



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

TO: Honorable Board of Supervisors

FROM: David Boesch, County Executive Officer
By Andy Heath, Deputy CEO of Finance, Administration and Budget

DATE: March 25, 2014

SUBJECT: FY 2013-14 Fiscal Update and FY 2014-15 Budget Development Overview

Action Requested

The Board of Supervisors is requested to take the following actions:

1. Receive an update on FY 2013-14 revenue and expenditure projections for the County's main operating funds and five-year strategic budget framework as it relates to the County General Fund and Public Safety Fund; and
2. Receive an update on the FY 2014-15 budget development process and provide any necessary direction.

Background

On July 10, 2012, the Board of Supervisors considered and approved the Five-Year Strategic Budget Model and related options as a means to establish a multi-year implementation strategy to the Budget and Financial Policy. The Budget and Financial Policy, as revised by the Board on June 4, 2013, is intended to guide the budget and long-term financial planning related to preparation and management of the County budget. Guidance provided by the Budget and Financial Policy enables staff to both develop and manage budgets in a fiscally responsible manner promoting both short- and long-term fiscal health. Staff have awareness of and are taking several steps, as outlined below, in consideration of the following fiscal policy guidelines:

- Incorporation of economic analysis and long-term planning into recommended budget actions
 - Monthly budget monitoring and regular updates to the two-year budget model related to fiscal estimates for the current and following year
 - Preparation and regular updates of the Five Year Strategic Budget Model
 - Long-term capital planning and budgeting
- Promotion of cost transparency
 - Periodic review of costs to promote efficiency and economy in the delivery of services
 - Alignment of costs to deliver countywide services and programs
- Review and understanding of budget variances
 - Ability to adjust for short-term and long-term revenue and expenditure trends
 - Assurance to proper level of conservatism in forecasting revenues and expenditures

- Establishment and maintenance of reserves
 - Attainment of General and Economic Contingency Reserve at 5% of General Fund operating budget
 - Prudent levels of capital and other reserves; and operating contingencies where appropriate
- Development of spending plan supported by sustainable resources
 - Using one-time revenues to fund one-time costs wherever possible
 - Using carryover fund balances to fund one-time expenditures, reserves and contingencies rather than funding ongoing operations

By following these guidelines as provided by the Budget and Financial Policy, staff has analyzed anticipated current year revenues and expenditures in the County's main operating funds to guide the budget development process for the coming fiscal year.

Analysis

Listed below is an overview of the FY 2013-14 final budget and projected actuals for the County's main operating funds.

GENERAL FUND

The General Fund is the largest countywide fund and underwrites most countywide operations either directly as the "net county cost" of General Fund budgets, or indirectly through contributions to other funds. The General Fund includes appropriations for general government, finance, planning and building inspection, facility services and health and human services. The General Fund also makes contributions to other funds for public safety, fire protection services, capital construction, road maintenance and construction, library services, and debt service.

A synopsis of General Fund FY 2013-14 budget information is provided below:

	FY 2013-14 Final Budget	FY 2013-14 Revised Budget	FY 2013-14 Estimated Actuals
Carryover Fund Balance	\$ 28,404,235	22,733,245	26,167,781
Revenues	358,775,964	358,998,774	360,455,617
Total Revenues and Carryover	\$ 387,180,199	381,732,019	386,623,398
Provision to Reserves	\$ 5,670,990	-	-
Expenditures	381,509,209	385,166,555	361,538,838
Total Expenditures and Reserves	\$ 387,180,199	385,166,555	361,538,838
Estimated Carryover / (Used) Fund Balance	\$ -	(3,434,536)	25,084,560

The General Fund FY 2013-14 Final Budget balances carryover fund balance and anticipated revenues with a provision (increase) to reserves and anticipated expenditures. With the approval of the Final Budget in September 2013, approximately \$5.67 million was allocated to General Fund reserves, the majority of which was allocated to the Committed Economic Uncertainty Reserve. This action enabled the County to achieve the minimum Budget and Financial Policy target of 5% of the annual operating budget for the first time since the onset of the recession in FY 2008-09.

The FY 2013-14 Revised Budget incorporates Board-approved changes to the Final Budget since its adoption in September 2013. Changes include encumbrance rollovers from FY 2012-13 and minor offsetting revenue and expenditure adjustments.

Staff has analyzed General Fund revenue and expenditure experience through the first seven months of the fiscal year (July 2013 – January 2014) as a means to project where the General Fund will stand fiscally at the end of FY 2013-14. Staff currently estimates that the General Fund will end the fiscal year with approximately \$25 million in carryover fund balance, accounted for in the following areas:

Revenues: \$ 1,456,843 over budget

- Anticipated higher-than-budgeted collections of property, sales, and real estate transfer taxes; and construction permit revenues.
- Anticipated lower collections of A-87 revenue offsets resulting from changes made to the State-approved cost plan.

Expenditures: \$23,627,718 under budget

- Anticipated \$17.7 million in savings related to salaries and benefits. Vacant funded positions as of March 1, 2013 represent 10.8% of total funded positions in the General Fund.
- Anticipated General Fund expenditure savings of \$3.4 million non-salary budgeted costs.
- Anticipated contribution to public safety fund true-up of \$3.1 million consistent with five-year strategic budget framework funding of 46.83% General Fund discretionary revenue sources to Public Safety Fund.
- Anticipated that the General Fund contingency of \$5.6 million will remain unexpended.

Anticipated Carryover Fund Balance: \$25,084,560

Carryover Fund Balance to FY 2014-15 in the General Fund is anticipated to be just over \$25 million at the end of FY 2013-14. Carryover Fund Balance, which should be construed as a one-time funding source, will be considered as staff develops a recommended budget for the coming fiscal year.

PUBLIC SAFETY FUND

The Public Safety Fund is the second largest countywide fund and is made up of four departments: Sheriff, District Attorney, Probation, and the County Executive Office. The Public Safety Fund receives slightly more than one-half of its support from a General Fund contribution.

A synopsis of Public Safety Fund FY 2013-14 budget information is provided below:

	FY 2013-14 Final Budget	FY 2013-14 Revised Budget	FY 2013-14 Estimated Actuals
Carryover Fund Balance	\$ 10,171,938	7,957,070	9,592,917
Revenues	138,487,691	138,600,020	142,246,644
Total Revenues and Carryover	\$ 148,659,629	146,557,090	151,839,561
Net Provision to Reserves	\$ 2,214,868	-	-
Expenditures	146,444,761	148,192,937	142,729,107
Total Expenditures and Reserves	\$ 148,659,629	148,192,937	142,729,107
Estimated Carryover / (Used) Fund Balance	\$ -	(1,635,847)	9,110,454

The Public Safety Fund FY 2013-14 Final Budget balances carryover fund balance and anticipated revenues with a provision (increase) to reserves and anticipated expenditures. With the approval of the Final Budget in September 2013, approximately \$2.21 million was allocated to Public Safety Fund reserves, bringing the contingency reserve to approximately \$7.31 million. These funds, in addition to any carryover fund balances available at the end of each year, may be required to balance future Public Safety Fund budgets consistent with the five-year strategic budget framework.

Similar to the General Fund, the FY 2013-14 Revised Budget incorporates Board-approved changes to the Final Budget since its adoption in September 2013. Changes include encumbrance rollovers from FY 2012-13 and minor offsetting revenue and expenditure adjustments.

Staff has analyzed Public Safety Fund revenue and expenditure experience through the first seven months of the fiscal year (July 2013 – January 2014) as a means to project where the Public Safety Fund will stand fiscally at the end of FY 2013-14. Staff currently estimates that the Public Safety Fund will end the fiscal year with approximately \$9.1 million in carryover fund balance, accounted for in the following areas:

Revenues: \$ 3,758,953 over budget

- Anticipated increased contribution to Public Safety Fund true-up of \$3.1 million consistent with five-year strategic budget framework funding of 46.83% General Fund discretionary revenue sources to Public Safety Fund.
- Anticipated higher-than-budgeted collections of Public Safety Sales Tax and revenues received for services provided pursuant to the Middle Fork Project Memorandum of Agreement between Placer County and the Placer County Water Agency.

Expenditures: \$5,349,501 under budget

- Anticipated \$2.88 million in savings related to salaries and benefits. Vacant funded positions as of March 1, 2013 represent 6.7% of total funded positions in the Public Safety Fund.
- Anticipated Public Safety Fund expenditure savings of \$2.47 million non-salary budgeted costs.

Anticipated Carryover Fund Balance: \$9,110,454

Carryover Fund Balance to FY 2014-15 in the Public Safety Fund is anticipated to be approximately \$9.11 million at the end of FY 2013-14. Carryover Fund Balance, which should be construed as a one-time funding source, will be considered as staff develops a recommended budget for the coming fiscal year.

PUBLIC WAYS AND FACILITIES FUND

The Public Ways and Facilities Fund, commonly referred to as the Road Fund is maintained by the Department of Public Works and provides engineering services in the area of design, construction and contract administration for both the County and private land development projects. The fund also maintains, protects and improves approximately 1,047 miles of roads and accounts for road and road-related storm maintenance, including snow removal and road engineering and construction.

The Final Budget for the Public Ways and Facilities Fund balances \$81.29 million of financing sources and uses for FY 2013-14. Of this amount, approximately \$63.67 million is allocated for road construction and related projects. During the first half of FY 2013-14, the following major road projects have been completed or are currently underway:

- Foresthill Bridge Seismic Retrofit and Painting
- Kings Beach Commercial Core Improvement Project
- Continued maintenance of approximately 1,047 miles of roadway
- Cook / Riolo Bridge Replacement

CAPITAL PROJECTS FUND

The Capital Projects Fund receives revenue from a variety of sources to fund multiple ongoing and one-time projects during each fiscal year. Revenue sources traditionally include Federal and State grants, Capital Facility Impact Fees, County Service Area Assessment Fees, Reserves, and contributions from other County Funds, with the General Fund as the major funding contributor at \$30.2 million in the current Fiscal Year 2013-14. The array of activities within the Fund include ongoing expenditures for projects that may cover multiple fiscal years to achieve project completion, and one-time projects completed within the fiscal year. FY 2013-14 expenditures for ongoing major projects in which the Capital Projects Fund continues to support include Regional Sewer activities for SMD 1 (\$1.8 million), SMD 3 (\$738,000), and Applegate Sewer (\$487,000). Additionally, multi-year projects which have been completed this fiscal year include, but are not limited to, the Sheridan Water Supply and Distribution project (\$1.6 million), Dry Creek Park (\$117,000), Applegate Sewer (\$487,000), and remodel projects such as the County's leased Sunset Boulevard building for Health and Human Services – Human Services and Children Systems of Care divisions (\$1.5 million), and a Utilities Shop remodel (\$256,000) at the Placer County Government Center. The amounts displayed only reflect expenditures for the first eight months of FY 2013-14 and may not capture the entire cost of the project. On the horizon, major projects underway or in the analysis and planning stages include the Auburn Animal Shelter, Hidden Falls Parking Expansion, Placer County Government Center master planning efforts and associated projects, including continued building demolition, and the Tahoe Justice Center.

LIBRARY FUND

The Library Fund is managed by the Library Department to provide public library services that support the educational, recreational and cultural endeavors of citizens within the community. The Library's FY 2013-14 Final Budget maintained current service levels at the County's 11 branches and their Bookmobile with estimated expenditures of \$6.3 million. Property tax, the main source of revenue for operations, was increased 6% to \$3.9 million. The Library's increase in on-going operational costs outpaced increases in property taxes requiring the use of reserves in the amount of \$136,630 and continued General Fund support to balance their budget.

The Library is anticipating a year-end carryover fund balance of \$224,000 due to significant staffing vacancies throughout the year. This amount will add to their current reserve balance of \$450,122. On December 10, 2013, the Board approved the Library's Strategic Plan which prioritizes facilities, the library materials collection, staffing and programming, and operational efficiency. Using their Strategic Plan, the Library is currently analyzing their staffing and operational cost drivers to develop a fiscally sustainable operational model.

FIVE- YEAR STRATEGIC BUDGET MODEL – GENERAL FUND AND PUBLIC SAFETY FUND

The Five-Year Strategic Budget Model (Model) is built on FY 2013-14 Final Budget revenues, expenditures, and carryover fund balance as the starting base, layered with out-year modeled assumptions for major categories of revenue and expenditures. The Model focuses on the areas of the County Budget with the greatest level of Board discretionary authority: the General

Fund and the Public Safety Fund, which are supported by the vast majority of discretionary revenues. The General Fund also contributes to other funds such as the Public Safety Fund, Public Ways and Facilities Fund (Road Fund), Capital Projects Fund, Library Fund, and Fire Fund.

The Model was developed based on existing operations, revenues, and cost drivers. It is intended to reflect the ongoing revenues and costs consistent with the County's current service delivery system given certain fiscal assumptions. As such, it does not include potential new revenues that may become available in future years or assumptions for potential new operational costs related to service level expansions. The Model as of March 2014 is presented below:

MULTI-YEAR MODEL: General Fund / Public Safety Fund							3/12/14
	2013-14	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Final Budget	Year-End Projection	Model	Model	Model	Model	Model
Est. Fund Balance Carryover:	\$ 28,404,235	\$ 26,167,781	\$ 25,000,000	\$ 24,000,000	\$ 23,000,000	\$ 22,000,000	\$ 21,000,000
Revenues:							
Taxes	\$ 151,513,706	\$ 157,191,010	\$ 156,383,510	\$ 158,734,696	\$ 160,947,798	\$ 164,884,837	\$ 166,920,703
Intergov't Revenues	160,687,077	159,519,931	161,947,777	164,626,476	167,617,097	170,706,053	173,897,426
Other	46,575,181	43,744,676	47,230,802	46,591,846	47,454,978	46,806,727	47,847,296
Total Revenue & Carryover:	\$ 387,180,199	\$ 386,623,398	\$ 390,562,089	\$ 393,953,017	\$ 399,019,873	\$ 404,397,617	\$ 409,665,425
Expenditures:							
General Fund Salaries & Benefits	\$ 167,102,679	\$ 150,298,857	\$ 166,376,295	\$ 171,225,788	\$ 176,758,739	182,449,230	188,312,670
Retiree Health & Dental	13,168,996	12,231,501	13,695,777	14,244,947	14,817,456	15,414,296	16,036,503
General Fund Other	118,146,593	112,770,886	119,452,543	120,219,946	121,018,638	121,512,941	122,027,017
Contribution to Public Safety	74,820,045	77,966,698	78,032,376	79,186,469	80,275,961	82,166,506	83,166,738
Capital Improvement & Roads	8,270,896	8,270,896	8,270,896	8,270,896	8,270,896	8,270,896	8,270,896
Total Uses of Funds:	\$ 381,509,209	\$ 361,538,838	\$ 385,827,887	\$ 393,148,047	\$ 401,141,689	\$ 409,813,869	\$ 417,813,823
Cumulative Dept Absorbed Costs			\$ (1,187,637)	\$ (3,011,356)	\$ (5,448,212)	\$ (7,972,518)	\$ (10,586,798)
Add to General / Client Aid Reserves	\$ 5,670,990						
GENERAL FUND BOTTOM LINE:	\$ 0	\$ 25,084,560	\$ 5,921,839	\$ 3,816,327	\$ 3,326,396	\$ 2,556,265	\$ 2,438,400
Solutions Required to Balance General Fund (cumulative reduction - Dept operating margin):	\$ -		\$ 627,626	\$ 1,255,252	\$ 1,255,252	\$ 1,255,252	\$ 1,255,252
Potential Redirect to SPACF					\$ (2,000,000)	\$ (3,700,000)	\$ (8,100,000)
ADJUSTED BOTTOM LINE: GENERAL FUND	\$ 0		\$ 6,549,465	\$ 5,071,579	\$ 2,581,648	\$ 111,517	\$ (4,406,348)
Public Safety Fund Balance		\$9,110,463	\$4,278,547	(\$1,981,828)	(\$5,054,523)	(\$6,103,537)	(\$8,186,654)
Public Safety Reserve		\$0	\$0	\$1,900,000	\$3,000,000	\$2,400,000	\$0
Potential Solutions		\$0	\$0	\$0	\$2,000,000	\$3,700,000	\$8,100,000
ADJUSTED BOTTOM LINE: PUBLIC SAFETY FUND		\$9,110,463	\$4,278,547	(\$81,828)	(\$54,523)	(\$3,537)	(\$86,654)

Basic assumptions built into the Model include conservative revenue and expenditure estimates and an annual contribution of 46.83% of General Fund discretionary revenue sources to the Public Safety Fund. The Model also assumes continued absorption of a share of annual cost increases by departmental budgets, potentially diminishing the ability to return a carryover fund

balance at year end. As indicated in the Model above, the Public Safety Fund continues to require use of Public Safety Fund reserves and additional contributions from the General Fund to balance increased costs in the Public Safety Fund, primarily related to the ongoing operations of the South Placer Adult Correctional Facility (SPACF) and, as discussed below, anticipated increases to CalPERS retirement costs.

FY 2014-15 BUDGET DEVELOPMENT

Staff is currently actively engaged in working with departments to develop a recommended budget for FY 2014-15. Over the course of two weeks in early March 2013, budget development staff in the County Executive Office met with each department to review submitted base and supplemental budget requests as a means to begin the process of organizing a recommended budget that best delivers services in a fiscally responsible manner. Your Board can anticipate a recommended balanced budget that, essentially, maintains current service levels and considers the following:

- Continued *modest* discretionary revenue recovery
Discretionary revenue sources are projected to grow modestly with the continued recovery from the “Great Recession”.
- Service delivery models that recognize increasing short- and longer-term cost drivers
Cost increases anticipated during FY 2014-15 in addition to longer-term cost impacts associated of increasing CalPERS retirement premiums will be considered with the recommended budget.
- Analysis and alignment of direct and indirect costing methodologies
Reviews of countywide Internal Service Funds, Central Services cost pools and A-87 costing methodologies have been completed as a means to directly align costs to applicable departments and programs.
- Expanded information - capital and infrastructure projects
Budget development staff is currently working with the recently created cross-departmental *Capital Projects Team* to update and expand capital and infrastructure information presented in the Infrastructure Investment / Finance Committee’s capital financing plan. It is envisioned that the FY 2014-15 budget document will include expanded project-specific fiscal and general information as a complement to the Capital Projects and Public Ways and Facilities Funds.
- Priority Based Budgeting – Program Inventory development
The *Priority Based Budgeting Coordinating Council*, a cross-departmental team of county management staff, has been assembled to further efforts to transition the budget development process to a priority-based methodology. Over the course of the next few months, the team will be working to develop a framework for presentation of a departmental program and services inventory as part of the budget for FY 2014-15.

Development of a balanced budget for FY 2014-15 must also take into consideration significant near-term fiscal challenges likely to impact future county budgets. Development and continued updates of both the two-year budget and five-year strategic budget models serve to mitigate projected cost impacts long before they transpire as staff works to develop a fiscally sustainable service delivery model for your Board's consideration. Challenges to be addressed as the coming year's budget is prepared include the following:

- **FY 2014-15 Initial Supplemental Requests**

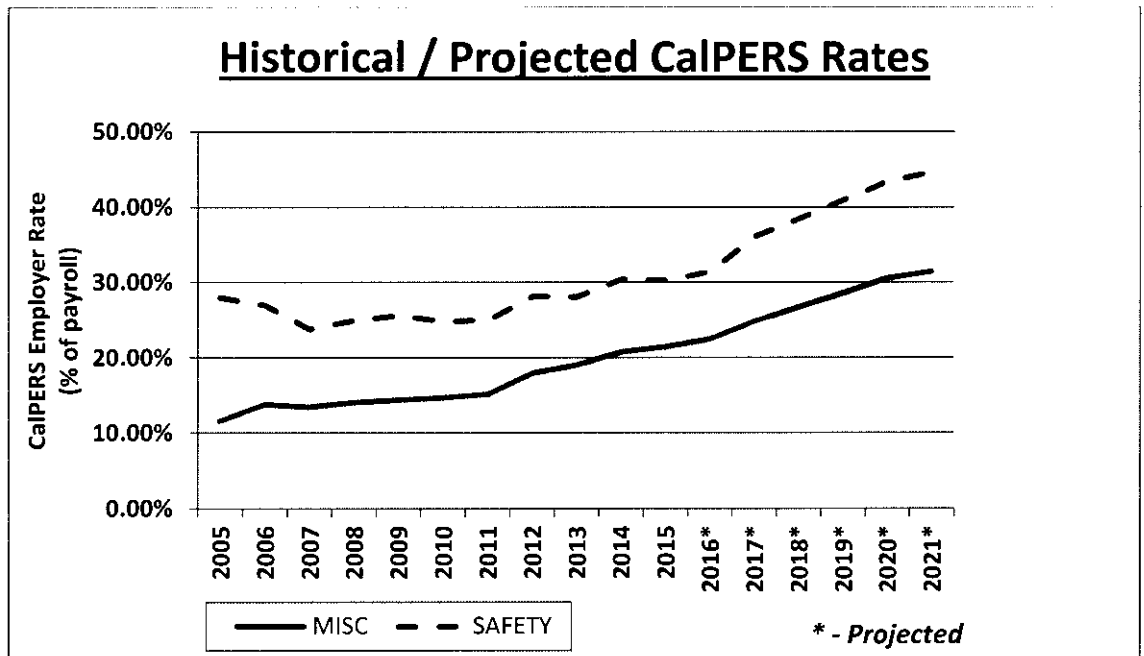
Recently received department budget submissions for FY 2014-15 include countywide supplemental requests representing approximately \$16.5 million in additional net county cost. Of this amount, \$9.3 million and \$2.5 million of requests were received for the General Fund and Public Safety Fund, respectively. In addition to numerous requests to restore and fund new positions, supplemental budget submissions also include land development and facilities related costs. A summary of supplemental requests by fund is provided in the table below:

Supplemental Requests			
Fund	Expenditures	(Revenue)	NCC
General Fund	10,422,600	(1,082,379)	9,340,221
Public Safety Fund	2,996,875	(512,014)	2,484,861
Public Ways and Facilities	1,003,000	(1,003,000)	-
Capital Improvements	4,205,000	-	4,205,000
ISF and ENT Funds	594,088	(165,738)	428,350
Total	19,221,563	(2,763,131)	16,458,432

Of the \$9.3 million in net General Fund supplemental requests noted above, approximately \$6.7 million and \$2.6 million represent ongoing and one-time net expenditures, respectively. Similarly, \$2.5 million in net Public Safety Fund supplemental requests encompass approximately \$2.3 million and \$200,000 of ongoing and one-time net expenditures, respectively. The \$4.6 million in net supplemental requests in funds other than the General and Public Safety Funds represent one-time net expenditures.

- **CalPERS Retirement Rate Increases**

Since March 2012, the CalPERS Board has adopted actions increasing retirement premiums paid by the State and member agencies three different times. Taken together, changes to the investment earnings discount rate (7.75% to 7.50%), adoption of actuarial methods to pay off debt sooner; and most recently, changes reflecting new longevity estimates all significantly impact future rates paid by participating agencies, including Placer County. Projected rates are expected to increase by approximately 50% over the next 5-7 years as shown in the graph below:



- **FY 2014-15 State of California Governor’s Proposed Budget**

On January 9, 2014, the Governor presented a budget package that included \$151 billion in spending from the General Fund and other special funds, an \$11 billion increase over the revised FY 2013-14 level. Compared to prior year budgets, the FY 2014-15 Proposed Budget does not significantly impact local finances for the coming year; and, remarkably, establishes a plan to fund the State’s rainy-day reserve, continues focus on paying down the “wall of debt” built up to balance prior year budgets, and includes over \$800 million for deferred maintenance infrastructure projects.

Staff will continue to monitor ongoing State Budget developments up to and through the issuance of the May Revise and eventual adoption of the final budget.

BOARD REVIEWS OF THE FY 2014-15 BUDGET

As a means to further the FY 2014-15 budget development process, your Board can anticipate receiving the following over the next several months:

- May 6, 2014 – Presentation of departmental program and services inventory
- June 3, 2014 – Board consideration of FY 2014-15 Proposed Budget and Position Allocation Ordinance
- September 9, 2014 – Public Hearing and Board adoption of FY 2014-15 Final Budget

Conclusion

As the FY 2014-15 recommended budget is prepared, staff will incorporate the long-term impacts of the fiscal challenges presented above while assuring continued adherence to County policy and the delivery of efficient and effective service levels and programs. Staff will continue to use analysis from updates to the models presented above as a means to monitor and reduce the use of one-time funds for ongoing operations, relieve out-year pressure related to operational cost drivers, and provide the Board flexibility within the allocation of limited discretionary revenues to support county service delivery and infrastructure.

