County of Monterey

Financial Forecast

County Administrative Office
March 12, 2019
Expenditures estimated to end $19.1 million (2.8%) below budget due primarily to vacancies.

- There were 358 vacancies (1 in 10 positions) at the time the forecast was prepared.
- Revenues are projected to be $5.7 million below budget expectations due to reduced reimbursements associated with vacancies.
- Reserves increase an estimated $13.4 million ($3.1 million restricted for health programs).
- Allows for restoration of $10 million to the Strategic Reserve.
Discretionary Revenue Still Increasing

- Up $6.2 million in current year compared to budget.
- Increase of $52.3 million (32%) since the low point of the recession (FY 2010-11).
- Annual increases allocated through budget process to help programs keep up with rising costs.
- Forecasted to grow another $6.3 million next fiscal year.
- Assumes moderating growth in last two years of forecast, but no recession.
Discretionary Revenue Drivers

Property Tax Revenue

- Actual: $143.7, $147.1, $156.0, $164.1, $169.5, $173.6, $177.7
- Forecast: $16.6, $17.9, $19.9, $21.5, $22.8, $21.3, $25.0

Transient Occupancy Tax Revenue

- Actual: $16.6, $17.9, $19.9, $21.5, $22.8, $21.3, $25.0
- Forecast: $23.0, $23.5, $24.0, $24.4
Cannabis Revenue

- Staff collected $14.6 million in cannabis program revenue last fiscal year and estimates collection of $4.3 million in the current year.

- This revenue supports 21 FTEs in nine departments providing program enforcement at an annualized cost of $4.4 million.

- Unused revenue is deposited into the cannabis fund balance “assignment” at year-end and is used for one-time needs as authorized by the Board.

CANNABIS "ASSIGNMENT" BALANCES

<table>
<thead>
<tr>
<th>Year-end 6/30/17</th>
<th>Year-end 6/30/18</th>
<th>Year-end 6/30/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.0</td>
<td>$17.0</td>
<td>$8.8</td>
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Forecasted Funding Gaps
(Based on Current Operations & Policy)

- Funding gaps emerge beginning next fiscal year, growing from $14 million to $36 million by the end of the forecast period.
- Driving the deficits is rising employee pension contributions which add $8.4 million in general fund costs next year, with similar increases in out years.
- Other cost drivers include higher employee health insurance, general liability and workers’ compensation program costs and increasing formula-based subsidies.
Rising Pension Contribution Rates

- Driving pension costs upward across the state is CalPERS’ annual rate increases to ensure assets are on hand to pay benefits in the future.

- The County’s safety pension program is currently 66% funded while the non-safety plan is 77% funded.

- The combined unfunded liability as of PERS’ last actuarial is $627 million, or about the size of the annual general fund budget.
Rising Pension Contribution Costs

- Higher PERS contribution rates push expenditures higher.
- During the recession, employees began contributing more towards their pensions, lowering general fund costs to $31 million in FY 2013-14.
- However, the PERS rate increases will nearly triple costs (to $86 million) by FY 2024-25.
Pensions are the Largest Unfunded Liability

Unfunded Liabilities

Employee Pensions, $627.6

Ret Health - $39.9
Vac Accruals - $29.8
Work Comp - $1.9
Gen Liab - $5.8

1. Represents unfunded liability less amount held in "Compensated Absences" Assignment.
• Forecasted Workers Compensation Program expenditures increase $3.8 million by the end of the forecast period.

• General Liability Insurance Program expenditures increase $2.3 million next year and an additional $4.2 million in the out years.
The County covers annual increases in employee health insurance and these costs are expected to double by the end of the forecast period compared to the recession years.

Underlying this growth was a 16% premium increase in 2013 and a 21% increase in 2016.

The increase for January 2019 was 6.5%, while the forecast assumes a historical average 8% annual growth ($4.7 million) starting next January.
The chart at left shows general fund subsidies to the road fund and to the “development set-aside” agencies (MCCVB, Arts Council, Film Commission, and Business Council).

These formula-based subsidies are tied to County TOT collections.

As TOT revenue has risen significantly, so have contributions to these entities.
Departments with Largest Funding Gaps

• The Sheriff’s Office forecasts a $4.7 million funding gap next year, growing to $14.0 million by FY 2021-22, due to increasing general liability, workers compensation, pension, and health insurance costs.

• Social Services forecasts a $4.8 million funding gap next year due to rising pension, health insurance, general liability, and workers compensation costs and the recent compensation agreement for in-home supportive services (IHSS) workers.

• The Health Department projects a $2.3 million funding gap next year, growing to $5.7 million by FY 2021-22. Much of the gap is caused by loss of revenue from the “AB 85 redirection”. During the June 2018 budget hearings, the Board supported the Department’s three-year plan to draw down health realignment reserves to cover the gap.

• The Resource Management Agency (RMA) projects a $3.7 million funding gap next year primarily associated with loss of revenue. The RMA assumed increases in revenue for construction and zoning permits that has not materialized.
Needs Not Included in Forecast

- The forecast accounts for previously authorized costs of existing staffing & policies.
- Staff is also monitoring potential expenditures subject to future authorization and excluded from the forecast.
- These needs total $4.9 million in the current year and grow to $31.5 million next year, with some needs yet to be quantified.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>FY 2018-19</th>
<th>FY 2019-20</th>
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<tbody>
<tr>
<td>Bargaining Agreements</td>
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<tr>
<td>Jail Expansion Staffing</td>
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<td>Juvenile Hall Project Overrun¹</td>
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<td>Land Use Conservation Projects²</td>
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<td>Strategic Reserve Deficit</td>
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<td>Lake Nacimiento Capital Needs</td>
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<td>Lake San Antonio Capital Needs</td>
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<td>ERP Upgrade Reserve</td>
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<tr>
<td>Storm Damage Repairs³</td>
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<td>Ongoing</td>
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<td>Dams and Spillway Repairs</td>
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<td>WRA Habitat Conservation Plan</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$4,925,274</strong></td>
<td><strong>$31,497,752</strong></td>
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¹ Liability for contractor under review.
² Includes Salinas Valley Groundwater Basin Study, tide gate repairs, Carmel River floodplain restoration, Carmel Lagoon Sandbar management, local coastal program update, and general plan implementation.
³ Utilizing County financing pending State/federal disaster reimbursements.
Other Funds

- Road Fund finances have significantly improved with the passage of SB 1 and Measure X transportation funding measures. Compared to the negative fund balances reported in last year’s forecast, Road Fund staff now estimate positive fund balances of $36.1 million next fiscal year, growing to $49.2 million by FY 2021-22.

- The Library’s finances have also improved from negative projected fund balances in last year’s report to a projected positive year-end fund balance of $837,852.

- Natividad Medical Center expects its fund balances to continue growing to $122.0 million next year to $174.2 million by FY 2021-22 barring major changes to the Affordable Care Act.

- The Lakes Resorts on the other hand continue to depend on general fund subsidies even in years of normal rainfall.
Next Steps

• Departmental forecasts are the starting point for building initial “baseline budgets”.

• Baseline budgets communicate departments’ plans of what they are able to do with next year’s expected resources, taking into consideration inflationary pressures.

• Departments also submit augmentation requests for increased funding to support current operating levels or to enhance programs.

• In the coming weeks, staff analyzes baseline budgets to understand areas of budget flexibility, funding gaps, and potential impacts in order to build a well-informed and responsible recommended spending plan.

• A workshop is held at the end of March with Department Heads to facilitate a shared understanding of countywide finances and programmatic impacts and to gather input on strategies.

• The Board’s annual budget workshop on April 9th provides a “budget preview” where staff receives direction before building the recommended budget to be presented at the budget hearings on June 3rd & 4th.
Discussion