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# 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:** | County Executive Office |
| **Department No.:** | 012 |
| **Agenda Date:** | June 3, 2025 |
| **Placement:** | Administrative Agenda |
| **Estimated Time:** | |
| **Continued Item:** | No |
| **If Yes, date from:** | |
| **Vote Required:** | Majority |

| | | |
|---|---|---|
| **TO:** | Board of Supervisors | |
| **FROM:** | Department Director: | Mona Miyasato, County Executive Officer |
| | Contact Info: | Paul Clementi, Budget Director |

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**SUBJECT:** Fiscal Year 2024-25 Third Quarter Budget Status Report

**County Counsel Concurrence**
As to form: N/A

**Auditor-Controller Concurrence**
As to form: N/A

## Recommended Actions:

That the Board of Supervisors:

a) Receive and file the Fiscal Year (FY) 2024-25 Third Quarter Budget and Status Report as of March 31, 2025, 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 Text:

The Fiscal Year (FY) 2024-25 budget status report for the third quarter ending March 31, 2025, provides a fiscal year-to-date look at the County's financial position relative to the FY 2024-25 adjusted budget. As of the end of the third quarter, the General Fund is projecting a positive year-end variance of $17.1 million driven primarily by positive variances in several departments and five reportable variances overall. Discretionary revenue is the primary driver of the overall positive variance, with property tax specifically projecting a $6.5 million positive variance due to better than anticipated assessed value

growth. These positive variances are offset somewhat by lower than budgeted revenues in Community Services-Parks, and greater than budgeted overtime costs in the Sheriff's Office. Outside of the General Fund, the Information Technology Department's Shared Services Fund reportable positive variance has grown to $1.6 million, the Public Health Department reported a negative variance of $402,000 for which it will work with the County Executive Office to address, and the Department of Social Services Fund reported a negative variance of $296,000, after taking steps to mitigate a reportable variance of $900,000.

The year-end surplus in the General Fund is planned to be held for the construction costs for the expansion of the Northern Branch Jail, last estimated at $165 million after the Board's May 6, 2025 action to achieve Zero Net Energy by expanding the scope of the Norther Branch Jail Power Purchase Agreement solar project.

**Discussion:**

**THIRD QUARTER REPORT**

The third quarter for the fiscal year includes activity through March 31, 2025. 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 nine months of FY 2024-25 and then add departmental projections for the remaining three 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.

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 March 31, 2025, the General Fund had a projected year-end positive variance of $17.1 million. This is the result of favorable results in most General Fund departments, offset by reportable negative variances in two departments as described below.

**General Revenues (Department 991) projects a positive year-end variance of $15.4 million** (4% on an adjusted budget of $382.2 million), with significant variances detailed in the table below. This variance is due primarily to higher than budgeted Property, Property Transfer, Transient Occupancy, and Sales Taxes, as well as higher-than-budgeted Interest Income. Cannabis Cultivation 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. General Revenue assumptions included in the upcoming FY 2025-26 Recommended Budget are approximately 2.7% higher than current year projected actuals.

**Property Taxes are projecting a positive variance of $6.5 million** which constitutes just 2.1% of the total FY 2024-25 adopted Property Tax revenue budget of $303 million and is primarily due to higher than anticipated assessed value (AV) growth for the FY 2024-25 tax year. When the FY 2024-25 budget was developed in the spring of 2024, Auditor-Controller staff had estimated overall assessed property values to grow by 3.75%, however, the roll closed reflecting growth of 5.5%. AV growth is a critical factor as it drives major revenue line items such as Current Secured and Property Tax In-Lieu of Vehicle License Fees (VLF). Due to higher than anticipated AV growth Current Secured taxes are projected to end the year at $199.0 million which reflects a positive variance of $3.2 million, while Property Tax In-Lieu of VLF is projected at $79.1 million representing a positive variance of about $1.2 million. Additionally, property tax fines, forfeitures, and penalties receipts have been robust this fiscal-year-to-date and are projected to exceed the $7.0 million adjusted budget by $1.3 million. In addition to the projected positive variance in property tax, property transfer tax also projects a positive variance of $1.5 million on an adopted budget of $4.1 million. This is mainly attributable to property sales prices generally increasing in value when transfers occur despite a significant decrease in the volume of transfers from historical averages due to the persistence of elevated mortgage rates.

**Interest Income projects higher than budgeted by $3.0 million** (46.2% on an adjusted budget of $6.4 million) as interest earned on General Fund cash balances held by the treasury continues to remain robust in this higher rate environment.

**Transient Occupancy Tax (TOT) and Sales Tax project greater than budgeted revenues**, with positive variances of $3.8 million and $711 thousand, respectively. The TOT variance is driven by stronger-than-expected year-over-year growth as well as the recent tax increase from 12% to 14%, both of which weren't anticipated during budget development last year. The projected positive variance in Sales Tax revenue is mainly attributable to better than anticipated consumer and discretionary spending on taxable goods despite continued uncertainty in the economy.

**Cannabis Cultivation and Retail Storefront Tax is currently projecting a negative variance** with actuals of $5.4 million which is $732 thousand less than budgeted, on an adopted budget of $6.1 million. This variance is being driven by a projected shortfall in cultivation tax revenue mainly due to the attrition of licensed cultivators in the County that had paid taxes in prior years but have recently surrendered their licenses. The current year projected revenue reflects a decrease from the $5.8 million collected in the prior fiscal year, representing a reduction of about $359 thousand or 6.2%. Despite the projected shortfall in tax revenue, this variance is not contributing to the Department 991 projected year end variance as a cannabis prudent reserve is held in fund balance to mitigate revenue volatility and is available to cover this shortfall.

| Discretionary General Revenue Summary (in thousands): | | | |
|---|---|---|---|
| **Source** | **Adjusted FY 2024-25** | **Projected FY 2024-25** | **Variance Actual vs. Projected** |
| Property Tax | $ 302,677 | $ 309,158 | $ 6,481 |
| Transient Occupancy Tax | 17,676 | 21,439 | 3,763 |
| Interest Income | 6,437 | 9,408 | 2,971 |
| Property Transfer Taxes | 4,111 | 5,594 | 1,483 |
| Sales & Use Tax | 15,108 | 15,819 | 711 |
| Cannabis Tax | 6,143 | 5,411 | (732) |
| All Other Revenues | 30,000 | 29,966 | (34) |
| **Total Discretionary Revenues** | **$ 382,152** | **$ 396,795** | **$ 14,643** |
| Decrease to Cannabis Fund Balance | $ 6,143 | $ 5,411 | $ (732) |
| All Other Transfers | 376,009 | 376,009 | 0 |
| **Projected Fiscal Year End Variance** | **$ -** | **$ 15,375** | **$ 15,375** |

**Community Services-Parks is currently projecting a negative $350 thousand variances** (0.9% on an adjusted budget of $41 million), due to lower-than-projected revenues from Parks concessions at Goleta Beach and RV hookup fees at Cachuma Lake. Concessionaire revenue is expected to fall short by $819 thousand due to delays opening the restaurant at Goleta Beach, which has been caused by several factors including winter 2023 storm interruptions and greater than anticipated structural and remodeling work on the building being performed by the concessionaire. The restaurant has now opened in the third quarter of FY 2024-25. RV hookup revenue at Cachuma Lake is also projected to be down by approximately $886 thousand due to closures related to the RV area improvement project at Cachuma Lake. The RV area improvement project, initially slated for completion in June 2024, is now expected to be finished by May 2025, largely due to electrical equipment delays.

The department's net $350 thousand negative variance projection assumes continued salary savings at the level experienced in Q3 and availability of Cachuma Lake RV hookups by May 2025. To mitigate the department's negative variance, the department has been monitoring and managing authorized funding and identifying opportunities to reduce operational and capital expenditures. This includes holding non-essential staffing vacancies to generate salary savings and utilizing the department's available fund balance. These efforts have yielded a reduction of over $200,000 in the projected negative variance since the Q2 report, when the department was projecting a negative variance of $570,000. While the department will continue these efforts for the remainder of the year, General Fund support likely to be necessary to balance any remaining shortfall at Fiscal Year End.

**The Sheriff's Office is currently projecting a negative $1.1 million variance** (0.5% on an adjusted budget of $208.5 million), mainly due to greater than anticipated overtime. Overtime costs through the third quarter of the year were $15.5 million on an annual budget of $4.9 million, already exceeding the full year's budget by $10.6 million. If trends continue, the department is on track to exceed the annual overtime budget by $16.6 million at year-end but is also projecting to offset most of these costs with salary and benefit savings from vacant positions.

In August 2024, salary increases and one-time lump sum and longevity payments for members of the Deputy Sheriff's Association (DSA) were approved by the Board to assist in retention and attraction. This added approximately $3.48 million in costs, which will be covered with a release of funds at year-end held in General County Programs for this purpose. Additionally, the increased costs that came with the one-year extension of the current Jail Medical Healthcare contract, as well as the anticipated cost increases of a new contract beginning April 1, could be as much as $2.5 million (after credits) above budget in the current fiscal year, for which funding is also being held in General County Programs for release at year-end. Neither the additional medical contract costs, nor the impacts of the DSA agreement, are contributors to the $1.1 million deficit reflected in the Sheriff's projections, due to planned release of fund balances for these purposes.

**Probation is currently projecting a positive $1.29 million variance** (1.4% on an adjusted budget of $89.4 million), primarily due to salary and benefit savings. The department had 47 vacancies at the end of the third quarter; however, 8 staff will be starting over the next three pay periods. An additional 3 have recently passed their background checks and an additional 11 are in the background process. Of the 47 vacancies, eleven were Probation Officers and twelve were Juvenile Institutions Officers.

**County Executive Office is projecting a positive variance of $776 thousand** (7.4% on an adjusted budget of $10.5 million) mainly driven by salary savings on vacant, funded positions. As of the end of the third quarter the department reported a total of eight vacant, funded positions, which are discussed in further detail in the Funded Vacancies section below.

**SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)**

As of March 31, 2025, there was one Internal Service Fund and two Special Revenue Funds with a reportable variance for the quarter.

**The Information Technology Shared Services (Fund 1915) is projecting a $1.65 million positive variance** (5.2% on an adjusted budget of $32.1 million), mainly due to a $1.28 million positive variance in salaries and benefits caused by vacancies in several roles. The department has filled some of those roles in the past quarter, with funded vacancies down to 14% compared to 18% in the second quarter, and is actively recruiting for the other open roles. The department is projecting a $171,000 positive variance in Other Charges mainly due to depreciation charges coming underbudget because some IT refresh projects have been delayed to the next fiscal year. The department anticipates using some of this year's balance on data governance planning, Microsoft Co-Pilot costs, and other initiatives.

**The Social Services Fund (Fund 0055) is projecting a $296 thousand negative variance** (0.1% on an adjusted budget of $219.6 million), due to a one-time adjustment in claiming for Foster Care Assistance and an adjustment to the cost projections from the overall rising per case costs for Foster Care and Adoption Assistance. The department's variance originally was $900 thousand, however, the department will be able to use a combination of fund balance and earmarked General County Program funds to reduce it to $296 thousand. The department is planning to use fund balance to cover the remaining gap, with a plan to come to the Board early Fall to discuss its full budget picture, including available fund balances.

**The Environmental Health Services Fund (Fund 0051) is projecting a $402 thousand negative variance** (4.9% on an adjusted budget of $8.2 million) mainly due to delays in anticipated fee increases that resulted in only partial service cost recovery this fiscal year. Specifically, the department budgeted an increase to its Certified Unified Program Agency fees (paid annually by businesses and organizations that handle, store, or use hazardous materials) but was unable to get fee increases approved before the deadline to send out invoices. The department is holding positions vacant and cutting services and supplies costs to help minimize the deficit and will work with the County Executive Office on solutions to close the year in balance.

## ADVANCE CONSTRUCTION RESERVE ACTIVITY

**To date, the Advance Construction Fund was repaid $7.6 Million and has $3.0 Million still owed**. 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. Funds returned to General County Programs following the completion of a project are reallocated to other planned projects. Accordingly, the $7.6 million reimbursed to date (reflected in the table below) was anticipated and has already been allocated or earmarked for specific uses, such as future high-cost bridge projects, energy efficient lighting upgrades at County facilities on Foster Road, and the Cachuma Lake RV project.

Since its establishment in FY 2021-22, the Advance Construction Reserve has provided temporary transfers of General Fund cash to Public Works (Fund 0017) for high-cost bridge construction projects that require cashflow in advance of federal reimbursement. There have also been temporary transfers to General Services for design and/or construction of several projects including the new Probation Headquarters project and the Main Jail Renovation, both of which were reimbursed this fiscal year, following the disbursement of Certificate of Participation (COP) debt proceeds. The status of these transfers and reimbursements are reported in each quarterly update to the Board, as summarized in the below table.

**Advance Construction Reserve Activity as of March 31, 2025**

| Project | Transferred To-Date | Reimbursed to General Fund To-Date | Outstanding Balance Owed |
|---|---|---|---|
| Floradale Bridge | $(5,270,600) | $4,270,600 | $1,000,000 |
| Foothill Bridge | (3,000,000) | 1,000,000 | 2,000,000 |
| Probation HQ | (1,651,194) | 1,651,194 | 0 |
| Main Jail Renovation | (659,236) | 659,236 | 0 |
| **Total** | **$ (10,581,030)** | **$ 7,581,030** | **$3,000,000** |

**FUNDED VACANCIES BY DEPARTMENT (Attachment C)**

**The overall funded vacancy rate at the close of the third quarter was 11%, which is consistent with the 11% vacancy rate reported in Q2.** At the end of March, 507.38 of the County's 4,767 adopted, funded positions were vacant. Departments with the highest rates of funded vacancies (at 15% or higher) include Child Support Services (20%), the County Executive Office (18%), the Clerk-Recorder-Assessor's Office (18%), and Behavioral Wellness (16%). Unused funds due to vacancies return to the General Fund or associated funding source at the end of the fiscal year, unless authorization is given otherwise.

The vacancy rate in the County Executive Office decreased to 18% (down from 22% in the second quarter) with eight vacant, funded positions reported as of the end of the third quarter. Two of these positions have recently been filled, recruitments are in progress for an additional two, and the remaining four positions are intentionally being held vacant as the department assesses future budget uncertainties.

Vacancies in the Clerk-Recorder-Assessor's Office have increased slightly from 14% in the second quarter, with 19.1 vacant, funded positions reported at the end of the third quarter. Two of these positions have recently been filled, recruitments are in progress for an additional ten, and one position (a Human Resources Manager in the Administrative Division) has proven to be difficult-to-fill. Six positions are intentionally being held vacant: four in the Clerk-Recorder division due to the continued decrease in recording volume; and two in the Elections division, which are anticipated to be filled during the election period.

Child Support vacancy rates have decreased slightly from 21% in the second quarter due to a recent staff hire and the department reports that they are actively recruiting for another position. Many of the remaining County vacancies, especially in Behavioral Wellness, are in historically difficult to fill positions, often requiring highly technical or specialized skills, although departments continue to work closely with Human Resources to fill all funded positions.

Board of Supervisors, County Counsel, Public Defender, and Auditor-Controller had the lowest funded vacancy rates (at 7% or lower). A table of funded vacancy rates by department as of March 31, 2025, may be found in Attachment C. As part of budget strategies to address projected future year deficits, CEO staff will continue scrutinizing vacant positions and consider eliminating or freezing certain positions to balance upcoming year budgets.

**Attachments:**

Attachment A – Financial Summary Report – General Fund
Attachment B – Financial Summary Report – Special Revenue and Other Funds
Attachment C – Funded Vacancies by Department

**Contact Information:**

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