

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
September 1, 2004
9:30 AM

To: Board of Supervisors
From: County Executive
Subject: Recommended Fiscal Year 2004-05 Final Budget
Contact: Geoffrey B. Davey, Chief Financial/Operations Officer, 874-5803

RECOMMENDATIONS:

1. Receive and file this report on the reconciliation of the County's Fiscal Year 2003-04 actual expenditures, revenues, carryover and fund balances (as detailed for General Fund departments in Attachment I and the attached binder of Fiscal Year 2004-05 Final Budget Schedules), certain other recommended changes to the Proposed Budget, and our assessment of the impacts of the enacted Fiscal Year 2004-05 State Budget on the County of Sacramento.
2. Approve, subject to any changes made before final adoption of the budget, increasing the General Fund's Reserves by \$9,261,651 over the levels adopted at the Fiscal Year 2004-05 Proposed Budget Hearings, including but not limited to an amount equal to the aggregate improved Fiscal Year 2003-04 carryover/fund-balance for most General Fund departments (\$4,677,757) plus portions of the non-departmental fund balance totaling \$4,583,894 as outlined herein, rather than considering those one-time funds as a financing source for additional expenditures in Fiscal Year 2004-05 that would be ongoing.
3. Conduct a Transient-Occupancy Tax (TOT) Fund hearing on Thursday, September 2, 2004, in order to determine discretionary grants to community-based organizations, and otherwise approve the County Executive's recommendations to re-establish a Raley Field reserve contribution and contingency amount utilizing improved year-end TOT fund balance.
4. Following testimony during the scheduled Final Budget Hearings, close the Bielson Hearings and Final Budget Hearings and give direction by your Board of any changes to the County Executive's Recommended Fiscal Year 2004-05 Final Budget.
5. Direct the Department of Finance to prepare the Fiscal Year 2004-05 Budget Resolutions for consideration by your Board on Tuesday, September 28, 2004.
6. Direct that the county's limited hiring freeze effecting countywide classifications and positions not supported by revenue/subventions or deemed mission-critical be ended, effective immediately.

BACKGROUND:

The Board of Supervisors adopted the Fiscal Year 2004-05 Proposed Budget on Thursday, May 13, 2004. This year's Proposed Budget Hearings were held approximately one month earlier than in past years. The early budget hearings were necessary to deal with a large General Fund "local" deficit that originally was projected in December 2003 at approximately \$45.5 million. Even before this projection was made, our reserves and appropriations for terminal payment to retiring employees were reduced by \$17.0 million in December 2003 to offset for reduced Vehicle License Fee (VLF), also referred to as "car-tax", revenues caused by the temporary cessation of the state's backfill of car-tax revenues during the summer/fall of 2003.

The large deficit projection was primarily caused by the expiration of a like amount of one-time financing/savings sources used to balance the prior-year's budget. In the Fiscal Year 2003-04 Budget Hearings, a General Fund deficit of approximately \$120.0 million was resolved through \$77.0 million in reductions and \$43.0 million in one-time financing/savings. Although the Fiscal Year 2004-05 projected budget shortfall of \$45.5 million was considerably less than in the prior year, the unknown amount of budget impacts from the State of California's huge deficit was expected to add significantly to the county's local shortfall by the summer of 2004. Consequently, the decision was made to address the local shortfall in Proposed Budget Hearings during May, and address the specific state budget impacts during the County's Fiscal Year 2004-05 Final Budget Hearings scheduled for the first week of September 2004.

Also, prior to the Proposed Budget Hearings, in February 2004, your Board approved \$6.2 million in annualized reductions in midyear budget hearings, which were targeted initially to address car-tax revenue losses. These midyear reductions were primarily to the county's General Government programs. Approximately \$16.0 million in further various cost reductions, savings and/or one-time financing sources were identified by the start of the Proposed Budget Hearings, resulting in a remaining \$23.3 million in reductions being recommended for approval during the Proposed Budget Hearings.

Ultimately, during the final two days of the Proposed Budget Hearings, the County Executive identified approximately \$3.6 million in additional discretionary revenue that could be budgeted, primarily from higher than anticipated property tax revenues, and utilized to make budget restorations. The Board of Supervisors also decided to redirect the use of \$625,000 in Capital Construction Fund (CCF) facilities maintenance funds and \$625,000 in Contingencies for use in balancing the budget. The Board was able to use those additional revenues, facilities maintenance funds and contingencies primarily to approve restorations beyond what the County Executive had originally recommended in the Sheriff's Department, District Attorney's (DA) Office, Probation Department, and Department of Health and Human Services (DHHS).

In summary, we began the Fiscal Year 2004-05 Proposed Budget process back in December 2003 with a projected \$45.5 million budget shortfall. Following is a recap of how the original shortfall was ultimately resolved at the conclusion of the Fiscal Year 2004-05 Proposed Budget Hearings:

ORIGINAL PROPOSED BUDGET SHORTFALL SOLUTIONS RECAP

(Amounts Expressed in Millions)

DESCRIPTION	AMOUNT
Midyear reductions.	\$ 6.20
Revenue from anticipated sale of land at Bradshaw Complex.	3.00
Mental Health Realignment revenues transferred to cover health programs.	4.75
Anticipated reduced employer retirement costs from the potential sale of Pension Obligation Bonds.	7.40
Higher than originally anticipated "Departmental" revenues, including transfers from the Municipal Services Agency (MSA) Enterprise Funds.	1.40
Reductions approved during Proposed Budget Hearings.	17.90
Redirected Capital Construction Fund (CCF) monies and use of Contingencies	1.25
Last minute higher than anticipated Property Tax Revenues.	3.60
TOTAL	\$45.50

This total solution package relies upon \$24.1 million in total reductions, and the elimination of approximately 150.0 positions. The largest reduction fell to the Sheriff's Department (\$9.7 million).

DISCUSSION:**I. State Budget Update**

On Thursday, July 29, 2004, the State Legislature passed the main budget bill, Senate Bill (SB) 1113, with minimal detail and/or debate by a vote of 28 to 11, one more vote than the bare two-third's majority required. The Governor then signed the budget on Saturday, July 31, 2004, after ordering several budget vetoes using his "blue-pencil" veto authority.

The primary focus of local governments in this year's state budget debate was the negotiations with the Governor over the placement of a constitutional amendment (Proposition 1A) on the November 2004 ballot to protect local government revenues, with the protection commencing in Fiscal Year 2006-07. In exchange for the promised support of the Governor for this constitutional amendment, local government representatives for counties, cities, special districts and redevelopment agencies agreed in principle to a \$1.3 billion "contribution" to the state's budget solution for Fiscal Year 2004-05 and Fiscal Year 2005-06. Sacramento County's share of this \$1.3 billion is projected to be \$12.2 million. This \$12.2 million contribution was not anticipated in our Fiscal Year 2004-05 Adopted Proposed Budget, and must be accommodated in

our Fiscal Year 2004-05 Final Budget through one-time and/or short-term financing sources (either one-time revenues or savings).

The manner in which this \$12.2 million contribution to the State Budget will be collected is through an unequal “Swap” of VLF car-tax revenues for property tax revenues in Fiscal Years 2004-05 and 2005-06. Effective Fiscal Year 2004-05, the counties and cities will receive two-thirds ($2/3^{\text{rds}}$) less car-tax revenues than previously received. The amount that counties and cities will receive in car-tax revenues will be equal to the amounts actually being paid by taxpayers, and will no longer include a “backfill” factor for the car-tax rate that was originally in effect before the “car-tax” reductions approved by the State Legislature a few years ago. However, for the 2004-05 and 2005-06 Fiscal Years, the County will receive \$12.2 million less in General Fund property tax revenues than the State extracts from the County in car-tax revenues.

There are also impacts to the park, cemetery and other non-fire special districts in the County as well as Special District 3027 (Sacramento County Water Agency [SCWA], Zone 12), which receives a share of the ad valorem property tax allocation. The impacts to the park and cemetery districts are outlined in the section on special district budget changes found elsewhere in this report. SCWA, Zone 12 will lose approximately \$558,000 annually for the 2004-05 and 2005-06 Fiscal Years for our Storm Water Utility (SWU). This revenue reduction represents approximately 1.4 percent of the operating budget for SWU. Currently, SWU has adequate reserves to cover the revenue loss; therefore, no cuts are anticipated for Fiscal Year 2004-05. If similar revenue reductions were to continue over the long term, we estimate that a rate increase of 2.6 percent would be necessary to maintain current service levels.

In addition to the property tax for car-tax “Swap”, there were many other possible impacts to the County’s General Fund (and other county funds) from the State Budget. The main budget bill does not include those details, rather, they were included in several so-called “trailer bills” taken up by the State Legislature separate from the main budget bill. Of particular concern to the County were earlier budget proposals to:

- Eliminate counties’ legal authority to charge jail booking fees
- Eliminate Probation Department’s funding from the Temporary Assistance to Needy Families (TANF) program for foster-care youths detained in juvenile institutions
- Sweeping of the counties’ share of child support revenues
- Proposals to reduce/eliminate funding for several mental health and social services programs

In the end, most of the earlier proposals to reduce county funding for probation, booking fees and/or social services programs were excluded from the Final State Budget, including the trailer bills, and/or deferred until Fiscal Year 2005-06. Of particular note, the trailer bill language includes a specific provision to reduce county booking fees by 50.0 percent in Fiscal Year 2005-06.

A complete summary of the State Budget impacts to Local Government is attached (see Attachment III).

II. The Governor's "Blue Pencil" Line-Item Vetoes

The Governor's line-item vetoes involving local government were virtually unexpected and primarily involved county health and welfare programs:

- **California's Work Opportunity and Responsibilities to Kids (CalWORKs)**

The Governor vetoed \$40.0 million (of the \$90.0 million) in CalWORKs/TANF employment services funds restored by the State Legislature. This was surprising given Legislative staff's understanding that the \$90.0 million level was an integral part of the overall CalWORKs/TANF agreement between the State Legislature and the Governor.

The Department of Human Assistance's (DHA) impact of this reduction is estimated at \$2.0 million dollars for Sacramento County. DHA intends to backfill/offset this reduction through a variety of one-time strategies such as:

1. Continue to not fill existing vacancies
2. Use any unspent CalWORKs childcare funds
3. Use any remaining TANF Incentive funds to backfill as well

These are all one-time fixes for this budget year. A continued reduction in this funding beyond Fiscal Year 2004-05 would require either an augmentation from county funds and/or a reduction in Fiscal Year 2006-07 of staffing and service provision.

- **Child Welfare Services (CWS)**

The Governor essentially returned to his May Revision by vetoing \$17.1 million (General Fund) of CWS augmentation, and requiring counties to provide their 30.0 percent match to access the balance of the augmentation funds. This would require the counties to then put up \$17.1 million in match to access the \$40.0 million (General Fund) balance of the augmentation. The Governor achieved his goal of requiring a county match on the augmentation by vetoing the Budget Act language that waived the county match for the augmentation. In his veto message, the Governor stated that "due to limited state resources...the State is unable to continue to waive the 30.0 percent nonfederal county share...in this Budget. Assuming that counties backfill this reduction with their own resources, \$91,440,000 in total funds remain....".

The Governor's requirement that counties put up a 30.0 percent match to draw down the CWS augmentation funds requires a new match of \$863,935 for Sacramento County. These funds would leverage a total augmentation of \$5,456,309 in state, federal and county funds. For Fiscal Year 2004-05, DHHS fiscal staff recently completed the actual fourth quarter Fiscal Year 2003-04 claims and identified additional revenues in Child Protective Services (CPS) by \$595,265 over what had been accrued at year-end. Therefore, for Fiscal Year 2004-05, they can use the prior-year revenues on a one-time basis to offset the newly required county match, which will reduce the new county match amount for Fiscal Year 2004-05 to only \$268,670 (\$863,935 minus \$595,265).

The County Executive recommends an augmentation to the DHHS budget of the \$268,670. We calculate that even with the \$595,265 in prior-year revenues, CPS would still have to reduce their budget by \$1,696,825 if the \$268,670 augmentation was not approved. This would impact services as well as require the deletion of approximately 10.0 positions which would significantly impact Child Protective Services.

- **Children's Mental Health System**

The Governor also vetoed \$19.65 million that the State Legislature had restored to fund the Children's Mental Health System of Care. The Governor left \$350,000 for support of the Cathie Wright Technical Assistance Center that helps counties to implement integrated health and human services programs. The Governor's Administration argues that the direct and essential services will continue to be provided to these children through the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program and Realignment funds.

This "Blue Pencil" deletion by the Governor represents a loss of \$701,400 to the county's Children's Mental Health programs which would impact the provision of over \$542,000 of intensive outpatient mental health services provided to youth who are not Medi-Cal eligible. These youth are high-level users of multiple systems, including Law Enforcement, Probation, Juvenile Court, Public Health, Emergency Rooms, Mental Health Crisis Stabilization Unit, and Psychiatric Inpatient Hospitals. The intensive Mental Health Service Provider is able to intervene with medication support and other mental health treatments to stabilize the youth and reduce involvement in systemwide, high-end, costly services. The balance of the funding of \$159,400 has primarily supported a Family and Youth Advocacy and Cultural Competence program. These programs allow the Mental Health Division to better engage and treat diverse youth and families receiving mental health services. By enhancing youth and family involvement, and culturally competence, the Mental Health Division is able to secure better long term clinical and fiscal outcomes. For these reasons, DHHS will utilize Mental Health Realignment funds that reside in the Mental Health Trust Fund to backfill this loss of revenue. This will allow DHHS to keep the program intact for Fiscal Year 2004-05. Using Mental Health Trust Fund monies will also limit program expansion opportunities which impact future services to clients.

III. General Fund Fiscal Year 2003-04 Year-End Results

The Fiscal Year 2004-05 Adopted Proposed Budget for Sacramento County relied upon estimates of year-end carryover/fund balance for the General Fund and all other funds. In the General Fund, the year-end estimate included in the Proposed Budget was \$47.65 million, of which \$29.995 million was estimated in aggregate by the departments for their operational carryover, and \$17.656 million was projected for non-departmental fund balance related to either general purpose revenue improvement and/or non-departmental expenditure savings. The Fiscal Year 2003-04 financial books closed on July 23, 2004, after all year-end transactions were completed. The unaudited year-end results indicate that actual total General Fund Balance/Carryover is \$67.952 million, an improvement of \$20.3 million. The General Purpose Financing net improvement was approximately \$15.3 million of that amount, and the remainder was year-end carryover improvements in departmental operations. The majority of departments/budget units had improvements to their year-end carryover over their earlier projections; however there were several departments/budget units that had results worse than originally

anticipated. Departments which experienced decreased carryovers compared to their earlier estimates have made tentative adjustments to their spending plans to balance their budgets.

These departments/budget units with decreased carryover include the following:

BUDGET UNIT	DEPARTMENT	AMOUNT
3210000	Agricultural Commissioner & Sealer of Weights and Measures	\$ 11,551
3310000	Cooperative Extension	13,926
4810000	County Counsel (partially offset by increased allocation for Fiscal Year 2004-05 of \$150,000)	414,528
5690000	Environmental Review and Assessment (will be offset by assumed fee increases in Fiscal Year 2004-05)	396,234
7200000	DHHS	283,699
6110000	Revenue Recovery	65,582
3260000	Wildlife Services	138

Certain budget units that reflect mandated countywide costs also came in with lower/negative carryover balances, such as Court Operations-County Contribution, Correctional Health Services, and In-Home Support Services (IHSS) Provider Payments. These budget units will require additional General Purpose Financing allocation for Fiscal Year 2004-05 to offset the lower/negative carryover, and/or have had Appropriation Adjustment Requests (AARs) retroactively authorized for Fiscal Year 2003-04 to correct the shortfall.

Attachment II reflects the Fiscal Year 2003-04 year-end results for General Fund departments/budget units, including the change from the amounts previously included in the Fiscal Year 2004-05 Adopted Proposed Budget for carryover, and the resultant recommended Carryover Reserve component for each department/budget unit.

IV. Recommended Increase to General Fund “General Reserve”

The Office of Budget and Debt Management recommends that the additional carryover for most General Fund departments (\$4,677,757) exclusive of the additional carryover for the Environmental Management Department (EMD), which now is a separate fund, as well as \$2.0 million of the additional non-departmental fund balance, be added to our General Reserves as a financing source for future years. We will provide your Board with a comprehensive multiyear budget outlook for Fiscal Year 2005-06 at the Fiscal Year 2004-05 Midyear Budget Hearings in early February 2005. However, certain known cost increases (Employer Retirement contributions, Employee Salaries and Benefits increases, etc.) as well as the expiration of one-time savings/revenues used to balance the Fiscal Year 2004-05 General Fund Budget are likely to create significant budget stress for Fiscal Year 2005-06. Therefore, establishing this Carryover Reserve for the departments whose savings exceeded earlier projections is an important factor in planning for another possible year with budget challenges.

We are also recommending Reserve increases of \$1.95 million from the non-departmental fund balance increase to mitigate against the anticipated reduction of booking fees that will be legislated next year as part of this year’s State Budget “Deal”, and \$580,000 to mitigate against the possible loss of reimbursement from the Sacramento Regional County Sanitation District (SRCSD) for code-enforcement and other county General Fund activities that a recent Nexus study shows are appropriate costs for the SRCSD to fund, but for which there is no current agreement with SRCSD to finance.

Following is a list of large one-time/short-term financings used, thus far, by the County to balance the Fiscal Year 2004-05 General Fund Budget, which must be replaced with revenues from other sources in Fiscal Year 2005-06:

FISCAL YEAR 2004-05 GENERAL FUND BUDGET
ONE-TIME/SHORT-TERM FINANCINGS
 (Amounts Expressed in Millions)

DESCRIPTION	AMOUNT
One-time transfer from Mental Health Realignment funds to cover Health (Treatment) expenses	\$ 4.75
Presumed proceeds from sale of land to SRCSD	3.00
Renegotiation of Deputy Sheriff’s Association (DSA) arbitration settlement	4.30
Child Support Sanction “waiver” deferred one year	2.50
Higher than sustainable Teeter Plan delinquency payments	2.00
Higher than sustainable Property Transfer Tax revenues	2.00
2004 Pension Obligation Bond (POB) financing, which defers debt service payments for two years (for Fiscal Years 2004-05 and 2005-06)	4.50
2003 POB refinancing (of 1995 POBs) reduces payments for five years (through Fiscal Year 2008-09) and extends repayment from 2023 to 2026	5.00
Miscellaneous, including \$595,000 in prior-year CWS funds to meet Fiscal Year 2004-05 match requirement	2.00
TOTAL	\$30.05

V. Additional Requests In General Fund

Very few additional requests were received from departments this year, due to the appreciation for the overall bleak budget situation of the County and the State. However, there were a few mandated and/or self-funded additional budget requests that were submitted and are being recommended, to be funded with either the improvement in General Fund year-end results, and/or with dedicated/categorical revenues that totally offset (self-fund) the net cost. Attachment IV-A summarizes the additional requests received from departments. Attachment IV-B summarizes the recommended additional requests included in the Fiscal Year 2004-05 Recommended Final Budget.

VI. Summary of Significant Net-Cost Adjustments in the General Fund to the Adopted Proposed Budget for the Recommended Final Budget Caused by Approved State Budget and Certain Local Funding Issues

Following is a summary of the net-cost General Fund adjustments to the Fiscal Year 2004-05 Adopted Proposed Budget as recommended in the County Executive's Recommended Fiscal Year 2004-05 Final Budget:

INCREASED NET COST ADJUSTMENTS

BUDGET UNIT/ DEPARTMENT	DESCRIPTION	NET AMOUNT
5701000 Non-Departmental Revenues/General Fund	VLF/Property Tax "Swap"--county's share of statewide \$1.3 billion local government impact (will last two years).	\$12,200,000
7400000 Sheriff Department	Sheriff restoration remaining from Proposed Budget (\$2.5 million restoration approved conceptually in Proposed Budget, remaining \$1.25 million was to be dealt with at Final Budget).	1,250,000
3100000 & 7400000 Capital Construction Fund (CCF) & Sheriff	Reverse reduction in Contingencies and CCF payment of Main Jail Debt Service for Sheriff's Department. During Proposed Budget Hearings, to fund a \$1.25 million restoration for the Sheriff's Department, Contingencies were reduced by \$625,000 and CCF funds were used to pay \$625,000 of the Sheriff's Main Jail Debt Service. For Final Budget, we are recommending that these actions be reversed, and the Sheriff Department's budget be increased by the \$1.25 million, restoring the General Fund Contingencies to \$5.0 million and restoring CCF financing for facilities maintenance by \$625,000.	1,250,000
7410000 Correctional Health Services	Budget unit had higher than expected expenses for Fiscal Year 2003-04 and had a reduced carryover amount, requiring additional General Fund appropriations for Fiscal Year 2004-05.	733,854
7200000 DHHS	Public Guardian's Office will receive a smaller amount of federal funds for Fiscal Year 2004-05 requiring a larger General Fund contribution.	543,181
6610000 Planning and Community Development Department	Nexus study impacts from reduced enterprise fund reimbursements for code enforcement and other activities.	157,855
7250000 IHSS Provider Payments	Net county cost for IHSS Provider Payments will increase for Fiscal Year 2004-05 above the Adopted Proposed Budget estimates.	933,242

BUDGET UNIT/ DEPARTMENT	DESCRIPTION	NET AMOUNT
7250000 IHSS Provider Payments	Base cost for IHSS Provider Health Care subsidy will increase for Fiscal Year 2004-05 above the Adopted Proposed Budget estimates.	\$ 18,014
5701000 Non-Departmental Revenues/General Fund	Cost for IHSS Provider Health Care subsidy will increase for Fiscal Year 2004-05 above the Adopted Proposed Budget estimate due to assumed increases in county contribution to be negotiated.	38,000
4810000 County Counsel	General Fund cost for the County Counsel Office's will increase due to deficit carryover in Fiscal Year 2003-04 because of the costs of defending the County in the DSA Arbitration and for the anticipated costs in Fiscal Year 2004-05 for defending the County for the City of Rancho Cordova Revenue Neutrality claim.	150,000
5020000 Courts	County Executive recommends that the County General Fund compensate the Sacramento County Superior Court for its share of prior-year Life Insurance Program rebates.	200,000
5600000 Neighborhood Services Department	Requires additional funding for the County Counsel Office's costs for Community Council pilot implementation.	30,000
5970000 Office of Labor Relations	Requires an increase in General Fund allocation due to lower than expected Fiscal Year 2003-04 carryover due to higher than anticipated Terminal Pay expenditures.	95,208
5510000 Indigent Defense Program	Indigent Defense Program increase costs for contract staff.	48,989
	TOTAL	\$17,648,343

DECREASED NET COST FACTORS

BUDGET UNIT/ DEPARTMENT	DESCRIPTION	NET AMOUNT
Spread across departments	Additional 2004 POB savings achieved by variable-rate structure and deferred debt service payments for first two years	\$ 4,804,430
5701000 Non-Departmental Revenues and Departments	General Fund improved fund balance at Fiscal Year 2003-04 year-end; approximately \$5.3 million due to departmental carryover improvement, remaining \$13.0 million due to welfare caseload savings and general revenue improvements.	18,300,000
5810000 Child Support Services	State agreement with federal government to defer Child Support Services Fiscal Year 2004-05 Federal Automation Penalty sanction payment until September 2005 (still within federal government's 2004-05 Fiscal Year).	2,440,159
7250000 IHSS	Governor has received pledge from federal Secretary of Health and Human Services (Tommy Thompson) to grant IHSS Residual Program waiver for Federal Fiscal Year 2004-05 (Effective October 1, 2005).	3,000,000

BUDGET UNIT/ DEPARTMENT	DESCRIPTION	NET AMOUNT
5701000 Non-Departmental Revenues/General Fund	Remove centrally budgeted costs for DSA Election on retirement pick-up due to recently negotiated settlement.	\$ 4,300,000
5701000 Non-Departmental Revenues/General Fund	General Revenue improvement, primarily Sales Taxes and Teeter Plan property tax delinquencies.	4,160,129
7270000 Health-Medical Treatment Payments	Reduce budgeted amount for Juvenile Medical Services based upon Fiscal Year 2003-04 actual expenses.	157,635
6760000 Care In Homes & Institutions	Reduce budgeted amount for Care in Homes & Institutions costs based upon Fiscal Year 2003-04 actual expenses.	222,028
	TOTAL	\$37,384,222

RECOMMENDED ADDITIONAL GENERAL FUND ITEMS WITH NET COSTS

BUDGET UNIT/ DEPARTMENT	DESCRIPTION	NET AMOUNT
5701000 Non-Departmental Revenues/General Fund	Terminal Pay for retiring workers-non Sheriff.	\$ 2,300,000
7400000 Sheriff	Terminal Pay for retiring workers-Sheriff.	2,700,000
7400000 Sheriff	Sheriff's Department-Restoration of Sheriff High Priority Program-Patrol/Investigative Services.	1,950,000
5800000 DA	Restoration of DA High Priority Prosecutorial and Crime Lab-Information Technician staffing.	490,056
6700000 Probation	Probation's Interstate Compact (new federal mandate) staffing.	650,919
6700000 Probation	Probation's Visitor Center staffing in Juvenile Hall Remodel/Expansion Project.	724,978
6400000 Regional Parks, Recreation and Open Space	Parks consultants to assist in formation of new special district.	85,000
4410000 Voter Registration and Elections	Elections Information Technology Technician staff for electronic voting system conversion for November 2004 Presidential Election.	110,055
5701000 Non-Departmental Revenues/General Fund	Funding for Program Audit of Sheriff's Department and Department of General Services.	250,000
8100000 DHA	DHA staffing for Rancho Cordova expanded office play care.	11,214

BUDGET UNIT/ DEPARTMENT	DESCRIPTION	NET AMOUNT
8100000 DHA	DHA staffing for County Medical Indigent Services Program (CMISP) intake.	\$ 283,290
7200000 DHHS	DHHS staffing for Radiologic Technologists at Juvenile Hall.	78,536
7200000 DHHS	DHHS staffing for eligibility caseloads in IHSS program.	485,462
7200000 DHHS	DHHS staffing to address law enforcement referral backlog.	26,913
7200000 DHHS	DHHS staffing and funding for DA to investigate IHSS fraud.	59,135
7200000 DHHS	DHHS funding to backfill Governor's State Budget veto for Child Welfare Services (CWS).	268,670
	TOTAL	\$10,474,228

RECOMMENDED ADDITIONAL GENERAL FUND ITEMS WITH ZERO NET COSTS

BUDGET UNIT/ DEPARTMENT	DESCRIPTION	GROSS AMOUNT
7200000 DHHS	DHHS-Office of the Director. 3.0 additional positions to staff Mental Health administration and fiscal services. Cost is totally offset by additional revenues associated with Medi-Cal Administrative Activities (MAA) and Targeted Case Management (TCM).	\$ 268,741
7200000 DHHS	DHHS-Office of the Director/Primary Care Clinic. 4.0 additional positions to staff fiscal services at the Clinics to improve Medi-Cal and private pay billing. Cost is totally offset by increased revenues.	195,744
7200000 DHHS	DHHS-Medical Indigent Services-Case Management. 1.0 additional position to monitor/perform retroactive utilization review, disability management/referral and care coordination to UCD-CMISP patients. Cost is totally offset by reduced treatment costs.	0
7200000 DHHS	DHHS-Medical Indigent Services-Case Management. 2.0 additional positions to monitor/facilitate services and access to providers for CMISP patients. Cost is totally offset by reduced treatment costs.	0
7200000 DHHS	DHHS-Primary Health Services-Pharmacy. 1.0 additional position to have a more responsive and efficient pharmacy. Cost is totally offset by increased revenues.	49,094
7200000 DHHS	DHHS-CPS, Family Reunification-Kinship Unit. 4.0 additional positions to conduct in-home visits for all relatives and extended family members of abused and neglected children. Cost is totally offset by increased revenues.	329,308

BUDGET UNIT/ DEPARTMENT	DESCRIPTION	GROSS AMOUNT
7200000 DHHS	DHHS-CPS. 3.0 additional positions to support additional administrative responsibility related to self-assessments and annual System Improvement Plan required by Assembly Bill (AB) 636. Cost is totally offset by increased revenues.	\$ 301,727
7200000 DHHS	DHHS-CPS. Convert 8.0 temporary positions to permanent positions for data entry associated with CWS redesign, Program Improvement Plan, and the California Child and Family Services Review process per AB 636. Cost is totally offset by increased revenues.	170,728
7200000 DHHS	DHHS-CPS. 30.0 additional positions to meet program needs associated with CWS redesign, Program Improvement Plan, and the California Child and Family Services Review process per AB 636. Cost is totally offset by increased revenues.	1,717,634
7200000 DHHS	DHHS-Public Health Laboratory. 2.0 additional positions to meet program needs for increasing test requests and improve Medi-Cal billing. Cost is totally offset by increased revenues.	85,450
7200000 DHHS	DHHS-Health Officer-Bioterrorism Preparedness. 2.0 additional positions to provide interagency coordination for local/regional homeland security. Cost is totally offset by increase in revenues from City of Sacramento-Police Department.	196,545
	TOTAL SELF FUNDED	\$3,314,971

RECOMMENDED RESERVE CHANGES
(PROPOSED TO FINAL CHANGES)

DESCRIPTION	AMOUNT
Adjustments to Teeter reserves, net (mandated).	\$ 53,894
Reserve for mitigation of anticipated Sheriff's Booking Fee Fiscal Year 2005-06 reduction included in this year's State Budget "deal" with local government.	1,950,000
Departmental Carryover Reserve for Fiscal Year 2005-06 from higher than anticipated carryover in various specific departments.	4,677,757
General Reserve increase (long-term fiscal stability) from higher than anticipated General Fund Balance in Fiscal Year 2003-04.	2,000,000
Reserve for mitigation of possible loss of reimbursement from SRCSD for code enforcement and other activities which recent Nexus study concludes are reasonable.	580,000
TOTAL	\$9,261,651

VII. SUMMARY OF FISCAL YEAR 2004-05 RECOMMENDED FINAL BUDGET

The following table summarizes the 2004-05 Recommended Final Budget for the General Fund:

2004-05 Recommended Final General Fund Budget							
(Amounts Expressed in Millions)							
	Appro-	Estimated	Net	Carry-		2003-04	2004-05
	priations	Revenues	Cost	Over	Allocation	Percent of	Percent of
						Allocation	Allocation
ELECTED OFFICIALS							
Assessor	\$ 14.3	\$ 8.8	\$ 5.5	\$ 1.5	\$ 4.0	0.8%	0.9%
Board of Supervisors	3.5	0.7	2.8	0.3	2.5	0.6%	0.6%
District Attorney	52.8	20.1	32.7	2.4	30.3	6.9%	6.7%
Sheriff	287.2	173.9	113.3	3.6	109.7	24.3%	24.2%
SUBTOTAL	\$ 357.8	\$ 203.5	\$ 154.3	\$ 7.8	\$ 146.5	32.6%	32.4%
COUNTYWIDE SERVICES							
Child Support	\$ 32.3	\$ 32.3	\$ 0.0	\$ 0.2	\$ -0.2	0.0%	0.0%
Health and Human Services	416.7	389.3	27.4	5.4	22.0	3.5%	4.9%
Health Treatment Account	40.1	21.6	18.5	4.9	13.6	3.5%	3.0%
Human Assistance-Admin.	241.8	218.4	23.4	2.2	21.2	4.6%	4.7%
Human Assistance-Payments	387.2	331.0	56.2	0.0	56.2	13.1%	12.4%
IHSS Provider Payments	46.9	38.2	8.7	0.3	8.4	2.5%	1.9%
Probation	84.4	43.3	41.1	6.6	34.5	6.5%	7.6%
Public Defender	20.4	0.6	19.8	0.4	19.4	4.1%	4.3%
Other	122.5	48.2	74.3	3.3	71.0	15.7%	15.7%
SUBTOTAL	\$1,392.3	\$ 1,122.9	\$ 269.4	\$ 23.3	\$ 246.1	53.6%	54.4%
GENERAL GOVERNMENT/CF/OO	9.6	4.7	4.9	1.3	3.6	0.9%	0.8%
INTERNAL SERVICES	87.3	48.6	38.7	3.9	34.8	8.1%	7.7%
MUNICIPAL SERVICES	28.9	18.7	10.2	1.3	8.9	1.5%	2.0%
CONTINGENCIES	5.0	0.0	5.0	0.0	5.0	1.1%	1.1%
RESERVE CHANGES	10.5	2.8	7.7	0.0	7.7	2.2%	1.7%
TOTAL	\$1,891.4	\$ 1,401.2	\$ 490.2	\$ 37.6	\$ 452.6	100.0%	100.0%

The total requirement for departmental appropriations and the recommended reserve increases is \$1.89 billion. Over 86.0 percent of total appropriations (spending) is for elected officials and countywide services programs. All other programs, the contingency, and the reserve increases amount to less than 14.0 percent of the total appropriations. Most of the general government and human resources programs provide support to the elected officials and countywide services programs.

The financing for the expenditures and reserve increases may be summarized:

Departmental Revenues	\$1,401.2	74.2 percent
Carryover	37.6	1.9 percent
General Purpose Financing	452.6	23.9 percent
Total Financing	\$1,891.4	100.0 percent

Over 74.0 percent of the financing comes from departmental revenues which predominately come from state and federal sources. Carryover of \$37.6 million is under 2.0 percent of total financing but is available for discretionary use.

The general purpose financing is not dedicated to any specific program or function. The general purpose financing makes up 23.9 percent of overall financing in the General Fund and consists of revenues, transfers in from other funds, and reserve changes. Certain expenditures, such as interest expense on the annual cash flow borrowing and tax collection fees, are netted against the financing sources.

VIII. Release of Hiring Freeze

The County has had a limited hiring freeze in place since 2001. This hiring freeze has been limited in the sense that it has been applied primarily to countywide job classes (classes used in multiple departments), and essentially exempted public safety classes and non-countywide classes in categorically-funded positions. Department Heads have also appropriately used their discretion to hold vacancies open even in positions that were exempt from the hiring freeze, in an effort to maximize savings and reduce expenses to the minimum possible to maintain an adequate service level to our constituents. A result of the hiring freeze is, despite the fact that during the past two years where we have deleted funding for over 700 county General Fund positions, layoffs have not been necessary. However, currently the number of vacancies in the entire County exceeds 1,500 positions, and it is very unlikely a substantial number of further position reductions will be needed in the current and expected budget climate for the near/midterm.

As previously discussed, the State’s Fiscal Year 2004-05 Budget surprising results, where many of the once proposed reductions to counties and local government generally were either dropped, or significantly rolled-back, includes an agreement with cities and counties to support State Constitutional Amendment (SCA) 4 on the November 2004 Ballot to protect local government from future state raids of local government coffers to balance a State Budget. Although this initiative has not yet been enacted by the voters, it is expected to pass with the Governor’s pledged support. Furthermore, the impacts of the prior-year’s recessionary environment and the cumulative impact of three incorporations in this County during the past seven years have worked their way through our budget pipeline, resulting in an expectation that the coming year should be a less difficult budget year than the County has experienced in quite some time. We also have the guarded expectation of receipt in Fiscal Year 2006-07 of the repayment of the \$26.9 car-tax “gap” from Fiscal Year 2003-04, and reimbursement of several million dollars more in nonreimbursed SB 90 mandates for the past three years. SB 90 payments will be made over a five-year period commencing with the Fiscal Year 2006-07 and concluding with Fiscal Year 2011-12. As such, it appears that we may have finally “turned the corner” in our string of

recent difficult budget years, if the State keeps its promise to reimburse us for the car-tax “gap” and SB 90 mandate reimbursement deferrals in Fiscal Year 2006-07.

For those reasons, we are cautiously recommending that the existing limited hiring freeze be released, and county departments be encouraged to fill their remaining vacant, budgeted positions during the coming fiscal year, so as to improve service levels to our constituents to the maximum amount funded within our adopted final budget.

IX. Transient-Occupancy Tax Fund-Allocations To Community/Civic Programs

Fund balance increased by \$219,965 from Adopted Proposed Budget due to higher than anticipated tax collections. Tax collections for Fiscal Year 2003-04 were approximately 5.0 percent higher than budgeted. Due to the increased tax collections, tax revenue projections for Fiscal Year 2004-05 have increased by \$122,558, reflecting 3.0 percent growth over year-end actuals for the 2003-04 Fiscal Year. The total available financing for Fiscal Year 2004-05 is \$9,432,128, which reflects an increase of \$322,523 over the Adopted Proposed Budget estimated amount. The County Executive is recommending that the additional financing restore the \$200,000 Raley Field Reserve, establish a \$102,523 TOT Contingency, and provide \$20,000 funding for the county’s share of a Gold Rush Attraction Study (see Attachment V). The remaining unallocated funds of \$2,831,799 will be available for the Board to allocate during the TOT Final Budget Hearings to be held on Thursday, September 2, 2004.

X. Fiscal Year 2003-04 Year-End Results for Other Funds

- **Community Services Fund**

Fund balance was \$327,227 greater than had been estimated. For the Recommended Final Budget a transfer from the General Fund to the Community Services Fund has been reduced by \$327,227. The contribution to the General Reserve of additional carryover from DHA has been increased by \$327,227.

- **Economic Development Fund**

There has been a decrease of \$21,086 in both requirement and financing in the Economic Development Fund with no change in the General Fund or TOT Fund contributions. Fund balance decreased by \$21,086 due to lower than anticipated 2003-04 revenues. The Fiscal Year 2004-05 planning services have decreased by \$21,086 to account for the decreased fund balance. Position count has been increased by 1.0 to include an Accountant Level 2 position.

- **Tobacco Litigation Settlement Fund**

Fund balance was \$1,473,922 at year-end, for Fiscal Year 2003-04, which was \$634,142 higher than was estimated due to additional interest earnings revenues from the bond investments. These funds will be retained in order to accumulate a sufficient fund balance to provide level funding over the life of the bonds.

- **Teeter Fund**

The Teeter Plan of Tax Apportionment resulted in a higher than anticipated gain for the County in the 2003-04 Fiscal Year and a higher fund balance. An unbudgeted transfer to the General Fund was made at the end of the fiscal year, which was used in a year-end, clean-up budget adjustment to augment appropriations in several General Fund budget units.

- **Golf Fund**

Fund balance decreased by \$105,918 due to several unanticipated expenses at Ancil Hoffman Golf Course, increased infrastructure charges at Mather Golf Course and some additional inventory purchases. A revenue increase of \$140,521 is anticipated due to a proposed fee increase.

- **Insurance Funds**

There have been no significant changes to the Workers' Compensation, Liability/Property, or Unemployment Insurance funds. Therefore, there have been no changes to these Funds' charges to county departments.

Effective in Fiscal Year 2003-04, the Dental Insurance program was converted from a self-insured program to a fully-funded plan provided by a dental insurance carrier. Under the self-insured program, funds collected from charges to county departments were deposited into the Dental Insurance Fund and used to pay dental insurance claims. However, utilization of the fully-funded plan provided by a dental insurance carrier has made the Dental Insurance Fund unnecessary. Therefore, charges to county departments for dental insurance coverage that had been deposited into the Dental Insurance Fund will, instead, be deposited in the Employee Benefits Administration budget unit and used to pay dental insurance premiums to the carrier. After payment of closing and other administrative costs of the self-insured program, the Dental Insurance Fund will be closed and any Retained Earnings in the Dental Insurance Fund will be returned to the various county departments/budget units/funds in proportion to their historical contributions to the Dental Insurance Fund. These rebates to departments/budget units/funds will transpire midyear during Fiscal Year 2004-05 and will contribute minor savings to departments/budget units.

XI. Fiscal Year 2003-04 Year-End Results for Capital Construction Fund (CCF)

CCF typically budgets projects based on anticipated expenditures. Often the design and engineering is not completed within a single fiscal year after the project is authorized. Those encumbered funds have a significant effect on the fund balance. When a large project is financed, CCF typically provides the initial financing for the expense and receives reimbursements for those expenses. Since the revenue is received in arrears, the revenue is not listed as a balancing entry for the encumbrance. This may have the effect of creating a large negative fund balance.

Prior to Fiscal Year 2002-03, construction contract encumbrances were liquidated at year-end and then rebudgeted, which resulted in a fund balance unaffected by multiyear construction contracts. That budgeting practice changed in Fiscal Year 2002-03. From that point on, multiyear construction contracts have been encumbered for the entire amount of the contract, negatively impacting year-end fund balances. In addition, late in Fiscal Year 2002-03, two significant projects were awarded, the Juvenile Courthouse and Juvenile Hall-Visitor Center (\$27.1 million), and the Warren E. Thornton Youth Center (WETYC) Expansion (\$7.8 million). As a result of these project awards and other encumbrances, CCF ended the 2002-03 Fiscal Year with a large encumbrance of \$42.6 million, which resulted in a negative fund balance of \$40,236,851. As expenses have been recorded in Fiscal Year 2003-04 and encumbrances liquidated, the negative fund balance was reduced to \$21,200,616. This negative fund balance was larger than the estimated Adopted Proposed Budget amount of \$18,660,982.

XII. Fiscal Year 2003-04 Year-End Results for Municipal Services Agency (MSA) Governmental/Enterprise Funds

MSA adjustments to the 2004-05 Recommended Final Budget generally reflect changes resulting from the Fiscal Year 2003-04 Available Fund Balance at year-end. Overall, there is a net increase in appropriations of \$130.0 million.

The most significant changes between the Adopted Proposed Budget and the Recommended Final Budget are the addition of developer special districts totaling \$65.0 million. New districts include Metro Air Park Community Facilities District, McClellan Community Facilities District, Sacramento County Land Maintenance Community Facilities District and Metro Air Park Service Tax.

County Roads, Roadways, and Transportation Sales Tax increased by \$9.0 million. These funds involve a construction program that is adopted as a long-range plan (five to seven years) and are managed through a series of approved annual expenditure plans. Due to the multiple-year demands of the projects, the annual budget represents the portion of the five-to seven-year construction plan that can reasonably be accomplished in the current fiscal year. Actual project expenditures generally differ from the budget due to many factors which affect project life cycles: i.e., environmental issues, public discussion, legal opinions, rights-of-way acquisitions, availability of consultants and contractors, and weather. Consequently, adjustments are almost entirely due to the necessity of rebudgeting for work that was planned, but could not be accomplished in Fiscal Year 2003-04. Similarly, developer special districts had an increase of \$12.0 million.

Water District funds have increased by \$38.2 million. These Districts have experienced a significant increase in larger, multiyear water supply and drainage construction projects. Due to contract obligations, many of the projects have been budgeted in their entirety even though only a portion of the projects will be completed in a given year. This has resulted in higher than anticipated expenditures and the need for reserve releases. The Districts have also entered into many reimbursement agreements, which often require the rebudgeting of funds.

Changes between the Proposed and Final Budget for MSA's Governmental/Enterprise Funds are summarized in Attachment VI.

No new positions are requested in the budgetary process; however, there was a net increase of 23.5 positions between Proposed and Final Budget. This total includes the midyear addition of 17.0 positions for Water Quality Department and 2.0 positions for Water Resources Department; the remaining additional positions involved the transfer in of 11.5 positions from the Department of General Services. These additional positions are partially offset by the transfer out of 4.0 positions to the Planning and Community Development Department and 3.0 positions to the Department of Airports.

XIII. Fiscal Year 2003-04 Year-End Results for Airports Enterprise

The changes to the Sacramento County Airport System's budget primarily reflect the rebudgeting of capital projects that were originally budgeted in Fiscal Year 2003-04 and were not completed nor encumbered. In addition, the continued increase in passenger activity at Sacramento International Airport necessitates increases in services and supplies, including the contracted services of the Sacramento County Sheriff for security. There are 9.0 new positions being requested (deletion of 2.0 positions for a net increase of 7.0 positions). Changes include:

- Increase of \$670,676 in salaries and benefits which includes 3.0 positions that will replace services previously provided by staff from the MSA departments, 4.0 positions added to the Operations and Maintenance Section, and 2.0 support positions.
- Increase of \$3,098,182 in services and supplies, including \$1,351,302 for the Sheriff's Airport Division, \$627,773 for airfield maintenance at McClellan, \$980,349 in computer software maintenance and support, \$166,712 for electricity usage in the parking garage, and a reduction of \$182,614 for services from MSA departments.

XIV. Fiscal Year 2003-04 Year-End Results for Special Districts

All district budgets as requested are balanced. Park Districts and other Districts with State Budget impacts have been able to balance their budgets despite loss of property tax revenues to the unusually high rate of property tax revenue growth this year. Following is a brief summary of year-end results for the county's special districts:

- **CSA 4B**

Fund balance increased by \$12,100 due to lower than anticipated expenditures. An expenditure increase of \$12,100 reflects a provision for reserve.

- **CSA 4C**

Fund balance increased by \$5,920 due to lower than anticipated expenditures. An expenditure increase of \$5,920 reflects a provision for reserve.

- **CSA 4D**

Fund balance increased by \$15,316 due to lower than anticipated expenditures. An expenditure increase of \$15,316 reflects a provision for reserve.

- **Del Norte Oaks Park Maintenance District**

Fund balance increased by \$1,330 due to lower than anticipated expenditures. An expenditure increase of \$1,330 reflects an increase in landscape maintenance services.

- **Fish and Game Propagation**

Fund balance increased by \$29,384 due to lower than anticipated expenditures and increased revenues. An expenditure increase of \$29,384 reflects a provision for reserve.

- **Carmichael Recreation and Park District**

Fund balance increased by \$108,891 due to lower than anticipated expenditures. Revenues have increased by \$910,006 due primarily to state grants and increased building rental income. Expenditure increases of \$630,152 reflect increases in service and supplies, building improvements and equipment, offset by a reduction in salary costs.

- **Mission Oaks Recreation and Park District**

Fund balance increased by \$537,916 due to lower than anticipated expenditures. Revenues have decreased by \$110,116 due to a reduction in interest income and the reserve release being unnecessary due to the increased fund balance. An expenditure increase of \$470,894 reflects a provision for reserve.

- **Mission Oaks Maintenance/Improvement District**

Fund balance decreased by \$68,563 due to higher than anticipated expenditures. Revenues have increased by \$108,000 due to a grant for construction of Gibbons Park parking lot annex. An expenditure increase of \$39,437 reflects the transfer of certain expenditures from the Mission Oaks Recreation and Park District's operating budget, reductions to building and equipment accounts, and an increased provision for reserve.

- **Natomas Fire District**

Fund balance increased by \$566,788 due to lower than anticipated expenditures. An expenditure increase of \$566,788 reflects financing for City of Sacramento Fire District contract expenses.

- **Sunrise Recreation and Park District**

Fund Balance increased by \$180,905 due to lower than anticipated expenditures. Revenues have increased by \$1,778,090 due primarily to the transfer of Antelope Park Development Fee trust funds and a new grant for an after school leadership program. Expenditure increases of

\$1,958,995 reflect an increase to Contingencies, as well as costs associated with the Antelope Park grant and new after school leadership program.

XV. Adoption of Budget Resolutions

Following the conclusion of the Final Budget Hearings, anticipated no later than September 10, 2004, we recommend that your Board direct the Department of Finance to prepare the annual budget resolutions for adoption on your Board's September 28, 2004 regular agenda. Due to the legal requirement to enact a county budget no later than October 2nd or 60 days after the Governor's signing of the budget bill (whichever is later), we must adopt our Fiscal Year 2004-05 budget resolution at that time in order to meet this year's deadline of Saturday, October 2nd.

XVI. Schedule for Final Budget Hearings

Following is the schedule for the Final Budget Hearings:

September 1, Wednesday 9:30 a.m. Overview, New Requests and Disagreed Items
September 2, Thursday 9:30 a.m. Transient-Occupancy Tax

September 8, Wednesday 2:00 p.m. 5-Year Capital Improvement Plan
September 9, Thursday 9:30 a.m. Reports Back and Final Deliberations

If necessary-September 10 Friday, 9:30 a.m. Continue Final Deliberations (if necessary)

Respectfully submitted,

TERRY SCHUTTEN
County Executive

GBD:js

cc: Robert Ryan, County Counsel; Agency Administrators; Department Heads; County Executive Analysts; Department Administrative/Fiscal Staff

Attachments:

- I. Fund Balance Analysis, Year-End Results for General Fund Departments
- II. Changes in Carryover Between Proposed and Final Recommended, Carryover Reserve for Certain General Fund Budget Units
- III. Summary of Adopted State Budget Impacts Affecting Counties
- IV.-A Summary of Additional Requests Received from Departments
- IV.-B Summary of CEO Recommended Additional Requests for 2004-05 Final Budget
- V. Transient-Occupancy Tax Fund Allocation Summary
- VI. Municipal Services Agency's Governmental/Enterprise Funds Financing Changes
- VII. Final Budget Schedules (binder)