



County Administrator's Office

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TO: Board of Supervisors
FROM: Craig L. Pedro, County Administrator
SUBJECT: FY 2015/16 Adopted Budget

On June 16, 2015, your Board considered and approved the FY 2015/16 Recommended Budget. The construction of that Budget started in January and included the Board: 1) reviewing base-line and modified 5-Year Budget Forecasts; 2) developing short-term strategic priorities with department heads; 3) approving and directing incorporation of a Jail Funding Plan; and 4) providing detailed direction to staff on initial versions of the Recommended Budget in late May and early June. The following chart illustrates the change between the FY 2014/15 Adopted Budget and the FY 2015/16 Recommended Budget:

	Adopted FY 2014/15	Recommended FY 2015/16	Change	
General Fund	\$ 59,742,518	\$ 59,031,330	(\$ 711,188)	(1.2%)
Governmental	\$146,176,665	\$128,891,831	(\$17,284,834)	(11.8%)
Enterprise	\$ 6,717,394	\$ 6,575,899	(\$ 141,495)	(2.1%)
Internal Service	<u>\$ 16,298,998</u>	<u>\$ 17,849,253</u>	<u>\$ 1,550,255</u>	<u>9.5%</u>
	\$169,193,057	\$153,316,983	(\$15,876,074)	(9.4%)
Permanent Employees	601.3	619.8	18.5	3.1%

The approximate \$711,000 reduction in the **General Fund** was driven by a State budget policy change that now directs most realignment funds directly to the Health, Behavioral Health and Social Services Funds rather than flowing through the County's General Fund. The \$17.3 million decrease amongst all **Governmental Funds** reflects several large capital projects budgeted in FY 2014/15 (e.g. Mono Way Widening, Juvenile Detention Facility, etc...) not being matched with commensurate projects in FY 2015/16. The increase in Internal Service Funds was due to changes in health insurance costs and budgeting for replacement of the County's telephone system.

...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.

The 18.5 position gain in permanent employees is notable and was comprised of the following:

Grant Funded Positions Approved During FY 2014/15 (3 FTEs)

- Assessor - 2 FTE increase. Appraiser I/II positions funded by the Assessor's State Partnership Program
- CRA – 1 FTE increase. Building Inspector to support Law and Justice Projects

New Positions (15.5 FTEs)

- Elections – 1 FTE increase. Restoration of Elections Supervisor position
- Probation – 11 FTE increase. Staff for the new Juvenile Detention Facility
- Sheriff – 3.5 FTE increase. Cost neutral reorganization (modified on July 21)
- District Attorney – 0 FTE change. Cost neutral upgrade of investigator position
- Social Services – 2 FTE decrease. Cost saving conversions and reductions
- Behavioral Health – 2 FTE increase. Cost is 100% offset

All of the new position changes outlined above were approved and recruitments authorized as part of the Recommended Budget adoption action.

PREPARING THE ADOPTED BUDGET

Conversion of the FY 2015/16 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) consideration of State and federal budget actions; 4) re-budgeting major portions of projects such as the Juvenile Detention Facility; and 5) addressing major budgeting objectives set-forth by the Board in June and specific direction provided on August 4.

Fund Balance Changes

The changes in beginning fund balances can be viewed in Tab 2 – Attachment A. Overall, fund balances were \$5 million higher than originally projected. The largest variances were in the General, Social Services, County Capital and Ambulance Funds. Approximately one-half of the **General Fund's** \$805,000 variance was due to one-time funding received on behalf of the long closed Tuolumne General Hospital. The balance reflected a combination of slightly higher revenues and lower expenses amongst several departments. The notable \$1.4 million increase in the **Social Services Fund** was due to a combination of factors: 1) \$359,000 higher than expected State realignment funding; 2) \$435,000 savings in salary and benefit costs due to vacancies; 3) \$136,000 in capital project costs deferred to FY 2015/16; 4) lower contract provider costs (\$191,000); 5) reduced foster care placements and related costs (\$155,000); and 6) reduced adoption assistance costs (\$88,000). The higher balance in the **County Capital Fund** (\$524,000) was the result of slight delays in the beginning of construction of various Law and Justice projects, many of which will be re-budgeted in FY 2015/16. Lastly, the \$702,000 increase in the **Ambulance Fund's**

- The **General Fund's dependency on one-time funding** was reduced by \$585,548 from \$1,208,357 to \$622,809. \$622,809 equates to 1.01% of the revised General Fund Budget.
- **General Fund Contingencies** were increased from the \$471,643 originally contained in the Recommended Budget to \$922,213 or just \$77,787 shy of our \$1 million funding target.

The actions taken to support the above changes included:

- With the cooperation of County department heads, approximately \$831,000 in budget capacity was gained by making a variety of revenue and expense adjustments in General Fund department budgets.
- Recognition of the \$805,000 increase in the General Fund's beginning balance.
- Recognition of \$212,120 of one-time revenue related to the former Tuolumne General Hospital.

The above captures most of the major changes between the Recommended and Adopted Budget proposal.

SUMMARY OF RESULTING ADOPTED BUDGET PROPOSAL

The chart below shows the changes between the FY 2015/16 Recommended Budget and FY 2015/16 Adopted Budget proposal:

	Recommended FY 2015/16	Adopted FY 2015/16	Change	
General Fund	\$ 59,031,330	\$ 61,445,800	\$ 2,414,470	4.1%
Governmental Funds	\$128,891,831	\$151,169,971	\$22,278,140	17.3%
Enterprise Funds	\$ 6,575,899	\$ 7,412,652	\$ 836,753	12.7%
Internal Service Funds	<u>\$ 17,849,253</u>	<u>\$ 17,523,753</u>	<u>(\$ 325,500)</u>	<u>(1.8%)</u>
All Budgeted Funds	\$153,316,983	\$176,106,376	\$22,789,393	14.9%
Permanent Employees	619.8	632.6	12.8	2.1%

The major reasons for the \$22.8 million increase in the overall budget between the Recommended and Adopted proposal are: 1) re-budgeting of the \$5 million increase in beginning fund balances; and 2) re-budgeting \$16.4 million of Law & Justice projects in the County Capital Fund.

It is important to also show the proposed changes between fiscal years. Therefore, this next chart contrasts the difference between the FY 2014/15 Adopted Budget and the FY 2015/16 Adopted Budget proposal:

	Adopted FY 2014/15	Adopted FY 2015/16	Change	
General Fund	\$ 59,742,518	\$ 61,445,800	\$ 1,703,282	2.9%
Governmental Funds	\$146,176,665	\$151,169,971	\$ 4,993,306	3.4 %
Enterprise Funds	\$ 6,717,394	\$ 7,412,652	\$ 695,258	10.4%
Internal Service Funds	<u>\$ 16,298,998</u>	<u>\$ 17,523,753</u>	<u>\$ 1,224,755</u>	<u>7.5%</u>
All Budgeted Funds	\$169,193,057	\$176,106,376	\$ 6,913,319	4.1%
Permanent Employees	601.3	632.6	31.3	5.2%

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 4 policies, *substantially complies* with 3, *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 General Fund's use of one-time revenues to support ongoing expenses is at 1% of the total budget. Last year, concern for the Human Services Agency was voiced due to their dependence upon fund balance. Behavioral Health is still reliant upon fund balance to meet operational costs but staff is working towards decreasing the cost of out-of-county placements. The Health Department and Department of Social Services each have placed a significant amount of their fund balance into contingencies.
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 Board has directed a significant amount of funds to capital projects such as the Juvenile Detention Facility project, Law and Justice Center infrastructure and roads.
3. **Non-earmarked General Fund Contingencies should be budgeted at 1% of the total operating budget for governmental funds.** *Substantially Complies.* 1% of combined governmental budgets would be \$1,511,700. 1% of pure operating budgets (combined governmental budgets less capital budgets) would be \$1,344,471. Total Governmental Fund Contingencies are \$5.7 million with General Fund contingencies at \$922,000.
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 \$2.3 million to approximately \$7.5 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 employees are beginning to retire. Staff continues to 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 a 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 availability of discretionary revenues have been limited, this budget has given priority to public safety and road maintenance activities versus other areas of the budget. The Board continues to allocate large portions of its discretionary, one-time capital dollars to road 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. It is time to review and provide an update on the progress of the CIP. Staff will provide an update this fiscal year.
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 2015/16 Recommended Budget Personnel Changes spreadsheet and associated memorandums on new and revised position classifications (see Tab 2 - Attachment B). These additional requested changes call for a 12.8 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:

Based on Board Objective Discussion

Animal Control	1.0
Community Resource Agency	3.0
Information Technology	1.0
Jail	1.0
Library	1.0
Youth Centers	0.6
Health	<u>1.0</u>
	8.6 FTEs

HSA Director Capacity Requests

Social Services	1.2	
Behavioral Health	<u>3.0</u>	4.2 FTEs
TOTAL		12.8 FTEs

It should be noted that when the above requests are added to those already approved in the Recommended Budget (18.5 FTE – see summary on page 2), the total growth in positions compared to the FY 2014/15 Adopted Budget is 31.3 FTE. This represents the most significant increase in County staffing in many years.

INFORMATION TECHNOLOGY STEERING BOARD (ITSB) PROJECT LIST

The Board did approve an ITSB Project List as part of the Recommended Budget; however, the Steering Board recently met to re-evaluate the list to consider updated information on projects, consider ways to expand delivery capacity through use of outside contracting and to re-evaluate priorities. This meeting resulted in an updated FY 2015/16 ITSB list for Board of Supervisor approval. Examples of some of the changes include using consultants to lead the telephone system replacement project, formally add the jail management system needed for the new Juvenile Detention Facility and adding a new civil management system for the Sheriff’s Office. This updated list can be found in *Tab 2, Attachment D*.

CAPITAL PROJECTS

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

COMMUNITY ORGANIZATION FUNDING REQUESTS

Tab 2 – Attachment H provides background on the Motherlode Fair, Tuolumne County Arts Alliance and the Tuolumne County Historical Society/Museum funding requests. Your Board may wish to revisit one or all of these requests before closing the hearing and adopting the final budget.

RECOMMENDATION

It is recommended that your Board conduct a public hearing to consider adoption of all budget actions contained in the FY 2015/16 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 ITSB Project List contained in *Tab 2 – Attachment D*;
3. The capital project lists contained in *Tab 2 – Attachments E, F and G*;

4. The appropriation limit computation method as presented by the Auditor-Controller in Tab 2 – Attachments I; and
5. The FY 2015-16 Adopted Budget Resolution as presented in Tab 2 – Attachment J.

Cc: County Department Heads
CAO Staff
Ann Fremd, HR/Risk Manager
Stacey Dodge, Motherlode Fair
Constance O'Connor, Tuolumne County Arts Alliance
Angela Brown, TC Historical Society & Museum