County Executive Office

A Tradition of Stewardship
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Nancy Watt
County Executive Officer

MEMORANDUM

TO: Board of Supervisors

FROM: Nancy Watt, County Executive Officer

DATE: March 17, 2015

RE: **MID-YEAR FISCAL REVIEW - FISCAL YEAR 2014-2015**

Introduction

A mid-year review of the County's fiscal status, focusing particularly on the General Fund, is an important part of the County's on-going fiscal monitoring process. The report reflects regular operating costs as well as costs related to earthquake response and recovery. Using six months' worth of actual revenue and expenditures, the County Executive Office (CEO) staff works with departments and the Auditor-Controller's Office to forecast revenues, expenditures and Net County Cost, or General Fund Contribution, through the end of the fiscal year. This review enables the County to address any current-year budget concerns in a timely manner. This process also assists in preparing the FY 2015-16 Budget, in part by providing an estimate of the FY 2014-15 General Fund ending fund balance available. The current year ending fund balance becomes the beginning fund balance, and thus a major budget resource, for the next fiscal year.

While most major revenue sources have recovered from the Great Recession, significant pressures on our budgets remain. Personnel and operating costs will continue to grow. In addition, we continue to address capital improvement needs to maintain roads and our existing facilities in acceptable condition. The August 24, 2014 earthquake in Napa County has placed a significant burden on County resources. This impact is called out in a separate section in this report.

The available fund balance in the General Fund is sufficient to sustain the projected level of non-Earthquake related Net County Cost for the current fiscal year. It is imperative that we continually monitor revenue trends and carefully contemplate the impact that existing or proposed expenditure increases will have on our fund balance now and into the future. It is typically necessary to use between \$8 million and \$15 million to balance the budget each year, so maintaining a healthy available fund balance in the General Fund is important. After we have nine months' worth of actual expenditure and revenue data, staff will be conducting a Third Quarter Fiscal Review, which will provide a more accurate picture of what the County's year-end fiscal status is likely to be.

In addition to providing the Board with a Mid-Year Fiscal Status Report, this report also provides an update on the State's fiscal situation, focusing on its potential impact on the County's financial condition.

Mid-Year Fiscal Review

General Fund Current Year Fiscal Status

Using the most current information available, we believe that the General Fund will likely end FY 2014-15 with an unassigned ending Fund Balance of approximately $9.5 million. The County is effectively using approximately 37% of the available Fund Balance to fund ongoing non-earthquake operations. The estimates reflect the impact of the negotiated cost of living increase for all non-safety employees that was not included in the FY 2014-15 budget.

GENERAL FUND BUDGET (1)
6 MONTH ESTIMATES

	FY 2014-15 Adjusted (2)	FY 2014-15 6 Mos. Estimated	Difference
Resources			
Beginning Fund Balance (3)	$ 13,348,632	$ 13,348,632	0
Release of Gen Res for Earthquake	0	13,900,000	13,900,000
Release ACA Designation	84,300	84,300	0
Discretionary Revenue	112,970,323	111,995,675	-974,648
Earthquake Revenue Anticipated	6,000,000	6,100,000	0
Departmental Revenue	75,779,396	60,564,719	- 15,114,677
Total Revenue	194,749,719	178,660,394	-16,089,325
Total Resources	208,182,651	205,993,326	-16,089,325
Requirements			
Expenditures	192,088,018	170,002,484	- 22,085,534
Earthquake-related Costs	10,000,000	20,000,000	10,000,000
Contingency	5,902,047	5,902,047	0
Total Appropriations	207,990,065	195,904,531	- 22,085,534
Increase Reserves	630,886	630,886	0
Increase to ACO	3,639,610	3,639,610	0
Total Requirements	208,620,951	196,535,417	- 12,085,534
Projected Ending Available Fund Balance	**$ -438,300**	**$ 9,457,909**	**$ 9,896,209**

(1) Not including revenues and expenditures for the Tobacco MSA and Special Projects budget, technically part of the General Fund
(2) Includes budget adjustments through 12-31-2014
(3) Unassigned beginning balance at 7-1-2014

GENERAL FUND SUMMARY

The following is a brief explanation of the "differences" in each resource or requirement category identified in the above table.

- Discretionary Revenue: Discretionary, or general purpose, revenues are projected to total approximately $112.0 million, which is about $975,000, or 0.9%, lower than the budgeted level. Excess Educational Revenue Augmentation Fund (ERAF) revenue has been significantly impacted by the rapid increase in Local Control Funding Formula for Napa Valley Unified School District. This increase, driven primarily by higher revenues at the state level and the Proposition 98 school funding guarantee, adjusts the overall funding level for schools. Local property taxes, including ERAF, are required to fund the increase prior to state funds being used. Therefore, excess ERAF returned to the County is projected to be $4.8 million less than the original budget estimate. Because only $2.5 million of excess ERAF is used for ongoing operations, this revenue reduction does not impact the General Fund.
- When the loss of excess ERAF is excluded from the analysis, discretionary revenue is projected to be $3.8 million (3.7%) higher than budget. General property tax revenue is expected to be approximately $1.7 million (2.3%) higher than budget. Transient Occupancy Tax and Sales Tax receipts are each projected at approximately $400,000 higher than budget. Other discretionary revenue is estimated to be $1.3 million above the adjusted budget. This includes receipt of nearly $600,000 for pre-2004 mandated cost reimbursement representing a small portion of payoff of the State's "wall of debt."

Revenue	FY 14-15 Budgeted	FY 14-15 Estimated	Difference	Percent Difference
Property Tax (No excess ERAF)	72,258,785	73,949,213	1,690,428	2.3%
Excess ERAF	11,812,066	7,000,000	<4,812,066>	-40.7%
Transient Occ. Tax	11,128,000	11,542,846	414,846	3.7%
Sales & Use Tax	6,489,000	6,926,481	437,481	6.7%
Other Discret. Rev.	11,282,572	12,577,135	1,294,563	11.5%%
Total Discret. Rev.	112,970,423	111,995,675	<974,748>	-0.9%
Total Discretionary Rev. w/o excess ERAF	101,158,357	104,995,675	3,837,318	3.7%

- Departmental Revenue: Departmental revenues exclusive of Earthquake reimbursements are projected to be approximately $15.2 million, or 20%, lower than the budgeted level. This is due primarily to:
  - A projected $14.4 million revenue reduction in the Public Works Engineering and Public Works Projects budgets for planned projects that will not be completed in the current fiscal year due to earthquake-related work or other project delays. This change is offset by expenditure savings, and revenue and expenditures will be re-budgeted in FY 2015-16 for projects carrying forward into the next fiscal year.
  - A projected $261,000 (5.1%) reduction in revenue in Probation due to the loss of federal Title IV-E funds related to pre-placement activities conducted by Probation staff. Last year, the Federal Department of Health and Human Services ordered a stop to all payments associated with pre-placement activities based on audit findings in two other counties. Napa County, along with other counties through the Chief Probation Officers of California (CPOC) association and the California Department of Social Services (CDSS),

has been working with counterparts at DHHS to determine if a corrective action plan can be put into place so funding to counties can resume. At this time, CPOC has not been successful in restoring this funding. This reduction of approximately $450,000 was offset in part by increased Proposition 172 funds mainly attributed to a one-time payment catching up a statewide miscalculation of a sales tax swap that shorted counties over a multi-year period.

- A projected loss of $208,000 in the Planning, Building and Environmental Services budget due to loss of permit and other fee revenues throughout the department.

- Expenditures: Departmental expenditures exclusive of the earthquake costs are projected to be approximately $22.1 million (11.5%) lower than the Adjusted Budget level. This is due primarily to:

  - A $14.6 million reduction in capital project expenditures in Public Works for projects planned for the current fiscal year that have been delayed due to redirection of staff to earthquake recovery projects.
  - A $4.8 million reduction in the transfer of excess ERAF funds from the General Fund to Accumulated Capital Outlay. By Board policy, any FY 2014-15 revenue in excess of $2.5 million used for operations is transferred to Accumulated Capital Outlay. As mentioned in the revenue section, excess ERAF revenue is expected to drop drastically in the current fiscal year, thereby reducing the anticipated transfer by $4.8 million.
  - A $1.1 million reduction in the Corrections budget due to the postponement of relocation of inmates outside of the county to accommodate capital projects planned in the jail prior to the earthquake. Inmates are currently located in Solano County due to the need for immediate repair of damage resulting from the earthquake. However those capital projects will ultimately need to be completed, so this cost will be re-budgeted in a future year.
  - Approximately $117,000 in reductions in the Probation budget and $128,000 in reductions in the Planning, Building and Environmental Services to offset revenue losses mentioned in the section above.
  - Approximately $280,000 in the District Attorney and $190,000 in the Public Defender budgets in salary savings are the result of extended vacancies. Smaller savings across most departments make up the remainder of the total expenditure savings.

- Appropriation for Contingency: This review assumes that all $5,902,047 of the Appropriation for Contingency will be spent during the current fiscal year. A budget request decreasing the Contingency by $12,690 is necessary to support increased employee costs in the UC Cooperative Extension budget due to the negotiated wage increase. Further, earthquake-related response and recovery costs are still being calculated, and higher, unforeseen expenditures may occur later in the year. The Appropriation for Contingency will be reevaluated during the Third Quarter Review, and an adjustment may be recommended at that time.

Mid-Year Review of Department Budgets

This section generally focuses on current year General Fund, special revenue fund and enterprise fund departments, where expenditures and/or Net County Cost/General Fund Contributions are projected to exceed the budgeted level by $50,000 or more. In addition, information may be provided about certain other budget units where there are significant fiscal issues that the Board may need to address.

In general, where a budget unit is projected to exceed the approved appropriation level or Net County Cost, it is recommended that the department be directed to make every effort to come in within the budgeted Net County Cost level and that the department's fiscal status be revisited as part of the Third Quarter Fiscal Review. Budget adjustments are recommended at this time in budgets across affected County funds to ensure that there is sufficient appropriation authority to cover projected expenditures that will occur between now and the Third Quarter Review.

General Fund Departments

As indicated above, General Fund expenditures, including earthquake costs, are projected to be $12.1 million (5.8%) lower than the FY 2014-15 Adjusted Budget and total revenues are projected to be $16.1 (8.3%) lower than the Adjusted Budget. The net effect to Net County Cost is an increase of $6.0 million. The increase is a combination of $13.9 million in earthquake costs net of revenues realizable in the current year. Substantial savings from delay of capital projects that will need to be budgeted in future years masks some of this cost when aggregated. As recommended earlier, use of $13.9 million in General Reserve is recommended. If this occurs, the projected ending fund balance increases to $9.5 million, which will carry forward to the next fiscal year to support the cost of delayed projects.

An increase in the UC Cooperative Extension budget in the amount of $12,690 is requested to accommodate negotiated salary and benefits increases. This is a very small program and has little ability to absorb the increase within current appropriations. This increase is proposed to be offset by a reduction in the Appropriation for Contingency in the General Fund.

An increase in the Special Projects budget in the amount of $73,000 is requested to provide funding for FY 2014-15 Arts and Culture grants and Visitor Management grants which have been awarded. The funding is part of prior year carry-over that was not included in the Adopted Budget.

Health & Human Services Agency

The Health and Human Services Agency (HHSA) has an adjusted budget of approximately $93 million with a General Fund contribution of $16.6 million. Overall, HHSA is projecting that expenditures will be approximately $628,000 higher than the Adjusted Budget level. Salary and benefit expenditures are up over $1 million based on the negotiated wage increase for most HHSA employees, offset by underspending in other categories such as foster care and adoptions assistance payments. Revenue is projected to be approximately $2.4 million higher due primarily to a $2.1 million augmentation to the Medi-Cal Administration payment recorded in the Self Sufficiency Division. Increases in appropriations are requested in six HHSA divisions, offset by appropriation decreases and new revenues. No increase use of fund balance is anticipated.

Special Revenue-Operating Fund

A number of the HHSA's 11 Special Revenue-Operating Fund Divisions are projected to exceed their appropriations or Net Fund Cost level by more than $50,000. Adjustments to the budgets are requested as necessary to appropriately allow for expenditures, but all increases are offset by projected expenditures below budget in other areas of the HHSA. The requested increases are described below.

Public Health (20001)

Expenditures are projected to be approximately $379,000 higher than the Adjusted Budget level and revenues are projected to be approximately $350,000 higher. The increase in expenditures includes a projected $280,000 increase in salaries and benefits based on the negotiated MOU and the transfer of three allocated positions from other HHSA divisions into Public Health (Board action taken July 22, 2014) to administer the Medi-Cal Administrative Activities (MAA) program and the Live Healthy Napa County initiative. The remaining increase of $100,000 is primarily due to increased reimbursement of physicians and hospitals for certain emergency medical services with a corresponding increase in revenue from the Special Revenue Fund set up for this purpose. Other revenue increases include a one-time payment related to an error by the Board of Equalization in calculating sales tax realignment and an increase in MAA revenues based on actual claims.

A budget transfer increasing revenue by $350,444 and appropriations by $378,744 is requested. The difference of $28,300 will be transferred from other HHSA divisions.

Mental Health (20002)

Expenditures are projected to be approximately $608,000 more than the Adjusted Budget level and revenues are projected to be approximately $461,000 higher. The increase in expenditures is primarily due to salary and benefit increases of $336,000 based on the new MOU, a combined increase of about $135,000 in use of hospitals and residential treatment (offset by Medi-Cal revenue) and an increase of about $137,000 in a variety of contracts providing direct services to clients (offset by Medi-Cal revenue.) Higher revenues are due to higher Medi-Cal billing and realignment growth payments.

A budget transfer increasing revenue by $461,189 and appropriations by $608,440 is requested. The difference of $147,251 will be transferred from other HHSA divisions.

Alcohol and Drug Services (20003)

Expenditures are projected to be approximately $43,000 higher than the Adjusted Budget level and revenues are projected to be approximately $23,000 higher. The expenditure increase is primarily due to salary and benefit increases based on the MOU. The revenue increase is primarily based on MAA claiming.

A budget transfer increasing revenue by $22,831 and appropriations by $43,329 is requested. The difference of $20,498 will be transferred from other HHSA divisions.

Child Welfare Services (20004)

Expenditures are projected to be approximately $496,000 lower than the Adjusted Budget level and revenues are projected to be $121,000 lower. Both are lower primarily due to lower foster care and adoptions assistance payments and reimbursements tied to actual expenditures.

Comprehensive Services for Older Adults (20005)

Expenditures are projected to be approximately $583,000 higher than the Adjusted Budget level and revenues are projected to be $161,000 lower. Expenditures have increased primarily due to negotiated salary and benefit increases of $205,000 and an increased need to use hospital services. The revenue decrease is based on fewer Mental Health Services Act reimbursable expenditures and a decrease in estate fees collected by the Public Administrator.

A budget adjustment is requested transferring $583,270 from other HHSA divisions.

Operations (20012)

Expenditures are projected to be approximately $294,000 higher than the Adjusted Budget level and revenues are projected to be approximately $55,000 lower. Expenditures have increased primarily due to negotiated salary and benefit increases and the transfer of the contracts management responsibilities staff from other Divisions (Board action taken July 22, 2014.)

A budget adjustment is requested transferring appropriations of $293,476 from other HHSA divisions.

Quality Management/Compliance (20013)

Expenditures are projected to be approximately $46,000 higher than the Adjusted Budget level and revenues are projected to meet budget. Expenditures have increased primarily due to negotiated salary and benefit increases and earthquake related overtime costs.

A budget adjustment is requested transferring appropriations of $46,041 from other HHSA divisions.

Other Funds

An appropriations increase of $100,000 is requested in the Building Fund to support the cost of contracted plans examiner services necessary due to extended vacancies within the department.

Within the Accumulated Capital Outlay subdivision of the Capital Projects Fund, an increase of $103,000 is requested in Transfers Out to support the cost of a full time project manager for the Health and Human Services Campus Construction project. This appropriation was inadvertently omitted from the Requested FY 2014-15 Budget.

An increase of $120,000 in the Transfers Out appropriation in the County Service Area (CSA) 4 Fund is recommended to support operating costs in the three Farmworker Centers where funding has not been identified. The increased appropriation is offset by fund balance in the CSA 4 Fund.

Earthquake Financial Impact

The South Napa Earthquake caused significant damage to County buildings and infrastructure. The table below provides an explanation of $20 million in expenditures expected to occur or be encumbered in the current fiscal year. An appropriation of $10 million was previously approved by the Board of Supervisors. However, current year cost estimates now exceed $20 million. Reimbursement in the form of insurance payments and federal and state emergency funds is anticipated but may not be received or earned in the current year. At this time, current year revenues are conservatively estimated at $6.1 million. Therefore, the excess of anticipated costs over revenues results in a projected deficit of $13.9 million. In order to minimize disruption to existing County services through a decrease in available resources to support them, we recommend that the Board authorize use of up to $13.9 million from the General Reserve. By law, the General Reserve may only be increased or decreased during the budget process or, alternatively, during the current year under very limited circumstances. A declared emergency is one of these circumstances. As reimbursements from insurance or federal and state agencies are received to cover costs already incurred, this revenue would be specifically designated to restore the General Reserve to its County policy level. Currently, $24,661,600 is included in the County General Fund restricted fund balance for General Reserve.

Summary of 2014 Earthquake Expenditures
As of 3/10/15

Expenditures To Date 3/10/15:		
Costs Incurred and Paid	$ 3,763,227	
Insurance Paid Costs yet to be Recorded	2,772,259	
Contracts Encumbered	4,216,234	
Commitments Not yet Encumbered[a]	1,696,378	
		$ 12,448,098
Estimated Costs through End of FY 2014-15[b]		*4,000,000*
County-Wide Labor Costs Through 3/5/15:		
Regular Hours - 40,382	2,149,081	
Overtime Hours - 6,069	300,537	
		2,449,618
Estimated Labor Costs through End of FY 2014-15[c]		*1,200,000*
Total Projected Earthquake-related Costs for FY 2014-15		$ 20,097,716

Notes:

a. Several contracts span across many projects. This causes a system limitation for encumbering the contracts correctly, therefore we record the expense when the invoices are received and approved.

b. Estimated costs do not include the contracts for the large building repair projects. When the BOS awards the contracts, we will ask for additional appropriations at that time.

c. Estimated labor includes costs related to: displaced staff moving to permanent locations; Public Works, Roads, Property Management and ITS staff for continual repairs and EQ projects; Auditor-Controller, Public Works Accounting staff, Emergency Management, Risk Manager, and CEO staff for FEMA and Insurance related activities.

State Budget

On January 9th, the Governor released his proposed FY 2014-15 State Budget that reflects continued economic improvement and significantly increased state revenues in all three of the major tax areas: Personal Income Tax, Sales and Use Tax, and Corporate Tax.

The Governor generally has not wanted to increase program expenditures but, rather, use additional revenue to pay off long-term debt and build sufficient reserves. These prudent budget policies should smooth revenue losses in subsequent years and provide counties with more fiscal stability. With the exception of education programs subject to Proposition 98 guarantees, no major program expansions are proposed.

Revenues continue to come in significantly above projections used in developing the budget. Under the funding guarantees provided to schools through Proposition 98, the majority of additional revenue will go to Education. On a Napa County level, the steep increase in funding for schools means a commensurately steep decline in excess ERAF taxes returned to the County. While a decline was anticipated, we did not foresee it to occur so quickly. Current projections show this funding source to be gone by the end of FY 2015-16. Beginning in FY 2015-16, Napa County, as planned, will no longer use excess ERAF for ongoing operations.

Two other significant items emerged in the Governor's proposed budget for FY 2015-16 that impact Napa County. First, there is a proposal to use $533 million toward paying off pre-2004 mandated cost claims. As mentioned earlier in this report, Napa County received nearly $600,000 earlier this fiscal year as its share of $100 million in mandated cost payments included in the budget. The $533 million payment is based on forecasted revenues in the current year, although it is unlikely that it would be received before FY 2015-16. If it materializes, this could result in approximately $3 million in one-time revenue to the County. Second, the budget proposal includes significant additional funding in the current year to support Medi-Cal eligibility performed by counties that was impacted by Medi-Cal expansion. Health and Human Services Agency staff are reviewing the impact of the increased revenue in the current and budget years and will request Board action separately to appropriate anticipated funds.