Fiscal Outlook Report; Five Year Forecast; Budget Calendar & Budget Development Policies

December 13, 2016

Agenda

I. Fiscal Outlook Report
   a. Economic Outlook
   b. Early Estimate of Gap Charts
   c. Fiscal Issues
   d. Closing Comments/Conclusions

II. Budget Calendar

III. Budget Development Policies

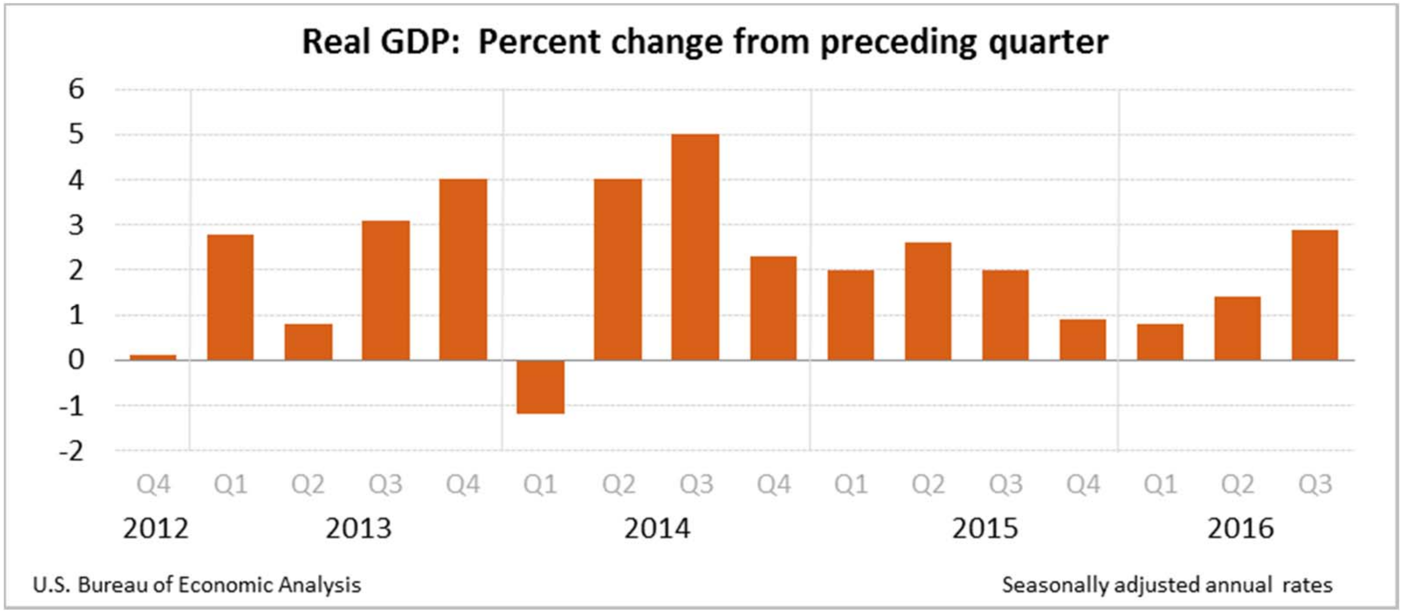
IV. Hiring Review Process

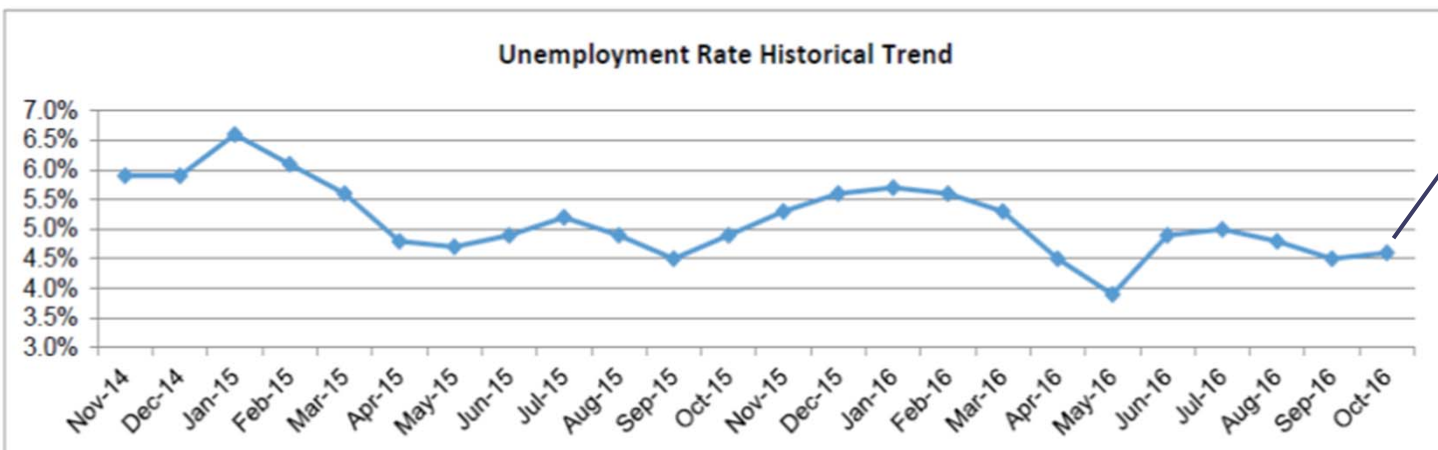
V. Closing Comments/Conclusions

I-A. Economic Outlook

- National & local economies continue to slowly strengthen; modest growth in local revenues
- Unemployment Rate 4.3%(Oct.)
- Tax Roll improving >4% last 3 years
- TOT – rate increased to 12% (from 10%)
- Other revenue sources; mainly flat or down
- State LAO November Outlook: scenario of slight downturn

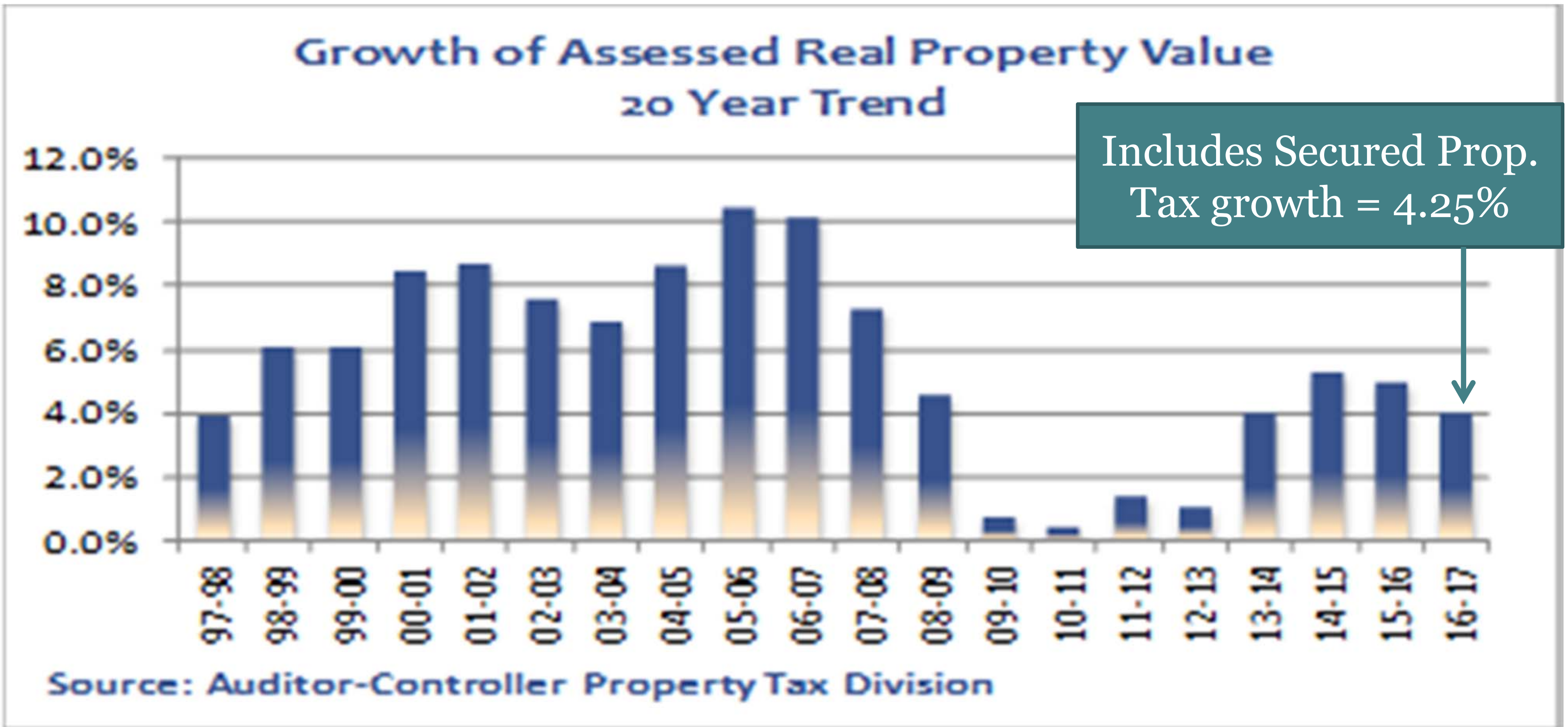
GDP & Unemployment





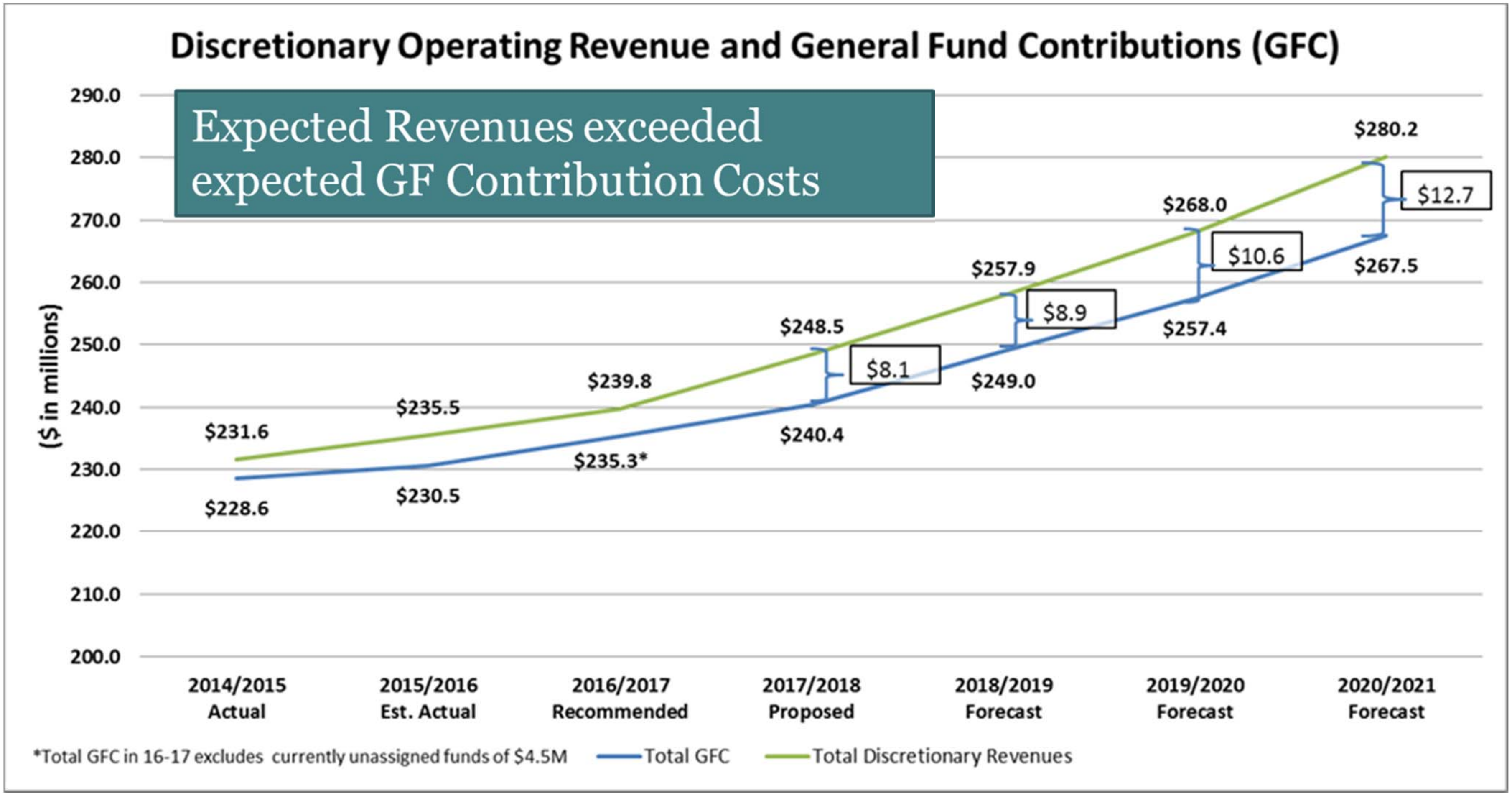
4.6%

Countywide Assessed Value Growth over Time

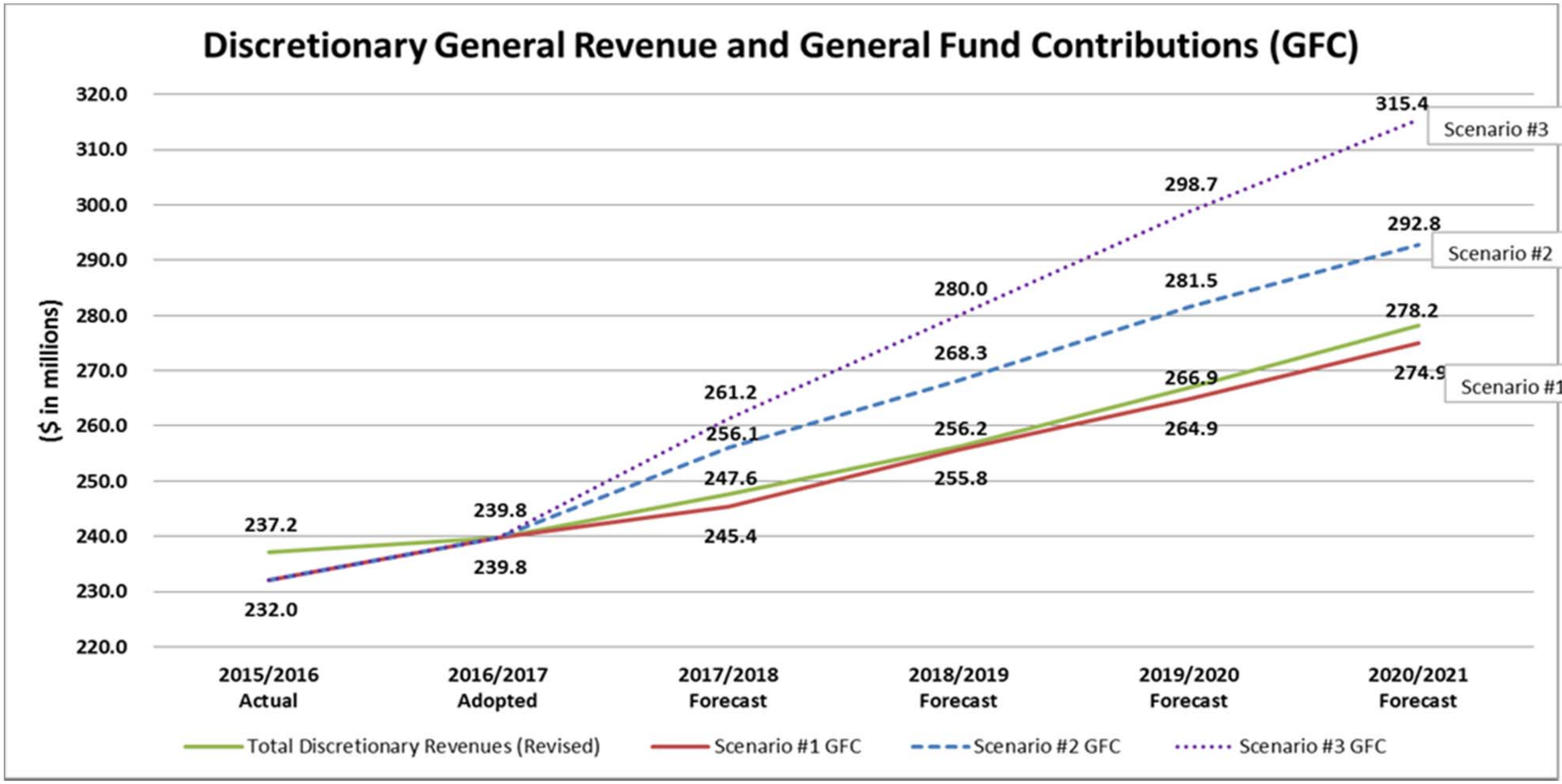


Prior Year Estimate of Funding Surplus

Original Gap Chart from June 2016 (prior to pension and other cost increases)



I-B: Early Estimate of Funding Gaps



	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast	2020/2021 Forecast
Disc. General Revenue	**247.6**	**256.2**	**266.9**	**278.2**
Scenario #1 Gap	2.2	0.4	2.1	3.3
Scenario #2 Gap	(8.5)	(12.1)	(14.5)	(14.6)
Scenario #3 Gap	(13.6)	(23.8)	(31.8)	(37.2)

Scenario #1 – Normal Policy Funding

- DGRs are allocated to departments but only fund a portion of their services
- Other funding sources necessary to provide current level of service – examples:
  - HR 91% GFC
  - Sheriff 55% (contract cities + state funding)
  - P&D 25% (charge fees for services provided)
- Major Expenditure increases need to be funded by other revenues or reductions
- Fiscal & emerging issues require funding

Scenario #2

- Includes Scenario #1, existing policy based GFC
- Adds Fiscal Issues identified in the Fiscal Outlook Report (for which no funding yet identified)

Potential Fiscal Issues - Scenario #2 ***($'s in millions)***	**2017/2018 Proposed**	**2018/2019 Forecast**	**2019/2020 Forecast**	**2020/2021 Forecast**
Sheriff Main Jail Capital Needs	2.57	1.55	1.55	-
Sheriff Relief Factor (after NBJ opens)*			1.40	1.40
Jail - Medical & MH Enhanced Inmate Services	1.00	1.03	1.06	1.09
PHF Audit - Ongoing Costs	0.69	0.47	0.47	0.47
DBW Inpatient Services (Fund 0044)	4.00	4.00	4.00	4.00
DSS MOE's	1.06	1.63	1.88	2.13
Deferred Maintenance	1.41	3.82	6.26	8.83
Expected Additional GFC Needs	**10.73**	**12.50**	**16.62**	**17.92**

** NBJ transitional staff will provide shift relief at the Main Jail until the new jail opens.*

Scenario #3

- Worst case scenario in General Fund
- Includes Scenario #1 and #2
- Illustrates total increased costs in the General Fund departments
- Acknowledges normal GFC plus expenditures departments would normally fund with non-GFC sources
- Some departmental offsetting revenue is expected but unknown a this time

Key Assumptions

General Discretionary Revenues:

- Assessed property values assume growth of 4.5% growth.
- Continue Fire Tax Shift
  - 25% of Secured Property Tax Growth
  - About $8.0 million cumulatively as of FY 200-17-18
  - FY 2019-20, Tax Shift is projected to reach its 17% goal
  - County's Property Tax revenue +$1.6M in revenue/year
- TOT increase of 2%; no offset for possible BOS policy change
- Miramar is estimated to open mid-year in FY 2018-19.
- Property Transfer Taxes are assumed to be flat in this projection
- FY 2019-20, portions of RDA obligations are paid off and County's Property Tax allocation increases almost $2.0M

Key Assumptions (cont.)

Other Revenue Assumptions:

- Prop 172 Revenues (Public Safety) are projected to slow to 2% growth
- Local Sales Tax, also slowing to 2% growth
- No growth in 1991 and 2011 Realignment Growth
  - Major funding source for Behavioral Wellness and Social Services
  - This funding is needed to address projected higher salary and benefit costs
  - Expected to have significant impact

Key Assumptions (cont.)

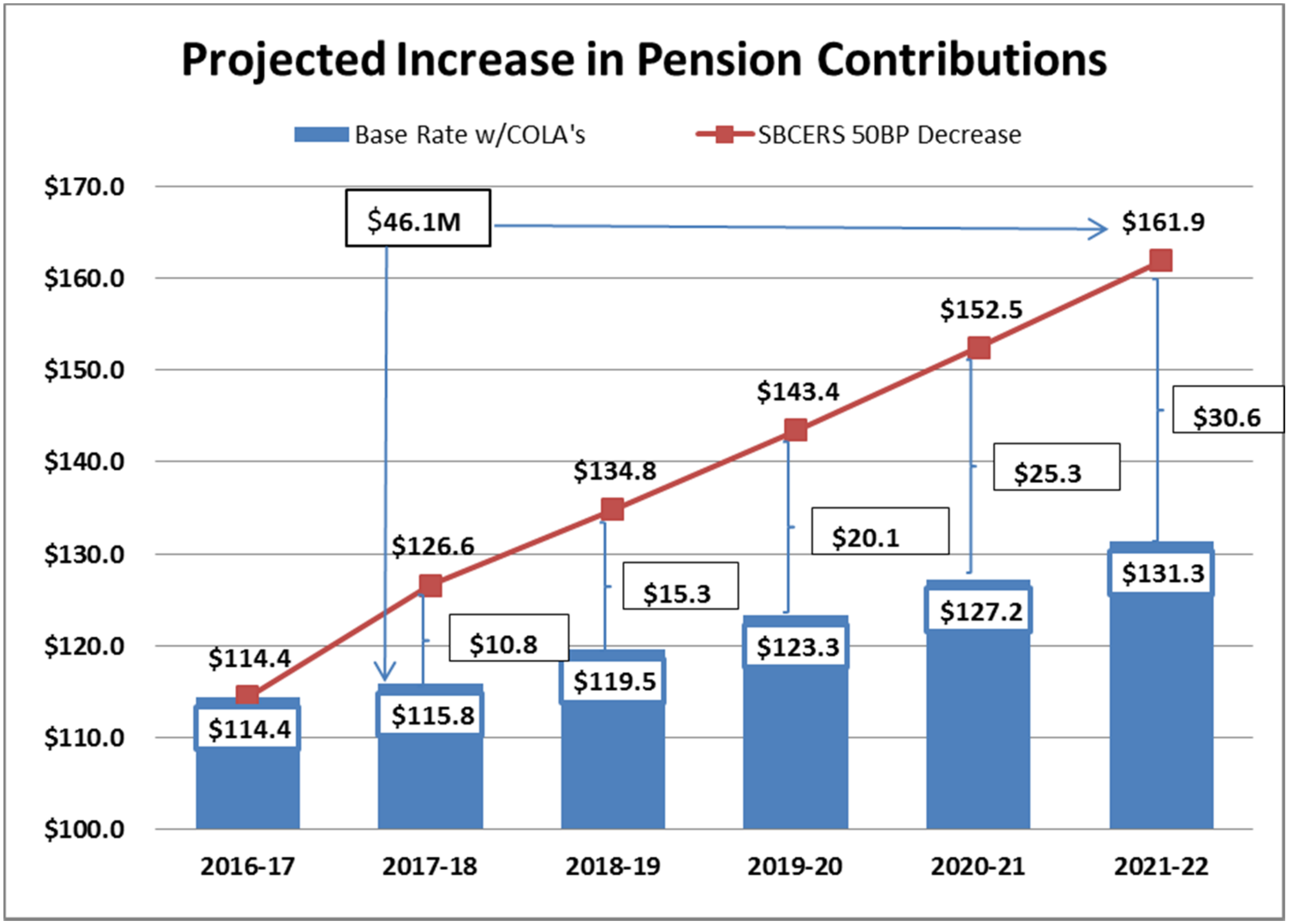
Expenditures/Appropriations:

- Higher pension and healthcare costs included
- Increased employee compensation, assumes a 3% increase vs. previously projected 2% increase
- $9.1 million - NBJ Operations Fund
- $3.0 million – 18% Maintenance Funding (based on original funding plan formula)
- $1.4 million set aside for funding debt for capital needs (debt not yet incurred)
- $1.25 million set aside for Pension Fund Stabilization (not yet applied)
- $1.2 million – Human Services Commission
- $0.7 million – Strategic Reserve

I-C: Fiscal Issues

	Tier 1 Issues: Expected occurrence within the next two fiscal years					
	Issue	FY 2017-18 Impact ($ in millions)	FY 2018-19 Additional Impact ($ in millions)	One-time or Ongoing	FY 2017-18 Discretionary Impact ($ in millions)	FY 2018-19 Discretionary Impact ($ in millions)
1	Pension Fund Stability	$ 12.2	$ 8.2	Ongoing	$ 3.9	$ 2.6
2	Behavioral Wellness Inpatient System of Care	4.7	-	Ongoing	4.7	-
3	Health Insurance	3.7	4.5	Ongoing	1.2	1.4
4	State Gas Tax (HUTA) Revenue Reduction	3.0	-	Ongoing	3.0	-
5	Northern Branch Jail Operations Funding	1.5	1.8	Ongoing	1.5	1.8
6	Deferred Maintenance	1.4	2.4	Ongoing	1.4	2.4
7a	Main Jail Medical/Mental Health Services	1.0	-	Ongoing	1.0	-
7b	Main Jail – Capital Needs	2.6	1.6	One-time	2.6	1.6
8	Social Services Local Share for CalFresh	0.6	0.3	Ongoing	0.6	0.3
9	Social Services IHSS MOE Increase	0.5	0.2	Ongoing	0.5	0.2
	Total	**$ 31.2**	**$ 19.0**		**$ 20.3**	**$ 10.3**

#1: Pension Fund Stability



#1:Pension Fund Stability (cont.)

Figures below were from FY 2016-17
New Figures not yet available, liability will increase

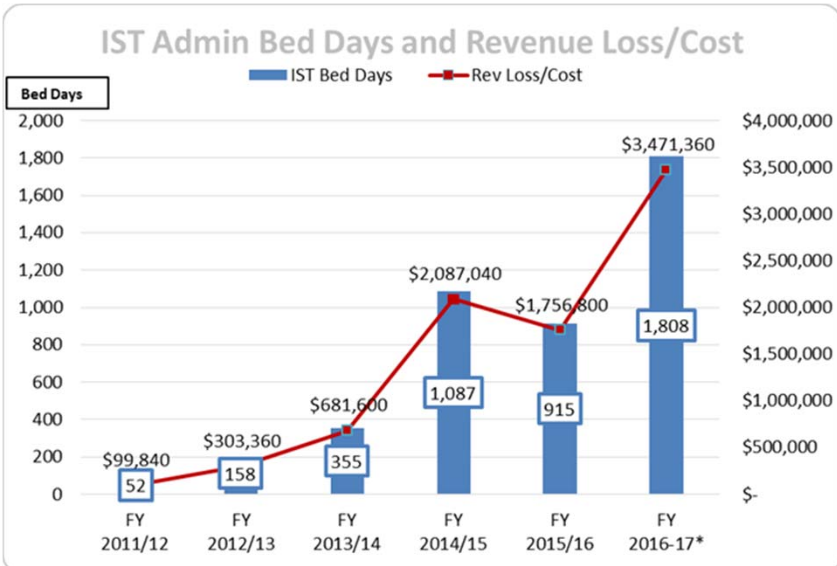
($ in millions)	June 30, 2015	June 30, 2014	Change
Actuarial Liability	$ 3,231.1	$ 3,098.0	$(133.1)
Market Value of Assets	$ 2,532.5	$ 2,513.6	$ 18.9
Unfunded Actuarial Liability	$ 698.6	$ 584.4	$(114.2)
Funding Ratio - Market Value	78.4%	81.1%	-2.7%
County Contribution Rate	36.55%	37.94%	-1.39%

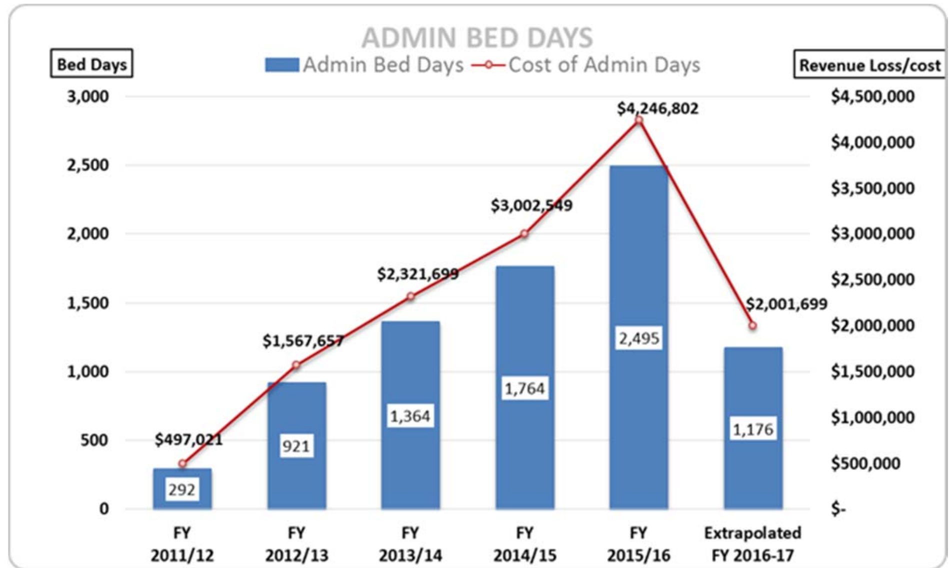
- UAL increased $114.2M to $698.6
- Return on investment 0.8%; prior year was 15.0%
- Funding Ratio is 78.4%
- County contribution rate down 1.4%

#2: DBW Inpatient System of Care

- $4.5 million Issue
  - $2.0 million for contracted acute inpatient beds
  - Reduction in PHF revenue of $2.0 million, and
  - ~$500 thousand ongoing staffing and service costs related at PHF
- Costs expected to continue in the short-term
  - Increased demand,
  - Length of stay (Admin Days), and
  - Court ordered placements for Incompetent to Stand Trial (IST) assessments and restorations.

#2: DBW Inpatient System of Care





- PHF billing rate per bed = $2,000/day
- Admin billing rate per bed= $415/day
- IST Admin billing rate per bed = $0/day
- If PHF is full, cost of contracted bed = $870/day

#3: Health Insurance

- Expect continued increases in the health insurance premiums
- Improvement in claims performance
- County costs are still above the experience of those in the risk pool
- This is largely due to rising specialty drug prices and high inpatient treatment costs
- 2017 actual increase was 7.5%
  - 2017 was projected at a 15% increase
  - 2018 is projected at a 12% increase

#4: State Gas Tax Revenue Reduction

- FY 2017-18 State Gas Tax revenue estimates a $3.0 million reduction.
  - Has been declining since FY 2014-15
  - Taxes fund operations and road maintenance
- Will impact deferred maintenance projects
- Increasing degradation of the transportation network,
  - Including pavement condition index,
  - Pedestrian facilities,
  - Traffic devices,
  - Drainages, and
  - Urban forest.

#5: NBJ Operations Funding Plan

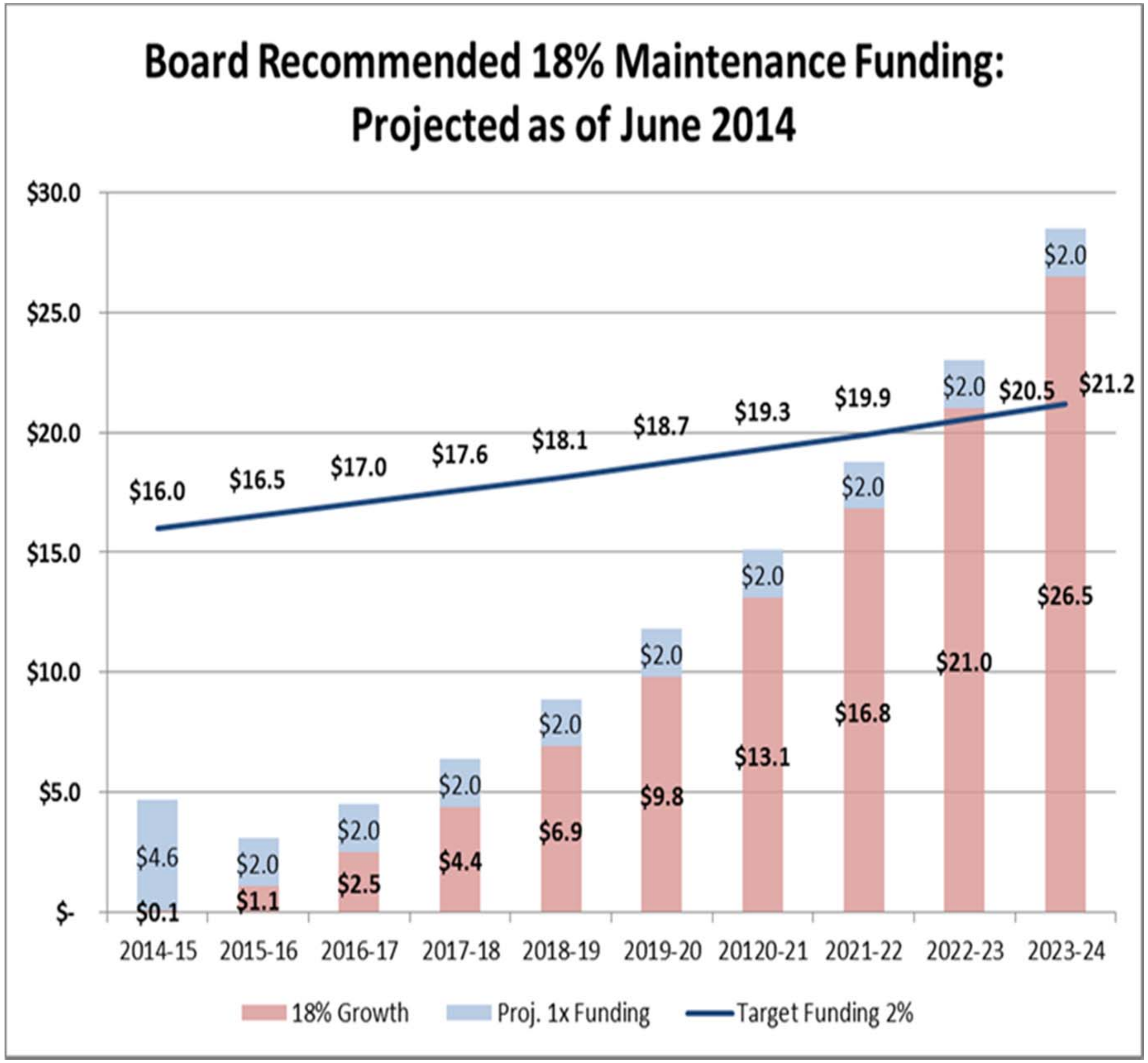
- County continues incrementally increasing Northern Branch Jail (NBJ) Operations Fund
- The new NBJ is scheduled to open in FY 2018-19.
- In November 2015, BOS directed staff to
  - Continue with the existing funding plan
  - Transfer $12.2M to NBJ construction fund
- The original funding plan calls for additional
  - $1.5 million in FY 2017-18, and
  - $1.8 million in FY 2018-19
- Recent pension increases may add $900k/yr.

#5: NBJ Operations Funding Plan

Fiscal Year	GFC Base	GFC Increase	Total GFC	County Match Construction	Operating Costs	End of Year Balance
2011-12	$ -	$ 1.0	$ 1.0	$ -	$ -	$ 1.0
2012-13	1.0	1.0	$ 2.0	(3.0)	-	-
2013-14	2.0	1.3	$ 3.3	-	-	3.3
2014-15	3.3	1.3	$ 4.6	-	-	7.9
2015-16	4.6	1.5	$ 6.1	-	(0.2)	13.8
2016-17	6.1	1.5	$ 7.6	(12.2)	(2.0)	7.2
2017-18	7.6	1.5	$ 9.1	-	(3.8)	12.5
2018-19	9.1	1.8	$ 10.9	-	(11.4)	11.9
2019-20	10.9	1.8	$ 12.7	-	(17.9)	6.8
2020-21	12.7	2.2	$ 14.9	-	(18.4)	3.3
2021-22	14.9	2.2	$ 17.1	-	(19.0)	1.4
2022-23	$ 17.1	$ 2.2	$ 19.3	$ -	(19.5)	**1.2**

#6: Deferred Maintenance

- Funding on pace with projected estimates thru 2016-17
- Est. cost increases reduce avail. maint. funding
- Policy issue: Should we fund at originally projected level or "calculated level" (current BOS policy)
- Projected level:
  - 2017-18 est. $3.0M
  - 2018-19 est. $3.1M
- Therefore, need is:
  - $1.4M in FY 2017-18
  - $2.4m in FY 2018-19



#6: Deferred Maint. (cont.)

- $350.8M estimated DM at June 30, 2016
  - $259.1M Public Works pavement, bridges, drainage, concrete/other
  - $91.7M in Parks & General Services
    - $71.7M observed DM
    - $10.0M extrapolated/unobserved maintenance
    - $10 million for Main Jail maintenance (per Marx-Okubo report, as of October 2015)
- Additional needs identified at PHF and Jail

#6 Deferred Maintenance

Maintenance Funding for FY 2016-17	Public Works	General Services	Comm. Services Department	Maintenance Total
Baseline	$ 500,000	$ 1,300,000	$ 500,000	$ 2,300,000
18% Maintenance Funding	1,250,000	875,000	375,000	$ 2,500,000
One Time Maintenance Funds	1,250,000 1	100,000 2	100,000 3	$ 1,450,000 *
Subtotal	**$ 3,000,000**	**$ 2,275,000**	**$ 975,000**	**$ 6,250,000**
Funding for Capital Debt Service	-	1,400,000 4	-	1,400,000 *
	$ 3,000,000	**$ 3,675,000**	**$ 975,000**	**$ 7,650,000**

Notes

1 Public Works one-time maintenance funds include CEO Recommended Expansions for road maintenance.

2 General Services one-time maintenance funds include CEO Recommendations for water reduction measures.

3 CSD one-time maintenance funds include CEO Recommendations for dead tree clearing.

4 General Services debt service to support acceleration of needed capital projects is included in CEO Recommendations. Proceeds could be used for non-General Service projects.

* - Additional FY 2016-17 funding, in excess of policy is $2,850,000

#7. Main Jail, Medical & Capital

- Competitive bid for inmate medical & mental health services
- Expected to result in increased staffing
- $1.0M estimated increase in ongoing costs
- Jail areas in need of physical upgrades
  - Immediate $600 thousand
  - Short Term $2.6 million (start in 1-2 yrs.)
  - Long Term $2.4 million (start after 2 yrs.)

#8,#9: Social Services Local Match

- #8: DSS transitioning from Maintenance of Effort (MOE) to mandate to pay 30% of nonfederal share of CalFresh eligibility costs
  - $584,723 in FY 2017-18; and
  - $910,391 in FY 2018-19
- #9: In FY 2012-13, transitioned from 17.5% County share of In-Home Supportive Services (IHSS) to MOE
  - 3.5% MOE increase per year
  - $239,586 in FY 2017-18
  - $247,972 in FY 18-19

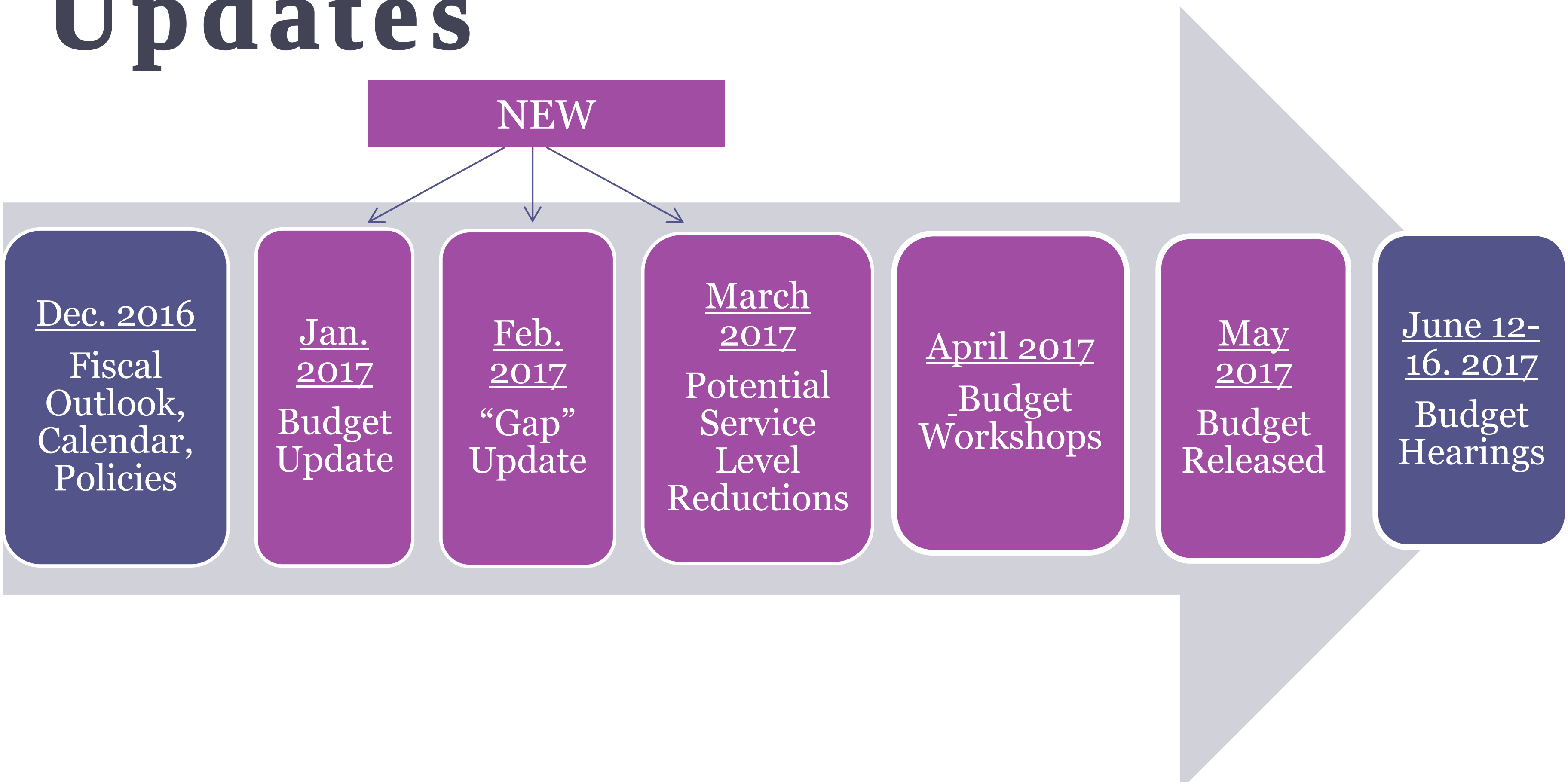
II. Budget Calendar: Dec 2016-June 2017

Changes expected to our normal budget process

- Collaborative solutions and process; keep BOS apprised

- Dec. 2016: Depts. issued General Fund Contributions (GFCs)
  - Reduction scenarios will be requested
- Dec.-Jan: Depts. develop budgets; evaluate revenue growth or service level reductions.
- Jan: “Hiring Review Process” implemented (New)
- Jan: Budget update provided to BOS; priorities discussion (New)
- Feb: Budget “Gaps” updated and presented to BOS; possible Budget Policy changes considered (New)
- March: Early indication of service level reductions presented to BOS (New)

Budget Development Updates



III. Budget Development Policies

- Continuance of existing Budget Policies recommended
- Last year's Budget Development Policies included without substantive changes (Attach. C)
- Request the Board approve Attach. C policies now to initiate budget process
  - Revisit Policies in February after receiving more information from departments
  - Staff to present updated gaps to Board in February 2017, and
  - Any modifications to the existing Budget Policies can be considered at that time

III. Budget Development Policies

- Potential changes to consider in February include:
  - #4c – Workers' Compensation funding – extend the recovery period of tail claims
  - #5 - Strategic Reserve Funding at 8% of GF Operating Revenues vs. establish a fixed dollar amount
  - # 7c - 18% Maintenance Funding Policy - establish a fixed dollar amount, review or re-evaluate each year based on available funds
- Fire Tax Shift (not a policy):
  - Slow the rate of increase (currently 25% PT growth) or adjust target

IV. Hiring Review Process

- Similar process used during Great Recession
  - CEO and HR review vacant positions prior to recruitment
  - Important to meet dept. balancing goals and to prevent subsequent lay off of newly hired EE.
  - Does not mean positions will not be filled; but
  - Depts. will need to justify filling critical positions, in the context of their operational necessity and ability to balance their budgets next year.

V. Closing Comments/Conclusions

- Pension-related cost increases will be a significant challenge over coming 5 yrs.
- Discretionary Revenues normally adequate to fund annual increases in policy-based funding (GFCs).
- Fiscal Issues will require funding exceeding available Discretionary GFs
- GF departments' S&B increases are only partially funded by GFCs,
  - ❑ Will require additional funding, or
  - ❑ Propose service level reductions
  - ❑ Reductions may be severe in some departments

V. Closing Comments/Conclusions

- Special Revenue Funds, Behavioral Wellness, Social Services, Child Support and others project:
  - Flat revenues from key funding sources (such as State Realignment funds)
  - Will require additional funding or service level reductions to balance
- Strategic planning and budgeting will be more important than usual
- Longer term solutions will be necessary to address anticipated structural imbalance,
- Multi-year approaches are being developed to respond to this issue.

Recommended Actions:

a) Receive the FY 2017-19 Fiscal Outlook Report, estimated funding gaps and impending challenges; and
b) Adopt the Fiscal Years 2017-19 Budget Development Calendar and provide direction as appropriate; and
c) Adopt the Fiscal Years 2017-19 Budget Development Policies and provide direction as appropriate; and
d) Authorize the CEO and the HR to implement a Hiring Review Process for future hires; and
e) Determine pursuant to CEQA Guidelines §15378 that the above activities are not a project under CEQA

FY 2017-19 Fiscal Outlook Report

QUESTIONS?