Budget End of Year Report

Fiscal Year 2020-21

County Administrative Office 11/18/21

INTRODUCTION

The County Administrative Office is pleased to present the Budget End-of-Year Report (BEYR) for Fiscal Year (FY) 2020-21. The BEYR is prepared to promote financial transparency and responsible financial oversight. The BEYR provides a comprehensive analytical comparison between the County's final modified budget and year-end results by reviewing the following items:

- The health of the County's finances.
- The major financial developments, issues, and trends shaping the County's finances.
- The management of the budget and the forecasting of revenues and expenditures.
- The management of reserves and long-term liabilities.

The BEYR begins with an analysis of the general fund's countywide performance, followed by a breakdown of departmental performance and financial condition of other major funds. The financial data utilized in this analysis is unaudited and subject to revisions in the annual comprehensive financial report prepared by the Auditor-Controller.

The County continues its conservative fiscal management, balancing operational priorities and long-term investments within the parameters of a structurally balanced budget. During the fiscal year, the County invested in the community, promoted public safety, supported health and wellness, and improved infrastructure.

GENERAL FUND HIGHLIGHTS

The general fund supports core governmental functions related to public safety, land use and environment, public assistance, health and sanitation, recreation and education, and finance and administration. The FY 2020-21 adopted budget included $716.0 million in appropriations, matched by an equivalent amount of financing, $669.8 million in revenue and $46.2 million in fund balance. Throughout the year, subsequent modifications increased appropriations by $70.3 million, financed by additional revenue ($36.8 million) and fund balance for one-time expenditures ($33.6 million). The County ended the fiscal year with a favorable performance compared to the final budget.

General Fund	Adopted Budget	Modified Budget	Year-End Actual
Available Financing:			
Unassigned Fund Balance (FY 2019-20)	$ 0.6	$ 0.6	$ 0.3
Cancellation - Restricted Fund Balance	5.3	5.4	5.7
Cancellation - Strategic Reserve	-	6.3	6.3
Cancellation - Assigned Fund Balance	40.3	67.4	66.5
Revenues	669.8	706.5	743.5
Total Financing Sources	**$ 716.0**	**$ 786.3**	**$ 822.3**
Financing Uses:			
Addition - Restricted Fund Balance	$ -	$ -	$ 19.5
Addition - Strategic Reserve/Pension Trust[1]	-	-	45.5
Addition - Assigned Fund Balance[1]	-	-	31.5
Expenditures	716.0	786.3	719.4
Total Financing Uses	**$ 716.0**	**$ 786.3**	**$ 815.9**
Estimated Unassigned Fund Balance:	**$ -**	**$ -**	**$ 6.5**

Dollars shown in millions. Numbers may not total due to rounding.

[1] Includes recommended designations to assignments

Highlights of general fund performance include:

- Overall results are favorable, with revenues of $743.5 million exceeding expenditures of $719.4 million for a year-end operating surplus of $24.1 million.

- County discretionary revenue performed strongly and above budget, with actual revenue at $66.6 million compared to the budget. The strong performance is largely attributed to federal aid received to mitigate the impact of the COVID-19 pandemic. The general fund received $41.4 million from the Coronavirus Aid, Relief, and Economic Security Act (CARES) Coronavirus Relief Fund and recognized $9.7 million in revenue from the American Rescue Plan Act (ARPA). Further detail on pandemic aid will be discussed in the report.
- In addition, other discretionary revenue recovered from the economic impacts caused by the pandemic the prior fiscal year. Excluding CARES and ARPA, discretionary revenue exceeded budget estimates by $26.2 million. The favorable performance was led by transient occupancy tax (TOT), property tax, and cannabis tax. Aside from investment income, all other discretionary revenue was higher than budget.
- Conversely, program revenue was $29.7 million below the final budget largely due to delays in revenue not received during the accrual period, lower than expected caseloads in social and health care programs, diversion of grant funded positions redirected to COVID-19 services, and lower reimbursement from realignment expenditures in public safety, social, and health programs.
- Year-end expenditures were $66.8 million below the final modified budget. Almost half of those lower expenditures resulted from salary and benefit savings from vacant positions, lower than expected overtime and health premium costs. Other factors include lower-than-planned program outlays mainly in social services and pandemic response, and lower than expected transfers to other funds including the Vehicle Asset Management Program.
- The County increased its general fund committed fund balance by adding $8.5 million to the strategic reserve, reaching the 10.0% of estimated FY 2021-22 general fund revenue goal set by Board policy.
- The County also had a net increase of $16.1 million in its assigned fund balance, resulting from the building improvement and replacement and vehicle replacement assignments being moved to the resource planning internal service fund and $30.6 million that is being recommend towards the pension liability trust, $3.1 million towards the replacement of sheriff radios, and $526,700 for elections equipment replacement.
- The County added $13.8 million to restricted and non-spendable fund balance as departments recognized revenue collected for defined purposes, primarily in the Health and Social Services departments.
- Excluding non-departmental budgets, sixteen departments ended the fiscal year with a general fund contribution (GFC) surplus totaling $17.6 million. In comparison, five departments had a GFC deficit totaling $7.4 million, resulting in a net GFC savings of $9.8 million.
- Pending this report's recommendations, the County Administrative Office estimates ending FY 2020-21 with an unassigned fund balance of $6.5 million.

GENERAL FUND REVENUE

General fund revenue is composed of program and non-program revenue. In FY 2020-21, the total revenue was $743.5 million. Program revenue accounted for 57% of revenue, $423.3 million, and is designated and/or statutorily required for specific purposes. Sources of program revenue include: State and federal aid for various mandated programs such as health and social services; charges for services that are primarily fees collected by health clinics; other financing sources primarily includes reimbursement from realignment funds for health, social services, and public safety programs; and revenue from the use of money and property is composed primarily of investment income from funds held in the Treasury Pool.

Non-program revenues of $246.9 million accounted for 33% of the general fund's revenues in FY 2020-21. These revenues are discretionary funds used to address local priorities, leverage federal and State monies, and to meet maintenance of effort requirements. Non-program revenue sources are primarily derived from taxes; including property taxes, TOT, cannabis taxes, and sales & use taxes. Revenue from the use of money and property includes investment income from fund balance. CARES Act and ARPA revenues were also a significant component on this type of revenue in FY 2020-21.

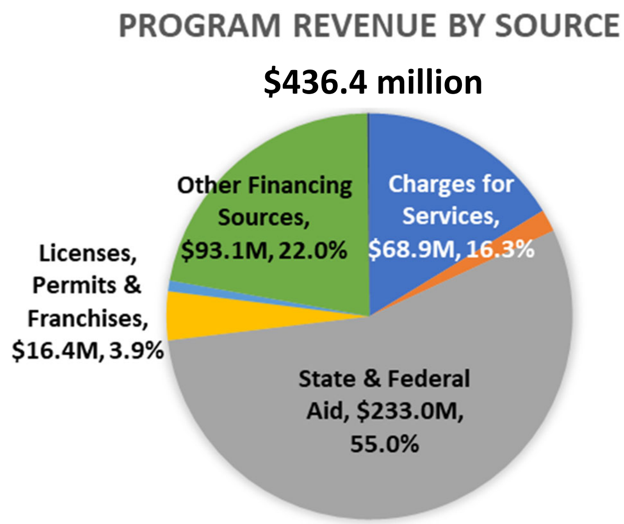


Figure 1. Other revenue sources in the chart: Fines, Forfeitures & Penalties (1.8%), Miscellaneous Revenues (0.9%), and Revenue from Use of Money & Property (.02%).

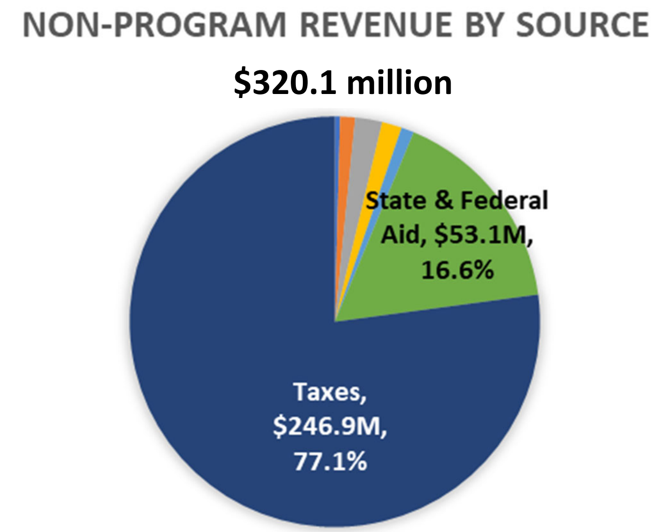
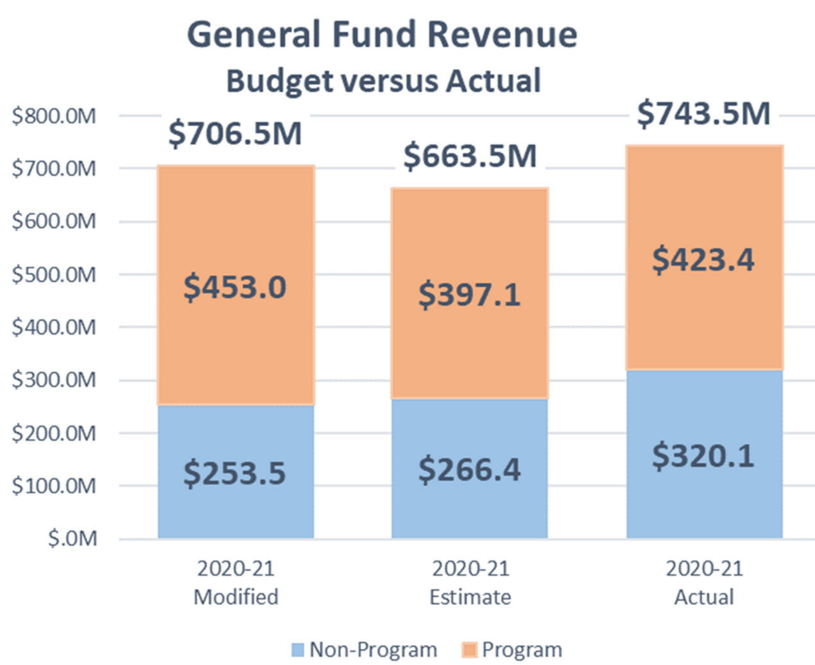


Figure 2: Other revenue sources in the chart: Licenses, Permits & Franchises (2.1%), Miscellaneous Revenues (1.6%), Fines, Forfeitures & Penalties (1.2%), and Charges for Services (.04%).

ACTUALS COMPARED AGAINST THE BUDGET

Revenues of $743.5 million were $37.0 million above the final budget.
Major variances included:



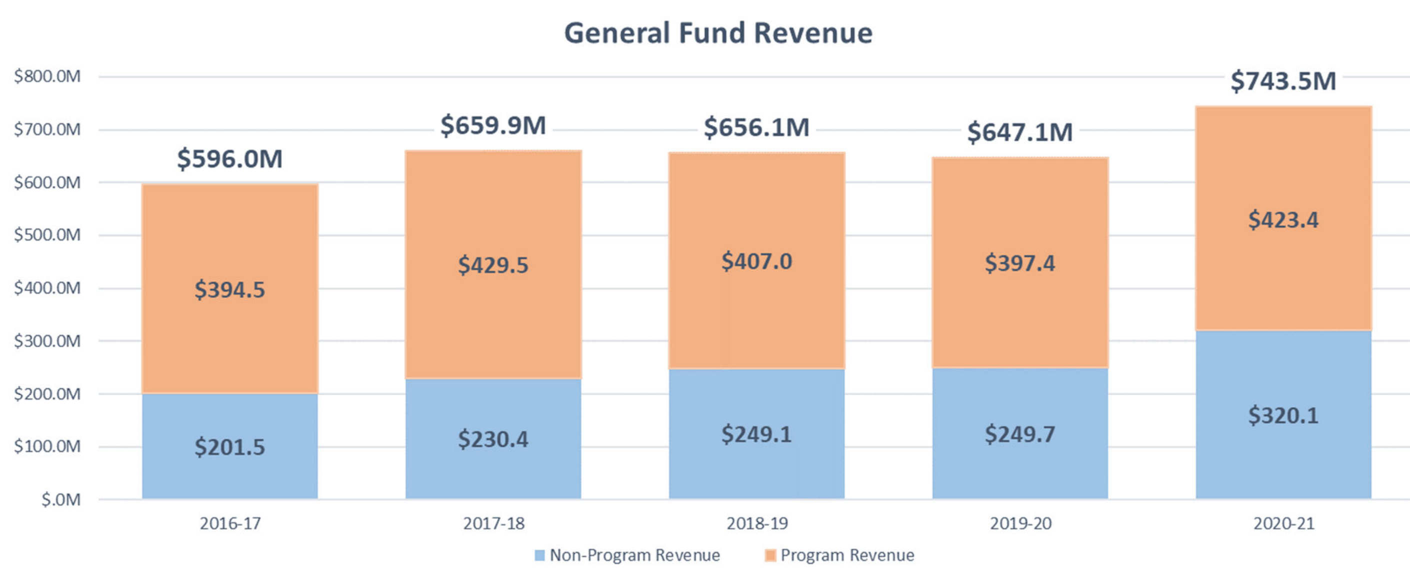
Discretionary non-program revenue exceeded the budget by $66.6 million due to pandemic aid from the federal government, favorable TOT and cannabis tax receipts, and steady growth in property taxes.

- Federal aid from the pandemic came in at $40.4 million higher than budget because of the CARES Act and ARPA. More details are presented later in this report.
- TOT revenue was budget conservatively because of the pandemic, but actuals of $23.5 million came in at $7.1 million higher than budget due to decreasing COVID-19 transmissions and the reopening of the hospitality industry.
- Cannabis tax revenue of $20.1 million exceeded amounts budgeted for the cannabis program and general fund contributions by $4.7 million.
- Real property transfer taxes came in $2.2 million higher than budget due to record growth due to the active housing market that's resulting in more home sales and refinancing. Sales tax revenue came in $1.3 million above budget, and franchise fees at $1.6 million.

Pandemic funding from CARES and ARPA helped offset the $29.7 million unfavorable variance in program revenue.

- Lower reimbursable costs for public safety, health and social realignment programs are the primary reason for lower program revenue.
    - The Department of Social Services collected $15.6 million less than it budgeted for revenue due to lower reimbursable expenditures due to lower than budgeted service levels.
    - The Health department received less than budgeted revenue by $9.6 million resulting from unplanned vacancies that didn't generate services and revenues in the primary care clinics and because of grant-funded public health positions diverted to pandemic response efforts.
    - Probation's revenue was $4.0 million below budget despite higher than budgeted public safety sales tax revenues, primarily due to lower reimbursable costs for public safety realignment, Title IV-E and rehabilitation programs. Lower revenue was also associated with reduced service fee collections resulting from COVID-19 pandemic closures.
- The Resource Management Agency collected $2.7 million less than budgeted revenue due to reduced building construction and planning & engineering service permits and fees and from less park usages fees due to the 2020 Fires and COVID-19.
- The Treasurer-Tax Collector experienced lower reimbursable expenditures levels for the administration of the Comprehensive Collections Program and collected $1.2 million less than budget.
- Departments including Elections and the Assessor-County Clerk-Recorder collected higher than budget program revenue. . Elections received additional funding for pandemic-related election grants and reimbursements for the November 2020 election. Low mortgage interest rates contributed to the Assessor-County Clerk-Recorder's increase in real estate refinances and sales resulting in higher than budgeted revenues.

FY 2020-21 COMPARED TO PRIOR YEAR



Total revenue increased by $96.4 million compared to the prior year.

PROGRAM REVENUE

Program Revenue increased $26.0 million compared to the prior year. Year-over-year variances include:

- Social Services revenue increased by $20.5 million over the prior year largely due to one-time revenues. The department received $17.0 million for the Emergency Rental & Utility Assistance Program. In addition, it recognized $5.8 million from prior year revenues due from State and federal agencies. The department also received a one-time Fort Ord Reuse Authority contribution of $351,000 for the County's cost for facilitating the Veterans Issues Advisory Committee.
- A $15.5 million decrease in concession revenue principally resulting from the shift of the Laguna Seca Recreational

Area to an enterprise fund.

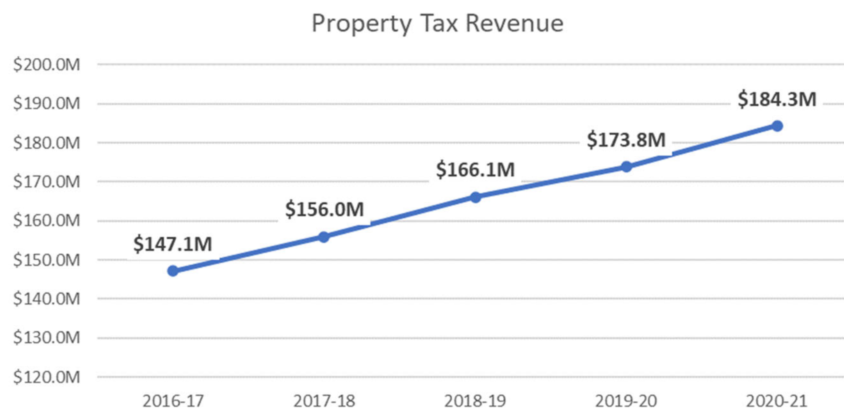
- The Health Department FY 2020-21 revenue increased $13.5 million over the prior year. The increase is largely from federal aid for public health programs responding to the COVID-19 pandemic and fees paid by other local health care agencies.
- A $6.9 million decrease in operating transfers from realignment funds to public safety and social service programs due to lower eligible reimbursements compared to the prior year.
- Due to the cyclical nature of elections, the Elections department received $2.6 million more in revenue than the prior year to cover the costs of the 2020 November election.
- Higher recording fees revenue of $1.0 million due to higher amounts of recordings conducted by the Assessor-County Clerk-Recorder's due to low mortgage interest rates.
- The Resource Management Agency saw a decrease in $1.0 million in program revenue compared to the prior year largely from lower construction permits, lower park use revenue, and a one-time transfer from the County's capital projects funds in FY 2019-20 for facilities maintenance projects.

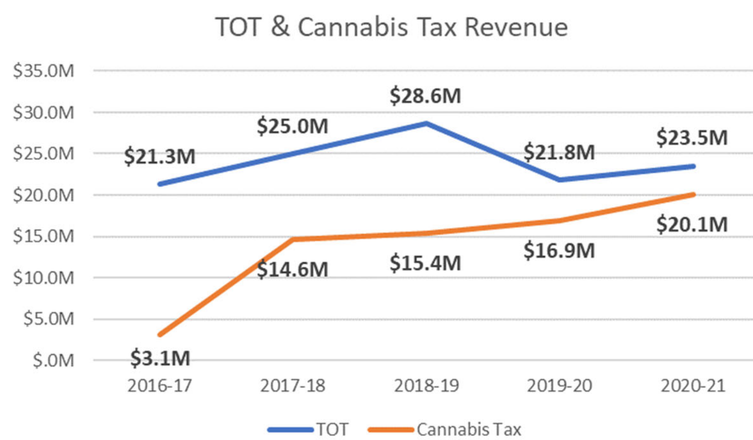
PROGRAM REVENUE

Non-program revenue increased $70.4 million over the prior year. The noteworthy increase is largely due to $50.6 million in federal aid to deal with the economic, social, and public health effects of the pandemic. In addition, almost all other non-program revenue sources increased from the prior year.

Major year-over-year variations in discretionary revenue include:

- $41.4 million in CARES Act one-time aid.
- $9.7 million recognized ARPA revenue, discussed further in the report.
- A $10.5 million increase in property taxes due to higher assessments of real estate properties within the County.
- A $3.2 million increase in cannabis tax revenue from increases in gross receipts.
- A $1.8 million increase in TOT as a result of the reopening of the hospitality industry.
- A $4.5 million increase in real property transfer tax, penalties, franchises, tobacco settlement, and other sources.
- A decrease of $2.4 million in investment income from low interest rates.





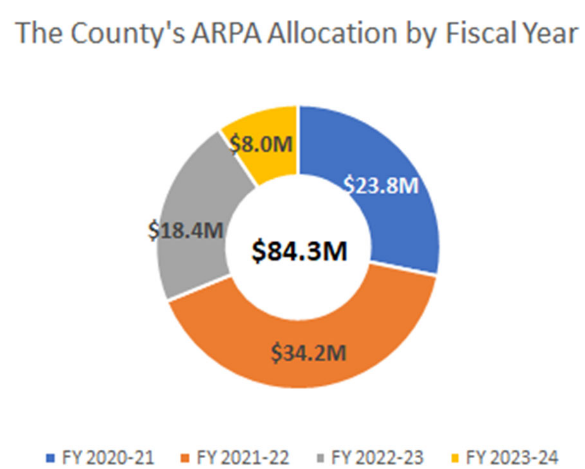
COVID-19 PANDEMIC AID

As a result of the pandemic, the County received lower than budgeted discretionary revenues in FY 2019-20 and the County forecasted lower revenue in FY 2020-21. The County's TOT revenue, sales tax, and public safety sales tax, and other program revenue were impacted and as a result funding for critical county programs was also impacted. In FY 2020-21, the County initially relied on its Strategic Reserve, the Cannabis Tax Assignment, and Contingencies to continue and create new programs to address the community's safety and needs. Over $6.3 million was released from the Strategic Reserve help finance programs like the Community Outreach and Education Pilot, Project Room Key, the Great Plates programs. Over $14.0 million was allocated from the Cannabis Tax Assignment for these programs and for additional Office of Emergency Services and Workforce Develop Board programs. These programs allowed the County to respond to the disparate impacts of the COVID-19 pandemic on communities of color residing in the census tracts of the lowest quartile of the Healthy Places Index, other members of the community in great need, and local businesses. The County relied on these reserves in anticipation of federal and state aid from Federal Emergency Management Agency (FEMA) and other federal legislation.

The County was fortunate to receive funds from two federal aid packages which have allowed the County to fund essential services while reducing the use of reserves. The County was a recipient of the Coronavirus Aid, Relief, and Economic Security Act (CARES) funding that allowed the County to use $45.0 million to fund critical pandemic response costs that included but were not limited to redirected staff to pandemic response, investing in workplace technology and equipment to allow employees to work remotely, and aid to residents in the form of food, rental assistance, and grants to businesses, among other costs. The CARES Act funding covered expenditures incurred between March and December 2020 to respond to public health emergency caused by the pandemic. The funds cannot be used to backfill loss of revenue. Since the State appropriated CARES Act funds in their FY 2020-21 budget for distribution to the counties, the County could not accrue its share of the CARES Act funding spent in FY 2019-20. As a result, in FY 2020-21, the general fund recognized $41.4 million in CARES revenue, while other County funds recognized the rest.

The American Rescue Plan Act (the Act) established the Coronavirus State Fiscal Recovery Fund (CSFRF) and Coronavirus Local Fiscal Recovery Fund (CLFRF), which provide a combined $350 billion in assistance to eligible state, local, territorial, and Tribal governments to help turn the tide on the pandemic, address its economic fallout, and lay the foundation for a strong and equitable recovery. Under CLFRC, counties received $65.1 billion in funding and was allocated based on each county's population share of the total national population. The County was allocated $84.3 million. The County must use the CLFRF funds for specific purposes including response to the COVID-19 pandemic, premium pay to eligible workers providing essential work, to back fill revenue reductions due to COVID-19, and to make necessary investments in water, sewer, or broadband infrastructure. Congress has proposed amendments to the ARPA funds to add other allowable costs, but these are still not final. As of now, the County must utilize the ARPA funds by December 31, 2024.

The Board's ARPA spending plan allocated the ARPA funds over four years. In FY 2020-21, the County received $42.2 million, half of the total CLFRC allocation, and deposited the funds in a liability account. The funds will remain in this account until the eligibly requirements are met. At that point revenue will be recognized in the appropriate fund incurring the ARPA eligible expenditures The County will receive the second half of the $84.3 million in FY 2021-22. Below is a breakdown of the allocation by fiscal year:



In FY 2020-21, the ARPA plan allocated $23.8 million across multiple departments including the County Administrative Office (for community outreach and Emergency Operations Center programs), the Workforce Development Board, the Health Department, Social Services, the Sheriff's Office, and the Resource Management Agency. The funding targeted public health response to the pandemic ($16.1 million), economic recovery ($5.8 million, and revenue loss ($1.8 million).

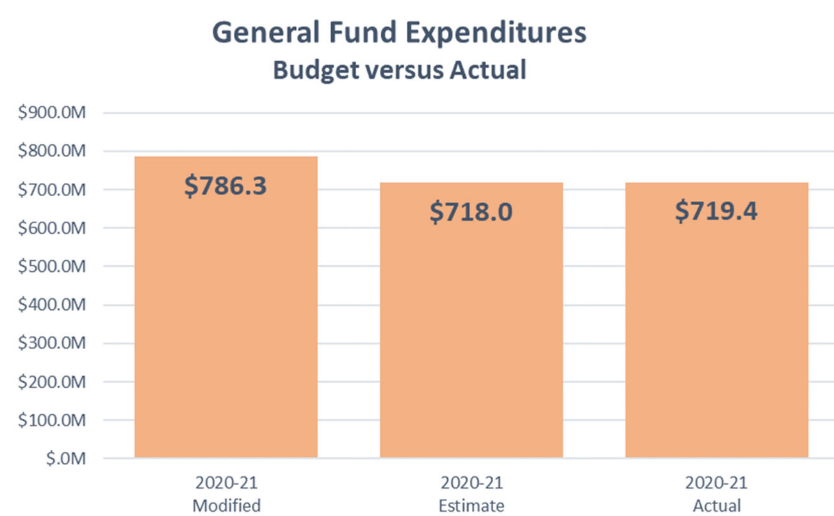
FY 2020-21 County's Pandemic Response - ARPA

Department	FY 2020-21 Allocation	FY 2020-21 Recognized
CAO - Emergency Operations Center	$ 841,434	$ 747,169
CAO - Workforce Development Board	900,000	745,342
County Administrative Office	4,989,561	4,989,651
Health	6,593,491	2,045,676
Resource Management Agency	1,814,761	424,720
Sheriff	730,720	504,038
Social Services	7,929,441	256,989
Total	**$ 23,799,408**	**$ 9,713,585**

Not all of the allocated funding was spent, and the County recognized only $9.7 million in ARPA revenue in FY 2020-21. Most of the allocated revenue in FY 2020-21 was not recognized that fiscal year because some of the programs were not recognized under ARPA since those programs are eligible for 100% reimbursement from FEMA (such as Project Room Key and Great Plates) or other funding sources. The County Administrative Office will return to the Budget Committee and the Board of Supervisors for guidance on the reallocation of the unspent FY 2020-21 ARPA funds as part of the FY 2022-23 budget process. The Emergency Operations Center continues to work with County departments to document expenditures related to the pandemic and will continue to submit claims to FEMA. It is estimated that FEMA will provide reimbursements in the coming fiscal years.

GENERAL FUND EXPENDITURES

General fund expenditures ended the year at $719.4 million or $66.9 million below the final budget. As a result of the pandemic, departments were more vigilant about expenditures. Lower expenditures are attributed to salary savings from vacant positions and lower-than budgeted healthcare and overtime costs, and lower operating expenditures primarily in health and social services programs, as explained below.

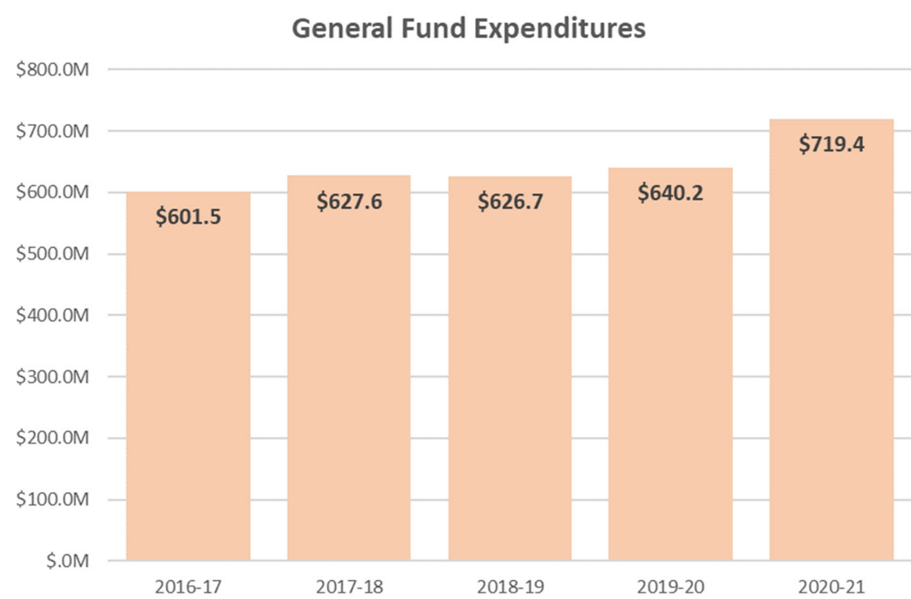


Key areas of unspent appropriations:

- Expenditures for Social Services were $26.8 million below budget. Expenditures were $5.7 million lower in Out of Home Care due to fewer children coming into foster care and $13.3 million less than expected in the new emergency rental assistance program. Veterans Transition Center rehabilitation project experienced construction delays as a result $0.7 million were not spent. The department also reported $6.9 million in lower personnel costs due to staff vacancies resulting from hiring challenges.
- The County Administrative Office has lower than budgeted expenditures of $13.1 million. Reasons include:
  - $5.4 million due to reduced lower than planned debt service and transfers to other funds.

  - $2.6 million unspent allocation for Emergency Operations Center's response to the local emergency declaration for COVID-19.
  - $1.9 million in Fleet Administration due to lower-than-expected transfers to the Vehicle Asset Management Program, $916,484 and lower vehicle maintenance, $683,887.
  - $2.8 million in unspent appropriations for contingencies.
  - $580,742 in lower than budgeted personnel costs, with a majority of the savings in the Housing and Economic Development Administration due to vacancies.
  - The annual appropriation for contingencies ended the year with an unused balance of $662,166.
- The Health Department's expenditures were $11.3 million lower than budget due to salary savings ($10.7 million) primarily due to a 18% vacancy rate attributable to separations and recruiting challenges.
- Probation's expenditures were $3.4 million below budget due to salary savings of $2.1 million and $1.3 million in lower operating mostly from lower contracted services and supplies for grant, State, and federal programs.
- The Resource Management Agency's expenditures were $2.3 million below budget largely due to salary savings from vacancies ($777,515) and lower operating costs due to delays in projects resulting from COVID-19 ($1.5 million).
- The Sherriff has lower appropriations of $1.9 million due to lower than budgeted overtime costs and lower operating costs budgeted for COVID-19 response.
- The Treasurer-Tax Collector underspent appropriations by $1.3 million due to lower operating costs and personnel costs due to vacancies.
- The Office of the Public Defender had expenditures $580,064 below budget due to lower than anticipated internal and external trial expenses and salary savings from vacancies.
- County Counsel had unused appropriations of $821,890 largely due to salary savings from unanticipated vacancies ($1.4 million) and lower operating expenditures ($142,610) due to COVID-19 travel restrictions that was offset by lower reimbursements from the internal service funds due to lower general liability cases and vacancies in risk management ($721,163).
- The District Attorney had unused appropriations of $476,765, resulting from salary savings ($1.4 million) offset by higher operating expenses such as trial expenses ($1.0 million).
- Elections had unused appropriations of $408,136 from lower-than-expected personnel costs and lower temporary employee costs.
- The following departments had a combined $3.8 million in unused appropriations chiefly because of salary and benefit savings from vacant positions and lower health premium and overtime costs: Agricultural Commissioner ($534,566), Assessor-County Clerk-Recorder ($501,597), Auditor-Controller ($548,962), the Board of Supervisors ($162,194), Child Support Services ($737,225), Civil Rights Office ($167,313), Clerk of the Board ($107,907), Human Resources ($24,485), and Information Technology ($983,068).

Expenditures grew $79.3 million higher than the prior year. Even with the transfer of the Laguna Seca Recreational Area to an enterprise fund, the general fund's expenditures grew year-over-year by 12.4%. Expenditures from the pandemic make up a significant portion of that increase along with increases in personnel costs.

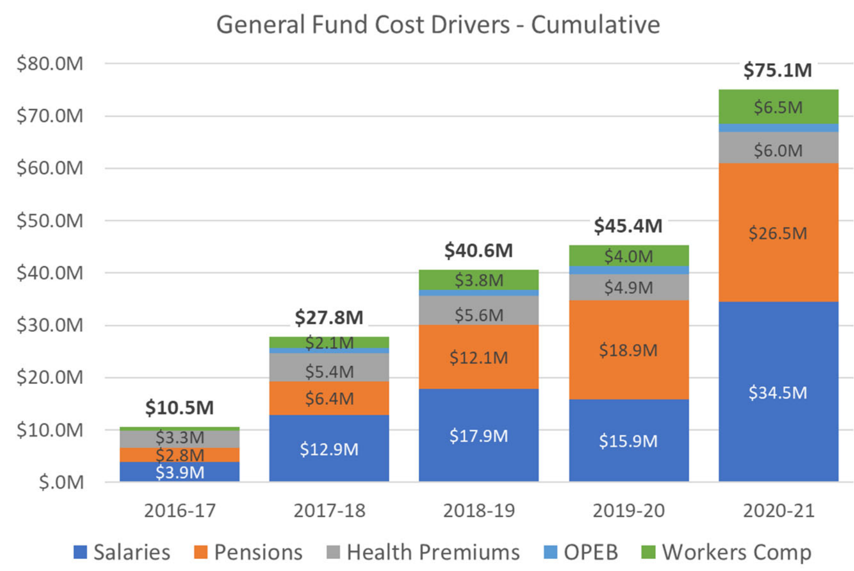


The year-over-year growth for personnel cost was $26.3 million. The general fund adopted positions in FY 2020-21 only increased by 2.3 FTE, but higher costs in wages and rising pension costs impacted the general fund, partially offset by $3.8 million in lower overtime costs. More details on cost drivers relating to personnel costs are described in the Cost Drivers section.

Aside from rising personnel costs, other expenditures variances include:

- $41.0 million in higher transfers out to other funds primarily due to one-time transfers to other funds.
  - $14.6 million transferred from the Building Improvement and Replacement Assignment to the Building Improvement and Replacement sub-fund within the Resource Planning internal service fund.
  - $11.2 million for from the County Administrative Office's budget to the Building Improvement and Replacement sub-fund within the Resource Planning internal service fund funded by a countywide cost plan credit.
  - $10.5 million transferred from the Vehicle Replacement Assignment to the Vehicle Replacement Program sub-fund within the Resource Planning internal service fund.
  - $8.0 million transferred to the new Pension Liability Fund for the first deposit into the County's new IRS Section 115 pension trust.
  - A $3.0 million contribution from the general fund to the capital project fund to assist with descope and settlement costs of the new juvenile hall.
  - This was offset by a higher countywide cost plan credit for resource planning allocations of $7.0 million.
- The Health Department's operating expenditures increased $6.6 million over the prior year largely from the public health response to the COVID-19 pandemic.
- The County Administrate Office had $2.8 million in higher expenditures due to the Emergency Operations Center's pandemic response.
- The Social Services Department saw operating costs increase over the prior year by $3.2 million due to increase in pandemic response and investments in information technology of $8.5 million, which was offset by $5.3 million in lower costs in Out of Home Care due to less children coming into foster care.
- An increase in the Sheriff's operating costs of $4.2 million due to COVID-19 response.
- $3.4 million in lower general liability insurance cost largely due to decreases in non-recoverable costs from lower ligation and settlement costs.
- Due to the November 2020 election, the Elections department saw an increase in operating costs compared to the prior year of $1.6 million.

GENERAL FUND COST DRIVERS



The chart to the right reflects the major cost drivers impacting expenditures on a cumulative basis. Over the past five years, these cost drivers have grown by $95.3 million, $29.7 million in FY 2020-21 alone. During that same time period, the general fund adopted FTEs decreased by 95 FTE from 3,357 FTE to 3,452 FTE.

Salaries are the biggest cost driver, growing $34.5 million over the last five years due to wage increases. Pension contribution costs have grown $26.5 million cumulatively over this time, including a $7.6 million increase in FY 2020-21. Healthcare premium costs have grown by $6.0 million. Benefit costs account for an increasing share of the employee compensation package. In FY 2020-21, pensions, healthcare premiums, and other post-employment benefits (OPEB) totaled 27.8% of total salary and benefits compared to 24.7% five years ago. Beyond benefit costs, workers' compensation funding requirements increased by $6.5 million and OPEB by 1.5 million.

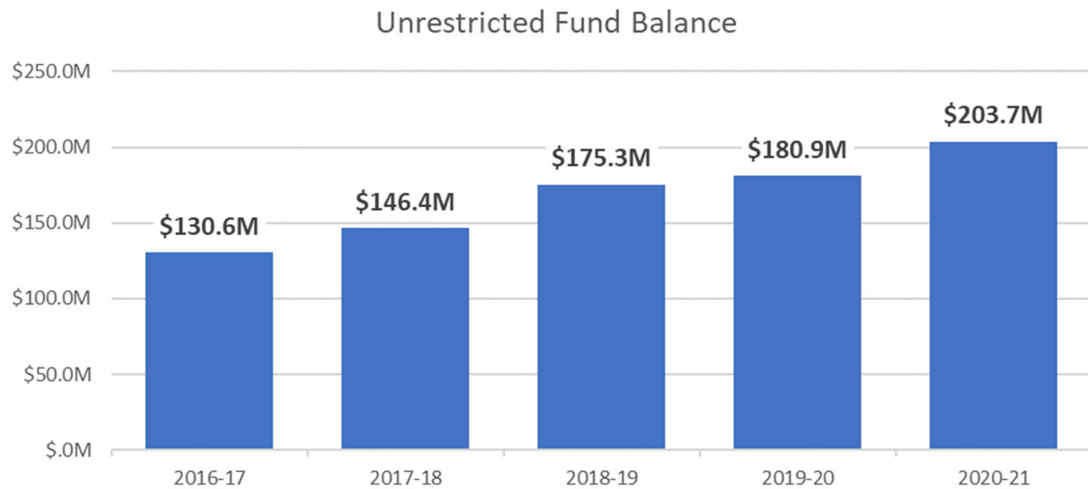
Salary costs increased $18.6 million over the prior year, largely due to higher wages and filling of vacant positions. Higher salary costs are associated with a growing workforce and wage increases based on approved MOUs, which provided employees in most bargaining units a 3% base wage increase in FY 2020-21. Over the past five years, the general fund has absorbed an average annual increase of $6.9 million in salary costs.

Contributions to CalPERS for employee pensions increased $7.6 million over the prior year. CalPERS implemented changes in actuarial methodology to accelerate payment towards agencies' unfunded liability and updated demographic assumptions as members continue to live longer and have higher salaries than previously estimated, thus resulting in higher lifetime benefits. Additionally, the CalPERS actuarial studies are assuming a lower discount rate, which will increase current and future contributions.

Contributions to healthcare premiums increased by $1.1 million over the prior year. Premiums costs have increased by a $1.2 million annual average over the past five years. OPEB and workers' compensation costs increased $2.4 million over the prior year.

FUND BALANCE – PLANNING FOR FUTURE INVESTMENTS AND RISKS

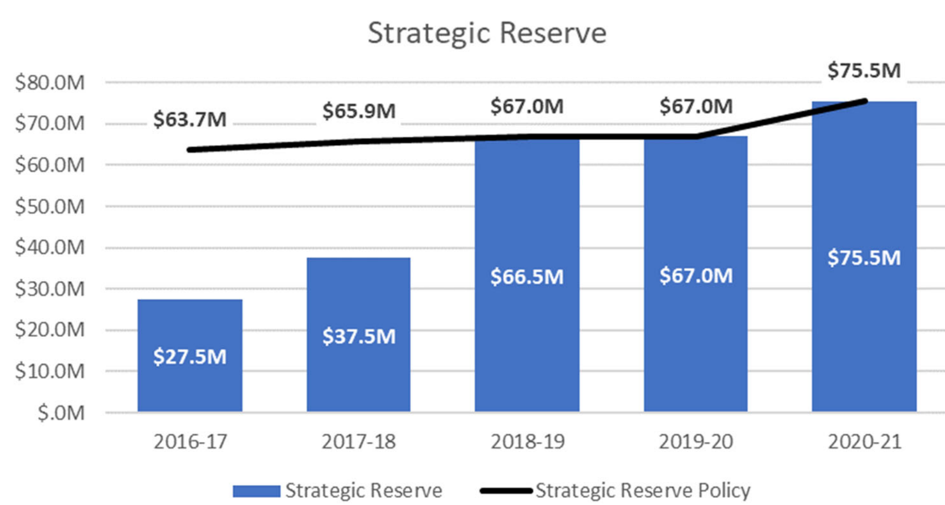
Since the Great Recession, the Board has strengthened financial policies to restore the balance between ongoing revenues and expenditures, ending the practice of using one-time gains in fund balance to finance ongoing operations. The County continues to invest year-end surpluses in its Strategic Reserve and other key investments. Having robust financial policies and prudent management allows the County to utilize reserves for emergencies, such as actions taken by the Board to mitigate the impact of the pandemic. Fortunately, federal aid reduced the reliance on the general fund's fund balance in FY 2020-21. The unrestricted fund balance has grown from $130.6 million in FY 2016-17 to an estimated $203.7 million at the end of FY 2020-21.



A significant component of the unrestricted fund balance is the Strategic Reserve, which was established to fund unforeseen crises or changes in fiscal conditions, including: short-term revenue reductions due to economic downturns; legal judgments against the County in excess of reserves normally designated for litigation; declared natural disasters; one-time State budget reductions that could not be addressed through the annual appropriations for contingencies; and regional emergencies.

In FY 2016-17, the County faced wildfires and winter storms that caused infrastructure damage, affecting services to residents. The Board's strategic investments into the reserve positioned the County to respond quickly to natural disasters. The chart to the right reflects $28.6 million released from the reserve in FY 2016-17 for the disasters and other unplanned events. Under Board policy, the County Administrative Office has used good financial performance in recent years to rebuild and preserve the Strategic Reserve.

After another year of favorable fiscal management, $8.5 million was added to the Strategic Reserve, increasing the balance from $67.0 million to $75.5 million. The $75.5 million Strategic Reserve, for the general fund is currently at 10.0% of general fund estimated revenues, maintaining the 10% policy target prudently set by your Board. Also, by Board policy, Natividad holds $25.0 million of its own funds in the strategic reserve, for a total strategic reserve of $100.5 million. Maintaining adequate reserves through robust management of the County's resources, including adherence to strong financial policies and practices, has allowed the County to retain a AAA rating from the credit rating agency Standard & Poor's and an AA+ from Fitch, which recently evaluated and held their rating.

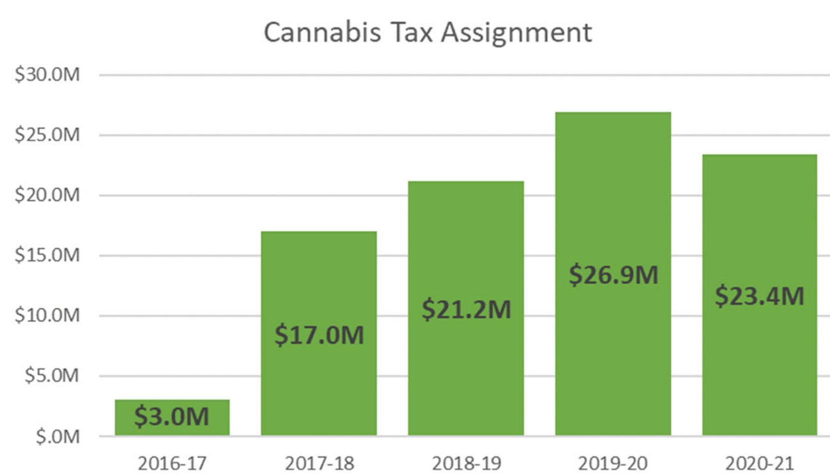


The General Fund Contingency Assignment balance was increased by $1.4 million to reach the 1.0% of general fund estimated revenues at $7.5 million, maintaining the policy target set by the Board. The County Administrative Office also recommends the addition of $3.6 million into the General Capital Assignment for future capital equipment replacement for the Sheriff's radios ($3.1 million) and elections equipment ($0.5 million). Other reserves in the general fund include $2.8 million for the Information Technology Department's capital needs and $2.4 million for revenue stabilization. The County Administrative Office recommends that $550,000 is transferred from the Information Technology Charges Mitigation Assignment to a new sub-account within the General Capital Assignment for elections equipment.

In FY 2020-21, the Board of Supervisors adopted a pension liability policy and established the County's IRS Section 115 pension trust. The trust will serve as an investment vehicle outside of the County's Treasury Pool to generate investment proceeds to address future pension lability obligations. The Board authorized $8.0 million out of the Compensated Absences Assignment to establish the trust. The CAO also recommends that $30.6 million is set aside form the operating surplus in an assignment to contribute to the pension trust. If approved, the pension trust balanced would be $38.7 million. The County Administrative Office recommends that the Compensated Absences Assignment be replenished by $9.5 million to be funded with the end of year operating surplus. With these recommendations, the County Administrative Office estimates the general fund will have $6.5 million in unassigned fund balance.

Cannabis Tax Assignment

Another significant County reserve includes the $23.4 million in the Cannabis Tax Assignment sourced from Cannabis Tax Revenue per Board policy.



Since FY 2016-17, any cannabis tax revenue collected that was not a funding source for the cannabis program or any other Board authorized expenditure has been assigned to the Cannabis Tax Assignment. Starting in FY 2020-21, the Board authorized the total annual estimated cannabis tax to be allocated to the cannabis program and to fund a portion of general fund contributions for general fund operations.

The Cannabis Tax Assignment began the year with $26.9 million. In FY 2020-21, the general fund collected $20.1 million in cannabis tax revenue. The cannabis program expenditures for the year totaled $4.3 million and $9.5 million was allocated as general fund contributions to departments. Hence, the net cannabis tax revenue was $6.0 million.

Through the budget adoption and during the fiscal year, the Board authorized expenditures of $19.4 million for programs and contributions funded by the assignment (as discussed in the COVID-19 PANDEMIC AID section); $10.1 million of the $19.4 million authorized was not spent or the financing source was replaced by ARPA funds or the cannabis program. The estimated ending Cannabis Tax Assignment balance is $23.4 million.

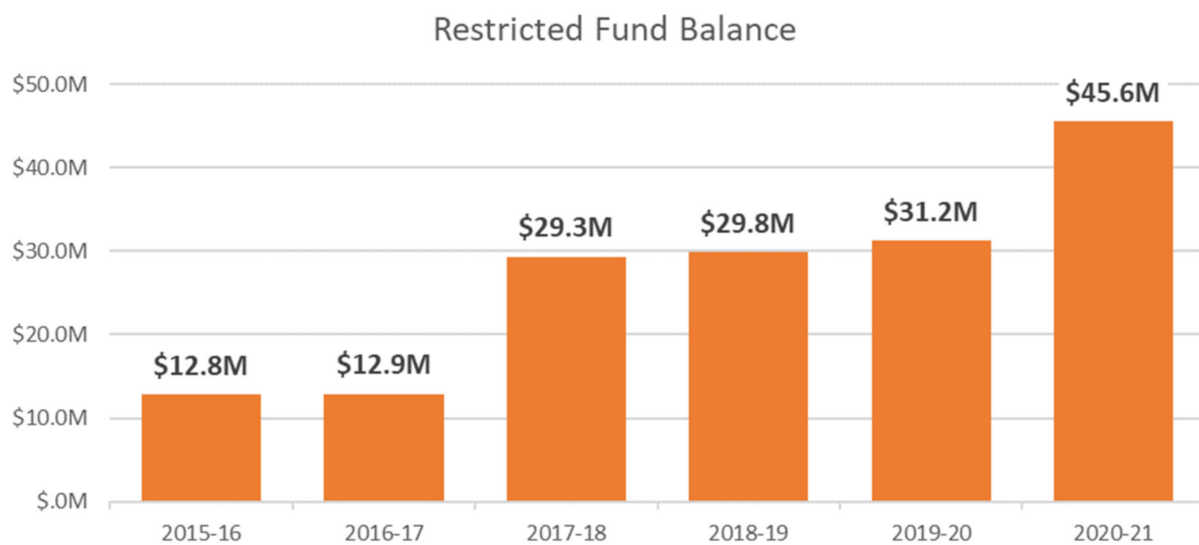
Cannabis Tax Assignment	
Beginning Cannabis Tax Assignment Balance	**$26,947,838**
Cannabis Tax Revenue	20,092,810
Cannabis Program	(4,336,898)
Programmed to General Fund Contributions	(9,793,671)
Net Cannabis Tax Revenue	**$ 5,962,241**
Budgeted Use of the Cannabis Assignment	(9,488,747)
Net Use of Cannabis Tax Assignment	**$ (9,488,747)**
Estimated Ending Cannabis Tax Assignment Balance	**$23,421,332**

RESTRICED FUND BALANCE

Restricted fund balance refers to funds constrained to specific purposes by their providers (such as grantors and higher levels of government), through constitutional provisions or by legislation. Non-spendable fund balance are funds that are not in a spendable form (such as inventory). Funding for Health and Social Services programs make up the majority of the restricted fund balance. The restricted fund balance increased by $14.4 million in FY 2020-21.

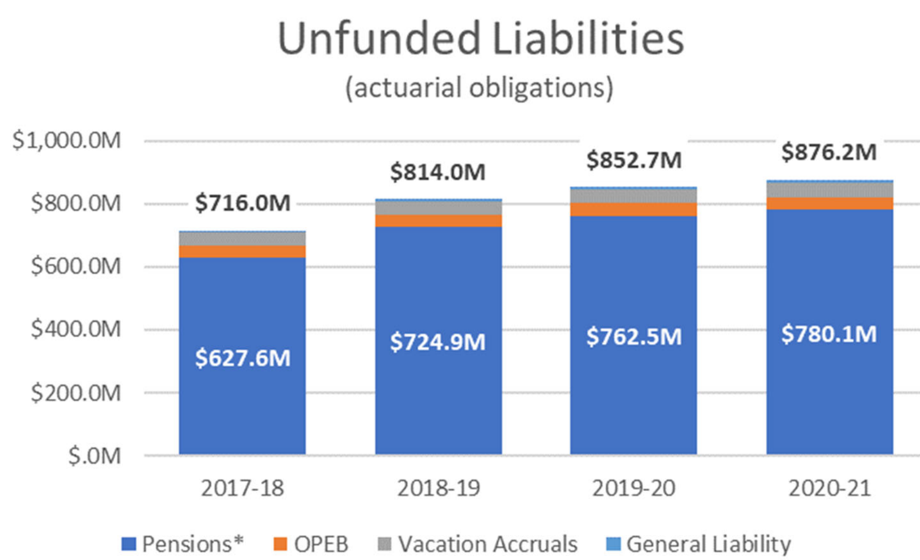
Additions to restricted fund balance include:

- $7.1 million for an advance from Social Services associated with the emergency rental assistance program.
- $2.1 million in Homeless Housing, Assistance and Prevention (HHAP) Grant Program Round 1 funding that provides local jurisdictions with funds to support regional coordination and expand or develop local capacity to address their immediate homelessness challenges.
- $1.3 million for Electronic Benefits Transfer (EBT) funds used for the delivery, redemption, and reconciliation of issued public assistance benefits.
- $292,680 one-time Fort Ord Reuse Authority contribution for the County's cost for facilitating the Veterans Issues Advisory Committee.
- $3.3 million set aside for the Federally Qualified Health Center (FQHC) clinics for potential liabilities of FY 2020-21 Managed Care reconciliation.
- $364,870 restricted from the 2019 lead paint settlement revenue in the Health Department.



UNFUNDED LIABILITIES

The County incurs actuarily-determined accrued liabilities for employee benefits, its workers compensation and general liability. The unfunded liability is the amount, at any given time, by which future obligations exceed the present value of assets available to pay them. Major County's long-term obligations include CalPERS' pension obligations, OPEB (State-mandated premium for retiree health insurance), vacation accruals, workers' compensation, and the general liability self-insured program. The County's unfunded liabilities total $876.2 million, a $23.4 million increase from the prior year.



*: includes the $30.7 million contribution towards the Section 115 pension trust.

Unfunded employee pension benefits are the largest liability at $780.1 million. The County's pension plans provide defined retirement, disability, and death benefits to eligible employees. According to the latest actuarial dated July 2021, the County's total liability is $2.9 billion, with assets of $2.1 billion, resulting in an unfunded liability of $818.8 million. The unfunded liability is partially offset by new pension trust with a recommended allocation of $30.7 million, in addition to the $8.0 million already held in the pension trust. Excluding the County's new investments in a pension trust, the pension plans' unfunded liability increased $56.3 million over the previous valuation, or 7.4%. The increase is primarily due to the 4.7% invest return for FY 2019-20, which even with the revised discount rate, underperformed.

Asset values have not kept up with the increasing cost of pension obligations. In December 2016, the CalPERS Board approved a lower discount rate, decreasing the assumed return on investment from 7.5% to 7.0% over three years. The change in the assumed discount rate increases the unfunded liability in the latest actuarial report and will significantly increase contribution payments annually from FY 2018-19 through FY 2024-25.

The unfunded liability of $39.6 million for Other Post-Employment Benefits (OPEB). The County participates in the California Employers' Retiree Benefit Trust (CERBT) to provide a low cost, professionally managed investment vehicle for pre-funding other post-employment benefits. The County's total liability is $80.5 million, with assets of $40.9 million, resulting in an unfunded liability of $39.6 million. The County makes regular contributions to CERBT based on actuarial valuations obtained every two years.

The unfunded portion of vacation accruals totals $45.2 million, representing the amount owed to employees for compensated time earned but not used. When an employee separates from the County, the employee is due their vacation accruals. In FY 2020-21, vacation accruals totaled $58.0 million, a $4.7 million increase from the prior year. The CAO recommends setting aside $9.5 million towards this obligation, which would leave an unfunded liability of $48.5 million.

The County's general liability self-insured program currently has an actuarially determined deficit of $9.6 million. The increase is due to higher County settlements. Funding levels for the general liability insurance program is recommended by an actuary and is based upon loss history and future exposure.

The growing unfunded liabilities place additional pressure on the County's operational capacity. The ongoing cost for pensions continues to absorb a greater portion of the budget as contributions are anticipated to increase sharply to reduce the unfunded liability. To minimize adverse impacts, it is important to address unfunded liabilities through prudent financial planning and adjust the County's operating plan accordingly to maintain structural balance and meet future commitments. The new pension trust and the ongoing funding of the OPEB trust are some of the steps the County has taken to address these long-term liabilities.

Housing and Community Development Department

In FY 2020-21, the Board released $200,000 from the Cannabis Tax Assignment to assist in the establishment of a regional housing trust fund through the Local Housing Trust Fund program. The funding was provided to meet the requirement for a County match. The Housing and Community Development Department was unable to establish the housing trust in FY 2020-21. HCD will return with a staff report to provide an update on status of application and request reassigning the previously designated funding in FY 2021-22.

LOOKING AHEAD

After weathering the Great Recession, the County's Board of Supervisors seized opportunities from the economic expansion to institutionalize a fiscally conservative culture and best-practice financial policies, adopt structurally balanced annual budgets without the use of one-time funds for operating needs, and significantly increase reserves. The expansion went on for ten years but was ended as a result of the COVID-19 pandemic. However, the Board's financial policies set proper reserves and realistic budgets that allowed the County to expand services to the community members most in need without impacting service levels in other areas nor eliminated positions. In FY 2020-21, the economic stabilization and the federal relief via the CARES Act and ARPA allowed the County to continue to provide sustained service levels and new vital services to address the pandemic through all departments. Continuing a culture of conservative financial management, avoiding ongoing commitment of “peak” revenues, building reserves, and paying down unfunded liabilities is essential to preserving sustainable service levels into the future and to continue to address the impacts of the pandemic.

Looking ahead to FY 2022-23, the County will still face cost pressures for dealing with the pandemic without any new pandemic federal aid as of the writing of this report. Other cost pressures include recently approved and pending labor negotiations with bargaining groups, which will further pressure the general fund to incur personnel cost increases resulting from increases to base level wages of at least 2%. General fund contributions for pensions will increase an estimated $4.7 million next fiscal year (with similar increases in ensuing years). Even if solid growth in discretionary revenue continues, it would not be enough to cover these increased costs. Starting in FY 2020-21, a large portion of the cannabis tax began to be programmed into the baseline GFC and for the cannabis program. Only growth in current revenue sources will be available to address the increasing cost pressures that will influence the next budget season.

SUMMARY OF RECOMMENDATIONS

Based on the FY 2020-21 general fund performance, the County Administrative Office recommends the following actions in FY 2021-22:

1. Designate $30,641,609 to a Section 115 pension trust assignment to be transferred to the County’s Section 115 pension trust.
2. Support a $3,524,746 County’s pension trust from Natividad’s enterprise as a match to the $8,038,000 contribution made in FY 2020-21 from the general fund.
3. Replenish the Compensated Absences Assignment by $9,527,138 to continue to keep reserves for employee vacation accruals.
4. Designate $3,100,000 in a sub-account in the General Capital Assignment for the future replacement of the Sheriff radios.
5. Designate $526,700 in a sub-account in the General Capital Assignment for the capital equipment for the Elections Department.
6. Transfer $550,000 from the Information Technology Charges Mitigation Assignment to the new sub-account within the General Capital Assignment for capital equipment for the Elections Department.

DEPARTMENTAL BUDGET PERFORMANCE

The annual budget approved by the Board of Supervisors is the County’s central financial planning document embodying the annual goals, objectives, priorities, and levels of service and associated operating revenue and expenditures for all departments and agencies under the Board’s authority. With its adoption, the Board establishes a relationship between expenditures and revenues through which departments are expected to operate. Department heads are responsible for managing their budgets within the total appropriation of their department. As established in the Board’s General Financial Policies, expenditures shall not exceed appropriations and allocated discretionary General Fund contributions (GFC). If revenues fall short, departments must take all available actions to re-establish a balance between revenue and expenditures, including developing service alternatives and mitigation strategies.

In FY 2020-21, County programs, services, and administrative functions were provided through twenty-five departments. Twenty-one of these departments receive funding from the County’s general fund. Departments and major funds supported outside the General Fund include the Road Fund, Monterey County Free Libraries, Behavioral Health, Emergency Communications, Natividad Medical Center, Parks – Lake & Resort, and Laguna Seca Recreational Area.

Unaudited year-end results indicate sixteen general fund departments ended the fiscal year below budgeted GFC, and five exceeded their budgeted GFC, but this number is reduced to three departments when you consider the department’s CARES allocation. The combined surpluses and deficits resulted in an overall $9.8 million in GFC savings. Overall, FY 2020-21 GFC performance is favorable in comparison to budgeted amounts. The table below summarizes year-end GFC results by department compared to the final budget, including budget modifications.

General Fund Department	General Fund Contributions (GFC):			GFC Under/(Over) Budget:	
	Final Budget	Year-End Estimate	Actual	Estimate to Actual	Budget to (Adjusted) Actual
Agricultural Commissioner	$4,075,676	$4,005,676	$3,336,990	$668,686	$738,686
Assessor-County Clerk-Rec.	5,696,101	4,663,052	3,704,614	958,438	1,964,922
Auditor-Controller (Deptl)	392,825	181,096	(209,986)	391,082	602,811
Board of Supervisors	3,990,058	3,842,832	3,768,540	74,292	221,518
Child Support Services	441,829	200,224	(165,879)	366,103	607,708
Civil Rights Office	(242,248)	(242,248)	(401,996)	159,748	159,748
Clerk of the Board	922,197	824,278	826,523	(2,245)	95,674
Cooperative Extension Service	449,668	449,526	463,817	(14,291)	(14,149)
County Admin Office (Departl)	32,812,118	18,355,714	26,488,546	(8,132,832)	6,323,571
County Counsel	3,118,078	2,728,881	2,113,500	615,381	1,004,578
District Attorney	20,249,595	19,957,034	20,062,630	(105,596)	98,804
Elections	6,063,211	6,052,654	4,154,695	1,897,959	1,908,516
Health	20,121,264	28,159,461	18,494,746	9,664,715	(6,574,829)
Human Resources	124,304	95,350	93,906	1,444	30,398
Information Technology	(1,980,974)	(1,980,974)	(3,296,818)	1,315,844	927,299
Probation	25,406,287	25,999,783	26,051,807	(52,024)	(645,520)
Public Defender	14,657,481	14,654,614	14,207,361	447,253	450,120
Resource Management Agency	19,355,124	21,506,432	19,771,139	1,735,293	(416,015)
Sheriff-Coroner	82,411,529	82,110,906	79,794,219	2,316,687	2,325,859
Social Services	16,991,065	21,498,704	5,864,308	15,634,396	(185,061)
Treasurer-Tax Collector	(80,813)	(59,674)	(215,841)	156,167	135,028
General Fund Department Totals [1]	**$254,974,375**	**$253,003,321**	**$224,906,822**	**$28,096,499**	**$9,759,665**

[1] Excludes countywide, non-operational functions including: the appropriations for contingencies; contributions, transfers and obligations to other agencies; trial court obligations; debt service; memberships in regional organizations; health realignment maintenance-of-effort; vehicle asset management, and the County's non-program (i.e., discretionary) revenue.

BREAKDOWN BY GENERAL FUND DEPARTMENT PERFORMANCE AND FINANCIAL CONDITION OF OTHER MAJOR FUNDS.

Agricultural Commissioner

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$12,450,569	$11,877,524	$11,839,271
Revenues	8,374,893	7,871,848	8,502,281
GFC (Exp. - Rev.)	4,075,676	4,005,676	3,336,990
GFC Final Budget versus Actual:		Surplus	738,686

- The Agricultural Commissioner's year-end results included $11.8 million in expenditures offset by $8.5 million in revenues and a general fund contribution (GFC) of $3.3 million.
- Expenditures were under budget by $611,298 due to delays in hiring caused by COVID and a lower transfer than was anticipated to Capital Projects.
- Revenues were $127,388 higher than budget due to FY 2019-20 revenue received after the 60-day window. Due to lower expenditures and prior year revenue collected, the Department ended with a surplus of $738,686.

Assessor-County Clerk-Recorder

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$9,939,849	$9,174,012	$8,830,877
Revenues	4,243,748	4,510,960	5,126,263
GFC (Exp. - Rev.)	5,696,101	4,663,052	3,704,614
GFC Final Budget versus Actual:		Surplus	1,991,487
Transferred to Restricted Fund Balance			26,565
Adjusted Financial Result:		Surplus	1,964,922

- Actual year-end expenditures were $1.1 million below budget due to salary and benefit savings from vacant positions ($821,597) and reduced expenditures for various services and supplies ($287,375).
- Due to low mortgage interest rates, the Assessor-County Clerk-Recorder experienced an increase in real estate refinances and sales resulting in higher than budgeted revenues of $882,515.
- The Department transferred $26,565 of unused restricted revenue to a restricted fund balance resulting in a net surplus of $2.0 million.

Auditor-Controller (Departmental)

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$910,579	$698,008	$403,939
Revenues	517,754	516,912	613,925
GFC (Exp. - Rev.)	392,825	181,096	-209,986
GFC Final Budget versus Actual:		Surplus	602,811

- The Auditor-Controller departmental operations ended with a surplus of $602,811 primarily due to savings from position vacancies occurring throughout the year. Expenditures were $506,640 lower than budget while revenues were $96,717 higher than budget.

Auditor-Controller (Non-Departmental)

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$38,646	$38,653	$300
Revenues	0	0	0
GFC (Exp. - Rev.)	38,646	38,653	300
GFC Final Budget versus Actual:		Surplus	38,346

- Non-Departmental units administered by the Auditor-Controller's budget provide for functions that meet a county-wide need or responsibility. Year-end actuals reflect a surplus of $38,346 due to lower than budgeted audit costs.

Board of Supervisors

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$3,990,058	$3,842,832	$3,775,231
Revenues	0	0	6,691
GFC (Exp. - Rev.)	3,990,058	3,842,832	3,768,540
GFC Final Budget versus Actual:		Surplus	221,518

- The Board of Supervisors budget funds the five individual district offices and an operational unit for general Board expenditures.
- The Board ended the fiscal year with a surplus of $221,518 due primarily to salary savings from temporary vacancies, delayed rental of a satellite office, and reduced travel expenses due to COVID-19.

Child Support Services

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$11,845,923	$11,120,746	$11,020,082
Revenues	11,404,094	10,920,522	11,185,962
GFC (Exp. - Rev.)	441,829	200,224	-165,879
GFC Final Budget versus Actual:		Surplus	607,708

- The Department of Child Support Services is funded entirely through State and federal subventions. The Department's expenditures were $825,841 lower than budget, while revenues were $218,132 under budget, resulting in a surplus of $607,708. The lower expenditures are primarily the result of typical personnel turnover within the Department.

- The Department received an augmentation of $407,485 funded by the cannabis assignment as it was impacted by rising cost pressures. However, due to the higher revenue collected, the Department did not utilize the cannabis funds, and were transferred back to the cannabis tax assignment.
- Lower revenues are mostly attributed to depreciation and timing in collections. Per State's policy, a fixed asset must be depreciated over five years. As a result, only 1/5 of the fixed asset could be claimed and recognized as revenue each year.
- The Department ended with a surplus of $607,708 due to the collection of prior year revenue in the current fiscal year.

Civil Rights Office

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	-$242,248	-$242,248	-$400,639
Revenues	0	0	1,356
GFC (Exp. - Rev.)	-242,248	-242,248	-401,996
GFC Final Budget versus Actual:		**Surplus**	159,748

- The Civil Rights Office's resulting year-end surplus of $159,748 is attributable to salary savings from vacant positions. Additional savings were realized by developing and conducting training and workplace investigations in-house with existing staff instead of contracting these services out as originally budgeted.

Clerk of the Board

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$942,197	$844,278	$840,624
Revenues	20,000	20,000	14,101
GFC (Exp. - Rev.)	922,197	824,278	826,523
GFC Final Budget versus Actual:		**Surplus**	95,674

- The Department ended the year with a surplus of $95,674 due to salary savings from vacant positions.

Cooperative Extension Services

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$476,861	$476,827	$465,109
Revenues	27,193	27,301	1,292
GFC (Exp. - Rev.)	449,668	449,526	463,817
GFC Final Budget versus Actual:		**Deficit**	-14,149

- The Department ended the year with expenditures of $465,109 or $11,752 lower than budget, primarily due to savings in fleet charges. Revenues were $25,901 below budget. The result is a deficit of $14,149.

County Administrative Office - Departmental

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$34,318,431	$19,607,906	$27,819,985
Revenues	1,506,313	1,252,192	1,331,438
GFC (Exp. - Rev.)	32,812,118	18,355,714	26,488,546
GFC Final Budget versus Actual:		Surplus	6,323,571

- The County Administrative Office (CAO) Departmental includes the business areas of Finance and Administration, Budget and Analysis, Contracts/Purchasing, Fleet Management, Intergovernmental & Legislative Affairs, Office of Community Engagement & Strategic Advocacy, Records Retention, and Office of Emergency Services.
- CAO Departmental ended the year with a budgetary surplus of $6.3 million. Significant factors driving the surplus include:
  - $2.6 million budget surplus attributable to the unspent allocation for Emergency Operations Center's response to the local emergency declaration for COVID-19.
  - $1.9 million budget surplus in Fleet Administration primarily attributable to lower-than-expected transfers from Fleet to Vehicle Asset Management Program in the amount of $916,484 and Vehicle Maintenance in the amount of $683,887.
  - $509,357 in salary savings, including $394,033 in Housing and Economic Development Administration.
  - $383,698 budget savings in Capital Assets for Fleet Administration, Records Retention, Mail, and Courier.

CAO - Non-Departmental

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$84,713,593	$73,673,945	$78,098,308
Revenues	259,986,735	272,226,465	327,026,007
GFC (Exp. - Rev.)	-175,273,142	-198,552,520	-248,927,699
GFC Final Budget versus Actual:		Surplus	73,654,557

- CAO non-departmental general fund units are countywide, non-operational functions including: the appropriation for contingencies; contributions, transfers and obligations to other agencies; trial court obligations; debt service, memberships in regional organizations; health realignment maintenance-of-effort; vehicle asset management program, and the County's non-program revenue.
- CAO non-departmental units ended the year with a budget surplus of $73.7 million. Significant factors driving the surplus include:
  - Non-program revenue was higher than budget by $66.6 million. This variance was primarily due to Federal Aid Revenue exceeding budget by $40.4 million. Also, as the economy began to rebound from the pandemic various discretionary revenues were better than budget as shown below:
    - Transient Occupancy Taxes (TOT): $7.1 million
    - Property Taxes: $8.7 million
    - Cannabis Taxes: $4.7 million
    - Other discretionary revenue: $5.7 million
  - Other Financing Uses were lower than anticipated by $5.4 million due to reduced debt service and lower-than-planned transfers to other funds.
  - The annual appropriation for contingencies ended the year with an unused balance of $662,166.

County Counsel

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$3,475,078	$3,213,941	$2,653,188
Revenues	357,000	485,060	539,689
GFC (Exp. - Rev.)	3,118,078	2,728,881	2,113,500
GFC Final Budget versus Actual:		Surplus	1,004,578

- County Counsel ended fiscal year with a surplus of $1.0 million primarily due to unexpected salary savings from vacancies, travel restrictions due to COVID-19, additional revenue from a legal settlement, and unused appropriations resulting from the Lake San Antonio remediation project.

District Attorney

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$35,525,800	$34,630,846	$34,921,244
Revenues	15,276,205	14,673,812	14,858,613
GFC (Exp. - Rev.)	20,249,595	19,957,034	20,062,630
GFC Final Budget versus Actual:		Surplus	186,965
Transferred to Restricted Fund Balance			88,161
Adjusted Financial Result:		Surplus	98,804

- The Office of the District Attorney (DA) ended the year $604,556 (1.7%) below budgeted expenditures, due to vacancies and salary savings.
- Revenues were $417,592 (2.7%) below budget, primarily due to delayed civil case settlements and state revenues not received prior to the end of the year.
- The DA's office finished the year with a surplus of $186,965, of which $88,161 was transferred to restricted fund balance for investigations, for a final surplus of $98,804.

Elections

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$8,236,440	$7,997,798	$7,828,304
Revenues	2,173,229	1,945,144	3,673,609
GFC (Exp. - Rev.)	6,063,211	6,052,654	4,154,695
GFC Final Budget versus Actual:		Surplus	1,908,516

- Year end results for Elections included $7.8 million in expenditures, $3.7 million in revenue and a general fund contribution of $4.1 million. Expenditures were $408,136 below budget and revenues were $1.5 million higher than budget, resulting in a year-end surplus of $1.9 million.

- Expenditure savings were primarily related to temporary employees and staff vacancies, while excess revenues are attributed to $881,627 in pandemic-related election grants and reimbursement of November 2020 election costs by jurisdictions for local contests and no County measures or candidates.
- Of the $1.9 million surplus, $526,700 was reserved to cover future election machine replacement or updates, and $973,300 was transferred back to the cannabis tax assignment as the Department did not utilize these funds authorized for costs related to the presidential election.

Health

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$114,279,069	$105,669,682	$103,012,881
Revenues	94,157,805	77,510,221	84,518,135
GFC (Exp. - Rev.)	20,121,264	28,159,461	18,494,746
GFC Final Budget versus Actual:		**Surplus**	1,626,518
Unused Budgeted Restricted Fund Balance			4,528,832
Transferred to Restricted Fund Balance			3,672,515
Adjusted Financial Result:		**Deficit**	-6,574,829

- The Health Department's total expenditures were $11.3 million below budget due primarily to a vacancy rate of 18.1% generating $10.7 million in salary and benefit savings. Most of the vacancies occurred in the Primary Care Clinics ($7.0 million) and in Public Health ($2.2 million) and were attributable to separations and recruiting challenges. Decreases in other expenditures impacted by vacancies totaled approximately $600,000.
- Expenses included liability payments of $3.9 million to the State for FY 2018-19 ($3.9 million), and FY 2016-17 ($5,577). These liability payments are a result of a change in the primary care clinics funding. As of March 2015, some Central California Alliance for Health members were moved from fee-for-service to capitation with the State performing yearly reconciliations for which any resulting overpayments must be returned.
- Year-end revenue was $9.6 million lower than budgeted. Excluding restricted revenue, revenues were lower than the budget due to vacancies in revenue generating positions in Primary Care Clinics as well as positions in Public Health diverted to COVID-19 pandemic response efforts. This includes $7.4 million in revenue that was not received during the accrual period mainly from State Aid and Federal Aid.
- Transfers to restricted funds totaling $3.7 million as follows: $3.2 million for future liability to the State, $364,870 of Environmental Health restricted funds, and $37,701 of Public Health restricted funds.
- The Health Department ended with a GFC deficit of $6,574,829. The deficit was covered by CARES and ARPA funding.

Human Resources

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$124,304	$95,350	$102,819
Revenues	0	0	8,913
GFC (Exp. - Rev.)	124,304	95,350	93,906
GFC Final Budget versus Actual:		**Surplus**	30,398

- The Human Resources Department ended the year with a surplus of $30,398 resulting from position vacancies and revenues from unemployment insurance refunds.

Information Technology

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	-$1,230,974	-$1,230,974	-$2,029,641
Revenues	750,000	750,000	1,267,177
GFC (Exp. - Rev.)	-1,980,974	-1,980,974	-3,296,818
GFC Final Budget versus Actual:		**Surplus**	1,315,844
Transferred to Restricted Fund Balance			388,545
Adjusted Financial Result:		**Surplus**	927,299

- The Information Technology Department (ITD) ended the year with a surplus of $927,299.
- Expenditures of -$2.0 million against the budget of -$1.2 million, represent an overall savings of $0.8 million. The Department had salary savings of $0.9 million and received $0.8 million in higher internal County customer reimbursements, which offset additional infrastructure expenditures, such as the e-911 and internet redundancy projects.
- The expenditures are derived from $28.4 million of operational expenditures less internal County customer reimbursements of $7.9 million, and an offsetting COWCAP credit of $22.5 million.
- Actual revenue totaled $1.3 million, $517,777 above budget, including $388,545 of restricted Public, Educational, and Government (PEG) fees, and $128,632 in unanticipated income from external agencies. PEG funds were transferred into restricted fund balance, resulting in an adjusted surplus of $927,299.

Probation

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$55,337,034	$55,337,034	$51,980,143
Revenues	29,930,747	29,337,251	25,928,336
GFC (Exp. - Rev.)	25,406,287	25,999,783	26,051,807
GFC Final Budget versus Actual:		**Deficit**	-645,520

- The Probation Department's expenditures were $3.4 million below budget due mainly to vacancies generating $2.1 million in salary savings, $1.0 million in contracted services and supplies that were budgeted but not realized for grant, federal, and State programs. Further, departmental efforts to conserve expenditures resulted in $289,005 lower than budgeted expenses for institutional supplies, services, and transportation costs.
- Actual revenues were $4.0 million below budget despite Public Safety Sales Tax revenues of $656,721 more than estimated, primarily due to lower reimbursable costs for Public Safety Realignment, Title IV-E and rehabilitation programs. Lower revenue was also associated with reduced service fee collections resulting from COVID-19 pandemic closures and other related financial impacts.
- The Department ended the year with a deficit of $645,520, but when counting CARES revenues for the Department's pandemic response, the Department would have ended the year with a surplus.

Public Defender

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$16,005,723	$16,053,014	$15,425,659
Revenues	1,348,242	1,398,400	1,218,299
GFC (Exp. - Rev.)	14,657,481	14,654,614	14,207,361
GFC Final Budget versus Actual:		Surplus	450,120

- The Public Defender's Department actual expenditures totaled $15.4 million, $580,064 below budget, as a result of salary and benefit savings from unexpected vacancies, lower than anticipated trial-related expenses, and expert costs.
- Year-end revenue was $1.2 million, $129,943 below budget, due to lower-than-expected reimbursable expenditures related to staffing and services for budgeted State programs.
- The Public Defender's Department recognized a GFC surplus of $450,120.

Resource Management Agency

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$32,319,597	$31,580,235	$30,043,847
Revenues	12,964,473	10,073,803	10,272,708
GFC (Exp. - Rev.)	19,355,124	21,506,432	19,771,139
GFC Final Budget versus Actual:		Deficit	-416,015

- The Resource Management Agency's expenditures were $2.3 million below budget from lower operating costs due to delays in projects resulting from COVID-19 and vacancies. Operating costs were below budget by $1.5 million and vacancies resulted in salary and benefit savings of $0.8 million.
- Actual revenues fell short of budget by $2.7 million largely due to the COVID-19 outbreak. Development slowed significantly during COVID, resulting in reduced building construction and planning & engineering service permits and fees by $2.1 million compared to the budget. Due to the 2020 Fires and COVID, many scheduled park events were cancelled, and parks closed for months at a time. This resulted in park fees coming in under budget by $0.5 million.
- The Department ended with a GFC deficit of $416,015. The Department presented to the Board of Supervisors on February 2, 2021 an estimated deficit of $1.8 million due to the impact of COVID-19 and 2020 Fires. The deficit was originally going to be covered by the cannabis assignment. ARPA funds replaced the cannabis assignment as the funding source.

Sheriff-Coroner

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$125,229,366	$124,485,051	$123,304,881
Revenues	42,817,837	42,374,145	43,510,662
GFC (Exp. - Rev.)	82,411,529	82,110,906	79,794,219

GFC Final Budget versus Actual:	**Surplus**	2,617,310
Transferred to Restricted Fund Balance		291,452
Adjusted Financial Result:	**Surplus**	2,325,859

- The Sheriff's Office expenditures were $1,924,485 below budget due to unused COVID-19 appropriations including overtime and service contracts, as well as regular purchases that were cancelled due to vendor shortages.
- Revenues were $692,825 above the budget primarily due to higher than anticipated State and federal revenues, including Public Safety Sales Tax revenues of $922,389 more than estimated and ARPA funds of $504,038 for increased expenses due to COVID-19 for the coroner, testing, screening, transportation to hospitals and workplace preparedness.
- The Sheriff's Office ended the year with a general fund contribution surplus of $2,617,310 before transferring $291,452 in net vehicle fees to restricted fund balance for a final adjusted surplus of $2,325,859.
- The Sheriff's Office submitted claims to FEMA amounting to $1,142,324 for the Carmel, Dolan and River fires that happened at the beginning of fiscal year. FEMA has yet to reimburse the County for the fire disasters.
- The Board approved allocation of CARES Act Funding for the Sheriff's Office was $6.3 million for which $3.4 million in expenditures was recognized in FY 2020-21. If that amount is taken into account, the overall final surplus for the Sheriff's Department would have been higher.

Social Services

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$230,547,167	$203,054,070	$203,795,705
Revenues	213,556,102	181,555,366	197,931,396
GFC (Exp. - Rev.)	16,991,065	21,498,704	5,864,308
GFC Final Budget versus Actual:		**Surplus**	11,126,757
Transferred to Restricted Fund Balance:			10,793,949
Unused Budgeted Restricted Fund Balance:			517,869
Adjusted Financial Result:		**Deficit**	-$185,061

- The Department of Social Services' (DSS) year-end expenditures totaled $203.8 million, $26.8 million below budget. Most of the savings originate from the Out of Home Care unit ($5.7 million) and the emergency rental assistance program ($13.3 million). Additionally, other significant savings include $0.7 million due to construction delays for the Veterans Transition Center rehabilitation project and $6.9 million in staff vacancies due to hiring challenges.
- Year-end revenues were $197.9 million, $15.6 million below budget, due to corresponding lower expenditures in revenue generating Social Services programs. This figure includes $5.8 million in prior year revenue.
- Social Services ended the fiscal year with a surplus of $11.1 million. However, after adjustments of $517,869 for unused restricted fund balance, and $10.8 million transferred to restricted fund balance, including $7.1 million for revenue collected for the emergency rental assistance program; the department ended the year with an annual operating deficit of $185,061. If CARES revenues in the amount of $3.8 million, revenue for estimated FEMA expenditures in the amount of $1.6 million, and $3.9 million in revenue earned in FY 2020-21 but not received by the accrual period were included, the department would have ended the fiscal year with a surplus.
- The Department will work with the auditor's office to review a $1.3 million transfer to restricted funds due to EBT bank reconciliations which resulted in an increased departmental deficit as it removed the revenue that was

offsetting the EBT expense. This transfer was required by the outside auditors and the department indicates it consists of the unused benefits issued to clients on their EBT cards which have not been used before the closing of the year.

Treasurer-Tax Collector

	Final Budget	Year-End Estimate	2020-21 Actual
Expenditures	$7,042,722	$5,998,532	$5,699,263
Revenues	7,123,535	6,058,206	5,915,104
GFC (Exp. - Rev.)	-80,813	-59,674	-215,841
GFC Final Budget versus Actual:		Surplus	135,028

- Actual year-end expenditures total $5.7 million, underspending appropriations by approximately $1.3 million. The savings result from a combination of vacancies and conservative spending in various services and supplies.
- Year-end revenue of $5.9 million was $1.2 million below budget due to lower level of reimbursable expenditures for the administration of the Comprehensive Collections Program (CCP).
- The department recognized a positive GFC balance of $135,028 due to the reduced expenditures.

OTHER MAJOR FUNDS

Road Fund (002)

	Final Budget	Year-End Estimate	2020-21 Actual
Beginning Fund Balance	$24,679,274	$24,679,273	$24,679,273
Revenue	62,529,400	47,160,122	47,063,413
Total Financing Sources	87,208,674	71,839,395	71,742,686
Expenditures	69,975,741	55,258,937	48,725,435
Total Financing Uses	69,975,741	55,258,937	48,725,435
Ending Fund Balance	17,232,933	16,580,458	23,017,252

- The Road Fund is a special revenue fund established pursuant to State law to account for revenues that are legally restricted for County road and bridge construction and related projects.
- The Road Fund expenditure totaled $48.7 million which were $21.2 million below budget due to postponement of seven construction in progress projects until 2022: County Roadway Safety Striping, Monterey Bay Sanctuary Scenic Trial, Hartnell Road Bridge, Bradley Road Bridge, Las Lomas Bicycle Lane, Robinson Canyon Bridge, Nacimiento Lake Bridge. In addition, the Road Fund had $2.4 million lower personnel costs from vacancies.
- The Road Fund revenues were $47.1 million which was $15.5 million lower than budget due to State and Federal Aid revenues corresponding to construction in progress delayed projects.
- The Road fund is projected to end with an ending fund balance of $23.0 million, which represents a $5.7 million increase from the prior year and is largely attributable to the Road Fund's two new revenue streams, Measure X and SB 1.

Monterey County Free Library (Fund 003)

	Final Budget	Year-End Estimate	2020-21 Actual
Beginning Fund Balance	$3,480,485	$3,480,485	$3,480,485
Revenue	10,332,852	11,138,217	11,427,034
Total Financing Sources	13,813,337	14,618,702	14,907,519
Expenditures	10,406,648	10,366,514	9,528,605
Total Financing Uses	10,406,648	10,366,514	9,528,605
Ending Fund Balance	3,406,689	4,252,188	5,378,914

- The Monterey County Free Libraries ended the year with expenditures of $9.5 million, approximately 9.16% below budget, due primarily to salaries and benefits savings resulting from vacancies, lower Information Technology (IT) service-related charges, decrease in communication charges, as well as lower operational costs of office supplies, building maintenance costs, conference/travel costs, employee mileage, fleet service charges and utilities.
- The reduced operational costs are a result of the COVID pandemic in which library operations were impacted. Staff worked from home, resulting in less use of areas like mileage and conference/travel. The Library Bookmobiles were off the road for most of the year. Library services shifted to online services and library branches continued to be closed for in person services from the latter part of March 2020 until the end of fiscal year, June 2021. Vacancies were held until filling was operationally required and use of temporary staff hours to fill for vacations was largely not needed.
- Year-end revenue was $1.1 million above budget, due to $645,540 in unbudgeted CARES Act funding, which assisted with the staffing costs of MCFL employees diverted to Disaster Service Work and COVID mitigation activities, along with expenditures for Personal Protective Equipment (PPEs) and distance learning contracts. Additionally, property tax revenue experienced a positive trend and came in $453,296 higher than budget. Other revenue came in higher due to an increase in grant funded programs that carried over from the prior fiscal year for completion and a higher contribution than what was included in the budget, which represents the first installment contribution to purchase a new North Bookmobile, which is slated for the latter part of Fiscal Year 2021-22.
- Library services fines and fees revenue was 97.75% below the estimate due to the interruption of in person services and complete elimination of community room rentals.
- MCFL ended the year with a net gain of $1.9 million, resulting in a final fund balance of $5.4 million. Several facility projects on the horizon, along with ongoing upgrades to technology are anticipated to require some usage of fund balance in the next budget year, and MCFL is currently filling most vacant permanent positions to adequately staff full operations again.

Behavioral Health Fund (023)

	Final Budget	Year-End Estimate	2020-21 Actual
Beginning Fund Balance	$40,345,624	$40,345,624	$40,345,624
Revenue	155,747,555	142,876,857	143,891,439
Total Financing Sources	196,093,179	183,222,481	184,237,063
Expenditures	162,360,888	142,749,610	133,830,131
Total Financing Uses	162,360,888	142,749,610	133,830,131
Ending Fund Balance	33,732,291	40,472,871	50,406,932

- Behavioral Health Fund expenditures were $134.0 million, approximately $28.5 million below budget. Factors contributing to this variance include less expenditures in the following: $16.1 million in the Whole Person Care Program as not all aspects of the program were implemented, $3.4 million due to capital project delays in construction of the Sanborn Integrated Clinic, and $8.9 million due to salary & benefits costs (15.6% vacancy rate) and a decrease in contracted services.
- Behavioral Health Fund revenues were $144.0 million, which was approximately $11.9 million below budget. Factors contributing to this variance include: $14.1 million less in revenues from the Whole Person Care Program (WPC) due to lower expenses in this revenue generating program, $7.8 million higher-than budgeted Mental Health Services Act (MHSA) revenues, $2.0 million higher-than budgeted Medi-Cal Administrative claims due to prior year receipts (FY 2018-19 & FY 2019-20) and $7.4 million less in other revenue sources such as Memorandum of Understanding (MOUs) for providing services at schools and Medi-Cal Federal Financial Participation.
- The ending balance for Behavioral Health Fund increased by $16.7 million from $33.7 million to $50.3 million of which, $2.4 million is for No Place Like Home (NPLH), $8.4 million assigned for potential future Medi-Cal program settlement costs and $39.5 million is unassigned.

Emergency Communications (Fund 028)

	Final Budget	Year-End Estimate	2020-21 Actual
Beginning Fund Balance	$1,034,510	$1,034,510	$1,034,510
Revenue	12,883,165	12,855,382	13,009,810
Total Financing Sources	13,917,675	13,889,892	14,044,320
Expenditures	12,545,458	12,519,172	12,391,063
Total Financing Uses	12,545,458	12,519,172	12,391,063
Ending Fund Balance	1,372,217	1,370,720	1,653,257

- The Emergency Communications Department operates in Special Revenue Fund 028 to provide Dispatch and Call-Taking services to 18 Cities and three Fire Districts as well as the County Sheriff and Probation Departments.
- Year-end expenditures for the Department were $12,391,063 or $154,395 below budget due to inter-fund reimbursements for services provided by the Department, benefit cost savings from vacancies, and lower equipment maintenance costs.
- Year-end revenues for the Department were $13,009,810 or $126,645 over budget due to higher than anticipated Public Safety Sales Tax revenue, unbudgeted investment income and unbudgeted CARES Act reimbursements.
- The Department added $618,747 to its fund balance in Fund 028 for an ending balance of $1,653,257. This $618,747 is comprised of a budgeted reserve contribution of $337,707, $189,218 of higher than anticipated Public Safety Sales Tax collections which will be returned to the General Fund, and an additional $91,822 resulting from billing based on budget while expenditures ended lower than budget. The $91,822 will be used at the discretion of the Department's Executive Board.
- FY 2020-21 was the Emergency Communications Department's second year operating as a special revenue fund and the first year in which costs were billed quarterly, in advance, to budget. This new billing schedule resulted in the fund carrying a positive cash balance during the entire fiscal year and earning over $18,000 in interest.

Natividad Medical Center (Fund 451)

	Final Budget	Year-End Estimate	2020-21 Actual
Beginning Fund Balance	$125,829,218	$125,829,218	$125,829,218
Revenue	350,655,299	369,485,656	377,237,437
Total Financing Sources	476,484,517	495,314,874	503,066,655
Expenditures	351,495,795	344,752,637	374,216,595
Total Financing Uses	351,495,795	344,752,637	374,216,595
Change in Net Assets	-840,496	24,733,019	3,020,842
Ending Fund Balance	124,988,722	150,562,237	128,850,060

- Natividad's enterprise fund operations were favorable, with a 3.1% increase in net position. Revenue was on pace to beat the budget with increased patient volumes and a favorable payer mix for services rendered through the fiscal year.
- Actual revenues were $377.2 million, $26.6 million over budget, or 7.6 %, due to an increase in the volume of patient services, the impact of the COVID-19 pandemic and state and federal aid. Natividad reduced transfers in from capital fund 404 compared to budget due to delayed capital projects resulting from the pandemic. Natividad received funds from various federal COVID relief programs such as the CARES Act.
- Actual operating expenditures were $374.2 million, an unfavorable variance of $22.7 million or 6.5% compared to the budget. The main drivers of increased expenses were personnel costs including traveling nurses, purchased services, supplies resulting from increased patient care related to COVID, and increasing wage and benefit costs.

Nacimiento Lake & Resort Operation (Fund 452)

	Final Budget	Year-End Estimate	2020-21 Actual
Beginning Fund Balance	-$470,279	-$470,279	-$470,279
Revenue	5,702,588	5,357,340	5,542,634
Total Financing Sources	5,702,588	5,357,340	5,542,634
Expenditures	3,674,584	3,459,608	3,168,190
Total Financing Uses	3,674,584	3,459,608	3,168,190
Change in Fund Balance	2,028,004	1,897,732	2,374,443
Ending Fund Balance	1,557,725	1,427,453	1,904,164

- The Nacimiento Lake & Resort Operations Fund encompasses all the resort operations at Lake Nacimiento. A management company, Basecamp, is contracted to operate the entry gate, marina, store, service station, campgrounds and condominium units and lake view lodges. The Resort ended the year with a positive operating performance.
- Revenues totaled $5.5 million and include a $1.9 million subsidy from the General Fund. The $1.9 million subsidy consisted of $470,875 for the fund's FY 2019-20 deficit, $963,633 to replenish purpose restricted funds used for operating costs, and $519,205 for the annual long-term debt payment related to the Water World Resort, Inc. settlement. Operating revenue totaled $3.6 million, $160,000 below budget.

- Expenditures were under budget by $506,394, as Basecamp scaled back operations and workforce in direct response to changes in visitorship due to reduced water levels at the lake and COVID-19.
- Overall, the revenues outpaced expenditures by $2.4 million, offsetting the beginning negative fund balance of $470,279, for an ending fund balance of $1.9 million. Of the $1.9 million, $700,000 is restricted for the Zebra/Quagga Mussel Program and $263,633 for the 2018 Trailer Fire Insurance Proceeds. The remaining fund balance of $940,531 is unrestricted.

Laguna Seca Recreation Area (Fund 453)

	Final Budget	Year-End Estimate	2020-21 Actual
Beginning Fund Balance	$1,840,970	$1,840,970	$1,840,970
Revenue	21,226,112	8,164,352	8,731,138
Total Financing Sources	23,067,082	10,005,322	10,572,108
Expenditures	23,038,220	9,143,410	9,606,405
Total Financing Uses	23,038,220	9,143,410	9,606,405
Change in Fund Balance	-1,812,108	-979,058	-875,266
Ending Fund Balance	28,862	861,912	965,703

- Laguna Seca Recreation Area (LSRA) transitioned to an Enterprise Fund in Fiscal Year 2020-21. COVID-19 severely impacted operations, causing the cancellation of spectator attended events and revenue streams relating to social gatherings. Track Rental program was in full operations generating the bulk of revenue for Fiscal Year 2020-21 as well as private events which were under contract prior to the onset of the pandemic which paid base rental fees.
- The beginning fund balance was $1.8 million. Revenues totaled $8.7 million, expenditures totaled $9.6 million, including $907,483 in depreciation expense, resulting in a fund balance decrease of $875,267 and an ending fund balance of $965,703.