COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 23, 2016

TO: Board of Supervisors

FROM: Birgitta E. Corsello, County Administrator

SUBJECT: FY2016/17 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 23, 2016 and approve an Adopted Budget at the conclusion of the hearings. During the hearings, the Board will be requested to consider increasing and/or funding additional positions, investments in technology and County facilities, contributions to non-county agencies, reserves and the use of one-time funds received in FY2015/16.

As Solano County slowly emerges from the Great Recession, County Departments work to maintain a balance between service delivery and fiscal sustainability. The FY2016/17 Recommended Budget reflects a collaborative effort to balance increasing labor costs, while continuing to address the Board of Supervisors priorities. Although the County's economy continues to show signs of improvement, several key dedicated program revenue sources are growing more slowly than associated costs of programs. With the ongoing use of the Board adopted Budget Strategies and sound financial practices, departments have continued their commitment and efforts to contain costs, leveraging technology, partnerships, and State and federal funding where feasible. The result is a balanced budget which provides for delivery of services to our residents, clients and businesses and provides the resources necessary to make Solano County a great place to live, learn, work and play.

The FY2016/17 Recommended Budget includes a section dedicated to the County Statistical Profile. This section provides key information on Solano County's current economic outlook and captures indicators of the County's achievements and challenges. Solano County had its strongest jobs growth in 2015 since the start of the Great Recession. Solano County continues to generate modest growth in jobs, receive new residents and see rising incomes. Our population growth rate remains modest at 1.1% over 2015 with all State and federal signs pointing to an economy that continues to slowly improve. According to the California Employment Development Department, overall employment in California continues to improve, and has done so for the past six years. The unemployment rate in Solano County as of March 2016 stands at 5.7%, down from 6.8% in 2015 and in-line with the State average of 5.6%. Although Solano County ranks as the third lowest in per capita income when compared to benchmark counties, our growth rate in per capita income outpaced the State, increasing by 4.5% in 2014 (See County Statistical Profile Section).

We must continue to pay careful attention to the State and local economic indicators. We have recent negative financial impacts from the drought to the agricultural industry including production and employment. We continue to face reduced funding for streets and roads due to unsuccessful efforts with both federal and State transportation legislation and a lingering 10% poverty rate in Solano County which translates to nearly one in four residents (29.5%) requiring some form of public assistance. State Realigned programs and mandated services have been and must remain the focus of our spending and staffing priorities if we are to increase "work ready" and employed clients; keep families together and children safe and out of the "foster care" system; reduce recidivism of those previously incarcerated; help seniors and the disabled to remain living independently; and assist with access to healthcare, mental health and healthy food. Although our departments remain optimistic, implementation of many of the State and federal mandated programs in the past 5 years have not been without challenges. Operationally, the County had to staff appropriately, change departmental operations, implement new technology, develop new policies and procedures and focus on outcomes, despite having downsized because of the Great Recession.

Included in this budget message are the following budget-related sections: 1) Budget Overview; 2) Financial Summary; 3) Funded and Unfunded Obligations and Liabilities; 4) Overview of the federal and State Budgets; 5) FY2016/17 General Fund Recommended Budget; 6) Economic Risks; 7) General Fund and Fiscal Projection; 8) Pending Issues and 9) Summary of Recommendations.

BUDGET OVERVIEW

TOTAL FINANCING REQUIREMENTS - ALL GOVERNMENTAL FUNDS

FY 2016/17

FUND NAME		FY2015/16 ADOPTED BUDGET		FY 2016/17 RECOMMENDED		CHANGE	% CHANGE
GENERAL FUND	$	245,792,637	$	246,549,705	$	757,068	0.3%
SPECIAL REVENUE FUNDS		655,181,828		669,985,860		14,804,032	2.3%
CAPITAL PROJECT FUNDS		32,907,526		10,984,077		(21,923,449)	-66.6%
DEBT SERVICE FUNDS		19,973,625		20,379,551		405,926	2.0%
TOTAL GOVERNMENTAL FUNDS	**$**	**953,855,616**	**$**	**947,899,193**	**$**	**(5,956,423)**	**-0.6%**
BUDGETED POSITIONS		2,941.00		3,015.85		74.85	2.5%

The FY2016/17 Recommended Budget for Governmental Funds is balanced and totals $947,899,193 (*Schedules 1 and 2*). The total budget represents a decrease of $6 million or 0.6% when compared to the FY2015/16 Adopted Budget and relies on local, State and federal revenues, and the use of fund balances with limited draws from reserves.

The most significant change is reflected in the Capital Project Funds, which decreased by $21.9 million due to construction costs for the SB 1022 Sheriff training project which are not reflected in the FY2016/17 Recommended Budget but will be carried forward and reflected in the FY2016/17 Adopted Budget. The increases in the Special Revenues Funds of $14.8 million are primarily due to increases in cost of labor for Public Safety and Health & Social Services funds. Increases in Special Revenues Funds in the FY2016/17 Recommended Budget are offset by a reduction in the Road Fund as a result of less available federal funded project activity and in the completion of the Winter Bridge. The increase in the General Fund of $0.8 million reflects increased labor costs and increased General Fund contributions to both Health and Social Services and Public Safety, offset by reductions in Services and Supplies and reduced transfers to reserves when compared to FY2015/16 Adopted Budget. Finally, Debt Service Funds increased by $0.4 million as a result of increased bond redemption costs. Overall, the FY2016/17 Recommended Budget for All Governmental Funds has a modest decrease of 0.6% when compared to the FY2015/16 Adopted Budget.

The FY2016/17 Recommended Budget uses projected 6/30/16 fund balances in several departments with dedicated revenues and draws down $9.3 million from committed fund balances to meet County obligations. One-time General Fund revenues from FY2015/16 are recommended to be used to offset one-time costs and to fund increased liabilities for employee-related benefits for the projected PERS employer rate increases and as contributions toward capital renewal reserves for the maintenance of the County buildings.

The Recommended Budget provides for a workforce of 3,015.85 FTE positions, excluding extra help positions. This reflects a net increase of 74.85 FTE from FY2015/16 Adopted Budget of which 58.9 FTE were added during FY2015/16. The net difference of 15.95 FTE results from the addition of 22.95 FTE included in the Recommended Budget, offset by the deletion of 7.0 FTE expiring limited terms. The year-over-year increase in the workforce reflects staffing needs to address new mandates and associated services, operational changes, and workload demands primarily in Public Safety, Health Services and Public Assistance.

This Budget Summary narrative is accompanied by a series of budget tables that are intended to describe the budgeted expenditures and associated revenue used to fund the programs and services outlined in the respective budget units. The individual Department Recommended Budget narratives provide the following information: the purpose; function and responsibilities; significant challenges and accomplishments as identified by the Department Head; workload indicators (where pertinent and relevant); a summary of significant adjustments to the operation or budget; summary of position changes; and identification of pending issues and policy considerations as identified by the Department Head.

The budget is balanced and relies on continuance of State and federal funding for State and federally mandated programs and strategic use of the County's General Fund. Of note, in FY2016/17, the Recommended Budget relies on the use of one-time funding to cover known revenue/operating shortfalls in Behavioral Health. Efforts are underway to find a means to pay for mandated Behavioral Health Services beyond FY2016/17. If those efforts are unsuccessful, the County could face a new General Fund cost exposure in FY2017/18 for this mandated realigned program.

The following pages include a financial overview of the FY2016/17 Recommended Budget.

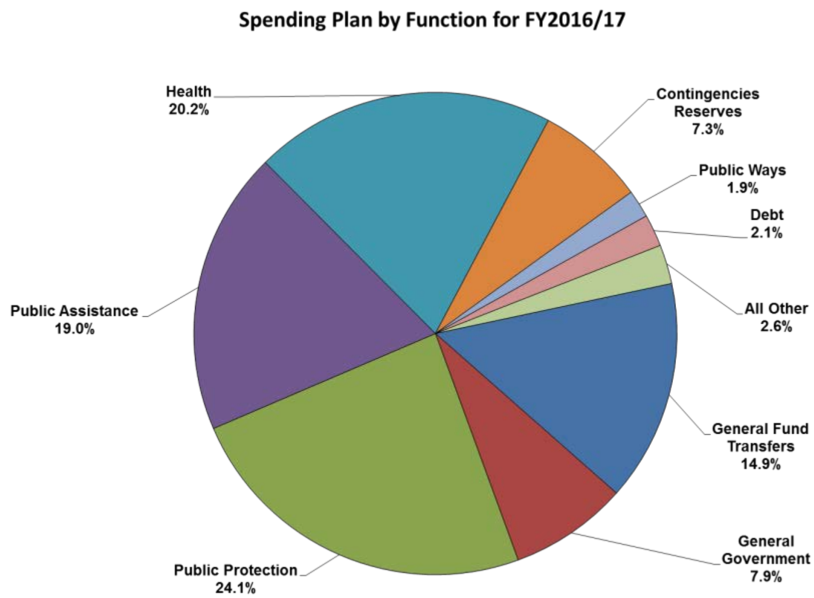
FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $947.9 million. The graph indicates the percent of the total for each of the functional areas required within the Governmental Funds part of the County Budget.

Public Protection represents the single largest category of County appropriations at 24.1% in the FY2016/17 Recommended Budget, which is an increase from the 22% share of the FY2015/16 Adopted Budget. Public Protection spending is projected to increase $15.3 million in FY2016/17 with the largest contribution to this increase being General Fund contributions, contracts for services and Proposition 172.

Public Assistance, at 19% and Health, at 20.2% represent the social safety net function of County government, which represents a collective increase from FY2015/16 of 18.0% and 20%, respectively. Public Assistance spending is projected to increase $6.3 million and Health spending is projected to decrease by $2.4 million in FY2016/17, primarily due to a decline in contracted services in First 5 Solano and decreases in Mental Health Services Act (MHSA) spending.

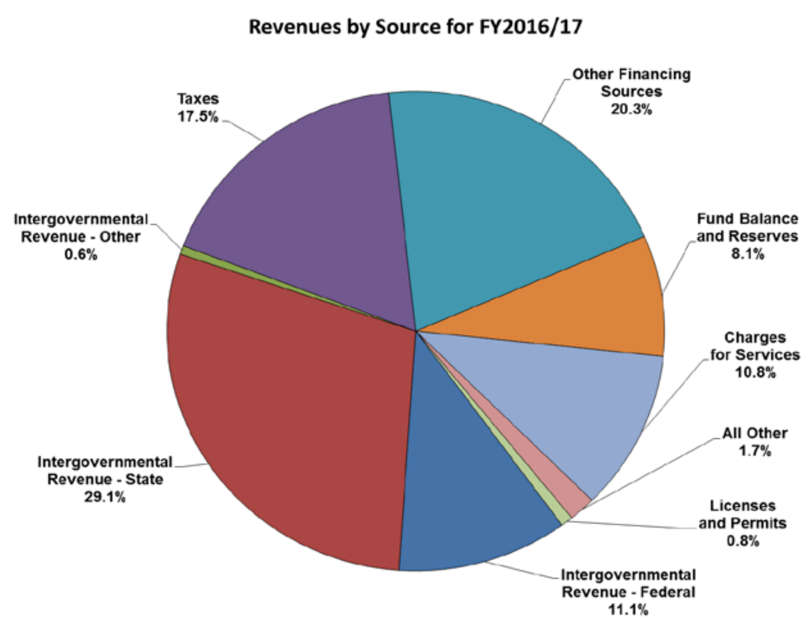
General Fund Transfers increase from a 14% share of the FY2015/16 Adopted Budget to a 14.9% share of the FY2016/17 Recommended Budget.



GOVERNMENTAL FUNDS
Total: $947,899,193

The Revenues by Source graph illustrates the different sources of funding to finance the Governmental Funds Budget. The largest revenue sources are Intergovernmental Revenue from State and federal agencies, which collectively account for 40.2% of the FY2016/17 Recommended Budget, and generally have specific requirements on how funding can be used. Intergovernmental Revenue from State and federal agencies decreased by approximately $14.5 million primarily due to a reduction in Federal Construction Road Funds and reimbursement for services. Taxes represent 17.5% of the FY2016/17 revenue projections, which is up from the 16% share in FY2015/16.

Other Financing Sources represent 20.3% share of the FY2016/17 projected revenues, which is an increase from 20% share in FY2015/16. Fund Balance and Reserves represent an 8.1% share of the FY2016/17 revenues, which is a decline from the 9% share in FY2015/16.

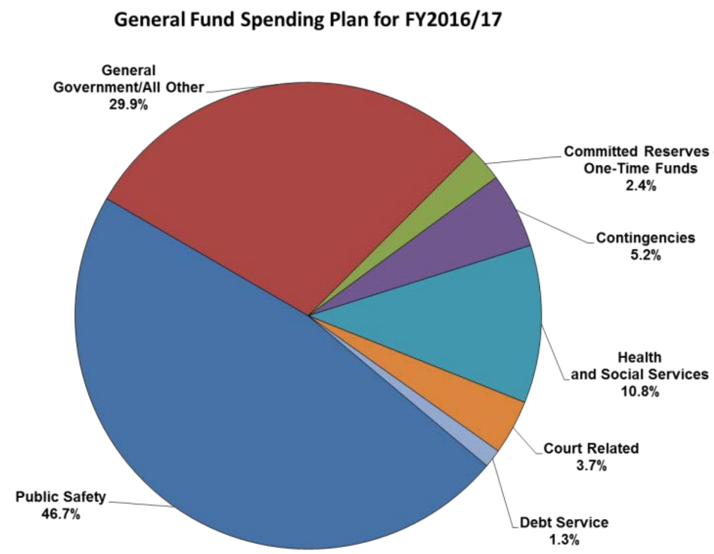


The General Fund Spending Plan (*Fund 001*) graph portrays a total of $246.5 million. The Public Safety category represents the single largest category of expenditures at 46.7% in FY2016/17, which is a slight decline from the 48% share in FY2015/16. This category includes the Sheriff, District Attorney, Public Defender, Alternate Public Defender, Other Public Defense and Probation.

The General Government/All Other category represents a 29.9% share in FY2016/17, an increase from 26% share in FY2015/16. Functions listed under this category include Agricultural Commissioner, Resource Management, Legislative, Administrative and Financing.

Health & Social Services is the third largest category of General Fund use at 10.8% of the total, which is down over the 11% share in FY2015/16. The County's Maintenance of Effort (MOE) for the Courts is 3.7% of the total.

The Recommended Budget includes $5.8 million in one-time funds allocated to committed fund balances to address impacts of known future obligations for retirements and pensions, and capital renewal costs.



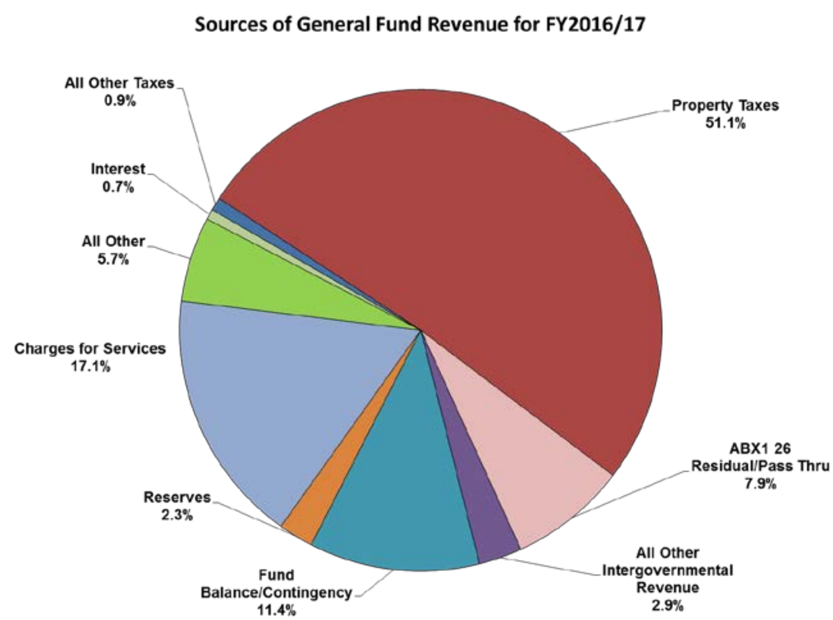
GENERAL FUND
Total: $246,549,705

The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations.

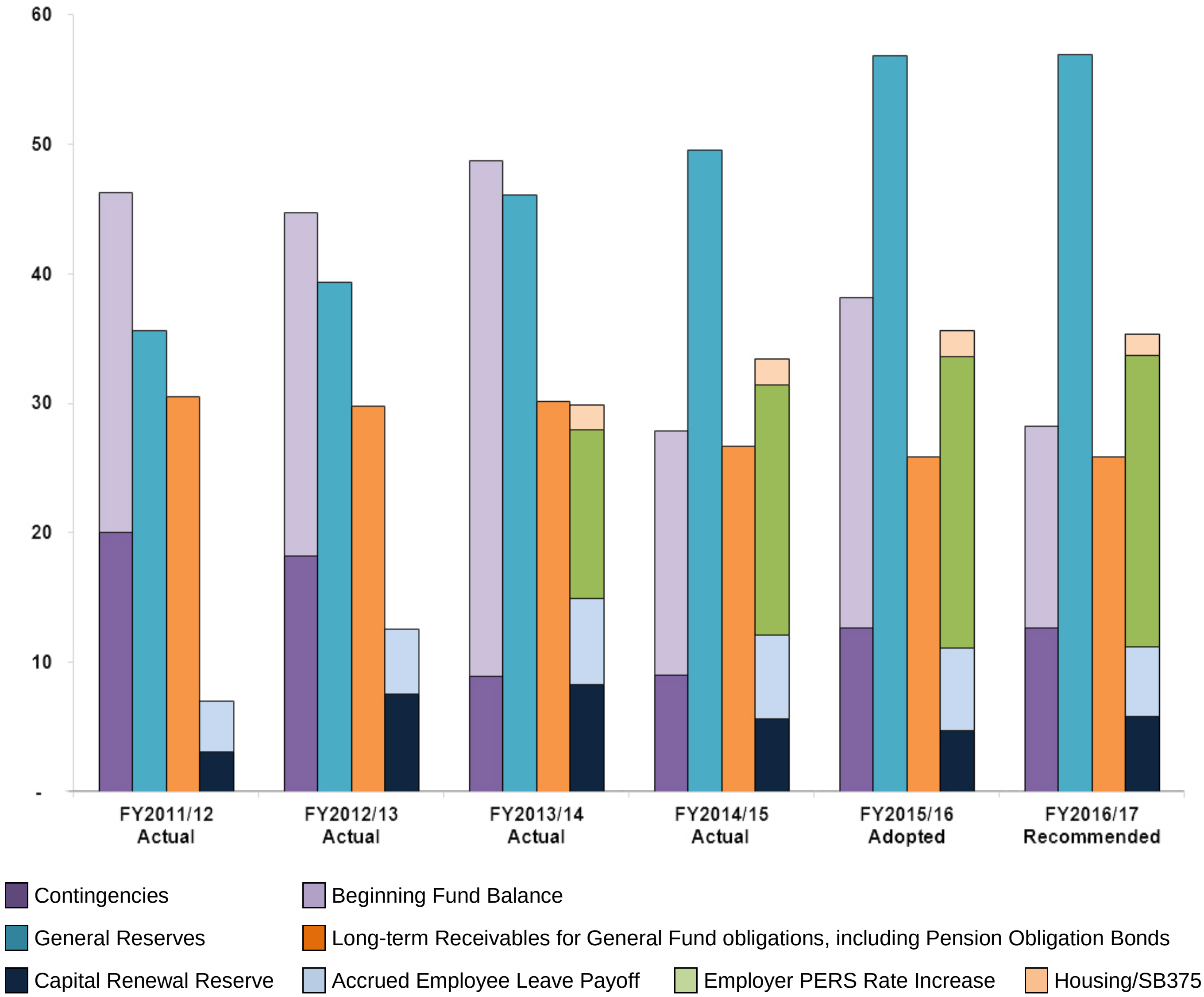
Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 51.1% and ABX1 26 Residual and Pass-Through at 7.9%. Property taxes include secured, unsecured, supplemental, unitary, property tax in lieu of Vehicle License Fee (VLF) and property transfer tax. The FY2016/17 Recommended Budget projects a net increase of $6 million in these property-related revenues when compared to the FY2015/16 Adopted Budget.

The next largest category is Charges for Services at 17.1%, which includes fees, permits, licenses, property tax administration fees and reimbursements for County costs of service.

As shown, the third largest category is Fund Balance/Contingency at 11.4%. The General Fund projected Fund Balance at the end of FY2015/16 becomes a means of financing for the FY2016/17 Recommended Budget.



History of General Fund Reserves, Designations and Fund Balance



The History of General Fund Reserves, Designations and Fund Balance graph depicts the fluctuations in the availability of key reserves and the Fund Balance as the County managed its way through the ramifications of the Great Recession and the local housing market collapse. Despite the hot housing market of the early/mid 2000's, the County remained fiscally conservative and grew its programs modestly while setting aside excess one-time revenues in Reserves in anticipation of an inevitable correction in the market. In establishing the Reserves, the County's intent was to draw from these resources and strategically step-down programs to align ongoing expenditures with ongoing revenues. However, the rate of decline in County revenues outpaced projections. At the same time, the State implemented changes to criminal justice, health care and Social Services Programs, and dissolved redevelopment agencies. These changes provided one-time revenues that augmented cost containment efforts, which allowed the County to direct resources back to these funds to ensure a sustainable source of funds to help manage future known and unknown fiscal exposures.

The FY2016/17 Recommended Budget reflects the total funding of the following committed fund balances: Capital Renewal Reserve at $5.8 million, Accrued Employee Leave Payoff at $5.3 million, Employer PERS Rate Increase at $22.5 million, and Housing/SB375 implementation at $1.7 million. General Fund Reserves is projected at $56.9 million and Long-term Receivables at $25.9 million. Fund Balance is projected at $28.2 million, which includes $12.7 million for Contingencies.

FUNDED AND UNFUNDED OBLIGATIONS AND LIABILITIES - General Fund & Other Funds

The Board adopted financial policies and over-arching principles intended to position the County in addressing the range of investments necessary for the County to sustain and provide services. In better economic times the Board consciously set monies aside to fund and finance some of these obligations, liabilities, and responsibilities. The County has weathered the past few years due to the strong fiscal policies established by the Board and the execution of those policies by the County departments. The establishment of the various General Fund Reserves and the funding of the General Reserve has allowed the County to manage through the economic downturn. Some stabilization in the economy is anticipated for FY2016/17; however, there looms some significant unknowns that will have a financial impact on the County and further cost containment efforts may be necessary. In the following paragraphs, the unfunded obligations and potential liabilities that lie ahead are discussed.

Accrued Leave

In accordance with the Board's Fund Balance Policy, the Board established and maintains a General Fund Reserve for Accrued Employee Leave Payoff. Each year the County continues to access these funds to pay for any unanticipated leave payoff that departments cannot absorb with existing appropriations. This trend is expected to continue, and based on the County's aging workforce, greater utilization of the Accrued Leave Payoff funds are anticipated in FY2016/17.

CalPERS Retirement Rates

Actuarial changes were adopted and implemented by CalPERS beginning in FY2015/16 through FY2019/20 (over a 5-year period) and are expected to continue to increase employer pension rates by as much as 50%. Given that pension rates are expected to increase over the next five years, coupled with a Board stated goal of achieving a retirement funding ratio of 90% for both CalPERS plans (Miscellaneous and Safety), the County Debt Advisory Committee reviewed options to reduce the unfunded liability in FY2014/15. On February 10, 2015, the Committee presented a funding policy to the Board that included placing one-time funds into a Pension Trust to help reduce the unfunded pension liabilities, thereby reducing future employer retirement rates. The Board approved this policy, authorized the creation of an IRS 115 Trust Account, and agreed to fund it with one time funds in the amount of $20 million at the end of FY2014/15. The Trust account, currently valued at $20.4 million contributes to the funded status (asset valuation) of the county's pension plan. As of June 30, 2014 (most recent actuarial report), the county's unfunded actuarial accrued liability for both the Miscellaneous Plan and Safety Plan is $417.1 million (79% Funded Ratio). This figure includes the former court employees and county fair employees. A more thorough discussion of the future of CalPERS employer rates on the County's Budget, including the lower than anticipated investment returns achieved by the CalPERS retirement system, will be discussed in the supplemental budget.

Capital Renewal & County Facilities (Deferred Capital/Maintenance Projects)

The protracted effects of the 2008 recession have required the Board to make strategic decisions regarding the use of available financial resources. While the first priority has been to address the delivery of current services, the Board has been making concerted efforts to reduce the operational funding deficit (gap) between ongoing revenues and ongoing expenditures. This has resulted in a focus shift on how some programs are managed and at what levels services are delivered. As part of that process, the Board has had to prioritize and balance how it can direct its limited discretionary resources toward investments that result in long-term cost reductions or cost avoidance, and still address other financial obligations related to County operations and countywide priorities.

In the area of County buildings, building systems and related infrastructure, in 2007 the Board established a committed fund balance for capital renewal/deferred maintenance projects to fund deferred maintenance of County facilities. The Board's adopted policies and strategies to address unfunded liabilities center on the need to:

- replace infrastructure and building systems in aging County facilities where County public services are provided;
- achieve code compliance in relation to current regulations; and
- effectively manage/reduce the County's risks associated with the programs dispensed from County-occupied buildings.

Since 1992, the Board has established and collected fees on new residential and commercial construction within the County to aid in the construction of new County facilities to handle the corresponding growth in demand for County services. (Refer to the Public Facilities Fee budget.) Annually, through the review and approval of the 5-Year Capital Facilities Improvement Plan (CIP), the Board reviews the status of County building infrastructure and maintenance needs. The Board weighs these exposures against available resources to determine how to budget for these facility demands. In June 2016, the General Services Department will present to the Board a status update on capital projects included in the FY2016/17 Recommended Budget. Based on a preliminary prioritization of projects under consideration, the Department will provide recommendations for funding specific projects, some of which will require funding from the Capital Renewal Reserve.

The Board established a committed fund balance in the General Fund for Capital Renewal Reserve to set aside funds for unexpected maintenance and/or future maintenance projects in order to address the needs identified in the CIP. The Reserve has a current balance of $2 million. It is recommended that the Board increase the reserve by $3.8 million using the one-time revenues projected for 6/30/16.

OVERVIEW OF THE FEDERAL AND STATE BUDGETS

Federal Budget Update

Amid internal disputes over federal spending, House Republican leaders have, to date, been unable to coalesce around a strategy for adopting a formal fiscal year 2017 budget resolution. Although the April 15 statutory deadline to clear the blueprint has long passed, GOP leaders have not abandoned efforts to reach consensus on the document, which sets overall tax and spending parameters for the upcoming fiscal year.

In a last ditch attempt to advance a fiscal framework, Republicans were discussing in mid-May the idea of combining the budget resolution with a package of spending reductions in programs outside of the annual appropriations process. The strategy is designed to appease conservative members who want to offset the $30 billion in increased fiscal year 2017 discretionary spending – which was agreed to as part of last fall’s bipartisan budget agreement (PL 113-67) – with corresponding cuts in mandatory spending programs/entitlements. While the approach appears to have the support of many rank-and-file Republicans, the plan may not ultimately win over conservatives, who want assurances that the spending cuts can be advanced in both chambers of Congress and sent to the White House.

In the absence of clarity in the lower chamber and without a final fiscal year 2017 budget resolution on the books, the House and Senate have begun to advance fiscal year 2017 appropriations bills using the $1.070 trillion topline spending level agreed to under PL 113-67. The spending deal allows for $518.5 billion for domestic programs and $551 billion for defense spending for the fiscal year that begins on October 1.

While it is ultimately unclear when the full House of Representatives in Washington, D.C. will consider fiscal year 2017 spending bills, Senate Majority Leader Mitch McConnell (R-KY) has pledged to devote significant floor time to appropriations. However, with this year's extended summer recess, which will span a full seven weeks from mid-July to early September, Congress will likely need to pass a continuing resolution to avoid a government shutdown when funding expires on October 1.

Energy & Water Development Appropriations

Lawmakers in both chambers of Congress have made progress on their respective versions of the fiscal year 2017 Energy & Water (E&W) Development appropriations legislation. In the Senate, lawmakers approved on May 12 their $37.5 billion E&W spending bill (S 2804).

It should be noted that the Obama administration has signaled its opposition to the Senate measure. According to a Statement of Administration Policy (SAP), the White House objects to a number of policy riders that GOP appropriators have attached to the legislation, including language that would prohibit the U.S. Army Corps of Engineers from making any changes to the definition of “fill material” and “discharge of fill material” for the purposes of the Clean Water Act (CWA).

On a related matter, and during floor consideration of the bill, Senator John Hoeven (R-ND) offered an amendment designed to prevent the Corps from spending any funds to implement the Obama administration’s controversial Waters of the United States (WOTUS) rule. The amendment failed on a 56-42 vote (a 60-vote threshold was needed for passage). The WOTUS regulation, which was finalized by the Environmental Protection Agency and the Corps in 2015, has been tied up in the courts and is awaiting further legal action.

It should be noted that the Senate E&W spending legislation includes $100 million for various Western drought-relief programs and activities. Championed by Senator Dianne Feinstein (D-CA), the funds would build upon the $100 million that was included for various drought-response programs as part of the fiscal year 2016 omnibus spending law.

The bill also directs the Bureau of Reclamation and the Department of the Interior to use all of the flexibility at their disposal to mitigate the impacts of the drought. Specifically, the Committee Report accompanying the E&W legislation (S Rept. 114-236) directs Reclamation to work with the U.S. Fish and Wildlife Service, the National Marine Fisheries Service, and relevant state agencies to undertake comprehensive, real-time monitoring of drought conditions and their impact on endangered species and rely upon the best available science when managing export pumping rates. The Report also instructs Reclamation to work with the U.S. Department of Agriculture to expand efforts to supply small rural communities with water during the current drought.

In the House, the Appropriations Committee approved in late April its fiscal year 2017 E&W spending legislation. As expected, Republican appropriators have included in the bill (HR 5055) several legislative provisions designed to send additional water deliveries to California's Central Valley. The language, which largely tracks drought legislation passed by the lower chamber in 2015 (HR 2898) – would require the Department of the Interior to increase Delta pumping under certain conditions. The provisions are strongly supported by Central Valley Republicans but have drawn fire from members of the state's Democratic congressional delegation.

The House bill also contains several policy riders, including language that would prohibit the Army Corps from spending any funds to implement the Obama administration's WOTUS regulation. Like the Senate bill, the House measure includes language that would prevent any changes to the definition of "fill material" for purposes of the CWA.

It should be noted that the E&W legislation is the funding vehicle for all projects under the purview of the Bureau of Reclamation and the Army Corps. Consistent with the Obama administration's fiscal year 2017 budget request, both the House and Senate bills include line-item funding for the following key Solano County/Delta region projects:

- $3.7 million for the Bureau of Reclamation's Solano Project, or level investment. Within that total, the bills would provide $1.329 million for resource management activities and $2.367 million for facilities/operations, maintenance, and replacement activities.
- $2.025 million for operation and maintenance (dredging) activities in San Pablo Bay and Mare Island Strait. ($1.18 million was appropriated in FY16, with the Corps providing an additional $810,000 in Work Plan funding. FY16 total: $1.99 million).
- $3.25 million for Suisun Bay Channel dredging. ($3.25 million was appropriated in FY16, with the Corps providing an additional $1.1 million in Work Plan funding. FY16 total: $4.35 million).
- $8 million for the Sacramento River Bank Protection project (FY16 funding: $6.0 million); $1.6 million for the Sacramento River, 30-foot project (FY16 funding: $1.1 million); $1.55 million for the Sacramento River and Tributaries, debris control (FY16 funding: $2.04 million); $175,000 for the Sacramento Rover Shallow Draft Channel (FY16 funding: $160,000 + $242,000 in additional Work Plan funding for a total of $402,000).
- $600,000 for the San Francisco Bay Long-Term Management Strategy. ($500,000 was appropriated in FY16, with the Corps providing an additional $400,000 in Work Plan funding. FY16 total: $900,000).

Commerce-Justice-Science Appropriations

In late April, the Senate Appropriations Committee approved its fiscal year 2017 Commerce-Justice-Science (CJS) spending legislation. All told, the bill (S 2837) would spend $56.3 billion, or $563 million more than the fiscal year 2016 enacted level.

With regard to funding for State and local law enforcement assistance, the legislation would provide nearly $1.2 billion in fiscal year 2017. The proposed funding is roughly $227 million below current spending and $83 million more than President Obama's budget request.

Of the aforementioned total, $100 million would be provided for the State Criminal Alien Assistance Program (SCAAP), a cut of $110 million. It should be noted that the upper chamber typically provides limited funding for SCAAP, with senators dedicating resources to other local justice programs. However, the House has consistently endorsed higher SCAAP funding levels, resulting in a more favorable appropriation.

Additionally, the Senate bill includes $384 million for Byrne Justice Assistance Grants (Byrne-JAG), an $8 million increase. The measure also would provide $215 million – a proposed $3 million boost – for the Community Oriented Policing Services (COPS) program. Of that total, $187 million would be set aside for COPS hiring grants.

The Senate legislation also includes language directing the Department of Justice to ensure that all SCAAP, Byrne-JAG, and COPS program applicants certify that they are in compliance with all applicable federal laws – and that they will continue to remain in compliance throughout the duration of their grant award period. The language is designed to prevent so-called “sanctuary cities” from receiving federal justice grant funding in fiscal year 2017.

The Senate CJS measure also would dedicate $2.95 billion for the Crime Victims Fund (CVF), which is $85 million shy of current spending but $957 million above the Obama administration’s budget request. As occurred in fiscal year 2016, the committee voted to transfer $379 million from the CVF to the Office on Violence Against Women. Additionally, the panel adopted an amendment that would carve out 5% of CVF funds for grants to Indian tribal governments to improve services and justice for victims of crime.

While the committee estimates that nearly $2.6 billion would be disbursed to states for programs funded under the Victims of Crime Act (VOCA) statute, the aforementioned tribal carve out, along with several other set-asides, would leave roughly $2.14 billion for VOCA assistance grants. If enacted, fiscal year 2017 VOCA program funding would be roughly 9% less than current levels.

Transportation-Housing and Urban Development Appropriations

On April 21, the Senate Appropriations Committee unanimously approved its fiscal year 2017 Transportation-Housing and Urban Development (T-HUD) spending bill. The $56.5 billion measure (S 2844), which funds a number of key local programs, is $827 million below current spending levels and nearly $3 billion less than the president's budget request. However, the panel was able to cancel unspent funds from past years and make use of higher estimated revenue from the Federal Housing Administration, so the bill would actually increase net funding by approximately $1.4 billion.

Among other things, the T-HUD bill would provide approximately $43.3 billion for highway programs and just over $9.3 billion for transit programs, both of which are consistent with the recently enacted surface transportation law (FAST Act; PL 114-94). The bill also would increase funding by $25 million for the Department of Transportation's (DOT) popular TIGER grant program. With regard to housing programs, the legislation would provide level funding for the Community Development Block Grant (CDBG) and the HOME Investment Partnerships program. The measure also includes a slight boost in funding for Homeless Assistance Grants.

Agriculture Appropriations

On April 19, the House Appropriations Committee cleared its fiscal year 2017 Agriculture spending measure. The bill (HR 5054) would provide $21.3 billion in discretionary funding, which is $451 million lower than the fiscal year 2016 enacted level and $281 million below the Obama administration’s budget request.

Among other things, the legislation would provide $2.85 billion for agriculture research programs – including the Agricultural Research Service and the National Institute of Food and Agriculture – to help mitigate and stop devastating crop diseases, improve food safety and water quality, increase food production, and combat antimicrobial resistance. The bill also would spend a total of $2.88 billion for rural development programs, including programs designed to support rural infrastructure, businesses and industry.

With regard to food and nutrition programs, the legislation includes discretionary and mandatory funding for programs within the Department of Agriculture, including funding for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Supplemental Nutrition Assistance Program (SNAP), and child nutrition programs.

Specifically, the bill includes $6.35 billion in discretionary funding for WIC, which is the same as the fiscal year 2016 enacted level and the president’s request. The measure also would provide $23.2 billion in required mandatory funding – which is outside the discretionary funding jurisdiction of the Appropriations Committee – for child nutrition programs. The proposed funding is $1 billion above the fiscal year 2016 enacted level.

Finally, the legislation would provide $79.7 billion in required mandatory spending for SNAP. The proposed spending is $1.2 billion below current funding levels and roughly $2 billion below the administration’s budget request, reflecting declining enrollment.

State Budget Update

The State of California Legislature reconvened in January 2016 after a four month fall recess, and the Governor subsequently released his proposed FY2016/17 budget. There was very little activity in the Legislature during the recess – despite two concurrently running special sessions on Healthcare and Transportation. No votes were taken on any Special Session legislation over the interim.

However, the first three months of 2016 began with several significant developments, including federal approval of the new Medi-Cal waiver, along with approval of a new managed care tax, and approved legislation that will increase the minimum wage over time to $15 (by 2022.)

<u>Medi-Cal Waiver</u>

The most significant development for counties over the Fall of 2015 was the approval of a five-year, $6.2 billion federal 1115 waiver for California, also known as Medi-Cal 2020.

The approved proposal includes:

- Up to $3.27 billion in performance incentives for the state's public hospitals. The plan is called PRIME -- Public Hospital Redesign and Incentives in Medi-Cal -- and it's the next step beyond the previous waiver's Delivery System Reform Incentive Program (DSRIP) allowance;
- $1.5 billion over five years for the Whole Person Care pilot program targeting heavy utilizers of services, particularly emergency services;
- $1.4 billion for the Global Payment Program Pilot. This program combines money from the Safety Net Care Pool and Medicaid Disproportionate Share Hospital funding and aims to incentivize cost-effective primary care rather than financially rewarding hospital-based care; and,
- Funding for dental system reforms in the Dental Transformation Incentive Program.

The Medi-Cal 2020 waiver also continues several programs such as the Community-Based Adult Services for seniors and the disabled, the Coordinated Care Initiative (see more on this item in the budget write-up) and CalMediConnect for those Californians dually eligible for Medi-Cal and Medicare, the Drug Medi-Cal Organized Delivery System and the state's shift toward Medi-Cal managed care.

The State originally asked for $17 billion in programmatic funding, then it revised that waiver request down to about $7.25 billion before federal officials finally agreed to the $6.2 billion number.

<u>Health Care Special Session: Outcomes</u>

The Extraordinary Session on Health Care concluded in March 2016. Absent legislative action on a <u>Managed Care Organization (MCO)</u> tax, the State stood to lose over $1 billion in federal health care funding. The 2/3 vote requirement was ultimately achieved by reducing corporate taxes on impacted managed care organizations, and also increasing IHSS funding and funding for those with developmental disabilities. The California Chamber of Commerce and most, if not all of the affected entities in the medical services arena, ended up supporting the bill.

It’s worth noting that in addition to the key legislation passed related to the MCO tax and related DDS and IHHS funding, there are several bills that were passed in the special session dealing with tobacco and electronic cigarette regulations. These bills have remained in “engrossing and enrolling” for several weeks and - should the Governor sign them - will likely become an immediate target of the tobacco industry which has threatened to form a referendum campaign and offer exclusive, high-paying contracts to signature gathering firms. The bills are being held back from the Governor’s desk in a strategic move by legislative leadership to limit the amount of time opponents may have to succeed in getting referendums on the ballot.

<u>The Governor’s Proposed FY2016/17 Budget</u>

The Governor released his proposed 2016-2017 Budget on Thursday, January 7. Overall, his Department of Finance expects General Fund State Revenues for FY2016/17 to total $125 billion and the Governor has proposed to spend $122.6 billion of General Fund Revenue (please note there are special funds that increase the overall size of the Budget). The Governor proposes to put a supplemental deposit of $2 billion into the state’s Rainy Day Fund – boosting the balance to $8 billion, from 37% today to 65% of its constitutional target.

The budget summary was laden with references to the next recession, and while the Governor proposed significant one-time expenditures he did not – relatively speaking – propose very much in ongoing spending. The Governor also noted that historically, deficits are more likely than surpluses.

Health Care in the FY2016/17 Proposed Budget

Under the federal health care reform optional expansion, 3.4 million additional residents now receive health coverage and the budget allocates $740 million General Fund for the state's share of costs. These costs will grow to reach $1.8 billion General Fund by 2020-21.

Notable items:

- Extension of Full-Scope Medi-Cal Coverage to Undocumented Children— The Budget includes $182 million ($145 million General Fund) to provide full-scope benefits to 170,000 children. The provision of this benefit is scheduled to begin by May 1, 2016.
- County Medi-Cal Administration — County workers conduct Medi-Cal eligibility work on behalf of the State. Medi-Cal caseload continues to grow significantly post implementation of the Affordable Care Act, and the system built to automate eligibility determinations is not yet completely functional. The Budget provides an additional $169.9 million ($57 million General Fund) in FY2016/17 and the following year to administer the program. Once the eligibility system is stabilized, the State will conduct time studies to inform a new Medi-Cal county administration budgeting methodology.
- On the Coordinated Care Initiative, the budget noted the following (making reference to the many changes at the federal level since its inception): The Administration proposes to continue to implement the CCI in 2016. Over the course of the next year, the Administration will seek ways to improve participation in the program and extend an allowable managed care organization tax. If the tax is not extended and participation is not improved by January 2017, the CCI would cease operating effective January 2018.
- IHSS: The Budget includes $9.2 billion ($3 billion General Fund) for the IHSS program in FY2016/17, an 8.4% increase over the revised FY2015/16 level. Average monthly caseload in this program is estimated to be 490,000 recipients in FY2016/17, a 4.9% increase from the 2015 Budget Act projection. General Fund costs in this program have doubled since 2010-11, while caseload has increased 12%.
- Continuum of Care Reform Resources (AB 403)— The Budget includes $94.9 million ($60.9 million General Fund) for DSS, DHCS, county child welfare agencies, and county probation departments to continue the implementation of the Continuum of Care reforms codified in Chapter 773, Statutes of 2015 (AB 403). The reforms emphasize home-based family care, improve access to services without having to change out-of-home placements to get those services, and increase the role of children, youth, and families in assessment and case planning. The measure establishes a core practice model to govern all services, whether delivered by a county or licensed provider organization, and provides medically necessary mental health services to children and youth in foster care regardless of their placement setting.

Water in the Proposed Budget

The Governor's budget proposed new and increased expenditures across many programs. We scrutinized the Budget for any indications of funding for the "Water Fix," which the proposed budget does in fact propose to fund with $3.6 million General Fund for the Delta Stewardship Council to implement the Delta Science Plan and incorporate the WaterFix Delta conveyance project into the Delta Plan. The Governor's 2016 Proposed Budget also included funding for the rock barriers in the Delta to prevent salinity intrusion.

The Governor's proposal includes an additional $323.1 million ($212.1 million General Fund) on a one-time basis to continue immediate response to the drought.

Other key water-related funding:

- State Obligations — An increase of $385 million Proposition 1 bond funds available for multiple agencies to support projects that meet the state's commitments under the Klamath Agreements ($250 million), the Central Valley Project Improvement Act ($90 million), and other settlements.

- Flood Protection — An increase of $100 million General Fund for the Department of Water Resources to enhance flood protection in the Central Valley by repairing levees. This is part of the deferred maintenance proposal in the Statewide Issues Chapter.
- Wetlands Restoration — An increase of $60 million Greenhouse Gas Reduction Fund for the Department of Fish and Wildlife to implement wetland restoration projects that provide carbon sequestration benefits, including habitat restoration projects within the California EcoRestore program to support the long-term health of the Delta's native fish and wildlife species.
- Manage and Prepare for Dry Periods — An increase of $3 million General Fund for the Department of Water Resources to identify water delivery operational improvements in extreme conditions and evaluate long-term climate change impacts on statewide water supplies.
- Groundwater Management — An increase of $2.5 million General Fund for the Department of Water Resources to update data and fix safety hazards at 15 monitoring sites that are part of the National Hydrography Dataset, an important federal surface water mapping system.
- Investment Strategy — An increase of $1.2 million General Fund for the Department of Water Resources to strengthen coordination and performance evaluation across state and regional agencies and develop a long-term investment and financing strategy for the California Water Action Plan.

<u>General Local Government in the Proposed Budget</u>

The Budget proposes $25 million General Fund for incentive payments to cities and/or counties that approve, between January 1, 2016 and June 30, 2017, new long-term permits for hard-to-site facilities that improve public safety and support the criminal justice system through the provision of services, such as substance use disorder treatment, mental health, and reentry programming. The Administration will work with city and county stakeholders during the spring to develop an allocation methodology while also safeguarding existing permitted facilities.

<u>Transportation/Transit/Infrastructure in the Proposed Budget</u>

The Governor's FY2016/17 Proposed Budget continues to seek resolution on funding State and local transportation infrastructure and again points to his proposal to invest $36 billion in transportation over the next decade. While the Special Session on Transportation technically remains in session, it's not clear what path – if any – a successful proposal will take (Budget, regular session or special session.).

The proposed budget includes the following:

- Focusing new revenue primarily on "fix-it-first" investments to repair neighborhood roads and state highways and bridges;
- Making key investments in trade corridors to support continued economic growth and implementing a sustainable freight strategy;
- Providing funding to match locally generated funds for high-priority transportation projects;
- Continuing measures to improve performance, accountability and efficiency at Caltrans. Investing in passenger rail and public transit modernization and improvement;
- Avoiding an impact on the precariously balanced General Fund.

The Governor's package includes "a combination of new revenues, additional investments of Cap and Trade auction proceeds, accelerated loan repayments, Caltrans efficiencies & streamlined project delivery, accountability measures, and constitutional protections for the new revenues" and will be split evenly between state and local transportation priorities. As was the case in September 2015, the Governor's package focuses on maintenance and preservation, and also includes a significant investment in public transit. Specifically, the proposal includes annualized resources as follows:

- *Road Improvement Charge*—$2 billion from a new $65 fee on all vehicles, including hybrids and electrics;
- *Stabilize Gasoline Excise Tax*—$500 million by setting the gasoline excise tax beginning in 2017-18 at the historical average of 18 cents, eliminating the current annual adjustments, and adjusting the tax annually for inflation;

- *Diesel Excise Tax*—$500 million from an 11-cent increase in the diesel excise tax beginning in 2017-18, adjusted annually for inflation;
- *Cap and Trade*—$500 million in additional Cap and Trade proceeds for complete streets and transit;
- *Caltrans Efficiencies*—$100 million in cost-saving reforms.

Additionally, the Budget includes a General Fund commitment to transportation by accelerating $879 million in loan repayments over the next four years. These funds will support additional investments in the Transit and Intercity Rail Capital Program, trade corridor improvements, and repairs on local roads and the state highway system.

The transportation package also includes the following reforms and efficiencies at Caltrans to streamline project delivery and advance projects more quickly:

- State Highway Performance Plan—Establish measurable targets for improvement including regular reporting to California Transportation Commission, the Legislature, and the public.
- Streamlined Project Delivery—Provide a limited California Environmental Quality Act (CEQA) exemption; remove the sunset date for the federal delegation of environmental reviews so they can be completed concurrent with the state review; advance project environmental mitigation to get early buy-in on activities and reduce late challenges that delay projects; and implement more innovative procurement methods, such as combining design and construction management elements to accelerate project delivery, commonly known as Construction Manager/General Contractor (CMGC) procurements.
- Staffing Flexibility—Permit Caltrans to deliver projects funded with new revenue by doubling contract staff over the next five years.
- Extend Public-Private Partnership Authority—Allow for these partnerships through 2027 by extending the current sunset date by ten years.

<u>Public Safety in the Proposed Budget</u>

The Governor's budget proposes total funding of $10.5 billion for the Department of Corrections in 2016-2017 and $400 million for the Division of Rehabilitative Programs. The adult inmate population is expected to decrease by 0.7% in 2016-2017.

Rehabilitation and Reentry: With its continued focus on inmate rehabilitation and reentry, the budget includes:

- $15.2 million to continue the expansion of substance abuse disorder treatment programs for the remaining institutions currently without a program;
- $32.1 million to continue community reentry programs;
- $25 million for incentive payments to local governments to aid in the siting of community-based reentry facilities;
- $10 million is being proposed for the expansion of several programs that will serve the increasing number of long-term offenders that are being paroled. The Department of Corrections will also begin efforts to develop a program that provides six-month transitional housing in locations closest to the communities in which life-term inmates will be released.

Population Cap: In regards to the prison population cap set by the three-judge panel in 2011, the Administration will be seeking legislative authority to continue the use of in-state and out-of-state contract beds beyond December 31, 2016 which is the date established by SB 105, in order to meet the necessary reductions in the prison population.

Proposition 47: Proposition 47 accelerated the release of many offenders and it is estimated that the average daily inmate population will be reduced by approximately 4,700 as a result of resentencing and avoided new admissions. Prop. 47 requires that state savings from the proposition be transferred to the Safe Neighborhoods and Schools Fund. The Department of Finance currently estimates net savings of $29.3 million compared to the prior two fiscal years.

Inmate Health Care and Mental Health Services: The budget dedicates $2.8 billion to health care services programs, including $1.9 billion for prison medical care.

Local Public Safety: The budget includes the following for local public safety:

- $129.7 million for Community Corrections Performance Incentive Grants.

- $20 million for City Law Enforcement Grants, including $6 million for grants to local law enforcement agencies for programs and initiatives intended to strengthen relationships between law enforcement and the communities they serve.
- $26.8 for county probation departments to implement Continuum of Care reforms as outlined in AB 403 of 2015.
- $10 million for local law enforcement agencies for costs incurred through June 2017 related to increased citizen complaint reporting activities as defined by the Racial and Identity Profiling Act of 2015 (AB 953). The Administration will work with law enforcement to develop an allocation methodology for these funds.

Local Criminal Justice Facility Construction:

The budget includes $250 million for competitive grants to those counties that have previously received only a partial award or have never received an award from the State for replacing or renovating county jails. There will be a 10% county match requirement, but the match may be reduced to 5% for small counties.

Cap and Trade in the Budget

The Governor's FY2016/17 Proposed Budget includes expenditures of $3.1 billion Cap and Trade from, which includes revenues from both 2015-16 and FY2016/17. The Governor's Budget ventures to fund programs that support clean transportation, reduce short-lived climate pollutants, protect natural ecosystems, and benefit disadvantaged communities. The $3.1 billion plan reflects the balance of auction proceeds that were not appropriated in 2015-16, as well as the expenditure of projected proceeds in FY2016/17. This Plan is consistent with the second triennial investment plan for Cap and Trade auction proceeds and expends at least 10% of the proceeds within disadvantaged communities and at least 25% of the proceeds to projects that benefit those communities.

Other Items of Interest in the Proposed Budget

State Employee and Teacher Retirement

Total of $8 billion for STRS and PERS. In 2014, the Governor signed into law a comprehensive funding strategy to address the unfunded liability at the California State Teachers' Retirement System (CalSTRS), which is currently estimated to be $72.7 billion. Consistent with this strategy, the Budget includes ***$2.5 billion*** General Fund in FY2016/17 for CalSTRS. The Budget includes ***$5.5 billion*** ($3.2 billion General Fund) for state contributions to the California Public Employees' Retirement System (CalPERS) for state pension costs. These costs include the third and final phase-in of retirement rates to address the impact of demographic assumptions adopted by the CalPERS Board in February 2014.

Legislative Initiative on Homelessness

In an opening to this year's budget negotiations at the Capitol, Senate Democrats proposed a $2 billion bond to build homes for homeless people with mental illnesses. The measure would be funded by Proposition 63, the existing 1% income tax on Californians earning $1 million or more per year to pay for mental health services.

Senate President Pro Tem Kevin de León said that the money could fund construction of at least 10,000 housing units statewide. In addition to the $2 billion bond, Sen. de León said he will push for $200 million in general fund revenue over four years to pay for rent subsidies for homeless people and will seek to increase in the Supplemental Security Income/State Supplementary Payment grants that help low-income seniors and people with disabilities. Senate Democrats estimate annual debt service on a $2 billion bond would require about $130 million of about $1.8 billion in annual Proposition 63 revenue.

As of this writing, there is still no firm proposal before the Legislature to enact these concepts.

Minimum Wage Increase

When the Governor rolled out his Proposed Budget for FY2016/17 in January he was very specifically asked about the prospect of the State's minimum wage going up, as there was a pending initiative in circulation that would raise the raise wage to $11.00 per hour, effective January 1, 2017, and by $1.00 each of the next four years, to $15.00 per hour on January 1, 2021. The Governor was pretty clear that raises to the wage had to be done carefully due to the impact it would have on the State's general fund.

The ballot measure qualified for the ballot on March 22, and shortly thereafter, the Governor announced he had reached an agreement with proponents of the initiative to raise the wage through legislation, with "off-ramps" in bad economic times. That legislation was signed into law by the Governor on April 4, 2016 with an operative date of July 1, 2017. The legislation was SB 3 (Leno).

ECONOMIC RISKS

In an article titled "U.S. Growth Starts Year in Familiar Rut" in the Wall Street Journal (April 29, 2016), it is noted the first quarter Gross Domestic Product (GDP) "grew an anemic 0.5%, making it one of the five worst quarters since the recovery began. The weakness was driven by plunging business investment, which posted its worst quarter since the recession." The Wall Street Journal, also recently published an article titled "Fed Signals No Rush to Raise Rates (April 28, 2016)," which highlights that while the U.S. economy is performing well in some respects it continues to struggle in others. The article notes that "U.S. labor market conditions have improved further even as growth in economic activity appears to have slowed. It noted household spending has diminished even though real income has risen and consumer sentiment remains high." The article goes on to state, given concerns of low inflation in the U.S., slow-growing overseas economies, and the potential British exit from the European Union, the Federal Reserve Officials, who are "struggling to spark robust growth seven years after the recession's end," left interest rates unchanged and continue to watch mixed global economic signals.

Since the release of his $122.6 billion 2016-17 budget proposal in January, Governor Jerry Brown has cautioned the residents of California about the risk of increased permanent spending on the heels of another economic downturn can affect the State budget in the coming year and has emphasized the need for the "Rainy Day Fund". Staff will continue to monitor State budget developments and consider them in light of managing the County's Budget.

FY2016/17 GENERAL FUND RECOMMENDED BUDGET

The County's FY2016/17 Recommended Budget for the General Fund of $246.5 million is balanced with revenues of $212.6 million, drawdowns from committed fund balances of $1.0 million for Accrued Employee Leave Payoff, $2.8 million for Capital Renewal Reserve, $2.0 million for Employer PERS Rate Increase as previously planned, and use of Fund Balance ($28.2 million).

The Recommended Budget for General Fund reflects an increase in revenues of $9.7 million when compared to the FY2015/16 Adopted Budget of $202.9 million. The increase in revenues is attributed to an anticipated increase in Tax Revenues of $6.5 million due to improved property values and an increase of $2.7 million for charges for services for various permits and services.

The Recommended Budget reflects increased General Fund appropriations of $246.5 million when compared to FY2015/16 Adopted Budget of $245.8 million. The net increase of $0.8 million is primarily due to increased labor costs and a modest increase in staffing to address mandates and increased demands for services, offset by reductions in services and supplies and reduced transfers to reserves when compared to FY2015/16 Adopted Budget.

GENERAL FUND FISCAL PROJECTIONS

Solano County uses Fiscal Projections to provide insight into future trends for General Fund Revenues and Expenditures. Doing so allows the County to work proactively with departments to address potential program impacts in future years.

The fiscal projections shown in the table that follows reflect the FY2015/16 Third Quarter projections for comparison only. Using the FY2016/17 Recommended Budget as the starting point, revenues and expenditures are forecast through FY2018/19. While projections beyond 2019 are possible, it is more difficult to provide a meaningful longer forecast in light of the changing economic dynamics and uncertain Federal Budget, coupled with a "slow" recovery for people back to work, increased retirements and little reduction in public assistance programs.

Solano County
General Fund - Fiscal Projection
FY2016/17 Recommended Budget
(in million of dollars)

		Third Quarter Projection For 6/30/16	Recommended Budget FY2016/17	Projected Budget FY2017/18	Projected Budget FY2018/19
a	**General Fund, Beginning Balance**	$ 38.10	$ 28.18	$ 12.70	$ 8.44
	TO Reserves:				
	General Reserves	(4.532)			
	Unfunded Employee Leave Payoff	(0.721)			
	Capital Renewal Reserve	(2.000)	(3.846)		
	Employer CalPERS Rate Increases	(5.239)	(2.000)		
	Housing/SB375				
	Long-Term Receivable (Solano360 project)				
	ASSIGNED FB: Non-County Agencies				
b	Subtotal - TO Reserves	(12.492)	(5.846)	0.000	0.000
	FROM Reserves:				
	General Reserves				
	Contingencies				
	Unfunded Employee Leave Payoff	0.800	1.000	0.800	0.800
	Capital Renewal Reserve	2.000	2.775	2.000	2.000
	Employer CalPERS Rate Increases	2.000	2.000	2.000	2.000
	Encumbrances	0.684			
c	Subtotal - FROM Reserves	5.484	5.775	4.800	4.800
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(7.008)	(0.071)	4.800	4.800
e	**TOTAL AVAILABLE FINANCING (a+d)**	31.091	28.112	17.499	13.236
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	210.777	228.003	225.657	229.111
g	Contingencies	0.000	12.700	12.700	12.700
h	**Total Operating Expenditures**	210.777	240.703	238.357	241.811
i	Operating Revenues (excluding transfers from Reserves)	207.869	212.590	216.594	222.362
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	210.777	228.003	225.657	229.111
k	**Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)**	$ (2.908)	$ (15.413)	$ (9.063)	$ (6.749)

***** General Fund, Beginning Balance in FY2017/18 and FY2018/19 are anticipated to be higher than shown in chart above based on historical trends in savings realized in departments. Contributions to Reserves are not included in FY2017/18 and beyond.

Revenue Assumptions - From General Revenue Projections:

The County's General Fund Budget is financed with General Revenues (refer to Budget Unit 1101), the use of certain one-time revenues, Fund Balance, and General Reserves, if necessary. The FY2016/17 Recommended Budget includes the use of General Fund – Committed Fund Balances: $1 million from Accrued Employee Leave Payoff, $2.8 million from Capital Renewal, and $2 million from Employer PERS Rate Increase.

The significant Revenue Assumptions from the General Revenues budget include:

- An estimated 4% increase in assessed values from the FY2015/16 corrected assessment roll, the following increases are projected: $4.1 million in Current Secured Property Taxes, $1.8 million Taxes in Lieu revenues, and $0.7 million in ABX1 26 Pass Through. This is offset by a reduction of $103,000 in ABX1 26 Residual Revenue due to an overestimate in FY2015/16 Adopted Budget. It is anticipated assessed values will increase 2% in FY2017/18 and FY2018/19 as Solano County continues its emergence from the Great Recession and subsequent local housing market collapse.

- Current Unsecured Property Taxes projected to remain flat in FY2017/18 and FY2018/19 as there are a number of appeals from large businesses that may impact these projected revenues.

In addition to General Revenues, the County Budget is financed by Proposition 172 revenues for Public Safety and 1991/2011 realignment funds (State sales tax and VLF) for Health & Social Services (H&SS), State and federal funding, and Fees for Services. While these revenues do not go directly into the General Fund, they indirectly impact the General Fund. The Recommended Budget reflects $35.9 million in Proposition 172 funding, an increase of $2 million; $49.4 million in 1991 State – Local Realignment revenues, an increase of $8.1 million; and $53.7 million in 2011 Realignment funds, an increase of $5.2 million. As Proposition 172 funds increase for the County, then the General Fund contribution to the Public Safety Fund Departments may be reduced correspondingly. If federal and State revenues come in higher than anticipated, then General Fund Contribution may be reduced as long as the County's Maintenance of Effort is met. If federal and State revenues are lower than anticipated, then the demand for General Fund increases.

Expenditure Assumptions:

- As discussed above, retirement costs are projected to continue to increase through FY2018/19; based on previously proposed rates from CalPERS, we have included a rate of 20.004% for Miscellaneous and 26.377% for Safety in FY2016/17.
- Health insurance costs are projected to increase 10% per year based on past rate history, but do not reflect potential impacts from ACA.
- The General Fund Contribution through FY2016/17:
    - General Fund support for Public Safety is projected to increase from $96.8 million to $104.7 million; a $7.9 million increase. This increase takes into consideration salary and benefit increases, additional jail support costs associated with the Stanton Correctional Facility, Proposition 47 implementation, partially offset by increased Proposition 172 revenues.
    - General Fund support for H&SS is projected to increase from $24.2 million to $25.3 million; a $1.1 million increase. This represents salary and benefit increases, increases in MOE, and changes in non-claimable costs (administrative overhead).
- The FY2016/17 Recommended Budget includes a Contingency appropriation of $12.7 million.

Continuance of General Fund Deficit Reduction Strategies for FY2016/17:

The Department Heads and the CAO will continue to utilize the Board adopted Budget Strategies to guide the departments in their continuing efforts to contain costs and where possible reduce further and serve as guidelines when revenue do not materialize as anticipated.

Strategy 1: *Elimination or freezing of all vacant positions and only fill positions that are "Mission Critical" to the organization*

Strategy 2: *Continue to review all discretionary and mandatory programs*

Strategy 3: *Continue to seek additional employee concessions, in addition to the current MOUs and agreements in place or in progress*

Strategy 4: *Continue to reduce General Fund Contribution to Health & Social Services and Public Safety departments, reducing the level of service to the community*

Strategy 5: *Continue reducing the County's footprint in buildings in Fairfield, Vallejo and Vacaville, and move employees out of leased space in County-owned space; consider selling older/outdated County buildings to reduce operational expenses*

Strategy 6: *Continue automating the delivery of services so reorganization/downsizing opportunities can continue*

PENDING ISSUES

Supplemental Budget: The Recommended Budget document was prepared early in the month of May to facilitate a May release and longer review period prior to Budget Hearings in June. To accommodate the earlier release, the departmental budgets reflect only the known and approved State and federal programs changes as of May 12, which will take effect July 1, 2016.

Historically, the County Administrator's Office prepares a Supplemental Budget document following the completion and distribution of the Recommended Budget, as more of an administrative function, primarily to address accounting notations. To the degree possible, the Supplemental Budget may reflect additional program and service changes including possible reductions that can be expected based on the Governor's May Revision and ultimately approved legislation including budget Trailer Bills.

AB 403 Continuum of Care Reform (CCR): Fiscal impacts related to legislative changes under AB 403 are unknown and may result in future cost increases for children's services. AB 403, the Continuum of Care Reform (CCR) legislation from 2015, is a broad legislative attempt to reform the Child Welfare system. AB 403 proposes to create local, community based therapeutic foster care homes as an alternative to long term placement for children and youth in out of home group placement. This group includes juveniles under Probation's supervision as well. The fiscal consequences of this reform effort are uncertain. While there may be some cost neutrality of shifting care for a child from a residential model to a community based model, many of the children and youth served may also require more hospitalization and crisis services and community based services. Because the intensity of the services required, costs may be more expensive to the mental health system to serve. Additionally, changes in the criteria for other mandated services like Katie A. could result in increased service demand and/or case discovery. The Health & Social Services Department is participating in a State Workgroup to better anticipate these impacts in advance.

Affordable Care Act: Since implementation of the Affordable Care Act (ACA) in October 2013, Health & Social Services programs and services has undergone significant change. This effort continues with the expansion of Medi-Cal eligibility to single low-income adults and undocumented children and the implementation of the Medicare Waiver 2020. Medi-Cal enrollment has grown 58% from 77,600 individuals in June 2013 (pre-ACA) to 122,899 individuals as of March 2016 in Solano County. This increase in Medi-Cal clients presents significant challenges to our Family Health Clinics and eligibility and enrollment processes. Health Services is experiencing a shortage of primary care providers which negatively impacts clinic revenues and efforts are underway to continue improving Clinic productivity and workflow efficiency.

Proposition 172 Revenue: The projection of Proposition 172 revenue to Public Safety Departments may decrease due to a pending State correction to the Proposition 172 formula to counties resulting from a recent audit of the State's allocation of sales tax. The State Board of Equalization is currently working on a plan to correct errors in the over-allocation of funds.

The Safe Neighborhoods and Schools Act – Proposition 47: Proposition 47 is a ballot initiative passed by California voters on November 4, 2014. Proposition 47 reduces certain non-serious and nonviolent property and drug offenses from wobblers or felonies to misdemeanors, reducing penalties to offenders who have not committed certain severe crimes including murder, and certain sex and gun crimes. Based on the increase workload required to implement Proposition 47, additional resources have been allocated by the Board in the District Attorney's Office, the Public Defender's Office and the Alternate Defender's Office. The County Administrator in coordination with County Departments and the Courts will continue to monitor the workload impacts of Proposition 47.

2011 Public Safety Realignment/AB 109 Funding: The Recommended Budget reflects the County's share of the estimated total AB 109 base and growth funding allocations statewide. The Solano County FY2016/17 allocations represent increases over FY2015/16 resulting from recent allocation formula changes issued by the Realignment Allocation Committee (RAC), one-time funding augmentations and increased funding statewide. The budget recommended by the Solano Community Corrections Partnership (CCP) included minimal increases in the appropriation of AB 109 funds over FY2015/16 and departments remain focused on a continuation of the programs and services previously supported by the CCP. The Recommended Budget includes the continued use of one-time carry forward funding from prior years' unspent allocations to fund these programs previously approved by the Board under the 2011 Solano Public Safety Realignment Act Implementation Plan. AB 109 Growth funding, which is based on statewide revenue estimates is subject to change pending the final state revenue figures. County staff is continuing to monitor the State allocation of AB 109 funds as departments address the mandated changes resulting from the implementation of 2011 Public Safety Realignment. While one-time carry forward funds will provide necessary funding for FY2016/17, the continued use of unspent carry forward to balance the budget in future years is unsustainable. To maintain the existing level of AB 109 programs and services in FY2017/18 and beyond, the Community Corrections Partnership will need to increase revenue or decrease appropriations. Departments are currently working to evaluate existing programs and services and will return to the Board in the Fall 2016.

Property Tax Appeals: As of May 13, 2016 there are 397 active property tax appeals on file with the County Clerk representing $11.046 billion (cumulative over 12 years) in assessed value. This is a significant amount given that the total annual valuation of Solano County is only $46.4 billion. The final resolution of these appeals may have a significant impact on the County's property tax revenues in the future. Efforts continue by the Assessor, with assistance from County Counsel, to address and resolve appeals and reduce the number and value of outstanding appeals to address the uncertainty.

Capital Renewal and Major Maintenance – County Roads and Bridges: As required by law, the Board adopted a 5-Year Capital Investment Plan for Roads and Bridges on January 26, 2016 which shows an estimated $31.8 million in unfunded road maintenance and bridge replacement projects. The Board's existing policy has been for the County to secure State and federal funds for large projects, such as bridge replacements and major road reconstruction, and to use the local Road Fund to provide for all other required maintenance. As State and federal funding for this area of responsibility shrinks in the near term, other options and further consideration regarding adequate sustaining maintenance on Roads and Bridges will be necessary. (Refer to Public Ways budget)

SUMMARY OF RECOMMENDATIONS

For Board consideration is recommended increases to committed fund balances as depicted in Schedule 4. In addition to these recommendations of $3.8 million to Capital Renewal and $2.0 million to the Employer PERS Rate Increase, if the amount of the General Fund's Year-end Fund Balance at June 30, 2016 exceeds the Third Quarter projections for FY2015/16, then the County Administrator is authorized to direct the Auditor-Controller to increase unrestricted fund balance to finance the gap between revenues and expenditures for FY2016/17 of any amount and to transfer year end General Fund balances to all or some of the following committed fund balances and reserves in the following manner:

1. Any amount up to $4 million to Capital Renewal
2. Any amount up to $3 million to the Employer PERS Rate Increase
3. Any amount up to $4 million to General Fund Reserves in anticipation of funding shortfalls in years beyond FY2016/17.