COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 24, 2017

TO: Board of Supervisors

FROM: Birgitta E. Corsello, County Administrator

SUBJECT: FY2017/18 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 20, 2017 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 FY2016/17.

In creating a Recommended Budget, departments were asked to submit a budget that is balanced and meets the requirements to provide services to the community. The FY2017/18 Recommended Budget reflects a collaborative effort to balance increasing labor costs while continuing to address the Board of Supervisors priorities. While Solano County enjoyed a year of modest job growth, a lower unemployment rate and an improving real estate market in 2016, we are also paying close attention to the environmental, legislative, economic, and technology driven challenges that may affect how we deliver County mandated and discretionary services including health care, public assistance and public safety programs. We are confident the ongoing use of Board adopted Budget Strategies, including sound financial practices, enables departments to continue their commitment and efforts to contain costs by leveraging technology, partnerships, and State and federal funding when feasible.

The FY2017/18 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 another year of solid job growth in 2016, adding 2,000 jobs to the local economy, including the leisure, hospitality, education, health care, trade, transportation and utility industries. Our population growth rate remains modest at 1.2% over the previous year, and according to the California Employment Development Department, overall employment in California also continues to improve, and has done so for the past seven years. The unemployment rate in Solano County as of March 2017 stands at 5.4%, down from 5.7% in 2016 and in-line with the State average of 5.2%. Solano County also ranks as the third highest in median household income when compared to the nine benchmark counties, including the State, coming in at $67,433. Single-family home sales were also up 2.9% in 2016 – a good year for homeowners – as they experienced a 15.3% increase over the previous year. While the economic indicators above reflect signs of Solano County's continued recovery, it is important to note that the state's economic recovery is now stretching into its' eighth year, two years short of the longest on record. At the national level the economy's growth slowed to its lowest level in three years, including a slowing of consumer spending. This trend is being seen at the state and local level through lower than expected sales tax increases. (*See County Statistical Profile Section*).

We continue to pay close attention to economic indicators that may affect how we provide mandated and discretionary programs and services to Solano County residents. At this time, the United States Congress, working with the President, has drafted adopted legislation that will repeal and replace the Affordable Care Act, which may reduce or limit funding we rely on to provide Solano County residents, including mental health services and in-home health care, services in our community. Today, one in four Solano County residents (28.2%) receives some form of public assistance, including CalFresh, CalWORKs, General Assistance, and Medi-Cal (health insurance). State legislative programs, including public safety realignment, health care and infrastructure projects have 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 and moving about independently; and assist with access to healthcare, mental health and healthy food. Although we face many challenges and uncertainties, our departments remain optimistic, focused on implementing new technologies, achieving outcomes and streamlining operations – all with the goal to make Solano County the best place for our residents and visitors.

Included in this budget message are the following budget-related sections: 1) Budget Overview; 2) Financial Summary; 3) General Fund Reserves, Designations & Commitments and Fund Balance; 4) Overview of the federal and State Budgets; 5) FY2017/18 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 FY2017/18				
FUND NAME	**FY2016/17 ADOPTED BUDGET**	**FY2017/18 RECOMMENDED**	**CHANGE**	**% CHANGE**
GENERAL FUND	$ 252,768,932	$ 268,315,080	$ 15,546,148	6.2%
SPECIAL REVENUE FUNDS	686,581,325	696,653,631	10,072,306	1.5%
CAPITAL PROJECT FUNDS	35,625,794	15,923,660	(19,702,134)	-55.3%
DEBT SERVICE FUNDS	20,408,304	24,424,934	4,016,630	19.7%
TOTAL GOVERNMENTAL FUNDS	**$ 995,384,355**	**$ 1,005,317,305**	**$ 9,932,950**	**1.0%**
BUDGETED POSITIONS	3,023.85	3,068.30	44.45	1.5%

The FY2017/18 Recommended Budget for Governmental Funds is balanced and totals $1,005,317,305 (*Schedules 1 and 2*). The total budget represents an increase of $10 million or 1% when compared to the FY2016/17 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 $19.7 million due to construction costs for the SB 1022 Sheriff training project which are not reflected in the FY2017/18 Recommended Budget but will be carried forward and reflected in the FY2017/18 Adopted Budget. The increases in the Special Revenues Funds of $10.1 million are primarily due to increases in costs for Public Safety and Health & Social Services funds. The increase in the General Fund of $15.6 million includes the $10 million one-time transfer of General Fund – General Reserves to a new Reserve for the Property Tax System Replacement project, which was supported by the Board in April 2017. The remaining $5.6 million increase in the General Fund reflects increased labor costs and increased General Fund contributions to both Health and Social Services and Public Safety and Capital Projects, offset by reduced transfers to reserves and contingencies when compared to FY2016/17 Adopted Budget. Finally, Debt Service Funds increased by $4 million as a result of increases in obligated fund balance due to County savings from the FY2016/17 employer contribution prepayment to CalPERS. Overall, the FY2017/18 Recommended Budget for All Governmental Funds has a modest increase of 1% when compared to the FY2016/17 Adopted Budget.

The FY2017/18 Recommended Budget uses projected 6/30/17 fund balances in several departments with dedicated revenues and draws down $25.2 million from committed Fund Balances to meet County obligations. One-time General Fund revenues from FY2016/17 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 to fund contributions to capital renewal reserves for the maintenance of the County buildings. The total draws from committed fund balances include the $10 million one-time transfer of General Fund – General Reserves to a new Reserve for the Property Tax System Replacement project.

The Recommended Budget provides for a workforce of 3,068.30 FTE positions, excluding extra-help positions. This reflects a net increase of 44.45 FTE from FY2016/17 Adopted Budget of which 17.15 were added and/or authorized in FY2016/17. The net difference of 27.30 FTE results from the addition of 53.25 FTE included in the Recommended Budget, offset by the deletion of

15.95 vacant FTEs and 10.00 FTE expiring limited-terms. These changes over the past fiscal year, and the recommended increase, primarily reflect the continued implementation of the County's expanded roles in public safety and the delivery of health and social service programs.

The continued reliance on intergovernmental funding for State and federally mandated programs is a key aspect of the Recommended Budget. In FY2017/18, the Recommended Budget relies on the use of one-time funding to cover known revenue shortfalls in In-Home Supportive Services (IHSS), Behavioral Health and Social Services. At the time this Recommended Budget is prepared, the State and counties are negotiating a solution for IHSS funding, in light of the discontinuance of the IHSS Maintenance of Effort (MOE) effective July 1, 2017. In addition, new mandates in Behavioral Health continue to increase service demands and without additional funding Behavioral Health will exhaust one-time sources, such as Intergovernmental Transfer Funds (IGT). Social Services FY2017/18 budget relies on rollover 1991 Realignment funding to backfill an anticipated shortfall in 2011 Realignment. If efforts are unsuccessful in these critical areas, the County could face a new General Fund cost exposure in FY2018/19.

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 following pages include a financial overview of the FY2017/18 Recommended Budget.

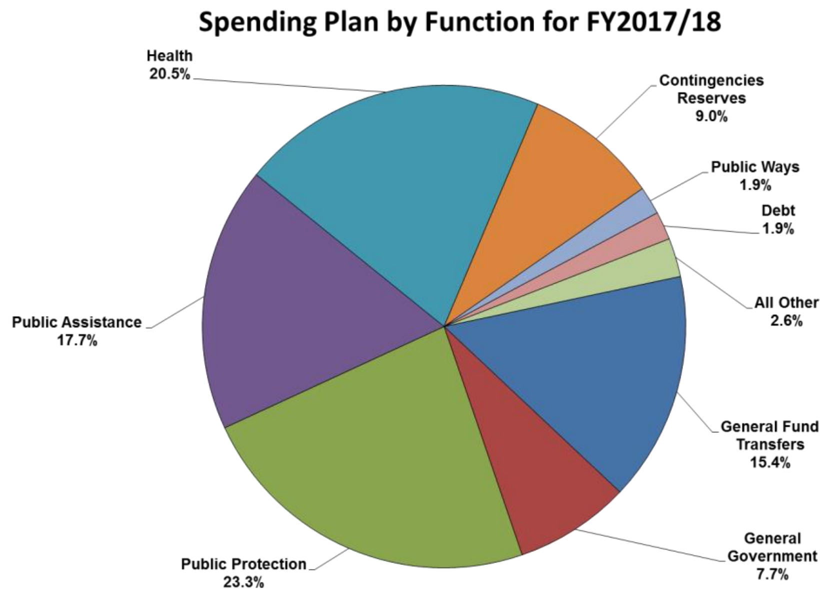
FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $1 billion. 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 23.3% in the FY2017/18 Recommended Budget, which is in-line with the FY2016/17 Adopted Budget. Public Protection spending is projected to increase $3.2 million in FY2017/18 with the largest contribution to this increase being labor costs including wages and retirement, central data processing services, countywide administrative charges and insurance.

Public Assistance, at 17.7%, and Health, at 20.5%, represent the social safety net function of County government, which together represents a minimal increase from FY2016/17. Health spending is projected to increase by $4.9 million in FY2017/18, primarily due to increased costs for In-Home Supportive Services resulting from the discontinuance of the MOE.

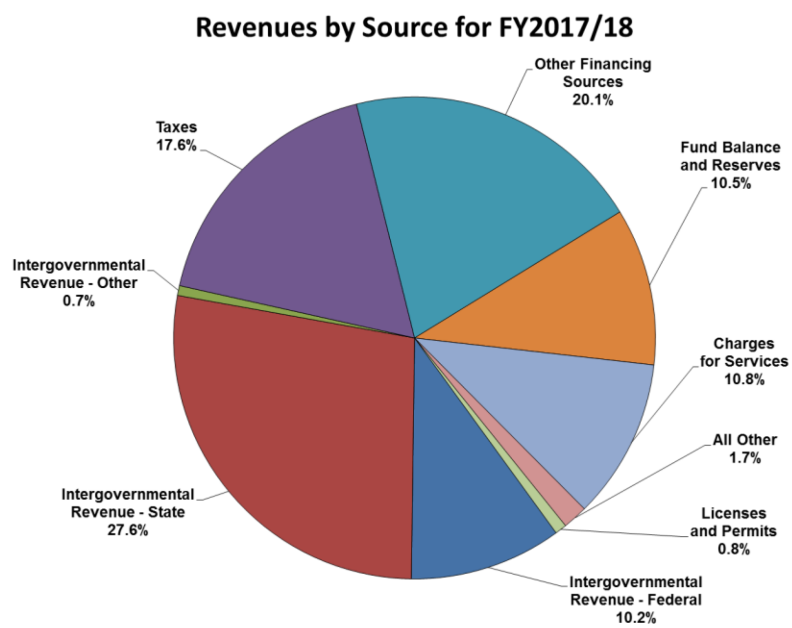
General Fund Transfers increase from a 14.1% share of the FY2016/17 Adopted Budget to a 15.4% share of the FY2017/18 Recommended Budget.



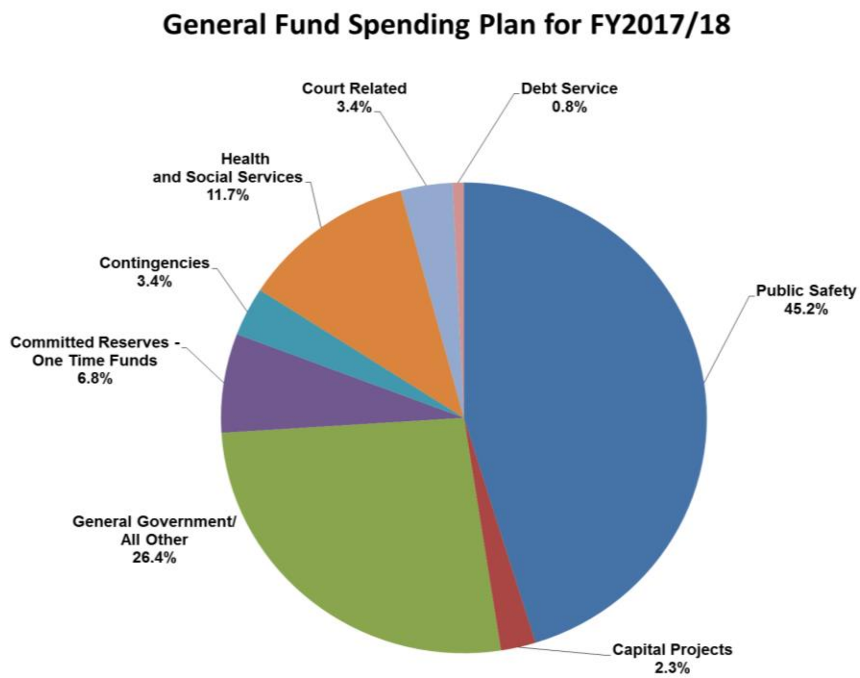
GOVERNMENTAL FUNDS
Total: $1,005,317,305

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 37.8% of the FY2017/18 Recommended Budget, and generally have specific requirements on how funding can be used. Intergovernmental Revenue from State and federal agencies decreased by approximately $37.8 million primarily due to a reduction in State revenues related to the SB1022 Jail Programing construction project funded in FY2016/17 and reduced IGT funding. Taxes represent 17.6% of the FY2017/18 revenue projections, which is up from the 16.6% share in FY2016/17.

Other Financing Sources represent 20.1% share of the FY2017/18 projected revenues, which is an increase from 19.1% share in FY2016/17. Fund Balance and Reserves represent a 10.5% share of the FY2017/18 revenues, which is an increase from the 8.9% share in FY2016/17.



The General Fund Spending Plan (*Fund 001*) graph portrays a total of $268.3 million. The Public Safety category represents the single largest category of expenditures at 45.2% in FY2017/18, which is in-line with the proportional share in FY2016/17. This category includes the Sheriff, District Attorney, Public Defender, Alternate Public Defender, Other Public Defense and Probation.



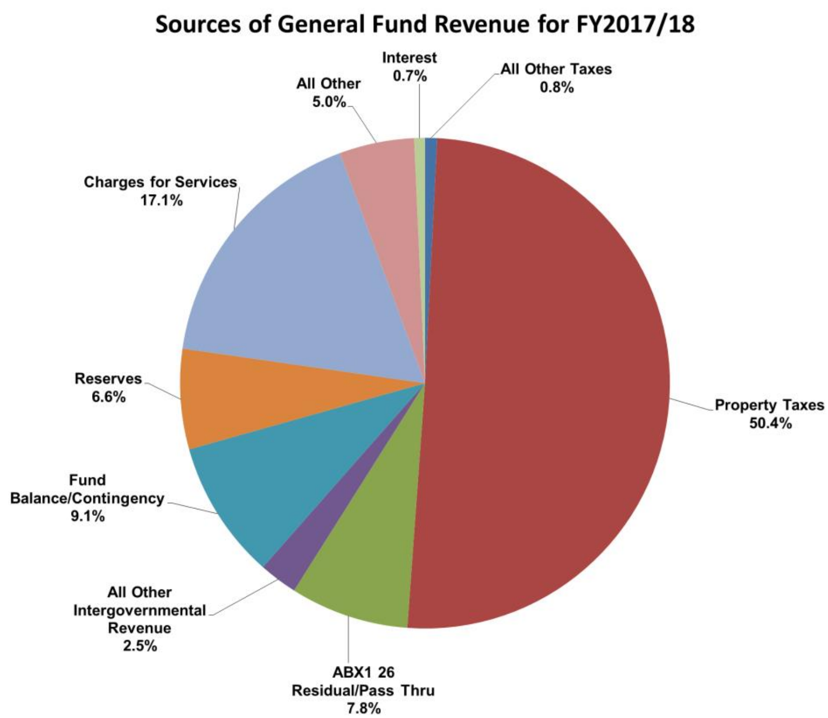
The General Government/All Other category represents a 26.4% share in FY2017/18, a decrease from 26.8% share in FY2016/17. Functions listed under this category include Agricultural Commissioner, Resource Management, Legislative, Administrative and Financing.

Health & Social Services is the third largest category of General Fund use at 11.7% of the total, which is up over the 10.6% share in FY2016/17. The County's Maintenance of Effort (MOE) for the Courts is 3.4% of the total.

The Recommended Budget includes $18.2 million in one-time funds allocated to committed Fund Balances to address impacts of known future obligations for retirements and capital renewal costs and to transfer $10 million into the Property Tax System Replacement reserve.

GENERAL FUND
Total: $268,315,080

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 50.4% and ABX1 26 Residual and Pass-Through at 7.8%. Property taxes include secured, unsecured, supplemental, unitary, property tax in lieu of Vehicle License Fee (VLF) and property transfer tax. The FY2017/18 Recommended Budget projects a net increase of $10.7 million in these property related revenues when compared to the FY2016/17 Adopted Budget.

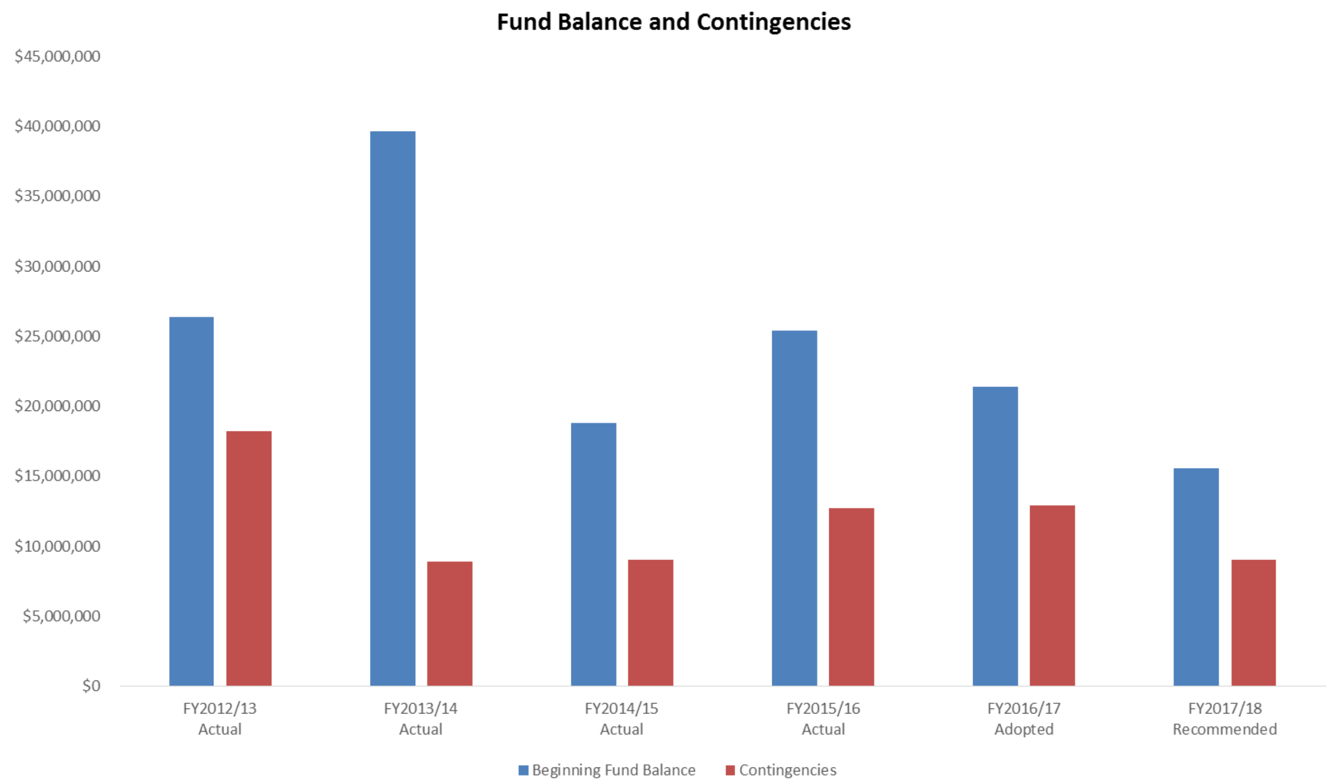
The next largest category is Charges for Services at 17.1%, which includes fees, permits, licenses, property tax administration fees and reimbursements for County costs of service.

As shown, the third largest category is Fund Balance/Contingency at 9.1%. The General Fund projected Fund Balance at the end of FY2016/17 becomes a means of financing for the FY2017/18 Recommended Budget.

GENERAL FUND RESERVES, DESIGNATIONS & COMMITMENTS AND FUND BALANCE

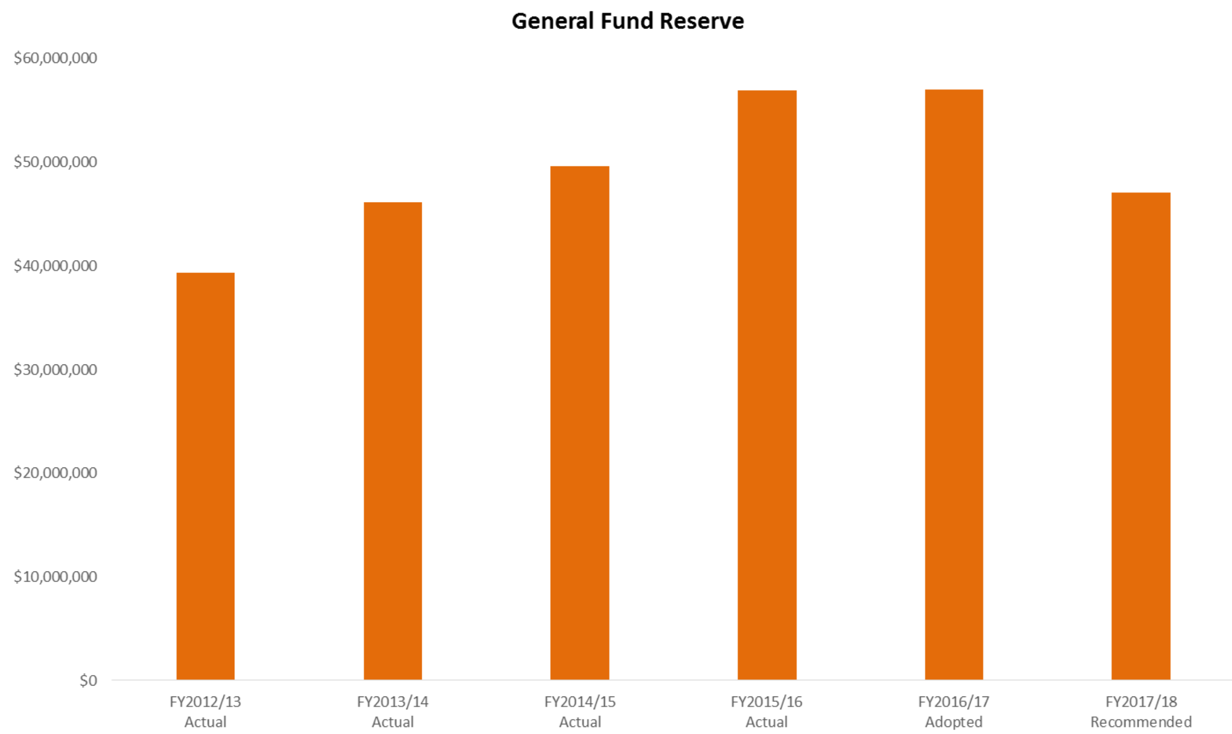
The Board adopted financial policies and overarching principles intended to position the County to address the range of investments necessary to sustain and provide services. In establishing the Reserves, the County's intent was to draw from these resources and strategically step-down programs to align ongoing expenditures with ongoing revenues. However, in the past, 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.

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 FY2017/18; 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 in connection with the General Fund Reserves, designations & commitments and Fund Balance.



The Fund Balance at June 30, 2017 is projected at $24.5 million, which includes $9 million for Contingencies.

On February 13, 2007, the Board adopted the General Fund Contingency policy to establish a level equal to 10% of the General Fund total budget. The current recommendation from staff for FY2017/18 is to maintain a $9 million contingency amount within the General Fund which is approximately 4% of Proposed General Fund Expenditures, reduced from $12.9 in FY2016/17. The reductions in Contingencies are necessary to fund the additional costs related to the IHSS increases, resulting from the discontinuance of the MOE effective July 1, 2017. If the State and counties are able to negotiate a solution reducing the IHSS costs for counties in FY2017/18, it is anticipated that those savings would be transferred back to Contingencies. Appropriations for Contingencies are legal authorizations granted by the Board of Supervisors to be used for one-time unexpected needs that arise outside of the regular budget planning process. Pursuant to Government Code §29130, access to the Appropriation for Contingency requires a 4/5 vote of the Board of Supervisors.



Per Board policy outlined in the Budget Construction and Legal Requirements section of the FY2017/18 Recommended Budget the General Fund General Reserve will be maintained at a level equal to 10% of the County's total budget excluding inter-fund transfers, with a minimum balance of $20 million at all times. This level will be maintained to provide the County with sufficient working capital and a comfortable margin to support one-time costs for the following purposes:

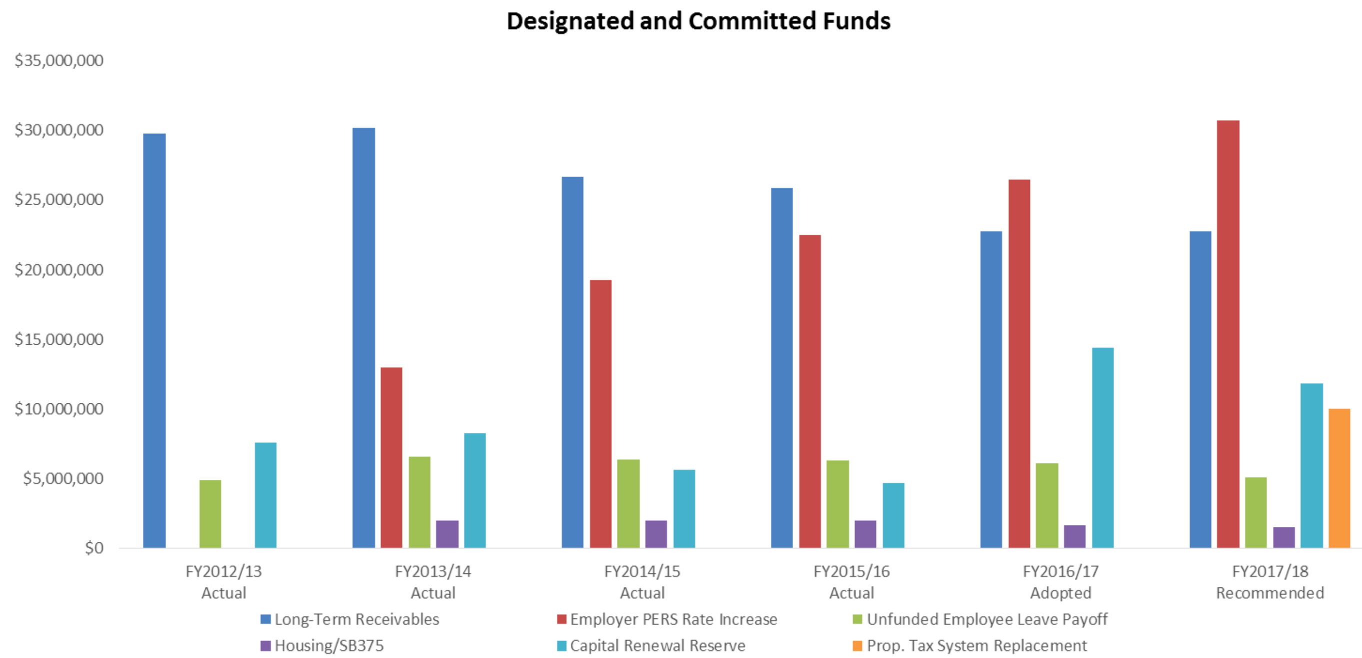
- When the County faces economic recession/ depression and the County must take budget action.
- When the County is impacted by a natural disaster or any other emergency.
- When the County experiences unexpected declines in revenues and/or when unpredicted large one-time expenditures arise.

In circumstances where the General Fund General Reserve has fallen below the established level, the County shall replenish the deficiency within five fiscal years or as soon as economic conditions allow from the following revenue sources: year-end surpluses, non-recurring revenues, or if legally permissible and with a defensible rational, from excess resources in other funds.

Subject to the Board of Supervisors' restrictions, the following will guide how the General Fund General Reserve should be used:

1. Use the General Fund General Reserve to phase into fiscal distress periods gradually, focusing on maintaining the Board's priorities.
2. To the extent possible, use the General Fund General Reserve as the last resort to balance the County Budget.
3. To the extent possible, the spending down of the General Fund General Reserve should not exceed $6 million a year (Board of Supervisors' policy direction on February 13, 2007).
4. The General Fund General Reserve should not be used to support recurring operating expenditures.
5. The General Fund General Reserve is subject to restrictions imposed by Government Code §29086, which limits the Board's access to the General Reserve during the annual budget process and requires 4/5 vote by the Board.

The FY2017/18 Recommended Budget for the General Fund General Reserve is projected at $47 million. Based on Board policy the reserve should be maintained at 10% of the County's total budget, excluding interfund transfers, which calculates to be $81.1 million in FY2017/18. At the current reserve of $47 million the County has funded the General Reserve at 58%.



Employer PERS Rate Increase

The Employer PERS Rate Increase reserve was established to address both the County's unfunded actuarial accrued liability for the Miscellaneous & Safety Retirement Plans and to position the General Fund to address the future CalPERS rate increases for retirement cost should these rates initially exceed available ongoing revenues, as a means to allow a smoother transition year over year.

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 of Supervisors 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 contributes to the funded status (asset valuation) of the county's pension plan. As of June 30, 2015 (most recent actuarial report), the County's unfunded actuarial accrued liability for both the Miscellaneous Plan and Safety Plan is $426 million (76% Funded Ratio). This figure includes the former court employees and county fair employees.

The FY2017/18 Recommended Budget for the Employer PERS Rate Increases includes both the value of the IRS 115 Trust at $20.2 and the Reserve for Employer PERS Rate Increase at $10.5 million for a total reserve of $30.7 million.

Capital Renewal Reserve (Deferred Capital/Maintenance Projects)

In 2007 the Board established a committed Fund Balance for capital renewal/deferred maintenance projects to fund deferred maintenance, unexpected maintenance and/or future 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.

Annually, through the review and approval of the 5-Year Capital Facilities Improvement Plan (CIP), the Board reviews the status of County building infrastructure, building systems and maintenance needs. The Board weighs these exposures against available resources to determine how to budget for these facility demands.

In February 2017, the General Services Department presented to the Board a status update on capital projects included in the FY2017/18 Recommended Budget. Based on a preliminary prioritization of projects under consideration, the Department provided recommendations for funding specific projects, some of which will require funding from the Capital Renewal Reserve. In addition, General Services provided the Board a report titled 2016 Facilities Condition Analysis, prepared by EMG of Walnut Creek (Consultant). The report recommends an annual investment of $7.6 million would be required to maintain County Facilities in "Very Good Condition", while a lower investment of approximately $2.8 million annually would maintain the portfolio within a "Good" range, which is the minimum level the Board indicated it wanted to maintain to continue fixed asset protection, preservation and renewal.

The reserve has a current balance of $14.3 million. It is recommended that the Board utilize $6.8 million of this balance to fund projects in FY2017/18 (see Capital Projects budget for details). In order to provide the annual funding necessary to maintain the County facilities a $4.3 million increase to the reserve is recommended in FY2017/18 using the one-time revenues projected to be realized based on 3rd Quarter for 6/30/17. This contribution from FY2016/17 year-end, results in the FY2017/18 Recommended Budget for Capital Renewal Reserve is $11.8 million.

Property Tax System Replacement

The Solano County Integrated Property System (SCIPS) is the County's current internally developed and maintained property tax system, originally developed in 1982. On April 4, 2017 the Board of Supervisors authorized staff to proceed with the replacement of the SCIPS system. The total estimated cost to replace the SCIPS system is $10 million and will be completed over multiple years. To fund the replacement system, including the data migration and full implementation the Board authorized the creation of a reserve in FY2017/18 for the project in the amount of $10 million, funded by reclassifying funds from the General Fund - General Reserve. These funds will be a loan to the project, repaid over time once the project is completed.

Unfunded Employee Accrued Leave Payoff

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 assesses the funds necessary to pay for any unanticipated leave payoff that departments cannot absorb with existing appropriations. Based on the County's aging workforce, continued utilization of the Accrued Leave Payoff funds are anticipated in FY2017/18. The FY2017/18 Recommended Budget for the Unfunded Employee Leave Payoff reserve is $5.1 million.

Long-Term Receivables

Long-Term Receivables represents amounts outstanding and payable to the County, not available as cash, and cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. It includes long-term loans and notes receivable, inventories and prepaid items. The FY2017/18 Recommended Budget for Long-Term Receivables is $22.8 million.

Housing/SB375

Effective February 1, 2012, the redevelopment agencies (RDA) were dissolved. During the existence of the RDA, a percentage of the redevelopment funding was required to be used to meet the housing needs of low/moderate-income residents. As a result of the dissolution of the redevelopment agencies, this restricted source of funding was no longer available to address housing needs. As of February 1, 2012, any unspent housing funds in RDA's were re-distributed to the local taxing agencies as one-time revenues. During this time the State passed SB375 (Chapter 728, Statutes of 2008) which directed the California Air Resources Board to set regional targets for reducing greenhouse gas emissions. SB375 included requirements for coordinating regional housing needs allocation with the regional transportation process. In FY2013/14 the Board approved the County Administrator's recommendation to establish the Housing/SB375 reserve using $2 million of these one-time housing set-aside funds for SB375 implementation and/or to address temporary and long term housing needs for children, families, special needs clients, and older, indigent and disabled adults. In FY2017/18 Recommended Budget the current balance in the Housing/SB375 reserve is $1.6 million.

OVERVIEW OF THE FEDERAL AND STATE BUDGETS

Federal Budget Update

Exactly seven months into the federal fiscal year which began October 1, 2016, congressional leaders announced on May 1, 2017 that they had reached a bipartisan budget deal to keep the federal government open through the end of September 2017. The House and Senate subsequently cleared the budget agreement, with the President signing the legislation into law on May 5, 2017.

Although congressional leaders had made the decision to delay consideration of the 2017 budget in order to give the new administration sufficient opportunity to mold the budget/bill legislation, the final agreement rejects many of the priorities sought by the new president. By way of illustration, the $1.1 trillion funding bill does not include the $18 billion in discretionary spending cuts proposed by the White House. Also left out of the legislation were a number of policy riders that Democrats considered to be "poison pill" amendments.

However, congressional Republicans and the President were able to secure several notable wins for 2017, including a $15 billion boost for the Pentagon, with $2.5 billion of the funding contingent on the administration delivering a new plan to combat the Islamic State. The bill also includes $1.5 billion for border security, although funding cannot be used for additional Immigration and Customs Enforcement agents, or the construction of a new border wall.

The 2017 legislation includes a number of provisions of particular interest to the state of California, including $140 million for drought resiliency initiatives – $67 million of which would be available for water storage projects – as authorized by last year's water infrastructure package (PL 114-322). The bill also provides $528 million for emergency repairs to roadways that were damaged by winter storms.

All told, the final fiscal year 2017 budget represents at least a short term victory for Solano County. Faced with the possibility of significant spending cuts in the current year, Congress ultimately rebuffed many of the programmatic funding reductions that were being aggressively pursued by the White House for 2017; we now await the budget proposals for budget year 2018.

Looking ahead, the Republican control of both houses of Congress and the White House with a 2017 adopted budget, will likely still need to seek Democratic cooperation to advance most legislation of consequence. With the possible exception of health care reform – which could potentially move through Congress via the expedited budget reconciliation process – most bills will need 60 votes to clear the Senate where the party split currently is 52-48. Accordingly, congress and the Trump administration will need to continue to work with congressional Democrats in order for legislation to be enacted into law.

State Budget Update

In January 2017, the Department of Finance estimated State General Fund revenues to be $125 billion and Governor Brown proposed to spend about $122.5 billion, a flat spending rate as compared to FY2016/17. The budget anticipated revenues rising at a reduced rate resulting in a $1.6 billion deficit in FY2017/18. In preparation for a future recession the Governor continues his commitment in the budget proposing depositing an additional $1.15 billion in the State's Rainy Day Fund, bringing the total to $7.9 billion by the end of FY2017/18 and 63% of the constitutional target. It should be noted here that proposed State budget changes as outlined in the Governor's May Revise, released on May 11, will be discussed in the County's FY2017/18 Supplemental Budget as they were not fully available for this budget document.

In Home Supportive Services (IHSS) Program

The January 10, 2017 Governor's proposed budget eliminated the IHSS Maintenance of Effort (MOE) established in FY2012/13 and its attendant 3.5% annual inflator and reinstated the existing nonfederal IHSS cost sharing ratio of 65 percent state and 35 percent county. The estimated total impact to counties is $623 million. The Governor's budget acknowledged the financial hardship of the decision and indicated a willingness to work with counties although specific mitigation efforts were not defined. The Governor's May budget revise will be discussed in the County's FY2017/18 Supplemental Budget document prepared before budget hearings. Below is a summary of the January 2017 proposal.

Health Care

The Governor's January 2017 budget proposed the following:

- For Medi-Cal, the Brown Administration estimated an increase of 7% from $17.8 billion to $19.1 billion with a shortfall of $1.8 billion General Fund compared to the 2016 State Budget Act. The proposed budget includes $1.5 million to make recommendations for a new Medi-Cal county administration budget methodology.
- Children's Medical Coverage
  - The budget assumes reauthorization of the Children's Health Insurance Program (CHIP) beyond September 2017 but does not assume the federal government will increase its matching assistance percentage as outlined in the ACA for fiscal years 2016 through 2019.
  - Coverage of Undocumented Children – The proposal includes $279.5 million General Fund to provide full-scope benefits to approximately 185,000 children. This amount reflects the full-year costs for this program. Chapter 18, Statutes of 2015 (SB 75), expanded full-scope Medi-Cal benefits to undocumented children under 19 years of age effective May 2016.
- Prop 56 Revenues to Medi-Cal **–** The budget includes $1.2 billion to support new growth in Medi-Cal expenditures as compared to the 2016 State Budget Act.

1991 State-Local Realignment Health Account Redirection

The Governor's January 2017 budget proposed the following:

Chapter 24, Statutes of 2013 (AB85) modified the 1991 Realignment Local Revenue Fund distributions to capture and redirect counties' savings due to the implementation of federal health care reform. The January budget proposal estimates counties' savings of $546.2 million which will be used to reduce State General Fund spending on the CalWORKs program. Additionally, spending data by counties indicates net savings in FY2014/15 were $245.6 million higher than estimated and the budget proposal assumes reimbursement from counties in FY2017/18 of this amount.

Social Services

The Governor's January 2017 budget proposed the following:

- Continuum of Care Reform - $217.3 million ($163.2 million General Fund) to continue implementation of the Continuum of Care reforms outlined 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. Although significant progress has been made for the transition of foster youth beginning January 1, 2017, assumptions on caseload movement were revised to more accurately reflect the pace of implementation.
- Child Welfare Digital Services - the Child Welfare Services New System case management project continues to make progress, as the agile approach to software design and development adopted in November 2015 accelerates the project timeline. Rather than procuring a single, monolithic solution to replace the legacy system, a suite of digital services is being developed and integrated to deliver continually improving assistance to state and county workers, enabling effective engagement with and assistance to children and families. The Budget includes $175.9 million.
- Minimum Wage Increase - increase in IHSS expenditures of $56.8 million ($26.4 million General Fund) and a decrease in CalWORKs expenditures of $5.3 million General Fund to reflect the impact of the state minimum hourly wage from $10.50 to $11.00, effective January 1, 2018.
- Continue Consolidation of Statewide Automated Welfare Systems - $38.5 million ($7.5 million General Fund) for migration of 39 counties using the Consortium IV system to the LEADER Replacement System. The first year of funding for migration activities will be available after the county consortia negotiations are complete and the Department of Finance and the Department of Technology have reviewed and approved detailed project documents.

CalWORKs

The Governor's January 2017 budget proposed the following:

Average monthly CalWORKs caseload is estimated to be about 459,000 families in FY2017/18, a 5.6-percent decrease from the 2016 Budget Act projection. Due to an improving economy, caseload has decreased every year from a recent peak of 587,000 in FY2010/11.

- Maximum Family Grant (MFG) Repeal - $224.5 million ($198.2 million General Fund) to reflect a full year of increased grant costs resulting from the repeal of the MFG rule, effective January 1, 2017. The rule, for calculating a household's maximum aid payment, prohibited cash aid for any child born into a CalWORKs household ten or more months after initially receiving aid.
- County Indigent Health Savings - one-time General Fund decrease of $265.9 million resulting from additional county savings related to federal health care reform. Actual statewide indigent health savings in FY2014/15 were higher than previously estimated. Pursuant to current law, these additional county savings are redirected to the CalWORKs program to offset General Fund costs.

Developmental Services

In 2015, the State Administration announced the planned closure of the three remaining developmental centers: Sonoma, Fairview and the general treatment area of Porterville. Sonoma is scheduled to close in December 2018 and no longer receives federal funding for its intermediate care facility units. On July 1, 2016, the State Department entered into settlement agreements with the federal Centers for Medicare and Medicaid Services to continue federal funding for individuals residing at Fairview and the general treatment area at Porterville.

Mental Health

Children's Mental Health Crisis Services Grants - the Governor's January budget includes the reversion of $17 million State General Fund from FY2016/17 funds intended for grants to local governments to increase the number of facilities providing mental health crisis services for children and youth under the age of 21 citing that nearly $11 million in Mental Health Services Act (Proposition 63 – MHSA) funding remains available for the program.

Public Safety

The Governor's January 2017 budget proposed the following:

Community Corrections Performance Incentive Grant - the proposed budget includes $114.9 million to continue the Community Corrections Performance Incentive Grant.

Post Release Community Supervision - the proposed State budget includes $11 million State General Fund for county probation departments for post release community supervision.

Proposition 47 – the proposed budget estimates $43 million in Proposition 47 savings.

Proposition 57 - the Governor's January Budget assumed that the non-violent parole process and credit-earning changes authorized by Proposition 57 would be implemented on October 1, 2017, and estimated an average daily adult inmate population reduction of 1,959 inmates in FY2017/18. Estimated savings of $22.4 million in FY2017/18, increasing to approximately $140 million in FY2020/21 are included in the January budget.

Cannabis Regulation

The January 2017 State budget proposes one regulatory structure of cannabis activities and indicates that implementation of the current medical and recreational statutes separately will result in duplicative costs of an additional $25 million for a second track and trace system. The budget includes $52.2 million for the regulation of cannabis in FY2017/18 to fund regulatory activities, processing of licenses and enforcement.

- Department of Consumer Affairs - $22.5 million to enhance the Bureau of Medical Cannabis Regulation with the Department of Consumer Affairs which will regulate transportation, storage, distribution, and sale of cannabis within the State and will also be responsible for licensing, investigation, enforcement, and coordination with local governments.

- Department of Public Health - $1 million for the licensing and regulation of medical cannabis produce manufacturers.
- Department of Food and Agriculture - $23.4 million to provide Cannabis Cultivation Program administrative oversight, promulgate regulations, issue cannabis cultivation licenses, and perform an Environmental Impact Report in addition to establishing a track and trace program for medical cannabis with assistance from the Department of Technology.
- Board of Equalization - $5.4 million in FY2017/18 to notify businesses of the new tax requirements and update its information technology systems to register businesses and process tax returns from retail sales.
- Department of Health Care Services - funded in FY2016/17 to the public information program specified in Proposition 64.

Housing / General Local Government

The Governor's January 2017 Proposed Budget noted that local governments have primary control over land-use and housing-related decisions, and can enact policies that either encourage or discourage housing construction, which impacts housing costs for all Californians. Specifically, he stated, "To address the statewide housing shortage more units need to be built at a lower per-unit cost. Local factors that drive up per-unit costs include permitting and impact fees, delays in permit approvals, and parking requirements. These cost drivers can add tens of thousands of dollars to the cost of constructing housing."

Cap and Trade

The Governor's January 2017 Proposed Budget recognized there has been significant volatility in the Cap and Trade market, and proposed a $2.2 billion Cap and Trade Expenditure Plan to be allocated *after* legislation confirming the ARB's authority to administer the Cap and Trade Program beyond 2020 is enacted through a 2/3-vote of the Legislature. Included within the $2.2 billion Cap and Trade Expenditure Plan is $500 million for the Governor's proposed Transportation package, which would be annualized for 10 years; and, $900 million to fulfill ongoing commitments to high-speed rail, affordable housing, sustainable communities and public transit established by SB 862 (Budget and Fiscal Review) [Chapter 36, Statutes of 2014].

Of the remaining $1.3 billion, $863 million is proposed for programs that lower emissions from the transportation sector. This funding could support a reduction in housing and transportation costs through the development of transit-oriented development that brings jobs and housing closer together, as well as provide a substantial investment in incentives for electric vehicles and the development of in-state low-carbon biofuels. An additional $392 million is proposed for programs that could expand the amount of green spaces and new and upgraded housing in the state's disadvantaged and low-income communities, reduce pollution at landfills and provide new recycling jobs, improve the condition of the state's forests, and enhance agricultural water conservation.

Water

The Governor's January 2017 Proposed Budget included an additional $178.7 million of one-time resources for FY2017/18 to reflect drought conditions and provide immediate response to drought impacts.

Transportation

The Governor's January 2017 Proposed Budget reemphasizes the need to find a solution to California's deteriorating transportation infrastructure and outlined a proposal to invest $43 billion in transportation over the next decade. The Governor stated that "the repair, maintenance and efficient operation of the State's transportation system are vital to California's economic growth." Details of SB 1 (Beall), signed by the Governor on April 28, 2017, is included in the County's FY2017/18 Supplemental Budget.

ECONOMIC RISKS

Nationally

In an article titled "G.D.P. Report Shows U.S. Economy Off to Slow Start in 2017" in the New York Times (April 28, 2017), it was noted that the first quarter Gross Domestic Product (GDP) annual growth rate of 0.7% showed that "consumers pulled back sharply on spending in early 2017, reducing the economy's quarterly growth to its lowest level in three years". The pull back by consumers "was particularly notable on big purchases like automobiles. Other indicators were stronger – businesses invested at a healthy pace – but that was not enough to offset the headwinds from feeble retail sales and falling inventories." The signs are that the consumer spending that is occurring is focused on services and "the rising cost of necessities like health care, housing and education is crowding out discretionary spending for middle-class Americans." Despite slow growth, other indicators were positive with unemployment at a historic low of 4.5% nationally, solid job gains, relatively low gas prices and wage growth. If unemployment continues to drop, this will place pressure for wages to increase because competition from workers to fill jobs and can lead to a rise in inflation which could trigger the Federal Reserve to raise interest rates. The Federal Reserve has raised its rates twice since December 2016 and current indications are for at least one, possibly two more, rate hikes this year.

California

In the May Revise of the 2017-18 California State Budget, Governor Jerry Brown proposes a $124 billion budget which includes increased revenues of $2.5 billion. Although technically an increase in revenues, the rate of increase is below what was anticipated and thus the budget projects a $1.6 billion deficit for the coming year. This coupled with lower than expected statewide sales tax increases has direct impacts to many county revenues (collected statewide and allocated to counties by the State) including 1991 and 2011 Realignment, Proposition 172 Revenues and general sales tax revenues. Weaker spending, lower housing permits and inflation in housing and medical costs are the likely contributing factors to lower than estimated sales tax revenues (source: Governor Brown's May Revise). The state's unemployment rate of 5.1% is at historic lows and is not anticipated to drop in near future. The increase of $2.5 billion in revenues at the State is largely attributed to the rise in capital gains tax as a result of the upward trending Stock Market. This creates potential volatility in personal income tax revenues for the state if the Stock Market reverses trend and heads downward, personal incomes and the associated personal income taxes will be adjusted downward.

Staff will continue to monitor state and federal budget developments and consider them in light of managing the County's budget.

FY2017/18 GENERAL FUND RECOMMENDED BUDGET

The County's FY2017/18 Recommended Budget for the General Fund of $268.3 million is balanced with revenues of $226 million, drawdowns from committed fund balances of $1.0 million for Accrued Employee Leave Payoff, $6.8 million for Capital Renewal Reserve, $10 million for Property Tax System Replacement and use of Fund Balance ($24.5 million).

The Recommended Budget for General Fund reflects an increase in revenues of $13.3 million when compared to the FY2016/17 Adopted Budget of $212.7 million. The increase in revenues is attributed to an anticipated net increase in Tax Revenues, including taxes driven by the assessed roll changes, and local sales and use taxes and other tax revenue totaling $10.6 million primarily due to improved property values and an increase of $2.7 million primarily for charges for services for various permits and services.

The Recommended Budget reflects increased General Fund appropriations of $268.3 million when compared to FY2016/17 Adopted Budget of $252.7 million. The net increase of $15.6 million is primarily due to the one-time transfer of $10 million General Fund – General Reserves to a new Reserve for the Property Tax System Replacement project, which was supported by the Board in April 2017. The remaining $5.6 million increase in the General Fund reflects increased labor costs and increased General Fund contributions to both Health and Social Services and Public Safety and Capital Projects, offset by reduced transfers to reserves when compared to FY2016/17 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 FY2016/17 Third Quarter projections for comparison only. Using the FY2017/18 Recommended Budget as the starting point, revenues and expenditures are forecast through FY2019/20. While projections beyond 2020 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
FY2017/18 Recommended Budget
(in million of dollars)

		Third Quarter Projection For 6/30/17	Recommended Budget FY2017/18	Projected Budget FY2018/19	Projected Budget FY2019/20
a	**General Fund, Beginning Balance**	$ 34.32	$ 24.54	$ 9.00	$ 7.46
	TO Reserves:				
	General Reserves				
	Unfunded Employee Leave Payoff	(0.795)			
	Capital Renewal Reserve	(12.474)	(4.246)		
	Employer CalPERS Rate Increases	(3.000)	(4.000)		
	Property Tax System Replacement		(10.000)		
b	Subtotal - TO Reserves	(16.269)	(18.246)	0.000	0.000
	FROM Reserves:				
	General Reserves		10.000		
	Unfunded Employee Leave Payoff	1.000	1.000	0.800	0.800
	Capital Renewal Reserve	2.632	6.738	2.000	2.000
	Employer CalPERS Rate Increases	2.000		4.000	4.000
	Encumbrances	0.695			
c	Subtotal - FROM Reserves	6.327	17.738	6.800	6.800
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(9.942)	(0.508)	6.800	6.800
e	**TOTAL AVAILABLE FINANCING (a+d)**	24.382	24.029	15.802	14.257
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	218.841	241.069	240.547	244.757
g	Contingencies	0.000	9.000	9.000	9.000
h	**Total Operating Expenditures**	218.841	250.069	249.547	253.757
i	Operating Revenues (excluding transfers from Reserves)	218.996	226.042	232.202	236.971
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	218.841	241.069	240.547	244.757
k	**Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)**	$ 0.155	$ (15.027)	$ (8.345)	$ (7.786)

***** General Fund, Beginning Balance in FY2018/19 and FY2019/20 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 FY2018/19 and beyond.

Revenue Assumptions - From General Revenue Projections:

The County's General Fund Budget is financed with General Revenues (refer to BU 1101), the use of certain one-time revenues, Fund Balance, and General Reserves, if necessary. The FY2017/18 Recommended Budget includes the use of General Fund – Committed Fund Balances: $1 million from Accrued Employee Leave Payoff, and $6.8 million from Capital Renewal.

The significant Revenue Assumptions from the General Revenues budget include:

- An estimated 4% increase in assessed values from the FY2016/17 corrected assessment roll, the following increases are projected: $4.7 million in Current Secured Property Taxes, $2.7 million Taxes in Lieu revenues, $1.1 million in ABX1 26 Pass Through and $0.4 million increase in ABX1 26 Residual Revenue. It is anticipated assessed values will increase 3% in FY2018/19 and FY2019/20 as Solano County continues to recover from the Great Recession and subsequent local housing market collapse.

- Current Unsecured Property Taxes projected to remain flat in FY2018/19 and FY2019/20 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 $36.1 million in Proposition 172 funding, an increase of $0.2 million. As Proposition 172 funds increase for the County, then the General Fund contribution to the Public Safety Fund Departments may be reduced correspondingly. Throughout FY2016/17 based on the reductions in Solano County's statewide allocation factor and reduced sales tax growth projections the County's share of statewide collection for Proposition 172 continue to decline and now reflect minimal increases from FY2016/17. (see Pending Issues) ;
  - The Recommended Budget reflects $54.7 million in 1991 State – Local Realignment revenues, an increase of $8.4 million; and $28.0 million in 2011 Realignment funds, a decrease of $3.5 million. 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 FY2019/20; based on previously approved CalPERS actuarial assumptions for the proposed rates by CalPERS. We have included a rate of 20.967% for Miscellaneous and 27.542% for Safety in FY2017/18.
- Health insurance costs are projected to increase 6% per year based on past rate history, but do not reflect potential impacts from federal discussions surrounding the Affordable Care Act (ACA).
- The County General Fund Contribution through FY2017/18:
  - General Fund support for Public Safety is projected to increase from $104.6 million to $110.8 million; a $6.2 million increase. This increase takes into consideration salary and benefit increases, increases in central data processing charges, insurance, and countywide administrative overhead costs, combined with a reduction in other revenue sources such as institutional care and 2011 Public Safety Realignment.
  - General Fund support for H&SS is projected to increase from $25.4 million to $30 million; a $4.6 million increase. This primarily represents increases in In-Home Supportive Services (IHSS) costs associated with the Governor's January 2017 proposal for the elimination of the IHSS MOE effective July 1, 2017.
- The FY2017/18 Recommended Budget includes a Contingency appropriation of $9 million.(Reduced to provide a short-term solution for IHSS)

General Fund Deficit Reduction Strategies for FY2017/18 if Revenue Shortfall:

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 if revenues 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: *Seek employee concessions, in addition to the current MOUs and agreements in place or in progress*

Strategy 4: *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 April 2017, which will take effect July 1, 2017.

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): Long term Fiscal impacts related to State legislative changes under AB 403 remain unknown, particularly as they relate to Behavioral Health; the State's efforts to reduce group home care and transition group homes to a short-term treatment model will require complex coordination between children's mental health and CWS. Included in this effort is the State and federal approval for foster parents to bill Medi-Cal for services they deliver. This will increase the demands upon Behavioral Health to oversee Foster Family Agency contracts and their oversight of the service delivery and documentation of foster parents to mitigate audit risk and assure compliance with regulations without additional funding to support these efforts.

Affordable Care Act: The status of the federal ACA under the new federal administration remains unresolved. Through ACA, implemented in October 2013, counties' costs of serving the indigent population decreased as many formerly uninsured individuals obtained health coverage through the Medicaid Expansion afforded by the ACA; however, counties remain responsible for providing health care to the indigent population under W&I Code Section 17000. Medi-Cal enrollment has grown 57% from 77,600 individuals in June 2013 (pre-ACA) to 121,536 individuals as of February 2017 in Solano County. Repeal of the ACA, as currently debated in congress, could significantly increase the county's' indigent health care costs, without providing a dedicated funding stream. Public Health programs could also be directly affected as many Public Health are closely aligned with the ACA.

Mental Health Funding – Intergovernmental Transfer (IGT): The Mental Health Division continues to utilize IGT funding from the restricted reserve for Behavioral Health programs to fund the Integrated Care Clinics (ICC) and expects the fund to be depleted in FY2017/18. In addition to the remaining Mental Health IGT being utilized to support the Integrated Care Clinics, the Division is anticipating to receive $1,000,000 from Public Health IGT for Integrated Care Clinic's operations. If IGT funding is not available to support the ICCs and 1991 Realignment and Short Doyle Medi-Cal revenues do not cover actual costs, County funds may be needed to continue to support ICC clinic operations

Children's Mental Health Services: The State has initiated a requirement to add intensive services to all youth (not just Child Welfare Services (CWS) youth as previously required) that would benefit from such services. These additional services will significantly impact the existing service capacity. Mental Health is developing specific criteria to identify these youth, using State guidelines to inform the process. The additional services, however, will require significant allocation of resources without additional federal or State funding.

In-Home Supportive Services - The Coordinated Care Initiative (CCI) was implemented in FY2012/13 to improve coordination of health care and long-term services and support for seniors and persons with disabilities and reduce the overall costs of providing care. CCI replaced counties' 35% share of nonfederal IHSS program costs with an IHSS MOE based on each county's FY2011/12 IHSS expenditures. The Governor's proposed January 2017 budget discontinued CCI and the IHSS MOE effective July 1, 2017, reinstating a 35% County share of all nonfederal IHSS program costs through 1991 Realignment. State provided cost estimates are that the discontinuance of the IHSS MOE will result in an additional $8.4 million in costs to Solano County.

Health & Social Services – 1991 & 2011 Realignment: The State Budget Act of 2011 included a major realignment of human services programs receiving State General Fund allocations to counties. Through 2011 Realignment, the State share of funding for realigned programs was replaced by funding based on a percentage of realignment funds (State sales tax and vehicle license fees) collected. 1991 Realignment includes a dedicated percentage of State sales tax and vehicle license fees and is a major funding source for H&SS. The distribution of funds to the County is based upon formulas established in 1991. Funds are designated for specified human services programs, mostly federal, which the State and the County have traditionally shared the "local" costs in order to draw down federal matching funds. In order to continue to receive the 1991 Realignment funds, the County is obligated to fund the State share of program costs, and/or has a fixed maintenance of effort (MOE) amount. Regardless of actual Realignment revenues received, the County's share of costs for the Realigned programs is a fixed percentage.

Both realignment funding streams (1991 and 2011) are heavily dependent upon economic conditions since the source is sales tax and VLF. H&SS is projecting that the FY2017/18 2011 Realignment revenues will not be enough to cover projected expenditures and the shortfall in 2011 Realignment revenue will be covered by 1991 Realignment. The FY2017/18 Recommended Budget in H&SS relies on anticipated 1991 Realignment rollover funds from prior years to close the gap in 2011 Realignment funding.

Proposition 172 Revenue: The projection of Proposition 172 revenue to Public Safety Departments may decrease due to reductions in sales tax revenues statewide, a reduction in the statewide allocation factors, and 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. (See State Controller's Office Audit)

State Controller's Office Audit: The State Controller's Office (SCO) released an audit of the Board of Equalization's (BOE) accounting and administrative controls which found material weaknesses in the allocation of sales and use tax revenue that resulted to incorrect amounts being deposited to each subaccount that including the 1991 and 2011 Realignment subaccounts. The SCO's findings may result in an unknown reallocation of sales and use tax revenue.

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 budget recommended by the Solano Community Corrections Partnership (CCP) included decreases in the appropriation of AB 109 funds over FY2016/17 in an ongoing effort to align revenues and expenses. 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 FY2017/18, 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 FY2018/19 and beyond, the Community Corrections Partnership will need to increase revenue or decrease appropriations. Departments are currently working to evaluate existing programs and services.

Property Tax Appeals/Prop 8 Values: As of May 15, 2017 there are 308 active property tax appeals on file with the Clerk of the Board representing $9.625 billion (cumulative over 8 years) in assessed value "at risk". 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.

The recovering residential real estate market results in a decrease in the number of properties on Proposition 8 status - a temporary reduction in property values below their established Proposition 13 base year value. According to the Solano County Assessor-Recorder's Office, as of August 2016, 18,323 parcels remain on Proposition 8 status, compared to 78,000 parcels in 2012. The county continues to have some residential neighborhoods that have not fully recovered their peak values from 2007.

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 24, 2017 which shows an estimated $32 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)

Transportation Funding SB-1-2017: Transportation funding Gas Tax provides new revenue for expenditure for road maintenance and safety projects, among other eligible expenses. The first phase of the new tax begins in November, 2017, with other portions of the tax phasing in during FY2018/19 and FY2019/20. Due to depressed Highway User Tax Assessment HUTA revenues in previous fiscal years, the Department removed many discretionary projects, including culverts, intersections, and reconstruction improvements, which will now be reconsidered for inclusion into the County's Capital Improvement Plan given this increased revenue. The Department will also need to review the functional organization of Public Works, and consider the staffing necessary to meet the new project workload.

SUMMARY OF RECOMMENDATIONS

For Board consideration is recommended increases to committed fund balances as depicted in Schedule 4. In addition to these recommendations of $4.3 million to Capital Renewal, $4.0 million to the Employer PERS Rate Increase and $10 million to the Property Tax System Replacement, if the amount of the General Fund's Year-end Fund Balance at June 30, 2017 exceeds the Third Quarter projections for FY2016/17, 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 FY2017/18 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 $5 million to Deferred Maintenance/Capital Renewal Reserves
2. Any amount up to $5 million to the CalPERS Reserves and/or 115 Trust
3. Any amount up to $4 million to General Fund Reserves
4. Partially or wholly payoff the outstanding principal balance of the General Fund loan for Pension Obligation Bonds

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