

**Review of the County of Santa Clara
FY 2021-22 Recommended Budget as Adopted**

**Prepared for the
Board of Supervisors of the
County of Santa Clara**

**Prepared by the
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Introduction

The Management Audit Division has completed a review of the \$9.6 billion FY 2021-22 Recommended Budget, with particular focus on the General Fund's recommended \$4.6 billion appropriations. We have identified up to \$84,429,485 of General Fund revenues, transfers and expenditure reductions that could be recognized in the General Fund's FY 2021-22 budget without affecting services or projects. The County administration's response to this report will be furnished separately.

**SUMMARY OF MANAGEMENT AUDIT DIVISION RECOMMENDATIONS
FY 2021-22 BUDGET REVIEW**

Budget Unit	Department Name	Revenue/Expenditure Account	Revenue Increases/ (Decreases)	Expenditure or Transfer Out Decreases/ (Increases)	Est. General Fund Net Savings	Page No.
Multiple	General Fund Departments	Excess Funding of Vacant Positions	0	10,000,000	10,000,000	N/A
N/A	Accum. Cap. Outlay Fund Interest Earnings	Interest-Deposits	632,000	0	632,000	210
106	Clerk of the Board	Professional and Specialized Services	0	100,000	100,000	110
107	County Executive's Office	Office Expense	0	1,734,471	1,734,471	116
263	Facilities and Fleet	General Fund-Transfers Out for Capital Projects	0	42,866,220	42,866,220	215
263	Facilities and Fleet	Architecture Contract Services	0	500,000	500,000	200
410	Public Health	Services and Supplies-Other	0	400,000	400,000	372
415	Behavioral Health	Contract Services	0	25,521,344	25,521,344	388
921	Valley Medical Center	1) Advertising and 2) Professional Fees	0	2,675,450	2,675,450	428
TOTAL			\$ 632,000	\$ 83,797,485	\$ 84,429,485	

General Fund Only		Salary Savings Factor
Expenditure Account 5107000		
County Executive	Management Audit	Expenditure
<u>Recommended</u>	<u>Proposed</u>	<u>Decrease</u>
(\$40,346,250)	(\$50,346,250)	\$10,000,000

About 8.5% of all funded positions in the FY 2021-22 Recommended Budget were vacant as of the April 19, 2021 payroll. In recognition of the funded vacancies, the County budgets a negative line item in the “salaries and benefits” category for most County budgets. In the General Fund, the Recommended Budget includes \$1,890,124,630 for salaries and benefits, which includes the negative amount of (\$40,346,240) for “salary savings” from vacant positions. Without this adjustment, the total recommended salaries and benefits cost in the General Fund would be \$1,930,470,880. As such, the recommended “salary savings” amount equates to about 2.1% of the total personnel costs in the General Fund. Based on Board Policy 4.5, the County generally expects to budget 3%-6% of costs as salary savings in most departments. The salary savings amounts included in the recommended budget by budget unit are shown on the follow page. If these amounts were increased by \$10 million, this would bring the total salary savings for the General Fund to about 2.6% of total personnel costs, while providing additional flexibility for Board priorities. Because the actual vacancy rate is estimated at about 8.5%, a budgeted reduction for vacancies of 2.6% overall is in our opinion reasonable, while taking into account the need for some of the “savings” from vacant positions to cover the cost of backfilling those positions with overtime and extra help.

Budget Unit	Rec 2021-22 Salary Savings
0106	(94,444)
0107	(776,272)
0108	(42,098)
0110	(276,185)
0111	(454,016)
0114	(203,035)
0115	(722,793)
0118	(399,651)
0120	(1,354,821)
0130	(777,127)
0140	(101,659)
0168	(48,775)
0190	(393,642)
0202	(3,169,862)
0204	(1,553,817)
0210	(54,000)
0230	(1,822,692)
0235	(3,234,677)
0240	(761,428)
0246	(3,414,237)
0260	(356,045)
0262	(321,634)
0263	(1,092,956)
0293	(151,726)
0410	(1,142,114)
0415	(1,352,061)
0418	(203,308)
0420	(31,417)
0501	(16,039,758)
Total	(40,346,250)

Fund 455 - Accumulated Capital Outlay

Revenue Account 4301100		Interest - Deposits
County Executive	Management Audit	Revenue
<u>Recommended</u>	<u>Proposed</u>	<u>Increase</u>
\$0	\$632,000	\$632,000

Fund 455 – Accumulated Capital Outlay

Transfer In (from General Fund)		General Fund
County Executive	Management Audit	Transfer
<u>Recommended</u>	<u>Proposed</u>	<u>Decrease</u>
\$84,297,548	\$83,665,548	\$632,000

Since its inception at the end of FY 2016-17, the Accumulated Capital Outlay Fund (ACO) has earned interest income averaging over \$1 million annually on General Fund dollars that are transferred to it for capital projects and facility depreciation charges. Such transfers from the General Fund to the ACO have increased from \$37 million in FY 2017-18 to \$101.7 million in FY 2020-21. As illustrated below, the FY 2021-22 recommended budget includes a transfer of \$84.3 million from the General Fund to the ACO but no projection for interest earnings.

Through April 30 of FY 2020-21, the County’s Accumulated Capital Outlay Fund (ACO) had an average monthly cash balance of \$95.9 million. These funds earn interest that, for the first three quarters of the fiscal year, totaled \$759,704. The average quarterly earnings in the current fiscal year therefore total \$253,235. Assuming earnings continue at this rate, the ACO would end FY 2020-21 with over \$1 million of interest income. This projection is consistent with the actual earnings in FY 2019-20, which totaled \$1.5 million, and trends from prior years (see Figure 1.1 below).

**Figure 1.1 Actual and Recommended Budget Interest Earnings
in the Accumulated Capital Outlay Fund**

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019- 20Actual	FY 2020-21- Actual (YTD)	FY 2021-22 Recommended
Interest-Deposits	372,522	1,636,173	1,511,867	759,704	0
IC - Transfers In	37,034,773	71,506,863	121,356,864	101,703,075	84,297,548

However, the Controller-Treasurer’s projected annual earnings rate for FY 2021-22 is 0.75 percent. On a balance of \$84.3 million, this would equate to approximately \$632,000 of interest earnings. Therefore, as a conservative estimate, we recommend that interest earnings of \$632,000 be included in the FY 2021-22 adopted budget for the ACO (Fund 0455). This recommendation will align budgeting practices with the authorizing document establishing the ACO, which states that interest earned on fund investments shall accrue to the same fund.

Since at least an estimated \$632,000 that is expected to be earned is not recognized as a revenue in the recommended budget for the Accumulated Capital Outlay Fund, recognizing this revenue will allow the County to reduce the General Fund transfer by this amount without materially reducing the funds available for capital needs.

Expenditure Account 5255100		Professional & Specialized Services
County Executive	Management Audit	Expenditure
<u>Recommended</u>	<u>Proposed</u>	<u>Decrease</u>
\$526,463	\$426,463	\$100,000

The Clerk of the Board General Fund budget for services and supplies was underspent by over \$2.5 million in FY 2018-19 and FY 2019-20, and we project underspending of \$0.7 million in FY 2020-21, as shown in Figure 2.1 below.

Figure 2.1: Clerk of the Board Services & Supplies Budget vs Actual

<i>Services & Supplies</i>	FY 2018-19	FY 2019-20	FY 2020-21
Adjusted Budget	\$10,434,713	\$12,072,540	\$8,517,238
Actual Spending*	7,843,666	9,328,233	7,780,764
Unspent Budget	\$2,591,048	\$2,744,307	\$736,474

Note: The actual spending amount shown above for FY 2020-21 is projected based on spending as of April 2021 adjusted for historical year-end spending patterns. Other amounts are sourced from SAP.

We reviewed budgeted and actual amounts for accounts within the services and supplies budget to identify areas of consistent underspending. Based on this analysis, we believe the accounts for professional and specialized services in the proposed FY 2021-22 budget should be reduced. As shown in Figure 2.2 below, this account was underspent by approximately \$0.5 million in FY 2018-19 and FY 2019-20, and we project underspending of \$199,195 in FY 2020-21. Most of the actual expenditures in the account appear to be for audio-visual services, including closed captioning, and translation services.

Figure 2.2: Budgeted Vs. Actual Spending in Professional & Specialized Services

<i>Prof & Specialized Svcs</i>	FY 2018-19	FY 2019-20	FY 2020-21
Adjusted Budget	\$753,338	\$553,338	\$526,463
Actual Spending*	205,270	92,726	327,268
Unspent Budget	\$548,068	\$460,612	\$199,195

Note: The actual spending amount shown above for FY 2020-21 is projected based on spending as of May 2021 adjusted for historical year-end spending patterns. Other amounts are sourced from SAP.

Our recommendation would adjust the professional and specialized services account to be consistent with historical spending, while also allowing for an approximate \$100,000 increase above FY 2020-21 projected spending. Our recommendation would reduce this

account by \$100,000, which is 13.6% of the projected unspent General Fund budget for services and supplies in FY 2020-21 in this department.

Expenditure Account 5250100		Office Expense
County Executive	Management Audit	Expenditure
<u>Recommended</u>	<u>Proposed</u>	<u>Decrease</u>
\$2,084,471	\$350,000	\$1,734,471

The Office of the County Executive’s General Fund budget for services and supplies has been underspent by at least \$16.7 million each year since FY 2017-18, as shown in Figure 3.1 below.

Figure 3.1: County Executive Services & Supplies Budget vs Actual

Services & Supplies	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Adjusted Budget	41,505,730	50,043,332	75,187,066	75,660,239
Actual Spending	24,818,900	28,811,917	32,295,655	53,445,641
Unspent Budget	16,686,830	21,231,415	42,891,411	22,214,598

Note: FY 2017-18 & FY 2018-19 amounts sourced from the FY 2019 & FY 2020 Recommended Budgets. FY 2019-20 and FY 2020-21 amounts are sourced from SAP, with actual FY 2020-21 spending projected based on actual spending through April 2021.

The proposed FY 2021-22 includes \$47.3 million for services and supplies, which is consistent with FY 2017-18 and FY 2018-19 budgeted amounts, though still above actual spending in prior years. We reviewed budgeted and actual amounts for accounts within the services and supplies budget to identify areas of consistent underspending. Based on this analysis, we believe the account for Office Expense in the proposed FY 2021-22 budget should be reduced to be consistent with historical spending, which is shown in Figure 3.2 below. Actual expenditures in this account in the current fiscal year are for small-dollar expenses, such as purchasing card bills for ceremonial plaques or orders for hand sanitizer. The recommended budget includes \$2,084,471 for this account.

Figure 3.2: Actual Spending in the Office Expense Account

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Actual Spending	233,067	310,289	231,470	331,641	133,105

Note: The amount shown above for FY 2020-21 is projected based on historical spending. As of April 2021, actual spending in the Office Expense account was \$95,061. Other amounts are sourced from SAP.

Our recommendation would adjust the Office Expense account to be consistent with historical spending, which averaged \$276,617 between FY 2016-17 and FY 2019-20, while also allowing for an approximate \$75,000 increase above that average. As shown in Figure 3.1 above, the County Executive budget has had sufficient budget authority to pay for unexpected services and supplies expenses, including for office expenses, because it underspends that portion of its budget every year.

As of May 24, with 37 days left in the fiscal year, actual spending in this account was \$99,125, and the amount encumbered was \$17,319, against a modified budget of \$2,622,786.

Fund 01 - General Fund

Expenditure Account 5610110

IC - Transfers Out

County Executive
Recommended
\$369,377,178

Management Audit
Proposed
\$326,510,958

Expenditure
Decrease
\$42,866,220

Fund 50 - General Capital Improvements

Revenue Account 4920120

IC - Transfers In

County Executive
Recommended
(\$393,075,000)

Management Audit
Proposed
(\$353,075,000)

Revenue
Decrease
(\$40,000,000)

Expenditure Account 5530200

Capital Proj. Svc.

County Executive
Recommended
\$393,075,000

Management Audit
Proposed
\$353,075,000

Expenditure
Decrease
\$40,000,000

Fund 455 - Accumulated Capital Outlay

Revenue Account 4920120

IC - Transfers In

County Executive
Recommended
(\$84,297,548)

Management Audit
Proposed
(\$81,431,328)

Revenue
Decrease
(\$2,866,220)

Expenditure Account 5704000

Capital Dev. Reserve

County Executive
Recommended
\$5,000,000

Management Audit
Proposed
\$2,133,780

Expenditure
Decrease
\$2,866,220

The Facilities Department of Facilities and Fleet (FAF) is responsible for the flow of funding to capital projects. The \$398 million Recommended Budget for capital projects in FY 2021-22 includes \$369.4 million in General Fund transfers, which are distributed to two other funds: the General Capital Improvement Fund (Fund 50), and the Accumulated Capital Outlay Fund (Fund 455).

Of the 30 projects recommended for funding in the FY 2021-22 budget, 12 are new projects and 18 are continuing projects approved in prior fiscal years. Funding for new projects is proposed at \$49.2 million while the remaining \$348.9 million is augmented funding for 18 ongoing projects. The total cost over ten years for these projects is estimated to be \$1.1 billion, including actual expenditures of \$132.5 million and unspent appropriations of \$211.6 million (as of April 2021) for those projects that are ongoing as summarized in Figure 4.1 below.

**Figure 4.1
Funding Summary of Capital Projects in the FY 2021-22 Recommended Budget**

Type	Project Count	Total Project Expenditures as of April 2021	Remaining Available Budget	FY 2021-22 Recommended Budget	Expected Total Over Project Life
New	12	0	0	49,200,000	88,200,000
Ongoing	18	132,452,956	211,167,227	348,875,000	1,008,995,183
Total	30	\$132,452,956	\$211,167,227	\$398,075,000*	\$1,097,195,183

*Includes projects funded from other sources, including the Assembly Bill (AB) 109 Fund and Valley Health Plan Enterprise Fund.

Source: FY 2021-22 Recommended Budget and 10-Year Capital Improvement Plan.

As discussed further below, our review identified one new and four ongoing projects for which requested FY 2021-22 appropriations from the General Fund can be eliminated, reduced and/or delayed to better align with the project scope and execution timeline. These projects and our recommended allocations are summarized in Figure 4.2 on the following page.

Figure 4.2

Proposed Reductions to Capital Project Allocations in the FY 2021-22 Recommended Budget

Project #*	Phase	Description	Recommended Budget Allocation for FY 2021-22	Management Audit Proposed
8	Planning	Embedded Way, New County Warehouse	6,000,000	0
14	Design	Medical Respite Center Move	3,000,000	0
16	Planning/ Design	Oakland Ave. Warehouse Improvements	15,000,000	5,000,000
20	N/A	Reserve for Jail Capital Projects	5,000,000	2,133,780
27	Design	TB/Refugee Clinic at 1996 Lundy Avenue	21,000,000	0
4		Total	\$50,000,000	\$7,133,780

* Indicates the project’s listed number in the FY 2021-22 Recommended Budget, beginning on page 208. Sources: Project phase sourced from May 20, 2021 Semi-Annual Report on Capital Projects to FGOC. Project amounts are listed in the FY 2021-22 Recommended Budget.

New General Fund Projects

Project #8 - Embedded Way, New County Warehouse

The \$49.2 million allocation proposed for new projects includes \$6 million for a new County warehouse on Embedded Way, a vacant parcel the County acquired as part of the Silver Creek Campus property purchase in 2018. The description of the project (#8) on pg. 210 of the FY 2021-22 Recommended Budget document states that the funding “will go toward a planning feasibility study that will analyze the site, develop a project scope, and provide initial cost estimates.” The funding may be redundant because the Capital Budget already includes a \$2 million project (#25) for planning and programming the Silver Creek Campus and a \$2.5 million planning reserve project (#9) that is used to fund scoping studies and cost estimates for capital project proposals that are early in the planning phase like the warehouse on Embedded Way.

The project description states that the County’s need for storage space has been amplified by the COVID-19 pandemic yet provides no detail on how the \$6 million request was derived, or what the project will achieve and when. Further, the full cost of the Embedded Way warehouse project over its project life is expected to total \$45 million (not including operating and maintenance costs) as shown in Appendix B of the FY 2021-22 10-Year Capital Improvement Plan (CIP). Such an investment request should be accompanied by a complete project plan and scope, absent which the Board of Supervisors should not fund any new capital projects as recommended in our

2020 audit of the Capital Programs Division of the Facilities and Fleet Department (FAF). Based on the fact that this project proposal is not fully developed and there are funds in the Capital Budget to fund preliminary planning and scoping studies, we recommend the \$6 million allocation to the Embedded Way warehouse project (#8) be eliminated until the project is better defined.

Ongoing General Fund Projects

The \$348.9 million allocation proposed for ongoing projects in FY 2021-22 is in addition to the \$211.2 million of unspent appropriations at the end of FY 2020-21 that the Board will be asked to re-appropriate in June. Our review identified four ongoing projects for which General Fund appropriations can be reduced or delayed to align with changes in the project execution timeline. These projects are summarized in Figure 4.3 and described further below.

**Figure 4.3
Ongoing Pre-Construction Projects Funded in FY 2021-22**

Project #	Pre-construction projects	Total Project Expenditures as of April 2021	FY 2020-21 Remaining Available Budget	FY 2021-22 Recommended Budget	Expected Total Over Project Life
14	Medical Respite Center Move	413,495	8,586,505	3,000,000	12,000,000
16	Oakland Ave. Warehouse Improvements	2,500,000	3,000,000	15,000,000	20,500,000
20	Reserve for Jail Projects	0	7,866,220	5,000,000	12,866,220
27	TB and Refugee Clinic at 1996 Lundy Ave	7,292,748	4,697,252	21,000,000	32,990,000
4	Total	\$10,206,243	\$24,149,977	\$44,000,000	\$78,356,220

Source: FY 2021-22 Recommended Budget and 10-Year Capital Improvement Plan.

Project #14 – Medical Respite Center Move

This project was first proposed in the FY 2020-21 Recommended Budget in the amount of \$9 million to renovate a space on the Santa Clara Valley Medical Center campus for homeless patients to live when they are discharged from the hospital. The expected total cost of the project in the FY 2020-21 10-Year CIP was listed at \$9 million with no additional funding in future years. However, as shown in Figure 4.3, the total project cost has now increased to \$12 million, with a \$3 million budget augmentation requested in FY 2021-22. In addition to unspent appropriations of \$8,586,505 at the end of FY 2020-21 that will be rolled over at the end of June, a review of the project status as of May 20, 2021 indicates that the project is only in the design phase, which is currently on hold pending California Environmental Quality Act (CEQA) clearance. As such, we recommend the \$3 million budget augmentation to this project be delayed until design documents are completed and the project is ready for construction.

Project #16 – Oakland Ave. Warehouse Improvements

This project was first proposed in the FY 2020-21 Recommend Budget in the amount of \$3 million to fund tenant improvements at a leased warehouse. The Administration contended that this funding could not be delayed because it would stall the County's effort to increase critical storage space for temporary emergency operations needs and would hamper the plan to relocate programs from the Berger warehouse to improve voter services. The expected total cost of the project in the FY 2020-21 10-Year CIP was listed at \$13 million (\$3 million in FY 2020-21 and \$10 million in FY 2025-27). However, as shown in Figure 4.3 above, the total project cost has now escalated by \$7.5 million to \$20.5 million, and a \$10 million appropriation for the next project phase that was planned for FY 2025-27 now increased to \$15 million and is requested in FY 2021-22. There is no detail in the Recommended Budget document or CIP as to why the scope of the project nearly doubled and according to FAF's project status report as of May 20, 2021, it is still in the planning phase. It is unlikely that design and construction of this project will all occur in FY 2021-22 based on the project's current state and spending rate. Therefore, we recommend that the \$15 million allocation to the Oakland Ave. Warehouse Improvements project (#16) in FY 2021-22 be reduced by \$10 million to \$5 million. This will allow planning and design efforts to continue until the project is ready for construction.

Project # 20 – Reserve for Jail Projects

This reserve was originally recommended in the amount of \$10 million in the FY 2020-21 Recommended Budget, but the administration agreed to delay \$5 million until FY 2021-22. While the FY 2021-22 recommend amount for this project is \$5 million, the reserve has \$7,866,220 of unspent, available funds (see Figure 4.3). Therefore, we recommend the \$5 million allocation to Reserve for Jail Projects (#20) be reduced by \$2,866,220 to align with the \$10 million originally envisioned for this project.

Project # 27 – TB/Refugee Clinic at Lundy

The Administration agreed to delay \$21 million of the \$24 million originally proposed for construction of this facility and tenant improvements in FY 2020-21 to FY 2021-22 following our review of the FY 2020-21 Recommended Budget. However, as shown in Figure 4.3 above, the \$3 million allocation from FY 2020-21 has not been spent and the project is still in the design phase according to FAF's project status report. Given the project has \$4,697,252 of available, unspent funds to move forward, we recommend construction funds be delayed until design documents are complete and the project is ready for bids.

Expenditure Account 5235540		Account Archit. Contract Svc.
County Executive Recommended	Management Audit Proposed	Expenditure Decreases
\$3,396,574	\$2,896,574	\$500,000

The Facilities Department’s General Fund budget for services and supplies has been underspent by at least \$4.3 million each year since FY 2017-18, as shown in Figure 5.1 below.

Figure 5.1: Facilities Services & Supplies Budget vs Actual

Services & Supplies	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Adjusted Budget	98,048,060	104,392,179	118,750,113	120,010,232
Actual Spending	93,430,052	94,623,347	111,958,463	115,731,783
Unspent Budget	4,618,008	9,768,832	6,791,650	4,278,449

Note: FY 2017-18 & FY 2018-19 amounts sourced from the FY 2018-19 & FY 2019-20 Recommended Budgets. FY 2019-20 and FY 2020-21 amounts are sourced from SAP, with actual FY 2020-21 spending projected based on actual spending through April 2021.

The proposed FY 2021-22 budget includes \$126.3 million for services and supplies, which is above actual spending in prior years. We reviewed budgeted and actual amounts for accounts within the services and supplies budget to identify areas of consistent underspending. Based on this analysis, we believe the account for Architectural Contract Services in the proposed FY 2021-22 budget should be reduced. As shown in Figure 5.2 below, this account is consistently underspent.

Figure 5.2: Budgeted Vs. Actual Spending in Architecture Services Account

		Archit. Contract Svc
FY 2018-19	Budget	4,291,862
FY 2018-19	Actual Spending	2,552,011
FY 2018-19	Unspent Funding	1,739,850
FY 2019-20	Budget	4,165,236
FY 2019-20	Actual Spending	3,302,940
FY 2019-20	Unspent Funding	862,296
FY 2020-21	Budget	2,776,574
FY 2020-21	Actual Spending	1,750,000
FY 2020-21	Unspent Funding	1,026,574

Note: The actual spending amount shown above for FY 2020-21 is projected based on spending as of April 2021, plus encumbrances. Other amounts are sourced from SAP.

Current-year expenditures in this account appear to be primarily for miscellaneous Countywide repairs, remodeling, and construction. Our proposed reduction is less than the amount of underspending in during the past three fiscal years. The original adopted budget in the current year was \$3,396,574, which was reduced at mid-year to \$2,776,574. The Recommended Budget amount for next year is equal to the original budget in the current year, and it appears this reflects the FY 2019-20 actual expenditures of \$3.3 million.

Expenditure Account 5350400		Services & Supplies-Other
County Executive	Management Audit	Expenditure
<u>Recommended</u>	<u>Proposed</u>	<u>Decrease</u>
\$1,983,828	\$1,583,828	\$400,000

The Public Health General Fund budget for services and supplies was underspent by over \$9.0 million in FY 2018-19 and FY 2019-20, and we project underspending of \$4.5 million in FY 2020-21, as shown in Figure 6.1 below.

Figure 6.1: Public Health Services & Supplies Budget vs Actual

<i>Services & Supplies</i>	FY 2018-19	FY 2019-20	FY 2020-21
Adjusted Budget	\$46,921,612	\$48,687,010	\$58,880,389
Actual Spending*	37,272,255	39,620,739	54,377,678
Unspent Budget	\$9,649,357	\$9,066,271	\$4,502,711

Note: The actual spending amount shown above for FY 2020-21 is projected based on spending as of April 2021 adjusted for historical year-end spending patterns. Other amounts are sourced from SAP.

We reviewed budgeted and actual amounts for accounts within the services and supplies budget to identify areas of consistent underspending. Based on this analysis, we believe the accounts for other services and supplies in the proposed FY 2021-22 budget should be reduced. As shown in Figure 6.2 below, this account was underspent by over \$2.0 million in FY 2018-19 and FY 2019-20, and we project underspending of \$0.9 million in FY 2020-21. Uses of these funds in the current year appear to be for a wide variety of miscellaneous expenses.

Figure 6.2: Budgeted Vs. Actual Spending in Other Services & Supplies

<i>Services & Supplies-Other</i>	FY 2018-19	FY 2019-20	FY 2020-21
Original Budget	\$1,512,689	\$1,911,443	\$2,251,317
Prior Year Funds Rolled-Over	343,843	731,900	1,914,809
Budget Adjustments	622,460	260,528	(92,907)
Adjusted Budget	\$2,478,992	\$2,903,871	\$4,073,219
Less Actual Spending*	274,030	345,734	3,177,323
Unspent Budget	\$2,204,962	\$2,558,137	\$895,896

Note: The actual spending amount shown above for FY 2020-21 is projected based on spending as of April 2021 adjusted for historical year-end spending patterns. Other amounts are sourced from SAP.

As shown above, at least \$300,000 in unspent prior-year funds has been rolled over in this account in each year. The Public Health Department expects to roll-over \$635,104 in FY 2020-21 unspent funds to FY 2021-22. The expected roll-over together with the recommended budget for FY 2021-22 total \$2,618,932.

Our proposed reduction in FY 2021-22 is less than half of the amount of underspending in prior years. Our recommendation would reduce the other services and supplies account by \$400,000, which is 8.9% of the projected unspent General Fund budget for services and supplies in FY 2020-21 in this department.

General Fund expenditure

Account 5255500

County Executive

Recommended

\$325,521,344

Management Audit

Proposed

\$300,000,000

Contract Services

Expenditure

Decrease

\$25,521,344

The Behavioral Health General Fund budget for services and supplies was underspent by \$35.8 million in FY 2017-18 and the amount of underspending has been increasing every year since, as shown in Figure 7.1 below.

Figure 7.1: Behavioral Health Services & Supplies Budget vs Actual

Services & Supplies	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Modified Budget	421,550,617	488,753,373	480,539,169	481,273,449
Actual Spending	385,772,356	436,455,023	420,291,248	409,040,116
Unspent Budget	35,778,261	52,298,350	60,247,921	72,233,333

Note: FY 2018 & FY 2019 amounts sourced from the FY 2018-19 & FY 2019-20 Recommended Budgets. FY 2019-20 and FY 2020-21 amounts are sourced from SAP, with actual FY 2021 spending projected based on actual spending through April 2021 adjusted for historical year-end spending patterns.

The proposed FY 2021-22 includes \$483.5 million for services and supplies, which is above actual spending in prior years. We reviewed budgeted and actual amounts for accounts within the services and supplies budget to identify areas of consistent underspending. Based on this analysis, we believe the accounts for contract services in the proposed FY 2021-22 budget should be reduced. As shown in Figure 7.2 below, this account is consistently underspent by between \$36.6 million and \$57.2 million each year.

Figure 7.2: Budgeted Vs. Actual Spending in Contract Services

		Contract Services
FY 2018-19	Budget	326,963,459
FY 2018-19	Actual Spending	290,371,241
FY 2018-19	Unspent Funding	36,592,218
FY 2019-20	Budget	333,701,832
FY 2019-20	Actual Spending	295,845,642
FY 2019-20	Unspent Funding	37,856,190
FY 2020-21	Budget	327,583,952
FY 2020-21	Actual Spending	270,364,043
FY 2020-21	Unspent Funding	57,219,909

Note: The actual spending amount shown above for FY 2020-21 is projected based on spending as of April 2021 adjusted for historical year-end spending patterns. Other amounts are sourced from SAP.

Our proposed reduction in FY 2021-22 is approximately ten percent of the total proposed General Fund budget amount for contract services that year, which is less than the amount of underspending in prior years, which ranged from 11% to 17% below budget.

Budget Unit 921

Santa Clara Valley Medical Center Hospitals & Clinics

Services & Supplies Object	Fund 60		
	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Expenditure Decrease</u>
5255150 Advertising	\$506,425	\$206,425	\$300,000
5257350 Professional Fees	\$2,375,450	\$0	\$2,375,450
Total Savings	\$2,881,875	\$206,425	\$2,675,450
General Fund Subsidy	Fund 01		
	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Expenditure Decrease</u>
Hospital Subsidy to Fund 60	\$213,893,857	\$211,218,407	\$2,675,450

The FY 2021-22 recommended Services and Supplies (Object 2) budget for Santa Clara Valley Medical Center Hospitals and Clinics (SCVMC) is \$933,068,484, of which \$751,044,600 (80%) applies to SCVMC at Bascom (SCVMC-Bascom) and is budgeted in Fund 60. Our analysis of SCVMC-Bascom’s FY 2021-22 \$751 million recommended Services and Supplies budget resulted in a revised projected requirement of approximately \$748.3 million, or \$2.7 million less. This revised estimate is based on a detailed review of budgeted and actual amounts for accounts within Services and Supplies that show consistent underspending. Based on this analysis, we believe the following accounts within Services and Supplies for SCVMC-Bascom proposed in the FY 2021-22 budget should be reduced. The basis of our projected costs for each account is described in detail below.

5255150 Advertising

Description of Account Purpose/Use:

This account funds the cost of advertising for SCVMC-Bascom. The primary user of this account is VHC Downtown Clinic.

Financial History and Projection:

The proposed budget for this account has not been updated since FY 2016-17 despite exceeding actual expenditures by over 50% each year (see Figure 8.1).

Figure 8.1
Expense Account 5255150 - Advertising

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Actual	FY 2020-21 Projected	FY 2021-22 Recommended
Original Budget	531,319	506,425	506,425	506,425	506,425	506,425
Actuals	49,477	78,412	143,961	83,164	184,647	190,186
Unspent Budget	481,842	428,013	362,464	423,261	321,778	316,239
% Surplus	91%	85%	72%	84%	64%	62%

Note: Based on actual FY 2020-21 expenditures reported through April 30, FY 2020-21 total advertising expense is projected to amount to \$184,647, or about \$321,778 less than originally budgeted.

Even after inflating projected FY 2020-21 actuals by the 3% inflation rate for Services and Supplies suggested in the Recommended Budget (pg. 18), FY 2021-22 total advertising expense is projected to be under \$200,000. Therefore, we recommend that the adopted budget for expense account 5255150 in Fund 60 be reduced by \$300,000 to \$206,425 without any impact on services.

5257350 Professional Fees – East/South Valley

Description of Account Purpose/Use:

This account pays for contracts with physicians that serve the County’s outpatient health care clinics, such as the South Valley Clinic in Gilroy and the East Valley Clinic in East San Jose.

Financial History and Projection:

Like the advertising expense account above, the proposed budget for this account has not been updated since FY 2016-17 despite exceeding actual results by over 50% (see Figure 8.2).

Figure 8.2
Expense Account 5257350 Professional Fees – East/South Valley

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Actual	FY 2020-21 Projected	FY 2021-22 Recommended
Original Budget	2,634,804	2,375,450	2,375,450	2,375,450	2,375,450	2,375,450
Actuals	886,095	608,235	1,026,075	-24,650	0	N/A
Unspent Budget	1,748,709	1,767,215	1,349,375	2,400,100	2,375,450	N/A
% Surplus	66%	74%	57%	101%	100%	N/A

The account had no actual expenditures reported through April 30 of FY 2020-21, and in FY 2019-20 posted negative expenditures (due to a refund of \$24,650 from a vendor related to temporary physician staffing services). Given that the budget for this account has not been updated in five years, and there have been no actual expenditures posted to this account in over two years, we recommend the \$2,375,450 appropriation for expense account 5257350 in Fund 60 be eliminated. The recommended budget for SCVMC-Bascom also includes \$8.3 million to fund 22 vacant positions for physicians and psychiatrists, which could be used to offset the cost of these services (with Board approval) should a demonstrable need arise.