

BACKGROUND

The Auditor-Controller's Office closed the 2012-13 fiscal year on August 15. State law requires that the budget be balanced at fiscal year end and all cost overruns addressed. The Auditor completes this process through numerous year end appropriation transfers and the recognition of additional revenue sources. As provided in state law, some of these transfers must be approved by the Board of Supervisors and are therefore included in this report. In accordance with the long-term financial plan, included in the report is an analysis of how each department ended the year.

As required by state law, the Board must adopt a budget by October 2 of each year. The attached resolution and exhibit is based on the recommended 2013-14 budget as approved by the Board of Supervisors on June 11 and as revised by the recommendations included in this memo.

A - Year End Transfers

Appropriation transfers are required to cover expenditures in excess of approved budgets within various budget units and funds as prescribed by state law. The transfer schedule (Attachment B) includes the budget unit description amount of the transfer. Unless otherwise noted below, department management covered budget overdrafts by transferring unused appropriations from within the department.

2102-13 Budget Variance

To show how departments managed their 12-13 budgets, Attachment C illustrates their actual end of the fiscal year operating results. A positive balance indicates that the department revenues exceeded expenditures. A negative balance indicates expenses exceeded revenue. A summary of some of the major variances is included following the report.

B - Fund Balance Summary Report

The Fund Balance Available report (Attachment D) is a general accounting of the fund balances for all funds. The first two columns identify the budget unit followed by the balance of that fund at the close of the 12-13 fiscal year. The fund balance used or not available indicates the amount that is either appropriated for use in the 13-14 fiscal year or has been set aside as it is not available for current spending (i.e. prepaid expenses and inventories). The available fund balance are those remaining amounts that have not been appropriated for use in 13-14 and are available to be used in the manner outlined in statute. The final board control column identifies how much flexibility the board has in directing the use of those available funds. The definition for the control identification is contained on the final page of this report.

C – Additional 2013-14 Appropriations

General Fund (Fund 110)

The general fund has an available fund balance of \$6,307,673. This amount includes \$4,500,002, which was used as a funding source in the 2013-14 Recommended Budget. Additionally, staff has had an opportunity to update the 2013-14 revenue projections which indicate an improvement of \$2,467,933 based upon improved assessed property values, redevelopment pass through and board-controlled penalties. Recommended allocations for the remaining amount not allocated as part of the 13-14 Recommended Budget are described below.

Recommended action:

It is recommended that the fund balance in the General Fund be allocated as follows:

	Recommended Appropriation	Running Total
Beginning General Fund fund balance		\$6,307,673
Revised Revenue Projection +\$2,467,933		\$8,775,606
13-14 Rec. Budget Carryforward	\$4,500,002	\$4,275,604
OPEB Reserve	\$300,000	\$3,975,604
Public Safety	\$154,000	\$3,821,604
ADMH Landfill Loan	\$401,775	\$3,419,829
HRIS Solution	\$800,000	\$2,619,829
Financial System Solution	\$800,000	\$1,819,829
IT Programming Services Contingency	\$240,000	\$1,579,829
Countywide Professional Services	\$149,400	\$1,430,429
Tactical Plan Implementation	\$175,000	\$1,255,429
Animal Services	\$56,099	\$1,199,330
Certificate of Participation Fees	\$10,000	\$1,189,330
Legal Counsel	\$75,000	\$1,114,330
Safety Improvements	\$150,000	\$964,330
Delta	\$80,000	\$884,330
Airport	\$70,000	\$814,330
OES Staffing	\$25,000	\$789,330
County Counsel Staffing	\$130,492	\$658,838
CAO Staffing	\$29,506	\$629,332
General Services Staffing/Vehicle	\$104,290	\$525,042
Assessor Staffing	\$88,660	\$436,382
Board of Supervisor Staffing	\$129,000	\$307,382
HRIS/Financial System Project Team	\$148,441	\$158,941
Auditor Staffing	\$84,500	\$74,441
HR-Payroll Staffing	\$72,841	\$1,600
Grand Jury PC Replacement Program	\$1,600	\$0

Description of Appropriation of Additional Funds

The general fund fund balance is considered to be a one-time resource and thus should be utilized for short-term funding solutions. Therefore, staff recommendations are primarily one-time in nature. Of the additional \$2,467,933 in on-going additional revenue, \$797,730 will be associated with on-going obligations. The remaining recommendations are one-time allocations. The recommended distribution of general fund balances is as follows:

- OPEB Reserve – In May, the Board approved a \$300,000 transfer from the other post-employment benefits (OPEB) reserve to the OPEB trust in order to realize significant interest earnings. As part of that item, staff committed to replenishing the reserve as funds were available.

- Landfill Loan - In 2010-11 the Board of Supervisors approved a \$10.5 million loan from the Central Landfill Closure Fund to the General Fund to cover deficits within the Public Safety (\$2.5 million) and Mental Health (\$8 million) funds. The repayment schedule requires a \$500,000 annual payment to the public safety portion of the loan and \$401,775 for ADMH. Higher than anticipated public safety funds can be used to fund a portion of the payment which requires additional funding from the general fund. ADMH did not realize excess funding and therefore the general fund is responsible for the entire amount.

It is important to note that since the funds used to make the central landfill loan remain in an interest bearing account with the interest continuing to accrue to the landfill closure fund, no interest payments are required.

- HRIS/Finance System – The human resources information system (PeopleSoft) and the accounting system (GenLed) are both outdated and inadequate to meet the needs of the county. Oracle has notified the county that it will no longer support the ongoing PeopleSoft payroll tax updates by the end of 2013. In order to maintain our ability to process payroll and improve our self-services functions, the board approved the issuance of an RFP on August 6, 2013 and it has been issued seeking bids on replacement software. GenLed has been the county's personalized accounting software for more than 20 years. In that time, fiscal policies and practices have changed dramatically and staff finds it difficult to meet those increased demands with the software as it exists today. Therefore, the RFP has also included fiscal software. Both software items are critical to implementation of several tactical plan items such as developed of accurate cost projections (Tactical plan ID 8A1) and long-term forecasting (8A3). It is anticipated the cost of the new systems will require financing. The funds set aside would provide a down-payment for the new software. (\$800,000 each)
- IT Programming Services – Traditionally, programming services have been funded by the general fund and departments requesting software programming service such as Law Suite, GenLed, PeopleSoft and CalWin. Over time, these services have seen a decrease in demand.

In 2012-13, the IT budget was revised to allocate costs in a more structured fashion through three charging mechanisms. Enterprise Resource Programs (ERP) charges users of the various ERP solutions (PeopleSoft, GenLed, etc.). The connectivity component are costs of connecting to the county inter/intranet and related components. The final IT expense is department systems which are more difficult to charge on a global basis as they are department need dependent. In 2012-13, IT estimated which departments would need their programming services and when those estimates did not materialize, the department systems budget experienced a funding shortfall at year-end which was covered by general fund. When programmers are not utilized for department systems and are not on leave, their time is spent in training, safety meetings, scoping proposed projects, evaluating new systems for impacts to the county, database tuning and administration, and research and analysis.

The 2013-14 budget was again established using estimated department uses. As mentioned in the recommended budget letter, there is a risk of experiencing a funding shortfall again. Staff is recommending setting aside a contingency of \$240,000 in order to mitigate the potential inability to meet the budget estimate.

During this fiscal year, staff will need to develop an ongoing strategy to deal with programming services. If the determination is made to continue to have on-call programming services, general fund will need to support the function. If it is determined

to no longer provide on-call programming services, there will need to be a plan to obtain needed software solutions.

- The County Administrator's Office engages external professional expertise to assist in a variety of countywide areas from managing departmental climate and culture to business process review such as the one-stop shop for permitting and streamlining Assessor operations as well as professional recruiters for hard-to-fill leadership positions. These needs will continue in 13-14 and were not funded as part of recommended budget.
- The Board-approved tactical plan includes a number of goals for which funding is needed to accomplish in this fiscal year. As an example, the tactical plan calls for development of training programs designed to enhance competencies. While funds were not budgeted, staff is reviewing software designed to accomplish this goal. Tactical plan funds will be set aside, much like the IT Innovation fund, and would be available for future Board appropriation as the projects become defined and costs known.
- Animal Services – The shared service partners approved an increased budget for the Animal Services Division. The County's share for these services is \$56,099.
- COP fees – There are residual financing costs related to the refinancing of the District Attorney Building Certificates of Participation and the solar project financing that may be needed during 2013-14.
- Legal Counsel – Occasionally, the County Counsel's Office lacks the specific expertise needed in a particular field and contracts with private counsel in order to meet the needs of the county. Traditionally, these fees have been paid for out of the countywide budget and thus created a shortfall in countywide at year end. In order to be more transparent about these costs, staff is recommending the funds be allocated to county counsel and expenses tracked through this appropriation.
- Safety Improvements – In 2012, the Sheriff's office extensively reviewed the safety and security of every department's public access entry points. As a result of that review, the Sheriff recommended a number of improvements designed to increase employee safety. It is difficult for departments to obtain the discretionary funding needed to support these improvements and staff recommends use of available general purpose and accumulated capital outlay funds.
- Delta – The 2012-13 expenses for the County's contribution to the Delta Counties Coalition Coordinator (\$35,000) and the fish biologist hired to analyze the fish data related to the BDCP Conservation Measure intended for the Yolo Bypass (\$45,000) were not distributed prior to year end. Therefore, the funds set aside in 2012-13 for these payments were included in the general fund fund balance discussed above. Affirmative action is needed to restore these funds in order to pay the 2012-13 obligations out of the 2013-14 budget.
- Airport - As noted during recommended budget, staff is reviewing the needs of the airport and appropriate funding levels. UC Davis has contracted with the county to work with the community and airport tenants to determine the needs of the airport. Their report will not be available until December and will likely include a change in staffing and additional contracting work needed to implement their recommendations. In order to continue existing operations in the interim, staff recommends supplementing the airport budget.
- OES staffing – The shared services team has identified a number of grant opportunities that the county, cities, tribe and housing are ill-equipped to obtain due to the time involved with grant applications. To assist all agencies with grant applications and increase the amount of emergency services funding available, a grant analyst will need to be funded in

advance of receipt of funds. Once funding is secured, staff costs will be covered by the grant. Staff recommends this one-time expenditure to staff the grant application process.

- County Counsel has reviewed the needs of the department, ability to adequately serve the needs of the County and their succession plan and recommends hiring an additional deputy county counsel. Additionally, one clerical position was reduced to ½ time two years ago and the department has requested to return this position to full time.
- The recommended budget included partial funding of an analyst position dedicated to developing and maintaining a dashboard related to the Board's community goals, department specific performance measures and the tactical plan's measures of success. In addition this position will be charged with monitoring tactical plan progress and preparing for a future update of the tactical plan. Additional funding now allows the County Administrator to hire the analyst two months earlier than initially budgeted.
- General Services' recommended increase is related to the adding of a new accountant position. With last year's combining of Information Technology and General Services (GS) into one department, the accounting complexity of the department has increased substantially necessitating the hiring of this new position (a position which was eliminated in an earlier department reduction). The department is also requesting approval to replace a vehicle that was totaled in 2012-13. The insurance replacement funds of \$22,985 did not arrive prior to the initial development of this year's budget and were therefore placed in the county's fund balance account for expending purposes in 2013-14. As a result, the entire amount (insurance plus county portion) is required from general fund carryforward to cover the cost of this vehicle replacement.
- The Assessor's office continues to be impacted by the significant number of appeals over the last few years. At the same time, growth is beginning to occur in the cities, which requires new maps and parcel work from the office. In order to meet the lingering appeal demands as well as the increased workload, additional audit/appraising and mapping staff are recommended.
- Board of Supervisor staffing – Over the years, disparate compensation structures have occurred between the at-will Supervisor Deputy positions. As a public employer, the County believes the salary and benefit offerings should be equal among individuals in the same class. Additional funding is necessary in order to achieve equality.

In addition, during the recent difficult financial years, two Board Members left their assistant deputy positions vacant. The District 5 Supervisor has determined their vacant assistant deputy position should now be filled. The vast majority of District 5 is unincorporated which places additional strain on the County and the Supervisor over those districts with incorporated cities to assist residents. There are six general plan advisory committees, four cemetery boards, nine fire districts, three community service areas, four community service districts, four water/maintenance districts and four reclamation districts to which District 5 responds and provides support. Funding this vacant position is recommended.

- HRIS/Financial System Project – The County has secured the services of GFOA to advise on the selection and implementation of new software. They have recommended an additional seven staff members solely allocated to the implementation so that the county recognizes the smoothest and least disruptive utilization of the new systems. The County is unable to support all seven fully dedicated staff members yet recognizes the success of the new system(s) will require our time and attention. Staff therefore recommends one full-time, limited-term (2 years) project manager, one hourly consultant to support change management and extra-help funding to allow county employees some

on-call relief so that they may spend time assisting the project manager in their area of expertise.

- Auditor-Controller / Treasurer-Tax Collector – A new Manager of Internal Audits has been requested at a cost of \$84,500. The position will help strengthen the internal audit function in the county, which is a major component of the tactical plan, Government Finance Officers Association ideal in a world class financial system and a critical factor in supporting the transition from an elected Auditor-Controller to an appointed Director of Finance. The position will also support the county and cities desire for more active oversight of districts and JPAs, with that activity eventually being funded by the supervised entities.
- HR – Payroll Staffing – The Auditor-Controller transferred the payroll function to the HR department during the 2012-13 fiscal year. The payroll function in the Auditor’s office was administered by one manager, one supervisor, two payroll clerks and one part-time clerk. Only two payroll clerks transferred to payroll and HR absorbed the remaining functions. As a result, many of the employee benefit and labor assumption functions fell behind while HR staff supported the payroll function. Due to this loss in staff time and the upcoming new payroll system implementation, additional staffing is needed to restore HR employee benefit functions and a successful payroll software transition.

Non-General fund additional appropriations

Several departments have requested additional 2013-14 appropriations beyond those provided in the recommended budget. A summary of those requests are as follows:

- Public Safety Fund: Proposition 172 revenues exceeded 12-13 budget estimates by roughly \$1,386,940. Of this amount, \$273,774 was utilized to cover a shortfall in the year end public safety fund. Staff projected sales tax receipts would exceed projections as part of the Recommended Budget hearing and therefore \$497,166 was allocated to 2013-14 department budgets. The remaining \$616,000 is available for appropriation. Staff consulted with the District Attorney, Sheriff and Chief Probation Officer to determine if there were unmet needs for which this funding would provide relief. Staff recommends that \$500,000 be appropriated for the landfill loan payment.
 - The DA requested \$85,000 of the available funds for critical case management upgrades and Neighborhood Court Support.
 - The Chief Probation Officer requested \$85,000 to purchase a radio/repeater for juvenile hall, one probation vehicle due to growth and fully funding an IT coordinator that was only partially funded during recommended budget.
 - The Sheriff requested \$100,000 for replacement computers.

Appropriation of these requests would leave \$346,000 toward the 2012-13 \$500,000 loan payment. The General Fund would need to fund the remaining \$154,000.

- Sheriff Vehicles – The department is requesting to purchase three additional vehicles. One vehicle will be for detectives, a second for gang prevention, and the third for animal control services. The funding for the first two vehicles (\$30,000 each) will come from the departments special revenue COPS funds. The additional animal services vehicle cost (\$25,000) will be shared proportionally among all city participants and the county.

- Health -- The department is increasing its budget by \$365,034. Of this amount, \$44,201 is related to the Nutrition program and \$320,833 is for the Emergency Medical Services and Emergency Preparedness.

The Nutrition program was notified of an increase in their federal grant funding allocations which will continue for the next three year cycle. The program is planning to add a supervising nutritionist position to provide an added level of program supervision while serving the target population. The position will be covered through the increased revenue allocation and a reduction in contract expenditures due to a recent change in sub-contracting requirements.

The Emergency Medical Services (EMS) and Emergency Preparedness team is planning to add an additional Emergency Planning & Training Coordinator to ensure adequate staffing for their growing workload. The position will be split equally between the program areas and covered through EMS fee revenue and Emergency Preparedness state and federal grant funding. Additionally, the EMS team is increasing their operating expense budget to allow for utilization of fee revenues being realized in the newly formed unit. This will be their first fiscal year of operation.

Both referenced positions are included on the position resolution for approval (Attachment G).

- Department of Employment and Social Services (DESS) -- The department is increasing their appropriation by \$1,508,973 which will allow the department to provide necessary services related to the Affordable Care Act, CalWorks, Child Welfare Services and In Home Support Services (IHSS). With the exception of \$127,880 in 2011 realignment funding, all the remaining revenue to cover these increased expenses will come from additional federal and state funds.

These new budget items were not included in DESS original budget request for the following reasons:

- The department did not receive their award confirmation of \$697,925 in additional Medi-Cal funds from the State until 8/22/13, well after the conclusion of the Department's original budget submission. These funds will be used to implement the Affordable Care Act effort, which includes hardware supplies and the cost of the 8 positions that were previously approved by the board in June in anticipation of this program expansion. Notwithstanding this expansion, additional staffing increases may be needed in the future if the current 12% increase in program demand continues. The department will return to the board if additional staffing is necessary in the future.
- After the close of the original budget process, a staff review revealed that certain expenses and projects in excess of the County's IHSS Maintenance of Effort (MOE) would be fully reimbursed by the State (IHSS related requests, \$524,000). These funds will be used to enhance the IHSS program and to cover the cost of 3 new FTE IHSS Adult Services Workers and two part-time extra help employees; because these costs are beyond the county's MOE threshold, no additional county funds will be needed to cover these costs.
- Other items were for expenses that had not been identified (or finalized) at the time of the original budget request; these include \$76,000 for full-time security officers at both the Woodland and West Sacramento offices and additional funding (\$45,000) for substance abuse recovery services.
- The remaining \$166,048 balance is myriad of items, including computer hardware and software upgrades, training costs and other minor facilities and staffing cost related increases.

Pomona Funds

On August 6, 2013, the Board approved a revised investment for funds that are de-allocated from Ceres Endowment. That strategy included deallocating \$330,000 annually for Board-directed expenditures. These funds are now available for Board appropriation. Staff recommends that the Board consider developing guidelines for the use of these funds. Based on Board direction, staff could return with proposed guidelines for Board consideration at the September 24 meeting. Once guidelines are approved, the Board could set a future date, allowing time for development of funding requests, for allocation of Pomona funds.

Potential Pomona funding guidelines could include the specifying that funded projects should be one-time versus on-going and service area priorities including Health, Mental Health, etc.

Social Services Fund (Fund 111)

The Social Services department had a 2012-13 general fund balance of \$1,974,472. It is recommended that \$900,000 of this amount be transferred to fund a 2013-14 health and human services contingency. The remaining amount will remain in the social services fund to meet local match requirements.

E - Future Risk Factors

Though the County's fiscal condition continues to stabilize, there remain factors which could affect the balanced state of the 2013-14 budget. It is for these reasons that staff recommends maintaining strengthened fund contingencies:

- Affordable Care Act Implementation - Assembly Bill 85 (AB-85) was passed as a budget trailer bill on June 27, 2013 to act in coordination with the State's adopted budget for FY 2013/14. The bill contains very specific details and requirements regarding the implementation of the federal Affordable Care Act and how it will be applied within California. One of the most significant factors is the redirection of Health Realignment funds and the requirement that each County pass a resolution to declare their commitment to one of two possible financial models, both of which redirect money back to the State to offset increased expenses in Medi-Cal. The options available to the counties include a 60/40 Simplified Model and a Savings Calculation model, each with a number of requirements which differ in the range of their complexity (see attachment H: Flowchart). The 60/40 Simplified Model is simplified, as its name implies, and allows a county to commit to returning 60% of Health Realignment funds to the State, and 60% of the related Maintenance of Effort (MOE) funds associated with Health Realignment, with the MOE capped at 14.6% of the total allocation. Yolo County would benefit from this MOE cap since our current MOE requirement is equivalent to 23.8% of Health Realignment. The Savings Calculation Model is far more complex, applying a lifetime escalator expectation on all local funding sources (general fund, health realignment, Pomona, etc) and then subtracting the lesser of actual expenses for indigent care or a calculated per-unique headcount expense limit. This calculated "savings" of available revenue minus capped expenses would then be shared 80% to the State and 20% to the County, capped at a historical Health Realignment percentage which must be proven and accepted by the State with extensive historical data. An analysis of the two financial models and factors impacting various capped scenarios has been performed (attachment I). The Department recommends the 60/40 Savings Model based on its simplified and straight forward solution to the redirection in revenue, reduced expense to the county for data gathering and analysis, financial predictability and much lower risk profile by focusing only on Health Realignment revenues and MOE rather than all possible local funding sources.

- **Unfunded Liabilities** – The County continues to struggle to set funds aside for the three major unfunded liabilities for pensions, OPEB and roads. Staff is working on long-term solutions to each liability.

Program	Unfunded Liability
Pension	\$139,647,805
Retiree Health	\$138,080,000
Road Maintenance	\$305,487,270

A summary of the recommended budget as compared to previous years is included as Attachment J.