



# *The County of El Dorado*

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## *Chief Administrative Office*

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TO: Honorable Board of Supervisors

FROM: Don Ashton   
Chief Administrative Officer

SUBJECT: FY 2021-22 Mid-Year Budget Report

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. 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.

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 current challenges in hiring staff that are affecting El Dorado County and the nation as a whole. Departments have developed conservative projections of their year-end fund balances, often assuming that higher-than-normal vacancy rates do not continue for the remainder of the fiscal year. 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.

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 description of each department's anticipated year-end variances from the budget.

### **FY 2021-22 General Fund Year-End Projection**

The net projected General Fund balance at June 30, 2021, is \$38.8 million, of which \$19.7 million is unspent contingency. Of the unspent contingency, approximately \$6 million will need to be re-budgeted in FY 2022-23 to meet the Board's policy of maintaining contingency of at least 3% of adjusted General Fund appropriations. The additional \$13.7 million in unspent contingency was composed of higher-than-anticipated general revenues and department savings in FY 2020-21 and was set aside in contingency in the Adopted Budget to address

needs related to Caldor Fire recovery and address economic impacts of the fire, such as reduced tax revenues. The recovery effort, including the FEMA claiming process, is led by the Emergency Operations Center (EOC). EOC staff have been tracking costs related to the Caldor Fire response and recovery and are projecting future recovery-related costs such as repairs to roads and other damaged infrastructure. The total impact to the County will not be fully known until all FEMA claims have been processed. The CAO recommends maintaining this additional contingency at least through the end of this fiscal year, and will make additional recommendations for this funding during the FY 2022-23 budget process. Excluding contingency, this leaves an estimated \$19.2 million of fund balance available to fund operations in the FY 2022-23 Recommended Budget.

The \$19.2 million in fund balance, unrelated to contingency, is composed of \$7.3 million in departmental savings, \$2.1 million in unspent Broadband Grant match fund to be carried over into FY 2022-23, and \$9.8 million in additional General Fund revenues. Exhibit A to this memo includes a table showing anticipated savings for each department, and Exhibit B to this memo is a narrative description of each department's projected savings.

The \$7.3 million in departmental savings has been generated through a combination of higher departmental revenues and reduced departmental expenditures. The most common area of reduced departmental expenditures is from Salaries and Benefits savings from increased vacancies and length of time to fill vacant positions.

General Revenues are the General Fund revenues received to fund Net County Cost and other General Fund expenditures. These revenues are projected to be \$9.8 million higher than budgeted. The projected increase in General Revenues through the end of FY 2021-22 is attributed to the following:

- \$3 million additional Sales and Use Tax revenue
- \$2.5 million additional Transient Occupancy Tax revenue
- \$4.3 million additional Public Safety Sales Tax revenue that is has not been factored into departmental savings

In the FY 2021-22 Adopted Budget, property taxes were projected to grow 4% from the prior year. At this time, it is projected that property tax will come in as budgeted, at \$80.5 million.

The FY 2020-21 Adopted Budget projected Sales and Use Tax receipts conservatively at \$15.7 million due to uncertainties about changing state collection methodologies that were still pending during the budget development process. Since then, it has been determined that current Sales and Use tax growth is more than offsetting any impacts from the changes in state collection methodologies. Year-to-date Sales and Use Tax receipts show a 12% growth when compared to the prior year. It is projected that Sales and Use Tax will total \$18.7 million, a \$3 million increase from the FY 2021-22 Adopted Budget and \$1.6 million more than FY 2020-21 actual revenues.

In the FY 2021-22 Adopted Budget, Transient Occupancy Tax (TOT) was projected at prior year actuals, adjusted down slightly to account for the anticipated impacts of the Caldor Fire on TOT revenue. However, while we did see reduced activity during the Caldor Fire, the revenue has been strong overall and receipts are currently 42% higher than they were at the same time last year. Total TOT revenues for the year are projected at \$8.3, \$2.5 million more than the FY 2021-22 Adopted Budget.

Public Safety Sales Tax is projected to exceed budget by approximately 40%, based on receipts to date. This revenue is reflected in each Public Safety Department but is projected for all departments by the CAO. Like general Sales and Use tax, this revenue was budgeted conservatively in the 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 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.

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 Legislative Analyst's Office reports, "Revenue collections have grown rapidly in recent months. For example, September 2021 collections from the state's three largest taxes were 40 percent higher than September 2020 and almost 60 percent higher than September 2019. As a result of this surge, collections so far this fiscal year are already over \$10 billion ahead of 2021-22 Budget Act assumptions. Underlying the recent surge is a meteoric rise in several measures of economic activity. Retail sales have posted double-digit growth during 2021." The Governor's FY 2022-23 budget assumes a 4.2% increase in Sales and Use Tax revenue from current projections and a 6.1% increase in Property Tax revenue. The Governor's FY 2022-23 budget estimates revenues will grow by 6.4% in FY 2021-22 over FY 2020-21 and 3.9% in 2022-23 over 2021-22 levels.

As we move through the budget development process, staff will be watching closely for relevant developments that would affect the County's FY 2022-23 Recommended Budget.

### **FY 2022-23 Budget Development**

Consistent with prior years, departments have been provided with general direction to submit FY 2022-23 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 compensation, health care, and retirement costs. As a result, a status quo budget does not mean that department's Net County Cost will not increase. It is anticipated that Salaries and Benefits will increase in a status quo budget in FY 2022-23 due to Board-approved compensation increases. Additionally, costs for services and supplies are increasing due to inflation and supply chain issues. 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 funding source, the use of which should be determined strategically, balancing departmental needs with

countywide obligations, while adhering to the County's budget policies, considering the County Strategic Plan, and considering the Board's priorities.

Staff will return to the Board on April 25, 2022, for further Board direction on revenue assumptions, policy issues, and Board priorities for the FY 2022-23 Recommended Budget.

Exhibits:       A: General Fund Mid-Year Projection Worksheet  
                  B: FY 2021-22 Summary of Department Mid-Year Projections