



Budget End-of-Year Report

2017-18 Fiscal Year

Purpose

A comprehensive analytical comparison between the County's final modified budget and year-end results that reviews:

- The health of the County's finances
- Management of the budget and revenues and expenditures forecast
- Major financial developments, issues, and trends
- Management of reserves and long-term liabilities.

FY 2017-18 Financial Summary

- The County began the year with \$8.7 million in unassigned fund balance carried forward from prior years' positive operating results.
- \$29.7 million was used in reserves for storm repairs and capital projects like the new juvenile hall. \$659.9 million in revenue.
- Departments spent \$627.6 million on staffing and operations.
- \$10 million added to the Strategic Reserve. \$7.2 million added to Natividad's Strategic Reserve.
- \$25.9 million added in restricted revenue for specific programs and \$23.8 million in assignments.
- The result between inflows and outflows is an ending unassigned fund balance of \$3.8 million (including the \$2.3 million obligated in the FY 2018-19 budget).

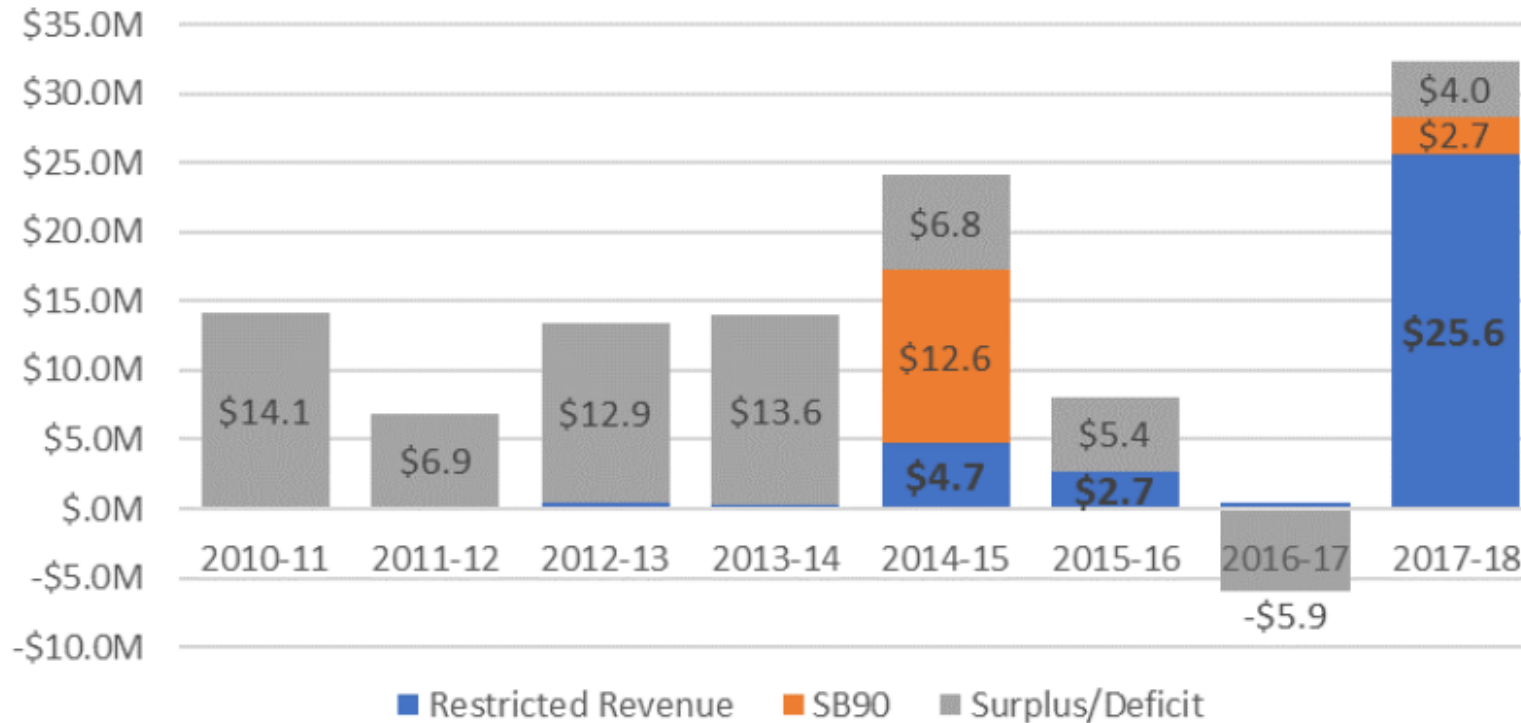
General Fund At-a-Glance ¹	Adopted Budget	Modified Budget	Year-End Actual
Available Financing:			
Fund Balance (FY 2016-17)	\$ 6.0	\$ 6.0	\$ 8.7
Cancellation of Restricted Fund Balance	15.8	15.8	9.3
Cancellation of Assignments	21.0	22.9	20.4
Revenues	<u>636.9</u>	<u>639.5</u>	<u>659.9</u>
Total Financing Sources	679.8	684.2	698.4
Financing Uses:			
Nonspendable Fund Balance	-	-	0.3
Restricted Fund Balance	-	-	25.6
Assignments	-	-	23.8
Strategic Reserve - General Fund	-	-	10.0
Strategic Reserve - NMC	-	-	7.2
Expenditures	<u>679.8</u>	<u>681.7</u>	<u>627.6</u>
Total Financing Uses	679.8	681.7	694.6
Subtotal Unassigned Fund Balance:	-	2.5	3.8
Obligated in FY 2018-19 Adopted Budget ²	-	-	(2.3)
Unassigned Fund Balance:	-	2.5	1.5

Dollars shown in millions. Numbers may not total due to rounding.

¹The financial data utilized in this analysis is unaudited and subject to revisions.

²\$2.3 million in FY 2016-17 unassigned fund balance was utilized to fund one-time needs in the FY 2018-19 adopted budget.

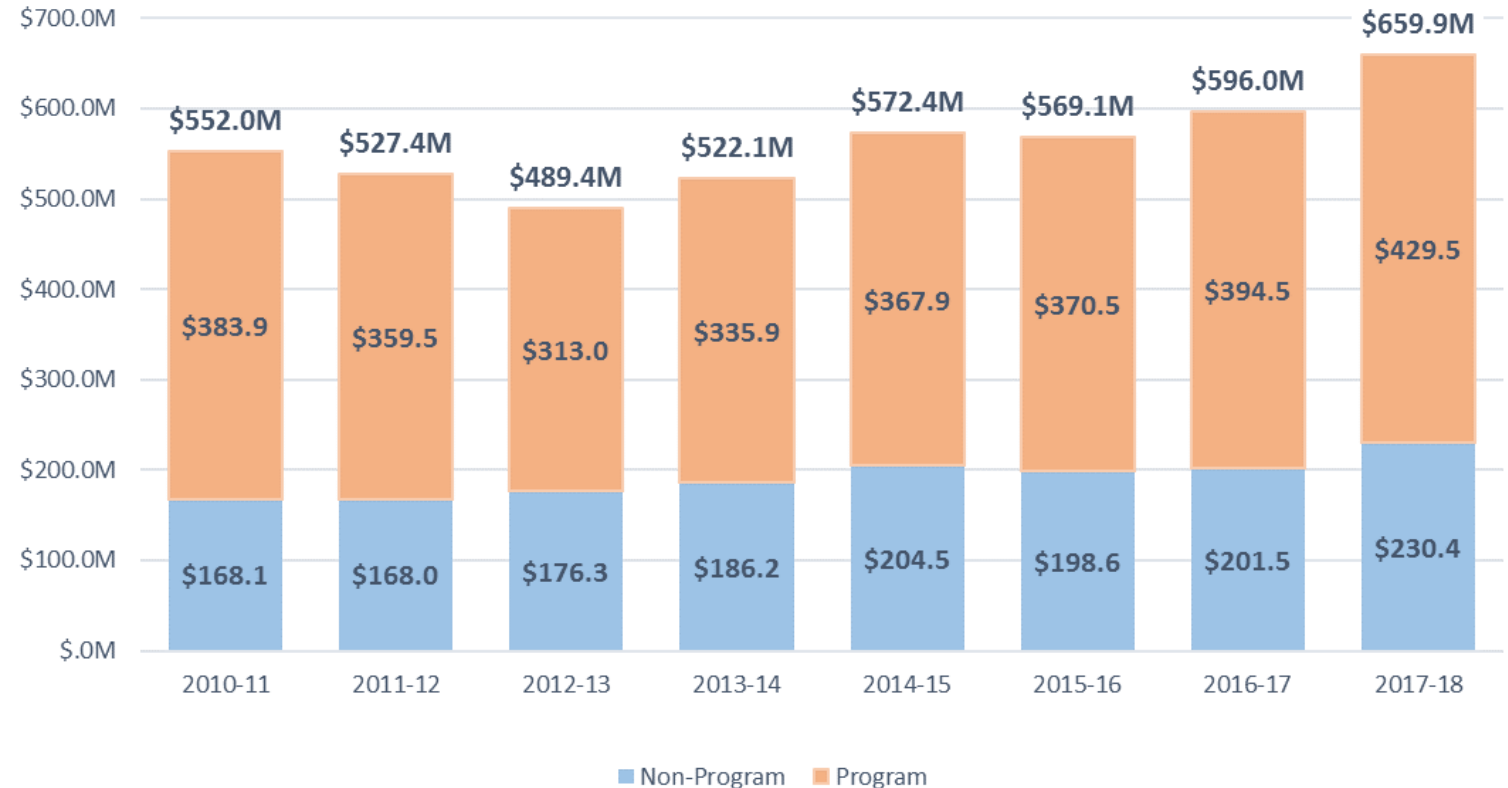
General Fund Operating Surplus/Gap



Operating Surplus Driven By Non-Recurring Events

- The year ended with an operating surplus.
- The surplus is made up of non-recurring revenues that include cannabis tax revenue under the original tax structure, the recognition of restricted revenue, and the \$7.2 million transfer from Natividad into the General Fund for its Strategic Reserve.
- Without the one-time technical adjustments and non-recurring revenues, the County would have ended the year with an operating deficit.
- Structural factors continuing to affect the County include pay raises, pensions, and employee health insurance premium costs.

General Fund Revenue



Revenue increased \$63.9 million over the previous year including:

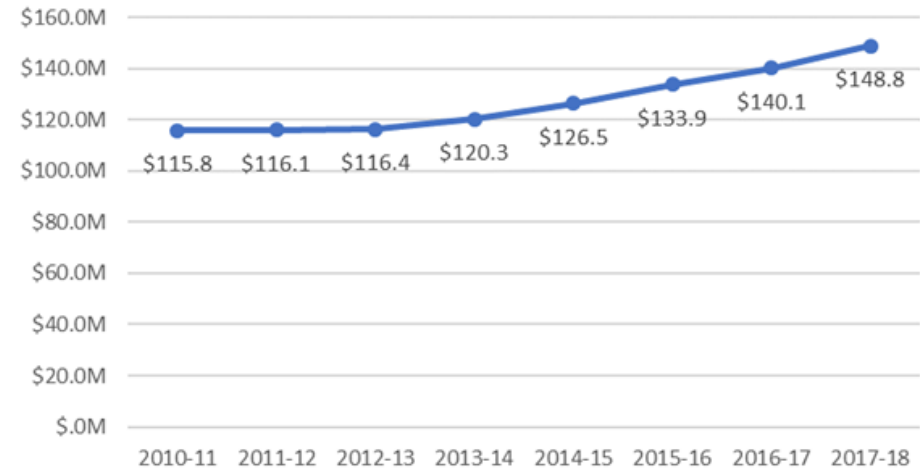
- \$22.5 million in technical adjustment of revenue
- \$22.7 million in transfers from other funds such as NMC and DSS
- \$28.9 million in additional discretionary revenue
 - Cannabis, property taxes, TOT
- \$3.8 million in disaster assistance reimbursements

Discretionary Revenue

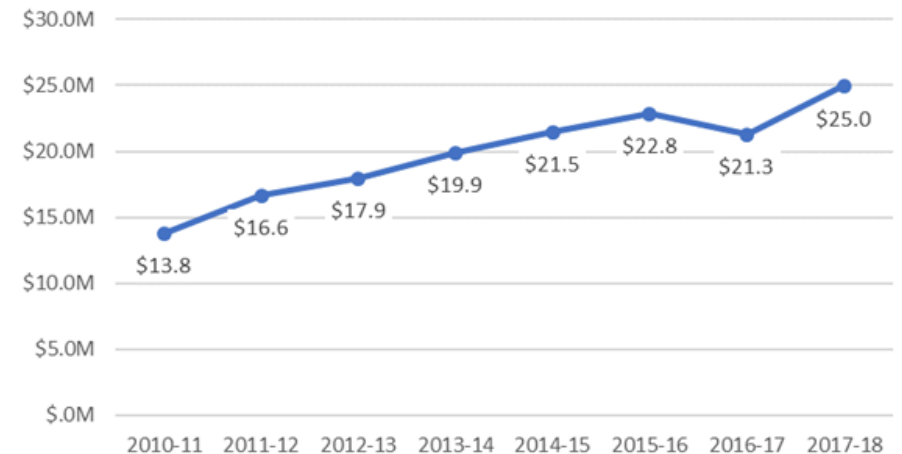
Major year-over-year variations in discretionary revenue include:

- A \$8.7 million increase in property taxes, due to increasing property assessments.
- An increase of \$11.5 million in cannabis taxes as a result of the first whole fiscal year under the initial cannabis tax structure.
- A \$3.7 million increase in TOT revenue as Highway 1 recovers from damage and road closures caused by wildfires and winter storms and the use of new software by the Treasurer-Tax Collector to collect unreported and new occupancy units.

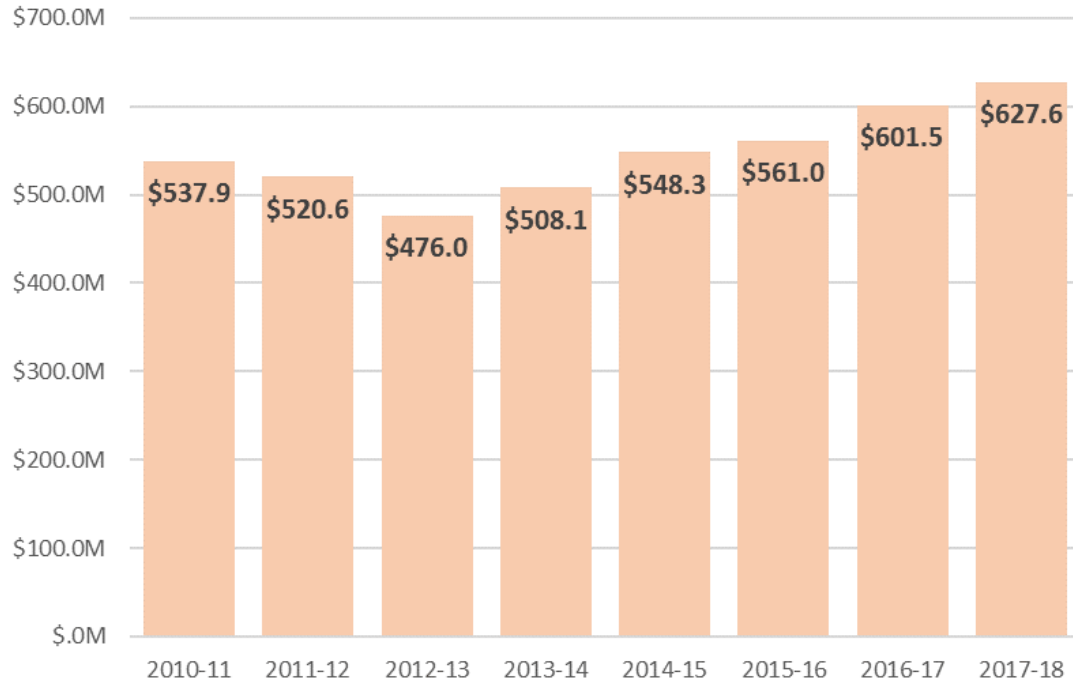
Property Tax Revenue



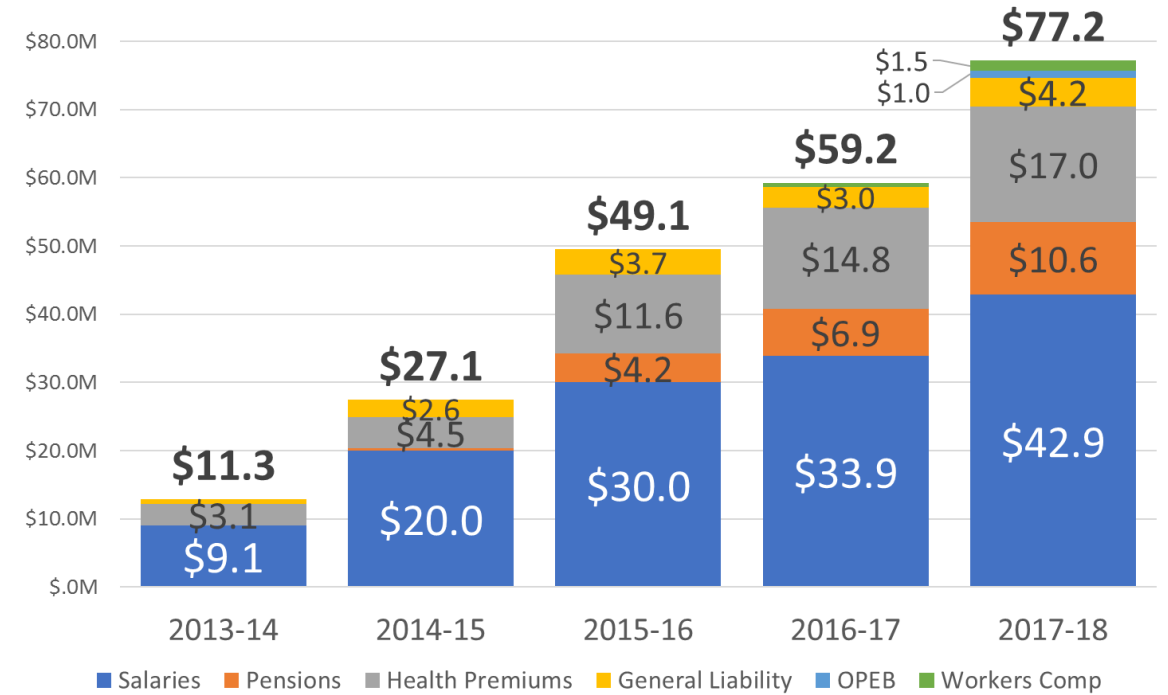
Transient Occupancy Tax (TOT) Revenue



General Fund Expenditures

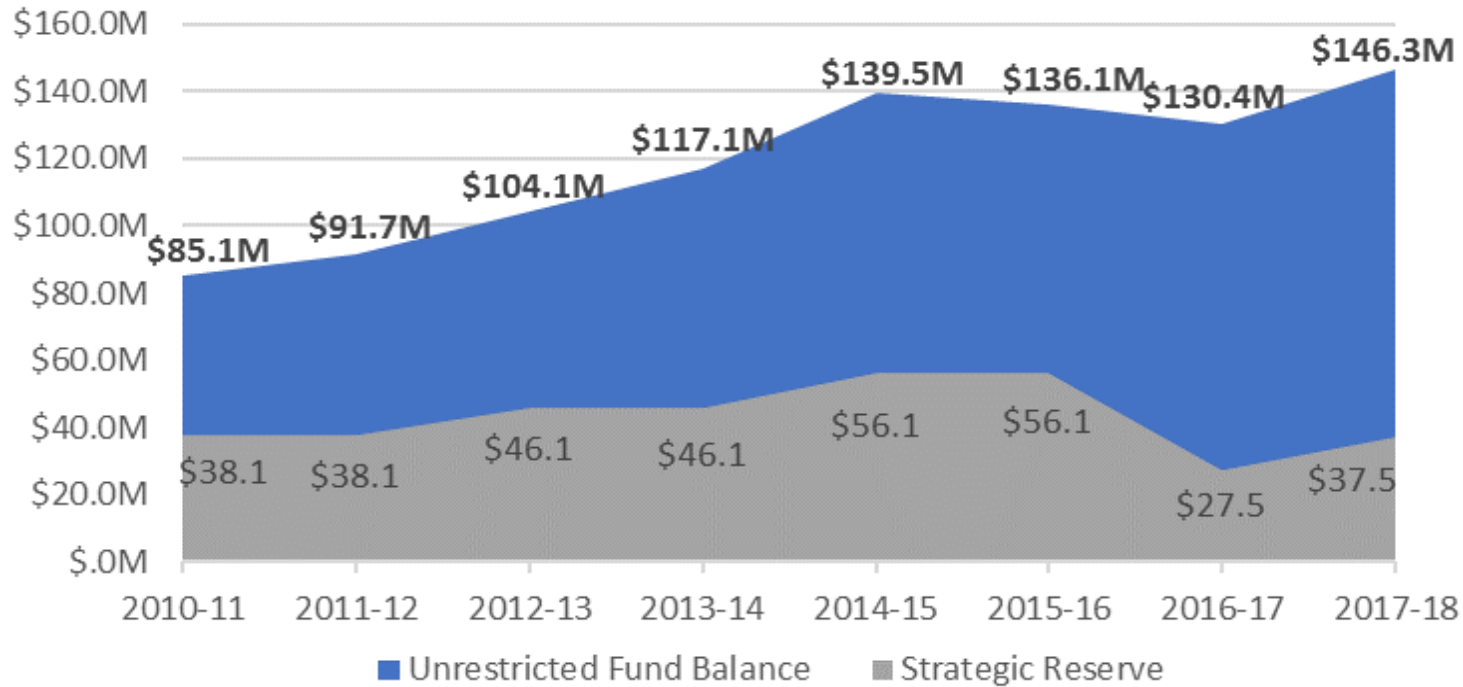


General Fund Cost Drivers - Cumulative



Expenditures grew \$26 million over the prior year

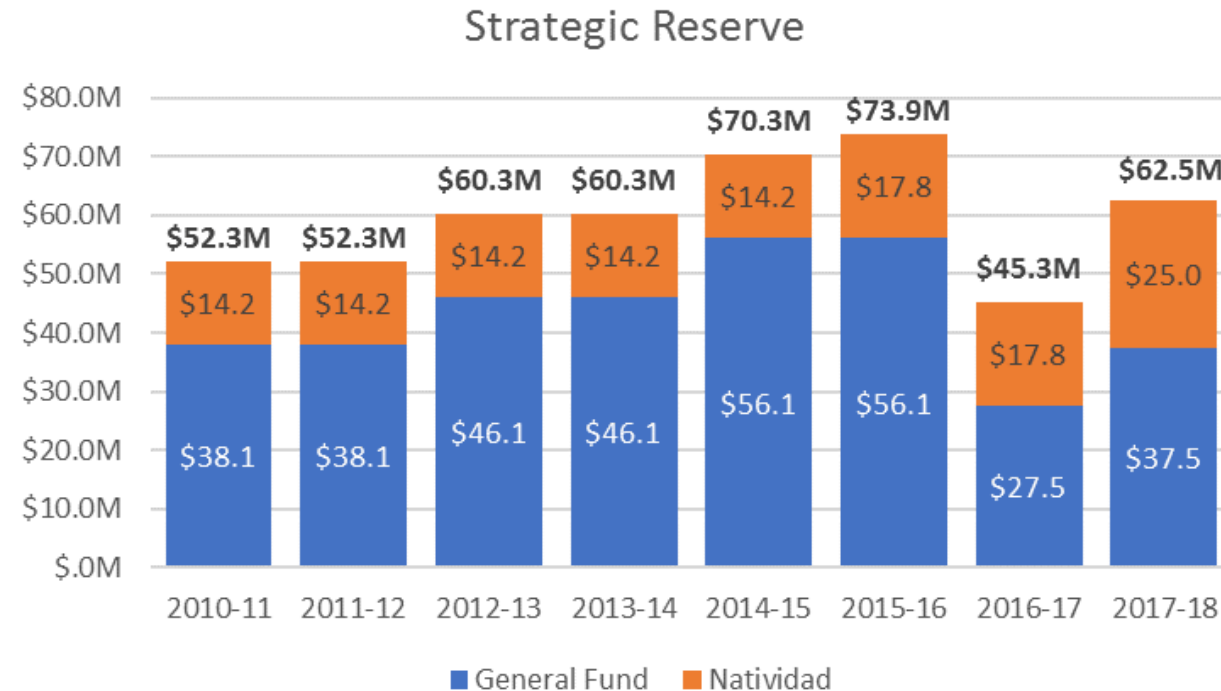
Unrestricted Fund Balance



- The Board has strengthened the County's financial policies and invested year-end surpluses into fund balance.
- Unrestricted fund balance grew over the prior year as the County continues to save for the future.
 - \$14 million added to the cannabis assignment
 - \$5.7 million in the building improvement and replacement assignment
 - \$1.0 million to vehicle replacement assignment
- The County used fund balance during the year to fund one-time investments
 - \$11.2 million in capital projects such as the new juvenile hall.
 - \$6.4 million in natural disaster repairs

Unrestricted Fund Balance

Rebuilding the Strategic Reserve



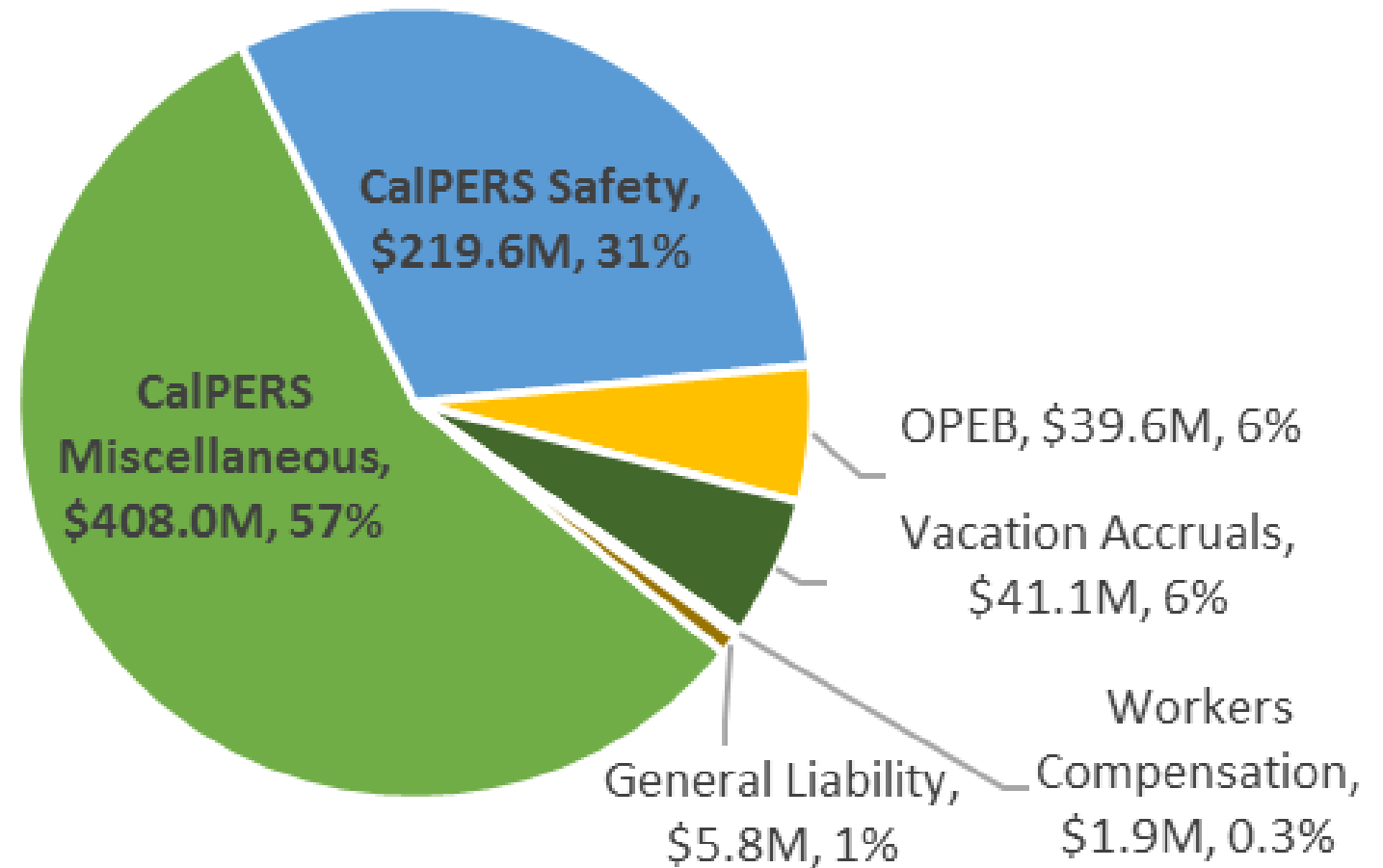
- In FY 2016-17, the County transferred \$28.6 million from the Strategic Reserve to fund balance as a response to the infrastructure repairs needed from natural disasters and extraordinary legal events.
- As a result of good financial performance and early federal and State disaster reimbursements, \$10 million was added back to the Strategic Reserve at year-end.
- The Strategic Reserve is currently \$30 million under the target policy of 10 percent of general fund revenue.
- Natividad added \$7.2 million to its Strategic Reserve.

Unfunded liabilities total
\$704.7 million.

- Unfunded liabilities represent the gap between future liabilities and assets available to pay those liabilities.
- The County's unfunded liabilities continue to exceed the annual general fund budget.
- Pensions are the largest unfunded liability: the liability for employee pensions is \$2.4 billion, compared to assets of \$1.8 billion, resulting in an unfunded liability of \$627.6 million.

Unfunded Liabilities

Actuarial Obligations



Departmental Budget Performance - General Fund

(excluding non-departmental performance)

19 departments ended the fiscal year with a combined general fund surplus of \$7.2 million.

- RMA had a \$2.5 million surplus primarily due to vacancies.
- County Counsel had a \$1.7 million surplus mainly from vacancies and increased departmental billings.
- Elections had an \$869,633 surplus from savings in ballot printing services and less temporary employee costs due to fewer-than-planned local elections.

4 departments had a combined deficit of \$1.3 million.

- Emergency Communications had a deficit of \$639,950 due to a delay in agency revenue.
- The District Attorney had a deficit of \$602,526 from lower-than-expected grant revenue.
- The Treasurer-Tax Collector had a deficit of \$44,675 due to a reporting error in offsetting revenue to the Treasury from portfolio participants.

Departmental Budget Performance - Other Funds

The County's hospital continues to perform well due to increased volume in-patient services and a favorable payor mix. Net position is estimated to decrease by \$20.5 million from the prior year as Natividad transferred funds to its general fund Strategic Reserve and to the capital project fund.

The Behavioral Health Fund added \$9.3 million to its fund balance driven primarily higher in revenue and lower than projected expenditures.

The Road Fund's estimated fund balance grew favorably compared to FY 2016-17, where it ended with a \$2.7 million deficit. The fund is projected to end with \$10.1 million in fund balance. This reversal is attributable to new revenue streams: Measure X and SB 1.

The County Library ended the year with \$1.0 million in fund balance as a result of the mid-year budget adjustment that brought expenditures into structural alignment with expected revenue.

Looking Ahead – Unfunded Needs

- The budget was balanced at adoption, but unfunded needs have emerged in FY 2018-19.
- Five months into the year there is an estimated \$38.7 million in unfunded needs.
- Unfunded needs are projected to grow to over \$45 million next fiscal year.
- This does not include unknown needs such as future labor agreements.

Unfunded Needs	FY 2018-19	FY 2019-20
Ongoing financial support for 22.4 FTEs and services restored through budget hearing modifications using one-time funding.		\$3,493,085
State Redirection of AB 85 Realignment Funds		TBD
PERS Contribution Increase		8,420,785
In Home Support Service Negotiations	TBD	TBD
General Assistance Entitlement Shortfall	60,000	
Jail Expansion Staffing	380,682	2,012,499
Land Use Projects	1,469,470	1,159,517
2017 Winter Storm Damage (plus any FEMA/State reimbursements)	35,000,000	
Juvenile Hall Project Overrun	TBD	
Strategic Reserve Target Deficit		30,000,000
Lakes Resort Estimated Operational Deficit	1,750,000	TBD
Dam Repairs	TBD	TBD
Total	\$38,660,152	\$45,085,886



Looking Ahead – The Fiscal Climate

- To balance the current budget, the County appropriated the use of one-time cannabis assignment and contingency funds to support ongoing services.
- Using one-time financing to fund ongoing services reduces budget flexibility in subsequent budget cycles to help departments keep up with rising costs.
- Departments continue to request the use of discretionary revenue growth to keep up with rising operating costs.
- Resource recommendations in upcoming budget process will be targeted to mandates, maintenance of effort requirements, Board priorities, and functions leverage outside revenue.

FY 2019-20 Budget Timeline

Forecast

- January 4:** Departments submit current year and three-year forecasts
- February 27:** Budget Committee receives Forecast
- March 5:** Board receives Forecast



Develop Budget

- March 5:** Departments submit budget requests
- March 29:** Department Head Workshop
- April 9:** Board Workshop
- May 10:** Recommended Budget goes to print



Adopt Budget

- May 29:** Budget Committee receives recommended budget summary
- June 3 & 4:** Budget Hearings
- June 25:** Budget Adoption

Questions, Comments,
Direction