



Board Report

File #: RES 21-211, Version: 1

Adopt a Resolution to:

- a. Accept the Budget End-of-Year Report for FY 2020-21 from the County Administrative Office.
- b. Authorize the County Administrative Office to make the following fund balance designations in FY 2021-22 and authorize and direct the Auditor-Controller to make the fund balance changes in Advantage:
 1. Authorize the creation of a new section 115 pension trust assignment and authorize assigning \$30,641,609 financed by unassigned fund balance.
 2. Designate \$9,527,138 to the Compensated Absences Assignment (BSA 3115) to continue to keep reserves for employee vacation accruals financed by unassigned fund balance.
 3. Designate \$3,100,000 in a new sub-account in the General Capital Assignment (BSA 3065) for the future replacement of the Sheriff radios financed by unassigned fund balance.
 4. Designate \$526,700 in a sub-account in the General Capital Assignment (BSA 3065) for the capital equipment for the Elections Department financed by unassigned fund balance.
 5. Release \$550,000 from the Information Technology Charges Mitigation Assignment (BSA 3124) and assign \$550,000 to the new sub-account within the General Capital Assignment (BSA 3065) for capital equipment for the Elections Department.
- c. Authorize a \$3,524,746 Natividad contribution to the pension trust (Fund 030) towards its share of the CalPERS miscellaneous plan's pension liability by:
 1. Authorize and direct the Auditor-Controller to increase appropriations in the Natividad FY 2021-22 adopted budget (451-NMC001-8142) by \$3,524,746 financed by unassigned fund balance, 4/5th vote required; and
 2. Transfer \$3,524,746 from the Natividad enterprise fund (451-NMC001-8142) to the Pension Liability Fund (030-CAO049-8570) 4/5th vote required.

RECOMMENDATION:

It is recommended that the Board of Supervisors adopt Resolution to:

- a. Accept the Budget End-of-Year Report for FY 2020-21 from the County Administrative Office.
- b. Authorize the County Administrative Office to make the following fund balance designations in FY 2021-22 and authorize and direct the Auditor-Controller to make the fund balance changes in Advantage:
 1. Authorize the creation of a new section 115 pension trust assignment and authorize assigning \$30,641,609 financed by unassigned fund balance.
 2. Designate \$9,527,138 to the Compensated Absences Assignment (BSA 3115) to continue to keep reserves for employee vacation accruals financed by unassigned fund balance.
 3. Designate \$3,100,000 in a new sub-account in the General Capital Assignment (BSA 3065) for the future replacement of the Sheriff radios financed by unassigned fund balance.
 4. Designate \$526,700 in a sub-account in the General Capital Assignment (BSA 3065) for the capital equipment for the Elections Department financed by unassigned fund balance.
 5. Release \$550,000 from the Information Technology Charges Mitigation Assignment (BSA 3124) and assign \$550,000 to the new sub-account within the General Capital Assignment (BSA 3065) for capital equipment for the Elections Department.
- c. Authorize a \$3,524,746 Natividad contribution to the pension trust (Fund 030) towards its share of the CalPERS miscellaneous plan's pension liability by:
 1. Authorize and direct the Auditor-Controller to increase appropriations in the Natividad FY 2021-22

adopted budget (451-NMC001-8142) by \$3,524,746 financed by unassigned fund balance, 4/5th vote required; and

2. Transfer \$3,524,746 from the Natividad enterprise fund (451-NMC001-8142) to the Pension Liability Fund (030-CA0049-8570) 4/5th vote required.

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 BEYR begins with an analysis of the countywide performance of the general fund, followed by an analysis of the financial performance of departments and other funds.

The general fund end-of-year results are favorable, with an operating surplus of \$24.1 million primarily attributed to federal pandemic aid. The strong performance of discretionary revenue and prudent financial management by departments allowed the County to invest the surplus in holding the Strategic Reserve at 10% of FY 2021-22 adopted general fund revenues. 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 general fund ended FY 2020-21 with revenues of \$743.5 million and expenditures of \$719.4 million, resulting in an operating surplus of \$24.1 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, with actual revenue at \$66.6 million compared to the budget. The strong performance is largely attributed to federal aid received to mitigate the impact of the COVID-19 pandemic. The general fund received \$41.4 million from the Coronavirus Aid, Relief, and Economic Security Act (CARES) Coronavirus Relief Fund and recognized \$9.7 million in revenue from the American Rescue Plan Act (ARPA). Further detail on pandemic aid is discussed in the BEYR report.
- Other discretionary revenue recovered from the economic impacts caused by the pandemic the prior fiscal year. Excluding CARES and ARPA, discretionary revenue exceeded budget estimates by \$26.2 million. The favorable performance was led by transient occupancy tax (TOT), property taxes, and cannabis tax.
- Revenue generated from department services and programs was \$29.7 million below the final budget largely due to delays in revenue not received during the accrual period, lower than expected caseloads in social and health care programs, diversion of grant-funded positions redirected to COVID-19 services, and lower reimbursement from realignment expenditures in public safety, social, and health programs.
- Year-end expenditures were \$66.8 million below the final modified budget. Almost half of those lower expenditures resulted from salary and benefits savings from vacant positions, lower than expected overtime, and health premium costs. Other factors include lower-than-planned program outlays mainly in social services and pandemic response and lower than expected transfers to other funds, including the Vehicle Asset Management Program.
- The operating surplus allowed \$8.5 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 \$75.5 million (10% of FY 2021-22 adopted general fund revenues).

- The general fund is estimated to end the year with \$6.5 million in unassigned fund balance.

As part of the FY 2021-22 adopted budget, the Board of Supervisors authorized the County Administrative Office to allocate up to 10% of estimated FY 2020-21 general fund revenues toward the pension trust. Due to the healthy performance of FY 2020-21, the County Administrative Office recommends setting aside \$37.7 million towards the pension trust. As part of the year-end analysis, the County Administrative Office discovered that in FY 2018-19, \$550,000 was set aside in the Information Technology Charges Mitigation assignment for elections equipment. The County Administrative Office recommends transferring the \$550,000 to a sub-account in the General Capital Assignment for elections equipment. It is also recommended that an additional \$526,700 from the Elections Department's surplus in FY 2020-21 be designated to the sub-account in the General Capital Assignment, for a total of \$1.1 million towards elections equipment. Lastly, the County Administrative Office recommends that \$3.1 million be designated to a sub-account in the General Capital Assignment towards the future replacement of the Sheriff's radios, where the majority of funding source is budgetary surplus.

Looking forward, the County faces uncertain economic conditions and mounting unfunded needs, including recently negotiated bargaining agreements and inflation. 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, including COVID-19 programs. Next fiscal year, general fund programs will require an estimated increase of \$17.2 million to cover the additional salary and benefit costs from the labor agreements. In addition, general fund contributions for pensions increase an estimated \$4.7 million next fiscal year (with similar increases in ensuing years).

The Board's Budget Committee received the BYER presentation at its November 18, 2021 special meeting. The Budget Committee did not support recommendation b.3, which seeks to set aside \$3.1 million in unassigned fund balance into the General Capital Assignment for the future replacement of the Sheriff's Office communication radios.

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

OTHER AGENCY INVOLVEMENT:

The County Administrative Office works with departments throughout the fiscal year to maintain an understanding of budget-related conditions and emerging issues. The Budget Committee received the BEYR presentation at its November 18, 2021 meeting.

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. The recommended designations of fund balance in FY 2021-22 are cost-neutral.

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
X Administration

Health & Human Services

Infrastructure

___ Public Safety

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Approved by: Dewayne Woods, Assistant County Administrative Officer, x5309

Attachments: Draft Resolution; Budget End-of-Year Report - FY 2020-21; PowerPoint Presentation