BOARD OF SUPERVISORS AGENDA LETTER

Clerk of the Board of Supervisors
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Santa Barbara, CA 93101
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Agenda Number:

Department Name:	CEO
Department No.:	012
For Agenda Of:	11/6/07
Placement:	Departmental
Estimated Tme:	20 minutes
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director	Michael F. Brown, County Executive Officer
	Contact Info:	Jason Stilwell, Assistant CEO/Budget Director, 568-3413
SUBJECT:	**FY 2008-2009 Financial Forecast and Budget Principles**	

County Counsel Concurrence
As to form: N/A

Auditor-Controller Concurrence
As to form: N/A

Recommended Actions: Approve Budget Principles for use in developing the fiscal year 2008-2009 Operating Budget.

Summary Text:

On an annual basis the Board of Supervisors reviews and approves budget principles. These principles set the direction the County Executive Officer will utilize in preparing the following fiscal year's budget.

Attached are proposed budget principles for fiscal year 2008-2009. These principles have evolved incrementally from the principles approved by the Board for the 2007-2008 budget. These incremental changes result from the projected changing financial condition of the County including slower revenue growth and a spike in retirement costs.

Background:

Each year, in beginning the review for the following year's operating budget, staff examines conditions and impacts that will affect County finances. These include projecting revenue and highlighting potential expenditure requirements.

On September 25, 2007 staff brought to the Board a fiscal analysis report that discussed many of the factors that will impact subsequent budgets. Concurrently staff began discerning revenue trends; these trends will be part of the basis for the next fiscal year's revenue projections. Also, staff continues to monitor the changing financial environment for new events that will likely impact the County's budget and earlier on today's agenda staff highlighted financial challenges identified in the first quarter of the fiscal year.

It is with this background that the fiscal year 2008-2009 budget principles have been developed. In particular the large fiscal impacts, as outlined to the Board on September 25th, the continuing softening of the County's large revenue sources including property taxes and Proposition 172 sales taxes, and the large financial impact imposed on the County by the retirement board, demonstrates a need for the County to revise its budget principles to account for accumulating constraints.

The budget principles are utilized to develop a balanced budget that reflects the financial realities of the County and the priorities of the Board. The County Executive Officer and the Department Directors will utilize the budget principles to develop a balanced budget that will be presented to the Board at the June 2008 budget hearings.

The attached principles evolved incrementally from the prior year's principles based on the changing financial forecast of the County. Each change to the principles, and the reasoning behind the changes, are described below.

> **2(d):** Due to the County's current and projected financial condition, departments will receive no General Fund contribution increases for retirement rate cost increases for FY 08-09 over a base increase of 3.5%. Departments shall document in their budget request the reductions required to offset these retirement cost increases.

This principle is a new addition designed to account for the spike in retirement costs without the County having the ability to absorb the increase by other means. As presented to the Board during the budget hearings (page A-27 of the budget book), the County, through close monitoring of the retirement board, determined that retirement costs, which are set by the retirement board, would increase in 2008-2009 by 3.5%. The retirement board subsequently hired a new actuary which recommended an increase approximating 25%. The retirement board continues to deliberate the issue and, as of this writing, has yet to adopt the rate. However, a significant rate increase is highly likely. Such an increase in costs will have to be borne by the County and approximates $16 - $20 million. Additional costs, beyond the actuarial study costs, will also impact the final retirement rate and there may be some factors ameliorating the rate increase slightly. However, it is clear the County will be responsible for paying for retirement costs substantially higher than anticipated.

> **2 (e):** Due to a projected further decline in FY 08-09 property tax increases, departments shall submit their target budget plus a separate alternate budget reflecting a 5% reduction in General Fund contribution. These specific reductions and their impacts are to be documented in each budget request.

This principle is new designed to account for the overall revenue growth shortfall anticipated in fiscal year 2008-2009. This principle is a component of the County budget reduction strategy that will identify areas of cost reduction that the Board could consider as a means of attaining a balanced budget.

> **3 (a):** Requests for new legal positions that would result in an increase to the total number of current year full-time equivalent budgeted positions authorized for a department or for new additional contractors on payroll, must be submitted as budget expansion requests regardless of their funding source.

This principle is slightly modified from that approved by the Board last year with the addition of the words "current year" referring to full-time equivalent budget positions and "additional" in reference to contractors on payroll. These changes were to further refine and clarify the intent of the principle.

3 (d): In the light of decreasing property tax growth, it is prudent to reduce the number of FTE's from the FY 2007-08 adopted level. Accordingly, departments shall budget 50% of vacant funded FTE's (not positions) at the time of preparation of the FY 2008-09 budget.

This principle is a new addition designed to both account for the expected budget constraints and to take advantage of increased flexibility Department Directors have as a result of the Leadership Project and certain personnel rule changes adopted by the Board. At any given period the County has several hundred funded vacancies. These primarily occur as a result of typical employee turnover. Reducing a department's salary budget by a certain percentage is one method used to minimize the cost of this routine turnover. This provision augments the salary savings by accounting more directly for the continuing lag in hiring the vacant positions. This principle will be applied on an analytical basis with departmental review and will consider the various types of vacancies and the strategic reason, if any, for the vacancies.

5 (d): Where not prohibited by law, departments must use non-General Fund revenue, existing designations, and agency funds, before using General Fund contribution amounts to fund programs. Unanticipated revenue should be used to reduce the department's General Fund contribution for the fiscal year except where prohibited by law. Within the context of meeting the need of countywide appropriation requirements, the CEO will accept and review a department's proposed one-time use of any unanticipated revenue for recommendation to the Board of Supervisors.

The last two sentences of this principle are new additions. The intent of the addition is to both assure departments balance to the General Fund (the most flexible funding source) rather than to a special revenue fund (the least flexible) and to help assure the County Executive Officer is able to meet the Board's appropriation priorities on a countywide level. In any given year some departments have unanticipated revenue where others may not have the revenue projected in the budget. However, both have appropriations authorized by the Board and this provision enhances the ability of the County Executive Officer to assure there is funding for all Board adopted appropriations on a countywide basis rather than necessarily designating the unanticipated revenue in any one particular department's special revenue fund.

7 (c): Review of the 2007 ICMA performance measure templates for those areas having functional area performance measures reporting.

This principle is a new addition designed to reiterate to department staff that the County belongs to the national Center for Performance Management and that certain comparative performance measure data are available for staff to utilize in managing their departmental operations. These comparative performance measures are oftentimes indicative of best practices used in other jurisdictions that can be applied to the County with a result of improving operations or efficiencies. The Center reports on: general demographics, fire, code enforcement, human resources, libraries, police, refuse, youth services, facilities, fleet, highways, information technology, parks, purchasing, and risk management. Thus only those departments having templates will participate in the submittal and review of data.

Performance Measure:

The budget principles support a number of performance measures on pages D-26 and D-27 of the 2007-2008 County budget including building the strategic reserve, controlling revenue and expenditure variances, reducing the capital backlog, and rational allocation of resources through performance management.

Fiscal and Facilities Impacts:

None as a direct result of approving the budget principles yet the budget principles will have a direct impact on the financial impact described in the proposed fiscal year 2008-2009 budget the Board will receive in ay and act on in June 2008.

Attachment:

A. Proposed fiscal year 2008-2009 budget principles
B. Presentation to the Board of Supervisors

Authored by: Jason Stilwell

cc: Each Department Director
Deputy/Assistant County Executive Officers and CEO Analysts
Recognized Employee Organizations