



June 28, 2022

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

**FISCAL YEAR 2022-23 BUDGET DISCUSSION AND PROPOSED
PRELIMINARY RECOMMENDED BUDGET**

Fiscal Impact: None

The Fiscal Year (FY) 2022–23 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 25 in the evening, and Tuesday July 26. The final adoption of the budget will take place during budget hearings scheduled to begin on Tuesday, August 30, 2022.

The document before you today is a temporary budget that will be used until budget hearings are completed. The County Administrative Office will continue to work with the public and your Board in the coming months to update the Preliminary Budget which will provide the guiding principles and performance measures on which to base the final budget. 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, 2022, year-end fund balances, and updated property tax revenue estimates based on the final assessment roll by the County Assessor-Recorder.

EXECUTIVE SUMMARY

The discretionary revenues needed by departments to protect public health and safety, provide quality health and human services, protect the environment, plan for growth, renew infrastructure, enhance quality of life, and carry out other mandated and discretionary programs are projected to have a modest increase in FY 2022-23, primarily due to growth in commercial and residential real estate values, and a slight growth in oil and gas properties assessed values. We continue to struggle with anemic year over year growth in our County's revenues while the cost of providing vital, quality-of-life services continues to increase. These constraints force the development of a budget that allows for limited increases in County services. The uncertainties and unfavorable developments regarding fiscal outlook force us to take a cautionary approach while we continue striving for excellence in managing our business and workforce.

The County's Preliminary Recommended Budget totals \$3.3 billion, roughly \$81.6 million more than the FY 2021-22 Adopted Budget, adjusted for Budgeted Savings Incentive (BSI) Credits, Capital Projects, Major Maintenance and increase to reserves. The increases include implementation of the Department of Juvenile Justice Realignment (SB 823), Pretrial Supervision (SB129), costs associated with implementation of the organics' diversion (SB 1383), anticipated increases in foster care and adoptions, and additional staffing to provide behavioral health services to the most vulnerable County residents. Most of these programs are funded by the State and Federal sources, which allow for increased support and services.

GROUND  **BOUNDLESS**

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 provides approximately the same level in Net General Fund Cost (NGFC) allocation as the current fiscal year. The Preliminary Recommended Budget includes the cost of the compensation reform completed in 2021, which affords a 2% step increase and a 2.5% Cost of Living Adjustment for our workforce. While we continue to cope with recruitment and retention issues at the Sheriff's Office, the Preliminary Recommended budget funds twelve more safety positions than funded during FY 2021-22. The Sheriff's Office once again is adding positions to provide greater oversight and transparency, an investment that also brings our County into further compliance with the department's stipulated judgment with the California Department of Justice. All firefighter positions are funded in the budget, mostly by additional state allocation from CalFire.

DISCRETIONARY REVENUE AND ECONOMIC OUTLOOK

Public agencies have dealt with a lot in the last couple of years; COVID-19, lockdowns, workforce shortages, and supply chain issues, just to mention a few. Many counties across the state saw assessed values significantly increase. However, due to significant declines in the valuation of oil and gas properties, the County has the lowest increase in assessed valuation in the State with an increase of only 3.93% since 2014. Sale tax revenues in some areas of the state recuperated from a precipitous fall in the spring of 2019. While the County's sales and use taxes decline was not as severe as anticipated, the growth since 2014 has not kept pace with the increased cost of providing vital services to our residents. The County's pension plan experienced better-than-expected returns over the past year, reducing the County's unfunded pension liability. However, things are changing fast: inflation is expected to remain high, interest rates have increased, and the stock and bond markets are quickly losing the previous gains. Some retirement systems are posting investment losses which results in higher retirement costs. The housing market is showing signs of slowing down and talks of recession are beginning to circulate.

After the unprecedented loss in property tax in fiscal year 2016-17, your Board prioritized fiscal stability by implementing multiple actions to reduce expenditures to mitigate the loss of revenue while attempting to maintain a basic level of service necessary to provide for the health and safety of our community. However, any additional volatility in the economic factors that affect the discretionary revenue may impact our community to a greater extent, since any further expenditure reductions can jeopardize the health or safety of our community.

Overall, Countywide discretionary revenue is not keeping up with the increasing costs of providing vital services. 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 \$392.9 million in discretionary revenue, an increase of \$12.4 million, or 3.26%, from the prior year adopted budget, while the local Consumer Price Index has increased 8.01% over the past year. Countywide discretionary revenue is allocated to mandated and discretionary programs and to cover the required Maintenance of Effort charges for state and federal mandated programs.

Property Related Revenue

The Assessor's initial assessed value estimates include an overall increase of approximately 4.45% for next year's assessed valuation. The Assessor projected an increase of 3% in assessed value for residential and commercial properties in the secured roll. Oil and gas property assessments are projected to increase by 20%, based on a per barrel of oil cost of \$73 established for the 2022 lien date, and the additional volatility associated with the regulatory process for permitting of oil and gas. The net impact for the General Fund of this projected overall increase in value is a corresponding increase in property tax revenue of \$6.2 million and \$2.3 million of property tax in-lieu of vehicle license fees for a total of \$8.5 million. The Fire Fund is estimated to collect \$4.7 million more than budgeted in FY 2021-22. The Assessor will finalize the assessment roll for FY 2022-23 on June 30, 2022, after which revenue estimates will be updated for the final recommended budget that will be presented at the upcoming budget hearing in August.

Sales and Use Tax Based Revenues

Consumer spending has continued to grow despite price increases fueled by inflation. U.S consumer spending surged 1.4% in March. Spending was driven by purchases of motor vehicles, and nondurable goods like apparel and recreational goods. Locally, a strong boost in heavy industry, energy and utilities, petroleum production equipment, construction home improvements, transportation, and fuel and service stations continued to produce strong base receipts for the County. Sales and use taxes are budgeted at base revenue collections of approximately \$48 million, which is approximately \$4 million more than the FY 2021-22 adopted budget. We believe the increase is attainable despite the uncertainties in consumer spending and a potential economic slowdown.

Realignment funds are projected to increase overall in FY 2022-23. Approximately \$10.5 million of the \$14.7 increase in 1991 realignment is attributable to CalWORKs MOE, Child Poverty 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. For FY 2022-23 the State is projecting that 2011 Realignment will see revenue growth and, unlike previous fiscal years, the County Administrative Office is recommending budgeting a portion of the anticipated increase in base funding as a result of the projected growth for public safety realigned programs which results in an increase of \$11.3 million. Additionally, the Protective Services subaccount is projected to increase \$7.7 million which will be instrumental in mitigating cost increases in the Department of Human Services. 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 is a permanent extension of a half-cent Local Public Safety Sales Tax approved by California voters on November 2, 1993. In anticipation of a severe decline in sales taxes due to the State's stay-at-home order, public safety departments did not receive their full budgeted allocation last year in order to preserve resources for the following fiscal year. Since the overall level of decline for the County was not as severe as that experienced in other parts of the State, the county's pro-rata factor increased resulting in higher collections in FY 2021-22. For FY 2022-23, we are recommending allocating the \$6.1 million that was not provided to departments. The County's pro-rata factor is projected to decline by 4.9% in FY 2022-23; however, as noted above, sales tax collections have continued to increase, resulting in approximately \$9.7 million more in base allocations to public safety departments than FY 2021-22. This increase will be instrumental for public safety departments to cover cost increases.

BUDGET OVERVIEW

As displayed in table 1 – FY 2022-23 Preliminary Recommended Budget, the Preliminary Recommended budget totals \$3.3 billion, roughly \$81.6 million more than the FY 2021-22 Adopted Budget, adjusted for BSI, Capital Projects, Major Maintenance and increases to reserves. General Fund appropriations are increasing by \$33.9 million, or 3.83%, primarily as the result of the negotiated salary increases, implementation of new programs in the Probation Department and increased realignment funding that will be provided to public assistance departments. In FY 2021-22, the County utilized \$3.3 million in fund balance carry forward to fund ongoing expenditures, which has increased to \$5.5 million in the FY 2022-23 Preliminary Recommended Budget as a result of negotiated salary increases, minimum wage increases, the settlement agreement reached with the Department of Justice, and the limited growth in discretionary revenue.

Table 1 –FY 2022-23 Preliminary Recommended Budget

All Funds (\$ millions)	2021-22 Adopted Budget	2022-23 Preliminary Recommended	Change From FY 2020-21
General Fund ⁽¹⁾	\$ 884.4	\$ 918.3	\$ 33.9
Operating Special Revenue Funds	1,157.5	1,215.1	57.60
Other Special Revenue Funds	616.1	611.1	(5.00)
Capital Project Funds	26.9	-	(26.90)
Enterprise Funds	133.7	145.7	12.00
Internal Service	298.7	322.1	23.40
Special District Funds	49.2	39.2	(10.00)
Employment Grant Programs	36.4	36.1	(0.30)
Community Development Programs	42.9	39.8	(3.10)
Total All Funds	\$ 3,245.8	\$ 3,327.4	\$ 81.6
⁽¹⁾ Excludes BSI, Capital Projects, Major Maintenance and increases to reserves			

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 \$5.5 million of the carry-forward at June 30, 2022, will be used towards operations in FY 2022-23 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 practice. 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.

PROGRAM CHANGES

Public Safety

The Board's commitment to public safety remains evident in the budget. Through a series of public surveys and online feedback data collection, the citizens of Kern County have provided their priorities for vital County Services. Today, our residents have identified public safety as a priority including maintaining law enforcement, fire and 911 response, recruiting qualified sheriff deputies, firefighters and paramedics, preventing thefts and property crimes, providing supervision of high-risk offenders who are on probation and helping address mental health and addiction challenges.

The Kern County Fire Department preliminary recommended budget for FY 2022-23 as submitted is structurally balanced and fully funds all firefighter positions; however, it does not address ongoing capital needs and replacement of stations. The department is able to absorb the negotiated salary increases for Fiscal Year 2022-23 with the increased allocation of local public safety (Prop 172) revenue and the reduction in the retirement rate and requires no additional contribution from the General Fund. This budget includes the addition of 23 positions and allows all Kern County Fire stations to remain open and all firefighter positions to be funded and filled. The department will continue to leverage 30 firefighter over-hire positions and 20 wildland firefighter positions to bolster the department's efforts to recruit and retain a local and diverse workforce and to create a year-round wildfire program.

The Kern County Sheriff's Office's preliminary recommended budget will increase by \$3.5 million from the 2021-22 base NGFC. This is one of only a few County departments receiving increased funding in this budget, an investment driven by the public's priorities. The increase will fund the addition of four positions to comply with the stipulated judgement reached with the California Department of Justice, cover the cost of negotiated salary increases, and fund approximately \$744,000 in one-time supplemental requests for Coroner transport services, cannabis enforcement, and the purchase of mobile data computers. Compared to funded positions in the FY 2021-22 adopted budget, the 2022-23 preliminary recommended budget effectively adds 40 positions to the Sheriff-Coroner ranks including 15 Community Service Technician positions, added to respond to non-hazardous, non-emergency calls for service to allow sworn personnel to be available to respond to emergency services. Despite these additions, the Sheriff's budget leaves 141 positions vacant and unfunded, of which, 131 are sworn positions (72 Sheriff Deputy classifications and 59 Detention Deputy classifications), which are not available to provide for the safety and security of our residents and visitors. Recruitment and retention issues still continue to challenge the Sheriff's Office. The department currently has 106 funded sworn staff that remain vacant. The Human Resources Division is working with the Sheriff to attract and retain a quality workforce that reflects the diversity of our community.

The Probation Department will see an increase in the services they provide to our community. Beginning July 1, 2021, the State began to shut down its Division of Juvenile Justice (DJJ) and shifted responsibility for housing and rehabilitation of juvenile wards from the state to the counties. DJJ has historically housed the most serious youth 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 challenge will be in the future years if the state funding is not sufficient to cover the new mandate.

Additionally, the Probation Department has the responsibility to pretrial supervision. On July 12, 2021, Governor Newsom signed Senate Bill 129 (SB 129) amending the Budget Act of 2021, which appropriated funding to the 58 California Courts to support judicial officers in making pretrial release decisions. This was done in response to a California Supreme Court decision, *In re Humphrey*, which affirmed the court must consider the arrestee's ability to pay the stated amount of bail and may not detain the arrestee solely because the arrestee lacked the resources to post bail. The department is adding additional staff funded by a State allocation to the Superior Court of California.

The District Attorney and Public Defender's Offices continue to aggressively pursue justice on behalf of the people and the accused. With the assistance of one-time funding, the Public Defender anticipates filling more positions than any prior year.

Animal Services 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. In the coming year, the department will spend one-time funding of \$350,000, on spay/neuter efforts that have proven to be meaningful in past years. Additionally, the department was able to hire a full-time veterinarian 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.

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

Social Services

Social Services revenue in both State and federal funding is stronger than budgeted in FY 2021-22, 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. As these funds and various COVID-19-related exemptions expire, the Department of Human Services is budgeting an increase in salaries and benefits to maximize funding and prepare for the increased need 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 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) Maintenance of Effort (MOE) will continue to grow by 4 percent annually and will include any provider rate increases that are negotiated. The share of cost for wages above the \$15 per hour remains at 65 percent state and 35 percent county, instead of reverting to 35 percent state and 65 percent county, as was scheduled to occur under previous law. The funding for this mandated service will continue to be a budgetary concern since the County's share of provider service cost is paid to the State through an MOE and is subject to change. The MOE is funded with 1991 Realignment and General Fund, therefore any reduction in realignment would impact the General Fund. The administration of the IHSS program is

funded with a capped State General Fund allocation and costs that exceed the allocation are funded with Realignment and General Fund. At the current rate of growth in local cases and referrals, IHSS administration costs are expected to eventually outgrow available funding sources, potentially resulting in additional General Fund impact from IHSS. For Adult Protective Services (APS), in FY 2022-23, the Aging and Adult Services Department will receive additional State funding of \$1.2 million and additional federal funding of \$390,000 for the Home Safe program to assist with housing stability for APS clients. The department has also received additional federal funding of \$2 million for expansion of APS programs, although this funding may be of limited duration.

Homelessness and Housing

The County continues to focus on homelessness through the M Street Navigation Center housing over 130 individuals in its first two years of operation. In FY 2021-22, \$15 million of American Rescue Plan dollars were committed to homelessness, which includes behavioral health co-response teams with the Bakersfield Police Department, Safe Camping and Parking Project, and development of non-congregate housing with wraparound services. The Safe Camping and Parking program opened in June of 2022. The County was also awarded Homeless Housing, Assistance and Prevention (HHAP) funds for the third round to expand homelessness services amongst local service providers. Over \$66 million in rental and utility assistance, from State and Federal sources, was awarded to the County during the COVID-19 pandemic and we have worked diligently with the Housing Authority of the County of Kern to distribute this funding to County tenants. 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

The Library System has reopened its 22 branches. Although operating with limited days and open hours due to limited funding, libraries continue to play a key role in increasing the educational opportunities across the County. The libraries have expanded programming in multiple ways, including continued virtual programming and the expansion of in-person programming at branch locations. In addition, branches have purchased upgraded equipment using one-time allocations to provide improved computer services, more options 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.

Public Health

Because of COVID-19, many residents learned about the essential services public health provides. Local health departments are responsible for protecting the health, safety, and general welfare of the residents within their jurisdictions. The Kern County Public Health Department is more directly involved with the community than the federal and state government, and by working with community partners, the department understands the unique, local needs of our community. Efforts of the Public Health Services Department during the last two years were devoted to the preservation of emergency services and pandemic response. As the pandemic has progressed and mitigation measures have stabilized, the department's efforts have reduced, but still persist. The department continues COVID-19 case investigations and contact tracing; public education; distribution of medical supplies, equipment, and staffing resources; serves as a liaison with schools and businesses related to mitigation measures; and coordination of COVID-19 testing, treatment, and vaccination resources. While the Public Health Department continues to work on COVID-19 efforts in our community, the department will reallocate resources that were previously dedicated to COVID-19 activities and bolster its

efforts in other areas including the prevention of infectious diseases, STD management and HIV and Hepatitis-C prevention.

Behavioral Health and Recovery Services

The Preliminary Recommended Budget for Behavioral Health and Recovery Services includes an increase in appropriations of \$15.2 million. The department will fund 81 additional positions to support services throughout the County. During the coming year, the department will continue its efforts to address the needs of residents experiencing homelessness that have historically refused services through the department's Relational Outreach and Engagement Model (ROEM) Team. They will also strengthen their efforts in suicide prevention through funding from the Mental Health Services Act and will continue their partnership with law enforcement to assist with 911 calls to divert calls to a mental health professional when appropriate. FY 2022-23 does not come without challenges; the department will continue to participate in the development of the 2020 waivers with the California Department of Health Care Services that will lead to major changes in behavioral health systems and operations. The Governor's proposed CARE Court will require that the department offers court-ordered individualized interventions and services, stabilization medication, advanced mental health directives, and housing assistance – all while the individuals remain in community-based housing. How this program will be implemented is yet to be determined, including the funding available to support the court-mandated services.

Roads

State and federal funding for road maintenance and construction is estimated to total \$79.5 million in FY 2022-23. This includes 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 areas 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.

In January of 2022, the Public Works Department requested and received approval to adjust rates related to solid waste management. The rate categories include land use fees, gate fees, and bin fees. The request also included the ability for the Public Works Department to bring forward Consumer Price Index related rate adjustments for a period of five years without requiring a protest hearing. The rate adjustments are primarily driven by recent state legislation known as SB 1383, which is intended to reduce emissions of climate pollutants by diverting organic waste from landfills. In order to achieve regulatory compliance, Kern County will have to enact additional landfill reduction efforts related to food waste, green waste, paper, cardboard, and other organics. The implementation of new processes and expansion of existing processes requires the additional financial resources that will be generated through the rate adjustments and the issuance of debt financing for a compost facility.

Deferred Maintenance

Due to limited discretionary funding over the last few years, many non-emergency maintenance and capital projects were delayed or postponed. However, the County has been able to secure grant funding that combined with a small allocation from the County's General Fund, will allow an investment of nearly \$34 million to upgrade our parks. Work has begun and will continue in FY 2022-23. Several of our parks, like Lamont, Heritage, Mojave, Boron and Rosamond will be almost entirely redeveloped. Other parks, like Delano, Belle Terrance, Victoria Araujo, Leroy Jackson, Ford City, Frazier Mountain, Petroglyph and Panorama, to name a few, will see significant upgrades. La Colonia Playground and Basketball Court, in the Mexican Colony is in progress, and plans are being developed to build a new park in the Fuller Acres community. While these improvements provide much needed investments in our parks, we must ensure that discretionary funds are available to maintain these investments. Available funding will be evaluated after year-end closing to determine if any other critical project identified by General Services can be completed.

CONCLUSION

The FY 2022-23 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 25, 2022, at 6:00 p.m. followed by the regularly scheduled Board meeting on July 26, 2022. 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 30, 2022, at 9:00 a.m.

Therefore, IT IS RECOMMENDED that your Board hear the presentation, discuss the proposed budget, and approve the FY 2022-23 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 J. Alsop
Chief Administrative Officer

RA: EM: BUDFIS PRERECBUD2023

Attachment

cc: All Departments