



County of Monterey

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

Board Report

File #: 20-704, Version: 1

Authorize and direct the Auditor-Controller to approve an operating transfer out of \$1,600,000 from Contingencies (001-1050-CAO020-8034) into the General Liability Internal Service Fund's Non-recoverable Sub-Fund (475-RISK-1210-COU003-8408) for the FY2020-21 General Liability Non-Recoverable program.

RECOMMENDATION:

It is recommended that the Board of Supervisors authorize and direct the Auditor-Controller to approve an operating transfer out of \$1,600,000 from Contingencies (001-1050-CAO020-8034) into the General Liability Internal Service Fund's Non-recoverable Sub-Fund (475-RISK-1210-COU003-8408) for the FY2020-21 General Liability Non-Recoverable program.

SUMMARY/DISCUSSION:

The County Budget Office and County Counsel have identified an issue with the sustainability of the County's non-recoverable internal service sub-fund. The issue requires a supplemental augmentation in order to meet anticipated expenses out of that fund for the current fiscal year, but that may require further augmentations for extraordinary expenses throughout the fiscal year. Our offices also have a recommendation for on-going short-term treatment of the ISF under difficult budget circumstances.

The County has historically maintained an Internal Service Fund (ISF) to finance the payment of claims, settlements and litigation related expenses. The ISF has been funded each year from the General Fund in the budget process at the start of the fiscal year. The funding has been in an amount determined by an actuary, with the goal of funding at least 70% of anticipated annual expenses as determined by an actuarial study ("70% confidence level"). The actuarial study is based on a rolling 7-year loss history, and thus can be affected by significant swings in losses in a given year. Expenses are paid when incurred and then recouped from departmental budgets on an allocation basis over 5 years, again based on an actuarial study.

Prior to Fiscal Year ("FY") 2017-18, the County maintained a consolidated ISF meaning all expenses, whether recoverable from state and federal funds, or not recoverable, were included in one ISF. Beginning in FY 2017-18, the County created two sub-funds within the ISF; one for recoverable expenses (meaning they could be recovered from state and federal funds) and one for non-recoverable. Each sub-fund was financed separately based on actuarial studies.

In FY 2018-19, to address significant budget issues for the County, the non-recoverable ISF was funded at only one-half the suggested amount. That cut, along with unanticipated and significant expenses and settlements, create a funding shortfall that carried over to FY 2019-20 (FY 2018-19 saw a significant increase in the expenses paid out of the non-recoverable ISF - approximately \$11 million compared to \$3 million in FY 2017-19). At the end of FY 2019-20, the non-recoverable ISF was underfinanced by approximately \$5.3 million, and the Budget Office processed a recent transfer of funds in that amount into the ISF so that it did not end the fiscal year in a cash deficit.

Once again, due to severe budget constraints for the County, for FY 2020-21 the non-recoverable ISF was funded at only \$2 million when actuarially \$11 million was recommended (by comparison, the actuarial recommendation for FY 2018-19 was \$6.8 million, and for FY 2019-20 was \$6.3 million). However, based on

currently anticipated expenses (not actuarially determined), a total of approximately \$3.6 million is needed to finance expenses from the non-recoverable ISF for the remainder of this fiscal year. We are therefore requesting that the Board augment the non-recoverable ISF by transferring \$1.6 million from Contingencies (the difference between the \$3.6 million need and \$2 million in funding).

This situation highlights the unpredictability of expenses from this ISF; as mentioned, in FY 2017-18 expenses totaled approximately \$3 million, rising to approximately \$11 million in FY 2018-19, primarily due to unanticipated losses. Expenses then reduced in FY 2019-20 to approximately \$6.8 million, and are expected to reduce even further in FY 2020-21 to approximately \$3.6 million. The actuarially determined coverage can be skewed by outliers such as FY 2018-19. Conversely, expenses from the recoverable ISF tend to be more stable year over year. Thus, the recoverable ISF tends to be sustainable on an annual basis (meaning annual up-front funding is more predictably stable), while the non-recoverable tends to be unsustainable.

The recommended short-term solution is to fund the non-recoverable ISF in an amount designed to finance reasonably anticipated expenses, but leave significant unanticipated expenses to be funded from other sources on the recommendation of the Budget Office. This situation is not ideal, but allows the County to take reasonable risk during difficult budget times.

OTHER AGENCY INVOLVEMENT:

The Budget Committee recommends that the Board take the requested action, and the Budget Office concurs in the recommendation.

FINANCING:

The augmentation will be financed by as operating transfer from Contingencies to the non-recoverable ISF. The current balance of General Fund Contingencies is \$4,859,221. If this request for \$1,600,000 is approved, the General Fund Contingencies balance would be reduced to \$3,259,221.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

Mark a check to the related Board of Supervisors Strategic Initiatives

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

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Attachments:
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