

Board of Supervisors Budget Hearing



June 5, 2017

Budget Hearing Presentations

- Overview of the FY 2017-18 Recommended Budget – Administrative Office
- Public Comment on the Recommended Budget
- Departmental Presentations:
 - Economic Development – David Spaur
 - Auditor-Controller – Michael Miller
 - Assessor-Clerk/Recorder – Steve Vagnini
 - District Attorney – Dean Flippo
 - Public Defender – Susan Chapman
 - Sheriff's Office – Sheriff Stephen Bernal
 - Probation – Chief Marcia Parsons
 - Resource Management Agency – Carl Holm
 - Health Department – Elsa Jimenez
 - Social Services – Elliott Robinson
- Recommendations, Discussion, and Board Direction to Staff

Achievements

- Improving health outcomes & protecting vulnerable populations:
 - Began the *Whole Person Care* pilot to improve health outcomes through care coordination, case management, and data integration.
 - Started *Nurse Family Partnership Program* to support vulnerable first-time parents and their babies.
 - Increased primary care capacity at *Laurel Pediatrics Clinic* and completed construction of the new *Seaside Clinic* with visits beginning in July 2017.
 - *Natividad Medical Center* received recognition from the Leapfrog Group, a national organization promoting hospital safety, as a Top Hospital with an 'A' rating, showcasing the hospital's commitment to patient safety and quality of care.
 - *Social Services* developed a training & coaching program to reduce incidence & recurrence of child maltreatment, outperforming national & state incidence rates.
 - The *MC CHOICE* program continues to promote access to public assistance programs and deploy outreach workers to community centers & events to help residents apply for assistance.
 - Implemented programs serving homeless populations, including day-time services at *Dorothy's Place*, funding for the *Coordinated Assessment & Referral System*, and support of the *winter warming shelter* in Salinas and *Safe Place Shelter* on the peninsula.

Achievements (Continued)

- Managing infrastructure and protecting natural resources:
 - RMA developed storm water pollution prevention plans targeting pollutant hotspots.
 - RMA-Public Works continued work on 25 major projects including multi-year efforts such as expanding the jail (constructions bids were on budget), building a new juvenile hall, remodeling the East/West Wing of the historic courthouse (under construction), and making tenant improvements to Schilling Place (nearing occupancy).
- Promoting public safety:
 - Added \$24.0 million in appropriations, 67 filled sworn officers, and 27 filled custody specialists to the Sheriff's Office over the past five years while also spending \$9.5 million to implement jail safety improvements, including 275 state of the art cameras to improve security.
 - Probation continues to outperform its benchmark of adults and juveniles who successfully complete probation and also expanded housing capacity to homeless women through a collaboration with Shelter OutreachPlus and Turning Point of Central California.
 - The District Attorney has successfully enforced environmental laws & combatted fraud, increasing settlements by \$1.7 million (and counting) over the current year.

Strengths

- **Stable credit profile.** Moody's scores the County's existing debt as a "Aa3" rating, reflecting conservative financial management and a healthy financial position.
- **Strengthened financial position.** General fund operating reserves has nearly doubled from \$76.5 million in FY 2009-10 to \$148.9 million in the current year (including a strategic reserve of \$56.1 million for the general fund, positioning the County to weather recent natural disasters and other unplanned events. The County's hospital has also become profitable, with solid reserve levels.
- **Solid financial management.** Management has historically been conservative in estimating revenues and expenses and generally outperforms budget expectations, producing six consecutive years of year-end structural surpluses and helping to build reserves and invest in infrastructure.
- **Valuing our employees.** The Board recently authorized three-year agreements providing raises for most County employees and protecting employee benefits.
- **Contributing to the community.** Discretionary subsidies/investments for the betterment of the community include \$5.5 million to the County road program, \$2.9 million to fire agencies, \$1.6 million to incentivize cities to participate in the 911 center, \$1.9 million for agencies that promote tourism, \$595,000 for programs serving homeless populations, and \$179,622 to help the County library.

Weaknesses

- **Fiscal vulnerability.** With two-thirds of the County's general fund revenue coming from federal & state sources, decisions at these levels can dramatically influence County finances. Potential repeal of the Affordable Care Act (ACA) & the Medicaid expansion and the Governor's decision to eliminate the Maintenance of Effort (MOE) for In-Home Supportive Services (IHSS) are examples. The remaining third of general fund (discretionary) revenue is heavily dependent upon housing trends and tourism.
- **Economic vulnerability.** Monterey County lags behind the rest of the state in median family income (\$58,783 vs. state average of \$61,818) and unemployment (7.2% in April 2017 vs. state average of 4.5%) while having a higher cost of living. The County also lags behind the rest of the state in completing high school and pursuing higher education (pathways to higher paying jobs), a challenge exacerbated by the increasing cost of educational attainment.
- **Water.** Water is vital to local agriculture, development, and recreation. The future vitality of the region will depend on finding solutions to secure this resource.
- **Increasing personnel costs.** Staffing County programs is becoming increasingly expensive as pension burdens accelerate and employee health insurance premiums outpace inflation. Many County programs have seen a cycle of annual downsizing in staffing levels (mostly through attrition) in order to absorb rising personnel costs.

Opportunities

- **Skilled and diverse workforce.** The County has built a staffing infrastructure of over 5,000 employees with a rich diversity of backgrounds, language skills, training, and capabilities to perform the many functions of county government, from social work, to health care, public safety, infrastructure and natural resource protection, among many others. Our staffing infrastructure is the County's top asset and can be leveraged to take on new programs and responsibilities, as was the case in the recent realignment of state programs to counties.
- **Tourism.** Monterey County is renown for its natural beauty and agriculture, offering the potential to draw an increasing number of visitors by integrating tourism with opportunities for higher education and research, eco-recreation, agriculture, and wellness. In addition, the County can leverage its recreation areas and the Laguna Seca facility to increase visitors' "time of stays".
- **Agriculture.** As a dominant force in agriculture, Monterey County has the educational and research infrastructure to continue enhancing the global competitiveness of this sector.
- **New funding streams.** New sources of revenue are emerging such as transportation funding provided by Senate Bill No. 1 and Measure X. These funds can be leveraged to improve road infrastructure vital to quality of life for residents and support tourism, agriculture, and business development. Revenues from the new cannabis tax ordinance could provide some flexibility to address other local priorities.

Threats

- **Changing federal priorities.** The potential repeal of ACA and shift from domestic programs to defense could significantly impact programs serving the County's most vulnerable populations, while the Administration's stance on immigration impacts the community and local economy.
- **The state budget.** The Governor is eliminating the MOE for the IHSS program, impacting the County's share of cost for this entitlement program. Negotiations with the Governor's Office and legislative deliberations continue.
- **Litigation.** Recently \$4.0 million was authorized for Measure Z legal defense. Legal outcomes could have significant implications for County finances. In addition, legal discussions continue over current general assistance grant levels and potential adjustments for homeless recipients.
- **Cost pressures.** Costs continue to accelerate faster than revenues as a result of increasingly expensive employee benefits, raises, higher expenses in the general liability and workers' compensation programs, replacement of aging technology, and investment in infrastructure. Staffing costs have increased over \$100 million in the last five years and required contributions for employee pensions will increase dramatically over the next five years.
- **Maturing economy.** The economy has finished its eighth year of expansion, longer than most recoveries, increasing the likelihood of a recession in coming years. Proposals for new or expanded programs should take into consideration impacts to existing programs and staffing, bearing in mind that new commitments compete for the same resources as existing services and staffing.

Recommended Budget – All Funds

Recommended appropriations total \$1.5 billion next fiscal year, supporting a workforce of 5,278 positions.

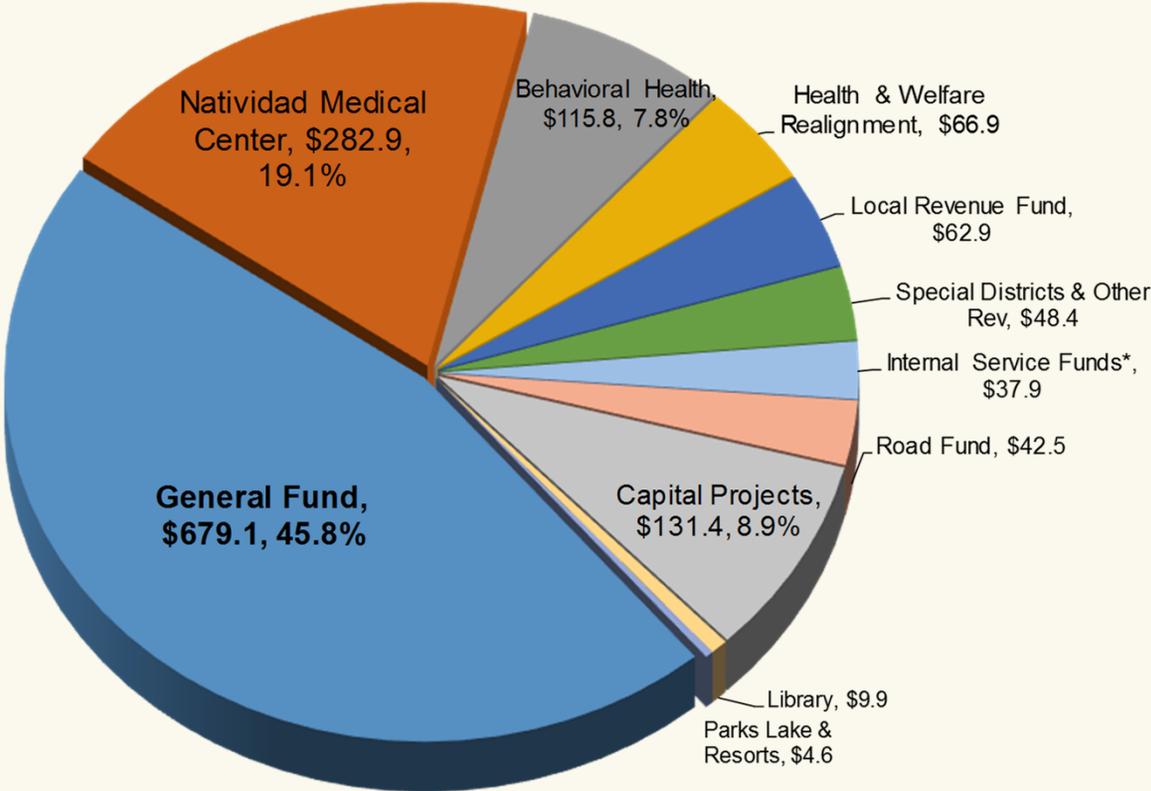
Expenditures increase \$117.1 million over the current year adopted budget, including:

- Bargaining agreements, higher employee benefit costs and additional positions;
- Implementation of *Whole Person Care* and expansion of health clinics;
- Construction costs for major capital projects & winter storm repairs;
- Transfer of Laguna Seca track expenses (and associated revenue); and
- Replacement of end-of-life technology equipment and software.

All Funds	2015-16 Actual	2016-17 Adopted	2017-18 Recommend
Expenditures			
Salaries & Benefits	\$ 553.1	\$ 606.4	\$ 636.7
Services & Supplies	318.7	359.7	366.1
Other Charges	94.6	81.7	89.3
Fixed Assets	45.8	137.1	155.8
Op. Transfers Out	146.4	175.5	228.0
Gain/Loss on Capital Assets	-	-	-
Contingencies	-	4.7	6.4
Total Expenditures	\$ 1,158.5	\$ 1,365.2	\$ 1,482.3
Revenues			
Taxes	\$ 188.7	\$ 191.4	\$ 207.5
Licenses, Permits & Franchises	20.5	21.8	22.8
Fines, Forfeitures & Penalties	9.8	11.8	11.0
State & Federal Aid	444.8	547.1	554.0
Charges for Current Services	338.4	322.5	359.7
Other Revenues	237.1	232.0	259.0
Total Revenues	\$ 1,239.3	\$ 1,326.6	\$ 1,414.1
Use of Fund Balance	\$ (80.8)	\$ 38.6	\$ 68.1
FTE Positions	5,059.5	5,213.7	5,278.4

Recommended Budget – by Fund

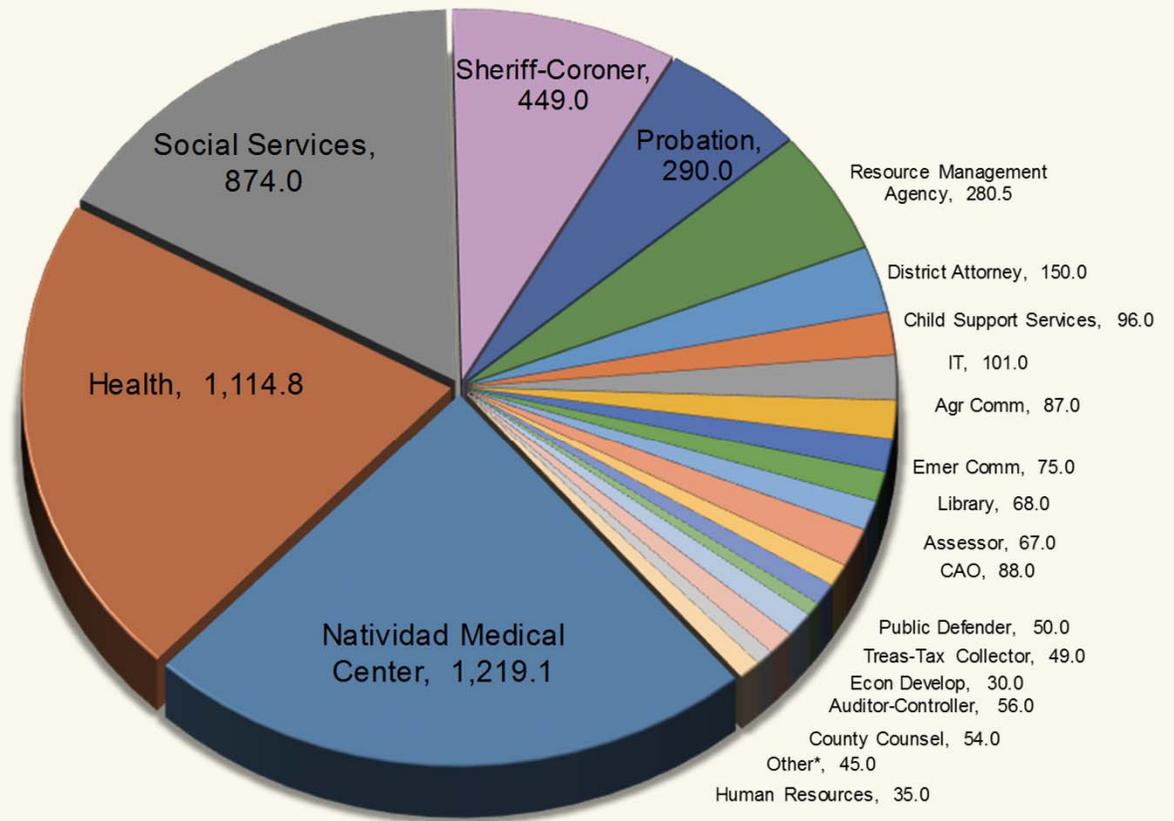
- The general fund is the County’s largest fund, with recommended appropriations of \$679.1 million, followed by Natividad Medical Center with appropriations of \$282.9 million.
- The County has three funds for tracking revenue associated with the most recent state-county realignment: the Behavioral Health Fund (\$115.8 million), Health and Welfare Realignment Fund (\$66.9 million), and the Local Revenue Fund (\$62.9 million).
- The County also maintains funds for various special districts and other legally restricted revenues, internal service funds, capital projects, the road program, County Library, and the Lakes Resorts.



* Includes programs for general liability, workers' compensation, and employee benefits.

Recommended Budget – Positions

- The recommended budget includes 5,278.4 positions, increasing by 64.7 positions since adoption of the current year budget.
- Over 60% of the County’s staffing resides in three areas: Natividad Medical center (1,219), Health (1,115), and Social Services (874).
- Year-over-year growth in positions is primarily at NMC and in the Health Department to serve an increasing number of patients in the County’s hospital and expanding health clinics.



* Includes the Board of Supervisors (20), Elections (12), Equal Opportunity (5), Clerk of the Board (5), and Cooperative Extension (3).

Recommended Budget – General Fund

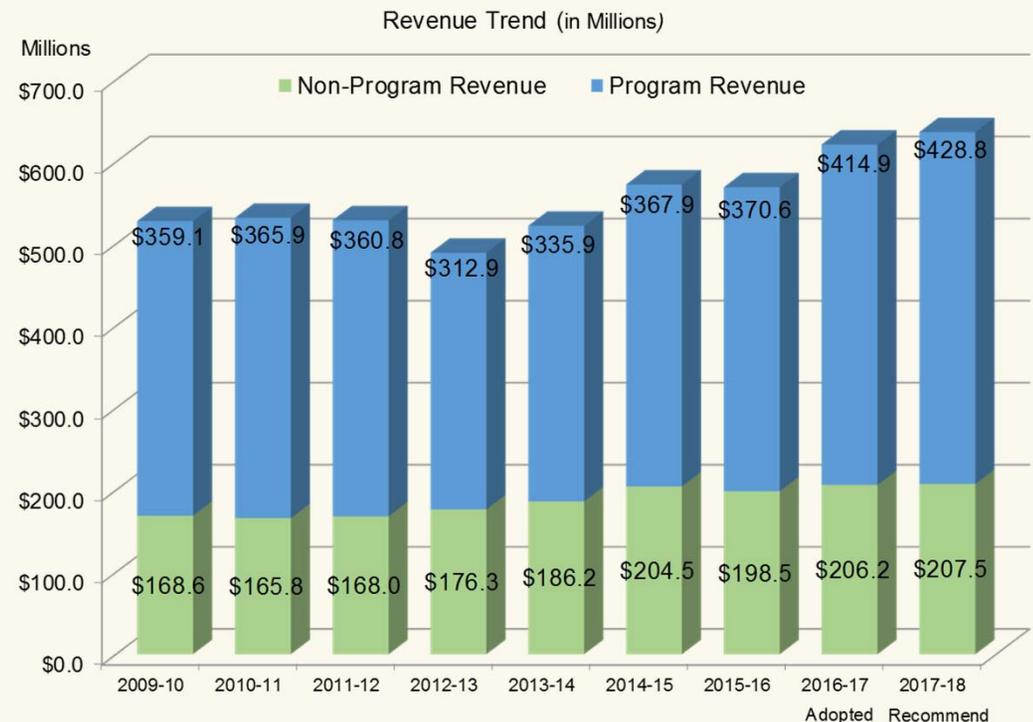
- Recommended general fund appropriations total \$679.1 million next fiscal year.
- Expenditures increase \$45.4 million over the current year adopted budget, with two-thirds of the increase attributable to:
 - Transfer of responsibility for Laguna Seca track operations (\$13.6 million) from the concessionaire (with offsetting revenues), and
 - Increased labor costs (\$15.2 million) from recent bargaining agreements & higher employee benefit expenditures.
- Other increases reflect continued expansion of health clinics, replacement of end-of-life hardware, the ERP upgrade, & funding for the annual appropriation for contingencies.

General Fund	2015-16 Actual	2016-17 Adopted	2017-18 Recommend
Expenditures			
Salaries & Benefits	\$ 352.2	\$ 392.5	\$ 407.7
Services & Supplies	137.2	146.1	167.3
Other Charges	23.3	27.0	33.6
Fixed Assets	10.7	10.5	9.9
Op. Transfers Out	37.6	52.8	54.2
Contingencies	-	4.7	6.4
Total Expenditures	\$ 560.9	\$ 633.7	\$ 679.1
Revenues			
Taxes	\$ 178.8	\$ 178.0	\$ 192.2
Licenses, Permits & Franchises	20.3	21.8	22.0
Fines, Forfeitures & Penalties	8.7	9.2	8.5
State & Federal Aid	192.8	219.7	209.6
Charges for Current Services	70.4	77.8	80.4
Other Revenues	99.3	114.6	123.6
Total Revenues	\$ 570.3	\$ 621.1	\$ 636.3
Use of Fund Balance	\$ (9.3)	\$ 12.6	\$ 42.9
FTE Positions	3,352.0	3,453.8	3,441.1

*Numbers may not add up due to rounding.

General Fund Revenue Trend

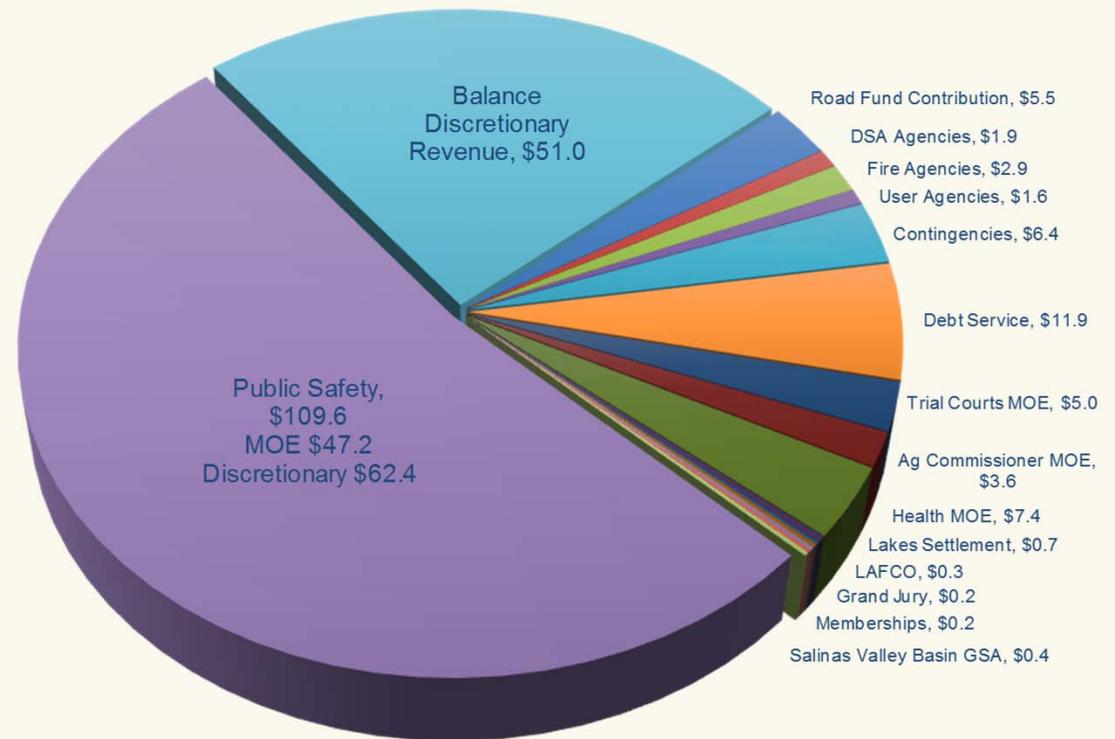
- General fund revenue includes both program-specific revenue and discretionary “non-program” revenue.
- Both types of revenue have been increasing:
 - Program revenue primarily comes from state & federal aid & fees for service and has grown \$116 million over the last five years to support state-county realignment; and
 - discretionary revenue comes primarily from property taxes & TOT and has grown \$31.2 million over five years.



- The Board allocates discretionary revenue as “County contributions” to help support departmental operations and other agencies.
- Annual growth in discretionary revenue is allocated as augmentations to help departments keep up with rising costs and to fund local priorities.

Discretionary Revenue Requirements

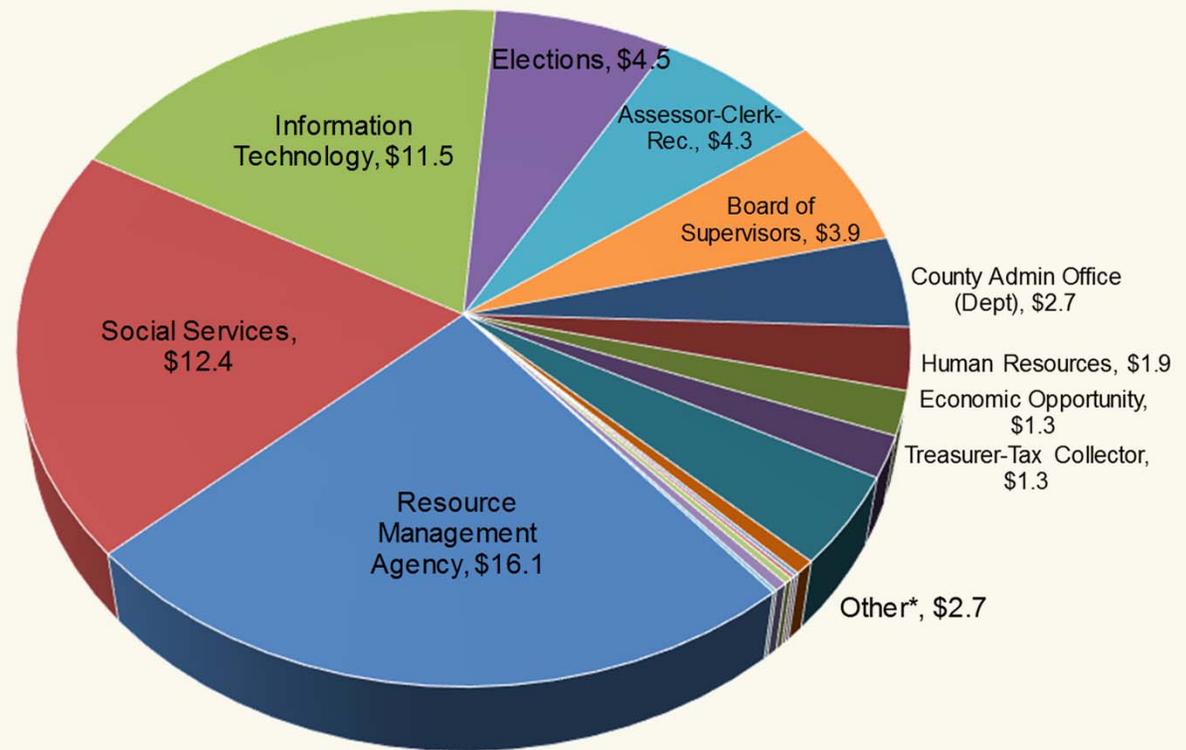
- The chart at right highlights how the County uses its discretionary general fund revenue. Major uses include:
- \$109.6 million supports public safety, including the Sheriff's jail and patrol operations, the probation department, district attorney, public defender, and 911 dispatch.
- Other commitments include: \$5.5 million to subsidize the road fund (increased from \$2 million in FY 2012-13), \$1.9 million for development set-aside agencies (MCCVB, Film Commission, Arts Council), \$2.9 million to help local fire agencies, \$6.4 million for the annual appropriation for contingencies, \$11.9 million for annual debt service, and various contributions to meet MOEs & other obligations.



Note: Discretionary revenue in this chart totals \$208.8 million and includes non-program revenue (excluding one-time solar flats revenue) and discretionary uses of Proposition 172 sales tax revenue to subsidize fire agencies and emergency communications user agencies (cities and districts).

The Balance of Discretionary Revenue Goes To...

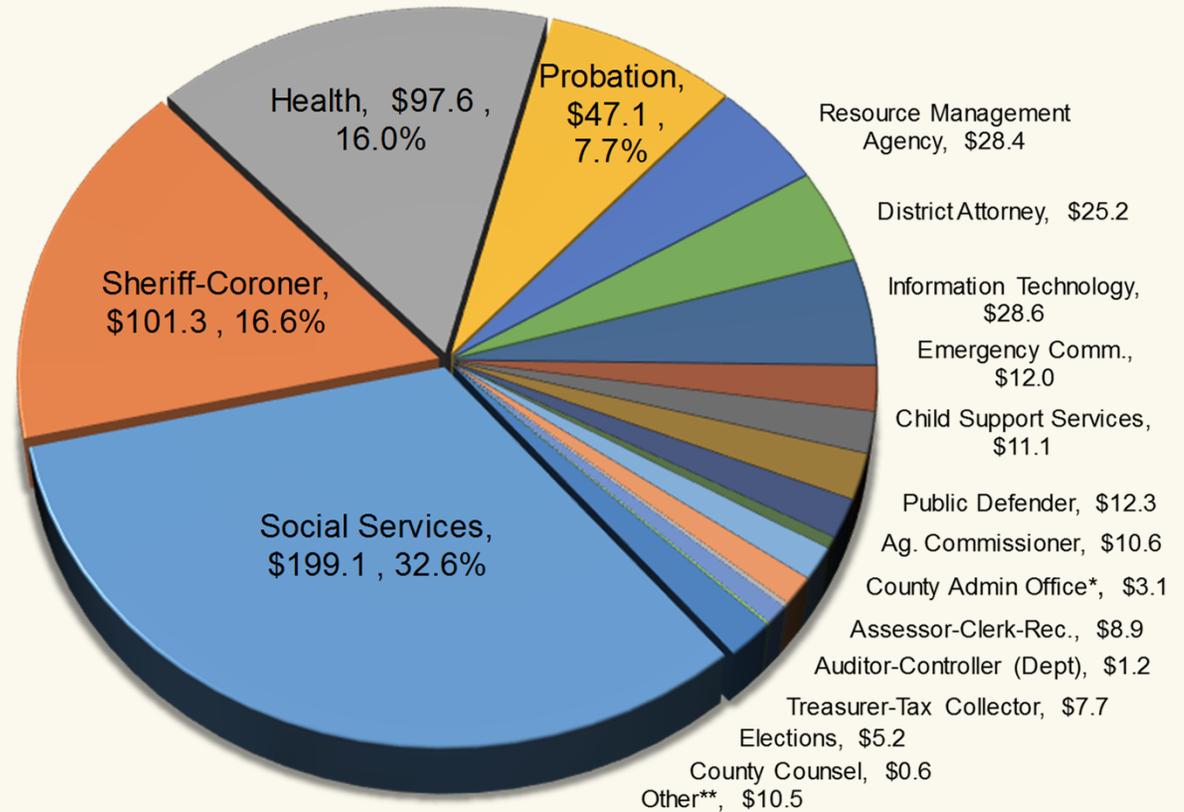
- After meeting obligations (required by law or policy), the remaining discretionary revenue is allocated to departments in the form of County contributions.
- Social Services receives most of its financing from federal & state sources and uses its County contributions to meet matching requirements and fund local priorities.
- Organizations such as the RMA, Elections, IT, Treasurer, and Assessor-Clerk/Recorder receive a mix of County contributions and program-generated revenue, while others (Auditor-Controller, HR, & CAO) depend entirely on County contributions or cost plan recoveries for their support.



*Other includes County Counsel \$115,715, Equal Opportunity \$178,534, Health \$405,019, Cooperative Ext \$420,478, Auditor-Controller \$719,073, and Clerk of the Board \$706,634.
 Note: In some departments GFC is composed of discretionary revenue and fund balance used to fund augmentations

General Fund Appropriations

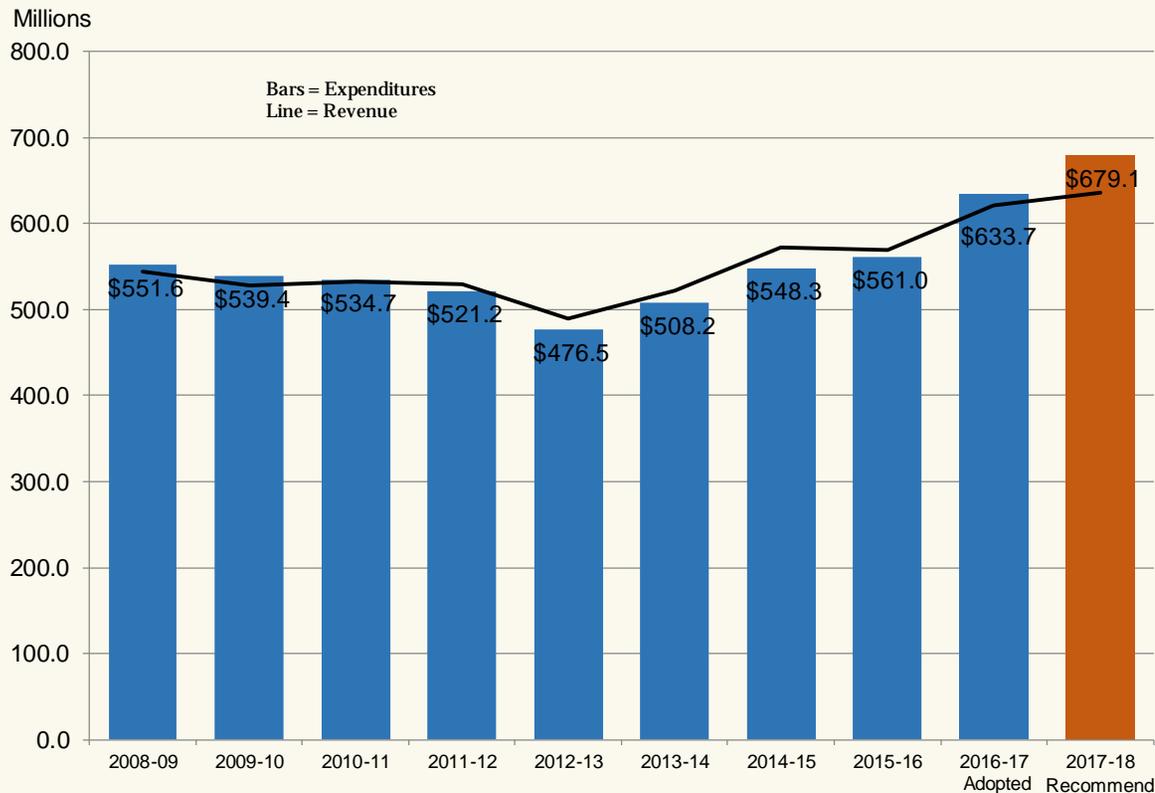
- General fund appropriations total \$679.1 million and are budgeted in 23 departments.
- More than three-quarters of these appropriations are budgeted in three functional areas: health, social services, and public safety.



* Excludes non-departmental costs.

**Includes Human Resources, Board of Supervisors, Clerk of the Board, Economic Opportunity, Equal Employment Opportunity, & Cooperative Extension. Chart excludes non-departmental costs such as bond payments, trial courts, contributions to fire districts and other agencies, inter fund transfer reimbursements for I.T., and various miscellaneous

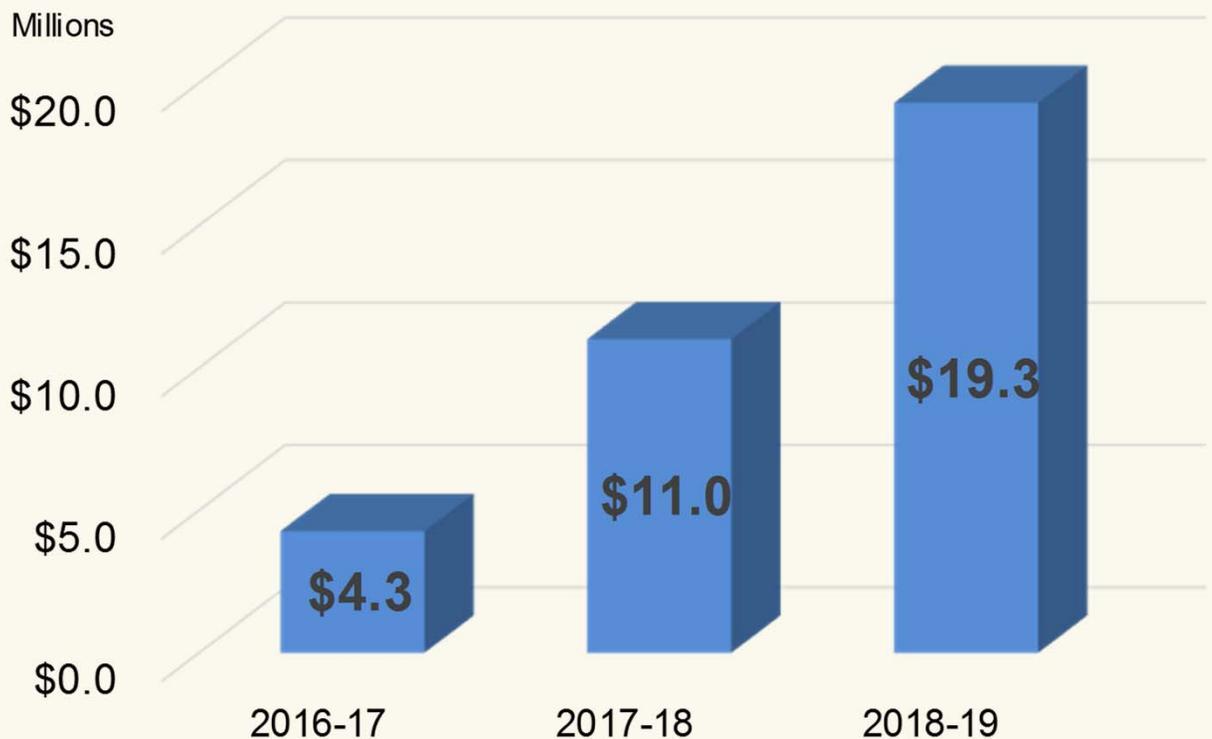
General Fund Appropriations



- Recommended expenditures increase by \$45.4 million over the current year adopted budget, reflecting a five-year trend of increasing spending levels.
- The growth trend reflects costs associated with state-county realignment and rising costs for salaries, employee benefits, technology infrastructure, the workers' compensation and general liability insurance programs, and other fiscal pressures.
- Revenues are not keeping up with demands for new and existing expenditures.

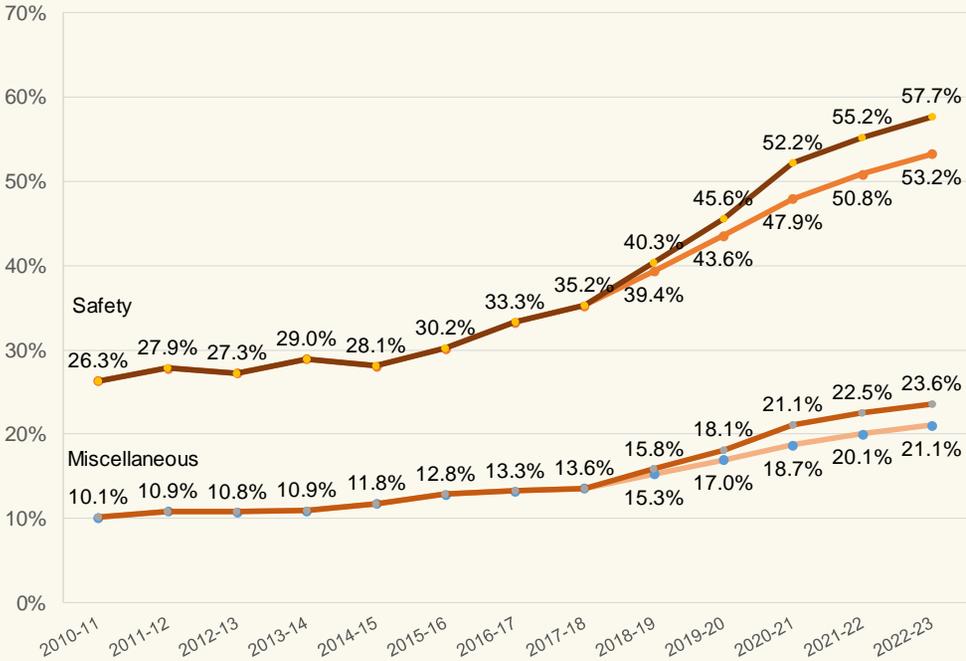
Bargaining Agreements

- Most labor associations signed three-year agreements after the current year budget was adopted.
- Most employees will receive raises totaling 7-8% over three years while the County picks up benefit cost increases.
- The agreements add \$11.0 million in costs by next fiscal year (compared to the current year adopted budget), growing to \$19.3 million by FY 2018-19.



Pension Obligations are Accelerating

Rates Expressed as % of Payroll

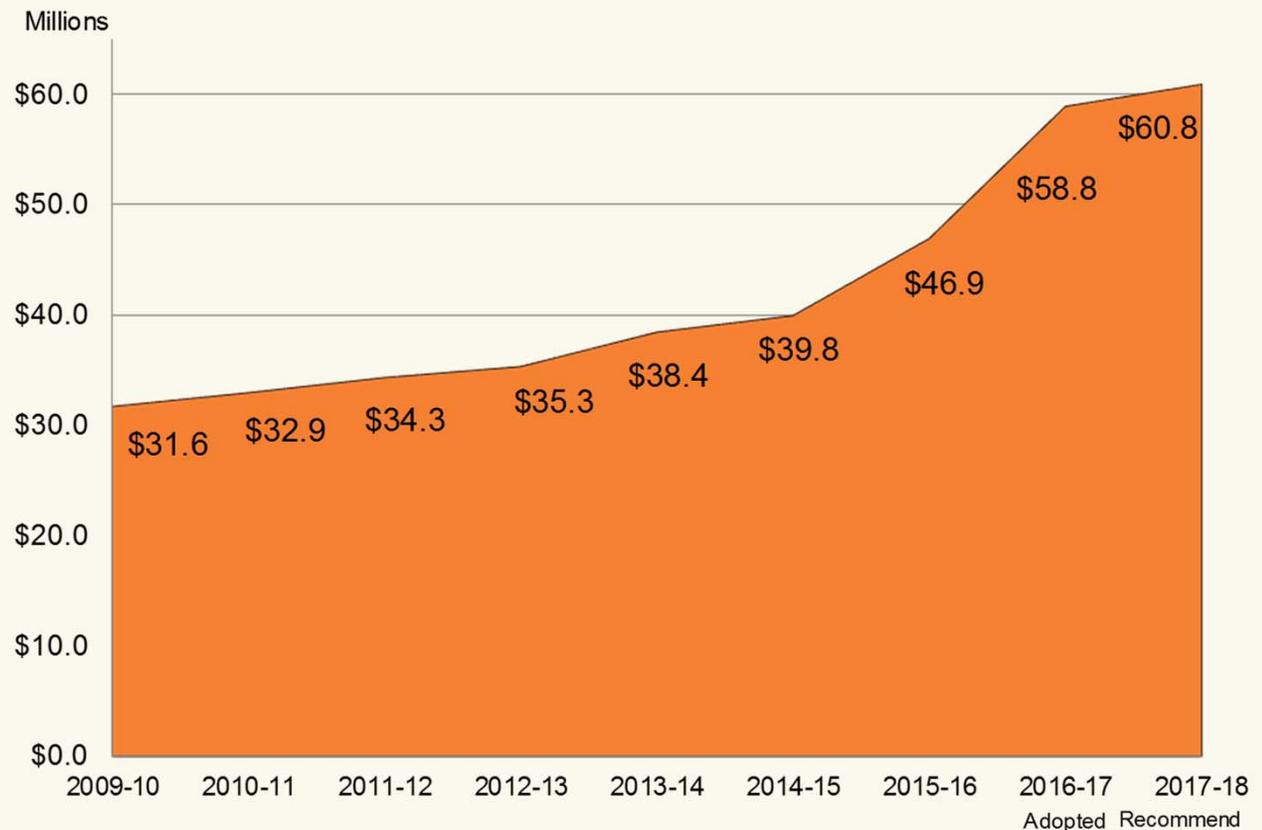


General Fund Cost



Employee Health Premiums

- Employee health is a growing part of employee compensation and significant cost pressure, nearly doubling in expenditures since the recession.
- The FY 2017-18 budget is built on the 3.1% premium increase that went into effect January 1, 2017.
- The 3.1% is modest compared to the 21.3% premium hike in January 2016.
- The estimated \$60.8 million in health premiums does not take into account the unknown increase coming January 1, 2018.



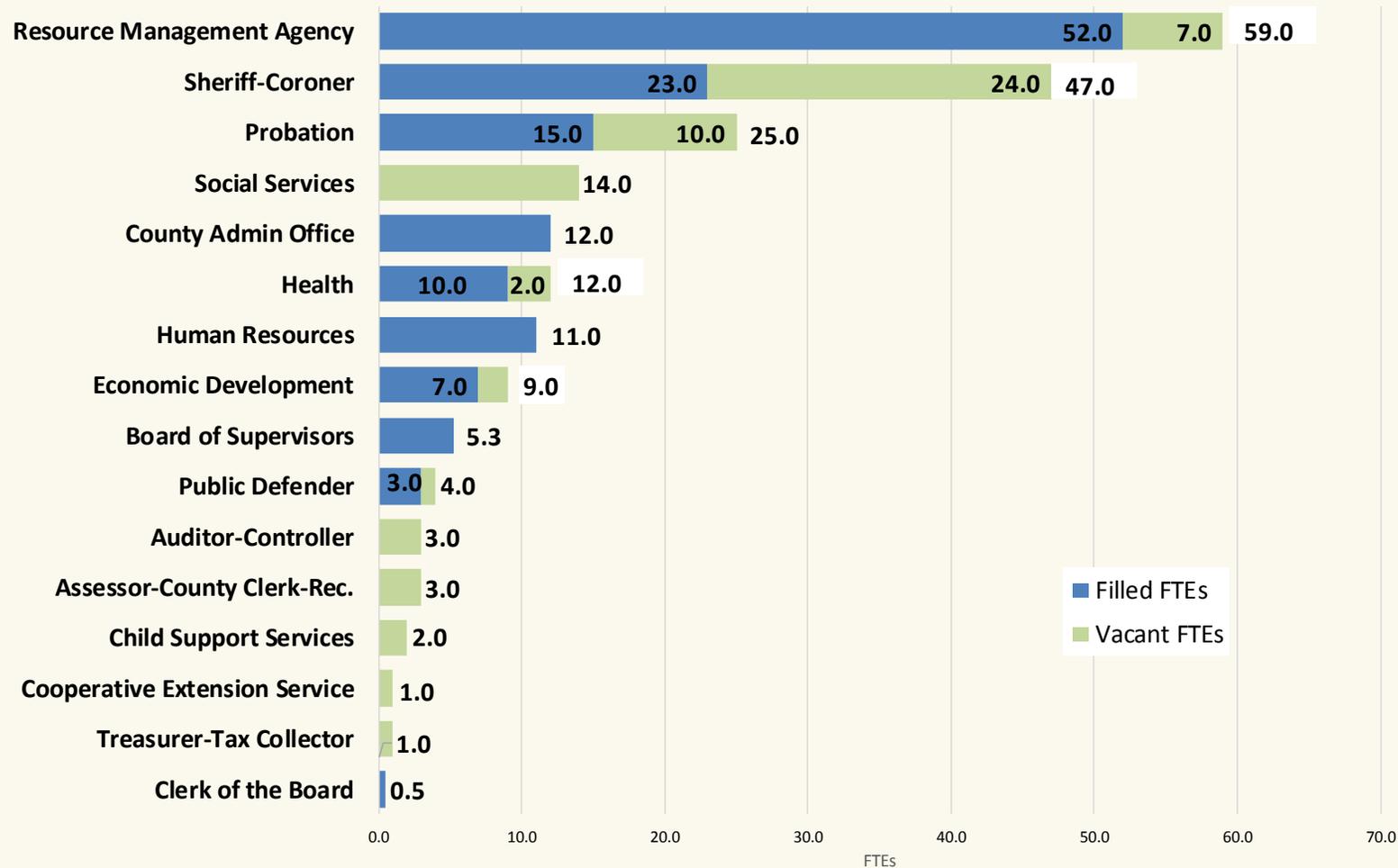
Other Cost Pressures

- Next year's ERP upgrade charges to general fund departments total \$7.8 million and include \$5.1 million deferred from FY 2016-17 (the recommend budget uses operating reserves to cover the deferred charges).
- \$4.2 million is included in next year's budget to replace end-of-life hardware to avoid work disruptions.
- The recommended budget includes an extra \$1.2 million to meet funding requirements for the general liability program and another \$1.3 million for the workers' compensation program.
- \$7.3 million is included in the recommended budget for storm-related repairs, financed from reserves as authorized in March 2017.

Effects to Departmental Operations

- Most departments cannot afford their current operations and staffing next fiscal year without augmentations in County contributions due to inflationary pressures.
- In prior budget cycles, departments exhausted much of their discretionary spending to keep up with these fiscal pressures.
- Consequently, increases in cost next fiscal year translate into funding gaps for supporting existing staffing.
- In total, departments identified initial gaps in funding for continuing 139 filled positions (at a cost of \$18.2 million) and 70 vacancies (at a cost of \$7.7 million).
- Departments submitted augmentation requests for a share of annual discretionary revenue growth to save these positions.

Initial Staffing Impacts (without augmentations)



Departmental Requests

- Departments submitted initial balanced “baseline budget” requests totaling \$651.3 million, offset by \$632.4 million in revenue and \$26.3 million in reserves (for appropriate one-time expenditures).
- The residual \$7.4 million represents discretionary revenue growth after accounting for formulaic commitments.
- To address staffing-related funding gaps & meet other needs, departments submitted augmentation requests totaling \$66.9 million in County contributions.

	2016-17	2017-18 Requests			2017-18
	Adopted	Baseline	Augm.*	Total Req.	Recommend Budget
Available Financing:					
Use of Reserves	\$12.6	\$26.3	\$0.0	\$26.3	\$42.9
Revenues	621.1	632.4	7.6	640.0	636.3
Total Financing	\$633.7	\$658.7	\$7.6	\$666.3	\$679.1
Financing Uses:					
Additions to Reserves	0.0	0.0	0.0	0.0	0.0
Expenditures	633.7	651.3	74.5	725.8	679.1
Total Uses	\$633.7	\$651.3	\$74.5	\$725.8	\$679.1
Balance	\$0.0	\$7.4	-\$66.9	-\$59.5	\$0.0

*Numbers may not add up due to rounding.

*Augmentation totals changed throughout the budget process as CAO staff and departments worked to find solutions that offset initial augmentation requests.

- Funding these requests would result in a hypothetical deficit of \$59.5 million.
- The recommended budget utilizes the \$7.4 million in residual discretionary revenue growth and an additional \$16.5 million in reserves for appropriate one-time expenditures to mitigate many budget impacts and fund local priorities within the parameters of a structurally balanced budget.

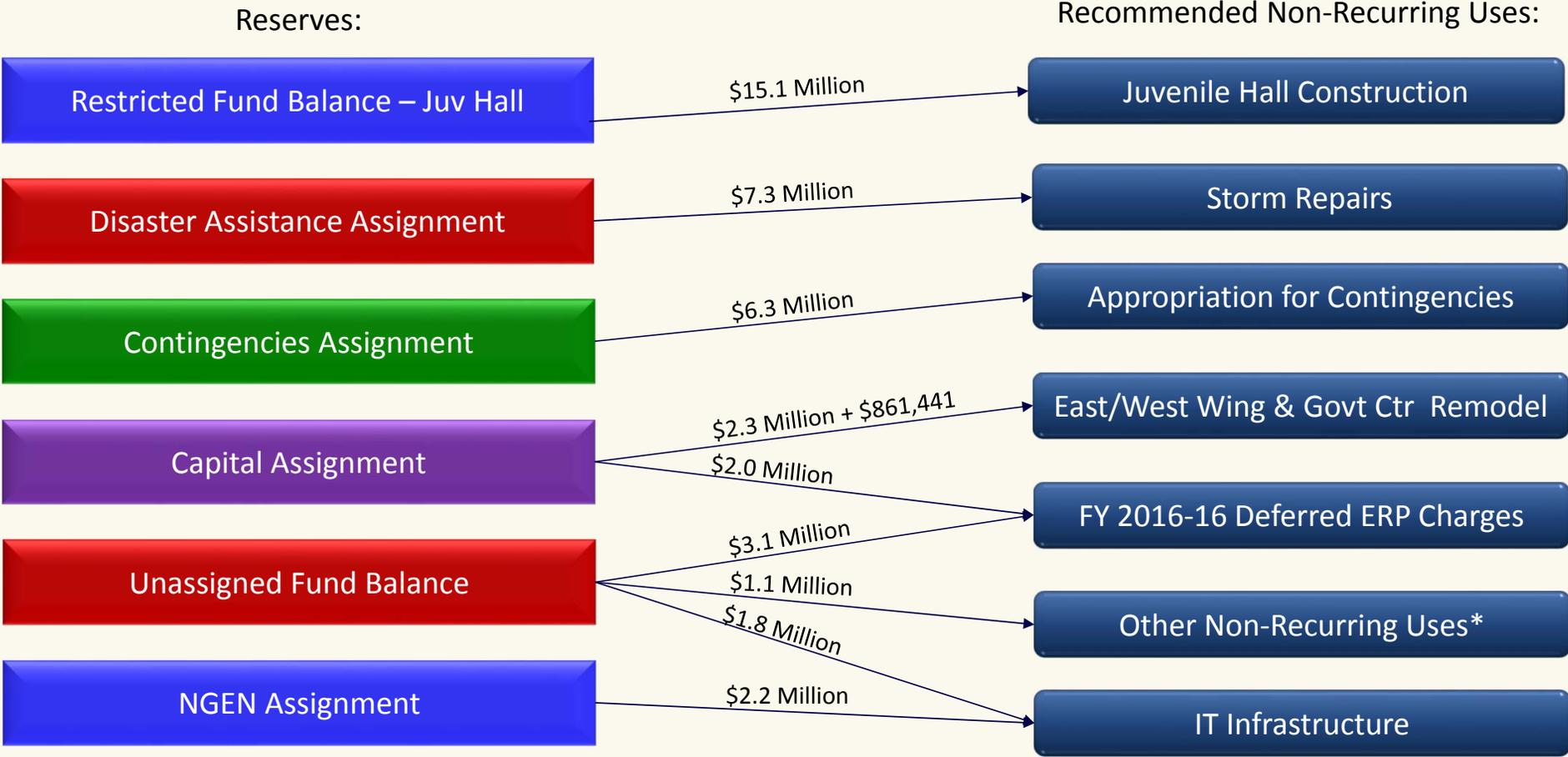
Recommended Uses of Reserves

The recommended budget includes use of operating reserves for appropriate one-time uses, including:

- \$15.1 million for construction of the new juvenile hall;
- \$7.3 million for storm-related repairs (authorized in March 2017);
- \$6.4 million set-aside in earlier years to fund the annual appropriation for contingencies;
- \$6.0 million in unobligated fund balance reported in the recent CAFR;
- \$2.3 million for the East/West Wing remodel;
- \$2.2 million from the NGEN assignment;
- \$2.0 million set-aside earlier for the ERP Upgrade;
- \$861,441 for Government Center improvements; and
- \$747,900 in department-requested uses of their program-specific restricted reserves.

Use of Operating Reserves	2017-18 Recommended
Restricted Fund Balance - Juvenile Hall	\$15,087,306
Disaster Assistance Assignment	7,300,000
Contingencies Assignment	6,359,130
Unassigned Fund Balance	6,018,270
Capital Assignment - East /West Wing	2,300,000
NGEN Assignment	2,186,157
Capital Assign - ERP	2,000,000
Capital Assignment - Gov't Ctr. Remodel	861,441
Restricted Programs Fund Balance	747,900
Total Use of Reserves	42,860,204

Recommended Uses of Reserves



* Includes Salinas Valley Basin GSA (\$420,000), Carmel Lagoon Scenic Road Protection (\$100,000), Monterey Bay Community Power (\$272,330), Pilot Project for the Uninsured (\$200,000), and the appropriation for contingency (\$148,245).

Criteria for Recommending Augmentations

With requested augmentations far exceeding available financing, staff utilized four basic criteria to make recommendations:

- Protecting County employees and preserving current service levels;
- Supporting requests that leverage non-County, sustainable funding streams that expand services;
- Modernizing the County's infrastructure to ensure continuity of operations; and
- Funding mission critical vacancies (primarily "sworn officer" vacancies).

Augmentations to Preserve Staffing & Services

The recommended budget provides \$13.4 million to help departments close staffing-related funding gaps to protect 123 at-risk filled positions and 24 of the most-critical vacancies, including:

- \$4.9 million for the Sheriff's Office to save 23 at-risk filled safety positions & 15 vacancies (sworn officer and custody control specialists);
- \$1.9 million in County contributions, combined with other funding solutions, for the RMA to save 48 at-risk filled positions;
- \$1.8 million to continue 14 filled Probation Department positions;
- \$2.5 million to support 19 filled administrative positions, including eight at-risk filled positions in the Administrative Office and 11 filled positions in Human Resources;
- \$1.0 million for Health to protect 10 at-risk filled public health positions; and
- \$1.3 million to restore three filled positions and one vacancy in the Public Defender's Office, restore six filled positions within the offices of the Board of Supervisors and Clerk to the Board, and continue a vacancy in the Treasurer-Tax Collector critical to the cannabis ordinance program.

Augmentations for New Positions

The recommended budget adds 32 positions, of which 29 leverage non-County financing streams:

- Twenty-two new positions in the Health Department to support the expansion of health clinics and the new *Whole Person Care* program.
- A new attorney in the Public Defender's Office to help meet growth in misdemeanor cases under state-county realignment and funded entirely by realignment monies.
- Two new positions for the District Attorney supported with realignment monies and other program revenues, including a new attorney to support growth in misdemeanor cases and a new victim witness coordinator.
- Two new positions to launch the cannabis ordinance program including a code enforcement officer in RMA and a new program manager in the CAO to coordinate the program.
- A new program manager in the Probation Department, fully funded with realignment monies, and a courier in RMA to provide mail service at the Schilling Place complex.
- The recommended budget also includes three new positions funded with County monies, including an immigration attorney and two new positions in Human Resources.

Augmentations to Modernize Infrastructure

The recommended budget includes \$4.2 million in one-time reserves to replace core technology, especially hardware at-risk of failure, to support staff in providing services and prevent work disruptions, including:

- \$2.0 million to replace data center power and cooling systems, upgrade equipment and software, and enable video conferencing to allow virtual face-to-face meetings and reduce the need for travel between buildings for meetings.
- \$1.2 million to replace antiquated servers that have exceeded their useful life and are no longer supported by the vendor for parts and service.
- \$1.0 million to replace the core microwave network supporting public safety, first responders, and the 911 center.

Other Augmentations

The recommended budget provides \$5.6 million to fund existing obligations and new commitments, and adds \$511,384 to add three new critical positions, including:

- \$1.3 million to the RMA to fund operations & utilities at the Schilling building as County staff from the RMA, Health, and Elections take occupancy.
- \$728,000 to the RMA to fund costs associated with the Salinas Valley Water Basin Study and partial funding for the Carmel Lagoon Project, Local Coastal Program update, and General Plan implementation services.
- \$595,500 to Social Services to support existing homeless services programs.
- \$1.1 million to restore current funding for federal & State legislative advocacy and participate in the *Salinas Valley Basin Groundwater Sustainability Agency*, *Monterey Bay Community Power* regional project, and *Monterey Peninsula Regional Water Authority*.
- \$1.1 million to cover anticipated increased costs for the Elections Department, as there are three elections next fiscal year versus one election included in the current year budget.

Unfunded Needs – Filled Positions

- County staff worked diligently to find solutions to cover rising costs and the associated staffing and operational impacts.
- However, departmental cost increases & operational requests far exceeded growth in discretionary funding, leaving many requests unfunded. Staffing impacts include:
 - **Loss of five positions in the RMA** (Building Official, Building Inspector Supervisor, two park rangers, and a parks ranger manager) due to decline in project revenues, higher labor costs, and increased cost plan charges.
 - **Loss of seven filled positions in the Office for Employment Training (OET)** due to federal grant funding reductions.
 - **Loss of four positions in the County Administrative Office** (Assistant County Administrative Officer, Associate Administrative Analyst, Management Analyst III, and an Administrative Secretary) due to increased staffing costs and higher cost plan charges.

Unfunded Needs – Loss of Vacancies

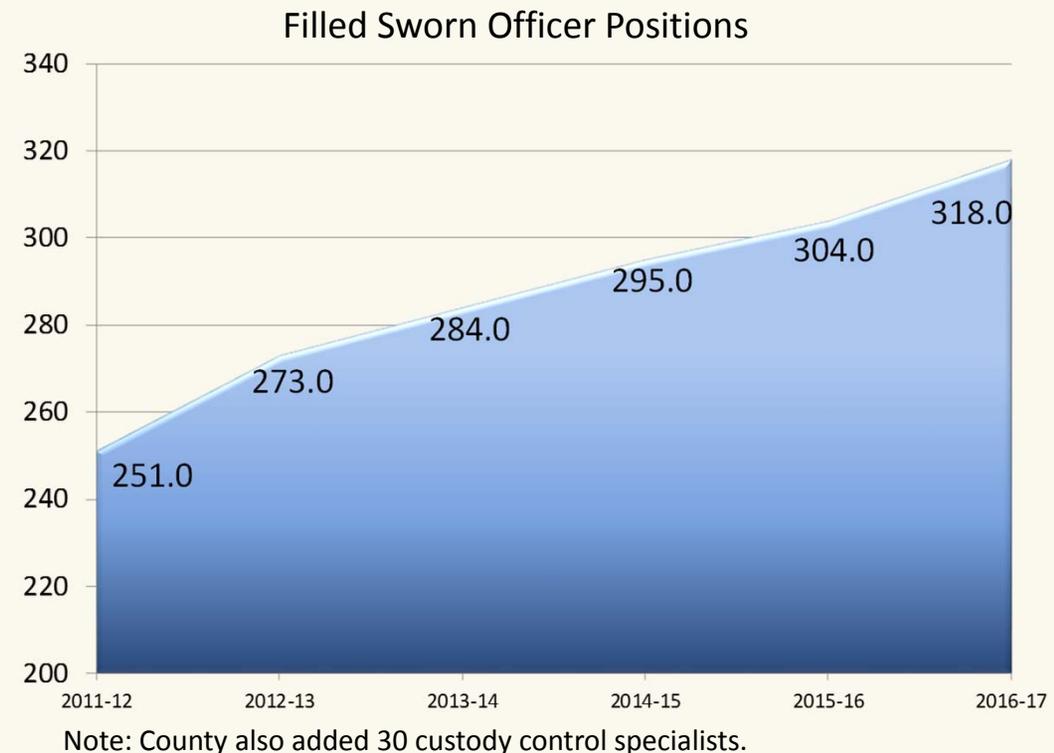
- Departments identified 70 vacancies that would expire without augmentations.
- The recommended budget restores 24 of the vacancies, primarily in public safety programs.
- The remaining 46 vacancies scheduled to expire at the end of the current year include:
 - Loss of 14 vacancies in Social Services due to reduced CalWORKS caseloads & associated funding;
 - Loss of nine “non-sworn” vacancies in the Sheriff’s Office including three records specialists, three corrections specialists, a property technician, a civil clerk, and a vehicle abatement officer;
 - Loss of five vacancies within the RMA, including a finance manager, parks director, secretary, management analyst, and senior personnel analyst (function moved to central HR); and
 - Loss of four vacancies in the Probation Department including two juvenile institution officers, a probation officer and an personnel analyst.
- Other departments losing vacancies include: Health (3), Auditor-Controller (2), Assessor’s Office (3), Child Support Services (2), Economic Development (2), and Cooperative Extension (1).

Unfunded Needs (Continued)

- Funding for the Blanco Road Overlay Project continues to be redirected to help preserve RMA's staffing infrastructure so that it can leverage new transportation funding streams as they emerge next fiscal year.
- The \$16.8 million in use of operating reserves authorized in March 2017 to fund the County's share of storm-related repairs does not address costs associated with the February 17th winter storm event and RMA may need additional "cash flow" help if there are protracted delays in reimbursement.
- The recommended budget does not include 94.5 requested new positions, including records staff in the Sheriff's Office, staff in the Sheriff's Office and Health Department to support cannabis ordinance enforcement, and new positions in Social Services to keep up with benefit program workloads.
- Examples of other unfunded needs include: \$2.0 million to establish an emergency infrastructure repair fund; \$2.0 million in various requests from the RMA to fully fund capital projects and maintenance work to address flood prone areas; \$1.7 million to retrofit radio towers to meet current seismic standards; \$500,000 to implement an affordable housing program in Monterey County; and \$425,000 for the Library to buy books and relocate the Bradley Library.

Unfunded Needs – Sheriff’s Office

- The Board has shifted considerable resources to the Sheriff’s Office the last five years, including: \$24 million in additional appropriations, 67 more filled “sworn officers”, 30 more custody specialists, modernized patrol car fleet, and \$9.5 million in jail safety improvements.
- Over the same period, the Sheriff’s Office has seen large cost increases, particularly in employee compensation, including \$6.0 million in salaries, \$3.9 million in pensions, \$2.9 million in overtime, and \$3.0 million in health premiums.
- Even with the Board’s sizeable investments, increased compensation and other costs have eroded the Office’s flexibility to meet other pressing needs, such as adding non-safety staffing and purchasing non-patrol vehicles.
- Adding to the Office’s fiscal and staffing challenges is the 31 officers (approximately 10% of sworn staffing) and 8 non-safety staff on extended leave or modified duty.



Budget Gaps Emerging after Publication

- The Governor’s May Revision redirects \$6 million in AB 85 Health Realignment monies from the County;
- Turning Point beat out the Office for Employment Training (OET) in the RFP selection for South County youth services (loss of work & funding for four County staff);
- Water Resources Agency notified administrative staff in late May that it has not spent \$1.3 million of its \$3 million reimbursement authorization, so no general fund reimbursement was budgeted for next fiscal year;
- During the current year budget process, the Board took action to defer repayment of a \$1.1 million Sheriff’s Office loan for patrol vehicles purchased last fiscal year, leaving the Vehicle Asset Management program underfunded;
- Sales tax revenue associated with the Solar Flats project appears to be in jeopardy, leaving a \$3.1 million hole in next year’s budget; staff in the Auditor-Controller’s Office, County Counsel, and RMA are working on this issue.

Budget Impact	Amount
AB 85 Health Realignment Redirection	\$6.0
Loss of South County Youth Svcs Prog.	0.7
WRA Interlake Tunnel Request	1.3
Unpaid Sheriff's Office Vehicle Loan	1.1
Solar Flats Revenue Loss	<u>3.1</u>
	\$12.2

Other County Funds

Natividad Medical Center

- Recommended expenditures for the County's hospital totals \$299.0, an increase of \$47.4 million over the current year adopted budget.
- Approximately \$38 million of the increased costs reflects transfers from NMC to other funds for capital projects (counted as expenditures).
- The remaining increase in expenditures is driven by higher labor costs (raises & benefits) and the addition of 67 positions since adoption of the current year budget to meet increased patient volumes.
- Increases in revenue can be largely attributed to the Medicaid expansion through Covered California, new enrollees in Medi-Cal Managed Care, and revenue from trauma services.
- Overall, NMC's expects to add \$16.6 million to its reserves next fiscal year, continuing its positive financial results.

Natividad Medical Center*	Actuals 2015-16	Adopted Budget 2016-17	Current Year Estimate 2016-17	Recommend 2017-18
Beginning Net Position	\$ 39,156,272	\$ 52,010,199	\$ 52,010,199	\$ 62,510,563
Revenue	286,241,021	262,167,926	288,543,370	315,656,639
Expenditures	273,387,094	251,667,562	271,928,023	299,043,554
Ending Net Position	52,010,199	62,510,563	68,625,546	79,123,648
Change in Net Position	12,853,927	10,500,364	16,615,347	16,613,085
*Recommended budget for NMC includes Funds 451 (operations) and 404 (capital projects).				

Road Fund

- Recommended appropriations for the Road Fund total \$42.5 million, increasing by \$3.9 million over the current year adopted budget.
- The increase expenditures are largely attributable to the Soberanes Fire and winter storm events.
- Next fiscal year, additional funding streams emerge, including a \$539,880 formulaic increase in County discretionary revenue, projected increases in road project revenue, and additional revenue from Measure X.
- Measure X, along with the newly passed SB1 transportation funding, is anticipated to provide an ongoing funding source for transportation projects and road maintenance.
- As uses of these revenues are approved by the respective funding agencies, the RMA will be returning to the Board for project approval.

Road Fund	Actuals 2015-16	Adopted Budget 2016-17	Current Year Estimate 2016-17	Recommend 2017-18
A. Beginning Fund Balance	\$ 4,589,599	\$ 1,215,276	\$ 1,215,276	\$ (509,515)
B. Revenue	20,932,875	38,898,911	31,187,671	43,071,208
C. Use of Fund Balance	-	-	-	-
D. Total Financing, A+B+C	25,522,474	40,114,187	32,402,947	42,561,693
E. Expenditures	24,335,780	38,640,720	32,912,462	42,539,672
F. Assignments to Fund Balance		-		-
G. Total Financing Uses, E+F	24,335,780	38,640,720	32,912,462	42,539,672
H. Ending Fund Balance, D-G	\$ 1,186,694	\$ 1,473,467	\$ (509,515)	\$ 22,021

Behavioral Health

- Behavioral Health provides mental health and substance abuse services to Monterey County residents.
- Recommended appropriations for Behavioral Health total \$115.8 million, a \$1.0 million reduction compared to the current year adopted budget to more accurately reflect the program's expenditure trend.
- Revenues are in alignment with planned expenditures and account for new monies associated with implementing the *Whole Person Care* program.
- Behavioral health expects to end next fiscal year with an operating reserve of \$14.0 million, an improvement over the current year spending plan.

Behavioral Health Fund	Actuals 2015-16	Adopted Budget 2016-17	Current Year Estimate 2016-17	Recommend 2017-18
A. Beginning Fund Balance	\$ 27,755,420	\$ 17,539,352	\$ 17,539,352	\$ 14,007,551
B. Revenue	81,073,728	104,927,846	90,796,025	115,811,703
C. Use of Fund Balance	-	-	-	-
D. Total Financing, A+B+C	108,829,148	122,467,198	108,335,377	129,819,254
E. Expenditures	92,131,196	116,858,100	94,327,826	115,811,703
F. Assignments to Fund Balance	-	-	-	-
G. Total Financing Uses, E+F	92,131,196	116,858,100	94,327,826	115,811,703
H. Ending Fund Balance, D-G	\$ 16,697,952	\$ 5,609,098	\$ 14,007,551	\$ 14,007,551

Lakes Resorts

- The Parks Resort Enterprise Fund is estimated to begin next fiscal year with a negative \$5.4 million net position, reflecting its long-term unfunded pension liability and amounts due to the general fund for prior years' deficits.
- With the recovery of lake levels, staff expects a normal recreational season.
- The Recommended Budget includes expenditures of \$4.6 million and an equivalent amount of revenue for a breakeven budget year.
- The reorganization of the Parks Department under the Resource Management Agency has created an opportunity to provide additional support for administration and management.
- All permanent park employees are now budgeted in the general fund and resort-related personnel costs are reimbursed from the Parks Resort Enterprise Fund.

Parks Lake & Resort Operations	Actuals 2015-16	Adopted Budget 2016-17	Current Year Estimate 2016-17	Recommend 2017-18
A. Beginning Fund Balance	\$ (5,520,898)	\$ (5,321,096)	\$ (5,321,096)	\$ (5,410,036)
B. Revenue	5,659,350	3,663,798	4,674,420	4,599,294
C. Use of Fund Balance	-	-	-	-
D. Total Financing, A+B+C	138,452	(1,657,298)	(646,676)	(810,742)
E. Expenditures	4,687,773	3,963,798	4,763,360	4,598,757
F. Assignments to Fund Balance	-	-	-	-
G. Total Financing Uses, E+F	4,687,773	3,963,798	4,763,360	4,598,757
H. Ending Fund Balance, D-G	\$ (4,549,321)	\$ (5,621,096)	\$ (5,410,036)	\$ (5,409,499)

Monterey County Free Library

- Recommended appropriations for the County Library total \$9.9 million, a decrease of \$184,353 compared to the current year adopted budget.
- The decrease reflects lower cost plan charges.
- Estimated revenue next fiscal year increases by \$712,566 over the current year budget, reflecting increased revenue from property taxes and projected refunds associated with the Redevelopment Property Tax Trust Fund and Federal E-rate program.
- The Library's strategic plan calls for seeking alternative and diversified sources of funding to fill the growing gap between fiscal resources and community needs.
- The Library collaborates with other library organizations on fundraising events and seeks grants/donations for ongoing and new programs.

Monterey County Free Library	Actuals 2015-16	Adopted Budget 2016-17	Current Year Estimate 2016-17	Recommend 2017-18
A. Beginning Fund Balance	\$ 1,077,528	\$ 372,827	\$ 372,827	\$ 409,169
B. Revenue	8,474,577	9,954,562	10,516,827	10,667,128
C. Use of Fund Balance	-	-	-	-
D. Total Financing, A+B+C	9,552,105	10,327,389	10,889,654	11,076,297
E. Expenditures	9,179,278	10,119,266	10,480,485	9,934,913
F. Assignments to Fund Balance	-	-	-	-
G. Total Financing Uses, E+F	9,179,278	10,119,266	10,480,485	9,934,913
H. Ending Fund Balance, D-G	\$ 372,827	\$ 208,123	\$ 409,169	\$ 1,141,384

Next Steps

- The County's cost structure continues to increase as a result of wage growth and higher workers' compensation and general liability program costs.
- Sizeable increases in employee health premiums and unprecedented increases in required pension contributions will continue adding to departments' fiscal pressures.
- Meanwhile, the current economic expansion is maturing, increasing the probability of a recession in coming years.
- The County must therefore balance consideration for new proposals against the potential impacts to existing County programs and staffing, bearing in mind that new commitments compete against the same resources as existing obligations and costs for staffing existing programs and services.
- To help employees impacted by next year's funding constraints, Human Resources will present a report recommending deployment of the *Support for Employment and Educational Knowledge (SEEK)* program, which assists County employees in finding placement opportunities.

Recommendations

It is recommended that the Board of Supervisors:

1. Hold a Public Hearing on June 5, 2017 at 9:00 a.m. to adopt the Fiscal Year (FY) 2017-18 Appropriation Limits pursuant to Article XIII B of the California State Constitution.
2. Commence Budget Hearings with the County Administrative Office summary presentation of the FY 2017-18 Recommended Budget on June 5, 2017 at 9:00 a.m. and continue Budget Hearings on June 6, 2017 if necessary.
3. Authorize the County Administrative Office and Auditor-Controller to prepare the FY 2017-18 Adopted Budget Resolution reflecting changes made by the Board during budget hearings, to make any changes in budget units to reflect any position and/or account adjustments approved by the Board during or prior to budget hearings.
4. Authorize the County Administrative Office and Auditor-Controller to make adjustments if needed to position counts, appropriations, revenues, fund balances, etc. to correct clerical errors.

Recommendations (Continued)

5. Authorize the County Administrative Office and Auditor-Controller, in the event that any unbudgeted/unassigned fund balance is available at year-end FY 2016-17, to allocate in the following order of priority:
 - a) For the General Fund Contingency Assignment (3113) to help fund future annual appropriations for contingencies to cover unanticipated events or emergencies as prescribed in the County General Financial Policy 7.12.
 - b) For support of the Strategic Reserve (3111), not to exceed established Board policy of 10% of estimated FY 2017-18 General Fund revenues (excluding NMC Strategic Reserve).
6. Authorize the County Administrative Office and the Auditor-Controller to transfer or release to/from assignments associated with the following self-funded programs in the event they require additional funds or have excess funds at the end of FY 2016-17:
 - a. Vehicle Replacement (3116).
 - b. Laguna Seca Track Assignment (3129).
 - c. Information Technology Charges Assignment (3124).

Recommendations (Continued)

7. Authorize the County Administrative Office to adjust the FY 2017-18 Adopted Budgets for the Other Funds under the authority of the Board of Supervisors to reflect the FY 2016-17 year-end final Available Fund Balance.
8. Consider approval and adoption of the Resource Management Agency - Public Works Annual Work Program for the Road Fund for Fiscal Year 2017-18. California Code of Regulations Section 994 - Road Construction & Maintenance Activity, and Streets & Highways Code Division 3, Chapter 1, Section 2007 require that a Road Fund Budget be submitted to the Board of Supervisors at the same time as other County departments submit their recommended budgets. The RMA - Public Works Annual Work Program outlines planned expenditures within the recommended Work Program (Road Fund) budget by project and activity. It details anticipated administrative, engineering, and reimbursable expenditures along with planned capital project expenses and maintenance activities.

Discussion