Board Agenda Item 8

DATE:	March 7, 2017
TO:	Board of Supervisors
SUBMITTED BY:	Jean M. Rousseau, County Administrative Officer
SUBJECT:	FY 2016-17 Mid-Year Budget Report

RECOMMENDED ACTION(S):

1. **Receive Mid-Year Budget Report for Fiscal Year 2016-17; and,**

2. **Approve proposed schedule for the recommended and adoption of the Fiscal Year 2017-18 budget, which incorporates a recommended budget by June 20, 2017 with proposed adjustments to this recommended budget to be presented beginning September 18, 2017.**

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 June 21, 2016, for the County of Fresno. It also provides an opportunity to evaluate the fiscal outlook of the economy, 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 2017-18.

I. MID-YEAR FINANCIAL CONDITION OF THE GENERAL FUND BUDGET FOR FY 2016-17

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 as well as fund a $2 Million increase to the County's reserves. This positive financial position is due to the conservative approach used in developing discretionary revenue estimates and strong departmental fiscal oversight. Net County Cost savings is not expected to be as high as in previous years due to fiscal actions taken during the FY 2016-17 such as increases in County contributions to health insurance and mid-level manager equity increases.

As of December 31, 2016, overall General Fund revenues are 34% collected which is 1% higher when compared to the prior year. The majority of General Fund revenues are collected in the second half of the year, with a large portion actually 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, Department of Public Health and the Department of Behavioral Health, revenues are approximately $11 Million higher at December 31, 2016 than last year.

Expenditures are approximately 43% of budget as of December 31, 2016 which is slightly lower 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

FY	Recognized	Uncollected	Total	% of Budget
2015-16	$ 478,805,703	$ 964,984,524	$ 1,443,790,227	33%
2016-17	$ 494,246,024	$ 951,885,726	$ 1,446,131,750	34%

Obligated vs. Unobligated Expenses

FY	Recognized	Unobligated	Total	% of Budget
2015-16	$ 640,649,794	$ 826,177,917	$ 1,466,827,711	44%
2016-17	$ 637,208,095	$ 833,114,932	$ 1,470,323,027	43%

Please refer to Exhibit A reflecting a detailed report of YTD Actual Revenues Recognized to Current Adjusted Budget revenues as of December 31, 2016 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, 2016, for each department in the General Fund.

As we continue to put our fiscal house in order, I want to take this opportunity to thank Department Heads for being team players, providing services with less staff and being excellent fiscal stewards of public monies.

II. PRELIMINARY PROJECTIONS FOR FY 2017-18

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 or 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, the local housing and commercial markets continue to experience slow but steady growth. This is expected to continue through the end of 2018. The assessment roll applicable to next year's budget, lien value date of January 1, 2017, is going to apply the 1.02% Consumer Price Index (CPI) to eligible property not in the Proposition 8 program. This year's CPI is a slight improvement over last year's 1.01525% level.

On another note, local sales taxes, which comprise approximately 9% of the County's discretionary revenue, are projected to remain the same as the current fiscal year.

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

Structural or ongoing operating expenditures will be greater than in the current fiscal year due to the projected increases in health insurance contributions, salary and equity adjustments, retirement rate increases, ongoing Quentin Hall Settlement, and annual step and merit increases.

III. SIGNIFICANT STATE AND FEDERAL BUDGET IMPACTS

On January 10, 2017, Governor Brown released the FY 2017-18 Proposed State Budget. In this budget the Department of Finance (DOF) reported revenues below forecast from the adopted FY 2016-17 budget with shortfalls in the States major tax revenues indicating an economic slowdown. Although overall, state revenues are still expected to grow, it will not be adequate to cover established spending levels.

Many of the questions surrounding possible changes under the federal leadership including those related to the repeal of the Affordable Care Act (ACA) will not be addressed by the DOF until greater certainty and next steps are known but these could be reflected in the Governor's May Revision.

ADMINISTRATION OF JUSTICE

2011 Realignment. The budget updates revenue assumptions for 2011 Realignment programs. For the Community Corrections Subaccount (AB109) the FY 2017-18 statewide base is estimated to increase to $1,220.7 billion from $1,161.6 billion in the current year and growth funds are estimated at $75.4 million for FY2017-18. The estimates will be revisited and revised in the May revision.

CCP Training Grants. The budget continues with another round of planning grants totaling $7.9 million for Community Corrections Partnerships (CCPs) to support work associated with ongoing AB 109 implementation efforts. The planning grants are disbursed in fixed amounts, depending on the county's size. As in past years, it is expected that receipt of the grants will be conditioned upon reporting to the Board of State and Community Corrections regarding AB 109 implementation plans.

SB 678 Funding. The budget assumes sustained SB 678 funding, reflecting counties' ongoing success under the 2009 performance-based probation funding program. Based on the revised formula, the Budget proposes $114.99 million to continue the Community Corrections Performance Incentive Grant Program.

Post Release Community Supervision. The budget includes $11 million for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the implementation of court-ordered measures and Proposition 57.

Proposition 47. Proposition 47 was passed by the voters in November 2014, which requires misdemeanor rather than felony sentencing for certain property and drug crimes and permitted inmates previously sentenced for these reclassified crimes to petition for resentencing. Based on fall projections, Proposition 47 is expected to reduce the FY 2016-17 adult inmate average daily population by 4,425, compared to 5,247 in FY 2015-16. The DOF currently estimates net savings of $42.9 million, an increase of $3.5 million over the estimated savings in FY 2015-16. Ongoing savings are currently estimated to be approximately $69 million.

AGRICULTURE, ENVIRONMENT AND NATURAL RESOURCES

Cap and Trade Funding. The Governor emphasized that the cap and trade program is an important element in the state’s climate change strategy. The Governor's FY 2017-18 budget proposes to appropriate $2.155 billion in cap and trade revenues. Programmatic details will be available in the coming months. However, this cap and trade expenditure plan will only be allocated upon a two-thirds vote of the legislature to authorize the program beyond 2020. Pending litigation challenging the program’s authorization under a majority vote bill (AB 32) has precipitated this call for a super majority vote.

The Governor’s cap and trade plan includes a total of $127.5 million for the category of carbon sequestration, which includes programs like Healthy Forests and Urban Forestry at Cal Fire as well as Climate Smart Agriculture - Healthy Soils and Urban Greening. Details are not yet available, but it is possible that some of this funding could be used to support tree mortality work.

Emergency Drought Response. Despite improved drought conditions with recent winter storms across the state, the proposed budget includes $178.7 million in emergency drought funding for a variety of different program areas, including local assistance for small water systems, tree mortality and enhanced fire protection and funding to implement the Governor’s Executive Order on water conservation, among other things.

The drought and subsequent bark beetle infestation of our forests has resulted in an estimated 102 million dead and dying trees through the Sierra. The Governor issued an Executive Order in October 2015 directing state and local entities as well as utilities to remove dead and dying trees that threaten critical infrastructure and pose a health and safety risk. To assist with the effort and the increased fire risk posed by the state of our forests, the Governor’s proposed budget includes $88 million in general fund and $3 million in State Responsibility Area (SRA) funds for expanded fire protection in 2017. Specific to local governments, the budget includes $52.7 million in general fund monies to the Office of Emergency Services to provide assistance to counties through the California Disaster Assistance Act (CDAA). These funds will be available to aid local agencies in the removal of dead or dying trees that are a direct threat to public safety.

Implementing California’s Water Action Plan. The state’s Water Action Plan, released in January 2014, provides a blueprint for water investments and policy priorities to build a more sustainable and resilient water system for the state. The budget prioritizes the top ten actions identified in the Water Action Plan and includes policy direction and budget adjustments to reflect these priorities.

With respect to water conservation, the budget highlights the Governor’s Executive Order on water conservation, Making Water Conservation a Way of Life, and states that implementation will require new legislation and regulatory processes.

With respect to groundwater, the proposed budget includes an increase of $15 million in general fund to the Department of Water Resources for additional staff to provide statewide technical assistance to help implement the Sustainable Groundwater Management Act (SGMA), a priority identified in the Water Action Plan. In addition, the budget includes $2.3 million to the State Water Board for new positions to help enforce reporting requirements in high and medium priority basins that fail to form local governance structures as required by SGMA.

HEALTH AND HUMAN SERVICES

Governor Dismantles the County IHSS MOE and Returns Collective Bargaining to Counties
The most important aspect of the Governor's Proposed Budget is that the Director of Finance will discontinue the Coordinated Care Initiative (CCI) and dismantle the In-Home Supportive Services (IHSS) Maintenance of Effort (MOE) deal in the FY 2017-18 budget. Following current statute, the Finance Director has the authority to do so without legislative action. The county IHSS MOE for all counties will expire on June 30 of this year, health plans will lose their enhanced capitation rates for IHSS benefits, and the CCI would end on December 1, 2018.

Cost: According to estimates developed by the County Welfare Directors Association, the demise of the county MOE for all 58 counties will result in $625 million in increased county costs for the IHSS program in FY 2017-18 if statutory sharing ratios for the nonfederal share of the current program costs are used: 65 percent state and 35 percent county. This estimate is based on normal program growth costs and includes new costs recently enacted by the state - the minimum wage increase up to $15 per hour and three paid sick leave days for IHSS workers - and the new federal overtime regulations. The IHSS MOE deal had limited county IHSS costs to a base year calculation of FY 2011-12 costs plus an annual 3.5 percent inflator.

For Fresno County this cost is estimated to be an additional $25.3 million for FY 2017-18. Of this amount $24.1 million is payments to providers in which the County has no control. This cost will increase each year as minimum wage increases. Much of this increase is due to caseload growth associated with an aging population and cost increases due to State mandated legislation. Also of note is that there is a cap on what the State will participate in as their share of costs. Currently this cap is $12.10/hour for salary and benefits with no proposal to increase this amount. The current salary and benefit rate for IHSS providers is $11.10/hour. As minimum wage increases to $15/hour by January 1, 2023 plus related benefits, the salary and benefit rate will increase and the County would be responsible for the entire amount over the $12.10/hour cap with no state participation.

Health Care Reform - ACA
Governor Brown has steadfastly maintained that the state will operate under the current ACA statutes and continue to budget accordingly despite the potential for Congress to repeal the Act. He has included language in the budget indicating his willingness to build on what has worked and "play a constructive role" on the issue, but only "within the fiscal constraints facing the state."

MEDI-CAL
Overall
Medi-Cal caseload continues to increase from 7.9 million beneficiaries in FY 2012-13 to an estimated 14.3 million beneficiaries in FY 2017-18 for total costs of $20 billion. The state will also assume a 5 percent share of cost for the nearly 4 million ACA Medi-Cal Expansion cases in 2017, contributing $888 million State General Fund in FY 2017-18 for this population alone.

County Medi-Cal Administration Costs
As part of a budget deal in 2016, the FY 2017-18 budget maintains the state's commitment to fund county Medi-Cal administration activities with $217.1 million State General Fund ($655.3 all funds). The budget also includes $731,000 ($1.5 million all funds) for the development of a new Medi-Cal Administration budgeting methodology.

MCO Revenues for Medi-Cal
The Managed Care Organization tax passed in 2016 and provides $1.1 billion for Medi-Cal in the current year and is estimated to provide $1.6 billion in FY 2017-18. This funding is used for the nonfederal portion of managed care rates for services provided to children, adults, seniors, persons with disabilities, and those who are dually eligible for both Medicare and Medicaid. CSAC supported the MCO Fix to assist the state with Medi-Cal and Coordinated Care Initiative costs.

Medi-Cal Error
The State is using $1.8 billion in FY 2017-18 to repay federal drug rebates and correct a calculation error made in the reimbursement rates for the Coordinated Care Initiative.

Children's Health Insurance Program
Due to the uncertainty in the future of the Children's Health Insurance Program (CHIP) at the federal level - it needs to be reauthorized by Congress by September of this year - the Governor's budget takes a cautious approach and assumes it will be reauthorized, but with a lower federal matching rate (65 percent instead of the enhanced 88 percent) for a total State General Fund cost of $536.1 million in FY 2017-18.

Medi-Cal Benefits for Undocumented Children and Adults
The Governor's budget proposal maintains state funding for the recent expansion of Medi-Cal benefits to undocumented children (SB 75, Chapter 18, Statutes of 2015) for $279.5 million in FY 2017-18. It also books $48 million in Medi-Cal savings from the new policy to allow undocumented persons to purchase private insurance from Covered California (SBX1 1m Chapter 4, Statutes of 2016, First Extraordinary Session).

PUBLIC HEALTH
AB 85 Health Realignment Redirections
The Governor's budget estimates $585.9 million in county 1991 Realignment Health Subaccount savings for the current year, and $546.2 in FY 2017-18, if the ACA is still in place. Additionally, the state will complete the "True Up" for the FY 2014-15 fiscal year, which preliminarily indicates additional county savings of $245.6 million in that fiscal year.

<u>GOVERNMENT FINANCE AND ADMINISTRATION</u>

EMPLOYEE RELATIONS AND ADMINISTRATIVE SERVICES

In-Home Supportive Services. The Governor, citing a lack of cost-effectiveness of the Coordinate Care Initiative (CCI), proposes ceasing the CCI program in FY 2017-18. The CCI, created in 2012, permits Californians eligible for Medicare and Medi-Cal to receive certain benefits and services that are coordinated through a single health plan. A fundamental aspect of the CCI is a transfer of IHSS bargaining responsibilities from counties to the State. Ending the CCI would include the elimination of the IHSS Statewide Authority and reinstate the state-county share of costs that were in place prior to the establishment of the CCI.

Sales and Use Tax Revenue Projections. Sales and Use Tax, the state's second largest revenue source, is the primary source of funding for realignment, Proposition 172 funds for public safety, transportation, and other local programs. Wholesale trade, motor vehicle and parts dealer sales, and food service sales are significant contributors to the sales tax base. The Governor's budget estimates that the sales tax will generate $25 billion in General fund revenues in FY 2016-17 and $25.2 billion in FY 2017-18. However, these figures fall $1.7 billion short from 2016 Budget Act projections. The downgrade in the revenue forecast reflects slower growth in consumer spending and business investment as well as the sunset of the 0.25-cent Proposition 30 sales tax increase.

IV. BUDGET DEVELOPMENT SCHEDULE

The budget development schedule will be different from prior years. This year, we plan to have a recommended budget to your Board by June 20, 2017. To complete our estimates for the General Fund, we need the tax roll to verify property tax and Motor Vehicle In-Lieu (MVIL) revenue estimates which comprise almost 75% of countywide revenues. After we receive and analyze these revenues, we will bring adjustments to the recommended budget for you to adopt.

The new proposed time schedule allows for a more accurate estimate of year-end fund balance and a more informed evaluation of how the State of California's Budget will affect our county. We anticipate having much of the information available in time to produce the proposed changes by the end of August. Budget hearings to adopt these changes are recommended to commence September 18, 2017, 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