



MEMORANDUM

TO: Board of Supervisors
FROM: Thomas M. Miller, County Executive Officer
DATE: August 10, 2010
SUBJECT: Departmental Budget Savings / County Fund Balance Update

ACTION REQUESTED

It is requested that the Board of Supervisors:

Receive an update on countywide departmental process improvements and cost reduction strategies that contributed to the FY 2009-10 budget savings.

OVERVIEW

Counties statewide continue to experience severe budget shortfalls and sagging revenues. Many neighboring counties, such as Sacramento, Yolo, and even El Dorado have resorted to large-scale staffing reductions and layoffs in some cases resulting in literally thousands of lost jobs. However, Placer County, through its prudent planning and sound fiscal management has been able to mitigate the impacts of the severe economic downturn, and has not had to resort to the draconian measures seen in some jurisdictions. County departments have worked hard to reduce expenditures in a variety of areas to ensure the county met its necessary fund balance.

Expenditure reductions and budget savings have become a greater contributor to fund balance over the past several years, particularly since the higher property tax, sales tax and other important revenues that previously contributed significantly to prior year fund balances have long since declined.

COUNTYWIDE SAVINGS EFFORTS CONTINUE

This past fiscal year, county departments continued to rein in costs and reduce expenditures. Combining measures in place for several years with new initiatives, and despite the continued budgetary pressures during a prolonged time of constrained resources, the leadership departments have shown has been impressive, and has contributed to the fund balance available for the coming fiscal year. The following budget savings examples, while not comprehensive in nature, are intended to provide some sense of the efforts underway throughout the county.

REDUCTION IN VEHICLE USAGE

Across the board, departments from Health and Human Services to Public Safety, from Facility Services and Administrative Services to the County Assessor, agencies and departments

throughout the county have reduced vehicle usage, decreasing both the number of vehicles used, AND the number of miles driven, resulting in over a million dollars in savings to the county.

HEALTH AND HUMAN SERVICES

The Health and Human Services divisions constrained cost and enhanced revenue to the county through a variety of measures, including;

Cost Reductions

- While still maintaining services to county residents, maintained significant number of funded vacancies throughout the year to maximize salary savings.
 - 57 funded vacancies at year end – 8% of funded allocations.
- De-activated of cell phones and switched to more competitive vendor that resulted in a 50% reduction of monthly cell phone expense.
- Curtailed use of outside contractors for 25% savings.
- Restricted travel and transportation resulting in 60% savings.

Revenue Enhancements

- Through a combination of efforts, ensured Placer County was in line for unclaimed CalWORKS funding, and in other areas, influenced the distribution methodology for new funds for counties to make it more Placer Friendly.
- Worked to secure a statewide augmentation to the Food Stamps eligibility allocation.

LAND USE DEPARTMENTS

Maximizing Use of Existing County Resources

- Through cooperative agreements, the Department of Public Works has provided work opportunities for the Engineering and Surveying Department through various federal (ARRA) and state (Prop 1B) funded projects in FY 2009-10 and will continue this activity through FY 2010-11 in the amount of \$750,000.
- The anticipated additional revenue offsets current Engineering and Surveying staff costs.

Constraining Expenditures and Matching Workforce to Workloads/Funding

- In FY 2009-10 the Community Development and Resource Agency workforce was reduced by 18%. This was accomplished through retirements, transfers to positions in other departments and a limited and targeted number of layoffs in areas with greatly reduced workload. Over the past 3 years the department has been responsive to the economic downturn, with a 35% effective workforce reduction.
- Department of Public Works has exercised fiscal constraint by allowing 32 of its 222 total allocations (14%), to remain unfilled.
- DPW has successfully maximized outside revenues such as grant allocations, federal and state reimbursements for projects. Revenue from these sources is estimated at over \$60 million for FY 2010-11.

PUBLIC SAFETY

In addition to reducing the vehicle costs saving as outlined above, departments in Public Safety constrained cost through a variety of measures, including;

- Adopted car pooling to reduce use of personal vehicles and reimbursement costs reducing costs by 44%.
- 30 cell phones were deactivated reducing estimated telecommunications' costs thousands of dollars.
- Cell-phone "pool" developed for a "check out" system (like a library), reducing the number of cell phones needed by 58%.
- Greater use of volunteer / extra help staff versus authorized overtime.
- Brought previously contracted services in house that were more efficiently provided by county staff/intergovernmental cooperation.
- Maintained a significant number of vacant funded positions to maximize salary savings.
- Deferred non-critical purchases and reduced critical purchases to a minimum.

ELECTIONS

- In the FY 2009-10 Statewide Primary Election, the County Clerk-Recorder achieved \$267,000 in election cost savings to taxpayers, without reducing elections services for voters, using less costly printing materials and printing fewer ballot pages.

These few examples provide a brief snapshot of only some of the outstanding efforts departments have undertaken to reduce costs and efficiently provide services in the county, and they offer a glimpse of the actions departments will highlight during the Board Workshops scheduled for August. Further, these efforts were crucial to providing the fund balance discussed below.

FUND BALANCE

Cost savings measures and curtailment of new hires by departments, as well as other cost avoidance resulting from the mid-year direction from the Board to reduce spending, had a direct impact on the year-end fund balance. These measures were consistent with the prudent financial management practices the county follows that anticipate fund balance rollover each year due to conservative budgeting of revenues plus expenditure savings. Fund balance is a planned component of the budget process built upon the legal requirement that expenditures cannot exceed appropriations.

The FY 2009-10 fund balance in the General Fund is approximately \$31 million, which is within the range of fund balance achieved in the prior four years, and which is close to the \$27.5 million fund balance estimated in the FY 2010-11 Proposed Budget. Over the past two years expenditure savings have been achieved, in part, due to the hiring restrictions adopted by the Board, resulting in a significant number of funded, unfilled positions. Indeed this year, Salary Savings represents over \$8 million of the total FY 2009-10 fund balance.

The fund balance rollover is used each year to fund Board priorities and, although the adopted County Financial Policy requires fund balance to be used for "one time" purposes, over the past three years an increasing amount of fund balance has been essential to funding ongoing operations, beginning with 11% in FY 2008-09, increasing to 45% for FY 2010-11. This is in sharp contrast to prior years, when fund balance was used to fund other important Board

priorities, such as; capital projects, minimize long term debt, provide prudent reserves and reduce long term liabilities such as OPEB. In earlier years the county was able to provide additional funding for road overlay projects and the Open Space program. Given the current economic climate and county revenue constraints, neither of these General Fund investments are possible. In fact, while there is no apparent evidence of significant increased revenues on the horizon, there are other pressing operating costs that are impending in the next several years, including increased PERS rates resulting from investment portfolio losses, and the need to fund South Placer Adult Detention Center operating costs, all of which could exceed \$30 million annually.

A final important consideration when discussing the components of fund balance in recent years has been the presence of reserve funding. Over the past couple years the county has provided millions of dollars in General Fund reserve to balance its budget, and indeed it can be argued that a portion of fund balance in recent times can be attributed to the presence of General Fund reserves. However, the ability to provide General Fund reserve as part of the ongoing Operating Budget is very limited, and the existing General Fund reserve tapped to assist the county during these challenging budgetary times that was built over many years has been depleted.

CONCLUSION

For several years now, county departments have continued to constrain costs and enhance revenues to live within their means. These efforts have assisted tremendously in producing the fund balance needed for balancing the county budget, and if continued and combined with additional service delivery approaches that are described in the companion item associated with this memorandum, will assist in balancing county budgets for years to come. However, fund balance is limited in its ability to continue to assist in addressing county Operating Costs and those costs are going to rise in the future based upon some significant cost pressures looming on the near horizon.