



# Board Agenda Item 7

DATE: March 19, 2024  
TO: Board of Supervisors  
SUBMITTED BY: Paul Nerland, County Administrative Officer  
SUBJECT: FY 2023-24 Mid-Year Budget Report

RECOMMENDED ACTION(S):

1. **Receive Mid-Year Budget Report for Fiscal Year 2023-24; and**
2. **Approve proposed schedule for the Recommended Budget and adoption of the Fiscal Year 2024-25 Budget which incorporates a Recommended Budget by June 18, 2024.**

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 FY 2023-24 is an opportunity to review the financial condition of the Operating Budget approved by the Board of Supervisors on September 11, 2023. It also provides an opportunity to evaluate the fiscal outlook, allowing adequate preparation for the FY 2024-25 Budget.

Part I of this report addresses the mid-year financial 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 2024-25 State Budget issued in January 2024 to the County. Part IV discusses the Proposed Budget development schedule for FY 2024-25.

## I. MID-YEAR FINANCIAL CONDITION OF THE GENERAL FUND BUDGET FOR FY 2023-24

As part of the overall review, each General Fund Department was requested to provide a mid-year budget report including projected year-end actual expenditures and revenue. In addition, Departments were requested to identify any issues impacting their budget, provide a status of meeting their goals identified in the FY 2023-24 Adopted Budget, and potential impacts to the Department's FY 2024-25 Budget resulting from the Federal and/or Proposed State Budget. 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 the General Fund Budget to be

balanced at the end of FY 2023-24. 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 2023-24 year-end projections, expenditures are estimated to be approximately 91% of budget and revenues are estimated to be approximately 92% of budget as further explained below. Most General Fund Departments indicate ending the fiscal year at or below their allocated NCC with the exception of the Sheriff, County Clerk - Elections, Public Health and County Counsel. The Sheriff Department is estimated to exceed their NCC primarily due to higher than budgeted overtime costs, as well as other salary and benefit increases approved mid-year. The County Clerk - Elections Department is estimated to exceed their NCC primarily due to unanticipated, unreimbursed ballot measure costs. The Public Health Department is estimated to exceed their NCC due to higher than budgeted costs associated with the Animal Control Services Facility. County Counsel is estimated to exceed their NCC due to lower than anticipated revenues resulting from fewer billable hours. Additionally, there are a number of other Departments impacted by unbudgeted salary and benefit increases approved mid-year; however, several were able to absorb the impact through salary savings. These mid-year salary and benefit increases were necessary to improve recruitment and retention at the County. These department budgets will be monitored and addressed by separate Board actions if necessary.

There will also be an NCC variance for the Department of Behavioral Health (DBH). After the close of the FY 2022-23 Extended 12th accounting period (during the "13th period"), DBH had additional expenditures of approximately \$18 million that were accounted for in FY 2022-23 but did not transfer the necessary offsetting revenues. The revenues were transferred to the General Fund in January 2024 to offset the associated expenditures which will give the appearance that the Department will be under their NCC allocation for FY 2023-24; however, because these revenues are associated with prior-year expenditures, they will not be available for fund balance usage in FY 2024-25.

As part of the County's efforts to ensure prudent fiscal management and stewardship of all funds, the County Administrative Office in collaboration with the Auditor/Controller-Treasurer/Tax-Collector continues to enforce the Fund Balance policy approved by your Board. Departments have been required to process transfers of restricted funds for qualified expenditures on a monthly basis at a minimum.

Outside of the General Fund, the CAO's office is working with the Department of Public Works monitoring the Roads Fund budget (Org 4510). The Roads budget supports the implementation of specified road and bridge improvement projects, and the maintenance and operation of the County roads. The fund experienced large expenditures related to emergency repairs for roads and infrastructure damaged by the storms of 2023 that have not been reimbursed by FEMA.

## **II. PRELIMINARY PROJECTIONS FOR FY 2024-25**

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 NCC, which is comprised of ongoing/structural operating and one-time costs.

As stated earlier in the report, the General Fund Budget is estimated to be balanced at the end of FY 2023-24. 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 2023-24 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 seven percent. Based on this, the remaining unbudgeted amount of approximately five percent is available for future budget years. It should be noted that the assessed value for this year, which will be issued in June, and future fiscal years is not expected to be near the previous year's growth based on the current condition of the housing market.

The second largest revenue stream after property tax in Countywide Revenues is Bradley-Burns Sales Tax. Sales Tax revenue received in the first two quarters of FY 2023-24 was two percent less than revenues received in the first two quarters of FY 2022-23. It is projected that sales tax will remain flat for FY 2024-25.

There will be operating cost increases in FY 2024-25 primarily due to increases in salaries and benefits resulting from negotiated labor contracts and retirement rates; and in services and supplies, such as utility cost increases and a potential increases in risk insurance rates. Additionally, there are expected cost increases related to ongoing negotiations with providers of In-Home Supportive Services (IHSS). The County is also negotiating its largest service contract for Jail Medical Services with Wellpath and expect a very large cost increase in FY 2024-25.

Another potential increase in operating costs for FY 2024-25 could result from the possible passage of California Proposition 1 of 2024. If passed, the proposition would make changes to the Mental Health Services Act (MHSA) of 2004, modifying spending requirements and decreasing the share of the MHSA tax revenue for counties. The potential reduction in MHSA tax revenue to the County would likely not have an impact until a future fiscal year; however, the work of preparing for implementing the changes proposed in Proposition 1 would require additional administrative costs during FY 2024-25. The County Administrative Office and the Department of Behavior Health will continue to monitor the status of the proposition.

A conservative approach has been used in budgeting countywide revenues in the past, and it is recommended this approach continue to help weather a downturn in the economy or impacts of the State budget.

### **III. STATE AND FEDERAL BUDGET IMPACTS**

#### CALIFORNIA PROPOSED BUDGET

On January 10, 2024, Governor Newsom released the FY 2024-25 Proposed State Budget. The Governor's proposed \$291.5 billion budget included a projected \$37.9 billion deficit. To address this shortfall, the Budget proposes a variety of spending reductions, delays, fund shifts, and reversions which could have varying impacts to the County. Notably, the Governor's proposed budget includes a delay of \$260 million in State General Fund Homeless Housing, Assistance and Prevention Program (HHAP) funding from 2023-24 to 2025-26 to more appropriately align with the timing of availability of the funds to the eligible applicants. While the Governor's proposed budget maintained \$1.1 billion for funding this program, the proposed budget defers all new, discretionary spending considerations for discussion with the Legislature.

The California Legislative Analyst's Office (LAO), by contrast, estimates the budget deficit to be significantly greater than that of the Governor's at \$73 billion due to differences in "baseline changes" According to the LAO's February 2024 report, recent State revenue collections suggest that the budget problem is likely to be greater at the time of the May revision. The Department of Finance's February Finance Bulletin indicates that cash receipts for the month of January were \$5 billion, or 19.7 percent below revenue projections included in the Governor's 2024-25 Proposed Budget, and were \$5.9 billion, or 4.8 percent, below the fiscal year-to-date forecast of \$121.5 billion. The LAO presented a number of options to reduce one-time and temporary spending, including the potential pull-back or reduced spending for HHAP.

The Department of Social Services serves as the Administrative Entity for the combined HHAP funding allocations of the County of Fresno and the Fresno Madera Continuum of Care (FMCoC) and has indicated that there are no anticipated disruptions in service delivery under this program during FY 2023-24. However, to ensure minimal disruption in the next fiscal year and for planning and continuity, your Board, in collaboration with the County of Madera Board of Supervisors, issued a letter to the California Legislature urging support of this funding in the FY 2024-25 budget process.

The Administrative Office and County departments will continue to closely monitor the situation, including any potential delays in the timing of payments from the State, and address any changes in the Governor's May revision in the FY 2024-25 Recommended Budget.

#### FEDERAL BUDGET STATUS

On Friday, March 1, 2024, the President signed the fourth continuing resolution for fiscal year 2024. The House and Senate passed the continuing resolution, avoiding a partial government shutdown. The House and Senate Appropriations Committees subsequently released full-year appropriations for six appropriation bills which were passed by the House and expected to be voted on by the Senate in early March. Currently, there are no known impacts or concerns to the County related to the Federal budget.

#### **IV. BUDGET DEVELOPMENT SCHEDULE**

The budget development schedule will remain the same as in FY 2023-24. The FY 2024-25 Recommended Budget will be brought to your Board by June 18, 2024. 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 2024.

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 2024-25 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 16, 2024.

#### CAO ANALYST:

Paige Benavides