



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager's Office



DATE: September 12, 2014
BOARD MEETING DATE: September 30, 2014
SPECIAL NOTICE/HEARING: Yes
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: John L. Maltbie, County Manager

SUBJECT: Final Budget Changes to the Fiscal Year 2014-15 Recommended Budget

RECOMMENDATION:

Approve the following actions related to final budget changes to the Fiscal Year 2014-15 Recommended Budget:

1. Adopt Resolutions:
 - a. approving the revised County of San Mateo budget as to the expenditures for Fiscal Year 2014-15 and making appropriations therefore;
 - b. approving the revised County of San Mateo budget as to the means of financing for Fiscal Year 2014-15;
 - c. establishing the appropriation limit for the County of San Mateo for Fiscal Year 2014-15;
2. Adopt an ordinance amending the Master Salary Ordinance for changes related to the Fiscal Year 2014-15 budget

BACKGROUND:

The County Budget Act (Government Code §§ 29000-29144 and § 30200) requires that the Board of Supervisors adopt the County budget by October 2. On September 18, 2013, as part of the new two year budget process, the Board of Supervisors approved the FY 2013-14 Adopted Budget and received the FY 2014-15 Recommended Budget. On June 17, 2014 the Board formally approved the FY 2014-15 Recommended Budget with mid-term funding adjustments totaling \$163.6 million (net of Library adjustments). These adjustments were delineated in the June 17 Board memo and included the proceeds from the sale of Circle Star Plaza, negotiated Salary and Benefit increases, new capital improvement projects, adjustments to Measure A initiatives, fully annualized cost-of-living adjustments to the community-based organizations, and the AB109 Realignment and Unified Re-Entry System budgets. The purpose of this budget transmittal is to seek formal approval of the FY 2014-15 Adopted Budget, which has been amended to include year-end Fund Balance adjustments; the reappropriation of

capital improvement projects, IT projects and Measure A initiatives; and other adjustments deemed necessary to ensure the effective delivery of services that contribute to achieving County goals.

DISCUSSION:

The Recommended Budget that the Board approved on June 17 was \$2.1 billion with 5,365 authorized positions. With the completion of the County's financial year-end closing activities and availability of updated information, increases of \$164.6 million are proposed to the FY 2014-15 Adopted Budget. These consist of \$125.7 million in final Fund Balance adjustments and \$38.9 million in September revisions, with a net increase of 15 positions. With these changes, the revised FY 2014-15 Budget for all funds is \$2.2 billion with 5,260 positions including moving County Library positions to an information only budget unit. The revised budget for the General Fund is \$1.5 billion with 4,118 positions. The September revisions are considerably larger than in prior years due to the reappropriation of unspent Measure A funding allocated to departments in FY 2013-14 and a recently negotiated HPSM capitated rate, which will be discussed in greater detail later in this memo.

It should be further noted that budget information for the County Library – a non-County entity – is displayed in the County budget on an information only basis, similar to First 5, SamCERA, and the Housing Authority. Previously, budget information regarding the County Library was not displayed in this manner which had the potential for confusion. Since this change is made prior to approval of the FY 2014-15 Adopted budget, it is retroactive to July 1, 2014. As a result, any reference in this memorandum to the County's budget, including the Recommended Budget approved by the Board on June 17, 2014, is net of the County Library's budget figures and adjustments and any reference to the County Library's budget will be denoted as "Information Only."

The following table summarizes the final Fund Balance adjustments and September revisions by County Agency:

County Agencies	FY 2014-15 Recomm Budget	Final F/B Adjustments (Attach B)	September Revisions (Attach C)	FY 2014-15 Final Budget	FY 2014-15 Final Positions
Criminal Justice	366,743,958	1,581,461	1,408,327	369,733,746	1,310
Health Services	634,082,902	7,878,519	13,251,199	655,212,620	2,112
Social Services	208,713,306	2,893,147	1,843,430	213,449,983	844
Community Services	424,465,418	49,492,031	(1,695,213)	472,262,236	506
Administration and Fiscal	<u>427,721,372</u>	<u>63,890,010</u>	<u>24,062,874</u>	<u>515,674,256</u>	<u>488</u>
Total All Agencies	2,061,726,956	125,735,168	38,870,717	2,226,332,841	5,260
Information Only:					
First 5 San Mateo County	25,876,832	757,600	0	26,634,432	8
Retirement Office (SamCERA)	10,866,650	0	0	10,866,650	21
County Library	38,661,039	2,903,682	25,733	41,590,454	121
Housing Authority	73,293,337	0	0	73,293,337	45

Retirement Unfunded Liability

With robust investment earnings (net of fees) of 17.3% and the additional pension contribution of \$50 million, the funded ratio on the actuarial value of assets as of June 30, 2014 in the Retirement Fund has increased from 73.3% to 78.8%. The funded ratio based on the market value of assets (commonly referred to as "mark to market") as of June 30, 2014 is 86.7%. The unfunded liability has been reduced from \$954.1 million to \$803.9 million. This is tremendous news. Achieving the assumed rate of return of 7.25% over the next ten years, in concert with the additional contributions, would eliminate the County's unfunded liability by 2023. This puts us ahead of the game but as we know the game can change so we must remain steadfast in our efforts to aggressively pay down this debt. Including the FY 2013-14 investment returns, the five-year earnings average is 13%, which ranks SamCERA's earnings in the top third of peer retirement systems nationwide.

Final Fund Balance Adjustments

As adopted by Board Resolution, final Fund Balance adjustments are included in the Recommended Budget and comply with County Reserves Policy guidelines. Following FY 2014-15 year-end closing activities, additional Fund Balances of \$126.2 million for all County funds (\$74.6 million in the General Fund and \$51.6 million in all other funds) are included in the budget. The Fund Balance adjustments in the table above are offset by revenue reductions of \$434,586. These adjustments are summarized in Attachment B.

Affordable Care Act – Health System Adjustments

We are now seeing the effects of the expansion of Medi-Cal under the Affordable Care Act. Due to the great work of HSA, the Health Coverage Unit in the Health System, and many community partners, enrollment in Medi-Cal has far exceeded the prediction of 10,000 additional Medi-Cal members in San Mateo County. As of August 1, the Health Plan of San Mateo (HPSM) had 29,000 additional Medi-Cal members for a total Medi-Cal membership of 100,000.

An additional, unexpected change with California's implementation of the Affordable Care Act was the addition of treatment for substance use and moderate mental illnesses for adults. Prior to January 1 of this year, Medi-Cal benefits were limited to treatment only for very serious mental conditions.

This growth in Medi-Cal membership and benefits presents challenges for the Health System. For the San Mateo Medical Center (SMMC), 14,000 additional Medi-Cal members are now assigned to SMMC in place of 9,000 ACE members. (Enrollment in ACE went down to 20,000 and has been holding steady.) While this change has improved SMMC's finances, it has also stressed SMMC's capacity, as Medi-Cal members are entitled to be seen for urgent care within 48 hours, primary care within two weeks, and specialty care within 30 days –standards that the ACE program does not have. With current resources, SMMC is not able to meet the Medi-Cal standards routinely.

In addition, Behavioral Health and Recovery Services (BHRS) now has the responsibility to provide treatment for moderate mental illnesses for 100,000 HPSM members (mental health services for HPSM members are provided by BHRS). BHRS did not have the funding to expand its use of its network of private providers to meet this demand.

The opportunity that the ACA brought is that in late July, HPSM announced that it has funding for these new Medi-Cal members and services that it will pay to the Health System through a new form of payment – capitation (a fee per member per month, not a fee for each procedure provided). In this final budget, the Health System has updated its budget to reflect changes from the new HPSM contract. Because these changes are much larger than are typical for a September budget, I have asked the Health System to present the changes to you in person during the hearings. Also, the Health System will bring additional changes, totally funded by HPSM, to the Board in the next several months. During this time the Health System will continue its analysis of needed service delivery improvements to meet the requirements of these additional patients. Several months experience with this added caseload will enable the Health System to make more accurate budget projections for FY 2015-17 including General Fund support for indigent caseloads.

Final Budget Changes (September Revisions)

Final budget changes for all County funds (Attachment C) result in a net increase to the County Budget of \$38.9 million and a net increase of 16 positions. One position, a Management Analyst III-U in the County Manager's Office, was added through a mid-year Salary Ordinance Amendment in January 2014 and is added to the budget now to reconcile the Adopted Budget with the Master Salary Ordinance. Attachment A contains a summary of position changes.

Key September Revisions include:

Measure A Reappropriations (\$14.2 million)

Measure A funding not spent in FY 2013-14 is reappropriated, bringing the total Measure A budget for FY 2014-15 to \$67.9 million. Attachment D contains a summary of Measure A funded initiatives.

General Purpose Revenue Adjustments (\$8.3 million)

General Purpose revenues are adjusted upwards by \$8.3 million, including Secured Property Tax and In-Lieu Vehicle License Fees to reflect 5.8% roll growth, as well as adjustments to reflect anticipated actuals for Former RDA Pass-Through Payments, Triple Flip Sales Tax, Vehicle Rental Tax, State-Mandated SB90 revenue, and OMB Circular A-87 overhead reimbursements from Non-General Fund departments. Of this amount, \$3.6 million is one-time: FY 2012-13 Triple Flip shortfall (\$1,940,694) and Pre-2004 SB90 Mandates (\$1,685,106), both of which are included in the Governor's FY 2014-15 Adopted Budget. The additional revenues are set side in Reserves.

Transition to Health Plan of San Mateo Capitated Revenue Structure (\$6.9 million)

The transition to a capitated revenue structure with the HPSM contract along with the increased membership resulting from the Affordable Care Act has led the Health System to make some immediate changes, including:

- Expansion of HR support for recruitments
- Deployment of a joint pilot Psychiatric Emergency Response Team with the Sheriff's Office
- Expansion of Medicated Assisted Treatment Program
- Establishment of an Office of Managed Care
- Expansion of the Pain Management Clinic
- Expansion of Specialty Care
- Expansion of Urgent Care
- Acute Psychiatry Services safety initiative
- Phone system upgrade
- Daly City Clinic Remodel

2700 Middlefield Road Land Acquisition and Fair Oaks Settlement (\$11.3 million)

Funding is appropriated to cover the acquisition of 2700 Middlefield Road (\$10 million) and settlement costs related to the Fair Oaks Clinic (\$1.3 million).

Countywide IT / Payroll System Replacement (\$6.9 million)

One-time funds totaling \$6.9 million are reappropriated for countywide IT projects, including Payroll System replacement, Criminal Justice Information System middleware, Office 365 migration, Cardkey System upgrade, County website and social media, mobile access, server/storage back-up consolidation, and the IT Strategic Plan.

Property Tax System Replacement Project (\$2.5 million)

The Tax-Collector, Assessor, and Controller's Offices contracted with Gartner to document the business requirements for a new Integrated Assessment and Tax System (ATS). The requirements phase is currently underway and is expected to be completed by August 2015. The Property Tax System Replacement expenditures, which include staffing costs, project manager costs and contract costs, are funded from reserves dedicated to this effort by the Assessor-County Clerk-Recorder, the Controller's Office, the Treasurer-Tax Collector and Non-Departmental Services.

Countywide Capital Projects (\$5.3 million)

One-time funds totaling \$5.3 million are reappropriated for various capital projects, including Cordilleras Mental Health Facility replacement, Medical Center co-generation, Maguire Correctional Facility SB1022 grant match, Alpine Trail and Memorial Park improvement projects, and the County Facility Master Plan.

Human Services Agency (HSA) Facility Renovations (\$1.1 million)

HSA reserves are appropriated for renovations of office facilities in San Carlos and Daly City. The San Carlos office is being remodeled and consolidated for efficient use of space. The Daly City office will be remodeled in accordance with the Service Delivery Redesign model consistent with other HSA offices, including a self-service kiosk in the lobby, family-friendly interview rooms, and efficient staff work spaces.

Children and Family Services Mobile Device Project (\$500,000)

HSA reserves are appropriated for the Children and Family Services (CFS) mobile devices project, which will assess and address needs of CFS staff, beginning with the Emergency Response Unit. A mobile case management system will be implemented to enable staff to access the CFS system remotely while in the field, enhancing efficiency and increasing productivity.

Sheriff's Grant and Position (\$175,000)

Due to increased workload in the Northern California Regional Intelligence Center (NCRIC), one Unclassified Crime Analyst is being added. The position is fully grant funded.

Funding to StarVista for the Daybreak Program (\$100,000)

Measure A funding is allocated to StarVista to address funding shortfalls for the Daybreak program for one year to provide the program with an opportunity to develop a sustainable budget plan. These funds must be matched by StarVista through other funding sources.

Workforce and Economic Development (WED) Program

The County will contract out Workforce and Economic Development (WED). This action deletes 19 of the WED program positions and moves the reduction in Salaries and Benefits to contract services.

Community Corrections Partnership (CCP) Grant Program

This action transfers the Community Corrections Partnership grant program, funded annually by AB109 Public Safety Realignment Sales Tax revenue of \$1 million, from the Probation Department to the County Manager's Office for coordinated oversight of the program.

Net County Cost Adjustments (\$677,644)

Ongoing Net County Cost adjustments are made, as follows: 1) Planning and Building - adding a Management Analyst and an Administrative Secretary and deleting a vacant Office Specialist to address administrative support needs (\$107,428); Public Safety Communications - adding an Assistant Public Safety Communications Manager-U to provide management support (\$137,470); 3) Controller's Office and Treasurer's Office - covering countywide related banking fees, including payroll, electronic banking and lock box services (\$125,387); 4) Human Resources/Shared Services – transferring a Principal Management Analyst from Workforce and Economic Development to Shared Services to assist with countywide contract administration and procurement (\$151,069); 5) Office of Sustainability – adding benefits for two Fellowships (\$50,000); and 6) Memberships and Contributions – adding adjustments for CSAC, ABAG and the Historical Society (\$44,445). Other adjustments to various departments, primarily for service charges and debt service increases, account for the difference (\$61,845).

SHARED VISION 2025:

The approval of these final budget changes contributes to the Shared Vision outcome of a Collaborative Community by ensuring that the County budget is adopted in accordance with the law, and that resources are appropriated in all programs to ensure the effective delivery of services that contribute to achieving County goals, the improvement and maintenance of long-term capital assets and payment of debt, and compliance with the County's Fund Balance and Reserves Policies.

FISCAL IMPACT:

The impact of all September changes on Total Requirements for all funds is an increase of \$164.6 million in FY 2014-15. County Fund Balance has increased by \$126.2 million. General Fund Reserves now total \$216.0 million, which represents 16.9% of Net Appropriations. The ongoing Net County Cost, as a result of these revisions, increases by \$677,644.

ATTACHMENTS

Attachment A – Position Changes Summary
Attachment B – Final Fund Balance Adjustments
Attachment C – September Revisions (Final Budget Changes)
Attachment D – Measure A Initiatives
Attachment E – Capital Improvement Projects
Attachment F – Memberships and Contributions