

COUNTY OF SACRAMENTO
CALIFORNIA

For the Agenda of:
May 3, 2004
9:30 a.m.

To: Board of Supervisors
From: County Executive's Office
Subject: FISCAL YEAR 2004-05 RECOMMENDED PROPOSED (BASE) BUDGET
Contact: Geoffrey B. Davey, Chief Financial/Operations Officer, 874-5803

RECOMMENDATIONS:

1. That your Board approve the recommended changes in appropriations, reimbursements and revenues to the levels of the adjusted Fiscal Year 2003-04 budget, as outlined in the attached recommended budget schedules, resulting in an approved Fiscal Year 2004-05 Proposed (Base) Budget. The Proposed Budget will serve as spending authorization for Fiscal Year 2004-05 until adoption of a Final Budget in September 2004. At that time it is anticipated that further, significant reductions will be required as the result of State budget impacts.
2. That your Board approve the attached report (see Attachment IV) from the Countywide Services Agency's Department of Health and Human Services (DHHS) regarding transfers of Realignment revenues, and adopt the attached Resolution making minor modifications to the resolution transferring amounts from the Social Services Trust Fund to the Health Trust Fund.
3. That your Board approve a transfer from the Transient-Occupancy Tax (TOT) Fund to the General Fund for Fiscal Year 2004-05 in the amount of \$3,064,054, an increase of \$712,687 from the level adopted in the Fiscal Year 2003-04 Adopted Final Budget. This will provide financing to restore certain otherwise "unfunded" General Fund programs (as determined by your Board during the Budget Workshops) in the attached budget schedules. It is further recommended that your Board determine use of the monies available within the TOT Fund for jointly-funded city/county programs and county departments which rely upon TOT funds for their "base" budgets as outlined in Attachment VI. Deliberations on the TOT Fund should otherwise be continued to the Final Budget Hearings commencing on Tuesday, August 24, 2004.
4. Direct the Acting Internal Services Agency Administrator to delete, by Administrative Salary Resolution Amendment (SRA), all those positions unfunded as part of your Board's actions during the Proposed Budget Hearings, and if necessary, cause to be issued Lay-Off Notices to employees in deleted positions that are not vacant.
5. Delegate to the Chief Financial/Operations Officer and the Acting Internal Services Agency Administrator the ability to administratively restore/transfer unfunded positions that can be funded by amending/terminating vendor contracts as required by County Charter section 71-J.

6. That your Board continue the Beilenson Hearings until the Final Budget Hearings commencing on Tuesday, August 24, 2004.
7. That your Board adopt the attached Proposed Budget Resolution (Attachment X) approving and implementing the Fiscal Year 2004-05 Proposed Budget, consisting of the County Executive's Recommended Proposed Budget, as amended by the Board and set the commencement of the Final Budget Hearings for Tuesday, August 24, 2004.

I. PRIORITIES

The central themes approved by your Board during February 2004 for this year's budget process are to focus on spending priorities, the anticipated available resources of the County for Fiscal Year 2004-05, and the results that will be accomplished with those resources recognizing impacts from the reduction of prior-year service levels. The approved spending priorities require that certain obligations be funded before discretionary priorities are addressed:

- A. **Mandated Countywide Obligations**, such as jails, prosecution, juvenile detention, health care for the poor, and welfare payments to eligible clients.
- B. **Mandated Municipal Obligations** such as the core requirements for providing for the public safety of the citizens living in the Unincorporated Area (Sheriff's patrol and investigations).
- C. **Financial Obligations**, where we maintain the public trust through a sound fiscal policy and fund programs that provide for revenue collection.

When funding of the county's mandated services and other obligations are met, your Board determined that the following priorities shall govern our budget process for discretionary programs:

1. **Provide the highest level of discretionary law-enforcement (municipal and countywide) services possible**, such as the discretionary level of Sheriff's patrol and investigations, and probation supervision.
2. **Provide the safety net for disadvantaged citizens**, such as providing programs for the homeless, mentally ill, and others who receive no services from other government agencies.
3. **Provide the highest possible quality of life for our citizens**, such as through neighborhood programs, reinvestment in communities, parks and recreation, and non-law enforcement municipal services, etc.
4. **General government functions**, such as continuing funding at a sufficient level to support direct services to citizens for the Clerk of the Board, County Counsel, Human Resources Department, Office of Communications & Information Technology, County Executive, etc.
5. **Prevention/intervention programs**, such as certain alcohol and drug programs that can demonstrate that they save the county money over the long-term.

These required funding obligations and discretionary funding priorities are the cornerstone of the County Executive's Fiscal Year 2004-05 Recommended Proposed Budget.

II. BACKGROUND: FISCAL YEAR 2004-05 BUDGET PROCESS

At the time of the adoption of the budget for the current fiscal year, we knew that the Fiscal Year 2004-05 budget process would be very difficult. The budget problems for the current 2003-04 Fiscal Year were so significant that an extraordinary number of one-time and short-term financing measures were taken to buttress then available financial resources. This, in effect, spread the problem of a \$120.0 million gap in the General Fund over a two-year period. Although \$77.0 million in ongoing reductions were approved during the Fiscal Year 2003-04 Budget Hearings, \$43.0 million of the budget gap was temporarily averted with one-time measures, and pushed forward to the next fiscal year. In recognition of the looming problem, measures, such as a more restrictive hiring freeze, were maintained.

The issues surrounding the gubernatorial recall election and the vehicle license fees (VLF) rates greatly complicated the budget situation and interjected a great deal of uncertainty into the county's fiscal status. We began the 2003-04 Midyear Budget Reductions Hearings initially in response to the VLF reduction and resulting loss of revenue, but continued them following the Governor's Executive Order to restore the VLF back-fill, primarily to address our serious local budget situation. The Board approved midyear budget reductions during hearings held in January/February 2004. On a full-year (annualized) basis, the Board approved reductions of \$6.2 million to Prevention and Intervention Programs and General Government Programs, including the deletion of 32.3 vacant positions.

On February 3, 2004, we presented a Budget Forecast for Fiscal Year 2004-05 and budget projections for the following four years. A base funding gap of \$40.5 million was identified for the General Fund for Fiscal Year 2004-05. The subsequent determination to fund retiree medical/dental benefits increased the budget problem to at least \$45.5 million. The multiyear budget projections reflected that the General Fund will not "grow" out of this problem. The County must make permanent cost reductions to close the funding gap. The County will also be impacted by the State Budget whenever it is adopted. State actions, given the fiscal position of the State, can likely only make the county's situation worse.

In the original budget schedule approved by the Board of Supervisors, the Proposed Budget Hearings were to be held the week of June 7, 2004. On March 9, 2004, your Board was to consider midyear budget reductions for Quality of Life and Safety Net Programs (Priorities 3 and 2, respectively). Members of the Board increasingly indicated a preference to consider and approve further reductions only while taking into their consideration the full context of budget reductions. Therefore, on March 16, 2004, your Board approved a change in the process and timetable which eliminated further midyear budget hearings and advanced Proposed Budget consideration to May 3, 2004. Dates previously set for midyear budget hearings were reestablished as budget workshops. These provided opportunities for departments and constituents to discuss their concerns regarding these potential reductions would be solicited, but no budget decisions would be made.

On March 9, 2004 and March 16, 2004, budget workshops were held for Priority 3 - Quality of Life, and Priority 2 - Safety Net, including the TOT Fund. It was further determined that a budget workshop would also be scheduled for April 13, 2004, for review of the impacts of potential reductions to Priority 1- Discretionary Law Enforcement programs.

Your Board has previously determined that, rather than speculatively reacting to proposals for the State Budget that potentially could impact our county's budget, we will await final action by the Legislature and the Governor on the adoption of the Fiscal Year 2004-05 State Budget before taking related actions in the county's budget for Fiscal Year 2004-05. Therefore, our Recommended Fiscal Year 2004-05 Proposed (Base) Budget assumes continued state funding at prior-year levels, and makes no assumptions regarding the outcome of proposals made by the Governor or the Legislative Analyst's Office (LAO) that would potentially impact our county's budget. It should be noted however, that the Governor's proposals would have approximately a \$45.0 million impact (total includes, but is not limited to, the proposed Educational Revenue Augmentation Fund [ERAF] adjustment) on our General Fund, and that the LAO's counter proposal would have virtually the same impact.

III. SUMMARY OF CHANGES SINCE MIDYEAR BUDGET FORECAST AND YEAR-TO-YEAR INCREASES INCLUDED IN DEPARTMENTAL BASE BUDGET REQUESTS; COUNTY EXECUTIVE'S RECOMMENDED RESTORATION PLAN

General Fund departments submitted their Fiscal Year 2004-05 budget requests pursuant to a preliminary allocation plan prepared by the County Executive's Office and considered by the Board of Supervisors at the Midyear Budget Hearing on February 3, 2004. This preliminary allocation plan was based upon the anticipated available general purpose financing during the coming fiscal year, the Fiscal Year 2003-04 adopted budget for each department as adjusted by known unavoidable cost increases, and a \$10.0 million "hold-back" to allow flexibility in the final allocation of resources. It was anticipated that a \$45.0 million budget shortfall (net of the \$10.0 million hold-back) would exist relative to the comparison of departmental base budget requests and available general purpose financing.

However, before departmental budget requests were received, your Board had already approved midyear reductions in the Prevention Programs (Priority 5) and General Government (Priority 4) program areas which totaled \$6.2 million on an annualized basis. Furthermore, the approval by your Board on March 16, 2004, of higher than anticipated medical/dental subsidy payments for county retirees increased the anticipated shortfall by \$2.0 million. As a result, the remaining budget gap expected was approximately \$41.0 million. Together with the \$10.0 million hold-back in allocations, unfunded departmental budget requests were anticipated to total about \$51.0 million. When the departmental budget requests were reviewed and analyzed by the County Executive Analysts, the actual unfunded allocation requests submitted by departments totaled \$47.5 million.

On the financing/General Fund non-department portion of the budget, we realized an unanticipated reduction in Human Assistance caseload expenses for Fiscal Year 2003-04 of \$5.0 million, and a further reduction of \$2.5 million in estimated budgeted expenses for Fiscal Year 2004-05, primarily due to lower than anticipated expenses in Foster-Care, "wrap-around" program costs. This increased the amount of available allocation for departmental budget units by a total of \$7.5 million. For the Proposed Budget, we are also recommending additional financing/savings be approved in the General Fund one-time financing sources, as follows:

- \$712,687 additional TOT transfer to the General Fund (see Section VII)
- \$3.0 million in one-time revenue from the anticipated sale of property at our Bradshaw Complex to the Sacramento Regional County Sanitation District (SRCSD), to allow their construction of a new headquarters building.
- \$4.78 million in additional one-time Realignment Revenue from the Health Realignment Trust Fund made available by transferring that same amount from the Mental Health Realignment Trust Fund, the maximum amount allowed by law (for more details, go to Section IV of this letter). It is further recommended that this revenue be applied to health program costs in the Health-Medical Treatment Payments (Budget Unit 7270000) to reduce net county costs for Fiscal Year 2004-05, and transfer a like amount of General Fund financing for other purposes.
- \$7.4 million in net General Fund cost savings presumed from the successful sale of \$420.0 million in Pension Obligation Bonds (POB's).

These additional financing amounts, partially offset by additional retiree and labor costs, together with the \$10.0 million "hold-back" amount in the original allocation plan in unallocated available financing, can also be used to "restore" departmental programs designated as "unfunded" when departments submitted their budgets. However, a total of approximately \$21.45 million in base budget costs remain to be reduced from General Fund budgets in order to balance the Fiscal Year 2004-05 Proposed Budget. Attachment I summarizes the County Executive's Preliminary and Final Recommended Allocations for the General Fund.

- **County Executive's Recommended Restoration Plan**

During late March and early April, the County Executive, Chief Financial/Operations Officer, and Agency Administrators met individually with each Department Head/Elected Official who had unfunded programs within the departments' budget submissions according to the County Executive's Preliminary Allocation Plan. At these meetings, the priorities within each department's unfunded programs were discussed, as well as the public feedback gathered during the budget workshops. Following these meetings, the County Executive determined a final allocation plan which restores funding to many of the programs that were initially unfunded, but leaves \$21.45 million in reductions outstanding as necessary to balance the Fiscal Year 2004-05 budget. This is in addition to the \$6.2 million in annualized reductions approved by the Board for Fiscal Year 2004-05 during Midyear Budget Hearings

Attachment II is the Summary of the County Executive's Recommended Restored Unfunded Programs within the Proposed Budget which summarizes the Final Available Allocation Plan amount recommended by the County Executive, as detailed in the Fiscal Year 2004-05 Recommended Proposed Budget document. Attachment III is the Summary of Remaining Unfunded Programs within the Recommended Proposed Budget (after Restorations) which details the remaining unfunded programs that your Board would be approving for reductions, if your Board approves the County Executive's funding recommendations.

Although the recommended program restorations include amounts for lower priority programs in the Quality of Life and Safety Net Priorities (Priorities 3 and 2, respectively) as well as the highest priority, Law Enforcement, the program restorations in the lower priority have been funded essentially with one-time revenue sources, which will leave those programs vulnerable again next fiscal year. Following is a description of the concept behind the restoration recommendations:

- Use one-time land sale proceeds of \$3.0 million directly for Regional Parks, Recreation and Open Space as a one-year “bridge” funding source until alternative long-term funding sources for the Parks system can be found (potentially a countywide special district funding source).
- Allocate the freed-up resources from the one-time \$4.78 Mental Health Realignment transfer to fund restorations in Safety Net & Prevention/Intervention programs (Priorities 2 and 5 respectively).
- Allocate the remainder of available financing allocations from the \$10.0 million “hold-back”, additional TOT transfer, POBs, Human Assistance caseload savings (and other savings net of miscellaneous/labor cost increases) totaling net \$18.66 million as follows: 7.5 percent (\$2.0 million) to other Quality of Life priority programs, and 92.5 percent (\$17.265 million) to Law Enforcement priority programs.

Essentially, the vast majority (92.5 percent) of the ongoing unallocated available financing is being recommended for use to restore Law Enforcement priority program funding. We are making this recommendation because your Board has determined that Law Enforcement is the county’s highest discretionary priority within the General Fund.

IV. REALIGNMENT TRANSFER ADJUSTMENT

The attached report and recommended resolution from the Countywide Services Agency's DHHS (Attachment IV) outlines the recommended reallocation of Fiscal Year 2003-04 Realignment Revenues in DHHS that are built into the County Executive’s Fiscal Year 2004-05 Recommended Proposed Budget. The recommended reallocations are within the state statutory limitations for transfers among accounts in the local Health and Welfare Fund, pursuant to Section 17600.20(a) of the California State Welfare and Institutions Code. The County Executive believes that these recommended reallocations will result in the most cost-effective use of available Realignment revenues. The recommended reallocations for Fiscal Year 2003-04 include a transfer of 10.0 percent, estimated at \$4,780,000, from the Mental Health Realignment Trust Fund to the Health Realignment Trust Fund to finance mandated medically indigent health services. This realignment transfer will improve the county’s General Fund fund balance by \$4,780,000. The actual transfer amount will be 10.0 percent of the Mental Health Realignment Fund total actual receipts for Fiscal Year 2003-04.

V. CONTINGENCY RECOMMENDATION

Consistent with the past several years, the County Executive’s recommended General Fund Contingency appropriation is \$5.0 million. This amount represents less than 1.3 percent of the total anticipated General Purpose Available Financing, and less than 0.3 percent of the General Fund total appropriations. There are several major uncertainties in the assumptions for the Fiscal

Year 2004-05 Proposed Budget that far exceed the recommended contingency level. The County Executive, therefore, recommends that your Board not use the contingency to fund programs so that the recommended \$5.0 million can be available for covering any shortfall from these uncertainties that may result. Following is a summary of the items for which the contingency should be earmarked:

- **Potential for Additional State Budget Actions:** With the State now facing a several billion dollar shortfall, there are numerous proposals which would transfer a portion of the state's shortfall to local government. The Governor has proposed shifting \$1.3 billion of Property Tax revenue from counties, cities and special districts, citing the \$1.3 billion VLF "gap" during the current fiscal year as justification for cutting \$1.3 billion again from local government this next fiscal year. Sacramento County would lose \$35.0 million under this proposal. Other specific-program related state budget cuts (booking fees, Probation, Temporary Assistance to Needy Families [TANF] funding, Child Support Sanctions being passed onto counties) add another \$10.0 million loss to Sacramento County. The LAO's counter-proposal takes 10.0 percent of the Local Sales Tax revenues from cities and counties instead of the \$1.3 billion in Property Taxes. The LAO's proposal would also impact Sacramento County by approximately \$45.0 million (including, but not limited to, a \$35.0 million sales tax reduction).
- **Potential Shortfalls In Local Revenue:** Our revenue estimates for Sales Taxes and Sales Tax-Related Taxes (such as State Proposition 172, Public Safety Sales Tax and Realignment Revenues) are based upon the assumption that moderate growth will continue during Fiscal Year 2004-05. This assumption is made despite the fact that Sales Tax revenues during Fiscal Year 2003-04 have been weak and a clear trend has not yet emerged. Furthermore, due to the so-called "poison pill" Realignment issue, beginning on March 26, 2004, counties are not receiving VLF-Realignment revenues. Our shortfall on the March 26, 2004, distribution was approximately \$3.5 million, and will continue at \$3.5 million per month until the "poison pill" issue is resolved. As a result, we could have a several million dollar loss of VLF-Realignment revenues at 2003-04 year-end and beginning of Fiscal Year 2004-05.
- **Potential Exposure On Several High-Profile Litigation Matters Is In The Millions Of Dollars:** The county's Long-Term Liability Reserve in the General Fund has been gradually reduced over the last few years to pay out settlement costs. Our potential exposure in the cases currently being litigated is much greater than our remaining Reserve of only \$15.6 million. In addition, a recent settlement on a major lawsuit (illegal jail "strip" searches) has brought our cash balance in the Self-Insured Liability Fund to near zero.

VI. SUMMARY OF RECOMMENDED PROPOSED BUDGET FOR THE GENERAL FUND (INCLUDING RECOMMENDED RESTORATIONS)

The General Fund is by far the largest fund in the County Budget. General Fund departments provide a very broad range of public services. The county's General Purpose Financing is allocated to the General Fund to provide the local share of costs for both mandated and discretionary programs. The other funds in the County Budget and operational structure are

financed with earmarked or restricted revenues. The Board of Supervisors has more discretion over resource allocation and service levels in the General Fund, but the state and federal mandates on spending severely curtails the discretion and flexibility. Counties are political subdivisions of the State of California and are responsible for the delivery, on a local level, of state services. Most of the funding for these services comes from state and federal sources, about two-thirds of all financing in the General Fund comes from other governmental sources.

In theory, the balancing of the General Fund is a comparison of the requirements and the financing, but in reality, the net department requirement is compared to the available general purpose financing, or local resources. The net department requirement (or allocation) is the departmental expenditures less departmental revenue and carryover savings from the prior year. It is the need for additional local resources. When a department requirement exceeds the general purpose financing, there is a budget problem in the General Fund and the net requirement must be reduced, because there is virtually no ability to increase general purpose financing.

The 2004-05 Budget Challenge – The “Local” Problem

The challenge for the 2004-05 Fiscal Year budget is the conflict between increased needs and lower local resources. An extraordinary level of one-time financing sources and cost-avoidance measures were utilized to balance the 2003-04 Fiscal Year budget and maintain a modicum of service levels. Healthy growth in some financing sources has largely been negated by the reduction in available one-time measures. Increased costs must be absorbed. There are increased salary and benefit costs. Increased costs for pharmaceutical drugs and supplies have heavily impacted the provision of health care services. New operating costs and debt service associated with new county facilities must be paid. Some mandated costs have increased, but others, such as Human Assistance-Aid Payments, have declined.

General Fund by New Agency Structure

The following table summarizes allocations of local resources in the Recommended Proposed Budget for the General Fund by Agency and compares those allocations to the 2003-04 Final Adopted Budget:

**Allocations for Fiscal Year 2004-05 Recommended Proposed Budget and Comparison to
Fiscal Year 2003-04 Final Adopted Budget
(amounts expressed in millions)**

	2003-04 Adopted Final Allocation	2004-05 Recommended Proposed Allocation	Variance
Elected Officials			
Board of Supervisors	2.7	2.6	(0.1)
Assessor	3.6	4.4	0.8
District Attorney	30.7	30.6	(0.1)
Sheriff	108.4	101.8	(6.6)
Subtotal	145.4	139.4	(6.0)
Countywide Services Agency			
Human Assistance Aid Payments	58.7	56.2	(2.5)
Human Assistance Administration	20.4	21.6	1.2
Health & Human Services	15.8	20.8	5.0
Probation	28.9	35.7	6.8
Court	36.0	37.1	1.1
Public Defender & Conflict Criminal Defenders	23.5	27.2	3.7
Health Treatment Accounts	15.7	14.7	(1.0)
In-Home Support Services (IHSS)	11.1	9.5	(1.6)
Voter Registration & Elections	7.8	7.8	0.0
Other Countywide Services	21.9	22.7	0.8
Subtotal	239.8	253.3	13.5
Municipal Services Agency			
Animal Care & Regulation	2.2	2.3	0.1
Regional Parks, Recreation & Open Space	4.4	5.1	0.7
Planning & Community Development	0.0	1.6	1.6
Other Municipal Services	0.1	0.2	0.1
Subtotal	6.7	9.2	2.5
Internal Services Agency			
OCIT Shared Systems	14.2	13.9	(0.3)
Human Resources & Personnel Services	5.1	5.3	0.2
Other Internal Services	1.4	2.5	1.1
Subtotal	20.7	21.7	1.0
General Government	4.0	3.9	(0.1)
Contingency and Carryover Reserve	15.1	5.0	(10.1)
Central Labor	12.4	0.2	(12.2)
TOTAL	444.1	432.7	(11.4)

The summary of the allocation of local resources is presented in the new agency structure recently approved by the Board of Supervisors. For comparison purposes, the allocations in the 2003-04 Final Adopted Budget have also been placed in the new agency structure. Not all allocations have decreased. There have been some significant increases for Probation and DHHS in recognition of the opening of new facilities and/or unavoidable cost increases. The allocations were also developed in consideration of the end of the transition year for the new City of Rancho Cordova. The county paid for the provision of municipal services to Rancho Cordova in the

current fiscal year, but for the 2004-05 Fiscal Year Budget, the City of Rancho Cordova is funding the services provided by county departments, particularly the Sheriff. But the allocations do somewhat mask the fact that most departments have had to absorb the increased costs of providing services in the new fiscal year.

The carryover reserve established in the Fiscal Year 2003-04 Adopted Final Budget was originally intended to offset a portion of the budget problem in Fiscal Year 2004-05. In essence, a portion of the one-time funding available in Fiscal Year 2003-04 was to be carried forward into the 2004-05 budget year. Due to the fiscal problems created by the Governor’s repeal of the higher VLF and a much lower than anticipated level of backfill of the reduced fees, the carryover reserve was used midyear in Fiscal Year 2003-04 to write down VLF revenues.

The following table gives a higher summary level of the recommended allocations.

	Allocation Amounts Expressed in Millions	Percent of Overall General Fund Allocation
Elected Officials	139.4	32.2%
Countywide Services	253.3	58.5%
Municipal Services	9.2	2.1%
Internal Services	21.7	5.0%
General Government	3.9	0.9%
Contingency & Central Labor	5.2	1.2%
TOTAL	432.7	100.0%

Countywide services consume well over half the local revenue resources. Municipal services, internal services, and general government are allocated together at only 8.0 percent of the local revenue resources, although this picture is skewed by the mixed service (municipal and countywide) provided by Elected Officials. The Board, Assessor, and District Attorney Office’s provide countywide services, but much of the allocation to the Sheriff’s Department is for Municipal Services.

General Purpose Financing

General purpose financing is the source of the “allocation” to programs. The following table summarizes the financing estimates:

General Purpose Financing (amounts expressed in millions)			
	2003-04 Final	2003-04 Estimated	2004-05 Proposed
General Revenues	\$409.9	\$402.0	\$418.6
Fund Balance	33.6	33.6	12.6
Reserve Changes	0.6	0.6	1.5
TOTAL	\$444.1	\$436.2	\$432.7

There is a year-to-year decline for Fiscal Year 2004-05 from both the current-year budgeted and current-year estimated levels. Many of the one-time financing measures used in the current-year budget were recognized as general purpose financing sources and are not available in the 2004-05 budget year. For the current year estimated financing is less than the budgeted level due to the larger than anticipated VLF gap.

The general purpose financing estimates for Fiscal Year 2003-04 (current year) and Fiscal Year 2004-05 (budget year) are discussed in Attachment V of this report.

VII. RECOMMENDED TRANSFER FROM TOT FUND TO GENERAL FUND

On March 9, 2004, your Board conducted a budget workshop on funding options for programs/organizations traditionally funded by the TOT Fund. At that workshop, your Board was presented with three scenarios for TOT funding reductions that would allow for a larger transfer to the General Fund or to General Fund departments. The scenarios presented a range of reductions from zero to 25.0 percent, which would increase the General Fund transfer from \$622,515 to \$1.25 million, if approved by your Board. The Fiscal Year 2004-05 Recommended Proposed Budget includes an allocation of \$3,064,054 transfer (an increase from 2003-04 Fiscal Year of \$712,687), as well as continued funding for General Fund departments/programs reliant upon TOT funding for their base budgets:

- \$90,000 for Department of Economic Development.
- \$54,000 for American River Parkway Foundation which provides support to the Department of Regional Parks, Recreation and Open Space.
- \$25,000 for County Executive administrative costs.
- \$25,000 to Department of Finance for revenue estimates/monitoring.
- \$10,000 to Department of Finance for hotel audits.
- \$10,000 to Department of Finance for contract audits.
- \$465,056 for various Community Initiatives Projects.
- \$80,000 for Board of Supervisors' Neighborhood Programs.
- \$66,000 for H Street Theatre Project-Music Circus (long-term, contractual commitment).
- Required pass-through budgeting of \$2.39 million in costs and revenues associated with bond financing for Raley Field (fully offset by a reimbursement for anticipated lease payments from the River City Baseball partnership).

We recommend that your Board approve a \$3,064,054 transfer to the General Fund in order to fund restoration of high-priority discretionary programs in the General Fund. This amount presumes a 14.0 percent reduction to City of Sacramento/County of Sacramento jointly funded programs offered by representatives of the jointly-funded programs at the TOT Budget Workshop held in March. The amount of \$3,064,054 has been included in the general purpose financing estimates in the General Fund.

Otherwise, the Recommended Proposed Budget includes no allocation of the remaining \$2,831,799 in anticipated TOT funding. We recommend that your Board allocate all the remaining funds during the Final Budget Hearings. A schedule listing continuing/outstanding TOT funding requests is attached to this report (Attachment VI).

VIII. BEILENSEN HEARINGS REGARDING POTENTIAL REDUCTIONS TO INDIGENT MEDICAL SERVICES

In accordance with the California State Health and Safety Code requirements, the County has conducted Beilenson Hearings regarding potential reductions and/or elimination to indigent medical services. Following those hearings, and depending on the County’s funding shortfall, the County Executive is recommending that your Board consider making the reductions to the health program in the following table. In addition, under state law, the County must designate an agency to provide a 24-hour information service that can give eligible people immediate information on the available services and access to them as well as an agency to receive and respond to complaints from people eligible for indigent medical services. In order to comply with this requirement, DHHS has been designated as the lead agency that will be responsible for providing the 24-hour information service.

Summary of Potential Reductions to Primary Health Programs Fiscal Year 2004-05			
Program Title	Program Description	Net Cost (savings)	FTE Positions
Well Child Clinics	Provides well child exams, immunizations, assessments at various sites. The reduction will eliminate approximately 3,908 patient visits (3,232 patients). During the 3,908 patient visits, children received 6,852 childhood immunizations to prevent childhood diseases (Whooping Cough, Polio, Hepatitis A, etc.). These immunizations will be eliminated.	\$180,445	4.0
TOTAL		\$180,445	4.0

IX. ADDITIONAL REQUESTS IN GENERAL FUND DEFERRED UNTIL FINAL BUDGET PROCESS

Due to the widespread knowledge and appreciation of the County’s General Fund shortfall for Fiscal Year 2004-05, most departments have not submitted additional requests for Fiscal Year 2004-05. The County Executive’s Office will review any additional requests and submit recommendations at the time of the Final Budget Hearings. In addition to the expected growth in some Enterprise Funds, caused by population/workload growth, that can be funded by fees, there may be some growth related to various county departments who achieve contract agreements with the City of Rancho Cordova.

X. CAPITAL CONSTRUCTION FUND (CCF)

The Fiscal Year 2004-05 Recommended Proposed Budget provides for major construction projects which are a part of the long-range Capital Improvement Program, as well as minor alterations, improvements, and major equipment replacement in countyowned facilities. As a result of the county's financial limitations and commitments to approved major projects now being planned or under construction, the recommendations for additional Capital Construction

projects are limited to those required because of health, safety, security, or severe operational problems. Several large-scale projects are included in this budget due to the successful securitization of Tobacco Litigation Settlement funds, State Board of Corrections grants, and borrowed funds.

The anticipated available financing within the CCF for Fiscal Year 2004-05 is \$18,220,805. The Recommended Fiscal Year 2004-05 Proposed Budget includes several high priority projects in the county's Juvenile Justice facilities as well as projects at other county facilities. Following is a summary of available financing and significant projects in the CCF Budget:

FINANCING SOURCES	AMOUNT
Deficit Fund Balance*	\$(18,660,982)
County Facility Use Allowance Charges	10,607,811
Interest Income	25,000
Miscellaneous Revenue -Sale of Surplus Herman Miller	20,000
Miscellaneous Revenue - Revenue Leases	279,247
Miscellaneous Revenue - 2003 Public Building Facilities	16,188,022
Grant Revenues-State Board of Corrections	2,652,479
Courthouse Temporary Construction Fund Revenues	2,000,000
Criminal Justice Facility Temporary Construction Fund Revenues	1,800,000
City of Sacramento Rent for Bank of America Building	809,228
Library Construction/Sacramento Housing & Redevelopment	
Agency Grants	2,500,000
TOTAL	\$18,220,805

* The Capital Construction Fund (CCF) typically budget projects based on anticipated expenditures. Often the design and engineering is not completed within a single fiscal year after the project is authorized. If large construction projects are awarded late in the fiscal year, the contracts encumber funds in CCF. Those encumbered funds have a significant effect on the fund balance. When a large project is financed, CCF typically provides the financing for the expense and receives reimbursement for those expenses. Since the revenue is received in arrears, the revenue is not listed as a balancing entry for the encumbrance. This will have the effect of creating a large negative fund balance.

Capital Construction Fund activities face significant funding limitations. Only a portion of the \$18.0 million in funding is available for new projects without restrictions. The balance is restricted through bond covenants or at Board direction for use on specific major construction projects.

The bulk of the Capital Construction Fund activity will focus on:

- Juvenile Courthouse
- Juvenile Hall expansion
- Warren E. Thornton Youth Center expansion

Debt service for bond-financed projects will be paid by the occupying department or in the case of Juvenile Courthouse, by the Courthouse Temporary Construction Fund.

Additionally, the funding levels identified for small miscellaneous projects differ from the funding budgeted as contingencies. The funds set aside as contingencies historically have been used to finance large construction or design projects at the direction of the Board or to finance large unexpected cost escalations or contractor claims on a construction project.

XI. OTHER COUNTY FUNDS

The General Fund is the largest of many funds included in the County Budget. Governmental funds are balanced on an annual basis and support basic county services. The funding for these other funds, with the sole exception of the TOT Fund, comes from restricted revenues which may only be expended on single services or narrow ranges of services. For example, the gas tax accruing to the Road Fund may only be expended on transportation services, and the various revenues for the Community Services Fund may only be expended on human services programs.

There is some support from the General Fund of services provided by other funds. There are transfers from the General Fund to the Community Services Fund and to the Economic Development Fund.

As required by law, the county's governmental funds are all balanced. The financing, consisting of revenues, fund balance, and, in some cases, reserve releases is equal to the requirements, consisting of appropriations and reserve contributions. The financing estimates are reasonable. The county's proprietary funds are not balanced in the same manner as governmental funds, but again, the financing estimates have been reviewed and are reasonable. Sufficient funding is available in the form of revenues, retained earnings, working capital, fund transfers, and reserve releases to support the budgeted expenditures.

Information regarding various other county funds is as follows:

Economic Development Fund

The Economic Development Department has been separated from the General Fund and is established as a Special Revenue Fund. The primary programs of the Economic Development Department revolve around the reuse of the former Mather and McClellan Air Force Bases. The Department also engages in more general economic development and job creation programs. The only General Fund support of Economic Development activities is the transfer of \$250,000. This is for countywide and unincorporated area specific activities which cannot be included in the Mather and McClellan reuse projects. Many of the general economic development activities have resulted in increased General Fund revenue, with the new revenues, such as sales tax from the remodeled Country Club Plaza Shopping Center, far exceeding the minimal transfer from the General Fund. For this reason, the transfer is now classified in the budget as a cost associated with the collection of general revenues in the Non-Departmental Revenues Budget Unit.

Environmental Management Fund

A new Environmental Management Fund has been created for the 2004-05 Proposed Budget to be effective July 1, 2004. The activities of the Environmental Management Department are being moved to this new fund from the General Fund. Environmental Management services are entirely funded with fees, charges, and other revenues. There is no allocation of local resources. It is appropriate that this department move to its own special revenue fund. Similar actions have been taken in recent years with the Office of Communications and Information Technology (OCIT), Golf, and Economic Development.

In recent years the financing for Environmental Management has exceeded annual costs and a carryover has been generated. Since this carryover had not been available to fund other county activities, this carryover has been placed in restricted reserves in the General Fund. In the Recommended Proposed Budget these General Fund Reserves of approximately \$1.3 million are being released. A transfer from the General Fund to the new fund in the same amount is included in the budget. New reserves are being established in the new Environmental Management Fund.

Community Services Fund

The Community Services Fund is a branch of the Department of Human Assistance. Funding sources include program revenues and transfers from the General Fund. Programs are impacted by reductions in state categorical funding.

Golf Fund

The Golf Fund includes the costs of operating, maintaining and improving the county's three golf courses. The major sources of funding are greens fees and concession payments. There is no General Fund subsidy of the Golf Fund, and the Golf Fund fully reimburses the General Fund for overhead and support. The budget for the Golf Fund includes debt service for the Cherry Island and Mather golf courses.

County Library Fund

The County Library Fund is the collector for a share of the local property tax levy dedicated to library services. All of the County with the exception of the cities of Folsom and Sacramento are part of the tax district. Actual library services are provided by the Sacramento Library Authority. Expenditures for County Library facilities and POB debt service are made directly from this fund. The remainder of the financing is transferred to the Sacramento Library Authority for services.

This fund has seen healthy property tax growth in recent years, but this growth has not directly translated to increased service levels. New facility costs and debt service payments are now coming out of the fund. And due to budget problems and the incorporation of Rancho Cordova, hotel tax allocations to the Library Authority have been eliminated from the County Budget.

Tobacco Litigation Settlement (TLS) Fund

The TLS Fund was established in the Fiscal Year 2000-01 budget process to serve as the funding source for health, tobacco, and youth programs. Funding was to come from an "endowment" created at the time of the sale of TLS bonds. The TLS bonds were sold early in the 2001-02 Fiscal Year. Financing prior to the bond sales came from current TLS revenue retained by the County in advance of the bond sale.

XII. MUNICIPAL SERVICES AGENCY

The Fiscal Year 2004-05 Recommended Proposed Budget for the Municipal Services Agency reflects no new positions beyond those approved midyear in Fiscal Year 2003-04. Overall, the Agency's budgets (excluding the Sanitation District, Countywide and Less Than Countywide

Funds) reflect a net reduction of \$270.8 million from the Fiscal Year 2003-04 Adopted Budget. This net reduction is primarily attributed to reduced Infrastructure Finance projects; reduced activity in the Road, Roadways and Sales Tax funds due to declining revenues, incorporations and the application of the new Project Information Management System which more accurately projects annual costs; reduced equipment expenditures for Waste Management and Recycling Capital Outlay Fund discontinued Refuse billing services to the City of Elk Grove; reduced fund balance in Water Agency Zone 40 due to a transfer of bond proceeds to reserves in 2003-04; and restructuring of the County which moved General Services Department (\$151.7 million in Fiscal Year 2003-04) to the Internal Services Agency.

These reductions are partially offset by increased loan redemption payments and reimbursement credits applied to Water Agency Zone 11A; increased land purchases and contributions to other agencies as part of the Freeport Water Agency Project, bond and interest payments, and payment credits to Water Quality Department for additional work done in Stormwater; and increased costs associated with additional work to be done by Water Quality Department for Stormwater and various other expenditures. Attachment VII details the year-to-year comparisons for the Municipal Services Agency budget units.

XIII. AIRPORT ENTERPRISE

The Sacramento County Airport System operating budget for Fiscal Year 2004-05 reflects an increased emphasis on environmental resource management and long-term sanitary sewer connection needs. Recognizing these increased requirements and to maintain a reasonable airline cost per enplaned passenger, significant cuts were made in services and supplies. Major maintenance and repair projects were also delayed or scaled back.

SACRAMENTO COUNTY AIRPORT SYSTEM					
FUNDS 41 AND 45					
OPERATING REVENUE AND EXPENSES					
FISCAL YEAR 2004-05 PROPOSED BUDGET					
	2004-05				
	2003-04 Adopted	Recommended		Variance	Percent
	Budget	Budget			Change
<u>REVENUES:</u>					
Charges for Services	\$ 84,108,903	\$ 87,093,711	\$ 2,984,808		3.5%
<u>EXPENSES:</u>					
Salaries/Benefits	\$ 27,581,988	\$ 28,573,921	\$ 991,933		3.6%
Services & Supplies	41,482,974	39,135,110	(2,347,864)		-5.7%
Depreciation	16,971,909	21,944,964	4,973,055		29.3%
Other Charges	1,753,195	1,407,134	(346,061)		-19.7%
Cost of Goods Sold	578,658	460,000	(118,658)		-20.5%
TOTAL	\$ 88,368,724	\$ 91,521,129	\$ 3,152,405		3.6%

Revenues:

Significant changes to the County Airport System’s operating revenue for Fiscal Year 2004-05 include:

- Anticipated growth in enplaned passengers has increased the projection of rental car revenue by \$1,400,954 (\$1,400,954 over Fiscal Year 2003-04 budget and \$332,454 over Fiscal Year 2003-04 estimates).
- Pay telephone concession revenue has decreased by \$440,000 as a result of increased reliance on cell phone usage.
- Landing fee revenue (includes scheduled, commuter, and cargo) is projected to grow by \$1,762,351 as a result of anticipated increases in aircraft activity, aircraft landed weights, and an increase in the landing fee.

Expenses:

Significant changes to the County Airport System's operating expenses for Fiscal Year 2004-05 include:

- Salaries and benefits have increased from \$27,581,988 to \$28,573,921 (increase of \$991,933) due to step increases, insurance costs and Fiscal Year 2003-04 midyear position additions and reallocations.
- Increases in environmental remediation and restoration and utility connection costs including Franklin Field landfill clean-up cost of \$515,000, Prichard Lake restoration of \$930,000 and \$2,270,000 for the cost associated with the wastewater sanitary sewer connection.
- Reductions have been budgeted in the areas of Liability/Property Insurance of \$485,977; towing and shuttle bus rental of \$247,500; contract security services for Sacramento International Airport and outside fire protection for Mather Airport of \$454,350 and \$1,200,000, respectively (will be performed in-house by department staff); budgeted contingency of \$1,000,000; cost reductions in maintenance services of \$774,655 and Sheriff's services of \$1,425,507.
- Depreciation expense will increase by \$4,973,000. This increase reflects the completion of major capital projects, such as the parking garage.

XIV. INTERNAL SERVICES FUNDS

Internal Services funds are primarily financed with charges to county departments for services provided back to those departments. These funds and services have seen significant budget reductions, where possible, in recent years. Often these reductions are made very early in the budget process and do not receive the same level of "visibility" as reductions in direct services to county residents. The basic Internal Services funds include General Services (discussed above), the Office of Communications and Information Technology (OCIT), and the Insurance Funds.

• OFFICE OF COMMUNICATIONS AND INFORMATION TECHNOLOGY (OCIT)

OCIT has reduced charges to customers by \$4,517,700 from the 2003-04 Adopted Final Budget. This reduction reflects the final payment of the COMPASS debt service in the 2003-04 Fiscal Year (\$4,311,287) and midyear General Fund budget reductions approved by your Board in February 2004 (\$2,649,323). The proposed budget includes unavoidable cost increases of

\$1,505,000 for a Department of Justice mandated enhancement to the Sheriff's California Law Enforcement Technology System message switch, increased "pass-through" costs for telephone and cellular phone services of \$739,100 and an upgrade to the five-year old, Wide Area Network (WAN) infrastructure of \$466,600. OCIT has been able to maintain or enhance services without increasing billing rates or allocated costs.

The Fiscal Year 2004-05 proposed budget includes staffing and funding to initiate and/or complete the following projects and service enhancements:

- Revise and enhance COMPASS end-user training to include county business processes.
- Complete a pilot project for electronic time entry and pay stub viewing within COMPASS.
- Assist the Department of Finance in replacing the Special District Payroll application.
- Provide customizable electronic telephone call detail to departments.
- Support the implementation of the 2004 Countywide Information Technology (IT) Plan.

The proposed budget reflects efforts to reduce OCIT's reliance on IT contract staff for strategic and permanent functions. Where possible, existing vacant positions were filled with county staff and reassigned work previously performed by contractors, thereby allowing for the release of those contractors. In addition, 5.0 new positions were created to convert existing IT contractors to county employees. It is anticipated that this trend will continue into Fiscal Year 2004-05.

• **Insurance Funds**

The County utilizes three separate funds to accumulate charges and payments for Workers' Compensation Insurance, Liability/Property Insurance, and Unemployment Insurance. The County is basically self-insured for Workers' Compensation Insurance and Liability/Property Insurance; however, the County does purchase additional coverage above the self-insured retention levels. All three Insurance funds are financed through a combination of charges to county departments and retained earnings. In recent years it has also been necessary to release reserves to pay unanticipated claims.

The charges to county departments for all three Insurance funds are determined on the basis of each department's claims experiences and exposure. The County has several higher risk services, particularly in the provision of municipal services to the Unincorporated Area. The following table summarizes Insurance fund charges for the 2003-04 current year and 2004-05 budget year:

Insurance Funds Charges			
	Estimated 2003-04	Recommended 2004-05	Variance
Workers' Compensation	\$29,193,636	\$33,000,002	\$3,806,366
Liability/Property	11,824,308	11,317,071	(507,237)
Unemployment	<u>2,200,000</u>	<u>2,340,632</u>	<u>140,632</u>
TOTAL	\$43,217,944	\$46,657,705	\$3,439,761

Overall recommended charges are higher for Fiscal Year 2004-05, driven primarily by anticipated increases in the cost of Workers' Compensation and Unemployment Insurance.

Cost increases in the Workers' Compensation Insurance program are attributable to state-mandated increases in Workers' Compensation benefits, increased excess insurance costs, increased medical services utilization and costs, and extended entitlement periods for certain disability payments. These trends will result in continuing cost increases.

The decrease in cost for the Liability/Property Insurance Program is due primarily to the use of \$6.2 million in retained earnings to partially fund Fiscal Year 2004-05 insurance costs; thereby, resulting in lower charges to county departments. This is a short-term financing measure which cannot be sustained. The result will be higher charges to county departments in future fiscal years.

Cost increases in the Unemployment Insurance program are attributable to state-mandated increases in Unemployment Insurance benefits and entitlement periods. In addition, costs have been increased in anticipation of possible layoffs, since laid-off county employees would be entitled to Unemployment Insurance benefits.

In prior years, the County utilized a Dental Insurance Fund which was self-insured. Starting in January 2003, the County changed from a county-funded, contractor-administered Dental Insurance Program to the purchase of dental insurance from a private dental plan carrier. Primarily as a result of this change, the per-employee charge has increased from \$1,080 to \$1,111. This is an overall countywide cost increase of \$409,200.

XV. SPECIAL DISTRICTS

The Board of Supervisors also serves as the Board of Directors for certain Dependent Special Districts providing services to residents of the Unincorporated Area. The District budgets are all balanced governmental funds. There are three recreation and park districts, three county service areas providing recreation and parks services to the rural South County, two parks maintenance and improvement districts, and one fire district. The Board of Supervisors has appointed advisory boards for most of the Districts. The primary sources of financing are dedicated shares of the property tax levy and user fees. One park maintenance and improvement district imposes assessments. Total spending for services and facility maintenance and improvements by the Districts will be about \$19.0 million in Fiscal Year 2004-05. Please refer to Attachment VIII for a more detailed analysis of changes in appropriations, revenues, and fund balances for the Dependent Special Districts.

XVI. CERTIFICATION BY DIRECTOR OF FINANCE

Pursuant to Government Code Section 29062, the Director of Finance is responsible for reviewing the tabulation of the budget requests, and confirming that the requested budget transmitted to your Board by the County Executive is an accurate tabulation. The Director of Finance has reviewed and confirmed the tabulation. The certification of the tabulation by the Director of Finance is attached (Attachment IX).

XVII. SCHEDULE FOR FINAL BUDGET HEARINGS

Because your Board has already held lengthy public budget workshops on each discretionary General Fund budget unit/department, we are recommending that the Proposed Budget Hearings be limited to only those budget units with recommended restorations and/or those budget units for

which the Elected Official/Department Head has formally “disagreed” with the County Executive’s final Proposed Budget recommendation. Furthermore, in keeping with the theme of having the budget organized according to the Board’s approved priorities for the General Fund, we are recommending the organization of the hearings be according to obligations (mandates) and discretionary priorities areas. As such, following is the planned schedule for the Proposed Budget Hearings:

Day 1	Monday, May 3rd ^h	9:30 a.m.	Budget Overview General Public Testimony; IHSS Authority; Recommended Restorations, Additional Requests and/or Disagreed Budget Units regarding: “Obligations” (Mandates), Priority 4 (General Government), and Priority 5 (Prevention Programs)
Day 2	Tuesday, May 4 th	2:00 p.m.	Budget Workshop on “Overhead” costs
Day 3	Wednesday, May 5 th	9:30 a.m.	Recommended Restorations, Disagreed Budget Units regarding: Priority 1 (Discretionary Law Enforcement); Start Priority 2 (Safety Net)
Day 4	Thursday, May 6 th	9:30 a.m.	Continue Priority 2 (Safety Net); Start Priority 3 (Quality of Life)
Day 5	Friday May 7 th Half day	10:30 a.m.	Continue Budget Hearings From Day 4 on Priorities 2 and 3; TOT Fund Allocations
Day 6	Tuesday, May 11th	2:00 p.m.	Hearing on Transfer of Realignment Mental Health Trust Funds to Health Trust Fund
Day 7	Thursday, May 13 th	9:30 a.m.	Reports Back; Budget Deliberations
Day 8	Friday, May 14 th Half day	9:30 a.m.	Budget Deliberations continued (if necessary)

It is anticipated that at the conclusion of the Proposed Budget Hearings, your Board will adopt a Proposed Budget Resolution (Attachment X) that will implement the Approved Proposed Budget decisions, effective July 1, 2004, (commencement of the new fiscal year). The Resolution will also continue the Budget Hearings until Tuesday, August 24, 2004, for the commencement of our Fiscal Year 2004-05 Final Budget Hearings. Final Budget Hearings are anticipated to focus on nominal adjustments to the Proposed Budget based upon Fiscal Year 2003-04 year-end results, as well as potentially large adjustments that may be necessary if the State Budget is adopted by late-August, and includes further significant impacts to our General Fund.

Respectfully submitted,

TERRY SCHUTTEN
County Executive

GBD/RTF:js

Attachments:

- I. Summary of the County Executive's Preliminary and Final Recommended Allocations for the General Fund
- II. Summary of Restored Unfunded Programs within Recommended Proposed Budget
- III. Summary of Remaining Unfunded Programs within Recommended Proposed Budget (after Restorations)
- IV. Report from Countywide Services Agency on Transfer of Mental Health Realignment Trust Funds
- V. General Purpose Financing Estimates
- VI. Transient-Occupancy Tax Fund Preliminary Allocations/Requests
- VII. Municipal Services Agency (Non-General Fund) Summary of Changes to Base Budget
- VIII. Special Districts Budget Summary
- IX. Director of Finance Certification
- X. Proposed Budget Resolution
- XI. Detail of Community Services Unfunded Programs

cc: Elected Officials
Agency Administrators
Department Heads
County Executive Cabinet Analysts
Department Administration/Fiscal Staff