



MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO: Honorable Board of Supervisors
FROM: Thomas M. Miller, County Executive Officer
DATE: June 23, 2009
SUBJECT: Placer County Budget Update

BACKGROUND

On May 26, 2009 the Board of Supervisors (Board) adopted the FY 2009-10 Proposed Budget. The \$769 million Operating Budget addressed an \$18.6 million shortfall through the use of a variety of one-time and ongoing solutions developed during a process that began in September of 2008 immediately following adoption of the current fiscal year budget. These solutions include the prudent use of reserves, one-time reductions in charges, ongoing budget reductions, and reductions in labor costs. The FY2009-10 Proposed budget reflects a decrease of \$96.3 million or 11.1% when compared to the adopted FY 2008-09 Final Budget.

When the Board adopted the Proposed Budget as its interim spending plan, it also directed staff to return with an interim update regarding state budget impacts on the county budget. This memorandum is intended to provide that update. As of this writing, the State Budget Conference Committee is pouring through the Governor's May Revision, determining how to grapple with an estimated \$24.3 billion state budget deficit. This is in addition to nearly \$42 billion deficit that was to be resolved in February when the Legislature adopted and the Governor signed the 2009-10 Budget Act. Clearly State budget funding reductions will have significant impacts on Counties statewide. Like other counties, in Placer County, further reductions in the Final Budget will be required to address funding shortfalls as a result.

CURRENT STATE BUDGET PROPOSALS

A range of County program areas would be impacted by state budget reductions, borrowing, or deferrals currently under consideration. Outlined below are summaries of potential impacts identifying potential major funding changes. It should be noted that this information is "point in time" and the state budget is **very fluid** at this stage; reductions can come and go, increase or decrease, and entirely new reductions and proposals can be created that change the mix entirely.

As such, the figures and data provided in this memorandum are estimates and are based on proposals reflected in the Governor's budget and those of the Legislative Analysts office (LAO). Specific impacts to jurisdictions will be defined with adoption of a State Budget and approval of implementing legislation. More refined information should be available at the time of the Final Budget. With these caveats in mind, the following provides an overview and estimated impacts on Placer County should these proposals be implemented.

I. General Fund Revenue Impacts

The County General fund which is supported primarily by local property taxes and State and Federal subventions, primarily for Health and Human Services will be the most impacted by State budget proposals. The General Fund provides for the majority of County operating expenses and is the source for contributions to Public Safety and Roads/Transportation. Table 1 summarizes the most material potential reductions based on current estimates:

Table 1. Potential General Fund Reductions

Description or Name	Change \$
Suspension of Prop 1A (Gov)	(\$8,000,000-\$11,000,000)
Clerk Recorder May 19 Special Election Costs (GOV)	(750,000)
Health and Human Services	(5,500,000)
	\$ (16,250,000)

A. Suspension of Proposition 1A

Perhaps the single greatest impact to a wide swath of county services would come from the proposed suspension of Proposition 1A, which would result in a property tax revenue loan to the State of California. That loan, which is currently estimated to range between \$8 million to \$11 million (8%), could have a significant detrimental impact on the already balanced county budget, since it would directly reduce the largest source of county general purpose, General Fund, revenue.

B. Health & Human Services

Through revenue reductions and deferrals as proposed for Health and Human Service Programs County residents and clients would be impacted with reductions in a range of programs. Outlined below are potential impacts to County services should proposals be implemented as identified:

1. County Budget Impact = \$5.5 Million

Most significant impacts to the department include:

- Adult Services (\$1.1 million)
 - 300 residents will no longer receive Drug & Alcohol addiction treatment. (GOV)
 - 20 county residents in residential psychiatric care will no longer have their medications and laboratory tests paid for by the State. (GOV)
- Community Health Services (\$320,000)
 - 3,500 women lose access to women's health services. (GOV)
 - Elimination of Adult Dental-Cal services. (GOV)

- Children's Services (\$2.3 million)
 - Decreased funding for Child Welfare/Child Protective Service and intensive in home support to families with youth at risk. Case loads anticipated to increase by 50%. (GOV)
 - Reduction of reimbursement rates and services for Foster Families. (GOV)
 - Decreased funding for Emancipated Foster Youth services, housing assistance and college education assistance. (LAO)
- Human Services (\$1.6 million)
 - Elimination of Cash Assistance Program for legal Immigrants. (GOV)
 - Further restriction of Cal-Works eligibility placing an additional burden on Child Welfare (CPS), health care and educational systems. (GOV)

2. Anticipated Direct Impact to Constituents = \$14.7 Million

Additional funds that would be reduced are in the form of direct state payments or service delivery. These funds do not flow through the county budget but will have real and material impact on constituents.

- Revised eligibility criteria for In-Home Supportive Services will result in 2000 older adults and disabled having in home services reduced or eliminated making it likely that many will no longer be able to stay in their homes. (GOV)
- Elimination of Health Insurance for 4,700 children. (GOV)
- Approximately 4,500 residents would lose the financial assistance they receive through Cal-Works, which provides food, housing and other necessities including elimination of all aid to dependent children in California. (GOV)

C. Clerk Recorder

California held a statewide ballot election on May 19, the subject of which was a number of measures designed to provide billions of dollars in additional revenue that would have helped close the state budget deficit. Those measures failed, however the significant costs for holding the elections remain. For Placer County, the cost for the recent election was approximately \$750,000. State reimbursements are usually received well after the actual elections; however to the extent the state fails to reimburse the county, it leaves a hole for funding future elections is jeopardized.

D. Parks and Open Space

Placer County has been awarded a number of State grants in the past two years in support of parks and trails development and open space initiatives through the Placer Legacy program. These grants were suspended, primarily in December 2008, with subsequent information that the State would provide funding up to the dollars spent by jurisdictions. While Placer County departments have suspended work, reimbursement for expenditures to date, about \$300,000 have not occurred.

Table 5. Funding Withheld

Program Name	Program \$
Proposition 50 - Hidden Falls Project	\$ (2,533,357)
Department of Conservation - Natural Trading Company	(332,500)
Proposition 84 - Fuel load reduction Squaw Valley	(245,500)
Proposition 40 - North Fork American Trail	(1,500,000)
	\$ (4,611,357)

Table 6. Misc Other Funds

Description or Name	Change \$
WILLIAMSON ACT SUBVENTION	\$ (38,800)
	\$ (38,800)

- The State continues to delay payment of grants frozen last December. The County suspended work at that time, however, \$313,879 in costs incurred prior to December 2008 have not been reimbursed.
- The total impact of the frozen or delayed grant funds totals \$4,611,357 and results in:
 - Delay of improvements to Hidden Falls Regional Park for public use, including: delay of construction of user amenities, opening of broader acreage to the public, and study of connectivity studies to link additional trail systems in the area.
 - Delay in construction of fuel breaks and perimeter clearing, potentially increasing fire risk within Hidden Falls.
 - Delay in opening the North Fork American River Trail
- Williamson Act Subventions in the amount of \$38,800 are **eliminated** in FY 2009-10 reducing available funding for open space acquisitions, contributions and improvements.

E. Indirect Impacts

In addition to the impacts discussed above, internal service departments that provide a range of services, such as I/T, building maintenance, procurement, etc., will be indirectly affected by state reductions as reduced demand and funding reductions are implemented. Lower levels of service could result in a significant, yet to be determined reduction for departments such as Facility Services and Administrative Services.

II. Public Safety

Public Safety is primarily funded through General Fund Contributions and Public Safety Sales Tax monies. State funding however, is fairly significant and would be impacted with State budget reductions, primarily in the areas of Grants and Court Security contracts. Moreover, to the extent that Property taxes are impacted with loans to the State and other State revenues are reduced, the ability to maintain contributions to Public Safety is compromised. Proposals to reduce State funding that are specific to Public Safety are outlined below.

Table 2. Potential Public Safety Reductions

Description or Name	Change \$
Redirection of Half the 0.15% VLF to State	\$ (2,000,000)
Elimination of State Funding for Forensic Testing	(132,000)
Elimination of State Funding for Prop 36	(70,000)
Elimination of Court Security Contract	(4,000,000)
	\$ (6,202,000)

- A series of sweeping sentencing and parole changes along with the elimination of inmate rehabilitative services within the state prison system (except those that are court-ordered) will transfer responsibility from the State to the local level resulting in increased pressure on local criminal justice systems, especially in the areas of prosecution, detention and supervision. Specific proposals are as follows:
 - Release of undocumented immigrant inmates from the State prison system;
 - Changes to sentencing options for low-level offenders making low-level offenses punishable only by a term in the county jail;
 - Reduced sentences for parole revocations and for several other categories of prison inmates;
 - Release of non-violent inmates over age 55 who will have significant health, housing, supervision and employment needs. (LAO).

A. County Sheriff

Shifting half of the 0.15% Vehicle Licensing Fee increase to the State General Fund and elimination of the court security contract which would result in elimination of funding for the following (\$6 million):

- Jail – Placer County’s Citizen’s Option for Public Safety (COPS) funding for jail improvements and safety equipment purchases, local detention facility revenues for jail operations and maintenance, funding for extradition services, court security, and parole violation hearing reimbursements; (\$5.1 million).

- Patrol – Placer County’s Citizen’s Option for Public Safety (COPS) funding for Supplemental Law Enforcement for patrol services, including marine patrol, rural and small county sheriffs’ local assistance for patrol training academy, and POST & STC funding; (\$675,000).
- Public safety grants – all funding for California Emergency Management Agency (CalEMA) local assistance public safety grant programs reducing the capacity of counties to fund investigations related to methamphetamine and other drug task forces (LAO). (\$137,000).

B. The District Attorney and Sheriff

- The State Department of Justice would begin to charge local agencies for forensic DNA lab services that are currently paid for by the State (LAO) (\$132,000).

C. Probation

- Reduced funding for providing non-violent drug offenders with treatment rather than jail time in accordance with the voter approved Proposition 36 initiative (LAO) (\$70,000).

III. Transportation Programs

State funding cuts under discussion represent about 73% of the Road Maintenance budget revenues that support local road and streets maintenance and capital projects. The Proposition 42 gasoline sales tax portion is one significant source of State funding for road maintenance that has required an annual local General Fund contribution. If that funding is lost, there should no be an obligation of the County contribution. However, that occurrence would further exacerbate budget challenges for road maintenance due to the magnitude of overall potential reduction.

Table 3. Transportation Program Reductions

Description or Name	Impact
State Highway Users Tax (Gas Tax) reduction	(\$6,000,000) to (\$8,000,000)
Proposition 42 (LAO Proposes to borrow)	(\$1,440,000)
	(\$6,000,000) to (\$9,440,000)

A. Department of Public Works (DPW)

As of June 11, the State Legislative Budget Committee supported the Governor’s proposal of the \$6M reduction in Gas Tax from Placer County in FY 09/10, with permanent redirection in following years.

- Gas tax represents 50% of road maintenance revenue and Prop 42 represents 23%. Loss of funding and payment delays would dramatically impact direct and indirect labor, materials, and match funding to leverage state and federal project dollars.
- Impacts to public services could include:
 - Minimal, if any, overlay or pavement resurfacing in FY 09/10 which ultimately results in more costly maintenance and capital expenditure in the future.
 - Reduction in snow removal operations unless otherwise funded
 - Reduced road construction improvements due to reduced match funding
 - Nominal pothole patching and ditch/drainage maintenance and repair

IV. Placer County Libraries

The Placer County Library system, which operates 11 branches and a bookmobile, is primarily funded by property tax revenues (68%), with several other revenues such as a County General Fund contribution, fines, and donations with a minimal level of state support making up the difference.

Table 4. Potential Library Fund Reductions

Description or Name	Change \$
Proposition 1A Property Tax Reduction	\$ (305,000)
	-
	\$ (305,000)

- Proposition 1A Property tax reduction for Placer County Libraries is estimated at \$305,000 for the upcoming fiscal year.
 - The Library would hold positions open and draw from reserves to mitigate effects of property tax revenue reduction until such time as the loan from the State is repaid.
- Relatively stable funding besides the Proposition 1A reduction
 - Receiving approximately \$60,000 in Public Library Foundation funds
 - Receiving approximately \$17,000 in Transaction Based Reimbursement funds

CONCLUSION

As is evident from the numerous areas identified above, the reductions being contemplated by the state will have a significant and lasting impact on the programs and services provided by Placer County. As noted, prior to these proposed reductions, Placer County had already reduced its Operating Budget 2.5% compared to last year, reduced its General Fund budget \$13.3 million (3.6%), and by the end of the year will have reduced its funded staffing by over 200 positions.

State funds comprise 21% of the operating budget and nearly 63 percent of the intergovernmental funds received by the county. While Placer County adopted a balanced Proposed Budget, which incorporated initial state estimates of revenues, more dramatic reductions are proposed that will significantly impact the County budget and services we can provide to our constituents. Indeed the FY 2009-10 Proposed Budget that was adopted by your Board incorporates over \$4 million in State funding reductions. In addition, impacts to local funds, primarily further shifts of the property tax, as well as assessed value changes continue to erode the ability to the County to deliver services to our residents and businesses. Indeed finding additional reductions in the county service model that do not reduce service levels will be more challenging as state reductions continue to hammer away at local resources.

As Placer County looks toward the FY 2009-10 Final Budget, it is important to remember that the county has already reduced its Proposed Budget by \$18.6 million to address a shortfall in the coming fiscal year and absent the fiscal mismanagement at the state level, has put its fiscal house in order. Indeed county employees already agreed to mandatory time off (MTO) days that provide over \$6.7 million of the General Fund savings in the FY 2009-10, thereby ensuring there will be no layoffs in FY 2009-10. Significant and ongoing reductions will be felt throughout the county, crossing a number of departments and a number of program areas. County departments along with the County Executive Office continue to evaluate impacts and identify core functions and services so that services and funding can be better prioritized. Other alternatives to address shortfalls include further implementation of business practices and organizational structuring to enable increased efficiencies for service delivery; and development of inter-agency and interdepartmental cooperative agreements to take advantage of economies of scale and existing administrative structures. As the state continues to turn to local government tills to make up for its shortfalls, Placer County will manage its way through the budget balancing process, but it will not be without consequence, nor will it be without some level of sacrifice.

As was mentioned at the beginning of this report, matters are very fluid, and even turbulent at this stage of the state budget process, but staff is closely monitoring events as they transpire, and will continue to remain ready to react appropriately should events in Sacramento suddenly draw to a close.