

June 29, 2021

Board of Supervisors
Kern County Administrative Center
1115 Truxtun Avenue
Bakersfield, CA 93301

**FISCAL YEAR 2021-22 BUDGET DISCUSSION AND PROPOSED
PRELIMINARY RECOMMENDED BUDGET**

Fiscal Impact: None

The Fiscal Year (FY) 2021–22 Preliminary Recommended Budget for the County of Kern and special districts governed by the Board of Supervisors is presented for consideration. The County Budget Act requires the County to approve a budget before June 30 (Government Code section 29064) to establish spending authority until final budget adoption. Public budget discussions are scheduled for July 26 in the evening, and Tuesday July 27. The final adoption of the budget will take place during budget hearings scheduled to begin on Tuesday, August 31, 2021.

The document before you today is a temporary budget that will be used until budget hearings are completed. The County Administrative Office will incorporate any Board direction received during the public budget discussions in the final recommended budget, which will be presented in August. The Preliminary Recommended Budget will also be revised before budget hearings to account for final June 30, 2021, year-end fund balances, and updated property tax revenue estimates based on the final assessment roll by the County Assessor-Recorder.

EXECUTIVE SUMMARY

The Preliminary Recommended Budget recognizes and addresses some of the County's most urgent priorities including prioritizing public safety, mitigating homelessness, investing in parks and infrastructure, maintaining library services, and increasing funding for spay/neuter programs. At the same time the Preliminary Recommended Budget recognizes that in order to serve our community we must balance priorities and needs with the fiscal realities. The Preliminary Recommended Budget before you today is balanced in accordance with the law through the reduction of costs, increased state and Federal funding, release of reserves, and the use of one-time fund balances.

The County's Preliminary Recommended Budget totals \$3 billion, roughly \$47.5 million less than the FY 2020-21 Adopted Budget, adjusted for Budgeted Savings Incentive (BSI) Credits, Capital Projects, and Major Maintenance. The primary reason for the decrease is \$103.2 million in direct Coronavirus Aid, Relief, and Economic Security (CARES) Act funding included and spent in FY 2020-21 to mitigate the impacts of COVID-19 in our community. This amount is offset by proposed increases in Social Services, Health and Community Development Programs funded by state/Federal revenue, which allow increased support and services to the most vulnerable County residents.

While fiscal constraints continue to govern County programs, the goal of the Preliminary Recommended Budget remains one of allocating limited resources to the services, facilities, and equipment that meet the most critical needs of our citizens. For most departments that receive a General Fund contribution the Preliminary Recommended Budget allocates approximately the same level in Net General Fund Cost (NGFC) allocation as the current fiscal year. The budget restores the previous 7.5% reduction in NGFC for Parks and Recreation,

GROUND  **BOUNDLESS**

Libraries, and Elections. This funding is intended to increase service levels in our Libraries, prevent any further service level declines for County parks and facilities, and to prepare for the primary election. In the coming year, Animal Services will receive an increase in funding for spay/neuter efforts. The Sheriff's Office will add positions to improve services and will implement body-worn cameras in all operational positions to provide greater oversight and transparency. All firefighter positions are funded in the budget.

The Preliminary Recommended Budget does not reflect allocations to programs that will be funded with the American Rescue Plan Act (ARPA). ARPA will provide the County with one-time funding of \$174.8 million and the opportunity to respond to the public health emergency, reward workers performing essential work during the COVID-19 public health emergency, backfill for lost revenue, and to better meet the needs of our community through investments in water, sewer, and broadband infrastructure. After the final guidance from the Department of the Treasury is provided in July, budgetary transactions to implement projects approved by the Board and funded with ARPA will be incorporated into the final budget.

DISCRETIONARY REVENUE AND ECONOMIC OUTLOOK

The pandemic economy is far from normal. While we are seeing a steady path to recovery, we are anticipating declines in some of our discretionary revenue due to the lingering effects of COVID-19, and evolving state policies, regulations and mandates, including the solar tax exclusions that have cost the County \$103 million over the past ten years alone. At the same time, unlike previous recessions, the economic impacts have been relatively brief and the response of the Federal government in providing financial assistance to residents and state and local governments has made a difference. It is important to recall this is one-time funding.

Countywide discretionary revenue includes a variety of revenue sources that are not legally designated for a specific purpose or program. Most discretionary revenue is property related revenue, primarily property tax. Other revenue sources in this category include sales and other taxes, net interest earnings, Countywide Cost Allocation Plan (CWCAP) revenue, which is a reimbursement for overhead/indirect costs incurred by the General Fund, property tax administration revenues, recording fees, other state and federal aid, and other revenue. The Preliminary Recommended Budget includes \$363.9 million in discretionary revenue, a decrease of \$6.6 million from the prior year adopted budget. Countywide discretionary revenue is allocated to mandated and discretionary programs and to cover the Maintenance of Efforts for state and federal mandated programs.

Property Related Revenue

The Assessor's initial assessed value estimates included an overall decrease of approximately 3.06% for next year's assessed valuation. The Assessor projected an increase of 1.8% in assessed value for residential and commercial properties in the secured roll. This reflects the reduced 1.01% inflation factor provided by the State for calculating the assessment roll. The Assessor reported that oil and gas property assessments are projected to decrease by 30% to 40% based on a \$50 price per barrel of oil in combination with the additional volatility associated with the regulatory process of permitting of oil and gas. The net impact of this projected overall decrease in value, assuming a 30% decline in oil and gas, is a corresponding decrease in property tax revenue of \$1.7 million and \$3.4 million of property tax in-lieu of vehicle license fees for a total decrease of \$5.2 million. The Fire Fund is estimated to collect \$1.9 million less in property tax revenue during FY 2021-22 than budgeted in FY 2020-21.

Recently, median home values have increased with homes selling quickly and building permits steadily growing. However, assessed values were enrolled on January 1, 2021. Changes in property tax values will lag other revenue indicators largely because taxable value is determined under Proposition 13, which requires

assessed values to be set on the lien date (January 1) each year. Recently, the Assessor has indicated that FY 2021-22 roll values for residential, commercial, and agricultural properties are trending higher than initially estimated. However, this increase will be muted by the projected decrease in oil and gas property values by 30% to 40%. The Assessor will finalize the assessment roll for FY 2021-22 on June 30, 2021, after which revenue estimates will be updated for the final recommended budget that will be presented at upcoming budget hearings in August.

Sales and Use Tax Based Revenues

The County's sales and use taxes decline was not as severe as anticipated in FY 2020-21. Multiple stimulus and relief packages were approved to sustain the economy. Business segments tied to the petroleum industry saw the most significant impact. Revenue from fuel and service stations plummeted because of the ongoing COVID-19 pandemic. Service Stations declined by approximately 22.3% and petroleum products/equipment declined by approximately 53%. The decline in these sectors was partially offset through AB 147, which captured taxes not previously collected, increased online sales and marketplace facilitators, which partially offset reduced retail spending. As the economy continues to recover, we anticipate a rise in consumer spending and accompanying increases in Sales and Use taxes. Base revenue collections of approximately \$42 million have been budgeted, which is approximately \$2.6 million more than FY 2020-21 adopted budget. While this revenue source is projected to remain stable over the next fiscal year, it can be greatly impacted by changes in the state and local economy.

Realignment funds are projected to increase overall in FY 2021-22. Although an overall increase compared to the Adopted Budget, the projected realignment revenue is relatively similar to the mid-year assumptions. Approximately \$7.7 million of the increase in 1991 realignment is attributable to CalWORKs maintenance of effort (MOE) and Family Support subaccounts. The CalWORKs MOE and the Family Support subaccounts offset the State's General fund responsibility for the CalWORKs program administered by the Department of Human Services. Fluctuations in the funding levels of these two revenue sources does not affect service levels of the program. Additionally, the State is projecting that both 1991 and 2011 Realignment will see revenue growth in this fiscal year, which will be available in FY 2021-22. Any available 2011 Realignment Protective Services Growth and 1991 Realignment growth funds will be used for cost increases in Foster Care, Adoptions, and General Assistance.

Proposition 172 revenue, which is contingent on sales tax collections, has been declining over the past few years as one-time construction activity for renewable energy projects has slowed and is leveling out at the County's estimated base. However, in FY 2021-22 a one-time increase is estimated because of the County's pro-rata factor. Each county's share of the Proposition 172 half cent public safety tax is set by a pro-rata factor determined by that county's ratio of sales tax collections to the statewide total in California Department of Tax and Fee Administration's most recent annual taxable sales report. Since the overall level of decline for the County was not as severe as what was experienced in other parts of the State, the County's pro-rata factor is anticipated to increase.

BUDGET OVERVIEW

As displayed in table 1 – FY 2021-22 Preliminary Recommended Budget, the Preliminary Recommended budget totals \$3 billion, roughly \$47.5 million less than the FY 2020-21 Adopted Budget, adjusted for BSI, Capital Projects, and Major Maintenance. While the Preliminary Recommended Budget decreases General Fund appropriations by \$4.7 million, the previous unresolved annual deficit of \$18.2 million has now grown to \$23.3 million as a result of unavoidable retirement cost increases, the settlement agreement reached with the Department of Justice, and the decline in discretionary revenue. For FY 2021-22, the annual deficit of \$23.3 million is resolved using estimated fund balance at June 30, 2021 and use of the Retirement designation.

Table 1 –FY 2021-22 Preliminary Recommended Budget

All Funds	2020-21	2021-22	Change From
(\$ millions)	Adopted Budget	Preliminary Recommended	FY 2020-21
General Fund ⁽¹⁾	\$ 856.6	\$ 851.9	\$ (4.7)
Operating Special Revenue Funds	1,152.4	1,173.1	20.70
Other Special Revenue Funds	526.0	460.4	(65.60)
Capital Project Funds	0.5	0.5	-
Enterprise Funds	139.9	126.0	(13.90)
Internal Service	294.6	297.3	2.70
Special District Funds	35.8	37.8	2.00
Employment Grant Programs	40.3	36.5	(3.80)
Community Development Programs	22.6	37.7	15.10
Total All Funds	\$ 3,068.7	\$ 3,021.2	\$ (47.5)

⁽¹⁾ Excludes BSI, Capital Projects and Major Maintenance

Fund Balance

Fund balance carry-forward is typically the result of revenue collected, and appropriations not spent for a balance of funds at the end of the fiscal year that may be used in the following year's budget. Best budget practices would limit the use of fund balance carry-forward to one-time expenses to the greatest extent possible. Prudently, your Board has used most of the carry-forward balance for one-time expenditures or designations over the past several years. At this time, it is anticipated that \$16.8 million of the carryforward at June 30, 2021, will be used towards operations in FY 2021-22 to mitigate service level impacts. Any remaining balance at year-end of the one-time funds will be recommended for critical major maintenance projects or reserved for future use in accordance with Board policy.

Reserves and Designations

While there is no requirement or mandate to have reserves, all counties have reserves as a manner of prudent financial planning and best practices. Reserves and designations primarily serve the following purposes: to provide security in case of an unforeseen crisis, to offset the costs of short-term shortfalls in revenue or unanticipated costs, to save for specific future liabilities or projects, and to ensure good financial standing so the County can attract investors and encourage economic growth. The County has several designations that have been established over the years for specific purposes such as payment of state liabilities, set aside for economic opportunity areas, mitigation of pension cost increases, park improvements, infrastructure

replacement, and the General-purpose reserve of \$40 million established to mitigate current and future risk. This amount represents approximately 23 days of cash coverage for the General Fund operating expenditures. The use of \$6.5 million from the Retirement designation is included in the Preliminary Recommended Budget to mitigate the retirement cost increases in some public safety departments.

PROGRAM CHANGES

Public Safety

The Board's commitment to public safety remains evident in the budget. The citizens of Kern County rely on the first responders of the Fire Department and Sheriff's Office more than any other services and require funding priority. Even as the pandemic has modified the County's service delivery, the commitment to our first responders and public safety departments has not changed.

The Kern County Fire Department, while still facing a structural deficit, will end the year better than anticipated, recognizing additional funding for fire protection services. In FY 2021-22 all Kern County Fire stations will remain open and all firefighter positions will be funded and filled. The need for a strategic long-term plan to match expenses, including ongoing capital needs, and maintain emergency response needs with available resources still exists to avoid future service level reductions, as slightly more than six in ten calls made to County dispatch are medical emergencies or rescues.

The Sheriff's Office will add positions to enhance accountability and will implement body-worn cameras in all operational positions to provide greater oversight and transparency through the County's commitment to the settlement agreement reached with the Department of Justice.

Beginning July 1, 2021, the State begins to shut down its Division of Juvenile Justice (DJJ) and shifts responsibility for housing and rehabilitation of juvenile wards from the state to the counties. DJJ has historically housed the most serious youthful offenders who are not transferred to the adult criminal system. This represents a significant shift to the Juvenile Justice System as the current DJJ commitment averages 28 months and jurisdiction can last until age 25 in some cases. The state will provide additional funding for this responsibility in a three-year, phased rollout. Funds will be used to hire additional staff and create programming tailored to this population.

The District Attorney and Public Defender's Offices continue to aggressively pursue justice on behalf of the people and the accused. The District Attorney anticipates filling more positions than any prior year primarily due to savings created by vacancies at higher levels and through the addition of support staff, all within the adopted NGFC.

Animal Services, which was subject to a 7.5% reduction in NGFC during FY 2020-21 will need to maintain services with status quo funding. The department continues to focus on achieving no-kill status through partnerships with non-profits, volunteers, and fosters. During the past year, the department has reimaged many of their programs in light of the pandemic and has done so with success. In the coming year, the department will spend one-time funding of \$350,000, an increase of 40% over the previous year, on spay/neuter efforts that have proven meaningful in past years. Additionally, the recruitment of a full-time veterinarian remains a top priority as the department would be better equipped to provide more in-house medical services, reducing the expense on outside veterinary care, and making a greater impact on the County's animal welfare goals. In FY 2021-22 the department anticipates taking delivery of two large cargo vans that will assist in

growing the success of transporting animals to rescues and will provide for more mobile licensing and vaccination clinics in the harder to reach communities.

The County's commitment to public safety has not wavered and departments are equally committed to continuing to provide the highest level of service within their limited resources.

Social Services

Social Services revenue in both state/Federal funding is stronger than budgeted in FY 2020-21, which allows the Department of Human Services to increase support and services to the most vulnerable County residents. However, both short-term and long-term risks remain which could impact services and funding in the future. While social safety net expenses were anticipated to increase at the onset of the COVID-19 pandemic, costs significantly declined primarily due to enhanced unemployment insurance benefits, issuance of economic stimulus funds, and limited access to referral services. These one-time COVID-19 funds will expire, and the Department of Human Services is budgeting an increase in salaries and benefits to maximize funding and prepare for increase in cases anticipated during the post-COVID-19 recovery period. It is anticipated case-related costs will outpace revenue growth placing pressure on the department's budget and the General Fund. While the full program impacts related to the COVID-19 pandemic are still unknown, the department will continue to prioritize resources to align program expenditures with state and federal funding and the needs of the community.

The In-Home Supportive Services (IHSS) Administrative State General Fund allocation for FY 2021-22 is budgeted to increase by a limited \$205,000. The increase in allocation and strategic alignment of resources will allow the Aging and Adult services department to increase support and services to the community. The Governor's May Revision contains \$57.3 million in State General Fund in FY 2021-22 and \$123.8 million ongoing General Fund to maintain the 65% state and 35% county sharing ratio for IHSS local wage increases up to the cap. In addition, the May Revision includes the continuation of the 10 percent over three years option and permanently restores the 7 percent IHSS hours cut. While these changes are welcomed and beneficial to the County, they increase the overall cost of the program, and counties will remain at risk of cost shifts in the event the State alters the structure of IHSS maintenance of effort.

Homelessness and Housing

The County's continued commitment to combatting homelessness is demonstrated through the operation of the County's M Street Navigation Center funded by the Permanent Local Housing Allocation Grant. Over 60 individuals have been connected to permanent housing since doors opened in May 2020. In FY 2020-21, \$1.4 million of Homeless Housing, Assistance, and Prevention (HHAP) funds were disbursed to local service providers to expand housing and homeless services. HHAP Round 2 funds in the amount of \$663,000 were awarded to the County in May 2021 and will be included in the FY 2021-22 final budget to combat homelessness. In addition, Community Development Programs FY 2021-22 budget includes approximately \$6 million in federal and state funding for engagement of homeless individuals, improvement of homeless shelters, rapid rehousing of individuals, and emergency shelter services and facilities to assist people in quickly regaining stability in permanent housing after a crisis or homelessness.

Over \$50 million in rental and utility assistance, from State and Federal sources, was awarded to the County to assist tenants experiencing housing instability due the COVID-19 pandemic. These programs will continue during FY 2021-22

The County continues to collaborate with the City of Bakersfield and the Bakersfield-Kern Regional Homeless Collaborative to make significant strides on this complex issue.

Kern County Library System

As the County begins to recover and reopen, libraries will play a key role in helping our communities return to work, schools, and entertainment. Over the last fiscal year, operations at all library branches were impacted due to statewide capacity and social distancing guidelines, coupled with budgetary and staffing concerns. During this time, the department has reinvented how customer interactions occur through the transition to curbside services, inside browsing by appointment only, and enhanced virtual programming to best serve residents countywide. Moving into FY 2021-22, the department plans to reopen a total of 22 library branches across the County that will provide full indoor services, curbside appointments, and maintain virtual programming.

By restoring the \$492,179 reduction in NGFC funding from the prior fiscal year as well as an allocation of ARPA funds, the department plans to rehire staff to run operations at branches that are currently closed. At each branch there will be a dedicated team of staff providing more attention to the way resources are used in each individual community. With this funding and through the department's reopening plan, the library branches will be expanding current programming in multiple ways including, in-person programming at branch locations, regular outreach at community sites, and expansion of virtual programming. In addition, branches will be adding self-service stations providing another option for quicker checkout, ease of access to printing, and catalog research. This will increase opportunities for community members of all ages to access programs and services in various forms. Restoring and enhancing library services helps to continue reading and educational opportunities to communities across the County.

Public Health

Efforts of the Public Health Services Department during FY 2020-21 were devoted to the preservation of emergency services and pandemic response. The department has been responsible for the development and implementation of plans across the County's network of businesses and health care providers to combat the virus' spread. The department continues COVID-19 contract tracing, education, and operation of the COVID-19 Mass Vaccination Clinic. The FY 2021-22 Preliminary Recommended Budget for Public Health is bolstered by increased state and federal funding; most notably, the Centers for Disease Control and Prevention's Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infectious Diseases Grant to continue to combat and prepare for a resurgence in COVID-19 in our community.

Roads

State and Federal funding for road maintenance and construction is increasing \$17.3 million. This increase includes additional funds from the state Road Repair and Accountability Act which will fund several projects including safety improvements, rehabilitation, and construction of complete street components and multi-modal facilities on streets and roads in the unincorporated area of Kern County, including Oildale, Lamont, Buttonwillow, Lebec, Lost Hills, Rosamond, Mojave, Boron, Kernville, Lake Isabella, Frazier Park, and the unincorporated metropolitan areas of Bakersfield, Tehachapi, Arvin, Delano, McFarland, Shafter, Wasco, Taft, and Ridgecrest. While State and Federal funding is helpful in addressing these needs, independent engineers have rated the County's 3,300 miles of roads as "fair," "poor," or "very poor" and a long-term strategy is still needed to maintain and upgrade roads and road safety conditions as they will only get more expensive to fix if delayed.

Deferred Maintenance

The County has numerous facilities and grounds that must be maintained to protect the public health, and safety of residents, in addition to crating recreational and educational opportunities. Due to the limited resources available, many projects have been delayed or postponed. The Preliminary Recommended Budget does not include any major maintenance projects. Available funding will be evaluated after year-end closing to determine if any critical projects identified by General Services can be completed.

CONCLUSION

The FY 2021-22 Preliminary Budget continues to support the County's goal of providing quality services to the public. Prior to the August budget hearings, the County Administrative Office will incorporate budget revisions as changes in the state and federal spending levels are finalized and revenue revisions reflecting the latest estimates of available funds are calculated and applied to mitigate service level impacts to our residents.

The next public meeting to discuss the budget will be on July 26, 2021, at 6:00 p.m. followed by the regularly scheduled Board meeting on July 27. These meetings as well as budget hearings in August will provide opportunities for members of the public to comment on the budgetary recommendations presented here and any revision made from final year-end numbers and state impacts. Based on your Board's direction, additional revisions may be made to the final budget. Budget hearings will commence on Tuesday, August 31 at 9:00 a.m.

Therefore, IT IS RECOMMENDED that your Board hear the presentation, discuss the proposed budget, and approve the FY 2021-22 Preliminary Recommended Budget for the County of Kern and special districts governed by the Board of Supervisors in accordance with the County Budget Act.

Sincerely,



Ryan Alsop
Chief Administrative Officer

RA: EM: BUDFIS PRRECBUD2022

Attachment

cc: All Departments