

**COUNTY OF SACRAMENTO  
CALIFORNIA**

For the Agenda of:  
May 16, 2007  
2:00 p.m.

To: Board of Supervisors

From: County Executive's Office

Subject: FISCAL YEAR 2007-08 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 2006-07 budget, as outlined in the attached recommended budget schedules, resulting in an approved Fiscal Year 2007-08 Proposed (Base) Budget. The Proposed Budget will serve as a preliminary spending authorization for Fiscal Year 2007-08 until adoption of a Final Budget in September 2007. A complete summary of the Fiscal Year 2007-08 Recommended Proposed Budget for the General Fund can be found in Attachment I.
2. That the Board give preliminary approval of a transfer from the Transient-Occupancy Tax (TOT) Fund to the General Fund for Fiscal Year 2007-08 in the amount of \$3,832,200. This results in a \$2,500,000 increase in the level adopted in the Fiscal Year 2006-07 Final Budget. This will provide that certain otherwise "unfunded" General Fund programs in Fiscal Year 2006-07 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. We are also asking the Board to discourage additional requests from civic and/or cultural groups for the Fiscal Year 2007-08 Final Budget, in light of nominal amounts of unallocated TOT funds remaining available. Deliberations on the TOT Fund should otherwise be continued to the Final Budget Hearings commencing on Wednesday, September 5, 2007.
3. That the Board conceptually approve the 10-point plan (referenced herein) recommended by the County Executive's Office to address (between Proposed and Final Budget Hearings) the preliminary \$33.0 million shortfall in the Fiscal Year 2007-08 Proposed Budget for the General Fund. The Board should direct the CEO to bring back specific recommendations to resolve this shortfall and adequately finance necessary General Fund allocations at the Final Budget hearings in September. The Board should also direct departments to identify potential budget reductions pursuant to the County Executive's supplemental Final Budget instructions.
4. That the Board adopt the attached Proposed Budget Resolution approving and implementing the Fiscal Year 2007-08 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 5, 2007 (Attachment III).

5. That the Board direct the Department of Personnel Services to prepare an administrative Salary Resolution Amendment (SRA) to reflect the positions adopted by the Board in the Fiscal Year 2007-08 Proposed Budget, including deletion of certain positions and conversion of certain positions to Recruiting Allowance status, related to the elimination of the Average Annual Savings program within the General Fund.
6. That the Board approve the attached report from the Department of Human Assistance requesting the addition of 12.0 Positions For The General Assistance Food Stamps And Information Systems Divisions (Attachment IV).
7. That the Board approve the attached report from the Department of Personnel Services regarding the reorganization of human resources delivery within County government (Attachment V).
8. That the Board approve the attached report and Appropriation Adjustment Request (AAR) No. 27-075 transferring \$2,989,812 from Reserves for Assistance Payments to the Department of Health and Human Services to fund unavoidable labor action costs (Attachment VI).

#### **I. BACKGROUND: FISCAL YEAR 2007-08 BUDGET PROCESS**

The County Budget Act requires that each County approve an annual spending plan for the next fiscal year no later than June 30 of each year. In this County, that spending plan is the Proposed Budget which allows the County Auditor to pay claims and issue warrants on the County's behalf until the Board adopts a Final Budget. Historically, this County conducts Final Budget Hearings following the enactment of the State's budget.

During the Midyear Budget Report for Fiscal Year 2006-07, the County Executive's Office prepared an initial General Fund budget forecast for Fiscal Year 2007-08 projecting a small shortfall (approximately \$8.2 million) in our Base (no growth) budget. It was recommended at that time that this shortfall be managed with a portion of the reserves set aside in the current budget to help offset the increased Pension Obligation Bond debt service and an increase in the transfer from the TOT Fund to the General Fund. 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 2007-08.

At the Midyear Budget Report, the Board also approved the County Executive's recommendation to defer additional funding requests for Fiscal Year 2007-08 until the Final Budget Hearings in September 2007. It was anticipated that growth in General Fund programs/services in Fiscal Year 2007-08 would be held to a minimum to help mitigate the anticipated budget difficulties in Fiscal Year 2007-08 and beyond.

After the County Executive's Office analyzed the department budget requests, it was apparent that our midyear budget forecast for Fiscal Year 2007-08 was somewhat optimistic, and we have experienced much greater growth in costs and less revenue growth (in programs funded by state and federal revenues, in particular) than expected. This report identifies a General Fund shortfall of \$33.0 million in the Fiscal Year 2007-08 Proposed Budget, even after the planned use of Pension Obligation Bond reserves and higher transfer from the TOT Fund.

## II. PRIORITIES

The current structure approved by the Board on February 18, 2003, for the County's budget process focuses on spending priorities, the anticipated available resources of the County for each fiscal year, and the results that will be accomplished with those resources. 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 2006-07 Final Budget. The County Executive's Recommended Proposed Budget for Fiscal Year 2007-08 continues the programs and services approved in the Fiscal Year 2006-07 Final Budget, with certain cost and other adjustments.

On April 17, 2007, the Board considered whether or not to change the focus of the current priority structure. While the Board did not amend the current priority structure it directed staff to bring back this discussion prior to Final Budget Hearings. At that time, the Board will revisit the scope of mandates and the ordering of priorities.

## 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 2007-08 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. At that time the Office of Budget and Debt Management (OBDM) 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. The departments were then asked to calculate the increases in their allocation up to an established maximum amount. This process was instituted last year and allows 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 General Fund departmental (Base) budget requests were reviewed and analyzed, we learned of both additional revenues and certain higher costs than had been projected in the midyear budget forecast. The result is a Recommended (Base) budget that fully funds the salary and benefit increases approved by the Board in recent labor negotiations.

- On the revenue/financing side, we had previously forecast an 8.0 percent growth factor in property tax revenues for Fiscal Year 2007-08. However, recent information from the Assessor's Office indicates an overall growth factor of approximately 10.0 percent can now be expected. This growth rate, while still robust, has been tempered somewhat by the decline in market value for some selected properties as a result of the recent declines in the current real estate market. By law, the Assessor must annually enroll either a property's Proposition 13 value (factored for inflation by no more than 2.0 percent annually), or its current market value on the Lien Date (January 1), whichever is less. When current market value falls below Proposition 13 value, that lower value is commonly referred to as a "Proposition 8 Value." Proposition 8 reductions are temporary. When the Assessor discovers that market value is greater than Proposition 13 factored value, the Assessor must reinstate the lower Proposition 13 factored value. The anticipated decrease in assessed value recently announced by the Assessor for approximately 50,000 properties should approximate \$1,500,000,000, and will result in a revenue decrease equal to 1.0 percent of that amount, or \$15,000,000 or approximately \$2.5 million in General Fund revenues. The total revenue improvement from property tax revenues is approximately \$5.0 million over prior estimates.
- Sales Tax collections (including "Triple Flip" revenues) for Fiscal Year 2007-08 are estimated to be \$2.3 million more than estimated in the Midyear Budget Report. The estimate is based on current collection experience. However, there are some indications that our local sales tax collections may now be experiencing a downturn. Therefore, OBDM will be monitoring this revenue source closely between Proposed and Final Budget for additional trends.
- 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 up approximately \$6.9 million in Fiscal Year 2007-08. This is predominately from additional anticipated DRR collections (\$2.0 million) and additional Proposition 172 revenue that is currently being budgeted centrally at Proposed Budget.
- Year-end General Fund balance is estimated to be approximately \$5.0 million lower than estimated at the midyear forecast. This decrease is predominately due to lower than anticipated fund balances in In-Home Support Services (IHSS) and in Medical Treatment Payments.

In the County Executive's Recommended Proposed Budget, the financing amounts were used to completely fund the increases in departmental labor costs associated with the recently negotiated labor agreements. However, there is still an "unfunded" requested base amount in a number of departments totaling \$33.0 million. Essentially, this represents most year-to-year cost increases other than labor cost increases. Between Proposed and Final Budget, OBDM will work on

various proposals/processes that are outlined later in this document to eliminate this General Fund shortfall.

This Proposed 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 \$619.6 million (including fund balance). Following our policy goal would require a discretionary reserve of \$31.0 million. The current General Reserve is funded at \$10.8 million.

#### **IV. 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 state and federal mandates on spending severely curtails that discretion and flexibility. Counties are political subdivisions of the State of California and are responsible for the delivery, on a local level, of state and federal 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 needs and available financing. 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 revenues and carryover savings from the prior year. When department requirements exceed 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 2007-08 Recommended Proposed Budget for the General Fund by Agency and compares those allocations to the Fiscal Year 2006-07 Final Adopted Budget:

**Allocations for Fiscal Year 2007-08 Recommended Proposed Budget and Comparison to  
Fiscal Year 2006-07 Final Adopted Budget  
(Amounts Expressed In Millions)**

	<b>2006-07 Adopted Final Allocation</b>	<b>2007-08 Recommended Proposed Allocation</b>	<b>Year to Year Variance</b>
<b>ELECTED OFFICIALS</b>			
Assessor	8.26	7.80	(0.46)
Board of Supervisors	3.38	3.94	0.56
District Attorney	37.66	41.35	3.69
Sheriff	159.10	167.75	8.65
Correctional Health	18.36	19.42	1.06
<b>Subtotal</b>	<b>226.76</b>	<b>240.26</b>	<b>13.50</b>
<b>COUNTYWIDE SERVICES</b>			
Child Support Services	0.16	0.16	0.00
DHA-Aid Payments	42.78	42.78	0.00
DHA-Administration	29.70	35.09	5.39
Department of Health & Human Services (DHHS)	31.64	38.03	6.39
Probation	52.99	59.03	6.04
Courts	45.34	42.11	(3.23)
Public Defender and Conflict Criminal Defenders	30.11	34.79	4.68
Health Treatment Accounts	19.58	19.58	0.00
In-Home Support Services (IHSS)	6.74	9.03	2.29
Voter Registration and Elections	6.31	6.83	0.52
Other Countywide Services	13.87	12.97	(0.90)
<b>Subtotal</b>	<b>279.22</b>	<b>300.40</b>	<b>21.18</b>
<b>MUNICIPAL SERVICES</b>			
Animal Care and Regulation	3.75	3.62	(0.13)
Regional Parks, Recreation and Open Space	6.61	6.30	(0.31)
Planning and Community Development	4.87	5.69	0.82
Other Municipal Services	1.20	1.26	0.06
<b>Subtotal</b>	<b>16.43</b>	<b>16.87</b>	<b>0.44</b>
<b>INTERNAL SERVICES</b>			
OCIT Shared Systems	16.94	17.54	0.60
Department of Personnel Services	6.54	7.53	0.99
Other Internal Services	32.65	13.73	(18.92)
<b>Subtotal</b>	<b>56.13</b>	<b>38.80</b>	<b>(17.33)</b>
<b>GENERAL GOVERNMENT</b>	<b>6.0</b>	<b>6.21</b>	<b>0.20</b>
<b>Contingency and Reserve Change</b>	<b>61.26</b>	<b>8.57</b>	<b>(52.69)</b>
<b>Non-Departmental/Countywide Costs</b>	<b>9.00</b>	<b>8.50</b>	<b>(0.50)</b>
<b>TOTAL</b>	<b>654.81</b>	<b>619.61</b>	<b>(35.20)</b>

For comparison purposes, the allocations for the Fiscal Year 2006-07 Adopted Final Budget are also illustrated in the above table. Not all allocations have increased (notable decreases for Contingency and Reserve changes and Courts). There have been some significant increases for the Sheriff's Department, Probation and Department of Health and Human Services in recognition of contractually obligated labor cost increases.

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

<b>Summary Of Recommended Allocations By Service Area</b> (Amounts Expressed In Millions)		
<b>Uses of Allocations</b>	<b>2007-08 Recommended Proposed Allocation</b>	<b>Percent of Total</b>
Elected Officials	240.3	38.8%
General Government	6.2	1.0%
Internal Services	38.8	6.3%
Countywide Services	300.4	48.5%
Municipal Services	16.9	2.7%
Contingency, Reserves and Central Labor	17.0	2.7%
<b>TOTAL</b>	<b>619.6</b>	<b>100.0%</b>
<b>Sources of Allocations</b>		
General Revenues	560.1	90.4%
General Fund Reserve Release	17.5	2.8%
General Fund Balance	42.0	6.8%
<b>TOTAL</b>	<b>619.6</b>	<b>100.0%</b>

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 10.0 percent of the local revenue resources, although this picture is skewed by the mixed services (Municipal and Countywide) provided by Elected Officials. The Board, Assessor, and District Attorney Offices' provide countywide services, but much of the allocation to the Sheriff's Department is for municipal services.

### General Purpose Financing

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

<b>General Purpose Financing</b> (Amounts Expressed In Millions)			
	<b>2006-07 Adopted Final</b>	<b>2006-07 Estimated Year-End</b>	<b>2007-08 Recommended Proposed</b>
General Revenues	535.6	535.7	560.1
General Fund Balance	106.2	106.2	42.0
Reserve Changes	13.0	13.0	17.5
<b>TOTAL</b>	<b>654.8</b>	<b>654.9</b>	<b>619.6</b>

Similar to last year, there is a year-to-year increase for Fiscal Year 2007-08 from both the current-year budgeted and current-year estimated levels. The increase is due to an increase in general revenues. Following is the detail of the year-to-year recommended changes in general purpose revenues:

<b>General Purpose Revenues</b> (Amounts Expressed In Millions)			
	<b>2006-07 Adopted Final</b>	<b>2006-07 Estimated Year-End</b>	<b>2007-08 Recommended Proposed</b>
Property Taxes	250.8	250.8	257.7
Sales Tax & In Lieu Sales Tax	80.7	85.5	84.6
Property Tax In Lieu of Vehicle License Fees	129.9	129.6	138.2
Utility Tax	14.0	14.0	14.0
Fines & Penalties	16.7	16.7	14.3
Franchises	3.3	3.3	3.3
Revenue Neutrality & Transition	16.9	12.5	17.3
Cost Plan	4.2	4.2	4.7
Other Revenues & Costs	19.1	19.1	26.0
<b>TOTAL</b>	<b>535.6</b>	<b>535.7</b>	<b>560.1</b>

A complete summary of the Fiscal Year 2007-08 Recommended Proposed Budget for the General Fund can be found in Attachment I.

#### **V. FISCAL YEAR 2007-08 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 0.23 percent of the General Fund total appropriations. There are several major uncertainties in the assumptions for the Fiscal Year 2007-08 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.

- New Judicial Positions – The Governor has provided funding for the appointment of 100 new judges throughout the state during the next two years. While these appointments will not take place until approved by the legislature, it is anticipated that Sacramento County will receive at least 5.0 new judicial positions early during the next fiscal year. The appointment of these judicial officers will have an impact on those departments that interface directly with the Court (i.e. Public Defender, District Attorney, and Probation). At this point, no additional staffing or resources has been allocated to these departments to offset their increased responsibilities.
- 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 became requirements as of 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. The Governor's Fiscal Year 2007-08 Proposed Budget reduces Proposition 36 funding by \$60.0 million and replaces the balance of \$60.0 million with the



Substance Abuse Offender Treatment Program (OTP). The local impact of OTP replacement funding is a 10.0 percent match requirement.

There are three funding scenarios currently being discussed by the California Department of Alcohol and Drug Programs:

- The Legislative Analyst's Office is recommending: \$120.0 million in Proposition 36 and \$25.0 million in OTP (with county match).
- The Governor's Budget Proposal: \$60.0 million in Proposition 36 and \$60.0 million in OTP (with county match).
- The worse case scenario: No Proposition 36 funds and \$120.0 million in OTP (with county match).

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. If the state adopts the worse case scenario of replacing Proposition 36 funding with OTP, based on the current statewide allocation methodology, Sacramento's match requirement would be approximately \$478,000. Furthermore, despite the likely reduction in State funding, the voter-approved mandate to conduct Proposition 36 programs has not been eliminated, and the Board may wish to continue Proposition 36 programs at previous levels for policy reasons.

## **VI. RECOMMENDED TOTAL POSITION COUNT INCLUDES REDUCTION OF MANY GENERAL FUND POSITIONS/CONVERSION TO RECRUITMENT ALLOWANCE STATUS FOR MANY GENERAL FUND POSITIONS DUE TO ELIMINATION OF AVERAGE ANNUAL SAVINGS PROGRAM FOR MOST DEPARTMENTS**

Included in the Midyear Budget Report was a discussion regarding the reliance of the Average Annual Savings factor to balance the General Fund budget. At that presentation it was reported that many departments have held positions vacant to meet their Average Annual Savings requirement. While this method may have been an effective budgetary tool to balance the General Fund during past years of budget difficulty, requiring a savings factor from various General Fund departments was never meant to restrict their ability to fill authorized positions. Therefore, it was recommended and the Board adopted a policy that effective with the Fiscal Year 2007-08 Proposed Budget, departments may follow either of the following options in order to eliminate their Average Annual Savings requirement:

### Option 1:

Allow departments that have held positions vacant to eliminate positions and eliminate their particular Average Annual Savings in the Fiscal Year 2007-08 Proposed Budget.

### Option 2:

Allow positions that equal the Average Annual Savings to be unfunded indefinitely. This option would help with special issues of smaller departments that may need to change the classification of a position to be held unfunded.

Since the Midyear Budget Report, the various agency analysts have worked with the departments to identify positions that would be eliminated or unfunded to permanently meet the Average Annual Savings requirement. At this time the following departments have presented plans to eliminate their requirement. There are also some departments with unique circumstances that have been given an exemption from reducing positions. These departments are also listed on the table below for historical reference.

<b>Department</b>	<b>Number of Positions Deleted/Unfunded</b>	<b>Savings Requirement Eliminated</b>
Board of Supervisors	1.4	\$ 126,514
Coroner	2.0	242,863
Correctional Health Services	2.0	279,266
County Counsel	0.0	73,841
County Executive Cabinet	1.0	94,109
County Executive	2.0	157,759
Department of Revenue Recovery	5.0	270,034
Environmental Review & Assessment	0.2	9,976
Probation	17.0	1,164,986
Health and Human Services	27.5	1,098,817
Human Assistance	11.5	600,835
Regional Parks	3.0	249,985
Planning and Community Dev.	0.0	107,553
Emergency Operations	0.0	11,076
Juvenile Medical Services	0.0	22,234
Ag. Comm –Sealer of Wts & Measures	Ongoing reduction in G.F. Allocation	49,708
Assessor	Exemption Issued	177,798
County Clerk/Recorder	Increased Revenues	23,298
Cooperative Extension	Exemption Issued	14,155
Voter Registration and Elections	Extra Help positions	199,713
Data Processing-Shared Systems	0.0	714,365
<b>Total</b>	<b>72.6</b>	<b>\$5,688,885</b>

The following Departments have yet to develop a plan to eliminate their Average Annual Savings requirement.

<b>Department</b>	<b>Savings Requirement</b>
Animal Care and Regulation	\$ 73,102
Civil Service Commission	14,121
Department of Finance	55,990
Department of Revenue Recovery	19,371
District Attorney	1,120,140
Human Assistance - Administration	555,432
Office of Labor Relations	35,093
Personnel Services	301,868
Public Defender	394,000
Sheriff	4,965,866
<b>Total</b>	<b>\$7,534,983</b>

Based on recent discussions with the Sheriff, it is anticipated that the Sheriff will ask for restoration of Average Annual Savings funds as a Final Budget growth request for sworn-related component after being exempted one-time from the Average Annual Savings requirement for Fiscal Year 2006-07 due to termination of contracts with the cities of Citrus Heights and Elk Grove and a related shortage in vacancies at that time.

## **VII. GENERAL FUND UNFUNDED BASE REQUESTS**

In the County Executive's Recommended Proposed Budget, the financing amounts were used to completely fund the increases in departmental labor costs associated with the recently negotiated labor agreements. However, there is still an "unfunded" requested base amount in a number of departments totaling \$33.0 million. OBDM has met with all the departments that have an unfunded requested base to determine the exact nature of their request. In all cases, the requested amounts are for programs that normally should have been included in the base allocation for the departments (see Attachment VII for specific detail by department). But, because of the limited overall growth in revenues (including the lack of so-called "Cost of Doing Business (CODB) increases for many of our subvented programs) in the General Fund for Fiscal Year 2007-08, there was not enough capacity to fund all the increased costs associated with the new labor agreements and the unfunded items.

## **VIII. RECOMMENDED 10-POINT PLAN TO ADDRESS (BETWEEN PROPOSED AND FINAL BUDGET) PRELIMINARY \$33.0 MILLION GENERAL FUND SHORTFALL**

When OBDM established the parameters for the Fiscal Year 2007-08 budget process, the overall revenue outlook for the General Fund was stable. However, there was some uncertainty in the amount of property tax and sales tax collections for Fiscal Year 2007-08. But at that time it was anticipated that revenue from all sources (both departmental and non-departmental) would be sufficient to fund both the base costs and the increased costs associated with the new labor contracts. Now that the departments have submitted their base requests, it has been determined that labor costs are greater than originally anticipated and that departmental revenues are approximately \$13.0 million less than budgeted in Fiscal Year 2006-07. The net affect of these issues is an unfunded base amount of approximately \$33.0 million.

In order to eliminate the anticipated shortfall, OBDM has worked with the County Executive's Cabinet to develop the following 10-point plan. With the Board's approval of this plan, OBDM will use all the various elements to resolve the shortfall in the base budget between now and when the Final Budget Hearing documents will be submitted to the Board on August 24, 2007.

### **Ten-Point Plan to Resolve Short-Fall in Base Budget Between Proposed and Final Budget**

1. Consider temporarily unfunding most remaining vacancies in the General Fund.
2. Examine budgeting for Health Insurance Costs due to multiyear discrepancy in budgeted vs. actual costs for Health Insurance premiums.
3. Work with departments to examine all opportunities to proceed with fee increases, including but not limited to, General Fund (prior to Final Budget Hearings), and seek Board approval of automatic adjustment provisions for future fee increases (related to CPI).
4. Consider postponing capital projects and/or new leases.
5. Consider placing a freeze on new vehicle purchases (other than replacements).

6. Examine opportunities for sale of County assets to generate one-time revenues (i.e. remnant parcels).
7. Examine retained earnings within Internal Services Funds (ISF's) for potential one-time rate reductions to reduce Fiscal Year 2007-08 internal charges.
8. Examine fund balances within debt service funds for potential one-time reductions to reduce Fiscal Year 2007-08 net debt service charges.
9. Direct departments to prepare \$25.0 million in potential program/service reduction options.
10. Continue to work with our local legislative delegation for resumption of state CODB increases for categorically-funded programs.

#### **IX. RECOMMENDED TRANSFER FROM TOT FUND TO GENERAL FUND**

Total available financing for Fiscal Year 2007-08 is \$158,738 less than the Fiscal Year 2006-07 budget due to a decrease in reserve releases and interest associated with the Independence Field loan which has been paid in full.

The Fiscal Year 2007-08 Recommended Proposed Budget includes an allocation of \$3,832,200 (an increase of \$2.5 million from Fiscal Year 2006-07) transfer to the General Fund and continued funding for the following administrative, fiscal and audit costs associated with management of the TOT Fund.

- \$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.

The remainder of this year's recommendations total \$2,701,418 and are outlined in Attachment II. We recommend that the Board make its decision about the remaining funds during the Final Budget Hearings.

In addition, the following two pass-through payments are included in the budget; however, they do not affect the amount of funding available for allocation to outside organizations.

- \$528,577 associated with bond financing for Sacramento Regional Arts Facilities (Music Circus).
- \$2.39 million associated with bond financing for Raley Field (currently offset by a reimbursement for anticipated lease payment from the River City Baseball partnership).

#### **X. ALL ADDITIONAL REQUESTS FOR GENERAL FUND DEFERRED UNTIL FINAL BUDGET PROCESS**

The Board approved a recommendation at the Midyear Budget Hearings on January 31, 2007, to defer consideration of additional requests until the Final Budget Hearings in September 2007. Departments were discouraged from submitting early additional funds requests for Fiscal Year 2007-08. 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 any such requests in late June through early August. For the Proposed Budget, we recommend additional funding for only one program, with critical costs that cannot wait to be addressed in the Final Budget, as follows:

**Department of Human Assistance:** The County Executive's Office is recommending additional funding related to the exhaustion of Temporary Assistance to the Needy Families Incentive (TANF) revenue and unavailability of CalWORKs and Housing and Urban Development (HUD) funding. Currently, the Department of Human Assistance has indicated that without this proposed use of General Fund financing, various reductions related to the following Community Services Homeless programs would occur:

<u>Program</u>	<u>Date</u>	<u>Amount</u>
St. John's Shelter for Women and Children, Transitional Housing for Homeless Families, Adolfo Permanent Housing, Adolfo Transitional Housing for Emancipated Foster Youth, Saybrook Permanent Housing, Salvation Army Housing Coordinator, and Cottages at McClellan (TANF)	July 1, 2007	\$767,123
Winter Shelter (TANF)	November 2007	\$357,928
Sacramento Area Emergency Housing Center (CalWORKs)	July 1, 2007	\$374,760
Mather Community Campus Building Maintenance for vacated families building (HUD)	July 1, 2007	\$160,376

To avoid reductions in these programs without a full Board hearing, funding has been added for these program elements. The total estimated cost is \$1,660,187.

With the current shortfall in the base, and the anticipation that few if any additional revenues sources will be available to fund additional growth requests, departments should be discouraged from making a significant number/amount of requests. It is likely that few, if any, additional requests can be approved this year.

## **XI. STATE BUDGET PROPOSALS BY GOVERNOR FOR FISCAL YEAR 2007-08**

In the Midyear Budget Report there was a discussion on the various proposals included as key components in the Governor's Budget. Specifically related to counties, the Governor's 2007-08 spending plan contains a number of changes. Additionally, two bold reform proposals were outlined to address the overcrowding and recidivism in both the state and local correctional systems and the major restructuring of the statewide health care system. Below is an update of the two key components:

- Health Care Reform – In January the Governor outlined three building blocks for an accessible, efficient, and affordable health care system. At that time, the Governor indicated that counties would be required to "redirect" \$2.0 billion of their existing funds (presumably Realignment Funds) for this health care expansion. While there have been numerous conversations between the California State Association of Counties (CSAC), the legislature and various county representatives, it is still not clear to what extent funds and program

responsibilities will be shifted under this proposal. Furthermore, the timing of any program realignment is still uncertain.

- Correctional Reform – As the Board is aware, the Governor has proposed changes to address the overcrowding and recidivism in both the state and local correctional systems. The proposal would expand capacity statewide. As originally proposed the Governor’s reform would also transfer large populations of adult and juvenile offenders from state prisons to county jails and juvenile institutions. On April 26, 2007, the Legislature passed and the Governor signed Assembly Bill (AB) 900 the Public Safety and Offender Rehabilitation Services Act of 2007. The reform package, which only addresses the adult corrections system, differs in one notable way from the corrections proposal unveiled in the Governor’s January budget: It eliminates the proposal to require counties to house state inmates for certain crimes for up to three years in local facilities. Further, it does not include support for adult probation services, a Sentencing Commission structure, or changes to the parole system. It does, however, add future capital grant funding for county jails totaling \$750.0 million (over 20 years), with a 25.0 percent local match requirement for counties with a population over 200,000. Unfortunately, there is no operational funding assistance for this county jail expansion program, and preference on the grant requests will be given to those counties that voluntarily agree to locate state “re-entry” facilities in their communities.

As of the publishing date of this document, the State’s Revised Budget was not available for review. However, as soon as the document is available (mid-May) staff will review the new proposals for any additional impacts to the County.

One element that should be included in the revised state budget will be a discussion of the CODB. In last year’s budget discussions, it was reported that the Governor’s Fiscal Year 2006-07 Budget did not include a plan to give counties future increases for CODB. However, as a result of efforts by CSAC and other statewide health and human service organizations, language was adopted in Fiscal Year 2006-07 budget trailer bill that requires the State to estimate the costs for county administration of human services programs using county-specific cost factors. The language further specifies that these costs will be estimated by use of a county survey process that the counties will certify is a reasonable estimate of their particular CODB. These estimates will then be used in the May budget revision beginning in 2007 and will be completed annually thereafter. The trailer bill, however, does not include any language requiring the State to fund these costs.

Sacramento County has completed the survey for Fiscal Year 2006-07. The chart below clearly identified the magnitude of this cost shift to the County.

Funding Source	State Funds Lost
<b>Department of Human Assistance</b>	
CalWORKs Single Allocation	\$17,666,771
Food Stamps	7,742,265
Foster Care	668,739
Adoption Assist	284,429
Subtotal	\$26,362,204
<b>Department of Health and Human Services</b>	
IHSS Administration	4,486,241
Adult Protective Services	1,283,299
Child Welfare Services	13,544,261
Subtotal	\$19,313,801
<b>Department of Child Support Services</b>	
Impact of State Actions	1,775,538
	\$47,451,543

All three departments have made service reductions and reallocated projected program funding to accommodate ongoing silent reductions by the State.

**XII. CAPITAL CONSTRUCTION FUND (CCF)**

The Fiscal Year 2007-08 Recommended Proposed Budget provides for major construction projects as a part of the long-range Capital Improvement Plan (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, two large-scale projects, the B.T. Collins Juvenile Center expansion and the new Animal Care Facility, are included in this budget due to the successful securitization of Tobacco Litigation Settlement (TLS) funds and new Certificate of Participation (COP) bond financing.

The anticipated available financing within CCF for Fiscal Year 2007-08 is \$21,223,506. The Recommended Fiscal Year 2007-08 Proposed Budget includes continuing major infrastructure renovation at the B.T. Collins Juvenile Center, including the Juvenile Hall 60-bed expansion with an additional 60-bed shell construction, and remodeling Wing "A;" commencement of construction of the new Animal Care Facility; replacing the fire alarm system at the main jail; and 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*	\$(9,451,554)
County Facility Use Allowance and Vacancy Factor Charges	13,663,501
Interest Income	125,000
Miscellaneous Revenues – Revenue Leases	48,000
Miscellaneous Revenues	11,801,869
Americans with Disability Act COP funds	1,136,690
Courthouse Temporary Construction Fund Revenues	2,100,000
Criminal Justice Facility Temporary Construction Fund Revenues	1,800,000
<b>TOTAL</b>	<b>\$21,223,506</b>

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

CCF activities face significant funding limitations. Only a portion of the \$21.2 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 activities will focus on:

- B.T. Collins Juvenile Center:
  - Juvenile Hall 60-Bed Expansion with additional 60-bed shell construction.
  - Remodel Wing “A”.
- Construction of the new Animal Care Facility.
- Replace the fire alarm system at the Main Jail.

Debt service for bond-financed projects will be paid by the occupying department. Additionally, the funding levels identified for small miscellaneous projects differ from the funding budgeted as contingencies. The funds set aside as contingencies historically have been used to 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.

### **XIII. 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 2007-08.

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 funds from the General Fund. 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 programs or the Business Environmental Resource Center (BERC). General economic development activities have resulted in increased General Fund revenue, including sales and property tax from projects within the major commercial corridors, and increased job growth.

The Department is also responsible for the administration of the County's Economic Development Special Projects 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 of Supervisors. The Special Projects fund is supported by an annual transfer of \$1,500,000 from the General Fund providing the Board of Supervisors with \$1,500,000 for new projects each fiscal year. This allocation is separate and distinct from the transfer described in the previous paragraph, and is not available for the Department's ongoing core general economic development and intergovernmental affairs activities.

The Department also includes the Mather Field and McClellan Park reuse programs and the Business Environmental Resource Center (BERC) program. The Mather Field and McClellan Park reuse programs are self-funded with grants and proceeds generated from sale or lease of former military base assets. Enterprise cost-sharing agreements and state/federal funding assistance are the primary sources of funding for the BERC program. Activities in these three programs have resulted in tax revenues and increased job growth.

### **Environmental Management Fund (010B)**

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

**Community Services Fund (012)**

The General Fund contribution to Community Services has increased by approximately \$1.6 million. This increase is predominately the result of General Fund backfill for lost revenue in Temporary Assistance for Needy Families (TANF), Housing and Urban Development (HUD) and CalWORKs programs, increased fleet and Cost-of-Living-Adjustment (COLA) costs, and the reduction of one-time costs associated with the expansion and relocation of the Senior Nutrition kitchen and offices facility.

**Golf Fund (019)**

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

Due to declining revenues in prior years, the Golf Fund received a \$400,000 loan from the General Fund during Fiscal Year 2005-06 and an additional \$450,000 loan during Fiscal Year 2006-07. Repayment of the \$450,000 loan is anticipated during Fiscal Year 2006-07 and the first of four annual \$100,000 installments on the \$400,000 loan is included in the 2007-08 Proposed Budget. In order to reduce the reliance upon the General Fund in the future, the Board of Supervisors approved fee management operations at Cherry Island and Ancil Hoffman Golf Courses. The fee management agreements are anticipated to provide a savings of \$400,000 annually. Although golf revenues are down slightly in the current fiscal year, all three golf courses have adjusted expenditures to compensate for the downturn and are marketing new spring programs to enhance revenues.

**County Library Fund (011)**

The County Library Fund is the collector of a share of the local property tax levy dedicated for library services. 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 library services in 16 County funded branches, including branches in the five cities of Citrus Heights, Elk Grove, Galt, Isleton and Rancho Cordova. A new Joint Powers Authority (JPA) agreement has been approved by these cities, the City of Sacramento and the County to add the five cities to the Library Board effective July 1, 2007.

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. The new JPA structure provides a model for resource allocation that will allow for supplemental funds above base service costs to be directed toward expanded services and/or facilities with involvement from the member jurisdictions.

**Tobacco Litigation Settlement (TLS) Fund (008)**

On November 15, 2005, the Board approved refinancing the 2001 Tobacco Litigation Settlement Bond, to reduce the County debt service on prior bonds. Under the original deallocation schedule, the County had between \$4.7 million to \$8.3 million per year to fund county-operated programs with some of the funds in the TLS endowment program. Based on the current deallocation schedule, only new and expanded programs by tax-exempt qualified nonprofit organizations other than the County itself, or qualified capital projects, can be funded with the original 2001 Bonds. To mitigate the problem caused by ending the funding generated from the original Bond, the Board approved passing normal capital/maintenance costs through the TLS Fund (Fund 008A) to “free-up” other county funds for the programs originally funded by the TLS revenues.

**XIV. MUNICIPAL SERVICES AGENCY-NON GENERAL FUND**

The Fiscal Year 2007-08 Recommended Proposed Budget for the Municipal Services Agency (MSA) is \$1.049 billion (excluding the Sanitation District, Dependent Special Districts, Countywide and Less Than Countywide Funds). Overall, the MSA budget reflects a net increase of \$208.9 million from the Fiscal Year 2006-07 Adopted Budget. This increase is primarily due to two major water supply projects, the Freeport Regional Diversion Project and the Vineyard Surface Water Treatment Plant, and is partially offset by reductions in other funds 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, Vineyard Public Facilities District, Road Fund, Building Inspection and Sacramento Water Agency Zone 11A. There is also a significant decrease in Water Quality financing activities due to a reorganization of its internal structure, resulting in the inclusion of only labor costs in the County budget, with all other costs being reviewed and approved by the sanitation district boards. Attachment VIII details the year-to-year comparisons for the MSA budget units.

**XV. AIRPORT ENTERPRISE**

The Sacramento County Airport System’s operating budget for Fiscal Year 2007-08 reflects a continued effort to maintain a reasonable airline cost per enplaned passenger and keep rate increases to a minimum. Considerable efforts were made by Airport System staff to make budget reductions wherever possible. Although some increases were unavoidable, overall the Airport System operating budget was reduced by \$8,718,327.

<b>Sacramento County Airport System                      Funds 041 and 045                      Operating Budget - Revenue and Expenses                      Fiscal Year 2007-08 Proposed Budget</b>				
	<b>2006-07 Adopted Final</b>	<b>2007-08 Recommended Proposed</b>	<b>Year to Year Variance</b>	<b>Percent Change</b>
<b><u>REVENUES:</u></b>				
Charges for Services	108,314,125	109,840,600	1,526,475	1.4%
Interest Income	5,102,040	5,504,600	402,560	7.9%
Intergovernmental Revenue	34,320,366	90,629,800	56,309,434	164.1%
Passenger Facility Charges	24,444,000	22,880,000	-1,564,000	-6.4%
<b>TOTAL</b>	<b>172,180,531</b>	<b>228,855,000</b>	<b>56,674,469</b>	<b>32.9%</b>
<b><u>EXPENSES:</u></b>				
Salaries/Benefits	32,361,894	34,540,148	2,178,254	6.7%
Service and Supplies	62,396,121	52,419,988	-9,976,133	-16.0%
Depreciation	23,050,943	24,979,039	1,928,096	8.4%
Other Charges	1,391,433	1,619,262	227,829	16.4%
Cost of Goods Sold	850,000	700,000	-150,000	-17.6%
Interest Expense	14,459,837	11,533,464	-2,926,373	-20.2%
<b>TOTAL</b>	<b>134,510,228</b>	<b>125,791,901</b>	<b>(8,718,327)</b>	<b>-6.5%</b>

**Revenues:**

Highlights of significant changes to the County Airport System’s operating revenue for Fiscal Year 2007-08 include:

- The largest increase in budgeted revenues is due to grant revenue associated with the terminal modernization program. The budget for Intergovernmental revenue is increasing from \$34,320,366 to \$90,629,800 (an increase of \$56,309,434). Expenditures are budgeted in the capital budget and revenues are budgeted in the operating budget. It is anticipated that not all of this revenue will be received in Fiscal Year 2007-08. However, so that the revenue is reflected in the same year as the capital budget, it has been included in the budget for Fiscal Year 2007-08. Revenue will be received as expenditures are incurred and construction progresses.
- Parking revenue for Fiscal Year 2007-08 is projected to increase by \$1,718,700 over Fiscal Year 2006-07 budgeted revenue due to increases in enplaned passengers.
- Auto rental concession revenue for Fiscal Year 2007-08 is projected to increase by \$1,731,500 over Fiscal Year 2006-07 budgeted revenue due to projected increases in enplaned passengers and passenger spending.

**Expenses:**

Highlights of significant changes to the County Airport System’s operating expenses for Fiscal Year 2007-08 include:

- Salaries and benefits have increased from \$32,361,894 to \$34,540,148 (an increase of \$2,178,254). This net increase is attributable to step increases in salaries, cost of living adjustments, and increased employer contributions to retirement.
- The budget for maintenance and repair projects funded in the operating budget was reduced by \$9,472,600 due to the completion of some costly infrastructure improvements made in Fiscal Year 2006-07.
- The budget for services provided by the Sheriff's Department to the Airport System increased by \$457,946 primarily due to increases in salaries and benefits for employees.
- The budget for environment consulting services increased by \$1,156,294 due to increased emphasis on environmental planning efforts.
- Interest Expense is projected to decrease by \$2,926,373 due to savings realized by bond refinancing in Fiscal Year 2006-07.

## **XVI. INTERNAL SERVICES FUNDS**

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

### **Office Of Communications And Information Technology (OCIT)**

The proposed base budget includes an unavoidable cost increase of \$420,760 from the Fiscal Year 2006-07 Final Adopted budget. The increase is due to salary and benefit adjustments of \$1,000,819 and countywide computer equipment maintenance and software licensing of \$650,824. These increases were partially offset by reductions in telecommunications services and maintenance of \$913,091. There is a net budget deficit of \$449,962 of which \$207,530 is due to expected Comprehensive Online Management Personnel and Accounting System for Sacramento County (COMPASS) upgrade costs and \$242,432 is due to allocated labor cost increases, which were not known when billing rates were established. The net budget deficit of \$449,962 will be funded from prior year savings.

The Fiscal Year 2007-08 Proposed Budget includes staffing and funding to initiate and/or complete the following projects and service enhancements:

- Implement Web services for the integrated Criminal Justice Information System (CJIS);
- Develop requirements for a new secured tax application;
- Continue upgrade of COMPASS to the latest version of SAP (ERP 2005);
- Implement additional Employee Self-Services (ESS) functionality such as Benefits enrollment, address changes, and W-4 processing;

- Roll-out Employee Self-Services for inputting time information into COMPASS to interested County Departments;
- Create a standard timesheet interface for COMPASS;
- Implement the COMPASS Plant Maintenance module for Airports to use as a Computerized Maintenance Management System;
- Plan and develop new broadband mobile data system for the use of the Sacramento Regional Radio Communications System participants;
- Implement a virtual server environment to reduce hardware and server support costs;
- Migrate customers off the analog GTD-5 telephone switches to VoIP;
- Convert existing Enterprise Content Management customers to new release of FileNet document imaging software;
- Complete Phase II of the California Law Enforcement Telecommunications System (CLETS) switch replacement project (develop three new interfaces);
- Continue E-Commerce growth by implementing Phase II of e-Pay SacCounty, the County's Internet e-commerce Shopping Cart;
- Implement Electronic Forms on the County Internet and Intranet;
- Redesign Sacramento County Internet Portal;
- Continue to expand multimedia capabilities on the Internet and Intranet.

**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 2006-07 Fiscal Year and recommended charges for the 2007-08 Fiscal Year:

<b>Insurance Funds Charges</b>			
	<b>Adopted 2006-07</b>	<b>Recommended 2007-08</b>	<b>Variance</b>
Workers' Compensation	38,445,137	38,579,882	134,745
Liability/Property	19,469,367	19,178,656	-290,711
Unemployment	<u>2,027,315</u>	<u>2,029,068</u>	<u>1,753</u>
<b>TOTAL</b>	<b>59,941,819</b>	<b>59,787,606</b>	<b>-154,213</b>

Overall recommended charges are lower for Fiscal Year 2007-08.

Cost increases in the Workers' Compensation Insurance program are due primarily to increases in premiums for excess insurance and security services.

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

Cost increases in the Unemployment Insurance program are primarily attributable to an increase in insurance premium costs offset by reductions in the number of unemployment claims.

## **XVII. 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 \$33.2 million in Fiscal Year 2007-08. Please refer to Attachment IX for a more detailed analysis of changes in appropriations, revenues, and fund balances for the Dependent Special Districts.

## **XVIII. 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 X).

## **XIX. REPORT FROM THE DEPARTMENT OF HUMAN ASSISTANCE REQUESTING THE ADDITION OF 12.0 POSITIONS FOR THE GENERAL ASSISTANCE FOOD STAMPS AND INFORMATION SYSTEMS DIVISIONS**

The Department of Human Assistance (DHA) is requesting to add 8.0 positions to the Information Systems Division and 4.0 positions to the GAFS Division. These new positions are critical to the Department's efforts to support our information systems infrastructure, develop automation systems to improve customer service and labor productivity, and comply with federal timelines for expedited services for the Food Stamps Program.

The Department is not requesting any additional county funding for these positions. The cost will be fully funded through a combination of additional state and federal reimbursements and the reallocation of existing appropriations. DHA will leverage additional Food Stamp Employment Training (FSET) funds to cover the cost of the 4.0 Eligibility Supervisor positions for the GAFS program. The information technology (IT) positions will be funded by reallocating appropriations from the temporary services line item and professional services line item for IT contractors to salaries and benefits. Approval of this request will authorize that the

additional revenue and appropriations and reallocated appropriations be included in the Department's Fiscal Year 2007-08 budget, at no additional county expense (see Attachment IV).

**XX. REPORT FROM THE DEPARTMENT OF PERSONNEL SERVICES ON IMPLEMENTATION OF REORGANIZATION OF HUMAN RESOURCES SERVICES DELIVERY WITHIN COUNTY GOVERNMENT**

During the Fiscal Year 2005-06 Proposed Budget Hearings, the Board of Supervisors conceptually approved a comprehensive review of the county's general administration overhead and support services across its agencies and departments. The results, recommendations, and implementation of those recommendations have been reported to the Board in detail on a regular basis. Most recently, the Department of Personnel Services (DPS) reported its implementation progress on February 13, 2007, and presented the recommendation that most human resources functions currently performed by the County's operating departments be consolidated into DPS. The Board gave conceptual approval to this recommendation, and directed DPS to report back during the 2007-08 Proposed Budget Hearings with a detailed implementation plan and fiscal analysis of the proposed consolidation.

The attached report outlines the consolidation of the departmental human resources functions and transfer up to 143.5 positions into the Department of Personnel Services. It also requests the addition of 8.0 positions and the reallocation of 4.0 positions to enhance human resource services. To finance the new positions, a recommendation to redirect \$500,000 currently appropriated for countywide overhead audits be redirected to Personnel Services. The remaining \$432,743 will be partially financed from Non-General Fund departments (\$185,067) and the remaining from existing appropriations within Personnel Services (see Attachment V).

**XXI. APPROVAL OF REPORT AND AAR No. 27-075 TRANSFERRING \$2,989,812 FROM RESERVE FOR ASSISTANCE PAYMENTS TO THE DEPARTMENT OF HEALTH AND HUMAN SERVICES TO OFFSET ADDITIONAL COSTS RESULTING FROM LABOR ACTIONS**

During Fiscal Year 2006-07 labor negotiations, several labor actions occurred that resulted in additional costs to the Department of Health and Human Services. The County Pharmacy had to send most prescriptions to Walgreens to be filled which resulted in additional pharmaceutical costs of \$2,388,237. The Mental Health Treatment Center (MHTC) also incurred additional acute psychiatric services costs of \$601,575 as a result of labor actions. The general strike plan for the MHTC was to lower the census at the Treatment Center by admitting new patients to other psychiatric facilities through an expanded use of Single Case agreements. Approval of the attached AAR No. 27-075 for the Department of Health and Human Services will provide funding to cover the unavoidable costs incurred as a result of the recent labor actions (see Attachment VI).

**XXII. SCHEDULE FOR FINAL BUDGET HEARINGS**

Because 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 shortfall in the Proposed Budget, approval of additional funds requests will need to be kept to an absolute minimum in order for the County to avoid 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 (including but not limited to budget units with recommended reductions, should they prove necessary). The following is the planned schedule for Final Budget Hearings:

Day 1	Wednesday, September 5	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 6	9:30 a.m.	Budget Workshop on Five-Year Capital Improvement Plan
Day 2	Thursday, September 6	2:00 p.m.	Special Reports; Transient-Occupancy Tax Hearings
Day 3	Thursday, September 13	9:30 a.m.	Reports Back; Budget Deliberations,
Day 4	Friday, September 14	9:30 a.m.	Budget Deliberations continued (if necessary)
	Tuesday, September 25		Adoption of Final Budget Resolution

### XXIII. CONCLUSION

At the conclusion of the Proposed Budget Hearings, the Board should adopt a Proposed Budget Resolution that will implement the Approved Proposed Budget, effective July 1, 2007 (Attachment III). The Resolution will also establish Final Budget Hearings to commence Wednesday, September 5, 2007. Final Budget Hearings are anticipated to focus on nominal adjustments to the Proposed Budget based upon Fiscal Year 2006-07 year-end results, including possible program/service reductions in the General Fund to address the Proposed Budget shortfall. It is expected that funding of additional (growth) requests will be held to an absolute minimum, in anticipation of a significant General Fund budget shortfall in Fiscal Year 2008-09. Rather than exacerbating our expected budget shortfall by increasing spending over current levels, we should find creative means to reduce our spending at Final Budget to levels lower than those assumed by the Recommended Proposed Budget. To that end, my office will work with our agencies/departments to conduct a thorough budgetary review of all General Fund budget units between Proposed and Final Budget, to identify opportunities to decrease expenditures and/or increase departmental revenues. At the Final Budget Hearings, we will also provide the Board with a comprehensive plan to begin dealing with the anticipated Fiscal Year 2008-09 General Fund shortfall far in advance of the Fiscal Year 2008-09 Budget Hearings.

Respectfully submitted,

TERRY SCHUTTEN  
County Executive

LFH:js

Attachments:

- I. Summary of the Fiscal Year 2007-08 Recommended Proposed Budget for the General Fund
- II. Schedule listing continuing/outstanding TOT funding requests
- III. Proposed Budget Resolution
- IV. Report from Department of Human Assistance
- V. Report from Department of Personnel Services
- VI. Report from Department of Health and Human Services
- VII. Summary of Reasons for Unfunded Base Requests
- VIII. MSA (Non-General Fund) Summary of Base Budget
- IX. Special Districts Budget Summary
- X. Director of Finance – Tabulation Certification

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