



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legislation Details (With Board Report)

File #: RES 20-199 **Name:** Receive and Accept 2019-20 Budget End-of-Year Report

Type: BoS Resolution **Status:** Passed - County Administrative Office

File created: 11/9/2020 **In control:** Board of Supervisors

On agenda: 11/17/2020 **Final action:** 11/17/2020

Title: a. Receive and accept the Budget End-of-Year Report for FY 2019-20 from the County Administrative Office;
b. Authorize and direct the Auditor-Controller to amend the FY 2020-21 adopted budget to increase appropriations in CAO-Building Improvement and Replacement (478-CAO047-1050-8539-7614) by \$269,980 to allow for an operating transfer out to the Water Resources Agency, financed by \$269,980 in fund balance, fund 478, sub fund BIR (4/5th vote required); and
c. Authorize and direct the Auditor-Controller to transfer \$269,980 from the CAO-Building Improvement and Replacement budget (478-CAO047-1050-8539-7614) to the Water Resource Agency (111-WRA001-9300-8267-5940).

Sponsors: County Administrative Office

Indexes:

Code sections:

Attachments: 1. Board Report, 2. Budget End-of-Year Report FY 2019-20, 3. Resolution, 4. Item No. 12 Completed Board Order and Resolution r, 5. Item No. 12 BEYR FY 2019-20 - Received day of hearing

Date	Ver.	Action By	Action	Result
11/17/2020	1	Board of Supervisors		

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RECOMMENDATION:

It is recommended that the Board of Supervisors:

a. Receive and accept the Budget End-of-Year Report for FY 2019-20 from the County Administrative Office;
b. Authorize and direct the Auditor-Controller to amend the FY 2020-21 adopted budget to increase appropriations in CAO-Building Improvement and Replacement (478-CAO047-1050-8539-7614) by \$269,980 to allow for an operating transfer out to the Water Resources Agency, financed by \$269,980 in fund balance, fund 478, sub fund BIR (4/5th vote required); and
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SUMMARY:

The Budget End-of-Year Report (BEYR) evaluates year-end fiscal performance compared 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 \$7.0 million that allowed the County to rebuild the Strategic Reserve. The Strategic Reserve is now at \$67 million, or 10.0% of FY 2020-21 adopted general fund revenues, reaching the goal set per your Board's General Financial Policies. The surplus is a testament to 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 a detailed analysis of departmental performance and the financial position of other major funds.

The general fund ended FY 2019-20 with revenues of \$647.2 million and expenditures of \$640.2 million, resulting in an operating surplus of \$7.0 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 and above budget, led by cannabis tax receipts totaling \$16.9 million, \$11.4 million more than the conservative estimate adopted in the budget;
- The Cannabis Tax Assignment grew from \$22.1 million (FY 2018-19) to \$26.9 million.
- Other forms of discretionary revenue had more volatile results due to the impact of the COVID-19 pandemic and the end of the economic expansion. Discretionary revenue, excluding cannabis receipts, beat budget estimates by \$6.3 million. The favorable performance was led by other property taxes, investment income earned on the County's growing fund balances, and franchises fees, which exceeded budgeted amounts by \$9.5 million. As a result of the pandemic, property taxes, transient occupancy taxes (TOT), and sales & use taxes came in below budget by \$4.6 million;
- Expenditures were \$72.3 million below the final modified budget largely due to salary and benefit savings from vacant positions, lower than budgeted expenditures in social and health programs, reduced capital and operating spending at Laguna Seca Recreational Area as a result of the pandemic, unused contingencies and transfers to other funds;
- The County increased its fund balances by adding \$517,694 to the strategic reserve, reaching the 10.0% of estimated FY 2020-21 general fund revenue set by Board policy.
- The County also added \$6.5 million into assignments, including \$5.7 million to the cannabis assignment and \$3.4 million to the building improvement and replacement reserve. The County added \$1.4 million to restricted and non-spendable fund balance as departments recognized revenue collected for defined purposes.
- Excluding non-departmental budgets, fourteen departments ended the fiscal year with a general fund contribution (GFC) surplus totaling \$11.8 million. In comparison, seven departments had a GFC deficit totaling \$8.0 million, resulting in a net GFC savings of \$3.8 million.
- The general fund will end the year with an unassigned fund balance of \$1.0 million, of which \$570,000 is obligated to fund one-time expenditures in the FY 2020-21 adopted budget.

Looking forward, the County faces uncertain economic conditions largely driven by the COVID-19 pandemic, rising personnel benefit costs, and mounting unfunded needs. In FY 2019-20, general fund departments spent \$9.9 million in response to the COVID-19 pandemic. Through federal legislation, the State allocated \$44.9 million in CARES Act funding. Since the State appropriated CARES Act funds in their FY 2020-21 budget for distribution to the counties, the County could not accrue CARES Act funding spent in FY 2019-20. As a result,

the County will earn the \$44.9 million in CARES Act funding in FY 2020-21, of which an estimated \$42 million will go to the general fund with corresponding increases in appropriations of \$13.5 million.

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. An unknown is the fiscal impact that negotiations with bargaining groups will have. In addition, general fund contributions for pensions and healthcare premiums are likely to increase.

Even if the County's finances improve in FY 2020-21, the revenue growth may not be enough to cover these increased costs pressures. Starting in FY 2020-21, the cannabis tax is programed into the baseline GFC. Only growth in current revenue sources will be available to fund growth in the baseline GFC.

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.

The County Administrative Office (CAO) worked with the Water Resources Agency (WRA) and the Auditor-Controller's Office (ACO) to examine the error in the allocation basis that was provided by the charging department to the ACO which resulted in an overcharge of the facilities and facilities maintenance cost for WRA in the FY 2020-21. The CAO and ACO reviewed actual charges and noted the error in the allocation basis that was utilized for the cost plan. Although, there are two layers of verifications established within this process, one at the 'charging' department level prior to submitting the allocation basis to the ACO, and another at the 'charged' department level to review the draft charge amount prior to finalization of the Cost plan, the error was not caught. The allocation basis of the charging department will be corrected for the future. The County Administrative Office recommends that the building improvement and replacement fund covers this one-time \$269,980 in overcharges financed by fund balance.

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. The Budget Committee received this report during their October 28, 2020 meeting and recommended approval by the Board.

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; but approval of the COWCAP charges to the Water Resources Agency will result in a reduction in FY 2020-21 fund balance in the building improvement and replacement fund (Fund 478) by \$269,980.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The BEYR supports the Board's administration strategic initiative by providing a comprehensive analytical comparison between the County's final modified budget and year-end results, accordingly, promoting fiscal transparency and financial planning for future years.

Economic Development
 Administration

Health & Human Services
 Infrastructure
 Public Safety

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Approved by: Ezequiel Vega, County Budget Director, ext. 3078

Approved by: Dewayne Woods, Assistant County Administrative Officer, ext. 5309

Attachment: Budget End-of-Year Report - FY 2019-20; Resolution