SANTA BARBARA COUNTY
BOARD AGENDA LETTER

Clerk of the Board of Supervisors
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Agenda Number:	
Prepared on:	5/03/06
Department Name:	CEO & Auditor/Controller
Department No.:	012 & 061
Agenda Date:	5/23/06
Placement:	Departmental
Estimate Time:	20 minutes
Continued Item:	NO
If Yes, date from:	

TO:	Board of Supervisors
FROM:	Michael F. Brown, County Executive Officer Robert Geis, CPA, Auditor-Controller
STAFF CONTACT:	Ken Masuda, Edwin Price and Lori Norton 568-3411 568-2181 568-3421
SUBJECT:	FY 05-06 Budget Update #3 (Third Quarter)

Recommendation(s):

That the Board of Supervisors:

A. On May 16, **set a hearing (20 minutes) for May 23, 2006** to accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2005-06 Financial Status Report as of March 31, 2006 showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

B. On May 23, accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2005-06 Financial Status Report as of March 31, 2006, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

Alignment with Board Strategic Plan:
An efficient government able to anticipate and respond effectively to the needs of the community.

Executive Summary

The County's financial status shows significant improvement when compared with both our mid-year report for this year and in comparison to the third quarter report of one year ago. At that time the General Fund had a positive net variance of $1.4 million. After nine months of this fiscal year the General Fund's net positive variance is $15.1 million.

Discretionary revenues, which are $11.4 million more than budgeted, are the leading component of this trend. Supplemental Property Tax revenues are a positive $2.9 million and Property Transfer Tax revenues are positive $1.1 million. The adopted FY 2005-06 budget projected a decline in real estate market activity beginning in July 2005. However, data shows that, at least through March, this decline has not materialized. Transient Occupancy (bed) Tax revenues (+$528,000) and Interest Income (+$812,000) have also exceeded expectations.

On the expenditure side, like other individuals and businesses, vehicle fuel costs will impact the current year budget; the current year cost increase is estimated at $765,000. There is significant under spending in the Comprehensive Planning portion of the General County Programs budget and in the Planning and Development Department. In Comprehensive Planning, expenditures are approximately $600,000 less than budgeted because key projects such as Housing Element environmental impact report (EIR) and the Santa Ynez Community Plan EIR are running behind appropriations and will need to be rebudgeted for next year. The Planning and Development under spending is largely in Development Review as anticipated large projects have not materialized.

On the non-General Fund side the Road Fund's accounts receivable/cash flow problem has eased with the first payment, on April 26, of $5.3 million from the Federal Highway Administration (FHWA) for 2005 Storm repairs. Payments of additional prior year claims totaling $3.2 million are pending. These reimbursements, along with the County split election and certain outstanding litigation claims are the most significant uncertainties we see as clouding our currently improved financial picture.

Discussion:

A. Introduction

This report reviews the financial status of the County as of March 31, 2006. Staff has conducted Monthly Projection (MOPROs) meetings with departments during which their actual performance was compared to their budget for the first nine months of this fiscal year. The discussion narrative which follows highlights major differences (variances) between budgeted and actual amounts identified at these meetings.

B. Financial Status Report as of March 31, 2006

Introduction

Variances to be discussed are defined as follows: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected variances over $200,000 as shown in the Projected Annual Status Report, General Fund (Attachment A) and 2) for non-General Fund departments, the narrative discusses projected variances over $500,000 per fund as shown in the Projected Annual Status Report, by Fund Type (Attachment B). Both of these reports take actual revenues and expenditures for the first nine months, add department projections for the next three months, and compare these totals to budgeted amounts.

General Fund Summary

The General Fund, when all of the plusses and minuses are accounted for, **has an estimated net positive variance of $15.1 million through March 31, 2006**. In contrast, one year ago the net positive variance was only $3.6 million. This year, there are significant positive variances in salary savings and discretionary revenues, both of these variances should continue at least at current levels for the remainder of the year. Significant individual department variances are discussed below.

General Fund Departments (excluding General Discretionary Revenues)

Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of 3/31/06 are as follows:

- Public Defender. The department has a $316,000 positive variance. On the revenue side, both Public Safety Sales Tax (Proposition 172) and charges for legal services revenues are higher than expected. The department also has salary savings, although the year-end projection is less as recently approved positions should be filled before the end of the year.

- Sheriff. The net positive variance, $334,000, is largely due to salary savings of $806,000 which have occurred as a result of a continuing large number of vacant Sheriff's deputy and corrections officer positions. Active recruitments are on-going for these positions. Dispatcher position vacancies have been reduced from 9 to 6 since the last quarterly report. Motor pool charges are $172,000 over budget. The current year appropriation was conservative and the negative number also reflects rising gas prices and costs to standardize equipment layout in all patrol vehicles.

- Agriculture. This department's positive variance, $293,000 is also largely due to salary savings of $227,000 from staff vacancies. Many of these vacancies have now been filled.
- Planning and Development. Through March, the department has a $508,000 net positive variance. Expenditures are $1.02 million under budgeted amounts, with $731,000 being salary and benefit savings due to staff vacancies. Some of these are because anticipated large South County projects have not materialized. Other vacancies, as reported earlier, are because positions needing experienced planners, or certain plan building division specialties, have been hard to fill. Revenues are down at net $514,000 largely because revenues from discretionary permits are -$702,000. In contrast, building and excavation permits are a positive $153,000 through the third quarter. These noted trends are expected to continue through the end of the year.
- Public Works. Almost 90% of the reported $332,000 positive variance is due to salary savings. Most of these savings are due to vacancies in the Surveyor Division that are related to the financial condition of the Road Fund (discussed in a following section).
- Auditor-Controller. This department is currently showing a $350,000 positive variance, with about half, $185,000, due to accumulated salary savings. However the year-end amount will probably be significantly less than $350,000 because of external auditor fees expected before the end of the year.
- Clerk-Recorder-Assessor. The $275,000 net negative variance has two main components. First, positive revenue variances of $475,000 for Supplemental Tax Administration fees and $106,000 for Recording fees are more than offset by lower Elections Services revenue ($-814,000). Because of the statewide special election, fees recovered from local governments were lower than expected. Also, more local entities are switching from off-year (odd numbered years) to even-numbered year election dates. In total, revenues are $143,000 under budget through March. Releases of designations are also lower by $605,000 due to the deferral of some Recorder projects. In total, sources of revenue are a negative $765,000. On the expenditure side, Services and Supplies have a net positive $420,000 variance. This is because statewide special election costs were lower than anticipated, and because of the deferred Recorder projects mentioned above. Overall, expenditures are a positive $548,000 and with reserve changes factored in, the net financing uses change is $489,000.
- Treasurer-Tax Collector. This department has a net $824,000 positive variance. A little more than half of the $208,000 positive revenue variance is the result of a depositing error that has been corrected so that the net positive revenue variance here is only $89,000. This variance is due to property tax related administration fees. On the expenditure side, the department has large salary savings, $274,000 due to vacancies and leaves, and lower banking fee costs.
- General County Programs. The composition of this budget has changed significantly with the addition of Comprehensive Planning activities. Through March, the budget has a $696,000 positive variance. Approximately $387,000 of this variance is non-Comprehensive Planning related. Short-term borrowing (TRAN) costs are $118,000 less than budgeted, cost of COP (Certificate of Participation) debt is $52,000 less, and contributions to the Court Special Services budget are $217,000 less as a result of payment reductions. In the Comprehensive Planning area, expenditures are roughly $600,000 less than planned because of the late start of scheduled projects. But revenues are also lower, by about $300,000, due to a lag in cost reimbursements. These reimbursements will occur after costs have been incurred. A carryover of funds into the next fiscal year is anticipated. This carryover will reduce the current positive variance at year-end.

General Fund Discretionary Revenues

These revenues are a positive $11.4 million through March. With three-quarters of the year passed, many of the discretionary revenues continue to reflect current and immediate past activity in the real estate market. Thus, Supplemental Property Tax revenues are $2.9 million higher than estimated and Property Transfer Tax revenues are $1.1 million higher than estimated. For the current year, we had projected a decline for both revenue sources beginning in July. However, the latest data shows that a downturn in the number of real estate transactions did not begin until the second quarter (October-December) and that even though the number of transactions decreased the value of transactions remains high.

Major Discretionary Revenue Variances through 3/31/06			
Revenue Source	Budgeted	Actual	Variance
Supplemental Property Taxes	$2,331,000	5,298,582	2,967,582
Property Transfer Taxes	2,059,000	3,175,207	1,116,207
Property Tax In-Lieu of VLF	15,549,000	19,243,980	3,694,980
Interest Income	1,980,000	2,792,161	812,161

Also, when these estimates were made last Spring, we were not aware of the impact that the Swap of Vehicle License Fee revenue for additional property tax revenue would have on the allocation of Supplemental Taxes. Because Supplemental Taxes are distributed proportionately based on Secured Property Tax allocations, overall, the impact is that the County General Fund share of Supplemental Taxes has increased from roughly 19% to 26%. This translates into $1.4 million of the $2.9 million increase for the first three quarters of the fiscal year.

In addition, Property Tax In-Lieu of VLF (Vehicle License Fees) shows a positive variance of $3.7 million which is the result of the State adjusting for an error in their earlier calculations. This amount includes both money we should have received in FY 04-05 ($2.4 million) and a portion of the additional unbudgeted money we will be receiving this fiscal year. Interest income is a positive $812,000 as interest rates have exceeded our own conservative estimates. Finally, there is a balance of $1.5 million ($1.2 million as of April) in unappropriated Vehicle License Fee (VLF) Gap Loan repayment revenues.

Special Revenue Funds and Other Funds Summary

As in prior quarters the financial condition of the Road Fund is an area of concern. As of March 31, the Road Fund had a negative $2.1 million revenue variance and $8.8 million in outstanding accounts receivable (prior and current fiscal years). On April 26 the County did receive a first payment of $5.3 million from the Federal Highway Administration (FHWA) for 2005 storm damage repairs, easing, but not eliminating our concerns.

There is also a large $2.7 million negative expenditure variance in the main Social Services fund, however, the department has indicated that sufficient Federal and State allocations are available to cover the deficiency.

Other Funds Detail

- Road Fund (Fund 0015). The overriding issue in this fund, as the Board of Supervisors knows, has been the lack of FHWA reimbursement the County for either emergency or permanent repairs caused by the 2005 storms, and State matching amounts for these costs, which have also not been received pending the Federal reimbursement. The first payment, of $5.3 million was received on April 26. However, this payment, for prior year claims, does not impact the net negative $2.1 million variance. On the revenue side there is some positive news; Measure D sales tax revenues are $333,000 over budgeted amounts and $766,000 in State Proposition 42 (congestion relief) funding, which was not budgeted, has been received. On the expenditure side, the $694,000 positive variance is mostly a deferral of costs owed to other Public Works funds, for administration and surveyor costs and for the north county office building, and does not represent real savings.

- Mental Health (Fund 0044). The Alcohol, Drug, and Mental Health Services (ADMHS) Department's budget shows a net positive variance of $2.4 million and a $2.5 million positive variance on the expenditure side. Contracted service costs are $2.7 less than budgeted and for the year an under expenditure of $1.6 million is expected. Revenues, usually negative to a large degree, are only a negative $92,000. This development is due to $312,000 in additional Motor Vehicle In Lieu revenue and $1.7 million in unanticipated SB-90 mandate reimbursements. These positive numbers offset a $2 million shortfall in Medi-Cal revenues. Of this amount, the department reports that approximately $410,000 reflects lower than anticipated services to Medi-Cal eligible clients, the rest being claims that have not been paid.

- Social Services (Fund 0055). Overall, the fund is a negative $2.7 million. Expenditures are a negative $2.9 million as a result of $874,000 in higher CalWin computer system implementation costs and $1.4 million in higher than anticipated cash assistance payments, especially for CalWorks and Foster Care. Allocations are available to cover the CalWin costs and CalWorks expenditures have only a 2 ½% General Fund match.

- Housing and Community Development – Affordable Housing (Fund 0065). The $597,000 net positive variance is due to unanticipated revenue from: 1) an "in lieu housing mitigation fee" payment of $280,000 which is $255,000 more than budgeted to date; these are funds in lieu of building affordable housing units, and 2) $363,000 as the fund's portion of receipts from shared equity sales which is $325,000 more than budgeted.

- Public Works – Resource Recovery and Waste Management (Fund 1930). The $855,000 positive revenue variance has three major sources: 1) $197,000 in unanticipated electricity sales from the Tajiguas methane recovery plant, 2) $151,000 in additional revenue from recycling redemptions, and $400,000 from the sale of excess equipment. The $519,000 positive expenditure variance primarily the result of salary savings from vacant positions.

- Public Works – Water Agency (Fund 3050). Delays in the Twitchell Dam study and implementation of fish passage improvement projects are the main reasons for the net $742,000 positive variance as of March 31.

- General Services – Workers' Compensation Self Insurance (Fund 1911). The $1.4 million positive variance is the result of both higher than anticipated revenues and cost savings. Revenues are higher because of interest earnings, prepayment of certain premium contributions, and receipt of insurance proceeds from CSAC-EIA (California State Association of Counties-Excess Insurance Authority) for claims expenses that exceed the County's self-insured limit. Lower costs are the result of lower insurance premium payments, and lower than anticipated disability payments due to the very successful Back to Work program and lower than anticipated medical costs which are at least partly due to State legislation passed last year that capped certain costs.

- General Services – Vehicle Operations and Maintenance (Fund 1900). The negative variance shown is due to an accounting treatment of the fund's retained earnings. This aside, however, there are significant changes to report. Revenue is higher due to motor pool rental charges to departments. This will result in year-end budget revisions from departments that need to add appropriations to their motor pool accounts. As shown in the following table, increased charges are due primarily to increased gas prices, although vehicle usage has increased as well. This combination will result in an estimated $765,000 (40%) unanticipated cost increase.

	Budgeted Amounts	Estimated Actual Amounts	Change
Gas Price per Gallon	$1.90	$2.44	$0.54
Number of Gallons Used	988,000	1,083,000	95,000
Total Cost	$1,877,200	$2,642,520	$765,320

- Public Works – Water Agency (Fund 3050). For this fund, the $126,000 negative revenue variance is mostly due to an internal delay in Project Clean Water billing. The positive expenditure variance, $824,000, reflects staffing vacancies and delays in the Twitchell Dam study (with the Santa Maria Valley Water Conservation District) and work on various fish grant projects.
- Various Departments – Capital Outlay Fund (Fund 0030). This fund shows a positive $1.6 million variance. Most of the variance is due to a one-time accounting adjustment related to the retention of final payments on "completed" projects, and not a true variance reflective of spending delays.

A. Recommended Use of General Fund Undesignated FY 05-06 Fund Balance

This presentation is timed to coincide with presentation of the Proposed FY 2006-07 Operating Plan and Budget. The proposed plan includes a General Fund fund balance of $12.17 million. Proposed uses for this $12.17 million are shown in the following table. Because of sustained discretionary revenue growth, the $5.3 million of discretionary designations such as the $2 million for deferred maintenance, $1.5 million for the Strategic Reserve, and $500,000 for the Road Fund (expanded to $585,000 for a bridge contribution) authorized as part of the adopted budget principles has been funded from discretionary revenues. This year, all of the $12.17 million is proposed to be used, in roughly equal amounts, for capital projects and to further build discretionary designations.

Reserves and Designations	Allocation per Budget Principles	Fund Balance Allocations	Total Recommended Allocations
Strategic Reserve	$1,500,000	$1,500,000	$3,000,000
Deferred maintenance	2,000,000		2,000,000
Roads Designation	585,000		585,000
Capital Designation	500,000	6,000,000	6,500,000
Contingency	800,000	576,538	1,376,538
Litigation Designation		3,000,000	3,000,000
Salary & Retirement Designation		1,100,000	$1,100,000
Totals	**$5,385,000**	**$12,176,538**	**$17,561,538**

Additional funding for the Strategic Reserve will bring this total to our goal of $25 million. With this "bucket" filled, our next priority is the Litigation Designation and an additional $3 million is recommended to bring this total to $4.30 million (including an estimated $1.3 million carryover) as the County begins FY 2006-07. Should the fiscal year end with more than the budgeted $12.17 million, for example, more like the $15 million shown as of March 31, it would be our recommendation that final disposition of the excess, as in past years, be deferred to the Fall.

Included as Attachment C are the Powerpoint slides for the May 23 presentation.

Mandates and Service Levels: These quarterly financial status reports are not mandated. They are a part of the ongoing effort of our two departments to keep the Board of Supervisors informed as to the financial condition of the County.

Fiscal and Facilities Impacts: Actual and projected impacts are as stated in this letter and its attachments.

Cc: Each Department Head
Deputy/Assistant County Executive Officers and CEO Analysts
Recognized Employee Organizations

Attachments A through C