

**MEMORANDUM**

TO: The Honorable Tina Scott, Chair, Board of Supervisors

FROM: Carol J. Huchingson, County Administrative Officer

DATE: June 5-6, 2019

SUBJECT: a) Consideration of the FY 2019-20 Recommended Budget

b) Consideration of the proposed Resolution Establishing New Classifications and Amending the Position Allocation Table for FY 2019-20 to Conform to the Recommended Budget

c) Consideration of Authorization for affected Department Heads to proceed with purchasing selected Capital Assets prior to the adoption of the FY 2019-20 Final Recommended Budget

EXECUTIVE SUMMARY: Presented for your consideration is the proposed Recommended Budget for Fiscal Year 2019-20. By approving a Recommended Budget, you are authorizing the expenditure of funds for operational needs until such time as the Final Recommended Budget is adopted in September ("Adopted Budget").

As required by law, the proposed Recommended Budget is balanced, meaning that there is sufficient revenue to support recommended appropriations. Consistent with your Board's commitment to incrementally reduce the reliance on one-time funds, the amount of unreserved fund balance carryover used to balance the budget has diminished over the past three Fiscal Years. Fiscal Year 2019-20 Recommended Budget is structurally balanced, meaning that it reflects only the use of ongoing funds to support ongoing operational costs in the General Fund, as further detailed in Section III.

Achieving a reduction in the use of one-time funds has been particularly challenging in light of relatively flat revenue projections and increased costs associated with the minimum wage and State-mandated retirement contributions. In order to offset these increases while also reducing reliance on one-time funds, the FY 2019-20 Recommended Budget reflects the first year implementation of the Fiscal Crisis Management Plan (FCMP) requiring General Fund budgets to cut 5% of vacant permanent position allocations. Additional reductions were achieved by strictly limiting appropriations for services, supplies and fixed assets, which will continue to impact our ability to perform basic functions and deliver core services in a timely manner.

Similarly, our challenges associated with the attraction and retention of quality employees remain. The county-wide staff vacancy rate continues to average over 20%. We continue to lose key staff to neighboring jurisdictions, local businesses and online work opportunities offering higher wages.

As outlined in our Fiscal Crisis Management Plan, long-term solutions to address budgetary and staffing challenges necessitate increased organizational efficiencies, staff restructuring and the strengthening of revenue streams. In addition to the approval of the FCMP, your Board has recognized our challenges in a number of additional ways, by approving the implementation of a Classification and Total Compensation Study as well as a pilot project in which courthouse and surrounding County offices are closed to the public on Fridays, to enable staff to keep pace with heavy workloads.

I want to express my gratitude for the support and dedication of all County employees who continue to serve the residents of Lake County despite the local economic difficulties. Their commitment has made achievements possible despite having limited resources at their disposal. More specifically, I want to extend my thanks to the County Department Heads who have remained positive and collaborative throughout the particularly challenging budget preparation process that lead us to today. Our office simply could not accomplish this budgetary process without the exemplary dedication and support of the Department Heads and their key fiscal staff

FISCAL IMPACT (Narrative):

COUNTY BUDGET - OVERVIEW

The FY 2019-20 Recommended Budget for all County funds totals \$ 254,219,841, including:

FY 2018-19	GOVERNMENTAL FUNDS	FY 2019-20
\$59,552,081	General Fund	\$60,512,686
\$113,943,511	Special Revenue Funds	\$122,746,273
\$12,197,073	Capital Project Funds	\$9,577,148
\$0	Debt Service Funds	\$0
\$185,692,665	Total Governmental Funds	\$192,836,107
	OTHER FUNDS	
\$10,169,627	Internal Service Funds	\$9,394,203
\$5,131,537	Enterprise Funds	\$4,818,301
\$41,993,161	Special Districts and Other Agencies	\$47,171,230
\$57,294,325	Total Other Funds	\$61,383,734

This FY 2019-20 Recommended Budget represents an increase of \$11,232,851 when compared to the FY 2018-19 Adopted Budget amount of \$242,986,990. The large increase year over year can be contributed to Special Revenue Funds like Roads (\$4,189,378), Disaster Response & Recovery (\$690,597), Geothermal Resource Royalties (\$581,543), Behavioral Health (\$2,152,556), Social Services Admin (\$1,198,774), General Welfare (\$585,103), and Special Districts and other Agencies like Watershed Protection District (\$3,798,324), Middletown Sewer (\$4,691,043), and Soda Bay Water (\$4,790,938).

I. GENERAL FUND APPROPRIATIONS

Recommended FY 2019-20 General Fund appropriations total \$60,512,686, which represents a decrease of \$424,394 (or -0.7 percent) compared to the prior year's adopted budget, plus mid-year adjustments equaling \$60,937,080.

Budgeted General Fund Appropriations							
FY 08/09	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
\$55,850,505	\$57,346,621	\$55,839,782	56,245,415	57,203,533	\$56,165,744	60,937,080*	60,512,686

*Includes appropriation from the established Pension Stabilization Reserve to our Public Agency Retirement Services (PARS) Trust for future CalPERS expenses.

As evidenced in the preceding table, budgeted General Fund appropriations presented since the great recession have remained essentially static. The increase over the past two fiscal years compared to FY 2008-09 budget is completely offset (and far more) considering that the cost of doing business has increased 31.09% (CPI) during that 10 year period from February 2009 to February 2019. The County has absorbed the increased cost of doing business by reducing staffing, maintaining salaries, utilizing Reserves and reducing services to the public.

II. GENERAL FUND DISCRETIONARY REVENUE

Property Tax. The static trend in General Fund appropriations is a direct consequence of the similar trend in General Fund discretionary revenues. Although the General Fund discretionary revenues are derived from a variety of sources, property taxes compose substantially 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 13/14	FY 14/15	FY 15/16	FY 16/17 *	FY 17/18	FY 18/19 A	FY 19/20 B
25,092,780	24,197,711	\$23,956,041	\$24,361,322	\$25,698,053	\$24,151,826	24,247,057	24,286,475

A=Anticipated, B=Budgeted

*Reflects one-time property tax backfill payment from State

Geothermal Royalties. The County receives geothermal royalties 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. The royalties provided by the Federal government are 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.

In the Federal Energy Policy Act of 2005, Congress changed the program to share 25% of the geothermal royalty payments paid to the United States government with counties to mitigate the impacts of local geothermal development and production experienced by county governments. However, since 2010, these funds were no longer permanently allocated and are placed in jeopardy each year, with intervention continually being requested of

Congressman Mike Thompson. Congress has continually elected to restore the counties' share of these funds, and it is critical that this effort continue. In an era when local revenues are diminishing, Lake County cannot afford to lose the geothermal royalties.

III. STRUCTURAL BALANCE:

Although a structurally imbalanced budget is not desirable, the unprecedented series of 10 natural disasters necessitated the use of one-time funds beginning with the FY 2016-17 budget which relied on \$1,386,390 of one-time funding to support on-going operations. At that time your Board committed to an incremental reduction in the structural imbalance 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 relied upon \$768,711 of one-time funding.

The Recommended Budget for FY 2019-20 is structurally balanced, meaning that the ongoing revenues support the ongoing operational costs without relying on one time carry over funds. Because unreserved fund balance carryover is not an ongoing source of funding, it should not be used to fund ongoing expenses and instead is typically used only to support non-recurring (i.e. one-time) costs.

IV. RESERVES AND CONTINGENCIES:

Contingencies: Appropriations include Contingencies totaling \$4,548,360 which can be used for unanticipated situations that may occur in the fiscal year including unexpected shortfalls in revenue. The previous two Fiscal Years had appropriations of only \$1,000,000 which reflected a significant reduction from pre-disaster budgets. Fiscal Year 2019-20 restores contingencies to previous levels.

General Reserve: The General Reserve remains at \$7 million. This balance is approximately 11.5% of total recommended General Fund appropriations. \$7 million may appear considerable, however the Government Finance Officers Association (GFOA) recommends retaining a 17-25% reserve. The present reserve amount, which has remained static for many years, would only sustain County General Fund operations for two, possibly, three months.

Subsequent to our many wildfire disasters, your Board granted the Auditor-Controller the authority to cancel up to \$5 million of the General Reserve 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 recommends discontinuing this authority during FY 2019-20.

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V. CAPITAL ASSETS

Capital Improvements: The Recommended Budget includes funding for a number of capital projects, many of which are funded by grants or other special funding, including:

Roads	\$23,158,415
Middle Creek Restoration Grant	\$7,500,000
Courthouse and Jail Phase II Roof Replacement	\$2,000,000
South Main Street Water	\$2,400,000
Lampson Airport Pavement Rehabilitation	\$720,500
Middletown Sewer Treatment Plant Project	\$5,000,000
Anderson Springs Sewer Project	\$4,411,569
Soda Bay Water Treatment Plant Project	\$5,000,000
Lower Lake Parks Maintenance Facility	\$775,000
Lucerne Harbor Improvement Project	\$250,000

There were additional capital improvement requests which were not funded in this Recommended Budget, for reasons noted in our Executive Summary, including a Restroom and Parking Lot Improvements at Hinman Park and Improvements at Trailside Park.

Fixed Assets: This Recommended Budget provides for the purchase of a modest list of fixed assets such as vehicles and equipment which are delineated in the Capital Asset list attached hereto. The majority of funding for these items relies on non-General Fund sources.

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 10, 2019), 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.

VI. COUNTY WORKFORCE

All Funds: The Recommended Budget provides for a total workforce of 1,009.45 full-time equivalents (FTE's) which is a net decrease of 0.95 FTE's compared to current staffing allocation. One Deputy Sheriff Sergeant in Marine Patrol and one Public Works Analyst are unfunded.

General Fund: Positions funded with General Fund discretionary revenues total 363.25 FTE's which is a net decrease of 25.25 FTE's compared to the current staffing allocation and is mostly the result of removing unfunded positions in the Sheriff's Department.

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Budget Unit	Position	FTE's
1122 – Treasurer-Tax Collect	Accountant I/II	Delete 1
1123 – Assessor	Appraiser Aide/Appraiser I/II/III	Delete 1
1231 – County Counsel	Senior Deputy County Counsel	Add 1
1904 – Information Technology	Deputy IT Director	Delete 1
2201 – Sheriff-Coroner*	Captain – Sworn	Delete 1
	Deputy Sheriff I/II	Delete 7
	Civil Coordinator	Delete 1
	Lieutenant	Delete 2
	Secretary	Delete 1
2202 – Central Dispatch	Public Safety Dispatcher I/II	Delete 2
2205 – Sheriff-Marine Patrol	Deputy Sheriff I/II	Delete 1
2301 – Sheriff-Jail Facilities	Correctional Officer I/II	Delete 8
2702 – Planning	Assistant CD Director	Add 1
	Assistant Planner I/II/Associate Resource Planner	Add 2
	Principal Planner	Delete 1
	Senior Planner	Delete 2
	Office Assistant III	Delete 1
2703 – Animal Control	Animal Control Adoption Coordinator	Add .75

*Nine unfunded positions in the Sheriff-Coroner Budget Unit 2201 had been carried over for years with the expectation that they could eventually be filled and funded. However, after no funding availability for more than a decade, the Sheriff has made the difficult decision to relinquish those positions. At the same time, your Board demonstrated its commitment to taking care of the existing workforce, with positive movement reflected in the recently approved labor agreement.

In lieu of a formal hiring freeze, the County Administrative Officer (CAO) will continue to review all requests to fill positions. This continued review will help reduce expenditures and also 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.

VII. PROSPECTIVE DEMANDS ON THE GENERAL FUND

Minimum Wage. Beginning January 1, 2019 and continuing annually through January 1, 2022, the County must 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.

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CalPERS.

Fiscal	Miscellaneous CalPERS		Safety CalPERS	
Year	Actuarial	Charged	Actuarial	Charged
17/18	15.567%	16.067%	26.292%	27.331%
18/19	17.261%	18.761%	30.985%	32.485%
19/20	20.2%	20.762%	35.6%	36.522%
20/21	22.1%	22.6%	39.3%	39.8%
21/22	23.7%	24.2%	41.8%	42.3%
22/23	24.9%	25.4%	43.6%	44.1%

The percentage charged is higher than the actuarial percentage in the table above because the unfunded accrued liability amount is a set dollar value, so the percentage varies depending on overall actual payroll expense. If payroll expenses were to increase, then the charged percentage would actually go down. The FY 2019-20 unfunded accrued liability for the County equals \$5,969,005 according to the July 2018 CalPERS actuarial.

Classification and Total Compensation Study. It is expected that the results of the ongoing Classification and Total Compensation Study will be presented to the Board in late 2019 with a corresponding implementation plan. Staff expects the study to confirm that non-competitive salaries and benefits are at the core of our inability to recruit and retain employees. This critical issue will require immediate and effective action in order to increase our capacity to provide the services our citizens and your Board expects.

RECOMMENDED ACTION:

Staff recommends your Board take the following actions:

- a) Approve, by motion, the FY 2019-20 Recommended Budget

Your approval of this Recommended Budget will enable the County to meet its statutory obligations and continue operations from July 1, 2019 until the Final Recommended Budget is presented to your Board for adoption on September 10, 2019.

- b) Adopt the Resolution Establishing New Classifications and Amending the Position Allocation Table for FY 2019-20 to Conform to the Recommended Budget

Your approval of this Resolution Establishing New Classifications and Amending the Position Allocation Table for FY 2019-20 to Conform to the Recommended Budget will allow departments to hire employees on July 1, 2019.

- c) Authorize, by motion, the Purchase of Certain Capital Assets Prior to Approval of the Adopted Budget

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Attachments:

- 1) Capital Asset List
- 2) Proposed Position Allocation Resolution Establishing New Classifications, the Effective Date Thereof, and Amending the Position Allocation Table for FY 2019-20 to Conform to the Recommended Budget
- 3) Position Allocation Table for FY 2019-20
- 4) Fund Summary for FY 2019-20
- 5) Budget Unit Detail for FY 2019-20