Financial Forecast

February 2016
FY 2016-17 Budget Development

**Budget Initiation**

Dec 11 – Budget Kick-off Meeting to issue preliminary budget instructions to department Finance Managers

**Forecast**

Key Dates:

Mid-Jan – Depts provide current year estimates & three-year forecasts

Mar 2 - BC receives Forecast

Mar 8 – BOS receives Forecast

**Develop Budget**

Key Dates:

Mar 8 – Depts provide 2016-17 budget requests

Mar 31 – DH Workshop

Apr 12 – BOS Workshop

May 13 – Budget goes to print

**Adopt Budget**

Key Dates:

Jun 1 – Budget hearings

Jun 21 – BOS adopts Budget
Purpose of the Financial Forecast

- The *Financial Forecast* is a review performed by all County departments to determine what it will cost in the future to perform current “baseline” service levels and the resources available.

- “Baseline” service levels represent:
  - Existing staffing (as of December 2015)
  - Scheduled step advances
  - Published changes in PERS retirement contributions & health insurance rates
  - Service department charges
  - Generally assumes vacancies are filled

- The *Financial Forecast* answers two questions:
  - What will baseline services cost this year, next fiscal year, and beyond?
  - What revenues will be available to support baseline service levels?

- Answering these questions provides a planning tool to model future operating plans.
The County's general fund ended last fiscal year with an unassigned fund balance of $6.6 million. The current year modified budget reduces the unassigned fund balance to $5.6 million. The general fund is expected to outperform current year budget expectations by $1.2 million. Deficits emerge in the forecast period without operating adjustments as a result of cost pressures, both planned and unplanned.
The County of Monterey Today…

After emerging from a deep recession, actions taken by the Board of Supervisors and its executive team have put the County on the path of long-term fiscal sustainability while, at the same time, embodying the values of responsive leadership.
Key Accomplishments (from a Fiscal Perspective)

- **Structural Alignment:** Ongoing expenditures have been balanced to ongoing revenue, with one-time funding used for one-time needs.

- **Improved Fund Balance.** The fund balance of the general fund has improved from $82.7 million in 2009-10 to $140.8 million by the end of last fiscal year.

- **Strategic Reserve.** The County has built a Strategic Reserve of $70.3 million (includes $14.2 million for NMC).

- **Key Infrastructure Projects.** The County has reserved the local matching funds to build the new juvenile hall and expand the jail. The County also purchased the Schilling Place property to meet future space needs and reduce long-term lease costs, and initiated the preservation of the historic east and west wings of the Old Monterey County Courthouse.

- **Valuing our Employees.** The County has endeavored to protect it’s most valuable asset, the workforce that serves our residents. Increased costs for employee healthcare and pension benefits continue to place fiscal strain on the County.
**Structural Alignment**

Since the recession, the Board has adopted structurally balanced budgets that align ongoing expenditures to ongoing revenues, committing one-time financing only to meet one-time needs.

Department Heads have conservatively managed their budgets, producing four consecutive years of year-end operating surpluses.

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1. Excludes one-time investments/expenditures using one-time fund balance, including: capital projects, transfers to the Vehicle Replacement Program, Laguna Seca Track Maintenance and Contingencies.
Improved Fund Balances

The fund balance of the general fund has improved from $82.7 million in 2009-10 to $140.8 million by the end of last fiscal year, an increase of $58.1 million.

Major fund balance ‘assignments” have included a $70.3 million strategic reserve, $17.8 million for the juvenile hall, $8.9 million for the jail expansion, $9.9 million for the County’s compensated absences liability, and $8.1 million for vehicle replacement.*
Planning for a “Rainy Day”

During FY 2003-04, the County depleted most of its reserves to address a downturn in revenues.

In response, the Board adopted an ordinance (#04260) establishing a strategic reserve to help weather a natural disaster, emergency, legal settlements in excess of reserves, or short-term disruption of revenues.

The strategic reserve is a vital part of the County's long-term sustainability, considering that credit agencies carefully monitor our reserves to assess credit-worthiness.

Also, a local disaster to the scale of the Loma Prieta earthquake (or less) could quickly consume the reserve, as could a disruption to County revenues considering a single payroll costs approximately $18.3 million.
Investing in Tomorrow’s Infrastructure…

The Board has invested in a number of critical projects to build future infrastructure, including:

Investing $17.8 million in County matching funds to secure $35 million in State SB 81 funding to build the **new 120-bed Juvenile Hall**, replacing the existing 1950s facility.

Committing $8.9 million in County matching funds to acquire $80 million in State funds to build a **576-bed Jail expansion**.

Preserving the **historic east and west wings of the Old Monterey County Courthouse**, originally built in 1937. Future plans house the District Attorney’s offices, Law Library, and Civil Grand Jury, among others.

Authorizing $13 million to acquire the $36 million **Schilling Place complex** as part of a the County’s plan to get staff out of portable buildings and reduce long-term lease costs.
Investing in our Employees…

- Amid widespread layoffs across California and the nation during the *Great Recession*, the County navigated through the fiscal crisis with minimal impacts to employees.

- County leadership cut out non-mission critical spending while our employee organizations began contributing towards their PERS pension contributions.

- In 2013, the Board approved three-year bargaining agreements:
  - Most non-safety employees received a 3.5% raise in exchange for paying the full member portion of PERS contributions, followed by a 2% raise in year 2 and 3% raise in year 3.
  - Most safety employees received a 3.5% raise, followed by a 1% raise in year 2 and 2% raise in year 3.

- In addition to these agreements, the County has protected valuable benefits to our employees, covering an estimated $11.8 million in employee health insurance increases and $6.5 million in increased County PERS contributions. Protecting these benefits for our valued employees added $18.3 million in costs, equating to a 9.3% raise.
Other Investments…

- Committing $500,000 this year for a pilot project expanding health care services to undocumented residents.

- Advancing funds for the Interlake Tunnel Project to connect Lake Nacimiento to Lake San Antonio and increase storage capacity for Lake San Antonio.

- Providing additional general fund contributions as part of the agreement to increase wages and benefits for In Home Supportive Services (IHSS) workers.

- Authorizing the Sheriff’s Office to fill 11 unfunded patrol deputies to protect public safety and add 6 custody control specialists for the jail.
The Fiscal Outlook for Monterey County

- The County has $5.6 million in unassigned fund balance from last year’s positive operating results while departments expect to end the current fiscal year with a combined $1.2 million improvement, for a year-end projected unassigned fund balance of $6.8 million.

- At the current pace of operations, an operating gap of $16 million emerges next fiscal year (2016-17).

- The operating gap grows to $20 million in the out years of the forecast without operational adjustments.
General Fund Expenditures

- General Fund expenditures have grown significantly since the recession, with much of the growth resulting from the realignment of State responsibilities to local government and the implementation of the Affordable Care Act.
- Realignment costs have been mostly supported by State revenue.
- Aside from the “realignment” costs, other cost drivers pushing expenditures higher, including:
  - Salaries & Positions
  - Health Insurance
  - PERS Retirement
  - ERP
  - Workers Compensation
  - General Liability Program
General Fund Employee Health Insurance Expenditures

- General Fund expenditures for employee health care have increased $11.8 million since 2012-13.
- The growth estimates begin from a base amount of actual general fund expenditures for health insurance of $35.3 million in 2012-13 and, as such, exclude the effect of position growth.
- Rates for the most popular employee option (PERS Choice) increased 21.3% effective January 2016.
- The growth for FY 2016-17 does not take into account any premium increase for January 2017.

<table>
<thead>
<tr>
<th>Calendar Year:</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Premium Increase</td>
<td>16.2%</td>
<td>-1.3%</td>
<td>2.3%</td>
<td>21.3%</td>
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</table>
General Fund Wage Growth (Independent of Position Growth)

- General Fund expenditures related to employee wages have increased $16.7 million since 2012-13.
- The growth estimates begin from a base amount of actual general fund salary expenditures of $198.7 million in 2012-13 and, as such, exclude the effect of position growth.
- No growth has been reflected for 2016-17 as current bargaining agreements expire at the end of 2015-16.
General Fund Employer-Paid PERS Contributions

- General Fund expenditures for employee pension benefits have increased $6.5 million since 2012-13.
- The growth estimates begin from a base amount of actual general fund PERS expenditures of $31.5 million in 2012-13 and, as such, exclude the effect of position growth.
- Growth for 2016-17 are based on CalPERS’ published rates for next fiscal year.
- CalPERS forecasts rates to grow another 0.8% of payroll for miscellaneous plan employees in 2017-18, with 2.3% growth for safety employees.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous Plan</td>
<td>10.9%</td>
<td>11.8%</td>
<td>12.8%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Safety Plan</td>
<td>29.0%</td>
<td>28.1%</td>
<td>30.2%</td>
<td>33.3%</td>
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</table>
Other Cost Drivers

- ERP system charges (both for annual operations and the upgrade) will increase from $4.7 million to $9.9 million next fiscal year, with the increase attributable to the upgrade.

- Workers compensation program charges (all funds) are increasing from $15.8 million in the current year to $18.6 million planned for next fiscal year, for an increase of $2.8 million.

- General liability program charges (all funds) planned for next fiscal year total $9.8 million, up slightly from the current year but significantly higher than the $5.5 million charged to departments in 2012-13.

- Inmate medical charges have increased to $8.0 million, up from $5.7 million several years ago.
### Unfunded Operational and Capital Needs

In addition to baseline cost pressures, there are a number of major unfunded operating and capital needs with costs totaling $29.0 million, including:

- $5.8 million Road Fund operating deficit.
- $1.5 million Parks Resorts operating gap.
- $6.5 million for staffing & infrastructure improvements related to the Jail litigation for safety and violence prevention.
- $4.0 million in possible advances for the Interlake Tunnel project.
- $8.2 million in repairs to County buildings, libraries, & park structures.
- $2.2 million financing gap for Targeted Case Management due to a reduction in revenue.

<table>
<thead>
<tr>
<th>Description</th>
<th>2016-17 Needs</th>
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<tbody>
<tr>
<td>Forecasted Baseline Deficit</td>
<td>$16.0</td>
</tr>
<tr>
<td>Operating Needs (not Included in Forecast):</td>
<td></td>
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<tr>
<td>Parks - Resorts Operating Deficit</td>
<td>$1.5</td>
</tr>
<tr>
<td>Health - Targeted Case Management</td>
<td>$2.2</td>
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<tr>
<td>Road Fund - Operating Deficit</td>
<td>$5.8</td>
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<tr>
<td>Jail Litigation - Staffing</td>
<td>$1.7</td>
</tr>
<tr>
<td>Year 2 of Jail Patrol Car Purchase Program</td>
<td>$1.5</td>
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<tr>
<td>Non-recurring Capital Needs (not included in Forecast):</td>
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<tr>
<td>Jail Litigation - Infrastructure Improvements</td>
<td>$4.8</td>
</tr>
<tr>
<td>Interlake Tunnel</td>
<td>$4.0</td>
</tr>
<tr>
<td>Unfunded Critical Building Projects</td>
<td>$3.7</td>
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<tr>
<td>Parks Deferred Maintenance &amp; Repairs</td>
<td>$3.5</td>
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<tr>
<td>Critical Library Repairs</td>
<td>$1.0</td>
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<tr>
<td>Total Unfunded Needs</td>
<td>$45.7</td>
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<tr>
<td>Future Labor Agreements</td>
<td>TBD</td>
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<tr>
<td>Medical Cannabis Regulatory Oversight</td>
<td>TBD</td>
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</tbody>
</table>
Monterey County Financial Forecast

February 2016

Preliminary FY 2016-17 Needs Assessment

Baseline ($23M)¹

- Employee Health Insurance $9.0m
- East/West Wing Debt Service $1.6m
- ERP $5.2m
- PERS ER Contribs $1.8m
- WC/GL $2.9M
- Sheriff’s Office MY Position Mod $1.7m

Revenue Growth

$17m from 2015-16 Adopted

Other Needs (+$27M+)¹

- Jail Settlement Capital $6.5m
- Road Fund $5.8m
- Lakes Resorts $1.5m
- Targeted Case Mgt $2.2m
- Building, Parks, & Library Repairs $8.2m
- Interlake Tunnel $3.0

Bargaining Agreements ???

Discretionary Uses:
- Fire agencies $2.7
- User agencies $1.5
- Econ Dev Agencies $1.9
- TOT Road Fund $4.5

¹ List of issues is intended to highlight major funding needs and is not intended as an all-inclusive list.
General Fund Revenues

- To help cover some of the County’s cost pressures, general fund revenues are growing an estimated $19.4 million over the amount estimated in the current year adopted budget.

- Of this growth, $11.7 million is discretionary non-program revenue while the remainder is program-specific revenue.
Non-Program Revenue (in Millions)

- Non-program revenues have improved as a result of increasing property tax assessed values, higher TOT collections, and the receipt of property tax increment previously allocated to redevelopment agencies (RDAs) prior to the State dissolution agreement.

- Non-program revenue is expected to grow to $204.5 million next fiscal year, which is $7.4 million more than the current year’s revised estimate and $11.7 million more than what is currently allocated to departments.
Planning for Next Fiscal Year

- Over the last several fiscal years, the Board and its executive leadership have made critical investments in the County’s future financial security and infrastructure.

- However, significant cost pressures are constraining operational flexibility.

- Some cost pressures were planned, while others were not, such as the 21.3% increase in employee health insurance, increased cost for the ERP upgrade, and the jail litigation.

- Because of these cost pressures, the County has reached its financial capacity.

- Staff cannot ask the Board to do more without re-prioritizing or finding additional efficiencies in existing programs.

- With a $16.0 million projected financing gap in baseline services, nearly $29.0 million in other financial needs, and entering negotiations for future bargaining agreements, County staff will be pressed with difficult choices in building a balanced budget in the ensuing months for presentation to the Board at this year’s budget hearings in June.

- Prioritizing needs will be a key topic in the Department Heads budget workshop planned for March 31 and the subsequent budget workshop with the Board of Supervisors on April 12.
Recommended action for today:

- **FY 2016-17 Critical Needs Assignment.** “Reserve” current $5.6 million unassigned fund balance to be used to prioritize 1-time needs in the upcoming budget process.

Recommendations for the upcoming budget workshops:

- **Temporary countywide hiring freeze.** There are currently an estimated 372 vacancies in general fund departments. The County Administrative Office recommends freezing new hires unless there is a critical, urgent need and the hire will not put at risk the existing workforce.

- **Freeze recurring, non-essential expenditures.** Review any discretionary, non-mission critical expenditures and avoid making new obligations or modifying existing commitments in a manner that would add costs next fiscal year.

- **Prioritization Plans.** Develop prioritization plans identifying impacts of hypothetical reductions of up to 20% (in 5% increments) in general fund contributions, relying on the expertise of department heads as to their respective programs and priorities.
Natividad Medical Center (NMC) received designation as Monterey County's Adult Level II Trauma Center effective January 5, 2015, allowing the hospital to provide faster time to care for patients critically in need of physicians and hospital services.

Patient revenues are expected to decrease in 2016-17 due a projected reduction in federal funding as a result of the reduction of the uninsured population as a result of the Affordable Care Act.

NMC forecasts capital expenditures of $21 million annually to upgrade patient care areas, replace clinical equipment, and invest in information technology.

The hospital expects to consume $27.7 million over the forecast period, mostly for capital expenditures.
### Forecast for Other Major Funds – Library

<table>
<thead>
<tr>
<th>Monterey County Free Libraries</th>
<th>Modified Budget 2015-16</th>
<th>Year-End Estimate 2015-16</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2016-17</td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>$1,224,476</td>
<td>$1,224,476</td>
<td>$1,339,030</td>
</tr>
<tr>
<td>Revenue</td>
<td>8,530,424</td>
<td>8,914,566</td>
<td>9,051,852</td>
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<tr>
<td>Cancellation of Assignments</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Total Financing</td>
<td>9,754,900</td>
<td>10,139,042</td>
<td>10,390,882</td>
</tr>
<tr>
<td>Expenditures</td>
<td>8,720,617</td>
<td>8,800,012</td>
<td>8,741,602</td>
</tr>
<tr>
<td>Provisions for Assignments</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Financing Uses</td>
<td>8,720,617</td>
<td>8,800,012</td>
<td>8,741,602</td>
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<tr>
<td>Ending Fund Balance</td>
<td>$1,034,283</td>
<td>$1,339,030</td>
<td>$1,649,280</td>
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</table>

- The Monterey County Free Libraries (MCFL) is a special taxing authority under the County Library Law of 1911, established to provide a network of information centers that serve the diverse communities of Monterey County.
- The MCFL expects to end the current year with a $114,554 improved financial position compared to budget, the result of higher revenues and lower-than-budgeted expenditures.
- The MCFL will continue to maintain the level of fund balance sufficient to offset and stabilize increasing expenditures.
- MCFL's upcoming capital improvement projects for the next three years will include the Big Sur Library renovation and the Greenfield Library repairs.
The Road Fund is a special revenue fund legally restricted for County road and bridge construction and related maintenance projects.

The current year estimate reflects a $3.9 million anticipated erosion of fund balance due to the anticipated decrease in the County’s Highway Users Tax allocation. Over the last three years, the County’s HUTA’s revenue has declined $4.3 million.

The County’s Highway Users Tax Allocation is anticipated to decline in 2016-17 by $0.8 million.

Other impacts to the Road Fund include increased costs associated with PERS, ERP charges, and other service department charges.
Behavioral Health provides mental health and substance abuse services to Monterey County residents. Mental health services include inpatient, social rehabilitation, supportive housing, and outpatient services. Services provided in the Alcohol and Drug Program include residential, transitional housing, perinatal residential, outpatient, prevention, early intervention, narcotic replacement, drinking driver programs, drug court, and drug diversion.

As the Department expands to meet increased demand for services under the Affordable Care Act and to address the needs of unserved/underserved communities, the Department anticipates use of fund balance to meet operational needs and to provide matching funds required to draw down federal funds.
Forecast for Other Major Funds – Parks Lake & Resort Ops

- The parks lake & resort operations enterprise fund began FY 2015-16 with a negative $5.5 million beginning net position and is projected to end the fiscal year with a negative $6.8 million net position, for a net decline of $1.3 million.

- The fund continues to face challenges with declining revenues due to low lake levels and increasing expenditures.

- The forecast years assume the lake levels remain low and revenues increase minimally while expenditures increase, resulting in annual losses in excess of $1.5 million.

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<tbody>
<tr>
<td>A. Beginning Net Position</td>
<td>$5,520,898</td>
<td>$6,795,763</td>
<td>$8,335,220</td>
<td>$(9,923,720)</td>
<td></td>
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<tr>
<td>B. Revenue</td>
<td>3,302,235</td>
<td>3,351,833</td>
<td>3,485,928</td>
<td>3,643,805</td>
<td></td>
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<tr>
<td>C. Cancellation of Assignments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D. Total Financing (A+B+C)</td>
<td>(2,218,663)</td>
<td>(3,443,930)</td>
<td>(4,849,292)</td>
<td>(6,279,915)</td>
<td></td>
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<tr>
<td>E. Expenditures</td>
<td>3,302,235</td>
<td>4,891,290</td>
<td>5,074,428</td>
<td>5,276,257</td>
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<tr>
<td>F. Provisions for Assignments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>G. Total Financing Uses (E+F)</td>
<td>3,302,235</td>
<td>4,891,290</td>
<td>5,074,428</td>
<td>5,276,257</td>
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<tr>
<td>H. Ending Net Position (D-G)</td>
<td>$5,520,898</td>
<td>$(6,795,763)</td>
<td>$(8,335,220)</td>
<td>$(9,923,720)</td>
<td>$(11,556,172)</td>
</tr>
</tbody>
</table>
Re-Cap of Recommendations:

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Recommendations for the upcoming budget workshops:

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Discussion