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FISCAL YEAR 2019-20

MID-YEAR BUDGET

REVIEW

February 11, 2020

Mid-Year Budget Review

- Status of the General Fund
- Status of the hospital system enterprise funds
- Recommended Budget Modifications for the Current Fiscal Year
- Explain the significant budget deficit for Next Fiscal Year
- Describe Administration's strategies moving forward

Status of the General Fund

- County on track to conclude the fiscal year with only \$254m ending available fund balance
- This is much less than the \$432m available fund balance at the end of the last fiscal year
- This alarming decline is indicative of a structural operating deficit
- After 11 years of economic recovery, revenue growth is unable to keep up with the cost to maintain current level services

Status of the Hospital System funds

- Revenues from the new hospitals are ramping up
- Revenues from the Bascom hospital and health clinics are flattening
- Hospital system operating costs are growing sharply
- The gap between operating revenue and operating costs is widening

Hospital System Cost & Revenue Trends

- **Cost growth:** Employee compensation, use of temporary employees, overtime, on call duty, medical supply agreements, EPIC services, professional services, outside medical costs, pharmaceuticals, and nursing registry services
- **Estimated Revenue decline:** commercial insurance, indigent care billing, Medicare Part D (pharmaceutical) reimbursement, and Medicare hospital billings
- **Short-term aspect of some of the gap include:** integration of the three hospitals into one efficient operating system takes time, acquisition of equipment and supplies for new hospitals, structural improvements to the new hospital facilities

Recommended Budget Modifications

- Recognize additional available fund balance
- Replenish General Fund Contingency Reserve to Board policy target
- Increase GF subsidy to SCVMC
- Adjust expenditure appropriation and revenue estimates to reflect updated information
- Correct errors and omissions identified after the Adopted Budget document was approved
- Update HHS Admin overhead allocation
- African Ancestry Academic Services
- Universal Access Pilot Extension
- Unanticipated Elections Costs
- Close five capital projects
- Physician staffing contract - Jails

FY 2018-19 Ending Fund Balances

- FY2019-20 Budget: Estimated and Used *prior year* fund balances
 - \$376.0m *FY 2018-19 General Fund Year-End Balance*
 - \$2.1m *2012 Measure A Year-End Balance*
- Actual General Fund available balance *after* FY 2018-2019 close
 - *Increase in Year-End General Fund Balance \$56.1m*
 - *Decrease in Year-End 2012 Measure A Fund Balance \$454k*
- SCVMC enterprise fund *after* FY 2018-2019 close reported \$40.2 million less General Fund subsidy than needed *for operations last fiscal year.*

Recommendations for Reserves

Contingency Reserve

- Add \$6.9m to replenish Contingency Reserve back to \$164.1m

Other Reserves

- Reduce Reserves for Debt Service, Elections, Consent Decree, and Federal/State Impacts
- Increase Reserve for Retirement Benefits
- Create new Childcare Reserve of \$3.0m

FY 2020-21 Base Budget Projections

Discretionary revenues are expected to increase **\$54m**

FY 2020-21 General Fund Base Budget

- Departmental and other revenues are projected to increase **\$47m**
- Base General Fund expenditures are expected to increase at least **\$109m**

FY 2020-21 Hospital and Clinics System Base Budget

- Departmental and other revenues are projected to decline **\$54m** below the current fiscal year budget
- Hospital System expenditures are expected to increase at least **\$112m**

Strategies to Reduce the FY 2020-21 Deficit

- Redirect existing resources to address highest priorities
- Identify projects that can be suspended or defunded
- Limit purchases and contracts to only the most essential items and services
- Limit overall personnel costs to only the most essential
 - *Reevaluate necessity of all vacant positions*
 - *Reduce use of employee overtime and temporary help*
 - *Redeploy staff to service areas of the highest need*
- Limit the rollover of unspent appropriations from this fiscal year to the next

Rising Use of Overtime & Extra Help

Overtime & Extra Help	Actual costs in fiscal year		Difference Between FY 14-15 and FY 18-19
<u>Department</u>	<u>FY 14-15</u>	<u>FY 18-19</u>	
Registrar of Voters	\$ 2,060,616	\$ 4,368,922	\$ 2,308,306
Technology Services	\$ 780,293	\$ 2,155,779	\$ 1,375,485
District Attorney	\$ 1,282,959	\$ 2,112,473	\$ 829,514
Sheriff - Operations	\$ 8,641,745	\$ 12,992,642	\$ 4,350,898
Sheriff - Corrections	\$ 13,047,384	\$ 27,777,387	\$ 14,730,003
Corrections Dept.	\$ 1,032,520	\$ 1,762,610	\$ 730,090
Probation	\$ 3,611,414	\$ 5,690,689	\$ 2,079,275
Facilities	\$ 432,595	\$ 1,131,250	\$ 698,655
Custody Health	\$ 7,371,144	\$ 11,930,554	\$ 4,559,411
Parks & Recreation	\$ 1,198,741	\$ 2,369,754	\$ 1,171,014
Valley Health Plan	\$ 204,246	\$ 1,051,826	\$ 847,580
Valley Medical Center	\$ 57,907,714	\$ 74,676,839	\$ 16,769,126

Balancing the FY 2020-21 Budget Will Require Reductions and Other Budgetary Solutions

- Revenue growth is less than recent years and not strong enough to keep up with the cost to maintain current services
- Cost to provide County services will continue to grow sharply for at least another three years as revenue sources are flattening.
- State law requires the FY 2020-21 Budget to be balanced
- The County Executive will evaluate cost reduction options prepared by departments and OBA to balance the Recommended Budget

Bigger Challenges on the Horizon

- After 11 years of economic growth, this upcycle is coming to a natural close
- Federal deficit is expanding and its impact on the national economy is unavoidable
- The global economy is weak and on the verge of recession.
- Even if we didn't experience a recession, the County's costs for operations is growing faster than revenue can grow, so we need to scale down operations regardless
- When a national recession begins, the County will receive less federal and state revenue, the County's caseloads for economic assistance and other services will expand, and the County will thereafter have to make major budget reductions across all service lines while pressures for services intensify

Fiscal Year 2020-21 Budget Timeline

- | | |
|---------------|--|
| 2/14/2020 | Departmental Budget Proposals due to OBA |
| March / April | CEO, OBA & Departments finalize proposals for Recommended Budget |
| 5/1/2020 | Recommended Budget document distributed |
| 5/11-14/2020 | Budget Workshops |
| 6/15-19/2019 | Budget Hearing |