

**COUNTY OF SACRAMENTO  
CALIFORNIA**

For the Agenda of:  
January 31, 2006  
Timed: 9:30 A.M.

To: Board of Supervisors

From: County Executive's Office

Subject: 2005-06 Midyear Budget Report; Preliminary General Fund Outlook For Fiscal Year 2006-07; Preliminary Resource Allocations And Budget Process Schedule; Approval Of Appropriation Adjustment Request No. 26-044 Transferring General Fund Contingencies To The Department Of Health And Human Services For The Influenza/Pandemic Flu Preparedness Program; Approval Of Appropriation Adjustment Request No. 26-043 Transferring Funds From Non-Departmental Costs/General Fund (Budget Unit 5770000) To Fund In-Home Supportive Services Caseload And Negotiated Wage Increases; Authorize the Employment Services And Risk Management Department To Prepare A Salary Resolution Amendment For The Department Of Health And Human Services Regarding A Midyear Urgent Staffing Increase For Adult Protective Services; Approve The Attached Report And Appropriation Adjustment Request No. 26-046 From The Sheriff Which Transfers Funds From Non-Departmental Costs/General Fund (Budget Unit 5770000) To Fund The Station House Preliminary Planning And Design And General Fund Contingencies To Fund Expanded Scope Of Sheriff's Audit To Include Jail Operations; Approval Of Recommendation To Augment The Newly Established Economic Development Fund In Fiscal Year 2006-07; Approval Of Salary Resolution Amendment No. 2006-179B From The Department Of General Services Adding Necessary Additional Staff To The Real Estate Division

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On September 16, 2005, the Board of Supervisors adopted the County's Final Budget for Fiscal Year 2005-06. This midyear budget report is to provide the Board with the following information:

- The status of current-year expenditures and revenues in relation to the adopted budget.
- An assessment of the Governor's Proposed Budget for the State of California, and its impacts on the county's budget/operations.
- An initial outlook on 2006-07 budget, including known or assumed significant changes to the current budget.
- Recommendations concerning midyear needs requiring action before the next budget hearings.
- A recommended budget process and schedule for the Fiscal Year 2006-07 budget.

**RECOMMENDATIONS:**

1. Receive and file this report.
2. Approve the Fiscal Year 2006-07 Budget Process and Schedule (Attachment I).

3. Receive and file the County Executive's preliminary budget allocation plan for Fiscal Year 2006-07 General Fund resources for Agencies and Elected Official departments (Attachment II).
4. Direct the county's Elected Officials and Department Heads to prepare their budgets for Fiscal Year 2006-07 consistent with the County Executive's preliminary budget allocation plan.
5. Approve the attached report and Appropriation Adjustment Request (AAR) No. 26-044 transferring \$229,566 in General Fund Contingency appropriations to the Department of Health and Human Services (DHHS) to fund the Influenza/Pandemic Flu Preparedness Program for the balance of Fiscal Year 2005-06 (Attachment III).
6. Approve the attached report and AAR No 26-043 from DHHS which transfers \$1,685,225 from Non-Departmental Costs/General Fund (Budget Unit 5770000) to fund increased In-Home Supportive Services (IHSS) caseload and negotiated wage increases (Attachment IV).
7. Approve the attached report from DHHS authorizing the Employment Services and Risk Management Department to prepare a Salary Resolution Amendment (SRA) adding 2.0 Human Services Social Worker Masters Degree positions and 1.0 Public Health Nurse position for, and to, partially implement the System of Protection for Senior and Dependent Adults Strategic Plan (Attachment V).
8. Approve the attached reports and AAR No. 26-046 from the Sheriff which transfers \$100,000 from Non-Departmental Costs/General Fund (Budget Unit 5770000) to fund the Station House Preliminary Planning and Design and Approve AAR No. 26-047 to transfer \$206,843 from General Fund contingencies to fund an expansion of the scope of the existing audit to include Jail Operations (Attachments VI and VII).
9. Approve the attached report from the Department of Economic Development and Intergovernmental Affairs regarding the plan to augment the newly established Economic Development Fund in Fiscal Year 2006-07 (Attachment VIII).
10. Approve the attached report and SRA No. 2006-179B from the Department of General Services requesting additional staff to the Real Estate Division to enhance Property Management of Lease Office Facilities (Attachment IX).

**BACKGROUND:**

**ADOPTED GENERAL FUND BUDGET PRIORITIES OF COUNTY OF SACRAMENTO**

In 2003, faced with an initial 2003-04 budget shortfall exceeding \$100.0 million in the General Fund, the Board of Supervisors adopted a formal set of budget priorities. These priorities remain in effect today and serve as guiding principles for the development of the County Executive's budget recommendations. These General Fund budget priorities are as follows:

- ***Mandated Countywide Obligations***

The County of Sacramento has the obligation to provide certain services mandated by the Federal and State government. These mandated services include certain countywide public safety, health and welfare activities. Examples of this are that the County must provide jails, prosecution, juvenile detention, health care for the poor, and welfare payments to eligible clients.

- ***Mandated Municipal Obligations***

The County of Sacramento also has the obligation mandated by the state government and the county's charter to provide for the public safety of the citizens living in the unincorporated area. Although this mandate is not specific in terms of dollar spending or staffing levels, Sheriff's patrol and investigations must be provided for the safety and security of our unincorporated constituents.

- ***Financial Obligations***

At a foundational issue is the maintenance of the public trust through a sound fiscal policy that focuses on financial discipline, including funding programs that provide for revenue collection (such as Assessor's Office, Department of Finance, etc.) and payment of our debts.

- ***Budget Priorities***

When funding of the county's mandated services and obligations are met, the following priorities shall govern our budget process:

1. Provide the highest level of discretionary law-enforcement municipal and countywide services possible within the available county budget, such as Sheriff's patrol and investigations, and Probation Supervision.
2. Provide the safety net for those disadvantaged citizens, such as the homeless, mentally ill, and others who receive no services from other government agencies.
3. Provide the highest possible quality of life for our constituents within available remaining resources (i.e. neighborhood programs, reinvestment in communities, Parks and Recreation, and non-law enforcement municipal services, etc.)
4. General government functions (such as Clerk of the Board, County Counsel, Internal Services Agency, Office of Communications and Information Technology [OCIT], County Executive, etc.) shall continue at a level sufficient to support the direct services to citizens.
5. Continue prevention/intervention programs that can demonstrate that they save the county money over the long-term, such as alcohol and drug programs.

## **SUMMARY OF THE FISCAL YEAR 2005-06 GENERAL FUND ADOPTED BUDGET**

At the time of the adoption of the Fiscal Year 2004-05 budget, it was projected that the Fiscal Year 2005-06 budget process would be somewhat less difficult than the previous three years. This projection assumed no further state budget impacts on the General Fund, and modestly robust growth in revenues during the 2004 to 2006 period.

During the Midyear Budget Report for Fiscal Year 2004-05 that view was validated. With a relatively small budget shortfall forecast, the Board agreed to a budget process for Fiscal Year 2005-06 in which the Fiscal Year 2004-05 budget would be “rolled-over” for the start of Fiscal Year 2005-06, with only unavoidable cost increases incrementally added. The Board also approved the County Executive’s recommendation to defer additional funding requests for Fiscal Year 2005-06 until the Final Budget Hearings in September 2005. It was anticipated that growth in General Fund programs/services in Fiscal Year 2005-06 would be held to a minimum. This was necessary to mitigate the anticipated budget difficulties in Fiscal Year 2006-07 and Fiscal Year 2007-08.

After the departmental base budget requests were submitted, the county realized a base (no-growth) budget surplus totaling approximately \$7.0 million rather than a shortfall of \$9.7 million. In the County Executive’s Recommended Proposed Budget, these additional financing amounts were used to completely fund certain departmental programs/services. Additionally, the County Executive recommended that the remaining \$7.0 million unallocated allocation be set aside to establish a General Fund reserve for “Future Human Assistance Costs”.

The Board of Supervisors adopted the Fiscal Year 2005-06 Proposed Budget on Thursday, May 12, 2005. The adoption of the Proposed Budget represented a “status-quo” spending plan for the county’s General Fund. For the first time in several years, it was not necessary to reduce programs/services in order to balance the General Fund budget. This was due primarily to additional revenue generated by a robust real estate economy in Sacramento County during the past two years. These additional revenues permitted the county’s general purpose financing to finance a base level of expenditures to maintain existing programs.

Between Adopted Proposed Budget and the initial drafting of the final hearing documents, \$23.043 million in unavoidable cost increases were identified along with \$32.999 million in previously unanticipated financing improvements for a net \$9.956 million in unallocated funds available for allocation to growth requests in the General Fund for the Fiscal Year 2005-06.

For the most part, the State Budget for Fiscal Year 2005-06 did not hold bad fiscal news for Sacramento County. As a result of the passage of Proposition 1A (Protection of Local Government Revenues), local governments are now much better positioned to maintain their own fiscal affairs separate from the state’s continuing budget difficulties. However, the blue-pencil veto by the Governor of the Assessor’s Property Assessment Grant Program removed \$1.554 million of funding from the Assessor’s Office. Otherwise, the primary impacts of the State Budget on the County are positive:

- § Return of Proposition 42 Transportation Funds to Sacramento County and other local government jurisdictions across the State.

- § Early repayment of the \$26.9 million Fiscal Year 2003-04 Vehicle License Fee (VLF) “loan” which had been originally been scheduled for repayment beginning Fiscal Year 2006-07.

In anticipation of the originally scheduled repayment of the VLF loan, the County structured its Pension Obligation Bonds (POBs) in two separate bond issues to defer payments that would otherwise have been due in Fiscal Years 2004-05 and 2005-06, but with sharply escalating debt service payments beginning in Fiscal Year 2006-07. Also, the governing body of the Sacramento County Employees Retirement System (SCERS) approved changes to their actuarial assumptions in 2005 that will be phased-in so that the full impact will not be implemented until Fiscal Year 2006-07. With that phasing-in, the pending increase in employer-paid retirement costs for Fiscal Year 2006-07 is approximately \$10.6 million in total, with \$5.3 million of that amount being the net General Fund share. To maintain the financial plan authorized by the Board when deferring debt service and other pension costs increases until receipt of the VLF loan repayment from the State, the Board reserved the \$26.9 million for Fiscal Year 2006-07 and did not recognize those funds as being available for funding of growth requests in Fiscal Year 2005-06.

The Fiscal Year 2005-06 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 Adopted Proposed Budget was \$70.96 million. This included \$27.84 million estimated in aggregate by the departments for operational carryover, and \$43.12 million projected for non-departmental fund balance related to either general purpose revenue improvement and/or non-departmental expenditure savings. After all year-end transactions were completed, the Fiscal Year 2004-05 financial books closed on July 25, 2005. The unaudited year-end results indicated that actual total General Fund balance/carryover was \$102.56 million, an improvement of \$31.6 million.

- Of that amount, the General Purpose Financing net improvement was approximately \$18.7 million.
- The remainder (\$12.9 million) was year-end carryover improvements in departmental operations.

The Office of Budget and Debt Management (OBDM) also recommended that the additional carryover for most General Fund departments (\$12,047,245) between Proposed and Final Budget be added to General Fund Reserves as a financing source for Fiscal Year 2006-07. This conforms to budget policy of the previous two fiscal years. The funds would be specifically earmarked for the departments who earned the additional carryover. The exception to this recommendation is the additional carryover for the Voter Registration and Elections Department, which had unused grant funds (\$1,079,136) required to be spent on voter equipment modernization in Fiscal Year 2005-06.

In anticipation that California’s Work Opportunity and Responsibilities to Kids [CalWORKs] Information Network (CalWIN) implementation would require staffing in the Department of Human Assistance (DHA) to be shifted between programs during Fiscal Year 2005-06, it was recommended that an additional General Fund Reserve of \$1.0 million be set aside to mitigate reductions that could occur in federal/state funded programs. At this time, DHA is still reviewing the financial impacts of this issue on its Fiscal Year 2005-06 staffing.

In September 2005, Final Budget Hearings were held. Unlike prior years, the County did not face massive program and staff reductions in order to balance the Fiscal Year 2005-06 Final Adopted Budget. In fact, the Board was able to provide some additional funding to address the most pressing needs of our communities (i.e. gang suppression, expanded law enforcement presence in the American River Parkway, illegal dumping, and expansion of the Mather Community Campus).

### **Identification Of One-Time Measures In Fiscal Year 2005-06 Adopted Final Budget**

During the past several years, one solution to temporarily resolve the structural budget shortfall has been to rely on one-time funding measures and fund balance. The Fiscal Year 2005-06 Adopted Final Budget is no exception to this trend. While the County did not face massive program and staff reductions, it nevertheless relied upon an unusually high General Fund balance from Fiscal Year 2004-05 and on one-time funding sources to help balance the General Fund budget. The one-time measures are summarized in the chart below:

#### **FISCAL YEAR 2005-06 GENERAL FUND BUDGET** **ONE-TIME/SHORT-TERM FINANCINGS** (Amounts Expressed in Millions)

DESCRIPTION	AMOUNT
Unusually high fund balance in General Fund	\$19.554
Unusually high proceeds from Tax and Revenue Anticipation Notes (TRANS)	3.568
General Fund labor savings on lower than expected Cost-Of-Living-Adjustments (COLA)	3.101
Additional proceeds from sale of 22 acres at Bradshaw	1.700
Sale of the Elk Grove Courthouse	0.511
Unusually high (unsustainable) Teeter Plan delinquency payments	0.500
<b>TOTAL</b>	<b>\$28.934</b>

To the degree we can balance the General Fund budget in Fiscal Year 2006-07 with even fewer one-time financing sources/cost savings, our long-term projected budget shortfall will be further reduced.

### **DISCUSSION:**

#### **2005-06 MIDYEAR ANALYSIS AND NEW BUDGET ISSUES IDENTIFIED FOR FISCAL YEAR 2006-07**

At this juncture, we have identified several midyear budget and new budget year (Fiscal Year 2006-07) issues in the General Fund that will need to be noted and/or resolved as we embark upon the next budget cycle:

## **Midyear Budget Issues**

- **Influenza/Pandemic Flu Preparedness Program:**

The probability of a Pandemic Influenza is greater now than it has been in the last 20 years. Preparation for such an eventuality requires a robust public health infrastructure; adequate planning for a response; and widespread education of the community, first responders, healthcare, business and elected officials. While public education on this issue is critical, there is also a need for similar education for West Nile Virus next year, as well as for any other health threat that may emerge. Therefore, it is recommended that \$229,566 be transferred from Contingencies to DHHS to fund the Influenza/Pandemic Flu Preparedness Program for the remainder of Fiscal Year 2005-06. An additional appropriation will be added in Fiscal Year 2006-07 to continue funding this program.

- **General Fund Revenue Collection**

Revenue collection for General Fund Non-Departmental Revenues so far in Fiscal Year 2005-06 appears that it will exceed the budgeted amounts, at least for Property Tax in Lieu of VLF. In August 2004, the legislature implemented a change to the law governing vehicle license fees that reduced the rate from 2.0 to 0.65 percent of the market value of a vehicle and established an alternative funding source for compensating cities and counties for the loss of fee revenue. Beginning in Fiscal Year 2004-05, the County Auditor is to reduce the property tax revenues allocated to the State by an amount essentially equivalent to revenues the County would have received from vehicle license fees prior to the percentage reduction. In October 2005, the State Controller verified the amount that was to be retained by the County as a result of this new legislation. That amount was \$23.2 million more than had originally been budgeted. This additional revenue will be reflected in the General Fund year-end fund balance and will be used to offset any anticipated shortfall for Fiscal Year 2006-07. Additionally, in each subsequent year the auditor will calculate the current years' transfers using the prior-year's vehicle license fee adjustments, modified by the percentage change in property values.

- **Sheriff's Station House Preliminary Planning and Design**

At the conclusion of the Fiscal Year 2005-06 Final Budget Hearings, the Board requested a report back from the Sheriff's Department regarding future facility plans—with emphasis on location and use of station houses, service centers, and the communications center. The attached report (Attachment VI) provides the Board with an overview of current locations and the services provided at each location. This report also requests approval to conduct a site search for a new Northwest Station House. The Sheriff's Department is also proposing that the site search be conducted along Watt Avenue between Interstate 80 and Antelope Road plus or minus three blocks on either side of Watt Avenue. This area was selected because it is on a main thoroughfare with adequate freeway access and existing service from public transportation. Vehicles may access the area by Business 80 at Watt Avenue or Greenback/Elkhorn Boulevard, Interstate 80 at Watt Avenue. A location on, or just off Watt Avenue, would also make the new station house available to the public with access either by bus or personal vehicle. In addition, this area has been designated by the North Highlands Vision Task Force as its "town center" and as such a new Sheriff's facility in this area would be embraced by both the business community and residents.

In addition, the department is requesting the approval to pursue the relocation of the communications center from 711 G Street to the South Station at 9250 Bond Road.

The attached report also includes an AAR recommending the transfer of \$100,000 from Non-Departmental Costs/General Fund (Budget Unit 5770000) to offset these increases that was set aside in the Fiscal Year 2005-06 Adopted Final Budget (Attachment VI).

- **Expansion Of The Current Sheriff's Audit To Include Jail Operations**

On April 5, 2005, the Board of Supervisors approved the recommendation of Joseph Brann & Associates and the Public Strategies Group, Inc. to perform a comprehensive review of the Sheriff's Department. The scope of work included an overview of the Sheriff's Department operations and how the department benchmarked to comparable sized law enforcement agencies. Subsequently, on November 22, 2005, the Sheriff responded to allegations of inmate abuse. At the conclusion of the workshop, the Board directed staff to amend the existing contract to include an examination of the policies and procedures, training, communication, and allegations of abuse by inmates.

The attached report outlines the expanded scope of the contract and also includes AAR No. 26-047 that transfers \$206,843 from General Fund Contingencies to Non-Departmental Revenues/General Fund (Budget Unit 5701000) to fund the amended contract (Attachment VII).

- **Senior And Adult Strategic Plan**

The Strategic Plan for the System of Protection for Senior and Dependent Adults identifies the need to create a comprehensive and responsive system of protection across a range of both public and private sector organizations. The Strategic Plan priority calls for the addition of case management capacity, including support positions. Three multidisciplinary case management units are recommended for Adult Protective Services (APS). DHHS is requesting funding for one of those teams. The annual cost, including \$50,000 in contract services and \$50,000 in contracted community outreach services, is \$490,312. Federal revenues will fund \$198,141 of this cost. The net annual cost is \$292,171. The net cost for Fiscal Year 2005-06 will only be \$73,043 because the positions will be filled for only one quarter of the fiscal year. DHHS is actively seeking funding from local hospitals to partially offset the cost of these positions. The balance of funding required for this Strategic Plan will be funded from DHHS Fiscal Year 2005-06 General Fund allocation (Attachment V).

- **University Of California At Davis Medical Center (UCDMC) Contract**

DHHS is anticipating that UCDMC contract costs will be \$4.5 million lower than budgeted. In the current budget, DHHS expected to receive a \$4.3 million rebate for Fiscal Year 2004-05. The actual UCDMC rebate has now been calculated to be \$6.8 million or \$2.5 million greater than had been anticipated. Additionally, there has been less than anticipated need for UCDMC contract services, reducing the Fiscal Year 2005-06 expenditures by an additional \$2.0 million. This savings will revert to the General Fund as carryover for Fiscal Year 2006-07.



- **In-Home Supportive Services (IHSS)**

The current labor agreement with the County IHSS Public Authority and Service Employees International Union-United Healthcare Workers (SEIU-UHW), West allowed for a reopener on wages if the state contribution rate was increased. When the Fiscal Year 2005-06 Final Budget was adopted, it was not anticipated that the State would increase their contribution rate above the then \$9.50 rate. However, the State did approve a contribution rate of up to \$10.50 per hour. Negotiations have been concluded and a new contract was approved that increased the wage rate from \$9.50 to \$10.00 per hour effective January 1, 2006. This addendum to the IHSS and SEIU-UHW, West agreement will result in an increase in the net county cost for the remainder of Fiscal Year 2005-06 in the amount of \$1,084,898. Additionally, the projected county cost of IHSS provider payments is projected to exceed the budget by \$600,327. This “residual” caseload is higher than anticipated resulting in a higher local share of cost. An attached report and AAR recommends the transfer of \$1,685,225 from Non-Departmental Costs/General Fund (Budget Unit 5770000) to offset these increases (Attachment IV).

- **Assembly Bill (AB) 139 And AB 145**

When the Fiscal Year 2005-06 Final Budget was adopted, both the Sacramento Courts and Sacramento County were waiting for interpretation of these two bills from the California State Association of Counties (CSAC) and the Administrative Office of the Courts (AOC). Both of these bills seemed to nullify local county/court revenue sharing agreements. The bills provide for a credit to the counties’ Maintenance of Effort (MOE) payments. While both bills provide for the transfer of revenue that, to date, had been retained by the County, each provide a mechanism to determine the amount by which the county’s fine and forfeiture MOE [Government Code Section 72201.1(b) (2)] will be reduced to compensate for the reduced revenue. It appears that AOC will sweep approximately \$7.0 million in revenue from the County while only reducing the MOE by approximately \$4.0 million, leaving an increase in net county cost of approximately \$3.0 million. The Office of Budget and Debt Management and the Countywide Services Agency are continuing to discuss this issue with CSAC and AOC. But at this juncture, it appears that the County will be adversely affected by these bills.

### **New Budget Year Issues**

- **Sheriff’s Loss Of Contract Cities**

The termination of the law enforcement contracts with the cities of Citrus Heights and Elk Grove will result in a \$33.2 million reduction in revenues and a corresponding \$29.6 million reduction in appropriations in Fiscal Year 2006-07. The \$3.6 million difference represents the value of the Sheriff’s support and allocated service cost recovery that was achieved through the respective contracts. None of the Sheriff’s ancillary support services have received any appropriation or staffing increase during the tenure of the contracts. The cost recovery from these sources was used to reduce the Sheriff’s General Fund contribution requirements.

The cities of Citrus Heights and Elk Grove have both expressed the desire to terminate their respective law enforcement contract on June 30, 2006. The contract termination clause requirement could have extended this date to October 28, 2006, for Elk Grove and December 31, 2006 for Citrus Heights. However, the Sheriff has agreed to the earlier termination with the proviso that this does not adversely impact the remainder of the Department. This requirement is being met. Additionally, the Sheriff is working with both Citrus Heights and Elk Grove to ascertain if either city has a need to continue any essential services, e.g. dispatching services for a fixed period of time past the beginning of the fiscal year. These negotiations can only result in a limited, one-time fiscal improvement. The Sheriff will provide a report back to the Board for both base and final budget deliberations, as appropriate.

- **Sheriff's Motorcycle Patrol**

During the Fiscal Year 2005-06 Final Budget Hearings, the Board approved the creation of a High Impact Motor Unit (HIMU) in order to increase the resources and visibility of law enforcement in areas with high levels of gang activity. The Board augmented the department's budget to fund the one-time costs of purchasing the motorcycles. At that time the Board recommended that the Department fill existing vacant positions in order to staff this unit, with the understanding that in Fiscal Year 2006-07 the cost for this unit would be funded with additional appropriations. It was also agreed that the staffing increase related to the additional positions for this unit would be provided through an offset to the staffing reductions that would otherwise be necessary from the elimination of staffing for the contract cities due to the contract terminations by the cities of Citrus Heights and Elk Grove. At this time, it appears that a substantial number of Sheriff's personnel will return to the department once the contracts with Elk Grove and Citrus Heights are terminated, which will result in many of the Sheriff's Department's current vacancies being filled or eliminated.

- **Permanent Staffing For General Assistance Food Stamp Program**

In Fiscal Year 2005-06, DHA was authorized to use 12.0 temporary positions to reduce the General Assistance (GA) caseloads and costs to the pre-CalWIN rate. It has now been determined that failure to continue this effort will again increase GA caseloads and costs. Therefore, it is necessary to permanently maintain the GA staff initiated in Fiscal Year 2005-06 in order to reduce the GA aid payments to the pre-CalWin level. The Fiscal Year 2006-07 cost is estimated to be \$1.7 million which will be offset by a like amount of increased GA case cost avoidance, but will likely require additional appropriations and funding over current levels.

- **Temporary Assistance To Needy Families (TANF) Incentive Funds**

TANF Incentive Funds currently fund \$3.0 million of DHA programs, largely Community Services homeless programs, including \$1.1 million for the Mather Community Campus. After Fiscal Year 2005-06, the remaining balance of TANF funds will be only \$1.2 million. To preserve the programs currently funded through TANF, either alternative funding sources will be required in the amount of \$1.8 million for Fiscal Year 2006-07 and \$3.0 million in the following fiscal years or the Board will be required to reduce or terminate these discretionary programs.

- **Increase To Workers Compensation Fund**

Current actuarial studies show that the county Workers' Compensation Fund needs a minimum of \$88.0 million in additional funding in order to be fully prefunded for outstanding claims on a long-term basis. In order to start reducing the long-term funding deficit, the amount allocated to departments for the Workers' Compensation Fund includes \$4.7 million for Fiscal Year 2006-07. This is an increase of \$1.5 million over the amount collected in Fiscal Year 2005-06 for this purpose. Future increases in allocated costs for our Workers' Compensation Fund will likely be necessary in order to achieve an actuarially sound funding of our Workers' Compensation obligations.

- **Staffing For 90-Bed Expansion At Juvenile Hall**

The current expansion and modification of Juvenile Hall was necessary to mitigate the overcrowded conditions and is anticipated to be complete by September 2006. All additions, modifications and upgrades in the Juvenile Hall project are based upon the "New Generation" model. The existing facility is a linear design and requires residents to be moved from their housing unit to the dining unit for meals, to the medical clinic for medical exams, to the mental health offices for counseling, and to school classrooms for school attendance. The "New Generation" model decentralizes these services to each living unit. Each living unit will serve meals in the dayroom space and will include dedicated space for one medical screening room and mental health room, one pill call room, one school testing room, and two classrooms. The project also includes support space and infrastructure for future housing unit expansions.

- **Funding For Unincorporated Area Economic Development Activities/Initiatives**

For the last few years, the Board has, on several occasions, discussed creating an Economic Development Fund. In general, the concept is that the Board would create a separate fund, to be financed from the General Fund and other revenue sources in amounts sufficient to address meaningful issues that might arise during each fiscal year. During the Fiscal Year 2005-06 Final Budget Hearings, the Board approved the transfer of \$691,250 as the initial allocation to fund economic development activities/initiatives.

In the past it has been the practice of the County to provide direct subsidies to the different economic development related organizations. Each group makes an annual presentation to the Board detailing how they would spend their allocation. Once they receive their funding, each organization is responsible for the fiduciary aspects of the funds. The Department of Economic Development and Intergovernmental Affairs is proposing at this time that funding for economic development activities be augmented by an additional General Fund appropriation in the Economic Development Fund beginning in Fiscal Year 2006-07. In conjunction with that additional funding, the Department further recommends moving the appropriations for the Sacramento Area Commerce and Trade Organization (SACTO), Sacramento Area Regional Technology Alliance, and the Property Based Improvement District's (PBIDs) from the Transient-Occupancy Tax (TOT) Fund to the Economic Development Fund. The augmentation would be roughly \$800,000. This would enlarge the General Fund appropriation in the Economic Development Fund to approximately \$1.5 million in total (Attachment VIII).

- **Phasing Out The Transfer Of TOT Funds To General Fund**

For Fiscal Year 2005-06, a transfer from the TOT Fund to the General Fund in the amount of \$3.062 million was approved by the Board to mitigate General Fund budget reductions. The Board has previously directed the County Executive's Office to plan a phase-out of the transfer to the General Fund from the TOT Fund, commensurate with the ability of the General Fund to withstand the loss of that income. The budget model assumes that a transfer of this magnitude will not continue for Fiscal Year 2006-07. It is recommended that the long standing practice of transferring approximately \$3.0 million from the TOT Fund to the General Fund be phased out starting with a reduction of \$1.5 million in Fiscal Year 2006-07.

- **Critical Central Support Department Staffing Issues**

Critical central support department staffing issues, such as for the Board of Supervisors will be evaluated and recommendations will be made at proposed budget to address these critical needs in certain departmental areas.

## **LOOMING BUDGET ISSUES**

While the budget forecast attempts to quantify those program/financial issues that face the County in the next fiscal year and those which are encompassed in the forecast time frame, it is difficult to assess the impacts of the following issues.

- **Child Protective Services (CPS)**

In late September 2005, the California Department of Social Services (CDSS) issued claiming instructions that eliminated Federal Title IVE funding for Emergency Hotline activities, including investigations of child abuse and neglect referrals. The new instructions direct counties to claim these activities to Emergency Assistance (EA) TANF funding, effective October 1, 2005. CPS fully utilized its allocation of EA TANF funding in Fiscal Year 2004-05 and will do so again in Fiscal Year 2005-06. CDSS is aware of this statewide issue and is working to rectify the situation in whole or in part. There is, however, no guarantee that this will occur. CPS estimates costs for these functions to be \$12.8 million for three quarters of this fiscal year. At this time, there is no county funding identified to fill this loss should it occur.

- **Urban Area Security Initiative (UASI) Funds**

The County was originally awarded Federal Homeland Security funds based on the regional efforts of the County and the outlying cities. The federal government has recently changed its criteria and will now only consider cities with populations over 100,000 for program funding. In our region, the only cities that fit this criterion are the City of Sacramento and the City of Elk Grove.

Under the new guidelines now established, 46 urban areas (based on cities) are funded under UASI. In this new definition, 35 urban areas have retained their high risk status and 11 have lost their status as high risk areas. Sacramento County is one of the 11 who have lost their high risk status. This means the County will be allowed to apply for UASI grant monies for Fiscal Year 2005-06 and may or may not be successful. If the County is not successful in

2006, it will not be allowed to apply for 2007. Basically, under the prior guidelines, the County was given a proportional share of UASI monies based on our region and now all that money will be competitively awarded. The UASI piece is the largest portion of Homeland Security monies representing \$8.0 of the \$15.0 million we received in Fiscal Year 2003-04.

The Sheriff's Department and local Homeland Security personnel are working with State and Federal Department of Homeland Security to reevaluate our data.

- **Homeland Security Grant Program Funds**

These funds have been distributed proportionally to counties in the past. Under the new guidelines, these funds will be reduced by half and they will be competitively awarded. The State applies for these monies and then determines how to distribute the monies. This grant represented \$4.0 of the \$15.0 million the County received in Fiscal Year 2003-04.

## **STATE BUDGET PROPOSALS BY GOVERNOR FOR FISCAL YEAR 2006-07**

On January 10, 2006, the Governor proposed his 2006-07 Fiscal Year Budget for the State of California which focuses on improved infrastructure, K-12 and higher education, transportation, health, and disaster preparedness. The major emphasis of this budget proposal is increased funding for K-12 and a new focus on upgrading California's infrastructure.

Specifically related to the counties, under the provisions of Proposition 1A, the County will no longer be required to transfer additional property tax revenues to the state under the ERAF III provisions. This will add approximately \$12.2 million to the General Fund Non-Departmental Revenue. Additionally, as proposed in the Governor's budget it is not anticipated that there will be other major negative impacts to funding or programs. However, there is one troubling issue regarding funding for CalWORKs. The Governor appears to have proposed reducing the 2005-06 allocation to counties for child care by \$114.0 million statewide on the basis that counties will not have increased child care costs for the current fiscal year. There is some concern that the Administration is proposing to recoup these funds administratively and that the State does not have the statutory authority to reduce funds midyear without legislative approval. This is of particular concern for the precedent that may be set not only for CalWORKs but for other local government programs that are funded totally or partially from state funding sources. However, the Chief Counsel for the State Department of Social Services has indicated to representatives of the County Counsels' Association that the department is simply proposing to "pull back" the earlier child care allocations and retain those funds in order to help pay for the anticipated increase in program costs for the 2006-07 Fiscal Year. The money would remain available this fiscal year to the extent necessary.

Further, the Administration does not plan to give counties future increases in the cost of doing business (CODB). This means that every year counties will be paying a little more for administering the Medi-Cal and CalWORKs systems. CalWORKs has not received a CODB adjustment since 2001. CSAC believes that this is a shift in the sharing ratio, which is prohibited by Proposition 1A.

Additionally, the Governor's budget proposal includes \$54.0 million in the current year to pay for the November 2005 statewide special election. Of this amount, \$45.0 million is earmarked for county costs although no allocation method has been specified. The proposal also indicates

that county funding is an augmentation to the current year budget to ensure sufficient resources for the upcoming June statewide primary election. At this time, these funds have not been included in the forecast model. However, the Office of Budget and Debt Management will continue to monitor the progress of this allocation and if it appears they will be approved by the Legislature, these funds will be included in future budget assumptions.

The Governor's budget proposes to continue the suspension of the Property Tax Administration Program (PTAP) grants through Fiscal Year 2006-07. These grants were vetoed by the Governor as part of his blue-pencil veto during the Fiscal Year 2005-06 state budget process. The elimination of this grant reduced funding for the Assessor's Office in Fiscal Year 2005-06 by \$1.554 million. The Administration has indicated their willingness to work with the Legislature and local government representatives on alternatives for creating a new PTAP program for implementation in Fiscal Year 2007-08.

A complete summary of the Governor's budget proposal prepared by CSAC is attached (Attachment X). A preliminary summary analysis of the state impacts to Sacramento County from the Governor's Proposed Budget is also attached (Attachment XI).

### **PRELIMINARY GENERAL FUND FORECAST FOR FISCAL YEAR 2006-07 AND SUBSEQUENT YEARS**

Following is a summary of the results of the multiyear budget analysis performed by OBDM.

#### **Major Conclusions**

The Budget Forecast for Fiscal Year 2006-07 and budget projections through the 2010-11 Fiscal Year lead to the following major conclusions:

1. There is approximately a \$6.0 million projected initial funding gap for the 2006-07 Fiscal Year primarily due to the expiration of one-time funding sources/budget savings. This funding gap is anticipated to be filled by a partial reserve release from the \$26.9 million set aside in Fiscal Year 2005-06 to offset the incremental increase in the POB debt service.
2. POB debt service payments will increase significantly over the next five years and contribute substantial pressure on the county's entire budget. Following is a table displaying the increasing POB debt service payments.

<b>POB DEBT SERVICE PAYMENTS</b>				
<b>Fiscal Year</b>	<b>1995 and 2003 POBs</b>	<b>2004 POBs</b>	<b>Grand Total</b>	<b>Approximate Net General Fund Share</b>
2005-06	\$22,407,790	\$0	\$22,407,790	\$11,200,000
2006-07	32,917,790	20,819,187	53,736,977	26,850,000
2007-08	43,422,790	21,648,236	65,071,026	32,535,000
2008-09	53,932,790	23,134,835	77,067,625	38,500,000
2009-10	64,442,183	23,756,311	88,198,494	44,100,000
2010-11	66,983,288	24,948,382	91,931,670	45,966,000

3. The multiyear projections indicate that despite the ever increasing pension costs, the General Fund may experience some relief in Fiscal Year 2006-07 shortfall due to the unanticipated growth in the Property Tax In-Lieu of VLF received in Fiscal Year 2005-06 (\$23.2 million) and reinstatement of Senate Bill (SB) 90 mandate reimbursements (approximately \$6.0 million annually). The budget model assumes the \$23.2 million betterment in Fiscal Year 2005-06 from this revenue source will be utilized to assist in balancing the Fiscal Year 2006-07 budget, wherein previously unexpected cost increases/revenue losses associated with the Juvenile Hall Expansion (operations) and loss of Sheriff's overhead recovery through contracts with the cities of Citrus Heights and Elk Grove are major new requirements and changes from our earlier forecasts.

However, even with higher Property Tax In-Lieu of VLF payments applied to operations, the General Fund will still experience budget distress during Fiscal Year 2007-08. Further, we are not forecasting that the long-term structural problem can be solved by "growing out" of this local problem through revenue growth. By Fiscal Year 2007-08, the County will again have a serious "structural" deficit. For this reason, we believe that the entire county General Fund constituency (Elected Officials, Department Heads and our citizenry) needs to adopt a sense of lowered expectations for program/service enhancement during the next few years. Any increase in ongoing costs will have to be mitigated by ongoing reductions elsewhere. To the greatest extent possible, reductions made to balance the budget need to be permanent, ongoing reductions so as to extricate the General Fund from ongoing budgetary distress.

### **2006-07 Budget Forecast**

The 2006-07 Budget Forecast indicates there is a projected initial funding gap of \$6.0 million in the General Fund. The following table summarizes the 2006-07 Budget Forecast:

<b>2006-07 BUDGET FORECAST SUMMARY</b>			
<b>(Amounts Expressed In Millions)</b>			
	<b>Final Budget 2005-06</b>	<b>Forecast 2006-07</b>	<b>Variance</b>
Departmental Expenditures	1,967.2	2,064.7	97.5
Departmental Revenues	1,419.5	1,446.3	26.7
<b>Net Cost</b>	<b>547.7</b>	<b>618.4</b>	<b>70.8</b>
Carryover	40.8	30.0	(10.8)
<b>Net Department Requirement</b>	<b>506.9</b>	<b>588.4</b>	<b>81.6</b>
Reserve Increase	47.6	0.0	(47.6)
<b>Net Allocation</b>	<b>554.4</b>	<b>588.4</b>	<b>34.0</b>
General Revenues	486.0	537.4	51.4
Fund Balance	61.8	33.0	(28.8)
Financing Reserves	6.6	12.0	5.4
<b>General Purpose Financing</b>	<b>554.4</b>	<b>582.4</b>	<b>28.0</b>
<b>Base Budget Balance/(Deficit)</b>	<b>0.0</b>	<b>(6.0)</b>	<b>(6.0)</b>

The funding gap is largely due to the expiration of one-time sources used in Fiscal Year 2005-06. The net county cost for departments is projected to grow by \$70.8 million. Departmental carryover is projected to decline from the abnormally high levels by \$10.8 million. The overall

need for additional local resources, or general purpose financing, is \$34.0 million. While the estimated general purpose financing growth is \$51.4 million, it is not anticipated that the General Fund will sustain the high fund balance recorded in Fiscal Year 2005-06. Therefore, even with the use of available carryover reserves from Fiscal Year 2004-05, there are insufficient funds to fill the financing gap.

**Forecast Methodology**

The 2006-07 Budget Forecast and projections for the following four years are based on a “macro” model of the General Fund rather than on specific departmental budget requests. Spending and financing in the General Fund are broken into a series of categories. We seek input and advice from those most able to assist in multiyear projections on major cost centers wherever possible. For example, DHA furnished aid payment estimates. The future status of the individual categories is forecast into the future years. Each component of the model is done separately. The overall projection for the General Fund is the net product of the predicted changes in the various categories.

**General Purpose Financing**

General purpose financing is the source of funding for the county’s share of mandated programs and the source of any remaining discretionary financing. In recent years, as the budget problems in the General Fund have increased, the amount and proportion of general purpose financing allocated to the county’s share of mandates have also increased, leaving less available for the Board of Supervisors to allocate to discretionary programs.

The following table gives a summary of the general purpose financing estimates used in the Fiscal Year 2006-07 Budget Forecast:

<b>GENERAL PURPOSE FINANCING</b>			
<b>(Amounts Expressed In Millions)</b>			
	<b>2005-06</b>	<b>2006-07</b>	<b>Variance</b>
<b><u>Revenues:</u></b>			
Property Taxes including In-Lieu of VLF	296.9	370.7	73.8
Sales Tax including “Triple Flip” revenues	80.4	82.4	2.0
VLF	26.9	0.0	(26.9)
Utility User Tax	14.0	14.0	0.0
Fines	16.7	16.7	0.0
City Transition Funding	1.8	.4	(1.4)
Revenue Neutrality	13.0	16.9	3.9
Fund Transfers & Countywide Cost Plan Recoveries	5.2	5.2	0.0
Other	31.1	31.1	0.0
<b>Total Revenues</b>	<b>486.0</b>	<b>537.4</b>	<b>51.4</b>
General Fund Balance:	61.8	33.0	(28.8)
Reserve Release/(Increase):	6.6	12.0	5.4
<b>Total General Financing</b>	<b>554.4</b>	<b>582.4</b>	<b>28.0</b>



### **Year-End Fund Balance**

As always, the year-end fund balance will be an important source of financing for the next fiscal year. Our expectation is that there will be a substantial decrease in the overall fund balance (departmental carryover, plus the general portion of the fund balance), at the start of Fiscal Year 2006-07. This expectation is primarily due to reduced savings in human assistance caseload costs and costs for IHSS program (year-to-date) as well as lower departmental carryover. At the start of the current fiscal year, the overall fund balance was \$102.56 million. The budget forecast for Fiscal Year 2006-07 includes an overall fund balance of \$63.0 million, or a \$39.56 million reduction. This level of fund balance is significantly reduced from the abnormally high level in Fiscal Year 2005-06 and is more in line with the actual fund balances in the past prior six years (approximately \$59.8 million).

Following is a recap of the General Fund Balance (including departmental carryover) for the past several years:

<b><u>GENERAL FUND BALANCE</u></b> <b><u>(INCLUDING DEPARTMENTAL CARRYOVER)</u></b>	
<b>(Amounts Expressed In Millions)</b>	
2005-06 (Estimated)	\$63.00
2004-05 (Actual)	102.56
2003-04	67.90
2002-03	62.80
2001-02	42.30
2000-01	57.70
1999-00	70.70
1998-99	57.70

The swing in fund balance can be a major factor in determining whether the General Fund is in deficit, balanced, or has a surplus. In the course of the fiscal year, departments prepare and submit Periodic Progress Reports (PPRs) on anticipated year-end expenditures and revenues. These PPRs are used to develop fund balance estimates and identify any important midyear budget issues. The first PPRs have been received. The collective midyear estimate of fund balance contained in these reports is approximately \$57.1 million. This estimate is \$45.46 million less than the actual fund balance at the end of Fiscal Year 2004-05/beginning of Fiscal Year 2005-06.

However, the early year-end estimates from departments are typically conservative, and in most, but not all, fiscal years the actual fund balance ends up being somewhat higher than those estimates. Therefore, we have increased the fund balance estimate for the General Fund budget forecast by \$5.9 million, taking into account the large number of vacant positions in county government, the recent multiyear record of high fund balances, and other factors.

### **GENERAL FUND BUDGET MODEL FIVE-YEAR PROJECTION**

As part of the annual budget process, a five-year projection of the General Fund is done each year in conjunction with the Budget Forecast.

The current five-year forecast includes moderate expenditure increases and revenue growth in the future years, as well as the significant increases in POB debt service costs. It is anticipated

that cost increases will exceed financing growth throughout the period. However, the budget shortfall will be more acute during Fiscal Year 2007-08 and then the growth of the shortfalls tend to moderate through the remaining fiscal years.

The following table summarizes the multiyear budget projections for the General Fund through Fiscal Year 2010-11:

<b>GENERAL FUND BUDGET MULTIYEAR PROJECTIONS SUMMARY</b>						
<b>(Amounts Expressed In Millions)</b>						
	<b>Budget 2005-06</b>	<b>Forecast 2006-07</b>	<b>Projection 2007-08</b>	<b>Projection 2008-09</b>	<b>Projection 2009-10</b>	<b>Projection 2010-11</b>
Departmental Expenditures	1,967.2	2,064.7	2,149.2	2,238.9	2,334.0	2,426.5
Departmental Revenues	1,419.5	1,446.3	1,492.5	1,543.0	1,595.4	1,649.7
<b>Net Cost</b>	<b>547.7</b>	<b>618.4</b>	<b>656.7</b>	<b>695.9</b>	<b>738.6</b>	<b>776.8</b>
Carryover	40.8	30.0	20.0	20.0	20.0	20.0
<b>Net Department Requirement</b>	<b>506.9</b>	<b>588.4</b>	<b>636.7</b>	<b>675.9</b>	<b>718.6</b>	<b>756.8</b>
Reserve Increase (Release)	47.6	(6.0)	(14.0)	(6.0)	(0.9)	0.0
<b>Net Allocation</b>	<b>554.4</b>	<b>582.4</b>	<b>622.7</b>	<b>669.9</b>	<b>717.7</b>	<b>756.8</b>
General Revenues	486.00	537.4	559.7	586.1	614.1	643.8
Fund Balance	61.8	33.0	15.0	15.0	15.0	15.0
Financing Reserves	6.6	12.0	0.0	0.0	0.0	0.0
<b>General Purpose Financing</b>	<b>554.4</b>	<b>582.4</b>	<b>574.7</b>	<b>601.1</b>	<b>629.1</b>	<b>658.8</b>
<b>Projected Base Budget Balance/(Deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>(48.0)</b>	<b>(68.8)</b>	<b>(88.6)</b>	<b>(98.0)</b>
Assumed Elimination of Deficit with ongoing sources	2006-07	0.0	0.0	0.0	0.0	0.0
	2007-08	0.0	0.0	48.0	48.0	48.0
	2008-09	0.0	0.0	0.0	20.8	20.8
	2009-10	0.0	0.0	0.0	0.0	19.8
<b>Projected Net Base Budget Balance/(Deficit)</b>		<b>0.0</b>	<b>(48.0)</b>	<b>(20.8)</b>	<b>(19.8)</b>	<b>(9.4)</b>

The multiyear projections are based upon a series of assumptions for annual cost and financing increases. Many of the assumptions involve the performance of the local, state, and national economy. Actual performance of the economy is always different from the projections made by economic experts. In general, this set of multiyear projections assume moderate increases in costs and healthy increases in financing, and are fairly optimistic.

The forecast assumes that there will be a Reserve Release in Fiscal Years 2006-07 through 2009-10 from the Reserve for POB debt service mitigation. Even with this release, the model projects there will still be a need to significantly reduce costs starting in Fiscal Year 2007-08 and continuing beyond that fiscal year. The primary reasons are required POB debt service payments; higher employer pension contributions due to actuarial assumption changes that will be phased-in over the next two years; and, expiration of one-time state payments expected in Fiscal Year 2006-07.

This situation may be further compounded with the results of our current labor negotiations. In Fiscal Year 2006-07, the model has included a COLA of 4.0 percent based upon current consumer price index (CPI) trends. However, until the current labor negotiations have concluded, the exact amount of cost increases attributable to the actual negotiated COLA's, including the additional years covered within the expected multiyear contracts, is unknown. However, for estimating purposes only, a 3.0 percent COLA has been included in the Fiscal Years 2008-09 through 2010-11.

In evaluating the multiyear projections and the potential for the General Fund to grow out of its current structural funding gap, it is important to consider that property tax revenues, the largest sources of general purpose financing, are unlikely to continue to grow at current rates. We have projected moderate property tax increases in the budget model of 6.0 percent annually starting with Fiscal Year 2007-08, notwithstanding the recent string of double-digit property tax increases the past four to five years.

The multiyear projections are based on constant rates of cost and financing increases, as it is impossible to predict when a major economic shift will occur (such as an economic recession or expansion period). Many factors can influence whether the projections hold true or not.

Again, it is important to note that there is a projected long-term funding gap in the General Fund. Over the next several years, the situation will not likely improve unless permanent measures to close the funding gap are initiated.

### **Why Is There The Long-Term Funding Gap In The General Fund?**

The short-term explanation of the forecast initial budget shortfall in the General Fund is that the use of one-time measures in Fiscal Year 2005-06 only delayed the need for making significant reductions. But this is not the long-term explanation. In the late 1990's the General Fund was growing, service levels were increasing, hundreds of positions were being added on an annual basis. What has happened?

There are several major factors for the development of the large multiyear funding gap including:

- Increasing amounts of local resources have had to be allocated to state mandated programs such as IHSS, Foster Care, institutional medical services, and medical treatment for the poor. Expenditures for these programs are growing faster than the county's local revenue base.
- The county's municipal revenues (derived solely from the Unincorporated Area) such as sales tax, utility tax, franchise fees, etc., are virtually stagnant, while General Fund costs for providing municipal services to the Unincorporated Area, primarily law enforcement, are rising rapidly (due to labor cost increases, including but not limited to the enhancement of retirement benefits for the safety employees). The incorporations of Citrus Heights, Elk Grove, and Rancho Cordova have accelerated this trend by depriving the County of high tax growth/base areas. The geographic areas where the significant growth in sales tax and utility tax (and Transient-Occupancy Tax) were being generated are now included in the newly incorporated cities of Elk Grove and Rancho Cordova.

Previously, there was very high sales tax growth in the late 1990's and early 2000, and that growth was used to expand services, add staff, and match state and federal funding sources to allow even further expansion of service levels and staff. Following that growth period, there has been a five-year period of very weak local sales tax growth impacting local general purpose financing. When the growth ceased in late 2000 and early 2001, coinciding with the period immediately following the incorporation of Elk Grove, other funding sources, including one-time or short-term measures were used to support the expanded services and staffing levels. The nature of development in the remaining Unincorporated Area has almost exclusively been in housing stock, which brings increases in municipal services demands, but very little in retail businesses generating sales tax. There have been significant net staffing increases in the departments providing municipal services, and there have been significant increases in employee compensation within those departments. The municipal revenues have simply not kept pace. In response to this problem, the county has been forced to reduce countywide services in order to maintain municipal service levels. This past method of mitigating the municipal revenue shortfall can no longer be the entire solution.

### **SMALLER LOCAL BUDGET SHORTFALL THAN IN PAST FEW YEARS SUGGESTS APPROPRIATENESS OF LATER BUDGET SCHEDULE**

The size of our projected initial General Fund local shortfall for Fiscal Year 2006-07 is relatively small as compared to shortfalls identified at similar junctures during recent years. We are optimistic that the initial General Fund shortfall for Fiscal Year 2006-07 projected in this report can be again mitigated through a reserve release from funds set aside in Fiscal Year 2005-06 to help mitigate the increase pension costs or through yet unforeseen savings/financing improvements by the time of our Final Budget Hearings in September 2006.

We are recommending a budget schedule similar to that used last year (Attachment I) for our Fiscal Year 2006-07 budget process, culminating in final budget decisions in September 2006. We also anticipate that the May Proposed Budget Hearings will be simply to meet the legal mandate to adopt a proposed budget, and identify the base operating budget for the General Fund. Any requests for additional funding or program restructuring to bring program expenses in line with anticipated revenues will be delayed until the Final Budget Hearings.

### **MODIFIED RESOURCE/RESULTS-BASED APPROACH RECOMMENDED FOR FISCAL YEAR 2006-07**

Continuing the past budget practice, we are recommending that each department submit its budget request pursuant to a preliminary resource allocation plan.

These preliminary resource allocations (Attachment II) generally allocate the same General Fund allocations as adopted in the Fiscal Year 2005-06 Final Budget, as modified by the carryover reserves set aside for departments. In past years, OBDM has identified allocation increases based on factors such as general salary adjustments; retirement cost increases; equity raises provided for in multiyear labor settlements; new debt service and certain higher costs for hard-mandated programs. This year we will be asking departments to calculate these increases in their allocation. This process should allow the departments to fully factor into their base allocation the county's share of costs for such program increases. The increases to the allocation will need to be fully justified and will be reviewed by Agency staff. Across the board increases for services and supplies and allocated costs (including group insurance, workers compensation, and

liability insurance), as well as terminal pay funding will not be funded initially in these allocations for any department in the General Fund. Due to the expiration of one-time financing sources utilized in the Fiscal Year 2005-06 Adopted Final Budget, our projected net revenue base is not expected to grow sufficiently to keep pace with costs year-to-year. Therefore, we are not initially recommending across the board increases in the insurance accounts, non-salary accounts or funding for terminal pay. Ultimately, depending upon a myriad of issues, General Fund departments may have to absorb the increases in insurance accounts, allocated costs, other non-salary related expenditures, and the costs of terminal pay from within their prior year's (adjusted) allocations.

**We are hopeful that by using this modified resource-based approach, departments will fully analyze their General Fund needs which will reduce the projected budget shortfall by fully factoring in other revenues that may reduce the county's share of costs. And to further encourage departments to reexamine of the way each operates its programs in order to find efficiencies through restructuring and/or elimination of redundant procedural layers.**

In addition to having the departments refine their preliminary allocation plan, we recommend that the Board once again direct departments (as last year) to prepare program performance anticipated result/impact statements for each of their funded/unfunded programs, and to reflect which countywide and agency priority area their programs relate.

We further recommend that the Board direct the county's Elected Officials and Department Heads to prepare their budgets for Fiscal Year 2006-07 according to their departments' preliminary budget allocation.

**APPROVAL OF REPORT FROM DHHS INCLUDING AAR NO. 26-044 TRANSFERRING \$229,566 FROM GENERAL FUND CONTINGENCIES TO OFFSET ONGOING EXPENDITURES FOR THE INFLUENZA/PANDEMIC FLU PREPAREDNESS PROGRAM**

Public health issues were previously discussed in this report. The County Executive's Office recommends approval of the recommendations in the attached report (Attachment III).

**APPROVAL OF REPORT FROM DHHS INCLUDING AAR NO. 26-043 TRANSFERRING \$1,685,225 FROM NON-DEPARTMENTAL COSTS/GENERAL FUND (BUDGET UNIT 5770000) TO OFFSET THESE INCREASED IHSS PROGRAM COSTS**

As previously discussed, costs have risen for the county IHSS Public Authority. An attached report and AAR recommends the transfer of \$1,685,225 from Non-Departmental Costs/General Fund (Budget Unit 5770000) to offset these increases. The County Executive's Office recommends approval of the recommendations in the attached report (Attachment IV).

**APPROVAL OF REPORT FROM DHHS REQUESTING THE EMPLOYMENT SERVICES AND RISK MANAGEMENT DEPARTMENT TO PREPARE AN SRA REGARDING URGENTLY NEEDED ADDITIONAL STAFFING FOR ADULT PROTECTIVE SERVICES**

As previously discussed, the County Executive's Office recommends approval of the recommendations in the attached report (Attachment V).

**APPROVAL OF REPORT FROM THE SHERIFF INCLUDING AAR NO. 26-046 TRANSFERRING \$100,000 FROM NON-DEPARTMENTAL COSTS/GENERAL FUND (BUDGET UNIT 5770000) TO FUND THE STATION HOUSE PRELIMINARY PLANNING AND DESIGN**

As previously discussed, the County Executive's Office recommends approval of the recommendations in the attached report (Attachment VI).

**APPROVAL OF REPORT FROM THE SHERIFF INCLUDING AAR NO. 26-047 TRANSFERRING \$206,843 FROM GENERAL FUND CONTINGENCIES TO OFFSET THE ADDITIONAL COSTS ASSOCIATED WITH THE EXPANSION OF THE EXISTING AUDIT TO INCLUDE JAIL OPERATIONS**

As previously discussed, the County Executive's Office recommends approval of the recommendations in the attached report (Attachment VII).

**APPROVAL OF REPORT FROM DEPARTMENT OF GENERAL SERVICES INCLUDING SRA NO. 2006-179B ADDING URGENTLY NEEDED STAFF TO ENHANCE THE PROPERTY MANAGEMENT OF LEASED OFFICE FACILITIES, IN PARTICULAR RESPONDING FOR COUNTY TENANTS REGARDING FACILITY-RELATED COMPLAINTS ON LEASED PROPERTIES.**

The recent ISES operational review of the Department of General Services contained numerous comments from county departments regarding delays and shortcomings in resolving problems with landlord-provided maintenance and cleaning services. Due to mandated position reductions in past budget years and a continuous heavy workload, the Lease Management Section within the Real Estate Division has not been able to provide satisfactory property management services to its customer departments occupying lease facilities. In coordination with representatives from major tenant departments, the Real Estate Division has initiated a Task Team to respond to the recommendations of the ISES Final Report, including "actions to develop a standard lease that places more emphasis on the landlord's timely response to and correction of maintenance and housekeeping problems, and/or complaints". Along with their recommendations for new lease provisions, the Task Team supports the creation of a dedicated property management staff element in the Real Estate Division. The planned staffing level of the Property Management Section is comparable to, or lower than industry standard for property management services provided by major commercial property management firms, large corporate property management firms and large corporate property management departments including IBM Corporation. The County Executive's Office recommends approval of the recommendations in the attached report (Attachment IX).

**SUMMARY:**

We again find ourselves in the position where the primary focus of our budget deliberations for the next fiscal year will be our local economic circumstances. However, we must be cognizant if the state government's budget circumstances again become so severe, and their options are so limited, that the potential for pass-through of significant categorical funding and/or program reductions from the State is very real, and could put extreme pressure on the counties to backfill the categorical reductions with local funding. Our legislative advocacy during the state budget season will play a major role in this year's outcome.

We believe that the revised budget process schedule and allocation process will shift the emphasis to finding solutions other than budget/program reductions will best serve the County in first dealing with our local shortfall, as we await the results of the state budget process.

However, due to the budget model forecast which predicts significant budget duress in the out-years primarily as a result of our increasing POB debt service payments combined with other pension increases for resulting from actuarial assumption changes adopted by SCERS, we believe that the County needs to begin working now to adopt budget strategies that will enable us to address the upcoming budget shortfalls. The County Executive's staff will continue to work in conjunction with departments to develop strategies and recommendations for addressing the multiyear budget gaps that are now anticipated.

Respectfully submitted,

APPROVAL RECOMMENDED:

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GEOFFREY B. DAVEY  
Chief Financial/Operations Officer

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TERRY SCHUTTEN  
County Executive

GBD/LFH:js

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

Attachments:

- Attachment I 2006-07 Budget Process Schedule
- Attachment II Preliminary General Fund Allocation Plan for Fiscal Year 2006-07
- Attachment III Report from DHHS Including Approval of AAR No. 26-044 to fund additional staff and expenditures in DHHS for the Influenza/Pandemic Flu Preparedness Program
- Attachment IV Report and AAR No 26-043 from DHHS transferring \$1,685,225 from Non-Departmental Costs/General Fund (Budget Unit 5770000) to fund increased In-Home Supportive Services (IHSS) caseload and negotiated wage increases
- Attachment V Report from DHHS requesting Employment Services and Risk Management Department prepare an SRA regarding urgently needed additional staffing for Adult Protective Services
- Attachment VI Report from the Sheriff including AAR No. 26-046 transferring \$100,000 from Non-Departmental Costs/General Fund (Budget Unit 5770000) to fund the Station House Preliminary Planning and Design
- Attachment VII Report from the Department of Compliance and the Sheriff including AAR No. 26-047 to fund the expansion of the existing audit contract with Brann and Associates and The Public Strategies Group, Inc. to include Jail Operations
- Attachment VIII Approve the attached report back from the Department of Economic Development and Intergovernmental Affairs regarding the plan to augment newly established Economic Development Fund in Fiscal Year 2006-07
- Attachment IX Report from the Department of General Services Including Approval of SRA No. 2006-179B adding staff to the Real Estate Division to enhance Property Management of Lease Office Facilities
- Attachment X CSAC Summary of Governor's Proposed 2006-07 State Budget
- Attachment XI Summary of State Budget Impacts to Sacramento County from Governor's Proposed Budget