Attachment A

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HOUSING AND COMMUNITY DEVELOPMENT/
PUBLIC WORKS, FACILITIES, & PARKS

FISCAL YEAR 2020-21 FINANCIAL CONDITION REPORT

FORECAST

The Housing and Community Development Department (HCD) relies heavily on external revenues, such as fees to support its land use services; whereas, the Department of Public Works, Facilities, & Parks (PWFP) relies on fees predominately for only one of its divisions, Parks. Due to both departments' reliance on customer support through fees, the COVID-19 pandemic, which halted business, hit these two (2) departments particularly hard. As COVID-19 reached Monterey County and the first shelter-in-place order became effective on March 17, 2020, HCD/PWFP began to experience a significant decline in revenues. This is exasperated by the fact that not all fees for services recuperate 100 percent (100%) of department cost. The new Land Use fee structure went into effect in November 2019, and has now provided staff a full year of data to analyze to determine the actual rate the departments are recovering costs. When staff completes its final analysis, warranted adjustments to the 2019 fee structure will be brought to the Board, through the Budget Committee.

By the time COVID-19 hit in March 2020, the Fiscal Year (FY) 2020-21 budget request was already submitted to the County Administrative Office Budget & Analysis Division (Budget Office). The financial impacts of COVID-19 were difficult to gauge in those early months. In addition, the department's share of the General Liability allocation, along with increased salary & benefit costs were unmanageable without severe staffing cuts. The Budget Office recommended reductions to the Non-recoverable General Liability allocation countywide to help offset some of these extraordinary costs, along with other reductions in travel and training, and increasing the department's vacancy/attrition rate. However, there was no adjustment to HCD & PWFP revenues for the projected loss of revenue due to COVID-19. The understanding at that time was that the Budget Office would request updates from departments within the first quarter of FY 2020-21, which would likely be presented to the Budget Committee and Board of Supervisors (Board) midyear.

In mid-September 2020, Resource Management Agency (RMA) reported to the Budget Office a projected revenue shortfall upward of $2.5 million. The primary revenues impacted were Building Services ($1.4 million), Environmental Services ($0.3 million) and Parks ($0.8 million). Building revenues suffered initially in April 2020, when construction was shut down for six (6) weeks. Development activity was steady, but mostly reserved to smaller projects, as the community cautiously awaited COVID-19's fiscal fallout. An uptick in permits is expected associated with rebuilding from the 2020 fires, but this revenue will not be realized as permit fees related to the fires were waived by the Board. Environmental Services assumed floodplain management from the Monterey County Water Resource Agency (MCWRA), but no revenues accompanied this transferred function that increased workload and costs. Staff will seek direction from the Board on how best to address this matter in the future; including options ranging from returning the floodplain management tasks to MCWRA to reassigning MCWRA discretionary revenues that previously funded these tasks to Environmental Services. Parks also saw a decline with both COVID-19 restrictions and the 2020 fires. This, ultimately, resulted in all facility rentals and events being cancelled and complete closure of the parks for multiple months. Approximately 20 Special Events, such as the Sea Otter Classic, CCCX Cycling Group events, Hartnell College Cross Country Invitational, Spartan Race, Boy Scout Troop 35th Year Anniversary, Aids/Lifecycle Race, have been cancelled. Presently, parks that are open are operating at a reduced scale. Toro Park has been completely shut down due to damages caused by the River Fire and San Lorenzo Park is closed as the County's Emergency Operations Center (EOC) is housing COVID-19-positive individuals in trailers there. One safety measure implemented in response to the

COVID-19 outbreak is that Park entry gates for those parks remaining open are not staffed. Collection of park-entry fees is totally reliant on the honor system via iron rangers. This reliance has resulted in an overall decline in the receipt of entry fees.

The Current Year-End Budget Estimate was submitted on January 6, 2021 to the Budget Office. It reflects a decrease in both revenues and expenditures of $2.5 million and $0.3 million, respectively, for a projected net $2.2 million loss. This projected loss in revenue cannot be mitigated without impacting positions. It is unlikely any reduction in work force could occur earlier than mid-February, which means more positions would have to be eliminated to make up for the projected loss. Expenditures are projected higher than normal due to COVID-19-related costs for facilities, maintenance, services, supplies, and staff response. The County of Monterey was allocated $44 million of CARES Act funding to assist with the financial impact of the COVID-19 outbreak. Since, the full CARES allocation was expended by the County by the December 30, 2020 deadline, COVID-19 expenditures incurred through December 30, 2020, which were approved by the Board as part of the CARES plan, will be funded by CARES revenue and will be treated as additional General Fund Contribution (GFC) to the departments. HCD's & PWFP's eligible expenditures from July 1, 2020 through December 31, 2020 are estimated at $0.4 million; the final amount will be confirmed by the Budget Office. This will reduce the net projected loss of $2.2 million down to $1.8 million.

Unit No.	Unit Name	Revenue Over/(Under)	Expenditures (Over)/Under	General Fund Contribution (Over)/Under
8175	COUNTY DISPOSAL SITES		140,280	140,280
8176	FACILITIES	57,289	(353,129)	(295,840)
8181	GROUNDS	3,810	44,953	48,763
8182	UTILITIES	(2,840)	27,318	24,478
8194	LITTER CONTROL	(125,744)	108,709	(17,035)
8222	RMA ADMIN	298,393	(112,143)	186,250
8469	SPECIAL DISTRICTS ADMIN		(1,422)	(1,422)
8510	PARKS OPERATION	(612,877)	(30,177)	(643,054)
8528	BUILDING SERVICES	(1,521,100)	306,460	(1,214,640)
8529	PLANNING	(75,239)	16,355	(58,884)
8530	DEVELOPMENT SERVICES	40,837	36,211	77,048
8531	ENVIRONMENTAL SERVICES	(582,588)	160,336	(422,252)
ESTIMATED NET LOSS BEFORE CARES FUNDING		(2,520,059)	343,751	(2,176,308)
GFC INCREASE FOR CARES FUNDING				361,547
TOTAL ESTIMATED NET LOSS		(2,520,059)	343,751	(1,814,761)

PROPOSED OPTIONS

In response to the County Administration Budget Office's request for HCD/PWFP to provide options to close the gap in revenues due to this extraordinary global crisis, three (3) options were developed and are presented below.

OPTION 1 STAFF REDUCTION

Reduce salary and benefit expenditures, with staffing reductions effective mid-February, resulting in a loss of approximately 43 positions: 37 HCD positions ($1.6 million savings) and six (6) PWFP positions ($0.2 million savings). This action would eliminate both filled and vacant positions.

The reduction of 37 positions in HCD will significantly increase the backlog of advance planning, conditions compliance, current planning, plans examination, and environmental review; likely resulting in failures throughout the HCD. A major focus of the Citygate Associates, LLC (Citygate) recommendation involved the elimination of Planning's backlog, in addition to filling and retaining those positions and allowing for overtime. Reducing PWFP-Parks staff by six (6) positions, will cut its workforce by 21 percent (21%). The Current Year-End budget already reflects a reduction in Temporary Employees, largely from Parks, by nearly 50 percent (50%) from $0.4 million to $0.2 million. Although COVID-19 reduced visitorship at County Parks, it primarily impacts the volunteers who provide the face-to-face interaction and customer service. Parks has operated on skeleton crews for many years. Even with the loss of visitors, essential grounds maintenance, like mowing lawns and trimming trees, as well as deferred maintenance projects, are still required on an ongoing basis.

OPTION 2 SUSPEND HIRING (HCD/PWFP HIRING FREEZE)

This option would leave all 16 General Fund vacant positions unfilled, including the recent vacancies in the HCD Director and the RMA Services Manager positions, for the balance of the fiscal year. This measure would result in an estimated salary savings of $0.6 million and reflects a vacancy rate of 8.2 percent (8.2%). In the past, the vacancy rate has varied between 10 to 16 percent (10-16%). Any future vacancies occurring for the balance of the fiscal year would not be filled, which could result in greater savings. For example, if the vacancy rate was to immediately jump to 12 percent (12%), there could be additional savings up toward $0.3 million.

Currently, 12 vacancies exist in HCD ($0.4 million savings); Four (4) vacancies exist in PWFP ($0.2 million savings). Projected savings from vacancies does not include several recent resignations, as vacation payouts will absorb any potential savings from these now vacant positions. The forecasted loss of $1.8 million would be reduced by $0.6 million, lowering it to $1.2 million if this option is employed. To address the remaining $1.2 million gap, HCD and PWFP would also need to eliminate approximately ten (10) filled positions in HCD ($1.1 million) and one (1) filled position in PWFP ($0.1 million). The exact number of positions eliminated would depend on the position's actual salary and benefit savings available; therefore, the numbers could vary.

OPTION 3 SUPPLEMENT FUNDING

This option recognizes Cannabis Tax Assignment funding as alternative revenue source from which to backfill the budget shortfall resulting from COVID-19 impacts. The Cannabis Tax Assignment fund balance is currently $8.6 million. By designating $1.8 million to HCD and PWFP, it would be reduced to $6.8 million.

NEED FOR LONG-TERM FUNDING FOR STAFFING

During the FY 2019-20 budget development, RMA faced an insurmountable budgetary shortfall. After exhausting all avenues to close the funding gap, staff recommended using salary savings based on prior years' history. Past vacancies resulted in annual surpluses, meaning revenues exceeded expenditures, and RMA returned large portions of its GFC. RMA worked with the Budget Office and came to an agreement that based on RMA's history, using a 10 percent (10%) vacancy rate to budget for salary savings was reasonable. This allowed RMA to avoid going through the arduous process of proposing layoffs to the Board to balance the budget. RMA retained all approved positions and budgeted for the vacancy rate to avoid cutting critical positions. This requires vigilant budget oversight by utilizing a combination of increase revenues and managing within approved appropriations to stay within budget and return general funds at year-end, which has been consistent for the past eleven years. Although the vacancy rate solved the problem temporarily, it did not address the long-term need. This issue is two-fold: 1) The challenge of recruiting, filling, and retaining staff, and 2) Annual Budget Revenue is insufficient to support filling all approved positions.

Citygate was tasked by the Board to provide a study of RMA, including a high-level review of its administration, parks, public works, and other functions. The study's primary focus was on community development functions, including planning, engineering, permitting, and building services. On July 28, 2020, Citygate presented its findings and recommendations to the Board. The Board accepted the report and its 76 recommendations and directed the dissolution of the RMA and formation of two new departments, HCD and CSD (this name was later updated to PWFP). During the Citygate study, RMA conveyed its strategy of using salary savings to close budget shortfalls and retain positions, even when the positions were vacant because all the positions were critical to RMA operations. Citygate's Recommendations specifically include filling key land-use positions, including the Chief of Building Services, Building Plans Examiner, Civil Engineer, and Water Resources Hydrologist. Further, Recommendation #30 states "Strategically eliminate the long-term vacancies with little hope of funding to match available resources." The benefit would be to cure work backlogs and improve stakeholder satisfaction.

Accordingly, in FY 2021-22, HCD & PWFP will cease budgeting for salary savings and ask for ongoing GFC to fund these positions at 100 percent (100%). Also, HCD & PWFP will need additional Human Resources staff to assist with proactive recruitments to work toward reducing the vacancy/attrition rate to below five percent (5%). To accomplish this new approach, HCD and PWFP will request approximately $2.6 million in ongoing budgetary funding for staffing. The requested amount is consistent with the current year's budgeted salary savings. This additional funding for staffing will allow critical positions to be filled and eliminate all extended vacancies. With full staffing and optimal operational capacity, HCD/PWFP can achieve Citygate's Recommendation #30. Staff will bring its essential budget requests to the Board through the FY 2021-22 budget cycle process as Augmentations.

Noteworthy, HCD & PWFP anticipate revenues improving modestly in early fall of FY 2021-22, as more citizens receive the COVID-19 vaccine and business starts to approach a degree of normality. Although the U.S. economy may be looking toward recovery from the recession, it is unknown what the *new normal* will look like. Revenues are not anticipated to reach pre-COVID-19 actuals, and the budget will reflect conservative revenue estimates.

HCD/PWFP PREFERRED OPTION

Over the last five (5) years, RMA experienced annual vacancy/attrition rates ranging from 10 to 16 percent (10-16%). Employee attrition and ongoing challenges to recruit and fill vacancies have contributed to significant work backlogs. Existing backlogs would be exasperated by further reducing staffing levels. For this reason, HCD/PWFP does not recommend either Option 1 or 2. Additional funding provided by Option 3 will raise both HCD's & PWFP's daily operational capacity to a level where workload demands can be met. Accordingly, both departments recommend Option 3 as the preferred measure to address the current fiscal year's shortfall and to meet future demands for services.