



Board Agenda Item 7

DATE: March 6, 2018
TO: Board of Supervisors
SUBMITTED BY: Jean M. Rousseau, County Administrative Officer
SUBJECT: FY 2017-18 Mid-Year Budget Report

RECOMMENDED ACTION(S):

1. **Receive Mid-Year Budget Report for Fiscal Year 2017-18; and**
2. **Approve proposed schedule for the Recommended Budget and adoption of the Fiscal Year 2018-19 Budget, which incorporates a Recommended Budget by June 12, 2018 with proposed adjustments to this Recommended Budget to be presented beginning September 17, 2018.**

ALTERNATIVE ACTION(S):

There are no viable alternative actions.

FISCAL IMPACT:

There is no additional Net County Cost associated with the recommended action.

DISCUSSION:

INTRODUCTION

The Mid-Year Budget Report is an opportunity to review the financial condition of the Operating Budget approved by the Board of Supervisors on September 18, 2017, for the County of Fresno. It also provides an opportunity to evaluate the fiscal outlook, allowing adequate preparation for the following fiscal year's Budget.

Organizationally, Part I of this report addresses the mid-year financial condition of the General Fund Budget for the current fiscal year. Part II discusses preliminary projections for the next fiscal year. Part III addresses significant upcoming state and federal budget impacts to the County. Part IV discusses the Proposed Budget development schedule for FY 2018-19.

I. MID-YEAR FINANCIAL CONDITION OF THE GENERAL FUND BUDGET FOR FY 2017-18

As a part of this overall review, staff evaluated budgetary reports at mid-year, performed a number of analytical techniques, conducted interviews with and asked for input from departments. Staff also analyzed state and federal Proposed Fiscal Budgets and legislation for their relevance to next year's budgetary cycle.

Based on this mid-year review process, the General Fund Budget is projected to be in a positive position going into the last quarter of the fiscal year. Carryover fund balance (revenues and fund balance in excess of expenditures) is expected to exceed the structural level necessary to end the current fiscal year in

preparation for the upcoming fiscal year budget process. Net County Cost savings is estimated to be a little lower than last fiscal year due to one-time revenues hitting FY 2016-17 and an increase in estimated secured property taxes from one to two percent budgeted in FY 2017-18.

As of December 31, 2017, overall General Fund Revenues are 38% collected, which is 4% higher when compared to the prior year. This can be attributed to more timely transfers from the special revenues funds that are now being done on a quarterly basis rather than transfers being made at the conclusion of the fiscal year. The majority of General Fund revenues are collected in the second half of the year, with a large portion coming in the last quarter. Additionally, in subvented portions of the Budget, revenues flow up or down according to their related claimable expenses. In the Department of Social Services, the Department of Public Health and the Department of Behavioral Health, revenues are approximately \$38 million higher at December 31, 2017 than last year due to more timely transfers as mentioned above and higher claimable expenses.

Expenditures are approximately 45% of budget as of December 31, 2017, which is 2% higher when compared to the prior year.

Importantly, all General Fund departments indicate they will finish the year at or below their allocated Net County Cost.

There are no mid-year budget issues or concerns with departments outside of the General Fund.

Below is a recap of General Fund revenues and expenditures for the last two fiscal years at mid-year.

Recognized vs. Uncollected Revenues

<u>FY</u>	<u>Recognized</u>	<u>Uncollected</u>	<u>Total</u>	<u>% of Budget</u>
2016-17	\$494,246,024	\$951,885,726	\$1,446,131,750	34%
2017-18	\$592,219,453	\$973,812,571	\$1,566,032,024	38%

Obligated vs. Unobligated Expenses

<u>FY</u>	<u>Recognized</u>	<u>Unobligated</u>	<u>Total</u>	<u>% of Budget</u>
2016-17	\$637,208,095	\$833,114,932	\$1,470,323,027	43%
2017-18	\$732,296,948	\$899,474,711	\$1,631,771,659	45%

Please refer to Exhibit A reflecting a detailed report of Year to Date (YTD) Actual Revenues Recognized to Current Adjusted Budget revenues as of December 31, 2017 for each department in the General Fund.

Please refer to Exhibit B reflecting a detailed report of YTD Obligated to Current Adjusted Budgeted expenditures as of December 31, 2017, for each department in the General Fund.

The County Administrative Officer would like to take this opportunity to thank Department Heads for being team players, providing exemplary services and being excellent fiscal stewards of public monies.

II. PRELIMINARY PROJECTIONS FOR FY 2018-19

When considering the projected strength of the General Fund Budget for next fiscal year, the first place to start is the projected growth and/or decline in the sum of carryover fund balance and countywide revenues. The two combined are also referred to as Available Resources of Net County Cost.

As noted earlier, the carryover fund balance is expected to be above the structural level necessary to end the year in preparation for the upcoming fiscal year budget process. The current structural fund balance is approximately \$8.6 million.

With respect to next year's countywide revenue forecast, economists have varying opinions. The local housing and commercial markets continue to experience steady growth. The assessment roll applicable to next year's Budget, lien value date of January 1, 2018, is going to apply the 1.02% Consumer Price Index (CPI) to eligible property not in the Proposition 8 program, which is the same CPI as last year.

Local sales taxes, which comprise approximately 9% of the County's discretionary revenue, are projected to remain the same as the current year. Although we are in one of the longest recoveries in history, an economic downturn is not expected for calendar year 2018 or 2019.

Ultimately, countywide revenue estimates dictate the level of operating funds available to the General Fund.

Structural or ongoing operating expenditures will be greater than the current fiscal year due to many reasons, the largest being the estimate in the increase of negotiated salaries and benefit increases, which will be approximately \$7.5 million. This alone is expected to use substantially all of the growth in discretionary revenues. Also increasing ongoing operating expenditures is a 75%, or \$1.4 million increase in countywide General Fund liability insurance costs as well as an increase of approximately \$4.3 million in the recently awarded jail medical contract. The current jail medical contract is predominately being funded using 1991 realignment through the Departments of Public and Behavior Health. The restructuring of the In Home Supportive Services (IHSS) Maintenance of Effort (MOE) with the State redirects growth monies away from the Departments of Public and Behavior Health and directs those monies to the IHSS program leaving no growth monies to help offset these costs which may become a General Fund cost. Finally, retirement rate increases, the ongoing Quentin Hall Settlement, and routine annual employee step and merit increases are expected to further increase ongoing expenditures.

III. SIGNIFICANT STATE AND FEDERAL BUDGET IMPACTS

CALIFORNIA

On January 10, 2018, Governor Brown released the FY 2018-19 Proposed State Budget. As a part of his introduction of the budget the Governor stated that during the FY 2018-19 time period the United States will exceed the longest economic recovery since WWII. The Department of Finance (DOF) estimates revenues above forecast from the FY 2017-18 Adopted Budget by approximately \$6.1 billion. This was described by the Governor as the longest economy recovery since World War II. These additional revenues will be primarily dedicated to fully fund the State's rainy day fund, allocating a supplemental \$3.5 billion in the Proposed January Budget in addition to the constitutionally required amount under Proposition 2. Instead of allocating these funds to ongoing programs, the Governor was adamant that this action will help the upcoming Administration during the next downturn.

The Governor's January Budget does not address the many unknowns resulting from federal policy changes or assumptions coming from the recently passed "The Tax Cuts and Jobs Act" signed by President Trump.

ADMINISTRATION OF JUSTICE

2011 Realignment. The Enhancing Law Enforcement Activities Subaccount should achieve its guaranteed funding level of \$489.9 million with Vehicle License Fee (VLF) alone, with growth available in FY 2017-18 (Estimated at \$201.4 million) and 2018-19 (estimated at \$209.7 million). This provides funds for a variety of local assistance programs including Citizens' Option for Public Safety and the Juvenile Justice Crime Prevention Act.

Proposition 47. Passed by voters in November 2014, requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits inmates previously sentenced for these reclassified crimes to petition for resentencing. Based on fall projections, the Department of Finance (DOF) currently estimates a net savings of \$64.4 million when comparing FY 2017-18 to FY 2013-14, an increase of \$18.8 million over the estimated FY 2016-17 savings.

SB 678 Funding. The Budget assumes sustained SB 678 funding reflecting counties' ongoing success under the 2009 performance-based Probation funding program. The Budget proposes \$106.4 million to continue the Community Corrections Performance Incentive Grant Program. This is an \$8.59 million decrease from the previous year.

Post Release Community Supervision. The Budget includes \$29 million for county Probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision (PRCS) as a result of the implementation of court-ordered measures and Proposition 57.

AGRICULTURE, ENVIRONMENT AND NATURAL RESOURCES

Water and Parks Bond (SB5): California Drought, Water, Parks, Climate, Coastal Protection and Outdoor Access for All. In 2017, the Legislature was successful in securing the passage of a water and parks bond measure, SB 5. This will place a \$4 billion bond on the June 2018 ballot. If approved by the voters, the measure will provide funding for parks, water and wildlife conservation efforts. The Budget proposes \$1.02 billion for the first year of SB 5 implementation, should the measure be successful. The allocation includes funding for flood management, Sustainable Groundwater Management Act (SGMA) implementation, safe drinking water and parks.

Groundwater Sustainability. The Budget includes \$61.8 million in SB 5 funding for the Department of Water Resources to support SGMA Groundwater Sustainability Agency (GSAs) activities. This funding would provide technical assistance to aid the development of groundwater sustainability plans, supplement existing planning grants for GSAs, and provide grants to directly support groundwater projects.

Flood Management. The Budget proposes to allocate \$95.5 million from SB 5 for flood control projects that achieve public safety and fish and wildlife improvements, as well as funding for a new Floodplain Management Awareness Program.

Safe and Affordable Drinking Water. The Budget proposal allocates \$63 million from SB 5 to the State Water Board to provide grants to public water systems in disadvantaged communities for infrastructure improvements to meet safe and affordable drinking water standards, including both drinking water and wastewater treatment projects. The Proposed Budget also establishes a new special fund at the State Water Board to assist disadvantaged communities in paying for the short and long-term cost of obtaining access to safe and affordable drinking water.

State and Local Parks. The Budget proposal allocates \$472 million in funding from SB 5 for various park programs and projects. This allocation includes \$4 million in grants for deferred maintenance projects to county fairgrounds and \$464 million for improving and increasing access to local neighborhood parks. Of the \$464 million, \$277 million is proposed to create new parks or rehabilitate older parks and \$186 million for per capita grants for the acquisition and development of parks, recreation lands, or facilities in urban and rural areas.

Cap and Trade Funding. In July 2017, the Governor signed legislation to extend the cap and trade program through 2030 by a two-thirds super majority vote. This has provided certainty in the cap and trade program, which has resulted in stabilized auction results and increased revenues. California will have \$1.25 billion in cap and trade funds available for appropriation in FY 2018-19. On January 25, 2018, Governor Brown

released the proposed expenditure plan for these funds. The funded programs include the Transformative Climate Communities Program which received an allocation of \$25 million, healthy forest and local fire response programs which received a total of \$185 million, and the short-lived climate pollution organic waste diversion funding.

HEALTH AND HUMAN SERVICES

IHSS. The Budget proposal contains no changes to the structure of the new county IHSS MOE that was negotiated last year and included in the Budget Trailer Bill SB 90. There were specific provisions in SB 90 to provide revenues for counties to offset the nearly \$600 million that was shifted to counties and incorporated into the new MOE. The increased revenue projections for anticipated 1991 realignment sales tax growth for FY 2017-18 that are included in the Governor's January Budget proposal will help counties better manage the increased cost in FY 2018-19. The increased IHSS costs for the out-years has been the larger concern for counties and will still need to be analyzed in future years.

For FY 2018-19, the Budget proposal includes \$11.2 billion for IHSS, of which \$3.6 billion is from the General Fund. This is a 7.7% increase in General Fund costs over the FY 2017-18 costs. The Budget proposal estimates that the average monthly caseload will increase by 5.4% over the prior year projection to a total of 545,000 recipients in FY 2018-19. To reflect the minimum wage increase for IHSS expenditures, a total of \$260.3 million is included.

IHSS Administration. The Budget proposal provides an increase of \$27.8 million General Fund for county IHSS administration costs in FY 2018-19. The 2017 Budget Act included a provision that required the Department of Finance to work with counties to develop a new methodology for calculating IHSS administration costs. This increase results from that new budgeting methodology and takes into account revised workload and budget assumptions. These assumptions will be examined again in the development of the FY 2020-21 Budget.

CalWORKS. The Budget includes a one-time augmentation of \$187 million for the California Work Opportunity and Responsibility to Kids (CalWORKs) program single allocation, which is what the state provides to counties to administer the CalWorks program. This overall allocation is \$31.8 million lower than in FY 2017-18.

Medi-Cal County Administration. The Proposed Budget provides an increase of \$54.8 million for Medi-Cal county administration. This amount is based on an adjustment that incorporates the increase in the California Consumer Price Index.

Continuum of Care Reform (CCR). The Proposed Budget includes \$238.2 million to continue implementation of the CCR. The funding reflects ongoing support for child and family teams, approval of resource families, and family retention, recruitment and support.

AB 85 County Indigent Health Savings. The Proposed Budget estimates \$530.5 million in county indigent health savings in FY 2018-19, which will be diverted from the county 1991 Health Subaccount under AB 85 to offset state CalWORKs costs. The state also anticipates additional funding in FY 2018-19 from counties as the "true up" of FY 2015-16 costs continues.

HOUSING, LAND USE AND TRANSPORTATION

Transportation Funding. The Proposed Budget paints a significantly better picture for transportation infrastructure than in years past due largely to the passage of SB 1, The Road Repair and Accountability Act of 2017. Over the next decade, SB 1 will provide approximately \$5 billion annually in revenue for local streets and roads, state highways and public transportation through the imposition of new and increased gasoline and diesel taxes and transportation improvement fees.

The Proposed Budget estimates that SB 1 will generate \$2.8 billion in new revenue for transportation infrastructure in FY 2017-18 and \$4.6 billion in FY 2018-19. These revenues are in addition to revenues from the base- and price- based gasoline excise tax increments counties, cities and the state have received in prior years.

SB 1 Revenues and Appropriations. The Proposed Budget includes revised estimates for SB 1 funded programs for FY 2017-18, as well as new estimates for FY 2018-19. Counties can anticipate receiving via direct subventions 50% of the \$451 million slated for local streets and roads in FY 2017-18 and approximately \$1.2 billion in FY 2018-19 from SB 1.

Under SB 1, all outstanding loans from transportation funds are required to be repaid by FY 2019-20. The County of Fresno had an outstanding loan of \$5.6 million for a Proposition 42 MOE commitment, which was paid back to the Roads Division in FY 2017-18.

Base- and Price-Based Gasoline Excise Tax Revenues. Counties will continue to receive their historic share of the base- and price- based gasoline tax revenues in FY 2018-19. The price-base excise tax rate will be adjusted one last time in 2018 to ensure revenue neutrality with what the former sales tax on gasoline would otherwise have generated. Pursuant to SB 1, this rate will be reset at 17.3 cents in July 2019 and subsequently adjusted based on inflation beginning in FY 2020-21.

SB 1 Repeal Effort. The “Give the Voters a Voice” campaign to repeal SB 1 is currently raising money for, and collecting signatures on, an initiative that would require the Legislature to put before the electorate approval of any gas, diesel, or vehicle related tax or fee increase. Since the initiative has a retroactive effective date of January 1, 2017, it would effectively repeal SB 1.

Affordable Housing. The Proposed Budget includes a recap of the ongoing multi-year debate on housing affordability. While the specific timing of SB 2 Building Homes and Jobs Act appropriations remains unclear, the Proposed Budget projects that \$258 million in tax revenues will be generated via SB 2’s recording fee in FY 2018-19. SB 2 funding in FY 2018-19 will be split evenly between grants for local planning activities that promote housing development and statewide grants for homeless services.

GOVERNMENT FINANCE AND ADMINISTRATION

Elections Equipment Funding. Included in the Budget proposal is a commitment of \$134.3 million to fund county elections systems, which are nearing the end of their useful shelf life at the same time that counties are considering implementation of the “SB 450” vote center model elections. The funding will be made available to all counties with a 50% match requirement for hardware, software and initial licensing costs.

Redevelopment Dissolution Continues. The Budget proposal restates the priority of the Brown Administration to continue the winding down of Redevelopment Agencies (RDA), continuing the work that began in 2011. Approximately \$2.6 billion in unrestricted property tax dollars has been returned to counties with an estimate of an additional \$990 million to be to be returned in FY 2018-19.

County Assessors Tax Roll Program Funding. The Budget proposal provides \$5 million annually for the next three years for a new initiative to assist county assessors in the maintenance and equalization of property tax rolls. Details will be forthcoming in proposed statutory framework.

FEDERAL

The Trump Administration released their FY 2019 Budget on February 12, 2018. The Administration’s recommendations are intended to serve as a guide to funding levels for Congress to enact through the annual appropriations process. In addition, the Bipartisan Budget Act of 2018 (BBA) was signed into law

only a few days before the President's budget was released. This increased spending caps by \$143 billion in FY 2018 and \$153 billion in FY 2019. Because of the short timing of the BBA being signed into law, the President's budget does not factor in the increased funding in the majority of the documents.

DEPARTMENT OF FINANCE

Payments in Lieu of Taxes (PILT). The Administration's Budget proposes \$465 million in current funding for PILT. The amount reflects and additional \$68.1 million provided for PILT in the Budget Policy Addendum for FY 2019.

FOOD AND NUTRITION SERVICE

Supplemental Nutrition Assistance Program (SNAP). SNAP funding is recommended at \$73.22 billion, approximately \$5.3 billion below FY 2017 enacted levels to provide low-income individuals and families nutrition assistance. SNAP benefits can be used to purchase food at grocery stores, convenience stores, and some farmers' markets and co-op food programs.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Medicaid Reforms. The Budget recommends repealing and replacing the Patient Protection and Affordable Care Act's (PPACA) Medicaid expansion, as well as any remaining aspects of the healthcare law commonly referred to as Obamacare. The Administration calls for enactment of legislation to shift to a block-grant or per-capita funding system for Medicaid funding to states. The Budget estimates savings from this and other Medicaid reforms to be approximately \$1.4 trillion over 10 years.

Social Services Block Grant (SSBG). Funding would be eliminated for the SSBG, which provides support for a broad array of social services for vulnerable children and adults, but which the Administration asserts is duplicative of other federal programs. The Budget estimates a savings of \$1.7 billion in FY 2018 and \$17 billion over 10 years.

Temporary Assistance for Needy Families (TANF). Approximately \$15.1 billion, a \$1.7 billion reduction from the FY 2017 enacted level, reflecting the President's proposal to eliminate the TANF Contingency Fund and reduce the TANF block grant by 10%. The reduction in block grant funding aligns with the Budget proposal to eliminate the SSBG, as States have been able to transfer up to 10% of TANF funds to SSBG.

Children's Health Insurance Program (CHIP). The Budget further extends CHIP. While Congress voted to reauthorize the program for six years as part of the latest Continuing Resolution, the Administration's Budget tacks on an additional four years, providing a total of 10 years of funding certainty for the program.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grant Program. The Budget proposes to terminate the Community Development Block Grant (CDBG) Program, which provides funding to ensure decent affordable housing, provide services to the most vulnerable in our communities, and create jobs through the expansion and retention of businesses.

HOME Investment Partnerships Program. The Budget proposes to terminate the HOME Program, which provides formula grants to states and localities to fund a wide range of activities including building, buying, and/or rehabilitation of affordable housing for rent or homeownership or providing direct rental assistance to low-income people.

DEPARTMENT OF JUSTICE

Office of Justice Programs (OJP). The Budget requests \$1.132 billion in discretionary funding for Office of Justice Programs (OJP) State and Local Law Enforcement Assistance. Within that allocation are the following programs:

Byrne Justice Assistance Grants (JAG). \$402 million, \$1 million less than FY 2017 enacted levels, to support law enforcement, prosecution and courts, crime prevention, corrections, drug treatment and other important initiatives. Within the JAG program funding, approximately \$71 million is reserved for funding several grant programs including, but not limited to, the Body-Worn Camera (\$22.5 million) and Bullet Proof Vest Partnership (\$22.5 million) programs, which provide for competitive grants for purchases of body-worn cameras and armor vests.

State Criminal Alien Assistance Program (SCAAP). As part of its program reduction and consolidation efforts, the Administration's FY 2019 Budget cuts all funding for SCAAP, which provides federal payments to state and local governments to reimburse correctional officer salary costs incurred for incarcerating undocumented criminal aliens.

DEPARTMENT OF TRANSPORTATION

Trump Infrastructure Proposal. The primary spending component of the President's plan consists of utilizing \$200 billion in direct federal spending and investments over 10 years in order to stimulate \$1.5 trillion in overall spending through partnerships at the state, local and private level.

TIGER Grants. Funding would be eliminated for the National Infrastructure Investment program, commonly referred to as TIGER grants, which received \$500 million in both FY 2016 and FY 2017.

IV. BUDGET DEVELOPMENT SCHEDULE

The Budget development schedule will remain the same as in FY 2017-18. The plan is to have a FY 2018-19 Recommended Budget to your Board by June 12, 2018. To accurately complete estimates for the General Fund, the tax roll is needed to verify Property Tax and Property Tax In-Lieu of VLF revenue estimates, which comprise almost 75% of countywide revenues. After these are received and analyzed, adjustments to the Recommended Budget will be brought to your Board for adoption.

The proposed timeline allows for an accurate estimate of year-end fund balance and an informed evaluation of how the State of California's Budget will affect the County of Fresno. It is anticipated that most of the information will be available in time to produce the proposed changes by the end of August. Budget hearings to adopt these changes are recommended to commence September 17, 2018, which allows enough time to address potential year-end issues.

ATTACHMENTS INCLUDED AND/OR ON FILE:

Exhibit A - Mid-Year Revenues
Exhibit B - Mid-Year Expenditures

CAO ANALYST:

Debbie Paolinelli