



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

**TO:** Honorable Board of Supervisors  
**FROM:** Thomas M. Miller, County Executive Officer  
**DATE:** August 4, 2009  
**SUBJECT:** Placer County Budget Update

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**EXECUTIVE SUMMARY**

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 one-time and ongoing solutions. These solutions included the prudent use of reserves, one-time reductions in charges, ongoing budget reductions, and reductions in labor costs. The Operating Budget decreased by \$96.3 million (11.1%) when compared to FY 2008-09, including a General Fund reduction of \$13.3 million. The Proposed Budget funds 100 fewer than were funded in FY 2008-09, and over 200 fewer funded positions than in FY 2007-08.

Absent the additional reductions from state budget cuts in late July, the FY 2009-10 Proposed Budget adopted by the Board in May was balanced. However, as was largely anticipated by your Board, additional property, sales, and Public Safety Sales Tax revenue reductions resulted in \$8.5 million in reduced anticipated revenues for FY 2009-10. When combined with \$17.5 million in state reductions mentioned above, the County is facing an additional \$26 million shortfall in FY 2009-10. The greatest component of this shortfall is a \$21.7 million General Fund hit. Also included is a \$3.8 million Public Safety Fund reduction, as well as \$500,000 in other funding shortfalls. From a more positive perspective, in anticipation of further reductions estimated in local revenues, your Board directed increased restrictions on expenditures in addition to the ongoing efforts of departments at adoption of the Proposed Budget. As a result, efforts to constrain costs will result in an increased fund balance carryover which will partially offset these declining revenues.

As staff develops strategies to address this significant additional shortfall, there are guidelines and parameters that will guide the process. Pursuant to Board policy, ongoing programs should be funded with ongoing revenues, limiting use of one-time revenues. Adequate contingency funds need to be maintained for the future, since the current economic downturn may not have reached its plateau and it would not be surprising if additional state budget reductions were to occur mid year that would impact the county. Given the severity of the General Fund reduction, which is compounded by the reduction contained in the Proposed Budget, the ability to increase or even General Fund contributions to other funds will likely be diminished in the recommended FY 2009-10 Final Budget.

Given the prudent actions of the Board over the past several years, Placer County is positioned to address the challenges it is facing. However these challenges will result in the delivery of less services than in previous years, given the severity of the reductions facing the county. Board Budget Workshops will be conducted on August 18-19, at which time staff intend to provide the Board with options for addressing the \$26 million shortfall.

**CURRENT COUNTY BUDGET PICTURE**

On May 26, 2009 the 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. These solutions included the prudent use of reserves, one-time reductions in charges, ongoing budget reductions, and reductions in labor costs.

On July 20, the leaders of the Legislature and the Governor came to an agreement on how to address an estimated \$26.3 billion additional state budget deficit. The agreement includes a number of controversial components, including the use of revenues from local jurisdictions, steep program reductions, and other one time revenue adjustments. The budget deal is widely recognized as a stop gap measure with significant fiscal and legal challenges that will not sustain the state through FY 2009-10. While it is unclear to what extent some of the proposed components will survive the impending fiscal or legal challenges, what is certain is that counties will bear a significant share of the burden associated with addressing the state budget problem.

As if continuing state deficits weren't enough, the unrelenting and unfortunate downturn in the economy that has plagued the state and the nation has had a negative and lasting impact on county revenues. This was somewhat anticipated however, as the County has continued to ratchet down and limit expenditures since 2007. Nonetheless, the continued downturn resulted in less revenue in late FY 2008-09, and revisions to estimates of revenues for FY 2009-10. While final figures are still being compiled in anticipation of Board Workshops on August 18-19, the table below highlights the currently estimated worst case scenario for reductions in revenues in major operating funds for Placer County

**Major Funding Adjustments Anticipated in the Final Budget**

Estimated State Reductions	(17.1)		(0.3)	(0.1)
Prop 1A (8-11.1 million)				
HHS Reductions (5-6 million)				
Estimated Additional Other Reductions	(4.6)	(3.8)		(0.1)
Totals	\$ (21.7)	\$ (3.8)	\$ (0.3)	\$ (0.2)
Total 2009-10 <u>Estimated</u> All Funds:				\$ (26.0)

(\*Amounts listed in millions)

The table includes an estimated total of \$17.5 million in state reductions, with an additional \$8.5 million in other reductions. Given the compounding effect these reductions will have on the budget already presented to your Board in May, they will exacerbate the already challenging budget environment Placer County is operating within.

While the Legislature has voted on and the Governor has signed the State Budget, there are still a number of significant details and loose ends yet to be determined. The trailer bills, implementing legislation and regulations will require significant analysis and review, and it will take some time

to fully determine the ramifications of some of the proposed reductions articulated by the state. Nonetheless, staff has broadly outlined the known framework for the state reductions, as well as some of the options for mitigating the state funding shortfalls.

## **I. General Fund Revenue Impacts**

The County General fund is supported primarily by local property taxes and State and Federal subventions. It provides funding for a variety of county departments and services, including general government departments such as the Auditor Controller, Community Development Resources Agency, and the Clerk Recorder, as well as other departments, such as the Treasurer and Health and Human Services. The General Fund provides for the majority of County operating expenses and is the source for contributions to Public Safety and Roads/Transportation.

### **A. Suspension of Proposition 1A**

**\$8M-\$11.1M**

The state budget proposal contains legislation authorizing suspension of Proposition 1A. This will have the single greatest impact on Placer County revenues and will result in a property tax revenue loan to the State of California currently estimated to range between \$8 million to \$11.1 million (8%) in the General Fund and \$322,000 and \$105,000 in the Library and Fire Funds respectively. County Special Districts will also receive an 8% reduction in property tax revenues. A significant additional impact will be the loss of ability of this fund to contribute to other funds. The General Fund typically provides significant contributions to funds such as the Public Safety Fund, the Road Fund, the Building Fund, the Library Fund, and others. When the state raids county property tax revenues, it diminishes the ability of the county to utilize its general purpose, General Fund revenue.

### **B. Health & Human Services**

**State Budget \$5M-\$6M  
Realignment Reduction \$1.4M**

The state budget is anticipated to result in a reduction of \$5 - 6 million to the HHS budget for FY 2009-10. In addition to specific program reductions, Realignment Revenue is projected to decline by an additional \$1.4 million, yielding a combined reduction of up to \$7.4 million beyond FY2009-10 Proposed Budget.

The anticipated reductions reflect a series of state cuts, policy reforms, and revenue reductions with the most significant occurring in CalWORKS, Medi-Cal/Healthy Families, In-Home Supportive Services (IHSS), and to funding for substance abuse treatment.

The reforms in CalWORKS target both the aid recipients and the counties who administer the programs. Recipients will incur reductions in eligibility criteria for services and direct aid payments. Counties will incur a 25% reduction in funding for child care and for employment services in each of the next two years resulting in the loss of services to 1,100 residents including 775 children and 325 adults. In addition, beginning in FY 2010-11, the county will experience increased costs and additional unfunded workload due to expanded requirements for self-sufficiency reviews and other eligibility restrictions to clients. CalWORKS cuts will also place an additional burden on the child welfare, health care, and educational systems.

Reductions to the Medi-Cal/Healthy Families programs primarily include restricting eligibility criteria for recipients receiving health care, significant cuts to the county administration of the program, and the expansion of managed care. These changes will result in impacts to county residents including 4,700 children with reduced access to the Healthy Families program, suspending enrollment for all new eligible applicants, 3,500 women losing access to women's health services in the Medi-Cal program, and eligibility determination delays for the 9,053 annual applicants to the Medi-Cal program.

State budget cuts result in significant impacts to county funding for child protective services and other supportive services to children in the foster care system. Impacts include increased social worker caseloads of 50 percent for 560 foster children and families in the county in addition to reduced services to 40 transitioning foster youth in the county.

Reforms in IHSS include policies that reduce fraud and abuse to include fingerprinting and criminal background checks and expanding the management and oversight responsibilities of county administration. The share of costs for a small percentage of care recipients will also be increased. These reforms will result in eliminating services to 265 recipients and reducing services to an additional 227 recipients.

State General Fund support for Proposition 36, Substance Abuse and Crime Prevention Act, was completely eliminated with a provision that Federal funds may partially restore state funding reduction. This reduction would eliminate 20% of available county substance abuse treatment funding resulting in the elimination of substance abuse treatment for 300 county residents.

In recognition of the anticipated significant state reductions in Health and Human Services program reductions, Placer County HHS and the County Executive Office have been begun restructuring services in anticipation of the severe funding constraints that will soon be facing county programs.

## **II. Public Safety**

**\$3.8M**

Although Public Safety was originally targeted for state budget reductions, the current budget package completely eliminated those initial proposals. However, funding for the Sheriff's and District Attorney's Offices and for the Probation Department will be significantly impacted by further decline of Public Safety Sales Tax revenue. Current projections suggest an additional reduction of \$3.4 million (\$2.6 million for the Sheriff's Department, and \$429,000 each for the District Attorney and Probation Department) in FY 2009-10. State funding cuts to the Judicial Branch are anticipated to result in reduced funding from the Superior Court to the Sheriff Office for the Court Security contract (estimated to be a \$400,000 reduction).

The state budget proposal includes plans to save up to \$1.2 billion by reducing the State's responsibility for 27,300 inmates and offenders through a variety of measures such as:

- Expanding alternative custody options for lower-risk offenders,
- Reducing parole supervision caseloads,

- Commuting the sentences of criminal alien felons subject to deportation,
- Adjusting the thresholds of property crimes, and
- Expanding positive behavior and rehabilitation credits available for reducing prison sentences.

Although there is no direct funding impact to the county from these reforms, an indirect impact to local public safety is anticipated in the areas of prosecution, detention and supervision as these offenders return to local jurisdictions.

### III. Road Fund

While the state has withdrawn the original plan to take the Highway User Transportation Account (HUTA) funds, they are deferring \$3.5 million in HUTA payments until January 2010, and deferring \$1.9 million in Proposition 42 funds until May 2010. Even with full receipt of state funding in FY 09/10, staff is anticipating downward fluctuations in cash flow due to deferrals.

As mentioned earlier in this report, suspension of Proposition 1A challenges service delivery for County funds receiving General Fund contributions, including leveraging critical funding for road maintenance. In order to continue receiving \$3.7 million annually in Proposition 42 funding, a substantial annual General Fund contribution of \$3.7 million is required. This program, originally implemented in 1994 as AB 2928 and continued in 2004 with Proposition 42, is commonly known as "Maintenance of Effort" (MOE) for local streets and roads maintenance. The combined funding from General Fund contribution and the state is \$7.4 million annually and represents 46% of Road Maintenance revenues that supports general maintenance services, snow removal, road patching, and traffic signalization.

Road Maintenance Funding  
 FY2009-10  
 Total: \$16.3M



Absent the \$3.7 million County contribution, \$7.4 million of funding for these core operations is at risk. Several strategies can be implemented to secure Proposition 42 and hold the Road Fund whole, including review of program funding priorities and maximizing on use of all available resources.

It must be noted that due to the strain on the General Fund from the economic downturn and declining revenues, the Road Fund has already experienced a \$2.3 million reduction in General Fund contribution for overlay in the Proposed Budget as compared with contributions in previous years. While Public Works has stretched resources and reduced services in a manner to minimize impacts to the extent possible, the road services have had to ratchet down. Any further loss of funding by not securing Proposition 42 will exacerbate the service delivery problem.

#### **IV. Transit**

Transit services within the entire County continue to grow in demand while there are declines in supporting revenues. Between FY 2007-08 and FY 2008-09, Local Transit Fund (LTF) revenues have declined 33% (\$2 million). This is the primary funding source for transit services in Placer County. At the same time, State Transit Assistance Fund (STA) funding has been eliminated by the state with the May Revise.

Western Placer demand for commuter services through Placer County Transit (PCT) has resulted in increased bus purchases with grant funding and some increased commuter express service. While this transit service area is experiencing revenue declines that must be monitored they have proportionately higher funding allocations due to urban population designation by which to support transit services. However, the eastern county area serviced by Tahoe Area Regional Transit (TART) is more challenged to meet even base services while there is increasing demand for special service for resorts. The combined service demand growth with less funding allocations due to a more rural population designation challenges the TART budget. Various strategies may be considered ranging from route elimination to increasing headway.

#### **V. Strategies for Facing Funding Challenges**

##### **Conclusion**

Since the Board was presented with the Proposed Budget in May, significant additional budgetary challenges have developed. However these challenges were largely anticipated by your Board, and Board action over the past several years has allowed the county to be better prepared to weather the difficult reductions that will be necessary as a result of state deficits, and the continuing decline of the state and national economy. These challenges and the commensurate budget reductions will result in the delivery of less services than in previous years, given their severity. Strategies to address the budget will be brought to your Board during the workshops that are scheduled for August 18-19.