



COUNTY OF MENDOCINO

STATE OF CALIFORNIA

FY 2019-2020

1ST QUARTER REPORT & ADJUSTMENTS

Chief Executive Officer: Carmel J. Angelo
Auditor – Controller: Lloyd Weer

NOVEMBER 19, 2019

Fall Vineyard
Courtesy of Visit Mendocino

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INTRODUCTION

With this document, we begin the Budget Reporting process to the Board of Supervisors for Fiscal Year (FY) 2019-20. The First Quarter Report covers the first quarter of the budget year, from July 1, 2019 through September 30, 2019, and provides detailed information projecting how the County budget status is likely to end on June 30, 2020. As with quarterly reports presented to the Board of Supervisors in the past, this report examines the Net County Cost (NCC) projections of departments across the County system. The 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 cannot operate without 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, 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.

California Government Code § 29009 requires the County to produce a balanced budget and the quarterly reporting is an important step in the process of fulfilling this legal requirement of the County's financial management. Every year we hope to produce a budget that is balanced between the needs of our community and the revenue reality that is presented to us. All decisions and policy 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.

Budget Goals & Priorities: During the last few budget cycles, the Board identified goals of: Fiscal Stability, Financial Sustainability, and Organizational Development. The Board further directed several ways to meet those goals.

Budget Guidelines:

- Maintain current levels of service
- Invest in County infrastructure
- Focus on financial sustainability and identify cost savings whenever possible

Goals & Priorities:

- **Fiscal Stability**
 - Debt mitigation and elimination
 - New Jail Additional Costs Unknown
 - Overall Facilities improvements – Roofs
 - ADA Transition Plan
 - Facility Energy Efficiency Projects
 - Information Technology Infrastructure
- **Financial Sustainability**
 - Maintain the reserve policy
 - One-time revenue will not be used for on-going expenses
 - Cannabis Program Sustainability
 - Juvenile Hall/Probation 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, including the balancing of location-based provision of county services.
 - Operational Efficiencies
 - Employee Salaries
 - KOFF Study
 - Criminal Justice staffing for new mandated transparency reporting
 - (SO, DA, PD, PR, JH, JA)
 - IT Master Plan
 - Facility Preventative Maintenance
- **Investment in Roads**

- **Economic/Business Development**
 - Support New Housing Development
 - Broadband
 - Grant Writer Program
 - Use of Solar
 - Electric Vehicle Replacement
- **Support for Emergency Services**
 - Staffing support for Local Emergency Medical Services
 - Explore Emergency Medical Services Joint Powers Authority
- **Disaster Recovery and Resiliency**
 - Emergency Preparedness
 - Emergency Access Routes
- **Local Homeless Issues**
 - Implementation of Marbut Report
- **Support Community Partners**
 - Fire Districts
 - Fire Safe Awareness/Forest Management
 - Potter Valley Water Project
 - Climate Action Committee
 - County Service Area 3
 - Other Special Districts/Agencies
 - Treasurer – Tax Collector to review County online payment fee structure

The Executive Office continues to focus on these goals and priorities in the administration of the Budget for FY 2019-20.

EXECUTIVE SUMMARY

We are following the Board of Supervisors' fiscal management goals and directives, focusing on fiscal stability, financial sustainability and organizational development. The cannabis business tax came in higher than prior year experience contributing to the increase in discretionary revenue. However we believe there is still cause for caution in projecting those revenues into the future, mainly due to the unknown legislative climate and, in fact we are well past the average length of a post-recession recovery, and the County must be prepared for the next recession when it comes. The general cost of providing the County's core services continues to rise, including the cost of salaries, benefits and pensions, public safety, the unknown impacts of continuations of PG&E, Public Safety Power Shutoff we must remain cautious in our approach to spending and look for innovative methods in providing core services, and options to increase revenue now and into the future. Fiscal Year 2019-20 will be a year focused on emergency preparedness including upgrades to the dispatch communication towers and systems, deferred maintenance, economic development and identifying ways to continue the investment the Board of Supervisors made in our greatest asset, our employees.

The County's fiscal health requires building resiliency into the budget for support of our employees, strategic communication infrastructure, strengthening readiness and emergency preparedness.

This budget provides the foundation to work from as we strive to improve the Mendocino County we know and love.

The final carry forward amount for FY 2018-19 is \$5,440,285. No additional funds were available for allocation at Budget adoption resulting in \$5,440,285 available as fund balance to be allocated at 1st Quarter.

In previous years, the carry forward amounts were; FY 2017-18 was 3,965,190, FY 2016-17 was \$6,404,171, FY 2015-16 was \$8,827,145, FY 2014-15 was \$11,734,766 and FY 2013-14 was \$8,850,853. This compares to FY 2012-13's actual carry forward of \$6,798,242, FY 2011-12's, and the actual carry forward of \$2,976,286. We rely on departments to provide accurate quarterly budget information which is the basis of developing the County's budget. We are aware that numerous factors can affect this preliminary estimate of our year-end outcome including unanticipated expenses, under-realized or over-realized revenues, vacancy factors, as well as other unforeseen

circumstances. The Executive Office launched Budget Manager Training Sessions in 2018-19 to provide departments with tools and best management practices when developing and managing their respective budgets. Those trainings have continued into this year, the majority of the projected carry forward is much closer to the budgeted amounts due to the Executive Office, the Auditor's Office and the Departments' careful estimation of expenditures and revenues and thoughtful oversight of the budget. As budget training continues, the goal is to continue to improve estimation of future expenditures and revenues. While the County has a carry forward from FY 18-19, the department requests, deferred and emerging expenses totaling \$11,228,178 described in the Close Out section is greater than the available funding. The County will continue to experience increases in operating costs with the biggest impacts expected to be salary and benefit related costs and critical communication towers and infrastructure. The 1st Quarter Report provides an overview of the current budget and recommended budget adjustments and use of carry forward.

STATE AND FEDERAL WATCH LIST

State Watch List

- January 1st – Statutes take effect
- January 6th – Legislature reconvenes
- January – Governor's Proposed Budget
- January – February – Bills introduced in the legislature
- February – Legislative Analyst Office publishes the FY 2020-2021 budget analysis and revenue forecast

Federal Watch List

- October –Start of Federal FY 2020
- November 21st – Continuing resolution expires for remaining appropriation bills for FY 2019
- February 1st – Deadline for the President to submit FY 2020 Budget
- February – FY 2021 Congressional budget processes begins

Labor Market and Employment Data

Instead of looking at monthly fluctuations in employment over the course of the quarter, this section compares August of 2018 employment data to August of 2019 employment data. Due to the seasonal fluctuations in employment, month-to-month comparisons are likely not a good indicator of economic conditions and instead, this report compares last year to this year. It is important to note that July/August is likely to be the highest employment month of the year due to the seasonal nature of both tourism and natural resource-based industries.

The Labor Market Information System data shows employment reduction between August 2018 and August 2019 in Mendocino County. There was reduction of 520 people in the total civilian labor force and employment reduction of 450. The civilian unemployment (a segment of the total civilian labor force) rate for August 2019 is at 3.6% compared to August 2018 3.7%.

The largest growth was seen in mining and logging of 9.5% (40 jobs) and construction, which had an increase of 6.2% (90 jobs) between August 2018 and August 2019. This was expected as Mendocino County continues recovery and rebuilding efforts related to the October 2017 Redwood Complex Fire. Mendocino County saw an overall 1.2% in employment between August 2018 and August 2019.

Source: State of California Employment Development Department

Each county within the North Bay region is exhibiting different characteristics as the broader economy downshifts into slower-growth mode. After four years of wildfires and devastation, Lake County somewhat “feels” like it’s been in a recession over the past few years. In Marin County, high-wage job growth has only progressed, but rising housing costs are eroding local households’ purchasing power and somewhat hampering economic growth. Mendocino County continues to grow but at a very slow pace similar to other rural areas of the state. Napa County’s economy is starting to slow down as capacity constraints (labor force) limit growth. In Solano County, business and worker growth has continued. And in Sonoma County, the wildfire recovery seems to be moving in the right direction, with job growth steadily continuing. On the whole, the entire region’s economy is showing very broad signs of slowing down as California and the United States begin to slow down.

<https://www.ccul.org/resources/your-economy/226-uncategorised/resources/economic-forecasts/2953-north-bay-regional-economic-forecast>

California Economic Outlook

The California economy continued to expand at a moderate pace in the second quarter, boosted by stronger than expected job growth. The state added 116,400 jobs in Q2, making it the strongest quarter for job growth since 2017 Q4. Nearly one in four jobs created in California in Q2 were in the construction industry. This rise in construction hiring may only be temporary as California housing data has been soft in recent months. According to the California Association of Realtors, existing single-family home sales were down 5.1 percent in the 12 months ending in June. Declines in existing home sales over the past year were seen across all of the state’s major regions. Weaker sales have led to a rise in housing inventory in recent months. Rising inventories, in-turn, have put downward pressure on area home prices. Lower home prices and declining mortgage rates will support housing activity this year. Yet, we are already late into the economic cycle and housing demand is mostly spent out. Therefore, we expect limited upside potential in California housing activity going forward. The other risk factor for our California economic outlook is the uncertainty surrounding the escalation in international trade disputes. The price-adjusted value of California international trade (imports plus exports) in May remained 8.4 percent below its February 2018 high. The U.S. announced a new round of tariffs on an additional \$300 billion worth of Chinese imports, which took place on September 1.

Source: Comerica – August 2019 California Economic Outlook

Real Estate Trends

The median home value in Mendocino County is \$400,000. Mendocino County home values have remained unchanged from the past year and it is predicted that prices will hold constant if employment and interest rates hold over the next year. The median list price per square foot in Mendocino County is \$286, and the Ukiah Metro average

is slightly higher at \$300. The median price of homes currently listed in Mendocino County is approximately \$495,000 while the median price of homes that sold is \$400,000.

We currently have a for sale inventory of 5.3 months, which is considered a sellers market. It should also be noted that we have regained most of the property value lost from the trough of the great recession in 2011.

Source: Selzer Realty – Mendocino County Home Prices & Values

DISCRETIONARY REVENUES

At the 1st Quarter Update, there is a limited amount of information regarding discretionary revenues. The bulk of discretionary revenue is property tax and the first distribution of property tax revenue is not scheduled until December 2019. More detailed information on all revenues from Budget Unit 1000 will be available as a part of the mid-year report. Based on FY 2018-19 actuals in BU 1000 the Auditor anticipates an increase in Cannabis Tax revenue at mid-year.

FY 2018-19 CLOSE OUT

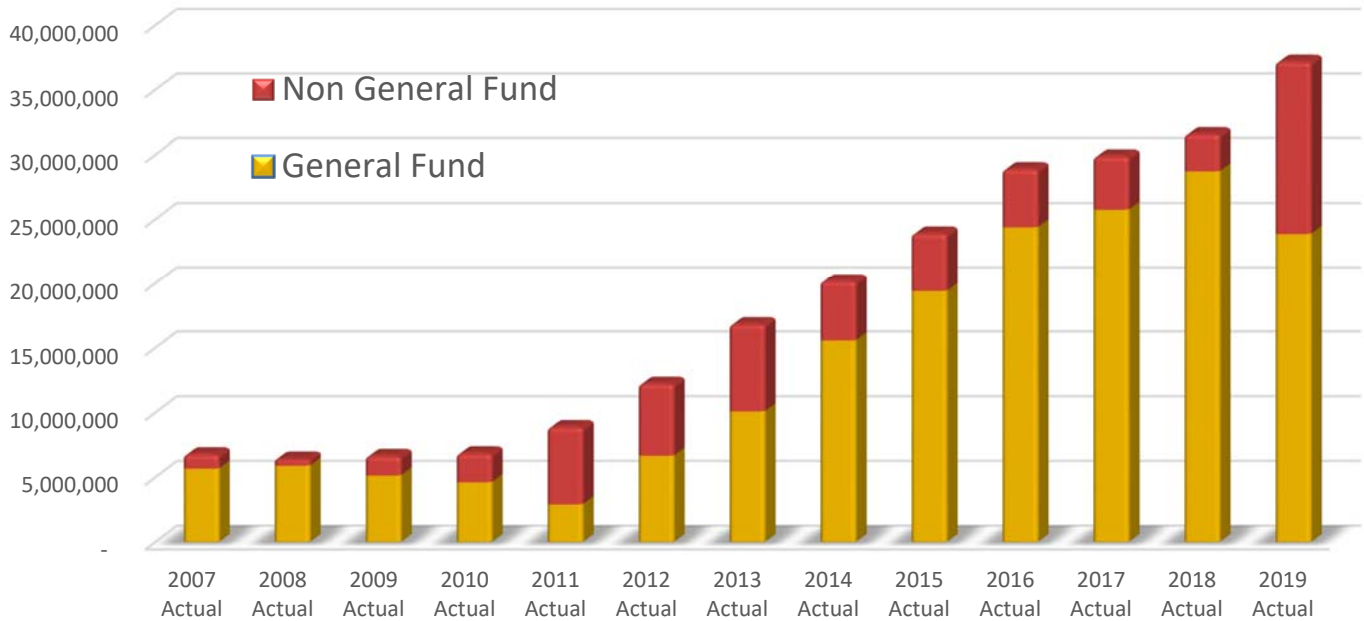
As you are aware, the Board adopted the FY 2019-20 budget in a one-step process by holding budget Hearings and approving the final budget in June. Due to this timeline the Budget was adopted prior to the final close out of the previous fiscal year. The County Auditor utilizes a 60-day accrual period and closes the previous year's books on August 31st. When the Board adopted the budget in June the final numbers for FY 2018-19 were estimated based on each Department's 3rd Quarter projections. When the books were closed, the final fund balance was \$5,440,285, which was more than projected. This change was due in large part to additional discretionary revenue, received from the Cannabis Tax, and savings from various budget units. It is important to note that significant effort is required to maximize savings to the General Fund at year end.

RESERVE ACCOUNTS

"It's a pretty telling story. In the years leading up to the Great Recession, Mendocino County had less than \$6 million in all of its general fund reserves. Today Mendocino County has nearly \$24 million in those same general fund reserves. In the years leading up to the Great Recession, reserve funds outside of the general fund only totaled just over \$1 million. Today those same non-general fund reserves exceed \$13 million. Overall, Mendocino County's numerous reserves have grown from less than \$7 million in the years leading up to the Great Recession to more than \$37 million today, a growth of \$30 million in Mendocino County's various reserves.

When you combine this story with the story that Mendocino County has taken numerous steps to curtail future pension costs, eliminate its retiree healthcare costs, and secure new funding for County roads and other infrastructure, there is really no dispute that Mendocino County is in a substantially better financial position than at any other time in a generation." *Supervisor Dan Gjerde*

County of Mendocino Reserves



MEASURE B

The architectural services agreement for a three-phased approach for the design and construction of Crisis Residential Treatment facility (CRT), Psychiatric Health Facility (PHF), and Crisis Stabilization Unit (CSU) is on the November 19, 2019 agenda for Board of Supervisors consideration.

A project specialist position is in the final phases of hiring process; anticipate hiring shall be in early December 2019.

Fund Balance: \$10,463,438

FIRST QUARTER (1ST QUARTER) BUDGET UNIT WATCH LIST

Summary of General Fund Departments by Budget Unit:

This summary provides information on General Fund budget unit projections for the 1st Quarter of FY 2019-20. The 1st Quarter of FY 2019-20 covers the period beginning July 1, 2019 and ending September 30, 2019. There are seven pay periods included in the First Quarter which sets the spending benchmark for the 1000 series at 25.9% for the quarter. Executive Office staff reviewed each budget unit's total expenditures by line item series for First Quarter. The 1000 line item series totals were compared to the benchmark level of 25.9% (seven pay periods in 1st Quarter/27 pay periods total for FY 2019-20). As of September 30, 2019, the General Fund 1000 series expended year to date is 22.5%. The close monitoring of the 1000 series aligns with the Board of Supervisors Priorities.

The Executive Office requested that each department provide a brief update indicating whether they were on track with their budget, and to provide budget related concerns for the 1st Quarter Report. The following narratives focus on the departments projecting to be over budget.

BU 1000 – Non-Departmental Revenue: The budget unit is currently tracking with no significant fluctuations in revenue at this point in the fiscal year. Additional information on individual revenues will be available at mid-year. There are several adjustments recommended to the budget unit, but they are exclusively related to the additional fund balance realized at the end of FY 2018-19.

BU 1960 Information Services: Projected to be \$127,173 over budget. The Executive Office – Information Services division is projected to be over \$127,173 over budget due to the necessary expense for the Microwave leases and projects.

BU 2310 – Sheriff-Coroner: Projected to be \$615,295 over budget. The Sheriff’s Office is projecting to be \$465,295 over budget in the 1000 series. The projections are based assumed over-time and extra help at the current rate through the end of the fiscal year.

BU 2510 – Jail: Projected to be \$343,114 over budget. The Jail is projecting to be \$343,114 over budget in the 1000 series. The projections are based assumed over-time and extra help at the current rate through the end of the fiscal year.

BU 2810 – Cannabis Management: Projected to be \$359,769 over budget. The Cannabis Management is projected to be over budget due to an increase in staff as well as an increase to the 2000 series for needed contracts.

FY 2019-20 FUNDING NEEDS

Additional funding is recommended to be appropriated based on the Board of Supervisor’s Budget Goals and Priorities. During the budget workshops and hearings, the Board discussed emerging issues around deferred maintenance and the Capital Improvements Plan, IT Master Plan/IT modernization, Jail Expansion Project, and disaster recovery. In addition this 1st Quarter review is also bringing critical funding needs forward; resilience for possible recession, continuation of funding for future employee salaries and benefits, disaster recovery preparedness for public health and safety.

Adjustment Requests:

- | | |
|---|-------------|
| 1. Tree work at Point Arena AFB and Pt Arena Veterans Hall | \$40,000 |
| a. Necessary at Point Arena AFB for power line clearance and line of sight for microwave signal | |
| b. Necessary at Point Arena Veterans Hall to address hazardous and nuisance Cyprus trees | |
| 2. Relocate 911 Communications Equipment Evaluation & Design/Management | \$175,000 |
| 3. Administration Center Server Room Temperature Monitoring System | \$15,000 |
| a. Design and installation of temperature monitoring system, to allow tracking of individual units and an ability to identify problems before critical temperature thresholds are exceeded. | |
| 4. Power Line Condition Evaluation, Repair Plan | \$100,000 |
| 5. Waterproofing Sealer Paint at Microwave Sites | \$200,000 |
| 6. Microwave Broadband | \$350,000 |
| 7. Repeater Replacement – Consolidation of requested list | \$1,900,000 |
| 8. Sheriff Office – UPS (includes labor) | \$100,000 |
| 9. Full Building Back-up Generator for Administration Center | \$650,000 |
| 10. Remote Generator Monitoring System | \$20,000 |
| 11. Emergency HVAC Repairs to 911 Equipment Room | \$50,000 |
| 12. PSPS – Admin Portable Generators | \$50,000 |
| 13. HVAC System Upgrades – annual allocations | \$75,000 |

14. Roof Repairs Various Locations - annual allocations	\$100,000
15. Parking Lot sealing and re-striping – annual allocation	\$100,000
16. ADA –Museum Entry & Restrooms	\$175,000
17. Waterproofing Sealer Paint at Jail Building II	\$200,000
18. DOT/Facilities – Underground Storage tank-landfill rust to 1610	\$50,000
19. Cannabis Program - ClientFirst TrackIt Reporting Contract	\$120,000
20. Employee Salaries and Benefits	\$5,000,000
21. Emergency Staffing Support	\$500,000
Total of New Funding Requests	\$9,970,000

PSPS UPDATE

As previously reported to the Board on July 9, 2019, County staff began working with county departments, employees, and operational stakeholders to prepare for the potential Public Safety Power Shutoff (PSPS events). Throughout the 1st quarter, staff spent over 1,200 documented hours in preparation time for potential PSPS.

Staff worked in two subgroups—internal and external working groups. In the 1st quarter, the external group connected with community partners, local agencies, fire districts, and other stakeholders. The group also prepared templates for PSPS communications and set up the county preparedness website. Chief Executive Officer Carmel Angelo created preparedness videos every two weeks. Sheriff Tom Allman created Public Service Announcements. The Environmental Health staff reached out to all fueling stations and markets in the county to confirm their capacity to remain in operations during a PSPS. The Office of Emergency Services (OES) Coordinator remained in contact, on a regular basis, with all the Fire District Chiefs, water districts, and school district staff.

The internal working group focused on how to keep the County open for business to better serve County residents. The focus had been to address the County Administration Center, as this is the main core of business for the County. The internal working group worked with each department within the Administration Center in formulating Business Continuity Business Plans (BCP) as well as refreshing their Emergency Action Plans (EAP). The existing generator only had the capacity to provide for emergency lighting and support the Information Services servers. An electrical engineer was brought in to design the electrical system to provide for a long-term solution for a generator power.

The first PSPS event for Mendocino County occurred during the 2nd quarter of this fiscal year –October 9, 2019. Staff time working to support the October 9, 2019 PSPS event on October 9-10, 2019 was approximately 300 documented hours. Activities include staffing the call center, providing Information Services support to the Emergency Operations Center (EOC), managing the EOC, and providing situational awareness to stakeholders. As the Board is aware, there was a second PSPS event on October 23, 2019, a third event on October 26, 2019, and a fourth event on October 29, 2019 that will be reported in the 2nd quarter and mid-year report. The alternate Emergency Operations Center opened for the 23rd, 26th, and 29th PSPS events.

IT COMMUNICATIONS UPDATE

Draft Public Safety Microwave Radio Communications Network Cost of Ownership Model
For more information see **Attachment E**.

HUMAN RESOURCES UPDATE

Recruitment Summary

Between July 1, 2019 and September 30, 2019 Human Resources received 178 staffing requests, conducted 74 recruitments, received and screened 997 applications, conducted 54 examinations, and prepared 53 certifications. During this time period, the County hired 63 new employees and had 52 employment terminations.

As of September 21, 2019, there were 283 vacant positions, with active recruitments to fill 136 positions. The majority of positions in the process of filling are in Health and Human Services Agency (86), Department of Transportation (11), and Sheriff's Department (8). Based on *positions being actively recruited*, the countywide vacancy rate 9.6%.

The Human Resources Department has developed the monthly *Position Justification Report* that is included with the CEO Report. This report provides information for all positions filled during the specific reporting period, including the department, classification filled, justification for filling the position, and date filled.

Leadership Initiative

The Executive Office hosts a quarterly expanded leadership meeting where department heads and all staff involved in leadership activities are invited to attend. Each meeting includes a presentation on relevant leadership topics such as developing functional teams, career planning, and high performance organizations. On September 11, 2019, Jendi Coursey with Jendi Coursey Communications presented on the topic of Communication. A total of 86 employees attended and meeting attendance continues to grow as more employees participate in the work of leadership.

The Leadership Book Club meets on the 2nd Thursday of each month from 12:00 pm - 1:00 pm at 501 Low Gap Road. During the first quarter of FY 19/20, the book club has been reading "Dare to Lead" by Brene Brown, with approximately 84 employees participating in activities.

The Mendocino County Executive Leadership Team (MCELT) meets at least monthly addressing cross-organizational issues that have significant long-term impacts. The team is responsible for developing, implementing and maintaining policies and programs that align with the Leadership Philosophy. MCELT meets regularly to oversee the work of seven project teams who have been focusing on identified areas of improvement such as communication, recruitment/retention, operational processes, customer service, performance plans, and employee engagement. These Project Teams have been working very hard over the last 18 months on their short term and long-term goals.

The Mendocino-Humboldt Annual Joint Leadership training was held on September 6, 2019, at the Benbow Inn. Patrick Donadio, communications expert and author of "Communicating with IMPACT", was the speaker for this event. Donadio focused on leading more effectively through clear and engaging communication while providing practical techniques for participants to take with them. There were 78 employees in attendance from Mendocino and Humboldt Counties.

Mendocino County's Executive Leadership Team (MCELT) continued to hold High Performance Organization (HPO) Academy trainings in August. MCELT members worked in teams of two to present nine topics covering a number of leadership and HPO topics to the attendees. A total of 30 employees from various departments attended the August workshop. The next workshop will take place in February 2020.

Wellness

735 County employees and their covered dependents participated in on-site health screenings in 2019.

County-Wide Training Program

There were a total of 195 training seats filled by County employees between July 1, 2019 and September 30, 2019. The classes included Emotional Intelligence, Project Management, Resolving Workplace Conflict, and Managers Guide to Supervising Remote Employees, Beginning/Intermediate/Advanced Excel, Beginning Publisher, Beginning Word, and Introduction to PowerPoint. Additional trainings offered as part of Supervisor Academy included: Building Trust in Teams and Effective Communication Skills.

COUNTY LABOR UPDATE

County of Mendocino



Status of Labor Contracts

As of September 30, 2019

Bargaining Unit	Employee Count 09/30/19*	Contract Status	Contract Start Date	Contract End Date
Confidential	24	Current	7/1/2019	6/30/2022
Department Heads	15	In Negotiations	9/1/2017	8/31/2019
DSA	142	Current	7/1/2019	6/30/2022
Management	56	Current	10/1/2019	9/30/2022
MCLEMA	10	Current	7/1/2019	6/30/2022
MCPAA	28	Current	1/1/2019	12/31/2021
MCPEA	38	Current	10/1/2019	9/30/2022
SEIU	766	Current	7/1/2019	6/30/22
Unrepresented**	38	Tied to DHA	9/1/2017	8/31/2019

*Does Not Include Extra Help

**Tied to Department Heads Bargaining Group

DSA: Deputy Sheriffs Association

MCLEMA: Mendocino County Law Enforcement Management Association

MCPAA: Mendocino County Public Attorneys Association

MCPEA: Mendocino County Probation Employees Association

SEIU 1021: Service Employees' International Union, Local 1021

FIRST QUARTER RECOMMENDATIONS

Adjustments

All of the recommended adjustments are included in the Attachment A and B (department net zero, corrections and adjustments) and C (carry forward adjustments). The recommended adjustments would bring the total County budgeted appropriations from \$313,284,468 to \$317,754,468 for all funds.

Use of Carry Forward

A total of \$5,440,285 from the FY 2018-19 carry forward is waiting to be appropriated for FY 2019-20 as one-time funding as presented in Attachment C.

Recommended Actions:

1. Accept the Fiscal Year 2019-20 First Quarter Report as presented.
2. Approve the 1st Quarter Department Net Zero Adjustments (Attachment A)
3. Approve the 1st Quarter Department Budget Corrections and Adjustments Corrections (Attachment B)
4. Approve the One-Time Carryforward Fund balance from FY 2018-19 for the Funding Needs for FY 2019-20 (Attachment C)