



**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: Auditor-Controller
County Executive
Office
Department No.: 061 & 012
For Agenda Of: August 28, 2018
Placement: Departmental
Estimated Time: 10 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Theo Fallati, CPA, CPFO, Auditor-Controller
Director(s) Mona Miyasato, County Executive Officer
Contact Info: Ed Price, CPA, Chief Deputy Controller x2126
Jeff Frapwell, Budget Director x3432
SUBJECT: Fiscal Year 2017-2018 Financial Status Report

County Counsel Concurrence

As to form: N/A

Other Concurrence: N/A

As to form:

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 June 30, 2018 Financial Status Report showing the status of appropriations and financing for all department budgets adopted by the Board of Supervisors.
- b) Determine that the actions above are not a project under the California Environmental Quality Act (CEQA) pursuant to Section 15378(b)(4) of the CEQA Guidelines, because they are government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical effect on the environment

Summary Text:

The financial results of operations for fiscal year (FY) 17-18 reflect overall improvement for the County entity. This Financial Status Report is intended to give the Board a preliminary unaudited review of the results of operations. The Comprehensive Annual Financial Report (CAFR) is being finalized and will provide audited results for the fiscal year.

The momentum of the national, state and local economy drives the County's significant revenue sources comprised of property, sales and transient occupancy taxes; payments from state and federal governments and charges for services. In Fiscal Year 2017-18 we experienced *continued growth* in the County's revenues in spite of the Thomas Fire & Debris Flow disaster.

Looking forward, stable and sustainable revenue is needed for the County to fulfill its commitments to funding high priorities, such as the future Northern Branch Jail operations, deferred capital maintenance, public protection, negotiated employee contracts, pension and other post-employment benefit (OPEB) costs. To that end we anticipate that FY 2018-19 to be similar absent another event or significant policy changes or destabilization occurring at the federal level.

Discussion:

Financial Overview – Governmental Funds

For all governmental funds, the County recorded revenues of \$931 million, expenditures of \$913 million and a net other financing use of \$2 million. This resulted in a \$16 million or 4.9% increase to existing fund balances bringing the total fund balances to \$337 million. The majority of the increase in fund balance over prior years is attributed to increases in the General Fund (\$16.8 million), Behavioral Wellness (\$2.2 million), Fire District (\$1.3 million) and Social Service funds (\$1.3 million) offset by decreases in the Public Health (\$5.2 million) and Flood Control District funds (\$3.6 million).

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED June 30, 2018 (in thousands)

	General	Roads	Public Health	Social Service	Behavioral Wellness	Flood Control District	Afford Housing	Fire Protect District	Capital Projects	Other Gov Funds	Total Current Year	Prior Year	%
Revenues													
Taxes	\$231,993	\$ 7,849	\$ --	\$ --	\$ --	\$ 11,584	\$ --	\$ 52,928	\$ --	\$ 5,629	\$ 309,983	\$ 295,066	5.1%
Licenses, permits, & franchise	16,147	447	56	80	--	--	--	20	--	8	16,758	14,221	17.8%
Fines, forfeitures, & penalties	7,548	--	463	11	32	76	--	337	--	2,814	11,281	9,141	23.4%
Use of money and property	2,317	117	158	266	217	426	47	123	21	632	4,324	3,332	29.8%
Intergovernmental	86,389	16,650	20,276	143,107	54,628	1,111	1,718	1,524	35,943	21,287	382,633	361,392	5.9%
Charges for services	69,241	1,057	43,645	123	36,802	3,767	665	29,197	132	4,984	189,613	189,834	-0.1%
Other	4,112	259	4,585	911	1,038	8	2,004	503	186	2,649	16,255	16,177	0.5%
Total revenues	417,747	26,379	69,183	144,498	92,717	16,972	4,434	84,632	36,282	38,003	930,847	889,163	4.7%
Expenditures													
Current:													
Policy & executive	21,242	--	--	--	--	--	--	--	--	--	21,242	16,585	28.1%
Public safety	232,611	--	--	--	--	--	--	80,538	165	16,023	329,337	303,151	8.6%
Health & public assistance	11,682	--	76,212	149,499	97,836	--	--	--	--	18,012	353,241	361,796	-2.4%
Community resources	45,089	33,932	--	--	--	20,594	3,373	--	39	5,573	108,600	99,463	9.2%
General gov & support	51216	--	--	--	--	--	--	--	641	2,347	54,204	52,597	3.1%
General county programs	1,582	--	--	--	--	--	--	--	--	8	1,590	2,167	-26.6%
Debt service:	--	--	--	--	--	--	--	--	--	--	--	--	--
Principal	2	--	--	--	--	--	--	--	--	3,949	3,951	3,874	2.0%
Interest	--	--	--	--	--	--	--	--	--	1,889	1,889	2,002	-5.6%
Capital outlay	--	--	--	--	--	--	--	--	38,911	--	38,911	24,983	55.7%
Total expenditures	363,424	33,932	76,212	149,499	97,836	20,594	3,373	80,538	39,756	47,801	912,965	866,618	5.3%
Excess(deficiency) revenue over (under) expenditures	54,323	(7,553)	(7,029)	(5,001)	(5,119)	(3,622)	1,061	4,094	(3,474)	(9,798)	17,882	22,545	
Other Financing Source(Use)													
Transfers in	8,354	7,064	7,199	6,422	8,080	34	475	550	3,109	15,795	57,082	68,603	
Transfers out	(45,961)	--	(5,371)	(124)	(801)	--	(879)	(3,397)	--	(3,136)	(59,669)	(69,673)	
Proceeds sale capital assets	89	81	2	--	--	20	--	82	--	9	283	142	
Long-term debt issued	--	--	--	--	--	--	--	--	--	--	--	--	
Other financing source(use)	(37,518)	7,145	1,830	6,298	7,279	54	(404)	(2,765)	3,109	12,668	(2,304)	(928)	
Net change in fund balances	16,805	(408)	(5,199)	1,297	2,160	(3,568)	657	1,329	(365)	2,870	15,578	21,617	
Fund balances - beginning	113,070	18,900	30,977	4,131	9,116	68,223	7,366	24,419	21,639	23,208	321,049	299,432	
Prior period adjustment	--	--	--	--	--	--	--	--	--	--	--	--	
Fund balances - ending	\$ 129,875	\$ 18,492	\$ 25,778	\$ 5,428	\$ 11,276	\$ 64,655	\$ 8,023	\$ 25,748	\$ 21,274	\$ 26,078	\$ 336,627	\$ 321,049	

Revenues

In FY 17-18, revenues increased by \$41.7 million or 4.7% to \$931 million.

Taxes— provide the County with most of its discretionary revenue and provided 33% of the County's total revenue, increased \$14.9 million or 5.1% to \$310 million. The major categories of taxes show the following results:

- Total property tax accounts increased \$15.5 million or 6.2% to \$265 million.
- Local retail sales tax decreased \$0.2 million or 1.7% to \$10.3 million. This decrease is attributed to the Thomas Fire and Montecito Debris flow.
- Proceeds from the Former Redevelopment Agencies increased \$1.2 million or 13.7% to \$10 million.
- Supplemental taxes decreased \$0.5 million or 10.6% to \$4.3 million. This decrease is due to the Thomas Fire and Montecito Debris flow.
- Transient Occupancy Taxes decreased \$1.7 million or 16.9% to \$8.4 million. Most of this decline is due to the Thomas Fire and Montecito Debris flow.
- Sales Taxes for Transportation increased \$0.1M or 1.6% to \$7.8 million.

Intergovernmental revenue – increased by \$21.2 million or 5.9% to \$383 million. The most significant increase was in the Capital Project fund where \$13.6 million of the \$80 million Board of State and Community Corrections grant funding the majority of the Northern Branch Jail construction project was received.

The General Fund saw increased intergovernmental revenues of \$5.7 million consisting primarily of \$3.1 million of Public Safety Proposition 172 funding and RDA dissolution asset sale proceeds of \$1.6 million. In addition, \$4.5 million of increased local realignment 2011 funding was received by the following departments: Behavioral Wellness (\$2 million), Probation (\$1.8 million), Sheriff (\$0.5 million) and County Programs (\$0.1 million).

Noticeable decreases were seen in the Social Services Funds of \$4.4 million driven by cutbacks to the CalWorks program and the reduction of \$1.4 million of the Fire District's Public Safety Proposition 172 funding.

Charges for services – although there was no significant change overall to this category, there were noticeable increases in the Fire Protection District of \$3.0 million and the Roads fund of \$0.6 million which were offset by a decrease in Public Health of \$3.4 million. The increases for the Fire District related to fire protection incident reimbursements. Increases to Roads are attributed to mitigation reimbursements and planning and engineering services for subdivisions. The Public Health decreases are attributed to the reduction in volume of high priced specialty drugs and the temporary drop in clinical service productivity related to the implementation of a new combined Electronic Health Record/Billing system.

Licenses, permits, and franchises – increased \$2.5 million or 17.8% to \$16.8 million. This is attributed mostly to the increase in building and land use permit fees of \$2.3 million.

Fines, forfeitures and penalties – increased \$2.1 million or 23.4% to \$ 11.3 million. This increase was largely due to the collection of \$1.7 million more of property tax penalties than in the prior year.

Use of money and property – increased \$1 million or 29.8% to \$4.3 million. The increase was attributed to interest income of \$1.9 million reduced by \$1.1 million unrealized change in value of the treasury investments.

Other Revenues experienced no significant change from prior year.

Expenditures

Expenditures increased by \$46.3 million or 5.3% to \$913 million.

Salary and benefits - costs increased by \$19.7 million or 3.7% to \$552.4 million for the governmental fund types, which accounts for 60.5% of total expenditures -

- The major increases in salaries and benefits is comprised of:
 - Retirement contributions increased \$8.2 million or 7.5% to \$116.9 million
 - Overtime increased \$6.1 million or 23.7%. Most of the overtime incurred by the Fire District, and portions of overtime incurred by Sheriff, Public Works and Public Health is expected to be reimbursed.
 - Regular salaries, contractors on payroll and extra help increased \$3.1 million or 1%
 - Other benefits (health insurance, workers compensation, FICA, etc.) increased \$2.2 million or 3.2% to \$70.9 million
- As shown in the table below Public Safety (Fire \$8.5 million and Sheriff \$7.3 million) account for the vast majority of the increase.

Salaries and Employee Benefits Costs (in millions)				
	6/30/2018	6/30/2017	Change	%
Public Safety	\$ 256.8	\$ 239.6	\$ 17.2	7.2%
031 Fire	65.4	56.9	8.5	14.8%
032 Sheriff	115.7	108.4	7.3	6.8%
021 District Attorney	21.9	21.0	0.9	4.4%
023 Public Defender	10.5	10.0	0.4	4.4%
022 Probation	43.3	43.3	0.0	0.0%
Community Resources & Public Facilities	50.4	47.6	2.8	5.9%
054 Public Works	23.6	22.0	1.6	7.2%
053 Planning & Development	12.2	11.7	0.5	4.6%
052 Parks	7.7	7.2	0.5	7.4%
051 Agricultural Commissioner/W&M	3.9	3.6	0.3	8.0%
057 Community Services	0.9	0.9	0.0	4.3%
055 Housing/Community Development	2.0	2.2	(0.2)	-8.6%
Policy & Executive	15.1	14.1	1.1	7.5%
013 County Counsel	7.7	7.1	0.6	8.6%
012 County Executive Office	4.8	4.3	0.4	10.2%
011 Board of Supervisors	2.7	2.6	0.0	0.4%
General Government & Support Services	36.5	35.9	0.6	1.6%
065 Treasurer-Tax Collector-Public	5.6	5.4	0.2	4.5%
063 General Services	7.2	7.1	0.1	1.3%
062 Clerk-Recorder-Assessor	12.2	12.1	0.1	0.7%
061 Auditor-Controller	7.1	7.1	0.1	1.1%
064 Human Resources	4.3	4.2	0.1	1.7%
General County Programs	0.2	0.2	0.0	19.5%
990 General County Programs	0.2	0.2	0.0	19.5%
Health & Public Assistance	193.4	195.3	(1.9)	-1.0%
041 Public Health	65.5	63.0	2.4	3.9%
043 Behavioral Wellness	43.6	42.6	1.0	2.3%
045 Child Support Services	8.1	7.9	0.2	2.2%
044 Social Services	76.3	81.8	(5.5)	-6.8%
Grand Total	\$ 552.4	\$ 532.7	\$ 19.7	3.7%

- The Countywide average annual full-time equivalent (FTE) count (see chart below) decreased 158.5 FTE or 3.7% over prior year.
- Health & Public Assistance departments shed 146.1 FTEs driven mostly by reductions of 120.4 FTE in Social Services due to program cutbacks.
- The only notable increases of FTE were in Public Safety, with Fire and Sheriff adding 10 and 5.4 respectively.

Change in Average FTE Count				
	6/30/2018	6/30/2017	Change	Pct Change
Public Safety	1,452.2	1,448.3	3.9	0.3%
Fire	277.6	267.6	10.0	3.7%
Sheriff	647.5	642.1	5.4	0.8%
District Attorney	141.7	138.8	2.9	2.1%
Public Defender	70.4	70.9	(0.5)	-0.7%
Probation	314.9	328.9	(14.0)	-4.2%
General County Programs	1.0	1.0	-	0.0%
General County Programs	1.0	1.0	-	0.0%
Policy & Executive	92.7	93.1	(0.3)	-0.3%
County Counsel	38.8	38.6	0.2	0.5%
County Executive Office	33.2	33.2	(0.0)	-0.1%
Board of Supervisors	20.8	21.2	(0.5)	-2.2%
Community Resources & Public Facilities	493.1	494.6	(1.5)	-0.3%
Planning & Development	85.6	85.5	0.1	0.1%
Agricultural Commissioner/W&M	33.2	33.1	0.1	0.3%
Community Services	104.8	105.5	(0.7)	-0.7%
Public Works	269.5	270.5	(1.0)	-0.4%
General Government & Support Services	324.8	339.3	(14.5)	-4.3%
Human Resources	29.2	29.5	(0.3)	-1.2%
Treasurer-Tax Collector-Public	40.7	41.4	(0.7)	-1.8%
Auditor-Controller	47.1	48.9	(1.8)	-3.6%
General Services	109.5	114.1	(4.6)	-4.0%
Clerk-Recorder-Assessor	98.3	105.4	(7.0)	-6.7%
Health & Public Assistance	1,697.1	1,842.2	(145.1)	-7.9%
Child Support Services	69.1	71.9	(2.7)	-3.8%
Public Health	531.5	536.3	(4.8)	-0.9%
Behavioral Wellness	351.7	368.9	(17.2)	-4.7%
Social Services	744.8	865.1	(120.4)	-13.9%
Grand Total	4,061.0	4,218.4	(157.4)	-3.7%

Other Operational Expenditures – (includes Services and Supplies and Other Charges) increased by \$14.5 million or 5.1% for a total of \$298 million. There was a \$16 million increase in Services and Supplies and Other Charges decreased \$1.6 million. Significant expenditures in this area include:

- \$84 million in various professional and contractual services across all departments, which included \$35 million for the North Branch Jail Construction and \$13 million for Road fund contracts,
- \$46 million in Social Service Cash Assistance Payments,
- \$39 million in Behavioral Wellness community based organization service contract payments,
- \$31 million in departmental payments to the Internal Service Funds,
- \$10 million in contributions to the State for the Trial Court funding, and
- a wide array of additional services provided or supplies purchased.

As seen in the table below which identifies departments with expenditure changes greater than \$1 million, significant increases were noted in the Community Resources & Public Facilities (\$10.6 million), Public Safety (\$7.8 million), and Policy & Executive (\$3.4 million) functional groups. Offsetting these increases were notable decreases in Health & Public Assistance (\$5.6 million) and General Government (\$1.2 million).

Other Operating Expenditures (in millions)					
	2018	2017	Change	%	
Community Resources & Public Facilities	\$ 46.9	\$ 36.4	\$ 10.6	29.1%	
054 Public Works	28.2	16.7	11.5	69.3%	
All Other Community Resources & Public Facilities Departments	18.8	19.7	(1.0)	-4.9%	
Public Safety	69.7	61.9	7.8	12.5%	
032 Sheriff	29.2	24.1	5.1	21.3%	
031 Fire	13.3	10.6	2.7	25.9%	
All Other Public Safety Departments	27.2	27.3	(0.1)	-0.4%	
Policy & Executive	6.0	2.6	3.4	130.7%	
012 County Executive Office	5.0	1.7	3.3	196.1%	
All Other Policy & Executive Departments	1.0	0.9	0.1	10.0%	
General County Programs	1.4	1.9	(0.4)	-23.8%	
General Government & Support Services	14.3	15.5	(1.2)	-7.7%	
063 General Services	7.8	10.0	(2.2)	-22.1%	
All Other General Government Departments	6.6	5.6	1.0	18.1%	
Health & Public Assistance	159.3	164.9	(5.6)	-3.4%	
044 Social Services	81.8	83.7	(2.0)	-2.4%	
041 Public Health	21.9	24.6	(2.7)	-11.0%	
All Other Health & Public Assistance Departments	55.6	56.6	(0.9)	-1.6%	
Grand Total	\$ 297.7	\$ 283.2	\$ 14.5	5.1%	

Debt Service Principal and Interest – Debt Service payments remained flat at \$6 million.

Capital Expenditures – Capital Expenditures increased by \$13.9 million to \$38.9 million and are attributed primarily to the construction of the Northern Branch Jail.

General Fund

The General Fund of the County provides the Board of Supervisors with its major sources of discretionary budget authority. The fund ended the year with a total fund balance of \$130 million, an increase of \$16.8 million over the prior year. The Residual fund balance that resulted from the closing of the fiscal year operations was \$7.6 million.

General Fund (in thousands)			
	Beginning Balance	Ending Balance	
Fund Balance Category	7/1/2017	6/30/2018	Change
Fund Balance-Nonspendable	\$ 13,640	\$ 11,998	\$ (1,642)
Fund Balance-Restricted	31,529	38,002	6,473
Fund Balance-Committed	60,161	69,305	9,144
Fund Balance-Unassigned	734	2,981	2,247
Fund Balance-Residual	7,006	7,589	583
	<u>\$ 113,070</u>	<u>\$ 129,875</u>	<u>\$ 16,805</u>

Some highlighted changes to fund balance components:

- Non-spendable Fund Balance (Not available for appropriation) decreased \$1.6 million to \$12 million to reflect a \$2 million release of impounded property taxes offset by the annual adjustment to the Teeter Tax Loss Reserve of \$0.4 million.
- Restricted Fund Balance (Legally Restricted) increased \$6.5 million to \$38 million. Within this component:
 - ♦ Local Realignment 2011 increased \$3 million to \$15.1 million.
 - ♦ Public Safety Prop 172 increased \$1.5 million to \$3.4 million.
- Within Committed Fund Balance (BOS Discretion):
 - ♦ The Strategic Reserve was reduced \$7.2 million (23.2%) for a \$1 million contribution to the Road fund for 2017 Winter Storms Disaster repairs and \$6.2 million for the Thomas Fire and Montecito Debris Flow Disaster Response leaving an ending balance of \$23.7 million.
 - ♦ The New Jail Operations Reserve increased by a net \$5.2 million (\$9.1 million increase less \$3.9 million draws to cover transitional hiring costs) leaving an ending balance of \$13.1 million.
 - ♦ The Litigation Reserve was increased \$3.6 million to \$4.4 million.
 - ♦ Contingency was replenished to \$2 million.
 - ♦ Emerging Issues increased a net \$ 1.5 million to \$3.3 million.

Cash Balances

The ending cash account balance of the General Fund increased 29.1% or \$32.5 million to \$111.7 million. Because of its cash position, the County did not issue a cash flow borrowing known as a Tax and Revenue Anticipation Note (TRAN) for FY 17-18 and will not need to issue a TRAN in FY 18-19.

Budget to Actual Operating Results

Budget to Actual operating results (see chart on following page) were positive in the General Fund by \$7.6 million.

- **Taxes** performed better than budget estimates by \$1 million primarily due to stronger than anticipated growth in unsecured & escaped property taxes (\$3.5 million) and property taxes resulting from the dissolution of the former RDAs (\$1.7 million) offset by decreases in both Transient Occupancy Tax (TOT) of \$3.4 million and Supplemental Property Taxes of \$ 0.7 million.
- The positive \$2.5 million variance in **Fines, Forfeitures, and Penalties** is attributed to higher than anticipated penalties collected on delinquent property taxes.
- The budgetary shortfall in **Intergovernmental – Federal** of \$1.5 million is related to an election equipment grant that did not occur and was offset by a positive variance in **Intergovernmental – Other** of \$1.6 million from unanticipated proceeds of property liquidated under RDA dissolution.

Budget to Actual Comparison - Fiscal Year Ended 6/30/2018				
General Fund				
	Adjusted Budget	Year-To-Date Actual	Variance	% of Budget
Revenues				
Taxes	230,951,000	231,995,489	1,044,489	100.5%
Licenses, Permits and Franchises	16,125,363	16,147,152	21,789	100.1%
Fines, Forfeitures, and Penalties	5,009,837	7,547,716	2,537,879	150.7%
Use of Money and Property	1,536,627	2,317,317	780,690	150.8%
Intergovernmental Revenue-State	77,852,153	78,184,523	332,370	100.4%
Intergovernmental Revenue-Federal	7,721,640	6,250,653	(1,470,987)	81.0%
Intergovernmental Revenue-Other	381,901	1,953,594	1,571,693	511.5%
Charges for Services	72,298,971	69,240,933	(3,058,038)	95.8%
Miscellaneous Revenue	4,227,088	4,112,482	(114,606)	97.3%
Revenues	416,104,580	417,749,858	1,645,278	100.4%
Expenditures				
Salaries and Employee Benefits	289,871,452	280,909,139	8,962,313	96.9%
Services and Supplies	64,852,707	58,894,885	5,957,822	90.8%
Other Charges	23,222,459	22,254,141	968,318	95.8%
Capital Assets	5,063,240	1,366,238	3,697,002	27.0%
Expenditures	383,009,858	363,424,403	19,585,455	94.9%
Other Financing Sources & Uses				
Other Financing Sources	8,904,670	8,441,971	(462,699)	94.8%
Other Financing Uses	49,768,275	45,961,315	3,806,960	92.4%
Other Financing Sources & Uses	(40,863,605)	(37,519,345)	3,344,261	91.8%
Changes to Fund Balances				
Decrease to Nonspendables	2,643,398	2,643,398	(0)	
Decrease to Restricted	7,007,855	2,998,403	(4,009,452)	
Decrease to Committed	48,625,763	35,221,265	(13,404,498)	
Decrease to Fund Balances	58,277,016	40,863,066	(17,413,950)	
Increase to Nonspendables	1,001,797	1,001,797	-	
Increase to Restricted	9,773,728	9,471,354	302,374	
Increase to Committed	39,732,608	39,606,723	125,885	
Increase to Fund Balances	50,508,133	50,079,874	428,259	
Net Financial Impact	-	7,589,302	7,589,302	

- The budgetary shortfall of \$3.1 million in **Charges for Services** is primarily related to permits and Environmental Resources Services in the Planning & Development department offset by corresponding expenditure savings.
- Actual expenditures at all object levels came in less than budgeted. The \$9 million variance in **Salary & Benefits** were generated by unfilled budgeted positions and partially offset by overages in overtime and extra help. There were \$6 million of savings in **Services and Supplies** related to contractual and professional services and another \$3.7 million of savings in **Capital Assets**. **Other Charges** also experienced a savings of \$1 million. It should be noted that there were corresponding revenue shortfalls because some of these expenditures are recouped via permit fees and charges for services and grants that were not received.

Net Financial Impact

General Fund

The Annual Financial Summary Report below for the General Fund shows the Net Financial Impact of the various General Fund departments and is a measure of how departments performed against the budget revenue estimates and appropriations. The causes of the Net Financial Variances in the General Fund departments listed on the Report are described in general for variances that exceeded \$500 thousand. The overall year end result is \$7.6 million in increased unassigned fund balance.

Annual Financial Summary - General Fund							
Fiscal Year Ended 6/30/2018							
Department	Sources			Uses			Net Financial Variance
	Adjusted Budget	Actual	Variance	Adjusted Budget	Actual	Variance	
011 -- Board of Supervisors	3,151,600	3,151,600	-	3,151,600	3,022,952	128,648	128,648
012 -- County Executive Office	10,903,818	10,154,030	(749,788)	10,903,818	10,154,030	749,788	-
013 -- County Counsel	8,571,867	8,390,787	(181,080)	8,571,867	8,390,787	181,080	-
021 -- District Attorney	25,103,724	24,025,762	(1,077,962)	25,103,724	24,025,762	1,077,962	-
022 -- Probation	61,968,607	60,879,375	(1,089,232)	61,968,607	59,062,455	2,906,152	1,816,920
023 -- Public Defender	11,705,006	11,599,274	(105,732)	11,705,006	11,599,274	105,732	-
032 -- Sheriff	147,313,183	141,018,325	(6,294,858)	147,313,183	146,357,118	956,065	(5,338,793)
041 -- Public Health	13,268,677	12,765,935	(502,742)	13,268,677	12,765,935	502,742	-
051 -- Agricultural Commissioner/W&M	5,300,991	4,958,833	(342,158)	5,300,991	4,957,352	343,639	1,481
052 -- Parks	16,429,179	16,026,829	(402,350)	16,429,179	15,985,320	443,859	41,509
053 -- Planning & Development	20,243,383	15,625,407	(4,617,976)	20,243,383	15,150,551	5,092,832	474,855
054 -- Public Works	8,865,511	8,507,008	(358,503)	8,865,511	8,507,008	358,503	-
055 -- Housing/Community Development	3,974,690	3,109,880	(864,810)	3,974,690	3,109,876	864,814	4
057 -- Community Services	4,880,493	4,828,889	(51,604)	4,880,493	4,828,867	51,626	22
061 -- Auditor-Controller	9,012,382	8,753,269	(259,113)	9,012,382	8,134,493	877,889	618,777
062 -- Clerk-Recorder-Assessor	20,913,202	17,278,579	(3,634,623)	20,913,202	16,492,464	4,420,738	786,116
063 -- General Services	17,958,319	17,263,067	(695,251)	17,958,319	17,179,968	778,350	83,099
064 -- Human Resources	5,874,968	5,386,137	(488,831)	5,874,968	5,385,115	489,853	1,022
065 -- Treasurer-Tax Collector-Public	9,110,258	7,640,966	(1,469,292)	9,110,258	7,304,359	1,805,899	336,608
990 -- General County Programs	56,645,439	55,696,100	(949,339)	56,645,439	55,154,985	1,490,454	541,115
991 -- General Revenues	251,811,772	257,876,396	6,064,624	251,811,772	249,778,476	2,033,296	8,097,920
Total Report	<u>713,007,069</u>	<u>694,936,450</u>	<u>(18,070,618)</u>	<u>713,007,069</u>	<u>687,347,148</u>	<u>25,659,921</u>	<u>7,589,302</u>

Multiple Departments

With the exception of the Sheriff, all of the General Fund Departments ended the year with a positive or zero Net Financial Variance.

General Revenues

General Revenues ended the year with a positive variance of \$8.1 million. This variance is due to unanticipated revenues of \$ 6 million (from increased property tax penalties and one-time proceeds from RDA dissolution) along with \$2 million of budgeted General Fund Contributions not required to be transferred to the Department of Social Services as the department received larger than anticipated state realignment revenues.

Probation

The Probation department ended the year with a positive balance of \$1.8 million as positive variances of \$0.5 million in revenues, \$2.4 million of expenditures and \$0.5 million in other financing uses allowed them to not draw down fund balances as planned.

Clerk-Recorder-Assessor

Clerk-Recorder-Assessor ended with a \$786 thousand positive variance due to increase in charges for services of \$513 thousand and significant savings in noncapital expenditures of \$ 1.8 million, along with capital expenditure savings offset by negative variances on related grant funding, allowed them not to drawdown fund balances as planned.

Auditor-Controller

Auditor-Controller ended the year with a \$619 thousand positive variance mostly due to Salary and Benefit savings as a result of positions not being filled for the entire year.

General County Programs

General County Programs ended with a \$541 thousand positive variance mostly as the result of expenditure savings from not having to hold a special election for cannabis taxation.

Sheriff

The Sheriff ended with a negative net financial variance of \$5.3 million resulting from \$1.5 million of salary overages in jail operations and \$3.9 million of mutual aid costs associated with the Thomas Fire and Montecito Debris flow which are anticipated to be reimbursed. This negative variance was offset by positive variances in other General Fund departments.

Annual Status – All Funds

The following funds are major special revenue funds or proprietary funds that have significant variances over \$500,000.

Major Funds: (see financial statement on page 4):

Public Health (Funds 0042, 0046)

These funds ended the year with a \$5.2 million decrease in fund balance due to a combination of planned reduction of revenues associated with the temporary drop in clinical service productivity related to the implementation of a new combined Electronic Health Record/billing system; capital projects consisting of safety upgrades and the remodel of the Carpinteria Clinic in the in the Health Care fund (0042); and a transfer of \$1.5 million from the Tobacco Settlement fund (0046) to the Behavioral Wellness department.

Social Services Funds (0055, 0056, 0058)

The Social Services funds saw increases to fund balance totaling \$1.3 million. This is after expenditures of \$ 149 million including \$ 46 million of cash assistance payments and transfers in of \$6.4 million from the General Fund.

Behavioral Wellness (Funds 0044, 0048, 0049)

These funds ended the year with a positive \$2.2 million increase in fund balance. The funds recorded \$98 million in expenditure activity. The positive balances are in the Mental Health Services Act fund (0048) and Alcohol and Drug Program fund (0049); the Mental Health Fund (0044) ended the year with effectively a zero balance and had been subsidized by General Fund contributions during the FY 17-18 year to cover high in-patient bed costs and lower than projected revenues.

Flood Control District (Multiple Funds)

The Flood Control District Funds ended the year with a \$3.6 million decrease to fund balance primarily due to an increase in expenditures providing Montecito Debris flow response and flood protection. These funds have significant fund balances of \$67 million, and annual expenditures of \$21 million.

Affordable Housing (Funds 0064, 0065, 0066, 1940, 3122)

The five affordable housing program funds had a net increase in fund balance of \$0.7 million and annual expenditures of \$3.4 million. These are primarily project driven funds and accumulate funding for expenditure in future cycles.

Fire Protection District (Fund 2280)

The Fire Protection District ended the year with a positive change to fund balance in the amount of \$1.3 million. Property taxes and related penalties exceeded estimates by \$2.1 million. The District also benefited in \$1.1 million of expenditure savings related to mitigation fees not transferred to the City of Goleta due to delayed construction of Station 10. The District expended \$81 million on local fire protection and emergency response including major wildfires and the Montecito Debris flow.

Capital Projects Funds (Funds 0030, 0031, 0032)

The capital project funds decreased committed fund balance by \$365 thousand. The fund also incurred expenditures of \$40 million primarily related to the Northern Branch Jail project (\$37.3 million) along with smaller projects for Parks, Sheriff, and General Services.

Non-Major (Other Governmental) Funds:

Water Agency (Fund 3050)

The fund balance of the Water Agency increased \$1 million due to delays in project work because of the Montecito Debris flow.

Seawall (Fund 3000)

The Sandyland Seawall fund saw a \$750 thousand increase in fund balance resulting from the collection of an assessment to pay for project work delayed by the Montecito Debris flow.

Proprietary Funds:

Vehicle Operations (Fund 1900)

The Vehicle Operations Fund total retained earnings increased by \$3 million due to lower than expected fuel expense.

Workers' Compensation Self Insurance (Fund 1911)

The Worker's Compensation Fund had positive results of \$566 thousand resulting from reductions in outstanding tail claim liabilities as old self-insured claims were settled and the total liability went down from \$9.5 million to \$9.2 million. The negative fund balance of \$432 thousand should be eliminated within the next year in accordance with the 7 year deficit recovery plan.

Communications (Fund 1919)

The Communications ISF increased its equity by \$1.1 million primarily due to General Fund contribution received for the acquisition of radio equipment in FY 18-19.

Resource Recovery (Fund 1930)

The Resource Recovery fund equity increased \$6.3 million primarily due to delayed project due to the Montecito Debris flow.

Laguna Sanitation District (Funds 1620, 2870)

The Laguna Sanitation fund equity increased \$7.0 million from revenues of \$13.6 million exceeding expenses of \$7.7 million. This increase is an accumulation of resources for planned capital projects.

Concluding Observations**Operations**

The financial results of operations for FY 17-18 reflect continuing moderate improvement of County finances despite the Thomas Fire and Montecito Debris Flow disasters. With employment increasing and a continuing rebound of the housing market the County is building its foundation for the future with long term funding commitments to a new jail facility, public protection financing, deferred capital maintenance and unfunded pension and OPEB liabilities. These commitments address important priorities and rely on increasing revenue growth in the coming years.

- The County expended \$32.9 million in fire and debris flow response. The General Fund absorbed \$18 million offset by a \$6.2 million release from the strategic reserve. Public Works related funds, Flood Control and Roads absorbed \$8.8 million and \$3.9 million respectively. Much of these costs along with future costs to repair/replace disaster damaged infrastructure are anticipated to be reimbursed from FEMA/CalOES. The table below lists the disaster response expenditures by department.

Thomas Fire / Montecito Debris Flow Response	
Department	Expenditures (in thousands)
Public Works	\$ 12,964
Sheriff	11,299
County Executive Office	4,143
Public Health	1,472
Behavioral Wellness	510
Fire	461
General Services	366
Planning & Development	348
Probation	243
County Counsel	228
Social Services	198
First 5, Children & Families	155
Community Services	133
District Attorney	131
Auditor-Controller	93
Clerk-Recorder-Assessor	64
Human Resources	41
Agricultural Commissioner/W&M	24
Child Support Services	22
Public Defender	12
Board of Supervisors	5
Treasurer-Tax Collector-Public	4
Grand Total	\$ 32,916

- The County continues to enjoy an underlying credit rating of SP-1+ from Standard and Poor's (the highest possible short-term rating) and an AA+ long-term rating (the highest among California Counties). In addition, the County's series 2008 Certificates of Participation have an Aa2 rating from Moody's.
- The County increased its General Fund cash position by \$32.5 million or 29.1% and continued to avoid the need for a short-term cash flow borrowing (TRAN) for the next year.
- The County continues to shift general fund tax allocations to the fire protection district for a sixth year under the originally scheduled ten year plan. The 2017-18 increment was \$2.1 million for a total accumulated shift amount of \$14.2 million which brings the fire shift percentage to 16.48% of the 17% target.
- The County continues to set aside 18% of unallocated, discretionary General Fund revenue each year to address the deferred maintenance needs of its buildings and infrastructure.
- The County Average FTE count was down 158.2 FTE in FY 17-18 compared to the prior year. The vast majority of the reduction was in Health & Public Assistance departments which declined by 146.1 FTEs. The Department of Social Services decreased by 120.4 FTEs last fall stemming from program reductions.

Fund Balances

- The County was able to end the year with a \$15.6 million increase in overall governmental fund balance for all funds.
- Due to disaster events the County drew \$7.2 million from its Strategic Reserve leaving an ending balance of \$ 23.7 million.
- The General Fund ended the year with following fund balance components that had balances over \$5 million:

Fund Balance Component	6/30/2018 Balance
☐ 2110 Fund Balance-Nonspendable	\$ 8,655,210
9610 Teeter Tax Losses	8,655,210
☐ 2120 Fund Balance-Restricted	15,063,958
9776 Local Realignment 2011	15,063,958
☐ 2130 Fund Balance-Committed	36,770,203
9840 Strategic Reserve	23,716,144
9880 New Jail Operations	13,054,059
Grand Total	\$ 60,489,371

Looking Forward

Considering the magnitude of the Thomas Fire and related Debris Flow disasters on the Montecito community, the County as a whole did well fiscally in 2017-18. Having a strategic reserve to tap into, plus sufficient sources of cash in various funds along with a skilled and dedicated workforce allowed the County take head-on this monstrous event. We are pleased to report that disaster related state backfills and FEMA/CalOES reimbursements are expected to flow in 18-19, but guarded that there could be another event of similar proportions in the next several years before the burn scarred territory of the Thomas fire heals as well as the eventual reality that the next recession will begin sooner rather than later.

- The winter storms helped restore many of the local reservoirs to levels similar to when the drought was originally declared. However, as the drought continues into its 6th year it still may have financial implications on all sectors of the local economy as water purveyors pursue higher cost water sources.
- Construction continues on the Northern Branch Jail. Winter storms and mitigations to protect unexpected wildlife encounters have caused some construction planned for 17-18 to slip into 18-19. The County continues to set aside funding (\$9.1 million in FY 17-18) for the New Jail Operations account which ended the year at \$13.1 million after drawing \$3.9 million.
- The County continues to move forward with the Tajiguas Resource Recovery Project. The planned issuance of construction revenue bonds this past spring did not take place due to last minute permitting issues. The project is currently being re-permitted with plans for construction and financing to commence in Fiscal Year 18-19.
- The SBCERS pension portfolio earned 7.8% for the fiscal year. This exceeded the current assumed rate of return for the plan of 7% which became effective 6/30/2016 after the Retirement Board lowered it in the fall of 2016. Over the five year period ending 6/30/2018 the fund returned 6.9%.
- Early indicators are that for budget years FY 18-19 and FY 19-20 the following local taxes will continue to increase in the 3.0%-4.0% range: Property Taxes, Transient Occupancy Tax, and Retail Sales taxes.
- Cannabis Tax revenue collection is expected to begin in October 2018 for the first quarter of FY 18-19 from those businesses who have been granted a temporary license by the State.

Economic Indicators

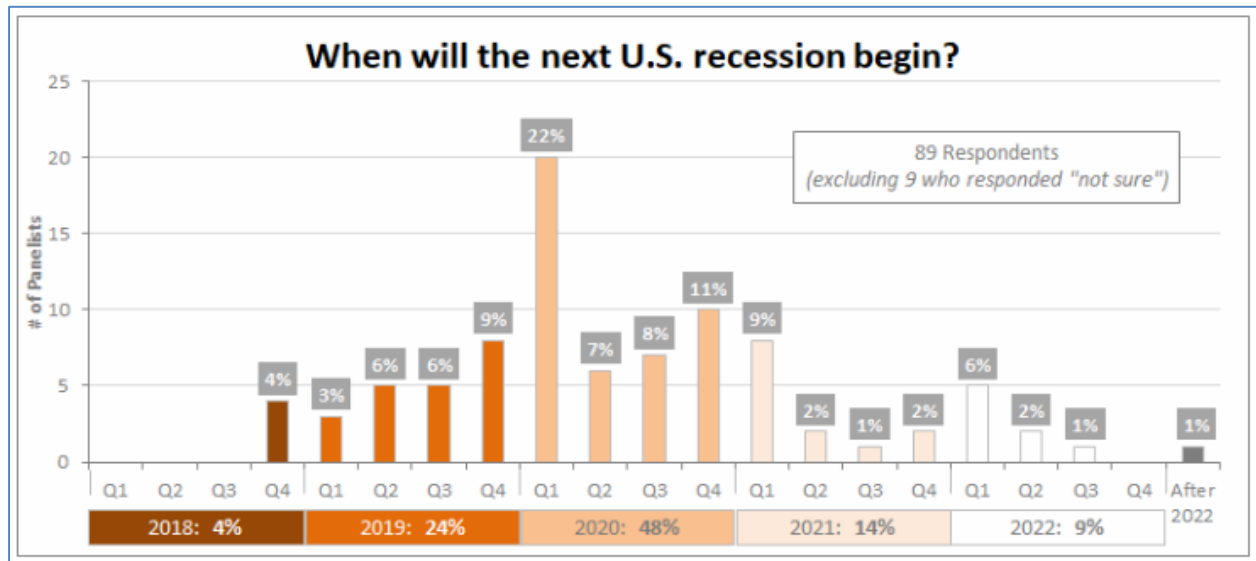
The national economy continues to expand. Economists at First Trust state these observations and comments on the national economy in their weekly publication the *Monday Morning Outlook* for 7/23/2018:

“Economic growth surged in the second quarter this year. ... The Plow Horse economy is dead. That doesn’t mean we’re in a boom like the mid-1980s or late 1990s, but tax cuts and deregulation have finally killed off the plodding roughly 2% growth rate of 2010-2016.”

Currently in its 107th month this expansion is the second longest in recent history. Prognosticating that growth is expected to continue, at least for 2018, Los Angeles economist Mark Schniepp in the January

2018 California Economic Forecast Newsletter titled *Welcome Higher Growth in 2018* states in part “From what we can see at this vantage point in early 2018, the current expansion will at least challenge that record. ... An expanding economy supported by low interest rates, low inflation and improving corporate profits all provide a favorable environment for stocks. The second half of 2018 is less certain, and cracks in the economy that are invisible now may begin to show. Hence more volatility in the market is likely.”

And as the saying goes, “what goes up must go down” the eventual end of this expansion cycle is to be



expected. The question of course is, when?

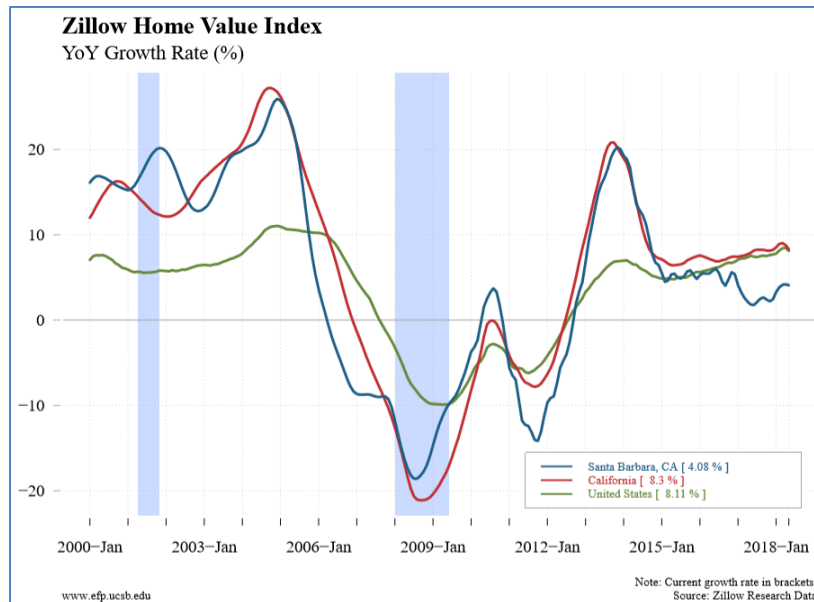
https://pulsenomics.com/Q2_2018_HPE_Survey.php

One recent article in Forbes by John Muldin (5-9-2018) titled *7 Smart Market Thinkers Predict When the Next Recession Will Start* notes the average prediction was the second half of 2019. Similarly, a Zillow survey (May 2018) conducted with research firm Pulsenomics LLC polled 100 real estate experts and economists in which half of the experts said they expected a recession to begin 2020 (see chart on previous page).

Focused at the local level, the UCSB Economic Forecast Project May 2018 publication includes the following points regarding the Santa Barbara area economy:

- Real GDP fell at an annual rate of 1.5% in Santa Barbara County in 2016, the largest decline in a decade.
- Government was the largest contributor to Real GDP in Santa Barbara County for the second year in a row.
- With 19.3% of total taxable sales, Food Services and Drinking Places remained the largest industry in the county.
- Guadalupe (2.4%) and Santa Maria (1.9%) had the highest growth in taxable sales among cities. Santa Barbara City (-1.1%) and Carpinteria (-3.5%) were the only cities to experience a decline.
- Santa Barbara County’s total employment for all industries grew by 2,553 jobs in 2017, a gain of 1.26%. This growth is below that of 2016, 2.4%.

- The unemployment rate continued to decline in 2017, falling by 0.9 percentage points to 3.9%. The unemployment rate declined in all cities across the county. Goleta has the lowest unemployment rate in the county at 2.36% while Lompoc has the highest rate at 5.23%.
- Real per capita income in Santa Barbara County continued to steadily rise in 2016 for the third year in a row, increasing at a rate of 1.68%.
- Propelled by a 3.58% growth rate, the Californian real per capita income of \$50,398 surpassed Santa Barbara County's real per capita income, at \$50,106, for the first time since 2004.
- For median home value, Santa Barbara County saw an increase in its year over year growth rate, but remains lower than both California's and the United States' growth rates.



http://www.efp.ucsb.edu/docs/default-source/housing/zhvi_sb-ca-us_yoy.pdf

- Santa Barbara County's Housing Affordability Index falls below both the national (56%) and state (29%) average with only 18% of residents in Santa Barbara able to afford the median priced home in the county.
- The real median home price for Santa Barbara County grew by 6% from 2017-2018; although, it was still lower than California's 8.7% growth in 2017.
- Residential building activity increased in 2017 from 971 units permitted to 1,310, coming from both single-family and multi-family unit permits.

Special Instructions: None

Attachments: None

Authored by: Ed Price

CC: