Executive Summary

Introduction

The County Administrative Office is pleased to present the *Fiscal Year (FY) 2016-17 Recommended Budget*. This *executive summary* provides an overview of the County's fiscal condition, issues affecting the budget, and recommended spending plan for the fiscal year that commences July 1, 2016. Following the executive summary is information about the County's fiscal outlook, strategic initiatives, and financial policies. The budget also includes various schedules summarizing financing sources and uses, with comparisons to prior year actual and current year budgeted amounts. Following the schedules are presentations of departmental budgets in a narrative format, offering readers a more detailed understanding of each department's services and finances. The recommended budget concludes with discussion about the County's financial contributions to other agencies, fiscal obligations, and other resources that may prove helpful to the reader.

The recommended budget will be presented to the Board of Supervisors (Board) for consideration at public budget hearings scheduled to begin on June 1, 2016. Upon adoption, the budget provides needed spending authority for the next fiscal year and represents the Board's spending priorities on behalf of the citizens of Monterey County.

County Government

The County is a general law county comprised of ten elected officials including a five-member Board of Supervisors, Assessor-County Clerk-Recorder, Auditor-Controller, District Attorney, Sheriff and Treasurer-Tax Collector. All 10 officers are elected to four-year terms. A County Administrative Officer is appointed by the Board and functions as the chief executive officer.

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

The Board adopts policies, establishes programs, appoints non-elected department heads, and adopts annual budgets for County departments. The Board also serves as the governing body for various special districts and agencies.

The Board generally meets every Tuesday in the Board Chambers of the Government Center to discuss and vote on County policy items. The meeting schedule and agenda are posted weekly on the Clerk of the Board's website, located at www.co.monterey.ca.us/cob. Audio and video broadcasts of Board meetings (both live and archival) are also available at this website.

Purpose of the Recommended Budget

The budget is a comprehensive financial plan that articulates the goals and objectives of departments for the coming fiscal year. Department heads prepare their recommended budgets with the goal of aligning their operating plans with strategic initiatives and objectives adopted by the Board, within the parameters of available financing. Upon adoption, department managers and the County Administrative Office analyze revenue and expenditure detail throughout the year to ensure compliance with the Board's approved spending plan.

In the following pages, the executive summary provides highlights of the recommended budget and offers perspectives to better understand the state of the County's finances. Developing the recommended budget is a collaborative partnership between the County Administrative Office and the County's departments. Throughout the process, there has been an ongoing dialogue between County Administrative Office analysts and departmental staff to ensure a mutual understanding of finances that take into account both fiscal and programmatic impacts of recommendations. By encouraging open communication with stakeholders throughout this process, the County Administrative Office seeks to create an informed and rational spending plan for the new fiscal year.

Current Financial Condition

The County's current financial condition is one in which there has been steady growth in revenue but also one in which the costs of departments doing business has reached a point where the County can no longer continue expanding programs or take on new commitments without re-prioritizing existing programs. During the recession, general fund revenues experienced a dramatic decrease, requiring operational reductions. Since then, the County's General Fund revenues began a positive growth trend and have since exceeded pre-recession levels. General Fund revenue has grown $55.8 million over the last four fiscal years - FY 2011-12 to the FY 2015-16 Adopted Budget - and an additional increase of $37.6 million is projected for FY 2016-17. Similarly, the County's discretionary "non-program" revenue has increased by $38.2 million over the same time period, with an additional increase of $13.5 million projected for FY 2016-17. The County's revenue growth allowed the Board to make a number of positive investments, including:

Improving the County's financial security and infrastructure: The County invested $17.8 million in County matching funds to secure $35.0 million in State SB 81 funding to build the new 120-bed Juvenile Hall and replace the existing 1950s facility; committed $8.9 million in County matching funds to acquire $80.0 million in State funds to build a 576-bed Jail expansion; approved the issuance of Certificates of Participation (COPs) to preserve the historic East and West Wings of the Monterey County Courthouse; and, authorized $13.0 million to acquire the $36.0 million Schilling Place complex. The Board also continues to build a strategic reserve that includes $56.1 million for the general fund and $14.2 million for Natividad Medical Center to help weather natural disasters or local emergencies.

Rebuilding the County's workforce: The County added 729 positions (305.5 in General Fund) since adoption of the FY 2011-12 budget to better meet department's workload demands and service goals. The recommended budget adds an additional 169.2 positions next fiscal year. In addition, the Board approved wage increases for County employees. In 2013, the Board approved three-year bargaining agreements. In the first year, Miscellaneous (non-safety) unit employees received a 3.5% raise in exchange for paying the member portion of PERS contributions, followed by a 2% raise in the second year and a 3% raise in the third year. Most safety unit employees received a 3.5% raise in the first year with additional increases of 1% and 2% in the second and third year respectively. In addition, the County has protected valuable benefits to our employees, covering an estimated $11.8 million in employee health insurance increases over the span of three years and $6.5 million in increased County Public Employee Retirement System (PERS) contributions for employee pensions. These benefits added $18.3 million in costs.

Focus on Public Safety: The County added $16.7 million in increased appropriations to the Sheriff's Office since FY 2011-12, enabling the office to add 47 filled "sworn" officers, and approving funding for an additional 11 patrol deputies and the addition of six custody control specialists in December 2015. Additional augmentations are recommended for next fiscal year and are discussed later.

Contributions to Other Agencies: The Board increased discretionary contributions to other agencies by $1.8 million since FY 2011-12, including an additional $757,051 for development set-aside agencies, an increase of $707,970 for fire agencies, and $381,487 in increases to cities as an incentive for participating in the 911 consolidated dispatch center.

Despite increases in revenue growth projected for FY 2016-17, significant cost pressures (both countywide and department specific) have consumed this revenue growth constraining the County's financial capacity to continue priorities or take on new commitments without re-prioritizing existing programs.

During the April 12, 2016 budget workshop with the Board of Supervisors, the County Administrative Office provided perspective on the fiscal context in which the budget is being built and offered information on requested augmentations. As shown below, baseline requested expenditures totaled $617.6 million, representing a growth of $20.5 million over the current year adopted budget and supported by additional program revenue. The baseline budget also included $6.2 million for operational contingencies, in accordance with the County's policy to set aside a portion of the budget equal to one percent of estimated general fund revenue for critical, unanticipated needs. Yet, in order to balance baseline budgets to expected revenue, after taking into account significant cost increases, departments made a number of difficult choices cutting operating expenditures and reducing staffing levels. In total department's cut 83.0 vacancies valued at $9.3 million. Due to having already exhausted opportunities for cost savings from reductions made in prior budget cycles or because they do not have vacant positions departments also cut 73.4 filled positions valued at $8.2 million to balance their preliminary "baseline" budgets.

	2015-16	2016-17 Requested Budget:			2016-17
	Adopted	Baseline	Augment Requests*	Total Request	Recommend Budget
Available Financing:					
Use of Fund Balance	$17.9	$8.3	$0.0	$8.3	$12.3
Revenues	584.6	615.6	9.6	625.2	622.2
Total Financing Sources	$602.5	$623.8	$9.6	$633.4	$634.5
Financing Uses:					
Assignments to Fund Bala	$0.0	$0.0	$0.0	$0.0	$0.0
Expenditures	597.1	617.6	39.8	657.4	628.3
Contingencies	5.4	6.2	0.0	6.2	6.2
Total Financing Uses	$602.5	$623.8	$39.8	$663.6	$634.5
Balance	$0.0	$0.0	($30.2)	($30.2)	$0.0

*Includes requests from other funds for contributions from the General Fund. Augmentations do not include requests received outside of the system, such as request from Water Resources Agency for additional Interlake Tunnel Contributions or a "placeholder" request for medical marijuana oversight operations.

The County Administrative Office received augmentation requests for additional General Fund Contributions (GFCs) above baseline levels totaling $39.8 million, supported by an estimated $9.6 million in program revenue and requested increases in GFC totaling $30.2 million. These augmentations combined with requested baseline budgets and the contingency appropriation totaled $663.6 million, exceeding available financing by $30.2 million. By law, the County must adopt a balanced budget that aligns expenditures to available financing. To balance the budget, the County Administrative Office proposes a spending plan consisting of $634.5 million in financing uses, financed by $622.2 million in revenue and $12.3 million in use of fund balance to support planned capital projects and other one-time planned needs. Balancing this budget required difficult choices; growth in resources were targeted to restoring funding for most at-risk filled positions with the balance supporting the most critical requests including restoration of critical vacant positions and other non-personnel department needs. Nevertheless, many requests for well-substantiated needs remain unfunded due to the County's ongoing fiscal limitations, including the loss of eight filled positions at the Parks Lakes Resorts, five filled positions in RMA, a filled Management Analyst position in County Counsel, a countywide reduction of 47 vacancies, requests for 66.5 new positions throughout various departments, and various other needs ranging from support for enhanced homeless services to funding for capital projects.

Recommended Budget – All Funds

	2014-15 Actual	2015-16 Adopted	2016-17 Recommend
Expenditures			
Salaries & Benefits	$ 511.8	$ 566.3	$ 605.2
Services & Supplies	288.1	330.5	368.0
Other Charges	99.0	112.1	74.9
Fixed Assets	40.7	53.1	135.4
Op. Transfers Out	179.9	148.7	172.9
Gain/Loss on Capital Asets	0.2	-	-
Contingencies	-	5.4	6.2
Total Expenditures	$ 1,119.6	$ 1,216.1	$ 1,362.7
Revenues			
Taxes	$ 171.6	$ 175.7	$ 191.4
Licenses, Permits & Franchises	20.8	19.5	21.9
Fines, Forfeitures & Penalties	9.6	11.9	11.8
State & Federal Aid	443.5	464.2	547.6
Charges for Current Services	297.3	292.3	323.0
Other Revenues	213.1	210.4	229.1
Total Revenues	$ 1,155.9	$ 1,174.1	$ 1,324.9
Use of Fund Balance	$ (36.3)	$ 42.0	$ 37.9
FTE Positions	4,840.0	5,034.0	5,203.2

Note: excludes Water Resources Agency

Recommended appropriations for all funds, departments and programs total $1.4 billion next fiscal year, supporting a workforce of 5,203.2 authorized positions and providing needed funding for 24 general fund departments, the County's hospital, and the Monterey County Free Libraries. Significant budget changes since adoption of the FY 2015-16 budget include:

- **Increased labor costs**. Costs to support the County's workforce grow $38.9 million under the recommended budget. This growth is largely attributable to growth in positions, increases in employee health insurance rates and contributions to CalPERS on behalf of employees' pensions. Since adoption of the current year budget 169.2 positions were added to the County payroll. The largest increase in staffing is in Natividad Medical Center, with a recommended increase of 84.5 positions. Having served close to

1,400 patients in its first year, the increase in positions will allow the hospital to continue to meet the increased demand in its new Level II Trauma Center and its expanding family practice residency program. The Health Department also made substantial additions to its staffing levels as it continues to expand its capacity in its Behavioral Health Bureau and Clinic Services Bureau to better serve the needs of the community due to the implementation of the *Affordable Care Act* (ACA) and the newly insured under *Covered California*. The Health Department increased its positions by 52.3 with the majority of position growth in clinic services for expanded hours at its primary care service locations. These two departments alone represent 81% of the year-over-year increase in positions and over half of the $38.4 million growth in salary and benefit expenditures. In addition, in January 2016, CalPERS increased PERS Choice, the most popular employee health insurance plan, by 21.3%. As a result, expenditures for employee health benefits increase $18.5 million from the current adopted budget[1]. Additionally, with the continued increases in PERS for employee retirement contributions, County costs grew $4.4 million over the prior year.

- **Expansion of primary care and behavioral health services**. The recommended Health Department budget includes overall growth of $13.0 million. Much of this growth ($12.5 million) is attributable to the enhanced capacity in behavioral health and clinic services. Clinic services have approximately 45,000 Medi-Cal patients, an increase of 10,000 since the ACA was implemented. To meet the growing need for services, the Health Department is planning for new clinic construction and expansion of primary care clinic operations in Salinas and Seaside.

- **Capital projects construction**. The recommended budget for Resource Management Agency increases $67.6 million over the current year adopted budget. The majority of this increase ($65.0 million) is attributable to construction costs for major capital projects including a New Juvenile Hall and Jail Housing Addition project. Both projects expand capacity, with the New Juvenile Hall including replacement of 120 beds and the Jail Housing project adding 576 new beds. Construction on both of these projects will run through FY 2017-18.

- **Cost pressures for social services**. Recommended appropriations for the Department of Social Services increase $16.9 million over the current year adopted budget. Much of this growth is due to the addition of 19 staff added in the current year, mostly for support of the In-Home Supportive Services Program (IHSS) and Family and Children Services, and to cover general cost pressures related to health insurance increases, community service contracts, costs associated with the Enterprise Resource Planning (ERP) upgrade, negotiated rent increases, and information technology infrastructure replacement. Additionally, increased appropriations reflect a 3.5% statutory increase for IHSS Maintenance of Effort (MOE), County share of negotiated increased IHSS provider wages, and a 3.0% Cost of Living Adjustment (COLA) on all Foster Care and Adoption Assistance payments.

- **Infrastructure improvement replacement**. The recommended budget provides $2.9 million for full year debt service required to finance tenant improvements to the 1441 Schilling Place and Government Center buildings, East and West Wing renovation, and removal of the Government Center modular buildings. The $2.9 million represents a $1.3 million increase over the current (partial) year funding level.

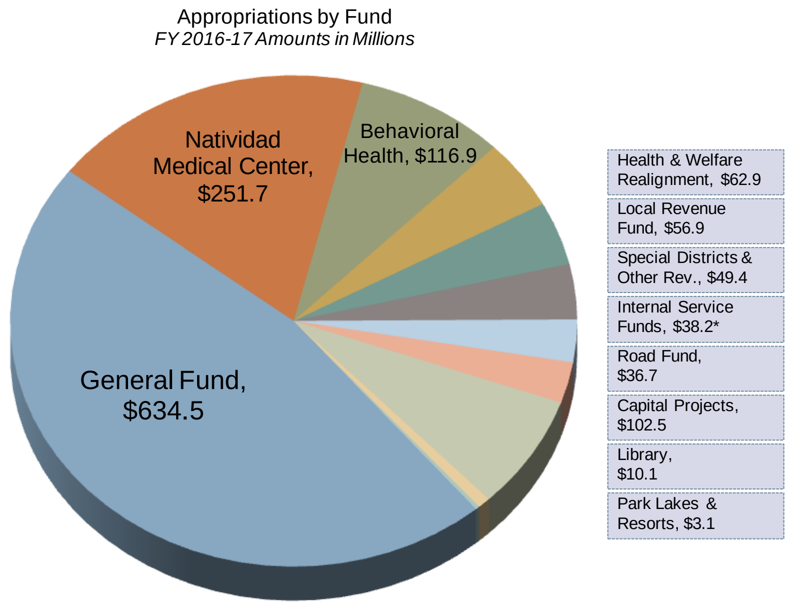
- **Countywide cost pressures**. Most of the remaining increases in recommended appropriations cover countywide increased operating costs, including previously discussed increases in employee health insurance and retirement contribution rates, and higher charges for the upgrade of the County's ERP system. Departments also experienced various cost pressures specific to their

[1] A portion of the increase in employee health insurance is due to growth of 169.2 positions, while most can be attributed to the premium increase.

operations which are discussed in their narratives. These and other countywide operating cost pressures are covered in more detail later.

The chart below displays recommended appropriations to the various funds overseen by the County Board of Supervisors.

The general fund is the County's largest fund. With recommended appropriations totaling $634.5 million, the general fund budget represents almost half of total 2016-17 recommended appropriations. Natividad Medical Center is the County's second largest fund, with appropriations totaling $251.7 million, or about one-fifth of the County's budget.



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

The County's appropriations for behavioral health, social services, and public safety programs related to the *2011 Realignment* are included in three funds: the *Behavioral Health Fund* ($116.9 million in recommended appropriations), *Health and Welfare Realignment Fund* ($62.9 million in recommended appropriations), and the *Local Revenue Fund* to account for public safety and other realignment funds ($56.9 million in recommended appropriations). Monies for realigned programs are accounted for in these funds and transferred to general fund operating departments on a cost reimbursement basis.

Special District and Other Revenue Funds includes services financed by specific revenue sources that are legally restricted to specified purposes. Examples include the County Service Areas (CSAs), County Sanitation Districts (CSDs), In-Home Supportive Services (IHSS), Office of Employment Training (OET), economic development programs, special districts, Fort Ord Reuse, Emergency Medical Services, and a number of other restricted revenue funds. Appropriations for these funds total $49.4 million.

Internal service funds (ISFs), which include the County's general liability, workers' compensation, and employee benefits funds, totaling $38.2 million. The general liability fund provides for all liability judgments, settlements, and claims against the County, including claims that are not covered by the County's excess insurance policy. The workers' compensation fund provides for all workers' compensation judgments, settlements, and claims against the County, including prevention expenses and the return-to-work program. The benefit programs fund provides for various benefit programs supported by contributions from County departments and employees (both current and retired). Programs include dental and vision benefits for employees and dependents, employee assistance, long-term disability, retiree sick leave conversion, and other miscellaneous programs including the Alternate Benefit Option (ABO) and Dependent Care Assistance Plan (DECAP).

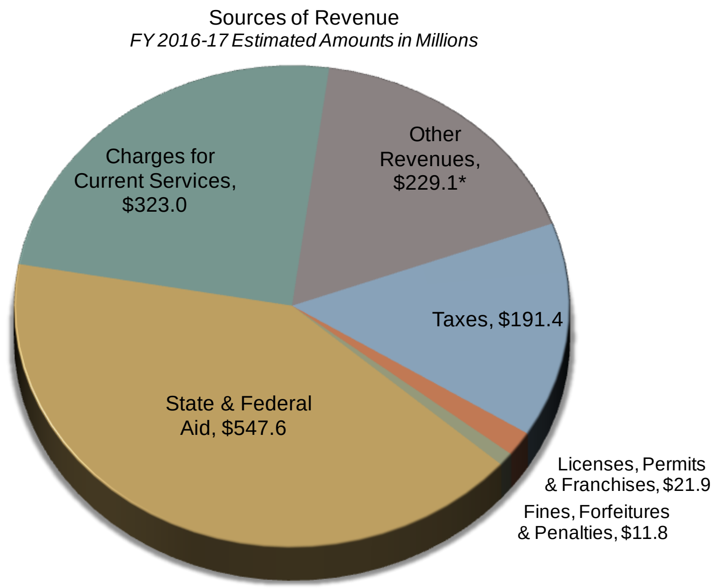
Other special revenue funds include the Road Fund ($36.7 million) and the Library Fund ($10.1 million). The Parks Lakes and Resorts Enterprise Fund includes $3.1 million in recommended appropriations.

Capital projects funds, used to account for financial resources for implementation of Board approved capital equipment purchases or facilities, are recommended at $102.5 million.

Revenues in support of County services are estimated to be $1.3 billion with sources displayed below, followed by descriptions of each fund source.

Federal and State Aid. The County receives funding from the federal and State government to administer health, welfare, and public safety programs. The County also receives revenue from competitive grant programs, such as grants supporting district attorney programs and homeland security. Total federal and State aid for 2016-17 is estimated at $547.6 million, or 41% of total financing, an increase of $83.4 million over the current year mostly due to State grant funding for construction projects and funding in support of social services, health clinic, and behavioral health services.

Charges for Services. This revenue is generated from various fees charged by the County for its services, such as fees collected by the County's hospital and health clinics, park admission fees, recording fees, special assessments, election services fees, jail booking fees, and various other fees. Estimated financing from this revenue source totals $323.0 million, or about a quarter of total County revenue.



* Includes operating transfers received from other funds ($180.1 million), rents & concessions ($23.0 million), investment income ($7.7 million), tobacco settlement monies ($3.5 million), and various miscellaneous revenues.

Taxes. This category includes secured and unsecured property taxes, supplemental assessments, and special district fund taxes. Tax revenues estimated for 2016-17 total $191.4 million (14% of total revenue) and comprise the bulk of the Board's discretionary monies. These monies are expected to grow $13.5 million over the 2016-17 adopted budget level, mostly as a result of higher assessments of property values.

Licenses, Permits, and Franchises. Revenue in this category is generated through franchise fees, building permit fees, and related licenses and permits. Estimated revenue for this category totals $21.9 million (2% of total).

Fines, Forfeitures, and Penalties. This category includes vehicle code fines, court fines, and forfeiture and penalty assessments. Revenue for this category is estimated at $11.8 million (1% of total).

Other Revenue. This category includes various other types of revenue such as *operating transfers in* from other funds, rents and concessions, tobacco settlement monies, and interest earnings on bank deposits managed by the Treasurer-Tax Collector in support of County programs. Total funding in this category is estimated at $229.1 million (17% of total). Funding includes $180.3 million in operating transfers between funds such as the operating transfers between the Realignment funds and the general fund discussed earlier as well as $17.1 million for Natividad Medical Center (NMC) capital projects. Funding for NMC represents an accounting change in FY 2016-17 instituted as a budgetary control feature to prevent comingling of operational and capital funds. Funds for NMC will be held in the Facilities Master Plan (Fund 404) and as capital project expenditures are incurred, funds will be transferred to NMC.

Major Assignments of Fund Balance	Current Amount
Strategic Reserve	$70,292,695
New Juvenile Hall	$9,200,492
Capital Projects (Jail Expansion)	1,471,091
Vehicle Replacement	8,053,066
Compensated Absences	9,853,593

Beyond any growth in annual revenue, the County also has funding held in reserve. The County established these reserves (fund balance assignments) in prior years utilizing one-time unplanned operating surpluses to meet specific future purposes. By far the largest commitment is the Strategic Reserve of $70.3 million for responding to natural disasters or other local emergencies. The $70.3 million includes $14.2 million for Natividad Medical Center, with the balance of $56.1 set aside for general fund emergencies. There are also reserves to cover the County's share of costs for the new juvenile hall and the jail expansion. Other reserves include $8.1 million for the vehicle asset management program and $9.9 million for the employee compensated absences liability. The recommended budget uses $4.4 million of the juvenile hall reserve and $461,013 of the jail expansion reserve to fund next year's construction costs for these projects.

Recommended Budget – General Fund

	2014-15 Actual	2015-16 Adopted	2016-17 Recommend
Expenditures			
Salaries & Benefits	$ 331.8	$ 369.6	$ 391.7
Services & Supplies	125.4	140.7	150.3
Other Charges	30.7	59.9	25.5
Fixed Assets	5.2	11.2	10.5
Op. Transfers Out	54.5	15.7	50.2
Contingencies	-	5.4	6.2
Total Expenditures	$ 547.6	$ 602.5	$ 634.5
Revenues			
Taxes	$ 162.6	$ 165.9	$ 178.0
Licenses, Permits & Franchises	20.6	19.3	21.9
Fines, Forfeitures & Penalties	8.4	9.2	9.2
State & Federal Aid	208.9	206.6	220.2
Charges for Current Services	62.0	73.6	78.3
Other Revenues	110.3	109.9	114.6
Total Revenues	$ 572.8	$ 584.5	$ 622.2
Use of Fund Balance	$ (25.2)	$ 17.9	$ 12.3
FTE Positions	3,274.8	3,332.5	3,445.3

*Numbers may not add up due to rounding.

The general fund supports most County services and basic governmental functions including public safety and criminal justice, health, social services, land use, recreation, environment, administration and finance. Recommended appropriations total $634.5 million, an increase of $32.0 million over the current year adopted budget. Highlights of the recommended budget for the general fund include:

- **Utilizes $12.3 million in fund balance for infrastructure projects and other planned one-time needs**. The recommended budget uses special purpose fund balance reserves to pay for planned, one-time expenditures, including next year's costs related to construction of the jail housing addition and new juvenile hall, vehicle replacement costs, debt service for the Next Generation

(NGEN) Radio Project, Laguna Seca Track maintenance, funding to purchase library books for the newly rebuilt San Lucas Library, and support of social services, including homeless services.

- **Estimated revenue increase of $37.6 million**. Non-program revenue, the source of discretionary GFCs allocated by the Board, is estimated to grow $13.5 million as assessed home values drive property tax revenues higher. Growth in secured property assessment valuation is estimated to grow 5.5% over the previous year. Additionally, the Department of Social Services anticipates it will claim an additional $13.4 million in reimbursements from the federal and State governments to cover increases in its operating expenditures. The Health Department also expects its general fund revenues to grow, mostly due to increased patient fees and governmental revenue for services provided at the County's health clinics.
- **Labor cost increase of an estimated $22.1 million**. General fund departments added 112.8 positions since adoption of the current year budget, increasing costs to the general fund by an estimated $5.1 million in salaries alone. Most of these position increases are in the Sheriff's Office, Health and Social Services. Position growth in the Sheriff's Office is mostly supported with increases in general fund contributions while the Health Department and Social Services position growth is supported by increases in program revenue. Other sources of increased labor costs include higher PERS contributions, increased health insurance premiums, and scheduled step advances.
- **Provides funding for the jail expansion and the new juvenile hall**. The County has embarked on critical infrastructure projects to build a new 120-bed juvenile hall at a cost of approximately $52.8 million and expand the County jail at an estimated cost of $88.9 million. The recommended budget appropriates, as operating transfers from the general fund to capital project funds, $4.4 million next fiscal for the juvenile hall and $461,013 for the jail expansion to cover the County's share of construction costs for these two projects next fiscal year.
- **Supports expansion of County primary care clinics**. As a result of the Affordable Care Act, approximately 40% of County residents are eligible for Medi-Cal, of which approximately 130,000 are enrolled in Medi-Cal Managed Care. This, coupled with the newly insured through the Covered California, has increased demand for access to primary care services in County clinics. In addition, as of May 2016, all remaining uninsured up to 18 years of age (approximately 6,000-8,000) are eligible for full scope Medi-Cal, further impacting demand for primary care services. New clinic construction and expansion is underway to meet increased demand for services, including expansion of services in Seaside and Salinas.
- **Includes $6.2 million for operational contingencies.** In compliance with the County's financial policies, the budget appropriates $6.2 million (1% of estimated general fund revenue) for critical, unanticipated needs that emerge next fiscal year and cannot be funded within departments' appropriated resources[2]. The $6.2 million appropriation represents an increase of $0.8 million over the current year adopted budget.
- **Provides increased Proposition 172 contributions to fire protection service providers**. Contributions to these providers increase $95,495 in accordance with established formulas set by County policy.
- **Increases contributions to economic development agencies**. Under current formulas, the County's contributions of transient occupancy tax revenue to the Monterey County Convention and

[2] The 2016-17 Recommended Budget appropriates $6.2 million (1% of general fund estimated revenues) for operational contingencies in accordance with the County's financial policies. The $6.2 million appropriation is financed by a combination of non-program revenue growth and use of current and prior year reserves.

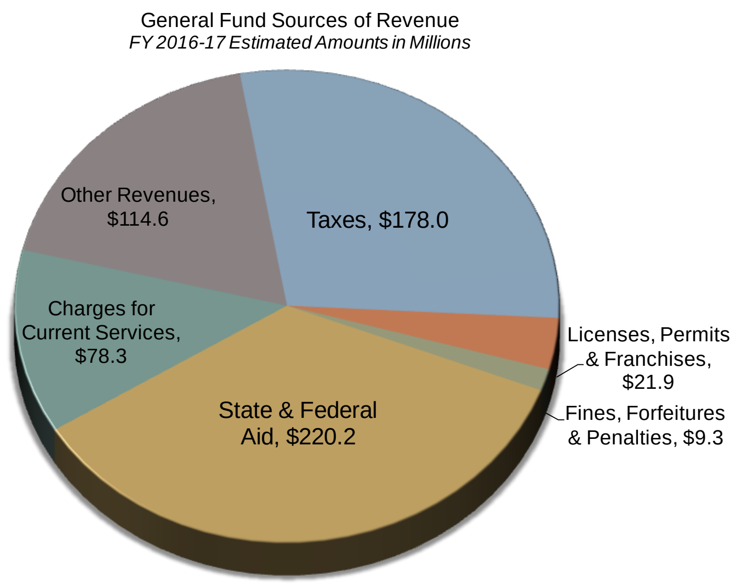
Visitors' Bureau (MCCVB), Arts Council, and Film Commission will increase $142,753 next fiscal year.

- **Increased Emergency Communications users' offset contribution**. Under the current formula, user agencies offset will increase $52,297 next fiscal year.

General Fund Revenues

Estimated general fund revenues total $622.2 million for FY 2016-17. Sources of estimated revenues are displayed to the right. Revenue from federal and State sources are estimated at $220.2 million (35% of total revenue), an increase of $13.6 from the current year. The County's social services and health programs are the largest recipients of these revenues and rely on these monies as the primary means of supporting their programs.

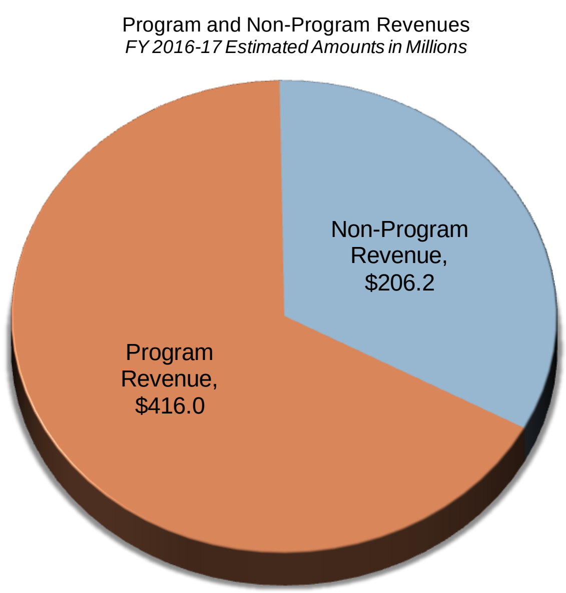
Revenue from *Taxes* total an estimated $178.0 million, an increase of $12.0 million over the current year adopted budget, and represent the bulk of the County's discretionary monies, allocated to departments in the form of general fund contributions. Other sources of funding include: *charges for services* ($78.3 million); *other revenues* ($114.6 million), which include operating transfers received from the three realignment funds mentioned earlier and reimbursements for indirect service departments for indirect cost chargeback program; revenue from *license, permit, and franchise fees* ($21.9 million); and *fines, forfeitures, and penalties* ($9.3 million).



* Includes operating transfers into the general fund from other funds ($102.4 million), tobacco settlement monies ($3.5 million), rents & concessions ($3.1 million), and various miscellaneous revenues.

Program and Non-Program Revenues

General fund revenues are categorized as "program" and "non-program" based on the source of and purpose for the funding. Program revenues, primarily from State and federal sources, are typically provided for a statutory purpose and by law must be spent on designated activities. The recommended budget includes estimated program revenues of $416.0



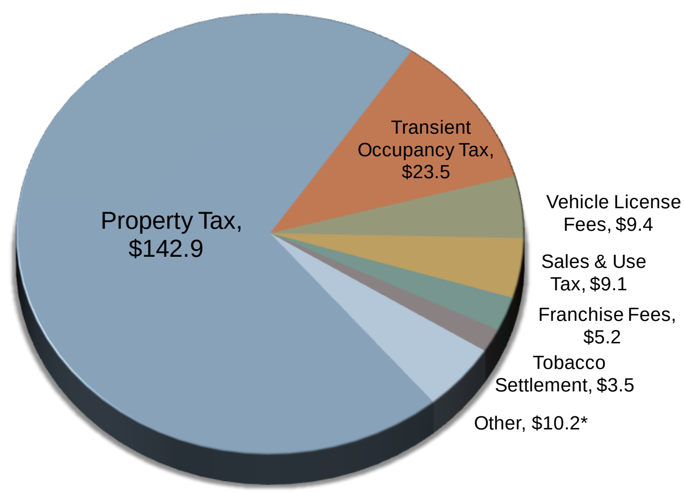
million, two-thirds of the total general fund revenue.

Non-program revenues total an estimated $206.2 million (one-third of total revenue), distributed to departments in the form of GFCs. Non-program revenues include property taxes, transient occupancy tax (TOT), sales and use tax, vehicle license fees (VLF), and a number of smaller revenue sources that support local government. As discretionary revenue, non-program revenues provide the County with some level of flexibility to address local needs and priorities. Monterey County historically uses its discretionary revenues to support public safety, County finance and other administrative functions, meet maintenance of effort requirements, and to provide matching funds as a condition for receiving federal and State assistance.

The estimated $206.2 million in non-program revenue represents an increase of $13.5 million compared to the current year budget. Driving the increased revenue is higher property tax revenues, increased TOT monies and an increase in sales and use tax. While there is also a slight increase in VLF, most of the increase in VLF revenue is redirected to public health programs under AB 85 (Chapter 24, Statutes of 2013). After accounting for this redirection, non-program revenues available for allocation by the Board will grow a more modest $12.2 million over the current year adopted budget.

Sources of non-program revenue are displayed in the chart to the right. Property tax revenue comprises the bulk of non-program revenue, totaling an estimated $142.9 million (70%) for next fiscal year. Transient occupancy tax, often referred to as a hotel or room tax, is estimated at $23.5 million, while sales and use tax revenue is estimated at $9.1 million. Other significant sources of non-program revenue include vehicle license fees, tobacco settlement monies, and franchise fees.

General Fund Sources of Non-Program Revenue
FY 2016-17 Estimated Amounts in Millions



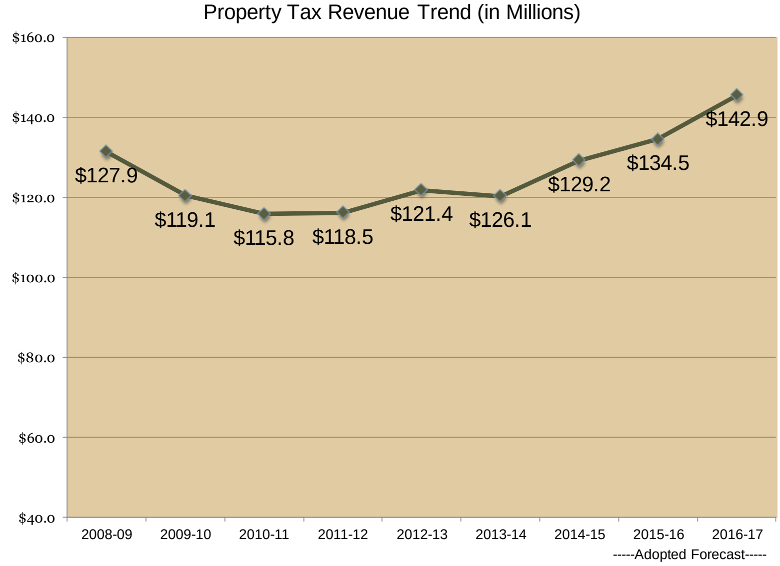
* Includes residual monies from RDA dissolutions ($6.1 million), property transfer taxes ($2.6 million), payments of interest on delinquent taxes ($1.7 million), and miscellaneous

Changes in estimated non-program revenues compared to the prior year are summarized below:

Property Tax

Property tax revenues sustained steep reductions through the economic downturn and its aftermath, declining a total of $12.1 million between FY 2008-09 and FY 2010-11. This decline was a defining factor behind four years of budget reductions following the onset of the recession. Since that time, assessed values have recovered with revenues projected to exceed FY 2008-09 levels in the current year. The

Property Tax Revenue Trend (in Millions)

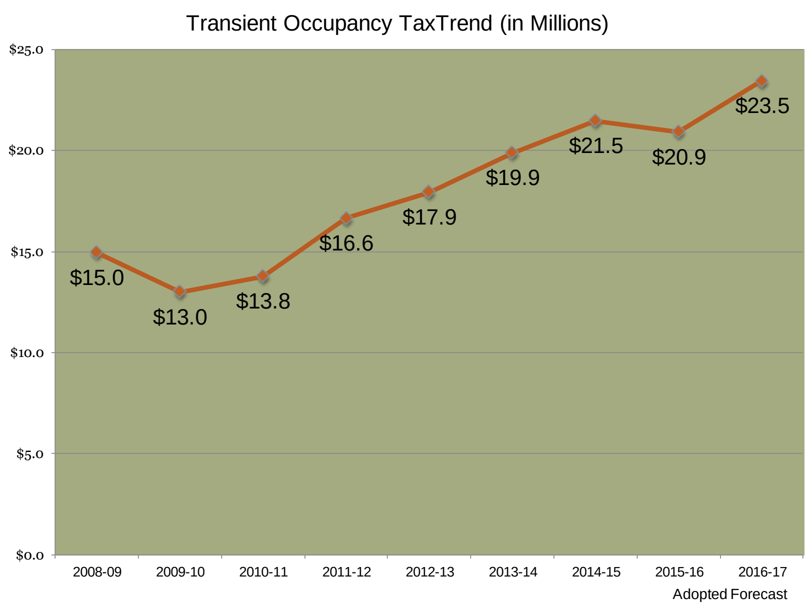


County's Assessor expects a 5-6% overall increase in assessed values for secured properties next fiscal year. For forecasting purposes, the County Administrative Office assumes the mid-point of the estimate range (5.5%), which would yield an $8.4 million increase next fiscal year. Provided below is historical data on assessed values of secured properties in Monterey County.

Year	Assessed Value	% Change	Year	Assessed Value	% Change
2000	$27,385,568,377	9.2%	2008	$51,722,007,534	2.24%
2001	$30,376,611,689	10.9%	2009	$49,942,645,752	-3.44%
2002	$33,401,392,602	10.0%	2010	$47,821,644,024	-4.25%
2003	$34,735,589,595	4.0%	2011	$47,911,791,128	0.19%
2004	$37,618,475,259	8.3%	2012	$48,539,057,728	1.31%
2005	$41,785,586,512	11.1%	2013	$50,336,754,911	3.70%
2006	$46,691,755,027	11.7%	2014	$53,361,804,831	6.01%
2007	$50,591,103,941	8.4%	2015	$56,535,193,647	5.95%

Transient Occupancy Tax

Monterey County relies on TOT as its second largest source of discretionary revenue. Often referred to as the "hotel tax," TOT is the tax applied on hotel/motel accommodations. The rate for Monterey County is 10.5%. Monterey County is a destination of choice for many travelers, including those traveling from abroad. For this reason, economic conditions both in the U.S. and abroad influence these revenues. The County's TOT revenue is estimated at $23.5 million for next fiscal year. The positive performance in this key revenue stream can be attributed to improvement in economic conditions and the successful efforts of the Treasurer-Tax Collector to improve collection and compliance.



Sales and Use tax

Sales tax is collected from retailers selling products in California. A use tax is imposed on purchases from outside the State delivered for use in California. Sales and use tax revenues are regionalized and vary based on the specific character of the jurisdiction and local tax base. Monterey County's sales and use tax revenues are generally based on sales in the unincorporated area, where the biggest contributors are restaurants, hotels, and service stations. Sales and use tax revenue is estimated at $9.1 million for FY 2016-17, an increase of $1.4 million over the estimated level included in the current year adopted budget.

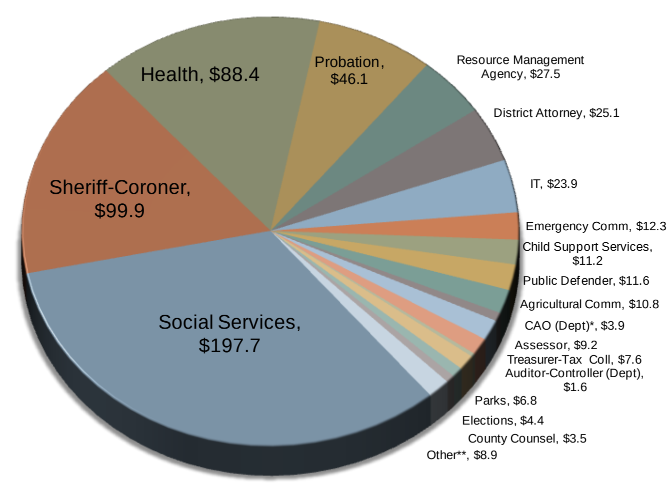
Franchise Fees

These revenues are collected from businesses that are granted franchises to provide services within the community, such as gas and electric, cable TV, telephone, water, and garbage collection services. Estimated franchise fee revenues total $5.2 million, an upward adjustment of $471,430 compared to the current year adopted budget. Fluctuations in natural gas, electricity, and other energy prices can result in unpredictable fluctuations in these revenues.

General Fund Appropriations

Recommended general fund appropriations are budgeted in 24 departments with a combined total of approximately 200 budget units, established for various departmental requirements and programs. Appropriations for these departments and programs total $634.5 million. Over three-quarters of recommended appropriations provide for three functional areas: social services, health, and public safety/criminal justice (Sheriff's Office, Probation, District Attorney, Public Defender, and Emergency Communications). General fund appropriations for Health and Social Services total $88.4 million and $197.7 million, respectively, and are primarily supported by federal and State revenue. The Sheriff's Office ($99.9 million), Probation ($46.1 million), and the District Attorney ($25.1 million) rely on a mix of federal and State revenue and general fund contributions, while the Public Defender ($11.6 million) is primarily supported by general fund contributions. Emergency Communications ($12.3 million) is financed by user agency contributions, with the County as the largest user agency providing about 30% of the Department's total funding. Other major appropriations include the Resource Management Agency ($27.5 million), Information Technology ($23.9 million), Child Support Services ($11.2 million), and the Agricultural Commissioner ($10.8 million). The remainder of appropriations is comprised of the various finance and administration departments, Elections, and Parks. The table on the next page details recommended appropriations for general fund departments compared to the current year adopted budget and prior year actual expenditure levels. Augmentations are discussed later.

General Fund Appropriations by Department (in Millions)



* 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, and various miscellaneous countywide expenditures.

Growth in appropriations is inclusive of general fund contribution adjustments made due to the new indirect cost chargeback program. Beginning in FY 2016-17, the Auditor-Controller's Office implemented an indirect cost chargeback program. Under this program, costs for "overhead" departments will be charged to general fund operating departments. To minimize operational impacts to operating departments, general fund contributions for FY 2016-17 included adjustments to redistribute GFC from overhead departments collecting charges to the operating departments that will incur the charge.

Department	2014-15 Actual	2015-16 Adopted	2016-17 Recommend	Growth: Dollars	Growth: %
Agricultural Commissioner	$9,489,142	$9,796,296	$ 10,773,746	$ 977,450	10.0%
Assessor-County Clerk-Rec.	7,484,598	7,787,385	9,216,720	1,429,335	18.4%
Auditor-Controller (Dept)	5,073,692	5,748,973	1,572,867	(4,176,106)	-72.6%
Board of Supervisors	2,968,566	3,155,387	3,496,285	340,898	10.8%
Child Support Services	10,903,940	10,958,855	11,156,499	197,644	1.8%
Clerk of the Board	684,025	847,025	932,217	85,192	10.1%
Cooperative Extension Service	501,846	551,051	585,576	34,525	6.3%
County Admin Office (Dept)[1]	5,345,862	9,432,488	3,874,510	(5,557,978)	-58.9%
County Counsel	4,968,800	5,413,333	3,494,771	(1,918,562)	-35.4%
District Attorney	22,153,178	23,345,763	25,057,096	1,711,333	7.3%
Economic Opportunity	2,651,398	3,085,149	3,383,766	298,617	9.7%
Elections	3,528,924	5,458,012	4,446,673	(1,011,339)	-18.5%
Emergency Communications	10,214,010	12,990,726	12,300,188	(690,538)	-5.3%
Equal Opportunity Office	659,738	798,102	227,202	(570,900)	-71.5%
Health	67,721,343	83,516,600	88,395,873	4,879,273	5.8%
Human Resources	2,679,299	3,076,789	260,975	(2,815,814)	-91.5%
Information Technology	19,462,223	22,163,336	23,912,415	1,749,079	7.9%
Parks	5,339,126	5,502,636	6,774,584	1,271,948	23.1%
Probation	39,269,283	42,743,962	46,134,212	3,390,250	7.9%
Public Defender	9,855,736	10,916,835	11,611,562	694,727	6.4%
Resource Management Agency	20,727,980	25,888,094	27,523,958	1,635,864	6.3%
Sheriff-Coroner	87,827,217	89,240,219	99,871,366	10,631,147	11.9%
Social Services	162,531,977	180,808,660	197,683,677	16,875,017	9.3%
Treasurer-Tax Collector	6,177,869	7,144,357	7,586,408	442,051	6.2%
Non-Departmental Costs[2]	39,418,859	32,132,862	34,205,937	2,073,075	6.5%
	$547,638,630	$602,502,895	$634,479,083	$31,976,188	5.3%

[1]. Includes $2,216,694 for vehicle replacement under the countywide Vehicle Asset Management Program.

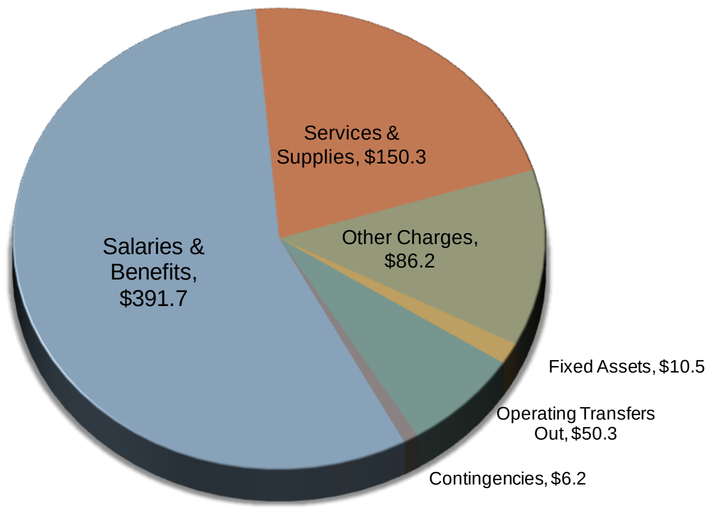
[2]. Non-departmental costs include bond payments, trial courts transfers, contributions to fire districts and other agencies, and various countywide expenditures and expenditure offsets (e.g., IT interfund transfers).

Recommended appropriations for each of the major expenditure categories of the general fund are as follows:

- Salaries and benefits expenditures, totaling $391.7 million, comprise almost two-thirds of general fund appropriations. Taking into consideration that funds in *other charges* pay for entitlement payments supported by federal and State revenues and that *contingencies* are only allocated as needed for unanticipated critical needs, the bulk of the discretionary general fund spending supports the County's workforce.

- The second largest category of expenditure is *services and supplies*, much of which includes goods and services to support the County's workforce (building rents and maintenance, utilities, insurance, data processing, equipment, and supplies). This category also includes general liability program costs and agreements with community providers and vendors to help carry out the County's business. The recommended budget for services and supplies totals $150.3 million, or about one fourth of budget.

General Fund Expenditures by Category (in Millions)



* Includes public assistance & out of home care payments ($73.0 million) and transfers to County departments for debt service, capital projects, and support of various programs/projects. Chart does not include payments (negative expenditures) from other funds for reimbursement for services provided to non-general fund departments.

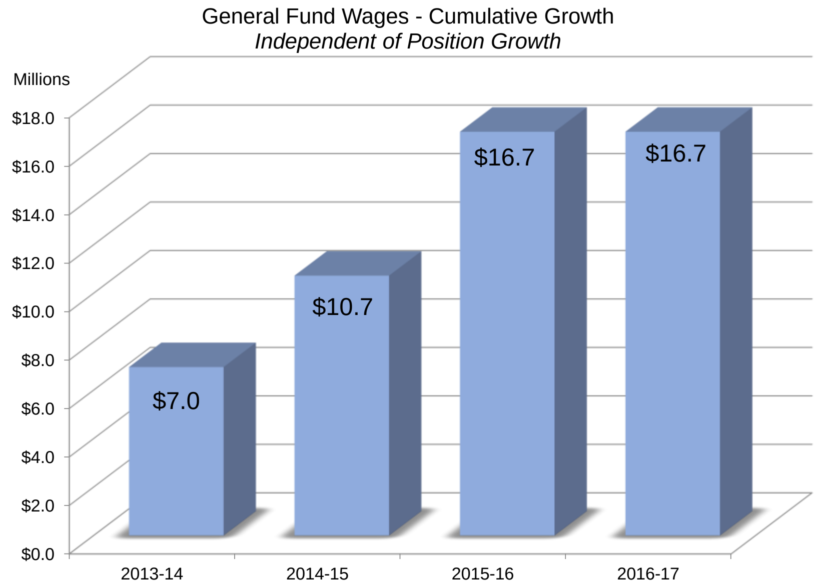
- *Other charges* total $86.2 million in the recommended budget and consists of $73.0 million in public assistance and out of home care payments, as well as transfers to County departments for debt service, capital projects, indirect cost chargeback discussed earlier, and various other expenses.

- The remaining recommended appropriations include operating transfers to other funds ($50.3 million), funds for fixed assets/equipment ($10.5 million), and funding for operational contingencies ($6.2 million).

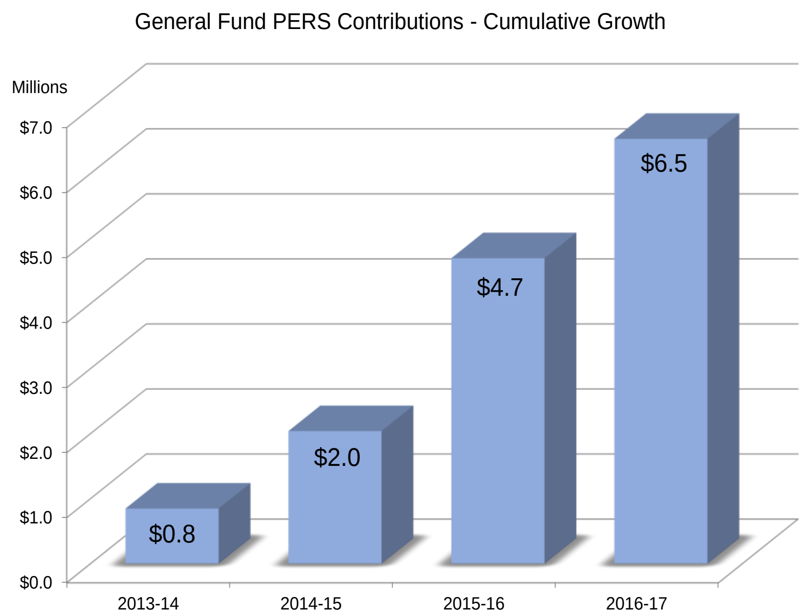
Cost Drivers

The growth in appropriations is supported by estimated increases in revenue, including department (program) revenues and County discretionary non-program revenue. However, the County's revenue growth has not kept pace with escalating costs. Some departments that operate on a cost-reimbursement basis, such as Social Services and Health, can pass along much of the increased cost to the federal and State government or other sources. Other departments cannot, and rely on augmentations of GFC to meet increased costs. Over the last several budget cycles, departments have endeavored to "do more with less", sometimes eliminating vacant positions when necessary and cutting discretionary spending to keep their budgets balanced. Through the process, many departments have seen erosion of their operational flexibility to withstand further cost increases without compromising staffing and service goals. The Recommended Budget attempts to direct next year's estimated growth in discretionary revenue to minimize these impacts but the revenue growth is not sufficient to meet the multitude of needs, or for that matter, address a number of unfunded infrastructure needs.

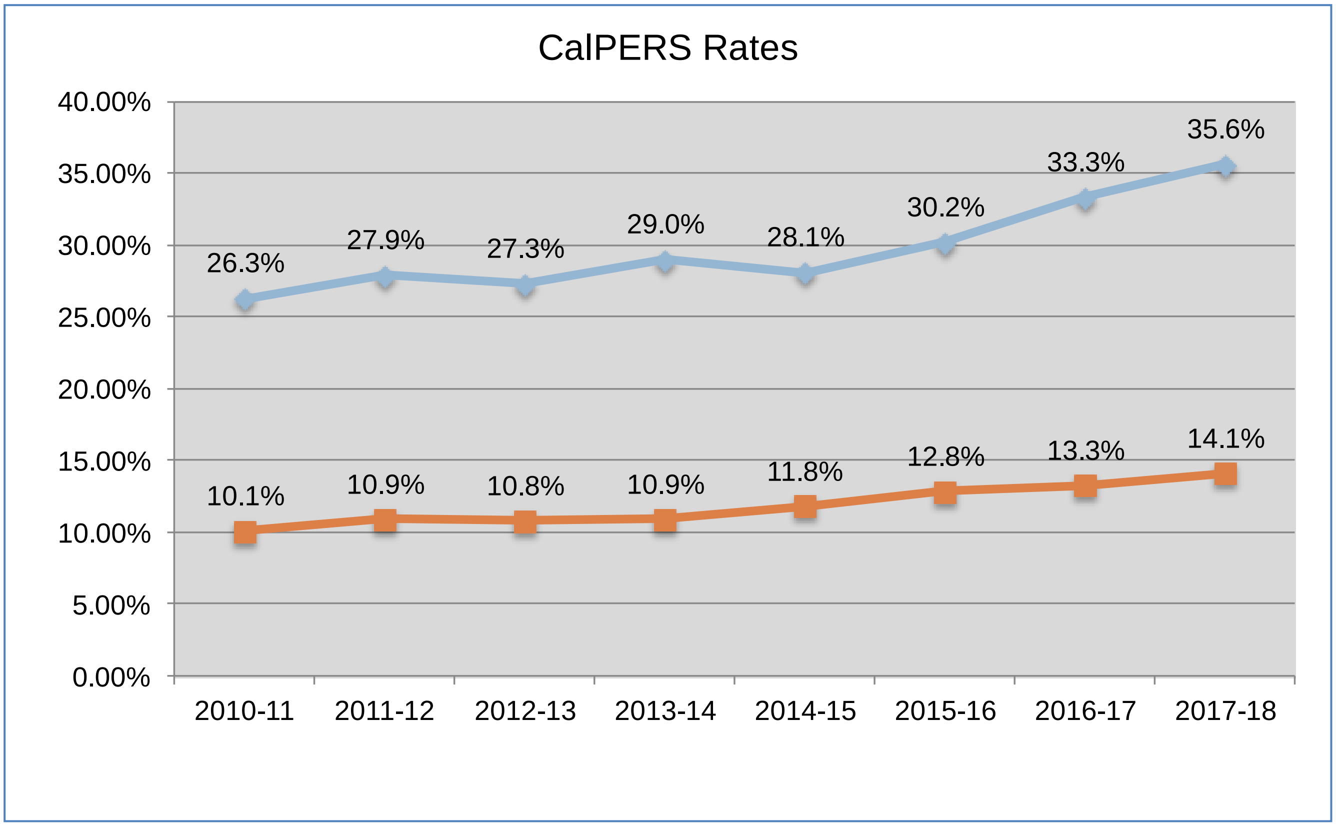
One area of increased costs is the growth in salary expenditures since 2013-14, when the County entered into three-year bargaining agreements with most employee organizations. Most Miscellaneous (non-safety) bargaining units agreed to pay an additional 3.5% of salary (for a total of 7%) towards their retirement in exchange for a 3.5% wage increase, followed by a 2% wage increase in 2014-15 and 3% in the current year. Safety units also signed three-year deals, with most employees receiving a 3.5% wage increase in exchange for a permanent 3% increase in their retirement contributions (total of 12%), with additional wage increases of 1% in FY 2014-15 and 2% in the current year.[3] The bargaining agreements added an estimated $16.7 million over the three year period independent of position growth or the rise of PERS retirement rates. Coupled with position growth, wages have increased salary expenditures from $197.8 million in 2012-13 to $247.2 million in FY 2016-17. With current bargaining agreements expiring at the end of the current budget year, future wage impacts on the general fund are unknown and thus no growth is reflected for FY 2016-17.

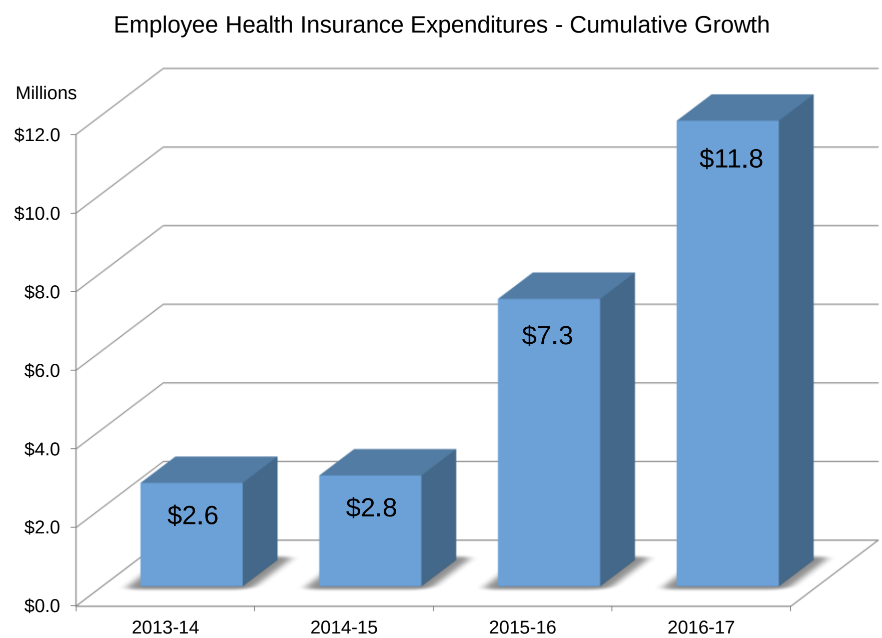


Another cost driver is the County's contributions to CalPERS on behalf of employees' pensions. For several years now, CalPERS has prepared local agencies to expect increases in required annual contributions to reduce the size of unfunded liabilities and to account for changes in the actuarial assumptions and methodology CalPERS employs to determine contribution requirements. Rates for Miscellaneous and Safety plan employees will grow an estimated 0.5% and 3.1% of payroll respectively in FY 2016-17. Independent of increases in wages or position counts, the rate increases will add $6.5 million to County payrolls over a four year period. CalPERS projects rates to further increase by 2.3% of wages for Safety plan employees in FY 2017-18.



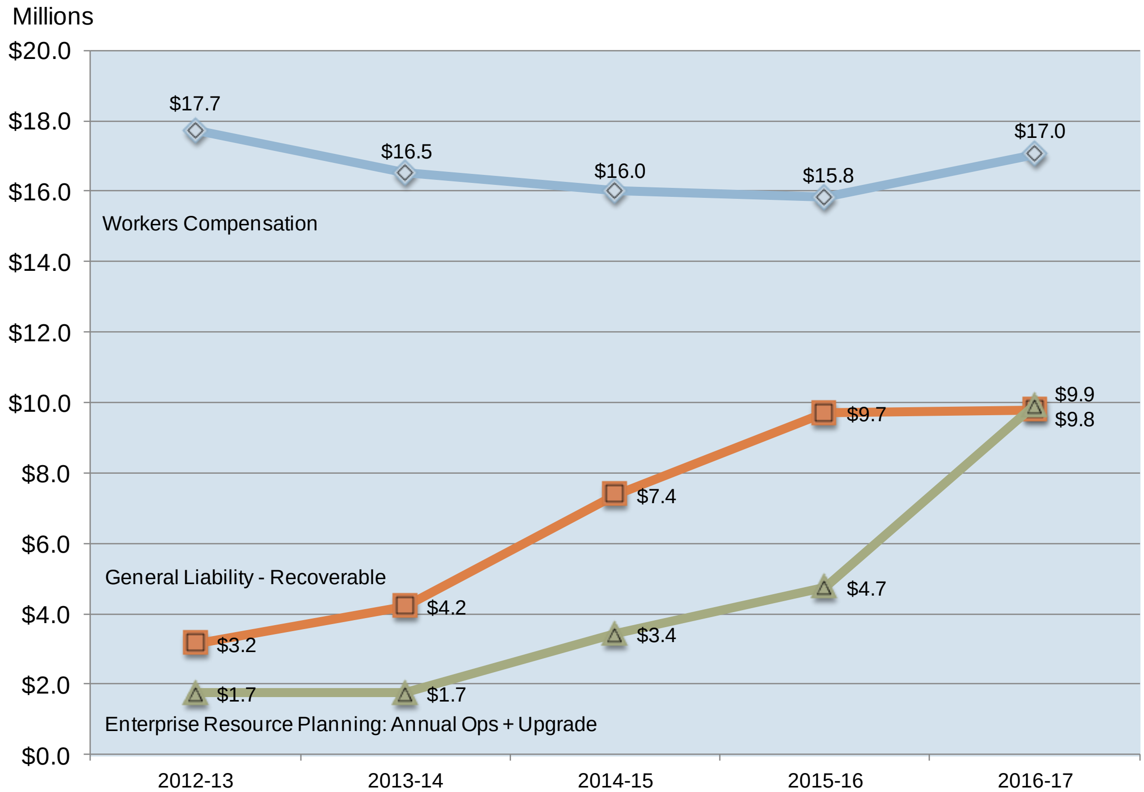
[3] In prior labor agreements, most safety employees paid 9% of salary towards their retirement plus a 4.5% "voluntary" contribution, for a total contribution of 13.5%. Under current agreements, employee organizations agreed to a permanent 3% contribution in addition to their normal 9% contribution, for a total of 12%.





Another area of increased general fund expenditures is in the County's employee health benefits. The most recent premium information provided by CalPERS increased PERS Choice, the most popular plan, to 21.3% beginning in January 2016. Employee health insurance costs are projected to increase $4.5 million in the current year with an additional $4.5 million in FY 2016-17 for a total increase of $9.0 million. Combined with prior year's premium increases, total general fund expenditures for employee benefit insurance have increased $11.8 million over the last four fiscal years. The increase for January 2017 is still unknown and thus not included in projected growth for FY 2016-17.

Additionally, the County continues investing in its information technology infrastructure. The Auditor-Controller is leading the upgrade of the County's ERP system, which includes the Performance Budget, Advantage Financial, SymPro Debt and Investment, Advantage Human Resource Management and Learning Development Network. The current ERP software has reached the end of its lifecycle and is no longer supported by the vendor. Charges to departments in support of the ERP system increased $1.3 million in the current year and will increase an additional $5.2 million next fiscal year. The project team expects costs to total $15.1 million over the lifecycle of the upgrade. County departments have also experienced significant increases in charges for general liability insurance and worker's compensation.



Baseline Budget Impacts

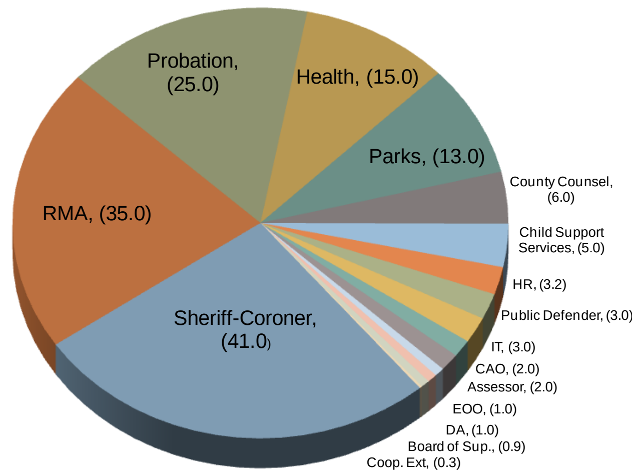
The countywide cost pressures are consuming growth in revenue and constraining departments' capacity to maintain existing levels of operations. At the same time, some departments are experiencing pressures unique to their programs, such as the Parks Resort operations and the loss of revenue related to low water levels at the Lakes Resorts and the Road Fund's loss of revenue due to a decrease in State Highway Users Tax (HUTA) which has declined $12.6 million since FY 2013-14. To balance baseline budgets, many departments cut any remaining discretionary spending and then reduced staffing levels, first cutting vacant positions and then, as a last resort, deleting filled positions with the hope that the positions will be restored with an augmentation later in the process. Unfortunately, many departments had already cut vacant positions in prior budget cycles, eroding their ability to weather additional cost pressures.

Departmental baseline budgets initially included a countywide reduction of 156.4 positions, including the loss of 83.0 vacancies and 73.4 filled positions due to rising PERS rates, increases in health insurance premiums, and other cost pressures such as the increased ERP charges[4]. Many of the position reductions were in criminal justice departments with the Sheriff's Office deleting 41.0 positions, including 17.0 filled positions, to balance its baseline budget request. Probation deleted from its initial budget 25.0 positions, of which 20.0 are filled.

[4] In some cases, the CAO worked with departments to mitigate impacts to staffing levels, reducing the number of positions impacted; as such, the final number of impacts will differ from initial reductions.

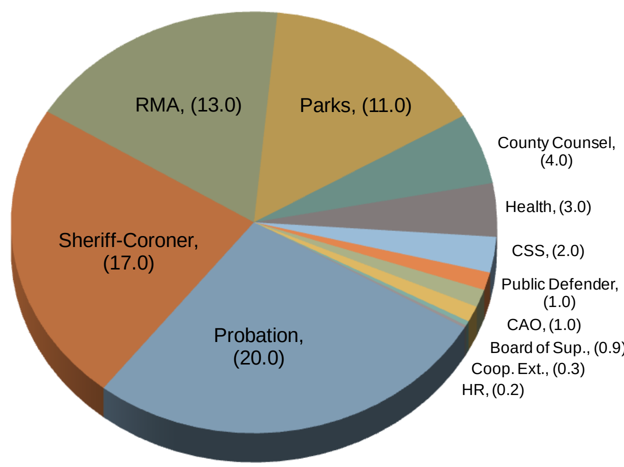
RMA initially deleted 35.0 positions (13.0 filled). The Parks Department, which continues to fall well short of its expected revenue, cut 13.0 positions (11.0 filled) to balance its budget. The Health Department initially deleted 15.0 positions (3.0 filled).

Baseline Position Reductions (Filled and Vacant)



Other departments with initial position reductions include County Counsel (initial reduction of 6.0 positions), Child Support Services (5.0 positions), Human Resources (3.2 positions) Information Technology and Public Defender (each with a loss of 3.0 positions), the County Assessor and County Administrative Office (loss of 2.0 positions each), the District Attorney and Equal Opportunity (each with a loss of a position), the Board of Supervisors (reduction in time base totaling a loss of 0.9 position), and Cooperative Extension (reduction in time base totaling a loss of 0.3 position).

Baseline Position Reductions (Filled FTEs)



Augmentation Requests

Departments generally have two sources of funding to mitigate potential operational impacts of rising costs and avoid position reductions. Some departments earn their own "program" revenue and this is especially true for health and social services programs. These program revenues will grow an estimated $15.4 million next fiscal year. The departments earning these additional revenues can use them to help offset inflation in operational costs. However, these departments are also impacted by the 2011 Realignment and must fund increased responsibilities transferred from the State. In addition, the County also has the estimated $13.5 million increase in discretionary "non-program revenue".

During the annual budget process, departments submit augmentation requests for a share of growth in non-program revenues. However, these requests have far exceeded revenue growth in recent years. The task for the County Administrative Office is to review and prioritize augmentation requests according to the greatest need, while taking into consideration the Board's priorities.

General Fund	2016-17 Requested Augmentations	2016-17 Recommended Augmentations
Appropriations	39,811,530	16,618,224.00
Department Revenues	9,550,599	5,264,589
General Fund Contributions	30,260,931	11,353,635

To avoid position reductions and mitigate potential operational impacts, departments submitted augmentation requests totaling $39.8 million in appropriations supported by $9.6 million in program revenue and $30.3 million in requested general fund contributions. Augmentation requests include requests from general fund departments as well as from other funds for contributions from the general fund. These requests seek to restore filled positions and most of the vacancies identified for initial baseline budget reductions as well as meet various service and operational funding needs. Departments also submitted requests to add 138.0 new positions and fund various infrastructure needs, particularly in the County park system and within the Resource Management Agency. Other major requests included funding for vehicle replacements for the Sheriff's Office, enhanced homeless services, funding for flood prevention and maintenance, and capital projects at Parks.

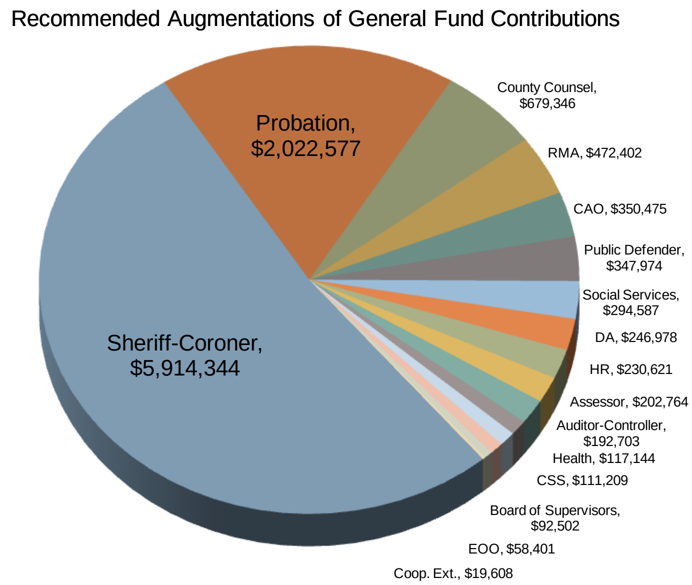
Discretionary financing available to fund augmentations of general fund contributions for next fiscal year total $11.4 million. This financing includes:

- $1,136,829 use of estimated FY 2015-16 year-end unassigned fund balance for support of one-time needs, including funding for the Sheriff's Office cost to replace patrol vehicles next fiscal year, expand homeless services, and purchase library books for the newly re-built San Lucas Library;
- $1,257,096 use of estimated FY 2015-16 year-end unassigned fund balance for support of the Sheriff's Office to re-pay the Vehicle Asset Management Program for patrol vehicles purchased in FY 2015-16;
- $1,822,322 use of the reserve (fund balance assignment) for compensated absences; and
- $7,137,388 in non-program revenue growth, which includes the $13,475,524 in estimated growth for next fiscal year, partially offset by recent and existing commitments, such as costs to finance the annual appropriation for operational contingencies, pay the full-year costs of debt service for the East/West Wing renovation project, meet Health Realignment obligations, and cover increased compensation for IHSS workers approved after adoption of the FY 2015-16 budget.

In total, County staff has identified $11.4 million in discretionary financing available to finance departmental augmentation requests. Details of recommended augmentations are provided below:

- Increase of $5.9 million to the Sheriff's Office to restore all 17.0 of its at-risk filled positions, 24.0 vacancies, and $1.7 million to continue funding the replacement of patrol cars.
- Increase of $2.0 million to Probation to restore 20.0 filled positions at risk of layoffs due to cost pressures.
- Increase of $472,402 to the Resource Management Agency to cover professional service costs associated with general plan implementation, supported by redirecting funding previously allocated for two director positions, and 1.0 new Shuttle Driver.
- Increase of $192,703 to the Auditor-Controller's Office to fund 5.0 new positions for the Enterprise Resource Planning project funded by the deletion of a vacant Chief Deputy Auditor Controller and use of Fund 403 (Enterprise Resource Project) monies.

- Increase of $347,974 to the Public Defender to restore 1.0 position at-risk of layoff due to increased operating costs, funding to restore vacant positions including 1.0 Investigator III and 1.0 Management Analyst I, and one-time funding in the amount of $37,500 to replace computers.
- Increase of $679,346 to County Counsel to restore 1.0 filled Senior Deputy County Counsel, 1.0 filled Deputy County Counsel IV, 1.0 Deputy County Counsel II, and 1.0 vacant Deputy County Counsel IV.
- Increase of $294,587 to Social Services to expand homeless services.
- $350,475 to the County Administrative Office to restore 1.0 filled Emergency Planner, funding towards contribution to Monterey Peninsula Regional Water Authority and funds to continue the OpenGov contract.
- Increase of $246,978 to the District Attorney to restore funding for operational expenses such as trial related expenditures that were reduced due to cost pressures.



- Increase of $230,621 to Human Resources to restore 1.0 vacant Senior Clerk Confidential, 1.0 vacant Administrative Services Assistant, restoration of a full time Secretary and funding for legal consultation services for labor relations.
- Increase of $117,144 to the Health Department to restore 1.0 vacant Environmental Health Specialist III and the addition of 67.0 positions in the Health Department which are fully funded by program revenues.
- Increase of $101,382 to the Assessor-County Clerk Recorder to restore 1.0 vacant Appraiser II.
- Increase of $92,502 to the Board of Supervisors to restore the reduction in time base for full time positions.
- Increase of $58,401 to the Equal Opportunity Office for the restoration of 1.0 vacant Equal Opportunity Analyst.
- Increase of $25,587 to Child Support Services for restoration of 2.0 filled positions partially funded by federal funding.
- Increase of $19,608 to Cooperative Extension to restore the reduction in time base for a full time Accounting Technician.

Department	Dept. Requested GFC Increase	CAO Recommend GFC Increase	Recommended Position Augmentations:			
			Restore Vacancy	Restore Filled	New Position	Total
Agricultural Commissioner	$251,211	$0	0.0	0.0	0.0	0.0
Assessor-County Clerk-Rec.[1]	202,764	202,764	2.0	0.0	0.0	2.0
Auditor-Controller[2]	442,472	192,703	0.0	0.0	5.0	5.0
Board of Supervisors	92,502	92,502	0.0	0.9	0.0	0.9
Child Support Services[3]	111,209	111,209	0.0	2.0	0.0	2.0
Clerk of the Board	0	0	0.0	0.0	0.0	0.0
Cooperative Extension Service	41,208	19,608	0.0	0.3	0.0	0.3
County Admin Office	635,471	350,475	0.0	1.0	2.0	3.0
County Counsel	1,074,901	679,346	0.0	4.0	0.0	4.0
District Attorney	893,505	246,978	0.0	0.0	0.0	0.0
Economic Development	952,925	0	0.0	0.0	2.0	2.0
Elections	0	0	0.0	0.0	0.0	0.0
Emergency Communications	0	0	0.0	0.0	0.0	0.0
Equal Opportunity Office	190,286	58,401	1.0	0.0	0.0	1.0
Health	948,831	117,144	3.0	3.0	62.0	68.0
Human Resources	471,264	230,621	2.0	0.2	0.0	2.2
Information Technology	0	0	0.0	0.0	0.0	0.0
Library	190,000	0	0.0	0.0	0.0	0.0
Parks	3,912,944	0	0.0	0.0	0.0	0.0
Probation	2,805,165	2,022,577	0.0	20.0	0.0	20.0
Public Defender	978,600	347,974	2.0	1.0	0.5	3.5
Resource Management Agency[4]	11,320,394	472,402	0.0	0.0	1.0	1.0
Sheriff-Coroner	11,135,092	5,914,344	24.0	17.0	0.0	41.0
Social Services	805,047	294,587	0.0	0.0	0.0	0.0
Treasurer-Tax Collector	0	0	0.0	0.0	0.0	0.0
Totals	**$37,455,791**	**$11,353,635**	**34.0**	**49.3**	**72.5**	**155.8**

[1] Augmentation of $202,764 included a $101,382 reduction to the baseline budget, for a net augmentation of $101,382.

[2] Augmentation requests funded by the deletion of vacancies and the use of Fund 403 monies.

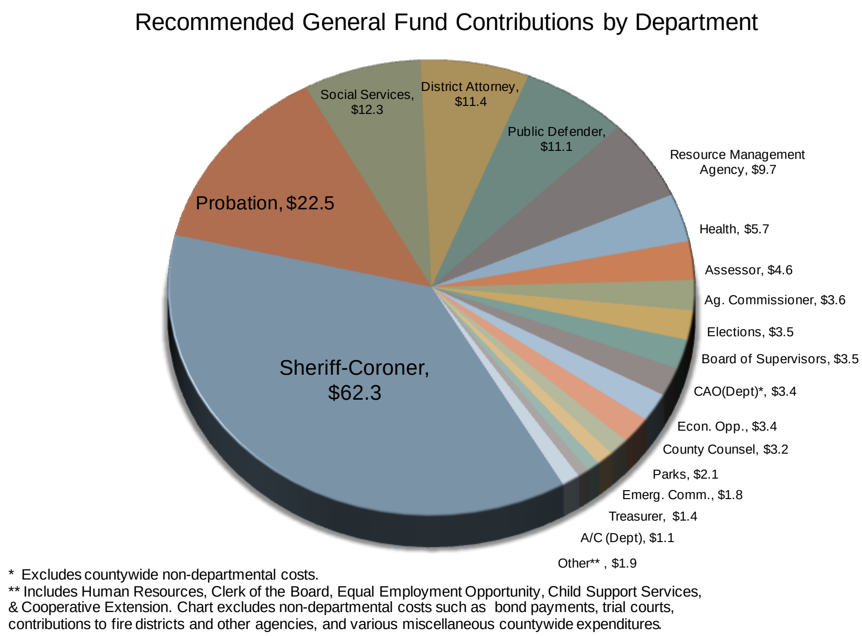
[3] Augmentation of $111,209 included a $85,622 reduction to the baseline budget, for a net augmentation of $25,587.

[4] Augmentation requests supported by the redirection of funding previously allocated to tw o director positions.

The County Administrative Office worked collaboratively with departments to minimize staffing and operational impacts to departments, yet due to the limited discretionary funding available this year and the substantially amount of requests for additional general funds, there were inevitably a number of requests that remain unfunded in the Recommended Budget. Those requests included a reduction in filled positions in the following departments: eight positions in the Parks Department, one position in County Counsel and five positions in Resource Management Agency.

2016-17 General Fund Contributions

The County's non-program revenues are allocated as general fund contributions. Generally, departments receive GFC equal to their current year allocation, plus a share of the next year's estimated growth, as prioritized during the annual budget process. However, as mentioned previously, additional adjustments were made for the Auditor-Controller's new indirect cost chargeback program. General Fund contributions were removed from "overhead" departments commensurate to the increase of revenues received under this program and redirected to operating departments that will now be charged for overhead costs.



The recommended budget allocates roughly half of available general fund contributions to support the public safety function, with the largest share, $62.3 million, allocated to the Sheriff's Office, followed by $22.5 million for Probation. The District Attorney receives $11.4 million while the Public Defender receives $11.1 million. General fund contributions for other departments include: $12.3 million for Social Services, $9.7 million for the Resource Management Agency, and $5.7 million for Health. The Assessor's Office, funded by $4.6 million in GFC, and the Agricultural Commissioner, funded by $3.6 million in GFC, also receive funding from a combination of revenue from various charges for services and intergovernmental revenue. Other significant allocations of GFC include: $3.5 million each for Elections and the Board of Supervisors, $3.4 million each for CAO and Economic Opportunity, $3.2 million for County Counsel, $2.1 million for Parks, $1.8 million for Emergency Communications, $1.4 million for Treasurer-Tax Collector and $1.1 million for the Auditor-Controller. The chart above reflects departments general fund contribution inclusive of recommended augmentations.

Monterey County's Employees

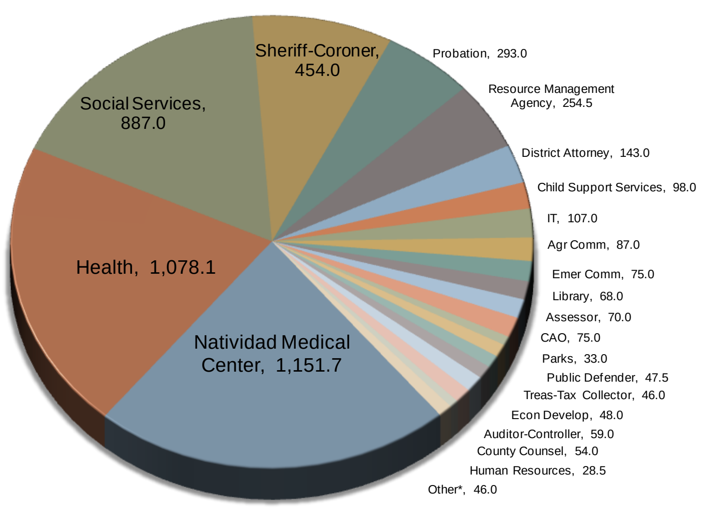
As political subdivisions of the State, counties are charged with delivering a multitude of services, mandated by federal/State laws and/or local priorities. By their nature, County programs and services require a dedicated workforce to address a diverse combination of responsibilities:

- As prescribed by law – Adult Detention (jails), Juvenile Detention, Juvenile Justice Programs, Probation (juvenile & adult), Coroner/Medical Examiner, Forensic Labs, District Attorney (prosecutions), Indigent Defense, Law Library, Elections, Veterans' Services, Agricultural Commissioner, Weights and Measures, Cooperative Extension, Assessor, Treasurer-Tax Collector, Auditor-Controller, Landfill, Homeless Shelters, Communicable Disease Control, Immunizations, Environmental Health, and Indigent Burials;

- On behalf of the State – CalWORKS, Adult and Child Protective Services, Food Stamps, Foster Care, Public Administrator, Public Guardian-Conservator, Recorder/ Vital Statistics, Regional Parks, Drug and Alcohol Abuse Services, In-Home Supportive Services, Medical Care Services, Mental Health Services, Public Health/Laboratory Services, Women, Infants & Children (WIC);
- Local priorities for public health and safety: Unincorporated municipal services, building inspection and code enforcement, planning and zoning, police protection, economic development, emergency services, fire protection, housing, library services, parks and recreation, pest control, streets/roads/ highways, sewers, storm drains, water delivery, and weed abatement.

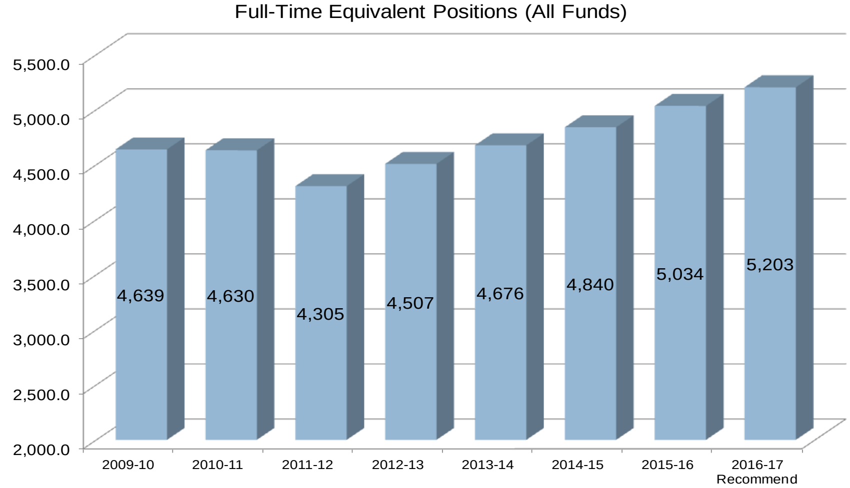
The County's employees are its most critical resource for delivering the multitude of services represented in the above categories. The recommended budget includes 5,203 positions, increasing by 169.2 positions since adoption of the 2015-16 budget. Natividad Medical Center increased its positions by 84.5. Having served close to 1,400 patients in its first year, the increase in positions will allow the hospital to continue to meet the increased demand in its new Level II trauma center and its expanding family practice residency program. The Health Department continues to expand its capacity in its behavioral health program and health clinics to serve the increasing number of clients enrolled into Medi-Cal managed care under the *Affordable Care Act* (ACA) and the newly insured under *Covered California*. The department increased its positions by 52.3 with the majority of position growth in clinic services for expanded primary care services.

Full-Time Equivalent Positions by Department



* Includes the Board of Supervisors (20), Elections (12), Equal Opportunity (5), Clerk of the Board (5), and Cooperative Extension (4).

Full-Time Equivalent Positions (All Funds)



Strategic Reserve

Existing policy establishes provisions for a strategic reserve equal to 10% of general fund revenues for the following purposes:

- To build the County's capacity for funding settlement of legal judgments that exceed reserves normally designated for litigation; and

- To offset short-term revenue reductions due to economic downturns, and natural disasters as determined by the County Administrative Officer or the Board of Supervisors.

Maintaining responsible reserve levels is a key component of a sound financial management strategy. A major component of this strategy is the County's existing Strategic Reserve policy which provides for a strategic reserve equal to 10% of general fund revenue. The main purpose of the strategic reserve is to build the County's capacity for funding settlement of legal judgments that exceed reserves normally designated for litigation, offset short-term revenue reductions due to economic down-turns, and address natural disasters as determined by the County Administrative Officer or the Board. During the recession, the County suspended assignments to the strategic reserve to ease the impact to departments. However, in FY 2014-15, an additional $10.0 million was assigned to the strategic reserve, resulting in a balance of $70.3 million. Included in this amount is $14.2 million transferred from Natividad Medical Center (NMC).

OTHER FUNDS

Natividad Medical Center

Natividad Medical Center (NMC) is a County "enterprise fund," defined as a governmental fund that provides goods and services to the public for a fee, which makes the entity self-supporting. The NMC Fiscal Year (FY) 2016-17 Recommended Budget uses the following revenue and operating expenses assumptions:

Natividad Medical Center	Actuals 2014-15	Adopted Budget 2015-16	Recommend 2016-17
Cash Position	$ 50,721,336	$ 56,399,154	$ 38,586,893
Revenue	258,806,795	219,310,611	262,167,925
Expenditures	244,237,687	219,342,512	251,667,562
Ending Net Position	65,290,444	56,367,253	49,087,256
Change in Cash Position	5,677,818	9,250,208	10,500,363

6/30/16 estimated cash balance is $65,649,362. Capital projects funding will be transferred for FY 2017 to the County Capital Fund (Fund 404) in the amount of $27,062,469. $17,050,514 is budgeted to transfer to Fund 451 during FY 2017.

- Available generated revenue is estimated at $262.2 million, an increase of $42.9 million over the current year adopted budget. Net patient revenues are expected to increase by 13.8% in FY 2016-17 primarily attributed to the Medicaid expansion through Covered California, new enrollees in the MediCal Managed Care, and revenue from trauma services. Additionally, governmental revenue is expected to increase by 2% primarily attributed to the 2010 Patient Protection and Affordable Care Act (PPACA) commonly called the Affordable Care Act (ACA).

- The FY 2016-17 Recommended Budget includes using the County's Capital Fund, Fund 404-Facilities Master Plan Projects, to hold funds for Board approved projects whose costs are above $100,000; transfer approximately $27.1 million from Fund 451 to Fund 404; and increase appropriations in Fund 404 by an estimated $17.1 million for building and improvement, information technology, medical and other equipment projects. Fund 404 will reimburse NMC, Fund 451, for expenditures incurred for those projects during the fiscal year where the $17.1 million is part of the estimated $262.2 million. The approach separates operational funds from capital funds and ensures funding availability for Board approved capital projects.

- Expenditures for FY 2016-17 are budgeted at $251.7 million, a $32.3 million (14.7%) increase over the FY 2015-16 Adopted Budget. The increase is related to: annual employee step rate increases, insurance costs, new positions to accommodate for volume increases, an expanding Family Practice Residency Program, increasing quality assurance resources, additional components of electronic health records implementation, and other support positions.

Based on these assumptions, NMC expects to add (including capital expenditures) $10.5 million to Fund 451 fund balance during FY 2016-17.

Road Fund

Road Fund	Actuals 2014-15	Adopted Budget 2015-16	Recommend 2016-17
A. Beginning Fund Balance	$ 4,913,155	$ 4,589,599	$ (258,298)
B. Revenue	23,125,295	31,044,655	36,998,911
C. Use of Fund Balance	-	-	-
D. Total Financing, A+B+C	28,038,451	35,634,254	36,740,613
E. Expenditures	23,448,851	35,410,211	36,658,794
F. Assignments to Fund Balance		-	-
G. Total Financing Uses, E+F	23,448,851	35,410,211	36,658,794
H. Ending Fund Balance, D-G	$ 4,589,599	$ 224,043	$ 81,819

The Road Fund is a special revenue fund established according to State Law to account for revenues that are legally restricted for County road and bridge construction and related maintenance projects. The fund balance in the Road Fund has steadily eroded in recent years as the revenue from the County's Highway Users Tax (HUTA) continues to decrease and overhead expenses increase. It was anticipated during FY 2016-17 budget development that there would be $1.2 million of one-time funds from the Road Fund unassigned fund balance that would carry over into FY 2016-17 to be used to offset operating costs. However, Resource Management Agency's (RMA) response to the 2016 winter storms has further complicated the financial condition of the Road Fund. The unassigned fund balance for the Road Fund is anticipated to be completely depleted by the end of FY 2015-16 and end in a negative fund balance of $258,298.

Increased expenditures to the Road Fund are attributable to several factors including increased road maintenance requests, the timing delay of when project funds are received versus when project construction begins, additional increased allocated costs associated with the general liability insurance program and charges from other County departments, and unplanned/unanticipated expenditures related to storm damage. On May 10, 2016 the Board of Supervisors approved use of one-time funds (Transient Occupancy Tax) to be redirected to balance the budget and avoid layoffs for eight filled field maintenance positions by deferring the Blanco Road Overlay project. However, in order to balance the Road Fund Budget by the end of FY 2016-17, reductions were still needed resulting in four filled positions that were not included in the Recommended Budget. The use of one-time funds is a one-year fix as a longer term sustainable solution is needed.

The Road Fund is primarily funded by State and local fuel taxes as well as Federal and State grants. The Road Fund also receives a portion of the County's anticipated Transient Occupancy Tax (TOT) revenue. For 2016-17 the Road Fund share of TOT revenue is $4.9 million (23% of total TOT revenue), of which $2.0 million supports the Pavement Management Program and $2.9 million would be used to sustain field maintenance operations and cover the costs incurred due to the 2016 winter storms. The current recurring revenues are not sufficient to support the fundamental Road and Bridge functions of Monterey County. A more dependable funding source for road and bridge maintenance is needed. Otherwise, severe reductions in maintenance, services to the citizens of Monterey County, and staffing levels will be necessary over time. The Transportation Agency for Monterey County (TAMC) is exploring the possibility of a 2016 ballot measure for a 3/8 cent transportation sales tax to fund transportation projects and road maintenance. However, if passed by voters, funds would not be available until the end of the 2016-17 and it is not clear at this time how much of the revenue would be dedicated to road maintenance.

County Library Fund

The Monterey County Free Libraries (MCFL) is a special taxing authority under the County Library Law of 1911, established to provide a network of libraries that serve the diverse communities of Monterey County. As such, the fund's operations are primarily financed through its own share of property tax.

Monterey County Free Library	Actuals 2014-15	Adopted Budget 2015-16	Recommend 2016-17
A. Beginning Fund Balance	$ 1,549,669	$ 1,327,658	$ 1,137,465
B. Revenue	7,556,684	8,530,424	9,954,562
C. Use of Fund Balance		-	-
D. Total Financing, A+B+C	9,106,353	9,858,082	11,092,027
E. Expenditures	7,778,695	8,720,617	10,119,266
F. Assignments to Fund Balance		-	
G. Total Financing Uses, E+F	7,778,695	8,720,617	10,119,266
H. Ending Fund Balance, D-G	$ 1,327,658	$ 1,137,465	$ 972,761

Demand for library services remain at high levels partly because of ongoing economic and educational challenges in many of MCFL's service areas, and the lack of alternate cultural resources, but also because of the high quality services that MCFL provides. Most of the special programs that MCFL provides such as homework centers, Science, Technology, Education and Math (STEM) and early literacy classes in preschools, toy kits for children to take home, screening of feature films, summer enrichment and reading programs are almost entirely funded through grants and by MCFL support groups.

The majority of MCFL's budget goes toward staff salaries, both for permanent and temporary staff, and for maintaining its multiple locations, some of which are County/City/School owned and some of which are leased. A small portion of the budget is used for the purchase of library materials, including books and print subscriptions, DVDs and audio materials, databases and online subscriptions, and other library materials. A portion of the budget is also set aside for ongoing and increasing technology needs and maintenance.

The present day library is a source of free access to computers and high speed connection to the Internet, a safe place for children, youth and adults to spend time away from home, a center for homework help, a center for entertainment and exposure to cultural programming and arts, a place for parent education and story times for preliterate children, a hub for job-seekers and other adults seeking basic opportunities for a better life, and a place for people to meet, interact and socialize.

The Fiscal Year 2016-17 Library Recommended Budget reflects an increase in both revenue and appropriations over the last fiscal year. MCFL is anticipating a 2% revenue increase over FY 2015-16.

This estimate is based on the actual receipt of property taxes during the first half of the tax year. Additional property taxes, including supplemental, unsecured and other property tax categories are all experiencing an increase.

The Recommended Budget also reflects an overall increase of 20% in expenses. Increases in expenditures are partially due to the increased cost for employee health benefits and the cost for information technology related equipment, software costs, and services to support a redesign of the library network to bring 1 gigabit/second broadband access to the branches.
Several building and repair projects were initiated in FY 2015-16, with at least two of them carrying over into the FY 2016-17 Budget. The Seaside library renovation project cost the County $625,000 for internal repairs and refurbishing, and the City of Seaside contributed to repairing the exterior of the building. The construction of the new San Lucas Library is funded by County funding, private donations, grants, and library budget appropriations. The Big Sur Library is undergoing an intensive repair project to mitigate serious deterioration of the building. The estimated cost of this project is $175,000. The Greenfield Library, which is in dire need of repairs, is also scheduled for a repair project with a projected cost of $70,000 during FY 2015-16. The Greenfield Library is anticipated to need major additional repairs in FY 2016-17, including wiring upgrades to support high speed broadband connection.

The remainder of the County Library's budget, excluding staff salaries and maintaining multiple locations, is dedicated toward shared County costs. The Library's staffing levels are very constrained, and the funds available for books and library materials, computers/technology, and library supplies are very limited. The County Library collaborates with various Friends of the Library groups and the Foundation for Monterey County Free Libraries on fundraising events, grant applications, book sales and various outreach efforts to obtain funding for new and ongoing library programs and services, and for staff support. The County Library is also continuing to seek other funding opportunities such as partnerships with cities to share operational costs.

Though the increase in expenses exceeds the increase in revenue, the Library anticipates a continued positive balance for FY 2016-17. However, while the gap between MCFL's resources and community needs continues to grow MCFL will continue to actively seek alternative and diversified sources of funding in order to supplement its budget and fill the ongoing gap.

Behavioral Health Fund

The Behavioral Health Fund is a special revenue fund effective July 1, 2012.

Behavioral Health provides mental health and substance abuse services to Monterey County residents. The Mental Health Program, pursuant to Welfare and Institutions Code Section 5600, provides a continuum of County operated and community-based mental health services through various contracts. The program provides a range of inpatient,

Behavioral Health Fund	Actuals 2014-15	Adopted Budget 2015-16	Recommend 2016-17
A. Beginning Fund Balance	$ 26,125,735	$ 27,754,477	$ 19,117,500
B. Revenue	80,276,198	97,003,022	104,927,846
C. Use of Fund Balance		-	-
D. Total Financing, A+B+C	106,401,933	124,757,499	124,045,346
E. Expenditures	78,647,457	105,639,999	116,858,100
F. Assignments to Fund Balance		-	-
G. Total Financing Uses, E+F	78,647,457	105,639,999	116,858,100
H. Ending Fund Balance, D-G	$ 27,754,477	$ 19,117,500	$ 7,187,246

social rehabilitation, supportive housing, and outpatient services to Monterey County Medi-Cal beneficiaries who meet the State Department of Mental Health's medical necessity definition. Services provided in the Alcohol and Drug Program include residential, transitional housing, perinatal residential, outpatient, prevention, early intervention, narcotic replacement, drinking driver programs, drug court, and drug diversion per Penal Code 1000.

The Recommended Budget for the Behavioral Health Fund shows that expenses and revenues will increase due to the continuing implementation of the Affordable Care Act. The Health Department continues to coordinate with the Auditor-Controller's Office and County Administrative Office on the appropriate recognition and accounting of mental health revenue.

Behavioral Health has a strong array of community based culturally competent behavioral health contract providers. However, the Department is challenged with the development of better access to services, more prevention efforts, and even more efficient use of our resources. Behavioral Health will continue to balance integration and transformation of service delivery with quality behavioral health care.

Local Revenue Fund 2011

Local Revenue Fund 2011	Actuals 2014-15	Adopted Budget 2015-16	Recommend 2016-17
A. Beginning Fund Balance	$ 9,084,606	$ 11,286,065	$ 9,323,350
B. Revenue	46,172,293	55,791,420	56,876,584
C. Use of Fund Balance	-	-	-
D. Total Financing, A+B+C	55,256,899	67,077,485	66,199,934
E. Expenditures	43,970,834	55,791,420	56,876,584
F. Assignments to Fund Balance		-	-
G. Total Financing Uses, E+F	43,970,834	55,791,420	56,876,584
H. Ending Fund Balance, D-G	$ 11,286,065	$ 11,286,065	$ 9,323,350

In June 2011, the State Legislature passed AB 118 (Chapter 40, Statutes of 2011). AB 118 required counties to create a *Local Revenue Fund 2011* and various accounts within the fund, including: a Local Community Corrections Account, the Trial Court Security Account, the District Attorney and Public Defender Account, the Juvenile Justice Account, the Health and Human Services Account, and the Supplemental Law Enforcement Services Account. Funds directed to these accounts must be used exclusively to fund realigned programs as per statute. For next fiscal year, the Local Revenue Fund 2011 includes a beginning and ending fund balance of $9.3 million, a $2.0 million decrease over the current year adopted budget. Expenditures (operating transfers out to the various public safety departments total $56.9 million, matching available revenues.

Health and Welfare Realignment Fund

In 1991, the State enacted legislation that altered the fiscal arrangement between the State and counties and dedicated portions of Vehicle License Fee (VLF) and Sales Tax revenues to County health, mental health and social services programs. The *1991 Realignment* transferred programs from State to county control, altered cost-sharing ratios, and provided counties with the VLF and Sales Tax as dedicated revenues to pay for the programs.

The 1991 Realignment differs from the 2011 Realignment. The Realignment impacted the Department of Social Services (DSS) in such programs as: CalWORKs, CalFresh, Foster Care, Adoptions, Child Welfare Services, and In-Home Supportive Services (IHSS).

The sales tax and VLF are collected and distributed on a monthly basis by the State Controller's Office and deposited into the Health and Welfare Realignment Fund (Fund 025), then distributed to various budget units through operating transfers. Growth funds above the base are distributed by a defined process and estimated annually by the Department of Finance. The fund expects a $274,756 improvement to fund balance in 2016-17, based on estimated revenue of $63.1 million and expenditures of $62.9 million.

Health & Welfare Realignment	Actuals 2014-15	Adopted Budget 2015-16	Recommend 2016-17
A. Beginning Fund Balance	$ 4,003,527	$ 10,847,272	$ 10,847,272
B. Revenue	29,584,467	65,991,306	63,140,474
C. Use of Fund Balance	-	-	-
D. Total Financing, A+B+C	33,587,994	76,838,578	73,987,746
E. Expenditures	22,605,290	64,883,862	62,865,718
F. Assignments to Fund Balance		-	-
G. Total Financing Uses, E+F	22,605,290	64,883,862	62,865,718
H. Ending Fund Balance, D-G	$ 10,982,704	$ 10,847,272	$ 11,122,028

Parks Lake & Resort Operations

The Parks Resort Enterprise Fund is estimated to end Fiscal Year 2015-16 with a negative $5.5 million net position. The fund continues to face challenges with declining revenues due to low lake levels and increasing expenditures due to the prolonged drought.

Parks Lake & Resort Operations	Actuals 2014-15	Adopted Budget 2015-16	Recommend 2016-17
A. Beginning Fund Balance	$ (4,450,220)	$ (5,520,898)	$ (5,520,898)
B. Revenue	5,228,528	3,302,235	3,113,798
C. Use of Fund Balance		-	-
D. Total Financing, A+B+C	778,308	(2,218,663)	(2,407,100)
E. Expenditures	6,299,206	3,302,235	3,113,798
F. Assignments to Fund Balance		-	-
G. Total Financing Uses, E+F	6,299,206	3,302,235	3,113,798
H. Ending Fund Balance, D-G	$ (5,520,898)	$ (5,520,898)	$ (5,520,898)

The Recommended Budget confines the ability to operate Lake Nacimiento at ideal capacity and requires the Park Department to close down all operations and infrastructure systems at Lake San Antonio. Funding for permanent and temporary staffing, baseline maintenance and improvements and Invasive Species Protection Program (quagga mussel inspection) was reduced. Based on historical patterns, additional funding in excess of $2.0 million is required in a low lake level year to cover cost of operations and maintenance. Augmentation requests totaling $3.7 million were submitted to fill the gap between operating revenues and expenditures in the 2016-17 Recommended Budget.

Budget Hearings

Budget hearings for the FY 2016-17 Recommended Budget are scheduled to begin on Wednesday, June 1, 2016. The budget hearing schedule will be available online at the Monterey County Clerk of the Board’s website on or around Friday, May 20, 2016.

Appropriation Limits

Article XIIIB of the California State Constitution, Proposition 4, or the Gann Limitation, requires local agencies to calculate an appropriations limit, compile revenues that are subject to this limit, and make a comparison between the two. If the local agency's revenues (tax proceeds) exceed the limit, the law allows the voters to approve the increase, or the political entity must return the excess revenues to the taxpayers within two years.

The calculations for the County's general fund and library fund appropriations limit are prepared by the Auditor-Controller's Office with assistance from the County Administrative Office. All districts are within their limits.