

The Adopted Budget for FY 2015-16 for the Road Fund (Fund 002, RMA012) assumed an erosion of fund balance of -\$4.4 million. This budget anticipated revenues of \$31 million and expenditures of \$35.4 million. During the development of the FY 2016-17 Baseline Budget, through implementing internal hiring freezes and other reductions in expenditures, it was anticipated that the Road Fund would end the year with a positive balance of \$1.2 million in fund balance. The projections at that time assumed estimated revenues of \$25.7 million and expenditures of \$29 million. The RMA incorporated the use of the \$1.2 million in fund balance carryover from FY 2015-16, as well as having to make staffing reductions in order to be able to submit a balanced Baseline budget for FY 2016-17. However, due to the amount of emergency repairs incurred so far in 2016 of \$2.2 million, the Road Fund is projecting to be in a deficit at the end of the current year by \$1 million and will no longer have a balanced Budget beginning in FY 2016-17.

A comparison of revenue versus expenditures indicates a consistent erosion of the fund balance of the Road Fund over the past six years. The RMA anticipated further erosion to the Road Fund balance in FY 2015-16 due to an anticipated 24% decline (or approximately \$3 million) drop in the County's Highway Users Tax (HUTA) allocation for the current fiscal year. Increased expenditures to the Road Fund are attributable to several factors including increased road maintenance requests, County negotiated salary increases, the timing delay of when project funds are received versus when project construction begins, additional increased allocated costs associated with general liability and charges from other County departments, and unplanned/unanticipated (but necessary) expenditures related to storm damage.

With the expectation that expenditures would continue to exceed revenues, RMA made adjustments to the Annual Work Program for the Road Fund by focusing on critical tasks and lowering the level of service provided on less critical functional activities. RMA has left vacant positions unfilled for the fiscal year and is restructuring the Road and Bridge group to streamline maintenance as well as engineering and management of capital projects.

The declining financial condition for the Road Fund has been further exacerbated by the additional costs associated with the response to the 2016 Winter Storm Events (January and March 2016). The winter storms required staff to work night and weekends to address the road related hazards to safeguard public safety on the roadways. Staff also had to augment county maintenance forces with construction firms through our Job Order Contracting (JOC) Program along with other outside contractors. The storms affected numerous roads including some key arterial roads, such as River Road, Hall Road, Laureles Grade, Carmel Valley Road, Old Stage Road, Alisal Road, Nacimiento-Ferguson Road, and San Miguel Canyon Road. Attachment A provides a report that summarizes the damages inflicted on the county roadways this past winter. Road maintenance crews had to deal with numerous downed trees, localized flooding, roadway slope erosion, roadway embankment slip outs, removal of sediment and debris deposited onto County roads, and emergency repairs to our storm drain infrastructure and utility lines.

The total estimate for the repairs needed as a result of the 2016 Winter Storm Events is estimated at \$2.2 million. These costs are over and above the budget expenditures in the adopted budget for the Road Fund, resulting in a projected deficit in the fund for the current year.

In order to close the current FY 2015-16 deficit gap, the Road Fund is going to need assistance from non-traditional funding sources. At this time, staff is pursuing a couple of options and is seeking direction from the Board as to which option should be pursued:

Alternative 1: Do nothing at this time. If there is a deficit in the Road Fund at the end of the current Fiscal Year, the RMA will request a short term loan from the Auditor-Controller that will be used to ensure the Road Fund reflects a positive balance for purposes of year end closing. However, the day

following the close of the fiscal year, the loan amount will be returned plus interest. RMA will immediately return to the Board with additional cuts to offset the deficit amount to ensure the Road Fund budget is balanced for FY 2016-17. These yet to be determined cuts will be in addition to the twelve filled positions that were already eliminated in RMA's FY 2016-17 Baseline Budget Submission. This option moves the Road Fund forward towards becoming sustainable by cutting staff and services as it is anticipated that revenues will continue to decline in the ensuing fiscal years. However, the additional cuts will result in further lay-offs and further degradation of the County's road system, response times, and service levels. This option does not create further impact to the General Fund.

Alternative 2: Support the use of one-time funds by redirecting the FY 2016-17 Transient Occupancy Tax (TOT) allocation towards sustaining operations and avoiding staff layoffs within the field/maintenance group. Projects that were planned to be performed using the TOT funds may need to be deferred. This option could restore planned lay-offs but is not sustainable and may result in delay of some planned major maintenance activities on the County's road system; however, this option also does not create further impact to the General Fund than what has already been programmed through the Board Approved TOT allocation.

RMA recommends alternative 2. The current recurring revenues (primarily gas tax receipts) are simply not sufficient to support the fundamental Road and Bridge functions of Monterey County. Even if this short term (one year) fix is utilized, a longer term 'sustainable' solution is needed. Otherwise, draconian reductions in maintenance, services to our citizens, and staffing levels will be necessary over time.

FINANCING:

There is no impact to the General Fund by receiving this report. The RMA had submitted a balanced Baseline Budget for FY 2016-17 which assumed the use of uncommitted fund balance in Fund 002 of \$1.2 million. However due the 2016 storm events, these funds are estimated to be fully exhausted by the end of the current fiscal year and result in a deficit balance in the Road Fund unless alternative funding sources can be identified. Should TAMC's Sales Tax increase pass in November 2016, RMA anticipates that about \$5 million would annually be available to help with deferred maintenance projects - but these revenues would not likely be available for staff and routine maintenance activities.

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Attachments: A: 2016 Winter Storm Events Report (Attachments on file with the Clerk of the Board)