

TAB 1
CAO'S BUDGET MESSAGE



County Administrator's Office

Craig L. Pedro
County Administrator

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TO: Board of Supervisors
FROM: Craig L. Pedro, County Administrator
SUBJECT: FY 2014/15 Adopted Budget

On June 17, 2014, your Board considered and approved the FY 2014-15 Recommended Budget. The construction of this Budget included the Board: 1) reviewing and affirming its budget process, policies and priorities and on February 4; 2) reviewing base-line and modified 5-Year Budget Forecasts on February 4 and 18; 3) reviewing the status and providing direction to staff on initial versions of the Recommended Budget on May 20 and June 3. The result was a County budget that was slightly higher than the year before. The following chart illustrates the increase between the FY 2013/14 Adopted Budget and the FY 2014/15 Recommended Budget:

	Adopted FY 2013/14	Recommended FY 2014/15	Change	
General Fund	\$ 58,453,562	\$ 57,700,360	(\$ 753,202)	(1.29%)
Governmental Funds	\$124,257,840	\$141,399,521	\$17,141,681	13.8%
Enterprise Funds	\$ 5,710,348	\$ 5,655,721	(\$54,627)	(0.96%)
Internal Service Funds	<u>\$ 14,755,809</u>	<u>\$ 16,082,989</u>	<u>\$1,327,180</u>	<u>8.99%</u>
All Budgeted Funds	\$144,723,997	\$163,138,231	\$18,414,234	12.72%
Permanent Employees	588.75	593.10	4.35	0.9%

PREPARING THE ADOPTED BUDGET

Conversion of the FY 2014-15 Recommended Budget into an "Adopted Budget" proposal for Board consideration involved the following major factors: 1) recognizing changes between projected and actual beginning fund balances; 2) recognizing major changes to the County's primary revenues; 3) reflecting changes in labor costs due to ongoing bargaining activities; 4) consideration of State and federal budget actions; and 6) incorporation of other significant changes in projected revenues and program expenses.

...serving the Board of Supervisors, departments, and the community as good stewards of the County's fiscal and human resources through collaborative, professional and ethical leadership.

Fund Balance Changes

The changes in beginning fund balances can be viewed in Tab 2 – Attachment A. Overall, fund balances were \$3.4 million higher than originally projected. This is a 2.4% variance from the overall \$144.7 million FY 2013-14 Adopted Budget. The fund changes staff would highlight are as follows:

General Fund: The actual beginning fund balance of \$3,433,433 is \$952,869 higher than projected in the FY 2013-14 Year-End Budget Report. At year-end, \$812,702 in cost savings were anticipated as well as carryover of unspent Contingencies of approximately \$1.2 million. The additional \$1 million in fund balance is primarily due to department expenditure savings, as revenues as a whole in the General Fund were lower than projected (\$830,000). Expenditures within the General Fund were approximately \$2 million less than projected.

County Roads: The \$946,155 increase in this fund balance was driven by: 1) higher than anticipated Highway Users Tax (HUTA) revenues which included a \$270,000 one-time State fix in the diesel component alone; 2) \$150,000 in salary and benefit savings due to unexpected turnover and workers compensation leave amongst road crews; and 3) \$300,000 in service and supply (e.g. gasoline, equipment repair, road materials, etc...) cost savings related to last year's mild winter and reduced surface treatment activity. Another savings factor was the significant transitions in road crew leadership at the end of the year.

County Fire: The increased balance in this fund is primarily due to savings in CalFire contracted services. The most significant factor was reduced charges for Amador stations due to the early start-up of the State fire season.

Health Fund: Increased State realignment revenues were a large factor in the \$305,468 increase in this fund balance.

Behavioral Health: The \$413,311 increase in the Mental Health Fund's beginning balance is primarily the result of reductions in salary and benefit costs due to an unusually high vacancy rate amongst department staff.

Road Construction: The decreased fund balance in the Road Construction Fund reflects a number of changes to a myriad of projects. The most significant changes are from 1) preliminary engineering and environmental costs associated with the Draper Mine Road project which now await approval of a reimbursement application to CalTrans; and 2) an unanticipated increase in the County's share of costs on the Ackerson Creek bridge project.

County Capital: The County Capital Fund's beginning balance is \$245,816 greater than anticipated due to several projects costing less than originally anticipated. Examples include:

- \$70,500 in the County Administration Center building control upgrade project. A key portion of the system was able to be fixed in-lieu of replacing the entire unit.
- \$42,423 on the Twain Harte Pool project. Not all of the change order allowance and contingencies were needed to complete the project.

- \$32,605 in Law & Justice site mitigation and maintenance costs (e.g. Probation crews installed required cattle fencing rather than contracting out the project).
- \$20,000 in Standard Park restroom modifications was saved through a waiver provided by Environmental Health.

Ambulance: The \$439,740 increase in the Ambulance Fund’s beginning balance is due to a combination of increased revenues and cost savings. The most notable revenue piece relates to the discovery of a new federal pass-through “Medi-Cal enhancement” program called *Ground Emergency Medical Transportation (GEMT)*. This program was designed for fire departments with ambulances. After some digging, staff discovered that our County owned system was also eligible for this money. As a result, the County received its first \$148,000 payment under this program for FY 2010-11 on June 22. Ambulance staff will resubmit a claim for FY 2009-10 and will continue to submit claims for FY 2011-12 forward as cost reports for each year are completed. This is very welcome news especially given the ongoing threat of Congress not extending the super rural reimbursement rate in the future.

Primary Revenue Changes

The County’s *General Revenues* have been increased by a total of \$323,998. By far, the two most notable adjustments were as follows:

- \$101,733 State Mandated Cost - SB 90 (driven by prior year, one-time reimb.)
- \$230,213 Federal – PILT (assumes 2% growth on FY 2013-14 receipts)

Changes in Labor Cost – Ongoing Negotiations/Implementation

County labor agreements have undergone significant changes over the last several years as a reflection of the impacts of the Great Recession. As we begin to turn the corner to a more stable economy and budgeting environment, the County and its labor groups have worked together to ensure that the County is in a more sustainable, long-term position with respect to its overall compensation plans. The last major area still being worked on is securing employee participation in paying for a portion of their Public Employees Retirement System (PERS) costs. The County did complete negotiations and implementation of such a cost sharing plan with its Safety PERS employees. As this budget goes to press, negotiations are being finalized that could bring about a similar cost sharing plan with the County’s Miscellaneous PERS employees. Given the state of these negotiations and the voting that will follow, I will only note that sufficient funding has been incorporated into this budget (bargaining set-aside) to pay for the proposals currently on the table with our labor groups.

SAFER Grant

The Board recently approved a Staffing for Adequate Fire and Emergency Response (SAFER) Grant agreement with the Federal Emergency Management Agency (FEMA) aimed at helping to recruit, train and retain volunteers with the County Fire Department. While the grant agreement covered a 4 year period, only \$125,996 has been incorporated into the FY 2014-15 Budget for County Fire.

State and Federal Budget Actions

The adopted State Budget reflects improved collections of Vehicle License Fees (VLF) and Sales Tax which is expected to result in higher realignment revenues for departments within our Human Services Agency (HSA). Unfortunately, Statewide HUTA revenues and related disbursements to local road departments are expected to be lower than experienced in FY 2013-14.

With respect to Federal government revenues, counties across the nation continue to request Congress to pass long-term funding plans for the following programs:

- *Payments In-Lieu of Taxes (PILT)* – key General Fund revenue
- *Secure Rural Schools & Communities Self-Determination Act (SRS)* – major revenue source for our Road Fund, fire prevention, healthy forest practice and search and rescue services
- *Moving Ahead for Progress (MAP) in the 21st Century* – major funding source for road construction, road maintenance and transportation services

As of this writing, Congress has yet to approve funding for any of these programs that would cover the entire upcoming federal fiscal year. This leaves the County again in a precarious position in that our budget assumes full funding of these programs (revenue sources) for FY 2014-15.

Other Significant Revenue and Expense Adjustments

Some of the noteworthy adjustments in the General Fund are as follows: 1) an increase in General Fund Contingencies by \$826,591 pending Board direction on how it wishes to utilize this one-time funding; 2) inserted 75,000 in the Human Resources budget to pay for a classification and compensation study; 3) increased expenses with offsetting revenue by \$103,551 for a new Sheriff Deputy and a new Jail Deputy; 4) increased expenses with offsetting revenue by \$187,226 in the Air Pollution budget to continue the diesel truck retrofitting program; 5) replacing two vehicles in Probation for \$35,000; 6) included \$7,500 in the Board of Supervisor's budget for a strategic planning conference; 7) increased the Community Resources Agency budget by \$36,000 to augment the General Plan EIR; 8) added \$25,000 to augment relief salaries in the Veterans office—this is offset with a State revenue; 9) and brought in \$47,566 from a trust fund to pay for studies at Kennedy Meadows.

Changes in the other funds are as follows: 1) \$76,942 addition to Road Maintenance to purchase new road equipment—road rollers and trucks/plows; 2) added \$50,000 for various building improvements (roof, windows) at the County's road yards; 3) added one Engineering Assistant I/II (\$51,997) with 100% revenue offset; 4) the final contract amounts of the Community Transformation grant are included, totaling \$75,000; 5) added one Behavioral Health Worker (\$51,096) using offsetting alcohol and drug funding; 6) an increase of \$145,302 to Federal Food Stamps in the Social Services fund; 7) \$150,000 added to the Social Services buildings and improvements account for start-up costs for a new visiting center for foster children and their families, a 2014 Board goal; 8) increased

foster care and adoption assistance by \$122,386 (with offsetting revenue) to account for the rising demand for foster care and adoption services; 9) and added \$125,000 to purchase an additional ambulance and \$25,000 to acquire two LifePak defibrillators with offsetting revenue from the Ground Emergency Medical Transportation Supplemental Reimbursement Program (a new enhanced Medi-Cal revenue source).

The above captures most of the major changes between the Recommended and Adopted Budget proposal. There have been other adjustments made to rebalance funds due to fund balance, revenue or expense changes.

SUMMARY OF RESULTING ADOPTED BUDGET PROPOSAL

The chart below shows the changes between the FY 2014/15 Recommended Budget and FY 2014/15 Adopted Budget proposal:

	Recommended FY 2014/15	Adopted FY 2014/15	Change	
General Fund	\$ 57,700,360	\$ 59,738,518	\$2,038,158	3.5%
Governmental Funds	\$141,399,521	\$145,271,591	\$3,872,070	2.7%
Enterprise Funds	\$ 5,655,721	\$ 6,717,394	\$1,061,673	18.7%
Internal Service Funds	<u>\$ 16,082,989</u>	<u>\$ 16,298,998</u>	<u>\$ 216,009</u>	<u>1.3%</u>
All Budgeted Funds	\$163,138,231	\$168,287,983	\$5,149,752	3.2%
Permanent Employees	593.10	598.30	4.20	.9%

The major reasons for the \$5.14 million increase in the overall budget between the Recommended and Adopted proposal are: 1) increased contingencies due to higher year end fund balances; 2) jail set aside pulled into capital; 3) Ambulance GEMT increase (as mentioned above); and 4) bargaining set-aside (also mentioned above). These factors alone account for approximately \$5 million of the increase.

It is important to also show the proposed changes between fiscal years. Therefore, this next chart contrasts the difference between the FY 2013/14 Adopted Budget and the FY 2014/15 Adopted Budget proposal:

	Adopted FY 2013/14	Adopted FY 2014/15	Change	
General Fund	\$ 58,453,562	\$ 59,738,518	\$ 1,284,956	2.2%
Governmental Funds	\$124,257,840	\$145,271,591	\$21,013,751	16.9%
Enterprise Funds	\$ 5,710,348	\$ 6,717,394	\$ 1,007,046	17.6%
Internal Service Funds	<u>\$ 14,755,809</u>	<u>\$ 16,298,998</u>	<u>\$ 1,543,189</u>	<u>10.4%</u>
All Budgeted Funds	\$144,723,997	\$168,287,983	\$23,563,986	16.3%
Permanent Employees	588.25	598.30	10.05	1.7%

BUDGET POLICY COMPLIANCE

Below is a listing of the Board's adopted budget policies along with staff's evaluation of how well the Adopted Budget proposal complies with each policy. Based on this evaluation, the budget *fully complies* with 5 policies, *substantially complies* with 2, *partially complies* with 2 and *does not comply* with 1.

- 1. Balance annual operating budgets without the use of one-time revenues.** *Substantially Complies.* The ongoing expenses contained in the FY 2014/15 Adopted Budget proposal are substantially supported with recurring revenue. Notable exceptions are the Health, Behavioral Health and Social Services Funds. The growing rate and cost of juvenile placements (i.e. foster care, family groups and aid for adoptions) through the Social Services Fund and adult placements through the Behavioral Health Fund are significant concerns. Staff will be working throughout the coming year to both reduce these placement costs and explore revenue options (e.g. realignment growth, realignment inter-fund transfers, etc...) to cover same.
- 2. Dedicate unencumbered beginning fund balances to: 1) pay-off County debts; 2) increase cash flow reserves; 3) fund future liabilities; and 4) fund capital equipment, plant and infrastructure needs.** *Substantially Complies.* The notable exceptions again are the Health, Behavioral Health and Social Services Funds. In each of these funds, significant amounts have been placed into fund contingencies and some money is going towards one-time plant and major maintenance projects. However, the amount of fund balance being dedicated to ongoing operational costs is too high especially in the Social Services Fund.
- 3. Non-earmarked General Fund Contingencies should be budgeted at 1% of the total operating budget for governmental funds.** *Complies.* 1% of combined governmental budgets would be \$1,453,000. 1% of pure operating budgets (combined governmental budgets less capital budgets) would be \$1,103,000. Therefore, General Fund Contingencies are planned at \$1,100,000.
- 4. Establish General Reserves at 5% of Governmental Fund Budgets.** *Does Not Comply.* This policy was first established in December 2012. To be in full compliance, the County's General Reserve would need to be increased from its current level of \$2.2 million to approximately \$7.3 million. The Board and staff will need to look for opportunities to build the General Reserve in the coming years.
- 5. Strive towards fully funding future liabilities.** *Partially Complies.* The Liability and Unemployment Internal Service Funds (ISFs) are budgeted to be in full compliance with their respective policies. The budget as it relates to Workers Compensation, Post-Retirement and Leave Liability ISFs is fully consistent with each respective policy but not yet in full compliance with funding targets. The Leave Liability is the ISF of most concern and urgency to build reserves given the quickening pace with which Baby Boomers are beginning to retire. Staff will look for opportunities to further bolster reserves in that ISF particularly. It should be

noted that with the Board's recent action to finance the unfunded liability in the PERS Safety Side Fund, the component of the County's PERS liability has been lessened. This is good news, however, additional funding actions (establishing special internal charges) will need to be taken in the future to move us towards compliance to fully fund our PERS liability.

- Workers Compensation ISF – set annual department charges at an amount greater than the projected current expenses until cash reserves equal 70% Confidence Level of future liabilities as projected in the most recent fund actuarial report.
 - Liability Insurance ISF – set annual department charges at a level sufficient to fully fund projected current expenses while maintaining a \$250,000 cash reserve.
 - Unemployment Insurance ISF - set annual department charges at a level sufficient to fully fund projected current expenses while maintaining a \$100,000 cash reserve.
 - Post-Retirement Medical Insurance ISF - set annual department charges at an amount greater than the projected current expenses until cash reserves fully fund future liabilities as projected in the most recent fund actuarial report.
 - Leave Liability ISF – set annual department charges at an amount greater than the projected current expenses until cash reserves fully fund future liabilities as projected by the Auditor/Controller.
 - Public Employees Retirement System (PERS) – Set annual department charges at a rate greater than annual rates set by PERS and use the difference to pay down the County's future PERS liability.
6. **Prioritize funding for public safety and road maintenance services.** *Complies.* While available revenues have limited what the Board can do, this budget has given priority to public safety and road maintenance activities versus other areas of the budget. The Board's bargaining approach (reflected in the budget) has also shown deference to public safety workers. The Board continues to allocate large portions of its discretionary, one-time capital dollars to public safety projects. Further, the Board's "*Priority Based Budgeting System*" will constrain funding in other areas of the budget so as to maximize funding to public safety and roads in the future.
7. **Strive to provide funding to adequately maintain existing plant and infrastructure.** *Partially complies.* Staffing and capital to maintain County buildings and roads is inadequate. The funding gap for road, building and airport maintenance is particularly troubling. Strict adherence to Board policy to use one-time funds for one-time uses (e.g. equipment, plant and infrastructure) will help address some of these needs in the future. It should be noted that money set-aside for projects at both airports is at its highest levels in many years.
8. **Maintain a comprehensive quarterly budget monitoring and reporting program.** *Complies.* Such a program was used in development of this budget and will be used for tracking its fiscal performance in the coming year.

9. **Continue an active long-term Capital Improvement Program which includes a section describing financing methods.** *Complies.* For the first time in over two decades, the Board adopted a comprehensive Capital Improvement Plan (CIP) on December 6, 2011. The next update is planned to be completed in FY 2014-15.
10. **Match specific State and Federal funding reductions with commensurate cuts in specific program expenses.** *Complies.*

FUND OVERVIEWS

All funds are balanced. Summaries of all funds can be viewed on the State Controller Summary Reports under Tab 3 of this binder. Line-item budgets for each cost center within each fund (Governmental, Enterprise and Internal Service) can be viewed under Tabs 4, 5 and 6, respectively.

PERSONNEL ACTIONS

A list of recommended personnel actions can be found on the FY 2014/15 Adopted Budget Personnel Changes spreadsheet and associated memorandum on new and revised position classifications (see Tab 2 - Attachment B). The requested changes call for a 4.2 FTE net increase in authorized staffing compared to the staffing level already established in the Recommended Budget. Also provided in Tab 2 - Attachment C is the Final Allocated Positions by Department Chart. The increase in staffing is summarized below:

Sheriff-Coroner	1.0	<i>(Offset via Court Security Reimb.)</i>
Jail	1.0	<i>(Work Crew Service Contract Reimb.)</i>
CRA – Admin./Eng.	1.0	<i>(Project Grant Funds)</i>
Public Health	0.2	<i>(Realignment Funds)</i>
Behavioral Health	<u>1.0</u>	<i>(Alcohol & Drug Grant Funds)</i>
	4.2 FTEs	

Given their cost neutral nature, the changes outlined above and detailed in the referenced attachment have been included in the Final Budget before you.

HIGH PRIORITY POSITION RESTORATION LIST

Provided again for your consideration is the “High Priority Position Restoration List” contained in *Tab 2, Attachment C*. This is the same list provided to you in preparation of the Recommended Budget with a few edits. Please note that: 1) positions already included in the budget are identified via ~~strike through~~; and 2) there is a companion write-up prepared by CRA Director Bev Shane providing your Board with options related to what is described as “Bldg. Division Support” on the list. Please note that any position your Board may add from this list at this point would have to be supported with one-time fund balance money which has been focused in Contingencies.

CAPITAL PROJECTS

The revised capital projects lists for both the Capital Fund and Road Construction Fund can be found in *Tab 2, Attachments E and F*, respectively.

GENERAL FUND CONTINGENCIES

All available one-time funding has been concentrated in the General Fund’s Contingencies which currently stand at \$2,301,362. Staff would recommend that the Board establish the County’s unobligated Contingencies at no less than \$1,100,000 and that the remaining \$1,201,362 be reallocated by the Board at the upcoming Budget Hearing to meet one-time needs. The following is a candidate list of one-time funding needs for the Board’s consideration:

Sustainable Forest Action Coalition	\$ 1,000
Tuolumne County Arts Alliance	\$ 45,000
Tuolumne County Historical Society	\$ 5,700
Code Compliance Activities	\$ 40,000 (net)
Assessor-Recorder State Grant Match	<u>\$104,000</u>
	\$194,700
<hr/>	
Vehicle and Equipment Replacements	<i>As much as possible</i>
L&J Center Rd. and Infrastructure	<i>As much as possible</i>
New Jail - Local Match Set-Aside	<i>As much as possible</i>
Road Maintenance Projects	<i>As much as possible</i>

Tab 2 – Attachment G provides background on the Tuolumne County Arts Alliance and the Tuolumne County Historical Society Funding Request/Contract. Tab 2 – Attachment H offers a breakdown of the Vehicle/Heavy Equipment Replacement needs amongst all departments. This chart also outlines how much funding is already provided towards meeting these needs in the Final Budget.

COUNTY CAPITAL FUND CONTINGENCIES

Uncommitted fund balance has been concentrated in the Capital Fund’s Contingencies which currently stand at \$160,490. Staff would recommend that the Board provide direction on how it would like to allocate these funds at the upcoming Budget. The following is a candidate list of one-time funding needs for the Board’s consideration:

Jail Security (Padded) Cell Repair	\$ 20,000
Main Library Stucco Repair	\$ 33,000
Admin. Center Compressor Replacement	\$ 20,000
Twain Harte Pool Fencing & Landscaping	\$ 17,500
Courthouse Park Rehabilitation (add’l alloc.)	\$ 18,000
Rocca Park Gazebo Roof Replacement	<u>\$ 15,000</u>
	\$123,500
L&J Center Rd. and Infrastructure	<i>As much as possible</i>
New Jail - Local Match Set-Aside	<i>As much as possible</i>

RECOMMENDATION

It is recommended that your Board conduct a public hearing to consider adoption of all budget actions contained in the FY 2014/15 budget document (*with modification as desired by the Board*), including:

1. All personnel recommendations as outlined in Tab 2 – Attachments B and C;
2. The revised capital project lists contained in Tab 2 – Attachments E & F;
3. If so directed by the Board, the contracts with the Tuolumne County Arts Alliance and Tuolumne County Historical Society contained in Tab 2 – Attachment G;
4. The appropriation limit computation method as presented by the Auditor-Controller prior to the Hearing; and
5. The FY 2014-15 Adopted Budget Resolution as presented along with the appropriation limit computation.

Please note that both the appropriation limit computation and budget resolution mentioned above will likely need to be changed based on Board direction given during the hearing. This will require a break during the meeting to allow the Auditor-Controller and CAO staff time to prepare revised documents for final action by your Board.

Cc: County Department Heads
CAO Staff
Ann Fremd, HR/Risk Manager
Constance O'Connor, Tuolumne County Arts Alliance