



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
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Santa Barbara, CA 93101
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Department Name: CEO
Department No.: 012
For Agenda Of: 11/04/08
Placement: Departmental
Estimated Tme: 20 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Michael F. Brown, County Executive Officer
Director(s)
Contact Info: Jason Stilwell, Assistant CEO/Budget Director, 568-3413

SUBJECT: Fiscal Year 2009-2010 Budget Principles

Recommended Actions:

That the Board of Supervisors consider adopting budget principles for use in developing the Fiscal Year 2009-2010 operating budget.

Summary Text:

On an annual basis the Board of Supervisors reviews and approves budget principles. This hearing will enable the Board to adopt principles for staff to follow in preparing the Fiscal Year 2009-2010 budget.

Attached are proposed budget principles for Fiscal Year 2009-2010. These principles are designed to enable staff to develop a balanced budget to recommend to the Board while balancing the evolving economic factors and significant fiscal issues that have been presented to the Board on various occasions.

Background:

The proposed principles will be used by the County Executive Office and departments in development of the FY 2009-10 recommended budget. The principles are being developed based on the current financial projections for the next budget year and beyond and facilitate the budget development process.

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 October 28, 2008 staff brought to the Board the Fiscal Issues 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 2009-2010 budget principles have been developed. In particular the large fiscal impacts, as outlined to the Board on October 28, the continuing softening of the County's large revenue sources including property taxes and other revenues, and the large financial impact of the potential ADMHS audit finding and possible State budget revisions, 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 2009 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.

1(d): Use of one-time designation or year end balances for ongoing operations will be considered one time appropriations and not part of the ongoing base budget.

This new sub-section is added to the principle of Maintaining a Balanced Budget. It complements sub-section 1(c) that year-end fund balances should not be used to fund ongoing operations. Sub-section 1(d) is designed to clarify that one-time sources of funding should be used for one-time uses. On occasion, one-time sources are used for ongoing operations and this addition will clarify the intent that such use is for that fiscal year only. This policy comports with professional budgeting standards that seek to avoid using one-time sources for ongoing expenditures; doing so results in structurally imbalanced budgets. In a period of declining revenue such as the County now faces, this principle is of paramount importance because neglecting reductions in one year will be exacerbated in the following year as additional reductions will likely be necessary and the use of one-time funding only creates a "cliff" that will result in the need for more abrupt or draconian service level reductions in future years.

2 (a): In order to achieve the Principle of a Balanced Budget, General Fund target allocations will be reduced proportionately as needed on a percentage basis to meet available discretionary General Fund revenue.

This principle is new and is designed to account for the declining revenue growth in Fiscal Year 2009-2010 and clarify the link between these revenues and departmental target calculations. 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.

2 (g): Departments shall document service level impacts based on General Fund Contribution target allocations and other revenue availability when service levels will be materially impacted relative to Fiscal Year 2008-2009 levels of service.

This is a new addition that reflects the practice begun as part of the Fiscal Year 2008-2009 budget development process. That practice resulted in a listing of service level reductions both in Section A and the D-pages of the Recommended Fiscal Year 2008-2009 budget book. These lists highlighted the service level impacts of the funding reductions and provided additional transparency on what budget reductions mean to the community, County customers, and service providers. That transparency was well received by the Board and the public and staff believes the practice should be embodied in a principle.

3 (b) (4): consider consolidation of services and personnel across departments for greater efficiency and reduced costs.

Staff believes the upcoming budget gaps, both in Fiscal Year 2009-2010 and beyond, will require a restructuring of County services. Incremental changes will likely not be sufficient to meet balanced budget requirements.

This addition focuses on two areas. First since approximately half of the County's budget is spent on staffing costs, reducing the number of full-time equivalent positions will be a key factor in developing a balanced budget. Second, there may be opportunities to refine or consolidate operations across departments. This principle will provide Board direction to staff to pursue these opportunities.

6 (c): Requested budgets should reflect a designation balance sufficient to mitigate expected audit settlement liabilities.

This is a new budget principle added to specify that the adopted budget should include sufficient reserves to make necessary settlement payments. In the past the Board created a Litigation Reserve (for potential litigation settlements), and last year created the Audit Reserve (for potential audit settlements). In addition, the Strategic Reserve has provided flexibility to the Board for unanticipated expenditure requirements (such as the cost of the unanticipated Statewide February 2008 election). The Fiscal Year 2009-2010 budget will be tightly balanced and the June 30, 2008 Comprehensive Annual Financial Report includes liabilities for ADMHS payments that exceed the balances of the existing settlement reserves; for these two reasons, this principle is proposed to clarify the Board's priority to have adequate reserve balances to meet anticipated liabilities.

Attachments: 1. Proposed Fiscal Year 2009-2010 Budget Principles
 2. Presentation to the Board of Supervisors

Authored by: Jason Stilwell

cc: Each Department Head
 Assistant County Executive Officers and CEO Fiscal & Policy Analysts
 Recognized Employee Organizations