COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 22, 2015

TO: Board of Supervisors

FROM: Birgitta E. Corsello, County Administrator

SUBJECT: FY2015/16 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 22, 2015 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, reserve levels for unfunded liabilities and the use of one-time funds received in FY2014/15.

Today, Solano County is better positioned having begun to slowly emerge from the local housing market collapse and the effects of the Great Recession. Our population growth rate remains modest at 1 percent over 2014 with all signs pointing to an economy that continues to improve slowly, including employment, housing and personal income statistics. According to the California Employment Development Department, overall employment in California is better today than it was a year ago. The unemployment rate in Solano County as of March 2015 stands at 6.3 percent, down from 8.4 percent in 2014 and just slightly below state average of 6.5 percent. Although Solano County ranks as the fourth lowest in per capita income when compared to benchmark counties, our growth rate in per capita income outpaced the state, increasing by 3.4 percent in 2013. Unfortunately while things are improving, we must pay careful attention to the local economic impacts of the drought to the agricultural industry, and to our residents and businesses. We are also faced with reduced funding for streets and roads due to unsuccessful efforts with both federal and state transportation legislation. The lingering 13.3 percent poverty rate in Solano County, translates to nearly one in four residents (28.2 percent) requiring some form of public assistance. Residents are increasingly qualifying for publically subsidized healthcare through the Affordable Care Act (ACA) and/or CalFresh benefits (food stamps). Although we remain optimistic, implementation of the ACA has not been without its difficulties. Operational challenges, including identifying and enrolling large numbers of new enrollees, for primary and behavioral health services has created a shortage of quality health care providers in Solano County. In addition, with an aging population in the county and subsequent decline in the birth rate through 2020, an increasing number of older individuals will be utilizing the health care system provided by both the County and other health care providers.

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) FY2015/16 General Fund Recommended Budget; 6) General Fund and Fiscal Projection; 7) Pending Issues and 8) Summary of Recommendations.

BUDGET OVERVIEW

The FY2015/16 Recommended Budget for Governmental Funds is balanced and totals $892,269,052 (*Schedules 1 and 2*). The total budget represents an increase of $22.1 million or 2.5% when compared to the FY2014/15 Adopted Budget and relies on local, State and Federal revenues, and the use of fund balances and draws from reserves.

TOTAL FINANCING REQUIREMENTS - ALL GOVERNMENTAL FUNDS

FY 2015/16

FUND NAME	FY2014/15 ADOPTED BUDGET	FY 2015/16 RECOMMENDED	CHANGE	% CHANGE
GENERAL FUND	$ 218,445,708	$ 232,116,181	$ 13,670,473	6.3%
SPECIAL REVENUE FUNDS	598,740,509	633,915,828	35,175,319	5.9%
CAPITAL PROJECT FUNDS	32,765,321	6,269,933	(26,495,388)	-80.9%
DEBT SERVICE FUNDS	20,265,990	19,967,110	(298,880)	-1.5%
TOTAL GOVERNMENTAL FUNDS	**$ 870,217,528**	**$ 892,269,052**	**$ 22,051,524**	**2.5%**
BUDGETED POSITIONS	2,815.75	2,926.45	110.70	3.9%

The most significant change is reflected in the Capital Project Funds due to construction costs for the new AB 900-funded Stanton Correctional Facility which was completed in FY2014/15 and construction costs for SB 1022 Sheriff training project which will be carried forward and reflected in the FY2015/16 Adopted Budget. The increase in the General Fund reflects higher property tax revenues, increased labor costs, and increased General Fund contributions to both Health and Social Services and Public Safety is primarily due to more Fund Balance available at year-end. The increases in the Special Revenues Funds are primarily due to growth in state and federally 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), and the implementations of the Safe Neighborhoods and Schools Act – Proposition 47 and the Affordable Care Act (ACA). Increases in Special Revenues Funds in the FY2015/16 Recommended Budget also reflect repair costs related to the August 2014 South Napa earthquake that will be expended in FY2015/16.

The FY2015/16 Recommended Budget uses projected 6/30/15 fund balances in several departments with dedicated revenues and draws down $9.8 million from committed fund balances to meet County obligations. One-time General Fund revenues from FY2014/15 are recommended to be used to offset one-time costs and to help pay for increased unfunded liabilities for employee-related benefits for the projected PERS employer rate increases and as contributions toward capital renewal reserves for the maintenance of the County buildings.

The Recommended Budget provides for a workforce of 2,926.45 FTE positions, excluding extra help positions. This reflects a net increase of 110.70 FTE from FY2014/15 Adopted Budget of which 61.70 FTE were added during FY2014/15. The net difference of 49.0 FTE results from the addition of 51.0 FTE included in the Recommended Budget, and offset by the deletion of 2.0 FTE expiring limited terms. The year-over-year increase in the workforce reflects staffing needs to address new mandates and associated services related to 2011 Public Safety Realignment compliance with Proposition 47, implementation of the Affordable Care Act, as well as cost avoidance measures, and changes in operational needs.

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.

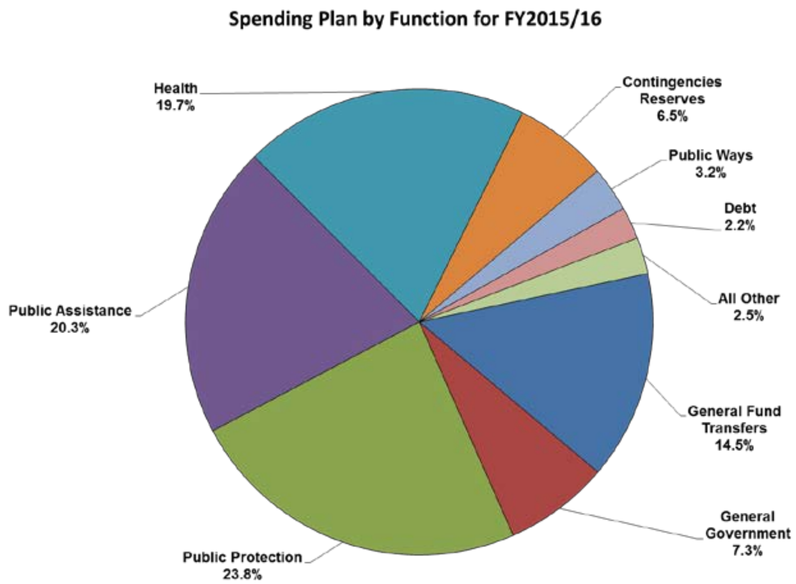
The FY2015/16 Recommended Budget addresses known revenue challenges and incorporates reductions and adjustments in operating expenditures to address challenges including changing community needs and demands for services in all areas of County responsibility, invests in the future by allowing for some continued investments in technology, training, and capital renewal and includes prudent financial management recommendations for subsequent fiscal years. The Recommended Budget includes funding for technology refresh, training and support for employee development and organizational transitions, reinvests in County facilities and County information systems to ensure the County's infrastructure and systems remain current and capable of supporting the County staff providing services and the residents and clients who access and are dependent on County services. The Budget recommendations support and rely on continued collaboration by including small investments with our community partners to leverage State and Federal funds. The Budget includes one-time funding to increase reserves, including $4.0 million for projected PERS employer rate increases, $4.5 million in General Reserves, $2.0 million for future capital renewal projects, $1.4 million for future Road Fund activities, $0.5 million in Library reserves, and $0.5 million for the Mental Health Services Act (See Schedule 4).

While the budget is balanced, it should be noted that there are no provisions in operating budgets for FY2015/16 for salary increases, and the budget relies on the use of one-time funding to cover known revenue/operating shortfalls in Behavioral Health while efforts are underway to find a means to pay for mandated Behavioral Health Services in FY2015/16. If those efforts are unsuccessful the County will face a substantial cost exposure in FY2016/17. In addition, Public Health is faced with staff challenges and new cost reporting/claiming requirements that may change their overall cost to the County in FY2015/16.

The following pages include a financial overview of the FY2015/16 Recommended Budget.

FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $892.3 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.



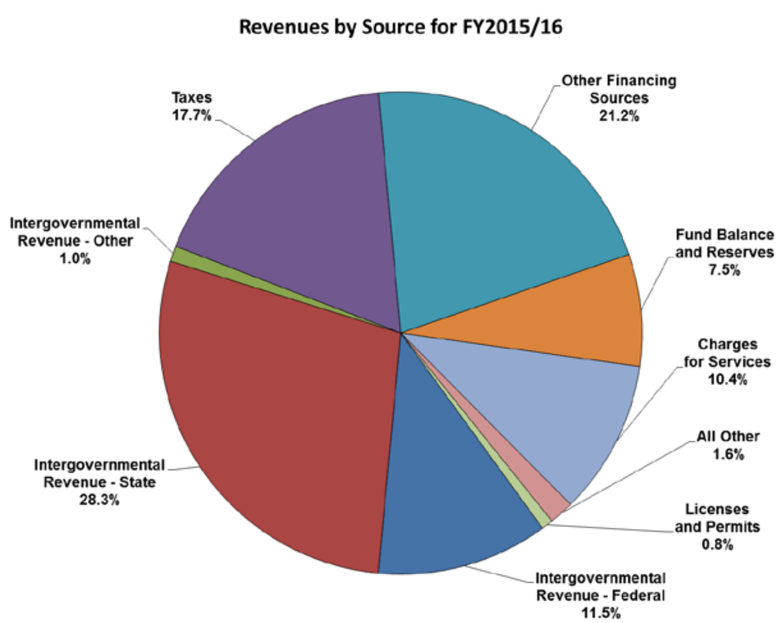
Public Protection represents the single largest category of County appropriations at 23.8% in the FY2015/16 Recommended Budget, which is an increase from the 23.2% share of the FY2014/15 Adopted Budget. Public Protection spending is projected to increase $10.5 million in FY2015/16 with the largest contribution to this increase being AB 109 2011 Public Safety Realignment duties, but also includes increased Proposition 172.

Public Assistance at 20.3% and Health at 19.7% represent the social safety net function of County government, which represents a collective increase from FY2014/15 the 19.0% and 18.2%, respectively. Public Assistance spending is projected to increase $16.2 million and Health spending is projected to increase $17.7 million in FY2015/16, 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.

GOVERNMENTAL FUNDS
Total: $892,269,052

General Fund Transfers increase from a 14.2% share of the FY2014/15 Adopted Budget to a 14.5% share of the FY2015/16 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 State and Federal agencies, which collectively account for 39.8% of the FY2015/16 Recommended Budget, and generally have specific requirements on how they can be used. Intergovernmental Revenue-Federal decreased by approximately $1 million primarily due to a reduction in reimbursement for services. Intergovernmental Revenue-State decreased a net $9 million largely due to completion of AB 900 grant funding for the jail expansion. Taxes represent 17.7% of the FY2015/16 revenue projections, which is up from the 16.5% share in FY2014/15.



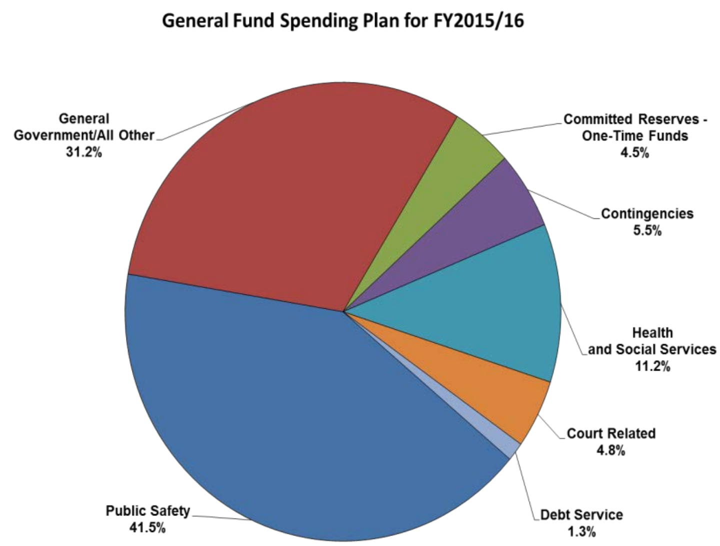
Other Financing Sources represent 21.2% share of the FY2015/16 projected revenues, which is an increase from 20.3% share in FY2014/15. Fund Balance and Reserves represent a 7.5% share of the FY2015/16 revenues, which is a decline from the 8.3% share in FY2014/15.

The General Fund Spending Plan (*Fund 001*) graph portrays a total of $232.1 million. The Public Safety category represents the single largest category of expenditures at 41.5% in FY2015/16, which is a slight decline from the 41.9% share in FY2014/15. This category includes the Sheriff, District Attorney, Public Defender, Alternate Public Defender, Other Public Defense and Probation.

The General Government/All Other category represents 31.2% share in FY2015/16, an insignificant change from 31.4% share in FY2014/15. 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 11.2% of the total, which is up over the 10.2% share in FY2014/15. The County's Maintenance of Effort (MOE) for the Courts is 4.8% of the total.

The Recommended Budget includes $10.5 million in one-time funds allocated to committed fund balances to address impacts of known future obligations for retirements and pensions, and concerns regarding rate of economic recovery in the County.



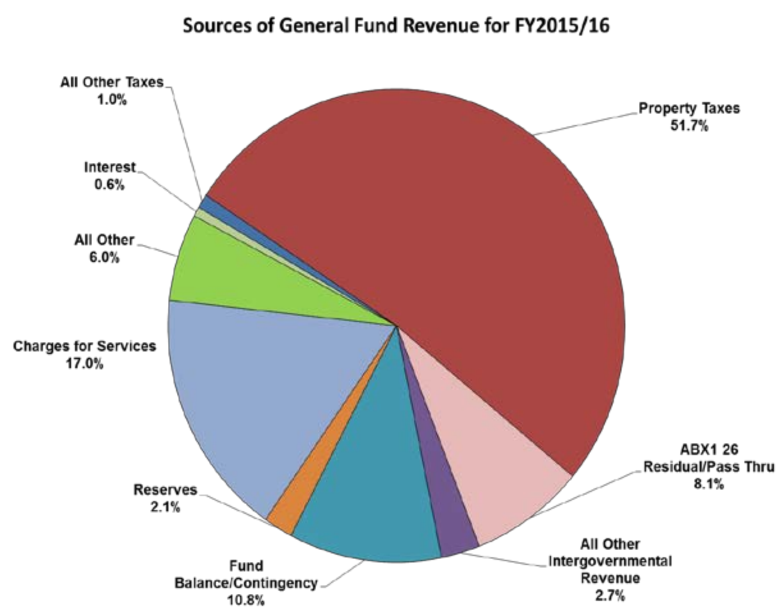
GENERAL FUND
Total: $232,116,181

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

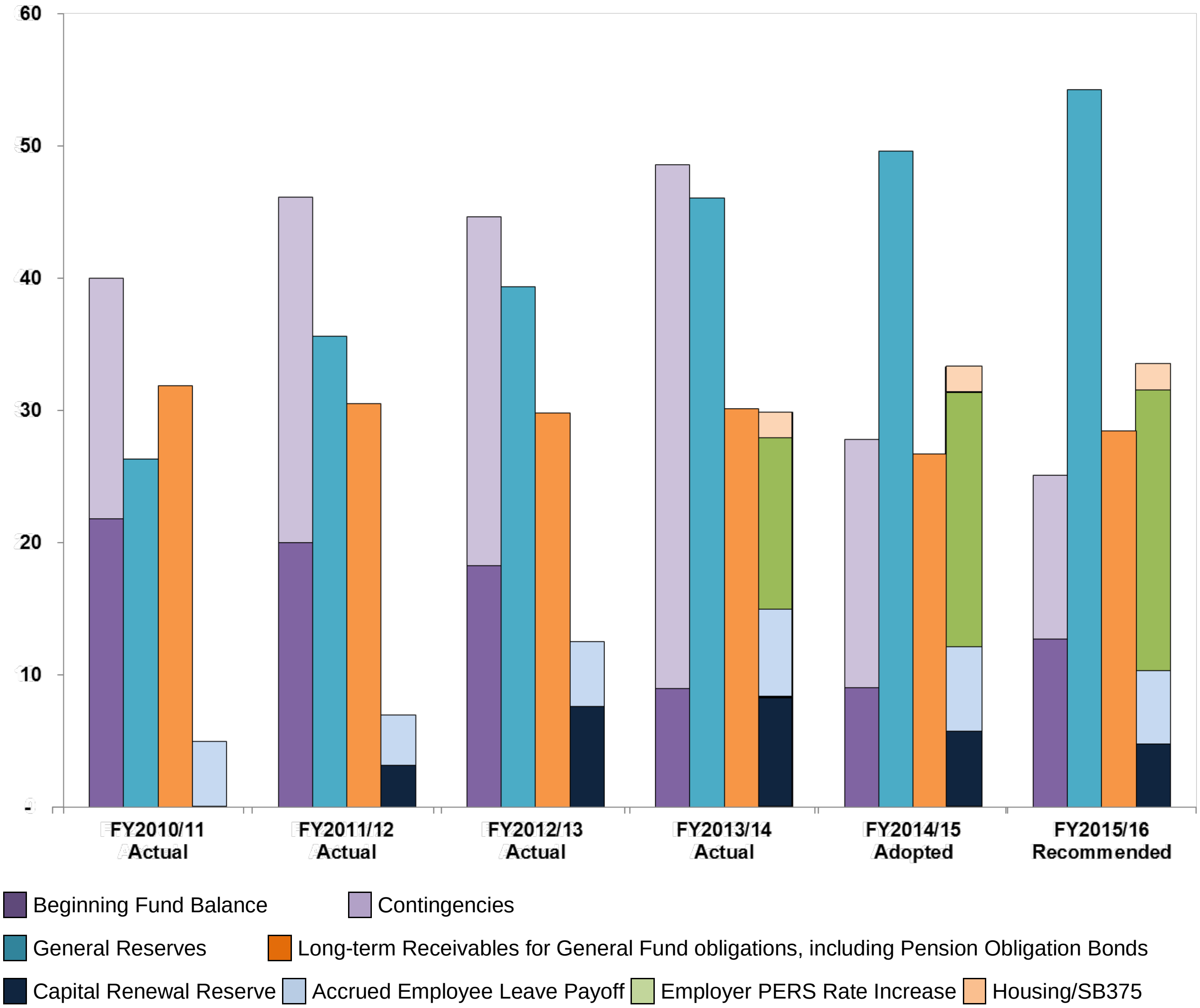
Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 51.7% and ABX1 26 Residual and Pass-Through at 8.1%. Property taxes include secured, unsecured, supplemental, unitary, property tax in lieu of Vehicle License Fee (VLF) and property transfer tax. The FY2015/16 Recommended Budget projects a net increase of $11 million in these property-related revenues when compared to the FY2014/15 Adopted Budget.

The next largest category is Charges for Services at 17.0%, which includes 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 10.8%. The General Fund projected Fund Balance at the end of FY2014/15 becomes a means of financing for the FY2015/16 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 FY2015/16 Recommended Budget reflects the total funding of the following committed fund balances: Capital Renewal Reserve at $4.7 million, Accrued Employee Leave Payoff at $5.6 million, Employer PERS Rate Increase at $21.2 million, and Housing/SB375 implementation at $2 million. General Fund Reserves is projected at $54.2 million and Long-term Receivables at $28.4 million. Fund Balance is projected at $25.1 million, which includes $12.7 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 manage through the economic downturn. Some stabilization in the economy is anticipated for FY2015/16; 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 Reserve 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, and based on the County's aging workforce, greater utilization of the Accrued Leave Payoff funds are anticipated in FY2015/16.

CalPERS Retirement Rates

Actuarial changes were implemented by CalPERS beginning in FY2015/16 through FY2019/20 (over a 5-year period) and are expected to continue to increase employer pension rates by as much as 50%. Given that pension rates are expected to increase over the next five years, coupled with a Board stated goal of achieving a funding ratio of 90% for both CalPERS plans (Miscellaneous and Safety), the County Debt Advisory Committee reviewed options to reduce the unfunded liability in FY2014/15. On February 10, 2015, the Committee presented a funding strategy to the Board that included placing one-time funds into a Pension Trust to reduce unfunded liabilities, thereby reducing future employer retirement rates. The Board approved this strategy, and authorized the creation of a Trust. The Committee will return to the Board with a funding (transfer) recommendation. As of June 30, 2013 (most recent actuarial report), the County's unfunded liability for the Miscellaneous Plan is $282,059,707 (76.1% Funded Ratio) and the unfunded liability for the Public Safety Plan is $80,945,672 (76.9% Funded Ratio).

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 discretionary 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 capital renewal/deferred 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 new residential and commercial construction within the county to aid in 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. On June 2, 2015 the General Services Department will present to the Board the 5-year Capital Facilities Plan FY2014/15 – FY2018/19. Based on a preliminary prioritization of projects under consideration, the Department will provide recommendations for funding specific projects, some of which will require funding from the Capital Renewal Reserve.

The Board established a committed fund balance in the General Fund for Capital Renewal Reserve 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 $4.7 million. It is recommended that the Board increase the reserve by $2.0 million using the one-time revenues projected for 6/30/15.

OVERVIEW OF THE FEDERAL AND STATE BUDGETS

Federal Budget Update

The House and Senate in late April and early May, respectively, approved a final budget resolution for fiscal year 2016. Passage of the non-binding blueprint – which sets overall tax and spending parameters for the upcoming fiscal year – marks the first time in six years that Congress has cleared a concurrent budget resolution.

Notably, the final package (S Con Res 11) includes "reconciliation" instructions, which direct certain congressional committees to find savings in entitlement and mandatory spending programs. Subsequent legislation that is produced pursuant to the budget reconciliation process would be insulated from filibuster in the Senate.

Specifically, the budget proposes to convert Medicaid into state block grants and calls for the repeal of the Affordable Care Act (ACA). With regard to the ACA, the resolution's reconciliation instructions are flexible enough to allow committees with jurisdiction over health care to craft a plan to undertake one of three possible actions: partly repeal the Act; rescind the law and replace it with other changes to the health care system; or, pass a legislative response to a possible Supreme Court decision, expected later this year, which may strike down part of the law. However, if Congress ultimately approves legislation dismantling the ACA, either in part or whole, President Obama would likely veto the bill.

House lawmakers have been working to advance several individual FY16 appropriations measures. The House recently cleared its FY16 Energy and Water (E&W) Development spending package, as well as the Military Construction-Veterans Affairs legislation. With respect to federal programs and agencies covered by the E&W bill, the measure would provide $35.4 billion in FY16 discretionary spending, or $1.2 billion above current levels. The Department of the Interior and the Bureau of Reclamation, however, would see a roughly $35 million reduction in funding.

The legislation as proposed would provide $37 million for CALFED (flat funding). During committee consideration of the bill, lawmakers adopted an amendment that would direct the Bureau of Reclamation to complete feasibility studies on a number of CALFED storage projects (Shasta Dam, Upper San Joaquin River storage, Los Vaqueros Reservoir, Sites Reservoir, and San Luis Reservoir) by a date certain. The stated purpose of the amendment is to ensure that the projects are able to compete for the $2.7 billion in Proposition 1 funding that the California Water Commission is expected to begin allocating in early 2017. The Federal Committee Report also requires Reclamation to provide regular progress reports to Congress that will include timelines for study completion, draft/final Environmental Impact Statement (EIS), and Records of Decision.

The House E&W bill also includes $3.7 million for the Solano water project, or level spending. The legislation would provide funding for a number of projects that fall under the purview of the Army Corps, including nearly $1.2 million for San Pablo Bay and Mare Island Strait (navigation/maintenance); $3.25 million for the Suisun Bay Channel (navigation/maintenance); and, $500,000 for San Francisco Bay Long-Term Management Strategy (navigation/operations).

It should be noted that the bill includes language that would block the Obama administration’s proposed rule defining "Waters of the United States" (WOTUS). The measure also would restrict the application of the Clean Water Act in certain agricultural areas, including farm ponds and irrigation ditches.

The Military Construction legislation - typically the least controversial of the 12 annual spending measures – would provide $76.6 billion in discretionary funding to house, train and equip military personnel, provide housing and services to military families, and help maintain base infrastructure. The package also funds veterans’ benefits and programs. It should be noted that the proposed funding amount is $4.6 billion above the fiscal year 2015 enacted level, but $1.2 billion below what the president requested.

The House Transportation-Housing and Urban Development (T-HUD) Appropriations Subcommittee cleared in late April its FY16 spending legislation. In total, the bill would provide $55.3 billion in discretionary spending, which is $1.5 billion above the fiscal year 2015 enacted level. However, most of the additional funding will be used to offset a significant decline in receipts from the Federal Housing Administration. Accordingly, the bill would only provide about $25 million more than current spending. This bill is of interest to Solano County, because legislation proposes level funding for highway programs (contingent on Congress reauthorizing MAP-21) and the Community Development Block Grant (CDBG) program. The bill would provide a slight boost in funding for Homeless Assistance Grants. However, the legislation would only designate $100 million for the popular Transportation Investment Generating Economic Recovery (TIGER) grant program, which is $400 million less than current spending.

President Obama recently signed into law legislation that permanently corrects the Medicare program's physician payment formula (known as the "doc fix"). Notably, the new law includes a two-year extension of funding for the Children's Health Insurance Program (CHIP/Healthy Families), which helps provide health coverage to children and pregnant women from low-income households. Without the enhanced federal funding provided through the program, California's Health and Human Services Agency had estimated a loss of up to $533 million annually.

In addition, the Act includes a two-year extension of funding for the Maternal, Infant, and Early Childhood Home Visiting Program. This program supports pregnant women and families and helps at-risk parents of pre-school children by using evidence-based, cost-effective models that improve maternal and child health, prevent child abuse and neglect, encourage positive parenting, and promote child development and school readiness. California recently received $22.6 million in fiscal year 2015 funding. As of February of this year, 21 California counties participated in the federal program.

State Budget Update

On May 14, 2015 the Governor released his May Revision to the Proposed FY2015/16 State Budget along with many implementing Trailer Bills containing the details of the spending plan. The May Revision reflects a $6.7 billion increase in General Fund revenues compared to the Governor's January proposed Budget for FY2015/16. Of the $6.7 billion in unexpected FY2015/16 General Fund revenue, $5.5 billion will go to K-14 education, $633 million will be saved pursuant to Proposition 2 for the rainy day fund, and $633 million will pay down debts and liabilities, also pursuant to Proposition 2.

It is anticipated that Solano County schools will receive increased funding under Proposition 98. The much needed increased funding can be applied in areas in the County where there are low-performing schools and can be used for programs to improve high school graduation rates.

The revised budget proposal has many positive aspects from the county perspective, including hundreds of millions of dollars in reimbursements, but continues not to recognize the importance of local streets, roads, and bridges to California's transportation system.

<u>Local Government Mandate Payment</u>

The 2014 Budget Act included a trigger mechanism that makes additional payments for the remaining pre-2004 mandate debt if the estimated General Fund revenues for 2013-14 and 2014-15 fiscal years at the 2015 May Revision exceed the 2014 Budget Act's estimate for those same revenues. The 2015 May Revision estimates that the trigger mechanism will result in a total of $765 million to local governments for the remaining pre-2004 mandate debt reimbursement. Of the $765 million, approximately 77% will go to counties and would, if the Trailer Bill is approved, likely be paid in Fall 2015.

<u>Drought</u>

The May Revision includes an additional $2.2 billion one-time resource for FY2015/16 to continue immediate response to drought impacts. This additional funding is proposed in the wake of a very dry winter as the state continues to suffer from a drought of uncertain duration. The acceleration of spending from voter approved Proposition 1, combined with new dollars from the State General Fund and an appropriation in Cap and Trade, reflects the Administration's commitment to move quickly in responding to the drought and create habitat and continue its efforts to advance two (2) tunnels as part of the CA Water Fix project.

<u>Water Supply Funding Proposals</u>

In November 2014, the voters approved Proposition 1, which provides $7.5 billion in bonds for water storage, water quality, flood protection, and watershed protection and restoration projects. In an effort to accelerate the implementation of water infrastructure projects statewide, the May Revision includes $1.8 billion in Proposition 1 funds for the following programs:

$1.7 billion, available over the next three years, for the following Water Board programs:

- Groundwater Contamination - $784 million for projects that prevent or clean up the contamination of groundwater that serves as a source of drinking water.
- Water Recycling - $475 million for water recycling and advanced treatment projects to enhance local water supply resiliency.
- Safe Drinking Water - $180 million for projects, with priority given to small systems in disadvantaged communities, which help to provide clean, safe and reliable drinking water.
- Wastewater Treatment Projects - $160 million for small communities to build or upgrade their wastewater systems to meet current standards.
- Stormwater Management - $100 million for multi-benefit stormwater management projects that also contribute to local water supplies.

$110 million for the following Department of Water Resources' (DWR) programs:

- Groundwater Sustainability - $60 million to support local groundwater planning efforts. Of this amount, $50 million is available over the next three years for technical and direct assistance and grants to local agencies for groundwater sustainability governance and planning. An additional $10 million in immediate funding will be dedicated to counties with stressed groundwater basins to update or develop local ordinances and plans that protect basins and their beneficial users and help facilitate basin-wide sustainable groundwater management under the Sustainable Groundwater Management Act, in coordination with other local water managers.
- Desalination Projects - $50 million to assist local agencies to develop new local water supplies through the construction of brackish water and ocean water desalination projects.

Water Conservation

$245 million to fund programs and projects that save water, including:

- $104 million for the following urban water conservation ($50 million Cap and Trade funds for the Energy Commission, $54 million Proposition 1 funds).
- $75 million ($40 million Cap and Trade funds and $35 million Proposition 1 funds) for agricultural water efficiency programs.
- $43 million for activities that will integrate water conservation into residents' lifestyles, consistent with the State adopted Water Action Plan ($30 million Cap and Trade funds and $13 million Proposition 1 funds).
- $23 million, including $10 million General Fund, for water conservation projects at state facilities.

Cap and Trade Funding Appropriation Proposal

The May Revision supports the Governor's greenhouse gas (GHG) reduction target by including a $2.2 billion Cap and Trade Expenditure Plan that will further reduce emissions by providing additional resources for clean transportation and ecosystem restoration programs. The increased proceeds result in a total of $1.6 billion for clean transportation, mass transit and sustainable community development as follows:

- Transit Operations - $100 million for transit operations in the Low Carbon Transit Operations Program.
- Transit Capital - $265 million for rail and transit in the Transit and Intercity Rail Capital Program.
- Affordable Housing - $400 million for projects in the Affordable Housing and Sustainable Communities Program.
- High-Speed Rail - $500 million for California's high-speed rail system.
- Low Carbon Transportation - $350 million for Air Resources Board clean transportation program.

Poverty

The Governor's May Revise recognizes that in recent years reports document that about 16% of California residents are living in poverty. The Governor is proposing the following in the May Revise to counteract the effects of poverty:

- Earned Income Tax Credit: Create the first Earned Income Tax Credit (EITC) to help the poorest working families in California. This targeted credit will provide a refundable tax credit for wages and would focus on the lowest-income Californians – households with incomes less than $6,580 if there are no dependents or $13,870 if there are three or more dependents. The proposed credit would match 85% of the federal credit at the lowest income levels, providing an average estimated household benefit of $460 annually for 825,000 families with a maximum benefit of $2,653.
- Workforce Investment: Provide $1.4 billion ($150 million more than January Budget) in funding to support a coordinated framework for adult education, career technical education, workforce investment and apprenticeships.

Health and Human Services

Medi-Cal

California continues its implementation of the federal Affordable Care Act (ACA). The mandatory Medi-Cal expansion simplified eligibility, enrollment and retention rules that make it easier to get on and stay on the program. The May Revision includes costs of $2.9 billion ($1.4 billion General Fund) in FY2015/16 related to the mandatory expansion. California will split these costs with the federal government. Mandatory expansion caseload is estimated to be 1.4 million in FY2015/16.

The optional expansion extended eligibility to adults without children, and parent and caretaker relatives with incomes up to 138% of the federal poverty level. The May Revision includes costs of $14 billion in FY2015/16 for the optional Medi-Cal expansion. The federal government has committed to pay 100% of the cost of this expansion for the first three years. California will begin contributing to these costs in FY2016/17, and by FY2020/21, the State will pay 10% of the total costs.

Due to the continuing workload associated with enrollment and continuing determinations of eligibility that county eligibility offices are responsible for, the May Revision now includes an additional $150 million ($48.8 million General Fund) in FY2015/16 for ACA-related eligibility determination workload. The ACA implementation in California has necessitated manual system workarounds that require additional resources. As the state and counties gain experience with the new processes and the eligibility system stabilizes, the state and counties would reevaluate the Medi-Cal county administration budget pursuant to Chapter 442, Statutes of 2013 (SB 28).

CalWORKs and Child Care

According to the Governor's May Revision, CalWORKs caseload will decline and is projected to be 539,000 for FY2014/15 and 525,000 in FY2015/16. Because of this, the Governor's May Revision decreased General Fund and federal Temporary Assistance for Needy Families (TANF) block grant expenditures by $97 million in FY2015/16.

In January, the Governor's Budget estimated a decrease in CalWORKs Stage 2 child care caseload and reduced funding by $11.6 million. However the Governor's May Revision projects a $46.8 million increase in General Fund spending to reflect the number of new Stage 2 beneficiaries and an increase in the cost of providing care.

Consistent with the Governor's January budget assumptions, Stage 3 child care caseload is also increasing. The Governor's May Revision includes an increase of $2 million - in addition to the January's $38.6 million increase - in General Fund spending to reflect caseload and care costs.

In Home Support Services (IHSS)

IHSS Caseload – An increase of $147.6 million State General Fund for FY2014/15 and $179.1 million General Fund in FY2015/16 associated primarily with increases in caseload, hours per case, and costs per hour. Relative to overtime for IHSS workers an appeal under the Fair Labor Standards Act is currently pending in the federal court; however a final court decision is unlikely before the end of FY2014/15. If the rule is upheld, implementation could begin right away. In anticipation thereof, the Governor's May Revision continues to assume full-year funding in FY2015/16 for implementation of the federal rule.

Public Safety

Amnesty Program - Court-Ordered Debt

The Governor's January Budget included an 18-month amnesty program that authorizes individuals with past due court-ordered debt owed prior to January 1, 2013, relating to traffic infractions to pay outstanding delinquent debt at a 50% reduction if the individual meets specified eligibility criteria.

The May Revision updates the Administration's proposed amnesty program by allowing individuals whose driver licenses have been suspended due to Failure to Appear or Failure to Pay related to traffic offenses to reinstate their licenses as part of the program. These individuals would agree to either make one payment or sign up for a payment plan. In addition, the $300 court-imposed assessment fee will be waived for purposes of the amnesty program and be replaced by a $50 amnesty administrative fee for the courts to recover their costs of running the program.

Revision includes $316 million to the General Fund for the State Department of Social Services' budget for FY2015/16.

No additional information on the timing of the program is available from the Courts at this time.

Community Corrections Performance Incentive Grant (SB 678)

In 2009, SB 678 (Leno) created the Community Corrections Performance Incentive Grant to provide incentives for counties to reduce the number of felony probationers sent to state prison. This performance-based funding has been provided to county probation departments based on a percentage of state General Fund savings when county probation departments successfully reduce the number of adult felony probationers going to state prison.

The May Revision proposes to augment the grant program by $1.1 million. This is due to the fact that the May Revision updates the SB 678 funding formula to include all types of local felony supervision, refocus this grant on local supervision admissions to state prison, and reward counties' past success. The intent of this revision is to preserve past successes and encourage counties to continue to decrease the number of individuals sent to state prison.

The proposed revised formula will provide incentive funding to counties that decrease their statewide prison admissions below a 2013 baseline. Reductions in state prison admissions for new crimes for individuals on felony probation, Mandatory Supervision and Post Release Community Supervisions (PRCS) will be funded at 50% of the state's estimated contract bed rate per offender, while reductions in state prison admissions for technical revocations by felony probationers will be funded at 75% of the state's estimated contract bed rate per offender. Additionally, counties with a state prison admission rate 50% below the state average will receive a high performance grant. The formula also adds a past performance allocation for counties which is equal to 60% of the average of the highest two years of past payments.

ECONOMIC RISKS

A recent article in the Wall Street Journal, "Growth Hiccups Vex Fed Yet Again (May 15, 2015)," highlights that the Federal Reserve is still holding firm on not raising short term interest rates (that are near zero) due to United States' soft economic growth pattern. The U.S. industrial production rates have again contracted in April 2015 (for the fifth straight month) and with April 2015 retail sales data soft, some economists are now considering that the U.S. is facing a revised first quarter Gross Domestic Product (GDP) indicator that is negative for the first quarter in 2015. It is unlikely that the U.S. will fall into a recession; however, the economic indicators are demonstrating a weaker economy nationally.

Governor Brown's May Revise also mentions economic risks to consider for the California Budget. Trade Partners including China and European Union countries have already experienced slowdowns and are not purchasing as many products from California and the rest of the United States. The stock market is also mentioned as potentially having a correction in the future due to the slower economic growth. Governor Brown's comments are cautionary to the residents of California that employment, corporate profits and personal income are all negatively impacted if there is an economic downturn in FY2015/16 that can affect the State budget in the coming year.

FY2015/16 GENERAL FUND RECOMMENDED BUDGET

The County's FY2015/16 Recommended Budget for the General Fund of $232.1 million is balanced with revenues of $202.3 million, drawdowns from committed fund balances of $800,000 for Accrued Employee Leave Payoff, $2.0 million for Capital Renewal Reserve, $2.0 million for Employer PERS Rate Increase and the remainder being funded by Fund Balance ($25 million).

The Recommended Budget for General Fund reflects an increase in revenues of $17.7 million when compared to the FY2014/15 Adopted Budget of $184.6 million. The increase in revenues is attributed to an anticipated increase in Tax Revenues of $12.7 million due to increased property values and an increase of $4.7 million for charges for services for various permits and services.

The Recommended Budget reflects increased General Fund appropriations of $232.1 million when compared to FY2014/15 Adopted Budget of $218.4 million. The net increase of $13.7 million is primarily due to increased County contributions to Health and Social Services and Public Safety, an increase to Contingencies to address potential exposures in Behavioral Health and Health Services, and increased labor costs due to higher retirement rates and increased staffing to address mandates and increased programs to associated services.

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 in the table include the FY2014/15 Third Quarter projections for comparison only. Using the FY2015/16 Recommended Budget as the starting point, revenues and expenditures are forecast through FY2017/18. While projections beyond 2018 are possible, it is more difficult to provide a meaningful longer forecast in light of the changing economic dynamics and uncertain Federal Budget, existing State and Federal Budget deficits coupled with a “slow” recovery for people back to work, increased retirements and little reduction in public assistance programs.

Solano County
General Fund - Fiscal Projection
FY2015/16 Recommended Budget
(in million of dollars)

		Third Quarter Projection For 6/30/15	Recommended Budget FY2015/16	Projected Budget FY2016/17	Projected Budget FY2017/18
a	**General Fund, Beginning Balance**	$ 27.79	$ 25.06	$ 20.00	$ 20.00
	TO Reserves:				
	General Reserves	-	(4.532)		
	Unfunded Employee Leave Payoff	(0.640)			
	Capital Renewal Reserve	(2.673)	(2.000)		
	Employer CalPERS Rate Increases	(8.236)	(4.000)		
	Housing/SB375				
	Long-Term Receivable (Solano360 project)				
	ASSIGNED FB: Non-County Agencies				
b	Subtotal - TO Reserves	(11.549)	(10.532)	0.000	0.000
	FROM Reserves:				
	General Reserves				
	Contingencies	0.125			
	Unfunded Employee Leave Payoff	0.800	0.800	0.800	0.800
	Capital Renewal Reserve	4.212	2.000		
	Employer CalPERS Rate Increases	2.000	2.000		
	Encumbrances	0.535			
c	Subtotal - FROM Reserves	7.672	4.800	0.800	0.800
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(3.877)	(5.732)	0.800	0.800
e	**TOTAL AVAILABLE FINANCING (a+d)**	23.915	19.325	20.800	20.800
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	191.166	208.884	214.966	218.468
g	Contingencies	0.000	12.700	12.700	12.700
h	**Total Operating Expenditures**	191.166	221.584	227.666	231.168
i	Operating Revenues (excluding transfers from Reserves)	192.308	202.259	206.893	208.614
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	191.166	208.884	214.966	218.467
k	**Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)**	$ 1.142	$ (6.625)	$ (8.073)	$ (9.853)

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 FY2015/16 Recommended Budget includes the use of General Fund – Committed Fund Balances: $800,000 from Accrued Employee Leave Payoff, $2.0 million from Capital Renewal, and $2 million from Employer PERS Rate Increase.

The significant Revenue Assumptions from the General Revenues budget include:

- Due to an estimated 4% increase in assessed values from the FY2014/15 corrected assessment roll, the following increases are projected: $6.4 million in Current Secured Property Taxes, $3.8 million Taxes in Lieu revenues, and $1.8 million in ABX1 26 Pass Through. This is offset by a reduction of $326,000 in ABX1 26 Residual Revenue due to an overestimate in FY2014/15 Adopted Budget. It is anticipated assessed values will increase 2% in FY2016/17 and

FY2017/18 as Solano County continues its emergence from the Great Recession and subsequent local housing market collapse.

- Supplemental Taxes are projected to increase $100,000 due to a small 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 $500,000 due to increase in business property values from the wind farms. It is projected to remain flat in FY2016/17 and FY2017/18 as there are a number of appeals from large businesses that may impact these projected revenues.
- Disposal fees are projected to increase by $200,000 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) State and Federal funding, Fees for Services. While these revenues do not go directly into the General Fund, they indirectly impact the General Fund. The Recommended Budget reflects $33.9 million in Proposition 172 funding, an increase of $1.9 million; $41.3 million in 1991 State – Local Realignment revenues, a decrease of $1.5 million; and $48.5 million in 2011 Public Safety Realignment funds, a decrease of $5.1 million. As Proposition 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.

Expenditure Assumptions:

- As discussed above, retirement costs are projected to continue to increase through FY2016/17; based on previously proposed rates from CalPERS, we have included a 16.6% increase in FY2015/16 and a 14.1% 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 FY2015/16:
  - General Fund support for Public Safety is projected to increase from $91.6 million to $96.8 million; a $5.2 million increase. This increase takes into consideration salary and benefit increases, additional jail support costs associated with the Stanton Correctional Facility, Proposition 47 implementation, offset by increased Proposition 172 revenues.
  - General Fund support for H&SS is projected to increase from $20.7 million to $24.2 million; a $3.5 million increase. This represents salary and benefit increases, changes in non-claimable costs (administrative overhead) and increased Institute for Mental Disease (IMD) costs in the Behavioral Health Division.
- The FY2015/16 Recommended Budget includes a Contingency appropriation of $12.7 million.

Continuance of General Fund Deficit Reduction Strategies for FY2015/16:

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 State and Federal programs changes as of May 15, which will take effect July 1, 2015.

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.

Affordable Care Act: Since implementation of the Affordable Care Act (ACA) in October 2013, a total of 15,681 Solano residents have enrolled in private health insurance plans through Covered California. During the first open enrollment period (October 1, 2013 through March 31, 2014) 11,180 individuals enrolled; and during the second open enrollment period (November 15, 2014 through February 15, 2015) 4,501 individuals enrolled. With the expansion of Medi-Cal eligibility to single low-income adults, Medi-Cal enrollment has grown by 47% from 70,693 individuals in June 2013 to 114,125 individuals as of March 2015 in Solano County.

The Safe Neighborhoods and Schools Act – Proposition 47: Proposition 47 is a ballot initiative passed by California voters on November 4, 2014. Proposition 47 reduces certain non-serious and nonviolent property and drug offenses from wobblers or felonies to misdemeanors, reducing penalties to offenders who have not committed certain severe crimes including murder and certain sex and gun crimes. Based on the increase workload required to implement Proposition 47, additional resources have been allocated by the Board in the District Attorney's Office, the Public Defender's Office and the Alternate Defender's Office. The County Administrator in coordination with County Departments and the Courts will continue to monitor the workload impacts of Proposition 47.

2011 Public Safety Realignment/AB 109 Funding: The Recommended Budget reflects the County's share of the estimated total AB 109 base and growth funding allocations statewide. The Solano County FY2015/16 allocations represent increases over FY2014/15 resulting from recent allocation formula changes issued by the Realignment Allocation Committee (RAC), one-time funding augmentations and increased funding statewide. The budget recommended by the Solano Community Corrections Partnership (CCP) included minimal increases in the appropriation of AB 109 funds over FY2014/15 and departments remain focused on a continuation of the programs and services previously supported by the CCP. No new positions or new "Program Funding Requests" funded by AB 109 are included in the FY2015/16. The Recommended Budget includes the continued use of 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. AB 109 Growth funding, which are based on statewide revenue estimates are subject to change pending the final state revenue figures. 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: As of April 17, 2015 there are 561 active property tax appeals on file with the County Clerk representing $10.61 billion (cumulative over 12 years) in assessed value. This is a significant amount given that the total annual valuation of Solano County is only $44.1 billion. The final resolution of these appeals can have a significant impact on the County's property tax revenues in the future. Efforts continue by the Assessor with assistance from County Counsel to reduce the number and value of outstanding appeals to address the uncertainty in a timely manner.

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 November 25, 2014 which shows an estimated $7.9 million in unfunded road maintenance and bridge replacement projects. The Board's existing policy has been for the County to secure State and Federal 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 State and Federal funding for this area of responsibility continues 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 $2.0 million to Capital Renewal, $4.0 million to the Employer PERS Rate Increase and $4.5 million to the General Reserve, if the amount of the General Fund's Year-end Fund Balance at June 30, 2015 exceeds the Third Quarter projections for FY2014/15, 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 FY2015/16 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 $2 million to the Employer PERS Rate Increase
2. Any amount up to $2 million to Capital Renewal
3. Any amount up to $5 million to General Fund Reserves in anticipation of funding shortfalls in FY2016/17

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