

# MARIPOSA COUNTY

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To: Board of Supervisors

From: Dallin Kimble, County Administrative Officer

Subject: Fiscal Year 2018-2019 (FY19) Recommended Budget

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Submitted for your review and consideration is the Fiscal Year 2018-2019 (FY19) Recommended Budget for the operations of all County services and special districts under the board of supervisors' direction. The recommended budget closes a \$2.93 million difference between department requests and anticipated revenues. All adjustments necessary to close that gap were made in cooperation with department heads and their respective financial staff. The resulting recommendations provide a balanced spending plan that will carry operations through June 30, 2019.

Mariposa County is in a solvent financial position. Despite multiple severe disasters, most of our reserves are intact, our debt load is among the lowest in the state and we continue to maintain policy-mandated levels of savings, insurance and conservative investment.

Our budget process continues to improve and evolve. The adoption of a budget prior to the start of the fiscal year will allow for a smoother transition between fiscal years, eliminating a so-called "dead period" and empowering staff to keep momentum in their projects and service to our community. The process also brought to light some policy questions worthy of additional discussion that will be briefly addressed hereafter. Staff has arranged for further evaluation of this process in the coming weeks.

What follows is an overview of the recommended budget and some considerations for the future. Attached to this memo are spreadsheets of the recommended changes, a preliminary whiteboard based on those recommended changes and the full recommended budget.

## Budget Overview

The recommended General Fund budget totals \$62.3 million. The Fund is supported by \$33.6 million in general purpose revenue (local taxes, in-lieu state or federal funds, etc.) that is at the discretion of the Board for purposes with general benefit. \$28.7 million in non-discretionary revenues (program-specific state or federal dollars, grants, fees for service, etc.) are designated for a specific purpose upon receipt.

Of the discretionary portion of the General Fund, \$14.6 million (43%) is anticipated from transient occupancy tax, \$6.1 million (18%) from property taxes and \$2.2 million (6.5%) from sales tax. These revenues allow for a status quo continuation of the budget but are beginning to show signs of slowing. Transient occupancy tax, for example, has grown 29% since Fiscal Year 2014 (FY14) but is trending toward a much flatter 1 – 2% growth in Fiscal Year 2018 (FY18). The Governor's Office continues to forecast similar plateauing in other revenues as concerns of cyclical economic slowdown grow across the state.

While budgeted revenues have remained conservative, it should also be noted that they are decidedly less so than in prior years. Part of this change in approach is a conscious decision to be less protective of the annual fund balance, which will be discussed in greater detail later in this memo. A related motivator is the desire to provide as many resources to our departments as possible in order to accomplish as much in the current fiscal year as realistically possible.

Also itemized in the revenue changes for the recommended budget is a \$1.5 million designation decrease. That amount includes \$1,022,543 from the Merced Irrigation District (MID) settlement that is being transferred to a separate fund for better tracking and \$500,000 to cover the county's portion of the March 2018 storm damage. \$300,000 in recurring MID settlement funds was also moved for tracking purposes. As the Board has not yet provided direction on the use of MID funds, no allocations have been included in this recommendation.

Discretionary and non-discretionary General Fund revenues are used to support county operations such as law enforcement, public health, economic development, libraries and so on. Across the Fund, roughly 61% is allocated for personnel, 35% for services, 4% for transfers out of the General Fund and 0.2% for fixed assets.

51% of the General Fund is allocated to public safety, which remains the top priority for the Board, including 24% for the Sheriff's Office, 9% for adult detention, 8% for fire, 5% for probation and the remaining for the district attorney, indigent defense and boating safety. Public safety is also the fastest growing segment of the budget over the last five years, growing at nearly twice the rate of the next fastest growing segment (public health).

Despite this growth, there is serious concern about the ability of county fire to provide adequate protection and response with the available funds. In 2017, the Board of Supervisors significantly increased the allocation for county fire and entered an agreement with CALFIRE for command and control. This is a positive first step that has begun to help administration better understand the status of county fire; but it is insufficient in the face of national trends related to volunteerism.

To be clear, the County is extremely grateful for our volunteer firefighters. They demonstrate extraordinary dedication to their community every time they suit up and respond to a fire or a medical emergency. Unfortunately, like volunteer departments across the country, our numbers are dwindling. In the best case scenario, volunteer stations have only four volunteers who might respond if they are available when the call comes in. The worst cases haven't seen a volunteer respond in six months or more. Mariposa Public Utility District has publicly indicated they are having the same difficulties and can no longer guarantee response.

The obvious solution is to begin to augment volunteer response with paid firefighters who are required to be available. A solution of this kind will run into the millions of dollars and likely a new revenue source will be needed to provide this higher level of service. Staff is anxious to continue working with the Board to identify possible funding sources and present a plan for action at a future meeting of the Board of Supervisors.

General Fund allocations also include approximately 23% for administrative functions (auditor, tax collector, county counsel, assessor, human resources, elections, technical services, etc.), 13% for infrastructure (facilities, engineering, parks, etc.) and 12% for health and wellness. Non-general funds include additional allocations focused in particular on wellness, infrastructure and public safety.

### Recommended Changes

There are a variety of challenges, opportunities and changes in the recommended budget. Among the opportunities is the consolidation of Community Services, Health and Human Services departments into a Health and Human Services agency. This change will allow for greater effectiveness in the delivery of services and new efficiencies that will develop over time. Budgets for these departments are status quo for FY19.

Another opportunity is a recommendation for deputy county counsel. This position, reclassified from the requested assistant county counsel, will bring some legal services, including some revenue-generating services, back into county counsel's office. Nine other requested positions are not recommended at this time, though extra help lines were increased in some cases to return those departments to status quo or assist with anticipated workloads. One extra help position was eliminated because the corresponding grant funds were not continued.

The recommended budget includes a \$809,270 increase (14%) in CalPERS costs over Fiscal Year 2017 (FY17) to account for an anticipated 0.15% change in the CalPERS discount rate. This increase will more than double over the next two fiscal years as the County works to pay down the unfunded liability of its employees.

As we work to implement the technical services assessment and recommendations, which will be presented to the Board later this summer, several budgets have reductions in their equipment lines to facilitate more centralized purchasing of computer equipment. Funding has been made available in the technical services budget to move forward with the requested purchases.

Tobacco settlement funds were used to support a number of one-time projects or purchases, as is our practice, including a tractor in the facilities budget, the branding effort in the economic development budget, a wireless and firewall upgrade for technical services, continuing to grow technical services reserve, repayment of courthouse renovation funds, the zoning review in the general plan implementation, the portion of forest reserve not covered by Secure Rural Schools that is needed to maintain status quo and a small amount of support for local youth sports leagues.

Over \$600,000 in facilities maintenance has been itemized on the whiteboard for Board approval. Professional services is increased in the administration budget for consultant assistance with a proposed ballot initiative. Salary savings from several senior position vacancies has been leveraged. Law enforcement budgets have been minimally affected to preserve service levels. As the Board has agreed to a management contract with the

Merced County agricultural commissioner, that budget has been appropriately adjusted. Various other lines have been adjusted as needed.

Outside of the General Fund, most adjustments have been made for balancing purposes. The insurance funds were errantly omitted from the requested budget and are included here. New funds were created for the March 2018 storms and the MID Settlement dollars.

### Future Considerations

Fiscal Year 2017-2018 included multiple disasters that rank among the worst in our county's history. Any one of those disasters could have completely wiped out the county's reserves. Even with state aid, the March 2018 storms are approaching \$500,000 in direct costs to the county. With federal aid, the February 2017 storm damage has not all been approved for work to begin.

The National Weather Service and other agencies that track disasters are reporting a worldwide increase in the frequency and intensity of natural disasters. In light of this analysis and our own experience, staff will be reviewing our reserve policies over the coming year to ensure adequate amounts of savings are available in times of need.

Staff is also following state discussions regarding payments in advance for disaster recovery. This effects all of our disaster projects, including our \$3.5 million tree mortality hazard mitigation project. Cash flowing multiple disasters simultaneously requires careful coordination to maintain continuity of service, can lead to project or payment delays and forces the County to liquidate assets and forego potential returns from conservative investments.

As was noted earlier, this recommendation has been less considerate of preserving fund balance as prior budgets have been. In the past, this has been very important because fund balance has been used to sustain operational expenses. In my view, this is not a healthy budgeting practice.

Fund balance is one-time money that we have only because we have not done other things that we set out to do. It is volatile and impossible to forecast for future years. It is unwise to use one-time money for ongoing expenses and counterproductive to build inefficiencies into our budgeting practice in order to sustain a bad habit.

Rather than completely eliminate fund balance from the operational picture in a single year, which would be a \$4 million reduction that would inevitably include staff reductions, gradual progress on this issue has been made in the recommended budget. Once operations are successfully "weaned" from using fund balance, it will provide an excellent source of one-time dollars for tackling deferred maintenance, paying down debt, building reserves, building needed infrastructure, and so on. It will also enable forecasting that will allow for a longer perspective and better decisions.

Another best practice staff is working to implement is the inclusion of a five-year capital improvement plan. Again, when we extend our perspective through planning and forecasting, I believe we empower better decisions for our community.

The recommended budget does not include an amount designated for union negotiations that will take place later this year. This issue will be addressed at midyear after negotiations are complete.

Four departments in the General Fund are in the midst of a rate study that will eventually impact the General Fund. Building, Planning, Environmental Health and Public Works department budgets will be appropriately adjusted at midyear. Finally, several opportunities for additional revenue deserve consideration moving forward. Among those are a potential increase in the tourism occupancy taxes paid by those visiting our lodging establishments, a countywide fire protection district that would collect the cost to operate professionally staffed stations from local residents, available grants and further economic development.

### Conclusion

The FY19 Recommended Budget addresses a number of difficult challenges, maintains existing service levels and prepares Mariposa County for the future of our community. It is the result of a collaborative staff effort and provides resources for planned operations through the coming fiscal year. It also continues to lay the groundwork for long-term planning and focuses on maximizing the productivity of each staff member.

Serious concerns for the ability of the county to fund necessary changes to county fire and a variety of other future considerations have been noted for the situational awareness of the Board and the general public. Staff will continue working diligently on solutions to improve the effectiveness and efficiency of county services.

Attached please find a comprehensive list of all recommended changes to the General Fund, a comprehensive list of all recommended changes to non-general funds, a preliminary whiteboard based on the negotiated changes and the complete recommended budget for your review. These are respectfully submitted with my gratitude to our department heads and county employees for their dedication, support and assistance in developing these documents.