File ID No. 20-144

County of Monterey

Financial Forecast

County Administrative Office

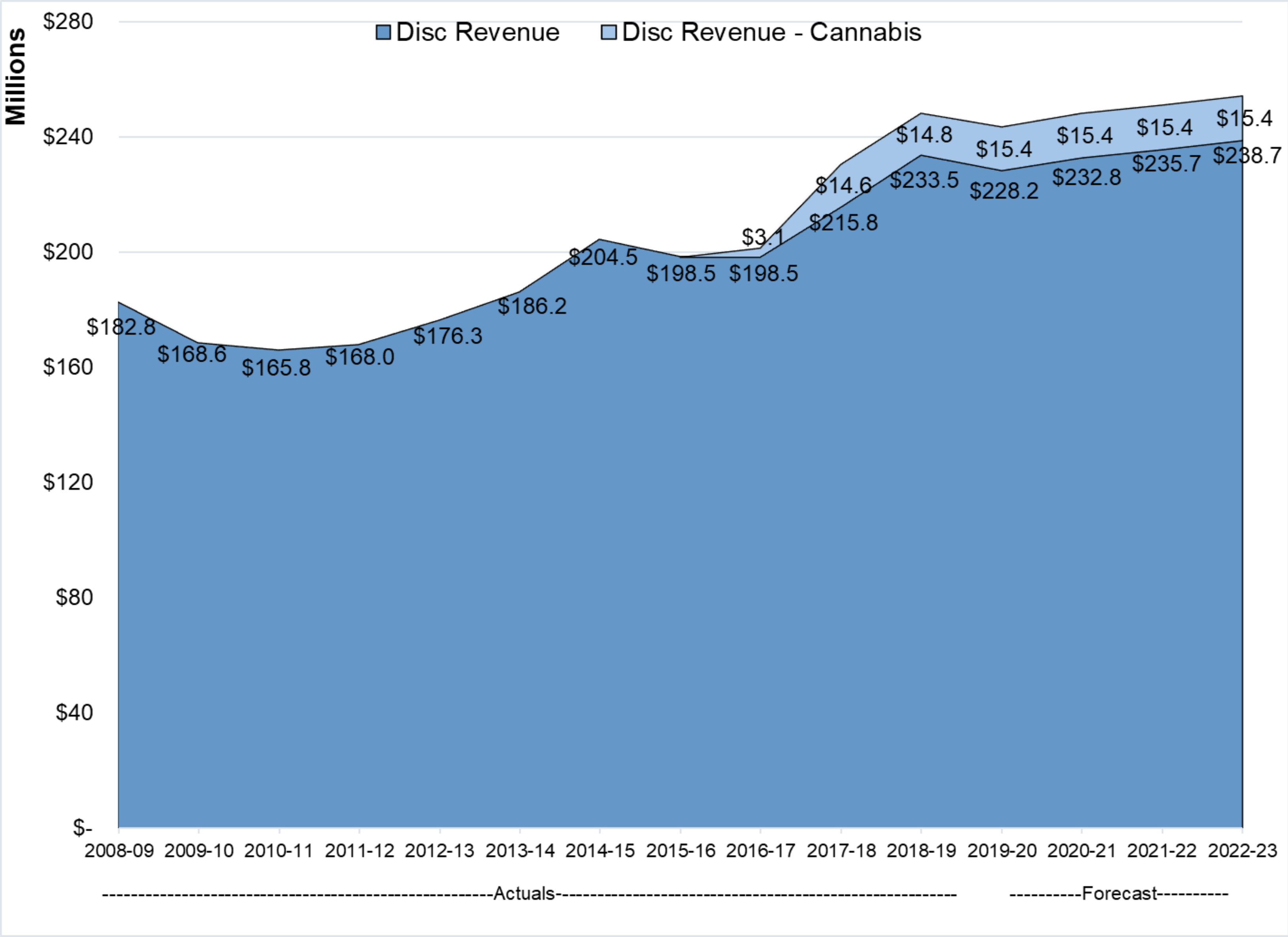
Board of Supervisors Meeting March 3, 2020

Current Year Estimate Favorable

	FY 2018-19	FY 2019-20		
	Actual	Adopted	Modified	Year-End Estimate
Financing Sources:				
Beg. Unassigned Fund Balance	$ 3.9	$ 1.3	$ 1.3	$ 1.3
Cancellation of Restricted Fund Balance	8.7	4.6	4.6	4.6
Cancellation of Assignments	18.9	11.7	12.1	10.8
Revenues	656.1	669.8	672.4	666.8
Total Financing Sources	**$ 687.5**	**$ 687.5**	**$ 690.5**	**$ 683.6**
Financing Uses:				
Restricted Fund Balance	$ 9.2	$ -	$ -	$ 2.7
Assignments	20.3	-	-	9.9
Strategic Reserve	29.0	-	-	-
Expenditures	626.7	687.5	690.4	664.4
Adjustment - Est Salary Savings	-	-	-	-
Total Financing Uses	**$ 685.1**	**$ 687.5**	**$ 690.4**	**$ 677.0**
Ending unassigned fund balance	**$ 2.4**	**$ -**	**$ 0.1**	**$ 7.6**

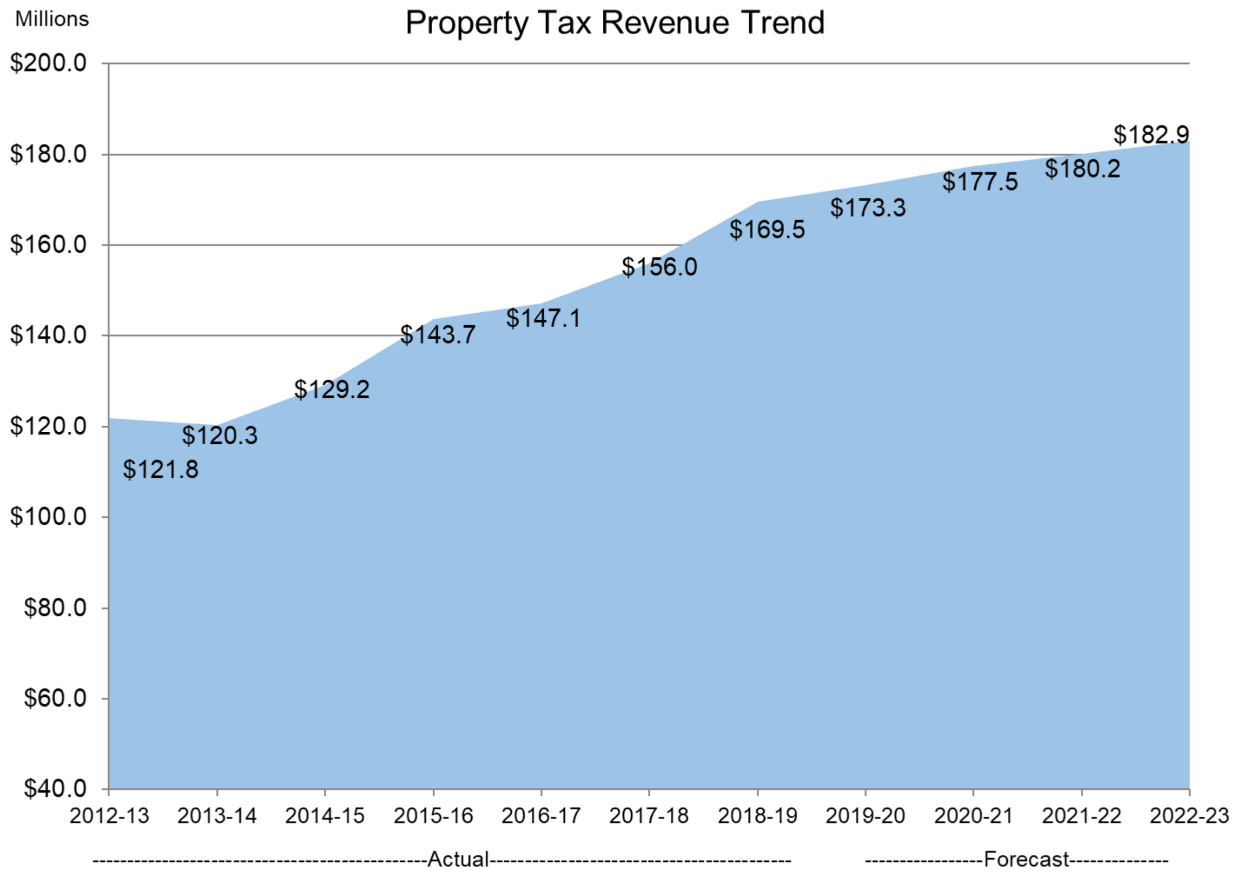
- Expenditures estimated to end $26 million (3.8%) below budget due primarily to vacancies.
- There were 402 vacancies (about 12%) at the time the forecast was prepared.
- Revenues are projected to be $5.6 million below budget expectations and an additional $2.7 million will be placed in restricted reserves.
- Net estimated result for FY 2019-20 is a positive $7.6 million.

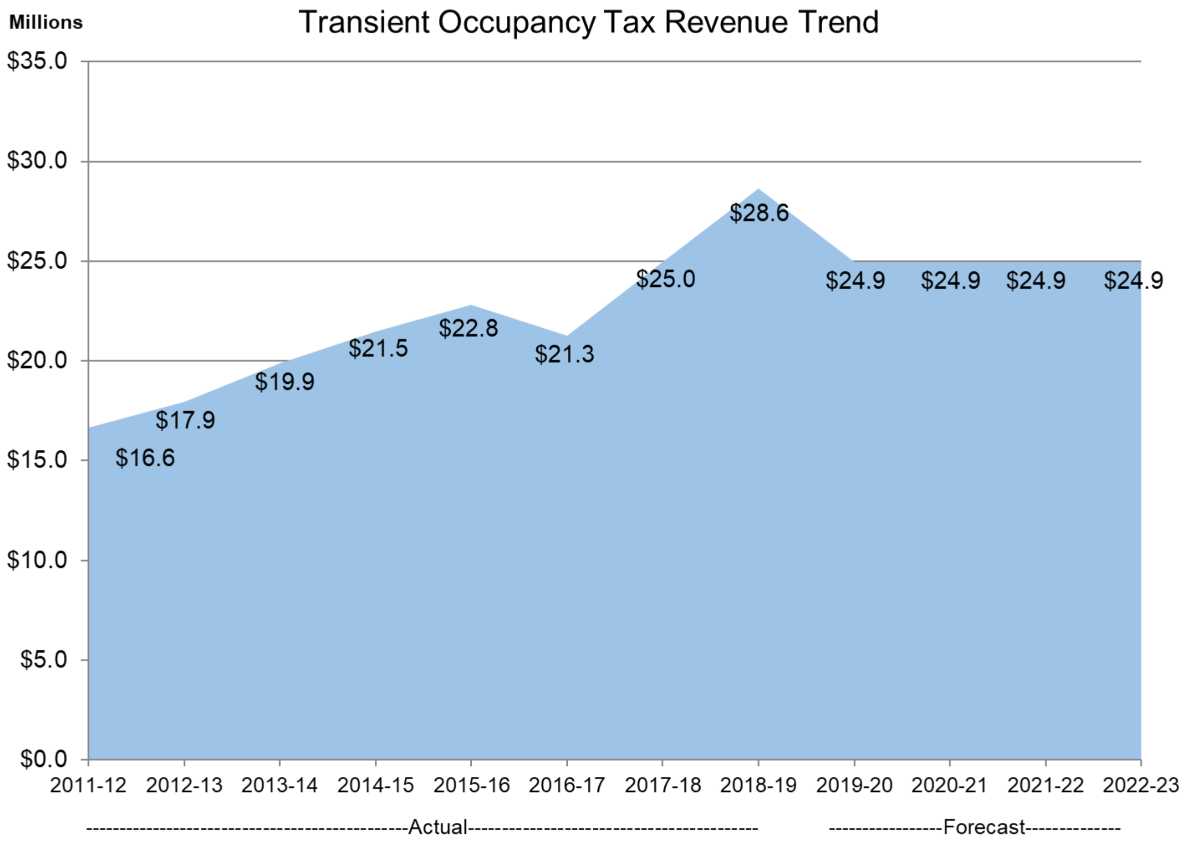
Discretionary Revenue Still Increasing



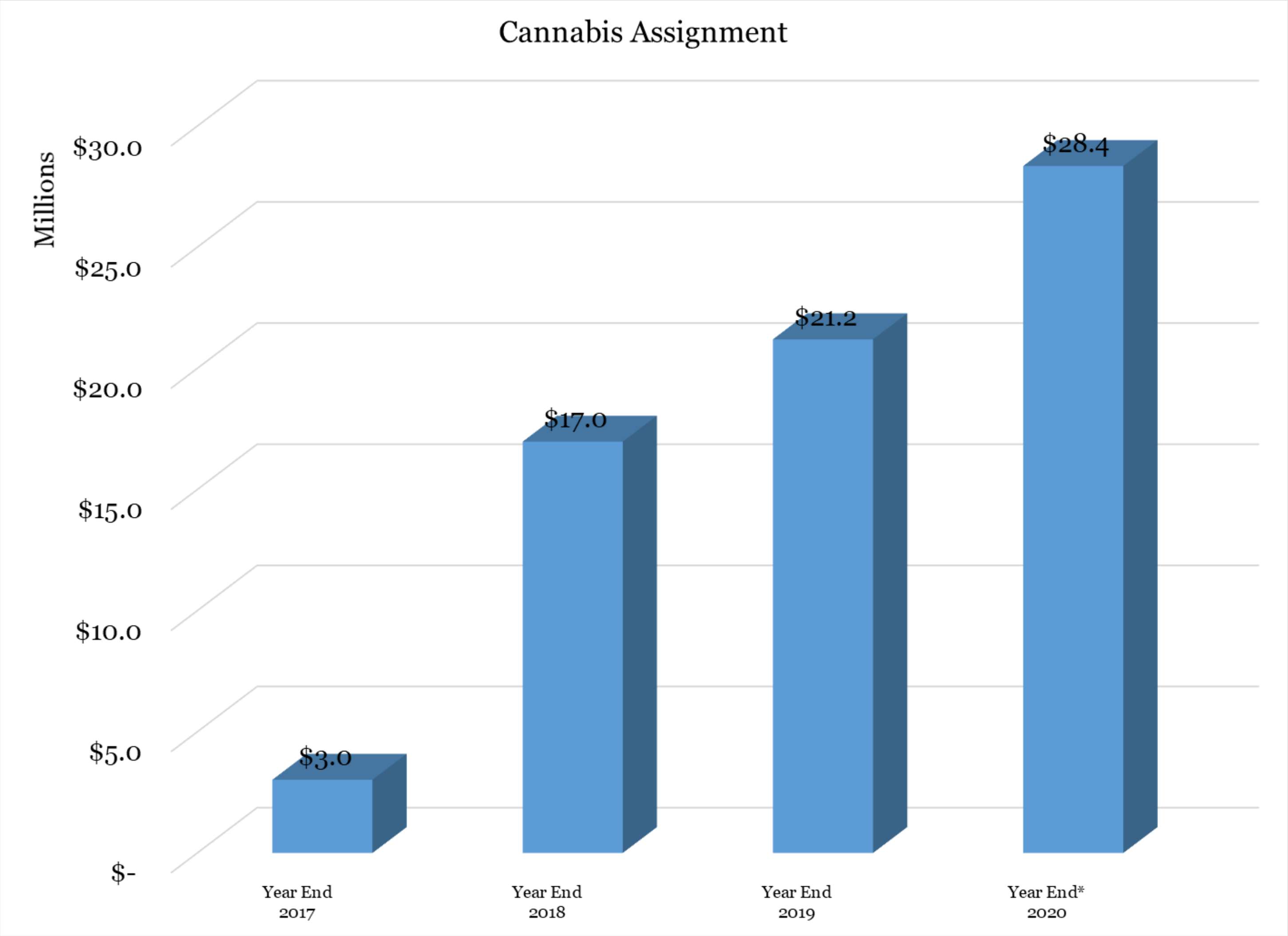
- Up $1.6 million in current year compared to budget.
- Increase of $62.4 million (37%) since the low point of the recession (FY 2010-11).
- Annual increases allocated through budget process to help programs keep up with rising costs.
- Discretionary revenue is forecasted to grow another $4.6 million next fiscal year.
- Assumes moderating growth in last two years of forecast, but no recession.

Discretionary Revenue Drivers



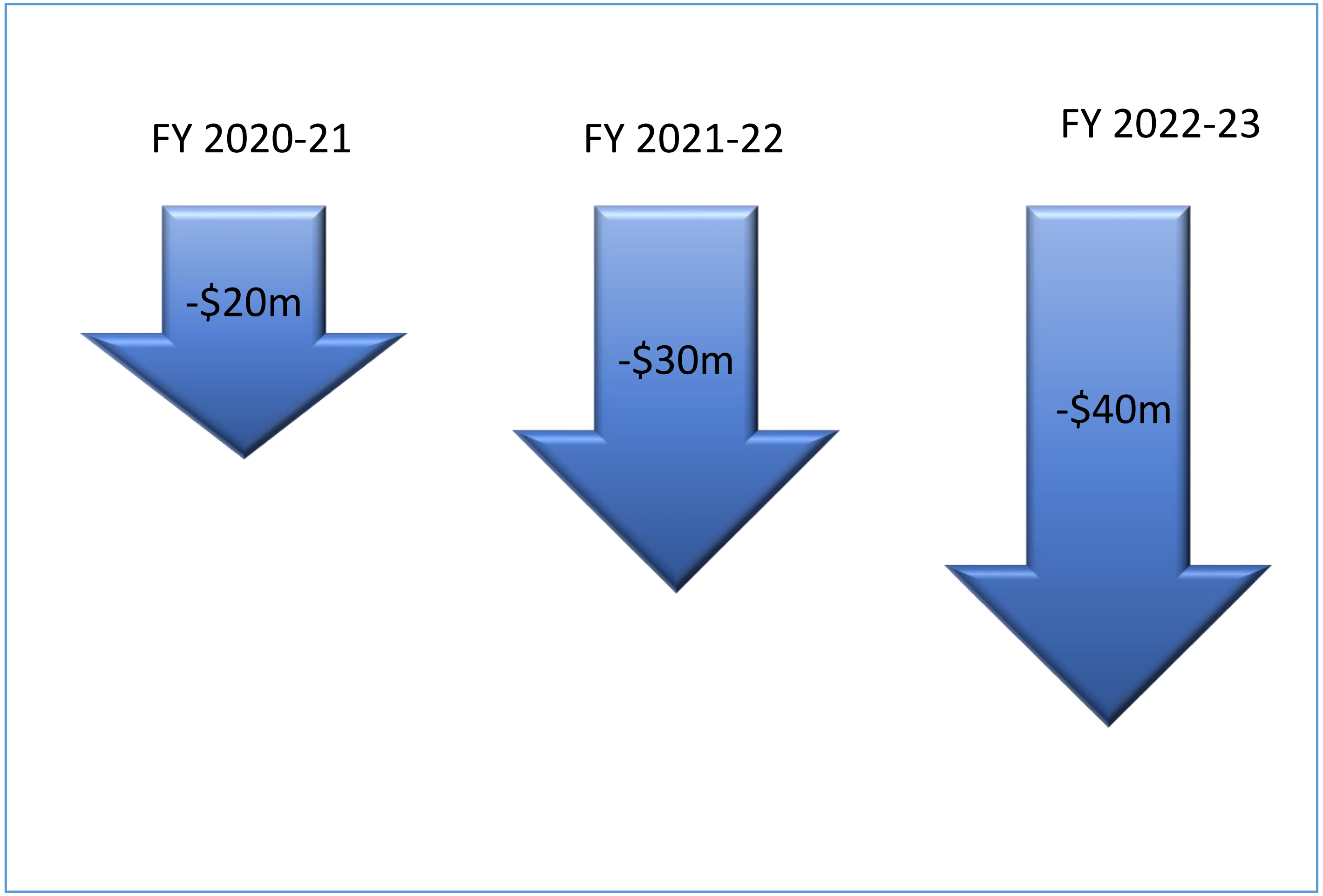


Cannabis Revenue Assignment



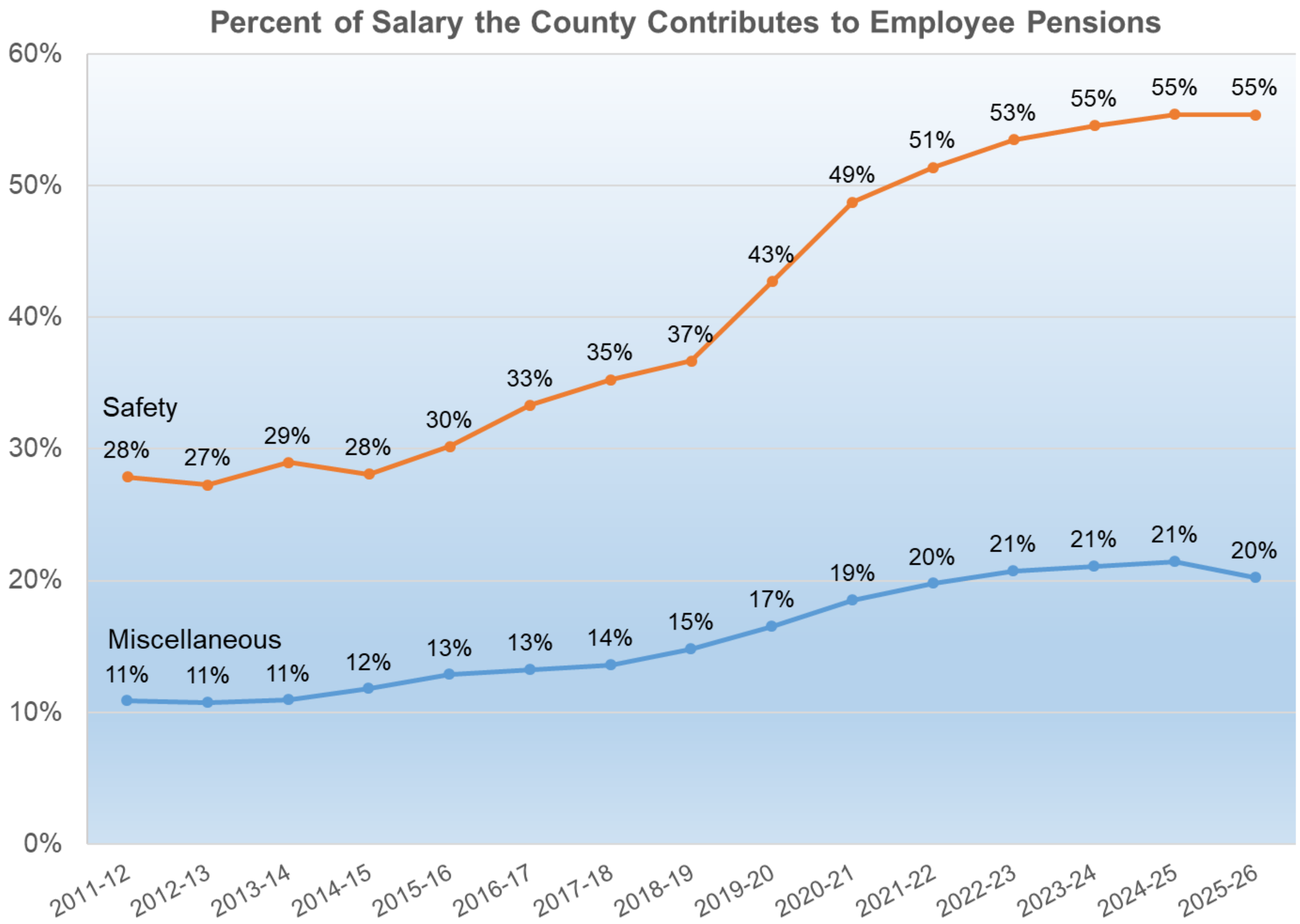
- Staff collected $14.7 million in cannabis program revenue last fiscal year and estimates collection of $15.4 million in the current year.
- This revenue supports 23.90 FTEs in nine departments providing program enforcement at an annualized cost of $4.9 million.
- Up to FY 2019-20, unused revenue is deposited into the “cannabis fund balance “assignment” at year-end and is used for one-time needs as authorized by the Board.
- **Effective FY 2020-21**, unused cannabis revenue will be distributed as discretionary GFC to the Departments

Forecasted Funding Gaps
(Based on Current Operations & Policy)



- Funding gaps emerge beginning next fiscal year, growing from $20 million to $40 million by the end of the forecast period.
- Driving the deficits is rising employee pension contributions which add $8.4 million in general fund costs next year, with similar increases in out years.
- Other cost drivers include higher employee health insurance, general liability and workers' compensation program costs and increasing formula-based subsidies.

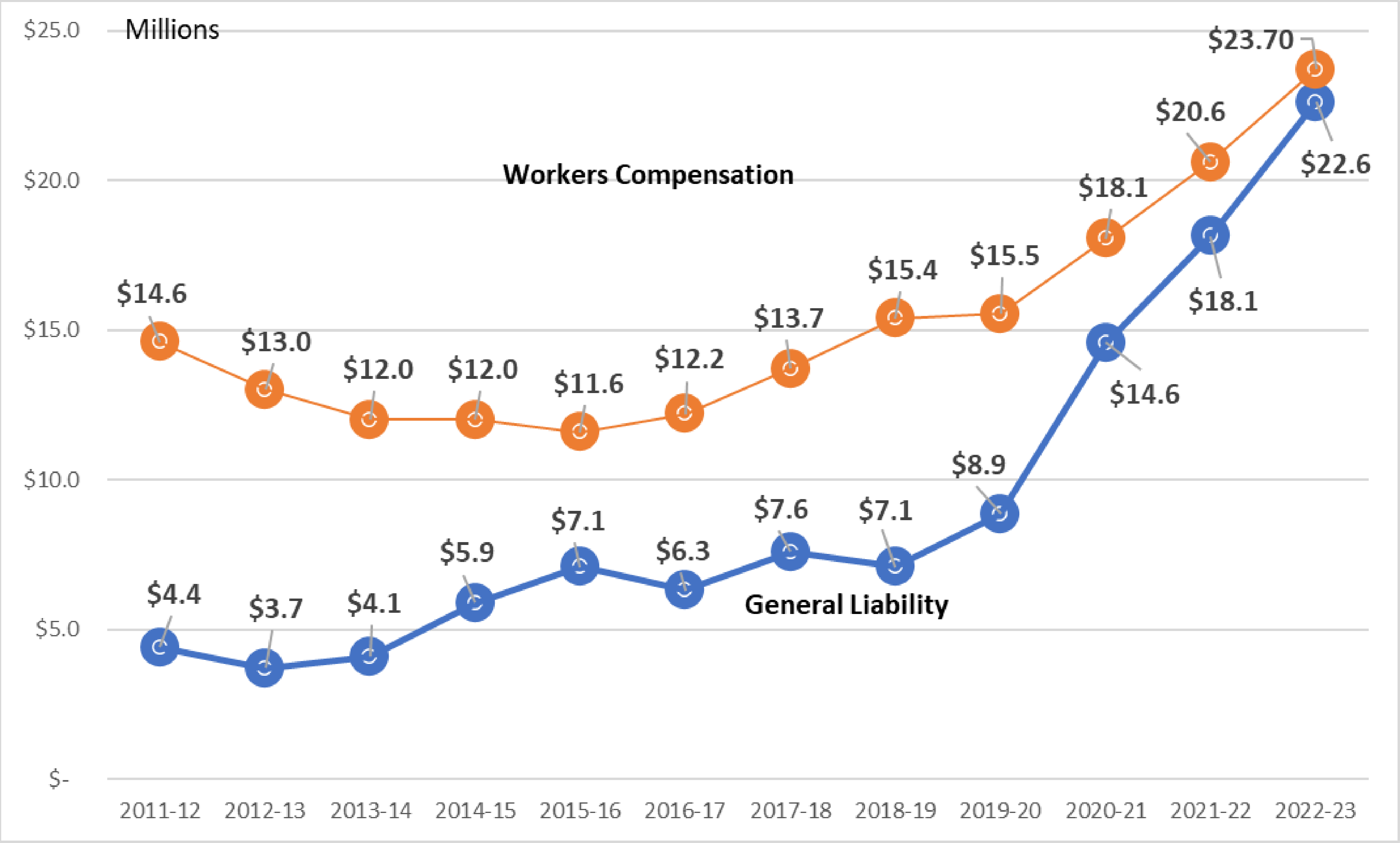
Rising Pension Contribution Rates



Note: The Employer Contribution Rate for the Safety plan is reduced by 3%, which is the employee paid portion toward the employer contribution.

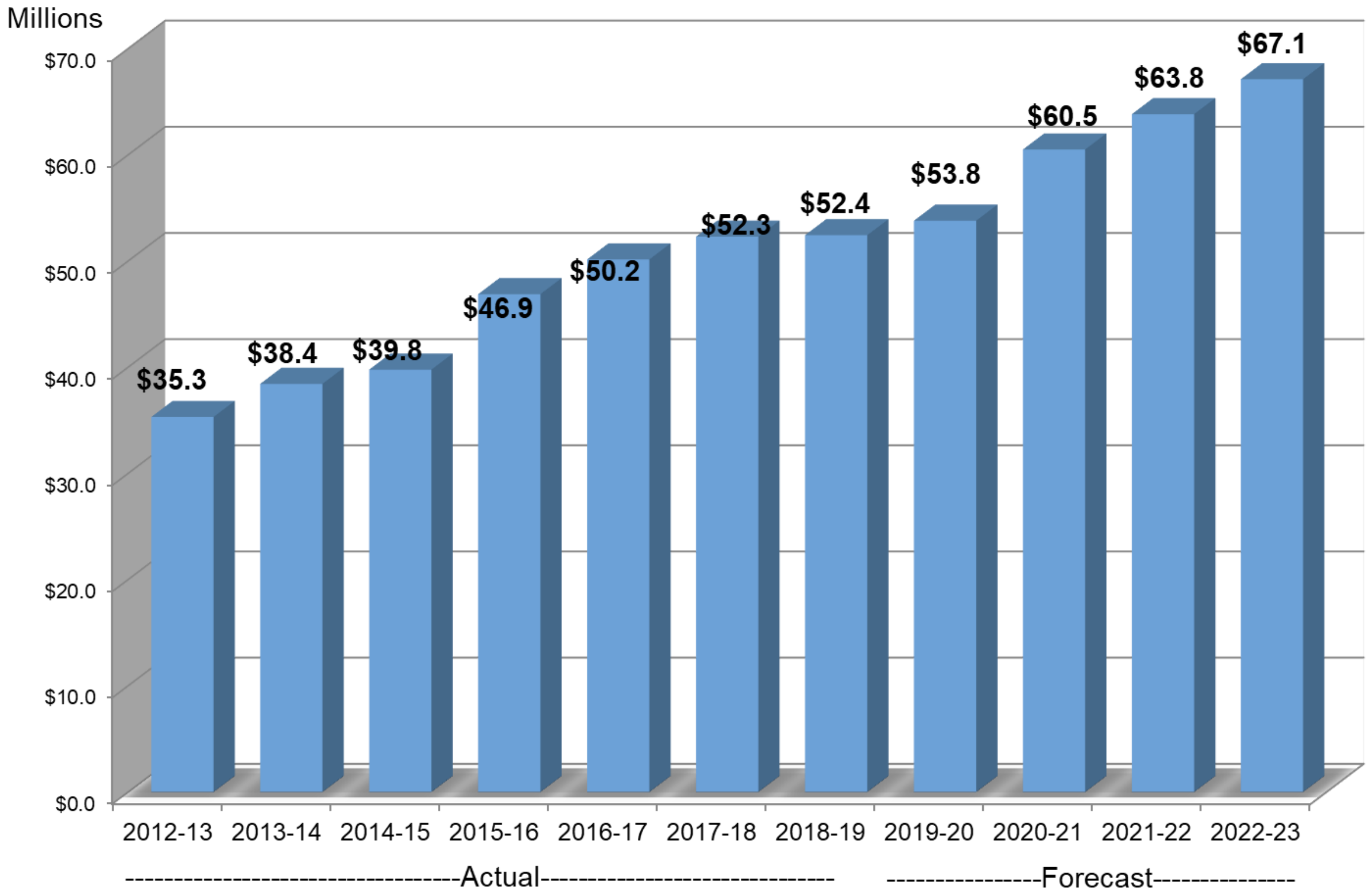
- Driving pension costs upward across the state is CalPERS' annual rate increases to ensure assets are on hand to pay benefits in the future.
- The County's safety pension program is currently 65% funded while the non-safety plan is 75.5% funded.
- The combined unfunded liability as of PERS' last actuarial is $724 million, or about the size of the annual general fund budget.

Workers Compensation & General Liability Program



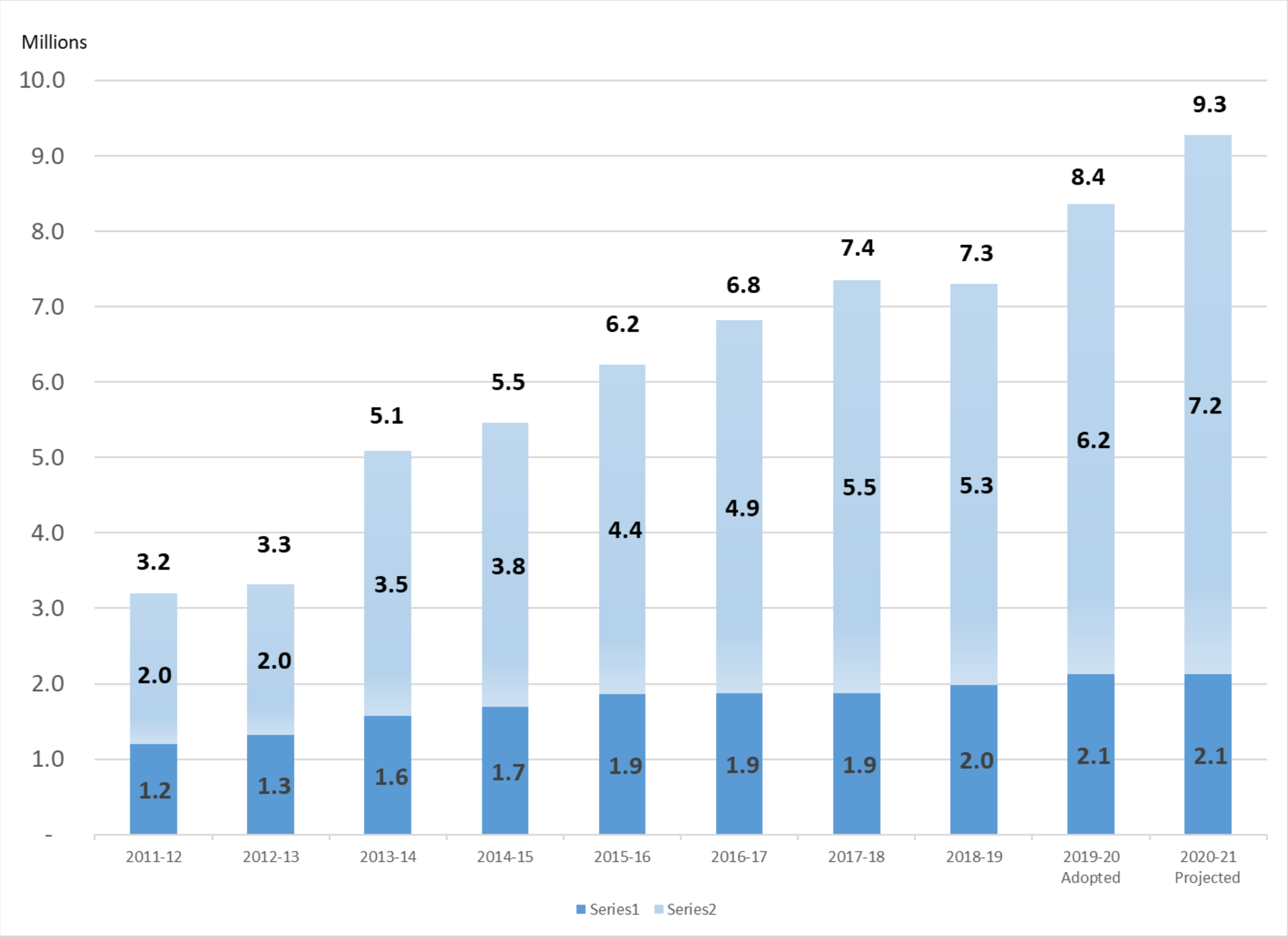
- Forecasted Workers Compensation Program expenditures increase $8.2 million by the end of the forecast period.
- General Liability Insurance Program expenditures increase $5.8 million next year and an additional $13.8 million in the out years.

General Fund Health Insurance Expenditures



- The County covers annual increases in employee health insurance and these costs are expected to nearly double by the end of the forecast period compared to the recession years.
- Underlying this growth was a 16% premium increase in 2013 and a 21% increase in 2016.
- The increase for FY 2020-21 is projected at 15% while the forecast assumes a historical average 6% annual growth starting next January.

General Fund Contribution to Outside Agencies



- The chart at left shows general fund contributions to the road fund and to the "development set-aside" agencies (MCCVB, Arts Council, Film Commission, and Business Council).
- These formula-based contributions are tied to County TOT collections.
- As TOT revenue has risen significantly, so have contributions to these entities.

Departments with Largest Projected Funding Gaps

Dept. Name	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Sheriff	$ (590,730)	$ (7,387,281)	$ (13,026,886)	$ (19,066,214)
Health	$ 870,899	$ (4,867,139)	$ (7,328,990)	$ (9,038,057)
Distrcit Attorney	$ 588,962	$ (2,871,852)	$ (2,776,438)	$ (2,545,650)
Social Services	$ (27,546)	$ (2,459,056)	$ (2,459,056)	$ (4,530,081)
Probation	$ 40,016	$ (2,307,761)	$ (3,819,847)	$ (5,227,527)

- The Sheriff's Office forecasts a $7.4 million funding gap next year, growing to $19 million by FY 2022-23, due to increasing general liability, workers compensation, pension, and health insurance costs.

- The Health Department projects a $4.9 million funding gap next year, growing to $9 million by FY 2022-23. Much of the gap is caused by loss of revenue from the "AB 85 redirection". During the June 2018 budget hearings, the Board supported the Department's three-year plan to draw down health realignment reserves to cover the gap.

- The District Attorney estimates a gap of $2.9 million due to forecasted salary increases, increasing costs related to PERS retirement, health insurance premiums and allocated costs such as workers' compensation insurance and general liability insurance.

- Social Services forecasts a $2.5 million funding gap next year due to rising pension, health insurance, general liability, and workers compensation costs and the recent compensation agreement for in-home supportive services (IHSS) workers.

- Probation projects a $2.3 million funding gap next year primarily associated with salary increases, PERS retirement, and health insurance costs.

Needs Not Included in Forecast

Emerging Needs	FY 2019-20	FY 2020-21
Bargaining Agreements[1,2], WC and GL Increase (FY 2020-21)	$5,782,611	$15,920,882
Decrease in Non Program Revenue	$4,551,364	$1,375,297
Lake San Antonio Operations	TBD	TBD
PERS Contribution Increase	-	7,837,534
Increased cost due to COWCAP cost plan changes	518,013	7,851,121
New Juvenile Hall	725,560	1,625,933
855 E. Laurel Homeless Shelter		318,154
Storm Water Pollution Prevention Plan		157,523
Whole Person Care Grant Loss		617,462
Total	**$11,577,548**	**$ 35,703,907**

[1] Estimates based on payroll FY 2018-19 actuals. Includes MOU impact on salaries, PERS, Medicare and Social Security.

[2] Unfunded need assumes no change in GFC preliminary estimates 12/2/19.

- The forecast accounts for previously authorized costs of existing staffing & policies.
- Staff is also monitoring potential expenditures subject to future authorization and excluded from the forecast.
- These needs total $11.6 million in the current year and grow to $35.8 million next year, with some needs yet to be quantified.

Other Funds

- Road Fund finances have significantly improved with the passage of SB 1 and Measure X transportation funding measures. Compared to the negative fund balances reported in prior year's forecast, Road Fund staff now estimate positive fund balances of $21.9 million this fiscal year, reducing this balance to $5.6 the following year and growing it to $22.2 million by FY 2022-23.

- The Library's finances have also improved showing a sustained fund balance throughout the forecast period.

- Natividad Medical Center expects its fund balances to continue growing to $158 million next year but a reduction to $135 is projected due to the investment in several capital projects.

- The Lakes Resorts Fund, which only includes Lake Nacimiento effective FY 2019-20, continues to depend on general fund subsidies. The estimated amount for FY 2019-20 is $2.7 million. The subsidy is projected to decrease to $1.5 million by FY 2022-23.

Next Steps

- Departmental forecasts are the starting point for building initial “baseline budgets”.
- Baseline budgets communicate departments’ plans of what they can (and cannot do) with next year’s expected resources, taking into consideration inflationary pressures.
- Departments also submit augmentation requests for increased funding to support current operating levels or to enhance programs.
- In the coming weeks, staff analyzes baseline budgets to understanding areas of budget flexibility, funding gaps, and potential impacts in order to build a well-informed and responsible recommended spending plan.
- A workshop is held at the end of March with Department Heads to facilitate a shared understanding of countywide finances and programmatic impacts and to gather input on strategies.
- The Board’s annual budget workshop on April 7th is an opportunity to provide a “budget preview” and receive direction before building the recommended budget to be presented at the budget hearings on June 1st and 2nd.

Discussion