

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
February 5, 2008
2:15 P.M.

To: Board of Supervisors

From: County Executive's Office

Subject: Fiscal Year 2008-09 Budget Outlook

Supervisory
District: All

Contact: Navdeep S. Gill, Chief Operations Officer, 874-5803
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Overview

In submitting the Fiscal Year 2008-09 budget outlook, the Office of Budget and Debt Management (OBDM) provides a discussion of the current economic and other factors that will affect the next fiscal year budget, including the possible impacts of the Governor's Proposed Budget on the County.

In previous budget outlooks, staff provided a specific shortfall estimate for the next fiscal year based on budget forecasts. This year, the current budget forecast indicates a potential shortfall between \$40.0 million and \$60.0 million for Fiscal Year 2008-09. In response, departments will be asked to develop departmental reduction impact statements for all costs identified as "unfunded" when they submit their proposed budgets. In addition, staff will continue to implement the elements of the "11 Point Plan" adopted in Fiscal Year 2007-08 to assess whether or not additional savings can be gained from the plan. Once the departmental budgets have been submitted and reviewed, staff will brief the Board in April 2008 with the exact amount of the anticipated shortfall.

Recommendations

1. Receive and file this report.
2. Approve the Fiscal Year 2008-09 Budget Schedule (Attachment I).
3. Approve two additional Countywide Strategic Priorities for general government and internal services activities.

BACKGROUND

Annually, in late January or early February, the Office of Budget and Debt Management (OBDM) submits the outlook for the next fiscal year to the Board of Supervisors. The outlook is a discussion of the current economic and other factors that will affect the next fiscal year budget.

This is also the first opportunity for staff to brief the Board on the Governor's Proposed Budget and the impacts that it may have on the County. The Board is then asked to reaffirm a number of

existing budget policies, adopt the budget schedule and any new budget policies necessary for the next fiscal year. This report will provide the Board with the following information:

- An initial assessment of the economic factors that will impact next year's budget.
- Any local program issues that will have an overall effect on expenditures.
- An initial assessment of the Governor's Proposed Budget for the State of California, and its potential impacts on the County's budget/operations.
- A recommended budget schedule for the Fiscal Year 2008-09 budget.

DISCUSSION

PRELIMINARY INDICATIONS FOR FISCAL YEAR 2008-09 GENERAL FUND BUDGET

Based on current economic data, it is anticipated that the County will face some fiscal challenges next year. The decline in the housing market has affected the growth in assessed values that in turn translates into less growth in property taxes. The housing downturn has also resulted in lower taxable sales from the construction sector. There is also evidence that the housing downturn, the tight credit market and high gasoline prices will continue to depress car sales next year.

With the realities of our current economic status, the initial General Fund projection indicates a net shortfall between \$40.0 million and \$60.0 million (or approximately 6.6 percent to 10 percent of total General Fund non-departmental revenues) for Fiscal Year 2008-09. The following major assumptions have been used to evaluate the extent of our challenges:

Assumptions in Fiscal Year 2008-09 Estimates for General Fund Revenues/Financing Sources:

1. Property tax revenue is assumed to increase by 2 percent based on information from the Assessor's Office.
2. Revenue from property taxes in lieu of vehicle license fees¹ is assumed to remain at current levels. This revenue source mirrors the growth patterns of county property tax collections.
3. Sales tax revenue is assumed to increase by 2 percent over current year collections growth.
4. Fund balance for the current fiscal year will continue to mirror historical averages of 4 percent of appropriations.
5. There was no Departmental Carryover Reserve established for departmental use in Fiscal Year 2008-09. In prior years any betterment in departmental carryover between Proposed and Final Budgets has been reserved for departmental use in the next fiscal year. During the Fiscal Year 2007-08 budget process there was no betterment in the overall estimated departmental carryover and no reserve was established. Historically this amount has been approximately \$11.0 million
6. To the extent feasible, one-time revenue/financing sources are not used for ongoing operational costs.
7. Historically departments have financed approximately 70 percent of their appropriation requirements with revenues generated by departments. This forecast assumes that

¹ In Fiscal Year 2004-05, the State swapped Vehicle License Fees revenue with counties for a more stable share of property tax.

departmental revenue will continue to fund at least 70 percent of departmental expenses. Departments are expected to manage their fees to generate adequate financial support for fee-based programs. During the budget process last year, departments were directed to fully evaluate their fees and bring back increases for Board approval where appropriate. Consequently, it is anticipated that departments will review their current fee structure and estimate any additional increases in fee revenues associated with increased expenses.

- The Countywide Services Agency (CSA) will bring proposals for fee increases before the Board on March 4.
 - The Municipal Services Agency (MSA) has brought two items for Planning and Building Inspection fees before the Board in separate actions. MSA is still assessing the necessity of additional fee increases and will bring their finding to the Board in May, 2008.
 - The Internal Services Agency (ISA) has two departments that assess fees. The Clerk Recorder has already been before the Board with their updated rates. The Department of Finance will be coming to the Board in March, 2008 with their update.
8. If some of the State's proposed program reductions are adopted, there will be program implications for the County. Until the legislature adopts and the Governor signs a final budget bill the exact nature of these program impacts are unknown. The Fiscal Year 2008-09 budget projection assumes that the County will not backfill (overmatch) state or federal matching requirements that would have a detrimental effect on the County's financial picture. This assumption remains as a policy question for the Board's consideration as information becomes available.

Assumptions for Fiscal Year 2008-09 General Fund Expenditures:

Current assumptions for General Fund expenditures only include the impact of County issues, as cost assumptions were developed prior to the Governor's plan to reduce the State deficit. Once the State budget is approved, any additional fiscal impact to be addressed will be added to these assumptions.

1. All employees will receive a cost of living adjustment for Fiscal Year 2008-09 equal to the annual increase in the Consumer Price Index (CPI) as stipulated by negotiated labor agreements. The assumed CPI increase is 3 percent.
2. The second phase of equity increases that were negotiated in the current labor agreements will become effective in Fiscal Year 2008-09.
3. County IHSS caseloads will continue to increase by the historical average of 11 percent.
4. Based on the latest Legislative Analysts Office projections, Public Assistance caseloads will increase at approximately 6 percent in the coming year.
5. The County is currently negotiating for contract services necessary to serve clients in the County Medically Indigent Services Program (CMISP). Because of a change in contract terms from calendar year to fiscal year it is anticipated that CMISP costs will increase by \$15 million in Fiscal Year 2008-09 as the County transitions to the new contract. This will be a one-time expense as the department transitions to the new contract. In the long term there will be a savings to the County resulting from this change.
6. Pension Obligation Bond (POB) debt service payments will continue to increase, but at a much less dramatic pace than in prior years. While these payments will continue to increase, the incremental increase (\$5.9 million) is only slightly more than in Fiscal Year 2007-08.

Efforts Necessary to Eliminate the Shortfall:

At this point in the process, it is anticipated that expenditure reductions will be necessary in order to balance the Fiscal Year 2008-09 General Fund budget. However, until anticipated expenditures and projected revenues have been fully reviewed, it is premature to speculate as to the exact amount of reductions necessary. Therefore, departments will be asked to develop departmental reduction impact statements for all costs identified as “unfunded” when they submit their proposed budgets. Agency Analysts and the OBDM will work to lessen the amount of the reductions by using the following strategy:

1. Continue to implement the elements of the “11 Point Plan” adopted in Fiscal Year 2007-08 to assess whether or not additional savings can be gained from the plan. (Attachment II is a complete listing of the various elements that were adopted last year.)
2. Vacant positions as of December 31, 2007, will be funded on the following criteria:
 - Positions vacant as of this date will be fully analyzed to determine the reason for the vacancy.
 - Generally, vacant positions that are filled with registry or contract employees will not have their funding reduced.
 - All other vacant positions will be funded by the following formula:
 - For those positions vacant 0 to 6 months - 3 months funding is removed from the budget.
 - For those positions vacant 6 months to 1 year – 6 months funding is removed from the budget.
 - For those positions vacant over 1 year and beyond – all funding is removed from the budget and reflected as “unfunded” on the Annual Salary Resolution.
 - A department can change the funding status of a current unfunded position to a permanent funded status if an ongoing funding source has been identified. Requests to change these positions to a funded status that do not require a change in appropriations can be accomplished by using the administrative process. If additional appropriation is required then departments will be required to submit a fully justified “Additional Growth Request” as part of the budget process.
3. Continue to use “Reserves for Future Pension Obligation Bond” to offset the incremental increase in the POB debt service.²
4. Use Reserves to offset a one-time increase in CMISP costs as the County transitions to a new contract arrangement for these clients. This reserve will be reimbursed as savings accrue from the program change.
5. As the State budget process unfolds, investigate whether impacts will reduce expenditures at the local level.

² This reserve was set up in Fiscal Year 2006-07 when the state repaid counties for their “loan” of Vehicle License Fee (VLF) funding that occurred in Fiscal Year 2003-04. When the County received the repayment, a policy was established to use a portion of these reserves for a number of years to offset the incremental increase in POB annual debt service payments. The rationale for this policy was that the County, in order to balance the local budget as a result of the State’s actions, refinanced the POB debt and extended the term for two years.

On March 3 the departments will submit their budgets for review. It is anticipated that by approximately April 2 the exact amount of shortfall (if any) will be known. At that time OBDM will communicate back to the Board with this information.

POTENTIAL STATE BUDGET IMPACTS

Each year in January, the Governor submits his proposed budget to the legislature for its consideration. In years prior to the passage of Proposition 1A, this proposal provided the first glimpse of what issues counties would face in the next budget year. With the passage of Proposition 1A, the state is no longer able to siphon off large segments of revenue that have been traditionally used by local governments to fund local programs (both state mandated or local discretionary programs). However, with the looming State shortfall, the Governor declared a fiscal emergency and ordered a special session to consider midyear budget corrections. The legislature had 45 days (until February 23) to consider the Governor's proposed reductions which include local program/service reductions of approximately \$13.1 million in current year and \$17.9 million for Fiscal Year 2008-09 if the reductions are approved by the legislature. The following is a summary of those areas most likely to have an effect on the County (General Fund & Non-General Fund).

SUMMARY OF GOVERNOR'S BUDGET IMPACTS

Department	2007-08		2008-09	
	Statewide Impact (Billions)	County Impact (Millions)	Statewide Impact (Billions)	County Impact (Millions)
DHA	\$ (0.0400)	\$ 0.0	\$ 0.8269	\$ (2.7250)
DHHS	(0.1029)	(4.2755)	(4.5146)	(5.9084)
District Attorney			0.0162	(0.0450)
Non-Dept Revenues/GF			(0.0039)	(0.0527)
Probation			(0.0108)	(1.3031)
Public Defender and Conflict Criminal Defenders	0.0538		0.0045	
Realignment			(0.0110)	(0.3996)
Sheriff			0.2594	(0.8556)
Voter Registration & Elections		(4.0000)		(4.0000)
GENERAL FUND IMPACT	\$ (0.0891)	\$ (8.2755)	\$ (3.4333)	\$ (15.2894)
Transportation	\$ 5.7830	\$ 21.4000	\$ 6.2830	\$ 32.8000
TOTAL IMPACT	\$ 5.6939	\$ 13.1245	\$ 2.8497	\$ 17.5106

STATE BUDGET PROPOSALS BY GOVERNOR FOR FISCAL YEAR 2007-08 and FISCAL YEAR 2008-09

On January 10, 2008, the Governor proposed his 2008-09 Fiscal Year Budget for the State of California that forecasts a \$14.5 billion deficit. The Governor outlined a plan to close the budget deficit that includes more than 500 proposals to achieve 10 percent across-the-board reductions. More than half of these reductions are in the area of health and human services. The following is a sampling of the reductions that the Governor has proposed. (For a complete listing of the

impacts proposed by the Governor see Attachment III CSAC's Summary of Governor's Proposed 2008-09 State Budget and Attachment IV for a summary by program of impacts to Sacramento County.)

HEALTH

Medi-Cal. The Governor's proposed budget includes a number of reductions in the Medi-Cal program:

Benefit Reductions. The budget proposes to eliminate adult dental care and certain Medi-Cal optional benefits for adults, including incontinence creams and washes, acupuncture, audiology, optometry, optical, chiropractic, podiatry, psychology and speech therapy.

Eligibility Changes. Proposes to reduce the 12-month Medi-Cal eligibility period for children and restore quarterly status reports for children and parents.

Rate Reductions. Effective June 1, 2008, the Administration proposes reducing Medi-Cal provider rates and managed care rates by 10 percent.

Medi-Cal Payments to Counties. The Administration is proposing: 1) to eliminate the cost of living adjustment that is provided to county eligibility, administrative and support positions; 2) to eliminate caseload growth funding that is used to hire additional county staff to address increased workload; 3) to reduce the county administration base; and 4) to reduce funding for administration of the CCS and CHDP programs.

Healthy Families Program. The Governor proposes to reduce rates for Healthy Families Program (HFP) plans by 5 percent and increase premiums and co-pays for subscribers above 150 percent of the Federal Poverty Level. The budget also would institute a \$1,000 annual cap on dental benefits.

ALCOHOL AND DRUG PROGRAMS

Proposition 36/Substance Abuse Offender Treatment Program. The Governor's proposed budget includes reductions to Proposition 36 funding, but does not propose changes to the sentencing law requirements under the proposition.

MENTAL HEALTH

Early and Periodic Screening, Diagnosis, and Treatment (EPDST). The Governor's budget includes the elimination of the annual COLA, a reduction of the non-inpatient State Maximum Allowance (SMA), and new requirements for prior authorization by mental health providers for EPDST day treatment that exceeds six months.

Mental Health Managed Care. The Administration is proposing a 10 percent reduction to the mental health managed care program. This reduction will decrease the amount paid to county mental health plans.

PUBLIC HEALTH

The Governor's Budget proposes statewide reductions to AIDS programs, family health programs, and local chronic disease programs.

SOCIAL SERVICES

CalWORKs. The proposed budget contains a number of policy changes to the CalWORKs program. These changes include the following:

Graduated Full-Family Sanction. The document assumes a new sanction policy effective March 1, 2008 and fully implemented by June 1, 2008. The policy would place adults in sanction status for an accumulated total of six months of non-compliance. The family's grant would be reduced to 50 percent of the child-only grant. Families with an adult who is sanctioned for a second accumulated six months would receive a full family sanction.

Modified Safety Net program. This proposal would provide benefits only for Safety Net cases that meet federal work participation requirements.

60-month time-limit for child-only cases. The Governor's Budget also assumes that grants for children of unaided adults who are undocumented non-citizens, drug felons, or a fleeing felon will be subject to a 60-month time limit. This was proposed by the Administration and rejected by the Legislature in 2007.

Other CalWORKs Budget Proposals. The Governor's Budget proposes to maintain funding provided to counties in Fiscal Year 2006-07 and Fiscal Year 2007-08 – \$90 million for counties to implement program improvements that lead to better outcomes and increased work participation rates and \$140 million to restore county administration.

In addition, the Administration is proposing to provide a 4.25 percent CalWORKs cost of living adjustment (COLA) for recipients for a cost of \$134.4 million.

The Administration is proposing to eliminate the Pay for Performance incentive funding for Fiscal Year 2007-08 but makes \$40 million available for Fiscal Year 2008-09 for those counties that achieve improved performance in Fiscal Year 2007-08.

The budget includes \$9.9 million for additional county CalWORKs administration activities associated with increased documentation and verification requirements resulting from the Deficit Reduction Act.

In-Home Supportive Services (IHSS)

Service Hour Reductions The Administration is proposing that domestic services and other related services such as meal preparation, laundry, food shopping and errands be eliminated as IHSS services. This proposal affects approximately 90 percent of the IHSS cases and is estimated to reduce hours by slightly less than seven hours per week.

County Administration. The Administration is proposing to reduce county administration for IHSS. As part of this proposal, the state is proposing to allow re-assessments every 18 months rather than every 12 months. This would require a Medicaid state plan amendment and federal approval.

Adult Protective Services (APS). The Administration is proposing a 10 percent cut to APS funding.

Child Welfare Services (CWS). The budget includes a number of budget-balancing reductions including:

County Allocation. The Administration is proposing to reduce the CWS allocation to counties. This action will also result in reduced federal funds.

Rate Reductions. The Administration is proposing to reduce the basic care, specialized care, and clothing allowance rates for Foster Care, Kin-GAP, and Adoptions Assistance.

Food Stamps. The budget includes a 10 percent cut to the California Food Assistance Program benefits and a 4 percent cut for Food Stamp administration.

Supplemental Security Income/State Supplemental Payment (SSI/SSP). The budget proposes eliminating the June 2008 and June 2009 COLA.

CHILD SUPPORT

County Administration. The Fiscal Year 2008-09 budget includes the same level of funding for local programs as it did in the current year. The budget also continues to provide \$20 million in federal funds to be matched by \$10 million in voluntary county funding for the support of local child support agency staff and program services.

Child Support Pass-Through. The budget is proposing to take advantage of a recent federal law change to establish federal participation at 50 percent for the current \$50 disregard provided to CalWORKs families. This will result in additional General Fund revenues of \$3.9 million for the period from October 1, 2008 to January 1, 2009. Additionally, the budget proposed to increase the amount of child support passed through to CalWORKs families from \$50 to \$100 per month effective January 1, 2009. Because of the federal match, this proposal is revenue neutral.

DELAYED PAYMENT PROPOSAL

In addition to the proposals outlined above, the Administration is proposing a number of actions intended to address the state budget and cash shortfalls. The state is primarily proposing to delay payments until September or the first quarter of the year. The departments affected by the state's plan to defer payments are DHA, DHHS and Transportation.

- The total deferral for SacDOT is estimated to be \$6.0 million in gas taxes (27 percent of current \$22.3 million received in annual gas tax revenues)

- The total deferral for the General Fund is estimated to be \$83.1 million (29 percent of current \$284.0 million in Medi-Cal reimbursements) as shown below:

Department	State Impact	County Impact
Department of Health and Human Services		
Delay of 4-weekly checkwrites for Medi-Cal fee-for-service institutional providers in August until September	\$ 454,000,000	\$ 350,000
2-month delay Mental Health Managed Care program advance	\$ 200,000,000	\$ 20,000,000
Delay in disbursement for Medi-Cal fee-for-service checkwrite from June to July	\$ 165,000,000	\$ 200,000
1-2 month delay for 1st Qtrly pymnt Medi-Cal Admin	\$ 164,000,000	\$ 2,515,454
Early and Periodic Screening, Diagnosis and Treatment Program	\$ 92,000,000	\$ 9,000,000
Subtotal	\$ 1,307,000,000	\$ 32,065,454
Department of Human Assistance		
County Expense Claim & Assistance Payments	\$ 814,000,000	\$ 40,000,000
Medi-Cal Administration*	\$ 165,000,000	\$ 11,000,000
Subtotal	\$ 979,000,000	\$ 51,000,000
Total General Fund	\$ 2,286,000,000	\$ 83,065,454

*When the state budget is late, as it was in Fiscal Year 2007-08, this payment comes in late anyway. Receipt of payment may actually be no later than it has been in the past.

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

BUDGET SCHEDULE

In order to give departments and staff ample time to evaluate the potential program impacts of the current projected shortfall, we recommend a change in the Proposed Budget schedule (Attachment I). Traditionally, we have held a one-day Proposed Budget hearing in May. The budget approved at that hearing sets the base budget and acts as a spending plan for the period between July 1 and when the Final Budget is adopted in September. This year, we recommend that the Proposed Budget hearings be held in June. These hearings will be more like the traditional final budget hearings that have been held in September. Under this schedule, any additional requests or reductions/modifications required to eliminate the shortfall can be factored into the Fiscal Year 2008-09 budget as full year adjustments.

The hearings in September will only be a one-day hearing to deal with any year-end fund balance issues or impacts remaining from State budget actions. Since we are not confident about the

events surrounding the State budget, we are holding additional days available in September if they are necessary to deal with State issues.

BASE BUDGET REQUESTS

In order to solidify the extent of any shortfall, it is critical that departments present an accurate base budget. This budget should only include operational expenditures at currently approved levels except for salary and benefit expenses, which will be increased by the COLA, equity adjustment and any other negotiated increases. Additionally departments should include accurate estimates of departmental revenues from all sources. To the degree that departmental expenses are offset by reliable revenue sources, potential departmental reductions will be lessened.

REQUESTS FOR ADDITIONAL FUNDING

At this time, we ask departments to carefully review any requests for additional funding for growth items, COLA increases beyond those identified for the salary and benefit accounts, or new or expanded programs. While it is understood that departments may need to request augmentations to existing programs and additional funding for new mandates, action on these requests will be deferred until the true scope of the Fiscal Year 2008-09 budget resources are known.

POTENTIAL REDUCTIONS

As indicated earlier in this report, based on the initial estimates, there may be a need to make reductions to existing programs to bring both projected expenditures and revenues into balance. However, the exact amount is not known at this point. On March 3 the departments will submit their budgets for review. It is anticipated that by approximately April 2 the exact amount of shortfall (if any) will be known. At that time OBDM will communicate back to the Board regarding the amount of reductions required and where those reductions can be made. It is premature to speculate as to the nature of potential reductions. However, departments will be asked to develop departmental reduction impact statements for all costs identified as "unfunded" once they submit their proposed budgets. These documents will identify not only the cost and program that may be reduced but also the number of filled and unfilled positions.

MODIFIED RESOURCE/RESULTS-BASED APPROACH FOR FISCAL YEAR 2008-09

We recommend that, as in past years, each department submit its budget request pursuant to a preliminary resource allocation plan.

The preliminary (base) resource allocation is developed using the General Fund allocations adopted in the Fiscal Year 2007-08 Final Budget. These amounts are then modified by the items such as carryover reserves set aside for departments (if any), one time allocations, and increases in General Fund allocations approved by the Board during the fiscal year. Departments are then asked to calculate any change in their allocation, fully factoring into their base allocation additional departmental revenues and any required share of costs for their programs. Any increases to the base allocation will need to be fully justified and will be reviewed by Agency staff.

Due to the current economic conditions, our projected non-departmental net revenue base is not expected to grow sufficiently to keep pace with costs year-to-year. Therefore, we are not initially recommending across-the-board increases in the insurance accounts (including group insurance, workers compensation, and liability insurance), nonsalary accounts or funding for terminal pay. Ultimately, depending upon a myriad of issues, General Fund departments may have to absorb the increases in insurance accounts, allocated costs, other non-salary related expenditures, and the costs of terminal pay from within their prior year's (adjusted) allocations.

By using this modified resource-based approach which we have used for the past two years, departments will fully analyze their General Fund needs and reduce any projected budget shortfall by fully factoring in other revenues that may reduce the County's share of costs. This should also encourage departments to reexamine the way each operates its programs in order to find efficiencies through restructuring and/or elimination of redundant procedural layers.

GENERAL FUND BUDGET PRIORITIES

In 2003, faced with an initial Fiscal Year 2003-04 budget shortfall exceeding \$100 million in the General Fund, the Board first adopted a formal set of General Fund budget priorities. In June 2007, the Board adopted a revised set of budget priorities that reaffirmed the basic principles but reclassified mandates into those that give the Board some flexibility to set the service level and mandates that dictate the level of service to be provided (specific mandates). These priorities will serve as guiding principles for the development of the County Executive's budget recommendations. These General Fund budget priorities are as follows:

- ***Mandated Countywide Obligation - Specific***

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 - Flexible***

The County of Sacramento is also obligated by the State and the County's Charter to provide for the public safety of the citizens living in the unincorporated area. Although this mandate is not specific in terms of dollar spending or staffing levels, Sheriff's patrol and investigations must be provided for the safety and security of our unincorporated constituents.

- ***Financial Obligations***

At a foundational issue is the maintenance of the public trust through a sound fiscal policy that focuses on financial discipline, including funding programs that provide for revenue collection (such as Assessor's Office, Department of Finance, etc.) and payment of our debts.

- ***Budget Priorities***

When funding of the county's mandated services and obligations (both "specific" and a certain level of "flexible" mandates) 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 a SAFETY NET for those disadvantaged citizens, such as the homeless, mentally ill, and others who receive no services from other government agencies.
3. Provide a SUSTAINABLE AND LIVABLE COMMUNITY for our constituents within available remaining resources (i.e. neighborhood programs, reinvestment in communities, Regional Parks, and non-law enforcement municipal services, etc.).
4. GENERAL GOVERNMENT FUNCTIONS (such as Clerk of the Board, County Counsel, Internal Services Agency, Office of Communications and Information Technology, County Executive, etc.) shall continue at a level sufficient to support the direct services to citizens.
5. Continue PREVENTION/INTERVENTION PROGRAMS that can demonstrate that they save the County money over the long-term, such as alcohol and drug programs.

COUNTYWIDE STRATEGIC PRIORITIES

Over the past five years, the County has directed significant resources toward working with communities and others to identify priority concerns for the County. On April 18, 2006, the Board adopted the following strategic priorities for "Performance Success 2006".

1. **Economic Growth** – Sacramento County's economic vitality stems from its location, business-friendly environment and resources. The County is dedicated to expanding business opportunities and creating jobs.
2. **Livable and Sustainable Communities** –The County provides an array of social and community services dedicated to maintaining a high-level quality of life for residents.
3. **Public Health and Safety** – A variety of county services and programs have been implemented to keep people and property safe in emergencies, and to prevent illness and injury where possible.
4. **Strong and Health Families** – The County helps low-income families and individuals through a variety of programs designed to ensure that those in need receive basic services.
5. **Transportation** –The County bolsters safe and efficient movement of people and goods on the countywide road system and through the airport system.
6. **Law and Justice** – The County provides a variety of law enforcement services to residents and businesses, including emergency response, crime investigation and offender prosecution.

There are some general government and support services that provide services to internal customers (i.e. other governmental agencies/departments) rather than to our citizens. In order to compare the resources spent by all departments regardless of fund, on strategic priorities to the total County budget, the following two additional priority categories have been added:

7. **General Government** – The services provided in this category are those broad general government functions that do not fall neatly into the six categories above (e.g. Board of Supervisors, County Executive's Office, Labor Relations)

8. **Internal Services** - Services in this category are those that provide services to other governmental departments (e.g. General Services, Department of Finance, MSA Administrative Services)

With the Board's approval of these expanded categories, the results will be presented at both the Proposed and Final Budget Hearings.

SUMMARY

The primary focus of our budget deliberations for the next fiscal year will be dealing with the realities of the current economic circumstances, both locally and nationally. However, we must be cognizant that the State's budget circumstances could result in significant reductions of categorical funding and/or program reductions. This would put extreme pressure on counties to backfill these categorical reductions with local funding. The legislative advocacy of CSAC and all counties during the State Budget season will play a major role in this year's outcome.

As indicated earlier it is anticipated that some level of reductions will be necessary in order to balance the Fiscal Year 2008-09 General Fund budget. However, until the anticipated expenditures and projected revenues have been fully reviewed, it is premature to speculate as to the exact amount of reductions necessary. Therefore, departments will be asked to develop departmental reduction impact statements for all costs identified as "unfunded" when they submit their proposed budgets. Agency Analysts and the OBDM will work to lessen the amount of reductions that are ultimately recommended at the Proposed Budget Hearings scheduled for June 2008.

Working cooperatively with the County's Elected Officials and Department Heads, the County Executive will provide the Board with the best fiscal plan for Fiscal Year 2008-09 under the current economic circumstances.

Respectfully submitted,

APPROVAL RECOMMENDED:

LINDA FOSTER-HALL
County Budget Officer

TERRY SCHUTTEN
County Executive

CONCUR:

NAVDEEP S. GILL
Chief Operations Officer

NSG/LFH:

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

Attachments:

Attachment I 2008-09 Budget Process Schedule

Attachment II "11 Point Plan"

Attachment III CSAC Summary of Governor's Proposed 2008-09 State Budget

Attachment IV Summary of State Budget Impacts to Sacramento County from Governor's Proposed Budget