Monterey County Financial Forecast

March 2022

Introduction

The County Administrative Office is pleased to present the financial forecast for the County of Monterey. The forecast is the first step of the annual budget development cycle, which concludes with the adoption of a balanced budget by July 1 of each year. To meet this timeline, staff conducts a comprehensive mid-year review of planned spending and anticipated revenues for the current fiscal year (FY 2021-22), budget year (FY 2022-23), and two additional years. The result of this review is an assessment of the County's financial condition, emerging needs, and expected fiscal capacity to meet those needs.

Approach and Assumptions

The forecast is an analysis of estimated revenues and costs for existing levels of staffing and services within the context of current statutes and policies. A forecast is different than a budget. In forecasting, departments estimate "normal" cost of operations, which generally include the filling of vacancies and current level of discretionary spending. Developing a three-year forecast provides a window of opportunity to identify potential actions necessary to balance revenues and expenditures over the long-term to ensure financial sustainability of the County. Similarly, the forecast also serves as a tool for the upcoming budget to assess the impact that decisions made in the present, such as considering a new revenue source or the funding of a new program, will have on future fiscal condition of the County.

The forecast includes employee salary and benefits changes as authorized under existing memorandums of understanding (MOUs) and scheduled employee step advances. The forecast also takes into consideration known increases in PERS retirement rates and health insurance premiums. Revenue estimates are based on the most recent financial data and available information about federal and State funding levels. The forecast compares expenditures required to carry out existing operations related to estimated financing sources. This analysis is a key financial management tool to guide the upcoming budget process and help preserve long-term financial stability.

General Fund Results Prior Fiscal Year

The general fund supports core governmental functions related to public safety, land use and environment, public assistance, health and sanitation, recreation and education, and finance and administration. The FY 2020-21 final modified budget included $786.3 million in appropriations, matched by an equivalent amount of financing, $706.5 million in revenue and $79.8 million in fund balance.

The County ended the fiscal year with a favorable performance compared to the final budget. The general fund ended with revenues of $743.5 million and expenditures of $719.4 million which resulted in an initial operating surplus of $24.1 million, allowing the County to set aside funds in its Strategic Reserve meeting the Board's policy of 10% of estimated general fund revenue, placing funds in a pension trust to meet future pension obligations, and adding to other assigned fund balances for use in future. After releases and additions from and to various assignments, the general fund ended the prior year with a preliminary surplus of $6.4 million. Since the FY 2020-21 Audited Comprehensive Financial Report (ACFR) is not available as of the date of this publication, results are preliminary until the ACFR is published. Investments in the County's reserves are a strong indicator of the County's commitment to weathering future unforeseen events and meet emerging needs.

General Fund Outlook through 2024-25

	2020-21	FY 2021-22			2022-23	2023-24	2024-25
	Actual	Adopted	Modified	Year-End Estimate	Forecast		
Available Financing:							
Beg. Unassigned Fund Balance	$0.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Release of Fund Balance	78.5	8.3	9.0	8.8	0.0	0.0	0.0
Revenues	743.5	754.8	754.9	770.3	730.3	735.4	747.0
Total Financing Sources	$822.3	$763.1	$763.9	$779.1	$730.3	$735.4	$747.0
Financing Uses:							
Assignments/Restrictions	96.5	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	719.4	760.7	763.0	775.9	750.7	759.6	776.1
Salary Adjustmnet					(9.4)	(10.1)	(9.9)
Appropriation for Contingencies	0.0	2.4	0.9	0.5	7.2	7.2	7.2
Total Financing Uses	$815.9	$763.1	$763.9	$776.4	$748.5	$756.7	$773.4
Ending Unassigned Fund Balance	$6.4	$0.0	$0.0	$2.7	($18.2)	($21.3)	($26.4)

General Fund Current Fiscal Year Estimated Results

The Board's vision and support along with responsible stewardship of County departments is evident in the current year, with the County estimating to add $2.7 million to fund balance at the end of FY 2021-22. This positive result could not have been achieved without continuous management of operational budgets by Departments. Although results are positive for the entire fund, negative results in some departments provide early warning to potential fiscal challenges the County will have to face as it prepares for the FY 2022-23 budget process.

Overall, 13 general fund departments are estimating ending the year within their budget and estimating a $3.8 million surplus. However, nine departments estimate they will end the year over their allocated GFC, resulting in a deficit of $8.9 million. Significant deficits are estimated for the Health Department ($3.3 million), the Sheriff ($2.2 million), the District Attorney ($1.7 million), and Social Services ($0.8 million). Details for departmental forecasts are provided toward the end of this report.

Although expenditures are $12.9 million higher than the modified budget, revenues are $15.4 million higher, and therefore contribute to a positive bottom line. The increase in expenditures is primarily due to the Emergency Rental Assistance Program within Social Services which was not initially included in the budget; this program accounts for a $20.7 million increase in revenue and expenses. The department has amended their budget to include the higher revenue and expense, however, due to timing, this budget modification is not reflected in the modified budget figures included with this forecast.

Other major variances in expenses include lower program expenditures of $11.0 million in the Health Department due to lower services to the public than planned. Typically, departments have salary savings from vacant positions. However, in the current year, departments utilized salary savings to offset wage increases resulting from classification and compensation studies and finalization of labor agreements.

Current year non-program revenue is estimated $7.8 million higher than budget due to improvement in property taxes of $4.4 million and $5.8 million higher-than-budgeted TOT revenue, offset with a reduction to cannabis tax revenue of $2.9 million due to recent Board action which reduced the cannabis tax rates, and $1.1 million lower than budgeted ARPA revenue. The lower ARPA revenue results from underutilization of approved revenue from a few departments. Other major revenue reductions include $14.3 million lower revenue in the Health Department due to lower than planned services and redirection of staff to pandemic response.

Forecast

The forecast reveals a deficit of $18.2 million next fiscal year, growing to $26.4 million by FY 2024-25. Although the County is projecting moderate growth in non-program revenue next fiscal year, the County will face the impact of major cost drivers exceeding available funding. The forecast includes preliminary GFC allocations that include $12.2 million in cannabis revenue, which is a decrease of $6.6 million from the adopted budget due to lower tax rates resulting from recent Board action. No growth is anticipated to the cannabis assignment since all the ongoing revenue is fully allocated to departments. The forecast does not include ARPA funds, as the CAO plans to bring an updated plan to the Board of Supervisors during the budget process to receive direction on priorities and funding level for FY 2022-23. Furthermore, there are still a couple of safety bargaining units that have to finalize wage negotiations and there are pending classification and compensation studies being performed by the Human Resources Department that have not been included in the forecast since impacts of these events are unknown as of the date of this report.

The three-year forecast reflects a drop in expenditures and revenue primarily due to exclusion of one-time expenses and pandemic response expenses anticipated to conclude in the current year. Furthermore, ARPA revenue utilized in the current year to backfill revenue loss is also excluded from the forecast. The forecast reflects deficits primarily due to rising wages resulting from approved labor agreements, higher contributions going towards paying down CalPERS' large unfunded pension liabilities and increases in the general liability insurance program and Worker's Compensation.

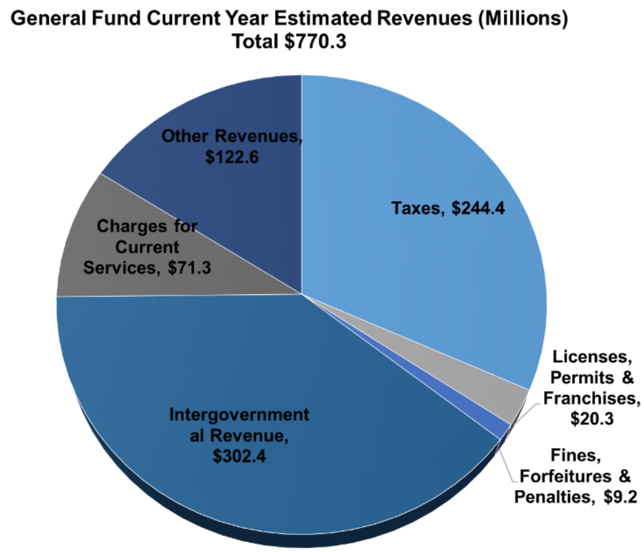
Departments estimate program revenues based on the programs they deliver and known federal and State funding sources as well as grants for the forecast period. Non-program revenue, which is the County's discretionary revenue, is projected to improve through the forecast period. County staff are typically conservative when estimating revenues and expenditures with actual performance generally favorable compared to forecasts. These hypothetical deficits are based on current operations and policy and do not include future service enhancements, wage increases for expiring labor agreements after FY 2023-24, changes in federal or State financial commitments, or revenue declines in an economic downturn, or inflationary changes which have developed over the last few months.

Looking into the future, the County, like the State and other local governments, must continue to plan for a stable and sustainable future for coming generations by maintaining its Strategic Reserve, addressing infrastructure needs, and paying down unfunded liabilities. The financial forecast assumes that the economy continues to grow through the forecast period and does not include potential impacts that may result from possible federal or State policy changes or impacts of a recession or current year discretionary revenue declines.

While some growth is assumed in forecasted years, it is not enough to cover increases in costs for current levels of staffing and services. Furthermore, planning for service delivery in unprecedented times created by the global pandemic continues to be an issue of concern for the State as well as local governments considering the U.S. has seen the largest number of infections in the world. Any new budget commitments will increase the severity of reductions the County would have to make in an economic downturn. Given these uncertainties and events, prudent financial management practices, including limiting new on-going commitments or expansion of programs, is paramount for the current environment.

General Fund Revenues

General fund revenue is composed of program and non-program revenue. Program revenue is specifically designated and/or statutorily required for programs. Sources of program revenue are derived from State and federal aid for various mandated programs primarily in Health and Social Services, charges for services are primarily fees collected by health clinics and other revenues include primarily reimbursement from realignment funds for health, social services, and public safety programs.



Non-program or "discretionary" revenues are mostly derived from taxes and are utilized to address local priorities and to provide funds to leverage federal and State monies, including maintenance of effort requirements.

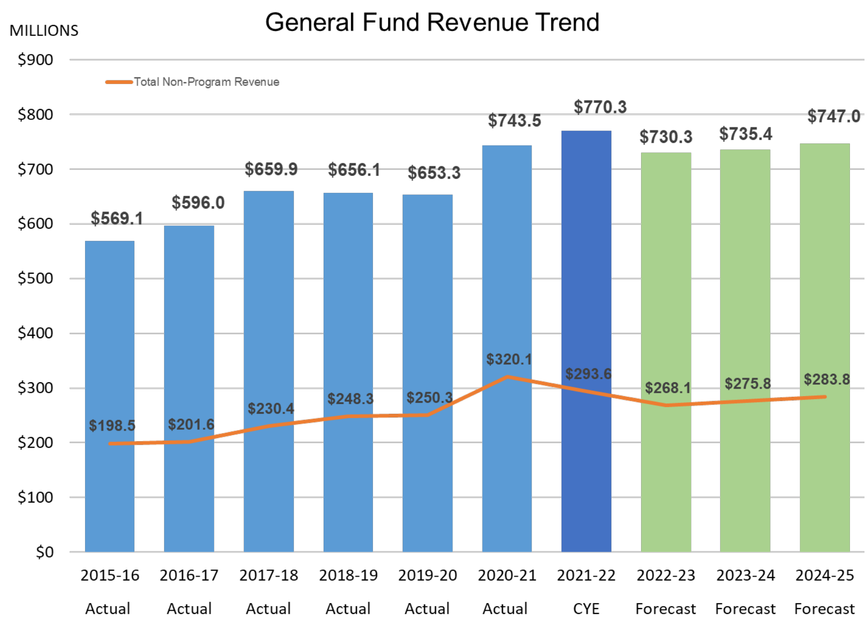
Current year revenues are $15.4 million above budget expectations. The major variances compared to budgeted revenue in the current year include:

- **Revenue in Social Services is $20.4 million above budget.** Social Services is estimating revenue above budget primarily due to the Emergency Rental Assistance Program. The Department has already amended their budget to include $20.7 million of additional expenditures and revenues for the program, however, due to timing issues it was not included in the modified budget at the time of the forecast development.

- **Revenue in the Health Department is $14.3 million below budget.** The Health Department is estimating a decrease in health fees and lowered reimbursements due to a lower than anticipated level of service due to vacancies in revenue generating operations and redirection of staff to pandemic response.

- **Non-program revenue is projected to be $7.8 million higher than budget.** In the current year, the increase in discretionary revenue is largely driven by TOT tax which is $5.8 million above budget. Initially, the budget included assumptions that the pandemic would continue to impact TOT, but as the economy remains open, and current year revenues support a higher projection, the TOT was revised upward. Additionally, property taxes are expected to be better than budget due to continued higher property values and sales of properties, and sales tax is projected to be higher than initial budgeted estimates.

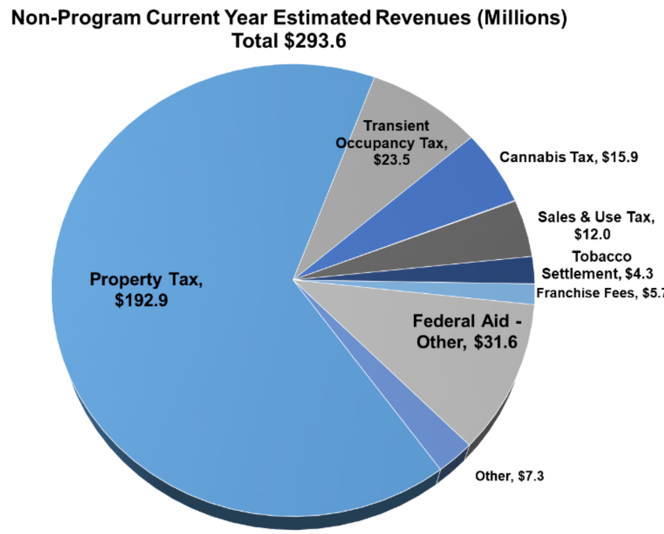
Forecasted years exclude one-time revenue sources and ARPA revenue, but overall, assume modest growth in program and discretionary revenues. Departments balance their budgeted expenditures based on a combination of revenues earned directly by the program (State reimbursement, permit fees, clinic charges, etc.) and County contributions of discretionary "non-program" revenue.



Since FY 2013-14 the County's program revenues have mostly grown under state-county realignment and the Affordable Care Act to support increased responsibilities and associated costs, including mandated public assistance and health and public safety programs. For FY 2021-22, general fund revenues are estimated to increase over the prior year, primarily due to $31.6 million of estimated ARPA funds for pandemic response, economic recovery, infrastructure projects, and provision for government services. The forecast period beginning with FY 2022-23 excludes any ARPA funds as the plan to use those funds is evolving in line with Board of Supervisors' direction and funds are prioritized and approved during the annual budget process. Additionally, the forecast excludes revenue for other departmental programs that are ending such as the Emergency Rental Assistance Program and Whole Person Care program in Social Services. Beginning with FY 2022-23, general fund revenue increases in the forecast years due to State and federal reimbursements, and an increase in non-program revenue, specifically continued growth in property taxes and TOT. The chart above reflects the overall general fund revenue trend and the non-program revenue trend, which accounts for slightly over one-third of general fund revenues.

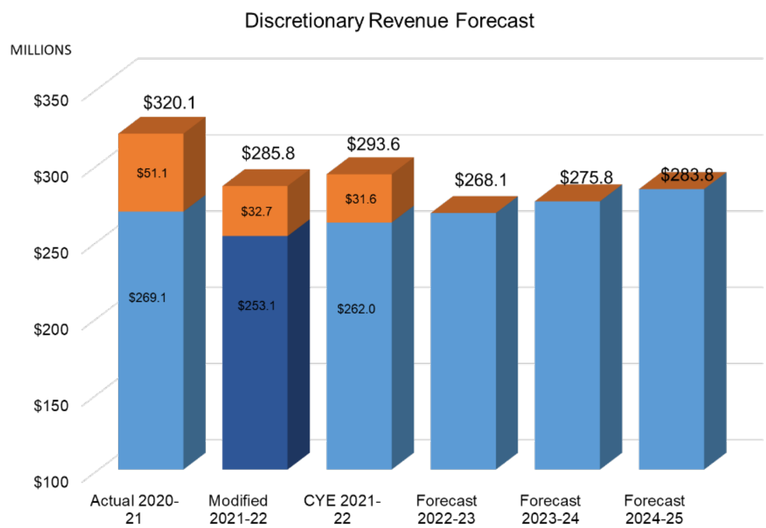
Discretionary Revenues

Discretionary revenues provide the Board flexibility to address local priorities and to provide matching funds to leverage federal and State monies and to meet maintenance of effort requirements.



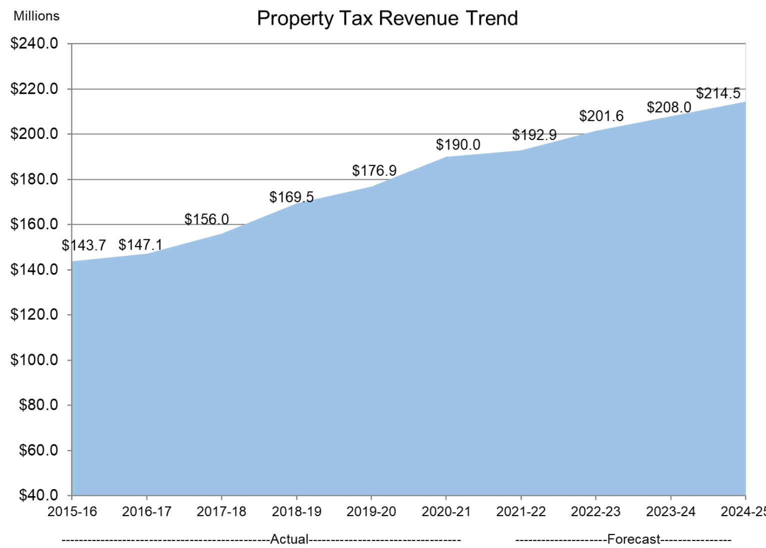
Property tax revenue account for majority of local discretionary monies. Sources of non-program revenue are displayed in the chart to the right. Total non-program revenue in the current year is estimated at $293.6 million.

Property tax revenue is the largest source of non-program revenue, projected at $192.9 million (66%) of total current year estimated non-program revenue. Other significant sources of discretionary revenue include: $31.6 million in ARPA revenue; $23.5 million in TOT; $15.9 million in Cannabis revenue; $12.0 million in sales and use tax revenue; franchise fees of $5.7 million and tobacco settlement monies of $4.3 million.

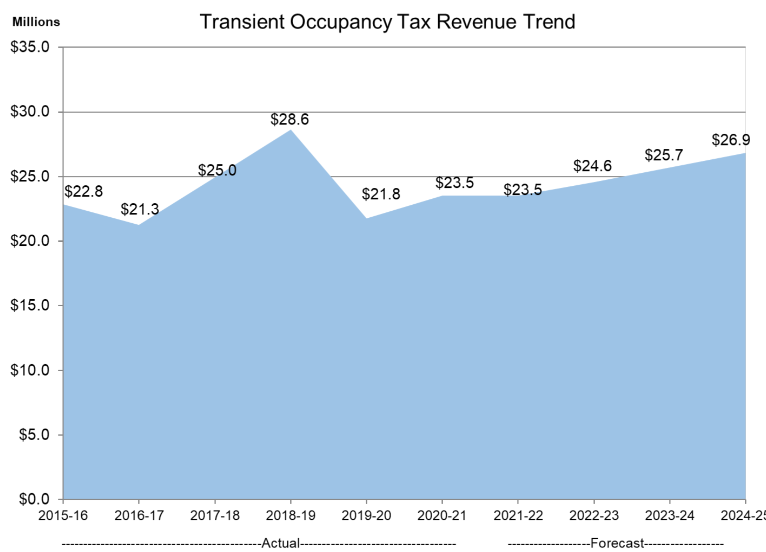


Discretionary revenue continues to grow in coming years. The chart to the right reflects the projected non-program revenue in the current year, upcoming budget year (FY 2022-23) and two out years. Projected current year non-program revenue is above budget mostly due to improvement in property taxes and TOT as current year performance has fared better than initial more conservative estimates included in the budget. The chart also breaks out CARES and ARPA revenue from the prior year and current year, to reflect a more accurate trend in discretionary revenues. Adjusting out the ARPA revenues from the current year, we see that discretionary revenue grows $6.2 million in FY 2022-23 and an additional $7.7 million and $8.0 million in the subsequent two years, respectively. The improvement in projected revenue is primarily due to positive trends in property tax collections resulting from higher assessments and increases in TOT and sales tax as the economy continues to recover from the pandemic. These improvements in revenue are partially offset by an estimated decrease in cannabis revenue of $2.9 million in the current year, and an additional $3.7 million next fiscal year.

Increases in property assessments result in discretionary revenue growth. While the forecast assumes moderate growth in property tax assessment, the impact of a recession on property tax revenue should be noted. During the economic recession beginning FY 2008-09, property taxes sustained steep reductions, declining $15.6 million from peak to trough. This impacted County services and was the driving factor behind four years of budget reductions following the onset of the recession. Assessed values have steadily recovered and since exceeded pre-recession levels.

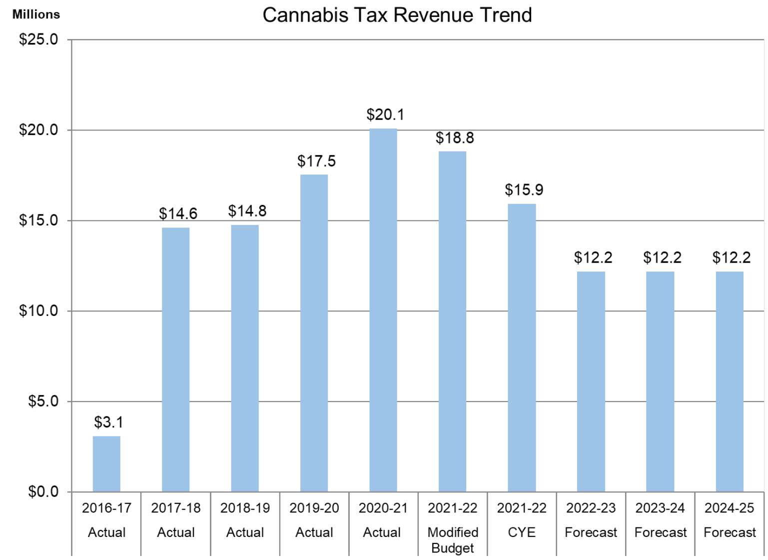


As seen on the chart, property taxes continue to grow due to positive trends in property values and an increase in assessments. Next year, the forecast assumes a 5% growth resulting in $8.6 million improvement in property tax revenue. The two out years include a more conservative growth assumption of 3.5% each, yielding additional revenue of $6.4 and $6.5 million each year. However, it is important to note that the pandemic may have long term effects in the economy, and along with inflation and rising interest rates, could impact property values and thus property taxes in the coming years.



Transient Occupancy Tax is improving as pandemic restrictions ease. TOT is the County's second largest source of discretionary revenue. Often referred to as the "hotel tax," TOT is the tax applied on hotel/motel accommodations. Various tourist attractions contribute to the County's TOT. The tax rate for Monterey County is 10.5%. Peak TOT revenue in FY 2018-19 included revenue attributable to the U.S. Open, a one-time event, as well as continued efforts by the Treasurer-Tax Collector in recuperating one-time collections for non-complaint Short Term Rental operators. The pandemic and corresponding stay at home orders negatively impacted revenue collected in the second half of the FY 2019-20. In FY 2020-21, the County conservatively budgeted $16.4 million assuming continued negative impacts due to the pandemic, but actual revenues came in at $23.5 million as travel restrictions eased and the County saw a rebound in tourism. Revenues collected in the first six months of the current year support similar performance to last fiscal year. Again, change in restrictions to travel due to the pandemic may change this estimate for the current year. The forecast assumes a 4.5% growth assuming no pandemic-related restrictions or economic downturn occur in the forecast period.

Cannabis revenue is anticipated to decrease based on recently approved tax changes. The adopted budget included $18.8 million, with an estimated $5.5 million attributed to the cannabis program to support 26.48 FTEs. The remaining $13.3 million was allocated as discretionary revenue supporting all County departments. In the current year, the Board approved reductions to cannabis tax rates resulting in estimated current year revenue of $15.9 million, or $2.9 million below budget. For FY 2022-23, the full year impact will be greater with cannabis revenues estimated at $12.2 million, a decrease of $6.6 million from the current year adopted budget.

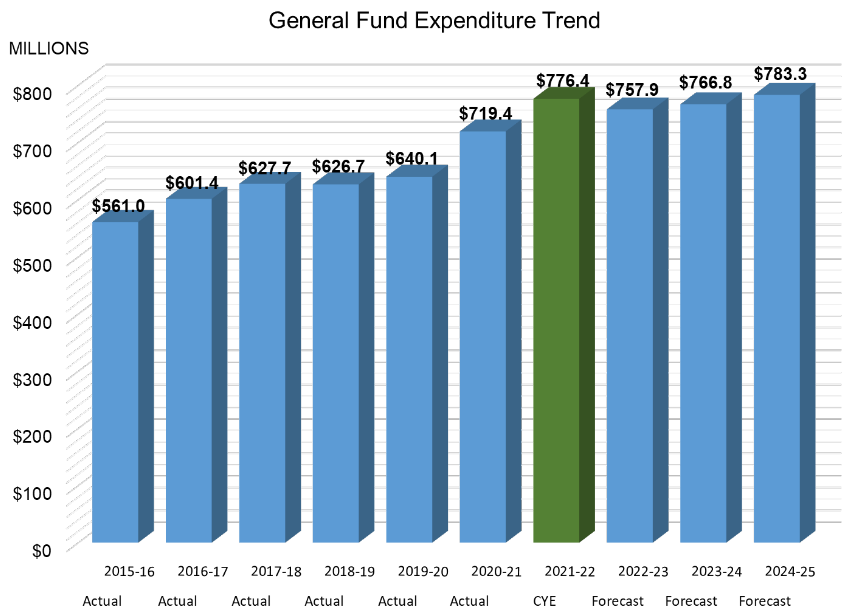


As of the date of this report, the cannabis assignment has an estimated uncommitted balance of $16.1 million. The assignment is not expected to grow at the end of the current or future years since cannabis revenue is allocated entirely as part of the GFC next fiscal year. Assignment utilization in FY 2021-22 totals $7.3 million as shown in the table below. These figures do not include the additional $9 million requested for wo major capital projects for Laguna Seca (Racetrack resurfacing and start/finish bridge). If these totals were included, the estimated uncommitted cannabis balance would be $7.1 million.

Cannabis Approved Assignment Uses FY 2021-22 Description		FY 2021-22
Assignment Use	**$**	**7,273,871**
2nd half of cost in FY 2021-22 Sheriff Radios (Sheriff Office)||	$	1,250,000
Additional funding for Emergency Operations Center (OES)	$	435,000
Book mobile (Library)	$	125,000
Laguna Seca Projects	$	750,000
Pajaro River Flood Risk Management Project (WRA)	$	658,500
Prop 1 Implementation Grant Project Protection of Domestic Water (WRA)	$	1,509,201
Resolve parking issues at the Marina Coastal Office (DSS)	$	300,000
Ongoing COVID-19 Operations (EOC)	$	996,170
Farmworker Resource Center	$	250,000
Watsonville Hospital	$	1,000,000
Grand Total	**$**	**7,273,871**

General Fund Expenditures

The FY 2021-22 adopted budget included appropriations of $763.1 million. The modified budget is $763.9 million. Changes primarily include an amendment of $435,000 to the Office of Emergency Services budget to address the Emergency Operations Center costs and other smaller modifications such as $169,351 for Contracts / Purchasing and $79,387 for the Sheriff. Most of the modifications were funded with fund balance. There are modifications to budgets which occurred after this report was compiled and were not included in the modified budget figures due to timing. Departments continue to amend their budget throughout the year as the need arises and the final modified budget will be different.



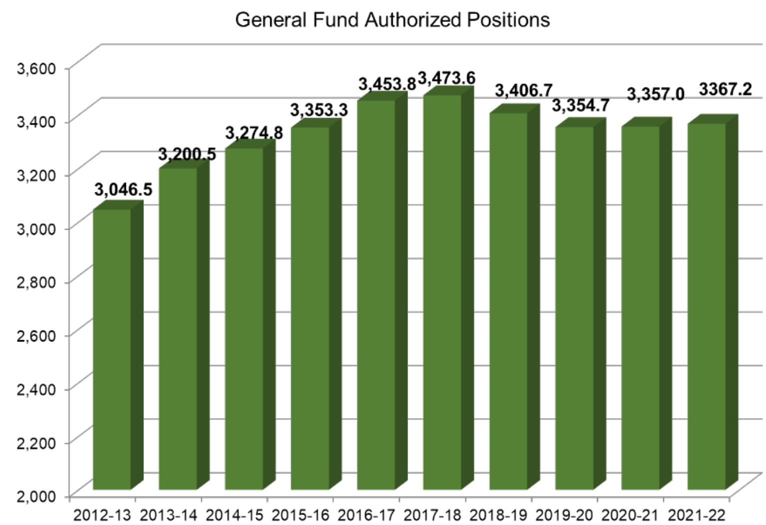
Current year expenditures are estimated at $776.4 million, or $12.5 million above budgeted expenditures. Again, the primary factor for above-budget expenditures in the current year is $20.7 million for the Emergency Rental Assistance program in Social Services, offset with salary and benefit savings of $5.2 million resulting from vacancies across the County, and other lower expenditures in health and social services programs. At the writing of this report, the County had an overall 11.5% vacancy rate in the general fund. Typically, this level of vacancy would provide a savings greater than the $5.2 million reported in the current year, however, departments were impacted with unbudgeted wage increases in the current year, which eroded salary and benefit savings in many departments. For perspective, the 2% increase that most units in the County received and the wage adjustments had an estimated cost $10.5 million in the current year, based on currently filled positions. At the time the forecast was developed there were an estimated 386 vacancies in the general fund, with an estimated annualized value of $34.7 million next fiscal year. Of these vacancies, approximately 53% reside within two departments: Health and Social Services. To the extent these departments fill vacant positions, it is likely they would qualify for some level of reimbursements from State and federal agencies. Therefore, vacancies in these departments do not translate into County savings to the extent departments cannot seek reimbursement from State and federal agencies for costs not incurred. The same holds true for departments with grant-funded vacancies or departments that share cost with other payors.

For next year's forecast, one-time expenditures such as infrastructure projects and pandemic related programs such as the rental assistance program are excluded. In the forecast, departments generally assume that all vacancies are filled and at top step. This conservative estimate illustrates potential increases in expenditure levels; however, expenditures are curtailed to available funding. As responsible fiscal managers, Departments make operational changes if funding levels are constrained, including delaying hiring of vacant positions. An adjustment for salary savings is made in the forecast years. This adjustment is discussed later in the report.

One-time expenditures in the current year are financed with fund balance. The FY 2021-22 adopted budget included $8.3 million use of fund balance to cover one-time expenditures including $3.5 million in Health to cover a liability payment to the state, $2.8 million from the cannabis assignment for the purchase of Sheriff's radios and for a loan to the Water Resources Agency for a well destruction project, and $1.6 million for IT related capital projects. Remaining fund balance use includes departmental restricted fund balance use for social services and public safety programs.

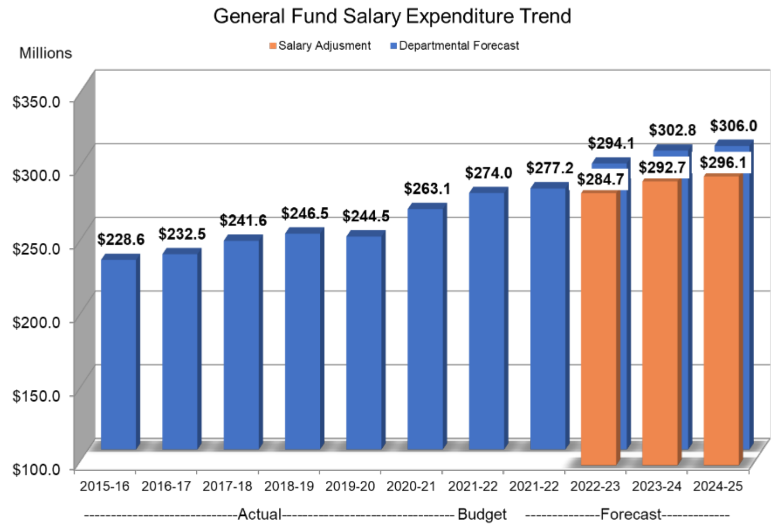
Major Cost Drivers

County programs and services continue to be impacted by higher labor costs resulting from negotiated salary increases, increased employer pension contributions, increased healthcare costs, higher workers' compensation and general liability costs.



Prior and current fiscal year wage increases add to salary cost. In July 2021 and October 2021, the Board of Supervisors approved wage increases for FY 2021-22 through FY 2023-24. The Board approved wage increases for most labor groups of 2.0% in the current year and in the subsequent two years, while SEIU represented units received 2.0% in the current year and 2.5% in the subsequent two years. Additionally, the County implemented positive wage adjustments for various classifications throughout the County resulting from compensation studies conducted by Human Resources. Independent of position growth, wage increases approved for the three fiscal years had and estimated impact of $10.5 million in cost (wages and impact to payroll taxes and higher pension contributions) to the general fund in the current year, compounded to $22.5 million by the end of the third year annually. The forecast assumes approved wage increases through FY 2023-24, excluding a couple of safety bargaining units that have yet to finalize negotiations.

Along with increases in staffing levels, salary increases continue to constrain department's budgetary flexibility. Between FY 2012-13 and FY 2017-18, general fund positions increased year-over-year, with a total of 427.1 general fund positions added. However, FY 2018-19 was the first-year general fund positions experienced an overall drop. Although it appears FY 2019-20 positions decreased, this was due to the move of Emergency Communications out of general fund (75 positions). In FY 2020-21 and FY 2021-22 additional positions were added.

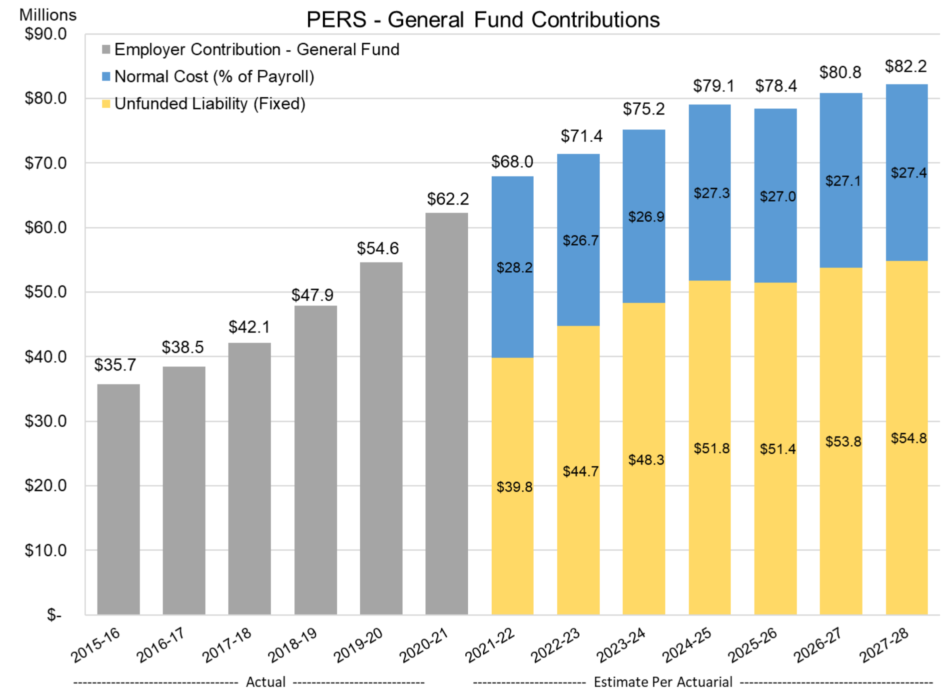


Departments estimate salary expenditures increase $14.1 million, from $263.1 million in the prior year to $277.2 million in the current year. The estimate includes higher wages based on labor agreements, plans to fill additional positions through the current year, and step advances. As mentioned earlier in the report, departments generally forecast all vacancies are filled and at top step. Departments manage their budgets to anticipated funding levels, and thereby make changes to their operations – including delaying hiring. Additionally, savings in salaries have consistently occurred due to attrition and turnover. Some Departments such as Health and Social Services build in a vacancy rate into the forecast. However, it is important to note that most departments experience turnover and attrition, and actual performance is historically better than the projections. As such, the forecast added a salary savings adjustment to illustrate prior years' experience more closely in salary expenditures. Taking the salary adjustment into consideration, salary expenditures increase to $296.1 million by FY 2024-25. The forecast includes future wage increases for labor agreements through FY 2023-24; the last year of the forecast period does not include wage increases as labor agreements are set to expire by FY 2023-24.

Employer contributions continue to increase. The County continues to see its contributions towards employee pensions increase. Driving the increases are changes to CalPERS' actuarial methodology, including the following actions:

- Changes in amortization and rate smoothing policies to accelerate paying down large unfunded liabilities.
- Change to fixed dollar contribution for the unfunded liability portion, rather than as a percentage of payroll, to prevent potential funding issues that could arise from a declining payroll.
- Adoption of new demographic assumptions that show retirees living longer, and thus requiring higher lifetime payout of benefits.
- Approval of a new funding risk mitigation policy to incrementally lower the discount rate.

Projected results assume no plan changes, no changes in assumptions, and no liability gains or losses. Additionally, projected results are based on investment returns not falling below the assumed rate of return, which will increase contributions. Projections are also based on payroll reported to CalPERS and assume an inflation factor; however, projections do not consider adding new positions. Any changes to those elements will have a direct impact on required contributions.

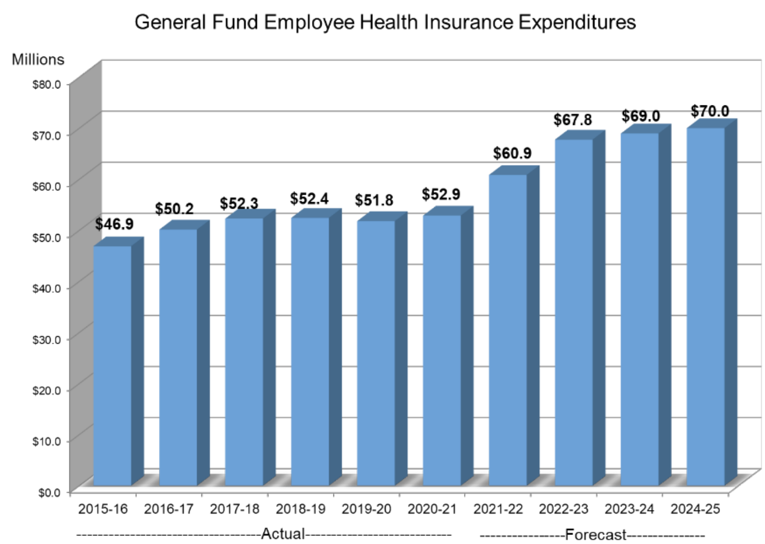


General fund contributions continue to increase in the forecast years with an increase of $3.4 million next fiscal year bringing the total contribution to $71.4 million, which is double the FY 2015-16 contribution, and grow an additional $10.8 million by FY 2027-28. The most significant change impacting contributions is the reduction in the "Discount Rate," which reduced the assumed rate of return by CalPERS from 7.50% to 7.0% over three years, beginning with the June 30, 2016 valuation, which set FY 2018-19 contributions. Additionally, there was a shift to charge unfunded accrued liability (UAL) payment as a fixed dollar amount rather than a percent of payroll to prevent funding issues. With these changes, there was a five-year ramp up period where contributions were accelerated to pay down liabilities; however, the full impact of increases to UAL payments was anticipated to be seven years, through FY 2024-25, due to the phase in period of the discount rate and then UAL payments were anticipated to level off. The projections reflect lower increases after FY 2024-25. However, CalPERS has announced that as part of their Funding Mitigation Policy, the discount rate will be further reduced to 6.8% effective with the June 30, 2021 valuation. Their policy seeks to reduce funding risk over time and establishes a mechanism that prompts adjustments if the investment performance significantly outperforms the discount rate, expected investment returns, and strategic asset allocation targets. This was the case for FY 2020-21, where performance yielded a 21.3% return on investment, and therefore, a 20-basis point adjustment was triggered by the funding policy. This change is not reflected in the forecast, and impacts are unknown at this time.

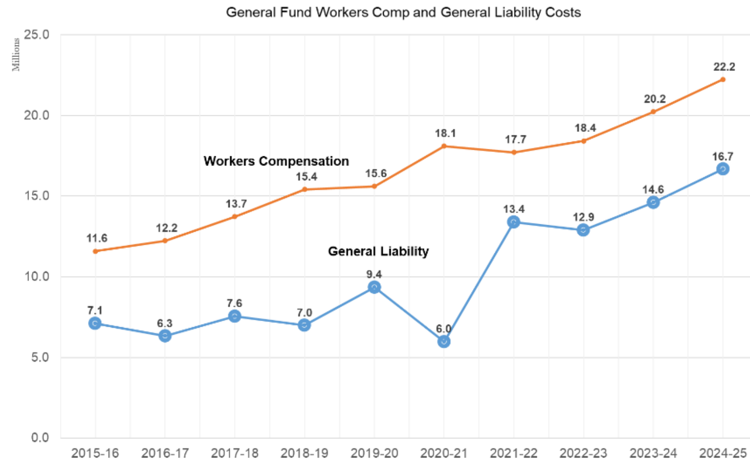
The changes to CalPERS funding policy have resulted in increasing contributions for the County, consuming a larger share of revenue every year. The contributions for FY 2021-22 and through the forecast years are based on a 7.0% discount rate. The projections in the chart above are based on CalPERS actuarial valuations, which are built on actual payroll data obtained by CalPERS, and therefore, based on existing levels of filled staffing. The chart breaks out the portion of the contribution that goes toward paying unfunded liabilities. While the "normal" cost has stabilized at about $27 million for the next seven fiscal years, the unfunded liabilities payment is what drives the increases, increasing $10.1 million over the next seven years. The County's current unfunded liabilities of $818.8 million (all funds) and represents more than next year's forecasted general fund budget.

The Board of Supervisors adopted a pension liability policy during FY 2020-21 and the County established an IRS Section 115 pension trust. The trust will serve as an investment vehicle outside of the County's Treasury Pool to generate investment proceeds to address future pension lability obligations. This is important progress toward planning for the future and managing growing unfunded liabilities. Trust assets may be used for contributions and / or supplemental payments to unfunded liabilities. In the long term, this reduces reliance on discretionary revenues to meet this obligation and prepares the County for hard economic times potentially averting reductions of critical programs. The County has set aside funds from FY 2020-21 surplus as well as funds from the compensated absences assignment to go into the pension trust. Natividad is also in the process of contributing $3.5 million to pension trust.

Additionally, the County will be implementing a charge to departments for supplemental pension contribution to continue the progress toward paying down future unfunded liabilities. Starting next fiscal year, departments will be allocated a supplemental pension charge, which will allow the County to invest funds in the pension trust on a recurring annual basis allowing for continuous investments as opposed to only contributing surpluses or one-time funds. Next fiscal year, departments will see allocated charges of $10.5 million in the general fund ($15.4 million all funds). It is anticipated that some departments will recover a portion of these costs from non-County sources. This is not reflected in the forecast. This pension charge intends to capture County and non-County funding sources to share in the growing UAL costs created in prior years.



Increases in health insurance premiums continue to add to Countywide fiscal pressures. Health care costs for the current year are estimated at $60.9 million, an increase of $8.0 million from the prior year. This increase is significant and unprecedented and is a direct result of the terms of the latest negotiated labor contracts which include higher County contributions for premiums and higher costs of flex cash credits provided to more bargaining groups. As comparison, costs increased $6.0 million from FY 2015-16 to FY 2020-21. Additionally, costs are estimated to grow by $6.9 million in FY 2022-23; however, much of the increase is tied to assumptions that vacancies are filled. After that, costs are expected to remain fairly stable in the last two years of the forecast (FY 2023-24 and FY 2024-25) as health care contributions were negotiated in labor agreements to remain at the FY 2021-22 levels. The small increases in the last two FY years of the forecast are tied to assumptions of higher filled positions in the Health Department and Sheriff's Office.



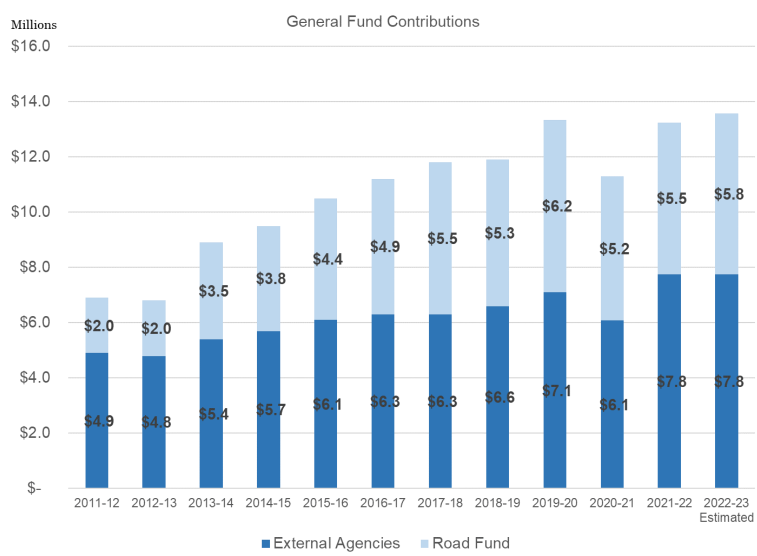
Costs to run internal service fund programs continue to increase. The workers' compensation program continues its trend of increasing projected allocated costs. FY 2022-23 costs are estimated at $18.4 million or $705,819 higher than the current year and projected to grow 10% annually in the following two years, to $22.2 million by FY 2024-25. This growth represents a $10.6 million increase from FY 2015-16 costs. Next fiscal year, the general liability (GL) program's allocated costs to departments also are estimated slightly lower than the current year at $12.9 million (recoverable and non-recoverable combined) and then grow 15% in the subsequent two years to $16.7 million by FY 2024-25. Costs for this program were $7.1 million in FY 2015-16, resulting in a growth of $9.6 million by the end of the forecast period.

The chart above, shows the trend of historical and projected workers' compensation and general liability costs. The chart reflects a dip in FY 2020-21 for general liability costs, which reflects the suspension of approximately $8.5 million in charges of GL recoverable costs to general fund departments due to budgetary constraints. In FY 2021-22, the GL recoverable costs resumed.

Funding Commitments

In addition to operational cost drivers, County policy provides for funding towards external agencies and to the Road Fund. Funding agreements are based on percentage formulas, which have generally resulted in increased annual contributions in recent years. These commitments total $13.2 million in FY 2021-22 and result from the following:

- **Funding to external agencies in support of their mission to economic development.** County policy provides funding for agencies that promote economic development, tourism and cultural arts. Contributions to these endeavors has varied over time as the County's contribution adapts to the economic conditions facing the community. For example, during FY's 2016-17 and 2017-18, contribution amounts were capped at FY 2015-16 levels, or $1.9 million, due to fiscal constraints. In FY 2018-19, contributions returned to formula based; however, in FY 2019-20 contributions were again capped and include $2.1 million from TOT. In FY 2020-21, the contribution was based on a formula driven approach amount but with a cap reflecting the



anticipated decline of TOT revenue resulting in a contribution of $1.2 million. In FY 2021-22, the amount was based on a formula using FY 2018-19 (pre pandemic) revenue, resulting in a contribution of $2.5 million. The forecast assumes static amounts from the current year. Contributions to these agencies have grown $1.2 million annually over the last nine fiscal years. During the budget development, the Board decides the level of contributions and can modify distribution percentages for this funding based on current economic conditions.

- **Proposition 172 revenues (Half-Cent Public Safety Tax).** The County distributes Proposition 172 revenues based on funding agreements to user agencies of the 911 dispatch center and to fire districts to promote public safety. These contributions are at the discretion of the Board. The FY 2021-22 contributions to user agencies of the 911 center total $1.8 million and the allocation to the fire districts is $3.3 million and were based on the existing formula using FY 2018-19 (pre pandemic) revenue as the base. The forecast assumes static amounts from the current year. Contributions to user agencies and fire districts have grown $580,024 and $1.1 million annually over the last nine fiscal years.

- **TOT to the Road Fund**. In FY 2013-14, the Board adopted a policy to contribute a percentage of TOT revenue to the Road Fund, recognizing that well maintained roads are vital to the local economy. In FY 2019-20, the Board approved adjusting the contribution to the Road Fund at a level necessary to meet maintenance of effort (MOE) with the difference directed to Board approved road projects. In FY 2020-21 the amount was kept at the minimum MOE required. Based on current formulas, next fiscal year, the estimated contribution to the Road Fund to meet MOE is $5.8 million.

Emerging Countywide Needs

The following table summarizes emerging needs including departmental cost pressures that will require budget solutions beginning in the current year and next fiscal year. The main cost pressure in the current year is the impact of approved labor agreements, as department budgets did not include assumptions of increased wages when they developed their FY 2021-22 budgets because labor negotiations were ongoing. Although most departments are anticipating absorbing the additional cost, some departments may require budgetary solutions in the current year.

Emerging Needs - General Fund	FY 2021-22	FY 2022-23	FY 2023-24
Wage study adjustments	$ 4,992,578	$ -	$ -
Salary Increases, Labor Agreements	$ 5,505,755	$ 6,861,179	$ 5,151,244
Supplemental pension charge		$ 10,541,128	$ 10,541,128
PERS Contribution Increase		$ 3,441,249	$ 3,801,011
Pandemic Response Costs	TBD	TBD	TBD
Total	$ 10,498,333	$ 20,843,556	$ 19,493,383

Salary increases. Most bargaining units finalized labor agreements with the County in the current year, resulting in additional costs of $5.5 million. Additionally, a number of wage studies for various classifications occurred in the current year, with an estimated cost of $5.0 million for the current year. The figures reflected for FY 2022-23 and FY 2023-24, do not include additional wage studies in progress, or the wage increases for two safety units that are still finalizing negotiations. Since these costs were not built into the current year budget, next year's cost will result in a compounded amount of $17.4 million. While non-program revenue is increasing, it is not sufficient to keep pace with increasing costs, resulting in some unfunded needs next fiscal year.

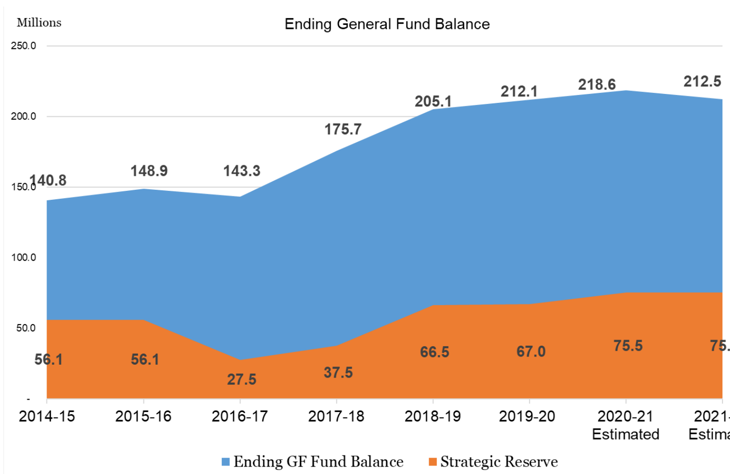
Supplemental pension charge. The County will implement a charge to departments to save for supplemental pension contributions in an effort to invest funds for future pension obligations. It is essential to establish a diligent plan to address growing unfunded pension liabilities to safeguard the County's operations in future years, as these unfunded liabilities pose a significant risk to operations if not addressed. The current UAL balance as of the writing of this report is $818.8 million.

PERS contribution. As mentioned earlier in the report, pension contributions continue to increase. An increase of $3.4 million and $3.8 million is anticipated in the next two fiscal years. This is independent of position growth or salary increases.

Pandemic Response. Impact to County operations will likely continue into FY 2022-23. Specific impacts will be estimated during the budget preparation cycle. Additionally, the County will allocate ARPA funds which can be utilized to offset the costs related to pandemic response. The evolution of the pandemic will continue to be monitored so that early action could be taken once specific impacts are identified.

Financial Reserves

Since the recession, the Board has strengthened financial policies to restore balance between ongoing revenues and expenditures, ending the practice of using one-time gains in fund balance to finance ongoing operations. Historically, the County has invested year-end surpluses and one-time gains in its strategic reserve and other key investments, resulting in improvement to the County's ending fund balance each year.



The FY 2021-22 modified budget includes $9.0 million in use of fund balance including funds authorized from restricted fund balance and other assignments. The current year estimate reflects an improvement of $2.7 million to fund balance, primarily due to positive non-program revenue results. Based on the current year estimated results, the estimated general fund balance is projected at $212.5 million at year-end. At the time this report was written, the Annual Comprehensive Financial Report (ACFR) was not available; therefore, fund balance figures for FY 2021-22 are estimated.

The County has previously built up the general fund strategic reserve which allowed the County to able to respond to natural disasters and extraordinary legal costs during FY 2016-17 by redirecting $30.9 million towards these unforeseen costs. Because of favorable results in the last four years, the County was able to keep investing in the Strategic Reserve reaching 10% of estimated annual general fund revenues, thereby meeting the Board' strategic reserve policy ceiling.

As illustrated in the above graph, unforeseen costs can easily reduce reserve levels. Without the prior investments, the County may not have been able to respond to the magnitude of costs due to unforeseen events or the recession during FY 2008-09. Potential uses of the strategic reserve will help the County mitigate impacts during an economic recession or other extraordinary events. It is important to continue to preserve the County's finances, and align expenditures to available ongoing revenues, to be better prepared for future events including an economic downturn.

General Fund Departmental Forecasts

This section provides individual departmental forecasts, which compare forecasted needs (i.e., expenditures) based on current staffing and services to available financing including estimated program revenue plus authorized general fund contributions adopted by the Board. The resulting forecast summaries help identify potential areas where service capacity may be impacted as a result of projected changes in expenditures and revenues. Departmental summaries offer a tool to assist the Board of Supervisors in prioritizing the distribution of discretionary general fund contributions in the upcoming budget process.

Per County policy, Departments forecasting current year deficits are required to prepare and submit a Budget Committee report outlining the cause of the problem, the alternatives available to mitigate the projected deficit, and the Department's recommended action. In the current year, Departments estimating a deficit include Agricultural Commissioner, Civil Rights Office, County Counsel, District Attorney, Health, Information Technology, Social Services, Treasurer Tax Collector, and the Sheriff's Office.

General Fund Contributions

Departments are provided preliminary estimates of general fund contributions for purposes of building their initial "baseline" budgets. The initial GFC estimates represent preliminary allocations of discretionary general fund monies to be used for planning purposes. Departments use these monies to supplement program-specific revenues to finance operations. All non-program revenue, including growth, was allocated as GFC to departments.

Preliminary GFC planning estimates for the budget year and forecast years were based on current year GFC allocations with the following adjustments:

- Worker's Compensation & General Liability Increase Adjustments
- Cost Plan Adjustment – preliminary GFC planning estimates did not include an adjustment to departments GFC for anticipated cost plan charges or credits. Departments assumed static cost plan charges and credits for the forecast. Since the preliminary GFC estimates were distributed, the Auditor-Controller's Office has published updated countywide cost plan allocation (COWCAP) amounts to be applied next fiscal year. An updated GFC estimate was distributed to departments to include an adjustment for COWCAP. Per the Board's prior direction, updated GFC estimates redistributed preliminary GFC allocations across general fund departments to make the updated COWCAP a budget-neutral event (to the extent of available resources) and minimize the COWCAP's impact to general fund departments.

Departmental Forecasts

Departmental forecasts assume budget year 2022-23 includes preliminary GFC figures as approved by the Board for adopted levels of staffing and services and assumes growth in discretionary revenue is distributed using the same priorities in the forecast years. GFC for forecast years is assumed to be static from FY 2022-23.

Agriculture Commissioner	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 11,112,838	$ 11,268,371	$ 12,195,159	$ 12,647,372	$ 13,092,539
B. COWCAP	1,193,533	1,193,533	1,193,533	1,193,533	1,193,533
C. Total Expenditures	12,306,371	12,461,904	13,388,692	13,840,905	14,286,072
D. Revenue	7,711,957	7,662,678	7,662,678	7,662,678	7,662,678
E. Financing Need, C-D	4,594,414	4,799,226	5,726,014	6,178,227	6,623,394
F. Preliminary GFC	4,594,414	4,594,414	4,655,463	4,655,463	4,655,463
G. Surplus/(Deficit), F-E	$ -	$ (204,812)	$ (1,070,551)	$ (1,522,764)	$ (1,967,931)

Agricultural Commissioner – The Agricultural Commissioner's Office expects to end the current year with $12.46 million in expenditures, $7.66 million in revenues and a general fund contribution of $4.80 million resulting in a deficit of $204,812. The deficit is primarily due to increased operational costs coming from the restart of operations after COVID-19 restrictions were lifted. The department plans to monitor expenses to non-salary and benefit items to mitigate the potential shortfall. In the forecast years, the projected expenses increase due to higher salary and benefit costs, an increase in non-recoverable liability insurance and scheduled equipment replacement. Additionally, revenues are anticipated to decrease in the forecast due to lower unclaimed gas tax revenue resulting from the end of a deferred payment which was paid over 3 years and ended in FY 2020-21.

Auditor-Controller	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 7,016,387	$ 6,237,388	$ 7,314,930	$ 7,549,571	$ 7,652,344
B. COWCAP	(5,397,519)	(5,397,519)	(5,397,519)	(5,397,519)	(5,397,519)
C. Total Expenditures	1,618,868	839,869	1,917,411	2,152,052	2,254,825
D. Revenue	514,653	529,082	588,201	588,201	588,201
E. Financing Need, C-D	1,104,215	310,787	1,329,210	1,563,851	1,666,624
F. Preliminary GFC	1,104,215	1,104,215	1,228,357	1,228,357	1,228,357
G. Surplus/(Deficit), F-E	$ -	$ 793,428	$ (100,853)	$ (335,494)	$ (438,267)

Auditor-Controller – The table summarizes the finances for departmental operations. The Auditor-Controller estimates ending the fiscal year with expenditures of $6.24 million, COWCAP credits of $5.40 million and revenues of $529,082, resulting in a surplus of $793,428. The surplus is a result of salary and benefits savings due to vacancies. The deficits emerging in forecast years are driven by increases PERS retirement, health insurance costs and negotiated salary increases.

Assessor-County Clerk-Recorder	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Operational Expenditures	$ 8,713,268	$ 8,671,202	$ 9,329,657	$ 9,682,300	$ 9,856,927
B. COWCAP	1,487,430	1,487,430	1,487,430	1,487,430	1,487,430
C. Total Expenditures	10,200,698	10,158,632	10,817,087	11,169,730	11,344,357
D. Revenue	4,454,541	4,837,550	4,689,968	4,714,968	4,739,968
E. Financing Need, C-D	5,746,157	5,321,082	6,127,119	6,454,762	6,604,389
F. Preliminary GFC	5,746,157	5,746,157	5,933,839	5,933,839	5,933,839
G. Surplus/(Deficit), F-E	$ -	$ 425,075	$ (193,280)	$ (520,923)	$ (670,550)

Assessor-County Clerk/Recorder – The Assessor-County Clerk/Recorder estimates year-end expenditures of $10.16 million, and revenues of $4.84 million. Projected year-end revenues are higher than anticipated due to the increase in real estate transactions in the Recorder's office, resulting in a surplus of $425,075. Forecasted deficits are due to estimated step advances, negotiated salary increases, and employee benefit costs.

Board of Supervisors	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Operational Expenditures	$ 3,652,880	$ 3,601,043	$ 3,867,834	$ 3,980,121	$ 4,039,117
B. COWCAP	758,105	758,105	758,105	758,105	758,105
C. Total Expenditures	4,410,985	4,359,148	4,625,939	4,738,226	4,797,222
D. Revenue	-	-	-	-	-
E. Financing Need, C-D	4,410,985	4,359,148	4,625,939	4,738,226	4,797,222
F. Preliminary GFC	4,410,985	4,410,985	4,529,478	4,529,478	4,529,478
G. Surplus/(Deficit), F-E	$ -	$ 51,837	$ (96,461)	$ (208,748)	$ (267,744)

Board of Supervisors – The budget for the Board of Supervisors includes six general fund units, providing for each of the five districts, and a general pool that covers shared expenses not specific to any district. The Department projects year-end expenditures of $4.36 million, resulting in a year-end surplus GFC of $51,837. The estimated surplus is primarily due to salary savings from vacancies and decreases in various services and supplies such as travel, mileage, and miscellaneous supplies. The deficits emerging in forecast years are driven by cost increases related to higher salaries and PERS.

Child Support Services	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Operational Expenditures	$ 10,221,648	$ 9,919,709	$ 10,681,153	$ 11,034,609	$ 11,121,676
B. COWCAP	1,193,298	1,193,298	1,193,298	1,193,298	1,193,298
C. Total Expenditures	11,414,946	11,113,007	11,874,451	12,227,907	12,314,974
D. Revenue	11,228,289	11,011,596	11,062,809	11,062,809	11,062,809
E. Financing Need, C-D	186,657	101,411	811,642	1,165,098	1,252,165
F. Preliminary GFC	186,657	186,657	-	-	-
G. Surplus/(Deficit), F-E	$ -	$ 85,246	$ (811,642)	$ (1,165,098)	$ (1,252,165)

Child Support Services - Child Support Services is funded entirely through federal and state subventions for mandated services. The Department's expenses are $301,940 lower than budget mostly due to salary savings resulting from turnover and retirements during the year. As a result, the Department anticipates ending with an estimated surplus of $85,246. The portion of GFC in the current year of $101,411 is to cover non recoverable costs such as non-recoverable general liability and Enterprise Resource Planning costs that are not reimbursable by the State.

Expenditures forecasted to increase through FY 2024-25 are primarily due to salary and benefit increases from negotiated bargaining agreements, higher retirement costs, and increased workers compensation and general liability insurance. As a result of the rising cost pressures, the Department was projecting deficits in the forecast period. However, after the forecast was submitted, the Department received its FY 2022-23 initial allocation letter from the State and is expecting to receive $12.3 million in State and federal funding, which is $1.2 million more than what was initially forecasted. As such, the Department expects to absorb the deficit in FY 2022-23. The department is able to roll over any unused funds to future years, further mitigating requests for GFC.

Civil Rights Office	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Operational Expenditures	$ 967,524	$ 982,456	$ 1,067,793	$ 1,109,350	$ 1,130,233
B. COWCAP	(889,746)	(889,746)	(889,746)	(889,746)	(889,746)
C. Total Expenditures	77,778	92,710	178,047	219,604	240,487
D. Revenue	-	-	-	-	-
E. Financing Need, C-D	77,778	92,710	178,047	219,604	240,487
F. Preliminary GFC	77,778	77,778	9,372	9,372	9,372
G. Surplus/(Deficit), F-E	$ -	$ (14,932)	$ (168,675)	$ (210,232)	$ (231,115)

Civil Rights – The Civil Rights Office estimates expenditures of $982,456 and a deficit of approximately $15,000 from additional commitments made to software and training services while the department had a vacancy. Since the reallocation of an Associate Analyst position to a Senior Analyst position, the department will continue to closely track these expenditures and salary savings to bring results within budget by the end of the year. As salary and healthcare costs continue to increase, and civil rights training and investigation services expand to meet organizational needs and state and federal requirements, the department anticipates deficits at current-level funding for forecasted years.

Clerk of the Board	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Operational Expenditures	$ 735,927	$ 724,385	$ 869,284	$ 905,677	$ 939,639
B. COWCAP	205,893	205,893	205,893	205,893	205,893
C. Total Expenditures	941,820	930,278	1,075,177	1,111,570	1,145,532
D. Revenue	20,000	20,000	20,000	20,000	20,000
E. Financing Need, C-D	921,820	910,278	1,055,177	1,091,570	1,125,532
F. Preliminary GFC	921,820	921,820	948,150	948,150	948,150
G. Surplus/(Deficit), F-E	$ -	$ 11,542	$ (107,027)	$ (143,420)	$ (177,382)

Clerk of the Board – The Clerk of the Board estimates year-end expenditures of $930,278 and revenue of $20,000 and ending the year with a surplus of $11,542. The surplus is mainly due to a decrease in the publication of legal notices. In forecasted years, revenues from assessment appeal applications filings are projected to remain static while expenditures are expected to continue rising due to step advances and employee benefit costs resulting in projected deficits.

Cooperative Extension	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 433,610	$ 431,107	$ 438,084	$ 452,013	$ 455,857
B. COWCAP	75,928	75,928	75,928	75,928	75,928
C. Total Expenditures	509,538	507,035	514,012	527,941	531,785
D. Revenue	27,292	27,292	26,782	26,922	27,078
E. Financing Need, C-D	482,246	479,743	487,230	501,019	504,707
F. Preliminary GFC	482,246	482,246	496,406	496,406	496,406
G. Surplus/(Deficit), F-E	$ -	$ 2,503	$ 9,176	$ (4,613)	$ (8,301)

Cooperative Extension - The Cooperative Extension estimates ending the current year with $507,035 in expenditures, $27,292 in revenue and a general fund contribution of $479,743, resulting in a surplus of $2,503 due to savings from one vacancy. The Department projects a surplus in FY 2022-23, due to pro-rated GFC growth adjustment. In FY 2023-24 and FY 2024-25 a deficit is projected due to increases in salary and benefits driven by approved bargaining agreements and PERS increases.

County Administrative Office	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 14,636,149	$14,581,099	$12,727,748	$13,140,831	$13,235,336
B. COWCAP	(5,239,555)	(5,239,555)	(5,239,555)	(5,239,555)	(5,239,555)
C. Total Expenditures	9,396,594	9,341,544	7,488,193	7,901,276	7,995,781
D. Revenue	1,024,586	1,029,627	1,021,251	1,021,251	1,021,251
E. Financing Need, C-D	8,372,008	8,311,917	6,466,942	6,880,025	6,974,530
F. Preliminary GFC	8,372,008	8,372,008	5,990,694	5,990,694	5,990,694
G. Surplus/(Deficit), F-E	$ -	$ 60,091	$ (476,248)	$ (889,331)	$ (983,836)

County Administrative Office - The table above summarizes the finances for the County's Administration "departmental" operations, including Administration and Finance, Budget and Analysis, Contracts/Purchasing, Intergovernmental and Legislative Affairs (IGLA), Emergency Services, Community Engagement & Strategic Advocacy, Fleet Administration, and Mail & Courier.

The Department projects year-end expenditures of $14.59 million, COWCAP credit of $5.24 million, revenues of $1.03 million, and a county contribution of $8.31 million. These projections result in a year-end estimated surplus of $60,091. The estimate does not include a budget modification which added $996,170 in appropriations and was approved in January 2022 due to timing. It also assumes the ongoing response to the pandemic continues at the same level as the first six months of the fiscal year. Any drastic changes to this response will require further review of financing needs in the Emergency Operations Center.

The Department is projecting deficits in the forecast years driven by cost increases related to higher salaries, health insurance premiums, PERS, and general liability insurance.

County Counsel	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 5,408,559	$ 5,811,700	$ 5,948,055	$ 6,206,124	$ 6,285,797
B. COWCAP	(2,602,821)	(2,602,821)	(2,602,821)	(2,602,821)	(2,602,821)
C. Total Expenditures	2,805,738	3,208,879	3,345,234	3,603,303	3,682,976
D. Revenue	370,000	442,739	400,000	400,000	400,000
E. Financing Need, C-D	2,435,738	2,766,140	2,945,234	3,203,303	3,282,976
F. Preliminary GFC	2,435,738	2,435,738	2,479,662	2,479,662	2,479,662
G. Surplus/(Deficit), F-E	$ -	$ (330,402)	$ (465,572)	$ (723,641)	$ (803,314)

County Counsel – County Counsel estimates it will end the current fiscal year with $5.81 million in expenditures, COWCAP credit of $2.60 million, revenue of $442,739, a GFC of $2.76 million, and a resulting deficit of $330,402. The deficit is due to unanticipated salary increases of $484,585 in the current year offset by $315,411 in salary and benefits savings due to vacancies and a $298,559 decrease in Interfund reimbursements impacted by staff vacancies as well as lower litigation charges to special funds. The department will also need to request an appropriation increase to accommodate the estimated cost increases. The deficits emerging in forecast years are driven mainly by cost increases related to salaries at full staff levels, step increases, PERS retirement contribution rates, and Workers' Compensation allocations.

District Attorney	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 28,264,947	$ 29,820,041	$ 33,977,750	$ 35,116,382	$ 35,571,454
B. COWCAP	8,192,483	8,192,483	8,192,483	8,192,483	8,192,483
C. Total Expenditures	36,457,430	38,012,524	42,170,233	43,308,865	43,763,937
D. Revenue	15,930,018	15,764,656	16,515,782	17,467,415	18,508,887
E. Financing Need, C-D	20,527,412	22,247,868	25,654,451	25,841,450	25,255,050
F. Preliminary GFC	20,527,412	20,527,412	21,076,313	21,076,313	21,076,313
G. Surplus/(Deficit), F-E	$ -	$ (1,720,456)	$ (4,578,138)	$ (4,765,137)	$ (4,178,737)

District Attorney – The Office of the District Attorney (DA) anticipates year-end expenditures of $38.01 million, revenues of $15.76 million and $22.24 million in County contribution, resulting in a year-end deficit of $1.72 million, due to salary increases after vacancies were considered. Expenditures are also higher than budgeted as a result of several large forfeiture cases that were settled and new civil cases, large one-time trial expenditures that were unanticipated, and higher costs for criminal investigations, as well as pandemic measures. The Department will work with the CAO to identify potential savings and request additional appropriations closer to the end of the year as required. The Department projects deficits in the forecast years primarily due to forecasted salary increases, increasing PERS retirement costs, health insurance premiums and allocated costs such as workers' compensation insurance and general liability, without a commensurate increase in revenues.

Elections Department	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 4,268,359	$ 5,624,949	$ 4,546,508	$ 4,736,995	$ 6,013,106
B. COWCAP	1,128,395	1,128,395	1,128,395	1,128,395	1,128,395
C. Total Expenditures	5,396,754	6,753,344	5,674,903	5,865,390	7,141,501
D. Revenue	1,180,229	3,544,630	1,313,939	911,500	1,212,500
E. Financing Need, C-D	4,216,525	3,208,714	4,360,964	4,953,890	5,929,001
F. Preliminary GFC	4,216,525	4,216,525	4,360,964	4,360,964	4,360,964
G. Surplus/(Deficit), F-E	$ -	$ 1,007,811	$ -	$ (592,926)	$ (1,568,037)

Elections - The Elections Department administers all federal, state, county, and local public elections. Departmental expenditures and revenues vary based on the number and size of scheduled and unscheduled special elections each year. The Department expects to end the current year with expenditures of $6.75 million, revenues of $ 3.54 million, and a General Fund Contribution of $3.20 million. Compared to budget, the Department will end the year with a $1.01 million surplus. Expenditures are anticipated to be $1.36 million higher than the adopted budget due to the execution of the unscheduled Gubernatorial Recall Election which was not included in the budget. Current year revenue is $2.36 million higher than budget, due to reimbursement from the State to cover the special election. The Department received funds in the original estimate for the special election; however, the actual cost to carry out the election was $1.01 million lower. The Department is allowed to use the amount over the actual cost toward the Primary Election in the current year, thus resulting in a surplus. The Department plans to go to Budget Committee to request an increase in appropriations required by the additional unbudgeted expenses resulting from the special recall election.

Projected expenditures and revenues in forecast years reflect estimated charges for one scheduled election per fiscal year: a statewide general in FY 2022-23, a Presidential Primary in FY 2023-24, and a Presidential General in FY 2024-25. Forecasted expenditures and revenues are expected to be lower since they exclude costs and reimbursements of a statewide primary election and the special recall election, which occurred in the current year. The funds necessary to conduct mandated county, state and federal elections must be provided by the General Fund. Revenues from local districts reimburse the cost of their portion of the election. Deficits in forecast years arise from static GFC combined with increases in salary and benefit costs.

Health	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$116,984,814	$106,013,582	$ 107,764,194	$ 108,078,863	$ 109,990,931
B. COWCAP	10,470,380	10,470,380	10,470,380	10,470,380	10,470,380
C. Total Expenditures	127,455,194	116,483,962	118,234,574	118,549,243	120,461,311
D. Revenue	103,839,470	89,576,530	97,603,728	97,136,935	98,302,870
E. Financing Need, C-D	23,615,724	26,907,432	20,630,846	21,412,308	22,158,441
F. Preliminary GFC	23,615,724	23,615,724	16,203,652	16,203,652	16,203,652
H. Surplus/(Deficit), F-E-G	$ -	$ (3,291,708)	$ (4,427,194)	$ (5,208,656)	$ (5,954,789)

Health Department – The Health Department provides a wide array of services including but not limited to animal services, public health, clinic services, public guardian/conservator/administrator, emergency medical services, and environmental health. The Department estimates year-end expenditures of $116.48 million, revenues of $89.58 million, and a financing need of $26.91 million, resulting in a $3.30 million deficit.

Year-end expenditures are estimated at $10.97 million lower than budgeted primarily due to salary savings of $6.20 million resulting from a vacancy rate of 19% as the Department experiences challenges finding qualified staff, particularly in the Primary Care Clinics, and savings of $4.7 million in services and supplies and fixed assets attributable to lower levels of services to the public than planned. The total estimated expenditures include a $3.0 million liability payment to the State funded by budgeted restricted fund balance. This payment is a result of the implementation of a capitation payment system. As of March 2015, some Central California Alliance for Health members were moved from fee-for-service to capitation with the State performing yearly reconciliations. Any over payment for services rendered by the County found by the State must be returned.

Revenue is projected to end the year $14.26 million below budget. The high vacancy rate coupled with redirection of staff to the COVID-19 emergency response impacted the level of services provided, therefore decreasing revenue. The estimated impact to revenue from staff redirection to COVID-19 response activities is $3.3 million.

The projected $3.30 million deficit is primarily due to estimated expenditures incurred for the Department's direct response to the COVID-19 pandemic which are not recoverable from grants. The Department will seek approval to offset these expenditures with unspent FY 2020-21 ARPA funding allocated to the Department. If approved, a balanced year-end can be achieved. The deficits in the forecast years are due to projected salary step increases, health insurance costs, and increased pension costs. The revenue forecast also includes the complete phase out of the Whole Person Care grant which ended in December of 2021.

Housing and Community Development	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 15,964,378	$ 15,093,400	$ 17,866,595	$ 17,766,761	$ 18,074,291
B. COWCAP	1,128,148	1,128,148	1,128,148	1,128,148	1,128,148
C. Total Expenditures	17,092,526	16,221,548	18,994,743	18,894,909	19,202,439
D. Revenue	8,796,820	8,071,428	8,398,995	8,360,739	8,638,524
E. Financing Need, C-D	8,295,706	8,150,120	10,595,748	10,534,170	10,563,915
F. Preliminary GFC	8,295,706	8,295,706	8,103,255	8,103,255	8,103,255
G. Surplus/(Deficit), F-E	$ -	$ 145,586	$ (2,492,493)	$ (2,430,915)	$ (2,460,660)

Housing and Community Development - The FY 2021-22 year-end estimate for Housing & Community Development consists of $16.22 million in expenditures, revenues of $8.07 million and a general fund contribution of $8.15 million, for a net estimated surplus of $145,586 attributed to salary savings due to vacant positions. Current year expenditures are $870,978 below budget primarily due to savings from vacancies. Revenues continue to recover from COVID-19 related downturn, but the year-end estimate reflects lower revenues versus budget of $725,392 due to lower permit fees. HCD is heavily reliant on customer support through fees for Planning projects and Building Permits, which experienced a decrease due to fewer construction permits.

Salary and Benefits savings may be used to offset recently approved staff positions and additional consultant costs. The forecasted deficits in outlying years are directly related to non-discretionary cost increases such as pension contributions, salary increases approved by the Board of Supervisors, general liability and property insurance premiums. The deficit is also impacted by conservative revenue estimates for permits and fees as the state of the economy is unclear.

Human Resources	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Operational Expenditures	$ 6,360,823	$ 6,296,360	$ 6,705,481	$ 6,932,627	$ 7,015,507
B. COWCAP	(5,417,376)	(5,417,376)	(5,417,376)	(5,417,376)	(5,417,376)
C. Total Expenditures	943,447	878,984	1,288,105	1,515,251	1,598,131
D. Revenue	-	-	-	-	-
E. Financing Need, C-D	943,447	878,984	1,288,105	1,515,251	1,598,131
F. Preliminary GFC	943,447	943,447	1,037,682	1,037,682	1,037,682
G. Surplus/(Deficit), F-E	$ -	$ 64,463	$ (250,423)	$ (477,569)	$ (560,449)

Human Resources – The Human Resources Department projects a $64,463 surplus for the current fiscal year with total expenditures of $6.29 million for FY 2021-22. The surplus results from position vacancies. Deficits ranging from $250,423 to $560,449 are projected for the forecasted years, primarily due to rising salary and benefit costs, such as wage increases, position step advances, and pension contributions.

Information Technology	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Operational Expenditures	$23,354,830	$23,650,351	$20,395,883	$20,665,447	$20,795,960
B. COWCAP	(27,565,689)	(27,565,689)	(27,565,689)	(27,565,689)	(27,565,689)
C. Total Expenditures	(4,210,859)	(3,915,338)	(7,169,806)	(6,900,242)	(6,769,729)
D. Revenue	550,000	550,000	550,000	550,000	550,000
E. Financing Need, C-D	(4,760,859)	(4,465,338)	(7,719,806)	(7,450,242)	(7,319,729)
F. Preliminary GFC	(4,760,859)	(4,760,859)	(7,729,061)	(7,729,061)	(7,729,061)
G. Surplus/(Deficit), F-E	$ -	$ (295,521)	$ (9,255)	$ (278,819)	$ (409,332)

Information Technology – The Information Technology Department estimates year-end operational expenditures of $23.65 million and revenue of $550,000. The Department recovers its operational expenditures mostly through the cost plan and in the current year this results in a credit to the general fund. The year-end estimated credit is $3.91 million, resulting in a deficit of $295,521 due to MOU salary increases. The above noted forecast figures do not include the recently approved ITD Class & Comp Study, which is estimated to increase salary and benefit costs by $1.20 million annually in forecast years.

Probation	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 52,327,898	$ 52,310,365	$ 55,832,905	$ 57,545,086	$ 58,353,555
B. COWCAP	4,225,174	4,225,174	4,225,174	4,225,174	4,225,174
C. Total Expenditures	56,553,072	56,535,539	60,058,079	61,770,260	62,578,729
D. Revenue	31,280,571	31,280,571	31,448,778	31,600,025	31,768,729
E. Financing Need, C-D	25,272,501	25,254,968	28,609,301	30,170,235	30,810,000
F. Preliminary GFC	25,272,501	25,272,501	25,881,977	25,881,977	25,881,977
G. Surplus/(Deficit), F-E	$ -	$ 17,533	$ (2,727,324)	$ (4,288,258)	$ (4,928,023)

Probation – The Department's FY 2021-22 year-end estimate reflects expenditures of $56.54 million, revenue of $31.28 million and a general fund contribution of $25.25 million. The projected underutilization of GFC of $17,533 is primarily due to anticipated savings in institutional supplies. In addition, the Department continues to monitor and mitigate increases in current fiscal year overtime costs and other services related to the ongoing pandemic response. The forecast for FY 2022-23 through FY 2024-25 indicates deficits ranging from $2.73 to $4.93 million. The deficits are attributable to salary and benefit increases from negotiated bargaining agreements, higher PERS contributions and cost increases for workers compensation and general liability insurance.

Public Defender	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 14,677,030	$ 14,872,422	$ 16,183,047	$ 16,131,669	$ 16,341,127
B. COWCAP	1,758,741	1,758,841	1,758,841	1,758,841	1,758,841
C. Total Expenditures	16,435,771	16,631,263	17,941,888	17,890,510	18,099,968
D. Revenue	1,784,356	2,358,028	2,116,063	1,647,288	1,647,288
E. Financing Need, C-D	14,651,415	14,273,235	15,825,825	16,243,222	16,452,680
F. Preliminary GFC	14,651,415	14,651,415	15,065,627	15,065,627	15,065,627
G. Surplus/(Deficit), F-E	$ -	$ 378,180	$ (760,198)	$ (1,177,595)	$ (1,387,053)

Public Defender - The FY 2021-22 year-end estimate for the Public Defender consists of $16.63 million in expenditures, $2.36 million in revenue, and a General Fund Contribution (GFC) of $14.27 million. The Department received a grant for indigent defense in the amount of $637,000. Acceptance of this grant will require to add appropriations, so the Department will come before the Board to add appropriations and revenues associated with this grant. The Department projects a surplus of $378,180 attributed to the unused portion of this multiyear State grant that offsets costs associated with staffing, training, case management enhancements, and other attorney support. The estimate includes unbudgeted negotiated MOU bargaining unit salary and benefit increases partially offset by salary savings from vacancies.

The Department projects a shortfall in forecasted years driven by estimated cost increases related to wage increases resulting from union negotiations, health insurance premiums, and PERS. The forecasted revenues include a reduction due to a one-time State funded grant that will end in FY 2023. The Public Defender will continue to seek new grant funding opportunities to offset increased costs. The revenue and expenditures will continue to fluctuate depending on trial related costs, unanticipated pandemic related expenses and service agreements that maintain the operations of the Department.

Public Works, Facilities and Parks	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 22,802,487	$ 21,584,784	$ 22,819,388	$ 23,339,746	$ 23,819,088
B. COWCAP	(3,391,853)	(3,391,853)	(3,391,853)	(3,391,853)	(3,391,853)
C. Total Expenditures	19,410,634	18,192,931	19,427,535	19,947,893	20,427,235
D. Revenue	2,514,351	2,067,465	1,811,553	1,694,041	1,702,304
E. Financing Need, C-D	16,896,283	16,125,466	17,615,982	18,253,852	18,724,931
F. Preliminary GFC	16,896,283	16,896,283	11,022,583	11,022,583	11,022,583
G. Surplus/(Deficit), F-E	$ -	$ 770,817	$ (6,593,399)	$ (7,231,269)	$ (7,702,348)

Public Works, Facilities, and Parks - The FY 2021-22 current year estimate projects expenditures of $18.19 million, revenues of $2.07 million and general fund contribution of $16.12 million, for a net estimated surplus of $770,817. The estimate reflects a decrease in budgeted revenues and expenditures of $0.45 million and $1.22 million, respectively. The decline in revenues is largely attributed to reduced visitor levels at Lake San Antonio due to low water levels. Salary and benefit savings from position vacancies and lower-than-expected operating expenses contribute to the lower expenditures. The general fund contribution includes $3.4 million of ARPA funds for specific departmental needs, including critical infrastructure projects at County parks; of which department anticipates using $2.8 million. The forecasted deficits in outlying years are directly related to non-discretionary cost increases, such as salaries, pension contributions, general liability, property insurance premiums. Status quo operational estimates for revenue are stagnant due to conservative estimates.

Sheriff-Coroner	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Operational Expenditures	$ 121,203,797	$ 123,541,428	$ 124,658,579	$ 128,342,749	$ 132,478,172
B. COWCAP	7,327,482	7,327,482	7,327,482	7,327,482	7,327,482
C. Total Expenditures	128,531,279	130,868,910	131,986,061	135,670,231	139,805,654
D. Revenue	44,353,568	44,497,036	45,914,987	46,455,505	47,080,369
E. Financing Need, C-D	84,177,711	86,371,874	86,071,074	89,214,726	92,725,285
F. Preliminary GFC	84,177,711	84,177,711	85,197,533	85,197,533	85,197,533
G. Surplus/(Deficit), F-E	$-	$ (2,194,163)	$ (873,541)	$ (4,017,193)	$ (7,527,752)

Sheriff-Coroner – The Sheriff's Office projects ending the current fiscal year with a deficit estimated at $2.19 million. Expenditures are estimated at $130.87 million or $2.34 million higher than budget, while revenues are estimated at $44.50 million. The General Fund Contribution is estimated to be $86.37 million. Some additional revenues are estimated for the hold of state inmates due to the pandemic and higher Proposition 172 revenues; however, these are mostly offset by a revenue decrease from special events and the elimination of criminal fees. The increase in expenditures is due to overtime, unbudgeted salary increases for employee bargaining units, and pandemic response, including additional staffing and safety measures in the jail. The Department will work with the CAO to identify potential sources of funding and request additional appropriations closer to the end of the year as required. The Sheriff's Office projects growing deficits in forecast years increasing to $7.53 million by FY 2024-25 due to significant increases in salary and benefits from negotiated bargaining agreements, higher PERS contributions, fleet, general liability and workers compensation insurance in the next three years.

Social Services	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	2023-24	2024-25
A. Operational Expenditures	$ 228,133,842	$ 249,258,093	$ 226,121,913	$ 224,367,262	$ 229,653,518
B. COWCAP	12,695,114	12,681,773	12,681,773	12,681,773	12,681,773
C. Total Expenditures	240,828,956	261,939,866	238,803,686	237,049,035	242,335,291
D. Revenue	220,310,178	240,660,641	218,298,676	215,182,508	215,007,753
E. Financing Need, C-D	20,518,778	21,279,225	20,505,010	21,866,527	27,327,538
F. Preliminary GFC	20,518,778	20,518,778	20,114,442	20,114,442	20,114,442
G. Surplus/(Deficit), F-E	$ -	$ (760,447)	$ (390,568)	$ (1,752,085)	$ (7,213,096)

Social Services – The Department of Social Services (DSS) estimates year-end expenditure of $261.94 million, revenue of $240.66 million and General Fund Contribution of $21.28 million, resulting in a deficit of $0.76 million. The estimated deficit is a direct result of a delay in receipt of revenue related to staffing cost for ongoing alternate housing projects for Covid response.

Year-end expenditures are estimated to increase by $21.11 million from the modified budget due to increased program expenditures in community programs such as Emergency Rental Assistance Program (ERAP) and Project Roomkey, increased program expenditures in aging programs, increase in the preliminary In-Home Supportive Services Maintenance of Effort (IHSS MOE), and wage increases as a result of cost-of-living adjustments, employee union negotiations and salary compensation studies. Due to timing, the increase in appropriations was not included in the table above for the Modified Budget figures. In correlation to the expenditure increases, year-end revenues are also estimated to be $20.35 million higher than the modified budget due to increased program revenue for community programs such as ERAP and Project Roomkey. Covid related disaster recovery revenue is not factored to come in this fiscal year. It should be noted that the year-end estimate was completed at a time when only one quarter of fiscal data was available to estimate earned revenues, where these estimates may change before year-end closing.

Expenditures and revenues in the forecast years are estimated to decrease due to the ending of some grant funded projects such as Whole Person Care ($0.6 million) that ended December 2021 and the Emergency Rental Assistance Program ($31.4 million) where funds are estimated to be exhausted by December 2022 unless another round of funding is issued. Deficits are forecasted in the future years and they are directly related to increases in the IHSS MOE (4% increase annually), wages, PERS, health insurance, general liability as well as a decrease in the department's projected vacancy rate. The estimated $7.21 million deficit in the third forecast year is mainly attributed to the assumption that the realignment funding remains "flat" without growth for the forecast while costs continue to rise, and all realignment fund balances were used FY 2023-24. The Department does budget growth of realignment revenues in future budget requests which rolls into the base funding based upon the Governor’s Proposed Budget which was not released at the time this estimate was developed, which now indicates a positive growth. The department fully expects the deficit will be eliminated by increased realignment growth that rolls into the baseline revenues for each of the forecast years.

Treasurer-Tax Collector	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Operational Expenditures	$ 9,017,072	$ 8,288,189	$ 8,873,004	$ 9,195,534	$ 9,340,080
B. COWCAP	(545,087)	(545,087)	(545,087)	(545,087)	(545,087)
C. Total Expenditures	8,471,985	7,743,102	8,327,917	8,650,447	8,794,993
D. Revenue	7,076,486	6,298,266	6,502,645	6,675,835	6,766,093
E. Financing Need, C-D	1,395,499	1,444,836	1,825,272	1,974,612	2,028,900
F. Preliminary GFC	1,395,499	1,395,499	1,359,738	1,359,738	1,359,738
G. Surplus/(Deficit), F-E	$ -	$ (49,337)	$ (465,534)	$ (614,874)	$ (669,162)

Treasurer- Tax Collector - The Treasurer-Tax Collector (TTC) projects year-end expenditures of $8.28 million, COWCAP credit of $545,087, revenue of $6.30 million, and a general fund contribution (GFC) of $1.44 million, resulting in a deficit of $49,337. Overall expenditures are expected to be under budget by $729,000, primarily due to lower salaries and benefits expenditures of $867,324 due to vacancies and delayed recruitments, partially offset by higher than budget costs of $79,797 resulting from increased costs in the Treasury for armored car services and investment advisory services. Revenue is projected to be $778,000 below budget due to lower levels of reimbursable expenditures and reduced collections due to financial impacts of the COVID-19 Pandemic. Additionally, the passing of Assembly Bills 177 and 1869 in addition to statutory changes in the FY 2022-23 Governor's Budget repeal County authority to collect various administrative and probation fees, negatively impacting TTC current year-end revenue by an estimated $243,337 and resulting in a future year revenue loss of $596,873.

Estimated expenditures in the forecast years include negotiated cost of living increases, earned step increases, increases in service agreement expenditures, and countywide increases for healthcare insurance, PERS Retirement, Property Insurance, and other internal service charges. Forecasted revenue assumes allowable cost recovery based on estimated expenditures for Revenue Division and Treasury services, and conservative increases based on recent and current year experience.

OTHER MAJOR FUNDS

Road Fund – The Road Fund is a special revenue fund established by State law to account for legally restricted revenues for County road and bridge construction and related maintenance projects. The Road Fund's primary funding sources for road and bridge projects and maintenance are State Highway User Tax Allocation (HUTA or Gas Tax), the Transportation Agency for Monterey County (TAMC) retail transaction and use tax ordinance (Measure X), the Road Repair and Accountability Act of 2017 (Senate Bill 1 [SB1]), and Transient Occupancy Tax (TOT). Measure X and SB1 are newer revenue streams that produce annual revenues of $7.7 and $8.7 million, respectively.

Fund 002 Road Fund	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Beginning Fund Balance	$ 22,915,367	$ 22,915,367	$ 22,689,454	$ 22,091,350	$12,548,173
B. Revenue	68,742,515	56,606,808	64,345,012	69,474,812	35,852,126
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	91,657,882	79,522,175	87,034,466	91,566,162	48,400,299
E. Expenditures	66,712,136	56,832,721	64,943,116	79,017,989	51,115,109
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	66,712,136	56,832,721	64,943,116	79,017,989	51,115,109
H. Ending Fund Balance, D-G	$ 24,945,746	$ 22,689,454	$ 22,091,350	$ 12,548,173	$ (2,714,810)

Revenues - The FY 2021-22 revenue estimate is $12.13 million less than budget due to delayed construction of federally funded projects. These projects will shift into the next two fiscal years and include the Hartnell Road Bridge Replacement, Las Lomas Drive Bicycle and Pedestrian Lane, and Davis Road Bridge. Accordingly, revenues for FY 2022-23 and FY 2023-24 are projected to increase by $7.74 million and $5.13 million, respectively. However, revenues are expected to decrease by $33.62 million in FY 2024-25 as federally funded projects are anticipated to be completed.

Expenditures - Estimated expenditures are $9.87 million under budget as several large project's construction phases were deferred until FY 2023-24. Variances between the current year budget and three-year estimates are primarily due to changes in project timelines and/or scope of work due to the COVID-19 pandemic, 2020 Fires, weather, permitting, and staffing constraints. Expenditures in FY 2023-24 are projected to increase by $14.07 million due to scheduled major projects, including Davis Road Bridge, Old Stage Road Rehabilitation, Monterey Bay Sanctuary Scenic Trail, and Hunter Lane Reconstruction. Expenditures in FY 2024-25 are projected to decrease by $27.90 million as federally funded projects are anticipated to be completed in the prior year.

Fund Balance - Expenditures have not increased at the same pace as revenues over the last several fiscal years, resulting in a growing fund balance. Revenue growth is due to the new funding streams, Measure X and SB 1. The Department plans to gradually increase staffing and consultant support to increase the annual projects. As more projects are completed, the fund balance will decline. In the three-year forecast, fund balance is a primary financing source for projects such as the Old Stage Road Rehabilitation, Elkhorn Road Rehabilitation, Jolon Road, Alisal Road Rehabilitation, Community Street Repair, Community Pavement Asset Program, and Cooper Road Overlay.

Monterey County Free Libraries – For the current fiscal year end, the Library Department is projecting addition of $195,604 to existing Fund Balance.

Fund 003 Monterey County Free Libraries	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Beginning Fund Balance	$ 5,378,914	$ 5,378,914	$ 5,574,518	$ 5,121,487	$ 4,675,759
B. Revenue	11,141,524	10,911,524	11,007,134	11,377,241	11,753,613
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	16,520,438	16,290,438	16,581,652	16,498,728	16,429,372
E. Expenditures	11,173,474	10,715,920	11,460,165	11,822,969	12,023,612
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	11,173,474	10,715,920	11,460,165	11,822,969	12,023,612
H. Ending Fund Balance, D-G	$ 5,346,964	$ 5,574,518	$ 5,121,487	$ 4,675,759	$ 4,405,760

Overall, expenditures are estimated to be $457,554 below budget primarily due to salary savings for vacant positions and unfunded (frozen) that were pending a staffing assessment of all Library positions. The assessment is complete, and the Department plans to fill all allocated permanent positions in the coming months. Operational expenditures are in line with the adopted budget. The Library continues facilitating distance learning and remote library use through Library By Mail, added content and expenses for online resources such as e-books, downloadable audio, and other online resources. Current year revenue is $230,000 below budget, primarily due to lower anticipated operating transfers in for capital projects and lower library service revenue due to removal of fines approved by the Board of Supervisors.

The Library projects a decrease in fund balance due to rising costs including higher wages resulting from approved labor agreements, increasing pension costs, and general liability and workers compensation costs. Revenue is also projected to increase, but not sufficient to cover expenditures. Property tax revenue is the biggest revenue source for the Department and is projected to increase 3.75% in FY 2022-23 and a more conservative 2% increase in the two following years.

Behavioral Health – Pursuant to Welfare and Institutions Code Section 5600, the Health Department's Behavioral Health Bureau provides a continuum of County operated and community-based substance use disorder and mental health services. The program provides community prevention programs, crisis intervention, inpatient psychiatric services, social rehabilitation, supportive housing, and outpatient services primarily to Monterey County Medi-Cal beneficiaries who meet the State Department of Health Care Services, Mental Health Division's medical necessity criteria. In addition, the program also serves many non-Medi-Cal eligible residents who have behavioral health disorders.

Fund 023 Behavioral Health	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Beginning Fund Balance	$ 50,406,932	$ 50,406,932	$ 42,963,547	$ 41,205,958	$ 39,395,642
B. Revenue	157,694,582	142,359,263	138,364,961	139,373,520	139,963,246
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	208,101,514	192,766,195	181,328,508	180,579,478	179,358,888
E. Expenditures	162,718,740	149,802,648	140,122,550	141,183,836	141,827,871
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	162,718,740	149,802,648	140,122,550	141,183,836	141,827,871
H. Ending Fund Balance, D-G	$ 45,382,774	$ 42,963,547	$ 41,205,958	$ 39,395,642	$ 37,531,017

For the current fiscal year, MCHB estimates year-end expenditures of $149.80 million, which is approximately $12.92 million below the modified budget of $162.72 million. The lower expenditures are attributable to a higher than budgeted vacancy rate generating $1.80 million in salary and benefit savings, lower than anticipated operating transfer in the Whole Person Care program in the amount of $8.9 million and lower than anticipated services and supplies costs of approximately $2.2 million. Current year-end revenue is estimated at $142.36 million, which is approximately $15.33 million below the modified budget of $157.69 million. The decrease in revenues is attributable to lower Whole Person Care program revenues of approximately $7.8 million and lower than anticipated Federal Financial Participation reimbursements of $7.5 million.

The forecast years depict a decrease in expenditures and revenues due to the phase out of the Whole Person Care program, which was previously estimated to end December 2020, but was extended an additional year to December 2021. The program accounted for approximately $10.0 to $11.0 million per year. Excluding this significant change, increases in salary and benefits, operating cost increases such as insurance costs and contracted services are projected to increase. This combined with anticipated impacts to revenue streams in realignment and Mental Health Services Act (MHSA) project a significant decrease in fund balance. MCHB will monitor these impacts as it prepares its FY 2022-23 budget and adjust as needed to minimize this impact. As reported in the FY 2020-21 year-end report, fund balance includes $8.4 million in assigned funds for potential future Medi-Cal program settlement costs.

Emergency Communications – The Emergency Communications Department provides dispatch and call taking (9-1-1 and non-emergency) to Monterey County residents and law enforcement, fire protection and emergency medical dispatch services for over 30 local, regional, county, and State public safety agencies.

Fund 028 Emergency Communications	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Beginning Fund Balance	$ 1,653,257	$ 1,653,257	$ 1,942,103	$ 1,941,346	$ 2,280,844
B. Revenue	12,897,143	12,924,723	13,080,212	13,522,056	13,752,947
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	14,550,400	14,577,980	15,022,315	15,463,402	16,033,791
E. Expenditures	12,544,055	12,635,877	13,080,969	13,182,558	13,413,450
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	12,544,055	12,635,877	13,080,969	13,182,558	13,413,450
H. Ending Fund Balance, D-G	$ 2,006,345	$ 1,942,103	$ 1,941,346	$ 2,280,844	$ 2,620,341

The Department is operating under a special revenue fund and expects to end the current year with expenditures totaling $12.64 million and revenue totaling $12.92 million, including a County General Fund Contribution (GFC) of $1.87 million. The Department estimates a planned surplus of $288,846 in the current year. This surplus was planned through the annual budgeting process and will be added to the Department's reserve for future use. This is consistent with the current user agency agreement approved by the Board. The Department's reserve is primarily used for replacement and upgrades to the Department's equipment, systems, and building. The reserve is not intended to pay for ongoing operating costs.

Costs are expected to rise in the forecast years due to escalating salaries, pension, healthcare, and insurance costs as well as rising costs of service agreements that maintain the operations at the

Department. Costs are charged pursuant to the formula in the 9-1-1 Services Agreement which allocates costs to the agencies served through a 3-factor ratio of jurisdictional workload, property value, and population. The Department anticipates continuing to build its reserves through the forecast years using that cost sharing ratio.

Natividad – Natividad is a County enterprise fund, defined as a governmental fund that provides goods and services to the public for a fee, making the entity self-supporting.

Fund 451 Natividad Medical Center	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Beginning Fund Balance	$ 128,850,060	$ 128,850,060	$ 143,042,390	$ 147,800,417	$ 150,173,028
B. Revenue	364,177,253	368,822,767	391,864,176	396,654,352	404,981,359
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	493,027,313	497,672,827	534,906,566	544,454,769	555,154,387
E. Expenditures	339,889,694	354,630,437	387,106,149	394,281,741	404,588,203
F. Provisions for Assigments	-	-	-	-	-
G. Total Financing Uses, E+F	339,889,694	354,630,437	387,106,149	394,281,741	404,588,203
H. Ending Fund Balance, D-G	$ 153,137,619	$ 143,042,390	$ 147,800,417	$ 150,173,028	$ 150,566,184

Net revenue for the current year is expected to be $4.65 million higher than budget. The Coronavirus pandemic continues to impact the operations to both revenues and expenses. The expected average daily census was 112, while the actual has been 127. The primary driver to the increase in the census has been patients treated with the Corona virus, particularly the new variant Omicron. In the first quarter of the fiscal year, the average daily census of patients with the virus was 10, in the second quarter it averaged 15, and at the start of the third quarter, there were around 50 patients per day. Absent from a potential surge during the last quarter of the fiscal year, the trend of patients with the virus requiring hospitalization should be on a decline. The increased net revenues resulted from the increased census and government assistance for revenue losses from the coronavirus. Cancellation of elective surgeries and appointments to specialty and primary physicians following the State and County's Shelter in Place directive impacted normal business. The vaccination efforts should significantly ease the demand for hospital beds to treat patients with the virus over the following months. The 1115 Waiver has received initial federal approval of a five-year extension. Details of the waiver continue to be ironed out at the federal and state level.

Expenditures in the current year are estimated at $14.74 million above budget. Labor and supplies expenses are major contributors to increases in expenditures. The high demand for nurses to treat coronavirus patients increased the use of contracted or travel nurses. Overtime and extra shifts added to the higher costs. Similarly, special supplies or personal protective equipment (PPE) for coronavirus patients also contributed to the increase in expenditures. Additional costs continue with programs for testing and vaccinations available to the community. As a result of these cost pressures estimates add $14.19 million in fund balanced compared to the $24.29 million budgeted. Expenditures for operations in the forecast years are projected to decrease as the coronavirus pandemic is fully controlled.

The current year and the forecasted years include costs for capital projects. Natividad forecasts to spend on average $30.0 million annually on capital projects. Major projects include expansion to the rehabilitation service line, expansion to cardiology services, expansion of a primary care community clinic, replacement of nurse calling system for all services, expansion of the pharmacy department, replacement of chemical analyzer, replacement of medical equipment, construction of a parking structure for employees and visitors, replacement or upgrade of the main hospital system and exterior upgrades of the hospital ground and buildings. Natividad projects to continue with a positive fund balance over the forecasted years.

Lake & Resort Operations – The Lake & Resort Operations Fund is a County enterprise fund accounting for Lake Nacimiento operations. It is a self-supporting entity, providing goods and services to the public for a fee. The Resort at Lake Nacimiento is managed under an agreement with an external operator, Basecamp. The agreement allows for reimbursement of the operator's expenditures and monthly management and annual incentive fees. The County is responsible for capital expenses such as repairs to infrastructure.

Fund 452 Lake & Resort Operations	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
A. Beginning Fund Balance	$ 1,904,164	$ 1,904,164	$ 1,914,509	$ 2,389,483	$ 2,973,270
B. Revenue	4,345,157	3,362,025	4,319,363	4,509,345	4,189,623
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	6,249,321	5,266,189	6,233,872	6,898,828	7,162,893
E. Expenditures	3,892,651	3,351,680	3,844,389	3,925,558	4,024,160
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	3,892,651	3,351,680	3,844,389	3,925,558	4,024,160
H. Ending Fund Balance, D-G	$ 2,356,670	$ 1,914,509	$ 2,389,483	$ 2,973,270	$ 3,138,733

Lake Nacimiento began FY 2021-22 with a $1.90 million fund balance, including $0.9 million in restricted funds for Zebra/Quagga Mussel Program and 2018 Trailer Fire Insurance Proceeds. The current year estimate projects revenues and expenditures of $3.36 million and $3.35 million, respectively, for a positive change in fund balance of $10,344. Although COVID-19 has led to sporadic park closures and limited services since March 2020, the resort operator responded quickly with aggressive reductions to discretionary spending and labor costs, which helped mitigate losses. The fund also performed better than prior years under the new model, which excludes Lake San Antonio from the fund as it was deemed unprofitable for a business-type activity.

Revenue forecast for FY 2022-23 increase by $0.97 million. The forecast reflects Basecamp's Board-approved proposal to add ten new boats to the County's rental fleet, a move estimated to increase boat rental, day use, lodging, camping, and fuel sales revenues. The Waterworld settlement note payable will be liquidated in June 2024, eliminating the need for a General Fund subsidy for the annual loan payment in FY 2024-25. The elimination of the subsidy decreases estimated revenues in FY 2024-25. Expenditures are forecasted to increase incrementally through the forecasted years, anticipating increased visitorship and inflation. Revenues are forecasted to outpace expenditures, resulting in a growing fund balance.

Laguna Seca Recreation Area (Laguna Seca) – Laguna Seca is owned by the County and functions as a fee-for-service enterprise. Operations are managed by A&D Narigi Consulting, LLC (A&D). LSRA operations include camping, track rentals, venue rentals, corporate team-building packages, and special events, including local and international gatherings. As an enterprise fund, the fees collected from its operations are its sole financing source to fully cover its operating costs and asset improvement and replacement needs.

Fund 453 Laguna Seca Recreation Area	Modified Budget 2021-22	Year-End Estimate 2021-22	Forecast		
			2022-23	2023-24	2024-25
A. Beginning Fund Balance	$ 965,703	$ 965,703	$ 417,610	$ (191,848)	$ 616,853
B. Revenue	22,092,402	19,205,580	18,038,590	20,976,035	21,736,183
C. Cancellation of Assignments					
D. Total Financing, A+B+C	23,058,105	20,171,283	18,456,200	20,784,187	22,353,036
E. Expenditures	20,805,898	19,753,673	18,648,048	20,167,334	20,798,209
F. Provisions for Assignments					
G. Total Financing Uses, E+F	20,805,898	19,753,673	18,648,048	20,167,334	20,798,209
H. Ending Fund Balance, D-G	$ 2,252,207	$ 417,610	$ (191,848)	$ 616,853	$ 1,554,827

The current year adopted budget estimated revenues and expenditures of $22.09 million and $20.81 million, respectively, increasing the fund balance by $1.29 million to end the year with a fund balance of $2.25 million. On November 1, 2021, the oversight of Laguna Seca was transferred from the County Administrative Office to the Public Works, Facilities, & Parks Department (PWFP). PWFP estimates reductions in revenues of $2.89 million in FY 2021-22 due to estimated revenue loss from lower event attendance and sponsorships resulting from the pandemic. Expenses were reduced by $1.05 million but not on pace with revenue losses. Accordingly, the current year estimate anticipates a net operating loss of $0.55 million to end the year with an ending fund balance of $0.42 million.

The forecast for FY 2022-23 further reduces the fund balance to a deficit of $0.19 million due to a reduction in track rental revenues, as the track will be closed for almost half of the year for the track resurfacing project. The track resurfacing project also affects other anticipated revenues like store sales. Fiscal years 2023-24 and 2024-25 are anticipated to be turnaround years, with growing annual operating revenue. A&D is optimistic that these out years will be similar to pre-pandemic operations. These higher revenue forecasts are expected to yield $0.81 million and $0.94 million of net income for FY 2023-24 and 2024-25, respectively. Expenditures are forecasted to increase gradually mostly from hiring of vacant County positions. This will result in a positive fund balance of $0.62 million and $1.56 million, respectively.