



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

TO: Honorable Board of Supervisors

FROM: Thomas M. Miller, County Executive Officer
By Graham Knaus, Finance and Budget Operations Manager

DATE: March 22, 2011

SUBJECT: FY 2011-12 Winter Budget Workshops: Wrap-up

Action Requested

Accept a summary report and receive Board direction on the FY 2011-12 Budget and operational challenges following the February and March 2011 Budget Workshops.

Background

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

Due to early and continued Board action to manage the county budget within available resources, the FY 2011-12 local budget will be difficult but manageable. As reported at the February 22, 2011 Board meeting, the combined initial deficit was \$7.5 million (\$4.7 million General Fund and \$2.8 million Public Safety Fund) and has been reduced to \$2.8 million based on continuing existing labor adjustments and departments absorbing a number of cost increases and losses of one-time revenues. Resolving the deficit will not come without service impacts in a number of areas and may require further discussion about reprioritizing available resources as well as recognizing targeted areas that have experienced reduced workload.

The workshops have also focused on the substantial risks posed by the pending State Budget. Based on updated analysis of the current State Budget proposals, more than \$30 million in direct county funding and increased responsibilities could be impacted by pending State actions.

FY 2011-12: Summary of Budget Challenges

Decreasing local revenues – Property tax, by far the County's largest local revenue source, is expected to drop an additional five percent in FY 2011-12. This amounts to a \$5 million reduction in available revenues to fund local service needs and priorities.

Reduced workload – As a reflection of the economy, service areas that had been experiencing the greatest demands five years ago, are now faced with sharply declining revenues and workload. This has been most apparent in the land development areas and it has largely been resolved through attrition and targeted staffing reductions over the past three years. However, existing land

development revenues are not sufficient to fund services at the current staffing level in all land development areas potentially putting up to eleven staff at risk in the areas of CDRA and HHS/Environmental Health.

Redevelopment – The Governor's Budget proposes to eliminate redevelopment agencies, rake off \$1.7 billion in unencumbered local funds for one year, and implement a new approach to economic development at the local level. As of March 15, 2011, the current version of the budget being considered by the Legislature includes the Governor's proposal. Although there are a number of alternative proposals that would attempt to stave off elimination of redevelopment agencies, it is all but certain that they face substantial reductions in revenues next year.

Locally, redevelopment funds are dedicated to a number of capital projects totaling \$11 million in FY 2010-11 and an additional \$1 million for the Highway 49 improvement in FY 2011-12. In addition, redevelopment funds support 17 staff, most of which are fully dedicated to redevelopment activities. Under the Governor's proposal, there would likely be a phased-down approach that would occur in two steps. Funding for 14 of the redevelopment related staff would be eliminated upon implementation while remaining staff would be transitioned to more of a maintenance mode related to managing existing bonded debt for projects and resolving the complex logistics of transitioning to a new local economic development model.

Health and Human Services – The proposed Realignment of mandated Health and Human Services programs such as Child Welfare Services, Adult Protective Services, Mental Health, and Substance Abuse Treatment could significantly impact \$22.2 million in funding and operations for State mandated services. In addition, implementation of Federal Health Care Reform has substantial implications as well as opportunities in how the County meets its obligations. Additional details are available from the March 8, 2011 Budget Workshop on Health and Human Services and can be found at the following link:

http://www.placer.ca.gov/upload/bos/cob/documents/sumarchv/110308A/bosd_110308_02a_p3_p6.pdf

Library – The proposed elimination of all State support for libraries would reduce \$86,000 in Library operations funding. In addition, dedicated library property tax funding has declined \$400,000 in the last two years and is projected to decline an additional \$87,000 in FY 2011-12. These impacts may require service reductions in the upcoming year.

Public Safety – The proposed Realignment of Public Safety funding and services such as Low Level Offender responsibilities, Adult Parole, Juvenile Probation, and Court Security could require substantial changes to existing operations requiring changes to staffing and local service models. In total, the Public Safety realignment would create local service costs of \$8.4-\$39.2 million primarily depending upon how many "low-level" offenders would transfer from State to County responsibility. The wide range in cost is a function of whether or not the realignment would require the full operation of the existing jail in addition to the South Placer Jail currently under construction. Based on the current proposed funding, the County could face a funding gap of \$4 million to \$25.3 million upon full implementation. Additional details are available from the March 22, 2011 Budget Workshop on Public Safety included in today's agenda packet.

Fire Protection – Dedicated property tax revenue declines for three consecutive years have strained the fiscal resources available for independent Fire Districts within the County fire protection system. These challenges may be exacerbated by the State's proposed Realignment of fire services which could shift additional responsibilities to local Fire Districts.

Public Works – Reductions to Road Fund revenues have begun to strain ongoing operations. Staff are being redirected to dedicated revenue projects to preserve available General Fund support where needed. In addition, the approach to ongoing operations is being analyzed to transition to a more sustainable level. For those projects with State funding, proposals to defer payments will create FY 2011-12 cash flow challenges.

Community Development and Resource Agency (CDRA) – The land development has been the hardest hit county service area in the recession. Services are predominantly housed in CDRA with the Environmental Health component residing in the Health and Human Services Department. Permit activity related to engineering has dropped 46 percent since FY 2006-07. Attrition, reprioritized workload, and limited targeted layoffs over the last three years have been used to respond to the changing economic climate. Land development activity is expected to be relatively flat for FY 2011-12; however, there continues to be a gap between revenues and workload. Some of this gap has been addressed by redirecting staff from traditional land development activity to instead provide expertise to other departments, such as with mPower for the Treasurer-Tax Collector and mapping support for the Clerk-Recorder. Even with the maximized use of county expertise, several staff remain potentially at risk in the upcoming year.

County Resource Options

To meet the budget and operational challenges, the Board does have resource options. These resources fall under the Board's appropriation authority, are a mix of one-time and ongoing options, and include the following:

- *General Fund Reserve* – Since FY 2008-09, \$9.8 million in General Fund reserves have been utilized to smooth the impacts of the recession while service levels are transitioned to a more sustainable level. Total remaining General Fund reserves equal \$8.2 million and are not currently proposed from utilization in the FY 2011-12 initial budget framework. In addition, internal department budgeted reserves have been set-aside to address fluctuations in Federal and/or State funding changes.
- *General Fund Support to Capital Projects* – The capital projects contribution has been scaled back over the course of the recession, decreasing from \$18.7 million in FY 2007-08 to \$4.5 million in FY 2010-11. The FY 2011-12 initial budget framework continues the General Fund contribution to capital projects at \$4.5 million. In addition, there are a number of projects that have been held but remain in the Capital Improvements Fund. The Board may wish to reevaluate the need and timing of those projects.
- *Capital Infrastructure Funding* – \$2.5 million General Fund set aside to finance undesignated or unanticipated capital repairs or infrastructure projects.
- *Other Funds* – There are a variety of Reserve and Trust Fund revenues in the county. These funds are typically revenues for dedicated purposes; however,

some of the funding is under the Board's discretionary budget authority to appropriate to broader county priorities. Reserve and Trust Funds exist across county service areas with some funds being restricted while others are more general in nature. Examples include the Capital Projects Fund, Open Space Fund, and Criminal Justice Temporary Construction Fund.

The County Executive Office will return to your Board on April 5, 2011 with an overview of resources that may be available to address identified and potential shortfalls pending action by the State. Further, the parameters, restrictions, and sustainability of those resources will be addressed.

In addition, the Board previously requested information regarding the potential financing of the South Placer Jail in lieu of funding only with General Fund. Doing so could potentially result in additional available resources that your Board may wish to consider. This analysis will also be presented to the Board at the April 5, 2011 meeting as a means to bridge the budget gap.

Where do we go from here?

As discussed throughout the February and March Budget workshops, the Board faces significant challenges in balancing the FY 2011-12 budget. The challenges span across a number of functional areas and generally fit into two categories: locally driven challenges; and State Budget driven challenges tied to the Realignment and redevelopment proposals, many of which have implications for staffing levels. Uncertainty at the State level heightens the level of caution that must be exercised by the County in preparing the FY 2011-12 Proposed Budget.

At the February 22, 2011 Budget Workshop, the Board received an historical summary of the County financial policies and how they have guided the approach to the County budget since 2003. These policies will be reviewed with the Board at the April 5, 2011 meeting in the context of the FY 2011-12 Proposed Budget development.

Given the sustained nature of the economic decline and its ongoing impact on the County budget and operations, *the County Executive Office will develop recommendations and would seek Board direction on an appropriate balance of one time versus ongoing resources to support County operations for Fiscal Year 2011-12.* As such, staff would request that the Board consider multiple scenarios of impacts and solutions to address the local and State challenges.

It is therefore recommended that your Board:

1. Accept a summary report on the FY 2011-12 Budget and operational challenges following the February and March 2011 Budget Workshops;
2. Direct staff to return to the Board on April 5, 2011 to address budget and operational challenges under three fiscal and staffing scenarios including a delineation of resources and options that would provide recommendations for strategies addressing:
 - a. Local challenges and resources;
 - b. State Budget impacts assuming the Realignment proposal, and
 - c. State Budget impacts without the Realignment proposal.

3. Direct staff to return to the Board on April 5, 2011 to address staffing adjustments to keep ongoing operations balanced between revenues and workload.
4. Discussion of County financial policies including the Budget and Financial Policy, Debt Management Policy, and OPEB (Other Post Employment Benefits) Policy.
5. Affirmation of the current policy direction for current County activities such as hiring restrictions, use of extra help, overtime practices, communications utilization, and fixed asset acquisition.

Provide further direction as may be required for development of the FY 2011-12 Proposed Budget.

