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Agenda Date: 1/5/2016  
Agenda Placement: 10C

## NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

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**TO:** Board of Supervisors

**FROM:** Leanne Link for Nancy Watt - County Executive Officer  
County Executive Office

**REPORT BY:** Leanne Link, Assistant County Exec Officer - 707-253-4406

**SUBJECT:** Fiscal Issues: Strategic Financial Plan Revision/Budget Policies

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### **RECOMMENDATION**

County Executive Officer requests:

1. Consideration and approval of the County's proposed 2020 Strategic Financial Plan, providing updated financial information and forecasts through FY 2019-20; and
2. Consideration and approval of the proposed FY 2016-17 Budget Policies and Budget Calendar.

### **EXECUTIVE SUMMARY**

#### **2020 Strategic Financial Plan**

The Board first approved a Strategic Financial Plan on February 7, 2012. This was a five-year plan that forecasted County financial position through 2017 and provided policy guidance in key financial areas. The plan has been revised twice. The First Revision occurred on April 24, 2012 as an update on the five-year projections (through June 30, 2017). The Second Revision updated the plan to phase in an additional General Fund Contribution to the Roads Fund over a five year period. The 2020 Strategic Financial Plan updates the financial information and resets the forecast period through June 30, 2020. The core philosophy and budgetary policies remain in place, but the plan also addresses areas of concern that have been identified or intensified since the plan was first introduced. Major changes from the 2017 Strategic Plan are discussed in the Background Section.

#### **Proposed FY 2016-17 Budget Policies**

Your Board is also being asked to consider proposed FY 2016-17 Budget Policies, that will provide guidance to staff in preparing the County's FY 2016-17 Recommended Budget. As proposed, the Budget Policies incorporate the provisions of the County's Strategic Financial Plan. Key Budget Policies include:

- | For General Fund departments and programs, prepare budgets with a goal of holding Net County Cost to the current budget level, with exceptions being considered on a case-by-case basis. For non-General Fund departments and programs, there should be no increase in General Fund Contribution, with two exceptions: (1) a \$560,000 increase in General Fund Contribution to the Roads Fund; and (2) a possible increase in General Fund Contribution to the Health & Human Services Fund to cover any OMB A-87 cost increases.
- | No new or enhanced programs are to be proposed unless they are funded by dedicated and sustained revenue or involve the reallocation of General Fund resources to fund critical accountability, regulatory compliance or public health and safety needs, or are related to Public Safety realignment implementation or the Major Capital Improvement Program. No backfill of reductions in State or federal funding unless there is a legal mandate or the Board determines that the program is a high priority for County funding.
- | Place at least 3% of General Fund appropriations into a Contingency and work toward building General Reserves to 10% of General Fund and Health & Human Services Fund appropriations (not including the appropriation for Contingency, any transfer to the Accumulated Capital Outlay budget and the General Fund Contribution to the Health & Human Services Fund).
- | After covering current year operating and capital costs and meeting General Fund Contingency and Reserve requirements, place remaining General Fund resources in a Designation for Fiscal Uncertainties until the General Reserves and Designation for Fiscal Uncertainties, together, equal 20% of General Fund and Health & Human Services Fund appropriations (with the exclusions mentioned above). Once this goal is met, transfer any remaining unappropriated discretionary resources to the Accumulated Capital Outlay (ACO) budget.
- | With limited possible exceptions, defer the purchase of new or replacement vehicles.

Your Board is also being asked to approve the Proposed Budget Calendar for FY 2016-17. Budget Hearings are scheduled for June 13 and 14, 2016.

### **PROCEDURAL REQUIREMENTS**

1. Staff report.
2. Board questions of staff.
3. Public Comment.
4. Motion, second, discussion and vote.

### **FISCAL IMPACT**

Is there a Fiscal Impact?                      No

### **ENVIRONMENTAL IMPACT**

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

### **BACKGROUND AND DISCUSSION**

### Strategic Financial Plan

On February 7, 2012, the Board adopted the County's five-year Strategic Financial Plan, that provided a policy and priority framework for ensuring the County's fiscal sustainability through FY2016-17. The proposed revision to the plan updates the financial forecasts to project General Fund revenues, expenditures and fund balance through June 30, 2020. Key goals of the plan are retained to ensure that General Fund operating expenditures not exceed operating revenue except temporarily and, in times of fiscal distress, to allow the County to implement a Fiscal Contingency Strategy. The Plan's Resource Allocation Strategy makes a distinction between services appropriately funded by the General Fund using discretionary resources and services appropriately funded by dedicated resources. The Resource Allocation Strategy also identifies General Fund-supported services that, to the extent resources are available, are slated for growth over the next five years. In addition, the revised plan retains the planned increase in General Fund contribution to the Roads Fund. This increase, which commenced in FY 2013-14, adds an additional \$560,000 each year to the General Fund Contribution to the Roads Fund over a period of five years. For FY 2016-17, the General Fund contribution to the Roads fund will be \$3,172,000. One final year of increase is planned for FY 2017-18, bringing the total contribution to \$3,732,000, a 300% increase from the FY 2012-13 level. In FY 2018-19, the Roads Fund will begin receiving funds from the Measure T transportation sales tax, further adding to resources used exclusively to maintain and improve roads within the County.

Significant changes from the 2017 Strategic Financial Plan include:

- | Changing the period covered to FY 2015-16 through FY 2019-20. Because staff does not yet have estimates for actual revenues and expenditures in the current fiscal year, the projections are based upon actual financial data through FY 2014-15.
- | The Health and Human Services Agency (HHSA) was moved out of the General Fund and into its own fund in FY 2012-13, so it is not represented (beyond the annual General Fund contribution to the HHSA fund) in the financial data.
- | Excess ERAF is not considered for revenue purposes. Beginning in FY 2015-16, excess ERAF revenue is not used for ongoing General Fund operations.
- | The core Philosophy, Guiding Principles and Key Policies remain from the previous version. However, the policies include the HHSA establishing a 10% Fiscal Uncertainty designation within the HHSA fund.
- | The annual increase of \$560,000 in the General Fund transfer to the Roads Fund remains, but it remains flat at \$3.7 million beginning in 2017-18 as previously directed by the Board of Supervisors.
- | The Short term actions in the Fiscal Contingency Strategy have been reprioritized to make office remodels, equipment purchases, new and/or expanding programs subordinate to contracts for services and staffing levels in priority, thereby retaining service levels to the public to the greatest extent possible.
- | Longer term actions in the Fiscal Contingency Strategy have been reprioritized to make increasing the amortization schedule for the County's OPEB liability one of the last implemented actions.

### Proposed FY 2016-17 Budget Policies

As the FY 2016-17 Budget Process commences, your Board is asked to review, revise and/or approve the Proposed Budget Policies that will guide staff in preparing and administering the FY 2016-17 County budgets. The policies are consistent with the provisions of the County's Strategic Financial Plan. The Proposed Budget Policies also take into account the forecasting included in the Strategic Financial Plan, which suggests that the General Fund is likely to be in structural balance but remains finely so over the next five years. However, the downside risks are greater than the upside risks, and the County must address significant capital needs, including the need for a new jail. Given the condition of the General Fund's fund balance, however, the County is well positioned to respond in a careful and thoughtful way - using the Board's Strategic Financial Plan as a guide - to any economic or fiscal difficulties.

The proposed FY 2016-17 Budget Policies are, for the most part, similar to the adopted FY 2015-16

Budget Policies. Key provisions of the Proposed Budget Policies include:

- | Do not backfill reductions in State or federal funding unless there is a legal mandate or the Board determines that the program is a high priority for County funding.
- | Place at least 3% of General Fund appropriations into a Contingency and work toward building General Reserves to 10% of General Fund and Health & Human Services Fund appropriations (not including the appropriation for contingency, any transfer to the Accumulated Capital Outlay budget and the General Fund Contribution to the Health & Human Services Fund).
- | After covering current year operating and capital costs and meeting General Fund Contingency and Reserve requirements, place any remaining General Fund resources in a Designation for Fiscal Uncertainties until the General Reserves and Designation for Fiscal Uncertainties, together, equal 20% of General Fund and Health & Human Services Fund appropriations (not including the appropriation for contingency, any transfer to the Accumulated Capital Outlay Fund and the General Fund Contribution to the Health & Human Services Fund). Once this goal is met, transfer any remaining unappropriated discretionary resources to the Accumulated Capital Outlay (ACO) Fund.
- | Financial conditions permitting, prepay the County's annual Public Employee Retirement System (PERS) costs (this will save the County approximately \$400,000 in FY 2016-17).
- | With possible limited exceptions, defer the purchase of new or replacement vehicles to FY 2017-18.
- | Include meaningful workload, efficiency, effectiveness and/or outcome measures for at least two programs or services in each department in a separate document that will be provided to the Board in 2017.
- | Fiscal conditions permitting, transfer General Fund resources to the Special Projects budget in an amount equal to 12.5% of the prior calendar year's Transient Occupancy Tax (TOT) revenue received by the County.
- | For departments or budget units with 20 or more allocated positions, departments should submit a budget that includes a reduction in salary and benefit costs to reflect a vacancy factor based on historic vacancy rates for that program, adjusted to reflect current circumstances.
- | To the extent permitted by law, all revenues not previously earmarked for a particular purpose by the Board are to be treated as discretionary revenues rather than tied to a particular program.

Your Board is also being asked to approve the Proposed Budget Calendar for FY 2016-17. Budget Hearings are scheduled for June 13 and 14, 2016.

#### **SUPPORTING DOCUMENTS**

- A . Napa County 2020 Strategic Financial Plan
- B . FY 2016-17 Budget Policies
- C . FY 2016-17 Budget Calendar

CEO Recommendation: Approve

Reviewed By: Helene Franchi