Board of Supervisors
Chambers
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Salinas, CA 93901

Board Report

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Receive a status report on budget requests from departments and development of the FY 2014-15 Recommended Budget.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Receive a status report on budget requests from departments and development of the Fiscal Year (FY) 2014-15 Recommended Budget.

SUMMARY:

The County Administrative Office is in the final stages of reviewing departmental budget requests for FY 2014-15. Budget hearings are scheduled to begin on June 10, 2014. This report provides an update on the status of budget development, with analysis of departmental budget requests, potential service level impacts, and preliminary recommendations for mitigating these impacts with the limited resources available.

DISCUSSION:

Earlier this year, departments forecasted the expenditures needed to maintain existing service levels and available revenues to support those needs. The difference between a department's expenditures and its program revenues is referred to as *general fund contributions* (GFC). General fund contributions are the Board's discretionary monies and include the County's share of property taxes, transient occupancy tax, sales tax, and other non-restricted revenues. The majority of County departments rely on GFC at some level to provide services. The Board generally allocates each year's GFC in proportion to prior year authorizations, with growth targeted to County priorities and programs with the greatest need. In the years following the recession, annual GFC allocations to departments declined in order to maintain a fiscally balanced budget amid weakening revenues. After four years of declining GFC, the County's discretionary revenues improved modestly in FY 2013-14 with a 4.6% countywide increase in discretionary funding to departments. Much of this growth in funding was needed to address inflation in the costs of providing services. This trend is expected to continue next fiscal year, as rising costs consume growth in revenues.

In March, departments submitted their budget requests for next fiscal year. These requests include two parts: baseline budgets for providing services within the constraints of departments' available program revenues and current levels of GFC; and augmentation requests to increase GFC. As shown in Attachment 1 (Table A), baseline requested expenditures total $538.8 million, representing growth of $9.8 million over the current year adopted budget and $18.7 more than what departments actually expect to spend this year. This growth reflects increased costs related to recent agreements with employee associations, higher general liability costs, and various other cost drivers to be discussed later. Departmental requests for augmentations above baseline levels total $28.5 million and are supported by an estimated $7.0 million in program revenue and GFC of $21.5 million. With augmentations included, the requested budget totals $567.3 million and would result in a hypothetical operating deficit of $20.2 million. For comparison, the preliminary budget recommended by the County Administrative Office totals $543.1 million, balanced to available revenue.

A number of events are driving up the County's cost of doing business. First, recent bargaining agreements with employee associations will add an estimated $3.8 million in financing need in the current year and an additional

$4.6 million next fiscal year. This represents a total general fund impact of $8.4 million in comparison to the current adopted spending plan. Approximately $3.4 million of this impact is occurring in departments with safety employees. Other examples of rising general fund costs include a $3.6 million increase in employee health insurance costs, a $1.8 million increase in the general liability program, $1.7 million to upgrade the County's enterprise resource management (ERP) system, and $1.2 million in information technology infrastructure replacement. In total, the County Administrative Office anticipates the cost of existing staffing and services to grow more than $17 million due to cost pressures.

The County's cost pressures are creating considerable fiscal stress for departments and resulted in baseline budget submissions containing position and service level reductions. At the same time, some departments are experiencing pressures unique to their programs, such as the parks resort operations and the loss of revenue related to low water levels. Departmental baseline budgets include a countywide reduction of 81 positions, including the loss of 39 vacancies and 42 filled positions as shown in Attachment 1 (Table B). Major areas of position reductions include: social services (loss of 11 vacancies and nine filled positions), Probation (loss of nine vacancies and eight filled positions), Parks - Resort Operations (loss of 14 filled positions), District Attorney (loss of two vacancies and three filled positions), and the Monterey County Free Library (loss of five vacancies).

To mitigate potential operational impacts of rising costs and other fiscal pressures, departments submitted augmentation requests totaling $28.5 million in appropriations, supported by $7.0 million in program revenue and $21.5 million in requested GFC. These requests include the restoration of 20 vacancies and all 42 filled positions, and add an additional 35.5 new positions. Most of the new position requests would restore positions lost in prior budget cycles or add staffing that can be supported by program revenues, generally in health and social services programs to meet mandates under state-county realignment and the affordable health care act. Departments also submitted non-staffing-related requests, such as augmentations to fund various cost drivers, vehicle purchases, resource management agency projects, public defender contract attorneys and trial related expenses, general plan implementation, and social services programs.

Available discretionary funding to support departmental augmentations totals $4.3 million, much less than the requested $21.5 million. In developing the preliminary recommended budget, the County Administrative Office targeted funding to the restoration of filled positions to preserve the County's service levels. As outlined in Attachment 1 (Table C), the County Administrative Office recommends restoring 36 general fund positions, including two vacancies (funded from within the requesting department's existing resources), 27 filled positions, and seven new positions. The new positions include four health department positions funded by departmental revenue and three positions within the human resources, learning and organizational development program. These later positions are funded through a reduction in budgeted monies for temporary help. The budget also includes 18.5 new positions funded outside the general fund by the health department. A complete listing of departmental requests and recommended funding is provided in Attachment 2.

The preliminary recommended budget does not include funding to address the remaining 15 filled positions in the parks department, of which 14 work at the resorts. The resorts operate with the intent of being self-sustaining enterprises supported by visitors without general fund subsidies. However, the resorts suffer from chronic revenue shortfalls, exacerbated by the severe drought, low water levels, and the declining number of visitors. The parks department requested $1.7 million in general fund monies to retain these staff and perform basic maintenance of the resort facilities. In the absence of additional discretionary monies, funding these non-general fund requests would require reductions to other program areas.

Although County revenues are growing, resource levels are not sufficient to meet the County's growing list of operational and infrastructure needs. Staffing levels remain below pre-recession levels as shown in Attachment 1 (Table D) and departments continue their efforts to achieve efficiencies in an environment of constrained resources. In their efforts to preserve staffing amid the fiscal pressures described earlier, departments have lost any flexibility to address new services needs or requirements, and in many cases they have deferred significant maintenance and capital infrastructure needs.

OTHER AGENCY INVOLVEMENT:
Development of the recommended budget is a collaborative effort between the County Administrative Office and all County departments.

FINANCING:
This is an informational report and as such there is no fiscal impact that would result from the receipt of this report.

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Attachments:
Attachment 1: Tables A Through D
Attachment 2: FY 2014-15 Augmentation Requests