

FIRST QUARTER UPDATE ON THE FY 2017-18 ADOPTED BUDGET

COUNTY ADMINISTRATIVE OFFICE

SEPTEMBER 27, 2017

This report provides an update on the FY 2017-18 Adopted Budget. In building the current year budget, many departments could not sustain current operations without new funding due to increased costs such as pay raises and higher employee benefit expenditures. Staff throughout the County scrutinized their budgets to find remaining pockets of flexibility to cover increased costs while the Board targeted annual revenue growth to departments with the greatest remaining need. Even with the revenue growth allocated to departments, there was not enough to close all funding gaps. Consequently, some departments downsized staffing, mostly through attrition. Nevertheless, there was a sense of relief among those of us in the budget process that we survived an unprecedented year of cost increases and natural disasters while averting more severe impacts to operations and the community. It is within this context that the FY 2017-18 budget was adopted; resources stretched to keep up with rising costs and unexpected events, with limited fiscal capacity to tackle new challenges without re-examining existing commitments.

Emerging Needs

In recent months, unfunded needs totaling \$13.7 million have emerged. Some of these needs were still evolving and discussed as part of the June 2017 budget hearings. Examples include the Governor's redirection of AB 85 health realignment funds for indigent medical care, potential changes to the general assistance grant program, and a request from Water Resources Agency to "re-budget" unused reimbursement authority for the inter-lake tunnel project. Other unbudgeted needs include:

Unfunded Need	Duration	Amount
State Redirection of AB 85 Realignment Funds	Ongoing	\$5,876,001
Homeless Shelter in Salinas	Ongoing	760,518
Safe Parking Initiative	Ongoing	222,218
General Assistance Program Enhancement	Ongoing	776,143
Addition of 3.0 FTEs to Social Services for OET	Ongoing	78,000
Increase in CFMG Inmate Medical Care Contract	Ongoing	1,267,086
Public Defender Legal Costs for Capital Cases	One-time	2,633,500
WRA Interlake Tunnel Request	One-time	1,300,000
County Library Budget Shortfall	Ongoing	465,843
Expiration of 4.0 FTEs in Health After 12/31/17	Ongoing	166,891
Expiration of 3.0 FTEs in RMA After 12/31/17	Ongoing	187,806
Total		\$13,734,006

- An initiative to add a year-round homeless shelter in Salinas;
- A safe parking initiative;
- The addition of three positions in the Department of Social Services to complete the reorganization of the Office for Employment Training;
- Increased cost of the re-negotiated contract with California Forensic Medical Group to manage inmate medical care;
- Unfunded legal costs in the Public Defender's Office to defend capital cases;
- A budget shortfall in the Monterey County Free Library;

- A funding shortfall to continue four animal services positions in the Health Department previously extended to December 31, 2017; and
- A budget shortfall to continue three Resource Management Agency (RMA) positions previously extended to December 31, 2017.

By law, counties are required to maintain statutorily balanced budgets. The County's financial policies further direct staff to structurally balance the budget by aligning ongoing operating expenditures to ongoing revenue and only using one-time funding such as fund balance for one-time needs.

Analysis of Unfunded Needs

This section describes the recently emerged unfunded needs and potential solutions. The County's discretionary revenue has already been fully leveraged in the recent budget process to close departmental funding gaps and protect staffing and services. Cannabis program revenue is the exception; these revenues totaled \$3.1 million for the first two quarters of operation and only \$376,923 has been committed to date. Staff has exercised constraint in recommending use of these funds given the many unknowns about this new revenue stream and knowing the upcoming budget process will likely be even more challenging than the last. Therefore, most solutions presented below assume unfunded needs are solved within the constraints of a program's existing resources.

State's Redirection of AB 85 Realignment Funds

With the implementation of the Affordable Care Act (ACA), the State expanded Medicaid and anticipated that counties' costs for indigent healthcare would decrease as much of that population would become eligible for healthcare coverage. In 2013, the Governor signed AB 85 (Chapter 24, Statutes of 2013) to capture the indigent medical care savings in *1991 Health Realignment* and redirect it to social services programs. The redirection is based on a calculation of estimated revenue and expenditures, with an annual "true-up" adjusting for actuals. The County received notification after publishing the recommended budget that the redirection will increase sharply in FY 2017-18, resulting in a budget shortfall of \$5.9 million in health realignment monies. Meanwhile, Natividad Medical Center has seen strong performance in its governmental revenues under the ACA, supporting increased coverage.

The health realignment funds for indigent medical care are shared between the Health Department and the Sheriff's Office. For FY 2017-18, approximately \$12.3 million is budgeted, including \$8.7 million in the Health Department and \$3.6 million in the Sheriff's Office. Within the Health Department, these realignment funds support programs such as the new Nurse Family Partnership (NFP), the Maternal, Child, and Adolescent Health (MCAH) program, tuberculosis case management, targeted case management nursing, community flu clinics, and administration. Within the Sheriff's Office, health realignment funds support inmate medical care, including the contract with California Forensic Medical Group (CFMG). Re-balancing these budgets after a \$5.9 million ongoing revenue loss is a difficult challenge that requires a reduction in operational capacity and associated services. If there is a silver lining, the affected departments can leverage considerable vacancies to avert most if not all layoffs. Administrative staff worked with the Health Department to identify the best available solutions (and associated impacts) for re-sizing operations. The Sheriff's

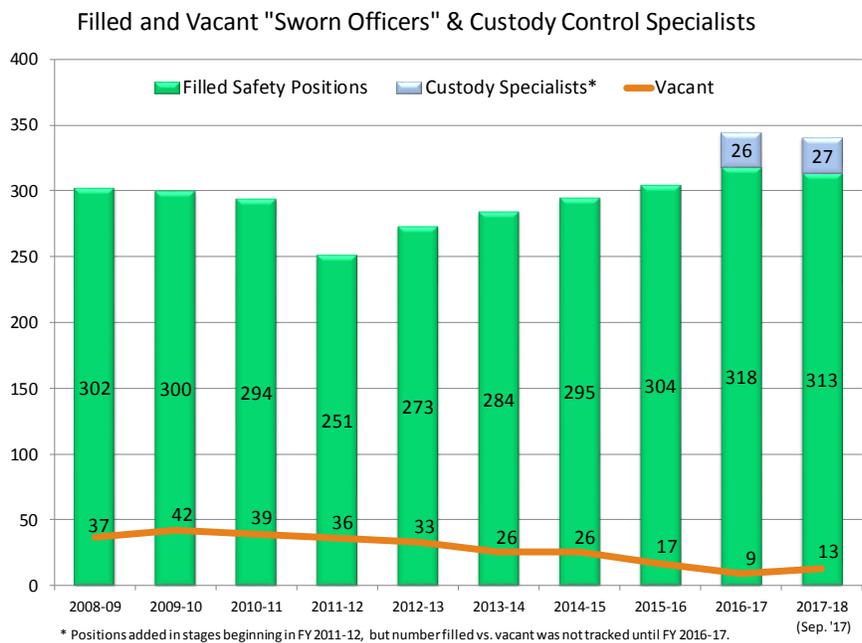
Office did not provide options so administrative staff provide our own analysis. Recommendations are listed below:

- **Transfer \$1,358,801 in 1991 Social Services Realignment reserves to support the Nurse Family Partnership (NFP) and Maternal, Child, and Adolescent Health programs.** Welfare and Institution Code Section 17600.20(a) allows counties to transfer up to 10% of realignment funds between the various sub-accounts that were realigned in 1991. This provision was created to give counties flexibility to make use of realignment funds in a manner that best serves the needs of the community. The County has \$3.8 million in *1991 Social Services Realignment* fund balance. Transferring \$1,358,801 of these funds to the health realignment account to support the NFP and MCAH programs averts the reduction of 11 positions (five are filled). The NFP and MCAH programs provide home visits for first-time mothers with special attention paid to medically fragile infants, and case management services for families impacted by substance abuse, mental illness, child abuse, domestic violence, or unstable housing. Without these staff, the Department reports families and children would face greater challenges accessing primary care services and reduced linkages to community programs. A public hearing by the Board of Supervisors is required each year to approve the transfer between these two realignment accounts.
- **Purchase the Seaside Clinic.** The Health Department leases a new facility from Community Health Properties to provide primary and specialty care services in Seaside. Staff estimates the purchase price of this facility to be about \$13 million. If the County exercises its contractual option to purchase the Seaside clinic, the Health Department would no longer have to make lease payments, saving approximately \$729,405 annually. Additionally, this action would relieve \$6.8 million in health realignment fund balance earmarked for purchasing the facility. Natividad Medical Center's cash reserves are available to finance the purchase. If there is support for this option, staff would initiate the contractual option to purchase the Seaside Clinic and return to the Board with specific actions to consummate the purchase.
- **Stop using health realignment funding of \$450,000 for primary care clinics.** The Health Department states that primary care clinics would no longer accept referrals for tuberculosis diagnosis/treatment, communicable disease, and vaccine services. Patients would have to receive these services from their primary care providers.
- **Reassignment of a public health nurse from the Health Department's communicable disease unit to the whole person care unit for a reduction in expenditures of \$158,481.** Staffing for this unit would decrease from six to five positions, increasing workload for the remaining staff who screen and perform follow-up care related to tuberculosis, sexually transmitted diseases, zika virus, and rabies.
- **Reduction to the Targeted Case Management program and reassignment of staff to other functions.** This action would redirect four staff to other programs such as Whole Person Care and MCAH. One position could be at risk; additional work is necessary to assess in-placement options. The staffing reduction would reduce services such as home visitation nutrition assessment and education to families struggling with weight and obesity-related issues.
- **Discontinue realignment funding of \$51,516 for community flu clinics.** The County currently contracts with a vendor to provide these services. Without this contract, residents would have to

receive their flu shots from their primary care providers, pharmacies, or other community providers.

- **Reduction of \$239,700 in funding for the Health Department’s administrative support.** The Department would leave six positions vacant in areas such as facilities, information technology (IT), and general administrative support and reassign a part-time filled position to another program area. Workload would be distributed among remaining staff. The reduction also provides an opportunity to consider re-centralizing information technology support to leverage the Information Technology Department’s staffing infrastructure.
- **Reduction of five Sheriff’s Office professional staff vacancies for savings of \$283,737 (\$447,385 annualized).** The vacancies that would be eliminated include a civil clerk, two records specialists, and two corrections specialists. These positions have already been vacant for a year, suggesting their loss would present a continued hardship but not an actual reduction in operations. The reduction of two records specialists would leave 24 staff (including supervisory levels) remaining in the unit. The reduction of a civil clerk would leave six positions responsible for serving civil procedures, withholding orders, evictions, etc. The reduction of two corrections specialists would leave a balance of 15 to support jail operations such as managing the food contract, purchasing supplies, and coordinating general maintenance of the jail.

- **Reduction of five “sworn officer” vacancies for savings of \$838,793.** Following the recession, the Board has made a strong effort to help rebuild staffing levels for the Sheriff’s Office. The number of filled “sworn officers” has increased by 62 positions over the last six years to a total of 313, surpassing pre-recession levels. In addition, the Board has added 30 custody control



specialist positions to the jail to reduce overtime and more effectively utilize deputies. The combined effect of the Board’s actions has been to increase sworn officer and custody support by a combined 92 positions at an annual value of about \$10 million. The Sheriff’s Office has had positive success in its recruitments which has also helped to get more “boots on the ground” in both jail and patrol operations. There are 10 sworn officer vacancies and three custody control specialist vacancies as of the writing of this report. This option would protect vacancies in the jail and reduce “sworn officers” in patrol functions by five positions. While far from ideal (the Sheriff’s Office would benefit from even more staffing), the option still leaves the Sheriff’s Office with large gains in staffing compared to recent years.

It may be possible to keep these vacancies if the Sheriff's Office can secure additional funding from the Community Corrections Partnership (CCP). In developing the current year budget, the CCP set-aside \$1.9 million in AB 109 public safety realignment monies for contingencies. The Sheriff's Office could seek an additional allocation of AB 109 funding from the CCP to help cover eligible program needs. Rather than wait for the next quarterly meeting in November, staff suggests requesting a special meeting in October.

- **Use \$1,238,518 in Health Realignment fund balance to close the remaining gap caused by the State's redirection of AB 85 monies.** The County's last official tally of health realignment fund balance was \$9.5 million. Although County policy requires staff to maintain structural balance and avoid drawing down one-time fund balance to support ongoing programs, staff recommends using the \$1.2 million as a temporary measure to cushion the impacts of the AB 85 redirection and allow time to explore thoughtful options for closing the remaining gap. These options would be brought to the Board for consideration as part of the next annual budget process.

A re-cap of solutions for re-balancing the Health Department and Sheriff's Office budgets is provided in the table at right. These solutions total \$5.9 million and close the budget gap resulting from the AB 85 redirection.

AB 85 Redirection Solutions	
Transfer Realignment Funds to Protect WPC & MCAH	\$1,358,801
Exercise contract option to purchase Seaside Clinic	729,405
Stop using health realignment funds for clinics	450,000
Reassignment of position from Communicable Disease Unit	158,481
Redirection of Targeted Case Mgt Positions to WPC & MCAH	527,050
Elimination of Community Flu Clinics	51,516
Reduction of six administrative vacancies	239,700
Reduction of five professional vacancies in Sheriff's Office	283,737
Reduction of five "Sworn Officer" vacancies	838,793
Use of Health Realignment fund balance	<u>1,238,518</u>
Total	5,876,001

In addition to the AB 85 issue, the State is also planning to redirect funding from county health departments to fund the new *Whole Child Model*. As of the writing of this report, budget staff have been advised of the issue but detailed analysis has not been completed. The Health Department states the redirection could result in a reduction of 20 positions starting July 1, 2018, with staff to be moved to other programs as funding permits.

Increased Sheriff's Office Costs for Inmate Medical Care

The Sheriff's Office is currently in negotiations with CFMG, the contractor that provides inmate medical care at the jail. Sheriff's Office staff estimates the contract cost will increase from the current \$8.0 million to \$9.9 million, for growth of \$1.9 million. There is a \$635,708 credit for transferring primary payer responsibility for inpatient medical care from CFMG to the County. Previously CFMG paid the first \$15,000 per inpatient episode whereas the County will assume this responsibility under the new terms. The credit reduces the net contract amount from \$9.9 million to \$9.2 million, with the inpatient medical care costs previously born by CFMG to now be paid from the Sheriff's Office budget but outside of the contract. As the County is already three months into the fiscal year, the estimated FY 2017-18 "blended" contract amount is \$9.0 million.

Compared to amounts budgeted, the new CFMG contract results in unfunded costs of \$1.3 million under the current year blended rate (\$1.5 million annualized). This increase considers the new contract plus the inpatient medical care costs previously paid by CFMG that would now be assumed by the County. By law, the County is required to provide medical care to inmates while incarcerated. Therefore, the increased cost of inmate medical care under the new CFMG contract must be offset with reductions in other areas within the Sheriff's Office.

To help manage the increased cost, the Sheriff's Office plans to coordinate with the Department of Social Services to enroll more inmates in the Medi-Cal Inmate Program (MCIP). This would increase reimbursements to help offset inmate medical costs. Another potential solution is for the Sheriff's Office to revisit its recruitment-related budgets. The Sheriff's Office budget includes \$700,000 for recruitments, including related new equipment. With the recent success in recruitments and historically low vacancy rates, which would trend even lower with the additional reduction in vacancies, spending for recruitments could be curtailed in the current year. This recommendation would reduce budgeted recruitment-related funding from \$700,000 to \$200,000, for savings of \$500,000. The Sheriff's Office also budgets approximately \$400,000 for temporary help and \$3.9 million for overtime that could be scaled back. Overtime reduction was a key selling point to the Board behind the addition of 30 custody control specialists mentioned earlier. In earlier years, many of these positions remained vacant. However, with the recent success in filling these positions, the goal of sizeable reductions in overtime could become reality. Finally, the Sheriff's Office could also seek additional AB 109 funding from the Community Corrections Partnership as described earlier.

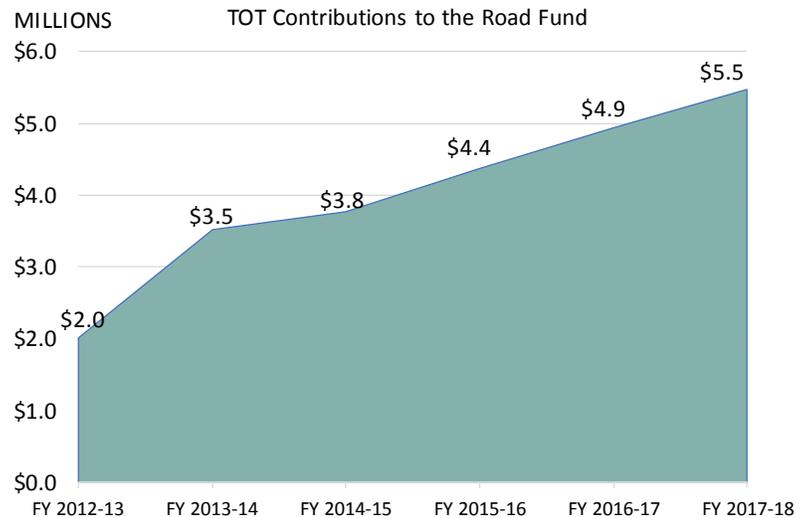
Enhancements to Social Services

The County is exploring options to meet pressing social needs within the community in a fiscal environment of constrained resources. One of these needs is a homeless shelter in Salinas. Staff has located a permanent shelter location requiring construction at 1220 Natividad Road. As an interim solution, the County and city of Salinas elected to convert modular buildings currently occupying the Public Defender's Office into a temporary shelter. The Department of Social Services estimated the cost for operating the shelter at \$500,000 to \$760,518 in the current year and growing to \$952,913 to \$1,193,691 next fiscal year. Any capital improvements necessary to prepare the modular building for homeless services would add to these costs.

In addition to the homeless center initiative, the County is considering a new policy to change general assistance grants and a safe parking initiative. The Department of Social Services provided a preliminary estimate of \$776,143 for the general assistance enhancements, however this amount could decrease if the recent decline in caseload continues. Other unfunded needs include the safe parking initiative (estimated to cost \$222,218) and a request for \$78,000 (\$105,000 annualized) to add three positions to support the reorganization of the Office for Employment Training (OET). In total, the Department is seeking up to \$1.8 million in new County contributions to support these efforts.

Unfunded Need	Duration	Amount
Homeless Shelter in Salinas	Ongoing	\$760,518
Safe Parking Initiative	Ongoing	222,218
General Assistance Program Enhancement	Ongoing	776,143
Addition of 3.0 FTEs to Social Services for OET	Ongoing	78,000
Total		1,836,879

Redirecting the entire \$1.8 million from within the Department of Social Services' existing budget would negatively impact vulnerable populations. As an alternative, the County could fund the homeless shelter and safe parking initiative by reducing discretionary contributions to the road fund to the level required by Maintenance of Effort (MOE). In prior years, the general fund contributed \$2 million annually in transient occupancy tax (TOT) revenue to the road fund. Beginning in FY 2013-14, a new policy earmarked a percent of TOT contributions to the road fund, beginning with a contribution of 20% of TOT revenue and growing to 25% by FY 2018-19. The formula increased TOT contributions to the road fund from \$2 million to \$5.5 million over the past five years. Redirection of these funds from general fund departments reduced the County's flexibility to address budgetary pressures, but provided relief for road repairs and helped offset the road fund's recent losses in gas tax revenue.



Good roads are vital to the County's infrastructure, local economy, and tourism. Fortunately, with recent passage of SB 1 (Chapter 5, Statutes of 2017) and Measure X, the County will see a sizeable infusion of new monies for transportation infrastructure that will help rebuild the road fund's financial position. Funding for Monterey County from SB 1 is estimated at \$99 million over 10 years (\$9.9 million annually), with \$2.9 million (partial year amount) expected in FY 2017-18. Staff also estimate receiving \$6.2 million in Measure X funding in FY 2017-18. Ideally, the County should continue the current trajectory of TOT contributions to the road fund to compliment these new revenue streams, as roads are so essential. But in a fiscally constrained environment of competing priorities, the new revenue streams provide an opportunity to revisit the TOT contribution formula to help solve needs in the social services community. Accordingly, staff recommends capping TOT contributions to the road fund at \$4,105,791 in FY 2017-18, representing the recently certified MOE requirement. This would free up \$1,374,452 in TOT contributions for other purposes. Staff recommends using \$1,140,156 of this amount for the homeless shelter, safe parking initiative, and other social services needs described above, with the balance to be retained by RMA to support two park ranger positions set to expire on December 31, 2017 (discussed later). This action would significantly reduce the size of the unfunded fiscal need for the Department of Social Services, leaving a balance of \$696,723 (or less) in potentially unfunded costs. If staff can secure the \$270,000 contribution from the City of Salinas to defray some of the shelter costs, then the remaining unfunded need would be reduced to \$426,723 (or less). The goal would be for the Department to cover this remaining cost in a manner that is least impactful to services. This could involve leaving some of its 64 current vacancies unfilled.

There are a couple of additional points worth mentioning as part of the TOT contribution discussion. First, the MOE for Measure X will increase from the current \$4.1 million to approximately \$4.4 million the following year and reach \$4.5 million the year after. The MOE is based on a "rolling" three-year average, so it continues to increase to the extent the County increases contributions to the road fund.

Even if the Board does not want to pursue the TOT option to fund the homeless shelter and safe parking initiative, it should still consider capping the formula-based growth in contributions to the road fund to avoid further increasing the MOE. Otherwise, an increasing MOE would only restrict the County's budgetary flexibility to meet future needs.

Another important point is that the County must be strategic in assigning employees to road projects. The County uses a mixture of contractors and internal employees for road projects, including those projects funded by County TOT contributions. With the sizeable new in-flows of SB 1 and Measure X monies, and eligibility for storm-related reimbursements, it will be important to optimize staffing assignments to fully leverage these new revenue streams.

Public Defender Legal Costs

The Public Defender is preparing for two capital cases that could result in one-time costs estimated at \$2.6 million. This estimate was provided by the Department and based on approved orders signed by the presiding judge. The Department states that it is difficult to predict costs for capital cases, but what is known is that they generally run three to five times longer and more expensive than non-capital cases, cost millions of dollars, and generally involve two attorneys, investigation, expert witnesses, paralegals, and other extraordinary expenses. The District Attorney is expected to determine whether these matters will continue to be tried as capital cases. Meanwhile, the Public Defender is proceeding under the assumption the cases will be tried as capital offenses. In the worst-case scenario (from a fiscal perspective), costs will exceed the \$2.6 million if there is a change in venue. In the event the matters are not tried as capital cases, then costs will be lower than the \$2.6 million.

The Public Defender has minimal flexibility to address these one-time extraordinary costs within existing resources. Actions by the Board in recent years improved the Department's staffing and financial condition by adding five new positions (an immigration attorney, misdemeanor attorney, accountant, one and a half legal secretaries, and half-time account clerk) and increasing funding for contract and panel attorneys in the ADO. Most of the Department's positions have been filled and there are few vacancies, so a significant (and unrealistic) staffing reduction would be needed if these extraordinary costs are funded from within the Department. For now, staff recommends monitoring these costs and deferring any budget modifications until there is a final determination as to how the cases will be tried. Once that determination is made, staff will reassess costs and departmental savings opportunities, then return with budget-related modifications.

Water Resources Agency Interlake Tunnel Reimbursements

Staff from the Water Resources Agency (WRA) recently notified the County Administrative Office that it did not spend \$1.3 million of the \$3.0 million the Board authorized for the inter-lake tunnel project. Consequently, the unspent \$1.3 million was not included in the FY 2017-18 budget. Should the Board decide to reauthorize these contributions to the WRA in the current year, staff will need to find a new financing source and return with recommended budget modifications.

Monterey County Free Library Budget Shortfall

The County Library has a budget shortfall due to over-estimation of revenues. Most of the revenue comes from its share of property taxes. The Library also receives a general fund subsidy of \$179,622. The Library is revising its operating plan to align with actual revenue patterns. In the meantime, it

has exhausted its fund balance and needed a transfer from last year's general fund appropriation for contingencies to pay remaining prior year obligations. For FY 2017-18, the Library projects a deficit of \$465,843 assuming current vacancies are filled.

In a related matter, staff determined that the salary of the County Librarian is to be paid from the general fund, not the library fund (see California Education Code Article 2, Section 19147). Staff transferred \$226,191 last fiscal year to conform to this requirement. For the current year, the estimated salary and benefits cost for the Librarian is \$230,921. Since the County has already budgeted a general fund contribution of \$179,622 for the Library, an additional \$51,299 is needed to comply with the legal requirement. Staff recommends sourcing the \$51,299 from the appropriation for contingencies. The financial condition of the appropriation for contingencies is discussed later.

The additional transfer of \$51,299 would reduce the Library's expected deficit to \$414,544. The Library realized salary savings of \$597,833 last fiscal year and the current level of nine vacancies suggests it will realize considerable salary savings in the current year as well, providing it the flexibility to manage the remaining budget shortfall from within its existing resources. Therefore, no action other than the transfer of funds for the Librarian salary is currently requested. The Library is expected to report to the Board in October 2017 with recommendations to realign its appropriations to expected revenue patterns and will include a request for the salary-related transfer.

Expiration of Four Health Department Positions after December 31, 2017

Due to cost increases and funding constraints, the Health Department was unable to continue five positions into the current year. The positions included four animal services positions and a deputy public guardian/conservator. During the FY 2017-18 Budget Hearings, the Board authorized restoring the deputy public guardian/conservator and extended the four animal care positions through December 31, 2017. The extension of the animal care positions would allow time for negotiations to progress towards a shared services agreement with the City of Salinas. Once this agreement is finalized, staff will re-assess the need and return to the Board with budget-related recommendations. No action is currently requested.

Expiration of Three Positions in the Resource Management Agency

Due to cost pressures and funding constraints, the RMA was unable to continue three positions (building inspector, park ranger, and park ranger supervisor) into the current year. During the FY 2017-18 Budget Hearings, the Board authorized extending these positions through December 31, 2017 at a cost of \$187,806 (six months of funding). If the Board accepts staff's recommendation to re-size TOT contributions to the road fund given its new revenue streams, then \$234,296 would be retained by the RMA to continue positions. The amount would be sufficient to continue all three positions for the rest of the fiscal year and sustain the two park rangers into the next fiscal year.

Other Financing Options

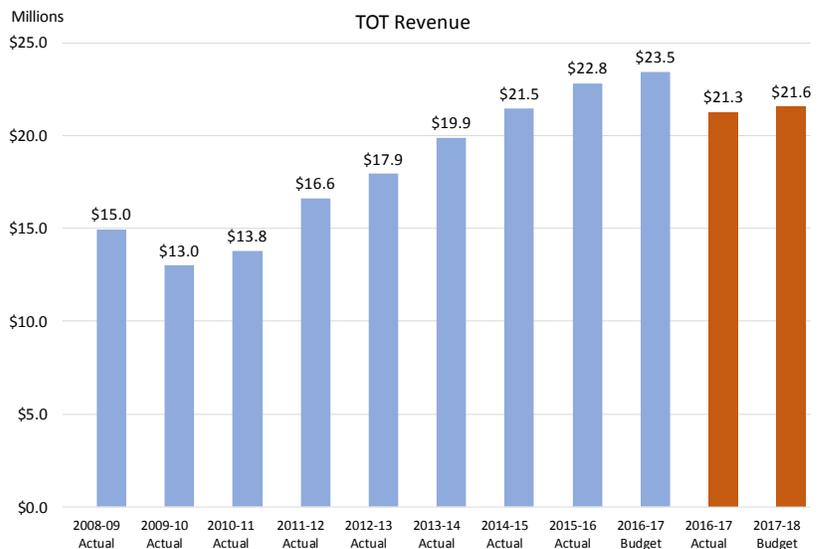
The current year budget allocated all available discretionary revenues to departments to minimize impacts to staffing and services. Other than cannabis program revenue (discussed below), there are no new discretionary revenue streams. For this reason, solutions presented earlier rely on redirection of existing resources and pointed to areas where there may be some budgetary flexibility (such as

TOT contributions). The County also budgets an annual appropriation for operational contingencies. The current year recommended budget included \$6.4 million for operational contingencies. Of this amount, \$2.8 million was allocated to Board-directed modifications requested during the June 2017 budget hearings. Another \$3.0 million is needed to cover the delay in revenue related to the agreement between the County and California Flats Solar, LLC. Under this agreement, California Flats Solar guaranteed a minimum \$3 million in sales tax revenue for the solar flats project. The County has been in discussions with California Flats to enforce the agreement, but it appears the \$3 million will be delayed until at least next fiscal year. The appropriation for contingencies has been adjusted to reflect the unavailability of these funds in the current year, leaving a balance of \$524,825. The recommended transfer to the Library would further reduce this balance to \$473,526. These one-time funds are available to address unplanned needs that emerge over the next nine months.

Beyond the appropriation for contingencies, there are a few other potential sources of uncommitted funds. The County budgeted \$272,730 for the Monterey Bay Community Power project because at the time the budget was being prepared, staff reported this amount had to be held as collateral for the County's share of start-up costs. Since that time, it was determined that these one-time funds are no longer needed for collateral, providing a source of budgetary flexibility.

Effect of Natural Disasters on Transient Occupancy Tax Revenue

In recent years, the County has enjoyed considerable growth in its second largest source of discretionary revenue (property taxes are the largest source). Since the recession's trough, TOT revenue grew \$9.8 million (75%) through FY 2015-16. Last fiscal year, staff assumed when building the budget that the growth would continue as economic factors appeared favorable. Then natural disasters struck. The soberanes fire was the most expensive fire in United States history and the 18th

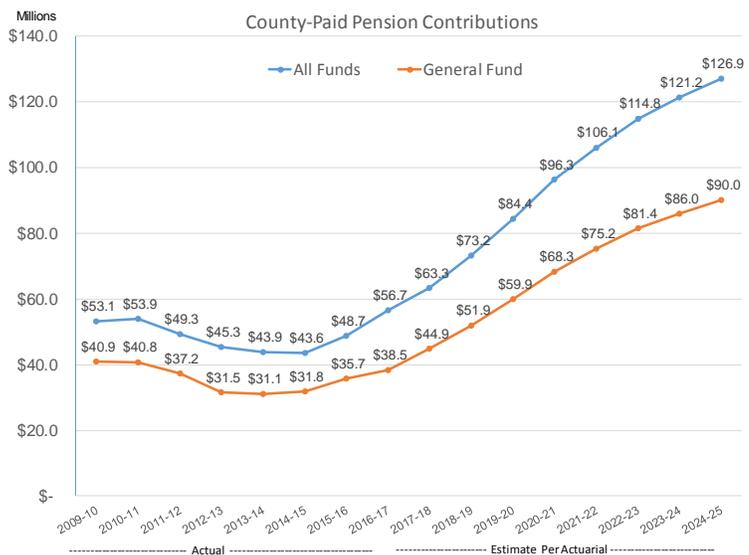


largest California fire in terms of acreage burned. After a healthy first quarter (FY 2016-17) start, TOT collections weakened in the second quarter as smoky skies persisted into late October. Then came the winter 2017 storms along with mudslides, damaged roads, and the failure of Pfeiffer Canyon Bridge in Big Sur. Crews have been working to replace the bridge over the last seven months with completion expected in mid-October. In the meantime, tourism has slumped and TOT revenues last fiscal year fell \$1.5 million below the prior year's amount and \$2.2 million below budget expectations. Staff budgeted \$21.6 million in TOT revenue for the current year budget, representing a modest gain of \$299,131. But this amount remains well below the \$23.5 million collected in FY 2015-16. The fall in the County's second largest discretionary revenue source has limited our flexibility to overcome fiscal challenges without impacting services.

Outlook for Next Fiscal Year

The budgetary solutions described earlier represent difficult policy choices with unpleasant impacts. However, they re-balance the budget to maintain structural integrity of the County’s finances. That in turn has a stabilizing effect for our employees and the services they provide by preventing funding gaps from widening and necessitating more drastic measures in the future. Each year departments face new and existing cost pressures that squeeze their capacity to afford current operating levels. Annual growth in revenue helps departments cover some of these costs. But the revenue growth has not been sufficient to close funding gaps. Re-balancing operations to get our “fiscal house” in order between budget cycles is therefore essential to preparing for next year’s budget challenges.

Next fiscal year is the third and final year of most bargaining agreements, which generally include a three percent raise. The raises will add an estimated \$12.7 million in expense to the County budget (\$9.1 million general fund). Also, required pension contributions are continuing a dramatic increase as reported throughout the last budget process. Contributions to CalPERS will increase \$10.0 million in FY 2018-19 (\$7.1 million general fund). In addition, 22.5 positions were restored during the last budget hearings, utilizing \$1.6 million in one-time (contingency) funds. Permanent funding must be found to continue these positions beyond the current year. The combined effect of the position restorations, salary increases, and increase in PERS contributions next fiscal year totals over \$24 million. Adding the ongoing unfunded program needs described earlier, unfunded costs will grow to \$35 million in the next fiscal year. Even with some level of state and federal reimbursements, the amount of unfunded need will likely make the next budget process more difficult than the last.



To help keep up with rising costs, annual discretionary revenue growth is allocated to programs during the budget process based on need and taking into account Board priorities. Over the last 10 years, discretionary revenue has grown an average of \$3.6 million annually. In March staff will update its annual forecast of these revenues, including any expected revenue growth for next fiscal year. The County is also collecting revenue under the new cannabis program. Approximately \$3.1 million was collected last fiscal year, reflecting the first two quarters of operation. If the last quarter’s experience continues through the current year, then staff would expect to collect \$7.0 million in FY 2017-18. However, this is not an official projection as the program is still in its infancy and there are many unknowns. Departments have submitted projected staffing requests to utilize some of these funds to add over 28 staff performing work related to the program.

Unfunded Needs

Unfunded Need	FY 2017-18 Unfunded	Ongoing Unfunded
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Third Year of Employee Bargaining Agreements	-	12,735,386
PERS Contribution Increase	-	9,963,379
Restoration of 22.5 FTEs during June 2017 Budget Hearings	-	<u>1,611,552</u>
Total	\$13,734,006	\$35,151,303

¹. Ongoing amount equals new contract of \$9,221,158 plus \$635,708 in inpatient medical costs to now be paid outside the contract minus the current budget of \$8,364,170.

Next Steps

The recommendations in this report solve emerging problems from a financial perspective and keep the County budget structurally balanced. If so directed, staff can return to the Board in October with detailed actions to adopt these solutions. With that said, budget staff recognize that the impacts of these solutions are unpleasant for everyone and that the goal of good financial management exists side-by-side with other County values such as compassion, quality services, and community engagement. Given these values, the Board could direct staff to take an alternative approach in which it creates an ad hoc committee and leverages the executive leadership of the Assistant County Administrative Officers (ACAOs) to engage stakeholders and report back with their recommendations by the end of October 2017.

Fiscal challenges are more than money issues to be solved with an accounting equation. Rather, they require operational and organizational analysis culminating in difficult public policy choices. With the help of the ACAOs, the Board could receive additional perspectives and solutions for overcoming these challenges. If this approach is desired, staff would only caution that time is of the essence. The longer timeframe to implement solutions increases the size of the funding gap to be closed. This in turn increases the impacts to the organization and the customers we serve.

Issue/Assistant County Administrative Officer	
State Redirection of AB 85 Realignment Funds	M. Gonzalez
General Assistance Program Enhancement	M. Gonzalez
Year-round Homeless Shelter in Salinas	M. Gonzalez
Safe Parking Initiative	M. Gonzalez
Addition of 3.0 FTEs to Social Services for OET	M. Gonzalez
Increase in CFMG Inmate Medical Care Contract	M. Gonzalez
Public Defender Legal Costs for Capital Cases	M. Gonzalez
WRA Interlake Tunnel Request	N. Chiulos
County Library Budget Shortfall	M. Gonzalez
Expiration of 4.0 FTEs in Health After 12/31/17	M. Gonzalez
Expiration of 3.0 FTEs in RMA After 12/31/17	N. Chiulos