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 25, 2020

Memo To: Honorable Board of Supervisors

Subject: FY 2019-20 Mid-Year Budget Report and FY 2020-21 Outlook

The Chief Administrative Office has regularly provided the Board of Supervisors with a mid-year budget report in order to identify and keep the Board and the public apprised of any changes to approved budgets, and to assess the financial environment for the County as we prepare for the coming fiscal year budget.

For 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. However, different from prior years and due to competing priorities for departmental fiscal staff as well as the transition away from the BPREP budget system and to a FENIX budget module, departments were not asked to provide the Chief Administrative Office with detailed line-item projections, rather were asked to only identify any anticipated changes to their year-end balances. These estimates help the Chief Administrative Office in estimating overall General Fund savings through the end of the year.

The following report summarizes departmental year-end financial forecasts and related issues. Discussion of anticipated year-end variances from the Board approved budgets have been provided by every County department and are summarized in Attachment A to this report.

The Chief Administrative Office has also provided an outlook for the coming year, with a brief discussion of the Governor’s Proposed Budget and anticipated budget pressures.

FY 2019-20 General Fund Year-End Projection

The net result of the Non-Departmental and department year-end projections is an estimated year-end fund balance projection of $16.1 million. This is $6.3 million more than was projected at this time last year ($9.8 million), and $2.1 million more than what was included in the FY 2019-20 Recommended Budget ($14 million). It should be noted that fund balance discussed here reflects that amount anticipated to be available to fund general operating expenses, and does not reflect any fund balance amounts that may be committed to the Accumulative Capital Outlay (ACO) Fund.

Approximately $10.2 million of the estimated year-end fund balance is from the Non-Departmental and General Revenues budget (Department 15). This is due to the anticipated unspent General Fund Contingency ($6.6 million), other savings in Non-Departmental Expenses ($1.4), and roughly $2.2 million in additional General Revenues. Unspent appropriations (or unanticipated excess revenues) in other departments is currently estimated to equal $5.9 million. It is important to note that in some larger departments, an appropriation savings does not always equate to a reduction in Net County Cost, as revenues may be tied to appropriations (i.e., reimbursements).

General Revenues are the discretionary General Fund revenues received to fund Net County Cost and other General Fund expenditures. As mentioned above, these revenues are projected to be $2.2 million higher than budgeted. The projected increase in General Revenues through the end of FY 2019-20 is primarily attributed to the following:

- $1,345,000 increase in Sales and Use Tax revenue
- $875,000 increase in Transient Occupancy Tax funds
- $300,000 increase in Interest Earnings

Year-to-date Sales and Use Tax receipts result in a projected year-end revenue amount similar to the prior year's actual receipts, or approximately $14 million. This is nearly $1.4 million greater than budgeted. As was mentioned in September of 2019, the State of California has transitioned to a new distribution method, which has resulted in what looks like a substantial increase in Sales and Use Tax revenue to El Dorado County at the end of FY 2018-19 and continuing into this fiscal year. Additional research still needs to be performed, and the actual receipts will be monitored for changes.

Transient Occupancy Tax revenue continues to grow year-over-year. Along with the Treasurer-Tax Collector, we are estimating TOT revenue to equal $5.3 million for FY 2019-20.

As the County's earned rate of return rebounded over the past several years, Interest Earnings for the General Fund had in essence doubled year-over-year, increasing from 1.11% in December of 2017 to 2.08% in December of 2018 (as reported by the Treasurer's office). However, this growth is not anticipated to continue through FY 2019-20, with interest revenue leveling off and potentially decreasing slightly. Revenue from Interest Earnings is currently estimated at $1.3 million for FY 2019-20.

Anticipated increases in these budgeted revenues partially offset a possible decrease in actual Property Tax (current secured) revenue, compared to budget, currently estimated to come in at $69.3 million. This estimate is roughly $980,000 less than what is included in the Adopted Budget. Recall that the Recommended Budget assumed a 5% increase in Property Tax, which was later reduced to reflect a 4% increase based on the closing of the assessment roll. Again, we will monitor this revenue and update our estimates as we move through the budget process.

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 for these major revenue sources, and those figures may increase or decrease from the current projection.

As mentioned above, not included in this fund balance estimate are any unspent Capital Project funds that may also roll forward from year to year, and are reported as part of the General Fund fund balance. Any fund balance related to Capital Projects will have a corresponding Capital Project appropriation, therefore would not be recommended as available for discretionary General Fund operations.

FY 2020-21 General Fund Outlook & County Priorities

Revenues and Funding Sources

As discussed above, we are currently projecting a fund balance carryover estimate of $16.1 million. The carryover fund balance represents unused funds from the current budget year, which are available for use in the following fiscal year. It is necessary to use a portion of these carryover funds to maintain the appropriation for the General Fund Contingency at the 3% of General Fund expenses level, as directed by Board policy.

The following are current estimates for the major revenue assumptions that will be used in developing the FY 2020-21 Recommended Budget. These assumptions are subject to change as we move through the budget development process and gain additional information as we approach the end of the fiscal year.

> Property Tax Revenue: We will assume another 4% growth in property taxes for FY 2020-21. The State Board of Equalization is advising county Assessors to use 2 percent as Proposition 13's inflation factor for 2020-21. With input from the County Assessor, we believe that 4% is a reasonable estimate, appropriate for use at this stage of the budget planning process at this time. This estimate will be monitored as we approach the end of the fiscal year and modified as needed.
>
> Sales Tax Revenue: We are currently planning for a 2% growth in sales tax revenue for FY 2020-21, as with the prior year. However, as was mentioned in September of 2019, the State of California has transitioned to a new distribution method, which has resulted in what looks like a substantial increase in Sales and Use Tax revenue to El Dorado County at the end of FY 2018-19 and continuing into this fiscal year. Additional research needs to be performed to determine what part of this increase is due to a new methodology, state corrections to past distributions, or is reflective of a genuine increase in economic activity. As we state each year, this estimate may change with further analysis, and may be adjusted as we approach the end of the fiscal year.

Expenditures and Priorities

As with the prior three budget years, departments have again been provided with general direction to submit FY 2020-21 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 level. The status quo budget will allow for growth in appropriations 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 (NCC). In some cases, a department's NCC may decrease in a "status quo" scenario. For example, if the department had one time expenses, these expenses would not carry over into the status quo budget.

That said, it can be generally assumed that the County will experience a natural growth in salary and benefit costs of approximately 4%, absent any separate actions to increase or reduce salary and benefit costs (i.e., elimination of vacant positions, or negotiated pay increases). As we have shared previously, much of the growth in salary and benefit costs will be due to factors outside of the County's direct control, such as increases in CalPERS costs and increases in health and related benefit costs. However, negotiations with employee groups continue. To the extent possible, budget projections for year-end FY 2019-20 include those negotiated salary and benefit adjustments which have been completed and implemented.

In line with the Board's adopted Budget Policies, we anticipate providing your Board with a Recommended Budget for FY 2020-21 that maintains the General Fund Contingency at 3% of the General Fund's on-going expenditures, maintains the General Reserve at 5%, and sets aside a minimum of $5 million for Capital Improvement projects.

Infrastructure -- including county-owned buildings, roads, and information technology -- and public safety remain as the County's top funding priorities, while continuing to work toward and maintain a competitive compensation structure consistent with the Board's compensation philosophy, and the FY 2020-21 budget recommendations will reflect these priorities.

As mentioned in previous reports, it is essential that we continue to seek strategies to contain costs and implement efficiencies, to identify new revenue opportunities in accordance with the Board's Budget Policies, and collaborate with other counties, cities and private/non-profit organizations in order to address these and other critical needs.

In the coming year, every effort will be made to incorporate Board and County priorities into the budget with little or no impact to existing programs and services. As previously stated, departments have been provided with general direction to submit their FY 2020-21 budget requests within a "status quo" budget, focusing on what is necessary to maintain existing programs and services. County Departments continue to look closely at their own operations, always with an eye for identifying possible areas to create efficiencies. Opportunities will be evaluated closely during the FY 2020-21 budget development process, and viable options may be presented within the Recommended Budget or, due to complexity, may be brought to the Board for consideration as separate proposals.

Governor's Proposed Budget

The Governor's 2020-21 proposed budget assumes increased revenues, with several new and ambitious proposals for addressing a number of major public policy issues.

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:

- A $12.5 billion investment over five years for climate resilience, partially funded by a proposed climate bond, to fund initiatives related to forest health, Community Power Resiliency (formerly PSPS), home hardening, and a climate revolving fund that would provide low-interest loans for waste diversion, low-carbon transportation, and sustainable agriculture.
- A new Access to Housing and Services Fund, as announced earlier this week, with an initial state investment of $750 million, which will pay rent for individuals facing homelessness, support new dwelling units, and help stabilize board and care facilities and homes.
- A reduction in probation term lengths for both felony and misdemeanants to two years, matched with an investment in more intensive supervision and services for misdemeanant probationers.
- $695 million, growing to $1.4 billion in the out-years, for preventative health care, over a third of which will be aimed at the unsheltered homeless population.

There is also on-going talk of revising the current rules, and restrictions, on counties' use of Proposition 63, Mental Health Services Act (MHSA), funding. Loosening of restrictions would provide a much needed and significant financial boost to counties as they work to meet mental health service needs within their communities.

However, the most pronounced and potentially most costly policy proposals surround the issues of Homelessness and Housing.

As evidence of this, the Governor delivered his State of the State Address on February 19. The Governor acknowledged the great economic gains that the State has made over the past few years - - "average 3.8 percent GDP growth over five years," "the largest rainy-day fund in state history," and "118 consecutive months of net job growth" - - then devoted the balance of his address to the statewide issue of Homelessness. The Governor indicated a *sustainable, permanent funding source* combined with *real accountability and real consequences*. As reported by KCRA, the Governor believes "California should lower the legal bar for providing forced treatment to the mentally ill and building more homeless shelters." This is important for counties in that it signals what many have discussed across the state - - that in many ways the current regulatory environment (specifically mentioning laws regarding conservatorships, and the state's environmental review rules) inhibits local solutions to these major policy issues.

The Governor has made bold promises to pursue a permanent solution to the State's homelessness crisis, including emphases on housing and mental health services. However, it remains to be seen how those promises will be met, and what the impact to California's counties will be.

As we move through the budget development process, staff will be watching closely for relevant developments that would affect the County's FY 2020-21 Recommended Budget.

Future Budget Pressures

The coming year's budget pressures continue to include CalPERS cost increases driven by plan fundamentals and plan administrative changes approved by the CalPERS Board of Directors, as well as countywide impacts related to employee negotiations and the implementation of the Classification and Compensation Study.

El Dorado County will also continue to experience budget pressures in the coming years due to the County deferring action in prior years. However, those pressures having to do with infrastructure have been well managed by the Board in the prior four years, allowing attention to now be directed toward maintaining existing infrastructure and planning for future improvements. Additionally, decisions will need to be made regarding the appropriate uses of existing County facilities, as services and program levels evolve. This will require an outlook based on proactive future planning. Consideration of a countywide capital improvement plan will help manage these needs into the future.

The County has made progress toward addressing compensation levels in county employment over the past two years, by adopting a County-wide compensation philosophy and working with its employee groups to reach agreement on appropriate steps to fulfill that philosophy. To that end, the goal of bringing all classifications to the median point of comparator agency compensation levels will create additional budget pressures in future years. It can be expected that in order to reach this goal, and at the same time maintain the County's obligations toward employee retirement benefits (CalPERS), some programs that currently operate with minimal County funding will begin to draw from the General Fund in order to maintain existing service levels.

Related to this, separate attention is being paid to large County programs that have traditionally been funded heavily by state and federal funding sources - - specifically the Health and Human Services Agency programs, Behavioral Health and Social Services, and the Department of Transportation / Road Fund. As stated in last year's report, projections continue to show that these programs are reaching a point where state and federal funds will not sustain current operating levels, and additional General Fund dollars may need to be dedicated to the programs to maintain current service levels. This concern will be evaluated further during the budget development process, and any recommended short- and/or long-term solutions will be brought to the Board for consideration.

On-going solutions to funding challenges will impact the County as a whole, as our resources become more constrained and are spread over larger program demands. The Board of Supervisors has made great strides in setting aside funds in anticipation of upcoming cost increases and County needs. However, continued planning for known and likely cost increases and funding obligations will assist the County in meeting future fiscal challenges.

Respectfully Submitted,

DON ASHTON
CHIEF ADMINISTRATIVE OFFICER

Shawne M. Corley
Assistant Chief Administrative Officer

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