COUNTY OF SACRAMENTO
CALIFORNIA

For the Agenda of:
February 1, 2005
Timed: 10:15 A.M.

To: Board of Supervisors

From: County Executive's Office

Subject: 2004-05 Midyear Budget Report; Preliminary General Fund Outlook For Fiscal Year 2005-06; Preliminary Resource Allocations And Budget Process Schedule; Approval Of Appropriation Adjustment Request No. 25-051 Transferring Contingencies To Centrally-Budgeted Appropriations To Fund Sacramento County Metropolitan Fire District Subsidy For Structural Fire Protection Services At McClellan Park; Conceptual Approval Of Community Facility District (CFD) To Fund Sheriff's Services In New Residential Developments In The Unincorporated Areas; Approval Of Appropriation Adjustment Request No. 25-058 To Fund Additional Staff And Expenditures In The Department Of Health And Human Services (DHHS) And The Department Of Human Assistance (DHA) To Ensure Receipt Of "University Of California, Davis (UCD) Rebate" In Future Years; And, A Report From Department Of Employment Services And Risk Management Recommending Fiscal Year 2005-06 General Salary Adjustments For Nonrepresented Employees

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Following the 2004-05 Final Budget Hearings in September 2004, the Board adopted Final Budget Resolutions on September 28, 2004, which implemented appropriations and staffing for Sacramento County Government for Fiscal Year 2004-05. It is customary for the County Executive's Office to provide the Board with a midyear budget report by early-February each year, to provide the Board with the following information:

- A status report on how current-year expenditures and revenues are being realized compared to the adopted budget for the fiscal year.
- An assessment of the Governor's Proposed Budget for the State of California, and its impacts on the county's budget/operations.
- An initial outlook on the coming fiscal year's budget, including known/assumed significant changes to the current fiscal year's budget.
- Recommendations concerning urgent midyear needs that require action before the next budget cycle.
- A recommended budget process/schedule for the coming fiscal year's budget, based upon the initial outlook.

RECOMMENDATIONS:

1. Receive and file this report.

2. Approve the 2005-06 Budget Process Schedule (Attachment I).

3. Receive and file the County Executive's preliminary budget allocation plan for Fiscal Year 2005-06 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 2005-06 according to their departments' preliminary budget allocation in the County Executive's preliminary budget allocation plan, in conjunction with required documentation to be distributed by the County Executive's Office on February 4, 2005.

5. Approve the attached Appropriation Adjustment Request (AAR) No. 25-051 reallocating $392,978 in Contingency appropriations to our centrally budgeted appropriations for use in providing a subsidy to the Sacramento County Metropolitan Fire District (SMFD) for structural fire protection services at McClellan Park for the balance of Fiscal Year 2004-05 (Attachment III).

6. Approve the attached report from the County Executive's Office and Public Infrastructure Financing Section of the Municipal Services Agency (MSA) recommending conceptual approval of the implemental of a Community Facilities District (CFD) to assist in the financing of Sheriff's Services to residential developments in the Unincorporated Area (Attachment IV).

7. Approve the attached report and AAR No. 25-058 from the Department of Health and Human Services (DHHS) recognizing the unbudgeted receipt of the so-called "UCD Rebate" for Fiscal Year 2004-05 in the amount of $6.29 million. The report and the AAR also propose to add certain one-time and ongoing expenditures (including 18.0 additional positions) to ensure that this rebate may be earned in subsequent years (Attachment V).

8. Approve the attached report from the Department of Employment Services and Risk Management (DERT) recommending a general salary adjustment for Fiscal Year 2005-06 for nonrepresented employees, consistent with the pattern for represented employees, with the same range of 2.0 percent to 5.0 percent salary adjustment, effective June 26, 2005. Approval of this adjustment provides a single standard for the entire workforce (Attachment VI). Approval of this report completes salary adjustments for Fiscal Year 2005-06 so that all employees will receive the same adjustment, thereby providing a single standard for the entire workforce.

BACKGROUND:

ADOPTED GENERAL FUND BUGDET PRIORITIES OF COUNTY OF SACRAMENTO

During the budget process for Fiscal Year 2003-04, when the County was presented with an initial budget shortfall exceeding $100 million in the General Fund, the Board of Supervisors adopted a formal set of budget priorities on February 18, 2003. These priorities, which include the recognition of mandated and financial obligations which take precedence over discretionary spending, remain in effect today, and serve as a set of guiding principles for the development of the County Executive's budget recommendations. Following are the adopted budget priorities for the General Fund:

- **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 just debts.

- **Budget Priorities**

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

1. Provide the highest level of discretionary law-enforcement municipal and countywide services possible within the available county budget, such as Sheriff's patrol and investigations, and Probation Supervision.

2. Provide the safety net for those disadvantaged citizens, such as the homeless, mentally ill, and others who receive no services from other government agencies.

3. Provide the highest possible quality of life for our constituents within available remaining resources (i.e. neighborhood programs, reinvestment in communities, Parks & Recreation, and non-law enforcement municipal services, etc.)

4. General government functions (such as Clerk of the Board, County Counsel, Human Resources Agency, OCIT, County Executive, etc.) shall continue at a level sufficient to support the direct services to citizens.

5. Continue prevention/intervention programs that can demonstrate that they save the county money over the long-term, such as alcohol and drug programs.

SUMMARY OF THE FISCAL YEAR 2004-05 GENERAL FUND ADOPTED BUDGET

The adoption of the Fiscal Year 2004-05 Final Budget in September 2004 was the culmination of several budget process steps where our initial General Fund budget problem was identified and acted upon.

The Fiscal Year 2004-05 budget process began with the September 2003 Final Budget Hearings for Fiscal Year 2003-04, where the County Executive's Office presented a budget forecast for the Fiscal Year 2004-05 Budget which predicted a funding gap in the General Fund of at least $40.5 million which would likely be increased by implementation of the retirement benefit enhancements, State Budget actions, and any budget augmentations in the Hearings above the Fiscal Year 2003-04 base budget. Thereafter, in a special Midyear Budget Hearing in December 2003, a revised forecast of a $45.5 million initial funding gap was presented. This initial gap was closed with $24.1 million in base budget reductions and $21.4 million in one-time/short-term measures authorized during Midyear Budget Hearings and the Proposed Budget Hearings in May 2004. The primary reasons for the initial funding gap were:

- The use of $43.0 million in one-time measures to balance the Fiscal Year 2003-04 budget. The underlying structural funding gap came back in Fiscal Year 2004-05 after the expiration of the one-time funding/cost savings.
- Weak growth in local and statewide sales tax.

To address the initial shortfall, the Board approved $6.2 million in annualized reductions prior to the Fiscal Year 2003-04 Midyear Budget Hearing, in January 2004, which were targeted initially to address car-tax revenue losses. These midyear reductions were primarily to the county's General Government programs.

At the 2003-04 Midyear Budget Hearings on February 3, 2004, preliminary general-purpose financing allocations were approved for General Fund Departments. In effect, each Elected Official and the county agencies were given a bottom line net cost target to build their budgets. Agency Administrators were delegated the responsibility of determining a recommended preliminary allocation for the nonelected departments from their Agency's overall preliminary allocation.

The other key change in the annual budget process for Fiscal Year 2004-05 was the provision of a structural framework for making resource allocation decisions. Soon after the presentation of the budget forecast, the Board of Supervisors reaffirmed their adopted policy statement of the obligations and discretionary priorities for the County. The obligations are program costs the County must fund (such as mandates) and the priorities serve as a guide for the application of any discretionary financing available after the obligations are funded. The obligations include county services which, while required, may or may not be mandated at current levels. The reaffirmation of budget obligation and priority statements, and early allocation of county's resources were key changes in the budget process for Fiscal Year 2003-04 and were again implemented for the 2004-05 Fiscal Year.

In preparing their Fiscal Year 2004-05 budget estimates, departments were asked to identify which current programs would be funded within their allocations and which programs would not be funded. The approved obligation and priority statements were used as a policy guide. Once budgets were submitted and reviewed for accuracy by the County Executive's Office, early budget workshops were held before the Board of Supervisors. These workshops were an integral part of the 2004-05 budget process because at that time the Board and the public were informed of the consequences of operating within the County's projected available resources.

Between the time of the initial budget forecast and when the County Executive's initial recommendations for the Proposed Budget Hearings in May 2004, several changes were identified to the county's General Fund status, including both cost changes and financing changes. Those adjustments resulted in an increased funding gap of $51.3 million. However, in the period of time between the drafting of the initial budget documents for the Hearings and the drafting of the final transmittal report for the Recommended Proposed Budget, $16.5 million in additional one-time/short-term financing and cost reductions were identified by the County Executive's Office which could be used to fund obligations/mandates not included in the initial budget recommendations and to restore funding to high priority discretionary programs. Of the $16.5 million in additional one-time/short-term financing, approximately $7.4 million was the anticipated savings from issuing the 2004 Pension Obligation Bonds (POBs); $3.0 million anticipated proceeds from the sale of land to the Sacramento Regional County Sanitation District (SRCSD); $4.7 million transfer from Mental Health Realignment funds to cover Health (treatment) expenses and $0.8 million from Transient-Occupancy Tax (TOT) funds. The total additional financing of $16.5 million added to the $10.0 million allocation that was initially held back to be used for high priorities, brought the total available for budget augmentations to $26.5 million.

The County Executive recommended that the $26.5 million in additional financing be used as follows: One-time proceeds of $3.0 million from the sale of land to SRCSD to provide one-year "bridge" funding for Regional Parks, Recreation and Open Space (Parks) pending examination of funding alternatives; Mental Health Realignment transfer of $4.75 million to be used to fund the highest priority Safety Net and Prevention/Intervention programs; and the remaining $18.8 million to be allocated between Quality of Life--$2.0 million (10.8 percent) and Law Enforcement--$16.8 million (89.2 percent) programs. The Law Enforcement allocation was to be allocated as follows: Sheriff, 75.1 percent; District Attorney, 8.8 percent; and Probation, 16.1 percent. The original restoration recommendations were supplemented by the addition of $0.5 million in last minute, funding recommendations that restored 4.5 positions.

During the Proposed Budget Hearings, the County Executive identified and recommended $3.6 million additional one-time revenues (primarily due to higher than anticipated property-transfer tax revenues) that could be appropriated. Additionally the Board of Supervisors decided to redirect $625,000 of Capital Construction Fund (CCF) facilities maintenance funds and $625,000 from Contingencies to restore allocations to the Sheriff's Department, District Attorney's Office, Probation Department and DHHS.

In September 2004, Final Budget Hearings were held to conclude the budget process for Fiscal Year 2004-05. By then, the State Budget had been adopted by the Legislature and the actual year-end results for Fiscal Year 2003-04 were known. The State Budget included $12.2 million in additional costs or revenue reductions in the county's General Fund. This was primarily due to the unequal "Swap" of Vehicle License Fees (VLF) revenues for property tax revenues. Effective in Fiscal Years 2004-05 and 2005-06, the County is to receive two-thirds less in car tax revenues than previously received. The State is to backfill a portion of this revenue with property tax revenues. Approximately $12.2 million will not be backfilled until Fiscal Year 2006-07. In addition to the negative state impacts, there were $5.4 million in local budget issues in need of resolution and $10.5 million in recommended additional General Fund items with net costs. This additional funding gap of $18.1 million was closed mostly with additional one-time financing, primarily greater than anticipated fund balance/carryover, savings from the renegotiation of an arbitrator's labor settlement, and waivers/deferrals granted by the federal government on human assistance/child support sanction costs. This brought the total use of one-time measures in the Fiscal Year 2004-05 General Fund budget to in excess of $30.0 million.

Identification of One-Time Measures in Fiscal Year 2004-05 Adopted Final Budget

The short-term, but not the long-term, explanation for the large local budget problem is the use of one-time measures in the current-year budget. Last summer, in order to avoid making even deeper budget reductions than were approved in the current-year budget, an extraordinary number of one-time measures were used to help balance the General Fund Budget, although at levels somewhat below the previous year. The one-time measures are summarized in the following table:

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

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

Due to the use of one-time solutions in Fiscal Year 2004-05 to temporarily resolve our structural budget shortfall, in Fiscal Year 2005-06 we will face some of the same budget problem which were avoided in the current-year as well as any new shortfall. To the degree we can balance the General Fund budget in Fiscal Year 2005-06 with even fewer one-time financing sources/cost-savings, our long-term projected budget shortfall will be further reduced.

DISCUSSION:

2004-05 MIDYEAR ANALYSIS AND NEW BUDGET ISSUES IDENTIFIED FOR FISCAL YEAR 2005-06

At this juncture, we have identified several midyear budget and new budget year (Fiscal Year 2005-06) 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

- **Sacramento County Metropolitan Fire District Subsidy For Structural Fire Protection Services for McClellan Park**

  At the time that Mather and McClellan Air Force Bases (AFB) were decommissioned and turned over to the County, the Sacramento Metropolitan Fire District assumed responsibility for structure fire protection for both bases. Mather AFB was formally annexed into the district's territory. Because the AFBs are part of a joint redevelopment which diverts property tax growth to fund redevelopment programs, the District has failed to annex McClellan Park and instead assumed responsibility for structure fire protection on a contract basis. Initially, the costs of their structure fire protection services were offset by the transfer of a fire station facility to the District which the District accepted as a credit against their service contract fees. However, the amortization of the credit from the transfer of the facility has now been completed, and the District requires payment for ongoing service costs or it will cease services to McClellan Park. An unbudgeted payment in the amount of $394,000 for the remainder of the 2004-05 Fiscal Year is necessary (Attachment III).

- **General Fund Revenue Collection**

  Revenue collection for General Fund Non-Departmental Revenues so far in Fiscal Year 2004-05 appears to closely follow budgeted amounts. While sales tax collections are falling short of projection by about 2.0 percent (only 1.5 percent growth vs. 3.5 percent growth budgeted), while property-tax revenues are expected to grow more than anticipated, mitigating the sales tax issue.

- **Unanticipated Special Election(s) to Elect A Successor to Congressman Robert Matsui**

  Due to the untimely passing of Congressman Robert Matsui in early January, a special election has been called by the Governor for the Fifth Congressional District to select a successor. The Primary Election will be held in March 2005. If no candidate succeeds in garnering 50.0 percent of the vote, a run-off election will be held in May 2005. The costs for these elections are entirely borne by the County General Fund. The Voter Registration and Elections (VRE) Department estimated that each election would cost approximately $1.0 million. It will be necessary to take funds from our General Fund Contingencies to finance the cost of the election(s). This will reduce the fund balance that will be carried over to provide financing for Fiscal Year 2005-06.

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

  TOT collections are currently running slightly lower (approximately 2.5 percent) than the projected amount of $6,228,879. The year-end estimate is currently anticipated to be $6,073,157 (a reduction of $155,722 from budgeted revenue). The budgeted amount of $6.2 million was based on a 3.0 percent increase from the prior year's collections. In addition, due to an error in rolling over encumbrances this fiscal year, we will over expend the TOT Fund by $97,482, resulting in an anticipated negative fund balance of $259,300 including the revenue under-collection and other revenue issues. This will result in the need to reduce TOT Fund commitments during Fiscal Year 2005-06 to offset the anticipated negative fund balance.

<u>**New Budget Year Issues**</u>

- **Unexpected Increase In Retirement Costs Due To New Actuarial Study**

  The county's required contributions to the Sacramento County Employees' Retirement System (SCERS) are now anticipated to increase by $21.5 million (approximately $10.75 million in the General Fund) during Fiscal Year 2005-06, and an additional $21.5 million in Fiscal Year 2006-07 due to recent actuarial assumption changes adopted by the SCERS' Board following the recommendation of their new actuary, as part of this year's tri-annual actuarial review.

- **Anticipated Cost for Statewide Election on Governor's State Budget Reform Initiatives**

  The Governor has proposed that, if his proposals to reform the State Budget process are not adopted by the Legislature, he will take his proposals to the electorate in the form of initiatives, and call for a statewide election in the late summer/early fall of 2005. Normally, the State does not reimburse counties for such special elections. Our VRE Department estimates that the cost of the special election to this County will be $2.24 million. We anticipate that this election will occur, and have included its cost in the forecast budget for Fiscal Year 2005-06 as a General Fund expense.

- **Sacramento County Metropolitan Fire District Subsidy For Structural Fire Protection Services for McClellan Park**

  As noted in the discussion of "Midyear Issues", it is necessary to pay for fire protection services to McClellan Park. An annual payment in the amount of $1.4 million to SMFD is necessary (see Attachment III). It is hoped this payment will ultimately be replaced through a transition to permanent property tax share (derived from the county's current property tax base) when the McClellan Park property is annexed to the District and a property tax sharing agreement is negotiated.

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

  For the last few years, the Board has, on several occasions, broached the subject of creating an Economic Development Fund to address a variety of potential projects that arise during the course of each year. In general, the concept is that the Board would create a separate fund, to be financed from either the General Fund and/or possibly TOT revenues. The amount to be appropriated has never been formally discussed, but the idea is that the Fund should have enough resources to address meaningful issues that might arise during each year.

The amount most often mentioned would be $1.0 million, and presumably, that amount would be appropriated each year.

At this time, the Economic Development Fund is conceptual without many specifics. Should the Board continue to support the concept it should instruct staff to develop a specific funding and expenditure proposal as part of the 2005-06 Budget.

- **Possible Phasing-Out The Transfer of TOT Funds to General Fund**

  For Fiscal Year 2004-05, a transfer from the TOT Fund to the General Fund in the amount of $3.062 million was approved by the Board to mitigate General Fund budget reductions. The budget model assumes that transfers in a like amount will continue indefinitely, and absent direction from the Board, it will be included in the base budget for Fiscal Year 2005-06. To remove that amount, the projected budget shortfall would be increased by a like amount. However, the Board has expressed a desire to eventually phase-out these transfers, based upon the General Fund's ability to backfill the transfers with revenue growth.

- **New Funds From Proposition 63 For Mental Health Programs**

  On November 2, 2004, the voters of California passed Proposition 63, the Mental Health Services Act (MHSA). MHSA will significantly expand and change the delivery of mental health services in this State. The law became effective January 1, 2005. To pay for these expanded services, very high-income individuals will pay an additional 1.0 percent tax on that portion of their annual income that exceeds $1.0 million dollars. None of these funds may be used to supplant existing state or county funds utilized to provide mental health services. Instead, these funds will be set aside to achieve the following goals:

  - To define mental illness as a condition deserving priority attention, including prevention and early intervention services and medical and supportive care.
  - To reduce the long-term adverse impact resulting from untreated serious mental illness.
  - To expand successful, innovative service programs including culturally and linguistically competent approaches for underserved populations.
  - To provide funds to adequately meet the needs of all who can be identified and enrolled.
  - To ensure the funds are expended in the most cost-effective manner and services are provided in accordance with recommended best practices with oversight to ensure accountability.

Funds collected during Fiscal Year 2004-05 (estimated at $245.0 million statewide) will be allocated for Education and Training and Capital Facilities and Technological Needs (45.0 percent each). The balance of the collections will be split between local planning and state implementation. The county's request for planning funds is due to the California Department of Mental Health (DMH) by March 15, 2005. It is anticipated that the County may receive planning funding in the range of $75,000 to $384,385 for this function.

During the Fiscal Year 2005-06 collections are estimated to be approximately $683.0 million statewide. These funds will be allocated as required by the MHSA to the following categories in accordance with a formula to be developed in consultation with the California Mental Health Directors Association:

- Education and Training--10.0 percent
- Capital Facilities Technological needs--10.0 percent
- Prevention and Early Intervention Programs--20.0 percent
- Innovative programs--5.0 percent

The balance of funds collected during Fiscal Year 2005-06 will be distributed to county mental health programs (upon State DMH approval of the county plan) for services to children, adults and older adults with serious emotional disturbance and serious mental illnesses. At this time, it is impossible to predict how much Sacramento County's share of the statewide revenue from this new source will be, but it is likely to be in the several millions of dollar range. Completion of our county plan and implementation of the new funding awarding will be a major part of our budget process for Fiscal Year 2005-06.

- **Funding Needed For Preparation Of An Americans With Disabilities Act (ADA) Transition Plan**

  The Department of General Services (DGS) and DERT are requesting Board approval (in the Fiscal Year 2005-06 budget) of approximately $1.5 million in funding to update the Sacramento County ADA Transition Plan and Self-Evaluation. The update is required to comply with the latest federal ADA regulations. This effort is similar to the Department of Transportation ADA Transition Plan submitted to the Board on May 21, 2004. ADA law prohibits discrimination on the basis of disability. ADA extends former requirements from Section 504 of the Rehabilitation Act of 1973, covering all agencies, which are recipients of federal financial assistance from one or more federal funding agencies to all state and local governments that do not receive assistance. The regulations detail a wide-range of administrative and procedural requirements, including compliance with design and construction standards, expressed in the ADA Accessibility Guidelines (ADAAG). As a public entity the County is covered under Title II of ADA.

- **Regional Parks, Recreation And Open Space**

  In Fiscal Year 2001-02, the Department of Regional Parks, Recreation and Open Space (Parks) had finally achieved some success in restoring the Department to its Fiscal Year 1991-92 budget levels. The authorized 109.0 positions approached the Fiscal Year 1991-92 high of 125.0 positions. Some areas like the Effie Yeaw Nature Center and the Park Rangers were actually better staffed than in Fiscal Year 1991-92. However, beginning with Fiscal Year 2002-03, the County faced another fiscal crisis which would last through the current 2004-05 Fiscal Year. In the time period between Fiscal Year 2001-02 and Fiscal Year 2004-05, Parks staff was reduced by 14.0 positions, to its current level of 95.0 positions. Parks Management has been working with community volunteers in an endeavor to develop alternative funding sources which would support the department's operations separate from the General Fund. It is anticipated that the changes in structure and funding previously expected for our Parks and Open Space functions will not occur immediately, and as such, the County will need to fund the Department of Regional Parks, Recreation and Open Space for Fiscal Year 2005-2006 at a minimum.

- **Proposition 69**

  The DNA Fingerprint, Unsolved Crime, and Innocence Protection Act (Proposition 69) passed by the voters in November 2004, became effective upon passage. The Act expands the offender population that is required to submit DNA samples. The results will be kept by the State Department of Justice in a data base that can be used as evidence in criminal cases. The samples are generally now required from adults and juveniles convicted of any felony offense on or after November 3, 2004; and, any adult or juvenile with a prior felony conviction as long as they are in custody or on probation, parole, or other supervised release after conviction or adjudication for any felony or misdemeanor offense; adult and juvenile sex offender and/or arson registrants; and adults and juveniles referred to and housed in mental health treatment programs for felony offenses. Beginning on January 1, 2009, all adults arrested for a felony offense must submit a DNA sample.

Funding for this Act will be derived from an additional penalty of $1.00 for every $10.00 of fines. Revenue will be shared by the state and local governments. The State will receive 70.0 percent of the revenue in the first two years, 50.0 percent in the third year, and 25.0 percent annually thereafter. The collection of this additional penalty was implemented in Sacramento County in early January 2005. Although it is very difficult to determine what the actual revenue will be from this source, preliminary estimates, from base fines only, indicate local revenue to be $150,000 for year one, $350,000 for year two, $500,000 for year three, and $700,000 annually thereafter. The agencies are also in the process of determining the impact to current operations as well as developing the procedures to implement the provisions as soon as possible. Training on the collection of samples was given in mid January. At this point, it is unknown whether the new revenue source will fully finance the local workload/costs associated with this new law.

STATE BUDGET PROPOSALS BY GOVERNOR FOR FISCAL YEAR 2005-06

On January 10, 2005, the Governor proposed his 2005-06 Fiscal Year Budget for the State of California.

The Governor's proposed budget contains $86.9 billion in available General Fund resources, $85.7 billion in General Fund expenditures, and a $500.0 million reserve (plus $641.0 million reserved for encumbrances). The proposed budget includes a total of $9.1 billion in solutions to close the Governor's projected General Fund gap. As a result of the enactment of Proposition 1A, there is little that the State can do to balance their budget that would directly impact the County’s General Fund. As we anticipated, the substantive issue for counties with regard to the State Budget is what the impact of the categorical cuts to our constituents.

Schools are taking the largest dollar State reduction, approximately $2.3 billion from their Proposition 98 funding guarantee; transportation spending takes a $1.3 billion reduction by suspending Proposition 42; then health and human services follows with the next largest reduction of $1.2 billion, primarily from California’s Work Opportunity and Responsibilities to Kids (CalWORKs), Medi-Cal, Supplemental Security Income/State Supplementary Program (SSI/SSP), and IHSS.

Juvenile Justice Funding for Probation departments is proposed to be reduced by $75.0 million statewide (estimated impact of $3.8 million to our Probation Department). There is also a proposal to reduce property tax administration grants by $5.7 million (roughly 10.0 percent).

A reduction in State funding for IHSS wages will put pressure on counties to make up the difference. Reduced Juvenile Justice funding, results in $3.8 million loss to our Probation

Department. Reduced property tax administration grants will affect the Assessor's ability to timely reappraise and enroll properties subject to reassessment--creating an effective property tax revenue loss. The continued loss of Proposition 42 revenues will impact Sacramento County transportation projects and programs in three primary areas:

1. Funding allocations for pavement maintenance;
2. Capital improvement projects earmarked for funding from the state Traffic Congestion Relief Program (TCRP); and
3. The availability of funding from the State Transportation Improvement Program (STIP).

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

PRELIMINARY GENERAL FUND FORECAST FOR FISCAL YEAR 2005-06 AND SUBSEQUENT YEARS

Following is a summary of the results of our multiyear budget analysis performed by Office of Budge and Debt Management (OBDM) staff.

Major Conclusions

The Budget Forecast for Fiscal Year 2005-06 and budget projections through the 2008-09 Fiscal Year lead to certain major conclusions:

1. There is approximately a $9.7 million projected initial funding gap for the 2005-06 Fiscal Year primarily due to the expiration of one-time funding sources/budget savings that were used in Fiscal Year 2004-05 to resolve that year's deficit, for which replacement funding sources (one-time or ongoing have not yet been identified).

2. Pension Obligation Bond (POB) debt service payments will ramp up significantly over the next five years and contribute significant pressure on the county's budget (including but not limited to the General Fund). Following is a table displaying the ever 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

3. The multiyear projections indicate that despite the ever increasing pension costs, the General Fund may experience short-term relief in Fiscal Year 2006-07 due to the anticipated receipt of $26.9 million in vehicle license fees ("car-taxes") and reinstatement of Senate Bill (SB) 90 mandate reimbursements (approximately $5.0 million annually) that the State has promised

to pay the County in Fiscal Year 2006-07. The VLF funds were not paid in Fiscal Year 2003-04 during the period of the ending of the backfill and restoration of original VLF tax rates by Governor Davis, followed by his recall and the election of Governor Schwarzenegger, who promptly repealed the restoration by executive order. The County endured the significant fiscal impact of the interruption of the car-tax revenues through drawing upon our General Fund reserves. It is important to note that, while the budget model assumes the $26.9 million will be utilized to assist in balancing the budget and deficit reduction, all of the County's labor agreements expire in June 2006. It is likely that the labor organizations will have a different perspective on the use of those one-time funds.

Even if the one-time revenue from the State's repayment of VLF funds is applied to operations rather than rebuilding the reserves that were drawn upon when the revenues were interrupted, the General Fund will still experience budget distress during Fiscal Year 2006-07. Furthermore, we are not forecasting that the long-term structural problem can be solved by "growing out" of this local problem through revenue growth. By Fiscal Year 2007-08, with the one-time State VLF revenues no longer being received, and with our pension costs anticipated to continue ramping up, we believe the County will again have a serious "structural" deficit. For this reason, we believe that the entire County General Fund constituency (Elected Officials, Department Heads and our citizenry) needs to adopt a sense of lowered expectations for program/service enhancement during the next few years ahead. Any increase in ongoing costs will have to be mitigated by ongoing reductions elsewhere. To the greatest extent possible, reductions made to balance the budget need to be permanent, ongoing reductions so as to extricate the General Fund from ongoing budgetary distress.

2005-06 Budget Forecast

The 2005-06 Budget Forecast indicates there is a projected initial funding gap of $9.7 million in the General Fund. The following table summarizes the 2005-06 Budget Forecast:

2005-06 BUDGET FORECAST SUMMARY
(Amounts Expressed In Millions)

	FINAL BUDGET 2004-05	FORECAST 2005-06	CHANGE
Departmental Expenditures	1,883.1	1,936.2	53.1
Departmental Revenues	1,410.8	1,410.5	(0.3)
Net Cost	**472.3**	**525.8**	**53.5**
Carryover	37.8	38.0	0.2
Net Department Requirement	**434.5**	**487.8**	**53.3**
Reserve Increase	10.1	0.0	0.0
Net Allocation	**444.6**	**487.8**	**43.2**
General Revenues	414.4	441.9	27.5
Fund Balance	30.2	30.0	(0.2)
Financing Reserves	0.0	6.2	6.2
General Purpose Financing	**444.6**	**478.1**	**33.5**
Base Budget Balance/(Deficit)	**0.0**	**(9.7)**	**(9.7)**

The funding gap is generally due to spending increasing at a greater rate than financing, largely due to the expiration of one-time sources used in Fiscal Year 2004-05. The net county cost for departments is projected to grow by $53.1 million. Departmental carryover is projected to have a nominal increase of $0.2 million. The overall need for additional local resources, or general purpose financing, is $43.2 million. But the estimated general purpose financing growth is only $27.57 million, and presumed use of available carryover reserves from Fiscal Year 2003-04 of $6.2 million is still insufficient to make up the financing gap.

Forecast Methodology

The 2005-06 Budget Forecast and projections for the following four years are based on a "macro" model of the General Fund rather than on specific departmental budget requests. The model works at a fund level rather than a departmental level. Spending and financing in the General Fund are broken into a series of categories. We seek input and advice from those most able to assist in multiyear projections on major cost centers wherever possible. For example, DHA furnished aid payment estimates. The future status of the individual categories is forecast into the future years. Each component of the model is done separately. The overall projection for the General Fund is the net product of the predicted changes in the various categories.

General Purpose Financing

General purpose financing is the local funding in the General Fund and the source of the county's share of mandated programs and the source of any discretionary financing left over after the mandates are funded. In recent years, as the budget problems in the General Fund have been increasing, the amount and proportion of general purpose financing allocated to the county's share of mandates has increased, leaving less available for the Board of Supervisors to allocate to discretionary programs.

The following table gives a summary of the general purpose financing estimates used in the Fiscal Year 2005-06 Budget Forecast:

GENERAL PURPOSE FINANCING (Amounts Expressed In Millions)			
	2004-05	**2005-06**	**Variance**
Revenues:			
Property Taxes	242.7	271.9	29.2
Sales Tax including "Triple Flip" revenues	79.4	77.6	(1.8)
VLF	31.3	31.5	0.2
Utility User Tax	15.0	15.0	0.0
Fines	16.7	16.9	0.2
City Transition Funding	3.7	1.8	(1.9)
Revenue Neutrality	9.0	14.8	5.8
Fund Transfers & Countywide Cost Plan Recoveries	6.3	6.3	0.0
Other	10.3	6.1	(4.2)
Total Revenues	**414.4**	**441.9**	**27.5**
General Fund Balance:	30.2	30.0	(0.2)
Reserve Release/(Increase):	0.0	0.0	0.0
Total General Financing	**444.6**	**471.9**	**27.3**

Year-End Fund Balance

As always, the year-end fund balance will be an important source of financing for the next year. Our expectation is that there will be somewhat of an increase in the overall fund balance, (departmental carryover, plus the general portion of the fund balance), at the start of Fiscal Year 2005-06. This expectation is primarily due to apparent savings in our human assistance caseload costs and costs for the In-Home Supportive Services (IHSS) program (year-to-date) as well as continued high position vacancy levels in county departments notwithstanding the end of the hiring freeze. At the start of the current year, the overall fund balance was $67.95 million. The budget forecast for Fiscal Year 2005-06 includes an overall fund balance of $68.0 million, or no change. This level of fund balance (estimated for Fiscal Year 2004-05 and actual for Fiscal Year 2003-04) is significantly higher than the average of the past prior six years (approximately $54.0 million).

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

GENERAL FUND BALANCE (INCLUDING DEPARTMENTAL CARRYOVER)	
Fiscal Year	**Amount**
2004-05 (Estimated)	$68.0
2003-04 (Actual)	67.9
2002-03	62.8
2001-02	42.3
2000-01	57.7
1999-00	70.7
1998-99	57.7
1997-98	31.1

The swing in fund balance can be a major factor in determining whether the General Fund is in deficit, balanced, or has a surplus. As part of the normal budget process, the County Executive requests departments to 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 $60.7 million. This estimate is $7.2 million less than the actual fund balance at the end of Fiscal Year 2003-04/beginning of Fiscal Year 2004-05.

However, the early year-end estimates from departments are typically very conservative, and in most, but not all, years the actual fund balance ends up being somewhat higher than those estimates. Several departments have forecast no carryover whatsoever, which we believe to be unrealistic. Therefore, we have increased the fund balance estimate for the General Fund Budget forecast by $7.2 million, taking into account the large number of vacant positions in County government, the recent multiyear record of high fund balances, and other factors.

GENERAL FUND BUDGET MODEL FIVE-YEAR PROJECTION

As part of the annual budget process, a five-year projection of the General Fund is done each year in conjunction with the Budget Forecast. The long-term view is used to assess the bottom line trajectory of the General Fund. Given the assumptions used in the forecast and projections, is the bottom line position of the General Fund improving or deteriorating?

The five-year forecast includes moderate expenditure increases and revenue growth in the future years, as well as the significant ramping up of pension bond debt services costs over the period. It is anticipated that costs increases will exceed financing growth throughout the period; however, the budget shortfalls will be more acute during Fiscal Years 2006-07 and 2007-08.

The following table summarizes the multiyear budget projections for the General Fund through Fiscal Year 2009-10:

GENERAL FUND BUDGET MULTIYEAR PROJECTIONS SUMMARY
(Amounts Expressed In Millions)

	Budget 2004-05	Forecast 2005-06	Projection 2006-07	Projection 2007-08	Projection 2008-09	Projection 2009-10
Departmental Expenditures	1,883.1	1,936.2	2,026.2	2,109.3	2,189.5	2,272.9
Departmental Revenues	1,10.8	1,410.5	1,500.9	1,524.3	1,575.6	1,628.8
Net Cost	**472,3**	**525.8**	**525.3**	**585.0**	**613.8**	**644.1**
Carryover	37.8	38.0	20.0	20.0	20.0	20.0
Net Department Requirement	**434.5**	**487.8**	**505.3**	**565.0**	**593.8**	**624.1**
Reserve Increase	10.1	0.0	0.0	0.0	0.0	0.0
Net Allocation	**444.6**	**487.8**	**505.3**	**565.0**	**593.8**	**624.1**
General Revenues	414.4	441.9	460.0	480.8	502.8	526.1
Fund Balance	30.2	30.0	15.0	15.0	15.0	15.0
Financing Reserves	0.0	6.2	0.0	0.0	0.0	0.0
General Purpose Financing	**444.6**	**478.1**	**475.0**	**495.8**	**517.8**	**541.1**
Projected Base Budget Balance/(Deficit)	**0.0**	**(9.7)**	**(30.2)**	**(69.2)**	**(76.1)**	**(83.0)**
Assumed Elimination of Deficit with ongoing sources	2005-06	9.7	9.7	9.7	9.7	9.7
	2006-07	0.0	0.0	20.5	20.5	20.5
	2007-08	0.0	0.0	0.0	39.0	39.0
	2008-09	0.0	0.0	0.0	0.0	6.8
Projected Net Base Budget Balance/(Deficit		**0.0**	**(20.5)**	**(39.0)**	**(6.8)**	**(6.9)**

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

Even if the near-term projected funding gap in the General Fund is somehow covered in Fiscal Year 2005-06 by some combination of permanent cost reductions and permanent financing increases, the model projects there will still be a need to significantly reduce costs in Fiscal Years 2006-07 and 2007-08. The primary reasons for these projected budgeted circumstances are covenanted pension bond debt service payments, higher employer pension contributions due to actuarial assumption changes that will be phased-in over the next two years and expiration of one-time state payments expected in Fiscal Year 2006-07 (that for the purposes of the budget model are assumed to be utilized for budget balancing purposes rather than one-time uses such as rebuilding reserves).

In evaluating the multiyear projections and the potential for the General Fund to grow out of its current structural funding gap, it is important to consider that property tax revenues, the largest sources of general purpose financing, have been growing in record levels in recent years, and that such real estate increases do not last forever.

The multiyear projections are based on constant rates of cost and financing increases, as it is impossible to predict when a major economic shift will occur (such as an economic recession or expansion period). Many factors can influence whether the projections hold true or not. Increases in interest rates and inflation, which are likely over time, could lead to a significant worsening in the projections. The real estate expansion has been fueled by the low borrowing interest rates available in recent years. The combination of real estate price escalation and higher interest rates would lead to much lower property tax growth than is being forecast. Employee salary increases, which are indexed to inflation, could, at the same time, be higher or lower than forecast, based upon the results of labor negotiations.

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

<u>Why Is There The Long-Term Funding Gap In The General Fund?</u>

As mentioned above, the short-term explanation of the forecast initial budget shortfall in the General Fund is the use of one-time measures in Fiscal Year 2004-05 which only delayed the need for making significant reductions. But this is not the long-term explanation. In the late 1990's the General Fund was growing, services levels were increasing, hundreds of positions were being added on an annual basis. What has happened?

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

- Increasing amounts of local resources have had to be allocated to state mandated programs such as IHSS, Foster Care, institutional medical services, and medical treatment for the poor. Expenditures for these programs are growing faster than the County's local revenue base.

- The county's municipal revenues (derived solely from the Unincorporated Area) such as sales tax, utility tax, franchise fees, etc., are virtually stagnant, while General Fund costs for providing Municipal Services to the Unincorporated Area, primarily law enforcement, are rising rapidly (due to labor cost increases, including but not limited to the enhancement of retirement benefits for the safety employees). The incorporations of Citrus Heights, Elk Grove, and Rancho Cordova have accelerated this trend by depriving the County of high tax growth/base areas. The geographic areas where the significant growth in sales tax and utility tax (and transient occupancy tax) were being generated are now included in the newly incorporated Cities of Elk Grove and Rancho Cordova.

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

- The General Fund took on permanent spending commitments for county employee benefits in the past two years, for which, ultimately, there have not been new funding sources to support those commitments. The retirement benefit enhancements, for example, carried a net General Fund cost of approximately $38.0 million annually. Health care cost increases are a national problem which have impacted the County similar to all employers who provide health care coverage for their workforces. The costs of the health care plans provided for county employees have been increasing at an average of approximately 10.0 percent in recent years, far above the rate of local revenue growth. (Note: The County and most but not all county employees are now sharing in paying for those increased costs).

SMALLER LOCAL BUDGET SHORTFALL THAN IN PAST FEW YEARS COUPLED WITH SIGNIFICANT UNCERTAINTY IN STATE BUDGET OUTCOME SUGGESTS LATER BUDGET SCHEDULE

The size of our projected initial General Fund local shortfall for Fiscal Year 2005-06 is significantly smaller than the initial shortfalls identified at similar junctures during the past three years. County staff has a track record of working diligently throughout the spring and early summer months to create budget savings and increase financing sources, albeit often through one-time means. In addition, the pressure to increase fund balance/carryover in each department in the General Fund usually results in actual fund balance and departmental carryover exceeding initial projections, often mitigating the need for reductions that seems unavoidable at the time of the initial budget forecast. We are optimistic that the initial General Fund shortfall for Fiscal Year 2005-06 forecast in this report can be again mitigated through yet unforeseen savings/financing improvements by the time of our Final Budget Hearings in September 2005.

Furthermore, although the categorical spending reductions proposed by Governor Schwarzenegger in his Proposed State of California Fiscal Year 2005-06 Budget would appear to require drastic categorical program reductions by the County, it is far too soon to assume that the legislative consensus necessary to adopt the budget as proposed will be achieved. In most years, the budget ultimately enacted by the Legislature and signed into law by the Governor bears minimal resemblance to the budget first proposed by the Governor each January.

We are recommending a decelerated budget schedule (Attachment I) for our Fiscal Year 2005-06 budget process, culminating in final budget decisions in September 2005 within the Fiscal Year 2005-06 Final Budget Hearings rather than in the May Proposed Budget Hearings as was the case the past two years.

RESOURCE/RESULTS-BASED APPROACH RECOMMENDED AGAIN FOR FISCAL YEAR 2005-06

Continuing as with the Fiscal Year 2004-05 budget process, rather than have each department develop its base budget in a vacuum without regard to the large shortfall initially expected, we are recommending that each department submit their budget request pursuant to a preliminary resource allocation plan which allocates a portion of our anticipated general purpose financing to each department (including the Elected Officials departments).

These preliminary resource allocations (Attachment II) generally allocate the same General Fund allocations as adopted in the Fiscal Year 2004-05 Final Budget, as modified by certain unavoidable funding requirements. Examples of allocation increases built into the preliminary allocation plan are: general salary adjustments; retirement cost increases; equity raises provided for in multiyear labor settlements achieved during Fiscal Year 2003-04; new debt service and certain higher costs for hard-mandated programs.

However, 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 are not funded initially in these allocations for any department in the General Fund. Due to the expiration of one-time financing sources utilized in the Fiscal Year 2004-05 Final Budget, our projected net revenue base is expected to grow in Fiscal Year 2005-06 insufficiently to keep pace with the growth in costs year-to-year; therefore, we are not initially recommending across the board increases in the insurance accounts, non-salary accounts nor funding for terminal pay in the preliminary budget allocations in the General Fund.

Between now and the time of the Proposed Budget Hearings, we will examine potential revisions to the costs for our mandated programs and identification of any one-time financing sources/savings that could provide for increased allocations to cover the cost increases in services and supplies, allocated costs for our high priority programs/needs by the time the Fiscal Year 2005-06 Recommended Proposed Budget is released in early May 2005. Ultimately, depending upon the myriad of issues that will result in a Final Budget outcome in September 2005, 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 continuation of this resource-based approach, started two fiscal years ago, may help reduce the projected budget shortfall by having departments forego year-to-year budget increases in line items wherever possible and through encouraging reexamination of the way the departments operate their programs in order to find efficiencies through restructuring and/or elimination of redundant procedural layers.

In addition to having the departments prepare their base budget predicated upon the projected available resources in the County Executive's preliminary allocation plan, we recommend that the Board once again direct departments (as last year) to prepare program performance anticipated result/impact statements for each of their funded/unfunded programs, and to reflect which countywide and agency priority area their programs relate.

We further recommend that the Board direct the county's Elected Officials and Department Heads to prepare their budgets for Fiscal Year 2005-06 according to their departments' preliminary budget allocation in the County Executive's Recommended Allocation Plan, in conjunction with required documentation to be distributed by the County Executive's Office on February 4 2005, that will focus on "results/impacts" to be accomplished/not accomplished within the available resources.

APPROVAL OF AAR NO. 25-051 TO REALLOCATE $372,978 FROM GENERAL FUND CONTINENGIES TO CENTRALLY BUDGET APPROPRATIONS TO FUND FISCAL YEAR 2004-05 COSTS FOR SUBSIDY OF SACRAMENTO COUNTY METROPOLITAN FIRE DISTRICTS OPERATIONS AT MCCLELLAN PARK

As previously discussed, there is a present need to fund fire protection services to McClellan Park. The County Executive's Office recommends approval of the attached report from the Department of Economic Development and Intergovernmental Affairs, which includes an AAR to release $372,978 from General Fund Contingencies to fund the current-year payment (Attachment III).

APPROVAL OF REPORT BACK FROM COUNTY EXECUTIVE'S OFFICE/PUBLIC INFRASTRUCTURE FINANCING DIVISION OF MUNICIPAL SERVICES AGENCY REGARDING FORMATION OF A COMMUNITY FACILITIES DISTRICT TO FINANCE SHERIFF'S SERVICES TO NEW RESIDENTIAL DEVELOPMENTS IN UNINCORPORATED AREA

During the Fiscal Year 2004-05 Final Budget Hearings last summer, the Board directed the County Executive's Office to report back at the Midyear Budget Hearings regarding the possible implementation of a Mello-Roos Community Facility District (CFD) in the Unincorporated Area to provide supplemental funding for Sheriff's Services to new residential developments. Similar CFD's have been approved by the cities of Elk Grove and Rancho Cordova. Since the Board directed the report back last summer, you have subsequently conditioned the approval of rezones in the North Vineyard Station Specific Plan area to form and participate in such a CFD.

The County Executive's Office recommends approval of the attached report which proposes conceptual approval of a CFD for North Vineyard Station that would be subsequently expanded to include other new residential developments in the Unincorporated Area (notably the Florin-Vineyard Gap and Elverta Specific Plan developments), and directs staff to prepare a Resolution of Intention for such a CFD (Attachment IV).

APPROVAL OF REPORT FROM DHHS INCLUDING AAR NO. 25-058 REGARDING RECEIPT OF UNBUDGETED $6.29 MILLION "UCD REBATE" AND RECOMMENDATION TO UTILIZE PORTION OF THE PROCEEDS FOR ONE-TIME AND ONGOING EXPENDITURES TO ENSURE RECEIPT OF REBATE IN FUTURE YEARS

DHHS contracts with UCD Medical Center (UCDMC) to provide inpatient care to medically indigent patients. This contract totaled $25.1 million for Fiscal Year 2004-05. A provision of the contract provides for adjustments in the maximum amount payable based on the usage of inpatient "bed days". If UCDMC provides bed days in excess of 10.0 percent of the baseline amount, the maximum contract payment is increased. However, if UCDMC provides bed days 90.0 percent or less than the base line, the contract requires UCDMC to refund, or rebate a portion of the amount otherwise paid to them. In Fiscal Year 2003-04, UCDMC provided approximately 75.0 percent of the base line bed days. DHHS has received a rebate totaling $6.29 million as a result. The attached report (Attachment V) proposes to use some of this year's UCD rebate to fund staffing and other improvements in DHHS and DHA which should ensure that from now on the County will receive this rebate every year. The County Executive's Office recommends approval of the recommendations in the attached report.

APPROVAL OF REPORT FROM DEPARTMENT OF EMPLOYMENT SERVICES AND RISK MANAGEMENT RECOMMENDING GENERAL SALARY ADJUSTMENT FOR FISCAL YEAR 2005-06 FOR NONREPRESENTED EMPLOYEES CONSISTENT WITH GENERAL SALARY ADJUSTMENT FOR BARGAINING-UNIT EMPLOYEES

Consistent with the pattern for represented employees, the attached report from the Internal Services Agency recommends a general salary adjustment for nonrepresented employees for Fiscal Year 2005-06, with the same range of 2.0 percent to 5.0 percent, effective June 26, 2005. The nonrepresented employees have customarily received the same general cost-of-living increase as all other bargaining units. Approval of this adjustment provides a single standard for the entire workforce and is needed at this time so it can be included in the development of the Fiscal Year 2005-06 Budget and in order to allow for timely updates to the payroll system.

SUMMARY:

Due to state's voters enactment of Proposition 1A, we find ourselves in the position for the first time in many years where the primary focus of our budget deliberations for the next fiscal year will be our local economic circumstances. However, we must be cognizant of the fact that the state government's budget circumstances are so severe, and their options are so limited, that the potential for pass-through of significant categorical funding and/or programs reductions from the State is very real, and could put extreme pressure on the counties to backfill the categorical reductions with local funding. It is hard to believe that the Fiscal Year 2005-06 State Budget situation could be worse than last fiscal year's situation, but arguably, it is. Our legislative advocacy during the State Budget season will play a major role in this year's outcome. We will all need to be involved on a personal level in protecting the county's interests for categorically-funded programs.

Fortunately, our local budget circumstances are somewhat eased from the past few years. We believe that the revised budget process schedule and increased emphasis on finding solutions other than budget/program reductions will best serve the County in first dealing with our local shortfall, as we await the results of the state budget process.

However, due to the budget model forecast which predicts significant budget duress in the out-years primarily as a result of our ramping up of POB debt service payments combined with other pension increases resulting from actuarial assumption changes adopted by SCERS', we believe that the County needs to begin working now to adopt budget strategies that will enable us to address the upcoming budget shortfalls. At the time that the Proposed Budget is presented, we will also present the Board with recommendations on a process for addressing the multiyear budget gaps that are now anticipated.

Respectfully submitted,	APPROVAL RECOMMENDED:
______________________________	______________________________
GEOFFREY B. DAVEY Chief Financial/Operations Officer	TERRY SCHUTTEN County Executive

GBD:js

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

Attachments:

Attachment I	2005-06 Budget Process Schedule
Attachment II	Preliminary General Fund Allocation Plan for Fiscal Year 2005-06
Attachment III	Approval Of AAR No. 25-051 Release From Contingencies For Funding Of Sacramento County Metropolitan Fire District Subsidy For McClellan Park Structural Fire Protection Services
Attachment IV	Report From County Executive's Office And Public Infrastructure Financing Division Of MSA Regarding Conceptual Approval Of A CFD To Fund Sheriff Services In Residential Developments In The Unincorporated Area
Attachment V	Report From DHHS Including Approval Of AAR No. 25-058 To Fund Additional Staff And Expenditures In Department Of Health and Human Services To Ensure Receipt Of "UCD Rebate" In Future Years
Attachment VI	Report From Department Of Employment Services And Risk Management Regarding Fiscal Year 2005-06 General Salary Adjustment For Nonrepresented Employees
Attachment VII	CSAC Summary Of Governor's Proposed 2005-06 State Budget
Attachment VIII	Summary Of State Budget Impacts to Sacramento County From Governor's Proposed Budget