

County Executive
Bradley J. Hudson



County of Sacramento

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September 5, 2012

Members of the Board of Supervisors
County of Sacramento
700 H Street, Suite 1450
Sacramento, CA 95814

**Re: Fiscal Year 2012-13
Budget Adoption**

Honorable Members of the Board:

It is my pleasure to submit to you Adopted Budget recommendations for Fiscal Year 2012-13. The spending plan presented for your consideration reflects continuing downward trends in discretionary revenue, balanced with solid improvement in our ability to manage resources and personnel in a recessionary budget environment. This budget continues our multi-year effort to align on-going revenues and expenditures while directing critical resources to the Board's primary policy objectives. Your employees and managers have responded to this challenge by strategically focusing resources on public service priorities, reducing internal service costs, closely managing budgets and expenditures, emphasizing efficiency initiatives, and controlling personnel costs. As a result of these efforts, the 2011-12 year end betterment to our fiscal position has yielded \$13.5 million in additional resources available to address critical funding requirements. The budget presented today allocates these additional resources to priority County functions and is consistent with the Board's previous policy directives.

The Adopted Budget Hearings are the culmination of a complex and rigorous process undertaken by all County departments to ensure that the County's funding plan meets the Board's fiscal and public service requirements. Department heads and employees are to be congratulated for the vigor and creativity in which they have pursued this endeavor. The underpinnings of this budget are sound, and are based on solid financial planning and the Board's generally conservative approach which balances the County's current service needs with long-term fiscal health. The 2012-13 budget prioritizes important services, reduces the cost of providing them, and generally sustains current levels of service. As always, your strong leadership has been critical to our success in crafting a budget plan to meet the needs of our residents in the coming year.

DISCUSSION:

I. GENERAL FUND

Recommended Budget

On June 13, 2012, the Board approved the Recommended Budget for 2012-13. During the hearings, your Board made several changes to the budget to enhance the funding for a variety of priority General Fund programs. The essence of these changes was a reduction in General Fund costs of approximately \$4.5 million and a reallocation of resources in the amount of \$3.7 million. The significant elements of these changes are illustrated below:

| <u>Recommended Budget General Fund Allocation Changes</u> | |
|--|----------------|
| Agriculture Commissioner | \$ 83,000 |
| Aid Payments | \$ (1,700,000) |
| Contingency | \$ (300,000) |
| Conflict Criminal Defender | \$ (1,250,000) |
| District Attorney | \$ 1,500,000 |
| IHSS | \$ (425,445) |
| Probation | \$ 400,000 |
| Public Defender | \$ 250,000 |
| Regional Parks | \$ 190,000 |
| Sheriff | \$ 5,744,000 |

General Fund allocations for all departments, as approved by the Board during Recommended Budget Hearings, are provided as Attachment "A".

Financing Opportunities

Since approval of the Recommended Budget, we have updated revenue, expenditure and year-end numbers to reflect current information. The net effect of these changes is an additional \$13.58 million in General Fund resources which are available to address the Board's priority public service programs. The budgetary increases and decreases which resulted in this additional net revenue are outlined below:

Adopted Budget Changes to the General Fund

| | |
|--------------------------------|----------------------|
| Carryover Betterment | \$13,813,261 |
| Property Tax Settlement | \$ 864,047 |
| Debt Service Earnings | \$ 950,000 |
| Cost Savings Swept | \$ 531,000 |
| Bank of America Building Debt | \$ (139,000) |
| TLS Endowment Fund | \$ (99,231) |
| Property and Sales Tax Changes | \$ (1,048,941) |
| Cable Franchise Change | \$ (883,488) |
| Court/DRR Change | \$ (400,000) |
| Total | \$ 13,588,048 |

The primary source of the additional revenue is carryover from 2011-12 that exceeded Recommended Budget estimates. Of the \$13.8 million in carryover, about \$5.4 million is associated with specific County departments. We are recommending that the current carryover policy be suspended, and that the Board allocate a portion of these resources to critical funding requirements as outlined in our Adopted Budget Recommendations. Specifically, we suggest that \$1.46 million be reallocated from departmental budgets as outlined in Attachment “B”. The departments with reduced funding pursuant to this proposal received additional allocation from the CEO, the Board, or both which would have been less if carryover estimates had been more precise.

Final Budget Recommendations

The approved Recommended Budget is the starting point for Adopted Budget discussions. The changes we are recommending today include cost reductions, changes to carryover, and supplemental allocations of discretionary revenue. With respect to cost reductions, most were identified at the June hearings with the exception of a \$531,400 decrease in unemployment insurance and General Service charges. These savings have been allocated to departments, with corresponding

General Fund revenue removed from departmental budgets. Similarly, we are recommending the reallocation of departmental carryover in the amount of \$1.46 million. The primary beneficiaries of these reallocations and the overall betterment in fund balance are presented in the chart below:

| <u>CEO Adopted Budget General Fund Allocation Adjustments</u> | |
|--|-------------|
| Conflict Criminal Defender | \$1,350,000 |
| Coroner | \$ 135,336 |
| Health and Human Services | \$ 284,468 |
| Human Assistance | \$ 200,000 |
| IHSS Provider Payments | \$3,082,716 |
| Non Departmental Costs | \$ 951,687 |
| Sheriff | \$5,000,000 |

The specific details for all General Fund departments are presented for your consideration as Attachment “C”. The increase in non-departmental costs generally reflects repayment of a portion of inter-fund transfers made in previous budget years.

AB 109 Realignment

The Recommended Budget adopted by the Board included estimated allocations of State revenue for realigned public safety programs pursuant to AB 109. On August 23, 2012, the Community Corrections Partnership (CCP) approved allocations that will be presented to the Board in October. The Board has no authority to approve these CCP recommendations, but may disapprove them by a 4/5ths vote. The chart below provides the CEO recommendations included in the Approved Recommended Budget compared with the CCP approved allocations.

AB 109 Budget Changes

| | Recommended CEO | CCP Approved | Change |
|-----------|--------------------|-----------------|---------------|
| Sheriff | \$ 17,870,779 | \$ 20,541,641 | \$ 2,670,862 |
| Probation | \$ 8,409,778 | \$ 8,659,778 | \$ 250,000 |
| D.A. | \$ 521,625 | \$ 352,391 | \$ (169,234) |
| Other | \$ 1,807,631 | \$ 434,388 | \$(1,373,243) |

While no action on the AB 109 allocations is required during these hearings, the Board may want to consider this information in formulating funding policy for public safety programs. It is anticipated that I will recommend that the Board not disapprove the suggested CCP recommendations outlined herein. A more detailed presentation of CCP action on August 24 is provided as Attachment “D”.

Property Tax Adjustment

The local housing market has continued to deteriorate, reducing assessed property values and associated property tax revenues. As a result, we recommend reducing estimated property tax revenue from \$321.5 million to \$319.9 million, a reduction of \$1.6 million. This adjustment to property taxes will also lower revenue neutrality payments from \$16.4 million to \$16.2 million, an additional reduction of \$0.2 million.

Teeter Fund

The Teeter Fund transfers excess earnings to the General Fund after reserve requirements have been met. Delinquent property taxes are expected to be higher than originally estimated, increasing the transfer of excess earnings in Fiscal Year 2012-13 from \$13.7 million to \$14.2 million, an increase of \$0.5 million. Also, Fiscal Year 2012-13 reserve requirements are \$0.3 million more than expected. The net benefit to the General Fund is \$0.2 million.

Fund Balance

Fund Balance for the General Fund was projected at Recommended Budget to be \$10.6 million. Actual Fund Balance is \$18.2 million, an increase of \$7.6 million.

Contingency Appropriation

The Contingency budget remains at \$1.5 million as approved in the Recommended Budget.

II. GOVERNMENTAL – ENTERPRISE FUNDS

Transportation Funds

Transportation Funds consisting of County Roads, Roadways, and Transportation Sales Tax, decreased by \$1.8 million. These funds involve a construction program that is adopted as a long-range plan (five to seven years) and are managed through a series of approved annual expenditure plans. Due to the multiple-year demands of the projects, the annual budget represents the portion of the five to seven year construction plan that can reasonably be accomplished in the current fiscal year. Actual project expenditures generally differ from the budget due to many factors affecting project life cycles, i.e. environmental issues, public discussion, legal opinions, right-of-way acquisitions, consultant and construction contracts, and weather.

Solid Waste Enterprise

The Solid Waste Enterprise fund balance has increased by \$5,925,579, primarily due to lower than anticipated operating and capital project expenditures.

Department of Water Resources

- Water Resources fund balance has increased \$5,207,046 due to shifts in project timelines, other modifications in construction projects, project cost adjustments, and position vacancies.
- Water Agency Zone 11 fund balance has increased \$4,312,991 due to decreases in labor expenses, engineering, and other professional services related to lack of development activity.
- Water Agency Zone 13 fund balance has increased \$273,490 due to decreases in labor expenses, engineering services, and other professional services associated with the South Sacramento Habitat Conservation Program.

Airport Enterprise

The Airport's operating budget reflects an increase of \$1,322,449 due to an increase in Storm Water fees for Executive Airport, an increase in Sewer Connection fees, and reductions in allocated costs.

Special Districts

Special district budgets administered by the Infrastructure and Finance Section have increased by \$739,498 due to higher than anticipated fund balances in several of the districts.

Building and Code Enforcement

Appropriations for the Building and Code Enforcement Fund increased \$110,936 due to various cost adjustments.

OTHER FUNDS

Transient Occupancy Tax (TOT)

Fund balance decreased by \$179,250 due to the following:

- An expense increase of \$106,426 for projects and activities approved prior to Fiscal Year 2012-13 that are underway but not complete yet; and,
- A revenue decrease of \$285,676 for Fiscal Year 2011-12 Cultural Arts Awards payment from the City of Sacramento, which was budgeted for receipt during Fiscal Year 2011-12 but was actually received in Fiscal Year 2012-13.

Teeter Reserve

At the end of Fiscal Year 2011-12, the secured and unsecured property tax delinquencies were lower than anticipated. As a result, pursuant to statutory requirements, the Teeter Tax Loss Reserve was decreased by \$1,356,420 to \$8,379,714 for Fiscal Year 2012-13. The Tax Loss Reserve is a statutory prerequisite of the Teeter Plan and has no relationship to the borrowing through the Treasurer's Pooled Fund.

Teeter Fund

The Teeter Plan of Tax Apportionment fund balance was \$5,638,584. The increase in available fund balance is due to higher than anticipated delinquent tax collection at year end. The fund balance will be used to finance Fiscal Year 2012-13 debt service and associated financial services.

Economic Development Fund

Fund Balance has increased by \$261,035 to adjust for actual expenditures and revenues in Fiscal Year 2011-12.

Environmental Management Fund (EMD)

Fund balance increased by \$2,401,223 due to an increase in fines and penalties related to Court actions. The Reserve Release decreased by \$329,781 due to salary and benefit savings from unexpected retirements, changes to the allocated costs, and a rebate of retained earnings from the Department of General Services. In Fiscal Year 2012-13, EMD is planning a major effort in the area of underground tank compliance education which will utilize some funds from the reserve.

Golf Fund

Fund balance has increased by \$178,169 due to a postponement of payments resulting in lower year-end expenditure levels. Appropriations have increased by \$238,169 due to additional costs being carried forward from Fiscal Year 2011-12 and an adjustment to the contract management cost accounts. Revenues increased by \$60,000 due to an increase in recreational concession revenues.

Insurance Funds

The County utilizes three separate Internal Service 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 of \$3 million for Workers' Compensation Insurance and \$2 million for Liability/Property Insurance. All three insurance funds are financed through charges to county departments.

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 reflects the Approved Recommended Budget and the Adopted Budget for insurance funds for the 2012-13 Fiscal Year:

Insurance Funds

| | Approved Recommended 2012-13 | Recommended For Adoption 2012-13 | Variance |
|-----------------------|---|---|---------------------|
| Workers' Compensation | \$27,838,992 | \$27,838,992 | \$0 |
| Liability/Property | \$18,075,696 | \$18,075,696 | \$0 |
| Unemployment | <u>\$5,313,664</u> | <u>\$4,082,614</u> | <u>-\$1,231,050</u> |
| TOTAL | \$51,228,352 | \$49,997,302 | -\$1,231,050 |

Capital Construction Fund

The Capital Construction Fund (CCF) typically budgets projects based on anticipated expenditures. Often the design, engineering and construction are not completed within the fiscal year in which a project is authorized. Those encumbered funds have a significant effect on 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. If a project is grant funded, as our Energy Efficiency Community Block Grant (EECBG) projects are, reimbursement for current year expenses may be delayed into the following fiscal year. These factors have an effect on the fund balance.

Encumbrances to be carried forward to Fiscal Year 2012-13 for projects were higher than anticipated and reimbursement for expenses incurred during Fiscal Year 2012-13 were not received by year end which decreased the available fund balance by \$4,042,594.

Since the 2012-13 Recommend Budget was approved we have also identified other sources of revenue for projects for a total of \$925,847 in additional revenue (including revenue that balances the decrease in fund balance). These revenue sources are restricted to specific construction projects. By leveraging various funding sources including loans, grants, energy rebates, and criminal justice trust fund money, CCF will be able to complete critical projects while continuing to fund \$6.6 million in debt service for General Fund departments in Fiscal Year 2012-13.

The Fiscal Year 2012-13 Recommended Budget has been adjusted to account for the decreased fund balance and additional revenue.

III. Special Districts

- **CSA 4B**

Fund balance has increased by \$2,808 primarily due to lower than anticipated recreation services and supplies, and property tax revenues.

- **CSA 4C**

Fund balance has decreased by \$18,591 due to unforeseen facility repairs and lower than anticipated facility rental revenues.

- **CSA 4D**

Fund balance has decreased by \$100 due to lower than anticipated property tax revenues and higher than anticipated expenditures.

- **Del Norte Oaks Park Maintenance District**

Fund balance has increased by \$31 due to lower than anticipated property tax revenues.

- **Carmichael Recreation and Park District**

Fund balance has increased by \$77,588 primarily due to additional funds realized from lease income, donations and other revenue and reductions of service and supply expenditures.

- **Mission Oaks Recreation and Park District**

Fund balance has increased by \$119,450. Fiscal Year 2012-13 is the first of a five year repayment schedule for the \$600,000 loan to Carmichael Recreation and Park District. The loan reimbursement will go back into the District's Reserve account.

- **Mission Oaks Maintenance/Improvement District**

Fund balance has increased by \$15,229 due to re-budgeting projects for Fiscal Year 2012-13.

- **Sunrise Recreation and Park District**

Fund balance has decreased by \$179,704 due to lower than anticipated property tax revenue.

- **Antelope Assessment District**

Fund balance has decreased by \$81,365 due to lower than expected collection rate of assessment tax per household last year.

IV. CONSTRUCTION IN PROGRESS

The County's Five Year Capital Improvement Plan will be brought to the Board as a separate item giving the Board an opportunity to review construction plans and equipment purchases for county programs. Current year costs are included in the recommendations for the Adopted Budget.

V. STATE BUDGET

On June 27, Governor Brown signed the 2012-13 budget into law. However, the budget is based on voter approval of the Governor's initiative on the November ballot, which temporarily increases the personal income tax on the state's wealthiest taxpayers for seven years and increases the sales tax by one-quarter percent for four years. It also provides a constitutional guarantee of county funding for 2011 Realignment funds for local public safety. The State's enacted budget has fiscal implications for our Departments of Human Assistance, Health and Human Services, Child Support Services and the Care-In Homes Program administered by the Probation Department, and has required those departments to make categorical budget adjustments in their respective programs.

Human Assistance (DHA):

The State allocation for CalWORKs is \$8.6 million less than what was included in the Approved Recommended Budget. This required the department to set priorities and, unfortunately, make categorical funding reductions in the following areas:

Eliminated 16 vacant CalWORKs positions. Twelve of these positions will be shifted to other funded programs. The remaining four positions, including one management position, will be deleted.

Reduced funding to the Department of Health and Human Services for mental health and substance abuse services by \$400,000 which represents a 6.6% reduction.

Reduced funding to Sacramento Employment and Training Agency's employment services contract by \$2.3 million. This 62% reduction significantly reduces employment services, some of which DHA will take over directly; the rest of which will impact community-based contracts.

Reduced the subsidized employment contract with SETA by \$775,000 (a 32% reduction) scaling the contract back to last year's level.

Reduced estimates for mandated child care payments by \$1.98 million. This reflects last year's child care spending levels.

Reduced various other Welfare-to-Work contracts by \$220,000, including those related to work study, learning disabilities, and other education-related services. This reduction represents 11.9% of funding for these services.

Reduced the CalWORKs funding for emergency homeless shelters by \$200,000. This 9.7% reduction will decrease the number of beds funded by CalWORKs, starting January 1, 2013. However this will be offset by additional County General Fund monies of \$200,000.

The Department has conducted extensive outreach to its stakeholders to inform them of these program reductions. None of these reductions were made without great consideration or without acknowledgement of the challenges for the ongoing service of people in need. The recommended reductions represent an effort to ensure that DHA can continue to meet its central mandates and still provide some level of safety net services to the most vulnerable CalWORKs families.

Health and Human Services:

The \$400,000 reduction in CalWORKs funding from DHA resulted in the reduction in mental health and substance abuse services and deletion of one vacant position.

Child Support Services:

The State Budget included a reduction to the Local Child Support Agency Administrative funding budget by approximately 2.0 percent which resulted in a funding reduction of about \$576,000 for Sacramento County. This loss of funding resulted in the deletion of eight vacant positions for the Department.

Probation - Care-In Homes:

In order to reduce the State's cost of housing and supervising wards under the Division of Juvenile Justice (DJJ), the Governor's budget included a new fee structure to charge the counties \$24,000 per year for each offender committed by a juvenile court to the DJJ on or after July 1, 2012. Other changes included ending juvenile parole on January 1, 2013 instead of July 1, 2014 and reducing the DJJ's age of jurisdiction from 25 to 23. These changes will cost Sacramento County about \$800,000 which is an increase of about \$320,000 above what was in the Approved Recommended Budget. However, this program had an increase in year-end carryover of \$111,942 which is being used to partially offset the increased costs due

to the State's new fee structure. This program will be monitored throughout the year and we will return to the Board with a funding plan if additional appropriations are required.

RECOMMENDATIONS:

1. Suspend the Board's carryover policy and approve the CEO recommended allocations as contained herein.
2. Approve the attached Budget and Schedules amending the Fiscal Year 2012-13 Approved Recommended Budget and constituting adoption of the budget for Fiscal Year 2012-13 (Attachment E).
3. Direct Department of Personnel Services to prepare an administrative Salary Resolution Amendment (SRA) to reflect the positions approved by the Board in the Fiscal Year 2012-13 Adopted Budget, including deletion of certain positions in order to reduce program expenditures.
4. Direct the Department of Finance to prepare the Fiscal Year 2012-13 Budget Resolutions for Board consideration on Tuesday, September 25, 2012.

Respectfully submitted,

Bradley J. Hudson
County Executive

Attachments:

- Attachment A - General Fund Distributions: Approved Recommended Budget
- Attachment B - General Fund Departmental Carryover
- Attachment C - General Fund Allocations: CEO Adopted Budget
- Attachment D - 2012-13 AB 109 Spending Plan
- Attachment E - Budget and Schedules for 2012-13