COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 23, 2014

TO: Board of Supervisors

FROM: Birgitta E. Corsello, County Administrator

SUBJECT: FY2014/15 Recommended Budget

The County Administrator's Office recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 23, 2014 and approve an Adopted Budget at the conclusion of the hearings. During the hearings, the Board will be requested to consider increasing and/or funding-additional revenue offset positions, investments in technology and County facilities, contributions to non-county agencies, reserves for unfunded liabilities and the use of one-time funds received in FY2013/14.

Included in the budget message are the following budget-related sections: 1) Budget Overview; 2) Financial Summary; 3) Funded and Unfunded Obligations and Liabilities; 4) Overview of the Federal and State Budgets; 5) FY2014/15 General Fund Recommended Budget; 6) General Fund and Fiscal Projection; 7) Pending Issues and 8) Summary of Recommendations.

BUDGET OVERVIEW

The FY2014/15 Recommended Budget for Governmental Funds is balanced and totals $826,255,908 (*Schedules 1 and 2*). The total budget represents a decrease of $42.9 million or 4.9% when compared to the FY2013/14 Adopted Budget and includes modest increases in revenues, uses fund balances, and draws from committed reserves.

TOTAL FINANCING REQUIREMENTS - ALL GOVERNMENTAL FUNDS

FY2014/15

FUND NAME	FY2013/14 ADOPTED BUDGET	FY2014/15 RECOMMENDED	CHANGE	% CHANGE
GENERAL FUND	$ 227,930,171	$ 212,847,196	$ (15,082,975)	-6.6%
SPECIAL REVENUE FUNDS	571,732,687	585,083,733	13,351,046	2.3%
CAPITAL PROJECT FUNDS	46,610,154	8,063,940	(39,546,214)	-83.1%
DEBT SERVICE FUNDS	21,840,832	20,261,039	(1,579,793)	-7.2%
TOTAL GOVERNMENTAL FUNDS	**$ 869,113,844**	**$ 826,255,908**	**$ (42,857,936)**	**-4.9%**
BUDGETED POSITIONS	**2,733.65**	**2,804.75**	**71.10**	**2.6%**

The most significant change is reflected in the Capital Project Funds due to the majority of construction of the new AB 900-funded Stanton Correctional Facility being completed in FY2013/14. The decrease in the General Fund is primarily due to reduced Fund Balance available anticipated at year-end, offset by higher property tax revenues, increased labor costs and increased General Fund contributions to Public Safety. The increases in the Special Revenues Funds are primarily due to growth in Federal and State mandated programs in the Public Safety and Health & Social Services funds. The increases in these two program funds are attributed to new service level requirements as a result of 2011 Public Safety Realignment (AB 109), including mental health, and the FY2013/14 implementation of the Federal Patient Protection and Affordable Care Act

(ACA). Both of these areas of County government are anticipating the need for increases in staff to provide services to meet the requirements of ongoing mandates.

The FY2014/15 Recommended Budget uses fund balances and draws down $6.1 million from committed fund balances to meet County obligations. Any one-time revenues in excess of what was projected at Third Quarter from FY2013/14 are recommended to be used to help pay for increased unfunded liabilities for employee-related costs, including accrued leave payoff and projected PERS employer rate increases, and contributions toward deferred maintenance for County buildings.

The Recommended Budget provides for a workforce of 2,804.75 FTE positions, excluding extra help positions. This reflects an overall net increase of 71.1 FTE when comparing Adopted Budget FY2013/14 and Recommended Budget FY2014/15. In FY2013/14 51.55 FTE were added to address a variety of program service needs primarily in Public Safety and Health and Social Services. The FY2014/15 Recommended Budget includes requests for a net increase of 19.55 FTE positions. The year-over-year increase in the workforce reflects staffing needs to address new mandates and associated services related to AB 109 Public Safety Realignment, ACA, as well as cost avoidance measures and some changes in operational needs discussed in the departmental budget narratives. However, the budget does not restore or enhance general government or other program areas due to limited growth in discretionary revenues.

This Budget Summary narrative is accompanied by a series of budget tables that are intended to describe the budgeted expenditures and associated revenue used to fund the programs and services outlined in the respective budget units. The individual Department Recommended Budget narratives provide the following information: the purpose; function and responsibilities; significant challenges and accomplishments as identified by the Department Head; workload indicators (where pertinent and relevant); a summary of significant adjustments to the operation or budget; summary of position changes; and identification of pending issues and policy considerations as identified by the Department Head.

The FY2014/15 Recommended Budget addresses known revenue challenges and proposes reductions and adjustments in operating expenditures to address these challenges, while allowing for some continued investments in technology, training, and capital renewal. The Recommended Budget includes funding for technology refresh, training and support for employee development in many areas as well as succession planning, updates to County facilities and information systems to keep pace with changing needs and aging computer systems. The Budget anticipates continued collaboration with outside agencies and small investments with our community partners to leverage available Federal and State funds. The Budget includes some one-time funding of $5.0 million for projected PERS employer rate increases, $2.4 million for Deferred Maintenance, and $1.6 million for the Mental Health Services Act (See Schedule 4).

Local impacts of several statewide issues are not yet known and will be addressed as the year progresses, including the next stages of implementing the Affordable Care Act and the expanded services under Medi-Cal. Another unknown is the State's proposal for accelerated sentencing credits to address prison overcrowding and the ripple effect on the realigned local public safety responsibilities. Also unclear is the Governor's Budget Plan that addresses some of the unfunded mandates and other overdue payments due to the counties in conjunction with the State's efforts to reduce its "Wall of Debt." While there is some uncertainty in current funding streams and potential new costs, what is clear is that County Department Heads and the Board can anticipate the need for continued discussions and the ongoing reviews of county programs and services in FY2014/15.

The following pages include a financial overview of the FY2014/15 Recommended Budget.

FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $826.3 million. The graph indicates the percent of the total for each of the functional areas required within the Governmental Funds part of the County Budget.

Public Protection represents the single largest category of County expenditures at 24.2% in the FY2014/15 Recommended Budget, which is an increase from the 22.3% share of the FY2013/14 Adopted Budget. Public Protection spending is projected to increase $5.7 million in FY2014/15 with the largest contribution to this increase being AB109 2011 Public Safety Realignment duties.

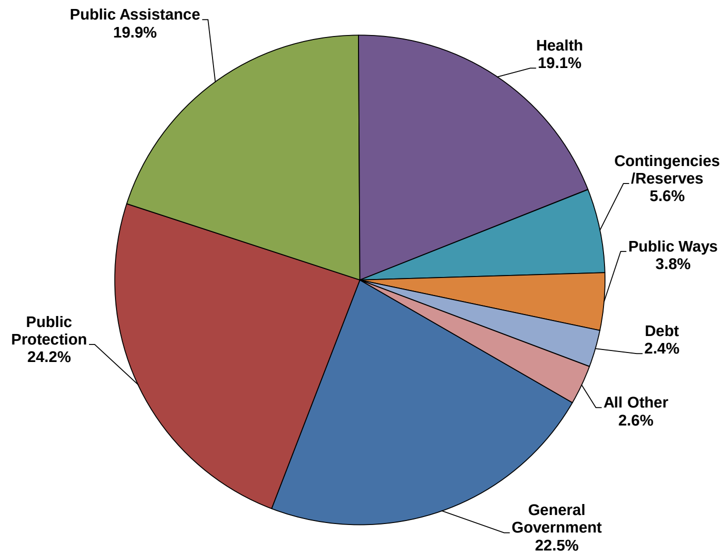
Public Assistance at 19.9% and Health at 19.1% represent the social safety net function of County government, which represents a collective increase from the 18.6% and 17.8%, respectively, in the share of projected County expenditures for FY2014/15. Public Assistance spending is projected to increase $2.9 million and Health spending is projected to increase $2.6 million in FY2014/15, primarily due to the continued implementation of the Affordable Care Act and other shifts in services as the State realigns its delivery of health and social services.

Contingencies & Reserves declined from a 7.9% share of the FY2013/14 Adopted Budget to a 5.6% share of the FY2014/15 Recommended Budget.

The Revenues by Source graph illustrates the different sources of funding to finance the Governmental Funds Budget. The largest revenue sources are Intergovernmental Revenue from Federal and State agencies, which collectively account for 41.7% of the FY2014/15 Recommended Budget, and generally have specific requirements on how they can be used. Intergovernmental Revenue-Federal decreased by $9.8 million primarily due to a reduction in reimbursement for services. Intergovernmental Revenue-State decreased a net $16.7 million due to AB 900 grant funding for the jail expansion. Taxes represent 17.4% of the FY2014/15 revenue projections, which is up from the 15.4% share in FY2013/14.

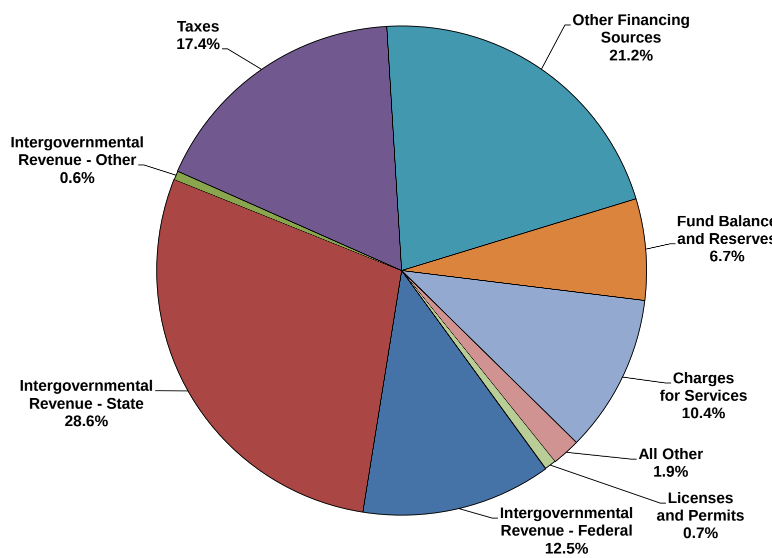
Other Financing Sources represent 21.3% share of the FY2014/15 revenues, which is an increase from 20.3% share in FY2013/14. Fund Balance and Reserves represent a 6.7% share of the FY2014/15 revenues, which is a decline from the 9.2% share in FY2013/14.

Spending Plan by Function for FY2014/15



GOVERNMENTAL FUNDS
Total: $826,255,908

Revenues by Source for FY2014/15

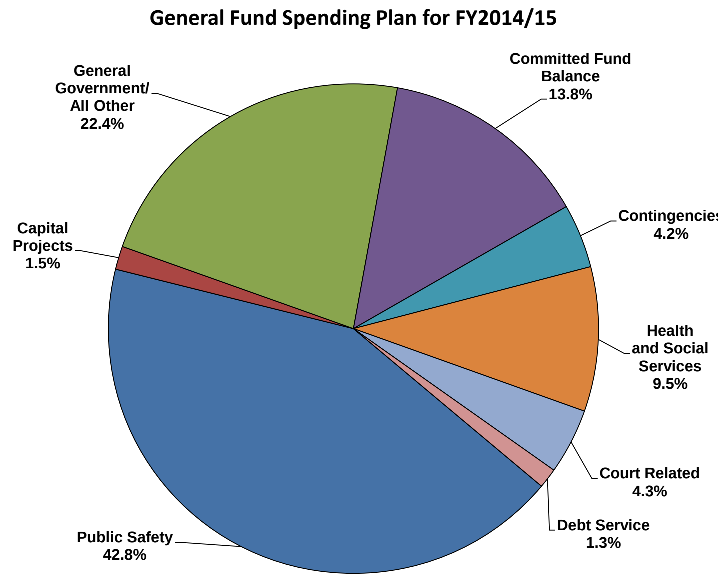


The General Fund Spending Plan (*Fund 001*) graph portrays a total of $212.8 million. The Public Safety category represents the single largest category of expenditures at 42.8% in FY2014/15, which is an increase from the 39.2% share in FY2013/14. This category includes the Sheriff, District Attorney, Public Defender, Alternate Public Defender, Other Public Defense and Probation.

The General Government/All Other category represents 22.4% share in FY2014/15, a decline from 28.2% share in FY2013/14. Functions listed under this category include Agricultural Commissioner, Resource Management, Legislative, Administrative and Financing.

Health & Social Services is the third largest category of General Fund use at 9.5% of the total, which is slightly more than the 9.2% share in FY2013/14. The County's Maintenance of Effort (MOE) for the Courts is 4.3% of the total.

The Recommended Budget includes $7.7 million in one-time funds that is being allocated to committed fund balances to help stabilize the impact of known future obligations on the budget.



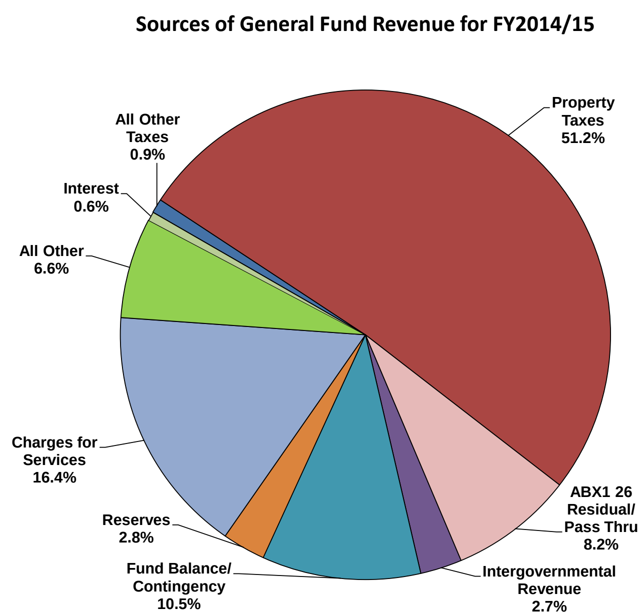
GENERAL FUND
Total: $212,847,196

The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations.

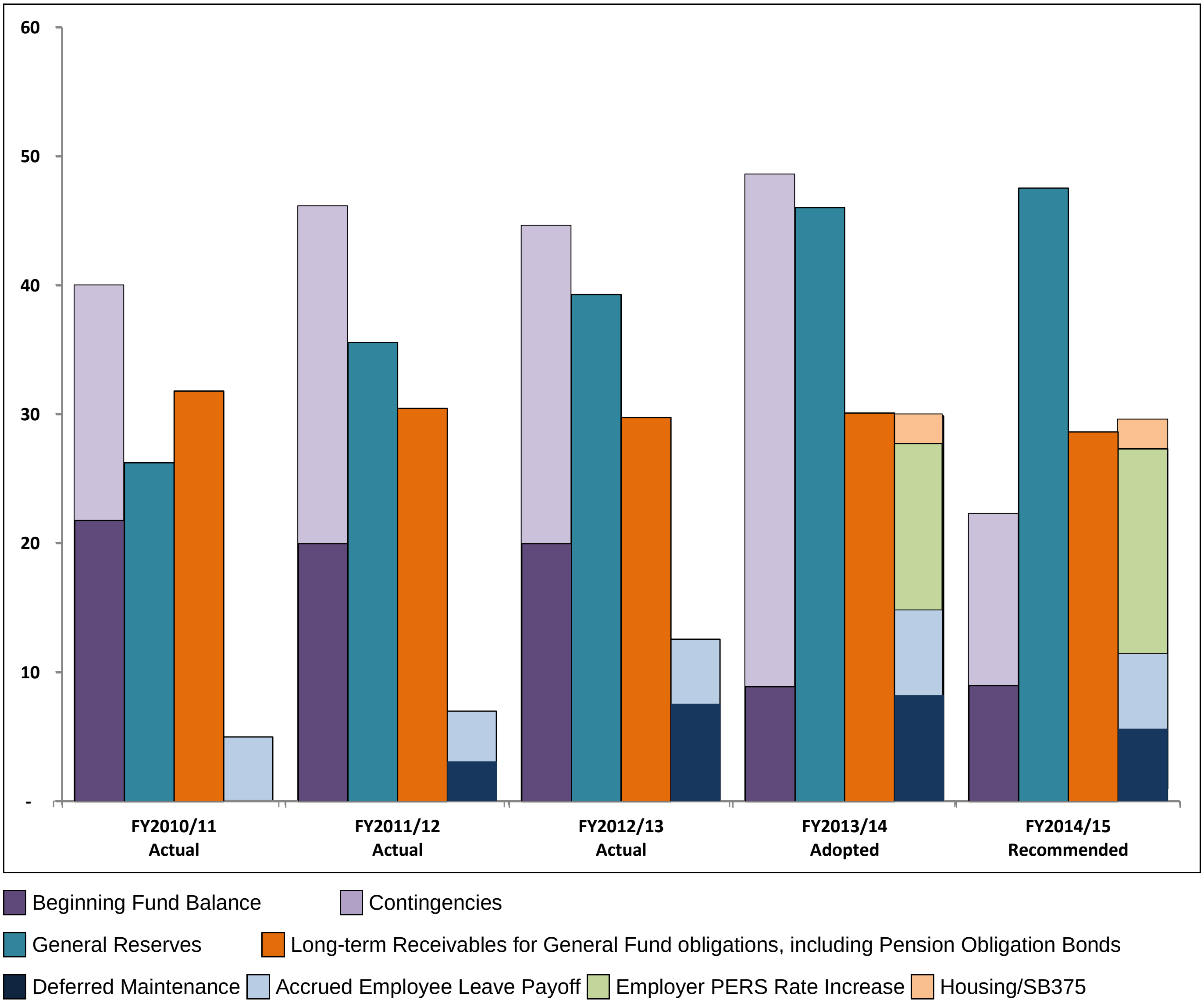
Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 51.2% and ABX1 26 Residual and Pass-Through at 8.2%. Property taxes include secured, unsecured, supplemental, unitary, property tax in lieu of Vehicle License Fee (VLF) and property transfer tax. The FY2014/15 Recommended Budget projects a net increase of $8.7 million in these property-related revenues when compared to the FY2013/14 Adopted Budget.

The next largest category is Charges for Services at 16.4%, which includes, for example, fees, permits, licenses, property tax administration fees and reimbursements for County costs of service.

As shown, the third largest category is Fund Balance/Contingency at 10.5%. The General Fund projected Fund Balance at the end of FY2013/14 becomes a means of financing for the FY2014/15 Recommended Budget.



History of General Fund Reserves, Designations and Fund Balance



The History of General Fund Reserves, Designations and Fund Balance graph depicts the fluctuations in the availability of key reserves and the Fund Balance as the County managed its way through the ramifications of the Great Recession and the local housing market collapse. During the hot housing market, the County grew its programs modestly and set aside excess revenues in Reserves in anticipation of an inevitable correction in the market. In establishing these Reserves, the County's intent was to draw from these resources and strategically step-down programs to align ongoing expenditures with ongoing revenues. However, the rate of decline in County revenues outpaced projections. During this period, the State implemented changes to criminal justice, health care and social services programs, as well as dissolved redevelopment agencies. These changes provided one-time revenues that augmented cost containment efforts, which allowed the County to direct resources back to these funds to ensure a sustainable source of funds to help manage future known and unknown fiscal exposures.

The FY2014/15 Recommended Budget reflects the total funding of the following committed fund balances: Deferred Maintenance at $5.7 million, Accrued Employee Leave Payoff at $5.8 million, Employer PERS Rate Increase at $16 million, and Housing/SB375 implementation at $2 million. Long-term Receivables at $28.7 million reflects $1.5 million in repayments in

FY2013/14, which increases General Fund Reserves to $47.6 million. Fund Balance is projected at $22.3 million, which includes $9 million for Contingencies.

FUNDED AND UNFUNDED OBLIGATIONS AND LIABILITIES - General Fund & Other Funds

The Board adopted financial policies and over-arching principles intended to position the County in addressing the range of investments necessary for the County to sustain and provide services. In better economic times the Board consciously set monies aside to fund and finance some of these obligations, liabilities, and responsibilities. The County has weathered the past few years due to the strong fiscal policies established by the Board and the execution of those policies by the County departments. The establishment of the various General Fund Reserves and the funding of the General Reserve has allowed the County to endure the past few years. Some stabilization in the economy is anticipated for FY2014/15; however, there looms some significant unknowns that will have a financial impact on the County and further cost containment efforts may be necessary. In the following paragraphs, the unfunded obligations and potential liabilities that lie ahead are discussed.

Accrued Leave

In accordance with the Board's Fund Balance Policy, the Board established and maintains a General Fund Committed Fund Balance for Accrued Employee Leave Payoff. Each year the County continues to access these funds to pay for any unanticipated leave payoff that department's cannot absorb with existing appropriations. This trend is expected to continue. In fact, based on the composition of the County's aging workforce, a higher utilization of the Accrued Employee Leave Payoff funds is anticipated in FY2014/15.

CalPERS Retirement Rates

Actuarial changes will be implemented by CalPERS beginning in FY2015/16 through FY2019/20 (over a 5-year period) and will increase the employer rates by as much as 50%. The Board has already approved an Employer PERS Rate Increase Committed Fund Balance to help mitigate the significant future cost to the County. One-time unexpected General Fund savings at year end should be considered to increase this existing Reserve. In June, the Board will receive a report from Bartel & Associates that will give the Board updated information on the anticipated CalPERS pension costs starting in FY2015/16. As of June 30, 2012, the County's Net Pension Unfunded Actuarial Liability is estimated at $417 million ($323 million for Miscellaneous Employees and $94 million for Safety Employees).

Health Care Costs

The County pays majority of its employees 75% of the Kaiser Permanente Family Rate ($1,303.83 monthly) toward health insurance and a cafeteria plan. The Kaiser Family Rate has grown significantly from $525.75 per month in 2011 to $1,931.07 in 2014, representing a 423% increase. The FY2014/15 Budget estimates a 10% increase in the Kaiser Family Rate. Managing future cost increases for health care is extremely important; however, any changes to the amounts that the County pays employees for these costs is subject to a meet and confer process. As of June 30, 2013, the County's unfunded liability for retiree healthcare costs is $4,035,859. The County only pays the minimum employer amount to CalPERS health plans for retired employees.

Capital Renewal & County Facilities (Deferred Capital/Maintenance Projects)

The protracted effects of the 2008 recession have required the Board to make strategic decisions regarding the use of available financial resources. While the first priority has been to address the delivery of current services, the Board has been making concerted efforts to reduce the operational funding deficit (gap) between ongoing revenues and ongoing expenditures. This has resulted in a focus shift on how some programs are managed and at what levels services are delivered. As part of that process, the Board has had to prioritize and balance how it can direct its limited resources toward investments that result in long-term cost reductions or cost avoidance, and still address other financial obligations related to County operations and countywide priorities.

In the area of County buildings, building systems and related infrastructure, in 2007 the Board established a committed fund balance for deferred capital/maintenance projects to fund deferred maintenance of County facilities. The Board's adopted policies and strategies to address unfunded liabilities center on the need to:

- replace infrastructure and building systems in aging County facilities where County public services are provided;

- achieve code compliance in relation to current regulations; and
- effectively manage/reduce the County's risks associated with the programs dispensed from County-occupied buildings.

Since 1992, the Board has established and collected fees on residential and commercial construction within the county to aid the construction of new County facilities to handle the corresponding growth in demand for County services. (Refer to the Public Facilities Fee budget.) Annually, through the review and approval of the 5-Year Capital Facilities Improvement Plan (CIP), the Board reviews the status of County building infrastructure and maintenance needs. The Board weighs these exposures against available resources to determine how to budget for these facility demands. The CIP approved by the Board on April 18, 2014 reflects unfunded deferred maintenance and infrastructure projects for the coming five years and estimates this to be approximately $177 million. (Refer to the Capital Projects section for CIP projects.)

The Board established a committed fund balance in the General Fund for Deferred Maintenance to set aside funds for unexpected maintenance and/or future maintenance projects in order to address the needs identified in the CIP. The Reserve has a current balance of $3 million. It is recommended that the Board increase the reserve by $2.7 million using the one-time revenues anticipated at the end of FY2013/14.

OVERVIEW OF THE FEDERAL AND STATE BUDGETS

Federal Budget

Earlier this year, Congress approved a long-awaited Fiscal Year 2014 omnibus appropriations package. The law provides funding for all programs, projects, and activities under the purview of federal departments and agencies – including State and local grant programs – through September 30, 2014. The law boosts federal spending by $26 billion compared to federal Fiscal Year 2013, or $45 billion more than required by the Budget Control Act.

The omnibus budget law is a mix of winners and potential losers in Federal funding for local grant programs. While certain programs – such as various housing, water resources, and justice initiatives – are receiving modest increases, a number of other programs are receiving moderate reductions in the current year.

It should be noted that despite the omnibus budget approval, most federal agencies are still undertaking the process of administering Fiscal Year 2014 spending programs; accordingly, mandatory and discretionary funding allocations are being made available to states and localities in the weeks and months ahead.

With regard to next Fiscal Year 2015, lawmakers in both the House and Senate recently began the process of advancing their Fiscal Year 2015 spending legislation. Because the 2014 session is truncated due to this fall's elections, appropriators intend to move the 12 individual spending bills in a timely fashion.

Additionally, House appropriators have made progress on two other Fiscal Year 2015 spending bills – the Commerce-Justice Science (CJS) measure and the Transportation-Housing and Urban Development (T-HUD) package. The full Appropriations Committee recently approved the CJS bill, which, among other things, provides funding for State and Local Law Enforcement and Criminal Justice programs. The T-HUD Appropriations Subcommittee cleared its measure, which, in addition to funding highway and transit programs, would provide $3 billion for the Community Development Block Grant (CDBG) – a slight reduction from current spending levels.

To date, lawmakers in the House have approved two of the traditionally least controversial spending measures from 2015 – the Military Construction-Veterans Affairs (MilCon) and the Legislative Branch Appropriations bills. The measures were cleared by overwhelming bipartisan margins.

On the Senate side, appropriators are just now beginning preparations to move their Fiscal Year 2015 spending bills. Looking ahead, the Appropriations Committee intends to approve its subcommittee spending levels for Fiscal Year 2015, known as 302(b) allocations, which set the maximum desired funding for each spending package.

On March 4th, the President submitted his FY 2015 budget request to Congress. The budget request complies with the $496 billion cap on topline Department of Defense spending agreed to in the Bipartisan Budget Act, which passed in December 2013.

Despite Air Force signals last year that they would need to eliminate the entire KC-10 fleet to achieve cost savings, the Bipartisan Budget Act provided sufficient sequester relief such that the KC-10 divesture was not included in the FY 2015 Pentagon budget request. Secretary of Defense Chuck Hagel has said, however, if sequester level cuts were to return in FY

2016, the Air Force would need to retire the KC-10. While the KC-46, the Air Force's new tanker was intended to replace the aging KC-135, Congressmen Garamendi and Thompson are working to ensure that if KC-10 fleet is eliminated that a replacement set of aircraft (KC-46) will backfill so that Travis AFB has not only mobility aircraft (C-5M, C-17) but tankers as well. The Governor's Office as well as the Travis Community Consortium are involved in this effort as well.

The C-5 Modernization program remains well supported and Travis AFB received its first C-5M delivery this month. Travis will receive a total of C-5M aircraft. As part of the defense budget, the Air Force announced cost saving force structure changes to its aircraft fleets. Among the changes was the designation of 4 Travis C-5M aircraft to Backup Aircraft Inventory (BAI). The BAI aircraft will be maintained and operational, but only 14 of the total 18 C-5Ms will be active at any given time due to budget constraints.

The Defense budget included a request for authorization of a Base Realignment and Closure (BRAC) round in 2017; this is the third year in a row the Pentagon has sought BRAC authority. As in the previous years, the House and Senate Armed Services Committees have rejected the Pentagon's request for BRAC. Without a BRAC there is speculation that the Services will look for other ways to reduce costs and overhead. The Secretaries have the authority to reduce personnel and missions as long as BRAC thresholds, which exist in current law, are not crossed.

While Travis AFB has several pressing military construction (MilCon) needs, there are no military construction projects in the FY 2015 Budget Request. The projects at Travis are current mission MilCon and there are very limited resources for current mission projects. Milcon funds are going to support Unified Combatant Commanders (e.g. Special Operations Command or Central Command) and new mission MilCon that support bed-downs of new aircraft (F-35, KC-46).

In late May, the House will debate and pass the FY 2015 National Defense Authorization Act (NDAA), while the Senate Armed Services Committee is marking up its NDAA. Neither the House nor Senate has scheduled markups for the FY 2015 Defense Appropriations bills at this time.

State Budget

In January 2014 Governor Jerry Brown released his proposed FY2014/15 budget, reflecting a total of $6.3 billion in unanticipated revenues from FY2012/13 to FY2014/15, driven primarily by growth in personal income tax revenues. While the Governor's proposed budget calls for some significant improvements in a number of areas, it represents only a modest step toward reinvestment in public services that are critical to individuals, families, and communities. The Administration's proposal does not include any major restorations in funding for a variety of areas that were subject to deep cuts in recent years, including child care and preschool programs – which lost more than 100,000 slots in prior years – the CalWORKs welfare-to-work program, and higher education, among others.

The Governor's January Proposed Budget proposes to reduce budgetary debt to $13.1 billion in FY2014/15 – down from $24.9 billion in FY2013/14 and eliminates budgetary debt altogether by FY2017/18. His proposal also includes $815 million in one-time funds for deferred maintenance of the state's existing infrastructure. In addition, the January proposal includes $231.6 million in General Fund spending to pay interest on federal loans that cover the Unemployment Insurance Fund imbalance. The administration also proposes a constitutional amendment for the November 2014 ballot to create a "Rainy Day" fund.

On May 13, 2014, the Governor released the May Revision to his January FY2014/15 budget proposal. General Fund revenue projections remain strong. General Fund revenues at the May Revision are projected to be a net $2.3 billion higher than what was projected in January. This increase is comprised of $2.0 billion more in FY2013/14 and $856 million more in FY2014/15, offset by a downward adjustment of $513 million to FY2012/13 revenues. The State's improving revenue outlook is partly a reflection of a slow recovering economy.

The $2.3 billion in additional revenues will not be available for new programs, instead it is proposed to be spent primarily on Medi-Cal due to caseload and other budget adjustments related to the implementation of the Affordable Care Act (about $1.4 billion, which is discussed more below), K-12 Education as a result of the Proposition 98 funding guarantee (about $659 million), drought-related expenditures ($121 million), repayment to local governments a portion of existing owed mandate reimbursement claims ($100 million), additional funding to trial court operations ($60 million), and the rest largely on various adjustments for caseload- and enrollment-driven cost increases. Of this net $2.3 million increase, $1.4 billion is one-time and $856 is projected to be ongoing.

The Governor's proposal reduces budgetary debt (the so-called "Wall of Debt") by more than $11 billion in FY2014/15 and includes a new plan to begin paying down unfunded liabilities in the California State Teachers' Retirement System (CalSTRS). CalSTRS is the state's second-largest pension system, serving more than 860,000 current, former, and retired public school teachers, community college instructors, and school administrators. Although legislation signed into law in 2012 will help reduce CalSTRS' long-term costs, recent estimates indicate that CalSTRS maintains an unfunded liability of more than $70 billion.

The May Revision continues to include from the January budget a $1.6 billion supplemental payment to pay off the Economic Recovery Bonds and $1.6 million for the Budget Stabilization Account (the existing Rainy Day Fund established by Proposition 58 in 2004), as well as $967 million proposed for the regular reserve. On May 15, 2014, just two days after the release of the Governor's May Revision, the State Legislature passed, with a required two-thirds vote, a new Constitutional Amendment (ACAX2 – Perez) rainy-day fund measure for the November ballot. The new measure is a bipartisan plan negotiated by the Governor for paying down California's massive debts and unfunded liabilities over the next 30 years.

In the early 2000s, the State deferred mandate reimbursements to cities, counties, and special districts due to budget problems and, by 2004, owed these local governments $900 million. Proposition 1A (2004) requires the State to either (1) pay these local governments the costs of all outstanding claims for a mandate in the annual State budget or (2) suspend or repeal the mandate. The May Revision includes $100 million to local governments for the pre-2004 mandate debt and notes that about 73 percent will go to counties. This amount comes earlier than expected; however, it is only a small portion of the $900 million owed to counties, cities, and special districts. Funds will be allocated proportionally based on the total pre-2004 mandate debt owed. The May Revision includes payments of the remaining pre-2004 mandate debt in the following two fiscal years by paying the bulk of $748 million in FY2015/16 and $52 million in the following fiscal year.

<u>Medi-Cal</u>

The May Revision includes an additional $1.4 billion in Medi-Cal funding to account for about 800,000 new beneficiaries who qualified for the program before the expansion under the Affordable Care Act. An increase in spending for the Medi-Cal program of $919 million ($417 million in FY2013/14 and $502 million in FY2014/15) accounts for the bulk of growth in health spending, with the remainder spread across other health programs. Other expenditures related to the Medi-Cal program include $191.2 million in funding to expand Medi-Cal mental health and substance misuse programs, $187.2 million in funding for managed care rate increases, and $94.4 million to enhance the technology program used to determine Medi-Cal eligibility and process Covered California applications.

Most of the growth in human services spending is concentrated in two programs – the California Work Opportunity and Responsibility to Kids (CalWORKs) and the In-Home Supportive Services (IHSS) programs. The increase for CalWORKs for FY2013/14 and FY2014/15 combined will be $130 million above the Governor's January budget and IHSS for FY2013/14 and FY2014/15 combined will be $240 million above the Governor's January total.

FY2014/15 GENERAL FUND RECOMMENDED BUDGET

The County's FY2014/15 Recommended Budget for the General Fund of $212.8 million is balanced with revenues of $184.5 million, drawdowns from committed fund balances of $800,000 for Accrued Employee Leave Payoff, $3.3 million for Deferred Maintenance, $2 million for Employer PERS Rate Increase and the remainder being funded by Fund Balance.

The Recommended Budget for General Fund reflects an increase in revenues of $8.4 million when compared to the FY2013/14 Adopted Budget of $176.1 million. The increase in revenues is primarily attributed to an anticipated increase in Tax Revenues of $8.8 million due to increased property values, offset by reductions in fines and fee revenues.

The Recommended Budget reflects reduced General Fund appropriations of $212.8 million when compared to FY2013/14 Adopted Budget of $227.9 million. The net decrease of $15.1 million is primarily due a reduction of nearly $20 million in one-time transfers to committed fund balances, offset by increasing costs associated with the implementation of AB 109 public safety activities.

GENERAL FUND FISCAL PROJECTIONS

Solano County uses Fiscal Projections to provide insight into future trends for General Fund Revenues and Expenditures. Doing so allows the County to work proactively with departments to address potential program impacts in future years.

The fiscal projections shown below include the FY2013/14 Third Quarter projections for comparison only. Using the FY2014/15 Recommended Budget as the starting point, revenues and expenditures are forecast through FY2016/17. While projections beyond 2017 are possible, it is more difficult to provide a meaningful longer forecast in light of the constantly changing dynamics of current conditions – the current local economy and existing deficits in the Federal and State budgets, and the still-to-be-taken actions by the Legislature and Congress and other agencies.

Solano County

General Fund - Fiscal Projection

FY2014/15 Recommended Budget

(in millions of dollars)

		Third Quarter Projection For 6/30/14	Recommended Budget FY2014/15	Projected Budget FY2015/16	Projected Budget FY2016/17
a	**General Fund, Beginning Balance**	$ 48.585	$ 22.265	$ 20.000	$ 20.000
	TO Reserves:				
	General Reserves	(6.591)			
	Accrued Leave Payoff	(2.435)			
	Deferred Maintenance	(3.102)	(2.673)		
	Housing/SB375	(2.000)			
	Employer CalPERS Rate Increases	(13.000)	(5.000)		
	Long-Term Receivable (Solano360 project)	(0.500)			
	ASSIGNED FB: Non-County Agencies				
b	Subtotal - TO Reserves	(27.628)	(7.673)	0.000	0.000
	FROM Reserves:				
	General Reserves			6.000	6.000
	Employer CalPERS Rate Increases		2.000	4.000	5.000
	Accrued Leave Payoff	0.800	0.800	0.800	0.800
	Deferred Maintenance	2.428	3.265	3.000	
	Encumbrances	.978			
c	Subtotal - FROM Reserves	4.206	6.065	13.800	11.800
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(23.422)	(1.608)	13.800	11.800
e	**TOTAL AVAILABLE FINANCING (a+d)**	25.163	20.657	38.800	36.8000
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	185.489	196.174	196.849	197.273
g	Contingencies	0.000	9.000	9.000	9.000
h	**Total Operating Expenditures**	185.489	205.174	205.849	206.273
i	Operating Revenues (excluding transfers from Reserves)	182.592	184.517	186.297	189.965
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	185.489	196.174	196.849	197.273
k	**Net Operating Revenues over (under) Expenditures [known as the Operational Deficit] (i-j)**	$ (2.897)	$ (11.657)	$ (10.552)	$ (7.308)

Revenue Assumptions - From General Revenue Projections:

The County's General Fund Budget is financed with General Revenues (refer to Budget Unit 1101), the use of certain one-time revenues, Fund Balance, and General Reserves, if necessary. The FY2014/15 Recommended Budget includes the use of General Fund – Committed Fund Balances: $800,000 from Accrued Employee Leave Payoff, $3.3 million from Deferred Maintenance, $2 million from Employer PERS Rate Increase.

The significant Revenue Assumptions from the General Revenues budget include:

- Due to an estimated 2% increase in assessed values from the FY2013/14 corrected assessment roll, the following increases are projected: $4.1 million in Current Secured Property Taxes, $3.1 million Taxes in Lieu revenues and $705,000 in ABX1 26 Residual Taxes. This is offset by a reduction of $608,000 in ABX1 26 Pass Through Revenue due to an overestimate in FY2013/14 Adopted Budget. It is anticipated assessed values will increase 2% in FY2015/16 and FY2016/17 as Solano County continues its emergence from the Great Recession and subsequent local housing market collapse.
- Supplemental Taxes are projected to increase $750,000 due to an increase in supplemental billings as the current real estate market recovers from the economic downturn over the past several years.
- Current Unsecured Property Taxes are expected to increase $270,000 due to increase in business property values from the wind farms. It is projected to remain flat in FY2015/16 and FY2016/17 as there are a number of appeals from large businesses that may impact these projected revenues.
- Disposal fees are projected to increase by $1.2 million due to an expected increase in the rate and tonnages at both landfills as the economy improves.

In addition to General Revenues, the County budget is financed by Proposition 172 revenues for Public Safety and 1991/2011 realignment funds (State Sales Tax and VLF) for Health & Social Services (H&SS). While these revenues do not go directly into the General Fund, they indirectly impact the General Fund. The Recommended Budget reflects $32 million in Prop.172 funding, an increase of $1.2 million; $36.1 million in 1991 State – Local Realignment revenues, an increase of $2.4 million; and $36.1 million in 2011 Public Safety Realignment funds, an increase of $1.2 million. As Prop. 172 funds increase for the County, then the General Fund contribution to the Public Safety Fund Departments may be reduced correspondingly. If Federal and State revenues come in higher than anticipated, then General Fund Contribution may be reduced as long as the County's Maintenance of Effort is met.

As of this writing, the County Administrator's Office is working with a consultant to provide update property tax projections that will be used to refine any revenue projections during the budget hearings.

Expenditure Assumptions:

- As discussed above, retirement costs are projected to continue to increase through FY2015/16; based on previously proposed rates from CalPERS, we have included a 7% increase in FY2014/15 and a 12.9% increase in FY2015/16.
- Health insurance costs are projected to increase 10% per year based on past rate history, but do not reflect potential impacts from ACA.
- The General Fund Contribution through FY2014/15:
  - General Fund support for Public Safety is projected to increase from $89.8 million to $91.5 million; a $1.7 million increase. This increase takes into consideration salary and benefit increases, additional jail support costs associated with the 362-bed new Stanton Correctional Facility, offset by increased Prop. 172 revenues.
  - The projections for H&SS include a minimal decrease of 2% for Social Services.
- The FY2014/15 Recommended Budget includes a Contingency appropriation of $9,000,000.

Continuance of General Fund Deficit Reduction Strategies for FY2014/15:

The Department Heads and the CAO will continue to utilize the Board adopted Budget Strategies to guide the departments in their continuing efforts to contain costs and where possible, reduce further.

> ***Strategy 1:*** *Elimination or freezing of all vacant positions and only fill positions that are "Mission Critical" to the organization*
>
> ***Strategy 2:*** *Continue to review all discretionary and mandatory programs*
>
> ***Strategy 3:*** *Continue to seek additional employee concessions, in addition to the current MOUs and agreements in place or in progress*
>
> ***Strategy 4:*** *Continue to reduce General Fund Contribution to Health & Social Services and Public Safety departments, reducing the level of service to the community*
>
> ***Strategy 5:*** *Continue reducing the County's footprint in buildings in Fairfield, Vallejo and Vacaville, and move employees out of leased space in County-owned space; consider selling older/outdated County buildings to reduce operational expenses*
>
> ***Strategy 6:*** *Continue automating the delivery of services so reorganization/downsizing opportunities can continue*

PENDING ISSUES:

Supplemental Budget: The Recommended Budget document was prepared early in the month of May to facilitate a May release and longer review period prior to Budget Hearings in June. To accommodate the earlier release, the departmental budgets reflect only the known and approved Federal and State programs changes as of May 19, which will take effect July 1, 2014.

Historically, the County Administrator's Office prepares a Supplemental Budget document following the completion and distribution of the Recommended Budget, as more of an administrative function, primarily to address accounting notations. To the degree possible, the Supplemental Budget may reflect additional program and service changes including possible reductions that can be expected based on the Governor's May Revision. Unfortunately, the speed in which the California State Legislature will act on the Governor's proposals in the May Budget Revision is unknown. With the passage of Proposition 30 – the temporary sales tax measure- the State has received some financial relief. However, as the implementation of the Affordable Care Act continues, there remains a lot of uncertainty and unknowns at the State level that could significantly distress the County's FY2014/15 Budget (e.g. 1991 Realignment and AB 109 formula) and several other operational budgets. If this materializes in the coming weeks, the CAO and County Departments will return to the Board with additional budget recommendations.

Affordable Care Act: After the first wave of enrollments in the various insurance options under the Affordable Care Act, the number of individuals relying on Medi-Cal in Solano County increased from around 72,000 residents to more than 89,000 due in large part to expanded eligibility criteria. Operationally, there are also expansions of mental health and substance use disorder services to individuals formerly ineligible for MediCal, such as single childless adults. While Federal and State funding programs appear to address short-term funding needs of these programs, there are potential long-term funding demands that may put the County's General Fund at risk to address future funding gaps.

AB109 Growth Factor: The budget recommended by the Solano Community Corrections Partnership (CCP) included no increase in the appropriation of AB 109 growth funds based on a yet-to-be released allocation from the Realignment Allocation Committee (RAC). The proposed allocation is still under evaluation by the RAC and is yet to be finalized. While the Recommend Budget projects no change in the AB109 growth allocation over FY2013/14, the potential exists that the final allocation will decrease. The costs associated with implementing AB 109-related programs have increased, and in the County is relying on one-time carry forward funding from prior years' unspent allocations to fund these programs previously approved by the Board under the 2011 Solano Public Safety Realignment Act Implementation Plan. County staff is continuing to monitor the State allocation of AB 109 funds as Departments address the mandated changes resulting from the implementation of 2011 Public Safety Realignment.

Property Tax Appeals: Currently there are 771 active property tax appeals on file with the County Clerk representing $10.59 billion (cumulative over 11 years) in assessed value. This is a significant amount given that the total annual valuation of Solano

County is only $41 billion. The final resolution of these appeals can have a significant impact on the County's property tax revenues in the future.

Capital Renewal and Major Maintenance – County Roads and Bridges

As required by law, the Board adopted a 5-Year Capital Investment Plan for Roads and Bridges on January 14, 2014 which shows an estimated $8 million in unfunded road maintenance and bridge replacement projects. The Board's existing policy has been for the County to secure Federal and State funds for large projects, such as bridge replacements and major road reconstruction, and to use the local Road Fund to provide for all other required maintenance. As Federal and State funding for this area of responsibility continue to diminish, other options and further consideration regarding this area of liability and responsibility will be necessary. (Refer to Public Ways budget.)

SUMMARY OF RECOMMENDATIONS:

For Board consideration is recommended increases to committed fund balances as depicted in Schedule 4. In addition to these recommendations of $2.6 million to Deferred Maintenance and $5.0 million to the Employer PERS Rate Increase, if the amount of the General Fund's Year-end Fund Balance at June 30, 2014 exceeds the Third Quarter projections for FY2013/14, then the County Administrator is authorized to direct the Auditor-Controller to increase unrestricted fund balance to finance the gap between revenues and expenditures for FY2014/15 of any amount and to transfer year end General Fund balances to all or some of the following committed fund balances and reserves in the following manner:

1. Any amount up to $5 million to the Employer PERS Rate Increase
2. Any amount up to $5 million to Deferred Maintenance
3. Any amount up to $5 million to General Fund Reserves
4. Partially or wholly payoff the outstanding principal balance of the General Fund loan for Pension Obligation Bonds

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