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
Bekki Riggan, Principal Management Analyst
Linda Oakman, Principal Management Analyst

DATE: December 13, 2011

SUBJECT: Budget Update: FY 2011-12 and FY 2012-13

Action Requested

Receive an update on the County budget and operations related to FY 2011-12 and FY 2012-13, and receive Board direction as appropriate.

Background

County Budget Context

Placer County has been the second fastest growing County in the State over the last decade, in large part driven by the comparatively strong economy, spectacular and diverse landscape, and population exodus from more urban centers such as Sacramento, Southern California, and the Bay Area. Since 2001, the County population has grown 40 percent, from 251,274 to 352,380 residents. Of the total 101,106 new Placer County residents added over the past decade, 92% have located in our cities. In recent years, the population growth has slowed; however, the increased service demands in county responsibility areas continue to pose challenges in light of decreased revenues and increased uncertainty.

During periods of strong economic growth, accompanying revenue growth provided your Board with flexibility to fund priorities for the County. Unfortunately, revenue growth stagnated in FY 2007-08 as the economic downturn unfolded, followed by the most rapid decline in revenues since 1978. Per capita revenues have declined 7.9% in the last three years and are now 8.1% below the per capita amount in 1978, as adjusted by inflation.

Due to your Board's proactive approach to the recession, per capita expenditures have decreased concomitantly in a transition to sustainable costs and service levels. However, property taxes, the county's largest general purpose revenue, are expected to decline further for at least another year, resulting in continued budget and operations challenges. At the same time, the County faces ongoing cost drivers due to increases in normal costs of doing business (transportation, utilities, etc.) as well as health benefit premiums and growth in salaries due to merit increases and Measure F for Public Safety employees.

FY 2011-12 Budget

The FY 2011-12 Budget remains on track, with revenues and expenditures generally in line with the budget plan. Preliminary projections for fund balance carryover to fund the FY 2012-13 budget are $27 million for the General Fund and $3 million for the Public Safety Fund. Amounts are preliminary based on what is known at this early stage of the year and will be updated as part of the FY 2012-13 budget workshops early in 2012. The pace of hiring has put downward pressure on fund balance as more positions are filled. To date, there have been 44 approved external new hires this year compared to 54 through all of last year mostly related to staff replacing retirements or filling positions previously held vacant pending potential State cuts. This does not include any staffing changes that may be needed related to the 2011 Realignment (i.e. AB 109).

The stability of the FY 2011-12 Budget is a testament to the continued proactive approach of your Board to ensure sustainable service levels within local and State imposed fiscal constraints. In response to local and State imposed challenges, your Board held a number of budget workshops throughout the year focusing on county services including programs with declining revenues, those with reduced workload, and those placed at risk by state budget proposals. Through your Board's direction, the FY 2011-12 Budget aligns available resources to sustainable service levels to the greatest extent possible in this challenging economic climate.

The County's FY 2011-12 Final Budget totals $765.8 million including:

- $380.6 million General Fund
  - Amount includes $4.9 million added to General Fund reserves for the first time in three years.
- $144.1 million Public Ways and Facilities Fund (i.e. Road Fund)
- $135.7 million Public Safety Fund
  - Amount includes $1.8 million added to Public Safety reserves
- $74.8 million Capital Projects Fund
- $30.6 million Other Funds including debt service, Library, Housing Authority, Tahoe Tourism, Fire Control

Additional details regarding the FY 2011-12 budget workshops can be found at:
http://www.placer.ca.gov/departments/ceo/outreach/latestbudgetinformation.aspx

Due to the expansion of county service responsibilities required by the state under the 2011 Realignment, there remains continued uncertainty regarding the County's immediate and long term budget and service levels. There are ongoing efforts at the state level to resolve this uncertainty through ballot measures and further legislative action; however, uncertainty is likely to characterize the upcoming state budget process throughout next year. As such, staff will continue to monitor local impacts and bring significant policy or budget issues to your Board.

State Budget Impacts

Mid-year "trigger" cuts are likely to shift $250,000 in costs to the County in the current year.

The State Budget continues to have significant impacts on the County, impacting Redevelopment, Health and Human Services, Library, Public Safety, and others. The Board solved for a number of impacts related to State Budget cuts as reflected in the FY 2011-12 Final Budget. In addition, the potential State imposed "trigger" cuts have been solved to some degree with remaining cuts including $250,000 to Probation related to housing juvenile offenders with the State ($125,000 charge to the County per juvenile offender). The State faces a December 15, 2011 deadline to determine whether the trigger cuts will go into effect. At this time, state revenues are below projections by $1.0 billion (3.4%) through November. Although revenues have improved significantly over the last month, given the overall significant underperformance of revenues, it appears likely that the trigger cuts will go into effect January 1, 2012.

Due to the State's estimated $13 billion deficit for FY 2012-13, staff anticipates further reductions as well as potential additional restructuring of State-County responsibilities. Staff will return to your Board following the release of the State Budget proposal in January.

2011 Realignment and AB 109

The 2011 Realignment, specifically the change in responsibilities related to the managing of offenders under AB 109, has created the largest policy and fiscal implication to the County.

Public safety realignment enacted under AB109 has been in effect since October 1, 2011. The County contracted with former Placer County Chief Probation Officer Steve Pecor to work with Placer County's Community Corrections Partnership (CCP) on the development of an implementation plan. The draft plan is undergoing final review and is anticipated to be presented to your Board in January 2012 and will outline anticipated impacts and funding needs for first year implementation for the Sheriff, District Attorney, Probation, Public Defender, Health and Human Services, and local law enforcement.

In anticipation of potential AB109 impacts on local corrections, the Sheriff has proposed a scenario for opening the South Placer Adult Correctional Facility (SPACF) that would expand current bed capacity system-wide by 96 beds in early FY 2013-14. The Sheriff has indicated that an 18-month lead time is required to recruit, hire and train new corrections staff and to develop operational policies and procedures for the new facility. Accordingly, this option would require up to $19.3 million of new funding in FY 12-13, as detailed below.

The following chart compares the Sheriff's proposal to current jail costs and capacity to projected costs and capacity if both facilities were fully operational.

	FY 2011-12 Final Budget *(Current Corrections Budget)*	**FY 2012-13* Inmates & Staff Split** *(Sheriff's Proposal)*		**FY 2012-13** Full Operational Capacity**	
	Capacity = 581; Staff = 136 GB = $34.6M	Capacity = 677; Staff = 222 GB = $51.3M		Capacity = 932; Staff = 274 GB = $63.3M	
	Auburn	Auburn	SPACF	Auburn	SPACF
Operational Capacity	581	326	351	581	351
Jail Staffing (Funded Positions)	136	91	131	143	131
Gross Budget	$34.6M	$24.0M	$27.3M	$36.0M	$27.3M
Cost Increase from Current		**$16.7M**		**$28.7M**	

* 79 New Staff with Up-front OPEB Costs of $4.1M
** 131 New Staff with Up-front OPEB Costs $6.8M

The first column depicts the Sheriff's current corrections budget for FY 2011-12 of $34.6 million for 136 funded jail staff positions and an operational capacity of 581 inmates.

The second column reflects the plan proposed by the Sheriff to open the SPACF in early FY 2013-14 with jail staffing and inmate populations being divided between the Auburn Jail and the SPACF. In this scenario, 79 positions are added for a total of 222 funded positions and the operational capacity grows from 581 to 677, an increase of 96 beds, with a projected annual operating cost increase of approximately $16.7 million. Additional one-time upfront costs will be required to bring the facility on line including up to $11 million in start-up costs ($5-7 million in facility outfitting costs and $4.1 million in OPEB charges for 79 positions).

The third column is a projection of the annual operating costs to operate both facilities (Auburn & SPACF) at full operational capacity. In this scenario, 131 positions are added for a total of 274 funded positions, and the operational capacity grows from 581 to 932, an increase of 351 beds, with a projected annual operating cost increase of approximately $28.7 million.

The most important variable in determining the timeline for adding jail capacity to the system will be the impact of public safety realignment and AB109. This impact to Placer County's criminal justice system from this new legislation will be closely monitored over the initial stages of implementation and capacity added to the system as required.

Over the next several months, CEO proposes to work with the members of the Criminal Justice Policy Committee to closely monitor the impacts of AB109 on jail population, probation supervision caseloads and on other county services and will return to your Board with funding options for your consideration and direction.

FY 2012-13 Budget Outlook

The FY 2012-13 budget outlook begins with an initial estimated deficit of $5.1 million ($2.3 million General Fund, $2.8 million Public Safety Fund). Potential adjustments to balance the General Fund are available; however, the County faces a more difficult challenge within the Public Safety Fund.

<u>GENERAL FUND</u>

Based on preliminary projected revenue and expenditure data, the General Fund for FY 2012-13 begins with a $2.3 million deficit with the following assumptions:

- Revenues:
  - Projected to increase slightly overall (0.6%; $2.2 million) impacted by a 1.0% projected decrease in property taxes and decreases in other property related revenue ($1.5 million), plus other revenue decreases, offset by increases in other taxes and intergovernmental revenues.
    - Property Tax revenues, the County's largest discretionary revenue source, will have declined $13.1 million (12.9%) since FY 2007-08.
    - Sales Tax revenues are assumed to increase 3% ($300k).
  - $27 million in estimated FY 2011-12 fund balance rollover used to balance the budget.
- Expenditures:
  - Expenditures are also projected to increase very slightly overall (0.6%; $2.3 million) including increases in benefits (health insurance and PERS) of $2.6 million.
  - Increased contribution to Capital Facilities $1 million to $4.5 million in accordance with the FY 2012-13 amount in the Board adopted Capital Facilities Financing Plan.

  - Projection assumes the same number of positions will be funded in FY 2012-13 as in the current fiscal year.
  - Assumes that some increase in benefit costs will be allowed in department budgets.
- Other Assumptions:
  - No change to General Fund contribution for Public Safety and HHS.

Initial adjustments to balance: Potential adjustments are available to mitigate the initial General Fund deficit. These solutions are generally one-time in nature and are consistent with adjustments used in prior years to balance. Potential adjustments include:

- Remove one-time costs for labor related adjustments and Service Delivery options ($1.5 million one-time savings).
- Decrease General Liability and Workers Compensation funding to the 80% confidence level consistent with the Budget and Financial Policy ($276k one time savings).
- Eliminate General Fund set-aside in General Liability ($500k one-time savings).

The below table reflects the preliminary revenues and expenditures for the FY 2012-13 budget, outlines the initial deficit without adjustments, and shows the impact of folding in the potential adjustments as identified above.

Table 1:

FY 2012-13: General Fund

Preliminary Budget Estimates

	General Fund without adjustments (In millions)	General Fund including potential adjustments (In millions)
Estimated FY 2012-13 Revenues	$350.8	$350.8
Estimated FY 2012-13 Expenditures	$380.1	$377.8
	($29.3)	($27.0)
Estimated Fund Balance Rollover	$27.0	$27.0
Use of General Fund Reserves		
Remaining Deficit	($2.3)	$0.0

Assumptions:
1. 1% drop in Property Tax Revenues and 3% increase in sales tax
2. Same number of funded positions as in the current year with no COLA's
3. Increased benefit costs $1.7 million (PERS 1.1% increase, Health insurance 9% increase for half year)
4. Includes $4.5 million for Capital Contributions per the Capital Facilities Financing Plan
5. Includes $500k for OPEB prepayment
6. Estimated Fund balance rollover assumes leaving unfilled General Fund positions vacant (currently 38 positions excluding HHS)
7. Includes $1.4 million in set asides for HHS potential State impacts

Adjustments to Balance:
1. Removes $1.5 million in one-time costs for Labor related adjustments and Service Delivery options
2. Reduces General Liability and Workers' Comp liability confidence level from 85% to 80% ($300k)
3. Remove General Fund set-aside in General Liability ($500k)

The above adjustments would tentatively balance the General Fund for FY 2012-13. However, amounts will change to some degree as the budget is developed given the preliminary nature of the data. Removing the one-time costs, while an ongoing solution, will reduce fund balance available for the following year. In addition, once departments have worked through revenue and expenditure changes in their budgets it could further impact the General Fund. As such, estimates should be considered tentative and will be refined over the coming weeks and months as the FY 2012-13 Budget is developed. Impacts related to State funding will also be reflected as appropriate following the January 10, 2012 release of the State Budget.

PUBLIC SAFETY FUND

Based on preliminary projected revenue and expenditure data, the Public Safety Fund for FY 2012-13 begins with a $2.8 million deficit with the following assumptions:

- Revenues:
  - Projected to increase modestly (1.6%; $2.1 million) mainly due to an expected growth in Public Safety Sales Taxes of approximately $2.5 million (3%) more than projected for FY 2011-12, but offset by other revenue decreases and removal of miscellaneous one time revenues.
- Expenditures:
  - Expenditures are also projected to increase slightly (1.4%; $1.9 million) due primarily to increases in salary and benefits connected to Measure F and merit increases, as well as increases in health insurance and PERS costs.
- Other Assumptions:
  - Includes $816k in "lockdown costs" related to the South Placer Adult Correctional Facility.
  - Assumes Public Safety Realignment (AB109) funded at State allocation level.
  - Public Safety Realignment revenues associated with AB 109 are assumed to offset associated costs.
  - Assumes a $3 million fund balance rollover from FY 2011-12.

Since revenues and expenditures are estimated to increase at approximately the same rate, the projected deficit is due to a lower fund balance carryover projection for the next fiscal year of $3 million vs. $5.6 million used to fund the public safety budgets in FY 2011-12. The difference resulting in the $2.8 million projected funding gap for FY 2012-13. The reduced fund balance projection for FY 2011-12 is based on a number of contributing factors, but is mainly attributed to fact that a number of funded positions previously held vacant throughout Public Safety are being filled in FY 2011-12.

The below table reflects the preliminary revenues and expenditures for the FY 2012-13 Public Safety Fund yielding an estimated $2.8 million deficit. The table also includes fiscal implications related to initial estimates of opening the South Placer Adult Correctional Facility.

Table 2:

FY 2012-13: Public Safety Fund *Preliminary Budget Estimates*			
	Public Safety Fund		
	Including SPACF lockdown costs(4) (In millions)	Including SPACF start up costs and half year operations(5) (In millions)	Including SPACF Full Year Operations (2014) (In millions)
Estimated FY 2012-13 Revenues(1)	$130.4	$130.4	$130.4
Estimated FY 2012-13 Expenditures(2)	$136.2	$155.1	$152.1
Estimated Shortfall	($5.8)	($24.8)	($21.7)
Estimated Fund Balance Rollover	$3.0	$3.0	$3.0
Use of Reserves		$3.0	
Remaining Deficit	($2.8)	($18.8)	($18.7)

Assumptions:
1. Assumes the same number of funded positions as in the current year with a 3% partial year increase for measure F and merit increases
2. AB 109 revenue assumed to offset AB 109 new costs
3. Increase in Public Safety Sales Tax of 3%
3. Lockdown costs for SPACF are estimated at $816k annually
4. Start up costs for SPACF includes $7 million for furniture, supplies and $4 million OPEB prepayment
5. Fund balance rollover assumes revenues $3 million higher than budget with minimal budget savings

Column 1:
Assumes SPACF is not opened with lock down costs of $800k
Column 2:
Assumes SPACF is opened for half the year with lock down costs of $408k, Start up costs of $11 million and half year operating costs of $8.3 million.
Assumes $3 million in reserves is used as a contribution for one time start up costs
Column 3:
Projects full year costs for FY 2013-14 at $16.7 million

Potential solutions:
Leave the SPACF locked down and resolve the $2.8 million deficit within the Public Safety Budgets
Reduce General Fund budgets to fund the Public Safety deficit
Use more reserves for start up costs if the SPACF is opened
Waive the upfront OPEB costs for correctional officers (increases long term liability for OPEB)

The combined FY 2012-13 deficit, including the General Fund and Public Safety Fund, is displayed below. Although these are preliminary estimates based on the assumptions discussed above, they reflect the current starting point for rolling out the initial base budget to departments.

Table 3:

FY 2012-13: Combined General and Public Safety Funds
Preliminary Budget Estimates

	General Fund		Public Safety Fund		
	Beginning Deficit (In millions)	Including potential adjustments (In millions)	Including SPACF lockdown costs(4) (In millions)	Including SPACF start up costs and half year operations(5) (In millions)	Including SPACF Full Year Operations (2014) (In millions)
Estimated FY 2012-13 Revenues (1)	$ 350.8	$ 350.8	$ 130.4	$ 130.4	$ 130.4
Estimated FY 2012-13 Expenditures(2)	380.1	377.8	136.2	155.1	152.1
	(29.3)	(27.0)	(5.8)	(24.7)	(21.7)
Estimated Fund Balance Rollover	27.0	27.0	3.0	3.0	3.0
Use of Reserves				3.0	
Remaining Deficit	$ (2.3)	$ 0.0	$ (2.8)	$ (18.7)	$ (18.7)

1. Assumes 1% drop in Property Tax Revenues and 3% increase in sales tax and public safety sales tax
2. Assumes the same number of funded positions as in the current year
3. AB 109 revenue assumed to offset AB 109 impacts
4. Lockdown costs for SPACF are estimated at $816,000 annually
5. Start up costs for SPACF includes $7 million for furniture, supplies and $4.1 million OPEB prepayment

Fiscal and Policy Implications

Following several years of significant challenges, the General Fund tentatively appears manageable based on preliminary data. Risk of further local or State driven challenges remain; however, the Board's proactive and measured course has positioned the County relatively well in a continued volatile economy. The County, however, faces a greater challenge in the Public Safety Fund due to ongoing cost drivers, reduced operating margin under the current approach, and potential impacts related to AB 109. The table below is intended to define the parameters for upcoming budgets and associated policy implications. These do not reflect staff recommendations about what direction to go but rather provide a big picture snapshot of the challenge before the County.

Table 4:

	Approach	Policy Implications
Status quo operations, defer SPACF	Absorb shortfall within Public Safety Fund	Reduced operational flexibility or service levels totaling $2.8 million.
	Cover shortfall by reprioritizing General Fund	Request General Fund departments absorb benefit increases and reprioritize $1.7 million to partially offset Public Safety shortfall. Results in reduced operational flexibility or service levels totaling $1.7 million in the General Fund. Allows Public Safety departments to build pay and benefit increases in their budgets. Use reserves on a one-time basis to cover all or part of shortfall. Would push resolution of the deficit to the following year. Redirect portion of Capital Projects support to cover all or part of shortfall. Would result in an ongoing reduction in contribution to Capital Projects to fund ongoing public safety costs and would impact the delivery of capital projects included in the Capital Facilities Financing Plan (CFFP).
	Split approach with PSF and GF covering portions of the shortfall	Implement mix of Public Safety and General Fund solutions.
Start-up costs and half-year operations for SPACF	Limit immediate operational impacts: Use portion of reserves for one-time costs, defer one-time costs such as Up Front OPEB for new hires to the extent possible, reprioritize other General Fund support	Depletion of reserves and increase to long term OPEB costs. Significantly limits Board flexibility to fund other priorities or mitigate other potential impacts. Reduced operational flexibility or services levels within some General Fund areas.
	Balance immediate and ongoing operational impacts: Use reserves for one-time costs, reprioritize General Fund supported	Deplete portion of reserves. Would require significant immediate reductions in General Fund supported departments and priorities.
	Reprioritize existing operations from ongoing General Fund supported operations	Would require significant immediate reductions in General Fund supported departments and priorities.
Ongoing operational costs	Reprioritize existing operations from ongoing General Fund supported operations	Would require significant ongoing reductions in General Fund supported departments and priorities.

Summary of Other Challenges

- Sewer Loans related to Applegate and Sewer Maintenance District #3
- AB 109 funding and responsibilities following completion of the initial Community Corrections Partnership (CCP) plan
- Interoperable Radio Project
- Unknown FY 2012-13 Department Budget needs. Departments may have needs that have gone unaddressed due to the constrained budgeting for the last three years.

FY 2012-13 Budget: Options for Board Consideration

- **General Fund Reserves:** $13.1 million combined between General Reserve ($8.1 million) and the Designation for Economic Uncertainties ($5.0 million). Funding from the reserve is available on a one-time basis only.
- **Redirect Capital Projects funding:** $4.5 million in funding is assumed in the FY 2012-13 preliminary estimates consistent with the Capital Facilities Financing Plan. Funding is ongoing to support capital projects and can be reprioritized to other Board priorities. Doing so would impact the timing and funding related to Capital Projects.
- **Request departments absorb benefit Increases:** $1.7 million in funding is assumed in the FY 2012-13 preliminary estimates to cover benefit cost increases within General Fund departments. This funding could be reprioritized to other Board priorities. Departments have annually absorbed Salary and Benefit cost increases since FY 2009-10. To the extent benefit costs continue to be absorbed by Departments, $1.7 million would be available to reprioritize to other Board priorities.
- **Restrict Hiring:** Maintaining vacant funded positions would reduce current year and ongoing expenditures and could create additional Board flexibility to reprioritize funding to other priorities.
- **Include Reduction Scenarios in Budget Rollout:** The County formally begins its budget development each year with the January Budget Rollout. For the past few years, departments have been requested to develop a base budget along with identifying implications of potential reduction scenarios to ensure the County budget remains in balance. To provide specific impacts related to above implications and options, staff could include reduction scenarios along with the Base Budget based on absorbing benefit increases and also reprioritizing some portion of General Fund support to other Board priorities. Doing so would provide data to the Board following the February submittal of department budgets while preserving the flexibility to hold or implement the reductions.

Next Steps

Staff is seeking your Board's direction on finalizing the approach to the FY 2012-13 January Budget rollout and any policy direction related to the above options to balance the FY 2012-13 budget for the General Fund and/or Public Safety Fund.