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Nancy Watt
County Executive Officer

MEMORANDUM

TO: Board of Supervisors

FROM: Nancy Watt, County Executive Officer

DATE: March 19, 2013

RE: **MID-YEAR FISCAL REVIEW FISCAL YEAR 2012-13**

Introduction

As you are aware, a mid-year review of the County's fiscal status, focusing particularly on the General Fund, is an important part of our on-going fiscal monitoring process. Using six months worth of actual revenue and expenditures, we work with departments and the Auditor-Controller's Office to forecast revenues, expenditures and Net County Cost, or General Fund Contribution, through the end of the fiscal year. This review enables us to address any current-year budget problems in a timely manner. It also assists us in preparing the FY2013-14 Budget, in part by providing an estimate of the FY2012-13 General Fund ending fund balance. As you know, the current year ending fund balance becomes the beginning fund balance, and thus a major budget source, for the next fiscal year.

There continues to be many uncertainties with regard to future revenues and expenditures and these projections are, of necessity, somewhat problematic. After we have nine months worth of actual expenditure and revenue data, staff will be conducting a Third Quarter Fiscal Review which will provide a more accurate picture of what our year-end fiscal status is likely to be.

For the FY2012-13 Budget several major changes took place including the implementation of the new budget module and the new chart of accounts. In preparing for this mid-year review staff has focused on the difference between the adjusted final FY2012-13 Budget as of December 31, 2012 compared to the estimated actuals submitted by the departments. One of the other major changes that also occurred for this fiscal year is that the Health and Human Services Agency (HHSA) is no longer a part of the General Fund budget but sits as its own Special Revenue-Operating Fund. Another aspect adding to the complexities involved in this comparison is the consolidation of the permitting departments.

In addition to providing your Board with a Mid-Year fiscal status report, we also take this opportunity to give you an update on the State's fiscal situation, focusing on its potential impact on the County's financial condition.

Mid-Year Fiscal Review

General Fund Current Year Fiscal Status

Using the most current information available, we believe that the General Fund will likely complete this fiscal year (2012-13) with an unassigned ending balance of approximately $15 million. This is roughly a $2 million, or 16%, increase compared to the actual FY2012-13 unassigned beginning balance. This increase to fund balance is the result of lower than anticipated expenditures in the General Fund, the increase in the actual unassigned beginning fund balance from the estimated amount, and the assumption that no contingency use is required. Included in the estimated year end fund balance is the total anticipated Excess ERAF of $12 million, of which no more than $5 million is to be used for ongoing expenditures. Any additional amount received will be designated for specific projects.

GENERAL FUND SUMMARY

	2012-13 Adjusted Budget[1]	2012-13 Estimate	Difference
Resources:			
Fund Balance[2]	$ 8,377,149	$ 12,966,109	$ 4,588,960
Discret. Revenue	102,345,412	105,949,728	3,604,316
Deptl. Revenue	63,423,398	57,288,947	(6,134,451)
Total Revenue	165,768,810	163,238,675	(2,530,135)
Total Resources	174,145,959	176,204,784	2,058,825
Requirements:			
Expenditures	168,677,241	156,420,816	(12,256,425)
Contingency	5,905,000	0	(5,905,000)
Increase Reserves	0	1,379,232	1,379,232
Increase Designations	0	1,400,000	1,400,000
Increase ACO Fund		2,000,000	2,000,000
Total Required:	174,582,241	161,200,048	(13,382,193)
Difference:	(436,282)	15,004,736	15,441,018

The following is a brief explanation for the "differences" in each resource or requirement category identified in the above table.

1. Fund Balance: The General Fund's unassigned beginning balance is approximately $4.6 million, or 55%, higher than the level assumed in the FY2012-13 Adjusted Budget. This is due in part to the receipt of additional Excess ERAF revenue and the cancellation of a $1,350,000 designation

[1] Reflecting budget adjustments as of December 31, 2012.
[2] Unassigned beginning balance

that served as a debt service reserve for the County's 2003 Certificates of Participation (COPs). This COPs issue was refunded in May 2012, and a fully funded reserve was established using COPs proceeds, eliminating the need for this designation.

2. Discretionary Revenue: Discretionary, or general purpose, revenues are projected to total approximately $105.9 million, which is approximately $3.6 million, or 3.5%, higher than the budgeted level. The following table shows the budgeted and projected actual levels for the County's major discretionary revenue sources.

Revenue	FY12-13 Budgeted	FY12-13 Projected	Difference	Percent Difference
Property Tax (No E. ERAF)	66,326,748	67,410,480	1,083,732	1.6%
Excess ERAF	10,000,000	12,000,000	2,000,000	20.0%
Transient Occ. Tax	9,672,000	9,246,300	(425,700)	(4.4)%
Sales & Use Tax	5,408,000	6,000,000	592,000	10.9%
Other Discret. Rev.	10,938,664	11,292,948	354,284	3.2%
Total Discret. Rev.	102,345,412	105,949,728	3,604,316	3.5%

3. Departmental Revenue: Departmental revenues are projected to be approximately $6.1 million, or 9.7%, lower than the budgeted level. This is due primarily to:

   - A projected $4.9 million (37%) reduction in General Fund Capital Improvement Program (CIP) revenues from various sources, due primarily to delays in various capital construction projects. Appropriations for some of these projects and related revenue will be re-budgeted in FY2013-14.

   - A projected $573,000 (10%) reduction in revenue in the Public Works/Engineering budget due to position vacancies that have resulted in lower billable revenue. There is a corresponding decrease in expenditures.

   - A projected $180,000 (20%) reduction in revenue in the Property Management budget. This is due to a decrease in charges for services as a result of staff vacancies.

   - A projected $185,000 (4%) reduction in revenue in the Corrections budget, due principally to the loss of State Criminal Alien Assistance Program (SCAAP) funding because of changes in the allocation formula and application changes.

4. Expenditures: Departmental expenditures are projected to be approximately $12.3 million (7%) lower than the Adjusted Budget level. This is due primarily to: (1) a $5.6 million reduction in capital project expenditures in the CIP budget (as indicated above, in some cases these expenditures will be made in future years); (2) a $2.7 million reduction in General Expenditures due, in part, to the amount needed from the General Fund for capital improvement projects such as the Admin Building remodel, the remaining amounts will be re-budgeted in FY2013-14; (3) a $573,000 reduction in Public Works due to employee vacancies which resulted in decreased salaries/benefits; (4) a $367,000 reduction in Central Services expenditures due, in part, to revised estimates for the annual Teeter Transfer; and (5) $499,000 in expenditure reductions in the Sheriff budget, due in part, to employee vacancies offset by overtime and extra help increases.

5. Reserves and Designations: $2.7 million was utilized from the additional unassigned fund balance available to increase the General Reserves and the Fiscal Uncertainties Designation.

6. Contingency: This review assumes that none of the remaining Contingency will be "spent" this fiscal year.

An estimated unassigned fund balance of approximately $15 million indicates that the General Fund will have the necessary resources to make it through the rest of this fiscal year without the need to make expenditure reductions beyond those assumed in these projections. However, as mentioned previously a portion of the fund balance will be re-budgeted in FY 2013-14 for capital projects. In addition, it is typically necessary to use from $8 to $15 million to balance the Recommended Budget.

Mid-Year Review of Department Budgets

This section generally focuses on current year General Fund, special revenue fund and enterprise fund departments, where expenditures and/or Net County Cost/General Fund Contributions are projected to exceed the budgeted level by $50,000 or more. In addition, information may be provided about certain other budget units where there are significant fiscal issues that the Board may need to address.

In general, where a budget unit is projected to exceed the approved appropriation level or Net County Cost, it is recommended that the department be directed to make every effort to come in within the budgeted Net County Cost level and that the department's fiscal status be revisited as part of the Third Quarter Fiscal Review. Any needed budget adjustments will be made at that time. Budget adjustments would be recommended at this time if it is estimated that there is insufficient appropriation authority to cover projected expenditures that will occur between now and the Third Quarter Review. No budget adjustments for the General Fund are recommended at this Mid-Year Fiscal Review. The fund balance does reflect an estimated increase to the Accumulated Capital Outlay fund of $2 million due to the anticipated receipt of additional Excess ERAF. The exact amount to be transferred will be calculated at Fiscal Year End.

General Fund Departments

As indicated above, General Fund expenditures are projected to be $18,161,425 (7%) lower than the FY2012-13 Adjusted Budget and total revenues are projected to be $2,530,135 (2%) lower than the Adjusted Budget. The net effect to Net County Cost is a decrease of $15,631,289. The total decrease to expenditures includes Departmental reductions and the assumption that there will be no use of the Contingency amount ($5,905,000). The decreases to estimated expenditures are due in part to salary savings in budgeted positions. In addition, there is an estimated expenditure reduction to the Public Works Divisions of approximately $6.4 million. These expenditure reductions in Public Works are offset by reductions in estimated revenues of $5.7 million and a reduction in Net County Cost of $0.7 million.

The projected revenue reductions are a combination of increases and decreases throughout the Departments. The reductions in many departments are due to decreased revenue tied to salary vacancies and the billing of services. The additions to revenue are the result of increases to Proposition 172 and Discretionary Revenue discussed previously.

Health & Human Services Agency

Beginning with the FY2012-13 Budget, the Health & Human Services Agency (HHSA) was moved out of the General Fund and set up as its own Special Revenue-Operating Fund. The FY2012-13 Adjusted Budget for all Divisions of HHSA consists of expenditures totaling $86,003,591 and revenues of $86,003,591. Overall, the Health & Human Services Agency is projecting that expenditures will be approximately $170,011 (0.2%) higher than the Adjusted Budget level, revenue will be approximately $2,521,267 (2.9%) higher resulting in an increase to fund balance of approximately $2,351,256. Under Board policy, HHSA has a General Fund contribution of approximately $16.1 million. The projected revenue increases are the result of Mental Health deferred revenues for FY2011-12, caseload growth payments to social services, and an increase to the base in 1991 Sales Tax Realignment. Policy discussions will be taking place over the next several months to determine what types of reserves should be established for the HHSA Special Revenue-Operating Fund.

Special Revenue-Operating Fund

Five of the Agency's 11 Special Revenue-Operating Fund Divisions are projected to exceed their appropriations or Net Fund Cost level by more than $50,000 as described below.

Mental Health (20002): Expenditures are projected to be approximately $424,000 (2%) higher than the Adjusted Budget level, revenues are projected to be approximately $1,400,000 (7%) higher and Net Fund Cost will decrease by approximately $976,000. The increase in expenditures is primarily due to increases in certain contracts that are offset by revenues. There are smaller expenditure increases, totaling about $100,000, in services and supplies and salary savings not achieved. The total increase to revenue includes $1 million in deferred revenue from prior year State mental health revenues. Also included in the increased revenue is $230,000 in the Community Mental Health 2011 Realignment allocation.

HHSA Comprehensive Services for Older Adults (20005): Expenditures are projected to be approximately $683,000 (9%) higher than the Adjusted Budget level, revenues are projected to be approximately $294,000(4%) higher and Net Fund Cost will increase by a projected $390,000. The primary reason for the projected increase in expenditures is due to increasing demand in the In Home Supportive Services (IHSS) program. This increase is based on the shift at the State to charging counties a Maintenance of Effort (MOE) for the program rather than using a cost sharing ratio. The MOE is set at $2.5 million which is based on County expenditures in FY2011-12 and State allocations that year for County Administration. Staff has calculated, that based on the cost sharing ratio, the County's costs have been $2.7 million for the FY2012-13 fiscal year due to increased caseloads. The County General Fund has traditionally covered any increase to the cost of these services.

HHSA Agency Administration (20010): Expenditures are projected to be approximately $186,000 (14%) higher than the Adjusted Budget level, revenues are projected to be approximately $35,000 (6%) lower and Net Fund Cost is projected to increase by $221,000. Expenditure increases are due to the addition of a Program Manager position based on Board action in November 2012 to provide critical expertise in contract monitoring/compliance and Medi-Cal Administrative Activities and the addition of a limited term Staff Services Analyst to assist in the diversity initiative. In addition, there were a variety of professional services agreements needed throughout the year that were not anticipated.

HHSA Fiscal (20011): Expenditures are projected to be approximately $61,000 (2%) lower than the Adjusted Budget level, revenues are projected to be $195,000 (6%) lower and Net Fund Cost is projected to increase by $134,000. Expenditures are lower due to a vacancy rate higher than what was projected. Revenue decreases are due in part to revenues that were appropriately recorded in other divisions, the State's continued reliance on FY2009-10 time studies for Medi-Cal Administrative Activities (MAA) reimbursement, and Master Settlement Agreement fund reimbursements.

HHSA Operations (20012): Expenditures are projected to be approximately $51,000 (2%) higher than the Adjusted Budget level, revenues are projected to be approximately $83,000 (2%) lower, and Net Fund Cost is projected to increase by $134,000. Expenditures and revenue are reduced due to the associated grant fund for homeless services. There have been no vacancies in this Division, therefore no salary savings are expected for FY2013-14.

Special Revenue Non-Operating Funds

Health & Human Services: Realignment 2011 Funds:

Certain Special Revenue Funds (SRF) Non-Operating were set up based on 2011 Realignment principles. Most of the "realigned" programs were already in place and managed by the County (with the exception of Adoptions Administration which was the responsibility of the State) but were funded, generally, by State general fund allocations that would flow directly to HHSA division revenue lines. The "realignment" was primarily from one State funding source to another. The Auditor-Controller's office along with HHSA set up a separate SRF for each program based on State information at the time. Now it is clear that the State is funding these programs in three buckets: 1) Community Mental Health, 2) Behavioral Health Programs, and 3) Protective Services Programs.

Community Mental Health (2500-25050): Revenues and expenditures are expected to exceed FY2012-13 Adjusted Budget by $230,000 due to an ongoing State allocation increase.

Behavioral Health (2500-25062): This SRF is newly created based on how 2011 Realignment funds are actually flowing to counties as described above. The SRF replaces three 2011 Realignment SRF's including:

Drug Court (2500-25051)
Non-Drug Medi-CAL Substance Abuse (2500-25052)
Drug Medi-CAL (2500-25053)

This SRF also includes funds that previously flowed through SRF 24620 Managed Care and funds that previously flowed through the Mental Health (EPSDT) and Alcohol and Drug Services divisions as direct allocations. The allocation lines will be replaced with a similar amount flowing through the transfer-in line. Expected revenues and expenditures total $3,329,688 for FY2012-13.

Protective Services (2500-25063): This SRF is newly created based on how 2011 Realignment funds are actually flowing to counties as described above. The SRF replaces seven 2011 Realignment SRF's including:

Child Abuse Prevention Subaccount (2500-25054)
Child Welfare Service Subaccount (2500-25055)
Foster Care Admin Subaccount (2500-25056)
Foster Care Assistance Subaccount (2500-25057)
Adoptions Admin Subaccount (2500-25058)

Adoptions Assistance Subaccount (2500-25059)
Adult Protective Services (2500-25060)

Expected revenues and expenditures total $4,711,660 for FY2012-13.

This Mid-Year Fiscal Review will include budget adjustments to establish appropriations in the two newly established SRFs, Behavioral Health and Protective Services.

General Fund: Realignment 2011 Fund

Local Community Corrections Account (Fund 2500-1020081): Expenditures are estimated to be $200,000 higher than the adjusted budget. Before a new program or project related to Realignment is implemented, staff presents its recommendations to the Board along with a budget adjustment increasing the transfer-out allocation authority in the Special Revenue Fund and recognizing the transfer in and expenditures in the relevant operating budget unit. The increase in expenditures is a combination of new programs anticipated in the second half of the fiscal year and approved programs having lower than budgeted costs due to delays in hiring or in implementation. Staff will continue to bring budget adjustments with each new program in order to highlight the cost of the program and show the overall impact to the Realignment Special Revenue fund.

State Budget Issues

On January 10th, the Governor released his proposed FY2013-14 State Budget reflecting significant improvements in the State's financial picture. These budgetary improvements are the result of the voter's approval of a temporary tax increase this past November, the State more closely reaching structural balance, and a modest economic recovery. The Governor's spending plan includes expenditures of $138.6 billion in the General and Special Funds. This is a 4.5% increase over the revised FY2012-13 expenditures of $132.6 billion. The FY2012-13 estimates also generate an operating surplus of $2.4 billion that will erase the $2.2 billion deficit that remained after FY2011-12. This leaves the General Fund with a small reserve at the end of FY2012-13, and with the projected revenues and expenditures for budget year FY2013-14, this reserve grows to approximately $1 billion by the end of FY2013-14. The Governor also proposes to reduce the "Wall of Debt" currently projected to be $27.8 billion at the end of FY2012-13 to $4.3 billion by the end of FY2016-17.

The Governor's budget includes his proposal to move forward with the implementation of the Affordable Care Act (ACA), specifically with the Medi-Cal expansion portion. Among the decisions to be determined are whether a State-Based Approach or a County-Based Approach would be utilized in implementing the Medi-Cal expansion. HHSA staff is evaluating all of the aspects of the implementation of the ACA and other Health and Human Services issues in the Proposed State Budget.

In the area of Administration of Justice, the Proposed State budget continues to support the implementation of public safety realignment (AB 109) by including estimates of allocations of base and growth amounts for 2011 Realignment through FY2014-15. It is estimated that the County may received approximately $700,000 more in FY2013-14 in 2011 Public Safety Realignment Funding. In addition, the budget provides $7.9 million in a third round of planning grants to community corrections partnerships. In the past the County has received $100,000 each year in planning grants.

The Governor focused a large portion of the Proposed State Budget on Education. Even though there is not a direct connection for Counties, potential changes in the Education area could have an underlying impact on local government. A major provision of the budget proposal is reforming funding formulas for California's K-12 schools. Connected to the Education portion of the Governor's proposed budget, are the uncertainties surrounding Excess ERAF due to the plan to move certain categorical funding amounts into the Average Daily Attendance calculations for schools.

Staff is continuing to evaluate the Governor's Proposed Budget to determine its impact on Napa County and to track its progress through the Legislature. We often do not know what the ultimate impact of the State budget will be on the County until after the County's budget is adopted in June.