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Nancy Watt
County Executive Officer

A Tradition of Stewardship
A Commitment to Service

MEMORANDUM

TO: Board of Supervisors

FROM: Nancy Watt, County Executive Officer

DATE: March 18, 2014

RE: **MID-YEAR FISCAL REVIEW FISCAL YEAR 2013-14**

Introduction

A mid-year review of the County's fiscal status, focusing particularly on the General Fund, is an important part of the County's on-going fiscal monitoring process. Using six months' worth of actual revenue and expenditures, the County Executive Office (CEO) staff works 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 the County to address any current-year budget problems in a timely manner. This process also assists in preparing the FY 2014-15 Budget, in part by providing an estimate of the FY 2013-14 General Fund ending fund balance available. 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.

While the economy continues to recover, significant pressures on our budgets remain. Personnel and operating costs will continue to grow. In addition, we continue to address capital improvement needs to maintain roads and our existing facilities in acceptable condition. Further we anticipate growth needs, which will ultimately include construction of a much-needed new jail facility.

The available fund balance in the General Fund is sufficient to sustain the projected level of net county cost for the current fiscal year. Realizing actual deficit spending over time, however, could upset the stability of county services. Therefore, it is imperative that we continually monitor revenue trends and carefully contemplate the impact that existing or proposed expenditure increases will have on our fund balance now and into the future. It is typically necessary to use between $8 million and $15 million to balance the budget each year, so maintaining a healthy available fund balance in the General Fund is imperative. 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 the County's year-end fiscal status is likely to be.

In addition to providing the Board with a Mid-Year fiscal status report, this report also provides 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 end FY 2013-14 with an unassigned ending fund balance of approximately $8.4 million. When considering revenues minus expenditures, this represents use of approximately $4.8 million, or 37%, of the actual FY 2013-14 unassigned beginning balance. However, this is lower than the use of $10.4 million included in the adjusted budget. Mid-year budget adjustments are requested to address cost overages in the Sheriff and Public Works budgets offset by use of the Appropriation for Contingency. Included in the estimated year end fund balance is the total anticipated Excess ERAF of just over $13 million, an increase of $4.5 million from the adopted budget. By Board policy only $5 million is used for ongoing expenditures, so the excess of $8,062,345 is projected as a transfer to the Accumulated Capital Outlay fund.

GENERAL FUND BUDGET (1)
6 MONTH ESTIMATES

	FY 2013-14 Adjusted (2)	FY 2013-14 6 Mos. Estimated	Difference
Resources			
Beginning Fund Balance (3)	$ 13,248,453	$ 13,248,453	0
Discretionary Revenue	104,670,634	111,451,344	6,780,710
Departmental Revenue	66,918,614	60,578,499	- 6,340,115
Total Revenue	171,589,248	172,029,843	440,595
Total Resources	184,837,701	185,278,296	440,595
Requirements			
Expenditures	175,241,128	165,789,976	- 9,451,152
Contingency	4,458,956	731,716	- 3,727,240
Total Appropriations	179,700,084	166,521,692	- 13,178,392
Increase Reserves	1,200,323	1,200,323	0
Increase to ACO	1,085,291	9,147,636	8,062,345
Total Requirements	181,985,698	176,869,651	- 5,116,047
Projected Ending Available Fund Balance	$ 2,852,003	$ 8,408,645	$ 5,556,642

(1) Not including revenues and expenditures for the Tobacco MSA and Special Projects budget, technically part of the General Fund
(2) Includes budget adjustments through 12-31-2013
(3) Unassigned beginning balance at 7-1-2013

GENERAL FUND SUMMARY

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

1. Discretionary Revenue: Discretionary, or general purpose, revenues are projected to total approximately $111.5 million, which is approximately $6.8 million, or 6.5%, higher than the budgeted level. Two-thirds of the difference between budget and estimated actual revenue is attributable to $4.5 million in additional Excess ERAF revenue that will automatically transfer to the Accumulated Capital Outlay fund and is not available to fund ongoing operations.

Revenue	FY 13-14 Budgeted	FY 13-14 Estimated	Difference	Percent Difference
Property Tax (No E. ERAF)	69,096,487	70,512,058	1,415,571	2.0%
Excess ERAF	8,500,000	13,062,345	4,562,345	53.7%
Transient Occ. Tax	9,616,152	10,000,000	383,848	4.0%
Sales & Use Tax	6,240,000	6,000,000	<240,000>	-3.8%
Other Discret. Rev.	11,217,995	11,876,941	658,946	5.9%
Total Discret. Rev.	104,670,634	111,451,344	6,780,710	6.5%

2. Departmental Revenue: Departmental revenues are projected to be approximately $6.3 million, or 9.5%, lower than the budgeted level. This is due primarily to:

   - A projected $5 million reduction in the capital projects budget for projects that are not projected to be completed within the current fiscal year. This change is offset by expenditure savings, and revenue and expenditures will be re-budgeted in FY 2014-15 for projects carrying forward into the next fiscal year.
   - A projected $268,000 (3.5%) reduction in revenue in Probation due to the loss of federal Title IV-E funds related to pre-placement activities conducted by Probation staff. After a review of two counties’ processes, the Federal Department of Health and Human Services has ordered a stop to all payments associated with pre-placement activities. Napa County, along with other counties through the Chief Probation Officers of California (CPOC) association and the California Department of Social Services (CDSS), has been working with counterparts at DHHS to determine if a corrective action plan can be put into place so funding to counties can resume.
   - A projected $500,000 (65%) reduction in loan repayment revenue from the Lake Berryessa Resort Improvement District based on a Board action to forgive the loan.
   - A projected $365,000 reduction in Central Services revenue, offset by commensurately reduced expenditures in that budget.
   - A projected reduction of $116,055 in Prop 172 revenue for public safety departments from FY 2013-14 due to a higher estimate when the budget was developed.

3. Expenditures: Departmental expenditures are projected to be approximately $5.1 million (2.8%) lower than the Adjusted Budget level. This is due primarily to a $5.9 million reduction in capital project expenditures in Public Works (as indicated above, in some cases these expenditures will be made in future years), a $519,000 savings in the Corrections budget mostly due to unplanned vacancies, and smaller savings in numerous General Fund departments. Overall expenditure reductions are offset by an increase in the Sheriff’s budget of approximately $496,000 attributed

to staff overtime related to several complex cases and mandatory training as well as a negotiated wage increase that took effect in October. An increase in the Public Works – Property Management budget of $235,650 is attributed to staff and contract costs related to acquisition and maintenance of the new South County Campus. Both of these unanticipated increases are requested to be offset by a reduction in the Appropriation for Contingency. An increase in Housing and Intergovernmental Affairs expenditures of $210,895 for expenses related to the Napa Pipe project offset by commensurately increased revenues is included in the estimated expenditures but not in the adjusted budget. That budget adjustment was approved by the Board of Supervisors on January 14, 2014.

4. Appropriation for Contingency: This review assumes that only $731,716 of the Appropriation for Contingency will be spent for the Sheriff and Public Works as noted above, leaving $3,727,240 unspent for the remainder of the fiscal year.

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. Budget adjustments are recommended at this time in Public Works, Sheriff, and HHSA budgets to ensure that there is sufficient appropriation authority to cover projected expenditures that will occur between now and the Third Quarter Review. The fund balance reflects an estimated increase to the Accumulated Capital Outlay fund of $4.5 million due to the anticipated receipt of additional Excess ERAF needed for infrastructure improvements. 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 $5,116,047 (2.8%) lower than the FY 2013-14 Adjusted Budget and total revenues are projected to be $440,595 (0.26%) higher than the Adjusted Budget. The net effect to Net County Cost is a decrease of $5,906,195. The total decrease to expenditures includes Departmental savings and the assumption that there will be no use of the Contingency amount ($4,458,956) beyond the additional resources required in the Sheriff and Public Works budgets. 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 $5.9 million. These expenditure reductions in Public Works are offset by reductions in estimated revenues of $5.0 million and a reduction in Net County Cost of $0.9 million.

Discretionary revenue is projected to be $6.7 million higher than budget, due in large part to $4.5 million in Excess ERAF above the estimate used for budget. Departmental revenue is projected to be $6.3 million lower than budget due largely to $5.0 million less in revenue for capital projects in the Public Works Projects budget. This reduction is offset by approximately $5.9 million in expenditure reductions. Additionally, Proposition 172 revenue is anticipated to be approximately $116,000 lower than budget, and Title IV-E revenue to Probation is estimated to be $268,000 lower than budget due to a federal disallowance of activities across the state.

For FY 2013-14, $3.5 million in Excess ERAF revenue was recognized above the $5 million used for ongoing operations. However, no transfer of these funds was included in the General Fund appropriations. Coupled with $4.5 million in additional Excess ERAF revenue that is expected to be transferred, the total transfer of Excess ERAF to the ACO fund is anticipated to be more than $8 million. A budget adjustment to correct the General Fund transfer to the ACO is included with the mid-year report. A future budget adjustment to transfer additional Excess ERAF funds will be requested after actual revenue has been determined.

Health & Human Services Agency

Beginning with the FY 2012-13 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 Health and Human Services Agency (HHSA) has an adjusted budget of approximately $91 million with a General Fund contribution of $16.5 million. Overall, HHSA is projecting that expenditures will be approximately $2.1 million (2%) less than the Adjusted Budget level, primarily in Public Health due to the State's redirection of 1991 Health Realignment funds and the related expenditure to CMSP. Revenue will be approximately $1 million (1%) higher due to a combination of one time revenues related to prior year expenditures and an increase in realignment funds offset by a variety of decreases in other revenues.

Special Revenue-Operating Fund

A number of the HHSA's 11 Special Revenue-Operating Fund Divisions are projected to exceed their appropriations or Net Fund Cost level by more than $50,000. Adjustments to the budgets are requested as necessary to appropriately allow for expenditures, but all increases are offset by projected expenditures below budget in other areas of the HHSA. The requested increases are described below.

Alcohol and Drug Services (ADS) (20003) Expenditures are projected to be approximately $154,000 (3%) higher than the Adjusted Budget level and revenues are projected to be approximately $278,000 (2%) higher. The expenditure increase is primarily due to budgeted salary savings not materializing. The increase in revenue is primarily due to revenue received from federal sources related to the previous fiscal year ($350,000), offset by a reduction in Medi-Cal billing ($52,000) and a reduction in reimbursement from Probation ($20,000) due to decreased utilization of McAlister treatment beds by Probation. The beds are being filled by other ADS clients so there is no resulting decrease in expenditures. A budget adjustment is requested increasing revenue and appropriations by $154,000.

Self Sufficiency (20006) Expenditures are projected to be approximately $126,000 (0.7%) higher than the Adjusted Budget level, and revenues are projected to be $852,000 (5%) higher. Revenues have increased primarily due to a net increase in administrative allocations from the State for CalWORKS, CalFresh, CMSP and Medi-Cal. Expenditures have increased primarily due to projected salary savings not being achieved. However, this division has added staff to meet increased demands due to Medi-Cal expansion and has made great strides in completing backlogged work. A budget adjustment is requested increasing revenue and appropriations by $126,000.

Operations (20012) Expenditures are projected to be approximately $262,000 (6%) higher than the Adjusted Budget level and revenues are projected to be approximately $21,000 (0.5%) higher. Expenditures are higher due to lower than expected salary savings of $117,000 (there have been no vacancies). The remaining increase is primarily due to contracts for services not anticipated at budget time including consultants to advise the Agency on privacy issues and records management along with smaller increases due to required training and increased services offset by revenue. A budget adjustment is requested transferring appropriations of $262,000 from the Public Health Division.

Quality Management/Compliance (20013) Expenditures are projected to be approximately $91,000 (8%) higher than the Adjusted Budget level and revenues are projected to be $20,000 (2%) lower. Lower than expected salary savings of $71,000 (there have been no vacancies) account for the higher expenditures along with slight increases in a variety of contracts for services. A budget adjustment is requested transferring appropriations of $92,000 from the Public Health Division.

State Budget Issues

On January 9th, the Governor released his proposed FY 2014-15 State Budget that reflects continued economic improvement and increased state revenues. A leading factor in the revenue strength comes from a sharp increase in personal income tax collections due to the strength of the stock market. Coupled with tax revenue related to other areas of the economy improving, the budget presents strong efforts to provide stability for future years. This stability may soften future state revenue reductions or cost transfers to counties. The proposed budget would include a $2.3 billion reserve by the end of FY 2014-15 made up of a $1.6 billion "rainy day fund" created by Proposition 58 (2004) as well as a $623 million traditional General Fund Reserve. The Governor's spending plan includes expenditures of $151 billion in the General and Special Funds. This is an 8% increase over the FY 2013-14 revised budget of $132.6 billion. The Governor's FY 2014-15 budget proposes an operating deficit of $700 million, but the budget includes several one-time expenditures, including a supplemental payment of $1.6 billion to retire the state's outstanding economic recovery bonds. The supplemental payment would end the "triple flip" one year early, by FY 2015-16.

The Governor again focuses a large portion of the Proposed State Budget on Education, including restoring prior year funding reductions. 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 state's FY 2013-14 budget reformed funding formulas for California's K-12 schools. However, this change appears to have no appreciable impact on Excess ERAF at this time.

While there does not appear to be any significant impact to counties (positive or negative) contemplated in the Governor's proposed budget, staff is continuing to monitor the budget process and 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.