Board Agenda Item 11

DATE: April 9, 2019

TO: Board of Supervisors

SUBMITTED BY: Jean M. Rousseau, County Administrative Officer

SUBJECT: FY 2018-19 Mid-Year Budget Report

RECOMMENDED ACTION(S):

1. **Receive Mid-Year Budget Report for Fiscal Year 2018-19; and**

2. **Approve proposed schedule for the Recommended Budget and adoption of the Fiscal Year 2019-20 Budget, which incorporates a Recommended Budget by June 18, 2019 with proposed adjustments to this Recommended Budget to be presented beginning September 16, 2019.**

ALTERNATIVE ACTION(S):

There are no viable alternative actions.

FISCAL IMPACT:

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

DISCUSSION:

INTRODUCTION

The Mid-Year Budget Report for FY 2018-19 is an opportunity to review the financial condition of the Operating Budget approved by the Board of Supervisors on September 17, 2018, for the County of Fresno. It also provides an opportunity to evaluate the fiscal outlook, allowing adequate preparation for the following FY 2019-20 budget.

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 the upcoming State budget impacts to the County. Part IV discusses the Proposed Budget development schedule for FY 2019-20.

I. MID-YEAR FINANCIAL CONDITION OF THE GENERAL FUND BUDGET FOR FY 2018-19

As a part of this overall review, county 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 the State's Proposed FY 2019-20 Budget and legislation for their relevance to next year's budgetary cycle.

Based on this mid-year review process, the CAO projects the General Fund Budget 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 of December 31, 2018, overall General Fund Revenues are 38% collected, which is the same as the prior year. The majority of the General Fund revenues are collected in the second half of the year, with a large portion coming in the last quarter.

Expenditures are approximately 40% of budget as of December 31, 2018, which is 5% lower when compared to the prior year. This can be attributed to the new process of recording expenditures on an accrual basis in the financial system. Prior year expenditures that were paid in the current year were accrued in the prior year and reversed in the current year. In the past, these expenditures would have been recorded in the financial system on a cash basis inflating the first quarter expenditures resulting in lower fourth quarter expenditures.

All General Fund departments indicate they will finish the year at or below their allocated Net County Cost. Countywide (discretionary) revenues are forecast to exceed their budgetary estimates.

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
2017-18	$592,219,453	$ 973,812,571	$1,566,032,024	38%
2018-19	$621,842,182	$1,018,428,215	$1,640,270,397	38%

Obligated vs. Unobligated Expenses

FY	Recognized	Unobligated	Total	% of Budget
2017-18	$732,296,948	$ 899,474,711	$1,631,771,659	45%
2018-19	$673,290,503	$1,004,182,670	$1,677,473,173	40%

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, 2018 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, 2018 for each department in the General Fund.

The CAO would like recognize 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 determining the condition of the General Fund Budget for next fiscal year, projected growth and/or decline in the sum of carryover fund balance and countywide revenues needs to be determined. The two combined comprise what we refer to as Net County Cost. Net County Cost includes ongoing operating costs and one-time costs.

As indicated earlier in this report, the carryover fund balance is expected to exceed the current structural fund balance level of $8.9 million. Structural fund balance is the amount of annual budgetary savings necessary to start the following fiscal year in the black. The current FY 2018-19 Budget includes a $10 million in Budget Stabilization Reserve that projects to be intact at fiscal year-end. Department budgetary savings are projected to be in excess of $5 million and countywide revenues are forecast to exceed their respective budgetary estimates by approximately $6 million. The County will have some level of one-time monies available for allocation to reserves, debt, and necessary capital projects.

With respect to next year's countywide revenue forecast, everything depends on the County's assessment roll the Assessor will provide to the CAO in late June. Assessed value growth is the most important factor in determining the County's ability to grow its structural/ongoing budget. In FY 2018-19, 77% of total budgeted countywide revenues are tied directly to assessed value growth. In the last three years, 91% of budgeted countywide revenue growth is tied to this metric. The FY 2018-19 budget utilizes approximately 2% of last year's assessed value growth and the remaining 3.2% is available for next year. The upcoming roll will once again apply the Proposition 13 limit of 2% to properties not in Proposition 8.

Structural or ongoing operating expenditures will once again be greater than the current fiscal year mainly due to the growth in salaries and benefits from negotiated and soon to be negotiated labor contracts, annual operating increases and staff increases for the Public Defender's department. The growth in operating costs includes significant increases in Workers Compensation and Liability Insurance charges. Also of concern is the potential impact of the State's restructuring of the In-Home Supportive Services (IHSS) program. The overall increase in ongoing Net County Cost is expected to exceed growth in countywide revenues in FY 2019-20.

Finally, there are some concerns over the County's contribution increase to the Fresno County Employees Retirement Association (FCERA). FCERA's actuarial projections indicate an $18 million increase in employer contributions in FY 2020-21. Although part of this increase will be charged back through subvented departments, the additional cost to the General Fund is expected to be substantial. It is important that planning for this additional cost be considered in the upcoming budget process and in any labor negotiations in the next few years to ensure the County remains in a positive financial position.

III. STATE BUDGET IMPACTS

<u>CALIFORNIA's PROPOSED BUDGET</u>

On January 10, 2019, Governor Newsom released the FY 2019-20 Proposed State Budget. This proposal included aspects of prior budgets such as a contribution to the rainy day fund and pension systems but also outlined several new proposals. Included was additional funding for IHSS, housing and homeless issues, and disaster response, recovery, and prevention.

Governor Newsom estimated that the State will have a surplus of approximately $24.1 billion going into FY 2019-20. The budget proposal included an allocation of over 86% of those funds to one-time spending, including a pay down of budgetary debts and ending long-time deferrals, $4.8 billion to build reserves, and another $4.8 billion to address pension and other post-employment benefit liabilities. The Rainy Day Fund is proposed to total $19.4 billion by FY 2022-23 and the Safety Net Reserve, created by last year's budget, would rise to $900 million.

The proposed budget relies on continued growth in the economy with State General Fund (SGF) revenues expected to be $137 billion in FY 2018-19 and $143 billion in FY 2019-20. This is due largely to an improved outlook for personal income tax, fueled by strong wage withholding and capital gains. However, this positive outlook could easily be reversed given the volatility of personal income tax (PIT), which is the State's largest revenue source. Specific risk factors include a sharp fall in the stock market, the effects of a continued trade war policy, impact of Federal tax law changes, an aging population, and a lack of housing.

EMERGENCY PREPAREDNESS AND RESPONSE

Forest Management, Resiliency & Fire Response. SB 901 Wildfire Prevention & Recovery Legislation & Fire Prevention. The proposed budget includes $213 million pursuant to SB 901. These funds will be used for fuels reduction, prescribed burns, illegal fireworks disposal, and to streamline regulatory barriers for fuels reduction projects. This is the first investment out of a total of $1 billion over the next five years for fire prevention and forest management activities.

HOMELESSNESS

Regional Homelessness Coordination. An additional $500 million in one-time funding for siting emergency shelters, navigation centers, and supportive housing. To apply, entities must have established joint regional plans to address homelessness that include cities and counties, and report all funding used for homelessness services. The proposal directs $200 million of the funding to local Continuums of Care, $100 million to the State's 13 largest cities, and the remaining $200 million for "meeting milestones" grants to local jurisdictions that show progress toward developing housing and shelters. The County is coordinating with the local Continuum of Care on a plan to best utilize these additional monies.

ADMINISTRATION OF JUSTICE

2011 Realignment. Revenue assumptions have been updated. For the Community Corrections Subaccount (AB 109) the FY 2018-19 statewide base remains at $1.311 billion, with growth funding estimated at $102.3 million. This is a $30 million increase in growth funding from FY 2017-18. These estimates will be revisited and revised in the May Revision then finalized in the fall.

Incompetent to Stand Trial (IST). The Department of State Hospitals (DSH) continues to experience a significant number of IST commitments - the number of ISTs pending placement into state hospitals was more than 800 individuals in December 2018. The budget proposal includes funding to expand DSH beds, but also includes $12.3 million to allow DSH to contract up to 74 additional jail-based competence restoration treatment beds through county jail treatment programs. This could have a positive effect on the District Attorney's Office by freeing up Deputy District Attorney time responding to questions from the defense and could increase the attorney workload in the Public Defender's Department who represent DSH clients. Also, as the State continues to divert IST referrals from State hospitals to other facilities the total number of available beds will be impacted. The Department of Behavioral Health currently contracts with three providers. Misdemeanor offenders are referred to a Psychiatric Health Facility for competency restorations. Individuals found un-restorable may be referred to one of the current providers. IST client placement with these providers will displace Lanterman-Petris-Short conserved clients. Displaced conserved clients may require placement with out of county providers or additional providers may be needed.

Law Enforcement Training. The proposed budget includes $14.9 million in SGF to restore Peace Officer Standards and Training (POST) to its historical budget level prior to the decline in fine and fee revenue. The Sheriff-Coroner-Public Administrator currently receives approximately $151,360 in POST overtime funding which will also restore POST reimbursement for District Attorney Investigator training. The proposed budget also includes $20 million in SGF to make a permanent one-time augmentation in the 2018 Budget Act for training on use of force and de-escalation and engaging with individuals experiencing a mental health crisis.

SB 678 Funding. The proposed budget assumes sustained funding for SB 678, reflecting counties' ongoing success under the 2009 performance-based probation funding program. The proposal would allocate $116.4 million based on the revised formula established in FY 2015-16.

Human Trafficking Programs. The budget proposed $10 million ongoing SGF for the Office of Emergency Services (OES) to continue funding for the Human Trafficking Victim Assistance Program. Grant recipients provide comprehensive safety and supportive services, including a 24-hour crisis hotline, emergency shelter, temporary housing, emergency food and clothing, counseling, transportation, legal assistance, and referrals to existing local resources. OES, through a competitive grant process, currently funds 21 projects with $10 million to assist trafficking victims in recovering from the trauma experience. The Probation Department has applied for $187,500 of this funding.

AGRICULTURE, ENVIRONMENT, AND NATURAL RESOURCES

Safe and Affordable Drinking Water Fund. The proposed budget revives the concept of a Safe and Affordable Drinking Water Fund. The proposal, which died in the Legislature last year, would create new charges on drinking water customers and certain agricultural entities to generate revenue to implement a new financial assistance program to address unsafe drinking water systems, with a focus on disadvantaged communities. It would address a funding gap for operations and maintenance cost of drinking water systems, in addition to providing support for other measures that will help improve drinking water conditions.

Cap & Trade Expenditure Plan. The proposed budget expends $1 billion from the Greenhouse Gas Reduction Fund for FY 2019-20. This is roughly $400 million less than last year's budget. Despite the decrease in the proposed allocation, funding levels largely remain the same for key programs including the purchase of zero-emission vehicles, trucks, and freight equipment, AB 617 Community Air Protection Programs, Transformative Climate Communities Program and CalRecycle Waste Diversion Programs. Also included in this plan is $200 million for forest thinning and forest health projects to reduce dead, dying, and overgrown vegetation. Some of these funds will be available for local tree mortality projects.

GOVERNMENT FINANCE AND ADMINISTRATION

Economic Development Tools. The Governor's budget proposal contemplates augmenting the Federal Opportunity Zones programs with additional State incentives, including deferred and reduced State-level taxes on capital gains for investments in green technology or affordable housing in Opportunity Zones.

2020 U.S. Census. An additional $50 million for statewide outreach efforts related to ensuring an accurate and complete count in the upcoming decennial census is included. This builds on $90.3 million provided in the 2018 Budget Act. The County of Fresno is receiving $1,088,443 of this funding.

HEALTH AND HUMAM SERVICES

Human Services

In-Home Supportive Services (IHSS). The proposed budget includes $12.7 billion for IHSS, of which $4.3 billion is from the SGF. This is a 15.2% increase in SGF costs over the FY 2018-19 Budget. Most importantly, the budget also includes revisions to the county IHSS Maintenance of Effort (MOE) that was established in 2017. The end result of these revisions is estimated to increase the SGF contribution by $241.7 million in FY 2019-20 and growing to $547.3 million in FY 2022-23. The Department of Finance estimates that there would not be a Realignment shortfall until FY 2021-22 which would be a minor shortfall of $9.5 million. The specific revisions that are being proposed are as follows:

- Rebase the IHSS MOE downward starting in FY 2019-20 to $1.56 billion.
- Apply a 4% inflation factor to the MOE beginning in FY 2020-21, reduced from the 7% inflation factor in FY 2019-20.
- The rebased IHSS MOE in FY 2019-20 will be for IHSS Services, with a SGF Allocation provided for IHSS administrative cost.
- Stop the redirection of 1991 Realignment Vehicle License Fee (VLF) Growth from the Health and Mental Health subaccounts to the Social Services subaccounts beginning in FY 2019-20.

- Eliminate accelerated caseload growth for IHSS and return to the original method for calculating IHSS caseload.

There is also a significant change proposed to the collective bargaining for IHSS wages and benefits. Once state-wide minimum wage reaches $15 per hour on January 1, 2022, the Governor's budget proposal specifies that the State sharing in the cost of locally negotiated increase would be reduced to 35% of the non-federal share of cost and the county share increased to 65% of the non-federal share of cost. Currently, the State participates in 65% of the non-federal share of cost up to the State participation cap. Additionally, IHSS providers currently receive 8 hours of paid sick leave per year effective July 1, 2018. This amount will increase to 16 hours effective July 1, 2020.

Overall, the statewide total MOE will be rebased to $1.56 billion. At this time there has not been a determination on how this will be allocated to the counties. If the current methodology is used and Fresno County's share is approximately 3% of the MOE, the estimated MOE amount would be $46,800,000. This is approximately $3.5 million more than what was previously estimated.

IHSS Administration. With the elimination of the MOE for IHSS administration and Public Authority Administration, Fresno County administrative costs will be funded with Federal and State dollars up to the amount of the SGF allocation for each county and the remaining will be funded with Federal and County dollars. The SGF allocation for Fresno County is not known at this time, though the Governor's proposed budget includes an ongoing $15.4 million increase bringing the State contribution to $328.8 million. Included in the County's FY 2018-19 Adopted Budget is additional Net County Cost to cover the overspending of the State allocation as it is not sufficient to cover the required staffing for the program. The State is projecting a statewide increase of 4.5% in caseload for FY 2019-20. During the last fiscal year, the caseload in Fresno County has increased by 11%. As caseloads continue to increase, so does the need for permanent staffing and overtime hours in the program, thus increasing cost to the County.

Additionally, the proposed budget also includes $2.6 million in SGF to counties to fund the new workload associated with the implementation of Electronic Visit Verification (EVV) by January 1, 2020. EVV will collect information in an electronic format (on-line or telephone) from both providers and consumers regarding the service hours and types of services provided. County social workers will be required to train providers and consumers on the new technology to verify hours and services in the home.

Continuum of Care Reform (CCR). The budget proposes significant changes in the Child Welfare Program that are intended to reduce the use of group homes, increase the availability of trauma informed services and improve outcomes for foster youth. The January budget proposal includes $416.9 million to continue implementation of the CCR. Adjusted funding has been included to reflect the slower movement of foster youth from group homes to other placement types (i.e. intensive services, short-term residential treatment programs, and other family-based care). Statewide, Foster Care cases remain flat and Aid to Adoptions cases continue to grow, which is a trend also experienced in Fresno County. Behavioral Health's caseload will continue to grow, requiring additional staff. Fifty percent of the Federal Financial Participation match is funded by the County.

Child Support Programs. The proposed budget includes an increase of $56 million for local child support agencies. The additional funding is proposed to be allocated to 21 counties that have relatively lower funding levels. It is estimated that Fresno County will receive $17 million over the next three years. The State's plan is to portion the money out over three years with 1/3 in year one, 2/3 in year two, and the full $17 million in year three as ongoing revenues.

CalWORKs Single Allocation. This is budgeted at an overall decrease of $67 million statewide and an estimated $2.6 million decrease for Fresno County. This is a result of projected caseload declines. The last time funding was at this level was FY 2006-07.

CalWORKs Single Allocation includes the components of CalWORKs Eligibility, Employment Services, Cal-Learn, and Stage 1 Child Care. Fresno County absorbed a reduction of $7.5 million in FY 2017-18, and further funding decreases will result in a reduction in contracted services, staffing, and supportive services including child care, transportation, and ancillary.

Other CalWORKs programs funded in past budgets are funded at the same level as FY 2018-19 which are Expanded Subsidized Employment, Housing Support Program, Family Stabilization, and Mental Health/Substance Abuse.

CalWorks Assistance Payments. The FY 2018-19 State Budget included a grant increase of 10% to CalWORKs households. The Governor's proposed budget will increase grants an additional 13.1% effective October 1, 2019. In Fresno County, the current average grant per household is $558 per month and will increase to $695 in October 2019. The County's share of the increase associated with the grant increase for FY 2019-20 is $175,211.

CalFresh. The proposed budget includes a $38 million decrease statewide due to caseload decline. This is estimated at $1.38 million decrease in Fresno County, bringing total allocation down to $19.7 million. An additional $1.98 million in federal drawdown will also not be recognized for a total decrease in funding of approximately $3.6 million or 6.3%. The decrease in funding due to caseload decline will offset the increase in funding associated with the Social Security Income (SSI) cash-out, which will begin on June 1, 2019. Effective in June 2019, individuals receiving SSI and/or California State Supplementary Payment (SSP) benefits will be eligible for CalFresh, provided all other eligibility criteria are met.

Medi-Cal. The proposed budget includes an additional statewide increase of $53 million. Fresno County currently receives total Medi-Cal funding in the amount of $72.8 million. The estimated increase for Fresno County is $1.7 million.

CalSAWS. The proposed budget includes $148.2 million in funding for FY 2019-20 for the design, development, and implementation of a single statewide automated welfare system. California currently has three separate systems used at the local level to determine cash, food, and medical assistance eligibility. A Federal funding provision requires California to have one single system by 2023. Fresno County is currently participating in meetings to discuss transition from the existing system, CalWIN, to CalSAWS.

<u>Health</u>

Health Care Expansion for Middle Class and Undocumented Young Adults. The Governor reiterated his plan to increase health care coverage for middle class individuals though Covered California and expand Medi-Cal coverage to about 138,000 undocumented young adults aged 19 to 25.

The first part of the plan is to enact a state-only health care coverage mandate, similar to the one that was included in in the Affordable Care Act (ACA), but was recently struck down in court. This mandate would include penalties for noncompliance. This revenue would offset the "Expanded Covered California Subsidies" as an incentive to have people obtain health insurance. This would reduce the number of Fresno County medically indigent individuals that currently receive services from the Department of Behavioral Health.

Medi-Cal Eligibility Expansion to Undocumented Individuals (Age 19-25). As part of the proposal, the Governor wants to redirect AB 85 amounts for the County Medical Services Program Board and increase the 60/40 redirection ratio to 75/25. This would likely result in a reduction of indigent healthcare cost as part of the Non-Resident Specialty Care Program. Fresno County has $350,000 budgeted for indigent health care.

Behavioral Health

No Place Like Home (NPLH). The Governor wants to expedite the allocation of NPLH grant allocations to counties to build permanent supportive housing for those who are homeless or at risk of homelessness, and those who are living with a severe mental illness. It is unclear how these funds would be expedited. The Department of Behavioral Health is in the process of applying for up to $2,183,000 of Non-Competitive NPLH funds to be combined with up to $6,168,706 in Mental Health Services Act (MHSA)-Special Needs Housing Program (SNHP) funds to develop a minimum of 39 MHSA-SNHP housing units and 15 NPLH housing units. Behavior Health will experience a decrease in MHSA allocated funds, but there is no specific percentage identified at this point. Based on other State allocation methodologies, Fresno County MHSA allocation may decrease $2-2.5 million a year.

Whole Person Care (WPC). WPC is a pilot project to help provide housing options for WPC participants with mental illness. The proposed budget includes $100 million in SGF for this pilot project. The State's Department of Health Care Services will develop a funding allocation methodology for this augmentation that considers various factors, such as prevalence of homelessness, cost of living, and performance. This funding will be used to match local county investments in health and housing services with a focus on the homeless mentally ill population.

HOUSING, LAND USE AND TRANSPORTATION

Transportation Funding. The budget proposal includes $4.8 billion in SB 1 funding in FY 2019-20. $1.2 billion in funding from Road Maintenance and Rehabilitation Account will be split evenly between cities and counties. The Department of Public Works and Planning (PWP) anticipates receiving approximately $17.2 million of these funds. In addition counties and cities will receive the final $75 million loan repayment authorized by SB 1. PWP anticipates receiving $1.2 million of these funds.

IV. BUDGET DEVELOPMENT SCHEDULE

The Budget development schedule will remain the same as in FY 2018-19. The plan is to have a FY 2019-20 Recommended Budget to your Board by June 18, 2019. To accurately complete estimates for the General Fund, the tax roll is needed to verify Property Tax and Property Tax In-Lieu of Vehicle License Fee revenue estimates, which comprise almost 77% of countywide revenues. After these are received and analyzed, adjustments to the Recommended Budget will be brought to your Board for adoption in September 2019.

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 16, 2019, 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