FY2016-2021 FIVE YEAR FORECAST

The FY 2016-21 Five Year Forecast uses countywide revenue and expenditure projections to monitor and highlight potential budget issues on the horizon. Although the economy continues to recover from the recession, projected revenue growth remains modest and existing Board commitments and departmental needs continue to increase expenditure levels. This creates a projected funding gap in the General Fund that reaches $4.8 million in FY 2020-21.

Significant Assumptions

Underlying our projections are the following assumptions:

- Secured Property Taxes are projected to grow approximately 3.375% (which is a gross increase of 4.5% less 1.125% for the Fire Tax Shift). (1.125% is 25% of the 4.5% growth). Our previous 5 Year Forecast had assumed a gross increase of 6.0% in Property Taxes.
- Assuming an ongoing gross Property Tax increase of 4.5%, it is projected that the Fire tax allocation will reach the 17% target in FY 2019-20.
- Sales tax growth rate is assumed to be 3%
- Transient Occupancy Tax (TOT) growth is assumed to be 3.5% (does not assume an increase in the 10% TOT rate)
- Salary increases of 2% per year are assumed for most bargaining units
- Retirement contribution rates per the December 2015 actuarial study are projected to decrease in the each of the coming five years, and specifically will decrease about 1.4% in FY 2016-17. Contribution rates assumed for FY 2017-18 and future years do not reflect a decrease and remain at a blended rate of 36.55%.
- Healthcare costs, are projected to increase approximately 10% per year through the forecast period (recent CSAC input suggests it may be higher in 2015-16 and 2016-17)
- Workers' Compensation is projected to have modest increases; recent CSAC information indicates that rates for FY 2016-17 will be flat compared to the prior year.
- Per recent Board policy, the Retiree Healthcare contribution rate (OPEB) will increase by 25 basis points in FY 2016-17 to 4.0% (as a % of covered payroll) and will remain at this level for the balance of the forecast.
- Utilities are assumed to increase at roughly 3-4% per year, with the exception of water, which is assumed to increase at approximately 11% per year.
- Departmental program expansions are not assumed. Therefore, department costs assume current levels of service.

Countywide Forecast

The Countywide forecast projects negative conditions in both the General Fund and Special Revenue Funds in FY 2017-18 and beyond. The funds will ultimately not have deficits as they are required to operate within their revenue sources, but the forecast helps to identify the underlying issues. These negative conditions are early indicators that in future years, absent greater General Fund Contribution or other revenues, departments may be required to cut services and/or take other cost-saving actions to balance their budgets.

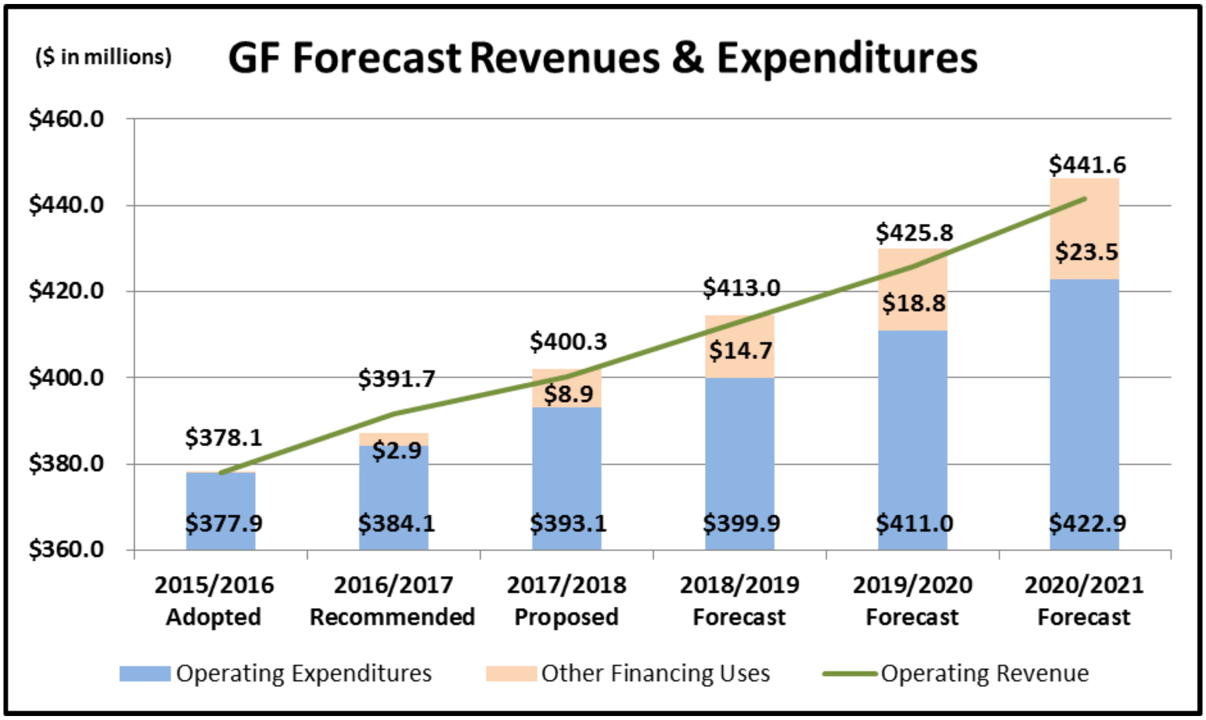
The table below displays the projected Countywide forecast by Fund Type, and Sources and Uses.

The General Fund is expected to have a positive balance in FY 2016-17 due primarily to growth in property taxes, as discussed in more detail in the following General Fund section. The later years begin to show a small but growing deficit in the General Fund, as expenditures begin to outpace forecasted revenues. The negative conditions in the Special Revenue funds are due predominantly to the Health Care, Mental Health Services, Social Services, and Child Support Services funds. Each of these Special Revenue funds has specific conditions causing the negative outlook, and these are discussed further in the Special Revenue fund section.

Sources and Uses ($ in millions)	2015/2016 Adopted	2016/2017 Recommended	2017/2018 Proposed	2018/2019 Forecast	2019/2020 Forecast	2020/2021 Forecast
Fund Type 01 -- General						
S -- Source of Funds	$ 401.1	$ 416.4	$ 413.1	$ 422.7	$ 435.7	$ 451.9
U -- Use of Funds	401.1	411.8	414.8	424.2	439.7	456.7
General	-	4.6	(1.7)	(1.6)	(4.0)	(4.8)
Fund Type 02 -- Special Revenue						
S -- Source of Funds	575.0	595.9	581.5	590.4	587.6	602.7
U -- Use of Funds	575.0	595.9	591.0	602.7	603.4	622.1
Special Revenue	-	0.0	(9.5)	(12.3)	(15.8)	(19.4)
Fund Type 03 -- Debt Service						
S -- Source of Funds	5.9	5.9	5.9	5.8	5.7	6.0
U -- Use of Funds	5.9	5.9	5.9	5.8	5.7	6.0
Debt Service	-	-	-	0.0	0.0	0.0
Fund Type 04 -- Capital Projects						
S -- Source of Funds	30.0	40.2	45.9	1.4	1.5	1.7
U -- Use of Funds	30.0	40.2	45.9	1.4	1.5	1.7
Capital Projects	-	-	-	-	-	-
Fund Type 05 -- Enterprise						
S -- Source of Funds	46.5	50.6	46.6	61.1	63.0	45.4
U -- Use of Funds	46.5	50.6	46.6	61.1	63.0	45.4
Enterprise	-	-	-	-	-	-
Fund Type 06 -- Internal Service						
S -- Source of Funds	71.1	74.2	73.3	73.9	77.0	80.4
U -- Use of Funds	71.1	74.2	73.2	74.7	76.8	79.1
Internal Service	-	-	0.0	(0.7)	0.2	1.3
Net Financial Impact	-	4.6	(11.2)	(14.5)	(19.6)	(22.9)

General Fund Summary

The following graph illustrates the 5 Year Forecast of revenues and expenditures in the General Fund and overlays Other Financing Uses (net). Other Financing Uses include setting aside funds for the Northern Branch Jail (NBJ) Operations Fund, adopted Maintenance Funding Policy which allocates 18% of unallocated Discretionary General Revenue towards maintenance needs, Strategic Reserve of 8% of Operating Revenues and other fund balances; offset by draws (Sources) on various fund balances.



The General Fund table of Sources and Uses by Object Level below displays a positive balance of $4.6 million in FY 2016-17, which becomes a $4.8 million deficit in FY 2020-21. These estimates also include Changes to Fund Balances, as described above in Other Financing Uses (net). The forecast does not assume department program or staff expansions.

General Fund – 5 Year Forecast by Object Level

Object Level ($ in millions)	2015/2016 Adopted	2016/2017 Recommended	2017/2018 Proposed	2018/2019 Forecast	2019/2020 Forecast	2020/2021 Forecast
Source of Funds						
05 -- Taxes	210.7	220.3	228.6	237.7	247.3	258.3
10 -- Licenses, Permits and Franchises	14.4	14.9	15.3	15.7	16.1	16.6
15 -- Fines, Forfeitures, and Penalties	3.6	4.0	4.1	4.3	4.5	4.7
20 -- Use of Money and Property	1.7	2.0	2.1	2.2	2.2	2.3
25 -- Intergovernmental Revenue-State	68.6	69.3	70.6	72.5	74.2	75.8
26 -- Intergovernmental Revenue-Federal	3.5	3.2	2.8	2.8	2.8	2.8
27 -- Intergovernmental Revenue-Other	0.6	0.4	0.2	0.2	0.2	0.2
30 -- Charges for Services	67.7	68.9	68.7	70.1	71.0	73.2
40 -- Other Financing Sources	4.6	5.9	4.6	4.6	4.6	4.6
45 -- Miscellaneous Revenue	2.8	2.9	3.3	2.9	2.9	3.0
Sources	**$ 378.1**	**$ 391.7**	**$ 400.3**	**$ 413.0**	**$ 425.8**	**$ 441.6**
Use of Funds	-	-	-	-	-	-
50 -- Salaries and Employee Benefits	267.6	272.9	284.7	294.9	305.0	315.3
55 -- Services and Supplies	49.7	50.4	47.1	46.8	47.1	47.5
60 -- Other Charges	19.1	21.3	22.0	22.6	23.4	24.2
65 -- Capital Assets	1.4	1.0	3.2	0.4	0.4	0.4
70 -- Other Financing Uses	40.1	38.6	36.2	35.3	35.2	35.5
Uses	**$ 377.9**	**$ 384.2**	**$ 393.1**	**$ 399.9**	**$ 411.0**	**$ 422.9**
Other Financing						
Transfers In	203.2	212.6	213.0	220.1	228.1	237.8
Transfers Out	(203.2)	(207.9)	(212.5)	(219.8)	(228.2)	(237.9)
Change to Fund Balance	(0.2)	(7.6)	(9.3)	(14.9)	(18.7)	(23.4)
Other Financing (Uses)	**$ (0.2)**	**$ (2.9)**	**$ (8.9)**	**$ (14.7)**	**$ (18.8)**	**$ (23.5)**
Net Financial Impact	**$ 0.0**	**$ 4.6**	**$ (1.7)**	**$ (1.6)**	**$ (4.0)**	**$ (4.8)**

Revenues:

Taxes:

The County expects continued revenue growth in the next five years. The primary driver is property taxes as the housing market continues to improve and grow. The forecast used a property tax assumption of 4.5% gross growth.

Other Departmental Revenues:

Departmental Revenues include such sources as grants, reimbursements for program & operating costs, State and Federal allocations for various programs, and special tax revenues. Some of the major types of department revenues include Prop 172 - Public Safety Tax which is expected to grow at 3.0% per fiscal year, Charges for Services growth of between 0% and 3.2% and Intergovernmental-State Revenues which are forecasted to increase 1.9% to 2.7%.

Expenditures:

The expenditures mostly follow the basic assumptions outlined of approximately 2% salary growth, retirement rates remaining essentially flat and health care costs rising by about 10% per year. Increased maintenance costs for FY 2017-18 and future years are reflected in the 5 Year Forecast as an increase to Fund Balance but are not showing as allocated to individual departments.
The net financial impact (NFI) by department within the General Fund is shown below:

General Fund – 5 Year Forecast of NFI by Department

Department ($ in millions)	2015/2016 Adopted	2016/2017 Recommended	2017/2018 Proposed	2018/2019 Forecast	2019/2020 Forecast	2020/2021 Forecast
011 -- Board of Supervisors	-	-	(0.0)	(0.1)	(0.1)	(0.1)
012 -- County Executive Office	-	-	(0.4)	(0.5)	(0.6)	(0.7)
013 -- County Counsel	-	-	(0.2)	(0.4)	(0.7)	(0.9)
021 -- District Attorney	-	-	(1.2)	(1.8)	(2.1)	(2.4)
022 -- Probation	-	-	(0.8)	(1.5)	(1.8)	(2.2)
023 -- Public Defender	-	-	(0.1)	(0.3)	(0.3)	(0.4)
032 -- Sheriff	-	-	(2.6)	(3.4)	(4.9)	(6.5)
041 -- Public Health	-	-	(0.5)	(0.5)	(0.8)	(1.0)
051 -- Agricultural Commissioner/W&M	-	-	(0.1)	(0.1)	(0.1)	(0.1)
052 -- Parks	-	-	(0.3)	(0.5)	(0.6)	(0.8)
053 -- Planning & Development	-	-	-	-	-	-
054 -- Public Works	-	-	-	-	-	-
055 -- Housing/Community Development	-	-	(0.3)	(0.2)	(0.2)	(0.2)
057 -- Community Services	-	-	(0.0)	(0.0)	(0.0)	(0.0)
061 -- Auditor-Controller	-	-	(0.1)	(0.2)	(0.4)	(0.7)
062 -- Clerk-Recorder-Assessor	-	-	(2.4)	(0.6)	(0.8)	(0.2)
063 -- General Services	-	-	(0.6)	(0.8)	(1.0)	(1.2)
064 -- Human Resources	-	-	-	0.1	0.0	0.0
065 -- Treasurer-Tax Collector-Public	-	-	(0.2)	(0.3)	(0.4)	(0.5)
990 -- General County Programs	-	-	(0.0)	0.0	-	0.0
991 -- General Revenues	-	4.6	8.2	9.4	10.8	13.0
992 -- Debt Service						
Net Financial Impact	-	4.6	(1.7)	(1.6)	(4.0)	(4.8)

Of the 22 General Fund Departments, 17 are displaying a deficit in FY 2017-18, increasing to 18 in FY 2020-21. A number of the Departments' negative variances are due to departmental revenue not keeping pace with the assumed growth in salaries and benefits as well as general operating expenditures such as utilities. The General Fund Contributions to these departments are adjusted for salary and benefit increases based on budget policies, but other funding sources may not increase sufficiently to balance these departments.

The departments with significant issues are described below:

District Attorney:
The Department is projecting a deficit each year of the five year forecast. In FY 17/18 the department anticipates a $1.2 million deficit, or approximately 5 % of forecasted expenditures. This deficit increases to approximately $2.4 million or 8.6% of forecasted expenditures in year five. The deficits are based primarily on expected salary and benefits growth associated with the current Deputy District Attorney labor agreement, and increases in general liability and workers compensation costs; in total these expenditures outpace growth in Proposition 172 Sales Tax, Local Realignment, recording fees, and General Fund Contribution revenues.

Probation:
The Department is projecting a deficit in four of the five forecasted years beginning at $0.8 million or approximately 1.5% of forecasted expenditures in FY 2017-18, growing to $2.2 million or approximately 3.6% of forecasted expenditures, in FY 2020-21. The deficits are due to a current use of fund balance and future costs of salaries, benefits and insurance outpacing revenues from Prop 172, collections and General Fund Contributions.

Sheriff:
The Department is projecting a deficit beginning at $2.6 million in FY 2017-18, growing to $6.5 million by FY 2020-21. The deficits are due to forecasted countywide custody and law enforcement operations costs continuing to increase at a greater rate than revenues. The primary drivers of the deficits are salary and benefits expenditures outpacing Proposition 172 Sales Tax growth, State Prison Realignment funds, contract cities' revenue, and General Fund Contribution revenues. Contract city agreements are based on cost recovery and will be reviewed and renewed in FY 2017-18.

Public Health:
The Animal Services and Environmental Health Services Divisions of the Department are projecting a deficit forecast beginning in FY 2017-18 at $0.5 million growing to $1 million in FY 2020-21. Both divisions currently have a structural imbalance, although the Environmental Health Services Division, which was transferred from the Fire Department three years ago, is working on a restructuring of fees and charges. The Animal Services program is relying on the use of designated and one-time funds, and its existing budget gap coupled with increasing expenditures that exceed its generated revenue is creating the increasing structural deficit in the forecast.

Community Services:
The Parks Division of the Department is projecting a deficit beginning in FY 2017-18 of $0.3 million or approximately 2.5% of forecasted expenditures, growing to $0.8 million or approximately 6% of forecasted expenditures in FY 2020-21. This annual growing structural imbalance is due to operational costs salaries, benefits and utilities) rising faster than park-generated revenues.

Historically, the Housing & Community Development Division has relied heavily on fund balance and one-time restorations to fund its administration. This fund balance has been depleted in large part due to escalating Cost Allocation Plan (CAP) charges from other departments within the County that assist HCD. The amount of federal dollars for administration is capped and not sufficient to cover all administrative costs for these State and Federal programs. During FY 2015-16, the CEO recommended an additional $275,000 in ongoing General Fund Contribution to address the structural imbalance within HCD. However, HCD still relies on one-time fund balance draws which is reflected in the forecast of approximately $0.2 million deficit each year beginning in the FY 2017-18 of the five year forecast. This shortfall assumes use of fund balance discontinues, and that CAP charges and federal allocations remain steady.

Energy and Sustainability Initiatives, a new division within HCD created during FY15-16, is contributing to $0.1 million deficit in FY 2017-18 due to the anticipated request for additional funding to complete Phase 2 implementation of Community Choice Energy.

Clerk Recorder Assessor:

The Department is projecting a deficit beginning at $2.4 million in FY 2017-18, and dropping to $0.2 million by FY 2020-21.

The FY 2017-18 imbalance consists of an operational budget gap of $343,000 primarily due to increases in employee salary and benefits and decreases in departmental revenues. The remaining $2,019,000 is the unfunded component of the cost of the voting system and conditional voter registration equipment in the Elections Division. While there is a potential for grant funds to cover these one-time expenditures, a General Fund contribution may be required should the grant funds not be available.

General Services:

The department is forecasting a deficit of $600K, in the FY 2017-18 which gradually increases to an estimated $1.2M through FY 2020-21. The increases are driven by three expenditure object levels: salaries and employee benefits; services and supplies; and other charges. The department has projected salaries and employee benefits at a 3.9% growth ($1M in GF) each year, yet revenue projections remain relatively flat. Due to the backlog of deferred maintenance, the department has increased the expenditure projection for building maintenance of approximately $350,000 in the services and supplies object account. As mentioned at the start of the Expenditure section, additional maintenance funds will be available to the department but are not reflected in the department as the allocation will be based on needs in the future. Other charges include increases in utility costs of approximately 3% per year.

Special Revenue and Other Funds Summary

Projected deficits in the Special Revenue funds will ultimately not materialize as these funds are required to operate within their revenue sources.

Special Revenue Funds – 5 Year Forecast of NFI by Fund

Fund ($ in millions)	2015/2016 Adopted	2016/2017 Recommended	2017/2018 Proposed	2018/2019 Forecast	2019/2020 Forecast	2020/2021 Forecast
0042 -- Health Care	$ -	$ -	$ (0.1)	$ (1.6)	$ (2.4)	$ (3.4)
0044 -- Mental Health Services	-	-	(1.5)	(2.0)	(2.4)	(2.8)
0048 -- Mental Health Services Act	-	-	(2.4)	(3.2)	(4.0)	(4.5)
0055 -- Social Services	-	-	(4.0)	(3.3)	(4.3)	(5.5)
0056 -- SB IHSS Public Authority	-	-	(1.0)	(0.7)	(0.8)	(0.8)
0057 -- Child Support Services	-	-	(0.3)	(0.6)	(0.9)	(1.3)
All Other Special Revenue Funds	-	0.0	(0.2)	(0.9)	(1.0)	(1.2)
Net Financial Impact	$ -	$ 0.0	$ (9.5)	$ (12.3)	$ (15.8)	$ (19.4)

The majority of funds (52 out of 57) are projecting essentially balanced budgets. There were five funds that have projected challenges that will be described below.

Health Care Fund:
If current trends continue, the Public Health Department (PHD) projects that there will be no fiscal impact for the next two fiscal years and then an approximate $1.6 million deficit growing to $3 million in the following fiscal years. Health Care Fund cost increases, including salaries and benefits costs, are projected to track ahead of revenue growth due to a number of uncertainties and potential risks including the challenges of recruiting and retaining providers to meet the demand of new Medi-Cal patients, enhanced compliance and regulatory requirements, the continued need to maintain and update Electronic Health Systems, and Federally Qualified Health Center (FQHC) payment reform.

Mental Health Services Fund:
The Mental Health Services fund is balanced in FY 2016-17 assuming service level reductions to contracted inpatient beds of $2.8 million. During FY 2015-16, out of county psychiatric hospital inpatient beds are averaging 11 per day and long term Institutes for Mental Disease (IMD) beds are averaging 43 beds per day, with an estimated cost of $6.78 million. Behavioral Wellness has proposed to balance its budget by cutting 8 short term beds and 5 long term IMD beds. The department anticipates reduced bed days in the inpatient system given the new options provided from the new Crisis Stabilization Unit and Crisis Residential Facility, and new safe and stable housing beds. Due to the proposed cuts, there is anticipated to be a minimum of 13 clients without care. The department is seeking restoration of funding to assist these clients. However, for the purposes of the 5 year forecast, it is assumed that continued demand and costs to provide the additional beds remains constant as benefits from the recently added beds are not yet known. The impact is a forecasted deficit growing to $2.8 million in FY 2020-21.

Mental Health Services Act Fund:
The Mental Health Services Act (MHSA) fund is displaying a $2.4 million deficit in FY 2017-18 budget due primarily to the ending of SB 82 Crisis Triage grants as well the depletion of MHSA reserves available to cover MHSA operations. The forecast is assuming the services and demands remain, as grant funded programs are intended to continue where feasible when the grant funding is exhausted. The forecast therefore assumes these programs continue without a dedicated revenue source. (However, when the grants were first accepted, the department recognized that the programs could be eliminated if ongoing funding is not identified). The deficit subsequently grows to $4.5 million by FY 2020-21, though there is a possibility that over this period additional grant funding may be awarded to fund the current programs or MHSA funding may increase beyond current projections. Behavioral Wellness will be reviewing the structure, effectiveness and fiscal sustainability of these grant services going forward. Also to note; MHSA funding is based on Personal Income tax on incomes over $1 million, and subsequently has historically been volatile, with annual swings of over 20% ($3M - $5M being the norm). Due to this volatility, forecasting of MHSA revenues more than 1 year out is very difficult and therefore this forecast simply uses an estimate with only moderate growth (~1.5% annually) based on current funding levels.

Social Services and IHSS Public Authority Funds:
Beginning in FY 2017-18, the Department of Social Services (DSS) has estimated that the department will have insufficient local funding to meet the mandated obligations for County matching funds. DSS has two main sources of revenue from which to meet its minimum match requirements. They include 1991 Realignment Revenue and County General Fund Contribution (GFC). The need for additional revenue has grown due to several factors: 1) DSS no longer receives general growth in 1991 Realignment Revenue; 2) realignment funding for caseload growth has slowed from previous years; 3) effective FY 13-14, there was a change in the mandated match requirement in our In-Home Supportive Services programs to a Maintenance of Effort (MOE) requirement that also included a mandatory 3.5% annual increase as well as an additional match amount for any increases in Board approved-Individual Provider Wages; and 4) beginning in FY 15-16, the State changed the way the mandated match in our CalFresh program was calculated and began transitioning to a 15% share-of-cost from a flat Maintenance of Effort amount.

In prior years, the Department was able to mitigate the need for GFC by utilizing Fund Balance which had been accumulated over several years. Although DSS expects to end FY 2016-17 with a small positive fund balance (FB), it is anticipated that this amount together with ongoing GFC will be insufficient to meet the amount of the mandated minimum match in FY 17-18.

The total estimated match requirement is approximately $27.4 million of which $17.4 million is directly attributable to the required local funding for Cash Assistance, Foster Care placements and defined Maintenance of Effort match requirements.

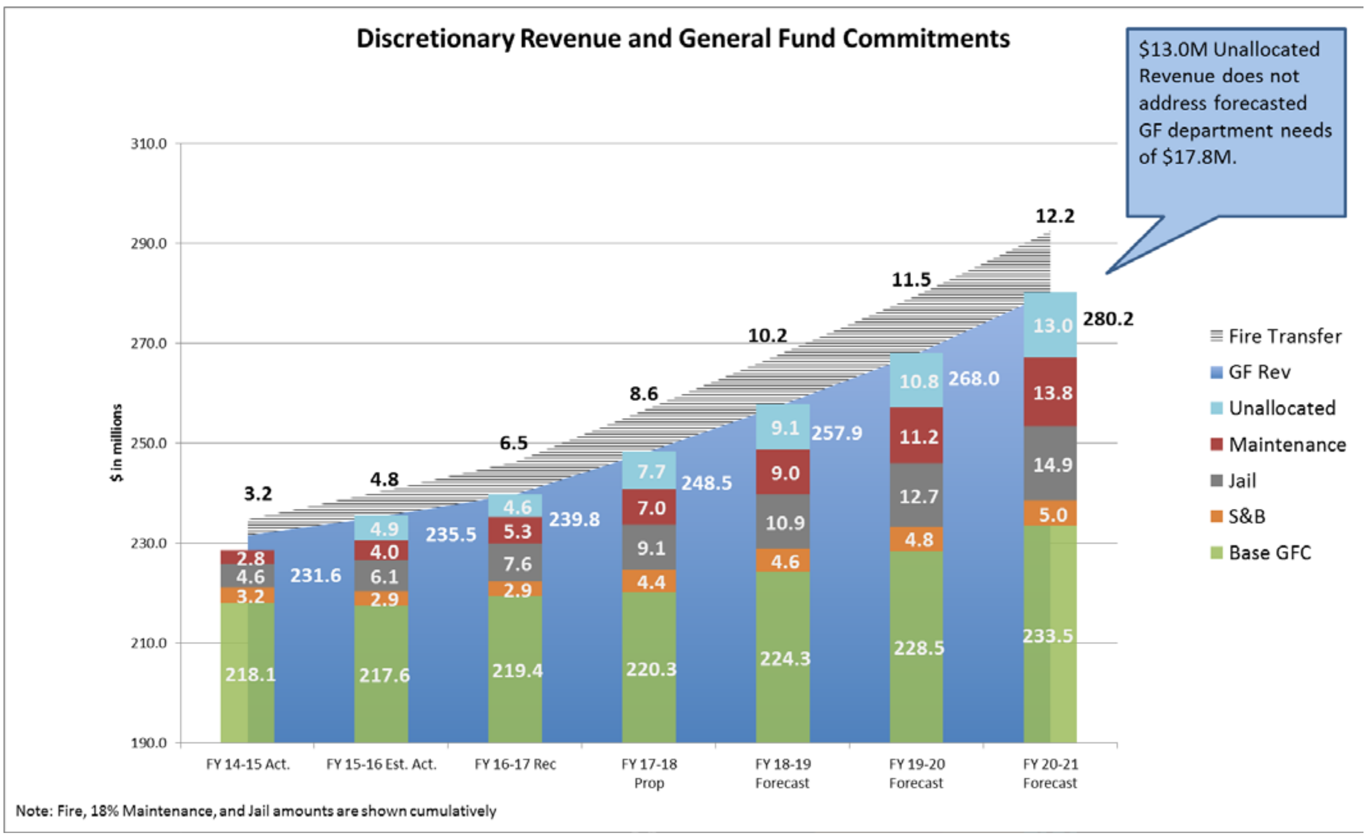
As a result of the loss of the FB and the potential loss of one time General Fund transfers, the Department does not anticipate receipt of sufficient funding required to meet its match obligations, therefore a shortfall is projected. Based on current minimum match requirements and factoring in State legislative changes to these amounts, the Department is estimating the need for additional GFC and/or service level reductions, projected to range from $5 million in FY 2017-18 to $6.3 million in FY 2020-21. However, the projected deficit in FY 2017-18 and beyond could potentially be reduced by approximately $1.0 million if the department receives additional Medi-Cal, Food Stamps and Foster Care revenue from prior year reconciliations, in addition to service level reductions of 7 FTE.

Child Support Services Fund:
The fund is displaying a significant deficit of $1.3 million by year five due to assumed Salary and Benefit growth, while Federal and State Revenues are expected to stay flat. Child Support is funded directly from grants and therefore can only provide services that the funding will finance. Any projected deficits will ultimately not materialize, but the Fund will require additional revenue or expenditure efficiencies in order to balance the budget.

Closing Comments/Conclusion

The national, State and local economies have been improving and the County's revenues from these three sources is now increasing. As a result, no significant service level reductions are expected next year. Property taxes (our largest form of discretionary general fund revenue) have been improving and are expected to grow around 4.5% in the coming years.

Increasing revenues will present opportunities to address certain needs and issues; however, the County has already committed future funding to the Fire District through a tax shift; Northern Branch Jail Operations fund; Strategic Reserves and additional maintenance funding. The graph below demonstrates existing General Fund commitments compared to the projected growth in Discretionary Revenue over the next 5 years. As can be seen, the majority of additional funds have already been committed to various needs, particularly in the near term. Further, the graph below does not contemplate funding of any of the potential departmental needs mentioned in the preceding pages.



Beyond the issues already mentioned in this report, new matters continue to emerge that will be evaluated and addressed as appropriate.

In closing, we see both opportunities and unmet needs on the horizon which will require thoughtful establishment of priorities to apply available resources to the most critical areas.