

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

(1) DEPARTMENT Administrative Office	(2) MEETING DATE 2/16/2016	(3) CONTACT/PHONE Emily Jackson, Principal Administrative Analyst	
(4) SUBJECT Submittal of a Fiscal Year 2016-17 County and State Budget update. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board receive and file a presentation regarding the Fiscal Year 2016-17 County and State budgets.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(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 type="checkbox"/> 4/5 Vote Required <input type="checkbox"/> N/A	
(14) LOCATION MAP	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input 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, Principal Administrative Analyst

DATE: 2/16/2016

SUBJECT: Submittal of a Fiscal Year 2016-17 County and State Budget update. All Districts.

RECOMMENDATION

It is recommended that the Board receive and file a presentation regarding the Fiscal Year 2016-17 County and State budgets.

DISCUSSION

The purpose of this staff report is to provide your Board and the public with an update regarding development of the FY 2016-17 Proposed Budget.

County Budget

Departmental budgets were submitted to the Administrative Office on January 28, 2016 and a thorough review is currently underway. In October 2015, the forecast suggested that \$5-9 million of General Fund would be available. After a preliminary review of departmental budget submittals, it appears that \$9-11 million of General Fund is available for ongoing expense. In addition, staff estimates that additional funding will be available to fund one-time expenses, such as capital and infrastructure projects, or additions to reserves.

While the range of General Fund available provides much opportunity, the Board-adopted Budget Balancing Strategies and Approaches require that there be a balance between maintaining the County's fiscal health and continuing to provide programs and services to the County's many and varied customers. Specifically, the County aims to strike a balance in the following areas:

- Programs and Services
- Financial Security
- Salaries and Benefits

As has been discussed, the County's general approach has been to strategically balance reductions or growth in each of these areas, depending on the budget situation. This balance requires a methodical approach to budgeting which helps to ensure that the County is able to respond to changing economic conditions with minimal adverse impacts to service levels. Per Board direction, a similar, strategic approach will be used to grow the budget in FY 2016-17.

Programs and Services

During FY 2015-16, a significant amount of General Fund was invested into programs and services. This included a one-time \$3 million investment and 10% ongoing increase in funding for roads, staffing augmentations in the Sheriff's Office to improve service levels and staff the Women's Jail, staffing augmentations in the Health Agency to improve access to services and reduce wait times, as well as other increases to programs and services. The FY 2015-16 budget also fully funded prioritized capital, maintenance, and automation projects for FY 2015-16 without the use of reserve funds.

As noted above, FY 2015-16 Status Quo submittals from departments are still being evaluated. In total, 100 requests to augment programs and services were submitted. The requests total \$15.5 million, \$8 million of which is requested would to be funded with General Fund.

Financial Security

The two primary components to the County's financial security are reserves/designations and contingencies. Due to a combination of higher than anticipated Fund Balance Available (FBA) in recent years and additional funds set aside for projects, current reserve/designation balances exceed the County's target of 20%. In FY 2015-16, funding was added to reserves to fund future projects.

Contingencies are intended for two purposes: to cover the costs of unforeseen emergencies and to supplement departmental budgets mid-year, if necessary. The latter situation is occasionally encountered when negotiated salary and benefit increases cannot be absorbed in departmental budgets. After several years of reducing contingencies as a budget balancing strategy, contingencies were returned to the historic target of 5% of General Fund in FY 2015-16. Staff will recommend maintaining this 5% contingency level moving into FY 2016-17.

Salaries and Benefits

During FY 2014-15 and FY 2015-16, the Board approved negotiated increases to salaries and benefits for the majority of County employees. For many employees, these were the first salary increases seen in over five years. The FY 2016-17 budget includes funding for salary and benefit increases that have already been negotiated, but does not assume further changes.

As has been discussed in the past, it is worth noting that the management of salary and benefit expense is much more controlled than it had been prior to the recent downturn. This is due to the successful implementation of the County's "3 point plan" to control labor costs, which included the elimination of formulaic wage increases, the sharing of pension cost increases 50/50 with County employees, and implementing pension reform.

During the presentation, the County's Budget Goals and Policies (attachment 1) and Budget Balancing Strategies and Approaches (attachment 2) will be briefly reviewed. These Budget Balancing Strategies and Approaches have been in place for many years and are annually reviewed by the Board (most recently on November 24, 2015). The budget instructions distributed to departments in December 2015 were prepared consistent with the Board adopted budget goals and policies, and balancing strategies and approaches.

State Budget

As has been reported in prior presentations, the State continues to be the number one influencer on the County's overall budget. Overall, the State budget continues to improve, though risks remain. The Governor's January Budget proposal includes \$125.8 billion in General Fund revenue and \$122.6 billion in General Fund expenditures, with \$3.6 billion transferred to the State's rainy day fund. Most notable for us locally, is the expiration of Proposition 30 revenues at the end of calendar year 2016. Heading into FY 2016-17, there are numerous issues at the State level that are likely to have impacts on local budgets:

1. Emergency Drought Response

Despite predictions that El Niño conditions will continue, it is likely that the State will enter its fifth year of drought. Given this, the Governor's budget includes \$323.1 million of one-time funding to continue drought response efforts that protect water supplies, conserve water and provide emergency response. In particular, the budget includes the allocation of \$5 million to provide emergency drinking water support for small communities, a \$4.5 million increase in funding for the enforcement of drought-related water rights and curtailment actions, and a \$26.7 million increase to the State Office of Emergency Services for drought-related technical guidance and disaster recovery support provided to local communities.

2. Transportation Funding

Similar to FY 2015-16, the Governor's budget proposal continues to emphasize investment in the State's transportation infrastructure. While overall state revenues continue to improve, state highways and local roads will continue to deteriorate in FY 2016-17 without an infusion of new funding. Despite consumption increases, revenues in the Highway User Tax Account (the primary source of funding for local street and road maintenance) are expected to decrease by more than 25% in two years. County shares of this revenue have decreased by an even greater amount, as the funding transferred out to pay for transportation bond debt service has continued to

grow as overall gas tax revenue decreases. Statewide, many regional and local transportation projects are at risk due to the decline in transportation funding.

While the budget itself does not include a comprehensive approach to transportation funding, the Governor is optimistic that a special session conference committee will be able to reach consensus on a transportation package that reflects the following principles:

- A “fix-it-first” approach to repairing state highways and local streets and roads.
- Investing in key trade corridors.
- Providing funds to match locally generated funds for high-priority projects.
- Improving performance, accountability, and efficiency at Caltrans.
- Investing in passenger rail and public transit.
- Avoiding an impact on the “precariously balanced” General fund.

For FY 2016-17, the Governor has reintroduced the 2015 Transportation Funding and Reform Package which includes spending an additional \$3.6 billion annually (beginning with \$1.7 billion in FY 2016-17) for 10 years on maintenance and rehabilitation of state and local transportation system and investments in transit. Under this plan, funding would come from a combination of new revenues, including Cap and Trade auction proceeds, accelerated loan repayments, increased excise taxes on diesel fuel and highway user fees. Funding is to be split evenly between state and local transportation priorities, with a focus on transportation infrastructure maintenance and preservation.

3. Medi-Cal Allocations

Medi-Cal enrollments are continuing to increase, due to the implementation of the Affordable Care Act. In response to this, the Governor’s budget includes an additional \$169 million in the current year and FY 2016-17 for County Medi-Cal administration costs. Based on State allocation factors, staff estimates that the County will receive \$1.2 million in additional Medi-Cal administration funding, which will help to address the 143% increase in Medi-Cal caseloads seen locally since FY 2012-13.

4. Continuum of Care Reform (AB 403 Group Home Reform)

AB 403 is a comprehensive reform effort to improve foster care outcomes. The new law reclassifies juvenile treatment facilities and transitions from the use of group homes for children in foster care and probation to the use of short-term residential treatment centers. Beginning in January of 2017, youth currently placed in group homes must be brought back to their county of origin and the appropriate foster care and mental health care needs be in place to accommodate them. The Governor’s budget includes \$94.9 million to aid in efforts to implement AB 403. While none of this funding has been specifically earmarked for counties, conversations are underway at the State level to assure that counties will have sufficient funding to build capacity and effectively implement these reforms.

5. Cap and Trade Allocations

The Governor’s budget proposes to appropriate \$3.1 billion in Cap and Trade revenue—including \$700 million in unallocated auction revenues from the FY 2015-16 budget and \$2.4 billion in FY 2016-17 revenues. At this point, it is unclear how the majority of the \$3.1 billion will be allocated. However, of particular relevance to us locally is the Governor’s plan to allocate \$150 million of Cap and Trade revenue statewide for forestry and wildfire management, including the removal of diseased and dead trees. Cal Fire has indicated that these funds will potentially be available to help mitigate the risk of wildfire on both private and public lands.

Each of these will be briefly discussed as part of the presentation.

Next Steps

The next steps in the FY 2016-17 budget development process are as follows:

- February- April: Administrative Office reviews departmental budget submittals and works with departments to develop a recommended budget
- May 17: Proposed Budget is introduced
- June 13-15: Budget Hearings
- June 21: Budget is adopted

OTHER AGENCY INVOLVEMENT/IMPACT

All County departments participate in the creation and administration of the County budget.

FINANCIAL CONSIDERATIONS

N/A.

RESULTS

Provide the Board of Supervisors and public with an update regarding the County and State budgets for FY 2016-17.

ATTACHMENTS

1. FY 2016-17 Budget Goals and Policies
2. FY 2016-17 Budget Balancing Strategies and Approaches