



COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office



DATE: June 9, 2016
BOARD MEETING DATE: June 21, 2016
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors
FROM: John L. Maltbie, County Manager
SUBJECT: **FY 2016-17 Recommended Budget Hearing**

RECOMMENDATION:

Adopt a Resolution approving the FY 2016-17 Recommended Budget submitted by the County Manager.

BACKGROUND:

The County Budget Act (Government Code §§ 29000-29144 and § 30200) requires that counties have a Recommended budget, approved by the Board of Supervisors, in place on July 1 of each fiscal year.

On September 22, 2015, as part of the two year budget process, the Board of Supervisors approved the FY 2015-16 Adopted Budget and received the FY 2016-17 Preliminary Recommended Budget. The purpose of this budget transmittal is to seek formal approval of the FY 2016-17 Recommended Budget. This Budget has been amended from the one received last September to include adjustments that are deemed necessary to ensure uninterrupted services and operations through September 2016. The Board will consider the FY 2016-17 Adopted Budget, including September revisions and final Fund Balance adjustments, on September 20, 2016.

County Manager's Message

The Recommended Budget for FY 2016-17 is approximately \$219 million or 9.2 percent more than anticipated last September. Most of these increases are for capital and infrastructure projects, rollovers and Measure A initiatives. To meet these requirements General Fund reserves will be drawn down to \$154 million, the lowest level in 10 years. This is particularly worrisome since most economists believe we may see a mild downturn in the local economy in the next 18-24 months. This is usually a time when we are replenishing our reserves, not depleting them.

The Road Fund reserves are also declining as many unanticipated projects have been added to the capital program over the last year. If this trend continues, the Road Fund reserves will be depleted within 4-5 years. Once this happens the conditions of the roads in the unincorporated area will quickly deteriorate because gas taxes, the primary source of

funding for roads, is not sufficient to meet the on-going maintenance needs of the County roads system and the continuing increase in capital projects requests.

I will submit a new 5-year Capital Improvement and Infrastructure Program to the Board next year along with the FY 2017-19 Recommended Budget. Once adopted it will be prudent for the Board to not make significant changes without identifying new sources of funding, eliminating projects or both.

Measure A is scheduled to sunset in 2023. If the Board anticipates placing a measure on a future ballot asking the voters to renew this tax it will be important to demonstrate a record of success in using existing Measure A funds to replace deteriorating infrastructure and capital facilities and filling gaps in health and safety services that can achieve savings or improved social conditions.

The County is making good progress in accelerating the pay-down of unfunded pension and retiree health liabilities despite volatile market conditions during the last 12 months. At the present rate of advanced funding, the County's unfunded pension obligations should be paid off by 2023, after which time the County's continuing obligations should be reduced by \$106 million annually. The debt schedule on the Maple Street Correctional Facility is structured so that by 2020 it will be \$5.3 million less than this year with further declines throughout the remaining life of the bonds.

With the economy slowing and perhaps entering a recession in the next two-years and with health care funding showing unusual volatility the County needs to be very cautious in initiating new programs or capital/IT projects going forward.

DISCUSSION:

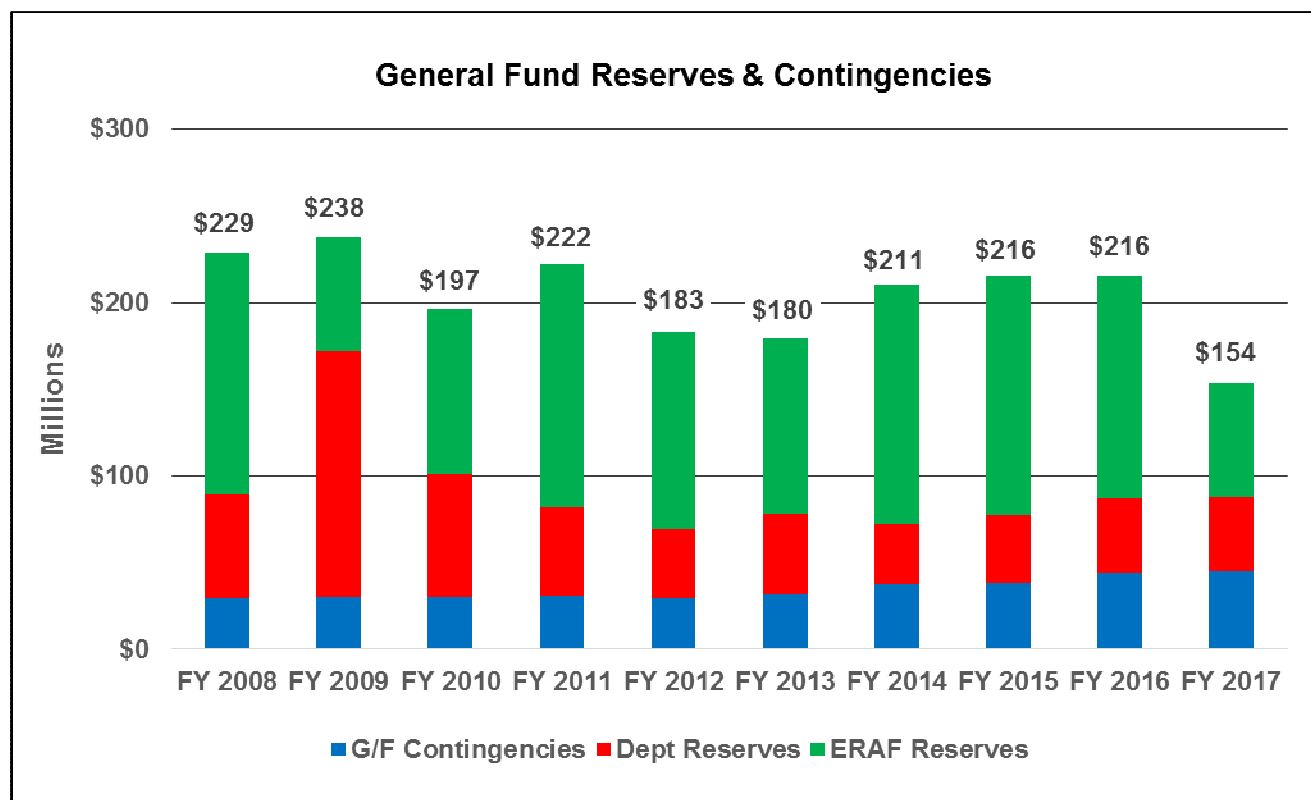
The FY 2016-17 Preliminary Recommended Budget received by the Board last September totaled \$2,383,795,853 with 5,408 authorized positions. With ongoing adjustments made during the course of the current fiscal year, the FY 2016-17 Preliminary Recommended Budget was revised in February 2016 to reflect an increase to \$2,384,771,391 with 5,418 authorized positions (the "FY 2016-17 Revised Recommended Budget"). The FY 2016-17 Recommended Budget now presented to the Board for approval totals \$2,603,794,834 with 5,438 authorized positions, representing an increase of \$219,023,443 or 9.2% and 20 positions over the Revised Recommended Budget. The increases, which are described in greater detail below, are primarily related to the net increase of position adjustments including position reclassifications and add/deletes (\$3.5 million), County pension and retiree health liabilities (\$18.7 million), capital and infrastructure projects including rollovers (\$94.3 million), operating transfers from Non-Departmental Services and the Accumulated Capital Outlay Fund to fund capital projects (\$55.2 million), and Measure A initiatives including rollovers (\$56.4 million); these increases are partially offset by other adjustments, including the elimination of one-time expenditures (\$9.1 million).

The following tables display the Total Requirements and Authorized Positions for All Funds and the General Fund for the FY 2016-17 Preliminary, Revised and Recommended budgets. The Position Adjustments can be found in Attachment A and Budget Unit Summaries can be found in Attachment F.

TOTAL REQUIREMENTS – ALL FUNDS					
All Funds	FY 2016-17 Preliminary	FY 2016-17 Revised	FY 2016-17 Recommended	FY 2016-17 Change	% Change
Total Budget	\$2,383,795,853	\$2,384,771,391	\$2,603,794,834	\$219,023,443	9.2%
Total Positions	5,408	5,418	5,438	20	0.4%

TOTAL REQUIREMENTS – GENERAL FUND					
General Fund	FY 2016-17 Preliminary	FY 2016-17 Revised	FY 2016-17 Recommended	FY 2016-17 Change	% Change
Total Budget	\$1,568,578,275	\$1,569,553,813	\$1,677,325,230	\$107,771,417	6.9%
Total Positions	4,245	4,253	4,274	19	0.4%

General Fund Reserves



The decrease in Reserves from the FY 2015-16 Adopted Budget to the FY 2016-17 Recommended Budget is \$61.8 million. This decrease can be segmented into four categories: ongoing, loans, short-term, and onetime. The ongoing segment is \$27.1 million and includes Net County Cost adjustments and increases to Retiree Health (also known as Other Post-Employment Benefits – OPEB). These increases are offset by general purpose revenue adjustments and the elimination of the Children’s Health Initiative contribution. The increase in OPEB costs was not anticipated. CalPERS fell short of its earnings assumption by 7.1% during FY 2014-15 which resulted in an ongoing increase in the County’s Annual Required Contribution (ARC) beginning this year. We’ll be taking an ATR to the Board on June 21 to appropriate additional funding to cover the FY 2015-16 ARC.

Ongoing Items				
Reason for Change	FY 2016-17 Preliminary	FY 2016-17 Changes	FY 2016-17 Recomm	Duration
Net County Cost Adjustments	(46,383,724)	1,206,511	(45,177,213)	Ongoing
General Purpose Revenue Adjustments	15,978,024	4,273,271	20,251,295	Ongoing
Retiree Health Increase		(4,625,000)	(4,625,000)	Ongoing
CHI Contribution Eliminated		2,430,000	2,430,000	Ongoing
No Charge Facilities		(19,875)	(19,875)	Ongoing
Ongoing Items - Subtotal	(30,405,700)	3,264,907	(27,140,793)	

The Net County Cost adjustments are listed in the table below and include Maple Street Correctional Center debt service, Salaries and Benefits, Sunny Day litigation costs, Mental Health Pods, and the Laura's Law and Commuter Bus pilots.

Net County Cost Adjustments				
Reason for Change	FY 2016-17 Preliminary	FY 2016-17 Changes	FY 2016-17 Recomm	Duration
All-Salary & Benefit Increases	22,858,145	(12,147,166)	10,710,979	Ongoing
All-S&B Revenue Offsets	(6,959,557)	3,785,444	(3,174,113)	Ongoing
All-Service Charge Adjustments	1,071,070		1,071,070	Ongoing
All-CBO COLAs	1,350,889		1,350,889	Ongoing
Sheriff-Maple Street Debt Service	25,823,900		25,823,900	Ongoing / Declining
Health-Laura's Law Pilot Program	2,008,116		2,008,116	Pilot
PDP-Sunny Day Balance (one-time)		3,000,000	3,000,000	Onetime
Health-Mental Health Pods		1,711,586	1,711,586	Ongoing
OoS-Commuter Bus Pilot		2,000,000	2,000,000	Pilot
Misc Adjustments	231,161	443,625	674,786	Ongoing
Net County Cost Adjustments - Total	46,383,724	(1,206,511)	45,177,213	

The County loans total \$18 million. Of this amount, \$7.7 million should be returned to the General Fund within two years for the loan to Peninsula Clean Energy for start-up costs and lending collateral. Loans to Half Moon Bay and Brisbane for the library projects will have longer payback arrangements made from future property tax allocations, as will the loan to the County Airports Fund, which will be paid back from future hangar rental income. The loans are listed in the table below.

County Loans				
Reason for Change	FY 2016-17 Preliminary	FY 2016-17 Changes	FY 2016-17 Recomm	Duration
Half Moon Bay Library Loan		(6,000,000)	(6,000,000)	Loan / Long-Term Payback
Brisbane Library Loan		(1,700,000)	(1,700,000)	Loan / Long-Term Payback
County Airports Loan		(2,800,000)	(2,800,000)	Loan / Long-Term Payback
Peninsula Clean Energy Start Up (Loan)		(1,480,800)	(1,480,800)	Loan / Short-Term Payback
Peninsula Clean Energy Collateral (Loan)		(6,000,000)	(6,000,000)	Loan / Short-Term Payback
Loans - Subtotal	0	(17,980,800)	(17,980,800)	

The short-term items total \$16.1 million and include an increase in the Retirement Prepayment of \$14.1 million and the first of a three-year contribution to the new Enhanced Flood Control Zone of \$2 million. The increases in the Retirement Prepayment are based on

the differential payment that is required to fund the fixed rate of 37.14%. The current statutory rate is 32.4%. The total differential payment will be \$23.6 million next year, compared to \$9.5 million in the current year. The County Manager's Office will be working with SamCERA on analyzing and possibly restructuring the current MOU as the differential payments are substantially outpacing the retirement savings. We need to make sure that this prepayment structure is sustainable from a reserves and cash flow perspective.

Short-Term Items				
Reason for Change	FY 2016-17 Preliminary	FY 2016-17 Changes	FY 2016-17 Recomm	Duration
Workday HR Technician		(55,000)	(55,000)	Short-Term
Enhanced Flood Control Zone		(2,000,000)	(2,000,000)	Short-Term / Thru FY 2019
Retirement Prepayment Increase		(14,062,000)	(14,062,000)	Short-Term / Thru FY 2023
Short-Term Items - Subtotal	0	(16,117,000)	(16,117,000)	

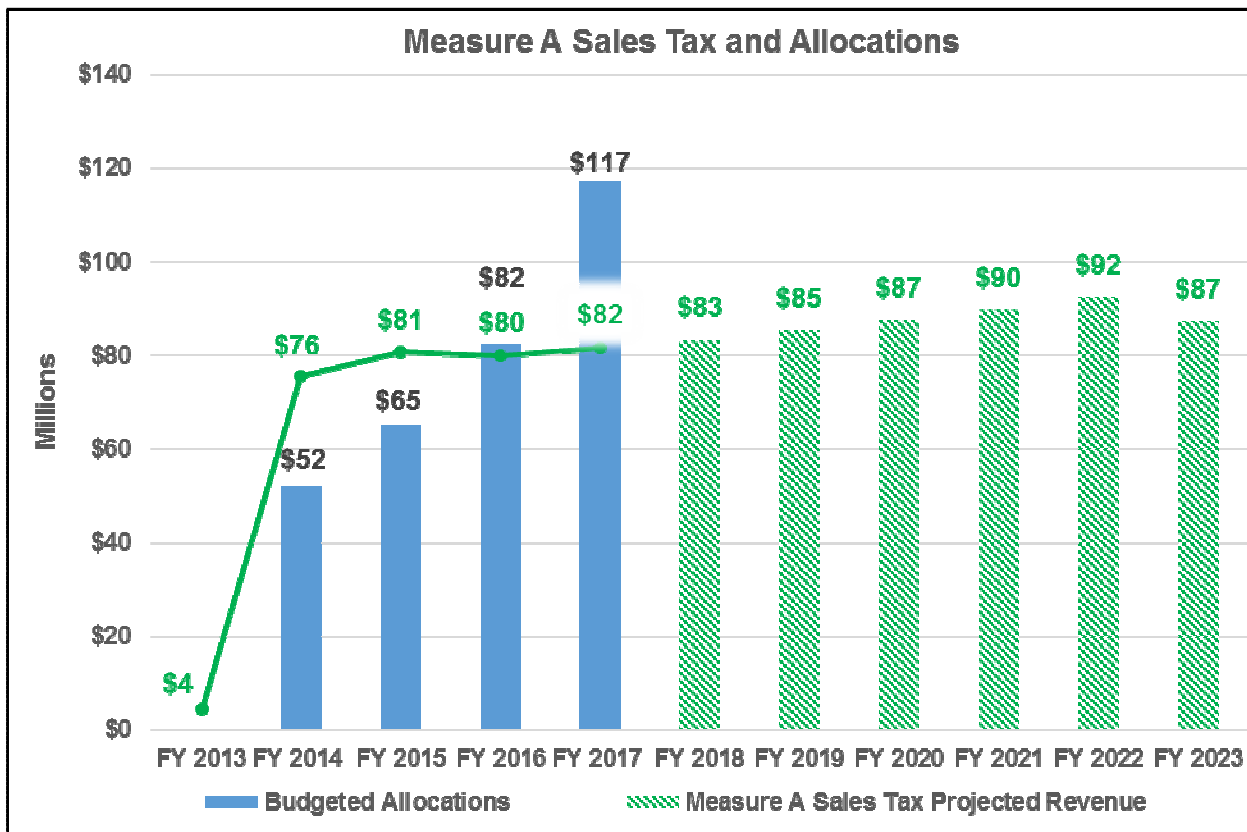
Finally, the onetime items, which are listed in the table below, represent \$584,460 and include the new capital projects, as well as the Affordable Housing Task Force and Climate Action Plan / Sea Level Rise initiatives. It should be noted that we changed the funding for the Old Maguire office renovation from the General Fund to the Accumulated Capital Outlay Fund, which currently holds the Circle Star sale proceeds. A complete list of Capital Projects, including new and rollover projects, can be found in Attachment D.

Onetime Items				
Reason for Change	FY 2016-17 Preliminary	FY 2016-17 Changes	FY 2016-17 Recomm	Duration
ATR - Peninsula Clean Energy		(800,000)	(800,000)	Onetime
ATR - Enhanced Flood Control Zone		(200,000)	(200,000)	Onetime
Risk Deductible - Stillpath Retreat Center		(100,000)	(100,000)	Onetime
Maguire Improvements to ACO Fund		9,320,971	9,320,971	Onetime
Students Consultants Program		(40,000)	(40,000)	Onetime
Affordable Housing Task Force		(500,000)	(500,000)	Onetime
Climate Action Plan / Sea Level Rise		(580,000)	(580,000)	Onetime
Capital Projects - New		(8,659,000)	(8,659,000)	Onetime
Department Adjustments		973,569	973,569	Onetime
Onetime Items - Subtotal	0	(584,460)	(584,460)	

Measure A

The amount of Measure A funds appropriated in this budget total \$162 million. Of that amount, \$117 million is new spending and \$45 million is projected rollover from the FY 2015-16. The chart below only shows budgeted allocations as the inclusion of rollover amounts would overstate total Measure A allocations. It should be noted that there remains \$12.5 million set aside in FY 2016-17 for health and children services.

The assumptions included for the ongoing allocations for FY 2017-18 are \$10 million for countywide Capital projects, \$5 million for Parks projects, \$5 million for countywide IT projects, \$2.5 million for Board loans and grants, \$1 million for Board District-specific allocations, and \$33 million for existing ongoing initiatives such as The Big Lift, Prevention and Early Intervention, paratransit services (SamTRANS), etc. The out years are adjusted upwards by 2%. There is a complete list of funded Measure A initiatives in Attachment C.



Road Fund

The Road Fund, managed by the County's Public Works Department, is the County's funding source for maintaining and managing the County's road infrastructure (316 miles of roads), including road surfacing, sidewalks, roadside vegetation management, and associated storm water drainage facilities. Funding revenues are primarily derived from gas taxes, which were last increased in 1994.

In FY 2015-16, gas tax revenues will approximate \$14.7 million, which provides sufficient funding to operate the Engineering and Road Divisions of Public Works and leaves \$3.5 million for capital projects and field maintenance. This level of funding can generally maintain overall pavement conditions at current levels if invested entirely in prioritized road maintenance activities and projects. However, it is not sufficient to cover emergency repairs, discretionary projects or address 40 miles of failed roads, which are estimated to cost \$24 million to restore. In FY 2015-16 alone, spending levels exceeded revenues by more than \$6 million; an unsustainable trend that would exhaust the Road Fund reserves balance of \$27 million in four to five years. Further complicating matters is that Road Fund revenue is expected to decline by approximately \$1 million in FY 2016-17 due to improved gas mileage of newer vehicles, the popularity of electric vehicles for which no gas tax is collected, and the low price of fuel that has reduced the revenue gained from the sales tax component of gas tax.

The tables below highlight and categorize several discretionary road projects within the past three fiscal years and their estimated costs. Often projects require significant and costly environmental permitting with mitigation, monitoring and reporting components that extend for several years after the project is completed. For the Road Fund to remain financially

viable, a State or Federal fix to the gas tax or a new way of financing road construction repairs and restoration needs to be identified.

Emergency Repairs:

Location	Year(s) Costs Incurred	Estimated Road Fund Costs
Mirada Road Rock Slope Protection	FY 2015-16	\$125,000
Westborough Blvd Sinkhole Repairs	FY 2015-16	\$70,000 to date (work not completed)
Cloverdale Road Slope Failure	FY 2015-16	TBD
Alpine Road culvert failure (dirt section) permitting	FY 2014-15 and FY 2015-16	\$30,000 to date
Alpine Road Slope Repairs, Los Trancos	FY 2013-14	\$250,000
Skylonda Dr. Slipout Repair	FY 2013-14	\$125,000
Culvert Replacement Projects	FY 2015-16	\$220,000

Redirected Priorities:

Location	Year(s) Costs Incurred	Estimated Road Fund Costs
Seal Cove Road Construction	FY 2014-15	\$500,000
North Street Road Reconstruction	FY 2015-16	\$850,000
Pescadero Causeway Feasibility Study	Ongoing	TBD
Butano Creek Dredging at Pescadero Creek Road	Ongoing	TBD
Ramona Road Enhanced Slide Repair	FY 2013-14 and FY 2014-15	\$250,000 (differential between proposed repair and enhanced repair)
Alpine Road @ 280 Bike Lane Improvements	FY 2013-14	\$700,000
Alpine Road Corridor Study	FY 2015-16	\$165,000
Athlone Way Drainage Study	FY 2015-16	\$30,000
Athlone Court Drainage Improvements	FY 2015-16	\$185,000
Tower Road Sidewalk Improvements	FY 2015-16	\$35,000 to date
Semicircular Road Sidewalk Improvements	FY 2014-15	\$580,000 (after grant reimbursements)
Highway 1 Mobility Study	Ongoing	TBD
Surfer's Beach Improvements	FY 2014-15 and FY 2015-16	TBD (minor costs)
ASBS on-going maintenance (to comply with new regulations)	Ongoing	TBD
Vegetation Management (increased costs to manage without herbicides)	Ongoing	Additional management costs of approx. \$200,000 annually
Carlos Street Improvements (including ASBS compliance)	2014-15	\$200,000
Pampas grass eradication	Ongoing	\$50,000 (after grants)
Pescadero Fire Station Relocation	Ongoing	TBD (minor costs to date)
Stage Road Sidewalk and Access Improvements	FY 2016-17	Up to \$200,000, pending a funding source determination
Alpine Road Trail Improvements	FY 2015-16 and FY 2016-17	TBD
Revisit North Fair Oaks Road Standards	FY 2016-17	TBD

Significant budget adjustments made to the FY 2016-17 Preliminary Recommended Budget include:

1. Capital Projects (\$94.3 million) – Adjustments include rollover of previously funded projects totaling \$98.5 million (including \$24.6 million in Measure A projects), new projects totaling \$12.8 million (including \$400,000 in Measure A projects), and removal of \$17 million for renovations of County Office Building One pending completion of the County Government Center Master Planning Study. New projects include the Mirada Road erosion protection, replacement of the Pine Street Warehouse, improvements to the Alpine Bike and Pedestrian Trail, restoration work at the Hall of Justice South Entrance, replacement of a fuel tank at the Pescadero Corporation Yard, replacement of the playing field at the Youth Services Center, and various water supply and treatment studies on the Coastsides. A complete list of funded projects can be found in Attachment D.
2. Measure A Initiatives (\$162 million) – Adjustments reflect the rollover of previously funded projects totaling \$45 million which includes \$24.6 million for Capital Projects, \$11.9 million for the Big Lift, \$4.2 million for unspecified Board loans and grants, \$3 million for fire engine and safety equipment, \$2.8 million for parks improvement, and other miscellaneous projects. New projects include additional housing and community development, homeless and safety net services, collaborative community outcomes, parks improvements, active and alternative transportation, capital projects and county facilities infrastructure improvements. A complete list of funded projects can be found in Attachment C.
3. Pension Prepayment Contribution (\$14.1 million) – Pursuant to the MOU entered into between the County and SamCERA on November 19, 2013, the County agreed to aggressively pay down its unfunded pension liability with a combination of lump sum contributions totaling \$140 million and maintaining a blended fixed rate contribution of 38% through FY 2022-23. The blended fixed rate was subsequently reduced to 37.14% to account for the employee 50% pick-up of Cost of Living Adjustments. The differential payment, which will grow to \$23.6 million next year, is the difference between the blended fixed rate of 37.14% and the blended statutory rate of 32.4% for FY 2016-17. As noted earlier, the County Manager's Office will be working with SamCERA and its actuary on analyzing and possibly restructuring this arrangement as the differential payments are substantially outpacing retirement savings.
4. Retiree Health Contribution (\$4.6 million) – In May 2008 the County entered into an Agreement with CalPERS to establish an irrevocable trust to meet the County's funding requirements for ongoing retiree health benefits, otherwise known as Other Post-Employment Benefits (OPEB). During FY 2014-15, CalPERS fell short of its earnings assumption by 7.1%. This and other changes to plan and demographic assumptions has resulted in a substantial increase of \$3.9 million in the County's Annual Required Contribution (ARC) in FY 2015-16. The County's actuary projects an additional increase of \$700,000 in FY 2016-17.

5. Half Moon Bay and Brisbane Library Loans (\$7.7 million) – Loans to the cities of Half Moon Bay (\$6 million) and Brisbane (\$1.7 million) will be provided to assist in the development of new library facilities to be operated by the County Library System. These loans are provided on a long-term basis, with low- or no-interest and will be repaid out of the cities' future property tax apportionments.
6. Peninsula Clean Energy Authority Loan (\$7.5 million) – This loan, which should be fully repaid within two to three years, will be used to fund start-up activities, including power purchases and operating costs, and provide lending collateral until the revenue stream of the Authority can sustain ongoing operations.
7. County Airports Loan (\$2.8 million) – A loan will be provided to the Department of Public Works to fund the replacement of two hangar rows at the San Carlos Airport. Repayment of the 25-year loan will begin in FY 2017-18 using rental income generated from tenants of the new hangars.
8. Enhanced Flood Control Zone (\$2 million) – Funding is requested over the next three fiscal years for administration costs of this new flood control zone, which was created in FY 2015-16 to help address flood risks in the County's unincorporated areas of responsibility and enhance the County's existing flood control efforts.
9. Commuter Bus Pilot (\$2 million) – The County is currently in the process of redesigning the Commute Alternative program (CAP). As part of that redesign, proposals were solicited for a comprehensive employee commuter bus service. This service would help reduce carbon emissions as well as traffic and parking congestion in and around the County Government Center in Redwood City and the San Mateo Medical Center. This funding will support a one-year pilot and evaluation.
10. Mental Health Pods (\$1.7 million) – In accordance with action taken by the Board of Supervisors on April 12, 2016, in response to the termination of the agreement with Santa Clara County for two psychiatric inpatient beds, funding is added to support two dedicated Mental Health pods to treat inmates with severe mental illness. One 24-bed pod is located at the Maguire Correctional Center for male inmates and one 8-bed pod is located at the Maple Street Correctional Center for female inmates.
11. Children's Health Initiative Contribution Removed (\$2.4 million) – As a result of the State's expanded Medi-Cal coverage for undocumented children, which shifts an estimated 3,000 children from the Healthy kids Program to Medi-Cal, costs and revenues have been adjusted accordingly and include the elimination of the County's annual Contribution to the Children's Health Initiative.
12. Climate Resiliency / Sea Level Rise (\$580,000) – Funding is requested for the completion of the countywide vulnerability assessment to include the south coast of the County and major County facilities, develop resilience strategies for multi-jurisdictional sub-areas of the County that face heightened vulnerability to sea level rise, and outreach and community engagement activities.

13. Affordable Housing Task Force (\$500,000) – Funding is requested to build partnerships with cities to support implementation of identified Affordable Housing strategies and develop a community outreach, engagement and communications infrastructure, including website design, content development, and interactive graphics and tools.
14. Sunny Day Trials (\$3.5 million) – The remaining balance of the County’s \$5 million agreement with the Private Defender Program for Sunny Day defense costs is appropriated. In addition, two term Deputy District Attorney positions are requested as the length of litigating these cases is expected to last two to three years. The term positions will backfill the work of the more senior staff focusing on the Sunny Day trials.

County Counsel has reviewed and approved the Budget Resolution as to form.

The approval of the FY 2016-17 Recommended Budget contributes to the Shared Vision 2025 outcome of a Collaborative Community by ensuring that resources are allocated in accordance with the law, that services to the community – especially the most vulnerable – are maintained without interruption, and that the County’s financial future remains strong.

FISCAL IMPACT

With these revisions, the FY 2016-17 Recommended Budget for all funds totals \$2,603,794,834 and 5,438 authorized positions. Reserves amount to \$322.3 million or 14.1%. The FY 2016-17 Recommended Budget for the General Fund totals \$1,677,325,230 and 4,274 authorized positions. Reserves amount to \$154 million or 10.1%.

Finally, Measure A appropriations amount to \$162 million in FY 2016-17, with \$104.8 million in the Preliminary Recommended Budget, \$12.4 million in new spending and \$45 million in rollovers, including \$811,000 for Library Projects (not part of the County’s All Funds budget).

ATTACHMENTS

- A) Position Adjustments
- B) Funding Adjustments
- C) Measure A Funded Initiatives
- D) Capital Projects List
- E) Memberships and Contributions
- F) Budget Unit Summaries
- G) FY 2015-17 Children, Youth and Families Budget