

FISCAL YEAR 2023-24

BUDGET DEVELOPMENT REPORT & PROPOSED POLICIES

Board of Supervisors
Tuesday, December 13, 2022



County Executive Office

TODAY'S REPORT

- Budget Development Timeline
- Expert and State Outlook
- 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 13)

Workshop Review Meetings

Recommended Budget Released

DEC

JAN

FEB

MAR

APR

MAY

JUN

Departments prepare requested budgets

Budget Workshops (Apr 10, 12 & 14)

Budget Hearings and Adoption of County Budget (June 13 & 15)

EXPERT AND STATE OUTLOOK

- UCLA Anderson Forecast, September 2022
 - Below-trend GDP growth projected in 2022, 2023, and 2024
 - Assumption risks: 1) persistent inflation; 2) aggressive interest rate increases by the Federal Reserve; 3) waning consumer sentiment; 4) housing market shifts as mortgage rates increase and home prices decline; and 5) labor unrest.
 - California showing a weaker forecast as a product of the slowing growth nationwide.
- Legislative Analyst's Office (LAO), November 2022
 - Potential \$25 billion State budget deficit for 2023-24
 - Governor's preliminary budget will be issued in January and revised in May 2023

ABOUT THE FORECAST

- Provides context for balancing short-term and long-term goals during development of the FY 2023-24 budget
- Identifies potential demands on County resources in the coming years
- Identifies key areas that will need attention when preparing the FY 2023-24 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

Context for General Fund

- Major discretionary revenue sources relatively stable, but at lower levels than seen over past two fiscal years
- Assumptions based on current estimates of expenditure and revenue growth
- Incorporates recently negotiated labor contracts
- Assumes 7% retirement investment rate of return
- Assumes a status quo level of services
- No department expansion requests are incorporated



COUNTYWIDE SALARY AND BENEFIT COSTS

Major Salaries & Benefits

Salaries

3.0%

Increase in Year 1

- Negotiated salary increases; 2.0% to 2.5% in FY 23-24, 3% assumed in out years
- Step and merit increases for represented employees
- Status quo staffing
- \$13.2M increase countywide Year 1

Retirement

5.6%

Increase in Year 1

- Salary increases + SBCERS plan rates
- Costs partially offset by pension cost-sharing
- Assumes 0.28% investment return at 6/30/22 and 7% discount in 23-24

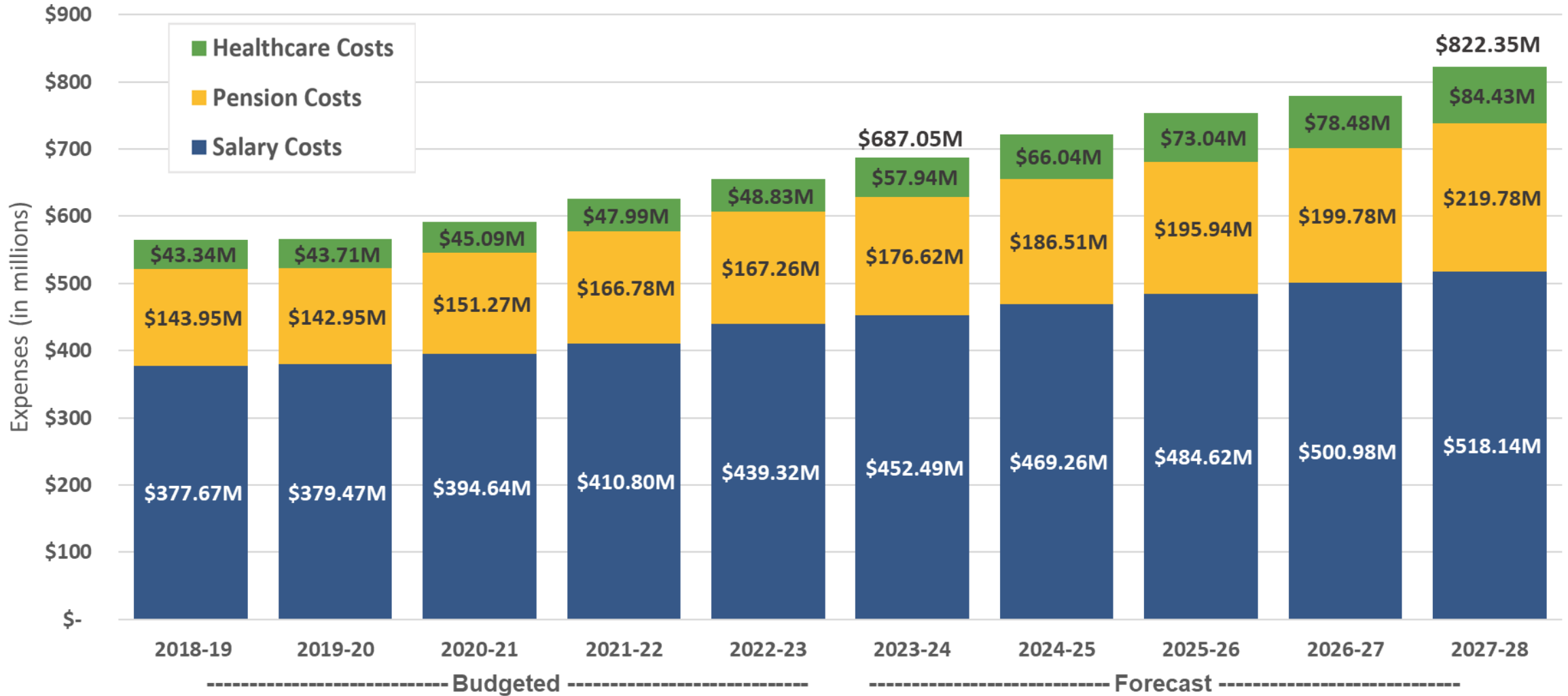
Health Insurance

18.7%

Increase in Year 1

- Higher premiums than budgeted in FY 22-23 driving FY 23-24 rate increases, which is exacerbated by assumed annual increase of 9% for balance of forecast
- Negotiated premium subsidies built in over first three years of forecast

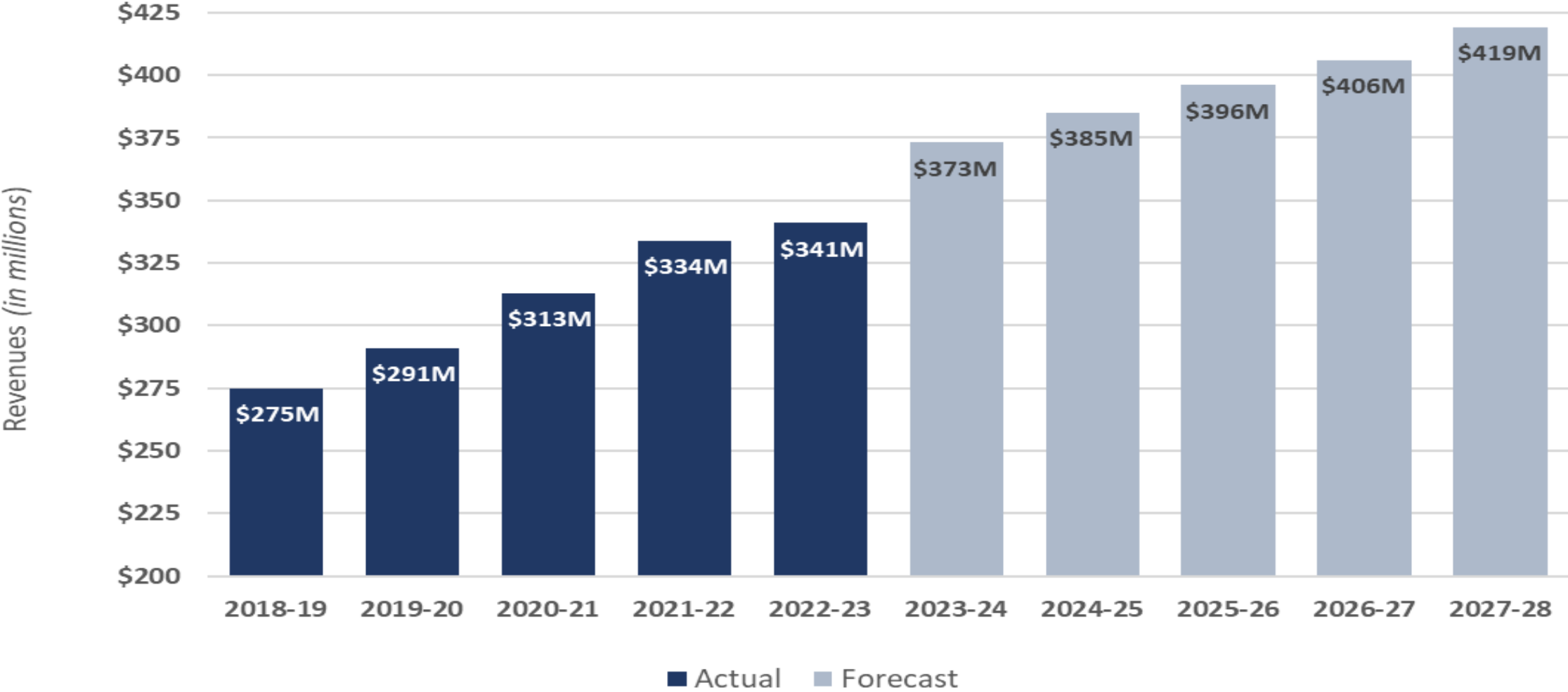
Major Salaries and Benefits





GENERAL FUND DISCRETIONARY REVENUE

Total General Fund Discretionary Revenues



Property Taxes

- Make up 77% of the County's discretionary revenue
- Higher than anticipated FY 22-23 assessed valuation increases in residential and commercial properties contributing to an assumed 11.2% increase in overall property tax revenue for FY 23-24
- Impact to General Fund in FY 23-24 is an increase of \$32.4 million
- Mild growth of 2.7% anticipated in year two and increasing to 2.9% for balance of forecast years

Sales Tax

- Makes up 4% of the County's discretionary revenue
- Consumers facing high degree of economic uncertainty
- HdL consultants project a slowdown of the economy resulting in a 1.6% decline, or \$251K in FY 23-24 over current year estimated actuals
- Growth of 2.9% predicted in FY 24-25 as the economy is predicted to recover, then grows by 3.4% in each of the final two forecast years

Transient Occupancy Tax

- Makes up 4.6% of the County's discretionary revenue
- Highly dependent on tourism and the availability of lodging in the unincorporated areas of the County
- Modest revenue growth of 1.3% is assumed in FY 23-24 over FY 22-23 estimated actuals
- A decrease of 2%, or \$342k is projected for FY 24-25 before returning to positive growth that steadily increases to 3% in final forecast year

Cannabis Tax Revenue

\$8.7M

FY 2021-22
Receipts

\$16.3M

FY 2022-23
Adopted Budget

\$14.8M

FY 2023-24
Preliminary Estimate

- Forecast assumes a 9.4% decrease to **\$14.8M** in FY 2023-24
 - Decrease result of continued oversupply of cannabis wholesale product statewide and compressed prices
 - Quarter 1 current year receipts reflect potential \$6.5 million shortfall
 - Assumes a number of new cultivators and several new retailers coming online
- Forecast assumes steady growth up to \$20.3M in FY 27-28 as wholesale pricing improves and other new cultivators and retailers commence operations



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
- A total of \$402K set aside over the forecast period

Northern Branch Jail Operations

\$1.3M Increase in Year 1

- Grows to annual funding level of \$21.9M in FY 23-24
- Increases another \$4.5M in out years of forecast
- Assumes that half of necessary operating fund increases funded by Prop 172 revenues

Policy Commitments

Deferred Maintenance

18%

Unallocated Discretionary General Fund Revenue

- Current policy commits 18% of unallocated Discretionary revenues for maintenance needs
- Allocated to Public Works (50%), General Services (35%), and Parks (15%)
- FY 23-24 increase estimated at \$360K for a cumulative total of \$12M allocated

Internal Charges Increase Mitigation

\$4.8M

Increase in Year 1

- Rates charged to depts rapidly increasing for internal services received, or to cover insurance premiums and worker's comp costs
- GL and Worker's Comp costs expected to increase over 30% each in FY 23-24
- \$2M set aside annually in the out years to avoid service level reductions

Operational Changes

Benefits & Initiatives

\$6M

Increase in Year 1

- Continued challenges recruiting and retaining employees
- Referral programs, hiring incentives among other Board-approved strategies
- Labor negotiations included health benefit subsidies and equity considerations for critically impacted positions

IT Dept Operations

\$500K

Increase in Years 1 & 2

- Establishment of a separate IT Dept in FY 23-24 with full implementation planned over next 2 years
- \$1.3M set aside in current year budget

Homelessness Services Costs

\$5M

Increase in Year 3

- ARPA and other funding identified through FY 25-26

Operational Changes

IHSS MOE & Labor Increases

\$2.3M Total cost increase over forecast duration

- IHSS costs shared by federal government, state, and county
- County's share of set costs expected to grow
- Program costs rising due to increasing labor contracts

Voter's Choice Act (VCA) Implementation

\$850K Increase in Year 1

- Allows counties to conduct elections under model that provides greater flexibility and convenience for voters
- Ongoing costs to be offset somewhat by election billing revenue and funds previously set aside in General Fund

AB 1869 Backfill Sunset

\$850k Increase in Year 4

- SB 1869 repealed authority of counties to charge defendants various criminal justice fees
- Bill includes a revenue backfill provision to mitigate some lost revenue
- Backfill provision sunsets after FY 25-26

Operational Changes

CARE Court

\$1.1M

Aggregate increase occurring in Years 2 & 3

- County required to implement CARE Act by 12/1/24
- Estimated 6.5 new General Fund FTEs required across multiple depts

Fiscal Plan

Set Aside for Future Deficits

\$7.5M

Release in Year 3

- Homelessness services costs and labor cost increases resulting in deficits beginning in FY 25-26
- Fiscally prudent to hold available ongoing resources for use toward future known costs

Board Approved Prior Year (PY) Set Aside Offset

\$5.1M

Release in Year 2

- Board approved in prior years' budget development fiscal plans
- Set asides for GL Increases (\$500k), labor negotiations (\$4.5M) help offset anticipated increases
- Does not cover shortfalls in Years 3-5

FIVE-YEAR FINANCIAL FORECAST
INCREMENTAL CHANGE IN GENERAL FUND ONGOING REVENUE AND COSTS
FISCAL YEARS 2023-24 THROUGH 2027-28

<u>Row Category</u>	<u>Ongoing Revenue Sources:</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
1 Forecast	Discretionary Revenue (excludes Cannabis)	\$33,512,300	\$10,885,100	\$ 9,702,200	\$ 9,322,500	\$11,077,700
	Total Revenue Change	\$33,512,300	\$10,885,100	\$ 9,702,200	\$ 9,322,500	\$11,077,700
	<u>Ongoing Cost Changes:</u>					
2 Forecast	Negotiated and Assumed Salary Increases	\$ 4,713,100	\$ 5,149,400	\$ 4,682,000	\$ 5,100,100	\$ 5,312,400
3 Forecast	Pension Costs	2,541,400	3,049,200	2,884,800	1,198,800	6,208,000
4 Forecast	Health Benefits	2,722,700	2,481,300	2,129,500	1,695,000	1,835,000
5 Policy	Strategic Reserve Growth	265,600	-	38,000	98,300	-
6 Policy	Northern Branch Jail Operations Plan	1,300,000	1,250,000	1,200,000	1,150,000	900,000
7 Policy	18% Deferred Maintenance	360,000				
8 Policy - New	General Liability/Workers Comp/IT-GS Increases	4,750,000	2,000,000	2,000,000	2,000,000	2,000,000
9 Operational	Benefits & Initiatives	6,000,000				
10 Operational	IT Department Operations	500,000	500,000			
11 Operational	Homelessness Services Costs			5,000,000		
12 Operational	IHSS MOE & Labor Increases	630,500	1,126,600	189,300	187,600	197,700
13 Operational	Voter's Choice Act Implementation	850,000				
14 Operational	AB1869 Backfill Sunset				850,000	
15 Operational	CARE Court		400,000	700,000		
16 Fiscal Plan	Set Aside GFC for Future Deficits (990)	7,500,000				
17 Fiscal Plan	Release Board Approved Prior Year Set Aside Offset: General liability, labor/pension		(5,071,400)	(7,500,000)		
	Total Change in Costs	\$32,133,300	\$10,885,100	\$11,323,600	\$12,279,800	\$16,453,100
	Annual (Deficit)/Surplus	\$ 1,379,000	\$ -	\$(1,621,400)	\$(2,957,300)	\$(5,375,400)

Key Takeaways

- Steady revenue growth helping to offset increased salary and health benefits and pension cost increases
- \$1.4M surplus projected in FY 23-24 with deficits projected in the final 3 forecast years
- Departments should remain conservative and assume status quo General Fund contributions to mitigate future year deficits
- May need to look to cost-cutting and revenue-generating initiatives
- One-time funds may be needed to bridge budget gap in out years
- Recommend Board priorities be focused on one-time projects or needs, not ongoing costs



GENERAL FUND UNALLOCATED FUND BALANCES

GF Unallocated Fund Balances

- At least \$10 million available in the GF Fund Balance Unallocated (9940 Account)
- \$6.6 million available in Prop 172 funds (9768 Account)
- \$0 remaining available in Cannabis Fund Balance (9815 Account)
- May need to reserve some funds to bridge budget gap in out years depending on State budget impacts



OTHER MAJOR OPERATING FUNDS

Significant Other Major Funds Fiscal Issues

- Public Works Roads Operations
 - Inflation driving Transportation Cost index increases
 - Fund balance utilized to maintain Roads Division operations
 - Anticipated fund balance depletion by end of FY 23-24

- Public Health 340B Pharmacy Change
 - Pharmacy benefit for Medi-Cal beneficiaries transitioned from manage-care plans to State-operated fee-for-service program
 - State backfill funds less than 15% of anticipated loss
 - Potential maximum lost revenue of \$4.4 million
 - Dept anticipates utilizing fund balance to bridge funding gap, if necessary



FY 2023-24 PROPOSED BUDGET DEVELOPMENT POLICIES

FY 2023-24 Policies

- Proposed policies similar to FY 2022-23 policies
- 2 new components added to:
 - Authorize CEO to recommend General Fund Contribution to help offset department rate increases
 - Establish minimum Prop 172 fund balance to mitigate Sheriff baseline overtime usage and reimburse recruiting costs

Policy 3.h.

CEO recommend General Fund Contribution to help offset department rate increases

Rationale

- GFC increases do not account for GL or Worker's Comp increases
- Rate increases attributable to market conditions outside dept's control
- Provides CEO authority to recommend GFC budgetary increases to avoid service level reductions

Departments Affected

Countywide

Fiscal Impact

On a case-by-case basis, and only to extent funding is available

Policy 4.f.

Establish \$2 million minimum Prop 172 fund balance to mitigate Sheriff baseline overtime usage and reimburse recruiting effort costs

Rationale

- Board directed CEO to incorporate policy after having received CEO report on Sheriff overtime usage
- Dept to ensure accurate time coding by staff to specific overtime activities to justify release of funds
- CEO to collaborate with dept in establishing a data tracking and reporting methodology to better analyze overtime drivers

Departments Affected

Sheriff-Coroner

Fiscal Impact

Minimum \$2 million in General County Programs Prop 172 fund balance



FY 2023-24 BUDGET 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
- Enhance rural crime efforts
- Recruitment and retention initiatives for difficult to fill positions
- Countywide library system support
- Enhance crisis intervention programs
- CIP Priority List
- Workforce Housing set aside
- Greater criminal justice diversion projects
- Augment set asides for capital projects or future liabilities
- Open space and recreation projects
- Deferred maintenance
- Set aside for District area special projects

RECOMMENDED ACTIONS

- A. Receive and file the FY 2023-24 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 2023-24 Budget Development Policies (Attachment B);
- C. Provide staff with any preliminary direction on Board priorities for FY 2023-24, as appropriate; and
- D. Determine pursuant to CEQA Guidelines §15378 that the above activity is not a project under CEQA.