

Fiscal Impact Narrative

COUNTY BUDGET - OVERVIEW

The FY 2018-19 Recommended Budget for all County funds totals \$ 229,576,348, including:

GOVERNMENTAL FUNDS

- \$ 56,236,514 General Fund
- \$105,617,564 Special Revenue Funds
- \$ 13,062,794 Capital Project Funds
- \$ - Debt Service Funds
- \$174,916,872 Total Governmental Funds

OTHER FUNDS

- \$ 9,096,400 Internal Service Funds
- \$ 5,131,537 Enterprise Funds
- \$ 40,431,539 Special Districts and Other Agencies
- \$ 54,659,476 Total Other Funds

This represents a decrease of \$819,441 when compared to the FY 2017-18 Adopted Budget amount of \$230,395,789.

GENERAL FUND APPROPRIATIONS - OVERVIEW

As noted above, recommended FY 2018-19 General Fund appropriations total \$56,236,514, which is an increase of \$70,770 (or 1/8th of one percent) compared to the prior year budget.

Budgeted General Fund Appropriations							
FY 08/09	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
\$55,850,505	\$54,695,704	\$57,346,621	\$55,839,782	56,245,415	57,203,533	\$56,165,744	56,236,514

As evidenced in the above table, budgeted General Fund appropriations since the great recession have remained relative stable, with FY 2018-19 reflecting an increase of less than 1% compared to the FY 2008-09 budget even though the cost of the resources needed to deliver public services has increased 26.62% (CPI) during that 10 year period. The County has absorbed these cost increases by 1) reducing staffing; 2) maintaining relatively stable salaries which have increased only 3% for most employees during this period; 3) using Reserves; and 4) reducing services to the public.

GENERAL FUND DISCRETIONARY REVENUE - OVERVIEW

Property Tax. The static trend in General Fund appropriations is a direct consequence of a similar trend in General Fund discretionary revenues. Although General Fund discretionary revenues are derived from a variety of sources, property taxes compose by far the largest source of discretionary funding. As reflected in the following table, property

tax revenues have still not reached pre-recession levels:

PROPERTY TAX REVENUE (General Fund)							
FY 08/09	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17 *	FY 17/18 A	FY 18/19 B
25,092,780	\$22,545,606	24,197,711	\$23,956,041	\$24,361,322	\$25,697,517	\$23,798,712	24,247,057

A=Anticipated, B=Budgeted

*Reflects one-time property tax backfill payment from State

Geothermal Royalties. Geothermal royalties are received from both the State and the federal government. The royalties provided by the State support projects directly related to mitigating the impact of geothermal development and water quality initiatives while the federal share is heavily relied upon to support General fund expenses including Park maintenance and preservation, positions in the Community Development Department that provide resource management functions, sheriff patrol services in the Cobb/Middletown areas, and animal control services.

The recently approved federal budget agreement re-directed the federal portion of Geothermal Royalties to the Department of the Interior. Consequently, beginning October 1, 2018, counties will no longer receive the federal share of such royalties. This will result in a loss of over \$700,000 per year to Lake County, all of which is a direct loss to the General Fund.

Congressman Mike Thompson is working hard to convince the Department of Interior to reconsider the confiscation of this funding. Because of his prior success in protecting this funding, staff is cautiously optimistic that his efforts will again be successful. Consequently, the Recommended Budget reflects this federal geothermal royalty revenue. If, on the other hand, this revenue is not reinstated, the Final Recommended Budget will need to be adjusted accordingly.

STRUCTURAL IMBALANCE:

The Recommended Budget for the General Fund is not structurally balanced, meaning that it reflects the use of unreserved fund balance carryover to support on-going operational costs. Because unreserved fund balance carryover is not an ongoing source of funding, it should not be used to fund on-going expenses and instead is typically used only to support non-recurring (i.e. one-time) costs.

Although a structurally imbalanced budget is not desirable, the unprecedented series of disasters necessitated the use of one-time funds beginning with the FY 2016-17 budget which relied on \$1,386,390 of such one-time funding to support on-going operations. At that time your Board committed to incremental reduction in the structural balance over a period of three to five years. Consistent with that commitment, the FY 2017-18 budget reflected a structural imbalance of \$985,332 and the FY 2018-19 Recommended Budget relies upon \$768,711 of one-time funding.

RESERVES AND CONTINGENCIES:

Contingencies: Appropriations include Contingencies totaling \$1,000,000 which can be used for unanticipated requirements that may occur in the fiscal year including unexpected shortfalls in revenue. The \$1,000,000 appropriation is the same as the prior year but reflects a significant reduction from as recently as FY 2014-15 adopted budget which provided and appropriation of \$3,400,000 for Contingencies.

General Reserve: The general reserve remains at \$7 million. This is approximately 12.5% of total General Fund appropriations. Subsequent to the Valley Fire, your Board granted the Auditor-Controller the authority to cancel up to \$5 million of such reserves in order to manage cash flow challenges resulting from the high cost of disaster-related expenses and the slow reimbursements from FEMA and CalOES. Staff is recommending that this authority be continued.

CAPITAL ASSETS

Capital Improvements: The Recommended Budget includes continued funding for a number of ongoing capital projects, including:

- South Main Street (Lakeport) Water System Project;
- Clearlake Oaks Sidewalk Project,
- Development of a multi-use trail adjacent to Hammond Park.
- Replacement of the Lower Lake Shop building that was lost in the Clayton Fire.
- Funding for various water and wastewater system improvements including over \$10 million for the Anderson Springs Septic to Sewer Project.

Most of these Capital improvements are funded by grants or other special funding.

There were numerous additional capital improvement requests that are **NOT** reflected in the Recommended Budget including:

- Modernization of the elevator at the Lower Lake Schoolhouse Museum.
- Gazebo and BBQ area in Hammond Park.
- Basketball court in Hammond Park.
- Restroom in Hinman Park.
- Refurbishment of Upper Lake Park softball field.
- Dredging and additional dock for Lucerne Harbor Park.
- Upgraded servers, switches and computer storage in Dispatch.
- Various roofing replacements and general facility improvement projects.

Fixed Assets: The Recommended Budget provides for the purchase of a relatively modest list of fixed assets such as vehicles and equipment which is delineated in the Capital Asset list attached hereto. Funding for most rely on non-General Fund sources of funding.

Early Authorization: County departments are not allowed to purchase new capital assets between July 1st and the time the budget is formally adopted (scheduled for September 11, 2018), unless specifically authorized by motion of the Board of Supervisors. The attached Capital Asset list reflects those capital assets that are recommended for such authorization.

COUNTY WORKFORCE

All Funds: The Recommended Budget provides for a total workforce of 1,011.40 full-time equivalents (FTE's) which is a net increase of 1.75 FTE's compared to current staffing allocation. An additional 14 positions are unfunded.

General Fund: Positions funded with General Fund discretionary revenues total 383.25 FTE's which is a net increase of 3.25 FTE's compared to the current staffing allocation and is the result of staffing additions in Probation and Sheriff's Department that are possible because of special funding made available to those departments. An additional 12 General Fund positions are unfunded.

In lieu of a formal hiring freeze, the CAO will continue to review all requests to fill positions. This is in part to reduce expenditures but also to preserve positions for employees facing a layoff situation. The CAO will also continue to review all requests for new positions to ensure they are offset by long-term reliable funding.

PROSPECTIVE DEMANDS ON THE GENERAL FUND

Minimum Wage. Beginning January 1, 2019 and continuing annually through January 1, 2022, the County will need to absorb a series of state-mandated minimum wage increases. The current wages of nearly a quarter of the County workforce will be outpaced by the new minimum wage standards. Depending on how the minimum wage increases are implemented, the additional cost to the County General fund through FY 2021-22 could range from \$500,000 to several million dollars.

In-Home Supporting Services (IHSS). The non-federal cost of providing IHSS is shared by both the State and counties. The State legislature recently determined to adjust the long-standing cost sharing formula. This will result in counties being responsible for a significantly greater share of IHSS costs. The additional costs will soon exceed the funding source (knowns as Realignment 1991) that was established to cover the county share. Consequently, the County General Fund will be required to make-up the shortfall in funding. This General Fund obligation is estimated to begin in FY 2019-20 and grow exponentially thereafter as follows:

FY 2019-20 estimated County General Fund contribution: \$ 497,603
FY 2020-21 estimated County General Fund contribution: \$1,216,501
FY 2021-22 estimated County General Fund contribution: \$1,823,495

Estimates past FY 2021/22 are not yet known.