, the manager's equity raises and other inequity adjustments approved in FY 00-01 have taken hold. We expect most salary savings will be eliminated or be slightly negative for the remainder of the year.
- As of 4/30/01 the General Fund Contingency stood at only $55K, which is obviously a very small amount given the roughly $300M GF budget. If an emergency situation arises between now and July 1, 2001 that requires more than that amount, your Board will be faced with the option of using other reserves/designations or delaying the need until next fiscal year. As of this point all FY 00-01 unanticipated General Discretionary Revenue has been used to help balance the budget for FY 01-02.

Key Points of Fiscal Interest…. Special Revenue & Enterprise Funds

- The Roads fund has a positive variance of almost $5.0 million. About $3.5 million is additional revenues, mostly funding from the State Traffic Congestion Relief program. There is also an expenditure reduction of about $1.5 million on a capital project deferred until next year due to various unforeseen delays.
- The Public Health Department had a positive variance of approximately $3.0 million as of 3/31/01 as a result of unanticipated revenues. The department received a $2.0 million state grant for Septic System Incentives, about $520K in growth in their realignment accounts and about $250K in greater than expected interest earnings.
- The Affordable Housing program administered by the Treasurer showed a positive variance of about $800K, all of which is a timing issue that has been corrected as of 4/31/01.
- While various Flood Control districts appear to be behind in revenues, discussions during our monthly projections meetings would indicate these are timing issues and not real reductions. These will be corrected prior to closing the financial records for the month ending April 2001.
- The Santa Barbara County Fire Protection District shows a positive variance of a little over $500K as of 3/31/01 driven by greater than budgeted property tax revenues (about $300K) and interest earnings (about $200K).
- The Laguna Sanitary District (about $870K) and the refuse Disposal Enterprise Funds (about ($720K) also show significant positive variances. However, these are both due to timing and will be corrected by the department.

Significant Concerns

- **Salary & Benefit Increases:** Since the February update there have been several significant changes in the salary and benefits arena that may have significant impacts upon our ability to maintain current service levels out into the future.

- ***a.*** The costs of the new MOU with the Fire Bargaining Unit combined with continued impoundment of property taxes for Oil Company Assessment Appeals means the Fire District can no longer fully fund the operations of the Fire Department. Commencing in FY 02-03 it is almost certain that in order to continue the same level of service, the General Fund or other outside sources (Benefit Assessment) will need to start subsidizing the Fire District by approximately $2.8 million per year. This is a major policy shift in funding responsibility for this function since in theory the property taxes allocated to the fire district were designed for this purpose. The county contribution previously provided the fire department by the County General Fund was to offset the loss of a watershed tax designed to cover the difference between what the state reimburses and the cost of providing this coverage, not for normal fire operations.
- ***b.*** The FY 01-02 Proposed Budget has been finalized and will be presented to your Board on May 15, 2001. ***For FY 01-02 Total Salaries across all funds are forecasted to increase by $30M……...up from a $20M increase in FY 00-01.*** These increases will have a ripple effect into the future.

- Another event impacting both FY 01-02 and the subsequent fiscal years has been the Year 2000 U.S. Census. As a result of the census, the population being used to distribute certain revenues by the State Department of Finance will be lower by about 2.5% than those currently being used. This will mainly impact our Motor-Vehicle –In-Lieu, Gas Taxes and the tobacco settlement allocations…these could be impacted by about $1 million. Moreover, the county is not expected to meet the Federal definition of an Urban County and therefore will not become eligible for approximately $3 to 3.5M in Community Development Block Grants.
- The escalating cost of litigation and settlements continues to be a major concern. We budgeted the Litigation reserve at $2.2 million for FY00-01. Subsequent to this, the County's outside auditor (KPMG) has computed a requirement of $4.1 million. In our November 2000 workshop the Board directed that $685K be transferred from the current contingency into the Litigation Designation to bring it closer to the recommended level. Risk Management, County Counsel and the Auditor-Controller are reviewing the outstanding cases and based upon this, we will revise as appropriate the proposed funding level of this designation. We will adjust the FY 01-02 recommended amounts when we've had an opportunity to evaluate the new data.
- The possible Goleta Incorporation could impact the FY 01-02 Budget. If the voters approve cityhood, Goleta would incorporate on February 1, 2002. The County would be 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 would loose certain revenues (Retail Sales Tax & Transient Occupancy Tax are the major ones) generated from that area. In the short term, this would/will create the necessity of backfilling these lost revenues from some source. We will work with the Debt Advisory Committee (DAC) in developing appropriate alternatives for your board to consider at a future date.
- Energy issues. There are two energy related issues of which the Board should be aware :
    - **a.** The main providers of electric power in California are Pacific Gas & Electric (PG&E) and Southern California Edison (SCE). As the Board is fully aware they are both in major debt (somewhere between $10-15 Billion) caused by a run up the wholesale electricity cost from generators and a capped retail pricing structure. This debt problem has caused their credit worthiness to drop and has resulted in the state spending billions for electricity on the open market. These state expenditures will obviously reduce the state's flexibility in

FY 01-02 to fund programs like the ERAF return and other programs that directly or indirectly impact the County's ability to meet its' responsibilities. Couple this with the potential loss of Local Discretionary Revenues from Property Tax and Franchise Fees that may not be paid by the utilities; increased cost to the county for electricity (GS & leases & street lighting & solid waste etc.); and the impacts on our local businesses and citizens on fixed incomes…**WE CONTINUE TO HAVE A HUGE PROBLEM….SOME SAY THIS IS THE BIGGEST PROBLEM FACING CALIFORNIA SINCE THE GREAT DEPRESSION.**

b. The second energy related issue is in natural gas and it too has two aspects….price increases and supply shortages. The most readily apparent is the significant increase in price, which has, in most areas, doubled, in the last 24 months. The price has gone up due to increased demand and reduced supplies. These price increases are impacting our citizens who have natural gas for heating, cooking and when their electricity is from power plants using natural gas as their prime energy source. Moreover, it is impacting local business (particularly our greenhouse businesses).

- There are numerous signs that economic growth is slowing down. Certainly the energy crisis has and will have a negative impact, adding cost without a corresponding benefit like increased productivity. The most recent UCSB Economic Forecast presented April 26, 2001 indicates the state will experience almost NO GROWTH in 2001, and that the county's growth will moderate considerably from the double digit growth in many areas over last couple of years.

- There are an ever increasing number of other possible financial exposures from a variety of sources (Uncertainty as to power availability and the associated increased cost, Unfunded Capital, Workers Comp, Landfill Closures, Inequity Studies, Clean Water, Probation Grants ending, Retirement & Salary expectations, pending IHSS policy implementation, the operations cost of the North County Juvenile facility, Prop 36, SBJH etc.). **Taken individually they could be accommodated, taken cumulatively they are particularly troubling.** Given the potential impacts of these pending exposures we would recommend a cautious and fiscally conservative approach in viewing funding requests that are ongoing in nature..

As we did in our February update we recommend:

. No General Fund service expansions
. No new General Fund positions
. One-time revenue enhancements or savings should be used <u>only</u> for reserves, capital and deferred maintenance projects and/or one-time expenditures.

<u>FIN REPORTS</u>

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 are available to you on FIN at the end of each month.*

.

G:\group\ao\winword\budget\ 2000-01\ May 2001 BOS Budget Update & Workshop