



**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: 2/11/14
Placement: Departmental
Estimated Time: 30 minutes
Continued Item: No
If Yes, date from:
Vote Required: 4/5

TO: Board of Supervisors
FROM: Department: Mona Miyasato, County Executive Officer
Director(s): Robert Geis, CPA, Auditor-Controller
Contact Info: Tom Alvarez and Julie Hagen
568-3432 568-2126
SUBJECT: Fiscal Year 2013-2014 Second Quarter Budget and Financial Update

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

- a) That the Board of Supervisors accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2013-2014 Second Quarter Budget and Financial Update as of December 31, 2013, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.
- b) That the Board of Supervisors approve Budget Revision 3270 to recognize unanticipated general revenues of \$4.0 million and appropriate these funds to the Contingency committed fund balance to be used for potential audit settlements including Federal Emergency Management Agency (FEMA), inpatient mental health services and other ADMHS funding issues.

Summary Text:

The Fiscal Year 2013-2014 Second Quarter Budget and Financial Update as of December 31, 2013, provides a snapshot for the Board of the County's financial position relative to the adjusted budget for the first six months of this fiscal year.

Background:

The County Executive Office and Auditor-Controller Office staff conducted Operational Review Meetings (ORMs) with departments, including financial reviews, whereby actual financial results were compared to the adjusted budget for the first six months of this fiscal year. The major differences (variances) between budgeted and actual amounts through December 31, 2013, are discussed below.

This report highlights the following variances that exceed the thresholds:

- 1) General Fund departments (including Discretionary General Fund revenues) with projected variances greater than \$300,000 per department; shown in the Financial Summary Report (Attachment A) and
- 2) Non-General Fund departments with projected variances over \$500,000 per fund; shown in the Financial Summary Report (Attachment B).

Both reports use actual revenues and expenditures for the first six months of FY 2013-14, and then add departmental projections for the next six 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 reports Attachment A and Attachment B).

GENERAL FUND SUMMARY (Attachment A)

The General Fund has a projected net positive variance of \$6.0 million at December 31, 2013. The improvement is mainly the result of: \$4.2 million positive variance in General Revenues (see table below), \$761 thousand in Agricultural Commissioner, \$469 thousand in Planning and Development and numerous other positive variances as seen in Attachment A. These positive variances are offset by a negative variance of \$530 thousand in the Sheriff Department. Across all departments, there is \$2.3 million in Salary and Benefit projected savings offset by approximately \$1.0 million in reduced reimbursements for costs not incurred related to staff services.

Revenues:

Discretionary General Revenue Summary (in thousands):				
	Adopted FY 2013-14	Adjusted FY 2013-14	Projected FY 2013-14	Variance Proj. vs. Adjusted
Source				
Significant Property Taxes	\$ 179,362	\$ 179,704	\$ 182,940	\$ 3,236
RDA Dissolution Proceeds - One time	-	359	372	13
RDA Prop. Tax - Ongoing	4,260	4,260	4,809	549
Fire: Trans Tax	(7,053)	(7,053)	(7,243)	(190)
Subtotal Property Taxes	\$ 176,569	\$ 177,270	\$ 180,878	\$ 3,608
Cost Allocation Services	7,296	7,296	7,297	0
Local Sales Tax	6,932	6,932	7,028	96
Transient Occupancy Tax	6,825	6,825	7,100	275
Payments in Lieu of Tax	2,270	2,270	2,209	(61)
All Other	6,459	6,100	6,384	284
Total Discretionary Revenues	\$ 206,352	\$ 206,694	\$ 210,896	\$ 4,202

Projected General Revenues show a strong positive growth of \$4.2 million when compared to the adjusted budget revenue estimates. Growth in property tax accounts of an additional \$3.6 million are due to a higher value in the County Property Assessment Roll that was disclosed during the final budget hearings.

- Secured Property Tax - During the FY 2013-14 Budget hearings, there was an increase in projected assessed value and the Board allocated a portion of the additional funds but not the full amount as the final assessed value was not known at that time. The original secured tax growth

in the budget was estimated at approximately 2.5% and was increased during the hearings to 3.5% (approximately a \$1.0 million increase). The actual assessment roll value ended with a 4.3% increase. An additional 0.8% increase adds approximately \$917 thousand in secured taxes to the secured tax budget estimate.

- Property Taxes in Lieu of Motor Vehicle - these taxes will then increase in a similar amount to the Secured Property Taxes; however, since no change was made to this account during final budget hearings, it adds an additional 1.8% or \$800 thousand in unanticipated revenues to the budgeted revenue estimate.
- Supplemental Taxes - showing a growth rate of 43% or \$1.1 million over the budgeted revenue estimate.
- Property Transfer - showing a growth rate of 14% or \$462 thousand over the budgeted revenue estimate.
- RDA Dissolution Proceeds - as the dissolution of the RDA's continues and the State approves remaining enforceable obligations for the seven RDA's, the County picked up an additional \$549 thousand in RDA residual receipts over the budgeted revenue estimates.
- Fire District - will continue to receive 25% of the growth in General Fund property taxes until the District's share of their tax rate area distributions are 17%. It should also be noted that the District will receive unanticipated property tax revenue since they also used a more conservative growth rate for their property tax accounts.

The CEO is recommending that the General Fund unanticipated revenue be recognized at mid-year and appropriated to Contingency through a Budget Revision. This account can then be used to settle certain fiscal issues previously reported to your Board and other fiscal priorities.

Expenditures:

Overall, the General Fund departments are tracking favorably to budget through the first six months. Only one of the General Fund operating departments is projecting reportable unfavorable results, as shown on the signal chart. The Departments are controlling expenditures with a favorable variance of \$2.4 million through December 31, 2013. The majority of the favorable variance is \$2.3 million in Salaries and Benefits.

Significant individual General Fund department variances (Attachment A) are discussed below:

The departments with favorable variances are Agricultural Commissioner, and Planning and Development. The favorable results for General Revenues were discussed above. The only department with a reportable negative variance is the Sheriff Department.

Sheriff has a negative net projected variance of \$530 thousand due to Salaries and Employee Benefits Object Level projected to be over by \$516 thousand. The Salaries and Employee Benefits Object Level is projected to be approximately 0.5% or \$516 thousand over budget through the second quarter actuals on a total annual FY 2013-14 budget of \$100.6 million. Within the Salaries and Employee Benefits Object Level, non-overtime salary and benefit accounts are currently projected to be \$2.4 million under budget primarily due to funded vacancies within custody and law enforcement operations. Vacancies within custody and law enforcement operations require the usage of overtime to backfill 24/7 post positions. As a result, current overtime projections are \$3.0 million over budget and exceed projected regular salary savings. The Sheriff is continuing to fill funded vacant positions and is currently monitoring overtime usage in order to stay in line with Board approved appropriations.

Agricultural Commissioner has a positive projected variance of \$761 thousand due to unanticipated State Revenue from contracts for service and Unclaimed Gas Tax revenue of \$584 thousand, and unanticipated increase in charges for service (mainly inspections) of \$121 thousand.

Planning and Development has a positive projected variance of \$469 thousand due to an increase in permitting of \$282 thousand. Planning has been issuing Building Permits as well as Land Use Permits at a robust pace, which is a positive economic indicator. In addition, there are savings in Salaries and Benefits of \$247 thousand due to vacancies.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

The Health Care Fund (0042) has a projected positive variance of \$681 thousand due to salary savings from vacant positions of \$807 thousand, offset by a combination of less than expected charges for services of approximately \$126 thousand. These salary savings, along with the impact of cost saving measures in the Medically Indigent Adults (MIA) program, are expected to offset the State's redirection of 1991 Health Realignment for FY 2013-14 of approximately \$2.3 million.

The Mental Health Services Fund (0044) is currently displaying a negative variance of \$2.3 million and projects a year end deficit of \$4.0 million (before General Fund adjustment). There are three primary causes of the variance. First, there is \$1.6 million in unbudgeted costs associated with inpatient contract beds due to increased demand. Second, the State modified the 2011 Realignment revenue distribution; post Budget Hearings that will decrease the County's share by \$1.2 million. Finally, there may be a decrease of approximately \$1.2 million in Medi-Cal related revenue compared to budgeted amounts based on actual Affordable Care Act revenues and system change efforts impacting revenue generation. The total impact of the above items is \$4.0 million; however, we anticipate increasing ADMHS' General Fund Contribution by \$1.2 million (Realignment adjustment above) based on the County's Budget Policies, thereby reducing the projected loss to \$2.8 million.

A description of the Medi-Cal issues follows:

1. The Department is currently projecting Medi-Cal payments associated with the Affordable Care Act to be \$600 thousand lower than budgeted, but it is likely that the revenue reduction will not be that severe as more individuals enroll in the program.
2. \$500 thousand is due to implementing system change efforts, which are initially resulting in lower Medi-Cal payments and increased personnel costs for extra help and limited term positions. The Department expects Medi-Cal payments to increase in the second half of the year as system change efforts are fully implemented; therefore it is likely that the \$500 thousand will be reduced by year-end.
3. Administering Katie A. services is the remaining \$100 thousand, but again the Department expects that additional Medi-Cal payments associated with Katie A. services will reduce or eliminate the current \$100 thousand projected deficit associated with this program.

ADMHS will continue to monitor the financial performance of this fund, make operational changes as necessary, and provide an updated year-end projection each quarter.

The Mental Health Services Act Fund (0048) displays a \$3.4 million negative variance, but expects to end the year balanced. This fund is impacted by the State's interception of current year revenues related to prior year audit settlements. The issue should be corrected by the end of the third quarter.

The County Liability-Self Insurance Fund (1912) has a positive variance of \$518 thousand due to decreased costs from outside and in-house counsel and a decrease to the insurance premium. This positive variance will enable a departmental premium reduction of \$500 thousand during the second half of the year. There is currently a retained earnings balance in this fund of \$2.8 million.

The Fire Protection District Fund (2280) has a projected positive variance of \$1.7 million. This variance is primarily due to higher than expected Property Tax growth of \$1.1 million. The remainder of the positive variance is largely due to funded vacancies. As the Fire department is no longer a General Fund department, year-end savings will flow to fund balance and can be used in subsequent years for programmatic or capital needs.

The Low/Moderate Income Housing Asset Fund (3122) has a projected net positive variance of \$1.8 million due to a \$1.5 million construction loan repayment plus interest related to the Isla Vista Loop project. These onetime funds will return to this fund and will be required to be used for Board approved housing activities in the future per State law.

UNANTICIPATED REVENUE (Budget Revision)

There are current year issues that would appear to require additional funding. It is anticipated that the FEMA settlement of \$1.1 million will need to be paid in the coming year; with the possibility of the State reimbursing a portion of these emergency expenditures. ADMHS inpatient costs are projected to be \$1.6 million over budget and the loss of Realignment revenue of \$1.2 million will require a General Fund adjustment, per the Board adopted Budget Policies.

Therefore, the CEO is recommending that the Board of Supervisors recognize \$4.0 million in unanticipated revenue and appropriate these funds to the Contingency Fund. This action will address the current fiscal issues described in this report and that have previously been reported to the Board in the Fiscal Outlook Report.

Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter.

Attachments:

- A – Financial Summary Report – General Fund
- B – Financial Summary Report – Special Revenues and Other Funds
- C – PowerPoint presentation
- D – Budget Revision Request #0003270

cc:

Department Directors
Assistant County Executive Officers and CEO Fiscal and Policy Analysts
Recognized Employee Organizations

Quarterly Financial Update Signal Chart

For Quarter ending December 31, 2013

- Actuals Are Generally Tracking Budget
- ▲ Actuals Materially Vary from Budget-Positive
- ▼ Actuals Materially Vary from Budget-Negative
- Actuals Expected to End Year in Deficit

General Fund		Parks	
●	Board of Supervisors	●	Capital
●	County Executive Office	●	Providence Landing CFD
●	County Counsel	Planning and Development	
●	District Attorney	●	Fish and Game
●	Probation	●	Petroleum
●	Public Defender	●	CREF
●	Courts	Public Works	
●	Fire	●	Roads
▼	Sheriff	●	Resource Recovery and Waste Mgt.
●	Public Health	●	CSA 3 - Goleta
▲	Agriculture Commissioner	●	Flood Control
●	Parks	●	North County Lighting
▲	Planning and Development	●	Laguna Sanitation
●	Public Works	●	Water Agency
●	Housing & Commt. Devmnt.	Housing & Commt. Devmnt.	
●	Community Services Dept.	●	CDBG
●	Auditor Controller	●	Affordable Housing
●	Clerk-Recorder-Assessor	●	HOME
●	General Services	●	Municipal Energy Financing
●	Human Resources	●	Orcutt CFD
●	Treasurer-Tax Collector	▲	Low/Mod Inc Housing Asset Fund
●	General County Programs	General Services	
●	Debt Service	●	Capital
Other Funds		●	Special Aviation
Fire		●	Vehicles
▲	Fire Protection	●	Information Technology
Sheriff		●	Communications
●	Inmate Welfare	●	Utilities
Public Health		CEO-Human Resources	
▲	Health Care	●	County Unemployment Insurance
●	Tobacco Settlement	●	Dental Insurance
ADMHS		●	Medical Malpractice Insurance
■	Mental Health Services	●	Workers' Comp Insurance
●	Mental Health Services Act	▲	County Liability Insurance
●	Alcohol and Drug Programs	Treasurer-Tax Collector	
Social Services		●	Debt Service
●	Social Services	General County Programs	
●	IHSS Public Authority	●	Public and Educational Access
Child Support		●	Criminal Justice Facility Const.
●	Child Support Services	●	Courthouse Construction
Sheriff		First Five	
●	Capital Projects - Jail	●	First Five Child & Families Comm.