MEMORANDUM

TO: Board of Supervisors

FROM: Thomas M. Miller, County Executive Officer
DATE: December 8, 2009
SUBJECT: County Budget Update

Action Requested

Accept an update on the FY2009-10 Budget, and the early budget outlook for FY 2010-11.

Overview

For the past several years, the state and nation have experienced the most severe recession to hit this country in decades. Since the beginning, your Board has proactively managed Placer County through the fiscal turmoil that has ensued, and as a result, has reduced the need for the "crisis management" seen in other regions of the state.

Despite the continued active engagement of your Board and county departments, the budget impacts of the recession have been felt here in Placer County. On September 22, 2009 your Board passed a $784 million County Operating Budget for FY 2009-10, $81 million (9.4%) smaller than the Operating Budget from the prior year. This December report provides both an update on where we stand in the current year in some of the major funds, and a snapshot of what is anticipated in the coming fiscal year.

Generally, our preliminary review of county data for the year to date indicates that revenues and expenditures are tracking with what was approved in the budget. The exception would be in the area of sales tax, and more specifically, Public Safety Sales Taxes and Realignment Sales Tax revenues, where the very early indications are of a combined shortfall of about $4 million. This preliminary data is admittedly early, and we are watching this and all other funds closely, reviewing options should it become necessary to reexamine the budgets that depend on these funds, and as necessary will return to your Board with a plan to address any changes that are recommended should that be required in the near future. One final and familiar note, this budget picture could change, perhaps significantly, depending upon what the state does as it releases the Governor's Budget in January, since there is already a <u>current year state deficit of $7 billion and a two-year state deficit of nearly $21 billion.</u>

<u>Part One</u> of the remaining portion of the memorandum includes a future outlook update as well as updates of the General Fund, Public Safety Fund, and the Road Fund. <u>Part Two</u> of the memo contains an update on continued cost cutting efforts, an outline of the plan as we head into to FY 2010-11, and information on important cost drivers such as labor. As will be evident, while there are daunting challenges facing the county, there are also efforts underway to try and contain costs and live within our means.

PART ONE: BUDGET AND FUND UPDATES

Outlook for FY 2010-11 & FY2011-12

Together revenue and expenditure differences from the budget produce a year end fund balance. In the past, consistent with financial policies, that balance has been used to fund one time expenditures or provided for capital reserves. Over the past few years and due to economic circumstances, the fund balance rollover has been an important part of balancing the overall budget. The projected year end fund balance from FY 2009-10 will not be sufficient to close the gap between projected revenues and expenditures in FY 2010-11. Without additional cuts in expenditures or increased revenue generation there will be insufficient funding to balance the budget. There are projected deficits totaling $20 million in both the General Fund ($15 million) and Public Safety Fund ($5 million) for the fiscal year 2010-11 and $33 million in FY 2011-12 due to flat or declining revenues and the continued increase in salary and benefit costs.

Consistent with what has been previous Board practice, it is anticipated that these deficits will be partially offset by the planned use of $4 million per year from reserves, decreasing the deficits to $16 million and $29 million, respectively (please see table below). Cost drivers for the salary and benefit increases are as follows:

- Health insurance costs will drop slightly in Fiscal Year 2009-10 but are expected to increase again in the following two fiscal years.
- PERS rates will increase by normal actuarial increases for FY 2010-11 and by an additional 1.1% for non-safety employees and 1.7% for safety employees in FY 2011-12 to begin to recoup the investment losses realized in fiscal year 2008-09.
- Measure F salary increases for covered safety employees and salary increases for Probation Officers agreed to in the last labor contract.

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GENERAL FUND AND PUBLIC SAFETY FUND TWO YEAR PROJECTION			
Category	FY 2009-10 Final Budget	FY 2010-11	FY 2011-12
Salaries & Employee Benefits	$ 257,092,023	$ 261,268,230	$ 268,915,248
No Future MTO Savings *	$ (6,455,913)	-	-
Services and Supplies	80,019,631	81,564,292	82,374,394
Other Charges	54,683,681	54,987,379	57,301,972
Other Financing Uses ****	93,029,843	90,930,651	90,930,651
Total Expenditures	$ 478,369,265	$ 488,750,552	$ 499,522,265
Taxes **	$ 149,576,273	$ 144,727,069	$ 143,675,478
Prop 1A borrowing	$ (11,100,000)	-	-
Other Revenues	22,773,473	23,816,497	22,815,473
Intergovernmental Revenue***	156,841,192	151,949,461	151,949,461
Charges for Services	42,451,254	44,815,534	44,815,534
Other Financing Sources****	74,150,344	74,150,344	74,150,344
Total Revenues	$ 434,692,536	$ 439,458,905	$ 437,406,290
Net County Cost	$ 43,676,729	$ 49,291,647	$ 62,115,975
Projected Fund Balance		$ 29,000,000	$ 29,000,000
Projected Deficit		**(20,291,647)**	**(33,115,975)**
Use of Reserves		**4,000,000**	**4,000,000**
Remaining Deficit		**(16,291,647)**	**(29,115,975)**

* Assumes no MTO savings in the two following years

** Property Taxes are projected 1% lower each year due to potential commercial property value changes
Sales tax estimates 6% lower than FY 09-10 projected

*** Revenue projections reduced for Public Safety Sales Tax and Sales Tax based Realignment

**** Interfund transfers are included, increasing total revenues & expenditures

State Budget Picture

Due to the nature of the recession, Board actions over the past several years have primarily addressed declines in locally controlled revenues, with the exception of reductions in Health and Human Services Programs – for which the Board provided important resources as a result of state cutbacks. This year and next, the greatest challenge will likely be addressing the unknown impacts of ongoing state budget shortfalls.

The Legislative Analyst's November 2010-11 Fiscal Outlook confirmed a $21 billion two-year state deficit. While the direct implications for Placer County are not yet clear, one thing is certain; this will be another, even more strikingly painful budget year at the state level. This will

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likely mean additional reductions directed at the local level, and particular areas to watch include Health and Human Services, and road and transportation funding programs. These and other potential areas of intergovernmental revenue shortfall could impact county coffers, and staff will be closely watching for reductions and other programmatic changes in the Governor's Budget in January.

Overall Staffing Levels

In fall of 2007, the number of funded positions in the county was 2,728. That figure declined by 114 to 2,614 in 2008, and is anticipated to decline an additional 162 to 2,452 through 2009-10. In total, funded positions (all funds) will have declined by 276, or roughly 10% over the past three years.

General Fund Resources

For the purposes of this memorandum, General Fund Resources are broken into three categories: General Fund, and Health and Human Services, and Land Development.

General Fund

Preliminary projections indicate General Fund revenues should meet budget in total for FY 2009-10. Since it is early in the year fluctuations can be expected to occur when more information is available. Revenues in the budget were reduced to projected levels for the fiscal year and in general are meeting budget. The exception is Sales Tax related revenues which continue to decline.

Sales Taxes

Sales taxes have continued to decline across the State, in Placer County unincorporated areas and in the cities.

Sales taxes in the general fund, although budgeted at 9% below the prior year's receipts are trending 13% below budget at a rate of 21% below FY 2008-09 receipts.

The additional drop in sales taxes across the State also affects Sales Tax Realignment revenue which funds Health and Human Services programs and serves as a match for state and federal programs. The trending for Sales Tax Realignment is $1.5 million below budget in spite of the 13% reduction incorporated in this year's budget.

The sales tax drop also affects Public Safety Sales Tax (PSST) used to fund public safety programs. For PSST the decline in revenue due to a drop in sales tax across the state is compounded by a decline in Placer County's share of the total (factor) distribution, due to our sales tax collections relative to other counties in the state. Currently PSST is trending 22% below last year (including the factor decrease) and (9%) below budget.

Impacts of the shortfall in Sales Tax Realignment and PSST are discussed further below.

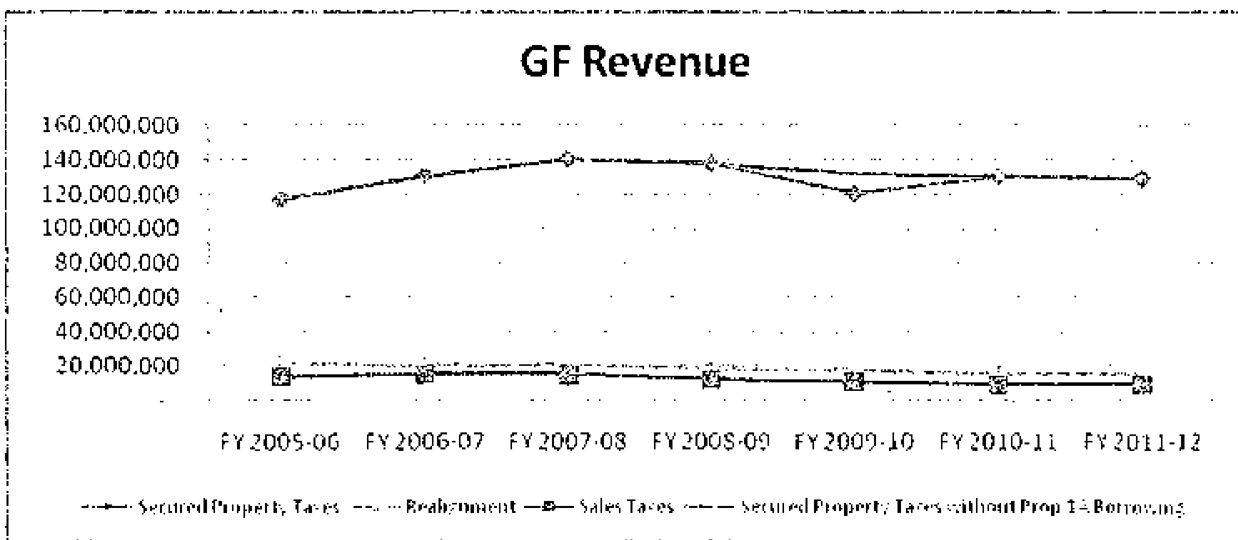
Property Taxes

Property tax revenues were reduced by 2% over the prior year and by $11.1 million for the Proposition 1A borrowing in the fiscal year 2009-10 budget and will exceed budget by $1.2 million.

However, property taxes for the next fiscal year will decline due to continued decline in roll values particularly related to commercial properties. Some decline in the value of commercial properties is expected for the 2010-11 roll but a larger decline is expected in FY 2011-12. In addition the annual CPI added to Proposition 13 property values is expected to be a negative 0.237% reducing roll values for the 60% of properties remaining on the roll at Proposition 13 base values. This translates to an estimated reduction of 1% in Property Taxes revenues in the following fiscal year and an additional 1% in the year following assuming stabilization in the value of residential properties.

Intergovernmental Revenues

Intergovernmental Revenues represent 38% of the General Fund revenues. The majority of Intergovernmental Revenues in the General Fund provide funding for Health and Human Services (HHS) programs but also provide funding for programs such as Child Support Services, Emergency Services (Homeland Security Grant) and Community Development Grants etc. Intergovernmental revenues related to HHS are discussed in more detail below. The revenues have not increased sufficiently to fund the increasing costs of the programs over time and with continued State budget deficits the outlook is not positive. The projected deficits discussed earlier do not include any reductions in Intergovernmental Revenues that may be made by the State.



Expenditures

Expenditure savings are expected each year to provide fund balance rollover which has been used in the past to add to Capital reserves or to fund other one time needs. Expenditure savings will be realized for FY 2009-10 as in prior years but because budgets have been reduced this year by a number of measures including the defunding of vacant positions, directed by your Board, expenditure savings will be significantly lower than in prior years when the funding remained in the budgets.

Salaries and Benefits

Some savings will be realized in Salaries and Benefits as a result of the hiring freeze put in place in the fall of 2007. Although vacant positions were unfunded in the budget additional positions will become vacant and to a large extent will remain unfilled. These savings will contribute to year end fund balance.

Health Insurance

There will also be savings resulting from a small decrease in health insurance rates beginning January 2010. The Health Insurance budget was reduced in final budget due to an expected decrease in rates. The decrease in rates was greater than anticipated when the budget was finalized. More complete information will be available when the actual new rates are posted to the accounting system during the month of December.

Services and Supplies

Savings are projected in Services and Supplies due to departments continuing to identify cost reductions and cost containment due to a smaller workforce. However, savings in services and supplies are expected to be lower than prior years due to reduced budgets.

Proposition 1A Securitization Funds

On October 20, 2009, the Board adopted a resolution authorizing the securitization of the property tax revenue owed to the county by the State of California as a result of the suspension of Proposition 1A. This securitization results in the one-time payment of $11.1 million in General Fund property tax revenue to the county that would otherwise not be repaid until 2013. Given the one-time nature of these funds, and the extreme fiscal circumstances the county is currently operating within, it is recommended that these funds be distributed in the following manner: 50% to be put toward the construction of the yet to be completed South Placer Jail; 50% to fall to fund balance in case funding is required to balance the budget in 2010-11. These two recommendations provide the county with necessary resources for an important yet-to-be completed capital project, while simultaneously providing flexibility in resources for future shortfalls that may arise as a result of continued declines in precarious state or other declining revenue sources.

Health and Human Services

The Health and Human Services (HHS) Department continues to experience uncertainty in its state funding and anticipates on-going vulnerability in the upcoming budget year as the State grapples with how to close another $21billion shortfall. With funding guarantees for Education accounting for over half of the State's total General Fund expenditures and with pending litigation in several areas of earlier shortfall solutions, the State is anticipated to again target health and social services as a reduction strategy.

In addition to the on-going vulnerability of state funding, HHS continues to experience significant declines in State Realignment revenue resulting from reduced sales tax receipts statewide.

From FY 2007-08 to FY 2009-10 Final Budget, Realignment revenues declined $2.9 million, or 14%. Since the publication of the FY 2009-10 Final Budget, Realignment projections suggest an additional decline of $1.5 million, or 8.6%.

County General Fund has partially offset recent declines in Realignment Revenues and has allowed the department to maintain a fairly consistent gross budget of approximately $161 million since FY 2007-08. However, the failure of the State to fully fund the cost of administering programs on its behalf has required a significant workforce reduction to operate within available funding. Since FY 2007-08 HHS staffing has declined from 804 to 669, a reduction of 103 - or 17% department wide.

Concurrently, the County's Direct Aid caseloads continue to experience significant year over year increases as the economy falters. The County's unemployment rate has more than doubled in the past 18 months, growing from 5.3% to 11.3% as reported by the State's Employment Development Department (EDD). Increased unemployment is directly correlated to increases in other mandated Human Services programs as depicted below:

Human Services Caseload Growth				
Year	*Food Stamps*	*General Relief*	*CalWorks*	*Medi-Cal*
2007	1,917	434	1,503	7,052
2008	2,651	524	1,659	7,447
2009	3,661	653	1,817	7,602
Caseloads	1,744	219	314	550
% Increase	91%	50%	21%	8%

Since FY2007-08:

- Food Stamps caseloads have increased by 1,744 (91%);
- General Relief caseloads have increased by 219 (50%);
- CalWORKs caseloads have increased by 314 (21%);
- Medi-Cal caseloads have increased by 550 (8%).

A review of Direct Aid caseload trends over the past nine years demonstrates the countercyclical nature of these caseloads. During the robust economy prior to FY 2005-06, caseload growth remained fairly flat. However, in a worsening economy these caseloads increase dramatically as depicted in the following graphs.

In addition to managing the increased workload due to the high Direct Aid caseloads noted above, the department continues to manage significant increased workload in a number of areas including H1N1 planning and immunization clinics, and impacts to Child Protective

Services (CPS) caseloads due to reduced staffing. HHS continues efforts to mitigate staffing impacts to CPS by reprioritizing resources wherever possible.

The Child Support Services Department continues to operate solely on Federal and State funding that has not been targeted for reductions and the department does not anticipate any reductions in the upcoming budget. CSS continues to implement State incentive funding to improve collection receipts and is working with the public safety system as part of an information sharing initiative designed to save costs and improve data reliability countywide.

The Veteran Services Office continues to improve its outreach to the County's veterans and continues to achieve year over year increases in monetary benefits provided to Placer County's 32,000 Veterans. In 2008-09 the VSO brought in $22 million in total benefits paid to Veterans and their families. The Department is scheduled to relocate to newer and more centrally located facilities on Sunset Blvd in Rocklin in January 2010.

Land Development

Land development activity within unincorporated Placer County continues to decline consistent with what is occurring regionally. Residential building permits are down 42% as compared to the same period last year and commercial permits are down 33%.

To set context, beginning in 2006, in response to early indications of economic decline with a fall in residential construction permits, the Building Department started ratcheting back on staffing and services. Between 2006 and 2008 within the entire Community Development Resource Agency (CDRA), hiring freezes, reduction in services, layoff of Building staff, and changing of the structure of the organization by unfunding 20 positions and deallocating 9 positions led to reduction in expenditure budgets.

Again, this fiscal year, your Board anticipated continued declines and took further prudent action to conservatively reduce budgets for land development and to reassign 20 staff to other work within the county to avoid layoffs this year. As such, now nearly halfway through this fiscal year, overall CDRA revenues and expenditures are materializing as expected and tracking well with budget. Nonetheless, vigilant ongoing monitoring of the overall health of budgets and forecasting of future economic conditions to the best of our ability is essential. In addition to monitoring of application/permit-related revenues, staff is closely monitoring reimbursements of state and federal grant funding as there continues to be erratic freezing of funds. While some grants have not been frozen (such as biomass), others have been with unpredictable release dates.

Reassignment Program

The limited reassignment program implemented this fiscal year with the placement of 20 staff to areas in the county with greater workload (many with funding that is not General Fund) has been successful. Similarly, an additional 5 CDRA staff are being used for contract-like services to other departments. Staff is actively working to further evaluate workload, service delivery models, and prudent expansion of reassignment and/or contract services programs to meet county service needs in areas with increased workloads.

Next several years

Utilizing available economic indicator projection data for FYs 2010/11 and 2011/12; assuming essentially flat land development activity for Placer County through the middle of FY 2010-11 with sluggish increases in activity FY 2011-12, land development revenues are not expected to have a robust rebound in the next several years. As mentioned earlier in this staff report, various actions have been taken this fiscal year to reduce expenditure budgets and offset revenue declines. Absent continued, and perhaps additional, programs for expenditure reductions or unforeseen extraordinary growth in revenue streams, it will be challenging for the county to sustain current expenditure levels in the coming years.

Public Safety Fund

Placer County's FY 2009-10 Public Safety Fund of $133.3 million is comprised of 55% ($72.8 million) General Fund and 20% State Public Safety Sales Tax (PSST) ($27.1million), with the remaining 25% ($33.4 million) comprised of fund balance carryover, grant funding, Law Enforcement Services contracts, fees, fines and miscellaneous state and federal revenue streams. PSST revenue has experienced significant declines over the past several years, and is projected to continue its decline as sales across the State remain flat. From FY 2007-08 to FY 2009-10 Final Budget PSST has declined 24% from $35.7 million to $27.1 million. Since adoption of the FY 2009-10 budget, PSST has continued its decline with current projections indicating an additional shortfall of up to 9% or another $2.5 million fund wide. This revenue reduction will cause additional pressure on the County General Fund to direct local discretionary dollars to support Public Safety.

In May, the State increased Vehicle License Fees (VLF) by .5% to supplant its General Fund contribution to local public safety programs such as the Sheriff Citizens Option for Public Safety, and Probation's Juvenile Justice Crime Prevention Act, and Juvenile Camps and Probation, and local booking fees. The transference from dedicated General Fund revenue to volatile sales tax based revenue is of concern for Public Safety funding. In addition, potential State policy, or Federal Court ordered decisions in the areas of parole/prisoner "realignment" are anticipated to impact our local Jail, Probation and prosecution caseloads. Although these policy discussions also include additional funding, the amount and sustainability of funding into the future is uncertain.

Sheriff's Office

The Sheriff's budget of $91.5 million is comprised of 52% ($47.5 million) General Fund and 22% ($20.3 million) PSST, with the remaining 26% ($23.7 million) being comprised of fund balance carryover, grant funding, Law Enforcement Services contracts, fees, fines and miscellaneous State and Federal revenue streams. Despite declining PSST revenues and increased employee related cost drivers over the past three years, the Department has maintained an essentially flat Gross Budget since 2007-08 of $91.5 million. In order to help maintain service levels, the General Fund contribution to the Sheriff's Office has increased $2.7 million (7%) over the past two years. If the anticipated 9% PSST shortfall materializes, this would result in a $1.8 million shortfall for the Sheriff's budget.

District Attorney

The District Attorney's budget of $18.3M is comprised of 63% ($11.6 million) General Fund and 19% ($3.4 million) PSST, with the remaining 18% ($3.3 million) being comprised of Fund Balance Carryover, Grant funding, fees, fines and miscellaneous State and Federal revenue streams. From FY 2007-08 to Final Budget FY 2009-10, the District Attorney's gross budget has increased 2.2% from $17.9 million to $18.3 million. The District Attorney's Office has not been significantly impacted by state revenue reductions excluding declines in Public Safety Sales Tax. If the projected 9% PSST shortfall materializes, this would equate to a revenue shortfall of $299,000. To maintain service levels, the Department is undergoing efforts to streamline existing policies and practices, such as the recent review of their Valley Toxicology contract with an emphasis on reducing forensic testing costs that came before your Board on November 17th. The DA's Office continues to examine other policy and management aspects of prosecuting crime to achieve cost savings.

Probation Department

The Probation Department's budget of $21.1 million is comprised of 56% ($11.9 million) General Fund and 16% ($3.4 million) PSST, with the remaining 28% ($5.8 million) comprised of fund balance carryover, grant funding, Work Release and Electronic Monitoring fees, fines and miscellaneous state and federal revenue streams. From FY 2007-08 to FY 2009-2010 Final Budget, the Department's gross budget increased 1.9% from $20.7 million to $21.1 million, mostly attributable to the Deputy Probation Officer's MOU and related salary adjustment. As the State continues to review its fiscal situation, it continues to examine Probation's revenue streams as part of parole realignment strategies. However, the amount of funding and the sustainability of the funding remain uncertain. In addition, if the projected 9% PSST shortfall materializes, this would equate to a revenue shortfall of $299,000. The Probation Department continues to work with the Sheriff's and District Attorney's Offices to enhance Alternative Sentencing programs and is currently implementing pre-trial electronic monitoring programs.

Planning for the South Placer Correctional Facility continues with an anticipated opening date of late 2011. Operational planning efforts seek to constrain new costs associated with the facility to the maximum extent possible.

Road Fund

Road Fund budgets this fiscal year have funding sources that include full receipt of the Highway User Tax Account (HUTA) funds, Proposition 42, and Proposition 1B. One time American Recovery Reinvestment Account (ARRA) funds are also expected to be received. SB65, the HUTA trailer bill identified earlier payments of funds than previously expected. While payments were not anticipated until January 2010, we have received over $2.6 million since the beginning of the fiscal year. Cash flows are projected to be adequate if all funding materializes as planned.

However, the threat of future take of HUTA during this year and FY 10-11 is real and disconcerting. Public Works continues to deliver high quality services with an eye toward prudent and limited expenditures as actions of the state and federal governments are assessed.

In addition to the HUTA issue, a future challenge to Road Fund will be the effect from any loss of funding sources next year and continued need for General Fund contribution to maintain Proposition 42 Maintenance of Effort. This fiscal year is the last year the county is slated to receive Proposition 1B funding ($5.7 million) and there is no guarantee of new ARRA funding ($4 million) next year. Further, the current federal transportation funding authorization (SAFETEA-LU) expired in September and currently funding is maintained through short term extensions. Full reauthorization is not anticipated until 2011 and may contain entirely different funding programs. The Board has already supported the California Consensus Principles for reauthorization, and staff will continue to monitor future needs. Consequently, although "released" grant funds for construction projects as reimbursements are currently being received from the federal government on schedule, we will need to brace for serious revenue shortfalls next year if that funding is cut. The state has not released $2 million this fiscal year pending a round of new bond sales in the spring. The materiality of this will hit both the road maintenance and Public Works operating budgets. Further, some of the contract services being provided by CDRA staff are funded through these grants.

PART TWO:

Continued Efforts to Reduce Costs

In addition to the continued vigilance and sound adherence to Board adopted Budget Policies that are a part of the daily operations in Placer County departments, additional efforts have continued to reduce costs in county operations wherever possible. For example, Cost Savings Committees that have appeared before your Board have recommended hundreds of thousands of dollars in savings, with additional recommendations on the way. Many of these recommendations will be available for implementation, while others will require additional review or referral to implement. In other cases, some recommendations may be more difficult to implement or longer term in nature; and may result in a modified or lower level of savings than earlier anticipated. However, in each case they may bring additional opportunities for efficiencies to the county.

In another initiative, the County Executive recently held a series of management meetings, whereby managers from throughout the county were invited to collaborative presentations with the Executive Officer to discuss pension and health benefits, pointing out the materiality of these important cost drivers. At future meetings it is anticipated that additional management discussions will ensue about the budget deficit and labor adjustments, so that informed decisions can be made regarding these important issues.

Finally, as an update, last year departments countywide reviewed their operating costs in the areas of cell phone usage, fleet vehicle usage, mileage, extra help, and other areas of administrative costs. These savings have continued and in fact have grown to over a million dollars per year.

When combined, these efforts ultimately have the potential to garner the county millions of dollars in operational savings.

Heading into 2010-11

As the County enters into another year of the economic downturn that began in fall of 2007, early indications are that once again there will be a need for considerable belt tightening and additional budget reductions as departments prepare their operating budgets. Additionally, departments will need to evaluate their service delivery models, and the organizational structure that can deliver those services.

Budget Rollout: Continuing Cost Cutting Measures

As has been brought before your Board in a number of recent presentations, staff costs are one of the biggest cost drivers facing the county in coming years, and as such, departments will be asked to absorb a number of cost increases in the coming fiscal year. An important component of addressing the impending $16 million budget shortfall in 2010-11 will be the need to find savings in staffing costs wherever possible. Some of the areas where departments will be asked to absorb costs increases include:

- Other Post Employment Benefit (OPEB) increases
- Public Employee Retirement System (PERS) increases
- Other employee adjustments required in the coming year (merit increases, etc).

Additionally, consistent with what has been requested of departments in the past several years, it is intended that the Proposed Budget rollout in early January include reduction packages for departments to prepare for analysis as part of the overall budget review. As in previous years, these reduction packages will be completed at the department level, and will describe the impact of various levels of reduced funding on their budgets and the services they provide. They will then be reviewed and considered in conjunction with the rest of the overall county budget picture.

Labor Costs

Prior Board actions have position the County to provide a high level of services to constituents within constrained financial resources. As a direct service provider the County is mandated to provide diverse services to our community such as criminal justice programs (corrections, patrol, district attorney, probation services, etc.) as well as other services such as property assessment, library services, road maintenance, health and human service programs, treasury and auditor functions, child support services, and veterans' services to name a few. The County employs about 2,500 staff to provide these services so a significant portion of the County's annual revenues are required to fund labor costs.

Due to the broadening of the economic downturn, services are threatened as available resources are no longer sufficient to fund growing operating and labor costs. For several years the Board has constrained expenditures and implemented budget reductions to reduce spending overall; some of these dollars were redirected to Public Safety programs and to Health and Human Service programs to offset State funding shortfalls. General Fund departments provide legally mandated and / or required services, and with ongoing budget reductions discretionary dollars have long since been removed from department budgets. As a result, a departments' ability to absorb a significant budget deficit will require deeper, more difficult decisions.

Staffs are exploring options to address the projected FY 2010-11 budget deficit. Given that a significant portion of the budget provides for salary and benefit costs, labor adjustments may need to be a large part of the budget solution. Various labor options can be considered when addressing the County's fiscal deficit including some combination of wage freezes, furloughs, reduction in work hours, greater cost sharing of benefit costs and / or, as a last resort, employee layoffs. Labor solutions would require ongoing discussions with County labor organizations, particularly The Placer Public Employee Organization as that unit represents the majority of the County's workforce.

Recommendations for labor cost adjustments will be brought back to your Board in February 2010, and will subsequently be incorporated into the development of the FY 2010-11 County Budget in keeping with Board direction.

These measures, when combined with other cost savings measures currently being developed by staff that will be brought to your Board at a future Board meeting, should address the $16 million budget shortfall currently identified in a manner that will be in keeping with the policies of the Board and will protect vital services in the county to the extent resources allow.

Conclusion

Placer County has made prudent budget choices over the past several years, and has well managed its fiscal house, however the persistence of the current recession has diminished county resources, and there are difficult budget choices ahead. As we enter another year of lower revenues and limited options, it is clear that there will be a continued need for engagement and thoughtful solutions to our pressing budgetary challenges. As such, it is intended that staff return to the Board in February with an additional update on the current year county budget, the Proposed Budget, as well as the state budget and its impacts on Placer County.