Monterey County Financial Forecast

February 2016

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 (FY 2016-17), and two additional out years. The result of this review is an assessment of the County's financial health and service capacity in the current year and beyond.

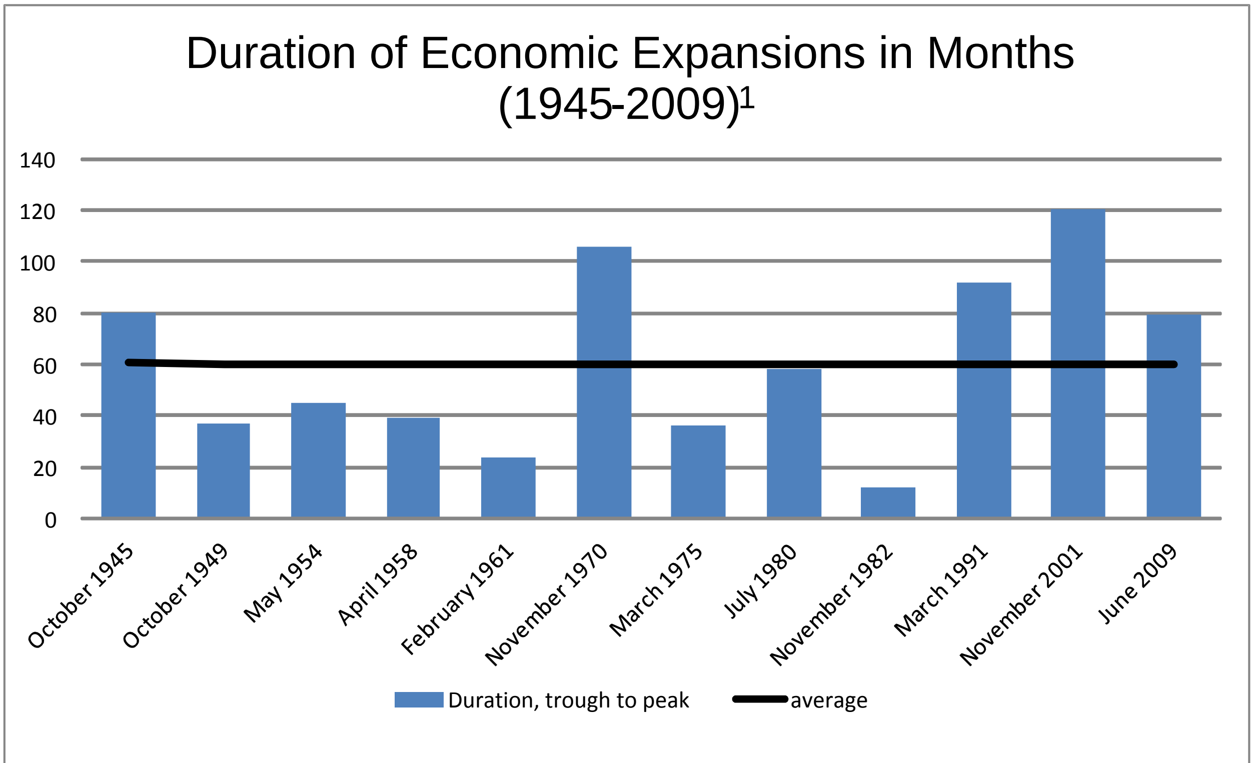
The 2016 Monterey County Board of Supervisors, as shown above, includes from left to right: Dave Potter (representing Carmel, Carmel Valley, Big Sur, Pacific Grove, Pebble Beach, Monterey, Hwy 68, Las Palmas); Simón Salinas (representing East Salinas, Spreckels, Chualar, Greenfield, Gonzales, Ft. Hunter Liggett, King City, Soledad, Lake San Antonio, South County); Jane Parker (Chair, representing Del Rey Oaks, Marina, Sand City, Seaside, Southwest Salinas); John M. Phillips (representing Aromas, Boronda, Castroville, Las Lomas, Moss Landing, North Salinas, Pajaro, Prunedale, and Royal Oaks); and Fernando Armenta (representing most of urban Salinas).

Development of this forecast is a cooperative effort between all departments and the County Administrative Office. The County Administrative Office projects countywide discretionary revenues, with input from the offices of the Assessor, Treasurer-Tax Collector, and Auditor-Controller. These subject matter experts provide insight on key economic indicators and conditions that may further influence the County's financial health, including assessed property valuations, transient occupancy tax trends, and County debt issues. Department heads and their staff provide critical expertise relevant to operational needs, estimated "program" revenues, and statutory requirements influencing their respective departmental forecasts. The County Administrative Office reviews and consolidates departmental forecasts into an overall financial analysis, including revenue assumptions and expenditure needs.

Approach and Assumptions

The forecast is neither a spending plan nor a projection of future policy or spending decisions at the federal, state, or local level. Rather, the forecast is an analysis of revenues and costs for <u>existing</u> levels of staffing and services within the context of current statutes and policies. 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.

Underlying the financial forecast is the assumption that the economy will continue to recover through the forecast period. This assumption should be carried with caution as the recovery has matured 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 trough to peak. The current economic expansion has lasted since June 2009 for 79 months. In contrast, on average, expansions last only around 60 months while the previous 11 expansions lasted an average of 58 months. In consequence, the Department of Finance has modeled a recession for Fiscal Year 2017-18. Economic expansions do not last forever and as the table below notes, the current expansion has exceeded the average length of expansions by almost two years. With no shortage of foreign economic developments and market distress that could weigh in on the current economic outlook, a cautious tone towards the revenue outlook should be adopted.



[1]. Source: National Bureau of Economic Research

This forecast assumes continuation of moderate growth through 2018-19 yet it should be underscored that any new budget commitments made in forecast years will increase the severity of cuts the County will have to make in an economic downturn. 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 Highlights

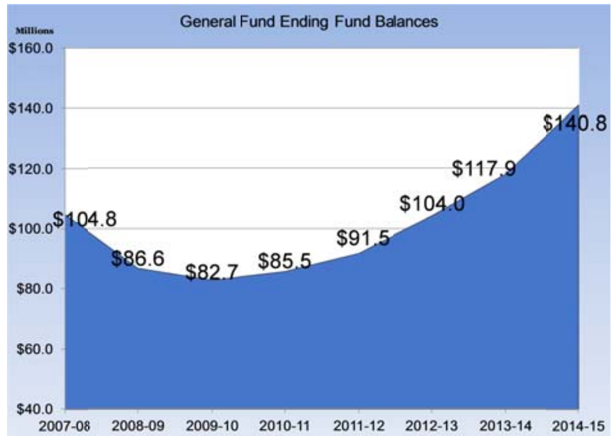
	FY 2014-15	FY 2015-16			FY 2016-17	FY 2017-18	FY 2018-19
	Actual	Adopted	Modified	Year-End Estimate	Forecast		
Available Financing:							
Unassigned Fund Balance	$16.4	$0.0	$6.3	$6.3	$0.0	$0.0	$0.0
Cancellation of Assignments	3.1	17.9	17.9	17.4	11.7	9.7	8.4
Revenues	572.3	584.6	585.1	572.8	592.2	597.0	606.3
Total Financing Sources	$591.8	$602.5	$609.3	$596.6	$603.9	$606.7	$614.7
Financing Uses:							
Assignments/Restrictions	36.8	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	548.4	602.5	603.7	589.8	619.9	627.3	635.6
Total Financing Uses	$585.2	$602.5	$603.7	$589.8	$619.9	$627.3	$635.6
Unassigned Fund Balance	$6.6	$0.0	$5.6	$6.8	($16.0)	($20.6)	($20.9)

The General Fund is the main operating fund of the County. The table above summarizes general fund financial results for the prior fiscal year, current year, budget year, and two additional out years.

The Auditor-Controller's recently released *Comprehensive Annual Financial Report (CAFR)* identifies an unassigned fund balance of $16.4 million at the beginning of the prior fiscal year and an ending unassigned fund balance of $6.6 million. Revenues exceeded expenditures by $23.9 million, mainly due to an increase in non-program revenue which included a $12.8 million one-time state reimbursement of pre-2004 SB 90 mandate claims. In addition, revenue totals included a $14.2 million transfer-in from assigned fund balance for the Juvenile Hall project. Excluding these two one-time events, expenditures would have exceeded revenues by $3.1 million.

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 in fund balance 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 $82.7 million in 2009-10 to $140.8 million at the end of last fiscal year. These strategic investments help prepare the County to weather the next recession and help pave the way for key infrastructure projects. A summary of ending fund balances and major investments of this fund balance for the general fund are identified in the charts below.

The largest commitment is the County's strategic reserve. The one-time increase in revenue helped finance a $10.0 million increase last fiscal year to the Strategic Reserve. As a result of this one-time investment, the County's Strategic Reserve grew from $60.3 to $70.3 million, which includes $14.2 million for Natividad Medical Center. The County has also reserved $16.5 million to build the new juvenile hall and $9.9 million for other capital projects (mostly the jail expansion). Other significant assignments include $9.9 million to help meet the County's liability for leave accrual payouts, and $8.1 million for the Vehicle Replacement Program. The chart to the right identifies major assignments of general fund monies included in fund balances discussed above.

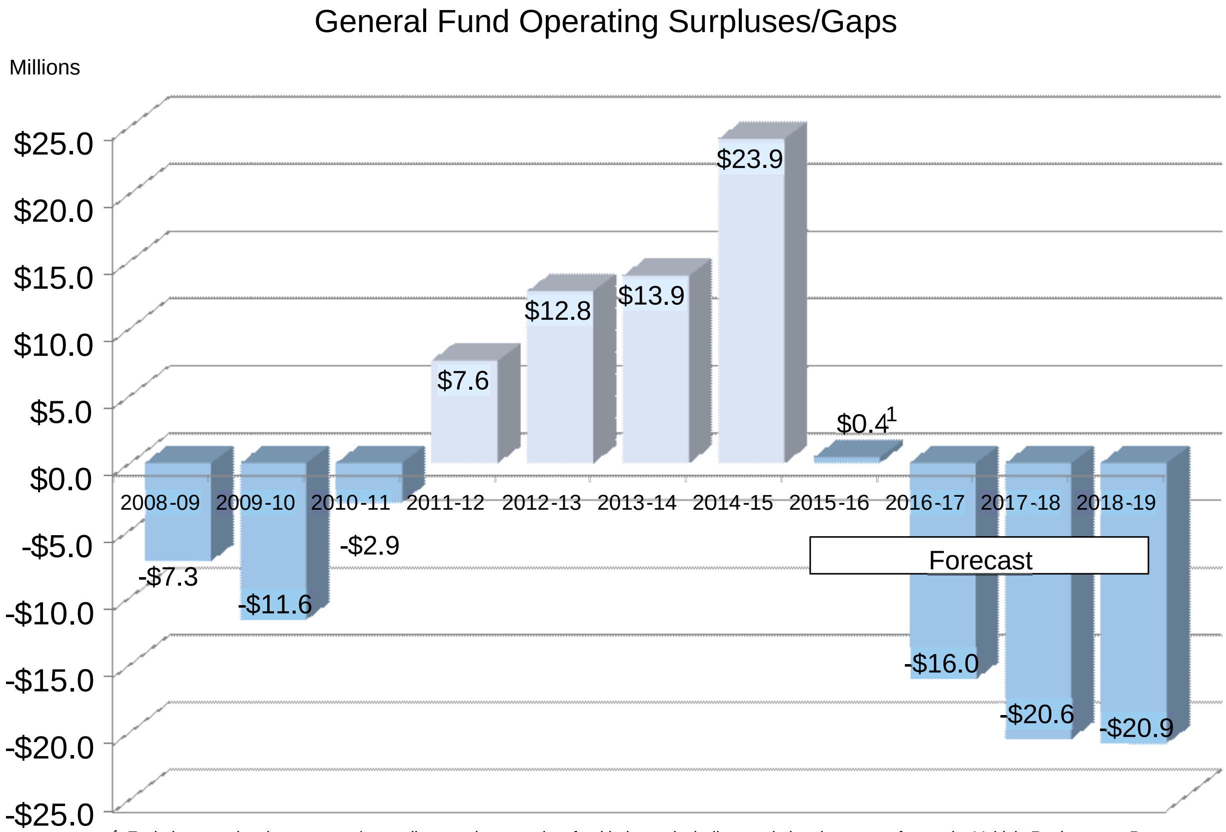


Major Assignments of Fund Balance	Current Amount
Strategic Reserve	$70,292,695
Capital Projects	9,941,920
Juvenille Hall	16,537,638
Vehicle Replacement	8,053,066
Leave Accrual Payouts	9,853,593

The County began 2015-16 with an unassigned fund balance of $6.6 million. Subsequently, the Board authorized use of $291,818 of the unassigned fund balance for the Small Business Loan Program, thereby reducing the unassigned fund balance to $6.3 million. The general fund is expected to outperform expectations by $1.1 million in the current year. Departments expect to end the current year with expenditures $13.9 million below budget. Departments estimate year-end revenues $12.3 million below expected amounts, mostly due to reduced reimbursement-based billings to federal and state agencies. In addition, the Vehicle Asset Management Program reduced its planned use of fund balance by $0.5 million. The net result is a $1.1 million estimated increase in current year unassigned fund balance for a total $6.8 million.

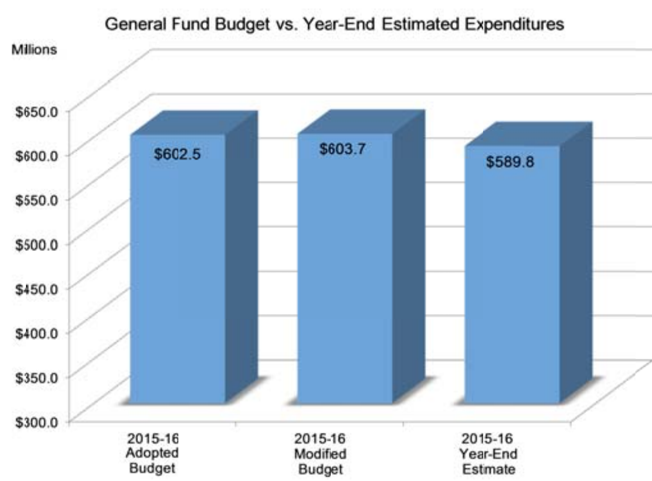
Despite positive operating results, funding gaps re-emerge during the forecast period. Revenues continue to grow moderately with revenue streams surpassing pre-recession levels. However, inflation in the cost of doing business has consumed most of the revenue gains. Some of the current cost drivers will accelerate next fiscal year and while the economy continues to expand and the County revenues continue to grow, departments will be challenged to balance their budgets next fiscal year without service impacts.

The chart below displays recent years' annual operating surpluses and gaps, which measure the ability of an organization to maintain a balanced budget. Such a measure helps determine how well an organization is living within its means. During the recession, the County spent more than it earned in annual revenues, using up one-time savings to support the ongoing cost of operations. In contrast, the surpluses over the last four fiscal years indicate a more sustainable fiscal practice. Looking forward, a hypothetical deficit of $16.0 million re-emerges in 2016-17 as new financial commitments and other inflationary pressures exceed growth in resources. Areas of increased costs include expenditures associated with the Jail litigation, recent action to fill previously unfunded Sheriff Deputy positions, the 21.3% increase in employee health insurance rates, and significant increases in costs for the Enterprise Resource Program (ERP) project. Not included in the projected deficits are future bargaining agreements, most of which expire at the end of 2015-16. These and other cost pressures will be covered in more depth later in this report.



[1]. Excludes one-time investments /expenditures using one -time fund balance, including: capital projects, transfers to the Vehicle Replacement Program, Laguna Seca Track Maintenance and Contingencies.

General Fund Expenditures



The general fund is the County's largest fund, and supports basic governmental functions related to public safety, land use and environment, public assistance, health and sanitation, recreation and education, and finance and administration. The 2015-16 Adopted Budget included appropriations of $602.5 million. The budget grew by $1.2 million over the course of the fiscal year and included a $2.4 million increase to pay for the jail settlement lawsuit (funded by a transfer from the contingencies appropriation), a $200,000 transfer from contingencies to Economic Development for its strategic plan, a $500,000 increase to implement a pilot project for uninsured Monterey County residents and $499,972 increase for improvements at the Laguna Seca Track (funded by the reserve assignment for Laguna Seca). The general fund is expected to end the fiscal year $13.9 million below budgeted expenditures. Major areas of unused appropriations include:

- The County Administrative Office estimates year-end expenditures $479,229 below budget mostly due to lower than anticipated replacement vehicle purchases for the Vehicle Asset Maintenance Program (VAMP).

- The Elections Department estimates year-end expenditures at $631,891 below budget. The decrease in expenditures is largely due to a lower than projected number of districts requiring an election in November. As a result, the department expects a decrease in revenues from districts for reimbursement of cost of their portion of election.
- The Health Department estimates year-end expenditures at $9.4 million below budget. Most of this is in salary savings predominantly in Clinic Services due to shortages in staffing which has not allowed the department to expand services as budgeted.
- The Department of Social Services estimates year-end expenditures at $3.0 million below budget mostly due to a decline in entitlement costs for CalWORKS and General Assistance Program.

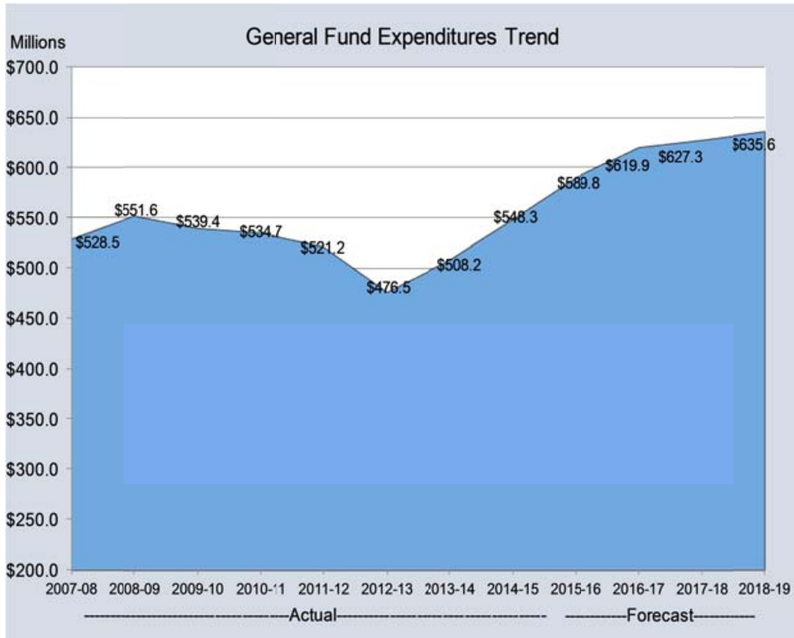
The unused appropriations were partially offset by projected over expenditures in several departments as described below.

- The Parks Department's general fund operations expect to end the current year $99,903 over budgeted appropriations as a result of one-time costs related to campground repair and an increase in vehicle usage and replacement costs.
- The Probation Department expects it will need $108,672 in additional appropriations to cover costs for the higher than projected number of retirements and annual leave accrual payouts. The department is taking steps to reduce costs in order to remain within their GFC.
- Resource Management Agency general fund operations expect to end the current year $132,808 over budgeted appropriations, partially offset by $80,950 in additional estimated revenues. The department experienced increases in property insurance and utilities which were partially offset by salary and benefit savings due to unfilled positions and slightly higher than budgeted revenues.
- The Sheriff's Office expects to exceed appropriations by $1.7 million. The overage is largely due to filling 11 unfunded Deputy Sheriff-Operations positions and adding six new Custody Control Specialists.

Details about individual forecasted departmental operational results are provided in the departmental forecast summary section.

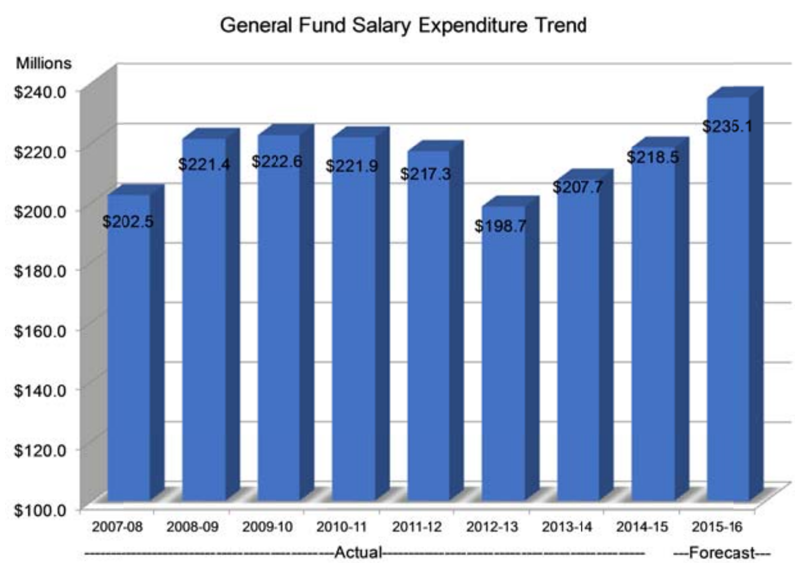
General fund expenditures have grown significantly since the recession. A large portion of this growth is related to the realignment of former state programs to local government through adoption of AB 118 (Chapter 40, Statutes of 2011) in 2011-12. California's realignment revised and expanded certain health and social services responsibilities to counties. Likewise, adoption of AB 109 (Chapter 5, Statutes of 2011) realigned responsibilities for certain lower level offenders, adult parolees and juvenile offenders from the state to local jurisdictions.

As part of its realignment of responsibilities to local government, the state required a new fund for behavioral health programs. In FY 2012-13, $66.0 million was transferred to the new behavioral health fund. Even with the $66.0 million transfer, overall expenditures have risen significantly under state-county realignment.



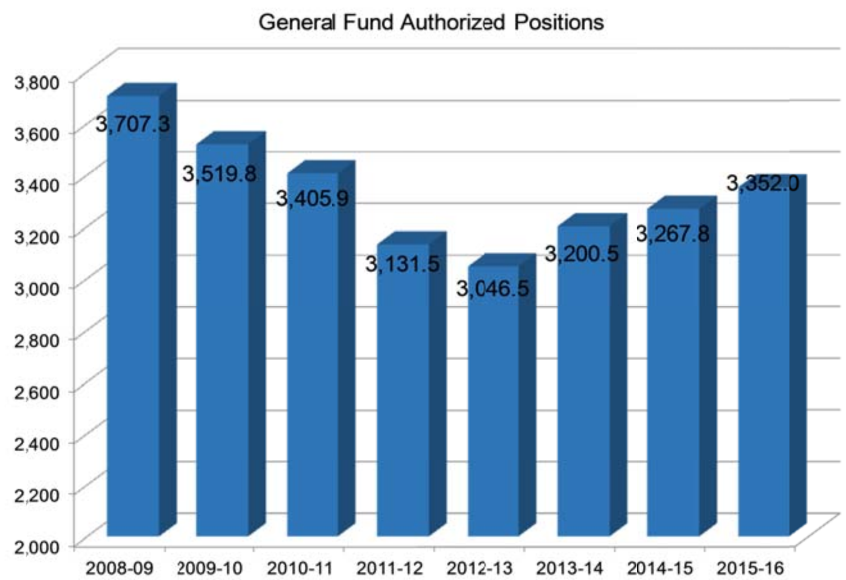
For the forecast years, costs are expected to increase substantially in the budget year, growing by a forecasted $30.2 million in 2016-17. These increases are the expected result of increasing cost pressures, covered in depth below.

General Fund Cost Pressures

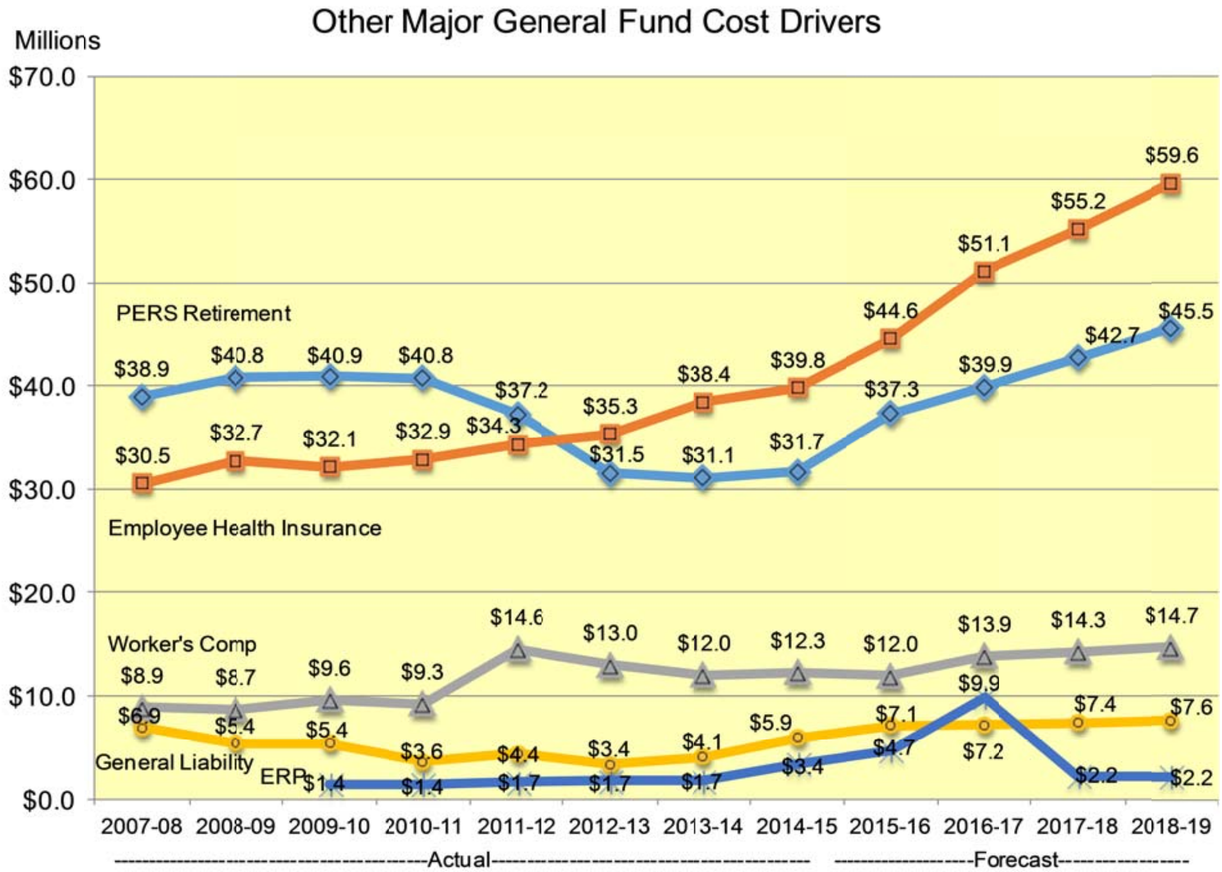


County departments continue to be constrained by the growing cost of running their programs. One area underlying this growth has been salary expenditures, which have increased beginning in 2013-14 due to raises authorized under current bargaining agreements. Most miscellaneous program (non-safety) employees received a 3.5% wage increase (in exchange for a 3.5% increase in their PERS contributions) in 2013-14, followed by a 2.0% raise in 2014-15 and a 3.0% raise in 2015-16. Most safety employees received a 3.5% increase in 2013-14 in exchange for a 3.0% increase in their PERS contributions, plus a 1.0% increase in 2014-15 and a 2.0% increase in 2015-16. By the end of the third year, the bargaining agreements added an estimated $15.4 million in annual general fund costs. The $15.4 million estimate is independent of position growth.

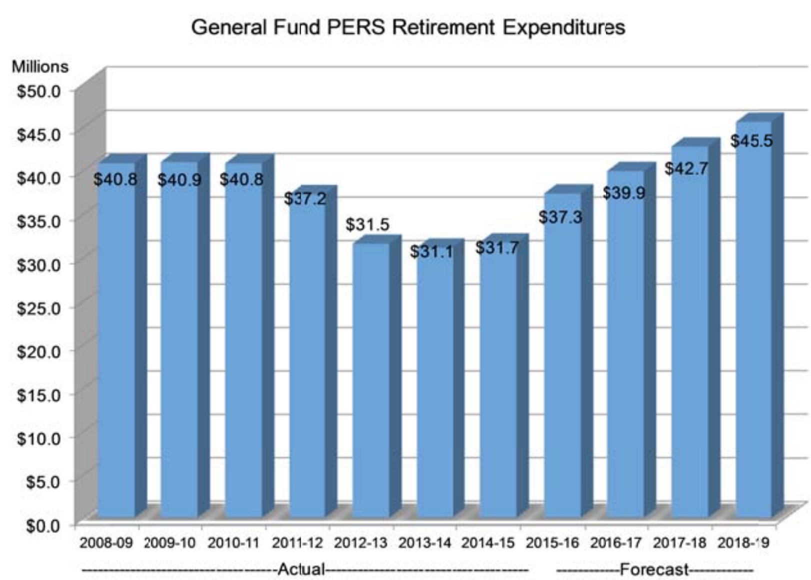
In addition, departments have added positions, particularly in the areas affected by state-county realignment and the Affordable Health Care Act. A total of 305 additional positions have been authorized just over the past two budget cycles. These position augmentations coupled with the pay raises beginning 2013-14 through 2015-16 increased salary expenditures from $198.7 million in 2012-13 to an estimated $235.1 million in the current year.



Other major cost drivers include employee retirement and health care, increased costs in the worker's compensation program, and County infrastructure and facility needs. These costs have constrained departments' capacity to meet staffing and service 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. 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. As mentioned previously in the forecast, the majority of current bargaining agreements expire at the end of the current fiscal year, as such; cost drivers do not include cost of any bargaining agreements or impacts thereof.

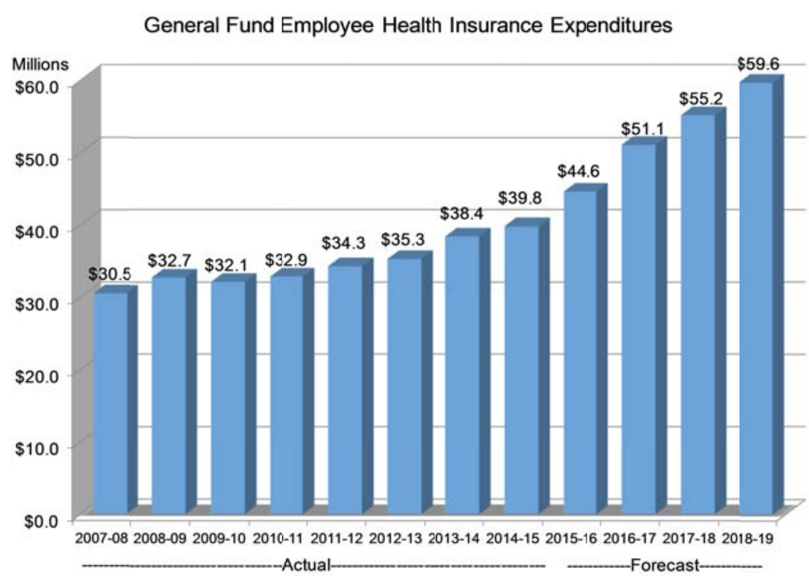


PERS Retirement Contributions



The County's contributions toward employee pensions declined after 2010-11 as employee associations entered into agreements to pay more towards their retirement. In 2013-14, *miscellaneous plan* employees further increased contributions from 3.5% to 7% of salary. These agreements produced significant savings and helped departments to weather budget reductions and avoid significant job losses. Yet, beginning in 2014-15 new developments began reversing this trend, specifically the change in CalPERS actuarial methodology to accelerate payment towards agencies' unfunded liability and having updated its demographic assumptions based on its recent study showing members are living longer and making higher salaries than previously estimated, thus resulting in higher life-time benefits. The County's unfunded liability is currently at $371.4 million based on the most recent actuarial analysis provided by CalPERS. CalPERS actuarial methodology and assumptions for future rates continue to require the County to increase its contributions. Rates for miscellaneous plan employees are now growing at about 0.4% of payroll in 2016-17 and 0.8% of payroll in 2017-18, while contributions for safety employees will rise 3.1% of payroll in 2016-17 and 2.3% of payroll in 2017-18. The result in PERS contributions is an estimated $2.6 million increased cost in the budget year and a $2.8 million increase in 2017-18 and 2018-19. Furthermore, future contribution rate volatility can be expected as CalPERS continues to refine its actuarial methods. In November 2015, the CalPERS Board approved a risk mitigation strategy that will incrementally lower the discount rate (expected rate of return) in years of good investment returns and help pay down the unfunded liability portion of the pension's fund. Lowering the discount rates will have the effect of increasing employer contribution rates in the future.

Health Insurance Costs



Since the recession, health insurance costs have increased approximately $14.1 million. Some of this increase occurred during a recessionary period in which insurance companies limited their annual premium increases. However, recent premium changes have increased employee health expenditures significantly. The latest premium information provided by CalPERS increased PERS Choice, the most popular plan, by 21.26% in January 2016, increasing health insurance expenditures by an estimated $6.4 million in 2016-17. Most of the increase is the direct result of premium growth. The assumed growth for health insurance in 2017-18 and 2018-19 is 8.0%, adding an estimated $4.1 million and $4.4 million respectively.

Internal Service Department Charges

In addition to the above salary and benefits cost drivers, departments are also facing rising charges from internal service programs. In 2015-16, the County began replacing its Enterprise Resource Planning (ERP) software which had reached the end of its useful life. Current year charges to departments to pay for the existing ERP maintenance as well as upgrade are projected at $4.7 million and increasing an additional $5.2 million in the next fiscal year. The Worker's Compensation Program is also projecting an increase of $1.8 million in charges as part of the Risk Management Office's plan to move both the Worker's Compensation and General Liability Program to an 80% confidence level from the current confidence level of 70%.

Departmental Impacts

In response to these and other cost pressures, 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. Excluding *Other Charges* which include mostly entitlement program payments, salary and benefit expenditures have grown from 68.8% of general fund expenditures in 2007-08 to a forecasted 75.6% of expenditures next fiscal year with departments continuing to cut out discretionary spending 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 projected internal service department charges and prior year's growth in other service department charges such as general liability charges and infrastructure replacement, have eroded many departments' capacity to afford current operating levels. As these cost pressures mount, the challenge of balancing future budgets will likely require more difficult choices ahead. These difficult choices will be made in the budget process underway and culminating in the budget hearings scheduled for June 1st.

Unfunded Operational and Capital Needs

In addition to departmental cost pressures, a number of major unfunded operating and capital needs were not included in the forecast as the forecast focuses on the future cost of providing existing services and projects. Currently, the projected cost of those needs totals approximately $29.0 million and includes:

- $5.8 million operating deficit in the Road Fund. Since 2014-15, the Road Fund has experienced a reduction in Highway User's Tax Allocation (HUTA) receipts. In 2012-13 the Road Fund received $12.6 million and in FY 2016-17 it is projecting a receipt of $8.4 million for a combined decrease of approximately 33.0%.
- $1.5 million operating deficit in the Parks Lake and Resorts operations. The Parks Lake and Resorts operations continue to face challenges with declining revenues and recently closed Lake San Antonio.
- $4.8 million for infrastructure improvements related to the Jail litigation for safety and violence prevention.
- $4.0 million towards the Interlake Tunnel project.
- $3.7 in various critical building repairs, including ADA improvements to the Schilling Place restrooms, youth center re-roofing, repairs for gas leak and transformers at the County Jail and Public Safety building.
- $2.2 million operating deficit in the Health Department's Public Health unit. The Public Health unit is projecting a decrease in revenue for Targeted Case Management due to a reduction in referrals into the program.

The table below summarizes additional 2016-17 operating and capital needs. The list is not all-inclusive of current issues and it does not include future unknown needs.

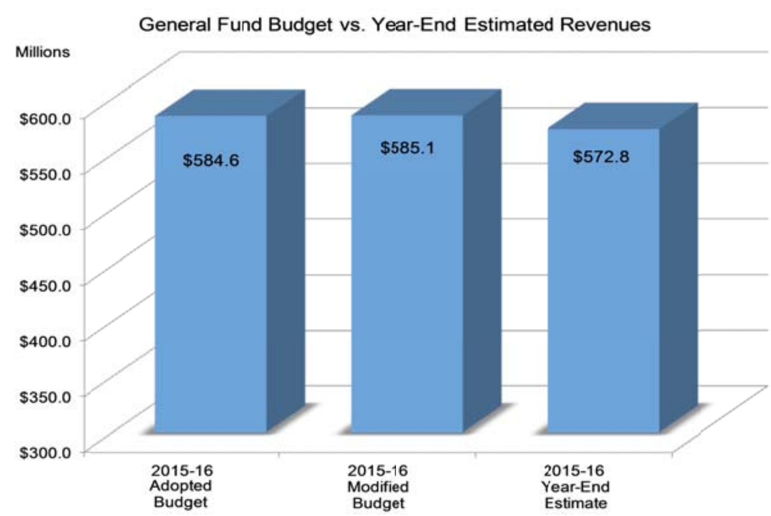
Finally, the forecast does not include any compensation changes associated with bargaining agreements. Most of the County's agreements expire at the end of the current fiscal year. As a general rule, each one percent of salary increase adds approximately $2.6 million in general fund costs ($4.2 million for all funds). Information collected from departments indicates roughly 20.0% of these costs would be billable to federal and state agencies, resulting in a net cost to the general fund of approximately $2.1 million per 1.0% increase.

		2016-17 Needs
Forecasted Baseline Deficit	$	16.0
Operating Needs (not Included in Forecast):		
Parks - Resorts Operating Deficit	$	1.5
Health - Targeted Case Management		2.2
Road Fund - Operating Deficit		5.8
Jail Litigation - Staffing		1.7
Year 2 of Jail Patrol Car Purchase Program		1.5
		12.7
Non-recurring Capital Needs (not included in Forecast):		
Jail Litigation - Infrastructure Improvements		4.8
Interlake Tunnel		4.0
Unfunded Critical Building Projects		3.7
Parks Deferred Maintenance & Repairs		3.5
Critical Library Repairs		1.0
		17.0
Total Unfunded Needs	$	45.7
Future Labor Agreements		TBD
Medical Cannabis Regulatory Oversight		TBD

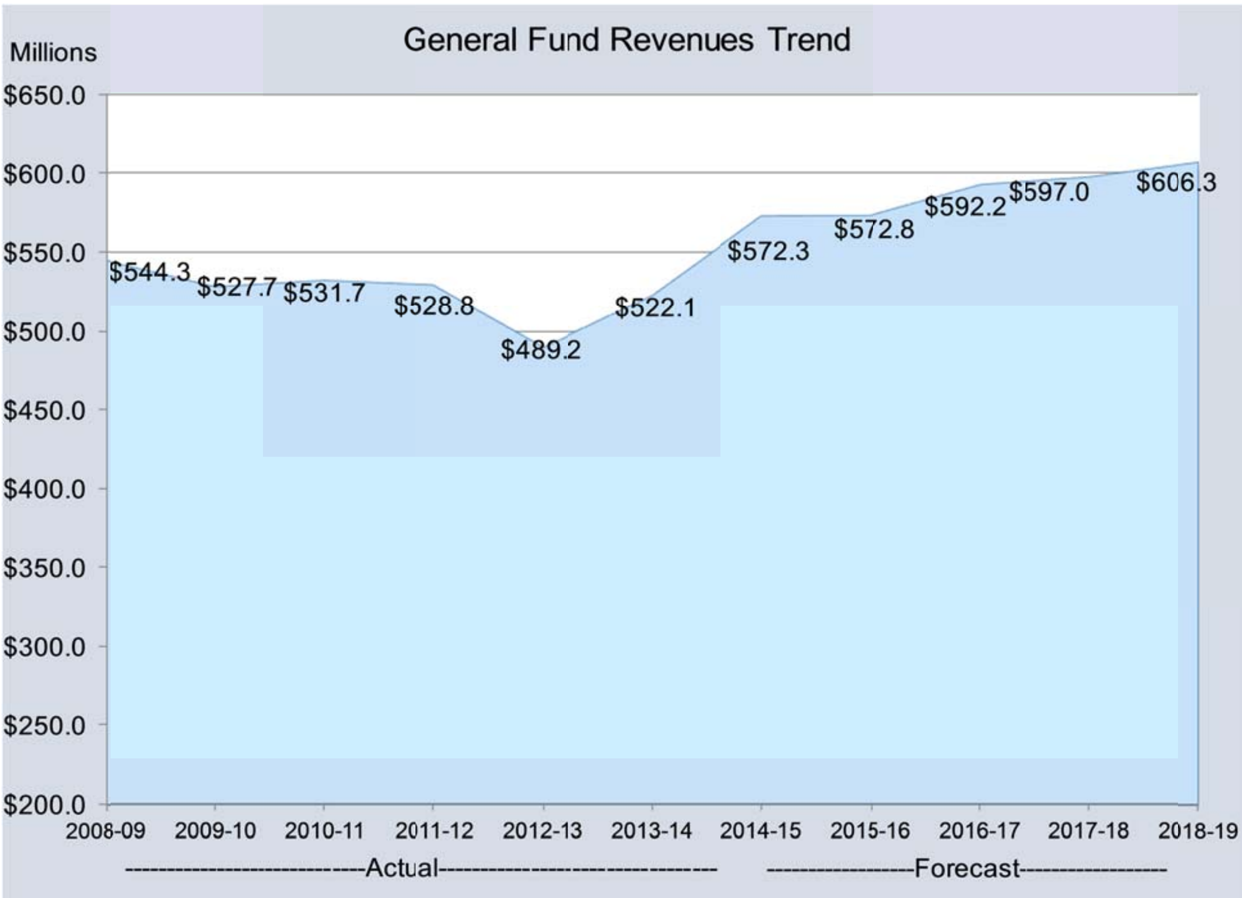
General Fund Revenues

At an estimated year-end total of $572.8 million, current year revenues reflect a shortfall of $12.3 million (2.0%) compared to budget. As detailed earlier in this report, departments show a collective year-end reduction of $13.9 million in expenditures. These results indicate that the majority of departments are taking actions to monitor their revenues throughout the year and adjust expenditures as needed to maintain budgetary balance.

In prior years the general fund received almost half of its revenue from the state, both in the form of direct allocations and from federal sources passed through state departments. However, this trend has changed since 2012-13. The transfer of specific state funds to the new behavioral health fund in 2012-13 is reflected as a reduction in the general fund in 2012-13. Most of the state and federal aid revenue remaining in the general fund supports mandated public assistance, health, and public safety programs. These sources of revenue have grown under state-county realignment along with

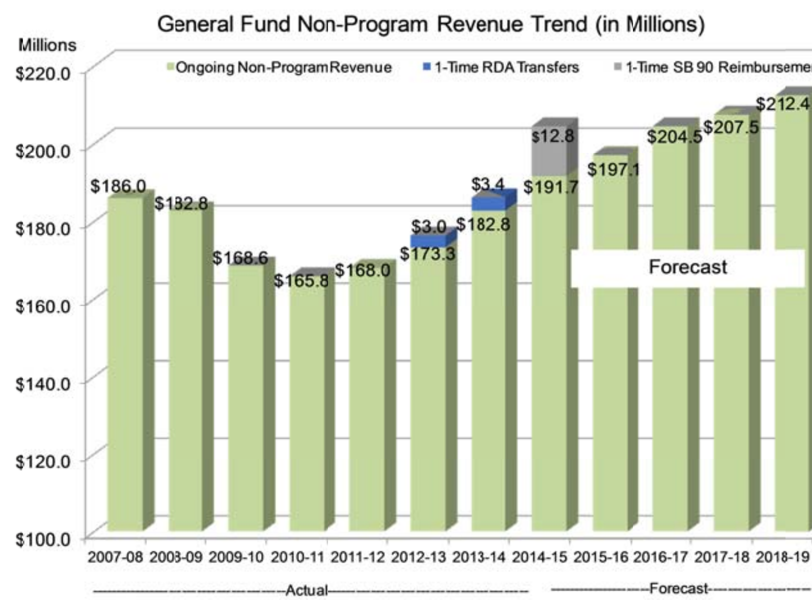


increased responsibilities and associated costs. Although state funding for general fund departments has remained relatively stagnant departments' cost of doing business continues to grow. For the budget year and first forecast year, state revenue is projected to remain fairly stable with a moderate growth in the last forecasted year. While the County's discretionary "non-program" revenue continues to grow, this growth is not expected to be sufficient to meet all of the departmental needs and close their funding gaps.

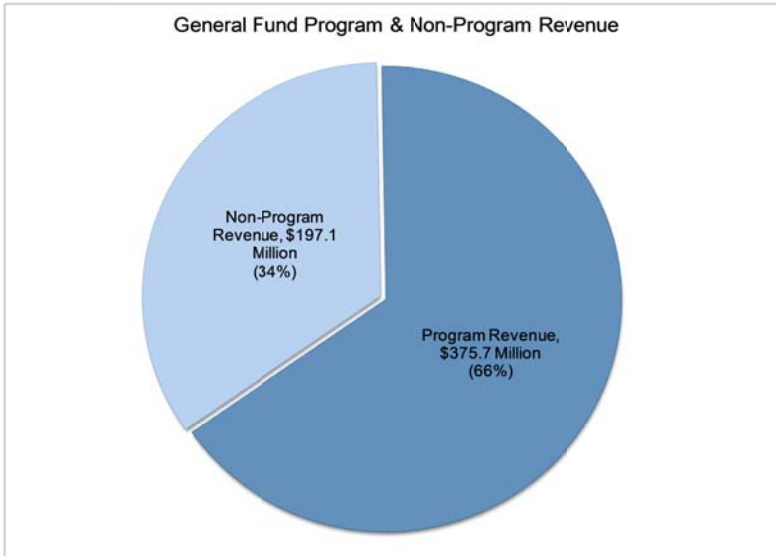


Non-Program Revenue

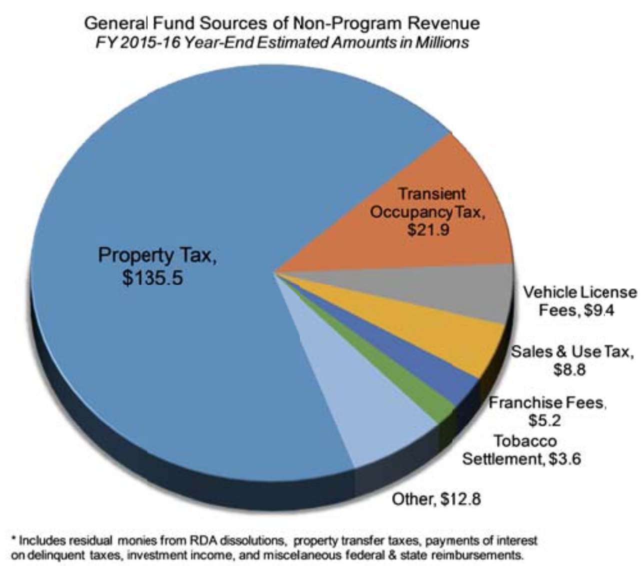
General fund revenues are categorized as "program" and "non-program" based on the source of and purpose for the funding. Program revenues, primarily from state and federal sources, are typically provided for a statutory purpose and must by law be spent on designated activities, such as health and social services programs. Other program



revenues include charges that pay for specific costs related to services provided, or license and permit charges, penalties, and fines and fees that reimburse for costs related to their purpose. Non-program revenues are the County's only true source of discretionary revenues and include property taxes, transient occupancy tax (TOT), sales and use tax, vehicle license fees (VLF), and a number of other smaller revenue sources that support local government.



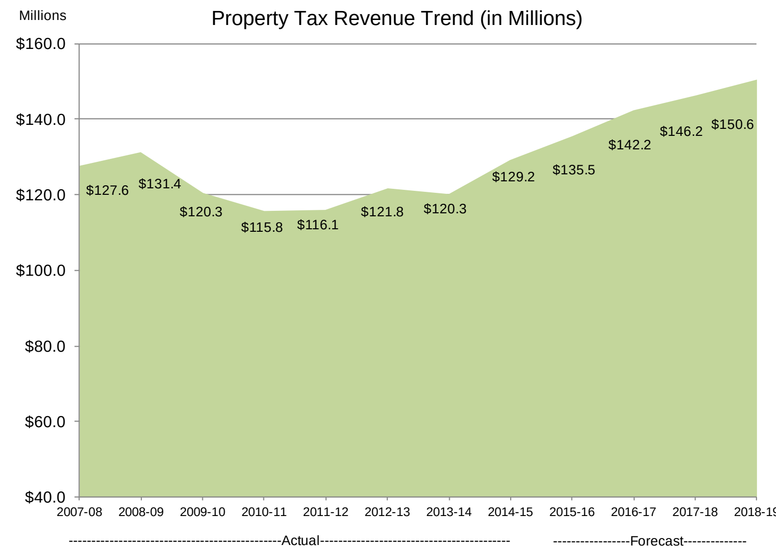
As discretionary funding, non-program revenues provide the County with some level of flexibility to address local needs and priorities through the annual budget process. Departments submit augmentation requests to address these funding needs. The County Administrative Office prioritizes requests and makes recommendations to the Board as part of the recommended budget presented at annual budget hearings. In recent years, priority for allocating growth in discretionary non-program revenue has been given to requests seeking to avert layoffs amid rising costs and to requests supported primarily by program revenues. Expectations are similar for the upcoming budget process.



For the current year, non-program revenue is expected to decline $7.4 million from 2014-15 actuals, when the County received a one-time state payment of SB 90 claims of $12.8 million. Excluding this one-time event, non-program revenue is estimated to grow $5.5 million in 2015-16. For 2016-17, non-program revenue is forecasted to grow to $204.5 million; an increase of $11.7 million over the current year budgeted level. A more modest growth of $3.0 million is projected for 2017-18 with a moderate recession modeled into the forecast.

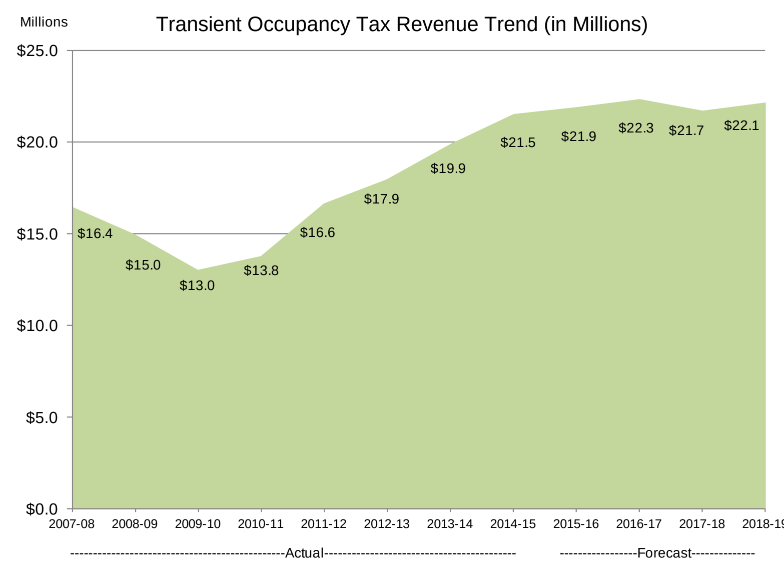
Sources of non-program revenue are displayed in the chart above. Property tax revenue comprises the bulk of non-program revenue, totaling an estimated $135.5 million (69%) of current year estimated non-program revenue. Transient occupancy tax, often referred to as a hotel or room tax, is estimated at $21.9 million, while sales and use tax revenue is estimated at $8.8 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, payments of interest on delinquent taxes, and various state and federal reimbursements.

Property Tax



Revenues from property taxes sustained steep reductions through the economic downturn and its aftermath, 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 begun recovering, with assessed values increasing 5.45% for the unincorporated area in 2015-16. The County Assessor projects a 5-6% increase in assessed values for 2016-17, with this forecast adopting the more conservative 5% of the range for 2016-17, which would yield approximately $6.7 million in increased revenue. Annual growth of 3.0% is projected for the two out years of the forecast, which would produce annual revenue gains of $4.0 million and $4.1 million respectively. Even with a moderate recession, a projection of 2.0% growth for inflation and 2.0% for appreciation is plausible; however, our projections are based on a more conservative 3.0% overall growth.

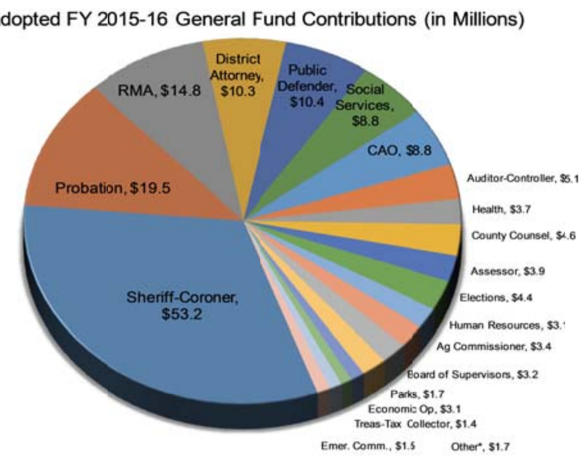
Included in the property revenue estimates are improvements in supplemental tax revenue. In January, the County Assessor reported in his bi-annual report that the average supplemental assessment increased to $248,880 in the current year, which remains below pre-recession levels but well above the $62,658 average assessment in 2009-10, during the worst of the recession. The growth in assessed values translates into a current year estimate of $1.8 million in this revenue source, a significant recovery from the 2009-10 level of $673,584.



Transient Occupancy Tax (TOT)

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%. Monterey County is a destination of choice for many travelers from not only the U.S. but countries across the globe. For this reason, economic conditions both in the U.S. and abroad influence these revenues. The County's TOT revenue is estimated at $22.3 million for next fiscal year, well above the $13.0 million level during the recession. The positive performance in this key revenue stream can be attributed to improvement in economic conditions and the successful efforts of the Treasurer-Tax Collector to improve collection and compliance.

General Fund Contributions



* Includes Clerk of the Board, Equal Employment Opportunity, Child Support Services, & Cooperative Extension. Chart excludes non-departmental costs such as bond payments, trial courts, contributions to fire districts and other agencies, and various miscellaneous countywide expenditures.

The County uses its non-program revenue to finance 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. Preliminary estimates released to all departments in December 2015 assume total GFC available for appropriation in 2016-17 remains at the current year Board approved level for County departments, as displayed in the chart above.

Planning for the Fiscal Year 2016-17 Budget

The forecast is a planning tool to help policy makers identify potential outcomes under the existing business model. With this information, policy makers can adjust the current model to avoid unwanted consequences. That being said, one such recommended action is to temporarily defer any position related actions.

General fund departments had approximately 372 vacancies as of December 1, 2015 with an estimated 329 remaining unfilled as of February 8, 2016. From a budget perspective, these vacancies equate to approximately $23.1 million in remaining current year expenditures and $37.2 million in annualized expenditures in 2016-17. Not all vacancies result in savings to the County. In some cases, departments receive expenditure reimbursements from the state or federal government. Additionally, with rising cost pressures, some departments delay plans to fill vacancies to balance their budget and avoid impacts to existing staffing. The table below summarizes forecasted vacancies and associated estimated expenditures if filled by departments.

The funding gap emerging next fiscal year is more the result of growing expenditures than it is about revenues. Although some departments have experienced program-specific revenue losses, overall general fund revenues are forecasted to grow $19.8 million (3.5%) next fiscal year compared to prior year actuals. Included in this revenue growth is $11.7 million in discretionary non-program revenue growth. Meanwhile, departments forecast expenditures to grow $71.5 million over prior year actuals. Part of this growth can be attributed to the forecast methodology which assumes that vacant positions will be filled. As discussed earlier, filling these vacancies adds an estimated $37.2 million in costs to departments' forecasted expenditures.

County-wide Vacancies	CYE 2016 (7 mo)	Vacancies - Salary & Benefit Cost	Forecast 2016-17	Vacancies - Salary & Benefit Cost
General Fund Depts:				
Agricultural Commissioner	11	633,065	11	1,133,577
Assessor-County Clerk-Rec.	4	203,413	3	266,579
Auditor-Controller	9	784,447	7	1,130,151
Board of Supervisors	0	-	0	-
Child Support Services	6	343,511	5	619,606
Clerk of the Board	0	-	0	-
Cooperative Extension Service	0	-	0	-
County Admin Office	4	303,017	2	218,107
County Counsel	7	559,000	6	832,576
District Attorney	11	954,276	8	1,067,445
Economic Opportunity	0	-	0	-
Elections	0	-	0	-
Emergency Communications	11	646,065	8	838,336
Equal Opportunity Office	0	-	0	-
Health	115	6,691,243	118	14,087,198
Human Resources	5	399,069	4	535,752
Information Technology	13	1,021,801	14	1,962,890
Parks	4	236,790	6	629,389
Probation	23	1,412,100	19	1,567,439
Public Defender	2	138,429	2	242,110
Resource Management Agency	21	1,478,208	23	2,923,556
Sheriff-Coroner	38	2,742,043	17	1,985,300
Social Services	82	4,232,655	70	6,540,143
Treasurer-Tax Collector	6	358,451	6	627,511
Sub-total - GF	**372**	**23,137,583**	**329**	**37,207,665**
Non-GF Depts:				
Parks - Resorts (452)	1	54,485	1	95,579
Library (003)	8	334,629	8	587,153
NMC (451)	166	11,750,938	143.7	20,066,341
RMA - Roads & Bridges (002)	16	822,522	16	1,443,288
Health - Behavioral Health (023)	58	3,126,274	66.5	7,209,774
Sub-total - Other Funds	**249**	**16,088,848**	**235.2**	**29,402,135**
Total County	**621**	**39,226,431**	**564.2**	**66,609,800**

Even without filling vacancies, the County still faces major increases in its cost structure. Some of these costs are outside of our control (e.g., the 21.3% increase in health insurance premiums, increase in PERS rates, or the jail litigation), while other costs reflect the full year annualized costs of filling of 11 unfunded operations deputies and 6 custody control specialists in the jail and full-year financing costs associated with the East/West wing renovation. In addition, there is an array of unfunded operational and capital needs, including the Interlake Tunnel project, continuing operating gaps at the Lakes Resorts, and in the Road Fund, and a long list of deferred capital needs, from the deferred maintenance of park structures to critical repairs at our libraries. All of these important commitments add value to the County's residents, but the forecast is revealing that the County has reached its financial capacity to take on commitments without having to re-prioritize its existing programs and services. This financial strain has been building the last several years as cost pressures mounted and the County invested in deferred infrastructure needs and took on new responsibilities under state-county realignment.

Building next year's budget will require policy choices to relieve that strain. The County faces a $16.0 million deficit in current services plus over $29.0 million in other financial needs as described earlier. And these amounts exclude other important issues such as costs related to bargaining agreements. Funding these needs will require tough choices in the ensuing months as the County begins building next year's budget. Prioritizing these choices will be a key topic in the Department Heads budget workshop planned for March 31 and the subsequent budget workshop with the Board of Supervisors on April 12. In the meantime, the County Administrative Office will recommend several prudent measures at the Department Heads workshop and subsequently to the Board of Supervisors to place the County in a stronger financial position in the upcoming budget process and protect our existing services and the workforce that carries out those services. These recommendations include:

- **Immediate adoption of a temporary countywide hiring freeze**. There are currently an estimated 372 vacancies in general fund departments. The County Administrative Office recommends freezing all countywide hires (with the exception of Natividad Medical Center) unless a job offer or conditional job offer has been accepted. If this recommendation is adopted, the County Administrative Office would issue procedures for implementing the hiring freeze to departments. These procedures will include a process for exceptions in cases where departments can demonstrate (1) there is a critical and urgent need to fill the position and (2) the hire would not place at risk the department's existing employees/services.
- **Freeze recurring, non-essential expenditures**. Departments should take all steps necessary to review any discretionary, non-mission critical expenditures and avoid making new obligations or modifying existing commitments in a manner that would add costs next fiscal year. Examples of such commitments may include new purchases of equipment, increases to service contracts, or use of temporary employees.
- **Prioritization Plans**. The County Administrative Office recommends that departments submit information on potential budget reductions and the impacts of those reductions. Specifically, the County Administrative Office would provide departments with a template in which they would identify impacts of hypothetical reductions of up to 20% (in 5% increments) in their general fund contributions. The intent of this information is to prioritize potential areas of budget reduction, relying on the expertise of department heads as to their respective programs and priorities. The information will be discussed in the upcoming budget workshops and will be an important aspect to building next year's recommended budget.

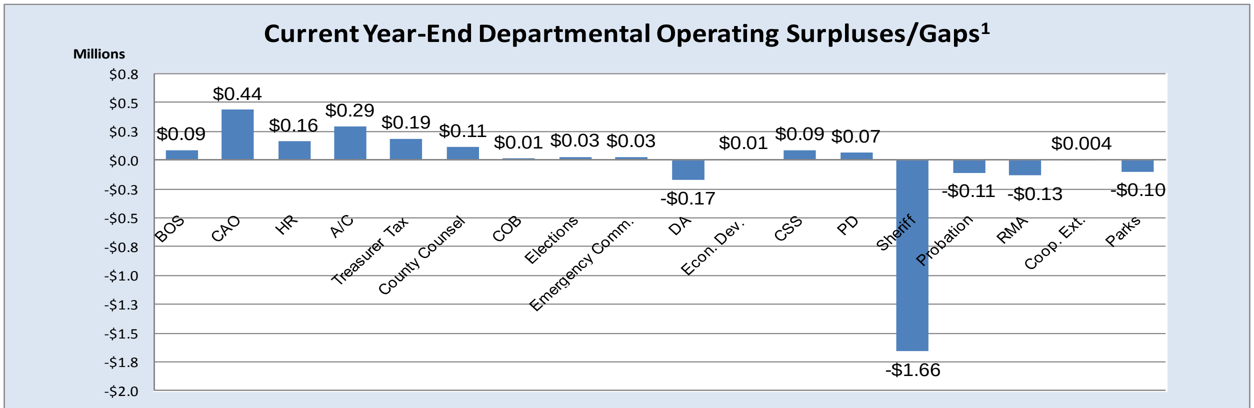
These proposed recommendations are intended as temporary measures to be in effect through the end of the fiscal year until countywide budget needs have been prioritized and adopted by the Board. Such measures are offered in an abundance of caution to avert risks to the County's workforce and the services they deliver. The measures will be re-evaluated and either modified or discontinued after adoption of the budget. In addition to the proposed measures, the County Administrative Office recommends establishing an assignment "FY 2016-17 Critical Needs" to be funded by the estimated $5.6 million modified budget unassigned fund balance. This assignment would be available to help meet some of the critical, non-recurring needs identified in this report.

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 baseline general fund contributions adopted by the Board in support of ongoing operations. By comparing departments' forecasted need to a "baseline" amount of available funding, 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 with final priority decisions for the distribution of discretionary general fund contributions in the upcoming budget process.

Currently, Monterey County functions and services are provided through 26 departments or agencies. Two of these, the Monterey County Free Library (MCFL) and Natividad Medical Center (NMC), are budgeted outside the general fund. These and other major County functions supported through other funds, such as Parks Resorts, Roads and Bridges, and Behavioral Health, are discussed at the end of this report. The remaining 24 departments are included in the general fund. Twenty-two of these departments rely on at least some level of financial support through budgeted contributions from the general fund (i.e., GFC). Child Support Services (CSS) and Information Technology (IT) are currently funded entirely without GFC. The CSS is historically funded through a combination of federal and state subventions provided as reimbursement for mandated programs and services. The negative GFC reflected for CSS represents recovery of overhead costs from the department's funding sources. Information Technology is self-supporting, offsetting 100% of its costs through charges for services to its customer departments. The Water Resources Agency (WRA) is excluded in these discussions. Since the WRA functions and reports through the Board of Supervisors of the WRA, it is responsible for presenting a separate reporting of its current and projected fiscal outlook.

Based on current year-end details, 19 departments estimate ending 2015-16 at or below Board authorized levels of GFC, with a combined surplus of $1.5 million. In contrast, five departments expect to exceed current GFC authorizations by a combined $2.2 million. The end result to the general fund is a potential year-end deficit of $0.7 million in departmental operations. This deficit is offset by the higher-than-budgeted growth in non-program revenue, with the end result being an estimated $1.1 million improvement to fund balance. In compliance with Board adopted policy, County Administrative Office analysts work closely with those departments identifying current year-end budget over-runs so that necessary steps are taken to ensure they report through the Board's Budget Committee to end the year with a balanced budget.



[1]: The departments of Agricultural Commissioner, Assessor-County/Clerk Recorder, Equal Opportunity, Health Department, IT, and Social Services were excluded as their year end estimate did not forecast surplus or deficit.

Agricultural Commissioner - The Agricultural Commissioner estimates it will 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. When the department's use of GFC does not meet MOE requirements, there are resulting reductions in program revenue in the following year. In an effort to maintain and maximize revenue, the Agricultural Commissioner attempts to balance annual expenditures against these funding dynamics. In forecasted years revenue is expected to slightly increase due to additional state contracts and an anticipated increase in the County's pro rata share of unclaimed gas tax. Expenditures are anticipated to grow at a higher rate than revenues. Increasing deficits in the forecast years are due to greater PERS retirement costs, health care costs, increased cost of supplies, namely vehicle and building maintenance costs and contributions to County capital projects.

Agricultural Commissioner	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 9,996,296	$ 9,996,196	$10,441,459	$10,597,388	$10,733,479
B. Revenue	6,399,117	6,399,017	6,527,026	6,532,305	6,537,863
C. Financing Need, A-B	3,597,179	3,597,179	3,914,433	4,065,083	4,195,616
D. Preliminary GFC*	3,597,179	3,597,179	3,397,179	3,397,179	3,397,179
E. Surplus/(Deficit), D-C	-	-	(517,254)	(667,904)	(798,437)

*Year End Estimate includes $200,000 increase in appropriations to fund inspections for Zebra and Quagga Mussel

Assessor-County Clerk/Recorder – The Assessor-County Clerk/Recorder estimates it will end the current year within its budgeted GFC. Despite a significant increase in health care costs, Salaries and Benefits are within budget due to unexpected resignations and vacancies. Recordings in the Recorder's office are gradually increasing and revenues are expected to be slightly higher than estimated for the current year and continue to increase in forecasted years. The Assessor-County Clerk-Recorder is projecting deficits in the forecasted years as a result of step advances, PERS retirement costs, and rising health rates. These deficits are based on the assumption of GFC financing remaining flat in forecasted years.

Assessor-County Clerk/Recorder	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 7,885,735	$ 7,897,927	$ 8,437,019	$ 8,562,724	$ 8,795,767
B. Revenue	3,993,344	4,005,536	4,280,980	4,335,980	4,390,980
C. Financing Need, A-B	3,892,391	3,892,391	4,156,039	4,226,744	4,404,787
D. Preliminary GFC	3,892,391	3,892,391	3,892,391	3,892,391	3,892,391
E. Surplus/(Deficit), D-C	-	-	(263,648)	(334,353)	(512,396)

Auditor-Controller - The Auditor-Controller's Office includes eleven budget units, nine of which are budgeted in the general fund. However, some of the units support countywide non-departmental costs that are not directly Auditor-Controller core operations, such as the cost plan, short-term borrowing and the annual audits. The table summarizes the finances for departmental operations. The Auditor-Controller estimates it will end the fiscal year with a surplus of $292,683. The surplus is due to the challenges of filling the positions of Assistant Auditor-Controller and Systems Division Chief Deputy Auditor-Controller.

Auditor-Controller	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Expenditures	$6,020,973	$ 5,721,060	$5,798,537	$7,091,222	$6,831,806
B. Revenue	686,086	678,856	697,504	700,422	707,597
C. Financing Need, A-B	5,334,887	5,042,204	5,101,033	6,390,800	6,124,209
D. Preliminary GFC*	5,334,887	5,334,887	5,062,887	5,062,887	5,062,887
E. Surplus/(Deficit), D-C	-	292,683	(38,146)	(1,327,913)	(1,061,322)

*Year End Estimate includes increase in appropriations of $394,000 for Systems Management offset by Interfund Reimbursements and the transfer of $272,000 from GF Contingencies.

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 2015-16 with a surplus of $86,306. This is due in part to overall savings on personnel costs related to benefit elections, as well as the step placement on a previously vacant position. Accumulated savings across all districts on operational materials and supplies also contributed to the overall surplus. The deficits emerging in forecast years are driven by cost increases related to increases in PERS rates, health insurance premiums, and technology costs.

Board of Supervisors	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Expenditures	$ 3,155,387	$ 3,069,081	$ 3,282,786	$ 3,355,593	$ 3,417,352
B. Revenue	-	-			
C. Financing Need, A-B	3,155,387	3,069,081	3,282,786	3,355,593	3,417,352
D. Preliminary GFC	3,155,387	3,155,387	3,155,387	3,155,387	3,155,387
E. Surplus/(Deficit), D-C	-	86,306	(127,399)	(200,206)	(261,965)

Child Support Services - Child Support Services is funded entirely through federal and state subventions for mandated services. It is projected 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. Employee salaries and benefits, charges by service departments and internal service funds, and other cost drivers are projected to increase. The negative GFC represents Countywide Cost Allocation Plan (COWCAP) recovery from these funding sources. The department is anticipating a need for general fund contribution in the upcoming years largely due to increases in health insurance premiums, workers' compensation, and upgrade costs associated with the County ERP system and information technology capital replacements. Unless other means are taken to offset escalating costs, the cost increases will impact Child Support Services' ability to maintain existing resources and to continue delivering an important service to the children and families of Monterey County.

Child Support Services	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 10,958,855	$ 10,832,137	$ 11,476,872	$ 11,803,063	$ 12,210,529
B. Revenue	11,344,177	11,128,610	11,460,954	11,787,144	12,194,609
C. Financing Need, A-B	(385,322)	(296,473)	15,918	15,919	15,920
D. Preliminary GFC	(385,322)	(385,322)			
E. Surplus/(Deficit), D-C	-	88,849	(15,918)	(15,919)	(15,920)

Clerk of the Board - The Clerk of the Board anticipates ending 2015-16 with an estimated GFC surplus of $14,615. The surplus is due in part to filling a staff vacancy mid-year at a lower step, as well as nominal savings in services & supplies. Revenues from assessment appeal application filings are projected to remain flat in forecasted years. Expenditures are expected to continue rising in the forecast years due to step advances, increased benefit cost drivers and increased internal service charges for the IT and ERP systems.

Clerk of the Board	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 847,025	$ 832,410	$ 855,080	$ 878,042	$ 893,435
B. Revenue	20,000	20,000	20,000	20,000	20,000
C. Financing Need, A-B	827,025	812,410	835,080	858,042	873,435
D. Preliminary GFC	827,025	827,025	827,025	827,025	827,025
E. Surplus/(Deficit), D-C	-	14,615	(8,055)	(31,017)	(46,410)

Cooperative Extension - The year-end estimate for the Cooperative Extension is forecasted to have a surplus for 2015-16 of $4,176 due to salary savings resulting from a leave of absence. The Cooperative Extension projects a GFC deficit emerging in 2016-17, increasing in 2017-18 and 2018-19. The largest increase in costs is from the service departments of IT and ERP, who pass along the impacts of their cost increases to customers. The increased deficit is also attributed to Salary and Benefit cost increases driven by step increases to salaries, PERS increases, health care rates, and a rise in Worker's Compensation.

Cooperative Extension	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 551,051	$ 532,615	$ 553,897	$ 565,990	$ 578,661
B. Revenue	133,398	119,138	122,487	124,056	125,655
C. Financing Need, A-B	417,653	413,477	431,410	441,934	453,006
D. Preliminary GFC	417,653	417,653	417,653	417,653	417,653
E. Surplus/(Deficit), D-C	-	4,176	(13,757)	(24,281)	(35,353)

County Administrative Office - The County Administrative Office (CAO) budget units are structured into two functional categories: CAO Non-Departmental and CAO Departmental. The CAO Non-Departmental has nine budget units and is associated with functions not directly related to CAO operations, including support of fire services in unincorporated areas, trial court MOE requirements, non-program revenue, medically indigent adult (MIA) obligations, operational contingencies, fleet operations, and debt financing. The table summarizes the finances for the CAO Departmental category which includes Administration and Finance, Budget and Analysis, Contracts/Purchasing, Intergovernmental and Legislative Affairs, Emergency Services, Community Engagement and Strategic Advocacy, Fleet Administration, and Vehicle Asset Management Program (VAMP). These operations estimate a combined year-end surplus of $435,891 compared to budgeted amounts. The majority of the surplus is the result of lower than anticipated replacement vehicle purchases for VAMP. However, VAMP funding is maintained in a restricted assignment for a dedicated purpose, surplus funding is not available to cover the deficit in staffed divisions. The CAO is projecting deficits in the forecast years as a result of increased benefit expenditures in all staffed divisions. This deficit is offset in the forecast table by an anticipated future surplus resulting from decreased vehicle purchase needs in the VAMP.

County Administrative Office	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Expenditures	$ 9,432,488	$ 8,696,722	$ 9,929,035	$ 8,176,622	$ 7,047,509
B. Revenue	673,925	374,050	393,077	379,507	384,466
C. Financing Need, A-B	8,758,563	8,322,672	9,535,958	7,797,115	6,663,043
D. Preliminary GFC	8,758,563	8,758,563	8,758,563	8,758,563	8,758,563
E. Surplus/(Deficit), D-C*	-	435,891	(777,395)	961,448	2,095,520

*Year-end estimated surplus of $435,891 results from a decrease in expenditures from VAMP. The funding for VAMP is maintained in a restricted assignment for dedicated purposes.

County Counsel - County Counsel estimates it will end the current year with $7.6 million in general fund expenditures and $328,553 in revenues, resulting in a year-end use of $7.3 million in GFC. These results would produce an end-of-year surplus of $114,618, due primarily to a surplus of $202,000 under Risk Enterprises, as a result of suspended soil testing for Lake Nacimiento and San Antonio due to continuing drought conditions. The forecast reflects reduced expenditures and GFC because the FY 2015-16 budget included a one-time increase for the purpose of funding a litigation settlement and the purchase of PLL Fort Ord Insurance. The forecast also reflects estimated deficits resulting from vacation buy backs, higher health insurance and PERS contributions, and increases in prices for supplies and legal research services.

County Counsel	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Expenditures	$7,813,333	$7,633,603	$5,565,118	$5,687,583	$5,783,060
B. Revenue	393,665	328,553	328,553	328,553	328,553
C. Financing Need, A-B	7,419,668	7,305,050	5,236,565	5,359,030	5,454,507
D. Preliminary GFC*	7,419,668	7,419,668	4,619,668	4,619,668	4,619,668
E. Surplus/(Deficit), D-C	-	114,618	(616,897)	(739,362)	(834,839)

*Year End Estimate includes appropriations increase of $2.4 million for Jail settlement offset by transfer from GF contingencies.

District Attorney - The Office of the District Attorney projects year-end expenditures of $22.8 million, revenues of $12.3 million and $10.3 million in use of GFC, resulting in a year-end deficit of approximately ($172,449). As a direct consequence involving high profile investigations including a substantial number of officer involved shootings, the recent murder of two children that required investigators to spend significant time in Northern California, and the ongoing increase for discovery of digital evidence by defense lawyers, the department is experiencing higher-than-budgeted expenditures in overtime and trial preparation costs. The department is working diligently to absorb expenditures with current revenue sources. Additionally, revenues are below budget due to some grant related expenditures being below our anticipated budget and thereby reducing the amount of revenues to offset ongoing expenditures. The department is working to mitigate the estimated deficit through careful use of resources over the remainder of the fiscal year. The forecast also indicates deficits ranging between $888,000 and $1.3 million in the forecast years. These deficits are due to forecasted salary step increases and estimated increases in other categories such as employee health insurance.

District Attorney	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 23,345,763	$ 22,846,144	$ 24,191,225	$ 24,414,296	$ 24,712,100
B. Revenue	13,004,658	12,332,590	12,962,556	13,034,627	13,089,717
C. Financing Need, A-B	10,341,105	10,513,554	11,228,669	11,379,669	11,622,383
D. Preliminary GFC	10,341,105	10,341,105	10,341,105	10,341,105	10,341,105
E. Surplus/(Deficit), D-C	-	(172,449)	(887,564)	(1,038,564)	(1,281,278)

Economic Development Department - The Economic Development Department's (EDD) general fund units estimate year-end expenditures of $3.3 million, revenues of $14,927 and $3.3 million in use of GFC. Compared to budgeted GFC, the department estimates ending the year with a small surplus of $8,742. This is due to an under estimated interest on loan payments. EDD projects a deficit emerging starting in FY 2016-17. Approximately $142,000 of the deficit is due to additional Transient Occupancy Tax (TOT) expenses related to the Development Set Aside program. The balance of the deficient is due to increased salaries, corresponding benefits, a significant increase in the ERP Upgrade and ITD Capital Improvements. The deficit continues to rise in FY 2017-18 and FY 2018-19 primarily due to salary and benefit cost increases. Unless other means are taken to offset escalating costs, the increase will impact EDD's ability to maintain existing resources and to continue to promote economic vitality and development in the County of Monterey.

Economic Development	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$3,285,149	$3,287,069	$3,302,704	$3,331,039	$3,358,522
B. Revenue	4,265	14,927	-	-	-
C. Financing Need, A-B	3,280,884	3,272,142	3,302,704	3,331,039	3,358,522
D. Preliminary GFC*	3,280,884	3,280,884	3,080,884	3,080,884	3,080,884
E. Surplus/(Deficit), D-C	-	8,742	(221,820)	(250,155)	(277,638)

*Year End Estimate includes appropriations increase of $200,000 for Economic Development Strategic Plan offset by transfer of GF Contingencies.

Elections - Elections 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 within its budgeted General Fund Contributions (GFC). Both expenditures and revenues are estimated to be significantly lower compared to the adopted budget due to half as many districts requiring an election in November as originally anticipated. While this resulted in lower expenditures, it also directly reduced the revenue which comes from local districts that reimburse the cost of their portion of the election. Projected expenditures and revenues reflect estimated charges for one scheduled presidential election in FY 2016-17, three scheduled elections in FY 2017-18, and a statewide general election in FY 2018-19. Surpluses in forecast years arise from flat GFC financing assumptions while services and supplies (including ballot printing, postage, and translation) are projected to decrease due to smaller or fewer elections in future years as compared to the current fiscal year.

Elections	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 5,458,012	$4,826,121	$ 4,373,834	$5,018,013	$ 4,092,416
B. Revenue	1,033,500	431,500	913,500	813,500	1,213,500
C. Financing Need, A-B	4,424,512	4,394,621	3,460,334	4,204,513	2,878,916
D. Preliminary GFC	4,424,512	4,424,512	4,424,512	4,424,512	4,424,512
E. Surplus/(Deficit), D-C	-	29,891	964,178	219,999	1,545,596

Emergency Communications - During 2015-16, the Emergency Communications Department (ECD) is in full implementation of replacement of the 911 Computer Aided Dispatch (CAD) system project. Because of the awarding of a $1 million federal Urban Areas Security Initiative (UASI) grant, the ECD expects to end the fiscal year under the adopted budget's appropriations by $25,163. The surplus was partially driven by savings in services and supply expenses. Additionally, $864,618 is expected to be moved out of the ECD's reserve account to be used in the completion of the Next Generation Radio System (NGEN) project. Due to delays, these monies were collected from participating agencies but were not expended as budgeted in previous fiscal years. The project is within a year of completion.

Emergency Communications	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	2017-18	2018-19
A. Expenditures	$ 12,990,726	$ 12,911,915	$ 12,230,673	$ 12,072,854	$ 12,532,137
B. Revenue	11,498,804	11,445,156	10,423,307	10,423,307	10,423,307
C. Financing Need, A-B	1,491,922	1,466,759	1,807,366	1,649,547	2,108,830
D. Preliminary GFC	1,491,922	1,491,922	1,491,922	1,491,922	1,491,922
E. Surplus/(Deficit), D-C	-	25,163	(315,444)	(157,625)	(616,908)

Equal Opportunity Office - The Equal Opportunity Office (EOO) expects to end 2015-16 within budget. The forecasted increases in 2016-17, 2017-18 and 2018-19 are the result of increased costs related to the ERP upgrade, IT upgrade and higher salary and benefits costs (employee step advances, rising PERS contributions, etc.).

Equal Opportunity	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	2017-18	2018-19
A. Expenditures	$ 798,102	$ 798,102	$ 948,453	$ 970,548	$ 949,241
B. Revenue	-	-	-	-	-
C. Financing Need, A-B	798,102	798,102	948,453	970,548	949,241
D. Preliminary GFC	798,102	798,102	798,102	798,102	798,102
E. Surplus/(Deficit), D-C	-	-	(150,351)	(172,446)	(151,139)

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 $74.6 million, revenues of $70.4 million, and a financing need of $4.3 million at year-end. The Department is anticipating a need for increased general fund contribution in the three outlying years predominantly due to County ERP system upgrades and capital needs, County information technology upgrades and replacements, and employee health benefit increases.

Health Department (General Fund)	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	2017-18	2018-19
A. Expenditures	$84,016,600	$74,612,610	$83,155,267	$83,626,136	$84,865,974
B. Revenue	79,766,774	70,362,784	78,099,124	78,009,177	78,249,211
C. Financing Need, A-B	4,249,826	4,249,826	5,056,143	5,616,959	6,616,763
D. Preliminary GFC*	4,249,826	4,249,826	3,749,826	3,749,826	3,749,826
E. Surplus/(Deficit), D-C	-	-	(1,306,317)	(1,867,133)	(2,866,937)

*Year End Estimate includes appropriations increase of $500,000 for healthcare coverage of uninsured offset by transfer of GF Contingencies.

Human Resources – The Human Resources Department projects expenditures of $2,911,698 and a general fund financing need of $3,071,789, resulting in a year-end general fund financing surplus of $160,091. This surplus is attributed to two partial year vacancies in hard to fill positions including the Human Resource Director. Forecasted years are projecting deficits that increase annually 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 2017-18 adding to the overall deficit in funding for current staffing levels.

Human Resources	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	2017-18	2018-19
A. Expenditures	$ 3,076,789	$ 2,911,698	$ 3,263,976	$ 3,580,075	$ 3,708,919
B. Revenue	5,000	-	5,000	5,000	5,000
C. Financing Need, A-B	3,071,789	2,911,698	3,258,976	3,575,075	3,703,919
D. Preliminary GFC	3,071,789	3,071,789	3,071,789	3,071,789	3,071,789
E. Surplus/(Deficit), D-C	-	160,091	(187,187)	(503,286)	(632,130)

Information Technology - The Information Technology Department (ITD) recovers all departmental costs through charges for services it provides, reflecting a net zero as the anticipated bottom line for all years included in this report. Aside from its operational charges, ITD implemented Capital Improvement Projects (CIP) to replace ITD Infrastructure as of 2014-15. These CIP costs while captured separately from operational costs, are recovered in entirety via charges to the users that benefit from each of the particular projects. ITD CIP costs and operational costs alike are included in both Information Technology and customer department budgets. The three-year forecast is based upon status quo of operational expectations, but reflects estimated fluctuation of planned capital replacement project costs. Estimated CIP costs included in this three-year forecast are estimated at $3,010,621 for 2016-17, $2,800,600 for 2017-18, and $2,665,000 for 2018-19.

Information Technology	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Expenditures	$ 22,163,336	$ 22,163,336	$ 22,255,425	$ 20,472,392	$ 20,579,768
B. Revenue	684,120	684,120	445,730	445,730	445,730
C. Financing Need, A-B	21,479,216	21,479,216	21,809,695	20,026,662	20,134,038
D. Current Charges	21,479,216	21,479,216	21,809,695	20,026,662	20,134,038
E. Surplus/(Deficit), D-C	-	-	-	-	-

Parks - The Parks Department is projecting a potential $99,903 deficit for 2015-16 due to increasing costs. The department is facing increasing vehicle usage and replacement costs due to the need of a pickup truck for Royal Oaks Park, and higher-than budgeted actual fleet charges. In addition, a one-time campground repair and the prolonging drought increased operating costs. The Department is reviewing and identifying areas where costs can be reduced in order to eliminate the deficit by fiscal year-end. The Department projects potential deficits in its general fund operations for the three-year forecast period due to revenues remaining flat and increased employee salary and benefits, general liability program charges, replacement of vehicles not in fleet program and repair of buildings.

Parks (General Fund)	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Expenditures	$6,002,608	$6,325,098	$7,018,203	$7,027,659	$7,269,732
B. Revenue	3,799,698	4,022,285	3,698,091	3,730,617	3,816,340
C. Financing Need, A-B	2,202,910	2,302,813	3,320,112	3,297,042	3,816,340
D. Preliminary GFC*	2,202,910	2,202,910	1,682,938	1,682,938	1,682,938
E. Surplus/(Deficit), D-C	-	(99,903)	(1,637,174)	(1,614,104)	(2,133,402)

*Year End Estimate includes appropriations increase of $499,972 for major improvements at the Laguna Seca Track offset by release of funds from the Laguna Seca Track Maintenance and Repairs Assignment.

Probation - The Department's 2015-16 year-end estimates reflect expenditures of $42.8 million, revenue of $23.2 million and general fund contributions (GFC) of $19.5 million. Based on this estimate, the Department will exceed the current GFC budget by $108,672. The projected overage is based on unbudgeted costs for a higher than expected number of retirement and annual leave accrual payouts. The total payout costs were estimated at $389,962 and were partially offset by savings from overtime and supply reductions. Probation will continue to closely monitor its operations and is taking steps to reduce costs in order to remain within the authorized GFC budget. The forecast for 2016-17 through 2018-19, which assumes a static GFC contribution, indicates deficits ranging from $3.2 and $6.0 million. The deficits are attributable to increased expenditures outside of the Department's control and revenue that is estimated to continue at levels similar to the current year. The increased expenditures result from higher PERS contributions and cost increases for health benefits, workers compensation insurance, capital replacement and upgrade costs for the County ERP system, and information technology service department operating and infrastructure charges.

Probation	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 42,743,962	$ 42,830,414	$ 46,117,025	$ 47,081,552	$ 49,174,855
B. Revenue	23,255,017	23,232,797	23,464,812	23,555,420	23,646,028
C. Financing Need, A-B	19,488,945	19,597,617	22,652,213	23,526,132	25,528,827
D. Preliminary GFC	19,488,945	19,488,945	19,488,945	19,488,945	19,488,945
E. Surplus/(Deficit), D-C	-	(108,672)	(3,163,268)	(4,037,187)	(6,039,882)

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 $10.9 million, revenue of $493,012, and ending general fund contributions of $10.4 million. Compared to budget, the Department and both of its units would end the current year $65,151 under its currently authorized GFC. It is likely however, that the department will need this estimated balance and perhaps more to cover newly appointed capital cases, and the increasing misdemeanor appeals cases. The Department projects deficits in the forecast years due to ongoing trial related costs of the capital cases and anticipated continuing increases in serious and/or violent felonies that cause conflicts due to multiple defendant cases or cases where the PDO or ADO has or is representing victims or witnesses. Adding to the deficits are earned step advances, promotions, retirement costs, infrastructure and service costs, 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 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$10,916,835	$10,860,763	$11,799,096	$12,169,954	$12,381,690
B. Revenue	483,933	493,012	540,500	540,500	540,500
C. Financing Need, A-B	10,432,902	10,367,751	11,258,596	11,629,454	11,841,190
D. Preliminary GFC	10,432,902	10,432,902	10,432,902	10,432,902	10,432,902
E. Surplus/(Deficit), D-C	-	65,151	(825,694)	(1,196,552)	(1,408,288)

Resource Management Agency (General Fund) - The 2015-16 current year estimates for the Resource Management Agency (RMA) reflects an overall general fund contribution deficit of $132,808. While there is salary and benefit savings of $584,206 projected due to unfilled positions, these savings are offset by increased costs in property insurance and utilities, as well as lower reimbursement of staff costs due to the unfilled vacancies which total $797,964, resulting in expenditures exceeding appropriations by $213,758. The current year estimate for utilities, excluding Schilling, is still projecting to exceed the Board Approved Budget by $255,000 which is contributing to the deficit shown. RMA is projecting higher revenue receipts of $80,950 which will help to offset some of the increased expenditures; however this increase in revenue is not enough to overcome the projected net deficit in its general fund contribution of $132,808. RMA will continue to closely monitor its operations including utilities costs and follow up with the Board before the end of the fiscal year if it looks like RMA is not able to absorb the $132,808 within the current general fund allocation.

At this time, assuming general fund contributions remain flat for in 2016-17 RMA anticipates a GFC shortfall of approximately $1.6 million. Increases in PERS, employee health insurance and other benefits accounts for $1.0 million of the $1.6 million increase. Services, supplies and other costs are projected to increase by $328,000 as a result of increased risk management charges such as property insurance, as well as increases in internal service department charges from ITD, ERP, and Fleet. The net result of increased costs to RMA's general fund Units is $1.3 million. In addition, revenue receipts are projected to decrease by $340,915 due to a reduction in one-time grant funds (Coastal Impact Assistance Program (CIAP) and Department of Water Resources (DWR)). The net impact on RMA's general fund is $1.6 million. With the continued significant growth in costs outside the control of the agency, RMA states it will be unable to maintain current staffing levels resulting in substantial reductions in existing service levels unless other funding becomes available.

Resource Management Agency (General Fund)	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 25,888,094	$ 26,101,852	$ 27,276,104	$ 27,676,022	$ 28,281,751
B. Revenue	11,006,868	11,087,818	10,746,903	10,668,583	10,685,811
C. Financing Need, A-B	14,881,226	15,014,034	16,529,201	17,007,439	17,595,940
D. Preliminary GFC	14,881,226	14,881,226	14,881,226	14,881,226	14,881,226
E. Surplus/(Deficit), D-C	-	(132,808)	(1,647,975)	(2,126,213)	(2,714,714)

Sheriff-Coroner - The Sheriff's Office expects to end the current year with $90.9 million in expenditures, $36.0 million in revenues, and general fund contributions of $53.2 million. Compared to budget, the Office estimates that it will exceed the budgeted GFC in 2015-16 by $1.7 million. Factors contributing to the potential deficit include filling unfunded positions and related supply costs such as tuition for the basic police academy and safety equipment. Additionally, the Office anticipates deficits in the forecast years due to increasing costs related to PERS retirement, health insurance premiums, and allocated costs such as Workers' Compensation insurance premium and Enterprise Resource Planning (ERP) system upgrade costs.

Sheriff	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Expenditures	$ 89,240,219	$ 90,862,879	$ 94,801,916	$ 95,117,027	$ 95,988,582
B. Revenue	36,067,794	36,029,895	35,486,653	35,545,792	35,625,688
C. Financing Need, A-B	53,172,425	54,832,984	59,315,263	59,571,235	60,362,894
D. Preliminary GFC	53,172,425	53,172,425	53,172,425	53,172,425	53,172,425
E. Surplus/(Deficit), D-C	-	(1,660,559)	(6,142,838)	(6,398,810)	(7,190,469)

Social Services - The Department of Social Services (DSS) estimates year-end expenditures of $178.9 million, revenue of $170.4 million and general fund contribution of $8.5 million. The current year-end estimated expenditures are less than budget primarily due to a slight decline in entitlement costs for CalWORKs and General Assistance Programs than were projected in the budget. Estimated year-end revenues decreased due to the reimbursement by the State and federal government which only provides funding based on actual expenses. 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, as a result these estimates may change before year-end closing.

The estimated deficits for the forecast years are directly related to mandated increases in cost of doing business. These include increases in: employee benefits, increased charges by service departments and internal service funds, State mandated COLAs for Foster Care and Adoption Assistance, and a statutory 3.5% increase in the In-Home Supportive Services (IHSS) Programs' Maintenance of Effort. Additionally, there is a slight increase in Foster Care which is indicative of the increase in cases. Realignment funding will grow during the forecast years to cover most of the increased costs. However, actual Realignment growth funding is not yet known and was excluded from the forecast.

Social Services (General Fund)	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Expenditures	$ 181,863,089	$ 178,895,044	$ 186,772,504	$ 189,541,063	$ 192,566,722
B. Revenue	173,353,093	170,385,048	174,320,202	175,641,934	178,366,897
C. Financing Need, A-B	8,509,996	8,509,996	12,452,302	13,899,129	14,199,825
D. Preliminary GFC*	8,509,996	8,509,996	8,985,000	8,985,000	8,985,000
E. Surplus/(Deficit), D-C	-	-	(3,467,302)	(4,914,129)	(5,214,825)

*Year End Estimate includes appropriations increase of $654,971 for IHSS wage increases, offset by transfer of GF contingencies, and the coordinated assessment referral system for homeless services, offset by transfer of GF Contingencies and Social Services Assignment Fund Balance.

Treasurer-Tax Collector - The year-end estimate for 2015-16 reflects the total of actual reported expenditures and revenues as of December 31, 2015, plus anticipated expenditures and estimated revenues through June 30, 2016 based on current departmental expectations and priorities. Year-end expenditures are estimated at $292,356 below budget. This includes salary and benefit savings of $462,493, due to staffing turn-over and additional vacancies in several management positions. This savings is offset partially by increased service and supply expenditures including greater costs for banking and investment services. Estimated year-end revenue is $104,142 below budget, due to reduced expenditures that would have been covered through related revenue offsets. Overall, the department anticipates ending the year with a General Fund Contribution (GFC) surplus of $188,215.

The 2016-17 forecast shows expenditures increasing by $387,495. The increase includes $123,985 in salary and benefits expenditures for PERS Retirement, Workers' Compensation and healthcare benefits. Without the increased expense in these items, the department's base salary expense remains relatively flat, primarily due to recent new hires at lower steps than former incumbents. The bulk of cost increases in services and supplies are occurring in non-discretionary costs for internal service charges, including communications, general liability, cost recovery for the insurance unit overhead, mail handling charges, fleet maintenance, data processing, Enterprise Resource Program (ERP) charges, Information Technology and ERP capital upgrade costs. Revenue projections primarily reflect allowable cost recovery from the department's services and programs. Expenditure and revenue projections for 2017-18 and 2018-19 generally assume 2% increase in costs, with like increases for offsetting revenues.

Treasurer/Tax Collector	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	2017-18	2018-19
A. Expenditures	$ 7,144,357	$ 6,852,001	$ 7,531,852	$ 7,670,953	$ 7,815,668
B. Revenue	5,753,669	5,649,528	5,675,614	5,803,532	5,935,286
C. Financing Need, A-B	1,390,688	1,202,473	1,856,238	1,867,421	1,880,382
D. Preliminary GFC	1,390,688	1,390,688	1,390,688	1,390,688	1,390,688
E. Surplus/(Deficit), D-C	-	188,215	(465,550)	(476,733)	(489,694)

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. Natividad received designation as Monterey County's Adult Level II Trauma Center effective January 5, 2015. The designation of a Trauma Center is significant to Monterey County because it provides faster time to care for patients critically in need of physicians and hospital services. The Affordable Care Act (ACA) that started on January 1, 2014 continues to provide citizens in Monterey County access to healthcare insurance that otherwise could not afford it. The healthcare market will continue to focus in Population Health which consists of managing the chronically ill across all settings, from hospital to home.

Volume: Net patient revenues are expected to decrease in 2016-2017 resulting from the renewed five year term 1115 California Waiver. In December, 2015, the Centers for Medicaid and Medicare Services (CMS) approved a five year extension of California's Section 1115 which provides federal funding for public hospital redesign and incentives as well funding to assist with the uninsured population. Although, CMS agreed to extend 1115 Waiver through 2020 there was an overall reduction in funding due to the reduction of the uninsured population as a result of the Affordable Care Act. Patient volume is expected to grow slightly for trauma services and outpatient procedures. Total revenues are projected to increase by 1.0% over the next three years.

Government Revenues: State and Federal funding for Medi-Cal and the uninsured is projected to be reduced by 12% each year during the forecast period. The funding was determined by both the Federal and State agencies with an assumption that the uninsured population group has been reduced as a result of Healthcare Reform.

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.

Capital Expenditures: An estimated capital need of $21 million per year is projected to upgrade the facility primarily in patient care areas, replacement of clinical equipment and investment in required information technology programs.

Net Results: NMC staff projects consuming $27.7 in fund balance at the end of the forecast period, much of which is due to capital expenditures.

Natividad Medical Center	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast		
			2016-17	2017-18	2018-19
A. Cash Position	$ 56,421,947	$ 62,532,541	$ 66,109,187	$ 49,720,886	$ 38,378,412
B. Revenue	219,310,611	239,194,109	237,428,075	240,959,072	242,466,459
C. Expenditures	219,342,512	235,617,463	253,816,376	252,301,545	243,342,092
D. Ending Cash Position (A+B-C)	56,390,046	66,109,187	49,720,886	38,378,412	37,502,779
E. Change in Net Position (D-A)	(31,901)	3,576,646	(16,388,301)	(11,342,474)	(875,633)

Road Fund - The Road Fund is a special revenue fund established according to 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 "Gax Tax", over the past few years and this trend is projected to continue into 2016-17. HUTA is the primary funding source for road and bridge maintenance for the County. In 2013-14 the Road Fund received $12,634,975 in HUTA funds which declined in 2014-15 by $728,229 or 5.8% for total receipts of $11,906,746. However, the most significant decline in HUTA receipts is occurring in the current fiscal year where HUTA receipts are estimated to be $9,108,438 which is a reduction from 2014-15 of $2,798,308 or 23.5%. The loss of these revenues has resulted in a significant erosion of available fund balance. It is anticipated that by the end of this current fiscal year there will be no available fund balance to sustain operations. The latest projections reflect HUTA receipts to further decline another $750,006 or 8.23% to $8,358,432 in 2016-17. The result is an overall decline in Road Fund HUTA revenues of $4,276,543 or 33.8% over the last three years. The compounding consequence of reduced HUTA receipts into 2016-17 will result in significant operational impacts to the Road Fund if alternative funding is not identified.

The Governor's budget does include a potential for new revenue for road improvement projects by placing a $65 per vehicle charge on registered vehicles in the State (estimated $30.9 million vehicles) estimated to bring in an additional $2.0 billion per year. In addition, existing revenue and reform measures such as Greenhouse Gas Reduction, Low Carbon Road Program, and Caltrans Reforms are anticipated to generate $0.6 billion per year. However at this time, we are unable quantify how much the County would potentially receive from these initiatives.

Another potential new revenue source may come from the Transportation Agency for Monterey County (TAMC) as they are pursuing a 2016 sales tax initiative to generate funding to be used towards transportation projects within the County. Should this initiative pass a 2/3 vote, the

County would receive between 50 to 60 percent of those generated funds estimated to be greater than $3.0 million.

In 2015-16 it was anticipated there would be a significant drop in the County's HUTA allocation, as identified in the table below, which eroded almost all of the uncommitted fund balance within the Road Fund. While the current year estimate is anticipating a slightly higher ending fund balance of $664,827 in 2015-16, which is attributable to implementing a hiring freeze during 2015-16, there will not be sufficient fund balance to draw upon to maintain a balanced budget going into 2016-17. No additional funding sources have been identified at this time.

While the loss of HUTA revenues is a significant factor as to why the Road Fund is projecting to operate in a deficit, there are increased costs that are also contributing to the overall deficit. Assuming status quo, salary and benefit costs are projected to increase by $1.6 million, as well as internal service department charges are anticipated to grow over $534,000 based on information that was available at the time the forecast was submitted. While several construction projects planned for in 2016-17 are adding approximately $9 million in costs under construction in progress, these project costs are offset by Federal, State, and Local Grant funds. However, at this time there is a shortfall in available funds for these projects in 2016-17 of $610,000 that in prior years available gas tax or fund balance would be used to offset. The Department will be reviewing these projects to identify how to prioritize available funds. Some of the larger projects anticipated to be under construction in 2016-17 are the: Highway 68 Corral de Tierra Road Intersection; Blanco Road Overlay; Peach Tree Road Bridge No. 412; Nacimiento Lake Drive Bridge No. 449; Davis Road Bridge No. 208; Highway 1 Climbing Lane between Carmel Valley Road and Rio Road; and Castroville Railroad Crossing Bicycle/Pedestrian Path. The department is evaluating options for restructuring Road Fund related operations and assessing necessary reductions in services to match estimated 2016-17 funding levels and will be working closely with the CAO's office on proposed changes and potential alternate funding sources.

Fund 002 Road Fund	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Beginning Fund Balance	$ 4,589,599	$ 4,589,599	$ 664,827	$ (5,868,449)	$ (10,946,477)
B. Revenue	30,800,122	25,475,367	40,659,132	38,119,245	40,952,448
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	35,389,721	30,064,966	41,323,959	32,250,796	30,005,971
E. Expenditures	35,165,678	29,400,139	47,192,408	43,197,273	47,230,885
F. Provisions for Assigments	-	-	-	-	-
G. Total Financing Uses, E+F	35,165,678	29,400,139	47,192,408	43,197,273	47,230,885
H. Ending Fund Balance, D-G	$ 224,043	$ 664,827	$ (5,868,449)	$ (10,946,477)	$ (17,224,914)

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 a network of information centers that serve the diverse communities of Monterey County. As such, the fund's operations are primarily financed through its own share of property tax.

Current year Revenues are projected to increase at 1.5% based on actual revenues received this current fiscal year 2015-16, and conservatively projected to level off for the next 3 forecasted years. The current year-end revenue estimate is $8.9 million based on actual property tax revenue received during first half of the tax year.

Current year expenditures experienced a 1% increase on fixed costs related to rents and leases of Library buildings, costs of janitorial and maintenance of buildings, and additional fixed cost increases relating to other County Department services such as insurance, information technology, and union negotiated increases in salaries and benefits. This trend is projected to continue at 1% per year for the next three years.

The three year forecast for the Library Fund indicates that MCFL will continue to maintain the level of fund balance sufficient to offset and stabilize the increasing expenditures. The next two years will continue to allow for a positive ending balance, with a gradual erosion of fund balance by 2017-18 and 2018-2019. Despite anticipated increases in property tax revenues, growth in departmental expenses are outpacing growth in funding. Salaries and benefits continue to represent approximately 58% of the Library's total expenditures. Discretionary spending is a minimal part of the Library's budget; however, the department continues to strive to control all discretionary expenditures.

MCFL's upcoming capital improvements projects for the next three years include two repair projects totaling $180,000. These projects consist of the Big Sur Library renovation and Greenfield Library repairs. Several library facilities are showing severe degradation and the Library regularly deals with emergency structural and facilities repairs. Other projects include the construction and reopening of San Lucas Library for which outside funding has already been obtained, and 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.

This fiscal year 2015-16, MCFL is committed to collaborating with the Carmel Valley branch property owner to completing premise improvements such as heating, cooling and ventilation, seismic upgrade, and also recarpeting and painting, which would entail moving of the library materials and equipment. MCFL has committed up to $15,000 in packing, moving and storing expenses in relation to this project.

Various building repair projects are scheduled for the following fiscal year 2016-17 for various library locations, including floor repair at the Bradley Library, safety driven repairs on drainage and roof repair at the Castroville Library, and continuing with remaining high priority repairs for the Greenfield Library such as wall and floor finishes, repainting, electrical and wiring. 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.

It is MCFL's plan to continue to try to address the future needs presented in the Capital Improvement Plan for the period 2015-2016 to 2019-2020 which includes exploring opportunities for building a new library building or finding other lease alternatives for the Aromas, Gonzales and Prunedale locations, as well as exploring possibilities for other current and future new branches.

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 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Beginning Fund Balance	$ 1,224,476	$ 1,224,476	$ 1,339,030	$ 1,649,280	$ 1,950,314
B. Revenue	8,530,424	8,914,566	9,051,852	9,071,852	9,081,852
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	9,754,900	10,139,042	10,390,882	10,721,132	11,032,166
E. Expenditures	8,720,617	8,800,012	8,741,602	8,770,818	8,833,703
F. Provisions for Assigments	-	-			-
G. Total Financing Uses, E+F	8,720,617	8,800,012	8,741,602	8,770,818	8,833,703
H. Ending Fund Balance, D-G	$ 1,034,283	$ 1,339,030	$ 1,649,280	$ 1,950,314	$ 2,198,463

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 $91.8 million, revenues totaling $88.8 million, with estimated ending fund balance of $24.8 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.

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 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Beginning Fund Balance	$ 27,754,476	$ 27,754,476	$ 24,803,473	$ 17,960,062	$ 11,270,726
B. Revenue	97,003,022	88,825,506	94,625,506	96,125,506	96,625,506
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	124,757,498	116,579,982	119,428,979	114,085,568	107,896,232
E. Expenditures	105,639,999	91,776,509	101,468,917	102,814,842	104,116,485
F. Provisions for Assigments	-	-			-
G. Total Financing Uses, E+F	105,639,999	91,776,509	101,468,917	102,814,842	104,116,485
H. Ending Fund Balance, D-G	$ 19,117,499	$ 24,803,473	$ 17,960,062	$ 11,270,726	$ 3,779,747

Parks - Lakes Resorts - The Lakes Resorts Enterprise Fund began 2015-16 with a negative $5.5 million beginning net position which includes negative $2.9 million pension liability adjustment and negative $1.0 million change in net position in 2014-15. It is projected to end the fiscal year with a negative $6.8 million net position, for a net decline of $1.3 million. The fund continues to face challenges with declining revenues due to low lake levels resulting from the ongoing drought. Even with the closure of Lake San Antonio, funds have been expended in order to keep the Lake in a caretaker status. The forecast years assume the lake levels remain low and revenues increase minimally, resulting in annual losses in excess of $1.5 million.

Parks Lake & Resort Operations	Modified Budget 2015-16	Year-End Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
A. Beginning Net Position	$ (5,520,898)	$ (5,520,898)	$ (6,795,763)	$ (8,335,220)	$ (9,923,720)
B. Revenue	3,302,235	3,457,698	3,351,833	3,485,928	3,643,805
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing (A+B+C)	(2,218,663)	(2,063,200)	(3,443,930)	(4,849,292)	(6,279,915)
E. Expenditures	3,302,235	4,732,563	4,891,290	5,074,428	5,276,257
F. Provisions for Assigments	-	-	-	-	-
G. Total Financing Uses (E+F)	3,302,235	4,732,563	4,891,290	5,074,428	5,276,257
H. Ending Net Position (D-G)	$ (5,520,898)	$ (6,795,763)	$ (8,335,220)	$ (9,923,720)	$ (11,556,172)

RECOMMENDATIONS

The final section of the financial forecast re-states recommendations included in this report for the reader's convenience.

FY 2016-17 Critical Needs

The County Administrative Office recommends the transfer of $5,623,624 in year-end estimated unassigned fund balance to a new assignment for FY 2016-17 critical needs to cover costs associated with non-recurring needs.

Recommendation: Transfer $5,623,624 in year-end estimated unassigned fund balance to a new FY 2016-17 Critical Needs assignment.