



**MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER**

TO: Honorable Board of Supervisors

FROM: David Boesch, County Executive Officer
By Andy Heath, Deputy CEO of Finance, Administration and Budget

DATE: February 24, 2015

SUBJECT: FY 2014-15 Fiscal Update and FY 2015-16 Budget Development Overview

Action Requested

The Board of Supervisors is requested to take the following actions:

1. Receive an update on FY 2014-15 revenue and expenditure projections for the County's main operating funds and five-year strategic budget framework as it relates to the County General Fund and Public Safety Fund; and
2. Receive a report on the FY 2015-16 budget development process and provide any necessary direction.

Background

On September 9, 2014, the Board of Supervisors approved the FY 2014-15 Operating Budget, while receiving an update of the Multi-Year Strategic Budget Framework as an implementation strategy of the Budget and Financial Policy. The Budget and Financial Policy, recently revised by the Board on December 9, 2014 to incorporate revisions to the Other Post-Employment Benefit policy, is intended to guide long-term financial planning related to preparation and ongoing management of the County budget. Guidance provided by the Budget and Financial Policy in conjunction with updates to the Multi-Year Strategic Budget Framework enables staff to both manage existing budget progress while enabling the development of future budgets in a fiscally responsible manner, promoting both short- and long-term fiscal health. Overarching fiscal policy guidelines considered throughout the budget monitoring and development processes include:

- Incorporation of economic analysis and long-term planning into recommended budget actions
 - Monthly budget monitoring and regular updates to the two-year budget model
 - Preparation and regular updates of the Multi-Year Strategic Budget Framework
 - Long-term capital planning and budgeting
- Promotion of cost transparency
 - Periodic review of costs to promote efficiency and economy in the delivery of services
 - Alignment of costs to deliver countywide services and programs

- Review and understanding of budget variances
 - Ability to adjust for short-term and long-term revenue and expenditure trends
 - Assurance to proper level of conservatism in forecasting revenues and expenditures
- Establishment and maintenance of reserves
 - Attainment of General and Economic Contingency Reserve at 5% of General Fund operating budget
 - Prudent levels of capital and other reserves; and operating contingencies where appropriate
- Development of a spending plan supported by sustainable resources
 - Using one-time revenues to fund one-time costs wherever possible
 - Using carryover fund balances to fund one-time expenditures, reserves and contingencies rather than funding ongoing operations

By following these guidelines as provided by the Budget and Financial Policy, staff has analyzed anticipated current year revenues and expenditures in the County's main operating funds to guide the budget development process for the coming fiscal year.

Analysis

Listed below is an overview of the FY 2014-15 final budget and projected actuals for the County's main operating funds.

GENERAL FUND

The General Fund is the largest countywide fund and underwrites most countywide operations either directly as the "net county cost" of General Fund budgets, or indirectly through contributions to other funds. The General Fund includes appropriations for general government, finance, planning and building inspection, facility services and health and human services. The General Fund also makes contributions to other funds for public safety, fire protection services, capital construction, road maintenance and construction, library services, and debt service.

A synopsis of General Fund FY 2014-15 budget information is provided below:

| | FY 2014-15 Final Budget | FY 2014-15 Revised Budget | FY 2014-15 Estimated Actuals |
|--|------------------------------------|--------------------------------------|---|
| Carryover Fund Balance | \$ 29,726,106 | 25,941,189 | 29,481,611 |
| Revenues | 371,371,093 | 373,927,874 | 378,655,424 |
| Total Revenues and Carryover | \$ 401,097,199 | 399,869,063 | 408,137,035 |
| Provision to Reserves | \$ 3,784,917 | - | - |
| Expenditures | 397,312,282 | 403,409,485 | 383,577,150 |
| Total Expenditures and Reserves | \$ 401,097,199 | 403,409,485 | 383,577,150 |
| Estimated Carryover / (Used) Fund Balance | \$ - | (3,540,422) | 24,559,884 |

The General Fund FY 2014-15 Final Budget balances carryover fund balance and anticipated revenues with a provision (increase) to reserves and anticipated expenditures. With the approval of the Final Budget in September 2014, approximately \$3.78 million was allocated to General Fund assigned reserves - \$3.24 million towards future unfunded liabilities (OPEB) and \$540,000 towards the Client Aid Reserve. Additionally, the FY 2014-15 Final Budget maintains the minimum General Fund Budget and Financial Policy general reserve target of 5% of the annual operating budget.

The FY 2014-15 Revised Budget incorporates Board-approved changes to the Final Budget since its adoption in September 2014. Changes include encumbrance rollovers from FY 2013-14 and minor offsetting revenue and expenditure adjustments.

Staff has analyzed General Fund revenue and expenditure experience through the first six months of the fiscal year (July 2014 – December 2014) as a means to project where the General Fund will stand fiscally at the end of FY 2014-15. Staff currently estimates that the General Fund will end the fiscal year with approximately \$24.6 million in carryover fund balance, accounted for in the following areas:

Revenues: \$ 4.7 million over budget (+1.2%)

- Anticipated higher-than-budgeted collections of property and related in-lieu taxes, real estate transfer taxes; and construction permit revenues.

Expenditures: \$19.9 million under budget (-4.9%)

- Anticipated \$9.7 million in savings related to salaries and benefits. Vacant funded positions as of February 1, 2014 represent 10.4% of total funded positions in the General Fund.
- Anticipated General Fund expenditure savings of \$5.7 million non-salary budgeted costs.
- Anticipated contribution to public safety fund true-up (increased transfer) of \$1.3 million consistent with five-year strategic budget framework funding of 46.83% General Fund discretionary revenue sources to Public Safety Fund.
- Anticipated that the General Fund contingency of \$5.8 million will remain unexpended.

Anticipated Carryover Fund Balance: \$24.6 million

Carryover Fund Balance to FY 2015-16 in the General Fund is anticipated to be \$24.6 million at the end of FY 2014-15. Carryover Fund Balance, which should be construed as a one-time funding source, will be considered as staff develops a recommended budget for the coming fiscal year.

PUBLIC SAFETY FUND

The Public Safety Fund is the second largest countywide fund and is made up of four departments: Sheriff, District Attorney, Probation, and the County Executive Office. The Public Safety Fund receives slightly more than one-half of its support from a General Fund transfer.

A synopsis of Public Safety Fund FY 2014-15 budget information is provided below:

| | FY 2014-15 Final Budget | FY 2014-15 Revised Budget | FY 2014-15 Estimated Actuals |
|--|------------------------------------|--------------------------------------|---|
| Carryover Fund Balance | \$ 12,345,111 | 4,275,089 | 5,395,911 |
| Revenues | 146,065,073 | 146,512,722 | 148,046,514 |
| Total Revenues and Carryover | \$ 158,410,184 | 150,787,811 | 153,442,425 |
| Net Provision to Reserves | \$ 8,070,022 | - | - |
| Expenditures | 150,340,162 | 151,908,633 | 145,866,311 |
| Total Expenditures and Reserves | \$ 158,410,184 | 151,908,633 | 145,866,311 |
| Estimated Carryover / (Used) Fund Balance | \$ - | (1,120,822) | 7,576,114 |

The Public Safety Fund FY 2014-15 Final Budget balances carryover fund balance and anticipated revenues with a provision (increase) to reserves and anticipated expenditures. With the approval of the Final Budget in September 2014, approximately \$8.1 million was allocated to Public Safety Fund reserves, bringing the contingency reserve to approximately \$15.2 million, or 10.0% of the total Public Safety Fund revised budget. These funds, in addition to any carryover fund balances available at the end of each year, may be required to balance future Public Safety Fund budgets consistent with the five-year strategic budget framework.

Similar to the General Fund, the FY 2014-15 Revised Budget incorporates Board-approved changes to the Final Budget since its adoption in September 2014. Changes include encumbrance rollovers from FY 2013-14 and minor offsetting revenue and expenditure adjustments.

Staff has analyzed Public Safety Fund revenue and expenditure experience through the first six months of the fiscal year (July 2014 – December 2014) as a means to project where the Public Safety Fund will stand fiscally at the end of FY 2014-15. Staff currently estimates that the Public Safety Fund will end the fiscal year with approximately \$7.6 million in carryover fund balance, accounted for in the following areas:

Revenues: \$ 2.0 million over budget (+1.4%)

- Anticipated increased contribution to Public Safety Fund true-up of \$1.3 million consistent with five-year strategic budget framework funding of 46.83% General Fund discretionary revenue sources to Public Safety Fund.
- Anticipated one-time collection of additional Public Safety Sales Tax and increased revenues related to AB-109 growth.

Expenditures: \$5.6 million under budget (-3.7%)

- Anticipated \$4.2 million in savings related to salaries and benefits. Vacant funded positions as of February 1, 2014 represent 4.7% of total funded positions in the Public Safety Fund.
- Anticipated Public Safety Fund expenditure savings of \$1.4 million non-salary budgeted costs.

Anticipated Carryover Fund Balance: \$7.6 million

Carryover Fund Balance to FY 2015-16 in the Public Safety Fund is anticipated to be approximately \$7.6 million at the end of FY 2014-15. Carryover Fund Balance, which should be construed as a one-time funding source, will be considered as staff develops a recommended budget for the coming fiscal year.

PUBLIC WAYS AND FACILITIES FUND

The Public Ways and Facilities Fund, commonly referred to as the Road Fund is maintained by the Department of Public Works and provides engineering services in the area of design, construction and contract administration for both the County and private land development projects. The fund also maintains, protects and improves approximately 1,047 miles of roads and accounts for road and road-related storm maintenance, including snow removal and road engineering and construction.

The Final Budget for the Public Ways and Facilities Fund balances \$76.1 million of financing sources and uses for FY 2014-15. Of this amount, approximately \$56.6 million is allocated for road construction and related projects. During the first half of FY 2014-15, the following major road projects have been completed or are currently underway:

- Kings Beach Commercial Core Improvement Project
- Snow Creek SEZ Restoration Project
- Alpine Meadows Bridge Replacement
- Walerga Road Bridge Replacement
- Continued maintenance of approximately 1,047 miles of roadway
- Cook / Riolo Bridge Replacement
- Highway 89 / Fanny Bridge Revitalization Project

CAPITAL PROJECTS FUND

The Capital Projects Fund receives revenue from a variety of sources to fund multiple projects during each fiscal year. Revenue sources traditionally include Federal and State grants, Capital Facility Impact Fees, County Service Area Assessment Fees, Reserves, and contributions from other County Funds, with the General Fund as a major funding contributor each year. The array of activities within the Fund include expenditures for projects that may cover multiple fiscal years to achieve project completion and projects completed within the fiscal year.

FY 2014-15 budgeted expenditures for major current year and multi-year Capital Project Fund projects include:

- Auburn Animal Shelter - \$19.9 million
- SMD #1 Regional Sewer - \$56.4 million
- SMD #3 Regional Sewer - \$6.4 million
- Sewer Lift Station Improvements - \$2.9 million
- Eastern Regional Landfill Improvements - \$1.5 million

On the horizon, major projects in the analysis and planning stages include the Hidden Falls Parking Expansion, Placer County Government Center master planning efforts and associated projects, the Tahoe Justice Center, and a potential contribution towards the South Placer Justice Center Arraignment Court.

LIBRARY FUND

The Library Fund provides public library services that support the educational, recreational and cultural endeavors of citizens within the community. The Library's FY 2014-15 Final Budget maintained current service levels at the County's 11 branches and Bookmobile with estimated expenditures of \$6.0 million. Secured property tax, the main source of revenue for operations, increased 5% to \$3.8 million. From a budgetary perspective, the Library's increase in on-going operational costs continues to outpace increases in property taxes, requiring an estimated \$220,000 use of fund balance during FY 2014-15 and continued General Fund support to balance their budget.

Over the course of the last several years, the Library's budget has remained unsustainable. Although tax revenues continue to modestly increase they are, at best, only keeping pace with increases in operating expenditures resulting in the projection of continued operating budget deficits. Staff continues to review all cost drivers for efficiencies as a means to prevent further erosion of Library services; and is currently in the process of implementing the Strategic Plan recently approved by the Board prioritizing facilities, materials collection, staffing and programming, and operational efficiency.

FIVE- YEAR STRATEGIC BUDGET MODEL – GENERAL FUND AND PUBLIC SAFETY FUND

The Five-Year Strategic Budget Model (Model) is built on FY 2014-15 anticipated revenues, expenditures, and carryover fund balance as the starting base, with out-year assumptions for major categories of revenues and expenditures. The Model focuses on the areas of the County

Budget with the greatest level of Board discretionary authority: the General Fund and the Public Safety Fund.

The Model was developed based on existing service levels, revenues, and cost drivers. It is intended to reflect the ongoing revenues and costs consistent with the County's current service delivery system given certain fiscal assumptions. As such, it does not include potential new revenues that may become available in future years or service level expansions, including initial supplemental requests received by departments for FY 2015-16. The Model as of February 2015 is presented below:

MULTI-YEAR MODEL: General Fund / Public Safety Fund 02/17/2015

| | 2014-15 Projections | 2015-16 Model | 2016-17 Model | 2017-18 Model | 2018-19 Model | 2019-20 Model |
|--|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Est. Fund Balance Carryover: | \$ 29,481,611 | \$ 23,641,280 | \$ 19,191,913 | \$ 13,825,603 | \$ 6,066,677 | \$ (3,351,374) |
| Revenues: | | | | | | |
| Taxes | \$ 166,494,516 | \$ 170,481,734 | \$ 173,509,059 | \$ 175,990,279 | \$ 179,239,506 | \$ 182,558,232 |
| Intergov't Revenues | 162,220,974 | 163,826,546 | 165,582,279 | 167,389,860 | 169,251,318 | 171,168,785 |
| Other | 49,939,934 | 52,359,887 | 54,723,638 | 56,537,527 | 57,687,527 | 58,848,420 |
| Total Revenue & Carryover: | \$ 408,137,035 | \$ 410,309,447 | \$ 413,006,890 | \$ 413,743,269 | \$ 412,245,027 | \$ 409,224,062 |
| <i>Revenues only (no Carryover Fund Balance):</i> | <i>378,655,424</i> | <i>386,668,167</i> | <i>393,814,977</i> | <i>399,917,666</i> | <i>406,178,350</i> | <i>412,575,436</i> |
| Expenditures: | | | | | | |
| General Fund Salaries & Benefits | \$ 156,245,420 | \$ 160,268,859 | \$ 165,460,721 | \$ 171,295,832 | \$ 176,156,683 | \$ 181,142,688 |
| Retiree Health & Dental | 7,608,399 | 9,573,906 | 9,982,340 | 10,410,007 | 10,857,819 | 11,326,731 |
| General Fund Other | 127,026,794 | 128,495,546 | 129,488,037 | 130,505,274 | 131,547,977 | 132,596,888 |
| Contribution to Public Safety (1) | 82,494,247 | 84,508,327 | 85,979,293 | 87,194,582 | 88,763,025 | 90,363,874 |
| Capital Improvement & Roads | 11,120,896 | 8,270,896 | 8,270,896 | 8,270,896 | 8,270,896 | 8,270,896 |
| Total Uses of Funds: | \$ 384,495,755 | \$ 391,117,534 | \$ 399,181,287 | \$ 407,676,592 | \$ 415,596,401 | \$ 423,701,077 |
| GENERAL FUND BOTTOM LINE: | \$ 23,641,280 | \$ 19,191,913 | \$ 13,825,603 | \$ 6,066,677 | \$ (3,351,374) | \$ (14,477,015) |
| <i>Add to Gen Fund reserves / other Board priorities</i> | | | | | | |
| <i>Potential Redirect to SPACF</i> | | | | | | |
| ADJUSTED BOTTOM LINE: GENERAL FUND | \$ 23,641,280 | \$ 19,191,913 | \$ 13,825,603 | \$ 6,066,677 | \$ (3,351,374) | \$ (14,477,015) |
| Public Safety Fund Net Income / (Loss) | \$ 7,644,122 | \$ 2,918,451 | \$ (201,969) | \$ (2,435,555) | \$ (3,976,156) | \$ (5,409,708) |
| Public Safety Fund Beginning Reserves | \$ 15,184,722 | \$ 22,828,844 | \$ 25,747,295 | \$ 25,545,326 | \$ 23,109,771 | \$ 19,133,615 |
| Potential Solutions - Public Safety Fund Reserves | \$ - | \$ - | \$ 201,969 | \$ 2,435,555 | \$ 3,976,156 | \$ 5,409,708 |
| Potential Solutions - General Fund Redirect | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

(1) Contribution to Public Safety = 46.83% of General Fund Discretionary Revenue

Basic assumptions built into the Model include conservative revenue and expenditure estimates and a continued annual transfer of 46.83% of General Fund discretionary revenue to the Public Safety Fund. In addition, a vacancy savings factor has been incorporated into the Model as a means to reduce large variances between budgeted and actual expenditures incurred for salaries and benefits each year. As indicated in the Model above, the Public Safety Fund continues to require use of Public Safety Fund reserves to balance increased costs in the Public

Safety Fund, primarily related to the ongoing operations of the South Placer Adult Correctional Facility (SPACF) and anticipated increases to CalPERS retirement costs.

FY 2015-16 BUDGET DEVELOPMENT

Staff is actively engaged in developing a recommended budget for FY 2015-16. Initial submissions of departmental base budgets and supplemental requests were received by the County Executive Office on February 10, 2015 and are currently being analyzed consistent with existing priorities using a countywide approach. Meetings with each department are planned for mid-March to review submitted base and supplemental budget requests as a next step in preparing a recommended budget that best delivers services in a fiscally responsible manner. Your Board can anticipate a recommended balanced budget that maintains current service levels and considers the following:

- Continued *modest* discretionary revenue recovery
Discretionary revenue sources are projected to continue growing modestly, however not at the pace realized over the last two fiscal years since recovering from the "Great Recession".
- Service delivery models that recognize short- and longer-term cost drivers
Cost increases anticipated during FY 2015-16 in addition to longer-term cost impacts associated of increasing CalPERS retirement premiums will be considered with the recommended budget.
- Analysis and alignment of costing methodologies
Development of two new countywide Internal Service Funds - Employee Benefits and Information Technology Services as a means to directly align costs to applicable departments and programs.
- Expanded information - capital and infrastructure projects
Budget development staff will be working with the cross-departmental *Capital Projects Team* to update and expand countywide capital and infrastructure information presented in the Multi-Year Capital Plan.
- Succession Planning
Recognizing the likelihood of a continued exodus of tenured, knowledgeable staff due to retirements, the FY 2015-16 budget development process will consider necessary resources towards countywide succession planning efforts.
- Focused reduction of carryover fund balance
Development of sustainable budgets requires careful planning to minimize one-time revenue used for ongoing operating expenditures. Recognizing carryover fund balance is the largest one-time revenue source used to balance the budget each year, revenue and cost components driving the majority of the carryover each year will be analyzed to develop budgets that more accurately project annual fiscal requirements.

- Priority Based Budgeting – Program/ Services Inventory refinement and costing
 Budget development staff will be working closely with the *Priority Based Budgeting Coordinating Council*, a cross-departmental team of county management staff, to further efforts to transition the budget development process to a priority-based methodology. It is anticipated that countywide programs and services inventories will be finalized and several departments will present program cost information as part of the FY 2015-16 Final Budget.

Development of a balanced budget for FY 2015-16 must also take into consideration significant near-term fiscal challenges. Challenges to be addressed as the coming year's budget is prepared include the following:

- FY 2015-16 Initial Supplemental Requests
 Recently received department budget submissions for FY 2014-15 include supplemental requests representing approximately \$16.6 million in additional net county cost. Of this amount, \$10.2 million and \$5.7 million of requests were received for the General Fund and Public Safety Fund, respectively. A summary of supplemental requests by fund is provided in the table below:

| Supplemental Requests | | | |
|----------------------------|-------------------|--------------------|-------------------|
| Fund | Expenditures | (Revenue) | NCC |
| General Fund | 10,793,408 | (570,220) | 10,223,188 |
| Public Safety Fund | 5,729,925 | 0 | 5,729,925 |
| Public Ways and Facilities | 0 | 0 | 0 |
| Capital Improvements | 0 | 0 | 0 |
| Library Fund | 200,000 | 0 | 200,000 |
| Fire Fund | 167,314 | 0 | 167,314 |
| ISF and ENT Funds | 4,779,674 | (4,509,764) | 269,910 |
| Total | 21,670,321 | (5,079,984) | 16,590,337 |

Of the \$10.2 million in net General Fund supplemental requests noted above, approximately \$1.8 million and \$8.4 million represent ongoing and one-time net expenditures, respectively. The \$5.7 million in net Public Safety Fund supplemental requests encompass approximately \$4.5 million and \$1.2 million of ongoing and one-time net expenditures, respectively. The \$600,000 in net supplemental requests in funds other than the General and Public Safety Funds represent one-time net expenditures.

Noted supplemental requests include the following:

- Capital funding (General Fund and/or Capital Projects Fund) towards Tahoe Tourist Accommodation Unit (TAU) commodities;
- Capital set-aside for Placer County Government Center (PCGC) Master Plan update costs;
- Continuation of a one-time augmentation approved in FY 2014-15 towards the County's Road Overlay Program;

- Staff support based on workload requirements in Community Development Administration; and professional services support for Planning activities including the Tahoe Basin Area Plan and Placer County Conservation Plan;
 - Continuation of one-time augmentation approved in FY 2014-15 towards deferred trail maintenance;
 - The Public Safety Fund includes a request for on-going expenditures related to funding 43 allocations to open the 180 remaining jail beds at South Placer Jail while 138 Traditional jail beds at the Auburn Jail would be converted to "Program" beds dedicated to evidenced based programming.
 - Probation has requested funding to enter into a 12-month contract with the Sacramento County Office of Education (SCOE) to provide vocational, education and substance abuse treatment classes at the Placer County Re-Entry Program (PREP) Center. This request also includes 5 Deputy Probation Officers to balance the caseloads of officers.
- FY 2015-16 State of California Governor's Proposed Budget
On January 9, 2015, the Governor presented a budget package that included \$159 billion in spending from the General Fund and other special funds, a \$1.5 billion increase over the revised FY 2014-15 level. Similar to the budget adopted for FY 2014-15, the FY 2015-16 Proposed Budget does not significantly impact local finances for the coming year; and, continues focus on paying down the "wall of debt" built up to balance prior year budgets, including a proposed allocation of \$533 million to cities and counties for prior year mandate costs (anticipated \$6.8 million one-time payment to Placer County).

Staff will continue to monitor ongoing State Budget developments up to and through the issuance of the May Revise and eventual adoption of the final budget.

BOARD REVIEWS OF THE FY 2015-16 BUDGET

As a means to further the FY 2015-16 budget development process, your Board can anticipate receiving the following over the next several months:

- April 27, 2015 – Priority Based Budgeting implementation status and overview / Board Workshop (regularly scheduled Tahoe Meeting)
- June 16, 2015 – Board consideration of FY 2015-16 Proposed Budget and Position Allocation Ordinance
- September 1, 2015 – Public Hearing and Board adoption of FY 2015-16 Final Budget

Conclusion

As the FY 2015-16 recommended budget is prepared, staff will incorporate the long-term impacts of the fiscal challenges presented above while assuring continued adherence to County policy and the delivery of efficient and effective service levels and programs. Staff will continue to update to the models presented above as a means to monitor ongoing operations and relieve out-year pressure related to operational cost drivers, while providing the Board with clear information and recommendations supporting effective county service delivery.

