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Agenda Submittal

Agenda #:	27	**Status:**	Received and Filed
Type:	Report	**Department:**	County Administrator
File #:	18-47	**Contact:**	Ian Goldberg, 784-6116
Agenda date:	3/13/2018	**Final action:**	3/13/2018
Title:	Receive the FY2017/18 Midyear Financial Report and consider taking action on the recommendations contained in the Report		
Governing body:	Board of Supervisors		
District:	All		
Attachments:	1. A - FY2017/18 MY Financial Report, 2. B - FY2017/18 MY Projections - General Fund, 3. C - FY2017/18 MY Projections - Other Funds, 4. D - FY2017/18 MY Projections - ISF, 5. E - GF Year-End Fund Balance MY Projection, 6. F - FY2017/18 MY Appropriation Transfer Requests (ATR), 7. G - Position Resolution, 8. H - Budget Preparation Assumptions, 9. Adopted Resolution, 10. Presentation, 11. Minute Order		

Date	Ver.	Action By	Action	Result
3/13/2018	1	Board of Supervisors	Approved	

Published Notice Required? Yes ____ No _X_
Public Hearing Required? Yes ____ No _X_

DEPARTMENTAL RECOMMENDATION:

The County Administrator's Office recommends that the Board of Supervisors:

1. Receive and accept the FY2017/18 Midyear Financial Report.
2. Approve the attached Appropriation Transfer Requests (ATRs) (Attachment F) recognizing revenues and transfers in various departments requiring 4/5 vote and Approve adjustments to existing appropriations in various departments requiring majority vote.
3. Adopt a resolution amending the List of Numbers and Classifications of Positions within Solano County. (Attachment G)
4. Approve fixed asset purchases in the amount of $87,000 for three new grant funded vehicles in Probation and $25,000 for a Petroleum Prover in Agricultural Commissioner.
5. Affirm budget assumptions for FY2018/19 including the General Fund. (Attachment H)
6. Confirm the FY2018/19 Budget Hearings from Tuesday June 19, 2018 through Friday June 22, 2018.

SUMMARY:

The County Administrator's Office has reviewed and compiled the FY2017/18 Midyear Financial estimates.

Each County department has prepared projections for their revenues and expenditures through June 30, 2018 and has submitted explanations (Attachment A) for any significant variances between their Working Budget and their projection. Tables comparing total Working Budget to Midyear projection for County departments in the General Fund, Other Funds, and Internal Service and Enterprise Funds are provided as Attachments B, C, and D. The projection for Year-End Fund Balance for the General Fund is shown in Attachment E. As a result of the Midyear review, departments have identified and are seeking Board approval of changes to their position allocations at this time. The requested changes by department which the CAO and HR are

recommending Board approval for are included in resolution (Attachment G) and the explanations and department justifications for the changes are discussed in Attachment A. Two departments are also requesting approval for fixed asset purchases totaling $112,000 which include Probation - three new grant funded vehicles and for Agricultural Commissioner - Petroleum Prover, explanations and justifications are discussed in Attachment A.

At this time, the Board is asked to accept the Midyear Report and variance explanations. Staff also requests that the Board consider and approve Appropriation Transfer Requests (ATRs) as shown in Attachment F. The ATRs recommended in this Report are intended to address known budget shortfalls that impact departments' abilities to pay other obligations and to recognize unanticipated revenue where expenditure of new revenues is requested.

FINANCIAL IMPACT:

The current projected General Fund Ending Balance for June 30, 2018 (FY2017/18), as displayed in the General Fund Year-End Fund Balance Midyear Projection (Attachment E), is projected to be $26.9 million. The projected $26.9 million year end fund balance includes $14.7 million in unspent General Fund contingencies. The FY2017/18 Midyear projections for the General Fund reflect a Net Change of $8.7 million from fund balance. The reduction in the net change is the result of increased revenues of $5.7 million, the majority of which is attributed to slightly higher property tax related revenues from the recovering real estate values and a net decrease in projected expenditures of $3 million when compared to the FY2017/18 Working Budget.

The FY2017/18 Adopted Budget reflected a Beginning Fund Balance on June 30, 2017 of $28.4 million. Of this amount $14.7 million was designated as Contingency, $10.5 million was used to balance FY2017/18 Adopted Budget (revenues versus expenses) and $3.2 was used to fund the net transfer to Reserves. The Adopted Budget of $3.2 million net which was committed and transferred to reserves included the effects of the transfer from the General Reserve to the committed reserve for the Replacement of the SCIPS Property Tax System. The remaining transfers reflect the County's commitment to fund the Unfunded Employee Leave Payoff, Deferred Maintenance and Capital Renewal, and the Employer PERS Rate Increase reserves.

Several proposed ATRs recognize unanticipated revenue in various department budgets and funds. Detailed explanations of the variances are provided in Attachment A and Attachments B, C, and D are tables showing comparisons of Working Budget to projected year end.

Other County Funds (Attachment C) show that all County operating funds, with the exception of Fund 152 In Home Support Services - Public Health and Fund 906 MHSA are within budgeted and available revenue, and several funds have improved revenue projections for FY2017/18.

DISCUSSION:

The Midyear projections for General Fund Expenditures are $234.6 million and $232.1 million for General Fund Revenues, and will result in a draw on Fund Balance of $2.5 million for FY2017/18. This is a projected decrease from the $11.2 million in the FY2017/18 Adopted Budget. This change is due in part to the receipt of additional revenues from property taxes as well as operational savings attributed largely to the timing in filling of vacant positions funded with General Fund contributions throughout the County departments.

The County General Fund is projected to receive higher revenues in the following categories: $2.3 million increase in Secured Property Tax revenues attributed to an increase in assessed values as verified by the County Assessor. In addition, revenue increases include $1.4 million in one-time distribution of excess impounds due to the settlement of Valero appeals, $800,000 in Property Tax-In Lieu of VLF and $200,000 in Property Transfer Tax. Other increases in revenue include $1.9 million in Business License Tax disposal fees based on projected increases in disposal tonnages at the Hay Road facility and one-time increase in disposal tonnages due to fire debris from the Sonoma and Napa Fires.

Midyear Forecast Overview:

General Fund - Fund 001

The Midyear figures for the County General Fund projects Operating Revenues of $232.1 million and Operating Expenditures of $234.6 million, resulting in an operational deficit of $2.5 million, which is covered by available fund balance from 6/30/2017. This is a reduction in dependence on fund balance from FY2017/18 Working Budget. In the forecast for FY2018/19 and out years beyond 2018/19, staff is only forecasting predictable revenues and the existing patterns of expenditures for the General Fund and all other Funds including Public Safety, Health and Social Services, Library and Child Support Services.

Public Safety Fund - Fund 900

The Public Safety Fund, Fund 900, consists of the departments of the Sheriff, District Attorney, Public Defender, Conflict Defender, Probation and Other Public Defense. The Midyear projection reflects a net decrease of $1.2 million in revenues and expenditures compared to the Working Budget. The decrease in revenue is primarily due to reductions in Charges for Services related to housing inmates as Napa County is nearing completion of renovation repairs to its jail facility and is now expected to house inmates in Solano County Jail Facilities only through the end of February 2018. The net decrease in expenditures is primarily in Services and Supplies as Public Safety departments reduce expenditures in a variety of areas to offset reductions in revenues.

If these projections hold true, a net decrease in General Fund support of approximately $33,000 may be anticipated at FY2017/18 year-end closing compared to the Working Budget to the Public Safety Fund Departments. For additional detail regarding changes by department, please refer to Attachment A.

Health and Social Services Fund - Fund 902

The Midyear projection reflects decreases of $8.8 million in revenues and $23.2 million in expenditures, resulting in a projected decrease in Net Cost of $14.4 million.

In the Social Services Division, a projected net decrease of $6.3 million in revenues reflects reduced State and federal allocations for Medi-Cal, Cal Fresh and CalWORKs combined with decreases attributable to the timing of receipt of revenues offset by increases in 1991 Realignment to cover the anticipated overspending in the CalWORKs allocation and increases in 2011 Realignment increases due to higher projected receipts.

In the Behavioral Health Division, a projected decrease of $6.2 million in revenues primarily reflects a reduction of $3.6 million in Short Doyle Medi-Cal reimbursement as lower rates of service are projected due to staff vacancies and a decrease in the number of referrals for children's mental health services, a $1.6 million decrease in grant revenue due to a delay in the implementation of the Proposition 47 grant, and a decrease in 1991 Realignment due to reduced expenditures and a change in distribution methodology for 1991 and 2011 Realignment revenues.

In the Health Services Division, a projected increase of $5.5 million in revenues reflects decreases of $6.6 million in Federally Qualified Health Center revenues (Reimbursements for Services) due to an overall reduction in expenditures resulting from staff vacancies and underutilization of contracts, and an estimated payback to the Department of Health Care Services for Medi-Cal reconciliation offset by an increase of $12.9 million due to IGT proceeds and $774,280 increase in Prior Year-Federal revenue due to the timing of claim reimbursements.

In the Public Assistance Division, a projected decrease of $3.0 million in revenues is primarily a result of a decrease in 1991 Realignment due to a reduction in estimated expenditures for certain categories of foster care and adoptions. The foster care reduction is anticipated to be a temporary reduction for the current fiscal year as Child Welfare Services fully implements the Continuum of Care reform and is able to streamline the family approval process.

In the In-Home Supportive Services (IHSS)- Public Authority Administration Division, a projected increase of $1.2 million in revenues reflects the increase in Social Services 1991 Realignment revenue that is being redirected from Mental Health and Public Health to partially fund the increase in the IHSS Maintenance of Effort (MOE).

State and Federal Budget Update

State Budget

On January 10, The Governor released the proposed budget of his fourth and final term. His Department of Finance expects General Fund Revenues to be about $131.7 billion. There are also Special Funds ($56.1 billion) and Bond Funds ($2.5 billion) that increase the overall size of the budget.

The Budget Committees will soon begin their hearings on the specific provisions of the proposed budget. Currently, the State's cash receipts are in excess of $2 billion above projected revenues, which will set up some negotiation between the Governor and legislative leadership as to how to dispense those funds. It is highly likely that the Governor will propose that any new funds be spent on one-time outlays, so as to prepare for the next recession.

Later this spring, the Department of Finance will make some adjustments to their proposal through Spring Finance letters to the budget committees, requesting changes. And then in early May, the Governor will release his revised budget, which will set up final negotiations between the Governor and the Legislature on the 2018-2019 budget, which must be approved by June 15.

In general, the Governor believes that, "California's relationship with the federal government has never been more uncertain" and continues to push for prudent fiscal policy over the state budget.

Federal Budget

After an extremely short-lived government shutdown, the House and Senate approved in the early morning hours of February 9 a major two-year budget deal. The bipartisan agreement - brokered by Senate leaders and cleared in both chambers by relatively wide margins - scraps the fiscal year 2018 and 2019 spending caps mandated under the *Budget Control* Act (BCA). President Trump signed the legislation into law, officially ending the partial shutdown of government operations.

The long-sought after budget accord paves the way for Congress to substantially increase funding for both military and domestic discretionary programs, key budgetary priorities for congressional Republicans and Democrats, respectively. While partisan battles over individual funding levels for key programs and projects within those spending categories will undoubtedly persist, the higher topline numbers for FY2018 and 2019 should temper the upcoming negotiations over programmatic spending levels.

Looking ahead, Congress will have until March 23 to pass legislation memorializing the newly authorized spending levels for FY 2018. That particular legislation will be in the form of a catch-all omnibus appropriations package, which will provide line-by-line spending for federal programs under the purview of all federal departments and agencies.

Staff continues to monitor the progress at both Capitols and will report back to the Board at the future time when there is more certainty on spending at both the state and federal levels.

Initial FY2018/19 Budget Assumptions

Based on Midyear Projections for Fiscal Year 2017/18, the County Administrator is recommending a set of initial budget assumptions and affirmation of standing Board budget policies and guidelines to be incorporated in the preparation of the Recommended Budget for FY2018/19 Budget. The Board is asked to set Budget Hearings to consider the Recommended Budget for FY2018/19 to commence on Tuesday June 19, 2018, at 9am. Please refer to Attachment H for detail.

ALTERNATIVES:

There are a number of recommendations included in the FY2017/18 Midyear Financial Report for Board consideration at this time. The Board may choose to adopt none, some, or all of those listed. The Board may also choose to delay action on the recommended appropriation transfers or position allocation changes.

OTHER AGENCY INVOLVEMENT:

All county departments were involved in developing the information included in the Report.

CAO RECOMMENDATION:

APPROVE DEPARTMENTAL RECOMMENDATION