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
Department No.:	012
For Agenda Of:	5/18/2021
Placement:	Administrative
Estimated Time:	n/a
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Mona Miyasato, County Executive Officer
	Contact Info:	Nancy Anderson, Assistant County Executive Officer

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SUBJECT: **Fiscal Year 2020-21 Third Quarter Budget Update**

County Counsel Concurrence
As to form: NA

Auditor-Controller Concurrence
As to form: NA

Recommended Actions:

That the Board of Supervisors

a) Receive and file the Fiscal Year 2020-21 Third Quarter Budget and Financial Status Report as of March 31, 2021, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors.

Summary Text:

The Fiscal Year (FY) 2020-21 Budget and Financial Update for the third quarter ending March 31, 2021, provides a year to date fiscal year look at the County's financial position relative to the FY 2020-21 adjusted budget. The County's General Fund is currently projected to have a positive $6.8 million surplus and is tracking closely to budget for many departments. Special Revenue and Other Funds are generally tracking to budget, with the exception of three Funds discussed later in this report.

The $6.8 million net positive variance in the General Fund is the result of positive variances in several General Fund departments, including reportable net positive variances of $5.2 million in General Revenues and $1.9 million in Probation. These positive variances are offset by a negative $818 thousand in the Sheriff's Office and small negative variances in a few other departments. The reportable variances are explained in the report.

Other less significant variances in both the General Fund departments as well as Special Revenue Funds are due to a variety of factors. Positive variances in many departments are largely due to higher salary savings than expected in the budget, as well as some revenues, such as funds received from the state, coming in higher than anticipated. When the FY 2020-21 budget was developed, the state was forecasting steep impacts to many sales tax-based revenues due to COVID-19 restrictions, and while these revenues are not to the level they otherwise would have been without the pandemic, the impacts have not been as severe as initially projected. Likewise, due to the length of the pandemic certain expenditures departments anticipated resuming, such as training, travel, and motor pool charges, are projecting to come in under budget, contributing to positive variances in many departments.

There are some departments projecting slight negative variances below the reportable thresholds of this report. Some may be attributable to COVID-19 response. The CEO's Office is tracking COVID-19 expenditures in all departments, and to the extent negative variances are caused by COVID-19 expenses, applicable sources of revenue, such as CARES Act or FEMA reimbursements, will be utilized to close gaps at year-end, if necessary.

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, 2021, are discussed below.

This report highlights the variances that exceed the following 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) Special Revenue and Other Funds 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 2020-21, 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 Attachment A and Attachment B reports).

BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board-approved budget appropriations in accordance with 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, 2021, the General Fund had a projected year-end net positive variance of $6.8 million. This is the result of favorable results in most General Fund departments, including reportable positive variances in General Revenues and Probation, partially offset by a reportable negative variance in the Sheriff's Office and other minor variances.

General Revenues (Department 991) projects a positive year-end variance of $5.2 million, 1.7% over total budgeted revenues, shown in detail in the table below. This variance is due primarily to higher than budgeted Current Year Secured Property Taxes, Sales and Use Taxes, and Property Transfer Taxes, offset by lower than budgeted Prior Year Unsecured Property Tax Corrections, and Transient Occupancy Taxes.

The projected Current Year Secured Property Taxes exceeds the budgeted amount by $3.5 million due to the assessed value of properties exceeding initial projections, as the real estate market continues to demonstrate substantial growth, despite the impacts of the pandemic. Similarly, Property Transfer Taxes are projecting higher than budgeted by about $3.2 million, driven by the strong real estate market, demand for home purchases, and historically low mortgage rates.

Sales and Use Retail Taxes have weathered the impacts of COVID and project a year-end surplus of $1.9 million over what was forecast at the time the FY 2020-21 budget was adopted, largely due to surges in retail sales and the effects of issued federal stimulus funds, in addition to continued strong e-commerce growth driven by a shift in consumer spending behavior via online shopping. These unanticipated revenues are offset somewhat by reductions to Transient Occupancy Tax, the discretionary revenue most sensitive to the impacts of COVID-19, which are currently projected to end the year $1.5 million below budget. This decrease has largely been driven by the public initially limiting travel voluntarily in an effort to slow the spread of the virus, and further exacerbated by travel restrictions that were imposed by the state. Prior year Unsecured Property Tax Corrections are also offsetting projected year-end revenues due to roll correction refunds primarily related to certain businesses, such as United Launch Alliance, after the conclusion of assessment appeals cases.

Cannabis revenue is currently projecting $5.4 million more than what was anticipated when the FY 2020-21 budget was adopted in June. This growth is attributable to an uptick in consumer demand as a result of the pandemic, as well as more accurate reporting of gross sales by operators due, in part, to the recent implementation of a tax compliance program. Limited annual trend data, as well as the timing of the quarterly tax collections (third and fourth quarter receipts come in well after the next fiscal year's budget has been prepared), continues to make this revenue difficult to forecast during budget development, but as the program matures the revenues will stabilize and become more predictable on a year-to-year basis. Any amount received in excess of budget will be added to fund balance for future allocation by your Board.

Discretionary General Revenue Summary (in thousands):			
Source	**Adjusted**	**Projected**	**Variance Proj**
Property Tax - Current Secured	$ 147,785	$ 151,310	$ 3,525
Property Tax - Prior Year Unsecured Corrections	244	(2,367)	(2,611)
Sales and Use Retail State Tax	10,320	12,249	1,929
Cannabis Tax	10,620	16,027	5,407
Transient Occupancy Tax	12,394	10,846	(1,548)
Property Transfer Tax	4,003	7,182	3,179
All Other Revenues	115,620	116,338	718
Total Discretionary Revenues	**$ 300,986**	**$ 311,585**	**$ 10,599**
Increase to Cannabis Fund Balance	$ 10,620	$ 16,027	$ 5,407
All Other Transfers	290,366	290,366	0
Projected Fiscal Year End Variance	**$ -**	**$ 5,192**	**$ 5,192**

Probation Department is projecting a positive variance of $1.9 million, 2.6% on a total budget of $72.8 million, primarily due to staffing vacancies resulting in Salary and Benefits projected at $3.7 million under budget by year-end. The Department is working to fill these vacancies. However, Charges for Services revenues are expected to come in $0.9 million under budget as the AB1869 legislative changes, which eliminate many criminal justice fees, are being implemented ahead of the 7/1/2021 deadline.

Sheriff's Office is projecting a negative variance of $818 thousand for the fiscal year, 0.5% on a total budget of $169.5 million, as a result of a combination of factors. Most significantly, this negative variance is driven by COVID-related overtime ($300 thousand) and an unanticipated mid-year increase in general liability insurance costs ($360 thousand). Significant costs incurred for COVID testing for jail inmates and staff (estimated at $1.2 million) will be reimbursed by the State, and are therefore not reflected as a driver of the projected negative balance at year-end. In addition, the COVID-related overtime costs may be covered with CARES Act funding, to the extent available, which could reduce the Sheriff's negative variance at year-end.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

Social Services (Fund 0055) is projecting a positive year-end variance of $1.7 million, 1.0% on a total operating budget of $170.2 million, which is driven primarily by unanticipated State revenues. 1991 Realignment and 2011 Realignment revenues are projected to exceed budgeted amounts due, in part, to higher-than-expected collections from sales tax. Additionally, State General Fund distributed to counties as backfill for lost realignment revenues and increased federal contributions for program costs have helped blunt the pandemic's anticipated impact on Social Services' budget. Unanticipated revenues and savings will reduce the use of fund balance in the current year, thereby increasing the total fund balance available to use in FY 2021-22 and FY 2022-23.

Court Special Services (Fund 0069) is currently projecting estimated negative year-end variance of $324 thousand, 2% on a total operating budget of $14.9 million. Fines, Forfeitures, and Penalties is projected to come in $410 thousand under budget and Charges for Services is projected to come in $735 thousand under budget, which is mostly attributed to the adverse impacts of COVID-19 on the court's ability to collect fees during the first half of the fiscal year. This revenue loss is partially offset by projected Services and Supplies savings of $681 thousand, due to the court closures during COVID-19 when no jury trials took place. For several years it has been necessary for the General Fund to assist in balancing the Courts budget at year end. The FY 2021-22 budget will include General Fund allocations to the Courts to achieve structural balance.

Resource Recovery and Waste Management (Fund 1930) is currently projecting a $1.2 million negative variance, 3% on a total operating budget of $51.6 million. Due to the closure of businesses related to the COVID pandemic, tonnage of waste delivered to the Tajiguas Landfill for burial and fees paid on those deliveries are $1.7 million less than projected offset by $500 thousand in projected Salary and Benefit savings. This loss will be covered by reserve balances within the fund, and revenues are expected to recover with the reopening of the economy.

Fiscal and Facilities Impacts:

Impacts are stated above in this Board letter.

Attachments:

A – Financial Summary Report – General Fund
B – Financial Summary Report – Special Revenue and Other Funds

Authored by:

CEO Budget & Research Team