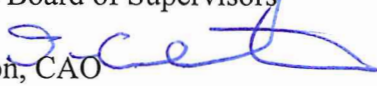




Date: July 21, 2020

To: Honorable Board of Supervisors

From: Don Ashton, CAO 

Subject: Staff Report – Legistar 20-0921

Chief Administrative Office recommending the Board:

1. Receive an update on funding for State funded programs within Child Support Services, Probation, and Health & Human Services;
2. Receive a presentation from the Facilities Division on building capital improvement projects and costs as requested at the June 9, 2020, Board of Supervisor meeting; and
3. Provide direction relative to revenue assumptions for Property Tax, General Sales Tax and Public Safety Sales Tax (Proposition 172).

FUNDING: Countywide Budget

DISCUSSION / BACKGROUND

As discussed when the FY 2020-21 Recommended Budget was presented, due to uncertainty related to the State's FY 2020-21 budget and impacts of COVID-19, the June Recommended Budget was largely status quo with many requests from departments being deferred pending a better understanding of the fiscal impacts of the pandemic. While we have more information regarding the State-funded programs, there continues to be uncertainty relative to the economic impacts of the pandemic on our local revenue streams. In an effort to determine the budget gap for FY 2020-21, the CAO asked all departments to refine their year-end fund balance estimates; however, to fully estimate the needs for the coming fiscal year, it is necessary to revisit the General Fund revenue assumptions. Considering the ongoing uncertainty of the impacts of COVID-19 on General Fund revenues, staff have prepared revenue assumptions based on moderate, conservative, and cautious approaches. Based on the Board's direction with regard to revenues, and taking into consideration the deferred requests and updated year-end fund balance estimates, the CAO's Office will prepare recommendations to the Board for balancing the budget for final adoption prior to the State-mandated deadline of October 2nd.

State Funded Programs

On June 22, 2020, the Board received presentations from the Department Directors of Child Support Services, Probation and Health & Human Services relative to the impacts to State-funded programs based on the Governor's May-Revise budget proposal. At that time the State budget did not include funding to account for lost revenues used to fund programs in these departments.

On June 29, 2020, the Governor signed the State’s FY 2020-21 budget which includes the proposed reductions to Child Support Services that were discussed on June 22, 2020. As stated during that presentation to the Board, Child Support Services will be able to address the reductions with minimal to no impact to existing service levels.

With regard to realigned programs within Probation, Social Services, Public Health and Behavioral Health, the final State budget includes \$750 million to backfill lost revenues for those programs, with the potential for an additional \$250 million contingent upon the state receiving additional COVID-19 relief from the federal government. On July 6th, the Department of Finance released the allocation amounts by county, and El Dorado County will receive approximately \$2.8 million of the initial \$750 million, to be distributed among the four program areas noted above. The Department of Finance will determine by October 15, 2020 how much of the additional \$250 million will be “triggered on” and made available for backfill to counties, based upon how much the federal government will provide in additional COVID-19 relief. If the entire \$250 million becomes available, El Dorado County will receive approximately \$1.0 million in additional funding. It should be noted that the amount the County receives of this additional backfill may be prorated up to the maximum of \$1.0 million, based on how much of the \$250 million relief is received from the federal government. These one-time safety net backfill amounts are to be used for health and human services programs, entitlement programs, and programs that serve vulnerable populations. Health and Human Services (HHSA) and Probation will provide updated impacts to the program reductions presented to the Board on June 22nd.

Property Tax

While other funding streams are being directly impacted as a result of COVID-19, staff does not feel property tax revenues will be negatively impacted in FY 2019-20. However, there are indications the growth in property tax will slow, and as a reminder, staff reduced the growth assumption from 5% in FY 2018-19 to 4% in FY 2019-20.

At this time it appears property tax revenues will slightly exceed the FY 2019-20 Adopted Budget, with a 3.96% growth over FY 2018-19 actuals. This results in a 1.1% increase projected in FY 2019-20 actuals compared to the Adopted Budget, and is due to the 4% growth in the Adopted Budget being based on FY 2018-19 budget rather than actual collections. Furthermore the FY 2020-21 Recommended Budget Current Secured Property tax revenue is based on 4% growth from the mid-year reports’ conservative projection of property tax for FY 2019-20. As shown in the table below, adjusting the FY 2020-21 budget to be based on 4% growth over the current FY 2019-20 projected actual collections would result in almost \$2 million in additional revenue.

Staff developed the following scenarios for current secured property tax revenue:

Budget Approach	Cautious	Conservative	Moderate
% Change from Projected FY 2019-20	3%	3.50%	4%
Total Current Secured Revenue	\$73.28 M	\$73.63 M	\$73.99 M
Difference from FY 2020-21 Recommended Budget	\$1.25 M	\$1.61 M	\$1.96 M

At this time staff are recommending a conservative approach by reducing property tax growth assumption further to 3.5% above actual collections. This would result in an increase in revenue by approximately \$1.61 million, which is approximately \$356,000 less than assuming a full 4% growth.

Sales Tax

In anticipation of reduced sales tax revenue as a result of COVID-19, staff projected no growth in sales tax in FY 2020-21 Recommended Budget, with revenue budgeted at \$12.85 million. In FY 2018-19 sales tax revenue grew 19% over prior year actuals as a result of changing state policies for collection and distribution and corrections due to errors in prior year distributions. Staff have budgeted this revenue conservatively to ensure revenue levels held over multiple years. The FY 2019-20 Adopted Budget for sales tax is 12.5% less than FY 2018-19 actuals. Sales tax projections for FY 2019-20 are at this time a best guess as not all revenue has been collected for FY 2019-20. The California Department of Tax and Fee Administration will disburse the remainder of the 2nd Quarter 2020 (April - June) sales tax at the end of July and August. The first advance of sales tax for the 2nd Quarter of 2020 is 17% less than the advance from the prior year. The reduction in the first advance can be attributed to reduced taxable sales and tax filing deadline extensions from the state. Sales tax filing extension information can be found at <https://www.cdtfa.ca.gov/services/covid19.htm>. It is unclear at this time how much we can expect sales tax revenue to decline.

Staff developed the following scenarios for sales tax for FY 2020-21:

Budget Approach	Cautious	Conservative	Moderate
% Change from FY 2020-21 Recommended Budget	-20%	-10.00%	0%
Total Sales Tax Revenue	\$10.28 M	\$11.57 M	\$12.85 M
Difference from FY 2020-21 Recommended Budget	(\$2.57 M)	(\$1.29 M)	\$0
Difference from FY 2018-19 Actuals	-29.97%	-21.22%	-12.47%

Staff are recommending that sales and use tax be reduced an additional 20%, which would reduce revenues by \$2.57 million. This is a cautious approach accounting for the unknown continuing impacts of the public health orders/directives and in preparation for the possibility of further shut downs in the fall and winter of FY 2020-21.

Proposition 172

Proposition 172, Public Safety Sales Tax Funding, is a ½ cent statewide sales tax that was passed by the voters in 1993 for the purpose of offsetting the shift of local property tax revenues from cities and counties to the “Educational Revenue Augmentation Fund” (ERAF). These funds are collected by the State and apportioned to each county based on its proportionate share of statewide taxable sales. As a result, considering the economic impacts of COVID-19 statewide to date, and the Governor's order on July 13th scaling back reopening plans, staff are anticipating a reduction in the amount allocated. Specifically, in FY 2018-19 the County received \$11,643,120 and budgeted revenue totaling \$11,873,193 in FY 2019-20, anticipating 2% growth. At this time staff are projecting actual revenues for Fiscal Year 2019-20 totaling \$11,308,085, approximately \$565,000 (5%) short of budget.

El Dorado County allocates Proposition 172 funds to the Sheriff, District Attorney, Public Defender and Probation. Using HdL’s estimates, it will result in revenue reductions and an increase in Net County Cost from the Recommended Budget for each department as follows:

Budget Approach	Cautious	Conservative	Moderate
% Change from FY 2020-21 Recommended Budget	-25%	-10%	0%
Total Prop 172 Revenue	\$8.9 M	\$10.69 M	\$11.87 M
Difference from FY 2020-21 Recommended Budget	(\$2.97 M)	(\$1.19M)	\$0
Difference from FY 2018-19 Actuals	-24%	-8%	2%

These revenues are allocated to the Law and Justice Departments as follows:

Sheriff 75%
 Probation 12%
 District Attorney 10%
 Public Defender 3%

As with general sales and use tax, staff are recommending the cautious approach. Due to the fact that the allocation methodology for public safety sales tax is more susceptible to statewide impacts than the local general sales tax, the cautious approach reflects a 25% reduction from FY 2020-21 Recommended Budget and a 24% reduction from FY 2018-19 actual receipts. The result is a reduction from the Recommended Budget of \$2.97 million.

Estimated Revenue Shortfall

Staff are recommending the Board approve the recommended General Fund revenue assumptions as discussed above and summarized below. We believe this best balances the need to maintain ongoing services that are essential to our community and continue our commitment to fund deferred maintenance and capital improvements, while also recognizing the need for reductions in light of the COVID pandemic. The Board should also keep in mind that if further businesses are ordered to close, and depending on the amount of time they will be required to close, the revenue reductions may shift beyond the ‘cautious’ projections. Staff will continue to monitor these revenue streams on a frequent basis to determine if any changes should be made to these assumptions.

If the Board approves the recommended General Fund revenue reductions, the Adopted Budget will have \$3.93 million in less revenue. The table below shows the changes by revenue source.

Revenue Source	Change for Recommended Budget	Assumption
Current Secured Property Tax	\$1.61 M	Conservative
Sales & Use Tax	(\$2.57 M)	Cautious
Prop 172	(\$2.97 M)	Cautious
Total Change in Revenue	(\$3.93 M)	

In anticipation of possible revenue reductions, staff deferred approximately \$4.9 million in General Fund requests from departments in the Recommended Budget. Staff are not expecting that all of these requests will be recommended for funding, but any deferred items that are funded will negatively impact the budget gap.

As presented today, state funded programs are anticipating that not all state revenue will be backfilled in FY 2020-21. If only the \$750 million of backfill is funded statewide, El Dorado County realignment programs will have a revenue shortfall of \$3.02 million in FY 2020-21. At this time the CAO is not recommending the use of General Fund to backfill these programs. Therefore, any Board direction to backfill these programs with General Fund revenue will further increase the budget gap.

As directed on June 22, 2020 with Legistar item 20-0781, departments drafted scenarios to reduce their General Fund costs by 5%. We have received this information from all departments and implementation of some of these reductions may be included in the CAO's recommendations for the adopted budget.

It should be noted, based on updated year-end projections, the FY 2019-20 available carry over fund balance is expected to be higher than the amount included in the FY 2020-21 Recommended Budget, which may aid in closing the budget gap in the FY 2020-21 Adopted Budget.

ALTERNATIVES

The Board could direct staff to utilize different assumptions than those recommended here in drafting recommendations for the Adopted Budget.

PRIOR BOARD ACTION

06/09/2020 Legistar Item 20-0752 - Approval of the FY 2020-21 Recommended Budget

06/22/2020 Legistar Item 20-0781 - Department presentations on revenue impacts due to COVID-19.

OTHER DEPARTMENT / AGENCY INVOLVEMENT

Health and Human Services Agency, Probation Department

FINANCIAL IMPACT

There is no direct financial impact for providing direction for revenue assumptions as staff will return to the Board for approval of the Adopted Budget in September.

CLERK OF THE BOARD FOLLOW UP ACTIONS

None

STRATEGIC PLAN COMPONENT

Good Governance

CONTACT

Don Ashton, CAO