

**MEMORANDUM**  
OFFICE OF THE  
COUNTY EXECUTIVE  
COUNTY OF PLACER

**TO:** Honorable Board of Supervisors

**FROM:** Thomas M. Miller, County Executive Officer

**DATE:** December 9, 2008

**SUBJECT:** Mid Year Budget Status

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**ACTION REQUESTED**

In response to declining economic conditions and in anticipation of expected revenue shortfalls for the current and upcoming fiscal years, it is requested that the Board of Supervisors provide for the following mid-year budget adjustments.

- 1) Accept a report outlining budget shortfalls concerning the current fiscal year and FY 2009-10; and
- 2) Direct staff to return to the Board of Supervisors at their February 24, 2009 Board meeting delineating additional actions required to address anticipated revenue shortfalls in FY 2008-2009; and
  - a) Direct staff to move forward on the following actions proposed below:
    - i) Remove funding for 4 days of mandatory time off during the remainder of the 2008-09 Fiscal Year for non essential personnel; and
    - ii) Remove the contribution to the Road Fund for FY 2008-09; and
    - iii) Remove funding for 21 vacant positions in the Public Safety Fund (Attachment A) and 17 vacant positions (Attachment B) in the General Fund; and
    - iv) Remove part year funding for 2 known retirements in the General Fund; and
    - v) Reduce funding for services and supplies in the General Fund and the Public Safety Fund; and
    - vi) Authorize the use of approximately \$1.7 million in General Fund Reserves; and
- 3) Adopt an ordinance amending the FY 2008-09 personnel allocations of various departments to reflect a reduction of 76 vacant, unfunded positions (Attachment C).

**BACKGROUND**

On September 9, 2008 the Board of Supervisors (Board) adopted the FY 2008 Final Budget. The recommendations provided to your Board in the Final Budget were the result of an extensive and ongoing analysis and review process that incorporated Board guidance provided at the Strategic Planning Session in March, the Health and Human Services workshop in May, the interim budget adopted in June, and ultimately the August Budget Workshops. This continuum of engagement and direction enabled the County to address the current and projected economic circumstances in an informed, measured and strategic manner.

This balanced budget was also the culmination of a process that began immediately after adoption of the FY 2007 Final Budget, when your Board directed staff to constrain program growth and defer expenditures, since it was increasingly apparent that county resources would be measurably impacted by the downturn of the economy. Additional prudent steps and policies approved by your Board that began in August of 2007, such as hiring restrictions, expenditure reductions and conservative estimates on revenue helped balance last year's budget. These measures, of course, remain in place this year but they won't be enough to overcome the new challenges of declining revenues. Additional steps must be taken.

While pointing out some of the budgetary challenges facing the county, it is important to note that Placer County is not alone in facing these economic and budgetary challenges. Indeed local governments statewide are facing considerable fiscal hurdles. Recent reports highlight an \$11.3 billion current year state budget deficit, looming budget deficits in numerous local entities, and significant service and position reductions in communities throughout the state.

The declining national and state economies and their associated drop in local revenues have forced the Board to weigh additional cost-cutting measures for this fiscal year as well as set the groundwork for the 2009-10 fiscal year.

### **BUDGET OUTLOOK**

At your budget workshop in March, staff presented initial financial forecasts indicating a multi-year budget problem. Development and adoption of the final budget included conservative revenue estimates and constrained expenditures consistent with the economic conditions at that time. In addition, the final budget adopted by your Board included a measure of capacity to respond to an impending economic conditions should that be required. Indisputably, since then, the economic and financial outlook in general has taken a somewhat dramatic turn for the worse, all the while budgetary pressures have continued to grow. Obviously these changes have implications in Placer County as well.

The following analysis highlights these changes and illustrates the need to adjust the current year budget appropriations, as well as, identify additional structural changes that will need to occur to position the County for challenging economic conditions in the next and subsequent fiscal years.

### **OVERVIEW OF REVENUES AND EXPENDITURES**

Table One below highlights the General Fund and Public Safety revenue and expenditure changes that have occurred over the past several years. As is evident, revenues and expenditures have generally grown in tandem up over the past several years and prior. However, unlike the revenue growth trend shown in Table One, and

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as will be further discussed later in this memorandum, current projections for FY 2008-09 indicate that revenues will actually be \$9.5 million less than budgeted, resulting in a significant shortfall. This drop can be attributed to the dramatic decline in property tax revenue growth that began in FY 2006-07, continued into FY 2007-08, and has accelerated into FY 2008-09 at a rate greater than anticipated.

As the County's business is service delivery to the public, expenditures are to a large extent largely driven by labor costs. Indeed of the \$427.9 million in General Fund and Public Safety Fund expenditures budgeted for FY 2008-09, \$257.7 million, or 60 percent of those expenditures are associated with salary and benefits costs. Within this category of expenditures, some labor and benefits costs have grown at a greater rate than perhaps anticipated. For example, Retiree Health and Dental benefits costs have nearly tripled, increasing from \$3.8 million in FY 2003-04 to \$9.5 million in FY007-08.

**TABLE ONE – CHANGES IN REVENUES AND EXPENDITURES**

Changes in Revenues - FY 2003-04 Through FY 2007-08			
	Actual Revenue	Annual Change	% Change
FY 2003-04	\$ 231,847,089		
FY 2004-05	\$ 225,874,619	\$ -5,972,470	-2.57%
FY 2005-06	\$ 236,249,400	\$ 10,374,781	4.58%
FY 2006-07	\$ 284,068,485	\$ 47,819,085	16.83%
FY 2007-08	\$ 401,831,005	\$ 117,762,520	29.08%
<b>Five Year Increase</b>		<b>\$ 119,983,906</b>	

Changes in Expenditures - FY 2003-04 Through FY 2007-08			
	Actual Expenditures	Annual Change	% Change
FY 2003-04	\$ 278,193,601		
FY 2004-05	\$ 317,965,163	\$ 39,771,562	14.30%
FY 2005-06	\$ 331,539,938	\$ 13,574,775	4.23%
FY 2006-07	\$ 399,516,862	\$ 67,976,924	17.27%
FY 2007-08	\$ 507,680,055	\$ 108,163,193	27.23%
<b>Five Year Increase</b>		<b>\$ 132,569,454</b>	

As alluded to above, the County's 2008-09 fiscal year budget, which was balanced when approved on September 9, now faces an estimated \$9.5 million shortfall. This has occurred because of a sharp decline in actual and projected revenues, particularly property and sales taxes.

While recognizing there is an anticipated revenue shortfall in the current year, it is important to note that the Final Budget was balanced when adopted, and some

revenues and revenue growth had already been reduced from the prior year due to recognized weakness in the housing market and general economy.

### **ADDRESSING THE SHORTFALL**

Throughout the month of October, the Executive Officer met with department heads and reviewed administrative cost drivers such as fleet and personal vehicle usage, extra-help costs, communications costs, productivity issues, and other related expenses. During these meetings departments were provided with specific guidance to assist them in reducing their ongoing expenses. While these efforts will result in expenditure savings, the amount of savings is not quantifiable and will be insufficient to address the magnitude of the issue before us. The more extreme economic conditions that have transpired in the past few months and an early estimate of major County revenues projected for this year indicates revenues will be short of budget by approximately \$9.5 million. This estimate includes:

- \$5 million less in property tax revenues,
- \$1.6 million less in investment and other revenues,
- \$1.2 million less in sales tax revenues, and
- \$1.7 million in Public Safety revenues.

While revenues are anticipated to decline as mentioned earlier, cost increases largely driven by labor costs under existing agreements, including Measure F, to some extent limit alternatives for cost containment. Other cost pressures, some of which are directly impacted by economic conditions and others that are derived by funding sources beyond the county's control place additional pressure on County services and resources.

Primary areas of expenditures in the County Budget include Health and Human Services and Public Safety. Funding for these programs depends on both General Fund Revenues and Intergovernmental revenues. Implications for these programmatic areas as a result of the budget shortfall are discussed separately below.

### **Health and Human Services**

The Health and Human Services Department has continued to work within the FY 2008-09 Final Budget, notwithstanding the State revising funding for specific programs.

However, there has been an increase in demand for Direct Aid services attributed to the declining economy. In order to manage these impacts and stay within the FY 2008-09 Final Budget allocation, the Department took a number of actions including maintaining 49 additional vacancies (37 current vacancies and 12 retirements). Since allocation of Tier 1 funding, HHS has experienced additional cost increases that

precluded full Tier I implementation except for Business Advantage Network (BAN) and certain Children's System of Care restorations which have been implemented. We would recommend that HHS continue in this mode until the February budget discussion. Consistent with Board direction in the Final Budget, the Department will utilize the \$605k budgeted for Direct Aid caseload growth to fund the currently projected \$689k increase in caseload growth this year.

### **Public Safety**

The County's Public Safety departments are anticipating a \$1.7 million funding shortfall from the FY 2008-09 Final Budget. This is attributable to projected revenue shortfalls in Public Safety Sales Tax and to funding reductions in various State grants. In order to minimize the direct impact to public safety operations, the recommended budget reduction strategy consists primarily of sweeping funding for currently vacant positions within the three departments. Reductions would include: \$811k for 12 funded non sworn position vacancies in the Sheriff's Department (Attachment A), with an additional reduction of \$297k in grant funded equipment and overtime; \$196k for 4 funded vacancies in the District Attorneys office; and \$406k for 5 funded vacancies in the Probation department.

In an effort to address some of the other budgetary shortfalls and impending revenue reductions while prudently continuing to maximize service to the citizens of Placer County, staff is recommending the following actions:

- Remove funding for 17 vacant General Fund positions currently funded in the FY 2008-09 budget as listed in Attachment B (\$1,364,350)
- Remove partial year funding for 3 retiring employee positions in FY 2008-09. (\$146,600)
- Reduce General Fund services and supplies by \$1,379,265
- Require 4 days of mandatory unpaid time off for most county employees (\$2,000,000 in General Fund savings and \$800,000 in savings in other funds.)
- Reduce General Fund contribution to the Road Fund (\$1,150,000)
- Provide \$1,747,946 in General Fund reserve funds

When combined, these actions (summarized in Attachment D of this memo) are anticipated to garner the \$9.5 million in General Fund and Public Safety Fund savings needed to balance the FY 2008-09 budget for the remainder of the fiscal year.

### **Reduced Contribution to the Road Fund**

Included in the Recommended Actions is a request to reduce the General Fund contribution to the Road Fund by \$1,150,000. The Board has historically made an annual contribution to the Road Fund for asphalt overlays. This contribution has been necessary to maintain the relatively good condition of County highways. However, this year California Counties have been the recipients of state bond funds which specifically provide for asphalt overlays. Therefore, the stated purpose of the Board's original General Fund contribution will still be satisfied (i.e. the overlay of County highways).

### **USE OF COUNTY RESERVES**

To promote financial stability and long-term planning and to direct the County Executive Office in the development and management of the County Budget, the Board has adopted policies for budgeting that include revenues, expenditures, and reserves. Placer County operating fund reserves are currently budgeted at \$90,679,623. Of this amount, \$23.9 million is special fund reserves. Special fund reserves are required to be spent within their existing fund; these funds cannot be moved to the General Fund for other purposes. The remaining \$66.8 million is General Fund reserves. Of this amount, \$38 million is designated for Capital Reserves (for projects such as the Rocklin and Colfax Libraries, the West Placer Animal Shelter, the South Placer Adult Detention Center, the Burton Creek Sheriff Office replacement, and the Tahoe Land Use Office Project), \$4.9 million is designated for required reserves (such as advances receivable, and inventory reserves) and \$23.9 million is general purpose in nature.

This last category of reserves is used by the county for natural, fiscal, or other emergencies that may arise in the course of a given year. This funding is also part of the county's cash management program, whereby the county retains enough in reserves to ensure it will have funds to support current operations while awaiting delays in state funding, and thus avoid borrowing and the payment of interest charges.

Over the past several decades, consistent with sound financial practices and within the framework of Finance and Budget Policies adopted by your Board, Placer County has diligently built its General Fund reserve intended for emergencies and unexpected shortfalls that can arise due to circumstances beyond the county's control. During these challenging budget times, there is opportunity that could warrant the use of General Fund reserves, and indeed it is the staff recommendation that \$1.7 million of these reserves be utilized as part of the solution to the budget shortfall in the current fiscal year. However it is also important to point out that the use of these funds to close the budget gap in the current year results in a short term fix for the shortfall that is covered under these circumstances: the fiscal problem addressed with reserves will still be there in the coming fiscal year, and will likely grow. It is also likely that these reserves will need to be tapped for contributions over the next two fiscal years as well.

**2009-10 AND BEYOND**

While the actions outlined earlier are expected to remedy the fiscal challenges faced in the current year, the fiscal challenges expected for FY 2009-10 and beyond are far more daunting. Indeed current modeling of anticipated county revenues and expenditures for FY 2009-10, which assumes all budgeted positions are filled in the upcoming fiscal year, results in an ongoing operating deficit (spending in excess of available funding) that exceeds \$25.7 million, growing to a staggering \$34.4 million in FY 2010-11, absent decisive corrective action (Table Two). This deficit does not include the impact of any additional state reductions that may occur in the coming fiscal year. For example, Proposition 1A, passed by the California voters in 2004, allows the state to borrow up to 8 percent of the prior year's total property tax allocation to local agencies in cases of "significant state fiscal hardship." A suspension of Proposition 1A could result in an additional \$8 million - \$10 million budget gap for Placer County. The gravity of the mismatch between revenues and expenditures is heightened by the lack of positive news on the economic front, and the increasing cost pressures the county will face each year.

**TABLE TWO – ESTIMATED BUDGET SHORTFALL 2008-09 THROUGH 2010-11**

<b>Budget Projections (Public Safety and General Fund)</b>			
	<b>2008-09 Budget Restated</b>	<b>2009-10 Projection</b>	<b>2010-11 Projection</b>
<b>Total Revenue &amp; Carryover</b>	\$ 420,004,729	\$ 412,402,936	\$ 417,590,735
<b>Total Uses of Funds</b>	\$ 427,870,370	\$ 438,128,227	\$ 452,005,439
<b>Reserve Addition/(Cancel)</b>	\$ 1,631,428	\$ -	\$ -
<b>Net Income/(Loss)</b>	\$ (9,497,069)	\$ (25,725,290)	\$ (34,414,704)

Anticipated budget deficits of this size for the foreseeable future are untenable. While prudent use of reserves can offset some revenue shortfalls for a limited time, structural changes in business practices and in some instances modified service expectations resulting in reduced expenditures are key to addressing the issue in a comprehensive, sustainable manner. Additionally, there are a number of potential budget choices that can mitigate the impact of this impending budget deficit, some of which would require agreement with our county labor organizations. They could include such items as:

- Suspension of a General Wage Increase (\$1.9 million)
- Suspension of Merit / Longevity Increases (\$2.9 million)
- Significant Structured Voluntary Time Off

Should agreement on the use of these solutions be achieved they could potentially mitigate the deficit by up to \$4.8 million, possibly cutting the problem by almost 20%, and leaving approximately \$20 million to resolve using other budget reduction solutions.

## **POSITION ORDINANCE ADJUSTMENT**

On September 23, 2008 the Board approved an un-codified position allocation ordinance that included 2,845 positions for the various county departments, 231 of which were unfunded vacancies. At that time, staff indicated they would return to your Board with a revised position allocation ordinance that would reflect the current and future staffing requirements of the county based upon the adopted budget. Recently

completed consultation with departmental leadership and staff analysis has revealed an ability to reduce the number of unfunded vacancies by 76 as highlighted in Attachment C, with minimal or no impact on current county operations, and while still leaving sufficient vacant positions to address future needs.

It is thus recommended that your Board approve the attached ordinance amending the un-codified ordinance to reduce the vacant unfunded allocations, and to update and revise the allocation listed for County Counsel. Approval of this ordinance will decrease the number of approved allocations in the county from 2,845 to 2,769. Staff anticipates that the overall number of allocations will continue to constrict in subsequent budget years.

## **CONCLUSION**

While the \$25.7 million operating deficit mentioned above is indeed an estimate, and while we are not yet midway into the current fiscal year, there is little evidence to suggest that the current economic climate is going to improve in such a manner as to dramatically reduce this estimate. Depending upon the length and severity of the of the economic downturn and its associated impact on the county budget, this figure could grow. Given these circumstances, staff is working on options to provide the Board that could result in further current year recommendations designed to get ahead of the budgetary challenges anticipated in FY 2009-10.

With this as a backdrop, staff requests that the Board approve the actions listed in items 1-3 at the beginning of this memo to address the budget challenges in FY 2008-09. Staff also requests Board input and direction in regard to development and implementation of strategies to address the upcoming fiscal year challenges, with the understanding that staff will return to the Board in February with a companion plan designed to address the impending budget challenges anticipated in FY 2009-10.

# **Attachment A**

**VACANT POSITION SWEEP PROPOSAL**

	Current Year "Sweep" Vacant/Funded
<b>District Attorney</b>	4
<b>Probation</b>	5
<b>Sheriff</b>	12
	<b>21</b>

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# Attachment B

**VACANT POSITION SWEEP PROPOSAL**

	Current Year "Sweep" Vacant/Funded
<b>Assessor</b>	5
<b>Auditor</b>	1
<b>CEO</b>	1
<b>Personnel</b>	1
<b>Facility Services</b>	1
<b>Clerk Recorder</b>	2
<b>CDRA Admin*</b>	1
<b>Engineering &amp; Surveying</b>	2
<b>Planning*</b>	3
	<b>17</b>

**Included in Above Figures:**

*Transfer from CDRA Admin to Env Utilities:	1
*Transfer from Planning to Env Utilities:	1

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# Attachment C

## Before the Board Of Supervisors County of Placer, State of California

In the matter of: An ordinance amending the un-codified  
Allocation of Positions to Departments reducing unfunded  
allocations

Ordinance No.: \_\_\_\_\_

First Reading: \_\_\_\_\_

The following Ordinance was duly passed by the Board of Supervisors of the County of Placer at a  
regular meeting held \_\_\_\_\_, by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

\_\_\_\_\_  
Chairman, Board of Supervisors

Attest:  
Clerk of said Board

\_\_\_\_\_  
**THE BOARD OF SUPERVISORS OF THE COUNTY OF PLACER, STATE OF CALIFORNIA, DOES  
HEREBY ORDAIN AS FOLLOWS:**

The un-codified Allocation of Positions to Departments Ordinance is hereby amended as follows:  
(Additions to ordinance shown in bold and underline, deletions shown with strike-through.)

**Section 1.** That the un-codified Allocation of Positions to Departments Ordinance is hereby amended to read as follows

ADMINISTRATIVE SERVICES			
	(a)	Administrative Services	
		Secretary - Entry/Journey	4
AUDITOR			
		Auditor	
		Accounting Technician	8 7
CHILD SUPPORT SERVICES			
		Child Support Services	
		Account Clerk - Entry/Journey	5 4
		Administrative Clerk - Senior	3 2
		Child Support Specialist - Senior	4 3
		Child Support Supervisor	4 3
COMMUNITY DEVELOPMENT/RESOURCE AGENCY			
	(b)	Building Inspection	
		Administrative Clerk Entry/Journey	2 3
		Building Inspector I/II	17 18
		Building Inspector - Senior	9 5
		Community Development Technician - Senior	2 1
		Secretary Entry/Journey	4
	(c)	Engineering and Surveying	
		Administrative Secretary	4
		Engineering Technician I/II	12 11
		Surveyor - Senior	1

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	(d)	Planning		
		Board/Commission Clerk	2	<u>1</u>
		Watershed Coordinator	4	
<b>COUNTY COUNSEL</b>				
		Deputy County Counsel I/II/III/IV	10	<u>8</u>
		Deputy County Counsel - Senior	2	<u>3</u>
		Deputy County Counsel - Supervising	2	<u>3</u>
<b>FACILITY SERVICES</b>				
	(b)	Building Maintenance		
		Custodian I/II	34	<u>32</u>
	(f)	Parks & Grounds Maintenance		
		Maintenance Worker/Parks & Grounds Worker	17	<u>15</u>
		Parks & Grounds Worker - Senior	4	<u>3</u>
<b>HEALTH AND HUMAN SERVICES</b>				
	(a)	Health & Human Services Administration and MIS		
		Administrative Clerk - Senior	4	<u>2</u>
		Client Services Program Manager	3	<u>2</u>
		Director of Health and Human Services	1	
		Health Officer	1	
		Technology Solutions Analyst I/II	11	<u>10</u>
	(d)	Human Services		
		Account Clerk - Entry/Journey	4	<u>3</u>
		Information Technology Technician I/II	2	
	(e)	Environmental Health		
		Administrative Clerk - Entry/Journey	4	<u>3</u>

	(g)	Adult System of Care		
		Account Clerk - Entry/Journey	7	<u>6</u>
		Administrative Supervisor	2	<u>1</u>
		Client Services Counselor I/II/Senior	42	<u>32</u>
		Client Services Program Specialist I/II/Senior	3	<u>2</u>
		Clinical Psychologist	1	
		Physician I/II	6	<u>5</u>
		Psychiatric Nurse - Supervising	4	<u>3</u>
	(h)	Community Health		
		Administrative Clerk - Entry/Journey	12	<u>10</u>
		Administrative Clerk - Senior	3	<u>2</u>
		Client Services Practitioner I/II/Senior	3	<u>2</u>
		Laboratory Assistant	4	
		Public Health Nurse I/II/Senior	24	<u>20</u>
	(i)	Children's System of Care		
		Administrative Clerk - Entry/Journey	24	<u>18</u>
		Administrative Clerk - Senior	15	<u>13</u>
		Client Services Assistant I/II	45	<u>41</u>
		Client Services Practitioner I/II/Senior	86	<u>78</u>
		Client Services Program Manager	6	<u>5</u>
		Client Services Program Supervisor	24	<u>19</u>
		Public Health Nurse - Supervising	4	

	<b>FULL TIME</b>		2,796	<b><u>2,720</u></b>
	<b>PART-TIME</b>		49	49
<b>TOTAL ALLOCATED POSITIONS</b>			2,845	<b><u>2,769</u></b>

**Section 2.** That this ordinance shall be effective the first day of the pay period 30 days following final passage; and

**Section 3.** That this ordinance amendment is adopted as an un-codified ordinance.

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# Attachment D

**PLACER COUNTY  
GENERAL FUND & PUBLIC SAFETY FUND  
Mid Year Budget Corrections Recommended**

<u>REVENUE ADJUSTMENTS</u>	<u>2008-09</u>	<u>#</u>
Property Related Revenues	\$ (5,005,715)	
Sales Tax Revenues	(1,157,112)	
Other General Fund Revenues	(1,648,888)	
State & Federal Public Safety Revenues	(1,685,354)	
<b>Total Revenue Reductions:</b>	<b><u>\$ (9,497,069)</u></b>	
<u>DEPARTMENT BUDGET REDUCTIONS</u>		
<i>General Fund Salaries &amp; Benefits</i>		
- Vacant Position Sweep	\$ 1,364,350	17
- Known Retirements	146,600	3
<i>Public Safety Fund Salaries &amp; Benefits</i>		
- Vacant Position Sweep	1,412,338	21
<i>General Fund Services, Supplies &amp; Other</i>	1,379,265	
<i>Public Safety Services, Supplies &amp; Other</i>	296,570	
Mandatory Time Off (MTO) -	2,000,000	
Road Fund Contribution Reduction	1,150,000	
*Offset with Prop 42 / 1B Funds		
Reserve Cancellations	1,747,946	
<b>Total Recommendations:</b>	<b><u>\$9,497,069</u></b>	

**NOTE:** Blue column above highlights General Fund vacant positions swept (17), Public Safety vacant positions swept (21), and number of known retirements remaining in 2008-09 (3).

