

# Budget End of Year Report (*BEYR*)



County Administrative Office  
*December 12, 2017*

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# Purpose

Evaluates year-end fiscal performance, including:

- Overall health of County's finances
- Trends and issues shaping County budget
- How well the County is managing its budgeted resources

# Key Accomplishments

# Accomplishments: Promoting Public Safety

- Invested \$3.8 million in new jail security camera system to prevent violence and improve safety for inmates and staff.
- Increased Sheriff's Office budget by \$4.7 million to protect current staffing levels at risk due to rising salary & benefit costs.
- The Sheriff's Office increased its workforce with successful recruitment efforts; the number of filled positions reached record levels, with 318 filled sworn officers and 26 filled custody control specialists, exceeding the previous (FY 2008-09) total of 302.

# Accomplishments: Healthy Community

- Expanded pediatrics clinics capacity by adding 15 exam rooms and increased internal medicine/primary care clinics by adding four exam rooms.
- Completed construction of the Seaside primary care clinic.
- Continued the winter homeless shelter and partnered with community providers to extend drop in center hours for homeless individuals and families during the day.

# Accomplishments: Protecting Infrastructure

- Authorized \$16.8 million from the strategic reserve to make critical fire and storm-related repairs (\$9.5 million of the \$16.8 million was spent in FY 2016-17).
- Continued work on the 576-bed jail addition project, with year-to-date expenditures of \$7.3 million since project inception.
- Progressed on the new 120-bed juvenile hall, with year-to-date expenditures of \$5.2 million since project inception.
- Began East/West Wing renovation to house the District Attorney and other County staff, with project expenditures of \$10.5 million at year-end since project inception.
- \$14.9 million in tenant improvements were finalized at the Schilling Place complex, with staffing taking occupancy in early 2017.

# Accomplishments: Supporting our Workforce

- Added 101 positions in the general fund, primarily for the Health Department to staff expanding primary clinics and for Social Services to support the In-Home Supportive Services Program.
- Entered into three year bargaining agreements that provide raises of 7% and protect valuable health and pension benefits.

# Accomplishments: Community Contributions

- The County contributed \$2.8 million to help support fire districts, \$1.6 million to subsidize cities participating in the 911 consolidated dispatch center, and \$1.9 million to agencies that promote economic development in the community.
- The general fund contributed \$4.9 million to the RMA Road Fund, up from \$2.0 million in FY 2012-13.



# Financial Results

# FY 2016-17 Financial Summary

- The County began the year with \$6 million in “unassigned” fund balance carried forward from prior years’ positive operating results.
- Staff used \$18.2 million in reserves for storm repairs, jail security improvements, & other authorized one-time needs and earned \$596.4 million in revenue.
- Departments spent \$601.5 million on staffing and operations.
- \$10 million was added back to reserves upon analysis of results at year-end.
- The result between inflows & outflows was an ending unassigned fund balance of \$8.8 million (including the \$6 million obligated in the FY 2017-18 budget).

	Adopted Budget	Modified Budget	Year-End Actual
<b>Available Financing:</b>			
Fund Balance (FY 2015-16)	\$ -	\$ 6.0	\$ 6.0
Restricted Fund Balance	-	-	0.4
Cancellation of Assignments	12.6	33.5	18.2
Revenues	621.1	634.7	596.4
Adjustment to Revenue	-	-	(0.2)
<b>Total Financing Sources</b>	<b>633.7</b>	<b>674.3</b>	<b>620.8</b>
<b>Financing Uses:</b>			
Restricted Fund Balance	-	-	0.4
Assignments	-	-	10.0
Expenditures	633.7	669.9	601.5
<b>Total Financing Uses</b>	<b>633.7</b>	<b>669.9</b>	<b>611.9</b>
<b>Subtotal Unassigned Fund Balance:</b>	<b>(0.0)</b>	<b>4.3</b>	<b>8.8</b>
Obligated in FY 2017-18 Adopted Budget <sup>1</sup>			<b>(6.0)</b>
<b>Unassigned Fund Balance:</b>	<b>(0.0)</b>	<b>4.3</b>	<b>2.8</b>

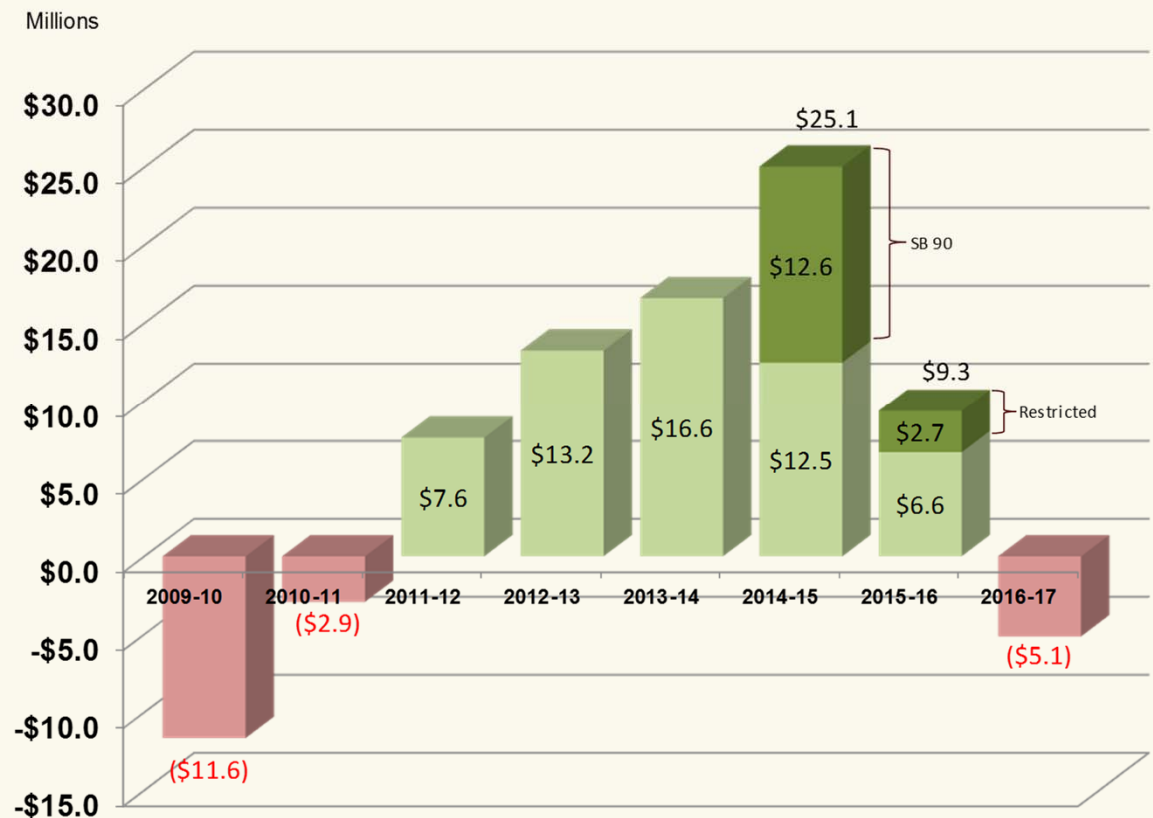
Dollars shown in millions. Numbers may not total due to rounding.

<sup>1</sup> \$6.0 million in prior years' unassigned fund balance was utilized to balance the FY 2017-18 Adopted Budget

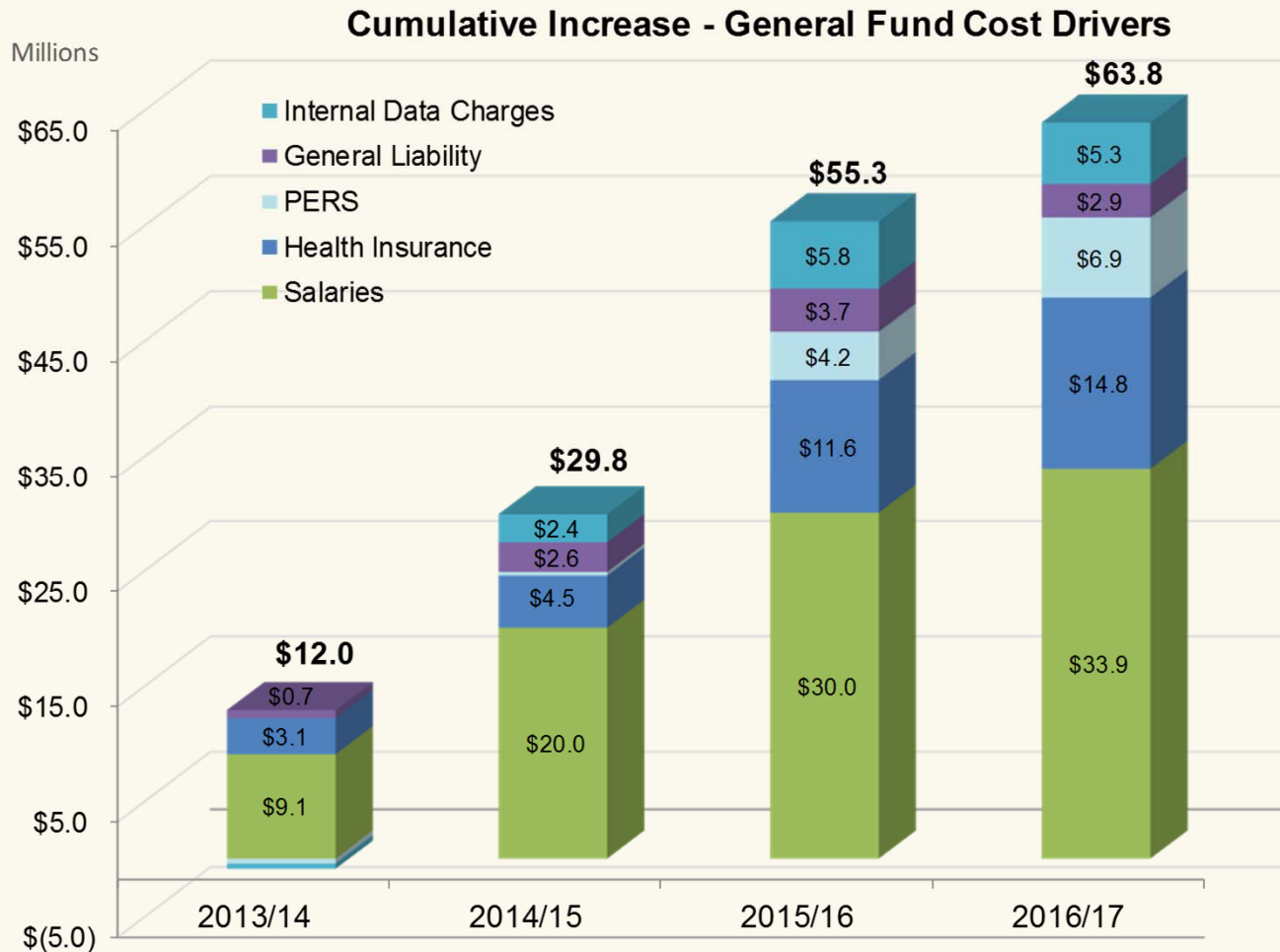
# First Operating Deficit in Six Years...

- For the first time since the recession, the County spent more than it earned in revenue.
- One-time events contributing to the deficit included storm repairs & jail security improvements.
- Structural factors contributing to the deficit include pay raises, pensions, employee health insurance, general liability costs, and technology costs.
- Operating deficits are not sustainable and can lead to lower credit rating, higher cost for financing, and increased severity of impacts in re-balancing future budgets.

General Fund Operating Surpluses/Gaps



# General Fund Structural Cost Drivers

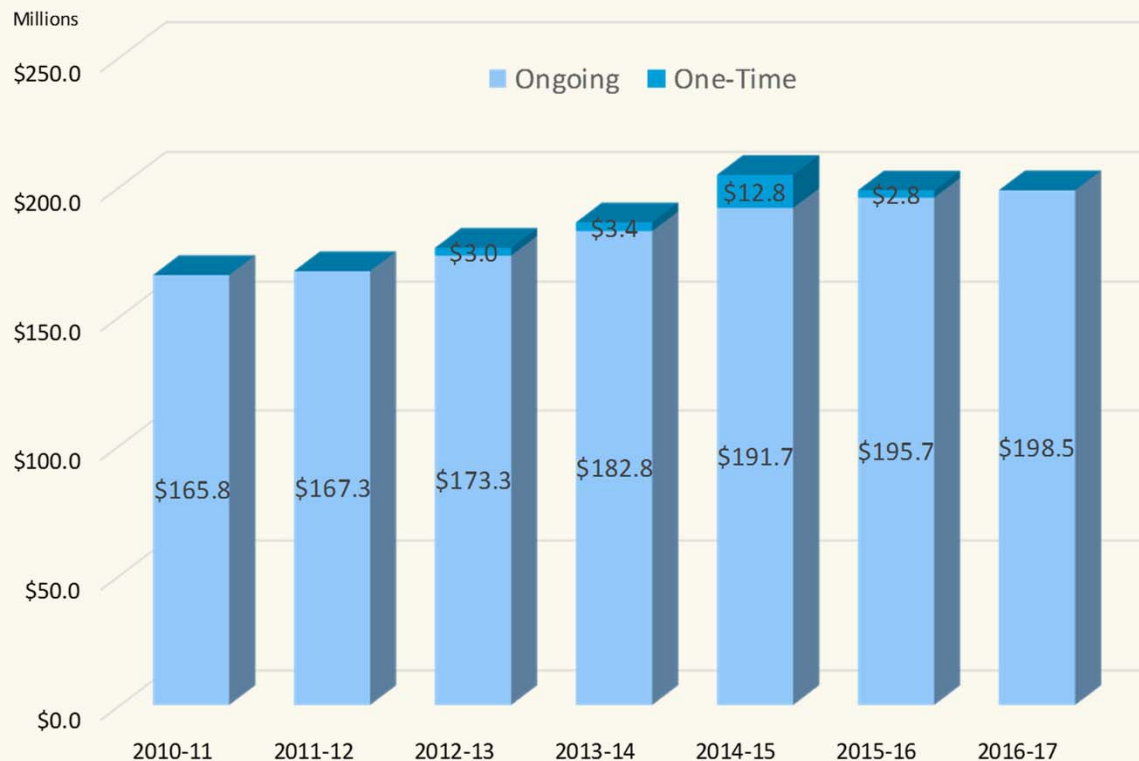


- Costs for salaries, pensions, employee health insurance, general liability, and technology have added \$63.8 million to general fund operations over the last four years.<sup>1</sup>

- Over the same time period, discretionary revenue to help departments keep up with costs has grown \$25.2 million.

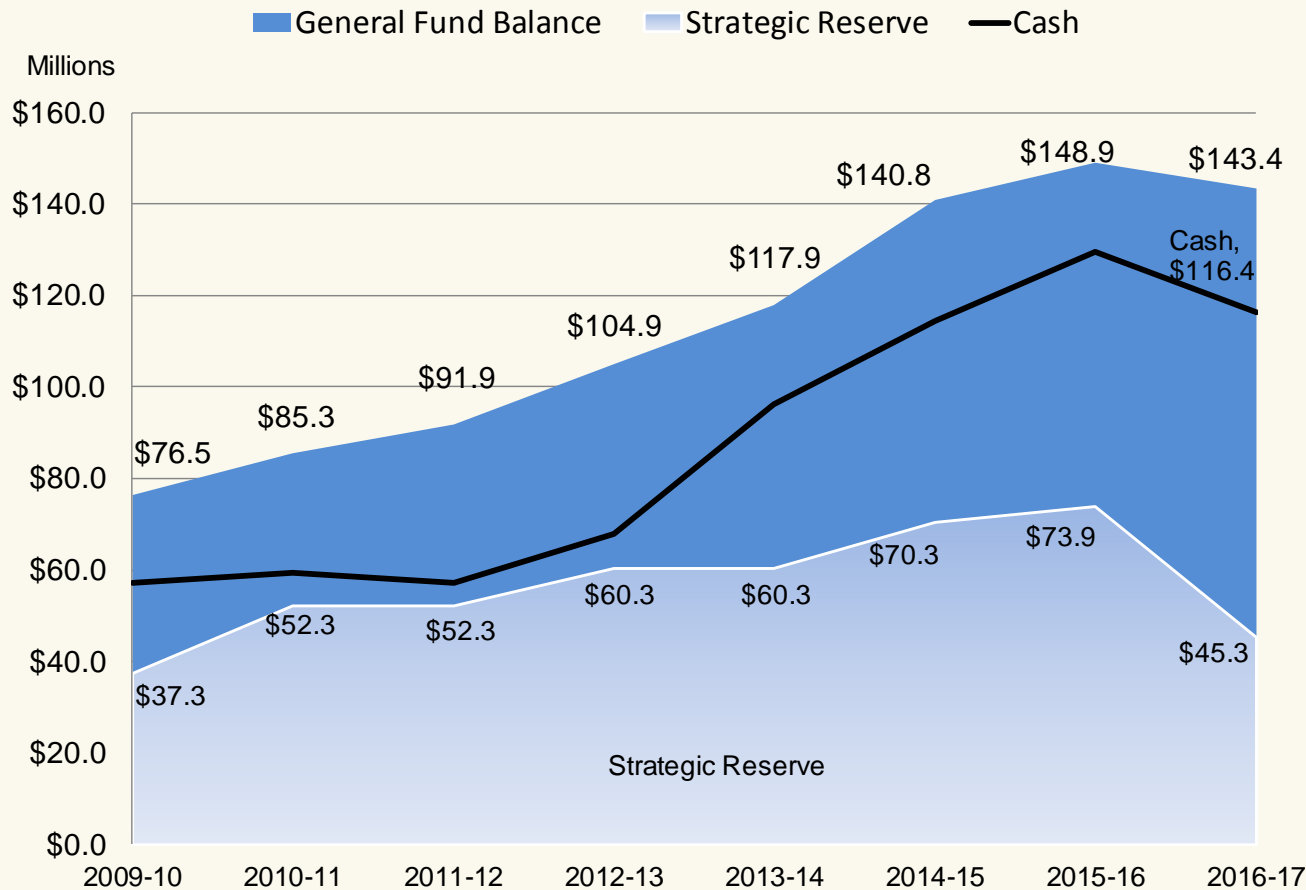
<sup>1</sup>. Excludes \$5.1 million in FY 2016-17 ERP charges deferred to FY 2017-18.

# General Fund Discretionary Revenue



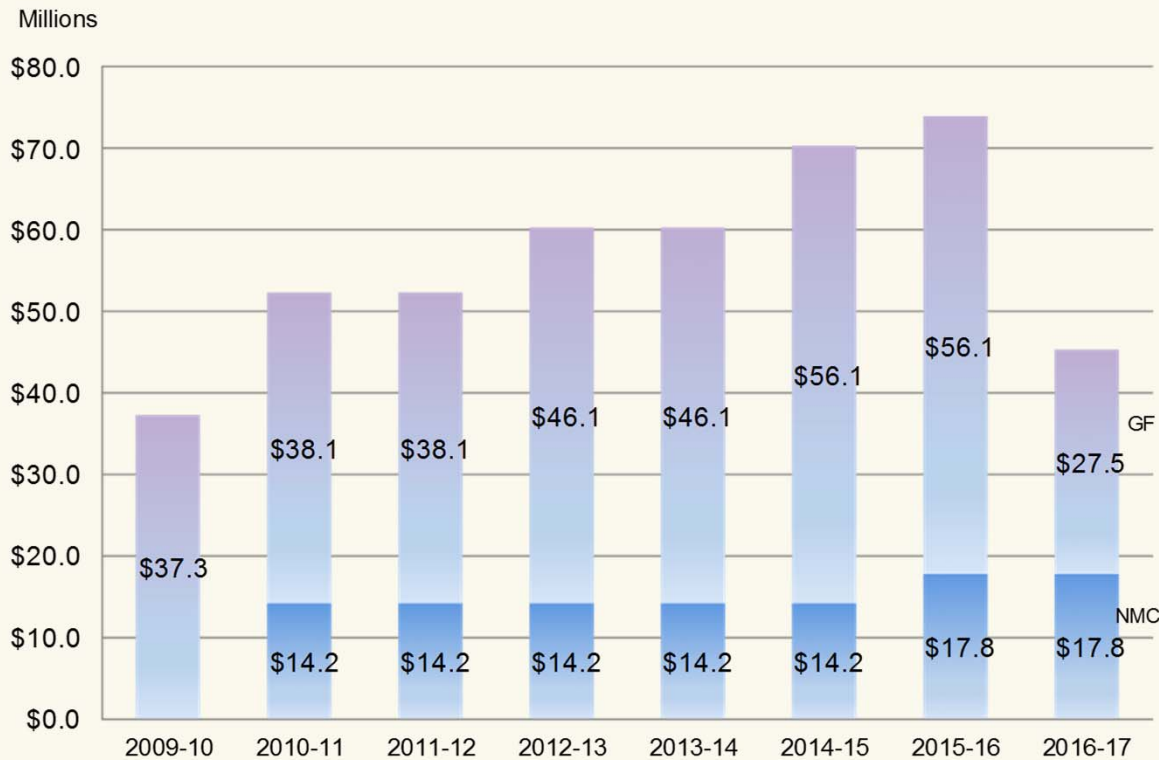
- Departments support increasing operating costs with annual growth in discretionary revenue (GFC allocations) and program revenue (fees, federal & state subventions, etc.).
- Next year's discretionary revenues are estimated to grow \$4.1 million.
- 5% estimated growth in property taxes yields an additional \$8.6 million, offset by lower estimates for sales tax associated with the solar flats project and weakness in TOT revenue.
- Excludes cannabis revenue, estimated at \$7 million, with policy guidance for planned uses to be determined.

# Ending General Fund Balances



- Since the recession, the Board has strengthened the County's financial policies and invested year-end surpluses into fund balance (i.e., reserves).
- Investing in reserves has solidified our credit rating, strengthened our future, and made possible a strong response to the fire and winter storm disasters.
- Investing in reserves also paved the way for key capital projects, including the juvenile hall, jail expansion, east/west wing renovation, and Schilling Place purchase/improvements.

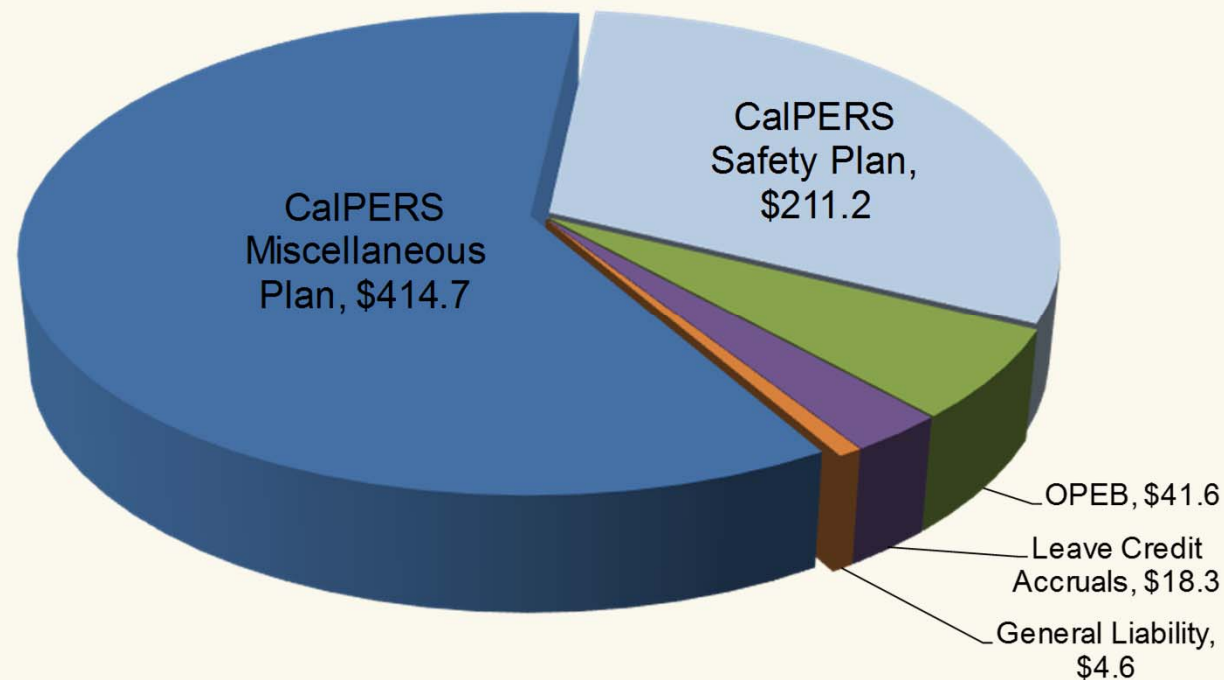
# Strategic Reserve



- The largest fund balance component is the strategic reserve.
- Previously, the County built a strategic reserve of \$56.1 million, nearing its policy target of 10% of general fund revenue (approximately \$60 million).
- \$30.9 million in transfers were made last fiscal year in response to the disasters and legal events (jail settlement & Measure Z).
- Despite the operating deficit last fiscal year, year-end results were better than budgeted, allowing staff to return \$2.3 million.
- The County ended the year with a general fund strategic reserve balance of \$27.5 million (less than half the policy target) and an NMC reserve of \$17.8 million.

# Unfunded Liabilities

- “Unfunded liabilities” represent the gap between future liabilities and assets available to pay those liabilities.
- FY 2016-17 marks the first year in which the County’s unfunded liabilities exceed the total annual general fund budget.
- Pensions are our largest unfunded liability: the County’s liability for employee pensions is \$2.2 billion, compared to our assets of \$1.6 billion, resulting in an unfunded liability of \$625.9 million.
- Unfunded pension liabilities such as the County’s are common throughout the state and is the main reason CalPERS is sharply increasing public agency contribution requirements.





# Departmental Budget Performance (General Fund)

- Twenty (20) departments ended the fiscal year with a combined general fund surplus of \$9.7 million.
  - RMA had a \$4.7 million surplus due to vacancies and lower-than-planned COWCAP charges (\$1.6 million of savings was in park operations).
  - County Counsel had a \$1.2 million surplus primarily from vacancies.
  - Elections had an \$857,008 surplus due to higher-than-expected revenues from districts which reimbursed the County for special elections.
- Four (4) departments had a combined deficit of \$4.3 million.
  - The Sheriff's Office had a \$2.5 million deficit and needed an additional \$850,000 from the reserve for compensated absences due to leave credit payouts, high overtime expenditures, costs related to the winter storms, and revenue shortfalls.
  - The District Attorney had a deficit of \$1.5 million from lower-than-expected revenue, similar to its prior year deficit of \$1.7 million.
  - The Agricultural Commissioner had a deficit of \$253,702 due to delayed state revenue.

# Departmental Budget Performance (Other Funds)

- The County's hospital continues to perform well financially, increasing its fund balance to \$94.5 million. However, potential changes in law and funding at the federal level could pose risks to NMC.
- The Behavioral Health Fund added \$18.3 million to its fund balance driven primarily by reimbursement of \$15.9 million in revenue that was earned in FY 2015-16 but not received until FY 2016-17.
- The Road Fund has seen its reserves severely depleted due to declining gas tax revenue. Fund balance is estimated at \$1.1 million after taking into consideration \$3.9 million in pending project reimbursements.
- The County Library ended FY 2016-17 with a reserve of \$149,928. The Library and County Administrative Office have worked together to re-forecast annual revenue and to bring expenditures into structural alignment with expected revenue.

# Fiscal Outlook

# Current Fiscal Climate

- Budget adopted in June leveraged most remaining operational flexibility keeping up with wage increases, benefit costs, and the ERP upgrade.
- Other than cannabis monies, all discretionary revenue has been allocated to help departments reduce operational/staffing impacts.
- General Fund reserves fell for the first time since the recession last fiscal year.
- In a fully leveraged budget environment, budget discussions center around public policy choices between competing priorities and redirection of existing resources.
- The gap between the cost of current operations and resources available to fund those operations is becoming more pronounced and choices are becoming increasingly difficult.

# Outlook for Next Fiscal Year

Unfunded Need	FY 2017-18	FY 2018-19
State Redirection of AB 85 Realignment Funds	\$729,405	\$4,449,254
Homeless Shelter in Salinas <sup>2</sup>	-	345,957
Safe Parking Initiative <sup>3</sup>	-	62,500
General Assistance Program Enhancement	776,143	776,143
Addition of 3.0 FTEs in Social Services for OET reorg.	78,000	105,000
Increase in CFMG Inmate Medical Care Contract <sup>4</sup>	699,136	1,492,696
County Librarian Salary	230,921	243,509
Public Defender Legal Costs for Capital Cases	2,633,500	-
WRA Interlake Tunnel Request	-	1,300,000
Continuation of FTEs in Health for Animal Care Services	-	429,782
Third Year of Employee Bargaining Agreements	-	12,735,386
PERS Contribution Increase	-	9,963,379
Restoration of 22.5 FTEs during June 2017 Budget Hearings	-	1,611,552
Appropriation for Contingencies	-	6,560,027
<b>Total</b>	<b>\$5,147,105</b>	<b>\$40,075,185</b>

<sup>1</sup>. \$5.9 million budget gap for FY 2017-18 resolved with \$3.7 million in one-time solutions (transfer from social services realignment, AB 109 monies, and use of health realignment reserve), \$1.4 million in programmatic reductions, and planned purchase of seaside clinic for savings of \$729,405.

<sup>2</sup>. Funded with one-time MBCP savings and Cannabis revenue in FY 2017-18.

<sup>3</sup>. Funded with one-time MBCP savings in FY 2017-18.

<sup>4</sup>. Ongoing amount equals new contract of \$9,221,158 plus \$635,708 in inpatient medical costs to now be paid outside the contract minus the current budget of \$8,364,170.

- The budget is dynamic and although balanced at adoption, a number of unfunded needs have emerged.
- Some needs have already been resolved in the current year through program reductions and one-time solutions, but five months into the year there remains an estimated \$5.1 million in unfunded needs.
- Unfunded needs grow to over \$40 million next fiscal year.
- Does not include needs that may surface the remainder of this fiscal year nor the over \$45 million in requests not funded in the prior budget cycle.

# Outlook for Next Fiscal Year



- Departments support increasing operating costs with annual growth in discretionary revenue (GFC allocations) and program revenue (fees, federal & state subventions, etc.).
- Next year's discretionary revenues are estimated to grow \$4.1 million.
- Equates to:  
\$1 discr. revenue: \$10 in increased costs
- Cannabis revenue is estimated at \$7 million, with policy guidance for planned uses to be determined.

# Changing Fiscal Environment

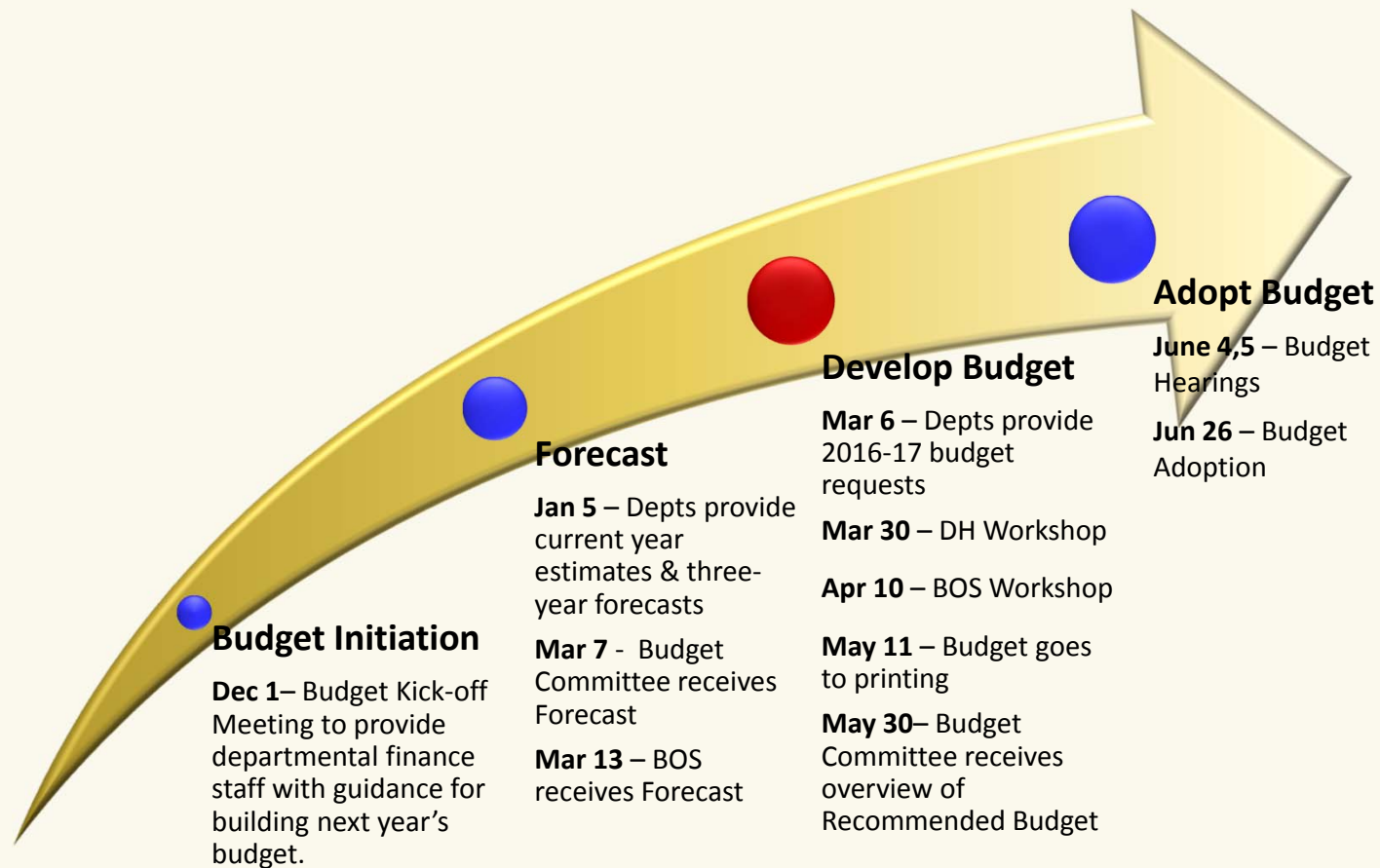
- With limited resources to help cover \$40 million in additional costs next year, plus many other unmet needs, the County will face difficult choices.
- Uncertainty in national health care policy and other federal programs could exacerbate next year's budget situation.
- In a constrained fiscal environment, we cannot assume status quo funding levels with augmentations for inflationary pressures.

# Achieving Efficiencies in a Constrained Fiscal Environment

- With a troubling budget season approaching, we have to work smarter than ever to find efficiencies.
- HR and IT have been asked to prepare plans for re-centralizing resources where it makes sense to gain economy of scale.
- Staff will revisit cost structures in ISFs & charging departments.
- Resource recommendations in upcoming budget process will be targeted to mandates, maintenance of effort requirements, Board priorities, programs that demonstrably add direct value to residents, and functions that bring revenue into the community.



# Budget Timeline



# Questions