

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Agenda Number:
Prepared on: 9/30/04
Department Name: County Administrator
Department No.: 012
Agenda Date: 10/12/04
Placement: Departmental
Estimate Time: 30 minutes
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors
FROM: Michael F. Brown, County Administrator
STAFF CONTACT: Ken A. Masuda and Lori Norton
568-3411 568-3421
SUBJECT: Update on State Budget Impacts

Recommendation(s):

That the Board of Supervisors:

- A. Receive and file this report, and
- B. Approve a transfer of \$37,000 from the General Fund contingency for affordable housing compliance monitoring by the Housing and Community Development Department.

Alignment with Board Strategic Plan:

An Efficient Government Able to Respond Effectively to the Needs of the Community.

Executive Summary and Discussion:

On August 3 the Board of Supervisors received our report on the fiscal year (FY) 2004-05 State budget and approved recommendations to fund School Resource Deputies in the Sheriff's Department and replacement staff housing at the Los Prietos Boys Camp. At the conclusion of the hearing the Board also directed our office to return on October 12 with a further update.

In the adopted State budget, signed by the Governor on July 27, the loss of property tax revenues to the General Fund and the Redevelopment Agency remain the primary impacts. Most of the other potential program impacts shown during our August 3 presentation did not materialize. The impact to the General Fund from the negotiated Vehicle License Fee (VLF)-Property Tax swap is estimated at \$4.1 million. A strategy to address this unbudgeted impact primarily involves additional discretionary General Fund revenue that could be received this fiscal year. Our office and the Auditor-Controller believe that it would be prudent to wait until mid-year, when our revenue picture is clearer, to address how to deal with the revenue loss.

Fiscal Year 2004-05 State Budget Impacts

The following table summarizes this year's State budget impacts and compares them with numbers provided earlier this year on August 3.

The undesignated court fees impact was anticipated in the adopted County budget. The State budget impact on road maintenance funds will ultimately depend on whether voters approve or reject two Propositions on the November election ballot.

Potential State Impacts	Actual Amounts	Estimated Amounts	Comments
Net Loss on VLF-Property Tax Swap	\$4,100,000	\$3,900,000	VLF fee reduced from 2% to 0.65% of the vehicle's depreciated value. Loss of VLF revenue partially, <i>but not fully</i> , offset by increased property taxes (from ERAF). Difference is the \$3.9 million estimated loss.
RDA Property Tax Loss	\$200,000	\$200,000	
Probation - Loss of TANF Funding		\$2,800,000	Loss of Federal funding for programs affecting juvenile offenders. Would result in need to close Los Prietos Boys Camp.
Sheriff's Booking Fees		\$565,000	State to not backfill cities for booking fee payments made to counties and also <i>repeal</i> counties authority to charge booking fees.
Undesignated Court Fees	\$200,000	\$200,000	Payment to State anticipated in 04-05 budget.
Social Services - Child Support Reimbursements		\$285,000	Certain collections reimburse DSS for welfare payments made to a family (custodial parent and children) because the responsible parent was not making child support payments. (aka Absent Parent Collections in DSS.)
Social Services - CALWORKS		\$460,000	Reduction in Eligibility Services. If no local backfill then 9 Eligibility Worker positions would be eliminated and clients would need to wait 50 days to receive benefits rather than 45 days which is the mandated maximum waiting period.
Social Services - Food Stamps		\$200,000	Reduction in funding for administration of Food Stamp Program. If no local backfill then reduction of 4 eligibility workers and eligible families would wait 60 days to receive benefits rather than 30 days which is the mandated maximum waiting period.
Social Services - New local match for Child Welfare Services		\$130,000	Core CWS has a 30% local share. This would change the local share for Augmented CWS services from 0% to 30%. If not provided then County would lose \$580,000 in Federal/State funding; loss of 10 Social Worker positions; mandates would not be met.
Alcohol Drug and Mental Health - Increased local match for EPSDT		\$360,000	From 10% share to 20% share for EPSDT. Total EPSDT is leveraged for Medi-Cal dollars. If additional local share is not provided County would lose \$3.8 million in Federal/State funds; significant cut in services to children.
Public Works - Road Maintenance	\$1,400,000	\$1,400,000	\$1.4 million is the estimated loss of Prop 42 funds. The full amount of the loss would occur if Prop 68 or Prop 70 are approved by the voters on November 2, 2004. If passed, these Props would void recent compacts negotiated by the Governor and five gaming tribes. These compacts include payments to the State which would be used to fund State and local transportation projects. In addition to the \$1.4 million, loss of the compact revenue would impact the availability of State Transportation Improvement Program (STIP) fund for local projects
	\$5,900,000	\$10,500,000	Increase of \$50,000 from June 7 presentation is due to small changes in calculated CWS, EPSDT, CalWORKS, and Food Stamp program impacts.

Impact of the Local Property Tax Reduction and Vehicle License Fee Swap

The FY 04-05 State budget incorporates the “Local Government Agreement” negotiated by local officials with the Governor and approved by the State Legislature. Under the terms of this agreement, for fiscal years 2004-05 and 2005-06, cities, counties, special districts and redevelopment agencies will provide a total of \$1.3 billion in local property tax revenues to the State to help with the State’s budget deficit.

For counties, the mechanics of the transaction will work like this:

1. Counties generally, except for Ventura and Orange Counties, will no longer receive Vehicle License Fee (VLF) revenues for general purposes. For Santa Barbara County, this amounts to a loss of \$28.25 million in FY 04-05. Counties will still receive VLF Realignment revenues for health and social programs.
2. Instead, counties will receive a partial offset to these amounts from ERAF funds. Statewide, this offset will be \$350 million less than the VLF funds they would otherwise have received. For Santa Barbara County, this will result on our receiving \$24,120,428 in FY 04-05 or **\$4,129,572 less than anticipated amounts**. This loss is the result of a legislated reduction of \$3,894,357 for fiscal years 04-05 and 05-06 and a further loss of \$235,216 due to the fact that the State Controller’s estimate of Santa Barbara County’s 04-05 VLF revenue is \$235,216 less than our adopted budget.

In addition to the actual revenue loss, cash flow will be affected because distributions from ERAF to local governments will only occur twice a year, in January and May, rather than monthly payments of VLF revenues from the State Controller’s Office.

Potential Funding to Offset the Anticipated \$4.1 million Revenue Loss

As mentioned during the Auditor’s year-end financial status report, property tax revenues were not only higher than estimated in FY 03-04 but are also projected to be higher than budgeted in FY 04-05. These increases, assuming they materialize, would go a long way to close the \$4.1 million gap cited.

Projected Property Tax Revenue Increases			
Source	FY 04-05 Budget	FY 04-05 Estimated	Net Change
Secured	\$78,354,000	\$80,354,000	+\$2,000,000
Unsecured	\$3,801,000	\$4,518,000	\$717,000
Unitary	\$1,806,000	\$1,928,000	\$122,000
Total			+\$2,839,000

On August 3, \$300,000 of the projected property tax revenue increase was committed to fund the School Resource Deputies. The gap between the \$4.1 million revenue loss and the net anticipated property tax increase of \$2.5 million will be addressed at our Mid-Year Financial Review in February 2005. The financial status of departments, as well as potential additional costs such as the Jackson trial, will be reviewed during our regular 1st quarter financial status report in November and Mid-Year report in February.

In addition to the “SWAP” the County’s revenue picture is potentially further muddled—but probably not damaged--by the “triple flip,” which is described below.

Proposition 57 (State Deficit Reduction Bonds) and the “Triple Flip”

In March, voters approved Proposition 57, a proposal that allows the State to sell up to \$15 billion in bonds to deal with its past and present budget deficits.

Repayment of these bonds involves a three-step revenue shuffling process called the “triple flip” detailed below.

1. City and county general sales tax revenues will be reduced from 1% to 0.75% effective July 1, 2004. This revenue will now go to the State as a dedicated source that will be used to pay off the bonds. Payoff is estimated to occur in 9 to 14 years.
2. Local government sales tax losses (the ¼%) are to be offset by funds taken from the ERAF fund. Cities and counties will be reimbursed for losses in January and May of each year.
3. The State will use its general fund revenues to backfill the ERAF loss so that schools do not lose funding.

The **County General Fund Fiscal Impact should be minimal**, especially if the State uses actual FY 04-05 sales, as opposed to prior fiscal year sales, as the basis for its reimbursement calculation. Cash flow will be affected because reimbursements to local governments from ERAF will only occur in January and May of each year in contrast to the current monthly disbursements.

Further State Budget Impacts this Fiscal Year

It does not appear that the current State budget will require the kind of mid-year revisions that have impacted local governments over the past two years. Proposition 1A on the November ballot, which adds the principles of the Local Government Agreement (LGA) to the State constitution, would also protect local governments' FY 04-05 budgets from further State taking of local discretionary revenues or the imposing of unfunded State mandates during the current budget year.

Disposition of Final Expansion Requests

Finally, during the August hearing you received testimony from the Housing and Community Development Director regarding funding augmentations for his department. Of the items mentioned, monitoring affordable housing homeowners to insure compliance with their restrictive covenants appeared the most critical. Following review by our office it is recommended that the Board approve a contingency transfer of \$37,000 (attached) for this activity.

Mandates and Service Levels: The continued loss of approximately \$1.4 million in Proposition 42 funds reduces the ability of the Public Works Department to carryout its adopted schedule of road maintenance projects. Funding the affordable housing compliance activity will enable the Housing and Community Development Department to conduct this function at a higher level of intensity.

Fiscal and Facilities Impacts: The \$1.6 million gap between the \$4.1 million revenue loss and the net anticipated property tax increase of \$2.5 million will be addressed at our Mid-Year Financial Review in February 2005.

Concurrence: Auditor-Controller
Housing and Community Development Director

Attachment: Budget revision

Cc: Each Department Head
CAO Budget and Research Staff