

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
May 10, 2006
2:00 p.m.

To: Board of Supervisors

From: County Executive's Office

Subject: Fiscal Year 2006-07 Recommended Proposed (Base) Budget

Contact: Geoffrey B. Davey, Chief Financial/Operations Officer, 874-5803
Linda Foster-Hall, County Budget Officer, 874-2453

RECOMMENDATIONS:

1. That the Board approve the recommended changes in appropriations, reimbursements and revenues to the levels of the adjusted Fiscal Year 2005-06 budget, as outlined in the attached recommended budget schedules, resulting in an approved Fiscal Year 2006-07 Proposed (Base) Budget. The Proposed Budget will serve as spending authorization for Fiscal Year 2006-07 until adoption of a Final Budget in September 2006. A complete summary of the Fiscal Year 2006-07 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 2006-07 in the amount of \$1,322,200. This results in a 50.0 percent reduction in the level adopted in the Fiscal Year 2005-06 Final Budget. This will provide that certain otherwise "unfunded" General Fund programs in Fiscal Year 2005-06 will continue to be funded. 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 Wednesday, September 6, 2006.
3. That the Board approve the attached report and Appropriation Adjustment Request (AAR) No. 26-074 from the Department of Human Assistance (DHA) regarding the midyear release of reserves established in Fiscal Year 2005-06 to offset increased staffing costs associated with the implementation of California's Work Opportunity and Responsibilities to Kids (CalWORKs) Information Network (CalWIN) (Attachment III).
4. That the Board approve the attached report and AAR No. 26-072 from the Department of Economic Development and Intergovernmental Affairs regarding the midyear transfer to the Sacramento Public Library Authority from County Library Fund (Attachment IV).
5. That the Board approve the attached report and AAR No. 26-075 from the Sheriff's Department which transfers appropriation authority from the Salary and Benefit object to various Service and Supply accounts (Attachment V).

6. That the Board direct the County Executive's Office, working in conjunction with the County Executive Cabinet and county departments, to conduct a thorough line-item review of the Proposed Budget appropriations between Proposed and Final Budget to seek reductions in net county cost that can be reserved for use in assisting the balancing of the Fiscal Year 2007-08 General Fund budget.
7. That the Board adopt the attached Proposed Budget Resolution approving and implementing the Fiscal Year 2006-07 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 Wednesday, September 6, 2006 (Attachment VI).
8. Direct the Department of Personnel Services to prepare an administrative Salary Resolution Amendment to reflect the positions as adopted by the Board in the Fiscal Year 2006-07 Proposed Budget.

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 to 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 2005-06 Final Budget. The County Executive's Recommended Proposed Budget for Fiscal Year 2006-07 continues the programs and services approved in the Fiscal Year 2005-06 Final Budget, with certain cost and other adjustments.

II. BACKGROUND: FISCAL YEAR 2006-07 BUDGET PROCESS

At the time of the adoption of the budget for the current fiscal year, we projected that the Fiscal Year 2006-07 budget process would be much less difficult than in previous years. This projection assumed no direct state budget impacts on our General Fund, and modestly robust growth in revenues during the 2005 to 2007 period.

During the Midyear Budget Report for Fiscal Year 2005-06 that view was validated with an initial General Fund budget forecast projecting a small shortfall (approximately \$6.0 million) would likely occur in our (Base) (no growth) budget. It was recommended at that time that this small shortfall could be managed with a portion of the reserves set aside in the current budget to help offset the increased Pension Obligation Bond debt service. With the forecast of this relatively small budget shortfall, the Board agreed to a budget process for Fiscal Year 2006-07 in which the current-year's budget would, in essence, be rolled-over for the start of Fiscal Year 2006-07.

At the Midyear Budget Report, the Board also approved the County Executive's recommendation to defer additional funding requests for Fiscal Year 2006-07 until the Final Budget Hearings in September 2006. It was anticipated that growth in General Fund programs/services in Fiscal Year 2006-07 would be held to a minimum to help mitigate the anticipated budget difficulties in Fiscal Year 2007-08 through Fiscal Year 2010-11 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 2006-07 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. In past years, the Office of Budget and Debt Management determined the preliminary allocations based on factors such as general salary adjustments; retirement cost increases; equity raises; new debt service and certain higher costs for hard-mandated programs. This year the departments were asked to calculate the increases in their allocation up to an established maximum amount. This process has allowed departments to fully factor into their base allocation the county's share of costs for such program increases and to reexamine their need for additional General Fund allocations.

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 a balanced proposed spending plan rather than a shortfall of \$6.0 million that was projected at midyear.

- On the revenue/financing side, we had previously forecast a 12.0 percent growth factor in property tax revenues for Fiscal Year 2006-07. However, recent information from the Assessor's Office indicates a minimum growth factor of 12.9 percent can now be expected as additional backlogged assessments are processed. This growth is somewhat offset by a \$4.0 million decrease in the amount of estimated property transfer tax revenues (based upon the

most recent real estate activity) to be received in Fiscal Year 2006-07. The total revenue improvement from property tax revenues is approximately \$4.3 million over prior estimates.

- Sales Tax collections for Fiscal Year 2006-07 are estimated to be \$3.0 million less than estimated in the midyear forecast. The bulk of that reduction is the result of a \$2.5 million state error in the “true up” of the Triple Flip statewide calculation.
- Other general purpose revenue collections from the Department of Revenue Recovery (DRR), the Clerk/Recorder Trust Fund and reimbursements from the countywide cost plan are expected to be down approximately \$6.3 million in Fiscal Year 2006-07.
- Year-end General Fund balance is estimated to be approximately \$23.9 million higher than estimated at the midyear forecast. This increase is predominately due to higher than estimated property tax revenues for Fiscal Year 2005-06 (transfer taxes and supplemental taxes). Additionally, 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 2005-06, which translates into a lower projected requirement for Fiscal Year 2006-07. Total additional savings over the two-year period is nearly \$8.0 million over the budget forecast of \$8.0 million.

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.

This budget does not provide for any additional provisions for General Fund reserves. The Board has 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 \$589.1 million (including fund balance). Following our policy goal would require a discretionary reserve of \$29.5 million. The current General Reserve is funded at \$10.8 million.

IV. FISCAL YEAR 2006-07 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 1.0 percent of the total anticipated general purpose available financing, and less than 0.24 percent of the General Fund total appropriations. There are several major uncertainties in the assumptions for the Fiscal Year 2006-07 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.

§ **Proposition 36 Funding** --The California voters passed the Substance Abuse and Crime Prevention Act of 2000 (Proposition 36) in November of 2000. The law went into effect on January 1, 2001, and the program, including new sentencing provisions, which became requirements July 1, 2001. The provisions of the Act changed state law so that certain adult offenders who use or possess drugs are eligible to receive drug treatment and supervision in the community. The law also provided \$120.0 million annually statewide through June 30, 2006 for the program. Currently, there is pending legislation (Senate Bill 803) which would make some changes to the current program and provide continuous funding beyond June 2006.

Sacramento County has been utilizing the annual state allocation and carryover funds to provide the services and supervision necessary for this program. Current program expenditures are approximately \$5.8 million, which include the annual allocation from the State of \$4.3 million. The remainder is funded from carryover of unused funds from prior years. The carryover will be expended by June 2007.

This program is a statutory requirement enacted through a ballot initiative. The only portion of the initiative that included a sunset provision was the funding portion. Therefore, counties will be required to continue the treatment and supervision even in the event the State does not allocate funding. Additionally, the Legislative Analyst's Office has estimated that the State could lose \$180.0 million in federal funding over two years if the appropriation is zeroed-out in 2006. The State currently receives federal grants in support of drug treatment programs, most of which are passed through to counties. The federal funding is available only if the State complies with a "maintenance of effort" requirement. These federal requirements penalize states that reduce the amounts spent on drug treatment.

§ **Labor Contracts** – At this time the County is currently engaged in negotiations with all bargaining units. The exact outcomes of those negotiations are yet to be determined, which may require a release of contingencies to mitigate any shortfalls.

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. 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 Fiscal Year 2006-07 Recommended Proposed Budget for the General Fund by Agency and compares those allocations to the Fiscal Year 2005-06 Final Adopted Budget:

**Allocations for Fiscal Year 2006-07 Recommended Proposed Budget and Comparison to
Fiscal Year 2005-06 Final Adopted Budget
(Amounts Expressed In Millions)**

	2005-06 Adopted Final Allocation	2006-07 Recommended Proposed Allocation	Variance
ELECTED OFFICIALS			
Assessor	5.89	7.69	1.80
Board of Supervisors	2.74	3.41	0.67
District Attorney	35.52	38.95	3.43
Sheriff	127.03	155.12	28.09
Correctional Health Services	14.55	17.40	2.85
Emergency Operations	0.01	0.31	0.30
Subtotal	185.74	222.88	37.14
COUNTYWIDE SERVICES			
Child Support Services	0.16	1.65	1.49
DHA-Aid Payments	48.05	42.78	-5.27
DHA-Administration	26.11	32.54	6.43
Department of Health & Human Services (DHHS)	22.52	31.76	9.24
Probation	39.00	55.01	16.01
Courts	40.11	46.18	6.07
Public Defender and Conflict Criminal Defenders	28.05	30.02	1.97
Health Treatment Accounts	19.00	19.78	0.78
In-Home Support Services (IHSS)	7.32	7.24	-0.08
Voter Registration and Elections	10.40	9.41	-0.99
Other Countywide Services	10.86	13.42	2.56
Subtotal	251.58	289.79	38.21
MUNICIPAL SERVICES			
Animal Care and Regulation	2.93	3.43	0.50
Regional Parks	5.63	6.63	1.00
Planning and Community Development	4.13	4.76	0.63
Other Municipal Services	1.15	1.35	0.20
Subtotal	13.84	16.17	2.33
INTERNAL SERVICES			
Office of Communications & Information Technology (OCIT) Shared Systems	15.14	17.39	2.25
Department of Personnel Services	6.63	7.18	0.55
Other Internal Services	20.46	29.97	9.51
Subtotal	42.23	54.54	12.31
GENERAL GOVERNMENT	4.53	5.71	1.18
Contingency and Reserve Change	51.53	7.58	-43.95
Non-Departmental/Countywide Costs	5.0	5.0	0.0
TOTAL	554.45	601.67	47.22

The summary of the allocation of local resources is presented in the Agency structure approved by the Board of Supervisors. For comparison purposes, the allocations for the Fiscal Year 2005-06 Adopted Final Budget are also illustrated. Not all allocations have increased (notable decreases for DHA-Aid Payments and IHSS caseload). There have been some significant

increases for the Sheriff’s Department, Probation and Health Treatment Accounts in recognition of anticipated labor increases that are likely in new labor contracts (inflation adjustments) 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	2006-07 Recommended Proposed Allocation	Percent of Total
Elected Officials	222.9	37.0%
General Government	5.7	0.9%
Internal Services	54.5	9.1%
Countywide Services	289.8	48.2%
Municipal Services	16.2	2.7%
Contingency, Reserves and Central Labor	12.6	2.1%
TOTAL	601.7	100.0%
Sources of Allocations		
General Revenues	532.2	88.4%
General Fund Reserve Release	12.6	2.1%
General Fund Balance	56.9	9.5%
TOTAL	601.7	100.0%

Countywide Services consume nearly half the local revenue resources, primarily for mandated services. Municipal Services, Internal Services, and General Government are allocated together at only 12.7 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)			
	2005-06 Adopted Final	2005-06 Estimated Year-End	2006-07 Recommended Proposed
General Revenues	486.0	520.4	532.2
General Fund Balance	61.8	61.8	56.9
Reserve Changes	6.6	6.6	12.6
TOTAL	554.4	588.8	601.7

Similar to last year, there is a year-to-year increase for Fiscal Year 2006-07 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)			
	2005-06 Adopted Final	2005-06 Estimated Year-End	2006-07 Recommended Proposed
Property Taxes	199.3	215.2	238.6
Sales Tax & In Lieu Sales Tax	80.4	77.9	79.4
Property Tax In Lieu of Vehicle License Fees	97.5	120.7	136.4
Vehicle License Fees – one-time State ‘loan’ payback	26.9	26.9	0.0
Utility Tax	14.0	14.0	14.0
Fines & Penalties	16.7	14.5	16.7
Franchises	3.3	3.3	3.3
Revenue Neutrality & Transition	16.7	16.7	17.3
Cost Plan	5.2	5.2	4.2
Other Revenues & Costs	26.0	26.0	22.3
TOTAL	486.0	520.4	532.2

A complete summary of the Fiscal Year 2006-07 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 2006-07 Recommended Proposed Budget includes an allocation of \$1,332,200 transfer to the General Fund, continued funding for administrative, fiscal and audit costs associated with management of the TOT Fund, and four pass-through transactions:

- \$54,000 for American River Parkway Foundation which provides support to the Department of Regional Parks.
- \$40,000 for Economic Development administrative costs.
- \$25,000 to Department of Finance for revenue estimates/monitoring.
- \$10,560 to Department of Finance for hotel audits.
- \$10,560 to Department of Finance for contract audits.
- \$66,000 for H Street Theatre Project/Music Circus and Sacramento Theater Company (long-term, contractual commitment).
- \$350,000 City of Sacramento pass-through for the Cultural Arts Awards.
- Required pass-through budgeting of \$528,577 in costs and revenues associated with bond financing for Sacramento Regional Arts Facilities (Music Circus and Sacramento Theater Company).

- 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).
- Pass-through of \$150,000 for repayment of Independence Field loan to the River Cats Foundation.

During the midyear budget process, the Board approved an additional allocation of \$800,000 to the Economic Development Fund to facilitate the movement of the Economic Development organizations from the TOT Fund to the new fund – freeing up additional monies in the TOT Fund.

Total additional available financing is \$2,332,200 more than the Fiscal Year 2005-06 budget due to a decrease in projects requesting funding (Economic Development \$800,000) and a \$1,332,200 decrease in General Fund transfer.

The Recommended Proposed Budget includes no allocation of the remaining \$4,788,313 in anticipated TOT funding (Attachment II). We recommend that the Board allocate all the remaining funds during the Final Budget Hearings.

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

The Board approved a recommendation at the Midyear Budget Hearings on January 31, 2006, to defer consideration of additional requests until the Final Budget Hearings in September 2006. Departments were discouraged from submitting early additional funds requests for Fiscal Year 2006-07. 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-June. The County Executive's Office will review in late June through early August any additional requests received. For the Proposed Budget, we recommend additional funding for only six program/departments, for critical/unavoidable costs that cannot wait to be addressed in the Final Budget, as follows:

Probation Department: Staffing for 90-Bed Expansion/Modifications at Juvenile Hall--The County Executive's Office is recommending the addition of 70.0 positions for the Probation Department to staff the 90-bed expansion/modifications at Juvenile Hall (1.0 Assistant Probation Division Chief; 6.0 Supervising Deputy Probation Officers; 3.0 Senior Deputy Probation Officers, 13.0 Deputy Probation Officers, 35.0 Probation Assistants; 1.0 Cook II; 1.0 Senior Office Assistant; 1.0 Office Assistant; 2.0 Laundry Workers; 1.0 Electronic Technician; 1.0 Building Maintenance Worker; 1.0 Stock Clerk; 4.0 Food Service Workers). The current expansion and modification of Juvenile Hall was necessary to mitigate the overcrowded conditions and is anticipated to be complete by September 2006. All additions, modifications and upgrades in the Juvenile Hall project are based upon the "New Generation" model. The existing facility is a linear design and requires residents to be moved from their housing unit to the dining unit for meals, to the medical clinic for medical exams, to the mental health offices for counseling, and to school classrooms for school attendance. The "New Generation" model decentralizes these services to each living unit. Each living unit will serve meals in the dayroom

space and will include dedicated space for one medical screening room and mental health room, one pill call room, one school testing room, and two classrooms. The project also includes support space and infrastructure for future housing unit expansions. The estimated annual cost is \$6,775,080.

Department of Health and Human Services – Juvenile Medical Services: Juvenile Medical Services currently provides counseling services to youth at the Juvenile Hall. This increase will expand contracting authority for the Juvenile Justice Institutions Mental Health Team to fully staff the 90-bed expansion at Juvenile Hall. Mental health services in juvenile justice institutions are mandated by Title XV, Section 1438. Juvenile Medical Services contracts with Catholic Healthcare West Medical Foundation for the provision of these services. The estimated annual cost is \$600,000.

Department of Human Assistance: Loss of Temporary Assistance for Needy Families (TANF) Incentives--The County Executive's Office is recommending additional funding to fill behind the loss of TANF incentives. Currently, DHA has indicated that without this proposed backfill using General Fund revenues that the following program reductions would occur as of July 1, 2006:

Southside Park Youth Club	50,000
Children's Report Card	20,000
Women Escaping a Violent Environment (WEAVE)	483,255
Community Services Homeless programs	501,492

To avoid reductions in these programs in our preliminary (Proposed Budget), funding has been added for these program elements. However, it is recommended that the Board direct the Countywide Services Agency and DHA to prepare a report back on alternative funding strategies for these programs, which will be heard during final budget deliberations. The estimated cost is \$1,054,747.

Countywide 3-1-1 Program—The County Executive's Office is recommending additional funding for the first phase of this new communication system. In 1997, the Federal Communications Commission (FCC) established 3-1-1 as the nationwide standard number for local communities to use for nonemergency government communications and service information. Many local governments across the Country have implemented highly successful 3-1-1 services. Sacramento County has been moving towards a similar, single point-of-contact telephone number for several years. The 2005 County Executive's Office Cabinet Goals and Objectives and the 2006 Countywide Information Technology Plan both include the 3-1-1 concept. In addition, a successful single point-of-contact pilot has been completed within the Municipal Services Agency. This effort is expected to take the program to the next level, and to eliminate the need for constituents to know the right department to call to ask a question or request assistance. It also has the potential to significantly decrease non-law enforcement related calls to 9-1-1 and the Sheriff's nonemergency telephone number. The estimated cost is \$800,000.

Staffing for Fifth Juvenile Courtroom—The County Executive’s Office is recommending the addition of 10.0 positions to staff the additional courtroom at Juvenile Court. County Counsel’s office will be allocated 8.0 of these positions (1.0 Supervising Civil Attorney, 5.0 Attorney IVs, 1.0 Legal Secretary II-Confidential, and 1.0 Senior Office Assistant-Confidential and DHSS will receive 2.0 additional positions (1.0 Human Services Social Worker, Master’s Degree and 1.0 Senior Office Assistant). Increased staffing within the Juvenile Dependency Section is the result of the creation of a fifth dependency courtroom in Juvenile Court. The addition of such a courtroom was virtually mandated by increases in the dependency caseload. The fifth Juvenile Courtroom is expected to be fully operational by July 1, 2006. The net estimated cost is \$793,653.

Board of Supervisors—The County Executive’s Office is recommending the addition of 5.0 positions (2.0 Administrative Services Officers I and 3.0 Secretary’s to Member of the Board) to the Board of Supervisor’s Office. These positions were deleted two years ago during budget reductions, leaving the Board’s staffing critically short of necessary capacity to respond to constituent requests for assistance. Adding these 5.0 positions will restore district staffing to the previous level. The estimated cost is \$392,690.

Office of Budget and Debt Management (OBDM)—The County Executive’s Office is recommending the addition of 3.0 positions to the OBDM. During deliberations for the Fiscal Year 2004-05 Proposed Budget, the Board received public comments suggesting that county departments be subject to a comprehensive, third-party review of their respective operations to maximize efficiencies. In the second year of this process, the focus was on administrative overhead, information technology and human resources services. The Public Strategies Group (PSG), in conjunction with the Government Finance Officers Association (GFOA), were engaged to review the information technology and administrative services area. The final Administrative and Information Technology Service Assessment by PSG and GFOA was presented to the Board on March 7, 2006. This report found that the County needs to invest in a central budget function that is adequately sized to meet its future demands. The report further indicated that a typical governmental organization the size of our County would have 20 to 40 additional central budget staff than are currently authorized for the County Executive’s Office. It is therefore recommended that a very modest increase of 1.0 Senior Administrative Analyst Range B position be added to support the County Budget Officer. Additionally, it is recommended that 1.0 Senior Office Assistant-Confidential position be added to support the AgendaNet function and 1.0 Office Specialist Level 2-Confidential position be added to augment general clerical functions. The estimated cost is \$246,388.

VIII. STATE BUDGET PROPOSALS BY GOVERNOR FOR FISCAL YEAR 2006-07

In the Midyear Budget Report, it was reported that the Governor’s Budget does not include a plan to give counties future increases in the cost of doing business (CODB). This means that every year counties will be paying more for administering the State Medi-Cal and California’s Work Opportunity and Responsibilities to Kids (CalWORKs) systems. (CalWORKs has not received a CODB adjustment since 2001.) California State Association of Counties (CSAC) believes that this is a shift in the sharing ratio, which is prohibited by Proposition 1A. Since February 2006, OBDM has worked with departments to quantify the impact of this proposal to the County. The following chart clearly identified the magnitude of this cost shift to the County.

FUNDING SOURCE	STATE FUNDS LOST
Department of Human Assistance	
CalWORKs Basic	\$ 2,037,926.12
CalWORKs Eligibility	558,027.72
CalLearn	63,374.40
Food Stamps	524,095.60
Mental Health & Substance Abuse	257,816.48
Foster Care	30,191.62
Adoption Assist	20,341.56
Cash Assistance Program for Immigrants (CAPI)	106,403.64
Medi-Cal	849,408.40
Subtotal	\$ 4,447,585.54
Department of Health and Human Services	
Women, Infants, and Children (WIC)	\$ 63,994.00
Adult Protective Services (APS) IHSS	673,844.00
APS	359,285.00
Child Welfare Services (CWS)	3,300,000.00
Public Health	437,313.00
Subtotal	\$ 4,834,436.00
Department of Child Support Services	
	\$ 1,482,874.00
Impact of State Actions	\$ 10,764,895.54

All three departments have made service reductions, reallocated projected program funding or, as in the case of Department of Child Support Services (DCSS), asked for additional General Fund allocation to cover the shortfall in state funding. Once the State Budget is adopted and the outcome of this issue is known, the Countywide Services Agency and OBDM will recommend a uniform strategy to deal with this program overmatch if it is still an issue and the general policy regarding program overmatching. Until that time, the Proposed Budget has included \$1.48 million in additional General Fund allocation to DCSS.

IX. CAPITAL CONSTRUCTION FUND (CCF)

The Fiscal Year 2006-07 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 and/or under construction, the recommendations for additional capital construction projects are limited to those required because of health, safety, security, or severe operational problems. However, one large-scale project, the Juvenile Hall 90-Bed Expansion, is included in this budget due to the successful securitization of Tobacco Litigation Settlement (TLS) funds and a Correction Standards Authority grant.

The anticipated available financing within CCF for Fiscal Year 2006-07 is \$20,446,124. The Recommended Fiscal Year 2006-07 Proposed Budget includes continuing the 90-bed expansion at the B.T. Collins Juvenile Center, completing the electronic upgrade at the Lorenzo E. Patino Hall of

Justice, construction of the Fleet Maintenance Facility, as well as projects at other county facilities. Following is a summary of available financing and significant projects in the CCF Budget:

Financing Sources	Amount
Available Fund Balance of Appropriation*	\$-26,014,039
County Facility Use Allowance and Vacancy Factor Charges	12,737,771
Interest Income	55,000
Bond Proceeds and Other Miscellaneous Revenues	27,459,392
Miscellaneous Revenues – Leases	48,000
Grant Revenues-State Corrections Standards Authority	360,000
Courthouse Temporary Construction Fund Revenues	2,100,000
Criminal Justice Facility Temporary Construction Fund Revenues	1,800,000
Rio Cosumnes Correctional Center – Roger Bauman Facility	1,900,000
TOTAL	\$20,446,124

*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 \$20.5 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.
- Completion of the Touch Screen/Programmable Logic Controller at the Main Jail.
- Construction of the Fleet Maintenance Facility.

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 fund large construction or design projects at the direction of the Board or to finance large unexpected cost escalations or contractor claims on a project.

X. 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 (005) 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 for 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 2006-07.

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 department engages in 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 General Fund supports these ongoing core general economic development and intergovernmental affairs activities with a transfer of \$481,520. This General Fund support is for countywide and unincorporated area specific activities that are not a part of the Mather Field and McClellan Park reuse projects or the Business Environmental Resource Center (BERC). The Mather Field and McClellan Park reuse projects have the largest budgets within this department. General economic development activities have resulted in increased General Fund revenue, including sales and property tax from projects within the major commercial corridors.

In addition, the Department is responsible for the administration of the county's Economic Development Fund, which was established by the Board of Supervisors during the Fiscal Year 2005-06 Final Budget Hearings. This fund provides financial assistance to county departments, other quasi-governmental entities, and other public and private interests to support economic development projects as approved by the Board. In addition, the Board has desired to cease funding economic development activity through the TOT Fund. With creation of the Economic Development Fund, economic development groups will now be considered for funding from the Economic Development Fund instead of the TOT Fund, freeing up monies in the TOT Fund for Cultural and Civic organizations and activities. Thus, the Property Based Improvement Districts (PBIDs) and economic development organizations such as the Sacramento Area Commerce and Trade Organization (SACTO), the Sacramento Area Regional Technology Alliance (SARTA), the Northern California World Trade Center, and the Federal Technology Center (FTC) would seek funding from this source as opposed to TOT. The Economic Development Fund is supported by a transfer of \$1,491,250 from the General Fund. This allocation is separate and distinct from the transfer described in the previous paragraph, and it is not intended for the department's ongoing core general economic development and intergovernmental affairs activities.

Environmental Management Fund (010)

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 decreased by \$0.6 million. This decrease is the result of a \$1.9 million reduction related to a one-time uncollectible accounts receivable allocation which is partially offset by increases related to cost-of-living-adjustments (COLA's) and allocated costs as well as General Fund backfill for a reduction in TANF Fund Incentive revenue.

Golf Fund (019)

The Golf Fund includes the costs of operating, maintaining and improving the county's three golf courses. Mather and Cherry Island Golf Courses are operated under a full Fee Management Agreement and Ancil Hoffman is operated with a mixture of county employees and private contractors. 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.

Due to declining revenues in prior years, the Golf Fund received a \$400,000 loan from the General Fund during Fiscal Year 2005-06. This loan is to be repaid in four installments of \$100,000 plus interest over the next four years. In order to reduce the reliance upon the General Fund in the future, the Board of Supervisors approved a fee management operation at Cherry Island and Ancil Hoffman Golf Courses. The fee management agreements are anticipated to provide a savings of \$400,000 annually. The first phase includes approval of a fee management operation at Cherry Island Golf Course beginning in May 2006. Additionally, because of the extended inclement weather this spring, it is anticipated that the Golf Fund's revenues will again be significantly reduced, which may result in the need for an additional loan from the General Fund. This loan would also be repaid to the General Fund. A separate agenda item will be presented to the Board on the Proposed Budget Hearing date that will address the need for an additional loan.

County Library Fund (011)

The County Library Fund is the collector of a share of the local property tax levy dedicated for library services. Actual library services are provided by the Sacramento Public Library Authority. Expenditures for County Library facility-related services, Pension Obligation Bond (POB) debt service, and debt service payments related to the North Highlands-Antelope Library

are made directly from this fund. The remainder of the financing is transferred to the Sacramento Public Library Authority for services.

This fund has seen healthy property tax growth in recent years which has resulted in enhanced services provided by the Library Authority, including increased operating hours and materials purchases. (See Section XVI, elsewhere in this report regarding an additional midyear transfer of property tax revenues to the Library Fund.)

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.

XI. MUNICIPAL SERVICES AGENCY (MSA) - NON-GENERAL FUND

The Fiscal Year 2006-07 Recommended Proposed Budget for the MSA is \$701.1 million (excluding the Sanitation District, Countywide and Less Than Countywide Funds). Overall, the Agency budget reflects a net reduction of \$124.1 million from the Fiscal Year 2005-06 Adopted Budget. This net reduction is primarily due to annual fluctuations in multiyear infrastructure project schedules. Funds with the most significant reductions include Metro Air Park 2001 Community Facilities District No. 2000-1, Laguna Community Facilities District, Transportation Sales Tax, Road Fund, Citrus Heights Refuse Operations, and Water Agency – Zone 40. Attachment VII details the year-to-year comparisons for MSA budget units.

XII. AIRPORT ENTERPRISE

The Sacramento County Airport System operating budget for Fiscal Year 2006-07 reflects a continued effort to maintain a reasonable airline cost per enplaned passenger, with the goal for the current fiscal year to keep rates at or below those of last fiscal year. To accomplish budgeted goals for the current fiscal year, the operating budget for the airport system has remained flat compared to the budget for last fiscal year, with increases in salaries and benefits offset by the elimination of 6.0 vacant positions and a reduction in planned expenditures for services and supplies.

Sacramento County Airport System Funds 041 and 045 Operating Budget - Revenue and Expenses Fiscal Year 2006-07 Proposed Budget				
	2005-06 Adopted Final	2006-07 Recommended Proposed	Variance	Percent Change
<u>REVENUES:</u>				
Charges for Services	97,165,295	108,314,125	11,148,830	11.5%
Interest Income	3,230,094	5,102,040	1,871,946	58.0%
Intergovernmental Revenue	18,536,086	34,200,366	15,664,280	84.5%
Passenger Facility Charges	22,279,000	24,444,000	2,165,000	9.7%
TOTAL	141,210,475	172,060,531	30,850,056	21.8%
<u>EXPENSES:</u>				
Salaries/Benefits	30,521,639	32,511,561	1,989,922	6.5%
Service and Supplies	55,602,162	53,262,857	-2,339,305	-4.2%
Depreciation/Amortization	23,366,143	23,050,943	-315,200	-1.3%
Other Charges	1,280,964	1,391,433	110,469	8.6%
Cost of Goods Sold	678,000	850,000	172,000	25.4%
Interest Expense	14,272,677	14,459,837	187,160	1.3%
TOTAL	125,721,585	125,526,631	-194,954	-0.2%

Revenues:

Significant changes to the County Airport System's revenue for Fiscal Year 2006-07 include:

- Parking revenue for Fiscal Year 2005-06 is projected to come in \$3,868,800 over budget, with an additional increase of \$1,789,100 budgeted for Fiscal Year 2006-07.
- Continued rising fuel prices have resulted in an increase to budgeted ground fuel revenue of \$516,900 over Fiscal Year 2005-06 budget.
- Food service and gift shop concession revenue for Fiscal Year 2006-07 is projected to increase by \$437,700 over Fiscal Year 2005-06 budgeted revenue due to projected increases in enplaned passengers and passenger spending.
- Intergovernmental Revenue is projected to increase by \$15,664,280 primarily attributable to grant funding for airfield and apron improvement projects at International Airport and building and roadway improvement projects at Mather Airport.
- Passenger Facility Charge (PFC) revenue is projected to increase by \$2,165,000 due to projected increases in enplaned passengers.
- Interest Income is projected to increase by \$1,871,946 for Fiscal Year 2006-07 due to increased interest rate assumptions provided by the Department of Finance.
- Due to projected increases in the airline requirement and airline activity, airline revenue is projected to increase by \$3,495,600. The actual increase or decrease will be known once the calculation of airline rates and charges is complete and will be reflected in the final budget.

Expenses:

Significant increases to the County Airport System's budgeted operating expenses for Fiscal Year 2006-07 compared to the Fiscal Year 2005-06 budget include:

- Salaries and benefits have increased from \$30,521,639 to \$32,511,561 (increase of \$1,989,922) even though 6.0 vacant positions have been deleted. This net increase is attributable to step increases in salaries, COLAs, and increased employer contributions to retirement.
- Costs associated with the Airport Parking and Shuttle Bus Management agreement have increased by \$1,068,163, due primarily to increases in salaries and benefits of contractor's employees.
- A one-time cost for the wastewater connection fee budgeted in Fiscal Year 2005-06 for the amount of \$3,876,856 has been rebudgeted in Fiscal Year 2006-07 for \$4,000,000.
- Jacobs Slough mitigation construction will continue with an additional \$1,334,000 budgeted in Fiscal Year 2006-07, compared to \$2,666,000 budgeted in Fiscal Year 2005-06.

XIII. 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; Department of Facility Planning, Architecture and Real Estate; OCIT; and Insurance Funds.

Office Of Communications And Information Technology (OCIT)

The proposed base budget includes an unavoidable cost increase of \$2,289,911 from the 2005-06 Final Adopted budget. The increase is due to salary and benefit adjustments of \$2,735,520 (including \$1,108,004 for 9.0 positions approved midyear), software licensing for new telephone equipment and voice mail of \$822,910, countywide allocated costs of \$331,732, countywide computer equipment maintenance of \$365,520 and countywide cell telephone utilization of \$134,500. These increases were partially offset by reductions in Information Technology contract programming labor of \$2,158,462.

The Fiscal Year 2006-07 Proposed Budget includes staffing and funding to initiate and/or complete the following projects and service enhancements:

- Redesign the County of Sacramento Internet Portal using the new Portal Content Management System.
- Initiate a Project Management Training Academy available to all county departments.
- Continue roll-out of California Law Enforcement Telecommunications System (CLETS) Replacement project by creating interfaces to the cities of Elk Grove and Citrus Heights.
- Support the implementation of the 2006 Countywide Information Technology Plan.
- Continue implementing Voice over Internet Protocol (IP) infrastructure.
- Implement Voice over IP for the Departments of Probation, Assessor and Airports.

- Enhance the county’s ability to create, receive, store and retrieve electronic documents and reduce the use of paper documents.
- Implement an online E-forms project.
- Upgrade and replace Direct Access Storage Device (DASD) storage for enterprise and Intel server applications.
- Complete a pilot project for electronic time entry and pay stub viewing within Comprehensive Online Management Personnel and Accounting System for Sacramento County (COMPASS).
- Continue to plan for and implement enhancements to the County’s IT infrastructure so that it can recover and operate during a local disaster.
- Improve protection for county employees from electronic SPAM and viruses.
- Continue the decommission of the GTD5 Telephone switch.
- Continue to participate in regional fiber projects with Sacramento Municipal Utility District (SMUD), City of Sacramento and Regional Transit Authority.
- Conduct a feasibility study for implementing Worldwide Interoperability for Microwave Access (WIMAX) to deliver wireless broadband services Countywide.
- Migrate all telephones using MSA call manager cluster to Enterprise call manager cluster and decommission MSA call manager.
- Begin implementation of disaster recovery capabilities for COMPASS.
- Implement Phase II of the Internet Shopping Cart.
- Conduct a 2006 regional E-Government Workshop.

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 adopted insurance funds charges for the 2005-06 Fiscal Year and recommended charges for the 2006-07 Fiscal Year:

Insurance Funds Charges

	Adopted 2005-06	Recommended 2006-07	Variance
Workers’ Compensation	33,218,366	38,445,137	5,226,771
Liability/Property	21,158,028	19,469,367	-1,688,661
Unemployment	<u>2,361,318</u>	<u>2,027,315</u>	<u>-334,003</u>
TOTAL	56,737,712	59,941,819	3,204,107

Overall recommended charges are higher for Fiscal Year 2006-07, driven primarily by the need to reduce reliance on reserves.

Cost increases in the Workers' Compensation Insurance program are due primarily to increases in medical services costs, premiums for excess insurance, and a provision for reserves in the Workers' Compensation Insurance Fund to ensure the fund has sufficient resources for current liabilities.

Costs for the Liability/Property Insurance program have declined as the result of reduced insurance premium costs and the transfer of premium costs for Workers' Compensation excess insurance to the Workers' Compensation Insurance program.

Cost decreases in the Unemployment Insurance program are primarily attributable to improvements in the county's employment outlook, resulting in reduced need for Unemployment Insurance payments.

XIV. 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 \$31.0 million in Fiscal Year 2006-07. Please refer to Attachment VIII for a more detailed analysis of changes in appropriations, revenues, and fund balances for the Dependent Special Districts.

XV. 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 IX).

XVI. REPORT FROM THE DEPARTMENT OF HUMAN ASSISTANCE REQUESTING RELEASE FROM GENERAL FUND RESERVES TO MITIGATE COST SHIFTS ASSOCIATED WITH CalWIN IMPLEMENTATION.

During the Fiscal Year 2005-06 budget deliberations, DHA anticipated that staffing may be shifted between programs during Fiscal Year 2005-06 as a result of CalWIN implementation. However, at that time, the exact impact of this shift was unknown. Therefore, a reserve was established to mitigate any cost shifts/subvention reductions that might occur if claiming on federal/state funded programs was reduced as a result of the shift in staffing. The attached report from DHA outlines the need to release General Fund reserves during the current fiscal year to

offset the cost increases associated with the CalWIN implementation (Attachment III). For the reasons discussed in the attached report, the County Executive recommends approval of a \$1,012,270 transfer from reserves to DHA.

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

At its February 23, 2006, meeting the Sacramento Public Library Authority Board passed Resolution No. 06-06 requesting the Sacramento County Board of Supervisors to appropriate \$790,154 (AAR No. 26-072) from County Library Fund (011A) and transfer such funds to the Library Authority. This additional funding was made available as a result of better than expected revenue collections. County Library Fund (011A) will retain \$2,437,493 in its buildings line item and will maintain sufficient funds to address other county direct and indirect charges. The Library Authority will use the increased funding to address increased operating hours at the Elk Grove branch, deferred maintenance in county library facilities and set aside a reserve to help pay the costs of the upcoming classification/compensation study and the negotiations of the MOU. The attached report from the Department of Economic Development and Intergovernmental Affairs details the reasons for the unexpected additional financing and recommended uses (Attachment IV).

XVIII. REPORT FROM SHERIFF'S DEPARTMENT REQUESTING APPROVAL OF AN APPROPRIATION ADJUSTMENT REQUEST NO. 26-075 TO RETROACTIVELY TRANSFER SAVINGS FROM SALARIES AND BENEFITS TO SERVICES AND SUPPLIES OBJECT

The county's budget process operates under long standing budget policies that have been approved by the Board. One of those policies places a restriction on transferring salary appropriations to other expenditures without Board approval. Therefore, the Sheriff's Department is requesting that the Board retroactively approve AAR No. 26-075 to reallocate salary savings (\$6.0 million) to various operational accounts to cover one-time and ongoing expenditures. The bulk of these expenses have been for significant technology upgrades and cellular telephones (\$4.7 million). The rest of the expenditures were related to facility upgrades or operational expenses for the Main Jail and the Aero Detail Division. The attached report describes in detail the exact nature of these expenditures (Attachment V).

XIX. 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	Wednesday, September 6	9:30 a.m.	Final Budget Overview; General Public Testimony; IHSS Authority; Recommended Adjustments to Proposed Budget, Additional Requests and/or Disagreed Budget Units
Day 2	Thursday, September 7	9:30 a.m.	Budget Workshop on Five-Year Capital Improvement Plan
Day 2	Thursday, September 7	2:00 p.m.	Special Reports; Transient-Occupancy Tax Hearings
Day 3	Thursday, September 14	9:30 a.m.	Reports Back; Budget Deliberations
Day 4	Friday, September 15	9:30 a.m.	Budget Deliberations continued (if necessary)
	Tuesday, September 26		Adoption of Final Budget Resolutions

XX. 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, 2006 (Attachment VI). The Resolution will also establish Final Budget Hearings to commence Wednesday, September 6, 2006. Final Budget Hearings are anticipated to focus on nominal adjustments to the Proposed Budget based upon Fiscal Year 2005-06 year-end results, with the expectation that funding of additional (growth) requests will be held to an absolute minimum, in anticipation of a significant General Fund deficit in Fiscal Year 2007-08. Rather than exacerbating our expected budget shortfall by increasing spending over current levels at Final Budget, we should emphasize the need to find creative means to reduce our spending at Final Budget lower than the levels thus far built into the Recommended Proposed Budget. For that reason, it is requested the Board direct the County Executive’s Office to conduct a thorough line-item review of all General Fund budget units between Proposed and Final Budget, with the expectation that any savings realized through this effort will be reserved for use in balancing the Fiscal Year 2007-08 General Fund Budget. At Final Budget Hearings, the Board will be provided with a comprehensive plan to begin dealing with the anticipated Fiscal Year 2007-08 General Fund shortfall far in advance of the Fiscal Year 2007-08 Budget Hearings.

Respectfully submitted,

TERRY SCHUTTEN
County Executive

LFH:js

Attachments:

- I. Summary of Fiscal Year 2006-07 Recommended Proposed Budget for the General Fund
- II. Schedule listing of continuing/outstanding TOT funding requests
- III. Report From The Department Of Human Assistance Requesting Release From General Fund Reserves To Mitigate Cost Shifts Associated With CalWIN Implementation
- IV. Report From Department Of Economic Development And Intergovernmental Affairs Concerning Additional County Library Funds And Recommended Transfer To Library Authority
- V. Report From Sheriff's Department Requesting Approval Of An AAR To Retroactively Transfer Savings From Salaries And Benefits To Services And Supplies Object
- VI. Proposed Budget Resolution
- VII. MSA (Non-General Fund) Summary of Base Budget
- VIII. Special Districts Budget Summary
- IX. Director of Finance Certification

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