



Board Agenda Item 9

DATE: March 11, 2025

TO: Board of Supervisors

SUBMITTED BY: Paul Nerland, County Administrative Officer

SUBJECT: FY 2024-25 Mid-Year Budget Report

RECOMMENDED ACTION(S):

1. **Receive Mid-Year Budget Report for Fiscal Year 2024-25; and**
2. **Approve proposed schedule for the Recommended Budget and adoption of the Fiscal Year 2025-26 Budget which incorporates a Recommended Budget by June 24, 2025.**

ALTERNATIVE ACTION(S):

There are no viable alternative actions.

FISCAL IMPACT:

There is no additional Net County Cost associated with the recommended actions.

DISCUSSION:

INTRODUCTION

The Mid-Year Budget Report for 2024-25 is an opportunity to review the condition of the Operating Budget approved by the Board of Supervisors on September 16, 2024. It also provides an opportunity to evaluate the fiscal outlook, allowing adequate preparation for the FY 2025-26 Budget. Part I of this report addresses the mid-year budgetary condition of the General Fund Budget for the current fiscal year. Part II discusses preliminary projections for the next fiscal year. Part III addresses the potential impacts of the Federal budget and the Governor's Proposed 2025-26 State Budget issued in January 2025. Part IV discusses the Proposed Budget development schedule for FY 2025-26.

I. MID-YEAR CONDITION OF THE GENERAL FUND BUDGET FOR FY 2024-25

As part of the overall review, each General Fund Department provided a mid-year budget report including projected year-end actual expenditures and revenue. In addition, Departments identified any issues impacting their budget, provided a status of meeting their goals identified in the FY 2024-25 Adopted Budget, and identified potential impacts to the Department's FY 2025-26 Budget resulting from the Federal and/or Proposed State Budget. County Administrative Office staff evaluated the budgetary reports, including budgetary estimates, and followed up with Departments on potential issues.

Based on this mid-year review process, the Administrative Office projects that adjustments will be necessary to achieve a balanced General Fund Budget at the end of FY 2024-25. Any carryover fund

balance, which consists of Net County Cost (NCC) savings within Department budgets and revenue exceeding budgeted Discretionary Revenues, would become available for the upcoming fiscal year budget process.

Based on FY 2024-25 year-end projections, Department expenditures and revenues are estimated to be approximately 91% of budget. Most General Fund Departments indicate ending the fiscal year at or below their allocated NCC with the exception of the Sheriff. The Sheriff Department is estimated to exceed their NCC primarily due to higher than budgeted overtime and extra-help costs.

In addition to the County Administrative Office's budget oversight, the Auditor/Controller-Treasurer/Tax-Collector, in collaboration with Administrative staff, continues to enforce the Fund Balance policy approved by your Board, ensuring the appropriate capture of discretionary interest revenue. At the direction of the CAO, Departments are required to process transfers of restricted funds for qualified expenditures on a monthly basis (more frequent than required by policy).

II. PRELIMINARY PROJECTIONS FOR FY 2025-26

When evaluating the condition of the General Fund Budget for the next fiscal year, projected growth and/or decline in the sum of Countywide Revenues and carryover fund balance needs to be determined. These two components are what funds the NCC, which is comprised of ongoing/structural operating and one-time costs.

As stated earlier in the report, the General Fund Budget with adjustments is estimated to be balanced at the end of FY 2024-25. Any carryover fund balance, which consists of Net County Cost (NCC) savings within Department budgets and revenue exceeding budgeted Discretionary Revenues, would become available for the upcoming fiscal year budget process.

Each year's Countywide Revenue forecast depends heavily on the County's assessment roll which is provided by the Assessor's Office to the Administrative Office in late June of each year. Assessed value growth is the most important factor in determining the County's ability to grow its Countywide Revenues. To illustrate, over 80 percent of total budgeted Countywide Revenues are tied directly to assessed value growth.

The revenue estimates in the FY 2024-25 Adopted Budget for secured property tax and property tax in lieu of Vehicle License Fees, which both directly correlate to assessed value, used a two percent increase over the prior year actuals. The actual increase in assessed value was approximately 5.4 percent. Based on this, the remaining unbudgeted amount is available for future budget years. It should be noted that the assessed value for this year, which will be issued in June is expected to be lower, as growth continues to slow.

The second largest revenue stream after property tax in Countywide Revenues is Bradley-Burns Sales Tax. Sales Tax revenue received in the first five months of FY 2024-25 was 7.5 percent less than revenues received in the prior year. It is projected that sales tax will remain flat for FY 2024-25.

It is anticipated that there will be significant operating cost increases in FY 2025-26 primarily due to increases in salaries and benefits and in services and supplies, such as utility cost increases, increases in risk insurance rates, and anticipated increases related to Animal Services and the jail medical services contract. Additionally, there are expected cost increases related to ongoing negotiations with providers of In-Home Supportive Services (IHSS).

A conservative approach has been used in budgeting countywide revenues in the past, and it is recommended this approach, along with potential operational cuts, be implemented to help weather a downturn in the economy or impacts of the State and/or Federal budget. To that end, the CAO is requesting departments model potential reductions in their budgets next fiscal year.

III. STATE BUDGET IMPACTS

CALIFORNIA PROPOSED BUDGET

On January 10, 2025, Governor Newsom released the FY 2025-26 Proposed State Budget totaling \$322.2 billion. The California Legislative Analyst's Office (LAO) estimates the Governor's budget to be "roughly balanced" with a \$7 billion reserve withdrawal and short-term savings proposal to provide \$1.6 billion less in funding for schools and community colleges, but anticipates deficits in future years. According to the LAO's January 2025 report, the LAO suggested that the Legislature "avoid putting too much stock in the recent revenue rebound until it is accompanied by clear improvements in California's broader economy."

The January 2025 California State Controller's report indicates that fiscal year-to-date receipts have exceeded estimates contained in the 2025-26 Governor's Budget by approximately \$3.2 billion, or 2.5 percent. However, adjustments to the Governor's budget will likely be necessary to address the long-term recovery efforts in response to the wildfires in Southern California. Further information on the impact will be available in the Governor's May revision.

FEDERAL BUDGET STATUS

On January 27, 2025, the Office of Management and Budget (OMB) issued a memorandum directing a federal funding freeze. Although court orders were issued against the funding freeze and the OMB rescinded the memorandum on January 29, 2025, the County continues to actively monitor and assess potential blocking of funds.

At the time of the drafting of this report, Congress is working to reach a bipartisan agreement on overall spending levels for programs. If Congress fails to reach an agreement, the administration could gain greater discretion over which federal programs continue beyond the March 14, 2025, deadline to avoid a government shutdown.

The House Budget Committee released a budget proposal that instructed other committees to submit policy recommendations to achieve deficit reduction goals. Some of the options under discussion to achieve these reduction goals-most notably, reductions to Medicaid funding- would have a staggering impact on the County. Our office will continue to apprise your Board as the federal budget outlook becomes clearer.

IV. BUDGET DEVELOPMENT SCHEDULE

The budget development schedule will remain the same as in FY 2024-25. The FY 2025-26 Recommended Budget will be brought to your Board by June 24, 2025. To accurately complete estimates for the General Fund, the tax roll is needed to verify Property Tax and Property Tax In Lieu of Vehicle License Fee revenue estimates. After these are received and analyzed, adjustments to the Recommended Budget will be brought to your Board for adoption in September 2025.

The proposed timeline allows for an accurate estimate of year-end fund balance and the most informed evaluation of how the State of California's FY 2025-26 Adopted Budget will affect the County of Fresno. Although it is anticipated that most of the information will be available in time to produce the proposed changes by the end of August, it is possible that the State Budget will require multiple modifications over the next fiscal year. Budget hearings to adopt all known changes at that time are recommended to commence September 15, 2025.

CAO ANALYST:

Paige Benavides