

First Quarter Update *of the FY 2017-18 Budget*



County Administrative Office
October 10, 2017

Current Fiscal Climate

- Budget adopted in June leveraged most remaining operational flexibility keeping up with wage increases, sharply rising employee benefit costs, and the ERP upgrade.
- Other than cannabis monies, all discretionary revenue has been allocated to help departments prevent operational/staffing impacts.
- In a fully leveraged budget environment, budget discussions center around public policy choices between competing priorities and redirection of existing resources to address priority programs and fiscal challenges.
- Since adoption, over \$13 million in unfunded needs have emerged.

\$13 Million + in Unfunded Needs

Unfunded Need	Duration	Amount
State Redirection of AB 85 Realignment Funds	Ongoing	\$5,876,001
Homeless Shelter in Salinas	Ongoing	760,518
Safe Parking Initiative	Ongoing	222,218
General Assistance Program Enhancement	Ongoing	776,143
Addition of 3.0 FTEs to Social Services for OET	Ongoing	78,000
Increase in CFMG Inmate Medical Care Contract	Ongoing	1,267,086
Public Defender Legal Costs for Capital Cases	One-time	2,633,500
WRA Interlake Tunnel Request	One-time	1,300,000
County Library Budget Shortfall	Ongoing	465,843
Expiration of 4.0 FTEs in Health After 12/31/17	Ongoing	166,891
Expiration of 3.0 FTEs in RMA After 12/31/17	Ongoing	<u>187,806</u>
Total		\$13,734,006

Budget Solutions: AB 85 Redirection

Transfer \$1.4 million in 1991 Social Services Realignment reserves to support the Nurse Family Partnership (NFP) and Maternal, Child, and Adolescent Health (MCAH) programs.

- The current reserve balance in social services realignment is \$3.8 million.
- W&I Code Section 17600 allows transfers between realignment fund accounts to give Counties flexibility to best serve needs of the community.
- The \$1.4 million transfer protects the NFP and MCAH programs.
- Prevents loss of 11 positions (5 filled) in the NFP and MCAH programs.
- A public hearing by the Board of Supervisors is required to approve the transfer between the two realignment accounts.

Budget Solutions: AB 85 Redirection

Purchase Seaside Health Clinic.

- The County could exercise its contractual option to purchase the new Health Department facility from Community Health Properties.
- Purchase price would be approximately \$13 million.
- The purchase would “free up” \$729,000 in annual lease payments and relieve \$6.8 million in health realignment fund balance previously earmarked for the purchase.
- Natividad Medical Center’s cash reserves are available to finance the purchase.

Budget Solutions: AB 85 Redirection

Other Health Department Solutions:

- Stop using \$450,000 in health realignment funds for primary care clinics.
- Transfer a public health nurse from a communicable disease unit and 4 staff from the targeted case management program to other functions.
- Do not fill 6 administrative vacancies.
- Discontinue \$51,516 of health realignment funding for community flu clinics (residents would have to get their shots from primary care provider, pharmacies, or other community providers).

Budget Solutions: AB 85 Redirection

AB 85 Solutions Affecting the Sheriff's Office:

- Reduction of 5 professional staff vacancies for savings of \$283,737.
 - Positions have been vacant for approximately one year.
- Reduction of 5 “sworn officer” vacancies for savings of \$838,793.
- Still leaves the Sheriff's Office with significant gains in filled staffing levels attained in recent years.
- Potential to avoid loss of vacancies if Sheriff's Office is successful in requesting an augmentation of AB 109 funds from the Community Corrections Partnership.

Budget Solutions: AB 85 Redirection

\$1.2 Million One-time Use of Health Realignment Reserves

- Even with these options, there would still be a \$1.2 million funding gap.
- Staff recommends closing the remaining gap by drawing down \$1.2 million in health realignment fund balance.
- Although use of fund balance is not sustainable, it allows staff time to carefully consider options for the next budget process to close the remaining gap.

Re-cap of AB 85 Redirection Solutions

AB 85 Redirection Solutions	
Transfer Realignment Funds to Protect WPC & MCAH	\$1,358,801
Exercise contract option to purchase Seaside Clinic	729,405
Stop using health realignment funds for clinics	450,000
Reassignment of position from Communicable Disease Unit	158,481
Redirection of Targeted Case Mgt Positions to WPC & MCAH	527,050
Elimination of Community Flu Clinics	51,516
Reduction of six administrative vacancies	239,700
Reduction of five professional vacancies in Sheriff's Office	283,737
Reduction of five "Sworn Officer" vacancies	838,793
Use of Health Realignment fund balance	<u>1,238,518</u>
Total	5,876,001

Budget Solutions: CFMG Contract

- The Sheriff's Office is in final contract negotiations for inmate medical care with California Forensic Medical Group (CFMG).
- The estimated full-year cost of the contract increases by \$1.9 million, as follows:

Current Contract:	\$7,965,881
New Contract:	9,221,158
Increase (annualized):	1,890,985

- The new contract includes a \$635,708 credit for transferring primary payer responsibility for inpatient medical care from CFMG to the County.
- Compared to budget, \$1.3 million more is needed in the current year (\$1.5 million annualized).
- Options to managing the increased cost include:
 - Recovering costs by enrolling inmates in the Medi-Cal Inmate Program (MCIP).
 - Reducing funding for this year's recruitments given historically low vacancy rates.
 - Decreasing spending for temporary help and overtime.
 - Seeking additional AB 109 funding from the Community Corrections Partnership.

Budget Solutions: Social Services Enhancements

The County is seeking remedies to some pressing community needs, including:

- A temporary homeless shelter utilizing the Public Defender modular building;
- Safe parking program to provide secure, overnight parking while ensuring health and safety;
- Enhancements to general assistance grants; and
- Addition of 3.0 FTEs to complete OET reorganization.

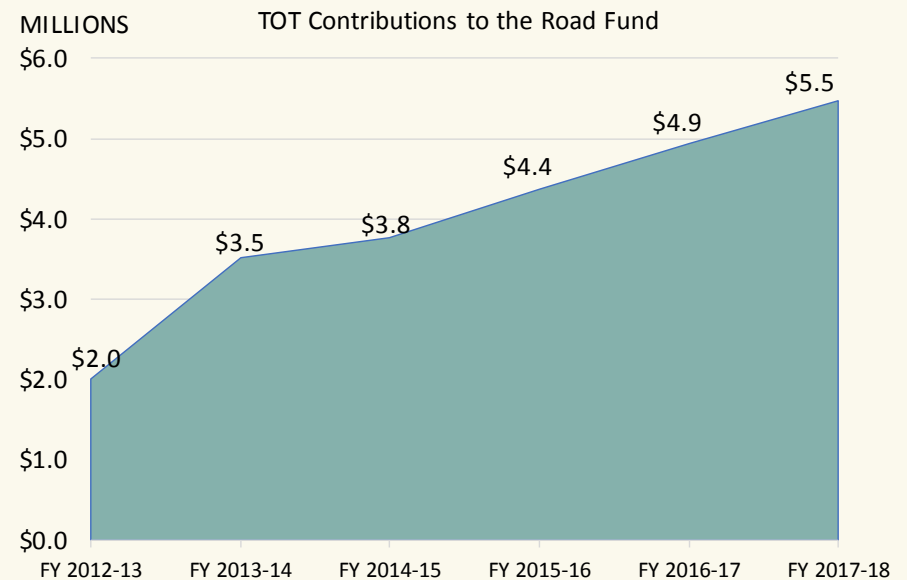
Unfunded Need	Duration	Amount
Homeless Shelter in Salinas	Ongoing	\$760,518
Safe Parking Initiative	Ongoing	222,218
General Assistance Program Enhancement	Ongoing	776,143
Addition of 3.0 FTEs to Social Services for OET	Ongoing	<u>78,000</u>
Total		1,836,879

The TOT Option to Fund the Homeless Shelter & Safe Parking Program

- The County could decrease discretionary TOT contributions to the road fund to the required MOE of \$4.1 million.
- In FY 2013-14, a new policy added a formulaic growth in TOT contributions to the road fund.
- TOT contributions to the road fund increased from \$2 million to \$5.5 million.
- Redirecting these funds from general fund departments reduced the Board's flexibility to address budgetary pressures, but provided relief for road repairs and helped offset the road fund's recent losses in gas tax revenue.
- Sizeable new road fund revenue streams offer an opportunity to revisit the formula, especially in a fiscally constrained environment.
- SB 1 provides an estimated \$99 million over 10 years (RMA estimates a partial year funding amount of \$2.9 million in the current year) while Measure X provides an estimated \$6.2 million this year.

The TOT Option to Fund the Homeless Shelter & Safe Parking Program

- TOT contributions to the road fund could be capped at \$4.1 million in FY 2017-18, representing the maintenance of effort (MOE) requirement.
- This would relieve \$1.4 million in TOT contributions for other purposes.
- \$1.1 million of these funds could be used for the homeless shelter, safe parking initiative, and other social services needs listed in the previous slide.
- The balance could be retained by RMA to support the two park ranger positions set to expire on December 31, 2017.
- The remaining unmet need in Social Services could be addressed with the potential \$270,000 contribution from the City of Salinas for the homeless shelter and, if necessary, by leaving some vacancies in Social Services unfilled.



“Watch List”

Other significant unmet needs budget staff are tracking include:

- An estimated \$2.6 million in potential extraordinary Public Defender legal costs to defend two capital cases;
- A potential request from WRA to reauthorize \$1.3 million in unused reimbursement authority for the inter-lake tunnel project;
- A potential Library budget shortfall of \$465,843; and
- Expiration of 4 animal care services positions after 12/31/17.

These issues are discussed in the staff report with recommendations to defer action pending additional information and analysis.

Outlook for Next Fiscal Year

- Re-balancing operations to meet these fiscal challenges is essential before beginning the next budget cycle, which is expected to be more difficult than the last.
- Next year is the third year of most bargaining agreements, with raises adding an estimated \$12.7 million in ongoing expense (\$9.1 million to the general fund).
- The County's required pension contributions to CalPERS will add another \$10.0 million in ongoing costs in FY 2018-19 (\$7.1 million for the general fund).
- Twenty-two positions were restored during the last budget hearings using \$1.6 million in one-time funding; permanent funding must be found to continue these positions beyond the current year.
- In summary, departments will face over \$24 million in additional costs next fiscal year (beyond the \$13.7 million in unfunded needs described earlier).

Summary of Fiscal Challenges

Unfunded Need	FY 2017-18 Unfunded	Ongoing Unfunded
State Redirection of AB 85 Realignment Funds	\$5,876,001	\$5,876,001
Homeless Shelter in Salinas	760,518	1,193,691
Safe Parking Initiative	222,218	222,218
General Assistance Program Enhancement	776,143	776,143
Addition of 3.0 FTEs to Social Services for OET	78,000	105,000
Increase in CFMG Inmate Medical Care Contract ¹	1,267,086	1,492,696
County Library Budget Shortfall	465,843	465,843
Public Defender Legal Costs for Capital Cases	2,633,500	-
WRA Interlake Tunnel Request	1,300,000	-
Expiration of 4.0 FTEs in Health After 12/31/17	166,891	333,782
Expiration of 3.0 FTEs in RMA After 12/31/17	187,806	375,612
Third Year of Employee Bargaining Agreements	-	12,735,386
PERS Contribution Increase	-	9,963,379
Restoration of 22.5 FTEs during June 2017 Budget Hearings	-	1,611,552
Total	\$13,734,006	\$35,151,303

¹. Ongoing amount equals new contract of \$9,221,158 plus \$635,708 in inpatient medical costs to now be paid outside the contract minus the current budget of \$8,364,170.

- In summary, unfunded needs total \$13.7 million.
- The ongoing unfunded need grows to \$35 million when next year's countywide increases are included.
- Annual discretionary revenue growth averaged \$3.6 million over the past 10 years.
- Some departments are able to claim additional state & federal reimbursement.
- Covering \$35 million in unfunded costs will be challenging.

Next Steps

- The options in the staff report solve emerging problems to keep the budget balanced.
- The Board could direct staff to return later this month with a report that puts these options into actionable recommendations.
- These are difficult issues with unpleasant solutions and the goal of good financial management exists side-by-side with other County values such as compassion and community engagement.
- Given these values, the Board could take an alternative approach of creating an ad hoc committee and leverage the executive leadership of the Assistant County Administrative Officers to engage stakeholders to revisit these and other solutions and report back with their recommendations.
- If this approach is desired, staff would only caution that the longer timeframe to implement solutions increases the size of the funding gap to be closed, so recommendations should be brought back for consideration as soon as possible.

Questions & Direction