

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
May 11, 2005
2:00 p.m.

To: Board of Supervisors

From: County Executive's Office

Subject: FISCAL YEAR 2005-06 RECOMMENDED PROPOSED (BASE) BUDGET

Contact: Geoffrey B. Davey, Chief Financial/Operations Officer, 874-5803

RECOMMENDATIONS:

1. That the Board approve the recommended changes in appropriations, reimbursements and revenues to the levels of the adjusted Fiscal Year 2004-05 budget, as outlined in the attached recommended budget schedules, resulting in an approved Fiscal Year 2005-06 Proposed (Base) Budget. The Proposed Budget will serve as spending authorization for Fiscal Year 2005-06 until adoption of a Final Budget in September 2005. A complete summary of the Fiscal Year 2005-06 Recommended Proposed Budget for the General Fund can be found in Attachment I.
2. That the Board approve a transfer from the Transient-Occupancy Tax (TOT) Fund to the General Fund for Fiscal Year 2005-06 in the amount of \$3,064,054. This results in no change from the level adopted in the Fiscal Year 2004-05 Final Budget. This will provide continuing financing that was used to restore certain otherwise "unfunded" General Fund programs in Fiscal Year 2004-05 (as determined by the Board during the spring 2004 Budget Workshops). It is further recommended that the Board determine use of the monies available within the TOT Fund for jointly-funded city/county programs and certain county departments which rely upon TOT funds for their (Base) budgets as outlined in Attachment II. Deliberations on the TOT Fund should otherwise be continued to the Final Budget Hearings commencing on Thursday, September 8, 2005.
3. That the Board approve the attached report from the Sheriff's Department regarding higher than expected expenses in the current budget year for Correctional Health Services, and approve the attached Appropriation Adjustment Request (AAR) No. 25-096 transferring \$1,407,350 million from General Fund Contingencies to the Correctional Health Services budget (Attachment III).
4. That the Board approve the attached report from the Voter Registration and Elections (VRE) Department regarding the costs for the unanticipated March 8, 2005, election and approve the attached AAR No. 25-095 transferring \$794,809 from General Fund Contingencies to VRE (Attachment IV).
5. That the Board approve the attached report from the Director of the Planning and Community Development Department regarding adult business enforcement (Attachment V) and approve the attached AAR No. 25-102 transferring \$100,000 from General Fund Contingencies to the Planning and Community Development Department for professional services costs.

6. That the Board receive and file the attached report from the county's sales tax consultant, MBIA, analyzing the trends of Unincorporated Area sales tax collection (Attachment VI).
7. That the Board conceptually approve the attached report from the Sheriff's Department recommending adjustment to allocations of indirect and certain other costs to contract cities (Attachment VII).
8. Receive and file the attached report (Executive Summary) from the consultants, ISES Corporation, the Deriso Consulting Group, and the Spectrum Consulting Group conducting the General Services Department Audit/Review noting the preliminary recommendations for economies/efficiencies (Attachment VIII).
9. That the Board conceptually approve the commissioning of an "overhead" audit/review during Fiscal Year 2005-06 as outlined in the attached report (Attachment IX). This review would examine the county's general administrative overhead, as well as the provision of information technology and human resources services (centralized and de-centralized). It is further recommended that the Board authorize the County Executive to coordinate the issuance of a Request for Qualifications/Proposals for consulting services to compare these areas with best-practices benchmarks.
10. That the Board approve the attached report and AAR No. 25-077 from Municipal Services Agency (MSA) regarding a requested release of General Fund reserves for the Planning and Community Development Department and the Animal Care and Regulation Department (Attachment X).
11. That the Board approve the attached two reports and Salary Resolution Amendment (SRA) No. 2005-290B from the Countywide Services Agency (CSA) and the Department of Health and Human Services (DHHS) regarding the sustainability of Mental Health Realignment Trust Fund revenues, and the use of the sustainable revenues to fund additional programs and staffing for Mental Health services (Attachments XI-A and XI-B).
12. That the Board approve the attached report from the Department of Revenue Recovery (DRR) regarding the replacement of its obsolete accounts receivable collection system (Attachment XII).
13. That the Board adopt the attached Proposed Budget Resolution approving and implementing the Fiscal Year 2005-06 Proposed Budget, consisting of the County Executive's Recommended Proposed Budget, as amended by the Board and set the commencement of the Final Budget Hearings for Thursday, September 8, 2005 (Attachment XIII).
14. That the Board approve the attached report and AAR No. 25-099 from the Department of Economic Development and Intergovernmental Affairs regarding the midyear transfer to the Sacramento Public Library Authority from County Library Fund (Attachment XIV).

I. PRIORITIES

The central themes approved by the Board during February 2004 for the County's budget process are to focus on spending priorities, the anticipated available resources of the County for each fiscal year, and the results that will be accomplished with those resources recognizing impacts

from the reduction of prior-year service levels. The approved spending priorities require that certain obligations be funded before discretionary priorities are addressed:

- A. **Mandated Countywide Obligations**, such as jails, prosecution, juvenile detention, health care for the poor, and welfare payments to eligible clients.
- B. **Mandated Municipal Obligations** such as the core requirements for providing for the public safety of the citizens living in the Unincorporated Area (Sheriff's patrol and investigations).
- C. **Financial Obligations**, where we maintain the public trust through a sound fiscal policy and fund programs that provide for revenue collection.

When funding of the county's mandated services and other obligations are met, the Board determined that the following priorities shall govern the budget process for discretionary programs:

1. **Provide the highest level of discretionary law-enforcement (municipal and countywide) services possible.**
2. **Provide the safety net for disadvantaged citizens.**
3. **Provide the highest possible quality of life for our citizens.**
4. **General government functions.**
5. **Prevention/intervention programs.**

These funding obligations and priorities were the cornerstone of the County Adopted Fiscal Year 2004-05 Final Budget. The County Executive's Recommended Proposed Budget for Fiscal Year 2005-06 continues the programs and services approved in the Fiscal Year 2004-05 Final Budget, with certain cost and other adjustments.

II. BACKGROUND: FISCAL YEAR 2005-06 BUDGET PROCESS

At the time of the adoption of the budget for the current fiscal year, we projected that the Fiscal Year 2005-06 budget process would be relatively less difficult than the previous three years. This projection assumed no further state budget impacts on our General Fund, and modestly robust growth in revenues during the 2004 to 2006 period.

During the Midyear Budget Report for Fiscal Year 2004-05 that view was validated with an initial General Fund budget forecast projecting a small shortfall (less than \$10.0 million) would likely occur in our (Base) (no growth) budget. With this relatively small budget shortfall forecast, the Board agreed to a budget process for Fiscal Year 2005-06 in which the current-year's budget would, in essence, be rolled-over for the start of Fiscal Year 2005-06.

At the Midyear Budget Report, the Board also approved the County Executive's recommendation to defer additional funding requests for Fiscal Year 2005-06 until the Final Budget Hearings in September 2005. It was anticipated that growth in General Fund programs/services in Fiscal Year 2005-06 would be held to a minimum to help mitigate the anticipated budget difficulties in Fiscal Year 2006-07 and Fiscal Year 2007-08 expected, in part, from committed increased bonded debt service.

III. SUMMARY OF CHANGES SINCE MIDYEAR BUDGET FORECAST AND YEAR-TO-YEAR INCREASES INCLUDED IN DEPARTMENTAL (BASE) BUDGET REQUESTS

General Fund departments submitted their Fiscal Year 2005-06 budget requests pursuant to a preliminary allocation plan prepared by the County Executive's Office and considered by the Board of Supervisors at the Midyear Budget Report. This preliminary allocation plan was based upon the anticipated available general purpose financing during the coming fiscal year, the Fiscal Year 2004-05 Adopted Final Budget for each department as adjusted by certain unavoidable cost increases, and a \$10.0 million "hold-back" to allow flexibility in the final allocation of resources.

When the departmental (Base) budget requests were reviewed and analyzed we learned of both additional revenues and certain lower costs than had been projected in the midyear budget forecast. The result was that (Base) or no-growth budget resulted in surplus financing totaling approximately \$7.0 million rather than a shortfall of \$9.7 million, a positive swing of \$16.7 million.

- On the revenue/financing side, we had previously forecast a 12.0 percent growth factor in property tax revenues for Fiscal Year 2005-06. However, recent information from the Assessor's Office indicates a minimum growth factor of 14.5 percent can now be expected. We are further increasing the projected revenue by an additional \$1.0 million in property tax revenue as a result of the additional staffing recently approved for the Assessor's Office to work to reduce the backlog of assessments. Additionally, for the Proposed Budget the year-end estimate of property transfer tax revenues (based upon most recent activity) was increased by \$2.0 million over the midyear projection. The total revenue improvement in property tax revenues is approximately \$9.0 million over prior estimates.
- On the Non-Departmental Costs portion of the General Fund budget, we now are tentatively expecting a greater than previously anticipated under-expenditure in Human Assistance and In-Home Support Services (IHSS) caseload expenses for Fiscal Year 2004-05, which translates into a lower projected requirement for Fiscal Year 2005-06. Total additional savings over the two-year period is nearly \$8.0 million vs. the budget forecast.

In the County Executive's Recommended Proposed Budget, these additional financing amounts were used to completely fund departmental programs/services and thereby eliminate any shortfall that was originally designated as "unfunded" when departments submitted their budgets.

There is a remaining \$7.0 million unallocated allocation for which the County Executive recommends utilization of to establish a General Fund reserve for "Future Human Assistance Costs". At this juncture, it appears we may be approaching the peak of an economic cycle where revenue growth is maximized while costs for Human Assistance programs reach cyclical lows. For example, we now have less than 5,000 individuals receiving General Assistance (GA) grants, whereas in the mid-1990's, we had over 13,000 individuals receiving such assistance. It stands to reason it is simply a matter of time until revenue growth moderates and Human Assistance program costs escalate. During times when the County is receiving robust revenue growth (such as our 14.5 percent⁺ Property Tax growth rate), we have the rare opportunity to increase our reserves (savings) to prepare for "rainy days" in the future. The recommended \$7.0 million reserve increase is a rather modest contribution to our savings. Much more will be needed when the rainy days arrive. The Board previously adopted a policy goal of establishing discretionary reserves equal to 5.0 percent of locally generated revenues. Our current locally generated

General Fund revenues are approximately \$484.0 million (including fund balance). Following our policy goal would require a discretionary reserve of \$24.2 million.

IV. FISCAL YEAR 2005-06 GENERAL FUND CONTINGENCY RECOMMENDATIONS

Consistent with the past several years, the County Executive's recommended General Fund Contingency appropriation is \$5.0 million. This amount represents less than 1.3 percent of the total anticipated general purpose available financing, and less than 0.3 percent of the General Fund total appropriations. There are several major uncertainties in the assumptions for the Fiscal Year 2005-06 Proposed Budget that far exceed the recommended contingency level. The County Executive, therefore, recommends that the Board not use Contingencies to fund additional programs so that the recommended \$5.0 million can be available to cover any shortfall from these uncertainties. Following is a summary of the items for which Contingencies should be earmarked:

- **Potential Significant Increase In Prisoner Health Care Costs:** The Correctional Health Services Division of the Sheriff's Department, which provides medical and mental health services to our county's adult inmate population, has several significant potential increases looming for Fiscal Year 2005-06:

Ø **Increased Hospital Usage and Rates (potential increase \$1.4 million):**

While the overall inmate population is a fixed relative to institutional capacity, the population is becoming an older population. A larger number of females are incarcerated, with female prisoners utilizing medical services at a higher rate than the male inmates. In addition to changes in the demographics of inmates, the rates charged by local hospitals and physicians are increasing dramatically. The impacts of these factors are being felt in this year's budget and will continue for Fiscal Year 2005-06.

Ø **University of California, Davis (UCD) Psychiatric Services Contract (potential increase \$1.1 million):**

For many years UCD has provided the psychiatric services for the adult inmate population at the Main Jail and Rio Cosumnes Correctional Center (RCCC). This contract is negotiated on an annual basis. UCD has submitted its contract renewal request for Fiscal Year 2005-06 reflecting an increase of \$1.0 million over the prior year stemming from increased labor costs and requested additional staffing.

Ø **Pharmaceutical Cost Increase (potential increase \$683,000):**

The County takes advantage of a federal program which allows government entities to purchase pharmaceuticals at a significant discount under prescribed circumstances. This discount is generally allowed to entities whose clients were enrolled (participating) in a clinic or low-income social service program. It does not apply to the purchase of pharmaceuticals required for the provision of healthcare to inmates. To ensure compliance with the federal regulations and the continuation of this benefit to the remainder of the healthcare system, a decision is pending to discontinue the provision of discounted pharmaceuticals for Correctional Health Services. The loss of this benefit represents a 35.0 percent increase in the cost of pharmaceuticals for Correctional Health Services.

The aggregate impact requires a \$3.183 million augmentation to the Correctional Health Services budget. While opportunities to mitigate costs will continue to be examined, it is likely that most of these estimated cost increases will be incurred.

- **Community Services Fund Revenue Uncertainties**--The Department of Human Assistance (DHA) anticipates up to \$1.8 million of the accounts receivable for Community Services Division as of December 31, 2004, could be uncollectible. DHA believes the problem is largely the result of several years of recording errors related to Emergency Shelter Grants (ESG) and Housing Opportunities for People with AIDS (HOPWA) cash transfers routed through Sacramento Housing and Redevelopment Agency (SHRA). DHA believes SHRA reduced the transfers due DHA by the amount of the personnel charges due SHRA and the proper accounting for this net transfers was not done. Corrective action has been taken in that staff has been trained in the proper method of recording net receipts and the practice of year-end reconciliation of accounts receivable has been established. DHA will be calculating the exact uncollectible amount over the next few weeks in order to write off the uncollectible receivable in Fiscal Year 2004-05.
- **Human Assistance Caseload Carryover Uncertainty**--DHA's carryover estimate for Aid Payments remains in flux, due to unforeseen cost increases from the recent California's Work Opportunity and Responsibilities to Kids [CalWORKS] Information Network (CalWIN) implementation. The carryover estimate used for the Proposed Budget, prepared as of March 4, considered the known worse-case CalWIN scenarios. However, after one month of CalWIN data indicates that the carryover amount may decline by as much as from \$17.3 million to \$13.6 million. At the time that the Recommended Final Budget is presented to the Board, the actual amount of carryover will be known.

V. SUMMARY OF RECOMMENDED PROPOSED BUDGET FOR THE GENERAL FUND

The General Fund is by far the largest fund in the County Budget. General Fund departments provide a very broad range of public services. The county's general purpose financing is allocated to the General Fund to provide the local share of costs for both mandated and discretionary programs. Other funds in the County Budget and operational structure are financed with earmarked or restricted revenues. The Board of Supervisors has more discretion over resource allocation and service levels in the General Fund, but the state and federal mandates on spending severely curtails the discretion and flexibility. Counties are political subdivisions of the State of California and are responsible for the delivery, on a local level, of state services. Most of the funding for these services comes from state and federal sources, about two-thirds of all financing in the General Fund comes from other governmental sources.

In theory, the balancing of the General Fund is a comparison of the requirements and the financing, but in reality, the net department requirement is compared to the available general purpose financing, or local resources. The net department requirement (or allocation) is the departmental expenditures less departmental revenue and carryover savings from the prior year. It is the need for additional local resources. When a department requirement exceeds the general purpose financing, there is a budget problem in the General Fund and the net requirement must be reduced, because there is virtually no ability to increase general purpose financing.

General Fund Summary by Agency Structure

The following table summarizes allocations of local resources in the 2005-06 Recommended Proposed Budget for the General Fund by Agency and compares those allocations to the 2004-05 Final Adopted Budget:

**Allocations for Fiscal Year 2005-06 Recommended Proposed Budget and Comparison to
Fiscal Year 2004-05 Final Adopted Budget
(Amounts Expressed In Millions)**

| | 2004-05 Adopted Final Allocation | 2005-06 Recommended Proposed Allocation | Variance |
|--|---|--|-----------------|
| ELECTED OFFICIALS | | | |
| Assessor | 4.0 | 4.6 | 0.6 |
| Board of Supervisors | 2.6 | 2.9 | 0.3 |
| District Attorney | 30.3 | 34.2 | 3.9 |
| Sheriff | 111.0 | 129.9 | 18.9 |
| Subtotal | 147.9 | 171.6 | 23.7 |
| COUNTYWIDE SERVICES | | | |
| DHA-Aid Payments | 56.2 | 45.0 | -11.2 |
| DHA-Administration | 21.2 | 24.1 | 2.9 |
| DHHS | 21.6 | 22.4 | 0.8 |
| Probation | 35.4 | 38.0 | 2.6 |
| Courts | 36.6 | 40.7 | 4.1 |
| Public Defender and Conflict Criminal Defenders | 26.6 | 27.7 | 1.1 |
| Health Treatment Accounts | 13.6 | 19.0 | 5.4 |
| In-Home Support Services (IHSS) | 8.4 | 7.3 | -1.1 |
| Voter Registration and Elections | 7.9 | 10.8 | 2.9 |
| Other Countywide Services | 19.2 | 21.5 | 2.3 |
| Subtotal | 246.7 | 256.5 | 9.8 |
| MUNICIPAL SERVICES | | | |
| Animal Care and Regulation | 2.3 | 3.0 | 0.7 |
| Regional Parks, Recreation and Open Space | 5.0 | 5.6 | 0.6 |
| Planning and Community Development | 1.8 | 3.0 | 1.2 |
| Other Municipal Services | 0.1 | 1.3 | 1.2 |
| Subtotal | 9.2 | 12.9 | 3.7 |
| INTERNAL SERVICES | | | |
| OCIT Shared Systems | 13.9 | 14.9 | 1.0 |
| Department of Employment Records and Training; and Department of Employment Services and Risk Management | 5.1 | 6.7 | 1.6 |
| Other Internal Services | 5.3 | 6.1 | 0.8 |
| Subtotal | 24.3 | 27.7 | 3.4 |
| GENERAL GOVERNMENT | 3.9 | 4.5 | 0.6 |
| Contingency and Reserve Change | 10.3 | 5.9 | -4.4 |
| Central Labor | 2.3 | 5.0 | 2.7 |
| TOTAL | 444.6 | 484.1 | 39.5 |

The summary of the allocation of local resources is presented in the Agency structure approved by the Board of Supervisors last year. For comparison purposes, the allocations for the 2004-05 Adopted Final Budget are also illustrated. Not all allocations have increased (notable decreases for Human Assistance Aid Payments and IHSS caseload). There have been some significant increases for the Sheriff’s Department, Probation and Health Treatment Accounts in recognition of labor increases that are contractually obligated and/or unavoidable cost increases in mandated services.

The following table gives a higher-level summary of the recommended allocations by service area.

| Summary Of Recommended Allocations By Service Area (Amounts Expressed In Millions) | | |
|--|--|-----------------------------|
| Uses of Allocations | 2005-06 Recommended Proposed Allocation | Percent of Total |
| Elected Officials | 171.6 | 35.4% |
| General Government | 4.5 | 0.9% |
| Internal Services | 27.7 | 5.7% |
| Countywide Services | 256.5 | 53.0% |
| Municipal Services | 12.9 | 2.7% |
| Contingency, Reserves and Central Labor | 10.9 | 2.3% |
| TOTAL | 484.1 | 100.0% |
| Sources of Allocations | | |
| General Revenues | 441.0 | 91.1% |
| General Fund Balance | 43.1 | 8.9% |
| TOTAL | 484.1 | 100.0% |

Countywide Services consume well over half the local revenue resources, primarily for mandated services. Municipal Services, Internal Services, and General Government are allocated together at only 8.0 percent of the local revenue resources, although this picture is skewed by the mixed services (Municipal and Countywide) provided by Elected Officials. The Board, Assessor, and District Attorney Offices’ provide countywide services, but much of the allocation to the Sheriff’s Department is for municipal services.

General Purpose Financing

General Purpose Financing is the source of the “allocation” to programs. The following table summarizes the financing estimates:

| General Purpose Financing (Amounts Expressed In Millions) | | | |
|---|--------------------------------------|---|---|
| | 2004-05 Adopted Final | 2004-05 Estimated Year-End | 2005-06 Recommended Proposed |
| General Revenues | 414.4 | 423.2 | 441.0 |
| General Fund Balance | 30.2 | 30.2 | 43.1 |
| Reserve Changes | 0.0 | 0.0 | 0.0 |
| TOTAL | 444.6 | 453.4 | 484.1 |

In contrast to last year, there is a year-to-year increase for Fiscal Year 2005-06 from both the current-year budgeted and current-year estimated levels. The increase is due both to an increase in general revenues as well as an increase in Fund Balance. Following is the detail of the year-to-year recommended changes in general purpose revenues:

| General Purpose Revenues (Amounts Expressed In Millions) | | | |
|--|--------------------------------------|---|---|
| | 2004-05 Adopted Final | 2004-05 Estimated Year-End | 2005-06 Recommended Proposed |
| Property Taxes | 183.5 | 183.3 | 195.3 |
| Sales Tax & In Lieu Sales Tax | 79.4 | 76.1 | 77.6 |
| Property Tax In Lieu of Vehicle License Fees | 81.8 | 90.7 | 97.5 |
| Utility Tax | 15.0 | 15.0 | 15.0 |
| Fines & Penalties | 16.7 | 16.9 | 16.7 |
| Franchises | 3.7 | 3.7 | 3.9 |
| Revenue Neutrality & Transition | 9.0 | 13.2 | 14.8 |
| Cost Plan | 6.3 | 4.1 | 5.2 |
| Other Revenues & Costs | 19.0 | 20.2 | 15.0 |
| TOTAL | 414.4 | 423.2 | 441.0 |

A complete summary of the Fiscal Year 2005-06 Recommended Proposed Budget for the General Fund can be found in Attachment I.

VI. RECOMMENDED TRANSFER FROM TOT FUND TO GENERAL FUND

The Fiscal Year 2005-06 Recommended Proposed Budget includes an allocation of \$3,064,054 transfer to the General Fund, as well as continued funding for General Fund departments/programs reliant upon TOT funding for their base budgets:

- \$54,000 for American River Parkway Foundation which provides support to the Department of Regional Parks, Recreation and Open Space.
- \$25,000 for Economic Development administrative costs.
- \$25,000 to Department of Finance for revenue estimates/monitoring.
- \$10,000 to Department of Finance for hotel audits.
- \$10,000 to Department of Finance for contract audits.
- \$66,000 for H Street Theatre Project/Music Circus (long-term, contractual commitment).
- Required pass-through budgeting of \$2.39 million in costs and revenues associated with bond financing for Raley Field (totally offset by a reimbursement for anticipated lease payments from the River City Baseball partnership).

Due to a shortfall in TOT revenues during Fiscal Year 2004-05, as well as an anticipated negative fund balance at June 30, 2005, the Fiscal Year 2005-06 \$90,000 allocation for the Department of Economic Development and Intergovernmental Affairs and the \$465,056 allocation for the Department of Neighborhood Services will be funded through a General Fund allocation.

The Recommended Proposed Budget includes no allocation of the remaining \$3,036,346 in anticipated TOT funding. We recommend that the Board allocate all the remaining funds during the Final Budget Hearings. A schedule listing continuing/outstanding TOT funding requests is attached to this report (Attachment II).

VII. VIRTUALLY ALL REQUESTS IN GENERAL FUND DEFERRED UNTIL FINAL BUDGET PROCESS

The Board approved a recommendation at the Midyear Budget Hearings on February 1, 2005, to defer consideration of additional requests until the Final Budget Hearings in September 2005. Departments were discouraged from submitting early additional funds requests for Fiscal Year 2005-06. Most departments have not yet submitted additional requests for consideration and the County Executive's "deadline" for receipt of such requests is not until mid-July. The County Executive's Office will review in late July and early August any additional requests received. For the Proposed Budget, we recommend additional funding for only three departments, for critical/unavoidable costs, as follows:

Department of Employee Records and Training--Section 12950.1 of the California Government Code (Assembly Bill 1825, Chapter 933, Statutes of 2004) became effective January 1, 2005. It requires all employers with 50 or more employees to provide at least two hours of sexual harassment training to supervisors once every two years. Current supervisors must be trained by January 1, 2006. To assure that all supervisors are trained, it will be necessary to provide initial training to approximately 5,500 employees. This requires the addition of 1.0 Personnel Technician position, contracting with a training consultant, renting facilities large enough to handle 80 to 100 employees per session, and training materials. The estimated cost is \$498,895.

Department of Health and Human Services (DHHS)--The County Executive's Office is recommending the addition of 1.0 Office Specialist Level 2 position for DHHS that will be assigned to IHSS Public Authority. This position will provide specialized and technical skills to administer health benefits to 3,150 enrollees, and provide health benefit information to more than 14,000 countywide IHSS caregivers. The recently approved labor agreement with Service Employees International UnionTM (SEIU)-United Health Workers West increased the number of health program (Kaiser) enrollees from 2,900 to 3,150 and added dental benefits for all 3,150 enrollees. Administration of the new dental benefits and dental Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits has significantly increased the workload. State requirements for COBRA administration include time-sensitive notification of eligibility when employee health coverage is discontinued for any reason. Additionally, staff now provide COBRA notification, process incoming COBRA applications, handle invoicing of enrollees, receipt of premium payments, deposit of payments, refunds of overpayments, and notify Pacific Union Dental of enrollment. The Senior Office Assistant position currently assigned to these tasks can no longer support the increased workload.

Voter Registration and Elections--The County Executive's Office is recommending the addition of 1.0 Election Manager position for VRE's Information Technology Unit to provide management oversight and direction for the new optical scan voting system and all its related functions. This will insure the integrity of the official ballots, sample ballots, logic and accuracy testing, and maintenance of the new voting machines. VRE acquired an optical scan voting system to be in compliance with the new state and federal laws. This new system has created the

need for specialized information technology services and requires system specific knowledge critical to the success of each election.

VIII. CAPITAL CONSTRUCTION FUND (CCF)

The Fiscal Year 2005-06 Recommended Proposed Budget provides for major construction projects as a part of the long-range Capital Improvement Program (CIP), as well as minor alterations, improvements, and major equipment replacement in countyowned facilities. As a result of the county's financial limitations and commitments to approved major projects now being planned or under construction, the recommendations for additional capital construction projects are limited to those required because of health, safety, security, or severe operational problems.

The anticipated available financing within CCF for Fiscal Year 2005-06 is \$20,987,756. The Recommended Fiscal Year 2005-06 Proposed Budget includes a 90-bed expansion at the B. T. Collins Juvenile Center, an electronic upgrade at the Lorenzo E. Patino Hall of Justice, as well as projects at other county facilities. Following is a summary of available financing and significant projects in the CCF Proposed Budget:

| Financing Sources | Amount |
|--|-------------------|
| Deficit Fund Balance* | -583,707 |
| County Facility Use Allowance and Vacancy Factor Charges | 11,817,807 |
| Interest Income | 20,000 |
| Miscellaneous Revenue | 60,000 |
| Miscellaneous Revenue - Revenue Leases | 62,000 |
| Grant Revenues - State Board of Corrections | 3,600,000 |
| Courthouse Temporary Construction Fund Revenues | 2,100,000 |
| Criminal Justice Facility Temporary Construction Fund Revenues | 1,800,000 |
| City of Sacramento Rent for Bank of America Building | 111,656 |
| Library Construction/SHRA Grants | 2,000,000 |
| TOTAL | 20,987,756 |

*CCF typically budget projects based on anticipated expenditures. Often the design and engineering is not completed within a single fiscal year after the project is authorized. If large construction projects are awarded late in the fiscal year, the contracts encumber funds in CCF. Those encumbered funds have a significant effect on the fund balance. When a large project is financed, CCF typically provides the financing for the expense and receives reimbursement for those expenses. Since the revenue is received in arrears, the revenue is not listed as a balancing entry for the encumbrance. This has the effect of creating a large negative fund balance.

CCF activities face significant funding limitations. Only a portion of the \$21.0 million in funding is available for new projects without restrictions. The balance is restricted through bond covenants or at Board direction for use on specific major construction projects.

The majority of CCF activity will focus on:

- Juvenile Hall 90-bed expansion; and
- Renovation of the Touch Screen/Programmable Logic Controller at the Main Jail.

Debt service for bond-financed projects will be paid by the occupying department. Additionally, the funding levels identified for small miscellaneous projects differ from the funding budgeted as Contingencies. The funds set aside as contingencies historically have been used to finance large construction or design projects at the direction of the Board or to finance large unexpected cost escalations or contractor claims on a project.

IX. OTHER COUNTY FUNDS

The funding for these other funds, with the sole exception of the TOT Fund (015), comes from restricted revenues which may only be expended on single services or narrow ranges of services. For example, the gas tax accruing to the Road Fund (002) may only be expended on transportation services, and the various revenues for the Community Services Fund (012) may only be expended on human services programs.

There is some support from the General Fund of services provided by other funds. There are transfers from the General Fund (001) to the Community Services Fund (012) and to the Economic Development and Intergovernmental Affairs Fund (020), which are recommended in the Proposed Budget to continue for Fiscal Year 2005-06.

As required by law, the county's governmental funds are all balanced. The financing, consisting of revenues, fund balance, and, in some cases, reserve releases is equal to the requirements, consisting of appropriations and reserve contributions. The financing estimates are reasonable. The county's proprietary funds are not balanced in the same manner as governmental funds, but again, the financing estimates have been reviewed and are reasonable. Sufficient funding is available in the form of revenues, retained earnings, working capital, fund transfers, and reserve releases to support the budgeted expenditures.

Information regarding various other county funds is as follows:

Economic Development And Intergovernmental Affairs Fund (020)

The Department of Economic Development and Intergovernmental Affairs is established as a Special Revenue Fund. The programs with the largest budgets within this department involve the reuse of Mather Field and McClellan Park. The department also engages in more general economic development and job creation programs, including business development, retention and attraction; involvement with regional and local partnerships and programs; promotion of sports, tourism and the arts; commercial corridor revitalization; and attraction of key regional sales tax producers. The only General Fund support of these activities is the transfer of \$481,520. This General Fund support is for countywide and unincorporated area specific activities which cannot be included in the Mather Field and McClellan Park reuse projects. Many of the general economic development activities have resulted in increased General Fund revenue, with the new revenues, such as sales tax from the remodeled Country Club Plaza Shopping Center, exceeding the transfer from the General Fund.

Environmental Management Fund (010B)

The Environmental Management Department is also established as a Special Revenue Fund. The Department provides countywide regulatory services that protect public health and the environment. The Department does not receive General Fund financing. The primary source of financing for this fund comes from fees and contracts associated with the various regulatory activities of the Environmental Health, Hazardous Materials, and Water Protection Divisions. These regulatory programs apply to an inventory of approximately 10,000 commercial enterprises and nearly all governmental entities. Major activities include inspection of restaurants and other retail food facilities, regulation of underground storage tanks, ensuring

compliant storm water management practices, and overseeing remediation of contaminated properties.

Community Services Fund (012)

The Community Services Fund is established within DHA. Funding sources include program revenues and transfers from the General Fund. Programs are impacted by reductions in state categorical funding. The General Fund contribution to Community Services has increased by \$3.3 million. This increase was necessitated by a reduction in revenue and increases for cost-of-living-adjustments (COLA's), allocated costs, full-year cost of approved Mather Community College Expansion, and the transfer of costs for 6.0 positions that were previously appropriated within DHA-Administration's budget.

Golf Fund (019)

The Golf Fund includes the costs of operating, maintaining and improving the county's three golf courses. The major sources of funding are greens fees and concession payments. There is no General Fund subsidy of the Golf Fund, and the Golf Fund fully reimburses the General Fund for overhead and support. The budget for the Golf Fund includes debt service for the Cherry Island and Mather golf courses.

County Library Fund (011)

The County Library Fund is the collector for a share of the local property tax levy dedicated to library services. Actual library services are provided by the Sacramento Library Authority. Expenditures for County Library facilities and POB debt service are made directly from this fund. The remainder of the financing is transferred to the Sacramento Library Authority for services.

This fund has seen healthy property tax growth in recent years, but this growth has not directly translated to increased service levels. New facility costs and debt service payments are now coming out of the fund. As a result of budget problems and the incorporation of Rancho Cordova, hotel tax allocations to the Library Authority have been eliminated from the County Budget.

Tobacco Litigation Settlement (TLS) Fund (008)

The TLS Fund was established in the Fiscal Year 2000-01 budget process to serve as the funding source for health, tobacco, and youth programs. Funding comes from an "endowment" created at the time of the sale of TLS bonds. The TLS bonds were sold early in the 2001-02 Fiscal Year. Financing prior to the bond sales came from TLS revenue retained by the County in advance of the bond sale.

X. MUNICIPAL SERVICES AGENCY

The Fiscal Year 2005-06 Recommended Proposed Budget for MSA is \$709.8 million (excluding the Sacramento Regional County Sanitation District, County Sanitation District No. 1, Countywide and Less Than Countywide Funds). Overall, MSA's budget reflects a net reduction of \$82.2 million from the Fiscal Year 2004-05 Adopted Budget. This net reduction is primarily

due to annual fluctuations in multiyear infrastructure project schedules. Funds with the most significant reductions include Transportation-Sales Tax, Refuse Enterprise–Capital Outlay, Water Agency Zones 11A and 40, and several special districts. Attachment XV details the year-to-year comparisons for MSA budget units.

XI. AIRPORT ENTERPRISE

The Sacramento County Airport System operating budget for Fiscal Year 2005-06 reflects a continuing emphasis on meeting environmental mitigation obligations and sanitary sewer infrastructure needs—each of which are significant in terms of costs. Although projects this size are typically funded out of the capital budget, these projects are appropriately funded in the operating budget using retained earnings and historic bond proceeds. In order to ensure reasonable airline rents, fees and charges, the Airport System has determined that these project costs will be recovered over time in the airline rate base rather than creating a substantial spike in airline rents and fees for Fiscal Year 2005-06. In our continued effort to remain competitive in the airport industry, 21.0 vacant positions are being eliminated from the Airport System Fiscal Year 2005-06 budget. Services and supplies are flat in comparison to last year’s budget, when the one-time projects discussed above are factored out of the totals.

| Sacramento County Airport System Funds 041 and 045 Operating Budget - Revenue and Expenses Fiscal Year 2005-06 Proposed Budget | | | | |
|---|--------------------------------------|---|-------------------|---------------------------|
| | 2004-05 Adopted Final | 2005-06 Recommended Proposed | Variance | Percent Change |
| <u>REVENUES:</u> | | | | |
| Charges for Services | 90,436,385 | 96,681,356 | 6,244,971 | 6.9% |
| Interest Income | 2,270,374 | 3,230,094 | 959,720 | 42.3% |
| Intergovernmental Revenue | 22,270,049 | 16,614,603 | -5,655,446 | -25.4% |
| Passenger Facility Charges | 22,138,542 | 22,279,000 | 140,458 | 0.6% |
| TOTAL | 137,115,350 | 138,805,053 | 1,689,703 | 1.2% |
| <u>EXPENSES:</u> | | | | |
| Salaries/Benefits | 29,077,885 | 30,504,280 | 1,426,395 | 4.9% |
| Service and Supplies | 42,047,932 | 53,434,671 | 11,386,739 | 27.1% |
| Depreciation | 21,944,964 | 23,366,143 | 1,421,179 | 6.5% |
| Other Charges | 1,407,134 | 1,280,964 | -126,170 | -9.0% |
| Cost of Goods Sold | 915,000 | 678,000 | -237,000 | -25.9% |
| Interest Expense | 14,082,421 | 14,272,677 | 190,256 | 1.4% |
| TOTAL | 109,475,336 | 123,536,735 | 14,061,399 | 12.8% |

Revenues:

Highlights of significant changes to the County Airport System's operating revenue for Fiscal Year 2005-06 include:

- Revenue from the rental car operation is projected to increase by \$1,394,228 over the Fiscal Year 2004-05 budget due to projected passenger increases. Estimated actuals for Fiscal Year 2004-05 are approximately \$500,000 over budgeted.
- Food and beverage concession revenue is anticipated to increase by \$753,624 as a result of the opening of several new concessions throughout the terminals including Gordon Biersch, Pyramid Ale House, Chili's Too, and Starbucks.
- Parking revenue is projected to increase by \$1,352,930 as a result of full-year use of the parking garage and in light of projected passenger increases.
- Landing fee, terminal rent, loading bridge and airline parking position revenue in the aggregate is expected to grow \$2,761,061 as a result of anticipated increases in aircraft activity and aircraft landed weight. The exact increase for each will be known once the calculation of airline rates and charges is complete. Accordingly, budgeted revenues will be revised between proposed and final budget hearings.
- Intergovernmental Revenue is expected to decrease by \$5,655,446 due to fewer grant funded projects being budgeted in Fiscal Year 2005-06.

Expenses:

Highlights of significant changes to the County Airport System's operating expenses for Fiscal Year 2005-06 include:

- Salaries and benefits have increased \$1,426,395 (from \$29,077,885 to \$30,504,280). This net increase is attributable to equity raises, step increases and COLA's, as well as workers' compensation and retirement cost increases. No new positions are requested and 21.0 vacant positions have been deleted.
- Environmental remediation and restoration costs include an increase over Fiscal Year 2004-05 for Franklin Field landfill cleanup cost (\$185,000), an increase for Prichard Lake mitigation cost (\$1,520,250) and the addition of mitigation costs for Jacobs Slough mitigation of \$2,666,000.
- One-time wastewater connection costs increase of \$3,575,899 over Fiscal Year 2004-05 budgeted amount of \$2,270,000 which is being rebudgeted in Fiscal Year 2005-06 (total of \$5,845,899).
- Costs associated with operating the shuttle busses have increased from \$7,166,450 to \$8,240,000 (an increase of \$1,073,550).
- Sheriff's security costs have increased by \$570,198 (\$6,829,802 to \$7,400,000) and General Services' costs have increased \$601,829 (\$4,895,126 to \$5,496,955).
- Professional services have increased as a result of maintenance on new computer systems amounting to \$587,379, United States (U.S.) Customs costs of \$315,000, and \$658,000 in federal grant revenue that will be provided to America West Airlines and United Airlines to

subsidize the purchase of alternative fuel vehicles and equipment under the Federal Aviation Administration (FAA) Inherently Low-Emission Airport Vehicle (ILEAV) program.

- Increase in projected depreciation and amortization expense of \$1,421,179 reflects the anticipated completion of various capital projects during Fiscal Year 2005-06.

XII. INTERNAL SERVICES FUNDS

Internal Services Funds are primarily financed with charges to county departments for services provided to those departments. These funds and services have seen significant budget reductions, where possible, in recent years. Often these reductions are made very early in the budget process and do not receive the same level of visibility as reductions in direct services to county residents. Internal Services Funds are the Department of General Services (discussed above), OCIT, and Insurance Funds.

Office Of Communications And Information Technology (OCIT)

OCIT has reduced charges to customers overall by \$1,046,655 from the Fiscal Year 2004-05 Adopted Final Budget. The reduction is primarily due to a one-time expenditure included in Fiscal Year 2004-05 for the purchase and implementation of a Department of Justice mandated enhancement to the Sheriff's California Law Enforcement Telecommunications System (CLETS) message switch. The proposed budget includes unavoidable cost increases of \$1,274,605 for salary and benefit adjustments and an increase of \$283,350 to support the county Internet portal and various Internet/Intranet projects. These increases are totally offset by reductions in county allocated costs of \$445,156, legacy telephone system circuits and equipment depreciation of \$427,286, contract programming labor of \$446,592 and other cost savings of \$125,641. OCIT has been able to maintain or enhance services without increasing billing rates or allocated costs.

The Fiscal Year 2005-06 Proposed Budget includes staffing and funding to initiate and/or complete the following projects and service enhancements:

- Expand regional paging service within Sacramento and Yolo Counties.
- Continue implementing Voice over IP infrastructure and migrating departments to the new infrastructure.
- Replace the telephone work scheduling and inventory management application Telephony On-line Management System (TOMS).
- Complete the implementation of CLETS switch replacement project and provide ongoing support.
- Implement an online forms pilot project.
- Develop a "shopping cart" (credit card payment) pilot project for the Internet.
- Develop a Web content management pilot project on the Intranet.
- Complete a pilot project for electronic time entry and pay stub viewing within Comprehensive Online Management Personnel and Accounting System for Sacramento County (COMPASS).
- Redesign the county's employee Intranet site and provide templates for county departments and agencies.

- Support new multimedia applications.
- Support the development of a database for the single point of contact in MSA.
- Support expansion of regional Geographic Information System (GIS) and collaboration between regional business partners.
- Continue to support the implementation of the 2005 Countywide Information Technology Plan.

The proposed budget reflects efforts to reduce OCIT’s reliance on Information Technology (IT) contract staff for strategic and permanent functions. Where possible, existing vacant positions were filled with county staff and reassigned work previously performed by contractors, thereby allowing for the release of those contractors. It is anticipated that this trend will continue into Fiscal Year 2005-06.

Insurance Funds

The County utilizes three separate funds to accumulate charges and payments for Workers’ Compensation Insurance, Liability/Property Insurance, and Unemployment Insurance. The County is basically self-insured for Workers’ Compensation Insurance and Liability/Property Insurance; however, the County does purchase additional coverage above the self-insured retention levels. All three insurance funds are financed through a combination of charges to county departments and retained earnings. In recent years it has also been necessary to release reserves to pay unanticipated claims.

Charges to county departments for all three insurance funds are determined on the basis of each department’s claims experiences and exposure. The County has several higher risk services, particularly in the provision of municipal services to the Unincorporated Area. The following table reflects estimated insurance funds charges for the 2004-05 Fiscal Year and recommended charges for the 2005-06 Fiscal Year:

Insurance Funds Charges

| | Estimated 2004-05 | Recommended 2005-06 | Variance |
|-----------------------|------------------------------|--------------------------------|------------------|
| Workers’ Compensation | 33,000,002 | 36,400,000 | 3,400,000 |
| Liability/Property | 11,317,071 | 13,827,771 | 2,510,700 |
| Unemployment | <u>2,340,632</u> | <u>2,361,318</u> | <u>20,686</u> |
| TOTAL | 46,657,705 | 52,589,089 | 5,931,386 |

Overall recommended charges are higher for Fiscal Year 2005-06, driven primarily by the need to reduce reliance on reserves.

Costs in the Workers’ Compensation Insurance program remained static with the increase in the amount allocated attributed to ensuring the fund has sufficient resources for current liabilities.

The increase in cost for the Liability/Property Insurance program is due primarily to a reduction in the use of retained earnings to partially fund Fiscal Year 2005-06 insurance costs. The use of

\$6.2 million in Fiscal Year 2004-05 was not sustainable. For Fiscal Year 2005-06, the expected usage of reserves was reduced to \$3.0 million.

Cost increases in the Unemployment Insurance program are attributable to state-mandated increases in Unemployment Insurance benefits and entitlement periods.

XIII. SPECIAL DISTRICTS

The Board of Supervisors also serves as the Board of Directors for certain Dependent Special Districts providing services to residents of the Unincorporated Area. The District budgets are all balanced governmental funds. There are three recreation and park districts, three county service areas providing recreation and parks services to the rural South County, two parks maintenance and improvement districts, and one fire district. The Board of Supervisors has appointed advisory boards for most of the Districts. The primary sources of financing are dedicated shares of the property tax levy and user fees. One park maintenance and improvement district imposes assessments. Total spending for services and facility maintenance and improvements by the Districts will be about \$20.5 million in Fiscal Year 2005-06. Please refer to Attachment XVI for a more detailed analysis of changes in appropriations, revenues, and fund balances for the Dependent Special Districts.

XIV. CERTIFICATION BY DIRECTOR OF FINANCE

Pursuant to Government Code Section 29062, the Director of Finance is responsible for reviewing the tabulation of the budget requests, and confirming that the requested budget transmitted to the Board by the County Executive is an accurate tabulation. The Director of Finance has reviewed and confirmed the tabulation. The certification of the tabulation by the Director of Finance is attached (Attachment XVII).

XV. REPORTS RECOMMENDING FUNDS FROM GENERAL FUND CONTINGENCIES DURING CURRENT FISCAL YEAR

There are three attached reports with recommendations for the transfer of funds from General Fund Contingencies during the current year (Attachments III, IV and V). When combined with previous transfers, these result in complete utilization of the Contingency appropriation for Fiscal Year 2004-05. For the reasons discussed previously in this report, the County Executive recommends approval of the following transfers:

- **Correctional Health Services**--The Sheriff's Department/Correctional Health Services staff are requesting a General Fund augmentation of \$1,407,350 from Contingencies (AAR No. 25-096) in order to meet the obligations incurred in the treatment accounts which include inpatient, outpatient and psychiatric health services for the county's inmate population.
- **Planning And Community Development**--This Department is anticipating aggressive enforcement of adult business which are likely to require substantial expert professional support. A release from Contingencies in the amount of \$100,000 (AAR No. 25-102) is recommended to begin funding of the effort.

- **Voter Registration And Elections**--The Special Fifth Congressional District Primary Election costs the County \$1,100,000. Overhead and indirect costs were factored out of the amount. VRE can absorb some of the costs of the election but requires approximately \$794,809 of the use of General Fund Contingencies (AAR No. 25-095) to finance the remainder.

Following the recommended uses of Fiscal Year 2004-05 General Fund Contingencies as outlined above, the \$3.048 million General Fund Contingencies approved by the Board will have been completely allocated to specific uses elsewhere in the General Fund, and have no remaining balance.

XVI. REPORT FROM DEPARTMENT OF ECONOMIC DEVELOPMENT AND INTERGOVERNMENTAL AFFAIRS CONCERNING ADDITIONAL COUNTY LIBRARY FUNDS AND RECOMMENDED TRANSFER TO LIBRARY AUTHORITY

At its February 24, 2005, meeting the Sacramento Public Library Authority Board passed Resolution No. 05-07 requesting the Sacramento County Board of Supervisors to appropriate \$921,712 (AAR No. 25-099) from County Library Fund (011) and transfer such funds to the Library Authority County Fund. This additional funding was made available as a result of better than expected revenues. County Library Fund (011) will retain \$1,332,494 in its buildings line and will maintain sufficient funds to address other county direct and indirect charges. The Library Authority will use the increased funding to address deferred maintenance in county library facilities and to fund final enhancements to the Arcade Library remodel. None of the increased funding will be spent on ongoing operations. The attached report from the Department of Economic Development and Intergovernmental Affairs details the reasons for the unexpected additional financing and recommended uses (Attachment XIV).

XVII. REPORT FROM MBIA SALES TAX CONSULTANTS REGARDING UNINCORPORATED AREA SALES TAX TRENDS

Fueled by population growth, mild inflation, employment growth and several new retail developments, Sales and Use Tax growth in the Sacramento Valley region has grown approximately 38.0 percent over the past five years. During the same time period, the Unincorporated Area core (excluding the incorporations of Citrus Heights, Elk Grove and Rancho Cordova) of the unincorporated Sacramento County's sales tax growth has only increased by 2.0 percent. The attached report has been prepared by MBIA, the County's sales/use tax auditors, to identify where sales tax is growing and declining and what specific geographic areas is sales tax growth occurring (Attachment VI).

The report charts the wide range of factors impacting sales and use taxes. The common theme that is generated from the analysis contained in the report is the county is not capturing sales and use tax as effectively as the surrounding region. The report recommends that an Economic Development Element added to the county's General Plan should include specific strategies to increase revenues from sales and use taxes.

XVIII. REPORT FROM SHERIFF'S DEPARTMENT RECOMMENDING ADJUSTMENT TO FULL-COST RECOVERY POLICY FOR CONTRACT CITIES REGARDING ALLOCATING INDIRECT AND CERTAIN OTHER COSTS

The Sheriff's Department has submitted the attached report requesting a change in Board adopted policy of "full reimbursement" that the Board established for services contracted with incorporated cities (Attachment VII). Based on review of practices by other law enforcement agencies throughout the State, the Department is recommending a change in existing Board policy requiring full cost recovery from contract cities. This change is consistent with the legal requirements and is generally consistent with the practice of many other California counties which contract services to cities. The potential cost impact to the General Fund is \$781,923 a year. The attached Board item describes the changes in greater detail; however, the following list is an example of the types of services that would be excluded from cost recovery:

- Narcotics/Gang Investigations
- Critical Incident Negotiating Team (CINT)
- Special Enforcement Detail (SED)
- Canine
- Explosive Ordinance Detail (EOD)
- Hazardous Materials (Hazmat)
- Air Operations
- Staff Services–Internal Affairs
- Pre-Employment/Fair Employment/Employee Relations Officer

XIX. REPORT (EXECUTIVE SUMMARY) FROM CONSULTANT CONDUCTING GENERAL SERVICES PROGRAM REVIEW/AUDIT WITH PRELIMINARY RECOMMENDATIONS

The Board of Supervisors has previously approved a program review/audit of the Department of General Services (DGS). The DGS program review/audit has been underway for the past several months, and is in its final stages. The program review/audit was conducted by the consulting team of ISES Corporation, the Deriso Consulting Group, and the Spectrum Consulting Group. They have provided the County with an Executive Summary of their findings and recommendations (Attachment VIII). Their report is the result of an organizational and operational audit conducted of DGS for Sacramento County and also included an analysis of the relationship between DGS, the Architectural Services Division, and the Construction Management Division.

The objective of the study was to develop recommendations to improve the cost, efficiency, and effectiveness of the services provided by the DGS to its customers. Data to develop the recommendations was obtained by:

- Conducting an objective, third-party Customer Satisfaction eSurvey that allowed a numerical rating of the quality of the services, open-ended and candid comments, and the opportunity for DGS customers and staff to express their opinions in a confidential manner.

- Conducting and participating in over fifty meetings and interviews with DGS staff and DGS customers.
- Reviewing and analyzing dozens of documents and reports.
- Visiting three other counties to obtain benchmarking data.
- Project and data review conferences with the county Project Management Team for this study.

Further details of the results and recommendations of the consultant can be found in the attachment. A representative of the consultant will make a presentation to the Board during the Proposed Budget Hearings.

XX. COUNTY EXECUTIVE'S RECOMMENDED "OVERHEAD AUDIT" IN FISCAL YEAR 2005-06

The County Executive requests conceptual approval for the issuance of a Request for Proposal (RFP) to obtain a consultant or consultants to perform a comprehensive review during Fiscal Year 2005-06 of the county's general administrative overhead and support services across its agencies and their related costs. The areas examined in this review will include information technology, human resources and overall administrative costs, including but not limited to agency administration, departmental administrative services, finance and budget. The purpose of this review is to identify best practices and benchmarks to improve the efficiency of the delivery of these services. It is anticipated that results of the review will be available in time to incorporate savings/efficiencies identified by the review into the Fiscal Year 2006-07 budget. A more detailed explanation of the scope and work plan for the overhead review can be found in the attached report (Attachment IX).

XXI. REPORT FROM MUNICIPAL SERVICES AGENCY REQUESTING RELEASE FROM GENERAL FUND RESERVES TO MITIGATE NONRECEIPT OF REIMBURSEMENTS FROM REGIONAL SANITATION DISTRICT DURING CURRENT YEAR

Beginning in 1992, the former Public Works Agency (PWA) agreed to finance portions of the programs in the Departments of Planning and Community Development, and Animal Care and Regulation. Funding from former PWA departments subsequently expanded until Fiscal Year 2003-04, when it reached a total of \$2,459,500, including \$1,523,000 for Code Enforcement, \$561,500 for Long-Range Planning and \$375,000 for Animal Care activities.

An independent consultant conducted a Nexus Study in 2004 to evaluate whether a beneficial relationship existed between the recipients of the funding and the departments that were providing the funding. Conclusions from the study are that there is a reasonable nexus for Planning and Community Development Department support, but that there is not a reasonable nexus for \$330,000 (of the \$375,000) of the support made by MSA departments to the Animal Care and Regulation Department. In a separate decision in 2004, the budgets for SRCSD and County Sanitation District No. 1 for Fiscal Year 2004-05 did not include \$788,534 support payment for the Planning and Community Development Department's Code Enforcement and Long-Range Planning programs.

MSA staff is now requesting that the Board approve transferring \$580,000 that was placed in General Fund reserves to offset lost MSA funding on a pro-rata basis to the Animal Care and Regulation, and the Planning and Community Development departments. The County Executive is recommending approval of the transfer of \$580,000 (AAR No. 25-077) that was placed in General Fund reserve to offset lost MSA funding on a pro-rata basis to the Animal Care and Regulation, and the Planning and Community Development departments. The attached report from MSA details the explanation of the Nexus Study results and the required next steps (Attachment X).

XXII. REPORTS FROM COUNTYWIDE SERVICES AGENCY (CSA) AND DEPARTMENT OF HEALTH & HUMAN SERVICES ON MENTAL HEALTH REALIGNMENT TRUST FUNDS

During Final Budget Hearings last September, the Board also requested a report back on whether the transfers from the Mental Health Realignment Trust Fund to the Public Health and Social Services Realignment Trust Fund must be repaid. Welfare and Institutions Code Section 17600.20(a) specifically states that any county may reallocate up to 10.0 percent of the annual deposits in any single account to the other remaining account annually without any requirement for repayment. The attached report from CSA recommends against any repayment of past Mental Health Realignment Trust Funds and also speaks to the sustainability of the fund balance (Attachment XI-A).

DHHS, Division of Mental Health, in concert with the Sacramento County Mental Health Advisory Board, has prioritized the most urgent unmet needs for the Division totaling approximately \$10.0 million. It is not prudent to fund all these needs from the Mental Health Realignment Trust Fund carryover account (estimated balance as of June 30, 2005, is \$16.2 million). Funding for some of these programs may be available through Proposition 63. However, because Proposition 63 has specific supplantation language, the County cannot start up these program enhancements with current funding. Therefore, DHHS has requested in the attached report that the Board approve expansion of the most critical unmet needs to be funded on an ongoing basis with the carryover balance in the Mental Health Realignment Trust Fund (Attachment XI-B):

- 6.0 additional positions (Net cost to Realignment Trust Fund \$124,541).
- Expanded contract authority for the Regional Support Teams (Net cost to Realignment Trust Fund \$2.4 million—included in Proposed Budget).
- Expanded contract services for older adults and Electroconvulsive Treatment (ECT) services (Net cost to Realignment Trust fund \$0.36 million—included in Proposed Budget).

XXIII. REPORT FROM DEPARTMENT OF REVENUE RECOVERY RECOMMENDING CONCEPTUAL APPROVAL OF REPLACEMENT OF OBSOLETE ACCOUNTS RECEIVABLE COLLECTION SYSTEM

DRR is working to replace its obsolete accounts receivable collection system. The hardware and software that comprises DRR's accounts receivable collection system is essential to every facet of the billing and collection processes used by DRR to generate revenue for county programs, the General Fund, victims of crime, and other public and private entities.

The County Executive's Office recommends that the Board conceptually approve DRR's system replacement project and project direction, including financing plan, as outlined in the attached report (Attachment XII). This project will be completed with no net impact to DRR customers or to the General Fund. Debt service payments will be offset through a combination of cost savings in current system expenditures and revenue increases as a result of the new system.

XXIV. SCHEDULE FOR FINAL BUDGET HEARINGS

Because the Board has already determined that additional funds requests will be deferred until the Final Budget Hearings in September, and the Recommended Proposed Budget represents essentially a "status-quo" budget, we do not anticipate that lengthy public budget hearings will be necessary for the Recommended Proposed Budget. In addition, due to the budget difficulties anticipated in the following two years because of our ramping-up POBs debt service, approval of additional funds requests will need to be kept to a minimum in order for the County to have the capacity to absorb the debt service increases without requiring program/service reductions elsewhere in the General Fund. Therefore, for Final Budget Hearings, we are recommending that the hearings be limited to only those few budget units with recommended additional funding and/or those budget units for which an Elected Official or other Department Head has formally "disagreed" with the County Executive's Final Budget recommendation. The following is the planned schedule for Final Budget Hearings:

| | | | |
|-------|---------------------------------|-----------|---|
| Day 1 | Thursday, September 8 | 9:30 a.m. | Budget Overview; General Public Testimony; IHSS Authority; Recommended Adjustments to Proposed Budget, Additional Requests and/or Disagreed Budget Units |
| Day 2 | Tuesday, September 13 | 2:00 p.m. | TOT Fund Allocations |
| Day 3 | Wednesday, September 14 | 2:00 p.m. | Budget Workshop on Five-Year Capital Improvement Plan |
| Day 4 | Thursday, September 15 | 9:30 a.m. | Reports Back; Budget Deliberations |
| Day 5 | Friday September 16 Half day | 9:30 a.m. | Budget Deliberations continued (if necessary) |

XXV. CONCLUSION

At the conclusion of the Proposed Budget Hearings, the Board should adopt a Proposed Budget Resolution that will implement the Approved Proposed Budget decisions, effective July 1, 2005 (Attachment XIII). The Resolution will also establish Final Budget Hearings to commence Thursday, September 8, 2005. Final Budget Hearings are anticipated to focus on nominal adjustments to the Proposed Budget based upon Fiscal Year 2004-05 year-end results, as well as potentially some nominal additional funding for certain high budget priority programs.

Respectfully submitted,

TERRY SCHUTTEN
County Executive

GBD:js

Attachments:

- I. Summary of the Fiscal Year 2005-06 Recommended Proposed Budget for the General Fund
- II. Schedule listing continuing/outstanding TOT funding requests
- III. Request from Sheriff for Contingency Release for Correctional Health Services
- IV. Request from VRE for Contingency Release for Special Election
- V. Request from Planning and Community Development Department for Contingency Release for noncompliant Zoning Enforcement actions on adult entertainment establishments
- VI. Report from MBIA sales tax consultants regarding Unincorporated Area sales tax trends
- VII. Report from Sheriff's Department recommending adjustment to full-cost recovery policy for contract cities regarding allocating indirect and certain other costs
- VIII. Report (Executive Summary) from consultant conducting General Services program review/audit with preliminary recommendations
- IX. Report from County Executive's Office regarding recommended "Overhead Audit" in Fiscal Year 2005-06
- X. Report from MSA regarding requested release of General Fund reserves for mitigation of nonreceipt of reimbursements from SRCSD for Planning and Community Development Department, and Animal Care and Regulation Department
- XI-A Report from CSA on Transfer of Mental Health Realignment Trust Funds Expenditures
- XI-B Report from DHHS Addressing Current Unmet Mental Health Needs
- XII. Report from DRR recommending conceptual approval of replacement of obsolete accounts receivable collection system
- XIII. Proposed Budget Resolution
- XIV. Report from Department of Economic Development and Intergovernmental Affairs regarding midyear transfer to the Sacramento Public Library Authority from County Library Fund (011)
- XV. MSA (Non-General Fund) Summary of Base Budget
- XVI. Special Districts Budget Summary
- XVII. Director of Finance Certification

cc: Elected Officials
Agency Administrators
Department Heads
County Executive Analysts
Department Administration/Fiscal Staff