Monterey County Financial Forecast

March 2018

Introduction

The County Administrative Office is pleased to present the financial forecast for the County of Monterey. The forecast is the first step of the annual budget development cycle, which concludes with the adoption of a balanced budget by July 1 of each year. To meet this timeline, staff conduct a comprehensive mid-year review of planned spending and anticipated revenues for the current year, budget year (FY 2018-19), and two additional out years. The result of this review is an assessment of the County's financial condition, emerging needs, and expected fiscal capacity to meet those needs.

Approach and Assumptions

The forecast is an analysis of revenues and costs for existing levels of staffing and services within the context of current statutes and policies. Developing a three-year forecast provides a window of opportunity to identify potential actions necessary to balance revenues and expenditures over the long-term to ensure financial sustainability of the County's funds. Similarly, the forecast also serves as a tool to assess the impact that decisions made in the present, such as considering a new revenue source or the funding of a new program, can have on future fiscal capacity.

The forecast includes employee salary and benefits changes as authorized under existing memorandums of understanding (MOUs) and scheduled employee step advances. The forecast also takes into consideration scheduled increases in PERS retirement rates and health insurance premiums. Revenue estimates are based on the most recent financial data and available information about federal and state funding levels. The forecast compares expenditures required to carry out existing operations to estimated financing sources. This analysis is a key financial management tool to guide the upcoming budget process and help preserve long-term financial stability.

General Fund Outlook through 2020-21

	2016-17	FY 2017-18			FY 2018-19	FY 2019-20	FY 2020-21
	Actual	Adopted	Modified	Year-End Estimate	Forecast		
Available Financing:							
Beg. Unassigned Fund Balance	$6.0	$6.0	$6.0	$8.7	$0.0	$0.0	$0.0
Release of Fund Balance	49.1	36.9	36.9	36.9	1.9	1.9	1.9
Revenues	596.0	636.9	637.5	616.9	634.5	642.4	653.3
Total Financing Sources	$651.1	$679.8	$680.4	$662.5	$636.4	$644.3	$655.2
Financing Uses:							
Assignments/Restrictions	41.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	601.4	676.3	676.9	657.1	666.3	682.3	702.5
Appropriation for Contingencies	0.0	3.5	3.5	3.1	6.3	6.4	6.5
Total Financing Uses	$642.4	$679.8	$680.4	$660.2	$672.6	$688.7	$709.0
Ending Unassigned Fund Balance	$8.7	$0.0	$0.0	$2.3	($36.2)	($44.4)	($53.8)

For the first time in the last six years, the County had an operating deficit of $5.4 million in fiscal year (FY) 2016-17. The deficit is attributed to growing labor costs including salary, higher pension contributions, health care costs, as well as extraordinary costs to address natural disasters including the *Soberanes Fire* and winter storms. Despite expenditures exceeding revenues, the County was well prepared to address extraordinary costs with reserves and ultimately the general fund outperformed budget expectations, ending with an unassigned fund balance of $8.7 million. The unassigned fund balance includes $6.0 million that was carried forward from the prior year and has already been obligated in the FY 2017-18 adopted budget to fund one-time expenditures. Therefore, only $2.7 million of the unassigned fund balance is truly available.

The general fund expects to end the year $0.4 million over the adopted county contribution. General fund operations are within budget; however, slightly lower revenues indicate an additional financing need of $0.4 million in the current year. Departments expect to end the current year with expenditures $20.2 million below budget with a corresponding decrease in estimated year-end revenues of $20.6 million, mostly due to reduced reimbursement-based billings to federal and state agencies. The net result is a $0.4 million estimated decrease in current year unassigned fund balance. The unassigned fund balance reported in the CAFR is $8.7 million. Considering that $6.0 million of this is obligated in the current year adopted budget and taking into account the $0.4 million estimated overrun, the projected ending unassigned fund balance is $2.3 million.

Growing cost pressures continue to outpace revenue growth in the approaching fiscal year and beyond. Costs to operate County operations continue to grow at a faster pace than revenues. A significant cost pressure is growing labor cost due to salary increases, higher pension contributions, and higher health care costs. Additionally, replacement of County systems, increased general liability costs, and increased unfunded liabilities will put rising pressure on the County's operational capacity. As a result of these fiscal pressures, a hypothetical deficit of $36.2 million emerges in the fiscal year beginning July 1, 2018 and grows to $53.8 million by the end of the forecast period without corrective adjustments to operations. These hypothetical deficits are based on current operations and policy and do not include future service enhancements or changes in federal or state financial commitments.

Over the past years, the County has invested resources to enhance programs and support organizations that provide services to the community. The County has adopted policies to provide funding from the general fund to the Road Fund, to agencies that promote economic development, to user agencies of the 911 center, and to fire districts to promote public safety. Combined, these commitments have added $11.8 million in costs to the general fund. Over the years, the County has also expanded important programs including enhancing public safety, homeless programs, economic development, and programs that promote a sustainable environment. These program enhancements have added an additional $14.0 million to general fund operations.

Natural Disasters and Other Fiscal pressures. In addition to "ongoing" inflationary pressures, the County has experienced significant costs related to the *Soberanes Fire* and the 2017 winter storms. The cost to repair damages resulting from these natural disasters are estimated at $62.3 million. The Board approved $16.8 million from the strategic reserve for critical repairs during the last fiscal year. There is an additional $9.7 million unfunded need in the current year and $36.1 million next year for debris removal and other repair projects. These costs are not included in the forecast.

Beyond disaster-related repairs, additional funding of $4.5 million is needed next fiscal year to cover the gap for State redirection of AB 85 Realignment Funds which supports health programs and the inmate healthcare program. Other unfunded needs include: an additional $1.5 million in increased cost for a new inmate medical care contract; $891,794 for the Interlake Tunnel; an estimated increase of $731,483 for enhanced general assistance grants to support indigent residents; funding the appropriation for contingencies of $6.3 million for the upcoming budget, and many other needs discussed in detail later in the report. In addition, the pension contribution increases planned by CalPERS over the coming years are unprecedented, increasing $7.0 million in the general fund next fiscal year and an additional $8.0 million the following fiscal year. Overall, these ongoing cost drivers as well as extraordinary costs will add $70.7 million in costs next fiscal year.

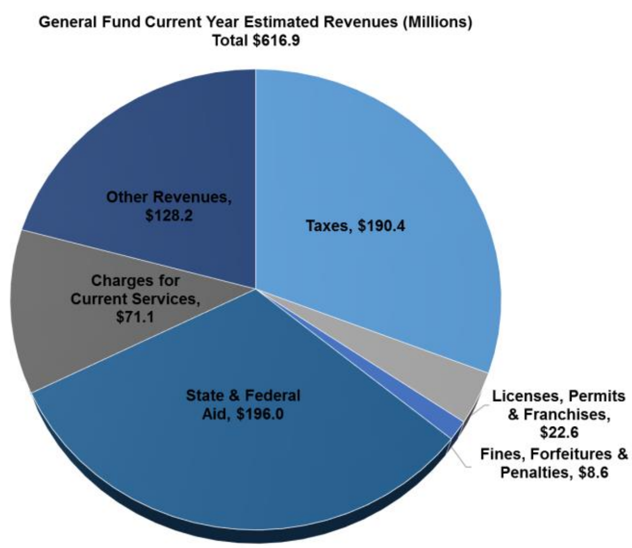
Departments that seek reimbursement from the state government can weather inflationary pressures better than departments that are dependent on county contributions. Many departments have exhausted opportunities to cut discretionary spending, de-funded vacant positions, and in some cases laid off employees as a last resort. The loss of budget flexibility erodes departments ability to absorb further cost pressures and increases the likelihood of operational impacts next fiscal year.

The outlook on revenues is approached with caution given the future economic uncertainty. The financial forecast assumes that the economy continues to grow through the forecast period and does not include potential impacts that may result from possible federal policy changes by the new administration. This assumption should be carried with caution as the recovery continues to mature well beyond the average length of recoveries. The current recovery is the 3rd longest in modern U.S. history, lasting 103 months thus far, or nearly 9 years. On average, expansions have lasted around 60 months, or 5 years. Economic expansions do not last forever and an economic downturn is inevitable.

With the economic uncertainty that lies in future years, adherence to prudent and cautious financial management practices, including limiting new on-going commitments, is vital to weather a recession. Similar caution was taken by the Governor in the State's budget proposal for next fiscal year, focusing on shoring up reserves, rather than expanding programs, to be well prepared for future years that could be impacted with significant revenue loss as a result of a downturn.

General Fund Revenues

General fund revenue is composed of program and non-program revenue. Program revenue 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, and other revenues include primarily reimbursement from realignment funds for health, social services, and public safety programs.

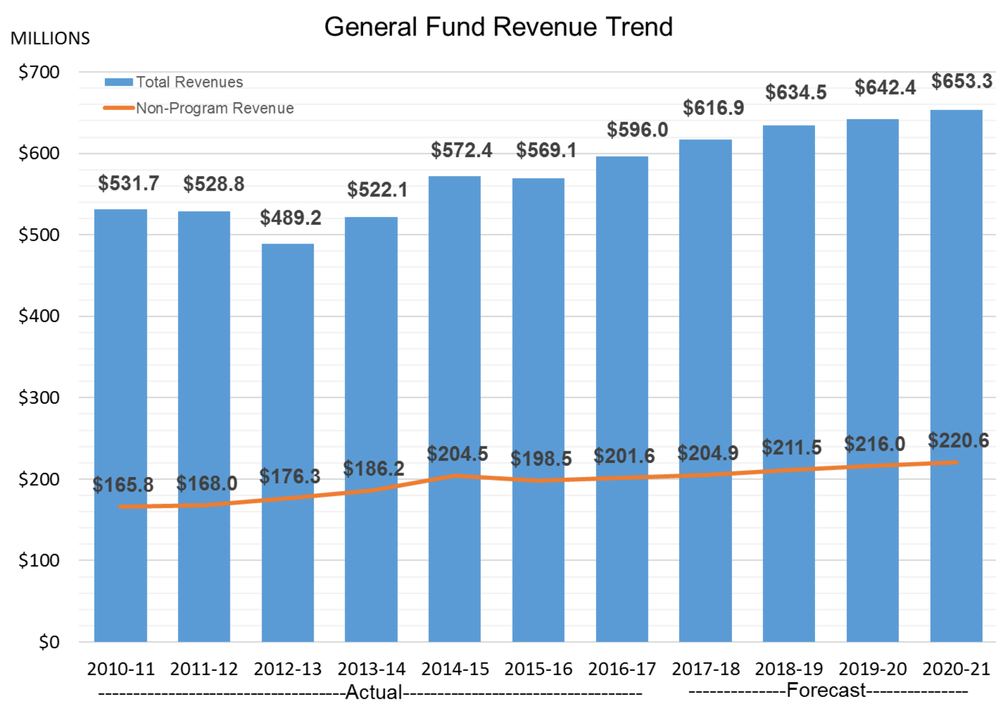


Non-program or "discretionary" revenues are mostly derived from taxes and are utilized to address local priorities and to provide funds to leverage federal and state monies, including maintenance of effort requirements.

Current year revenues are $20.6 million below budget expectations. The major causes of the decrease in revenue in the current year include:

- **Revenue in the Health Department is $15.0 million below budget:** The Health Department was impacted with the State's redirection of AB 85 funds and the Department made program reductions totaling $1.4 million in the current year. Estimated health fees are $9.3 million below budget due to a lower than anticipated level of service and inability to execute expanded hours as planned, as they are unable to fill vacancies in clinics. Additionally, the Department's difficulty in filling vacancies has also lowered reimbursements by $4.3 million.
- **Declining caseloads in Social Services reduce revenue by $3.8 million:** A reduction in caseloads in public assistance and Out of Home Care programs result in lower federal and state reimbursements.
- **Lower than expected discretionary revenues:** Discretionary revenue is estimated to come in $2.6 million below budget. The adopted budget assumes the County will receive $3 million in use tax for the Solar Flats project; however, due to issues arising with the project agreement, the County only expects to receive $351,000 in the current year with the balance of the $3 million to be paid over the life of the project. The decrease was partially offset with an improvement over budget for property tax revenues.

The graph below illustrates the general fund revenue trend based on actual performance and forecasted amounts:

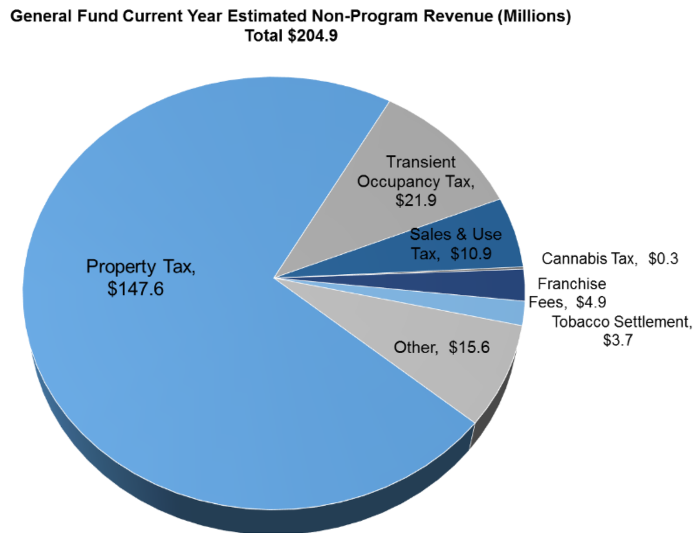


Forecasted years assume continued growth in program and non-program revenue. Departments balance their budgeted expenditures to a combination of revenues earned directly by the program (State reimbursement, permit fees, clinic charges, etc.) and County contributions of discretionary "non-program" revenue. Since FY 2012-13 the County's program revenues have grown under state-county realignment and the Affordable Care Act to support increased responsibilities and associated costs, including mandated public assistance and health and public safety programs. The chart above reflects the overall general fund revenue trend and the non-program revenue trend, which accounts for about one-third of general fund revenues. For FY 2018-19, general fund revenues grow $17.6 million or 2.8% over the current year; the majority of the growth is attributed to higher program revenues under the assumption that vacancies in the Health Department and Social Services will be filled. In the two out years, overall revenue is projected to grow 1.2% and 1.7%, respectively.

Discretionary Revenues

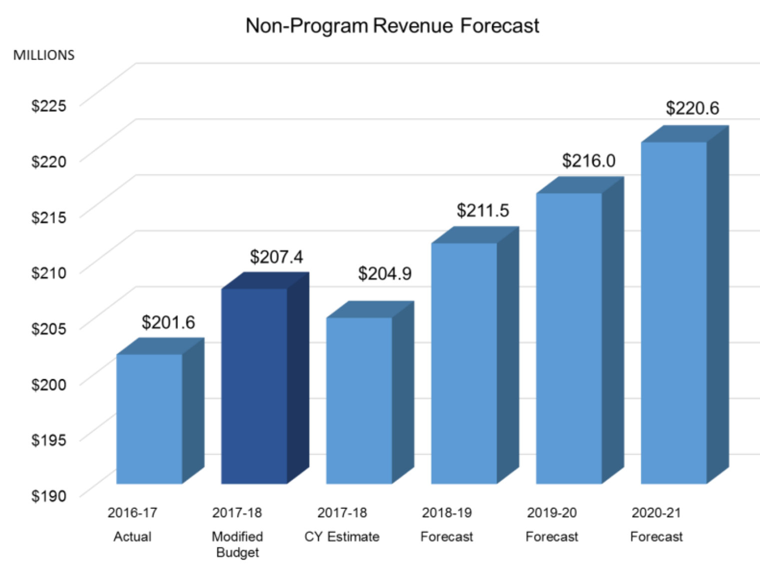
Discretionary revenues provide the Board flexibility to address local priorities and to provide matching funds to leverage federal and state monies and to meet maintenance of effort requirements.

Property tax revenue comprises the bulk of local discretionary monies. Sources of non-program revenue are displayed in the chart to the right. Total non-program revenue in the current year is estimated at $204.9 million.



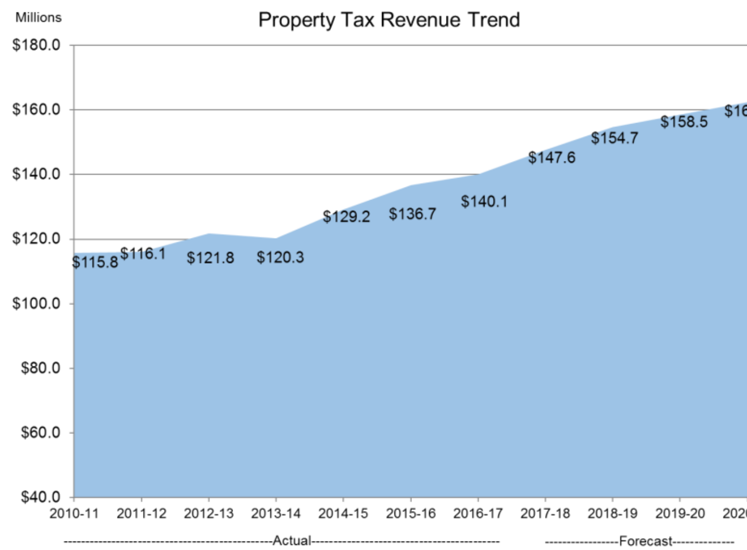
Property tax revenue is the largest source of non-program revenue, projected at $147.6 million (72%) of current year estimated non-program revenue. Other significant sources of discretionary revenue include: $21.9 million in transient occupancy tax (TOT); $10.9 million in sales and use tax revenue; franchise fees of $4.9 million and tobacco settlement monies of $3.7 million. The County also receives property transfer taxes, investment income and payments of interest on delinquent taxes.

Discretionary revenue continues to grow in coming years. The chart to the right reflects the projected non-program revenue in the current year, budget year (FY 2018-19) and two out years. Projected current year non-program revenue is below budget due to $3 million in use tax from the California Flats solar project that was anticipated in the budget, but is no longer expected in the current year. The decrease in sales and use tax is offset with better than expected property tax collections, which are estimated to outperform budget expectations by $1.4 million in the current year.



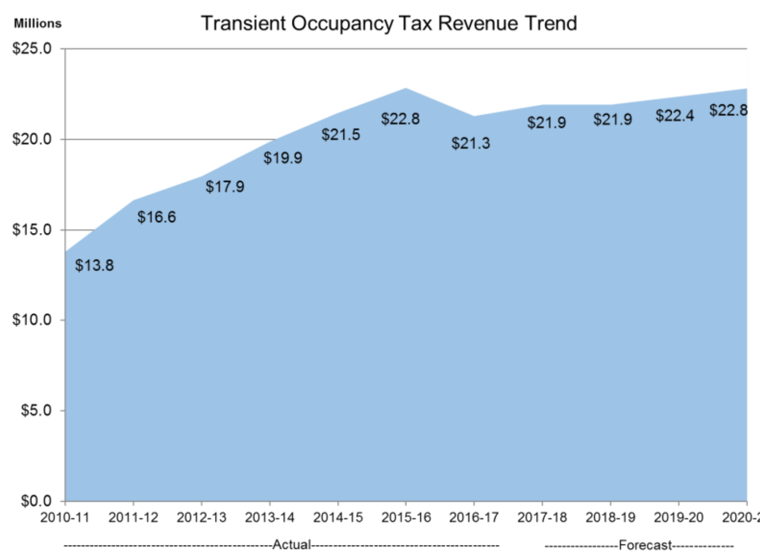
The forecast assumes continued growth in non-program revenue primarily due to positive trends in property tax collections resulting from higher assessments. Next fiscal year, non-program revenue grows $4.1 million over the current adopted budget. Growth in the two out years is projected at approximately $4.5 million each year.

Positive property assessments add discretionary revenue. During the economic recession beginning FY 2008-09, property taxes sustained steep reductions, declining $15.6 million from peak to trough. This impacted County services and was the driving factor behind four years of budget reductions following the onset of the recession. Assessed values have steadily recovered and since exceeded pre-recession levels.



The adopted budget assumes a 5.5% increase in assessed values for FY 2017-18. The forecast assumes a 5.0% growth in assessments next fiscal year, which produces $7.1 million growth in property tax revenue. The two out years include a more conservative growth assumption of 2.5% each, yielding additional revenue of $3.8 million each year.

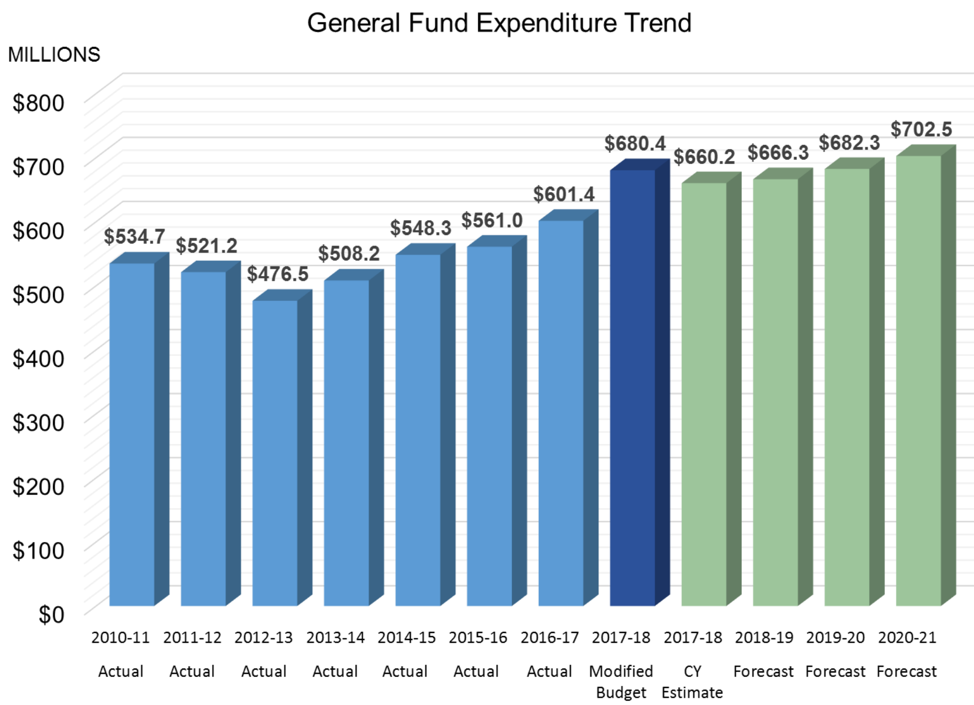
Transient Occupancy Tax (TOT) receipts begin to recover. TOT is the County's second largest source of discretionary revenue. Often referred to as the "hotel tax," TOT is the tax applied on hotel/motel accommodations. The rate for Monterey County is 10.5%. Although TOT revenues remain well above the recession levels of $13.0 million, last fiscal year, TOT declined as tourism was negatively impacted, particularly in the Big Sur area, due to damage and road closures caused by the *Soberanes Fire* and the winter storms. The current year estimate assumes a 3% increase over last fiscal year as tourism starts to pick up in the area. TOT is estimated at $21.9 million next fiscal year and growth is projected at 2% in the two out years.



Cannabis revenue not included in forecasted years. In November 2016, Monterey County residents approved Measure Y imposing a business tax on commercial cannabis businesses in the unincorporated area of Monterey County beginning January 1, 2017. The ordinance established rates for cultivation, and other commercial businesses, including dispensaries, manufacturing, testing, transportation, distributing, and delivery. Based on available data, staff estimate the annual revenue from cannabis tax at $7.4 million. The Board has directed staff to assess staffing needs related to the cannabis tax program and to engage the community to help the Board prioritize the use of this particular revenue source. For this reason, only the amount that has been obligated in the current year adopted budget ($346,922) was included in the forecast.

General Fund Expenditures

The FY 2017-18 adopted budget included appropriations of $679.8 million. The modified budget is $680.4 million, including modifications of $0.6 million over the course of the year primarily due to: an increase of $304,117 in the District Attorney's budget to expand victims of crime services in South County, offset with grant funding; an increase of $68,877 in Equal Opportunity to add a position to spearhead a new compliance program for the County; $192,921 increase in the County Administrative Office due to additional grant funds for victims of crime services; and a $45,000 increase in Health to support Animal Services positions that were only partially funded in the adopted budget.



Current year expenditures are estimated at $660.2 million, or $20.2 million below budgeted expenditures. The primary factor decreasing expenditures in the current year is salary and benefit savings of $17.2 million resulting from vacancies across the County. Departments with significant salary savings include:

- The Health Department is estimating year-end salary savings of $10.4 million mainly due to vacancies caused by program reductions for AB 85 and challenges in recruiting and filling specialty staffing in clinics.
- Resource Management Agency (RMA) estimates year-end salary savings of $1.9 million due to its unfilled positions.

Remaining decreases in salary and benefits can be attributed to vacancies across the County, reflecting an overall 11.6% vacancy rate. There are an estimated 403 vacancies (general fund), with an annualized cost of $47.9 million next fiscal year. Of these vacancies, about two-thirds reside within the Health Department and Social Services, which would likely qualify for reimbursements from state and federal agencies. Additionally, other departments also have positions which are funded by grants, as in the District Attorney's Office, or departments that share cost with other payors, such as Emergency Communications.

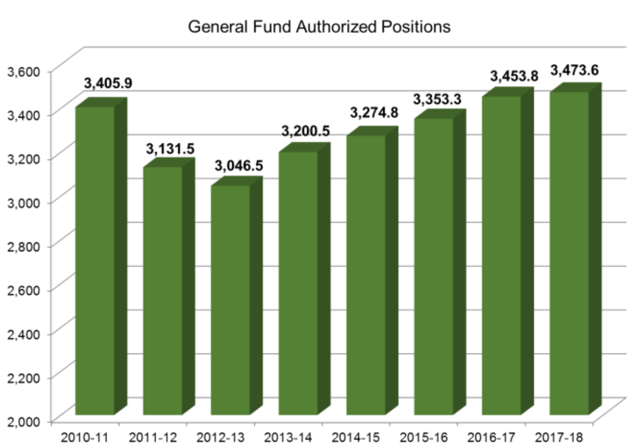
One-time expenditures in the current year are financed with fund balance. The FY 2017-18 adopted budget included $42.9 million use of fund balance to cover one-time expenditures. Such expenditures include: the ERP upgrade ($5.1 million), funding for the contingencies approriation from a designated reserve ($6.4 million), County match contributions for the juvenile hall project ($15.1 million), winter storm repairs ($7.3 million), the East and West Wing construction and Government Center 2nd floor remodel ($3.2 million), and information technology infrastructure replacement ($4.0 million).

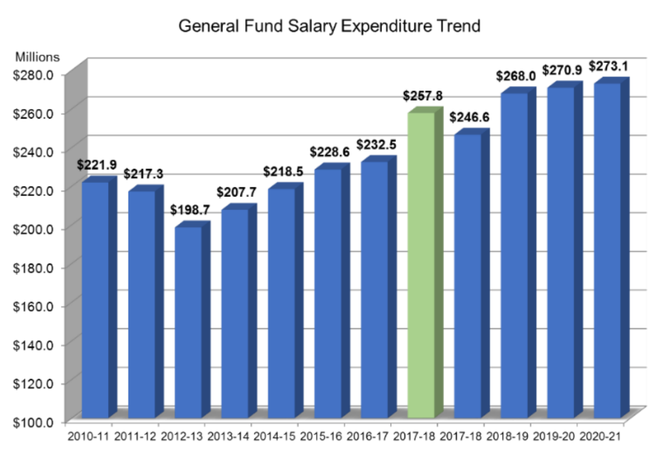
Next fiscal year, the decreases in one-time expenditures are offset with growing ongoing costs for salaries, pension contributions, healthcare costs, general liability, and workers' compensation, as discussed in detail in the following section. Next fiscal year, salaries and benefits alone grow $36.1 million over the current year estimate. Additional growth of $16.0 million and $20.2 million in the two out years is mostly attributed to salary and benefit growth. Underlying these estimates is the assumption that vacancies are filled.

Major Cost Drivers

County programs and services have been impacted by increasing costs due to higher labor costs resulting from negotiated salary increases, increased employer pension contributions, increased healthcare costs, higher workers' compensation and general liability costs, and replacement of County systems.

Rising salaries. During FY 2016-17, the Board of Supervisors approved wage increases for most labor groups of 1.5% in the first year, 2.5% in the second year, and 3.0% in the third year. Most safety bargaining units received increases of 2.5% in the first year, 2.5% in the second year, and 3.0% in the third year. The general fund impact of these approved wages – independent of position growth - is $19.3 million over three fiscal years as follows: $4.3 million in FY 2016-17, $6.7 million in FY 2017-18 and, and $8.3 million in FY 2018-19. Aside from wage increases, the County has grown its workforce over the years, which has contributed to rising salary expense.



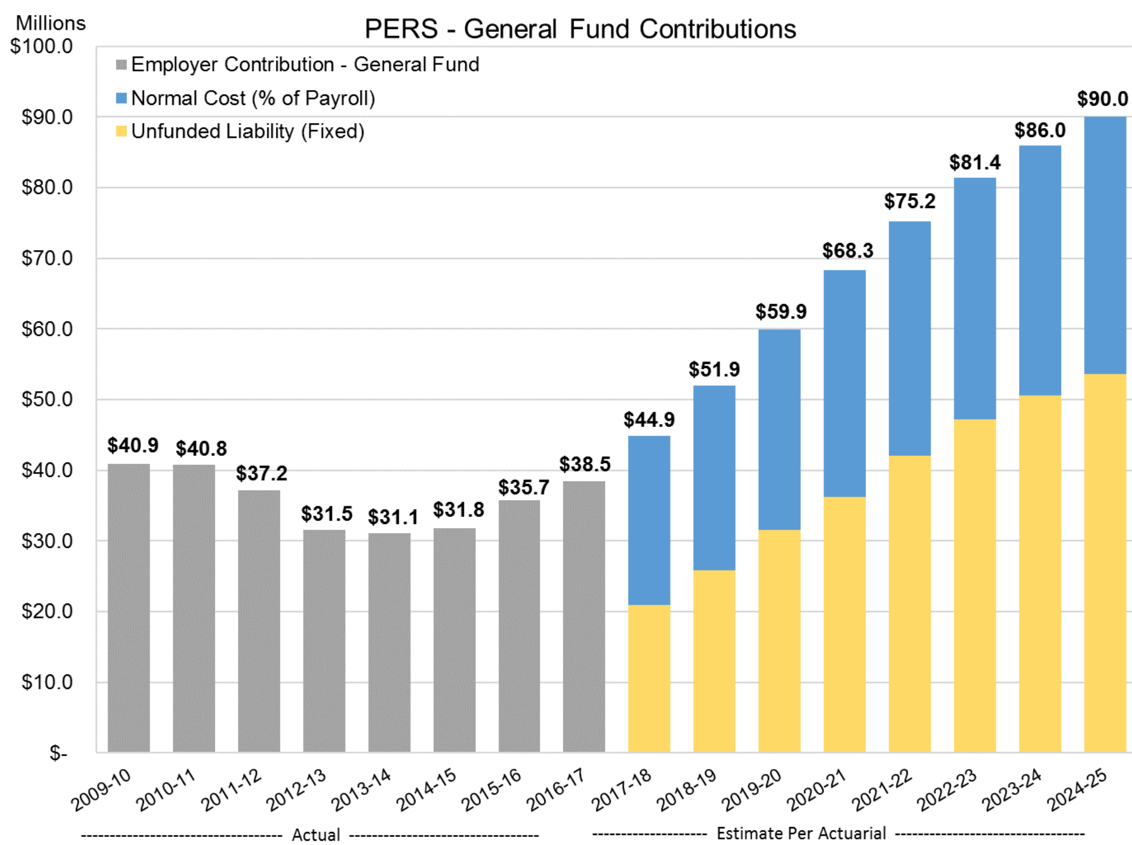


A total of 427.1 general fund positions have been added since FY 2012-13, including 19.8 in the current year. The majority of positions added have supported growth in health and social services programs that have taken on new responsibilities under state-county realignment and the Affordable Care Act. These position augmentations coupled with the pay raises increased salary expenditures from $198.7 million in FY 2012-13 to an estimated $246.6 million in the current year and climbing to $273.1 million by FY 2020-21.

Next fiscal year, salaries are projected to increase $21.4 million over the current year estimate, with approximately $8.3 million attributed to the approved 3.0% wage increase and the remaining increase due to the assumption that vacancies are filled. FY 2018-19 will be the final year of wage increases under most bargaining agreements. The two out years assume slight increases due to step advancements.

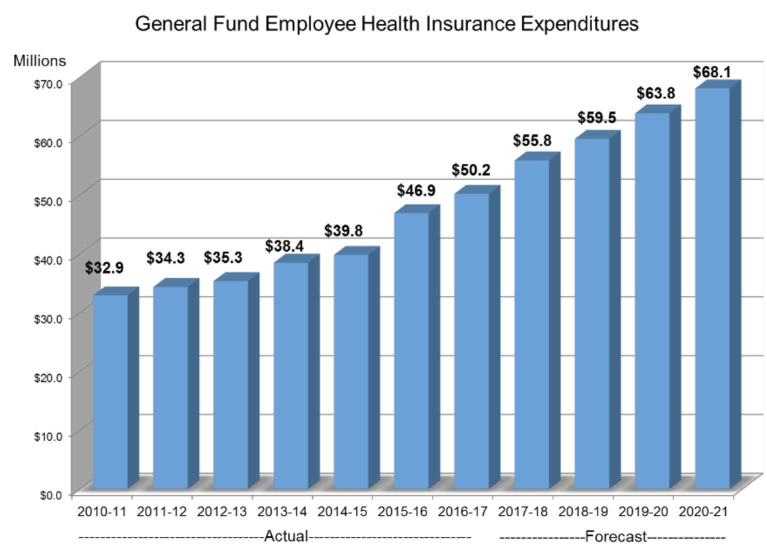
Upsurge in pension contributions. Employer contributions will increase significantly due to changes in CalPERS' actuarial methodology to improve funding of the pension system. Some of the changes that are impacting contributions include:

- Changes in amortization and rate smoothing policies to accelerate paying down large unfunded liabilities.
- Change to fixed dollar contribution for the unfunded liability portion, rather than as a percentage of payroll, to prevent potential funding issues that could arise from a declining payroll.
- Adoption of new demographic assumptions that show retirees living longer, and thus requiring higher lifetime payout of benefits.
- Approval of a new funding risk mitigation policy to incrementally lower the discount rate.

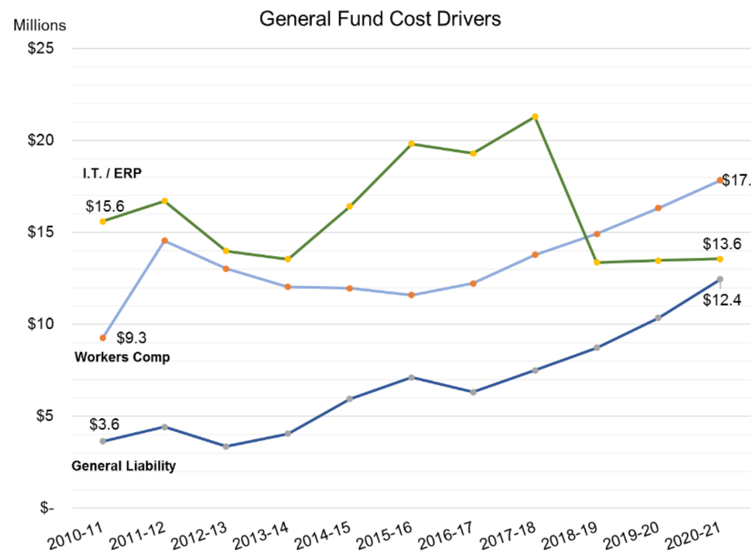


Employer pension contributions are projected to double over the next seven years. General fund contributions increase $7.0 million next fiscal year and grow by $45.1 million by FY 2024-25. The most significant change impacting contributions is the reduction in the “Discount Rate”, which reduces the assumed rate of return by CalPERS from 7.50% to 7.0% over three years and increases agencies’ unfunded liabilities. This policy was approved by the CalPERS Board in December 2016, taking effect on July 1, 2018. The change was necessary due to expectations of lower investment returns over the long term. To shore up the pension fund and reduce the risk of funding issues and cash flow gaps, agencies are required to substantially increase contributions. The contributions for FY 2017-18 are based on a 7.375% discount rate; contributions for the subsequent two years will be based on a discount rate of 7.25% and 7.0%, respectively. Additionally, beginning in FY 2017-18, a portion of the contribution is a fixed payment that goes toward the unfunded liability. The fixed payments for unfunded liabilities increase approximately $32.6 million over the next seven years, while our normal cost increases an estimated $12.5 million over the same period. The projections in the chart above are based on CalPERS actuarial valuations, which are built on actual payroll data obtained by CalPERS, and therefore, based on existing filled staffing levels.

The changes in the discount rate, actuarial assumptions, and actuarial methodologies are part of a plan to improve funding levels and protect solvency of the pension program. Pension costs across California agencies will be a primary cost driver as a result of these changes, with most California cities and local government agencies experiencing similar increases. A recent report by the League of California Cities indicate that pension costs will double for many cities in the next seven years, limiting their ability to fund basic services. Pension contributions will consume a greater share of the County budget and impact local priority programs and services.



The County has absorbed health insurance premium increases. Health care costs have grown $17.3 million since FY 2010-11, and are forecasted to increase another $17.9 million over the next four fiscal years. Rising health care costs are primarily the result of higher premiums and a growing workforce. To protect this valuable benefit and minimize impact to employees, the County has absorbed rate increases, rather than shift the cost to employees. The County experienced a spike in premiums of 21.26% in January 2016. Although rates have since remained fairly flat, the Human Resources Department is anticipating 10% growth for FY 2018-19 as the rate for January 2019 is unknown and based on historical experience, rates typically increase after stable periods. The forecast assumes 8% growth for each of the two additional out years. Current year healthcare costs are estimated at $55.8 million, or a $5.6 million increase over last fiscal year, due to the assumption that vacancies are filled. Increasing health care costs have contributed to the fiscal pressures faced by departments and have impacted programs.



Costs to run internal service fund programs and upgrade technology continue to increase. The workers' compensation program is increasing its charges to departments by $1.1 million next fiscal year with additional increases projected in the out years of the forecast. Additionally, general liability program charges to departments increase $1.2 million in FY 2018-19 with additional increases in the out years to pay down unfunded liabilities caused by legal settlements. Both workers' compensation and general liability allocation estimates are based on a 70% confidence level. These costs have impacted departmental programs.

A significant cost driver is eliminated in forecast years due to the completion of ERP upgrade project. The forecast assumes that the cost for the ERP upgrade will not continue beyond the current year, which is reflected in the chart above. The project cost is estimated at $18.4 million, and was mostly funded through department reimbursements. Department operations were impacted as they absorbed the allocated upgrade charges in their budgets over the last four fiscal years. ERP upgrade charges for general fund departments were deferred during FY 2016-17 to alleviate service level impacts. The deferred charges for the general fund departments were included in the FY 2017-18 adopted budget, and funded with one-time fund balance to minimize departmental impacts. Although the ERP upgrade project will end this year, the project has a financing requirement of $5.7 million which will have to be addressed in the current year. To avoid funding issues for future upgrades, there is preliminary discussion about allocating costs to departments to build a reserve for future system needs. Aside from ERP upgrade charges, departments will continue to pay for maintenance of the system and may potentially continue to have additional ERP-related charges in their budget should the plan to charge for future replacement comes to fruition.

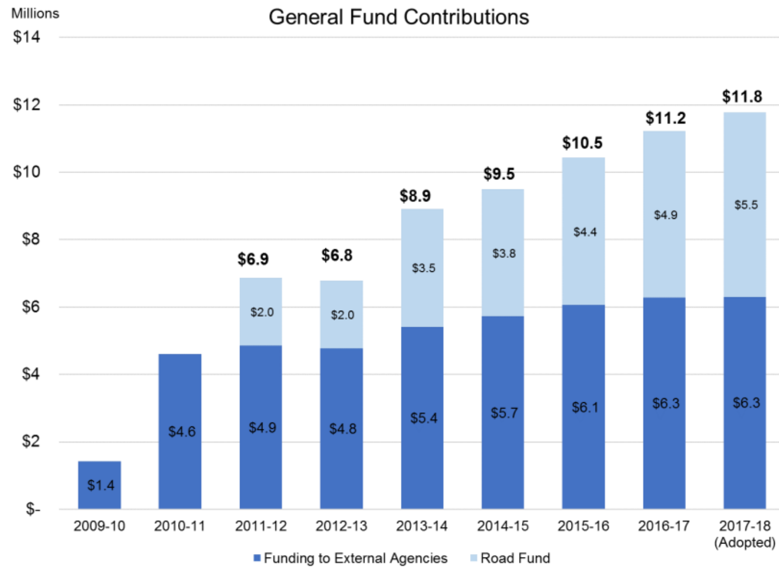
Funding Commitments

Aside from operational cost drivers, the County has adopted policies to provide funding for external agencies and to the Road Fund. These agreements are based on percentage formulas, which have generally resulted in increased annual contributions in recent years. These commitments total $11.8 million in FY 2017-18. These commitments include:

- The County has adopted policies to provide funding to external agencies in support of their mission to economic development. Contributions include funding of $1.9 million from TOT to agencies that promote economic development, tourism and cultural arts.

- The County also distributes Proposition 172 revenues (Half-Cent Public Safety Tax) based on funding agreements to user agencies of the 911 dispatch center and to fire districts to promote public safety. These contributions are at the discretion of the Board. The FY 2017-18 contributions to user agencies of the 911 center total $1.6 million and the allocation to the fire districts is $2.9 million and have generally increased each year under current formulas.

- In FY 2013-14, the Board adopted a policy to contribute a percentage of TOT revenue to the Road Fund, recognizing that well maintained roads are vital to the local economy. The FY 2017-18 contribution is $5.5 million, an increase of $3.5 million since the policy was adopted. Part of the contribution covers the Maintenance of Effort (MOE) requirement, estimated at $4.4 million next fiscal year.



Program Enhancements

The County has also expanded programs to address important needs in the community. Below are some examples of program enhancements:

- Since FY 2012-13, the County has added 30 custody control specialists to support staffing coverage at the jail and 17 additional safety positions. The estimated annualized cost for these additional staff is $5.8 million.

- Since FY 2012-13, the District Attorney has added 8 positions supported with general fund contributions at an estimated annual cost of $851,723. The positions have been added to meet operational needs, specifically to support investigations and to address a growing need to process digital evidence.

- In the current year, the Public Defender added two attorneys and three support positions to meet operational service levels; the cost for these positions total $704,096. Additionally, the department's budget was augmented by $609,312 two years ago to add panel attorneys.

- There were 12 staff added to support the ERP upgrade project at an estimated annual cost of $1.5 million, including 9 positions added in the Office of Auditor-Controller, one position in the County Administrative Office – Contracts Purchasing, and two positions in Human Resources. Additionally, a total of 13 staff are dedicated to the ERP systems maintenance; the estimated annual cost for these positions is $2.0 million.

- The County provided $1.1 million in the current year to support homeless programs including a warming shelter and a safe parking program that allows homeless individuals to park their vehicles overnight in a safe place.

- Resources have also been invested into important programs that benefit the community and the environment, such as the implementing the Salinas Valley Basin Groundwater Sustainability Agency which commits $420,000 for the current year and next fiscal year, $1.3 million over several years to the Water Resources Agency for the Interlake Tunnel Project, $500,000 in the current year for the Monterey Bay Housing Trust, an additional $100,000 to support agencies that contribute to tourism, and $275,000 to operate the Big Sur shuttle service in an effort to support the economy after the area was impacted by natural disasters.

Emerging Countywide Needs

The table below summarizes emerging unfunded costs that will require budget solutions beginning in the current year and emerging costs next fiscal year.

These costs total $20.3 million in the current year and grow to $70.7 million in the general fund next fiscal year. County staff forecast discretionary revenues to grow another $4.1 million next fiscal year assuming economic factors remain positive. Some departments can pass along some of their increased costs to other payors such as the state and grantor agencies. The only uncommitted revenue source left is cannabis tax revenue; however, it is yet to be determined how the revenue will be used and what additional resources will be granted to carry out the program. Even with the improvement in program and non-program revenue, the growth in funding sources will not be sufficient to cover these emerging costs.

Unfunded Need (General Fund)	FY 2017-18	FY 2018-19
State Redirection of AB 85 Realignment Funds	-	$4,449,254
Warming Shelter in Salinas	-	435,000
Safe Parking Initiative	-	94,000
General Assistance Program Enhancement		731,483
Addition of 3.0 FTEs in Social Services for OET reorg.	-	105,000
Increase in CFMG Inmate Medical Care Contract	-	1,492,696
County Librarian Salary	-	243,509
Public Defender Legal Costs for Capital Cases	-	1,000,000
WRA Interlake Tunnel Request	-	891,794
Continuation of FTEs in Health for Animal Care Services	-	429,782
Third Year of Employee Bargaining Agreements	-	8,326,690
PERS Contribution Increase	-	7,066,359
Restoration of 22.5 FTEs during June 2017 Budget Hearings	-	1,611,552
Appropriation for Contingencies	-	6,345,359
Unfunded Storm Repairs	9,666,959	36,133,371
ERP Upgrade Additional Financing Need	5,672,164	-
Non-recoverable Litigation	5,000,000	
Additional Jail Positions	-	1,327,310
Total	20,339,123	70,683,159

State redirection of AB 85 Realignment monies supporting indigent healthcare: With implementation of the Affordable Care Act (ACA), the State expanded Medicaid and anticipated that counties' costs for indigent healthcare would decrease as much of that population would become eligible for healthcare coverage under ACA. AB 85 was implemented in 2013 to capture savings related to indigent medical care in the *1991 State Health Realignment* and redirect county "savings" to social services programs. The *May Revision* to the State's budget proposal revised the estimated amount that would be redirected to $5.9 million. The reduced funding impacts the Health Department and the Sheriff's Office. The County appealed the redirection and was successful in getting a reduction of $1.2 million in the current year. The Health Department executed programmatic reductions of $1.4 million in the current year, with the remaining gap closed by one-time funding solutions including use of fund balance and a one-time augmentation of AB 109 funds to the Sheriff's Office from the Community Corrections Partnership. Although the County was able to protect most of the AB 85-supported programs for indigent care in the current year, a gap of $4.5 million remains for next fiscal year.

Program enhancements in Social Services: In the current year, the County funded the safe parking program to allow homeless individuals a safe place to park overnight and the warming shelter in Salinas with one-time financing previously earmarked for the *Monterey Bay Community Power* project and cannabis revenue. Next fiscal year, these programs have an estimated annual cost of $529,000, with no identified funding. Additionally, the County adopted a policy that increased the maximum grant amount under the General Assistance program. Next year, an additional general fund contribution of $731,483 would be needed to cover the increase.

Inmate medical contract: The County entered a new contract with California Forensic Medical Group (CFMG), the current provider of inmate health services in the Monterey County Jail. The contract overhauls the dated contract with CFMG and meets the requirements resulting from the *Hernandez v. County of Monterey* implementation plan. In the current year, the Sheriff's Office anticipates absorbing the half-year increase in their budget. The annualized increase of $1.5 million will add to the Sheriff's Office budget gap next fiscal year.

Capital case defense costs: The Public Defender's Office is anticipating one-time costs related to the preparation of defense for capital cases expected to go to trial next fiscal year. It is difficult to predict these costs as they depend on how the case progresses. Costs for the cases have been absorbed in the department's budget this year. However, next fiscal year, defense costs are expected to ramp up in the trial phase, potentially reaching $1.0 million.

Appropriation for contingencies: Per policy, the County adopts a contingency appropriation of one percent of estimated general fund revenues to address unplanned operational needs in the upcoming fiscal year. The contingencies appropriation was funded by designated one-time reserves in the current year, which are not available next fiscal year.

ERP upgrade additional financing need: The ERP upgrade project ends in the current year. Although the project's cost was primarily funded with department reimbursements, the project still has a financing requirement $5.7 million that must be addressed in the current year.

Other costs: Other unfunded needs in the current year include up to $5.0 million for potential non-recoverable litigation costs. Unfunded needs that the County will face in building next year's budget include:

- $891,794 is needed to continue work on the Interlake Tunnel, as part of the Board's original commitment, authorizing up to $3.0 million in reimbursements.
- $105,000 for the addition of three approved positions in Social Services to support the Office of Employment Training reorganization.
- $243,509 for a mandated transfer to the Library Fund to cover the County Librarian salary, which was covered with contingencies in the current year.

- $429,782 for continuation of positions in Health for Animal Care Services, which were funded for partial year with one-time funds in the current year.
- $1,611,552 to continue 22.5 FTEs that were restored during the FY 2017-18 Budget Hearings with one-time funds.
- $1,327,310 estimated partial-year funding needed for 21 additional positions in the Sheriff's Office to staff the jail when the addition is complete in July 2019. The Office expects to hire deputies this Fall to go through the academy and be fully trained by the time the addition is complete; custody control specialists and inmate services specialists would be hired a few months ahead of the completion. The estimated annual cost is $2,629,455.
- $7.0 million in increased pension contributions in the general fund ($10.0 million for all funds).
- $8.3 million for the approved wage increases ($12.7 million for all funds) resulting from the labor agreements.

Additionally, there are unknown operational costs for the new juvenile hall project, anticipated to be completed by Fall 2019 (FY 2019-20). At this point, it is unknown if additional positions would be required in the new Juvenile Hall. Staffing requirements will be updated, if necessary, as the facility becomes operational.

Natural Disasters

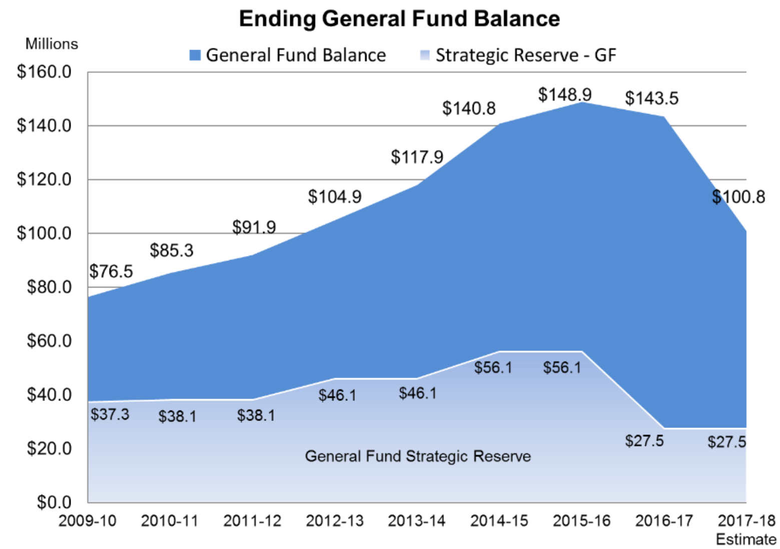
The County experienced unprecedented damage resulting from winter storms. The County began to repair damaged roads and infrastructure last fiscal year, continuing work on numerous projects this fiscal year. On March 14, 2017, the Board approved use of $16.8 million from the strategic reserve to begin critical repair work caused by the *Soberanes Fire* and winter storms through February 16, 2017, at which time the estimated costs of repairing storm and fire damages were $34.0 million. The estimate did not include damages from the major storm event hitting the region on February 17th. Costs have been refined and are now estimated at $62.3 million, including the February 17th storm. The current year budget includes $7.3 million in funding left from the original $16.8 million authorized from the strategic reserve. Staff estimates that beyond the available funding, there is an additional funding requirement of $9.7 million to complete repairs in the current year and $36.1 million in unfunded projects next fiscal year.

County staff are seeking reimbursement from state and federal agencies including California Office of Emergency Services (Cal OES), the Federal Emergency Management Agency (FEMA), and the Federal Highway Administration (FHWA) for storm costs. It is anticipated that funding from these agencies will reimburse the County up to 65% of actual storm damage costs. To date, the County has submitted $41.5 million worth of projects and repairs for reimbursement from state and federal agencies. However, so far, the County has only received $294,000 and additional funding is needed to continue the projects to repair damage.

Financial Reserves

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 and one-time gains in its strategic reserve and other key investments, resulting in improvement to the County's ending fund balance each year.

In the last two fiscal years, the County has used reserves to address one-time needs. Some examples include funding for the new juvenile hall and jail expansion projects, the fires and winter storm repairs, to cover increased construction costs for the East and West Wing, legal defense of *Measure Z,* and capital improvements in the jail and legal costs to comply with the *Hernandez v. County of Monterey* settlement.



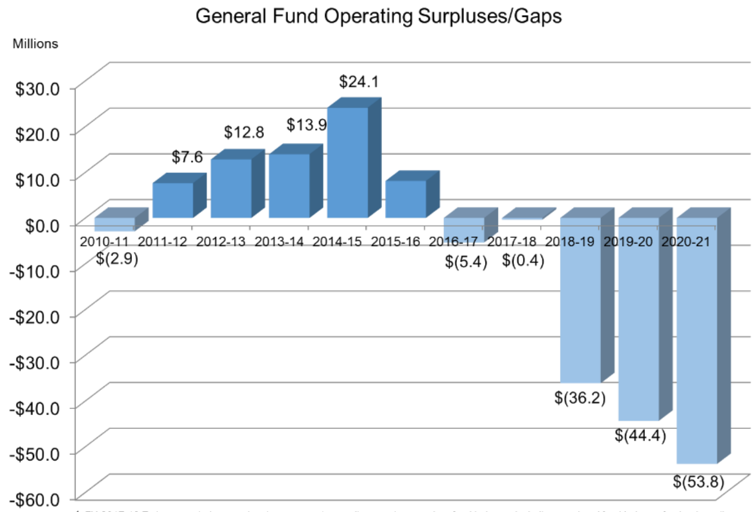
The FY 2017-18 adopted budget includes $42.9 million in use of fund balance including funds authorized from the strategic reserve, restricted fund balance, and other assignments. Based on the planned fund balance use, the estimated general fund balance at year-end 2017-18 is $100.8 million.

The County had previously built up the general fund strategic reserve to $56.1 million by FY 2015-16; however, last fiscal year, $30.9 million was redirected to address natural disasters and extraordinary legal costs. Because of favorable performance in FY 2016-17, the County was able to invest $2.3 million back into the strategic reserve, bringing the balance to $27.5 million. In addition to the general fund strategic reserve, Natividad Medical Center also has a strategic reserve of $17.8 million. The County has a strategic reserve target of 10% of the total general fund estimated revenues. The strategic reserve for the general fund is currently at 4.3% of the general fund estimated revenues for FY 2017-18.

With reserves declining 32% over the last two fiscal years and a future economic downturn, it is important to preserve finances and to align expenditures to available ongoing revenues, to be better prepared for the future.

Planning for the FY 2018-19 Budget

To continue current staffing and service levels, it is projected that expenditures will exceed projected revenues by sizeable amounts in forecast years. Next fiscal year, the projected deficit of $36.2 million is largely due to growth in salaries, pension costs, healthcare costs, and other cost drivers as explained earlier. The forecast focuses on ongoing operational cost and does not include emerging costs such as unfunded storm repairs.



[1]. FY 2017-18 Estimate excludes one-time investments/expenditures using one-time fund balance, including restricted fund balance for the Juvenile Hall, Disaster Assistance funding for fire / storm repairs, Information Technology infrastructure, and ERP upgrade charges funded with fund balance.

The County faces a challenging upcoming budget process, which will require tough choices and creative thinking to come up with savings solutions to minimize impacts and find ways to save positions and avert layoffs. Most departments cannot afford their current level operations next fiscal year with existing funding due to the inflationary pressures, therefore, funding gaps for supporting existing service levels are anticipated. It is becoming increasingly important to reprioritize programs to areas of critical need, continue programs that leverage other funding streams, and consider shoring up reserves rather than expanding programs or adding new commitments that would require County general funds.

General Fund Departmental Forecasts

This section provides individual departmental forecasts, which compare forecasted needs (i.e., expenditures) based on current staffing and services to available financing. Available financing refers to a department's estimated program revenue plus authorized general fund contributions adopted by the Board in support of ongoing operations. The resulting forecast summaries help identify potential areas where service capacity may be impacted as a result of projected changes in expenditures and revenues in future budget years. Departmental summaries offer a tool to assist the Board of Supervisors in prioritizing the distribution of discretionary general fund contributions in the upcoming budget process.

General Fund Contributions

Departments are provided preliminary estimates of general fund contributions for purposes of building their initial "baseline" budgets. The initial GFC estimates represent preliminary allocations of discretionary general fund monies to be used for planning purposes. Departments use these monies to supplement program-specific revenues to finance operations.

Preliminary GFC planning estimates for next fiscal years were based on current year GFC allocations with two adjustments:

- The Enterprise Resource Planning (ERP) system upgrade is scheduled to end in the current year; GFC estimates were reduced proportionate to current year ERP upgrade charges, recognizing that departments will no longer have these expenses next fiscal year;
- Gains in countywide cost allocation plan (COWCAP) were matched with equal reductions in GFC to maintain budget neutrality, with the intent to target this funding to programs anticipating budgetary impacts resulting from unfavorable COWCAP impacts, inflationary pressures, or other fiscal pressures.

After the forecast was developed, the Auditor-Controller's Office provided revised cost plan estimates for FY 2018-19 that will be included in departments' baseline budgets. Some departments are impacted by the latest changes in cost plan charges. These impacts will be reviewed as part of the budget process with recommendations to address these and many other impacts to be incorporated in the annual recommended budget within the constraints of available funding.

Departmental Forecasts

Agricultural Commissioner	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 10,597,765	$ 10,548,619	$ 11,046,909	$ 11,321,163	$ 11,602,264
B. Revenue	7,041,126	6,991,980	7,112,517	7,128,524	7,131,200
C. Financing Need, A-B	3,556,639	3,556,639	3,934,392	4,192,639	4,471,064
D.Preliminary GFC	3,556,639	3,556,639	3,331,409	3,331,409	3,331,409
E. Surplus/(Deficit), D-C	-	-	(602,983)	(861,230)	(1,139,655)

Agricultural Commissioner – The Agricultural Commissioner's Office expects to end the current year with $10.5 million in expenditures, $7 million in revenues, and general fund contributions of $3.5 million. The Office anticipates ending the current year within its budgeted GFC. One of the Office's critical revenue sources is from unclaimed gas tax which is distributed based on maintenance of effort (MOE) requirements related to the County's annual GFC to the Department. In the forecast years, revenue from the gas tax is expected to increase, partially offset by reduced state contracts revenue. The overall increase in revenue is not expected to cover negotiated salary increases and greater PERS retirement and health care costs, resulting in forecasted deficits.

The Office was informed by the State that it did not meet its Maintenance of Effort requirement in FY 2016-17. This could result in potential loss of unclaimed gas tax revenue in the current year and forecasted years, resulting in higher deficits.

Auditor-Controller	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 1,459,684	$ 362,645	$ 2,313,293	$ 2,370,933	$ 2,527,472
B. Revenue	478,779	476,279	475,933	477,448	477,448
C. Financing Need, A-B	980,905	(113,634)	1,837,360	1,893,485	2,050,024
D.Preliminary GFC	980,905	980,905	(311,153)	(311,153)	(311,153)
E. Surplus/(Deficit), D-C	-	1,094,539	(2,148,513)	(2,204,638)	(2,361,177)

Auditor-Controller – This section summarizes the finances for departmental operations and excludes finances for countywide functions such as the ERP upgrade and the annual audit function. The Auditor-Controller estimates ending the fiscal year with expenditures of $362,645, revenues of $476,270 and a projected surplus of $1.1 million. Most of the surplus is a result of an increased cost allocation plan credit of $880,073 and salary and benefits savings due to vacancies. The deficits emerging in forecast years are driven by costs related to increases in salaries, PERS rates and health insurance premiums.

Assessor-County Clerk-Recorder	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 8,940,648	$ 8,714,336	$ 8,995,352	$ 9,357,003	$ 9,686,506
B. Revenue	4,658,451	4,041,500	4,686,000	4,493,000	4,543,000
C. Financing Need, A-B	4,282,197	4,672,836	4,309,352	4,864,003	5,143,506
D. Preliminary GFC	4,282,197	4,282,197	4,100,978	4,100,978	4,100,978
E. Surplus/(Deficit), D-C	-	(390,639)	(208,374)	(763,025)	(1,042,528)

Assessor-County Clerk/Recorder – The Assessor-County Clerk/Recorder estimates year-end expenditures of $8.7 million, revenues of $4.0 million, and GFC of $4.7 million. The Department will end the year with a projected deficit of $390,639 resulting from increases in cost allocation plan charges and a shortfall in revenue due to loss of grant monies and a decline of revenue in the Recorder's Office. The projected deficits in the forecasted years stem from estimated higher cost allocation plan charges, step advances, salary increases, pension costs, and rising health care costs. These forecasted deficits will impact the Assessor-County Clerk/Recorder's ability to maintain existing service levels unless other means are taken to offset escalating costs.

Board of Supervisors	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 3,880,624	$ 3,796,882	$ 3,879,030	$ 3,962,916	$ 4,067,816
B. Revenue	-	-	-	-	-
C. Financing Need, A-B	3,880,624	3,796,882	3,879,030	3,962,916	4,067,816
D. Preliminary GFC	3,880,624	3,880,624	3,745,104	3,745,104	3,745,104
E. Surplus/(Deficit), D-C	-	83,742	(133,926)	(217,812)	(322,712)

Board of Supervisors - The budget for the Board of Supervisors includes six general fund units, providing for each of the five districts and a general pool that covers shared expenses not specific to any one district. Based on financial data for the first six months of the year, the Board's budget will end FY 2017-18 with a surplus of $83,742. The surplus is attributed to a decrease in cost plan charges. The deficits emerging in forecast years are driven by cost increases related to higher salaries, PERS rates, and health insurance premiums.

Child Support Services	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 11,145,527	$ 10,858,077	$ 11,145,527	$ 11,625,331	$ 12,001,778
B. Revenue	11,145,527	10,858,077	11,145,527	11,462,196	11,710,651
C. Financing Need, A-B	-	-	-	163,135	291,127
D. Preliminary GFC	-	-	-	-	-
E. Surplus/(Deficit), D-C	-	-	-	(163,135)	(291,127)

Child Support Services - Child Support Services is funded entirely through federal and state subventions for mandated services. The Department expects to end the current year within its budget with $10.9 million in expenditures and revenue of $10.9 million. It is anticipated that the Department's funding allocations by the State Department of Child Support Services will continue to stay relatively the same for the next three years. This would result in funding gaps in the upcoming years largely due to increases in employee salaries, pension costs, health insurance premiums, workers' compensation, and increases in costs by internal service departments. Unless other means are taken to offset escalating costs, the cost increases will impact Child Support Services' ability to maintain existing resources.

Clerk of the Board	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 926,634	$ 952,354	$ 1,036,411	$ 1,059,774	$ 1,079,149
B. Revenue	20,000	20,900	20,000	20,000	20,000
C. Financing Need, A-B	906,634	931,454	1,016,411	1,039,774	1,059,149
D. Preliminary GFC	906,634	906,634	893,690	893,690	893,690
E. Surplus/(Deficit), D-C	-	(24,820)	(122,721)	(146,084)	(165,459)

Clerk of the Board - The Clerk of the Board anticipates year-end expenditures of $952,354, revenue of $20,900 and expects ending the year with an estimated deficit of $24,820 resulting from an increase in cost allocation plan charges of $76,916. The increase was partially offset by estimated salary and benefits savings from a partial year vacancy. In forecasted years, revenues from assessment appeal application filings are projected to remain flat while expenditures are expected to continue rising due to the bargaining agreements, step advances, and increased employee benefit cost leading to projected deficits.

Cooperative Extension	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 463,881	$ 462,589	$ 452,151	$ 466,042	$ 477,279
B. Revenue	43,403	43,403	34,946	34,946	34,946
C. Financing Need, A-B	420,478	419,186	417,205	431,096	442,333
D. Preliminary GFC	420,478	420,478	390,913	390,913	390,913
E. Surplus/(Deficit), D-C	-	1,292	(26,292)	(40,183)	(51,420)

Cooperative Extension - The Cooperative Extension expects to end the current year with $462,589 in expenditures, $43,403 in revenue and general fund contributions of $419,186. Compared to budget, the Department estimates it will end the year with a surplus of $1,292. The surplus can be attributed to salary savings due to a retirement and fleet savings. The Cooperative Extension projects a deficit in forecast years because of increased salary and benefit cost increases driven by bargaining agreements, step increases to salaries, PERS increases, and increased employee health insurance premiums. Revenue forecasts will also decrease due to additional restrictions in reimbursement agreements with the University of California.

County Administrative Office	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 3,649,058	$ 2,792,083	$ 3,038,487	$ 2,715,186	$ 2,727,501
B. Revenue	659,766	770,425	758,241	388,875	388,875
C. Financing Need, A-B	2,989,292	2,021,658	2,280,246	2,326,311	2,338,626
D. Preliminary GFC	2,989,292	2,989,292	1,492,556	1,492,556	1,492,556
E. Surplus/(Deficit), D-C	-	967,634	(787,690)	(833,755)	(846,070)

County Administrative Office - The table above summarizes the finances for the County's Administration "departmental" operations, including: Administration and Finance, Budget and Analysis, Contracts/Purchasing, Intergovernmental and Legislative Affairs, Emergency Services, Community Engagement and Strategic Advocacy, and Fleet Administration. The Department projects year-end expenditures of $2.8 million, revenues of $770,425, and a County contribution of $3.0 million. These operations estimate a combined year-end surplus of $967,634. Primary reasons for the surplus include a favorable revision in cost allocation plan charges in comparison to budgeted amounts and additional Victims of Crime Act grant funds. The CAO is projecting hypothetical deficits in the forecast years because of salary increases, higher PERS rates and increases in health insurance premiums.

County Counsel	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 622,938	$ 585,540	$ 809,417	$ 971,803	$ 1,189,886
B. Revenue	288,751	288,751	288,751	288,751	288,751
C. Financing Need, A-B	334,187	296,789	520,666	683,052	901,135
D. Preliminary GFC	334,187	334,187	220,278	220,278	220,278
E. Surplus/(Deficit), D-C	-	37,398	(300,388)	(462,774)	(680,857)

County Counsel – County Counsel estimates it will end the current fiscal year with $585,540 in expenditures, revenue of $288,751 and a $37,398 surplus. The department's cost allocation plan credit was reduced by $340,640, however due to vacancies and an increase in direct billing in County Counsel, the department foresees managing the decrease. The deficits emerging in forecast years are driven by cost increases related to salaries, PERS rates and health insurance premiums.

District Attorney	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 25,610,018	$ 24,512,571	$ 27,461,281	$ 28,419,864	$ 29,316,150
B. Revenue	15,034,485	14,741,045	14,886,206	15,358,595	16,086,645
C. Financing Need, A-B	10,575,533	9,771,526	12,575,075	13,061,269	13,229,505
D. Preliminary GFC	10,575,533	10,575,533	10,191,972	10,191,972	10,191,972
E. Surplus/(Deficit), D-C	-	804,007	(2,383,103)	(2,869,297)	(3,037,533)

District Attorney – The Office of the District Attorney (DA) anticipates year-end expenditures of $24.5 million, revenues of $14.7 million and $9.8 million in County contribution, resulting in a year-end surplus of $804,007. Much of the surplus is the reimbursement to the County of general funds used in FY 2015-

16 by the Civil Division, which is financed entirely by non-general fund sources. The DA plans to cover this unintended use of general funds in the current year with civil settlement monies that fund the operations of the Civil Division. Current year revenue is trending below budgeted assumptions to the extent the salary savings reduces qualified reimbursements, as well as reduced grant funding. In the last two fiscal years, the DA has exceeded general fund allocations, due to lower revenues. An analysis of revenue in the current year was performed and it is recommended that expenditures are realigned to the lower revenue expectations. The DA projects deficits in the forecast years primarily due to forecasted salary step increases, raises, and the increasing costs related to PERS retirement, health insurance premiums and allocated costs such as workers' compensation insurance, without any commensurate increase in revenues.

Recommendations:

1) Decrease appropriations for the District Attorney (001-2240-8063-DIS001) by $441,275 and decrease revenues by $387,268 to realign expenditures to expected revenue.
2) Increase revenue for the District Attorney (001-2240-8062-DIS001) by $750,000, reimbursing the general fund for expenses that were intended to be financed with civil settlement monies in FY 2015-16.

Economic Opportunity	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast		
			2018-19	2019-20	2020-21
A. Expenditures	$ 4,078,267	$ 4,211,470	$ 3,526,575	$ 3,581,562	$ 3,631,678
B. Revenue	-	-	-	-	-
C. Financing Need, A-B	4,078,267	4,211,470	3,526,575	3,581,562	3,631,678
D. Preliminary GFC	4,078,267	4,078,267	3,246,403	3,246,403	3,246,403
E. Surplus/(Deficit), D-C	-	(133,203)	(280,172)	(335,159)	(385,275)

Economic Development Department - The Economic Development Department's (EDD) general fund units estimate year-end expenditures of $4.2 million with no offsetting revenue. Compared to budget, the Department estimates ending the year with a deficit of $133,203. The deficit is attributed to an increase in cost allocation plan charges of $101,545 and external consultant services used to facilitate the move of the Office of Employment and Training Department to the Department of Social Services. The deficit continues to rise in future forecasted years primarily due to the cost allocation plan and continued salary and benefit cost increases.

Elections	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast		
			2018-19	2019-20	2020-21
A. Expenditures	$ 5,265,765	$ 4,654,747	$ 5,600,464	$ 6,329,043	$ 6,541,011
B. Revenue	757,871	656,405	1,010,500	9,500	1,010,500
C. Financing Need, A-B	4,507,894	3,998,342	4,589,964	6,319,543	5,530,511
D. Preliminary GFC	4,507,894	4,507,894	3,269,320	3,269,320	3,269,320
E. Surplus/(Deficit), D-C	-	509,552	(1,320,644)	(3,050,223)	(2,261,191)

Elections - The Elections Department administers all federal, state, county, and local public elections. Departmental expenditures and revenues vary based on the number and size of scheduled and unscheduled special elections in a given year. The Department expects to end the current year with expenditures of $4.7 million, revenues of $0.7 million, and a County contribution of $4.0 million. Compared to budget, the Department will end the year with a projected surplus of $509,552. Countywide cost pressures were offset with reduced printing, publication and polling location leases due to a smaller than anticipated November election.

Projected expenditures and revenues in forecast years reflect estimated charges for one scheduled election per fiscal year: a statewide general election in FY 2018-19, a Presidential primary in FY 2019-20, and a Presidential election in FY 2020-21. Due to the timing of the election and budget cycle, Elections will have a mandate to operate with negligible revenue in even fiscal years. The funds necessary to conduct the state and federal primaries must be provided by the General Fund. Though revenues will offset a portion of this, due to the timing of the June election and the close of the fiscal year, these will not post until the following fiscal year. Deficits in forecast years arise from increasing cost of services and supplies (including ballot printing, postage, and translation) due to larger elections in future years as compared to the current fiscal year. Additionally, cost allocation plan charges and salary and benefit costs attribute to the growing deficits.

Emergency Communications	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 12,020,275	$ 11,973,897	$ 11,627,028	$ 11,908,864	$ 12,668,644
B. Revenue	10,757,432	11,778,735	10,275,318	9,817,051	9,999,059
C. Financing Need, A-B	1,262,843	195,162	1,351,710	2,091,813	2,669,585
D. Preliminary GFC	1,262,843	1,262,843	1,051,636	1,051,636	1,051,636
E. Surplus/(Deficit), D-C	-	1,067,681	(300,074)	(1,040,177)	(1,617,949)

Emergency Communications – The Emergency Communications Department expects to end the current year with $12.0 million in expenditures and $11.8 million in revenue, resulting in a surplus of $1.1 million. The surplus is largely the result of recovering previously under-billed dispatch services revenue and NGEN funds from a restricted fund that should have been transferred in FY 2015-16. The Department anticipates deficits in the forecast years ranging from $300,000 to $1.6 million primarily due to higher salaries and benefits resulting from bargaining agreements, rising pension costs, and higher health insurance premiums. Additionally, an expected upgrade of dispatch communication equipment will increase costs in FY 2020-21 by approximately $1 million, a portion of which will be collected from user agencies.

Recommendations:

1) Increase revenues for the Emergency Communications Department (001-1520-8065-EME001) by $991,355, reimbursing the general fund for $845,506 of NGEN expenditures and $145,849 of dispatch services that should have been charged to other financing sources.

Equal Opportunity	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 247,411	$ (65,106)	$ 183,687	$ 217,639	$ 256,697
B. Revenue	-	-	-	-	-
C. Financing Need, A-B	247,411	(65,106)	183,687	217,639	256,697
D. Preliminary GFC	247,411	247,411	(165,982)	(165,982)	(165,982)
E. Surplus/(Deficit), D-C	-	312,517	(349,669)	(383,621)	(422,679)

Equal Opportunity Office - The Equal Opportunity Office (EOO) expects to end FY 2017-18 within budget. Compared to a budget, the Department will end the year with a projected surplus of $312,517. Much of this surplus is the result of an additional $331,572 in cost allocation plan recoveries credit. The deficits in forecast years are due to the addition of a new analyst position during the current fiscal year and projected increases in expenditures because of increased salary and benefits (employee step advances, rising PERS contributions, and healthcare premiums).

Health	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 97,921,689	$ 84,389,977	$ 94,301,907	$ 96,535,722	$ 98,700,413
B. Revenue	89,787,407	74,812,969	83,990,219	84,425,777	83,996,352
C. Financing Need, A-B	8,134,282	9,577,008	10,311,688	12,109,945	14,704,061
D. Preliminary GFC	8,134,282	8,134,282	4,823,249	4,823,249	4,823,249
E. Surplus/(Deficit), D-C	-	(1,442,726)	(5,488,439)	(7,286,696)	(9,880,812)

Health Department – The Health Department provides a wide array of services including but not limited to animal services, behavioral health, public health, clinic services, public guardian/conservator/administrator, emergency medical services, and environmental health. The table above summarizes the Department's general fund operations. The Department estimates year-end expenditures of $84.4 million, revenues of $74.8 million, and a financing need of $9.6 million. This level of financing is greater than the $8.1 million budgeted by $1.4 million due primarily to increases in the cost allocation plan charges. The deficits in the forecast years are due mainly to revenue reduction caused by AB85 revenue redirection, negotiated salary increases, increased pension costs, and cost allocation plan charges.

Human Resources	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 1,889,233	$ 1,267,560	$ 2,087,377	$ 2,366,083	$ 2,533,003
B. Revenue	-	-	-	-	-
C. Financing Need, A-B	1,889,233	1,267,560	2,087,377	2,366,083	2,533,003
D. Preliminary GFC	1,889,233	1,889,233	1,583,663	1,583,663	1,583,663
E. Surplus/(Deficit), D-C	-	621,673	(503,714)	(782,420)	(949,340)

Human Resources – The Human Resources Department projects current year-end expenditures of $1.3 million and a general fund contribution of $1.3 million. Compared to the budgeted expenditures of $1.9

million, the projected expenditures are $621,673 lower and are attributed to position vacancies and an additional $231,788 in cost allocation plan recoveries credit. Deficits are projected for the forecasted years primarily because of rising salary and benefit cost such as MOU salary increase, PERS contributions, and healthcare premiums. The forecasted years include a cost allocation plan recoveries credit of $3.1 million.

Information Technology	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 12,583,861	$ 15,274,755	$ 14,026,744	$ 11,640,612	$ 11,096,234
B. Revenue	1,110,347	1,410,397	1,110,347	1,110,347	1,110,347
C. Financing Need, A-B	11,473,514	13,864,358	12,916,397	10,530,265	9,985,887
D. Preliminary GFC	11,473,514	11,473,514	11,196,507	11,196,507	11,196,507
E. Surplus/(Deficit), D-C	-	(2,390,844)	(1,719,890)	666,242	1,210,620

Information Technology – The Information Technology Department (ITD) projects year-end expenditures of $15.3 million, revenue of $1.4 million, and a general fund contribution of $13.9 million. The projected year-end deficit of $2,390,844 is largely due to revised cost allocation plan charges of $2,348,814, as opposed to the budgeted charge of $168,380. Beginning in FY 2017-18, the ITD no longer billed general fund customers for countywide services. Instead, ITD received funding through the budget process as do other departments. The Department anticipates an overall reduction in expenditures for the forecast years due to a reduction of anticipated CIP projects; however, savings will be offset by increasing salary and benefits costs due to the new labor agreements, rising pension costs, higher health insurance premiums, and lower reimbursements.

Probation	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 47,069,267	$ 48,562,216	$ 51,271,745	$ 53,091,408	$ 54,836,761
B. Revenue	24,323,647	24,210,984	24,215,436	24,197,192	24,189,556
C. Financing Need, A-B	22,745,620	24,351,232	27,056,309	28,894,216	30,647,205
D. Preliminary GFC	22,745,620	22,745,620	21,987,088	21,987,088	21,987,088
E. Surplus/(Deficit), D-C	-	(1,605,612)	(5,069,221)	(6,907,128)	(8,660,117)

Probation - The Department's FY 2017-18 year-end estimate reflects expenditures of $48.6 million, revenue of $24.2 million and general fund contributions of $22.7 million. Based on this, the Department will exceed the current GFC budget by $1.6 million. This deficit is primarily due to an unforeseen increase of $1.5 million in the County cost plan charges and a lower combined revenue projection of $112,663 in Probation Fees and Public Safety sales tax. Had the Department not experienced the financial impact of the increased cost plan charges, the year-end deficit would be forecasted at $112,663. Probation is working to mitigate the unbudgeted expenditures through careful use of resources and monitoring of operations over the remainder of the year. However, it is unlikely that these mitigation efforts will fully offset the deficit which is due predominantly to the increased County cost plan charges, an expenditure outside of the Department's control. The forecast for FY 2018-19 through FY 2020-21 indicates deficits ranging from $5.1 to $8.7 million. The deficits are attributable to salary and benefit increases for negotiated bargaining agreements, increased costs for the County cost plan charges, higher PERS contributions and cost increases for health insurance premiums, workers' compensation insurance and infrastructure charges.

Public Defender	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast		
			2018-19	2019-20	2020-21
A. Expenditures	$ 12,505,627	$ 13,392,881	$ 14,213,179	$ 13,173,344	$ 13,528,133
B. Revenue	793,812	758,812	790,972	822,891	840,651
C. Financing Need, A-B	11,711,815	12,634,069	13,422,207	12,350,453	12,687,482
D. Preliminary GFC	11,711,815	11,711,815	11,562,550	11,562,550	11,562,550
E. Surplus/(Deficit), D-C	-	(922,254)	(1,859,657)	(787,903)	(1,124,932)

Public Defender - The Public Defender's function consists of two budget units: the Alternate Defender (ADO) and Public Defender (PDO). The modified budget for the Public Defender consists of $12.5 million in expenditures, $793,812 in revenue, and general fund contributions of $11.7 million. Compared to budget, the Department estimates ending the year $922,254 over its currently authorized GFC. The Department was impacted with additional cost plan charges of $333,353 and approximately $785,000 to cover ancillary costs of ongoing capital cases and related attorney fees, which are partly offset by salary savings. Costs for capital cases are expected to continue into FY 2018-19. The Department projects deficits in the forecast years due to negotiated salary increases, earned step advances, forecasted increases in employee benefits, and general liability costs.

Staff recommends monitoring these costs and deferring any budget modifications until the cases progress and more information is available. At that point, staff will reassess costs and departmental savings opportunities and return to the Board with budget-related modifications.

Resource Management Agency	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast		
			2018-19	2019-20	2020-21
A. Expenditures	$ 28,554,567	$ 21,373,574	$ 23,716,826	$ 25,257,289	$ 27,033,871
B. Revenue	12,279,780	13,377,766	12,867,301	13,093,593	13,311,952
C. Financing Need, A-B	16,274,787	7,995,808	10,849,525	12,163,696	13,721,919
D. Preliminary GFC	16,274,787	16,274,787	6,665,830	6,665,830	6,665,830
E. Surplus/(Deficit), D-C	-	8,278,979	(4,183,695)	(5,497,866)	(7,056,089)

Resource Management Agency – The Resource Management Agency (RMA) current year estimate projects expenditures of $21.4 million, revenues of $13.4 million, and a general fund contribution (GFC) of $8.0 million. In comparison to the modified budget, the Department estimates it will end the year with a surplus of $8.3 million. The surplus is a result of an increase in cost allocation plan recoveries credit of $8.1 million.

While estimated salary and benefit savings of $1.9 million are projected due to unfilled positions, these savings are offset by costs for increased utilities, unfunded building maintenance in the Schilling complex, and Park operations. RMA is projecting a net increase in revenue of $1.1 million from cannabis-related building permits and other permit fees from deferred projects. Contributing factors to increased deficits in the forecasted years are increases to salary and benefits related to bargaining unit agreements, PERS contribution rates, employee health insurance and general liability insurance. Revenue is projected to decrease $510,465 in FY 2018-19 due to expiration of one-time grant funds for the Airport Land Use Project and Salinas Valley Groundwater.

Sheriff-Coroner	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$101,791,515	$106,047,498	$109,200,765	$113,402,993	$117,894,995
B. Revenue	37,772,047	37,689,444	36,781,194	37,012,583	37,279,100
C. Financing Need, A-B	64,019,468	68,358,054	72,419,571	76,390,410	80,615,895
D. Preliminary GFC	64,019,468	64,019,468	62,838,954	62,838,954	62,838,954
E. Surplus/(Deficit), D-C	-	(4,338,586)	(9,580,617)	(13,551,456)	(17,776,941)

Sheriff-Coroner - The Sheriff's Office expects to end the current year with $106.1 million in expenditures, $37.7 million in revenues, and general fund contributions of $68.4 million. Compared to budget, the Office estimates that it will end with a deficit of $4.3 million in FY 2017-18. The deficit is due to a $2.2 million increase in cost allocation plan charges and $2.2 million due to higher overtime expenditures. The Office has less salary savings due to fewer safety position vacancies compared to those of a year ago, with a 2.5% vacancy rate in FY 2017-18 vs. 9.6% in FY 2016-17. The Office expects newly hired employees will help reduce overtime expenses. Additional factors for the GFC deficit are increased costs in vehicle related charges and higher inmate medical contract costs. The Office anticipates deficits in the forecast years due to increasing costs related to labor agreements, PERS retirement, health insurance premiums, workers' compensation, general liability insurance program costs, and a $1 million revenue reduction resulting from the State's redirection of AB 85 Health Realignment funding.

Social Services	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$199,958,371	$196,808,508	$201,709,295	$208,303,398	$214,727,547
B. Revenue	187,331,383	183,568,375	185,927,120	189,715,385	193,645,756
C. Financing Need, A-B	12,626,988	13,240,133	15,782,175	18,588,013	21,081,791
D. Preliminary GFC	12,626,988	12,626,988	8,763,924	8,763,924	8,763,924
E. Surplus/(Deficit), D-C	-	(613,145)	(7,018,251)	(9,824,089)	(12,317,867)

Social Services - The Department of Social Services (DSS) estimates year-end expenditures of $196.8 million, revenue of $183.6 million and a deficit of $613,145. Current year-end estimated expenditures are less than budget primarily due to a decline of $1.6 million in budgeted cost allocation plan charges. In addition, a reduction in caseloads in both the CalWORKs and Out of Home Care led to a $3.9 million decrease in entitlement costs. The decrease was offset by a $2.5 million increase in General Assistance (GA) and In-Home Supportive Services (IHSS). The increase in GA resulted from recent litigation that increased the maximum grant amount provided to support indigent residents. The increase in IHSS is due to the newly created IHSS Maintenance of Effort (MOE) where the State shifted costs to counties.

The estimated deficits for the forecast years are related to negotiated pay raises, higher pension contributions, and the increase in Worker's Compensation insurance. Additionally, there is a 5% increase to the IHSS MOE for FY 2018-19 and then a statutory increase of 7% thereafter. There is also a deficit in the GA program as an ongoing funding source has not yet been identified to cover the increase in grant levels. Realignment funding and growth funding is not yet known and was assumed to remain "flat" for the forecast.

Treasurer-Tax Collector	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Expenditures	$ 7,739,730	$ 7,331,768	$ 8,030,648	$ 8,280,166	$ 8,482,992
B. Revenue	6,474,336	5,998,287	6,448,885	6,626,435	6,773,588
C. Financing Need, A-B	1,265,394	1,333,481	1,581,763	1,653,731	1,709,404
D. Preliminary GFC	1,265,394	1,265,394	1,146,307	1,146,307	1,146,307
E. Surplus/(Deficit), D-C	-	(68,087)	(435,456)	(507,424)	(563,097)

Treasurer-Tax Collector – The Treasurer-Tax Collector (TTC) projects year-end expenditures of $7.3 million, revenue of $6.0 million, and a general fund contribution (GFC) of $1.3 million. Even though year-end expenditures are $406,962 less than the approved budget, the Department's estimate exceeds use of GFC by $69,087. This is due to a reduced cost allocation plan recovery credit of $234,804. The TTC has worked to identify potential reductions in planned expenditures to minimize impacts of the shortfall. The shortfall is largely offset in the Property Tax unit, with salaries and benefits savings of $157,310 and an estimated revenue increase of $57,960.

Overall, salaries and benefits are estimated to end the year $479,569 below budget, due to position changes and vacancies. Revenue is expected to be $476,049 below budget. This estimated reduction correlates with expenditures savings in the Revenue Division, which receives revenue based on actual costs of collections services to the local Superior Court. Forecasted revenue for FY 2018-19 reflects an increase, primarily due to Board-approved increases in departmental fees, implemented January 15, 2018. Forecasted total expenditure and revenue projections assume costs for eligible step increases and a conservative increase in other operating costs.

OTHER MAJOR FUNDS

Road Fund – The Road Fund is a special revenue fund established per state law to account for revenues that are legally restricted for County road and bridge construction and related maintenance projects.

Road Fund	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Beginning Fund Balance	$ (2,707,005)	$ (2,707,005)	$ (4,754,801)	$ (9,798,966)	$ (15,064,401)
B. Revenue	47,540,485	56,209,767	67,153,017	70,246,640	42,991,629
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	44,833,480	53,502,762	62,398,216	60,447,674	27,927,228
E. Expenditures	47,008,949	58,257,563	72,197,182	75,512,075	49,665,905
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	47,008,949	58,257,563	72,197,182	75,512,075	49,665,905
H. Ending Fund Balance, D-G	$ (2,175,469)	$ (4,754,801)	$ (9,798,966)	$ (15,064,401)	$ (21,738,677)

The County's Road Fund has experienced significant reductions in the Highway User Tax Allocation (HUTA) receipts, also referred to as "Gas Tax," which has been the primary funding source for road and bridge maintenance until FY 2017-18. The County experienced a $4.4 million or 35.4% decline in HUTA from FY 2013-14 to FY 2016-17. This was a result of the State redirecting HUTA funds from counties for State purposes and an overall decline in fuel consumption. However, starting this fiscal year, there are two new revenue sources that are expected to help offset the decline in HUTA for County roads. First, the Transportation Agency for Monterey County (TAMC) passed a retail transactions and use tax ordinance (Measure X) in November 2016, which is expected to generate approximately $6.2 million annually for 30 years, restricted for local road repair, maintenance, and safety projects. The other is Senate Bill 1 (SB1), also known as the Road Repair and Accountability Act of 2017, which was established to address deferred maintenance on local street and road systems, as well as state highways. There are several phases of implementation of SB1, which results in an incremental increase in projected revenue from $3.0 million in FY 2017-18 to $15.8 million in FY 2026-27. The FY 2017-18 modified budget and forecast includes both Measure X and SB1 revenues and project expenditures. It is important to note that there is an active campaign to retroactively repeal SB1, which would strip the County of forecasted SB1 funds. With the addition of the two new funding sources, the Road Fund's estimated revenue is $8.7 million above budget.

Although the Road Fund is anticipating these new revenues, the current year's expenditures are estimated to exceed the budget by $11.3 million. The compounding effect of diminishing HUTA revenue, unbudgeted and unforeseen repair and recovery costs due to the FY 2016-17 Winter Storm events, and a $5.5 million increase in cost allocation plan charges, are projected to result in operational deficits in the Road Fund in FY 2018-19 and the forecast years. Also, impacting the forecast are increases in negotiated salary increases, PERS contribution rates, employee health insurance, and increased general liability insurance. The forecasted revenues and expenditures drop in FY 2020-21 because the RMA's major planned road projects are estimated to end that fiscal year.

The reduction in HUTA receipts has resulted in the erosion of available fund balance over the last four years, and the first negative fund balance of $2.7 million occurred at the end of FY 2016-17. For FY 2017-18, the Road Fund forecasts an additional reduction in fund balance of $2.1 million, which would result in an ending negative fund balance of $4.8 million. Although there are two new revenue streams included in the forecast, those revenues are restricted for specific road fund activities, and cannot offset the growth in cost allocation plan charges.

Monterey County Free Libraries – The Monterey County Free Libraries (MCFL) was established to provide library services to the diverse communities of Monterey County under the County Library Law of 1911. MCFL's operations are primarily financed through its own share of the property tax.

Monterey County Free Libraries	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast		
			2018-19	2019-20	2020-21
A. Beginning Fund Balance	$ 150,017	$ 150,017	$ 825	$ (579,419)	$ (1,150,039)
B. Revenue	10,667,128	8,796,464	8,972,388	9,241,556	9,518,796
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	10,817,145	8,946,481	8,973,213	8,662,137	8,368,757
E. Expenditures	9,934,913	8,945,656	9,552,632	9,812,176	10,069,032
F. Provisions for Assigments	-	-	-	-	-
G. Total Financing Uses, E+F	9,934,913	8,945,656	9,552,632	9,812,176	10,069,032
H. Ending Fund Balance, D-G	$ 882,232	$ 825	$ (579,419)	$ (1,150,039)	$ (1,700,275)

Current year revenues are projected to increase by 3% from FY 2016-17 actuals and are conservatively projected for the forecasted years. The current year-end revenue estimate is $8.8 million based on actual property tax revenue received during first half of the fiscal year.

Current year expenditures are estimated at $8.9 million. Expenditures are projected to be $1.0 million under budget because of position vacancies, a lower revised cost allocation plan recoveries charge, and a decrease in operational expenditures. MCFL is experiencing an increase on fixed costs related to rents and leases of Library buildings, costs of janitorial and maintenance of buildings, and additional cost increases relating to other County department services such as insurance, information technology, and MOU increases in salaries and benefits.

The fund balance for the library experienced a significant decrease in the two prior years because of over-estimated projected revenue. The long-term goal of the library to rebuild fund balance to help with the tough fiscal years ahead; however, the forecast indicates that the fund balance will be unable to grow during this period. Despite anticipated increases in property tax revenues, growth in operational expenses continues to outpace revenue growth. Salaries and benefits continue to represent approximately 58% of the Library's total expenditures. Building rents, insurance, utilities and the cost allocation plan recoveries make up the bulk of the remaining expenses. Discretionary spending is a minimal part of the Library's budget, but the department continues to strive to minimize all discretionary expenditures.

MCFL's upcoming capital improvements projects for the next three years include the reopening of the

Parkfield Library which is being built by the community and the Shandon School District (it should be available to residents early in FY 2018-19); the exploration of a partnership with the Bradley school district for the construction of a new library on the school grounds; and the construction of a new archive facility for the housing of MCFL's valuable archival collection. The City of Gonzales is also exploring options for building a new library. The exact cost of these projects to the County is unknown at this time.

Behavioral Health – Pursuant to Welfare and Institutions Code Section 5600, the Behavioral Health Bureau provides a continuum of County operated and community-based substance use disorder and mental health services. The program provides community prevention programs, crisis intervention, inpatient psychiatric services, social rehabilitation, supportive housing, and outpatient services primarily to Monterey County Medi-Cal beneficiaries who meet the State Department of Health Care Services, Mental Health Division's medical necessity criteria. In addition, the program also serves many non Medi-Cal eligible residents who have behavioral health disorders.

Behavioral Health	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast		
			2018-19	2019-20	2020-21
A. Beginning Fund Balance	$ 35,843,145	$ 35,843,145	$ 35,558,236	$ 35,542,417	$ 35,534,881
B. Revenue	115,811,703	107,418,239	117,921,457	116,628,079	117,628,079
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	151,654,848	143,261,384	153,479,693	152,170,496	153,162,960
E. Expenditures	115,811,703	107,703,148	117,937,276	116,635,615	117,663,323
F. Provisions for Assigments	-	-			-
G. Total Financing Uses, E+F	115,811,703	107,703,148	117,937,276	116,635,615	117,663,323
H. Ending Fund Balance, D-G	$ 35,843,145	$ 35,558,236	$ 35,542,417	$ 35,534,881	$ 35,499,637

The Department estimates year-end expenditures of $107.7 million, revenues of $107.4 million, and use of fund balance of $0.3 million. Expenditures and revenues are estimated respectively at $8.1 and $8.4 million below the modified budget. Primary reasons for variances in expenses include: $6.4 million in salary and benefit savings due to higher than anticipated vacancies; $1.2 million in savings in contracted services due to lower than anticipated demand for contracted services; and $2.3 million due to a gradual ramp up of Whole Person Care Program components within Behavioral Health. Offsetting the decrease is an increase of $1.1 million to the cost allocation plan charges (includes a correction of $879,837 allocated to Health General fund in error) and $500,000 for the repair of the heating system in the Marina clinic. Accordingly, since revenues are directly related to program expenditures, revenues are also lower than budgeted by similar amounts. The increased costs in the forecast years are due primarily due to negotiated salary increases, increased pension costs, and cost allocation plan charges.

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.

Natividad Medical Center	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Beginning Net Position	$ 73,825,334	$ 73,825,334	$ 43,073,483	$ 44,944,733	$ 55,526,301
B. Revenue	293,035,006	313,535,930	339,969,395	322,007,258	348,888,534
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	366,860,340	387,361,264	383,042,878	366,951,991	404,414,835
E. Expenditures	282,940,864	344,287,781	338,098,145	311,425,690	375,384,527
F. Provisions for Assigments	-	-	-	-	-
G. Total Financing Uses, E+F	282,940,864	344,287,781	338,098,145	311,425,690	375,384,527
H. Ending Net Position, D-G	$ 83,919,476	$ 43,073,483	$ 44,944,733	$ 55,526,301	$ 29,030,308

Revenue: Current year actual net patient revenue is expected to exceed budget by 7% or $20.5 million. This increase is primarily from an increase in the average daily census, improved payor mix providing a more favorable collection rate, and Medi-Cal Managed Care Rate Range exceeding preliminary estimates. Net patient revenue is forecasted to increase conservatively in fiscal years 2019-2021. The forecast assumes an increase in the average daily census, an improved payor mix, offset with a decline to the 1115 Waiver through 2020. The 1115 Waiver provides federal funding for public hospital redesign and incentives as well as funding to assist with the uninsured population. Although the Centers for Medicaid and Medicare Services (CMS) agreed to extend the 1115 Waiver through 2020, there was an overall reduction in funding due to the reduction of the uninsured population as a result of the Affordable Care Act.

Operating Expenses: Current year operating expenses are expected to exceed budget by 15.2% or $45.5 million. This increase is in salaries and benefits, capital expenditures and transfers to the NMC capital fund (Fund 404). In the current year, NMC estimates to transfer $34.9 million more than budgeted to Fund 404 to ensure funding for approved capital projects. In addition, $5.3 more than budgeted will be spent on current capital projects for building and improvements. Operating expenses for fiscal years 2019-2021, are projected to increase by an annual average of 8% due to annual cost increases for projected volume. Primary growth is expected in salaries and benefits, medical supplies, other medical services and utilities.

Capital Expenditures: The current year and the forecasted years include major capital projects. NMC is projected to spend on average about $40.2 million from FY 2017-18 to FY 2020-21 on capital projects. When project costs are above $100,000, funds are transferred to the NMC capital fund (Fund 404) to ensure funding is available for an approved project. As expenditures are incurred for those projects, the funds are transferred back to NMC's operational fund (Fund 451).

Some of the highlighted projects include the following: (1) Remodeling the Radiology Department and replacing obsolescent medical equipment including the Computer Tomography (CT) and Magnetic Resonance Imaging (MRI); (2) Remodeling the Pharmacy Department to meet new regulation standards; (3) Replacing the nurse call system which is at end of life; (4) Expanding the

Natividad Medical Group primary care clinic by adding after hours urgent care services, seven additional exam rooms, and one procedure room. In addition, NMC capital expenditures include the replacement of medical and IT equipment nearing end of useful life.

Net Results: NMC projects a net position of $43.1 million for the current fiscal year. During the forecasted period, NMC projects a decline in net position of $14.1 or actual net position of $29.0 million as of FY 2020-21. This decrease is the result of heavy investment in capital.

Parks – Lakes Resorts – The Parks Lake & Resort Operations Fund is a County enterprise fund, defined as a proprietary fund that provides goods and services to the public for a free, which makes the entity self-supporting.

Parks - Lakes Resorts	Modified Budget 2017-18	Year-End Estimate 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
A. Beginning Net Position	$ (5,465,290)	$ (5,465,290)	$ (6,350,399)	$ (6,745,068)	$ (7,175,624)
B. Revenue	4,599,284	5,004,486	4,987,640	4,987,640	4,987,640
C. Cancellation of Assignments	-	-	-	-	-
D. Total Financing, A+B+C	$ (866,006)	$ (460,804)	$ (1,362,759)	$ (1,757,428)	$ (2,187,984)
E. Expenditures	4,598,787	5,889,595	5,382,309	5,418,196	5,466,680
F. Provisions for Assignments	-	-	-	-	-
G. Total Financing Uses, E+F	4,598,787	5,889,595	5,382,309	5,418,196	5,466,680
H. Ending Net Position, D-G	$ (5,464,793)	$ (6,350,399)	$ (6,745,068)	$ (7,175,624)	$ (7,654,664)

The Lakes began FY 2017-18 with a negative $5.5 million net position due to prior years' operating deficits and a change in accounting rules, requiring reporting of pension liabilities.

It is projected that both Lake Nacimiento and Lake San Antonio (LSA) north and south shores camping and day use revenues will increase $405,202 over budget, due to an increase in recreational use. Expenditures are projected to increase by $1,290,808 over budget, largely due to the County addressing deferred maintenance and repairs. The change in net position is projected to decline by $885,109, resulting in a projected year end negative net position of $6,350,399. The three-year forecast reflects an increase in expenditures due mostly to implementation of a maintenance plan that will ultimately provide for a better recreational experience and promote visitor incentive to return. LSA remains open on weekends and the Lightning in a Bottle event continues to take place. Also, the Wildflower Festival is returning in FY 2017-18 and a new event, Dirty Bird, is also being held at LSA. The forecast years cautiously assume that lake levels remain at a level to accommodate visitors, which assume the same level of visitors and recreational activity as estimated during the current year. So far, rainfalls in FY 2017-18 are minimal but both lakes remain open and there is an increase in visitor interest.