



# Board Agenda Item 11

DATE: March 28, 2023  
TO: Board of Supervisors  
SUBMITTED BY: Paul Nerland, County Administrative Officer  
SUBJECT: FY 2022-23 Mid-Year Budget Report

RECOMMENDED ACTION(S):

- 1. Receive Mid-Year Budget Report for Fiscal Year 2022-23; and**
- 2. Approve proposed schedule for the Recommended Budget and adoption of the Fiscal Year 2023-24 Budget, which incorporates a Recommended Budget by June 20, 2023 with adjustments to this Recommended Budget to be presented beginning September 11, 2023.**

ALTERNATIVE ACTION(S):

There are no viable alternative actions.

FISCAL IMPACT:

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

DISCUSSION:

## INTRODUCTION

The Mid-Year Budget Report for FY 2022-23 is an opportunity to review the financial condition of the Operating Budget approved by the Board of Supervisors on September 12, 2022. It also provides an opportunity to evaluate the fiscal outlook, allowing adequate preparation for the FY 2023-24 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 Governor's Proposed 2023-24 Budget issued in January 2023 to the County. Part IV discusses the Proposed Budget development schedule for FY 2022-23.

## I. MID-YEAR FINANCIAL CONDITION OF THE GENERAL FUND BUDGET FOR FY 2022-23

As part of the overall review, each General Fund Department was requested to provide a mid-year budget report including projected year-end actuals for 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 2022-23 Adopted Budget, and potential impacts to the Department's FY 2023-24 Budget resulting from the 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 in a positive position at the end of FY 2022-23. Carryover fund balance, which consists of Net County Cost (NCC) savings within Department Budgets and revenue exceeding budgeted Discretionary Revenues, is expected to exceed the structural level necessary to end the current fiscal year in preparation for the upcoming fiscal year budget process.

Based on FY 2022-23 year-end projections, expenditures are estimated to be approximately 90% of budget and revenues are estimated to be approximately 89% of budget. This will result in an estimated overall savings in NCC of over \$10 million. For comparison, in FY 2021-22, actual expenditures were 91% of budget and actual revenues were 90% of budget.

All General Fund Departments indicate finishing the fiscal year at or below their NCC except for the Sheriff and Public Health Departments. The Sheriff Department is estimated to exceed their NCC due to higher than budgeted costs in fuel, facilities, and utilities. The Public Health Department is estimated to exceed their NCC due to higher than budgeted utility costs at the Animal Services Facility.

There are no known mid-year issues or concerns with departments outside of the General Fund.

## **II. PRELIMINARY PROJECTIONS FOR FY 2023-24**

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 carryover fund balance for FY 2022-23 is expected to exceed the structural fund balance level needed for FY 2023-24. Department budgetary savings are projected to exceed \$10 million and Countywide Revenues are forecasted to surpass the budgetary estimates by over \$15 million.

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 2022-23 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 eight percent. Based on this, the remaining unbudgeted amount of approximately six percent is available for future budget years. It should be noted that the assessed value for this year, which will come out in June, and future fiscal years is not expected to be near the previous year's growth. The housing market has significantly cooled and could result in minimal growth or no growth over the next several years.

After property tax revenues, the next largest revenue stream in Countywide Revenues is Bradley Burns Sales Tax. Sales Tax revenue for the first two quarters of FY 2022-23 have reflected growth of approximately nine percent over the first two quarters of FY 2021-22. This trend is not expected to continue for the remainder of the fiscal year, with the last two quarters estimated to be at or below the previous year's actuals. It is also projected that sales tax will remain flat for FY 2024-25.

There will be operating costs increases in FY 2023-24 in salaries resulting from negotiated labor contracts; likely increases in services and supplies, such as fuel and utilities, due to ongoing inflation; and significantly higher risk insurance rates. These increases will be offset, at least in part, from a reduction in retirement rates in FY 2023-24.

After taking the above factors into consideration, current Countywide Revenue estimates are expected to cover ongoing/structural expenditures for FY 2023-24. A conservative approach has been used in budgeting countywide revenues in the past. It is recommended this approach continue to help weather a downturn in the economy.

### **III. STATE BUDGET IMPACTS**

#### CALIFORNIA PROPOSED BUDGET

On January 10, 2023, Governor Newsom released the FY 2023-24 Proposed State Budget. The Governor's proposed \$297 billion budget included a projected \$22.5 billion deficit. To address this shortfall, the Budget proposes to preserve investments made in previous annual budget proposals and delay planned and new spending. After reviewing the Proposed Budget and obtaining input from departments, there were no significant cuts to current programs. With that said, the Department of Finance's February Finance Bulletin indicates that the cash receipts for the first seven months of FY 2022-23 were \$3.322 Billion below revenue projections included in the Governor's 2023-24 Proposed Budget. If that trend continues, the budget deficit could be significantly higher by the end of FY 2022-23. This expected additional deficit will have to be addressed in the Governor's May Revise. The Administrative Office and County departments will closely monitor the situation and address any changes in the Governor's May revise in the 2023-24 Recommended Budget.

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

The budget development schedule will remain the same as in FY 2022-23. The plan is to have a FY 2023-24 Recommended Budget to your Board by June 20, 2023. 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 2023.

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 2023-24 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 11, 2023.

#### CAO ANALYST:

Greg Reinke