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May 26, 2009

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

SUBJECT: Placer County Fiscal Year 2009-10 Proposed Budget

Introduction

The County Executive Office presents Placer County's Proposed Budget for Fiscal Year 2009-10 for your review and consideration. This document represents the culmination of an accelerated but careful effort on the part of county staff from all departments to develop a budget that recognizes future obligations. It reduces expenditures in anticipation of declines in key revenue sources while still providing critical services that benefit our citizens. Given the unresolved nature of the State's budget, it is entirely possible that additional budget reduction measures will be warranted beyond those already presented in the Proposed Budget.

The Proposed Budget represents the County's legal authority to spend, serves as the interim spending plan until the adoption of the Final Budget, provides a guide to county programs and service delivery models for next year and sets the stage for future budget cycles. 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. The fiscal decisions contained within this document are a continuation of the clear and distinct direction the Board provided at both its December 9, 2008 and its February 24, 2009, meetings. The actions taken by the Board at those meetings have better positioned Placer County for the coming fiscal year and for years to come.

Executive Summary

Throughout the past several fiscal years, the Board has prepared for and been ahead of the curve in addressing fiscal challenges in both our state and national economy in regards to impacts on local government. This year is no different. In 2009-10, the county addressed an \$18.6 million shortfall through the use of a variety of one-time and ongoing solutions that were developed during a process that began virtually right after the current year budget was passed; a budget that already constrained ongoing expenses. These solutions include the prudent use of reserves, one-time reductions in charges, ongoing budget reductions, and reductions in labor costs. Through careful planning and retooling for the future, this \$769 million balanced budget continues to provide services to our constituents and meet important obligations to our citizenry.

Development of the 2009-10 Proposed Budget

As has been the case since 2007, revenue projections and the volatility of economic indicators have made it apparent that Placer County must continuously plan to take aggressive budgetary action to live within its means.

Given this environment, beginning in early fall of 2008, my staff and I took a number of steps to accelerate the budgetary planning process for 2009-10:

- In October we met with department heads and their staff to review administrative cost drivers such as fleet and personal vehicle usage, extra-help costs, communications costs, productivity issues, and other expenses. The subsequent efforts of those meetings resulted in annual, ongoing savings of \$827,000.
- In November and December my staff and I held the first of two additional rounds of meetings with department heads and their budget staff, to discuss their budgets and the budget constraints for the coming fiscal year, in anticipation of both an accelerated budget timeline, and the concise budget book intended for production this year.
- Final meetings were held in January and February to refine the proposals contained in the document proposed for your approval today. These meetings were thorough, productive, and helped ensure that all departments had a common understanding of the serious fiscal circumstances under which we are operating.

Earlier actions put into place in late 2007 that were designed to slow and reduce expenditures, such as our more restrictive countywide hiring practices and careful evaluation of large capital expenditures, also still remain in effect. These steps, combined with other cost saving measures, are designed to provide more fund balance and reduce future costs in light of the anticipated funding constraints Placer County will face in 2009-10 and beyond.

Leadership and Direction

Also essential to the planning and development process for this year's Proposed Budget has been the guidance and leadership of the Board. At the December 9, 2008 Mid Year Budget Status Meeting, the Board approved a wise mix of choices to cover a \$9.5 million revenue shortfall, including reductions in vacant, funded positions, reductions in General Fund Services and Supplies, requiring 4 days of mandatory unpaid time off, and a limited use of General Fund reserves, among others. At its February 24, 2009 meeting, the Board approved preliminary direction for staff to develop a Proposed Budget that would address an estimated \$18.6 million deficit in the General and Public Safety Funds through the use of a mixture of one-time and ongoing solutions, including a sustained use of reserves, reduction of ongoing expenditures, reduction of short-term internal charge reductions, and labor adjustments. All these tools were utilized to create the Proposed Budget. However, by using one-time solutions as part of the overall mix, there will be a portion of the shortfall that will need to be addressed in the following fiscal year.

As in previous years, all those charged with creating this document recognize that the county is in the business of efficiently providing services to the public, and pursuant to Board direction, the Proposed Budget promotes optimal use of decreased staffing, and as the county continues to face fiscal challenges we will continue to look at a variety of options for addressing additional service demands. These efforts include continuing to explore the use of contract service providers as applicable.

Pursuant to Board Budget and Finance Policy, the Proposed Budget before you is balanced, using realistic and probable revenue estimates. Following Board policy, and as in past years, the Proposed Budget continues to dedicate a portion of its resources to the costs of Other Post Employment Benefits (health insurance services for retirees), providing \$17.2 million in ongoing payroll contribution funding to help offset the \$231.6 million unfunded actuarial cost estimated for these benefits.

In summary, the 2009-10 Proposed Budget:

- Provides budgeting for a new direction for service delivery in Placer County
- Maintains critical operations, services, and programs while maximizing savings
- Continues planned infrastructure facility projects
- Ensures prudent fiscal contingency funding while utilizing reserves in a limited fashion
- Achieves staffing efficiencies resulting in a net reduction in filled funded positions

The remaining portions of this letter highlight some of the issues and factors considered when preparing the Proposed Budget for 2009-10.

Sources and Uses of Funds

The 2009-10 Operating Budget for Placer County includes revenues of \$724 million, representing a decrease of \$55 million (7.1%) as compared to the \$779 million in revenues anticipated in the FY 2008-09 Final Budget. The 2009-10 Operating Budget includes \$333.9 million in General Fund revenues, which is \$16.5 million less than in the current year. It also contains \$390.1 million in other revenues, and is supported by \$40.7 million in fund balance carryover. (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 2008-09.). Finally, this budget is supported by the limited and prudent use of \$4.3 million in General Fund and other fund reserves, bringing the grand total for available financing sources to \$769 million.

As is evident in the table below, the revenues anticipated in the Proposed Budget for 2009-10 are significantly less than the amounts budgeted in the current year, and they reflect the slowdown in revenue received by the county and the amount available to the county when planning to provide important services to our citizenry.

Table 1. Year-To-Year Financing Source Comparison / Operating Budget

Description	Final Budget FY 2008-09	Proposed Budget FY 2009-10	% Change
General Fund Revenue	\$ 350,340,101	\$ 333,869,112	-4.7%
Other Operating Fund Revenue	428,674,786	390,135,335	-9.0%
Total Revenue:	779,014,887	724,004,447	-7.1%
Fund Balances & Cancelled Reserves	86,307,935	44,998,312	-47.9%
Total Financing Sources:	\$ 865,322,822	\$ 769,002,759	-11.1%

In the Proposed Budget departments submitted net budget requests of \$784.7 million. 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 flatten or are eliminated. The recommended Operating Budget is \$767.6 million or \$17 million (2.2%) less than department requests. 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 spirit of cooperation that has existed throughout this very difficult and challenging budget development process.

Total financing requirements in the Proposed Budget are \$96.3 million lower than the current year budget. This has been accomplished in large part by holding growth in salaries and benefits nearly flat overall, by cutting back significantly on services and supplies, fixed assets, and a number of other areas. Additionally, nearly \$37 million of the difference in Fund Balances and Cancelled Reserves is the result of an almost \$37million reduction in fund balance carryover in the Capital Project Fund, the result of the completion of the final stages of some major projects, including the Santucci Justice Center, and the South Placer Courthouse.

Salary and benefits costs are still the largest expenditure category in the county budget, representing \$168.9 million (46.6%) of General Fund expenditures, and \$89.5 million (69.5%) of Public Safety Fund expenditures. Unlike in recent years, in 2009-10 county employees were asked to participate in 12 unpaid days off as part of a county office closure program designed to cut costs and produce enough savings to ensure the county lives within its means while minimizing impact on its residents. Participation in this program has resulted in significant savings to the county, reducing the impact of what would normally be the largest cost driver in the budget.

The Proposed Budget includes 2,766 recommended employee position allocations, which is 78 less than were approved in the 2008-09 Final Budget. (Includes both Operating and Capital Projects Budgets.) However, as part of our continuing effort to reign in expenditures, there are at this time 137 funded positions being held open countywide.

The Local Economy Continues to Face Difficult Hurdles

The dramatic housing market decline over the past two years, a major indicator of overall economic conditions, has resulted sizable reductions in revenue from construction and development permit fees and real estate transfer taxes. The Proposed Budget assumes approximately 28% overall reduction in revenue projections from those sources as compared with FY 08/09 year end estimates. The collateral effects of the collapse of the housing industry, continue to be felt here in Placer County, where spending on auto, apparel, and general consumer goods has continued to reduce sales tax revenues, and overall sales tax revenues are down when compared to the same time last year. Indeed our county sales tax is projected to be down at least 16% when compared year over year. This reduction in sales tax revenue collected by the county lowers the estimated amount of sales tax revenue (and in our case, Public Safety Sales Tax revenue as well) revenue available for 2009-10.

While in previous years the county enjoyed double-digit percentage increases in property tax collections, which helped fund prudently planned service levels and capital expenditures, and allowed for the building of reserve funds for future needs, that is not where we find ourselves today. In 2009-10, staff expects that property tax revenues will flatten or decline, and the Proposed Budget has lowered this important general purpose, General Fund revenue source by 2 percent. This reduction is our best estimate of what will be necessary to account for the changes that occur as a result of assessment appeals, reassessments, or any other adjustments that occur in the coming fiscal year. Given the downward trends mentioned above, it is expected that property tax revenues will be flat or declining over the next several years. As will be discussed in more detail below, these factors, combined with possible additional reductions in intergovernmental revenue sources, warrant a cautious and careful review of county expenditures and expectations for 2009-10 and beyond.

Governor's Proposed FY 2009-10 Budget

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 standard template for release of the Governor's Budget was broken this year, when it was introduced in late December of 2008, instead of early January of 2009. The subsequent state budget negotiations combined a need to resolve a current year crisis that resulted from the poorly crafted and extremely late current year state budget with a need to address the impacts of the decline in the state and national economy. The intent of the negotiations was to provide a two-year budget solution (for both 2008-09 and 2009-10), in an effort to get ahead of the fiscal problems anticipated in 2009-10 while addressing the current year shortfall. The results of the negotiations include a mixture of spending cuts, tax increases, and six key ballot measures that as of this writing are to be placed before the voters, and which face an uncertain future. The reductions contained in the state budget approved to date have been incorporated into Placer County Proposed Budget, however in many cases, in terms of fiscal impact, the majority of the state reductions are being targeted to the individual recipients of state aid, versus the county itself.

Despite the "early budget" adopted by the Legislature and signed by the Governor, the Legislature is still holding Budget Subcommittee hearings, the Governor will still release a "May Revision" and as of this writing the Legislature is still planning to hold its Conference Committee for the Budget. Additionally, the Legislative Analyst has indicated that the state faces at least an additional \$8 billion deficit, regardless of the outcome of the ballot measures. Given this scenario, it is likely that there will be additional budgetary fallout at the state level, and it will find its way to the local level.

County Workforce Issues

Staffing Demands during a Time of Constrained Resources

With an ever increasing population, a continued commitment to the high level and quality of service that our citizens have grown to expect, and in light of our constrained resources, ensuring Placer County has the right mix and size of workforce is more important now than ever. As departmental staff members rotate or retire, the county is carefully reviewing each individual recruitment request, to ensure that the maximum amount of efficiency, highest level of service, and best business practices are in place to make sure we have the right number of staff to serve the county population. Given the cost constraints on the county, departments may be reengineering their service models while holding some positions vacant, looking for ways to provide the same or a higher level of service with fewer staff. Obviously there are some instances where this might not be possible, such as in public safety or 24 hour care scenarios. In other instances there are areas that are more manpower intensive, and due to financial constraints could experience lower staffing and reduced levels of service. However it is the intent of the county that service implications be carefully considered when making such determinations.

Additionally, as mentioned earlier, the Proposed Budget contains a cost savings plan to close county offices for 12 days in the 2009-10 fiscal year. These closure days have been designed to minimally impact service to county constituents, with an eye toward keeping service to the public a top priority. The closures will result in 12 mandatory time-off days for management, confidential, and Placer Public Employees Organization (PPEO) represented staff in Placer County, and will result in cost savings of over \$6.7 million.

Labor Agreements

Since salary and benefit costs are the largest category in the county budget, the amount of funding needed to provide for labor agreements associated with services provided by county employees is important to consider when building the county budget.

Placer County has two collective bargaining organizations that represent county employees:

- Placer Public Employees Organization (PPEO) – representing clerical, professional and industrial employees, probation officers, and
- Placer County Deputy Sheriffs Association (DSA) - representing Sheriff Department sworn personnel, District Attorney investigators, and Health and Human Services investigators

PPEO – Local 39 represents a majority of county employees, or approximately 1,800 individuals. The County is currently under a four year contract with PPEO through June 2010. Members of the PPEO voted recently to approve taking 12 days off without pay next fiscal year and to accept a lower cost-of-living cap as a means of preventing layoffs among employees represented by PPEO during the next fiscal year, July 1, 2009 through June 30, 2010. The PPEO agreement mirrors a plan that management and confidential employees supported in February. Wage increases have an impact on other salary-related benefits such as pension costs, employer paid Federal Insurance Contributions Act taxes, and workers compensation. Employees covered by this agreement pay 10% of the cost for health insurance premiums, so to some extent, they incur increases in costs at the same time they receive scheduled salary adjustments.

As part of the PPEO agreement, it was determined that employees who would have been most at risk of losing their positions due to “lack of funding for specific services” could participate in a Position Reassignment Program through June 30, 2010. This requirement became necessary due to workload requirement shifts that have occurred in keeping with changes in the economy. These changes have resulted in fluctuating workloads, and a need to reassign staff to backfill jobs where staff is very busy from jobs where revenue and demand for services have fallen. In consideration with the labor adjustments noted above, PPEO represented employees are guaranteed no lay offs during FY 2009-10.

DSA – The DSA represents about 227 employees in the Sheriff’s Department, District Attorney’s Office, and Health and Human Services Departments. The contract with the DSA expired on December 31, 2006. At this time, negotiations are in progress between the DSA and the County regarding a new contract. Salaries and some benefits for sworn personnel are governed by Measure F, a measure Placer County voters approved in

1978. Measure F requires salaries for sworn officers be tied to an average of similar classes in Sacramento, Nevada, and El Dorado Counties.

Budget projections indicate that the next few years will remain challenging due to the continuing nature of the economic downturn and the fact that labor adjustments such as MTO are not "on going" in nature and will add to the growing deficit figure projected for future fiscal cycles. As a result, containing labor costs which are currently outpacing county revenue growth will become particularly important in addressing ongoing shortfalls expected in future years.

Capital Infrastructure

Strategic efforts over the last several years by the Board of Supervisors have positioned the County to begin replacing its aging infrastructure and plan for program and service delivery growth. As part of a long-term facility planning effort, the Board established funding mechanisms to address \$175.8 million in 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 facilities needs in the future.

Infrastructure planning is a significant challenge for sewer maintenance districts. There are a number of sewer maintenance districts residing within Placer County. These independent districts rely upon user fees and are facing considerable existing infrastructure and funding deficiencies, limited funding options or alternatives, and mounting funding and regulatory pressures in the coming fiscal years.

The FY 2009-10 Capital Project Budget is \$137 million, representing a decrease of \$35.3 million or 20.4% compared to the FY 2008-09 adopted Final Budget. Construction projects are supported by \$126.3 million in revenues and \$10.7 million of fund balance carryover. The year-to-year budget decrease is primarily due to the completion of the South Placer Courthouse and the Santucci Justice Center.

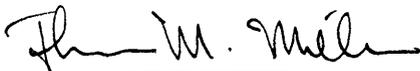
Conclusion

While many economists and budget watchers were hoping that 2009 would be the year that the state and nation would begin to come out of its recession, it is looking less likely that such a scenario is to occur. Instead, it looks more like the 2009-10 fiscal year will be another year in which our county should be prepared to constrain spending wherever possible while providing great service to its constituents; not necessarily mutually exclusive objectives. This county has a history of carefully navigating through difficult times and coming out ahead of the pack, and this year will be no different. The cooperation and candor under which we have operated throughout the fall and winter have allowed us to bring to your Board a plan that we believe will well position Placer County for being able to adapt to whichever circumstances we find ourselves.

This is also an important time to look for opportunity to review our structural framework, how we provide services as a county, and how we accomplish our core services. Indeed as we look to the future, it will be necessary to establish what our new, "normal" methods of service delivery are, so we remain a leader among counties, and so we identify what is important to enhance and what will need to change.

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

Respectfully submitted,



Thomas M. Miller, County Executive Officer
County Executive Officer