



County of El Dorado

Chief Administrative Office

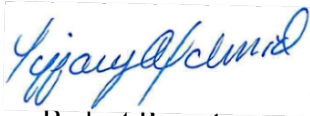
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March 1, 2023

TO: Honorable Board of Supervisors

FROM: Tiffany Schmid 

SUBJECT: FY 2022-23 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. Departments have developed conservative projections of their year-end fund balances, often assuming best-case scenarios for filling vacancies, receiving ordered fixed assets, and completing projects 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 2022-23 General Fund Year-End Projection

The net projected General Fund balance at June 30, 2023, is \$25.9 million, of which \$11.8 million is unspent contingency. Of the unspent contingency, approximately \$6.75 million will need to be re-budgeted in FY 2023-24 to meet the Board's policy of maintaining contingency of at least 3% of adjusted General Fund appropriations. The additional \$5 million in unspent contingency was set aside in contingency in the Adopted Budget to address possible economic impacts that could affect the County over the coming years including disaster recovery. The recovery efforts to recent disasters, including the FEMA claiming process, is led by the Emergency Operations Center (EOC). EOC staff

have been tracking costs related to the disaster 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 as long as disaster recovery efforts are ongoing. Excluding contingency, this leaves an estimated \$14.1 million of fund balance available to fund operations in the FY 2023-24 Recommended Budget.

The \$14.1 million in fund balance, unrelated to contingency, is composed of \$6.7 million in departmental savings, \$3.3 million in appropriations that will need to be carried over into FY 2023-24, \$2.2 million in Non-Departmental Expenses that was put aside for any unbudgeted compensation increases that couldn't be absorbed by departments, and \$1.9 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 \$6.7 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 vacancies.

The FY 2022-23 Budget did not include many Board-approved compensation increases as they were approved after the budget was developed. \$2.2 million in appropriations were budgeted in Non-Departmental Expenses in anticipation that some departments at Mid-Year would not be able to cover all compensation increases with departmental savings. It is projected that only a small amount of this funding may be needed later in FY 2022-23, as outlined in Exhibit B. Board Policy B-16, Section 12-Pension Funding, states that the County has a goal of maintaining at least two years of the projected General Fund increases in pension costs in a designation. Based upon CalPERS -6.1% investment returns in 2021-22, the County anticipates increases to the County's Unfunded Accrued Liability in the actuarial reports that will be released later this year. In anticipation of these projected increases, the Chief Administrative Office will likely recommend setting this funding aside in the CalPERS cost increases designation in the FY 2023-24 Recommended Budget.

General Revenues are the General Fund revenues received to fund net county cost and other General Fund expenditures. These revenues are projected to be \$1.9 million higher than budgeted. The projected increase in General Revenues through the end of FY 2022-23 is attributed to Interest, Current Unsecured Property Tax, and Current Supplemental Property Tax receipts that were higher than anticipated. All other major General Fund revenues are projected to come in close to budgeted amounts.

The projections do not include excess Transient Occupancy Tax (TOT) receipts or savings. An updated projection of TOT receipts and savings will be brought to the Board in April at the Special Budget Board Meetings to determine TOT priorities in alignment with Board Budget Policy B-16 Section 13-Transient Occupancy Tax.

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.

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.

County Fund Reserves, Designations, and Fund Balance Overview

In an effort to increase transparency of assigned and unassigned fund balances across the over 300 subfunds in the County Budget, the Chief Administrative Office has prepared Exhibit C, outlining for each of the County's subfunds the fund balance, reserves, and designations at the time of adoption of the Fiscal Year 2022-23 Adopted Budget. This is a new document and the Chief Administrative Office anticipates updating this document annually after the budget is adopted.

Governor's Proposed Budget

The Governor released his budget proposal for FY 2023-24 on January 10, 2023. The Governor's FY 2023-24 Budget proposal assumes a 2.3% increase in Sales and Use Tax revenue from current projections and a 4.5% increase in Property Tax revenue. The Governor's Proposed Budget projects, "Economic growth is expected to continue, albeit at a slow pace, through 2024 as high interest rates decrease demand." The Legislative Analyst's Office's "estimates suggest that there is a good chance that revenues will be lower than the administration's projections for the budget window, particularly in 2022-23 and 2023-24." As we move through the budget development process, staff will be watching closely for relevant developments that would affect the County's FY 2023-24 Recommended Budget.

FY 2022-23 Budget Development

Consistent with prior years, departments have been provided with general direction to submit FY 2023-24 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. Salary and Benefits will increase in a status quo budget in FY 2023-24 due to Board-approved compensation increases. 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 18, 2023, for further Board direction on revenue assumptions, policy issues, and Board priorities for the FY 2023-24 Recommended Budget.

Exhibits: A: General Fund Mid-Year Projection Table
 B: FY 2022-23 Summary of Department Mid-Year Projections
 C: Subfund Reserves, Designations, and Fund Balance FY 2022-23 Summary