

County of Monterey Financial Forecast



County Administrative Office

March 20, 2018

Purpose of Forecast

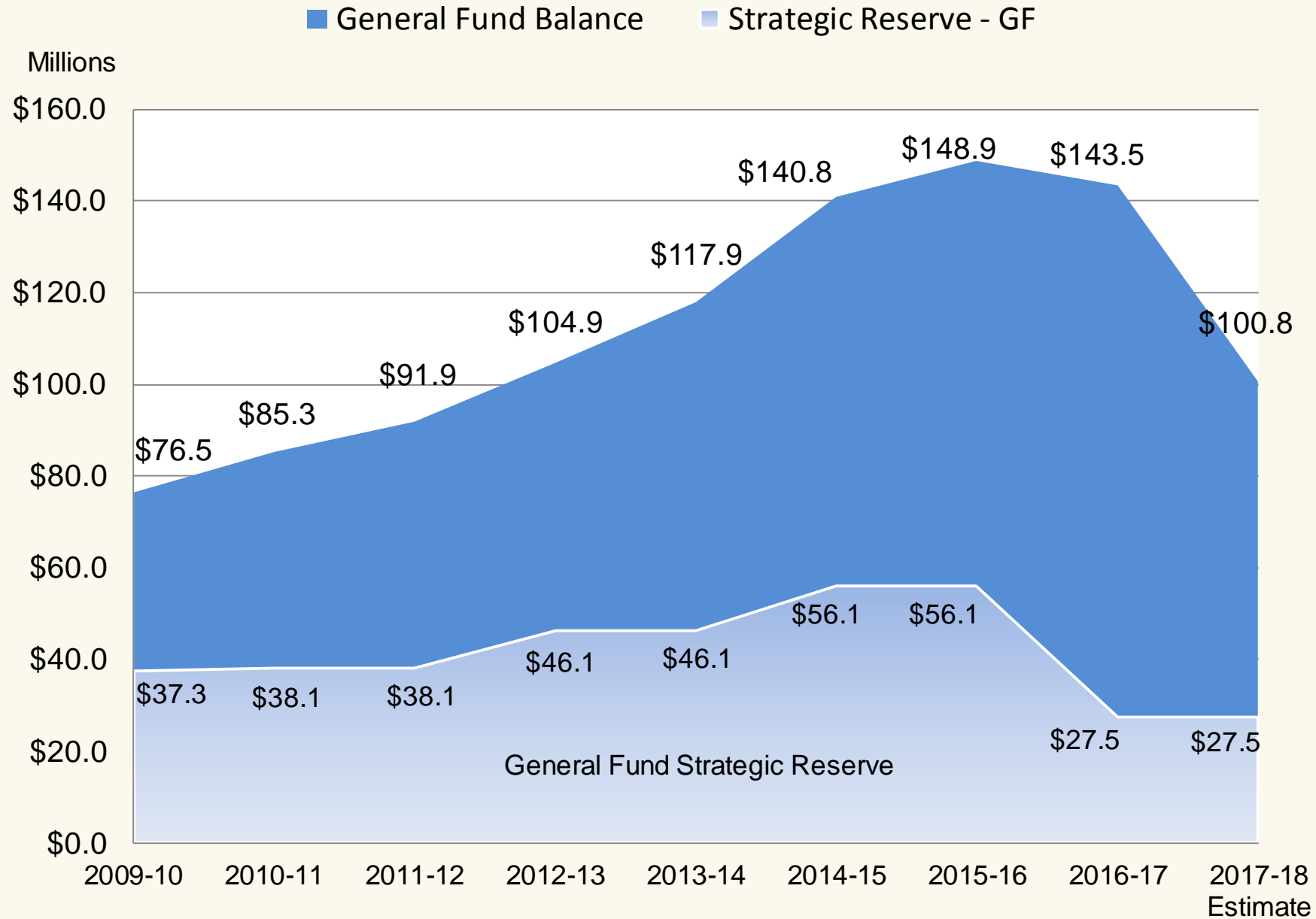
- Estimates cost of status quo operations this fiscal year, next year, and two out years.
 - Includes bargained salary increases, changes in benefit rates, step advances, and other known costs.
- Projects revenue to fund status quo costs.
- Identifies funding gaps between planned expenditures and available revenue.
- Does not include hypothetical future changes in policy at the federal, state, or local level.
- Comparing forecasted costs to expected resources helps us plan the level of operations we can afford in the future.



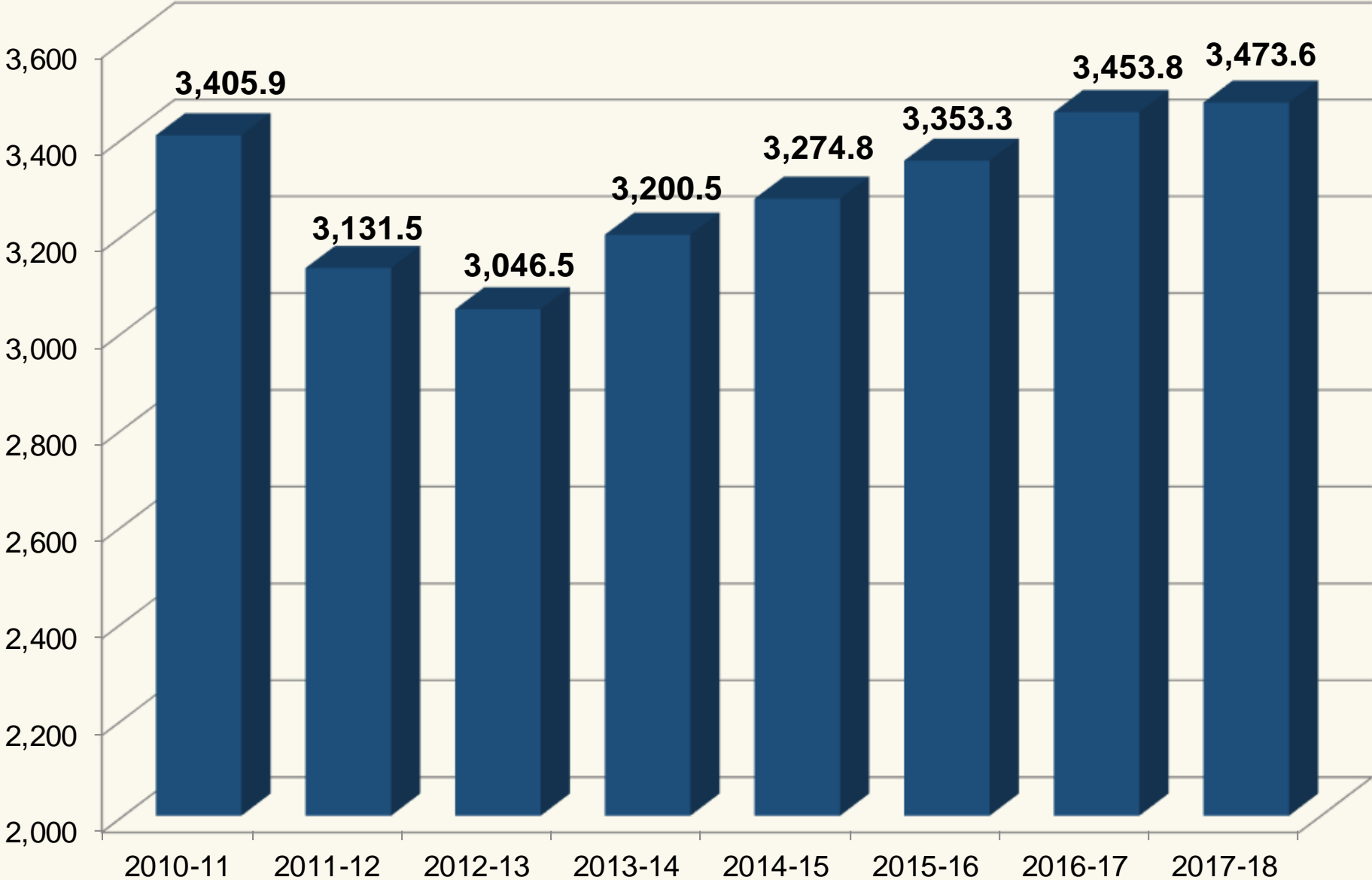
Current Fiscal Environment

- Five consecutive years of surpluses created flexibility:
 - General Fund reserves grew from \$91.9 million at the end of FY 2011-12 to \$143.5 million by the end of last fiscal year.
 - Reserves provided opportunity to respond to one-time needs such as the storm & fire disasters, construction of new buildings (jail expansion, new juvenile hall, east/west wing renovation), and make jail security capital improvements.
 - Annual revenue growth has been used to help departments keep up with some (but not all) inflationary pressures and in some cases enhance staffing.
- An operating deficit of \$5.4 million was incurred in FY 2016-17 as the County responded to the disasters, *Hernandez vs. County of Monterey*, and claims against Measure Z on top of inflationary pressures.
- This year departments expect an overall general fund operating gap of \$0.4 million.

General Fund Reserves



Authorized Positions (General Fund)



The Forecast

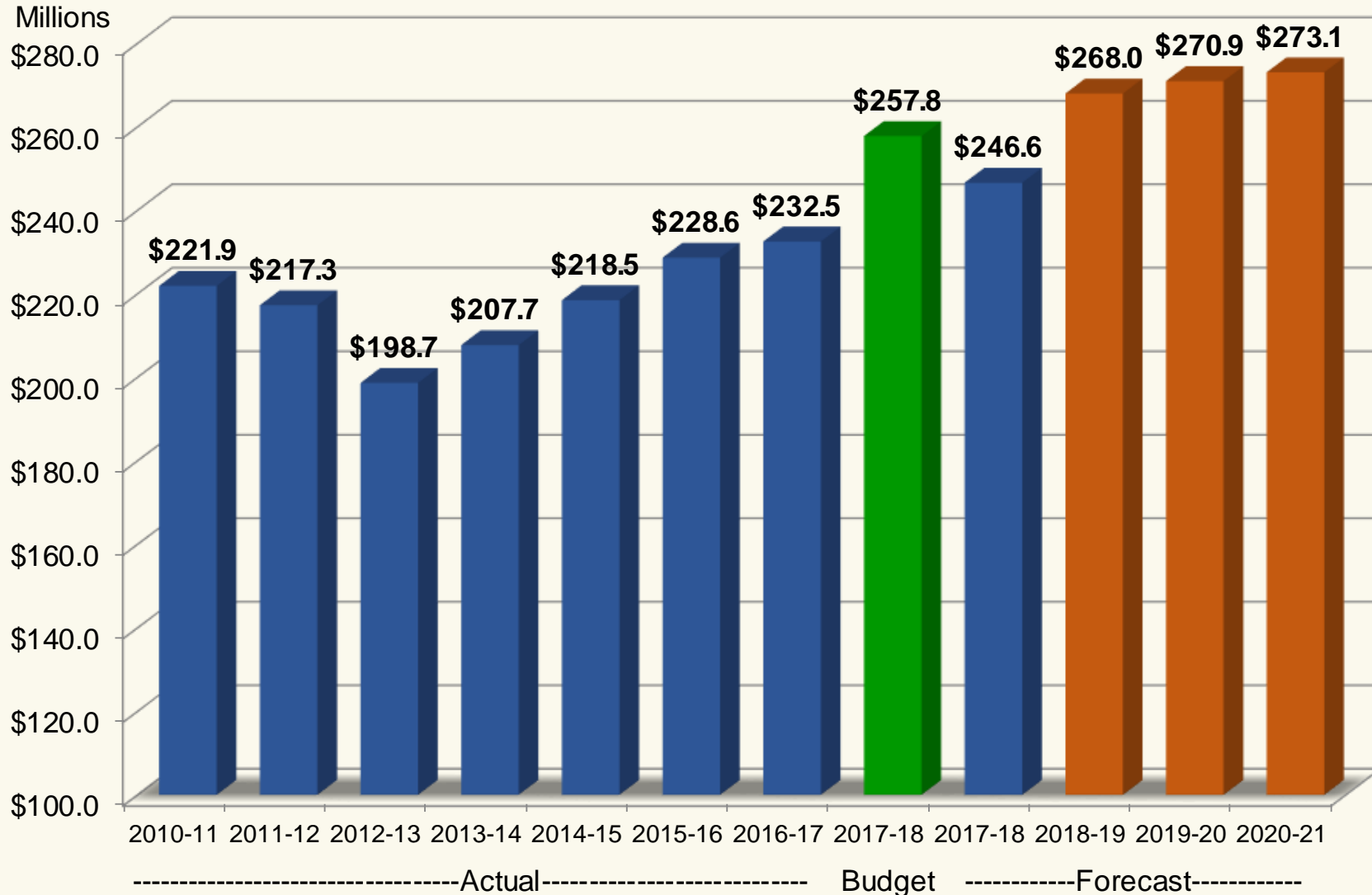
General Fund Outlook through FY 2019-20

| | 2016-17 | FY 2017-18 | | | FY 2018-19 | FY 2019-20 | FY 2020-21 |
|---------------------------------|--------------|--------------|--------------|-------------------|--------------|--------------|--------------|
| | Actual | Adopted | Modified | Year-End Estimate | Forecast | | |
| Available Financing: | | | | | | | |
| Beg. Unassigned Fund Balance | \$6.0 | \$6.0 | \$6.0 | \$8.7 | \$0.0 | \$0.0 | \$0.0 |
| Release of Fund Balance | 49.1 | 36.9 | 36.9 | 36.9 | 1.9 | 1.9 | 1.9 |
| Revenues | <u>596.0</u> | <u>636.9</u> | <u>637.5</u> | <u>616.9</u> | <u>634.5</u> | <u>642.4</u> | <u>653.3</u> |
| Total Financing Sources | \$651.1 | \$679.8 | \$680.4 | \$662.5 | \$636.4 | \$644.3 | \$655.2 |
| Financing Uses: | | | | | | | |
| Assignments/Restrictions | 41.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditures | 601.4 | 676.3 | 676.9 | 657.1 | 666.3 | 682.3 | 702.5 |
| Appropriation for Contingencies | <u>0.0</u> | <u>3.5</u> | <u>3.5</u> | <u>3.1</u> | <u>6.3</u> | <u>6.4</u> | <u>6.5</u> |
| Total Financing Uses | \$642.4 | \$679.8 | \$680.4 | \$660.2 | \$672.6 | \$688.7 | \$709.0 |
| Ending Unassigned Fund Balance | \$8.7 | \$0.0 | \$0.0 | \$2.3 | (\$36.2) | (\$44.4) | (\$53.8) |

What's Driving the Funding Gap

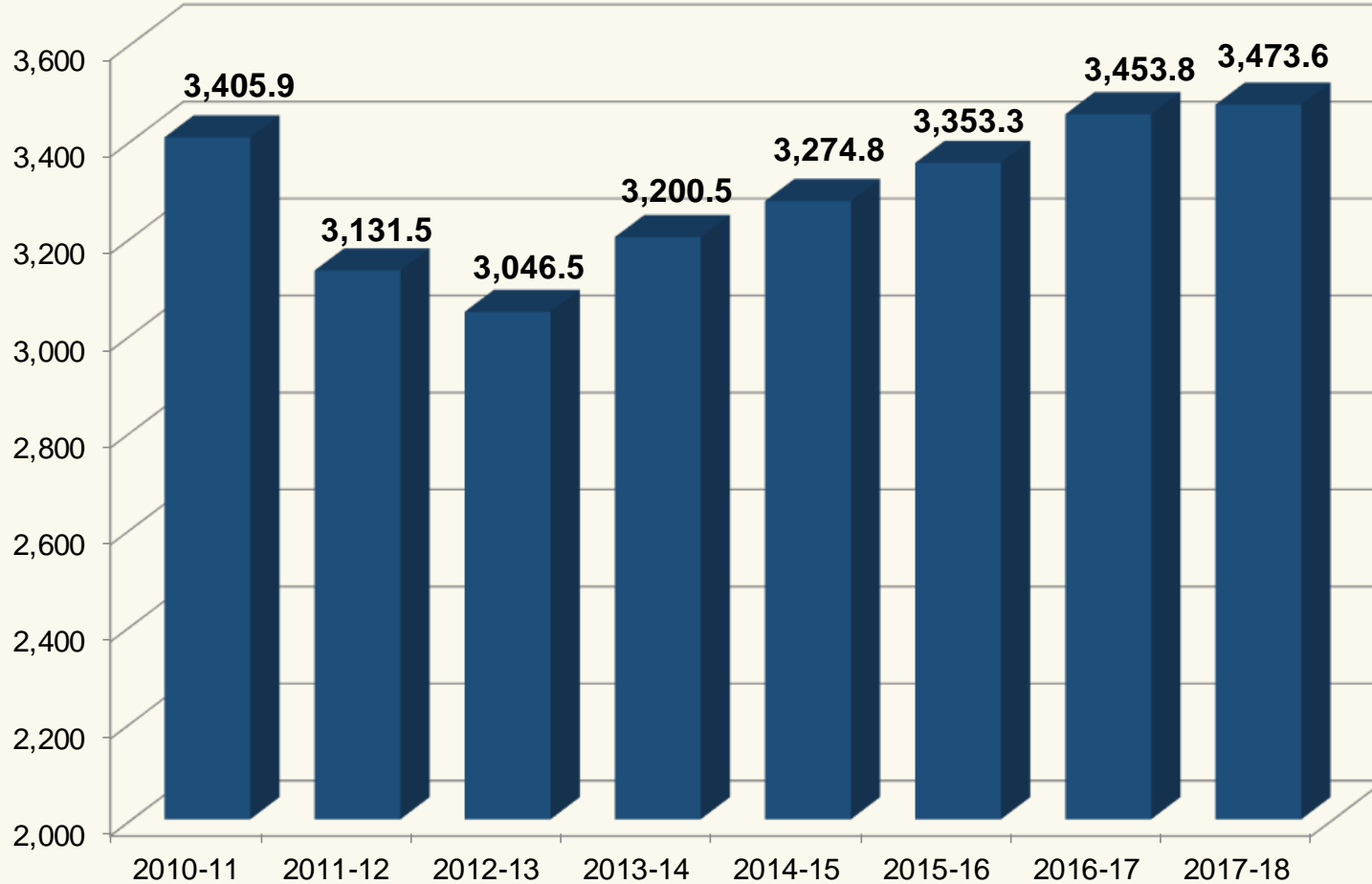
- Inflationary Pressures
 - Bargaining agreements
 - Higher employee benefit costs
 - Increased staffing & filling of vacancies
 - Higher workers compensation & general liability program costs
- We're doing more to help meet needs in the communities we serve

General Fund Salaries & Benefits



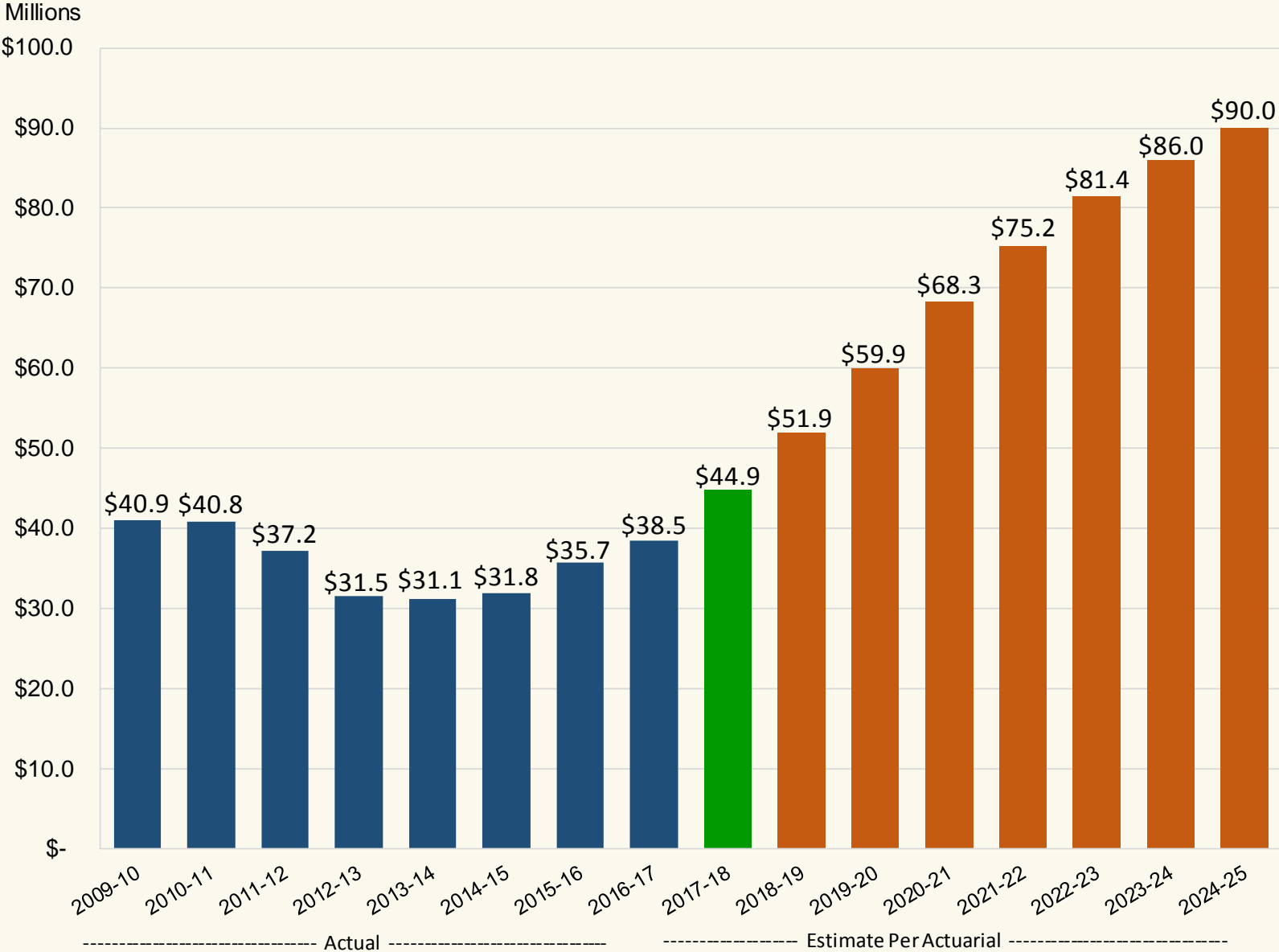
- In the current year, departments expect \$11.2 million salary savings (mostly in Health & Social Services), offset by similar reductions in state reimbursements.
- Most bargaining agreements provide raises of 7% over their 3-year term, adding approximately \$19.3 million in general fund expenditures, including \$8.3 million next fiscal year.
- The agreements also cover 100% of health premium increases, adding an additional \$13.1 million in annual expenditures.

Staffing Increases



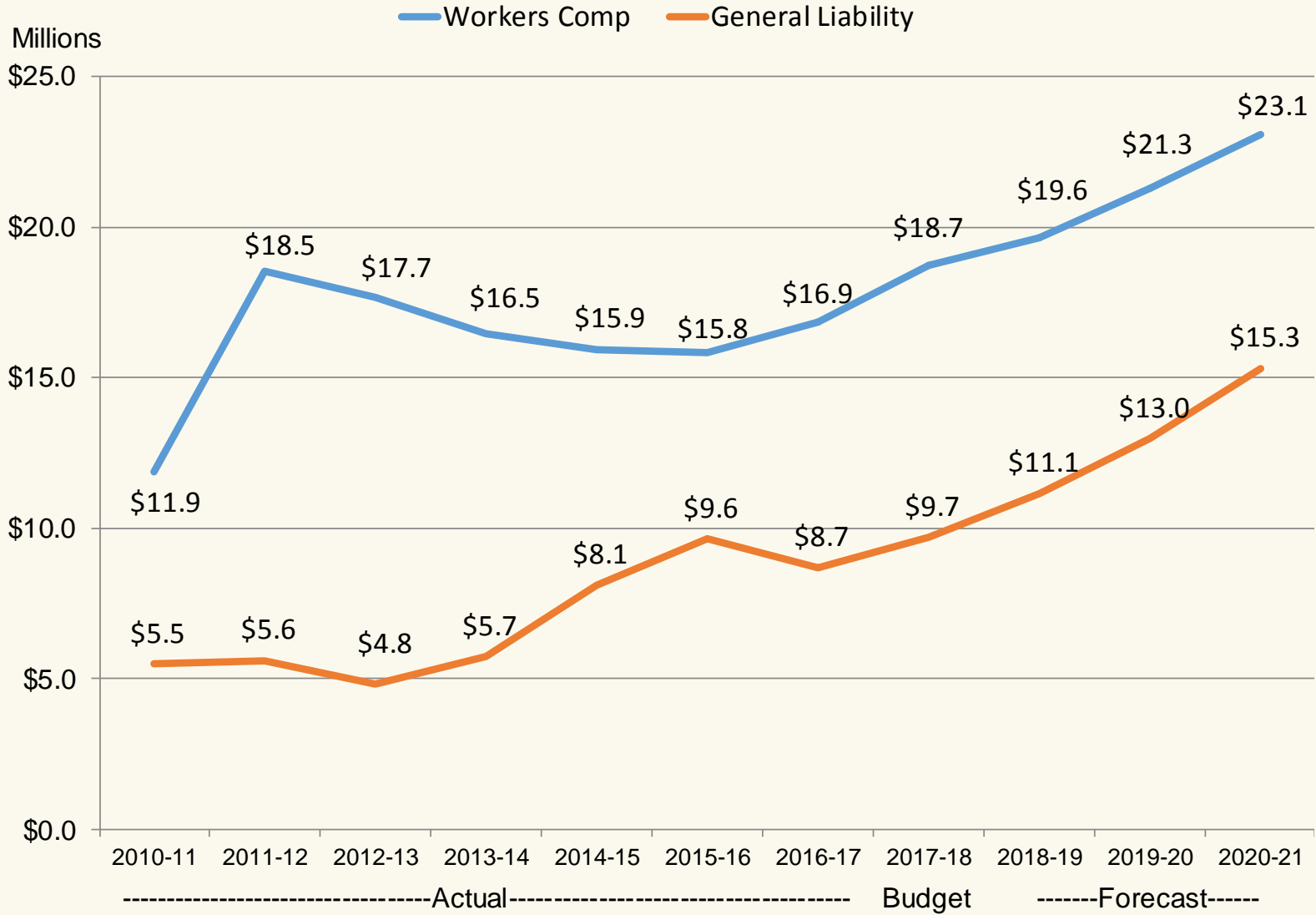
- General fund departments added 427 positions over the past five years.
- Many of these staff were added in Health and Social Services which leverage state and federal funding.
- The Sheriff's Office added 47 staff, including 30 custody control specialists and 17 public safety positions, at a cost of \$5.8 million.
- The District Attorney added eight staff at a cost of \$851,000, while the Public Defender received an additional 5 staff at a cost of \$704,000 along with \$609,000 to add panel attorneys.
- Twelve staff were added for the ERP Upgrade in addition to 13 existing staff supporting ongoing ERP operations.

Employer-Paid Pension Contributions



- Pension contributions on behalf of employees are doubling over a seven-year period for most counties and cities, and Monterey County is no exception.
- Already \$13 million higher than three years ago, general fund pension payments increase from \$44.9 million in the current year to \$90 million by FY 2024-25 based on information from CalPERS.
- Driving the increase is CalPERS' lowering of its assumed rate of return, actuarial changes to pay down unfunded liabilities, and updates to demographic assumptions.

Rising Insurance Program Costs



- Workers compensation program costs have increased \$2.9 million over the last three years and increase an additional \$925,073 next fiscal year, with more increases planned for out years.
- General liability program costs have almost doubled in the last five years and are planned to increase another \$1.4 million next fiscal year with similar increases in out years.

Dollar amounts represent countywide (all funds) expenditures.

Program Enhancements

- Over the past five years, added 30 custody control specialists and 17 additional safety positions in the Sheriff's Office at an annualized cost \$5.8 million.
- Added 8 positions funded in the District Attorney's Office at an annual cost of \$851,723 to support investigations and process digital evidence.
- Added two attorneys and three support positions in the Public Defender's Office at a cost of \$704,096, plus another \$609,312 to add panel attorneys.
- Added 12 staff to support the ERP upgrade at an annual cost of \$1.5 million in addition to 13 staff dedicated to ongoing ERP operations.
- Added \$1.1 million in the current year to support homeless programs including a warming shelter and safe parking program.
- Invested in various other needs including \$840,000 for the Salinas Valley Basin GSA, \$1.3 million over several years for the Interlake Tunnel, \$500,000 in the current year for the Monterey Bay Housing Trust, \$275,000 to operate the Big Sur shuttle service, and an additional \$5.7 million in contributions to help tourism agencies, fire districts, 911 user agencies, & the Road Fund.

Departments Forecasting Funding Gaps

All general fund departments anticipate challenges maintaining current service levels next fiscal year due to fiscal pressures discussed in the forecast. Departments with the largest anticipated funding gaps (in terms of gross dollars) include:

- **Sheriff's Office - \$9.6 million projected deficit** due to increased costs for salaries, pensions, inmate medical care, general liability, and workers compensation, as well as a \$1 million loss of state health realignment funding supporting inmate medical expenses.
- **Probation - \$5.1 million projected deficit** due to increased costs for salaries, pensions, workers compensation, and allocated cost plan overhead.
- **Social Services - \$7.0 million projected deficit** due to higher salary, pension, and workers compensation costs, increased spending under the IHSS MOE, and enhanced general assistance grants.
- **Health Department - \$5.5 million projected deficit** due to the state's redirection of health realignment monies and higher costs for salaries, pensions, and allocated cost plan overhead.
- **Resource Management Agency - \$4.2 million projected deficit** in its general fund operations due to higher salary & pension costs, increased cost plan charges, and expiring grants.

Other Funds Forecasting Funding Gaps

- The **Road Fund** projects a **deficit of \$9.8 million** next fiscal year.
 - \$5.5 million increase in cost plan charges.
 - Higher salaries, pension, and general liability insurance costs.
 - Diminishing “gas tax” revenue.
 - New Measure X and SB 1 revenue restricted to specific road projects.
- The **Library** projects a **deficit of \$579,419** due to increased costs for salaries, pensions, rents, building maintenance, and property insurance.
- The **Lakes Resorts** project its “**net position**” to **decline by \$885,109** next fiscal year, largely due to deferred maintenance and repairs.
- **Natividad Medical Center** and the **Behavioral Health Fund** are both structurally sound.

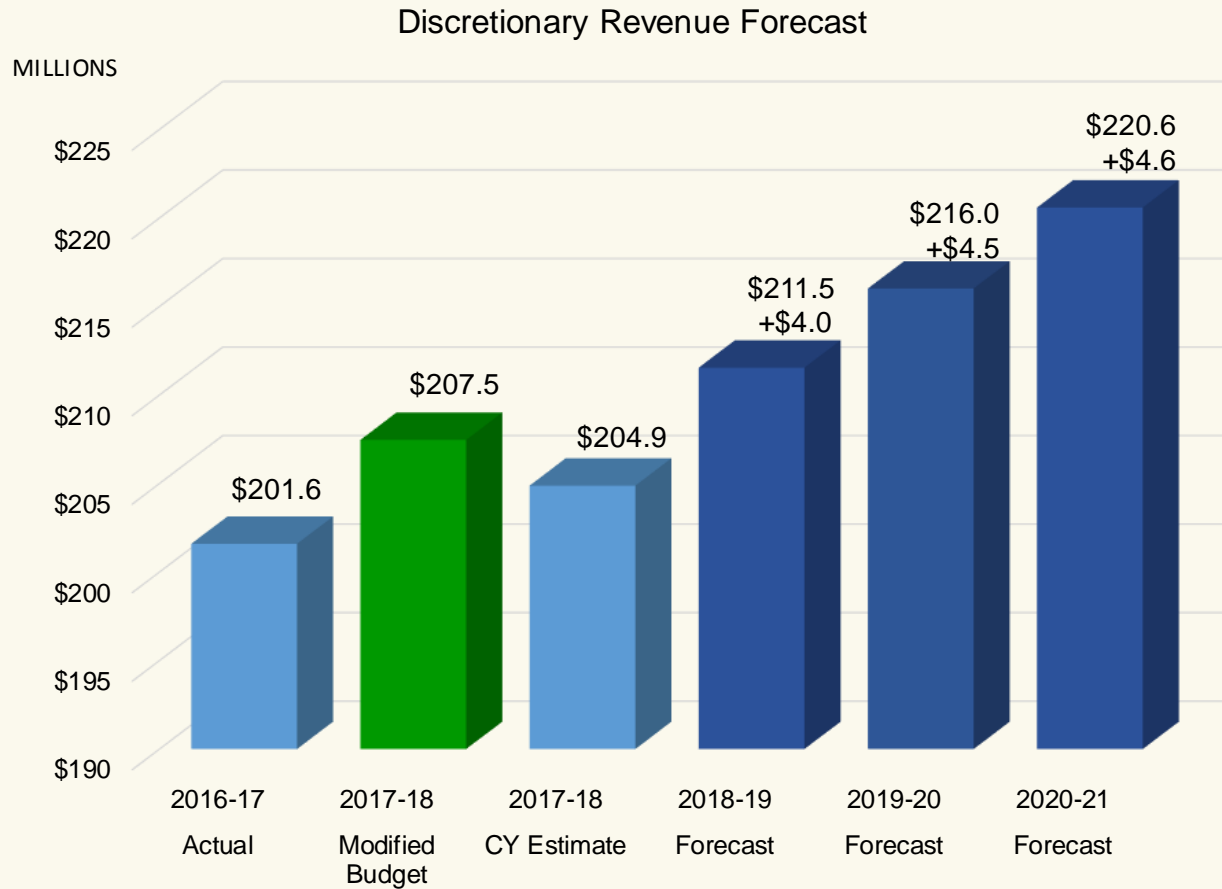
Beyond the Forecast

| Unfunded Need (General Fund) | FY 2017-18 | FY 2018-19 |
|---|------------------|-------------------|
| State Redirection of AB 85 Realignment Funds | - | \$4,449,254 |
| Warming Shelter in Salinas | - | 435,000 |
| Safe Parking Initiative | - | 94,000 |
| General Assistance Program Enhancement | - | 731,483 |
| Addition of 3.0 FTEs in Social Services for OET reorg. | - | 105,000 |
| Increase in CFMG Inmate Medical Care Contract | - | 1,492,696 |
| County Librarian Salary | - | 243,509 |
| Public Defender Legal Costs for Capital Cases | - | 1,000,000 |
| WRA Interlake Tunnel Request | - | 891,794 |
| Continuation of FTEs in Health for Animal Care Services | - | 429,782 |
| Third Year of Employee Bargaining Agreements | - | 8,326,690 |
| PERS Contribution Increase | - | 7,066,359 |
| Restoration of 22.5 FTEs during June 2017 Budget Hearings | - | 1,611,552 |
| Appropriation for Contingencies | - | 6,345,359 |
| Unfunded Storm Repairs | 9,666,959 | 36,133,371 |
| ERP Upgrade Additional Financing Need | 5,672,164 | - |
| Non-recoverable Litigation | 5,000,000 | - |
| Additional Jail Positions | - | 1,327,310 |
| Total | 20,339,123 | 70,683,159 |

Amounts in red were not included in the forecast.

- The County Administrative Office tracks various countywide unbudgeted needs.
- Current year unfunded needs total \$20.3 million for which budget solutions have not been identified, including \$9.7 million in storm repairs, \$5.7 million needed to finance remaining ERP upgrade costs, and \$5 million related to litigation.
- Next year's unfunded needs still requiring budget solutions total \$70.7 million and include program funding gaps caused by the State's AB 85 redirection, homeless services, general assistance grant increases, higher inmate medical costs, legal defense for capital cases, storm repairs, and staffing to open the expanded jail, among others.

Resources Available to Fund Next Year's Needs



- Annual growth in discretionary revenue is allocated through the budget process to help departments with rising costs.
- Next year's discretionary revenues grow an estimated \$4 million.
- Offsetting this revenue growth next year is the absence of reserves used in the current year:
 - \$6.5 million remaining in the contingencies reserve was used to fund this year's appropriation for contingencies;
 - \$5.1 million in reserves were used this year to help departments impacted by ERP charges;
- Cannabis revenue is estimated at \$7 million, with programming still to be determined.

Next Steps

- Departments' forecasts are the starting point for building initial "baseline budgets" that were due March 6th.
- Baseline budgets communicate departments' plans of what they can (and cannot do) with next year's expected resources, taking into consideration inflationary pressures.
- Departments also submitted augmentation requests on March 6th; these requests ask for increased funding to maintain current operating levels or to enhance programs.
- Thorough analysis of baseline budgets is key to understanding each program's degree of budget flexibility, estimated funding gaps, and magnitude of potential impacts in order to build a well-informed and responsible recommended spending plan.
- A workshop is held at the end of March with Department Heads to share countywide budget perspectives and gather input on strategies.
- The Board's annual budget workshop on April 10th is an opportunity to provide a "budget preview" and receive direction before building the recommended budget to be presented at the budget hearings on June 4th and 5th.

Discussion & Staff Direction