

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
January 30, 2007
3:30 P.M.

To: Board of Supervisors

From: County Executive's Office

Subject: 2006-07 Midyear Budget Report; Approve Preliminary General Fund Outlook For Fiscal Year 2007-08; Approve Preliminary Resource Allocations And Budget Process Schedule; Direct The County's Elected Officials And Department Heads To Prepare Their Budgets For Fiscal Year 2007-08 Consistent With The County Executive's Preliminary Budget Allocation Plan; Approval Of Report And Appropriation Adjustment Request (AAR) No. 27-048 Transferring General Fund Non-Departmental Costs/General Fund (Budget Unit 5770000) To The Various Departments For Equity Adjustments Provided For In Recently Negotiated Labor Agreements; Approval of Report And AAR No. 27-039 Transferring General Fund Contingencies To Fund Increased Rates For Indigent Defense Panel Attorneys And Investigators; Approval of Report And AAR No. 27-040 Transferring General Fund Contingencies To Fund Rancho Murieta Recreation Area Mitigation; Approval of Report And AAR No. 27-041 Transferring General Fund Contingencies To Implement The Sheriff's Inspector General; Approval of Report And AAR No. 27-047 Transferring General Fund Contingencies To The Sheriff's For Overtime Costs Associated With The Investigation Of Deputy's Slaying, And AAR No. 27-046 Transferring General Fund Contingencies To The Sheriff's For Costs For Replacement Of Helicopter Repair Funds Exceeding Insurance Coverage; Approval of Report And AAR No. 27-045 Transferring General Fund Contingencies To Labor Relations To Offset Higher Than Expected Expenses For Contract Labor Consultants; Approval of Report And AAR No. 27-044 Transferring General Fund Contingencies To The Planning Department To Fund The Housing Element Of The General Plan; Approval of Report Requesting A Comprehensive Review Of The Department Of Planning And Community Development And The Department Of Environmental Review And Assessment Processes; Approval of Report Requesting A Comprehensive Review Of The Voter Registration And Elections Processes; Approval To Add 1.0 Senior Deputy Probation Officer Limited-Term Position For The Mental Health Court Pilot Program (SRA No. 2007-119B); Approval of New Policies Regarding Decreased Reliance On Average Annual Savings Factor/Vacancies And Recruitment Allowance Positions To Balance Budget; And Approval of The Creation Of A New General Fund, Fund Center For "Civic, Arts And Cultural Programs"

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

RECOMMENDATIONS:

1. Receive and file this report.
2. Approve the Fiscal Year 2007-08 Budget Process and Schedule (Attachment I).

3. Receive and file the County Executive's preliminary budget allocation plan for Fiscal Year 2007-08 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 2007-08 consistent with the County Executive's preliminary budget allocation plan.
5. Approve the attached report and AAR No. 27-048 transferring \$8,933,282 from General Fund Non-Departmental Costs (Budget Unit 5770000) to the various departments to provide adequate appropriation authority for equity adjustments provided for in recently negotiated labor agreements for the balance of Fiscal Year 2006-07 (Attachment III).
6. Approve the attached report and AAR No. 27-039 transferring \$1,546,410 from General Fund Contingencies to increase Conflict Criminal Defenders Rates For Indigent Defense Panel Attorneys and Investigators (Attachment IV).
7. Approve the attached report and AAR No. 27-040 transferring \$619,132 in General Fund Contingencies to Fund Rancho Murieta Recreation Area Mitigation (Attachment V).
8. Approve the attached report and AAR No. 27-041 transferring \$153,919 from General Fund Contingencies to Implement the Sheriff's Inspector General (Attachment VI).
9. Approve the attached report and AAR No. 27-047 transferring \$708,615 in General Fund Contingencies to the Sheriff's Department for overtime costs associated with the investigation of deputy's slaying, and AAR No. 27-046 transferring \$128,700 in General Fund Contingencies to the Sheriff's Department for costs for replacement of helicopter repair funds that exceeded insurance coverage (Attachment VII).
10. Approve the attached report and AAR No. 27-045 transferring \$90,249 in General Fund Contingencies to Labor Relations to offset higher than expected expenses for contract labor consultants (Attachment VIII).
11. Approve the attached report and AAR No. 27-044 transferring \$100,000 in General Fund Contingencies to the Department of Planning and Community Development to fund the Housing Element of the General Plan (Attachment IX).
12. Approve the attached report requesting a comprehensive review of the Department of Planning and Community Development and the Department of Environmental Review and Assessment processes (Attachment X).
13. Approve the attached report requesting a comprehensive review of the Voter Registration and Elections processes (Attachment XI).

14. Approve the attached report requesting to add 1.0 Senior Deputy Probation Officer Limited-Term position for the Mental Health Court Pilot Program (SRA No. 2007-119B) (Attachment XII).
15. Approve new policies regarding decreased reliance on Average Annual Savings factor/vacancies and Recruitment Allowance Positions to balance budget.
16. Approve the creation of a new General Fund, Fund Center for “Civic, Arts and Cultural Programs” instead of having a completely separate Transit-Occupancy Tax Fund as has historically been practiced.

BACKGROUND:

On September 14, 2006, the Board of Supervisors adopted the county’s Final Budget for Fiscal Year 2006-07. 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 for the Fiscal Year 2007-08 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 2007-08 budget.

SUMMARY OF THE FISCAL YEAR 2006-07 GENERAL FUND ADOPTED BUDGET

At the time of the adoption of the Fiscal Year 2005-06 budget, it was projected that the Fiscal Year 2006-07 budget process would be somewhat less difficult than the previous four years. This projection assumed no further State Budget impacts on the General Fund, and modestly robust growth in revenues during the 2005 to 2007 period.

During the Midyear Budget Report presentation for Fiscal Year 2005-06, the initial forecast for the General Fund projected a small shortfall (less than \$6.0 million) in the Base (no growth) budget for Fiscal Year 2006-07. This gap was primarily due to the expiration of one-time funding sources/budget savings. This funding gap was anticipated to be filled by a partial reserve release from the \$26.9 million reserve established in Fiscal Year 2005-06 to offset the incremental increase in the Pension Obligation Bonds (POB) debt service. The Board also approved the County Executive’s recommended budget schedule that deferred additional funding requests for Fiscal Year 2006-07 until the Final Budget Hearings in September 2006. It was anticipated that growth in General Fund programs/services in Fiscal Year 2006-07 would be held to a minimum to help mitigate the anticipated budget difficulties in Fiscal Year 2007-08 and beyond, in part, from committed increased bonded debt service.

In March 2006, General Fund departments submitted their Fiscal Year 2006-07 budget requests pursuant to a preliminary allocation plan prepared by the County Executive’s Office and considered by the Board at the Midyear Budget Report. The basis for this preliminary allocation plan was the anticipated available general purpose financing for the coming fiscal year, and the

Fiscal Year 2005-06 Adopted Final Budget for each department as adjusted by certain unavoidable cost increases. However, unlike in past years when the Office of Budget and Debt Management (OBDM) 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. That year departments were asked to calculate their allocation increases based on a specific formula in order to fully account for other revenue offsets in their base allocation. The anticipation of the new allocation process was to minimize the county's share of costs for such program increases and for departments to reexamine their need for additional General Fund allocations.

When the departmental (Base) proposed budget requests were reviewed and analyzed there were both additional revenues and certain lower costs than had been projected in the midyear budget forecast. The result was that (Base) or no-growth budget resulted in a balanced proposed spending plan rather than a shortfall of \$6.0 million that was projected at midyear.

The Board adopted the Fiscal Year 2006-07 Proposed Budget on Thursday, May 10, 2006. The adoption of the Proposed Budget represented a "status-quo" spending plan for the county's General Fund. As a result, primarily due to a robust real estate economy in Sacramento County during the past three years, the county's general purpose financing permitted a base level of expenditures to maintain existing programs. Therefore, it was not necessary to reduce programs/services in order to balance the General Fund budget.

For the first time in six years, the State passed its budget before the start of the fiscal year. The State Legislature passed the 2006-07 Budget Bill on June 27, 2006, and the Governor signed the budget on June 30, 2006. In recent history, passage of the state's spending plan routinely meant cuts for local governments. However, the impacts of the State Budget on the County are generally positive for the Fiscal Year 2006-07:

- Transportation Funding - The State Budget included about \$1.4 billion to partially repay Proposition 42 funds that were suspended in Fiscal Years 2003-04 and 2004-05. This will result in a payment to the County during Fiscal Year 2006-07 of approximately \$8.4 million for roadway maintenance. These funds will be used by the Department of Transportation for pavement maintenance and rehabilitation. While this funding was not previously expected to be available, the Department of Transportation does not consider it to be "additional" revenue for road maintenance. It is actually a partial payback of funds that the County should have received in Fiscal Years 2003-04 and 2004-05. During those years, the County lost more than \$10.0 million due to the suspension of Proposition 42 revenues.
- California's Work Opportunity and Responsibilities to Kids (CalWORKs) – Starting in October 2006, California must substantially increase the number of CalWORKs participants meeting federal work requirements or face substantial penalties. The State Budget provides funding for counties to implement strategies to increase the number of CalWORKs participants meeting federal work requirements.
- Cost of Doing Business – The State Legislature rejected the Governor's proposal to statutorily freeze county funding to operate health and human services programs. Instead, the State Budget includes trailer bill language to reestablish a methodology to survey actual costs and require future budget documents to document the degree to which those costs are reflected in the budget.

- Foster Care – The State Budget increased funding to enhance child relationships for children ten years and older. There was also additional funding to hire additional adoptions caseworkers to increase finalized adoptions at the local level.
- The State Budget increased the Daily Jail Rate for Fiscal Year 2006-07 from \$68.22 to \$71.57 for state inmates housed in Sacramento County facilities. It is anticipated that this increase will net approximately \$815,000 to the Sheriff's Department.

After all adjustments were made for year-end fund balance, the net amount of financing improvements between the Fiscal Year 2006-07 Adopted Proposed Budget and the County Executive's Recommended Fiscal Year 2006-07 Final Budget was \$13.623 million (after departmental expenditure offsets and/or revenue shifts). These funds were unallocated and available to finance growth requests submitted by the departments for the General Fund as part of the Fiscal Year 2006-07 Final Budget process.

OBDM also recommended that the additional carryover for most General Fund departments (\$11,872,241) between Proposed and Final Budget be added to General Fund Reserves as a financing source for Fiscal Year 2007-08. This conforms to budget policy of the previous three fiscal years. The funds would be specifically earmarked for the departments who earned the additional carryover. The exception to this recommendation was for the Voter Registration and Elections Department, unused grant funds (\$1,079,136) that must be spent on voter equipment modernization, and the Department of Planning and Community Development which had unused General Fund allocation (\$300,000) targeted specifically for Adult Business Use zoning issues. In both cases, departments were allowed to rebudget carryover amounts for Fiscal Year 2006-07.

Final Budget Hearings were held in September 2006. As part of these hearings the Board also approved the receipt of additional state revenues which were allocated after the county's final budget hearing document was published. This additional funding allowed the Board to augment the County Executive's recommendations and allocate more funding to the following critical areas:

- District Attorney's support staff for prosecution units.
- Sheriff's staffing for Problem Oriented Policing and Crime Scene Investigations, new In-Car Cameras for the Unincorporated Area Patrol; and initial financing for information technology improvements as recommended in the Sheriff Department Audits.
- Additional nursing staff for Correctional Health Services.
- Court mandated jury parking.
- Additional Probation positions to supervise adult offenders.
- Mental Health Court.
- Human Assistance augmentation for information and referral services to reduce calls to the 9-1-1 and 3-1-1 systems.
- Staffing for Neighborhood Services Department for the South Sacramento/Vineyard Community Area Community Service Center.
- Authorized one-time funding from the Sacramento Area Flood Control Agency (SAFCA) for Regional Parks functions.

Identification of One-Time Measures in Fiscal Year 2006-07 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. While helping to balance the

budget each year, the use of these one-time measures has helped to perpetuate the General Fund's budget problems. For that reason, while fund balance was used to fund some ongoing program commitments in Fiscal Year 2006-07, the budget otherwise was strategically structured to reduce the reliance on one-time fund balance as a mechanism to balance the budget in the future. After the Fiscal Year 2005-06 financial books closed, the unaudited year-end results indicated that actual Non-Departmental General Fund balance was \$106.2 million and the departmental carryover was \$34.5 million, for an overall increase of \$60.03 million over the year-end estimate included in the 2006-07 Adopted Proposed Budget. Of this amount, \$13.6 million was carryover improvements in departmental operations. The remainder (\$46.44 million) was one-time net improvements in general purpose financing. The majority of the one-time general purpose financing was used to establish a reserve guarantee for SAFCA (\$5.0 million) increase reserves for POB (\$19.116 million) and to increase Cash Flow Reserves (\$17.422 million).

Historically, there are various adjustments in the net cost of the General Fund after the adoption of the Proposed Budget. These adjustments are generally the result of departmental changes associated with fully-funded program augmentations or grants, unavoidable cost increases in existing base programs, changes in state allocations and/or carryover. After these adjustments were made, the net amount of financing improvements between the Fiscal Year 2006-07 Adopted Proposed Budget and the County Executive's Recommended Fiscal Year 2006-07 Final Budget was \$13.623 million (after departmental expenditure offsets and/or revenue shifts). These funds were unallocated and available to finance growth requests submitted by the departments for the General Fund as part of the Fiscal Year 2006-07 Final Budget process. Again, as part of the allocation process, these funds were strategically used in an effort to reduce dependence on fund balance in the future. Of the \$13.623 million allocated, \$7.7 million was allocated for truly one-time expenditures, thus lessening the dependence on fund balance as a funding source in the future.

DISCUSSION:

2006-07 MIDYEAR ANALYSIS AND NEW BUDGET ISSUES IDENTIFIED FOR FISCAL YEAR 2007-08

At this juncture, we have identified several midyear budget and new budget year (Fiscal Year 2007-08) 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

- **Approval of report and AAR No. 27-048 transferring \$8,933,282 in General Fund Non-Departmental Costs (Budget Unit 5770000) to the various departments to provide adequate appropriation authority for equity adjustments provided for in recently negotiated labor agreements for the balance of Fiscal Year 2006-07**

In June 2006, labor agreements with all bargaining units representing county employees expired. Over the past six months, new agreements have been negotiated with most bargaining units and equity/salary adjustments approved for non-represented employees. The cost impact of the resultant agreements in specific departments was not known when the budget was developed for Fiscal Year 2006-07; therefore, an amount was budgeted centrally in the General Fund, to be

distributed once agreements were in place. Departments relying on the General Fund for funding have been surveyed for the impact of the agreements on their spending allocations. For those departments where insufficient spending authority is anticipated, the attached AAR No. 27-048 will transfer in net \$8,933,282 from General Fund Non-Departmental Costs (Budget Unit 5770000) to various departments to provide additional spending authority). This request addresses 85.0 percent of the anticipated need. A follow-up AAR will be brought to the Board for approval in late April or early May if an actual need for additional allocation is identified. Enterprise Fund and Internal Services Fund departments are expected to be able to absorb much/all of the additional salary costs through offsetting salary savings and/or the use of retained earnings from prior years. As such, appropriation adjustment requests will be brought forward for those departments on an as-needed basis throughout the remainder of the year. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment III).

- **Approval of report and AAR No. 27-039 transferring \$1,546,410 from General Fund Contingencies to increase Conflict Criminal Defenders Rates For Indigent Defense Panel Attorneys and Investigators**

On November 7, 2006, Conflict Criminal Defenders brought before the Board a request to increase the rates paid to Indigent Defense Panel Attorneys and Investigators who provide county mandated defense to those with insufficient means to retain counsel for cases in which the Public Defender cannot provide representation due to workload or a conflict of interest. The rate increase was approved effective November 1, 2006, and has resulted in an increase in the number of qualified investigators and attorneys available to provide mandated representation. The department was required to report back at this time with the projected fiscal impact for Fiscal Year 2006-07. In November, the projected rate increase impact was \$1,736,562; however, due to various cost savings within the department the impact is now projected to be \$1,546,410, a decrease of \$190,152. Therefore, the department is requesting approval of AAR No. 27-039 from General Fund Contingencies in the amount of \$1,546,410 to fund the projected budget deficit. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment IV).

- **Approval of report and AAR No. 27-040 transferring \$619,132 in General Fund Contingencies to Fund Rancho Murieta Recreation Area Mitigation**

For several years, the County of Sacramento, Rancho Murieta Airport, and Cal Trans have been involved in a court dispute regarding the removal of 177 mature trees adjacent to the Rancho Murieta Airport and the Cosumnes River, at a park site known as the Rancho Murieta Recreation Area. The California Court of Appeal, 3rd Appellate, recently upheld the trial court's ruling that the County is obligated to trim or remove trees which are in the Federal Aviation Administration "clear zone," based on Public Utilities Code (PUC) section 21659. This PUC provides that no person shall allow natural growth into an airport's clear zone.

As a result the Department of Regional Parks is requesting the approval of AAR No. 27-040 in the amount of \$619,132 from General Fund Contingencies to Parks Construction Fund 006A for tree removal and mitigation costs for the Rancho Murieta Recreation Area Tree Project. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment V).

- **Approve of report and AAR No. 27-047 transferring \$153,919 from General Fund Contingencies to Implement the Sheriff's Inspector General**

In 2005, the Board approved the selection of Joseph Brann and Associates and the Public Strategies Group, Inc. to perform a comprehensive assessment of the Sheriff's Department, including analysis of the core functions/services of the Sheriff's Department, an examination of comparable agencies and promising practices, as well as recommendations that will lead to greater effectiveness and efficiency within the Sheriff's Department.

In November 2005, the Board heard public testimony requesting outside oversight of the Sheriff's Department, specifically jail operations. On the same date, Sheriff Blanas advised the Board that he was supportive of an "Inspector General" that would report jointly to the Sheriff and Board of Supervisors, and interface with the County Executive. However, he believed such an activity was subject to negotiations with the Sacramento County Deputy Sheriffs' Association (SCDSA) and the Law Enforcement Management Association (LEMA).

Negotiations between Labor Relations and the SCDSA and LEMA were successfully completed and memoranda of understanding were approved by the Board on December 5, 2006 and December 12, 2006, respectively. Sheriff McGinness now requests the Board's approval to proceed with implementation of an Inspector General program. The annualized cost for this program will be approximately \$308,000. It is anticipated that the cost for the remaining portion of Fiscal Year 2006-07 will be \$153,919. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment VI).

- **Approval of report and AAR No. 27-047 transferring \$708,615 in General Fund Contingencies to the Sheriff's Department for overtime costs associated with the investigation of deputy's slaying, and AAR No. 27-046 transferring \$128,700 in General Fund Contingencies to the Sheriff's Department for replacement of helicopter repair funds that exceeded insurance coverage**

The Sheriff's Department requests an approval of an AAR of \$708,615 from General Fund Contingencies to reimburse the department for the following extraordinary, one-time costs.

Homicide Investigation: On October 27, 2006, Deputy Jeffrey Mitchell was tragically shot and killed in the line of duty. In the wake of this tragedy, the Sheriff's Department launched a massive manhunt to bring the killer to justice. To date, Sheriff's Department personnel have worked over 5,250 regular hours and over 8,775 overtime hours to solve this case. The total cost of this effort is \$1,094,667--\$514,752 regular salaries and benefits, \$543,777 in overtime costs, and \$36,138 in material costs.

Fixed Asset Financing Costs for Helicopter Replacement: With the Board's approval, the Sheriff has replaced the helicopter which was lost in 2005. However, the Fiscal Year 2006-07 fixed asset financing costs were neither known nor able to be included as a part of the final budget. Therefore, in order to accommodate the financing and complete the helicopter replacement, \$128,700 in appropriations earmarked for ongoing helicopter maintenance was transferred to fixed asset financing. This action was taken to ensure that the helicopter replacement occurred smoothly; it was never intended that the fixed asset financing charges would be borne by the Sheriff's operating budget. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment VII).

- **Approval of report and AAR No. 27-045 transferring \$90,249 in General Fund Contingencies to Labor Relations to offset higher than expected expenses for contract labor consultants**

On July 1, 2006, 20 labor agreements covering the terms and conditions of employment for all represented County employees expired. When negotiations commenced, the Office of Labor Relations had hired two new staff members to fill vacancies of seasoned negotiators. Due to the large number of contracts to be negotiated and the two new staff members, Labor Relations contracted for the services of an independent labor negotiator to assist in the negotiation process. While, successor labor agreements covering most represented employees are now in place, negotiations still continue for two units. The services of the independent contractor are still needed to provide the continuity necessary to bring these negotiations to a conclusion. It is estimated that the total cost for consultant's services through the end of the fiscal year will be \$90,249, including costs-to-date. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment VIII).

- **Approval of report and AAR No. 27-044 transferring \$100,000 General Fund Contingencies to the Department of Planning and Community Development to fund the Housing Element of the General Plan**

The County is presently engaged in a mandated update of the Housing Element of the General Plan. The Planning Department is requesting a one-time increase of \$100,000 to its Fiscal Year 2006-07 budget to cover the cost of obtaining a contractor to assist in this endeavor. The department will release a Request for Proposal (RFP) and recommend a contractor before the end of the fiscal year. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment IX).

Note: The General Fund contingency appropriation was approved at a total of \$4.3 million in the Fiscal Year 2006-07 Adopted Final Budget. With the approval of the recommendations to transfer funds from contingencies to specific departmental appropriations as listed above, the remaining contingency amount will be reduced to \$1,078,287.

Fiscal Year 2006-07 Adopted Contingencies	4,296,612
Less:	
Conflict Criminal Defenders Rate Increase	(1,546,410)
Rancho Murieta Recreational Area Mitigation	(619,132)
Sheriff's Inspector General Implementation	(153,919)
Sheriff's Overtime and Helicopter Repair	(708,615)
Increased Labor Relation Costs	(90,249)
Housing Element of the General Plan	(100,000)
Remaining Contingency Amount	1,078,287*

* AAR No. 27-022 for \$269,500 is pending Board approval of the Natomas Joint Vision Project.

- **Approval of report requesting a comprehensive review the Department of Planning and Community Development and the Department of Environmental Review and Assessment processes**

As part of our multiyear effort to conduct performance reviews of departments within County government, the Municipal Services Agency will be issuing an RFP to obtain a consultant or consultants to perform a comprehensive review of the county's planning and environmental review process. The purpose of this review is to identify best practices and benchmarks to improve the efficiency of the delivery of these services. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment X).

- **Approval of report requesting a comprehensive review of the Voter Registration and Elections processes**

Also as part of our multiyear performance review effort, the Countywide Services Agency will be issuing an RFP to obtain a consultant or consultants to perform a comprehensive review of the County's voter registration and elections processes. The purpose of this review is to identify best practices and benchmarks to improve the efficiency of the delivery of these services. The County Executive's Office recommends approval of the recommendations in the attached report (see Attachment XI).

- **Approval of report requesting to add 1.0 Senior Deputy Probation Officer Limited-Term position for the Mental Health Court Pilot Program (SRA No. 2007-119B)**

Adding 1.0 Senior Deputy Probation Officer position to the Probation Department for the Mental Health Court Pilot Program. Funding for the position was approved during Final Budget Hearings for Fiscal Year 2006-07 pending additional information from Courts regarding the pilot program. Mental Health Court conducted a workshop in January 23, 2007 to address the Boards concerns. At the end of the workshop, the Board expressed the desire to proceed with the pilot program (see Attachment XII).

- **Transient-Occupancy Tax Fund (TOT)**

At the 2006-07 TOT Final Budget Hearings, the Board allocated all but \$609,532 of the available funds. Since the Final Budget Hearings, staff has received [two](#) inquiries regarding the availability of these funds. Staff is recommending that the Board leave the remaining amount unspent which will roll into fund balance next year or be available, at the discretion of the Board, if a critical need arises between now and the end of the fiscal year.

New Budget Year Issues

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

TANF Incentive Funds currently fund \$1.2 million of Department of Human Assistance programs, largely Community Services homeless programs. To preserve the programs currently funded through TANF, either alternative funding sources will be required in the amount of \$1.2 million for Fiscal Year 2007-08 and thereafter, or the Board will be required to reduce or terminate these discretionary programs.

- **Approval To Fold the TOT Fund Into General Fund**

For many years the TOT collections have been separated from the rest of the General Fund and placed into a separate TOT Fund. The Board has generally maintained a policy of utilizing TOT revenues to fund a variety of civic, arts and cultural grants primarily to nonprofit entities. Although this policy has been long-standing, in many years during the past decade, the Board has found it necessary to alternatively utilize large amounts of TOT revenues to balance the General Fund budget and avoid program/service reductions that would otherwise be necessary. Although the TOT revenue has been budgeted in the separate TOT Fund discreetly from other General Fund revenues, the county's financial statements have been prepared consolidating these revenues with other General Fund revenues, since, as a matter of law, the TOT revenues are General Fund revenues. The General Fund budget forecast for Fiscal Year 2007-08 anticipates that the use of approximately \$2.5 million in TOT revenues to balance the General Fund will be necessary, and continue/increase in future years.

Therefore, to simplify the budgeting structure and bring the reporting of TOT revenue to be consistent with the county's financial statements, staff is recommending that the TOT allocation be moved into the General Fund and in conjunction with the creation of a new General Fund Center for "Civic, Arts and Cultural Programs". This recommendation will allow the Board to continue to allocate TOT revenues to civic, arts, and cultural programs to the extent desired, but otherwise consolidate the TOT revenues in the General Fund and recognize their nature as a revenue source that legally has no restrictions on use.

ADOPT POLICIES TO REDUCE RELIANCE ON AVERAGE ANNUAL SAVINGS/VACANCIES TO BALANCE BUDGET

During the past two years, as the County has embarked on redefining our Personnel Process and Procedures, it has come to light that many departments have held positions vacant to meet their Average Annual Savings requirement. Although the number of vacancies overall far exceeds the number that apparently are being held vacant for this purpose, the county's adopted budget, from truth in disclosure perspective, overstates the number of positions that will likely be filled and the budgetary requirements for them. While this was an effective budgetary tool to balance the General Fund during past years of budget difficulty, requiring a savings factor from various General Fund Departments was never meant to restrict their ability to fill authorized positions. Therefore, the Administrative Services Coordinating Team has reviewed this issue and has recommended to the County Executive the following options for departments to reduce their dependence on vacant positions to meet their Average Annual Savings requirement. Effective with the Fiscal Year 2007-08 Proposed Budget, we are recommending that departments may follow either of the following options in order to eliminate their Average Annual Savings requirement:

Option 1:

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

Option 2:

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

In addition to the problem with certain General Fund vacancies being held intentionally vacant to meet budgetary requirements, the County continues to experience a long-term problem with filling a large number of vacant positions, some of which have been vacant for up to two years, or more. The county's overall vacancy rate (all departments/funds) is now 11.2 percent (1,604.4 positions, as of December 31, 2006), and is due to a combination of factors, including high levels of retirements from "baby boomer" employees, a smaller supply of trained/educated workers in the "baby bust" generation that followed the baby boomers, use of vacant position funding to finance other departmental needs, and several others. We have arrived at the conclusion that the number of authorized positions is somewhat greater than is likely to actually be filled anytime in the near future. Although these vacant positions have no financial impact, in effect, on the "net" budgetary requirement (since the anticipated fund balance resulting from the vacancies is also built into our budgets), nonetheless, the gross budgetary requirement and position equivalent published in our budgets is inaccurate and misleading from a public disclosure perspective. As such, we are also recommending that the Board conceptually approve the adoption of the following policy regarding long-term vacancies. OBDM will report back to the Board at a date in the near future with the implementation mechanics of this policy:

If a position has been vacant for more than one year and/or there are no plans to immediately fill that position, allow those positions to be changed to "unfunded recruitment allowance" positions.

1. This would allow departments that have great swings in revenue sources to "fund" a position at a future date when permanent ongoing revenue is secured without large cumbersome approval process of position itself.
2. This is of particular importance to the Non-General Fund departments.
3. This option provides more flexibility than deleting the position (which may create unnecessary delays in beginning or expanding a program). This is not to say that the position cannot be filled (assuming a source of revenue has been identified and approved through proper channels).
4. While providing flexibility for sudden program expansion, it is envisioned that recruitment allowance positions will not be included against the departmental staffing count that the Department of Personnel Services produces (which provides a more realistic assessment of the departmental vacancy rate).

POTENTIAL STATE BUDGET IMPACTS

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.

STATE BUDGET PROPOSALS BY GOVERNOR FOR FISCAL YEAR 2007-08

On January 10, 2007, the Governor proposed his 2007-08 Fiscal Year Budget for the State of California with the key component being the elimination of the State's ongoing structural operating deficit. The Governor's 2007-08 plan proposed to limit growth in General Fund spending to 1.0 percent, the lowest growth in five years. It also proposed to establish a reserve which in part will be used to prepay the remaining portion of the Economic Recovery Bonds (ERB's), making the ERB's essentially repaid in full by August of 2009 or 14 years ahead of

schedule. The Governor also proposed the second phase of his Strategic Growth Plan, focusing on the critical infrastructure needs the 2006 infrastructure bond plan left unaddressed.

Specifically related to the counties, the Governor's 2007-08 spending plan contains a number of changes and a bold reform proposal that seeks to address overcrowding and recidivism in both the state and local correctional systems. The key provisions of the reforms/changes are:

- **Local Adult and Juvenile Detention Facilities:** \$5.5 billion to expand detention facility capacity statewide. This investment is expected to yield about 45,000 new adult jail beds of which one-half would be dedicated to expanding local jail capacity subject to changes in sentencing statutes. The other half would accommodate low-level state inmates who would serve sentences of up to three years in county facilities. The Governor recognized that out-year operating costs in these facilities are not address but commits to ongoing discussion with the legislature and local officials to resolve this very significant issue.

On the juvenile side, the reform proposal contemplates building approximately 5,000 new beds for juvenile offenders and shifting a population of juvenile offenders to county control and supervision beginning July 1, 2007. This realignment would allow the Department of Juvenile Justice (DJJ) to focus its resources and services on the most serious male juvenile offenders in the state. Under this plan, the DJJ would no longer house female offenders in its institutions and would stop intake of certain low-level, nonviolent male offenders. All female and less serious juvenile offenders would be housed in county facilities hereafter.

These proposals, in effect, transfer large populations of adult and juvenile offenders from state prisons/DJJ to county jails and juvenile institutions which may have significant ramifications on our capital needs for these institutions in the future, as well as operational costs. The Governor's proposal as this point is conceptual, and it will likely be many weeks down the road before we can comprehend the full fiscal impacts to the County if the Governor's proposals are enacted.

- **Re-entry facilities:** These facilities would provide beds for transitional programming and services for inmates nearing parole. The re-entry facilities represent a key component in addressing recidivism, with services focused on insuring parolees' successful reintegration into the community.
- **New Resources for County Probation:** This new initiative dedicates \$50.0 million in local assistance grants to support adult supervision services for the 18-25 years-old male offenders. This initiative which will be modeled after the successful Juvenile Justice Crime Prevention Act is expected to grow to \$100.0 million in Fiscal Year 2008-09. The budget also includes an additional \$2.0 million in Child Welfare Services funding which will be targeted to county Probation Department System Improvement Plan activities for juvenile justice children placed in out-of-home care.
- **Health Care Reform:** This proposal outlines three building blocks for an accessible, efficient, and affordable health care system. The major elements are:
 - **Prevention, Health Promotion and Wellness** which will implement programs to encourage and promote health behaviors. All health plans and insurers will be required to offer a health benefit package that includes incentives/rewards programs including premium reduction, gym memberships or weight management programs.

- Coverage for All: The proposal requires that every Californian secure health coverage for themselves and their dependents and contribute to paying for their coverage. All employers with more than ten employees would be required to either provide insurance or pay into a state-sponsored healthcare plan for their employees. Self-employed individuals or employees of firms with less than ten employees would presumably seek coverage on their own as a result of the state mandate that residents of the State must have health insurance. The proposal assumes that counties will be responsible for providing health care for undocumented persons since the proposal will not extend coverage for the state's undocumented population. Counties would continue to be the providers of last-resort for not only the undocumented population, but also individuals (self-employed, working for small employers, or retired but not yet MediCare eligible) who fail to adhere to the State mandate to acquire insurance coverage).
- Affordability and Cost Containment: The proposal also identifies short- and long-term cost containment measures. Such as enhancing insurer and hospital efficiency and enhance tax breaks for individuals and employers. The plan also calls for the State to leverage its purchasing power through Medi-Cal.
- Fiscal Impacts: The Governor's documents indicate that counties would be required to "redirect" \$2.0 billion of their existing funds to for this health care expansion, to assist in funding the state-sponsored healthcare plan. At this time, it is not clear what funds are being redirected. However, it sounds like the proposal may be a thinly veiled effort to transfer Realignment funds which are currently used locally to support various health and human assistance programs.
- CalWORKs: The Governor's proposal includes a number of changes to the CalWORKs program and funding shifts including:
 - Full Family sanctions for noncompliance;
 - Elimination of safety net grants for timed-out families not currently meeting federal participation;
 - Elimination of safety net grants for child-only cases whose parents are disqualified due to immigration status or fleeing felon or drug felon status;
 - Suspension of the July 1, 2007 CalWORKs Maximum Aid Payment Cost-of-Living Adjustment (COLA);
 - Reducing the Counties' single allocation funding.
- In-Home Supportive Services:
 - The budget proposes to limit the state share in wages and benefits to the level in effect on January 10, 2007. This is a proposed permanent change in the state's wage participation policy. To the extent that counties have contracts in place with wage or benefit increases already committed to beyond this date, counties would be responsible for the full cost of that wage and/or benefit increase.
- Mental Health:
 - Mental Health Services to Special Education Students (Assembly Bill 3632) – Unlike last year the current budget proposal does not provide funds for Fiscal Year 2007-08. This is under the premise that the state's constitutional obligation only requires it to fund mandates one year in arrears, when actual cost data is supposedly available. In prior

years, the State has always reimbursed for estimated costs and revised those reimbursements later.

- **State Mandates:** Proposition 1A approved by the voters in November of 2004 mandated that the State repay local agencies within 15 years for all of the pre-2004 mandates that were not reimbursed, the vast majority of which are for counties. Last year's State Budget made two year's worth of these payments, putting the State ahead by one year. This year's proposal calls for no payment on these old mandates, putting the State back on schedule. In addition the budget proposes to delay the funding of budget year mandates until next year, when actual cost data will be available.
- **Property Tax Administration Assistance:** The current state spending plan does not include funding for counties' property tax administration programs. This proposal will affect funding for County Assessors' offices.
- **Help America Vote Act:** The Governor's proposed 2007-08 budget includes new federal funds for election assistance to disabled individuals to be allocated to counties on a competitive basis.
- **Transportation Funding:** The Governor's budget supports fully funding Proposition 42. However, pursuant to current law counties will not receive any local streets and roads fund from Proposition 42 next fiscal year due to an obligation to pay back the Statewide Transportation Improvement Program funds. Cities and counties will begin receiving their Proposition 42 allocations again in Fiscal Year 2008-09.

A complete summary of the Governor's budget proposal prepared by California State Association of Counties (CSAC) is attached (Attachment XIII). A preliminary summary analysis of the state impacts to Sacramento County from the Governor's Proposed Budget is also attached (Attachment XIV).

PRELIMINARY GENERAL FUND FORECAST FOR FISCAL YEAR 2007-08

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

Major Conclusions

The Budget Forecast for Fiscal Year 2007-08 leads to the following major conclusions:

1. The Fiscal Year 2007-08 budget forecast is balanced with no funding gap expected at this time, partly due to expected release of some of our POB Reserve funds that were set aside in earlier years. In Fiscal Year 2006-07 a strategy was used to not fund on-going expenses with one-time fund balance revenue. There were also a number of one-time expenses that were expressly funded with one-time revenues in order to restore balance within the General Fund. As a result of the prior allotment decision (which included increasing reserves for incremental POB debt service increases and Cash Flow) is that as we are entering the Fiscal Year 2007-08 budget cycle, the total General Fund allocations to departments should more closely reflect actual General Fund funding needed to maintain on-going program costs.
2. POB debt service payments will increase much less dramatically between Fiscal Years 2006-07 and 2007-08. While it will continue to increase over the next five years and contribute

substantial pressure on the county's entire budget, the incremental increases will be less than in the past two years. Following is a table displaying the increasing POB debt service payments.

POB DEBT SERVICE PAYMENTS				
Fiscal Year	1995 and 2003 POBs	2004 POBs	Grand Total	Approximate Net General Fund Share
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
2011-12	68,375,179	25,439,057	93,814,236	46,907,118

3. The current-year projections indicate that despite the increasing pension costs and the increases in salary and benefit costs associated with the latest labor negotiations, the General Fund may experience some relief in Fiscal Year 2007-08. This is generally the result of the historic rise in assessed values and the resultant property tax collections during the past two years. However, it has been well documented in recent news media articles that historic increases in assessed values will not be continuing into the new fiscal year. This is backed up by recent information that we have received from the Assessor's Office that indicates that they are expecting that assessed values may only climb approximately 6.0 percent to 8.0 percent for the next year. It is anticipated that this rate of growth would yield approximately \$2.0 to \$3.0 million additional in property tax collections for Fiscal Year 2007-08, a significantly smaller increase than the County has experienced in recent years.
4. In Fiscal Year 2004-05 the State swapped Vehicle License Fees (VLF) revenue with counties for a more a stable share of property tax. This revenue source mirrors the growth patterns of the counties growth in property tax collections. Collections in Fiscal Year 2006-07 are estimated to be \$129.6 million. In Fiscal Year 2007-08, it is anticipated that this revenue source will contribute an additional \$2.8 million in non-departmental revenue to be allocated to various departmental allocations.
5. As indicated earlier in the analysis of the State Budget, the counties will not get reimbursed in Fiscal Year 2007-08 for reimbursement for any Senate Bill (SB) 90 mandate reimbursements (approximately \$6.0 million annually). Prior budget models had anticipated that the State would begin paying for these reimbursements on a regular basis starting in Fiscal Year 2006-07. However, the State paid two years reimbursement in Fiscal Year 2006-07 and has indicated that they will not be funding reimbursements during Fiscal Year 2007-08. Additionally, they will start paying for these reimbursements in the arrears which will delay reimbursement further to local governments. It is anticipated that as a result of the state's actions, Sacramento County will not receive approximately \$6.7 million in Senate Bill 90 claims reimbursement in Fiscal Year 2007-08.
6. The overall revenue outlook for the General Fund Non-Departmental Revenue is stable. However, there is still some uncertainty in the amount of property tax and sales tax

collections that are anticipated in Fiscal Year 2007-08. If the moderate growth assumptions prove to be valid, then the General Fund will not experience budget distress during Fiscal Year 2007-08. Therefore, this office and others involved in the property tax collection system are monitoring this element on a monthly basis in order to detect any change in current trends.

7. With the projected stable revenue base, it is not anticipated that there will be much, if any room for program expansion in the Fiscal Year 2007-08 budget process. Any additional capacity that has been forecast has been used to offset increases in recently settled labor contracts. It is anticipated that as the economy recoups from the slow housing market, then additional revenues would be made available to offset increased future costs. But it is not anticipated that major revenue growth will occur during Fiscal Year 2007-08. Therefore, again as with last year, we believe that the entire county General Fund constituency (Elected Officials, Department Heads and our citizenry) need to adopt a sense of lowered expectations for program/service enhancement during the next year. Any increase in ongoing costs will have to be mitigated by ongoing reductions elsewhere or with additional ongoing departmental revenue. Also, in the creation of the Proposed Budget, departments will be asked to not include an automatic cost of living increase in their program costs other than those already anticipated in Salary and Benefit costs. To the greatest extent possible, any changes required to balance the budget need to be permanent, ongoing changes so as to lessen the General Fund from further budgetary distress.

Fiscal Year 2007-08 Budget Forecast

The 2007-08 Budget Forecast indicates a stable funding scenario in the General Fund. The following table summarizes the 2007-08 Budget Forecast:

2007-08 BUDGET FORECAST SUMMARY			
(Amounts Expressed In Millions)			
	Final Budget 2006-07	Forecast 2007-08	Variance
Departmental Expenditures	2,149.0	2,193.1	44.1
Departmental Revenues	1,516.7	1,550.7	34.0
Net Cost	632.3	642.4	10.1
Carryover	34.5	30.0	(4.5)
Net Department Requirement	597.8	612.4	14.6
Reserve Increase(Decrease)	57.0	(5.7)	(62.7)
Net Allocation	654.8	606.7	(48.1)
General Revenues	535.5	547.9	12.4
Fund Balance	106.2	47.0	(59.2)
Financing Reserves	13.0	11.8	(1.2)
General Purpose Financing	654.8	606.7	(48.1)
Base Budget Balance/(Deficit)	0.0	0.0	0.0

The net county cost for departments is projected to grow by \$44.1 million. Departmental carryover is projected to decline slightly from the prior-year's \$4.5 million. The overall need for additional local resources, or general purpose financing, is \$48.1 million less than in Fiscal Year

2006-07. This is directly attributable to the policy adopted last year by the Board which allocated one-time funding resources in Fiscal Year 2006-07 for one-time expenditures. While the estimated general purpose revenue growth is \$12.4 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 2005-06, there will be sufficient funds to maintain our existing base expenditures.

Forecast Methodology

The 2007-08 Budget Forecast is 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. 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

The following table gives a summary of the general purpose financing estimates used in the Fiscal Year 2007-08 Budget Forecast:

GENERAL PURPOSE FINANCING			
(Amounts Expressed In Millions)			
	2006-07	2007-08	Variance
<u>Revenues:</u>			
Property Taxes including In-Lieu of VLF	380.7	391.0	10.3
Sales Tax including “Triple Flip” revenues	80.7	82.3	1.6
Utility User Tax	14.0	14.0	0.0
Fines	16.7	16.7	0.0
City Transition Funding	0.4	0.4	0.0
Revenue Neutrality	16.5	16.9	0.4
Fund Transfers & Countywide Cost Plan Recoveries	4.2	4.2	0.0
Other	22.4	22.4	0.0
Total Revenues	535.6	547.9	12.3
General Fund Balance:	106.2	47.0	(59.2)
Reserve Release/(Increase):	13.0	11.8	(1.2)
Total General Financing	654.8	606.7	(48.1)

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 2007-08. This expectation is primarily due to reduced savings in human assistance caseload costs and costs for In-Home Supportive Services program (year-to-date) as well as lower departmental carryover. At the start of the current fiscal year, the Non-Departmental General Fund balance was \$106.2 million and the departmental carryover was \$34.5 million. The budget forecast for Fiscal Year 2007-08 includes an overall fund balance of \$77.0 million, or a \$63.72 million reduction. This is a significant reduction from Fiscal Year 2006-07 and is more in line with the actual fund balances in the past prior six years (approximately \$60.0 million).

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

<u>GENERAL FUND BALANCE</u> <u>(INCLUDING DEPARTMENTAL CARRYOVER)</u>	
(Amounts Expressed In Millions)	
2006-07 (Estimated)	77.00
2005-06 (Actual Departmental)	34.50
2005-06 (Actual Non-Departmental)	106.22
2004-05	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 \$77.0 million. This estimate is \$63.72 million less than the actual fund balance at the end of Fiscal Year 2005-06/beginning of Fiscal Year 2006-07.

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 to correspond with the historical average of approximately 4.0 percent of appropriations (this factors out the extremely high and low abnormalities).

BUDGET SCHEDULE

At this point we are not projecting a General Fund shortfall for Fiscal Year 2007-08. We are optimistic that the initial General Fund forecast for Fiscal Year 2007-08 can be maintained with vigilance by the departments and with a small reserve release from funds set aside in Fiscal Year 2006-07 to mitigate the increased pension costs and through projected savings/financing improvements by the time of Final Budget Hearings in September 2007.

We are recommending a budget schedule similar to that used last year (Attachment I) for the Fiscal Year 2007-08 budget process, culminating in final budget decisions in September 2007. 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. We are however, holding additional days available at the Proposed Budget Hearings in the event that external events require prolonged hearings.

REQUESTS FOR ADDITIONAL FUNDING

At this time we are also requesting that departments hold any requests for additional funding, COLA increases beyond those identified in the Salary and Benefit accounts or program restructuring to bring program expenses in line with anticipated revenues. These will be deferred to the Final Budget Hearings.

MODIFIED RESOURCE/RESULTS-BASED APPROACH RECOMMENDED FOR FISCAL YEAR 2007-08

Continuing the budget practice established last year, 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 2006-07 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. We will again 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. Any 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 limited growth in financing sources since the Fiscal Year 2006-07 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, nonsalary 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 any projected budget shortfall by fully factoring in other revenues that may reduce the county's share of costs. This should also 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.

We further recommend that the Board direct the county's Elected Officials and Department Heads to prepare their budgets for Fiscal Year 2007-08 according to their departments' preliminary budget allocation.

ADOPT GENERAL FUND BUDGET PRIORITIES OF COUNTY OF SACRAMENTO

In 2003, the Board 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, Regional Parks, 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, 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.

Recently, the County Executive's Office became aware that at least one member of the Board would like to revisit the determination of the rankings of these discretionary priorities that were decided by the Board in 2003. As such, we will be calendaring a separate hearing this spring to allow for a thorough discussion by the current Board Members of the existing budget priorities and their rankings, before the start of the Fiscal Year 2007-08 Proposed Budget Hearings in May 2007.

ADOPT EXPANSION OF STRATEGIC PRIORITIES ALLOCATION PROCESS

Over the past five years, the County has directed significant resources toward working with communities and others to identify priority concerns for the County. On April 18, 2006, the Board adopted strategic priorities for "Performance Success 2006". These strategic priorities identified six major Strategic Issues for the County of Sacramento, resulting in 22 strategic objectives.

As identified above, since the 1990's the County has categorized and funded all programs on an approved set of funding priorities that has sorted programs into the following classifications:

1. Provide the highest level of discretionary law-enforcement (municipal and countywide) services possible.
2. Provide the safety net for disadvantaged citizens.
3. Provide the highest possible quality of life for our citizens.
4. General government functions.
5. Prevention/Intervention programs.

These classifications are important and necessary to insure that the approved spending priorities focus limited resources on required obligations before discretionary priorities. In order to determine how resources are deployed within the framework of the Strategic Objectives, all departments regardless of fund will be asked to identify which strategic objective most closely reflects the nature of their programs.

The results of this allocation method will also be presented to the Board at both the Proposed and Final Budget Hearings.

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 that the state government's budget circumstances could result in reductions in pass-through of significant categorical funding and/or program reductions. This would 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.

Since our initial forecast predicts a stable outlook for Fiscal Year 2007-08 at this time, we are not requiring reductions in the ongoing preliminary General Fund allocations. However, we believe that the County needs to continue working to adopt budget strategies that will enable us to quickly address future budget shortfalls. The County Executive's staff will continue to work in conjunction with departments to develop strategies and recommendations for addressing the potential budget gaps that result from the state's budget process.

Respectfully submitted,

APPROVAL RECOMMENDED:

LINDA FOSTER-HALL
County Budget Officer

TERRY SCHUTTEN
County Executive

CONCUR:

GEOFFREY B. DAVEY
Chief Financial/Operations Officer

GBD/LFH:js

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

Attachments:

Attachment I	2007-08 Budget Process Schedule
Attachment II	Preliminary General Fund Allocation Plan for Fiscal Year 2007-08
Attachment III	Report from County Executive's Office and AAR No. 27-048 transferring \$8,933,282 from General Fund Non-Departmental Costs (Budget Unit 5770000) to the various departments to provide adequate appropriation authority for equity adjustments provided for in recently negotiated labor agreements for the balance of Fiscal Year 2006-07
Attachment IV	Approve the report from Conflict Criminal Defenders and AAR No. 27-039 transferring \$1,546,410 from General Fund Contingencies to increase Conflict Criminal Defenders Rates For Indigent Defense Panel Attorneys and Investigators
Attachment V	Approve the report from the Department of Regional Parks and AAR No. 27-040 transferring \$619,132 in General Fund Contingencies to Fund Rancho Murieta Recreation Area Mitigation
Attachment VI	Approve the report from the Department of Compliance and Sheriff's Department and AAR No. 27-041 transferring \$153,919 from General Fund Contingencies to Implement the Sheriff's Inspector General
Attachment VII	Approve the report from the Sheriff's Department and AAR No. 27-047 transferring \$708,615 in General Fund Contingencies to the Sheriff's for overtime costs associated with the investigation of deputy's slaying, and AAR No. 27-046 for costs for replacement of helicopter repair funds that exceeded insurance coverage
Attachment VIII	Approve the report from Labor Relations and AAR No. 27-045 transferring \$90,249 in General Fund Contingencies to Labor Relations to offset higher than expected expenses for contract labor consultants

- Attachment IX Approve the report from the Department of Planning and Community Development and AAR No. 27-044 transferring \$100,000 in General Fund Contingencies to fund the Housing Element of the General Plan
- Attachment X Report from Municipal Services Agency requesting authority to issue a Request for Proposal for an external review of planning and environmental processes
- Attachment XI Report from Countywide Services Agency requesting authority to issue a Request for Proposal for an external review of Voter Registration and Elections processes
- Attachment XII Report from Probation Department requesting to add 1.0 Senior Deputy Probation Officer Limited-Term position for the Mental Health Court Pilot Program (SRA No. 2007-119B)
- Attachment XIII CSAC Summary of Governor's Proposed 2007-08 State Budget
- Attachment XIV Summary of State Budget Impacts to Sacramento County from Governor's Proposed Budget