

# County of Monterey Financial Forecast

County Administrative Office

Board of Supervisors Meeting March 8, 2022



# General Fund



# Current Year Estimate Favorable

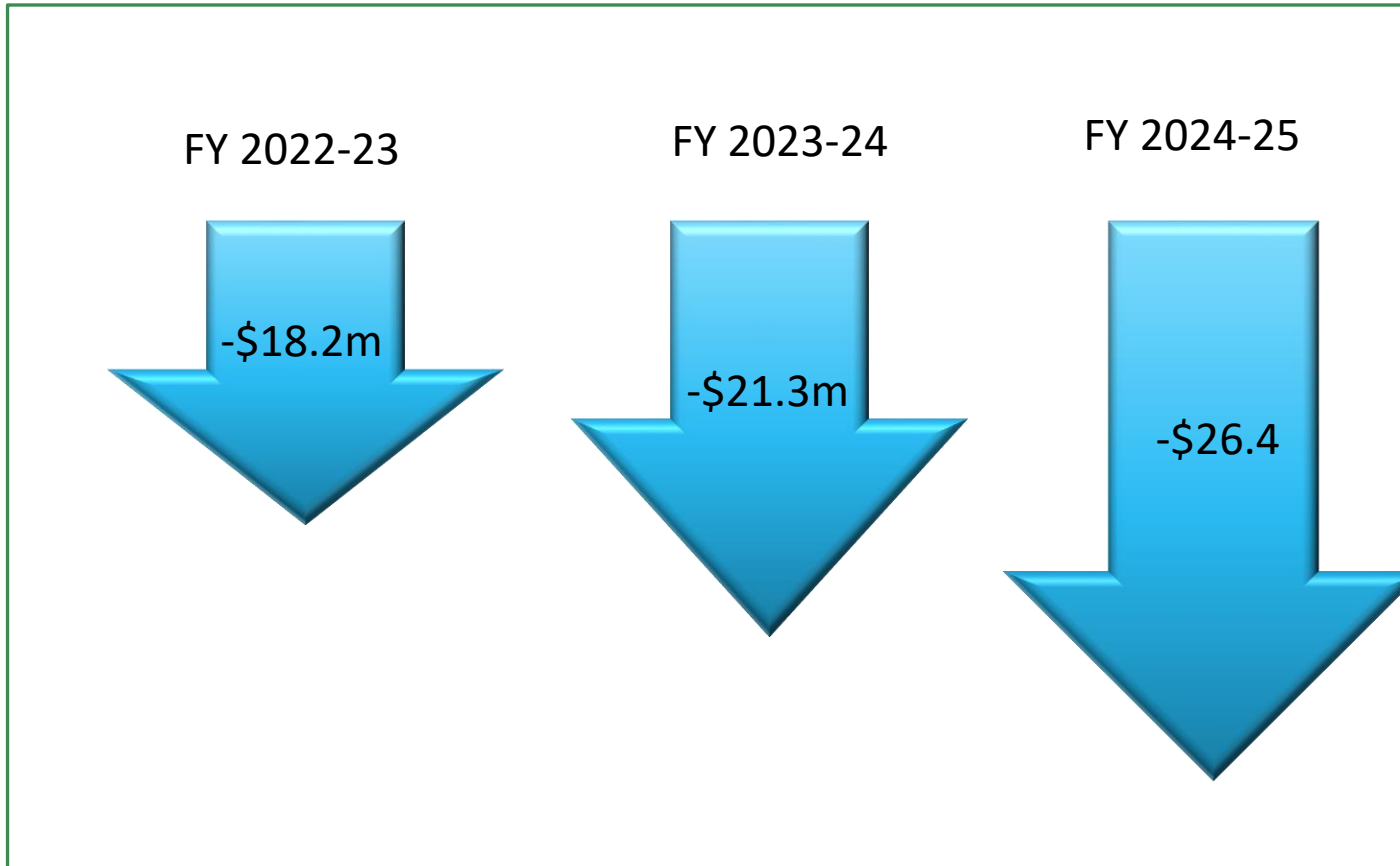
	2020-21	FY 2021-22			2022-23	2023-24	2024-25
	Actual	Adopted	Modified	Year-End Estimate	Forecast		
<b>Available Financing:</b>							
Beg. Unassigned Fund Balance	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Release of Fund Balance	78.5	8.3	9.0	8.8	0.0	0.0	0.0
Revenues	<u>743.5</u>	<u>754.8</u>	<u>754.9</u>	<u>770.3</u>	<u>730.3</u>	<u>735.4</u>	<u>747.0</u>
Total Financing Sources	\$822.3	\$763.1	\$763.9	\$779.1	\$730.3	\$735.4	\$747.0
<b>Financing Uses:</b>							
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
<i>Salary Adjustmnet</i>					(9.4)	(10.1)	(9.9)
Appropriation for Contingencies	<u>0.0</u>	<u>2.4</u>	<u>0.9</u>	<u>0.5</u>	<u>7.2</u>	<u>7.2</u>	<u>7.2</u>
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)

- Expenditures estimated to end \$12.9 million (1.7%) above budget.
- Revenues are projected to be \$15.4 million above budget expectations
- Net estimated result for FY 2021-22 is a positive \$2.7 million, due to ARPA revenue



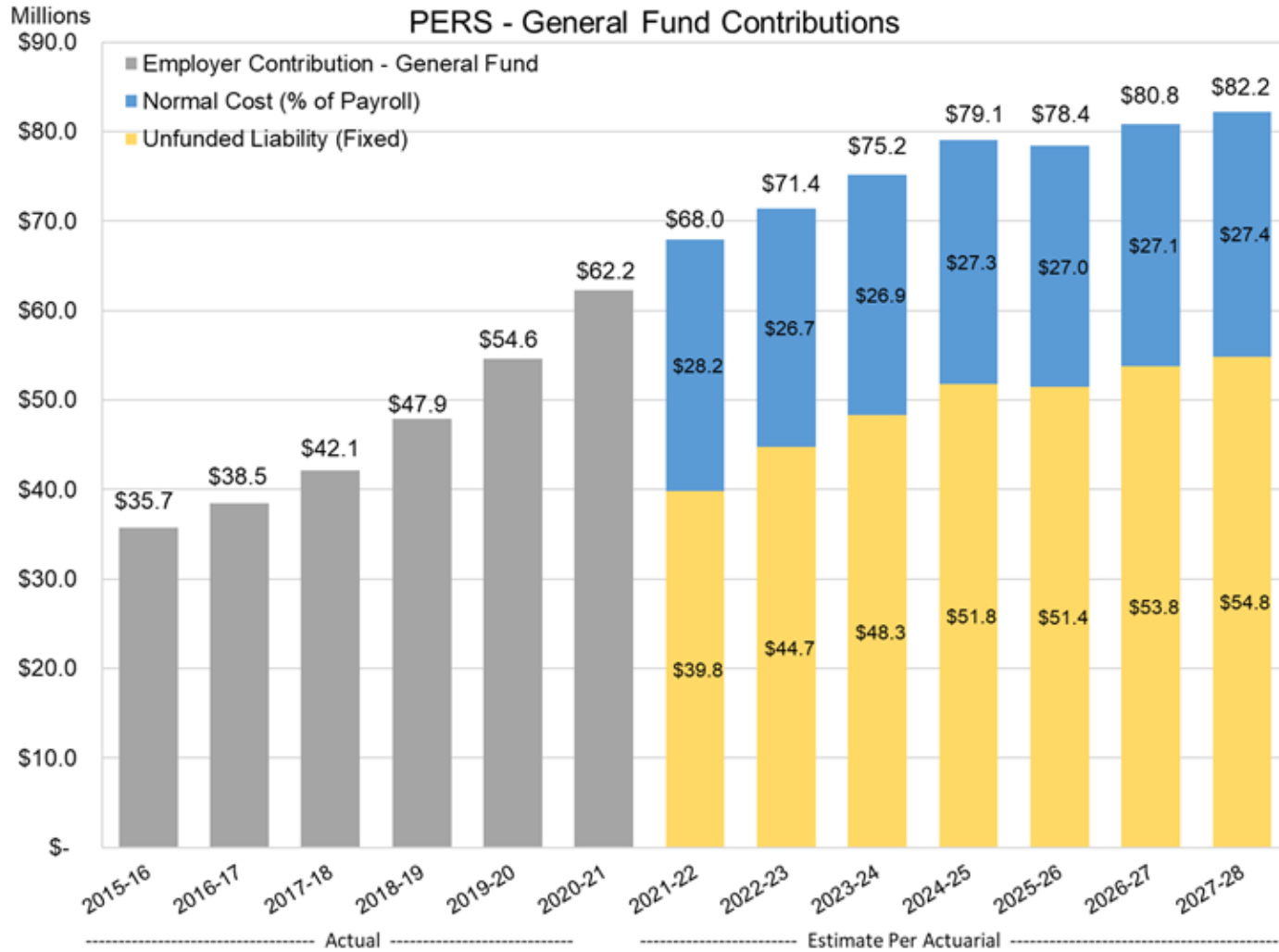
# Forecasted Funding Gaps

(Based on Current Operations & Policy)



- Funding gaps emerge beginning next fiscal year, growing from \$18.2 million to \$26.4 million by the end of the forecast period.
- Rising pension contributions add \$7.5 million in general fund costs next year, \$8 million in FY 2023-24 and \$3.4 million in FY 2024-25.
- Wage costs, health insurance costs, and general liability costs also contribute to the rising costs.

# Rising Pension Costs

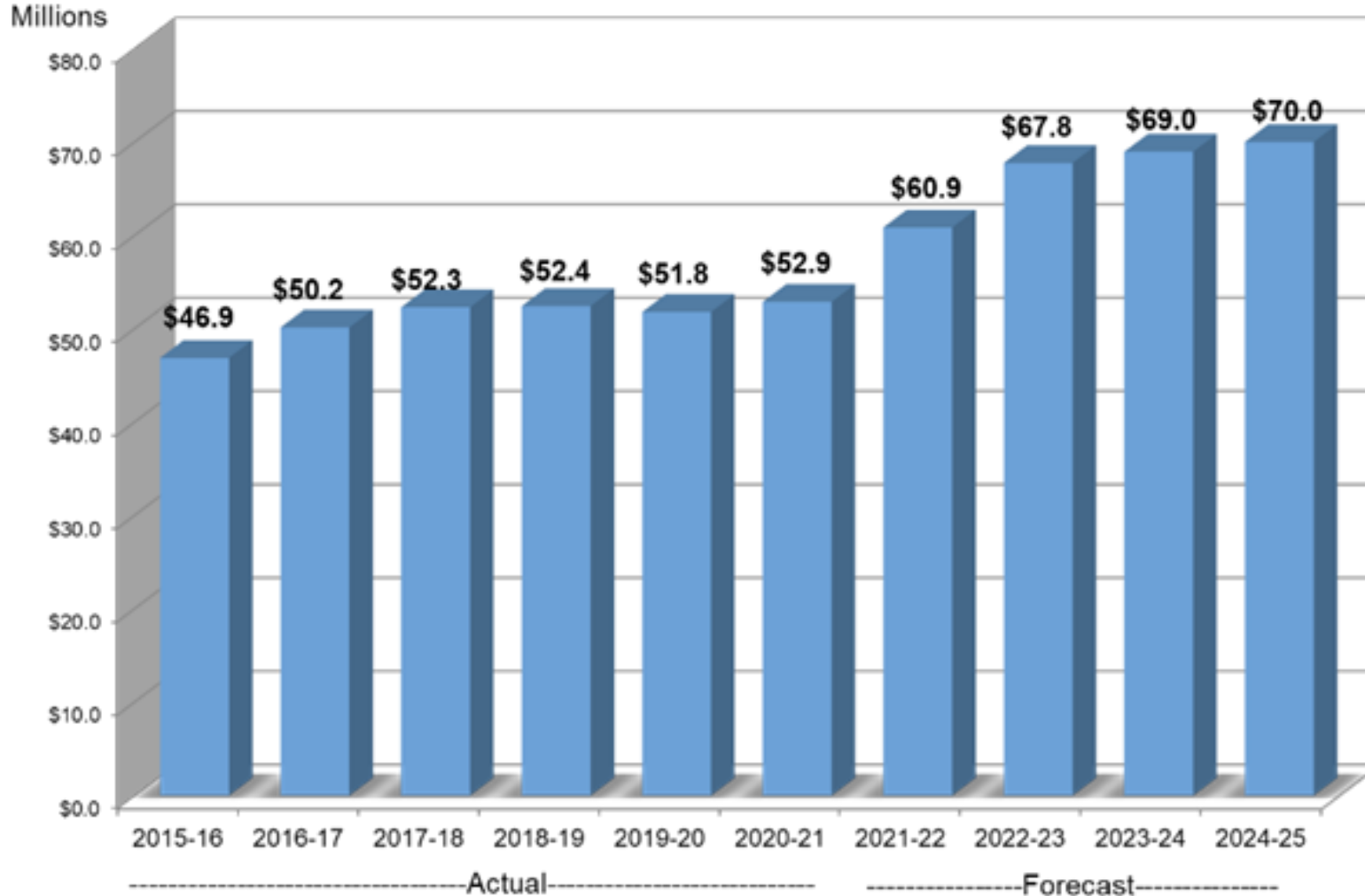


- Driving pension costs upward across the state is CalPERS' annual rate increases to ensure assets are on hand to pay benefits in the future.
- Pension costs are estimated to grow by \$9.2 million in FY 2022-23 compared to the prior year's budget.
- The combined unfunded liability as of PERS' last actuarial is \$818.8 million



# General Fund Health Insurance Expenditures

General Fund Employee Health Insurance Expenditures

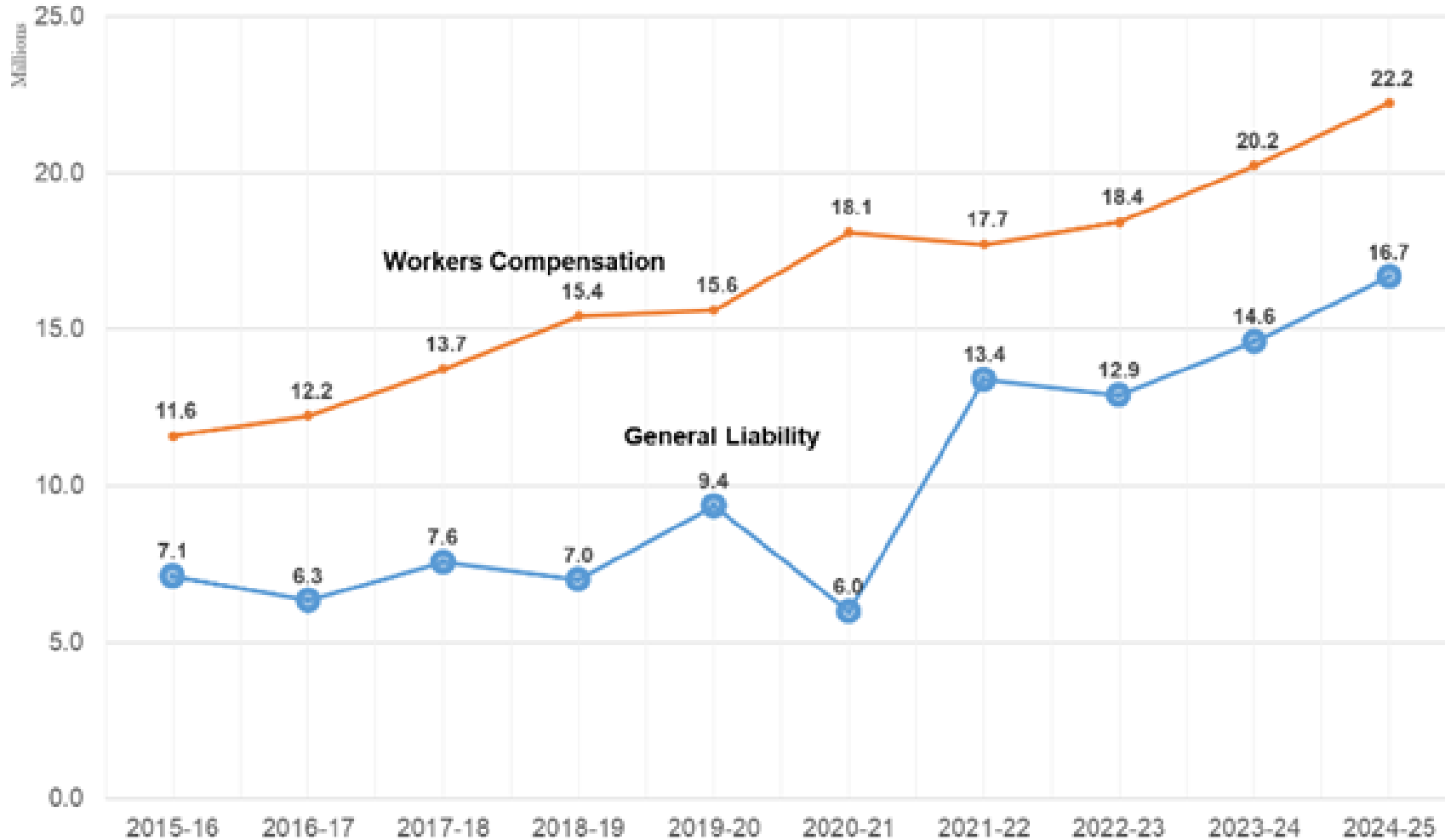


- Health Insurance costs are projected to grow \$8 million in the current year due to negotiated health benefit costs and premium increases
- This type of cost increase is unprecedented over the last 10 years.
- Projections indicate health insurance costs will grow by an additional \$6.9 million, if vacant positions are filled.
- Costs should stabilize in FY 2023-24 forward.



# Workers Compensation & General Liability Program

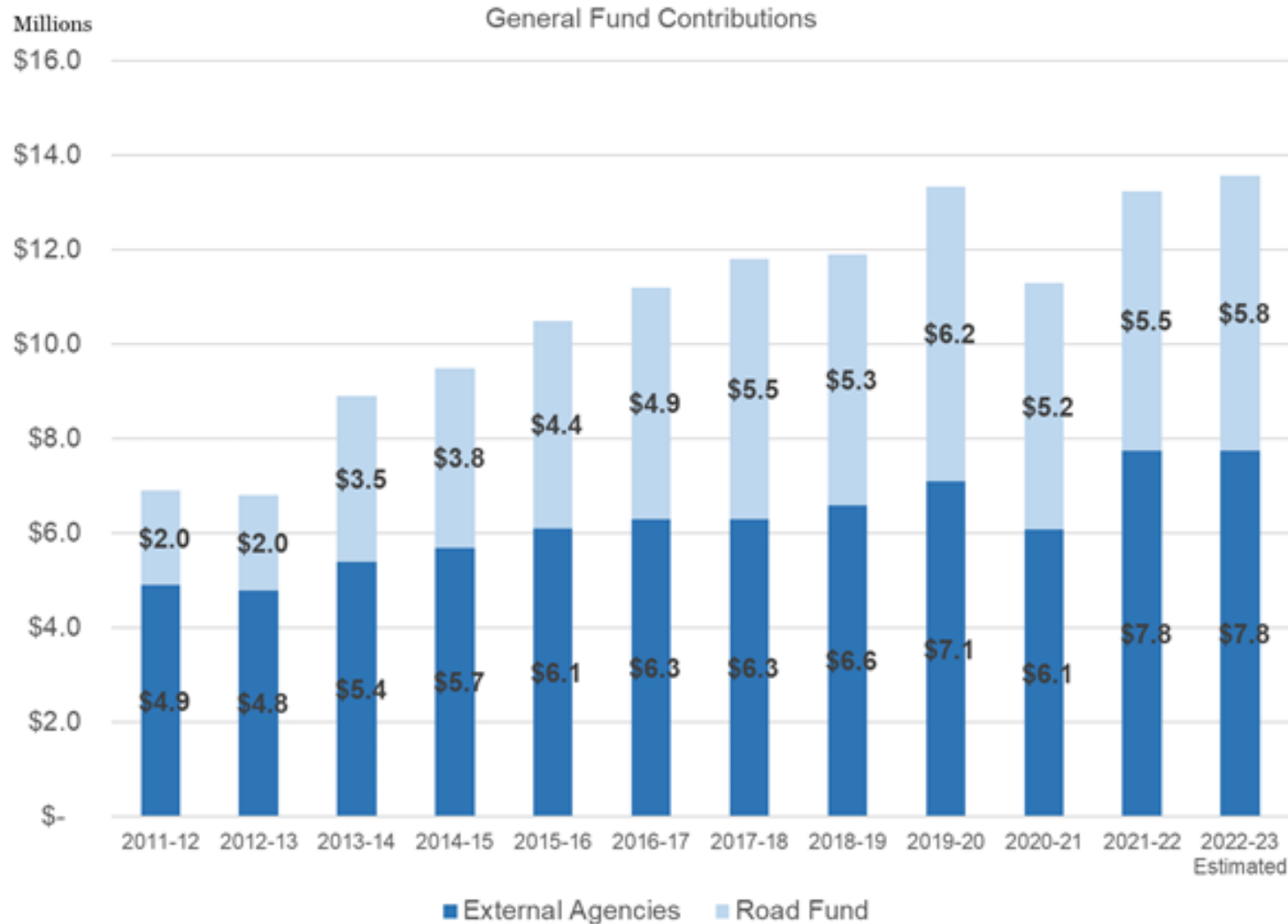
General Fund Workers Comp and General Liability Costs



- Forecasted Workers Compensation Program expenditures increase \$4.1 million by the end of the forecast period.
- General Liability (GL) Insurance Program expenditures decrease \$0.5 million next year but grows \$3.8 million in the by the end of the forecast period.



# General Fund Contribution to Outside Agencies

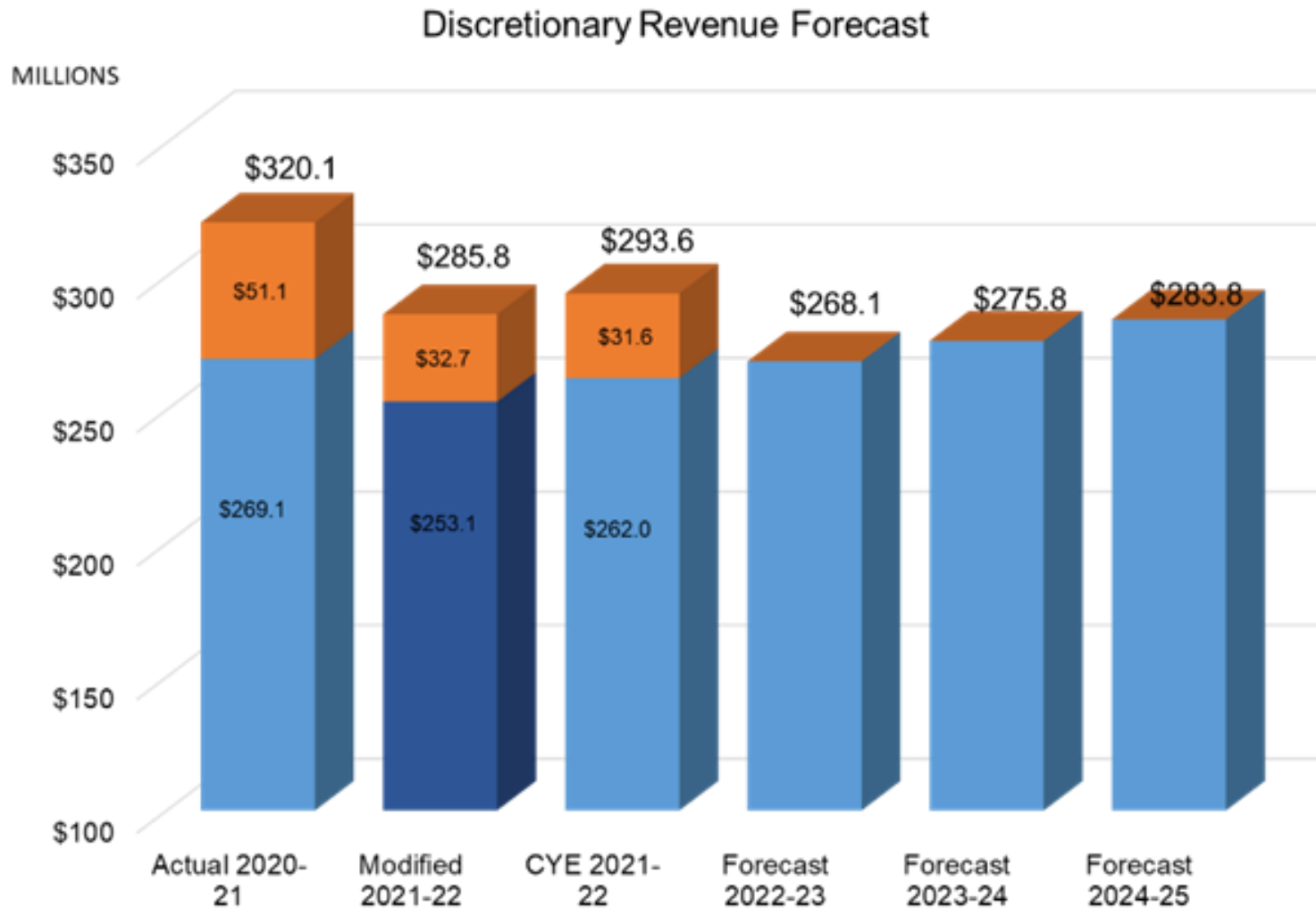


- The chart at left shows general fund contributions to the road fund and to the “development set-aside” agencies (MCCVB, Arts Council, Film Commission, and Business Council).
- These formula-based contributions are tied to County TOT collections.
- As TOT revenue has risen significantly, so have contributions to these entities with FY 2020-21 being the exception.





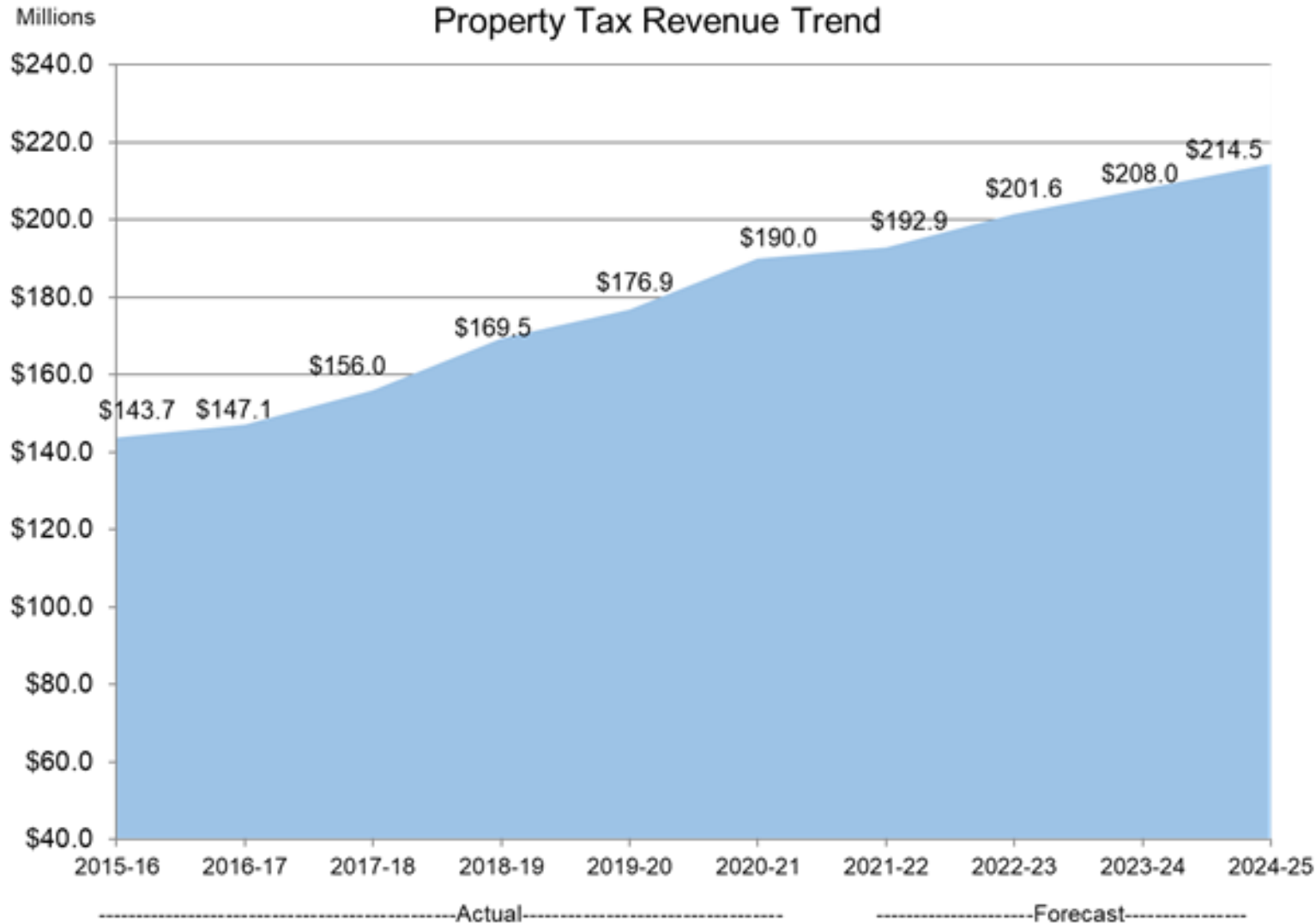
# Discretionary Revenue Still Increasing



- Up \$7.8 million in current year compared to budget (one-time ARPA revenue of \$31.6 million)
- Discretionary revenue is forecasted to grow another \$6.1 million next fiscal year; \$7.7 million in 2022-23 and \$8 million in 2023-24.



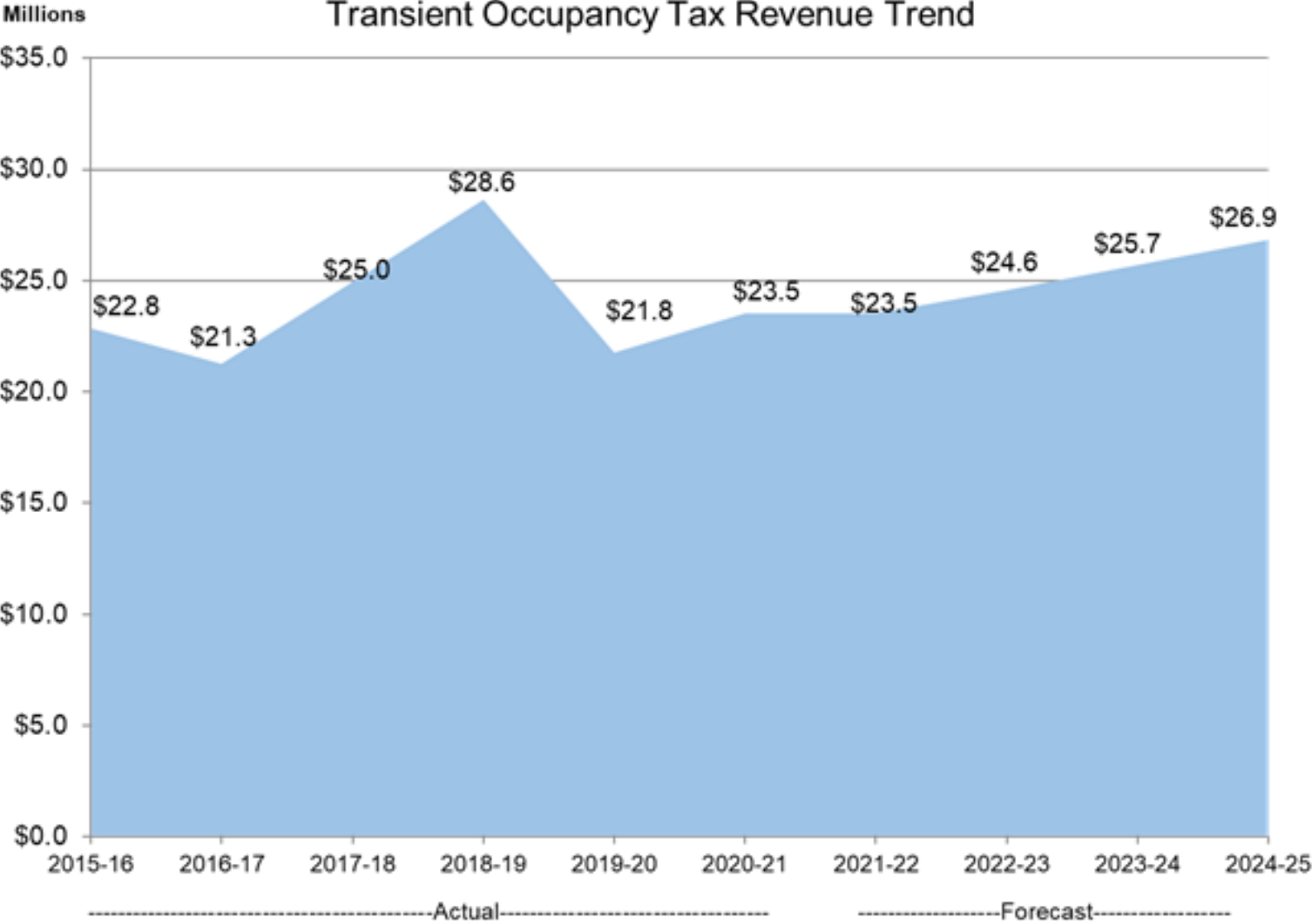
# Discretionary Revenue Drivers – Property Tax



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



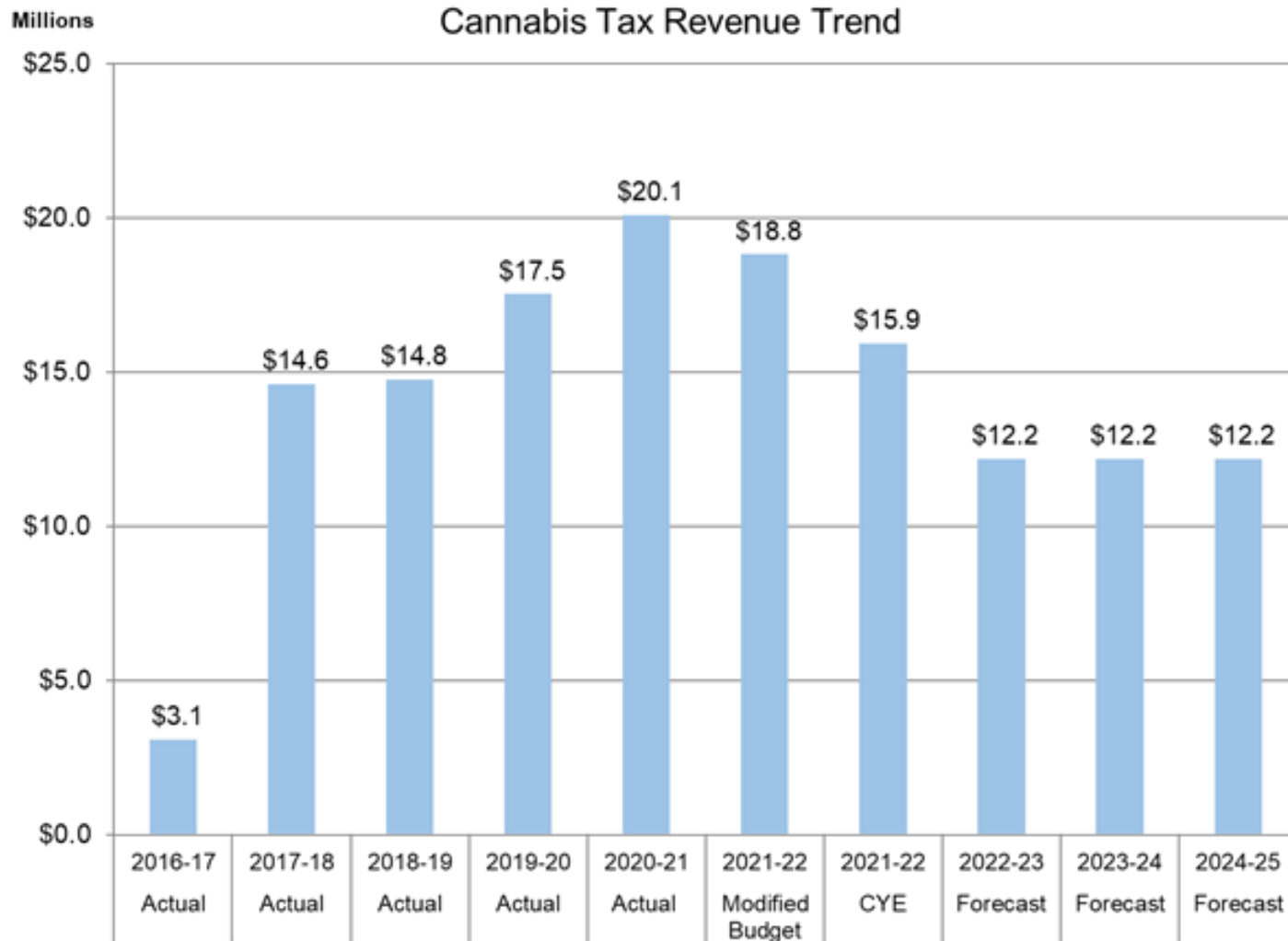
# Discretionary Revenue Drivers – TOT



- Transient Occupancy Taxes (TOT) are a significant revenue source which has experienced decreases during the pandemic
- Current year estimates show significant improvement as revenue was more resilient than originally estimated
- Projections estimate incremental growth over the forecast period



# Cannabis Revenue



- The current year estimate and forecast include \$15.9 million (\$2.9 million below budget) in cannabis revenue.
- Cannabis Revenue is projected flat at \$12.2 million over the forecast period due to recent Board approved changes in taxing rates



# Cannabis Assignment

- Cannabis assignment began the fiscal year with \$23.4 million
- The Board approved use of cannabis assignment in the amount of \$7.3 million as of the date of this report

Cannabis Approved Assignment Uses FY 2021-22		FY
Description		2021-22
[-] Assignment Use	\$	<b>7,273,871</b>
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
<b>Grand Total</b>	\$	<b>7,273,871</b>



# Departmental Estimated Results



# Departmental Estimated FY 2021-22 Results

Department	Modified GFC Budget FY 2021-22	Estimated GFC FY 2021-22	Variance
Agricultural Commissioner	\$ 4,594,414	\$ 4,799,226	\$ (204,812)
Auditor-Controller	\$ 1,104,215	\$ 310,787	\$ 793,428
Assesor-County Clerk Recorder	\$ 5,746,157	\$ 5,321,082	\$ 425,075
Board of Supervisors	\$ 4,410,985	\$ 4,359,148	\$ 51,837
Child Support Services	\$ 186,657	\$ 101,411	\$ 85,246
Civil Rights Office	\$ 77,778	\$ 92,710	\$ (14,932)
Clerk of the Board	\$ 921,820	\$ 910,278	\$ 11,542
Cooperative Extension	\$ 482,246	\$ 479,743	\$ 2,503
County Administrative Office	\$ 8,372,008	\$ 8,311,917	\$ 60,091
County Counsel	\$ 2,435,738	\$ 2,766,140	\$ (330,402)
District Attorney	\$ 20,527,412	\$ 22,247,868	\$ (1,720,456)
Elections Department	\$ 4,216,525	\$ 3,208,714	\$ 1,007,811
Health	\$ 23,615,724	\$ 26,907,432	\$ (3,291,708)
Housing and Community Development	\$ 8,295,706	\$ 8,150,120	\$ 145,586
Human Resources	\$ 943,447	\$ 878,984	\$ 64,463
Information Technology	\$ (4,760,859)	\$ (4,465,338)	\$ (295,521)
Probation	\$ 25,272,501	\$ 25,254,968	\$ 17,533
Public Defender	\$ 14,651,415	\$ 14,273,235	\$ 378,180
Public Works, Facilities, and Parks	\$ 16,896,283	\$ 16,125,466	\$ 770,817
Sheriff Coroner	\$ 84,177,711	\$ 86,371,874	\$ (2,194,163)
Social Services	\$ 20,518,778	\$ 21,279,225	\$ (760,447)
Treasurer Tax Collector	\$ 1,395,499	\$ 1,444,836	\$ (49,337)
			\$ -
<b>Totals</b>			<b>\$ (5,047,666)</b>

- The largest deficit is estimated by the health Department resulting primarily from the pandemic response impacts in departmental revenue.
- Gaps resulting from salary and benefit cost increases:
  - District Attorney
  - County Counsel
  - Sheriff



# Countywide Budgetary Impacts

- Wage adjustments for various classifications to bring positions to par with other jurisdictions, negotiated salary increases and ongoing PERS costs will impact overall county operations for an estimated \$20.8 million next fiscal year and an additional \$19.5 million the following fiscal year.
- In addition, pandemic response costs will continue to impact the County next fiscal year;
- ARPA revenue could be used to address some pandemic response needs. These needs will be addressed as part of the recommended budget to the extent of ARPA revenue availability.

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
<b>Total</b>	<b>\$ 10,498,333</b>	<b>\$ 20,843,556</b>	<b>\$ 19,493,383</b>





# Other Funds

- Road Fund – Revenues and expenditures are both below budget resulting in a balanced result for the current year. The forecast years show a reduction in fund balance as more projects are estimated for completion.
- Behavioral Health Fund – Both revenues and expenditures are estimated to be under budget for the current year resulting in fund balance reduction to \$42.9 million in the current year. More updated estimates show fund balance growing to \$55 million in the current year. The department will bring a separate report to the Budget Committee to address the utilization of fund balance. The projection years show a pattern of reduced fund balance as expenditures growth outpaces revenues.
- The Library – Revenues are estimated to come over budget while expenditures are slightly under budget resulting in addition of resources to fund balance by approximately \$196,00 in the current year.



# Other Funds - Continued

- Emergency Communications – both revenues and expenditures are projected slightly higher than the current approved budget resulting in an increase in fund balance of approximately \$288,000 .
- Natividad Medical Center – Natividad operations have been significantly impacted by the pandemic. In the current year, both revenues and expenditures are estimated to exceed budgeted amounts, resulting in a reduction in fund balance of approximately \$10 million. Fund balance is projected to grow \$7 million over the next three fiscal years.
- The Lake Resort Fund, which only includes Lake Nacimiento effective FY 2019-20 is estimated to end the FY 2021-22 with positive results growing fund balance by about \$10,000. The out years project positive results growing fund balance to \$3.1 million by the end of the forecast period.
- Laguna Seca estimates an ending fund balance of \$417,610; a reduction of \$548,093 in fund balance resulting from lower level of revenues than budget. Fund balance is projected to decline a negative \$191,848 next FY before growing to \$1.5 million in FY 2024-25.



# Next Steps

- Departmental forecasts are the starting point for building initial “baseline budgets”.
- Baseline budgets communicate departments’ plans of what they can (and cannot do) with next year’s expected resources, taking into consideration inflationary pressures.
- Departments also submit augmentation requests for increased funding to support current operating levels or to enhance programs.
- In the coming weeks, staff analyzes baseline budgets to understanding areas of budget flexibility, funding gaps, and potential impacts in order to build a well-informed and responsible recommended spending plan.
- A workshop is held at the end of March with Department Heads to facilitate a shared understanding of countywide finances and programmatic impacts and to gather input on strategies.
- The Board’s annual budget workshop on April 5 is an opportunity to provide a “budget preview” and receive direction before building the recommended budget to be presented at the budget hearings on June 1<sup>st</sup> and 2<sup>nd</sup>.



# Questions

