



Monterey County

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Board Report

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- a. Receive the Monterey County Financial Forecast, which assesses the County's fiscal condition for the current year and three forecast years (FY 2016-17 through FY 2018-19); and
- b. Approve the recommended actions as outlined in the Monterey County Financial Forecast.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Receive the Monterey County Financial Forecast, which assesses the County's fiscal condition for the current year and three forecast years (FY 2016-17 through FY 2018-19); and
- b. Approve the recommended actions as outlined in the Monterey County Financial Forecast.

SUMMARY:

The County's financial forecast is the first step of the annual budget development cycle. Staff conducts a comprehensive mid-year review of planned spending and anticipated revenues for the current year, budget year, and two additional out years. The result of this review is an assessment of the County's financial health and capacity to fund current levels of service and operations for the remainder of the fiscal year and beyond.

DISCUSSION:

Based on staff's review of planned spending and anticipated revenues, the County will face a \$16.0 million funding gap in current services in 2016-17. In addition, the County has a number of unfunded financial needs totaling over \$29 million. These financial needs include ongoing operating needs and non-recurring capital needs, which are detailed in the attached report.

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 generally assumes that vacant positions will be filled. Filling vacancies would add an estimated \$37.2 million in costs to departments' forecasted expenditures. In reality, many departments cannot afford to fill all vacancies within existing resource constraints.

Even without filling vacancies, the County still faces major increases cost next fiscal year. Some of these costs are outside of the County's control, such as the 21.3% increase in health insurance premiums, increased costs for the Enterprise Resource Planning (ERP) Project, higher PERS rates, or the jail litigation, while other costs reflect the full-year annualized impact of mid-year modifications such as the filling of 11 unfunded operations deputies and 6 custody control specialists in the jail or 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 deficits at the Lakes Resorts and in the Road Fund, and a long list of deferred capital needs, from deferred maintenance of park structures to critical repairs to our libraries. Finally, most of the County's bargaining agreements expire at the end of this fiscal year. Budget strategies for balancing next year's budget must take into consideration both the existing needs described above as well as the needs of future bargaining agreements.

As the forecast takes inventory of the various needs and the revenue available to support those needs, it becomes clear that the County has reached its financial capacity to take on new commitments without re-prioritizing its existing programs and services. This financial strain has been building the last several years as cost pressures mount and the County invested in deferred infrastructure needs while taking on new responsibilities under state-county realignment. But as the magnitude of existing and new cost pressures increase, tough choices must be made in the ensuing months to close next year's funding gap. 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.

OTHER AGENCY INVOLVEMENT:

Development of this forecast is a cooperative effort between all departments and the County Administrative Office.

FINANCING:

There is no impact to the budget by receiving this report.

Prepared by: Lucila Sanchez, Associate Administrative Analyst

Approved by: Paul Lewis, County Budget Director

Approved by: Dewayne Woods, Assistant County Administrative Officer

Attachment: February 2016 Monterey County Financial Forecast