



**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: May 15, 2018
Placement: Administrative
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: Majority

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

SUBJECT: Fiscal Year 2017-2018 Third Quarter Budget Update

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 March 31, 2018, 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 third quarter ended March 31, 2018 provides a look at the County's financial position relative to the adjusted budget for the first nine months of this fiscal year for the Board's review.

The General Fund projects a net \$4.9 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 a \$5.4 million positive variance in General Revenues, most notably offset by a projected \$1.9 million negative variance in the Sheriff's Office. Special Revenue and Other Funds are generally tracking to budget with the exception of a negative \$1.5 million variance in Behavioral Wellness Mental Health Service Fund, and a negative \$581 thousand variance in the Health Care Fund. These variances will be explained later in this report.

Background:

THIRD 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 March 31, 2018, 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 nine months of FY 2017-18, and then add departmental projections for the next 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 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.

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, 2018, the General Fund had a projected year-end net positive variance of \$4.9 million. This is the result of favorable results across almost all departments, most notably offset by a negative variance in the Sheriff’s Department (\$1.9 million).

General Revenues (Department 991) is projected to have a year-end variance of \$5.4 million. This is primarily due to *one-time* revenues related to the “Secured Property Tax Corrections - One-Time” (including United Launch Alliance) billings of \$4.1 million and distribution of liquidated RDA assets of \$1.6 million. The revenue losses due to the Thomas Fire and 1/9 Debris Flow, and lower than anticipated TOT revenues, are projected to be negative \$4.3 million, comprised mostly of TOT at negative \$2.7 million and Supplemental Property Taxes at negative \$1.5 million. These losses are mostly offset by other ongoing revenues projected to be \$4.1 million ahead of budget.

Discretionary General Revenues Summary (in thousands)			
Source	Adjusted FY 2017-18	Projected FY 2017-18	Variance Proj. vs. Adjusted
Significant Property Taxes	\$ 202,647	\$ 204,306	\$ 1,659
Property Tax Corrections/Escapes - One-time	\$ (600)	\$ 3,557	\$ 4,157
Supplemental Property Tax	\$ 3,502	\$ 2,055	\$ (1,447)
RDA Prop. Tax One Time	\$ -	\$ 1,553	\$ 1,553
RDA Prop. Tax Ongoing	\$ 6,508	\$ 8,139	\$ 1,631
Subtotal Property Taxes	\$ 212,057	\$ 219,609	\$ 7,552
Cost Allocation Services	\$ 10,686	\$ 10,686	\$ -
Local Sales Tax	\$ 10,658	\$ 10,466	\$ (192)
Transient Occupany Tax	\$ 11,797	\$ 9,080	\$ (2,717)
Payments in Lieu of Tax	\$ 18	\$ 18	\$ -
All Other Revenues	\$ 4,478	\$ 5,320	\$ 842
Total Discretionary Revenue	\$ 249,694	\$ 255,179	\$ 5,485
Use of Funds - Other Financing Uses	\$ 33,032	\$ 33,070	\$ (39)
Intrafund Trf (Out) GFC	\$ 216,662	\$ 216,662	\$ (0)
Projected Fiscal Year End Variance			\$ 5,447

The Sheriff’s Office (Department 032) has a projected negative variance of \$1.9 million, due mostly to Salaries and Employee Benefits (S&B) that are projected to be approximately \$1.9 million over budget for the fiscal year. Of this amount, \$680 thousand is due to disasters, and \$1.2 million due to higher than budgeted overtime in Patrol and Custody.

The Sheriff’s Office is projecting overtime to be \$4.0 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, as well as the 1/9 Debris Flow and the three subsequent storm events which triggered increased patrol duties. All told, these events have cost the Sheriff’s Department \$3.2 million in overtime expenses, of which \$2.75 million was covered with a budgeted draw from the Strategic Reserve. Additionally, fires earlier in the fiscal year incurred \$230 thousand of unbudgeted overtime expenses. This means almost \$680 thousand of the \$1.9 million projected gap is due to disaster-related overtime. The remainder of the gap (\$1.2 million) is caused by higher than budgeted overtime in both Patrol and Custody, due mostly to minimum staffing requirements to cover shifts for employees out on paid leave (e.g. vacation time, sick time, workers’ compensation).

\$220 thousand is due to increased medical escorts within the jail, which takes Custody Deputies off of regular posts and requires backfill.

At the end of the third quarter, there were 27 Patrol vacancies, 15 Custody Deputy vacancies, and 14 civilian vacancies. Additionally, 5 Patrol Deputies and 3 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. The number of sworn deputies out on worker's compensation leave is equivalent to the second quarter, and roughly half the number of those out at the end of the first quarter, which remains an encouraging trend. In the FY 2017-18 budget, the Board approved a \$1.25 million pool to assist the Department in addressing lost time. The \$1.25 million allowed them to shift 8 additional deputies to the Santa Maria area, so staff would have backups when vacation, sick, or worker's compensation time was use. This move helped almost entirely eliminate overtime at that station in the 2nd quarter. However, the subsequent disaster required the Department to shift resources down to Montecito.

While the Sheriff's Office will continue efforts to control costs in the final quarter of the year, they do not anticipate being able to close the -\$1.9 million gap at year-end without either a transfer from the General Fund or immediate cuts to staffing.

The Auditor/Controller's Office (Department 061) is projecting a positive variance of \$334 thousand due to salary savings generated from vacancies in difficult to fill technical positions, including two in Internal Audit (recently filled) and two in Financial Systems.

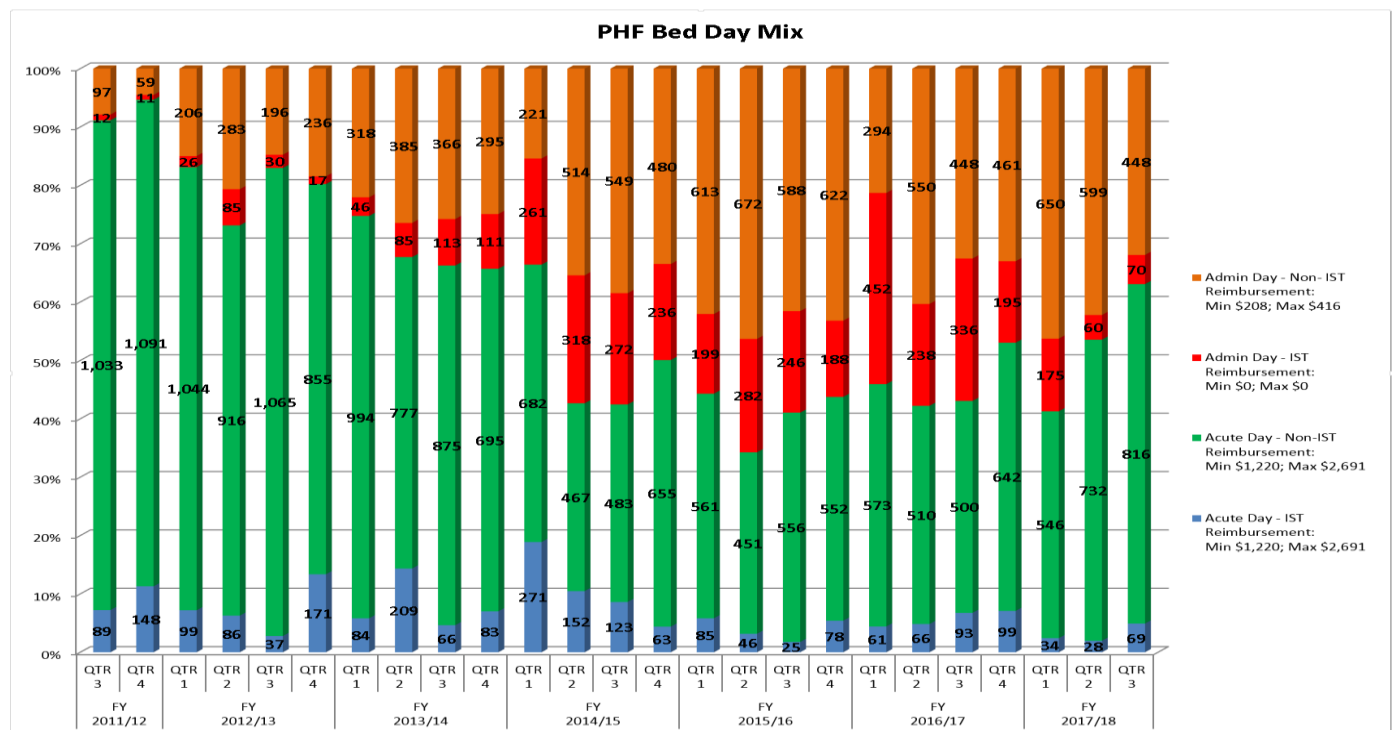
SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

The Mental Health Services Fund (0044, Inpatient Services) is projecting a negative variance of \$1.5 million. This is an improvement of \$630 thousand over the second quarter estimate of -\$2.1 million, with the improvement primarily due to lower utilization of Out-of-County Institute for Mental Disease (IMD) Acute Inpatient Hospital beds.

The following are the main drivers of the \$1.5 million negative variance:

- Utilization of (IMD) State Hospital Beds has risen sharply in FY 2017-18, and is expected to remain at an average of approximately 8 paid beds per day, as compared to 3 beds per day budgeted, resulting in a projected current fiscal year variance of -\$930 thousand.
- PHF revenue is projected to be down \$540 thousand for the year due to higher than budgeted non-Incompetent to Stand Trial (IST) Administrative Days that bill at a rate less than 20% of the acute day rate.
- Out-of-County Institute for Mental Disease (IMD) long-term bed utilization has seen a sustained increase in demand over recent years and is currently averaging 63 beds per day, as compared to 54 beds per day budgeted, resulting in a projected current fiscal year variance of -\$600 thousand.
- \$600 thousand projected savings from IMD Acute Inpatient Hospital services (improvement of \$600 thousand over the second quarter estimate).

Medi-Cal & Medicare Revenue: As discussed in prior reports, IST Administrative Days at the PHF are **not billable**, and non-IST Administrative Days are billable at much lower rates than for acute services. While the first quarter bed day mix was very unfavorable, and significantly impacted PHF revenue, there does appear to be a trend towards lower IST Admin Days and non-IST Admin Days in the most recent two quarters, improving PHF revenues projections for the current fiscal year. The graph below highlights this issue (green and blue bars are billable at full rates).



To counter the unfavorable Administrative day service mix and the increasing out-of-County IMD Inpatient Acute Hospital costs, Behavioral Wellness has utilized State grants and increased General Funds to create crisis intervention and residential programs to enhance supportive services with the intention of reducing the overall inpatient demand. This strategy appears to be effective in reducing IMD Acute Inpatient Hospital contracted beds, and recently somewhat effective in reducing both IST and non-IST Administrative Days.

Actions to Address Fiscal Issues: The Department is making progress in reducing the number and costs of IMD contracted beds, and improving PHF revenues by seeking alternative placement options for State Hospital, Administrative Day IST, Administrative Day non-IST clients, and long-term IMD clients; evaluating the effectiveness and utilization strategies of crisis services and residential beds; and working with system partners to address issues and identify solutions.

The Department is continuing to monitor these issues and mitigate fiscal impacts to the extent possible, but anticipates a year-end budget shortfall of \$1.47 million at this time. A set-aside of \$1 million in General County Programs is available to partially offset this shortfall.

Health Care Fund (0042) is projecting a negative variance of \$581 thousand as a result of delays in the revenue cycle due to issues with the implementation of the Department's new OCHIN Epic system, which has resulted in a loss of productivity in the clinics that has resulted in less reimbursable services performed. These issues are expected to be resolved in the coming months. Some revenue shortfall from the implementation was anticipated, however, should a larger revenue shortfall occur, the Department will be able to cover it from designated funds.

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 March 30, 2018

- 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	Other Funds
● Board of Supervisors	Parks
● County Executive Office	● Capital
● County Counsel	● Providence Landing CFD
● District Attorney	Planning and Development
● Probation	● Fish and Game
● Public Defender	● Petroleum
● Courts	● CREF
■ Sheriff	● RDA Successor Agency
● Public Health - EHS, AS, HazMat	Public Works
● Agriculture Commissioner	● Roads: Funds 0015, 0016, 0017, 0019
● Parks	● Resource Recovery and Waste Mgt.
● Planning and Development	● CSA
● Public Works	● Flood Control
● Housing & Commty. Devmnt.	● North County Lighting
● Community Services Dept.	● Laguna Sanitation
▲ Auditor Controller	● Water Agency
● Clerk-Recorder-Assessor	Housing & Commty. Devmnt.
● General Services	● CDBG
● Human Resources	● Affordable Housing
● Treasurer-Tax Collector	● HOME
● General County Programs	● Municipal Energy Financing
▲ General Revenues	● Orcutt CFD
	General Services
	● 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
Behavioral Wellness	● 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
	● Criminal Justice Facility Const.
Child Support	● Courthouse Construction
● Child Support Services	First Five
Sheriff	● First Five Child & Families Comm.
● Capital Projects - Jail	RDA Sucessor Agency
	● Sucessor Agency Housing