COUNTY ADMINISTRATOR'S BUDGET MESSAGE

County Administrator's Office

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TO: Board of Supervisors

FROM: Craig L. Pedro, County Administrator

SUBJECT: Recommended FY 2016-17 Budget

In recent years, the process of adopting a County budget has been altered. While we still adopt recommended and final budgets, our preparation and public dialogue regarding the budget has become almost a non-stop, year-round process. This process now regularly includes: 1) multi-year forecasts; 2) early policy direction via Board adopted strategies used in developing recommended budgets; 3) confirmation that the "in process" recommended budget is consistent with the strategies and expectations of the Board; and 4) implementation of most major personnel and program actions in conjunction with the recommended versus final budget.

The first step is approval of a recommended budget before the end of June each year. The second step is adoption of a final budget after a formal hearing in August or September. The final budget incorporates the final fund balance calculations from the Auditor/ Controller and impacts related to an adopted State budget.

DEVELOPMENT OF THE FY 2016-17 RECOMMENDED BUDGET

The FY 2016-17 Recommended Budget has been developed in the manner described above and is the product of discussions and Board actions that began in January 2016. The following were the major decision points in that process:

- **January 28 and 29, 2016 – Board Retreat.** The Board and Department Heads participated in a Planning Retreat that culminated in a discussion regarding what should be the County's strategic priorities. The top two priorities were: 1) implementation of a variety of IT system improvements; and 2) implementation of the 2015 compensation study over time.

- **March 15, 2016 – Presentation of Plan to Implement and Support Priority Information Technology Projects.** The Board was provided with a presentation on how staff would propose to implement and support the priority IT projects discussed at the January Board Retreat. The Board gave staff direction on same

with emphasis on ensuring we exercise effective management of internal and contracted resources in meeting these needs.

- **March 15, 2016 - "FY 2016-17 through FY 2020-21 Direction on "Baseline" Multi-Year Budget Forecast".** This forecast began with a presentation on the national and State economies and budgets as well as a brief look into the local economy which continues to reflect a slow upward trend. All key County budget modeling assumptions were also summarized. This Baseline Forecast reflected *"existing staff and programs at tomorrow's cost and revenues"* other than prior Board commitments in the areas of Tree Mortality and construction and operation of the Juvenile Detention Facility and new Jail. The biggest area of concern was the continued decline of ongoing State and Federal revenue sources for road maintenance. The presentation ended by receiving direction on changes the Board wanted to see incorporated into the "Modified" Multi-Year Forecast.

- **April 5, 2016 – "*Modified* Multi-Year Budget Forecast and direction on development of the FY 2016-17 Proposed Budget".** The chart below compares the changes in forecasted shortfalls amongst the combined General, Road and Fire Funds over the next 5 years between the Baseline and Modified models:

	Baseline	**Modified**
FY 2016-17	<$3,965,687>	<$3,085,761>
FY 2017-18	<$2,753,335>	<$1,775,014>
FY 2018-19	<$3,308,631>	<$2,420,995>
FY 2019-20	<$3,003,632>	<$1,897,718>
FY 2020-21	<$2,606,778>	<$1,364,223>

The most notable improvement was in the General Fund due to adjustments made in projected general revenues (e.g. property tax, sales tax and TOT). The Road Fund's projected shortfall was reduced but mainly due to the plans to start reducing staffing to more closely match Fund expenditures to expected reductions in dedicated Federal and State road funding. The Fire Fund remained unchanged between forecasts; however, it was noted that a heavy investment will soon need to be made to replace the aging fire fleet.

As stated in the staff memo for the Modified Forecast, such *"forecasts are used to help the Board envision the direction the County is going in the long-term and inform the general strategies the Board would like the County Administrator to employ when developing the upcoming year's budget"*. With this in mind, the Board gave staff a clear set of strategies to follow in preparing the FY 2016-17 Budget. Some of the key strategies included:

- Follow "FY 2016-17 Investment Priorities". For example:
  - Incorporate bargaining set-asides to start implementing the 2015 Compensation Study over time
  - Complete major Law & Justice capital projects already in process
  - Incorporate a short list of "high priority" positions
  - Incorporate implementation of critical IT systems and services

- Finance up to 1% of the General Fund budget using beginning fund balance
- Apply vacancy factors in high turnover General Fund departments
- Minimize budgeting of overtime
- Strive to balance the Road Fund without additional transfers from the General Fund

- **May 17, 2016 – "Status and Direction on Development of the FY 2016-17 Budget".** In accordance with the County's Budget Process, staff presented a status report on the development of the FY 2016-17 Proposed Budget. This presentation was a very high level review of the *"still in process, not yet balanced and recommended"* budget for FY 2016-17. The initial compilation of department "status quo" submissions with the inclusion of Board directed "high priority" positions and IT projects resulted in: 1) a still significant deficit ($2.4 million) in the General Fund. This shortfall was even understated due to overreliance on beginning fund balance and the need to still provide for a bargaining set-aside; 2) a Road Fund that could be balanced with additional reductions in vacant positions, road materials and fixed assets; and 3) a Fire Fund that could be balanced with adjustments to either fixed assets or contingencies. Board consensus was for the County Administrator to proceed with line-item budget reviews with each department in order to make necessary adjustments consistent with previously approved budget strategies.

  It should be noted the Board Finance Committee did receive a brief update on the process described above at its May 10, 2016 meeting.

- **June 7, 2016 – "Status and Direction on Development of the FY 2016-17 Budget – Round #2".** After meeting with departments and making adjustments as directed by the Board, including the addition of a bargaining set-aside, all funds were brought into balance with the exception of the General Fund. The remaining General Fund shortfall was $768,000. Staff was directed to make the following adjustments to balance the Recommended Budget:

o Remove the *High Priority* Code Compliance Investigator	$ 74,000
o Remove the *High Priority* IT Manager	138,000
o Assume a change in the TCVB's TOT allocation	122,000
o Reduce General Fund Contingencies	434,000
	$768,000

  In providing this direction, the Board concurred while stating its desire to: 1) reestablish both High Priority positions in the Final adopted budget; 2) pursue stakeholder meetings and consensus on any change in the TOT allocation policy related to the TCVB prior to the Final Budget Hearing; and 3) restore Contingencies in the Final adopted budget.

  It should be noted that the Board Finance Committee did receive a full update on the process described above at its June 3, 2016 meeting and offered suggestions on how to broaden options for Board consideration during the June 7 Board discussion on the Budget.

The FY 2016-17 Recommended Budget closely follows and reflects the Board direction provided above.

SUMMARY OF RESULTING RECOMMENDED BUDGET

The following chart illustrates the change between the FY 2015-16 Adopted Budget and the FY 2016-17 Recommended Budget:

	Adopted FY 2015-16	Recommended FY 2016-17	Change	
General	$61,445,799	$65,995,684	$4,459,885	7.26 %
Governmental	$150,273,082	$144,892,643	($5,380,439)	(12.01%)
Enterprise	10,228,212	7,072,846	(3,155,366)	(3.60%)
Internal Service	19,093,191	17,785,810	(1,307,381)	(6.85%)
	$179,594,485	$169,751,299	($9,843,186)	(5.48%)
Permanent Employees	632.6	632.1	(0.5)	(0.1%)

The chart shows that the **General Fund** will actually increase by $4.5 million under this budget. This increase is driven by inclusion of $3.8 million for our Tree Mortality program and $800,000 for first year operating costs for the Juvenile Detention Facility.

The most notable change is the $5.4 million decrease amongst all of the County's **Governmental Funds** (e.g. General, Fire, Social Services, Behavioral Health, Health, County Capital, Airport Capital, Road Capital, etc…). The single biggest factor is the County Capital Fund decreasing by $15.8 million which reflects the near completion of the Juvenile Detention Facility. This decrease is partially offset by things such as:

- $1.7 million increase in the Airport Capital Fund related to taxiway projects and a master plan update for the Columbia Airport
- The Road Capital Fund is $4.3 million higher due to the success of the CRA engineering unit in advancing a variety of projects – most supported by grant funding
- The $4.6 million of Tree Mortality program and Regional Juvenile Facility costs mentioned above
- Incorporation of priority IT projects and services
- Higher salary and benefit costs due to a variety of factors such as:
    - Full year funding of the 31 positions added to the FY 2015-16 Budget
    - New employees going through their step increases
    - Increased PERS costs
    - Position changes approved mid-year in FY 2015-16 and others contained in this Recommended Budget
- Inclusion of a bargaining set-aside

The decrease of $1.3 million amongst the County's **Internal Service Funds** is primarily due to a combination of decreased costs in Liability, Unemployment and Telecommunications.

The **overall budget** will be $9.8 million lower. Summary charts (a.k.a. **Schedule 1s**) for each group of funds can be found under *Tab 3*. There is a meager 0.5 **overall position decrease** compared to the original FY 2015-16 Adopted Budget. This decrease is the result of 5 new positions approved during the current fiscal year and a net decrease of 5.5 FTEs recommended in this budget.

PERSONNEL ACTIONS

A list of personnel actions contained in the Recommended Budget can be found on the **"Recommended Budget Personnel Changes"** spreadsheet (*Tab 2, Attachment A*). The net 5.5 FTE decrease in recommended positions is summarized below:

• Reorganization in Auditor-Controller Office	0 net
• Conversion of Env. Health Specialist from a grant funded position to a permanent position	0 net
• 3 month extension of 2 grant funded Building Inspector positions *(Juv. Det. Fac. & Rush Creek)*	0 net
• Conversion of 3 DPO IIs to Sr. DPOs	0 net
• Conversion Communications Supervisor to Lead Dispatcher	0 net
• Addition of Account Clerk in Treasurer's Office	0.5
• Addition of Office Assistant in Veterans Office	0.5
• Conversion of Airport Administrative Assistant	0.5
• Eliminate Road Superintendent - retirement	(1.0)
• Eliminate Sr. Road Workers – vacancy	(1.0)
• Eliminate Road Crew Lead Worker – retirement	(1.0)
• Eliminate Road Worker - retirement	(1.0)
• Eliminate Engineering Assistants - retirement	(2.0)
• Eliminate Road's Division GIS Analyst - retirement	(1.0)
	(5.5)

The most significant changes are the 7 FTEs being eliminated from the Road Fund due to decreases in Federal (e.g. Secure Rural Schools) and State (e.g. Gas Tax) road maintenance funding. This decline in road funding is a nationwide problem. Staff will note that your Board has been relentless in advocating for corrective action to be taken by our Federal and State representatives.

The resulting change in total **"Allocated Positions by Department"** can be viewed in *Tab 2, Attachment B.*

Also provided for reference and use in conjunction with the FY 2016-17 Final Budget Hearing is the updated **"High Priority Position Restoration List"** contained in *Tab 2, Attachment C*. The first two positions listed are the Code Compliance Investigator and IT Manager mentioned previously.

There is one additional worksheet provided entitled **"Other Department Personnel Requests"** (Tab 2, Attachment D). This is a listing of a variety of personnel changes departments would like to discuss with the Board in conjunction with the Final Budget Hearing. For example, there are significant changes occurring at the State level with respect to Social Service and Behavioral Health funding, programs and performance expectations. Staff will have a better understanding of these changes as we get closer to the Budget Hearing and will need to seek commensurate budgetary and staffing changes.

INFORMATION TECHNOLOGY PROJECT LIST

The Information Technology Steering Board (ITSB) has completed work on the FY 2016-17 Project List. The Project List reflects most of the priority projects discussed with the Board. The recommended list can be found in *Tab 2, Attachment E.*

CAPITAL PROJECTS

The recommended capital project lists for the Road, Airport and County Capital Funds can be found in *Tab 2, Attachments F, G and H*, respectively.

GENERAL FUND CONTINGENCIES

General Fund Contingencies have been established at $1,280,109. A stated priority of your Board is to increase Contingencies by $419,891 during the Final Budget Hearing.

USE OF ONE-TIME DOLLARS IN THE GENERAL FUND

The Recommended General Fund Budget contains two major sources of one-time funding:

Year-End Projected Undesignated Balance	$2,686,910
Cancellation of Prior Year Reserves	670,495
	$3,357,405

Uses of the estimated beginning fund balance are as follows:

Pure Contingencies	$1,000,000
One-Time Projects	917,500
Ongoing Operations	769,410
	$2,686,910

Staff would point out that your Board had authorized staff to fund up to 1% of the General Fund Budget or $660,000 using beginning fund balance. The Recommended Budget is in fact utilizing $769,410 of fund balance for operations which is $109,410 or 0.2% higher than desired by the Board.

The $670,495 of cancelled General Reserve dollars are being used exclusively to fund the County's 25% match under the California Disaster Assistance Act (CDAA) for the Tree Mortality program. This action will reduce the County's General Reserves from $2.3 million to $1,629,505 with additional match needs anticipated in subsequent fiscal years.

The Board is actively pursuing a Presidential Disaster Declaration and funding related to Tree Mortality in order to prevent the potential draining of our entire General Reserve over the next few years.

LOOKING FORWARD TO THE FINAL BUDGET HEARING

Staff was originally thinking of setting the Final Budget Hearing for August 16. Given the extremely short time my office would have to react to final fund balances, State funding allocations and to properly notice the Hearing, staff would now suggest that the Board consider a two-step process after approving this Recommended Budget:

- Directing staff to schedule an update on the budget in general and personnel changes in particular on August 16, 2016. This review could lead to modifications of the Recommended Budget (e.g. directing the addition of key positions, incorporating any modifications related to TOT allocations, etc…); and
- Directing staff to schedule and notice the FY 2016-17 Final Budget Hearing to occur at 9:00 a.m. on September 6, 2016.

Recommendation

It is recommended that your Board approve the FY 2016-17 Recommended Budget by:

A. Adopting the FY 2016-17 Recommended Budget as presented;
B. Approving all associated staffing changes;
C. Authorizing staff to proceed with acquisition of fixed assets and capital projects prior to the final budget hearing;
D. Approving the FY 2016-17 Information Technology Steering Board Project List and authorizing staff to proceed with projects prior to the final budget hearing; and
E. Providing direction on follow-up meeting and hearing dates on the FY 2016-17 Budget as outlined above.

Cc: Department Heads
CAO & HR Staff
All Bargaining Groups