

# Financial Forecast and Budget Process

## Five-Year Financial Forecast

The County's two-year Operational Plan (the first year of which is adopted by the Board of Supervisors as the County's budget) is informed by the results of the Five-Year Forecast, which is an informal planning tool designed to review the long-term outlook of the County's major cost drivers, service needs, and available funding sources. Typically, it is updated annually to help identify opportunities or issues and serves as the foundation to guide decision making during the development of the two-year Operational Plan. The intent of the Five-Year Forecast is not to create a five-year budget, but rather to be used as a planning tool to indicate the relative directionality of revenues and expenditures and to answer the following questions:

- Will revenues be adequate to maintain services at current levels?
- Will staffing levels change?
- Is there a need to expand existing programs or initiate new ones?
- Is additional debt necessary to meet capital needs?

The forecast is developed by first applying known and anticipated changes to salaries and benefits, operating costs, and revenues. Other factors considered include changes to required levels/scope of services and priorities of the Board of Supervisors (Board), demographic trends, economic indicators, and federal and State policy changes. A summary of the most recent Five-Year Forecast, including the ongoing effects of the recession due to the COVID-19 pandemic are as follows:

## Review of Economic Indicators and Demographic Trends

Economic indicators are reviewed to assess overall economic health at the federal, State, and local level. These include unemployment statistics, median household income, taxable sales, as well as several indicators around the health of the real estate market. Demographic data and trends including overall population changes and age, ethnicity and race distribution are reviewed for shifts in trends that may impact service needs.

## Forecast of Revenues

Property tax revenue is the main driver of the County's General Purpose Revenue (GPR), so assessed value of real property (land and improvements) is monitored closely. GPR is the only form of revenue which the Board has discretion on how to spend. Assessed Value is analyzed in conjunction with Five-Year

Financial Forecast activities and ongoing planning activities, which in turn provides direction for the budget. Assessed Value is forecasted to grow at 3.00% in Fiscal Year 2021–22 and 3.00% in Fiscal Year 2022–23.

Other funding sources (i.e. program revenues) are received for specific purposes such as to provide services on behalf of federal or State government. Revenue projections in many program areas are still recovering as a result of the COVID-19 recession.

## Forecast of Expenditures

The County's ongoing response to the COVID-19 pandemic has revised initial projections of expenditures throughout the Operational Plan period, both to address evolving requirements and service needs, to align services with available revenues, and to address the use of the County's General Fund reserve in Fiscal Year 2020–21 as required by the San Diego County Code of Administrative Ordinances. Additionally, one of the most significant cost drivers in the current long-term outlook remains a possible decrease in the assumed rate of return (ARR) and other changes in actuarial assumptions for the San Diego County Employees Retirement Association (SDCERA). The current outlook reflects the SDCERA Board of Retirement's current ARR of 7.00%. Forecasted retirement expenditures anticipate SDCERA will continue to lower the ARR during future reviews of economic and demographic assumptions, which will result in higher annual County retirement costs beginning in Fiscal Year 2023–24. The forecast also reflects negotiated Salary & Benefits increases in place at the time of the forecast.

## Capital Projects

The County's long-term capital needs have been identified and are included in the County's Capital Improvement Needs Assessment (CINA). Projects anticipated over the next five years are identified, ranked and prioritized. As a result of ongoing monitoring of all County facilities, and the ensuing forecasted needs, the County is working to revitalize building infrastructure and reduce ongoing maintenance and repair by implementing a Facilities Operational Improvement Program for aged facilities. This program helps to identify County-owned structures which are greater than 40 years old and are considered for replacement or major renovation, and is considered in the formation of the CINA.

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## Debt

The County's long-term financial obligations are issued and administered according to San Diego County Administrative Code, Board Policy and other guidelines.

To support the annual payments related to the County taxable pension obligation bonds (POBs) in Fiscal Year 2017–18, the County began using fund balance committed specifically for the repayment of its POBs. Beginning in Fiscal Year 2016–17, General Fund fund balance, generated from unused funds for pension stabilization, was committed to help pay a portion of annual debt service for the POBs to assist with the funding of the County's overall retirement costs. By using committed (now restricted) fund balance to help support payments of the POBs, ongoing discretionary revenue is made available to help absorb the anticipated rising annual costs of retirement, which are expected to be impacted by actual investment performance and anticipated changing economic and demographic assumptions. This amount, and other amounts that have been appropriated for pension stabilization, are now restricted to funding pension-related liabilities, pursuant to an amendment of the County Charter (Article VIII Budget and Accounting, Section 800.1 Pension Stabilization) that was passed by voters in November 2018.

## Budget Process

### CAO Recommended Operational Plan

The budget process begins annually with submittal of the Chief Administrative Officer's (CAO) Recommended Operational Plan. This document is a comprehensive overview of the CAO plan for the County's operations for the next two fiscal years. It is submitted to the Board of Supervisors in May of each year.

### Public Review and Hearing

Prior to adopting a budget, the CAO presents the Board of Supervisors and the public with an overview of the information contained in the CAO Recommended Operational Plan. The operational plan presentation takes place in May and is an opportunity for the Board and the public to understand key changes from year to year and ask questions. In addition, the Board conducts a public hearing in mid-June for 10 calendar days. Pursuant to California Government Code §29081, the budget hearing may be continued from day to day until concluded, but not to exceed a total of 14 calendar days.

All requests for revisions to the CAO Recommended Operational Plan, whether from members of the Board of Supervisors, County staff, County advisory boards or members of the public, must be submitted to the Clerk of the Board in writing by the close of the public hearing in June to be included in a Revised Recommended Operational Plan. These may include:

### Change Letter

Change Letter is the phase where changes to the CAO Recommended Operational Plan are submitted by the CAO and/or members of the Board of Supervisors. The CAO Change Letter updates the CAO Recommended Operational Plan with information that becomes available after the latter document is presented to the Board of Supervisors. Such modifications may be due to Board actions that occurred subsequent to the submission of the CAO Recommended Operational Plan, or as a result of changes in State or federal funding, or other actions. The CAO Change Letter typically contains a schedule of revisions by department along with explanatory text.

### Referrals to Budget

Referrals to Budget are items on which the Board has deferred action during the current fiscal year so that they may be considered in the context of the overall budget. Each business group tracks their Referrals to Budget. As the Board's Budget Deliberations approach, the status of each referral is updated and included in a compilation of all the referrals made throughout the year. This document is submitted to the Board for review and action during Budget Deliberations.

### Citizen Advisory Board Statements

Citizen Advisory Board Statements are the comments of citizen committees on the CAO Recommended Operational Plan.

### Budget Deliberations

Budget Deliberations occur at a public meeting of the Board after the conclusion of public hearings. During budget deliberations, the Board discusses the CAO Recommended Operational Plan, any requested amendments and public testimony/recommendations with the CAO and other County officials, as necessary. Based on

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these discussions, the Board gives direction to the CAO regarding the expenditure and revenue levels to be included in the final Operational Plan. Board Budget Deliberations are completed by the end of June.

## Referrals from Budget

Referrals from Budget are requests made by the Board during Budget Deliberations for additional information to assist them in making decisions during the fiscal year. The applicable business group is responsible for providing the requested information to the Board of Supervisors.

## Budget Adoption

Budget Adoption occurs following the Board's Budget Deliberations. The budget, as finally determined, is adopted by resolution requiring a majority vote of the Board of Supervisors. Any changes to the CAO Recommended Operational Plan received after the close of the public hearings, but prior to adoption require a four-fifths vote of approval by the Board. Budget adoption occurs in June.

## Adopted Operational Plan

The Adopted Operational Plan shows the Board of Supervisor's adopted budget for the immediate fiscal year and the plan approved in principle for the following fiscal year. The Adopted Operational Plan is an update of the CAO Recommended Operational Plan reflecting revisions made by the Board during Budget Deliberations. Unlike the CAO Recommended Operational Plan which displays the two prior fiscal years' adopted budgets and the recommended amounts for the two upcoming fiscal years, the Adopted Operational Plan provides perspective by displaying actual expenditures and revenue at the group/agency and department level for the two prior fiscal years, as well as the adopted and amended budget for the immediate prior fiscal year.

The amended budget for each department is the budget at the end of the fiscal year. It reflects the adopted budget plus any amounts carried forward from the previous year through the encumbrance process and any changes that were authorized during the year. Any budget-to-actual comparisons are best made using the amended budget as a base.

## Budget Modifications

State Law permits modifications to the adopted budget during the year with approval by the Board or, in certain instances, by the Auditor and Controller. There are two options for requesting a mid-year budget adjustment from the Board of Supervisors which are described in the following sections.

## Board of Supervisors Regular Agenda Process

Budget modifications are generally made due to unforeseen and program-specific changes. In compliance with Government Code §29130, increases in appropriations require a four-fifths vote of approval by the Board after the budget is adopted. Such changes could include requests for additional appropriations as a result of additional unanticipated revenues for specific programs, or a contract modification. Items placed on the agenda that have a fiscal or budgetary impact are reviewed and approved by the Deputy Chief Administrative Officer/Chief Financial Officer. Contract modifications also require the approval of the Purchasing Agent. County Counsel reviews and approves all Board agenda items.

## Quarterly Status Reports

The CAO provides a quarterly budget status report to the Board that may also recommend changes to appropriations to address unanticipated needs or make technical adjustments to the budget. These reports are placed on the Board's regular agenda and are also posted on the County website.

# Financial Planning Calendar

## Calendar Year 2021

- Jul - Aug** Board Office input
- Aug 23** Five Year Forecast begins
- Dec** [Annual Financial Reports Release for Prior Fiscal Year](#)

## Calendar Year 2022

- Feb 1** Countywide Operational Plan Kickoff
- Apr** Community Budget Meetings
- Apr 15** Draft copy of balanced CAO Recommended Operational Plan sent to the Chief Administrative Officer and Deputy Chief Administrative Officer/Chief Financial Officer
- May 5** Recommended Budget document released to the public
- May 19-20** Budget Presentations
- Jun 13** Public Hearing on CAO Recommended Op Plan (9:00 AM)
- Jun 13-22** Budget Hearings
- Jun 16** Public Hearing on CAO Recommended Op Plan (5:30 PM)
- Jun 22** Last day for written testimony on budget to Clerk of the Board, including Change Letter Budget board letter, resolution(s) to adopt budget, and any referrals to budget filed with the Clerk of the Board
- Jun 24** Revised Recommended Budget document available to the public
- Jun 28** Budget Deliberations (2:00 PM) & Budget Adoption