



Monterey County

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Board Report

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Receive and accept the FY 2018-19 Budget End-of-Year Report from the County Administrative Office.

RECOMMENDATION:

It is recommended that the Budget Committee receive and accept the FY 2018-19 Budget End-of-Year Report from the County Administrative Office.

SUMMARY:

The Budget End-of-Year Report (BEYR) evaluates year-end fiscal performance in comparison to the County's budget, as adopted and modified by the Board of Supervisors. Production of the BEYR is a collaborative effort between the County Administrative Office and departments following year-end closing adjustments overseen by the Auditor-Controller. Financial data analyzed in the BEYR is unaudited and subject to final adjustments.

The general fund end-of-year results are favorable, with an operating surplus of \$29.4 million that allowed the County to rebuild the Strategic Reserve. The Strategic Reserve is now at \$66.5 million, or 9.9% of FY 2019-20 adopted general fund revenues. The surplus is a testament of the County's conservative management culture and the continuous monitoring of its finances with oversight of the Board and its Budget Committee.

DISCUSSION:

The BEYR begins with an analysis of the countywide performance of the general fund, followed by detailed analysis of departmental performance and the financial position of other major funds.

The general fund ended FY 2018-19 with revenues of \$656.1 million and expenditures of \$626.7 million, resulting in an operating surplus of \$29.4 million. The operating surplus was primarily driven by higher discretionary revenue earned compared to budget and lower than budgeted expenditures. Key outcomes include:

- Discretionary revenue performed strongly, led by cannabis revenue totaling \$15.4 million, \$11.6 million more than the new program's conservative budget estimate;
- Cannabis revenue exceeded amounts budgeted for program operations by \$11.7 million, with the surplus placed in the cannabis assignment;
- Other forms of discretionary revenue continue to exceed expectations as the economy approaches its tenth year of expansion, nearly double the average length of recovery. Discretionary revenue excluding cannabis receipts beat budgeted estimates by \$20.7 million. The favorable performance was led by transient occupancy tax, which reached an all-time high

of \$28.6 million and exceeded budgeted amounts by \$6.7 million. Property tax, sales tax, and investment income earned on the County's growing fund balances also had positive performance compared to budget;

- Expenditures were \$62.8 million below budget due to vacancies, unused appropriations for capital projects, and lower than planned caseloads in health and social service programs;
- The operating surplus allowed \$29.0 million to be transferred to the Strategic Reserve in accordance with provisions in the adopted budget, increasing the Strategic Reserve to an all-time high of \$66.5 million (9.9% of FY 2019-20 adopted general fund revenues);
- The general fund is estimated to end the year with \$2.4 million in unassigned fund balance;
- Strong management, budgetary performance, and financial liquidity have earned the County a AAA general obligation (GO) rating upgrade from Standard & Poor's based on FY 2018-19 preliminary results.

Looking forward, the County faces uncertain economic conditions and mounting unfunded needs. Even with the strong revenue growth, the general fund faces the continuous challenge of rising employee and operating costs while balancing the requests for additional service levels. Next fiscal year, general fund programs will require an estimated increase of \$16.4 million to cover the 2% raises in the current year and 3% for the next fiscal year. In addition, general fund contributions for pensions increase an estimated \$6.6 million next fiscal year (with similar increases in ensuing years).

Further unmet needs continue to grow, among them general liability and workers' compensation costs, an expanded jail requiring additional staffing, and the replacement of the juvenile hall exceeding the budget. Economists and rating agencies are predicting a recession in the near future that could impact discretionary revenue growth that has mostly been the source for building the County's reserves. Even if the strong growth in discretionary revenue continues, the revenue growth may not be enough to cover these increased costs pressures, leaving cannabis revenue as the remaining source of budgetary flexibility. Decisions made during these times of revenue growth will determine how well the County fares in the next downturn. Continuing the County's culture of conservative financial management, avoiding ongoing commitment of new revenues, maintaining reserves, and paying down unfunded liabilities is essential to preserving sustainable service levels into the future.

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

OTHER AGENCY INVOLVEMENT:

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

FINANCING:

The BEYR provides analysis and perspective on the condition of the general fund and other major County funds. There is no cost associated with the receipt of this report.

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Attachments: FY 2018-19 Budget End-of-Year Report