

# Monterey County Financial Forecast

*March 2017*

## Introduction

The County Administrative Office is pleased to present the financial forecast for the County of Monterey. The forecast is the first step of the annual budget development cycle, which concludes with the adoption of a balanced budget by July 1 of each year. To meet this timeline, staff conduct a comprehensive mid-year review of planned spending and anticipated revenues for the current year, budget year (fiscal year 2017-18), and two additional out years. The result of this review is an assessment of the County's financial condition, emerging needs, and expected fiscal capacity to meet those needs.

## Approach and Assumptions

The forecast is an analysis of revenues and costs for existing levels of staffing and services within the context of current statutes and policies.

Developing a three-year forecast provides a window of opportunity to identify potential actions necessary to balance revenues and expenditures over the long-term to ensure financial sustainability of the County's funds. Similarly, the forecast also serves as a tool to assess the impact that decisions made in the present, such as considering a new revenue source or the funding of a new program, can have on future fiscal capacity.

The forecast includes employee salary and benefits changes as authorized under existing memorandums of understanding (MOUs) and scheduled employee step advances. The forecast also takes into consideration scheduled increases in PERS retirement rates and health insurance premiums. Revenue estimates are based on the most recent financial data and available information about federal and state funding levels. By comparing expenditures required to carry out existing operations to estimated resources, the forecast serves as a key financial management tool to guide the upcoming budget process and help preserve long-term financial stability.



The 2017 Monterey County Board of Supervisors, as shown above, includes from left to right: Jane Parker (representing Del Rey Oaks, Marina, Sand City, Seaside, Southwest Salinas), Simón Salinas (representing East Salinas, Spreckels, Chualar, Greenfield, Gonzales, Ft. Hunter Liggett, King City, Soledad, Lake San Antonio, South County), Mary Adams (Chair, representing Carmel, Carmel Valley, Big Sur, Pacific Grove, Pebble Beach, Monterey, Hwy 68, Las Palmas), John M. Phillips (representing Aromas, Boronda, Castroville, Las Lomas, Moss Landing, North Salinas, Pajaro, Prunedale, and Royal Oaks); and Luis Alejo (representing most of urban Salinas).

## General Fund Outlook through 2019-20

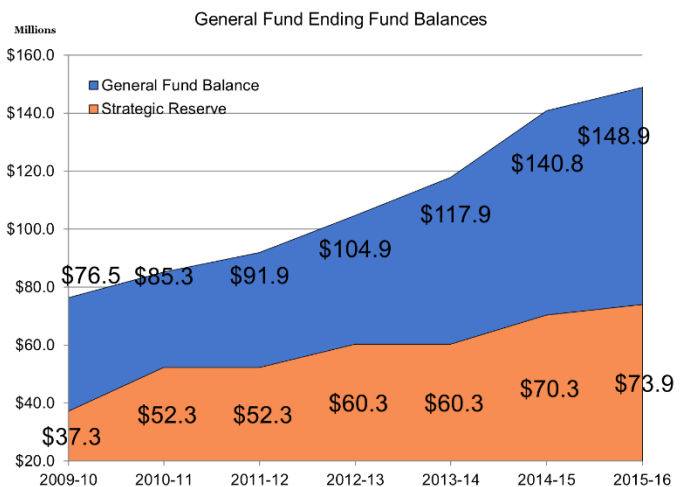
	FY 2015-16	FY 2016-17			FY 2017-18	FY 2018-19	FY 2019-20
	Actual	Adopted	Modified	Year-End Estimate	Forecast		
<b>Available Financing:</b>							
Unassigned Fund Balance	\$6.6	\$0.0	\$6.0	\$6.0	\$0.0	\$0.0	\$0.0
Cancellation of Assignments	19.3	12.6	12.6	12.6	12.6	12.6	12.6
Revenues	<u>569.1</u>	<u>621.1</u>	<u>621.6</u>	<u>589.4</u>	<u>611.1</u>	<u>620.2</u>	<u>624.9</u>
Total Financing Sources	\$595.0	\$633.7	\$640.2	\$608.0	\$623.7	\$632.8	\$637.5
<b>Financing Uses:</b>							
Assignments/Restrictions	28.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	<u>561.0</u>	<u>633.7</u>	<u>634.2</u>	<u>601.4</u>	<u>635.3</u>	<u>652.8</u>	<u>672.5</u>
Total Financing Uses	\$589.0	\$633.7	\$634.2	\$601.4	\$635.3	\$652.8	\$672.5
Unassigned Fund Balance	\$6.0	\$0.0	\$6.0	\$6.6	(\$11.5)	(\$20.1)	(\$35.0)

**Positive prior year performance.** Based on the official Auditor-Controller’s *Comprehensive Annual Financial Report (CAFR)*, the general fund outperformed budget expectations last fiscal year, ending the prior fiscal year with an ending unassigned fund balance of \$6.0 million. Revenues exceeded expenditures by \$8.0 million, mainly due to an increase in local discretionary revenue, including higher property tax and transient occupancy tax receipts of approximately \$5.7 million, and the one-time occurrence of \$2.8 million received in interest payments from pre-2004 SB 90 reimbursement claims.

**Prudent financial decisions by the Board have strengthened the County’s financial position to weather unplanned events.** Since the recession, the Board has strengthened financial policies to restore balance between ongoing revenues and expenditures, ending the practice of using one-time gains to finance ongoing operations. Under these policies, the County has invested year-end surpluses into shoring up its Strategic Reserve and other key investments. These investments have added to the County’s ending fund balances each year, growing from \$76.5 million in fiscal year 2009-10 to an estimated \$148.9 million at the end of last fiscal year. The largest commitment is in the County’s Strategic Reserve.

A one-time increase in revenue helped finance a \$10.0 million increase in fiscal year 2014-15 to the general fund Strategic Reserve. The following year Natividad Medical Center (NMC) added \$3.6 million to its portion of the Strategic Reserve. As of today, the Strategic Reserve totals \$73.9, including \$17.8 million for NMC and \$56.1 million for the general fund.

**Current year fiscal performance for “regular” County operations on the right track.** The general fund is expected to outperform expectations by \$0.6 million



in the current year. Departments expect to end the current year with expenditures \$32.8 million below budget with a corresponding decrease in estimated year-end revenues of \$32.2 million, mostly due to reduced reimbursement-based billings to federal and state agencies. The net result is a \$0.6 million estimated increase in current year unassigned fund balance, which when added to the \$6.0 million amount reported in the CAFR, results in a \$6.6 million projected ending unassigned fund balance.

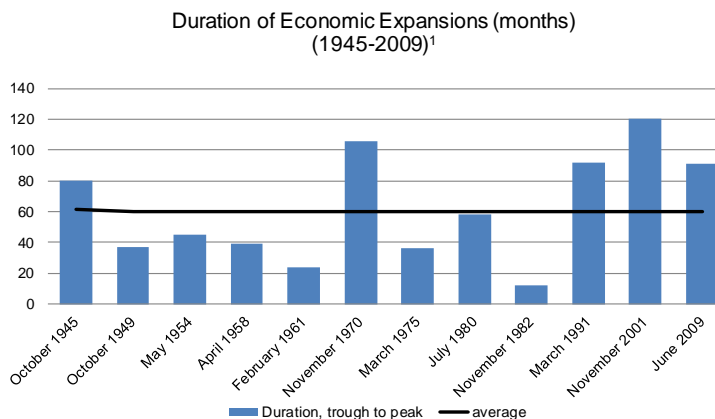
**Reassignment of resources is needed to respond to extraordinary events.** Although departments are competently managing their existing budgets, a number of significant and unplanned events, some of which present immediate health and safety issues, require unprecedented steps to protect residents and County services. Disasters caused by the winter storms and the *Soberanes Fire* have caused an estimated \$34.0 million in damages, including \$11.1 million for immediate repairs needed in the current year. In addition, the *Hernandez v. County of Monterey* legal settlement requires \$9.5 million in unplanned expenditures to improve safety and security in the jail. Funding is also needed to defend the County and Measure Z against lawsuits. These unbudgeted events, combined with recent bargaining agreements and other needs to be discussed later, add \$28.3 million in current year costs beyond the balanced budget adopted in June 2016. Meeting these needs will require the first-ever use of the Strategic Reserve.

**The convergence of “ordinary” inflationary pressures and extraordinary events will also require reprioritization of resources in the approaching fiscal year and beyond.** In recent budget cycles, “ordinary” cost drivers such as salary increases, higher benefit costs, replacement of County systems, and increased general liability program costs have outpaced growth in revenues, requiring departments to become increasingly creative in balancing their budgets. Some departments have weathered the inflationary pressures better than others, particularly those that seek reimbursement from the state government. Meanwhile, others have exhausted opportunities to cut discretionary spending, de-funded vacant positions, and in some cases laid off employees as a last resort. Next fiscal year departments will again struggle to balance their budgets amid these inflationary pressures. On top of these pressures, the County will face unplanned extraordinary costs.

The winter storms and *Soberanes Fire* necessitate \$22.9 million in critical repairs in addition to the \$11.1 million in current year repairs. Additional funding is needed for bid overruns in key capital projects, including \$5.9 million for the juvenile hall and \$2.3 million for the east/west wing building. An estimated \$3.3 million is needed over the next two fiscal years to defend Measure Z. In addition, while increased costs for employee pensions is not new, the level of increases planned by CalPERS over the coming years is unprecedented, increasing \$4.3 next fiscal year and an additional \$8.5 million the following fiscal year with additional increases in future years as the pension fund implements new approaches to shore up its finances. These events, combined with the ordinary inflationary pressures, will add \$58.8 million in costs next fiscal year and will require use of fund balances to soften the impacts to County operations and staffing.

**Future Economic Uncertainty.**

Underlying the financial forecast is the assumption that the economy continues to recover through the forecast period. This assumption should be carried with caution as the recovery continues to mature well beyond the average length of recoveries. Since World War II, there have been 11 economic expansions, defined as the phase when the economy (i.e., gross domestic product) moves from expansion to contraction or trough to peak. The



<sup>1</sup>. Source: National Bureau of Economic Research

The current economic expansion has lasted since June 2009 for 91 months, or roughly 8 years. On average, expansions have lasted around 60 months, or 5 years. Economic expansions do not last forever and as the table above notes, the current expansion has exceeded the average length of expansions by almost three years. If the expansion continues past March of this year, it will have become the third longest expansion in modern U.S. History.

The new administration has suggested significant changes in federal trade, taxation, immigration, environmental policy, and regulation policy. These changes will likely impact the financial markets and more importantly, the state and Monterey County’s local economy. With such uncertainty in the economic outlook, a cautious tone towards the revenue outlook should be adopted especially as the Board considers any new commitments. Moreover, with ensuing recommendations to use the Strategic Reserve, mitigating additional commitments will be necessary to minimize the County’s financial vulnerability in meeting future financial needs. The \$34.0 million in estimated fire and storm damages does not include the major storm event hitting the region on February 17<sup>th</sup>, or for that matter, future events. While the forecast assumes continuation of moderate revenue growth through fiscal year 2019-20 it should be underscored that new budget commitments will increase the severity of cuts the County could have to make in an economic downturn or future disaster. Given these uncertainties, the County’s continued prudent financial management practices, including limiting new on-going commitments, seem appropriate for the current environment.

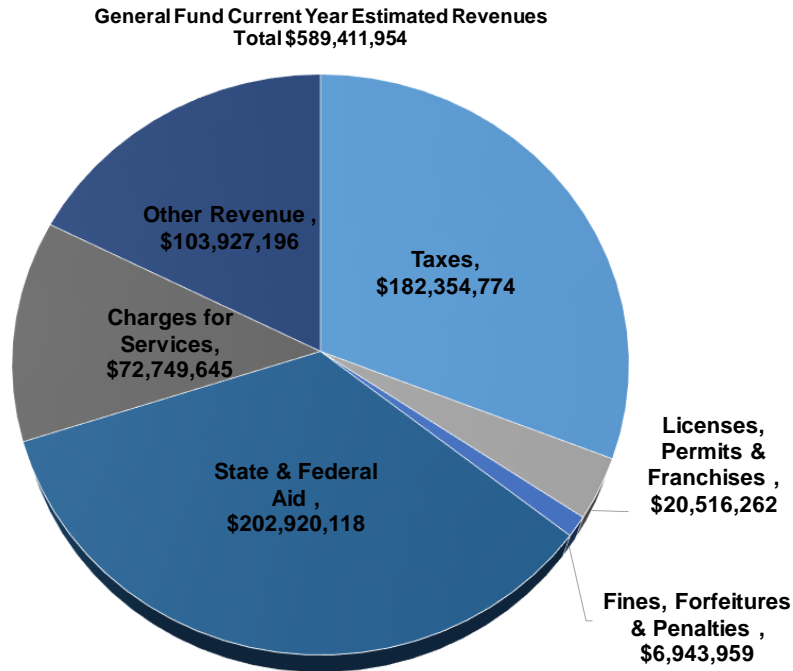
**General Fund Revenues**

At an estimated year-end total of \$589.4 million, current year revenues reflect a shortfall of \$32.2 million (5.0%) compared to the modified budget. The major causes of the decrease in revenue in the current year include:

- **Decline in state reimbursements:** A \$16.9 million decrease in state and federal qualifiable reimbursements, specifically in the Health and Social Services departments due to unfilled positions and the transfer of \$9.4 million in Vehicle License Fee (VLF) revenue from the general fund into a separate realignment fund as part of an accounting change.
- **Lower than budgeted Health Clinic fees:** Fees charged by the Health Department

decreased by \$8.4 million below budgeted expectations. Health fees typically have a direct relationship to expenditures. Since projected expenditures are lower, health fees revenue is also projected to be lower.

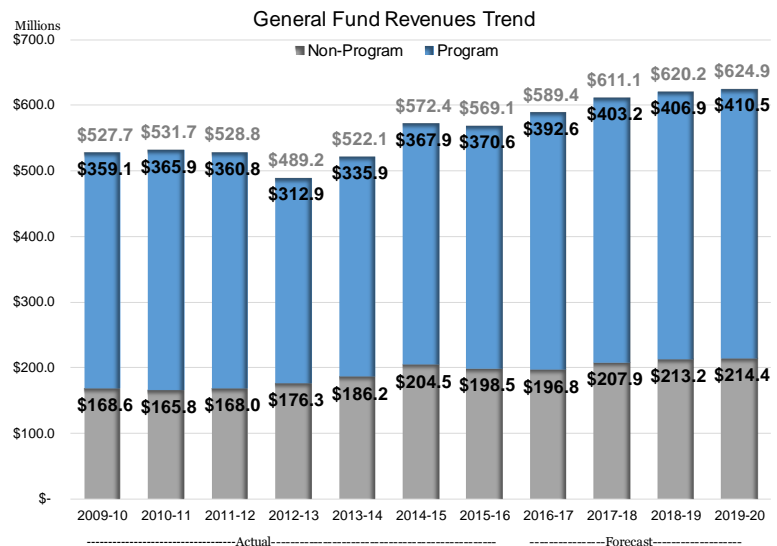
- Other areas of decreased revenue include a technical accounting change reducing operating transfers into the Resource Management Agency (RMA) by \$6.3 million and lower than budgeted revenue for the Sheriff’s Office, District Attorney, and RMA.



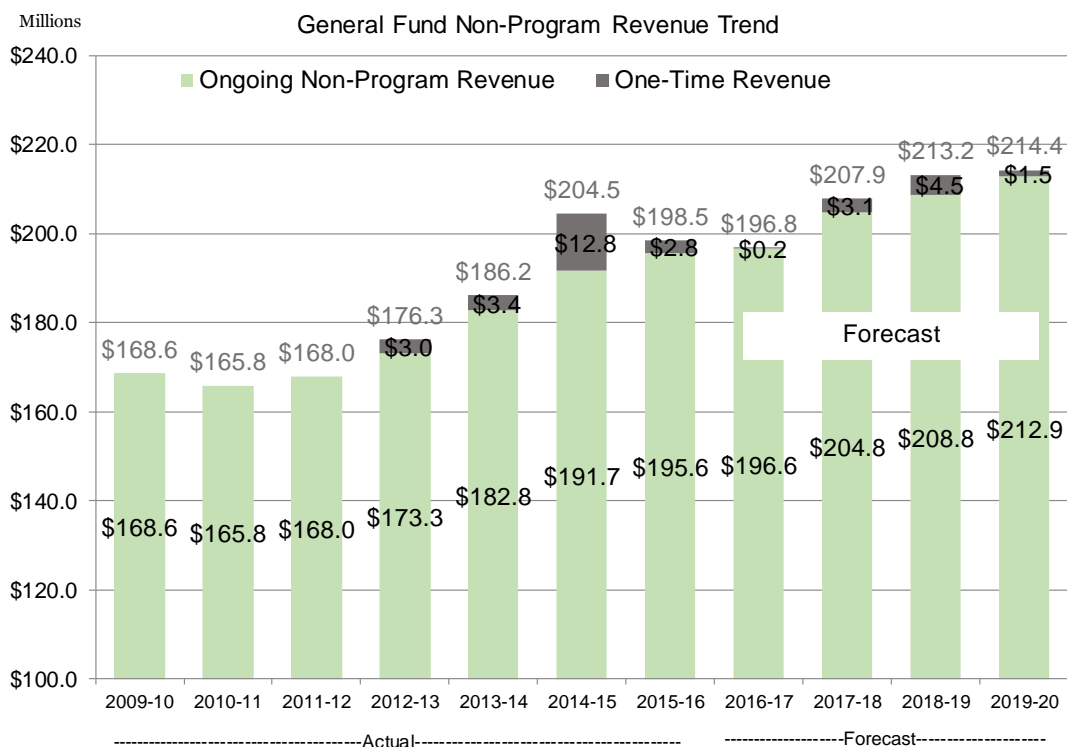
Reductions in revenue were partially offset by increases in County discretionary revenues, especially higher than budgeted property tax receipts.

**Revenues continue increasing for realigned programs.**

Departments balance their budgeted expenditures to a combination of revenues earned directly by the program (state reimbursement, permit fees, clinic charges, etc.) and County contributions of discretionary “non-program” revenue. Since fiscal year 2011-12 the County’s program generated revenues have grown under state-county realignment and Affordable Care Act to support increased responsibilities and associated costs, including mandated public assistance and health & public safety programs. For fiscal year



2017-18, program revenues are estimated to grow \$10.6 million from the current year estimate largely due to the assumption that vacancies in Social Services and the Health Department will be filled, thereby increasing their qualifying reimbursements. In the two out years, moderate growth is projected.

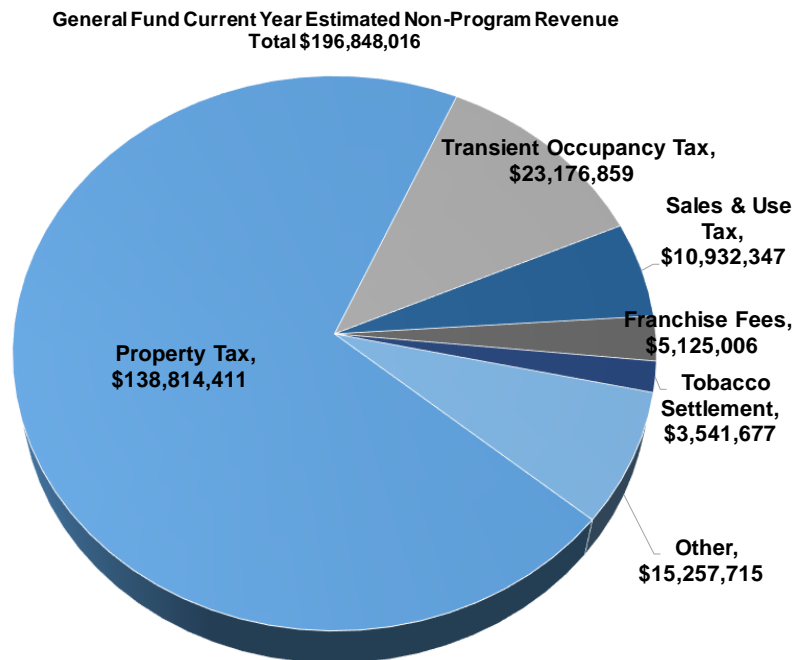


**County ongoing discretionary “non-program” revenue continues to increase.** Departments may generally increase their budgets to the extent they earn more program revenues. However, the Board authorizes augmentations of local discretionary monies. The allocation of these monies is at the heart of the annual budget process. For the current year, non-program revenue is expected to decrease \$1.7 million from fiscal year 2015-16 actuals. This decrease is the result of a one-time state payment of \$2.8 million on interest for pre-2004 SB 90 reimbursement claims. For fiscal year 2017-18, non-program revenue is forecasted to grow to \$207.9 million; an increase of \$11.1 million over the current year estimate. A slight increase of \$5.3 million in growth is projected for fiscal year 2018-19 with an additional \$1.2 million projected in growth for fiscal year 2019-20.

**Solar Flats will add an additional \$9.3 million in non-recurring County revenues.** Forecasted revenues include estimates for one-time use tax revenues that will be generated from the California Flats solar project. In February of 2015, the Board of Supervisors adopted an ordinance approving a development agreement between the County and California Flats Solar, LLC (Cal Flats). Per the agreement, Cal Flats agreed to guarantee \$3.0 million in revenue to the County from the project. Current forecast projections provided to the County by HdL consultants estimate a total of \$8.3 million in one-time tax revenues and \$1.0 million in project-related gains in the County’s share of countywide use tax pool that will be generated from the project in the current year and over the next three years. It should be noted that the project is currently three quarters behind its original schedule, and Cal Flats has made errors in directing payments to the County, therefore meaningful amounts of revenue from this project are not expected until next fiscal year.

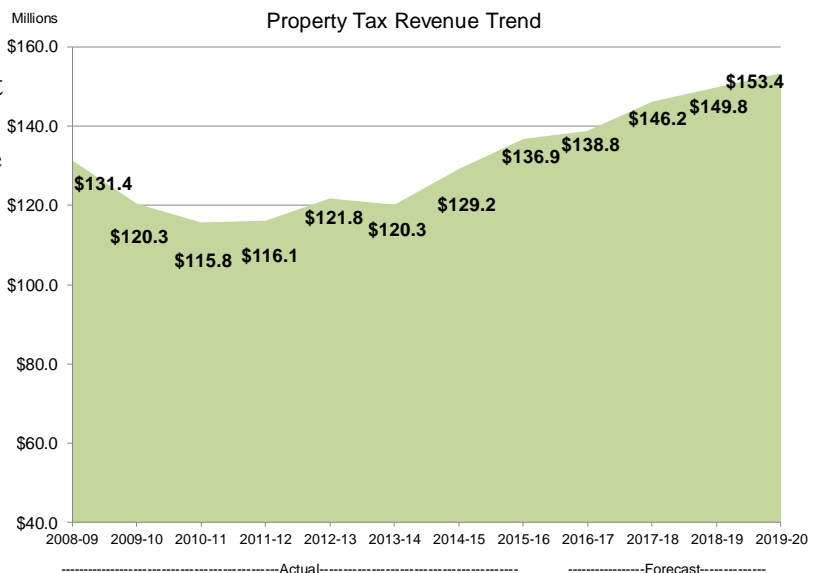


**Property tax revenue comprises the bulk of local discretionary monies.** Sources of non-program revenue are displayed in the chart below. Total non-program revenue in the current year is estimated at \$196.8 million.



Property tax revenue comprises the bulk of non-program revenue, totaling an estimated \$138.8 million (71%) of current year estimated non-program revenue. Transient occupancy tax, often referred to as a hotel or room tax, is estimated at \$23.2 million, while sales and use tax revenue is estimated at \$10.9 million. Other significant sources of non-program revenue include vehicle license fees, tobacco settlement monies, and franchise fees. The County also receives property transfer taxes, investment income and payments of interest on delinquent taxes.

**Rebounding property assessments have given the Board flexibility to meet departmental and infrastructure needs.** In the aftermath of the economic downturn of 2008, revenues from property taxes sustained steep reductions, declining \$15.6 million from peak to trough. This decline was a driving factor behind four years of budget reductions following the onset of the recession. Since that time, assessed values have recovered to pre- 2008 levels. While property tax revenue was originally estimated to increase by 5.5% over prior year totals based on

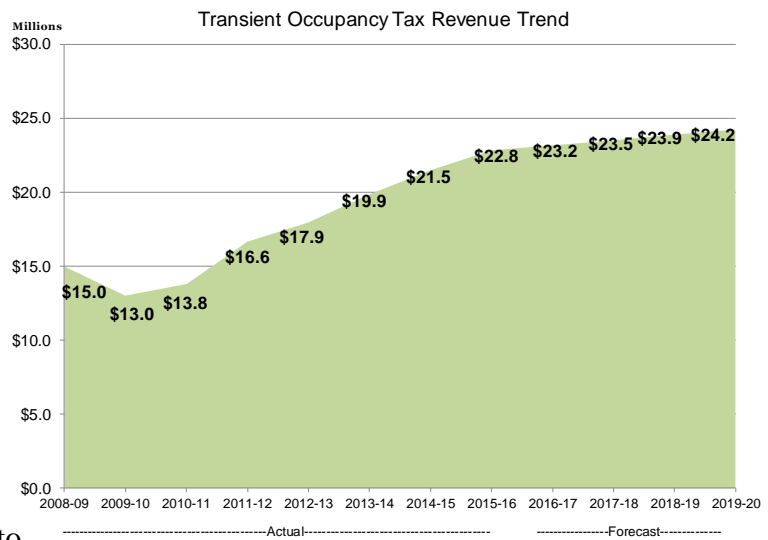


the Assessor’s projected growth of 5-6%, the revision in the current year to 3.9% due to the decline in oil prices and related de-valuation of oil properties results in a loss of approximately \$1.0 million compared to budgeted assumptions.

The County Assessor projects a 5.5% increase in assessed values for fiscal year 2017-18, which would yield approximately \$7.4 million in increased revenue. Annual growth of 2.5% is projected for the two out years of the forecast, which produce annual revenue gains of approximately \$3.6 million.

**Transient Occupancy Tax (TOT) receipts moderating.**

Monterey County relies on TOT as its second largest source of discretionary revenue. Often referred to as the “hotel tax,” TOT is the tax applied on hotel/motel accommodations. The rate for Monterey County is 10.5%. The County’s TOT revenue is estimated at \$23.5 million for fiscal year 2017-18, well above the \$13.0 million level during the recession; however, although positive performance can be noted in this key revenue source, attributed to



positive economic conditions and the successful efforts of the Treasurer-Tax Collector to improve collection and compliance, it’s worth noting year-over-year revenue growth has moderated in recent years. The storm-related road damages in the Big Sur area will have a yet to be determined negative impact on these revenues.

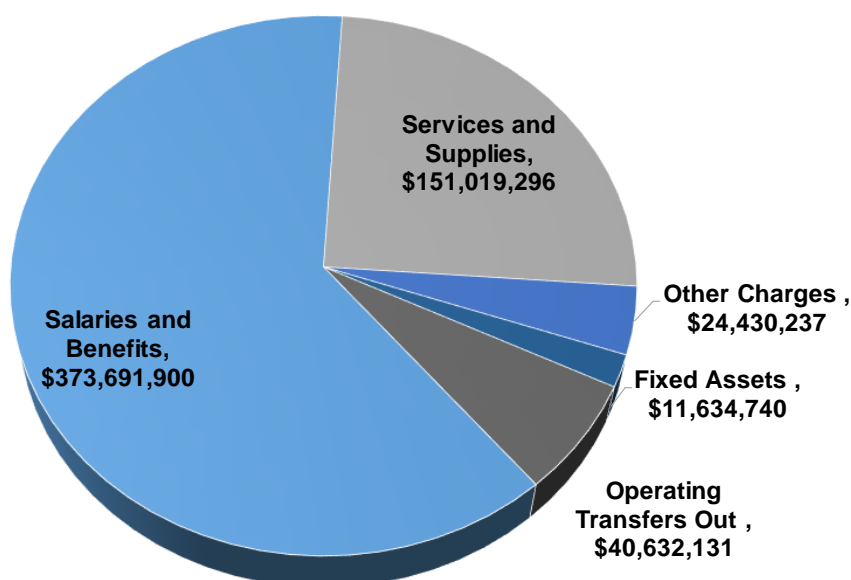
**Estimates for commercial cannabis tax pending.** In November 2016, Monterey County residents approved Measure Y imposing a business tax on commercial cannabis businesses in the unincorporated area of Monterey County beginning January 1, 2017. The ordinance established rates for cultivation, and other commercial businesses, including dispensaries, manufacturing, testing, transportation, distributing, and delivery. At this time, it is unknown what revenue levels will be generated through the new tax as the program is being developed. Staffing needs are also being developed and will be presented as part of the upcoming budget process.



## General Fund Expenditures

The fiscal year 2016-17 adopted budget included appropriations of \$633.7 million. The budget grew by \$0.5 million over the course of the fiscal year to \$634.2 million and included: a \$300,000 increase, offset with program revenue, in the Sheriff’s Office to support additional staff for security services for the Superior Court; \$120,000 in Social Services for the funding agreement with the City of Salinas for operation of the Salinas Winter Warming Shelter; and an \$82,010 increase, offset with program revenue, in the District Attorney’s Office for increased services for the victims of crime program. At an estimated year-end total of \$601.4 million, current year expenditures reflect a decrease of \$32.8 million (5.0%) compared to the modified budget.

**General Fund Current Year Estimated Expenditures**  
Total \$601,408,304



**Vacancies reduce expenditures by \$19.2 million in the current year.** The modified budget included \$392.9 million in expenditures for salaries and benefits. However, current year estimated expenditures are significantly lower mostly due to an estimated 396.7 vacancies. Departments with significant salary savings include:

- The Health Department is estimating year-end salary savings of \$10.8 million mainly due to challenges in recruiting and filling specialty staffing in clinics and delays in hiring for additional shifts.
- Social Services estimates year-end salary savings of \$2.2 million mostly attributable to lower-than-budgeted employee benefit costs.
- RMA estimates year-end salary savings of \$1.5 million due to its unfilled positions.

Remaining decreases in salary and benefits can be attributed to vacancies across the County – reflecting an overall 11.0% vacancy rate.

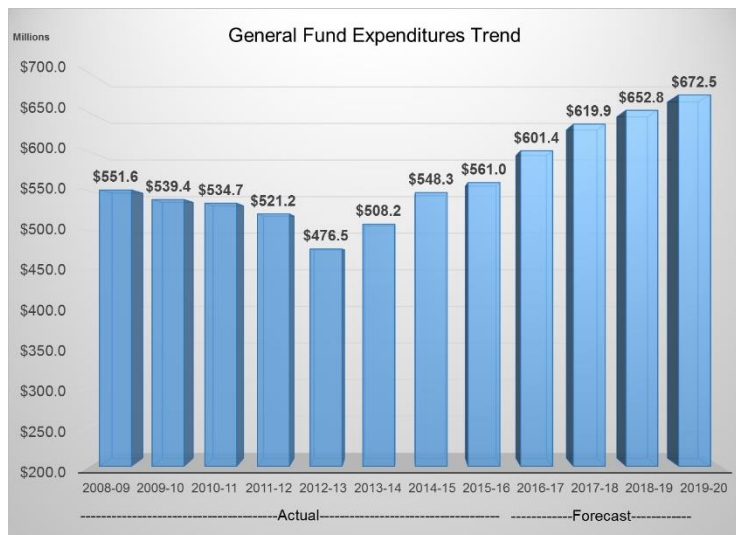
Filing all 396.7 vacancies would add a hypothetical \$47.1 million in general fund expenditures. Of the vacancies, 210 are in the Departments of Health and Social Services. To the extent these departments have savings, it also reduces their billings for reimbursement. This also applies to departments that have positions which are funded by grants, as in the District Attorney’s Office, or departments that share cost with other payors, such as Emergency Communications.

**The accounting change moving the previously mentioned VLF revenues and associated expenditures into realignment funds reduces general fund expenditures by \$9.4 million.** As

General Fund Department	Vacancies as of 2/8/17	Annualized Salary & Benefit Cost
Agricultural Commissioner	12.0	\$ 1,302,658
Assessor-County Clerk-Rec.	6.1	616,687
Auditor-Controller	6.2	794,004
Board of Supervisors	0.0	-
Child Support Services	8.0	796,570
Clerk of the Board	0.0	-
Cooperative Extension Service	1.0	92,511
County Admin Office	3.0	420,815
County Counsel	8.4	1,151,009
District Attorney	12.0	1,395,035
Economic Opportunity	1.0	165,217
Elections	0.0	-
Emergency Communications	11.0	1,158,696
Equal Opportunity Office	2.0	382,242
Health	139.3	16,748,872
Human Resources	5.5	711,849
Information Technology	15.0	2,278,941
Parks	7.0	852,857
Probation	18.0	2,179,398
Public Defender	2.0	244,074
Resource Management Agency	17.0	2,138,637
Sheriff-Coroner	44.0	5,889,690
Social Services	71.2	7,046,983
Treasurer-Tax Collector	7.0	773,394
<b>Total County</b>	<b>396.7</b>	<b>\$47,140,139</b>

mentioned previously, prior to fiscal year 2016-17, VLF revenues were accounted for in the general fund and then transferred to realignment funds. Those funds are now deposited directly into the realignment funds, resulting in a corresponding decrease in general fund expenditures.

**General fund costs are expected to increase by \$18.5 million in fiscal year 2017-18, followed by increases of \$32.9 million and \$19.7 million in the out years.** The forecast for expenditures is built on the assumption that authorized position levels will remain the same and that vacancies will be filled. Future growth in expenditures is further impacted by increases in salary and benefit costs, including salary increases, health benefits, PERS retirement, increases in workers’ compensation, general liability, and Enterprise Resource Planning (ERP) charges.



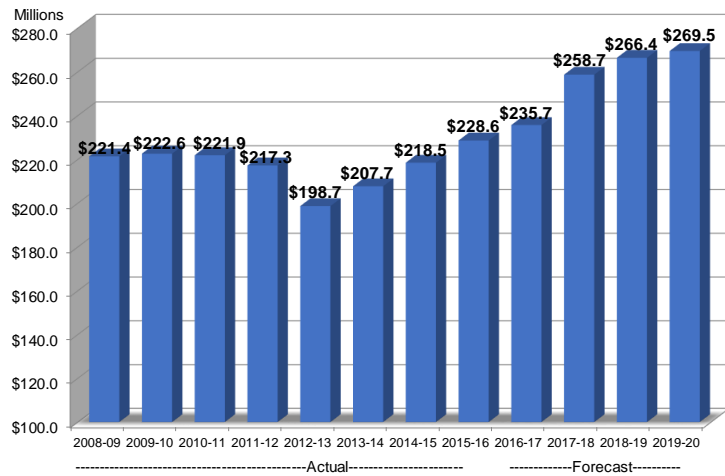
## Emerging Cost

Driving expenditures higher are recent bargaining agreements, increased costs for employee benefits, upgrade of the County’s ERP system and costs for the workers’ compensation and general liability programs.

**Bargaining agreements add an estimated \$4.3 million in current year expenditures.** The Board of Supervisors approved wage increases for most labor groups of 1.5% in the current year, 2.5% in fiscal year 2017-18 and 3.0% in fiscal year 2018-19.

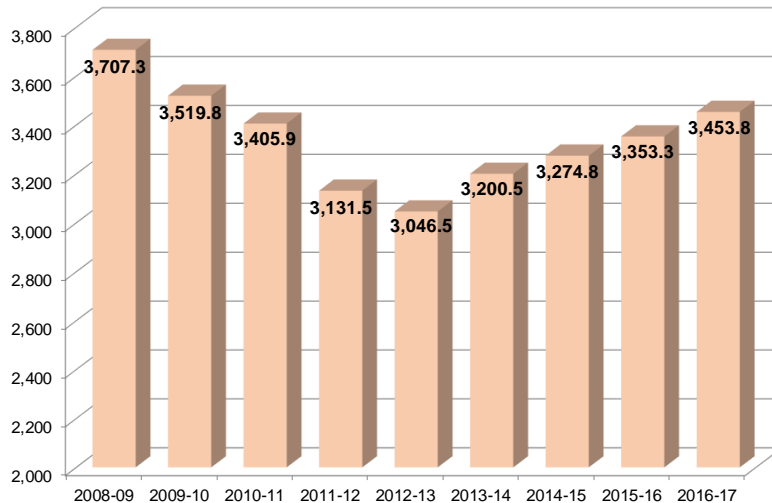
Costs for increases in salaries were not included in the adopted budget. The agreements add an additional \$6.7 million next fiscal year and \$8.3 million the following fiscal year, for a total of \$19.3 million in expenditures for the general fund.

General Fund Salary Expenditure Trend



Added positions also contributed to growth in salary and benefit costs from the prior year. A total of 407.3 general fund positions have been added since fiscal year 2012-13, including 100.5 added for the current year. The majority of positions added have supported growth in health and social services programs that have taken on new responsibilities under state-county realignment and the Affordable Care Act. These position augmentations coupled with the pay raises increased salary expenditures from \$198.7 million in fiscal year 2012-13 to an estimated \$235.7 million in the current year and climbing to \$269.5 million by fiscal year 2019-20 assuming vacancies are filled.

General Fund Authorized Positions



**Recent actions by CalPERS dramatically increase future costs to local governments.** Since fiscal year 2014-15, the County’s contributions toward employee pensions have increased due to changes in CalPERS’ actuarial methodology which have included:

- Changes in amortization and rate smoothing policies to accelerate paying down large unfunded liabilities
- Adoption of new demographic assumptions that show retirees living longer, and thus requiring higher lifetime payout of benefits
- Approval of a new funding risk mitigation policy to incrementally lower the discount rate

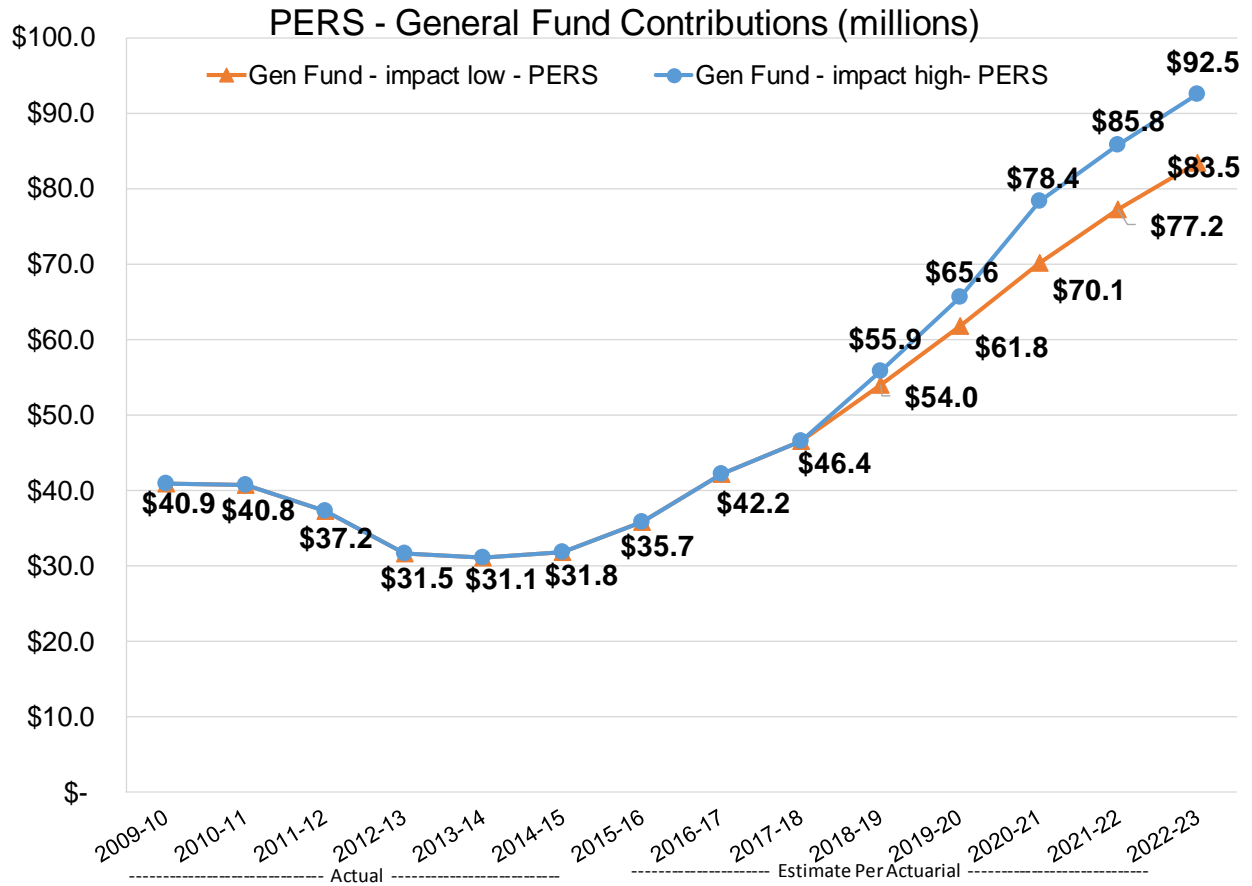
The changes, although necessary to protect solvency of the pension program, will drive up the County’s expenditures, including a \$4.3 million projected increase next fiscal year.

**Reduction to the “Discount Rate” increases employer contributions beyond the \$4.3 million increase in fiscal year 2017-18.** In determining public agency contribution requirements, CalPERS assumes a “discount rate” on expected return of its investments. Previously this rate was set at 7.75% annually. In response to public criticism against pension systems employing overly optimistic assumptions, thereby overstating funding levels, CalPERS lowered its discount rate to 7.5% in 2012. This had the effect of increasing employer contribution levels. In December 2016, CalPERS approved an additional lowering of the discount rate from 7.5% to 7.0% over the next three years. For public agencies, this takes effect on July 1, 2018, further increasing contribution rates. CalPERS’ decision to lower the discount rate now is due to changes in market conditions, including lower rates of return, greater volatility and a desire to close the cash flow funding gap. Recently, CalPERS is now paying out more in benefits than it takes in with contributions. This has resulted in CalPERS needing to sell off assets to cover cash flow requirements.

CalPERS acknowledges that the new discount rate of 7.0% is still optimistic given that its pension consultants estimate an average rate of return of 6.2% over the next 10 years. This suggests volatility and risks may still lie ahead. CalPERS has provided public agencies with estimates of potential costs increases which are reflected in the table below<sup>1</sup>.

<b>General Fund Estimated Plan Cost Increases</b>			
<b>Misc. &amp; Safety Plans Combined</b>	<b>Original Estimate</b>	<b>New Estimate</b>	
		<b>Low</b>	<b>High</b>
<b>2017-18</b>	46,429,573	46,429,573	46,429,573
<b>2018-19</b>	52,267,465	54,047,642	55,854,126
<b>2019-20</b>	58,353,600	61,798,862	65,611,323
<b>2020-21</b>	62,546,868	70,071,931	78,375,749
<b>2021-22</b>	67,157,358	77,155,009	85,845,766
<b>2022-23</b>	70,812,602	83,461,665	92,495,844

<sup>1</sup> On January 13, 2017, CalPERS released a [Circular Letter](#) regarding discount rate changes. The letter provided information to public agency employers to calculate projected pension costs increases in future years, which included low and high ranges for rate increases for Miscellaneous and Safety Plans Normal Contribution and Unfunded Accrued Liability payments. Range minimums and maximums were combined to provide preliminary estimates of potential impacts to the County.

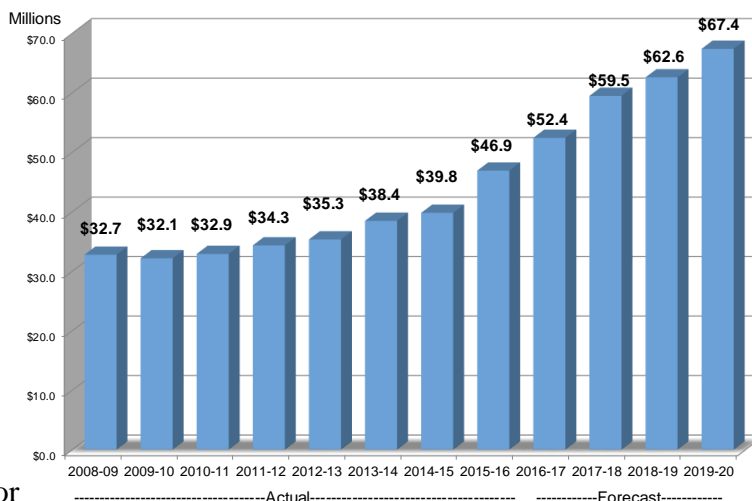


For Monterey County, the changes in the actuarial methodology and discount rate add \$4.3 million in additional general fund expenditures next fiscal year, another \$7.6 - \$9.5 million the following fiscal year, and growing to an additional \$41.7 - \$50.3 million by fiscal year 2022-23. As rate increases take effect, the impact to the County will be a larger share of revenue consumed to pay for the increases.

**Covering employee health insurance increases consumes an increasing share of the County budget.**

Since the recession, health insurance premiums paid on behalf of employees have added almost \$20.0 million in general fund expenditures, reaching \$52.4 million in the current year. Growth in the current year constitutes the full year of the January 2016 rate increases of 21.26% resulting in an estimated increase of \$5.5 million. The latest premium information provided by CalPERS increases the premium for

General Fund Employee Health Insurance Expenditures



PERS Choice, the most popular plan, by 3.0% in January 2017. Growth in expenditures of \$7.1 million in fiscal year 2017-18 are mostly due to departments assuming vacant positions are filled. The assumed growth for health insurance in fiscal year 2018-19 and fiscal year 2019-20 is 9.0% and 8.0% respectively, contributing an estimated increase in costs in forecasted years of \$3.1 million and \$4.8 million respectively.

**ERP upgrade charges resume next fiscal year.** In fiscal year 2015-16, the County began replacing its ERP software which had reached the end of its useful life. During budget hearings for the current fiscal year, the Board took action to defer ERP Upgrade costs for general fund departments, redirecting these monies to fund Board-directed budget modifications to other programs. The deferred current year costs combined with next year’s costs will add \$12.5 million to departmental budgets next fiscal year.

**Costs for internal service funds increase.** The workers’ compensation program is increasing its charges to departments by \$1.8 million next fiscal year with additional increases projected in the out years of the forecasts. Meanwhile, general liability program charges to departments increase \$1.4 million in fiscal year 2017-18 with similar increases in the out years to pay down unfunded liabilities caused by legal settlements. Both workers’ compensation and general liability allocation estimates are based on a 70% confidence level.

**Departments continue to operate in a prolonged period of fiscal constraint.** The recovery in County revenues has not kept pace with the growing cost to operate at existing staffing and service levels. Over the past few years, these costs have constrained departments’ capacity to meet staffing and service capacity goals, and in many cases required organizational downsizing. Each year departments have reduced levels of authorized positions to submit balanced baseline budgets, hoping to restore these positions through the augmentation request process.

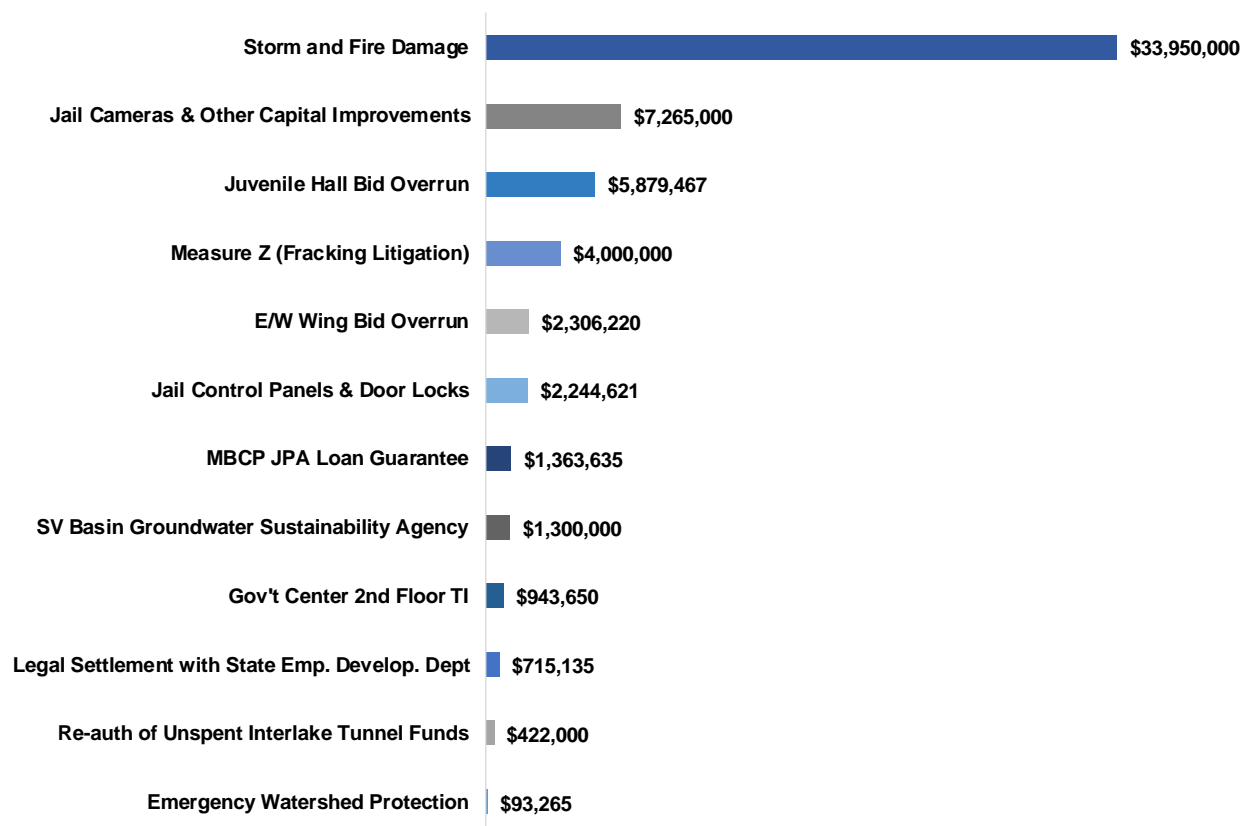
Furthermore, departments have held positions vacant during the year as a means to address lower than anticipated revenues and/or unforeseen increases in costs. Next fiscal year departments will again be faced with making strategic choices to mitigate cost increases to make room for salary and benefit increases, PERS rate hikes, and rising health premiums paid on behalf of County

employees. These increases, combined with increases in charges for general liability, workers’ compensation, and the ERP upgrade have eroded many departments’ capacity to afford current operating levels. As seen in recent years’ budget hearings, extensive efforts have been made by County staff and the Board to find ways to save positions and avert layoffs. The upcoming budget process is expected to present similar challenges, as departments again face increased costs and further erosion of discretionary funding to respond to these pressures.

## Countywide “Extraordinary” Costs

**Beyond the departmental cost pressures, a number of significant unplanned events have converged since adoption of the current budget.** The magnitude of these events and the associated financial need necessitates “re-thinking” of long standing financial practices and priorities and require the first ever use of the Strategic Reserve. These needs are described below:

**Countywide Emerging Costs FY 2016-17 through FY 2018-19**



*Storm and Fire Disasters:* The *Soberanes Fire* burned over 132,000 acres resulting in damages to private property and water systems, impacts to local business and damages to county roads and bridges. The unusual intensity of the winter storms has wreaked further havoc on the County’s infrastructure. As of February 16, 2017, total estimated costs of repairing storm and fire damages is \$34.0 million. This estimate does not include damages from the major storm event hitting the region on February 17<sup>th</sup>, nor future storms for that matter.

*Hernandez v. County of Monterey Legal Settlement:* After a 2014 site survey/needs assessment of the County Jail complex, it was determined that approximately 140 new cameras were needed to



increase safety for all personnel and inmates. Additionally, assessments completed in 2015 and 2016 included recommendations for improvements to video surveillance, suicide prevention and accessibility. The estimated costs of replacing the surveillance system, suicide prevention capital improvements and associated legal fees is \$7.3 million.

*Jail Control Panels & Door Locks:* To comply with the Hernandez v. County of Monterey implementation plan, the project scope increased to include a door lock control system for an additional cost of \$2.2 million.

*Juvenile Hall Bid Overrun:* The New Juvenile Hall Project was initially bid in 2016. Bid results were \$8.2 million over the construction budget, representing a 22% increase in the construction costs. Staff rebid the project, lowering the projected overrun to a \$5.9 million increase. The additional \$5.9 million will be needed next fiscal year.

*East/West Wing Bid Overrun:* Bid results for the East/West wing construction project will require an additional \$2.3 million next fiscal year.

*Measure Z (Fracking) Litigation:* Future litigation costs for the County to defend Measure Z are estimated at a total of \$4.0 million over the next three years. Current year costs are estimated at \$750,000 of which \$125,000 has already been transferred from the appropriation for contingencies, leaving an unfunded remaining need of \$3.8 million.

*Monterey Bay Community Power JPA Loan Guarantee:* Monterey Bay Community Power (MBCP) is a proposed regional Community Choice Energy (CCE) initiative for local jurisdictions to form a Joint Powers Authority (JPA). It is estimated that MBCP will require a loan of up to \$3.0 million to cover startup costs. As presented in the drafted JPA document, the \$3.0 million credit guarantee would be allocated equally among participating jurisdictions. If the County is required to carry the credit guarantee for all Monterey County cities participating in the JPA, the total credit guarantee could require the County to sequester \$1.4 million in funding depending on the financing requirements of the guarantee.

*Salinas Valley Basin Groundwater Sustainability Agency (SVBGSA) JPA:* The JPA authorizes the County and local agencies to form a Groundwater Sustainability Agency which was required by the Sustainability Groundwater Management Act of 2004 to achieve groundwater sustainability through the adoption and implementation of groundwater sustainability plans. The estimated costs of \$1.3 million would cover expenditures related to resourcing activities to support the SVBGSA and it is currently anticipated that the \$1.3 million would be divided over the next two fiscal years.

*Other unfunded needs include:* \$943,650 for tenant improvements to the Government Center to accommodate the Public Defender and Human Resources departments relocating to the 2<sup>nd</sup> floor; \$93,265 for emergency watershed protective measures in response to the *Soberanes Fire* to mitigate potential for landslides/runoff damage; \$715,135 to settle a legal matter with the state Employment Development Department over disallowed administrative costs; and \$422,000 to reauthorize unused prior year reimbursements of expenditures by the Water Resources Agency for current year work on the Interlake Tunnel. Additionally, several costs remain unknown, including

costs for storm damages beyond February 16, 2017, costs for the jail expansion, the disposition of the old jail, and general assistance litigation costs.

The table below summarizes the emerging unfunded costs that will require budget solutions beginning in the current year. These costs include the “ordinary” escalating costs discussed in recent years (bargaining agreements, higher benefit costs, the ERP upgrade, and higher general liability and workers’ compensation program costs) as well as the extraordinary costs related to the disasters, the *Hernandez v. County of Monterey* settlement, Measure Z, and others. These costs total \$28.3 million in the current year. Next year, the unfunded emerging costs grow to \$58.8 million and when added to the \$4.3 million current year cost of the bargaining agreements, totals \$63.2 million beyond the currently balanced budget. An additional \$28.6 million will be needed in fiscal year 2018-19. County staff forecast discretionary revenues to grow another \$11.1 million next fiscal year and an additional \$5.3 million in fiscal year 2018-19 assuming the economy continues growing. In addition, there is the hope that state and federal agencies will partially reimburse the County for the recent disasters. Furthermore, some departments may be able to pass along some of their increased costs to other payors such as the state and grantor agencies. Nevertheless, these funding streams will not amount to sufficient funding to cover these emerging costs, presenting difficult choices for the upcoming budget process.

**Countywide Emerging Costs (General Fund)**

<b>Unfunded Need</b>	<b>FY 16/17</b>	<b>FY 17/18</b>	<b>FY 18/19</b>	<b>Total</b>
Bargaining Agreements	\$4,266,301	\$6,742,236	\$8,292,950	\$19,301,488
Jail Cameras & Other Capital Improvements	7,265,000	-	-	7,265,000
Jail Control Panels & Door Locks	2,244,621	-	-	2,244,621
Storm and Fire Damage through February 16, 2017	11,100,000	18,550,000	4,300,000	33,950,000
Emergency Watershed Protection	93,265	-	-	93,265
Juvenile Hall Bid Overrun	-	5,879,467	-	5,879,467
East/West Wing Bid Overrun	-	2,306,220	-	2,306,220
ERP Upgrade	-	12,532,885	-	12,532,885
Legal Settlement with State EDD	715,135	-	-	715,135
Measure Z (Fracking Litigation)	750,000	1,625,000	1,625,000	4,000,000
Gov't Center 2nd Floor Tenant Improvements	82,209	861,441	-	943,650
MBCP JPA Loan Guarantee	1,363,635	-	-	1,363,635
SV Basin Groundwater Sustainability Agency	-	650,000	650,000	1,300,000
Re-authorization of Unspent Interlake Tunnel Funds	422,000	-	-	422,000
Pension Increase	-	4,276,644	8,521,311	12,797,955
Health Insurance	-	2,343,383	2,416,028	4,759,411
General Liability Insurance	-	1,316,755	1,420,583	2,737,338
Workers' Compensation	-	1,750,841	1,404,876	3,155,717
<b>Total</b>	<b>\$28,302,166</b>	<b>\$58,834,872</b>	<b>\$28,630,748</b>	<b>\$115,767,786</b>

**Potential Reimbursements**

County staff are seeking reimbursement for the unexpected costs related to the fire and storm events from various sources, including the Fire Management Assistance Grant (FMAG), the California Disaster Assistance Act (CDAA), United States Forest Service (USFS), CalFire, and Federal Highway Administration (FHWA). The best-case scenario is that these agencies will reimburse the County 75% of all costs, leaving the County with a contribution of 25%. The estimates for repairs in the current year are critical to maintaining the county’s infrastructure and

as such require immediate action. Considerable time may elapse before the County receives reimbursements. In the meantime, the health and safety of the County's residents requires immediate repairs with creative solutions to "cash flow" work pending reimbursements. Solutions are presented below for consideration by the Board to provide critical repairs related to the fire and storm events, as well as other critical needs.

### Budget Modification to Address Immediate Needs

The number and severity of recent events require new financial commitments beyond that which can be financed through redirection of existing operating budgets. To meet these needs through redirection of operating budgets would surely result in unprecedented impacts to County operations and staffing. To avoid such impacts, the County Administrative Office recommends modifications to the County's reserves to address the most critical needs, as described below with full details provided in Attachment A.

**Transfer \$9.5 million from the Strategic Reserve for capital improvements and legal costs to comply with the *Hernandez v. County of Monterey* settlement.** The implementation plan agreed upon by parties in the *Hernandez v. County of Monterey* settlement require significant new investment in the jail, including a camera system, capital improvements to prevent suicides, and legal fees. Estimated costs to meet these needs total \$7.3 million. In addition, staff recently learned that an additional \$2.2 million is needed to integrate the jail control panels and door locks to comply with the implementation plan, increasing the settlement cost to \$9.5 million (excluding costs for ongoing staffing). During the last budget process, the County set aside \$5.6 million in the general capital (fund balance) assignment to help cover expenses related to the settlement. However, those monies are now needed to help meet the projected \$5.9 million juvenile hall bid overrun and the \$2.3 million expected east/west wing bid overrun. The County Administrative Office is therefore recommending the transfer of \$9.5 million from the Strategic Reserve into the General Capital assignment for support of the implementation plan. These monies will be released from the assignment on a reimbursement-only basis after actual expenses are incurred.

**Transfer \$16.8 million from the Strategic Reserve to finance critical repairs in response to the *Soberanes Fire* and winter storm disasters.** The Resources Management Agency estimates costs for repairing damages caused by the winter storms and fire events to be \$34.0 million. Staff in the CAO – Intergovernmental and Legislative Affairs overseeing the disaster recovery effort estimate the County will be potentially eligible for reimbursement up to 75% of total costs, with the County being responsible for the remaining 25% of costs. Staff recommends transferring \$8.5 million from the Strategic Reserve into the Disaster Assistance assignment to cover the County's share of expected expenses. Staff also recommends transferring an additional \$8.3 million from the Strategic Reserve into the Disaster Assistance assignment to cover the estimated state and federal share of costs as a "bridge" to cover immediate (current year) critical repairs until federal and state reimbursements are received. This action will help ensure the RMA has the initial working capital to support the most time-sensitive work to protect the health and safety of County residents until the County receives state and federal reimbursements for these disasters. These monies will be utilized on a reimbursement basis after actual expenses are incurred.

**Transfer \$3.9 million from the Strategic Reserve to defend the County and Measure Z.** County staff recommend transfer of \$3.9 million from the Strategic Reserve into a new assignment

to be named *Non-Recoverable Costs* to support County Counsel in defending the County and Measure Z. The Board has already approved a transfer of \$125,000 from the contingencies appropriation to County Counsel to support initial needs in this matter. It is estimated that an additional \$3,875,000 will be needed over the next three years, including another \$750,000 in the current year. Monies will be released from the assignment on a reimbursement basis after actual expenses are incurred.

**Transfer \$715,135 from the Strategic Reserve for a legal settlement with the California Employment Development Department.** Staff recommends transfer of \$715,135 from the Strategic Reserve into the new assignment to be named *Non-Recoverable Costs* to cover the County's legal settlement to repay the state for disallowed costs incurred carrying out Workforce Development Board activities.

**Modifications are recommended to mitigate departmental impacts of the County's indirect charge-back program.** Effective in FY 2016-17, the Auditor-Controller implemented a new cost recovery process in which general fund operating departments will be charged for overhead services while "overhead departments" receive credits (cost recoveries reflected as negative expenditures) for those services. To minimize operational impacts, the County Administrative Office recommended redistribution of County contributions from departments receiving the credits to departments receiving the charges. The redistributions were made as part of the budget process based on the Auditor-Controller's estimated charges. Since that time, the Auditor-Controller has issued revised charges which, in some cases, vary significantly from their previously estimated costs. To again help neutralize this event to minimize operational impacts, the County Administrative Office recommends modifications (as detailed in Attachment A) to redistribute County contributions from departments experiencing unplanned financial gains related to the cost recovery program to those departments negatively impacted by the revised charges.

**Other proposed modifications.** Other proposed modifications (as detailed in Attachment A) include: a clerical correction to reduce estimated revenue for the Department of Social Services by \$1,000,000; and use of the appropriation for contingencies to re-authorize \$422,000 for the Interlake Tunnel Project, representing unused reimbursement authority from the prior year.

The proposed modifications discussed earlier will reduce the Strategic Reserve from \$56.1 million to \$25.2 million, a reduction of \$30.9 million. Maintaining an adequate level of reserves is essential to ensuring the long-term fiscal health of the County and future decisions to expand or add to County commitments should consider the benefit of adding to County liabilities in light of new reserve levels.

**Beginning and Ending Balances After Recommended Transfers**

Description	Beginning Balances 7/1/16	Transfers	Revised Balances After Transfers
3111 - Strategic Commitment - GF	\$ 56,092,695	\$ (30,912,256)	\$ 25,180,439
3111 - Strategic Commitment - NMC	17,800,000	-	17,800,000
3065 - General Capital Assignment	9,623,624	9,509,621	19,133,245
3126 - Disaster Assistance Program	1,368,837	16,812,500	18,181,337
XXXX - Non-Recoverable Costs (New)	-	4,590,135	4,590,135
Appropriation for Contingencies	<u>4,672,269</u>	<u>(547,000)</u>	<u>4,125,269</u>
	\$ 89,557,425	\$ (547,000)	\$ 89,010,425

## Planning for the Fiscal Year 2017-18 Budget

Next fiscal year, the County faces a \$11.5 million deficit in current staffing and services plus the emerging unfunded needs discussed earlier. It should be stressed that costs could rise as staff continue to assess impacts of the February 17, 2017 storm, the Pajaro sewer line failure, and potential for future events. Funding of ongoing services considering the continued pressure of accelerating expenditures and new emerging costs will require tough choices in the ensuing months as the County begins building next year’s budget.

## General Fund Departmental Forecasts

This section provides individual departmental forecasts, which compare forecasted needs (i.e., expenditures) based on current staffing and services to available financing. Available financing refers to a department’s estimated program revenue plus authorized general fund contributions adopted by the Board in support of ongoing operations. The resulting forecast summaries help identify potential areas where service capacity may be threatened by projected changes in expenditures and revenues in immediately pending budget years. Departmental summaries offer a tool to assist the Board of Supervisors in prioritizing the distribution of discretionary general fund contributions in the upcoming budget process.

### General Fund Contributions

“Non-program” revenue provides the financing for departments’ general fund contributions (GFC), which become the focus of the annual budget process. General fund contributions represent discretionary general fund revenue appropriated by the Board each fiscal year. Departments use these revenues to supplement program-specific revenues to finance operations.

Baseline GFC allocations to departments for the Forecast years reflect decreases to fund the County’s information technology and wellness programs. In recent years, the County has been

transitioning away from the practice of general fund departments charging each other for services. Such practices add complexity and confusion to the budget process without commensurate value. Beginning in fiscal year 2017-18, the information technology and wellness program will cease charging departments and will instead receive their funding through the annual budget process just as do other departments. To finance this change in practice, departments' GFC allocation will be reduced in an amount equal to charges they previously paid for these services, making this a budget neutral event.

**Agricultural Commissioner** – The Agricultural Commissioner expects to end the current year with \$10.5 million in expenditures, \$7.1 million in revenues, and general fund contributions of \$3.5 million. The Department expects to end the current year within its budgeted GFC. One of the Department’s critical revenue sources is from unclaimed gas tax which is distributed based on maintenance of effort (MOE) requirements related to the County’s annual GFC to the Department. In the forecast years, revenue is expected to decrease due to a reduction in state contracts and an anticipated reduction in the County’s pro rata share of unclaimed gas tax. Increasing deficits in the forecast years are due to negotiated salary increases and greater PERS retirement costs.

Agricultural Commissioner	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$10,272,905	\$10,382,131	\$ 10,539,098	\$ 10,570,422	\$ 10,872,448
B. Cost Plan Recovery/Charges	369,209	166,151	166,151	166,151	166,151
C. Total Expenditures	10,642,114	10,548,282	10,705,249	10,736,573	11,038,599
D. Revenue	7,146,141	7,052,309	6,904,934	6,984,046	7,030,311
E. Financing Need, C-D	3,495,973	3,495,973	3,800,315	3,752,527	4,008,288
F. Authorized County Contribution	3,495,973	3,495,973	3,090,256	3,090,256	3,090,256
G. Surplus/(Deficit), F-E	\$ -	\$ -	\$ (710,059)	\$ (662,271)	\$ (918,032)

**Assessor-County Clerk/Recorder** – The Assessor-County Clerk/Recorder estimates year-end expenditures of \$8.5 million, revenues of \$4.2 million, and County contributions of \$4.3 million. Compared to budget the Department will end the year with a projected surplus of \$178,309 because of salaries and benefits costs below budget due to unexpected resignations and vacancies and a reduction in cost plan charges. Without the reduction in cost plan charges, the Department would end the year with a surplus of \$31,033. Forecasted revenue is less than amounts assumed in the budget due to loss of grant monies. The Assessor-County Clerk-Recorder is projecting deficits in the forecasted years as a result of ERP upgrade/maintenance costs, estimated higher cost plan charges, step advances, MOU salary increases, PERS retirement costs, and rising health rates. These deficits assume County contributions remain flat in forecasted years. These forecasted deficits will impact the Assessor-County Clerk/Recorder's ability to maintain existing service levels unless other means are taken to offset escalating costs.

Assessor-County Clerk/Recorder	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 8,341,806	\$ 7,901,438	\$ 8,517,210	\$ 8,823,550	\$ 9,123,877
B. Cost Plan Recovery/Charges	773,542	626,266	657,579	690,458	724,981
C. Total Expenditures	9,115,348	8,527,704	9,174,789	9,514,008	9,848,858
D. Revenue	4,592,395	4,183,060	4,287,895	4,392,895	4,497,895
E. Financing Need, C-D	4,522,953	4,344,644	4,886,894	5,121,113	5,350,963
F. Authorized County Contribution	4,522,953	4,522,953	4,142,035	4,142,035	4,142,035
G. Surplus/(Deficit), F-E	\$ -	\$ 178,309	\$ (744,859)	\$ (979,078)	\$ (1,208,928)



**Auditor-Controller** - The Auditor-Controller’s Office includes ten budget units, eight of which are budgeted in the general fund. Two units support countywide non-departmental costs that are not directly Auditor-Controller core operations, consisting of short-term borrowing and the annual audits. The table summarizes the finances for departmental operations. The Auditor-Controller estimates ending the fiscal year with expenditures of \$1.2 million, revenues of \$454,555, and a County contribution of \$719,115. Compared to a budgeted County contribution of \$1.1 million, the Department will end the year with a projected surplus of \$332,538. The surplus is a result of an increased cost plan credit of \$746,824. Without the credit, the Department would have ended the fiscal year in a deficit of \$414,286 due to a reduction of anticipated reimbursements from the ERP upgrade project for staff time based on actual hours worked by individuals. The deficits emerging in forecast years are driven by cost increases related to increases in salaries, PERS rates and health insurance premiums.

Auditor-Controller	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 5,403,671	\$ 5,833,001	\$ 6,306,250	\$ 7,282,089	\$ 7,570,549
B. Cost Plan Recovery/Charges	(3,912,507)	(4,659,331)	(4,659,331)	(4,659,331)	(4,659,331)
C. Total Expenditures	1,491,164	1,173,670	1,646,919	2,622,758	2,911,218
D. Revenue	439,511	454,555	465,385	464,170	465,685
E. Financing Need, C-D	1,051,653	719,115	1,181,534	2,158,588	2,445,533
F. Authorized County Contribution	1,051,653	1,051,653	719,073	719,073	719,073
G. Surplus/(Deficit), F-E	\$ -	\$ 332,538	\$ (462,461)	\$ (1,439,515)	\$ (1,726,460)

**Board of Supervisors** - The budget for the Board of Supervisors includes six general fund units, providing for each of the five districts and a general pool that covers shared expenses not specific to any one district. Based on financial data for the first six months of the year, the Board’s budget will end fiscal year 2016-17 with a deficit of \$364,806. The deficit is mainly attributed to a \$300,562 increase in cost plan charges. Without the increase in cost plan charges, there is a potential deficit of \$64,244 due to payment of vacation accruals for employees that separated from the County as a result of staffing changes in two Supervisorial districts. The deficits emerging in forecast years are driven by cost increases related to increases in salaries, cost plan charges, ERP upgrade costs, PERS rates and health insurance premiums.

Board of Supervisors	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 3,132,958	\$ 3,197,202	\$ 3,331,842	\$ 3,430,740	\$ 3,517,572
B. Cost Plan Recovery/Charges	330,817	631,379	631,379	631,379	631,379
C. Total Expenditures	3,463,775	3,828,581	3,963,221	4,062,119	4,148,951
D. Revenue	-	-	-	-	-
E. Financing Need, C-D	3,463,775	3,828,581	3,963,221	4,062,119	4,148,951
F. Authorized County Contribution	3,463,775	3,463,775	3,350,649	3,350,649	3,350,649
G. Surplus/(Deficit), F-E	\$ -	\$ (364,806)	\$ (612,572)	\$ (711,470)	\$ (798,302)

**Child Support Services** - Child Support Services is funded entirely through federal and state subventions for mandated services. The Department expects to end the current year within its budget with \$11.0 million in expenditures and revenue of \$11.1 million. It is anticipated that the Department’s funding allocations by the State Department of Child Support Services will continue to stay relatively the same for the next three years. This would result in funding gaps in the upcoming years largely due to increases in employee salaries and benefits, health insurance premiums, workers' compensation, and increases in costs by internal service departments. Unless other means are taken to offset escalating costs, the cost increases will impact Child Support Services’ ability to maintain existing resources.

Child Support Services	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$10,633,287	\$10,775,978	\$11,190,804	\$11,792,905	\$12,165,190
B. Cost Plan Recovery/Charges	368,884	150,949	150,949	150,949	150,949
C. Total Expenditures	11,002,171	10,926,927	11,341,753	11,943,854	12,316,139
D. Revenue	11,140,443	11,140,443	11,605,142	12,010,309	12,269,716
E. Financing Need, C-D	(138,272)	(213,516)	(263,389)	(66,455)	46,423
F. Authorized County Contribution	(138,272)	(138,272)	(138,272)	(138,272)	(138,272)
G. Surplus/(Deficit), F-E	\$ -	\$ 75,244	\$ 125,117	\$ (71,817)	\$ (184,695)

**Clerk of the Board** - The Clerk of the Board anticipates year-end expenditures of \$918,552, revenue of \$20,000 and a county contribution of \$898,522. Revenues from assessment appeal application filings are projected to remain flat in forecasted years. Compared to budget, the Department estimates it will end the year with a surplus of \$6,130. The surplus is a result of a decrease in cost plan charges of \$11,813; however, the Department anticipates operational expenses to be \$5,683 over budget due to increased costs related to the recently negotiated bargaining agreements. Expenditures are expected to continue rising in the forecast years due to the bargaining agreements, step advances, increased employee benefit cost and increased internal service charges for the ERP upgrade.

Clerk of the Board	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 813,627	\$ 819,310	\$ 926,747	\$ 954,072	\$ 978,555
B. Cost Plan Recovery/Charges	111,025	99,212	99,212	99,212	99,212
C. Total Expenditures	924,652	918,522	1,025,959	1,053,284	1,077,767
D. Revenue	20,000	20,000	20,000	20,000	20,000
E. Financing Need, C-D	904,652	898,522	1,005,959	1,033,284	1,057,767
F. Authorized County Contribution	904,652	904,652	851,777	851,777	851,777
G. Surplus/(Deficit), F-E	\$ -	\$ 6,130	\$ (154,182)	\$ (181,507)	\$ (205,990)

**Cooperative Extension** - The Cooperative Extension expects to end the current year with \$555,570 in expenditures, \$113,566 in revenue and general fund contributions of \$442,004. Compared to budget, the Department estimates it will end the year with a surplus of \$13,301. Much of the projected surplus is due to a decrease in cost recovery charges of \$9,787 and salary savings resulting from a leave of absence. The Cooperative Extension projects a deficit in forecast years because of increased salary and benefit cost increases driven by bargaining agreements, step increases to salaries, PERS increases, and increased employee health insurance premiums.

Cooperative Extension	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 537,652	\$ 523,485	\$ 537,323	\$ 556,000	\$ 572,070
B. Cost Plan Recovery/Charges	41,872	32,085	32,085	32,085	32,085
C. Total Expenditures	579,524	555,570	569,408	588,085	604,155
D. Revenue	124,219	113,566	136,018	140,459	142,711
E. Financing Need, C-D	455,305	442,004	433,390	447,626	461,444
F. Authorized County Contribution	455,305	455,305	420,478	420,478	420,478
G. Surplus/(Deficit), F-E	\$ -	\$ 13,301	\$ (12,912)	\$ (27,148)	\$ (40,966)

**County Administrative Office** - The table below summarizes the finances for the County’s Administration “departmental” operations, including: Administration and Finance, Budget and Analysis, Contracts/Purchasing, Intergovernmental and Legislative Affairs, Emergency Services, Community Engagement and Strategic Advocacy, Fleet Administration, and the Vehicle Asset Management Program (VAMP). The Department projects year-end expenditures of \$6.6 million, revenues of \$376,557, and a County contribution of \$6.3 million. These operations estimate a combined year-end deficit of \$1,587,097. The deficit is due to a cost plan credit decrease of \$1,611,079. The CAO is projecting hypothetical deficits in the forecast years because of salary increases, cost plan charges, higher PERS rates and increases in health insurance premiums.

County Administrative Office	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Expenditures	\$ 9,884,626	\$ 9,788,779	\$ 7,850,214	\$ 6,651,036	\$ 6,156,537
B. Cost Plan Recovery/Charges	(4,756,303)	(3,145,224)	(3,145,224)	(3,145,224)	(3,145,224)
C. Total Expenditures	5,128,323	6,643,555	4,704,990	3,505,812	3,011,313
D. Revenue	448,422	376,557	368,659	352,327	354,401
E. Financing Need, C-D	4,679,901	6,266,998	4,336,331	3,153,485	2,656,912
F. Authorized County Contribution	4,679,901	4,679,901	882,405	882,405	882,405
G. Surplus/(Deficit), F-E	\$ -	\$ (1,587,097)	\$ (3,453,926)	\$ (2,271,080)	\$ (1,774,507)

**County Counsel** – County Counsel estimates it will end the current fiscal year with \$95,463 in expenditures, revenue of \$261,877 and a \$3.3 million surplus resulting from a cost plan credit increase of \$3.3 million. Without the additional credit the Department would end the year with a \$10,491 surplus due to salary savings from vacant positions. The deficits emerging in forecast years are driven by cost increases related to increases in salaries, vacation buy backs, PERS rates and increases in health insurance premiums.

County Counsel	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 5,193,121	\$ 5,155,756	\$ 5,969,350	\$ 6,221,886	\$ 6,558,140
B. Cost Plan Recovery/Charges	(1,738,762)	(5,060,293)	(5,060,233)	(5,060,233)	(5,060,233)
C. Total Expenditures	3,454,359	95,463	909,117	1,161,653	1,497,907
D. Revenue	288,751	261,877	288,751	288,751	288,751
E. Financing Need, C-D	3,165,608	(166,414)	620,366	872,902	1,209,156
F. Authorized County Contribution	3,165,608	3,165,608	2,905,349	2,905,349	2,905,349
G. Surplus/(Deficit), F-E	\$ -	\$ 3,332,022	\$ 2,284,983	\$ 2,032,447	\$ 1,696,193

**District Attorney** - The Office of the District Attorney anticipates year-end expenditures of \$23.5 million, revenues of \$12.9 million and \$10.6 million in County contribution, resulting in a year-end surplus of \$656,194. Much of the surplus is the result of a decrease in cost plan charges of \$612,480. In addition, the Department also saw decreases in operational expenditures of \$1,047,696 resulting mostly from salary savings from unfilled positions. Current year revenue is trending below budgeted assumptions to the extent the salary savings reduces qualified reimbursements, as well as reduced grant funding. The Office projects deficits in the forecast years primarily due to forecasted salary step increases and increasing costs related to PERS retirement, health insurance premiums, and allocated costs such as workers' compensation insurance.

District Attorney	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$24,141,086	\$23,093,390	\$26,037,304	\$26,529,937	\$26,938,354
B. Cost Plan Recovery/Charges	1,021,074	408,594	408,594	408,594	408,594
C. Total Expenditures	25,162,160	23,501,984	26,445,898	26,938,531	27,346,948
D. Revenue	13,873,723	12,869,741	14,681,689	14,912,273	15,079,593
E. Financing Need, C-D	11,288,437	10,632,243	11,764,209	12,026,258	12,267,355
F. Authorized County Contribution	11,288,437	11,288,437	10,517,850	10,517,850	10,517,850
G. Surplus/(Deficit), F-E	\$ -	\$ 656,194	\$ (1,246,359)	\$ (1,508,408)	\$ (1,749,505)

**Economic Development Department** - The Economic Development Department's (EDD) general fund units estimate year-end expenditures of \$3.3 million and \$3.3 million in use of GFC. Compared to budgeted GFC, the Department estimates ending the year with a small deficit of \$55. The Department experienced salary savings on a vacant position, which it is working to fill; however, with an increase in cost plan charges, savings were eroded. Forecasted years project a \$184,828 deficit starting in FY 2017-18. An increase in the ERP Upgrade charges is a small part of the deficit, while approximately \$170,000 of that deficit is due to increased salaries and corresponding benefits. The deficit continues to rise in future forecasted years primarily due to continued salary and benefit cost increases.

Economic Development Department	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 3,181,902	\$ 3,162,624	\$ 3,459,797	\$ 3,515,010	\$ 3,552,036
B. Cost Plan Recovery/Charges	159,886	179,219	179,219	179,219	179,219
C. Total Expenditures	3,341,788	3,341,843	3,639,016	3,694,229	3,731,255
D. Revenue	-	-	-	-	-
E. Financing Need, C-D	3,341,788	3,341,843	3,639,016	3,694,229	3,731,255
F. Authorized County Contribution	3,341,788	3,341,788	3,454,188	3,454,188	3,454,188
G. Surplus/(Deficit), F-E	\$ -	\$ (55)	\$ (184,828)	\$ (240,041)	\$ (277,067)

**Elections** - The Elections Department administers all federal, state, county, and local public elections. Departmental expenditures and revenues vary based on the number of scheduled elections and unscheduled special elections in a given year. The Department expects to end the current year with expenditures of \$5.1 million, revenues of \$1.7 million, and a County contribution of \$3.5 million. Compared to budget, the Department will end the year with a projected surplus of \$35,901. An increase in local elections resulted in higher expenditures and revenues which comes from local districts that reimburse the cost of their portion of the election. Projected expenditures and revenues in forecast years reflect estimated charges for three scheduled elections in fiscal year 2017-18, a statewide general election in fiscal year 2018-19, and two scheduled elections in fiscal year 2019-20, including a Presidential Primary. Deficits in forecast years arise from flat GFC financing assumptions while services and supplies (including ballot printing, postage, and translation) are projected to increase due to larger or more elections in future years as compared to the current fiscal year. Additionally, cost allocation plan charges and salary and benefit costs attribute to the growing deficits.

Elections	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 4,363,400	\$ 4,691,958	\$ 4,595,562	\$ 4,806,867	\$ 5,136,405
B. Cost Plan Recovery/Charges	65,117	440,473	440,473	450,000	500,000
C. Total Expenditures	4,428,517	5,132,431	5,036,035	5,256,867	5,636,405
D. Revenue	913,500	1,653,315	913,500	913,500	913,500
E. Financing Need, C-D	3,515,017	3,479,116	4,122,535	4,343,367	4,722,905
F. Authorized County Contribution	3,515,017	3,515,017	3,372,308	3,372,308	3,372,308
G. Surplus/(Deficit), F-E	\$ -	\$ 35,901	\$ (750,227)	\$ (971,059)	\$ (1,350,597)

**Emergency Communications** – The Emergency Communications Department expects to end the current year with \$14.4 million in expenditures, \$12.5 million in revenue, and general fund contributions of \$1.8 million. Compared to budget, the Department estimates it will end the year with a deficit of \$181,804. The Department had lower cost plan charges of \$70,411, however, the Department anticipates expenses to be \$2.2 million over budget, primarily due to the Department not budgeting \$1.2 million for completion of the Computer Aided Dispatch (CAD) system. The Department expects to cover the CAD system costs by using \$976,393 in restricted revenue and \$176,908 in grant monies awarded by the Urban Areas Security Initiative (UASI). Additionally, departmental IT costs estimated at \$1.0 million exceed the budgeted amount due to the implementation of the NGEN equipment maintenance agreement. The higher expenditures will be offset with \$2.0 million higher revenues through increased charges to user agencies. The Department anticipates deficits in the forecast years ranging from \$1.1 million to \$2.0 million as the revenues projected are mostly flat, while expenditures increase due to higher maintenance of equipment as the NGEN project is expected to be fully implemented and also due to increasing salaries and benefits costs due to the new labor agreements, rising pension costs, and higher health insurance premiums. The forecast does not reflect \$1.4 million in revenue that the Department is anticipating collecting in fiscal year 2017-18 to reimburse the general fund for prior year under billings to user agencies.

Emergency Communications	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$11,740,612	\$13,984,937	\$12,608,654	\$13,134,459	\$13,458,352
B. Cost Plan Recovery/Charges	446,099	375,688	375,688	375,688	375,688
C. Total Expenditures	12,186,711	14,360,625	12,984,342	13,510,147	13,834,040
D. Revenue	10,544,061	12,536,171	10,582,828	10,570,220	10,559,173
E. Financing Need, C-D	1,642,650	1,824,454	2,401,514	2,939,927	3,274,867
F. Authorized County Contribution	1,642,650	1,642,650	1,259,583	1,259,583	1,259,583
G. Surplus/(Deficit), F-E	\$ -	\$ (181,804)	\$ (1,141,931)	\$ (1,680,344)	\$ (2,015,284)

**Equal Opportunity Office** - The Equal Opportunity Office (EOO) expects to end fiscal year 2016-17 with expenditures of \$79,430 and a County contribution of \$79,430. Compared to a budgeted County contribution of \$219,637, the Department will end the year with a projected surplus of \$140,207. Much of this surplus is the result of an additional \$140,207 in cost plan recoveries credit. The deficits in forecast years are due to projected increases in expenditures as a result of increased salary and benefits costs (employee step advances, rising PERS contributions, etc.) as well as cost for the EOO’s mandatory equal opportunity training program.

Equal Opportunity Office	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 846,990	\$ 846,990	\$ 986,735	\$ 1,014,895	\$ 1,034,534
B. Cost Plan Recovery/Charges	(627,353)	(767,560)	(767,560)	(767,560)	(767,560)
C. Total Expenditures	219,637	79,430	219,175	247,335	266,974
D. Revenue	-	-	-	-	-
E. Financing Need, C-D	219,637	79,430	219,175	247,335	266,974
F. Authorized County Contribution	219,637	219,637	178,534	178,534	178,534
G. Surplus/(Deficit), F-E	\$ -	\$ 140,207	\$ (40,641)	\$ (68,801)	\$ (88,440)



**Health** – The Health Department provides a wide array of services including but not limited to animal services, behavioral health, public health, clinic services, public guardian/conservator/administrator, emergency medical services, and environmental health. The Department estimates year-end expenditures of \$78.5 million, revenues of \$72.0 million, and a financing need of \$6.5 million. This level of financing is greater than the \$5.7 million budgeted by \$790,928 due to increases in the cost plan charges of \$416,491 and the cost of the pilot project for the remaining uninsured of \$374,000. The pilot program covers laboratory, radiology, and pharmacy services of uninsured to improve health outcomes in the community. The current year adopted budget includes an authorization to reimburse the Department for pilot project costs upon year end reconciliation. The deficits in the forecast years are due to costs increasing for County ERP system upgrade and capital needs, and employee health benefit increases.

Health Department	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$84,899,031	\$75,412,417	\$ 85,696,425	\$ 85,294,284	\$ 87,648,050
B. Cost Plan Recovery/Charges	2,646,838	3,080,215	3,080,215	3,080,215	3,080,215
C. Total Expenditures	87,545,869	78,492,632	88,776,640	88,374,499	90,728,265
D. Revenue	81,841,183	71,997,018	81,290,973	79,718,123	78,986,017
E. Financing Need, C-D	5,704,686	6,495,614	7,485,667	8,656,376	11,742,248
F. Authorized County Contribution	5,704,686	5,704,686	5,874,185	5,874,185	5,874,185
G. Surplus/(Deficit), F-E	\$ -	\$ (790,928)	\$ (1,611,482)	\$ (2,782,191)	\$ (5,868,063)

**Human Resources** – The Human Resources Department projects, excluding the cost plan credit, expenditures of \$3.8 million and a general fund financing need of \$3.8 million. Adjusting for the cost plan credit, projected expenditures are \$975,063 and a general fund need of \$974,891, resulting in a deficit of \$758,550. The deficit is mostly due to a decrease in cost plan credits of \$804,381. Without the decrease in credits, the Department would end the year with a surplus of \$45,831. This surplus is attributed to vacancies in the Department. Forecasted years are projecting deficits as a result of increases in the costs of services and supplies, and significant increases for benefit expenditures. In addition, funding for positions assigned to the ERP project will end beginning in fiscal year 2017-18 adding to the overall deficit.

Human Resources	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 3,870,121	\$ 3,824,462	\$ 4,437,759	\$ 4,721,328	\$ 4,856,723
B. Cost Plan Recovery/Charges	(3,653,780)	(2,849,399)	(2,849,399)	(2,849,399)	(2,849,399)
C. Total Expenditures	216,341	975,063	1,588,360	1,871,929	2,007,324
D. Revenue	-	172	-	-	-
E. Financing Need, C-D	216,341	974,891	1,588,360	1,871,929	2,007,324
F. Authorized County Contribution	216,341	216,341	48,202	48,202	48,202
G. Surplus/(Deficit), F-E	\$ -	\$ (758,550)	\$ (1,540,158)	\$ (1,823,727)	\$ (1,959,122)



**Information Technology** – The current year-end estimate reflects the Information Technology Department (ITD) full cost recovery methodology, in which ITD operational expenses are fully recovered through its rate structure and customer billing. ITD Capital Improvement Projects (CIP) were also fully recovered as a separate chargeback to all County ITD customers. In addition, ITD budgeted a cost plan credit of \$2.5 million based on the Auditor-Controller’s cost plan estimates. The Department projects year-end expenditures of \$310,818, revenues of \$989,403, and an ending surplus of \$678,585. The decrease in the ending surplus is mostly due to actual cost plan charges of \$168,380, as opposed to the estimated credit of \$2.5 million. Without the increase in cost plan charges, the Department would have ended the year with a surplus of \$802,759. Beginning in fiscal year 2017-18, the Department will no longer bill general fund customers for countywide services. Instead, beginning in fiscal year 2017-18, ITD will receive funding through the budget process as do other departments. Departments receiving external revenue for these services are excluded and will continue to be billed directly by ITD. The Department anticipates deficits in the forecast years due to increasing salary and benefits costs due to the new labor agreements, rising pension costs, higher health insurance premiums, and lower reimbursements.

Information Technology	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 23,749,009	\$ 22,022,825	\$ 23,981,539	\$ 24,186,177	\$ 24,294,851
B. Cost Plan Recovery/Charges	(2,497,473)	168,380	168,380	168,380	168,380
Reimbursements	(23,022,873)	(21,880,387)	(16,166,972)	(16,166,972)	(15,543,757)
C. Total Expenditures	(1,771,337)	310,818	7,982,947	8,187,585	8,919,474
D. Revenue	770,342	989,403	758,836	758,836	1,042,524
E. Financing Need, C-D	(2,541,679)	(678,585)	7,224,111	7,428,749	7,876,950
F. Authorized County Contribution	(2,541,679)	(2,541,679)	7,366,402	7,366,402	7,366,402
G. Surplus/(Deficit), F-E	\$ -	\$ (1,863,094)	\$ 142,291	\$ (62,347)	\$ (510,548)

**Parks (General Fund)** – The Parks Department projects year-end expenditures of \$6.7 million, revenues of \$4.5 million, and a County contribution of \$2.2 million. Compared to a budgeted County contribution of \$2.0 million, the Department will end the year with a deficit of \$129,304. The Department estimates revenues will come in under budget by nearly \$203,983, partially due to the impact the Soberanes Fire had on the Department’s day use and rental activity during the peak season. The loss of revenue is projected to be partially offset by a \$74,679 reduction in expenditures from decreased staff charges from other departments and cost plan charges. The Department will continue to pursue cost saving opportunities to help reduce the general fund contribution deficit by fiscal year-end.

General fund contribution deficits in the Department’s general fund operations are expected to grow over the forecast primarily due to rising salary and benefit cost, such as salary increases related to the bargaining agreements, PERS contribution rates, and employee health insurance. In fiscal year 2016-17, the Department had a one-time operating transfer-in of \$450,000 from the Laguna Seca Track Maintenance and Repairs fund balance assignment. As a one-time use, the revenue is not forecasted in future years.

Parks	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 6,186,144	\$ 6,221,275	\$ 6,407,977	\$ 6,728,411	\$ 6,972,614
B. Cost Plan Recovery/Charges	560,023	450,213	450,213	450,213	450,213
C. Total Expenditures	6,746,167	6,671,488	6,858,190	7,178,624	7,422,827
D. Revenue	4,698,002	4,494,019	3,921,092	3,921,092	3,921,092
E. Financing Need, C-D	2,048,165	2,177,469	2,937,098	3,257,532	3,501,735
F. Authorized County Contribution	2,048,165	2,048,165	1,869,170	1,869,170	1,869,170
G. Surplus/(Deficit), F-E	\$ -	\$ (129,304)	\$ (1,067,928)	\$ (1,388,362)	\$ (1,632,565)

**Probation** - The Department’s fiscal year 2016-17 year-end estimates reflect expenditures of \$45.4 million, revenue of \$23.5 million and estimated general fund contributions of \$21.8 million. Based on this estimate, the Department will end with a surplus of \$221,597, under the authorized general fund contribution of \$22.1 million. The surplus is attributed to \$749,113 in lower cost plan charges than anticipated, which was offset with unbudgeted negotiated MOU bargaining unit salary and benefit increases, cost increases related to the state contract with the Department of Juvenile Justice and a lower than budgeted revenue projection for Public Safety sales tax revenue. Had the Department not had the financial gain resulting from lower cost plan charges, the Department would end the year with a deficit of \$527,516. Probation is working to mitigate the unbudgeted expenditures through careful use of resources and monitoring of operations over the remainder of the year. The forecast for fiscal year 2017-18 through fiscal year 2019-20 indicates deficits ranging from \$4.1 to \$7.3 million. The deficits are attributable to salary and benefit increases for negotiated bargaining agreements, higher PERS contributions and cost increases for health insurance premiums, workers’ compensation insurance and infrastructure charges.

Probation	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$43,974,356	\$44,395,953	\$ 47,935,236	\$ 49,658,804	\$ 51,163,992
B. Cost Plan Recovery/Charges	1,713,778	964,665	964,665	964,665	964,665
C. Total Expenditures	45,688,134	45,360,618	48,899,901	50,623,469	52,128,657
D. Revenue	23,622,818	23,516,899	23,676,429	23,658,993	23,643,716
E. Financing Need, C-D	22,065,316	21,843,719	25,223,472	26,964,476	28,484,941
F. Authorized County Contribution	22,065,316	22,065,316	21,141,672	21,141,672	21,141,672
G. Surplus/(Deficit), F-E	\$ -	\$ 221,597	\$ (4,081,800)	\$ (5,822,804)	\$ (7,343,269)

**Public Defender** - The Public Defender's function consists of two budget units: the Alternate Defender (ADO) and Public Defender (PDO). The two units estimate combined year-end expenditures of \$11.5 million, revenue of \$658,000, and ending general fund contributions of \$10.8 million. Compared to budget, the Department would end the current year \$140,213 under its currently authorized GFC. The Department was impacted with additional cost plan charges of \$69,671; however, it is anticipated this can be absorbed in the current year budget. Although, the current estimated GFC is under the authorized GFC, it is likely that the Department may need the estimated balance and perhaps more to cover ancillary costs of unforeseen serious cases and related attorney fees. The Department projects deficits in the forecast years due to earned step advances, forecasted increases in employee benefits and general liability costs, and negotiated salary increases. Additional cost drivers are employee promotions, unanticipated termination payouts, costs related to the upgrade of aging computers and software, and the records imaging project to keep pace with the Superior Court's new systems.

Public Defender	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$11,125,159	\$11,015,275	\$11,649,509	\$12,021,722	\$12,271,765
B. Cost Plan Recovery/Charges	414,535	484,206	484,206	484,206	484,206
C. Total Expenditures	11,539,694	11,499,481	12,133,715	12,505,928	12,755,971
D. Revenue	558,000	658,000	558,000	558,000	558,000
E. Financing Need, C-D	10,981,694	10,841,481	11,575,715	11,947,928	12,197,971
F. Authorized County Contribution	10,981,694	10,981,694	10,618,979	10,618,979	10,618,979
G. Surplus/(Deficit), F-E	\$ -	\$ 140,213	\$ (956,736)	\$ (1,328,949)	\$ (1,578,992)

**Resource Management Agency (General Fund)** - The Resource Management Agency (RMA) fiscal year 2016-17 current year estimate projects expenditures of \$23.5 million, revenues of \$10.7 million, and a general fund contribution of \$12.8 million. In comparison to the modified budget, the Department estimates it will end the year with a deficit of \$2.2 million. The deficit is a result of a decrease in cost plan credits of \$2.3 million. Without the reduction in credits, the Department would end the year with a net surplus of \$150,662. While estimated salary and benefit savings of \$1,585,138 are projected due to unfilled positions, these savings are offset by increased utility and other service costs of \$277,644, as well as lower reimbursements of staff cost of \$410,809 due to multiple capital project delays. The RMA included cost plan credits as part of their budgeted revenue rather than as an expenditure offset. The year-end estimate makes this technical adjustment. With this adjustment, RMA is projecting a net decrease in revenue of \$791,023, which is largely attributable to a reduction in construction permit fees, as several long-term projects were deferred into next fiscal year. RMA will continue to closely monitor its operations and follow up with the Board before the end of the fiscal year if it becomes apparent that RMA is unable to continue operations within the current general fund allocation.

The Department anticipates a growing deficit in forecast years from \$5.8 million to \$7.5 million. The increase in the deficit is primarily attributable to the county cost plan charges, which rose over \$2.3 million. Other contributing factors include increases to salaries related to bargaining agreements, PERS contribution rates, employee health insurance, and general liability. Revenue is projected to decrease by \$452,109 in fiscal year 2017-18. The Department anticipates a reduction

in both construction permit fees and one-time grant funds for the Coastal Impact Assistance Program and Department of Water Resources.

Resource Management Agency	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$33,444,846	\$26,232,157	\$ 27,767,185	\$ 27,994,321	\$ 29,011,331
B. Cost Plan Recovery/Charges	(5,014,467)	(2,698,349)	(2,698,349)	(2,698,349)	(2,698,349)
C. Total Expenditures	28,430,379	23,533,808	25,068,836	25,295,972	26,312,982
D. Revenue	17,829,764	10,722,738	10,270,629	9,834,190	9,844,179
E. Financing Need, C-D	10,600,615	12,811,070	14,798,207	15,461,782	16,468,803
F. Authorized County Contribution	10,600,615	10,600,615	8,982,822	8,982,822	8,982,822
G. Surplus/(Deficit), F-E	\$ -	\$ (2,210,455)	\$ (5,815,385)	\$ (6,478,960)	\$ (7,485,981)

**Sheriff-Coroner** - The Sheriff’s Office expects to end the current year with \$97.0 million in expenditures, \$36.4 million in revenues, and general fund contributions of \$60.6 million. Compared to budget, the Office estimates that it will end with a surplus of \$10,814 in fiscal year 2016-17. However, the Office had \$1.5 million lower cost plan charges than anticipated. Had the Office not had the financial gain resulting from lower cost plan charges, the Office would end the year with a deficit of \$1.5 million. Factors contributing to the adjusted deficit include increased costs to hire and train sworn officers, such as background investigation costs, tuition for the basic police academy and safety equipment. Other factors contributing to the deficit include unbudgeted supplies/safety equipment for new patrol vehicles, higher than budgeted overtime costs, building repair costs, and new technology costs. Additionally, the Office anticipates lower revenue of \$1.5 million primarily due to lower reimbursements under the inmate housing contract. The Office anticipates deficits in the forecast years due to increasing costs related to labor agreements, PERS retirement, health insurance premiums, and allocated costs such as workers' compensation and general liability insurance premiums.

Sheriff-Coroner	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$93,196,327	\$93,135,808	\$ 96,776,985	\$ 99,785,333	\$ 103,988,436
B. Cost Plan Recovery/Charges	5,331,077	3,860,948	3,860,948	3,860,948	3,860,948
C. Total Expenditures	98,527,404	96,996,756	100,637,933	103,646,281	107,849,384
D. Revenue	37,903,367	36,383,533	36,555,046	37,053,615	37,584,014
E. Financing Need, C-D	60,624,037	60,613,223	64,082,887	66,592,666	70,265,370
F. Authorized County Contribution	60,624,037	60,624,037	58,912,441	58,912,441	58,912,441
G. Surplus/(Deficit), F-E	\$ -	\$ 10,814	\$ (5,170,446)	\$ (7,680,225)	\$ (11,352,929)

**Social Services** - The Department of Social Services (DSS) estimates year-end expenditures of \$193.4 million, revenue of \$181.5 million and a General Fund Contribution of \$11.9 million. The current year-end estimated expenditures are less than budget primarily due to a decline of \$2.0 million in entitlement costs for CalWorks, Out of Home Care, General Assistance, In-Home Supportive Services, and \$1.0 million in salary savings. Estimated year-end revenues decreased due to the reimbursement by the state and federal government which only provides funding based on actual expenses. The estimated year-end deficit in General Fund Contributions is resulting from a CAO clerical error in which we did not reduce revenue commensurate with the budgeted reduction in expenditures related to the ERP adjustment. It should be noted that the year-end estimate was completed at a time when only one quarter of fiscal data was available to estimate earned revenues, where these estimates may change before year-end closing.

The estimated deficits for the forecast years are directly related to entitlement programs and homeless assistance programs. These include increases in: state mandated COLAs for all Out of Home Care Programs such as Foster Care and Adoption Assistance and the state mandated implementation of Continuum of Care in children services operations. Additionally, there is a statutory 3.5% increase in the In-Home Supportive Services (IHSS) Programs' existing Maintenance of Effort, and deficits in ongoing homeless assistance programs. Realignment funding and growth funding is not yet known and was assumed to remain “flat” for the forecast.

Social Services	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 193,212,324	\$ 190,912,471	\$ 197,159,097	\$ 203,335,966	\$ 208,374,029
B. Cost Plan Recovery/Charges	3,278,052	2,504,020	2,504,020	2,504,020	2,504,020
C. Total Expenditures	196,490,376	193,416,491	199,663,117	205,839,986	210,878,049
D. Revenue	185,371,822	181,450,272	184,318,677	188,527,369	191,550,125
E. Financing Need, C-D	11,118,554	11,966,219	15,344,440	17,312,617	19,327,924
F. Authorized County Contribution	11,118,554	11,118,554	12,005,042	12,005,042	12,005,042
G. Surplus/(Deficit), F-E	\$ -	\$ (847,665)	\$ (3,339,398)	\$ (5,307,575)	\$ (7,322,882)

**Treasurer-Tax Collector** – The Treasurer-Tax Collector projects year-end expenditures of \$7.1 million, revenue of \$6.1 million, and a County contribution of \$1.1 million. Compared to a budgeted County contribution of \$1.3 million, the Department will end the year with a projected surplus of \$237,502. The revised distribution in cost plan recovery charges lowered year-end estimated expenditures resulting in a credit of \$475,027. Absent this revision, the Department’s year-end expenditures would reflect a total deficit of \$273,267. Expenditures for salaries and benefits are estimated to end the year \$187,528 below budget. Savings in salaries and benefits also help offset increased services and supplies expenditures, which otherwise exceed the modified budget by \$88,969, primarily due to increased costs for banking services, and unanticipated increases in ERP charges. Compared to the fiscal year 2016-17 modified budget, forecasted fiscal year 2017-18 operational expenditures reflect an increase of \$603,141. Salaries and benefits expenditures are estimated to increase by \$333,091 to cover costs for Board approved salary increases and related FICA and Medicare expenses, increases in OPEB, PERS Retirement, workers’ compensation insurance, and health insurance benefits. Increased expenditures also include full year costs for three new positions approved by the Board on December 13, 2016.

Departmental revenue is expected to be under budget in the current year by \$134,892. This reduction correlates with expenditures savings in the Revenue Division, which receives revenue based on actual costs of collections services to the local Superior Court. Fiscal year 2017-18 revenue projections conservatively reflect allowable cost recovery related to the Departments services and programs. Although forecasted revenue decreases in fiscal year 2017-18, the Department anticipates revenue will match or slightly exceed the fiscal year 2016-17 year-end estimate primarily due to the implementation of the cannabis licensing and tax collections operations set to be implemented this fiscal year. The forecasted total expenditure and revenue projections for fiscal year 2018-19 and fiscal year 2019-20 generally assume 2% increase in costs, with like increases for offsetting revenues

Treasurer Tax Collector	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Operational Expenditures	\$ 7,481,067	\$ 7,619,442	\$ 8,084,208	\$ 8,379,944	\$ 8,724,839
B. Cost Plan Recovery/Charges	35,742	(475,027)	(475,027)	(475,027)	(475,027)
C. Total Expenditures	7,516,809	7,144,415	7,609,181	7,904,917	8,249,812
D. Revenue	6,195,944	6,061,052	5,653,424	5,747,659	5,843,820
E. Financing Need, C-D	1,320,865	1,083,363	1,955,757	2,157,258	2,405,992
F. Authorized County Contribution	1,320,865	1,320,865	1,046,926	1,046,926	1,046,926
G. Surplus/(Deficit), F-E	\$ -	\$ 237,502	\$ (908,831)	\$ (1,110,332)	\$ (1,359,066)

**OTHER MAJOR FUNDS**

**Natividad Medical Center** - Natividad Medical Center (NMC) is a County “Enterprise Fund,” defined as a governmental fund that provides goods and services to the public for a fee, which makes the entity self-supporting.

**Revenue:** Net patient revenue is projected to increase in fiscal year 2017 and fiscal year 2018, with a reduction forecasted in fiscal Year 2018-19 and fiscal year 2019-20. The revenue decline is attributed to the 1115 Waiver through 2020 (Medi-Cal 2020). Medi-Cal 2020 includes three main components: (1) Public Hospital Redesign and Incentives (PRIME), which provides incentive payments; 2) Public Safety-Net System Global Payment Program (GPP), a funding source for the uninsured; and 3) Federal/State Shared Savings. As Medi-Cal 2020 progresses, the components may result in lower revenue. FY 2016-17 and FY 2017-18 growth is attributed to an increase in the average daily census, an improved payor mix and a favorable allocation from Medi-Cal 2020’s PRIME and GPP components.

**Operating Expenses:** Operating expenses are projected to increase by an annual average of 2% due to annual cost increases for labor and non-labor services and projected volume increases. Primary growth is in Salaries and Benefits (wage increases).

Costs for medical and lab supplies are also increasing.

**Capital Expenditures:** Fiscal year 2016-17 through 2018-19 will see heavy capital expenditures



ranging between \$26.2 million and \$41.2 million annually. Where Project costs are above \$100,000, funds are transferred to the NMC capital fund (Fund 404) to make sure funding is available for an approved project, and then as funds are needed, they are transferred back to NMC's operational fund (Fund 451) for use. The projects are primarily to upgrade patient care areas, replace clinical equipment, and investment in required information technology programs.

**Net Results:** NMC staff projects a constant decline in fund balance totaling \$38,596,016 during the forecast period due to the heavy investment in capital.

Natividad Medical Center	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Beginning Fund Balance	\$ 73,366,700	\$ 66,311,305	\$ 82,926,652	\$ 62,222,039	\$ 51,378,491
B. Revenue	262,167,926	288,543,370	300,018,896	292,097,704	290,142,469
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	335,534,626	354,854,675	382,945,548	354,319,743	341,520,960
E. Expenditures	251,667,562	271,928,023	320,723,509	302,941,252	296,249,912
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	251,667,562	271,928,023	320,723,509	302,941,252	296,249,912
H. Ending Fund Balance, D-G	\$ 83,867,064	\$ 82,926,652	\$ 62,222,039	\$ 51,378,491	\$ 45,271,048

**Road Fund** - The Road Fund is a special revenue fund established per state law to account for revenues that are legally restricted for County road and bridge construction and related maintenance projects.

The County's Road Fund has experienced significant reductions in the Highway User Tax Allocation (HUTA) receipts, also referred to as "Gas Tax". HUTA is the primary funding source for road and bridge maintenance for the County. In fiscal year 2013-14 the Road Fund received \$12.6 million in HUTA funding, and three years later, RMA projects 2016-17 HUTA receipts to come in under \$8.7 million. The result is a net decline in Road Fund HUTA revenues of \$3.9 million or 33.1% over the last three years. The loss of these revenues has resulted in a significant erosion of available fund balance. For fiscal year 2016-17, the Road Fund forecasts an additional reduction in fund balance of \$833,573, which would result in an ending fund balance of \$498,406. The compounding effect of reduced HUTA receipts into fiscal year 2017-18 will result in significant operational impacts to the Road Fund.

The Transportation Agency for Monterey County (TAMC) successfully passed a retail transactions and use tax ordinance, which TAMC anticipates will generate \$20.0 million in annual funding for local road maintenance, transit and pedestrian projects, and regional road projects. RMA tentatively estimates the County's share of revenues at \$5.0 million annually. The new funding source is restricted and is intended to augment, rather than replace, existing transportation expenditures. The tax levy will go into effect April 1, 2017, with the 1<sup>st</sup> quarter revenue payments being distributed in August 2017. This new funding source has been excluded from the forecast, as there are many unknown variables, such as TAMC's cost share formula methodology and



project approval process. Once staff can assert an accurate forecast, additional information will be provided to the Board of Supervisors.

While the erosion of HUTA revenues is a significant factor in the projected operating deficit, the deficit also reflects more than \$1.2 million in unforeseen response and recovery cost encountered as a result of the Soberanes Fire. The County estimates the fire cost, from initial response to full restoration, will be upwards of \$10 million. In addition, fiscal year 2017-18 salary and benefit costs are projected to increase by \$1.6 million as a result new bargaining agreements, PERS contribution rates, and employee health insurance. A projected decrease in services and supplies of \$615,120, most notably from general liability insurance dropping over \$387,000, will offset some of the salary and benefit increases. However, capital project expenditures are expected to increase over \$6.6 million in 2017-18, primarily due to the Blanco Road Overlay Project of \$3 million and the Davis Road Bridge Replacement and Road Widening Project increasing \$2.8 million.

Fund balance will no longer be able to sustain expenditures at current levels without an alternative funding source. Staff will continue to identify alternate funding sources in order to continue maintaining the County’s infrastructure at current levels.

Road Fund	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Beginning Fund Balance	\$ 1,331,979	\$ 1,331,979	\$ 498,406	\$ (132,840)	\$ (6,563,431)
B. Revenue	38,898,911	32,311,732	39,995,526	48,125,425	44,986,392
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	40,230,890	33,643,711	40,493,932	47,992,585	38,422,961
E. Expenditures	38,640,720	33,145,305	40,626,772	54,556,016	46,737,068
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	38,640,720	33,145,305	40,626,772	54,556,016	46,737,068
H. Ending Fund Balance, D-G	\$ 1,590,170	\$ 498,406	\$ (132,840)	\$ (6,563,431)	\$ (8,314,107)

**Monterey County Free Libraries** - The Monterey County Free Libraries (MCFL) is a special taxing authority under the County Library Law of 1911, established to provide library services to the diverse communities of Monterey County. The Library’s operations are primarily financed through its own share of the property tax.

Current year revenues are projected to increase at 1.5% based on actual revenues received this current fiscal year, and projected to level off for the next 3 forecasted years. The 1.5% growth in property tax revenue is conservatively compared to the Assessor’s 3.9% estimated growth used for the general fund forecast.

Expenditures increased moderately in the current year and forecast period due to increased costs related to rents and leases of buildings, janitorial and maintenance services, and additional cost increases relating to the new bargaining agreement and employee benefits.

MCFL's upcoming capital improvements projects for the next three years include the construction and reopening of the Parkfield Library for which funding and construction opportunities are being discussed with the community and will include discussions with the school district, and possibly the need for a new location for the Bradley Library. The East Garrison community library is another possible project. The City of Gonzales is also exploring options for building a new library in that city. The exact cost of these projects to the County is unknown at this time. In addition, MCFL's two bookmobiles and the Reading Safari van are anticipated to have increasing need for repairs and maintenance, and possibly even replacement of two of the vehicles.

MCFL continues to implement its "Financial Plan" to meet the policies and financial performance expectations set forth in the Monterey County Financial Policies. The plan includes attempting to maintain a positive fund balance, and building reserves and a contingency fund. MCFL continues to actively seek and explore several other resources and grants to maintain stability to help meet the growing gap between community need and available resources.

Monterey County Free Libraries	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Beginning Fund Balance	\$ 1,077,528	\$ 1,077,528	\$ 1,264,412	\$ 1,353,700	\$1,497,248
B. Revenue	9,954,562	9,954,562	10,674,578	10,834,691	10,997,210
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	11,032,090	11,032,090	11,938,990	12,188,391	12,494,458
E. Expenditures	10,164,266	9,767,678	10,585,290	10,691,143	10,798,051
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	10,164,266	9,767,678	10,585,290	10,691,143	10,798,051
H. Ending Fund Balance, D-G	\$ 867,824	\$ 1,264,412	\$ 1,353,700	\$ 1,497,248	\$1,696,407

**Behavioral Health** - The Behavioral Health Bureau provides mental health and substance abuse services to Monterey County residents. The Mental Health Program, pursuant to Welfare and Institutions Code Section 5600, provides a continuum of County operated and community-based mental health services through various contracts. The program provides a range of inpatient, social rehabilitation, supportive housing, and outpatient services to Monterey County Medi-Cal beneficiaries who meet the State Department of Mental Health's definition of medical necessity. Services provided in the Alcohol and Drug Program include residential, transitional housing, perinatal residential, outpatient, prevention, early intervention, narcotic replacement, drinking driver programs, drug court, and drug diversion Penal Code 1000.

The year-end estimates for the Behavioral Health Bureau are expenditures totaling \$94.3 million, revenues totaling \$90.7 million, with estimated ending fund balance of \$14.0 million. As the Department continues to expand to meet an increased demand for services, in part attributable to the Affordable Care Act (ACA), which expanded the Medi-Cal eligible population, and the Medi-Cal Waiver 2020 which will expand Drug Medi-Cal eligible population, and to address the needs for services in unserved or underserved communities in the County, the Department anticipates the need to use fund balance in the forecast years. The anticipated use of fund balance will partially

cover operational costs and will provide the matching funds required to draw down Federal Financial Participation (FFP) funds.

Assuming levels of service and revenues were to remain the same, in the last of the forecasted years, fiscal year 2019-20, the Department would be in a deficit status. However, the Department’s approach in developing annual operational budgets is to assess needs versus available resources, and to adjust accordingly to maintain a prudent level of resources for periods of economic instability. The Department will maintain and continue to employ the same budgeting approach in the foreseeable future, and will make use of reserves when it is prudent to do so to meet community needs.

Behavioral Health continues to build on the existing strong array of community-based culturally competent behavioral health contract providers. In addition, the Department continues to work on improving access to services, increasing prevention efforts, and on developing sustainable strategies that maximize and ensure a more efficient use of its resources. The Behavioral Health Bureau will continue to balance integration and transformation of service delivery with quality behavioral health care.

Behavioral Health	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Beginning Fund Balance	\$ 17,539,352	\$ 17,539,352	\$ 14,007,551	\$ 7,426,019	\$ 761,225
B. Revenue	104,927,846	90,796,025	104,352,549	106,177,426	108,360,063
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	122,467,198	108,335,377	118,360,100	113,603,445	109,121,288
E. Expenditures	116,858,100	94,327,826	110,934,081	112,842,220	115,134,612
F. Provisions for Assignments	-	-			-
G. Total Financing Uses, E+F	116,858,100	94,327,826	110,934,081	112,842,220	115,134,612
H. Ending Fund Balance, D-G	\$ 5,609,098	\$ 14,007,551	\$ 7,426,019	\$ 761,225	\$ (6,013,324)

**Parks - Lakes Resorts** - The Parks Lake Resort Operations Fund is a County enterprise fund, and as such, its operations are to be financed and operated in a manner similar to private business enterprises, where services provided are primarily funded through user charges. The Lakes began fiscal year 2016-17 with a negative \$5.5 million net position, which includes a \$2.9 million negative adjustment in fiscal year 2014-15 to comply with pension liability reporting requirements.

It's projected that Nacimiento Lake camping and day use revenues will increase \$1.0 million over budget, due to an increase in use. Expenditures are projected to increase by \$803,935 over budget, largely due to the inclusion of depreciation expenditures in the current year estimate. The change in net position is still projected to decline by \$93,313, resulting in a projected year end negative net position of \$5.6 million. The three-year forecast reflects a reduction in expenditures due mostly to a reduction in estimated depreciation cost. The recent unanticipated rainfalls are not factored into the three-year forecast estimated revenues. Lake San Antonio remains closed except for

special events, such as Lightning in a Bottle, but continues to be maintained. The forecast years cautiously assume that lake levels remain low and revenues remain steady continuing to result in annual losses. If rainfalls continue through the end of fiscal year 2016-17 it is expected that Lake Nacimiento would experience a more profitable season beginning fiscal year 2017-18.

Parks - Lakes Resorts	Modified Budget 2016-17	Year-End Estimate 2016-17	Forecast		
			2017-18	2018-19	2019-20
A. Beginning Net Position	\$ (5,515,874)	\$ (5,515,874)	\$ (5,609,187)	\$ (5,804,675)	\$ (5,930,574)
B. Revenue	3,663,798	4,674,420	4,095,206	4,095,206	4,095,206
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	(1,852,076)	(841,454)	(1,513,981)	(1,709,469)	(1,835,368)
E. Expenditures	3,963,798	4,767,733	4,290,694	4,221,105	4,285,907
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	3,963,798	4,767,733	4,290,694	4,221,105	4,285,907
H. Ending Net Position, D-G	\$ (5,815,874)	\$ (5,609,187)	\$ (5,804,675)	\$ (5,930,574)	\$ (6,121,275)