

Executive Summary

INTRODUCTION

The Adopted Proposed Budget for Fiscal Year 2014-2015 was approved by the Board of Supervisors on June 10, 2014. The Adopted Proposed Budget was a rollover budget created using Fiscal Year 2013-2014 Adopted Final Budget appropriations minus any one-time funds and the net county cost savings carried forward, plus any new budgets added since the adoption of the Fiscal Year 2013-2014 Final Budget. Fiscal Year 2014-2015 is a transition year as the County reviews and updates its multi-year budget strategy. Due to this, the budgeting approach shifted the detailed development of the budget plan from the Recommended Proposed Budget in June to the Recommended Final Budget in September. Additional adjustments to the County's budget are routinely made as needed during the year as part of quarterly financial reports presented to the Board, or as separate Board agenda items.

The Fiscal Year 2013-2014 Adopted Final Budget as approved on September 10, 2013 totaled \$1,042,987,731 for all funds. The Recommended Final Budget for all funds in Fiscal Year 2014-2015 increased by \$49,670,380 to a total of \$1,092,658,111. Specifically, increases in appropriations occurred in the following funds: General - \$14,482,350; Special Revenue - \$15,672,756; Capital Projects - \$483,612; Enterprise Funds - \$12,024,915 and Internal Services - \$7,006,747.

Consistent with standard accounting practices, the County's budget is divided into separate financial entities known as "funds." A fund contains a set of accounts that carry out specific activities or attain certain objectives in accordance with special regulations, restrictions or limitations. Governments use these fund entities to segregate their financial resources and demonstrate legal compliance. The County's budget includes three "governmental funds" - General, Special Revenue, and Capital Projects - to account for local government activities. The County also uses two proprietary fund types that are for "business-type" activities - Enterprise and Internal Service funds.

The breakdown of the 2014-2015 Recommended Final Budget between funds is as follows:

Summary of Recommended Final Budget by Fund

Fund Type	Total Recommended Appropriations	Total Recommended Revenue	Fund Balance & One-Time Funding Required
General	\$ 271,083,644	\$ 241,644,022	\$ 29,439,622
Special Revenue	643,308,609	627,856,540	15,452,069
Capital Projects	1,215,510	1,137,000	78,510
Enterprise	79,199,819	72,523,984	6,675,835
Internal Service	97,850,529	96,227,490	1,623,039
Total	\$ 1,092,658,111	\$ 1,039,389,036	\$ 53,269,075

RECOMMENDED FINAL BUDGET BY FUND

General Fund

The General Fund is used to pay for core services such as public safety, parks and recreation, planning and community development, justice administration, tax assessment and collection, and a host of other vital services. The revenue used to pay for these services comes primarily from local taxes such as property tax and sales tax, franchise fees, charges for services, and a variety of other discretionary sources. Included in the General Fund is the Debt Service budget that provides funding for annual County debt obligations of approximately \$12.7 million. The Recommended Final Budget for the

General Fund for Fiscal Year 2014-2015 is \$271,083,644, an increase of \$14,482,350 from the 2013-2014 Adopted Final Budget of \$256,601,294.

The recommended increase in the General Fund at Final Budget from the Fiscal Year 2013-2014 Final Budget includes base funding adjustments, other recommended adjustments which are identified as recommended adjustments in the Schedule 9's and net county cost savings.

General Fund Departments received a Fiscal Year 2014-2015 issued base budget adjusted to the equivalent of the Funded Service Level cost of all current programs and allocated positions as approved by the Board of Supervisors. Negotiated increases approved by the Board of Supervisors have also been included in this General Fund allocation level which is reflected as net county cost on the summary budget schedule.

Recommended adjustments in the General Fund were due to several factors which include Health Services Agency Clinics & Ancillary Services accelerated repayment of deficit; funding of positions in the Sheriff's Department, District Attorney, Auditor-Controller and Cooperative Extension; increase in Plant Acquisition for deferred maintenance and various projects; and an increase in Chief Executive Office – Appropriations for Contingencies for public safety restoration, termination cash outs, anticipated labor increases and prevention program.

Departments that achieved savings in appropriations were able to carry forward 100% of their unused net county cost savings balance from Fiscal Years 2009-2010 through to Fiscal Year 2012-2013 and 75% of their 2013-2014 net county cost savings. All adjustments are included as part of the Recommended Final Budget. As a result, the Area Agency on Aging-Veterans' Services, Agricultural Commissioner, Auditor-Controller, Board of Supervisors, Chief Executive Office, Cooperative Extension, Parks and Recreation, Planning and Community Development, Probation, Public Defender, Sheriff, and Treasurer-Tax Collector are receiving increases in appropriations totaling \$12,345,632 to reflect their net county cost savings in Fiscal Year 2013-2014 and prior years.

Many of the departments are using savings for health increases, salary costs and the increased costs from negotiated salary increases. Departments are also strategically setting aside funds for increases in operational costs in 2015-2016 and beyond; including further anticipated increases in salary and retirement charges. For Fiscal Year 2014-2015, the net county cost savings program is recommended to remain the same for those departments who have not received any General Fund contributions to their budget. This will allow departments to carry over 75% of any year-end savings from the 2014-2015 Fiscal Year. For those departments that do receive a General Fund contribution, any savings generated from business efficiencies and revenue increases may be eligible to carry over up to 50% of any year-end savings from the 2014-2015 Fiscal Year.

The following chart shows departments that are receiving net county cost savings in the Fiscal Year 2014-2015 Final Budget.

Department	Savings to Fiscal Year 2013-2014 Final Budget	Savings to Fiscal Year 2014-2015 Final Budget
Area Agency on Agency/Veteran Services	\$ 19,748	\$ 21,826
Agricultural Commissioner	1,066,337	1,191,442
Auditor-Controller	396,371	342,837
Board of Supervisors	123,742	155,341
Chief Executive Office	1,999,995	2,125,947
Chief Executive Office - Crows Landing Air Facility	-	24,675
Clerk Recorder	169,729	-
Cooperative Extension	48,227	43,394
District Attorney	570,840	-
Parks and Recreation	544,993	546,470
Planning and Community Development	403,624	473,914
Probation	1,694,133	2,114,642
Public Defender	240,785	300,313
Sheriff	6,850,544	4,412,782
Treasurer/Tax Collector	633,264	592,049
Total	\$ 14,762,332	\$ 12,345,632

Budgets within the General Fund are recommended to be funded by \$72,605,544 in department revenue and \$169,038,478 in discretionary revenue. The General Fund relies on the use of \$29,439,622 in fund balance bringing total funding sources for the General Fund to \$271,083,644.

Discretionary revenue is revenue available to the Board of Supervisors to fund programs as they choose. The majority of discretionary revenue supports funding for public safety and criminal justice services for the Sheriff, Probation Department, District Attorney and Public Defender, as well as government-related services such as the Chief Executive Office, Assessor and the Agricultural Commissioner. Health and Human Services departments use discretionary revenue to support maintenance of effort requirements to obtain additional revenue for Federal and State supported programs.

Discretionary revenue is budgeted for \$169,038,478 in the Fiscal Year 2014-2015 Recommended Final Budget. This is an overall increase of slightly under \$9 million when compared to the Fiscal Year 2013-2014 budget as adjusted at Mid-Year and a \$4.8 million increase from the Fiscal Year 2013-2014 actual revenue received. Discretionary revenue in Fiscal Year 2014-2015 is projected to increase by 6% over the Fiscal Year 2013-2014 Budget as adjusted at Mid-Year. The projected increase is primarily attributed to a significant increase in property tax and modest increase in sales related tax revenues.

After five years of decline, property tax revenue in Fiscal Year 2013-2014 increased by about 6% from the prior year and a continued strong recovery is anticipated for the coming fiscal year. With the completion of the Assessed Roll valuation for Stanislaus County for Fiscal Year 2014-2015, the Assessor announced an increase of 11.50% in contrast to the cumulative drop of approximately 24% in the assessment roll in the five declining years, from fiscal years 2008-2009 through 2012-2013.

For several years, Stanislaus County's population growth resulted in an increase in the overall proportion of the State sales tax pool rate. Due to the last economic downturn, the County's portion of the overall sales tax pool has been inconsistent, decreasing in 2009-2010, increasing in 2010-2011, and then decreasing again in 2011-2012 followed by an increase in 2012-2013. Sales volume in Stanislaus County for 2013-2014 indicates that the County's portion of the State sales tax pool is up slightly, and will likely experience an increase in Fiscal Year 2014-2015. The actual rate will not be announced by the State until late November 2014 at the earliest. Because the statewide total of the sales tax pool normally exceeds \$2 billion, even the slightest change in the pool rate can have a significant impact on revenue projections.

Ongoing analysis will be conducted throughout the upcoming months and any necessary adjustments will be included in the 2014-2015 Mid-Year Financial Report to the Board after six months of actual posting of discretionary revenue in this fiscal year.

Discretionary Revenue Description	Fiscal Year 2011-2012 Actuals	Fiscal Year 2012-2013 Actuals	Fiscal Year 2013-2014 Actuals	Fiscal Year 2014-2015 Recommended Final
Taxes	\$ 101,873,203	\$ 115,165,790	\$ 110,690,985	\$ 117,486,000
Licenses, Permits & Franchises	992,963	987,557	1,090,043	1,090,000
Fines, Forfeitures & Penalties	4,448,541	5,827,385	5,410,759	2,660,000
Revenue from Use of Money	2,125,706	2,057,670	2,006,831	2,077,477
Intergovernmental Revenue	35,495,400	37,675,885	39,815,816	40,703,173
Charges for Services	287,979	768,461	1,969,547	2,073,404
Miscellaneous Revenues	393,067	(129,361)	57,116	40,000
Other Financing Sources	2,974,398	2,934,338	3,170,341	2,908,424
Total	\$ 148,591,257	\$ 165,287,725	\$ 164,211,438	\$ 169,038,478

The 2014-2015 Recommended Final Budget assumes the use of \$17.1 million of unassigned fund balance to balance the General Fund budget. In addition, \$12.3 million from assigned fund balance is recommended to fund the net county cost savings program.

Special Revenue Funds

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds account for over half of Stanislaus County's budget. Some of the larger Special Revenue Funds include Behavioral Health and Recovery Services, Community Services Agency, Alliance Worknet, Child Support Services, Environmental Resources, Public Works and a variety of other grant programs. The Recommended Final Budget for Special Revenue Funds for Fiscal Year 2014-2015 is \$643,308,609, an increase of \$15,672,756, from the 2013-2014 Adopted Final Budget of \$627,635,853.

The increase in Special Revenue Funds is primarily the result of increased Federal and State allocations for caseload growth, Medi-Cal expansion and horizontal integration across public assistance programs, as well as the implementation of Expanded Subsidized Employment services in the Community Services Agency.

Budgets within the Special Revenue Funds are funded by \$609,312,902 in department revenue and \$18,543,638 in revenue from the General Fund. Special Revenue Funds also rely on \$15,542,069 of prior year fund balance bringing total funding sources for the fund to \$643,308,609. The Special Revenue Funds began the fiscal year with \$202,992,708 in fund balances and are projected to end the year with fund balances of \$187,540,639.

Capital Projects Funds

The Courthouse Construction Fund and the Criminal Justice Facilities Fund are the two remaining budgets that are currently in the Capital Projects Fund type category. This fund type is typically used to account for financial resources that are used for the acquisition or construction of major capital facilities or to provide facilities for County departments. The Recommended Final Budget for Capital Projects Funds for Fiscal Year 2014-2015 is \$1,215,510, an increase of \$483,612 over the 2013-2014 Adopted Final Budget, due to refinancing of the County's 2004 Series B Certificates of Participation. The refinancing occurred in July 2013 and resulted in accelerated debt payments from the Criminal Justice Facilities Fund.

Budgets within Capital Projects Funds are funded by \$1,137,000 in department revenue and \$78,510 of retained earnings. The Capital Project Funds began the fiscal year with \$5,486,560 in fund balances and are projected to end the year with fund balances of \$5,408,050.

Enterprise Funds

Enterprise Funds are set up for specific services that are funded directly by fees charged for goods or services. Examples of County Enterprise Funds include the Health Services Agency - Clinics and Ancillary Services, the landfills and the local transit system. The Recommended Final Budget for Enterprise Funds for Fiscal Year 2014-2015 is \$79,199,819, an increase of \$12,024,915 from the 2013-2014 Adopted Final Budget. The increase is attributed to an increase in General Fund contribution to the Health Services Agency's Clinics and Ancillary Services, to accelerate payment of the long-term debt incurred by the Agency through the closure of the former County hospital and the Federal recoupment of funding from the former Stanislaus Family Medicine Residency program. Full pay-off of the debt will occur as the Public Safety Center jail expansion projects are completed and will result in available operating capital to support the jail expansion facilities as they are put into operation.

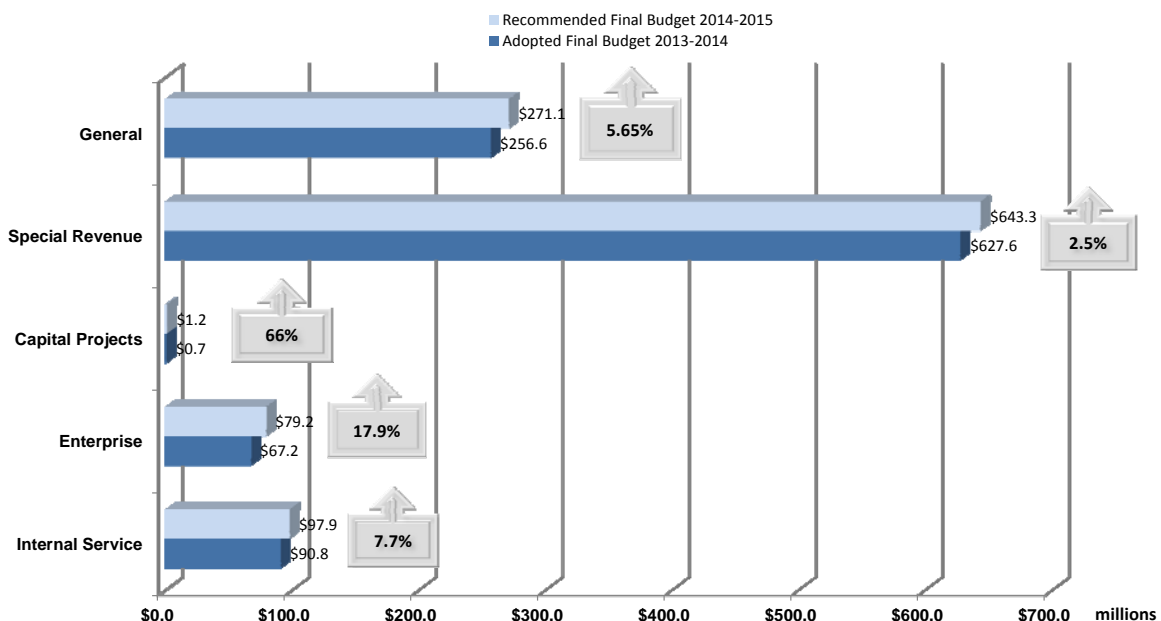
Budgets within the Enterprise Funds are funded by \$52,594,140 in department revenue and \$19,929,844 in revenue from the General Fund. The Enterprise Funds also rely on \$6,675,835 of prior year retained earnings bringing total funding sources for the funds to \$79,199,819. The Enterprise Funds began the fiscal year with \$30,970,240 in retained earnings and are projected to end the year with retained earnings of \$24,294,405.

Internal Service Funds

Internal Service Funds are used for areas where goods or services are provided to other County departments or governments on a cost-reimbursement basis. Examples of Internal Service Funds are Strategic Business Technology (SBT), General Services Agency Central Services and Fleet Services and a variety of County self-insurance funds. The 2014-2015 Recommended Final Budget for Internal Service Funds is \$97,850,529, an increase of \$7,006,747 from the 2013-2014 Adopted Final Budget of \$90,843,782. The increase is mostly attributed to the Medical Self-Insurance budget which is projecting increases in medical, pharmaceutical and administrative costs. A significant increase in appropriations was also experienced in the Morgan Shop budget for engineering and design for the Morgan Road Shop project, and vehicle and equipment purchases. These increases were slightly offset by decreases in the Professional Liability and Worker's Compensation budgets.

Budgets within Internal Service Funds are funded by \$96,227,490 in department revenue and \$1,623,039 of retained earnings bringing total funding sources for the fund to \$97,850,529. The Internal Service Funds began the fiscal year with \$14,731,297 in retained earnings and are projected to end the year with retained earnings of \$13,108,258.

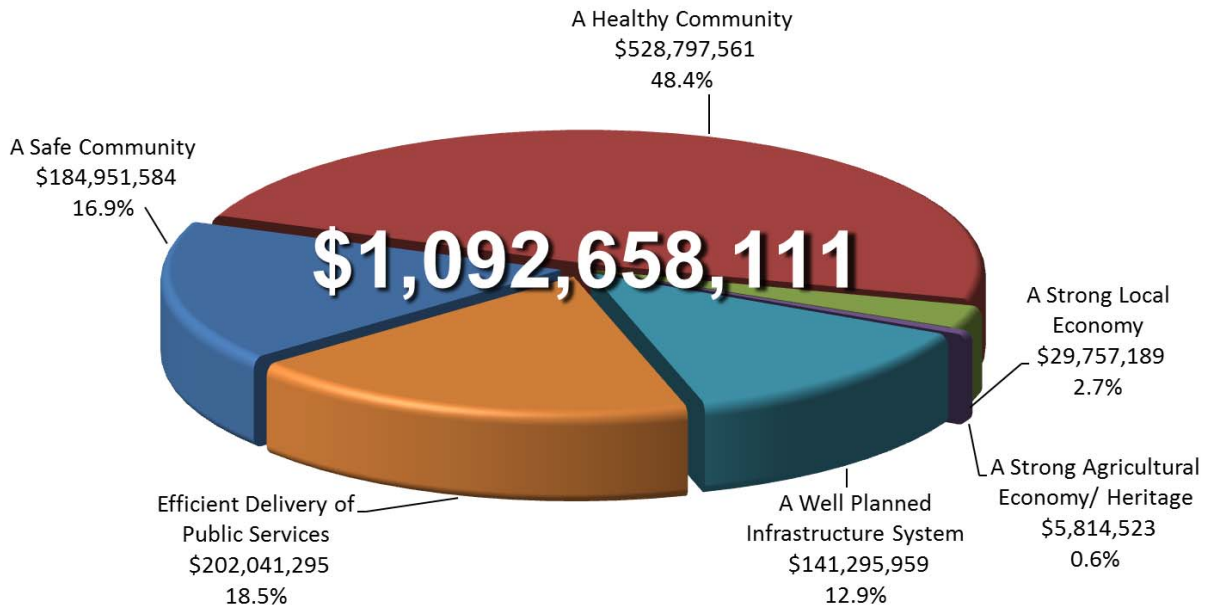
Summary of Final Budget Appropriation Changes by Fund



RECOMMENDED FINAL BUDGET BY PRIORITY

Below is a summary of the Recommended Final Budget by Board Priority Area. Detailed descriptions and recommendations can be found later in the document in their respective priority area. A breakdown of the Recommended Final Budget is illustrated by the following two charts.

Fiscal Year 2014-2015 Recommended Final Budget Appropriations by Board Priority



Summary of the Recommended Final Budget by Board Priority

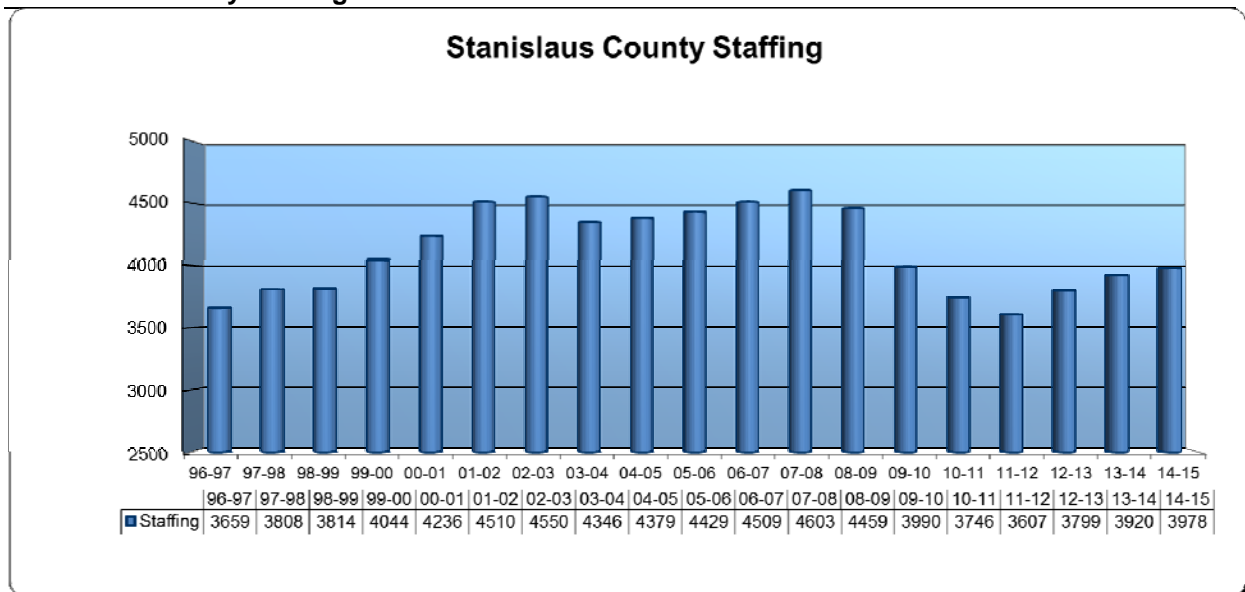
RESOURCES	A Safe Community	A Healthy Community	A Strong Local Economy	A Strong Agricultural Economy/ Heritage	A Well Planned Infrastructure System	Efficient Delivery of Public Services	2014-2015 Recommended Final Budget
Department Revenue	\$ 72,344,940	\$ 502,319,041	\$ 28,177,748	\$ 3,216,547	\$ 123,824,687	\$ 118,810,560	\$ 848,693,523
Department Fund Balance/ Retained Earnings	2,065,058	6,208,767	1,087,631	16,892	13,215,963	1,235,142	23,829,453
Net County Cost	110,541,586	20,269,753	491,810	2,581,084	4,255,309	81,995,593	220,135,135
Total Recommended Final Budget Resources	\$ 184,951,584	\$ 528,797,561	\$ 29,757,189	\$ 5,814,523	\$ 141,295,959	\$ 202,041,295	\$ 1,092,658,111
APPROPRIATIONS							
Total Recommended Final Budget Appropriations	\$ 184,951,584	\$ 528,797,561	\$ 29,757,189	\$ 5,814,523	\$ 141,295,959	\$ 202,041,295	\$ 1,092,658,111

STAFFING LEVELS

The 2014-2015 Final Budget staffing recommendations include 28 additional positions to the allocation count. The recommendations include adding 24 new positions, restoring 11 unfunded positions, unfunding two vacant positions, deleting five vacant positions, deleting five unfunded positions, transferring 17 positions between budget units, reclassifying 14 positions, conducting 11 classification studies, and double-filling one Manager IV position up to three months. Three positions will be transferred from the Health Services Agency to the Community Services Agency. The current position allocation count is 3,950. The new recommended position allocation count for the 2014-2015 Final Budget is 3,978.

The 2014-2015 Final Budget staffing recommendations makes adjustments to staffing levels to maintain critical programs and service levels. During the economic downturn, the number of allocated positions fell to 3,607 in Fiscal Year 2011-2012. In the last four years, the position allocation has gradually increased from 3,607 to 3,978 in the 2014-2015 Final Budget. This was primarily as a result of recent increases in staffing in Community Services Agency due to the implementation of the Affordable Care Act (Health Care Reform), and in Behavioral Health and Recovery Services, Probation and the Sheriff Department from funding received for the Phase 2 Community Corrections Partnership Plan Implementation (AB109).

Stanislaus County Staffing



ONGOING CHALLENGES AND OPPORTUNITIES

Budgeting – The new Funded Service Level approach for departmental budgeting and the integration of department budgets into the long-range financial model will create better opportunities for meaningful long-range planning for departments and the County as a whole.

Service Restoration – Steady growth in the economy is supporting some restoration of public services across departments. For example, the Internal Audit Division is being rebuilt to increase their capacity to provide financial accountability for departments and services and it is anticipated that recommendations for public safety departments enhancements will be included in this year's Mid-Year Financial Report.

Labor Relations – Contracts expired with all 15 Bargaining Units on June 30, 2014. The County has reached agreement with five bargaining units and is currently in the process of negotiations with the remaining units. Completion of long-term agreements with all 12 County labor organizations will provide stability to the organization.

Retirement Costs – The County's retirement plan is funded at 79.4% as of June 30, 2013. It is projected that retirement costs will continue to be a significant cost driver for the organization into the future.

Employee Health Care – The medical self-insurance program has stabilized with charged rates covering actual costs for the County. The program is paying down a retained earnings deficit and additional cost containment measures are being evaluated. Medical insurance is a major cost driver for all organizations which provide insurance and that is expected to continue into the future.

Detention Facility Staffing – The County jail expansion is expected to be completed in Budget Year 2016-2017, but there will be significant additional operating costs associated with this including staffing, utilities, maintenance, contracted jail medical services, bedding, inmate clothing and various other costs were factored into staff's analyses. As previously reported, the County has no obligation to immediately fully operate or staff the new facilities. A phased opening of the AB 900 Phase II Jail Expansion Project will be based on the County's fiscal recovery and the annual appropriations by the Board of Supervisors. The total estimated cost including both sworn/non-sworn staff in today's dollars range from \$13.3 million in the Initial Model and \$14.6 million in the Optimal Model. Full occupancy of all available jail beds at the Public Safety Center site following AB 900 Phase II construction completion may result in an additional 72 sworn positions needed with an increased General Fund obligation of approximately \$7.7 million annually. The companion facility and corresponding functions constructed by Public Facilities Fees, if fully staffed, may result in an additional 22 sworn positions needed with an increased General Fund obligation of approximately \$2.3 million.

Health Care Reform – The Health Services Agency, Behavioral Health & Recovery Services and the Community Services Agency partnered in the successful implementation of the Affordable Care Act (ACA) in our County. Almost all of the former Medically Indigent Adult (MIA) customers or eligible customers have been enrolled in Medi-Cal or subsidized health insurance through Covered California. State realignment funding models have been changed to shift health savings back to the State for redistribution to other program priorities; approximately \$9.6 million has been shifted to the State, a significant loss of revenues to support health programs locally. The Health Services Agency will continue to analyze the anticipated impacts to programs including staffing needs based on the significant decrease in enrollment in the Indigent Health Care Program (IHCP) Medically Indigent Adult program. Management will review all staffing duties and needs in the IHCP as well as how the staffing needs are met, and based on this analysis, as well as the needs in other programs/areas, will bring a full plan to the Board of Supervisors in the First Quarter Report.

Veterans Center Facility – The Stanislaus County Board of Supervisors continues to support the development of a Veterans Center as a one-stop for services, activities and referrals. The County will continue to assist in facilitating this in partnership with various veterans groups and organizations in the County.

Prevention – Many County departments have operated prevention programs going back decades, but there is more work that needs to be done. The Board of Supervisors and Chief Executive Office are increasing focus on prevention services and funding is recommended in the 2014-2015 budget for more prevention activities. This presents a significant opportunity for partnership across all sectors of our community for the benefit of all County residents and this will be evaluated for future County budgets.

Water – Water issues will continue to impact Stanislaus County and the central valley. The \$3.7 billion agricultural economy is dependent on water; however, the impact of the drought is reaching every resident of the county and difficult policy decisions are ahead for State and local officials.

CONCLUSION

This year will be a turning point for the Stanislaus County organization as economic recovery continues, strategic program and staffing restoration takes place, and financial strategies continue to be implemented to limit the County's exposure to future economic challenges. The County is resolute in its commitment to strive to be the best County in America and to provide outstanding service to the public.

NEXT STEPS

The Stanislaus County Board of Supervisors will conduct the Recommended Final Budget hearing on September 16, 2014, at 6:35 p.m. Given the broad scope of the County's budget, it is not uncommon for the County to make budget adjustments throughout the year. This will be addressed as appropriate through the quarterly financial reporting process or through separate agenda items to the Board, as needed.

The County's budget can be found on the County's web <http://www.stancounty.com/budget>.