



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

Department Name: CEO & Auditor-Controller  
Department No.: 012 & 061  
For Agenda Of: 5/8/2012  
Placement: Departmental  
Estimated Time: 45 minutes  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Chandra L. Wallar, County Executive Officer  
Director(s) Robert Geis, CPA, Auditor-Controller  
Contact Info: Tom Alvarez and Julie Hagen  
568-3432 568-2126  
**SUBJECT:** Fiscal Year 2011-2012 Third Quarter Budget and Financial Update

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**County Counsel Concurrence**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2011-2012 Financial Status Report as of March 31, 2012, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

**Summary Text:**

The fiscal year 2011-2012 third quarter fiscal report, for the quarter ending March 31, 2012, provides the Board an important snapshot of the County's financial position three quarters through the fiscal year.

The Governor's Proposed Budget for fiscal year 2012-2013 was released on January 5, 2012. The Proposed Budget again includes cuts to funding for the Counties. The Proposed Budget is being analyzed by County Executive Office Staff and the issue will be brought back to your Board as part of the third quarter Financial Status Update. The State budget will have an impact on setting the framework for policy changes and will be reflected in the FY 12-13 budgeting process.

**Background:**

The County Executive Office staff and Auditor-Controller Office staff conducted Operational Review Meetings (ORMs) with departments during which actual financial results were compared to budget for the first three quarters of this fiscal year. The major differences (variances) between budgeted and actual amounts through March 2012 will be discussed below.

This report highlights the following thresholds for variances: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected variances greater than \$300,000 per department as shown in the Financial Summary Report (Attachment A) and 2) for non-General Fund

departments, the narrative discusses projected variances over \$500,000 per fund as shown in the Financial Summary Report (Attachment B). This report takes actual revenues and expenditures for the first nine months, adds department projections for the next three months, and compares these totals to budgeted amounts to produce a projected variance for the end of the fiscal year; this variance is in the far right column of the report.

#### GENERAL FUND SUMMARY

The General Fund had a projected net positive variance of \$5.9 million at March 31, 2012. This is primarily generated by positive general revenues of \$2.6 million, positive Prop 172 revenues of \$1.4 million, and salary and benefit savings of \$2.4 million.

General Revenues show a positive variance of \$2.6 million due in part to unanticipated revenues related to the receipt of four years of excess Vehicle License Fees (VLF) of \$930 thousand previously held by the State of California and recently released. In addition, the other major variances are a projected positive timing variance of \$954 thousand in property tax penalties that will not be realized for fiscal year-end; favorable Transient occupancy taxes (TOT) of \$715 thousand reflecting an improving tourist market in Santa Barbara County and increased tax collection efforts on hotels and vacation rentals. Secured Property Taxes and Property Taxes in Lieu of VLF represent our largest elements of local discretionary funds and are in line with the adjusted budget of \$156 million.

Property transfer tax and supplemental tax are tracking behind our estimates, by \$134 thousand and \$588 thousand respectively, which are leading indicators for next year's property tax growth indicating continued slow growth in the real estate sector.

There is a positive variance across all departments in General Fund salaries and benefits of \$2.4 million, primarily as a result of savings in salaries and health insurance contributions, offset with increased costs in overtime and extra help.

Overall, the adopted General Fund budgets are tracking favorably through the third quarter. Departments generally are controlling expenditures and revenues are projected to be above budget. This should enable the General Fund to end the year balanced and will preserve savings and fund balance that the County would be able to utilize next fiscal year to partially offset fiscal challenges.

Significant individual General Fund department variances are discussed below:

The District Attorney is projecting a positive variance of \$565 thousand. This is due primarily to unanticipated revenue from Proposition 172 public safety funds, Vehicle License Fees, and grant funding, as well as salary and benefit savings from vacancies and employee concessions. The department has budgeted to use this fund balance in FY 2012-13 and FY 2013-14 in order to balance the budget.

The Probation Department has a positive variance of \$317 thousand due mainly to higher than anticipated Prop 172 Safety Sales Tax revenue of \$251 thousand. The Probation Department's expenditures are tracking to budget.

The Sheriff's Office has a positive variance of \$509 thousand due to revenues tracking higher than budgeted. This mainly attributable to Proposition 172 funding coming in higher than projected by \$800 thousand. In addition, the new Local Realignment 2011, which includes revenues from the Community

Corrections Program and Court Security Services is \$490 thousand higher than budget through March 2012 but is expected to land on target at year-end. The Sheriff's expenditures are tracking to budget.

The Human Resources (HR) Division of the County Executive Office shows a positive variance of \$580 thousand due to \$169 thousand in salary and benefit savings from various positions being vacant during the year. In addition, HR released \$177 thousand of committed fund balance to enhance County health clinic services but the corresponding expenditure has been delayed until the next quarter. There is an \$82 thousand variance in services and supplies that is the result of a similar timing variances due to expenditures not occurring until the fourth quarter. Finally, there is a favorable variance of \$81 thousand in capital equipment that is a combination of real and timing variances; \$50 thousand of which is a timing variance and the balance is a real variance due to various savings on the HRIS project.

The General County Programs Department shows a positive variance of \$633 thousand due to the receipt of unanticipated revenue of \$300 thousand for the Greka Settlement and timing variances for the receipt of cell site revenue of \$120 thousand and a transfer of General Fund Contribution of \$122 thousand for Project Clean water. Thus the projected year end variance is approximately \$300 thousand.

#### SPECIAL REVENUE AND OTHER FUNDS SUMMARY

The Roads Operations Fund (0015) has a positive overall variance of \$986 thousand. The Roads Capital Maintenance Fund (0016) has a negative overall variance of \$1.3 million. These variances offset and are generated by inter-fund transfers that will occur by the end of the year. When viewing these funds as a whole, the department expects to meet the targeted budget. Any negative variances will be solved with the use of departmental fund balance.

Health Care (0042) has a projected negative variance of \$2.6 million. This variance is due to \$2.6 million less revenues than anticipated from Charges for Services due to a smaller volume of patients being seen during the implementation of the Electronic Health Record (EHR) project, increased competition for Medi-Cal patients in the north county, and a number of billing issues due to changes in required electronic billing formats. It is anticipated that some of revenue decrease (approximately \$500 thousand) will resolve itself when the billing conversion issues are resolved, which should be within the next quarter. The remaining variance is projected to result in a greater draw on their fund balance for operations at year end.

The Mental Health Services Fund (0044) has a projected net negative variance of \$9.6 million due to a timing difference \$4.6 million and several operating issues totaling \$5.0 million that will require additional General Fund Contribution and/or other restructuring.

The \$4.6 million timing difference relates to State cost report settlements from prior years. Specifically, \$8.7 million was originally budgeted in FY 2011-12 for cost settlement payments covering fiscal years 2002-03 through 2007-08. The department currently estimates that only \$4.1 million will be paid in FY 2011-12 and the remaining \$4.6 million of the original booked liability will not be necessary and will remain in the General Fund.

The balance of the variance, \$5.0 million is attributable to the following:

- 1) \$3.7 million - revised revenue estimate related to the FY 2010-11 year end accrual (\$1 million for FY 09-10 and \$2.7 million for FY 10-11). ADMHS continues to reclaim and appeal denied services; however, the majority of this accrual balance is not expected to be realized.

- 2) \$1.3 million - net loss due to inpatient system of care: additional costs related to recent Medicare Audits at the Psychiatric Hospital Facility (PHF), higher than anticipated indigent costs, and lower than anticipated Medicare revenue.

The Department will transfer at year end approximately \$1.4 million in costs related to the Crisis and Recovery Emergency Services (CARES) program from the Mental Health Services Fund to the Mental Health Services Act Fund. This is expected to reduce the \$5.0 million negative variance above to \$3.6 million.

An approximate \$1.1 million negative variance was reported in the second quarter report primarily due to the lack of staffing vacancies and reduced clinic claiming due to the furlough. This variance was offset through the use of all concessions savings in this Fund.

The Mental Health Services Act (MHSA, Fund 0048) is currently projected to have a \$2.9 million negative variance. \$1.4 million of this variance relates to the timing of transferring Medi-Cal revenues from Mental Health Service Fund and it is not anticipated to result in a negative year-end variance at this time. However, any negative variance will be solved through existing MHSA Fund Balance. The remaining \$1.5 million variance is due to the transfer of costs from Mental Health Services (Fund 0044) related to the CARES program as mentioned above. The Department will release committed fund balance to cover this cost.

The Alcohol and Drug Programs Fund (0049) has a positive projected variance of \$949 thousand primarily due to timing differences. The department projects to come in on target with the adjusted budget. Any positive variance will increase committed fund balance to be used in future years.

The Court Activities Fund (0069) has a positive variance of \$562 thousand primarily due to a timing delay in the receipt and payment of contractual services of \$603 thousand offset by less than anticipated fee, fines and penalties revenues. It is anticipated that this variance will be eliminated by the end of the Fiscal Year.

#### Risk Management Internal Service Funds:

The Workers Compensation Fund (1911) has a positive projected variance of \$1.9 million resulting from subrogation and excess insurance recoveries projected to be \$711 thousand favorable; \$500 thousand in FY 2011-12 insurance premium payments that were lower than the budgeted amount; \$276 thousand in lower than budgeted salaries and benefits and a \$180 thousand refund of a deposit with the third party administrator. However, the most recent actuarial report indicates that the fund has a deficit balance of approximately \$4 million and rates will be rising in FY 2012-13. Any savings generated by this fund will be applied to the deficit balance within the fund.

The County Liability Self Insurance Fund (1912) has a projected positive variance of \$581 thousand due to actual premiums for excess property and liability insurance being less than anticipated and actual paid losses on claims coming in lower than budgeted. In addition, the most recent actuarial report indicates that this fund has sufficient assets to provide for the ultimate liabilities. Any savings generated by this fund will be used to reduce rates in subsequent years.

#### REDEVELOPMENT AGENCY DISSOLUTION

In December of 2011, the California Supreme Court upheld ABX1 26 (the Act) that dissolves redevelopment agencies in the State of California. The Act dissolves the Redevelopment Agencies

(RDA's) as of February 1, 2012 and authorizes successor agencies to wind down operations, pay off outstanding debt or enforceable obligations and liquidate the assets. RDA's are funded by property tax growth that occurs within a Redevelopment Project Area after the formation of the Redevelopment Area (tax increment). Over time, as enforceable obligations are paid off, the property taxes will be returned to the taxing agencies. Once the agencies are dissolved and the successor agencies have analyzed the results, we will bring information to your Board regarding the financial impact this development will have on the County.

**Fiscal and Facilities Impacts:**

Impacts are stated above in this Board letter.

**Attachments:**

- A – Financial Summary Report – General Fund
- B – Financial Summary Report – non-General Fund
- C – PowerPoint presentation

**Authored by:**

Tom Alvarez

**cc:** Each Department Director  
Assistant County Executive Officers and CEO Fiscal and Policy Analysts  
Recognized Employee Organizations