

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Administrative Office	(2) MEETING DATE 12/3/2013	(3) CONTACT/PHONE Emily Jackson 781-5011	
(4) SUBJECT Review of the FY 2014-15 Budget Goals and Policies, Budget Balancing Strategies and Approaches, and Board Priorities.			
(5) RECOMMENDED ACTION It is recommended that the Board: <ol style="list-style-type: none"> 1. Review and approve the FY 2014-15 Budget Goals and Policies (Attachment 1). 2. Continue to implement the budget balancing strategies and approaches that have been approved and implemented by your Board over the past six years (Attachment 2). 3. Provide staff with direction regarding any changes to the Board's priorities. 4. Provide staff with direction regarding the creation of a reserve to mitigate potential economic impacts to the County organization in the event of a closure at Diablo Canyon Power Plant. 			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT N/A	(8) ANNUAL FINANCIAL IMPACT N/A	(9) BUDGETED? N/A
(10) AGENDA PLACEMENT <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ___) <input checked="" type="checkbox"/> Board Business (Time Est. <u>30 min</u>)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input checked="" type="checkbox"/> 4/5th's Vote Required <input type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW Guy Savage			
(18) SUPERVISOR DISTRICT(S) All Districts -			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Emily Jackson, Administrative Analyst

DATE: 12/3/2013

SUBJECT: Review of the FY 2014-15 Budget Goals and Policies, Budget Balancing Strategies and Approaches, and Board Priorities.

RECOMMENDATION

It is recommended that the Board:

1. Review and approve the FY 2014-15 Budget Goals and Policies (Attachment 1).
2. Continue to implement the budget balancing strategies and approaches that have been approved and implemented by your Board over the past six years (Attachment 2).
3. Provide staff with direction regarding any changes to the Board's priorities.
4. Provide staff with direction regarding the creation of a reserve to mitigate potential economic impacts to the County organization in the event of a closure at Diablo Canyon Power Plant.

DISCUSSION

FY 2014-15 Budget Goals and Policies

Budget Goals and Policies are important because they help to institutionalize good financial management practices, clarify and crystalize strategic intent for financial management, define boundaries, support good bond ratings, promote longer-term strategic thinking, manage risks to financial condition, and comply with established public management best practices. Each year the Board of Supervisors adopts budget goals and policies to guide staff in the preparation of the proposed budget. Three years ago, a comprehensive review and reorganization of the goals and policies was completed. In the past two years, the County has received positive feedback on these changes from peers who reviewed the County's FY 2011-12 and FY 2012-13 Final Budget Documents for the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award.

This year, staff is recommending the addition of a policy related to the funding of the County's Self Insurance internal service fund reserves. The County's Self Insurance budgets consist of internal service funds that charge County departments in order to service the Worker's Compensation, Liability, Unemployment Insurance, Medical Malpractice and Self-Insured Dental programs. Consistent with industry norms, the County sets charges to departments to maintain the reserves between the 70% (minimum) and 90% (conservative) confidence levels. Because the programs in the self-insurance budgets have been well managed, the County was able to reduce charges to departments in recent years to mitigate the impact of necessary budget reductions to departments. As economic conditions improve, charges to departments are now increasing back to normal levels, in order to maintain an acceptable level in the reserves.

At this time, staff is recommending that the Board adopt a new policy (policy #15 in Attachment 1) to establish the County's intent to continue to set charges to departments to maintain healthy reserves, so that the County can assure that it is able to cover expenses incurred in any of the Self Insurance programs. In addition, maintaining the reserves between the 70% and 90% confidence levels may provide the County with the opportunity to reduce charges to departments in future years, as a short-term budget balancing strategy in the event of an economic downturn.

No other changes are being proposed to the Board's Budget Goals and Policies for FY 2014-15.

Budget Balancing Strategies and Approaches

For the past six years, the County has adhered to a set of Budget Balancing Strategies and Approaches as a means to weather the current economic crisis. The utilization of these solid and tested budget principles and practices has served the County well, and as a result, we have largely been able to avoid the drastic cuts to programs, services, and staff that other counties have faced. As a result, it is recommended that your Board continue to direct staff to implement the Budget Balancing Strategies and Approaches that have been utilized over the past six years.

Board Priorities

On October 15, 2013, staff presented the FY 2014-15 Financial Forecast to the Board. During that discussion, it was indicated that the Board would discuss its FY 2014-15 priorities at the same time that the FY 2014-15 Budget Goals and Policies and Budget Balancing Strategies and Approaches were considered.

Currently the Board's priorities are as follows (in order):

- Meet legal mandates
- Meet debt service requirements
- Public Safety- defined as:
 - Sheriff-Coroner (fund center 136)
 - District Attorney (fund center 13201)
 - Probation (fund center 139)
 - County Fire (fund center 140)

Set Aside of Reserves to Assist in Potential Closure of Diablo Canyon Power Plant

During a budgetary strategic planning session on February 19, 2013, the Board directed that staff study the economic impacts the Diablo Canyon Power Plant has on the local economy. As a part of the FY 2013-14 budget process, staff recommended, and the Board approved, the allocation of \$50,000 to fund a consultant to conduct an economic impact analysis of Diablo Canyon Power Plant on San Luis Obispo County. The intent of the study was to provide information which would enable the County and other local agencies to be in a better position to prepare and implement a strategic plan in the event of a closure of the Diablo Canyon Power Plant. In June 2013, Pacific Gas and Electric (PG&E) released its own study, titled *Economic Benefits of Diablo Canyon Power Plant- An Economic Impact Study*, prepared in cooperation with Cal Poly's Orfalea College of Business, the Nuclear Energy Institute (NEI) and consultant Productive Impact. On October 15, 2013, staff presented the existing report to the Board.

The existing report identifies that the Plant's estimated total economic impact on San Luis Obispo and Northern Santa Barbara counties is \$919.8 million, and that the County currently receives approximately \$7.6 million in unitary tax payments from PG&E annually (\$6.8 million to the General Fund, \$295,145 to County Roads, and \$489,972 to County Libraries); in total, this comprises 1.2% of the County's total budget. In addition, PG&E pays for approximately \$1.3 million (79%) of the County's Emergency Services' budget. Diablo Canyon's total financial impact on the County organization is \$8.9 million. Given this, the Board expressed an interest in looking at opportunities to increase the County's reserves or potentially designating a portion of the County's reserves for mitigation of potential economic impacts to the County organization in the event of a closure at Diablo Canyon Power Plant.

The County has two types of reserves:

- **General Reserves:** These are not designated for a specific purpose. They serve to stabilize the County's cash position prior to the receipt of property tax revenues and more importantly provide protection against downturns in the economy or against a major catastrophe if one were to occur within the County.
- **Designations:** These are reserves that are set aside for specific purposes. These designations help provide for the County's long term financial needs.

The industry standard target is to have a 20% reserve/contingency as a percent of the General Fund operating budget. The County's General Fund budget for FY 2013-14 is \$414.8 million (\$399.8 million, excluding contingencies). As reported during the FY 2014-15 Financial Forecast on October 15, 2013 and in the Administrative Office's performance measures, the County's unrestricted reserves of \$88.4 million and contingencies of \$15 million put the ratio at 25.8%

(NOTE: the \$88.4 million of reserves includes \$8 million of one-time solar plant mitigation funding, which is intended to fund enhanced County services required in California Valley due to the construction of the solar plants. The solar funds account for approximately 2% of the ratio of reserves/contingencies to the General Fund operating budget). While a large portion of these reserves have a specified use, they are not legally restricted, and would be available to assist the County in immediate response to a loss of revenue resulting from a potential closure of Diablo Canyon.

The GFOA, which establishes many best practices as they relate to local government finance, identifies the various types of risk factors which must be considered when determining appropriate reserve levels. These risks include vulnerability to extreme events and public safety concerns, and revenue source stability. Both risks are enhanced locally by the presence of Diablo Canyon Power Plant in the County.

As noted above, Diablo Canyon's total financial impact to the County organization is \$8.9 million. Over a two year period, that impact doubles, to \$17.8 million. Given the number of unknowns about how long it might take to shut down plant operations and stop receiving revenues in the form of unitary tax and emergency services funding from the plant, and the time it might take to make determinations about how much emergency services the County should continue to provide in the absence of Diablo Canyon, a two year reserve would provide the County with enough time to fully evaluate the budgetary impacts to the County and budget accordingly.

With \$88.4 million in unrestricted reserves, the County maintains funding that can be used to balance the budget in difficult economic times, including a decrease in revenue as the result of a potential closure of Diablo Canyon. If the County were to set aside an additional two years of funding for Diablo Canyon (\$17.8 million), the ratio of reserves to the County General Fund operating budget would increase to 30%. This level of reserves may be appropriate, given the risks posed by the financial impacts that Diablo Canyon has on the County's budget and local economy. On the other end—if the County were to assume that all of the \$17.8 million to backfill for Diablo Canyon revenues could come from existing reserves, that ratio would drop to 21%, which still meets industry standard targets.

If the Board elects to set additional reserves aside, funding options to consider would include setting aside funds from the County's operational budget as a part of the annual budget development process, or could also come from various one-time sources, such as fund balance available at the end of the year. In addition, the Board would also need to provide direction with respect to the timeframe in which such a reserve should be built.

Diablo Canyon Power Plant runs two nuclear reactors which are licensed until 2024 and 2025 respectively; in 2009, PG&E began the re-licensing process for 20 year renewals on both reactors. Regardless of whether or not re-licensing is successful, it is appropriate that we give consideration to how a potential shutdown of Diablo Canyon might impact the County's budget. The most conservative approach would be to put two years' worth of funding away now, however, the decision to do so should be weighed against the need to allocate funding to the various programs and services that the County provides.

OTHER AGENCY INVOLVEMENT/IMPACT

All County departments will utilize the Budget Goals and Policies, Budget Balancing Strategies and Approaches and Board Priorities in the preparation of the FY 2014-15 budget. The Human Resources Department assisted in developing the proposed new policy related to the funding of the County's Self-Insurance Internal Service Fund reserves.

FINANCIAL CONSIDERATIONS

There is no financial impact directly associated with the adoption of the Budget Goals and Policies and Budget Balancing Strategies and Approaches. However, it should be noted that the establishment of sound fiscal policies has, and will continue to have a positive impact on the County's long term fiscal health by helping to frame resource allocation decisions. The establishment of Board priorities helps to guide development of the budget and decisions about funding levels for various programs and services.

RESULTS

The approval of the FY 2014-15 Budget Goals and Policies, Budget Balancing Strategies and Approaches, and Board Priorities will contribute to the development of a Proposed Budget document that reflects the goals and policies of the Board of Supervisors and will provide a framework for the continued creation of a spending plan that focuses on measurable results and high performance.

ATTACHMENTS

1. FY 2014-15 Budget Goals and Policies
2. FY 2014-15 Budget Balancing Strategies and Approaches