A Tradition of Stewardship
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Minh C. Tran
County Executive Officer

MEMORANDUM

TO: Board of Supervisors

FROM: Minh C. Tran, County Executive Officer

DATE: March 20, 2018

RE: **MID-YEAR FISCAL REVIEW - FISCAL YEAR 2017-18**

Introduction

A mid-year review of the County's fiscal status, focusing particularly on the General Fund, is a vital piece of the County's on-going fiscal monitoring process. Using actual revenue and expenditures from the first six months of the fiscal year, the County Executive Office (CEO) staff works with departments and the Auditor-Controller's Office to forecast revenues and expenditures 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 the preparation of the FY 2018-19 budget, in part by providing an estimate of the FY 2017-18 General Fund available ending fund balance for use in the FY 2018-19 budget process. As in prior years, the current year ending fund balance becomes the beginning fund balance, and thus a major budget resource, for the next fiscal year.

The 2017 Napa Fire Complex created downward pressure on the County's overall discretionary revenue (property tax, transient occupancy tax, and sales tax).

The available fund balance in the General Fund is sufficient to sustain the projected level of expenditures for the current fiscal year. As always, we continually monitor revenue trends and carefully contemplate the impact that existing or proposed expenditure increases will have on the fund balance now and into the future.

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 2017-18 with an unassigned ending Fund Balance of approximately $5.1 million. To put this in perspective, in order to balance the General Fund adopted budget over the past few fiscal years, the County has used approximately $5 to $10 million of General Fund available fund balance. It is imperative that the County continue its prudent fiscal discipline to ensure sufficient resources are available to address anticipated and unanticipated cost increases. The table below does not include Special Projects or Tobacco MSA revenue/expenses, which are technically a part of the General Fund. Through your Board's policy you have placed internal designations on these funds effectively turning the revenue source from a discretionary resource into a semi discretionary resource and not availablefor general operations.

GENERAL FUND BUDGET (1)
6 MONTH ESTIMATES

	FY 2017-18 Adjusted (1)	FY 2017-18 6 Mos. Estimated	Difference
Resources			
Beginning Fund Balance (2)	$ 19,913,188	$ 19,913,188	0
Use of General Reserve	11,744,260	12,237,470	493,210
Non-Departmental Revenue (3)	$ 126,697,187	$ 124,815,417	(1,881,770)
Departmental Revenue	68,873,425	$68,554,376	(319,049,)
Total Revenue	195,570,612	193,369,793	(2,200,819)
Total Resources	227,228,060	225,520,451	(1,707,609)
Requirements			
Expenditures	209,464,713	205,405,295	(4,059,418)
2017 Napa Fire-related Costs (4)	2,309,770	3,292,200	982,243
Contingency (5)	3,485,100	2,920,712	(564,388)
Total Appropriations	215,259,583	211,618,207	(3,641,376)
Increase Reserves	8,827,618	8,827,618	0
Total Requirements	224,087,201	220,445,825	(3,641,376)
Projected Ending Available Fund Balance	**$ 3,140,859**	**$ 5,074,626**	**$1,933,767**

(1) Includes budget adjustments through 12-31-2017
(2) Unassigned beginning balance at 7-1-2017
(3) Does not include Excess Educational Revenue Augmentation Fund (ERAF) revenue
(4) Includes Declared Disaster Division and $750K transfer to Roads for initial fire related projects
(5) Assumes 100% of the contingency balance will be used during the remainder of the fiscal year

General Fund Summary

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

Revenue

General Fund revenues are projected to be approximately $2.2 million lower overall than the Adjusted Budget level.

- Non-Departmental Revenue: Non-Departmental revenues, or general purpose revenues, 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. These revenues are projected to total approximately $124.8 million, which is approximately $1.9 million, or 1.5% below the adjusted budget level. The 2017 Napa Fire Complex had a direct impact on FY 2017-18 discretionary revenue, specifically property tax, transient occupancy tax, and sales tax. The net impact on these three revenue sources is estimated at $2.9 million and is outlined in detail in the 2017 Napa Fire Complex section of this memo. Additionally, we anticipate the receipt of excess ERAF revenue towards the end of the fiscal year. Excess ERAF is the fund used to collect the property taxes in each county that are shifted from cities, the county and special districts prior to their reallocation to K-14 schools, reducing the state support. Once the school districts are funded by the prescribed revenue and taxation code, any remaining revenue is returned to the jurisdiction for which the shift occurred (this return of funds is referred to as excess ERAF). Since the Board's policy is to not use excess ERAF for operations, but rather transfer these funds to the Accumulated Capital Outlay (ACO) Fund, this analysis does not included any estimates regarding excess ERAF. When the actual excess ERAF funds are received, we will return to the Board to request the necessary authorization to transfer these funds to the ACO, specifically to increase the jail commitment.

  General property tax revenue is expected to be approximately $180,000 (less than 1%) lower than budgeted. Transient Occupancy Tax is projected to be approximately $456,000 (3.3%) lower than budgeted, and Sales Tax is projected at approximately $1.1 million (9.6%) below budget. Other non-departmental revenue is estimated to be $172,000 (1.1%) higher than budgeted.

Revenue	FY 17-18 Budgeted	FY 17-18 Estimated	Difference	Percent Difference
Property Tax (No excess ERAF)	86,179,768	86,000,000	(179,768)	Less than 1%
Transient Occ. Tax	13,433,400	12,977,569	(455,831)	(3.3%)
Sales & Use Tax	11,639,000	10,518,273	(1,120,727)	(9.6%)
Other Rev.	15,147,999	15,319,577	171,578	1.1%
Total Non Dept Rev.	126,697,187	124,815,417	(1,881,770)	(1.5%)

- Departmental Revenue: Departmental revenues are projected to be approximately $320,000 (less than 1%) lower than the budgeted level. The decrease is primarily comprised of the following (outlined by functional area):

i. General Administration/Finance (excluding Non-Departmental Revenue): This functional area is estimated to have a decrease of approximately $375,000. The majority of the revenue reduction is due to a $240,000 decrease in Central Services resulting from a reduction in court fines. The remaining revenue reductions have corresponding reductions in expenditures,

ii. Community Resources and Infrastructure: This functional area is estimated to have an approximately $400,000 decrease in revenue. This reduction is primarily due to a $321,000 reduction in revenue within the Planning Building and Environmental Services (PBES) Local Enforcement Division. In response to the 2017 Napa Fire Complex, staff was reallocated to address required work which resulted in decreases in grant reimbursements. The remaining decrease in revenue is related to a reduction in planning permits within PBES.

iii. Law and Justice/Public Safety: This functional area is estimated to have an approximately $436,000 increase in revenue primarily due to an increase of $208,000 in the Corrections Department budget from transfers of various 2011 Public Safety Realignment funds and a $224,000 increase in the Sheriff's budget due to intrafund revenue from the Declared Disaster Division to offset overtime costs related to the 2017 Napa Fire Complex.

Expenditures

General Fund expenditures, excluding the 2017 Napa Fire Complex costs and appropriation for contingency, are projected to be approximately $4.1 million lower overall than the Adjusted Budget level. A summary of the net impact by functional area is outlined below:

- General Administrative /Finance, excluding the Declared Disaster Division, Appropriation for Contingency, Special Projects, and Tobacco MSA: This functional area is estimated to have $2.8 million in expenditure savings coupled with an estimated reduction in revenue of $2.25 million, creating a decrease in Net County Cost (NCC) of approximately $550,000. The decrease in expenditures is largely related to an approximate reduction of $1.3 million in the transfer to Roads for six (6) projects which required immediate repairs as a result of the 2017 Storms. The cost of these projects was less than originally estimated. Additionally, a $475,000 reduction in Central Services stemmed from decreases in a variety of contracted professional services and salary savings from position vacancies.

- Community Resources and Infrastructure: This functional area is estimated to have an expenditure savings of $925,000 coupled with an estimated reduction in revenue of $400,000, creating a decrease in NCC of approximately $500,000. The reduction in expenses is comprised primarily of salary savings due to position vacancies within the various divisions of PBES.

- Law and Justice/Public Safety: This functional area is estimated to have a $400,000 decrease in expenditures coupled with a $435,000 increase in revenue, creating a decrease in NCC of approximately $835,000. The reduction in expenditures is primarily comprised of a decrease of $530,000 in the District Attorney's budget from salary savings, a $182,000 decrease in the Public Defender's budget due to a reduced need for professional services, a

$185,000 decrease in Conflict Public Defender's budget due to diminished demand from the Public Defender's Office, and other smaller expense reductions in other Law and Justice/Public Safety Divisions. These decreases are partially offset by a $475,000 increase in Probation from an increased use of overtime related to the 2017 Napa Fire Complex response and an error related to insurance premiums, which were under budgeted relative to the actual need, as well as a $210,000 increase in the Sheriff's budget from overtime related to the 2017 Napa Fire Complex.

Appropriation for Contingency

As part of the mid-year budget item to your Board, staff is requesting the contingency be decreased by $564,388 leaving a remaining balance of $2,920,712. This review assumes that 100% of the remaining Appropriation for Contingency will be spent this fiscal year. The use of the appropriation for contingency is as follows:

1. Human Resources $27,575; primarily due to increases from the negotiated salary and benefit changes
2. Probation $339,085; primarily due to under budgeting of employee health insurance costs and increases in overtime
3. Juvenile Hall $54,128; primarily due to the negotiated salary and benefit changes
4. Elections $95,000; primarily due to the increased costs of the Voter's Choice Act
5. Sheriff Animal Services $23,600; primarily due to increases in overtime and fuel costs
6. Board of Supervisors $25,000; primarily due to the small size of the department there was no ability to absorb the mandated COLA (the Board's COLA is based on the Superior Court judges salary adjustments, which occurs after the County budget is adopted and is not connected to the County negotiated COLA)

As indicated in the table on page 2, General Fund expenditures, including 2017 Napa Fire Complex costs, are projected to be approximately $3.7 million lower than the FY 2017-18 Adjusted Budget and total revenues are projected to be approximately $1.7 million lower than the Adjusted Budget. This net result is an increase to the ending fund balance which is estimated at approximately $5.1 million. If the remaining appropriation for contingency is not used during the remainder of the fiscal year the ending available fund balance would reach an estimated $8 million. As stated on page 2 of this report, over the past few fiscal years, the General Fund has used approximately $5 to $10 million of available fund balance to balance its budget.

2017 Napa Fire Complex

On October 8, 2017, the County Executive Officer proclaimed a local emergency due to fires at various locations in Napa County (2017 Napa Fire Complex). This action was ratified by the Board of Supervisors on October 10, 2017. Staff throughout the County continues to work on the recovery efforts. Although the impact of the 2017 Napa Fire Complex is ongoing, the current impact on FY 2017-18 can be broken down as follows:

Estimated Revenue Loss

Revenue Source	2017 Fire Revenue Impact (reduction)
Property Tax	($1,500,000)
Transient Occupancy Tax	($1,000,000)
Sales Tax	($400,000)
Total	**($2,900,000)**

Initial Cost of 2017 Napa Fire Complex

Expense Type	Amount
Departmental Overtime	$897,226
Transfer to Roads for initial 2017 Fire Related Work	$750,000
Emergency Operations Command (EOC) including mutual aid agreements	$1,644,980
Total	**$3,292,200**

Between the loss of revenue and increased costs due to the fires, the net impact to the FY 2017-18 budget is approximately $6.2 million. Future cost impacts are expected in a variety of areas including Planning, Building, Environmental Services, Assessor, Roads among others. Additionally, indirect cost impacts may be significant such as increased damage to county roadways as a result of the increased construction activity. Staff continues to work with the County's representatives to alert the State and Federal government of all cost impacts with the hope of reimbursement in the future.

Health & Human Services Agency

The Health and Human Services Agency (HHSA) has an adjusted budget of approximately $122 million with a General Fund contribution of $18 million. Overall, HHSA is projecting that revenues will be $3.37 million lower and expenditures will be approximately $3.34 million lower than the Adjusted Budget level resulting in a $300,000 decrease of fund balance.

The increase of unbudgeted negotiated salary and benefit changes has been absorbed by vacancies and turnover in staffing for some, but not all, divisions in Health and Human Services. Public Health, Alcohol & Drug Services, Comprehensive Services for Older Adults, Self Sufficiency, and Agency Administration all had increases in personnel costs above anticipated amounts. Agency Administration incurred the largest increase in personnel costs totaling $318,000.

A significant adjustment of particular note for Mental Health is an increase in client services, placements in institutes for mental diseases (IMDs) and placements in Indigent Hospitals. Overall, this increase, totaling $1 million in net cost, is offset by decreases in other contracted service areas within the Mental Health Division. Mental Health also experienced a decrease in expected revenue from Medi-Cal billable services totaling $580,000 resulting primarily from the departments provision of services in response to the 2017 Napa Fire Complex and other non-billable services. Alcohol & Drug Services also had a significant reduction in expected revenue totaling $250,000 due to a delay in implementation of the Drug Medi-Cal Organized Delivery System (ODS) waiver. Counties are under a new Minimum of Effort (MOE) agreement with the State to provide In Home Supportive Services (IHSS) to Napa County residents, which increases the cost of these services for the foreseeable future. The Assignment for IHSS MOE in Napa County's FY 2017-18 budget was created to offset these rising costs. The reduction in this assignment totals $719,132 to offset reductions in realignment growth in Public Health ($366,000), Mental Health ($240,000), and Comprehensive Services for Older Adults ($113,132) associated with paying for the new MOE.

The Health and Human Services fund had sufficient reserves within the fund balance to meet the FY 2017-18 reserve policy of 10% of total expenses which equates to $10.9 million (calculated as 10% of total budget minus internal administrative spread). This reserve assists the department to preserve services in the event of a non-structural reduction in revenue or significant increase in needs due to a future economic downturn. The estimated FY 2017-18 ending Available Fund Balance is $3.51 million and the ending balance for the Designation for Fiscal Uncertainty is $10.95 million.

Budget Adjustments

Attachment A to this memo provides a description of all the recommended budget transfers for which the Board will be approving today. Many of these transfers are outlined above, while others are procedural relating to increasing transfers out from non-operating Special Revenue Funds to operating budgets or adjustments from savings in one Division offsetting increases in another Division within the same fund.

State Budget

According to the State Controller, for the fiscal year overall, the “big three” sources of State General Fund revenue, personal income tax (PIT), retail sales and use tax, and corporation tax, are exceeding estimates in the enacted budget. The overall increase, compared to estimates, should assist the State in meeting its FY 2017-18 budget requirements. On January 10, 2018, the Governor released his proposed FY 2018-19 State Budget reflecting a similar spending platform and philosophy as previous years of paying down debt and limiting new ongoing commitments due to a possible looming economic slowdown. Specifically, the FY 2018-19 budget places a priority on In-Home Supportive Services (IHSS), Continuum of Care Reform for foster care youth, resources to assist the growing mental-health crisis in our jails and communities, and transportation infrastructure.

Inclusive in the State’s budget was $24 million to assist counties, like Napa, who were impacted by the recent wildfires to backfill secured property tax losses. The State has also committed to working with the impacted counties to assist in final calculations of these losses and to include those totals in the May Revise. The Auditor-Controller’s Office continues to work diligently with the State Department of Finance to ensure the calculations for allowable costs are accurately collected and distributed to the State to assist the County in maximizing this reimbursement. There are currently over 70 bills proposed in the State Legislature related to fire recovery. Many of the bills may be merged as they move through the legislative process, but staff is monitoring the activity of the various bills closely.

The Recorder-Clerk’s Office continues to work with the State in attempting to include funding within the May Revise to assist in elections system funding related to the five (5) pilot counties implementing the Voter’s Choice Act. Any legislative changes that may occur will offset costs within the Elections Divisions budget related to this program.

The State's budget does not reflect any impact from the recent Federal tax legislation ("The Tax Cuts and Jobs Act") as it is difficult for any detailed analysis to occur until after tax receipts are received allowing for enough information to predict any potential impacts next year.

As with all fiscal years, we will continue to monitor the State's budget for both FY 2017-18 and FY 2018-19, including the May Revise to ensure your Board can make proactive decisions to improve the counties overall resources and service delivery.