MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO: Honorable Board of Supervisors

FROM: David Boesch, County Executive Officer
By: Graham Knaus, Finance and Budget Operations Manager

DATE: March 12, 2013

SUBJECT: Multi-Year Budget Framework and FY 2013-14 Budget Direction

Action Requested

The Board is requested to take the following actions:

1. Provide feedback and direction on a multi-year budget framework that maintains the long-term sustainability of County operations;
2. Direct staff to develop the FY 2013-14 Budget consistent with the multi-year budget framework to balance County priorities within available resources;
3. Provide other direction as may be appropriate.

Background

At the July 10, 2012 meeting, the Board provided direction on a multi-year implementation strategy for the Budget and Financial Policy. The strategy is intended to transition the County Budget and operations to a more sustainable level, based on future expected revenues and cost drivers. It also included the intent to reduce the use of one-time funds for ongoing operations, relieve out-year pressure related to operational cost drivers, and provide increased Board flexibility within the allocation of limited discretionary revenues to support County services.

The FY 2012-13 Final Budget was aligned to the multi-year budget strategy; balancing across County priorities, reducing the use of one-time funding for ongoing operations, increasing General Fund and other reserves, and providing modest funding for infrastructure demands. At that time, the Board directed staff to return with budget recommendations to ensure long-term sustainability of County operations based on changing revenues and expenditures and service demands.

The FY 2013-14 Budget development process began by building from the FY 2012-13 Final Budget. It is the starting point for the assumptions of revenues, expenditures, and beginning carryover fund balance layered with out-year assumptions for major categories of revenues and expenditures. Each of the assumptions has been updated to reflect the gradually improving economy, estimates of the future cost-of-doing business, implications of new Federal and State requirements, and local priorities. The long-term challenge appears manageable but requires continued prioritization of limited resources to address cost pressures that are continuing to outpace expected revenue growth.

Multi-Year Budget Framework

The Budget and Financial Policy-based framework focuses on the areas of the County Budget with the greatest level of Board discretionary authority: the *General Fund* and the *Public Safety Fund*. These two funds are supported by the vast majority of discretionary revenues. The *General Fund* also includes mandatory and discretionary contributions to other funds such as the *Public Safety Fund, Public Ways and Facilities Fund (Road Fund), Capital Projects Fund, Library Fund*, and *Fire Fund*.

Since the adoption of the FY 2012-13 Final Budget, staff has been working to develop a policy-based framework for long-term sustainability of operations aligned to County priorities. The policy-based framework continues the Board's direction from July 10, 2012 to develop budget recommendations that meet the following priorities:

- ✓ Consistency with the multi-year budget model as updated to reflect changes in revenue and expenditure estimates;
- ✓ Reduce the reliance on carryover fund balance to achieve greater sustainability of operations;
- ✓ Continue policies that limit future County liabilities;
- ✓ Reduce the use of one-time solutions for ongoing operations;
- ✓ Recognize changes in service demands and likely cost pressures across the County service delivery model; and
- ✓ Aligned with short-term and long-term County priorities.

The policy-based framework has been guided by the overriding principle of attempting to identify the most reasonable balance between County priorities and available resources over the next several years. The framework includes the following key elements:

1. <u>Priority-based budgeting:</u> Continue phased approach to implementing priority-based budgeting to most clearly align the distribution of County resources to identified priorities. As such, today's discussion follows the February 26, 2013 Priorities and Challenges Workshop that highlighted priorities and challenges across departments as a starting point for the budget development process.

2. <u>Approach to Revenues:</u> Proportionate distribution of discretionary revenue based on priorities across General Fund and Public Safety Fund departments and other priorities. This approach is a change from last year to reflect the prioritized distribution of resources between the *General Fund* and *Public Safety Fund*.

3. <u>Approach to Expenditures:</u> *General Fund* discretionary revenue to cover portion of future increased costs for *General Fund* and *Public Safety Fund* departments.
    a. Remaining cost increases to be absorbed by departments through reducing operating margin, changing service delivery model, or offsetting with grant or other revenues. Approach assumes the continuation of up-front OPEB policy and retiree paid health policy to limit long-term liability by funding the cost at the time of the triggering event such as a retirement or new hire.

4. Maximize stability and flexibility: Continued progress towards Budget and Financial Policy related to General Fund reserves, funding for infrastructure and other priorities, reduced reliance on carryover fund balance, and reduced reliance on one-time funding for ongoing operations.

General Fund

The *General Fund* is the County's largest Fund. It includes discretionary revenues such as property tax and sales tax and provides support for most Countywide operations directly or through contributions such as to the *Public Safety Fund*, *Road Fund*, and *Capital Projects Fund*.

Based on the above policy-based framework related to revenues, costs, and County priorities, the *General Fund* would be balanced as displayed in Table 1 below:

Table 1

Multi-Year Budget Approach: General Fund

March 2013

	2012-13 Budget	2013-14 Projection	2014-15 Projection	2015-16 Projection	2016-17 Projection
Fund Balance Carryover:	$ 30,513,172	$ 26,000,000	$ 25,000,000	$ 24,000,000	$ 23,000,000
Carryover % of expenditures	8%	7%	7%	6%	6%
Revenues:					
Taxes	$ 144,164,463	$ 148,323,613	$ 150,023,239	$ 153,583,410	$ 158,507,379
Intergovt'l Revenues	150,033,162	152,389,746	154,987,236	157,946,085	161,549,196
Other	44,847,728	44,499,535	45,268,730	44,719,976	45,493,312
Total Revenue & Carryover:	**$ 369,558,525**	**$ 371,212,894**	**$ 375,279,205**	**$ 380,249,471**	**$ 388,549,887**
Expenditures:					
General Fund Salaries & Benefits (1)	$ 153,147,179	$ 158,524,615	$ 163,964,748	$ 168,046,238	$ 172,172,471
Retiree Health & Dental	12,163,676	13,311,231	13,847,713	14,406,995	14,990,047
General Fund Other	115,539,912	116,187,835	117,400,368	118,245,701	119,283,007
Contribution to Public Safety (2)	73,145,343	75,481,400	76,349,132	78,098,148	80,496,593
Capital Improvement & Roads	8,270,896	8,270,896	8,270,896	8,270,896	8,270,896
Total Uses of Funds: (3)	**$ 362,267,006**	**$ 371,775,977**	**$ 379,832,857**	**$ 387,067,978**	**$ 395,213,014**
Cumulative Dept Absorbed Costs (4)	**$ -**	**$ (2,986,172)**	**$ (7,194,449)**	**$ (9,494,777)**	**$ (11,867,953)**
Future Occurrences (i.e. Client Aid Reserve)	**$ 1,012,500**	**$ -**	**$ -**	**$ -**	**$ -**
One-time priorities: Reserves, Infrastructure, Other priorities (5)	**$ 4,250,746**	**$ 2,423,089**	**$ 2,640,796**	**$ 2,676,270**	**$ 5,204,827**
BOTTOM LINE:	**$ 2,028,274**	**$ 0**	**$ 0**	**$ 0**	**$ 0**

(1) Assumes continuation of existing Up-Front OPEB and Retiree Paid Health and other policies to reduce long-term liabilities.
(2) Contribution to Public Safety: maintains proportionate share of General Fund Discretionary Revenue.
(3) Contributions to HHS, Roads, and Capital Improvements generally flat over the course of the model.
(4) Cost Increases:
(a) FY 2013-14: GF covers approximately 40% of cost increases for GF and Public Safety departments. Remaining costs absorbed.
(b) FY 2014-15 (on-going) GF and Public Safety departments absorb 100% of increased salaries, health, and pension benefits (approx $2-4 million annually).
- GF covers other cost increases (approx $1-2 million annually). Reflected in increased contribution to Public Safety.
(5) Available funds for one-time or other priorities not reflected in above assumptions.

The above approach results in a balanced *General Fund* over the next several years, prioritizing the distribution of resources consistent with County priorities. However, it also requires adjustments within *General Fund* departments to keep up with increased costs-of-doing-business not covered by limited increased discretionary revenue. This is a result of increasing the contribution to public safety and greater alignment to the Budget and Financial Policy.

Public Safety Fund

The *Public Safety Fund* is comprised of three operational departments: the Sheriff's Office, the District Attorney's Office, and the Probation Department. In recognition of public safety as a long-standing County priority, the multi-year budget framework includes a significant policy change to the July 10, 2012 model from flat funding to increasing the annual *General Fund* contribution proportionate to the increase in discretionary revenue.

The change improves the balance within the *Public Safety Fund* and results in a more manageable fiscal challenge. In contrast to the July 10, 2012 model that showed annual and growing deficits each year reaching $8.9 million in FY 2016-17, the Public Safety Fund now appears to have a structural imbalance of $4 million representing 2.59 percent of the fund. If the same approach to covering and absorbing costs discussed in the *General Fund* above is applied to the *Public Safety Fund*, most if not all of the structure imbalance would be eliminated.

Table 2

Potential Multi-Year Budget Approach: Public Safety

March 2013

	2012-13 Budget	2013-14 Projection	2014-15 Projection	2015-16 Projection	2016-17 Projection
Fund Balance Carryover	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000
Revenues:					
Public Safety Revenue	59,186,484	59,352,457	61,277,358	62,490,014	65,029,659
General Fund Contribution	73,145,343	75,481,400	76,349,132	78,098,148	80,496,593
Total Revenue & Carryover	**$ 135,331,827**	**$ 137,833,857**	**$ 140,626,490**	**$ 143,588,162**	**$ 148,526,252**
Expenditures:					
Public Safety Salary & Benefits	97,948,337	102,521,300	106,047,261	108,928,176	111,891,951
Public Safety Other	42,933,100	38,719,667	39,546,592	40,060,355	40,589,131
Total Uses of Funds	**$ 140,881,437**	**$ 141,240,967**	**$ 145,593,853**	**$ 148,988,531**	**$ 152,481,082**
BOTTOM LINE	**$ (5,549,610)**	**$ (3,407,110)**	**$ (4,967,363)**	**$ (5,400,368)**	**$ (3,954,830)**
Gap Percentage of Net Budget	**3.94%**	**2.41%**	**3.41%**	**3.62%**	**2.59%**

Key Assumptions

* General Fund Contribution - maintain proportionate share of General Fund Discretionary Revenue.
* Assumes all existing funded positions remain funded.
* Public Safety Sales Taxes (PSST) increased consistent with Sales Tax projections.
* AB 109 revenues: FY 2012-13 as base, increased annually consistent with sales tax.
* Projected "Gap" assumes $3 million Annual Fund Balance Carryover.
* Does NOT include ANY costs associated with opening SPACF (one-time or on-going).

Sustainability of County operations

The above multi-year budget framework would increase the sustainability of County operations over the next several years while achieving the following:

- ✓ Priority Based Budgeting – distribution of resources linked to County priorities and recognition of the highest priority demands;
- ✓ Significant progress towards full implementation of the Budget and Financial Policy;
  - o Reduced use of one-time funding for ongoing operations;
- ✓ Reduced reliance on carryover fund balance.
- ✓ Balanced business model for County operations.

The framework is based on existing operations and related revenues and expenditures. As such, it does not include the following:

- ✓ Funding or costs related to the phased opening of the South Placer Adult Correctional Facility currently under development by the Sheriff and the County Executive Office;
- ✓ Service delivery model or other changes that may be recommended by the Criminal Justice Master Planning effort currently underway;
- ✓ Library Strategic Plan recommendations nearing completion; and
- ✓ Potential revenues related to the Middle Fork Project.

FY 2013-14 Budget

The initial FY 2013-14 budget development reflects staff recommendations to continue on a path towards sustainability consistent with prior Board direction. It reflects updated estimates of revenues and expenditures and is aligned to the policy-based multi-year budget framework. Departments have submitted a "Base" budget that is balanced to the above multi-year framework, as well as a "Requested" budget that includes supplemental funding requests. Table 3 below displays the FY 2012-13 Final Budget, FY 2013-14 Department Base Budget, and the FY 2013-14 Department Requested Budgets:

Table 3

Net Budget							
Fund	FY 2012-13 Final Budget With Revisions	FY 2013-14 Dept Submitted Base	$ Change	% Change	FY 2013-14 Department Requested	$ Change	% Change
General Fund	$ 371,505,608	$ 370,622,697	$ (882,911)	-0.2%	$ 374,123,674	$ 2,618,066	0.7%
Public Safety Fund	142,761,357	139,875,738	(2,885,619)	-2.0%	154,554,681	11,793,324	7.6%
Public Ways and Facilities Fund	120,988,663	74,795,760	(46,192,903)	-38.2%	75,835,760	(45,152,903)	-59.5%
Capital Projects Fund	79,469,985	63,378,168	(16,091,817)	-20.2%	63,376,668	(16,093,317)	-25.4%
Other Funds	33,965,770	26,835,338	(7,130,432)	-21.0%	27,147,196	(6,818,574)	-25.1%
Provision to Reserves	9,278,338	0	(9,278,338)	-100.0%	0	(9,278,338)	0.0%
All Operating Funds	**$ 757,969,722**	**$ 675,507,701**	**$ (82,462,021)**	**-10.9%**	**$ 695,037,979**	**$ (62,931,743)**	**-9.1%**

Following the February 26, 2013 Priorities Workshop, staff has been meeting with departments to analyze and develop recommendations on the supplemental funding requests included in the Department Requested budgets. The requests span County operations and include a mix of one-time and ongoing costs to the County. To ensure a balanced budget for FY 2013-14 and beyond, staff will continue working with departments within the context of available resources. Some requests will be recommended for inclusion in the Proposed Budget. Other requests may be deferred for decision at the Final Budget once final revenues have been determined or requests may be held for the year.

A summary of all supplemental requests is available at the Clerk of the Board's Office. The requests by fund are displayed below:

Table 4

Supplemental Requests					
Fund	**Expenditures**	**(Revenue)**	**NCC**	**1-Time NCC**	**Ongoing NCC**
General Fund	3,457,968	(209,575)	3,248,393	1,993,367	1,255,026
Public Safety Fund	15,258,624	(3,606,569)	11,652,055	3,546,369	8,105,686
County Library Fund	144,372	(244,372)	(100,000)	-	(100,000)
Fire Protection Fund	167,486	(57,000)	110,486	-	110,486
ISF and ENT Funds	537,253	(850,597)	(313,344)	-	(850,597)
Total	**19,565,703**	**(4,968,113)**	**14,597,590**	**5,539,736**	**8,520,601**

Next Steps

The County Executive Office will continue vetting department budget requests across all funds to develop a balanced budget for Board consideration. Budget development will be guided by County priorities and Board adopted financial policies and direction. The FY 2013-14 Proposed Budget is targeted for presentation to the Board at the June 4, 2013 meeting.

Additional information about the County Budget can be found at the following link:

http://www.placer.ca.gov/Departments/CEO/LatestBudgetInformation.aspx

Fiscal Impact

The multi-year budget framework and associated FY 2013-14 Budget development process would continue the path towards greater sustainability of countywide operations. The requested actions would position the Board to meet the highest County priorities while providing flexibility to adapt to changing revenues, costs, and service demands over the next several years.

Attachment: Budget and Financial Policy

PLACER COUNTY

BUDGET & FINANCIAL POLICY

1.0 PURPOSE:

To promote financial stability and long-term planning; to direct the County Executive Office in the development and management of the County Budget; and to provide a context to guide Board decisions during the budget process and throughout the fiscal year.

2.0 POLICIES:

2.1 <u>General</u>

2.1.1 The County Executive Office shall prepare and submit no later than June 30 of each year a Proposed Budget for consideration and adoption by the Placer County Board of Supervisors. A Final Budget will be submitted for consideration and adoption by September 30^{th} of each year.

2.1.1.1 The Budget will incorporate direction and input from the Board of Supervisors and County departments as to County operating and capital needs and priorities.

2.1.1.2 The Budget will include the financial status of the County and its key funds, including financial condition and trends, budgetary impacts, and liabilities and issues that may impact future County resources.

2.1.1.3 The Budget will identify expected sources of revenue and other resources, and recommended program and capital expenditure and reserve uses for the next fiscal year.

2.1.1.4 The Budget will include performance information for County programs. Program performance measures will be developed and used for long term planning and decision-making, including future resource allocation and in consideration of new or increased funding requests.

2.1.2 The County Executive Office shall provide periodic reviews of revenue and expenditures, identify significant variances from budget, and recommend actions to address shortfalls or unanticipated increases.

2.1.3 The County Executive Office shall prepare and/or supervise the preparation of fiscal projections, capital financing plans, costing methodologies,[1] and other studies as will provide for current and future County obligations.

2.2 Revenues

2.2.1 Ongoing costs will be funded with ongoing revenues to promote fiscal stability, predictability, sustainability, and long-range planning.

2.2.1.1 New or increased, ongoing revenues will meet current obligations and reduce reliance on one-time funding and fund balance carryover.

2.2.1.2 New programs will identify an ongoing funding source(s) not already obligated for current County operations or for the future costs of current operations.

2.2.2 Budget realistic and probable revenue estimates.

2.2.2.1 Budgeted revenue will not be based on high levels of anticipated growth or be contingent upon the passage of legislation or future actions by the Board of Supervisors.

2.2.2.2 Revenues that are volatile and/or sensitive to changes in the economy should be conservatively estimated.

2.2.2.3 State revenues in the Proposed Budget will be budgeted in accordance with the Governor's January Proposed Budget for the upcoming fiscal year.

2.2.3 Imposing or adjusting fees or other charges will be periodically evaluated for any service provided by the County where full cost recovery—including department and County administration—is not currently achieved. Budget estimates will not include fee increases unless the Board of Supervisors has approved the increase.

2.2.4 County administrative (A-87) costs will be charged to non-General Fund and subvented General Fund appropriations in accordance with the annual Countywide Cost Allocation Plan.

2.2.4.1 Funds or budgets that lack sufficient appropriations or reserves to pay A-87 charges, as identified by the Cost Allocation Plan, will prepare and submit to the County Executive Office a written plan to ensure future payment.

2.2.4.2 Departments will include estimated A-87 costs in their requested expenditure budgets.

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[1] The Auditor-Controller prepares the annual countywide cost allocation (A-87) plan.

2.2.4.3 A-87 reimbursements may be credited as general purpose General Fund revenues or applied to offset program costs as determined by the County Executive Office.

2.2.4.4 Some funds may be specifically excluded from paying part or all of the A-87 as determined by the County Executive Office.

2.2.5 The County Executive Office shall solicit and consider revenue estimates from the Auditor-Controller, and other County departments as appropriate, for major tax and general-purpose revenues and for estimated carryover fund balance in preparation of the Proposed Budget.

2.2.6 Prior to applying for and accepting Federal or State grants, departments must identify current and future fiscal implications of either accepting or rejecting the grant. Areas of note are matching fund obligations, non-supplanting requirements, required continuation of the program after grant funds are exhausted, and if the program is consistent with the County's long-term goals and objectives. Before discretionary program costs are increased, departments should include recovery of department and county administrative costs of at least ten percent of direct costs for state and federal grants.

2.3 Expenditures

2.3.1 Annual priority for General Fund funding will be given to capital improvements consistent with the County's Capital Facilities Financing Plan and Road Maintenance Master Plan.

2.3.2 Carryover fund balance will be used to fund one-time expenditures, reserves and contingencies and should not be used to finance ongoing operational costs.

2.3.3 New position requests will be considered through the budget process and not otherwise during the fiscal year unless urgent circumstances exist.

2.3.4 Partial or fully funded State and/or Federal programs, administered by the County will be implemented at the level of funding provided by the State or Federal government. County overmatches for departments with maintenance-of-effort requirements will not increase, and funding levels may be reduced or eliminated.

2.3.5 All requests for new program funding should be accompanied with clear and concise statements of the program's mission, performance objectives and intended measurable outcomes.

2.3.6 Efficiency and economy in the delivery of County services are top priorities; departments are expected to make productivity improvements within their service delivery areas and reduce expenditures for discretionary programs and services.

2.3.6.1 County departments are encouraged to consolidate programs and organizations and consider alternatives for service delivery to reduce costs and the need for increased staffing.

2.3.6.2 In developing recommendations that may require operational reductions, departments should ensure that administrative and non-service areas have been reduced to the maximum extent possible before reducing direct services.

2.3.7 Automation and technology proposals must measurably demonstrate how cost savings will be achieved and/or how services will be improved, along with identifying potential sources of funding.

2.3.8 The County Executive Office will annually review rate changes for county internal service funds. Internal services funds are expected to make productivity improvements within their service delivery areas, reduce expenditures for discretionary programs and services, make administrative and non-service area reductions to the extent feasible, consolidate programs and organizations, and consider alternatives for service delivery <u>before</u> cutting direct services or proposing increased rates.

2.3.9 The General Fund's Appropriation for Contingencies should be budgeted at not less than 1.5% of the operating budget. Appropriations for Contingencies should be budgeted in all other funds, at not less than ½ of 1% of operating expenditures. In no event will Appropriation for Contingencies exceed the amount prescribed by law.

2.4 Capital Budgets

2.4.1 Capital Budgets will expand to include a list of capital construction and road projects with brief descriptions; estimated to-date and total project costs; planned project costs for at least three future fiscal years for extended projects; length of time to project completion; and proposed funding sources including current funding available.

2.4.2 Capital projects which are not encumbered or completed during the fiscal year, or multi-year projects, will be re-budgeted or carried over to the next fiscal year. Increased project costs for rebudgeted projects must be clearly identified with Final Budget adoption.

2.4.3 Capital projects will not be budgeted unless there are reasonable expectations that resources will be available to pay for them and a financing plan has been developed.

2.4.3.1 Where applicable, assessments, impact fees, user-based fees, and/or contributions should be used to fund capital projects. Projects benefiting other operating, internal services and enterprise funds shall be funded from those funds on a pro-rata basis.

2.4.3.2 Where alternative sources of financing are not available or sufficient for full funding, and the project is deemed critical for the provision of services or to meet mandated services levels, debt financing may be used in accordance with the County Debt Policy. Debt will not be used to finance on-going operational costs, including those incurred due to new facilities.

2.4.4 Project reimbursements to the County Capital Projects Fund shall not exceed actual expenditures, plus 25% of any encumbered contract balances.

2.4.4.1 Facility Services may request advance funding for any project costing less than $100,000 when the project has begun.

2.4.4.2 An accounting of all costs shall be made by Facility Services to the requesting department following project completion.

2.4.5 Departments will prepare replacement schedules and develop and implement financing plans for major capital equipment.

2.5 Fund Balance Classification and Other Financial Policies

2.5.1 The General Fund's total Committed Fund Balance for General Reserve and Committed Fund Balance for Economic Uncertainties should be accumulated over time until a minimum of 5% of the annual operating budget reserve level is achieved (calculation is appropriations less capital outlay, contributions to reserves and operating contingencies times 5% equals combined Committed Fund Balance for General Reserve and Committed Fund Balance for Economic Uncertainties).

2.5.2 The Committed Fund Balance for Future Occurrences (previously Designation for Future Occurrences) should be accumulated to a level that would provide for anticipated increases in medically indigent and public assistance caseloads during economic downturns. Reserve amounts may be adjusted periodically due to population, caseload, or funding changes.

2.5.3 The General Fund allocation to the Committed Fund Balance for Capital Asset Replacement (previously Designation for Fixed Asset Depreciation) will be equivalent to the County's annual equipment facility depreciation expense (estimated at $1.1 million annually). Accumulated funds may be used in accordance with the long-term County Capital Financing Plan for facility replacement and construction.

2.5.4 Moderate increases to Non-General Fund Committed Fund Balance for Contingencies (previously Designation for Contingencies) should be accumulated over time until a minimum 5% reserve level is achieved. Additional reserves should be assigned for equipment replacement and other identified needs. Smaller funds, or funds with uncertain or expected delays in reimbursement, may need to accumulate a larger reserve percentage for cash flow reasons.

2.5.5 The Accrued Loss Contingency for self-insurance funds shall be actuarially determined at least every other year. Reserves should be maintained at a confidence level of at least 80%.

2.5.6 Loans or transfers to or from internal services and enterprise funds shall be limited to meeting one-time funding requirements in County operating funds, and shall require repayment with interest.

2.5.7 Fund balances should be expended in the following order:

1. Restricted Fund Balance (when applicable)

2. Assigned Fund Balance

3. Committed Fund Balance

    a. Refers to amounts that can only be used for specific purposes as imposed by formal action of the Board.
    b. Formal action is defined by a majority vote of the Board or an affirmative vote of four members when required by the County Budget Act.

4. Unassigned Fund Balance (applies to the General Fund only)