Shasta County

Fiscal Year 2017-18

Members of the
Shasta County Board of Supervisors
1450 Court Street, Suite 308B
Redding, CA 96001

Members of the Board:

This document represents Shasta County's Recommended Fiscal Year 2017-18 Budget, pursuant to Section 29062 of the Government Code. The budget is created from a process that includes requests prepared by the operating and support departments of the County, review and recommendations from my office, and compilation by the Auditor-Controller.

The Recommended Budget totals $448,437,258, including Total Governmental Funds, $383,563,682; Internal Service Funds, $27,358,727; Enterprise Funds, $24,092,170; and Special Districts and Other Agencies governed by the Board of Supervisors, $13,422,679. The budget represents the efforts of my staff and managers of the County's many departments who worked diligently to prepare a budget that reflects departmental needs and program funding requests as well as the CEO's recommended appropriations for the next fiscal year.

This document is an administrative tool that provides the framework under which the County will operate for the fiscal period. Absent mandates, the budget is a vehicle by which the Board of Supervisors provides philosophical direction for programs important to the local community.

The budget process, and the ultimate adoption of a balanced budget, requires the cooperation, dedication, and labor of many individuals. I would like to extend my thanks to all department heads, and their staff, for the common effort they commit to this annual process. All are to be commended for their service and dedication to the County of Shasta and its citizens.

Sincerely,

Lawrence G. Lees

Lawrence G. Lees
County Executive Officer

Attachments
Budget Overview, including a
5-Year Capital Facilities Improvement Plan

BUDGET OVERVIEW

The FY 2017-18 Recommended Budget totals **$448,437,258**, including,

GOVERNMENTAL FUNDS

- $234,070,604 General Fund
- $145,547,399 Special Revenue Funds
- $ 980,082 Capital Project Funds
- $ 2,965,597 Debt Service Funds
- $383,563,682 Total Governmental Funds

OTHER FUNDS

- $ 27,358,727 Internal Service Funds
- $ 24,092,170 Enterprise Funds
- $ 13,422,679 Special Districts and Other Agencies
- $ 64,873,576 Total Other Funds

This represents an increase of $10.5 million, or 2.3 percent, when compared to the FY 2016-17 Adopted Budget.

About 80 percent of the overall budget is for non-general fund operating departments. Most have various state and federal funds earmarked for specific purposes.

BUDGET PRINCIPLES

On February 28, 2017, the Board of Supervisors received the FY 2016-17 Mid-Year Report, and approved the following principles for the FY 2017-18 Budget:

- Maintain the Controlled Hiring Process approved by the Board in December 2007.
- Approve no new programs or new positions that are not clearly revenue supported.
- Review all grant funded positions. The Board has consistently maintained that the County will not preserve positions that have lost grant funding.
- The County administers many costly State programs. We have limited ability to raise revenues to offset any loss in State and Federal funding. We will avoid back-filling reductions in such funding when legally permissible, and continue to seek relief from unfunded State mandates.
- The CEO will review all requests for capital assets and computer equipment.
- As a baseline, direct departments to prepare a status quo budget in County Contribution or General Fund Net-County-Cost. As the full impact of the State Budget is realized further cost containment measures may be necessary.
- Realize salary and benefit savings through collaborative bargaining with our labor partners.
- Recommend deleting positions vacant over 18 months.
- Encourage expenditure reductions in the current fiscal year to create carry-over funds for FY 2017-18.
- In accordance with Administrative Policy 2-101, direct department heads to limit expenditures in FY 2016-17 to ensure that their spending remains within each Object Level in the Adopted Budget.
- In accordance with Administrative Policy 2-101, hold department heads responsible for Revenues in the Adopted Budget; direct them to notify the County Executive Officer of

any revenue shortfall; and further, direct them to reduce spending as necessary to remain within the Adopted Budget net-county-cost.

LONG-RANGE PLANNING

There has been no significant improvement to revenues, and the County continues to adhere to conservative spending due to economic uncertainty. Taking a proactive approach to spending reductions in the past several fiscal years has helped keep the County solvent; but, absent sustained annual revenue growth more reductions may be necessary each fiscal year.

Balancing service delivery with available resources will continue to be a challenge to the County for many years.

DISCRETIONARY REVENUE

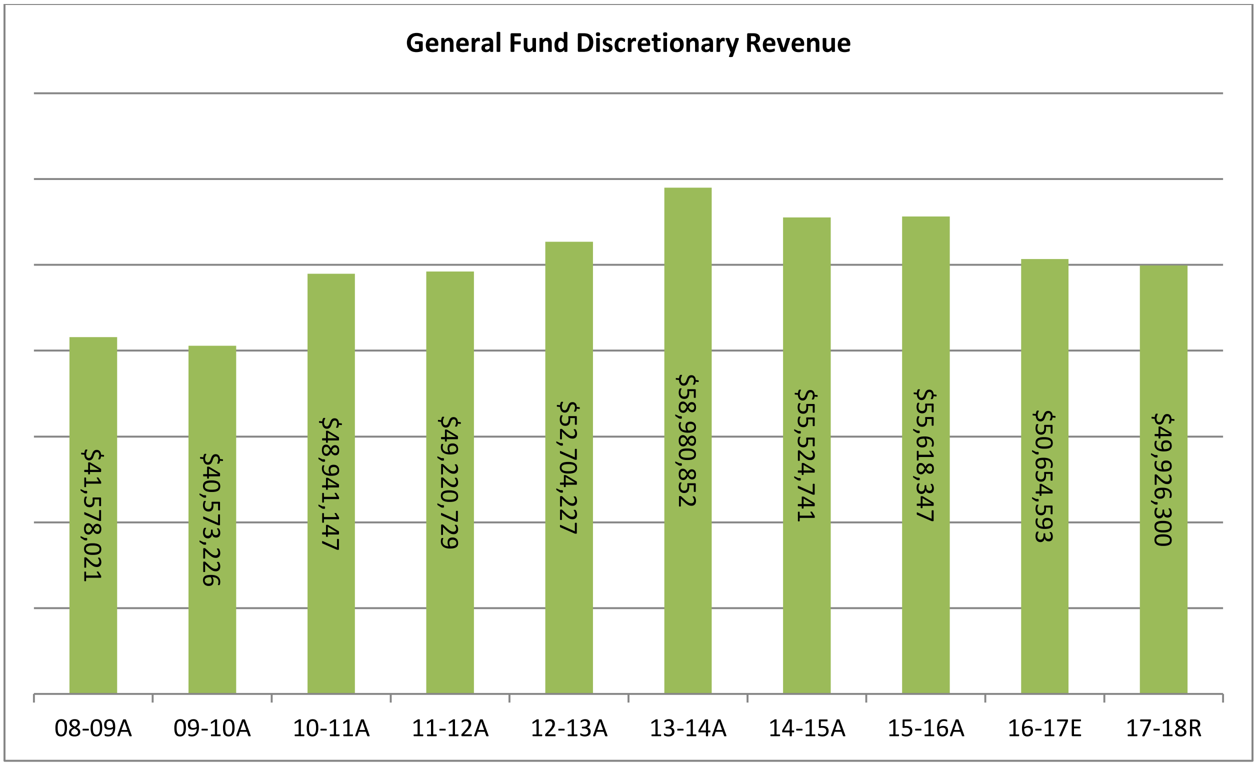
The national, state, and local economic downturn resulted in a decline in property values, lagging sales of consumer goods and services, and a steep decline in interest rates. Shasta County continues to experience the unprecedented loss of discretionary revenue.

A=Actual, E=Estimated, R=Recommended

General Revenue Sources 6-Year History						
	12-13A	**13-14A**	**14-15A**	**15-16A**	**16-17E**	**17-18R**
Taxes	$44,772,810	$43,792,301	$45,006,702	$46,902,419	$46,001,146	$45,818,000
Licenses, Permits, Franchises	673,232	683,788	733,289	752,177	684,757	600,000
Fines, Forfeitures, Penalties	2,788,984	1,967,583	2,681,541	2,005,944	1,420,000	1,420,000
Money & Property	204,921	293,750	928,403	977,171	788,575	686,300
Intergovernmental Revenue	3,321,339	3,347,561	5,131,411	3,999,604	953,781	947,000
Charges for Services	915,238	888,257	896,487	905,447	806,334	455,000
Miscellaneous Revenues	27,703	8,007,612	77,266	75,585	0	0
Other Transfers-in	0	0	69,642	0	0	0
Sale of Land or Fixed Assets	0	0	0	0	0	0
Grand Total	***$52,704,227***	***$58,980,852***	***$55,524,741***	***$55,618,347***	***$50,654,593***	***$49,926,300***

FY 2017-18 recommended discretionary General Revenue is $49.9 million, essentially status quo compared to the FY 2016-17 estimated year-end.

As illustrated in the table above, total discretionary revenue recognized by the General Purpose Revenue budget unit hovers at or below $50 million per fiscal year. The exceptions were one-time revenues from the dissolution of Redevelopment Agencies, fees from the Teeter Property Tax Program, and catch-up reimbursement for State Mandate SB-90.



NON-DISCRETIONARY REVENUE

In addition to our discretionary sales tax revenues, sales taxes dedicated to public health, mental health, social services, and public safety are still recovering.

1991 Realignment (Health and Human Services) is funded through State sales tax and vehicle license fees (VLF) dedicated to public health, mental health, and social services and provide the majority of matching funds for numerous state and federal funding sources. Under 1991 realignment, Social Services programs receive payment for the increasing cost of operating entitlement programs by allocation of excess revenues to pay these costs before general growth payments are made. These realignment revenues, as well as other county resources and state allocations, are used to draw down federal matching revenues that sustain programs.

1991-92 State-Local Realignment Health Subaccount Redirection (AB85)
Under the Affordable Care Act, county costs and responsibilities for indigent health care are decreasing as more individuals gain access to federal health care coverage. The State-based Medi-Cal expansion has resulted in indigent care costs previously paid by counties shifting to the State, helping to fund significant increases in State costs.

With the commencement of the **Patient Protection and Affordable Care Act (ACA)**, the Medi-Cal expansion population's treatment services, and the states expanded treatment benefits cost reimbursements, are funded 100 percent by the federal and state governments through 2017 with no County cost. During the years following, federal matching will fall to 95 percent and then decline each year ultimately to 90 percent, eventually requiring a County share of cost. Although estimated to be a relatively small County share of cost, over time this may also present a risk to providing entitlement services as well as sustaining non-entitlement programs, and could potentially impact the County's ability to meet the Substance Abuse Prevention and Treatment (SAPT) block grant Maintenance of Effort (MOE) level of spending.

With potential federal changes to the ACA, it is quite likely that those clients who were considered "medically indigent" and qualified for Medi-Cal coverage paid for 100 percent by the federal government will transition back to the County Medical Services Program (CMSP) coverage at some point in the future, but not in FY 2017-18. A pressing issue for Public Health has been the state's approach to funding services under the expansion of Medi-Cal as a part of health care reform with changes to 1991 realignment revenue with approval of AB 85. Although, during the first three years of the ACA expansion, the federal government pays 100 percent of the cost of services to the expanded population, the state has diverted funds ($5.36 million) previously paid by Shasta County to County Medical Services Program (CMSP) to pay for other state health care obligations. As a CMSP county, it is anticipated that Shasta would continue to utilize the state network to cover a residual population of individuals' medical needs. It is unclear what impact repealing the ACA will have on the other state health care obligations previously covered by the diverted CMSP funds and/or the CMSP itself.

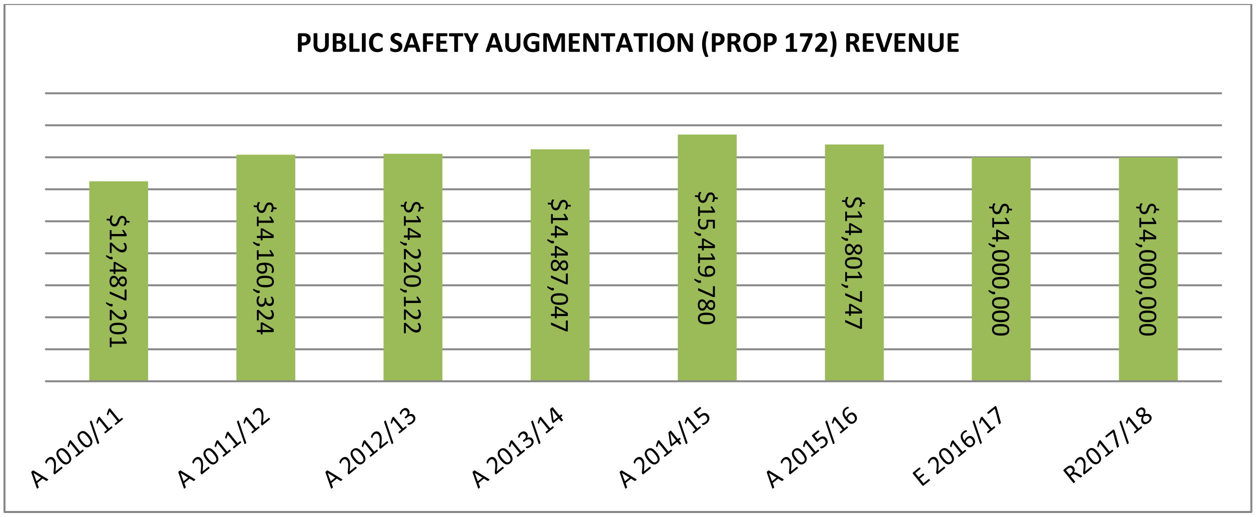
2011 Realignment (Health and Human Services) is funded through a State special fund sales tax and VLF. Both of these revenue sources are increasing per estimates in the FY 2017-18 California Governor's May Revise Budget. The first priority for growth funds is federal entitlement programs: Medi-Cal Specialty Mental Health, including those required by Early Periodic Screening, Diagnosis, and Treatment (EPSDT), and Drug Medi-Cal. Our Health and Human Services Agency is advocating for appropriate base levels of funding to support growing costs and will be monitoring how 2011 Realignment will be structured into the future to protect county health and human services operations.

2011 Realignment (Public Safety) included a major realignment of public safety programs from the State to local governments and an annual funding allocation. The intent of the Community Corrections Partnership Program is to use these realignment funds to reduce recidivism and end the revolving door of lower-level offenders and parole violators through the State's prisons.

Due to declining sales tax revenue, the Governor's May Revise includes decreases (totaling about $479,826 for Shasta County) in FY 2017-18 base funds and FY 2016-17/2017-18 growth funds compared to the Governor's January Budget.

Shasta County's Community Corrections Partnership Executive Committee, chaired by the Chief Probation Officer, is charged with determining how the State allocation is distributed to applicable County departments and approved its FY 2017-18 budget in February as well as making additional program-related distributions on May 3 and May 8. The District Attorney and Public Defender also receive a separate State allocation (split 50/50) for revocation hearings.

Public Safety Augmentation Proposition 172 sales tax receipts have leveled out at $14 million annually. Receipts in the current year are approximately 5 percent lower than this time last year. The County's ratio of this sales tax was lowered during FY 2016-17 from $.004782 to $.004526. This is the lowest pro-rata share since the inception of the half-cent tax sales in FY 1993-94.



A=Actual, E=Estimate, R=Recommended

Public Safety Augmentation (Prop 172) Reserve. When receipts have exceeded the budget they have been set-aside in the Public Safety Fund for future appropriation by the Board of Supervisors. At July 1, 2016, the Prop 172 Reserve was $7.0 million. The estimated use of this reserve in FY 2016-17 is under $504,000; the estimated use of this reserve in FY 2017-18 is $4.6 million, leaving an estimated balance of $2.0 million in reserve at June 30, 2018.

The Recommended Budget draws down the Prop 172 Reserve, as follows:

Estimated Beginning Balance, 7/1/2016	$7,012,358
FY 2016-17, District Attorney 227	$ 478,045
FY 2016-17, Probation 263	$ 25,940
Total Used	$ 503,985
Estimated Ending Balance, 6/30/2017	$6,508,373
FY 2017-18, Sheriff, several	$2,829,992
FY 2017-18, District Attorney 227	$1,264,376
FY 2017-18, Probation 263	$ 364,677
Total Used	$4,459,045
Estimated Ending Balance, 6/30/2018	$2,049,328

APPROPRIATIONS

The Recommended FY 2017-18 General Fund Budget is $73.6 million, which is $3.8 million less than the FY 2016-17 Adjusted Budget.

The Auditor-Controller calculates the County's Maintenance of Effort (MOE) for public safety. The most recent calculation is FY 2016-17. The FY 2016-17 Adopted Budget for all the public safety departments exceeded the adjusted MOE Base by $30.1 million. The County subsidy to the combined health and human services programs has been held static over the last several years.

Appropriations include a **Contingency Reserve** of $5 million that can be used for unanticipated requirements that may occur during the fiscal year. When no need arises, these funds return to fund balance and become the basis of the carry-over for the succeeding year. Financing is derived from anticipated revenue, inter-fund transfers, and carry-over fund balances.

The **General Reserve** is approximately $10.6 million. This is less than 3 percent of total Governmental Funds appropriations ($383.5 million). The Board established a policy for budgetary reserves in December 2007. The goal is to attain a Reserve of 5 percent of estimated financing uses, less designations for reserves and capital projects, but no less than $10 million.

YEAR-TO-YEAR COMPARISON

Departments were directed to submit a status quo budget. For the fiscal year ending June 30, 2017, the General Fund is projected to realize a 10 percent reduction in expenditures ($9 million), and a reduction to the net-county-cost (down from $14.4 million to $4.3 million).

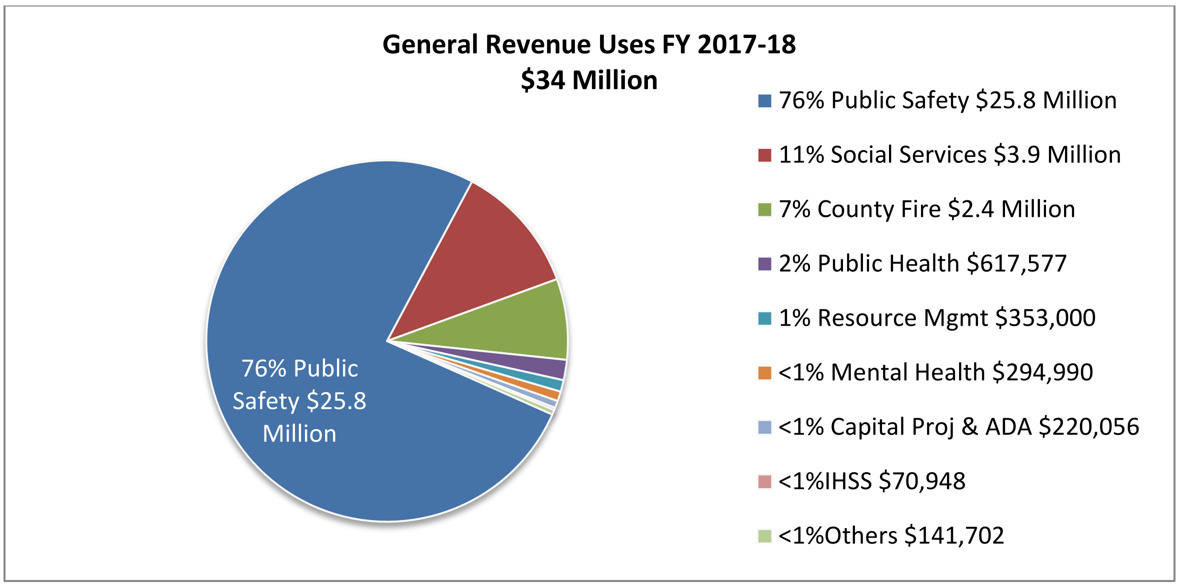
In the aggregate, the FY 2017-18 Recommended Budget for ***select*** budget units, excluding special districts, totals $434 million, which when compared to the FY 2016-17 Adjusted Budget, is an increase of $5 million or an increase of .70 percent.

The following table compares by <u>Fund</u> the FY 2016-17 Adjusted Budget (at 01/31/2017), versus estimated expenditures at 6/30/2017, with the FY 2017-18 Recommended Budget for ***select*** budget units.

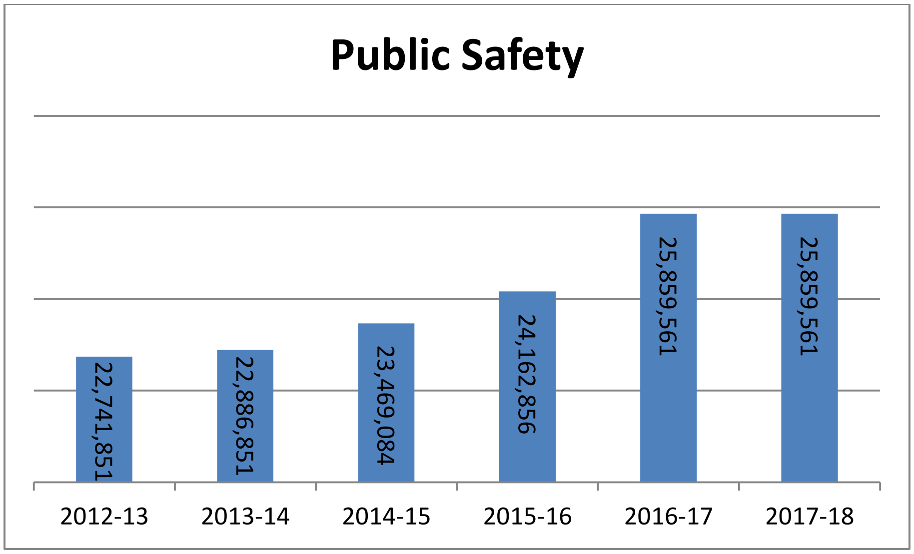
Functional Area	Adjusted 16-17	Estimate 6/30/2017	% Inc/Dec	Recommend 17-18	% 17-18 vs 16-17
General Fund	77,466,699	68,258,509	-11.89%	73,621,896	-4.96%
Accumulated Capital Outlay	2,219,009	2,174,658	-2.00%	276,250	-87.55%
Land Buildings & Improvements	5,682,202	4,402,272	-22.53%	3,942,500	-30.62%
Resource Management	7,328,084	6,301,991	-14.00%	6,629,951	-9.53%
Mental Health	30,899,035	30,089,608	-2.62%	34,059,485	10.23%
Mental Health Services Act	13,001,264	11,974,244	-7.90%	16,123,446	24.01%
Opportunity Center	5,118,634	4,925,298	-3.78%	5,041,760	-1.50%
Public Assistance	112,153,171	106,950,582	-4.64%	113,303,038	1.03%
Roads	20,370,561	16,088,756	-21.02%	23,900,277	17.33%
Child Support	8,230,673	7,120,314	-13.49%	8,320,963	1.10%
Public Safety	70,247,664	66,824,440	-4.87%	68,657,712	-2.26%
Public Health	19,426,070	16,771,904	-13.66%	21,675,175	11.58%
Internal Service Funds	27,434,956	24,546,516	-10.53%	27,358,727	-0.28%
Enterprise Funds	26,019,411	10,856,893	-58.27%	19,491,193	-25.09%
Air Pollution Control	2,625,764	2,591,278	-1.31%	2,186,763	-16.72%
CSA #1 County Fire	7,241,496	5,250,174	-27.50%	8,172,362	12.85%
Shasta Co. Water Agency	267,034	198,307	-25.74%	183,656	-31.22%
IHSS Public Authority	514,252	541,057	5.21%	508,466	-1.13%
All Others	535,788	535,788	0.00%	535,788	0.00%
Grand Total	436,781,767	386,402,589		433,989,408	-0.64%
Increase <Decrease>		50,379,178	-11.53%	2,792,359	0.72%

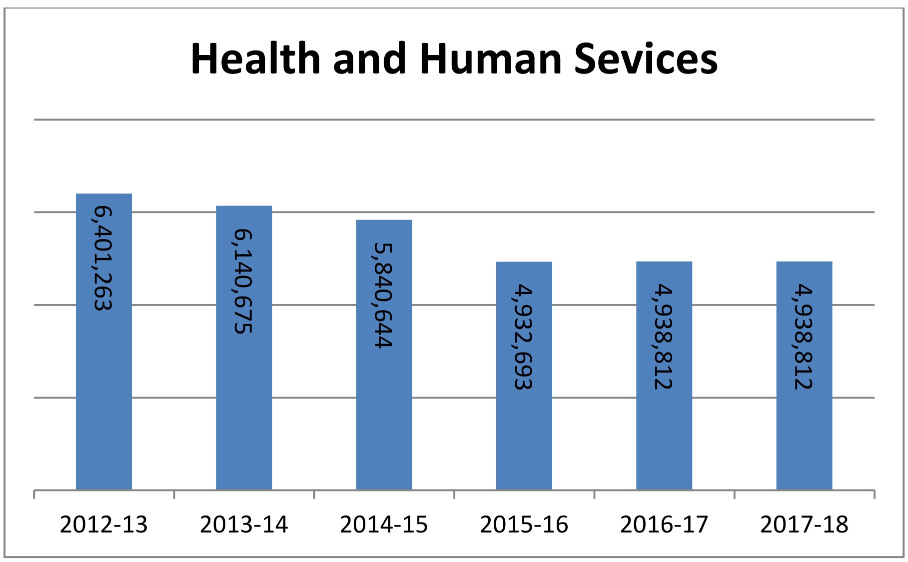
Fiscal Year 2017-18 General Revenue uses (including subsidies to operating departments) outside the General Fund total $33,971,484, as follows:

GENERAL REVENUE USES FY 2017-18		
Public Safety	$ 25,859,561	76.12%
Social Services	$ 3,955,297	11.64%
County Fire	$ 2,458,313	7.24%
Public Health	$ 617,577	1.82%
Resource Management	$ 353,000	1.04%
Mental Health	$ 294,990	0.87%
Capital Projects & ADA	$ 220,056	0.65%
IHSS	$ 70,948	0.21%
Others	$ 141,742	0.42%
Total	*$ 33,971,484*	*100.00%*

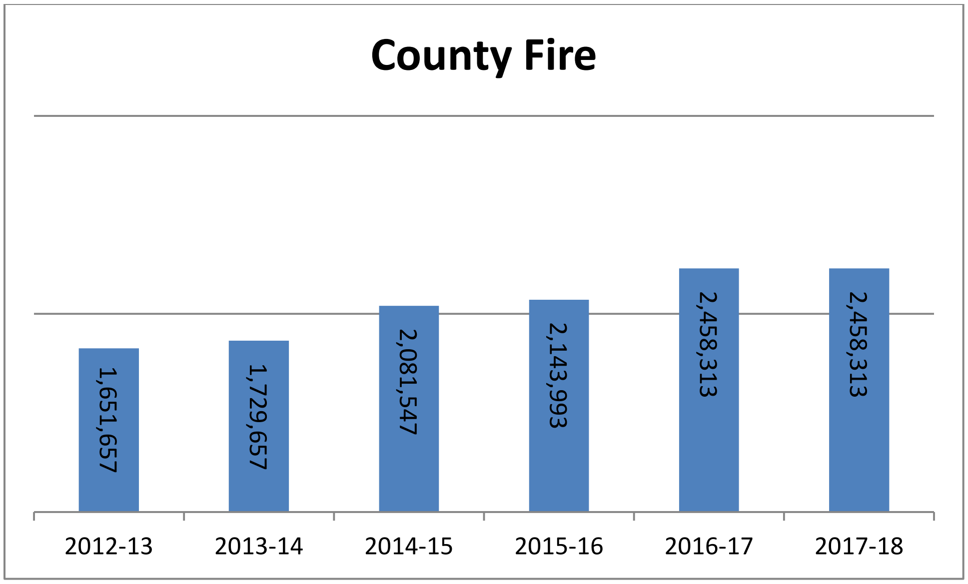


A comparative look at General Fund subsidies including the recommended subsidy for Fiscal Year 2017-18 is included below:





In FY 2016-17, the County Indigents budget unit moved to the General Fund; reducing the Transfer-in by $881,332.



OVERVIEW OF SELECT BUDGET UNITS

CAPITAL PROJECTS

A Five Year Capital Facilities Improvement Plan for Fiscal Years 2017-18 through 2022-23 may be found at the conclusion of this budget overview.

The following table illustrates the eleven projects included in the Land, Buildings, and Improvements FY 2017-18 requested budget:

Project Name	Requested	Recommended	Funding Source
Fac Mgmt 1959 Placer Roof	$45,000	$45,000	Facilities Mgt
PH 2650 Breslauer Remodel/Flooring	90,000	90,000	Public Health
MH/SS Breslauer Roof Replc	700,000	700,000	Mental Health
SS 4216 Shasta Dam Blvd Remodel	250,000	250,000	Social Svcs
SS 2640 Bres Basement Remodel	1,200,000	1,200,000	Social Svcs
1815 Yuba St Roof	125,274	125,274	Accum Capital Outlay
1600 Court Roof	49,726	49,726	Accum Capital Outlay
Igo Vol Fire Station 50 Roof	27,500	27,500	County Fire
4363 Breslauer Roof - HVAC	300,000	300,000	Roads Fund
MH 2640 Breslauer ADA Compliance	45,000	45,000	Mental Health
Jail Boiler System 2018	546,250	546,250	Criminal Justice and Accum Capital Outlay
Total Project Cost	***$3,378,750***	***$3,378,750***	

COUNTY FIRE

The Shasta County Fire Department (SCFD)/County Service Area (CSA) #1 provides fire suppression and protection services to unincorporated areas that are not served by either an independent fire district or a city fire department. CSA #1 contracts with the California Department of Forestry and Fire Protection (CAL FIRE) to operate and administer Shasta County Fire Department CSA #1. This includes the coordination of the activities of all SCFD volunteer fire companies, maintaining mutual aid response agreements with the cities and with all independent fire districts, and to assure that all fire safety, fire code, and fire department land use regulations are observed throughout the County.

The department has requested $1.6 million in new and replacement capital assets, an increase of $605,272, or 59 percent, from the FY 2016-17 Adjusted Budget. The capital asset requests for FY 2017-18 include two fire engines, one pickup truck, three water tenders, a chemical spectrometer, and a new roof for the Igo Volunteer Fire Station.

Revenue totals for FY 2017-18 are requested at just over $5.43 million, an increase of 2 percent, or $92,725 from the FY 2016-17 Adjusted Budget.

Overall, County Fire budget appropriations have increased $930,305. This is largely due to purchasing of deferred capital asset vehicles. County Fire deferred three heavy equipment purchases to allow time for review of specific needs to optimize the purchases. Also, there was a significant increase in the County Fire Workers' Compensation rate, the Schedule A agreement, and County Fire has allocated substantial funds to purchase specialized equipment for the Shasta Cascade Hazardous Material Response Team to be offset by grant revenues. County Fire continues to closely monitor necessary expenditures and encourage program efficiencies and savings. The County Executive Officer recommends status quo County General Fund support in the amount of $2.4 million.

ELECTIONS

Because elections now generally occur once per fiscal year, the prior high/low cycle of budgeting has evened out. Now, variation comes over a longer period of time - the four year election cycle. Larger financial need occurs in the Presidential years (divisible by four) which have traditionally higher voter turnout as compared to the Gubernatorial years. However, the City of Shasta Lake will have a special election in their city on August 29, 2017 and the city will pay all the costs associated with this election.

The department plans to replace voting machines in FY 2017-18; this time leasing instead of purchasing. The current voting machines were purchased in 2003 and are now technologically obsolete. Leasing, rather than purchasing, will allow for more flexibility and provide the opportunity to keep our voting machine technology up-to-date. Help America Vote Act (HAVA) federal funds will support the lease costs for the first two fiscal years (therefore it is a net zero budget impact in FYs 2017-18 and 2018-19); thereafter it will be a General Fund cost in the approximate annual amount of $250,000.

HEALTH AND HUMAN SERVICES

The Health and Human Services Agency (HHSA) requested use of County General Funds is status quo compared to the FY 2016-17 Adjusted Budget. The combined budgeted fund balance draw for FY 2017-18 from the Social Services, Mental Health, and Public Health reserves is approximately $12.2 million; the Health and Human Services Agency projects to return $1.7

million to fund balance at the end of FY 2016-17. The HHSA estimates a fund balance in the amount of $26.1 million at the end of FY 2017-18 for the Social Services, Mental Health, and Public Health funds. The CEO recommended several changes to the HHSA FY 2017-18 Requested Budget which resulted in a reduction in the use of fund balance by $2.2 million and a commensurate increase in the same amount for projected fund balance at the end of FY 2016-17.

Intergovernmental transfer (IGT) revenue for two years is included in the budget request due to a new process initiated by the California Department of Health Care Services and these funds may not be available beyond federal fiscal year 2017 due to pending changes in Center for Medicare and Medicaid Services (CMS) regulations. In FY 2016-17 HHSA budgeted almost $2.7 million and in FY 2017-18 requests to use $5.6 million in IGT revenue.

The most significant threat to this budget lies with the Governor's action to eliminate the **Coordinated Care Initiative (CCI**) (except for three CCI components that will continue – extension of the Cal Medi-Cal Program, continued mandatory enrollment of dually eligible beneficiaries, and long-term services and supports integration in to managed care, excepting IHSS). The CCI was implemented in 2012 and replaced the county share of the **In-Home Supportive Services (IHSS)** program from a set MOE (Shasta County's MOE was set at FY 2011-12 expenditure levels) with annual 3.5 percent increases with 35 percent share of the non-federal costs of the program. The state's elimination of the county IHSS MOE effective July 1, 2017 would shift approximately $623 million in IHSS costs from the state to counties in FY 2017-18, growing to $1.8 billion statewide by FY 2022-23. During the period of time the state had the CCI in place the state approved an increase in the Minimum Wage eventually growing to $15/hour by 2022 (January 1, 2018 $11/hour), restored the seven percent reduction in service hours, negotiated three paid sick days, and due to a federal court case, implemented the Fair Labor Standards Act (FSLA) overtime rules for IHSS providers effective July 1, 2018.

Changes to the IHSS proposal in the Governor's May Revise budget have been favorable to counties, largely protecting county general funds in Year One and Year Two, although the fiscal relief is temporary and much work is still needed to develop implementation details and obtain final state approval. The $623 million in costs transferred to counties reflected in the January budget has been reduced to $592 million in Year One. The state is committing $1.1 billion in state general fund contributions to mitigate the cost shift to counties over the next 4 years and also includes an ongoing state general fund contribution into future years. The $1.1 billion is allocated as follows: $400 million in Year One; $330 million in Year Two; $200 million in Year Three; and $150 million in Year Four & every year thereafter. The Department of Finance and the California State Association of Counties (CSAC) are working on revised per county impact figures.

PUBLIC SAFETY

Fiscal Year 2017-18	District Attorney		Probation-Combo		Sheriff-Combo		Grand Total	
Total Adopted Expenditures	7,886,033		18,002,920		42,768,759		68,657,712	
Total Adopted Revenues		5,938,513		14,225,486		39,320,960		59,484,959
County Contribution (GF)	48.21%	3,801,832	22.30%	4,014,934	42.19%	18,042,795	37.66%	25,859,561
Prop. 172	13.83%	1,090,600	14.83%	2,669,800	23.94%	10,239,600	20.39%	14,000,000
Subtotal GF & Prop. 172	***62.04%***	***4,892,432***	***37.13%***	***6,684,734***	***66.13%***	***28,282,395***	***58.06%***	***39,859,561***
Other Revenue Sources	13.26%	1,046,081	41.89%	7,540,752	25.81%	11,038,565	28.58%	19,625,398
Total Adopted Net County Cost		1,947,520		3,777,434		3,447,799		9,172,753
Offset by Misc. Restricted Funds		683,144		3,412,757		633,473		4,729,374
Use of Public Safety Reserves		1,264,376		364,677		2,814,326		4,443,379

The District Attorney, Chief Probation Officer, and Sheriff faced significant challenges with the FY 2017-18 budget preparation. In order to meet the submitted business needs of all three departments, the two public safety reserves, Prop. 172 Reserves and Public Safety General Purpose Reserves, would have been depleted, leaving near-zero reserves to use for the FY 2018-19 budget process. Standard salaries/benefits modifications, increases to services/supplies operational costs, and reduced revenue opportunities create a troubling scenario for the FY 2017-18 budget year and future budget years for these three departments.

The General Fund is contributing an additional $969,028 to help offset increased A-87 and other operational costs. The District Attorney, Chief Probation Officer, and Sheriff met with County Administrative Office staff to discuss the reserves circumstances and target amounts were determined. The narrative for each cost center includes information on the resulting Net County Cost. Numerous positions will be unfunded or deleted, resulting in one layoff if it is not resolved through attrition by June 30, 2017. Services will be impacted in order to address the circumstances of the reserves.

The resulting summary for the three public safety departments is a total Net County Cost of $9.1 million, offset by $4.7 million in use of designated funds, for a “new” Net County Cost of $4.4 million, which will come from Prop. 172 Reserves.

PUBLIC WORKS

The Department of Public Works consists of the following divisions: Road Operations, Facilities Management, Fleet Management, and County Service Areas.

The FY 2017-18 **Road Fund** includes expenditures in the amount of $23.9 million and revenues in the amount of $20.1 million. FY 2017-18 expenditures exceed revenue by approximately $3.8 million including a contingency appropriation of $300,000 and will be covered by fund balance. On April 13, 2017, California Legislation passed Senate Bill 1 (SB1). SB1 will inject an estimated $7 million annually into transportation for Shasta County roads.

The department has requested $1.47 million in new and replacement capital assets, an increase of $1.2 million, from the FY 2016-17 Adjusted Budget. The capital asset requests for FY 2017-18 include a wash rack, a backhoe, an electronic message board, three trucks, a power boom, two trailers, a lathe, and four semi-trucks. The increase in capital assets is needed to replace aging equipment to meet air quality standards.

Some of the larger projects that the department plans to undertake in FY 2017-18 are: a major overlay program, Deschutes Road Improvements, Gas Point Road Improvements, and Spring Creek Road at Fall River Bridge Replacement Improvements.

The **Facilities Management Division** is financed through charges for service to user departments and does not receive General Fund support. The Division has requested two capital asset pickup trucks and the replacement of the aged and leaking asphalt shingle roof at the Facilities Management Office.

The **County Service Area Administration** budget reflects the fiscal activity of the “umbrella” organization, which provides operational and administrative support to the County Service Areas. This budget unit is fully supported by administrative fees levied in the benefiting County Service Areas.

<u>RESOURCE MANAGEMENT</u>

The Department of Resource Management consists of the following divisions: Air Quality Management District, Building Division, Environmental Health Division, Planning Division, and Community Education Section.

Environmental Health is charged with the responsibility for enforcement of pertinent California health laws, rules, regulations, and Shasta County Ordinances. The division also provides specific permit and inspection programs which involve sewage disposal, individual wells, solid waste, hazardous materials storage and disclosure, underground tanks, food service facilities, public drinking water systems, swimming pools, housing and institutions, and medical waste management. The FY 2017-18 requested budget includes expenditures in the amount of $2.4 million and revenues in the amount of $1.47 million. Expenditures for FY 2017-18 are decreased by $275,087 and revenues decreased by $358,084 as compared to the FY 2016-17 adjusted budget. Total expenditures exceed total revenue by $937,753 and will be covered by fund balance.

The department will not receive General Fund in FY 2017-18 as there is an adequate fund balance remaining to cover the deficit.

The **Building Department** serves as the code enforcement arm of the Resource Management Department. This includes serving as the code enforcement officer for Medical Marijuana cultivation. The FY 2017-18 requested budget includes expenditures in the amount of $2.25 million and revenues in the amount of $1.4 million. Expenditures for FY 2017-18 are decreased by $315,071 and revenues decreased by $386,388 as compared to the FY 2016-17 Adjusted Budget. Total expenditures exceed total revenue by $856,402 and will be covered by fund balance.

The department will not receive General Fund in FY 2017-18 as there is an adequate fund balance remaining to cover the deficit.

The **Planning Division** serves as the land use information center for the County. This division of the Department of Resource Management serves as an integral part of the “planning agency” for the County, the agency being comprised of the Planning Commission, the Board of Supervisors, and adjunct departments. Building and planning activity is relatively stable and the department is concentrating on several projects, including the General Plan. A General Fund contribution of $353,000 is budgeted for the General Plan update. Fund balance will be utilized to offset any revenue shortfall.

General Plan Update. By law, each California County must adopt and maintain a comprehensive, long-term general plan that governs physical development and land use within its boundaries. Shasta County has adopted a five year interval for review. The last comprehensive General Plan was adopted in 2004. On March 23, 2010 the Board of Supervisors elected to proceed with a limited General Plan update which will address the critical greenhouse gas requirement in a new air quality element and will include the mandatory housing element update with integration of both elements into the rest of the General Plan as needed. The update will include editorial updates to policy language and to County profiles (population, economic trends, etc.). The total estimated cost of the limited General Plan update is $552,000. The General Fund contributes annually to offset expenditures for the Plan update.

TITLE III PROJECTS

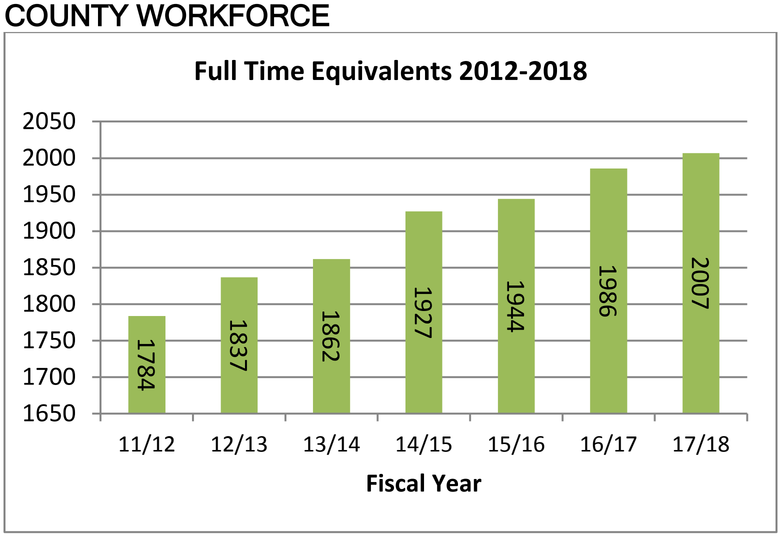
In April 2015, Congress reauthorized the program for two years. After the two year extension, the future of the Secure Rural Schools Act is unknown.

TRIAL COURTS

The County worked closely with the City of Redding, the local Court, and the Judicial Council of California (JCC) on siting the **new courthouse building**. The County and the JCC executed a Purchase Acquisition Agreement whereby the JCC exchanged its equity in the Main Courthouse and Courthouse Annex, and the Justice Center, for the Public Safety Building. The County vacated the Public Safety Building as of April 1, 2016. The County purchased two office buildings located on Court Street, and remodeled them into offices for Probation staff located in the Public Safety Building. Additionally, a building located at 300 Park Marina Circle was purchased and remodeled into office space for the Sheriff's Office. Upon completion of the new courthouse, the Court will vacate the Main Courthouse/Courthouse Annex and Justice Center. The Department of Public Works has estimated remodel of the Main Courthouse will cost a minimum of $8 million.

The continuing decline in direct payments for Court fines and fees is impacting the County General Fund. Certain Court fines and fees were pledged for the debt service on the Courthouse remodel long-term debt. The shortfall is made up by the General Fund. Once the debt is retired in 2023, any remaining funds in the Courthouse Construction Fund will accrue to the State. The County Administrative Office works with the Auditor-Controller to ensure the County's share of these funds is appropriately transferred to the County.

COUNTY WORKFORCE



The Recommended Budget provides for a workforce of 2,007 full-time-equivalents (FTE's). This includes a net decrease of 8.5 FTE's. The sunset date for one position will be extended through June 30, 2018.

As of February 7, 2017, total vacancies were 266, or 13.0 percent. The CEO confers with Support Services to review all requests to fill positions. This is in part to reduce expenditures, but also to preserve positions for employees facing a layoff situation.

The CEO will continue to review all requests for new positions to ensure they are offset by long-term reliable revenue.

The following chart details the various recommended changes to the number of Full-Time Equivalents (FTEs):

Position Changes Recommended 2017-18			
Departments	**Adds**	**Deletes**	**Net**
County Admin Office (102)	0	-1	-1
Clerk Of the Board (103)	1	0	1
Districty Attorney (227)	0	-5	-5
Victim Witness (256)	0	-1	-1
Farm Advisor (621)	0	-0.5	-0.5
HHSA (502)	6	0	6
Mental Health (410)	8	-1	7
MHSA (404)	0	-6	-6
California Children Services (417)	2	0	2
Social Services (501)	0	-19	-19
Opportunity Center (530)	8	0	8
Information Technology (925)	1	0	1
Sheriff (235)	1	-2	-1
Animal Control (297)	0	-1	-1
Detention Annex (246)	1	-1	0
Probation (263)	1	-1	0
Solid Waste (00207)	1	0	1
Public Health (411)	9	-9	0
	39	**-47.5**	**-8.5**
Remove Sunset Dates	72		

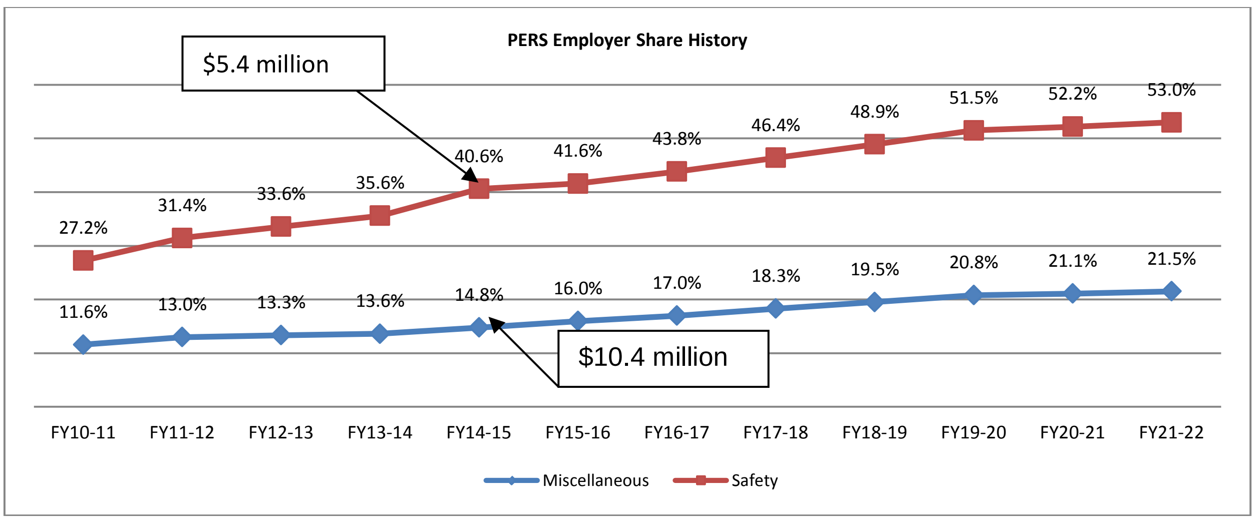
EMPLOYEE BENEFITS

The cost of workers compensation insurance, CalPERS retirement, health insurance rate increases, and retiree health care continue to impact the County. In March 2014 the Board of Supervisors adopted a confidence level with a range between 80 to 90 percent for the County's self-insured workers' compensation and liability insurance programs. The County is committed to maintaining a prudent reserve.

The County's share of CalPERS ("PERS") retirement in FY 2017-18 is 18.0 percent for Miscellaneous, and 46.18 percent for Safety. By FY 2021-22, PERS estimates these rates will be 21.5 percent for Miscellaneous, and 53.0 percent for Safety. It is yet uncertain what impact pension reform will have on employee retirement. The County successfully bargained reduced retirement benefits with labor, many of which are now the state-norm. While beneficial to the County's long-term fiscal health, these pension changes will not realize any immediate financial benefit.

The volatility in the PERS rates is two-fold - investment losses PERS experienced during the downturn in the market, and assumption changes. In December 2016, PERS Board of Administration voted to change the discount rate from 7.5 percent to 7.0 percent over the next 3 years (FY 2017-18 7.735%, FY 2018-19 7.25%, FY 2019-20 7.00%). Additionally, PERS changed other important benchmarks such as the average mortality of retirees and their survivors. In April 2013, PERS announced a change in their amortization and smoothing policies. That is, they will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5 year period. In March 2014, PERS again changed its actuarial assumptions which will result in employer contribution rates increasing starting in FY 2016-17, with the cost spread over 20 years and increases phased in over the first five years and ramped down over the last five years of the 20 year amortization period. The County will continue to monitor these changes and analyze the effects on the overall County budget.

The County successfully negotiated with 6 represented bargaining units and 2 unrepresented bargaining units for wage and/or benefit concessions. Active employees now pay the employee share of PERS retirement, and new hires will be working longer (to age 62 for miscellaneous and 57 for public safety) and their retirement will be based on the average of high three years (instead of highest year).



The County of Shasta provides post-retirement medical and dental benefits (OPEB) to eligible employees who retire directly from the County. Eligible retirees pay a portion of the medical premium based on the PEHMCA (CalPERS medical program) "unequal method." The remaining premium is shared by the County and active employees in accordance with bargaining agreements. Like most governmental agencies, the County pays for these post-retirement benefits on a "pay-as-you-go" basis. This means that OPEB costs are ignored while an employee renders service and recognized only after the employee retires.

GASB 45 requires governmental agencies to conduct an actuarial valuation of the liability for OPEB and report them on their financial statements. The Unfunded Actuarial Accrued Liability is the excess of the Actuarial Accrued Liability over Plan Assets. This represents the amount of the Actuarial Accrued Liability at the valuation date that still must be funded. The County's estimated Unfunded Actuarial Liability as of June 30, 2016, is $200 million.

Although GASB does not require governmental agencies to pre-fund their OPEB liability, Shasta County is taking positive steps towards addressing OPEB. The County established two irrevocable OPEB Trusts with initial funding of $6 million each; and implemented a charge, as a percent of payroll, effective July 1, 2008. This percentage increased to 3 percent effective July 1, 2015. Additionally, one-time additions to the OPEB-Trusts are made when funding is available. The combined assets of the two OPEB-Trusts are $39 million.

The County is working with its labor partners to eliminate County-funded health benefits after retirement for new employees. Instead, the County is proposing to match an employee 457 plan contribution of up to 3 percent of gross salary in a 401(a) plan. When implemented, it is estimated that the proposal will eliminate the OPEB liability by the year 2040.

We continue to advocate for legislative changes to PEMHCA to give counties greater flexibility in establishing a tiered benefit system; and to work towards OPEB cost avoidance through labor negotiations. Within available resources the County may incrementally increase the payroll charges for OPEB to pass a portion of this expense to state and federal programs when appropriate.

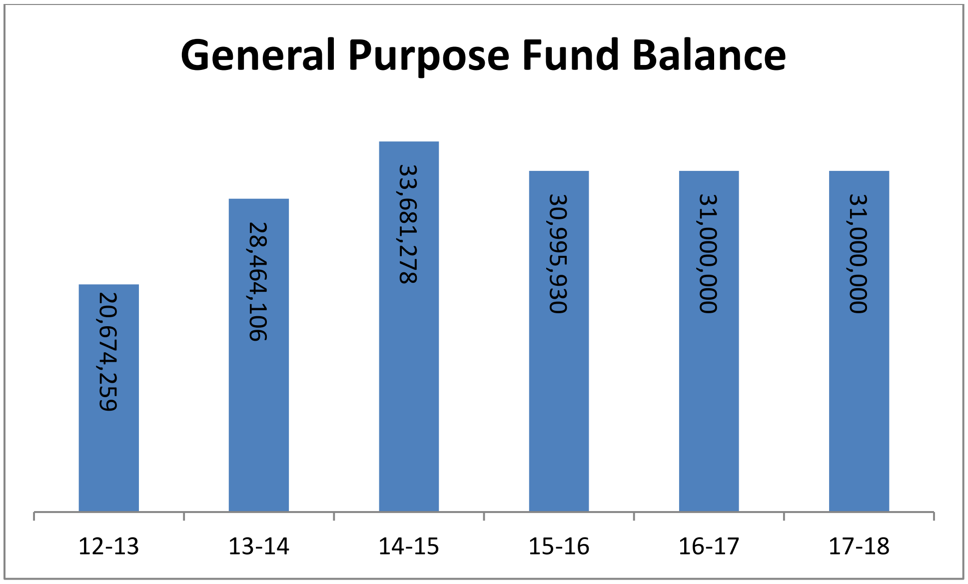
BONDED INDEBTEDNESS

As of June 30, 2016, the County's total outstanding debt obligation was $38.9 million. Of this amount, $32.7 million comprises bonds that are secured by the County's lease rental payments and other dedicated sources of revenue and $813,000 of special assessment debt secured by property subject to the assessment. The remainder of the County's debt represents loans secured solely by specified revenue sources.

Moody's Investors Service assigned an A1 rating to the Shasta County Lease Revenue Refunding Bonds 2013 Series A. The rating action reflects the County's solid fiscal position including satisfactory cash levels, well-sized though recently pressured tax base, the legal covenants of the bonds and the County's modest debt profile. The County has consistently reduced its expenditures which enabled it to avoid material deficits while maintaining solid cash and General Fund reserves. Pressures on the County's fiscal outlook are caused by state and local economic factors outside the County's control.

In 2014, Standard & Poor's (S&P) raised the County's credit rating from "A" to "A+" while affirming the stable outlook. The stable outlook reflects their opinion of the County's strong budgetary flexibility and liquidity supported by strong performance. Further, the County is supported by strong institutional framework. As with Moody's rating, S&P's rating is lowered somewhat by our weak local economy.

Both rating agencies praised the County's ability to grow and sustain a healthy fund balance, currently $31 million. With economic signs pointing to another recession, a strong fund balance will enable the County to weather the downturn.



CALIFORNIA STATE BUDGET

The Governor's May Revise Budget was released on May 11, 2017. His focus continues to be on preserving fiscal stability. The Governor pointed out that revenue is slipping and economic indicators point to a slowdown or even a recession. The May Revise proposes a $1.6 billion deficit in the coming year.

On a positive note, the Governor's May Revise proposes to use $400 million from State General Fund in FY 2017-18 to defray a large hit to Counties for IHSS. The May Revise redirects CCI, Health, CMSP and Mental Health subaccount revenues to discharge much of what would have otherwise been proposed.

The May Revise focuses on these areas state-wide:

Reducing Pension Liabilities - $6 billion via a loan from the Surplus Money Investment Fund.
Board of Equalization Miscalculations - The May Revise proposes that any amounts counties may owe the State through FY 2015-16 will not have to be repaid.
Child Care - Restoration of the $500 million that in January the Governor said should be "paused".
Housing - $25 million for Supportive Housing.
New Tobacco Tax Revenue - The Governor is holding to his January proposal to use some of the new proceeds for Medi-Cal Costs.
Prop 57/Post Release Community Supervision - An increase of $4.4 million for a total of $15.4 million.
Prop 47 - An increase of $3.5 million compared to the January estimate for a total of $45.6 million. Of this amount, just over $29 million will be available to the counties for Mental Health and Substance Abuse Services.

The CEO will monitor the eventual adoption of a State spending plan for FY 2017-18, and keep the Board apprised of any negative impact on the County budget and the public we serve.

OTHER AGENCY INVOLVEMENT

Every County department head provided input into this report via their budget request. The CEO and/or the CAO analysts met with department heads to discuss their budget request. The CEO and Auditor-Controller worked collaboratively on the compilation of the Recommended Budget.

FINANCING

Department heads have worked diligently to control spending in the current fiscal year to create fund balance carryover for FY 2017-18. General Fund departments are projected to achieve a 10 percent expenditure reduction in the fiscal year ending June 30, 2017, which will result in a fund balance carryover of $10 million.

The CEO held a kick-off meeting for the FY 2017-18 Budget on February 8, 2017. As a baseline, General Fund departments and departments receiving a General Fund contribution, were directed to submit on a status quo budget. Exceptions to this were made on a case-by-case basis for departments with a MOE. Due to the impact of the increasing costs of health care, retirement, potential changes to Federal funding, and the State of California planning for a recession, departments were asked to monitor expenses on a continued basis during FY 2017-18.

Total funding requirements for the General Fund, which includes the subsidy to non-general fund departments, is $73.6 million. This will be offset by revenue, $62.1 million, leaving a structural imbalance of $11.5 million. This will be offset by use of fund balance carryover and General Fund General Purpose fund balance. The carryover estimate is developed through a joint effort of staff in the Auditor-Controller's Office and the County Administrative Office. The actual fund balance figure is not firm until the County's books are closed at the end of September, subsequent to the adoption of the County budget.

Department heads and their fiscal managers are to be commended for their willingness to manage spending within available resources while continuing to meet the needs of our community.

Attachment – Capital Facilities Improvement Plan (CIP)

SHASTA COUNTY

5 YEAR CAPITAL FACILITIES IMPROVEMENT PLAN
Fiscal Years 2017-18 through 2022-23
Submitted: June 6, 2017

By
Lawrence G. Lees
County Executive Officer

Brian Muir
Auditor-Controller

Patrick Minturn
Public Works Director

Prepared By
Terri Howat
County Chief Financial Officer

Date June 6, 2017

Honorable Board of Supervisors:

The Capital Facilities Improvement Plan (CIP) for FY 2017/18 through 2022/23 provides an opportunity to identify County needs for renewal and major maintenance of facilities over the next five years. The CIP provides information and guidance for estimating facility improvement costs; setting priorities; planning; scheduling, and implementing projects; monitoring and evaluating the progress of capital projects; and informing the public of projected capital improvements and funding requirements.

The CIP is intended to be a flexible document that can be adjusted as new information and changed conditions occur over time. It is an essential component in support of the County's 2008 Impact Fee Study, and allows the County to adequately plan for future infrastructure needs. The CIP documents a relationship between new development and the use of the revenues raised by imposition of development impact fee. Development impact fees are designed to ensure that new development will not burden the existing service population with the cost of facilities required to accommodate growth. The impact fees collected will provide a funding source from new development for capital improvements to serve that development. The fees advance a legitimate government interest by enabling the County to provide municipal services to new development. Fees are intended to be used in the County, for the following restricted categories: countywide public protection, public health, fire protection, libraries, parks and open space, sheriff patrol and investigation, general government, animal control, and traffic.

The projects presented in the CIP will ensure our ability to provide excellence in public service while meeting the needs of our community through collaborative services.

Date June 6, 2017

Project Description	Area	Estimated Cost	Other Funding	2017 2018	2018 2019	2019 2020	2021 2022	2022 2023
Detention Facilities								
"Alternatives to Custody" program office on Veterans Lane	Redding	$512,741		$512,741				
Remodel Shasta County Jail to add mental health pod	Redding	$2,300,000			$300,000	$2,000,000		
Shasta County Jail Boiler Project	Redding	$546,250		$546,250				
County Offices								
Repurpose Main Courthouse and Annex	Redding	$8,000,000				$1,000,000	$7,000,000	
Repurpose vacant Juvenile Hall Bldg.	Redding	$7,000,000				$1,000,000	$6,000,000	
Facility Renewal – Major (Aggregate)	Redding	$5,945,556	$5,501,196	$500,000	$500,000	$500,000	$500,000	$500,000
Fire Protection Facilities								
Siting/construction of a South-County Station	Redding	$7,000,000		$500,000	$6,500,000			
Community Centers								
Veterans Hall	Redding Anderson FRM	$500,000		$100,000	$100,000	$100,000	$100,000	$100,000
Libraries	Burney	$970,000	$970,000					
Public Ways and								

Project Description	Area	Estimated Cost	Other Funding	2017 2018	2018 2019	2019 2020	2021 2022	2022 2023
Facilities								
Transfer Station Recycle Bldg.	Burney	$250,000	$250,000					
West Central Landfill	Redding	$6,480,000	$6,480,000	$5,525,000	$257,000	$160,000	$371,000	$167,000
Septage Ponds	Anderson	$625,000	$625,000	$625,000				
Americans with Disabilities Act Improvements (ADA)								
Identified ADA Improvements	Various Countywide	$500,000		$100,000	$100,000	$100,000	$100,000	$100,000
Total		$40,629,547	$13,826,196	$8,408,991	$7,757,000	$4,860,000	$14,071,000	$867,000