BOARD OF SUPERVISORS
AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Department Name:	CEO, Auditor-Controller, Clerk-Recorder-Assessor, Treasurer-Tax Collector
Department No.:	012, 061, 062, 065
For Agenda Of:	3/1/11
Placement:	Departmental
Estimated Time:	30 minutes
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Chandra L. Wallar, County Executive Officer Robert Geis, CPA, CPFO, Auditor-Controller Joe Holland, CPFO Clerk-Recorder-Assessor Harry Hagen, CPA, CPFO, Treasurer-Tax Collector
	Contact Info:	Jason Stilwell, Assistant County Executive Officer/Budget Director 568-3413
SUBJECT:	**Fiscal Year 2011-2012 Budget: Describing the Development Process and Forecast Update**	

County Counsel Concurrence
As to form: N/A

Auditor-Controller Concurrence
As to form: Yes

Recommended Actions:

That the Board of Supervisors receive a description of the budget development process and accept the forecast update and presentation on the economic context and impending budget challenges faced by the County in Fiscal Year 2011-2012.

Summary Text:

This Board presentation will provide a status update on the Fiscal Year 2011-2012 budget focusing on the budget development process staff is undertaking to develop a balanced recommended budget for the Board to consider at the June 13, 15, and 17, 2011 budget hearings as well as an update of the challenges to developing a balanced budget

Background:

BUDGET PROCESS
The Board requested information about the budget development process. Staff is in the process of developing a proposed Fiscal Year 2011-2012 budget. Budget development is occurring in accordance

with the Board of Supervisor's adopted budget development policies and includes the following milestones:

- November 9, 2010 - Board of Supervisors adopted Fiscal Year 2011-2012 budget development policies;
- December 1, 2010 - Staff held budget kickoff to provide budget preparers with budget development information, budget instructions, and the schedule of the budget development process;
- December 15, 2010 - Board of Retirement adopted rates for Fiscal Year 2011-2012;
- January 2011 - Departments submitted requested Fiscal Year 2011-2012 budgets;
- February 2011 - Functional groups met to prioritize service level impacts and examine synergies, efficiencies, and further coordination that may result in cost savings;
- February 23, 2011 - Staff from all departments met to prioritize potential service level impacts;
- March 2011 - County Executive Office and Auditor-Controller staff undertake analyses of department requests to assure estimates are accurate, revenue projections are valid, expenditure submittals are complete, and that interfund and interdepartmental transfers balance;
- March-April 2011 - Upon completion of departmental analyses and necessary revisions, the County Executive Officer advises departments of budget recommendations and directs departments to prepare detailed narratives to be included in the recommended budget book describing the departments' accomplishments, key projects, proposed service levels, staffing and appropriation levels, efficiencies enacted, performance measures, service level reductions, and other key information that will assist the Board of Supervisors and public to ascertain outcomes to be achieved if the Board adopts the recommended budget;
- April 2011 - County Executive Office and Auditor-Controller staff develop summary schedules of recommended countywide revenue, expenditure, and staffing to be included in the Fiscal Year 2011-2012 Recommended budget;
- April 2011- County Executive Officer prepares the Fiscal Year 2011-2012 budget message to be included in the budget book that articulates priorities and issues for the upcoming year and describes significant changes in priorities from the current year and explains the factors that led to those changes;
- April 2011 - Board of Supervisors reviews and approves the five-year Capital Improvement Program;
- May 2011 - Notice of budget hearings is published and the Board of Supervisors receives the Recommended Fiscal Year 2011-2012 Budget book;
- June 13, 15, 17, 2011 - Board of Supervisors holds budget hearings to receive presentations from the County Executive Officer and the Department Directors and to solicit public comment;
- June 2011 - Board adopts a balanced Fiscal Year 2011-2012 budget; the schedule anticipates the Board will adopt the budget on June 17, 2011; however the following week (the week of June 20, 2011) will be noticed and reserved to enable the budget hearings to proceed into a second week;
- July 1, 2011 - Start of Fiscal Year 2011-2012.

The budget development process entails significant effort of staff across the organization in a typical year. This year's budget development process is significantly more challenging as departments work to develop sustainable balanced budgets in accordance with the Board's adopted budget development policies and the County Executive Officer's budget development instructions. Significant effort is now underway to develop a balanced budget that is supported by County leadership and that clearly articulates information necessary for the Board to adopt its 2011-2012 budget.

BUDGET IMPACTS FOR FISCAL YEAR 2011-2012

The Board of Supervisors also requested a hearing to receive an update on the issues posing challenges to developing a balanced Fiscal Year 2011-2012 County budget. This report comes to the Board during the middle of the Fiscal Year 2011-2012 budget development process. As a result, staff has preliminary fiscal information and has identified key issues that will impact the Fiscal Year 2011-2012. This broad information is presented in this report but detailed program impacts, potential service level impacts, and potential reductions are under development.

During this mid-point of the budget development process it is possible to discern some over reaching issues:

- Salaries, benefits, and the use of one-time sources for ongoing services pose three significant challenges to developing a balanced budget that will result in service level decreases and staffing reductions;
- Revenues show slight increases but are not sufficient to mitigate the cost increases to salaries, benefits, and to replace the expended one-time sources; certain revenues that have had elasticity in the past to absorb cost increases are more constrained;
- Details of the impacts of cost increases and revenue projections are beginning to emerge. Staff is undertaking analysis and review of the issues and will prepare details for the Board as it refines. Staff needs to complete its work in the budget development process to provide the Board with accurate and complete information.

Issue	General Fund	Update General Fund	Previous All Fund Total	Updated All Fund Total
Use of one-time funds to maintain service levels	$14,421,576	$6,531,871	$31,837,188	$21,477,765
Pension Fund Stability	$12,600,000	$12,013,739	$30,000,000	$20,678,909
Increased costs from expiration of concession agreements	$4,844,630	$5,154,664	$9,145,560	$9,183,795
Five-year plan General Fund forecast increases	$17,310,000	$19,800,000	$17,310,000	$19,800,000
Certificates of Participation	$1,001,000	$1,050,178	$1,001,000	$1,050,178
Total	**$50,177,206**	**$44,550,452**	**$89,293,748**	**$72,190,647**

Attachment A is the forecast the Board received on October 26, 2010 as Section A of the annual Fiscal Issues Report. Included are highlighted sections of each of the tables from that section updating the forecast estimates (the narrative in Attachment A has not changed). Primary differences include:

- Use of one-time funds to maintain ongoing services is $10 million lower in the latest forecast as departments spend less than their appropriation limit of one-time funding. Departments where possible are maintaining vacancies due to the County's soft hiring freeze and are reducing other expenditures in anticipation of potential Fiscal Year 2011-2012 budget impacts;
- Pension Fund stability is $9 million lower in the latest forecast as the Board of Retirement adopted an assumption rate that is lower than the current rate but which is higher than that recommended by its staff;
- The General Fund forecast gap is higher than initially projected due to special revenue funds being less able to absorb cost increases than initially projected. The initial forecast projected the inability of Fire and Social Services to absorb cost increases and this latest projection also includes Courts, Mental Health Services, Public Health and Child Support Services. In all cases intergovernmental revenue caps are inhibiting full cost recovery by the County in providing these services.

A current challenge with projecting revenue is the various caps on intergovernmental revenue and the impact those caps will have on the ability of the County to recoup full cost recovery. The assumption in past years that special revenue services had revenue elasticity to absorb cost increases to the point of full cost recovery will not hold true in Fiscal Year 2011-2012.

- Public Health:
  - Medi-Cal/Medicare revenues - The payment rates are static and the department is able to increase this source by increasing the volume of Medi-Cal and Medicare patients. The department has made significant improvements in physician productivity and efficiencies thereby enabling service to more uninsured patients while extremely limiting the department's ability to absorb salary and benefit increases in its health centers and ancillary programs.
  - Realignment - Realignment revenue has been steadily decreasing for the past four years. Although it appears to be leveling off with some increases from budget, the department's annual Realignment revenues are down more than $3 million from four years ago.
  - State and Federal Grant - The department has a variety of separate grants and allocations. Only a minority have any elasticity to absorb any cost increases and some of those also require local matching funds. The department has been eliminating and leaving vacant program and support positions in its grants operations to try to absorb cost increases; it is forced to reduce program staff and still meet grant tenets because the grant revenues are capped.
  - Public Health plans to release $2 million in previously designated wage concession dollars in Fiscal Year 2011-2012 to balance as the department faces approximately $4.5 million in staff cost increases that could not be absorbed with service level reductions alone.
- Social Services:
  - Cost of Doing Business Capitation - Contributions for increases in administration and overhead expenses have been frozen by the State at 2001 levels. The department has been forced to absorb increases in administration (salaries and benefits) and overhead. Ongoing strategies to absorb this capitation have been adjustments and withholding one-time expenses, as well as continuing to hold positions vacant to curb ongoing costs and bring stable ongoing revenue in line with ongoing expenses. In lieu of programmatic

cuts, the department has deferred funding other needs such as one-time purchases and staffing increases, but cannot continue this practice indefinitely if the State does not increase its contribution levels, which is highly unlikely in today's economic and budget environment.

- Alcohol, Drug and Mental Health Services
    - Medi-Cal Revenues - The State imposes a maximum allowable charge which limits reimbursement of County provided mental health services. These "caps" reduce the department's ability to absorb salary and benefit increases. These limits resulted in the department receiving less than full cost reimbursement for Medi-Cal services provided in FY 2009-10.
    - Indigent Costs - Indigent services in mental health are funded with a fixed/declining allocation of Realignment dollars. The cost of indigent services, particularly in acute inpatient settings, continue to increase thereby limiting the department's ability to absorb salary and benefit increases (acute inpatient costs have increased $2.1 million over five years).
    - Realignment - Realignment revenues (Vehicle License Fees, Realignment, and Managed Care) have been steadily decreasing for the past four years. Although apparently leveling off, the department's annual Realignment revenues are down approximately $2.6 million from four years ago.
- Child Support Services
    - Child Support has experienced a flat budget allocation from the State for several years and has had to absorb increases in salaries and benefits with no additional funding. The department has reduced its FTE count by 25% over the past four years by not filling positions as they become vacant. Additionally, the department closed its Lompoc office, thus impacting customer service in that region. A significantly reduced workforce impacts the department's performance, as measured by the State and Federal Government, in spite of process improvement initiatives and a dedicated workforce.

<u>Key Revenue Components</u>

The revenue components described here are the key sources to fund County operations. They are components of the budget gap described above.

• General County revenue (non-property tax):	$1,000,000
• Property tax revenue (General Fund)	<u>$2,000,000</u>
Discretionary Revenue subtotal	$3,000,000
• Property tax revenue (special revenue)	$900,000
• Federal and State Revenue	To be determined
• Charges for service	To be determined

Over the next two to three years we would expect slow but steady growth in property tax related revenues as the nation and state slowly emerge from the recession. For Fiscal Year 2011-2012 the recommended budget shows between 1.5-2.0% growth in property tax related accounts which equates to about a $3 million increase to the General Fund. For Fiscal Year 2012-2013 we estimate growth of between 2.0-4.0% or somewhere between $4-8 million in additional revenues. For Fiscal Year 2013-2014 we are forecasting between 3.0-5.0% growth rate or between $6-10 million in General Fund Revenues.

Revenue projections continue to be refined and analyzed. Revenue estimates for the special revenue funds need to be refined during the next several weeks with a potential May revision for all revenue estimates.

In summary, during this mid-point of the budget development process it is possible to discern some over reaching issues:

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- Revenues show slight increases but are not sufficient to mitigate the cost increases to salaries, benefits, and to replace the expended onetime sources; certain revenues that have had elasticity in the past to absorb cost increases are more constrained;
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Fiscal and Facilities Impacts: Actual and hypothetical impacts are stated in the Board letter.

Attachments:

A – October 2010 Forecast

B – PowerPoint presentation

Authored by: Jason Stilwell

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

ATTACHMENT A – October 2010 Forecast (changes highlighted in tables)

ATTACHMENT B – Presentation Slides