

Fiscal Year 2023-24 Mid-year budget review

February 6, 2024

Office of Budget and Analysis

Mid-Year Budget Review

Introduction

Base Budget for Next Fiscal Year

Fund Balance Projections

Recommended Budget Adjustments
for the Current Fiscal Year

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- Comprehensive analysis for the first six months of the fiscal year.
- Recommended budget adjustments for FY 23-24 are generally corrective and true-up adjustments.
- The Current Level Budget (base budget) for FY 24-25 is a **\$250 million operating deficit** that will be addressed in the Recommended Budget.

FY 2024-25 Base Budget Projections

- FY 2024-25 Current Level Budget (base budget) **deficit** is projected to be **\$250 million** for all funds that are dependent upon discretionary revenue.
- The County's operating costs continue to grow faster than revenue growth.
- Slow turnover in property ownership is impacting the growth rate in the property tax assessment roll.
- County property tax roll is projected to grow 5% which, while healthy, is less than in recent years.
- The cost of labor, and other operating costs, and the cost per unit of service is growing significantly faster than revenue growth.

FY 2023-24 Fund Balance Projections

- FY 2023-24 General Fund ending balance is projected to be positive at \$45.9 million from departmental operational savings plus any unspent General Fund Contingency.
- FY 2023-24 Santa Clara Valley Healthcare enterprise ending balance is projected to be negative at minus \$42.9 million before consideration of any midyear budget adjustments.
- Recommended midyear adjustments include a \$42.9 million General Fund investment in the hospital and clinic system to sustain services through June 2024.

Balancing the FY 2024-25 Budget Will Require Fiscal Discipline and Budgetary Reductions

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- The Administration will review budget reduction proposals from County departments, looking for opportunities to maximize possible revenue, consolidate or redeploy resources, reorganize programs to improve services or efficiencies, and maximize the use of restricted fund balances (i.e., AB 109 and other State Realignment) to minimize reductions to services and staffing.
- Expect few, if any, budget proposals being incorporated into the Recommended Budget if it negatively impacts the General Fund or hospital system enterprise funds fiscal condition.
- Cost reduction options prepared by OBA and County departments will be evaluated by the County Executive as the FY 2024-25 Recommended Budget is developed.

Challenges Balancing the FY 2024-25 Budget

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- Developing the legally-required balanced budget will be an intense challenge in the upcoming budget cycle.
- Many programs, activities, and positions will need to be reduced.
- Where allowed, improved cost recovery through increased fee rates will need to be considered.
- Governor's January Budget includes proposal to change law, diverting property taxes from Bay Area counties, cities, and special districts to help the State. The impact to the County General Fund, if the Governor is successful, is an ongoing loss of approximately \$32 million per year in discretionary revenue – an amount which will grow with the rate of property tax growth. This potential impact is not reflected in the current estimates.

Recommended Budget Modifications

- Recognize additional available fund balance
- Replenish General Fund Contingency Reserve
- Adjust expenditure appropriation and revenue estimates to reflect updated information
- Correct errors and omissions identified after the Adopted Budget
- Adjust ARPA transfer related to pandemic response cost recovery
- 2012 Measure A Sales Tax – Prior FY
- Increase General Fund investment to Hospital Enterprise Funds, offset by MY Reserve
- Increase budget in the Office of the Sheriff and Department of Correction for overtime, employee safety, and inflation-driven supplies costs
- Allocate funding for Behavioral Health Services Center Furniture, Fixtures, and Equipment

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FY 2024-25 Budget Development Timeline

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February	Departmental Budget Proposals to OBA
March and April	CEO, OBA & departments finalize proposals for Recommended Budget
May 1, 2024	Recommended Budget document distributed
May 13-15, 2024	Budget Workshops
June 10-11 ,13, 2024	Budget Hearing