

SUMMARY OF 2001-02 ADOPTED FINAL BUDGET

The Budget

The annual budget for Sacramento County is an operational plan, a fiscal plan, and a staffing plan for the provision of services to the residents of Sacramento County. The County Board of Supervisors approves the budget each year at the conclusion of an open and deliberative process in which county residents, county employees, and county officials are active participants.

Legal Requirements

The county's budget process conforms to state law and the County Charter. The California State County Budget Act of 1986 provides statewide uniformity in the budget process, content, and format among California counties and special districts. Deadlines for the public release of budget information and the adoption of proposed and final budgets are given. The Budget Act also sets the content and format of budget schedules.

The County Charter specifies the roles of the Board of Supervisor and the County Executive in the budget process. The County Executive is charged with recommending a balanced budget to the Board and with executing the budget plan once it is adopted. The County Executive is also responsible for monitoring the status of the budget throughout the year and with recommending budget changes when circumstances warrant.

Budget Policies

Sacramento County's budget process operates under long standing Board of Supervisors-approved budget policies. In summary, the policies are designed to control growth in the budget, maximize fund balance, give departments operational flexibility, and establish prudent reserve levels.

In 1985 the Board adopted long-term policies intended to keep ongoing county expenditures in alignment with ongoing financing sources and to increase fund balance. These policies state:

- The higher costs of new programs, higher service levels, and new staff will be recognized on a full-year basis to ensure the recognition of the full cost of new commitments.
- Unanticipated revenue windfalls not included in the budget plan will not be expended during the year unless such spending is required in order to receive the funding.
- Short-term funding sources are not to be applied to ongoing requirements.

In 1992 the Board of Supervisors adopted a set of policies under the rubric of "departmental empowerment" to give departments more flexibility in managing service delivery and departmental budgets. The budgetary aspects of the departmental empowerment policies include:

- The year-end practice was changed from "use it or lose it" to "save it and keep it." Departmental contributions to fund balance are credited back to departments as financing in the following year. In the lean budget years of the early and mid-1990s, this policy gave departments an incentive to curtail spending to avoid future budget reductions.
- Departments were given the flexibility of administratively shifting appropriations between expenditure categories without Board or County Executive approval so long as there is no change in overall net appropriations. The Department of Finance presents a quarterly report of such budget adjustments to the Board of Supervisors.

In 1998, upon recommendation of the County Executive and Chief Financial Officer, the Board of Supervisors set a target level for the General Fund General Reserve. The target level is 5.0 percent of general purpose financing, or approximately \$21.0 million (5.0 percent of \$420 million). The current level of the General Reserve is \$18.0 million, or \$3.0 million under the targeted level.

Debt Management Policies

The County has also adopted comprehensive Debt Management Policies, which are intended to improve coordination and management of all debt issued in which the County has complete or limited obligation (e.g. special assessment or Mello-Roos financings) for debt repayment. As the municipal debt market changes, all outstanding debt should be monitored to take advantage of changing opportunities.

Major elements of the policy include:

- Establishment of a County Debt Utilization Committee (CDUC) which has the responsibility for reviewing, coordinating and advising the County Executive and Board of Supervisors regarding proposed and existing debt issues in order to assure that debt is utilized in a favorable manner to the County and only when it is in the best interest of the County.
- Formalizing the concept that debt proposals by individual departments must be closely coordinated with the county's capital and operating budget processes and must take into account the impact of the proposed debt issue on the county's credit rating and total debt burden.
- Assignment of responsibilities related to analysis of proposed borrowings and monitoring compliance with covenants and restrictions in approved debt agreements.
- To the extent feasible, debt issued shall be tied to revenues from those taxpayers who will directly or indirectly receive benefits of the purpose of the debt.
- Short-term and long-term borrowing will be limited to borrowings that are within prudent limits regarding applicable debt ratios and those which improve county cash flow and related interest earning capabilities.
- Proceeds from long-term financing will be limited to the uses authorized by law and allowed by the provisions of the particular debt. Generally, these limitations allow payment for planning, design, land, construction, or acquisition of buildings, permanent structures, attached fixtures and/or equipment, movable furniture, and equipment and also the costs related to planning and issuing the debt.
- Short-term financing will include funding the county's cash flow deficit in anticipation of tax and revenue receipts.
- Structure (e.g. General Obligation, Certificates of Participation, Assessment Districts, or Revenue Bonds) and type of debt issuance (negotiated or competitive) is dependent upon various factors, including the nature of the project to be financed, available revenue sources and revenue streams, budget impact and the financial market environment.
- No financing will be undertaken to finance an operating deficit.

Long Range Budget Planning

Sacramento County integrates long-term budget planning with an annual budget process. The annual budget forecast, typically presented to the Board of Supervisors in early February each year, is based on a five-year model of the General Fund. The model is the specific tool used to evaluate the impacts of new facilities, programs, and other commitments on the General Fund in light of projected changes in general revenues.

The model is based on the prior adopted budget and includes all known changes in expenditures and revenues. The model attempts to predict the net cost of maintaining service levels and taking on new programs and costs and compares those net costs to the general purpose financing thought to be available to fund those net costs.

Particular emphasis is placed on determining and accounting for the impacts of facility development, labor negotiations, and changes in state and federal law and regulations. The capital improvement plan is used to identify new operational requirements years in advance of the need to actually fund the staffing and maintenance of new facilities. Long-term commitments to employees are made in light of an assessment of the county's ability to balance labor cost increases with the maintenance or enhancement of service levels.

The modeling has proved to be a useful predictor of budgetary trends and the overall balance between net cost and general purpose financing. The model is less accurate in projecting changes in gross spending and departmental revenue. The fundamental point is that the budget model is used far beyond short-term predictions of budget status and issues; the budget model is used to evaluate the county's capacity (or lack thereof) to take on new obligations.

Content of the County Budget Document

The annual county budget document includes fiscal and operational information on county operations and those special districts and enterprises governed by the Board of Supervisors. The county's annual budget document consists of several general sections including:

- Reports and cover letters from the County Executive and the Office of Budget and Debt Management. These reports and letters summarize the Adopted Final Budget, the Recommended Final Budget, and the Recommended Proposed Budget.
- General budget information including summary information about the County, its major funds, major revenue trends, a summary of authorized staffing levels, and summaries of appropriations and financing.
- Summary schedules (tables) listing the financing and requirements for county funds, appropriations in governmental funds by state-determined program areas, and revenues.
- The Summary of Positions giving the authorized staffing levels by budget unit.
- Detailed information (the budget messages) on the various budget units making up the overall county budget.

The County Budget Act of 1986 requires that all California counties make available a budget document containing the summary schedules, the Summary of Positions, and the budget unit level schedules. All other information included in the budget documents is at the county's option.

2001-02 County Budget and Budget Process

With the 2001-02 Adopted Final Budget, Sacramento County has planned for and maintained existing service levels and provided for some limited enhancement to certain services. There were significant increases in the cost of providing the base level of services. The three salient budget issues were:

- Providing wage and benefit increases for In Home Supportive Services workers.
- Providing county funding behind expiring federal universal hiring program grants to the Sheriff's Department.
- Providing for continuing expansion of the Sheriff's Station House Plan.

With an aggregate net cost of \$14.0 million, these items dominated public discussions during the formulation of the 2001-02 County Budget. Nearly all the growth in general purpose financing was devoted to funding inflationary base cost increases and providing for these three items.

The public budget process began with the release of the annual budget forecast and the County Executive's instructions for budget preparation. The relative position of the General Fund changed during the process:

- At the budget forecast in February 2001, it appeared that the General Fund base budget was balanced but that the County may have difficulty providing for new programs or significant cost increases for current programs.
- At Proposed Budget Hearings in June 2001, it appeared that there was a \$14.0 million funding shortfall in the General Fund after initial departmental revenue and fund balance estimates were lower than forecast. The funding gap was closed with an artificial negative appropriation because at that time the Office of Budget and Debt Management believed much of the funding gap would be closed when revenue estimates were revised and actual fund balance was known. Concern over the county's ability to take on new obligations was expressed.
- At the start of the Final Budget Hearings, the \$14.0 million funding problem had been resolved through increases in actual fund balance and departmental revenue from earlier estimates. In addition, the County Executive recommended approximately \$3.0 million in program expansions.
- During the Final Budget Hearings the Board of Supervisors approved funding augmentations of approximately \$0.5 million.

The 2001-02 General Fund

The General Fund is the largest county fund and supports the majority of county services. Roughly three-quarters of county employees work in General Fund programs. The County provides both countywide and municipal services from the General Fund. As a California county, Sacramento County provides countywide human services and law and justice services. The human services includes human assistance aid, foster care, public health, mental health, and protective services. The countywide law and justice services include prosecution, adult and juvenile detention (jails), coroner services, and legal defense.

Sacramento County is atypical in California in that there is a large, populous, urban Unincorporated Area. The residents of the Unincorporated Area receive municipal services from the County and many special districts. Sacramento County provides local police protection from the Sheriff's Department and many public works services from the Public Works Agency. The County is also responsible for land use regulation and planning services for the Unincorporated Area. Sheriff's and planning services are included in the General Fund.

The following table summarizes the 2001-02 Final Adopted Budget for the General Fund:

2001-02 General Fund Final Adopted Budget
(amounts in millions)

| | Appropriation | Revenue | Net Cost | Carry-Over | Allocation | Percent Allocation |
|---------------------------|----------------------|------------------|-----------------|-------------------|-------------------|---------------------------|
| LAW AND JUSTICE | | | | | | |
| Sheriff | \$238.7 | \$139.1 | \$99.6 | \$4.3 | \$95.3 | 24.3% |
| Courts | 42.4 | 6.6 | 35.8 | 1.9 | 33.9 | 8.6% |
| District Attorney | 77.4 | 48.9 | 28.5 | (0.1) | 28.6 | 7.3% |
| Probation | 75.2 | 40.9 | 34.3 | 3.2 | 31.1 | 7.9% |
| Other | 34.6 | 2.0 | 32.6 | 1.4 | 31.2 | 7.9% |
| Subtotal | \$468.3 | \$237.5 | \$230.8 | \$10.7 | \$220.1 | 56.0% |
| HUMAN SERVICES | | | | | | |
| Human Assistance-Payments | \$334.0 | \$291.3 | \$42.7 | 0.0 | \$42.7 | 10.9% |
| Human Assistance-Admin | 295.7 | 267.0 | 28.7 | 0.0 | 28.7 | 7.3% |
| Health & Human Services | 372.7 | 340.3 | 32.4 | 7.0 | 25.4 | 6.5% |
| Child Support | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0% |
| Medical Systems | 66.4 | 57.7 | 8.7 | 5.7 | 3.0 | 0.8% |
| Subtotal | \$1,068.9 | \$956.4 | \$112.5 | \$12.7 | \$99.8 | 25.4% |
| ALL OTHER | | | | | | |
| Contingencies | \$139.4 | \$63.0 | \$76.4 | \$8.1 | \$68.3 | 17.4% |
| TOTAL | \$1,681.1 | \$1,256.9 | \$424.2 | \$31.5 | \$392.7 | 100.0% |

The overall authorized spending for departmental programs and the contingency is just under \$1.7 billion. The bulk of the costs are in the human services and law and justice program areas with expenditures on all other areas being well less than 10.0 percent of the total.

As Sacramento County's General Fund budget is conceptualized, financing for a General Fund program may come from three sources:

| Financing Source | Amount (in millions) |
|---------------------------|-----------------------------|
| Departmental Revenue | \$1,256.9 |
| Departmental Carryover | 31.5 |
| General Purpose Financing | 392.7 |
| TOTAL | \$1,681.1 |

Departmental revenues make up 75.0 percent of the total financing and are those revenues restricted to funding a single program or narrow range of programs. Health revenues may not be expended on Probation. Park's user fees may not be expended on Sheriff's patrol. The department carryover is that portion of the fund balance, which is, by Board policy, allocated directly back to certain General Fund budget units.

General Purpose Financing

The general purpose financing are those local revenues and state subventions which are not necessarily linked to a particular service or a narrow range of services. Transfers from other funds, a portion of the fund balance, reserve changes, and expenses associated with the collection of revenues are also included. In theory, the general purpose financing may be applied to any

county service or function, but the reality of the county's fiscal position is that the bulk of general purpose financing is used to cover the county's costs of mandated General Fund programs. Less than one-quarter of the general purpose financing is available to the Board of Supervisors for allocation to discretionary General Fund programs.

The following table summarizes general purpose financing budget and actuals for 2000-01 and the budget estimates for 2001-02. These estimates we developed prior to the September 11th attack on our nation and before the second quarter 2001 sales tax results were known.

2001-02 General Purpose Financing
(amounts in millions)

| FINANCING SOURCE | 2000-01 Budget | 2000-01 Actuals | 2001-02 Budget |
|--|-----------------------|------------------------|-----------------------|
| Property Taxes & Related | | | |
| Taxes & Teeter Plan | \$132.9 | \$140.8 | \$145.4 |
| Sales Tax | 80.1 | 83.5 | 84.2 |
| Vehicle License Fees | 69.7 | 73.6 | 79.0 |
| Utility Tax | 17.4 | 16.7 | 15.5 |
| Net Interest | 8.0 | 8.6 | 7.3 |
| TLS Revenue | 0.0 | 8.2 | 0.0 |
| Other Revenues & Costs | 19.5 | 22.2 | 33.5 |
| Subtotal | \$327.6 | \$353.6 | \$364.9 |
| Fund Balance (Non-Departmental) | \$17.9 | \$17.9 | \$26.0 |
| TLS Fund Balance | 16.3 | 16.3 | 0.0 |
| Net Reserve Changes | 1.0 | 1.0 | 1.8 |
| Subtotal | \$35.2 | \$35.2 | \$27.8 |
| TOTAL GENERAL PURPOSE FINANCING | | | |
| | \$362.8 | \$388.8 | \$392.7 |

The major revenue assumptions are included in a table in the General Budget Information section of this budget document. In general, peak revenue growth occurred in the 1999-00 and 2000-01 Fiscal Years. The fundamental assumption is that the revenue growth is slowing due to slowing local, statewide, and national economic conditions. In light of events since the estimates were developed and the budget was adopted, these estimates are probably overly optimistic.

Recent Changes in Fund Balance of General Fund

The following table reflects the beginning fund balance of each fiscal year since Fiscal Year 1998-99 and the change in available fund balance from the prior year fiscal year:

| Fiscal Year | Fund Balance | Change |
|--------------------|---------------------|---------------|
| 1998-99 | \$31,187,916 | |
| 1999-00 | 57,680,098 | \$26,492,182 |
| 2000-01 | 70,670,476 | 12,990,378 |
| 2001-02 | 57,459,180 | (13,211,296) |

There were significant increases in fund balance from 1998-99 to 2000-01 and a reduction for the start of the current year. The very large increase in fund balance between 1998-99 and 1999-00 was due to a number of factors relating to the booming economy and the impact on General Fund programs and revenues. The actual growth in major revenues such as sales tax, vehicle license fees, and realignment exceeded budgetary expectations. Welfare caseloads fell during the fiscal year leading to savings in aid payment and indigent medical programs. For the start of the 2000-01 Fiscal Year, the apparent increase in fund balance was due to the unbudgeted receipt of tobacco litigation settlement payments of \$16.3 million which were not expended during the fiscal year. Without this unanticipated revenue, fund balance would have declined by several million. The reduction in fund balance at the start of the 2001-02 Fiscal Year reflects a lower level of departmental savings. The net cost of human assistance aid payments was slightly above budget in the prior year. There were fewer vacant positions. The unbudgeted tobacco litigation settlement revenue was approximately \$8.0 million less than the prior year.

The County anticipates a further reduction in fund balance at the end of Fiscal Year 2001-02. The number of vacant positions is expected to continue to decline. County jobs are more attractive in the context of a slowing economy. In the context of a slowing local, statewide, and national economy it is unlikely that actual collections of major revenues will exceed the budgetary estimates, particularly in the aftermath of the September 11th attack on our nation.