



Butte County Administration

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May 8, 2020

TO: Board of Supervisors
FROM: Shari McCracken, Chief Administrative Officer
SUBJECT: Recommended Budget for Fiscal Year 2020-21

Pursuant to State law, I am submitting the fiscal year 2020-21 Recommended Budget for your consideration. Though it has been over a year and a half since the Camp Fire raged through our communities, the devastating effects are still present, and will remain so for many years to come. Just as we were starting to better understand the financial impacts of the Camp Fire, the COVID-19 pandemic struck and once again we have significant unknowns in the financial picture for not only Butte County, but the nation as a whole. Indications from a variety of economic forecasts reflect a recession, with the unknown being how deep the recession will be and how long it might last.

At the writing of this memo, the entire State remains under a stay at home order, although Butte County, along with other counties, is in the process of planning for a phased re-opening as the Governor has reduced some of the restrictions and is allowing some local control. Many businesses have shut down or scaled back, and many of our residents have unexpectedly found themselves out of work. However, our community is strong and resilient. Healthcare workers, first responders, and essential workers carry on despite personal risks. Several businesses have retooled to provide needed equipment and supplies that are in nationwide demand. And just as important, our residents have heeded the call to stay at home and do their part to flatten the curve. The outcome of the pandemic remains unknown, but we do know that the Board of Supervisors and Butte County, its residents, businesses, and local governments are rising to the challenge yet again.

In spite of expanded financial uncertainties the County, State, and nation face, I present the Recommended Budget to you as a balanced spending plan for the upcoming year. However, we must recognize the budget was mostly prepared prior to the COVID-19 pandemic. Modest adjustments were made due to an anticipated loss of sales tax revenues, but additional analysis will be needed as the pandemic and its effects unfold to determine if further changes are needed to right size the budget to the post-COVID-19 economic reality.

The result of the modest reductions made to the Recommended Budget include removing some one-time appropriations for items such as facility projects and capital asset purchases. The Recommended Budget includes no new positions except those funded by stable outside revenue sources. I anticipate recommending a schedule of additional adjustments, which may include some reductions, during budget hearings. Moreover, it is likely that the Board of Supervisors will have to consider further adjustments,

both reductions and additions, after the budget is adopted, if federal stimulus efforts do not have the anticipated impact and in response to potential State budget adjustments anticipated in August.

The Recommended Budget does not contain revenue from the PG&E settlement, as the bankruptcy plan was not approved before the Recommended Budget was completed. Once the bankruptcy plan is approved, it will take approximately 60 days to execute required documents and another 30 days before the settlement funds are received. The Board of Supervisors will discuss priority areas for use of the settlement funds later this summer, and then I will return with a recommend plan for Board consideration and discussion once the settlement is complete. The Recommended Budget also does not include potential federal and State reimbursements for COVID-19 response expenses, as timing of the reimbursements is unknown. It does include reimbursements for certain Camp Fire response and recovery efforts.

The Recommended Budget is approximately 8% larger than last year's, primarily due to the anticipated receipt of Camp Fire related reimbursements, road and capital projects, and the payment of mutual aid assistance from the Camp Fire. The Budget maintains the \$8 million General Fund Reserve and sets the General Fund Appropriation for Contingency target at \$7.1 million. Collectively, the \$15.1 million is below the 10% to 15% of prior year operating expenses that the County targets. It is, however, appropriate given the magnitude of the issues that the County is currently facing.

The Camp Fire brought new financial challenges to us, as a County that already had a gap between the rate of expenditure growth and revenue growth. It is too soon to know what other trends will emerge post-Camp Fire and now post-COVID-19, so the Recommended Budget includes minimal or no growth to expenditures not funded by outside revenue sources or reimbursements. I am able to recommend the budget without reductions in critical services largely because the State committed to backfilling three years of property tax losses due to the Camp Fire. Fiscal year 2020-21 is the last year with that backfill, which is estimated at \$4.2 million, though we will continue to advocate with the State for additional years. The County also received \$2 million in a State offset for our CAL FIRE contract in fiscal year 2019-20, thanks to efforts by our State Legislators. The County requested a second year of contract offset for fiscal year 2020-21, which was denied by CAL FIRE, so we have again requested further assistance from our Legislators for the next fiscal year. Departments are managing expenditures in the current fiscal year to assist in the new budget year, and we will continue to be extremely attentive and save where we can during fiscal year 2020-21 to assist with the potential gap in financial resources in fiscal year 2021-22.

Prior to COVID-19 we were actively advocating for refunding of the Williamson Act (approximately \$500,000 per year); funding for a portion of the State's and schools' share of the Property Tax Administration Fee, which is currently paid by the County (approximately \$2.8 million per year); and fair compensation to the County from the California Department of Water Resources (DWR) and the water contractors for the approximately \$9 million in services provided to the Lake Oroville Project (Project) annually. Unfortunately, COVID-19 has caused a pause in many of those efforts, and the State has indicated it may not be able to fund any additional costs that are not related to COVID-19, wildfires, or homelessness, though discussions will continue with DWR regarding a settlement for economic impacts of the Project. Where the State may not be able to assist at this time, there may be some relief through various federal stimulus bills that have been, or may be, passed. In addition, per Board direction in 2017, staff will continue working on a ballot measure for a public safety parcel tax that has been repeatedly derailed by emergencies.

While we continue to work through Camp Fire recovery matters and COVID-19 response, we face increasing uncertainties in the future compared to last year with COVID-19 added to the equation. These

uncertainties are in addition to the trend of costs growing at a faster rate than revenues. Some of the on-going risks and uncertainties include:

- County costs, reimbursement, and eventual federal audit of Camp Fire related expenditures;
- Impacts on County revenues from both the Camp Fire and COVID-19 including property tax, Teeter Plan, sales tax, gas tax and realignment;
- Repair of damaged infrastructure from multiple disasters in 2017, 2018 and 2019;
- Planning for, and prevention of, future catastrophic wildfires and flooding throughout the County;
- Increased demand for services in support of Camp Fire rebuilding and recovery efforts, as well as COVID-19 impacts;
- Unfunded liabilities for pension and retiree health obligations, as we anticipate that the volatile market will likely have negative impacts on CalPERS investments;
- Increasing costs for federal and State entitlement programs, especially if State revenues are negatively impacted by COVID-19 to the point that the State must increase counties' share of cost or maintenance of effort;
- Increasing costs related to liability claims;
- Deteriorating infrastructure and increasing construction costs related to multiple disasters throughout the State;
- Deteriorating facilities that need significant investment and are at risk of needing emergency repairs;
- Local housing shortages and homelessness; and
- Responding to an economic downturn with no historical data to estimate length or depth of the downturn.

While the Camp Fire has taken most of our attention since November 8, 2018, and the COVID-19 pandemic has added another layer of complexity, the Board of Supervisors can be proud of the County's accomplishments during fiscal year 2019-20 in spite of the additional challenges. Some of the accomplishments include:

- The Department of Employment and Social Services implemented the Home and Housing Outreach Management Education Division, which has been focusing on homelessness and supportive housing.
- The Library reopened the Paradise Branch.
- The Behavioral Health Department expanded the mental health mobile crisis team that partners with the Butte County Sheriff's Office for the engagement and outreach with the community.
- The Department of Water and Resource Conservation successfully facilitated the formation of the Wyandotte Creek and Vina Groundwater Sustainability Agencies through Joint Powers Agreements and entered into a Cooperation Agreement with eleven Groundwater Sustainability Agencies in the Butte Subbasin.
- The Department of Development Services issued over 200 permits for rebuilding after the Camp Fire.
- The Auditor-Controller's Office, working with administrative staff throughout the County, received the Government Finance Officers Association *Certificate of Achievement for Excellence in Financial Reporting* and the State of California Office of the Controller *Award for Counties Financial Transactions Reporting*.

- The Clerk Recorder successfully implemented the County's first all vote-by-mail election during the March Primary.
- The District Attorney effectively prosecuted PG&E for the criminal aspects of the Camp Fire. Among the plea terms, PG&E will restore the Miocene Canal, which will restore water to hundreds of Butte County residents.
- The County Administration Department, in partnership with the City of Chico, successfully formed the Butte Choice Energy Authority, a Joint Powers Authority, which will provide electricity to businesses and residents of Butte County and the City of Chico and remains on track for a 2021 launch date.
- The Information Systems Department launched the Butte Regional Interoperable Communication System (BRICS), a state of the art 700 MHz radio network utilized by our Public Safety and other operating departments, which provides greatly improved coverage and reliability for radio communications in the County.
- The Public Works Department completed many road projects including Oro-Quincy Highway, which was damaged by storms in 2017 causing a prolonged closure, and work on Upper Centerville Road, which was damaged by storms in early 2019.
- County employees supported our residents in times of need, whether post-Camp Fire or through COVID-19, in spite of the personal impacts of such devastating events.
- Many County Departments facilitated or supported Camp Fire recovery efforts, which continue today.

In closing, as I look towards retirement and write my final budget message as your Chief Administrative Officer, I want to acknowledge the amazing budget team that has risen to the occasion during these challenging times. The Butte County team is outstanding, especially given the challenges of the past three years - from the department heads who strategically manage their budgets each year to meet current service needs while planning for what the next budget year financial resources might support, to the department fiscal staff and managers who build the budgets, to the talented group of budget staff in my office that review, make recommendations, and assemble the document. I have had the honor and pleasure of serving with this inspiring group of people for the past 15 years, and am humbled and proud to be part of this amazing organization that serves the Board of Supervisors and residents of Butte County so well. I wish you all the best in the future, and know I will be leaving the organization in good hands.

Respectfully submitted,



Shari McCracken
Chief Administrative Officer