

FY 2021-22 2nd Quarter Report

**Chief Executive Officer: Carmel J. Angelo
Assistant Chief Executive Officer: Darcie Antle
and Fiscal Team**

March 15, 2022



Courtesy of Sarah Dukeff

Introduction

Long-term fiscal stability remains a priority for the County. The General Fund and other major funds require continual attention to maintain a stable, healthy fund balance. The cost of salaries, benefits and pensions, staffing shortages, public safety, COVID-19 pandemic, PSPS and natural disasters all impact the ability of the County to provide core services.

The Auditor/Controller is projecting Fiscal Year (FY) 2021-22, will have an operational revenue **decrease** of **\$1.245M**. In addition to the projected decrease in operational revenue, the County is faced with an obligation of \$3M for the jail expansion project, an unreported loss in the Health Plan Fund of \$2.57M in FY 2020-21, as well as facing a \$4.8M deficit in the Health Plan Fund for FY 2021-22. Taking into account the Board of Supervisor's previously obligated projects, the decrease in operational revenue, the jail expansion, and the Health Plan Fund deficits, the County is facing a potential deficit of \$12.115M, \$9.115M is general fund, prior to considering any departmental funding requests.

As a result the County must continue to follow the Board's goal and priorities of one-time revenue will not be used for on-going expenses, debt mitigation and elimination, and comprehensive analysis/reviews of General Fund budget units. Additionally the County must remain cautious in its approach to spending, look for innovative methods in providing core services, and options to increase revenue now and into the future.

Presentation Outline

- FY 2021-22 Budget Consideration
- Board Goals and Priorities
- Non-Departmental Revenues – Budget Unit 1000
- Human Resources
- County Financial Outlook
- State and Federal Budget Update
- Jail Expansion Project
- Information Technology (IT)
- County-Wide Health Plan
- Prevention, Recovery, Resiliency, and Mitigation Update (PRRM)
- FY 2021-22 Mid Year Departmental Review
- FY2021-22 Funding Requests (Attachment B)
- FY2021-22 Funding Options
- CEO Recommendations
- Future Budget Schedule

FY 2021-22 Budget Considerations

- Projected Revenue **Decrease** of **\$1.245M**
- Funding for Jail expansion project - \$3M
 - General Fund reserve impact approved February 08, 2022 as part Agenda Item 4a, to be replaced with bond financing when complete
- Health Plan Trust deficit - \$7.37M
 - General Fund impact - \$4.8M
 - Potential consideration of American Rescue Plan Act (ARPA) Funding - \$2.57M
- County Financial Outlook
- Board of Supervisors Obligated Expenses
- Staffing and Recruitment – Labor Negotiations
- Considerations to reduce expenses for remainder of FY 2021-22
- Prioritize County operational costs before funding outside agencies in order to protect County mandated services

Board Goals and Priorities

Fiscal Stability

- Debt mitigation and elimination
- New Jail additional costs unknown
- Overall facilities improvements – Roofs and HVAC
- ADA transition plan

Financial Sustainability

- Maintain the reserve policy
- One-time revenue will not be used for on-going expenses
- Comprehensive analysis/review of all General Fund budget units
- Cannabis Program sustainability

Organizational Development

- Investing in the organization's future through the Leadership Initiative, succession planning, and recruitment/retention practices
- Identify and measure departmental performance metrics
- Operational efficiencies
- Employee salaries
- Criminal Justice staffing for new mandated transparency reporting
- (SO, DA, PD, PR, JH, JA)
- Facility preventative maintenance
- Strategic Planning

Board Goals and Priorities (cont.)

Investment in Roads

Economic/Business Development

- Support new housing development
- Broadband
- Grant writer program
- Use of solar
- Small business support
- MOVE 2030

Support for Emergency Services

- Staffing support for Local Emergency Medical Services (LEMSA)
- Explore Emergency Medical Services (EMS) Joint Powers Authority (JPA)

Disaster Recovery and Resiliency

- Emergency preparedness
- Emergency access routes
- Continued pandemic support
- Hazard mitigation

Local Homeless Issues

- Project HomeKey

Support Community Partners

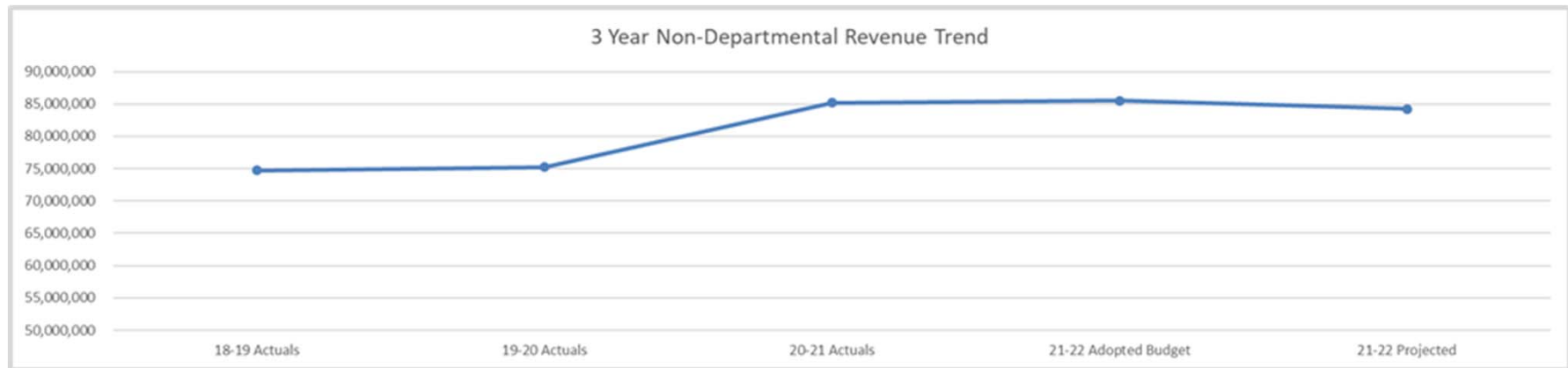
- Development of Water Agency
- Fire districts
- Fire safe awareness / forest management
- Potter Valley Water Project
- Climate Action Committee
- County Service Area 3
- Other special districts/agencies

Non-Departmental Revenues

Budget Unit 1 000

Projected revenue **decrease** of \$1.245M

- Cannabis Tax – projected to **decrease** by \$3.5M
- Other Revenue Sources – projected to **decrease** by \$450K
- Sales Tax – projected to increase by \$705K
- Transient Occupancy Tax – projected to increase by \$2M



Human Resources

Recruitment Summary Jul 1 – Dec 31

- 432 staffing request
- 1271 recruitments
- 2,325 applications screened and received
- 20 examinations
- 349 certifications
- 150 new employees
- 170 employment terminations
- 387 vacant positions
- 280 active recruitments

County-Wide Training Program

- 579 training seats filled for
- Management & Supervisor Academy
- Professional skills development
- On-demand learning
- CSAC Institute

Labor Negotiations will begin in March of 2022

Human Resources (cont.)

Wellness Program

- 626 completed biometric health screenings
- 583 completed health risk assessment
- 454 employees completed program requirements for wellness incentive program

COVID-19 Pandemic Impacts Jul 1 – Dec 31

- 16 extra help employees hired
- 2 regular employees hired
- 74 employees tested positive
- 67 employees identified as workplace close contacts
- 156 employees requested supplemental paid sick leave

County Financial Outlook

Challenges

- Limited workforce pool of applicants
- Limited connectivity
- Housing availability
- Surges in COVID-19 cases
- Decrease in cannabis market and taxes
- Inflation increases – estimated to be \$300K for additional fuel expenses
- Drought and natural disasters
- Unfunded State and Federal mandates
- Major enterprise software updates
- Deferred maintenance

Sales Tax Statistics

Calendar Year Q3 21 vs Calendar Year Q3 20

- Overall sales tax up 2.2%
- Fuel and service stations increased 29%
- Business industry increased by 8%
- Auto/transportation industry decreased
- Casual dining increased by 52%
- Quick service restaurants increased by 13%
- Cannabis merchants decreased by 32%

State and Federal Budget Update

State - Particular interest to Counties, the Governor is proposing the following investments:

- Additional emergency COVID-19 response - \$1.3B
- Homeless behavioral health bridge housing and encampment cleanup - \$2B
- Ongoing local public health infrastructure - \$200M
- Wildfire and forest resilience over two years - \$1.2B
- Wildfire engines, helicopters and additional fire crews for surge capacity - \$247M
- Drought - \$750M
- Affordable housing - \$2B
- Ongoing for a variety of felony IST solutions - \$571M

Federal

- As of mid-year, the Federal budget has yet to be released, and a 3rd Continuing Resolution (CR) was passed on 2/17 through March 11, 2022

Jail Expansion Project

The Fiscal Team is working with the Auditor/Controller and outside consultant KNN to refinance the current bonds and secure new money to cover the additional \$3M needed this fiscal year, before the jail project goes out to BID in June 2022. However, there are concerns the completion of the new financing may be jeopardized, as the FY2020/21 annual audit, completed by an independent firm, will not be completed in time for this funding opportunity. The completion of the FY 2020-21 audit is dependent upon the audit firm's audit schedule and the County's ability to provide requested documentation to the external auditors.

As of September 28, 2021 per item 5c. New Jail Facility Update, there is an estimated funding shortfall of \$4M. Directive to staff to find \$4M in funding.

Funding Request History:

- FY 2016/17 – Resolution 17-019 Authorized Local Cash Match (SB 44 Application) \$1.047M
- FY 2017/18 – Local match increase - \$1M
- FY 2019/20 – Local match increase - \$500K
- FY 2020/21 – Local match increase - \$250K
- FY 2021/22 – Local match increase - \$1M
- **Total Local Match as of Sept 2021 - \$2.797M**
- Sept 2021 – directive for staff to find \$4M in funding
- FY Q1 2021/22 – Local match increase - \$1M
- **Estimated Funding Shortfall - \$3M**

Information Technology (IT)

Below are three of the largest projects staff is currently working on

- Electronic Mail Conversion to Microsoft Office 365-\$2.58M
- Aumentum Property System-\$2.8M
- Munis Finance System-\$242k
- Justware Replacement-\$1.45M

County-Wide Health Plan

- November 17, 2020, Q1 Update Item 5c, Attachment C proposed \$1,140,734 be funded for the Health Plan
- September 28, 2021 Item 5d directive for staff to increase employer/employee contributions by 12% for calendar year 2022, and keep remaining Incurred but not Reported (IBNR) claim formula the same.
- As presented on September 28, 2021 with a 12% increase and use of current IBNR formula per Board directive, projected balance in Health Plan Trust should be \$2.6M
- Unreported Health Plan Fund loss for FY 2020-21 was \$2.57M
 - Potential consideration of American Rescue Plan Act (ARPA) Funding
- As of January 31, 2022 the health plan is running in a **deficit** of **\$4.8M**
 - General Fund impact
 - Covid-19 Impacts
 - Health Care Cost Inflation
- **2021/2022 Fiscal Year (7/1/21 – 12/31/21):**
 - Budget: \$6,454,281; Paid claims: \$9,198,428
 - Paid claims loss ratio: 143%

Prevention, Recovery, Resiliency, and Mitigation Update (PRRM)

American Rescue Plan Act (ARPA)

- Mendocino County Allotment \$16,849,976
- 50% was awarded on August 6, 2021
- The remaining 50% will be awarded 12 months after the first allocation
- Final rule was released on January 6, 2022
- As of December 2021, \$4.7M has been obligated to projects relating to supporting the public health emergency, the negative economic impacts from the pandemic, and investments in water and sewer infrastructure
- Funding to be designated for County core services, infrastructure projects, and emergency funding, before other considerations and is to be appropriated using the final rule guidelines

Drought

- Local emergency declared on April 20, 2021
- State of emergency declared on May 10, 2021
- Began hauling water in September and close to 1.3M gallons of water hauled
- Grant funding through Department of Water Resources (DWR) was awarded on September 21, 2021 allowing water to be hauled for residential use
- CDAA was enacted on October 19, 2021
- Discussions regarding long-term planning and projects are being held internally and with State and community partners

Prevention, Recovery, Resiliency, and Mitigation Update (PRRM)

Pacific Gas & Electric (PG&E) Disaster Settlement

- Board of Supervisors allocated part of the funds on August 17, 2021
- Executive Office, PRRM, and County Counsel teams have been working with agencies to help distribute funds
- Board of Supervisors have approve 38 unique contracts to outside agencies
- Funds awarded to internal County departments were appropriated as part of 1st Quarter
- All agencies and internal departments will be required to provide documentation on expenses to ensure proper use of funds

Fire Agency Funding - PG&E Disaster/ARPA/172 Funds

| External Agency | Total Funding to Fire Agencies |
|---------------------------------------|--------------------------------|
| Albion Fire | 79,310 |
| Anderson Valley Fire | 108,999 |
| Brooktrails Fire | 144,732 |
| Comptche Fire | 76,842 |
| Covelo Fire | 94,079 |
| Elk Fire | 76,493 |
| Fort Bragg Fire (City) | 65,531 |
| Fort Bragg Fire (Rural) | 96,152 |
| Hopland Fire | 80,689 |
| Laytonville/Long Valley Fire | 211,367 |
| Leggett Fire | 76,682 |
| Little Lake Fire | 159,843 |
| Mendocino Fire | 83,043 |
| Piercy Fire | 75,804 |
| Potter Valley Fire | 496,509 |
| Redwood Coast Fire | 80,218 |
| Redwood Valley Calpella Fire District | 2,681,885 |
| South Coast Fire | 80,188 |
| Ukiah Valley (City) | 89,405 |
| Ukiah Valley Fire | 245,844 |
| Westport Fire | 76,194 |
| Whale Gulch Fire | 76,009 |
| Fire Training Structure | 1,000,000 |
| | 6,255,809 |

FY 2021-22 Mid-Year Departmental Review

General Fund budget units projected to come in greater than \$100,000 over their assigned Net County Cost (NCC)

- Budget Unit 1020 – Executive Office - \$236,183
- Budget Unit 1160 – General Services/Central Services - \$206,829
- Budget Unit 1610 – Buildings and Grounds (Facilities) - \$423,069-Utilities
- Budget Unit 1620 – Garage - \$300,000
- Budget Unit 2012 – Collections - \$566,729-Reduction in Revenues
- Budget Unit 2310 – Sheriff's Office/Coroner - \$1,630,485-Salaries & Benefits
- Budget Unit 2851 – Planning and Building Services - \$536,858-Staffing
- Budget Unit 2860 – Animal Care - \$272,815

FY 2021-22 Funding Requests (Attachment B)

Fiscal Stability - \$3,200,000

- Parks (Bower Park cleanup) - \$200,000
- Capital Projects (new Jail) - \$3,000,000

Financial Stability - \$8,616,699

- Cannabis (equity grant local match) - **\$1**
- Health Plan Trust - \$7,371,698
- Cannabis Tax Revenue Decrease - \$3,500,000
- Other Revenue Adjs per Exhibit A - \$450,000
- Sales Tax Increase – (\$705,000)
- Transient Occupancy Tax Increase – (\$2,000,000)

Organizational Development - \$3,134,118

Fixed Assets - \$238,466 (also listed on Attachment C – Fixed Asset Request)

- Animal Control (cages for trucks) - \$71,000
- Elections (SQL server-State voter system) - \$5,000
- Juvenile Hall (Live Scan) - \$9,466
- Sheriff's Office (IT infrastructure) - \$153,000

Organizational Development Contd.

Operating Expenses - \$584,202

- Animal Control (new budget unit) - \$40,650
- Clerk Recorder (professional services) - \$14,552
- IT (Justware software) - **\$450,000**
- Jail (Naphcare LCSW position) - \$79,000

Salaries & Benefits - \$2,311,450

- Animal Control - \$165,748
- Assessor - \$30,068
- County Counsel - \$94,080
- Planning & Building Services - \$536,858
- Sheriff's Office - \$1,484,696

Support Community Partners - \$50,000

- Water Agency (Inland Water and Power)

Total - \$15,000,817

BOS Obligated - \$500,001

FY 2021-22 Funding Options

- Fund Board of Supervisors' obligated projects - \$500,001
- Offset Projected revenue decrease with remaining available one-time funds
- Expedite financing process with KNN for jail expansion project - \$3,000,000
- Future rate increases to Health Plan to be determined

CEO Recommendations

- Accept the Fiscal Year 2021-22 Mid-Year Quarter Report as presented
- Approve the 2nd Quarter Department Net Zero Adjustments (Attachment A)
- Approve the remaining available one-time funds for the Funding Requests for FY 2021-22 (Attachment B), with a formal resolution adopting the amended FY 21-22 Mendocino County Budget based on the above direction
- Approve Fiscal Year 2021-22 Mid-Year Fixed Asset Request for those projects which have been obligated as presented in Attachment C
- Approve Fiscal Year 2021-22 Mid-Year Vehicle Request for those projects which have been obligated as presented in Attachment D
- Accept Exhibit A revenue adjustments
- Offset projected revenue decrease with remaining available one-time funds
- Direct Executive Office Fiscal Staff to research options for a comprehensive analysis/review of all General Fund budget units to ensure contracts and services align with State and Federal Mandates as well as Board of Supervisor's directives
- Direct Executive Office Fiscal staff to research outside agencies to manage Health Plan Trust Fund

Future Budget Schedule

April 19, 2022 – Fee Hearing

April 6-7, 2022 – Budget Conferences

May 3, 2022 – Budget Workshops

May 3, 2022 – 3rd Quarter Report

June 7-8, 2022 – Budget Hearings and Adoption



2ND QUARTER REPORT

QUESTIONS?

Courtesy of Sarah Dukett