Budget Message

The budget message provides an overview of the County's budget. The message sets a context for budget decisions by describing the economic conditions and changes to financing and revenue sources which help to shape the budget. It provides a summary of expenditures for the current year in comparison to expenditure levels in the previous year to demonstrate the impact that economic conditions have on County financing. Changes to staffing levels and service level program impacts are also discussed to provide the reader with a link between how financing decisions impact County operations and service provision.

County of San Luis Obispo

COUNTY GOVERNMENT CENTER, RM. D430 • SAN LUIS OBISPO, CALIFORNIA 93408 • (805) 781-5011

DAN BUCKSHI
COUNTY ADMINISTRATOR

May 13, 2014

Honorable Board of Supervisors,

The Fiscal Year (FY) 2014-15 Proposed County budget is submitted for your review and consideration. Your Board will review the budget in detail at public budget hearings, scheduled for June 9-11, 2014, during which time you may add, delete, or modify the proposal as you deem appropriate.

Introduction

This budget, as proposed by staff to your Board, is an effort to allocate resources in an effective and efficient manner in order to achieve the County's vision of a Safe, Healthy, Livable, Prosperous, and Well-Governed Community. This budget proposal complies with all aspects of the State Budget Act (Government Code 29000 – 29144), Board adopted Budget Goals and Policies, Budget Balancing Strategies and Approaches, and the Board's priorities. All of these guiding principles and strategies were utilized in an attempt to strike a balance between sound fiscal management and the continued provision of programs and services to the public.

This budget represents the final year of a seven year financial plan, commonly referred to as the Seven Year Pain Plan, designed to navigate through the largest financial downturn in decades. The intent of the plan is to incrementally and methodically close the structural budget gap over a seven year period while simultaneously maintaining high levels of service to the public. As per plan, the structural gap has dissipated as envisioned. During the Seven Year Pain Plan, a series of short and long term approaches were used to close budget gaps ranging from a high of $30 million in FY 2009-10 and a low of $2 million in FY 2012-13.

Moving into FY 2014-15, the County is projecting a budget surplus of approximately $5.8 million. Numerous signs, including increases in home prices, building permits, sales tax, property tax revenues, and Transient Occupancy Taxes (TOT), are reflective of an improving economy. The small surplus allowed staff to recommend a budget that begins to restore, and in some cases, increase service levels to support the vision, mission, and community wide results.

While the County continues to improve financially, there are two other significant considerations influencing decisions regarding the proposed budget.

FY 2014-15 represents the first year of the implementation of the Affordable Care Act. The Patient Projection and Affordable Care Act (ACA) represents the most significant regulatory overhaul of the U.S. healthcare system since the passage of Medicare and Medicaid in 1965.

California is facing a severe drought. The current year is one of the driest years in recorded state history. The lack of rain has caused record low rivers and reservoirs, and a snowpack measuring 20 percent of normal levels. Joint efforts between the County and its residents will be critical as we continue to take steps to manage the effects of the drought. The County is taking several actions to reduce water usage in County-owned facilities, at County Parks and Golf Courses, at the Airport, in new construction and lease agreements, and with fleet vehicles.

A few of the notable recommendations in this proposed budget include:

- Partial restoration of contingencies from 4% to 4.5%, the historical target is 5%.
- Restored or increased staffing for 38 new Full-Time Equivalent (FTE) positions. Of the 38 FTEs, 27 positions, primarily at the Health Agency and Department of Social Services, are included to support the implementation of the ACA. In addition to the 38 new FTEs, a total of 61 FTEs were added during FY 2013-14, bringing the total increase in staffing to 99 FTEs since the FY 2013-14 budget was adopted.
- Increases to Roads funding from the General Fund in the amounts of $2 million in one-time additions and $583,100 (a 10% increase) in an on-going fashion.
- Continued support for 2011 Public Safety Realignment (AB 109), whereby responsibility for oversight of some prisoners and parolees transferred from the State to counties.
- One-time additions to the “rainy day” tax reduction reserve designation ($3.3 million) and building replacement reserve ($2.7 million).

To implement the above, and other proposed recommendations, the proposed budget includes significant cost and staff increases when compared to the cuts that have occurred in recent fiscal years. The proposed budget attempts to strike a strategic balance between various spending priorities while simultaneously remaining “sustainable” in the long term.

Significant Factors Affecting the FY 2014-15 Budget

State Budget

Improvements in the State of California’s fiscal situation that began in late 2011 are projected to continue into FY 2014-15 and beyond. Year-over-year funding gaps between spending and revenues have been erased for the foreseeable future and billions of dollars in budgetary debt accumulated in prior years began to be reduced in FY 2013-14. However, challenges remain as the State attempts to achieve and maintain fiscal balance. Reliance on temporary voter approved tax increases and volatile capital gains increases through the stock market improvements cannot be relied upon as long-term sources of revenue.

By making targeted expenditures, the State’s FY 2014-15 budget attempts to build on prior investments in K-12 education, higher education, and health and human services. The State’s budget also proposes to take further steps to reduce global warming with targeted investments of Cap and Trade auction proceeds, and make strides towards a sustainable water policy.

Despite recent improvements in the State’s overall budget situation, there remain a number of significant risks that threaten the State’s fiscal stability, including significant budgetary debt and hundreds of billions of dollars in longer term liabilities. These latter liabilities total nearly $355 billion and include $218 billion in unfunded retirement liabilities, $65 billion in deferred maintenance, and $25 billion owed to local governments, public schools, and special funds whose funds were used to help balance budgets in prior years. Combined, these liabilities will constrain the State's finances for the foreseeable future.

On a more positive note, as the release of the Governor's May Revision to his initial budget proposal nears, the State's revenues continue to surpass expectations – coming in at over $1 billion beyond the Governor's January 2014 projections. If this trend holds, the surplus could be as high as $7 billion.

Local Issues
The County has continued to show strength in its labor markets through the end of 2013. The growth in employment has significantly driven down the unemployment rate within the County to an impressive 5.7%, compared to an unemployment rate of 7.4% a year ago. The County of has the fifth lowest unemployment rate in the State on a non-seasonally adjusted basis and is also well below the national average of 6.3%. The implementation of Tier 3 retirements for new employees based on the Public Employee Pension Reform Act (PEPRA) of 2013 is beginning to be felt by the County. Future fiscal liabilities for the County are progressively being reduced as new employees enter into the system as Tier 3 employees. PEPRA legislation reduces the retirement benefits below that of existing employees and increases the cost sharing for employees who begin employment after January 2013.

With a large agricultural and farming base, San Luis Obispo County has been severely impacted by the statewide drought, losing 200 jobs from December 2012 to December 2013. The job loss resulted in a negative growth rate of 3.4%. The State of California is currently experiencing the one of the worst droughts in its 163-year history, as the lack of rainfall has nearly depleted water reserves throughout the State. Four well-known local reservoirs were at extremely low levels through the first quarter of 2014 with Lake Lopez at 56%, Lake San Antonio at 5%, Santa Margarita Lake at 39%, and Lake Nacimiento at 21% of capacity. Given the interconnected nature of the agricultural, tourism, and retail components of the economy, the drought could have more far-reaching consequences for the local economy if the drought persists.

Excluding year-over-year impacts from the two large solar developments in the Carrizo Plain, local sales tax figures in the unincorporated areas of the County are projected to increase by $1.6 million or nearly 30%. Even after factoring in the effects of the financial downturn, over the five-year period from 2008 to 2013, taxable sales grew by 17% in the City of San Luis Obispo, followed by Paso Robles and Atascadero, who both saw their taxable sales rise by 10.4% over the same time period. The growth in taxable sales in both Paso Robles and Atascadero, which are both located within close proximity to the majority of wineries in the region, lend credence to the growing tourism sector in that part of the region. Growing winery tourism, coupled with historical coastal tourism, have driven FY 2014-15 revenue projections for Transient Occupancy Tax up by $1.1 million or 17% over FY 2013-14 projections.

Summary of FY 2014-15 Proposed Budget

The proposed budget is structurally sound. Projected operational revenues are used to fund expenses. As noted, contingencies are recommended to be increased to 4.5%. Finally, recommended budget levels are expected to keep service levels at or above the current year.

- The proposed FY 2014-15 budget for Total Government Funds is approximately $525 million, which represents a $20 million increase over the current year's adopted budget (reference the following chart for more detail). The primary drivers for the increase are the implementation of the ACA, increases to reserves and designations, and one-time expenditures based on a larger than originally forecast Fund Balance Available in FY 2013-14.

- The proposed General Fund budget is approximately $431 million, which is a $16 million increase compared to the current year's adopted budget. The increase has the same basic drivers as is seen in the Total Government Funds budget.

Detailed information about budget changes can be found in the narrative information provided for each fund center (please refer to the index for a listing of all fund centers). The detailed information for each fund center includes a Department narrative as well as a County Administrative Office (CAO) narrative. The former provides an overview of key issues facing each department and the latter provides context to the numbers. The approach in the CAO narratives is to convey what is changing from one year to the next and the corresponding impacts to programs and services.

ALL FUNDS EXPENDITURE COMPARISON			
Fund	**FY 2013-14 Adopted**	**FY 2014-15 Proposed**	**% Increase /Decrease**
General Fund	$414,840,696	$430,649,120	4%
Automation Replacement	$3,345,993	$2,297,313	-31%
Building Replacement	$5,300,724	$2,698,131	-49%
Capital Projects	$4,568,789	$4,775,790	5%
Community Development	$3,967,022	$3,912,369	-1%
Medically Indigent Services Program (formerly known as County Medical Services Program)	$5,172,096	$2,531,938	-51%
Debt Service	$2,079,022	$2,080,047	<1%
Driving Under the Influence	$1,531,565	$1,634,352	7%
Emergency Medical Services	$801,000	$801,000	0%
Fish and Game	$28,241	$20,000	-29%
Library	$9,069,342	$9,055,000	-<1%
Organizational Development	$633,350	$866,151	37%
Parks	$9,404,179	$8,425,497	-10%
Pension Obligation Bonds	$10,229,703	$10,095,445	-1%
Public Facilities Fees	$1,897,000	$1,670,500	-12%
Road Fund	$27,817,032	$38,970,097	40%
Tax Reduction Reserves	$1,399,033	$3,300,000	136%
Traffic Impact Fees	$3,341,196	$1,141,503	-66%
Wildlife and Grazing	$6,881	$3,500	-49%
Total	**$505,432,864**	**$524,927,753**	**4%**

SUMMARY OF GENERAL FUND DOLLARS ALLOCATED TO DEPARTMENTS				
Fund Center	**Department Name**	**FY 2013-14 Adopted**	**FY 2014-15 Proposed**	**Percent Change**
104	Administrative Office	$1,687,809	$1,695,646	<1%
141	Ag Commissioner	$2,064,096	$2,103,551	2%
137	Animal Services	$487,722	$686,143	41%
109	Assessor	$8,550,579	$8,772,539	3%
107	Auditor-Controller	$3,891,320	$4,039,587	4%
166	Behavioral Health	$6,718,349	$7,269,932	8%
100	Board of Supervisors	$1,662,044	$1,632,673	-2%
182	CalWORKS	$360,369	$331,248	-8%
134	Child Support Services	$0	$0	0%
110	Clerk-Recorder	$757,322	$420,599	-44%
290	Community Development	$391,436	$391,436	0%
143	Contributions to Court Operations	($471,586)	($453,986)	-4%
106	Contributions to Other Agencies	$1,490,866	$1,239,250	-17%
111	County Counsel	$3,242,662	$3,298,287	2%
140	County Fire	$13,254,030	$12,855,699	-3%
132	District Attorney (includes Victim Witness)	$8,605,873	$8,907,804	4%
138	Emergency Services	$155,462	$167,973	8%
215	Farm Advisor	$470,256	$470,201	0%
181	Foster Care	$558,758	$558,758	0%
185	General Assistance	$700,290	$688,146	-2%
113	General Services	$6,129,744	$6,164,420	<1%
131	Grand Jury	$138,049	$138,850	<1%
112	Human Resources	$2,117,969	$2,331,416	10%
114	Information Technology	$8,239,017	$9,071,759	10%
184	Law Enforcement Medical Care	$1,616,200	$1,447,939	-10%
377	Library	$607,139	$607,139	0%
200	Maintenance Projects	$1,983,700	$1,968,340	-<1%
183	Medical Assistance Program	$4,130,479	$0	-100%
103	Non-Department Other Expenditures	$0	$318,500	0%
275	Organizational Development	$450,000	$650,000	44%
305	Parks	$3,540,677	$3,528,177	<1%
142	Planning and Building	$5,785,294	$5,862,271	1%
139	Probation Department	$8,942,340	$9,154,323	2%
135	Public Defender	$5,011,696	$5,107,414	2%
160	Public Health	$3,789,568	$4,325,838	14%
201	Public Works Special Services	$1,401,988	$1,431,394	2%
105	Risk Management	$494,623	$542,826	10%
245	Roads	$5,831,000	$8,414,100	44%
136	Sheriff-Coroner	$37,923,571	$37,981,530	<1%
180	Social Services	$5,100,934	$5,040,164	-1%
108	Treasurer/Tax Collector	$1,681,494	$1,616,251	-4%
186	Veterans Services	$402,611	$459,813	14%
130	Waste Management	$880,265	$880,264	0%
	TOTAL	**$160,776,015**	**$162,118,214**	**1%**

Note 1: This chart is intended to provide a summary of the amount of General Fund dollars allocated to departments (not expenditures). The chart does not include the Non-Departmental Revenue fund center nor other fund centers that do not provide programs and services (e.g. debt service, building replacement, etc).

Note 2: The details for each fund center included in this summary chart are available in the departmental sections of the budget.

Recommended Staffing

The Proposed Budget recommends 2,547.25 Full-Time Equivalent (FTE) permanent and limited term positions. This represents a net increase of 38 positions (1.5%) as compared to the FY 2013-14 budget. It is worth noting that 61 positions were added mid-year FY 2013-14. The primary reason for the mid-year increase is the implementation of the ACA.

POSITIONS SUMMARY		
2013-14 Adopted Budget	2,448.25	
2013-14 Current Allocation	2,509.25	
2014-15 Recommended	2,547.25	
Net Change (from Adopted)	99.00	
Net Change (from Current)	38	
Percent Change (from Current)	1.5%	
Department	**Additions**	**Deletions**
Administrative Office	1.00	
Assessor	3.00	
Auditor-Controller	.50	
Human Resources	4.00	
Planning & Building	1.00	
Health Agency		
Public Health	3.75	
Behavioral Health	17.75	
Medically Indigent Services Program		-5.00
Driving Under the Influence	1.00	
Public Works ISF	1.00	
Sheriff / Coroner	5.00	-3.00
Social Services	7.00	
Veteran Services	1.00	
TOTAL	**46.00**	**-8**

Land Based Budgets – Net Increase of 2.0 FTE positions:

The Land Based functional area is comprised of the Agricultural Commissioner, Planning and Building, Community Development, Public Works Internal Service Fund (ISF), Public Works Special Services, Roads, and Road Impact Fees.

Overall, General Fund support to the budgets within the Land Based functional area is increasing by $2.7 million or 18% when compared to FY 2013-14 adopted levels. This increase in General Fund support is due to the recommended $2.6 million in funding for the pavement management program found in the Roads fund center. Overall, revenues for the Land Based fund centers are budgeted at FY 2013-14 adopted amounts.

Agricultural Commissioner

The recommended FY 2014-15 level of General Fund support for the Agricultural Commissioner is increasing by $39,455 or 2% compared to the FY 2013-14 adopted budget. Revenues are recommended to increase by $80,703 or 2% primarily due to increases in charges for current services and State revenue including an increase in Unclaimed Gas Tax revenue of $29,914 or 3%.

A current challenge facing the department is the detection of an adult Asian Citrus Psyllid (ACP) in the Arroyo Grande area. As of April 8, 2014, a portion of southern San Luis Obispo County has been placed under quarantine following the detection. The ACP is an invasive species of grave concern because it can carry the disease huanglongbing (HLB), also known as citrus greening. The department is working closely with the California Department of Food and Agriculture and the United States Department of Agriculture in an effort to eradicate this pest. The impact to the department's budget cannot be predicted at this time.

Planning and Building

The recommended FY 2014-15 level of General Fund support for Planning and Building is increasing by $76,977 or 1% compared to the FY 2013-14 adopted budget. Recommended revenues are decreasing by $218,462 primarily due to the decrease in Plan Check Fee revenue generated from the completion of the California Valley Solar Ranch Project, one of the two large solar plants in the Carrizo Plain. This decrease in revenue is slightly offset by the increase in revenue from the department's traditional customer base (i.e. the more typical projects processed) reflecting some growth in development in the County. The department's traditional customer base revenue is increasing by $390,222 or 8% from the FY 2013-14 adopted budget.

Recommended expenditures are decreasing by $141,485 or 1% compared to the FY 2013-14 adopted budget primarily due to a $450,865 decrease in professional services, of which $375,000 is related to the decrease in inspection services of the two large solar projects. The decrease is partially offset by a $323,880 increase in salaries and benefits due to the addition of two Limited Term Planners added to the Position Allocation List (PAL) mid-year for the implementation of Paso Robles Groundwater Basin Urgency Ordinance as well as the processing of Countywide and Paso Robles Groundwater Basin amendments. In addition, it is recommended that 1.0 FTE Land Use Technician be added to expand services at the new North County Service Center.

Public Works Internal Service Fund

The recommended FY 2014-15 budget of $33,651,850 is an increase of 10% or approximately $3 million from the FY 2013-14 estimated year end amounts. It is recommended that a Chief Wastewater Treatment Plant Operator position be added to support the Los Osos Wastewater Treatment Plant when it comes on-line in FY 2015-16.

Roads

The recommended FY 2014-15 budget for Roads provides for General Fund support in the amount of $8,414,100, a 44% or $2,583,100 increase when compared to FY 2013-14 adopted amounts. General Fund support includes a $583,100 or 10% increase when compared to FY 2013-14 adopted General Fund support along with a one-time allocation for the pavement management program in the amount of $2 million. It is not known at this time how this one-time allocation will affect the County's pavement condition rating (PCI). More specific information will be provided when performance measure are updated as part of the FY 2014-15 final budget process.

Three (3) capital projects are planned to begin in FY 2014-15: Price Canyon Road Widening Phase II, Branch Mill Road at Tar Springs Creek Bridge replacement, and countywide installation of centerline (CL) rumble strips. A complete listing of projects to be carried out by the Roads division can be found in Fund Center 245 – Roads.

Public Protection – Net increase of 2.0 FTE positions:

The Public Protection Functional Area includes the Sheriff-Coroner, District Attorney (which includes Victim-Witness), Child Support Services, Public Defender, Probation, County Fire, Emergency Services, Animal Services, Waste Management, Grand Jury, and the County's contribution to Court Operations. The recommended General Fund contribution to Public Protection in FY 2014-15 is $75.4 million, an increase of $499,542 or less than 1% compared to the FY 2013-14 adopted budget.

Recommended revenues for the public protection budgets, totaling $60 million, are budgeted to increase $2.1 million or 3.7% compared to FY 2013-14 adopted budget. Revenue from Proposition 172, the half-cent sales tax dedicated to public safety is budgeted to increase $1.8 million or 8% compared to the FY 2013-14 adopted amount. Prop 172 revenue is allocated to the Sheriff-Coroner, Probation, District Attorney, and County Fire departments and accounts for $23.3 million or 48% of all revenue budgeted for these four departments.

County Fire

General Fund support for this budget is recommended to decrease $398,331 or 3% for County Fire. The decrease in General Fund support is mainly the result of a decrease in planned expenditures for the replacement of fire vehicles that is $850,525 less than the amount for similar expenses in the FY 2013-14 adopted budget, but which is partially offset by an increase in budgeted revenues. The replacement of County Fire vehicles is funded from a budget designation set up for this purpose. If these expenses and other expense offset by funding outside County Fire's budget were removed, the amount of General Fund support recommended for FY 2014-15 would increase $425,129 or 4%. This increase in General Fund is primarily due to an increase in the County's contract with CAL FIRE, a little less than half of which is due to funding added to support three new half-time fire fighters at Station 51 – Shandon.

Animal Services

General Fund support for this budget is recommended to increase $198,371 or 40%. This increase is primarily due to a $141,000 or 18% drop in revenue from animal licensing fees combined with an increase in expenditures for both salary and benefits and services and supplies accounts. The drop in revenue is due to the correction of an error in the calculation of the proportional share of revenue the County should receive from licensing fees compared to the seven incorporated cities. This error was introduced in FY 2013-14, but has been corrected for FY 2014-15.

Probation Department

General Fund support for Probation is recommended to increase $211,983 or 2%. This increase is driven by a projected reduction in Federal reimbursement revenue totaling $191,210. If not for this reduction, revenues would be keeping pace with expenses, and Probation's General Fund FY 2014-15 increase would be $20,773. The loss in revenue is due to expected changes in the rules for claiming reimbursement from the Federal Title IV-E program. Even with the projected decline in Federal reimbursement, overall revenue in total is budgeted to increase by $484,754 or 4% due to increases in State revenue from Prop 172 and

Sheriff-Coroner

General Fund support for the Sheriff-Coroner is recommended to increase $57,959 or less than 1% in FY 2014-15. Revenues are expected to keep pace with expenditures and are budgeted to increase by roughly $1.4 million. The increase in revenue is mainly attributable to two State funding sources. The first is Prop 172, which is expected to increase nearly $1.1 million. The second is AB 109 revenue, which is expected to increase almost $500,000.

Salary and benefits expense is increasing $561,516 or 1%, making up the single largest piece of the increase in expenditures. Roughly half this increase is the result of two positions recommended to be added to the Position Allocation List (PAL) in FY 2014-15: a 1.0 FTE Commander position and a 1.0 FTE Sergeant position.

<u>Health and Human Services – Net Increase of 24.5 FTE</u>

The Health and Human Services (HHS) category includes Social Services (including CalWORKs, Foster Care and Adoptions, and General Assistance), Public Health, the Medically-Indigent Services Program, Behavioral Health, Law Enforcement Medical Care, Driving Under the Influence, and Veterans Services. Funding for grants to community based organizations is also included in this area.

A significant influence on the budget for some HHS programs is the implementation of the Affordable Care Act (ACA). Under the ACA, eligibility for Medi-Cal was expanded to include childless adults, effective January 1, 2014. With this Medi-Cal expansion, the majority of County Medical Services Program (CMSP) clients became newly eligible for Medi-Cal. The remaining clients, with incomes that are 139% up to 250% of the Federal poverty level, are mandated under the ACA to purchase health insurance through the State's Health Benefits Exchange (known as Covered California). There are, however, exemptions from the ACA's individual mandate for persons who have verifiable financial or other specified hardships. It is expected that the number of individuals who qualify for an exemption will be much smaller than the average number of clients that were treated under CMSP, resulting in a significant decrease in indigent medical care expenditures. Recognizing the savings counties would realize as a result of Medi-Cal expansion, the State legislature passed Assembly Bill (AB) 85, setting out provisions for the State to redirect a portion of 1991 Realignment funding that has been distributed to counties to fund their health programs, including indigent health care. Per the terms of AB 85, the State may redirect 44.45% of the amount the County would have received each year to fund its health programs, or approximately $2.7 million in FY 2014-15. Despite this loss of revenue, the County will benefit from significant expenditure savings of approximately $5.1 million, with a savings in General Fund support of approximately $2.4 million.

In the FY 2014-15 recommended budget, revenues for HHS programs are increasing approximately $8 million or 5%; while total expenditures are increasing almost $4.9 million or 3% compared to the FY 2013-14 adopted budget. A significant portion of these increases is associated with mid-year increases of approximately $7.1 million in Social Services and Behavioral Health budgets. General Fund support for the HHS programs is increasing approximately $219,000 or 1%. The most significant increase in General Fund support is in Behavioral Health largely due to the inclusion of additional resources in the recommended budget to fund expanded services for outpatient treatment for substance use disorders. The most significant decrease in General Fund support is in the Medically-Indigent Services Program budget as a result of the expansion of Medi-Cal as previously mentioned.

Social Services

The overall level of General Fund support for the Department of Social Services is recommended to decrease $102,035 or 1.5% compared to FY 2013-14 adopted levels. The recommended budget for Social Services sets General Fund support at the minimum contribution to leverage State and Federal programs that require matching funds from the County.

The department's FY 2014-15 budget has seen significant growth compared to FY 2013-14 adopted levels, due largely to the implementation of the ACA and legislative changes to the CalWORKs and CalFresh programs in the current year. In August 2013, the Board approved a budget adjustment in the amount of $2.2 million to fund the addition of 24.0 FTE to the department's Position Allocation List (PAL) and other expenses related to the implementation of the ACA. In November 2013, the Board approved a budget adjustment in the amount of $3.1 million to fund the addition of another 18.0 FTE positions to support the implementation of changes to the CalWORKs and CalFresh programs and to support necessary changes to the department's CalWIN system (an online system that supports the administration of public assistance benefits) and to connect to the State's California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) in support of ACA implementation and the call center network.

In FY 2014-15, 7.0 FTE new positions are recommended to be added to the department's PAL. The new positions include 3.0 FTE Administrative Assistants, 1.0 FTE Program Manager and 3.0 FTE Program Review Specialists. Some of these recommended new positions will be used to address onboarding and training needs that the department is experiencing due to the implementation of ACA. Others will be distributed among the department's various programs to address increases in workload. The addition of these new positions will not have any impact on the department's level of General Fund support, as the incremental costs can be covered with the department's existing allocations.

Health Agency

The Health Agency encompasses Public Health, Behavioral Health, Law Enforcement Medical Care, the Medically-Indigent Services Program, Driving Under the Influence, and Emergency Medical Services. In addition, Animal Services is a division of the Health Agency, but is included in the Public Protection functional group and is not included in the following information. Overall, total revenues for the Health Agency are increasing by approximately $2.8 million or 4% and total expenditures are decreasing almost $444,000 or less than 1% compared to FY 2013-14 adopted levels. The recommended level of General Fund support for the Health Agency is more than $14.4 million, reflecting a decrease of approximately $1.4 million or 9% compared to the FY 2013-14 adopted budget. This significant savings is primarily attributable to the decrease in funding for indigent medical care.

Behavioral Health

General Fund support is increasing $551,583 or 8% compared to the FY 2013-14 adopted budget. Several mid-year adjustments were approved by the Board in FY 2013-14, resulting in an increase of more than $1.8 million in revenue and expenditures and the addition of 15.75 FTE to the PAL for Behavioral Health. The addition of these positions results in an annualized increase in salary and benefits expenses of approximately $1.7 million.

Behavioral Health is expecting to receive approximately $1 million in new Medi-Cal revenue as a result of the expansion of Medi-Cal to previously ineligible clients under the ACA. Services had been provided to childless clients who were not eligible for Medi-Cal prior to January 1, 2014 and the General Fund helped offset the cost of providing these services. This new revenue is another benefit to the County resulting from the implementation of the ACA.

The recommended budget reflects the inclusion of several budget augmentations. These augmentations will add a total 17.75 FTE to the Behavioral Health PAL. Most of these new positions will enable the department to offer new and/or expanded services to those suffering from Substance Use Disorder, including new Intensive Outpatient services and services to youth in the schools, now available for Drug Medi-Cal funding under the Affordable Care Act, as well as expanded detoxification services. Additional staffing resources are also included in the recommended budget to stabilize the staffing in the Psychiatric Health Facility by converting temporary help hours to 5 half-time positions (2.5 FTE), and to add technical and training support for use of the relatively new Behavioral Health Electronic Health Records system.

Public Health

General Fund support is recommended to increase $536,270 or 14% compared to the FY 2013-14 adopted budget. Total expenditures for this fund center are recommended at almost $22.5 million. This reflects an increase of approximately $524,000 or 2% compared to the Health Agency's requested budget. Most of the variance between the requested and recommended budget is in salary and benefit accounts due to the recommended addition of 3.75 FTE. The new positions are recommended to be added to develop and enhance the Health Agency's Compliance program, therapy services to

California Children's Services program clients, and the Health Agency's overall technical support capacity.

Law Enforcement Medical Care (LEMC)

The level of General Fund support for Law Enforcement Medical Care (LEMC) is recommended to decrease by $168,261 or 10% compared to the FY 2013-14 adopted level. This decrease is a result of an increase in revenue of approximately $265,600 or 28% combined with a smaller increase in net expenditures (almost $97,400 or 3%). The revenue increase is primarily attributed to an increase in AB 109 Public Safety Realignment revenue added to the budget mid-year in FY 2013-14, and the addition of new revenue from Medi-Cal to cover inpatient hospitalization costs for eligible inmates who are admitted and remain in the hospital for at least 24 hours. This new Medi-Cal coverage of inmate stays in the hospital is available as a result of the implementation of the Affordable Care Act.

Medically-Indigent Services Program (MISP)

In prior years, funding for indigent medical care was included in two fund centers: the Medical Assistance Program and CMSP. With the significant changes to this function wrought by the ACA, all indigent medical services program funding is now consolidated into one budget; which had been called CMSP until FY 2014-15. The new name for this program is the Medically-Indigent Services Program (MISP). Total financing sources and expenditures for MISP are recommended to decrease $2,640,158 or 51% compared to FY 2013-14 adopted levels due to the expansion of Medi-Cal to previously ineligible populations under the ACA. Revenue is decreasing due to the elimination of $2.4 million in 1991 Realignment revenue per AB 85. Expenditures are decreasing primarily due to a $2.2 million or 67% reduction in the budgeted expenditures for medical services provided to eligible clients.

Given the dramatic reduction in the medically indigent client population, a total of 5.0 FTE have been eliminated from the MISP PAL. This reduction in staff results in a decrease in salary and benefits expense of more than $385,000 or 39%.

Veterans Services

The County continues to add resources to Veterans Services to ensure service levels keep up with increasing demand. The PAL includes an increase of 1.0 FTE for an additional Administrative Assistant Aide. The additional administrative staff will allow the Veterans Service Office to increase operating hours of the North County location to full-time to better serve veterans and their families. This increases the total number of departmental staff to six, as a full time Assistant Veterans Services Officer (AVSO) was added last year as part of the FY 2013-14 budget. The addition of this Administrative Assistant Aide represents $47,668 of the $57,202 or 14% increase in General Fund support from FY 2013-14.

Community Services - Net Change of 0.0 FTE

Fund Centers represented in the Community Services functional area include Airports, Farm Advisor, Golf Courses, Library, Parks, Fish and Game, and Wildlife and Grazing.

Many of the fund centers in this functional area rely on user charges to support their operations. As the economy has improved, services provided by these Fund Centers has increased. The resulting improvement in revenues has greatly improved the financial condition for the Airports, Golf Courses, Library, and Parks.

Airports

The Airport Services budget is an Enterprise Fund and as such is supported by revenues generated through user fees. Operating revenue in the FY 2014-15 budget is $3,616,816, a very slight increase of $1,420 or less than 1% compared to FY 2013-14 estimates. Excluding depreciation, the operating expense for FY 2014-15 is $3,369,185, an increase of only $5,794 or less than 1% compared to FY 2013-14 estimates.

The number of commercial air carrier flights and availability of airline seats at the San Luis Obispo Regional Airport are the main factor in determining the number of passenger enplanements and fiscal health of Airports. For the first time in several years, Airports' recommended budget identifies that revenues will exceed expenditures by approximately $63,512. Enplanements in the first half of FY 2013-14 have increased 8% compared to the same period last year. In the current year, Airports has worked with the community to develop a revenue guarantee program to encourage United Airlines to offer a flight to Denver. At this time, a flight has not been added, due to a shortage of pilots, but staff continues to pursue opportunities to attract additional flights from United and other airlines.

The recommended budget maintains the current staffing and service levels.

Parks

The total expense and total revenues for the FY 2014-15 Parks budget are recommended to decrease by $978,682 or 10% as compared to the FY 2013-14 adopted budget. The level of General Fund support is relatively flat compared to the FY 2013-14 adopted level, at $3,528,177. The significant change in revenues and expense compared to FY 2013-14 is due largely to the fact that, at this point, no Fund Balance Available (FBA) from the Parks budget has been budgeted in FY 2014-15. Any FBA remaining at the end of FY 2013-14 will be allocated to Parks contingencies and reserves. The recommended budget enables Parks to maintain existing service levels at all Parks and recreational facilities. There are two items of note, which relate to Parks' operations and budget in FY 2014-15, discussed below.

In the current year, Parks assumed responsibility for the operation and maintenance of Camp Mabel French, which was previously run by the Boy Scouts of America. In FY 2014-15, Parks estimates that Camp French will generate $94,101 in event center and camping revenue and that operational expenses will be $22,650. These revenues and expenses are built into the FY 2014-15 recommended budget.

As reported to the Board previously, the Cayucos Pier is in need of significant repair. Interim repairs to sustain the Pier through the winter were completed earlier in the current year, and in FY 2014-15, there will be some expense to complete full repairs. The recommended budget does not include funding for full repairs and a mid-year budget adjustment would be necessary to allocate funding to this project.

Golf

The Golf budget is an Enterprise Fund and as such is supported by revenues generated through user fees. Operating revenue in the FY 2014-15 budget is $2,697,671, an increase of $66,615 or 3% compared to FY 2013-14 estimates. Excluding depreciation, the operating expense for FY 2014-15 is $2,070,382, an increase of $43,192 or 2% compared to FY 2013-14 estimates.

Play at County golf courses is the main factor in determining the fiscal health of the Golf budget. For several years, expenditures were greater than revenues and Golf used unallocated cash within the Golf Fund to cover the gap. In the current year, the number of rounds played at the County's courses is up, likely due to a combination of an improving economy, as well as the dry weather which has extended the golf season, which is expected to result in revenues exceeding expenses by approximately $60,000. In FY 2014-15, Golf will have a new fee structure in place which will help to incentivize play at non-peak hours. It is expected that this new fee structure will lead to more play at the County's courses, and as a result, increased revenue. The recommended budget maintains the current staffing and service levels.

Library

The FY 2014-15 recommended budget for the Library reflects an increase in revenue of $236,174 or 2% and an increase in expenditures of $134,024 or 1% compared to FY 2013-14 adopted levels. The Library is primarily dependent on revenue from property taxes to fund its operation. The housing market has begun to turn around in the current year following several years of recession. Improvement in the housing market has resulted in higher revenue receipts for the Library, and this positive trend is expected to continue in FY 2014-15. General Fund support for the Library is recommended to remain flat with FY 2013-14, at $607,139. This represents a General Fund contribution of approximately 7% of the Library's operating budget. The Library will be able to sustain its current level of service, including hours open to the public, based on recommended budget levels.

Two new libraries were constructed over the past year; a new library on Main Street in Cambria and a new library as part of a County One-Stop center in Atascadero. The Cambria Library opened its doors in late December 2013 and the new Atascadero Library is due to open in June 2014.

Fiscal and Administrative – Net Increase of 4.5 FTE positions

This functional area consists of the Administrative Office, Organizational Development, Assessor's Office, Auditor-Controller Treasurer-Tax Collector-Public Administrator, Board of Supervisors, and Clerk-Recorder's Office.

Overall, General Fund support to the budgets within the Fiscal and Administrative functional area is increasing by $146,727 or less than 1% when compared to FY 2013-14 adopted levels. Revenues are expected to increase by $468,513 or 8% and expenditures are recommended to increase by $524,384 or 2% from FY 2013-14 for Fiscal and Administrative fund centers.

Administrative Office

The Position Allocation List (PAL) includes 1.0 FTE for a Limited Term Administrative Analyst to support the replacement of the aging budgeting software system. This position is being funded through a transfer from FC 266 – Countywide Automation in the amount of $106,538 and is responsible for the majority of the $106,936 increase in revenue as well as the $114,773 increase in expenditures from the FY 2013-14 adopted budget. General Fund support for the Administrative Office is recommended to increase $7,837 or less than 1% from FY 2013-14.

Auditor-Controller-Treasurer-Tax Collector-Public Administrator

The ordinance consolidating the offices of the Auditor-Controller's and the Treasurer-Tax Collector-Public Administrator was approved on July 9, 2013 and became effective August 8, 2013. As part of the justification for the consolidation, it was projected that there would be savings of approximately $323,000 in the third year of consolidation and beyond, primarily consisting of savings in salary and benefits. Due to the retirement of the Treasurer-Tax Collector-Public Administrator and Assistant Treasurer-Tax Collector-Public Administrator, as well as the elimination of a vacant Senior Account Clerk position at the beginning of FY 2013-14, gross salary and benefit savings in the first year totaled $462,505. The salary and benefit savings were primarily in Fund Center 108 – Treasurer-Tax Collector-Public Administrator's budget.

It is recommended that a 0.5 FTE Auditor-Analyst position be increased to 1.0 FTE at an additional cost of $58,378. Increasing this position to full time will enhance the capacity of the department to respond to Enterprise Financial System (EFS) development requests from departments as well as increase end-user trainings. Additional information and results can be found in the Budget Augmentation Request (BAR) found in the department's budget pages.

Assessor's Office

The level of General Fund support for this budget is recommended to increase $221,960 or 2% compared to the FY 2013-14 adopted level. The increase in general fund is due to the recommended budget augmentation requests to add 3 new positions. The recommended budget includes the addition of 2.0 FTE Appraiser Trainee positions and 1.0 FTE Auditor-Appraiser position. The three positions are recommended in order to address the continually increasing workload. At the completion of the 2013-14 assessment roll (June 20, 2013), the backlog consisted of over 9,700 work items. It is estimated that $327,040 in additional property tax revenue will be added to the roll per Appraiser Trainee. In addition, it is estimated that the one Auditor-Appraiser will add $155,800 in property tax revenue.

Support to County Departments- Net increase of 5.0 FTE positions

This functional area consists of the Office of the County Counsel, General Services Agency, including Fleet Services and Information Technology, Human Resources, Risk Management, and the County's Self Insurance programs.

Overall, the General Fund support for the budgets within the Support to County Departments functional area is increasing $1,184,693 or 5.9% when compared to FY 2013-14 adopted levels. The significant increase in General Fund support is largely attributable to Information Technology and recommended additions to Human Resources, discussed below.

General Services

The level of General Fund support for this budget is recommended to increase by $34,676 or less than 1% compared to the FY 2013-14 adopted level. The recommended budget is largely unchanged from the prior year, and enables the department to maintain existing service levels. In 2012, a Limited Term Associate Capital Projects Coordinator was added to the department's Position Allocation List (PAL) to assist with increased workload in General Services' Architectural Services Division due to the Women's Jail Expansion and Juvenile Hall projects that are currently underway. The limited term position is currently set to expire at the end of

FY 2013-14, but due to continued workload associated with these major capital projects, it is recommended that the position be extended through FY 2014-15.

Information Technology

The level of General Fund support for this budget is recommended to increase $832,742 or 10% compared to the FY 2013-14 adopted level. This significant increase is due to both a reduction in revenues and a very significant increase in expenditures.

The increase in General Fund support is due largely to Information Technology's (IT) significant and changing workload, as it leads the effort to migrate applications from the mainframe into more modern environments to enable the eventual decommissioning of the County's mainframe, consistent with the Board's adoption of the 2002 IT Strategic Plan. Currently, it is expected that mainframe decommissioning will occur in FY 2015-16. To accomplish this, IT must ensure that all applications are migrated off the mainframe and fully operational on new platforms in FY 2014-15. Direct mainframe costs in FY 2014-15 will be approximately $562,600.

To assist with the changing and increased workload in IT, the recommended budget includes the addition of 1.0 FTE Software Engineer to the department's PAL to support the Property Tax System (which is currently in the process of being migrated off of the mainframe). Several senior staff members who currently support the Property Tax System will be retiring in the next 18 months, and the addition of this Software Engineer position will enable sufficient cross-training so that the department is well positioned to support the system in both its current form, as well as the modernized system, once it is moved off the mainframe.

The recommended budget for FY 2014-15 enables IT to maintain current service levels. The narrative in the Departmental Budgets by Functional Area section of the budget document provides detailed information about the significant increase in General Fund support for IT.

Human Resources

The level of General Fund support for this budget is recommended to increase $213,447 or 10% compared to the FY 2013-14 adopted level. This increase is the result of the recommended resource additions to enhance the department's ability to serve the County as a strategic business partner.

Recommended resource additions include 4.0 FTE new positions, as well as funding for new automation. The recommended new positions include 2.0 FTE Human Resource Analyst Aides – Confidential and 1.0 FTE Administrative Assistant III to support the implementation of best practices designed to improve efficiencies and quality of employee recruitment, selection and retention, as well as 1.0 FTE Limited Term Personnel Analyst II to support the implementation of a new on-line job application, on-boarding and performance management system. This new system will replace the JobApps system currently used, which is becoming obsolete. The funding to purchase and implement this new automation system is included in FC 266 – Countywide Automation. There is also funding in FC 266 for a second human resources system. This system will be a scientifically based talent measurement application to be used in the recruitment process to select the most suitable candidates for County jobs. The estimated cost to implement this new, web-based system is $45,000 with an annual subscription fee of $80,000 per year. The addition of both of these automation systems support the department's goal to implement best practices for improved efficiency and to ensure quality in employee recruitment, selection and retention.

Overview of Financing/Revenues

State and Federal Revenue

State and Federal revenue at approximately $236 million, represent nearly 45% of the County's total financing. The recommended level is about $20 million more than FY 2013-14 adopted budget, which is largely a result of the ACA implementation and 2011 Health and Human Services Realignment funding.

State and Federal revenue is the single largest County revenue source. The majority of these revenues are used to support statutory programs, such as health and welfare services, and some criminal justice programs. Generally speaking, these funds are restricted in use and are not available for discretionary purposes.

Taxes

Property taxes, sales taxes, transient occupancy tax, and other taxes at approximately $157 million, represent about 30% of the County's total financing. The recommended level is up about $5 million as compared to the FY 2013-14 adopted budget.

Other Revenues and Financing

Other revenues at approximately $55.8 million represent just under 11% of the County's total financing. The recommended level is an approximate $1 million decrease when compared to the FY 2013-14 adopted budget.

License/Permit Fees/Charges for Services

Licenses, permits, and charges for services at approximately $37.7 million, represent 8% of the County's total financing. The recommended level is essentially at FY 2013-14 adopted amounts, decreasing minimally ($19,679).

Fines, Forfeitures and Penalties

At approximately $5 million, this funding source represents just under 1% of the County's total financing. The recommended level is decreasing by $308,635 or 6% as compared to FY 2013-14 adopted amount.

Interest Earnings

At approximately $1.85 million interest earning represents about 0.4% of the County's total financing. The recommended amount is $1 million higher than the FY 2013-14 adopted budget.

Fund Balance Available (FBA) and Use of Reserves

Fund Balance Available (FBA) and the use of reserves represent the last two significant funding sources for the total County budget. FBA is budgeted at $29.8 million (for all County funds, not just the General Fund) and represents approximately just less than 6% of the

County's total financing and the use of reserves at $1 million represents about 0.2% of the County's total financing.

Reserves

The County has two types of reserves: general reserves and designations. General reserves are not designated for a specific purpose. They serve to stabilize the County's cash position prior to the receipt of property tax revenues and more importantly provide protection against downturns in the economy or against a major catastrophe if one were to occur within the County. Designations are reserves that are set aside for specific purposes. These designations help provide for the County's long term financial needs.

In total, at the end of FY 2013-14, it is estimated that the County will have about $118 million in total reserves and designations. Most of this amount is in designations for restricted and specific purposes (i.e. not discretionary). For FY 2014-15, it is proposed that $1 million be used to help fund the budget and that $9.5 million be added to the balances. The projected balance at the end of FY 2014-15 is $126.5 million (a net increase of $8.4 million). Only reserves and designations that are changing are included in the summaries below.

General Fund Reserves and Designations

Per the comprehensive depreciation and equipment replacement schedule, it is recommended that $40,618 be added to the Fire Equipment Replacement designation be used in order to help fund the future replacement of Fire equipment. The new balance in the designation is projected to be $154,383.

Other (Non-General Fund) Reserves and Designations

<u>Capital Projects:</u> It is recommended that $1.3 million be added to the Facilities Planning designation to be used to help fund future capital projects. The new balance in the designation is projected to be $10 million.

<u>Roads:</u> It is recommended that $541,202 be used to help fund the Roads budget. The balance in the designation is projected to be $2.8 million.

<u>Public Facility Fees (PFF)</u>: There are five different categories of PFFs, which include fire, general government, public protection, library, and parks. Please reference the PFF fund center (Fund Center 247) for more details. It is recommended that $566,080 be added to the County Fire PFF designation for future use; $202,000 of General Government PFF be utilized to help pay for debt service for the New County Government Center; $109,140 be added to the Law Enforcement PFF designation for future use; $144,020 to the Library PFF designation for future use; and $451,260 to the Parks PFF designation for future use.

<u>Tax Reduction Reserves:</u> It is recommended that $3.3 million be added to this designation. The balance in the designation is projected to be $16 million.

<u>Traffic Impact Fees</u>: It is recommended that $287,703 be used to fund Roads projects in areas of new development. The balance in the designation is projected to be $4.7 million.

<u>Driving Under the Influence:</u> It is recommended that $57,250 of the General Reserve be used to fund programs in this budget. The remaining General Reserve balance will be $137,609.

Pension Obligation Bond (POB): It is recommended that $890,127 be added to this designation in order to help pay for future pension debt service payments and for cash flow purposes. The new balance will be $9 million.

Acknowledgements

Similar to prior years, I would like to thank all County employees for their hard work this past year. There are several indicators that lead us to believe that general economic conditions are improving. We are nearing the end of the Seven Year Pain Plan and the gap has dissipated in accordance with the Plan. The improvement in the budget is a direct result of the many policies and plans that have been created and implemented as well as the many sacrifices made by all over the past six years. The entire organization deserves credit for the successful progress towards the end goal of a sustainable budget.

I look forward to this next year as we continue to pursue our vision of a Safe, Healthy, Livable, Prosperous, and Well-Governed Community.

Sincerely,

Dan Buckshi
County Administrative Officer