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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
Department No.:	012
For Agenda Of:	11/16/2021
Placement:	Departmental
Estimated Time:	30 Minutes
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 2021-22 First Quarter Budget Update**

County Counsel Concurrence
As to form: NA

Auditor-Controller Concurrence
As to form: NA

Recommended Actions:

It is recommended that the Board of Supervisors:

a) Receive and file the Fiscal Year 2021-22 First Quarter Budget and Financial Status Report as of September 30, 2021, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors.

b) Provide other direction as appropriate; and

c) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist of organizational, administrative, or fiscal activities of government that will not result in direct or indirect physical changes in the environment.

Summary Text:

The Fiscal Year (FY) 2021-22 Budget and Financial Update for the first quarter ending September 30, 2021, provides a year to date fiscal year look at the County's financial position relative to the FY 2021-22 adjusted budget. The County's General Fund is currently projected to have a positive $3.1 million surplus and is tracking closely to budget for most departments. Special Revenue and Other Funds are generally tracking to budget, with no reportable variances for the 1st Quarter.

The $3.1 million net positive variance in the General Fund is the result of positive variances in most General Fund departments, including reportable net positive variances of $1.6 million in General Revenues and $1.8 million in Probation. These positive variances are partially offset by a negative $1.2

million in the Sheriff's Office and small negative variances in a few other departments. The reportable variances are explained in the report.

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. Minor negative variances at this stage are typically driven by timing variances or slight projected revenue shortfalls that may or may not materialize by year-end.

FIRST 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 September 30, 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 three months of FY 2021-22, and then add departmental projections for the next nine 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:

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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 September 30, 2021, the General Fund had a projected year-end net positive variance of $3.1 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 $1.6 million, 0.5% over total budgeted revenues, shown in detail in the table below. This variance is due primarily to higher than budgeted Sales and Use Taxes and Property Transfer Taxes, offset by lower than budgeted Interest Income. Cannabis Cultivation and Retail Taxes are also projected to come in lower than budgeted, but are not contributing to the projected year-end variance, as explained later in this section.

Property Transfer Taxes are projecting higher than budgeted by about $2.4 million, again driven by the strong real estate market, demand for home purchases, and historically low mortgage rates. Sales and Use Retail Taxes also continue to weather the impacts of COVID and project a year-end surplus of $867 thousand over what was forecast at the time the FY 2021-22 budget was adopted. This is largely due to sustained e-commerce growth, recent retail sales increase as a result of the Delta Variant shifting consumer spending away from services and back to goods, and projected growth in holiday spending, despite the prevalence of supply chain issues. Although Sales and Use Retail Tax revenue is projecting growth over the adopted budget, staff is cognizant of rising inflationary pressures being exerted and will continue to monitor and report on any impacts in subsequent quarters.

These unanticipated revenues are offset by reductions in interest income, which is projecting to end the year below budget by about $1.2 million driven by a sharp decline in the treasury pool interest rate since the onset of the pandemic.

Cannabis Cultivation Tax is currently projecting $2.7 million less than what was anticipated when the FY 2021-22 budget was adopted in June. This projected decrease appears attributable to the oversupply of cannabis product that is developing throughout the state and at the local level, much as it did early on in other states that legalized adult-use cannabis prior to California, such as Colorado and Oregon. Although the County currently lacks visibility into the detail of cannabis entities' operations such as units sold and pricing, the Board recently approved staff's recommendation to join the California Cannabis Authority (CCA), which will provide insight into the state's inventory accounting platform, Track-and-Trace, and the associated data and analytics for all licensed operators in our County. This information will also aid staff in developing more accurate cannabis tax revenue projections both in the budget development process and on a quarterly basis. Cannabis Retail Storefront Tax is also currently projected to end the year under budget by $288 thousand. This decrease is due primarily to the timing of when each of the six retail operators are expected to complete the land use entitlement and business licensing processes. Staff currently projects that the majority of operators will complete the County's processes and commence operations in approximately spring of 2022.

Given the projected shortfalls in Cannabis Cultivation and Retail Taxes, staff has assumed a corresponding decrease in the budgeted transfer to General County Programs, which totals approximately $3 million. If this shortfall materializes, it will eliminate most of the $3.3 million unallocated carryover from FY 2020-21 that is currently in the cannabis tax fund balance. With the FY 2020-21 unallocated carryover absorbing the projected shortfall this year, the FY 2021-22 funding allocations, and the cannabis prudent reserve

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($4.7 million), would not need to be adjusted unless projections continue to decline in the coming quarters. Staff continues to monitor cannabis tax receipts closely and will update projections when new information is available.

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2021-22	Projected FY 2021-222	Variance Proj vs. Adjusted
Property Taxes	$ 159,609	$ 159,758	$ 149
Sales and Use Retail State Tax	12,537	13,404	867
Cannabis Cultivation Tax	18,431	15,747	(2,684)
Cannabis Retail Tax	625	337	(288)
Property Transfer Tax	4,458	6,852	2,394
Interest Income	1,938	706	(1,232)
All Other Revenues	129,785	129,177	(608)
Total Discretionary Revenues	**$ 327,383**	**$ 325,981**	**$ (1,402)**
Decrease to Cannabis Fund Balance	$ 19,056	$ 16,084	$ (2,972)
All Other Transfers	308,327	308,327	0
Projected Fiscal Year End Variance	**$ -**	**$ 1,570**	**$ 1,570**

Probation is projecting a positive variance of $1.7 million, 2.4% on a total budget of $71.7 million, primarily due to staffing vacancies resulting in salary savings projected at $894 thousand by year-end. The Department is working to fill these vacancies. The remainder of the variance is due to increased Vehicle License Fee-driven 2011 Realignment ($344 thousand) resulting from unbudgeted growth received for the Juvenile Justice Crime Prevention Act (JJCPA), a restricted revenue source. The department will fund balance any surplus by year-end, as well as savings in Professional and Special Services ($498 thousand) resulting from lower community-based organization service levels in July and August. It is currently unknown when services will resume at normal levels.

Sheriff's Office is projecting a negative variance of $1.15 million for the fiscal year, 0.6% on a total budget of $177.6 million, primarily due to unrealized State revenue ($792 thousand), which includes a recoupment of State overpayments realized in FY 2020-21 ($562 thousand) and legislative changes from AB 1869 ($230 thousand). AB 1869 Criminal Fees went into effect on July 1, 2021 and repealed the ability of counties to charge fees related to alternative sentencing, although it is possible the State may backfill some of the lost fees. The remainder of the variance ($358 thousand) is in overtime, of which approximately $190 thousand may be reimbursed for mutual aid. The department indicates that the completion of field training for seven Sheriff Deputies, currently in progress, will reduce some overtime while increasing regular salary and benefit costs.

Various factors have contributed to the projected negative variance, including longtime departmental staffing challenges, a current high number of Custody Deputy vacancies (17), and staff on extended leave (17). Resources were stretched during a COVID-19 outbreak in August through early October that led to staff illnesses and quarantine. Many of these factors contribute to the need for overtime without corresponding savings in regular salaries and benefits. In accordance with policy, the department will be expected to keep within overall budget limitations through expenditure reductions or identification of alternative resources, including potentially a request prior to year-end for a transfer from General Fund contingencies to balance if necessary. Additionally, some expenditures related to COVID-19 may be

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eligible for reimbursement from American Rescue Plan Act (ARPA) restricted funding that is currently set aside for direct response costs.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

No reportable variances for the FY 2021-21 First Quarter.

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