



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: RES 22-222

December 13, 2022

Introduced: 12/1/2022

Current Status: Agenda Ready

Version: 1

Matter Type: BoS Resolution

Adopt a Resolution to:

- a. Accept the Budget End-of-Year Report for FY 2021-22 from the County Administrative Office;
- b. Authorize the County Administrative Office and Auditor-Controller to make fund balance designations in FY 2022-23 included in Attachment A; and
- c. Authorize and direct the Auditor-Controller to amend the FY 2022-23 adopted budget by increasing appropriations and making the appropriate transfers included in Attachment A (4/5ths vote required).

RECOMMENDATION:

It is recommended that the Board of Supervisors adopt Resolution to:

- a. Accept the Budget End-of-Year Report for FY 2021-22 from the County Administrative Office;
- b. Authorize the County Administrative Office and Auditor-Controller to make fund balance designations in FY 2022-23 included in Attachment A; and
- c. Authorize and direct the Auditor-Controller to amend the FY 2022-23 adopted budget by increasing appropriations and making the appropriate transfers included in Attachment A (4/5ths vote required).

SUMMARY:

The Budget End-of-Year Report (BEYR) evaluates the County's year-end fiscal performance compared to the budget, as adopted and modified by the Board of Supervisors. Production of the BEYR is a collaborative effort between the County Administrative Office (CAO) and departments following the year-end closing adjustments overseen by the Auditor-Controller. Financial data analyzed in the BEYR is unaudited and subject to final adjustments. The BEYR begins with an analysis of the countywide performance of the general fund, followed by an analysis of the financial performance of departments and other funds.

The general fund end-of-year results are favorable, with an operating surplus of \$17.7 million primarily attributed to growth in discretionary revenue, with revenues of \$758.0 million against \$740.3 million in expenditures. The strong performance of discretionary revenue and prudent financial management by departments allowed the County to invest in its strategic reserve, long-term liabilities, and capital outlay reserves. With Board authorization, the budget surplus was used to increase the strategic reserve to meet the 10% of FY 2022-23 adopted general fund revenues goal set by County ordinance. The BEYR also includes recommendations by the CAO to increase fund balance assignments for capital projects and compensated absences. The surplus and the fund balance designations recommended by the CAO are testaments to the County's conservative management culture and the continuous monitoring of its finances with

oversight of the Board and its Budget Committee.

DISCUSSION:

The general fund ended FY 2021-22 with revenues of \$758.0 million and expenditures of \$740.3 million, resulting in an operating surplus of \$17.7 million. The operating surplus was primarily driven by higher discretionary revenue earned compared to budget and lower than budgeted expenditures. Key outcomes include:

- Discretionary revenue performed strongly at \$11.8 million above budget. The strong performance is primarily attributed to transient occupancy taxes (TOT). Due to robust demand in the hospitality industry, TOT revenues came in at an all-time high of \$40.0 million, \$22.3 million higher than the adopted budget.
- Other impacts to discretionary revenue include property and sales use taxes which were above budget by \$6.8 million and \$4.3 million, respectively. However, a decline in cannabis revenue offset these gains by \$9.8 million. Cannabis revenue underperformed its budget due to the Board of Supervisors' action, which reduced the cannabis tax rate and delayed the cannabis tax payments for quarters two through four of FY 2021-22.
- Conversely, program revenue was \$46.9 million below the final budget primarily due to delays in state and federal revenue not received during the accrual period, lower fees for services, reduced reimbursable personnel costs for public safety realignment programs, personnel vacancies, and lower caseloads in revenue-generating positions primarily in primary care clinics and social service programs.
- Year-end expenditures were \$76.8 million below the final modified budget. Almost one-third of those lower expenditures resulted from salary and benefits savings from vacant positions. Other factors include lower-than-budgeted transfer outs to other funds, mainly for American Rescue Plan Act (ARPA) supported infrastructure capital projects, which came in \$14.1 million lower than budget due to delays in the completion of these capital projects. Other factors include lower-than-planned program outlays mainly in social services, health, and pandemic response programs, and lower countywide cost allocation charges.

As part of the FY 2022-23 adopted budget, the Board of Supervisors authorized the CAO to allocate FY 2021-22 surplus to the strategic reserve, general fund contingency assignment, and the pension trust assignment. The operating surplus allowed \$3.9 million to be transferred to the strategic reserve, increasing the strategic reserve to an all-time high of \$79.3 million (10% of FY 2022-23 adopted general fund revenues). The general fund contingency assignment increased by \$385,224 to reach 1% of adopted general fund revenues, and \$15.4 million was added to the pension trust assignment.

Based on the FY 2021-22 general fund performance, the CAO recommends that \$4.0 million in added to the compensated absences assignment to strengthen the reserves for accrued leave liabilities. As a result of higher-than-expected Proposition 172 revenue, it is recommended that \$783,450 is added to the revenue stabilization assignment. To plan for future capital and equipment outlay, the CAO recommends \$1.7 million be added to the general capital assignment. Lastly, \$432,681 is suggested to be added to the capital project assignment for planned sustainability energy projects and the COVID-19 county memorial project. Pending the Board's approval of this report's recommendations, the CAO estimates ending FY 2021-22 with an unassigned fund balance of \$10.0 million, of which \$6.4 million is utilized in

accordance with prior Board approval as a funding source in the FY 2022-23 adopted budget.

Final year-end results are subject to audit and will be published by the Auditor-Controller later this year in the Annual Comprehensive Financial Report. Details of the preliminary results are in the attached BEYR.

OTHER AGENCY INVOLVEMENT:

The County Administrative Office works with departments throughout the fiscal year to maintain an understanding of budget-related conditions and emerging issues.

FINANCING:

The BEYR provides analysis and perspective on the condition of the general fund and other major County funds. There is no cost associated with the receipt of this report. The recommended designations of fund balance in FY 2022-23 are cost neutral. The FY 2022-23 budget amendments will decrease the general fund’s estimated unassigned fund balance by \$21,000 for a revised available unassigned fund balance of \$3.6 million.

FINANCING:


The BEYR provides analysis and perspective on the condition of the general fund and other major County funds. There is no cost associated with the receipt of this report. The recommended designations of fund balance in FY 2021-22 are cost-neutral.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The BEYR supports the Board’s administration strategic initiative by providing a comprehensive analytical comparison between the County’s final modified budget and year-end results, accordingly, promoting fiscal transparency and financial planning for future years.

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

Prepared by: Juan Pablo Lopez, Administrative Analyst, 755-5091

Approved by: Ezequiel Vega, County Budget Director, ext. 3078 

Approved by: Dewayne Woods, Assistant County Administrative Officer, ext. 5309 

Attachments: Board Resolution with Attachment A; Budget End-of-Year Report - FY 2021-22; PowerPoint Presentation