



Board Report

File #: BC 17-034, **Version:** 1

- a. Receive the Monterey County Financial Forecast, which assesses the County's fiscal condition for the current year and three forecast years (FY 2017-18 through FY 2019-20);
- b. Support the adoption of a resolution to authorize the Auditor-Controller to amend the FY 2016-17 Adopted Budget to incorporate the recommended mid-year modifications; and
- c. Receive an oral report from the Resource Management Agency (RMA) on the status of current damages and critical repairs needed in response to the winter storm events.

RECOMMENDATION:

It is recommended that the Budget Committee:

- a. Receive the Monterey County Financial Forecast, which assesses the County's fiscal condition for the current year and three forecast years (FY 2017-18 through FY 2019-20);
- b. Support the adoption of a resolution to authorize the Auditor-Controller to amend the FY 2016-17 Adopted Budget to incorporate the recommended mid-year modifications; and
- c. Receive an oral report from the Resource Management Agency (RMA) on the status of current damages and critical repairs needed in response to the winter storm events.

SUMMARY:

The County's financial forecast is the first step of the annual budget development cycle. Staff conducts a comprehensive mid-year review of planned spending and anticipated revenues for the current year, budget year, and two additional out years. The result of this review is an assessment of the County's financial condition, emerging needs and the capacity to fund those needs as well as current levels of service and operations for the remainder of the fiscal year and beyond.

DISCUSSION:

A number of significant and unplanned events, some of which present immediate health and safety issues, have placed extraordinary costs on the County in the current year. Disasters caused by the winter storms and the *Soberanes Fire* have caused an estimated \$34.0 million in damages, including \$11.1 million for immediate repairs needed in the current year. In addition, the *Hernandez v. County of Monterey* legal settlement requires \$9.5 million in unplanned expenditures to improve safety and security in the jail. Funding is also needed to defend the County and Measure Z against lawsuits. These unbudgeted events, combined with recent bargaining agreements and other needs, add \$28.3 million in current year costs beyond the balanced budget adopted in June 2016. Meeting these needs will require the first-ever use of the Strategic Reserve.

Ordinary costs pressures next fiscal year include salary increases due to bargaining agreements, resumption of ERP upgrade costs, higher PERS rates, and general liability and workers' compensation program increases. These "ordinary" cost pressures combined with continued repairs related to the winter storm events, Measure Z defense, construction bid overruns for the juvenile hall and east/west wing projects, among other needs, add \$58.8 million in costs for next fiscal year. To meet these needs through redirection of operating budgets would surely result in unprecedented impacts to County operations and staffing. To soften such impacts, the County Administrative Office recommends modifications to the County's reserves to address the most critical needs, as summarized below with additional details included in the Forecast report (Exhibit 1) and provided in Attachment A of the Resolution (Exhibit 2).

- Transfer \$9.5 million from the Strategic Reserve into the General Capital assignment for capital improvements and legal costs to comply with the *Hernandez v. County of Monterey* settlement and support the implementation plan.
- Transfer \$16.8 million from the Strategic Reserve into the Disaster Assistance assignment to finance critical repairs in response to the *Soberanes Fire* and winter storm disasters with \$8.5 million in transfers to cover the County's share of expected expenses and \$8.3 million in transfers to cover the estimated State and Federal share of current year costs until Federal and State reimbursements are received.
- Transfer \$4.6 million from the strategic reserve into a new assignment to defend the Measure Z and settle a legal matter with the State.

The recommended transfers and various other modifications are discussed in the attached report.

OTHER AGENCY INVOLVEMENT:

Development of this forecast is a cooperative effort between all departments and the County Administrative Office.

FINANCING:

Recommended modifications reduce the general fund portion of the Strategic Reserve from \$56.1 million to \$25.2 million in response to the *Hernandez v. County of Monterey* settlement, recent disasters, Measure Z legal defense, and a settlement with the State. The attached report also decreases the appropriation for contingencies by \$422,000 to re-authorize unused prior year reimbursement authority for the Interlake Tunnel Project. In addition, the report includes modifications to mitigate departmental impacts resulting from the Auditor-Controller's indirect charge-back program.

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Approved by: Dewayne Woods, Assistant County Administrative Officer x5309

Attachments:

Exhibit 1 - March 2017 Monterey County Financial Forecast

Exhibit 2 - Resolution to Modify FY 2016-17 Adopted Budget

Attachment A - Recommended Modifications to the Fiscal Year 2016-17 Adopted Budget