Budget End of Year Report

Fiscal Year 2015-16

November 2016

Monterey County Budget End of Year Report

FY 2015-16

Monterey County Board of Supervisors

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Supervisor Fernando Armenta

District 3,
Supervisor Simón Salinas

District 4,
Supervisor Jane Parker (Chair)

District 2,
Supervisor John M. Phillips

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Supervisor Dave Potter (Vice Chair)

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INTRODUCTION

The County Administrative Office is pleased to present the Fiscal Year 2015-16 Budget End of Year Report (BEYR). The BEYR provides an early analysis of the County's fiscal performance for the year ending June 30, 2016, with the understanding that this financial data is unaudited and subject to revisions. To promote financial transparency and responsible financial oversight, the BEYR provides a comprehensive analytical comparison between the County's final modified budget and actual year-end results, including:

- The overall health of the County's finances.
- The County's management of its budget and forecasting of revenues and expenditures.
- The major financial developments, issues, and trends shaping County finances.
- The County's management of reserves, investments, and long-term liabilities.

The BEYR begins with a recap of the County's accomplishments during the year, an analysis of the countywide financial performance of the general fund, which is the County's largest fund supporting basic governmental functions, followed by a more detailed analysis of departmental performance. This report also provides an analysis of other major funds under the Board's oversight.

CURRENT ACCOMPLISHMENTS

The County continues its conservative fiscal management, balancing operational priorities and long-term investments within the parameters of a structurally balanced budget. During the fiscal year, the County invested in the community, promoted public safety, supported health and wellness, and improved infrastructure. Accomplishments are described below:

Promoting Public Safety

- Public safety is a high priority for the County; expenditures for public safety programs totaled $176.6 million or 31% of general fund expenditures. The County funded over half of the expenditures with general fund contributions of $94.1 million, of which the largest contribution was to the Sheriff's Office at $53.8 million.
- Over the last four fiscal years, the number of authorized safety "sworn" positions and custody control specialists within the Sheriff's Office has grown by 33 positions, while expenditures increased $14.6 million.
- The Board approved an additional $4.6 million in general fund contributions to the Sheriff's FY 2015-16 budget to cover increased costs for salaries, pensions, employee health insurance, and increased inmate medical care expenses.
- The Board authorized a mid-year budget modification to the Sheriff's budget to fund an additional 11 patrol deputies and added six custody control specialists to provide better staff coverage at the jail; the annualized cost for these positions is estimated at $1.7 million.
- During FY 2015-16, the Sheriff's Office replaced 26 high mileage patrol cars at an estimated cost of $1.2 million.
- The County continued to address jail security issues, beginning an estimated $4.8 million in work to improve safety in the jail for staff and inmates. This includes $3.7 million for a security camera system to prevent violence, $1.0 million for capital improvements to help prevent suicide, and $102,000 in Americans with Disabilities Act (ADA) capital improvements.

Supporting Health and Wellness

- Provided $450,000 in funding for a pilot project to provide pharmacy, radiology, and lab services for undocumented uninsured residents of Monterey County.
- Authorized 110 new positions in the general fund and behavioral health fund to expand primary care and behavioral health access.

Improving Infrastructure

- In FY 2015-16, the County spent $2.5 million towards the Jail Addition project, a facility providing 576 new beds to the Jail. The total project cost is $88.9 million, with County matching funds of $8.9 million. The year-to-date expenditures since project inception total $6.6 million.
- The County spent $1.5 million towards the Juvenile Hall project, a new 120-bed campus-style facility to replace the existing Juvenile Hall. The total project cost is $52.8 million, with County matching funds of $17.8 million. The year-to-date expenditures since project inception total $4.3 million.
- The County began work on the East / West Wing renovation which will house the District Attorney department and other County staff. Over the year, construction documents were finalized and selective demolition began at the site. The total project is budgeted at $36.6 million, financed by Certificates of Participation (COP's). The FY 2015-16 expenditures totaled $6.7 million.
- The Schilling Place complex was re-roofed in FY 2015-16 and work continues to prepare the facilities for occupancy in early 2017. The total project cost is $16.0 million. The FY 2015-16 expenditures totaled $2.6 million.

Contributing to Other Agencies

- The County makes discretionary contributions to other agencies in the community that work to enhance and meet the Board's strategic initiatives. In FY 2015-16, the County contributed a total of $6.1 million, including $2.7 million to help support fire districts, $1.5 million to cities that participate in the 911 consolidated dispatch center, and $1.9 million to agencies that promote economic development in the community.

Promoting Financial Stability and Sustainability

- The strategic reserve for the general fund now stands at $73.9 million. During the recession the County relied on short-term loans to ensure enough capital was on hand to meet payroll and avoid disruptions to operations. In the ensuing recovery, the County resumed efforts to build a strategic reserve equal to 10% of general fund revenue to ensure sufficient cash is available to continue operations during revenue "dry periods" and endure emergencies. In FY 2015-16 the County's hospital added $3.6 million to the strategic reserve, increasing its designated amount from $14.2 million to $17.8 million. The general fund portion of the strategic reserve remained at $56.1 million. At this level, the County fell below the 10% target by $2.8 million in FY 2015-16 and this underfunding grew to $6.0 million in the current year. Continuing efforts towards meeting the policy target will be vital to protecting the stability and sustainability of County finances, especially when considering that current recovery has matured well beyond historical averages.

Building the Workforce

- Added 84 positions in the general fund, primarily for Health to gear up for the clinics expansion, to Social Services for the In-Home Support Services Program, and for the Sheriff's Office to improve jail staff coverage.
- Provided raises of 3% for most County employees and continued to absorb increases in retirement cost and health insurance premiums, which increased $3.9 million and $7.0 million, respectively, over the prior year.

GENERAL FUND HIGHLIGHTS

The general fund is the County's largest fund, supporting basic governmental functions related to public safety, land use and environment, public assistance, health and sanitation, recreation and education, and finance and administration. The FY 2015-16 Adopted Budget included $602.5 million in appropriations, matched by an equivalent amount of financing. Subsequent modifications throughout the year increased appropriations by $6.4 million, financed primarily by additional program revenue. The County ended the fiscal year with a favorable fiscal performance, adding to its fund balances in accordance with Board-authorized priorities. Highlights of the general fund performance include:

General Fund At-a-Glance			
	(a) Adopted Budget	(b) Final Modified Budget	(c) Year-End Actual
Available Financing:			
Fund Balance	$ -	$ 6.6	$ 6.6
Cancellation of Assignments	17.9	17.9	10.7
Revenues	584.6	588.7	573.1
Adjustment to Revenue*	-	-	(2.8)
Total Financing Sources	**602.5**	**613.2**	**587.7**
Financing Uses:			
Transfers to Restricted Fund Balance	-	-	2.7
Assignments / Commitments	-	-	17.0
Expenditures	602.5	608.9	561.0
Total Financing Uses	**602.5**	**608.9**	**580.7**
Unassigned Fund Balance:	**-**	**4.3**	**7.0**

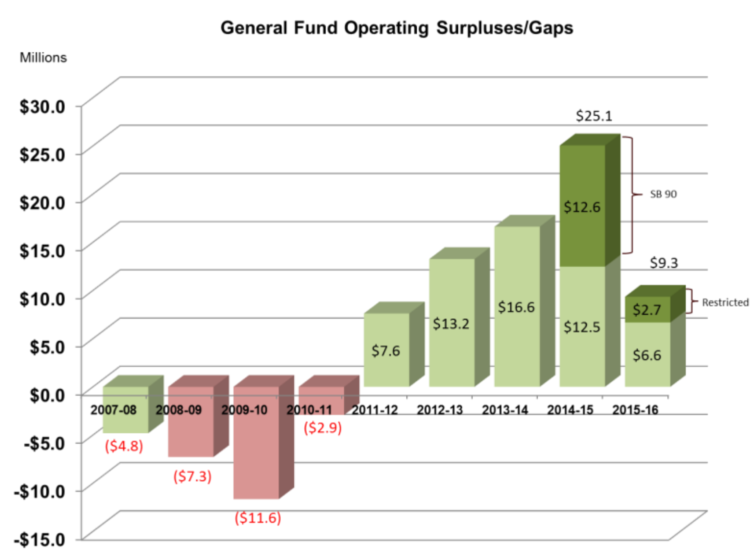
Dollars shown in millions. Numbers may not total due to rounding.
*$2.8 million COPS will be reclassified to NGEN Fund.

- Based on the most recently audited financial statements, the County carried forward into FY 2015-16 $6.6 million in "unassigned" fund balance.
- The County used $10.7 million in assigned fund balance as planned for capital projects, mainly for the jail addition and juvenile hall projects.
- FY 2015-16 revenues totaled $573.1 million, but were adjusted downward to exclude a $2.8 million grant for the Next Generation (NGEN) Radio Project which the department misclassified into the general fund.
- Adjusted revenues of $570.3 million are $18.3 million below the final modified budget. Program revenue, much of which is reimbursed on actual costs, fell $24.1 million due to lower than planned expenditures. Collection of health fees were also lower than anticipated, due to delays in clinic expansion. Partially offsetting the reduction in program revenue, discretionary (i.e. "non-program") revenues were $5.7 million above the final modified budget primarily due to gains in property tax and Transient Occupancy Tax (TOT) revenue.
- In FY 2015-16 the Auditor-Controller, under Governmental Accounting Standards Board (GASB) guidance, implemented changes to the accounting treatment of certain restricted revenue accounts. The change resulted in departments recognizing about $2.7 million in unspent restricted revenue and then transferring the monies into restricted fund balance.
- Departments ended the year with expenditures of $561.0 million, which is $47.9 million or 7.9% below the final modified budget. Over a third of the decrease in expenses was attributed to vacancies, lowering salary and benefits expense by $19.3 million. Other major sources of unused appropriations include lower-than-planned reimbursable program expenditures under Health and Social Services, deferred equipment and vehicle purchases, and savings in departmental contracted services.
- Available financing totaled $587.7 million and financing uses totaled $580.7 million, resulting in a preliminary unassigned fund balance of $7.0 million. The final results are subject to annual audit and will be published by the Auditor-Controller in the Comprehensive Annual Financial Report.

- The favorable year-end results allowed the County to add $17.0 million to fund balance as authorized in the FY 2016-17 Recommended Budget, including: $9.6 million for capital projects; $1.3 million to fully fund the appropriation for contingencies; $837,582 in unused Laguna Seca track revenue re-invested for track maintenance; $712,939 in unused information technology funds re-invested for next year's I.T. capital projects; $500,000 for the revenue stabilization account; and $450,000 to continue providing laboratory, radiology, and pharmacy services to undocumented residents. Additionally, $3.6 million in Natividad Medical Center (NMC) funds were reserved for the hospital's portion of the strategic reserve.
- Seventeen (17) departments ended the fiscal year with a general fund contribution (GFC) surplus totaling $8.7 million, while seven departments had a GFC deficit of $2.6 million, resulting in combined savings to the general fund of $6.1 million. These totals do not include non-departmental monies, such as improvement in non-program revenues.
- The general fund contingency appropriation of $5.4 million was consumed primarily by the Hernandez vs. County of Monterey lawsuit settlement of $2.4 million and by the Water Resources Agency (WRA) which used $1.5 million for the Interlake Tunnel Project. The remaining $1.5 million was used by five departments for various needs.
- The general fund year-end cash balances have seen improvement over the last five fiscal years, following the trend of operating surpluses and improving fund balance. Ending general fund cash balances totaled $129.5 million, an improvement of $15.0 million over FY 2014-15. Major components of these cash balances include the strategic reserve and reserves for capital projects such as the jail addition and juvenile hall. The improvement in cash balance means the County no longer requires short-term financing to prevent cash flow shortages and helps preserve a strong credit rating.

PROMOTING FISCAL INTEGRITY

During the recession, the County utilized fund balance to soften the impact of declining revenues to both services and employees. These gaps financed by fund balance are shown in the chart to the right.



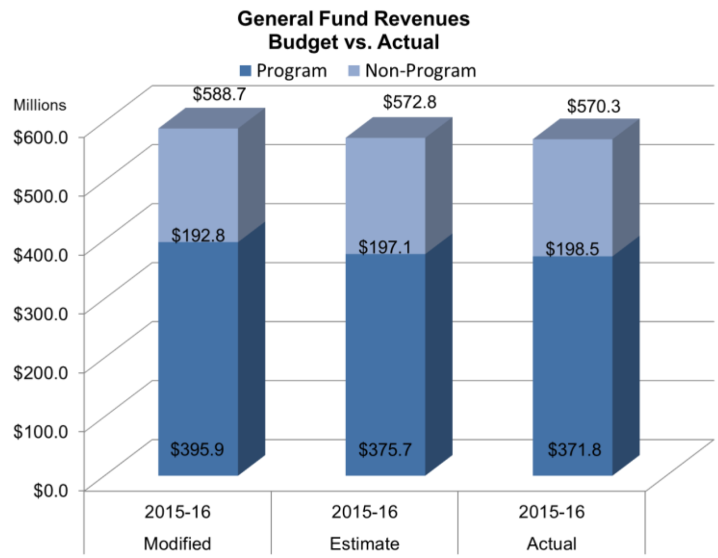
In FY 2015-16, the County ended the year with revenues exceeding expenditures by $9.3 million of which $2.7 million is designated as restricted fund balance. The County has maintained structural balance since FY 2011-12, when the Board ended the County's reliance on fund balance for ongoing operations through adoption of prudent strategic policies and cost-saving efforts. The favorable results over the last five years were due to the Board's leadership in implementing these financial policies and the strong fiscal management by County departments.

Despite the operating surpluses over the last five years, FY 2015-16 represents a less favorable operating surplus than FY 2014-15 and is indicative of the significant cost pressures experienced over the last few years.

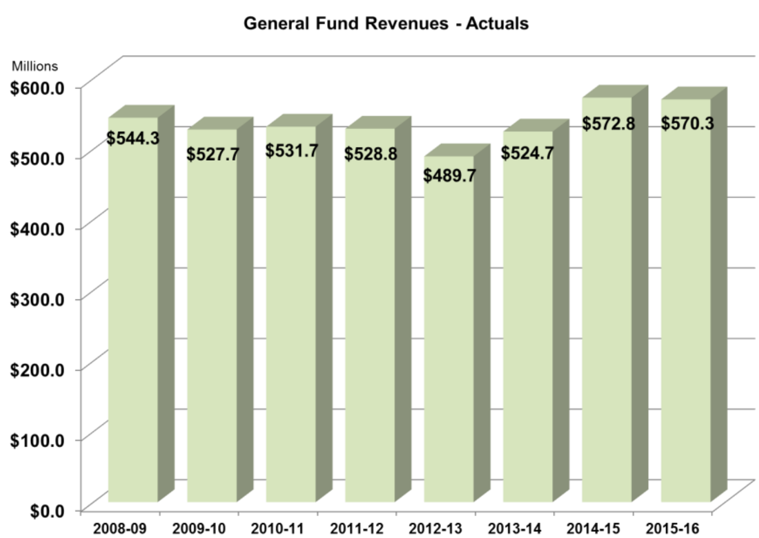
GENERAL FUND REVENUE

General fund revenue is composed of program and non-program revenue. Program revenue is specifically designated and/or statutorily required for programs, while non-program revenues are the County's discretionary funds, critical in addressing local priorities, providing matching funds to leverage Federal and State monies and to meet maintenance of effort requirements.

FY 2015-16 revenue totaled $570.3 million, which is $18.3 million below the final budget. The major variances include:



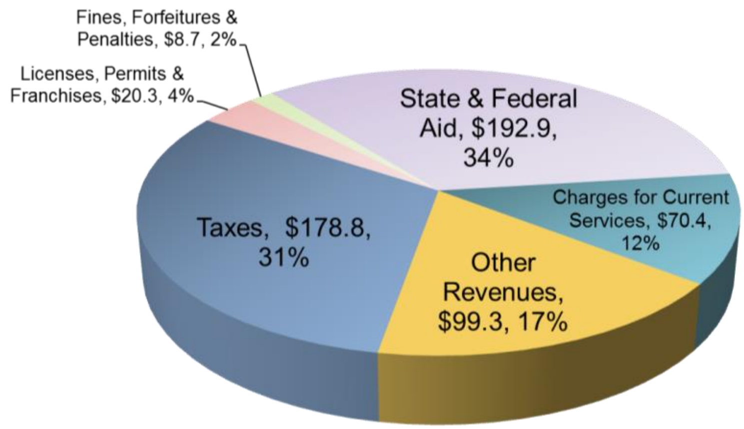
- Operating transfers in to the general fund were $12.9 million lower than anticipated due to lower reimbursable program expenditures and therefore lower reimbursement income from the State and Federal government for health, social services and public safety programs.
- Fees charged by health clinics were $7.4 million lower than budget due to delays in expansion projects for primary care services.
- Decreases in the aforementioned revenue sources were partially offset with $5.7 million higher-than-planned non-program revenue, primarily due to gains in property tax revenue and TOT revenue.



Actual year-end general fund revenues decreased $2.5 million compared to the prior year. Several points should be considered when discussing the $2.5 million year-over-year decline in revenue. In FY 2014-15, the County received a one-time SB 90 reimbursement from the State for pre-2004 claims in the amount of $12.6 million and there was also a $14.2 million operating transfer into the general fund for the Juvenile Hall project. Also, FY 2014-15 included Vehicle License Fees of $9.4 million for support of medically indigent adults, which were moved to the Health and Welfare Realignment Fund for FY 2015-16. The decreases were offset by year-over-year increases in non-program revenue of $6.6 million over the prior year, $9.8 million increase in State and Federal aid, and an $8.2 million increase in charges for services primarily from the Health and Emergency Communications departments.

GENERAL FUND REVENUE SOURCES

State & Federal Aid - The largest source of revenue is State and Federal aide at $192.9 million or 34% of total revenue. The historical revenue trend reflects a pronounced decrease in revenues in FY 2012-13, attributed to the shift of $66.0 million in funds as part of the realignment of State responsibilities to county government for Behavioral Health. The State and Federal aid remaining in the general fund primarily supports mandated public assistance and health programs.



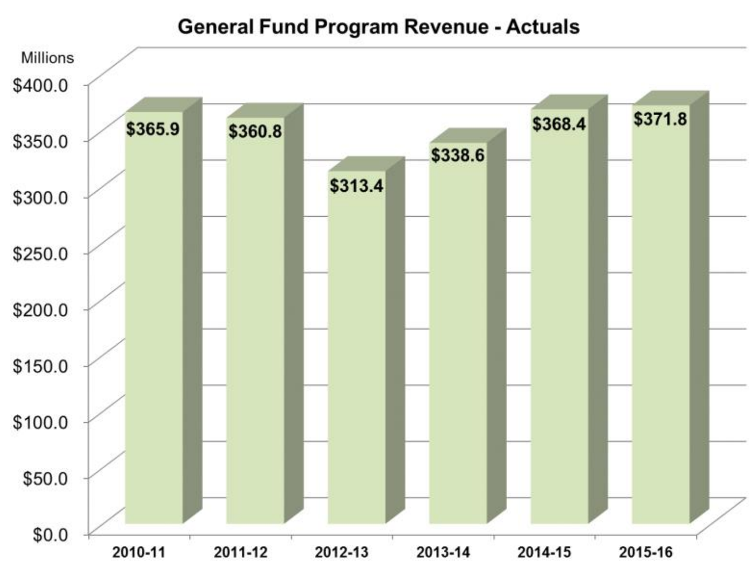
Taxes - The second largest component of general fund revenue is taxes at $178.8 million or 31%. Revenue from taxes includes property tax, sales tax, and TOT, all of which experienced growth in FY 2015-16 due to higher assessments on property values and continued economic improvement favoring tourism. These revenues comprise the bulk of the discretionary revenues.

Other - A significant portion of revenue falls under the “Other Revenues” category (17%) of which the majority represents transfers from other funds into the general fund in support of departmental operations, particularly in the areas of health, social services, and public safety. The remaining revenue includes charges for services (12%), licenses, permits & franchises (4%), and fines, forfeitures & penalties (2%).

Of the $570.3 million in general fund revenue, $371.8 million or 65% is program revenue and the remaining $198.5 million or 35% is non-program revenue, representing the portion of the County’s discretionary funds.

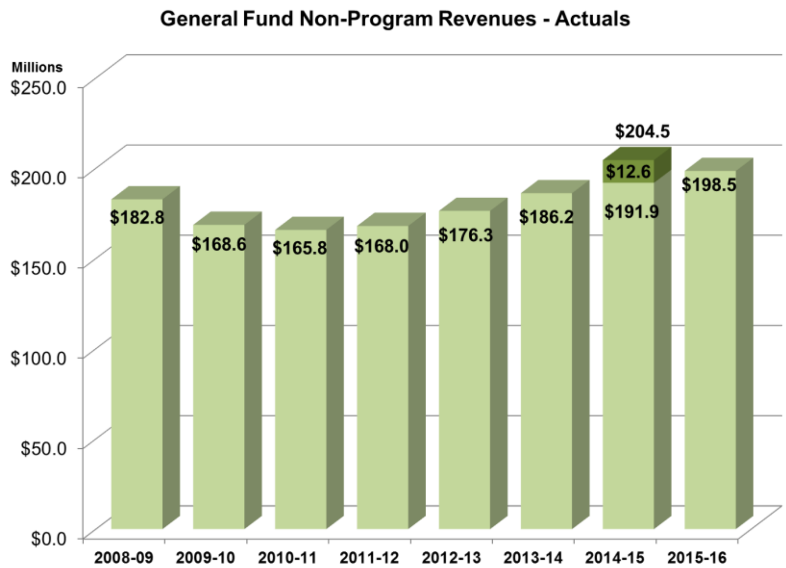
PROGRAM REVENUE

In FY 2015-16, program revenue totaled $371.8 million, a $3.4 million increase from the prior year. The increase is attributed to an end of year transfer from NMC to the general fund of $3.6 million to set aside for the strategic reserve. Major year-over-year variances in program revenue include:



- Operating transfers in to the general fund were $11.5 million less; however, this is mostly attributed to a one-time $14.2 million transfer for the Juvenile Hall project in FY 2014-15.
- State and Federal aid increased $9.8 million over the prior year due primarily to increases in reimbursements for public assistance.
- Charges for current services increased $8.2 million from prior year due in part to $3.7 million higher-than-anticipated Emergency Communication revenue that was earned in FY 2014-15 but was recognized in FY 2015-16 due to delayed payment from user agencies. There was also a $3.3 million increase in collection of health fees, resulting from higher enrollments in Medi-Cal due to the Affordable Care Act and also an increase in insured residents through Covered California.

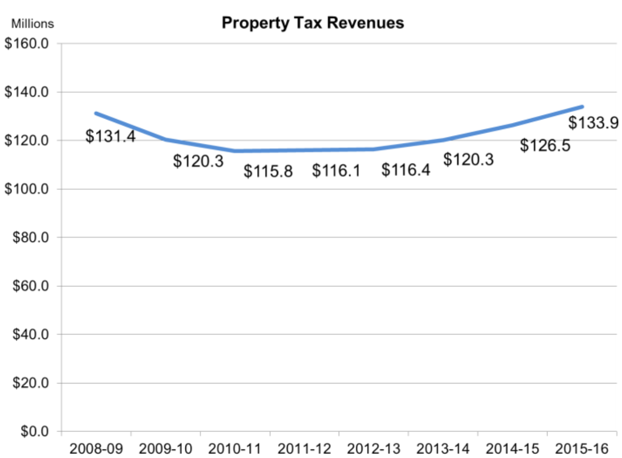
NON-PROGRAM REVENUE

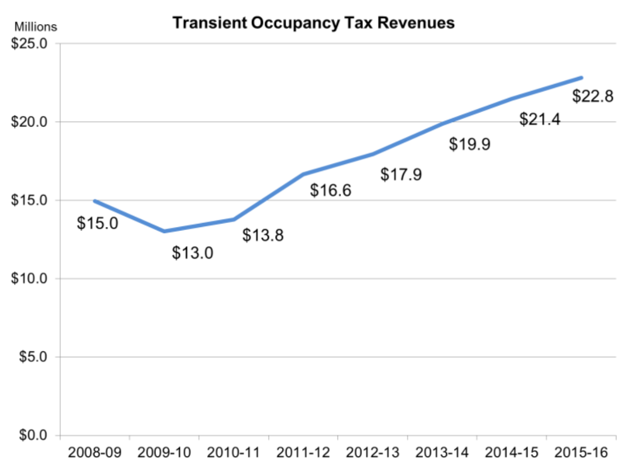


Non-program revenue has improved year after year for the last five years and totaled $198.5 million for FY 2015-16. The two major sources of non-program revenue include property tax of $133.9 million (67% of total) followed by TOT of $22.8 million (11% of total). Other significant sources of non-program revenue include sales and use tax, tobacco settlement monies, and franchise fees.

At first glance, it appears that non-program revenue decreased $6.0 million over the prior year actuals, however, FY 2014-15 represents an anomaly in that the County received a $12.6 million one-time payment for pre-2004 SB 90 claims that had been deferred by the State. When this one-time event is excluded, FY 2015-16 non-program revenues improved from the prior year by $6.6 million.

Significant increases over prior year actuals in non-program revenue include a $7.4 million increase in property taxes and a $1.4 million increase in TOT. These are the two largest sources of non-program revenue, accounting for 78% of the total. The following charts reflect the trends of these two sources of revenue:



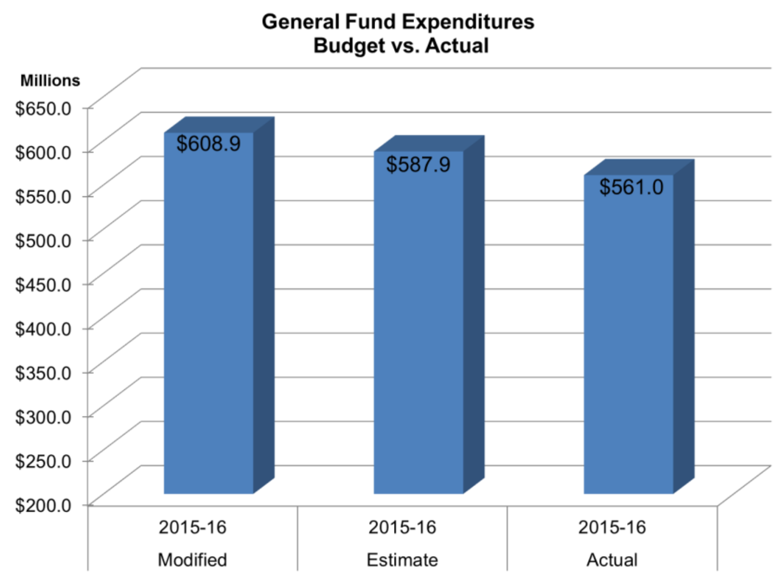


Other significant increases include an improvement in investment income, totaling $4.4 million, representing a $3.6 million increase over the prior year. The increase is attributed to over $2.8 million in interest on deferred State payments for SB 90 mandates.

These increases were offset by a decrease of $8.1 million in VLF funds that were previously deposited in the general fund. In FY 2015-16, the VLF funds were received directly in Health and Welfare Realignment Fund in accordance with state rules.

GENERAL FUND EXPENDITURES

General fund expenditures ended the year at $561.0 million or $47.9 million below the final budget and $26.9 million below the mid-year estimate. Lower expenditures were primarily due to salaries and benefits savings from vacant positions primarily in Health and Social Services as explained below. There were also unused appropriations due to lower-than-budgeted contracted services and departmental expenses, and deferred equipment and vehicle purchases.



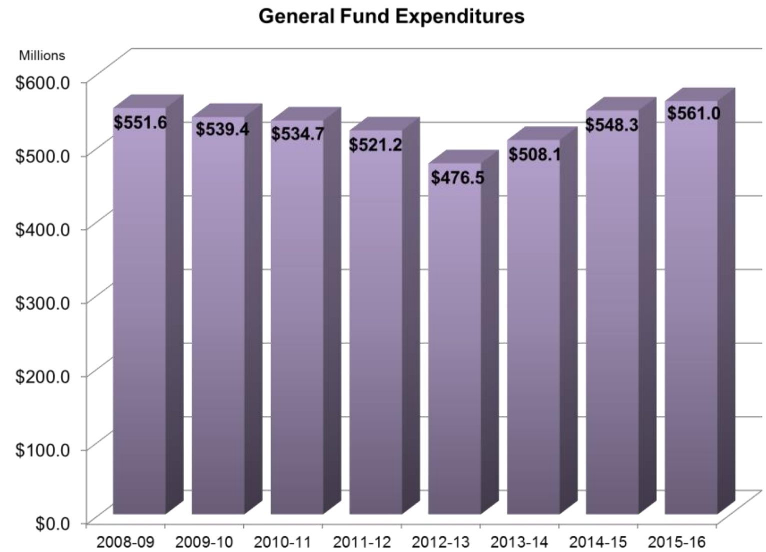
Key areas of unspent appropriations are detailed as follows:

- Actual cost recoveries from other funds to reimburse the general fund for County overhead exceeded budgeted expectations by $2.0 million, which has the effect of reducing expenditures by $2.0 million.
- The Vehicle Replacement Program expenditures were $2.0 million less than planned as the division experienced a transition in management, resulting in delayed vehicle purchases.
- The County had $9.8 million in unused appropriations primarily related to the transfer of funding and associated expenditures for medically indigent adults from the general fund to the the Health and Welfare Realignment Fund.
- Social Services had $9.5 million lower-than-budgeted expenditures due to a decrease in CalWORKS caseloads and associated entitlement payments and salary savings from vacancies due to recruitment challenges.
- The Health Department had unused appropriations of $11.2 million resulting from salary and benefit savings of $9.6 million predominantly in Clinic Services due to an overall high vacancy rate of 18% resulting from recruitment challenges and a delay of construction in expansion projects.
- RMA's expenditures were $3.3 million below budget, mostly attributed to salary and benefit savings for unfilled positions. Additionally, the CAO transfers funds for General Plan Implementation expenditures; the department received the funds as a reimbursement to offset expenses, which had the effect of reducing expenditures by $0.7 million.
- The Sheriff's Department had $1.6 million in unused appropriations. Of this amount, $924,760 was salary savings due to recruitment challenges. The department also had lower-than-planned expenses in its contract with Alameda County to house inmates, which resulted in lower-than-planned revenues to offset the unused appropriations.
- The Probation Department's expenditures were $2.0 million below budget due to lower program expenditures in adult probation under the Public Safety Realignment program, staff vacancies, and lower food and dining supply cost for the Juvenile Hall and Youth Center.
- Emergency Communications had $1.1 million in unused appropriations related to operations and maintenance costs due to the delay in the NGEN project. The delay was due to lengthy lease negotiations for two site acquisitions. The project completion has been delayed from September 2016 to February 2017.
- The Information Technology Department had unused appropriations of $619,684 due to delays in information

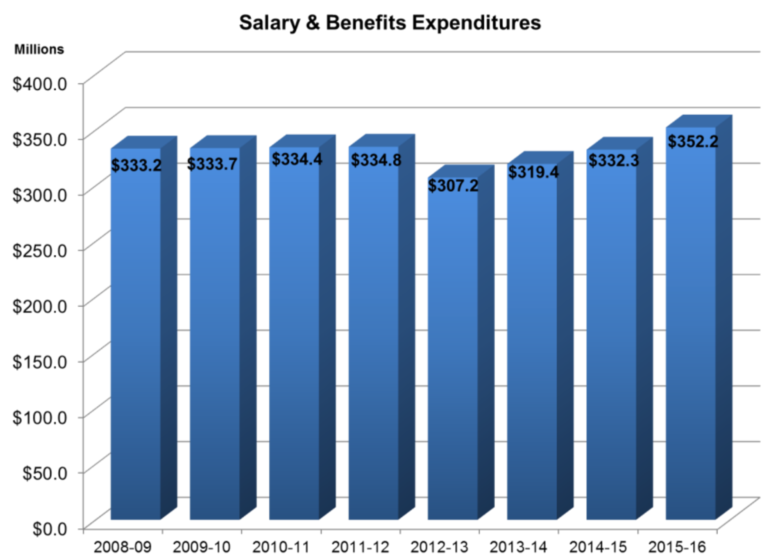
technology infrastructure projects, particularly the data center network redesign, resulting from additional planning and due diligence in comparing various vendors' technology solutions before the network area project is finalized.

- The remaining expenditure savings are from various departments and mostly attributed to additional salary and benefit savings of $4.8 million from position vacancies.

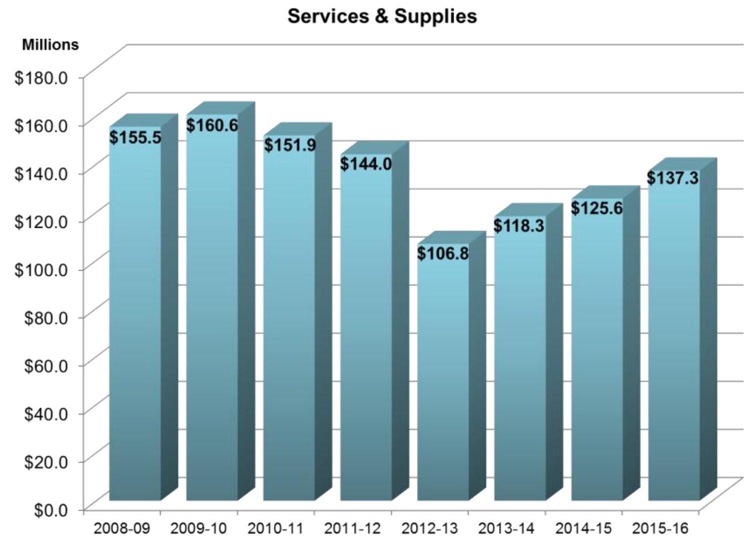
Although expenditures were significantly below budget, actual expenditures increased $12.7 million or 2.3% over the prior year. Major cost drivers impacting the cost over the prior year operations include increases to salaries, pension costs, and health insurance premiums. Additionally, the County has expanded services to accommodate state mandates and realigned services, adding 152 positions in the general fund since FY 2013-14. The additional staffing has increased salaries and benefits, as well as I.T. charges, general liability costs, and other position-driven costs.



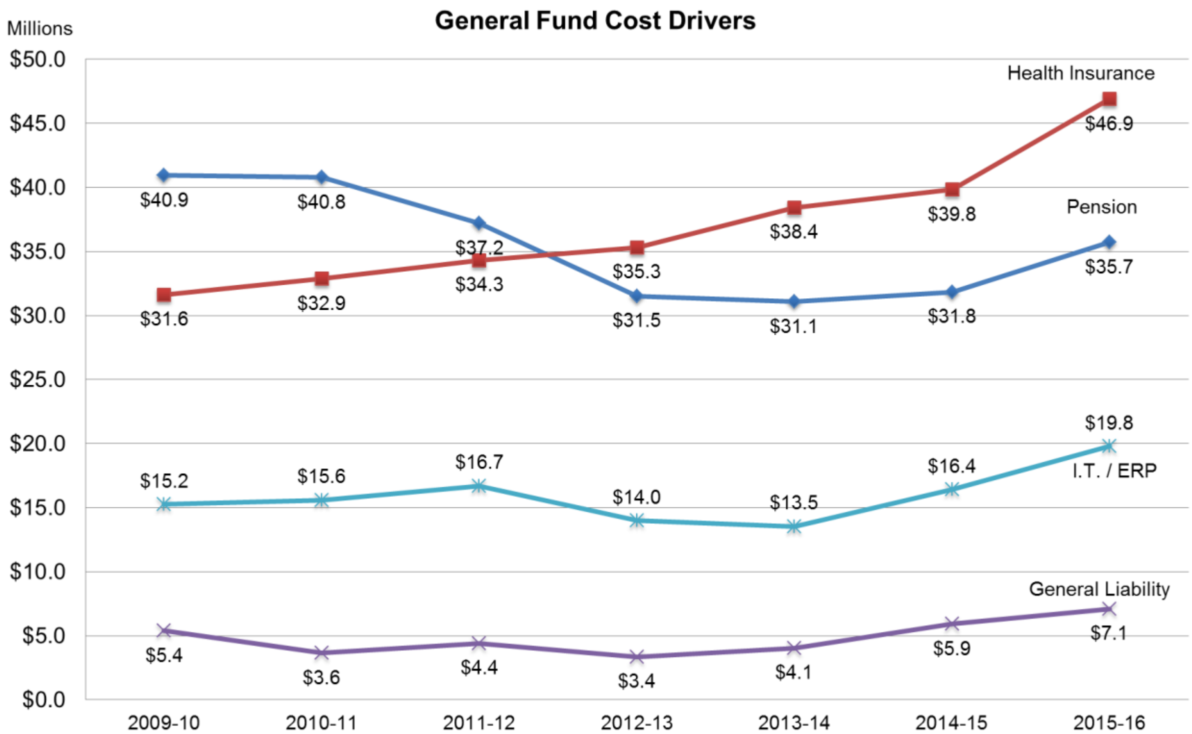
Staffing the various programs and functions under the County's responsibility is the largest cost, accounting for 58% of expenditures. Salaries and benefits were $19.3 million below budget, but increased $19.9 million from the prior year. About half of the increase is attributed to an increase in salaries due to step advancements, approved MOU increases, and position growth. The remaining half of this increase is due to cost increases in employee benefits, primarily pension and health insurance costs. Most departments had savings in salaries and benefits due to vacancies and retirements; however, about half of the savings can be attributed to vacancies in the Health Department due to an overall 18% vacancy rate resulting from recruitment challenges and the delayed expansion of clinics.



Services and supplies is another major cost, representing 22% of the County's expenditures. Services and supplies include contracted services, maintenance, rent, utilities, and various other departmental needs. Services and supplies were $8.1 below the final budget, but increased $11.7 million over the prior year actuals. Notable increases from the prior year include an increase in general liability insurance ($1.2 million), internal data and I.T. charges ($3.4 million), and an increase in outpatient services ($1.3 million) primarily for inmate medical care. Other notable increases in FY 2015-16 included a $2.4 million settlement for the jail lawsuit.



GENERAL FUND COST DRIVERS



Contributing to the growing expenditures are employee health insurance costs, retirement costs, internal data charges, and general liability insurance, which have all increased over the last few years.

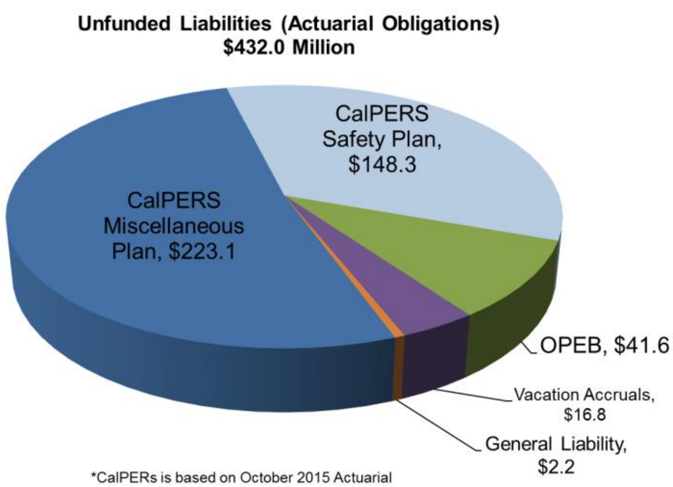
Employee Pension – In FY 2015-16, contributions to CalPERS for employee pensions increased $3.9 million or 12.2% over the prior year due to a change in CalPERS' actuarial methodology to accelerate payment towards agencies' unfunded liability and updated demographic assumptions based on its study showing members are living longer and have higher salaries than previously estimated, thus resulting in higher life-time benefits.

Health Insurance – County contributions towards employee health insurance increased $7.1 million over the prior year due to an increase in premiums of 21.26% for the PERS Choice plan beginning January 2016. The premium increase impacted the departmental expenditures in the second half of the fiscal year. The County will see the full year impact in FY 2016-17.

Information Technology / ERP – Data charges to departments increased $3.4 million in FY 2015-16. The FY 2015-16 budget included about $2.0 million in increased I.T. billings to departments to replace obsolete equipment and infrastructure. Additionally, the County is upgrading the outdated Enterprise Resource Program (ERP) system. The ERP upgrade cost in FY 2015-16 totaled $2.6 million, an increase of $1.0 million over the prior year. There were also cost increases for ERP maintenance, data access, and telecommunications.

General Liability - General Liability costs totaled $7.1 million, an increase of $1.2 million over the prior year. The increase in cost is attributable to the recoverable portion for defense and indemnity (compensation for damage or loss) costs which exceed the actuarial determined 70% confidence level funding. Factors that impact general liability cost are departmental claim history, increased payroll, and increased loss exposure. The General Liability program currently has an unfunded portion of $2.2 million, as discussed in the next section.

UNFUNDED LIABILITIES



The County's unfunded liabilities total $432.0 million, a decrease of $19.8 million over FY 2014-15. Unfunded liability is the amount, at any given time, by which future payment obligations exceed the value of funds available to pay them. Monterey County's future obligations include: CalPERS' pension obligations, Other Post-Employment Benefits (i.e., retiree health insurance), vacation accruals, and the unfunded portion of the General Liability Self-Insured Program.

The unfunded portion of employee pension obligations accounts for 86% of the unfunded liabilities. These pension plans correspond to the cost of providing defined retirement, disability, and death benefits to eligible employees. According to the latest CalPERS actuarial analysis dated October 2015, the County's total liability is $2.0 billion, with assets of $1.6 billion, resulting in a $371.4 million unfunded liability. The unfunded liability decreased $34.3 million over the previous year; the decrease is attributed to the higher retirement contributions, as discussed earlier, due to changes in CalPERS actuarial methodology which accelerated payment toward unfunded liabilities.

Vacation accruals represent the amount owed to employees for vacation pay that has been earned but has not been taken. When an employee separates from the County, the employee is due vacation accruals. In FY 2015-16, vacation accruals totaled $25.9 million, which is a $2.4 million decrease from the prior year. The County has reserved $9.1 million for vacation accruals, thus leaving an unfunded liability of $16.8 million.

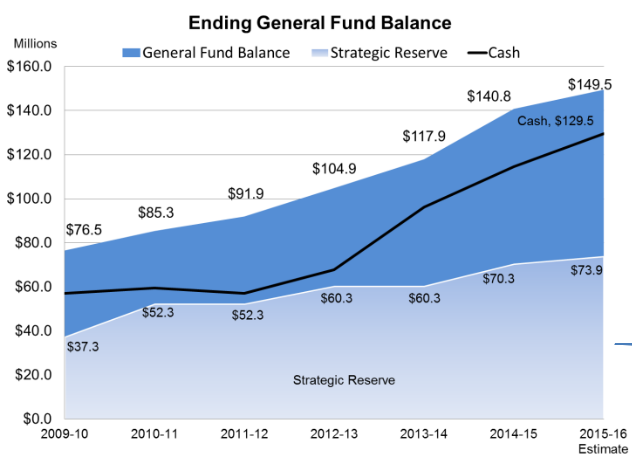
The County participates in the California Employer's Retiree Benefit Trust (CERBT) to provide a low cost, professionally managed investment vehicle for pre-funding retiree health benefits and Other Post-Employment Benefits (OPEB). Based on the latest actuarial as of June 30, 2015, the County's total liability is $61.4 million, with assets of $19.8 million, resulting in an unfunded liability of $41.6 million. The unfunded liability increased $16.8

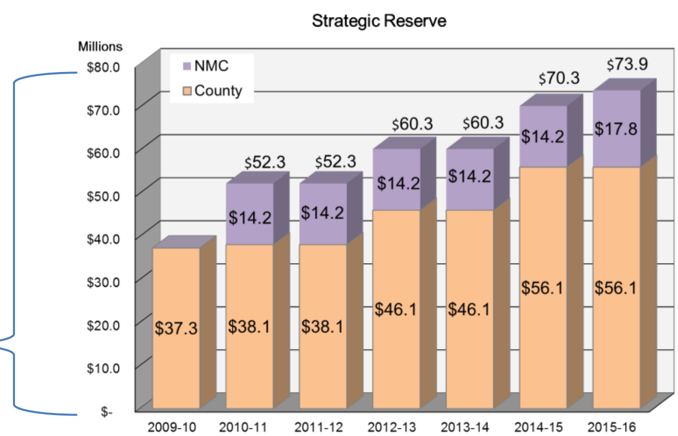
million over the prior year. The increase in unfunded liability is primarily due to a new assumption that was included in the June 30, 2015 actuarial to capture higher premiums for younger employees to subsidize older employees, who typically have higher claims. The County makes regular contributions to CERBT based on actuarial valuations obtained every two years.

The County's General Liability Self-Insured Program currently has an actuarially-determined deficit of $2.2 million, which is $2.3 million lower than prior year level of $4.5 million. Funding of general liability insurance program is determined by the County's actuary, and is based upon loss history and future exposure. The general liability insurance program has a funding policy of 70% confidence level. The improvement in the unfunded portion was due to the removal of the Hernandez vs. County of Monterey settlement, which was paid from the general fund rather than the General Liability Internal Service Fund.

While the County made progress toward decreasing unfunded liabilities in FY 2015-16, it is imperative to keep unfunded liabilities at the forefront of financial planning to preserve the County's operational capacity. With unfunded liabilities at approximately 76% of general fund revenues, the County must take steps to continue reducing liabilities to avoid future impacts to service levels and preserve strong credit ratings.

FUND BALANCE





Since the recession, the Board has strengthened financial policies to restore balance between ongoing revenues and expenditures and invested year-end surpluses in its strategic reserve and infrastructure needs. These investments have improved the County's ending fund balance each year, growing from $76.5 million in FY 2009-10 to an estimated $149.5 million at the end of FY 2015-16. The ending fund balance is an estimate based on preliminary financial data and is subject to audit.

The largest component of the fund balance is the strategic reserve at $73.9 million, or about half of the fund balance. Following the *Great Recession* and the detrimental effects of revenue and cash flow disruptions to local services, the County of Monterey committed to building a responsible strategic reserve to provide sufficient working capital and a margin of safety to address emergencies. In the ensuing recovery, the County prudently invested year-end operating surpluses to shore up the strategic reserve rather than using these one-time monies to support ongoing operational needs. Today the County's strategic reserve totals $73.9 million, which includes $56.1 million for the general fund and $17.8 million for the County hospital.

The strategic reserve includes a designation for Natividad Medical Center (NMC) as agreed upon by the Board and the NMC Board of Trustees. In FY 2015-16, NMC transferred an additional $3.6 million to the general fund strategic reserve, increasing the NMC designated amount from $14.2 million to $17.8 million. The County has a strategic reserve target of 10% of the total general fund revenues. Based on adopted general fund revenues of $588.7 million, the strategic reserve for the general fund should be at $58.9 million. The current general fund portion of the strategic reserve is $56.1 million (9.5% of general fund revenue) and $2.8 million below the policy target.

Preserving the strategic reserve protects the County's financial sustainability and service capacity. During the recession the County borrowed money to ensure enough capital was on hand to meet payroll and continue core operations as tax revenues fell and the State delayed revenue subventions. The strategic reserve helps ensure sufficient cash is available to continue operations during revenue "dry periods" and reduces reliance on short-term borrowing and associated costs. The strategic reserve has also contributed to the County's improved credit ratings, helping to earn favorable terms for financing critical infrastructure needs.

The remaining fund balance is made up primarily of funds assigned for strategic investments throughout the County, with significant funds ($18.0 million combined) reserved for the Jail addition, Juvenile Hall Project and other capital projects. Other significant fund balance assignments include $9.1 million to mitigate the County's liability for leave accrual payouts and $8.1 million for the Vehicle Replacement Program.

USE OF GENERAL FUND CONTINGENCIES

Board policy requires a general fund contingency appropriation in an amount equivalent to one percent of total general fund estimated revenue. The general fund contingencies appropriation may be used at the discretion of the Board in the event of revenue shortfalls or unanticipated expenditure requirements, and as a last option after all other potential funding sources and/or expenditure reductions have been explored. The FY 2015-16 Adopted Budget included a contingency appropriation of $5,399,351. Through the course of the fiscal year, six departments and the Water Resource Agency requested and were granted use of contingency appropriation funds. As detailed in the chart below, use of contingencies in FY 2015-16 totaled $5,363,600, resulting in a year-end contingencies balance of $35,751:

- County Counsel was granted $2.4 million in contingency appropriations for the Hernandez vs. County of Monterey jail lawsuit.
- Water Resources Agency was granted $1.5 million to fund design engineering, environmental studies, and permitting work for the Interlake Tunnel project.
- The Health Department received $500,000 in support of the health care coverage gap for uninsured residents.

Approved Use of Contingencies		
FY 2015-16 Adopted Budget General Fund Contingency Appropriation:		**$ 5,399,351**
Department	**Purpose**	**Amount**
Social Services	IHSS Provider Wages and Benefits	380,406
Auditor Controller	CenturyLink Loyal Advantage Agreement	272,000
Economic Development	FY 2015-16 Strategic Plan	200,000
Health	COPA -Healthcare Coverage Gap	500,000
County Counsel	Class Action Settlement Agreement	2,400,000
Water Resources Agency	Interlake Tunnel Project	520,379
CAO	Subtainable Groundwater Management Act	43,750
Social Services	Extended Homeless Services	76,065
Water Resources Agency	Interlake Tunnel Project	971,000
Total Use of General Fund Contingencies - FY 2014-15:		**$ 5,363,600**
	Year-End Contingencies Balance:	**$ 35,751**

- Social Services used $456,471 to support In-Home Supportive Supportive Services provider wages and benefits and also to expand homeless services.
- The remaining $515,750 went to the Auditor-Controller for data storage costs, to support the Economic Development Department's strategic plan, and to the CAO to fund the County share of developing a groundwater sustainability plan, as required by the State.

LOOKING AHEAD

County revenues have seen improvement every year since FY 2012-2013. However, it is prudent to be cautious in expecting the trend to continue as the current economic expansion has lasted 85 months thus far, which is well beyond the average of 60 months. The current expansion is the 4th longest in modern U.S. history. Economists are lowering economic forecasts as a result of weak Gross Domestic Product growth in the first two quarters of 2016 (0.8% and 1.4% GDP growth in the first and second quarter, respectively). Sluggish job growth is another indicator of a slowing economy; jobs grew 156,000 in September, which is below the 2015 average of 229,000 jobs. In addition, the County Assessor's biennial report revised downward the forecasted growth in assessed values from 5-6% (the assumption used to build the FY 2016-17 budget) to 3.9% growth for the unincorporated area due to the impact of low oil prices on oil properties. These indicators support continuation of the County's conservative fiscal approach to finances to avoid future disruptions to service levels.

In addition to the economic uncertainties, the County faces a number of unbudgeted costs in FY 2016-17. Only four months into the fiscal year, over $16 million in unbudgeted County costs have already been identified as a result of the Soberanes Fire, new bargaining agreements, additional jail security improvement costs, and a negative audit finding in the Office of Employment Training. The $16 million in unfunded needs is a preliminary figure and does not include the final tally of the Soberanes fire-related costs and potential costs related to the Interlake Tunnel project, jail and juvenile hall construction, disposition of the old jail, ERP project, and litigation related to the County's general assistance program. Over the next few months, staff will monitor and quantify these impacts and develop appropriate funding strategies.

SUMMARY OF GENERAL FUND PERFORMANCE

Year-end results of the general fund were affected by a number of events that took place in FY 2015-16:

- Final audited results indicate a beginning unassigned fund balance of $6.6 million.
- The County earned revenues totaling $570.3 million, which was $18.3 million below budget expectations.
- $10.7 million in fund balance assignments were cancelled (made available) to meet various planned one-time needs, most of which were for the new Juvenile Hall and Jail expansion projects.
- Expenditures ended at $561.0 million, which is $47.9 million below budget, but $12.7 million higher than the prior year.

FY 2015-16 Preliminary Year-End Results General Fund	Amount
Available Financing:	
Final Audited 2014-15 Ending Unassigned Fund Balance	6,615,413
FY 2015-16 Revenues (Adjusted)*	570,343,773
Cancellation of Assignments	10,732,768
Total Financing Available FY 2015-16	**587,691,954**
Financing Uses:	
FY 2015-16 Expenditures	561,000,998
Assignments for future use	13,416,482
Transfer to Strategic Reserve (NMC)	3,600,000
Transfer to Restricted Fund Balance	2,668,619
Total Financing Uses	**580,686,099**
Ending Unassigned Fund Balance	**7,005,855**

*Excludes $2,780,625 revenue to be reclassified for NGEN

- Due to the favorable results, the County added to its fund balance in accordance with Board-approved priorities identified during the FY 2015-16 budget process. Fund balance allocations totaling $17.0 million were made as follows:
  1. $450,000 in unused monies for the pilot project to provide laboratory, radiology, and pharmacy services to undocumented residents was reserved for future use.
  2. $1.3 million to replenish the General Fund Contingency assignment to the level of 1% of estimated

general fund revenues in accordance with Board policy.

3. $9.6 million to the General Capital Assignment in support of capital projects, including support to the security improvements at the Jail.
4. $500,000 to the Revenue Stabilization Assignment to help stabilize revenue for departments and / or agencies in the event of a revenue decline.
5. $837,582 for the Laguna Seca Track Assignment to ensure funds collected from track operations are reserved for track maintenance.
6. $712,939 to the IT Charges Mitigation Assignment for future countywide information technology needs.
7. $3,600,000 transfer from NMC to the general fund was reserved for the strategic reserve designated for NMC.

DEPARTMENTAL BUDGET PERFORMANCE

During FY 2015-16, Monterey County programs, services, and administrative functions were provided through 26 departments. Twenty-four of these departments receive funding from the County's general fund. Departments and major funds totally supported outside the general fund are discussed later in the report and include the Library, Road Fund, Natividad Medical Center, Parks Resorts, and Behavioral Health.

The annual budget as approved by the Board of Supervisors is the County's central financial planning document. As the County's operating plan, it is intended to embody the annual goals, objectives, priorities and levels of service and associated operating revenue and expenditures for all departments and agencies under the authority of the Board. With its adoption, the Board establishes a relationship between expenditures and revenues through which departments are expected to operate. Department Heads are responsible for managing their budgets within the total appropriation for their department. As established in the Board's General Financial Policies, expenditures shall not exceed appropriations and expenditures of the County's limited discretionary general fund contributions (GFC) will not exceed the amount approved by the Board. In the event that revenues fall short, departments are expected to take all available actions to re-establish a balance between revenue and expenditures, including development of service alternatives and mitigation strategies.

Unaudited year-end results indicate 17 departments ended the fiscal year below budgeted GFC by a combined total of $8.7 million and seven departments were over the budgeted GFC by $2.6 million. Therefore, overall FY 2015-16 results are favorable in comparison to previously adopted and modified budgets. The table that follows summarizes year-end GFC results by department, with departmental details provided later in this section.

Monterey County Budget End of Year Report

FY 2015-16

Dept	General Fund Contributions (GFC):			GFC Under/(Over) Budget:	
	Final Budget	Year-End Estimate	Actual	Estimate to Actual	Budget to Actual
Agricultural Commissioner	$3,597,179	$3,597,279	$3,685,879	($88,600)	($88,700)
Assessor-County Clerk-Rec.	$3,892,391	$3,892,391	$3,892,243	$148	$148
Auditor-Controller (Deptl)	$5,334,887	$5,042,204	$4,850,335	$191,869	$484,552
Board of Supervisors	$3,155,387	$3,069,081	$3,063,591	$5,490	$91,796
Child Support Services	($385,322)	($296,473)	($54,025)	($242,448)	($331,297)
Clerk of the Board	$827,025	$812,410	$714,806	$97,604	$112,219
Cooperative Extension Service	$417,654	$413,477	$400,222	$13,255	$17,432
County Admin Office (Departl)	$5,879,777	$5,917,016	$6,069,980	($152,964)	($190,203)
County Counsel	$7,419,668	$7,305,050	$7,083,005	$222,045	$336,663
District Attorney	$10,341,105	$10,513,554	$12,038,184	($1,524,630)	($1,697,079)
Economic Opportunity	$3,280,884	$3,272,142	$3,111,016	$161,126	$169,868
Elections	$4,488,031	$4,394,621	$3,577,698	$816,923	$910,333
Emergency Communications	$1,491,922	$1,466,759	($1,516,658)	$2,983,417	$3,008,580
Equal Opportunity Office	$827,597	$798,102	$792,194	$5,908	$35,403
Health	$4,249,826	$4,249,827	$4,122,705	$127,122	$127,121
Human Resources	$3,071,789	$2,911,698	$2,784,213	$127,485	$287,576
Information Technology	$0	$0	($702,940)	$702,940	$702,940
Parks	$2,202,910	$2,302,813	$1,927,612	$375,201	$275,298
Probation	$19,488,945	$19,597,617	$19,069,676	$527,941	$419,269
Public Defender	$10,718,902	$10,367,751	$10,723,121	($355,370)	($4,219)
Resource Management Agency	$14,266,458	$15,014,034	$12,510,734	$2,503,300	$1,755,724
Sheriff-Coroner	$53,622,425	$54,832,984	$53,822,225	$1,010,759	($199,800)
Social & Employment Services	$8,509,996	$8,509,996	$8,509,216	$780	$780
Treasurer-Tax Collector	$1,390,688	$1,202,473	$1,499,978	($297,505)	($109,290)
General Fund Department Totals [1]	**$168,090,124**	**$169,186,806**	**$161,975,009**	**$7,211,797**	**$6,115,115**

[1] Excludes countywide revenues and expenditures such as Non-Program Revenues, Other Financing Uses, Countywide Cost Allocation Plan (COWCAP) recoveries, Short-Term Borrowing, Prop. 172 Contributions, Trial Courts, & Contingencies.

GENERAL FUND YEAR-END RESULTS BY DEPARTMENT

Below is a department-by-department summary of year-end performance against budget and mid-year estimate.

Agricultural Commissioner

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$10,906,113	$9,996,296	$10,579,426
Revenues	7,308,934	6,399,017	6,893,547
GFC (Exp. - Rev.)	3,597,179	3,597,279	3,685,879
GFC Final Budget versus Actual:		Deficit	-88,700

The Agricultural Commissioner's final budget included $10.9 million in appropriations offset by $7.3 million in revenues and a general fund contribution (GFC) of $3.6 million. Year-end expenditures of $10.6 million were $326,687 less than budgeted mainly due to vacancies. Although the Department experienced an unexpected increase in Millage (MILL) property tax allocations, revenue was $415,387 below budget resulting in a deficit of $88,700. The deficit was a result of accrued contract revenue from the California Department of Pesticide Regulation in the amount of $55,956 and the California Department of Food and Agriculture in the amount of $32,744 which was not received within the 60-day accrual period, and will be counted as revenue in FY 2016-17.

Assessor-County Clerk-Recorder

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$8,087,735	$7,897,927	$7,824,883
Revenues	4,195,344	4,005,536	3,932,640
GFC (Exp. - Rev.)	3,892,391	3,892,391	3,892,243
GFC Final Budget versus Actual:		Surplus	148

The FY 2015-16 final budget for Assessor-County Clerk/Recorder included $8.1 million in appropriations, $4.2 million in revenue, and $3.9 million in GFC. Assessment and tax collection fees were less than anticipated due to lower reassessment services; therefore, revenues were $262,704 lower than budgeted and $72,896 lower than estimated. The decrease in revenue was offset with $262,852 lower than budgeted expenditures. Despite a significant mid-year increase in PERS retirement and healthcare costs, the Department reduced its spending in equipment and other services and supplies resulting in an overall GFC surplus of $148.

Auditor-Controller (Departmental)

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$6,020,973	$5,721,060	$5,294,163
Revenues	686,086	678,856	443,828
GFC (Exp. - Rev.)	5,334,887	5,042,204	4,850,335
GFC Final Budget versus Actual:		Surplus	484,552

The Auditor-Controller's final departmental budget included appropriations of $6.0 million, offset by $0.7 million in revenue and $5.3 million in GFC and included a mid-year appropriation increase of $272,000 from general fund contingencies to supplement Century Link Data Center costs which is the County's new cloud based financial data storage center. The Department's year-end expenditures were $726,810 below budget and revenue was $242,258 below budget, resulting in a GFC surplus of $484,552. The surplus was a result of $478,775 in salary savings due to three vacant positions and savings from the Century Link Data Center contract which experienced a delay.

Non-departmental units administered within the Auditor-Controller's budget provide for functions that meet a countywide need or responsibility, including the annual County audit, recovery of County overhead costs, debt service, and short-term borrowing. For these units the year-end actuals reflect a GFC surplus of $2,480,180, including $2.0 million in increased cost plan recoveries from other funds as reimbursement to the general fund for overhead expenses. In addition, the County did not need to issue Tax Revenue Anticipatory Notes (TRANs) due to its improved cash position discussed earlier.

Auditor-Controller (Non-Departmental)

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	-$5,068,550	-$7,228,095	-$7,548,730
Revenues	0	0	0
GFC (Exp. - Rev.)	-5,068,550	-7,228,095	-7,548,730
GFC Final Budget versus Actual:		**Surplus**	2,480,180

The Board of Supervisors budget funds the five individual district offices, as well as an operational unit for general Board expenditures. For FY 2015-16, the total budget was $3.2 million. Savings in salary and benefits, travel, and technology expenditures resulted in a year-end surplus across all units of $91,796.

Board of Supervisors

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$3,155,387	$3,069,081	$3,063,591
Revenues	0	0	0
GFC (Exp. - Rev.)	3,155,387	3,069,081	3,063,591
GFC Final Budget versus Actual:		**Surplus**	91,796

The Department of Child Support Services (CSS) is funded entirely through State and Federal subventions. The Department budgets a GFC surplus in anticipation of recovering County overhead costs from the State and Federal Government. Revenues were $465,158 lower than the budget due to a $72,182 decrease in anticipated recovery of overhead costs. In addition, $163,847 in accrued revenue was received after the close of the fiscal year. Year-end expenditures were $133,861 below budget as a result of salary savings from vacant positions.

Child Support Services

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$10,958,855	$10,832,137	$10,824,994
Revenues	11,344,177	11,128,610	10,879,019
GFC (Exp. - Rev.)	-385,322	-296,473	-54,025
GFC Final Budget versus Actual:		**Deficit**	-331,297

The Clerk of the Board's final budget for FY 2015-16 included appropriations of $847,025, $20,000 in revenue and GFC of $827,025. Revenue was $2,436 above budget due to an increase in assessment appeals applications, resulting in higher than anticipated collection of processing fees. Expenditures were $109,783 below budget mainly due to the under filling of a management analyst position, lower than anticipated purchases of hardware and software, and a decrease in equipment maintenance. In addition, a decrease in assessment appeals led to a decrease in mail handling costs. The Department ended the year with a surplus of $112,219.

Clerk of the Board

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$847,025	$832,410	$737,242
Revenues	20,000	20,000	22,436
GFC (Exp. - Rev.)	827,025	812,410	714,806
GFC Final Budget versus Actual:		Surplus	112,219

The final budget for Cooperative Extension included appropriations of $551,050, estimated revenues of $133,396, and a GFC offset of $417,654. Actual year-end expenditures totaled $514,574, offset by revenues of $114,352 and $400,222 in use of GFC resulting in a surplus of $17,432. Expenditures were reduced by $36,477 because the Department did not replace a vehicle as planned. Revenues were $19,046 less than budgeted due to reduced costs in the agriculture program which are reimbursed by the University of California.

Cooperative Extension Services

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$551,050	$532,615	$514,574
Revenues	133,396	119,138	114,352
GFC (Exp. - Rev.)	417,654	413,477	400,222
GFC Final Budget versus Actual:		Surplus	17,432

Business areas in the CAO's Office include Finance and Administration, Budget and Analysis, Contracts/Purchasing, Fleet Management, Intergovernmental & Legislative Affairs (IGLA), and Office of Emergency Services (OES). Total expenditures at year-end were $97,158 below budget due to partial year vacancies in Budget and Analysis, Fleet Administration, and IGLA. Revenues were $287,362 below budget due to lower than planned fuel and fleet service sales, therefore decreasing reimbursements, and reductions in OES State grant programs of $35,822.

County Administrative Office - Departmental

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$6,620,801	$6,291,066	$6,523,643
Revenues	741,024	374,050	453,662
GFC (Exp. - Rev.)	5,879,777	5,917,016	6,069,980
GFC Final Budget versus Actual:		Deficit	-190,203

The CAO non-departmental general fund units encompass non-operational functions including non-program revenue, administration of funds on behalf of other departments and/or funds, contributions to other agencies, and other countywide financing requirements. The FY 2015-16 final budget included $59.1 million in appropriations and $201.8 million in revenue (mostly the County's non-program revenue). Year-end expenditures were $11.8 million lower than budget primarily due to changes in statutes that eliminated the requirement for counties to deposit vehicle license fees monies into the general fund and then transfer them to the respective trust fund accounts. As a result, expenditures of $7.5 million budgeted for fund transfers were not needed. Additionally, there were $2.0 million in unused appropriations in the VAMP unit as vehicle replacements were less than anticipated. Trial court costs were $870,218 lower than budgeted due to a decrease in revenue collections for specific fines and fees which are shared with the State. Reported revenue exceeded budget by $3.1 million due in large part to $3.8 million in interest paid by the State for pre-2004 mandated claims.

County Administrative Office - Non-Departmental

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$59,053,252	$58,600,801	$47,259,220
Revenues	201,766,097	203,551,268	204,938,702
GFC (Exp. - Rev.)	-142,712,845	-144,950,467	-157,679,482
GFC Final Budget versus Actual:		Surplus	14,966,637

The County Counsel general fund units include: County Counsel administration and operations, Grand Jury, and Risk Management. General fund units were budgeted at $7.8 million in expenditures, with offsetting revenues of $393,665 and $7.4 million in GFC. Although revenues were $98,819 below budget, the Office had $435,482 lower expenditures. The reduction in expenditures is attributed to suspended soil testing related to the lakes' spill at Nacimiento and San Antonio. The testing was not necessary due to low water levels caused by the drought.

County Counsel

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$7,813,333	$7,633,603	$7,377,851
Revenues	393,665	328,553	294,846
GFC (Exp. - Rev.)	7,419,668	7,305,050	7,083,005
GFC Final Budget versus Actual:		Surplus	336,663

The District Attorney (DA) was budgeted at $23.7 million in expenditures, revenues of $13.4 million, and a GFC offset of $10.3 million. In FY 2015-16, the Auditor-Controller implemented changes to the accounting treatment of certain restricted revenue under GASB statement No.33 and directed the Department to recognize $189,626 in restricted revenue which was then transferred to restricted fund balance. Accounting for this change, the adjusted revenue was $11.5 million which was $1.8 million below budget expectations due to late receipts of State monies totaling $2.0 million. The delay in revenues was partially offset by $119,217 in unused appropriations, resulting in a deficit of $1.7 million.

District Attorney

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$23,695,763	$22,846,144	$23,576,546
Revenues	13,354,658	12,332,590	11,727,988
Adj. to Revenue*	0	0	-189,626
Adjusted Revenue	13,354,658	12,332,590	11,538,362
GFC (Exp. - Rev.)	10,341,105	10,513,554	12,038,184
GFC Final Budget versus Actual:		Deficit	-1,697,079

Recommendation: *Increase FY 2016-17 revenues by $2,021,062 in the District Attorney budget, representing amount received after the accrual deadline.*

The Economic Opportunity's FY 2015-16 budget included $3.3 million in appropriations, revenues of $4,265, and a GFC of $3.3 million. Year-end expenditures totaled $3.1 million, offset by revenues of $5,702 and a year-end GFC of $3.1 million. Overall, the Department ended with a surplus of $169,868 due to unrealized projects such as the City of Marina Dover-Kohl project, Salinas Housing Study and the HDL Medical Marijuana tax study which have been moved to FY 2016-17 or have ended.

Economic Opportunity

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$3,285,149	$3,287,069	$3,116,718
Revenues	4,265	14,927	5,702
GFC (Exp. - Rev.)	3,280,884	3,272,142	3,111,016
GFC Final Budget versus Actual:		Surplus	169,868

The FY 2015-16 budget for Elections included $5.5 million in appropriations, $1.0 million in revenue and $4.5 million in GFC. Year-end actual expenditures reflect an expenditure decrease of $0.8 million and an increase of $71,318 in revenue, resulting in a year-end GFC surplus of $0.9 million. The budget was forecasted based on all potential contests going to ballot. However, in the November 2015 and June 2016 election, not all districts had measures or candidates on the ballot. This resulted in lower expenditures for temporary staffing, ballot and pamphlet printing, and salary savings from temporary vacancies. Additional revenues came from districts which reimbursed associated election costs, including two special elections.

Elections

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$5,521,531	$4,826,121	$4,682,512
Revenues	1,033,500	431,500	1,104,814
GFC (Exp. - Rev.)	4,488,031	4,394,621	3,577,698
GFC Final Budget versus Actual:		Surplus	910,333

Actual year-end expenditures for Emergency Communications were $11.9 million, $1.1 million below budget and $1.0 million lower than estimate primarily due to delays in the NGEN project, which resulted in lower equipment maintenance and NGEN lease costs. Year-end revenues were $16.2 million; however, the Department erroneously recorded receipt of a $2.8 million grant in the general fund, when in fact, the funds should have been credited to the NGEN fund. After the correction, revenue is $13.4 million, or $1.9 million above budget. The positive revenue performance reflects revenue earned in FY 2014-15, but received late (in FY 2015-16). The additional revenue combined with expenditure savings from deferred equipment maintenance and leases resulted in a $3.0 million GFC surplus.

Emergency Communications

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$12,990,726	$12,911,915	$11,915,937
Revenues	11,498,804	11,445,156	16,213,220
Adj. to Revenue*	0	0	-2,780,625
Adjusted Revenue	11,498,804	11,445,156	13,432,595
GFC (Exp. - Rev.)	1,491,922	1,466,759	-1,516,658
GFC Final Budget versus Actual:		Surplus	3,008,580

The department plans to recover $1.4 million in revenue over the next two years through quarterly billings to user agencies for under-billed dispatch services. The department incorrectly omitted equipment and other costs for the dispatch center when billing user agencies for FY 2014-15 dispatch services and resulted in a net $1.4 million reduction to revenue over FY 2014-15 and FY 2015-16.

Additionally, the Department erroneously charged $845,506 of construction expenditures to the general fund that should have been paid from the NGEN project. The Department has the funds in a restricted revenue account earmarked for NGEN construction and will be transferring the monies into the general fund.

Recommendation: *Increase FY 2016-17 revenues by $845,506 in the Emergency Communications general fund budget, financed by a transfer in of $845,506 from the Restricted Revenue Fund 020, BSA 2886, to reimburse the general fund for expenditures related to NGEN.*

The approved budget for the Equal Opportunity Office (EOO) included $827,597 in appropriations. Actual expenditures for the year were $792,194. The Equal Opportunity Office relies solely on GFC to operate its office. The resulting year-end GFC surplus of $35,403 was primarily related to expenditure savings attributed to a vacant position.

Equal Opportunity

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$827,597	$798,102	$792,199
Revenues	0	0	5
GFC (Exp. - Rev.)	827,597	798,102	792,194
GFC Final Budget versus Actual:		**Surplus**	35,403

The final budget for the Health Department included $84.0 million in appropriations, $79.8 million in revenues, and $4.2 million in GFC. Actual expenditures were $11.2 million below budget, and $1.8 million lower than the year-end estimate. Delays in construction of expansion projects at both the Salinas and Seaside primary care sites and an overall high vacancy rate of 18% due to challenges with recruitments resulted in salary and benefit savings of $9.6 million compared to budget. Additionally in FY 2015-16, under guidance from the Auditor-Controller, the Department recognized and subsequently transferred $806,225 in unspent restricted revenue to a restricted fund balance account resulting in adjusted revenue of $68.7 million. The adjusted revenue was $11.1 million below budget due to reduced level of reimbursements related to the delayed expansion of primary care sites. The Health Department ended the year in a surplus of $127,121.

Health

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$84,016,600	$74,612,610	$72,841,667
Revenues	79,766,774	70,362,783	69,525,187
Adj. to Revenue*	0	0	-806,225
Adjusted Revenue	79,766,774	70,362,783	68,718,962
GFC (Exp. - Rev.)	4,249,826	4,249,827	4,122,705
GFC Final Budget versus Actual:		**Surplus**	127,121

The Human Resources Department final budget included $3.1 million in appropriations. Actual expenditures for the year were $2.8 million, or $292,548 lower than the final budget. The lower expenditures are attributed to the difficulty in filling two key positions, the Human Resources Director and a Supervising Personnel Analyst. The Department ended the year with a surplus of $287,576.

Human Resources

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$3,076,789	$2,911,698	$2,784,241
Revenues	5,000	0	28
GFC (Exp. - Rev.)	3,071,789	2,911,698	2,784,213
GFC Final Budget versus Actual:		Surplus	287,576

The Information Technology Department (ITD) is supported by charges to external customer and county departments, with no GFC. ITD's FY 2015-16 Budgeted appropriations were comprised of expenditures of $22.2 million and offsetting income of $21.5 million derived from internal County customer charges and external revenues of $684,120. Year-end actual expenditures of $20.9 million and revenue of $21.6 million resulted in a surplus of $702,940 due to lower-than-budgeted equipment purchases resulting from delayed ITD Capital Improvement Projects (CIP) such as wide area network infrastructure (WAN), HVAC replacement and Office 365. These funds have been assigned to fund balance to cover future costs for completing these projects.

Information Technology

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$684,120	$684,120	$64,436
Revenues	684,120	684,120	767,375
GFC (Exp. - Rev.)	0	0	-702,940
GFC Final Budget versus Actual:		Surplus	702,940

The Parks Department's final general fund budget included $6.2 million in appropriations, $4.0 million in revenue, and $2.2 million in GFC. Year-end expenditures were $244,854 below budget primarily due to salary savings from vacant positions. Year-end revenues were $30,443 above budget expectations, as a result of receiving revenues related to prior years' receivables from the Sports Car Racing Association of the Monterey Peninsula (SCRAMP). Overall, Parks ended the fiscal year with a GFC surplus of $275,298.

Parks

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$6,200,492	$6,325,098	$5,955,638
Revenues	3,997,582	4,022,285	4,028,025
GFC (Exp. - Rev.)	2,202,910	2,302,813	1,927,612
GFC Final Budget versus Actual:		Surplus	275,298

Probation

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$42,743,962	$42,830,414	$40,736,270
Revenues	23,255,017	23,232,797	21,666,594
GFC (Exp. - Rev.)	19,488,945	19,597,617	19,069,676
GFC Final Budget versus Actual:		Surplus	419,269

Probation's FY 2015-16 final budget included $42.7 million in appropriations, $23.3 million in revenue, and $19.5 million in GFC. Year-end expenditures totaled $40.7 million, offset by revenues of $21.7 million and $19.1 million in GFC. Actual expenditures were $2.0 million below budget due to unspent appropriations resulting from contractual savings, staff vacancies, and lower than planned program expenditures within the Public Safety Realignment program (AB109), due to the continued phased methodology of providing program services based on offenders released to local authority. Year-end revenues were $21.7 million which included revenue of $211,007 earned in FY 2014-15 but received in FY 2015-16. Revenue was $1.6 million below budget due to the reduction of revenue reimbursements generated by program service expenditures. The favorable year-end financial position is due to the Department's concerted financial management efforts to negotiate cost reductions in service and supply contracts together with management of vacancies and overtime. Overall, the Department ended with a positive GFC of $419,269.

Public Defender

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$11,202,835	$10,860,763	$11,202,458
Revenues	483,933	493,012	479,337
GFC (Exp. - Rev.)	10,718,902	10,367,751	10,723,121
GFC Final Budget versus Actual:		Deficit	-4,219

The Public Defender's final approved budget contained appropriations of $11.2 million which included an increase in appropriations of $286,000 to cover unanticipated expenditures due to an unforeseen retirement, with supporting funding from the Termination Assignment Account. Year-end actual expenditures were $377 below budget while lower State reimbursements accounted for revenues ending $4,596 below budget resulting in a deficit of $4,219.

Resource Management Agency

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$25,590,302	$26,101,852	$22,255,766
Revenues	11,323,844	11,087,818	9,745,032
GFC (Exp. - Rev.)	14,266,458	15,014,034	12,510,734
GFC Final Budget versus Actual:		Surplus	1,755,724

The Resource Management Agency's final budget included appropriations of $25.6 million, $11.3 million in revenue, and $14.3 million in GFC. Revenue was $2.3 million lower than budget, of which $0.7 million was associated with reimbursements related to various grants that were budgeted but not realized as the expenditures were not incurred. In addition, $1.6 million was budgeted as operating transfers-in to offset budgeted expenditures that also did not occur. In total, general fund expenditures were $3.3 million lower than budget, of which again $0.7 million was related to grant expenditures not incurred, $1.7 million was attributable to salary and benefit savings associated with vacancies, and $0.7 million was related to reimbursements for General Plan Implementation cost. The net result was a GFC surplus of $1.8 million.

The Sheriff-Coroner's Office FY 2015-16 final budget provided $90.8 million in appropriations which included a mid-year increase of $450,000 funded by the Termination Assignment to address unforeseen employee separations, $37.1 million in revenue and $53.6 million in GFC. Additionally, the budget includes a mid-year modification that included funding for 11 deputy positions and added six custody control specialists at an estimated cost of $1.7 million. In FY 2015-16, under guidance from the Auditor-Controller, the Department recognized and subsequently transferred $1.5 million in unspent restricted revenue to restricted fund balance, resulting in adjusted revenue of $35.4 million. The adjusted revenue is $1.8 below budget, and expenditures are $1.6 million below budget. The major factor impacting both revenue and expenditure is a $1.1 million reduction in expenditures under the service contract with Alameda County for inmate housing, which also impacted reimbursement revenue by $1.1 million. The Sheriff-Coroner's Office ended the fiscal year with a GFC deficit of $199,800.

Sheriff-Coroner

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$90,750,907	$90,862,879	$89,183,241
Revenues	37,128,482	36,029,895	36,854,737
Adj. to Revenue*	0	0	-1,493,721
Adjusted Revenue	37,128,482	36,029,895	35,361,016
GFC (Exp. - Rev.)	53,622,425	54,832,984	53,822,225
GFC Final Budget versus Actual:		Deficit	-199,800

The Department of Social Services (DSS) final budget included $182.3 million in expenditures, estimated revenues of $173.8 million, and a GFC offset of $8.5 million. Year-end expenditures totaled $172.8 million, which were $9.5 million below budget and $6.1 million less than the mid-year estimate. Reduced expenditures were due to a decrease in client aid within the Social Services entitlement CalWORKs Program, project delays in CalWORKs Employment Programs, and savings attributed to prolonged staff vacancies due to hiring challenges. Year-end revenues were $164.3 million, $9.5 million below budget and $6.1 million less than estimate, which correlates with the reduction of expenditures due to the Social Services reimbursement structure. Overall, the Department had a GFC surplus of $780.

Social and Employment Services

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$182,305,883	$178,895,044	$172,768,430
Revenues	173,795,887	170,385,048	164,259,214
GFC (Exp. - Rev.)	8,509,996	8,509,996	8,509,216
GFC Final Budget versus Actual:		Surplus	780

The FY 2015-16 Adopted Budget for the Treasurer-Tax Collector included appropriations of $7.1 million funded with $5.8 million in estimated revenue and $1.4 million from GFC. Actual year-end expenditures were $6.7 million, or $470,271 lower than budget. In FY 2014-15, the Department experienced an inadvertent delay in posting the fourth quarter true-up for treasury costs of $149,226 which were posted in the first quarter of FY 2015-16, reducing revenue by $149,229 and resulting in a deficit of $109,290.

Treasurer-Tax Collector

	Final Budget	Year-End Estimate	2015-16 Actual
Expenditures	$7,144,357	$6,852,001	$6,674,084
Revenues	5,753,669	5,649,528	5,174,106
GFC (Exp. - Rev.)	1,390,688	1,202,473	1,499,978
GFC Final Budget versus Actual:		Deficit	-109,290

OTHER MAJOR FUNDS

Library Fund

The Monterey County Free Libraries (MCFL) FY 2015-16 budget included $9.2 million in appropriations, $8.5 million in revenue and $0.7 million in fund balance use. Year-end expenditures were $10,303 below budget, but were $0.4 million over the mid-year estimate primarily as a result of four significant unanticipated building repair projects in Seaside, Big Sur, Greenfield and Carmel Valley, with a combined cost of $135,000. There were also additional costs of $258,000 for the ongoing San Lucas Library construction project. In addition, cost plan charges, primarily the cost of Infrastructure and Technology services also experienced a significant increase.

Monterey County Free Library (Fund 003)

	Final Budget	Year-End Estimate	2015-16 Actual
Beginning Fund Balance	$1,549,669	$1,224,476	$1,549,669
Revenue	8,530,424	8,914,566	8,474,577
Cancellation of Assign.	0	0	0
Total Financing Sources	$10,080,093	$10,139,042	$10,024,246
Expenditures	9,189,617	8,800,012	9,179,314
Provisions for Assign.	0	0	0
Total Financing Uses	$9,189,617	$8,800,012	$9,179,314
Ending Fund Balance	$890,476	$1,339,030	$844,932

MCFL ended the fiscal year with a $0.7 million use of its fund balance primarily for the capital improvement projects. The year-end fund balance is $0.8 million.

Road Fund

The FY 2015-16 adopted budget for the Road Fund was based on estimated annual revenue of $31.0 million and anticipated expenditures of $35.4 million. These estimates included various types of road, non-road, and bridge projects that RMA expected to conduct over the course of the fiscal year. The Road Fund ended FY 2015-16 with actual revenues of $20.9 million, or 18% below the mid-year estimate, and expenditures of $24.3 million, or 17% below the mid-year estimate. Additionally, in FY 2015-16 the adopted budget for construction in progress was $15.3 million and year-end expenditures totaled $3.1 million. The $12.2 million reduction in expenditures in construction in progress also resulted in a corresponding decrease in revenues and was primarily attributed to five projects that were delayed during the fiscal year. While it was estimated that the Road Fund would end the fiscal year with a fund balance of $664,827, the actual estimated fund balance is projected to be $1.2 million. On May 10, 2016 the Board of Supervisors' approved the deferral of the Blanco Road Overlay project in order for the financing source for this project, which consisted of $2.2 million from the FY 2015-16 Road Fund Transient Occupancy Tax allocation, to be used towards the costs of performing emergency repairs

Road Fund (002)

	Final Budget	Year-End Estimate	2015-16 Actual
Beginning Fund Balance	4,589,599	4,589,599	4,589,599
Revenue	31,044,655	25,475,367	20,935,550
Cancellation of Assignments	-	-	
Total Financing Sources	35,634,254	30,064,966	25,525,149
Expenditures	35,410,211	29,400,139	24,335,780
Provisions for Assignments	-	-	
Total Financing Uses	35,410,211	29,400,139	24,335,780
Ending Fund Balance	224,043	664,827	1,189,369

associated with 2016 Winter Storm events. Given the timing of when these funds were approved, not all of the $2.2 million was expended by June 30, 2016. The unspent funds are reflected as ending funding balance of $1.2 million.

Behavioral Health Fund

The Behavioral Health Fund is a special revenue fund effective July 1, 2012. The final budget included $105.6 million in appropriations, $97.0 million in revenues, and $8.6 million in use of fund balance. Year-end revenue was $15.1 million below budget, and $6.9 million below estimate. The lower than budgeted revenue resulted from longer than anticipated processing times for reimbursements at the State. Approximately $15.9 million in anticipated revenue was accrued but not recognized in FY 2015-16, as it was not received by the close of the accrual period. Most of this revenue is expected to be received by December 2016. Expenditures for the same period were $13.5 million below budget, and $0.3 million above estimate, resulting in a $10.2 million use of fund balance, $1.6 million above budget. The decrease in expenditures resulted from lower than anticipated contractual costs, unfavorable staff vacancy rates, and delayed facilities costs due to prolonged lease negotiations. The department used $10.2 million in fund balance and ended the year with a fund balance of $17.6 million, or $1.5 million below budget.

Behavioral Health Fund (Fund 023)

	Final Budget	Year-End Estimate	2015-16 Actual
Beginning Fund Balance	$27,754,476	$27,754,476	$27,754,476
Revenue	97,003,022	88,825,506	81,924,451
Cancellation of Assign.	0	0	0
Total Financing Sources	97,003,022	88,825,506	81,924,451
Expenditures	105,639,999	91,776,509	92,095,126
Provisions for Assign.	0	0	0
Total Financing Uses	$105,639,999	$91,776,509	$92,095,126
Ending Fund Balance	$19,117,499	$24,803,473	$17,583,801

Parks Lake and Resort

The Parks Lake and Resort Operations Fund is a County enterprise fund. An enterprise fund establishes a separate accounting and financial reporting mechanism, comparable to the private-sector, to report activity for which fees are charged in exchange for goods or services. Enterprise accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

The Parks Lake and Resort budget included $3.3 million in appropriations funded by $3.3 million in revenue, of which $2.6 million is operating revenue. The drought continues to negatively impact the financial results at the resorts with the number of visitors dropping by approximately 35% from the prior year. Year-end revenue was $2.4 million above budget partially due to an increase of $802,347 in operating revenues, as a result of unanticipated Lake San Antonio and Lake Nacimiento day use, camping, and resort activities. In addition, the Lakes management company reimbursed Parks $440,000 for prior year utility expenses. The Agricultural Commissioner transferred $500,000 for the Quagga Mussel Program; of

Parks- Lakes Resorts (Fund 452)

	Final Budget	Year-End Estimate	2015-16 Actual
Beginning Fund Balance	-$5,520,898	-$5,520,898	-$5,520,898
Revenue	3,302,235	3,457,698	5,659,350
Cancellation of Assign.	0	0	0
Total Financing Sources	$3,302,235	$3,457,698	$5,659,350
Expenditures	3,302,235	4,732,563	4,836,345
Provisions for Assign.	0	0	0
Total Financing Uses	$3,302,235	$4,732,563	$4,836,345
Change in Fund Balance	$0	-$1,274,865	$823,005
Restricted Fund Balance	$0	$0	$300,000
Ending Fund Balance	-$5,520,898	-$6,795,763	-$4,997,893

which $300,000 are restricted for use in FY 2016-17. Additionally, the Board of Supervisors approved a $614,678 transfer-in from the general fund to help offset the anticipated FY 2015-16 deficit.

Expenditures were $1.5 million higher than budgeted as Lake San Antonio incurred more expenditures than anticipated for on-going maintenance. Additionally, Lake Nacimiento salaries and operating expenditures came in higher than budgeted due to increased overtime and temporary help to assist during the peak season. Overall, the Lake and Resort Operations fund balance increased $823,005 in FY2015-16 of which $300,000 is restricted.

This preliminary analysis does not include depreciation expense, which is estimated at $864,000. After depreciation expense, the change in fund balance will further decrease by that amount.

Natividad Medical Center

Natividad Medical Center (NMC) is a County enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business organizations, where the costs of providing goods or services to the general public on a continuing basis is financed or reimbursed primarily through user charges.

The primary driver for revenue is patient (inpatient and outpatient) volumes and the type of payments received for services rendered. Patient volume adjusted for inpatient and outpatient services were favorable from budget by 1.0%. Services for inpatient care were 2.9% favorable from budget while outpatient services were unfavorable from budget by 0.5%. Total revenues of $259.5 million were favorable from budget by $40.2 million or an 18.3% improvement, resulting from a decline in the uninsured population and improvement with the payer mix.

Natividad Medical Center (Fund 451)

	Final Budget	Year-End Estimate	2015-16 Actual
Beginning Fund Balance	0	0	0
Revenue	219,310,539	239,194,109	259,477,084
Cancellation of Assign.	0	0	0
Total Financing Sources	$219,310,539	$239,194,109	$259,477,084
Expenditures	216,771,300	235,617,463	238,070,877
Provision for Assign.	0	0	0
Total Financing Uses	$216,771,300	$235,617,463	$238,070,877
Change in Net Assets	$2,539,239	$3,576,646	$21,406,207

The Final Budget for expenditures was $216.8 million, where the actual expenditures were $238.1 million; $21.3 million or 9.8% higher than budgeted. The increase was primarily driven by increases in labor costs and purchased services and supply costs based on the increase in patient volumes. Labor costs increased due to a higher acuity and premium pay in response to the increased volume. Services and Supplies expenses were above budget due to the increased volume in surgical procedures and due to the overall increase in patient volumes requiring additional patient supplies. The expenditures were consistent with strategies to enhance services fundamental to safe, reliable, and high quality patient care. During FY 2015-16, NMC celebrated one year as a Level II Trauma Center, opened an intermediate step down unit and completed the first phase of the medical/surgical unit refresh project adding an additional 20 beds.

Overall, revenues increased more than expenditures, which resulted in a change in net position of $21.4 million.

SUMMARY OF RECOMMENDATIONS

The County preliminarily ended FY 2015-16 with an unassigned general fund balance of $7.0 million. Based on the year-end general fund performance, the following actions are recommended:

Recommendations to Departmental Budgets:

1. *Increase FY 2016-17 revenues by $2,021,062 in the District Attorney budget, representing amount received after the accrual deadline, reimbursing the general fund for the GFC deficit in FY 2015-16.*
2. *Increase FY 2016-17 revenues by $845,506 in the Emergency Communications general fund budget, financed by a transfer in of $845,506 from the Restricted Revenue Fund 020, BSA 2886, to reimburse the general fund for expenditures related to NGEN.*