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June 10, 2013

Members of the Board of Supervisors
County of Sacramento
700 H Street, Suite 1450
Sacramento, CA 95814

**Re: Fiscal Year 2013-14 Recommended Budget**

Honorable Members of the Board:

I am pleased to present for your consideration the Recommended Budget for Fiscal Year 2013-14. The proposed spending plan before you today reflects the fiscal realities that have reduced local budgets and staffing over the last several years, and required the Board to make difficult choices to align on-going revenues with rapidly increasing costs. The majority of these decisions have required significant sacrifice from our County workforce that include layoffs, furloughs, pension reductions, retiree health benefit elimination, and the deferral of scheduled cost-of-living increases and equity adjustments. As I mentioned last year at this time, significant recognition should be given to our employees for their willingness to actively participate in solving our collective fiscal challenges, and in working harder and smarter to provide outstanding service to our citizens.

Sacramento County continues to provide high quality public programs and services despite several years of budget and workforce reductions. Your department managers and employees are maximizing customer service through hard work, collaboration and innovation, and the implementation of a variety of technology initiatives. The twenty-three initiatives summarized in Attachment "A" represent a small sample of the accomplishments our organization has accomplished this year.

The Recommended Budget for 2013/14 has been carefully crafted in accordance with the Board's clear directives and designed to reflect your public service priorities. While the spending proposal is balanced, largely maintains existing service levels, and has minimal workforce disruption, a number of primary policy issues remain. As is typically the case, public safety department budgets contain unfunded amounts each department will address during budget hearings. It is becoming clear that correctional realignment has led to increases in local crime while State funding for realigned programs has been inadequate. Implementation of the Affordable Care Act will require considerable effort from a number of County departments while funding is slated to decrease under the Governor's latest proposals. These funding reductions may necessitate future cutbacks in County health and mental health programs. County opposition to the Bay Delta Conservation Plan will require significant resources for environmental, legal, and public information efforts as we fight to protect our County's water, economic, agricultural, recreational and cultural resources. While all of these challenges are significant, I am quite confident that your leadership, and the efforts of our managers and employees, will allow us to face the coming year poised to take advantage of the opportunities ahead while improving the award-winning public services our residents rely upon.

BUDGET STRATEGY

During the last several budget years, your Board has directed a series of prudent on-going adjustments to departmental spending to reflect economic trends that have reduced discretionary County resources. These adjustments have ensured that the provision of County services can be sustained in the year ahead. In order to maintain and improve our current fiscal position, departments will continue to prioritize service delivery to meet the Board's policy directives, eliminate or reduce all but the most necessary expenditures, and maximize the use of non-General Fund Revenue including grants and other external resources. The underpinnings of the Fiscal Year 2013-14 spending plan focus on several key strategic elements;

<u>Budgetary Controls</u>

The County Executive directed departments as an initial budget development strategy to:

- Construct their budget requests to absorb both their use of one-time funding in the previous fiscal year and unavoidable cost increases;
- End the current fiscal year with a neutral or positive carryover fund balance;
- Closely monitor and estimate their department-specific revenues, and optimize their use of non-General Fund revenues; and,
- Seek full cost recovery for their state and federal funded programs, including state realignment programs.

Internal Service Cost Reductions

In order to meet the Board's public service objectives, priority will be given to departments and functions that provide direct services to the public. Accordingly, we have asked all internal service departments to reduce rates where possible, minimize retained earnings and provide rebates to departments to mitigate the impact of other budgetary reductions. Internal Service Departments have reduced their costs by over 26% during the last 5 years.

Strategic Cost Controls

The County Executive has directed that critical resources be focused on your Board's service delivery priorities. We have asked departments to restrict travel and other non-mission critical activities, reduce contracts and other support expenses, adjust operating hours to meet public demand, reduce vehicle and equipment replacement, target technology investments towards productivity enhancements and prioritize maintenance.

Position Cost Controls

County employee costs represent the majority of budgetary spending; consequently, significant effort has been expended in managing overall personnel costs. We are carefully managing vacant staff positions and have current funded vacancies of 595.7 positions in the General Fund. In addition, there are 269.6 funded vacancies in internal service and enterprise funded departments. The total number of employees currently on-board is 10,634 compared to 10,672 last year at this time. We anticipate that 166 funded vacant positions will be eliminated in the Recommended Budget, with additional deletions likely during final budget deliberations. Also, department managers have been advised to reduce temporary staffing levels, assign existing employees to non-General Fund activities where feasible, and consider transfers to non-General Fund or enterprise departments to minimize layoffs and workforce disruption.

Strategic Technology Investments

I have directed that an Information Technology Capital Improvement Plan for Fiscal Year 2013-14 be developed and presented to the Board during Adopted Budget hearings in September. The plan will include major initiatives that will improve the efficiency of County operations, improve services to our business partners and customers, and reduce County operating costs.

ECONOMIC AND FISCAL CONTEXT

Over the last six months, we have continued to see signs that the rather anemic economic recovery of the last few years is starting to gain momentum – at both the national and local levels. Nationally, home prices are rising at a double digit rate, new housing construction starts have risen by more than 45% over the last year, consumer spending, on a per-person basis, has fully rebounded from its steep decline during the "Great Recession," and businesses are hiring, with the unemployment rate falling to 7.5% - down 2.5 percentage points from its recession peak.

Locally, the unemployment rate, while still high by national and historic standards, has declined to 8.3% from its recession-high of 12.7% and home prices have risen by over 30% in the last year – though the number of homes on the market remains at a historic low. The number of new residential building permits issued in Sacramento County increased by 20% in calendar year 2012 compared to 2011, and for the first three months of 2013, countywide residential building permit activity increased 63% compared to the same three-month period in 2012. Even with this growth, the number of new residential permits issued in the County is substantially below the number issued in 2006, the last full year before the housing bubble burst and the Great Recession began.

At this point, most economists are predicting that the national economy will continue to improve at a modest pace and that unemployment will continue to decline, but remain relatively high for the next two years.. They have identified three factors that will constrain economic growth: (1) lack of job growth in state and local governments (a particularly salient issue for Sacramento County because of the high concentration of State employees); (2) federal fiscal policy, including income and payroll tax increases and sequestration; and (3) the on-going European recession.

This Recommended Budget reflects some of the positive impacts of the improving economy, for example:

- Secured Property Tax and Property Tax in Lieu of Vehicle License Fee (VLF) revenue which constitute over 65% of the County's discretionary revenue is projected to grow by 2% compared to FY2012-13 estimated actual collections. This represents the first year-over-year increase in property tax revenue since FY2008-09;

- Sales and Use Tax revenue is projected to grow by 4.5% compared to FY2012-13 estimated actual collections. This would be the third consecutive year of growth in Sales and Use Tax revenue following an increase of 0.8% in FY2011-12 and an estimated 5% increase in FY2012-13;

- Although we are projecting the same amount of Real Property Transfer Tax revenue in FY2013-14 as in FY2012-13, we estimate that FY2012-13 revenue from this source will be approximately 21% higher than FY2011-12 actual revenue, and 17% higher than the amount included in the FY2012-13 Adopted Budget; and,

- The County's Proposition 172 revenue is projected to grow by 4% compared to FY2012-13 estimated actual revenue from this source.

Collectively, we are projecting that on-going discretionary revenue will grow by approximately $7.5 million, or 1.7%, in FY2013-14 compared to estimated actual FY2012-13 on-going discretionary revenue. Although this increase is relatively small, it would represent the first annual increase in total on-going discretionary revenue since FY2007-08.

Unfortunately, the impact of this and other good news on the County's General Fund is offset by a number of factors including:

- The FY2012-13 Adopted General Fund Budget was balanced using $31.9 million in one-time resources, while $20.9 million in one-time resources could be identified to help balance the FY2013-14 budget leaving an $11 million gap;

- FY2013-14 General Fund employee retirement and Pension Obligation Bond debt service costs will increase by over $25 million compared to the FY2012-13 level;

- Salary costs for members of the Deputy Sheriff's Association will increase by approximately $10.7 million in FY2013-14 due to a previously negotiated labor agreement;

- The FY2013-14 General Fund cost of employee health insurance premiums will increase by approximately $2.3 million;

- There will be a net loss of approximately $8.2 million in COPs grant revenue that has helped to fund Sheriff's Deputies; and,

- We are estimating that the General Fund's available FY2013-14 beginning balance will be approximately $7 million lower than the FY2012-13 Adopted Budget available balance.

The Recommended General Fund Budget calls for a $109.8 million (6%) increase in appropriations compared to the FY2012-13 Adopted level, but reflects an $11.1 million (2%) reduction in net County cost. The total recommended appropriation level is approximately $44 million (2%) lower than what departments have requested.

In addition, the Recommended Budget is based on aggressive assumptions about discretionary and semi-discretionary (Proposition 172 and Realignment) revenue growth and the amount of General Fund balance that will be available at the end of this fiscal year.

## THE ALL FUNDS BUDGET

The County's Recommended All Funds Budget for FY2013-14 totals $3,523,160,596 in requirements. This is a $20,400,356, or 1%, decrease compared to the FY2012-13 Adopted Budget requirements level. A detailed comparison of the FY2012-13 Recommended Budget's requirements and the FY2012-13 Adopted Budget's requirements is shown below:

**Fiscal Year 2012-13 Adopted Compared to Fiscal Year 2013-14 Recommended**

**All County Funds**

| **Fund** | **FY 2012-13 Adopted Requirements** | **FY 2013-14 Recommended Requirements** | **Difference** |
|---|---|---|---|
| General Fund | 1,988,536,189 | 2,097,436,032 | 108,899,843 |
| Economic Development | 44,533,496 | 46,978,445 | 2,444,949 |
| Environmental Management | 22,138,815 | 18,904,440 | (3,234,375) |
| Golf Fund | 7,487,862 | 7,513,048 | 25,186 |
| Transient Occupancy Tax | 6,689,005 | 7,057,981 | 368,976 |
| Transportation | 221,924,708 | 145,769,061 | (76,155,647) |
| Water Resources | 171,792,296 | 173,334,733 | 1,542,437 |
| Airport System | 257,034,980 | 257,376,164 | 341,184 |
| Waste Management and Recycling | 80,972,773 | 83,623,047 | 2,650,274 |
| Capital Projects Funds | 41,999,005 | 36,361,941 | (5,637,064) |
| Debt Service Funds | 57,141,174 | 48,433,329 | (8,707,845) |
| Other Special Revenue Funds | 40,633,145 | 27,941,969 | (12,691,176) |
| Other Enterprise Funds | 2,816,263 | 2,677,135 | (139,128) |
| Other Internal Service Funds | 377,743,474 | 355,528,163 | (22,215,311) |
| Other Special Districts and Agencies | 222,117,767 | 214,225,108 | (7,892,659) |
| **Total** | **3,543,560,952** | **3,523,160,596** | **(20,400,356)** |

The primary reasons for the overall decrease in the Recommended Budget compared to the FY2012-13 Adopted Budget include:

- A $76.2 million net reduction in appropriations in various Transportation funds due primarily to the fact that there were an unusually large number of major transportation projects begun in FY2012-13 that are not included in the Recommended Budget. These funds typically experience significant annual appropriation swings;

- A $22.2 million net reduction in various Internal Services funds due to the elimination of the Municipal Services Internal Services Fund (Fund 33);

- A $12 million net reduction in certain Special Revenue funds, most significantly, an $11.7 million reduction in appropriations in the Tobacco Litigation Settlement (TLS) Fund due to all of that money having been spent in prior years to help mitigate the impact of declining discretionary revenues;

- An $8.7 million reduction in debt service costs in the Teeter Fund due to an estimated reduction in the amount of property tax delinquencies; and,

- A $9.8 million reduction in salary and benefit costs in a variety of different funds as part of an effort to eliminate vacant positions that have been vacant for 6 months or more. This is the net cost savings from eliminating 166 positions, but using some of the resulting salary savings to augment the Sheriff's temporary help budget.

These and other Budget reductions are partially offset by increases in other areas including a $109 million increase in the General Fund Budget as described in more detail below.

**THE GENERAL FUND BUDGET**

The County's Recommended General Fund Budget appropriation level for FY2013-14 totals $2,096,687,284. This is an increase of $109,733,579 or 6% compared to the FY2012-13 Adopted Budget level. A more detailed comparison of the FY2013-14 Recommended General Fund Budget to the FY2012-13 Adopted General Fund Budget is shown below:

GENERAL FUND BUDGET
FY 2012-13 adopted and FY 2013-14 Recommended

| | FY 2012-13 Adopted | FY 2013-14 Recommended | Difference |
|---|---|---|---|
| **Resources** | | | |
| Beginning Balance[1] | 18,247.654 | 11,318,583 | (6,929,071) |
| Use of Reserves | 1,356,420 | 1,339,791 | (16,629) |
| Discretionary Revenue | 454,981,786 | 460,201,903 | 5,220,117 |
| Departmental Revenue | 1,513,950,329 | 1,624,575,755 | 110,625,426 |
| Total Revenue | 1,968,932,115 | 2,084,777,658 | 115,845,543 |
| **Total Resources** | 1,988,536,189 | 2,097,436,032 | 108,899,843 |
| **Requirements** | | | |
| Expenditures | 1,985,422,620 | 2,094,887,284 | 109,464,664 |
| Contingency | 1,531,085 | 1,800,000 | 268,915 |
| **Total Appropriations** | 1,986,953,705 | 2,096,687,284 | 109,733,579 |
| Provision for Reserves | 1,582,485 | 748,748 | (833,737) |
| **Total Requirements** | 1,988,536,190 | 2,097,436,032 | 108,899,842 |

## Fund Balance and Reserves

The Recommended General Fund Budget assumes a beginning balance of approximately $66.3 million. This beginning balance includes approximately $55 million in reserves consisting of Teeter and Pension Obligation Bond Reserves, a $32.4 million Reserve for Cash Flow and an unrestricted balance of approximately $11.3 million.

The estimated FY2012-13 Beginning Balance was calculated using the FY2011-12 actual ending balance and third quarter estimates of FY2012-13 departmental revenue and expenditures, with a positive adjustment to try and mitigate the generally conservative nature of those estimates.

The Recommended Available Beginning Balance also assumes that approximately $3.2 million in long-term receivables (primarily 1991 Realignment revenue) that we do not expect the County will ever receive will be written off in FY2012-13. It should be noted, though, that the Recommended Available Balance still includes $8 million in long-term receivables that are somewhat problematic. If the County does not receive this money in FY2013-14, we will likely recommend that those receivables be written off as well further reducing the Available Fund Balance.

The use of reserves in the Recommended Budget is all related to implementation of the County's Teeter Plan for property tax revenue. No other changes to reserves are

[1] Available (unreserved/restricted) fund balance

recommended. Finally, it is important to keep in mind that the above fund balance numbers are only estimates. The Finance Department will determine the actual fund balance number – including any encumbrance carry-forward – in the first quarter of FY2013-14.

## DISCRETIONARY REVENUE

The $5.2 million (1%) projected increase in discretionary revenue compared to the FY2012-13 Adopted Budget is the net result of increases and decreases in a number of revenue sources as shown in the following table:

Discretionary Revenue and Non-Departmental Reimbursements
(Amounts Expressed in Millions)

| | FY2012-13 Adopted | FY2012-13 Estimated Year-End | FY2013-14 Recommended | Difference – Adopted to Recommended |
|---|---|---|---|---|
| Property Tax- Secured/VLF In Lieu | 293,619 | 290,975 | 296,794 | 3,175 |
| Other Property Tax | 17,479 | 17,310 | 17,525 | 46 |
| Sales & In Lieu Sales Tax | 67,521 | 68,877 | 72,766 | 5,245 |
| Utility Tax | 16,910 | 16,910 | 17,248 | 338 |
| Fines & Penalties | 17,276 | 13,299 | 14,109 | (3,167) |
| Franchises | 4,709 | 4,709 | 4,500 | (209) |
| Revenue Neutrality & Transition | 16,204 | 16,059 | 16,059 | (145) |
| Other Revenue – One Time | 5,725 | 5,689 | 5,782 | 57 |
| Other Revenue On-going | 15,339 | 17,794 | 15,419 | 80 |
| **Total Revenue** | 454,982 | 451,622 | 460,202 | 5,220 |
| Net Reimbursements | 17,367 | 19,851 | 9,609 | (7,758) |
| **Total** | 472,349 | 471,473 | 469,811 | (2,538) |

As can be seen, the primary reasons for the net increase in discretionary revenue include:

- A $3.2 million (1%) increase in Secured Property Tax and Property Tax in Lieu of Vehicle License Fee revenue due to anticipated increases in assessed value on secured property. This is actually a $5.8 million (2%) increase in revenue from these sources compared to the FY2012-13 estimated actual level and is based on estimates of assessed value growth and assessment appeals information provided by the County Assessor;

- A $5.2 million (8%) increase in Sales and Property Tax in Lieu of Sales Tax revenue is based on projections provided by the County's Sales Tax consultants and, in part, on staff's analysis of recent sales tax revenue activity. This is actually a $3.9 million (6%) increase in revenue from these sources compared to the FY2012-13 estimated actual level; and,

- A $3.2 million (18%) reduction in vehicle code and other court fines revenue. This is an $810,000 (6%) increase in revenue from these sources compared to the FY2012-13 estimated actual level. The primary reason for the projected reduction is that the Red Light Camera program has failed to generate the amount of revenue originally estimated when it began in FY2009-10 and those more optimistic assumptions were included in the FY2012-13 Adopted Budget.

It should also be noted that, though the amount of one-time discretionary revenue is roughly the same in both fiscal years' Budgets, the source of that one-time revenue is different. For FY2013-14, $5 million of the one-time revenue comes from the proposed sale of sewer credits.

The above table also shows net reimbursements in the Non-Departmental Revenue budget. Reimbursements have the effect of reducing expenditures and net Non-Departmental reimbursements (which can be used for any purpose) to effectively free up discretionary resources for other uses. On-going Non-Departmental reimbursements include Transient Occupancy Tax (TOT) revenue and the transfer-in of Teeter funds.

The recommended $7.8 million (45%) reduction in net reimbursements compared to the FY2012-13 Adopted Budget level is due primarily to the fact that a $7.6 million one-time reimbursement from the Tobacco Litigation (TLS) Endowment Fund was used to help balance the FY2012-13 budget. Those funds are no longer available.

**SEMI-DISCRETIONARY REVENUE**

"Semi-discretionary" revenue, one component of Departmental Revenue, refers to the Proposition 172, and 1991 and 2011 Realignment revenue that the Board has the ability to allocate within certain broad parameters. Proposition 172 revenue comes from a statewide half cent sales tax that is allocated to counties for public safety.

1991 Realignment revenue comes from a portion of statewide sales tax and vehicle license fee (VLF) revenue that is allocated to counties to help fund the local share of certain health and human services programs that were "realigned" to the counties from the State. Originally, there were three categories of 1991 Realignment revenue: Public Health (which included indigent health care), Mental Health and Social Services. As part of 2011 Realignment, Realignment funding for Mental Health was shifted to 2011 Realignment and the counties were given an increased share of cost for CalWORKS which is funded with Social Services Realignment revenue.

2011 Realignment revenue comes from temporary sales tax and vehicle license fee rates and is allocated to counties to help fund the local share of cost for a number of realigned health and human services programs, to replace state categorical funding for certain health and human services and law and justice programs, and to provide funding to help counties deal with the impact of the transfer of responsibility for certain "low level" offenders from the State prison system to the County (Referred to as AB109 Realignment Revenue).

The following table summarizes the amount of Proposition 172 and Realignment revenue the County expects to receive or have available in FY2013-14 compared to the amount included in the FY2012-13 Adopted Budget.

**Semi-Discretionary Revenue**
**FY2012-13 Adopted Budget Compared to FY2013-14 Recommended**

| | **FY2012-13 Adopted** | **FY2013-14 Recommended** | **Difference** |
|---|---|---|---|
| Proposition 172 | 90,841,527 | 101,006,332 | 10,164,805 |
| 1991 Realignment | 171,389,646 | 180,049,472 | 8,659,826 |
| 2011 Realignment – Non AB 109 | 223,103,492 | 246,554,032 | 23,450,540 |
| 2011 Realignment – AB 109 | 29,553,810 | 36,475,510 | 6,921,700 |
| **Total** | **514,888,475** | **564,085,346** | **49,196,871** |

As can be seen, the Recommended Budget reflects a total increase in Semi-Discretionary revenue of approximately $49.2 million (10%).

The Recommended Budget includes $101 million in Proposition 172 revenue, which is a $10.2 million (11%) increase over the FY2012-13 Adopted Budget level. Approximately $3.2 million of this amount reflects revenue that is expected to be received in FY2012-13 but was not allocated in the Adopted Budget, and will thus be carried forward into FY2013-14 as one-time revenue. The Recommended Budget includes $97.8 million in actual new Proposition 172 revenue, which is approximately $3.8 million (4%) more than the FY2012-13 estimated actual revenue from this source. The County's sales tax consultants are projecting that FY2013-14 Proposition 172 revenue will increase by approximately 2% over the current year actual amount, reflecting a decrease in the County's pro-rata factor or share of statewide sales tax revenue compared to other counties. We are projecting a 4% increase based on actual revenue trends to-date, but there is some risk that our projections are overly optimistic since there is a question about whether the State has been accurately accounting for Proposition 172 revenue.

The Recommended Budget includes $180 million in 1991 Realignment revenue, which is an $8.7 million (5%) increase over the FY2012-13 Adopted Budget level. In FY2012-13 the County received an additional unbudgeted $11 million in prior year's Social Services Realignment growth revenue and that has been incorporated into the FY2013-14 base allocation. This is partially offset by a $2 million reduction in budgeted Public Health Realignment revenue.

The Recommended Budget includes $247 million in non-AB 109 2011 Realignment revenue, which is a $23.5 million (11%) increase over the FY2012-13 Adopted Budget level. This projected increase is the result of a number of factors, some of which are one-time in nature and some of which involve assumptions about sales tax growth and allocation formulae including:

- A projection that the County will receive approximately $7.9 million in FY2012-13 growth revenue that will be carried over into FY2013-14 as one-time revenue. Typically, we do not budget for Realignment growth until it is received and folded into the subsequent year's base because it is difficult to predict how much sales tax and VLF growth there will be and because the State can change the allocation formula. This projection assumes 5% growth in sales tax revenue and that the allocation formula will not change; and,

- The Recommended Budget assumes that the $7.9 million in FY2012-13 2011 Realignment Growth revenue will also be added to the FY2012-13 base and that it will be augmented by an additional $5 million in FY2013-14 growth that will most likely be received in FY2014-15 but will be accrued back into FY2013-14. This projection assumes 3% growth in sales tax revenue in FY2013-14, which is consistent with the County's sales tax consultant's projections, but is even more problematic given that we are essentially projecting what will happen two years out.

The Recommended Budget includes $36.5 million in AB 109 Realignment revenue, which is a $6.9 million (24%) increase compared to the FY2012-13 Adopted Budget level. This increase is the net result of a number of factors including a projected $5 million increase in the 2013-14 base resulting from sales tax growth and a revised allocation formula, the budgeting of both FY2012-13 and FY2013-14 estimated growth revenue, and the assumption that approximately $1 million in AB 109 Realignment Revenue included in the FY2012-13 Adopted Budget will not be spent and will be carried over into FY2013-14.

**OTHER DEPARTMENTAL REVENUE**

When Semi-Discretionary revenue is factored out, the Recommended General Fund Budget reflects a $61.4 million (6%) increase in Departmental Revenue. The primary reasons for this increase include:

- A $25 million increase in federal and State funding in the Human Assistance Administration Budget to cover the cost of 59 positions added during the 2012-13 fiscal year and 142 new positions included in the Recommended Budget. These positions are needed to deal with caseload increases associated with the Medi-Cal program and the implementation of the Affordable Care Act (ACA), and the CalFresh (Food Stamps) and CalWORKS programs;

- A $22.5 million increase in revenue in the Community Development Department's Budget due primarily to the transfer of positions and funding responsibility for certain building and code enforcement programs previously housed in Fund 33;

- A $12.5 million increase in revenue in the Finance Department's Budget due primarily to the transfer of positions and funding responsibility for the Consolidated Utilities Billing Services (CUBS) and Municipal Accounting Services functions from Fund 33; and,

- A $7.8 million increase in revenue in the Probation Department's Budget due primarily to the receipt of additional SB 678 revenue.

**Expenditures**

The primary reasons for the increase in expenditures in the Recommended General Fund Budget compared to the FY2012-13 Adopted Budget include:

- A $26.7 million (11%) increase in the Human Assistance Administration Budget, funded almost entirely with federal and State revenue, to cover the cost of new positions associated with implementation of the Affordable Care Act;

- A $21.8 million (229%) increase in the Community Development Department's Budget due primarily to the elimination of Fund 33 in FY2012-13 and the transfer of positions and funding responsibility for some of the Building & Code Enforcement programs;

- A $16.3 million (30%) increase in the IHSS Provider Payments Budget, reflecting the fact that this program was under-funded in the FY2012-13 Adopted Budget, and the impact of a wage increase negotiated with the union representing IHSS caregivers;

- A $14.7 million increase in the Human Assistance Aid Payments Budget due to the fact that this budget was under-funded in FY2012-13;

- A $13.8 million increase in the Sheriff's Budget as part of an effort to assist the Sheriff in covering increased salary and benefits and other costs;

- A $12.5 million increase in the Finance Department's Budget due to the fact that in FY2012-13 Fund 33 was eliminated and positions and funding responsibility for the Consolidated Utilities Billing Services (CUBS) and Municipal Accounting Services programs were transferred to the Finance Department;

- A $9.3 million increase in the Probation Department's budget due to additional SB 678 and AB 109 Realignment revenue to cover salary and benefit cost increases and provide resources to contract for additional community-based programs and services for probationers;

- A $2.5 million increase in the Health & Human Services Budget because of employee benefit and other cost increases related to current programs, approximately $4 million in funding for new programs in Child Protective Services, the Chest Clinic, Public Health Nutrition Assistance and Adult Protective Services, partially offset by reductions in other programs such as a $2.1 million reduction due to the proposed return of responsibility for the Day Care Licensing program to the State; and,

- A $1.4 million increase in the Coroner Department's Budget reflecting an $840,000 increase in debt service responsibility due to the loss of TLS and the fact that this Department was under-funded in the FY2012-13 Adopted Budget requiring a mid-year budget adjustment.

These and other expenditure increases are partially offset by recommended expenditure decreases in a number of areas including a $7.1 million decrease in the Health- Medical Treatments Budget, based on the implementation of the Affordable Care Act (ACA), starting in January of 2014, a $5.1 million reduction in Emergency Operations Budget due to an equivalent decrease in grant revenue, and a $3.8 million reduction in a number of different departments reflecting the elimination of vacant positions.

**Net County Cost/Discretionary and Semi-Discretionary Revenue Allocations**

"Net County Cost" or "General Fund Allocation," refers to the discretionary resources allocated to the different County departments or programs. Discretionary resources come from the General Fund's discretionary (Non-Departmental) revenues, Non-Departmental reimbursements and General Fund beginning balance. For FY2013-14, the total recommended Net County Cost is approximately $486 million, an $11.1 million (2%) decrease compared to the FY2012-13 Adopted Budget level.

The recommended allocation of discretionary resources to departments or activities takes into consideration the Board's policy and service directives, but also reflects the County's legal obligations in certain areas. The recommended allocations are summarized in the following table:

**General Fund Allocations for FY2013-14 Recommended Budget**
**As Compared to FY2012-13 Adopted Budget**

| DEPARTMENT | FY2012-13 Adopted Allocation[2] | FY2013-14 Recommended Allocation | Year to Year Variance |
|---|---|---|---|
| **ELECTED OFFICIALS** | | | |
| Assessor | 8,265,847 | 8,591,573 | 325,726 |
| Board of Supervisors | 3,075,765 | 2,998,928 | (76,837) |
| District Attorney | 43,201,590 | 43,431,198 | 229,608 |
| Sheriff | 163,103,754 | 177,424,302 | 14,320,548 |
| Correctional Health | 14,757,379 | 25,211,156 | 10,453,777 |
| **Subtotal** | **232,404,335** | **257,657,157** | **25,252,822** |
| **COUNTYWIDE SERVICES** | | | |
| Human Assistance – Aid Payments | 25,055,697 | 17,403,517 | (7,652,180) |
| DHA Administration | 9,207,797 | 10,533,209 | 1,325,412 |
| Health & Human Services | 24,420,455 | 17,255,425 | (7,165,031) |
| Probation | 52,471,197 | 49,482,702 | (2,988,495) |
| Courts | 37,435,584 | 35,821,125 | (1,614,459) |
| Public Defender and Conflict Defenders | 36,084,081 | 36,097,081 | 13,000 |
| Medical Treatment Payments | 19,577,748 | 7,128,508 | (12,449,240) |
| In-Home Supportive Services (IHSS) | 3,671,202 | 1,378,902 | (2,292,300) |
| Voter Registration & Elections | 6,842,701 | 7,158,063 | 315,362 |
| Other Countywide Services | 8,956,510 | 14,759,133 | 5,802,623 |
| **Subtotal** | **223,722,922** | **197,017,665** | **(26,705,257)** |
| **MUNICIPAL SERVICES** | | | |
| Animal Care & Regulation | 2,924,657 | 3,364,747 | 440,090 |
| Regional Parks | 2,948,563 | 2,813,501 | (135,061) |
| **Subtotal** | **5,873,220** | **6,178,248** | **305,028** |
| **INTERNAL SERVICES** | | | |
| Finance Department | 278,867 | 270,059 | (8,808) |
| Other Internal Services | 1,204,966 | 95,441 | (1,109,525) |
| **Subtotal** | **1,483,833** | **365,500** | **(1,118,333)** |
| **GENERAL GOVERNMENT** | **33,588,215** | **24,744,796** | **(8,843,419)** |
| **TOTAL** | **497,072,525** | **485,963,366** | **(11,109,159)** |

Although, the overall amount of discretionary resources allocated to departments and programs is recommended to decrease by approximately $11.1 million, the effect of this decrease is sometimes offset by increases in the allocation of Semi-Discretionary revenue provided to certain departments. For example, the Recommended Budget reflects a reallocation of $15.8 million in 1991 Public Health Realignment revenue from Correctional Health Services and Juvenile Medical Services to the Health & Human Services and Medical Treatment Payments budgets. The increases are offset by an equivalent shift of Net County Cost, or General Fund Allocation, from Medical Treatment Payments and Health & Human Services to Correctional Health and Juvenile Medical Services.

[2] This column reflects the actual Net County Cost for departments in FY2012-13, including any fund-balance carry-forward. For the FY2013-14 Recommended Budget, all departmental fund balance carry-forwards have been eliminated to more accurately reflect real department needs and changes in Net County Cost. To provide for an apples-to-apples comparison, the FY2012-13 allocation numbers have been revised accordingly.

This shift is recommended in order to focus the use of Public Health Realignment funds on indigent public health care as the State begins implementation of the federal Affordable Care Act in January of 2014.

To give a better picture of the change in centrally-allocated resources provided to the different departments, the following table compares the allocation of all Discretionary and Semi-Discretionary revenues (as well as SWA revenue) to all departments in the FY2012-13 Adopted and FY2013-14 Recommended Budgets.

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# Centrally-Allocated Resources

Net County Cost, Semi-Discretionary Resources, SWA
FY2012-13 Adopted – FY2013-14 Recommended

| | 12-13 Adopted | 13-14 Recommended | Difference |
|---|---|---|---|
| AG COMM-SEALER OF WTS & MEASURES | 1,159,678 | 1,068,480 | (91,198) |
| ANIMAL CARE AND REGULATION | 2,924,657 | 3,364,747 | 440,090 |
| APPROPRIATION FOR CONTINGENCY | 1,531,085 | 1,800,000 | 268,915 |
| ASSESSOR | 8,265,847 | 8,591,573 | 325,726 |
| BOARD OF SUPERVISORS | 3,075,765 | 2,998,928 | (76,837) |
| CARE IN HOMES AND INSTITUTIONS | 586,933 | 268,607 | (318,326) |
| CIVIL SERVICE COMMISSION | 271,011 | 309,758 | 38,747 |
| CLERK OF THE BOARD | 1,004,572 | 1,028,253 | 23,681 |
| COMMUNITY DEVELOPMENT | 1,897,843 | 1,778,444 | (119,399) |
| CONFLICT CRIMINAL DEFENDERS | 8,464,466 | 8,240,938 | (223,528) |
| CONTRIBUTION TO LAFCO | 228,833 | 228,833 | - |
| COOPERATIVE EXTENSION | 322,361 | 310,517 | (11,844) |
| CORONER | 4,469,906 | 5,900,507 | 1,430,601 |
| CORRECTIONAL HEALTH SERVICES | 29,196,293 | 31,402,735 | 2,206,442 |
| COUNTY COUNSEL | 2,026,766 | 2,021,012 | (5,754) |
| COUNTY EXECUTIVE | 939,939 | 963,456 | 23,517 |
| COURT / COUNTY CONTRIBUTION | 24,757,735 | 24,529,928 | (227,807) |
| COURT / NON-TRIAL COURT FUNDING | 12,677,849 | 11,291,197 | (1,386,652) |
| DATA PROCESSING-SHARED SYSTEMS | 7,614,124 | 7,598,341 | (15,783) |
| DEPARTMENT OF FINANCE | 278,329 | 270,059 | (8,270) |
| DISTRICT ATTORNEY | 54,267,908 | 55,689,454 | 1,421,546 |
| EMERGENCY OPERATIONS | 354,966 | 217,377 | (137,589) |
| FINANCING-TRANSFERS/REIMB | - | - | - |
| GRAND JURY | 282,263 | 266,213 | (16,050) |
| HEALTH AND HUMAN SERVICES | 181,644,708 | 185,671,182 | 4,026,474 |
| HEALTH-MEDICAL TREATMENT PAYMENTS | 36,330,587 | 30,433,532 | (5,897,055) |
| HUMAN ASSISTANCE-ADMIN | 17,206,110 | 19,093,480 | 1,887,370 |
| HUMAN ASSISTANCE-AID PAYMENTS | 132,386,826 | 142,479,173 | 10,092,347 |
| HUMAN RIGHTS/FAIR HOUSING | 61,267 | 61,267 | - |
| IHSS MOE | 40,130,872 | 51,649,489 | 11,518,617 |
| JUVENILE MEDICAL SERVICES | 7,320,058 | 7,320,545 | 487 |
| NON-DEPARTMENTAL COSTS/GF | 6,024,897 | 5,681,922 | (342,975) |
| OFFICE OF INSPECTOR GENERAL | 61,254 | 95,441 | 34,187 |
| PROBATION | 83,490,973 | 85,660,648 | 2,169,675 |
| PUBLIC DEFENDER | 28,036,766 | 28,168,706 | 131,940 |
| Public Authority | 327,292 | - | (327,292) |
| REGIONAL PARKS | 3,347,206 | 3,212,144 | (135,062) |
| Reserve Change - Teeter | - | - | - |
| COPs | 6,155,359 | 6,155,359 | - |
| SHERIFF | 282,618,668 | 304,344,933 | 21,726,265 |
| VETERAN'S FACILITY | 10,557 | 15,920 | 5,363 |
| VOTER REGISTRATION/ ELECTIONS | 6,842,701 | 7,158,063 | 315,362 |
| WILDLIFE SERVICES | 44,640 | 50,061 | 5,421 |
| Criminal Justice Cabinet | | 13,707 | 13,707 |
| Non Dept Rev - Expenses Only | | 4,242,426 | |
| | 998,639,870 | 1,051,647,355 | 48,765,059 |

As can be seen, overall, the amount of discretionary and Semi-Discretionary resources allocated to departments and programs is recommended to increase by approximately $48.8 million (5%) compared to the FY2012-13 Adopted Budget level. The departments with the largest increase include:

- The Sheriff's Department with a $21.7 million (8%) increase to address salary and pension cost increases, and the loss of COPs revenue;

- In-Home Supportive Services (IHSS) with a $11.5 million (28%) increase because it was under-budgeted in FY2012-13, and the costs of a wage increase negotiated with the union representing In-Home Supportive Services caregivers;

- Human Assistance Aid Payments with a $10.1 million (8%) increase due to the fact that this Department was under-budgeted in FY2012-13. Recent trends suggest Foster Care and Adoptions Assistance caseloads will continue to grow;

- Health & Human Services with a $4 million (2%) increase due to additional General Fund and Realignment resources to cover the cost of new programs in CPS, the Chest Clinic and APS, and to backfill loss of TLS funding in APS and CPS; and,

- Correctional Health Services with a $2.2 million (8%) increase as part of an effort to help address salary and pension increases, and other medical care costs.

**General Fund Five Year Forecast**

Recognizing that expenditure and revenue decisions made in one year can have a significant effect on the resources that will be available to General Fund programs in future years, but also recognizing the difficulties involved in predicting future year economic and fiscal conditions, we are providing your Board with a Five Year Forecast that projects Net County Cost and discretionary revenue under three different scenarios:

- A "Conservative Revenue Growth Scenario," that assumes total discretionary revenue will grow at an average annual rate of 2% over the projection period.

- A "Moderate Revenue Growth Scenario," that assumes total discretionary revenue will grow at an increasing rate during the five-year projection period, starting at 4% in FY2014-15, then increasing to 5% in FY2015-16 and FY2016-17 and increasing again to 6% in FY2017-18.

- A "Robust Revenue Growth Scenario," that assumes total discretionary revenue will grow at an average annual rate of 8% over the projection period.

All projections use discretionary revenue and Net County Cost in the current FY2013-14 Recommended Budget as the starting point, with adjustments made to reflect certain known or likely changes, including a future-year reduction in one-time funding used to balance the FY2013-14 Recommended Budget. Key assumptions include:

- In all years, semi-discretionary (Realignment and Proposition 172) and other departmental revenue will grow or decline based on actual costs, or costs currently funded with departmental revenue will be reduced if revenue declines;

- In the Conservative Revenue Growth Scenario, actual Net County Cost will be approximately $15 million lower than the budgeted amount each year, reflecting salary and other cost savings and/or greater than expected revenue. In the Moderate Revenue Growth Scenario, the assumed Net County Cost savings per year is $20 million and in the Robust Revenue Growth Scenario, the assumed savings compared to budget is $25 million. The higher actual-to-budget Net County Cost savings in the higher revenue growth scenarios reflect the greater likelihood that expenditures will not keep pace with revenue growth;

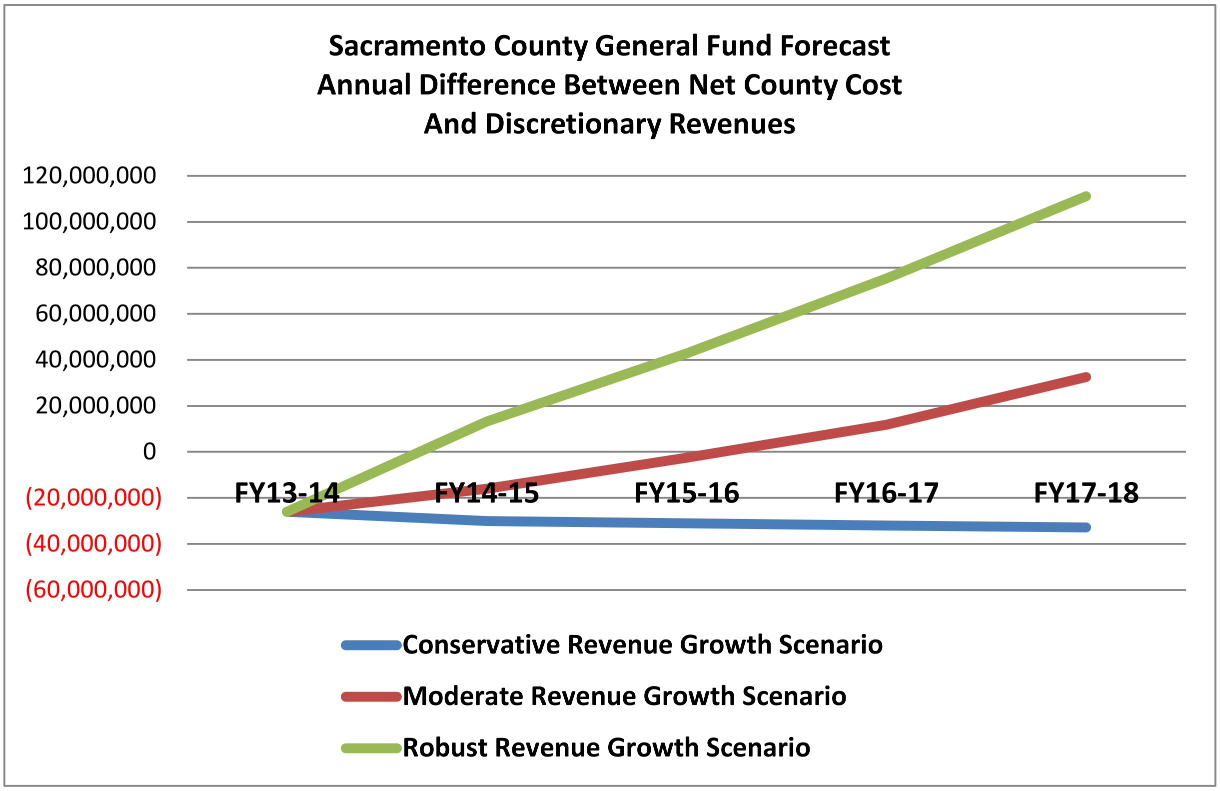
- The FY2013-14 Net County Cost estimate includes a level of expenditures that is approximately $20.8 million higher than budgeted to reflect likely additional costs in certain departments. Estimated Net County Cost for that year also includes an $8 million write-off of certain Realignment-related receivables that the County is not likely to receive;

- The FY2014-15 Net County Cost estimate, and all succeeding year Net County Cost estimates, are increased to reflect the elimination of approximately $15 million in one-time resources or actions used to balance the FY2013-14 Recommended Budget, a decrease of approximately $4.7 million in COPs funding that will occur in FY2014-15 and a $2.5 million anticipated increase in debt service costs;

- For all years and all scenarios, starting in FY2014-15, budgeted Net County Cost will grow by 2% a year (after any other adjustments), reflecting the impact of inflation or other cost increases (such as employee health insurance, pension costs, etc.); and,

- For FY2014-15, and all succeeding years, discretionary revenue estimates are reduced by approximately $5.6 million to reflect the elimination of one-time discretionary revenue used to balance the FY2013-14 Recommended Budget.

The results of the three Forecast Scenarios are shown in the following table:




As can be seen, depending on the assumptions used, the Forecast provides a fairly wide range of possible outcomes, with an annual difference between discretionary revenue and Net County Cost in FY2017-18 of between a negative $33 million and a positive $111 million. And, in fact, given all of the uncertainties involved in projecting five years into the future, it is likely that the General Fund's fiscal condition will be different from all three of the Scenarios. Notwithstanding this, we believe it is possible to draw a number of conclusions:

- First, it would not be prudent to assume that discretionary revenue will grow at an annual average of as much as 8% for the next five years. The last time discretionary revenue grew at that rate was in FY2006-07 and since then discretionary revenue (not including one-time revenue) has declined by an average of 3% a year. As indicated, we believe that the County has now turned a corner and we will see a 1.7% increase in discretionary revenue (not including one-time revenue) in FY2013-14. We also think that, assuming the economy does not take a major turn for the worse, the rate of growth in discretionary revenue will likely increase over the next five years – as the Assessor moves properties out of "decline-in-value" status (approximately 15% of the County's assessed value is currently in decline-in-value status). Thus, we think the Conservative Revenue Growth Scenario, may be overly pessimistic in terms of future discretionary revenue growth. On balance, we think that a reasonable assumption of discretionary revenue growth would be closer to the Moderate Revenue Growth Scenario which averages about 5% a year;

- Second, the assumed 2% annual growth in Net County Cost over the five year projection period may be somewhat optimistic. The County is facing potential future increases in employee retirement and healthcare costs, as well as pressure to increase salaries. In addition, there are a number of departmental revenue sources that are threatened (such as $11 million in SB 678 revenue received by the Probation Department) and reductions in departmental revenue (if not offset by expenditure reductions) results in a Net County Cost increase. And none of these projections assume the General Fund is paying back any of the $71 million in resources previously transferred from other funds; and,

- Given this, the Forecast indicates that General Fund will likely be facing a structural imbalance over the next two to three years.

**EMPLOYEE IMPACTS**

The Recommended Budget proposes minimal impacts to County employees for FY2013-14. While some employee layoff notices may be issued, it is anticipated that most permanent employees will be retained.

**SIGNIFICANT BUDGET ISSUES**

<u>AB 109 Realignment Revenue Allocation</u>

As indicated above, the Recommended Budget allocates a total of $36.5 million in AB 109 Realignment revenue to various departments – primarily the Sheriff, Probation and Correctional Health Services. This is a $6.9 million increase over the amount allocated in FY2012-13. The amount of AB 109 revenue recommended for allocation is based on aggressive projections about sales tax growth and other factors. The Recommended allocation of AB 109 revenue to Departments reflects my assessment of where the greatest need is in terms of community safety and service provision.

The $36.5 million in AB 109 Realignment revenue recommended for allocation in this Budget is also $8.4 million higher than the amount preliminarily recommended for allocation by the Community Corrections Partnership (CCP) and accepted by the Board on April 23, 2013. The CCP is planning to hold a hearing in July to identify and prioritize unmet needs and to make additional recommendations for use of AB 109 Realignment funds before Budget adoption hearings in September. Based on the CCP's recommendations, I may recommend allocation revisions in September.

<u>Sheriff's Department</u>

The Sheriff's Department is facing significant budget challenges in FY2013-14 from the impact of additional salary and pension costs, and the loss of one-time revenue and certain COPs grants totaling $38.8 million. To help address this impact, the Recommended Sheriff's Department Budget reflects $13.8 million increase in appropriations compared to the FY2012-13 Adopted Budget, a $1.4 million reduction in internal charges, a $14 million increase in Net County Cost and the allocation of an additional $7 million in Proposition 172 and AB 109 Realignment revenue. Despite these efforts, the Department is still facing the need to address a $15 million funding gap. The Sheriff has not indicated how he will deal with his remaining fiscal issues but is expected to do so during budget hearings.

As part of the effort to achieve savings and eliminate long-term vacant positions, the Recommended Budget for this department includes the elimination of 69.2 FTE positions that have been vacant for more than 6 months. This includes 35 sworn positions where the Sheriff has typically used salary savings from vacancies to hire temporary help employees to address staffing needs. Recognizing this, this Budget recommends using the savings achieved from eliminating the sworn positions - $4.5 million - to increase the Sheriff's extra help appropriations.

<u>Correctional Health Services</u>

Correctional Health Services is facing a $3.1 million increase in salary and benefit and other costs in FY2013-14. The Recommended Budget reflects a $662,000 increase in appropriations to help address these cost increases, with the hope that the Department will be able to reduce costs, in part by enrolling inmates receiving out-of-jail care in Medi-Cal.

The Sheriff's Department has indicated that, at the Recommended funding level for Correctional Health Services, it will be necessary to eliminate 23 positions – 13 vacant positions and 10 filled positions – which will make it more difficult to comply with mandated healthcare requirements for inmates. We anticipate budget solutions during Budget Hearings to avoid proposed layoffs.

As mentioned above, the Correctional Health Services budget also reflects the substitution of Net County Cost for approximately $10.9 million in 1991 Public Health Realignment, with the latter now being used to help fund the Health & Human Services and Medical Treatment Payments budgets.

District Attorney

The District Attorney is facing approximately $3.5 million in cost increases in FY2013-14. To help address these increases, the Recommended Budget reflects a $1.6 million increase in appropriations, funded in large part by additional Proposition 172 revenue. The District Attorney has indicated that, at this funding level, it will be difficult to deal with the increasing workload the Department is facing and will address this issue in more detail at budget hearings.

Conflict Criminal Defender

The recommended Conflict Criminal Defender's Budget reflects a $26,000 decrease in appropriations compared to the FY2012-13 Adopted Budget. However, the FY2012-13 Adopted Budget for this Department was underfunded and a mid-year budget adjustment was required. The Recommended funding level is approximately $1 million less than the level the Department estimates is necessary to meet caseload demand. I am recommending this funding level because the Public Defender has significantly reduced overload cases to the Conflict Criminal Defender.

Probation

The Recommended Budget for the Probation Department reflects a $9.3 million increase in appropriations compared to the FY2012-13 Adopted level which generally reflects higher salary and pension costs. The Recommended revenue increases include an additional $1.7 million in Proposition 172 revenue, $2.8 million in AB 109 Realignment revenue and $7 million in SB 678 revenue, with the latter reflecting both the FY2013-14 allocation included in the Governor's May Budget Revise and the carry-forward of approximately $3.2 million in prior year SB 678 money that the Department had not yet drawn down.

Although the additional resources provided to Probation will allow the Department to address most FY2013-14 cost increases, the Department could face significant fiscal difficulties in FY2014-15 and beyond if these resources are not available in future years.

Voter Registration/Elections

The Recommended Voter Registration/Elections Budget reflects a $1.1 million reduction in appropriations and a $315,000 increase in Net County Cost compared to the FY2012-13 Adopted Budget level, to offset a $1.4 million reduction in departmental revenue. The reduction in revenue is due to the fact that in FY2012-13 the general election involved many jurisdictions that were required to pay their share of election costs. This will not be the case for the primary election being held in FY2013-14.

At the recommended appropriation level, the Department will reduce the use of temporary help and print more materials on demand.

Department of Technology

The Recommended Budget for the Department of Technology reflects a $20.8 million increase in appropriations and revenue compared to the FY2012-13 Adopted Budget. This increase reflects continuing efforts to achieve efficiencies by consolidating information technology functions from different departments into the Department of Technology, including a proposal as part of this budget to consolidate positions from the Departments of Human Assistance, Health & Human Services, Child Support Services, Public Defender, Environmental Management, Voter Registration and Elections, Agricultural Commissioner and Airports.

Assessor

The Recommended Budget for the Assessor's Office reflects a $264,000 reduction in appropriations compared to the FY2012-13 Adopted Budget level and a $326,000 increase in Net County Cost to offset a $589,000 decrease in departmental revenue. The revenue reduction is due to the fact that in FY2012-13 the Department received one-time revenue as the result of agreement among various jurisdictions concerning the allocation of property tax administration fees.

The recommended appropriation level is approximately $525,000 lower than the Department estimates is needed to maintain current service levels and $3.9 million lower than the Department requested. At the recommended appropriation level, the Department will eliminate three vacant positions. The Department indicates that this will negatively impact its ability to process assessed value changes in a timely manner.

The Assessor also submitted a $3.4 million growth request to fund an additional 33.2 FTE positions. The Assessor indicated that these positions are needed to deal with the workload involved in addressing the backlog of assessment appeals, the restoration of Proposition 8 (properties in decline-in-value status) values and processing value changes due to construction. Due to resource limitations, I have not recommended funding this request, but have directed my staff to work with the Assessor on identifying ways – such as the use of technology - to increase the Department's efficiency.

Golf Fund

The Recommended Golf Fund Budget reflects a $25,000 increase in appropriations, a $20,000 increase in revenue and a $925,000 increase in fund balance to help offset a projected beginning negative fund balance. For a number of years now, this Fund has run an operating deficit and ended the year with a negative fund balance. The Golf Fund ended the 2011-12 fiscal year with a $930,000 negative balance and is on-track to end this fiscal year (FY2012-13) with a similar negative balance.

Although the Recommended Budget assumes that FY2013-14 revenue will make up most of that fund balance deficit, the Department's revenue projections have typically been over-optimistic and we expect that this may be the case in FY2013-14 as well.

Health & Human Services

The Recommended Health & Human Services Budget reflects a $2.5 million increase in appropriations, a $9.7 million increase in revenue and a $7 million reduction in Net County Cost. The recommended increase in appropriations is the net result of funding increases and decreases in a number of areas including:

- A $1.1 million increase in the CPS Budget to implement a quality assurance and continuous quality improvement program. Funding will come from $643,000 in 2011 Realignment revenue and other State and federal revenue;

- A $620,000 increase in funding for the Chest Clinic to provide enhanced Tuberculosis screening, diagnosis and treatment. Funding will come from $620,000 in Net County Cost;

- A $1.4 million increase in federal funding to implement the SNAP – Ed program, which involves a number of interventions to improve the nutritional status and prevent obesity among the County's low-income population;

- A $1 million increase in AB 109 Realignment funding to contract for community-based mental health and alcohol and drug treatment programs for offenders in the County's corrections system; and,

- A $2.1 million reduction in funding for the Day Care Licensing Program. The Department has been notified that the State intends to reduce funding for this program by 52% in FY2013-14, from $2.1 million to $1 million. The Department believes that a reduction of this magnitude would significantly hamper its ability to administer the program effectively, jeopardizing the safety of children in day care homes. Further, the Department believes that monitoring safety in homes licensed to provide day care is a function that can be better provided by the State Department of Social Services' Community Care Licensing (CCL) Division. CCL has an infrastructure that specifically focuses on the core mission of licensing homes and its responsibilities clearly encompass all aspects of licensure. For these reasons, the Department has requested and this Budget recommends that the administration of the Day Care Licensing program at the County level be terminated and responsibility returned to the State Department of Social Services. The County's Day Care Licensing program currently has 13.8 FTE positions. Upon termination of the program, Health & Human Services will re-locate incumbents in these positions to other programs.

<u>Bay Delta Conservation Plan (BDCP)</u>

Significant resources are embedded within several departmental budgets to address the regulatory, legal, and public information aspects of the County's opposition to the BDCP. It is anticipated that additional efforts and resources may be required as the plan progresses.

<u>Affordable Care Act – Public Health Realignment</u>

As you are aware, under Section 17000 of the Welfare and Institutions Code, counties in California are responsible for providing healthcare services to indigent adults (who are citizens and legal residents) and are not eligible for Medi-Cal. Sacramento County provides these services through our County Medically Indigent Services Program (CMISP), which includes clinic services in the Health & Human Services Budget and payments to treatment providers (like hospitals) in the Medical Treatment Payments budget. Funding for these services comes from Net County Cost and 1991 Public Health Realignment.

The State is currently scheduled to implement key provisions of the federal Affordable Care Act (ACA) starting on January 1, 2014. As part of that implementation, most adults in California who now rely on county indigent health care programs, as well as others who have no health insurance, would be eligible for Medi-Cal coverage or to purchase individual insurance through the State's Health Benefits Exchange. As proposed in the Governor's May Budget Revise, the State would assume responsibility for the full cost of providing Medi-Cal coverage for all eligible participants (though funding would initially come from the federal government) and counties would be responsible for enrolling participants in the programs as we do now for the existing Medi-Cal program.

With the implementation of the ACA, county costs and responsibilities for indigent healthcare, other than the eligibility determination responsibility, are expected to decrease over time, though the exact amount and timing of that decrease is unknown. The FY2013-14 Recommended Budget includes an increase in appropriations in the Department of Human Assistance Budget to cover the cost of additional eligibility workers needed to facilitate enrolling more people in Medi-Cal and the Health Benefits Exchange insurance programs (funded with federal revenue). The FY2013-14 Recommended Budget also reflects a $7 million reduction in the Medical Treatment Payments Budget (primarily Net County Cost), based on the assumption that the number of users of CMISP services will decline.

Based on the assumption that the ACA will reduce county costs of providing indigent healthcare, the Governor's May Revise proposes to reduce the amount of 1991 Public Health Realignment revenue provided to counties, and for the State to use that money to help fund an increased county share of financial responsibility for CalWORKS programs. As proposed by the Governor, Public Health Realignment funding to the counties would be reduced by 20% from current funding levels in FY2013-14, by 60% in FY2014-15 and by 87% in FY2015-16. The Governor is proposing that a mechanism be set up to determine what each counties' actual residual indigent healthcare costs are and then adjust the level of Public Health Realignment redirected by the State accordingly.

The County's Recommended Budget includes $41.2 million in Public Health Realignment and does not reflect any reduction based on the Governor's May Revise proposal. At this point it is not clear whether the Legislature will agree with the Governor's proposal or exactly how the Governor's proposal would work. It's also not clear what the County's actual indigent healthcare costs will be once the ACA is fully implemented.

## TRANSIENT OCCUPANCY TAX (TOT)

TOT revenues are estimated at $3.7 million in Fiscal Year 2013-14, an increase of approximately $0.3 million from Fiscal Year 2012-13. These funds are being recommended for General Fund allocation in the amount of $2.67 million and grants to community organizations of $1 million. Detailed sources and uses are included in Attachment "B".

## CAPITAL CONSTRUCTION FUND (CCF)

The Capital Construction Fund (CCF) provides for major construction projects as well as minor alterations, improvements, and major equipment replacement in County-owned facilities. In recent years, the CCF has also become a source of payment for various debt services obligations. The CCF Recommended Budget for Fiscal Year 2013-14 includes $34.2 million in sources available for projects. The uses include $20.4 million in capital project costs, $10.3 million in debt service costs, $1.8 million in vacant space costs, and, $1.7 million in other required costs financed by the Use Allowance. Attachment "C" provides a detailed listing of CCF funding obligations.

## OTHER FUNDS

Economic Development Fund

The Office of Economic Development and Marketing administers Sacramento County's economic development and job creation and retention programs, as well as the Mather Field and McClellan Park reuse programs, and the Business Environmental Resource Center (BERC) program. Net appropriations for the department are increasing approximately 5.6% from $44.5 million to $47.0 million due primarily to the timing of expenditures needed for grant-funded activities.

Airport Enterprise Fund

### Operating Budget

The Sacramento County Airport System operating budget for FY 2013/14 reflects a continued effort to keep rate increases to a minimum. The operating budget has decreased $1,160,342 compared to the final budget for FY 12/13.

### Expenses

Significant changes to the County Airport System's budgeted operating expenses for FY 2013/14 compared to the FY 2012/13 budget include:

- Salaries and benefits have decreased from $39,461,953 to $37,344,287, a decrease of $2,117,666. This decrease is attributable to the deletion of 23 FTE's (11 FTE's transferred to DTech);

- The budget for Services and Supplies has increased from $62,852,103 to $67,502,294, an increase of $4,650,191. The increase is partly attributable to an increase in Inventoriable Equipment of $975,000 to replace outdated HVAC units and Runway lighting. We also have an increase of $1.3 million in System Development Services reflecting the shifting of cost for the IT staff to Services and Supplies; and,

- The largest decrease in our budget is Depreciation Expense which was over estimated in FY 12-13 and is projected to decrease by $3,471,710.

**Revenue**

Significant changes to the County Airport System's revenue for FY 2013/14 include:

- Parking Revenue is expected to increase compared to the prior year's budget. The budgeted revenues are $49,253,343, representing an increase of $2,147,697 compared to the FY 12/13 budget of $47,105,646; and,

- Terminal Rental revenue from the airlines will be decreasing from $49,152,000 in FY 12/13 to $46,786,113 in FY 13/14, a decrease of approximately $2.3 million.

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## Budget-to-Budget Comparison

**SACRAMENTO COUNTY AIRPORT SYSTEM**

| | Final Budget FY 12/13 | Proposed Budget FY 13/14 | Budget to Budget Comparison |
|---|---|---|---|
| **Salaries/Benefits** | $ 39,461,953 | 37,344,287 | $ (2,117,666) |
| **Service and Supplies** | 62,852,103 | 67,502,294 | 4,650,191 |
| **Other Operating Expenses:** | | | |
| Depreciation | 52,185,764 | 48,714,054 | (3,471,710) |
| Amortization | 3,454,668 | 3,336,529 | (118,139) |
| Cost of Goods Sold | 750,000 | 850,000 | 100,000 |
| | 56,390,432 | 52,900,583 | (3,489,849) |
| **Total Operating Budget** | 158,704,488 | 157,747,164 | (957,324) |
| **Proposed Operating Revenues** | 168,016,450 | 160,176,619 | (7,839,831) |
| **Nonoperating Revenues (Expenses)** | | | |
| Interest Income | 481,000 | 1,406,014 | 925,014 |
| Interest Expense | (58,416,868) | (58,484,191) | (67,323) |
| Intergovernmental Revenue | 8,442,038 | 8,200,000 | (242,038) |
| Passenger Facility Charges Revenue | 18,542,000 | 18,054,000 | (488,000) |
| Total Nonoperating Revenues (Expenses) | (30,951,830) | (30,824,177) | 127,653 |
| **NET INCOME (LOSS)** | **$(21,639,868)** | **$(28,394,722)** | **$(6,754,854)** |

Environmental Management Fund

The Environmental Management Fund is established as a Special Revenue Fund, and the Department does not receive General Fund financing. The Department's proposed operating budget for Fiscal Year 2103-14 reflects a decrease of approximately $3,234,375 due to efficiencies and the deletion of several vacant positions, as well as transferring several Departmental IT staff to the Department of Technology. This reduction is also partially due to the fact that anticipated revenue from settlement actions appears to be significantly reduced in Fiscal Year 2012-13 and will result in a negative available beginning fund balance of approximately $213,000 for FY2013-14. The Recommended Budget proposes to use $776,000 in reserves to balance the FY2013-14 Recommended Budget. It is expected that services levels will remain constant between Fiscal Years 2012-13 and 2013-14.

Solid Waste Enterprise Fund

The Solid Waste Enterprise operating budget for Fiscal Year 2013-14 totals $75,484,701. This represents a $1,728,402 decrease from Fiscal Year 2012-13 that resulted in a Provision for Reserve for last year which was $3,069,429 greater than projected for this year. The Capital Outlay budget for Fiscal Year 2013-14 totals $8,138,346. This represents an increase of $4,378,676 when compared to Fiscal Year 2012-13. This increase is primarily due to increases in expenditures for structures and equipment.

County Library Fund

This Budget Unit provides funding for capital maintenance and related costs at Sacramento County owned Sacramento Public Library Authority (SPLA) branches. The SPLA provides all public library services in Sacramento County, except the City of Folsom. The County and City of Sacramento established the SPLA as a Joint Powers Authority (JPA) in 1993. The governing board is currently a fifteen member body consisting of five members of the County Board of Supervisors, five members of the Sacramento City Council, two members from Elk Grove, one member each representing the cities of Citrus Heights and Rancho Cordova, with the remaining member shared by the cities of Galt and Isleton. SPLA funding is provided primarily by a dedicated property tax source and other revenue sources received directly by the SPLA.

This County Library Budget provides funding for capital maintenance, capital repairs, preventative maintenance, property insurance and related costs at the nine SPLA branches owned by the County of Sacramento.

The requested appropriations for Fiscal Year 2013-14 have increased 3%, from $1,080,000 to $1,110,000. Appropriations in this Budget Unit are primarily funded through an annual allocation of funds from the SPLA to the County for capital maintenance and related costs at Sacramento County owned SPLA branches.

First 5 Sacramento Commission Fund

The First 5 Sacramento Commission receives funding from the State of California under the terms of the voter-approved statewide Proposition 10 Initiative. The funding is restricted to prevention and early intervention services aimed at school readiness for children ages zero to five and their families. The Commission funds programs under long-term contracts based on Strategic and Implementation Plans which are aligned with revenue projections under a Ten Year Financial Plan. The Fiscal Year 2013-14 Recommended Budget is $26.8 million, a decrease of approximately $1 million from the Fiscal Year 2012-13 Adopted Budget.

<u>Sacramento Regional Radio Communications System</u>

The Sacramento Regional Radio Communications System (SRRCS) operates and maintains two-way mobile communications for 94 Member Participants with 12,791 active radios. The majority of the communication activities on SRRCS involve emergency response and other public safety activities. Charges to subscribers are determined by each subscriber's direct number of units in operation on the system. The Fiscal Year 2013-14 Recommended Budget includes revenues of $5.5 million which includes $.2 million from reserves, and appropriations of $5.5 million. This reflects a $100,000 (2%) increase in appropriations from Fiscal Year 2012-2013.

**RECOMMENDATIONS**

1. Adopt the attached Recommended Budget Resolution (Attachment "D"), as amended by the Board, and including miscellaneous adjustments recommended by the County Executive Officer, resulting in an approved FY2013-14 Budget, and setting the commencement of the Adopted Budget Hearings for September 11, 2013. The Approved Budget will serve as a spending authorization for the 2013-14 fiscal year until final budget adoption in September.

2. Direct the Department of Personnel Services to prepare an administrative Salary Resolution Amendment (SRA), and issue layoff notices if necessary, to reflect the positions approved by the Board in the FY2013-14 Recommended Budget, including deletion of certain positions to reduce program expenditures. A finalized position reduction list will be brought back to the Board.

3. Authorize the Director of the Department of Personnel Services to administratively extend positions otherwise slated for deletion in those cases where resources have been identified. These extensions will be brought back to the Board at the earliest available Board date.

4. Direct the County Executive to further evaluate vacant funded positions, year-end fund balance, and other budget savings and financing opportunities, and make final budget recommendations in September to address unfunded Board priorities as identified in the Recommended Budget hearings.

5. Approve the attached agenda item (Attachment "E") authorizing the consolidation of information technology positions from the Human Assistance, Health & Human Services, Child Support Services, Public Defender, Environmental Management, Voter Registration and Elections, Agricultural Commissioner and Airports into the Department of Technology.

6. Authorize relief of accountability for $3,217,883 in uncollectable accounts receivable.

7. Approve staff report approving the FY 2013-14 Mental Health Services Act Annual update (Attachment “F”)

Respectfully submitted,

Bradley J. Hudson
County Executive

Attachments:
Attachment A – FY 2012-13 Significant Accomplishments
Attachment B – Transient Occupancy Tax Allocations
Attachment C – Capital Construction fund: Supplemental Information
Attachment D – Budget Approval Resolution
Attachment E – Information Technology Consolidation Staff Report
Attachment F – Mental Health Services Act Staff Report