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 information and insight needed to establish multi-year budget solutions and financial policies and actions that maintain good fiscal health. The County creates a five-year financial forecast for the purpose of providing the Board of Supervisors with a framework for use in decision-making to maintain continuity of services and capital investment. It also helps the County understand the fiscal challenges ahead and the need to establish priorities.

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.

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 mitigating actions or changing circumstances. As such, this forecast highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

Significant Issues Impacting the General Fund

Mandated program shifts from the State, funded primarily with sales tax revenue, increase the County's exposure to sales tax fluctuations. Sales tax revenue tends to be more volatile and quicker to react to changes in the economy than property tax revenue.

Although there are minimal projected increases in retirement costs in 2016-17, the County is currently projecting the equivalent of an 11% loss in the County pension system for the year ending June 30, 2016, which is reflected as Hypothetical Retirement costs of $18.8 million through 2020-21.

Known costs associated with approved Memoranda of Understanding (MOUs) with employee groups reflect a cumulative change over the next five year period of $24.1 million. However, the costs associated with current and upcoming negotiations with employee groups present an estimated $43.2 million variable challenge to the County's current operating surplus projected for the next five years. These Hypothetical MOU costs reflect the assumption that salary adjustments for the contracts with the employee groups currently in negotiations will mirror the salary adjustments received by the employees with recently executed employee contracts. The County currently estimates that the ongoing cost of staffing the expanded High Desert Detention Center is $27.6 million. Previously, the recommended funding deferral grew staffing in phases, moving Phase 2 to Fiscal Year 2017-18 and Phase 3 to Fiscal Year 2018-19, to mitigate costs. However, these costs are not funded in the Ongoing Budget Plan.

The Affordable Care Act will continue to impact Human Services departments and the Arrowhead Regional Medical Center as they are primary providers of Medi-Cal services. The longer term impacts of the Affordable Care Act remain difficult to forecast.

TABLE 1
FIVE-YEAR FINANCIAL FORECAST
DISCRETIONARY GENERAL FUNDING
FISCAL YEARS 2016-17 THROUGH 2020-21
(dollars in millions)

	2016-17	Total Change 2016-17 through 2020-21
2015-16 Ongoing Carryover	**$10.8**	**$10.8**
Property Tax	$27.1	$77.3
Proposition 172 Sales Tax	4.3	18.3
Other Revenue	5.3	10.9
Total Ongoing Revenue Change	**$36.7**	**$106.5**
Ongoing Cost Changes:		
Retirement	(0.7)	(18.6)
MOU Costs	(8.6)	(24.1)
County Fire Subsidy Costs	(1.2)	(1.9)
Other Costs	(6.6)	7.6
Transportation Operations/Pavement Management Program (PCI)	(5.4)	(5.4)
Total Change in Costs	**(22.5)**	**(42.4)**
Yearly Operating Available	**$25.0**	**$74.9**
Ongoing Costs Not Funded in the Ongoing Budget Plan		
High Desert Detention Center Staffing (Phases 2 and 3)	0.0	(27.6)
Subtotal Ongoing (Deficit)/Surplus Adding Ongoing Costs Not Funded in the Ongoing Budget Plan	**$25.0**	**$47.3**
Hypothetical Memoranda Of Understanding (MOU) Costs	(5.2)	(43.2)
Hypothetical Retirement Costs	0.0	(18.8)
Annual Ongoing (Deficit)/Surplus Adding Ongoing Costs Not Funded in the Ongoing Budget Plan	**$19.8**	**($14.7)**

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

Table 1 displays the County's 2016-17 financial forecast and summarizes the County's five-year financial forecast. The forecast reflects ongoing expenditures funded with ongoing discretionary revenue in the County's General Fund. The forecast shows that ongoing revenues are increasing 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, but only provides for minimal increases in services or labor costs.

In recent years, the County has identified an ongoing cost not previously included in the five year forecast that need to be addressed. This cost is included in Table 1 in the section Ongoing Costs Not Funded in the Ongoing Budget Plan and represents deferred staffing of the High Desert Detention Center. After including this cost component, the County's General Fund has a cumulative structural surplus of $47.3 million over the next five fiscal years.

This forecast also illustrates the need for continued caution in allocating any surplus in light of upcoming and current negotiations with employee groups. The surplus reverts to a deficit when potential Memoranda of

Understanding (MOU) and Retirement costs are included. Costs associated with future negotiations have been estimated and identified in Table 1 as Hypothetical MOU Costs and Hypothetical Retirement Costs.

2016-17 Recommended Budget

The 2016-17 Recommended Budget is structurally balanced, with $25.0 million of ongoing funding unallocated and available to fund future ongoing costs.

<u>2016-17 Ongoing Revenue Changes</u>
As reflected in the Five Year Financial forecast, the County anticipates increased revenues of $36.7 million in 2016-17. A recession is likely to impact the forecast. As a result, the forecast includes conservative estimates of growth and does not attempt to predict the onset of recession impacts.

Property Tax Revenue, including pass-throughs from redevelopment agencies, is projected to increase due to higher than anticipated revenue in 2015-16 and 3.5% growth in assessed valuation (AV) in 2016-17.

Proposition 172 Sales Tax revenue is projected to increase 3.0% over the 2015-16 budgeted amount based on projections from a local economist and current year trends. This revenue is derived from a half-cent sales tax that provides funding for public safety services. Sales tax revenue tends to be more volatile which creates more risk the public safety services being provided.

Other Revenue includes an anticipated increase of $1.1 million in discretionary sales tax revenue based on data provided by a local economist and the County's sales tax consultant and $3.2 million in COWCAP revenue based on information received from the Auditor-Controller/Treasurer/Tax Collector. Remaining increases in other revenue is comprised of other property related revenue and Franchise Fees.

<u>2016-17 Ongoing Cost Changes</u>
As reflected in the Five Year Financial Forecast, the County anticipates an increase in Ongoing Costs of $22.5 million in 2016-17. Ongoing Cost Changes reflect the cost to maintain current service levels.

Retirement costs are projected to increase by $0.7 million primarily due to an increase in retirement costs for employees in the San Bernardino County Safety Employees Benefit Association.

MOU Costs increases reflect the 2016-17 cost of approved compensation changes pursuant to negotiated MOUs with employee groups.

County Fire Subsidy Costs are increasing primarily due to the additional costs associated with recently approved MOUs.

Other Costs increases include $4.0 million in funding to Human Services for increased costs of Foster Care and California Children's Services, $0.9 million in funding allocations to departments for Worker's Compensation increases, and an additional $1.7 million for insurance, central services and other costs.

Transportation Operations/Pavement Management Program (PCI) represents an ongoing contribution to the maintenance of County responsibility roads to prevent further deterioration. In previous years, this cost was included in the Ongoing Costs Not Funded in the Ongoing Budget Plan section of the Five Year Financial Forecast. 2015-16 was the first year that sufficient ongoing resources existed to begin to fund this program on an ongoing basis. The 2015-16 Adopted Budget provided ongoing funding in the amount of $8.8 million for this program. The 2016-17 Recommended Budget includes additional funding of the $5.4 million identified in the Five Year Forecast, for total funding of $14.2 million.

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