County of El Dorado

Chief Administrative Office

330 Fair Lane
Placerville, CA 95667-4197

Don Ashton, MPA
Chief Administrative Officer

Phone (530) 621-5530
Fax (530) 626-5730

February 16, 2021

TO: Honorable Board of Supervisors

FROM: Don Ashton
Chief Administrative Officer

SUBJECT: FY 2020-21 Mid-Year Budget Report – REVISED

The Chief Administrative Office has annually provided the Board of Supervisors with a Mid-Year Budget Report to update the Board and the public on County departments' fiscal performance and to assess the financial environment for the County as we prepare for the coming fiscal year budget. This update is particularly important this year as the county has adapted services and budgets in response to the coronavirus pandemic.

To compile this report, County departments were asked to review their budgets and to identify any known or anticipated significant changes to expenditures and/or revenues through the end of the fiscal year. This projection is somewhat complicated by the unknown length of public health restrictions that may impact the operations of many departments. Based upon the uncertainties, departments have developed conservative projections of their year-end fund balances. These fund balance estimates will aid the Chief Administrative Office in projecting General Fund savings through the end of the year. This projection of General Fund savings is an important part of budget development for the following fiscal year. Due to the County's conservative approach to budgeting, there are usually unspent funds at the end of the year which can be used to fund the following year's needs. These savings should be considered one-time in nature, and be directed toward one-time costs or set aside for future needs.

This memo summarizes departmental year-end financial forecasts and related issues and includes a summary of the next steps in the budget development process, with a brief discussion of the Governor's Proposed Budget. Exhibit B includes a brief discussion of each department's anticipated year-end variances from the Adopted Budget.

FY 2020-21 General Fund Year-End Projection

The net projected General Fund balance at June 30, 2021, is $19.5 million, of which $5.9 million is unspent contingency that will need to be re-budgeted in FY 2021-22. This leaves an estimated $13.6 million of fund balance available for use in the FY 2021-22 Recommended Budget. The projected fund balance is $3.4 million (21%) more than the fund balance projection in last year's Mid-Year Budget Report.

The $13.6 million in fund balance is composed of $6.3 million in departmental savings and $7.3 million in additional discretionary General Fund revenues. Exhibit A to this memo summarizes fund balance by each department, and Exhibit B to this memo is a narrative explanation of each department's projected change to net county cost.

The $6.3 million in departmental savings has been generated through a combination of higher departmental revenues and reduced departmental expenditures. This savings assumes an increased General Fund contribution to cover a revenue shortfall in the Behavioral Health Division of Health and Human Services Agency of $1.3 million. The Behavioral Health Division is projecting less Federal Medi-Cal revenue than budgeted in Traditional and Substance Use Disorder Services programs, while also projecting to over-spend its budget in Traditional services, resulting in a funding gap of $1.3 million. At the direction of my office, Health and Human Services Agency is preparing a memo to be presented with the Mid-Year Budget Report to explain this shortfall and provide recommendations. If Health and Human Services Agency is able to cover this shortfall without an increased General Fund contribution, there may be an additional $1.3 million in fund balance.

In addition to the net county cost increase in Behavioral Health, the Department of Transportation is projecting that the County Engineer program will be $77,000 over budget due to time and materials revenue being projected at less than budgeted. At my direction, the Department is preparing an item to bring to the Board on March 9th to reduce staff in order to make up for this shortfall. If the Board approves the Department's recommendation to cover this shortfall without an increased General Fund contribution, there may be an additional $77,000 in fund balance.

General Revenues are the discretionary General Fund revenues received to fund net county cost and other General Fund expenditures. These revenues are projected to be $7.3 million higher than budgeted. The projected increase in General Revenues through the end of FY 2020-21 is primarily attributed to the following:

- $5.4 million additional Sales and Use Tax revenue
- $1.6 million additional Transient Occupancy Tax revenue
- $442,000 additional Assessment and Tax Collection Fees
- $349,000 additional Cannabis Activities Tax

These additional revenues were slightly offset by downward adjustments across several revenue sources, the largest of which is a projected $604,000 decrease in Interest Revenue. Last year at this time we anticipated that interest earnings would level off or decrease slightly. However, interest earnings have tumbled to lows rarely seen before as concerns about the economic impacts of the coronavirus pandemic continue. The rate of return has gone from 2.08% in FY 2019-20 down to .47% in FY 2020-21. It is projected that interest revenue will end the year at $396,000, a 79% decrease from prior year actuals, and $604,000 less than budget.

In the FY 2020-21 Adopted Budget property taxes were projected to grow 3.5% from the prior year. At this time, it is projected that property tax will come in as budgeted, at $75.9 million.

The FY 2020-21 Adopted Budget reduced Sales and Use Tax revenue estimates using a cautious approach, decreasing revenue by 20% from the Recommended Budget, in anticipation of impacts related to the coronavirus pandemic. Year-to-date Sales and Use Tax receipts show a 9% growth when compared to the prior year. It is projected that Sales and Use Tax will total $15.7 million, a $5.4 million increase from the FY 2020-21 Adopted Budget and almost $1 million more than FY 2019-20 actual revenues.

Using a cautious approach in regards to the impact of the pandemic on revenues due to travel restrictions, Transient Occupancy Tax was reduced 25% from the Recommended Budget in the FY 2020-21 Adopted Budget. Transient Occupancy Tax revenue has recovered after a decrease during the first quarter, and is currently 3.3% higher than prior year-to-date collections. It is projected that Transient Occupancy Tax will end the year at nearly $5 million in non-departmental discretionary revenue, $1.6 million over the FY 2020-21 Adopted Budget.

This fund balance projection does not include any unspent Capital Project funds that may also remain at the end of the fiscal year and will be reported as part of the General Fund fund balance. Any fund balance related to Capital Projects would need to be re-budgeted to complete the projects and therefore would not be recommended as available for discretionary use.

The fund balance projection also does not include any General Fund savings as a result of CARES Act reimbursements. A Board item will be brought in March to discuss the impact of 2020 CARES act funding on the General Fund and seek direction for the uses of any available funding. El Dorado County was recently notified of an additional $6.5 million in coronavirus relief funding, and staff are preparing a recommendation for use to be brought to the Board.

It should be noted that these are preliminary projections and will be used only for planning purposes at this point. The Recommended Budget that will be presented in June will reflect updated projections, and those figures may increase or decrease from the current projection.

Governor's Proposed Budget

Similar to the projected excess revenues projected for El Dorado County above, the Governor's FY 2021-22 proposed budget includes increased revenues of $71 billion over the FY 2019-20 state budget. This is attributed to a less severe recession than forecasted, unequal distribution of wage losses among low-wage workers, and a stronger stock market than anticipated. The Governor's budget assumes a 2.5% decrease in Sales and Use Tax revenue and a 4.5% increase in property tax revenue.

In FY 2020-21 realignment funding was not anticipated to meet base levels, resulting in a funding shortfall for realigned programs in the County. However, the Governor's budget projections for FY 2020-21 indicate that Realignment revenues will increase by 5.6 percent over 2019-20 levels.

Following the release of the Governor's proposal, the California State Association of Counties (CSAC) noted that several of the proposals would be important for counties to monitor:

- $1.75 billion for homelessness, including for Project Homekey, behavioral health continuum infrastructure, and residential care facilities.
- $1 billion for forest resilience.
- $1.1 billion for California Advancing and Innovating Medi-Cal (CalAIM) implementation.
- $372 million placeholder for COVID-19 vaccine efforts.
- Over $250 million to begin implementing the new Master Plan for Aging.
- $500 million each for increased infill infrastructure grants and housing tax credits.
- Increased enforcement of state housing laws, including for local housing production.

As we move through the budget development process, staff will be watching closely for relevant developments that would affect the County's FY 2021-22 Recommended Budget.

FY 2021-22 Budget Development

As with the prior four budget years, departments have again been provided with general direction to submit FY 2021-22 budget requests within a "status quo" budget, focusing on what is necessary to maintain existing programs and services.

It is important to note that a status quo budget maintains existing programs and services at their current levels while allowing for growth in costs related to items that are not within the department's control, such as increases in health care and retirement costs. Additionally, a status quo budget does not specifically relate to net county cost. In some cases, a department's net county cost may decrease in a "status quo" scenario. For example, if the department had one time expenses in the prior year, these expenses would not carry over into the status quo budget.

As noted earlier, the projected excess fund balance should be considered a one-time revenue, the use of which should be determined strategically, balancing departmental needs with countywide obligations, while adhering to the County's budget policies and considering the County Strategic Plan and the Board's priorities. At this time, it is anticipated any additional fund balance will be directed to one-time infrastructure needs, such as capital building needs, road maintenance and information technology infrastructure needs.

Staff will return to the Board on April 19, 2021, for further Board direction on revenue assumptions, policy issues, and Board priorities for the FY 2021-22 Recommended Budget.

Exhibits: A: General Fund Mid-Year Projection Worksheet
B: FY 2019-20 Summary of Department Mid-Year Projections