COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 22, 2013

TO: Board of Supervisors

FROM: Birgitta E. Corsello, County Administrator

SUBJECT: FY2013/14 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m., June 24, 2013 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 revenue offset positions, investments in technology and County facilities, contributions to non-county agencies, reserve levels for unfunded liabilities and the use of one-time funds received in FY2012/13.

Included in the 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 State and Federal Budgets; 5) General Fund and Fiscal Projection; and 6) Pending Issues.

BUDGET OVERVIEW

The FY2013/14 Recommended Budget for Governmental Funds is balanced and totals $817,735,009 (*Schedules 1 and 2*). The total budget represents decrease of $27 million, or -3.2%, when compared to the FY2012/13 Adopted Budget and relies on fund balances and draws from Reserves.

TOTAL FINANCING REQUIREMENTS - ALL GOVERNMENTAL FUNDS
FY2013/14

FUND NAME	FY2012/13 ADOPTED BUDGET	FY2013/14 RECOMMENDED	CHANGE	% CHANGE
GENERAL FUND	$ 221,665,274	$ 219,184,724	$ (2,480,550)	-1.1%
SPECIAL REVENUE FUNDS	531,207,006	562,448,402	31,241,396	5.9%
CAPITAL PROJECT FUNDS	68,742,354	14,261,051	(54,481,303)	-79.3%
DEBT SERVICE FUNDS	23,121,114	21,840,832	(1,280,282)	-5.5%
TOTAL GOVERNMENTAL FUNDS	**$ 844,735,748**	**$ 817,735,009**	**$ (27,000,739)**	**-3.2%**
BUDGETED POSITIONS	**2581.60**	**2732.90**	**151.3**	**5.9%**

The most significant changes are reflected in the Special Revenue Funds and the Capital Project Funds. There is an increase in the Special Revenues Funds primarily due to growth in Public Safety and Health & Social Services. The increases in both funds are attributed to new service level requirements as a result of 2011 Public Safety Realignment AB109 and the FY2013/14 implementation of the Federal Patient Protection and Affordable Care Act (ACA). Both areas of County Government are anticipating increases in staff and services in order to meet the requirements of these two mandates. The decrease in the Capital Project Fund is due to the construction of the new AB900 funded Claybank Jail which began in FY2012/13. The FY2013/14 budget reflects capital projects and capital renewal/repairs, including the new Animal Care Expansion Project.

While the FY2013/14 Recommended Budget uses fund balances and draws down from designated reserves, it maintains several reserves, including the General Fund Reserve for FY2014/15 and FY2015/16, and relies on projected fund balances to fund County core services. In FY2012/13 the County received one-time revenues of $9.4 million from the dissolution and disposition of housing and other assets held by the former redevelopment agencies in the county. These one-time revenues are recommended to be used to help pay for increased unfunded liabilities for employee related costs including accrued leave payoff, projected PERS employer rate increases, deferred maintenance for county buildings, shelter and housing needs and/or SB 375 compliance projects, and to help bridge the gap for non-profits (clinics, family resource centers, etc.) given the transition to the ACA during FY2013/14.

The Recommended Budget provides for a workforce of 2,732.9 FTE positions, excluding extra help positions. This reflects a net increase of 151.3 FTE from FY2012/13 Adopted Budget. The additional positions reflect staffing needs to address new mandates and associated services related to AB109 Public Safety Realignment, ACA and cost avoidance measures.

A Budget Summary narrative has been prepared and 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 in the budget units. The individual Recommended Budget narratives provide the following department 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 FY2013/14 Recommended Budget addresses known revenue challenges and proposes reductions and adjustments in operating expenditures to address these challenges, while allowing for some continued investments in technology, training, and capital renewal. The Budget includes some one-time funding in the General Fund of $9.9 million, the Library Fund and several other operational budgets. While there remains uncertainty in funding streams and potential costs, what is certain is that County Department Heads and the Board can anticipate the need for continued discussions and the ongoing review of programs and services in FY2013/14.

The following pages include a financial overview of the FY2013/14 Recommended Budget.

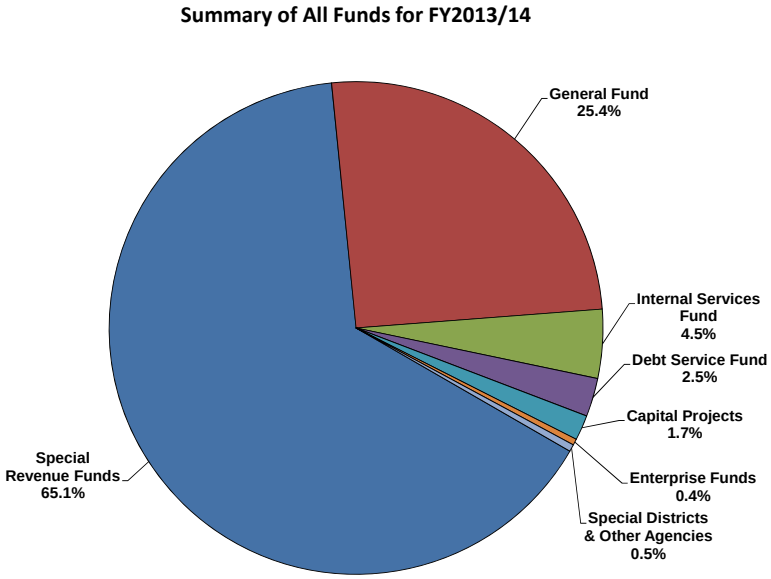
FINANCIAL SUMMARY

The Summary of All Funds graph provides information on all of the sources of funds included in the budget document. This not only includes Governmental Funds subject to the Budget Act, but Internal Service Funds, Enterprise Funds and Special Districts and Other Agencies.

Special Revenue Funds represent 65.1% of all funds and are restricted to a specific purpose in the delivery of services and programs, such as Health and Social Services, Sheriff, District Attorney, Public Defender and Probation.

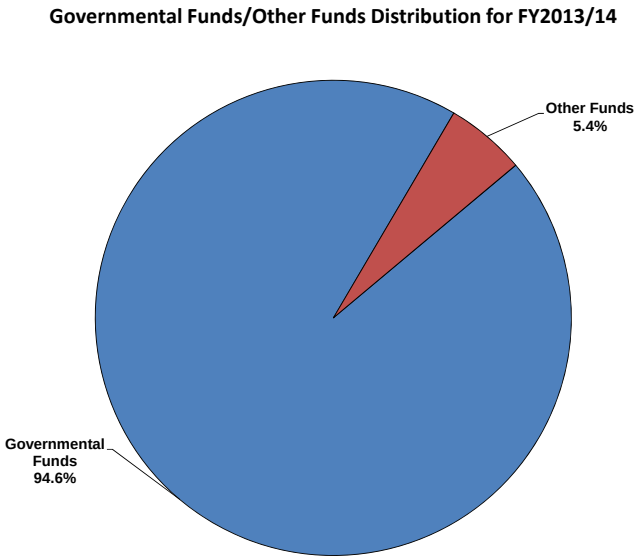
The second largest fund category at 25.4% is the General Fund, which includes the majority of the remaining departments under the control of the Board of Supervisors.

Detailed information for the charts on this page is available in *Schedule 1*: All Funds Summary for the Fiscal Year 2013/14.



ALL FUNDS
Total: $864,214,312

The Government Funds/Other Funds Distribution graph illustrates the distribution of the funds managed by the Board of Supervisors. Governmental Funds represents 94.6% of the funds listed in the chart. Governmental Funds characterize what is referred to in this document as the Total Budget. Other Funds include the Internal Service Funds, Enterprise Funds and Special Districts and Other Agencies.

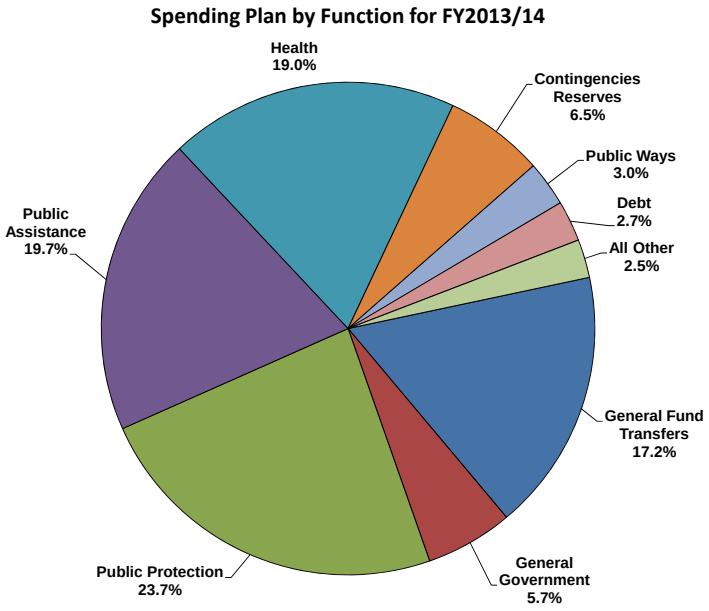


The Governmental Funds Spending Plan by Function graph portrays a total of $817.7 million. The graph indicates the percent of the total for each of the functional areas required within the Governmental Funds part of the County Budget.

Public Protection represents the single largest category of County expenditures at 23.7% in the FY2013/14 Recommended Budget, which is an increase from the 21.9% share of the FY2012/13 Adopted Budget. Public Protection spending is projected to increase $8.9 million in FY2013/14 with the largest contribution to this increase being AB109 2011 Public Safety Realignment duties.

Public Assistance at 19.7% and Health at 19% represent the social safety net function of County government, which represents a collective increase from the 18.5% and 15.3%, respectively, in the share of projected County expenditures for FY2012/13. Public Assistance spending is projected to increase $4.8 million and Health spending is projected to increase $26.2 million in FY2013/14, primarily due to the implementation of the Affordable Care Act and other shifts in services as the state realigns its delivery of health and social services.

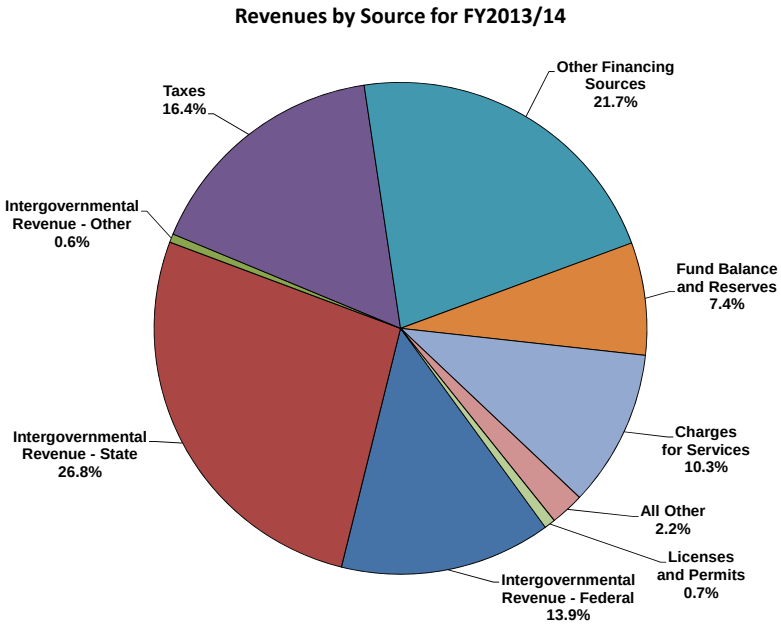
Contingencies & Reserves declined from a 7.9% share of the FY2012/13 Adopted Budget to a 6.5% share of the FY2013/14 Recommended Budget.



GOVERNMENTAL FUNDS
Total: $817,735,009

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 40.7% of the FY2013/14 Recommended Budget, and generally have specific requirements on how they can be used. Intergovernmental Revenue-Other decreased by $15.2 million with the elimination of former pass-through revenues from redevelopment agencies. Conversely, property taxes increased due to $17.3 million in ABX1 26 Residual Taxes and Pass-Through revenues. Taxes represent 16.4% of the FY2013/14 revenue projections, which is up from the 13.5% share in FY2012/13. This also represents a $2.1 million increase in projected tax revenues.

Other Financing Sources represent 21.7% share of the FY2013/14 revenues, which is an increase from 18.7% share in FY2012/13. Fund Balance and Reserves represent a 7.4% share of the FY2013/14 revenues, which is a decline from the 8.5% share in FY2012/13.

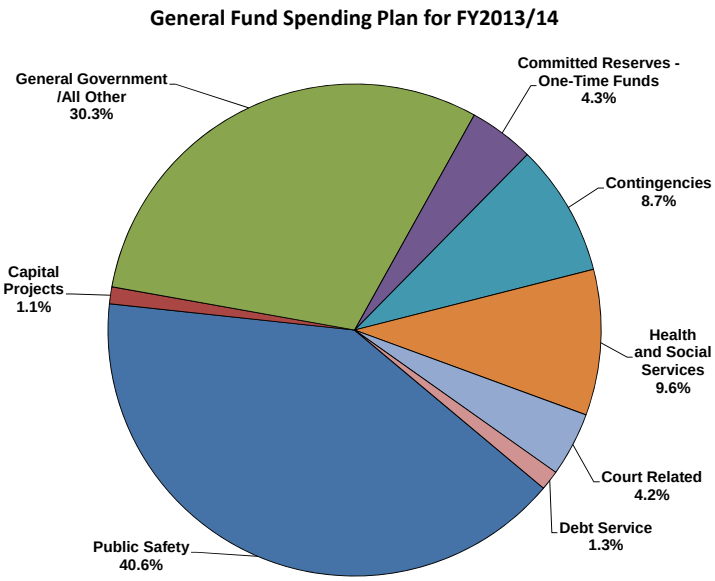


The General Fund Spending Plan (*Fund 1*) graph portrays a total of $219.2 million. The Public Safety category represents the single largest category of expenditures at 40.6% in FY2013/14, which is an increase from the 39.1% share in FY2012/13. This category includes the Sheriff, District Attorney, Public and Conflict Defender, Other Public Defense and Probation.

The General Government/All Other category represents 30.3% share in FY2013/14, a decline from 31.4% share in FY2012/13. 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 9.6% of the total, which is slightly less than the 9.9% share in FY2012/13. The County's Maintenance of Effort (MOE) for the Courts is 4.2% of the total.

The Recommended Budget includes $9.4 million in one-time funds that is being allocated to committed reserves to help stabilize the impact of known future obligations on the budget.



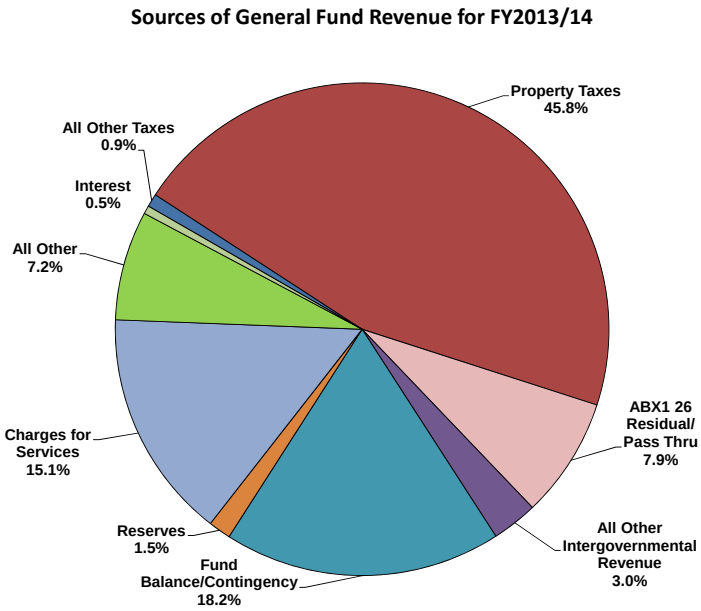
GENERAL FUND
Total: $219,184,724

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

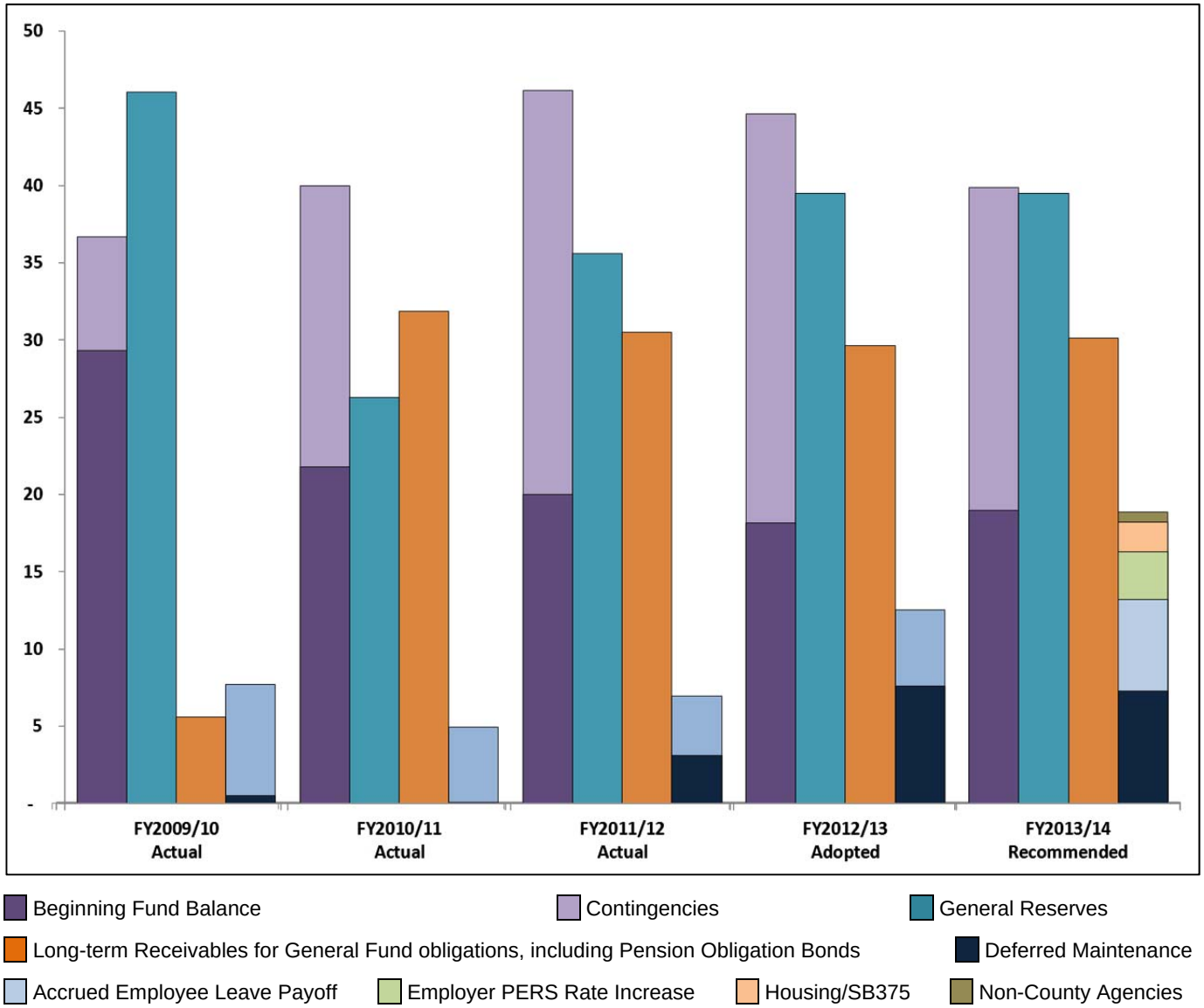
Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 45.8% and ABX1 26 Residual and Pass-Through at 7.9%. Property taxes include secured, unsecured, supplemental, utility roll, property tax in lieu of Vehicle License Fee (VLF) and property transfer tax. The FY2013/14 Recommended Budget projects no net change in these property-related revenues when compared to the FY2012/13 Adopted Budget.

The next largest category is Fund Balance/Contingency at 18.2%. The General Fund projected Fund Balance at the end of FY2012/13 becomes a means of financing for the FY2013/14 Recommended Budget.

As shown, the third largest category is Charges for Services at 15.1%, which includes, for example, fees, permits, licenses, property tax administration fees and reimbursements for County costs of service.



History of General Fund Reserves, Designations & 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. During the hot housing market, the County grew its programs modestly and set aside excess revenues in Reserves in anticipation of an inevitable correction in the market. In establishing these 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. During this period, the state implemented changes to criminal justice, health care and social services programs as well as 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 FY2013/14 Recommended Budget reflects the total funding of the following designated reserves: Deferred Maintenance at $7.3 million, Accrued Employee Leave Payoff at $5.9 million, Employer PERS Rate Increase at $3 million, Housing/SB375 implementation at $2 million, and Non-County Agencies at $500,000. General Fund Reserves is projected to remain unchanged

from FY2012/13 at $39.5 million. Fund Balance is projected at $39.8 million, which includes $19 million for Contingencies. The Long-Term Receivables is $30.1 million.

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 us to endure the past few years. We are anticipating some stabilization in the economy for FY2013/14. 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, we discuss the unfunded obligations and potential liabilities that lie ahead.

Accrued Leave

In accordance with the Board's Fund Balance Policy, the Board established and maintains a General Fund Reserve for Accrued Leave Payoff. Each year the County continues to access these funds to pay for any unanticipated leave payoff that department's cannot absorb with existing appropriations. We expect this trend to continue. In fact, based on the composition of the County's aging workforce, we anticipate a higher utilization of Accrued Leave Payoff funds in FY2013/14.

The current composition of the County's workforce includes a number of 'baby boomers'. Based on an analysis of the Projected Leave Payout as prepared by the Auditor-Controller's Office (dated in March 2012), the estimated cost of the sick leave and vacation leave accruals for those employees likely to retire in the next five years (those with at least 5 years of service and 50+ years or older), is estimated at $18.5 million. The "expected" General Fund share of the leave payout for this group is estimated at $11 million. To properly fund this anticipated cost, the Reserve for Accrued Leave should be increased by $1.8 million. Therefore, the CAO is recommending the Board increase the Reserve for Accrued Leave by an additional $1.8 million from the one-time revenues anticipated at the end of FY2012/13.

CalPERS Retirement Rates

The CalPERS Board of Directors as recently as April 2013 approved significant changes to their actuarial assumptions effective FY2015/16 to improve the funded status of the Plan. The changes will include new smoothing and amortization methods. CalPERS will use a fixed 25-year amortization period for unfunded gains and losses rather than a rolling 30-year amortization period. This change in method will impact the County's FY2015/16 CalPERS retirement rate. In addition, the CalPERS Board is also considering at a later time to reduce the discount rate from the current rate of 7.5% to 7.25%. This will cause a corresponding increase in the employer rate that will be phased in over a period of 5 years. Another change being considered is to increase the life expectancy since people are living longer and therefore this will require retirement benefits paid over a longer period of time. This change will also increase our employer rates.

These changes are expected to be implemented by CalPERS beginning in FY2015/16 through FY2019/20 (over a 5-year period) and will increase the employer rates by as much as 50%. Therefore, with the current change in actuarial assumptions and the future proposed changes, the CAO is recommending the Board fund the Reserve for Employer PERS Rate increases in the amount of $3 million from the one-time revenues anticipated at the end of FY2012/13.

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 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 deferred capital/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 residential and commercial construction within the county to aid the construction of new County facilities to handle the corresponding growth in demand for County services. (Refer to the Public Facilities Fees 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. The CIP approved by the Board on May 14, 2013 reflects unfunded deferred maintenance and infrastructure projects for the coming five years and estimates this to be approximately $106 million. (Refer to the Capital Projects section for the CIP of CIP projects.)

The Board established a General Fund Deferred Maintenance 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 $7.6 million. It is recommended that the Board increase the reserve by $2.1 million using the one-time revenues anticipated at the end of FY2012/13.

OVERVIEW OF THE FEDERAL AND STATE BUDGETS

Federal Budget Update

Congress is behind schedule on the fiscal year 2014 budget and appropriations process due to complications stemming from sequestration and the delay in setting spending levels for the final months of the current fiscal year. Nevertheless, lawmakers in both chambers have managed to pass their respective budget resolutions and are now beginning the process of crafting the 12 individual spending bills for next fiscal year.

In the House, members approved a budget resolution (H Con Res 25) in March. Sponsored by Budget Committee Chairman Paul Ryan (R-WI), the resolution seeks to balance the budget in 10 years and calls for reducing projected spending by $4.6 trillion through cuts to domestic programs, repealing the 2010 health care law, and overhauling the tax code. In addition, the non-binding resolution recommends transforming the Medicaid and food stamp programs into block grants to States.

Following House approval of its budget plan, the Senate adopted its first budget resolution in four years. The Democratic proposal (S Con Res 8), sponsored by Budget Committee Chairwoman Patty Murray (D-WA), would end the 10-year budgetary timeframe with a $566 billion deficit. It would, however, reduce the overall deficit by roughly $1.85 trillion through a mix of spending cuts and tax increases. Unlike Ryan's budget, the Democratic plan includes a replacement of the sequester in its deficit reduction estimate.

For his part, President Obama released his long awaited $3.77 trillion budget proposal on April 10. Under the administration's plan, the nation's deficit would drop to $744 billion beginning next fiscal year and continue a steady downward decline through the budget's 10-year timeframe. The debt, on the other hand, would rise $8.1 trillion to $25.3 trillion over the next decade. With regard to sequestration, the president's budget proposes to replace the cuts with other deficit-reduction measures, including spending cuts to entitlement programs and new tax increases.

Incidentally, release of the Obama administration's budget was roughly two-months behind schedule. As a result, the document was not considered in the context of the development of the House and Senate's fiscal year 2014 budget resolutions.

Given the stark differences between the two chambers' budget blueprints, it is likely that Congress will be unable to produce a final budget resolution. In the absence of a finished product, the House and Senate Appropriations Committees have set their own top-line spending levels for fiscal year 2014, with the House opting to abide by the roughly $967 billion spending cap set by the *Budget Control Act* (BCA), which reflects the sequester. The Senate, on the other hand, appears ready to ignore sequestration and instead consider spending bills under a $1.058 trillion cap.

Finally, with regard to implementation of the sequester, the BCA's spending cuts went into effect as planned on March 1. The law requires an annual reduction of roughly five percent for nondefense, domestic spending programs and eight percent for defense programs. However, given that the cuts must be achieved over only seven months instead of 12, the White House

Office of Management and Budget (OMB) estimates that the effective percentage reductions will be approximately nine percent for nondefense programs and 13 percent for defense programs.

State Budget Update

On May 14, Governor Jerry Brown released the May Revision to his FY2013/14 budget proposal. This May Revision improves on the Governor's January budget proposal in some important ways, but also underscores key challenges still facing our state.

As summarized by the California Budget Project, the May Revision moves California toward a state-led expansion of Medi-Cal and affirms the Governor's proposal to restructure school finance to provide additional dollars for districts with high concentrations of disadvantaged students. The May Revision revamps the Governor's January proposal to restructure adult education in California, while putting forth major reforms to the state's Enterprise Zone Program. The Governor's revised budget reflects a fiscal and economic outlook for the coming year that is worse than had been expected, due to recent federal actions including not extending the 2 percent payroll tax deduction in place in 2011 and 2012 and the sequester of billions of dollars in federal spending – actions not included in the Administration's January forecast and weak economic growth. The Governor's revised budget does not include any major restorations in funding for health and human services programs. This is at a time when poverty and long-term unemployment are still high, and with the safety net and critical employment services severely weakened by recent years' spending cuts. The May Revision maintains a plan for reducing the state's budgetary debt from $35 billion in FY2010/11 to less than $5 billion by FY2016/17 and includes a $1.1 billion contribution to the state's Special Fund for Economic Uncertainties.

State General Fund revenues in the May Revision are forecast to be $2.8 billion higher than originally projected for FY2012/13 (increasing from $95.4 billion to $98.2 billion), but $1.3 billion lower for FY2013/14 (decreasing from $98.5 billion to $97.2 billion). Additional revenues are allocated to K-12 schools and community colleges based on the assumed FY2012/13 Proposition 98 minimum funding level. Proposition 98 funding increases by $2.9 billion for FY2012/13 and decreases by $941.4 million in FY2013/14 in comparison to January projections.

In addition, the Governor in January proposed to link the Medi-Cal expansion to his proposal to "capture," for the state's benefit, some of the funding that counties now use to provide health care to low-income, uninsured ("medically indigent") Californians – many of whom should enroll in Medi-Cal under the expansion. Specifically, the Governor proposed to transfer – or "realign" – certain human services programs from the state to the counties. Under the Governor's January proposal, counties would fund their new responsibilities with a portion of the dollars that they currently receive to provide adult indigent health care – dollars that counties presumably would not need as more Californians enroll in Medi-Cal. In Solano County, adult indigent health care is provided through the Counties Medical Services Program (CMSP), which is made up of thirty-five primarily rural counties and is administered through a partnership with Anthem Blue Cross Life & Health Insurance Company and MedImpact. The potential impact to Solano County is the loss of not only the indigent care funds from 1991 Realignment but the loss of funding to Public Health Programs which include: public health administration, vital statistics, Maternal Child Health, WIC/ Nutrition Programs, Public Health Nursing and Education, public health lab, and communicable disease. The county receives approximately $14.5 million per year of health realignment funds. Over $6 million is dedicated to public health programs.

The May Revise drops the Governor's county-based approach and commits to a state-led Medi-Cal expansion. Newly eligible Californians would enroll in Medi-Cal and receive the same benefits available to other Medi-Cal enrollees. The May Revise also maintains – and provides new details about – the Governor's proposal to link the Medi-Cal expansion to a major realignment of responsibilities for human services from the state to the counties. The Governor proposes that counties "assume greater financial responsibility" for CalWORKs, CalWORKs child care, and operation of the CalFresh food assistance program, thereby generating substantial state savings. Under the Governor's proposal, these new county costs would be funded with county savings attributable to health care reform. The state would determine county savings by comparing counties' available health care revenues to their costs for providing health care to the remaining uninsured. Savings would be "redirected" to the human services programs, with this shift beginning in 2013-14 as the state implements the Medi-Cal expansion. The Administration suggests that the redirected dollars – that is, funding shifted from counties' health care infrastructure – could total $300 million in FY2013/14, rising to $1.3 billion by FY2015/16.

On a May 14 briefing call, Administration officials indicated that the proposal would amount to a "fiscal transfer" for all programs during FY2013/14, after which counties would have increased flexibility with respect to CalWORKs and related child care programs. From a funding-shift perspective, it is uncertain exactly what impact this would have on Solano County because the

criteria for eligibility have yet to be released by the State. The administration has dedicated over $71 million for counties to administer the ACA. Solano will receive approximately $600k to $700k to administer this program.

The May Revision does not restore adult dental care or other optional Medi-Cal benefits eliminated in 2009. The FY2009/10 budget agreement eliminated certain benefits that had previously been available under Medi-Cal, such as dental care for adults. The May Revision maintains the 10 percent Medi-Cal rate cut for doctors, dentists, pharmacists, and other providers who participate in Medi-Cal stemming from in the FY2011/12 budget agreement.

The May Revision does not restore child care slots lost in recent years. Since FY2008/09, annual funding for child care has been reduced by nearly $1 billion, resulting in the elimination of 110,000 child care and development "slots" – about one-quarter of the total slots funded through the state budget in FY2008/09. As with the Governor's January budget proposal, the May Revision generally maintains the prior year's funding levels for subsidized child care and preschool programs.

The May Revise leaves the CalWORKs grant unchanged, with no automatic cost-of-living adjustment (COLA). The current CalWORKS maximum aid payment, at $638 for a family of three, leaves families well below poverty. At 39.2 percent of the federal poverty line, the grant is even significantly below "deep poverty." Since 2008, lawmakers have reduced the grant by a total of 12 percent, frozen the COLA in many years, and finally ended the COLA. The administration has added over $48 million to administer early engagement of clients into CalWORKs welfare to work programs. These services include a more streamline assessment, family stabilization and wage subsidy programs.

FY2013/14 GENERAL FUND RECOMMENDED BUDGET

The County's FY2013/14 Recommended Budget for the General Fund of $219.2 million is balanced with revenues of $176.1 million, drawdowns of $800,000 from the Reserve for Accrued Leave, $2.4 million from the Reserve for Deferred Maintenance and the remainder being funded by Fund Balance.

The Recommended Budget for General Fund reflects an increase in revenues of $2.7 million when compared to the FY2012/13 Adopted Budget of $173.4 million. The increase in revenues is primarily attributed to an anticipated increase in Tax Revenues of $2.1 million from the redistribution of residual taxes in the dissolution of the redevelopment agencies. While there was a lot of uncertainty last fiscal year and there still remains uncertainty with Redevelopment Dissolution, in FY2012/13, the financial impact was less severe. The County received a share of the tax increment revenues (ABX1 26 Residual Taxes) formerly distributed to the redevelopment agencies; and we received Pass-through revenues (ABX1 26 Pass Through). We anticipate the County will continue to receive a share of the residual taxes and Pass-through, however, there are still many lawsuits and proposed legislation pending that may impact the distribution of the former redevelopment tax increment and therefore, impact our share of those taxes in the coming year.

The Recommended Budget reflects reduced General Fund appropriations of $219.2 million when compared to FY2012/13 Adopted Budget of $221.7 million. The net decrease of $2.5 million is primarily due one-time transfers totaling $4.3 million in the prior year to fund the Fouts Springs Boys Ranch demobilization and a one-time debt service transfer. The Health & Social Services Fund is anticipating a decrease in GF Contribution of approximately $0.8 million due to an anticipated decrease in some Public Assistance expenditures. The decreases were offset by an increase in General Fund Contribution to the Public Safety departments of $2.4 million primarily due to the Sheriff's Office in anticipation of the new AB900 Claybank Jail opening in Spring 2014.

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 below include the FY2012/13 Third Quarter projections for comparison only. Using the FY2013/14 Recommended Budget as the starting point, revenues and expenditures are forecast through FY2015/16. While projections beyond 2016 are possible, it is more difficult to provide a meaningful longer forecast in light of the constantly changing dynamics of current conditions – the current local economy and existing deficits in the State and Federal budgets, and the still-to-be-taken actions by the Legislature and Congress and other agencies.

Solano County

General Fund - Fiscal Projection

FY2013/14 Recommended Budget

(in millions of dollars)

		Third Quarter Projection For 6/30/13	Recommended Budget FY2013/14	Projected Budget FY2014/15	Projected Budget FY2015/16
a	**General Fund, Beginning Balance**	$ 44.620	39.859	25.000	25.000
	TO Reserves:				
	General Reserves	(5.500)			
	Accrued Leave Payoff	(1.000)	(1.800)		
	Deferred Maintenance	(4.463)	(2.101)		
	Housing/SB375		(2.000)		
	Employer CalPERS Rate Increases		(3.000)		
	Long-Term Receivable (Solano360 project)		(0.500)		
	ASSIGNED FB: Non-County Agencies		(0.500)		
b	Subtotal - TO Reserves	(10.963)	(9.901)	0.000	0.000
	FROM Reserves:				
	General Reserves	2.800	-	6.000	6.000
	Accrued Leave Payoff	0.800	0.800	0.800	0.800
	Deferred Maintenance	0.000	2.428	-	-
	Encumbrances	0.682	-	-	-
c	Subtotal - FROM Reserves	4.282	3.228	6.800	6.800
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(6.681)	(6.673)	6.800	6.800
e	**TOTAL AVAILABLE FINANCING (a+d)**	37.939	33.186	31.800	31.800
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	183.055	190.281	192.442	198.128
g	Contingencies	0.000	19.000	19.300	20.000
h	**Total Operating Expenditures**	183.055	209.281	211.742	218.128
i	Operating Revenues (excluding transfers from Reserves)	184.975	176.098	176.560	178.113
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	183.055	190.281	192.442	198.128
k	**Net Operating Revenues over (under) Expenditures [known as the Operational Deficit] (i-j)**	$ 1.920	(14.183)	(15.882)	(20.015)

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 FY2013/14 Recommended Budget includes the use of $800,000 from the General Fund – Reserve for Accrued Leave Payoff and $2.4 million from the General Fund Deferred Maintenance Reserve.

The significant Revenue Assumptions from the General Revenues budget include:

- Current Secured Property Taxes are projected to decrease by $462,000 when compared to the FY2012/13 Adopted Budget. However, it should be noted that the Recommended Budget for Secured Taxes and Property Taxes in Lieu of VLF reflect an anticipated increase of 1%, or approximately $700,000, when compared to the FY2012/13 Third Quarter Projections. It is anticipated to increase 1% in FY2014/15 and FY2015/16. Solano County is still experiencing a slow recovery in the residential housing market.
- Current Unsecured Property Taxes are expected to increase $730,000 due to increase in business property values from the wind farms. It is projected to remain flat in FY2014/15 and FY2015/16 as there are a number of appeals from large businesses that may impact these projected revenues.
- Disposal fees are projected to decrease by $380,000 due to an expected decrease in tonnage at both landfills. Tonnages are expected to decrease at one of the landfills due to potential loss in a contract and at the other landfill due to a decrease in waste received due to higher diversion rates (increased recycling). However, new disposal contracts by the active landfills within Solano County may stabilize or possibly increase disposal fees in the future.
- There is an anticipated net increase of $2.125 million in property tax revenues related to the Redevelopment Dissolution. The County is anticipating $13.43 million in ABX1 26 Pass-Through payments which represents the General Fund's share of former pass-through agreements. In addition, the County is anticipating $3.895 million in Residual Taxes which are distributed to the taxing entities after payment of the enforceable obligations and pass-through payments of the successor agencies. The County had budgeted $15.2 million in FY2012/13 Adopted Budget for Redevelopment Pass-Through (Charges for Services) which is no longer recognized as this type of revenue due to the dissolution of the RDAs. These revenues are expected to remain flat in FY2014/15 and FY2015/16 due to a significant number of lawsuits regarding the redevelopment agencies. However, even a 'flat' projection is uncertain given the number of lawsuits still unresolved.

In addition to General Revenues, the County budget is financed by Proposition 172 revenues for Public Safety and 1991 Realignment fund (State Sales Tax and VLF) for Health & Social Services (H&SS). While these revenues do not go directly into the General Fund, they indirectly impact the General Fund. The Recommended Budget reflects $30.765 million in Prop.172 funding, an increase of $1.5 million and $39.4 million in 1991 Realignment revenues, an increase of $1.6 million. As Prop. 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.

Expenditure Assumptions:

- As discussed above, retirement costs are projected to continue to increase through FY2015/16; based on previously proposed rates from CalPERS, we have included 7% increase in FY2014/15 and FY2015/16. However, these rates do not consider future changes in actuarial assumptions currently under discussion by CalPERS.
- 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 FY2014/15:
    - General Fund support for Public Safety is projected to increase from $89.2 million to $95.2 million; a $6 million increase. This increase takes into consideration salary and benefit increases and additional jail support costs for a portion of FY2013/14 as the new AB900 jail becomes operational in late spring.
    - The projections for H&SS include minimal increase of 1% for Social Services, however for all other County Departments there is no increase reflected for increases.

- The FY2013/14 Recommended Budget includes a Contingency appropriation of $19,000,000 based on Board policy.

Continuance of General Fund Deficit Reduction Strategies for FY2013/14:

The FY2012/13 Budget was adopted with the expectation that the County continue its reduction efforts throughout the year to address the persistent deficit in the General Fund as well as other funds. This has resulted in the Library Fund being structurally balanced in FY2013/14 and the County General Fund shrinking to its lowest level since 2009. The Department Heads and the CAO continue to utilize the Board adopted Budget Strategies to guide the departments in their continuing efforts to contain costs and where possible, reduce further.

> ***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, we have reflected in the department budgets only the known and approved State and Federal programs changes as of May 15, which will take effect July 1, 2013.

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. Unfortunately, we do not know the speed in which the California State Legislature will act on the Governor's proposals in the May Budget Revision. With the passage of Proposition 30 – the temporary sales tax measure- the State has received some financial relief. However, with the implementation of the Affordable Care Act on the horizon, there remains a lot of uncertainty and unknowns at the State level that could significantly distress the County's FY2013/14 Budget (e.g. 1991 Realignment) and several other operational budgets. If this materializes in the coming weeks, the CAO and County Departments will return to the Board with additional budget recommendations.

Affordable Care Act: The Governor has proposed to shift certain programs from the State to the counties. The program shift and revenue shift exposes the County to a loss in revenue of up to $3 million due to health care realignment.

AB109 Growth Factor. The budget recommended by the Solano Community Corrections Partnership (CCP) included the appropriation of AB109 growth funds based on a proposed allocation provided by the Realignment Allocation Committee (RAC). The proposed allocation, which was anticipated to be included in the Governor's May Revise, is still under evaluation by the RAC and is yet to be finalized. The Solano County AB109 growth allocation is anticipated to be $727,416 and has been included in the $15.7 million as available FY2013/14 funding. The County is continuing to monitor the status of the AB109 growth allocation and will provide an update on the funding when available.

Property Tax Appeals. Currently there are 835 active property tax appeals on file with the County Clerk representing $9.5 billion (cumulative over 10 years) in assessed value. This is a significant amount given that the total annual valuation of Solano County is only $39.2 billion. The final resolution of these appeals can have a significant impact on the County's property tax revenues in the future.

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 December 4, 2012, which shows an estimated $5 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 continue to diminish, other options and further consideration regarding this area of liability and responsibility will be necessary. (Refer to Public Ways budget.)

SUMMARY OF RECOMMENDATIONS:

Listed below are some important recommendations for the Board's consideration using the one-time funds received in FY2012/13. The CAO recommends the following:

1. Increase the Reserve for Accrued Employee Leave Payoff by an additional $1,800,000.
2. Establish the Reserve for PERS Employer Rate Increases in the amount of $3,000,000.
3. Increase the Reserve for Deferred Maintenance $2,101,715
4. Establish a Reserve for Housing/SB375 Implementation in the amount of $2,000,000
5. Appropriate $500,000 as a Contribution to Non-County Agencies

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