COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL

(1) DEPARTMENT Administrative Office	(2) MEETING DATE 10/11/2016	(3) CONTACT/PHONE Guy Savage 781-5011

(4) SUBJECT
Consideration of a report regarding the County's FY 2017-18 financial forecast. All Districts.

(5) RECOMMENDED ACTION
It is recommended that the Board receive and file this report regarding the County's FY 2017-18 financial forecast.

(6) FUNDING SOURCE(S)	(7) CURRENT YEAR FINANCIAL IMPACT	(8) ANNUAL FINANCIAL IMPACT	(9) BUDGETED?
N/A	$0.00	$0.00	N/A

(10) AGENDA PLACEMENT
{ } Consent **{ }** Presentation **{ }** Hearing (Time Est. ___) **{X}** Board Business (Time Est. 45)

(11) EXECUTED DOCUMENTS
{ } Resolutions **{ }** Contracts **{ }** Ordinances **{ X }** N/A

(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR)	(13) BUDGET ADJUSTMENT REQUIRED?
N/A	BAR ID Number: N/A **{ }** 4/5 Vote Required **{ X }** N/A

(14) LOCATION MAP	(15) BUSINESS IMPACT STATEMENT?	(16) AGENDA ITEM HISTORY
N/A	No	**{ X }** N/A Date: ___________

(17) ADMINISTRATIVE OFFICE REVIEW
This item was prepare by the Administrative Office

(18) SUPERVISOR DISTRICT(S)
All Districts

County of San Luis Obispo

TO: Board of Supervisors

FROM: Guy Savage / Administrative Office / 781-5011

DATE: 10/11/2016

SUBJECT: Consideration of a report regarding the County's FY 2017-18 financial forecast. All Districts.

RECOMMENDATION

It is recommended that the Board receive and file this report regarding the County's FY 2017-18 financial forecast.

DISCUSSION

The purpose of this report is to provide a detailed financial forecast for Fiscal Year (FY) 2017-18 and a longer term fiscal outlook. The report is organized as follows:

- Executive Summary
- Methodology and Purpose of the Forecast
- Fiscal Outlook for FY 2017-18
- Detailed County General Fund budget forecast for FY 2017-18
- Conclusions
- Economic data and trends (Attachments 1–8)

Executive Summary

The FY 2017-18 forecast is in line with prior years' expectations and reflects a budget that is increasing at a rate just over 3%. This is in line with the expectation that the County's budget will grow year-over-year at an average pace of 2-4% for the foreseeable future (3-5 years). The growth is reflective of the County's disciplined approach to budgeting to ensure long-term financial stability.

This forecast assumes that revenues will increase at roughly 2-4%, that labor costs will continue to increase, and that a 2% Consumer Price Index (CPI) increase will apply to non-labor costs (largely driven by energy/fuel costs). Staffing levels at the start of FY 2016-17 totaled 2,710.50 Full-Time Equivalent (FTE) employees, representing growth of 3.6% compared to the prior year. Given the numerous variables at play, the likely range of discretionary increase for the upcoming fiscal year is $6 to $10 million.

The following report provides the details of how this forecast was created, the corresponding implications, and recommendations for moving forward. The Budget Goals and Policies, Budget Balancing Strategies and Approaches, and Board priorities which together provide the framework in which the budget is prepared, will be brought to your Board for review and consideration in November and will guide FY 2017-18 budget development.

Methodology and Purpose of Forecast

The same methodology that was applied in prior years was used to generate this forecast.

The purpose of this forecast is to provide a conservative, yet realistic, point-in-time estimate for the fiscal capacity of the General Fund for FY 2017-18. In addition, this report provides a longer term outlook with respect to economic conditions, which will impact the County budget in future years. This forecast is only focused upon the General Fund (e.g. does not include non-General Fund departments such as Roads or Libraries) and assumes a Status Quo budget. Generally speaking, a Status Quo budget is defined as one that takes current year staffing and program levels and costs them out for the next year with no material changes (i.e. inflationary increases only and no increases or decreases to staffing levels). Lastly, it is assumed that grants currently received would continue.

While the forecast includes anticipated impacts of known programmatic changes at the State such as Realignment, it does not include any potentially negative effects of recently passed legislation. Put another way, the assumption is that any loss of revenue from the State would be accompanied by a commensurate reduction of expenditures (i.e. program and service level reductions would be made). If it is decided that significant levels of local funds would be used to backfill any portion of State revenue reductions, the relatively positive overall budget direction could swing to a projected gap for FY 2017-18.

Fiscal Outlook for FY 2017-18

Background and Overview

Despite international volatility, the United States economy is continuing to expand. According to the U.S. Bureau of Economic Analysis, the real Gross Domestic Product (GDP) increased by 0.8% in the first quarter and 1.4% in the second quarter of 2016. Many experts continue to project that overall GDP growth will fall in the 2.2-2.6% range for the coming year, slightly outpacing the 2.1%-2.5% range previously projected. However, the International Monetary Fund (IMF) recently revised its 2016 growth forecast in the U.S. to 1.6%, down from 2.2%. The 2.2-2.6% projected growth rates essentially mirror the rate experienced for the last 4 years. By comparison, the average rate of GDP growth between 1947 and 2016 was 3.25%. Beginning in 2012, the California GDP grew at rates slightly higher than the rest of the country. Overall, California's economy is projected to continue to outpace the U.S. through 2020.

One of the key shifts driving the slower GDP growth is U.S. age demographics, including lower population growth rates. U.S. population growth has markedly slowed since the 1960s (post baby boom). At the same time, as the last of the baby boom generation passes age 50, consumer spending rates are decreasing as expected based on historic age spending trends. To help put this age 50 and older shift in context, the number of U.S.-born citizens turning 50 in 2014 declined by nearly 273,000 compared to 2007 rates and nearly 900,000 fewer people will be turning 50 in 2023 compared to 2014. Currently, over 32% of the U.S. population is age 50 or older.

During the past year, personal disposable income for the average American grew at an annualized rate of nearly 4%; compared to the 5.8% average from 1990-2008 and 10% average increases in the 1970s and 1980s. Again, age demographics appear to have been an important driver in shaping personal disposable income rates. As baby boomers leave the full-time workforce and move into retirement, they have less disposable income. This results in lower overall disposable incomes and lower consumer spending rates. This shifting demographic is expected to keep a lid on long-term economic growth.

The January 2016 national unemployment rate improved to 4.9%, compared to 5.7% in the prior year. After several years of high unemployment (peaking nationally at 9.8% in April of 2010), this rate has now returned to a level that is considered healthy (4%-6%). Across California, unemployment rates in January 2016 were higher, at 5.8%, though this represents considerable decline from a rate of 7.2% in January 2010. Non-farm employment has continued to expand, with the most notable job gains being seen in the professional, scientific and technical services sectors. These jobs account for nearly a quarter of all new jobs in the state and represent high-skilled jobs that pay over $100,000 per year on average. While this is good news for some, many workers continue to experience difficulties finding new employment as their pre-recession jobs have not returned. Through the recession, the local unemployment rate remained below that of the State and Nation. The County's unemployment rate was 4.4% in January 2016, down from 5.1% in January 2015.

Key National Issues

Apart from 2016 being an election year, there is no single Federal action or initiative that is expected to have direct, dramatic effects on the County's budget in FY 2017-18. Instead, there are several significant issues in Washington that could substantially impact the economy, many of which are not directly economic in nature. These issues include:

- Interest rate hikes by the Federal Reserve;
- The conflict in Syria and resulting refugee crisis and potential for US military action;
- Various issues related to energy and the environment;

- The continued threat of the spread of infectious disease, both nationally and internationally;
- Comprehensive immigration reform; and
- Efforts to strengthen the middle class.

Key State Issues
Overall, the State's financial condition continues to be the single largest impact to the County's budget in both the near and longer term. The Legislative Analyst's Office (LAO) describes the budget situation through 2016-17 as "Decidedly Positive." California's budget includes General Fund revenues and transfers of $123 billion, expenditures of $121 billion, and a prior year balance of $3.2 billion. The LAO's office projects a $3.3 billion increase in State reserves, ending 2016-17 with $11.5 billion, due to various factors. Consistent with prior years, there are still risks and liabilities associated with the State's budget, including reliance on continued economic growth and hundreds of billions of dollars in liabilities for deferred maintenance on aging infrastructure.

At 87 months, the current economic expansion is among the longest on record in U.S. history. Since World War II, U.S. expansions have tended to be longer than before. Regardless, history suggests we are likely past the midpoint of the current economic expansion. The passage of Proposition 2 in 2014 provided the State with an opportunity to mitigate the boom-and-bust budget cycles from prior decades. Under Proposition 2, temporary spikes in revenues, due to capital gains, are intended to be used to save money for the next recession and pay down the State's debts and liabilities as opposed to being used for new or ongoing commitments.

In response to its infrastructure liabilities, the State budget includes over $2 billion in funds for various infrastructure improvements, including $1.3 billion for improving office buildings and $688 million for levees, parks, universities, community colleges, prisons, hospitals, and other State facilities; and $125 million to address the most critical deferred maintenance and establishes a trust fund for the prefunding of retiree health benefits. Another risk is the expiration of Proposition 30, which was passed in 2012 and raised sales taxes by one-quarter cent through 2016 and increased personal income taxes on high wage earners through 2018. The loss of Proposition 30 revenues represents a significant challenge for the State. One initiative on the November 2016 ballot, Proposition 55, would maintain Proposition 30's personal income tax rate increases until 2030 – raising a projected $4-9 billion annually. Proposition 55 would not extend Proposition 30's one-quarter cent sales tax.

Like the Federal government, the State is also facing a number of challenging issues that are not directly economic in nature; but could have significant financial impacts on the County. Consistent with the current year, issues related to water, education, housing, and transportation infrastructure will continue to be the focus of discussion in FY 2017-18.

Water:
California is continuing to weather its worst drought of the past century. According to the U.S. Drought Monitor, an estimated 33.8 million Californians reside in drought affected areas. Today, 43% of the State is in extreme or exceptional drought, down from 72% at this time last year. The improvement is due to recent precipitation in the far northern region of the State. Despite this, much of the State remains at a severe or higher drought intensity level, with our local area continuing to be one of the worst affected. Issues at the State level include investments in local surface water storage facilities, unregulated groundwater, water quality, environmental issues affecting the water supply, and water use and conservation. The drought has direct economic impacts such as those seen in California's Central Valley, where as much as one-half of the country's fruits and vegetables are produced. This year's agriculture related revenue losses due to the drought are expected to exceed $1 billion and result in the loss of over 17,000 seasonal and farm jobs.

Education:
California's K-14 schools educate over 6 million children. The current budget plan for the State includes $72 billion for K-14 educational programs. The FY 2016-17 budget represents a $3,600 increase in per pupil spending over FY 2011-12 levels. Despite this, and while the State dedicates the largest share of its budget to fund education, its per-pupil spending levels still rank among the nation's lowest. California's overall system of education ranks near the bottom of all states, yet educates nearly one-eighth of the nation's students.

Housing:
Many Californians can't afford their rent and the State's housing affordability crisis has worsened since the depths of the recession, as rising home prices and rents have outpaced income growth. In San Luis Obispo County, rising home prices have allowed current homeowners to refinance their existing mortgages and have supported a

steady apartment rental market. However, increasing home prices have not been beneficial to prospective home buyers. Many studies that provide a housing affordability "index" show San Luis Obispo as less affordable than many areas of California and two or three times less affordable than the rest of the nation. But, housing affordability is not just a problem for those looking to buy a home. Homelessness rates are rapidly growing in various parts of the State following the recession due to rising rents and housing prices. Locally, San Luis Obispo County has the third highest rate of unsheltered homeless individuals nationally, when compared to communities of a similar size. In recognition of this, the community has recently seen an infusion of Federal and State dollars to address issues of homelessness. Despite the availability of funding, the lack of affordable housing presents a significant barrier to housing the homeless and other low income residents.

Transportation Infrastructure:
Transportation infrastructure needs continue to impact the State's budget. Nearly every trip taken by Californians begins on a city street or county road. Californians expect reliable and well-maintained streets, roads, and highways, whether traveling by bicycle, bus, rail, or personal vehicle. Funding for this infrastructure is at risk, and there is a significant focus on climate change, building sustainable communities, and the need for multi-modal transportation. Locally, the County of San Luis Obispo Board of Supervisors has set a policy for maintaining the overall average pavement in the "Good" category with a Pavement Condition Index (PCI) at or above 65. The PCI value describes the percentage of structural life left in the paved surface. A PCI of 100 represents a new road while a PCI of 20 represents a bad road surface at the end of its useful life. With $11.5 million dedicated to the County's pavement management program in FY 2016-17, the current target for the local PCI rating in FY 2016-17 is 64.

At this time, the State has provided little resolution to the question of how to fund improved maintenance of roads, highways and other infrastructure, and has not developed a comprehensive expenditure plan for Cap and Trade revenues to reduce greenhouse gas emissions that contribute to climate change. Both of these issues will be a focus of the upcoming State legislative season.

County Outlook
The County's overall budget outlook for FY 2017-18 fits within the broader theme of slow and steady improvement often referred to as "the new normal." However, pressures from the pending closure of Diablo Canyon Power Plant could begin to have an effect beginning in FY 2017-18 (see below).

As with the rest of California, local economic conditions are improving. This year's forecast projects that property values (assessed values) will increase by 4% when restoration of values from Proposition 8 properties is included. This growth is slightly lower than the increases seen towards the end of last year. While these upwards trends are good news, the County has limited additional options to increase revenues (nearly 75% of revenues are derived from the Federal/State governments and property taxes). As a result, the County's primary lever for maintaining a balanced budget remains on the expenditure side of the equation. To ensure long-term fiscal stability, the County will need to carefully evaluate increases to contingencies, reserves, and designations while paying close attention to additional expenditures for programs and services, and employee compensation.

Additionally, the local housing market continues to improve. While sales prices are up compared to the prior year, some of the improvement continues to be driven by a decline in the number of distressed properties in the region. Overall, building activity, as measured by the number of building permits is up approximately 6% compared to the FY 2015-16, while permit valuation is down by $3.5 million over that same period.

Diablo Canyon Power Plant
Over the longer term, the closure of Diablo Canyon Power Plant will have significant ramifications. The plant produces approximately 18,000 gigawatt-hours of electricity annually and accounts for roughly 20% of PG&E's electricity portfolio and 9% of California's electricity consumption. According to a 2013 study by Cal Poly, Diablo Canyon is one of the largest employers in the county and its annual local economic impact is estimated at $1 billion. Additionally, the total economic impact of Diablo Canyon is approximately $2 billion per year nationally. Per the 2013 study, Diablo Canyon directly employs over 1,500 people and supports over 3,358 local jobs, 4,542 statewide, and 10,372 nationwide. PG&E is one of the largest taxpayers in the county and pays over $30 million per year in unitary taxes (property taxes for a public utility), which is allocated to over 80 governmental agencies or jurisdictions within the county. Specific issues being discussed include:

- Safe operation of the Diablo Canyon Power Plant
- Emergency preparedness and response infrastructure and associated funding
- Continued storage of spent fuel on site
- Power Plant decommissioning
- Desalination
- Direct tax revenue impacts
- General economic impact
- Future use of the site, facility, and surrounding areas

Detailed County General Fund Budget Forecast for FY 2017-18

This forecast is broken into two broad categories, financing sources (money coming in) and expenditures (money going out). Within financing sources there are three categories:

- Fund Balance Available (FBA), which is the money available at the end of one fiscal year for use as a financing source in the next fiscal year;
- Non-departmental revenue, which consists of property taxes, sales taxes, and transient occupancy taxes; and
- Departmental revenue, which consists of state/federal funding, grants and fees.

For California counties, the latter (departmental revenue) is attached to a specific departmental budget while the former two are available to balance the "bottom line."

Expenditures are also broken into three categories - labor costs, non-labor costs, and contingencies (money set aside for unforeseen events).

The attachments to this document display trends for key non-departmental revenue sources, building permits, foreclosure activity, and unemployment rates. The revenue charts display the trends in actual dollar amounts as well as the percent change from year to year.

Revenue Forecast:

Fund Balance Available (FBA):

The first funding source for the General Fund is Fund Balance Available (FBA) from the prior year. FBA is the money that is left at the end of one fiscal year that can be rolled over as a funding source for the next fiscal year. It comprises contingencies not spent, revenues that come in over budget, and expenditures that come in lower than budget.

The assumption is that FBA will be $24-26 million at the end of FY 2016-17, which would be available for use in FY 2017-18. The FY 2016-17 budgeted General Fund contingency is $23 million and it is assumed that $2.2 million of this would be spent (roughly 10%) and the remainder would fall to FBA. Also, it is assumed that departments will end FY 2016-17 $3 million under their collective amount of budgeted General Fund support. This component of FBA is largely attributable to salary savings generated as a result of position vacancies created as part of normal business cycles (i.e. an employee leaves or retires, and the position is vacant during the hiring process).

It is worth emphasizing that FBA varies significantly from year to year and is difficult to forecast because it is influenced by every line item in the overall budget (there are over a thousand line items). Additionally, contributions to FBA from contingencies or departmental expenditure savings are reduced when prevailing wage increases are granted mid-year. The adopted FY 2016-17 salary and benefits for all fund centers is $278 million. The General Fund adopted amount is smaller, coming in at $265 million. Consequently, each 1% in prevailing wage increase granted in FY 2016-17 could have a $2.65 million impact on General Fund FBA.

Non-Departmental Revenue (Discretionary Revenue):

The table below outlines the assumptions for the FY 2017-18 forecast for non-departmental revenue:

Revenue	2014-15 Actual	2015-16 Actual	2016-17 Budget	2016-17 Projection	2017-18 Forecast	% Diff: 16-17 Bud & 17-18 Forecast
Secured Prop Tax	$95,519,790	$100,875,725	$105,021,714	$106,048,270	$110,181,236	5%
Unitary Tax	$7,812,487	$8,202,104	$8,071,132	$7,804,169	$7,023,752	-13%
Supplemental Prop Tax	$2,419,982	$2,477,098	$1,800,000	$1,800,000	$1,800,000	0%
Prop Tax in lieu of VLF	$29,193,219	$30,974,246	$32,522,958	$32,753,302	$34,063,434	5%
Prop Transfer Tax	$2,370,039	$2,655,060	$2,500,000	$2,655,000	$2,655,000	6%
Sales Tax	$11,405,724	$9,575,235	$11,527,680	$11,028,000	$11,028,000	-4%
TOT	$8,724,202	$9,248,691	$9,160,000	$9,500,000	$9,785,000	7%
All Other	$26,723,077	$16,458,262	$12,199,461	$12,612,376	$12,437,331	2%
Total (Non-Dept. Rev.)	**$184,168,520**	**$180,466,421**	**$182,802,945**	**$184,201,117**	**$188,973,753**	**3%**

Notes about Non-Departmental Revenue:
The FY 2017-18 secured property tax estimate assumes a 4% increase in assessed values over FY 2016-17 projected amounts.

The amount of sales tax received during FY 2014-15 ($11.4 million) was high due to significant, one-time revenues from the solar construction projects in the Carrizo Plain. Given the one-time nature of the solar projects and the fact that the projects and associated permitting are now complete, additional one-time sales tax revenues are not included in this forecast. The slight decrease in sales tax forecast for FY 2017-18 should not be construed as a negative indicator of the overall economy; instead, it is reflective of the shift in sales tax revenue from one-time events.

This forecast assumes that current county tax rates will remain flat for the foreseeable future (e.g. sales, transient occupancy, and utility users tax rates would not be increased). As a result, increases in those areas are based upon historical rates, with adjustments made for known, one-time activities such as large construction projects or regular maintenance or drills at Diablo Canyon.

Departmental Revenue:
The following table outlines the assumptions for departmental revenue. Departmental revenue is received by departments and is generally restricted in use for specific purposes.

Revenue	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Budget	2017-18 Forecast	% Difference: 16-17 Budget and 17-18 Forecast
Prop 172	$22,368,086	$24,175,579	$25,156,844	$26,424,749	$26,528,904	0.4%
1991 Realignment	$19,568,981	$19,814,696	$20,195,526	$20,809,166	$22,058,847	6.0%
Health Agency	$51,087,884	$56,087,268	$58,509,352	$64,941,546	$69,389,004	6.8%
Social Services	$76,494,583	$85,492,737	$89,818,932	$95,295,784	$97,091,724	1.9%
Other	$59,037,562	$63,516,015	$64,372,728	$62,928,600	$62,928,600	0
Total (Dept. Rev.)	**$228,557,096**	**$249,086,295**	**$258,053,382**	**$270,399,845**	**$277,997,079**	**2.8%**

Notes about Departmental Revenue:
The estimates for the Health Agency and Department of Social Services were provided by the respective departments, based upon their understanding of any changes that may be coming to the programs and services they provide. The figures noted above for the Health Agency only include those which are part of the General Fund (e.g. does not include Medically Indigent Services Program, Driving Under the Influence, etc.)

For FY 2017-18, "Other" revenue was assumed to be flat compared to the FY 2016-17 budget.

Expenditure Forecast:
This section forecasts the cost of a Status Quo budget for FY 2017-18. A Status Quo budget is defined as one that takes current year staffing and program levels and costs them out for the next year with no material changes (i.e. inflationary increases only, no increases or decreases to staffing levels, and no new or expanded service levels). Lastly, it is assumed that grants currently received would continue.

The assumptions built into the expenditures forecast are as follows:

- A 2% Consumer Price Index (CPI) increase for all other, non-labor related costs.

- A 5% General Fund Contingency will remain in place, consistent with Board adopted Budget Goals and Policies.

- Salary and benefit calculations do not include any additional increases. Any additional salary and benefit increases granted to employees will result in less funds being available as part of the year-end FBA. As an illustration, a 1% increase in salaries for General Fund employees would cost approximately $2.65 million annually.

- A 1.5% pension rate increase. This projected increase is higher than it has been historically, and is largely due to the poor performance of the stock market and increases to life expectancy calculations. In accordance with most existing labor agreements, pension rate increases are typically split 50/50 between the County and employees (the impact to the County budget is a 0.75% rate increase). This is only an estimate as the updated actuarial evaluation of the Pension Trust will not be available until late spring or early summer 2017. The assumed 0.75% pension rate increase will cost the County approximately just over $700,000 annually.

- A $225 per employee rate increase for Other Post-Employment Benefits (OPEB). OPEB costs are required to be collected by local governments to account for the costs of retiree health benefits. Departments are charged OPEB costs as part of payroll. The charges have been based on an assumption of $675 per Full Time Equivalent (FTE) positions. The new total rate of $900 per FTE is anticipated to cover the County's full unfunded liabilities in an on-going fashion. At approximately $11.7 million, County liabilities for OPEB expenses are modest compared to many other governmental agencies that are required to account for hundreds of millions of dollars.

- No changes to liability and workers compensation charges. During the recession, charges to departments were reduced as a budget balancing strategy, and previous surpluses were relied upon to close the gap. In each of the last two years, charges have been increased back to near historical levels. Both programs have been well managed to control costs and as a result, no additional increase is projected for FY 2017-18.

- An additional $2.7 million in expenses related to Drug Medi-Cal Waiver Organized Delivery System (DMC-ODS), also known as Drug Medi-Cal Opt-in, including $2.4 million in salary and benefit related expenses and $200,000 for non-salary and benefit expenses.

- An additional $1.4 million in non-salary and benefit expenses for the Crisis Stabilization Unit (CSU), as additional services will likely be contracted out. The new 4-bed facility will provide short-term (23 hour or less) psychiatric care, and will be located adjacent to the Health Agency's Psychiatric Health Facility (PHF). Plans will be submitted for plan check in October 2016 and the facility is anticipated to be completed in August 2017.

- Other Health Agency or Department of Social Services assumptions, totaling just over $1 million include:
  - A 3% rate increase for Foster Care clients,
  - A 5% rate increase for CalWORKs clients, and
  - Increased Medi-Cal expenses related to the continued implementation of the Affordable Care Act

- A $12.6 million adjustment to account for one-time transfers to various programs, reserves, and designations made in FY 2016-17. This includes transfers out for current year capital and automation projects, and a one-time allocation to the Roads budget to augment the pavement management program. Also included are transfers to the Capital Projects/Facilities Planning reserves, Countywide Automation reserve, and General Government Building Replacement reserve.

The assumptions noted above result in the following expenditure forecast:

$264,576,604	FY 2016-17 Adopted General Fund salary and benefits
$716,269	0.75% Pension rate increase (County share)
$609,863	$225 per employee OPEB increase
$2,461,358	Salary and benefit increases related to Drug Medi-Cal opt-in
$200,825,189	FY 2016-17 Adopted General Fund non-salary costs
$253,308	Affordable Care Act increased costs
$777,447	Foster Care and CalWORKs increased costs
$200,000	Departmental non-salary and benefit costs related to Drug Medi-Cal opt-in
$1,440,000	Crisis Stabilization Unit costs
-$12,596,300	One-time expenses made in FY 2016-17
$23,154,087	5% Contingency
$486,235,817	**Total Expenditures forecast for FY 2017-18**

Budget Changes:
Per the assumptions noted above, the forecasted structurally balanced budget for the General Fund for FY 2017-18 is:

$492,309,510	Total financing sources (revenues)
$486,235,817	Total financing uses (expenditures)
$6,073,693	**Total forecast available**

It is important to note the sensitivities of the forecast. For example, a 1% change to the various forecast elements has the following impacts:

- $1.9 million Non-Departmental Revenue
- $2.8 million Departmental Revenue
- $2.6 million Salaries and Benefits
- $1.9 million Non-salary Costs

Given the numerous variables at play and assumptions used in the development of this forecast, the likely range of discretionary increase for the upcoming fiscal year is $6 to $10 million.

Conclusions

Overall, the County's budget is structurally balanced and the financial outlook is positive. The County continues to grow at an anticipated pace of just over 3%, which is in line with longer-term projections of 2-4%. Continued compliance with the Board-adopted Budget Goals and Policies will be important to assuring the ongoing fiscal health of the County. Throughout the difficult years, the Board of Supervisors and County staff at all levels did an outstanding job of implementing fiscal reforms that helped to pursue our collective vision of a Safe, Healthy, Livable, Prosperous, and Well-Governed Community.

OTHER AGENCY INVOLVEMENT/IMPACT

Development of the Financial Forecast is led by the County Administrative Office, with input from other departments as appropriate. The Assessor's Office and Auditor-Controller-Treasurer-Tax Collector assisted in developing the FY 2016-17 projections and FY 2017-18 forecast for non-departmental revenue sources. The Human Resources Department assisted in identifying appropriate funding levels for the Workers Compensation and Liability Insurance funds. The Clerk-Recorder provided information related to foreclosures and the Planning and Building Department provided information related to construction permitting activity, both of which are used as trend data to develop the forecast. The Health Agency and Department of Social Services both developed revenue projections for their respective program areas.

FINANCIAL CONSIDERATIONS

As discussed in this report, it is forecasted that the FY 2017-18 General Fund budget will have a range of $6 to $10 million available for discretionary increases.

RESULTS

Development and presentation of the Financial Forecast is one of the first steps in developing the budget for the coming year. The preparation of the Financial Forecast refines the County's five-year financial outlook and lays the ground work for the budget process by identifying the fiscal capacity of the General Fund for the coming year and guiding the Board in the establishment of its priorities, contributing to the County's goals of a well-governed and prosperous community.

ATTACHMENTS

- Attachment 1 – Total non-departmental revenue trends
- Attachment 2 – Total assessed property value trends within the County, which is the basis upon which the County receives property tax revenue
- Attachment 3 – Property transfer taxes trends. This revenue is a leading indicator of sales activity as it is received when a change in ownership occurs
- Attachment 4 – Sales taxes trends
- Attachment 5 – Transient occupancy taxes (hotel bed taxes) trends
- Attachment 6 – Building permit trends
- Attachment 7 – Housing foreclosure trends
- Attachment 8 – Unemployment trends at the County, State, and national levels