

FISCAL YEAR 2022-23

# BUDGET DEVELOPMENT REPORT & PROPOSED POLICIES

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**Board of Supervisors**

Tuesday, December 7, 2021



County Executive Office

# TODAY'S REPORT

- Budget Development Timeline
- Expert and State Outlook
- Changes to Presentation of Forecast
- General Fund Five-Year Forecast
- Other Major Fund Projections
- New Budget Development Policies
- Board Budget Priorities Discussion

# Annual Budget Process



Budget Development Report and Proposed Policies Presented to Board (Dec 7)

Workshop Review Meetings

Recommended Budget Released

DEC

JAN

FEB

MAR

APR

MAY

JUN

Departments prepare requested budgets

Budget Workshops (Apr 11, 12 & 14)

Budget Hearings and Adoption of County Budget (June 14 & 15)

# EXPERT AND STATE OUTLOOK

- UCLA Anderson Forecast, September 2021
  - Projected “good” and “solid” GDP growth in 2021, 2022, and 2023
  - Assumption risks: 1) government shutdowns; 2) inflation fails to abate over next 12 months; and 3) new variants or increase infectious rate cause consumers to be more conservative.
  - California’s recovery and expansion expected to outpace U.S. as a whole.
- Legislative Analyst’s Office (LAO), November 2021
  - Potential \$31 billion State budget surplus for 2022-23
  - Governor’s preliminary budget will be issued in January and revised in May 2022

# ABOUT THE FORECAST

- Provides context for balancing short-term and long-term goals during development of the FY 2022-23 budget
- Identifies potential demands on County resources in the coming years
- Identifies key areas that will need attention when preparing the FY 2022-23 budget
- Forecasts major budgetary components including discretionary revenue and labor costs based on current negotiations
- Primary focus on General Fund that funds most County operations with other major County funds included

# Report Changes from Previous Year

- General Fund focus with known impacts of discretionary revenue and salaries and benefits, policy commitments, countywide operational changes and fiscal plan mitigations
- General Fund department fiscal issues were requested, reviewed for significant impact and will be further considered with budget submittals
- Fiscal issues defined as significant (>\$500k) ongoing budget impact usually related to legislative changes, new statutory mandates or issues outside department control that would result in severe service level impacts or risk to the County

# Context

- Major discretionary revenue sources relatively stable, with slight reduction of cannabis taxes
- Assumptions based on current estimates of expenditure and revenue growth
- Incorporates recently negotiated labor contracts
- Assumes retirement rate of return discount reduced from 7% to 6.75% in FY 2022-23
- Assumes a status quo level of services
- No department expansion requests are incorporated

# Key Elements

- State and federal actions that will increase or decrease County costs or revenue
- The amount of increase/decrease in the County's assessed valuation impacting property taxes and other major discretionary revenues
- The status of the current year's budget and year-end fund balances carried forward to the next fiscal period
- Known, quantifiable changes in local program costs and revenues





# COUNTYWIDE SALARY AND BENEFIT COSTS

# Major Salaries & Benefits

## Salaries

4.2%

Increase in Year 1

- Negotiated salary increases; in general 2.5% in FY 22-23 and 2% in out years
- Step and merit increases for represented employees
- Status quo staffing
- \$17M increase countywide Year 1

## Retirement

2.5%

Increase in Year 1

- Salary increases + SBCERS plan rates
- Costs partially offset by pension cost-sharing
- Assumes 25% investment return at 6/30/21 and 6.75% discount in 22-23

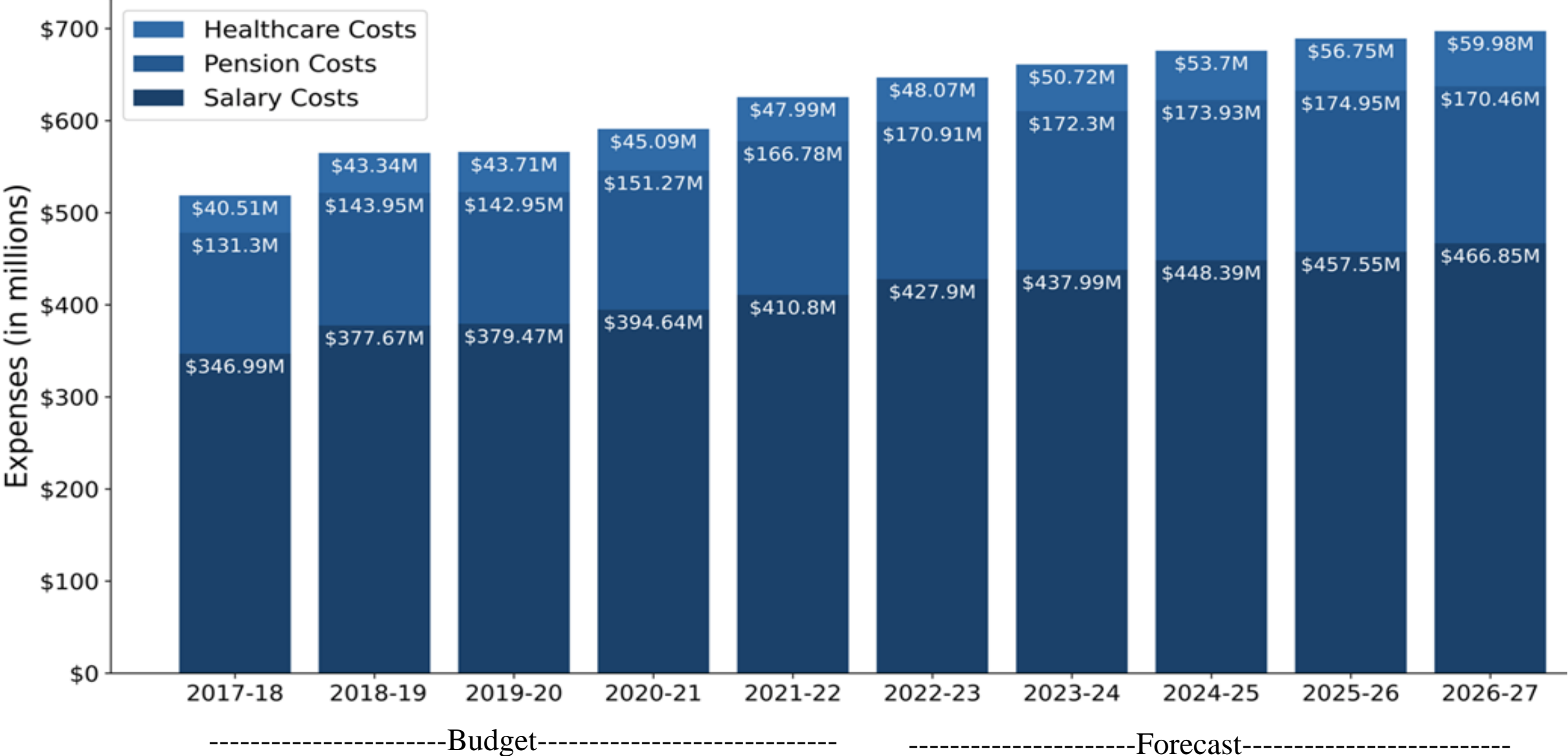
## Health Insurance

0.9%

Increase in Year 1

- Lower premiums than budgeted in FY 21-22 are contributing to a minimal increase for Year 1, but out years avg 5.7%
- Year-to-year increases unpredictable; driven by prior year cost experience and market factors

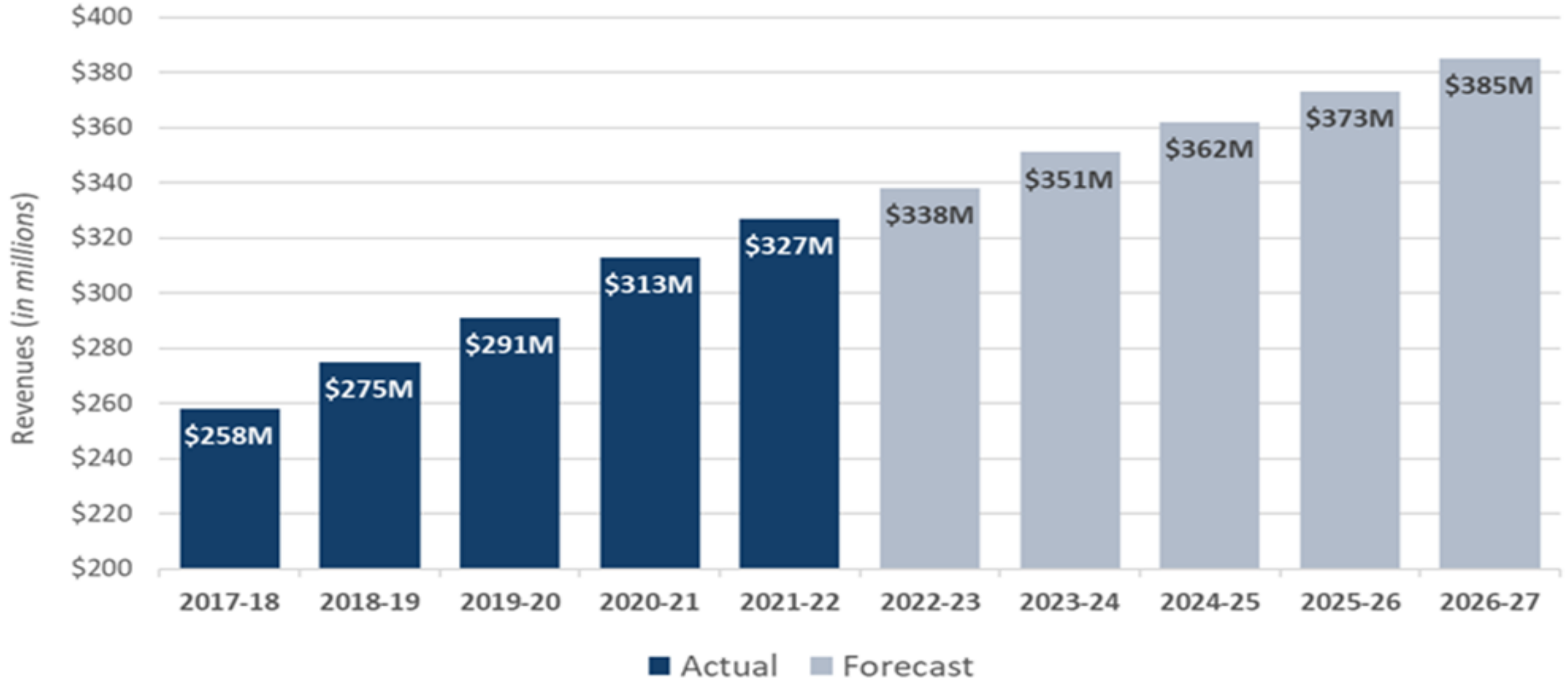
# Major Salaries and Benefits





# GENERAL FUND DISCRETIONARY REVENUE

## Total General Fund Discretionary Revenues



# Property Taxes

- Make up 77% of the County's discretionary revenue
- Assessed valuation increases in residential and commercial properties is contributing to an assumed 4.7% increase in revenue for FY 22-23
- Growth in the following years of the forecast assumes that property tax revenue will have mild growth of 3.7% in year two, with growth tapering to 3.3% prospectively
- Net impact to General Fund in FY 22-23 is an increase of \$7.9 million.

# Sales Tax

- Makes up 4% of the County's discretionary revenue
- Retail sales returned to pre-pandemic levels with emphasis on goods and on-line sales specifically
- HdL consultants project 5.4%, or \$676k increase in FY 22-23
- Growth is predicted to drop to 3.2% in FY 2023-24 as the economic recovery decelerates, but then increases prospectively to 4% by the final forecast year

# Transient Occupancy Tax

- Makes up 3.7% of the County's discretionary revenue
- Highly dependent on tourism and the availability of lodging in the unincorporated areas of the County
- Revenues are rebounding to pre-pandemic levels with travel to Central Coast surging
- An increase of 3.8% or \$500k is projected for FY 22-23 and steady growth of 3.5% for other forecast years



# Cannabis Tax Revenue

**\$15.7M**

FY 2020-21  
Receipts

**\$19.0M**

FY 2021-22  
Adopted Budget

**\$17.7M**

FY 2022-23  
Preliminary Estimate

- Forecast assumes a 7% decrease to **\$17.7M** in FY 2022-23
  - Decrease result of oversupply of cannabis product that is beginning to develop statewide and its adverse impacts on pricing
  - Quarter 1 current year receipts reflect potential \$3 million shortfall
- Forecast assumes steady growth up to \$21.1M in FY 26-27 as retail storefront operators and other new cultivators become licensed and enter market



# GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

# Policy Commitments

## Strategic Reserve Growth

**8%** Total Operating Revenue

- Current policy maintains a balance of 8% of total GF operating revenue; includes discretionary plus other resources
- FY 22-23 assumes will bring balance current after pandemic hold

## Northern Branch Jail Operations

**\$2.2M** Increase in Year 1

- Grows to annual funding level of \$19.6M in FY 22-23
- Increases another \$5.6M in out years of forecast
- Forecast assumes incremental increases until it equals annual jail operation costs of new facility

# Operational Changes

## General Liability & Workers Comp

**\$5 M**

increase over next 5 years

- Upward trend continues
- Increasing California settlement amounts
- Growing County experience ratings
- Board approved \$500k ongoing set aside toward increases in FY 21-22

## Information Technology

**8%**

avg. annual increase

- Software & hardware costs are departments' responsibilities
- Unplanned costs to prepare for telework
- GFC considered for some increases outside department control

## Continuation of Co-Response Program

**\$1.1 M**

Total Program Cost

- Grant funding ends over next 2 years
- Board approved \$500k ongoing set aside toward program in FY 21-22

# Operational Changes

## DSS Calfresh Local Share Waiver Sunset

**\$807k** Ongoing contribution

- Waiver ending FY 22-23
- GF contribution would allow for additional drawdown for State and federal funding
- Drawdowns will help offset labor negotiated cost increases

## IT Department Operations

**\$1 M** Over Years 2-4

- Operation costs anticipated to grow once fully established
- Initial funding of \$1M was included in FY 21-22 adopted budget

## Homelessness Services Costs

**\$5 M** Annually beginning in FY 2025-26

- ARPA and other funding identified through FY 2025-26

# Operational Changes

## Project Clean Water Program Costs

**\$900k** Annually starting in Year 1

- State mandated requirements resulting in increased maintenance services

# Fiscal Plan

## Board Approved Prior Year (PY) Set Aside Offset

**\$3 M** Year 1

- Board approved in FY 21-22 adopted budget
- Set asides for GL Increases (\$500k), labor negotiations (\$2M) and Co-Response Program (\$500k) help offset anticipated increases

## Previous Year GFC Deficit

**\$4 M** Over 5 year period

- One-time resources used to bridge gap for deficit year
- Ongoing applied following year if no other resources identified
- Homelessness services costs assumed in FY 25-26 result in a budget deficit

**FIVE-YEAR FINANCIAL FORECAST**  
**INCREMENTAL CHANGE IN GENERAL FUND ONGOING REVENUE AND COSTS**  
**FISCAL YEARS 2022-23 THROUGH 2026-27**

<b>Category</b>	<b>Ongoing Revenue Sources:</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>
Forecast	Discretionary Revenue (excludes Cannabis)	11,703,600	12,329,900	9,786,400	10,042,600	11,442,400
	<b>Total Revenue Change</b>	<b>\$ 11,703,600</b>	<b>\$ 12,329,900</b>	<b>\$ 9,786,400</b>	<b>\$ 10,042,600</b>	<b>\$ 11,442,400</b>
	<b>Ongoing Cost Changes:</b>					
Forecast	Negotiated and Assumed Salary Increases	6,346,800	4,773,700	4,742,100	4,463,000	4,337,700
Forecast	Pension Costs	1,157,500	573,500	555,900	506,900	(330,000)
Forecast	Health Benefits	17,100	757,200	824,100	855,500	906,500
Policy	Strategic Reserve Growth	1,651,400	228,700	87,400	91,500	95,700
Policy	Northern Branch Jail Operations Plan	2,200,000	2,100,000	1,800,000	1,000,000	700,000
Operational	General Liability/Workers Comp Increases (Fund 0001)	1,991,405	1,569,843	540,922	431,619	466,573
Operational	ITS/GS Charges for Services (Fund 0001)	234,450	234,450	234,450	234,450	234,450
Operational	Continuation of Co-Response Program	630,000	470,000			
Operational	DSS CalFresh Local Share Waiver Sunset	807,000				
Operational	IT Department Operations		500,000	250,000	250,000	
Operational	Homelessness Services Costs				5,000,000	
Operational	Project Clean Water Program Costs	900,000				
Fiscal Plan	Board Approved Prior Year Set Aside Offset: GL Increases, labor costs and Co-Response	(3,052,000)				
Fiscal Plan	Previous Year GFC Deficit		1,180,055	57,548		2,790,369
	<b>Total Change in Costs</b>	<b>\$ 12,883,655</b>	<b>\$ 12,387,448</b>	<b>\$ 9,092,420</b>	<b>\$ 12,832,969</b>	<b>\$ 9,201,292</b>
	<b>Annual (Deficit)/Surplus</b>	<b>\$ (1,180,055)</b>	<b>\$ (57,548)</b>	<b>\$ 693,980</b>	<b>\$ (2,790,369)</b>	<b>\$ 2,241,108</b>

# Key Takeaways

- Revenue growth helping to offset increased labor costs
- Little to no GFC remaining for program expansions or new projects
- Departments should be planning to be conservative and assume status quo General Fund contributions
- May need to look to cost-cutting and revenue-generating initiatives
- Recommend Board priorities be focused on one-time projects or needs, not ongoing costs





# GENERAL FUND UNALLOCATED FUND BALANCES

## GF Fund Balance Unallocated (9940 Account)

- Totaled \$17.9 million at July 1, 2021
- \$7.9 million related to CARES Act reimbursement
- Historically used for one-time budgetary items in next fiscal year
- Two significant items impacting account:
  - Advance Bridge Construction activity estimated at \$9.8 million by Public Works for temporary cash flow needs
  - Remaining balance of \$7.9 million earmarked for significant uninsured litigation costs

# General Fund Unallocated (9940 Account) Adjusted

<b>BEGINNING BALANCE</b>	<b>\$17,879,300</b>
Less:	
Temporary set aside for PW Advance Bridge Construction (Ends 2024-25)	(9,984,500)
Uninsured Litigation Costs	(7,894,800)
Total Remaining Balance	\$ -0-

## Cannabis Fund Balance (9815 Account)

- Prior year carryover is \$3.25 million, but revenue shortfall in current year anticipated leaving balance of \$281k
- \$4.76 million set aside for prudent reserve
- Potential current year revenue shortage in cannabis tax revenue collections of \$3 million
- Recommend balance not be allocated until final collections are determined

# Cannabis Fund Balance (9815 Account) Adjusted

<b>BEGINNING BALANCE</b>	<b>\$3,253,400</b>
Less:	
FY 21-22 Revenue Shortfall – Quarter 1	(2,972,000)
Total Remaining Balance	\$281,400
Prudent Reserve Set Aside	\$4,764,000

# OTHER MAJOR OPERATING FUNDS

# Other Major Operating Funds

Forecast \$ in millions

<b>Fund</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
Roads-Operations (Public Works)	(\$0.7)	(\$2.7)	(\$3.0)	(\$3.0)	(\$3.0)
Health Care (Public Health)	(\$3.4)	(\$6.2)	(\$6.9)	(\$7.5)	(\$7.8)
Mental Health Services (Behavioral Wellness)	(\$1.7)	(\$2.3)	(\$3.0)	(\$3.6)	(\$4.3)
Mental Health Services Act (Behavioral Wellness)	\$0	\$0	\$0	\$0	\$0
Environmental Health Services (Public Health)	(\$0.2)	\$0	(\$0.1)	(\$0.3)	(\$0.2)
Social Services	(\$3.2)	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.3)
SB IHSS Public Authority (Social Services)	(\$0.7)	(\$1.0)	(\$1.1)	(\$1.2)	(\$1.3)
Planning and Development	(\$0.1)	(\$0.1)	(\$0.3)	(\$0.2)	\$0

## Various drivers of gaps

- Federal and State revenues that will not keep pace with salary and benefit increases
- Fees below full-cost recovery during forecast period
- Ongoing deficits and depletion of fund balances

# Significant Other Major Funds Fiscal Issues

## Under Review and Monitoring

Issue	Potential Impact	Recommended Action
Public Works Roads Operations	\$2.4M	Evaluate short-term and long-term service level impacts and determine alternatives for cost reduction or additional resources
Public Health 340B Pharmacy Change	\$4.4M	
Behavioral Wellness State Hospital Beds	\$1.7M	





# FY 2022-23 PROPOSED BUDGET DEVELOPMENT POLICIES

# FY 2022-23 Policies

- Proposed policies similar to FY 2021-22 policies
- 6 new components added to:
  - Transfer Project Clean Water project to the General Fund
  - Establish cannabis revenue use policy and prudent reserve
  - Establish an uninsured litigation fund
  - Establish a working capital reserve fund balance for temporary loans for capital projects
  - Establish minimum funding allocations for certain countywide projects
  - Use new revenue generated from capital projects for debt service payments

# Policy 1.e.

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Transfer Project Clean Water to Public Works' General Fund budget unit

## Rationale

- More clear accounting structure
- General Fund contribution is main source of funding (96%) now at \$600k per year
- Action will not prohibit ability to obtain future State or federal funding

## Departments Affected

Public Works

## Fiscal Impact

None

## Policy 3.a.) i

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No new ongoing allocations of cannabis revenue except for cannabis program support and/or labor negotiated costs and establish a 25% prudent reserve

### Rationale

- Cannabis revenue collections are showing volatility related to over supply statewide
- \$13.5 million of the \$16 million estimated in revenue is committed to ongoing costs
- Funds would be limited to primarily cannabis program cost increases or one-time expenditures

### Departments Affected

Countywide

### Fiscal Impact

Limited funding available for General Fund fiscal issues, program growth or department needs

## Policy 5.d.

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Set aside a minimum one-time amount of \$5 million for uninsured litigation costs

### Rationale

- County currently has some funds set aside for attorney costs but must find funds in budget for settlement payments
- Set aside will minimize budgetary impact and potential service level impacts

### Departments Affected

Countywide

### Fiscal Impact

Minimum \$5 million in discretionary funds

## Policy 5.e.

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Establish a working capital reserve fund balance to account for temporary loans for capital projects, such as Public Works advance bridge construction projects

### Rationale

- Board has approved funding of temporary cash flow loans for advance bridge construction
- Funds are transferred from the General Fund Unallocated Fund Balance account 9940
- New account would identify more clearly the funds set aside for this purpose

### Departments Affected

General County Programs

### Fiscal Impact

Cash and unallocated fund balance will not be available for budget development until funds are repaid

## Policy 7.c.

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Recommend a minimum annual allocation in the budget for Countywide projects:

\$1.3 million for energy reduction upgrades to buildings, security improvements and roof replacements

### Rationale

- Allows for important facility improvements Countywide
- Already incorporated into budget in FY 2021-22; no new funding needed
- Formally establishes the funding commitment

### Departments Affected

General Services and General County Programs

### Fiscal Impact

None

## Policy 7.g.

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Determine if any new revenue generated by project funded through debt issuance can be used towards debt service payments for General Fund projects

### **Rationale**

- Board requested proposed policy related to current COP issuance
- Park project is expected to result in potential revenue generation
- New General Fund revenue could offset annual debt service payment

### **Departments Affected**

General Fund Departments

### **Fiscal Impact**

Reduces GFC necessary for annual debt service payments



# Looking Forward

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Establish countywide strategic initiatives and align department goals, objectives and performance measures accordingly

## Rationale

- New GFOA budget award criteria required in FY 23-24
- Clearly identifies Board's major priorities
- Improves alignment of goals, objectives and performance measures

## Departments Affected

Countywide

## Fiscal Impact

Staff time to produce and align



# QUESTIONS & BOARD PRIORITIES DISCUSSION

# Board Priority Focus

- Minimal ongoing GFC remaining for department expansion requests or new programs
- Potential one-time uses of funding:

- High priority Long-Range Planning projects
- Open space and recreational projects
- Countywide library system support
- Temporary enhancement of Co-Response Program
- CIP Priority List
- County ERP capital purchase and implementation
- Workforce Housing set aside
- Greater criminal justice diversion projects
- Augment set asides for litigation and other future liabilities
- Deferred maintenance

# RECOMMENDED ACTIONS

- A. Receive and file the FY 2022-23 Budget Development Report that includes a five-year forecast of major budgetary components for the General Fund and other major funds;
- B. Adopt the FY 2022-23 Budget Development Policies (Attachment C);
- C. Provide staff with any preliminary direction on Board priorities for FY 2022-23, as appropriate; and
- D. Determine pursuant to CEQA Guidelines §15378 that the above activity is not a project under CEQA.