



County of Monterey

Item No.

Board Report

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

Legistar File Number: BC 23-165

November 29, 2023

Introduced: 11/21/2023

Current Status: Agenda Ready

Version: 1

Matter Type: Budget Committee

- a. Receive and accept the County Administrative Office's Budget End-of-Year Report for Fiscal Year 2022-23; and
- b. Support authorizing the County Administrative Office and Auditor-Controller to make fund balance designations in Fiscal Year 2023-24 as specified in Attachment A.

RECOMMENDATION:

It is recommended that the Budget Committee:

- a. Receive and accept the County Administrative Office's Budget End-of-Year Report for Fiscal Year 2022-23; and
- b. Support authorizing the County Administrative Office and Auditor-Controller to make fund balance designations in Fiscal Year 2023-24 as specified in Attachment A.

SUMMARY:

The Budget End-of-Year Report (BEYR) evaluates the County's year-end fiscal performance compared to the budget, as adopted and modified by the Board of Supervisors. Production of the BEYR is a collaborative effort between the County Administrative Office (CAO) and departments following the 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 year end results were favorable, with an unassigned fund balance of \$13.3 million, expenditures of \$856.0 million, revenues of \$798.2 million, cancellation of assigned funds of \$107.7 million. The strong performance of discretionary revenue and prudent financial management by departments allowed the County to partially replenish its strategic reserves towards the 10% of Fiscal Year (FY) 2023-24 adopted general fund revenues goal set by County ordinance. The BEYR also includes recommendations by the CAO to increase fund balance assignments for capital projects. The surplus and the fund balance designations recommended by the CAO are testaments 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 2022-23 with revenues of \$798.2 million and expenditures of \$856.0 million, and the cancellation of assigned funds of \$107.7 million, and cancellation of restricted fund balance of \$7.3 million. This results in an unassigned fund balance of \$13.3 million that would be reduced to \$12.3 million if the recommendations in Attachment A are implemented. Key outcomes

include:

- Discretionary revenue performed strongly, with property taxes \$17.0 million higher than budget due to continuing real estate demand.
- However, a decline in cannabis revenue offset these gains by \$3.9 million. Cannabis revenue underperformed its budget due to reduced cannabis tax rate and delayed cannabis tax payments.
- Conversely, program revenue was \$53.5 million below the final budget primarily due to delays in federal revenue not received during the accrual period, lower fees for services, reduced reimbursable personnel costs for public safety realignment programs, personnel vacancies, and lower caseloads in revenue-generating positions in primary care clinics and social service programs.
- Year-end expenditures were \$96.3 million below the final modified budget. Over half of these lower expenditures resulted from salary and benefits savings from vacant positions. Other factors include lower-than-planned contracted services.
- Releases of \$46.0 million from the pension trust and \$11.1 million from the cannabis tax assignment balanced the budget as the County recovered from historic winter storms.
- Eighteen departments ended the fiscal year with a general fund contribution (GFC) surplus totaling \$29.1 million, while four departments had a deficit total of \$1.6 million.

As part of the FY 2023-24 Adopted Budget, the Board of Supervisors authorized the CAO to allocate FY 2022-23 surplus to the strategic reserve and general fund contingency assignment, and the pension trust assignment. The operating surplus allowed \$36.5 million to be transferred to bring the strategic reserve to a balance of \$63.7 million (7.6% of FY 2023-24 adopted general fund revenues). The general fund contingency assignment increased by \$433,510 to reach 1% of adopted general fund revenues.

Based on the FY 2022-23 general fund performance, the CAO recommends that as a result of higher-than-expected Proposition 172 revenue, \$587,064 be added to the revenue stabilization assignment. To plan for future capital and equipment outlay, the CAO recommends \$414,916 be added to the general capital assignment. Pending the Board's approval of this report's recommendations, the CAO estimates ending FY 2022-23 with an unassigned fund balance of \$12.3 million.

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.

However, revenue growth is not projected to be able to keep up with the increased costs of doing business. Sharply rising base level wages, pension contributions, increased employee health insurance costs, higher workers' compensation and general liability program expenditures will outpace exhausted federal stimulus funds and cannabis revenues. Initial estimates indicate a gap of \$12.3 million in FY 2023-2024 growing to \$36.9 million in FY 2024-2025.

OTHER AGENCY INVOLVEMENT:

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The County Administrative Office works with departments throughout 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. The recommended designations of fund balance in FY 2023-24 will decrease the general fund's estimated unassigned fund balance by \$1,001,980 for a revised available unassigned fund balance of \$12.3 million.

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Attachments: Attachment A - Summary of Recommendations; Attachment B - Capital Projects List; Budget End-of-Year Report - FY 2022-23; PowerPoint Presentation