



County of El Dorado

Chief Administrative Office

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TO: Honorable Board of Supervisors

FROM: Tiffany Schmid
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SUBJECT: FY 2023-24 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.

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 2023-24 General Fund Year-End Projection

The net projected General Fund balance on June 30, 2024, is \$16.96 million, of which \$7.25 million is unspent contingency. Approximately \$3.7 million will need to be re-budgeted in FY 2024-25 for projects and purchases that will not be completed in FY 2023-24 and carried over into FY 2024-25. Excluding contingency and the \$3.7 million that needs to be re-budgeted, this leaves an estimated \$6

million of fund balance available to fund operations in the FY 2024-25 Recommended Budget. This is a 44% decrease from the \$10.8 million projected to be available to fund operations in the FY 2022-23 Mid-Year Report.

The \$9.7 million in fund balance, unrelated to contingency, is composed of \$5.5 million in departmental savings, \$3.7 million in appropriations that will need to be carried over into FY 2024-25, and \$0.5 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 \$5.5 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.

General Revenues are the General Fund revenues received to fund Net County Cost and other General Fund expenditures. These revenues are projected to be \$0.5 million higher than budgeted. This is a 74% reduction in projected additional discretionary revenue from the \$1.9 million projected in the FY 2022-23 Mid-Year Report. The projected increase in General Revenues through the end of FY 2023-24 is attributed to Current Unsecured Property Tax and Assessment and Tax Collection Fee receipts that were higher than anticipated. All other major General Fund revenues are projected to come in close to budgeted amounts apart from Public Safety Sales Tax. This State revenue is derived from the State's Portion of Sales and Use Tax and apportioned by the State. Due to low statewide receipts in the Sales and Use Tax pools used for this revenue, the Law and Justice departments, that receive this revenue in their budgets, are projecting a shortfall of this revenue, as described in Exhibit B.

The projections do not include excess Discretionary Transient Occupancy Tax (DTOT) receipts or savings. An updated projection of DTOT receipts and savings will be brought to the Board in April at the Special Budget Board Meetings to determine DTOT priorities in alignment with Board Budget Policy B-16 Section 13-Discretionary 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. Capital Projects often span multiple years; 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 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. 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 2023-24 Adopted Budget. This is the second year this document has been included in the Mid-Year Budget Report.

Governor's Proposed Budget

The Governor released his budget proposal for FY 2024-25 on January 10, 2024, and is projecting a budget shortfall of \$37.9 billion. The Governor's Proposed Budget states, "The budget shortfall facing lawmakers in 2024 - estimated at \$37.9 billion - is rooted in two separate but related developments during the past two years - the substantial decline in the stock market that drove down revenues in 2022 and the unprecedented delay in critical income tax collections." The budget shortfall is being addressed by using \$13.1 billion in reserves with the remaining shortfall addressed through funding claw backs, deferrals, and other strategies. The areas of most concern for the County in regard to the budget shortfall strategies in the Governor's proposal are some delays and reductions in behavioral health investments and CalWORKS funding.

The Governor's FY 2023-24 Budget proposal assumes a 1.5% increase in Sales and Use Tax revenue from current projections and a 3.8% increase in Property Tax revenue. The Governor's Proposed Budget states, "Despite the downward revision in 2022, 2022-23 revenues are estimated to still be 23 percent higher than pre-pandemic levels in 2018-19. Furthermore, the Big Three revenues are projected to revert to levels consistent with a normal revenue growth trajectory, absent the COVID-19 surge and subsequent correction." As we move through the budget development process, staff will be watching closely for relevant developments that would affect the County's FY 2024-25 Recommended Budget.

FY 2024-25 Budget Development

There are several factors that indicate balancing the FY 2024-25 Recommended Budget will be more difficult than in recent years. First, as noted above, the projected year-end fund balance available to fund operations in the following year is about half of what was available last year. Second, our primary discretionary revenue sources, Property Tax and Sales and Use Tax, are expected to see only moderate growth, due to inflationary pressures on the economy and slow home sales. Finally, expenses are outpacing revenue growth. In addition to the general increases experienced across most items, the Workers' Compensation and General Liability premiums are projected to be 7% higher than the current year and Health Insurance Premiums have increased, affecting employees' contributions as well as the County's share of costs. In addition, the County must replace its timekeeping system, Kronos, as it will no longer be supported. This is expected to cost approximately \$500,000.

To further complicate matters, the County's discretionary reserves and designations have been reduced by \$22 million since the FY 2023-24 Recommended Budget. This is mainly due to increases in construction costs drawing down the Designation for Capital Projects and a reduction in General Fund Contingency by \$4.5 million due to the Fair Market Value adjustment required by the

Governmental Accounting Standards Board (GASB). Strategically, the County had been maintaining its Contingency appropriation at a higher level than required by Board policy in anticipation of an economic downturn. In part, this was to provide some security that the County would be able to maintain the investments in employee compensation that have been made in recent years.

In light of the current outlook, I convened a meeting of all Department Heads in late January to solicit their ideas for achieving efficiencies, reducing costs, and enhancing revenues. We will be meeting regularly throughout the budget development process. All departments agree that maintaining a culture where employees are valued and fairly compensated is a priority, and I anticipate that as we work through preparing the Recommended Budget over the next several weeks, your Department Head team will come through with innovative solutions. It is imperative that the sacrifices departments make during the FY 2024-25 Budget development are documented and recognized, and that departments are made whole once the County's Budget stabilizes.

Staff will return to the Board on April 10, 2024, for further Board direction on revenue assumptions, policy issues, and Board priorities for the FY 2024-25 Recommended Budget.

Exhibits: A: General Fund Mid-Year Projection Table
B: FY 2023-24 Summary of Department Mid-Year Projections
C: Subfund Reserves, Designations, and Fund Balance FY 2023-24 Summary