

The County of Yuba

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June 28, 2016

Yuba County Board of Supervisors
915 8th Street
Marysville, CA 95901

FISCAL YEAR 2016-2017 PROPOSED BUDGET

INTRODUCTION

In accordance with local ordinance and State Law, presented to the Board of Supervisors is the Fiscal Year 2016-2017 Proposed Budget, as recommended by the County Administrator.

The Proposed Budget was prepared to emphasize strategic priorities and initiatives and address fundamental community needs while maintaining a conservative budget approach. We continue to see the slow economic recovery that began in 2011. While we have made progress in our fiscal health due to several strategies and policies put in place over the last several years, we still face slow growth in our discretionary General Fund revenues. Every step forward in revenue growth is frequently countered by increases in the cost of providing services, much of which is out of our control.

In order to maintain and improve our current fiscal position, departments were asked to prioritize service delivery to meet the Board's policy directives and maximize the use of Non-General Fund revenue, including Realignment, grants and other external sources, where possible.

Declining revenues in public safety sales tax for public safety departments and severe reductions in state gas tax for local road maintenance is a major concern. Recognizing the Board's priority of public safety, without an additional funding source identified in the near future for both of these functions, basic government functions such as technology, recording, administration, financial management, public guardian services and property assessments will continue to suffer from limited resources.

As with Fiscal Year 2015-2016, it is recommended we continue to move forward by making investments in our future. Of note are three capital projects: the new Sheriff's Facility slated to be completed in FY 2016-17, the new Tri-County Juvenile Hall Facility, and Jail Expansion projects that will commence in FY 2016-17.

Through all of the instability we have endured over the last decade, County employees continue to be the foundation of this organization. Department employees have displayed an extraordinary ability to provide exceptional customer service, despite the fiscal limitations of the last several years. Your staff has continued to remain focused on accomplishing your strategic priorities and initiatives, while at the same time keeping a positive attitude about our organization and those we serve.

The following budget document represents the hard work and dedication of dozens of department heads, managers, and fiscal and support staff.

EXECUTIVE SUMMARY

The Proposed Budget is technically balanced but again requires the use of one-time funds.

TOTAL BUDGET

Fiscal Year 2015-2016 (Final Budget)	\$169,088,338
Fiscal Year 2016-2017 (Proposed Budget)	\$173,824,015

The FY 2016-17 Proposed Budget is approximately \$4,700,000 more than the FY 2015-16 Final Budget. Of this amount, approximately \$587,000 or 12% is attributed to General Fund increases and the remainder are increases in Non-General Fund programs supported by Federal, State, Grant, Realignment, and Fee funding.

Departments initially submitted requested budgets that would have required nearly \$3.5 million dollars of additional General Fund revenue. A majority of those requests were made to meet the base level business cost increases, replace allocated positions lost during the last several years of cuts, add new positions due to increased workload or replace aging infrastructure. Through several departmental discussions and budget revisions, this amount was reduced significantly to meet the projected General Fund revenues available for FY 2016-17.

Expenditure increases projected for FY 2016-17 are attributable to similar categories as seen in previous years, with the main categories being employee salaries and benefits. Projected cost increases for General Fund and Non-General Fund departments estimated in March as follows:

Health Insurance/Salary/Pension Cost Increases	\$ 2,975,187
General Fund Portion	\$ 1,592,748
Non-General Fund Portion	\$ 1,382,439

The County's share of pension costs as a percentage of salary:

	FY 2014-2015	FY 2015-2016	FY 2016-2017 (Projected)
SAFETY	20.050%	22.247%	25.759%
MISCELLANEOUS	15.956%	17.604%	18.343%

The County's share of Health Insurance continues to rise every year with this year's estimate approximately 14% higher than projected for FY 2015-16.

Use of One-Time Revenues

We anticipate receiving one-time revenue in the amount of \$425,000. The one-time revenue source consists of proceeds from the Treasurer's Tax Auction slated to occur in February 2017.

We recommend using these proceeds for one-time expenditures of \$250,000 to maintain General Fund Contingency at the FY 2015/16 level of \$769,272 and moving \$175,000 to the County Capital Fund.

General Fund contingencies and General Fund Reserve levels remain slightly above budgeted policy levels. A more detailed summary is provided later in the budget message.

The recommended budget assumes a carryover General Fund balance of approximately \$1.3 million. The amount may increase, based on closing of the financials in July/August. Should additional funding become available between adoption of the Proposed and Final budgets, it is recommended the funds be considered one-time and budgeted, according to policy at Final Budget.

REVENUES

General Fund Revenues

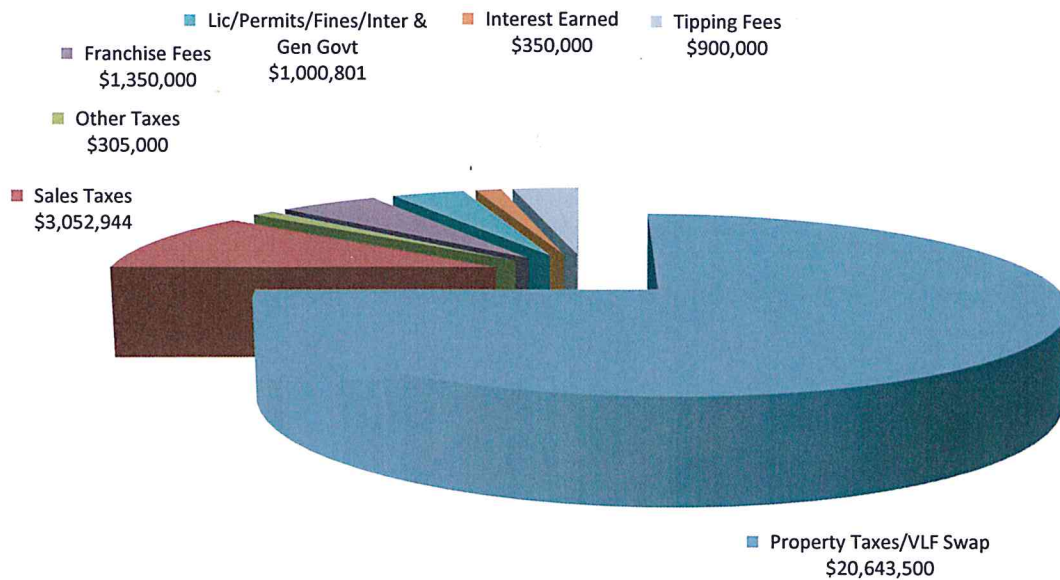
The positive trend that began last year is projected to continue into the upcoming fiscal year. Secured Property Tax revenues are projected to increase by approximately 3.5% or \$365,000. Primary factors contributing to the increase are re-assessment of Prop 8 properties and new home construction (still only a fraction of growth compared to 6-10 years ago). The year over year change is seen as a positive for agencies relying on Property Tax revenue, however it is important to note that it is nearly capped and, therefore, there will be minimal growth attributable to this factor in Fiscal Year 2017-2018.

As a result of the increase in property tax, the Motor Vehicle In-Lieu Fees are projected to increase for the upcoming fiscal year. The current fiscal year lacked stability in quarterly sales tax receipts, comparing previous year quarters. Fuel price decreases and building and construction material sales appeared to be the most volatile.

Type of Revenue	FY 15/16 Budgeted	FY 16/17 Budgeted	Increase/Decrease
Secured Property Tax	\$10,198,921	\$10,563,500	3.57%
Supplemental Prop Tax	\$150,000	\$175,000	16.67%
Motor Vehicle in Lieu	\$7,800,000	\$8,000,000	2.56%
Sales Tax	\$2,442,000	\$3,052,944	See Total Sales Tax & Triple Flip
Sales Tax In Lieu (Triple Flip)	\$650,000	\$0	See Total Sales Tax & Triple Flip
Total Sales Tax & Triple Flip	\$3,092,000	\$3,052,944	(1.26%)
Trans Occupancy Tax	\$280,000	\$280,000	0.00%
Franchise Fees	\$1,250,000	\$1,350,000	8.00%

** Triple Flip ended in FY 2015-16.

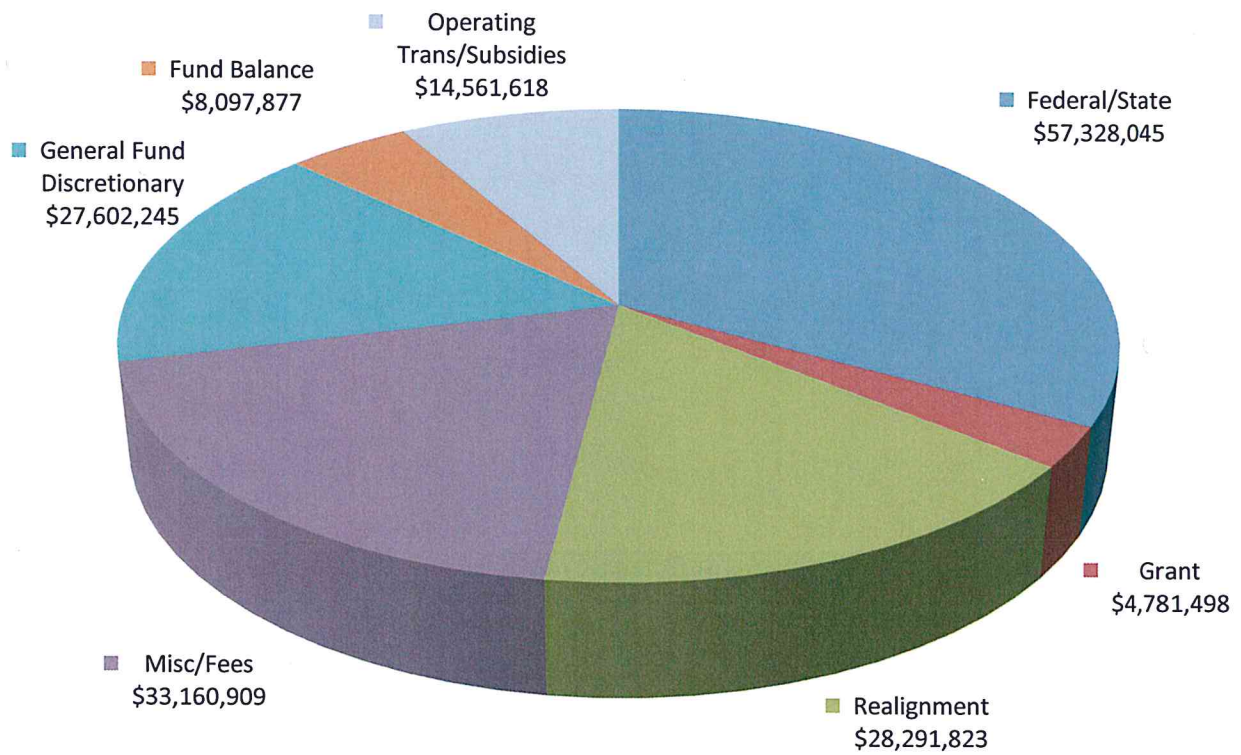
FIGURE 1: Total General Fund / Discretionary Revenue Sources \$27,602,245



Non-General Fund Revenues

Non-General Fund revenues are received primarily from State and Federal sources and a portion of the state sales tax (commonly referred to as Realignment Revenues). These revenues support departments such as the Health and Human Services Agency, Child Support Services, Public Works and law enforcement. It is important to note that nearly 100% of the operational costs for the first three listed are funded through Non-General Fund sources. However, Public Protection – consisting of the Sheriff, District Attorney, Probation, Juvenile Hall, Public Defender, Agricultural Commissioner, Code Enforcement, etc. – requires nearly 70%, or \$19 million, of all available General Fund revenue to augment state and federal revenue.

**FIGURE 2: Total of All Revenue Sources \$173,824,015
(General Fund and Non-General Fund)**



EXPENDITURES

Departments have reduced their operating budgets in several different ways. Reducing operating expenses such as office supplies, travel, training, and fixed asset purchases have occurred. However, the most significant reductions relate to our workforce.

**FIGURE 3: Total Expenditures \$173,824,015
(General Fund and Non-General Fund)**

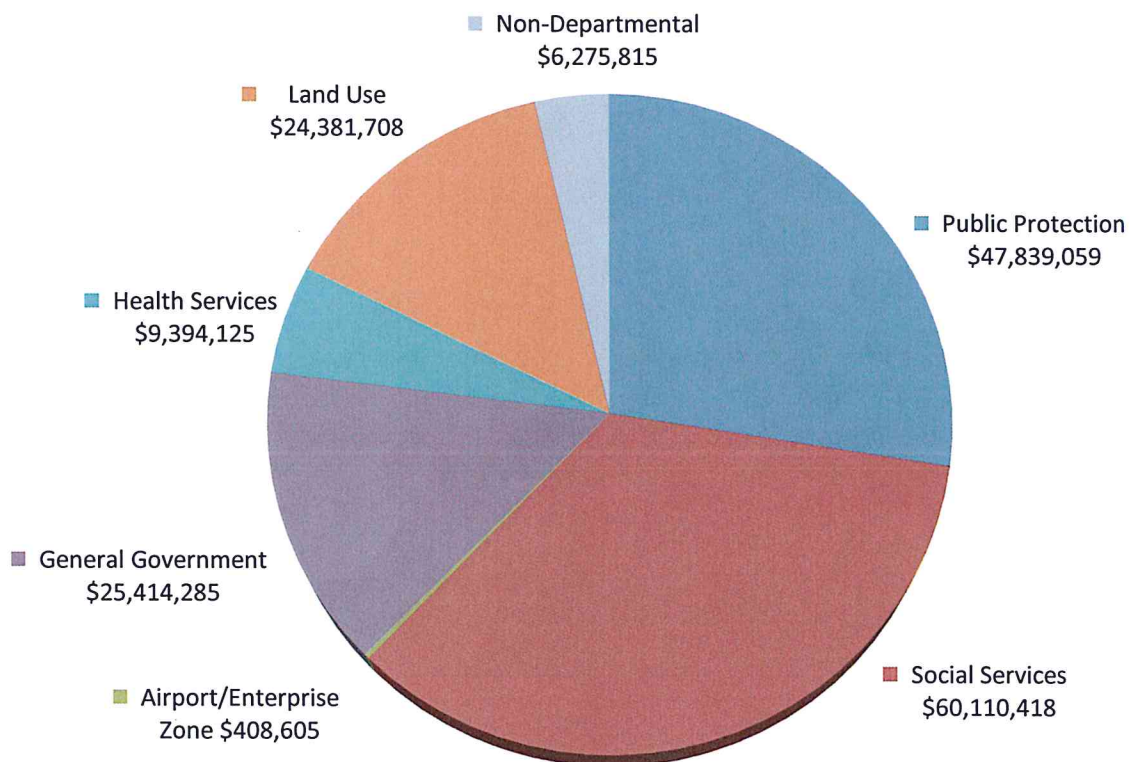
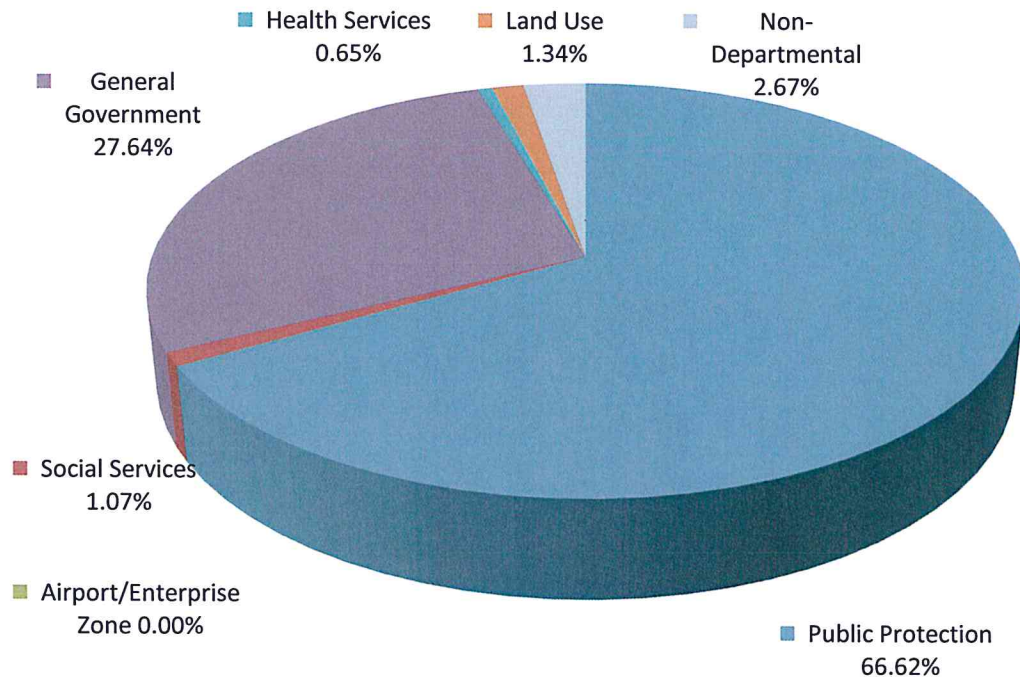


FIGURE 4: Total General Fund Expenditures by Function \$28,809,872



Functional groups are identified based on type of County service provided and grouped according to the County Budget Act.

Public Protection

Sheriff
Jail
Juvenile Hall
Probation
District Attorney
Ag Commissioner
Code Enforcement
Public Defender
County Share Court
Child Support Services

Land Use

Planning
Public Works
Building Department
Roads
Surveyor

General Government

Board of Supervisors
County Administrator
County Counsel
Library
Treasurer-Tax Collector
Auditor-Controller
Human Resources
Clerk-Recorder
Clerk of the Board
Assessor
Administrative Services
Information Technology

Non-Departmental

Contingencies
Reserves
Debt Service

Health Services

Health Department
Environmental Health
CMSP

Social Services

Welfare Administration
Veterans Services
Housing Programs
Child Welfare Services
CalWORKS
Public Guardian

RESERVES & CONTINGENCIES

Several years ago, staff recommended and the Board approved policies for General Fund Contingencies and Reserves. Those policies were refined approximately two years ago with fiscal goals of increasing the funding levels.

General Fund Reserves

The Board's approved policy for General Fund Reserves states, in part: the General Fund's total General Reserve and Designation for Economic Uncertainties should be accumulated over time until 5% of the annual operating budget reserve level is achieved.

FY 2016-2017 reserve levels are recommended to be above the stated policy level of 5%. This recommendation is consistent with Board direction in 2014 to achieve a stated goal of a 10% reserve funding level within the next five years. The proposed budget maintains the current reserve amount, which is currently set at \$1,942,588 or 7.44%. Staff will review actual end of year cash balance, as well as any one-time revenue sources that may materialize between now and Final Budget. Any additional one-time funding sources are recommended to increase this level to help achieve the 10% reserve funding level goal.

FY 2015-2016	\$ 1,942,588	General Fund Reserves (7.44%)
FY 2016-2017	\$ 1,942,588	Recommended General Fund Reserves (7.44%)

As stated previously to the Board, reducing reserve levels or not meeting stated goals may impact the County's credit rating results in having fewer reserves, if an emergency occurs, and impacts interest earnings.

General Fund Contingencies

The Board approved policy for General Fund Contingencies states in part: the General Fund's Appropriation for Contingencies should be budgeted at not less than 1.5% of the operating budget.

General Fund Contingencies are recommended at the same level as FY 2015-2016. This equates to 2.67% which is above the 1.5% base policy level.

FY 2015-2016	\$ 769,272	General Fund Contingencies
FY 2016-2017	\$ 769,272	Recommended General Fund Contingencies

DEBT SERVICE

Debt Service

For Fiscal Year 2016-2017, the County will be making debt service payments in the amount of \$5,506,543 for the following projects.

<u>Project</u>	<u>Amount</u>	<u>Payment Source</u>
Solar Project	\$ 925,936	Energy Savings through Solar Generation
Solar Project #2	\$ 211,774	Energy Savings through Solar Generation, Federal Energy Subsidy Credit
Levee Bonds	\$ 4,047,583	Levee Impact Fees, TRLIA CFDs, YCWA
Sheriff's Facility	\$ 321,250	Public Safety Fund, Radio Tower Lease (YCWA), County Capital Fund

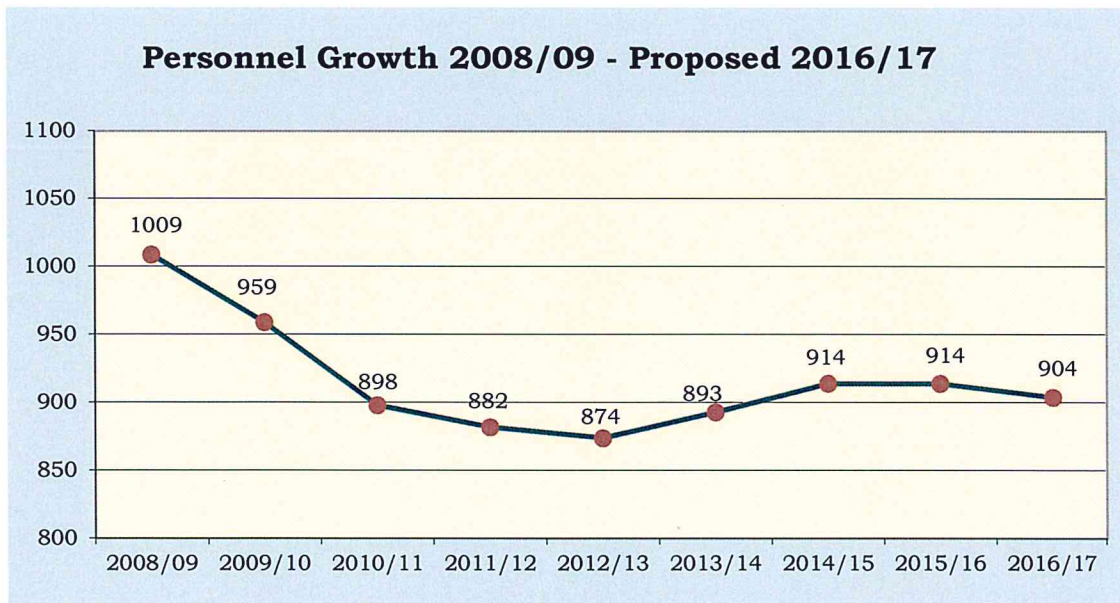
WORKFORCE

For Fiscal Year 2016-2017, there are reductions to our workforce in a few particular areas and slight increases in others. The net allocated position total of 904 is slightly lower than FY 2015-16. Recommended decreases are primarily due to a reduction in grant funds and/or General Fund revenues. Recommended increases are attributable to additional or expanded state and/or federal programs and program mandates. The following is a summary for all departments. The detailed recommendation is provided in the attached budget document.

- Adding 7 new positions
- Un-funding 4 vacant positions
- Deleting 16 vacant positions
- Title Change 1 filled position
- Abolish/Establish 10 vacant positions

It is important to note Yuba County has approximately 164 (or 18%) fewer positions than it had ten years ago.

FIGURE 5: Annual Position Allocation Totals



POLICY ISSUES AND CHALLENGES

Gas Tax – In FY 2014-15, the State Board of Equalization reduced the gas tax by six cents. This impacted funding provided to local governments for road repairs and construction. For Yuba County, the negative impact is approximately \$1.5 million. This impact was unexpected and caused a severe reduction in planned road work repair and maintenance for Fiscal Year 2015-16 that continues on to FY 2016-17. There have been legislative efforts to propose an alternative tax or make counties whole eventually. However, nothing has yet to be completed in final form. Staff will continue to monitor any developments.

Stagnant Public Safety Revenues - Public Safety revenues, like the Public Safety Sales Tax, are no longer keeping pace with required services. Similar to the Gas Tax that funds critical road work throughout the County, if positive changes don't occur soon, we will be in a position where all County services will be affected negatively.

Affordable Care Act & Legislative Actions Regarding Sick Leave – Implementation of the Affordable Care Act has created a huge impact to our organization, requiring the County to implement certain requirements as an employer. While the County already provides sick leave to permanent and part-time employees, the approval of AB 1522 requires that sick leave be provided to extra help and reserve employee classifications as well. There are numerous reporting requirements that have to be met, creating a significant workload for departments involved in tracking employee's time.

Pensions – Mentioned in previous budget messages, a new assumption related to mortality rates of members in the pension system poses a severe challenge for local governments and affordability of pension costs. The CalPERS projected increases are significant for the next few years.

Proposition 30 – Governor Brown's ballot measure, passed in 2012 to establish an additional income tax on the wealthy and increase the sales tax rate by a quarter cent, is due to expire in December 2016. Revenues from the taxes have gone to schools and community colleges and funded public safety services that were transferred from the state to local government in 2011. There is an effort to place this item on the November 2016 ballot, in an effort to extend the tax initiative. Staff will follow this issue, as this funding is critical to all counties.

SUCSESSES AND OPPORTUNITIES

Credit Rating - In 2008, Yuba County had its credit rating increased from an A- to an A by Standard & Poor's rating agency. Since that time, the County endured one of the most difficult financial periods in decades but was able to maintain the same credit rating. In 2014, the County began an effort to finance a portion of the new Sheriff's facility. Through another rating evaluation done by the same agency for issuance of bonds for the Sheriff's facility, the County's credit rating was upgraded from an A to an A+, allowing us to obtain an insured bond issuance and save taxpayers several million dollars over the course of the borrowing. Staff will continue to focus on financial stability by recommending additional financial management policies, with respect to increasing reserves and setting aside funds for economic uncertainties.

Capital Projects -

Sheriff's Facility Project – Scheduled for completion in FY 2016-17, this approximately \$10.5 million project will be the new home for Sheriff's operations, including dispatch, patrol, investigations, administration, and training.

Tri-County Juvenile Hall – This project replaces the forty plus year old juvenile hall facility with a new 48 bed facility located on property adjacent to the Juvenile Camp Program and Secured Housing Unit. The County was awarded \$15.2 million in SB 863 grant funds from the State of California. This project is a three county effort between Yuba, Sutter, and Colusa counties. We anticipate the project to move towards the RFP stage in FY 2016-17.

Jail Expansion Project - The County was awarded a \$20 million grant, with no local match required, to construct an addition to the Yuba County jail. This will allow a significant improvement to the Sheriff's ability to serve and reduce recidivism through the addition of programming, educational, medical, and mental health spaces; all grossly undersized in the current facility. Initial project development has begun with an anticipated project establishment with the State to occur in August 2016.

Financial Policies – Key financial staff continue to refine and recommend policies to the Board of Supervisors. In the upcoming year, it is anticipated that a policy will be recommended to create a reserve for economic uncertainties, and we will continue to refine existing policies to make sure we are able to respond to economic downturns, emerging community needs and organizational requirements.

Homeless Issues – The County led a collaborative effort to tackle Countywide and regional homeless issues. Several County departments have been involved in developing a comprehensive action plan. The plan includes the addition of a Project Manager position in Health & Human Services to serve as the liaison for all of the stakeholders. This project will be an ongoing effort to work towards helping those in need obtain permanent housing.

STATE BUDGET

The FY 2016-17 budget year is the last year to include full Proposition 30 revenues, which are set to expire in December 2016. The state is counting on the extension of Proposition 30 tax revenues to meet its ongoing commitments. Without the extension, the state will need a sizable rainy day fund, given the volatility of income taxes on the state's wealthiest residents, and will have less ongoing tax revenues to support its current fixed commitments. This means a strong rainy day fund will be even more vital to protect against devastating cuts. The extension is scheduled to be included on the November 2016 ballot for voter approval.

Payment in Lieu of Taxes (PILT) – SB 1188 was introduced in February 2016 to revise the wording in current legislation from “may” reimburse counties to “will” reimburse counties. The state has historically removed the funding for this program during their budget process as the language allowed it. Staff will be closely monitoring this bill in the upcoming year.

Revenue for Local Road Maintenance - Nothing was included in the state budget to help local agencies recover from the loss of gas tax revenue that occurred in FY 2014-15. Numerous revenue generating initiatives were brought forward to the Legislature during the past fiscal year. Staff attended legislative hearings and provided letters of support, but all of these proposals went nowhere. This may be due in part to the avoidance of adding new programs that generate revenue during an election year. Staff is actively involved in this issue and will continue to monitor and support any bill that promotes revenue stabilization for local roads.

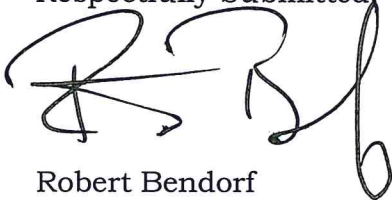
Minimum Wage Increase - The recent passage of legislation to increase California's minimum wage to \$15 per hour is anticipated to increase state General Fund costs by an estimated \$39 million in FY 2016-17. The impacts to local businesses due to the minimum wage increase are unknown at this time.

SUMMARY

It is recommended that the Board of Supervisors:

1. Accept and adopt the Proposed Budget for Fiscal Year 2016-2017 as the County's interim spending plan, including position allocation changes, and direct staff to make available copies for public review, and;
2. Acknowledge that:
 - a. The Proposed Budget estimated expenditures are balanced with estimated revenues, a carry forward cash balance and one-time revenues;
 - b. Although the Proposed Budget is balanced, it is accomplished with the use of limited one-time revenues and, therefore, is not structurally balanced;
 - c. Actions by the State of California may require adjustments to the Proposed Budget during Final Budget Hearings; and
 - d. Restoration of recommended reductions will require equivalent reductions in funds from other County priorities.
3. Set dates for the Fiscal Year 2016-2017 Budget Workshops for August 16th and August 17th.
4. Set public hearings to commence September 20th for consideration and adoption of the Fiscal Year 2016-2017 Final Budget.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'RB', with a stylized flourish extending from the bottom right.

Robert Bendorf
County Administrator