

**COUNTY OF SACRAMENTO  
CALIFORNIA**

For the Agenda of:  
February 5, 2008  
2:15 P.M.

To: Board of Supervisors  
From: County Executive's Office  
Subject: 2007-08 Midyear Financial Report

Supervisorial  
District: All

Contact: Navdeep S. Gill, Chief Operations Officer, 874-5803  
Linda Foster-Hall, County Budget Officer, 874-2453

**Overview**

On September 25, 2007, the Board of Supervisors adopted the County's Final Budget for Fiscal Year 2007-08. This midyear report provides the Board with the status of current-year expenditures and revenues in relation to the adopted budget, recommendations on midyear augmentations and requested Reports Back.

**Recommendations:**

1. Receive and file this report.
2. Approve the Appropriation Adjustment Request (AAR) No. 28-038 transferring \$3,129,585 from Contingencies and \$2,271,375 from Reserves for Assistance Payments to the Department of Health and Human Services - Medical Treatment Account to fund increased costs associated with the University of California, Davis, Medical Systems contract that provides services to the County's Medical Indigent Services Program (CMISP) (Attachment I).
3. Approve the AAR No. 28-037 transferring \$1,000,000 from General Fund Non-Departmental Cost (Budget Unit 5770000) to the Department of Finance to offset reduction in Clerk-Recorder Base Recording Fees (Attachment II).
4. Receive and file the attached report regarding the Violation of Probation in Lieu Night Court Pilot Project (Attachment IV).
5. Receive and file the attached report regarding the Sacramento County Mental Health Court (Attachment V)

**Fiscal Impact**

The local economy is seeing a downturn in all sales tax and property-based revenue collections. This downturn is generally attributable to the slumping housing market. Unfortunately, this revenue downturn is coupled with a large increase in health care costs for indigent clients serviced by County programs. These revenue and expenditure abnormalities have resulted in an estimated shortfall for the General Fund of \$16.4 million in the current year. The recommended set of solutions includes reductions in current spending levels and transfers from contingencies and reserves. These are anticipated to eliminate the current year shortfall.

## **BACKGROUND**

On September 25, 2007, the Board of Supervisors adopted the County's Final Budget for Fiscal Year 2007-08. This midyear report provides the Board with the following information:

- The status of current-year expenditures and revenues in relation to the adopted budget.
- Recommendations concerning midyear actions necessary before the next budget hearings.
- Reports Back requested by the Board at the Fiscal Year 2007-08 Final Budget Hearing.

## **DISCUSSION**

### **Status of Fiscal Year 2007-08 Expenditures and Revenues:**

There are several midyear budget issues in the General Fund that need to be noted and/or resolved in the current budget year. As will be discussed, the local economy is seeing a downturn in all sales tax and property-based revenue collections. This downturn is generally attributable to the slumping housing market. This coincides with a large increase in health care costs for indigent clients serviced by County programs. These revenue and expenditure abnormalities have resulted in an estimated shortfall for the General Fund of \$16.4 million in the current year. In past years, when Property Tax collections grew beyond budget estimates, these types of abnormalities would be absorbed. While all other estimated revenue collections and departmental expenditures are tracking near budgeted amounts, the largest contributing factors to the current year shortfall are as follows:

### **General Fund Revenues:**

When the Board adopted the Fiscal Year 2007-08 Final Budget, a number of revenue assumptions were used in order to balance the current budget. At the time, these assumptions were logical based on available data. However, with approximately six months of experience in the current year, some of those assumptions need to be revised.

1. **\$4.0 million reduction in miscellaneous revenue** - Included in the Final Adopted Budget is an assumption that the County would sell surplus land in Elk Grove to the local community services district. At that time it was assumed that the County would receive approximately \$4.0 million for this property. After further discussions with the community services district, it is now apparent that they are no longer interested in purchasing this property.
2. **\$3.7 million reduction in Sales Tax collections** - Based on current collection data, the General Fund Sales Tax collections will be at least \$3.7 million lower than originally anticipated. This estimate does not include the receipts from Christmas sales. However, based on discussions with the County's sales tax consultant, it does not appear that the collections from that crucial season will overcome the decline in taxable sales in the construction and vehicle sales sectors.
3. **\$4.6 million reduction in Proposition 172 allocation** - In 1993, the voters approved Proposition 172, which directed the proceeds of a ½ cent sales tax to be used exclusively for local public safety services. Each month, the State apportions the funds collected statewide to counties based on each county's share of the statewide taxable sales in the preceding year.

In the current year, collections statewide have decreased as compared to the same time period last year. Additionally, the percentage that Sacramento is allocated from the statewide pool has also dropped because of the decline in sales tax collections last fiscal year. These funds are used as a financing source for the Sheriff, District Attorney and the Probation Department.

4. **\$1.0 million net shortfall in revenue to Department of Finance** – The Department of Finance is partially financed by revenue received from the Clerk-Recorder Base Recording Fees. As a result of the housing downturn, base recording fee collections have declined. The Department of Finance has reduced their expenditures in anticipation of this reduced revenue stream. However, there will be an outstanding shortfall of approximately \$1.0 million at year-end.

#### **General Fund Expenditures:**

Generally, the assumptions used by departments to develop their expenditure appropriation requirements are still valid. In most cases, departments are anticipating a small savings (fund balance) at the end of the fiscal year. However, there is one major issue associated with the expenditures in the County's Medically Indigent Services Program (CMISP).

1. **\$5.0 million increase in expenditures in Department of Health and Human Services Medical Treatment Payments** - The County contracts with the University of California, Davis, Medical Systems (UCDMS) to provide inpatient care to medically indigent patients. A provision of the contract provides that if actual usage of inpatient "bed days" in the prior calendar year stay below 90% of the contracted bed days the County will earn a rebate. In most years the County has been able to achieve this goal and therefore budget the contracted amount less an assumed rebate. The "bed days" for calendar year 2006 were at 92.5% of contracted bed days which required the entire contract amount be paid to UCDMS which is approximately \$5.0 million over the budgeted amount.

#### **Recommended Solutions:**

In order to eliminate the Fiscal Year 2007-08 shortfall in the General Fund, staff recommends that the Board approve the following solutions:

1. Approve the attached AAR No. 28-038 transferring \$3,129,585 from General Fund Contingencies (Budget Unit 5980000) to Department of Health and Human Services – Medical Treatment Payments (Budget Unit 7270000) to partially offset the increased costs of the UCDMS contract for inpatient bed days. (Attachment I)
2. Approve the attached AAR No. 28-038 transferring \$2,271,375 from General Fund Reserve (Budget Unit 5705701) for Assistance Payments to Department of Health and Human Services – Medical Treatment Payments (Budget Unit 7270000) to partially offset the increased costs of the UCDMS contract for inpatient bed days. (Attachment I)
3. Approve the attached AAR No. 28-037 transferring \$1,000,000 from General Fund Non-Departmental Cost (Budget Unit 5770000) to the Department of Finance to offset the increased net General Fund cost associated with the reduction in Clerk-Recorder Base Recording Fees. (Attachment II)

4. The Office of Budget and Debt Management (OBDM) will have discussions with the Sheriff, District Attorney and the Probation Department on solutions to offset their proportionate share of the \$4.6 million in lost Proposition 172 revenues.
5. The OBDM will work with departments to identify midyear reductions that can be made to eliminate the balance of the shortfall (approximately \$6.5 million). These reductions will be taken from the list of reductions developed as part of the "11 Point Plan" (see Attachment VI) that were not needed to balance the current budget in September. As soon as these reductions are identified (March 25, 2008 - target date) a report will be brought back to the Board for adoption.

### **MIDYEAR BUDGET REQUESTS**

#### **Probation:**

During the Fiscal Year 2007-08 Final Budget deliberations in September 2007, the Probation Department requested 1.0 Assistant Probation Division Chief to oversee the Internal Affairs Unit, 1.0 Supervising Probation Officer and 4.0 Deputy Probation Officer positions for the Intake and Bookings Unit for Detention Risk Officers. At that time, the Board requested that Probation meet with the County Executive's Office to further discuss audit findings and the recommendations. On November 16, 2007, Probation met with the County Executive's Office and presented an overview of each of the reviews and recommendations. While this request in any other budget circumstances would have merit, under the current conditions, this request can not be recommended at this time. This office will continue to work with Probation to look at other funding options.

The Probation Department also submitted a request for midyear augmentation for costs associated with the Sexual Predator Punishment and Control Act: Jessica's Law which resulted in changes to the existing sex offender laws. The new mandates have increased Probation's workload resulting in a request for additional positions and operational expenses.

While it is acknowledged that Probation has been impacted by this legislation, there is a need to assess the system wide impacts on the Sheriff, District Attorney, and Public Defender and Conflict Criminal Defender. Once the overall impacts have been assessed, the Board will be presented with the system wide impacts and any recommendations that grow out of that assessment. Therefore, this request can not be considered at this time.

#### **Sheriff:**

The Sheriff also submitted a request for a one-time midyear augmentation in the amount of \$2.5 million for unfunded needs of his department. The bulk of these requests (\$2.3 million) were for items that the Sheriff requested in the Fiscal Year 2007-08 budget process and were not recommended at that time. This request is not being considered at this time.

**Municipal Services Agency (MSA):**

During the Fiscal Year 2007-08 Final Budget Hearings the Board indicated a desire to fund a variety of one-time items for a variety of Departments within the Municipal Services Agency (MSA). The Board instructed staff to report back with financing recommendations. MSA is recommending that a variety of items identified by the Board be funded using revenues from the Department of Waste Management and Recycling (DWMR) Solid Waste Enterprise Fund. Included in the revenue stream is the County's share of the Sacramento Regional Solid Waste Authority's (SWA) commercial hauler franchise fee. These fees have historically been utilized to stabilize solid waste collection and landfill disposal rates. However, these specific fees may be used for other purposes upon Board authorization. The Municipal Services Agency (MSA) is requesting that \$800,000 of these fees be used for specific one-time projects benefiting Departments within MSA. While this approach to funding projects is unique and does use one-time funding for one-time expenditures, it does bring up questions regarding the use of agency funds for only agency expenditures. This approach needs to be fully analyzed in context of the overall budget issues that we will be facing the County in Fiscal Year 2008-09.

**POTENTIAL STATE BUDGET IMPACTS**

Each year in January, the Governor submits his proposed budget to the legislature for its consideration. In years prior to the passage of Proposition 1A, this proposal provided the first glimpse of what issues counties would face in the next budget year. With the passage of Proposition 1A, the state is no longer able to siphon off large segments of revenue that have been traditionally used by local governments to fund local programs (both state mandated or local discretionary programs). However, with the looming State shortfall, the Governor declared a fiscal emergency and ordered a special session to consider midyear budget corrections. The legislature had 45 days (until February 23) to consider the Governor's proposed reductions which include local program/service reductions of approximately \$13.1 million in current year and \$17.9 million for Fiscal Year 2008-09 if the reductions are approved by the legislature.

At this time, the County's estimated shortfall for Fiscal Year 2007-08 does not take into consideration any of the proposed State reductions. If all the Governor's proposals are approved, the potential impact in the current fiscal year could be \$13.1 million (see Attachment III). However, the larger impact may be the delay of payment totaling approximately \$83.1 million for services provided by the Department of Human Assistance and the Department of Health and Human Services. (A complete description of the proposed State actions can be found in the Fiscal Year 2008-09 Budget Outlook report.)

**REQUESTED REPORTS BACK**

During the Fiscal Year 2007-08 Final Budget Hearings, the Board requested that the Criminal Justice Cabinet report back at midyear regarding the accomplishments of Violation of Probation Project and the Mental Health Court that were funded as pilot programs. Below is a summary of the efforts that have been made by these two pilot programs:

### **Violation of Probation (VOP) In Lieu Night Court Pilot Project (see Attachment IV)**

The goal of the VOP Court pilot project is to redirect certain, new felony cases from being filed as new cases in the felony home court departments to being filed as a violation of probation petition in the VOP Court. The VOP Court will include dedicated court, counsel and law enforcement staff to handle the cases with a quicker resolution through fewer court appearances and consistent practices. The VOP Court will be held at night because of lack of courtroom space in the main jail and the main courthouse during the day and too many in-custody defendants are scheduled in the main courthouse during the day now. The anticipated system-wide benefits are:

- Up to 20% of felony cases will be redirected from the current overloaded system;
- Elimination of preliminary hearings and jury trials in VOP cases;
- Number of appearances are reduced to approximately three rather than 10, 20 or more;
- 1-2 hour contested hearings before a judge rather than 1-2 week jury trials;
- Improved efficiency in the home courts by reducing settlement calendar caseload;
- Need for jury trials will decline thereby resulting in a savings of resources including jurors; and
- Concept study for future night courts.

The VOP Court pilot project began on January 14, 2008. There will be a press release that will announce a formal press conference in February.

The following baseline data information will be collected and analyzed during the six-month pilot in order to evaluate the success of the pilot project:

- Number of felony filings
- Number of VOP In Lieu filings
- Number of preliminary hearings set
- Number jury trials assigned
- Case age from filing to disposition
- Average number of days un-sentenced inmate stays in jail
- Number of probationary pre-sentence reports

### **Sacramento County Mental Health Court (see Attachment V)**

The Sacramento Mental Health Court (SMHC) is a collaborative, interdisciplinary team, and includes the Sacramento Superior Court of California and the following Sacramento County departments: Sheriff (Jail Psychiatric Services), Probation, District Attorney, Public Defender and Department of Health and Human Services Division of Mental Health (DHHS-DMH).

The SMHC has two main treatment programs:

- 1) Transitional Community Opportunities for Recovery & Engagement (TCORE) funded by Prop 63 (the Mental Health Services Act, of which TCORE is a part) which started as of February 14, 2007. This plan is coordinated by DHHS- DMH.

- 2) The State Mentally Ill Offender and Crime Reduction Act (MIOCR) funded through State grant monies. SSD anticipates beginning services for mentally ill offenders on February 1, 2008.

To date, there have been 75 referrals since the SMHC program's inception. Currently there are 11 consumers in the TCORE program, and three more have been accepted effective January 2008. The attached report has a table that reflects the type of data that is being collected. The information below is just a sampling of the larger data fields:

<b>Total # arrests prior to SMHC:</b>	202	
<b>Total # arrests since SMHC:</b>	6	(2 defendants)
<b>Total # Inpatient admits prior to SMHC:</b>	126	
<b>Total # Inpatient admits since SMHC:</b>	6	(2 defendants)

### SUMMARY

The local economy is seeing a downturn in all sales tax and property-based revenue collections. This downturn is generally attributable to the slumping housing market. There is also a large increase in health care costs for indigent clients serviced by County programs. These revenue and expenditure abnormalities have resulted in an estimated shortfall for the General Fund of \$16.4 million in the current year. It is recommended that the Board adopt the set of solutions that are recommended including reductions in current spending levels, transfers from contingencies and reserves.

Additionally as part of the Final Budget Hearings held in September 2007, the Board requested midyear reports back on the progress of two pilot programs funded through the Criminal Justice Cabinet: 1. Violation of Probation Night Court (Attachment IV) and 2. Sacramento Mental Health Court (Attachment V).

Respectfully submitted,

APPROVAL RECOMMENDED:

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LINDA FOSTER-HALL  
County Budget Officer

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TERRY SCHUTTEN  
County Executive

CONCUR:

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NAVDEEP S. GILL  
Chief Operations Officer

NSG/LFH:

cc: Elected Officials  
Department Heads  
Agency Administrators  
County Executive Cabinet Analysts  
Department Administrative and Fiscal Staff

Attachments:

- Attachment I Appropriation Adjustment Request (AAR No. 28-038) transferring \$3,129,585 from General Fund Contingencies (Budget Unit 5980000) and \$2,271,375 from General Fund Reserve for Assistance Payments to Department of Health and Human Services – Medical Treatment Payments (Budget Unit 7270000) to partially offset the increased costs of the UCDMS contract for inpatient bed days.
- Attachment II Appropriation Adjustment Request (AAR No. 28-037) transferring \$1,000,000 from General Fund Non-Departmental Cost (Budget Unit 5770000) to the Department of Finance to offset the increased net General Fund cost associated with the reduction in Clerk-Recorder Base Recording Fees.
- Attachment III Summary of State Budget Impacts to Sacramento County from Governor's Proposed Budget
- Attachment IV Receive and file the attached report regarding the Violation of Probation in Lieu Night Court Pilot Project.
- Attachment V Receive and file the attached report regarding the Sacramento County Mental Health Court.
- Attachment VI 11 Point Plan