



COUNTY OF MENDOCINO

STATE OF CALIFORNIA

1ST QUARTER REPORT & ADJUSTMENTS **FY 2016-17**

NOVEMBER 14, 2016

INTRODUCTION

The Executive Office prepares and presents quarterly budget reviews to the Board of Supervisors to provide pertinent financial information, monitor the status of the County budget, and receive guidance from the Board throughout the year adhering to the Board of Supervisors' current goals of Fiscal Stability, Financial Sustainability, and Organizational Development. Once again the Executive Office would like to acknowledge County staff for their ongoing efforts to meet the Board of Supervisors' goals and provide the information necessary to develop the quarterly reports.

This report covers the First Quarter of FY 2016-2017, beginning July 1, 2016 and ending September 30, 2016. While revenue and financial data is somewhat limited at this time, Departments are largely on track with their Fiscal Year 2016-2017 budgets. The mid-year report, anticipated in February, will provide a clearer picture of budget tracking.

California Government Code §29009 requires the County to produce a balanced budget and this first quarter report is an important step in the process of fulfilling this legal requirement. Every year we strive to produce a budget that is balanced between the Board of Supervisors' goals detailed above, the needs of our community, and the revenue reality that is presented to us. All decisions and policies in this regard are solely the responsibility of the Board of Supervisors; the Chief Executive Officer serves as the administrative officer designated by the Board to advise and administer Board direction in fulfilling the requirements of GC §29009.

Budget Goals & Priorities: During the FY 2016-17 budget preparation process, the Board identified goals of: Fiscal Stability, Financial Sustainability, and Organizational Development. The Board further directed several ways to meet those goals.

- Fiscal Stability
 - Debt mitigation and elimination are a priority
- Financial Sustainability
 - Maintain the reserve policy
 - One-time revenue will not be used for on-going expenses
- Organizational Development
 - Investing in the Organization's future through the Leadership Initiative, succession planning, and recruitment and retention practices.
 - Identify and measure departmental performance metrics, including the balancing of location-based provision of county services.

Further, the Board established three budget development priorities. These priorities are: 1) to maintain current levels of service to the public, 2) focus on financial sustainability and identify cost savings whenever possible, and 3) continue to invest in County infrastructure.

Finally, the Board's FY 2016-17 Budget Priorities are:

- Investment in Roads
- Economic/Business Development
 - Broadband
 - Permit Fee Waiver Program
 - Support New Housing Development
 - Grant Writer Program
- Support for Emergency Services
- Homeless Issues
- Support Community Partners

The Executive Office continues to focus on these goals and priorities throughout the year resulting in a First Quarter Budget report that has few significant variations from originally budgeted amounts.

LOCAL ECONOMY

Mendocino's preliminary September unemployment rate is 4.7%, down 0.3% from the revised August rate of 5.0%. The year-over rate is down 0.2% from the September 2015 rate of 4.9%. Despite the rate drop in September, Mendocino County fell from 14th to 15th (from the top) among the 58 counties statewide. The comparable, not seasonally adjusted California rate is 5.3% and the U.S. rate is 5.0%.

Total Mendocino industry employment grew 480 jobs for the year-over, with seven industry sectors gaining, one remaining unchanged, and four declining.

Year-over job growth occurred in:

- Trade, Transportation, and Utilities (+120)
- Leisure and Hospitality (+110)
- Education & Health (+110)
- Total Government (+80)
- Manufacturing (+70)
- Construction (+30)
- Other Services (+20)

Sectors remaining unchanged:

- Financial Activities (0)

Year-over cutbacks occurred in:

- Farm (-10)
- Mining and Logging (-10)
- Information (-10)
- Professional and Business Services (-30)

Mendocino County's home values continue to climb. According to Zillow's Home Value Index, the median home value is \$362,600 in September; this is 12.6% growth over the past year. The median price of homes currently listed in Mendocino County is \$477,000. Foreclosures and mortgage delinquencies are similar to historical averages according to Zillow and the County Assessor. As of September, 1.0 home is foreclosed per 10,000. The national average is currently 0.8. Currently the percent of delinquent mortgages in the county is 0.0%, with the percent of homeowners underwater on their mortgage at 0.1%.

DISCRETIONARY REVENUES

At the 1st Quarter Update there are limited amounts of information to provide related to discretionary revenues. The bulk of discretionary revenue is property tax and there are limited collections at this point in the year. The second largest source of discretionary revenue is sales tax and due to its volatility an update on revenue is provided below. More detailed information on all revenues from Budget Unit 1000 will be available as a part of the mid-year report.

Sales Tax

We provide an update in sales tax revenue due to it being historically more volatile than the majority of most of the County's discretionary revenue streams. Our most recent reports have shown a continued decline in sales tax receipts, primarily due to a decline in fuel prices. The most recent report (2nd Quarter 2016) received by MuniServices (collections through September 2016, sales through June 2016) indicates some resurgence of sales tax receipts from previous quarters. The unincorporated County has shown a 12.7% change over the prior year. This compares to a

1.2% increase in California, a 3.8% increase in Northern California and a -0.8% decline for Southern California. Second Quarter receipts are the highest since the 3rd Quarter of 2014.

Sales tax receipts continue to suffer from depressed fuel prices, however most other segments are showing historical highs over the past two years. This has helped fill the gap in fuel receipts, and provide additional growth. The Sales Tax Summary from MuniServices is attached for a variety of charts and additional information.

STATE AND FEDERAL LEGISLATIVE WATCH LIST

State

- November 30th – Adjournment at midnight of the 2015-2016 legislative session
- December 5th – 2017-2018 Regular Session convenes for Organization Session
- January 1st – Statutes take effect
- January - Legislature reconvenes and the Budget Bill must be submitted to the Legislature by the Governor
- January – February – Bills introduced in the legislature
- February – Legislative Analyst Office publishes the FY 2017-18 budget analysis and revenue forecast

Federal

- December 9th – Federal funding expires: Additional continuing resolution is required to extend stopgap funding measure to fund the federal government.
- January 3rd – 115th United States Congress convenes
- January 20th – Presidential Inauguration Day
- February 1st – Deadline for the President to submit FY 2018 Budget
- February – FY 2018 Congressional budget processes begins

STATE BALLOT MEASURE UPDATE

Seventeen State Ballot Measures went before the voters of California on the November 8, General Election ballot. Twelve ballot measures passed with many having a direct impact on counties. Below highlights three measures that will now be state law that are of particular interest to Mendocino County.

Proposition 52: Extends indefinitely an existing statute that imposes fees on hospitals to fund Medi-Cal health care services, care for uninsured patients, and children's health coverage.

Fiscal Impact: Uncertain fiscal effect, ranging from relatively little impact to annual state General Fund savings of around \$1 billion and increased funding for public hospitals in the low hundreds of millions of dollars annually.

Proposition 57: Allows parole consideration for nonviolent felons. Authorizes sentence credits to inmates for rehabilitation, good behavior, and education. Provides juvenile court judges the decision on whether a juvenile will be prosecuted as adult.

Fiscal Impact: Net state savings likely in the tens of millions of dollars annually, depending on implementation. Net county costs of likely a few million dollars annually.

Proposition 64: Legalizes cannabis under state law, for use by adults 21 or older. Imposes state taxes on sales and cultivation of cannabis. Provides for industry licensing and establishes standards for cannabis products, and allows local regulation and taxation.

Fiscal Impact: Additional tax revenues ranging from high hundreds of millions of dollars to over \$1 billion annually, mostly dedicated to specific purposes. Reduced criminal justice costs of tens of millions of dollars annually.

- Note: State agencies regulating medical cannabis, will also be required to meet regulatory deadlines of January 1, 2018 for recreational cannabis licensing. Although the measure's passage would immediately allow adults to possess and grow cannabis, there may not be places to legally purchase it because non-

medical cannabis can only be sold by retailers with a state license. The County will need to determine if changes will be needed in the current development of local regulations.

The Executive Office will bring forward additional analysis on county impact from state measures in the future.

1st QUARTER LABOR NEGOTIATIONS UPDATE

Contracts with eight of the nine Mendocino County bargaining units are current. The County recently began negotiations with the Mendocino County Public Attorney's Association (MCPAA) bargaining unit.

Status of Labor Contracts

As of November 7, 2016

| Bargaining Unit | Employee Count 11/7/16* | Contract Status | Contract Start Date | Contract End Date |
|------------------------|--------------------------------|------------------------|----------------------------|--------------------------|
| Confidential | 24 | Current | 9/1/2015 | 8/31/2017 |
| Department Heads | 15 | Current | 9/1/2015 | 8/31/2018 |
| DSA | 138 | Current | 7/1/2014 | 6/30/2017 |
| Management | 54 | Current | 10/1/2015 | 9/30/2017 |
| MCLEMA | 9 | Current | 7/1/2014 | 6/30/2017 |
| MCPAA | 24 | Current | 1/1/2015 | 12/31/2016 |
| MCPEA | 44 | Current | 10/1/2015 | 9/30/2017 |
| SEIU | 766 | Current | 7/1/2015 | 6/30/2017 |
| Unrepresented** | 27 | Current | 9/1/2015 | 8/31/2018 |

* Does Not Include Extra Help

**Tied to Department Heads Bargaining Group

Acronym Definitions:

DSA: Deputy Sheriffs Association

MCLEMA: Mendocino County Law Enforcement Management Association

MCPAA: Mendocino County Public Attorneys Association

MCPEA: Mendocino County Probation Employees Association

SEIU 1021: Service Employees' International Union, Local 1021

FY 2015-16 CLOSE OUT

As you are aware the Board adopted the FY 2016-17 budget in a one-step process rather than the multiple steps required by approving a Recommended Budget in June and adopting a Final Budget in September, as in years past. Due to this timeline the Budget was adopted prior to the final close out of the previous fiscal year. The County Auditor utilizes a 60-day accrual period and closes the previous year's books on August 31st. When the Board adopted the budget in June the final numbers for FY 2015-16 were estimated based on each Department's 3rd Quarter projections. These projections included an estimated General Fund balance carryover of \$6,134,892. When the books were closed the final fund balance was \$8,827,145, which was \$2,692,253 more than projected. This change was due in large part to additional discretionary revenue (\$1.65 million), increased revenue from the Teeter Plan (\$248,225), and savings from various budget units. It is important to note that significant effort is required to maximize savings to the General Fund at year end. Some departments were over budget due to increases in salaries and benefits as a result of recent labor agreements, the full costs of which were budgeted in the Contingencies account.

This additional funding is recommended to be appropriated based on the Board of Supervisor's Budget Goals and Priorities. As you recall the Board declined to specify a use for any additional fund balance during budget workshops or budget hearings, and preferred to make a final decision based on actual numbers. Due to this direction, the Executive Office is recommending the additional funding be utilized on previously established Board priorities. During the budget hearings, the Board discussed that roads were a key priority and should be a focus of investment, with the goal of adding \$2 million for corrective maintenance projects to the budget as in the previous two years. However the decline in federal and state fuel tax receipts has caused a decline in local road funding. This required \$2 million be utilized to support the Department of Transportation's current operations, leaving only \$411,685 to be used for corrective maintenance projects. The 1st Quarter recommendations include utilizing \$1,588,015 of the additional fund balance to bring the total corrective maintenance budget to \$2 million as in previous years. The remaining funding is recommended to be utilized for capital expenditures and software upgrades. This would consist of \$25,000 to be used for unanticipated, but critical upgrades for MUNIS (the County's financial system) and Unlimited Mailbox (the County's email archive system). The remaining \$837,839 would be for underfunded deferred maintenance/capital projects. A total of \$712,839 would be used for increasing the funding to complete Phase 2 of the Administration Center roof project. The Adopted Budget included \$824,731 of an estimated project cost of \$1.6 million. This additional funding would bring the available funding to \$1,537,570. It is recommended that \$50,000 be budgeted to support a roof replacement project at the County Museum in Willits. The total project cost is \$210,000, but additional funds and remediation project credits would cover the remaining \$160,000. An additional \$75,000 would be budgeted for HVAC system replacement on County facilities. The Adopted Budget included \$150,000, of a total of \$300,000 that was requested for the 2016-17 fiscal year.

Finally, a total of \$241,399 is recommended to cover back payments to the Administrative Office of the Courts (AOC) for the County's responsibility for maintenance costs at the County Courthouse. The Trial Court Facilities Act of 2002 was adopted to provide for the transfer of responsibility for funding and operation of trial court facilities from the counties to the Administrative Office of the Courts (AOC). The County is billed on a quarterly basis for the used space and common areas within the Mendocino County Courthouse located in Ukiah. Billable items include: leased space, maintenance and capital repairs. The Executive Office learned only a few weeks ago that previous County staff had stopped payments to the AOC as far back as FY 2013-14. No explanation has been identified as to why AOC payments were deferred. The CEO recommends bringing these invoices current as soon as possible with payments of \$114,806 for FY 2014-15 and \$126,593 for FY 2015-16.

All of the recommended adjustments are included in the "FY 2016-17 1st Quarter Budget Adjustments" spreadsheet and summarized in the spreadsheet below. The recommended adjustments would bring the total County Budget from \$250,790,185 to \$257,391,103 for all funds.

| New Use of 1X\$ | Recommendations | 16-17 Adopted | 16-17 Target | Adopted Budget Deficit | Remaining Deficit |
|--------------------------------|------------------|------------------|------------------|------------------------------|----------------------|
| Roads - Corrective Maintenance | 1,588,015 | 411,985 | 2,000,000 | 1,588,015 | - |
| CIP - Museum | 50,000 | - | 210,000 | 210,000 | 160,000 |
| CIP - Admin. Roof (Phase 2) | 712,839 | 824,731 | 1,600,000 | 775,269 | 62,430 |
| CIP - HVAC Replacement | 75,000 | 150,000 | 300,000 | 150,000 | 75,000 |
| AOC Payments | 241,399 | - | 241,399 | 241,399 | - |
| IT software upgrades | 25,000 | - | 25,000 | 25,000 | - |
| Totals | 2,692,253 | 1,386,716 | 4,376,399 | 2,989,683 | 297,430 |

1st QUARTER BUDGET REVIEW OF GENERAL FUND DEPARTMENTS

The 1st Quarter of FY 2016-2017 covers the period beginning July 1, 2016 and ending September 30, 2016. There are seven pay periods included in the First Quarter which sets the spending benchmark at 26.9% for the quarter.

Executive Office staff reviewed each budget unit's total expenditures by line item series for First Quarter FY 2016-17. These line item series totals were then compared to the benchmark level of 26.9% (7 pay periods in 1st Quarter/26 pay periods total for FY 2016-17).

The Executive Office requested that each department provide a brief update indicating whether they were on track with their budget, and to provide budget related concerns for the 1st Quarter Report. Departments that responded with updates are detailed below:

Various Budget Units – County Executive Office – The budget units administered by the Executive Office are currently tracking consistent with the Adopted Budget, with noted exceptions below.

Budget Unit 1000 – Non-Departmental Revenue: The budget unit is currently tracking to budget with no significant fluctuations in revenue at this point in the fiscal year. Additional information on individual revenues will be available at mid-year. There are several adjustments recommended to the budget unit, but they are exclusively related to the additional fund balance realized at the end of FY 2015-16, and resulting transfers to other funds for road and capital projects.

Budget Unit 1210 – County Counsel: The budget unit is currently on track, although the department has requested some equipment and software upgrades that were unbudgeted. The Executive Office is working on available options with the department and will bring the Board recommendations for budget adjustments in the future, if required.

Budget Unit 1320 – Human Resources: The budget unit is tracking to budget with no critical issues to address.

Budget Unit 1960 – Information Services: The budget unit is tracking to budget with the exception of two unanticipated software upgrades that are required. One includes updates to MUNIS, the County's financial system, and the second is a critical upgrade to Unlimited Mailbox, the County's email archive system. A budget adjustment of \$25,000 is included in the recommendations to cover the cost of these two upgrades. The funding source would be from the unanticipated increase in fund balance from the 2015-16 fiscal year.

Budget Unit 2012 – Court Collections: The Treasurer-Tax Collector has two major issues to report. First is an audit recently completed by the State Controller's Office that illuminated incorrect distributions of surety bond forfeiture payments. The audit covers the fiscal years 2008-2015. The distributions are facilitated by the County although the

allocations are established by the local courts. The Treasurer-Tax Collector, Auditor-Controller, and Executive Office are working with the Courts on a potential appeal of the findings, which would require a payment of \$191,760 from the County to correct previous distributions.

A software upgrade has fallen behind schedule due to a failure of the vendor. This has caused a disruption to distribution of revenue since July 18, 2016 to various County funds. Weekly meetings are being held with the vendor to track progress and it is anticipated that all distributions will be caught up at the end of the year.

Budget Unit 2070 – District Attorney: The budget for the District Attorney's Office is currently under budget by approximately three (3) percent. This shows the office's financial condition within the range anticipated when the FY 2016-17 Budget was finalized.

However, there are initiatives relating to criminal justice on the November ballot that may increase the expenses and financial costs of the District Attorney to investigate criminal activity and initiate prosecutions against individuals within Mendocino County. It is expected that caseloads may be significantly increased over time, especially if Proposition 57 is passed.

Budget Unit 2085 – Alternate Defender: The budget unit has no major variants in its budget so far this year.

Budget Unit 2310 – Sheriff-Coroner: At the time of first quarter reporting, the Sheriff's budget is currently tracking slightly above budget in some services and supply accounts, but it appears that the overall budget is on track. There has been receipt of significantly more revenue from the County's 9.31 medical marijuana program over what was originally budgeted. The budget was adopted before the program was fully in place and actual receipts have totaled \$1,170,001 this fiscal year, or \$820,001 over the \$350,000 originally budgeted. The Executive Office recommends amending the budget to realize the additional revenue and appropriate it for unbudgeted expenses in the Sheriff's Office. Two of the issues are described below under BU 2510 – Jail. The remaining funds in the amount of \$630,740 would be transferred into the Capital Projects budget unit to provide for additional local match for the Sheriff's jail expansion project. As your Board is aware there is one additional round of available funding for counties to fund jail expansion projects. The final application requirements have not been released, but all available information is that the program will require a 5% local cash match to access the funds. The County's proposed application for \$20 million in state funds would require a \$1,000,000 local match. There is \$411,685 budgeted from the prior application round, and with the proposed increase a total of \$1,046,740 would be set aside for the project. This total would include the \$1 million of matching funds, with the remaining funds dedicated for a consultant's support for preparation of the application. The Sheriff has also requested funding for a currently allocated but unfunded position for Staff Assistant III. This position is needed due to the volume of public records act requests received by the Sheriff's Office. The Sheriff has committed the use of asset forfeiture funds to cover the cost of the position. The position is estimated to cost \$32,070 to fund for the remainder of the fiscal year and the appropriate budget adjustments are included in the recommendations in this report. The Executive Office will closely monitor these costs through the remainder of the fiscal year in coordination with the Sheriff's Office.

Budget Unit 2510 - Jail: At the time of first quarter reporting, the Jail budget is projecting to be significantly over budget in two primary areas, Medical Services, and Transportation. These areas are tracking to be over budgeted amounts due to the County's contract for jail medical services and increases in inmate transportation costs. The Executive Office recommends utilizing funding made available through the County's 9.31 medical marijuana program to increase appropriations in both accounts. Based on projections from the Sheriff's Office the Jail medical account would be increased \$139,262 from \$2,100,000 to \$2,239,261. Additionally, the account for inmate transportation costs would be increased by \$50,000 from \$35,000 to \$85,000. The Executive Office will closely monitor these costs through the remainder of the fiscal year in coordination with the Sheriff's Office.

Budget Unit 2550 - Juvenile Hall: At the time of first quarter reporting, the Department appears to be on track with the 2016-17 budget. Services and supplies are largely on track although medical and dental services are slightly higher than anticipated. Much of this increase is a result of the Lake County agreement and will be reimbursed per

the agreement. The Hall currently has four vacancies which is resulting in salaries being under budget. These savings will be required to cover an increase in extra help costs due to the staffing shortages.

Budget Unit 2560 - Probation: At the time of first quarter reporting, the Department appears to be on track with the 2016-17 budget. Overall salaries and benefits are tracking at approximately 24% of budget, although overtime costs are well over the benchmark for 1st Quarter. This is largely due to Probation Officers covering staffing shortages in Juvenile Hall, officers working various events during the summer season, a high volume of court reports, and providing coverage due to several employees being out on extended leave. The increase in overtime costs is expected to be largely balanced with savings in the extra help budget.

Proposition 57 – the Public Safety and Rehabilitation Act of 2016 - is on the ballot for the November election. Proposition 57 allows parole consideration for nonviolent felons. It authorizes sentence credits for rehabilitation, good behavior, and education. It also provides juvenile court judges to decide whether a juvenile will be prosecuted as an adult. The fiscal impact anticipated is for net state savings likely in the tens of millions of dollars annually, depending on implementation; and, net county costs of likely a few million dollars annually. Should this Proposition pass it would mean additional state prisoners to be released onto Post Release Community Supervision (PRCS) under the supervision of the Probation Department. At this time an estimated impact of the number of prisoners that would be eligible for early release has not been made. There is also no indication that, should Proposition 57 pass, that there would be any additional funding provided under the Realignment Allocations.

Budget Unit 2710 – Agriculture: There does not appear to be any significant issues concerning the Department of Agriculture budget through the 1st Quarter. Expenditures and revenues are tracking in typical fashion for the department and programs were operational at normal levels. With the on-set of the Cannabis Cultivation program in early 2017, the Department is anticipating some unforeseen costs may arise relative to that. The proposed fee structure for the program will be brought to the Board in December as part of County fee hearings. The Executive Office will continue to work with the Agriculture Department and provide recommendations for any necessary changes to the budget when more information is available.

Budget Unit 4012 – Substance Use Disorder Treatment-SUDT (formerly Alcohol and Other Drug Program AODP): The Health and Human Services Agency (HHS) is working with the Department of Health Care Services (DHCS), Partnership HealthPlan of California (PHC) and local stakeholders to analyze the fiscal impacts and programmatic opportunities associated with the Drug Medi-Cal expansion under DHCS's Medi-Cal 2020 Waiver. Mendocino County is one of eight small counties working with PHC and DHCS to consider a regional expansion model.

Although budget changes will most likely occur in the FY 2017-18 Budget, staff are reviewing potential planning expenses that may need to be incorporated into this year's budget. No changes are anticipated until mid-year at the earliest.

Budget Unit 5010 – Social Services Administration: HHS has developed a Memorandum of Understanding (MOU) between the CalFresh program and Planning and Building Services for services that may be funded in connection with the Workforce Investment and Opportunity Act, which would facilitate the \$185,832 transfer included in the FY 2016-17 Budget.

HHS staff is also reviewing expenses associated with capital projects to prioritize available funding for the most critical projects.

Budget Unit 5020 – Health and Human Services Administration: HHS is working on several cross-agency fiscal leveraging strategies, organizational development activities, and service integration and program improvement initiatives. Most budget changes will be made in FY 2017-18, but some expenses and revenues may need to be adjusted at mid-year to best support new funding and fiscal leveraging strategies.

Budget Unit 5130 - Foster Care/CalWORKs Assistance & Adoptions: HHSA staff is working closely with local service providers and the California Department of Social Services to implement Continuum of Care Reform (CCR) in Children and Family Services. State CCR implementation includes significant changes in foster care placements, foster family approval processes, and residential care provisions. These changes could result in cost increases that are under review now. Funding for any new expenses this year could be covered by unanticipated Realignment growth the County has recently been notified about.

Mendocino County is also one of four counties that implemented some aspects of reform early through the Residential Based Services (RBS) pilot beginning in FY 15/16. HHSA will continue to monitor CCR impacts on budgeted revenue and expenses.

1st QUARTER BUDGET REVIEW OF NON-GENERAL FUND DEPARTMENTS

The 1st Quarter of FY 2016-2017 covers the period beginning July 1, 2016 and ending September 30, 2016. There are seven pay periods included in the First Quarter which sets the spending benchmark at 26.9% for the quarter.

Executive Office staff reviewed each budget unit's total expenditures by line item series for First Quarter FY 2016-17. These line item series totals were then compared to the benchmark level of 26.9% (7 pay periods in 1st Quarter/26 pay periods total for FY 2016-17).

The Executive Office requested that each department provide a brief update indicating whether they were on track with their budget, and to provide budget related concerns for the 1st Quarter Report. Departments that responded with updates are detailed below:

Budget Unit 4050 - Mental Health: The transition of adult mental health services resulted in medication management services, LPS Conservatorship responsibilities and associated residential care placements moving from a contracted service back to the County to manage while acute care, associated placements, and care management moved to the new Administrative Service Organization (ASO). Costs of in-patient hospitalizations, long term care placements, and psychiatric medication services are tracking higher than originally budgeted. In addition, the Department of Health Care Services re-established the 2011 Realignment base funding allocations for all California counties in September 2016, resulting in a potential annual reduction of \$750,000 in revenue for Mendocino County.

Redwood Quality Management Company (RQMC) and Behavioral Health & Recovery Services are exploring several short and long term strategies to reduce the costs of hospital and residential care placements. Immediate grant opportunities and long term strategies include establishing a crisis residential facility and expanding local housing options for individuals with severe and persistent mental illness. County staff is also exploring any options to address the reductions associated with the 2011 Realignment allocation formulas. Potential budget adjustments will be recommended to the Board during the mid-year review as more information becomes available.

Budget Unit 6110 - Library: The budget unit is tracking to budget with no critical issues to address.

Budget Unit 0327 – Air Quality Management District: The budget unit is tracking to budget and no major impacts are foreseen at this time.

PENSION UPDATE

The Mendocino County Retirement Association recently approved the annual actuarial report on the retirement system, which establishes and recommends to the Board of Supervisors the contribution rates for the following fiscal year (FY 2017-18). The full report is attached; however the key findings of the report are summarized below. The Unfunded Actuarial Accrued Liability (UAAL) rose a total of \$3.1 million, from \$182.2 million to \$185.3 million, although the funding ratio rose from 70.2% to 70.7% (valuation of assets to accrued liabilities).

The employer contribution rate has decreased slightly from 32.14% of payroll to 32.05% of payroll (a total dollar value of \$52,000). This change is the result of a variety of factors, including: a) change in membership demographics, b) amortizing the prior year's UAAL over a larger than expected projected total payroll, and c) other actuarial gains. These gains were partially offset by losses from: a) lower than expected return on investments (after smoothing) and b) larger than expected salary increases for continuing General and Probation active members. The employee contribution rate increased slightly from 9.64% of payroll to 9.65% of payroll (a total dollar value change of \$6,000). This change is a result of a change in member demographics for new General members enrolled in Tier 4 (CalPEPRA Tier). The Actuarial Report is attached for further information and review.

On November 2, 2016 the MCERA Board voted to approve the contribution rates based on the current actuarial report. Additionally, they asked their actuary, Segal Consulting, to prepare an informational paper that would project how the contribution rates would change if different assumptions were used for the discount rate (investment return on MCERA assets) from 7.25% to 6.75% and 6.25%. It is anticipated that the paper will be available at MCERA's December Board meeting and then will be provided to the Board of Supervisors for informational purposes. According to MCERA policy, a triennial review will be conducted next year that will include recommendations for MCERA to consider in adjusting the discount rate.

In the continued effort to address year to year fluctuations in pension costs, the Board has set aside a total of \$3.65 million in a Pension Gap Reserve. This fund can be used to smooth unanticipated increases in employer contribution rates.

Of additional interest, the Retirement Administrator prepared a report at the request of the Board entitled, "A Historical Review and Analysis of the Mendocino County Employees Retirement Association Unfunded Actuarial Accrued Liability." The report provides a historical overview of the Mendocino County Employee's Retirement Association, as well as several recommendations. This report is attached to provide the Board and public access to this information.

CONCLUSION

The First Quarter Budget review indicates that the County is on course with the FY 2016-17 Adopted Budget. Executive Office staff will continue to monitor County revenues and expenditure levels, along with local, state, and federal funding and economic issues which may impact the County. A comprehensive mid-year report will be provided to the Board of Supervisors in February 2017.

The adoption of the attached resolution making several amendments to the budget will address the few currently identified critical issues and allow for continuation of upgrades to county roads and infrastructure.