Long Term Financial Planning

Long-term financial planning is an effective tool for creating sustainable budgets and providing fiscal stability beyond the annual budget horizon. Long-term financial planning is a strategic process that provides governments with the insights and information needed to establish multi-year budget solutions and financial policies and actions that maintain good fiscal health. The County creates a five-year operating forecast for the purpose of providing the Board of Supervisors with a framework for use in decision-making in order to maintain and continue the fiscal health of the County to ensure and enable a plan for the provision of services, capital assets, and infrastructure.

The forecast is updated annually and is not a budget. It does not establish policy or priorities; it simply summarizes fiscal capacity. The forecast identifies key factors that affect the County's fiscal outlook and assesses how difficult balancing the budget may be in the future. It helps the County to understand the fiscal challenges ahead and the need to establish priorities.

The forecast is developed using a baseline environment, in which revenues and expenditures are projected based primarily on trend analysis, specific circumstances and present level of services provided by the County. The forecast is not a prediction of what is certain to happen but rather a projection of what will occur in the absence of any mitigating actions or changing circumstances. As such, this plan highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

Significant Issues Impacting the General Fund

Retirement Costs are anticipated to increase due to market losses incurred by the County's pension system. The County's five year forecast also anticipates a 25 basis point decrease in the Retirement Board's earnings assumption in 2015-16. Potential additional changes in Retirement Board earnings assumptions and mortality/experience studies could result in additional ongoing costs of $10.0 million.

Staffing for the High Desert Detention Center Expansion (previously called Adelanto Detention Center) will require $39.1 million in funding through 2018-19.

The Affordable Care Act will impact the Human Services departments and Arrowhead Regional Medical Center as they are primary providers of Medi-Cal services. The long-term impacts of the Affordable Care Act on the operations and finances of these departments remain difficult to forecast. Finance and Administration is working closely with departments to monitor the changes in the funding mix for safety net programs that provide services to County residents.

TABLE 1
FIVE-YEAR FINANCIAL FORECAST
DISCRETIONARY GENERAL FUNDING
FISCAL YEARS 2014-15 THROUGH 2018-19
(dollars in millions)

	2014-15	2015-16	2016-17	2017-18	2018-19
Ongoing Revenue Changes:					
Property Tax	$25.5	$11.3	$11.5	$11.7	$11.8
Proposition 172 Sales Tax	9.3	5.2	5.3	5.5	5.7
AB109 Realignment Revenue	0.0	2.7	0.0	0.0	0.0
Other Revenue	(0.1)	1.4	1.5	1.6	1.4
Total Ongoing Revenue Change	**$34.7**	**$20.6**	**$18.3**	**$18.8**	**$18.9**
Ongoing Cost Changes:					
Retirement	(7.5)	(11.1)	(5.5)	(3.5)	(2.0)
Other MOU Costs	(0.9)	(3.2)	(3.2)	(3.4)	(4.0)
County Fire Subsidy Costs	(0.8)	0.0	0.0	0.0	0.0
Other Costs	(13.7)	(5.1)	(6.3)	2.6	(3.6)
Total Change in Costs	**(22.9)**	**(19.4)**	**(15.0)**	**(4.3)**	**(9.6)**
Yearly Operating Available	**$11.8**	**$1.2**	**$3.3**	**$14.5**	**$9.3**
Ongoing Costs Not Funded in Ongoing Budget Plan					
High Desert Detention Center Staffing	(14.6)	(13.3)	(11.2)	0.0	0.0
Sheriff Federal Prisoners - Revenue Decrease	(4.7)	0.0	0.0	0.0	0.0
Glen Helen Housing Program	0.0	(1.2)	0.0	0.0	0.0
Earned Leave Program	(1.0)	0.0	0.0	0.0	0.0
Transportation Operations Pavement Management Program	0.0	(3.4)	(5.0)	0.0	0.0
Total Ongoing Costs Not Funded in Ongoing Budget Plan	**($20.3)**	**($17.9)**	**($16.2)**	**$0.0**	**$0.0**
Annual Deficit/Surplus	**($8.5)**	**($16.7)**	**($12.9)**	**$14.5**	**$9.3**
New Ongoing Departmental Costs					
2014-15 Department Policy Items	(11.2)	0.0	0.0	0.0	0.0
2014-15 (Increased)/Decreased Department Costs	(1.3)	0.0	0.0	0.0	0.0
Total New Ongoing Departmental Costs	**(12.5)**	**0.0**	**0.0**	**0.0**	**0.0**
Revised Annual (Deficit)/Financing Available	**($21.0)**	**($16.7)**	**($12.9)**	**$14.5**	**$9.3**

Note: The Five-Year Financial Forecast represents future incremental costs and changes in revenues for the referenced fiscal year.

Table 1 summarizes the County's five-year financial forecast as it relates to ongoing expenditures funded with ongoing discretionary revenue in the County's General Fund. The forecast reflects that ongoing revenues are beginning to increase due to projected increases in property tax and Proposition 172 sales tax revenue. Ongoing cost changes reflect the cost to maintain current service levels. After accounting for these changes, the Yearly Operating Available is positive for the next five fiscal years.

However, in recent years the County has identified other ongoing costs not previously included in the five year forecast that need to be addressed. These costs are identified in Table 1 as Ongoing Costs Not Funded in the Ongoing Budget Plan. Additionally, for 2014-15 ongoing departmental needs have been identified in Table 1 as New Ongoing Departmental Costs. For a complete description of all ongoing departmental costs that are recommended to be funded in the 2014-15 budget, see the Identified Needs section of the Executive Summary. After including these new cost components, the County's General Fund has a cumulative structural deficit of $50.6 million over the next three fiscal years. $21.0 million of that deficit occurs in the 2014-15 fiscal year. Recommended solutions for the structural deficit through 2018-19 are detailed on the next page.

TABLE 2
FIVE-YEAR FINANCIAL FORECAST SOLUTIONS
REMAINING STRUCTURAL DEFICIT
DISCRETIONARY GENERAL FUNDING
FISCAL YEARS 2014-15 TO 2018-19
(dollars in millions)

	2014-15	2015-16	2016-17	2017-18	2018-19
From Five Year Financial Forecast Above:					
Revised Annual (Deficit/Financing Available)	**$(21.0)**	**$(16.7)**	**$(12.9)**	**$14.5**	**$9.3**
Ongoing Mitigations:					
SBPEA:					
SBPEA Medical after MOU term	$ 0.5	$ 2.8	$ 3.0	$ 3.4	$ 4.0
Proposed SBPEA Reductions	8.7	0.0	0.0	0.0	0.0
Sheriff:					
Delay Phase 2 - High Desert Detention Center Staffing	3.1	9.7	0.0	(13.0)	0.0
Delay Phase 3 – High Desert Detention Center Staffing	0.0	3.6	11.2	0.0	(14.6)
Prison Rape Elimination Act	1.5	0.0	0.0	0.0	0.0
Work Release/Electronic Monitoring Backfill	1.5	0.0	0.0	0.0	0.0
Other					
Human Services – Reduce Reliance on General Fund	2.5	0.0	0.0	0.0	0.0
Reduce Fire Subsidy – Increased Community Safety and GEMT revenue	1.6	0.0	0.0	0.0	0.0
Eliminate Funding for Cooperative Extension Program	0.1	0.0	0.0	0.0	0.0
Museum – Funded with One-Time Sources	0.7	0.0	0.0	0.0.	0.0
Renegotiate Prado Park Water Agreement	0.8	0.0	0.0	0.0	0.0
Total Ongoing Mitigations	**$21.0**	**$16.1**	**$14.2**	**$(9.6)**	**$(10.6)**
Annual Ongoing Available/(Deficit)	**$0.0**	**$(0.6)**	**$1.3**	**$4.9**	**$(1.3)**
Cumulative Ongoing Available/(Deficit)	**$0.0**	**$(0.6)**	**$0.7**	**$5.6**	**$4.3**

Source: County of San Bernardino Administrative Office.
(1) The Five-Year Forecast solutions represent incremental mitigations for the referenced fiscal year.

As reflected in the table above, the recommended solutions for the remaining structural deficit for fiscal years 2014-15 through 2018-19 include:

San Bernardino Public Employees Association ("SBPEA") Medical after Memorandum of Understanding ("MOU") term – Removal of annual increases in other MOU costs that occur from 2014-15 through 2017-18. This cost represents increased medical-related benefits for the County's largest union that will automatically take effect if not addressed in the current round of negotiations.

SBPEA Reductions – The County is seeking concessions from the eight bargaining units represented by SBPEA (the "SBPEA Units"), whose existing contract expires in Fiscal Year 2014-15, in an attempt to reduce salary and benefit costs. These concessions, if achieved, will generate $8.7 million in savings.

High Desert Detention Center Staffing Mitigations – Construction commenced in June 2011 and was completed in February 2014 on the Sheriff/Coroner/Public Administrator's High Desert Detention Center (formerly Adelanto Detention Center) Expansion Project, which added 1,392 jail beds to the existing 706 bed facility (for a total of 2,098 beds). The County currently estimates that the ongoing cost of staffing the expanded High Desert Detention Center is $39.1 million. In 2013-14, the County developed a plan to use one-time AB 109 growth funds to staff 222 of the new beds at the facility (Phase 1). Ongoing sources of $11.5 million are needed in 2014-15 to fund the expanded operation in order to maintain structural balance in the County's General Fund. However, the delay of Phase 2 to Fiscal Year 2017-18 and the delay of Phase 3 to Fiscal Year 2018-19 is recommended, which would reduce the structural deficits in the next three fiscal years.

Sheriff Prison Rape Elimination Act and Electronic Monitoring – The Sheriff's Department originally requested additional funding associated with reduced Work Released/Electronic Monitoring program revenue as well as to comply with a new mandate from the federal government related to the Prison Rape Elimination Act. However, the Sheriff has determined that the department can absorb the cost of these funding impacts (a total of $3.0 million) in 2014-15.

Human Services: Reduce Reliance on General Fund – Based on the most recent review of caseload growth by Human Services, the Department can reduce Discretionary General Funding by $2.5 million without needing to draw additional realignment funds.

Reduce Fire Subsidy: Increased Community Safety and GEMT Revenue - The reduction in the Fire Subsidy is possible due to fee increases in Community Safety which result in estimated revenue increases of $0.8 million and GEMT reimbursement of $0.8 million as explained below:

- On November 19, 2013 (BAI No. 61) the Board authorized County Fire to participate in the federally funded Ground Emergency Transportation Services (GEMT) Supplemental Reimbursement Program that pays eligible governmental entities for unreimbursed costs for Medi-Cal fee for service transports.

Eliminate Funding for Cooperative Extension Program – Funding of $65,000 has been going to the Cooperative Extension Program which is a branch of the University of California for community-based education on gardening, nutrition, and youth development.

Museum: Funded with One-Time Sources – The County Museum originally requested ongoing funding as a result of decreased state and federal contract revenue and the reduction of fee and program revenue projections to a conservative level. A more comprehensive study will be conducted in 2014-15 with respect to reorganizing and developing innovative solutions for the Museum's financial challenges, and one-time bridge funding is recommended until a more sustainable solution can be developed.

Renegotiate Prado Park Water Agreement –The Regional Parks Department has been working to reduce utility costs at its park locations, and in particular at Prado Regional Park. Prado receives water and sewer service from the Inland Empire Utilities Agency (IEUA), a municipal water district that supplies water, collects/treats wastewater, and provides other utility related services to the communities it serves. The county entered into an agreement in 1976 with the Chino Basin Water District for water and sewer service, which was assumed by IEUA in 1998. Regional Parks is working as part of a county team to negotiate a new water and sewer agreement to reduce costs for the park.