



## COUNTY OF PLACER

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**June 8, 2010**

**Honorable Board of Supervisors  
County Departments and Employees  
Members of the Public**

**SUBJECT: Placer County Fiscal Year 2010-11 Proposed Budget**

### Introduction

The County Executive Office presents Placer County's Proposed Budget for Fiscal Year 2010-11 for your review and consideration. This document is the culmination of an accelerated but careful effort on the part of county staff from all departments to develop a budget that recognizes future obligations, protects the county from state financial uncertainties to the extent foreseeable at this time, and maintains critical services that benefit our citizens during a time of constrained resources. Given the unresolved nature of the State's budget, it is possible that additional budget reduction measures will be warranted beyond those presented in the Proposed Budget.

The Proposed Budget represents the County's legal authority to spend, provides a guide to county programs and service delivery models for next year and sets the stage for future budget cycles. The Proposed Budget serves only as the interim spending plan until the Final Budget is adopted in September. The Final Budget is adopted after a public hearing, and is developed and deliberated on during Board Workshops conducted during the month of August. The Board of Supervisors (Board), through adoption of the budget, funds services and activities deemed necessary and important, providing an annual, comprehensive expression of the Board's policy direction and priorities. Additionally, the fiscal decisions contained within this document are a continuation of the early, clear and distinct direction the Board provided at both its December 8, 2009 and its February 23, 2010 meetings. Finally, the Proposed Budget has been prepared with the recognition that the county service delivery model is changing, as our future is likely to be one with less abundant resources and a smaller workforce that still provides the quality of service our citizens have come to expect.

### Executive Summary

Over the past several years, the Board has overcome significant hurdles and seemingly endless budget challenges as it has guided Placer County through "the Great Recession" that began in fall of 2007. Over the past few years, operating revenues and resources have declined 16% and funded filled positions have been reduced over 10%. The Proposed Budget is 5.7% smaller than the FY 2009-10 Final Budget adopted last September. Property taxes are projected to decline an additional 5% in FY 2010-11, and sales taxes are projected to be 18% lower. With these important revenues down, and an estimated \$20-23 billion state deficit looming, the Board directed the closure of a \$23.6 million county shortfall through the use of a variety of one-time and ongoing solutions developed during a process that began virtually right after the current year budget was passed; a budget that already constrained ongoing expenses. These solutions include the prudent use of reserves, one-time reductions in charges, ongoing budget reductions, and reductions in labor costs. Through careful planning and review of service delivery options available to the county, this \$739 million balanced budget continues to provide services to our constituents and meet important obligations to our citizenry.

## Development of the 2010-11 Proposed Budget

Continuing the accelerated budget planning model utilized for the past several years, my staff and I took a number of steps immediately following the adoption of the FY 2009-10 Final Budget that laid the groundwork for the coming fiscal year:

- In September we conducted a series of all-staff meetings throughout the county to provide employees with information on the status of the county budget as well as the fiscal outlook for the next several years.
- In October we began a series of 10 meetings with the Management Team providing presentations on: regional county and city implemented cost saving measures; cost saving suggestions from various Cost Saving Task Force Committee's; a Health Insurance Brief; Placer County Pension Benefits and a FY 2009-10 Budget Update and Outlook for FY 2010-11. These presentations were attended by a majority of the Management Team. At the conclusion of the series of meetings, the Management Team provided via two separate surveys recommendations resulting in \$1.3 million in cost savings solutions.
- Departmental budgets were prepared by departments in January and February, with 3% and 5% reduction scenarios requested for analysis in case of potential future state reductions later in the year. Only baseline budget reductions were incorporated into the Proposed Budget (no 3% or 5% reductions were included).
- Departmental budget meetings were held in March to refine the proposals contained in the document proposed for your approval today. These meetings were thorough, productive, and helped ensure all departments had a common understanding of the current economic climate.
- Cost Savings Committees met throughout the year and departments have been continuously incorporating ideas from those meetings following Board approval.
- Efforts that began last year to reduce common expenses such vehicle usage, extra-help costs, communications costs, productivity issues, and other related expenses have increased savings in this expense area from \$827,000 last year to over \$1 million this year.

The early actions put into place in late 2007 designed to slow and reduce expenditures, such as our more rigorous countywide hiring review policy, remain in effect. When combined with other cost saving measures, the end of the year fund balance (one-time funds) is healthy and has enabled Placer County, as in last year, to start the fiscal year in a relatively better position than most counties.

Essential to the planning and development process for the Proposed Budget has been the guidance, participation, and leadership of the Board. Staff received guidance from your Board at the December 8, 2009 Mid Year Budget Status Meeting and again at the February 23, 2010 Board Meeting, where the Board approved preliminary direction to develop a Proposed Budget that would close an estimated \$23.6 million deficit in the General and Public Safety Funds through the use of a variety of measures, including prudent use of reserves, reductions in expenditures, internal charge reductions, and labor adjustments. The Proposed Budget has been able to address this shortfall while still providing a reasonably balanced level of funding for all Board priority programs.

As in previous years, those charged with creating this document recognize that the county is in the business of efficiently providing services to the public. Pursuant to Board direction, the Proposed Budget promotes optimal use of staffing, and has an expanded focus that includes service delivery options, some of which were presented to the Board on April 27, 2010, and others which will return to the Board throughout the year.

Pursuant to Board Policy, the Proposed Budget is balanced, uses realistic and probable revenue estimates, and maintains a prudent level of funding for reserves and contingencies. Unanticipated revenues received following presentation of the Proposed Budget will be brought to the Board for consideration.

In summary, the 2010-11 Proposed Budget:

- Maintains critical operations, services, and programs while maximizing savings where possible
- Continues planned infrastructure facility projects

- Ensures prudent fiscal contingency and reserve levels
- Achieves staffing efficiencies resulting in a net reduction in filled funded positions
- Funds Other Post Employment Benefits consistent with the level provided in the current year

The remaining portions of this letter highlight some of the issues and factors considered when preparing the Proposed Budget for 2010-11.

### Sources and Uses of Funds

The 2010-11 Operating Budget for Placer County includes revenues of \$689.4 million, representing a decrease of \$24.0 million (3.4%) as compared to the \$713.4 million in revenues in the FY 2009-10 Final Budget. The FY 2010-11 Operating Budget includes \$327.6 million in General Fund revenues. The year-over-year increase in General Fund can partly be attributed to a mid-year FY 2009-10 Health and Human services budget revision, as well as additional anticipated increases in HHS intergovernmental revenues as compared to the current year. These increases offset an estimated drop in property tax and sales tax revenues. The Operating Budget also contains \$361.8 million in other revenues, and is supported by \$45.5 million in fund balance carryover. (Fund balance carryover is the result of current year expenditure savings, or deferral of costs or projects into the next year, as well as additional revenue received in FY 2009-10.). Finally, this budget is supported by the limited and prudent use of \$4.5 million in General Fund and other fund reserves, bringing the grand total for available financing sources to \$739.4 million.

Proposition 1A Revenue Securitization in FY 2009-10:

In FY 2009-10, the emergency suspension of Proposition 1A was passed as part of the State Budget Act, resulting in the borrowing of 8% of our county property tax revenues by the state. Subsequent to this action, the county securitized property tax restoration payments it would have otherwise received in future years, resulting in additional one-time General Fund revenue of \$11.1 million. **When the Proposition 1A revenues are considered, as listed in bold text in Table 1 below, General Fund revenues in each year are nearly equal.**

While General Fund revenue is nearly flat in Table 1 below, overall revenues anticipated in the Proposed Budget for FY 2010-11 highlight a continued reduction when compared to the budgeted amounts in the current year, and they reflect the slowdown in revenue received by and available to the county when planning to provide important services to our citizenry.

**Table 1. Year-To-Year Financing Source Comparison (With Prop 1A) / Operating Budget**

Description	Final Budget FY 2009-10	Proposed Budget FY 2010-11	% Change
<b>General Fund Revenue*</b>	<b>\$ 316,068,618</b>	<b>\$ 327,581,119</b>	<b>0.1%</b>
<b>*Proposition 1A Restoration</b>	<b>11,121,049</b>	<b>0</b>	
<b>SUBTOTAL</b>	<b>\$ 327,189,667</b>	<b>\$ 327,581,119</b>	
Other Operating Fund Revenue	397,290,508	361,797,889	-8.9%
<b>Total Revenue:</b>	<b>724,480,175</b>	<b>689,379,008</b>	<b>-4.8%</b>
Fund Balances & Cancelled Reserves	70,499,388	50,027,306	-29.0%
<b>Total Financing Sources:</b>	<b>\$ 794,979,563</b>	<b>\$ 739,406,314</b>	<b>-7.0%</b>
*Total 09-10 Final Budget without Prop 1A Restoration (\$11.1 M)	\$ 783,858,514	\$ 739,406,314	-5.7%

In FY 2010-11 departments submitted net budget requests of \$749.3 million. Department budget requests were evaluated by weighing the county's ongoing, critical program needs against its financial responsibility to limit continuing commitments as state reimbursements and other revenue sources remain in doubt. The recommended Operating Budget is \$739.2 million or \$10.3 million (1.3 %) less than department requests. This moderate difference between what county departments requested and what has been presented in the Proposed Budget reflects the common understanding countywide of the severe budget constraints the county is operating

under, and is a testament to the continued cooperative efforts that have been so valuable during these challenging budget years.

Total financing requirements in the Proposed Budget are \$44.4 million lower than the current year budget. This has been accomplished in large part by holding growth in salaries and benefits nearly flat, and by cutting back significantly on services and supplies, fixed assets, and a number of other areas. Salary and benefits costs are still the largest expenditure category in the county budget, representing \$271.2 million (37%) of the \$739.4 million budget. The Proposed Budget includes 5 days of savings from work furloughs, totaling \$3.7 million (\$2.1 million General Fund). Labor adjustments have successfully been used to reduce operating costs in departmental budgets, all the while attempting to minimize disruption to services to county residents. Savings of this nature were budgeted for \$6.7 million in the current year. The Proposed Budget continues to adjust to the effects of the economic conditions, and has seen reductions in Community Development Resources Agency, as well as in some general government departments. Meanwhile, other departments, such as the Probation Department, have seen increases in funding due to continuing efforts to streamline criminal justice activities and mitigate future impacts related to potential state prisoner shifts to the county.

The Proposed Budget includes 2,753 recommended employee position allocations, which is 13 fewer than the total number approved in the FY 2009-10 Final Budget. (Includes both Operating and Capital Projects Budgets.). Additionally, as part of our continuing effort to reduce expenditures in this uncertain financial time, there are almost 280 fewer funded, filled positions in the county since the recession began in fall 2007, over a 10% drop in staffing.

### **The Local Economy Continues to Face Difficult Hurdles**

While there is talk of the end of what has been termed the “Great Recession,” there are still difficult economic times throughout the state, including right here in Placer County. Many are predicting a “jobless recovery” or a very slow recovery at best. The statewide March unemployment rate was 12.8 percent, and Placer County fared only slightly better at 11.6 percent, which is higher than last year’s 10.3 percent and far worse than two years ago, when it was 6 percent. Year over year, the greatest sector to lose jobs was construction, however, professional and business services also had considerable declines.

The decline in the real estate industry continues to take a toll on county revenues, and while it appears that the residential markets may have flattened, commercial real estate has declined dramatically, reducing the estimated amount of property tax revenue anticipated for the coming fiscal year. As a result, staff estimates property tax revenues will decline 4-5 percent in the coming fiscal year. Of course, this reduction is our best estimate of what will occur as a result of the market forces described above, as well as other factors, such as assessment appeals, reassessments, and other adjustments that could occur in FY 2010-11. For example, with over 4,000 assessment appeals still to be processed by the Assessment Appeals Board, it is a given that there will be a negative impact on assessed values in the county, as well as a subsequent decline in available property tax revenue. Given these circumstances, it is expected that property tax revenues will be declining over the next few years. Unfortunately, other general purpose, General Fund revenues are not expected to fare much better. With the battered economy and high unemployment, sales tax revenue is estimated to decline 18% when compared to the Final Budget in the current year. Given these reductions, the marginal increases in other revenues sources such as real property transfer taxes, and the daunting and yet to be addressed state budget deficit described below, the Proposed Budget has been carefully prepared to anticipate another year of challenging revenues and competing priorities.

### **Governor’s Proposed FY 2010-11 Budget**

As a legal subdivision of the State, Placer County is required to deliver state services, including public health, mental health and welfare, as well as countywide services such as criminal justice (jail, prosecution, probation) to all county residents. It also is required to provide municipal services to residents in the unincorporated area such as sheriff patrol, parks, planning, roads, and libraries.

The FY 2010-11 Governor’s January Budget contained a \$20-23 billion deficit. The Legislature is still holding Budget Subcommittee hearings, and the minimal actions taken during the special session were by and large vetoed by the Governor since they did not take what he termed as meaningful actions to solve the structural budget deficit. The Governor’s “May Revision” will adjust revenues and expenditures and the resulting state

deficit, however it is unclear to what extent that will result in any significant adjustments for local government. Thus, as of this writing, much of the state budget problem is yet to be resolved. Given this scenario, it is likely that there will be additional significant budgetary fallout at the state level that could find its way to the local level.

### **Placer County Workforce**

Placer County remains committed to providing quality services to its citizens despite constrained resources. With a hiring freeze in effect since 2007, the county's workforce has declined by about 280 positions or over 10%. In addition, while the County is fortunate to have experienced, long term employees, the average age of the majority of the workforce is approximately 46 years (excluding DSA represented) and, as a result, workforce retirement eligibility (age 50 with 5 years of PERS service) is expected to grow substantially over the next 5+ years. The costs to provide competitive employee salaries, as well as health, pension and other benefits are expected to grow over the next few years. Health and dental benefits continue well into an employee's retirement and the County's current liability related to these benefits is estimated at \$212 million. These combined factors present challenges for funding and sustaining current staffing levels.

For the last two years employees have contributed to the County's cost saving efforts by taking furlough days without pay; 16 total in FY 2008-09 and FY 2009-10. To provide consistent and reliable labor savings countywide in FY 2010-11, 5 county office closure / furlough days were approved by the Board on April 27<sup>th</sup>.

Placer County has two collective bargaining organizations that represent county employees: Placer Public Employees Organization (PPEO) and the Placer County Deputy Sheriffs Association (PCDSA). The 4 year agreement with PPEO is due to expire June 30, 2010 and PPEO represents approximately 1,860 active employees in clerical, professional, industrial and probation officer classifications. The PCDSA represents approximately 226 employees including sheriff deputies, district attorney investigators and welfare fraud investigators. Contract negotiations are currently in process as the prior agreement expired December 31, 2006. Sworn personnel salaries are governed by a ballot measure approved by voters in 1978 that requires salaries be tied to an average of similar classes in Sacramento, Nevada, and El Dorado Counties (Measure F).

### **Capital Infrastructure**

Strategic efforts by the Board of Supervisors have positioned the county to replace its aging infrastructure and plan for program and service delivery growth. As part of a long-term, ongoing facility planning effort, the Board established funding mechanisms to address \$231.9 million in capital infrastructure needs identified for the next decade, including the provision of General Fund reserves, Capital Facility Impact Fees (CFIF) (assessed on new development that occurs within cities and the unincorporated portion of the County), Securitized Master Settlement Agreement Revenue (issued in 2002 and 2006) as well as bond potential and community financial support. These measures are intended to address the significant facility needs the county will face in coming years, and in some instances, such as the CFIF (implemented in 1997), will need to be updated to keep pace with facility needs in the future.

The FY 2010-11 Capital Project Budget is \$125.9 million, representing a decrease of \$15 million or 10.7% compared to the FY 2009-10 adopted Final Budget. Construction projects are supported by \$114.4 million in revenues and \$11.5 million of fund balance carryover. The year-to-year budget decrease is primarily due to the completion of some large capital projects in 2009-10, including the Colfax Library and significant demolitions and renovations at the Placer County Government Center, as well as the interim phases of projects such as the South Placer Adult Detention Facility. Additional specific projects that have been identified in the Proposed Budget for funding include, but are not limited to: the Burton Creek Justice Center, Rocklin Branch Library, and the Auburn Animal Shelter.

### **Conclusion**

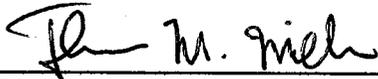
As we present the FY 2010-11 Proposed Budget to your Board, there are reports of small signs of economic recovery in the state and nation. However, county coffers have yet to feel the effects of this recovery in a meaningful way; overall revenues are still projected to be down year-over-year, and it is still unclear what the shape of the recovery will be when it finally emerges. What is clear is that the county should continue to prepare for a future that provides services under a delivery model that is nimble and can provide a high level of service to our residents with fewer staff and less resources. Over the past several years, by working together in a collaborative fashion, many departments have reduced costs, constrained budgets, and limited their fixed asset

purchases. However, beyond reducing the budget and constraining costs, our service delivery model will also require change, and without it our costs of doing business will rise, and our ability to live within our means will be diminished. Your Board recognized this economic necessity and through the budget process has directed staff to implement cost savings measures, expand service delivery options, and take other actions that have resulted in sound budget decisions that have kept Placer County well ahead of the budget curve.

While there are still difficult budget choices ahead, particularly as we anticipate the fallout from potential state budget actions, the Proposed Budget provides an initial framework to meet these challenges.

The staff and I look forward to working with the Board as we refine our proposed budget and develop a final budget for Board consideration in September.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. M. Miller", written over a horizontal line.

Thomas M. Miller,  
County Executive Officer