

## COUNTY OF PLACER

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June 7, 2011

### Honorable Board of Supervisors County Departments and Employees Members of the Public

### SUBJECT: Placer County Fiscal Year 2011-12 Proposed Budget

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#### Introduction

The County Executive Office presents Placer County's Proposed Budget for Fiscal Year 2011-12 for your review and consideration. This document is the culmination of a comprehensive effort on the part of county staff from all departments to develop a budget that recognizes future obligations, protects the county from state financial uncertainties to the extent foreseeable at this time, and maintains critical services that benefit our citizens during a time of constrained resources. Given the unresolved nature of the State's budget, it is possible that additional adjustments may be needed beyond those presented in the Proposed Budget to ensure sustainable service levels.

The Proposed Budget represents the County's legal authority to spend, provides a guide to county programs and service delivery models for next year and sets the stage for future budget cycles. The Proposed Budget serves only as the interim spending plan until the Final Budget is adopted in September. The Final Budget is adopted after a public hearing, and is developed and deliberated on during Board Workshops conducted during the month of August. The Board of Supervisors (Board), through adoption of the budget, funds services and activities deemed necessary and important, providing an annual, comprehensive expression of the Board's policy direction and priorities. Additionally, the fiscal decisions contained within this document are a continuation of the early, clear and distinct direction the Board provided through the continuation of the County Financial Policies as well as the Budget Workshops held by the Board February through April 2011. Finally, the Proposed Budget has been prepared with the recognition that the county service delivery model is changing, as our future is likely to be one with less abundant resources requiring a more refined approach to the distribution of funds as well as a changing workforce to continue to meet the multitude of services demands throughout the county.

#### Executive Summary

In the midst of the longest recession in recent memory, Placer County remains fiscally sound relative to the economic downturn. This is due to the many proactive decisions of the Board that have facilitated a comparatively soft landing to service impacts as the County adjusts service levels to reflect changing demands and revenue streams. The Proposed Budget resolves our locally driven challenges in addition to preparing to the greatest degree possible for the unknown impacts related to the State Budget.

Over the past several years, the Board has overcome significant hurdles and seemingly endless budget challenges as it has guided Placer County through the prolonged recession that began in Fall of 2007.

- Since FY 2007-08, the total budget has declined 16.8% and filled positions have been reduced 13.5% to 2,199. Much of the decline is a reflection of Capital and Infrastructure projects and associated revenue sources tapering down, along with transitioning service levels to reflect the near and longer term economic climate.
- The FY 2011-12 Proposed Budget is \$37.3 million (4.9%) smaller than the FY 2010-11 Final Budget.
- Property taxes are projected to decline an additional 5% in FY 2011-12, for a cumulative \$14.4 million (14.9%) drop since FY 2007-08.

Through continued careful planning, the \$720.4 million balanced FY 2011-12 Proposed Budget continues to provide services to our constituents and meet important obligations to the Placer County community.

### **Development of the 2011-12 Proposed Budget**

The Board has held a series of FY 2011-12 budget workshops since December 2010. The workshops have highlighted the local budget and operational challenges as a result of the prolonged recession. The challenges include sharply decreasing local revenues straining service levels and requiring reprioritization of limited resources as some county service needs have diminished while others have increased.

As reported at the February 22, 2011 Board meeting, the combined initial deficit was \$7.5 million (\$4.7 million General Fund and \$2.8 million Public Safety Fund) and was then reduced based on continuing existing labor adjustments, and departments absorbing a number of cost increases and losses of one-time revenues.

Since February 2011, a series of budget workshops has focused on the local and state driven challenge areas faced by the County including areas with declining revenues, those with reduced workload, and those with substantial risks posed by State Budget proposals. More than \$30-60 million in direct county funding and/or increased responsibilities could be impacted by pending State actions based on the Governor's May Revision to the State Budget. As such, there remains continued uncertainty regarding the State Budget and its potentially substantial impacts on the County's immediate and longer term budget and service levels. Due to the uncertainty, the Board has also discussed a number of contingency options intended to ensure sufficient flexibility to maintain critical county services even under the most devastating impacts from the State. These options could include significant reprioritization of resources or services and may be discussed during future Board meetings or as part of the Final Budget development dependent upon the actions of the State.

The early actions put into place in late 2007 designed to slow and reduce expenditures, such as instituting a hiring freeze, remain in effect. When combined with other cost saving measures, the end of the year fund balance (one-time funds) is healthy and has enabled Placer County, as in last year, to start the fiscal year in a relatively better position than most counties. This is a direct result of the Board's steady hand throughout the recession.

Essential to the planning and development process for the Proposed Budget has been the guidance, participation, and leadership of the Board. Staff received guidance from your Board throughout the Winter / Spring budget workshops including Board direction on solutions to balance the budget. The Proposed Budget has been able to address the shortfall while continuing to provide critical services to county residents within the available resources.

As in previous years, those charged with creating this document recognize that the county is in the business of efficiently providing services to the public. Pursuant to Board direction and adherence to financially sound fiscal policies, the Proposed Budget promotes optimal use of staffing within limited resources.

Pursuant to Board Policy, the Proposed Budget is balanced, uses realistic and probable revenue estimates, and maintains a prudent level of funding for reserves and contingencies. Unanticipated revenues received following presentation of the Proposed Budget will be brought to the Board for consideration.

In summary, the FY 2011-12 Proposed Budget:

- Maintains critical operations, services, and programs while maximizing savings where possible.
- Continues planned infrastructure facility projects.

- Includes prudent fiscal contingency and reserve levels including not using General Fund reserves for operations for the first time in three years.
- Achieves staffing efficiencies resulting in a net reduction in funded positions.

The remaining portions of this letter highlight some of the challenges and resolutions addressed in the Proposed Budget for FY 2011-12.

### Sources and Uses of Funds

The FY 2011-12 Proposed Budget reflects the following:

- \$684.3 million in total revenues, representing a decrease of \$17.0 million (2.4%) as compared to the FY 2010-11 Final Budget.
- \$342.4 million in General Fund revenues and \$341.9 million in other revenues.
- \$35.5 million in fund balance carryover of which \$27.5 million is General Fund. Fund balance carryover is the result of current year expenditure savings, or deferral of costs or projects into the next year, as well as additional revenue received in FY 2010-11. As such, a portion of fund balance remains committed for specific purposes as costs transfer from FY 2010-11 to FY 2011-12 so is therefore not available for general purposes.
- Limited use of \$0.6 million in fund reserves, bringing the grand total for available financing sources to \$720.4 million.

In addition, overall revenues anticipated in the Proposed Budget for FY 2011-12 highlight a continued reduction when compared to the budgeted amounts in the current year, and they reflect the slowdown in revenue received by and available to the county when planning to provide important services to our citizenry.

While General Fund revenue appears 2.9% higher in Table 1 below, the increase is due to a technical accounting change to Realignment revenues in Health and Human Services. Absent the technical accounting change, the actual operating General Fund revenue will decrease by \$7.1 million from FY 2010-11.

**Table 1. Year-To-Year Financing Source Comparison**

Description	Final Budget FY 2010-11	Proposed Budget FY 2011-12	% Change
General Fund Revenue	\$ 332,871,362	\$ 342,395,386	2.9%
Other Operating Fund Revenue	252,866,854	261,526,439	3.4%
Capital Project Fund Revenue	115,580,835	80,387,399	-30.4%
<b>Total Revenue:</b>	701,319,051	684,309,224	-2.4%
Fund Balances & Cancelled Reserves <sup>1</sup>	56,335,193	36,067,743	-36.0%
<b>Total Financing Sources:</b>	<b>\$ 757,654,244</b>	<b>\$ 720,376,967</b>	<b>-4.9%</b>

In FY 2011-12 departments submitted net budget requests \$6.6 million above the recommended Proposed Budget. Department budget requests were evaluated by weighing the county's ongoing, critical program needs against its financial responsibility to limit continuing commitments as state reimbursements and other revenue sources remain in doubt. This moderate difference between what county departments requested and what has been presented in the Proposed Budget reflects the common understanding countywide of the severe budget constraints the county is operating under, and is a testament to the continued cooperative efforts that have been so valuable during these challenging budget years.

<sup>1</sup> A portion of fund balance remains committed for specific purposes as costs transfer from FY 2010-11 to FY 2011-12 so is therefore not available for general purposes.

The FY 2011-12 Proposed Budget is \$37.3 million lower than the current year budget due to the Board's continued efforts to align costs with available resources to fund them. This has been accomplished in large part by holding growth in salaries and benefits nearly flat, and by cutting back significantly on services and supplies, fixed assets, and a number of other areas. Salary and benefits costs are still the largest expenditure category in the county budget, representing \$275.4 million (38%) of the \$720.4 million budget.

The Proposed Budget includes 2,751 recommended employee position allocations, which is three fewer than the total number approved in the FY 2010-11 Final Budget including both Operating and Capital Projects Budgets. Additionally, as part of our continuing effort to reduce expenditures in this uncertain financial time, there are 343 fewer funded filled positions in the county since the recession began in Fall 2007, a 13.5% drop in staffing.

### **The Local Economy Continues to Face Difficult Hurdles**

While there have been some signs of the economy slowly improving, there remain difficult economic times throughout the state, including right here in Placer County. Many are predicting a "jobless recovery" or a very slow recovery at best. The statewide April unemployment rate was 11.9 percent, and Placer County fared slightly better at 10.9 percent, which is far worse than three years ago, when it was 6 percent. Year over year, the greatest sector to lose jobs was construction, however, professional and business services also had considerable declines.

The decline in the real estate industry continues to take a toll on county revenues, and while it appears that the residential markets have flattened somewhat over the last several months, residential values declined in April and may be entering a double dip in declining values. In addition, commercial real estate continues to decline, reducing the estimated amount of property tax revenue anticipated for the coming fiscal year. As a result, staff estimates property tax revenues will decline 5 percent in the coming fiscal year.

### **FY 2011-12 State Budget Proposals**

As a legal subdivision of the State, Placer County is required to deliver state services, including public health, mental health and welfare, as well as countywide services such as criminal justice (jail, prosecution, probation) to all county residents. It also is required to provide municipal services to residents in the unincorporated area such as sheriff patrol, parks, planning, roads, and libraries.

The Governor's May Revision to the State Budget addresses a \$10.8 billion deficit. However, the deficit is after the Legislature adopting \$12.4 billion in solutions in March 2011. As of this writing, much of the remaining State Budget problem is yet to be resolved. Given this scenario, it is likely that there will be additional significant budgetary fallout at the state level that could find its way to the local level. These may include the proposed Realignment of Public Safety and Health and Human Services as well as the proposed elimination of Redevelopment Agencies and will be addressed once final action is taken by the State.

### **Placer County Workforce**

Placer County remains committed to providing quality services to its citizens despite constrained resources. With a hiring freeze in effect since 2007, the county's workforce has declined by about 280 positions or over 10%. In addition, while the County is fortunate to have experienced, long term employees, the average age of the majority of the workforce is approximately 48 years (excluding DSA represented) and, as a result, workforce retirement eligibility is expected to grow substantially over the next several years. The costs to provide competitive employee salaries, as well as health, pension and other benefits are expected to grow over the next few years. Health and dental benefits continue well into an employee's retirement and the County's current liability related to these benefits is estimated at \$192 million. In contrast to many cities and counties, Placer County has taken a number of proactive steps to fund the obligation including requiring half of the obligation to be funded up front for new hires effective beginning in FY 2010-11. This and other actions by the Board have resulted in decreasing this obligation by \$20 million based on the most recent actuarial report at the very time it is growing significantly in other local agencies. As of March 2011, the Board has funded 38% of the obligation and the FY 2011-12 Proposed Budget continues appropriately funding these costs to ensure long term manageability for the County.

The above combined factors present challenges for funding and sustaining current staffing levels. Therefore, to provide consistent and reliable labor savings countywide in FY 2011-12 all existing labor adjustments are assumed to continue.

Placer County has two collective bargaining organizations that represent county employees: Placer Public Employees Organization (PPEO) and the Placer County Deputy Sheriffs Association (PCDSA). The PPEO represents approximately 1,715 active employees in clerical, professional, industrial and probation officer classifications. The PCDSA represents approximately 212 employees including sheriff deputies, district attorney investigators and welfare fraud investigators. Sworn personnel salaries are governed by a ballot measure approved by voters in 1978 that requires salaries be tied to an average of similar classes in Sacramento, Nevada, and El Dorado Counties (Measure F).

### **Capital Infrastructure**

Strategic efforts by the Board of Supervisors have positioned the county to replace its aging infrastructure and plan for program and service delivery growth. As part of a long-term, ongoing facility planning effort, the Board established funding mechanisms to address capital infrastructure needs identified for the next decade, including the provision of General Fund reserves, Capital Facility Impact Fees (CFIF) (assessed on new development that occurs within cities and the unincorporated portion of the County), Securitized Master Settlement Agreement Revenue (issued in 2002 and 2006) as well as bond potential and community financial support. These measures are intended to address the significant facility needs the county will face in coming years, and in some instances, such as the CFIF (implemented in 1997), will need to be updated to keep pace with facility needs in the future.

The FY 2011-12 Capital Project Budget is \$81.3 million, representing a decrease of \$40.9 million or 33.5% compared to the FY 2010-11 adopted Final Budget. Construction projects are supported by \$80.4 million in revenues and \$0.9 million of fund balance carryover. The year-to-year budget decrease reflects the final year of funding for the South Placer Adult Detention Facility, as well as completion of other large projects such as the Rocklin Library. Projects that are identified in the Proposed Budget for funding include the South Placer Adult Detention Facility, Applegate Sewer Improvements, the Burton Creek Justice Center, and Dry Creek Park. New General Fund support of \$3.5 million is added in the Proposed Budget for the Comprehensive Facility Master Plan.

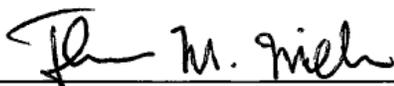
### **Conclusion**

As we present the FY 2011-12 Proposed Budget to your Board, there are reports of small signs of economic recovery in the state and nation. Sales taxes, a relatively small revenue source for the county, appear to be improving. However, county coffers have yet to feel the effects of this recovery in a meaningful way; absent the technical accounting change to Realignment revenues, overall revenues are projected to be down year-over-year by \$33.6 million, and it is still unclear what the shape of the recovery will be when it finally emerges. What is clear is that the county should continue to prepare for a future that provides services under a delivery model that is nimble and can provide a high level of service to our residents with fewer staff and less resources. Over the past several years, by working together in a collaborative fashion, many departments have reduced costs, constrained budgets, and limited their fixed asset purchases. However, beyond reducing the budget and constraining costs, our service delivery model will also require change, and without it our costs of doing business will rise, and our ability to live within our means will be diminished. Your Board recognized this economic necessity and throughout the budget development process has directed staff to identify all available options for reprioritization and flexibility to best position the county to respond to the changing economy as well as Federal and State impacts.

Due to the many proactive decisions of the Board, Placer County remains fiscally sound and strong relative to the sustained economic downturn. The Proposed Budget resolves our locally driven challenges in addition to preparing to the greatest degree possible for the unknown impacts related to the State Budget.

The staff and I look forward to working with the Board as we refine our proposed budget and develop a final budget for Board consideration in September.

Respectfully submitted,



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Thomas M. Miller,  
County Executive Officer