



County of Monterey

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

Board Report

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Receive and accept the Budget End of Year Report for FY 2017-18 from the County Administrative Office.

RECOMMENDATION:

It is recommended that the Board of Supervisors receive and accept the Budget End of Year Report for FY 2017-18 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 (operating plan), as adopted and modified by the Board of Supervisors (Board). 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.

DISCUSSION:

The BEYR promotes financial transparency and fiscal oversight by assessing financial performance and outcomes of year-end financial results. The BEYR begins with an analysis of countywide performance of the general fund followed by detailed analysis of departments and other funds.

The general fund ended FY 2017-18 with revenues of \$659.9 million and expenditures of \$627.5 million, resulting in an operating surplus of \$32.4 million. Key outcomes include:

- The operating surplus was largely driven by technical accounting changes directed by the Auditor-Controller to recognize restricted revenues subsequently transferred into restricted fund balance accounts in accordance with governmental accounting standards;
- There were also non-recurring revenue events, including collection of \$14.6 million in cannabis revenue under the prior tax structure, a \$7.2 million transfer from Natividad into the general fund to be applied to the hospital's strategic reserve, \$3.8 million in disaster reimbursements, and \$2.7 million in SB 90 reimbursements for State mandates.
- Although much of the operating surplus was technical or non-recurring in nature, the general fund saw continued healthy growth of \$8.7 million in discretionary revenue due to solid performance in property taxes, transient occupancy tax, and the aforementioned SB 90 reimbursements;
- Given favorable results, \$10.0 million was returned to the strategic reserve in accordance with provisions in the adopted budget, increasing the strategic reserve to \$37.5 million (still approximately \$30 million below the policy target);
- Cannabis revenues of \$14.6 million, less operating expenses of \$632,061, were placed in the cannabis assignment in accordance with County policy, leaving a projected balance of \$7.8 million once current year uses are considered;
- After reserving funds in the strategic reserve and cannabis assignment, staff expect to end the year with an unassigned fund balance of \$1.5 million.

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 provided in the attached BEYR.

Looking forward, the County faces uncertain economic conditions and mounting unfunded needs. Even with the strong revenue growth, the general fund has not kept up with rising costs and service levels in some programs have suffered. Unmet needs will continue to grow, with an expanded jail requiring additional staffing, the replacement of the juvenile hall potentially exceeding budget, unfunded land use and flood prevention projects, \$5.0 million in programs and staffing restored during budget hearings using one-time cannabis assignment and contingencies funding that will require a permanent funding source beginning next fiscal year; and a strategic reserve that is \$30 million below the policy target. Meanwhile, the aging economic expansion has endured 111 months, well beyond the average of 60 months. Decisions made during these times of revenue growth will determine the how well the County fares in the next downturn. Continuing the County's culture of conservative financial management, avoiding ongoing commitment of "peak" revenues, rebuilding reserves, and paying down unfunded liabilities is essential to preserving sustainable service levels into the future.

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.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The Budget End-of-Year Report (BEYR) supports the Board's administration strategic initiative to promote an organization that practices efficient and effective resource management. The BEYR provides a comprehensive analytical comparison between the County's final modified budget and actual year-end results to promote fiscal transparency and financial planning for future years.

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

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Attachment: Budget End-of-Year Report - FY 2017-18