# BOARD OF SUPERVISORS
# AGENDA LETTER

**Clerk of the Board of Supervisors**
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

**Agenda Number:**

| | |
|---|---|
| **Department Name:** | CEO & Auditor-Controller |
| **Department No.:** | 012 & 061 |
| **For Agenda Of:** | February 13, 2018 |
| **Placement:** | Departmental |
| **Estimated Time:** | 30 minutes |
| **Continued Item:** | No |
| **If Yes, date from:** | |
| **Vote Required:** | Majority |

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| | | |
|---|---|---|
| **TO:** | Board of Supervisors | |
| **FROM:** | Department Director(s) | Mona Miyasato, County Executive Officer<br>Theodore A. Fallati, CPA, Auditor-Controller |
| | Contact Info: | Jeff Frapwell and Ed Price |

**SUBJECT:** **Fiscal Year 2017-2018 Second Quarter Budget Update**

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**County Counsel Concurrence**
As to form: NA

**Auditor-Controller Concurrence**
As to form: Yes

## Recommended Actions:

That the Board of Supervisors

a) Receive and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2017-2018 Budget and Financial Status Report as of December 31, 2017, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

## Summary Text:

The Fiscal Year 2017-2018 Budget and Financial Update for the second quarter ended December 31, 2017 provides a look at the County's financial position relative to the adjusted budget for the first six months of this fiscal year for the Board's review.

The General Fund projects a $1.6 million positive variance by fiscal year end when compared to the Adjusted Budget. This variance is due to projected positive variances in almost all General Fund Departments, which includes an $868 thousand positive variance in General Revenues, partially offset by a -$902 thousand negative variance in the Sheriff's Office. Special Revenue and Other Funds are generally tracking to budget with the exception of a negative -$2.1 million variance in Behavioral Wellness Mental Health Service Fund, a positive variance in Workers Compensation Self Insurance of $1.4 million, and a positive $836 thousand variance in the Fire Protection District. These variances will be explained later in this report.

Most of the Thomas Fire and the Montecito Debris Flow impacts are unknown at this time as events occurred after the close of the 2nd Quarter on December 31st, but reductions in Property Taxes, Sales Taxes and Transient Occupancy Taxes are expected. Increased salary and benefit costs, primarily due to overtime that may or may not be reimbursed, is also anticipated. The third quarter Budget Update, scheduled to be heard by the Board in May 2018, will provide further information on these impacts.

**Background:**

## SECOND QUARTER REPORT

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 through December 31, 2017, are discussed below.

This report highlights the following variances that exceed the 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) Non-General Fund departments 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 six months of FY 2017-18, 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).

## BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board-approved budget appropriations per 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.

## GENERAL FUND SUMMARY (Attachment A)

As of December 31, 2017, the General Fund had a projected year-end net positive variance of $1.6 million. This is the result of favorable results across almost all departments, offset by a negative variance in the Sheriff's Department (-$902 thousand).

**General Revenues (Department 991)** is projected to have a positive year-end variance of $868 thousand due mostly to one-time proceeds in RDA Distributions of $1.43 million, offset by negative projections in Significant Property and Transient Occupancy Taxes. The revenue impacts of the Thomas Fire and Montecito Debris Flow are still being calculated at the time of this writing and are not reflected in these projections, but are expected to negatively impact Supplemental Property Tax, TOT and Sales Tax. General Revenues will continue to be monitored for impacts of the disasters, as well as other trends.

| Discretionary General Revenue Summary (in thousands): | | | |
|---|---|---|---|
| Source | Adjusted FY 2017-18 | Projected FY 2017-18 | Variance Proj. vs. Adjusted |
| Significant Property Taxes | $ 205,422 | $ 205,042 | $ (380) |
| Secured Prop Tax Corrections - One-time | $ 200 | $ 200 | - |
| RDA Prop. Tax - Ongoing | 5,977 | 5,977 | - |
| Subtotal Property Taxes | $ 211,599 | $ 211,219 | $ (380) |
| Cost Allocation Services | 10,686 | 10,686 | 0 |
| Local Sales Tax | 10,658 | 10,658 | (0) |
| Transient Occupancy Tax | 11,797 | 11,118 | (679) |
| Payments in Lieu of Tax | 18 | 18 | - |
| RDA Dissolution Proceeds | 0.00 | 1,430 | 1,430 |
| All Other Revenues | 4,886 | 5,685 | 799 |
| **Total Discretionary Revenues** | **$ 249,644** | **$ 250,813** | **$ 1,170** |
| Use of Funds - Other Financing Uses | $ 33,032 | $ 33,058 | $ (27) |
| Intrafund Trf (Out) GFC | $ 216,662 | $ 216,937 | $ (275) |
| **Projected Fiscal Year End Variance** | | | **$ 868** |

**The Sheriff's Office** has a projected negative variance of -$902 thousand, due mostly to Salaries and Employee Benefits (S&B) that are projected to be approximately $1.6 million over budget for the fiscal year, offset by higher than anticipated Prop 172 and 2011 Realignment revenues, anticipated reimbursement for some disaster expenses, and some projected savings in Services & Supplies. While still a negative variance, this is an improvement of almost $400 thousand on the first quarter estimate of -$1.3 million, which the Sheriff's Office attributes to the pilot program assigning eight additional deputies to the Santa Maria station in the second quarter, which almost entirely eliminated overtime at that station, as well as continuing vacancies which generate salary savings used to offset, in part, overtime use. The Sheriff's Office is projecting overtime to be $3.7 million over budget while non-overtime S&B accounts are currently projected to be $2.1 million under budget, primarily due to salary savings from vacancies. These S&B figures include staffing of the Thomas Fire in December, which incurred close to $650 thousand in reimbursable-eligible overtime (because this is a report on data through the second quarter, expenses incurred responding to the January debris flow event are not reported here).

At the end of the second quarter, there were 22 Patrol vacancies, 12 Custody Deputy vacancies, and 15 civilian vacancies. Additionally, 5 Patrol Deputies and 4 Custody Deputies were out on worker's compensation leave, who not only continue to draw salary, but also create vacancies that are often covered with overtime. There were 9 less sworn deputies out on worker's compensation leave at the end of December than the 18 that were out at the end of the first quarter, which is an encouraging trend.

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

**The Mental Health Services Fund (0044, Inpatient Services)** projects a negative variance of -$2.1 million, an improvement from -$3.7 million in the first quarter estimate. The department received additional funding of $4.0 million from the General Fund and Tobacco Settlement fund in the current fiscal year, which the Board appropriated to (1) help mitigate the rising costs associated with greater than planned purchase of inpatient and IMD contract beds and unrealized revenue resulting from an unfavorable ratio of acute to administrative services at the PHF and (2) continue the Assisted Outpatient Treatment (AOT) Pilot Project. This included $1.0 million in one-time funds for inpatient beds as per the FY 2017-19 Budget Development Policies, $1.2 million in one-time funds to expand inpatient and IMD beds, $1.5 million in on-going funds to maintain IMD beds at prior fiscal year levels, and $275 thousand in one-time funds for the AOT Pilot Project.

In recent years, the Board has provided enhanced funding (one-time and on-going), primarily General Fund dollars, to address these needs. See the table below for funding enhancements received by the department in the past four fiscal years.

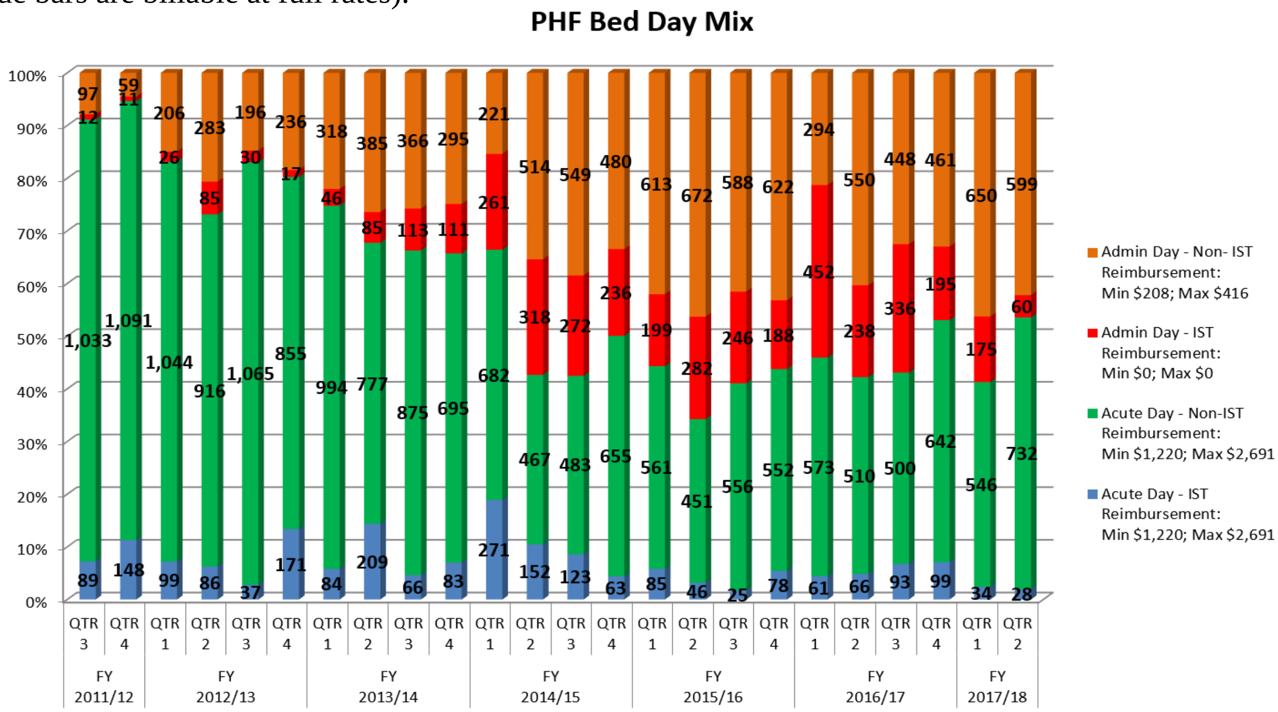
| General Fund Transfers to Behavioral Wellness (in thousands) | | | | |
|---|---|---|---|---|
| Description | FY 2014-15 Actual | FY 2015-16 Actual | FY 2016-17 Actual | FY 2017-18 Budget |
| **BOS-Approved Restorations/Expansions** | | | | |
| Inpatient and IMD beds (One-time) | $ 2,481 | $ 5,000 | $ 2,350 | $ 2,200 |
| IMD beds (On-going) | | | | 1,500 |
| Step-Down Placements (On-going) | - | 1,020 | - | - |
| Intensive Outpatient Treatment (One-time) | - | 121 | 303 | 275 |
| Capital for Mental Health Treatment Beds (One-time) | - | - | 243 | - |
| **Mid-Year Budget Revisions** | | | | |
| Audit Settlements (One-time) | 4,868 | - | - | - |
| PHF Revenue Shortfall (One-time) | 554 | 462 | 3,054 | - |
| ***Total Annual Transfers to BeWell*** | **$ 7,904** | **$ 6,603** | **$ 5,951** | **$ 3,975** |

However, this additional funding does not sufficiently offset rising costs and unrealized revenues. Specifically, the main drivers of the variance are as follows:

- State Hospital Bed utilization is expected to remain at an average of approximately 8 paid beds per day, compared to a budget assuming 3 beds per day, resulting in a projected current fiscal year variance of -$1.1 million (no change from first quarter estimate).
- PHF revenue is projected to be come in $1.2 million below budget due to a higher-than-budgeted administrative to acute services ratio. The billing rate for non-Incompetent to Stand Trial (IST) administrative services is less than 20% of the rate for acute service beds (an improvement of $250 thousand over first quarter estimates due to a better PHF bed day mix; see chart below).
- Out-of-County use of Institute for Mental Disease (IMD) beds has seen a continued increase in demand and is currently averaging 63 beds per day, compared to a budget assuming 54 beds per day, resulting in a projected current fiscal year variance of -$900 thousand (no change from first quarter estimate).
- Utilization of beds at inpatient psychiatric hospitals is no longer projected over budget (an improvement of $630 thousand over first quarter estimates).

These unfavorable variances are partially offset by unanticipated revenue from VLF (Vehicle License Fees) of $500 thousand and projected salary savings of $600 thousand (an improvement of $700 thousand over first quarter estimates).

As discussed in prior reports, the PHF bed day mix is an ongoing challenge for the department. IST administrative days are not billable and non-IST administrative days are billable at much lower rates than for acute services. While IST administrative days are at the lowest level in four years, the non-IST administrative days have remained significantly high with the continued shortage of stepdown facility beds and, as a result, billable revenues are decreasing. The graph below highlights this issue (green and blue bars are billable at full rates).




To counter the administrative day issue and related increasing out-of-County inpatient hospital costs, the department has utilized State grants and increased General Funds to create crisis and residential programs to enhance supportive services with the intention of reducing the overall inpatient demand. While this strategy was initially effective in reducing contracted beds, the improvements have not been sufficient to address the continued high level of demand for these types of services.

The department is continuing its efforts to reduce the number and costs of contracted beds and to improve revenues by researching alternative placement options for State Hospital, administrative day IST, and administrative day non-IST clients, restructuring programs to maximize cost recovery, and working with system partners to create collaborative solutions to identified issues.

**Workers' Compensation Self-Insurance (1911)** is projecting a positive variance of $1.4 million primarily as a result of lower than anticipated premium costs. These savings will positively impact the FY 2017-18 Workers' Compensation Self-Insurance Fund estimated ending balance and were taken into account when the Risk Management Evaluation Team (RMET) determined the FY 2018-19 Workers' Compensation departmental cost allocation in December 2017.

The **Fire Protection District (2280)** is projecting a positive $836 thousand variance as a result of several factors; S&B being under budget by $565,445 due to vacant positions during the first six months of the fiscal year, Services & Supplies projected to be under budget by $111,710 at fiscal year-end, and Revenues projected to be favorable compared to the budget by $175,436, due to Taxes and Charges for Services revenue projected to be greater than anticipated.

## Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter.

## Key Contract Risks:

NA

**Attachments:**

A – Financial Summary Report – General Fund

B – Financial Summary Report – Special Revenue and Other Funds

**Authored by:**

Richard Morgantini, Fiscal & Policy Analyst

## Quarterly Financial Update Signal Chart

For Quarter Ending Decmeber 31, 2017

| | |
|---|---|
| ● | 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 |
|---|---|
| ● | **Board of Supervisors** |
| ● | **County Executive Office** |
| ● | **County Counsel** |
| ● | **District Attorney** |
| ● | **Probation** |
| ● | **Public Defender** |
| ● | **Courts** |
| ■ | **Sheriff** |
| ● | **Public Health - EHS, AS, HazMat** |
| ● | **Agriculture Commissioner** |
| ● | **Parks** |
| ● | **Planning and Development** |
| ● | **Public Works** |
| ● | **Housing & Commty. Devmnt.** |
| ● | **Community Services Dept.** |
| ● | **Auditor Controller** |
| ● | **Clerk-Recorder-Assessor** |
| ● | **General Services** |
| ● | **Human Resources** |
| ● | **Treasurer-Tax Collector** |
| ● | **General County Programs** |
| ▲ | **General Revenues** |
| | |
| | |

| | Other Funds |
|---|---|
| **Fire** | |
| ▲ | Fire Protection |
| **Sheriff** | |
| ● | Inmate Welfare |
| **Public Health** | |
| ● | Health Care |
| ● | Tobacco Settlement |
| **Behavioral Wellness** | |
| ■ | Mental Health Services |
| ● | Mental Health Services Act |
| ● | Alcohol and Drug Programs |
| **Social Services** | |
| ● | Social Services |
| ● | IHSS Public Authority |
| | |
| **Child Support** | |
| ● | Child Support Services |
| **Sheriff** | |
| ● | Capital Projects - Jail |
| | |

| | Other Funds |
|---|---|
| **Parks** | |
| ● | Capital |
| ● | Providence Landing CFD |
| **Planning and Development** | |
| ● | Fish and Game |
| ● | Petroleum |
| ● | CREF |
| ● | RDA Successor Agency |
| **Public Works** | |
| ● | Roads: Funds 0015, 0016, 0017, 0019 |
| ● | Resource Recovery and Waste Mgt. |
| ● | CSA |
| ● | Flood Control |
| ● | North County Lighting |
| ● | Laguna Sanitation |
| ● | Water Agency |
| **Housing & Commty. Devmnt.** | |
| ● | CDBG |
| ● | Affordable Housing |
| ● | HOME |
| ● | Municipal Energy Financing |
| ● | Orcutt CFD |
| **General Services** | |
| ● | Capital |
| ● | Special Aviation |
| ● | Vehicles |
| ● | Information Technology |
| ● | Communications |
| ● | Utilities |
| **CEO-Human Resources** | |
| ● | County Unemployment Insurance |
| ● | Dental Insurance |
| ● | Medical Malpractice Insurance |
| ▲ | Workers' Comp Insurance |
| ● | County Liability Insurance |
| **Treasurer-Tax Collector** | |
| ● | Debt Service |
| **General County Programs** | |
| ● | Public and Educational Access |
| ● | Criminal Justice Facility Const. |
| ● | Courthouse Construction |
| **First Five** | |
| ● | First Five Child & Families Comm. |
| **RDA Sucessor Agency** | |
| ● | Sucessor Agency Housing |