



Legislation Text

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Memorandum

Date: September 16, 2020 and September 17, 2020 (as needed)

To: The Honorable Moke Simon, Chair, Lake County Board of Supervisors

From: Carol J. Huchingson, County Administrative Officer

Subject: 9:00 A.M. - PUBLIC HEARING - Consideration of the Final Recommended Budget for Fiscal Year 2020-21 for the County of Lake and Special Districts Governed by the Board of Supervisors

Executive Summary: (include fiscal and staffing impact narrative):

Presented today for the consideration of your Board is the Fiscal Year (FY) 2020-21 Final Recommended Budget. This memorandum is intended to serve as an update to our June 9, 2020 memorandum introducing the FY 2020-21 Recommended Budget.

In light of the COVID-19 pandemic, this recent cycle of budget preparation has been quite unusual. In late March, your Board approved staff's recommendation to make changes to scheduled budget hearings for this cycle and to flip the extended budget hearing process, in which you receive detailed presentations from your Department Heads, from Recommended Budget to Final Recommended Budget.

In early May, and again in June at the time of Recommended Budget, staff reported to you on potential financial impacts resulting from the COVID crisis. Since then, we are fortunate to have begun receiving federal CARES Act funding and state Realignment Backfill, alleviating some of the concerns we reported to your Board. Your Board ratified staff's certification which was required by the state, to begin receiving both these funding sources. Realignment Backfill will enable critical law enforcement and social services programs to remain in place. CARES Act funding will help with County disaster response costs, with funds also set aside for grants to local businesses weathering the impacts of the disaster.

At the time of Recommended Budget, your Board contemplated 10% cuts to County departments, in anticipation of negative financial impacts resulting from the pandemic. Absent CARES Act and Realignment Backfill, the County would be facing dire financial circumstances with likely reductions to staffing and services the public relies upon. Out of an abundance of caution, General Fund Departments have been held to the same Net County Cost (NCC) in FY 2020-21, as they received in FY 2019-20. All of the other "revenues to watch" are updated herein.

FISCAL IMPACT (Narrative):COUNTY BUDGET - OVERVIEW

The FY 2020-21 Final Recommended Budget for all County funds totals \$ 292,261,503 including:

FY 2019-20	GOVERNMENTAL FUNDS	FY 2020-21
\$61,163,094	General Fund	\$63,578,629
\$126,095,818	Special Revenue Funds	\$144,273,037
\$9,990,891	Capital Project Funds	\$14,158,856
\$0	Debt Service Funds	\$0
\$197,249,803	Total Governmental Funds	\$222,010,522
	OTHER FUNDS	
\$9,444,203	Internal Service Funds	\$10,680,360
\$4,818,301	Enterprise Funds	\$4,433,108
\$46,736,537	Special Districts and Other Agencies	\$55,137,513
\$60,999,041	Total Other Funds	\$70,250,981

This FY 2020-21 Final Recommended Budget totals \$292,261,503 which represents an increase of \$34,012,659 when compared to the FY 2019-20 Adopted Budget amount of \$258,248,844. The increase in the category of Special Revenue Funds is primarily attributed to Roads \$4,085,126, Disaster Response & Recovery \$7,267,201, Building & Safety \$1,426,577, Social Services Admin \$809,488, General Welfare \$1,195,497, Cannabis Fees & Taxation \$785,021, and Sheriff-Rural & Small County \$650,731. The increase in Capital Project Funds is attributed to CDBG-Capital Projects \$3,951,603. Special Districts and Other Agencies increase can be contributed to Watershed Protection District \$8,191,719 and LACOSAN SE Regional Sys \$1,112,149.

I. GENERAL FUND APPROPRIATIONS

Recommended FY 2020-21 General Fund (GF) appropriations total \$63,578,629, which represents an increase of \$1,715,616 (or 2.77 percent) compared to the prior years adopted budget, plus mid-year adjustments equaling \$61,863,013.

Budgeted General Fund Appropriations							
FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
\$57,346,621	\$55,839,782	\$6,245,415	\$7,203,533	\$56,165,744	\$60,937,080*	\$61,863,013*	\$63,578,629*

*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 three fiscal years compared to FY 2008-09 budget is completely offset (and far more) considering that the cost of doing

business has increased 34.89% (CPI) during that 11 year period from February 2009 to February 2020.

The current fiscal year increase of \$2,415,535 can be primarily attributed to Planning \$1,597,572 of which \$100,000 is GF discretionary revenues, Jail-Medical Services \$280,016 increase to contract, Sheriff-Coroner \$638,334 of which \$200,000 is an increase in GF discretionary revenues for the BOS approved 80/20 insurance coverage for the Lake County Deputy Sheriff Association, and Public Works Admin \$637,941 of which \$0 is new GF discretionary revenue. As noted on Page 1, with Net County Cost for FY 2020-21 fixed at 2019-20 levels, your General Fund departments have again absorbed the increased cost of doing business by reducing staffing, maintaining salaries, utilizing Reserves and reducing services to the public, as they have done for many consecutive years.

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 14/15	FY 15/16	FY 16/17 *	FY 17/18	FY 18/19	FY 19/20	FY 20/21 A
25,092,780	\$23,956,041	\$24,361,322	\$25,698,053	\$24,151,826	23,867,784	24,880,731	24,157,998

A-Anticipated

*Reflects one-time property tax backfill payment from State

Under the Governor's executive order N-61-20, due to the pandemic, penalties and other charges for delinquent property tax payments are suspended through the May 2021. While it is projected that this revenue stream will catch up during FY 2020-21, the effects of this executive order will be closely monitored. As noted on Page 6, General Reserve, staff is requesting the Auditor-Controller be given authority to temporarily utilize a portion of the General Reserve to manage resulting cash flow impacts.

Sales Tax. Sales tax revenues received for the period July and August 2021 equaled \$1,155,574.36 when combining both the 1% Bradley Burns and Prop 172 amounts. FY 2020-21 sales tax receipts are up 3.24% when compared to FY 2019-20's amount of \$1,119,333.14. Staff will continue watch this funding source due to the volatility potentially caused by the COVID 19 pandemic.

Transient Occupancy Tax. Transient Occupancy Tax (TOT) revenues totaled \$66,631.31 the first two months of FY 2020-21 which is a 10.3% decrease compared to FY 2019-20's \$73,494.92. Like sales tax, TOT is a revenue source that will require continuous monitoring for impacts resulting from the COVID-19 pandemic.

Cannabis Tax. Cannabis cultivation, and resulting tax collection, has picked up considerably during FY 2020-21 due to the Planning Division approving an increased volume of early activation permits. While it is likely many of these early activation permits will ultimately be granted creating a recurring annual tax bill, at this time less than 20% of the square footage billed has attained this status.

There is still a great deal of uncertainty regarding further potential payments under this first installment, as many cultivation operations have experienced other licensing, permitting, enforcement, or disaster-related actions which may adjust the total owed. These actions require further investigation, with potential reductions of assessed square footage. Tax bills will continue to be generated as cultivation sites are approved or modified. Approximately, \$3.1 million has been collected at this time, generally representing the 1st installment of the cultivation taxes due. This is a substantial increase over FY 2019-20 receipts totaling \$486,193 for the entire year. The 2nd installment for FY 2020-21 is due by December 30th.

During these hearings, your Board will consider the proposal of the Interim Community Development Director to create a unit of staff dedicated to cannabis cultivation. At least initially, cannabis tax will be used to frontload costs, with this unit intended to become self-sustaining through fees later. As budgeted over the past FY, staff also proposes the use cannabis tax to cover the cost of a dedicated Code Enforcement Officer position.

In addition, in recent months, your Board approved the new **Cannabis Tax Internal Grant Program** ("Cann Grants") providing County Departments with an opportunity to access cannabis general tax funds collected from commercial cannabis cultivation operations to expand organizational capacity to provide services to the public. Departments submitted grant proposals for FY 2020-21 for an amount not to exceed \$100,000. Priority was given to proposals that support law enforcement, environmental protection, water quality resources, and youth programs relating to drug and alcohol use. The following applications were received and staff recommends your Board approve all:

Cann Grant Proposals

Department	Project Title	Amount Requested	Department Comments
Behavioral Health	Street Outreach Services	\$100,000	Self-sustaining after initial funding
Water Resources	Lake County Storm Water Quality Monitoring & Assessment Project	\$100,000	Provides long-term benefits and groundwork for future funding
Health Services	Substance-Free Baby & Childhood	\$8,000	Provides training and materials that can have long-term impacts
Library	Drugs & Alcohol Educational Community Resources	\$7,500	Provides materials that can have long-term impacts
County Counsel	County Counsel Cannabis Reviews	\$15,000	Integral part of sustaining cannabis program
Public Services	Lucerne Harbor Dredging	\$100,000	Environmental protection, economic growth
	TOTAL REQUESTED	\$330,500	

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. Historically, since 2010, these funds are 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 at this time, there is no indication this funding source is at risk for FY 2020-21.

III. STRUCTURAL BALANCE:

The Final Recommended Budget for FY 2020-21 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. FY2019-20 restored contingencies to previous levels after many years with \$1,000,000 or less.

General Reserve: The General Reserve was increased to \$9 million during FY 2019-20. This balance is approximately 14.16% of total recommended General Fund appropriations. \$9 million may appear considerable, however the Government Finance Officers Association (GFOA) recommends retaining a 17-25% reserve. The present reserve amount, which was increased last fiscal year would still only sustain County General Fund operations for two, possibly, three months.

As noted on Page 3, Property Tax, subsequent to Governor Gavin Newsom signing Executive Order N-61-20, authorizing suspension of penalties, costs and interest for failure to pay property taxes due to economic hardship resulting from the pandemic, the Auditor-Controller is requesting your Board grant her the authority to cancel up to \$5 million of General Reserves in order to manage potential cash flow challenges related to the capacity of the Teeter fund to pay all taxing entities the guaranteed secured property taxes. Your Board may recall giving similar authority to cancel reserves following the Valley Fire, in order to be prepared to manage cash flow challenges. Any funds utilized in this manner will be restored during FY 2020-21.

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	\$12,448,131
Middle Creek Restoration Grant	\$15,000,000
Courthouse and Jail Phase II Roof Replacement	\$2,000,000

South Main Street Water	\$2,813,423
Middletown Sewer Treatment Plant Project	\$5,000,000
Soda Bay Water Treatment Plant Project	\$5,000,000
Lucerne Harbor Improvement Project	\$350,000
Jail Tower/Control Remodel	\$1,649,970
Soda Bay Water Treatment -Tank Replacement	\$799,000
Spring Valley CSA #2	\$1,554,408
LACOSAN SE Regional System	\$1,010,400

Fixed Assets: This Final Recommended Budget provides for the purchase of a 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.

VI. COUNTY WORKFORCE

Our challenges associated with the attraction and retention of qualified employees remain and continue to impact all departments. The County-wide staff vacancy rate continues to average over 20%. We regularly lose key staff to neighboring jurisdictions offering higher wages. In the wake of the totally unprecedented pandemic, the **2019 Classification and Total Compensation Study** was “paused” to allow time to assess financial impacts. During this time, labor representatives have indicated their understanding of these extraordinary times and their patience has been greatly appreciated. Subject to the direction of your Board, staff looks forward to resumption of labor negotiations soon.

All Funds: The Final Recommended Budget provides for a total permanent workforce of 1,020.25 full-time equivalents (FTE's) which is a net increase of 4.5 FTE's compared to the FY 2020-21 Recommended Budget staffing allocation. .75 FTE Accountant-Auditor I/II, Supervising in Auditor-Controller, .50 FTE Victim Advocate I/II in Victim-Witness Assistance, 1.0 FTE Civil Unit Coordinator and 1.0 FTE Deputy Sheriff I/II (SRO) in Sheriff-Coroner, 1.0 FTE Deputy Sheriff Sergeant in Marine Patrol, and 1.0 FTE Heavy Equipment & Fleet Maintenance Lead Worker in ISF-Fleet Maintenance are unfunded.

General Fund: Permanent positions funded with General Fund discretionary revenues total 371.50 FTE's which is a net increase of 12.50 FTE's compared to the FY 2020-21 Recommended Budget staffing allocation and is mostly the result of moving 7 positions from the Building & Safety Department to Budget Unit 2603 Code Enforcement and adding 4 cannabis related positions to the Planning Department (as noted on Page 4).

Summary of Position Additions and Deletions

Budget Unit	Position	FTE's
1123 - Assessor	Appraiser Aide/Appraiser I/II/III	<1>
1231 - County Counsel	Deputy County Counsel I/II/III/IV/Senior	(1)
1671 - Building and Grounds	Janitorial Supervisor	1

	Facilities Maintenance Worker I/II/III/ Technician I/II	1
2110 - District Attorney	Legal Secretary I/II	<.25>
2603 - Code Enforcement	Code Enforcement Manager	1
	Code Enforcement Officer	5
	Community Development Technician I/II/III	1
2702 - Planning	Cannabis Program Manager	1
	Community Development Technician I/II/III	2
	Assistant Planner I/II/Associate Planner	2
	Community Development Director	<1>
2707 - Recorder	Deputy Assessor-Recorder I/II/III	1
7201 - County Museums	Assistant Curator	.75
	TOTAL	12.50

In lieu of a formal hiring freeze, the County Administrative Officer (CAO) will continue to review department's requests to fill positions. As you recall, at the time of Recommended Budget, given the uncertainty of even state and federal funding sources due to the pandemic, the decision was made that all departments, not just General Fund, would request waivers to the hiring freeze in order to fill positions. This level of review will ensure that positions to be filled are covered by long-term, reliable funding. Requests for waiver of the hiring freeze are being processed expeditiously given the critical need for staffing in all departments.

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.

Minimum Wage Impacts		
Effective Date	Hourly Wage	Required Change
January 1, 2020	\$13.00	\$1.00/hr.
January 1, 2021	\$14.00	\$1.00/hr.
January 1, 2022	\$15.00	\$1.00/hr.
<i>Example Position:</i>	<i>Current Wage:</i>	<i>% Increase Needed:</i>
<i>Office Assistant</i>	<i>Step 3 \$13.09/hr.</i>	<i>1/1/21 = 6.952% Increase</i>
	<i>1/1/21 Step 3 \$14.00/hr.</i>	<i>1/1/22 = 7.143% Increase</i>

CalPERS.

Actuarials v. Charges

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	20.208%	20.762%	35.594%	36.522%
20/21	22.272%	22.3%	40.555%	40.8%
21/22	23.9%		43.2%	
22/23	25.2%		45.1%	
23/24	25.6%		45.9%	
24/25	26.0%		46.6%	
25/26	24.9%		46.6%	

As illustrated in this table, the percentage charged is higher than the actuarial percentage in the table above because the unfunded accrued liability amount is a set dollar value which adjusts the actual percentage charged depending on actual payroll expense. The FY 2020-21 unfunded accrued liability for the County equals \$6,884,706 according to the July 2019 CalPERS actuarial.

CalPERS preliminary net return on investment for the 12-month period that ended June 30, 2020 was 4.7%. The investment loss in FY 2019-20 compared to the assumed 7% return will be reflected in the June 30, 2020 actuarial valuation. As is typical during times of market downturn, two fiscal years later, participating public agencies begin paying gradual rate increases, over a 20 year period, to make up the loss.

CLOSING REMARKS:

The extraordinary dedication of your Department Heads and their staff is reflected in every aspect of this budget and all that will be accomplished through it during FY 2020-21. Despite the severe limitations and compounding disasters, your Department Heads are continuously positive, responsive, and cooperative. The Administrative Office is not only grateful to Department Heads and key staff for all of their hard work to put this budget together, we are honored to work with them.

If not budgeted, fill in the blanks below only:

Estimated Cost: _____ Amount Budgeted: _____ Additional Requested: _____ Future Annual Cost: _____

Consistency with Vision 2028 and/or Fiscal Crisis Management Plan (check all that apply):

- | | | | |
|--|--|---|--|
| <input type="checkbox"/> Well-being of Residents | <input type="checkbox"/> Public Safety | <input type="checkbox"/> Infrastructure | <input type="checkbox"/> Not applicable |
| <input type="checkbox"/> Economic Development | <input type="checkbox"/> Disaster Recovery | <input type="checkbox"/> County Workforce | <input type="checkbox"/> Technology Upgrades |
| <input type="checkbox"/> Community Collaboration | <input type="checkbox"/> Business Process Efficiency | <input type="checkbox"/> Clear Lake | <input type="checkbox"/> Revenue Generation |
| | | | <input type="checkbox"/> Cost Savings |

If request for exemption from competitive bid in accordance with County Code Chapter 2 Sec. 2-38, fill in blanks below:

Which exemption is being requested?
 How long has Agreement been in place?
 When was purchase last rebid?
 Reason for request to waive bid?

Recommended Action:

Staff recommends your Board take the following actions:

- 1) Adopt the Resolution Adopting the Final Recommended Budget for Fiscal Year 2020-21 as detailed in the attached, incorporating any changes desired by your Board following budget hearings.
- 2) Adopt the Resolution Establishing New Classifications, the Effective Date Thereof, and Amending the Position Allocation Chart for Fiscal Year 2020-21 to Conform to the Adopted Budget.
- 3) Adopt the Resolution Cancelling General Reserves for the FY 2020-21 Final Recommended Budget.
- 4) Approve Continuation of the Informal Hiring Freeze for General Fund departments, delegating authority to the County Administrative Officer to waive as appropriate.