

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
June 6, 2011
9:30 a.m.

To: Board of Supervisors

From: Steven C. Szalay
Interim County Executive

Subject: FISCAL YEAR 2011-12 RECOMMENDED BUDGET

Supervisory
District: All

Contact: Navdeep S. Gill, Chief Operations Officer, 874-5803
Thomas R. Burkart, County Budget Officer, 874-4627

INTRODUCTION

My Recommended Budget for Fiscal Year 2011-12 has both negative and positive features. On the negative side, I once again regret recommending the significant program and service level reductions needed to balance the budget. They will have considerable negative impacts on all Sacramento County residents and will result in the elimination of more than 320.9 full time equivalent county positions. I am deeply concerned about the resulting layoffs and the impact on employees and their families.

On the positive side, there is room for optimism and hope for the future:

- This recommended budget is funded 99.5% with current revenue that will replicate next year. Only \$9 million of one-time resources is recommended to be used to balance the FY2011-12 budget.
- General Fund, general purpose revenue consisting of property tax, sales tax, motor vehicle in-lieu tax, franchise fees, and other general revenue seems to have reached bottom. However, revenue recovery from the Great Recession will be slow, as evidenced by our flat projection of general purpose revenue in Fiscal Year 2011-12.
- Our Recognized Employee Organizations (REOs) have stepped up to assist in repositioning the County for the future by agreeing to contracts that have zero cost increases for the next two fiscal years. In addition, lower tiered retirement plans and elimination of the retiree health care stipends have been negotiated with our employees.
- County departments are implementing the New Efficiencies projects that save money, raise revenue when appropriate, and increase service value. Reorganizations and new service models will help Sacramento County sustain services for many years to come.

- The County is on track to fix the remaining pieces of variable rate debt in the next two years. In addition, we are recommending a restructuring of our internal transfer debt by having repayment occur when general purpose revenue finally increases as the economy improves.
- Once general purpose revenue begins to increase and the internal transfer debt decreases, general reserves will increase in accordance with the County's Reserve and Reinvestment Policy.

These six components of the County's repositioning plan are moving in a positive direction and will ensure the organization can sustain and enhance programs and service levels over the long term. The new normal will then be sustainable.

However, for now the County continues to have a fiscal crisis that is made up of the following realities that occurred over the past few years and must continue to be addressed in 2011-12:

1. \$30 million of one time fixes in the Fiscal Year 2010-11 budget that are not available for next fiscal year.
2. \$20 million of additional salary and benefit costs associated with certain labor contracts extended last year in exchange for concessions.
3. \$19.4 million in department specific reductions.
4. \$21 million in State program reductions.

Approval of this recommended budget, with unavoidable reductions, is an important step to continue recovery from our fiscal crisis and will improve the budget picture for next year and beyond. The projected budget gap for Fiscal Year 2012-13 is \$25 to \$30 million and \$30 to \$35 million in Fiscal Year 2013-14.

This fiscal crisis has resulted in a severe reduction in our bond credit ratings. The three national credit rating agencies are very concerned that we again ended last year with a negative fund balance. This year we will repay a portion of the interfund transfers used in prior years to balance the budget and adopt a policy to ensure the timely repayment of the balance. Implementation of this recommended budget will continue to move us to a positive position at the end of Fiscal Year 2011-12.

The Recommended Budget relies on a minimal level of one-time resources totaling \$9.0 million or 10% of the total reductions of \$90.4 million. We will work diligently during the fiscal year to identify savings and/or additional revenues.

FISCAL YEAR 2011-12 BUDGET PROCESS

The County Budget Act requires that each County approve an annual spending plan for the next fiscal year no later than June 30 of each year. The Recommended Budget is that spending plan and allows the County Auditor to pay claims and issue warrants on the County's behalf until the Board adopts the Adopted Budget in September.

In anticipation of a continuing budget shortfall for Fiscal year 2011-12, the County Executive's Office (CEO) released preliminary local resource allocations in February to give departments and staff ample time to evaluate the potential program impacts. Under this schedule, there was

FISCAL YEAR 2011-12 RECOMMENDED BUDGET

also time for a public outreach process with both the Board’s advisory commissions and public stakeholders.

The CEO prepared an initial broad based General Fund budget forecast for Fiscal Year 2011-12 projecting a shortfall of approximately \$65.5 million. These circumstances were caused by increasing salary, benefit and other operating costs, and the expiration of one-time funding sources. The General Fund departments were asked to develop status quo budgets based on an allocation of estimated local resources and departmental specific revenues. The shortfall indentified by the General Fund departments was \$90.4 million, including \$21.0 million in State program reductions.

Since then the CEO worked to refine estimated revenues and costs. The result is the Recommended Budget being presented for approval of the Board. The budget approved at the end of these hearings will set the budget for Fiscal Year 2011-12 and act as a spending plan for the period between July 1 and the Budget adoption in September. The September hearings will focus on any year-end fund balance issues and the impacts from State budget actions.

FISCAL YEAR 2011-12 RECOMMENDED BUDGET

The Fiscal Year 2011-12 Recommended Budget, as reflected in the table below, totals \$3.5 billion. This is a decrease of 3.8% (\$137.3 million) from the Fiscal Year 2010-11 Adopted Budget of \$3.6 billion. The largest declines were in the budgets for the General Fund, Economic Development, the Teeter Plan, and Water Resources. Transportation and Airport System increased from the prior year.

Fund	Appropriations	Financing	Net Cost ¹	Positions
General Fund	1,900,734,100	1,436,962,297	463,771,803	8,128.5
Economic Development	39,713,272	39,713,272	0	16.0
Environmental Management	20,047,474	20,047,474	0	127.8
Golf Fund	7,711,544	7,711,544	0	7.0
Transient Occupancy Tax	6,746,616	6,746,616	0	0.0
Transportation	227,415,353	227,415,353	0	252.6
Water Resources	134,315,991	128,634,834	5,681,157	247.0
Airport System	302,889,953	182,227,535	120,662,418	420.0
Waste Management and Recycling	75,234,261	75,234,261	0	265.6
Capital Projects Funds	35,399,388	35,399,388	0	0.0
Debt Service Funds	68,826,994	68,826,994	0	0.0
Other Special Revenue Funds	57,260,891	57,260,891	0	14.0
Other Enterprise Funds	2,987,910	2,987,910	0	7.0
Other Internal Service Funds	381,542,096	343,075,650	38,466,446	1,019.7
Other Special Districts and Agencies	232,375,989	232,375,989	0	795.0
Total	3,493,201,832	2,864,620,008	628,581,824	11,473.3

¹ Net Cost for the General Fund is financed with General Purpose Financing Revenues. Net Cost for other funds is financed with Retained Earnings.

The General Fund is the largest fund in the County Budget at \$1.9 billion. General Fund departments provide a broad range of public services. The County’s general purpose financing (\$90.8 million) is allocated to the General Fund to provide the local share of costs for both mandated and discretionary programs. All other funds in the County Budget are financed with earmarked or restricted revenues. While the Board of Supervisors has more discretion over

resource allocation and service levels in the General Fund, state and federal mandates on spending severely curtail that discretion and flexibility. Counties are political subdivisions of the State of California and are responsible for the delivery, on a local level, of state and federal services. Most of the funding for these services comes from state and federal sources, with approximately two-thirds of all financing in the General Fund coming from other governmental sources.

SUMMARY OF RECOMMENDED GENERAL FUND BUDGET

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

General Purpose Financing (Amounts Expressed In Millions)			
	2010-11 Adopted Final	2010-11 Estimated Year-End	2011-12 Recommended Budget
Property Taxes *	\$ 211.6	\$ 211.6	\$ 212.0
Sales Tax & In Lieu Sales Tax	58.7	58.7	62.4
Property Tax In Lieu of Vehicle License Fees	130.4	130.4	129.7
Utility Tax	15.8	15.8	16.0
Fines & Penalties	17.0	17.0	16.6
Franchises	5.0	5.0	4.6
Revenue Neutrality & Transition	16.8	16.8	16.4
Other Revenues	9.8	10.6	6.1
Operating Transfers In	18.0	18.0	0.0
Total Revenues	483.1	483.9	463.8
Reimbursements and Costs	22.6	23.8	23.2
TOTAL	\$ 505.7	\$ 507.7	\$ 487.0

*Includes all sources of property tax revenue (i.e. Secured, Unsecured, Supplemental, Delinquent, Unitary)

Overall General Purpose Financing decreased by \$18.7 million from Fiscal Year 2010-11 Adopted Final Budget, a 3.7 percent decline. This reduction in financing is due to the elimination of Interfund operating transfers into the General Fund.

**General Fund Allocations for Fiscal Year 2011-12 Recommended Budget
As Compared to Fiscal Year 2010-11 Adopted Budget**

DEPARTMENT	2010-11 Adopted Allocation	2011-12 Recommended Allocation	Year to Year Variance
ELECTED OFFICIALS			
Assessor	\$ 9,339,456	\$ 8,077,589	\$ (1,261,867)
Board of Supervisors/Clerk of the Board	3,185,366	3,615,253	429,887
District Attorney	41,463,438	40,042,106	(1,421,332)
Sheriff	164,692,956	159,700,635	(4,992,321)
Correctional Health	16,460,349	15,425,878	(1,034,471)
Subtotal	\$ 235,141,565	\$ 226,861,461	\$ (8,280,104)
COUNTYWIDE SERVICES			
Human Assistance (DHA)-Aid Payments	\$ 38,590,258	\$ 31,433,972	\$ (7,156,286)
DHA-Administration	8,902,285	9,324,308	422,023
Department of Health & Human Services	31,587,942	26,225,135	(5,362,807)
Probation	57,544,027	51,915,638	(5,628,389)
Courts	34,782,941	37,794,101	3,011,160
Public Defender and Conflict Criminal Defenders	38,763,529	34,972,155	(3,791,374)
Health Treatment Accounts	24,034,592	19,931,748	(4,102,844)
In-Home Support Services (IHSS)	9,794,458	7,698,761	(2,095,697)
Voter Registration and Elections	5,943,980	7,542,366	1,598,386
Other Countywide Services	10,431,717	8,210,284	(2,221,433)
Subtotal	\$ 260,375,729	\$ 235,048,468	\$ (25,327,261)
MUNICIPAL SERVICES			
Animal Care and Regulation	\$ 2,574,283	\$ 2,446,824	\$ (127,459)
Regional Parks	2,892,925	2,527,479	(365,446)
Other Municipal Services	443,355	0	(443,355)
Subtotal	\$ 5,910,563	\$ 4,974,303	\$ (936,260)
INTERNAL SERVICES			
Department of Finance	\$ 355,398	\$ 289,503	\$ (65,895)
Other Internal Services	285,018	60,485	(224,533)
Subtotal	\$ 640,416	\$ 349,988	\$ (290,428)
GENERAL GOVERNMENT	\$ 17,681,104	\$ 18,530,069	\$ 848,965
Contingency and Reserve Change	\$ 2,005,237	\$ 1,633,306	\$ (371,931)
Non-Departmental/Countywide Costs	\$ 5,403,830	\$ 4,998,730	\$ (405,100)
TOTAL	\$ 527,158,444	\$ 492,232,671	\$ (34,762,119)

USE OF RESERVES

The Recommended Budget does not anticipate the use of reserves. It does include a net increase of \$32,655 in reserves for the Teeter Plan.

FISCAL YEAR 2011-12 GENERAL FUND CONTINGENCY RECOMMENDATIONS

The County Executive's recommended General Fund Contingency appropriation is \$1,633,306, \$371,931 less than last year but approximately the same amount as Fiscal Year 2009-10. The Board appropriated \$421,000 of the Fiscal Year 2010-11 amount. Should the year-end fund balance exceed our estimate, the contingency could be increased at the September hearings.

RECOMMENDED TRANSFER FROM TOT FUND TO GENERAL FUND

The available financing of \$6,746,616 in the TOT Fund for Fiscal Year 2011-12 is \$3,141,549 less than the Fiscal Year Adopted 2010-11 budget (see Attachment III A). This is due to a \$4,336,037 reduction in fund balance, partially offset by an estimated \$1,194,488 increase in revenues.

It is recommended that the Board approve a transfer from the TOT Fund to the General Fund for Fiscal Year 2011-12 in the amount of \$2,317,461. This is a \$1,788,234 decrease in the level adopted in the Fiscal Year 2010-11 Final Adopted Budget. It is further recommended that the Board preliminarily determine use of the monies available within the TOT Fund for jointly-funded city/county programs and certain county departments which rely upon TOT funds for their (Base) budgets as outlined in Attachment III A. Deliberations on the TOT Fund will be held on Tuesday, June 7.

CAPITAL CONSTRUCTION FUND (CCF)

The Fiscal Year 2011-12 Recommended Budget provides for major construction projects as a part of the long-range Capital Improvement Program (CIP), as well as minor alterations, improvements, and major equipment replacement in county-owned facilities. As a result of the county's financial limitations and commitments to approved major projects now being planned and/or under construction, the recommendations for additional capital construction projects are limited to those required because of health, safety, security, or severe operational problems. However, one large-scale project is included in this budget for the Sheriff's 911 Communication Center project due to the successful securitization of Tobacco Litigation Settlement (TLS) funds. As designed, this facility could be linked with the City of Sacramento's dispatch center to form an integrated system with appropriate replication.

The anticipated available financing within CCF for Fiscal Year 2011-12 is \$34,064,066. The Recommended Budget Fiscal Year 2011-12 includes continuing remodeling the Sheriff Bond Road facility for a new 911 Communication Center, as well as projects in the CCF Budget:

Financing Sources	Amount
Available Fund Balance*	\$2,799,545
County Facility Use Allowance Charges, Vacancy Factor, and Improvement Districts	14,403,536
Interest Income	75,000
Miscellaneous Revenues - Revenue Leases	48,000
Miscellaneous Revenues - Dept. Funded Projects	275,000
Miscellaneous Revenues (Deallocated Funds Adjustment)	5,833,163
Americans with Disabilities (ADA) Certificate of Participation (COP) funds	190,000
Tobacco Litigation Settlement (TLS) funds	5,723,000
Smart Grid Energy Project Revenue	700,000
Energy Service Company (ESCO) Energy Savings Revenue	361,272
California Energy Commission (CED) Energy Savings Revenue	55,550
Courthouse Temporary Construction Fund Revenues	1,800,000
Criminal Justice Facility Temporary Construction Fund Revenues	1,800,000
Total	\$34,064,066

*The budget for CCF projects is typically 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 has the effect of creating a large negative fund balance. Since the Juvenile Hall project is nearly complete and no new large projects are anticipated to be awarded prior to fiscal year end, the fund balance is anticipated to be positive.

CCF activities face significant funding limitations. Only a portion of the \$34.0 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 majority of CCF activity will focus on:

- Remodel construction for the Sheriff’s New 911 Center
- Heating and Ventilation Control Upgrades at the 901 G St Building
- Replacing the #1 Chiller at the Downtown Central Plant
- Replacing the Domestic Water Booster System and Water Heaters at the Main Jail

Debt service for bond-financed projects will be paid by the occupying department. Due to the projected General Fund budget shortfall and the freeze placed on new construction projects, CCF has no contingency funds set aside. The funds set aside as contingencies historically have been used to fund large construction or design projects at the direction of the Board or to finance large unexpected cost escalations or contractor claims on a project.

CCF will continue paying debt service in Fiscal Year 2011-12 for some projects that were needed due to health, safety, security, or severe operational problems that were funded by borrowing from the Fixed Asset Acquisition Fund.

OTHER COUNTY FUNDS

The sources for many of these funds, with the exception of the TOT Fund, come from restricted revenues which may only be expended on single services or a narrow range 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.

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 And Intergovernmental Affairs Fund

The Economic Development Budget Unit is a Special Revenue Fund. The Economic Development Division of the Community Planning and Development Department administers Sacramento County's economic development and job creation and retention programs. More specifically, these programs focus on business development, retention and attraction; and attraction of key sales, property, transient occupancy and utility user tax revenue generators. The Economic Development Division works with other organizations in the promotion of sports, tourism and the arts. The Economic Development Division is also actively engaged with revitalization of various commercial corridors in the County. These programs promote a sustainable community and have resulted in increased General Fund revenues, including sales and property tax from projects within the major commercial corridors, as well as job growth. The Economic Development Division provides support to the Chief Operations Officer in negotiations with cities, special districts, and others on matters associated with the Local Agency Formation Commission. The General Fund supports ongoing core general economic development activities with a transfer of funds from the County General Fund. This General Fund support is for countywide and unincorporated area specific activities that are not a part of the Mather Field and McClellan Park reuse programs or the Business Environmental Resource Center (BERC). Due to extraordinary issues with the economy and the County's budget, the Economic Development Division has aggregated non-General Fund financing resources to maintain a minimal level of ongoing core general economic development services in Fiscal Year 2011-12. This approach was taken in the two prior Fiscal Years and will be taken again in Fiscal Year 2011-12 to allow the annual General Fund transfer to be used to meet other critical County needs in Fiscal Year 2011-12. Appropriations are decreasing 21%, from \$660,000 to \$520,000.

The Economic Development Division is also responsible for the administration of the County's Economic Development Special Projects fund, which was established by the Board of Supervisors during the Fiscal Year 2005-06 Final Budget Hearings. The purpose of the Economic Development Special Projects Fund is to provide assistance to county departments, governmental and quasi-governmental entities, and public and private interests to support economic development projects as approved by the Board of Supervisors. These projects

promote a sustainable community and result in increased job growth and General Fund revenue. In previous years there had been a transfer of County General Fund revenue to the County's Economic Development Special Projects Fund. For a period of time this transfer was \$1.5 million annually. Funding for this program is separate and distinct from the program described in the previous paragraph, and is not intended for the Economic Development Division's ongoing general economic development activities. Appropriations are decreasing 93%, from \$250,000 to \$18,000. This fund did not receive a transfer of County General Fund revenue in Fiscal Year 2009-10 or Fiscal Year 2010-11. No revenue is being requested in Fiscal Year 2011-12, which limits the services in this program in Fiscal Year 2011-12 to completing projects and activities approved prior to Fiscal Year 2011-12 that are underway but not yet completed.

The Economic Development Division responsibilities also include the Mather Field and McClellan Park reuse programs and the Business Environmental Resource Center (BERC) program. The Mather Field and McClellan Park reuse programs are self-funded with grants and proceeds generated from sale or lease of former military base assets. Appropriations for the Mather Field and McClellan Park programs are decreasing 14%, from \$50,390,000 to \$43,530,000. Enterprise cost-sharing agreements are the primary source of funding for the BERC program. BERC appropriations are decreasing 16%, from \$1,410,000 to \$1,180,000. Activities in these three programs also have resulted in tax revenues and increased job growth.

Environmental Management Fund

The Environmental Management Department is also established as a Special Revenue Fund, and the Department does not receive General Fund financing. The Department's proposed operating budget for Fiscal Year 2011-12 reflects a reduction of \$538,713 due to the use of reserves that were not utilized in the previous fiscal year's budget. This reduction is partially due to a reduction in regulatory oversight services that were linked to housing construction. It is expected that services levels will remain constant between Fiscal Year 2010-11 and 2011-12. In addition, a pilot program in the Environmental Health Division that allows staff to go directly from home to the field one day a month has reduced overtime costs and increased the number of inspections. The program may be expanded to the Environmental Compliance Division to further reduce overtime costs.

Golf Fund

The Golf Fund includes the costs of operating, maintaining and improving the county's three golf courses. The sources of funding are greens fees, cart rental, and revenues from food and beverage services, retail sales, driving range and lessons. The Golf Fund 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.

The economic downturn has negatively impacted Golf Fund revenues, particularly those from retail sales and food and beverage services. Although rounds are down slightly due to the economy, cart revenue is down significantly as more golfers are walking. The biggest impact to greens fee and cart revenues in Fiscal Year 2010-11 was due to Sacramento's record setting winter weather.

Parks is responding to the decline in revenues by further reducing operating expenditures for staff and supplies at all the courses and deferring equipment purchases using Fixed Asset Financing. In the past two fiscal years, staff reduced operational costs by almost 20%.

Improvements at the Ancil Hoffman restaurant are completed, and have enhanced revenues generated from the restaurant. A golf hole renovation, new tee construction, and irrigation improvements at Ancil Hoffman have also encouraged new interest in the course which retains rounds and revenue that could have otherwise been lost.

The Golf Fund includes one lease agreement for operations of Campus Commons Golf Course, however there are no additional direct operating costs

County Library Fund

This Budget Unit provides funding for capital maintenance and related costs at Sacramento County owned Sacramento Public Library Authority branches.

The Sacramento Public Library Authority (SPLA) provides all public library services in Sacramento County, except the City of Folsom. The County and City of Sacramento established the SPLA as a Joint Powers Authority (JPA) in 1993. The governing board is a fourteen member body consisting of five members of the County Board of Supervisors, five members of the Sacramento City Council, one member each representing the cities of Citrus Heights, Elk Grove and Rancho Cordova, with the remaining member shared by the cities of Galt and Isleton. SPLA funding is provided primarily by a dedicated property tax source and other revenue sources received directly by the SPLA.

This County Library Budget provides funding for capital maintenance, capital repairs, preventative maintenance, property insurance and related costs at sixteen SPLA branches owned by the County of Sacramento. Of these, twelve branches are strategically located throughout the Unincorporated Area of Sacramento County and the remaining four branches are in the cities of Citrus Heights, Elk Grove, Galt and Isleton. City of Sacramento library services consist of eleven branches, supported by separate City of Sacramento funding sources.

The requested appropriations for Fiscal Year 2011-12 are decreasing 89%, from \$10,160,000 to \$1,120,000. This decrease is due to local property taxes now being received directly by the SPLA with a corresponding decrease in funds that were previously transferred annually to the SPLA from this Budget Unit. The remaining appropriations in this Budget Unit are funded through an annual allocation of funds from the SPLA to the County for capital maintenance and related costs at Sacramento County owned SPLA branches.

Tobacco Litigation Settlement (TLS) Fund

On November 15, 2005, the Board approved refinancing the 2001 Tobacco Litigation Settlement Bond, to reduce the County debt service on prior bonds. Under the original deallocation schedule, the County had between \$4.7 million to \$8.3 million per year to fund county-operated programs with some of the funds in the TLS endowment program. Based on the current deallocation schedule, only new and expanded programs by tax-exempt qualified nonprofit organizations other than the County itself, or qualified capital projects, can be funded with the original 2001 Bonds. To mitigate the problem caused by ending the funding generated from the original Bond, the Board approved passing normal capital/maintenance costs through the TLS Fund (Fund 008A) to “free-up” other county funds for the programs originally funded by the TLS revenues.

In Fiscal Year 2011-12, a remaining available cash balance from prior years unspent appropriations of \$2,350,000 will be used to fund mandated programs in the Departments of Health & Human Services and Human Assistance.

Road Fund

Due to the State's difficult fiscal conditions, funding that has traditionally been dedicated to transportation will be deferred starting July 2010 through March 2011. The California State Association of Counties (CSAC) has estimated that approximately 41 percent of our existing monthly Highway Users Tax (Gas Tax) payment will be deferred during this nine month period. This equates to approximately \$8.5 million.

Effective June 2010, a transportation tax swap will take place. The sales tax on gasoline (known as Proposition 42 - Traffic Congestion Relief Program) will be eliminated and the excise tax on gasoline will be increased by 17.3 cents per gallon with annual adjustments to keep pace with what Proposition 42 would have otherwise generated. Basically the cities and counties will receive as much new gas tax as would have been received by Proposition 42. Department of Transportation's (DOT) budget estimate is \$9.5 million.

Currently, a loan agreement is in place that allows DOT to borrow from the Municipal Services Agency Internal Service Fund should there be a cash shortfall, with repayment to follow once the State releases the deferred funds to the County. With this agreement expiring June 30, 2010, DOT will once again request Board of Supervisors' approval to borrow should there be a cash shortage in the Road Fund for the upcoming Fiscal Year 2011-12.

Sanitation Districts Agency

The Sacramento Regional County Sanitation District Operations budget for Fiscal Year 2011-12 reflects an increase of \$3,326,590 due to the termination of furloughs for affected positions; and increases for cost of living adjustments and equity adjustments per current labor agreements.

The Sacramento Area Sewer District operating budget for Fiscal Year 2011-12 reflects an increase of \$1,785,929. This increase is due to termination of furloughs for affected positions; increases for cost of living adjustments and equity adjustments per current labor agreements; and stricter state and federal regulations regarding sanitary sewer overflows and the overall operating of a sanitation collection system.

Revenues:

Highlights of significant changes in operating revenues for Fiscal Year 2011-12 include:

- The Sacramento Regional County Sanitation District Operations revenue includes an increase in Charges for Services of \$3,326,590. This budget is fully self supporting and does not impact the General Fund.
- The Sacramento Area Sewer District operating revenue includes an increase of \$1,785,929. This budget is fully self supporting and does not impact the General Fund.

Expenses:

Highlights of significant changes in operating expenses for Fiscal Year 2011-12 include:

- Salaries and benefits have increased for the Sacramento Regional County Sanitation District Operations budget from \$48,876,320 to \$51,625,940, reflecting an increase of \$3,326,590. This increase is directly related to termination of furloughs for affected positions; cost of living adjustments; equity adjustments per current labor agreements; and employer contributions to retirement.
- Salaries and benefits have increased for the Sacramento Area Sewer District budget from \$34,167,255 to \$35,632,101, reflecting an increase of \$1,785,929. This increase is a result of termination of furloughs for affected positions; cost of living adjustments; equity adjustments per current labor agreements; employer contributions to retirement; and extra help and overtime for sanitary sewer overflow reductions.

AIRPORT ENTERPRISE

The Sacramento County Airport System’s (SCAS) operating budget for Fiscal Year 2011-12 reflects a continued effort to maintain a reasonable airline cost per enplaned passenger and keep rate increases to a minimum. With the new Terminal B coming on line in Fiscal Year 2011-12 considerable efforts were made by airport system staff to correctly project budgetary needs to properly operate and maintain the terminal. The operating Budget has increased by \$13,378,685 compared to the Adopted Budget for Fiscal Year 2010-11.

Sacramento County Airport System Funds 041 and 045 Operating Budget - Revenue and Expenses Fiscal Year 2011-12 Proposed Budget				
	2010-11 Adopted Final	2011-12 Recommended Proposed	Year to Year Variance	Percent Change
<u>REVENUES:</u>				
Charges for Services	134,920,875	152,171,477	17,250,602	12.8%
Interest Income	1,505,225	3,100,000	1,594,775	105.9%
Intergovernmental Revenue	11,281,471	8,421,620	-2,859,851	-25.3%
Passenger Facility Charges	12,735,871	18,534,438	5,798,567	45.5%
TOTAL	160,443,442	182,227,535	21,784,093	13.6%
<u>EXPENSES:</u>				
Salaries/Benefits	38,012,676	41,127,690	3,115,014	8.2%
Service and Supplies	58,219,023	62,355,126	4,136,103	7.1%
Depreciation	22,987,728	31,545,983	8,558,255	37.2%
Other Charges	5,595,644	4,809,992	-785,652	-14.0%
Cost of Goods Sold	450,000	450,000	0	0.0%
Interest Expense	61,000,000	59,354,965	-1,645,035	-2.7%
TOTAL	186,265,071	199,643,756	13,378,685	7.2%

Revenues:

Highlights of significant changes to the County Airport System’s operating revenue for Fiscal Year 2011-12 include:

- Passenger Facility Charges are expected to increase \$5,798,567 over the prior year budget. The revenue is increasing due to an expected increase in passengers as well as a budgeting error from the prior fiscal year.
- Parking revenue for Fiscal Year 2011-12 is projected to increase by \$6,620,648 from Fiscal Year 2010-11 due to an increase in rates coinciding with the opening of the new Terminal B.

Expenses:

Highlights of significant changes to the County Airport System's operating expenses for Fiscal Year 2011-12 include:

- Salaries and benefits have increased from \$38,012,676 to \$41,127,690 (an increase of \$3,115,014). This net increase is attributable to an additional 24 FTE's mid-Fiscal Year 2010-11 and 9 new FTE's for Fiscal Year 2011-12. This increase in FTE's is directly related to the proper staffing of the New Central Terminal B.
- The budget for Services and Supplies was increased by \$4,136,103. This increase is primarily due to the cost of service contracts related to the operations and maintenance of equipment in the New Terminal B, as well as increases in the cost of utilities for the new terminal.

SOLID WASTE ENTERPRISE

The Solid Waste Enterprise operating budget for Fiscal Year 2011-12 totals \$70,593,426. This represents a \$5,810,995 decrease from Fiscal Year 2010-11. The reduction in budget included reductions in salaries and benefits, services and supplies and reduced transfers to the Capital Outlay Fund for capital expenditures and reduced Solid Waste Authority revenue distributions to the Municipal Services Agency.

The Capital Outlay budget for Fiscal Year 2011-12 totals \$4,640,835. This represents a modest reduction of \$527,646 compared to Fiscal Year 2010-11, primarily due to reduced equipment replacements.

INTERNAL SERVICES FUNDS

Internal Services Funds are primarily financed with charges to county departments for services provided 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. Internal Services Funds are the Departments of General Services, Office of Communications and Information Technology, and the Self- Insurance Funds.

Internal Services Agency (ISA) Departments

The assistance from the Internal Services Agency departments of Personnel Services (DPS), Finance, Revenue Recovery, Clerk/Recorder and General Services (DGS) in identifying reductions is appreciated. Given the severity of the County's fiscal situation all options were explored. Reductions of approximately \$11.6 million have been identified in the Fiscal Year 2011-12 Recommended Budget that will reduce costs to county departments. This amount includes ISA departments' absorbing their Fiscal Year 2011-12 unavoidable costs, which includes increases merit (step) increases for employees not currently at the top step, retirement

rates, safety costs, personnel services and insurance rates (workers' compensation, unemployment liability property and group insurance). Additionally DPS, DGS and Clerk-Recorder Real Estate Division were asked to reduce their operating costs by an additional 3.0 percent (net of pass through costs) to further reduce costs to customer departments. The cost absorptions and reductions to ISA departments' base budgets included the deletion of 9.6 positions. In addition during Fiscal Year 2010-11, ISA departments made budget reductions of more than \$50.1 million, position reductions of 126.1 positions. The reductions made in the ISA departments will impact the service levels to customer departments and the maintenance of county facilities.

Communications And Information Technology (OCIT)

The Office of Communications and Information Technology (OCIT) provides central information technology and telecommunications services to other County departments and agencies. In addition, OCIT provides services to regional partners in the Sacramento area including State, Federal and City law enforcement agencies utilizing the County's Criminal Justice Information System and local radio communications.

Charges to county departments are determined on the basis of each department's direct utilization of services or their allocated portion of shared resources.

The Fiscal Year 2011-12 Recommended Budget includes revenues of \$43.8 million. This is an increase of \$3.5 million from Fiscal Year 2010-11. The increase is due to the addition of \$3.4 million in countywide allocations that were not included in the OCIT Fiscal Year 2010-11 budget and \$1.3 million of new revenue for customer requested services. This increase was offset by \$1.2 million in lower revenues due to reduced service requirements from customers as a result of service level reductions in several programs.

The Fiscal Year 2011-12 Recommended Budget includes appropriations of \$44.7 million. This is an increase of \$4.3 million from Fiscal Year 2010-11. The increase is due to the addition of \$4.1 million in countywide allocations that were not included in the OCIT Fiscal Year 2010-11 budget and \$1.3 million in costs supported by new revenues offset by \$1.1 million in reductions to programs including the elimination of 5.0 permanent positions.

Sacramento Regional Radio Communications System

The Sacramento Regional Radio Communications System (SRRCS) operates and maintains two-way mobile communications for 94 Member Participants with 13,387 active radios. The majority of the communication activities on SRRCS involve emergency response and other public safety activities.

Charges to subscribers are determined by each subscribers direct number of units in operation on the system.

The Fiscal Year 2011-12 Recommended Budget includes revenues of \$5.4 million. This is an increase of \$7 million from Fiscal Year 2010-11. This increase is attributed to the recognition of deferred revenue from Grant Reimbursements.

The Fiscal Year 2011-12 Recommended Budget includes appropriations of \$5.4 million. This is an increase of \$7 million from Fiscal Year 2010-11. This increase is attributed to the increase in depreciation from the purchase of Grant related assets.

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 self-insured for Workers’ Compensation Insurance up to \$3.0 million and Liability/Property Insurance up to \$2.0 million per occurrence. The County also purchases excess Workers’ Compensation and Liability/Property Insurance to cover claims above the self-insured retention amounts. 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 adopted insurance funds charges for the 2010-11 Fiscal Year and recommended charges for the 2011-12 Fiscal Year:

Insurance Funds Charges			
	Adopted 2010-11	Recommended 2011-12	Variance
Workers’ Compensation	\$27,968,707	\$27,240,088	\$ (728,619)
Liability/Property	15,461,484	15,468,536	7,052
Unemployment	15,513,496	10,183,136	(5,330,360)
TOTAL	\$58,943,687	\$52,891,760	\$ (6,051,927)

Overall, recommended charges are \$6.05 million lower for Fiscal Year 2011-12.

Operating costs of the Workers’ Compensation Insurance program have decreased approximately \$729,000 due primarily to reductions in insurance premiums, medical services, Workers’ Compensation payments, and various program expenditure reductions.

Operating costs of the Liability/Property Insurance program have increased by approximately \$7,052 primarily due to increased claims costs.

The Unemployment Insurance costs have decreased approximately \$5.3 million due to a fewer number of layoffs anticipated in Fiscal Year 2011-12 compared to Fiscal Year 2010-11 and the number of unemployment claims being filed.

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 approximately \$20.3 million in Fiscal Year 2011-12. Please refer to Attachment VI for a more detailed analysis of changes in appropriations, revenues, and fund balances for the Dependent Special Districts.

POSITION REDUCTIONS

The following table outlines the effect on County positions as a result of approving this Recommended Budget:

	General Fund	Non-General Fund	Total
Base Request	8,341.2	3,262.7	11,603.9
Reduced positions	219.9	101.0	320.9
Recommended Growth	17.2	10.0	27.2
Recommended Budget	8,138.5	3,171.7	11,310.2

The positions reductions do not include those the Sheriff and District Attorney will need to make to balance their respective budgets.

MISCELLANEOUS ADJUSTMENTS

These budget documents were prepared using available estimates of revenues and costs. The CEO continues to review and refine these estimates. Several adjustments to the documents included in this Recommended Budget are recommended by the CEO. These include adjustments for additional revenue for the Probation Department, including additional positions; additional cable franchise fees used to fund critical shortages in the District Attorney's Office, County Counsel's Office and the Planning Department; cost reductions for all departments from lower than projected employee health insurance costs and retiree medical subsidy; and a transfer of funding from the Conflict Criminal Defender to the Public Defender to save positions originally recommended for elimination.

FUND BALANCE AND REINVESTMENT POLICY

The Board adopted the Reserve and Reinvestment Policy on February 9, 2010. Since then the Governmental Accounting Standard Board (GASB) issued Statement 54 which defines new categories of Fund Balance for reporting purposes and the CEO recommends adoption of a policy to ensure the timely repayment of the balance of the Interfund Transfers. A new Fund Balance and Reinvestment Policy (Attachment IX) will integrate and three related issues into one policy.

STATE BUDGET

The Governor released his preliminary budget in January, followed by a revision in May. Key elements of the proposed State budget that may affect the County include Realignment of several State functions to local governments where services can be more efficiently provided. The State already passed law enforcement related Realignment. Several other programs are proposed for Realignment over the next year. All Realignment programs are contingent upon revenues to pay

for the provision of these services. A key part of the Governor's budget is the extension of sales tax and vehicle license fees that were previously approved by the voters.

The CEO will recommend budget adjustments for the Adopted Budget Hearings based on an adopted State budget.

RECOMMENDATIONS

1. Adopt the attached Recommended Budget Resolution (Attachment I) approving the recommended appropriations, reimbursements and revenues, as outlined in the attached recommended budget schedules, as amended by the Board, and including miscellaneous adjustments recommended by the CEO, resulting in an approved Fiscal Year 2011-12 Recommended Budget, and setting the commencement of the Adopted Budget Hearings for Wednesday, September 7, 2011. The Recommended Budget will serve as a spending authorization for Fiscal Year 2011-12 until adoption of an Adopted Budget in September 2011. A complete summary of the Fiscal Year 2011-12 Recommended Budget for the General Fund can be found in Attachment II.
2. Conduct a Transient-Occupancy Tax (TOT) Fund Hearing on Tuesday, June 7, 2011 at 2:00 pm, in order to determine appropriate discretionary grants and adopt the Resolution authorizing the Director of Community Planning and Development to execute related contracts (Attachment III B).
3. Direct the Department of Personnel Services to prepare an administrative Salary Resolution Amendment (SRA) and to issue layoff notices where necessary to reflect the positions approved by the Board in the Fiscal Year 2011-12 Recommended Budget, including deletion of certain positions in order to reduce program expenditures. Finalized position reduction list will be brought back to the Board.
4. Authorize the Director of the Department of Personnel Services to administratively extend positions otherwise slated for deletion in those cases where resources have been identified through labor cost concessions or other funding sources. These extensions will be brought back to the Board at the earliest available Board date.
5. Approve the attached report from the Department of Personnel Services on the Retiree Medical and Dental Insurance Program 2012 eligibility guidelines and program for calendar year 2012 (Attachment V).
6. Approve the attached report from the Department of Human Assistance authorizing the reduction of General Assistance grants consistent with State reductions in CalWORKS grants. (Attachment VI).
7. Approve the attached report from the Department of Human Assistance authorizing the elimination of the Out-Of-Home-Care Grant Level (Board and Care) and the Transitional Living Community Support General Assistance grant levels (Attachment VII).
8. Approve the attached report from the Department of Health and Human Services to provide services to seniors who are or at risk of being homeless. (Attachment VIII)

9. Approve the attached Fund Balance Policy providing direction for the reporting of Fund balance in the annual financial statements and establishing a formal Interfund Transfer repayment plan (Attachment IX).

Respectfully submitted,

STEVEN C. SZALAY
Interim County Executive

Attachments:

- I Budget Resolution
- II General Fund Summary
- III-A TOT Budget
- III-B TOT Contract Resolution
- IV Special District Budget Summaries
- V-A Board Letter-Retiree Medical and Dental Insurance Program
- V-B Resolution- Retiree Medical and Dental Insurance Program
- V-C Retiree Medical and Dental Insurance Program Administrative Policy
- VI-A Board Letter-DHA GA Grant reduction
- VI-B Resolution- DHA GA Grant reduction
- VII-A Board Letter-DHA GA Elimination Of The Out-Of-Home-Care Grant Level (Board and Care) And The Transitional Living Community Support Grant Levels
- VII-B Resolution- DHA GA Elimination Of The Out-Of-Home-Care Grant Level (Board and Care) And The Transitional Living Community Support Grant Levels
- VII-C GA Policy Transitional Living Community Support
- VIII-A Board Letter-DHHS Services to Seniors
- VIII-B Resolution- DHHS Services to Seniors
- IX Fund Balance and Reinvestment Policy

cc:	Board of Supervisors	Assessor
	District Attorney	Sheriff
	Agency Administrators	Department Heads
	County Executive Analysts	Department Administration/Fiscal Staff