

County of Monterey
Three Year Forecast

Budget Committee Meeting 03/03/2023



General Fund



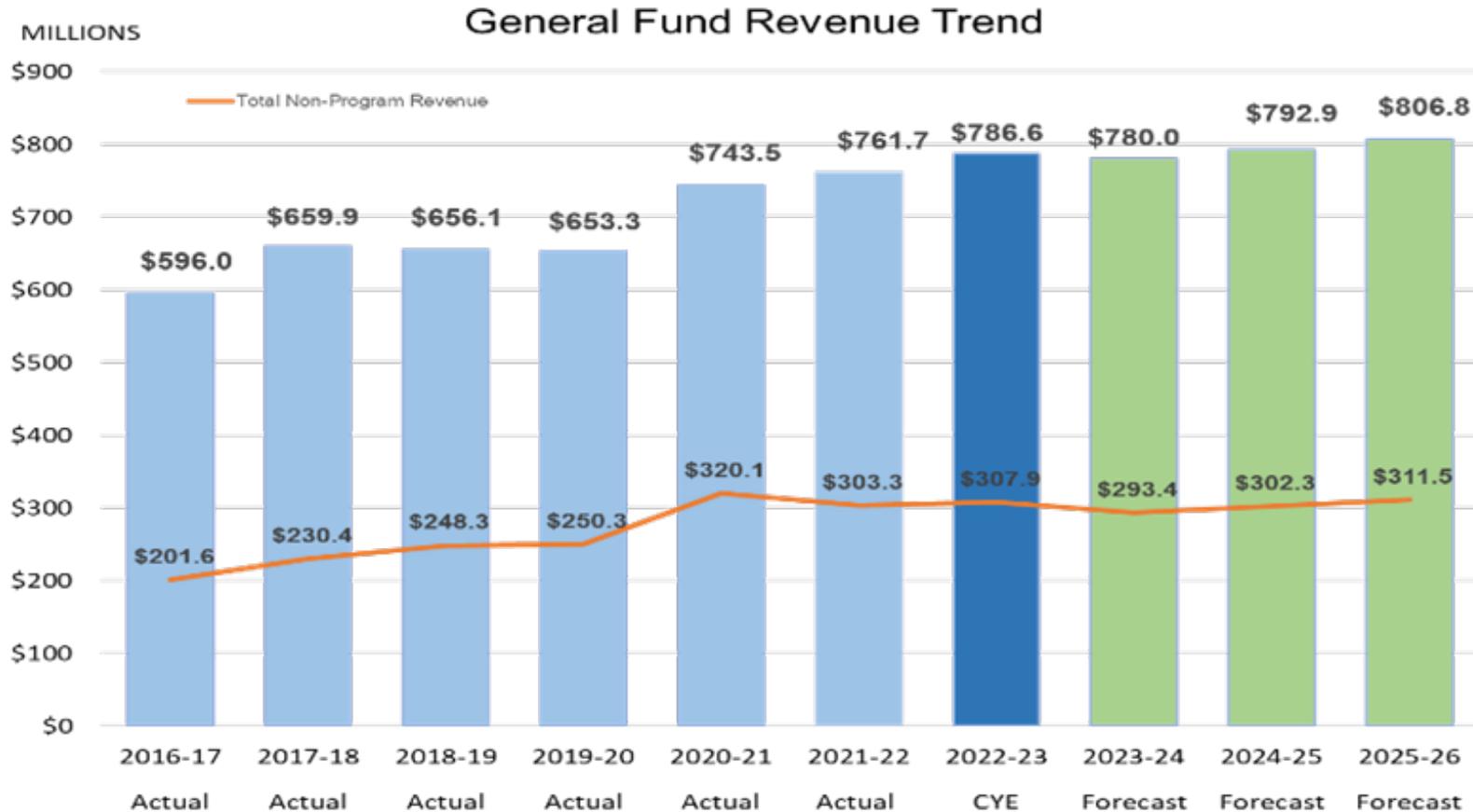
Current Year Estimate Favorable

	2021-22	FY 2022-23			2023-24	2024-25	2025-26
	Actual	Adopted	Modified	Year-End Estimate	Forecast		
Available Financing:							
Beg. Unassigned Fund Balance	\$50.2	\$3.6	\$3.6	\$3.6	\$26.8	\$4.4	\$0.0
Release of Fund Balance	20.3	54.3	56.7	70.1	0.0	0.0	0.0
Revenues	<u>758.0</u>	<u>793.4</u>	<u>794.1</u>	<u>786.6</u>	<u>779.9</u>	<u>792.9</u>	<u>806.8</u>
Total Financing Sources	\$828.5	\$851.3	\$854.4	\$860.3	\$806.7	\$797.3	\$806.8
Financing Uses:							
Assignments/Restrictions	78.2	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	740.3	843.4	847.5	833.0	806.2	814.9	826.9
Salary Adjustment					(11.1)	(11.4)	(11.5)
Appropriation for Contingencies	<u>0.0</u>	<u>7.9</u>	<u>6.9</u>	<u>0.5</u>	<u>7.2</u>	<u>7.2</u>	<u>7.2</u>
Total Financing Uses	\$818.5	\$851.3	\$854.4	\$833.5	\$802.3	\$810.7	\$822.6
Ending Unassigned Fund Balance	\$10.0	\$0.0	\$0.0	\$26.8	\$4.4	(\$13.3)	(\$15.8)

- Expenditures estimated to end \$14.5 million below budget
- Revenues are projected to be \$7.5 million below budget
- Net estimated result for FY 2022-23 is a positive \$26.8 million. This would not be possible without the \$23.9 million in estimated ARPA revenue. Also, given the volatility in the cannabis revenue this number could change
- Forecasted years show a projected deficit beginning with FY 2024-25. That is also the year when ARPA revenue will no longer be available



Revenue Still Increasing

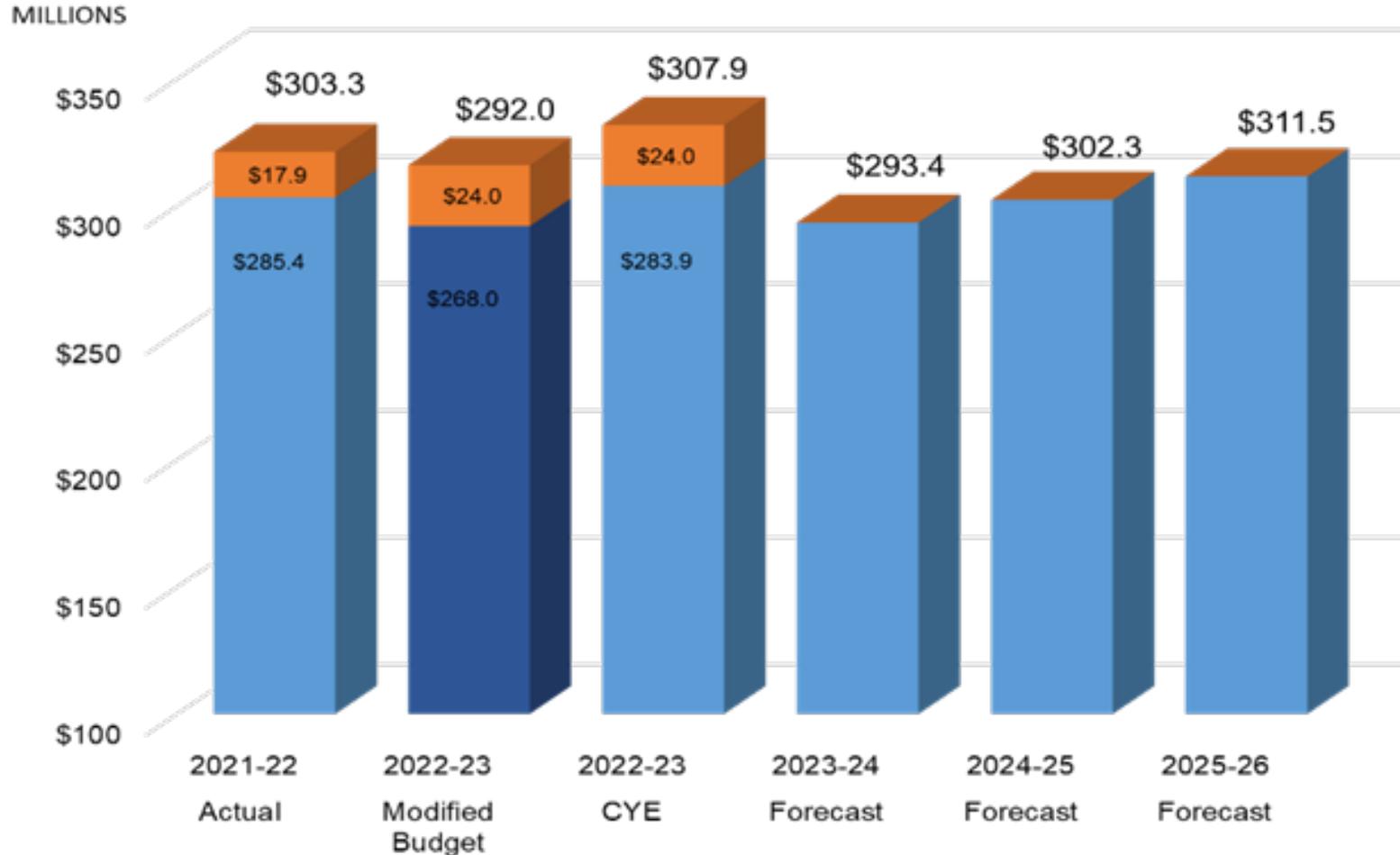


- General fund revenue is estimated to increase by \$24.9 million in FY 2022-23
- Overall revenue is projected to decrease \$6.6 million the following year before increasing to \$806.8 million by the end of the forecast period



Discretionary Revenue Still Increasing

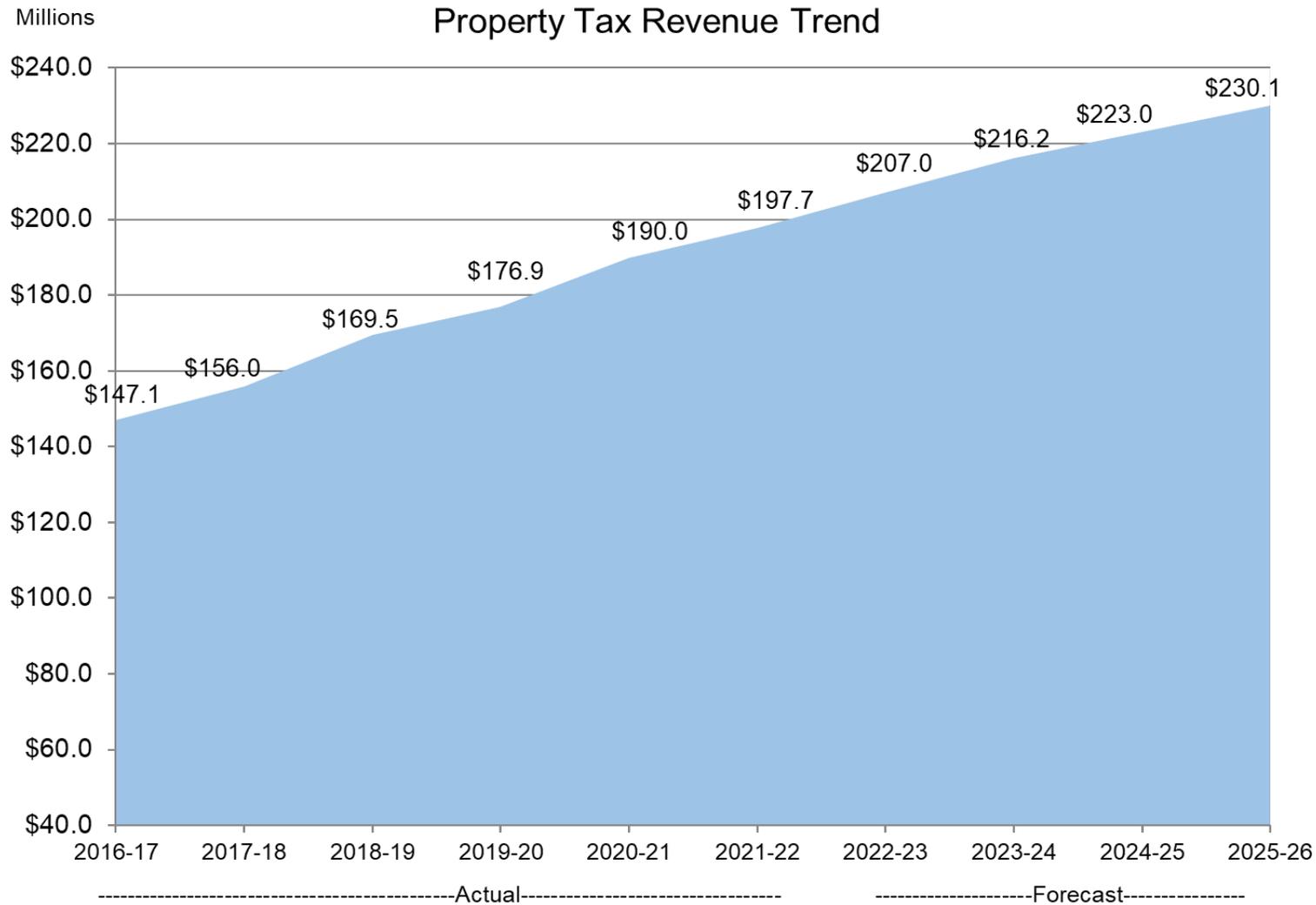
Discretionary Revenue Forecast



- Up \$15.9 million in current year compared to budget, with primary growth derived from Property Taxes and Transient Occupancy Taxes
- But; cannabis revenue could reduce total revenue by up to \$4.3 million
- ARPA revenue not available after FY 2023-24



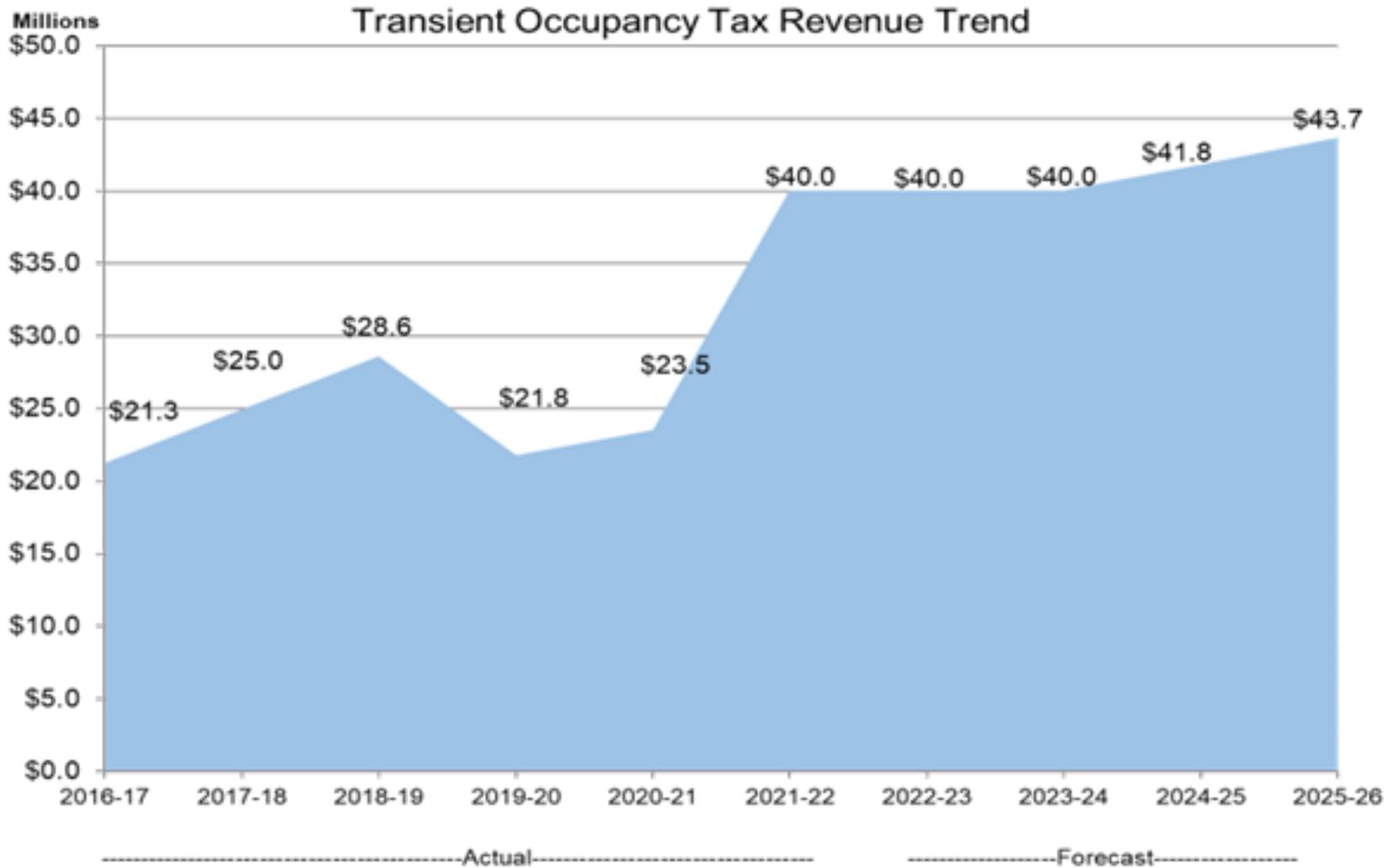
Discretionary Revenue Drivers – Property Tax



- Property Taxes have continued to grow, with the most significant growth occurring in FY 2020-21 and continued growth projected in the forecast years.
- Property taxes have been surprisingly strong amid the pandemic pressures; but need to monitor closely as reduction in this revenue could be impactful to service levels



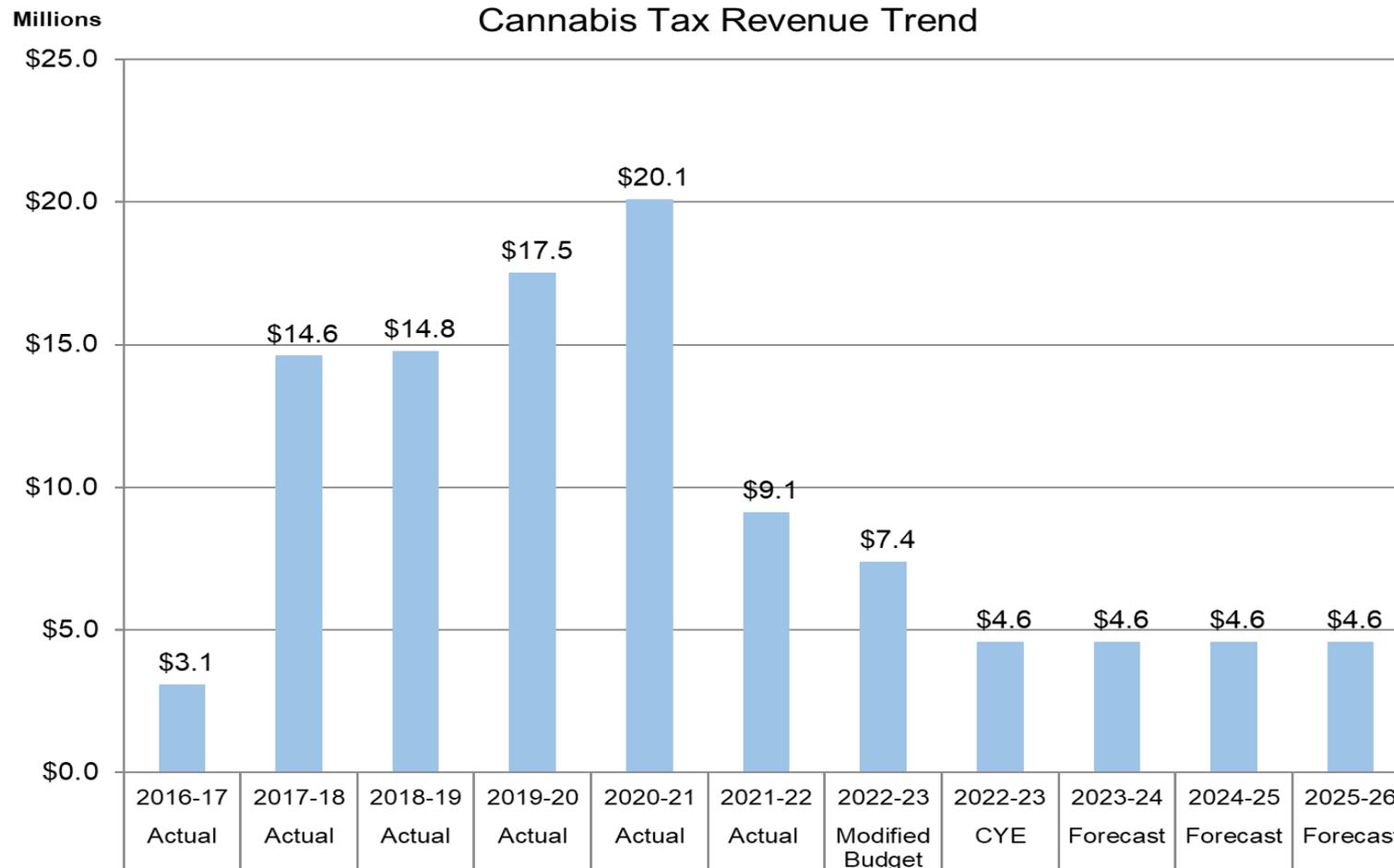
Discretionary Revenue Drivers



- Transient Occupancy Taxes is the County's second largest source of discretionary revenue
- It is also, one of the most volatile as it responds quickly to changes in the economy
- FY 2021-22 actuals of \$40 million represents and unprecedented amount for this revenue
- Revenue is projected to increase but must monitor closely due to its high volatility



Cannabis Revenue



- Cannabis revenue has also changed significantly year over year since its inception
- Latest estimates indicate this revenue source will be \$2.8 million lower than budget
- This estimate could change significantly dependent on changes made to taxation rates and industry performance



Monterey County ARPA Plan Expenditure Summary

Updated January 2023

General Fund						
Department	Spent		Allocated	Allocated	Allocated	Total Allocated
	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	All Years
Ag Commissioner	\$ -	\$ 222,353	\$ -			\$ 222,353
Auditor Controller	\$ -	\$ 167,200	\$ 356,590			\$ 523,790
Board of Supervisors	\$ -	\$ -	\$ 234,506			\$ 234,506
Civil Rights	\$ -	\$ 50,799	\$ 204,767			\$ 255,566
Clerk of the Board	\$ -	\$ -	\$ 102,727			\$ 102,727
County Administrative Office	\$ 4,989,651	\$ 2,669,030	\$ 5,368,762			\$ 13,027,443
County Administrative Office EOC	\$ 747,169	\$ (747,169)	\$ -			\$ -
County Counsel	\$ -	\$ 107,494	\$ 517,710			\$ 625,204
District Attorney	\$ -	\$ 237,000	\$ 1,687,964			\$ 1,924,964
Health	\$ 2,045,677	\$ 6,329,477	\$ 3,472,373	\$ 318,194	\$ 77,973	\$ 12,243,694
Housing and Community Development	\$ -	\$ 934,112	\$ 520,000			\$ 1,454,112
Human Resources	\$ -	\$ 349,545	\$ 652,659			\$ 1,002,204
Information Technology	\$ -	\$ -	\$ 3,281,482			\$ 3,281,482
Probation	\$ -	\$ 371,012	\$ 12,560			\$ 383,572
Public Defender	\$ -	\$ 504,002	\$ 559,549			\$ 1,063,551
Public Works Facilities and Parks	\$ 424,720	\$ 3,400,726	\$ 1,414,394	\$ -		\$ 5,239,841
Sheriff Coroner	\$ 504,038	\$ 2,906,798	\$ 3,812,723			\$ 7,223,559
Social Services	\$ 256,989	\$ 223,822	\$ 2,062,293			\$ 2,543,104
Treasurer Tax Collector	\$ -	\$ 61,810	\$ -			\$ 61,810
FY 2023-24 Revenue Loss				\$ 14,286,196		\$ 14,286,196
Totals General Fund	\$ 8,968,245	\$ 17,788,011	\$ 24,261,059	\$ 14,604,390	\$ 77,973	\$ 65,699,678
Other Funds						
	Spent		Allocated	Allocated	Allocated	Total Allocated
	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	All Years
Emergency Communications	\$ -	\$ 278,046				\$ 278,046
Public Works - Road Fund	\$ -	\$ 110,000				\$ 110,000
Public Works - Boronda CSD	\$ -	\$ 38,993				\$ 38,993
Public Works - San Jerardo CSD	\$ -	\$ 35,159				\$ 35,159
Public Works - Pajaro CSD	\$ -	\$ -	\$ 1,178,797			\$ 1,178,797
Public Works - Capital Projects	\$ -	\$ 1,751,986	\$ 13,952,312	\$ 375,524		\$ 16,079,822
Workforce Development Board Fund	\$ 745,342	\$ 145,425	\$ -			\$ 890,766
Totals Other Funds	\$ 745,342	\$ 2,359,609	\$ 15,131,109	\$ 375,524	\$ -	\$ 18,611,583
Grand Total Obligated County	\$ 9,713,586	\$ 20,147,619	\$ 39,392,168	\$ 14,979,914	\$ 77,973	\$ 84,311,261

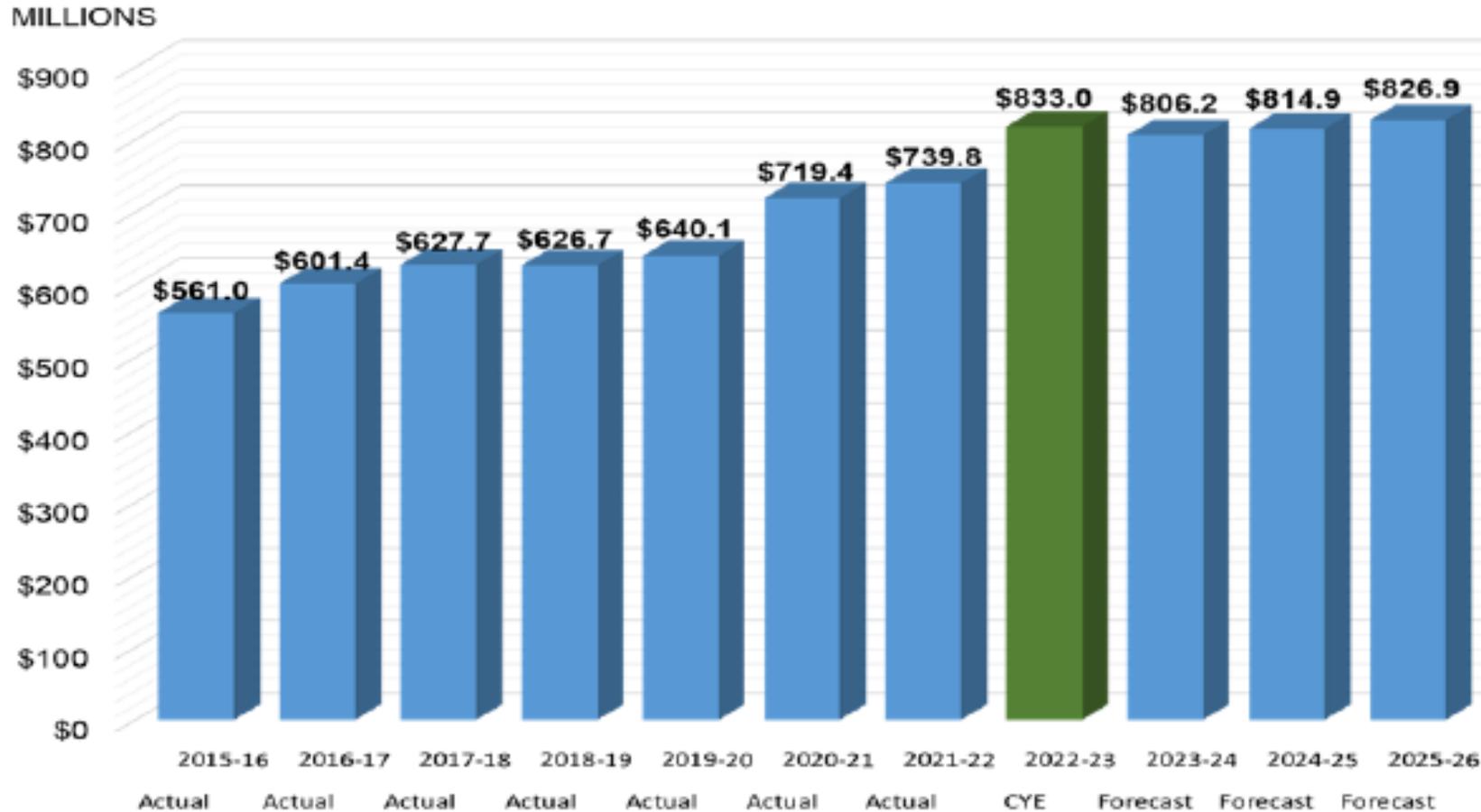
ARPA Revenue

- Total County allocation is \$84.3 million
- \$9.7 million were spent in FY 2020-21 and \$20.1 million in FY 2021-22
- FY 2021-22 was the first full fiscal year these funds are available as Congress enacted this bill around May of 2021
- The Board approved a three and half fiscal year plan for the use of fund to enable the County to respond o the pandemic. This plan allocated higher dollar amounts in FY 2021-22 and FY 2022-23 to minimize the County’s dependence on these funds in the out years
- \$14.3 million of the total remain unallocated in accordance with this plan; the budget office recommends fully allocating these funds as part of the budget process; allowing the Board to look at comprehensive County needs and available funding



General Fund Expenditures Trend

General Fund Expenditure Trend

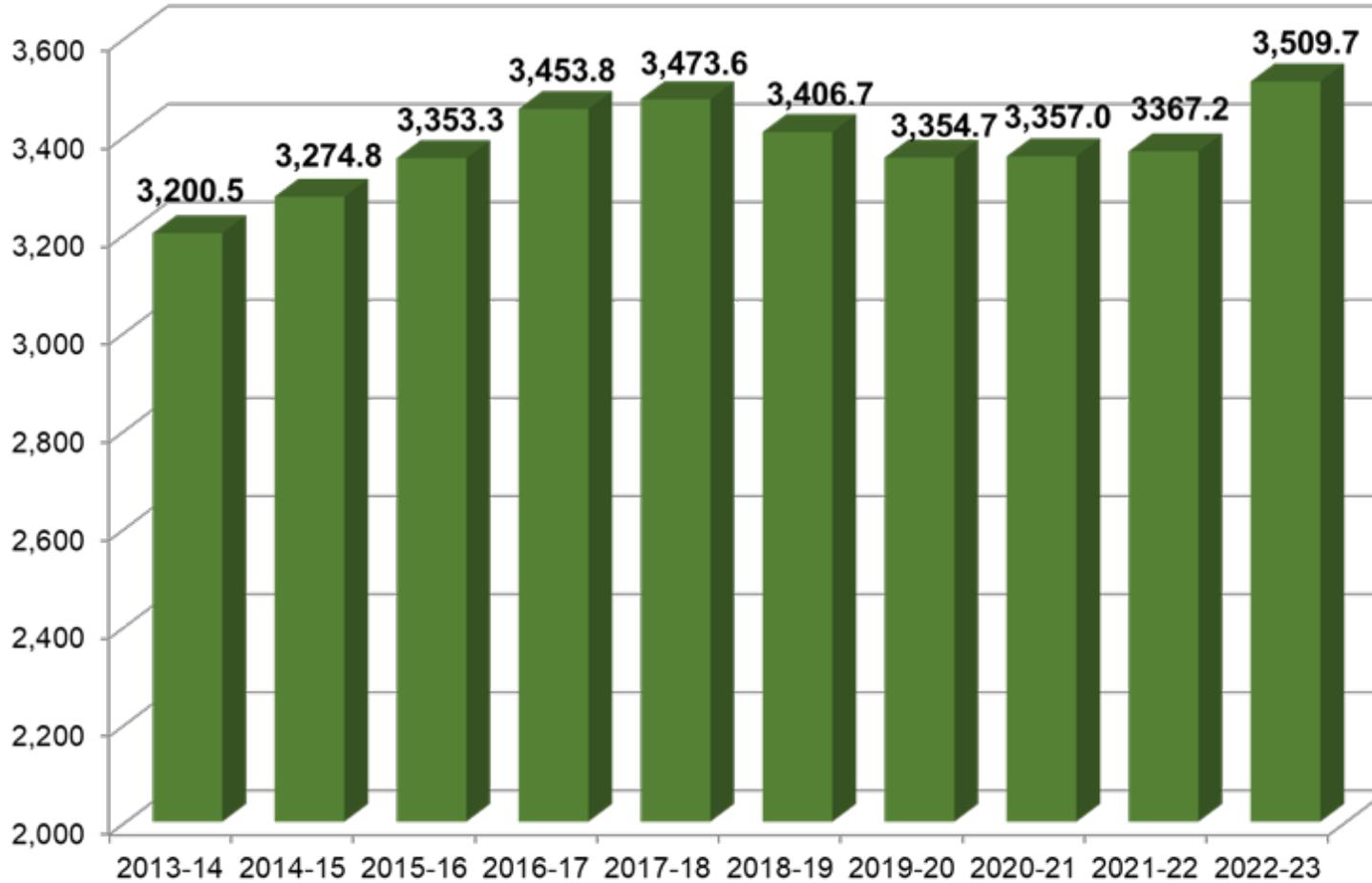


- Expenditures in the general fund continue to grow at a faster rate than revenue
- Current year estimates indicate expenditures of \$833 million, that is \$272 million more than the County spent in FY 2015-16
- Expenses decrease in the out years due to the exclusion of one-time expenses



General Fund Cost Drivers - Positions

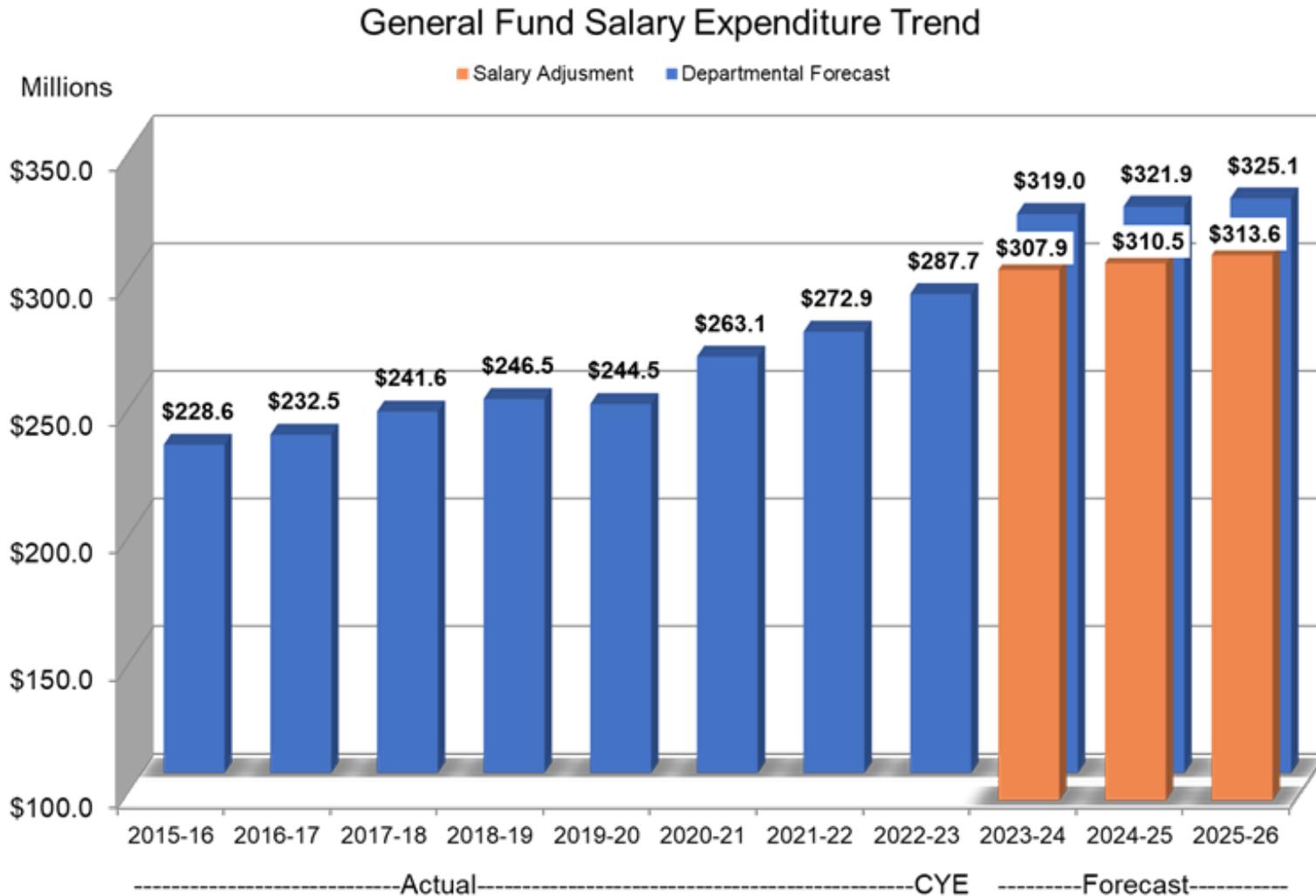
General Fund Authorized Positions



- Positions have grown from a low of 3,200.5 in FY 2013-14 to 3,509.7 in the current year



General Fund Cost Drivers - Salaries

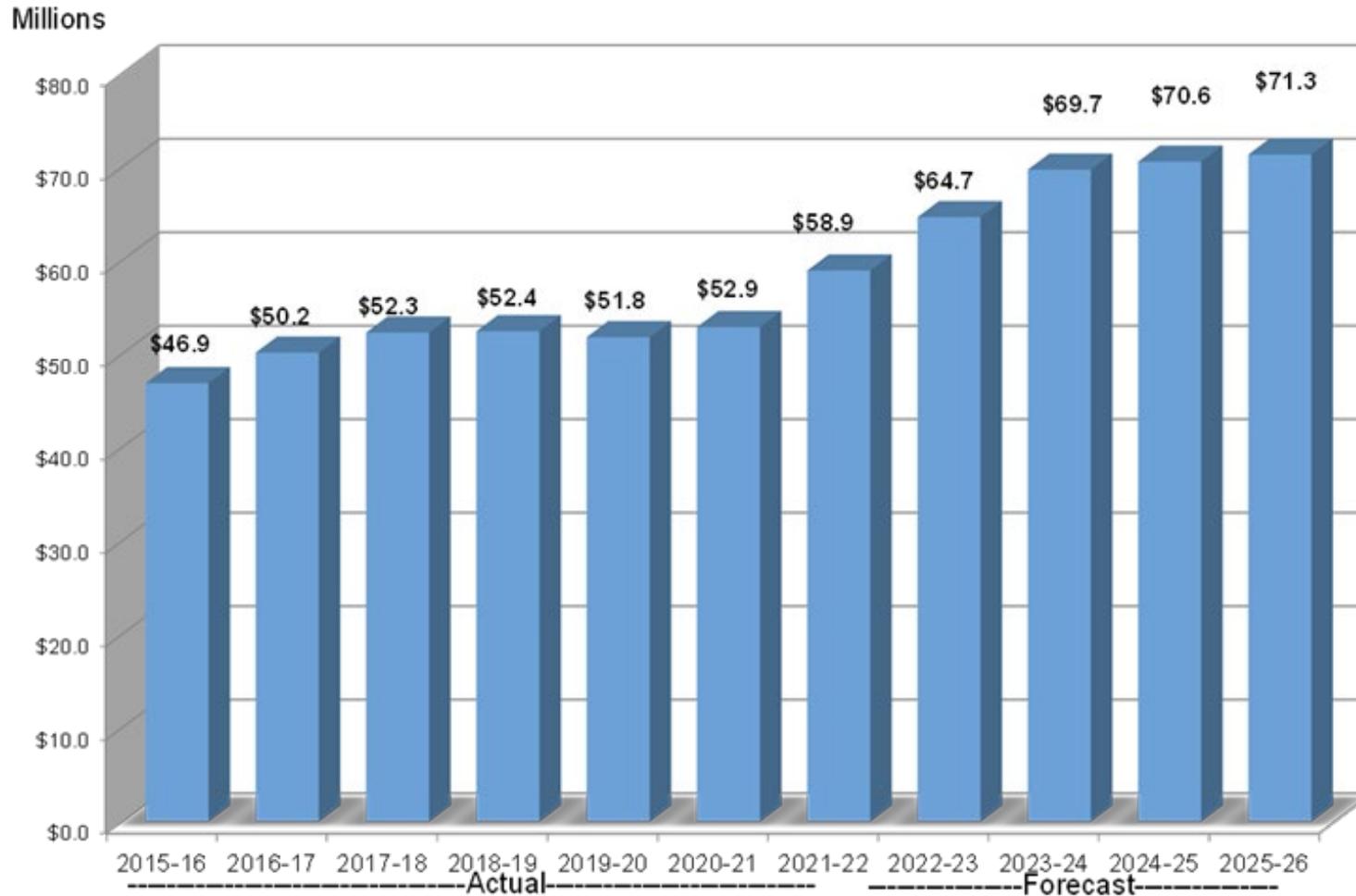


- Salaries are estimated to grow to \$287.7 million in FY 2022-23 compared to prior year actuals; a \$14.8 million increase
- The largest contributing factor to this growth is related to increased wages due to labor agreement negotiations, wage studies and cost of living adjustments
- Additionally, salaries are projected to grow to \$319 million by FY 2023-24; this is \$90.4 million more than in FY 2015-16
- Part of this increase is driven by the increase in total positions
- But increased wages due cost of living adjustments, negotiations and wage studies also play a significant part



General Fund Cost Drivers – Health Insurance

General Fund Employee Health Insurance Expenditures

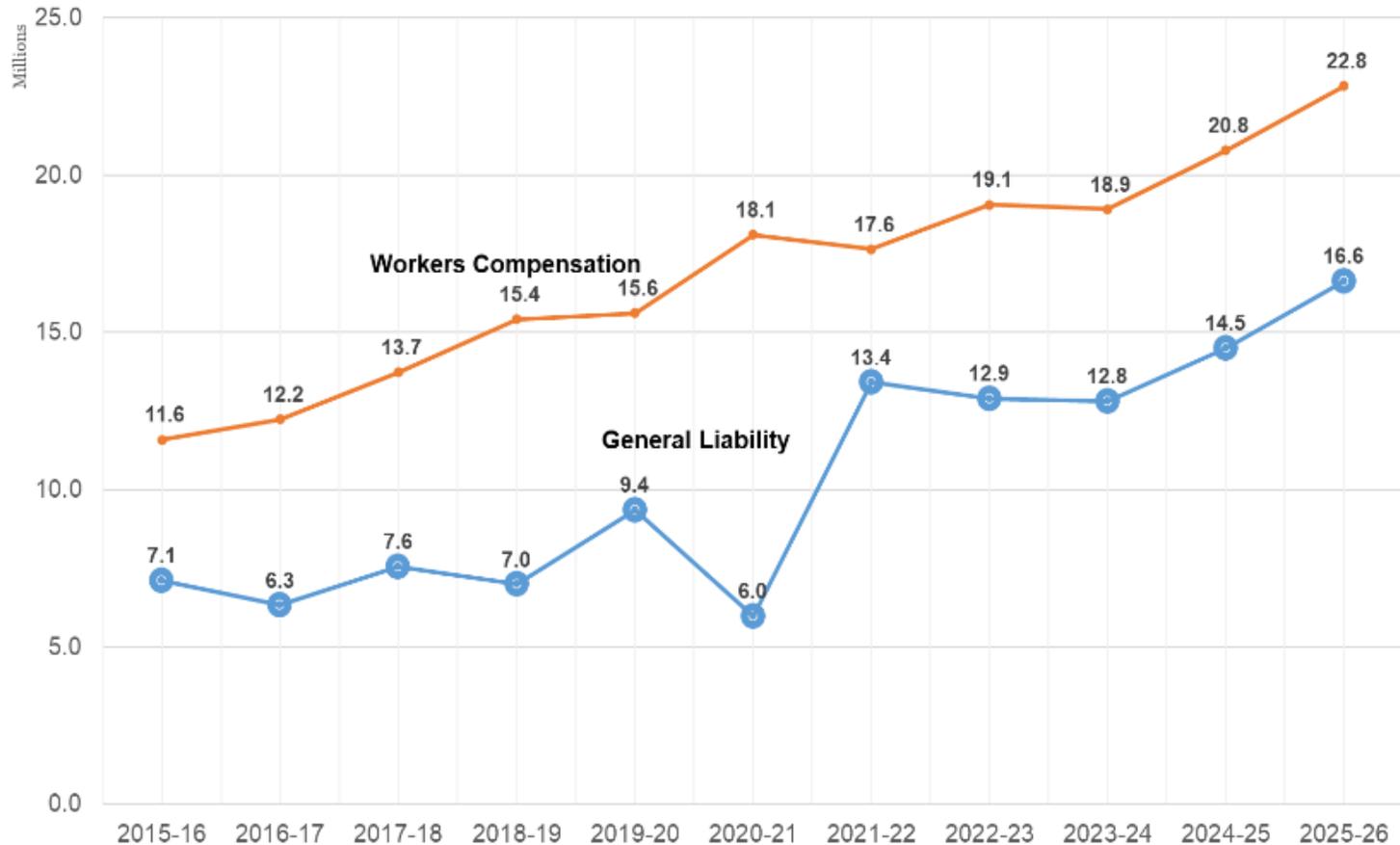


- Health Insurance costs are project at \$64.7 million at the end of FY 2022-23, which represents an increase of \$5.8 million from the prior fiscal year and a total \$11.8 million in two fiscal years
- This rate of growth in unprecedented and is expected to continue in FY 2022-23 (\$5 million) as a result of increased premiums and negotiated labor agreements which increased the County's share of cost of those premiums.
- Additionally, cash back payments to bargaining units which previously not received them were implemented as part of the new labor agreements



General Fund Cost Drivers – Pension

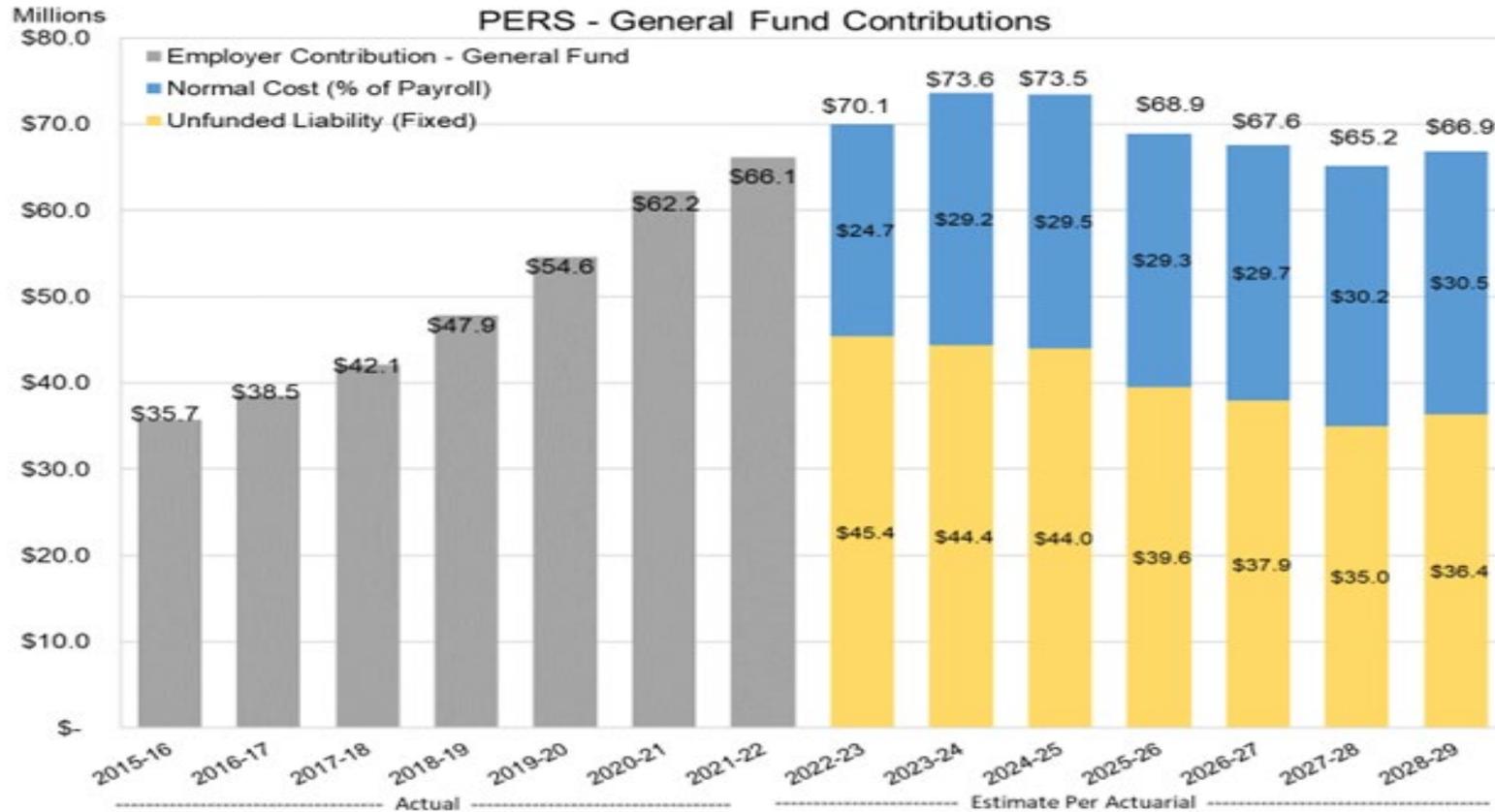
General Fund Workers Comp and General Liability Costs



- Worker’s compensation and general liability costs continue to grow, and it is important to manage this growth to minimize the impact on County operations



General Fund Cost Drivers – Pension Costs

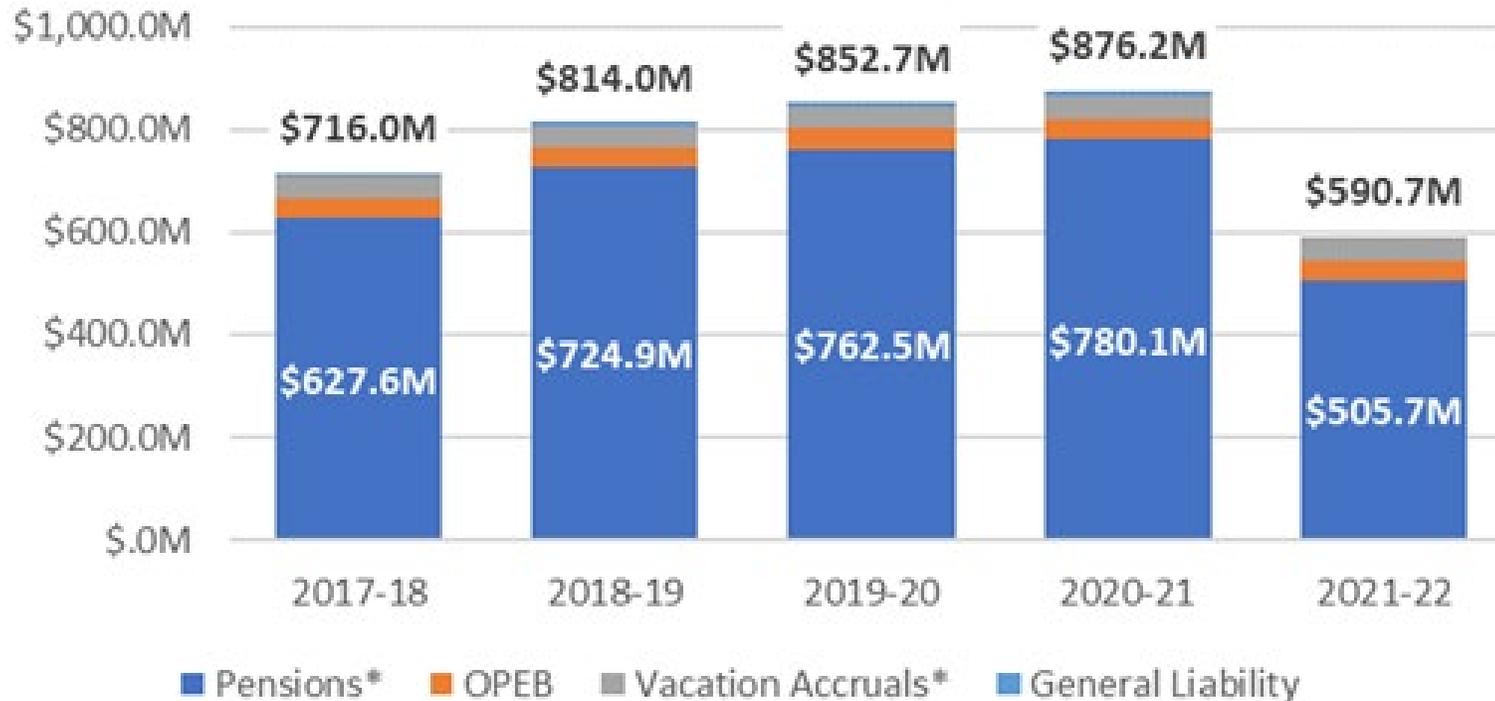


- Pension costs are projected to increase to \$73.6 million in FY 2023-24 before beginning to decrease the following year
- Costs being paid in FY 2023-24 are more than double the amount the County paid in FY 2015-16
- These cost increases are due to changes in the discount rate resulting from responses to the investments' performance
- Normal cost remains stable in the projections, but unfunded liability costs have grown significantly and remain the more volatile part of this cost



General Fund Cost Drivers – Pension Costs

Unfunded Liabilities (actuarial obligations)



- The previous table focused on the annual payments by the General fund but the unfunded liability table from the Budget Year End Report (BEYR) for FY 2021-22 shows the large obligations the county must address
- The largest component of these liabilities is the unfunded liability for pension costs which was estimated at \$505.7 million but is projected will grow to about \$780 million when the new actuarial reports are released
- This highlights the importance of managing this County obligation



Emerging County's Needs

Emerging Needs - General Fund	FY 2022-23	FY 2023-24	FY 2024-25
Wage study adjustments	\$3,089,163	TBD	TBD
Salary Increases, Labor Agreements*	\$17,356,062	\$22,541,919	\$50,368,602
PERS Contribution Increase	\$3,886,936	\$3,627,166	TBD
Pandemic Response Costs	TBD	TBD	TBD
Winter Storm & Atmospheric River Event	TBD	TBD	TBD
Total	\$24,332,161	\$26,169,085	\$50,368,602

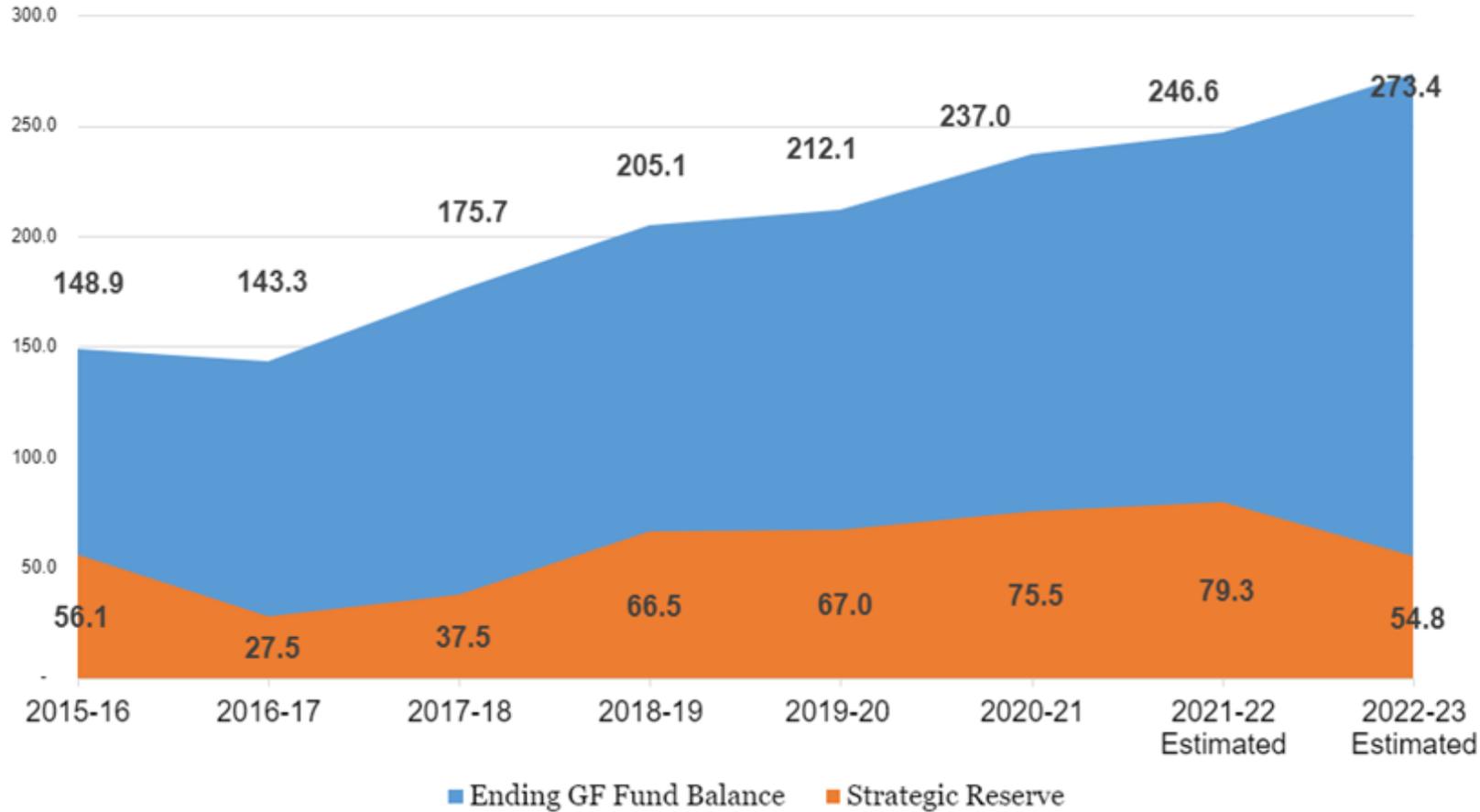
* Does not include recent increases for X, ZX, Y or K units

- Salary increases are projected to impact next year's budget by \$22.6 million and \$50.4 million the following year
- Wage study adjustments will continue to impact the County's costs into the future
- ARPA revenue will sunset after FY 2023-24
 - pandemic response costs may impact the county without this revenue source
- Winter and Atmospheric River Events, or other disasters will impact the County



Strategic Reserve

Ending General Fund Balance



- Strategic reserve balance is estimated at \$54.8 million since a significant portion was used during the fiscal year to provide advanced funding for response to the 2023 winter storms



Departmental Estimated Results



Departmental Performance

Departments projecting a deficit in the fiscal year (more details on page 3 of the forecast report)

- Assessor
- Sheriff Department
- District Attorney

These departments prepared a report for the February 2023 budget committee meeting

Department	Modified GFC Budget FY 2022-23	Estimated GFC FY 2022-23	Variance
Agricultural Commissioner	\$4,715,700	\$4,425,592	\$290,108
Auditor-Controller	\$1,314,298	\$984,418	\$329,880
Assesor-County Clerk Recorder	\$5,672,511	\$7,021,612	\$(1,349,101)
Board of Supervisors	\$4,795,331	\$4,692,219	\$103,112
Child Support Services	\$84,216	\$82,189	\$2,027
Civil Rights Office	\$381,261	\$313,144	\$68,117
Clerk of the Board	\$1,135,754	\$1,039,273	\$96,481
Cooperative Extension	\$523,772	\$467,209	\$56,563
County Administrative Office	\$9,727,815	\$8,940,011	\$787,804
County Counsel	\$1,359,120	\$1,014,378	\$344,742
District Attorney	\$21,088,065	\$21,205,498	\$(117,433)
Elections Department	\$3,943,908	\$3,938,085	\$5,823
Health	\$26,783,181	\$23,500,374	\$3,282,807
Housing and Community Development	\$11,001,974	\$8,845,264	\$2,156,710
Human Resources	\$1,470,406	\$1,124,517	\$345,889
Information Technology	\$(1,230,701)	\$(1,602,236)	\$371,535
Probation	\$26,963,461	\$26,957,825	\$5,636
Public Defender	\$16,158,833	\$15,547,232	\$611,601
Public Works, Facilities, and Parks	\$16,673,020	\$15,692,181	\$980,839
Sheriff Coroner	\$93,798,764	\$98,528,878	\$(4,730,114)
Social Services	\$25,726,504	\$25,236,055	\$490,449
Treasurer Tax Collector	\$2,062,948	\$1,765,652	\$297,296
Totals			\$4,430,771



Other Funds

- The Library – The fund is projected to add \$0.57 million its fund balance with revenues of \$12.9 million and expenditures of \$12.4 million. Fund balance is projected to grow from \$6.8 million in FY 2022-23 to \$8.5 million in FY 2025-26
- Emergency Communications – reducing fund balance by approximately \$276,000 in FY 2022-23 due to a true up of proposition 172 revenues received the previous fiscal year. Each subsequent year, fund balance is also projected to decrease due to increases in salaries and benefit costs until reaching its lowest point at \$2.5 million in FY 2025-26.
- Natividad – Natividad’s net position is projected to improve from \$225.2 million at the end of FY 2021-22 to \$247.1 million at the end of FY 2022-23 adding \$21.9 million; similar increases in net position project the hospital to end FY 2025-26 with a net position of \$266 million.
- Lake Resort – fund balance is projected to decrease from \$2.3 million to \$1.9 million in FY 2022-23. Since the \$1.9 million is restricted, future losses in this fund may require additional general fund subsidies to support this fund.
- Laguna Seca – is projecting an operating loss of about \$800,000 in FY 2022-23, but projects positive results in the forecast years. Careful monitoring of financial performance is paramount as this fund should be self sustaining just like all other enterprise funds.



Other Funds – Road Fund

- Road Fund – Revenues are projected to exceed expenditures, resulting in the addition of \$1.8 million to fund balance. The forecast years show a reduction in fund balance as more projects are estimated for completion.

Fund 002 Road Fund	Modified Budget 2022-23	Year-End Estimate 2022-23	Forecast		
			2023-24	2024-25	2025-26
A. Beginning Fund Balance	\$18,531,866	\$21,070,513	\$22,853,383	\$5,361,320	\$(8,101,742)
B. Revenue	79,607,646	66,036,485	51,490,797	68,641,112	60,018,996
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	98,139,512	87,106,998	74,344,180	74,002,432	51,917,254
E. Expenditures	77,068,999	64,253,615	68,982,860	82,104,174	71,524,838
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	77,068,999	64,253,615	68,982,860	82,104,174	71,524,838
H. Ending Fund Balance, D-G	\$21,070,513	\$22,853,383	\$5,361,320	\$(8,101,742)	\$(19,607,584)



Other Funds – Behavioral Health

- Behavioral Health Fund – This fund is reducing its fund balance by about \$4 million since revenues are estimated at \$139.9 million and expenditures at \$144 million. Accordingly, The ending fund balance is estimated at \$58.5 million in FY 2022-23 and is projected to decrease to \$46.3 million in FY 2025-26.
- It is important to continue monitoring the fund balance and the potential reversion of Mental Health Services Act fund dollars.

Fund 023 Behavioral Health	Modified Budget 2022-23	Year-End Estimate 2022-23	Forecast		
			2023-24	2024-25	2025-26
A. Beginning Fund Balance	\$62,593,487	\$62,593,487	\$58,543,335	\$55,081,381	\$51,135,641
B. Revenue	150,279,106	139,961,602	143,340,282	143,340,282	143,340,282
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	212,872,593	202,555,089	201,883,617	198,421,663	194,475,923
E. Expenditures	157,398,704	144,011,754	146,802,236	147,286,022	148,206,401
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	157,398,704	144,011,754	146,802,236	147,286,022	148,206,401
H. Ending Fund Balance, D-G	\$55,473,889	\$58,543,335	\$55,081,381	\$51,135,641	\$46,269,522



NEXT STEPS

Departmental forecasts are the starting point for building initial “baseline budgets”.

Baseline budgets communicate departments’ plans of what they can (and cannot do) with next year’s expected resources, taking into consideration inflationary pressures.

Departments also submit augmentation requests for increased funding to support current operating levels or to enhance programs.

In the coming weeks, staff analyzes baseline budgets to understanding areas of budget flexibility, funding gaps, and potential impacts in order to build a well-informed and responsible recommended spending plan.

A workshop is held at the end of March with Department Heads to facilitate a shared understanding of countywide finances and programmatic impacts and to gather input on strategies.

The Board’s annual budget workshop on April 4 is an opportunity to provide a “budget preview” and receive direction before building the recommended budget to be presented at the budget hearings on May 31st and June 1st .



Questions

