

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: June 2, 2017

TO: Members of the Board of Supervisors

FROM: Sheryl Bratton, County Administrator

SUBJECT: Fiscal Year 2017-2018 Recommended Budget

I am pleased to present the Fiscal Year 2017-2018 Recommended Budget. This year's budget theme is *Preparing for Our Future*. We need to prepare for our future through targeted investments of limited resources in strategic priorities while maintaining fiscal discipline to keep us on a sustainable path.

We are very fortunate to live and work in Sonoma County – a place blessed with rich agriculture, scenic beauty, vibrant communities, a booming tourism economy, and virtual full employment in our labor market. The well-being of our community relies upon the investments and efforts made by our organization, as well as the collective efforts of our residents, city partners, community organizations, and our private sector businesses. This collaborative spirit and investment in core priorities that makes our community thrive is also the underpinning of this budget.

Despite all that is good with our county, we have continued challenges in ensuring all residents in our community have the opportunity to succeed. Moreover, there is a fair amount of uncertainty ahead given general economic cycles and a new federal administration. The expected threats from the federal government are magnified locally because they also have the effect of diminishing state support for core county services, particularly related to Health and Human Services. Accordingly, we must invest wisely in our strategic priorities as a county, protect our core services and infrastructure investments, and aggressively advocate for our community in Sacramento and Washington, D.C. to resist the coming fiscal and policy threats.

This means that while we continue to have a strong economy, we must exercise fiscal discipline. This budget begins to move the organization away from balancing future year budgets on current year savings. This budget includes flat expenditure growth in order to better align with expected revenues. This budget maintains prudent reserves. And this budget continues to address long-term liabilities.

This letter and the accompanying executive summary provides your Board and our community with information on key issues informing this budget.

Strategic Priorities

On January 31, 2017, the Board of Supervisors held its annual Strategic Planning Study Session with senior staff from all county departments and agencies to discuss, both individually and collectively, the county's strategic priorities. During the Session, four broad categories were identified: resource conservation through a holistic *Healthy Watersheds* approach; investing and incentivizing *Housing for All* in our community; *Rebuilding our Infrastructure* through investments in roads, facilities, and

neighborhood resources; and *Securing our Safety Net* by focusing on the most vulnerable individuals In Sonoma County.

Rather than creating multiple new departmental initiatives to advance these four priority areas, the organization under the Board's leadership is working collaboratively across departments and agencies to align initiatives for the benefit of existing efforts and of the public. By aligning our ongoing initiatives, and testing a select few new ideas to enhance services and reduce taxpayer burden, we can accomplish greater collective impact in our community while protecting the limited financial resources of the organization.

Healthy Watersheds. The last hundred years in Sonoma County has witnessed substantial growth and development. While this has led to vibrant communities with high quality of life, it has also altered our natural environment and adversely impacted rivers, streams, air quality, wildlife, and water quality. Growth has also restricted public access to nature, contributed to our county's streams being federally listed as impaired, and recently the state named three groundwater basins in the county as priority basins under the Sustainable Groundwater Management Act. Further, while park acreage has increased over recent decades, funding challenges remain that risk park closures, increased fees, and depletion of natural resources within the parklands.

The county has been working for several decades to address these impacts. While many efforts have been successful, they have in large part been independent of the others, and have not been coordinated in a way that maximizes collaboration and cooperation within the county and with stakeholders, including other local government agencies and non-profits. Further, these substantial efforts have not always been well communicated to stakeholders and the general public. The Healthy Watersheds Initiative will provide a framework for this coordination, incorporating existing efforts with emerging initiatives, to better leverage existing efforts and gain support for new efforts. Specific goals for the Healthy Watersheds priority are to:

- Coordinate the collective efforts of our governmental, non-profit, and other partners to improve conditions of our watershed for humans and the environment.
- Collaborate to secure funding that addresses priority threats related to habitat, water supply, water quality, flood control, and climate change.
- Communicate the natural resource goals, activities, and accomplishments of our organization to the public through a seamless portal.

Housing for All. Like other west coast communities, Sonoma County is facing a worsening housing crisis that is impacting not just those with modest means, but businesses, the health care sector, educational institutions, the criminal justice system, environmental interests, and the overall quality of life within the county. While the county will never have enough money to solve the problem on its own, it does play a critical role in articulating the needs, marshaling resources, and driving the agenda.

As such, to address this priority, the county will work to increase the pace of housing development at all income levels. Working in collaboration with cities, Sonoma County will use all available tools – regulations, fee structures, flexible capital funding, strategic needs assessments, and the General Plan update – to drive production of more housing units serving a continuum of needs, from very low income units for homeless and at-risk populations, to workforce housing for individuals and families. The effort will also leverage key county assets, including owned property and flexible local funding, to drive this

agenda. New development will be focused in urban centers. Specific goals for the Housing for All priority are to:

- Create 3,375 new homes countywide for people of all incomes by 2022.
- Speed the pace of development by reducing the cycle time for entitlements and improving flexibility of local funding sources.
- Reduce incidence of housing instability and homelessness.
- Raise the credibility of county government as a vital partner in housing creation.

Rebuilding our Infrastructure. The county is responsible for 1,378 miles of unincorporated area roads, 328 bridges, four small water systems, and 158 county buildings, which represent a total of 2.6 million square feet. The public's ability to benefit from this infrastructure is limited by the age and condition of these assets, and lack of available funding to maintain functionality and value. Rebuilding facilities and investing in ongoing maintenance of infrastructure saves taxpayer dollars by reducing deferred and corrective maintenance liabilities, while at the same time improving the public's safety, and enhancing the public's use of and access to services. Community infrastructure is also critical, especially as communities in the unincorporated areas of the County become increasingly urbanized. While the county provides a strong baseline of services to every community, some more urbanized areas are interested in enhanced levels of services. To assist communities meet these specific needs, we are launching a new Community Toolbox, which provides resources and direction to communities to help officially organize and develop enhanced resources for services. Specific goals for the Rebuilding our Infrastructure priority are:

- Securing increased transportation funding to improve and maintain the county's roads infrastructure.
- Revitalizing the County Campus to meet future service delivery needs.
- Creating a Resilient Community Toolbox.

Securing our Safety Net. Sonoma County has long prioritized prevention over incarceration, focusing investments Upstream. We are closing the gaps in the Safety Net to support our highest need residents to achieve self-sufficiency, recovery, and well-being. We are achieving this through coordination of three related initiatives: Project 301, which identifies and provides coordinated services to the 301 most vulnerable people/families in our community; strengthening Behavioral Health services by expanding and bolstering successful programs and launching coordinated services; and targeting safety net services at the neighborhood level.

To advance this priority area, we will leverage existing county, state, federal and private investments in ongoing efforts. Specific goals for the Securing our Safety Net priority are to:

- Improve health, well-being, and self-sufficiency outcomes of clients/families.
- Increase number of people accessing services.
- Improve referrals, access, and sustained engagement of clients for county-provided services.
- Increase coordination of county services and reduction in duplicate services.
- Decrease resources expended per client/family.

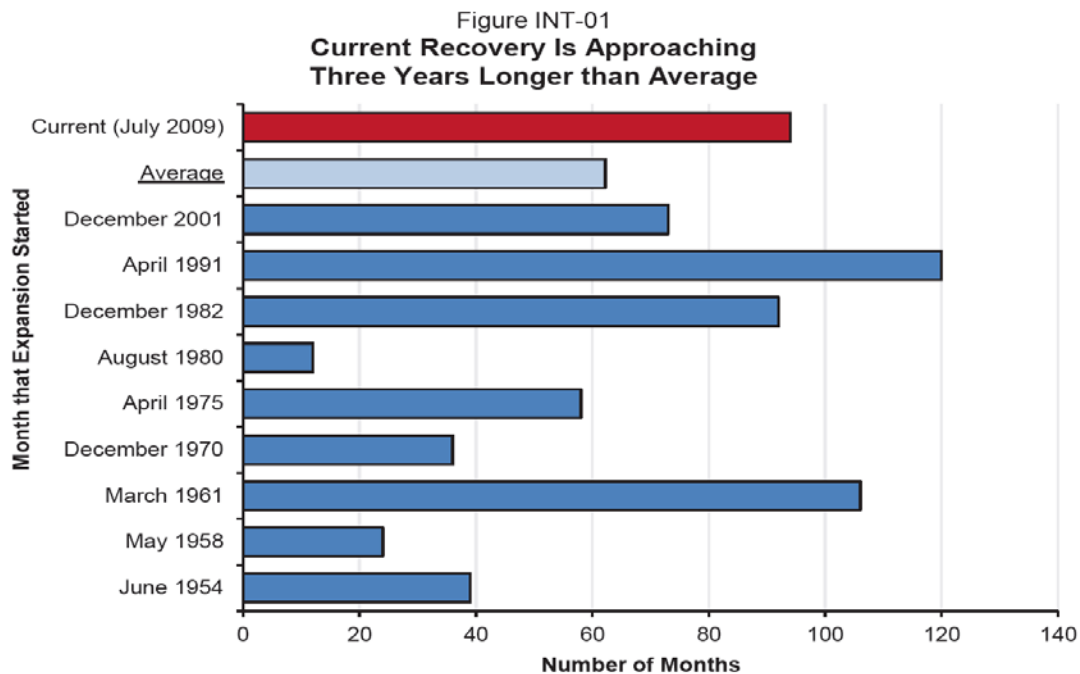
Fiscal Discipline

Strategic priorities provide a guide for investment toward clear goals. This budget directs investment in these areas. However, while the local economy is doing well, fiscal discipline is of the greatest importance due to the uncertainty of potential federal and state policy changes that could result in significant negative consequences, as well as impending cyclical economic fluctuations on the horizon. Fiscal discipline is also required in order to continue the Board’s commitment to addressing long term liabilities while being able to balance a sustainable, responsible budget.

In the Governor’s May Revision to the January 2017 State Budget Proposal, he pointed out that “The main risks to the California economic outlook are a stock market correction, an eventual recession in the U.S., geopolitical risks that affect U.S. growth, or continued lack of housing in California that limits growth.”

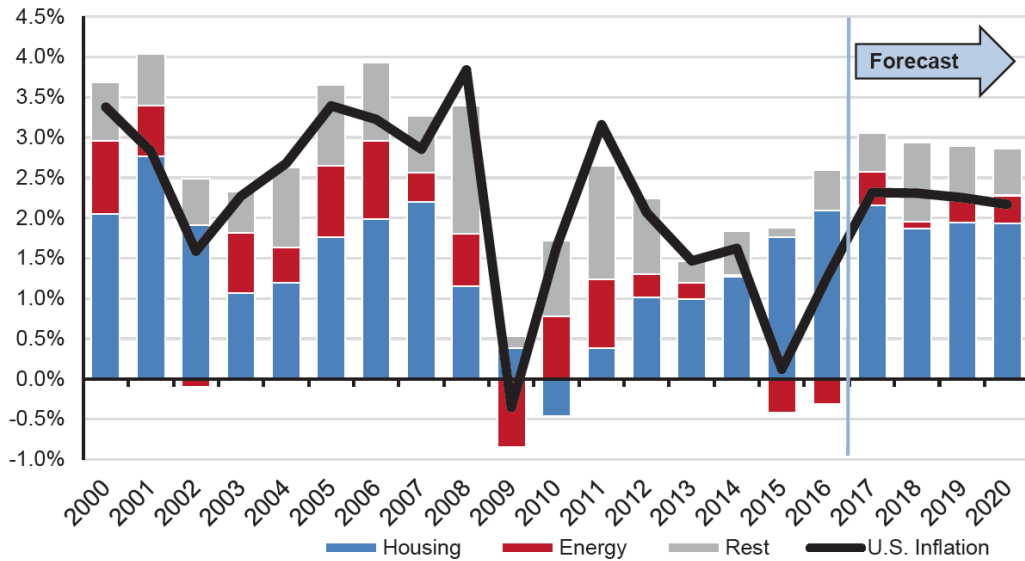
Economic Uncertainty

Looking at historical economic cycles, a recession at some point is inevitable. The chart below illustrates that the economy is in one of its longest periods of recovery.



The Governor’s Budget Proposal also notes that consumer inflation is expected to remain higher in California than the nation, with California inflation expected to average 3.0 percent in 2017, and 2.9 percent in 2018 and afterwards. Statewide, housing permits issued by local authorities remain well below levels needed to account for population growth. The Governor’s budget notes that low levels of housing relative to demand are expected to continue in 2017 and 2018 (as noted in the chart below), contributing to faster inflation in the state.

Figure ECO-03
Housing Costs Forecast to Drive Inflation



Source: U.S. Bureau of Labor Statistics; CA Department of Finance May Revision Forecast.

Potential Federal and State Policy Shifts

It is difficult to predict how the federal budget will affect our county. However, reductions in social service spending, certain tax reductions, and increases in defense spending do have philosophical support from the current congressional majority. Many of the current proposals would have significant consequences on local jurisdictions let alone individual lives. For example, the repeal of the Affordable Care Act would have significant impacts. For Sonoma County, the repeal of the ACA would result in the loss of an estimated 2,000 jobs in the community and approximately \$192 million in local gross domestic product (GDP). For the county organization, ACA repeal would cause the loss of \$6.7 million in Medi-Cal expansion revenue used for behavioral health services, and \$375,000 for home visiting for high risk families. While the replacement plan proposed by the House of Representatives in May 2017¹ is unlikely to pass in the Senate, there are plans underway to modify the current proposal, with unknown but potentially significant negative impacts on Sonoma County. The uncertainty from what lies ahead supports fiscal caution with so much at stake for our community.

At the State level, the Governor has proposed a significant shift in how In Home Supportive Services (IHSS) are funded. While the direct budget impacts over the next two years have been mitigated in the May Revision to the Governor’s January budget proposal, there still remains a significant fiscal impact for all counties in California. The state is proposing to redirect growth in 1991 Health and Mental Health Realignment funding for five years, creating an immediate short term impact, with the threat of a 7%

¹ The version of the repeal of the Patient Protection and Affordable Care Act (ACA) passed by the House of Representatives in early May 2017 would cost the state an estimated \$4.3 billion in lost federal funds in 2020, increasing to \$18.6 billion by 2027 according to the Governor’s revised budget. Such a massive cost shift to the state would threaten the health care of 5 million Californians, with a recent Congressional Budget Office estimating nearly 23 million people nationwide. Although it appears the May 2017 House version of the repeal is unlikely to pass in its current form, the example illustrates the potentially significant consequences.

escalator to county costs after the first two years of implementation, which would be a significant threat to the county's General Fund.

Long Term Liabilities

Continued Investments in Roads

The County has 1,378 unincorporated road miles. Since, June 2012, the start of the Board's commitment to improve the County's road system, \$67.4 million in discretionary County resources have been dedicated to resurface approximately 300 miles of road. The Recommended Budget includes \$11.6 million towards the Pavement Preservation Program including \$662,000 associated with the City of Santa Rosa annexation agreement to improve roads in the Southwest Santa Rosa area. This pattern of investment in roads infrastructure and repair continues a multi-year commitment that dwarfs, in historical terms, the level of investment made previously. With the recent state action to funnel additional resources to local jurisdictions, I am committed to supporting your Board's priority of paving additional road miles and preserving our road maintenance efforts through this budget and those in years to come.

Continued Efforts to Reduce Pension and Other Post Employment Benefit Costs

Your Board has identified pension reform as a key fiscal strategy for a number of years, with the vision of ensuring a fair, equitable, and sustainable pension system for taxpayers and employees alike. This vision is achieved by accomplishing three over-arching goals: contain costs; maintain market competitiveness and workforce stability; and improve accountability and transparency. To help inform specific actions, your Board established an advisory committee in September of 2015, then a permanent advisory committee in April 2017. This budget continues the county's practice of paying down long term pension obligations. The Recommended Budget includes \$57.4 million overall towards paying down pension obligations, which includes \$24.3 million in Pension Obligation Bond principal debt payments. The Recommended Budget also includes a \$33.1 million contribution towards the retirement system's unfunded liability, which includes \$23.3 million from the county as employer and \$9.7 million from employees. In addition, the recent legal settlement with the Sonoma County Association of Retired Employees over retiree medical benefits is estimated to reduce the county's Other Post-Employment Liability by \$32 million.

Needed Investments in County Facilities

Many of the public services we provide to the community are housed at our County Administration Center campus. The campus buildings were largely constructed in the 1950s and 1960s. Many of our administration buildings are 60 – 70 years old and are beyond their useful life. It is imperative that we develop a viable building replacement plan so that we can continue to deliver critical public services in the future and reduce taxpayer dollars spent on deferred maintenance². Such a significant investment in

² In particular, \$229 million in capital projects would no longer be needed if a new county Government Center is constructed, freeing up significant funding for other critical infrastructure and services in the county. Related, \$69 million in deferred maintenance projects are included in the Capital Improvement Plan, a number that if not addressed will begin to increase exponentially.

capital requires fiscal discipline. During budget hearings, your Board will receive a proposal on adopting a new fiscal policy to address deferred maintenance and capital replacement for county buildings.

Balanced Budget

One of the few legally mandated functions of County Administrators is to produce a balanced budget. In simple terms, this means total estimated financing sources match the total expenditure appropriation. Related to the General Fund, Sonoma County has always used year-end fund balance as a major financing source for the coming year's budget. While not uncommon for many jurisdictions in California, this practice effectively requires setting spending limits on departments below appropriation levels in order to achieve a targeted year-end savings. While this approach produces a "statutorily" balanced budget, I believe this practice is not transparent to the public, your Board, and burdensome on the organization by creating forced position vacancies and other operational impediments.

The alternative approach would be to move toward a "structurally" balanced budget. Under a "structurally" balanced budget, appropriations are made at a level that matches revenue, with year-end fund balance used to secure reserves or address one-time spending needs. Because using year-end fund balance has represented such an important ongoing financing component for the County's budget, we must move away in a deliberate but phased approach. This budget represents the first phase in implementing this change.

Creating a structurally balanced budget is straightforward in concept, but difficult when accommodating for internal cost drivers as well as contextual factors outside of the county's direct control. A prime example comes from the labor market and labor costs. Our most recent labor negotiations produced agreements that provided pay increases for each bargaining unit. These increases reflected a tightening local labor market and increasing local revenue from a thriving economy. However, these increases, when coupled with other discretionary spending in priority areas, outpaced revenue growth. As a result, this budget reflects a tightening of costs, including labor costs, which has required lay-offs in some departments.

Acknowledgements

The FY 2017-2018 Recommended Budget plan resulted from a collaborative development process between the County Administrator's Office (CAO) and the county's agencies and departments to ensure the preparation of a balanced budget for the coming fiscal year. All budget requests are reviewed through the following lenses: Board of Supervisors' policy direction, available financing, state and federal policies, changes in the cost of doing business, capital asset needs, and Strategic Priorities.

This effort benefited from many partnerships. In particular, the Auditor-Controller-Treasurer-Tax Collector's Office, Information Systems Department, and Human Resources Department, which verified overall account balancing and accuracy; kept the Hyperion budget system operating smoothly under sustained peak demand, and processed position changes and verified Board approved position allocations.

The County Administrator's Office team warrants a special thanks for the development of the FY 2017-2018 budget as they worked tirelessly within the organization to analyze budgetary trade-offs and priorities, and dedicated themselves to achieving a long term structurally balanced budget. I am

honored and thankful to have a team who maintain a positive attitude and strong teamwork in the completion of this important process.

Once a budget is adopted, it is Sonoma County's employees who bring it to life through their work in our community. Therefore, I want to express my appreciation to each member of our organization for their dedication to public service. Only with such a workforce can we fulfill our mission to enrich the quality of life in Sonoma County.

Conclusion

We are ready to embrace the coming year, for all of opportunities as well as its challenges. I am proposing a budget that requires discipline and hard choices to ensure that the county stays on a fiscally sustainable path. Through admirable work by your executive team, our departments are achieving a greater alignment of programs under unifying strategic priorities. I believe that this alignment will make our investments have greater service impact, be more understandable to the public, and less taxing on our organization. Based on your Board's direction, we will continue to prioritize investments in these strategic areas in order to ensure our infrastructure is maintained, our environment protected, and our residents are supported and safe.

There is no question that uncertainty can make budgeting difficult and be unsettling to the organization. However, our organization through the Board's leadership is well equipped to embrace the challenges ahead. As Robert South so eloquently said: *"Problems can become opportunities when the right people come together."*

The time is now. We must prepare for our future so that we can continue to provide excellent services to our residents. I thank your Board, and the team of dedicated and passionate department and agency heads, along with every employee of our organization for their collective spirit and dedication to the public good.

EXECUTIVE SUMMARY

BUDGET OVERVIEW

The total recommended uses for FY 2017-2018 is \$1.57 billion. This is financed by \$1.41 billion in sources and \$154 million in use of fund balance, of which \$13.1 million represents the FY 2016-2017 estimated year-end unrestricted General Fund amount assumed to be available to finance the FY 2017-2018 Recommended Budget.

Table 1 below provides a comparison of total expenditure and revenue appropriations between the FY 2016-2017 Adopted Budget and the FY 2017-2018 Recommended Budget.

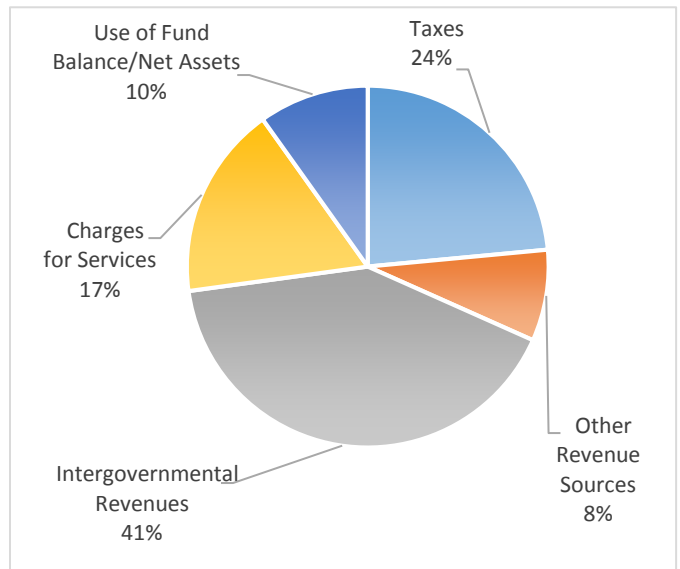
Table 1. Recommended Sources, Uses, and Net Cost/Use of Fund Balances

	FY 2016-2017 Adopted	FY 2017-2018 Recommended	Change From Adopted	Percent Change
<i>Revenues</i>	1,365,894,909	1,411,283,767	45,388,858	3.32%
<i>Net Cost/Use of Fund Balance</i>	184,540,640	154,406,005	(30,134,635)	(16.33%)
Total Sources	1,550,435,549	1,565,689,772	15,254,223	0.98%
Total Uses	1,550,435,549	1,565,689,772	15,254,223	0.98%
<i>Total Permanent Positions</i>	4,147.4	4,123.4	(24.0)	(0.58%)

A Look at Sources

Anticipated financing sources in the Recommended Budget as a whole for FY 2017-2018 total \$1.57 billion. These sources are held either in the General Fund or in other governmental funds including special revenue funds, special districts, Debt Service Fund, and Capital Projects Fund, as well as internal services and enterprise proprietary funds. The \$1.57 billion in sources includes \$308 million in General Fund General Purpose Revenue and \$1.26 billion in other sources. Given the county is a political subdivision of the state and federal agencies it receives most of its funding from state and federal governments to run programs and deliver public services.

Chart 1. FY 2017-2018 Total Sources: All Funds; \$1.57 Billion



General purpose revenue and prior year General Fund unrestricted carryover fund balance is used to fund county services and programs, such as public safety, and roads, as well as meeting our local match for health, human, and public safety programs. General Purpose sources total \$308 million and represent approximately 20% of the total Recommended Budget. Once the county fulfills maintenance of effort (MOE) or local funding match, finances county services net cost, the Board of Supervisors uses discretion to determine which programs receive the remaining general purpose revenue. Table 2 below provides details on the sources of General Fund, General Purpose revenue. It does not include \$16.3 million of Transient Occupancy Tax revenue segregated by Board policy to the Advertising Program Special Revenue fund.

Chart 2. General Fund General Purpose Sources; \$308 Million

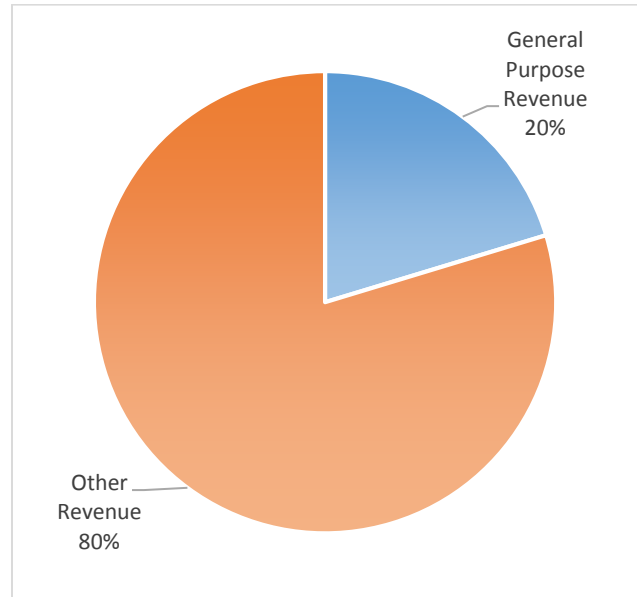


Table 2. General Fund General Purpose Sources

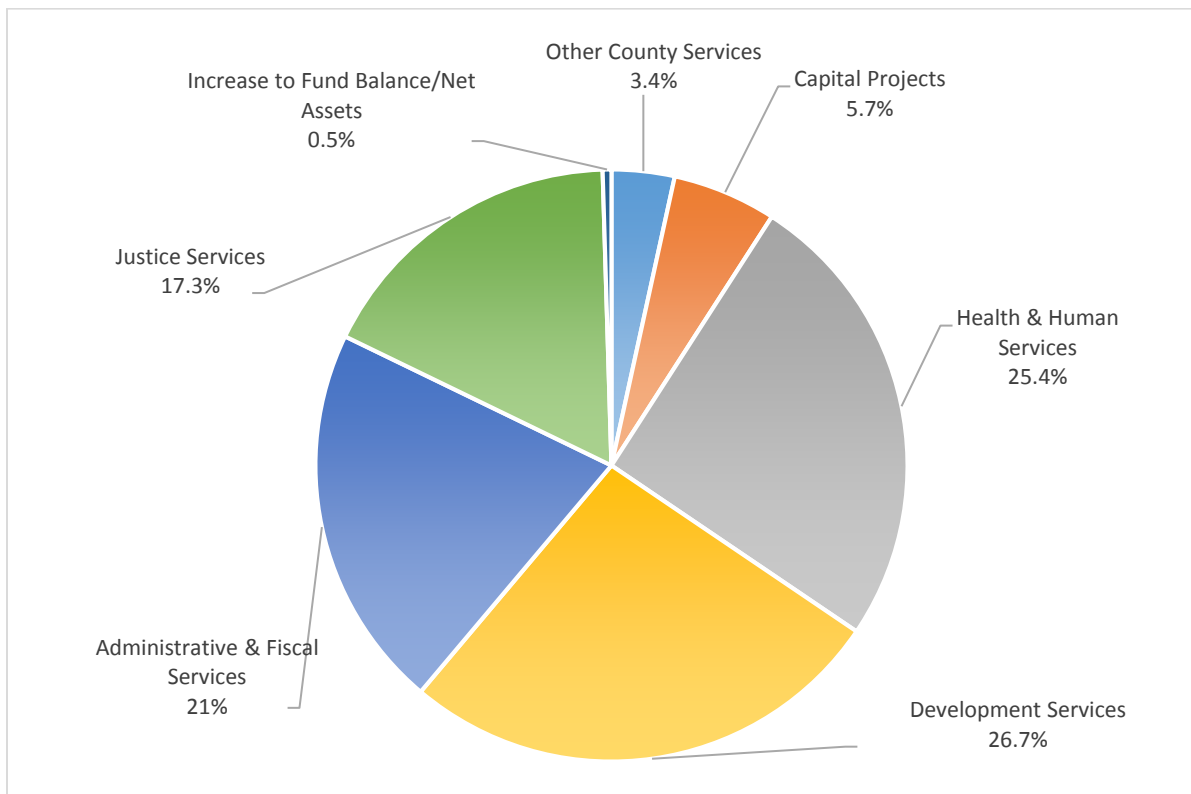
Description	FY 2016-2017 Adopted	FY 2017-2018 Recommended	% Change from FY 2017-2018	% Share of FY 2017-2018
Property Tax	\$221,270,000	\$232,168,734	4.9%	75.3%
Sales Tax	18,324,000	18,564,000	1.3%	6.0%
Cost Plan Reimbursements	12,351,154	14,330,259	16.0%	4.6%
Use of Fund Balance	15,415,578	13,119,691	-14.9%	4.3%
Documentary Transfer Tax	5,000,000	5,000,000	0.0%	1.6%
Interest Earnings	4,700,000	4,410,000	-6.2%	1.4%
Transient Occupancy Tax	3,542,700	3,764,000	6.2%	1.2%
Forfeitures and Penalties	3,404,148	3,404,148	0.0%	1.1%
Redevelopment Residual Property Tax	2,000,000	3,000,000	50.0%	1.0%
Assessment & Tax Collection Fees	2,762,553	2,866,000	3.7%	0.9%
Franchise Fees - Cable/PG&E	2,265,000	2,290,000	1.1%	0.7%
Federal Geothermal Royalties	2,000,000	1,766,000	-11.7%	0.6%
Enterprise Financial System Repayment	0	1,631,744	N/A	0.5%
State Homeowners Property Tax Relief	1,300,000	1,203,700	-7.4%	0.4%
Cannabis Business Tax	0	525,169	N/A	0.2%
Other Governmental Agencies	0	177,000	N/A	0.1%
Other Taxes	15,600	38,920	149.5%	0.0%
Total General Purpose Sources	\$294,350,733	\$308,259,365	4.7%	100.0%

A Look at Uses

Chart 3 below displays the total budget by type of service the county provides. These services are grouped into categories referred to in our budget as functional groups. Information on each department's budget is presented within the functional tab sections of this document.

Health and Human Services, as well as the Development Services functional group make up 52% of the total budget at approximately \$816 million. The largest development services budgets are the Sonoma County Water Agency and the Transportation and Public Works department.

Chart 3. Total Recommended Uses: All Funds; \$1.57 Billion



The Table 3 below shows how the \$308 million of General Purpose sources, or 20% of total county wide budget sources, will be spent in FY 2017-2018. Approximately \$264 million of these funds are allocated to operating departments to cover the costs of programs that are not funded by state/federal contracts, fees for services, or other funding streams. The remaining \$46 million is appropriated directly to programs or services based on Board policy direction, or other local requirements.

Table 3. Uses of the General Fund General Purpose Sources

Department/Program/Initiative	FY 2016-2017 Adopted	FY 2017-2018 Recommended	% Share of FY 2017-2018
Auditor-Controller-Treasurer-Tax Coll.	\$5,345,798	\$5,588,894	1.8%
Agricultural Commissioner	2,113,282	2,174,880	0.7%
Clerk Recorder Assessor	12,756,157	12,806,016	4.2%
County Administrator	5,444,014	5,536,565	1.8%
County Counsel	2,212,195	2,736,046	0.9%
Court Support/Grand Jury	7,935,520	8,259,701	2.7%
Department of Health Services	8,872,354	9,072,722	2.9%
District Attorney's Office	15,768,038	16,644,902	5.4%
Fire and Emergency Services	846,370	839,675	0.3%
General Services	18,718,848	18,847,811	6.1%
Human Resources	6,333,869	6,564,269	2.1%
Human Services	23,291,401	25,915,080	8.4%
Independent Office of Law Enf. Review	527,335	596,105	0.2%
Information Systems	948,489	958,943	0.3%
Permit Resource Management	5,359,192	5,376,624	1.7%
Probation	33,463,316	35,084,629	11.4%
Public Defender	10,437,781	10,944,338	3.6%
Regional Parks	4,846,936	4,739,055	1.5%
Sheriff's Office	87,074,052	89,796,354	29.1%
Transportation & Public Works	132,355	132,355	0.0%
UC Cooperative Extension	1,124,072	1,169,745	0.4%
Sub-total for Departments	\$253,551,374	\$263,784,709	85.6%
Board General Fund Contingency	3,464,000	5,000,000	1.6%
Capital Project Plan Contribution	7,036,000	5,500,000	1.8%
City of Santa Rosa (Annexation - Roads)	0	662,000	0.2%
City of Santa Rosa (Annexation Payment)	798,000	1,516,400	0.5%
Community Develop. Comm. Contribution	1,092,471	1,092,471	0.4%
Pension Obligation 2003B Bond Interest	1,075,200	1,075,200	0.3%
District Formation Contribution	200,000	450,000	0.1%
Employee Programs	4,071,288	4,268,288	1.4%
Local Agency Formation Commission Share	246,698	248,332	0.1%
Non-Department County Expenses	5,233,973	5,991,822	1.9%
Reinvestment & Revitalization Fund	2,000,000	3,000,000	1.0%
Roads: Operations and Pavement Program.	15,581,729	15,670,143	5.1%
Sub-total for Programs/Initiatives	\$40,799,359	\$44,474,656	14.4%
Total	294,350,733	308,259,365	100.0%

General Fund Fiscal Outlook

In advanced of developing the budget, a fiscal projection of the General Fund operating budget was completed. The fiscal projections are developed through a cooperative effort between several departments and the County Administrative office. The offices of the Assessor and Auditor-Controller-Treasurer-Tax Collector also provide significant input into the projections. These subject matter experts provide insight on key economic indicators and conditions that may influence the county's financial health, including assessed property valuations, supplemental property tax growth, and debt obligations. In addition, in January 2017, the County Administrator solicited volunteers from the department heads to form a peer review team to review the fiscal projections and assumptions.

The forecast is neither a spending plan nor a projection of future policy decisions at the federal, state, or local level. Rather, the General Fund outlook is a projection of sources and uses for existing levels of staffing and services within the context of current Board policies.

At this time, based on FY 2016-2017 actual revenue activity, as well as recent property value assessment information from the County Assessor's team, the updated county fiscal forecast assumes improved county General Fund Property Tax revenue growth of 4% for FY 2017-2018, and future year increases at 3.5%; 3%; 2.5%; and 2% through FY 2021-2022.

Lower growth is estimated for the out years given the following factors: (1) the county's low housing inventory, (2) focus on developing affordable housing units, (3) a potential economic reset, and (4) Proposition 13 limits property valuation assessment to a 2% inflation factor, as long as a properties are not sold.

This table shows that the FY 2017-2018 Recommended Budget relies on \$13.1 million in FY 2016-2017 year-end savings to create a FY 2017-2018 balanced Recommended Budget. Overall, expenses are projected to outpace recurring revenues. The County Administrator's goal is to phase out the budget's reliance on year-end savings over the next four budget years.

Table 4. General Fund Fiscal Outlook

General Fund (in millions)	Revised Budget 2016-17	Recommended Budget 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Taxes	\$250.2	\$263.1	\$271.4	\$279.2	\$285.8	\$291.2
State/Fed	73.7	75.7	77.6	79.5	81.5	83.2
Charges for Services	51.7	48.9	49.4	50.0	50.5	51.1
Other	46.7	46.4	45.8	46.0	46.1	46.3
Total Revenues	\$422.2	\$434.1	\$444.2	\$454.7	\$463.9	\$471.7
Salaries & Benefits	\$314.3	\$323.1	\$330.4	\$337.8	\$345.4	\$353.2
Services and Supplies	111.0	108.4	111.1	113.3	115.6	117.9
Other	99.0	106.7	106.9	109.1	110.9	111.8
Reimbursements	(85.7)	(91.1)	(91.6)	(93.7)	(95.8)	(97.9)
Total Expenditures	\$438.6	\$447.2	\$ 456.7	\$466.5	\$476.1	\$485.0
Savings Needed	\$16.3	\$ 13.1	\$12.5	\$11.9	\$ 12.1	\$13.2

NOTE: The figures above differ from the General Fund pie charts data used in the Financial Summaries which exclude operating transfers within the fund.

Position Summary

Table 5 below illustrates changes in full-time equivalent (FTE) positions by department. The Recommended Budget decreases allocations by 24 FTE from the FY 2016-2017 adopted positions. The majority of these changes are due to reductions in staffing in the Human Services Department, associated with funding reductions in state and federal revenues as well as increased internal costs.

Table 5. Position Summary

Department	FY 2015-2016 Revised	FY 2016-2017 Adopted	FY 2017-2018 Recommended	Change from FY 2016-2017 Adopted
ACTTC	93.0	93.0	93.0	0.0
Ag Pres/Open Space District	27.5	27.5	27.5	0.0
Agricultural Commissioner	33.3	33.2	33.5	0.3
BOS/CAO	41.6	42.6	42.6	0.0
Child Support Services	96.5	96.5	96.5	0.0
Clerk-Recorder-Assessor	108.8	107.8	107.8	0.0
Community Development	43.0	43.0	42.0	(1.0)
County Counsel	40.3	42.3	42.3	0.0
District Attorney	124.8	124.8	128.3	3.5
Economic Develop Board	12.5	11.5	11.5	0.0
Fairgrounds	30.8	30.8	30.8	0.0
Fire and Emergency Services	24.8	24.8	23.8	(1.0)
General Services	119.5	120.5	120.5	0.0
Health Services	600.7	637.4	651.7	14.3
Human Resources	60.5	61.0	63.5	2.5
Human Services	972.1	928.6	882.1	(46.5)
IHSS Public Authority	1.0	1.0	1.0	0.0
Independent Office Law Enf. & Out	2.0	2.0	2.0	0.0
Information Systems	116.5	116.5	116.5	0.0
Permit and Resource Management	113.0	119.0	120.0	1.0
Probation	288.6	289.6	291.6	2.0
Public Defender	50.0	50.0	51.0	1.0
Regional Parks	88.0	88.0	90.0	2.0
Sheriff/Adult Detention	649.5	652.5	652.5	0.0
Transportation & Public Works	163.0	171.0	166.0	(5.0)
UC Cooperative Extension	7.0	6.0	6.0	0.0
Water Agency	222.8	226.8	229.8	3.0
TOTAL	4130.7	4147.4	4123.4	(24.0)

The FY 2017-2018 total includes 85 position allocations which will be held vacant and unfunded through increased salary savings to align to available departments' funding levels. This includes 21.0 in the Sheriff Office; 40.0 in Health Services; 1.0 in the Clerk-Recorder-Assessor; and 23 in the Transportation and Public Works Roads division. The strategy to defund a portion of the Salaries and Benefits within

these departments was used to allow for more time to evaluate alternative funding options or to identify other lower priority budget areas to adjust.

Budget Process – Next Steps

Budget hearings are scheduled to begin on June 12, 2017 at 8:30 a.m. and may be continued from day to day as needed for a maximum of 14 calendar days per state law. The Board will adopt the budget, containing such revisions as the Board of Supervisors determines at the conclusion of the hearings. After the State of California adopts its budget and/or as needs arise after the close of the property tax roll and the county's Fiscal 2016-2017 books, staff will return with a collection of budget adjustments for the Board of Supervisors' consideration.

The Board will be presented with a supplemental package which represent programmatic changes that are in alignment with Board direction, but were not developed in time to be included in the Recommended Budget. In addition, the Board will be presented with Program Change Requests submitted by departments and prioritized by the County Administrator that represent areas for Board policy direction, or a new approach to implementing operational objectives. During public hearings, the Board of Supervisors will direct whatever modifications it sees fit to the Recommended Budget, Supplemental Adjustments, and Program Change Requests. At the conclusion of the public hearings, the Board of Supervisors will be asked to adopt the budget as modified per the Board's direction and the budget will serve as the operating plan for Fiscal Year 2017-2018.