SANTA BARBARA COUNTY
BOARD AGENDA LETTER

Clerk of the Board of Supervisors
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Agenda Number:	
Prepared on:	2/12/03
Department Name:	CAO & Auditor/Controller
Department No.:	012
Agenda Date:	2/18/03
Placement:	Departmental
Estimate Time:	2.5 hours
Continued Item:	NO
If Yes, date from:	

TO: Board of Supervisors

FROM: Michael F. Brown , County Administrator
Robert Geis, CPA, Auditor-Controller

STAFF CONTACT: Ken Masuda, Lori Norton, and Brian Richard
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SUBJECT: FY 02-03 Budget Update & FY 03-04 Budget Workshop # 2

Recommendation(s):

That the Board of Supervisors:

A. Accept and file, per the provisions of Government Code Section 29126.2, the Fiscal Year 2002-03 Financial Status Report as of December 31, 2002, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.

B. Accept an update on the forecasted FY 02-03 financial condition on 6/30/03, a presentation on significant current budget issues, including an update on FY 03-04 State budget proposals, and receive a series of alternate financial scenarios for FY 03-04.

C. Approve a proposal to fund the remaining $1 million needed by the Sheriff's Department to pay for Deputy Sheriff equity adjustments which went into effect in July 2002 and January 2003.

Alignment with Board Strategic Plan:

An efficient government able to anticipate and respond effectively to the needs of the community.

Executive Summary

From a financial perspective, the County is fiscally sound now, and barring unforeseen circumstances or an unsatisfactory resolution to the State's budget crisis, will be fiscally sound on June 30, 2003.

Next fiscal year, however, is an entirely different matter. Your Board, the CAO, and departments will be dealing with: 1) the loss of $2 million in State reimbursements for County expenditures on mandated programs (SB-90 funds), 2) increases in various insurance premiums (Workers' Compensation, Liability, and Unemployment) totaling almost $4 million, 3) lack of growth in our share of statewide revenues due to the poor performance of the State economy, and possibly 4) $12 million in additional State cuts to County programs, many in the health and social services area, 5) an $18 million reduction to our General Fund discretionary revenues if the "backfill" of Vehicle License Fee revenues is not continued, 6) the potential of significant cost increases resulting from the Governor's proposed

Realignment II, and 7) the potential of additional funding losses resulting from the actions of the Federal government.

Against this backdrop, preparation of the FY 2003-04 is proceeding on a dual track. On the one hand, departments are preparing their budgets according to adopted budget principles. These budgets will provide a baseline from which reductions will be made—should they be necessary. At the same time, information on the impacts of possible reductions has been gathered and is presented, for the first time, in this report.

When the State budget picture becomes clear, whether it be in June, later this Summer, or in the Fall, your staff will be prepared to deal with the consequences, under your Board's direction, using a combination of careful analysis and a priority setting processes.

This report is divided into 6 sections. Section A reviews the financial status of the County as of 12/31/02. In Section B, the latest financial projections through 6/30/03 are summarized. For both periods, the County looks to be in good financial condition, even when current year impacts of the lack of SB-90 State mandate reimbursements are considered.

Section C presents financial projections for Fiscal Year 2003-04, without consideration of potential State budget reductions. The projected 6.6% growth in General Fund discretionary revenues, while healthy, will not, due to a variety of factors, be enough to ensure a continuation of current service levels. Potential impacts of the State budget deficit on Santa Barbara County government are presented in Section D. A total negative impact of $30 million and a negative General Fund impact of $20.5 million are estimated, for now.

Finally, Section E provides illustrations, in simplified form, of alternative ways to cope with budget reductions, if, in the end, they involve substantial amounts of lost revenue and/or increased local subsidy of State mandated programs.

Discussion:

A. Financial Status Report as of December 31, 2002

Staff has conducted Monthly Projection (MOPROs) meetings with departments during which their actual performance was compared to their budget for the first six months of this fiscal year. During these meetings differences (variances) between budgeted and actual amounts were identified. The following narrative highlights major variances, defined as follows: 1) for General Fund departments, the narrative discusses projected variances over $100,000 as shown in the Projected Annual Status Report, General Fund (Attachment A) and 2) for non-General Fund departments, the narrative discusses projected variances over $500,000 per fund as shown in the Projected Annual Status Report, by Fund Type (Attachment B). Both these reports take actual revenues and expenditures for the first six months, add department projections for the next six months, and compare these totals to budgeted amounts.

County General Fund

Status of General Fund Discretionary Revenue:

Property taxes are a positive $1,892,000 through December, Transient Occupancy Taxes (TOT) are +$340,000 and Vehicle License Fee revenue is +$338,000. On the other hand, Retail Sales revenues are -$430,000 and Federal Payments in Lieu of Taxes are -$345,000—the latter appears to be a timing issue, that is, the revenue is still anticipated. As this is the first full year that property, TOT, and sales tax receipts do not include the area now in the City of Goleta, some of the difference might be due to difficulty in making accurate budget estimates. The balance of the positive variance is a timing issue related to the refund of impounded property taxes.

Status of Departments:

Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of 12/31/02 are as follows:

- County Counsel. A lag in revenue receipts from other county departments accounts for most of the $192,000 negative variance. This revenue should be received later this fiscal year.
- District Attorney. The current overall positive variance is due to civil fine payments associated with the Beverly LaCumbre case. However, part of this revenue may used to fund the loss of a North County Federal Domestic Violence Grant, the Proposition 172 revenue shortfall, and projected unrealized salary savings. Depending on the above, either no net variance or a somewhat negative variance is anticipated.
- Probation. The Proposition 172 revenue shortfall of $106,000 is the main reason for the negative variance.
- Public Defender. The variance does not reflect the additional $150,000 approved by the Board in November for trial costs in death penalty cases. The other significant variance, like Probation, is the shortfall in Proposition 172 revenues.
- Fire. The positive variance is primarily due to State reimbursements for fire protection services being $233,000 higher than anticipated.
- Sheriff. The negative revenue variance of $701,000 is due to three major factors: 1) Proposition 172 revenue is down $276,000, 2) Court reimbursements for bailiff services are $258,000 lower than anticipated—this reflects an on-going reduction in the use of bailiff services by the Superior Court, and 3) State reimbursement for housing State parolees in the County jail are $134,000 less than anticipated—the Sheriff indicates that the County will probably not receive reimbursement this fiscal year. On the expenditure side, the apparent overspending is due to the unscheduled $2 million equity adjustment granted in July 2002 which was needed to provide an incentive to discourage Deputies from transferring to other agencies which offer much richer compensation plans.
- Parks. The positive revenue variance consists mainly of a timing issue (revenue received earlier than anticipated). However, camping and use fees are also positive. On the other hand, unbudgeted expenditures at Goleta Beach have reached $65,000 to date and could be as high as $200,000 before the end of the storm season.
- Planning and Development. Shows a net positive variance as the department keeps positions open in anticipation of budget reductions and also due to lower permitting volume. This lower volume is also reflected in reduced expenses for contractual services and lower reimbursements for these costs (Environmental Resource Services charges).
- Auditor-Controller. The positive variance is due to salary savings from vacant positions, delays in billings from the outside auditor, and lower Professional and Special services costs due to delays in the Property Tax Program.
- Clerk-Recorder-Assessor. The negative variance is largely the result of three factors: 1) no SB-90 reimbursement for elections costs $315,000, 2) elections expenses are $300,000 more than anticipated due to bilingual ballot/bilingual poll worker requirements (Federal mandate), and 3) Recording Fees are $377,000 more than anticipated.
- Treasurer-Tax Collector. While there is a negative variance, it is the accumulation of numerous small variances, no single, or group of, significant factors.
- General County Programs. The net negative variance is mainly due to a $2,698,000 property tax refund to Exxon which was erroneously shown here rather than in 991-General Revenues, and various expenditure amounts which are less than budgeted, including several

vacant positions and reduced spending of $591,000 for special studies and GIS enhancements. The other major expenditure variance, for interest expense payments totaling $408,000, is a timing issue.

Net Impact

The General Fund, when all of the plusses, minuses and timing differences are accounted for, has an estimated net positive variance of approximately $4 million through December 31, 2002 and a minimum $6.3 million positive variance through the end of the year. Most of this is due to increased discretionary revenues and reduced expenditures in General County Programs. Departments, for the most part, show expenditures and revenues in line with their annual adjusted budgets. The exception is the Sheriff's Department which, due to a combination of factors—declining Proposition 172 revenues, slower Court reimbursements, a lack of State reimbursements for State parolees—has a significant negative variance even after the Deputy equity adjustments are accounted for.

There are two factors that negatively affect multiple departments. First, Proposition 172 revenues received by our public safety departments are significantly less than budgeted, showing a shortfall of $600,000 through December and an estimated $1.2 million for the year as a whole. Also, at midyear, an increase in Workers Compensation premiums of $1 million for all departments, including $501,000 for General Fund departments was approved. These additional premium costs will show up in our next status report.

Special Revenue Funds and Other Funds

- Road Fund. The positive variance is largely the result of three factors: 1) $1.3 million is due to delays in contracting for work, 2) lower than anticipated contract work –about $500,000-- for the City of Goleta, and 3) reduced salaries expense due to vacant positions.
- Mental Health Fund. The negative revenue variance of almost $5 million is due to the slow receipt of funds, particularly from the State. There are two real changes that offset each other: 1) Because of uncertainties regarding actual revenue amounts, there was no accrual of last year's State Aid for Mental Health Realignment. As a result, there will be an additional $1.1 million this year. 2) SB 90 revenue of $1.1 million will not be received. So, this year, the SB 90 shortfall will be made up from the other source. Next year, however, there is a $1.1 million problem. On the expenditure side, savings are due to staff vacancies (18% of positions were vacant as of 12/31), and delayed invoicing from the CBOs.
- Substance Abuse (Proposition 65) Fund. This variance is due to delayed State payments.
- Court Activities Fund. This variance is due to a delay in posting our second quarter State MOE payment of $2.6 million.
- Workers Compensation Fund. The positive variance in revenues is due to the timing of department contributions. At year-end this variance should be close to zero. There is also a positive expenditure variance which, budget-wise, should increase by year-end when the $1 million additional appropriation approved by the Board in November is included.
- Information Technology Fund. The positive revenue variance is due to Social Services Department's continued use of the mainframe computer. On the expenditure side, the General Services Department is holding staff vacancies and keeping other expenditures as low as possible to ensure the financial health of this fund.

Net Impact on General Fund

Other than the mid-year Workers Compensation premium increase noted in the previous section, none of the Special Revenue or Other Fund variances should negatively impact the General Fund this year.

B. Fiscal Year-end Estimates

This section summarizes the latest financial projections. They are included in summary form as (Attachment C). "2002-03 Mid-Year Financial Status Report and Projection." These projections include the SB-90 State mandate payment suspension already enacted, but do not include other possible adverse impacts based on proposed State legislation. Discussion of further potential impacts suggested by mid-year proposals or the Governor's proposal for FY 03-04 is contained in Section D.

Year-end Estimates

As suggested by mid-year report conclusions, we forecast the General Fund will end the current fiscal year with a positive financial performance. When the positive and negative variables, outlined below, are considered, the positive number is projected to be a minimum $6.3 million.

Discretionary General Fund revenues should show a net increase of $3.8 million by year-end to a total of $135.7 million for the year. Property tax revenues as a whole are projected to be $3.3 million over adopted estimates. Both the Vehicle License Fee (+$600,000) and Transient Occupancy Tax (+$500,000) are expected to show positive results. The only large negative number is Retail Sales, which is projected, based on current data, to end up a -$400,000. Of this amount, $200,000 is due to revenues being transferred to the City of Goleta resulting from a State Board of Equalization error in the previous year, the first year of incorporation.

Releases of impounded oil property revenues should add a total of $4 million to a combination of the General Fund contingency ($3 million) and the Salary Designation ($1 million). In addition general fund contributions for current year impounds $1.1 million less than budgeted.

Offsetting these positive numbers will be the need to backfill Proposition 172 revenue losses by Public Safety departments by about $1.2 million and an obligation to repay approximately $400,000 in Property Transfer Tax revenues to cities. Because of recording errors from July 1999 through August 2002, certain property transaction taxes that should have been split 50/50 with cities were credited 100% to the County.

Programs Impacted by the Lack of SB-90 Reimbursements

The following chart shows the funding loss for each State mandated program, and for SB-90 claims administration, in FY 02-03. These revenue losses total $2 million. However, in every case, for the current year, the programs have been continued without reductions in service levels due to the affected departments' ability to substitute other one-time revenues or to reduce expenditures in other areas.

Table 1.

Department/Program	Funding Loss	Impact in FY 02-03
ADMHS: Seriously Emotionally Disturbed Students	$1,100,000	Revenue loss offset with one-time revenues
Clerk-Recorder-Assessor: Absentee Ballots	$315,000	Revenue loss offset with one-time revenues
Public Health: Animal Adoption, HIV Testing, Beach Safety, SID Investigations	$250,000	Use Public Health Fund fund balance to offset
Probation: Domestic Violence Program for Probationers	$158,000	Revenue loss offset with one-time revenues and with Title IVE reimbursements
District Attorney: Child Abduction Recovery Unit	$60,000	Revenue loss offset with one-time revenues
County Administrator (Clerk of the Board): Brown Act	$35,000	Expenditure reduction elsewhere
Treasurer-Tax Collector: Brown Act	$31,000	Funded with other revenues
County Administrator (General County Programs): Claims Administration	$30,000	Expenditure reduction elsewhere
Auditor-Controller: Claims Administration	$21,000	Expenditure reduction elsewhere
Totals	$2,000,000	

C. Fiscal Year 2003-04 Financial Projections

Discretionary Revenues

For Fiscal Year 2003-04, discretionary General Fund revenues are projected to be $140.6 million—up from a $138.7 million estimate made earlier this fiscal year. This increase is entirely driven by the growth in property tax revenues. For FY 02-03, Supplemental Property Tax revenues—taxes collected on the increased assessed value of transferred properties or new construction—are estimated to be $4.3 million; 54% higher than budgeted. This would be the highest annual amount for this revenue in recent history, exceeding the $3,783,000 received in FY 01-02. As this growth is usually an indication that secured property tax revenues will increase next year, projected FY 03-04 amounts have, accordingly, been increased. The revenue estimate includes $700,000 in Williamson Act payments which are proposed by the Governor to be deleted in 03-04.

Relation to General Fund Budget Targets

Each year, in line with adopted budget principles, General Fund Contribution amounts are allocated to departments based on prior year allocations, plus a proportionate share of salary and benefit cost increases, and plus or minus one-time revenues and expenditures. The FY 03-04 allocation is $140.4 million. With estimated revenues now at $140.6 million, and absent any State action, a balanced local General Fund budget is possible for fiscal year 2003-04. However, even with an increased General Fund allocation, departments can find themselves needing to reduce spending and/or ask for budget restorations. Reasons for this dilemma are discussed below.

Impacts Not Covered by Budget Targets:

- Categorical Revenue Losses. The amount of General Fund contribution allocated to departments depends on the department's ratio of categorical (departmental) revenue to General Fund contribution. For example, if this ratio is 50/50, the General Fund will match half the growth in salaries and benefit costs, with categorical revenue growth expected to cover the rest. But, if the categorical revenue does not have sufficient growth, then the department has a budget shortfall on its hands.

  Thus, with no growth forecast in Proposition 172 revenues (Proposition 172 revenues are the extra half-cent sales tax, the proceeds of which are devoted to local public safety functions) most of the Public Safety departments, except Fire, which has growth in its dedicated property tax revenues, have a funding shortfall.

  Likewise, if a Federal or State grant ends, or if revenue growth is capped by some formula, a department may also have a shortfall.

- Extraordinary Local Cost Increases. Next year, Workers Compensation premiums will increase significantly for some departments. Overall, the increase is $2 million more than adopted FY 02-03 amounts. Liability charges will increase $1.5 million and Unemployment Insurance will increase $775,000. Individually, most departments will have increases, and these premium increases will have to be absorbed within the department's existing resources.

- Mandate Issues. The State's suspension of SB 90 claim reimbursements will cost the County an estimated $2.0 million this year and next. As indicated, the largest portion of lost revenue, $1.1 million to ADMHS, will be offset by other revenue this fiscal year. However, next fiscal year presents a $1.1 million problem. Likewise, the $315,000 loss to the Clerk-Recorder-Assessor for absentee ballots will be made-up this year, but next year also presents a problem. The Probation Department plans to continue its domestic violence programs despite the loss of $158,000. However, resulting impacts on its other programs are still being analyzed.

- A new Federal mandate to provide bilingual ballots and poll workers increased Elections costs by approximately $300,000 this year. Payment of these costs in the next fiscal year may require approval of a budget expansion request.

In summary, during budget hearings, the Board may be asked to decide on up to $4 million in budget restoration/expansion requests just to maintain current service levels in spite of increases in discretionary revenue. A similar situation, which occurred last year, resulted in both the Sheriff and the Probation Department reducing staffing from levels funded in prior years.

FY 03-04 Budget Development Process

Looming over the entire budget process is the State's current and projected budget deficit—estimated at between $28 and $34.6 billion. Whatever solutions are crafted by the State Legislature, Governor, and perhaps ultimately the voters, will have a profound effect on the County budget.

But until real impacts are "known," that is, legislation passed and signed, we are proceeding on a dual track. First, departments are preparing their FY 03-04 budgets using their budget target numbers—using approximately $140 million in General Fund discretionary revenues. At the same time we are gathering information regarding what reductions they would propose, what the staffing and program impacts could be, if they were asked to take a 15% cut in the General Fund discretionary revenue provided to their department.

D. State Budget Impacts

Potential Impacts

The following tables show, in a shorthand way, the impacts we perceive as possibly resulting if the Governor's proposed budget is enacted. Much greater detail is provided in the (Attachment D) "State Budget Update." The first table lists potential impacts from proposals other than termination of the Vehicle License Fee (VLF) backfill. While the General Fund could be negatively impacted by approximately $2.5 million, there is a much larger financial and service impact, around $9.5 million, on funds currently passed through County budgets to clients and other service providers. These impacts exclude the so-called "Realignment II" proposal, which, like the $9.5 million, affects the funding of various social programs. An analysis of Realignment II is provided in the next section.

Table 2. Potential Non-VLF State Budget Impacts

Proposal	Amount	Direct GF Impact	Potential Service Reduction or Budget Expansion
Eliminate Williamson Act Funding	$700,000	X	
District Attorney OCJP Grant	40,000		X
District Attorney Domestic Violence Grant	84,000		X
Move Court Undesignated Revenue to State	180,000	X	
Probation OCJP Grant	20,000		X
Eliminate State Reimbursement of Sheriff and Probation Mandated Training	346,000	X	
Delay State Reimbursement of Costs of Housing State Parole Violators in County Jail	214,000	X	
Reduce Homeless Shelter Funding	90,000		X
Reduce Medi-Cal Provider Fees	200,000		X
Rescind Medi-Cal Eligibility Expansion	200,000		X
Reduce CHDP (well child services) Funding	180,000		X
Reduce Multi-Service Seniors Program Funding	240,000		X
Reinstate Medi-Cal Quarterly Reporting (recipients that fail to report lose eligibility)	1,000,000		X
CALWORKs COLA suspension and grant reduction	1,500,000		X

CALWORKs loss of subsidized child care			X
Reduction of CALWORKs Employment Services Funding	1,500,000		X
Reduce Child Support Funding plus passing a portion of Federal Penalties due to lack of a Statewide Automated System to Counties	1,190,000	Possibly 690,000	X
Reduce State Funding for Streets and Roads	1,750,000		X
Redevelopment Agency ERAF Shifts	1,950,000		X
Redevelopment Agency Funding Shift could impact RDA ability to pay COP debt	393,000	X	
Totals	$11,777,000	$2,523,000	

The Governor's proposal to end the State's backfill of VLF fees lost due to reductions in DMV fees would mean a loss to the County General Fund of $18 million annually. To the extent that these revenues allowed the County to match other available funds, the total impact would be much larger. The next table shows for each department, the direct amount of General Fund contribution loss if a 15% reduction were taken. Several departments commented on additional funding that could be lost as a result of these reductions. However, at this time, there is not sufficient data to provide an estimate of this amount.

Table 3. Potential VLF Reduction Impact by Department Assuming a 15% Reduction

Department by Functional Area	General Fund Contribution Reduction	Number of Positions Potentially Eliminated
District Attorney	$952,000	15
Public Defender	668,000	9
Superior Court	1,100,000	?
Fire	240,000	2
Probation	1,800,000	40
Sheriff	5,500,000	63
Alcohol, Drug, and Mental Health	210,000	19
Public Health	1,100,000	14
Social Services	1,200,000	25
Agriculture & Cooperative Extension	250,000	2
Parks	454,000*	1

Planning & Development	600,000**	7
Public Works	321,000***	0
Housing & Community Development	142,000	0
Auditor-Controller	489,000	4
Clerk-Recorder-Assessor	250,000	0
County Administrator	319,000	2
County Counsel	254,000	2
General Services	1,200,000	13
Human Resources	214,000	1
Treasurer-Tax Collector	372,000	1
General County Programs	506,000	2
Totals	$18,140,000	222

*Includes $298,000 additional revenue.
**Alternatively, could increase fees by $761,000
***Includes $38,000 additional revenue

Realignment II

The Governor's proposed budget includes a new state-local realignment package totaling $8.2 billion in costs and $8.3 billion in new revenues. Proposed Realignment II programs include core services primarily in the areas of Alcohol, Drug, and Mental Health, Public Health, and Social Services. Programs proposed for realignment are identified in (Attachment B).

Proposed Tax increases to pay for Realigned Programs

To offset the cost of the realigned programs, the Governor has proposed three new tax increases, which in combination are projected to produce $8.3 billion in revenue in FY 03-04. The increases are as follows: 1% increase in the state sales tax rate ($4.6 billion) the addition of a 10% and 11% personal income tax bracket ($2.6 billion), and a $1.10 increase in excise tax on cigarettes and other tobacco products ($1.1 billion). Of the $8.3 billion, $96 million will be used to backfill lost cigarette tax revenues, which fund Proposition 10, Proposition 99, and the Breast Cancer Fund.

Because all of the new revenue generated through the tax increases would be dedicated to counties, no new revenue would be transferred to the General Fund thus no portion of the new revenues would be required to fund Proposition 98.

Issues

The Realignment II proposal is of concern to counties for the reasons outlined below:

- Passage of the three new taxes requires a 2/3 vote of the legislature. To date, a number of legislators have expressed opposition to approving any tax increases.
- The Governor is promoting Realignment II as a shift of responsibility with no new costs to County governments. However, the programs to be realigned are projected to experience substantial caseload growth as a function of the economic downturn and an aging population. Conversely, the taxes to fund the realigned programs are revenue sources that decline in an

economic downturn, thereby creating a situation where ongoing costs will increase and revenues decline.

- The State is proposing to collect all of the increased tax revenues and distribute them based on each county's proposed level of program funding. High tax generation areas will not receive the benefit of the taxes generated within their own communities. Revenues will be distributed to communities based on their caseloads and program costs.
- Realigned programs are subject to Federal and State mandates that dictate who is eligible to receive the service and the level of service to be provided. Counties will have no control over new mandates that may result in expanded eligibility or increased costs, but will be forced to meet them and bear the cost.
- Presently the Federal, State, and County governments share in these program costs. If realigned, the State no longer shares in the cost of the programs. If the Federal Government determines to change the sharing ratio so the State pays a higher share, the County will be responsible for the increase.

The focus of the State budget debate has thus far focused on vehicle license fees, thus Realignment II has not yet been debated in detail. As the debate takes shape, it is very likely the programs targeted for realignment will change. Also, the inability of the Governor to forge agreement on new taxes may impact the proposal in its entirety.

Other Potential Issues

- <u>The Federal Budget</u>. The President's proposed budget contains cuts in domestic programs to help offset a pending large Federal deficit. These reductions could adversely affect both State and local programs.
- <u>Future Role of Outside Creditors in the Budget Process</u>. Should the Governor and Legislature fail to take timely action to address the budget deficit, and as a result, need to ask for additional loans from Wall Street, there is a risk that these creditors could interject themselves into the State's budget deliberations, with currently unknown consequences.
- <u>Performance of the U.S., State, and Local Economies</u>. The consensus among economists appears to be that the U.S. economy will grow in a range between 2 and 3% during the current calendar year. One key unknown: What would be the economic impact of a war with Iraq?

  The State economy is also expected to show positive growth. One key is that after two years of declines job growth is expected in the San Francisco Bay region.

  Locally, our revenue forecasts anticipate growth in only nominal terms, that is, at the same rate as inflation. An important thing to remember is that we are not in a recession. The last time significant State—and therefore local—budget reductions were necessary, local real estate values were actually falling.
- <u>Other Local Cost Impacts</u>. There are a number of potential high liability litigation cases pending. If the County were to be found to have significant liability, the Litigation Designation, currently at $2.48 million would require additional funds.

E. Dealing with a Major Budget Deficit

A Combination of Careful Analysis and Priority Setting

As indicated, departments have submitted budget reduction information equal to 15% of their FY 03-04 budget targets. Our office does not, of course, intend to propose "across the board" reductions. The process does, however, provides departments with insight into future reductions and it enables the Board and the public to see how a State budget deficit might ultimately impact county services.

Actual reduction proposals by our office would combine both our objective analysis of overall financial impacts based on actual State legislation, a review of potential program reductions based on our annual budget reviews, and a set of reduction priorities established by your Board at some future meeting, possibly in late April or early May, or later depending on when State Budget actions are clear.

Hypothetical Budget Reduction Scenarios

The previous section on State budget impacts has provided your Board with some idea of the impacts of budget reductions that may be forced upon the County. Below are four, of many possible, hypothetical scenarios and their impacts that may result from priority setting. For comparison purposes, the 15% across the board reductions are also shown. These options are also summarized in (Attachment E), "Budget Balancing Strategies." One warning: For this presentation the options presented have been simplified. In actual fact, the choices will probably be more difficult. The illustrations lump together certain departments into an "all other" category. Within this category, reductions would be uneven. For example, debt service payments cannot be cut, and utility costs cannot be subject to an arbitrary reduction.

Table 4. Examples of Hypothetical Budget Reduction Options

Options	General Fund Discretionary Revenue	Dollar Amount of Reduction	% Reduction of Total General Fund
All Departments	$140.0	$21.0	15%
#1. Social Safety Net	23.5	0.8	3%
Non-Social Safety Net	116.5	20.2	17%
#2 Public Safety	61.5	0.3	½ of 1%
Non-Public Safety	78.5	20.7	26%
#3 Both #1 and #2	77.8	1.1	1.4%
All Others	62.2	19.9	32.0
#4 Public Safety	61.5	0.3	½ of 1%
General County Programs	17.0	8.7	51.2%
All Others	61.5	12.0	19.5%

1. The Social Safety Net as a Top Priority. Under this option, Probation's juvenile services, and all of ADMHS, Public Health clinics—but not Community Health Programs—and all of Social Services would be a top funding priority. As indicated, under this scenario, all other departments would be subject to an average 17% reduction.
2. Public Safety Functions as a Top Priority. Under this option, the Sheriff, Probation, Fire, District Attorney, and Public Defender budgets would be the top funding priority. Only non-Public Safety functions in these departments, such as the Hazardous Materials Program, would be subject to reductions. As indicated in Table 4., under this scenario, all other departments would be subject to an average reduction of 26%.
3. Combining #1 and #2 as Top Priorities. This option assumes that both Public Safety and the Social Safety Net are top priorities. Because Probation is, at least in part, included in each, the

sum is less than #1 and #2 combined. As indicated, under this scenario, all other departments would be subject to a 31% reduction.

4. Reducing Contributions to Reserves and Designations, and Optional Programs as Top Priorities. This option would be implemented in conjunction with options #1, #2, or #3, in order to reduce cuts to operating programs. Contributions to the Strategic Reserve, deferred maintenance, Capital Designation, and Roads curb and gutter repair would be eliminated in FY 03-04, saving $4.5 million. Programs in Department 990, General County Programs, such as libraries, the Employees University, and the Human Relations Commission would be reduced by 25%, saving $600,000.

   If this option were implemented, for example, along with option 1, the non-Public Safety department budget reductions would go from an average of 26% to 20%.

Again, these options are meant to provide illustrative examples. The real priorities, that is, budgeting as strategic choice, would be established by your Board.

Use of One-time Oil Assessment Impound Refunds For Orderly Transitions

Due to the settlement of oil company assessment appeals, the General Fund will receive at least $4.6 million in one-time refunds plus save an additional $1.1 million in General Fund contributions to impound accounts during the current fiscal year. Of this total, $1 million has gone into the Salary Designation, and approximately $500,000 has been used to offset lower than anticipated interest earnings on the County's General Fund cash balance. The net available will be around $4.2 million. Given the magnitude of the potential reductions facing the County, a further strategy could include the use of this money to assist in the transition of people and programs to reduced staffing and service levels. This strategy would use one-time money to pay for one-time expenditures. The use of one-time money to fund ongoing programs and costs should be avoided.

F. Sheriff's Department's Equity Adjustment

In January, your Board approved a $1 million allocation from the Restoration Designation to cover half of the cost of Deputy Sheriff equity adjustments—6% in July, 2002 and 6% in January, 2003—approved after the FY 2002-03 budget was approved. It is our recommendation that the other $1 million be funded from the Salary Designation. Currently, there is $2.6 million in this designation which is more than enough to provide the $1 million requested here and have a reserve available for unbudgeted, mid-year, Workers Compensation premium increases.

Mandates and Service Levels: As indicated and described in the text of the letter.

Fiscal and Facilities Impacts: Actual and hypothetical impacts are stated in the text of the letter.

CC: All Department Heads
CAO Deputies
CAO Analysts