



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

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

Department Name: County Executive Office
Department No.: 012
For Agenda Of: May 25, 2010
Placement: Administrative
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Director(s) Michael F. Brown, County Executive Officer
Contact Info: Jason Stilwell, Assistant CEO/ Budget Director 568-3413
SUBJECT: Fiscal Year 2010-11 Proposed Operating Plan and Budget

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: N/A

Recommended Actions:

It is recommended that the Board of Supervisors:

Receive the Fiscal Year 2010-11 Proposed Operating Plan and Budget for Santa Barbara County.

Summary Text:

The FY 2010-11 Proposed Operating Plan and Budget is hereby submitted to the Board of Supervisors. Budget hearings are scheduled for the week of June 7-11, 2010.

Background:

FY 2010-11 Budget Preparation

The Board of Supervisors adopted budget principles on October 27, 2009, to guide the preparation of the FY 2010-11 budget. The goal of the budget principles was to set a framework to create a balanced budget that is sustainable and preserves core service levels, while at the same time taking into consideration anticipated expenditure demands and revenue trends. The budget principles were developed with an approach to close the projected budget deficit with a blend of ongoing reductions and the use of one-time funds to reduce the impact of "cliffs" (prior use of one-time funds) that were built into the FY 2009-10 adopted budget.

In order to mitigate severe service level reductions, the principles contained a potential for the use of previously set aside one-time funds for FY 2010-11. The principles also contained revenue and fee cost

recovery guidelines that enabled departments to work closely with all financial staff to ensure accurate revenue forecasting, fee collections, and seek revenue enhancements where possible to align County expenditures with available revenue. Finally, the principles expressed the intent for Internal Service Funds (ISF) to control costs and reduce rates charged to departments to the extent fiscally prudent and to mitigate departmental budget gaps. The ISFs would reduce departmental rates where applicable, reduce the cost of administration for providing services, and defer certain expenses for following fiscal year(s) in order to provide fiscal relief to departments from spending pressures.

Subsequently, on February 9, 2010, the Board conducted the first in a series of budget workshops as part of the FY 2010-11 budget development process. At that time, the Board was given a report entitled "FY 2010-11 Budget Development Workshop: Defining the Problem," which illustrated that expenditure growth would be responsible for nearly all of the projected FY 2010-11 budget gap, as compared to the two prior budget cycles where flat or declining revenue was the main driver of the budget gap. The Board was informed that in order to maintain current budgeted staffing levels in FY 2010-11, it would cost the County an additional \$38.7 million: the cost of salaries would increase by \$13.6 million and employee benefits would increase by \$25.1 million. On the revenue side, an estimated decline of \$2.8 million in local discretionary revenue was projected, bringing the total defined budget gap to \$41.5 million. Two tools were provided to the Board to assist with budget reduction decision-making: 1) the *General Fund Contribution Inventory*, which presented charts and data regarding the portion of the County's budget funded by local discretionary revenue; and 2) the *Cost Center Performance Plan*, which displayed, by department and division, every County program along with the budgeted funding, FTE count, GFC contribution, and associated performance measures.

The next budget workshop, "FY 2010-11 Budget Development Workshop: Potential Service Level Impacts," was held on February 23, 2010. Departments developed potential service level impacts in order to stay within budget appropriation limits. The potential service level impacts identified departmental reductions in the General Fund of approximately \$35.8 million; an additional reduction of \$16.4 million in other non-General Fund sources, such as state funding and special revenue funds; and a potential reduction of 392.1 FTE. The potential service level impacts were primarily the result of the following factors:

- Flat or declining local discretionary revenue resulting in GFC reductions;
- Loss of one-time funding (funding from static sources not backed up by ongoing revenue) allocated in FY 2009-10;
- Departmental revenue changes, which include revenue loss due to a variety of factors such as decreased permit activity, lower property tax collection, lower realignment/sales tax declines, and Proposition 172/public safety sales tax declines; and
- Salary and benefit increases, including the cost of retirement.

In putting together the FY 2010-11 Recommended Budget, much consideration was given to the direction provided by the Board of Supervisors during the budget workshops. Every effort was made to the extent possible to be responsive to the Board's preferences and prioritization of services. Many potential negative service level impacts have been temporarily prevented due to the collaboration of Department Directors to reduce expenditures, the reallocation of General Fund to various departments, and use of one-time funds (Strategic Reserve and other designations).

FY 2010-11 Proposed Operating Plan and Budget

The Fiscal Year 2010-11 recommended expenditures budget for all funds totals \$831.5 million, an increase of \$36.2 million from Fiscal Year 2009-10 adopted expenditures budget and an increase of \$54.0 million from Fiscal Year 2009-10 estimated expenditures. The Fiscal Year 2009-10 estimated expenditures are lower than the Fiscal Year 2009-10 budgeted expenditures primarily due to staffing vacancies and reduced spending on services and supplies. The recommended budget includes \$32.8 million designated for future use. This brings Total Uses to \$864.3 million for Fiscal Year 2010-11.

The proposed budget is balanced with Fiscal Year 2010-11 revenues of \$745.3 million and prior year revenues that had been set aside for future use of \$119.0 million, for a total source of funds of \$864.3 million. The decrease in total Fiscal Year 2010-11 revenues of \$12.3 million from the FY 2009-10 estimate of \$757.7 to \$745.3 is primarily attributed to reduced Federal and State revenues, particularly disaster assistance revenue related to wildfires. The various local revenues are flat or declining.

Staffing levels in the Recommended FY 2010-11 Operating Plan and Budget are 3,875 Full Time Equivalent (FTE) positions. This is a decrease of 170 FTE compared with 4,045 FTE in the FY 2009-10 Adopted budget.

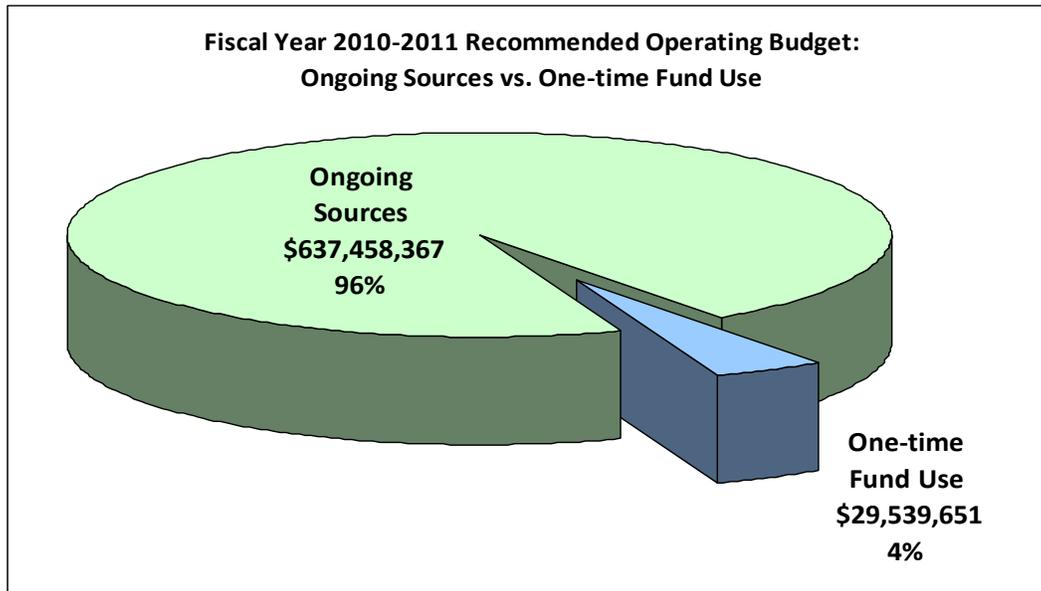
Budget at a Glance

Dollars in Millions	2008-09 Actual	2009-10 Adopted	2009-10 Estimated	2010-11 Recommended
Total Revenues	\$725.7	\$761.8	\$757.7	\$745.3
Other Financing Sources	\$101.5	\$95.6	\$103.3	\$119.0
Total Sources	\$827.2	\$857.4	\$861.0	\$864.3
Total Expenditures	\$733.2	\$795.3	\$777.5	\$831.5
Designated for Future Use	\$94.0	\$62.1	\$83.5	\$32.8
Total Uses	\$827.2	\$857.4	\$861.0	\$864.3
Staffing FTEs	4,172.2	4,045.6	4,099.5	3,875.1

In order to balance the FY 2010-11 budget, it was necessary to close the identified \$41.5 million budget gap that was presented at the “Defining the Problem” budget workshop in February 2010. To address the gap, the recommended budget includes \$14.8 million in staffing reductions and the use of \$29.5 million in one-time funds. The recommended budget also includes \$2.9 million of one-time funds consisting of dozens of increases and decreases to be used for anticipated needs (for example mandated elections) and departmental revenue degradation (for example in the Probation Department) bringing the total recommended use of one-time to \$29.5 million.

The use of one-time funds countywide totals \$29.5 million, or 5% of the total Recommended Operating Budget. The one-time funding sources come from the following designations: General Fund Strategic Reserve (24%); Departmental Designations (23%); Special Revenue Fund Balance (21%); General Fund Capital Designation (11%); Other Sources (7%); TSAC Reserve (4%); General Fund Salaries & Retirement Offset Designation (4%); Internal Service Fund balance (3%); and Coastal Resource Enhancement Fund (CREF) (2%).

Reliance on one-time sources in tandem with both a projected flat economy and a multi-year County structural financial deficit will make balancing the FY 2011-12 budget extremely challenging unless additional programmatic, revenue and/or workforce changes are enacted this year and/or in the next fiscal year.



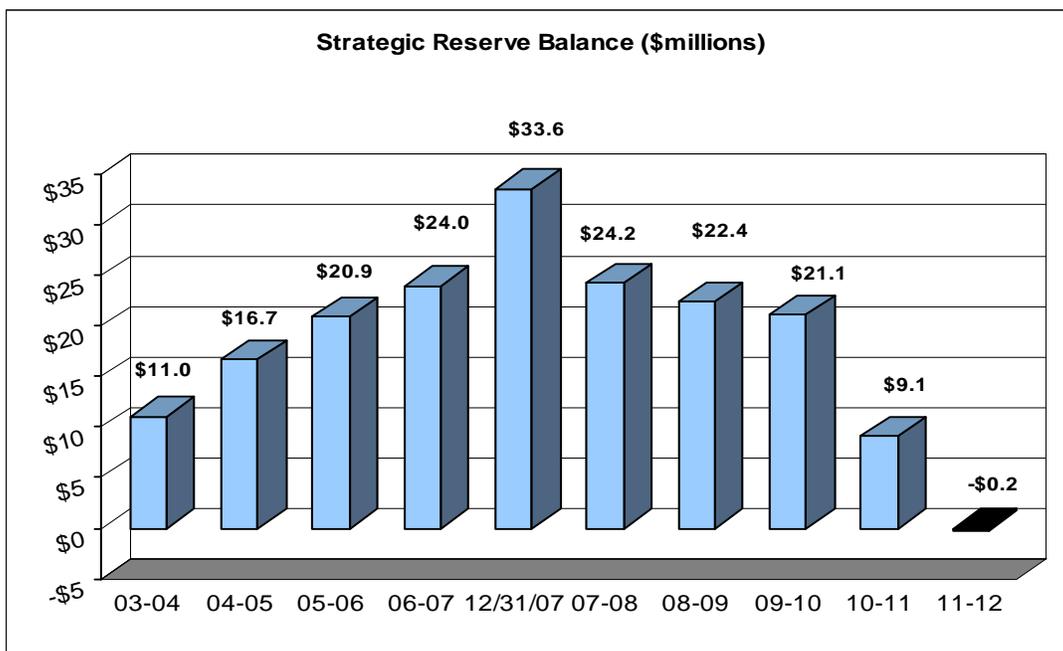
The Recommended Budget also includes \$4.8 million in contributions to the following designations: \$3.0 million for deferred maintenance and repair; \$800,000 for Contingencies; \$500,000 for Roads; and \$500,000 for Capital Projects.

The chart below depicts the projected fund balances of the various General Fund Designations for both Fiscal Years 2009-10 and 2010-11, which includes the following Recommended Changes:

- \$2.9 million decrease in capital designation due to \$3.4 million in operating uses offset by \$500,000 increase to reserve;
- \$500,000 increase in road designation;
- \$1.0 million decrease in litigation due to maintaining Counsel staffing and setting aside contingency for possible litigation;
- \$1.2 million decrease in salaries and benefits reductions due to maintaining Public Defender staffing;
- No net change in deferred maintenance and repair as the \$3 million recommended increase is transferred to General Services and Parks to address backlog of maintenance needs;
- No net change in audit exceptions as the liability will be transferred to ADMHS when the liability is due;
- \$800,000 increase in Contingencies; and
- \$11.9 million net decrease in Strategic Reserve.

General Fund Designations					
Designation	6-30-2009 Ending Balance	2009-2010 Estimated Changes	6-30-2010 Estimated Balance	2010-2011 Recommended Changes	6-30-2011 Projected Balance
Capital	\$6,438,975	(\$2,063,000)	\$4,375,975	(\$2,887,300)	\$1,488,675
Roads	\$0	\$0	\$0	\$500,000	\$500,000
Litigation	\$3,795,291	(\$100,000)	\$3,695,291	(\$1,000,000)	\$2,695,291
ARRA Matching	\$0	\$580,383	\$580,383	\$0	\$580,383
Salary & Benefits Reductions	\$1,343,240	(\$1,229,240)	\$114,000	\$0	\$114,000
Salaries & Ret. Offset	\$2,232,926	(\$876,000)	\$1,356,926	(\$1,225,675)	\$131,251
Deferred Maint. & Repair	\$292,472	(\$292,472)	\$0	\$0	\$0
Audit Exceptions	\$3,003,951	(\$877,035)	\$2,126,916	\$0	\$2,126,916
Contingencies	\$0	\$0	\$0	\$800,000	\$800,000
Strategic Reserve	\$22,395,981	(\$1,332,628)	\$21,063,353	(\$11,934,142)	\$9,129,211
TOTAL	\$39,502,836	(\$6,189,992)	\$33,312,844	(\$15,747,117)	\$17,565,727

The proposed budget does not include any appropriation to the Strategic Reserve. The Strategic Reserve balance in the FY 2010-11 Recommended Budget declines to \$9.1 million and will have a projected negative balance of \$.02 million in FY 2011-12 due to anticipated payments for ADMHS liabilities.



Subject: Receive FY 2010-11 Operating Plan and Budget

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Budget Hearings

Budget hearings are scheduled to begin at 9:00 a.m. on Monday, June 7, 2010. The County Executive Office will begin with a presentation highlighting the major issues and funding allocations in the FY 2010-11 Proposed Budget. Board discussions and departmental budget presentations are scheduled for Monday, June 7 and Wednesday, June 9 with final deliberations and adoption scheduled for Friday, June 11. In line with past practice, Budget Hearings will be noticed for the week of June 7-11 and, if necessary, the week of June 14-18 in the event additional time is needed.

Responding to Board Questions

Members of the Board may have questions in which the County Executive Office can answer prior to Budget Hearings. The "Board Inquiry Form" is included with this letter to facilitate such inquiries between now and the start of Budget Hearings on June 7. Additional copies of the form will be available in the CEO and Board offices. This form enables Board members to ask questions regarding any budgetary issue in order to facilitate information during budget deliberations.

Fiscal and Facilities Impacts:

As indicated in the FY 2010-11 Proposed Budget.

Special Instructions:

None

Attachments:

1. FY 2010-11 Proposed Operating Plan and Budget
2. Board Inquiry Form

Authored by:

Kimbra McCarthy, CEO Fiscal and Policy Analyst, 568-3261

cc: Department Directors
Assistant County Executive Officers
Fiscal and Policy Analysts
Recognized Labor Organizations

Board Inquiry Form

Board Member	
Carbajal	
Wolf	
Farr	
Gray	
Centeno	

Department:

Date:

Budget Pages(s):

Request/Question:

Response Prepared By:

Response: