Budget End of Year Report

Fiscal Year 2016-17

November 2017

INTRODUCTION

The County Administrative Office is pleased to present the Fiscal Year 2016-17 Budget End of Year Report (BEYR). The financial data utilized in this analysis is unaudited and subject to revisions. This report is prepared to promote financial transparency and responsible financial oversight. The BEYR provides a comprehensive analytical comparison between the County's final modified budget and actual year-end results by reviewing the following items:

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

2017 Monterey County Board of Supervisors

From left to right: Jane Parker (representing Del Rey Oaks, Marina, Sand City, Seaside, Southwest Salinas), Simón Salinas (representing East Salinas, Spreckels, Chualar, Greenfield, Gonzales, Ft. Hunter Liggett, King City, Soledad, Lake San Antonio, South County), Mary Adams (Chair, representing Carmel, Carmel Valley, Big Sur, Pacific Grove, Pebble Beach, Monterey, Hwy 68, Las Palmas), John M. Phillips (representing Aromas, Boronda, Castroville, Las Lomas, Moss Landing, North Salinas, Pajaro, Prundale, and Royal Oaks); and Luis Alejo (representing most of urban Salinas).

The BEYR begins with an analysis of countywide performance of the County's general fund – the largest fund that supports basic governmental functions, followed by a more detailed analysis of departmental performance. This report also provides an analysis of other major funds under the Board's oversight.

CURRENT ACCOMPLISHMENTS

In the face of rising cost pressures and competing priorities, the County has continued its conservative fiscal management, balancing operational priorities and making strategic investments. During the year, the County continued to invest in the community, promote public safety, support health and wellness, improve infrastructure, and endure natural disasters. Some examples of these accomplishments include:

Promoting Public Safety

- Expenditures for public safety programs totaled $187.4 million or 31% of general fund expenditures. The County funded over half of the expenditures with general fund contributions of $107.2 million. The largest contribution was to the Sheriff's Office at $62.6 million.
- During FY 2016-17, the Sheriff's Office purchased 24 vehicles including 14 patrol cars, eight vehicles for use in enforcement and special operations, and two vans for jail transport at an estimated cost of $1.1 million.
- The County completed major work installing a new security camera system at the jail to prevent violence and improve safety for inmates and staff. Expenditures for jail cameras totaled $3.8 million in FY 2016-17.

- The Board approved an additional $4.7 million in general fund contributions to the Sheriff's FY 2016-17 budget to cover increased costs for salaries, pensions and employee health insurance and protected all sworn officer positions and professional positions at risk due to rising costs.
- The Sheriff's Office built up its workforce, successfully recruiting new deputies to staff the jail and patrol operations. For the first time in nine years, the Office had all but five sworn officer positions filled at the end of FY 2016-17.

Supporting Health and Wellness

- The Board set aside $3.9 million to cover the costs for legal defense of Measure Z, passed by voters to ban fracking, wastewater injection, and new oil developments in the County.
- Continued the winter homeless shelter and partnered with community providers to extend drop in center hours for homeless individuals and families during the day.
- Expanded capacity by 15 exam rooms for pediatrics clinics and four exam rooms for internal medicine / primary care clinics in Salinas and completed construction of the Seaside primary care clinic.

Improving County Infrastructure

- The County addressed critically damaged roads and infrastructure caused by the *Soberanes Fire* and winter storms. The Board authorized $16.8 million from the strategic reserve to cover fire and storm costs, of which $9.5 million was expended in FY 2016-17 to repair damaged roads and County parks.
- The County continued working toward the jail addition project, a facility providing an additional 576 beds. The year-to-date expenditures on this project are $7.3 million since project inception.
- The County made progress on the new 120-bed juvenile hall that replaces the existing aged facility. The year-to-date expenditures total $5.2 million since project inception.
- Construction began for the East / West Wing renovation, which will house the District Attorney and other County staff. The project expenditures totaled $10.5 million at year-end, since project inception.
- Tenant improvements were finalized at the Schilling Place complex and staff began to occupy the building at the beginning of 2017. The building now houses part of the Health Department, the Resource Management Agency, Elections and others. Total expenditures for the project through FY 2016-17 totaled $14.9 million.

Contributing to Other Agencies

- The County makes discretionary contributions to other agencies in the community that work to enhance and meet the Board's strategic initiatives. In FY 2016-17, the County contributed $2.8 million to help support fire districts, $1.6 million to cities that participate in the 911 consolidated dispatch center, and $1.9 million to agencies that promote economic development in the community.

Supporting our Workforce

- The County added 101 positions in the general fund, primarily for Health to staff expanding primary clinics and Social Services for the In-Home Support Services Program.
- Provided raises of 1.5% for most County employees and continued to absorb increases in retirement cost and health insurance premiums, which increased $2.8 million and $3.3 million, respectively, over the prior year.

Preparing a Contingency Plan

- As the economy recovered after the *Great Recession*, the County resumed efforts to build a strategic reserve equal to 10% of general fund revenue to ensure sufficient cash is available to continue operations during revenue "dry periods" and endure emergencies. The general fund strategic reserve had been built up to a balance of $56.1 million at the end of FY 2015-16. The reserve prepared the County to endure a series of natural disasters during the year, causing significant damage to County roads and parks. During the year, the Board authorized $30.9 million from the strategic reserve to address extraordinary costs related to damage caused by fires, winter storms, and litigation costs. Without the reserve, the County would have been in a precarious situation with inevitable impacts to operations as significant resources would have been shifted from programs to address these issues.

- Due to favorable year-end performance, the County returned $2.3 million to the strategic reserve, bringing the balance to $27.5 million for the general fund portion and $17.8 million for the County hospital. The County's strategic reserve for the general fund is only 4.3% of general fund revenues and $36.2 million under the policy target amount. It is vital to build up the strategic reserve to the 10% policy to the extent the County experiences positive financial performance and begins to receive reimbursement from the federal and state governments for eligible natural disaster costs to protect the County's financial stability and sustainability.

GENERAL FUND HIGHLIGHTS

The general fund is the County's largest fund, supporting basic governmental functions related to public safety, land use and environment, public assistance, health and sanitation, recreation and education and finance and administration. The FY 2016-17 Adopted Budget included $633.7 million in appropriations, matched by an equivalent amount of financing. Subsequent modifications throughout the year increased appropriations by $36.2 million, financed primarily by additional revenue and use of fund balance for one-time expenditures such as the fire and winter storm expenditures. The County ended the fiscal year with a favorable performance, compared to the final budget. Highlights of the general fund performance include:

- Unassigned fund balance of $6.0 million, as reflected in the FY 2015-16 audited financials, was carried forward into FY 2016-17.
- FY 2016-17 revenues totaled $596.4 million, or $38.3 million below the final modified budget due to lower reimbursable program expenditures and a technical change to the way the County accounts for funding of indigent medical care.
- Year-end expenditures totaled $601.5 million, or $68.4 million below the final modified budget. Nearly half of the decrease is attributed to vacancies, resulting in lower-than-budgeted salaries and benefit expense of $33.0 million. Other factors contributing to unused appropriations include lower than planned reimbursable expenditures for public safety, health and social services programs, as well as lower than anticipated transfers out for capital projects, fire and storm repairs, and trust account transfers.
- Expenditures were higher than revenues by $5.1 million, resulting in an operating deficit. This is the first year

General Fund At-a-Glance

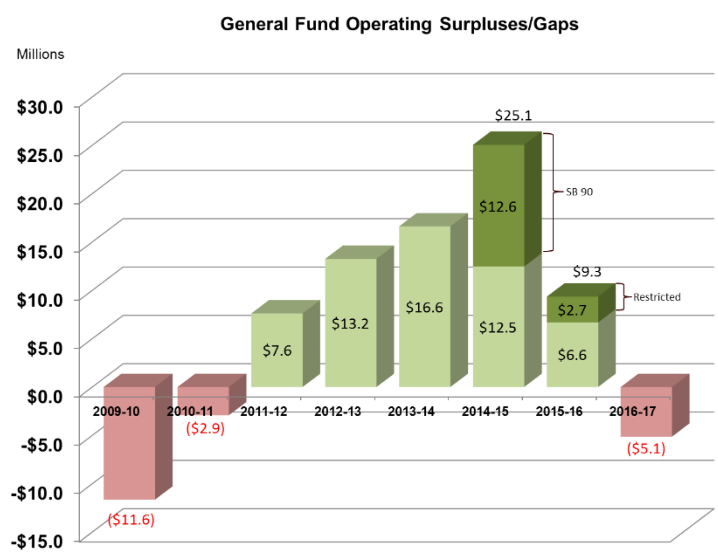
	Adopted Budget	Modified Budget[1]	Year-End Actual
Available Financing:			
Fund Balance (FY 2015-16)	$ -	$ 6.0	$ 6.0
Restricted Fund Balance	-	-	0.4
Cancellation of Assignments	12.6	33.5	18.2
Revenues	621.1	634.7	596.4
Adjustment to Revenue	-	-	(0.2)
Total Financing Sources	**633.7**	**674.3**	**620.8**
Financing Uses:			
Restricted Fund Balance	-	-	0.4
Assignments	-	-	10.0
Expenditures	633.7	669.9	601.5
Total Financing Uses	**633.7**	**669.9**	**611.9**
Subtotal Unassigned Fund Balance:	**(0.0)**	**4.3**	**8.8**
Obligated in FY 2017-18 Adopted Budget[2]			**(6.0)**
Unassigned Fund Balance:	**(0.0)**	**4.3**	**2.8**

Dollars shown in millions. Numbers may not total due to rounding.
[1] Includes pending appropriation increase of $7.8 million for Social Services & ITD
[2] $6.0 million in FY 2015-16 unassigned fund balance was utilized to balance the FY 2017-18 Adopted Budget

within the last six fiscal years that the County spent more than it earned in revenue.

- The County utilized $18.2 million in assigned fund balance, primarily for repairs to County infrastructure that was damaged as a result of natural disasters, as well as costs for capital projects and litigation.
- The County assigned $10.0 million to its reserves, including $3.0 million for the cannabis assignment, $2.3 million to the strategic reserve, $4.1 million for the Laguna Seca Track, and $0.6 million for the Vehicle Replacement Program. Assignments were made in accordance with recommendations adopted with the FY 2017-18 budget.
- After accounting for the additions to reserves, staff estimate ending the fiscal year with unassigned fund balance of $8.8 million. Of this amount, $6.0 million is carried forward from earlier fiscal years and has been utilized to fund one-time expenditures in the FY 2017-18 adopted budget. The final results are subject to annual audit and will be published by the Auditor-Controller in the Comprehensive Annual Financial Report later this year.
- Excluding non-departmental revenues, twenty (20) departments ended the fiscal year with a general fund contribution (GFC) surplus totaling $9.7 million, while four departments had a GFC deficit of $4.3 million, resulting in a combined savings of $5.4 million.
- The general fund adopted contingency appropriation totaled $4.7 million, of which $2.2 million was utilized by six departments, leaving a balance of $2.5 million.
- Three departments used $1.1 million from the compensated absences assignments to address leave accrual payouts that could not be absorbed in their respective budgets.

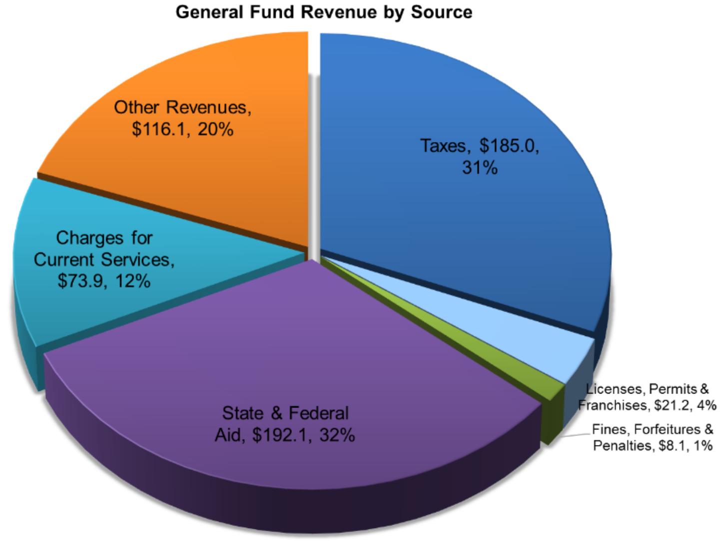
PROMOTING FISCAL INTEGRITY



During the recession, the County utilized fund balances to minimize the impact to both services and employees. These gaps financed by fund balance are shown in the chart to the right. In the ensuing economic recovery, revenues improved and the County experienced operating surpluses.

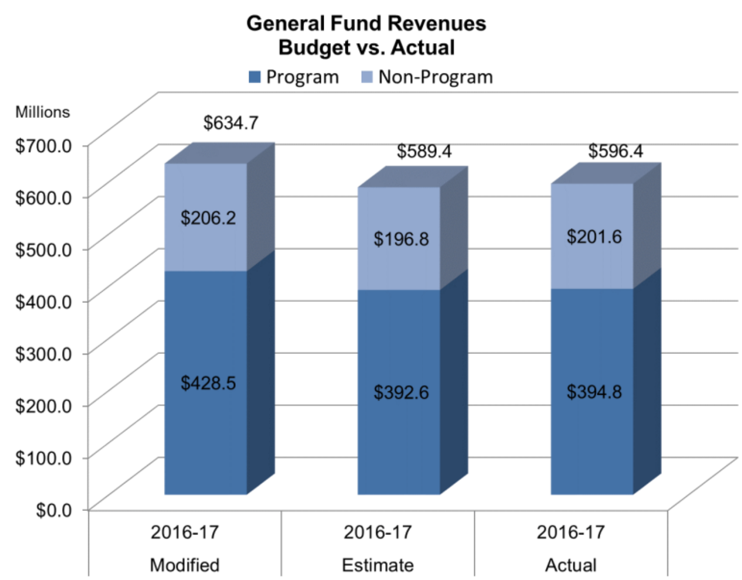
For the first time in six years, the County ended the fiscal year with an operating deficit, with expenditures exceeding revenues by $5.1 million. The County had maintained structural balance since FY 2011-12, when the Board ended the County's reliance on fund balance for ongoing operations through adoption of prudent strategic policies and cost-saving efforts. When one-time funds are excluded, there is a declining trend in operating surpluses since FY 2013-14, when the County started growing the workforce. Rising cost pressures such as wage increases, pension costs, and healthcare costs have consumed a greater portion of expenditures and are contributing to the negative trend. In FY 2016-17, it is evident that it is becoming increasingly difficult to support rising costs with ongoing revenue, and the County had to resort to fund balance to support expenditures.

GENERAL FUND REVENUE



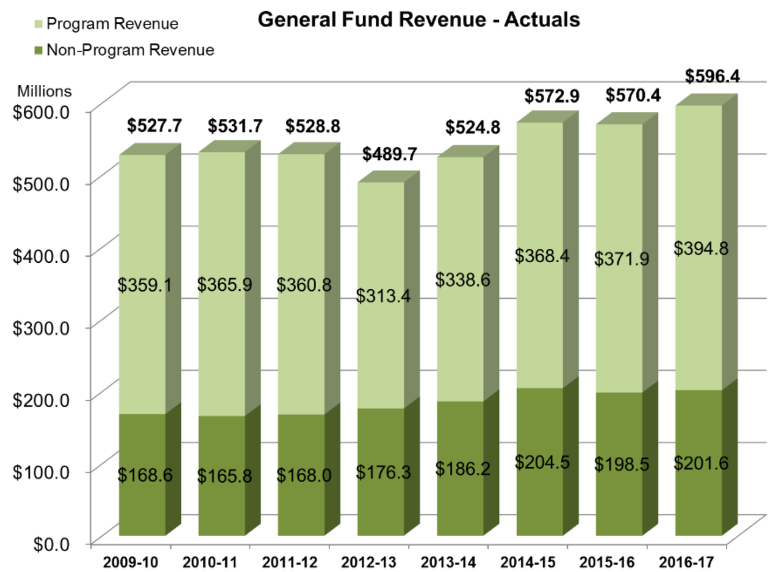
General fund revenue is composed of program and non-program revenue. Program revenue accounts for about two-thirds of revenue and is specifically designated and/or statutorily required for programs. Sources of program revenue are derived from state and federal aid for various mandated programs primarily in Health and Social Services, charges for services are primarily fees collected by health clinics and the 911 consolidated dispatch center for services provided to cities and fire districts, and other revenues primarily include reimbursement from realignment funds for health, social services, and public safety programs.

Non-program revenues account for about one-third of the County's revenues, and are discretionary funds used to address local priorities and to provide matching funds to leverage federal and state monies and to meet maintenance of effort requirements. Non-program revenue sources are primarily derived from taxes, including property taxes, transient occupancy tax, sales and use tax, cannabis tax, investment income, tobacco settlement monies, and franchise fees.



FY 2016-17 revenue totaled $596.4 million, which is $38.3 million below the final budget. The major variances include:

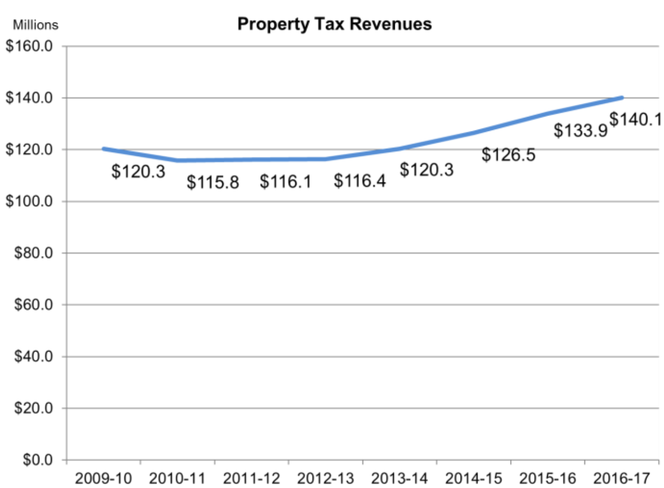
- $12.0 million lower than budgeted state reimbursements due to lower reimbursable expenditures for public safety, health, and social services programs.
- $8.0 million lower health fees as the Seaside clinic construction was delayed resulting in lower primary care services than initially anticipated in the budget.
- $11.8 million lower federal and state aid attributed to lower reimbursable expenses of client aid under the CalWORKs program.
- $9.4 million shift of VLF funds to a state realignment fund for monies previously held in the general fund.

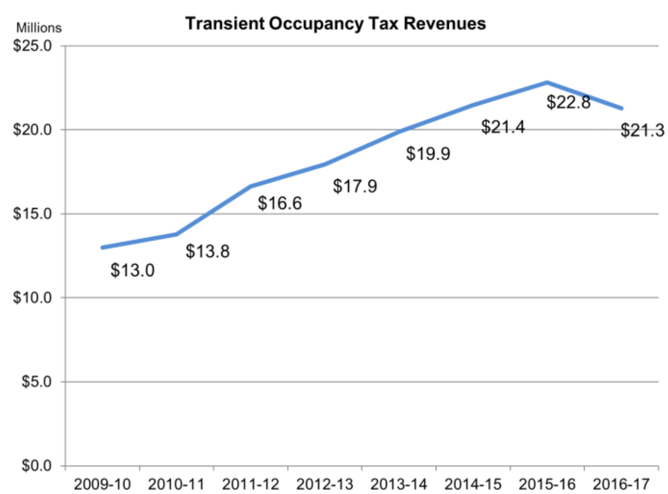


General fund revenues increased $26.0 million over the previous year. Year-over-year increases include:

- A technical accounting transaction to record capital lease proceeds of $15.6 million. The lease proceeds were recognized in accordance with Generally Accepted Accounting Principles (GAAP), but are not "true" revenues received by the County.
- An increase in health fees of $3.0 million due to a higher insured population and expansion of capacity of clinics in Salinas.
- Improvement of $4.8 in revenue collected associated with a new agreement with Sports Car Racing Association of the Monterey Peninsula (SCRAMP), where the County recognizes the revenue from the Laguna Seca Track operations.
- A $3.1 million increase in countywide discretionary revenue.
- Excluding the technical accounting transaction described above, overall general fund revenue increased $10.5 million or 1.8% compared to the prior year.

Discretionary "non-program" revenue increased $3.1 million over the prior year. The increase is due to improvement in property tax revenue and the new cannabis tax off-set by decreases in Transient Occupancy Tax (TOT) and other revenues as explained below. The trends for property tax and TOT, which are the two largest sources of non-program revenue are shown below:





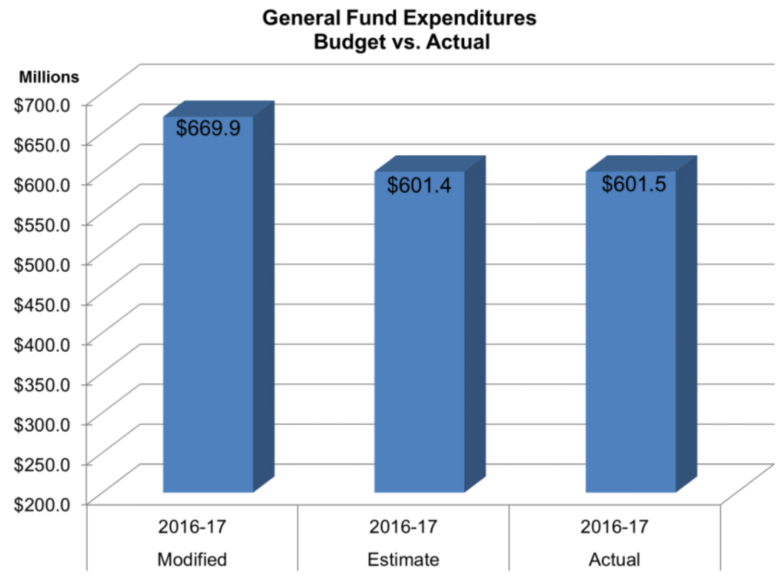
Major changes in discretionary revenue include:

- A $6.2 million increase in property tax, due to favorable property assessments.
- An increase of $3.1 million associated with the cannabis ordinance passed by voters.
- Deteriorating TOT, which decreased $1.6 million or 6.8% less than the prior year as tourism was negatively impacted by the *Soberanes Fire* as well as winter storms that caused significant damage and road closures.

- A decrease of $1.9 million attributed to non-recurring deferred interest payments the State made in the prior year for SB 90 mandates.

GENERAL FUND EXPENDITURES

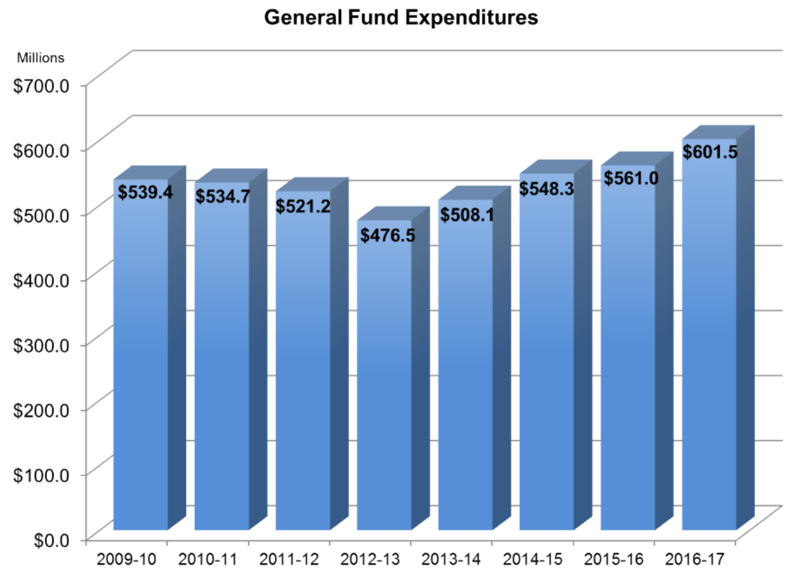
General fund expenditures ended the year at $601.5 million or $68.4 million below the final budget, but in line with the mid-year estimate. Lower expenditures are attributed to salary savings primarily in Health and Social Services as explained below. The County also had lower than anticipated operating transfers out for capital projects and fire and storm repair, and the elimination of the transfer of VLF into a trust fund.



Key areas of unspent appropriations are detailed as follows:

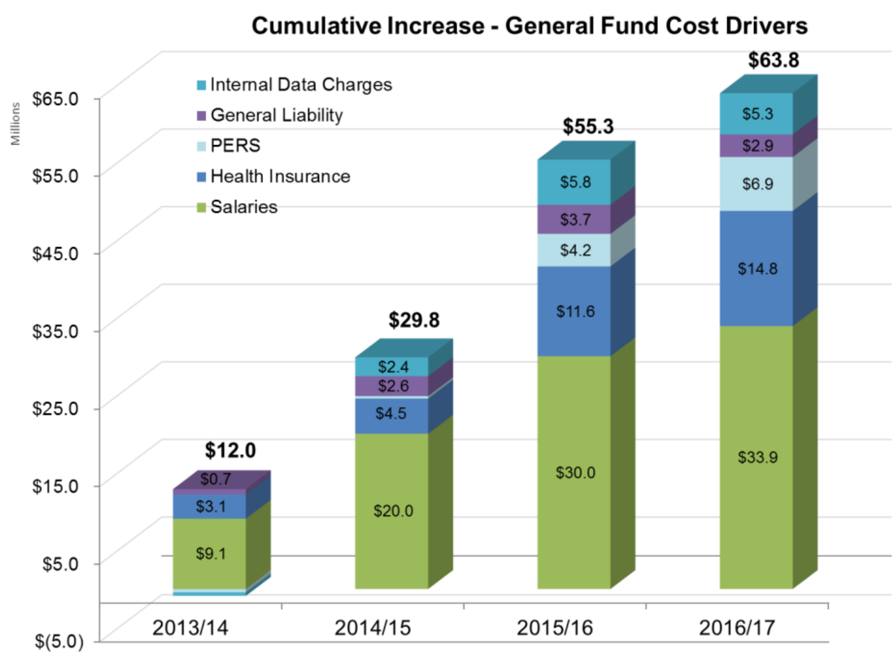
- The County had $10.0 million in unused appropriations attributed to lower than planned capital spending including decreases of $4.4 million for the Juvenile Hall, $2.2 million for the jail security cameras, $2.4 million for storm and fire repairs, and a $0.9 million transfer that was not necessary for the Interlake Tunnel.
- There were $9.4 million in unused appropriations associated with the technical change to account for VLF revenue outside of the general fund.
- Less vehicle purchases throughout the County led to $3.9 million in unused appropriations in the Vehicle Asset Management Program (VAMP).
- The County did not spend $2.5 million of the appropriation for contingencies.
- Social Services had $7.2 million lower-than-budgeted expenditures related to CalWORKS caseloads and associated entitlement payments and salary savings from vacancies due to recruitment challenges.
- The Health Department had unused appropriations of $11.0 million mostly from salary and benefit savings of $10.6 million predominantly in Clinic Services due to an overall high vacancy rate of 26% resulting from recruitment challenges.
- RMA's expenditures were $9.9 million below budget resulting from salary and benefit savings for unfilled positions and a lower cost plan allocation charge.
- The Probation Department's expenditures were $3.3 million below budget due to lower program expenditures in adult probation and staff vacancies.
- Emergency Communications had $0.7 million in unused appropriations related to lower equipment maintenance costs due to the delays in the NGEN project and the Computer Aided Dispatch project.
- County Counsel had unused appropriations of $1.2 million due to salary savings from unanticipated vacancies and lower-than-anticipated expenditures for legal defense of Measure Z.
- The Assessor had lower expenditures of $1.0 million due to salary savings and lower reimbursable program expenditures.
- The Treasurer-Tax Collector had unused appropriations of $0.8 million primarily related to salary savings resulting from delays in new recruitments and multiple vacancies.

Excluding the capital lease technical transaction, expenditures grew $24.9 million or 4.4% over the prior year. Major cost drivers impacting the cost over the prior year operations include increases to salaries, pension costs, and health insurance premiums. Additionally, the County has expanded services to accommodate state mandates and realigned services, adding 253 positions in the general fund since FY 2013-14. The additional staffing has increased salaries and benefits, as well as Information Technology costs. Adding to the costs were expenditures to address natural disasters including the fires and winter storms.



COST DRIVERS

The chart to the right reflects the major cost drivers impacting expenditures on a cumulative basis. It is enlightening to look at what the County is paying now, versus what it was paying four years ago. Salaries are the biggest cost driver, growing $33.9 million over the last four fiscal years due to an additional 253 staff and approved MOU wage increases. Pension and healthcare costs have grown due to growth in the workforce and increase in pension contribution rates and healthcare premiums. Other cost drivers include general liability insurance and information technology costs, which are driven by position growth and infrastructure upgrades throughout the County. Together, these costs increased $8.5 million over the prior year and $63.8 million since FY 2012-13.



Salaries increased $3.9 million over the prior year due to approved MOU wage increases. The higher salaries are attributed to wage increases based on approved MOU's which provided employees in most bargaining units a 1.5% raise in FY 2016-17. Most bargaining units receive additional increases of 2.5% in FY 2017-18 and 3.0% in FY 2018-19.

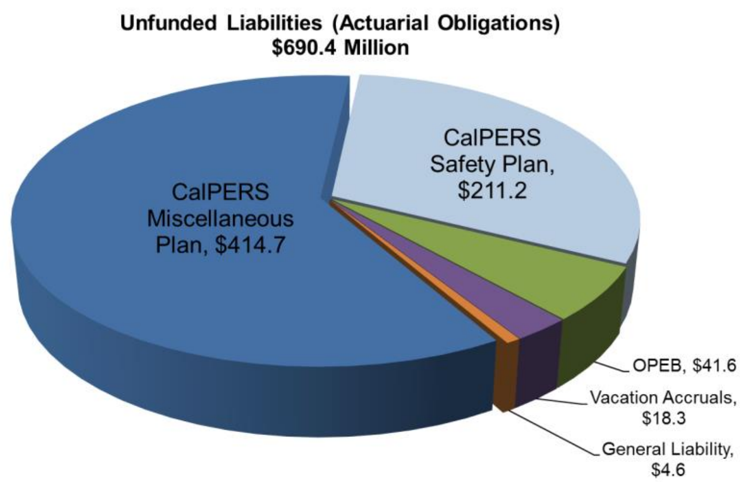
Contributions to CalPERS for employee pensions increased $2.8 million or 7.7% over the prior year. CalPERS has implemented changes in actuarial methodology to accelerate payment towards agencies' unfunded liability and updated demographic assumptions based on its study showing members are living longer and have higher salaries than previously estimated, thus resulting in higher life-time benefits. Additionally, the CalPERS Board approved a lower discount rate assumption, which will impact future contributions. Steeper employer contributions are anticipated in FY 2018-19 (discussed later in the report).

County contributions towards employee health insurance increased $3.3 million over the prior year. Health insurance cost has increasingly absorbed a greater portion of the budget and is a constant cost pressure faced by the County. This cost driver has grown $14.8 million over the last four fiscal years.

Information technology costs have grown $5.3 million over the last four years. The increase excludes $5.1 million in deferred charges for the Enterprise Resource Planning (ERP) software upgrade which was carried forward to the FY 2017-18 budget. The cost for Information Technology has grown as the County has replaced hardware and software and invested in I.T. infrastructure.

UNFUNDED LIABILITIES

The County incurs liabilities for benefits that are accrued. The unfunded liability is the amount, at any given time, by which future payment obligations exceed the present value of funds available to pay them. Monterey County's future obligations include: CalPERS' pension obligations, Other Post-Employment Benefits (i.e., retiree health insurance), Vacation Accruals, and General Liability Self-Insured Program. The County's unfunded liabilities total $690.4 million.



*CalPERs is based on 06/30/16 Valuation

Unfunded employee pension benefit is the largest liability at $625.9 million. The County's pension plans provide defined retirement, disability, and death benefits to eligible employees. According to the latest actuarial dated July 2017, the County's total liability is $2.2 billion, with assets of $1.6 billion, resulting in an unfunded liability of $625.9 million. The unfunded liability for the pension plans increased $155.2 million over the previous valuation. The increase is primarily the result of low investment earnings and a lower assumed discount rate. In December 2016, the CalPERS Board approved a lower discount rate, decreasing the assumed return on investment from 7.5% to 7.0% over three years. The change in the assumed discount rate increases the unfunded liability in the latest actuarial report and will have substantial impact on contributions from FY 2018-19 through FY 2024-25.

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

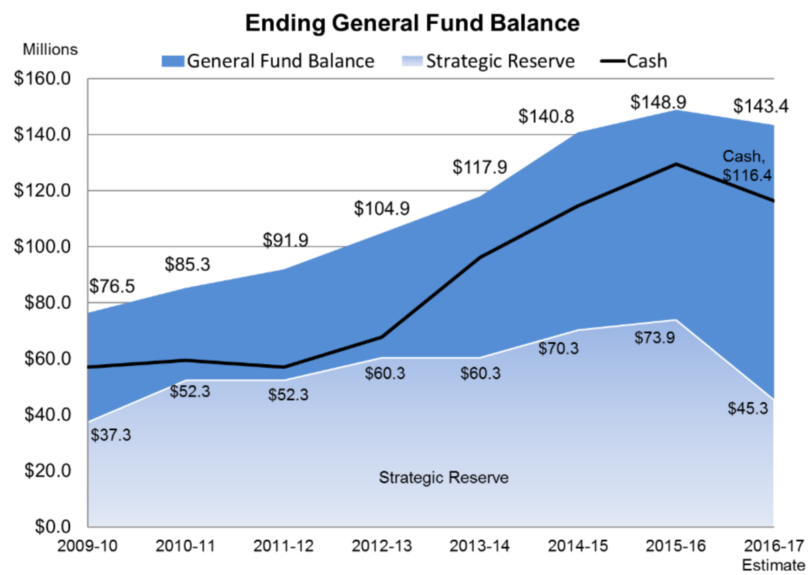
The unfunded portion of vacation accruals totals $18.3 million, representing the amount owed to employees for vacation pay that has been earned but not used. When an employee separates from the County, the employee is due vacation accruals. In FY 2016-17, vacation accruals totaled $26.3 million. The County has reserved $8.0 million for vacation accruals, thus leaving an unfunded liability of $18.3 million.

The County's General Liability Self-Insured Program currently has an actuarially-determined deficit of $4.6 million, which is $2.4 million higher than prior year level. The increase is due to higher County settlements. Funding of general liability insurance program is determined by the County's actuary, and is based upon loss history and future exposure. The general liability insurance program has a funding policy of 70% confidence level.

The growing unfunded liabilities will put rising pressure on the County's operational capacity. For example, the ongoing cost for pensions will absorb a greater portion of the budget as contributions are anticipated to increase sharply to reduce the unfunded liability. To minimize adverse impacts, it is important to address unfunded liabilities through prudent financial planning and adjust the County's operating plan accordingly to maintain structural balance and the ability to meet future commitments.

FUND BALANCE

Since the recession, the Board has strengthened financial policies to restore balance between ongoing revenues and expenditures, ending the practice of using one-time gains in fund balance to finance ongoing operations. Historically, the County has invested year-end surpluses in its strategic reserve and other key investments, resulting in improvement to the County's ending fund balance each year. Fund balance has grown from $76.5 million in FY 2009-10 to an estimated $143.4 million at the end of FY 2016-17.



The largest component of the fund balance is the strategic reserve, which was established to fund unforeseen crises or changes in fiscal conditions, including: legal judgements against the County in excess of reserves normally designated for litigation; short-term revenue reductions due to economic downturns; declared natural disasters; one-time State budget reductions that could not be addressed through the annual appropriations for contingencies; and regional emergencies. The County has a strategic reserve target of 10% of the total general fund estimated revenues. For FY 2016-17, the strategic reserve includes $17.8 million designated for Natividad Medical Center (NMC) and $27.5 million for the general fund. The $27.5 million reserve for the general fund is currently at 4.3% of the general fund estimated revenues.

During FY 2016-17, the County faced natural disasters including the *The Soberanes Fire* and winter storms that caused major damage to County infrastructure, affecting services to County residents. Because of the strategic investments and prudent financial planning, the County responded to these natural disasters by authorizing funds from the strategic reserve, providing cash flow to commence critical work to restore roads and county services pending potential state and federal reimbursements. The chart above reflects a decrease of $28.6 million to the strategic reserve, transferring funds to appropriate assignments within the general fund to address fire and storm repairs, litigation costs, and jail security improvements. The funds remain within the assignments in the general fund until appropriate expenditures for these purposes are incurred. The County plans to build up the strategic reserve to the extent it has positive performance and reimbursements for fire and storm repairs are received.

The remaining fund balance is made up primarily of funds assigned for strategic investments throughout the County, with significant funds ($23.7 million combined) reserved for the Jail addition, Juvenile Hall Project and other capital projects. Other significant fund balance assignments include $8.7 million for disaster assistance, $8.0 million to mitigate the County's liability for leave accrual payouts and $8.6 million for the Vehicle Replacement Program.

USE OF GENERAL FUND CONTINGENCIES

Board policy requires a general fund contingency appropriation in an amount equivalent to one percent of total general fund estimated revenue. The general fund contingencies appropriation may be used at the discretion of the Board in the event of revenue shortfalls or unanticipated expenditure requirements, and as a last option after all other potential funding sources and/or expenditure reductions have been explored. The FY 2016-17 Adopted Budget included a contingency appropriation of $4,672,269. Through the course of the fiscal year, five departments and the Water Resource Agency were granted use of contingency appropriation funds. As detailed in the chart below, use of contingencies in FY 2016-17 totaled $2,195,099:

Approved Use of Contingencies			
FY 2016-17 Adopted Budget General Fund Contingency Appropriation:		**$**	**4,672,269**
Department	**Purpose**	**Amount**	
County Counsel	Measure Z Litigation	$	250,000
Water Resource Agency	Interlake Tunnel Project	$	422,000
CAO	Monterey County Superior Court	$	115,314
Social Services	Community Programs	$	61,225
Library	Budget Shortfall	$	410,000
Auditor Controller	Budget Shortfall	$	936,560
Total Use of General Fund Contingencies -FY 2016-17:		**$**	**2,195,099**
Year-End Contingencies Balance:		**$**	**2,477,170**

- Auditor-Controller received $936,560 in contingency appropriations to fund a shortfall of reimbursements from the Enterprise Resource Planning (ERP) upgrade project, as staff time in general fund units was not reimbursed as initially projected because they did not spend the anticipated time on the project due to delays.
- Water Resource Agency was granted $422,000 to re-authorize unused prior year reimbursement authority for the Interlake Tunnel Project.
- Library received $410,000 to cover a deficit due to an incorrect revenue projection.
- County Counsel used $250,000 to fund the initial costs associated with the defense of Measure Z.
- CAO received $115,314 to reimburse the Monterey County Superior Court for an error the court made that resulted in additional funds kept in the County's general fund in prior years.
- The remaining $61,225 went to Social Services to for expansion for homeless programs as an alternative response to the closing of the Salinas Winter Warming Shelter.

USE OF COMPENSATED ABSENCES ASSIGNMENT

The County has $8.0 million in reserves to offset vacation accruals, which are due to employees when they separate from County service. Over prior fiscal years, the County has added to the reserve to address the leave accrual liability of $26.3 million. At the beginning of FY 2016-17 the assignment had a balance of $9.1 million. During the year, three departments requested assistance from the compensated absences assignment to cover leave accrual payouts, consuming $1.1 million of the reserves. The ending balance is $8.0 million.

The Sheriff's Office consumed $850,000 to assist with leave credit payouts resulting from separations and retirements that could not be absorbed in their budget due to over expenditures in overtime and recruitment expense.

The Auditor-Controller and Board of Supervisors each used $100,000 of the reserves to help cover leave payouts due to separations and retirements in their departments.

Compensated Absences Assignment	
Beginning Balance FY 2016-17	$ 9,088,098
Department	**Amount**
Sheriff's Office	$ 850,000
Auditor-Controller	$ 99,960
Board of Supervisors	$ 100,000
Total Use of Compensated Absences Assignment	**$ 1,049,960**
Ending Balance	**$ 8,038,138**

LOOKING AHEAD

The County has experienced improvement in revenues with the economic recovery. However, it is prudent to closely monitor the changing economic factors as the trend is not expected to continue indefinitely. The current economic expansion has lasted 100 months thus far, which is well beyond the average of 60 months. The current recovery is characterized as long and slow and currently is the 3rd longest in modern U.S. history. In FY 2016-17, the County had an operating deficit for the first time in six years and it became apparent that although revenues are improving, the growth in revenue is not sufficient to keep up with expenditures. In addition to an uncertain economic outlook, the County is faced with significant unfunded liabilities that already amount to over 100% of annual general fund estimated revenue and nearly five times more than the general fund balance. These indicators support continuation of the County's conservative fiscal approach to finances to avoid future disruptions to service levels and continue to meet current commitments and pension obligations.

The County faces a number of unbudgeted costs in FY 2017-18. Only five months into the fiscal year, over $12.4 million in unbudgeted County costs have already been identified primarily as a result of the AB 85 Health Realignment redirection by the State, a new contract for inmate medical healthcare, unfunded legal costs for capital cases in the Public Defender's Office, emerging community needs, and restoring positions that were funded with contingencies appropriations during the budget process and positions that had only partial year funding. Over the next few months, staff will monitor these issues and provide funding options. Beyond the current fiscal year, unfunded costs total $35.2 million including the annualized cost for the aforementioned issues as well as significant increases resulting from approved raises and pension contributions estimated at $12.7 million and $10.0 million, respectively.

Pension costs are rising steeply across most California cities and counties that contract with CalPERS. The reduction of the discount rate will impact contributions beginning FY 2018-19 through FY 2024-25. A recent survey by the California Society of Municipal Finance Officers (CSMFO) indicates that California cities' and counties' contributions will increase by an average of 94.7% cumulatively from FY 2017-18 through FY 2024-25, essentially doubling the contributions over the next seven years. Monterey County's contributions are projected to increase $63.7 million (all funds) or 100.6% cumulatively through this period. This insight on future pension contributions, along with rising staffing cost and current state of the economy, should be considered in the financial planning and fiscal outlook of the County to ensure operations and service levels are prioritized in line with the County's strategic initiatives and available resources.

DEPARTMENTAL BUDGET PERFORMANCE

During FY 2016-17, Monterey County programs, services, and administrative functions were provided through 26 departments. Twenty-four of these departments receive funding from the County's general fund. Departments and major funds supported outside the general fund are discussed later in the report and include the Library, Road Fund, Natividad Medical Center, Parks Resorts, and Behavioral Health.

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

Unaudited year-end results indicate 24 departments ended the fiscal year below budgeted GFC by a combined total of $5.4 million. Therefore, overall FY 2016-17 results are favorable in comparison to budgeted amounts. The table that follows summarizes year-end GFC results by department compared to the final budget, which includes mid-year budget modifications.

Departmental highlights are provided later in this section and include adjustments to the ending financial performance if a department utilized funding from the contingencies appropriation and / or the compensated absences assignment to gauge a more accurate representation of their financial performance.

Dept	General Fund Contributions (GFC):			GFC Under/(Over) Budget:	
	Final Budget	Year-End Estimate	Actual	Estimate to Actual	Budget to Actual
Agricultural Commissioner	$3,495,973	$3,495,973	$3,749,675	($253,702)	($253,702)
Assessor-County Clerk-Rec.	$4,375,677	$4,344,644	$4,370,141	($25,497)	$5,536
Auditor-Controller (Deptl)	$1,189,600	$719,115	$1,006,082	($286,967)	$183,518
Board of Supervisors	$3,896,009	$3,828,581	$3,866,229	($37,648)	$29,780
Child Support Services	($138,272)	($213,516)	($26,073)	($187,443)	($112,199)
Clerk of the Board	$892,839	$898,522	$843,055	$55,467	$49,784
Cooperative Extension Service	$445,518	$442,004	$412,366	$29,638	$33,152
County Admin Office (Departl)	$3,262,379	$3,658,286	$2,978,485	$679,801	$283,894
County Counsel	$808,127	($166,414)	($357,264)	$190,850	$1,165,391
District Attorney	$10,406,370	$10,632,243	$11,877,835	($1,245,592)	($1,471,465)
Economic Opportunity	$3,341,788	$3,341,843	$3,324,734	$17,109	$17,054
Elections	$3,515,017	$3,479,116	$2,658,009	$821,107	$857,008
Emergency Communications	$1,309,257	$1,824,454	$709,711	$1,114,743	$599,546
Equal Opportunity Office	$79,430	$79,430	($8,499)	$87,929	$87,929
Health	$6,114,686	$6,495,614	$5,864,566	$631,048	$656
Human Resources	$1,020,722	$974,891	$909,156	$65,735	$111,566
Information Technology	($36,769)	($678,585)	($499,254)	($179,331)	$462,485
Parks	$3,678,355	$2,177,469	$1,981,404	$196,065	$1,696,951
Probation	$21,738,316	$21,843,719	$21,051,842	$791,877	$686,474
Public Defender	$10,981,694	$10,841,481	$10,962,754	($121,273)	$18,940
Resource Management Agency	$12,811,070	$12,811,070	$9,771,024	$3,040,046	$3,040,046
Sheriff-Coroner	$60,163,908	$60,613,223	$62,642,846	($2,029,623)	($2,478,938)
Social & Employment Services	$12,080,783	$11,966,219	$11,988,711	($22,492)	$92,072
Treasurer-Tax Collector	$1,038,587	$1,083,363	$776,818	$306,545	$261,769
General Fund Department Totals [1]	**$166,471,064**	**$164,492,745**	**$160,854,353**	**$3,638,392**	**$5,367,247**

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

Agricultural Commissioner

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$11,281,390	$10,548,282	$11,276,398
Revenues	7,785,417	7,052,309	7,526,723
GFC (Exp. - Rev.)	3,495,973	3,495,973	3,749,675
GFC Final Budget versus Actual:		**Deficit**	-253,702

- The year-end deficit is a result of accrued program revenue of $253,702 earned from the State but not received by the close of the fiscal year. The Department anticipates receiving the revenue by December 2017.

Assessor-County Clerk-Recorder

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$9,647,998	$8,527,704	$8,628,783
Revenues	5,272,321	4,183,060	4,258,642
GFC (Exp. - Rev.)	4,375,677	4,344,644	4,370,141
GFC Final Budget versus Actual:		**Surplus**	5,536

- Actual year-end expenditures were $1.0 million below budget largely due to salary savings from vacant positions ($614,911) and the inability to expend program funds ($327,805) for the State-County Assessors' Partnership Program and the Recorder's Modernization Program because of match and restricted fund requirements.
- Year-end revenues were $1.0 million below budget mainly due to unrealized reimbursable program expenditures and lower than anticipated assessment and recording fees.
- The department ended in an overall GFC surplus of $5,536.

Auditor-Controller (Departmental)

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$1,629,111	$1,173,670	$1,499,620
Revenues	439,511	454,555	493,538
GFC (Exp. - Rev.)	1,189,600	719,115	1,006,082
GFC Final Budget versus Actual:		**Surplus**	183,518
Use of Contingencies			-936,560
Use of Compensated Absences			-99,960
Adjusted Financial Result			-853,002

- The final budget includes increased appropriations of $1,036,520 due to a budget shortfall and included $936,560 from general fund contingencies to supplement unrealized staffing reimbursements from the

Enterprise Resource Planning upgrade due to project delays and $99,960 from the Compensated Absences Assignment for vacation-buy-backs and retirements.

- The Department ended with a GFC surplus of $183,518; however, the surplus includes assistance from the contingencies appropriation and the compensated absences assignment. Excluding the budget modifications, the Department would have ended with a deficit of $853,002.

Auditor-Controller (Non-Departmental)

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$307,336	$248,737	$138,795
Revenues	0	0	0
GFC (Exp. - Rev.)	307,336	248,737	138,795
GFC Final Budget versus Actual:		Surplus	168,541

- Non-departmental units administered within the Auditor-Controller's budget provide for functions that meet a countywide need or responsibility, primarily the annual County audit. The year-end actuals reflect a GFC surplus of $168,541 due to the lower audit costs and higher reimbursements of County overhead cost recovery.

Board of Supervisors

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$3,896,009	$3,828,581	$3,866,229
Revenues	0	0	0
GFC (Exp. - Rev.)	3,896,009	3,828,581	3,866,229
GFC Final Budget versus Actual:		Surplus	29,780
Use of Compensated Absences			-100,000
Adjusted Financial Result			-70,220

- The Board of Supervisors budget funds the five individual district offices, as well as an operational unit for general Board expenditures. For FY 2016-17, the budget increased by $100,000 to cover payments of leave credits associated with staffing transitions for two supervisorial districts.

Child Support Services

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$11,002,171	$10,926,927	$10,733,175
Revenues	11,140,443	11,140,443	10,759,248
GFC (Exp. - Rev.)	-138,272	-213,516	-26,073
GFC Final Budget versus Actual:		**Deficit**	-112,199

- The Department of Child Support Services (CSS) is funded entirely through State and Federal subventions.
- Year-end expenditures were $268,996 below budget mostly attributed to a decrease of $217,935 from budgeted County Cost Allocation Plan (COWCAP) charges and salary savings.
- Although the Department had lower expenditures, it ended the year with a GFC deficit due to $328,490 in accrual revenue that was not received from the State before fiscal year close.

Clerk of the Board

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$912,839	$918,522	$865,040
Revenues	20,000	20,000	21,984
GFC (Exp. - Rev.)	892,839	898,522	843,055
GFC Final Budget versus Actual:		**Surplus**	49,784

- The Department ended the year with a surplus of $49,784 due to lower expenditures resulting from a decrease in publications and legal notices, lower than anticipated purchases of hardware and IT services and non-implementation of the records preservation project in FY 2016-17.

Cooperative Extension Services

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$569,737	$555,570	$437,439
Revenues	124,219	113,566	25,073
GFC (Exp. - Rev.)	445,518	442,004	412,366
GFC Final Budget versus Actual:		**Surplus**	33,152

- The Department had a GFC surplus of $33,152 primarily due to salary savings and lower fleet replacement charges.
- Revenues were $99,146 less than budget because of reduced costs in the agriculture program which are reimbursed by the University of California.

County Administrative Office - Departmental

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$4,155,523	$3,971,065	$3,384,702
Revenues	893,144	312,779	406,217
GFC (Exp. - Rev.)	3,262,379	3,658,286	2,978,485
GFC Final Budget versus Actual:		**Surplus**	283,894

- Business areas in the CAO's Office include Finance and Administration, Budget and Analysis, Contracts/Purchasing, Fleet Management, Intergovernmental & Legislative Affairs (IGLA), Office of Community Engagement & Strategic Advocacy (OCESA), and Office of Emergency Services (OES).
- Total expenditures at year-end were $714,000 below budget due to unexpended appropriations of $400,000 in OCESA related to a multi-year Victims of Crime Act (VOCA) grant that extended into FY 2017-18 and salary savings from partial year vacancies.
- Revenues were $487,000 below budget, primarily due to unrealized expenditures under the VOCA program.

County Administrative Office - Non-Departmental

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$81,750,068	$49,795,900	$51,983,545
Revenues	213,331,868	202,541,032	207,848,065
GFC (Exp. - Rev.)	-131,581,800	-152,745,132	-155,864,520
GFC Final Budget versus Actual:		**Surplus**	24,282,720
Use of Contingencies			-115,314
Adjusted Financial Result			24,167,406

- CAO non-departmental general fund units include countywide, non-operational functions including General Fund Contingencies, Contributions and Obligations to Other Agencies, Trial Court Obligations, Other Financing Uses (primarily debt service and transfers to other funds), County Memberships, Medical Care Services, Non-Program Revenue and Vehicle Asset Management Program (VAMP).
- The final budget includes increased appropriations of $115,314 funded by the contingencies appropriation to reimburse the Superior Court for an error they made in prior years.
- Year-end expenditures were $29.8 million lower than budget primarily due to lower than anticipated reimbursable expenditures for the Juvenile Hall, the jail security cameras, litigation costs, and lower storm and fire repair costs. Other factors contributing to unused appropriations were: elimination of a $9.4 million transfer due to a technical change to the way the County accounts for VLF monies, lower vehicle purchases resulting in $3.9 million of unused appropriations in VAMP, $2.5 million in contingencies were not used, and a $382,000 reduction in expenditures for Courts as the amount due to the State was lower than anticipated due to a decrease in fines / forfeitures.
- Revenue was $5.4 million lower than budget due in large part to the elimination of the requirement for counties to deposit VLF revenue into the general fund, which decreased the expected revenue coming into the general

fund by $9.2 million. The reduction associated with this technical change was partially offset by collections of $3.1 million in unbudgeted Cannabis Tax.

County Counsel

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$1,096,878	$95,463	-$95,259
Revenues	288,751	261,877	262,005
GFC (Exp. - Rev.)	808,127	-166,414	-357,264
GFC Final Budget versus Actual:		**Surplus**	1,165,391
Use of Contingencies			-250,000
Adjusted Financial Result			915,391

- The Department's final budget of $1.1 million includes a $1.0 million increase in appropriations during the fiscal year for Measure Z legal cost, including $250,000 financed by the contingencies appropriation.
- Actual operating expenditures were $4.9 million, but were offset by a County Wide Cost Allocation credit of $5.0 million. Since expenditures were lower than the County Cost Allocation Plan (COWCAP) credit, the Department ended the fiscal year with -$95,259 in expenditures.
- The Department ended with a GFC surplus of $915,391 attributed to unexpected salary savings due to vacancies and savings resulting from suspended soil testing for Lake Nacimiento and San Antonio. Additionally, the Department did not spend $0.4 million in anticipated Measure Z defense expenditures.

District Attorney

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$24,550,093	$23,501,984	$24,462,244
Revenues	14,143,723	12,869,741	12,584,409
GFC (Exp. - Rev.)	10,406,370	10,632,243	11,877,835
GFC Final Budget versus Actual:		**Deficit**	-1,471,465

- The District Attorney's year-end expenditures totaled $24.5 million, $87,849 below budget, and year-end revenue was $12.6 million, $1.6 below budget, finishing the fiscal year with a deficit of $1.5 million.
- Approximately 58% of the Department's budget is financed by program revenues, mostly State grants. Revenues of $2.1 million for various grants were not received in time to be posted to FY 2016-17; however, the Department anticipates collection of this revenue in FY 2017-18.
- The Department also experienced a similar revenue shortfall in FY 2015-16, which caused it to end the year with a $1.7 million deficit. Because resources are scarce and the margin for such large variances at year-end jeopardizes the financial position of the general fund, it is important to reassess the revenue estimates for the D.A. and realign expenditures to accurate revenue estimates.

Recommendation: *Direct the County Administrative Office and the District Attorney to review estimated revenue in the FY 2017-18 Adopted Budget and make necessary adjustments to revenues and expenditures. The CAO will work with the D.A. to make necessary adjustments as part of the annual forecast and mid-year update.*

Economic Opportunity

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$3,341,788	$3,341,843	$3,325,053
Revenues	0	0	319
GFC (Exp. - Rev.)	3,341,788	3,341,843	3,324,734
GFC Final Budget versus Actual:		**Surplus**	17,054

- The Department of Economic Opportunity ended with a surplus of $17,054 due to minor salary savings caused by an unforeseen retirement.

Elections

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$5,300,834	$5,132,431	$5,163,795
Revenues	1,785,817	1,653,315	2,505,786
GFC (Exp. - Rev.)	3,515,017	3,479,116	2,658,009
GFC Final Budget versus Actual:		**Surplus**	857,008

- Year-end actual expenditures reflect an expenditure decrease of $0.1 million and an increase of $0.7 million in revenue, resulting in a year-end GFC surplus of $0.8 million. The budget was forecasted based on all potential contests going to ballot. However, in the November 2016 Presidential Election, not all districts had measures or candidates on the ballot, which resulted in slightly lower expenditures for temporary employees and precinct related election purchases. Additional revenues came from districts which reimbursed associated election costs, including three special elections and state initiatives.

Emergency Communications

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$12,919,709	$14,360,625	$12,239,321
Revenues	11,610,452	12,536,171	11,529,609
GFC (Exp. - Rev.)	1,309,257	1,824,454	709,711
GFC Final Budget versus Actual:		**Surplus**	599,546

- Actual year-end expenditures were $12.2 million, $680,000 below budget due to delays in the NGEN project resulting in lower than budgeted equipment maintenance expense. The NGEN project was scheduled for completion at the end of FY 2016-17; however, the Department has advised that the project has been delayed and the time-frame for completion and upcoming change orders are unknown. The Department is working to reconcile costs and determine how much financing is needed to complete the project. The Computer Aided Dispatch (CAD) project was also expected to be completed, but was delayed into FY 2017-18.

- Year-end revenues were $11.5 million or $80,843 below the budget. The Department recognized restricted revenues of $1.0 million from its restricted revenue fund to cover costs for the CAD system; however, $400,000 of the restricted revenue was not spent. The Department had about $1.2 million in additional revenue that was not collected in time for year-end close.
- The Department ended the year with a GFC surplus of $599,546 as a result of restricted revenues that were recognized, but not fully expended on CAD and the collection of revenue for prior year underbilled services.
- The general fund has fronted expenses for dispatch services, equipment costs, and NGEN expenditures and is pending estimated reimbursements of $1.5 million from user agencies and departmental reserves. The Department underbilled user agencies and County departments a total of $1.4 million for dispatch services and equipment costs in prior years. In FY 2016-17, the Department re-billed user agencies a total of $856,187 and collected $192,036; the remaining will be collected in FY 2017-18. Additionally, the Department owes the general fund $845,506 from reserves in their restricted revenue fund for NGEN expenditures that were erroneously posted to the general fund in FY 2015-16.

Recommendation: *Direct the County Administrative Office and the Emergency Communications Department to review estimated revenue in the FY 2017-18 Adopted Budget and make necessary adjustments to Department revenues and expenditures in the FY 2017-18 Adopted Budget as part of the annual forecast and mid-year update.*

Equal Opportunity

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$79,430	$79,430	-$8,499
Revenues	0	0	0
GFC (Exp. - Rev.)	79,430	79,430	-8,499
GFC Final Budget versus Actual:		**Surplus**	87,929

- The EOO's actual expenditures were $759,060 but were offset by a County Wide Cost Allocation Plan (COWCAP) credit of $767,560. Since expenditures were lower than the COWCAP credit, the Department ended the fiscal year with -$8,499 in expenditures. The resulting year-end GFC surplus of $87,929 is attributed to salary savings from a vacant position.

Health

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$88,122,286	$78,492,632	$77,137,333
Revenues	82,007,600	71,997,018	71,272,767
GFC (Exp. - Rev.)	6,114,686	6,495,614	5,864,566
GFC Final Budget versus Actual:		Surplus	250,120
Overstated Revenue			(249,464)
		Surplus	656

- Actual expenditures were $11.0 million below budget, and $1.4 million lower than the year-end estimate. Lower expenditures were due to construction delays for the expansion of the primary care clinic in Seaside and the impending implementation of the Whole Child Model (WCM). Accordingly, vacancies in the Department were strategically filled creating a vacancy rate of 26% which generated salary savings in the amount of $10.6 million.
- Year-end revenue is $10.7 million below the budgeted $71.3 million primarily due to unrealized revenues caused by the delayed expansion projects at the Seaside primary care clinic and WCM implementation. The Department's revenue was overstated by $249,464 due to a software system error. Adjusting for the revenue error, the Department is ending the year with a $656 surplus.

Human Resources

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$1,020,722	$975,063	$909,328
Revenues	0	172	172
GFC (Exp. - Rev.)	1,020,722	974,891	909,156
GFC Final Budget versus Actual:		Surplus	111,566

- The Human Resources Department ended the year with a surplus of $111,566, due to difficulty in filling vacancies throughout the year which resulted in salary savings.

Information Technology

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures*	$733,573	$310,818	$734,610
Revenues	770,342	989,403	1,233,864
GFC (Exp. - Rev.)	-36,769	-678,585	-499,254
GFC Final Budget versus Actual:		Surplus	462,485

*Final budget includes pending appropriation increase of $1,669,000

- The Information Technology Department's FY 2016-17 final budget reflects $733,573 in appropriations and revenue of $770,342 for a net GFC surplus of $36,769. The final budget includes a pending increase in appropriations of $1.7 million to cover an appropriations shortfall associated with the variance between budgeted and actual County Wide Cost Plan charges.
- Actual expenditures of $734,610 were derived from $23.0 million in charges and internal County customer off-setting income of $22.4 million, and County Wide Cost Plan allocation charge of $168,000. Previously set aside funds in the amount of $835,910 were utilized to cover ITD Capital Improvement Projects (CIP) expenditures including modernizing the network infrastructure, replacing the phone system, and upgrading software.
- Revenues of $1.2 million were $463,522 above budget primarily due to higher outside agency customer billings. Actual to budgeted GFC reflects a surplus of $462,485.

Parks

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$12,104,453	$6,671,488	$11,649,831
Revenues	8,426,098	4,494,019	9,668,428
GFC (Exp. - Rev.)	3,678,355	2,177,469	1,981,404
GFC Final Budget versus Actual:		**Surplus**	1,696,951

- The Department's year-end revenues were above budget by $1.2 million. In FY 2016-17, County entered into a new agreement with the Sports Car Racing Association of the Monterey Peninsula (SCRAMP) and due to the change in management the County recognized additional revenues of $2.2 million from track operations, when compared to the budget.
- The Department realized salary savings of $2.3 million attributed to vacancies including the Director of Parks, an Administrative Operations Managers, two Parks Utilities & Water Specialist and several Parks Building & Grounds Workers. However, salary savings were offset due to an increase in expenditures of $2.8 million resulting from the payments to SCRAMP pursuant to the new agreement.
- With the increased revenues, the overall GFC need was reduced to $2.0 million, which includes $494,654 from the Disaster Assistance assignment to cover fire and storm related expenditures. The Parks Department ended the year with an overall surplus of $1.7 million.

Probation

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$45,361,134	$45,360,618	$42,101,342
Revenues	23,622,818	23,516,899	21,049,499
GFC (Exp. - Rev.)	21,738,316	21,843,719	21,051,842
GFC Final Budget versus Actual:		**Surplus**	686,474

- Actual revenue was $2.5 million below budget, due to a reduced candidate eligibility rate for the Federal Title IV-E program and other reimbursements budgeted for grant and State programs, but not realized as the expenditures did not occur.

- Actual expenditures were $3.2 million below budget, of which $2.0 million was related to expenditures that were budgeted but not realized for grant and State programs, $0.8 million attributable to savings associated with the Department's containment of overtime and salary savings due to management of vacancies, and $0.4 million in cost plan savings.
- The Department's concerted effort to manage overtime and vacancies combined with cost plan savings were the primary contributions for the end of year GFC surplus of $0.7 million.

Public Defender

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$11,719,016	$11,499,481	$11,660,040
Revenues	737,322	658,000	697,286
GFC (Exp. - Rev.)	10,981,694	10,841,481	10,962,754
GFC Final Budget versus Actual:		Surplus	18,940

- The Public Defender's final budget includes an increase in appropriations and revenue of $179,322 as a result of additional State reimbursements that covered initial costs of capital cases being prepared for trial.
- The Department ended with a GFC surplus of $18,940 due to salary savings.

Resource Management Agency

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$30,935,934	$23,533,808	$21,011,579
Revenues	18,124,864	10,722,738	11,240,555
GFC (Exp. - Rev.)	12,811,070	12,811,070	9,771,024
GFC Final Budget versus Actual:		Surplus	3,040,046

- Revenue fell short of the budget by $6.9 million, primarily due to a technical change in the way the Agency was accounting for the cost allocation plan credit.
- Overall expenditures were $9.9 million less than budget, of which $2.1 million is attributed to salary savings caused by vacancies due to the Department's reorganization, and $6.2 million lower-than-anticipated cost allocation charges.
- Due to lower expenditures and cost plan charges, the Department ended the year with a GFC surplus of $3.0 million.

Sheriff-Coroner

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$98,067,275	$96,996,756	$96,913,169
Revenues	37,903,367	36,383,533	34,270,323
GFC (Exp. - Rev.)	60,163,908	60,613,223	62,642,846
GFC Final Budget versus Actual:		**Deficit**	-2,478,938
Use of Compensated Absences			-850,000
Adjusted Financial Result			-3,328,938

- The Sheriff-Coroner's Office FY 2016-17 final budget includes a mid-year increase of $850,000 funded by the compensated absences assignment to address unforeseen employee separations.
- Revenue is $3.6 million below budget, of which $2.3 million is attributed to lower expenditures in reimbursable programs such as the service contract with Alameda County for inmate housing, court security service, and parolees' housing costs. Additional revenue shortages of $1.3 million resulted from lower AB 109 program expenditure reimbursements for expenditures that occurred but were not timely billed and Proposition 172 Sales Tax revenue.
- Expenditures were $1.2 million lower than budget. Despite the $2.3 million aforementioned expenditure savings in reimbursable programs, the Department exceeded planned expenditures in other areas, including: recruitment and background investigations due to a large recruitment effort; unbudgeted costs related to the fires and winter storms; higher-than-budgeted overtime; and leave accrual payouts.
- Due to the shortfall in revenue and over expenditures for recruitment, overtime, and disaster response, the Sheriff-Coroner's Office ended the fiscal year with a GFC deficit of $3.3 million.

Social and Employment Services

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$202,201,660	$193,416,491	$195,055,534
Revenues	190,120,877	181,450,272	183,066,823
GFC (Exp. - Rev.)	12,080,783	11,966,219	11,988,711
GFC Final Budget versus Actual:		**Surplus**	92,072
Use of Contingencies			-61,225
Adjusted Financial Result			30,847

* Final budget exp / rev include pending appropriation of $6M

- The Department of Social Services (DSS) final budget includes a pending technical accounting adjustment to recognize a capital lease. Year-end expenditures and revenues include $15.6 million associated with the capital lease.
- Expenditures totaled $195.1 million, which is $7.1 million below the final budget. The Department had lower expenditures comprised of $4.3 million in salary savings due to recruitment challenges and lower than

anticipated client aid issued within the Social Services entitlement CalWORKs program, General Assistance, and Out of Home Care. The Department had a high turn-over rate for eligibility workers in the initial training period, which contributed to the high vacancies. Expenditures include a $15.6 million capital lease expenditure.

- Year-end revenues were $183.1 million, or $7.0 million below budget. This correlates with the reduction of expenditures due to the Social Services reimbursement structure. The Department ended with a surplus of $30,847.

Treasurer-Tax Collector

	Final Budget	Year-End Estimate	2016-17 Actual
Expenditures	$7,234,531	$7,144,415	$6,418,547
Revenues	6,195,944	6,061,052	5,641,729
GFC (Exp. - Rev.)	1,038,587	1,083,363	776,818
GFC Final Budget versus Actual:		Surplus	261,769

- The Treasurer-Tax Collector ended the year with a GFC surplus of $261,769 due to salary savings resulting from multiple vacancies and delays in new recruitments

OTHER FUNDS

Road Fund (002)

	Final Budget	Year-End Estimate	2016-17 Actual
Beginning Fund Balance	1,331,979	1,331,979	1,211,290
Revenue	48,316,149	32,311,732	29,220,135
Cancellation of Assignments	0	0	0
Total Financing Sources	49,648,128	33,643,711	30,431,425
Expenditures	48,057,958	33,145,305	33,257,405
Provisions for Assignments	0	0	0
Total Financing Uses	48,057,958	33,145,305	33,257,405
Ending Fund Balance	1,590,170	498,406	(2,825,980)
FY 2016-17 Revenue to be collected			3,927,828
Revised Ending Fund Balance			**1,101,848**

- The Road Fund is a special revenue fund established pursuant to State Law to account for revenues that are legally restricted for County road and bridge construction and related maintenance projects.
- The FY 2016-17 adopted budget for the Road Fund includes a mid-year budget modification of $9.5 million to make critical repairs in response to storm damages and the Soberanes Fire.
- The Road Fund ended FY 2016-17 with actual revenues of $29.2 million, or 9.6% below year-end estimate, and expenditures of $33.3 million, or less than 1% above year-end estimate.

- Revenues fell short of the final budget by $19.1 million, largely due to $15.7 million in unrecognized project related revenue such as reimbursable work that was suspended to respond to the winter storms and Soberanes Fire. Additionally, the Road Fund had $3.4 million in earned revenue for the Castroville Railroad Crossing project and another $500,000 for various other road projects that was not received within the year-end close and as such is not reflected in revenues. The mid-year budget modification allotted $9.5 million for winter storm and Soberanes Fire reimbursements from the general fund; however, $666,274 was not drawn down by the end of the year.
- Total expenditures were $14.7 million below the $48.1 million budget. The FY 2016-17 adopted budget included $19.5 million for infrastructure, intangible assets (right-of-ways), and construction in progress. Year-end expenditures totaled $7.5 million. The $12.0 million variance between budget and actual expenditures is directly related to the deferral of planned projects, as the storms and fire response took precedence. The remaining variance of $2.7 million is related to a reduction in professional services of $1.2 million, unfinished storm damage work of $666,274, the reduction in the County-wide cost allocation plan of $475,033, and salary savings due to unfilled positions of $257,065.
- Based on FY 2016-17 performance, the Road Fund balance is projected to be negative $2.8 million. However, the main factor impacting the negative fund balance is the $3.9 million in earned project revenue that was not received in time to be posted to FY 2016-17. Departments have 60 days of year-end to collect accrued revenues to be posted to the prior fiscal year. The revenue is expected to be collected within the next couple of months and will be posted to FY 2017-18 revenue. When the accrued revenue is considered, the fund balance is an estimated $1.1 million.

Monterey County Free Library (Fund 003)

	Final Budget	Year-End Estimate	2016-17 Actual
Beginning Fund Balance	$372,827	$372,827	$371,771
Revenue	9,954,562	8,914,566	9,228,450
Cancellation of Assign.	0	0	0
Total Financing Sources	$10,327,389	$9,287,393	$9,600,221
Expenditures	10,164,266	8,800,012	9,450,293
Provisions for Assign.	0	0	0
Total Financing Uses	$10,164,266	$8,800,012	$9,450,293
Ending Fund Balance	$163,123	$487,381	$149,928

- The Monterey County Free Libraries (MCFL) FY 2016-17 final budget includes an increase in general fund contributions including a transfer of $226,191 to cover the County Librarian's salary and an additional $410,000 transfer from the general fund to cover an anticipated deficit resulting from lower revenues.
- Even with the additional general fund contributions, revenue was $726,112 below the budget primarily due to an over-projection of anticipated property tax revenues.
- Expenditures remained under budget in spite of unexpected financial pressures due to the opening of a new library in San Lucas, repairs at the Big Sur Library, and increasing expenditures on capital and technology

related projects. Expenditures at year-end were $713,973 below budget largely due to salary savings from position vacancies and a significantly lower County Wide Cost Allocation charge.

- MCFL's year-end fund balance is expected to be $149,928.

Behavioral Health Fund (Fund 023)

	Budget	Estimate	Actual
Beginning Fund Balance	$17,539,352	$17,539,352	$17,539,352
Revenue	110,294,772	90,796,025	120,590,967
Cancellation of Assign.	0	0	0
Total Financing Sources	110,294,772	90,796,025	120,590,967
Expenditures	122,225,026	94,327,826	102,283,594
Provisions for Assign.	0	0	0
Total Financing Uses	$122,225,026	$94,327,826	$102,283,594
Ending Fund Balance	$5,609,098	$14,007,551	$35,846,726

- The Behavioral Health Fund expenditures were $19.9 million less than budget resulting from lower contractual hospital service costs due to contract negotiation delays, reduction in outpatient contracted costs as needs required lower costs facilities to be used than anticipated, salary savings due to high vacancy rates, and lower operating transfers out in the Whole Person Care program due to delays in start-up activities.
- Revenue was $10.4 million higher than budget due to reimbursements of $15.9 million in FY 2015-16 revenue which was not received in time to be posted to the prior fiscal year and recorded as FY 2016-17 revenue instead. In FY 2016-17, revenue of $4.1 million was earned but not received within the fiscal year close period. Earned revenue not received in time consists of federal aid associated with administration of the Medi-Cal program and reimbursements from other governmental agencies for services provided to local school districts.
- Due to higher revenue and lower than anticipated expenditures, the fund added to $18.3 million to its balance, resulting in an ending fund balance of $35.8 million, which is $30.5 million above budget.

Parks - Lakes Resorts (Fund 452)

	Final Budget	Year-End Estimate	2016-17 Actual
Beginning Fund Balance	-$5,321,096	-$5,321,096	-$5,414,456
Revenue	4,769,144	4,674,420	5,861,720
Cancellation of Assign.	0	0	0
Total Financing Sources	$4,769,144	$4,674,420	$5,861,720
Expenditures	5,069,144	4,763,360	5,174,623
Provisions for Assign.	0	0	0
Total Financing Uses	$5,069,144	$4,763,360	$5,174,623
Change in Fund Balance	-$300,000	-$88,940	$687,097
Restricted Fund Balance	$0	$0	$500,000
Ending Fund Balance	-$5,621,096	-$5,410,036	-$4,727,359

- The Parks Lake and Resort Operations Fund is a County enterprise fund. An enterprise fund establishes a separate accounting and financial reporting mechanism, comparable to the private-sector, to report activity for which fees are charged in exchange for goods or services. Enterprise accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.
- The Parks Lake and Resort budget included $5.1 million in appropriations funded by $4.8 million in revenue including $2.4 million in operating revenue and $2.4 in operating transfers-in.
- Revenues were $1.1 million above budget due to increased park visitation resulting from improved water levels at the lakes. Revenue includes operating transfers in of $1.5 million including funds for Quagga-Zebra Mussel Prevention Program Prevention, the Lake Settlement, and a transfer in from the general fund to support staffing levels and funding for the concessionaire agreement, which were at-risk during the budget development process as staff did not anticipate sufficient revenue to cover said costs.
- Operating expenditures came in $105,479 higher than the $5.1 million budget, as the lake's concessionaire increased staffing levels to meet the demands from the upsurge in park visitations. Overall, the Lake and Resort Operations fund balance increased $687,000 in FY 2016-17, reducing the negative fund balance of $5.4 million to $4.7 million. There is $500,000 restricted for use in FY 2017-18 for the Quagga Mussel Program.
- This preliminary analysis does not include depreciation expense, which is estimated at $869,000. After depreciation expense, overall fund balance will decrease $182,000, increasing the negative fund balance of $5.4 million to $5.6 million.

Natividad Medical Center (Fund 451)

	Budget	Estimate	Actual
Beginning Fund Balance	52,010,199	52,010,199	63,977,312
Revenue	262,167,926	288,543,370	291,850,484
Cancellation of Assign.	0	0	0
Total Financing Sources	$262,167,926	$288,543,370	$291,850,484
Expenditures	251,667,562	271,928,023	261,349,262
Provision for Assign.	0	0	0
Total Financing Uses	$251,667,562	$271,928,023	$261,349,262
Change in Net Assets	$10,500,364	$16,615,347	$30,501,222
Ending Fund Balance	$62,510,563	$68,625,546	$94,478,534

- Natividad Medical Center (NMC) is a County enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business organizations, where the costs of providing goods or services to the general public on a continuing basis is financed or reimbursed primarily through user charges.
- The primary driver for revenue is patient (inpatient and outpatient) volumes and the type of payments received for services rendered. Patient volume adjusted for inpatient and outpatient services were favorable from budget by 1.1%. Services for inpatient care were 2.9% favorable from budget while outpatient services were unfavorable from budget by 0.5%. Total revenues were favorable from budget by $29.7 million or an 11.3% improvement, resulting from a decline in the uninsured population and improvement with the payer mix.
- The final budget for expenditures was $251.7 million, where the actual expenditures were $261.3 million; $9.7 million or 3.8% higher than budgeted as a result of strategies to enhance services fundamental to safe, reliable, and high quality patient care. In addition, labor costs increased resulting from a higher acuity and premium pay for increased volume. Supplies expenses were also above budget due to the increased patient volume. During FY 2016-17, NMC celebrated its second anniversary as a Level II Trauma Center and completed the Acute Rehab Unit refresh project which included an addition of new beds.
- Overall, revenues increased more than expenditures, which resulted in a change in net position of $30.5 million.