



Monterey County

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Board Report

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- a. Authorize the Auditor-Controller to amend the FY2017-18 Adopted Budget for General Fund (Fund 001) by transferring appropriations among General Funds Appropriation Units as outlined in Attachment C, where overall appropriations are decreased by \$4,104,629; and
- b. Authorize the Auditor-Controller to amend the FY2017-18 General Fund Adopted Budget, Fund 001, Appropriation Unit SOC003, to decrease revenues by \$32,126; and
- c. Authorize the Auditor-Controller to amend the FY2017-18 General Fund Adopted Budget, Fund 001, Appropriation Unit SOC005, to decrease revenues by \$1,301,930; and
- d. Authorize the Auditor-Controller to amend the FY2017-18 Road Fund Adopted Budget, Fund 002, Appropriation Unit RMA012, to decrease appropriations by \$376,022; and
- e. Authorize the Auditor-Controller to amend the FY2017-18 Libraries' Adopted Budget, Fund 003, Appropriation Unit LIB001, to increase appropriations by \$179,333 financed by assigned fund balance; and
- f. Authorize the Auditor-Controller to amend the FY2017-18 Adopted Budget for Homeland Security Grant Fund, Fund 024, Appropriation Unit CAO023, to increase appropriations by \$2,753 financed by restricted fund balance; and
- g. Authorize the Auditor-Controller and the County Administrative Office to create a new assignment for the Building Improvement and Replacement Reserve for the funds collected through the Building Depreciation as calculated in the County-wide Cost Allocation Plan. The Building Depreciation was calculated as \$5,668,441.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Authorize the Auditor-Controller to amend the FY2017-18 Adopted Budget for General Fund (Fund 001) by transferring appropriations among General Funds Appropriation Units as outlined in Attachment C, where overall appropriations are decreased by \$4,104,629; and
- b. Authorize the Auditor-Controller to amend the FY2017-18 General Fund Adopted Budget, Fund 001, Appropriation Unit SOC003, to decrease revenues by \$32,126; and
- c. Authorize the Auditor-Controller to amend the FY2017-18 General Fund Adopted Budget, Fund 001, Appropriation Unit SOC005, to decrease revenues by \$1,301,930; and
- d. Authorize the Auditor-Controller to amend the FY2017-18 Road Fund Adopted Budget, Fund 002, Appropriation Unit RMA012, to decrease appropriations by \$376,022; and
- e. Authorize the Auditor-Controller to amend the FY2017-18 Libraries' Adopted Budget, Fund 003, Appropriation Unit LIB001, to increase appropriations by \$179,333 financed by assigned fund balance; and
- f. Authorize the Auditor-Controller to amend the FY2017-18 Adopted Budget for Homeland Security Grant Fund, Fund 024, Appropriation Unit CAO023, to increase appropriations by \$2,753

financed by restricted fund balance; and

g. Authorize the Auditor-Controller and the County Administrative Office to create a new assignment for the Building Improvement and Replacement Reserve for the funds collected through the Building Depreciation as calculated in the County-wide Cost Allocation Plan. The Building Depreciation was calculated as \$5,668,441.

SUMMARY/DISCUSSION:

As discussed in the January 19, 2018 Budget Committee meeting, and February 27, 2018 Board of Supervisors meeting, preparation of a cost allocation plan is mandated to any non-federal entity that seeks to request reimbursement from federal awards. County-wide Cost Allocation Plan (COWCAP), prepared by the Auditor-Controller's Office (ACO) in collaboration with all central service departments, and approved by the California State Controller's Office (SCO), is designed to allocate central administrative and overhead costs of departments servicing the entire County (such as Purchasing, Human Resources & Development, Treasurer, Auditor, County Counsel, the County Administration Office etc.) to departments benefiting from those services, namely operating departments. (Refer to Attachment A - For FY2017-18 COWCAP)

The central service costs outlined in the COWCAP are allocated to the General Fund and Non-General Fund operating departments. Please refer to "Attachment B" of this Board Report for the COWCAP Allocations that will be recorded in the system for FY2017-18. The allocations are recorded in the general ledger due to the following reasons:

- 1) To support indirect costs claimed in reimbursement requests: County departments receiving reimbursement for costs through federal and state grants use the county's approved COWCAP in the grant claiming process. For Operating departments that are supported by State and Federal grants it is important the COWCAP allocations are recorded in the County's accounting ledgers. This way their claims can be supported by the expenditure reports during audits from granting agencies. Otherwise, grant receiving departments are at risk of audit findings, and could be required to return the amounts collected in relation to the indirect costs. Audit finding could also jeopardize future funding.
- 2) To be used as a matching share for a grant: When recorded in the ledger, this could be used as a matching share for those federal grants that don't provide funds for reimbursement of indirect costs, and will require the grantee to match a specified portion of the overall costs of the grant program. Using the COWCAP charges relieves the general fund from contributing the required match.
- 3) To identify the true cost of programs: Departments charging for services to the public can utilize COWCAP allocations in determining their billing rate structures. The Board of Supervisors would be aware of the total cost of providing services when approving the billing rates, including the indirect costs. This will allow the County management to recommend, and Board of Supervisors to establish and approve fees at appropriate levels so there is appropriate cost recovery based on full costs associated with the services provided.
- 4) To support transparency: COWCAP supports and delivers transparency because it shows the full cost of services provided for each function/program. Recording the COWCAP in the ledger also improves our financial reporting for the Comprehensive Annual Financial Report (CAFR).

5) Management Tool: As indicated above, allocation of COWCAP in the system, provides the County Management and the Board of Supervisors true costs of the County operations. As final COWCAP Draft numbers become available by baseline budget timelines, it will serve as a tool in budgeting. Departments and County Administrative Office's Budget Division can make informed budgetary decisions. It also serves as a tracking mechanism to track unallowable expenses, such as Cannabis activities.

After SCO approval of the COWCAP, an analysis between the budgeted amounts vs. the actual allocations is completed for all Funds and Appropriation Units affected. To record the allocations for FY2017-18, budgetary modifications are necessary. Please refer to "Attachment C" for General Fund's analysis, and "Attachment D" for analysis performed for Non-General Funds.

For FY2017-18 budget, departments were informed to budget for COWCAP based on prior year allocations or their best forecasts, as the FY2017-18 COWCAP was not available in time. Not budgeting consistently countywide based on the prior year COWCAP caused budget differences in certain instances. To mitigate this in the future years, COWCAP should be completed in time for budget with countywide collaboration.

Based on the analysis performed, budget modifications are being requested for the following funds: General Fund, Road Fund, Library Fund, and Homeland Security Grant Fund.

General Fund (Fund 001):

ACO compared budgeted vs. the actual FY2017-18 amounts for Cost Plan Charges (object code - 7301) for each Department, Organization & Appropriation Unit within the General Fund (Refer to Attachment C - "FY2017-18 COWCAP - Budget vs. Actual Analysis General Fund").

General fund service departments budgeted COWCAP credits totaling \$(22,234,333) where the actual COWCAP allocation credits will be \$(28,961,605), representing \$(6,727,272) excess savings/credits more than initial budget. The appropriations for service departments needs to be decreased by the excess credits to not artificially increase the appropriation of those service departments when the COWCAP allocations are recorded.

General fund operating departments budgeted COWCAP allocation charges totaling \$19,049,940 where the actual COWCAP allocation charges will be \$21,638,792, an underbudget of \$2,588,852. The appropriations for those operating departments needs to be increased for them to have sufficient appropriations when the COWCAP allocations are recorded.

The recommended action transfers appropriations between budget units to allow increases and decreases among the General Fund appropriation units, where the overall appropriations are decreased by \$(4,104,629). The total decrease is attributable to the total budget impact of COWCAP on General fund of \$(4,138,420), adjusted for the \$(33,791) decrease in appropriations not being requested for the Agriculture Commissioner (AGR001) per the request of the CAO due to the Maintenance of Effort (MOE) requirements.

Road Fund (Fund 002):

The Road Fund's FY2017-18 Adopted Budget for COWCAP allocations (object code 7301) was \$1,197,063. The actual allocations after the adjustments to the Road Fund is \$821,041. The recommended action decreases appropriations for Fund 002, Appropriation Unit RMA012 by \$376,022.

Library Fund (Fund 003):

The Library's FY2017-18 Adopted Budget for COWCAP allocations (object code 7301) is \$105,546. The actual allocations to the fund are \$284,879. Per discussion with the Library, it was determined that an increase in appropriations would be necessary to absorb the COWCAP allocations. The recommended action increases appropriations for Fund 003, Appropriation Unit LIB001, object code 7301 financed by the assigned fund balances. The beginning fund balance was \$150,017 and currently estimated year end fund balance is approximately \$180,157.

Homeland Security Grant Fund (Fund 024): The Homeland Security Grant Fund's FY2017-18 Adopted Budget for COWCAP allocations (object code 7301) was \$0. The actual allocations to the fund are \$2,753. Per discussion with the County Administrative Office, based on projected year end estimates, it was determined that an increase in appropriations would be necessary to absorb the \$2,753 COWCAP allocations. The recommended action increases appropriations on Fund 024, Appropriation Unit CAO023, object code 7301 financed by the restricted fund balances. The available fund balance at the beginning of the fiscal year is \$202,140.

This Board report excludes any budget adjustments for proprietary funds: Enterprise Funds (Natividad Medical Center, Lakes & Resorts), and internal service funds (ISFs) (General Liability, Workers Compensation, Benefits, and Resource Planning ISFs). The proprietary funds need to incorporate their cost plan allocations when developing their billing rates.

Building Replacement Reserves:

The action recommends the creation of a building replacement reserve with the building depreciation charges collected from the departments. The building depreciation is allocated to the County departments based on the square footage occupied. Total allocations associated with Building Depreciation in FY2017-18 is \$5,668,441.

It is recommended that the funds collected for the building depreciation are used to create a reserve for future building replacement and repair costs. The reserves should be tracked by department.

OTHER AGENCY INVOLVEMENT:

Auditor-Controller's Office prepared the budget vs. actual analysis and the recommended modifications are based on that analysis. The recommended budget modifications were reviewed by the affected departments for feedback. Their recommendations have been incorporated in this report. The departments concur with these recommendations and were kept informed of the recommended modifications.

FINANCING:

Recommended modifications reduce the general fund appropriations by \$4.1 million after mitigating

departmental impacts resulting from the COWCAP.

The recommended action will decrease the FY 2017-18 adopted budget appropriations in Fund 002, Appropriations Unit RMA012 by \$376,022.

The recommended action will increase the FY 2017-18 adopted budget appropriations in Fund 003, Appropriations Unit LIB001 by \$179,333 financed fund balance. The estimated year end fund balance is \$180,157, and the increase in appropriation will decrease the current estimated year end fund balance to \$824.

The recommended action will increase the FY 2017-18 adopted budget appropriations in Fund 024, Appropriations Unit CAO023 by \$2,753 financed fund balance. The beginning fund balance is \$202,140.

The recommended action will create a reserve for future building replacements & repairs. The reserve balance as of end of FY2017-18 will be \$5,668,441.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The COWCAP supports accuracy and transparency and provides the public with true costs of the services provided for each function/program.

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

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Attachments:

- A - FY2017-18 COWCAP as approved by SCO
- B - FY2017-18 COWCAP Allocations Detail
- C - FY2017-18 COWCAP Budget vs. Actual Analysis General Fund
- D - FY2017-18 COWCAP Budget vs. Actual - Non-General Gov. Funds