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 and
Bekki Riggan, Principal Management Analyst

DATE: August 9, 2011

SUBJECT: FY 2011-12 Budget Risks and Potential Mitigations

Action Requested
The Board is requested to consider remaining FY 2011-12 Budget risks and potential mitigations and provide direction to staff as appropriate.

Background
The FY 2011-12 Proposed Budget was adopted by the Board June 7, 2011. The $720.4 million total budget ($369 million General Fund) resolved a $2.8 million General Fund gap through several solutions, most notably by reducing the Capital Projects contribution by $1 million. However, at the time, the State Budget had yet to be approved and there remained substantial uncertainty related to potential County impacts. As such, at the June 7, 2011 Board meeting staff presented an outline of the County's overall financial position as well as options to reprioritize resources available for Board consideration. The Board provided direction to staff to monitor state impacts as well as develop additional options to address State cost shifts to the County beyond those reflected in the Proposed Budget. In addition, the Board directed staff to preserve or increase the FY 2010-11 fund balance where possible to better position the county to respond to state impacts.

State Budget Impacts
The FY 2011-12 State Budget was signed by the Governor June 30, 2011. The budget implements significant policy changes that impact county operations primarily including shifting $5.6 billion in statewide program responsibilities to counties, known as Realignment, and changing the framework for redevelopment agencies to redirect $1.7 billion in funding to the state. The redevelopment changes will be discussed as part of a series of separate items on today's agenda.

In addition to the significant policy changes, the State Budget also includes potential mid-year cuts that would automatically go into effect to the extent State revenue projections do not materialize. The "trigger" cuts would shift an estimated $1 million in costs to the County and include the following:

- Tier 0 cuts – State receives $3-4 billion in new revenues; no further cuts in FY 2011-12 but adds up to $1 billion to the FY 2012-13 deficit.
- Tier 1 cuts – State receives $2-3 billion in new revenues; $600 million in cuts go into effect January 1, 2012 including the following:
  - Public Safety ($100 million)
    - Requires counties to pay $125,000 for each juvenile ward housed with the State. Based on the three county juveniles currently being housed with the State, this would shift $375,000 in costs to the County.
    - $20 million cut to State Corrections

- Health and Human Services
  - In-Home Supportive Services: $100 million cut by reducing client hours by 20 percent
  - Developmental Services: $100 million cut to clients
  - Child Care: $23 million across-the-board cut to reimbursement rates
  - Medi-Cal: $15 million cut
  - In-Home Supportive Services Anti-Fraud Grants: $10 million cut to eliminate funding
- Libraries ($16 million to eliminate State funding)
- University of California ($100 million)
- California State University ($100 million)
- Community Colleges ($30 million: $10 per unit fee increase)
- California Emergency Management Agency ($15 million)
- Remaining deficit added to the FY 2012-13 deficit

➢ Tier 2 cuts – State receives $0-2 billion in new revenue; $2.4 billion in cuts go into effect including all Tier 1 cuts and the following:
- Eliminate 7 school days between February 1, 2012 and June 30, 2012
- Eliminate non-federally mandated school bus transportation
- Community Colleges ($72 million)
- Cuts to be proportionate to how much of the first $2 billion in new revenues the state receives. For example, if the State receives $1 billion, all Tier 1 cuts will go into effect in addition to half of the above Tier 2 cuts.

Although some revenues, particularly sales taxes, have begun to show some signs of recovery, the statewide economy remains volatile. At this time, the most likely scenario is that the Tier 1 cuts will go into effect January 1, 2012 shifting an estimated $1 million in costs to the county. As such, staff will return to your Board at the August 18-19 Budget Workshops with options and recommendations to address the risks.

In addition to potential mid-year cuts from the State, the 2011 Realignment also includes budget risks to the county. The Realignment includes both Public Safety and Health and Human Services programs and each faces different risks.

2011 Health and Human Services Realignment

The 2011 Realignment shifts complete responsibility for a number of State programs already managed by counties. The county cost would be increased by an amount equal to the change in responsibility. The 2011 Realignment does not address any existing underfunding of programs nor does it further reduce funding. It does, however, shift risks of program caseload or cost growth to the county in exchange for very limited flexibility. It also removes the annual funding volatility related to the State budget in exchange for dependence upon a dedicated fund source – sales tax.

See table 1 below for the changes in county costs for realigned Health and Human Services programs:

Table 1

2011 Health and Human Services Realignment	Current Share (non-Fed)	New Share (non-Fed)
Foster Care	60%	100%
Child Welfare Services	30%	100%
Adoptions Assistance	25%	100%
Adoptions Eligibility	0%	100%
Adult Protective Services	MOE	100%
Child Abuse Prevention, Intervention, & Treatment	16%	100%
Perinatal Treatment	0%	100%
Drug Courts	0%	100%
Drug Medi-Cal	0%	100%
EPSDT (Early and Periodic Screening, Diagnosis and Treatment)	MOE + 10%	100%
Mental Health Managed Care	Capped $	100%

2011 Public Safety Realignment

In contrast to HHS Realignment that shifts funding for existing county responsibilities, Public Safety Realignment includes shifting funding for existing responsibilities as well as redefining county responsibilities to now include managing offender populations that were previously managed by the State (AB 109, Statutes of 2011). Additional funding is provided for these new responsibilities totaling $3.1 million in on-going funding and $360,000 in one-time start-up funding for FY 2011-12. The State's funding model assumes a research-based, prevention and treatment approach to the criminal justice system that would result in lower incarceration rates over time as recidivism is reduced due to local interventions.

At the July 25th Board of Supervisor's meeting, staff was requested to provide an initial assessment of the potential AB 109 Realignment impacts. County Executive Office staff worked with the Sheriff, District Attorney and Probation departments to estimate these impacts based on an anticipated increase of approximately 350-400 offenders each year in FY 2011-12 and FY 2012-13. The increase in offenders would allow the California Department of Corrections and Rehabilitation to achieve its population targets pursuant to the recent U. S. Supreme Court ruling.

Although not constitutionally guaranteed, the State's current plan anticipates significant funding increases for statewide local costs associated with AB 109 over the next few years, and is displayed in Table 2 below:

Table 2

	2011-12	2012-13	2013-14	2014-15
Population				
Lower Level Offenders and Parole Violators	$239.9M	$581.1M	$759M	$762.2M
Adult Parole (PRCS)	$127.1M	$276.4M	$257M	$187.7

As discussed at the July 25, 2011 Board meeting, allocation formulas apply only to the first year of realignment and subsequent years are subject to revision. Placer County's second year funding base is anticipated to be $3.9 million.

Table 3

2011 Public Safety Realignment				
Department	"Best"		"Worst"	
	New Staff	Cost	New Staff	Cost
Sheriff - Correctional Staff Positions - Jail Retro ($3M) - 9 Deputy Sheriffs ($1.2M VLF Funded)	10	$1.4M	131	$42M
District Attorney - Attorney/Clerical Positions	2	$280K	6	$894K
Probation - Probation Officers/Technical/Clerical Positions - GPS Electronic Monitoring Equipment	6	$885K	15	$2.4M
HHS - Case Managers/Practitioners - Expanded Treatment Capacity	4	$2.1M	10	$5.2M
Public Defender - Attorney/Clerical Positions	2	$140K	6	$420K
Total Staffing / Total Costs	**24**	**$4.8M**	**168**	**$51M**
AB 109 Revenue		**$3.1M**		**$3.9M**
Funding Gap		**$1.7M**		**$47.1M**

The "best case" scenario in Table 3 above assumes funding, facility and equipment costs necessary to equip Placer County departments for initial implementation of AB 109, most notably bringing the Auburn jail up to its full operating capacity, adding an additional average daily population (ADP) of 40 to the correctional system. The "worst case" scenario assumes that the cumulative impact of housing and managing these offenders exceeds capacity in the Auburn jail and would require bringing the South Placer Adult Correctional Facility on-line with a projected annual operating cost of $28 million and one-time start-up costs of $14 million, for a total first year cost of $42 million, potentially in FY 2012-13.

Potential Mitigations

As part of the series of budget workshops this year, staff has presented a number of mitigation options available to the Board to respond to State or local challenges. Those options included use of General Fund Reserves, decreasing support for Capital Projects, and reprioritizing a number of available trust fund or reserve balances that fall under the Board's appropriation authority. At the time of the Proposed Budget adoption, the County faced an estimated $30-60 million in risks from pending State actions so the Board directed staff to return with additional options following greater clarity on State impacts. Those additional options are summarized in the attached document and include employee cost savings ideas submitted as part of the Cost Savings Task Force efforts begun in 2009.

Next Steps
Staff is currently updating the county's fiscal outlook based on updated revenue and expenditure projections, FY 2010-11 year end estimates, and the above risks related to the State budget and policy changes. As a result of the Board's prior direction to preserve/increase fund balance, it is anticipated that there will be additional available funding from FY 2010-11 to at least partially mitigate the above budget risks. Staff will return to your Board at the August 18-19 Budget Workshops with specific recommendations related to FY 2011-12 fiscal and operational challenges.

Attachment: Cost Savings Ideas

COST SAVINGS IDEAS (August 9, 2011)

IDEA	PRO / CON	EMPLOYEE IMPACT	SERVICE DELIVERY IMPACT	FISCAL IMPACTS	BUDGET SAVINGS
1) **Full time reduced to 72-hours per pay period (10% hours / wage reduction)**	↑	Additional 8 hours off each pay period.	May be able to operate without full day closures.	Salary and roll up cost General Fund savings estimated at $10 million (only full time employees included in calculation).	$10 million
	↓	Reduced wages and leave accruals. May impact employees that are planning to retire within the affected year. Workload concerns might necessitate increased work hours for some staff that would reduce savings.	Could result in reduced hours of operation (service) and / or periodic office closures. Requires coordination between departments for operations.	Possible reduction in state and federal reimbursements / grant funding. Impact could be 75%+ of every dollar not paid to HHS / other employees. Increased work hours for staff would reduce savings. Could result in increase OT pay out for work "coverage".	
2) **Sweep 50% of existing General Fund supported vacant funded positions**	↑	Does not impact direct employee wages or staffing levels.	May not impact current service levels as the positions are already vacant. Assumes only applies to General Fund operations. Savings would increase if also applied to Public Safety, Road, Library, and other funds.	Total salary savings of $2-3 million.	$2-3 million
	↓	Could create workload issues to the extent the vacant funded position would have been filled or the funding redirected to Extra Help or other mechanism to cover the workload.	May impact ongoing service levels to the extent the positions would have been filled or if not filling them results in the loss of Federal or State funding.	Possible reduction in state and federal reimbursements as well as grant funding to the extent the positions would have been filled.	
3) **Voluntary Time Off / Furlough (VTO)**	↑	Pre-scheduled unpaid time off .	Regular office hours would be maintained, but less staff would be available to provide services. Service delivery impacts could occur.	Variable due to employee requests and ability of department to operate within the flexible schedule. Estimate $0 to $1+ million.	$0-$1 million per year
	↓	Reduced wages and leave accruals. Could impact staff that would provide "work coverage" while the employee takes time off. Additional administration to manage a flexible program. May impact an employees retirement calculation if plan to retire within the affected year.	VTO compounds scheduling issues that already occur with unscheduled leaves (sick leave, FMLA, etc), vacation use, and alternative work schedules. As a result, less staff are available to provide service. Service delivery could become "inconsistent" due to the lack of structure associated with VTO requests, particularly on Monday and Fridays.	Voluntary / no guarantee of savings. Could result in a larger liability. Could result in increase OT pay out for work "coverage". Reduced Federal and State reimbursements.	
4) **Suspend Merit increases to all eligible staff**	↑	Does not impact employees already at the top step of their classification as they are no longer eligible for merit increases.	No direct service impacts.	Total salary savings of $926k including $599k for PPEO, $210k for Management and Confidential, and $116k for DSA employees.	$926k per year
	↓	Freezes wages at the current level for employees that have earned a merit increase. Results in loss of 5% merit increase for up to 362 employees (271 PPEO, 55 management/confidential, and 36 public safety). Burden falls on one group of employees; not a countywide solution.	Could create employee retention issue to the extent employees eligible for a merit increase choose to cease employment with the County.	Possible reduction in state and federal reimbursements as well as grant funding. Impact could be 75%+ of every dollar not paid to HHS and other departments that receive significant Federal/State funding.	
5) **Reduce budget for Contribution to Other Agencies**	↑	Does not directly impact employee wages or staffing levels.	No direct service delivery impacts as the savings reduce budget flexibility to respond to unexpected occurences throughout the year.	$750,000 savings per year.	$750k per year
	↓	Does not directly impact employee wages or staffing levels.	Reduces operational flexiblity related to unexpected occurences such as disasters, public health crises, classification/compensation studies, county fairgrounds support, etc.	Reduces county budget flexibility to respond to unexpected occurences.	

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Attachment – Cost Savings Ideas

IDEA	PRO / CON	EMPLOYEE IMPACT	SERVICE DELIVERY IMPACT	FISCAL IMPACTS	BUDGET SAVINGS
6) **MTO days spread over the fiscal year**	↑	Additional time off spread out over the fiscal year. Structured, scheduled time where the county is closed so staff do not return to work with as large a backlog.	Target MTO days to coincide with 'holidays' to make it more convenient to close / less demand for services / less impact to the public.	Salary and roll up costs and utility General Fund savings estimated at $500,000 per MTO day.	$500k per MTO day
	↓	Reduced wages and leave accruals. May impact an employees retirement calculation if plan to retire within the affected year. Inter-department services would need to be available to provide "essential services".	Regular business day would be closed to the public.	Possible reduction in state and federal reimbursements as well as grant funding. Impact could be 75%+ of every dollar not paid to HHS and other departments that receive significant Federal/State funding.	
7) **Voluntary - 4 Unpaid Management Days Off (Exclusive to Managers)**	↑	Additional, scheduled time off.	Schedule the time off to limit service delivery impact.	Salary and roll up cost General Fund savings estimated at $0 to $532,830.	$0-$533k per year
	↓	Reduced wages and leave accruals. May impact employees that are planning to retire within the affected year. May impact managers that are scheduled to backfill. Burden falls on one group of employees; not a countywide solution.	Service delivery impacts could occur with less public and employee access to "decision makers" as they are unavailable.	Voluntary so no guarantee of savings. Not a county-wide solution.	
8) **Voluntary - exchange 5% of salary (reduced) for one additional day of vacation each month.**	↑	Employees could take additional time off (12 additional days each year) or the vacation hours could be cashed out consistent with current practices.	May not be an impact to service delivery, although impacts could occur due to reduced productivity hours as employees take more time off. May be able to manage employee schedules to lessen service impacts.	Salary and roll up cost savings (reduced wages). Vacation would be cashed out at a lower pay rate. Wage savings would be offset by days paid for vacation or cashed out. Vacation value is 4.6%; which is less than the 5% salary reduction. General Fund savings estimated at $0 to $338,000 per year.	$0-$338k
	↓	Reduced wages. Could impact staff that would provide "work coverage" while the employee takes time off. May impact an employees retirement calculation if plan to retire within the affected year.	" " "	Voluntary / no guarantee of savings. Could result in a larger vacation liability at the end of the year. Could result in increase OT pay out for work "coverage". Possible reduction in state and federal reimbursements / grant funding. Impact could be 75%+ of every dollar not paid to HHS / other employees.	
9) **4 10-hour work days per week**	↑	No reduction in wages and benefits. Reduced employee commute costs. Personal appointments could be scheduled for the day off / 52 additional days off each year.	Could have extended hours of service during the 4 day work week.	Savings could occur from reduced utility utilization (lights, appliances, heating & air) for County owned facilities estimated between $1,900 to $2,500 per day ($98,800 to 130,000 per year). Leased facility savings are also possible ($200 to $400 per day).	$98k-$130k per year
	↓	Longer hours in each work day could be difficult for employees. Expanded hours could impact employee child care and other considerations. Emphasis would be on the amount of time that an employee worked vs. the productivity or efficiency of the work performed.	Regular business day would be closed to the public one day per week or 52 additional days each year.	No salary and benefit savings.	

Note: Labor related ideas would need to be negotiated with the appropriate bargaining groups.

Attachment – Cost Savings Ideas