**MEMORANDUM**

TO: Board of Supervisors

FROM: Leanne Link, County Executive Officer

DATE: April 4, 2017

RE: **Fiscal Review for Fiscal Year 2016-2017**

An important part of the County’s continuous fiscal monitoring process is a review of the County’s budget status throughout the fiscal year, focusing particularly on the General Fund. In past years the County Executive Office (CEO) staff worked with departments and the Auditor-Controller’s Office to forecast, at six months and again at nine months, projected year-end revenues, expenditures, and “Net County Cost” or “General Fund Contribution” for General Fund budgets or “Use of Fund Balance” for non-General Fund departments. This year we are conducting a single fiscal review, which will enable us to address any current-year budget concerns in a timely manner.

This process also assists in preparing the FY 2017-18 budget, in part by providing a projection of the General Fund balance at the end of FY 2016-17 (“ending fund balance”) using actuals through March 31, 2017. The current year ending fund balance becomes the beginning fund balance, and thus a major budget resource, for the next fiscal year. Therefore, maintaining a healthy available fund balance in the General Fund is important.

While we continue to see some growth in revenues, significant pressures on the budgets remain. Personnel and operating costs continue to grow. An approximate $14 million financing gap remains for the new jail. The County needs to consider putting aside additional funds for retirement costs in light of insufficient actions by CalPERS to reduce the anticipated rate of return on investments. We must address significant capital improvement needs to maintain roads and our existing facilities in acceptable condition. The winter 2017 storms placed a significant additional burden on County resources; this impact is described in more detail below.

We estimate that the available fund balance in the General Fund is sufficient to sustain the projected level of non-winter storm related Net County Cost for the current fiscal year. We continually monitor revenue trends and carefully consider the impact that existing or proposed expenditure increases will have on the fund balance now and into the future.

This memo includes requested budget adjustments (Attachment A) to ensure that there are sufficient appropriations to cover additional expenditures known at this time. The memo also includes a brief analysis of state and federal budget developments.

**General Fund Current Year Fiscal Status**

Using the most current information available, we believe that the General Fund will likely end FY 2016-17 with an unassigned ending fund balance of approximately $5.5 million. The chart below provides more detail.

(Continued on next page)

|  |  |  |  |
| --- | --- | --- | --- |
| **General Fund Budget 1** | | | |
|
| **Fiscal Review FY 2016-17** | | | |
|  |  |  |  |
|  | **FY 2016-17** | **FY 2016-17** |  |
|  | **Adj. Budget 2** | **Estimated Actuals** | **Difference** |
|  |  |  |  |
| **Resources** |  |  |  |
| **Beginning Fund Balance 3** | **$ 15,080,195** | **$ 15,080,195** | 0 |
| Reserves |  |  |  |
| Use of Earthquake Reserve | 2,000,000 | 2,000,000 | 0 |
| Decrease Assignment for Fiscal  Uncertainty | 10,554,564 | 10,554,564 | 0 |
| Total Decrease in Reserves | 12,554,564 | 12,554,564 | 0 |
| Revenues |  |  |  |
| Non-Departmental Revenue | 111,768,227 | 115,838,408 | 4,070,181 |
| Earthquake Revenue Anticipated | 19,000,000 | 19,000,000 | 0 |
| Departmental Revenue | 64,128,184 | 73,047,980 | 8,919,796 |
| Total Revenue | 194,896,411 | 207,886,388 | 12,989,977 |
|  |  |  |  |
| **Total Resources** | 222,531,170 | 235,521,147 | 12,989,977 |
|  |  |  |  |
| **Requirements** |  |  |  |
| Expenditures | 194,118,229 | 196,863,256 | (2,745,027) |
| Earthquake-related Costs | 21,001,565 | 21,000,700 | 865 |
| Appropriation for Contingencies | 4,691,500 | 4,151,164 | 540,336 |
| Total Appropriations | 219,811,294 | 222,015,120 | (2,203,826) |
|  |  |  |  |
| Increase Reserves 4 | 1,933,436 | 7,988,994 | (6,055,558) |
|  |  |  | 0 |
| **Total Requirements** | 221,744,730 | 230,004,114 | (8,259,384) |
|  |  |  |  |
| **Projected Ending Available Fund Balance** | **786,440** | **5,517,033** | **4,730,593** |
|  |  |  |  |
| 1 Excluding Special Projects and Tobacco MSA, which technically are part of the General Fund | | |  |
| 2 Includes budget adjustments through 3-31-2017 | |  |  |
| 3 Unassigned beginning balance at 7-1-2016 |  |  |  |
| 4 General Reserve increased by $1,933,436 as part of budget adoption and $6,055,558 added on 2-28-17 | | |  |

**General Fund Summary**

Below is a brief explanation of the “differences” in each Resource and Requirement category identified in the table above.

**Non-Departmental Revenues:**

“Non-Departmental,” or general purpose, revenues are revenues that are not specific to a certain department or program, but are used to support the County’s established mandates and spending priorities as articulated in the annual budget. Non-departmental revenues include Property Tax, Transient Occupancy Tax (TOT) and Sales and Use Tax, as well as revenue from a variety of court fines and fees, tax penalties, County A-87 (overhead) costs paid by non-General Fund departments, and other sources. Total non-departmental revenues are projected to total approximately $115.8 million, which is about $4.1 million, or 3.6%, higher than the budgeted level.

General property tax revenue is projected to be approximately $1.7 million (2.2%) higher than budgeted. Transient Occupancy Tax (TOT) is projected to be $482,000 (3.8%) higher than budgeted.

Sales tax is projected to be $1.3 million (13.3%) higher than budgeted, mostly due to the end of the “Triple Flip.” In 2004 voters approved Proposition 57 authorizing the sale of economic recovery bonds guaranteed by a 0.25% sales tax pledge.  To maintain revenue neutrality, the County’s share of sales tax was reduced from 1.00% to 0.75% with the State backfilling the County’s lost sales tax revenues by increasing property tax revenue taken from Educational Revenue Augmentation Fund (ERAF) shifts.  During Fiscal Year 2015-16, the State paid off its economic recovery bonds, which allowed for the wind down of the Triple Flip.  With the elimination of the Triple Flip, the County’s share of sales tax was restored, resulting in a significant increase in sales tax revenues and a loss in property tax revenue, although total property tax revenue has increased, as noted above.

**Non-Departmental Revenue Summary**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Revenue | FY 16-17  Budgeted | FY 16-17  Estimated | Difference | Percent Difference |
| Property Tax | 79,461,580 | 81,202,835 | 1,741,256 | 2.2% |
| Transient Occupancy Tax | 12,688,000 | 13,170,000 | 482,000 | 3.8% |
| Sales & Use Tax | 9,975,038 | 11,300,000 | 1,324,962 | 13.3% |
| Other Revenue | 9,643,609 | 10,165,573 | 521,964 | 5.4% |
| Total Non-dept. Revenue | 111,768,227 | 115,838,408 | 4,070,181 | 3.6% |

**Departmental Revenues:**

Departmental revenues are projected to be approximately $8.9 million (13.9%) higher than the budgeted level. This is primarily due to:

* $4.1 million in additional non-departmental revenues consisting of tax revenue and other revenue increases noted in the chart above.
* $8.8 million in additional revenues for Public Works projects, consisting of Measure A flood control revenues for a variety of projects and State Revolving Fund loan proceeds for the MST recycled water project. These revenues are offset by an additional $6.9 million in expenditures for these projects. The revenue increase exceeds the expenditure increase because the MST project expenditures occurred earlier (before the loan revenue was received).
* $218,390 in additional revenue in the Elections Department, most of which is State and Election Services revenue, some of which will pay for additional printing costs and Public Works charges.
* $1.7 million in additional Proposition 172 local public safety revenue in the criminal justice departments, reflecting FY 2016-17 revenue previously credited to FY 2015-16.

**2014 Earthquake:**

The County continues recovery activities, mainly in the form of capital projects.  A portion of the Napa County Jail/Hall of Justice repairs is expected to be completed this summer.  Once repairs are completed, the Probation Department will once again be housed in the Hall of Justice and will be joined by County Fire and the Parks and Open Space District.  The Historic Courthouse is still in the planning process. Repairs are expected to begin this summer and will take approximately 18 months.  Much of the recovery cost is borne by insurance, and advance payments have been received.  However, until the work is completed, we cannot recognize the insurance payments as revenue.

In FY 2014-15, the Board of Supervisors approved the use of up to $13.9 million from the General Reserve for earthquake response and recovery activities.  For this review, we have assumed $19,000,000 in estimated revenue and approximately $21,000,000 in estimated expenditures this year associated with the 2014 earthquake.  The Auditor-Controller will present to the Board a complete accounting of 2014 Earthquake-related costs and reimbursements to date by the end of the fiscal year.

**2017 Winter Storms:**

On January 31, 2017 the Board approved an additional $1 million General Fund contribution to the Roads Fund for initial planning, design and construction related to storm recovery efforts. Use of the Roads fund balance is expected to increase by $54,135 as a result of significant Roads staff overtime costs associated with the winter 2017 storms. However, these overtime costs are partly offset by savings from unanticipated vacancies, and no budget adjustments are needed at this time.

Public Works is in the process of quantifying total winter storm non-capital emergency operations costs, apart from the significant staff overtime costs incurred to date, since storm repairs have absorbed appropriations originally intended for non-storm Roads projects this year. Additional funding will be required from the General Fund to offset the cost of the storms’ impact on the Roads budget and to cover significant capital repair costs in advance of state and potential federal cost reimbursement (although the percentage of total costs that will be reimbursed is unknown at this time). This cost estimate will be completed in late spring/early summer 2017, and additional actions will be requested at that time.

**Appropriation for Contingencies:**

This review assumes that the entire $4,651,500 Appropriation for Contingencies will be spent during the current fiscal year. Budget adjustment requests reducing the Appropriation for Contingencies by $540,336 are being requested now to support increased costs in several budgets:

* County Counsel: $82,000 to cover necessary legal work conducted by staff related to litigation and subsequent appeal hearings related to a recent ballot initiative.
  + - General Expenditures: $36,431 to cover the cost of additional vacation payouts related to recent retirements.
  + Human Resources: $50,000 for the cost of leaves, additional staff support, increased usage of pre-employment/employee annual screenings, additional staff training/development, and County employee service awards.
* Probation/Community Services Center (CSC): $248,190 to cover the cost of (1) using the $1.5 million GEO Re-entry Services (formerly BI, Inc.) contract at its full level (a $200,000 increase), which resulted from an increase in clients following completion of repairs to the Hall of Justice CSC offices, and (2) unbudgeted property management charges ($48,190). These additional costs in the CSC budget will be more than offset by a $608,000 reduction in Net County Cost in the other three Probation budgets (Adult and Juvenile Probation, Juvenile Hall, and Care of Court Wards) due to projected lower numbers of Juvenile Hall and court wards housed and other expenditure reductions taken to offset the increase in the CSC budget.
  + - Property Management: $113,715 to offset increases in emergency maintenance costs throughout the fiscal year. The FY 2016-17 budget included an agreement to provide some General Fund assistance to Property Management in its first year as a stand-alone Internal Services Fund.
    - Sheriff: $10,000 transfer from Contingencies to cover salary increases in the Coroner’s office.

The Appropriation for Contingencies will be reevaluated later in the year and additional adjustments may be recommended at that time.

**Review of Department Budgets:**

This section focuses on all budgets—General Fund, Special Revenue Funds and Enterprise Funds—in which “Net County Cost” or “General Fund Contribution” for General Fund budgets or “Use of Fund Balance” for non-General Fund budgets is projected to increase by $50,000 or more. In general, when a budget is projected to exceed its approved Net County Cost, departments have been asked to make every effort to come in within the budgeted Net County Cost level. In some cases, however, budget adjustments are needed to ensure that there is sufficient appropriations authority to cover additional known expenditures.

Departments’ fiscal status will be revisited later in the fiscal year, and additional budget adjustments may be recommended for affected budgets to ensure that there is sufficient appropriation authority to cover projected expenditures that will occur between now and the end of the fiscal year.

***General Fund Departments***

* Emergency Services:

Net County Cost is expected to increase by $73,608 primarily as a result of the loss of $72,000 in funding from the Fire Protection Fund for a half-time Liaison Officer position. That revenue previously funded a portion of the County’s Emergency Services Officer position, which will now be funded entirely by the County General Fund. However, no budget adjustments are needed, since expenditures will remain well within the budgeted amount.

***Other Funds***

* Health and Human Services Agency, HHSA (Fund 2000):

HHSA has a budget of approximately $110 million that includes a budgeted General Fund contribution of $16.5 million. Included in the $110 million for FY 2016-17 is a $3.7 million one-time cost (funded by use of the HHSA fund balance) of building/relocating the Therapeutic Child Care Center (TCCC) to South Campus.

Individual divisions within HHSA are estimated to have both increases and decreases in Use of Fund Balance this year; however, the HHSA budgets are treated in total as a single bottom-line budget for calculating Use of Fund Balance.

For the agency as a whole, HHSA estimates that revenues will be $2.4 million lower and expenditures $2.2 million lower than the Adjusted Budget level for a negative variance and increased use of HHSA fund balance of $179,630 above the $4.2 million budgeted use of fund balance.

Several factors may improve HHSA’s bottom line by year end:

* + The Therapeutic Child Care Center project may not use all of its budgeted construction contingency.
  + Mental health inpatient (hospital) costs were estimated conservatively at six months.
  + The social services Medi-Cal closeout allocation (state redistribution of unused allocations to counties that need them) may be higher than estimated.
  + The Alcohol and Drug Services program “waiver” may be approved in time for claiming reimbursement at higher rates for a few months.
  + HHSA may be able to receive higher mental health billing revenue this fiscal year by speeding up billing and thus reimbursement timelines.

The HHSA fund has sufficient reserves within the fund balance to meet the Board’s expectation of a 10% reserve of $11 million, which will help the department to preserve services in the event of a reduction in revenue or significant increase in needs due to a future economic downturn.

Attachment A includes a number of budget adjustments needed to provide sufficient budget authority in the individual HHSA operating budgets and Special Revenue Funds.

* Fleet Fund (Fund 4100):

An appropriations increase of $250,000 in the Fleet Operations Budget, offset by the use of Fleet Operating Fund fund balance, is needed to fund the construction of the new fuel pump located at the Yountville Corporate Yard.

Use of Fund Balance is projected to increase by $90,046 in Fleet Vehicle Replacement budget as a result of revenues being lower than budgeted due to changes in the vehicle calculation methodology and lower cost recovery revenue. As part of this budget adjustment, a capital asset in the amount of $35,000 will be established for “uplifting” (outfitting) Sheriff’s Office vehicles.

* Workers Compensation Insurance (Fund 4400):

Expenditures are expected to exceed revenues because of an anticipated reduction of $200,000 in excess claims revenue this year. No budget adjustments are needed; the difference between revenue and expenditures will be reflected in a reduced fund balance in this fund.

* Lake Berryessa Resort Improvement District (LBRID) Fund 5220 and Napa Berryessa Resort Improvement District (NBRID) Fund 5240:

Appropriations increases of $187,000 for LBRID and $145,000 for NBRID, with offsetting reductions in their respective fund balances, are needed because of damage caused by excessive winter storms and unanticipated facility repairs and upgrades, respectively.

**Accumulated Capital Outlay (ACO):**

We began FY 2016-17 with a balance of $27.1 million in the ACO. This year we are projecting to add $19.2 million in revenue and expend $10.6 million, resulting in a year-end cash balance of $35.7 million. However, this balance includes $26.3 million committed to the new jail, leaving a projected year-end available non-jail fund balance of $9.4 million.

Revenue increases of $19.2 million include:

* $2,014,655 in excess FY 2015-16 General Fund revenue to be used for future capital projects
* $10,554,564 in excess FY 2015-16 General Fund revenue earmarked for the new jail
* $2,824,000 in grant funds from Kaiser Permanente resulting from an agreement on tax assessment changes, to be earmarked for the new jail
* $2.8 million in anticipated excess ERAF to be used for future capital projects
* $800,000 in Devlin Road amounts owed to the County
* $250,000 in estimated interest

Anticipated expenditures of $10.6 million include:

* Previously approved projects:
  + Old Sonoma Road demolition ($750,000)
  + South Campus parking lot improvements ($500,000) and frontage improvements ($1.8 million)
  + HVAC controls in the Administration and 650 Imperial Way buildings ($366,000)
  + Sheriff’s Office soundproofing and EOC costs ($160,000)
  + Reentry Facility utility design ($100,000)
  + New jail project establishment services ($60,000)
  + Hall of Justice repairs ($420,000)
  + Countywide ADA project design work ($236,000)
* Projects for which Board approval is requested today (specific requests are listed in Attachment A, Requested Budget Adjustments):
* Continued preparation of the new jail site ($100,000)
* Smoke sealing/fire prevention in the existing jail ($120,000)
* Archiving of certain historical County documents ($150,000), the first step in efforts to permanently reduce County paper storage needs and costs. (These costs are being funded from the ACO in place of a major capital project to renovate a building at South Campus for records storage.)
* Project for which Board approval is requested on today’s consent calendar (April 4, 2017):
  + New jail offsite utilities and advance demolition work ($5,853,000)

Attachment A includes a list of requested budget adjustments to provide necessary appropriations authority for the remainder of the fiscal year.

**State and Federal Budgets**

On January 10, the Governor released his proposed FY 2017-18 State Budget, which would eliminate a projected $2 billion deficit and bolsters the state’s Rainy Day Fund while continuing to invest in education, health care expansion and other core programs. The proposed budget notes that revenues are expected to continue to increase, although at a reduced rate. Consequently, the budget projects a $1.6 billion deficit in the coming year – the first deficit in four years – without “corrective action.” As in previous years, the proposed budget emphasizes preparation for an inevitable recession.

Key elements include:

* $3.2 billion in solutions to ensure a balanced budget, including adjusting Proposition 98 spending, recapturing unspent allocations from 2016 and constraining some projected spending growth. In total, General Fund spending remains flat compared to 2016-17.

* A $1.15 billion deposit into the Rainy Day Fund, so that the balance will reach 63 percent of the constitutional target.

* An increase in K-14 funding to $73.5 billion in 2017-18, up 55 percent – or $26.2 billion – from 2011-12. For K-12 schools, funding levels will increase by about $3,900 per student in 2017-18, over 2011-12 levels.

* Continuing enrollments in Medi-Cal under the federal Affordable Care Act, with the state’s General Fund share of cost increasing from $888 million to nearly $1.6 billion.

* Continued funding of:
  + The rising state minimum wage, which is scheduled to increase to $11 per hour in 2018 and $15 per hour over time.
  + California’s Earned Income Tax Credit.
  + The first cost-of-living adjustment for Supplemental Security Income/State Supplementary Payment recipients since 2005.
  + The repeal of the maximum family grant rule in CalWORKs, which denied aid to children who were born while their parents were receiving aid.
  + Increases in child care and early education provider rates and children served totaling $837 million.

* A transportation package that would provide $4.2 billion annually to improve maintenance of highways and local roads, expand public transit and strengthen critical trade routes.

* Proposed two-thirds urgency legislation to confirm the cap-and-trade auction greenhouse gas emissions program’s continued authority beyond 2020. Assuming approval, the budget proposes $2.2 billion in expenditures from auction proceeds, with a continued emphasis on low-income and disadvantaged communities.

The most serious potential impact in the Governor’s budget stems from a proposal to eliminate the In-Home Supportive Services Maintenance of Effort (IHSS MOE). The IHSS MOE is an agreement between the State of California and the 58 counties that spells out which entities are responsible for funding the services that allow people who have health issues or disabilities to live at home instead of in an institutional setting, as well as who has responsibility for collectively bargaining with IHSS workers. The MOE places a cap on required county spending for IHSS before the State picks up funding responsibility.

The MOE was put in place when the Coordinated Care Initiative (CCI) pilot program started. CCI allows persons eligible for both Medicare and Medi‐Cal (dual eligibles) to receive medical, behavioral health, long‐term services and supports, and home and community‐based services coordinated through a single health plan. Under current law, the Director of Finance is required to annually determine whether CCI is cost effective. If CCI is not cost effective, the program automatically ceases operation in the following fiscal year. Since 2015, the Administration has indicated that without changes improving participation in the program and continuation of an allowable managed care tax, CCI would not meet the statutory savings requirements. The Governor’s proposed budget estimates that CCI will no longer be cost effective. Therefore, pursuant to the provisions of current law, the program will be discontinued in FY 2017‐18, which will have several effects, including re‐establishing the state‐county share of cost arrangement for the IHSS program that existed prior to the implementation of CCI (i.e., elimination of the IHSS MOE). Counties will be responsible for the payment of 35 percent of the nonfederal portion of program costs through 1991 Realignment. Based on current estimates, growth in 2017‐18 Realignment revenues alone will not be sufficient to cover the additional IHSS costs. Therefore, this change is likely to result in financial hardship and cash flow problems for counties.

The potential cost increase to Napa County of eliminating the IHSS MOE could be as much as $1.1 million. Because of a previous commitment by the Board regarding IHSS costs, these cost increases would be supported by the General Fund. The California State Association of Counties (CSAC) and the California Welfare Directors Association are currently negotiating with the Administration over the terms under which counties and the State will continue sharing costs for IHSS.

At the federal level, great uncertainty exists regarding funding for areas of county responsibilities and interests including agriculture, transportation, infrastructure, housing, physical and behavioral health care, public health, social services, job training, immigration, environmental protection, law enforcement and criminal justice. The recently proposed federal budget includes significant reductions or changes in most of these areas and in some cases essential elimination of federal funding, but much discussion and debate remain before the Congress approves the FY 2017-18 federal budget.