# COUNTY OF SACRAMENTO
# CALIFORNIA

For the Agenda of:
September 9, 2004
9:30 a.m.

To: Board of Supervisors

From: Office of the Chief Financial/Operations Officer

Subject: Report Back On Update Of Multiyear Budget Model Given State Budget Impacts

Contact: Geoffrey Davey, Chief Financial/Operations Officer; 874-5803

**BACKGROUND:**

At the Final Budget Hearing on September 1, 2004, your Board directed the Chief Financial/Operations Officer to report back on September 9, 2004, regarding an update to the multiyear budget model for the General Fund, given the known outcomes of the State Budget for Fiscal Year 2004-05 upon the County of Sacramento. During the past week, the Chief Financial/Operations Officer and staff of the Internal Services Agency have integrated the major impacts from the State Budget into the previously prepared multiyear budget model for the General Fund to result in a revised projection of the county's General Fund budget circumstances for the next four years beyond Fiscal Year 2004-05.

The previous modeling of the General Fund indicated that assuming your Board approved ongoing budget reductions in the Fiscal Year 2004-05 budget process that eliminated a $45.5 million structural deficit in the General Fund, the projected budget outlook for Fiscal Year 2005-06 would reflect a slight surplus. The basic reasoning for this outlook was the temporarily reduced employer pension contributions caused by the 2003 refinancing of Pension Obligation Bonds (POB) issued in 1995, and a generally moderate robust outlook on revenue growth offset by moderate growth in costs (primarily labor costs). However for Fiscal Year 2006-07, a moderate deficit of $17.5 million was forecast, caused by a combination of factors: savings from the 2003 POB financing declining due to ramping up of debt service; increased operating and/or debt service costs for the expanded Juvenile Hall and Animal Care facilities. Assuming that moderately robust revenue growth continued through Fiscal Year 2007-08 and growth in inflationary costs was low and/or could be restrained, this projected deficit in Fiscal Year 2006-07 would shrink in Fiscal Year 2007-08 and eventually be nearly erased by Fiscal Year 2008-09.

**DISCUSSION:**

The results of the county's Fiscal Year 2004-05 budget process are nearly complete, pending the Final Budget Resolution during the week of September 6th. The results thus far indicate that the County has relied upon a large amount of one-time financing sources again; however, at levels below prior-year levels. To the degree that one-time revenues/cost-savings are relied upon to balance the General Fund budget, the County will likely experience budget difficulties in the following year, particularly if new one-time sources of revenue/cost-savings are not immediately found to replace the sources expiring from the past year.

The attached revised multiyear budget model reflects a smaller surplus in Fiscal Year 2005-06 than previously forecast, largely due to the second year impact of $12.2 million from this year's State Budget "deal". We have not factored a projected shortfall in Fiscal Year 2005-06 due to the expiration of one-time sources of revenue/cost-savings. To some degree, the County can expect to have one-time revenues/cost-savings virtually every year, and due to the reduced amount of one-time sources relied upon in the Fiscal Year 2004-05 budget, we are confident that additional one-time revenues/cost-savings can be identified for Fiscal Year 2005-06 that we mitigate the loss of most of this year's one-time savings. The revised model further forecasts that the $17.5 million previously forecast deficit in Fiscal Year 2006-07 can be completely mitigated with the anticipated receipt of $26.9 million in state reimbursement for the 2003-04 "car-tax-gap" payments and resumed Senate Bill 90 reimbursements. However, the car-tax gap reimbursement is a (large) one-time source of funds that will expire for Fiscal Year 2007-08, and together with other factors such as the expiration of savings from the 2004 POBs, will combine to project a slightly larger projected deficit in Fiscal Year 2007-08 ($14.7 million) than had earlier been forecast. However, it should be noted that the forecast continues to reflect an eventual reduction of the deficit, provided that moderately robust revenue growth continues and growth in inflationary costs can be limited.

The Chief Financial/Operations Officer will be prepared to elaborate on the implications of the revised budget model at the Reports Back Hearing on September 9, 2004.

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| Respectfully submitted, | APPROVED: |
| GEOFFREY B. DAVEY | TERRY SCHUTTEN |
| Chief Financial/Operations Officer | County Executive |

Attachment: Budget Model Spreadsheet Summary