

PURPOSE

The purpose of the Fiscal Year (FY) 2016/17 Mid-Year Report is to outline the County's financial outlook by comparing actual financial activities for the first six months of the fiscal year, and projections for the remaining six months with the Adjusted Budget. The Mid-Year Review affords us an opportunity to strategize for the proposed spending plan for FY 2017/18.

The impact of the Governor's FY 2017/18 budget proposal is not fully known at this time; a worsening of the economy or significant reductions in State funding may have a negative impact on Shasta County's budget. The Governor's budget proposal anticipates a recession to occur so he has built the budget to maintain a big reserve. From the 2016/17 adopted State Budget, revenues are down by \$5.8 billion over a three-year period. The FY 2017/18 state expenditure budget is proposed to be \$214 million lower than 2016/17 expenditures. However, additional funding is proposed for K-14 education and corrections and rehabilitation, with generally level funding in most areas of the budget.

Locally, revenue from property taxes has been stagnant for over five years. Absent one-time revenue from the dissolution of Redevelopment Agencies, the Teeter Program, and State Mandated SB-90 catch-up, General Fund discretionary revenue remains fairly flat. The County's discretionary revenue is derived primarily from various taxes. In the fiscal year ending June 30, 2016, tax revenue increased by 2.7 percent. These one-time revenues were set aside for capital facility acquisition and improvements for Probation and the Sheriff. We remain cautious in projecting the County's discretionary revenue.

The following chart displays sources of the County's discretionary revenue.

Revenue	FY2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
Type	Actual	Actual	Actual	Actual	Projected
Taxes	44,772,801	43,792,301	45,006,702	46,902,419	45,224,200
Franchises	673,232	683,788	733,289	752,177	650,000
Fines, Forfeitures, Penalties	2,788,982	1,967,583	2,681,541	2,005,944	1,723,092
Money & Property	204,920	293,750	928,403	977,171	696,300
Intergovernmental Revenue	3,321,338	3,347,561	5,131,411	3,999,604	2,285,042
Charges for Services	915,238	888,257	896,487	905,447	859,300
Miscellaneous Revenue	27,703	8,007,612	77,266	75,585	49,600
Other Transfers-In	0	0	69,642	0	0
Sale of Land or Fixed Assets	0	0	0	0	0
Total	52,704,214	58,980,852	55,524,741	55,618,347	51,487,534
Plus <Minus>	3,483,486	6,276,624	<3,456,126>	93,606	<4,129,813>
Percent Change	7.0%	11.9%	<5.86%>	.17%	<7.43%>

Where possible, departments are encouraged to monitor or reduce spending in the current fiscal year. The resulting savings, combined with the roll-over of the contingency reserve, will become the fund balance basis for the FY 2017-18 proposed budget. Consistent with past budgets many deviations from budget are driven by activities in Sacramento and Washington. Departments will request budget amendments as necessary to adjust for variances in expenditures and revenues before June 30, 2017.

BONDED INDEBTEDNESS

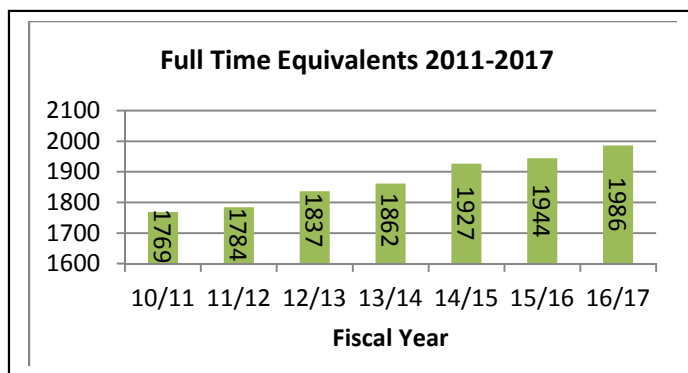
At the end of June 30, 2016, the County had total debt obligation outstanding of \$38.9 million. Of

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 has 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 the weak local economy.

COUNTY WORKFORCE



The County takes prudent steps as needed during economic downturns and the County workforce declined to 1,769 Full-Time Equivalents in FY 2010/11. It is only largely due to demands of 2011 Realignment, staffing for a regional Call Center, and the Affordable Care Act that our workforce has now increased to 1,986.

PRINCIPLES FOR FY 2017/18 PROPOSED BUDGET

Staff recommends that these policies be reaffirmed or implemented immediately. They will become the framework for the County Executive Officer's (CEO) Proposed Budget. The CEO will closely monitor the State Budget and recommend alternatives as necessary. The Board of Supervisors' (Board) will have the opportunity to make adjustments to the spending plan during Final Budget Hearings.

- Maintain Controlled Hiring Process.
- 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 County Executive Officer 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 the deletion of 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, “*Budgetary Policies and Controls*”, direct Department Heads to limit expenditures to ensure that their spending remains within each Object Level in the Adopted Budget.
- 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.

MID-YEAR REVIEW OF SELECT BUDGET UNITS

The CEO commends Department Heads for monitoring their specific revenues and reducing expenditures where appropriate. Daily, they make difficult decisions relative to service delivery. The public is well served by the myriad of staff who selflessly struggle to provide service within dwindling resources.

GENERAL GOVERNMENT

100 – General Revenue: No significant variance from budget.

101 – Board of Supervisors: No significant variance from budget.

102 – County Administrative Office: No significant variance from budget.

103 – Clerk of the Board: No significant variance from budget.

110 – Auditor-Controller: No significant variance from budget.

111 – Treasurer-Tax Collector: No significant variance from budget.

112 – Assessor: No significant variance from budget.

113 – Purchasing: No significant variance from budget.

120 – County Counsel: No significant variance from budget.

130 – Personnel: No significant variance from budget.

140 – Elections Administration: No significant variance from budget.

165 – Economic Development: No significant variance from budget.

174 – Tobacco Settlement: No significant variance from budget.

900 – Contingency Reserve – The Contingency Reserve was adopted at \$6 million.

HOUSING AND COMMUNITY ACTION AGENCY

543 – Housing Authority: No significant variance from budget.

590 – Community Action Agency: No significant variance from budget.

591 – CalHome: No significant variance from budget.

592 – HOME: No significant variance from budget.

596 – Housing Rehab: No significant variance from budget.

PUBLIC PROTECTION (Excluding Public Safety Group)

201 – Trial Courts: This budget comprises the County's remaining costs for Trial Courts, including operations and maintenance of Court facilities. Revenues from court fines and fees continue to decline. The transfer from the Courthouse Construction Fund for the long-term debt on the Courthouse may not materialize. For a fourth year, receipts from fines and fees will be insufficient to offset the \$533,315 debt-service payment. A prior-year revenue redistribution resulted in the County remitting \$178,067 to the State; these were fines and fees that were previously distributed to the County which should have been distributed to the State. Between the redistribution and unrealized revenues, a budget amendment will be proposed toward the end of FY 2016/17 to keep the General Fund in balance.

203 – Conflict Public Defender: No significant variance from budget. Expenditures for conflict public defense are difficult to predict as the County has no control over expenditures and all assumptions could change in one filing. However, it is estimated that the reserve for contingency of \$250,000 will not be appropriated before fiscal year end. This contingency should be available for carryover to FY 2017/18.

207 – Public Defender: No significant variance from budget.

208 – Grand Jury: No significant variance from budget.

221 – County Clerk: No significant variance from budget.

228 – Child Support Services: No significant variance from budget.

237 – Sheriff Civil Unit: No significant variance from budget.

256 – Victim Witness: No significant variance from budget.

280 – Agriculture Commissioner/Sealer of Weights & Measures: No significant variance from budget.

290 – Recorder: No significant variance from budget.

292 – Public Guardian: No significant variance from budget.

297 – Animal Control: No significant variance from budget.

299 – Public Administrator: No significant variance from budget.

PUBLIC SAFETY GROUP

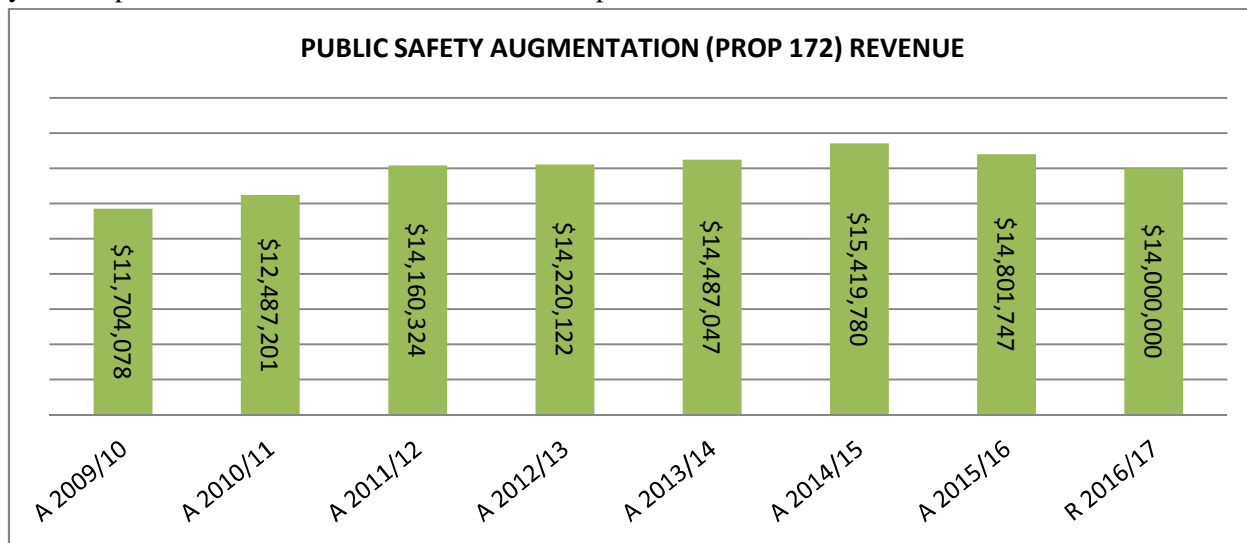
Details of any significant variances are mentioned below. The Sheriff, District Attorney, and Chief Probation Officer continuously watch expenditures and revenues and, if necessary will propose budget amendment(s) before the end of the fiscal year.

PUBLIC SAFETY HALF-CENT SALES TAX (PROPOSITION 172)

The County began receiving revenue from this tax in FY 1993/94, after the ballot initiative passed. Approximately 21 percent of public safety appropriations are funded by this sales tax, which is distributed to the County based on its proportion of statewide taxable sales. The County factor has fluctuated from a high of 0.00534 in FY 1994/95 to a low of 0.004578 in FY 2016/17. This rate will continue into FY 2017/18.

We project this revenue conservatively due to fluctuations in the County's share of statewide sales tax. This revenue source can only be used for public safety needs as defined by the Board of Supervisors in 1994. The Board's discretion is in the proportional amounts appropriated to the various public safety departments.

The economic recession was readily apparent in the decline in this revenue stream. The CEO is cautiously optimistic that receipts from Proposition 172 will meet the expected level required in the current fiscal year. It is too soon to predict what next fiscal year's target should be. When compared to this time last year, Proposition 172 revenue has decreased 2.02 percent.



A = ACTUAL, R = RECOMMENDED BUDGET

SHERIFF, ADMINISTRATION, PATROL, MAJOR CRIMES, DRUG TASK FORCES, RECORDS; BOATING SAFETY, DETENTION WORK PROGRAM; JAIL; CORONER; AND, DISPATCH.

As the Sheriff anticipated, this has been and will continue to be a challenging fiscal year. The Sheriff will continue to keep a close eye on expenditures and shortfalls in revenues and, if necessary will present budget amendment(s) to transfer appropriations between budget or request additional budget authority before the end of the fiscal year.

Staffing shortages are contributing to the Sheriff's budgetary challenges. Costs related to the hiring process, including background, medical, and psychological screenings are very high with a very small percentage return of the number of candidates that are hired. This is a statewide issue in public safety and not just a local phenomenon. Existing staff are reassigned to cover the Sheriff's core functions, including the Jail. Such reassignments are contributing to a loss of grant revenue when the resulting vacancies mean that categorical projects/funding will not be realized.

Other unplanned circumstances have occurred and the Sheriff's Office should closely monitor expenses to reassess current expenditure allocations. Two cases, a complex missing person case and a homicide in the Intermountain Area utilized a significant amount of resources this fiscal year estimated at \$65,000 above regular budget projections. When the FY 2016/17 budget was prepared, the Jail medical services contract had not yet been negotiated and the costs are higher than anticipated due to medical industry cost increases, resulting in a \$193,000 shortfall in the Jail budget. In addition, there was a long-distance inmate medical transport with inpatient services; those estimates are forthcoming. The SHASCOM County contribution is \$38,799 more than budgeted as the cost is unknown at the time the budget is prepared.

Additional items which could affect the FY 2016/17 budget are the Sheriff's assessment of extra-help positions, additional costs associated with replacing the decades-old Integrated Public Safety System, and ongoing modifications to the aging Jail facility.

227 – District Attorney: No significant variance from budget.

262 – Juvenile Rehabilitation Facility: Unlike previous years, the full-time and extra-help positions have been continuously filled, decreasing the amount of overtime required. Overall, expenditures and revenues are projected to remain within budget barring any major unforeseen changes.

263 – Probation: Decreasing revenues continue to be a challenge, such as for the Title IV-E program (federal reimbursement for portions of eligible foster care children's costs); however, revenue reductions are currently being offset with lower expenditures. Overall, expenditures and revenues are projected to remain within budget barring any major unforeseen changes.

RESOURCE MANAGEMENT

282 – Building: No significant variance from budget.

286 – Planning: No significant variance from budget.

402 – Environmental Health: No significant variance from budget.

PUBLIC WORKS

There are several variances with the Roads, County Service Areas, Fall River Mills Airport, and Solid Waste budgets. The department will continue to monitor these variances within each budget and make necessary budget adjustments before the end of the fiscal year, if necessary.

HEALTH AND HUMAN SERVICES AGENCY (HHS)

A review of all budgets within the HHS has determined that variances between adopted budget and the projected actual revenues and expenditures are either positive or are within the HHS's ability to manage within existing resources.

MENTAL HEALTH

404 – Mental Health Services Act (MHSA): No significant variance from budget.

410 – Mental Health: No significant variance from budget.

422 – Alcohol and Drug Program: No significant variance from budget.

425 – Perinatal Substance Abuse Prevention: No significant variance from budget.

PUBLIC HEALTH

411 – Public Health: No significant variance from budget.

412 – Shasta County Health Care: No significant variance from budget.

417 – California Children’s Services (CCS): No significant variance from budget.

SOCIAL SERVICES

501 – Social Services: No significant variance from budget.

530 – Opportunity Center: No significant variance from budget.

542 – General Assistance: No significant variance from budget.

541 – Welfare Cash Aid: Expenditures within this budget are anticipated to be under overall budget by approximately \$41,000, related to lower CalWORKs expenditures. However, adoptions and foster care expenditures are projected to exceed budget authority at the line item level due to increase in adoptions expenditures and new program mandates in foster care related to Continuum of Care Reform (CCR).

VETERANS SERVICES, EDUCATION AND RECREATION

570 – Veterans Service Officer: No significant variance from budget. Staffing changes have resulted in higher personnel recruitment and training expenses. The County Administrative Office is working closely with the new Veteran’s Services Officer to mitigate budgetary issues before fiscal year-end.

611 – Library: No significant variance from budget.

620 – Ag. Extension Service: No significant variance from budget.

621 – Farm Advisor Joint Shasta-Lassen: No significant variance from budget.

INTERNAL SERVICE FUNDS

925 – Information Technology: No significant variance from budget.

940 – Fleet Management: No significant variance from budget.

950 – Risk Management: No significant variance from budget.

955 – Facilities Management: No significant variance from budget.

SPECIAL DISTRICTS AND OTHER AGENCIES

0373 – Air Quality Management District: No significant variance from budget.

0391 – CSA #1 Fire Protection Administration (SCFD): No significant variance from budget.

0851 – In Home Supportive Services Public Authority (IHSS): No significant variance from budget.