



MARCH 12, 2024

24-0322 - 03-08-24 FY23-24 MID YEAR  
REPORT REVISED  
FY 23/24

LEGISTAR  
CHIEF EXECUTIVE OFFICER  
County of Mendocino

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### Exhibits

<b>BU 1000 Revenue Forecast for Fiscal Year 2023-24.....</b>	<b>Exhibit A</b>
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### Attachments

<b>FY 2023-24 Mid-Year Budget Net Zero Adjustments.....</b>	<b>Attachment A</b>
<b>FY 2023-24 Mid-Year Fixed Asset Request.....</b>	<b>Attachment B</b>
<b>HdL Mendocino County Sales Tax Update 3Q 2023 (July-September) .....</b>	<b>Attachment C</b>
<b>Capital Projects.....</b>	<b>Attachment D</b>
<b>Budget Deficit Turnaround Plan.....</b>	<b>Attachment E</b>

## INTRODUCTION

On June 20, 2023, the Mendocino County Board of Supervisors adopted the FY 2023-24 Budget. This Mid-Year Report covers the first two quarters of the budget year, from July 1, 2023, through December 31, 2023, and provides detailed information projecting how the County budget status is likely to end on June 30, 2024. The Net County Cost (NCC) for a department is identified by taking the annual expenditures of a department and subtracting the annual revenues derived by that department. Most departments operate at a loss and require infusions of discretionary general fund dollars to be able to maintain services. These infusions of revenue, referred to as NCC, are financed primarily by property tax, sales tax, cannabis tax, and transient occupancy tax revenues. The pool from which the County provides these monies is limited and is annually adopted in the County's budget as Budget Unit 1000. An update on these funds is represented in Exhibit A of this document.

California Government Code § 29009 requires the County to produce a balanced budget, and the Mid-Year Report is an important step in the process of fulfilling this legal requirement of the County's financial management. Every year, The County produces a budget that is balanced between the needs of our community and the revenue reality that is presented to us. All decisions and policies in this matter are solely the responsibility of the Board of Supervisors. The Chief Executive Officer serves as the administrative officer designated by the Board to advise and administer Board direction in fulfilling the requirements of GC § 29009.

In January 2023, Governor Newsom presented a budget proposal addressing an \$18 billion deficit through spending reductions, cost shifts, and savings of state reserves. The budget did not include significant cuts to health and human services. In May 2023, a revised budget proposal reflected a larger deficit of \$28 billion, primarily due to lower revenue estimates. In June 2023, the Legislature passed a budget package using additional funding to maintain existing programs and to address a budget problem comparable to the May Revision. In February 2024, the Legislative Analyst's Office disclosed a projected budget deficit increase to \$73 billion due to lower-than-expected revenues.

## Budget Calendar

Date	Event
March 6, 2024	3 <sup>rd</sup> Quarter Reporting Instructions Transmitted
March 7, 2024	Budget Kick-Off Meeting
March 12, 2024	Mid-Year Report and Budget Workshop
March 14, 2024	Munis Budget Training *Bring Budgets
March 25, 2024	Budget Entered In Munis
March 25, 2024	Completed Proposed Budget, Facility Modifications, Vehicle Request, & Fixed Asset Forms due to Executive Office
March 29, 2024	Narrative Template Distributed
April 1, 2024	3 <sup>rd</sup> Quarter Budget Projection Report Due Fiscal Year 2023-24
April 3-5, 2024	Budget Conferences for Fiscal Year 2024-25
April 23, 2024	Fee Hearing
May 6, 2024	Narratives Due for Fiscal Year 2024-25

May 7, 2024	3 <sup>rd</sup> Quarter Report Presentation and Budget Workshop FY 2024-25
June 4-5, 2024	Final Budget Public Hearing for Fiscal Year 2024-25

## EXECUTIVE SUMMARY

Many fiscal operational challenges have impacted FY 23-24. The year began using over \$7M in one-time funds to balance the budget. At this midyear report, the State of California and the County continue to experience flat revenues while experiencing rising costs in labor, benefits, utilities, fuel, and material expenses.

The Board of Supervisor's goal of a living wage for all employees continues to be a primary goal, along with public safety and economic development.

Upon budget adoption with the Board's Strategic plan and directive as the top priority, a group of county leaders were pulled together to brainstorm strategies that could reduce the dependency on one-time funds. As a result, the Golden Gate Bridge Initiative (GGBI) was formed in July 2023.

GGBI embodies a commitment to constant performance improvement, as seen in the perpetual painting and maintenance efforts devoted to the Golden Gate Bridge. Through that initiative, several areas were explored to gain efficiencies to provide better customer service and optimize revenues to their highest and best use.

Working with the County Leaders and with feedback from the Board of Supervisors, a budget deficit plan was created. This plan contained three primary focus areas:

- Revenue management
- Expense management
- Leadership accountability

Attached is the updated full plan. Through improved revenue management, this plan is projecting to reduce the reliance on 1-time funds by \$7.4M to date. While these measures have resulted in a positive impact, there are a few projected areas of negative impact: Public Safety cost increase of \$1.6M and Cannabis cost increase of \$600,000. There are several departments projecting savings for a positive impact of \$400,000, leaving the budget relying on \$1.7M of the original \$7M of one-time funds.

The plan also projects savings through expense management, to be realized at end of the fiscal year of over \$750,000, from the telcom audit, nuisance abatement funds, streamlining Enterprise software licensing, and rental of WISC building B, to list a few.

The Executive Office continues to be grateful for those who have joined the efforts to make the county financially stable. Leadership accountability has begun with setting expectations of performance metrics and the creation of a new performance evaluation tool for department heads. Also, Human Resources has begun a series of Leadership classes for the County Managers. These efforts began early 2024.

#### Revenue Management

- (\$2.3M) – Cost Plan increased revenue due to charging the Social Services department its full share and beginning to charge Public Health
  - (\$0.5M) – Net of other ND revenue changes – increases and decreases in multiple line items
  - (\$2.6M) – Use of Realignment funding
  - (\$2.0M) – Teeter Plan
  - (\$7.4M) – Budget Deficit Plan Realization Expense Overrun
  - \$1.6M – Public Safety increase in costs
  - \$0.6M – Cannabis increases in costs
  - (\$0.4M) – Cost savings from all other departments
  - \$1.8M – Overall Increase in Costs (Projected vs Original Budget)
  - \$7.3M – One-time funds utilized to balance FY23/24 Budget
  - (\$5.6M) – Net of Budget Deficit Plan Realizations
- (\$1.7M) – One-time funding still being utilized to balance budget

This collaborative effort is projecting success for its intended purpose and highlights the need for the work to continue in order to have a high functioning customer focused, and financially sustainable County Government into the future.

Keeping focused on revenue management is needed to improve property tax assessments and collections. This will require the collaboration of two elected offices, Information Technology, and the Executive Office.

With an eye on expense management the County will ensure the highest and best use of available funds.

Leadership accountability will lead to engaged employees that understand cross departmental collaboration, efficiency, process improvement, and transparency. Incorporating these principles into the organization's culture and practices can lead to a more productive, collaborative, and agile environment: ultimately driving success and achieving business objectives.

## CEO Recommended Actions

1. Accept the FY 2023-24 Mid-Year Budget Report as presented
2. Accept Exhibit A revenue adjustments
3. Approve FY 2023-24 Mid-Year Budget Net Zero Adjustments (Attachment A)
4. Approve FY 2023-24 Mid-Year Fixed Asset Request for those projects which have been funded as presented in Attachment B
5. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4010 PH (Public Health) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
6. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4013 PN (Public Nursing) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
7. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4070 CM (Hospital & Medical Services) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
8. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4073 TH (Transitional Housing) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is rent, grants, State, and Federal funds
9. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4080 CH (CCS & CHDP) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
10. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 5010 SS (Social Services) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
11. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 5130 CW (Cal-Works) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds

## Strategic Plan 2022-2027

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The strategic plan consists of 17 goals under these 4 priority areas:

- An Effective County Government Organization
- A Safe and Healthy County
- A Thriving Economy
- A Prepared and Resilient County



These priorities and goals are supported by specific, actionable objectives for County staff to implement. The priority of an Effective County Government is critical to the implementation of the other three priorities. A strong internal organization, with a healthy culture, participative leadership, clear communication channels, and departments fully staffed with qualified individuals will make it possible for the County to achieve results in the additional three priority areas.

### Priorities, Goals & Objectives

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#### An Effective County Government Organization

- Define clear roles, responsibilities, and processes for government leadership
- Create a thriving organizational culture
- Implement new approaches to demonstrate our commitment to Diversity, Equity, and Inclusion (DEI)
- Improve operational efficiency by streamlining processes and implementing technology-based solutions
- Increase transparency in government operations to build trust with employees, communities, and partners
- Assure financial sustainability of the County

#### A Safe and Healthy County



- Provide a person-centered approach to help under-resourced individuals and families thrive
- Deliver culturally relevant public health services that focus on prevention and are guided by social determinants of health
- Increase access to behavioral health services
- Help people feel safe in their communities
- Implement practices that support a sustainable environment and responsible stewardship of natural resources

#### A Thriving Economy

- Support a vibrant economy
- Support increased housing stock at a range of affordability levels
- Ensure that affordable and reliable broadband communications is available to all County residents

#### A Prepared and Resilient County

- Increase disaster/emergency preparedness and resiliency
- Ensure access to rural fire protection and emergency medical services
- Improve and maintain transportation and road systems/access routes

In prior budget cycles, the Board of Supervisors identified budget goals and priorities as focus areas in the development and implementation of the County budget. The County's adoption of a Strategic Plan in May of 2022 has led to a change in the approach to how priorities are defined. The guidelines, goals, and priorities used in prior reports can be found at this link: [Fiscal Year 2023-24 Budget Goals and Priorities](#)

## COUNTY FINANCIAL OUTLOOK

Mendocino County's economic performance continues to be challenged in the areas of a limited workforce, limited connectivity, housing availability, a decrease in the cannabis market, inflation, natural disasters, unfunded State and Federal mandates, major enterprise software updates, and deferred maintenance. Local indications show a decrease in consumer spending and sales tax for Mendocino County. The remaining months of FY 2023-24, as well as future years, the County needs to be conscious of fiscal sustainability.

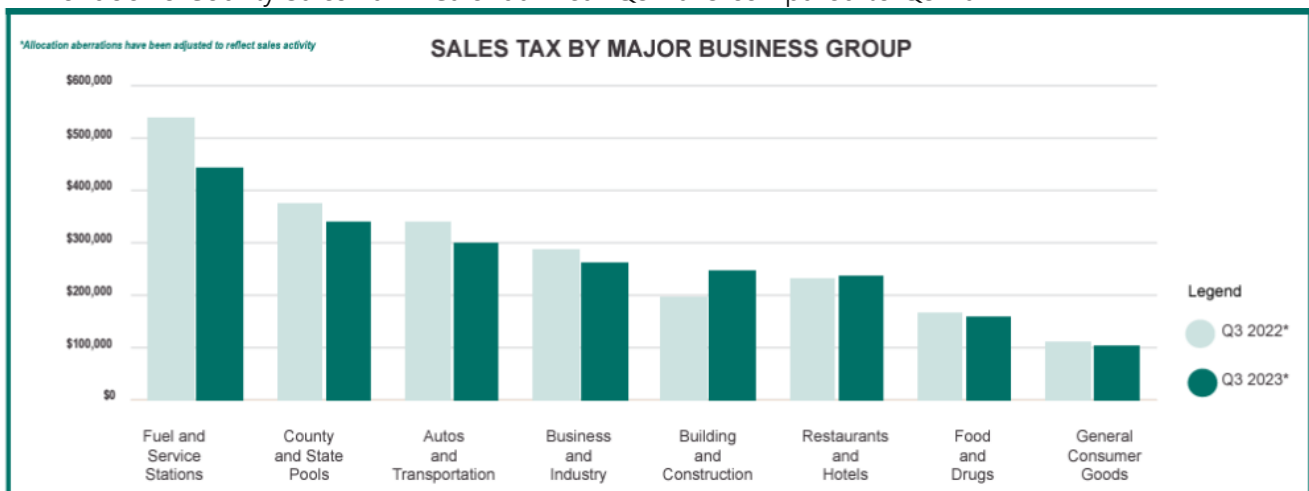
The following statistics are from the County's most recent sales tax report, provided by HDL Companies (Attachment C), for Jul-Sept 2023, compared to the same timeframe last year (Jul-Sept 2022)<sup>1</sup>.

- Mendocino County's overall sales were **down 6.9%**, excluding all reporting aberrations
- Fuel and service stations **decreased 7%**, mostly due to the rising prices at the pumps
- Garden and Agricultural supplies **decreased 3.8%**

The increases below are high in comparison to the previous year, which was highly deflated.

- Grocery Store **increased 0.4%**
- Casual dining restaurants **increased 0.8%**
- Contractors **increased 24.6%**
- Hotels and Motels **increased 1.6%**
- Building Materials **increased 2.2%**
- Wineries **increased 2.0%**
- Quick-Service Restaurants **increased 4.4%**

### Mendocino County Sales Tax – Calendar Year Q3 2023 compared to Q3 2022

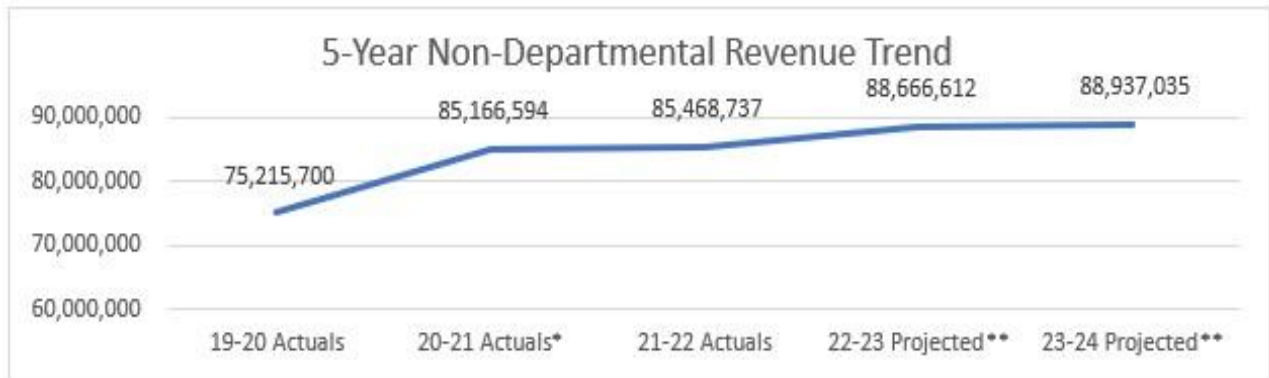


<sup>1</sup> HDL Companies

## Non-Departmental Revenues – BU 1000

A detailed revenue breakdown for BU 1000 revenue forecasts is provided in *Exhibit A*. Outlined below are the top factors relating to the projected change.

- Sales Tax – projected to decrease by \$478K
- Interest Income – projected to increase by \$240K



\*\$22,652,909 of PG&E settlement has been intentionally removed to reflect the trend in revenues

\*\*Measure P revenues are not included on this trend, and are fully appropriated to outside agencies (\$1,240,888-Fiscal Year 2022-23 & \$4,000,000-Fiscal Year 2023-24)

## FY 2023-24 UPDATES

### Recruitment Summary

Between July 1, 2023, and December 31, 2023, Human Resources received 362 staffing requisitions, conducted 255 recruitments, received and screened 2,279 applications, conducted 180 examinations, and prepared 346 certifications. During this time, the County hired 104 new employees (80 regular, 24 extra-help) and had 117 (91 regular, 26 extra-help) employment terminations.

As of December 31, 2023, there were 385 vacant positions (239 funded, 146 unfunded/frozen), with active recruitments to fill 112 positions. Based on positions being actively recruited, the countywide recruitment rate is 46.8%, while the overall vacancy rate on funded positions is 17.7%. The majority of positions in the recruitment process are in Social Services (39), Sheriff (17), and Probation (10).

### Health & Wellness

591 County employees participated in on-site health screenings, and 549 completed a Health Risk Assessment in 2023. A total of 459 employees completed the program requirements for the wellness incentive program, which qualifies them for discounts in 2024 on their healthcare premiums. A total of 67 employees participated in health coaching sessions, and 754 employees engaged with the VirginPulse wellness portal.

## County-Wide Training Program

There were 539 training seats filled by County employees across 92 trainings between July 1, 2023, and December 31, 2023. A breakdown of participation between learning categories is listed below:

Professional Skills Development: 158 County Employees - 420 Training Seats

Courses included Reducing Anxiety in the Moment and Beyond, Coping with Grief and Loss, Public Meeting Law and the Public Records Act, Using Emotional Intelligence for Workplace Success, Public Service Customer Service, Quick Stress Busters and Hacks, Maximizing Supervisory Skills for the First Line Supervisor, Making the Transition from Individual Contributor to Leader, and many more.

On-Demand Learning: 38 County Employees – 119 Training Seats

Professional/Technical Skills Development and Leadership courses included the following:

Technical Skills courses: Adobe Acrobat DC Essentials, Office 365 Planner Essentials, Office 365 Groups Essentials, Excel: Creating Dashboards, Mastering Excel 2019-Basics, Mastering Word 2019-Basics, and more...

Professional Skills courses: Interviewing and Hiring, Business Communication Fundamentals, Making Humor Work at Work, The Art of Negotiation, Smart Time Management, Resolving Conflicts, Better Business Writing, Workplace Stress, Organizing Your Files, The 3 Phases of Change, Appraising Performance, Meetings that Get Results, and more...

Leadership courses: Leadership Challenges, Changes in Corporate Culture, Keeping Employees Energized, Enable Others to Act, Inspire a Shared Vision, Challenge the Process, Setting Effective Targets for Success, Transition to Leadership, and many more...

## Labor Chart

Bargaining Unit	Contract Status	Contract Start Date	Contract End Date
Confidential	In negotiations	7/1/2022	6/30/2023
Department Head	In negotiations	9/1/2022	8/31/2023
DSA	Current	7/1/2023	6/30/2026
Management	In negotiations	10/1/2022	9/30/2023
MCLEMA	Current	7/1/2023	6/30/2026
MCPAA	In negotiations	7/19/2022	6/30/2023
MCPEA	Current	7/1/2023	6/30/2026
SEIU	Current	7/1/2023	6/30/2026
SEIU 2015	In negotiations	12/10/19	12/31/22
Unrepresented**			

\*\* Tied to Department Head Bargaining Group

Acronym Definitions:

DSA – Deputy Sheriff’s Association

MCLEMA – Mendocino County Law Enforcement Association

MCPAA - Mendocino County Public Attorneys Association

MCPEA - Mendocino County Probation Employees Association

SEIU 1021 – Service Employees’ International Union, Local 1021

## Capital Improvement Projects

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The list of projects below are some priority projects for Facilities. A more comprehensive list of active projects can be found on Attachment E, with this report.

- Fort Bragg Justice Center HVAC Replacement
- Ag Roof Replacement
- SB 844 Mental Health Jail Wing Project
- Measure B Psychiatric Health Facility
- 911 Communications Equipment Building
- Bower Park Hazard Mitigation & Improvements
- Electric Vehicle Charging Stations
- Mill Creek Park Restroom Replacement
- HMGP Generators at Critical Facilities
- Willits Library Roof Replacement

## Mid-Year (2<sup>nd</sup> Quarter) Review by Budget Unit

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This summary provides information on budget unit projections for the end-of-year (EOY) FY 2023-24 and only includes those budget units that are projected to come in greater than \$100K over their Net County Cost (NCC) assignment.

### BU 2810 - Cannabis

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To meet State deadlines, the Cannabis Department shifted the grant-funded, one-time workload associated with the review of provisional applications to an outside contractor. This approach allowed MCD to reduce staffing levels to a more sustainable level, better aligned with the demands of ongoing programmatic workload. Despite the Cannabis Department's reduction in staff from the previous year and increases in fees, the reallocation of one-time grant revenues toward contractors completing the work has created a projected revenue shortfall of \$612,298 for the current year.

### BU 1620 – Fleet Management

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The Fleet Management budget unit anticipates being over budget by \$259,337 due to the Garage changing the billing model that adjusts administrative overhead. This may improve as the model is better understood by the end of Fiscal Year 2023-24

### BU 2310 – Sheriff's Office

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The Sheriff's Office budget unit anticipates being over budget by \$667,785 due to an increase of 13% in Extra-Help and due to an error in reporting County Contributions to Retirement. The Sheriff's Office initially received a low projection due to not receiving numbers from Retirement until after the Sheriff's Office budget projections were submitted.

The Jail budget unit anticipates being over budget by 6.8%, or \$954,994. The reason for this is that the department's salary projections are lower than they have been for the last two fiscal years, although salaries and salary-related costs have not decreased. The amount that the department is over budget could increase to 20% by the end of the fiscal year due to recent bargaining unit changes that could increase the amount spent on salaries and salary-related costs.

### STATE BUDGET

Governor Newsom presented his proposed state budget to the Legislature on January 10, 2023, which addressed an \$18 billion budget. The Governor's budget solutions focused mainly on spending, with \$13.6 billion in spending reductions, spending delays, and spending reductions subject to trigger restoration. In addition, the Governor also proposed \$4.3 billion in cost shifts and \$350 million in revenue-related solutions. The Governor chose to save the state's reserves in response to continued economic uncertainty and in case they are needed for future deficits. In general, the Governor's budget did not propose large reductions to health and human services programs. Rather, the Governor's proposed spending-related solutions were concentrated in areas that received large one-time and temporary augmentations.

On May 12, 2023, Governor Newsom presented a revised state budget proposal to the Legislature, referred to as the May Revision. Relative to the January projections in the Governor's budget, the Legislative Analyst's Office (LAO) estimated at the time that the budget problem grew by about \$10 billion to \$28 billion due largely to lower revenue estimates, which continued to decline relative to Governor's budget expectations. The Governor proposed addressing much of the additional budget problem with more cost shifts and revenue increases. Major cost shift proposals in the May Revision included, for example, \$2 billion in loans from special funds (and other state funds) to the General Fund and a shift of \$1.1 billion in costs for zero-emission vehicles from the General Fund to the GGRF. The Governor's May Revision proposed using \$450 million from the \$900 million balance of the Safety Net Reserve. However, the administration did not propose using any funds from the BSA or the School Reserve, nor did the Governor call a fiscal emergency.

The Legislature passed an initial budget package on June 15, 2023. The Legislature's budget package adopted LAO estimates of local property tax revenues, which resulted in an increase to the Proposition 98 guarantee by \$2.1 billion across 2022-23 and 2023-24. The legislative package used this additional funding primarily to help maintain previously approved programs. The Legislature adopted the administration's revenue projections, which means it also addressed a budget problem similar to the May Revision. The Legislature passed an amended budget act and associated trailer bills on June 27, 2023, and June 29, 2023.

The Legislative Analyst's Office revealed on February 20, 2024, that the projected budget deficit for the State of California is estimated to surge by \$15 billion dollars, thereby raising the new projected

shortfall amount to \$73 billion dollars. This development comes primarily from an erosion of the expected revenues, which has led to an estimated increase of about \$24 billion in the shortfall.

### **Key Issues for California Counties**

California's budget downfall has created several key concerns that warrant close attention from County governments. Some of the key issues include:

- Modest Increase in School and Community College Funding
- Reductions to Multiyear Climate Change Budget Packages
- \$401 million in one-time funding in 2023-24 for flood management and response activities
- Support for Local Transit Agencies
- Legislation Intended to Expedite Infrastructure Projects
- Sets Aside Funds to Support Collectively Bargained Early Education Agreement
- Reduced Corrections Spending Due to Deactivation of Several Correctional Facilities
- Significant, Prior-Year Funding Augmentations Generally Maintained for Housing and Homelessness
- Increased Oversight and Accountability for Housing and Homelessness Programs

## Revenue Estimates

The revenue forecast in the Governor's Budget proposal is anticipated to exceed \$276 billion in total (\$210.2 billion General Fund and about \$66 billion Special Fund). In comparison, the 2022-23 enacted budget totaled \$307.9 billion (about \$234.4 billion General Fund and \$69.1 billion special fund) – a decrease of about 11 percent year-over-year. The Governor's Budget revenue assumes continued but slow economic growth without an economic recession. As the Governor's Budget proposal cautions that even a moderate recession could result in significant revenue declines below the Budget forecast.

## Emergency Response and Preparedness

### Wildfire and Forest Resilience

The Governor's Budget proposes \$2.7 billion in funding to advance critical investments in forest health and fire prevention to continue to reduce the risk of catastrophic wildfires, as well as resources for fire protection in the state's wildfire response. This is a 3 percent reduction from last year's budget, partly due to actual and anticipated reimbursements from the federal government for costs associated with the state's response to recent wildfires and the pandemic. Budget reductions include:

- Climate Catalyst Fund—A reduction of \$10 million General Fund in 2020-21 and \$31 million in 2021-22, representing an 84 percent reduction. \$8 million remains to support the Climate Catalyst Fund.
- Stewardship of State-Owned Lands—A reduction of \$10 million General Fund in 2022-23 and \$15 million in 2023-24, representing an 8 percent reduction. Approximately \$280 million remains for resilient forests and landscapes on state-owned lands.
- Defensible Space Inspections—A reduction of \$5 million General Fund in 2023-24, representing a 20 percent reduction. This maintains approximately \$20 million to support defensible space inspections.
- Monitoring and Research—A reduction of \$5 million General Fund in 2023-24, representing a 13 percent reduction. This maintains approximately \$33 million to support monitoring and research.
- Workforce Training—A reduction of \$15 million General Fund in 2023-24, representing a 2 percent reduction, partially offset by dedicating \$14 million of Proposition 98 funding for similar purposes. This maintains approximately \$53 million to support workforce training. The increase of \$14 million one-time Proposition 98 General Fund supports the Administration of workforce training grants in collaboration with the California Department of Forestry and Fire Protection.

## Drought and Flood

In response to the winter storms California has been facing, the proposed Budget does include new investments to support the state's drought response, accelerate the implementation of the state's water supply strategy, and increase flood preparedness. New investments include:



- Urban Flood Risk Reduction—\$135.5 million General Fund over two years to support local agencies working to reduce urban flood risk.
- Delta Levees—\$40.6 million General Fund for ongoing Delta projects that reduce the risk of levee failure and flooding, provide habitat benefits, and reduce the risk of saltwater intrusion contaminating water supplies.
- Central Valley Flood Protection—\$25 million General Fund to support projects that will reduce the risk of flooding for Central Valley communities while contributing to ecosystem restoration and agricultural sustainability.
- 2023 Drought Contingency—\$125 million General Fund one-time as a drought contingency set-aside to be allocated as part of the spring budget process, when additional water data will be available to inform future drought needs.
- Planning and Permitting for New Water Supplies—\$4.7 million Waste Discharge Permit Fund in 2023-24, and \$5.7 million Waste Discharge Permit Fund and \$408,000 Safe Drinking Water Account ongoing to support planning and permitting for projects that produce new water supplies.
- San Joaquin River Basin Groundwater Recharge: Water Availability Analysis and Technical Assistance—\$4.9 million General Fund over five years to continue to provide local water districts methodologies and tools to conduct water availability analyses, which will help facilitate groundwater recharge, one of the core pillars of the Water Supply Strategy.
- Stream Gages—\$4.7 million General Fund over two years to begin reactivation of historical stream gages, consistent with the SB 19 Stream Gaging Prioritization Plan and as called for in the Water Supply Strategy.

## Climate Health

The 2022 Budget allocated \$346 million General Fund over multiple years for investments to address the health impacts of climate change. The Governor's Budget proposal maintains \$321 million (93 percent) of these investments in recognition of the continuing statewide goal of mitigating the health impacts of climate change. If there is sufficient General Fund in January 2024, the reduction noted below will be restored.

- Community Health Workers Program—Delays \$130 million General Fund in 2023-24 for the California 25x25 Initiative (Community Health Worker Initiative Grants in Health Care Access and Information). This program remains fully funded, but the funds would be provided later than initially anticipated, including \$65 million in both 2024-25 and 2025-26.
- Climate and Health Resilience Planning—A reduction of \$25 million General Fund in 2022-23 for Climate and Health Resilience Planning Grants, which eliminates funding for this purpose.

## Health and Human Services

The Governor's Budget proposal includes about \$230 billion (\$71.5 billion General Fund – nearly 32 percent of the state's overall General Fund budget expenditures) for all health and human services programs in 2023-24. Significant investments have been made in health and human services

programs in the last few years, with a focus on the state's most vulnerable communities, to expand access to care and benefits, advance healthcare affordability and the master plan for aging, and strengthen the behavioral health continuum, health and human services workforce, and public health infrastructure. The Governor's Budget proposal maintains most of the critical investments made in recent years with a proposed reduction and delay in one-time investments in workforce development and climate health.

#### California's Behavioral Health Community-Based Continuum Demonstration

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The Governor's Budget proposal includes \$6.1 billion (\$314 million General Fund, \$175 million Mental Health Services Fund, \$2.1 billion Medi-Cal County Behavioral Health Fund, and \$3.5 billion federal funds) over five years for the Department of Health Care Services and the Department of Social Services to implement the Behavioral Health Community-Based Continuum Demonstration, effective January 1, 2024. The Demonstration includes statewide and county opt-in components to expand behavioral health services and strengthen the continuum of mental health services for Medi-Cal beneficiaries living with serious mental illness and serious emotional disturbance, including federal financial participation for short-term stays in Institutions for Mental Diseases (IMD), with a focus on children and youth, individuals experiencing or at risk of homelessness, and justice-involved individuals.

The Demonstration will additionally allow counties to cover certain community-based services, such as supportive employment and rent and temporary housing for up to six months for certain high-need beneficiaries. The Governor's Budget proposal includes \$17.9 million (\$6.3 million General Fund) in 2025-26, increasing to \$116.6 million (\$40.8 million General Fund) at full implementation for this purpose.

#### Behavioral Health Payment Reform Funding

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While not specifically called out in the budget summary documents, the Administration has indicated the Governor's Budget proposal includes \$375 million General Fund one-time for behavioral health payment reform activities in 2023-24 to fund the counties' non-federal share of costs of this transition. Additionally, there will be proposed budget trailer bill language associated with this initiative.

#### Behavioral Health Continuum Infrastructure Program (BHCIP) Funding

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The Governor's Budget proposal delays the last round of behavioral health continuum capacity funding of \$480.7 million General Fund appropriated in the 2022 Budget Act for 2022-23 to \$240.4 million in 2024-25 and \$240.3 million in 2025-26. A total of \$1.2 billion has been awarded to date, and the Governor's Budget proposal maintains a \$480 million General Fund for crisis and behavioral health continuum grant funding to be awarded in 2023-24.

### CONCLUSION

In January of 2023, Governor Newsom proposed a state budget that aimed to tackle an \$18 billion deficit primarily through spending cuts and cost shifts. However, by May of the same year, a revised

budget proposal was presented as the deficit had grown to \$28 billion due to lower revenue estimates.

In June 2023, the Legislature passed a budget package that adopted the administration's revenue projections and used additional funding mainly to maintain previously approved programs. Unfortunately, in February 2024, the Legislative Analyst's Office estimated that the projected budget deficit had increased to \$73 billion, primarily due to lower-than-expected revenues.

The State's recent report has brought attention to a substantial revenue shortfall that could impact County departments dependent on State funding. To address this issue, the County has developed a Budget Deficit Turnaround Plan, including strategies to enhance revenue, manage expenses, and ensure leadership accountability.

One measure involves reviewing and improving property tax assessment methods. The County also continues to recover overdue property taxes, streamline property tax administration, and perform comprehensive tax audits.

Collaboration with General Fund departments, improving collections of unpaid permits and licenses, optimizing funding allocation for agricultural projects, and evaluating Realignment funds are other measures being taken to reduce dependence on the general fund.

The County aims to utilize the Retirement Reserve and contingency funds and explore consolidating operations to address immediate financial needs. The plan involves relocating certain departments, establishing management accountability metrics, fostering continuous learning, and improving communication channels. The comprehensive plan is crucial for the County's financial health and longevity.

## CEO Recommended Actions

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1. Accept the FY 2023-24 Mid-Year Budget Report as presented
2. Accept Exhibit A revenue adjustments
3. Approve FY 2023-24 Mid-Year Budget Net Zero Adjustments (Attachment A)
4. Approve FY 2023-24 Mid-Year Fixed Asset Request for those projects which have been funded as presented in Attachment B
5. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4010 PH (Public Health) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
6. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4013 PN (Public Nursing) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
7. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4070 CM (Hospital & Medical Services) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
8. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4073 TH (Transitional Housing) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is rent, grants, State, and Federal funds
9. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 4080 CH (CCS & CHDP) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
10. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 5010 SS (Social Services) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds
11. Create a new Fund under the Special Revenue fund range for the transfer of funding from General Fund 1100, Budget Unit 5130 CW (Cal-Works) to align funding and Organization Code with Special Revenue accounts, and to keep funding from being swept into the General Fund balance at the end of year, to be effective July 1, 2024-Source of funding is Realignment, State, and Federal funds