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:	10/27/09
Placement:	Departmental
Estimated Tme:	60 minutes
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 2010-2011 Budget Principles**	

Recommended Actions:

It is recommended that the Board of Supervisors adopt budget principles for use in developing the Fiscal Year 2010-11 operating budget.

Summary Text:

The Board of Supervisors reviews and approves budget principles on an annual basis. This hearing will enable the Board to adopt principles for staff to follow in preparing the Fiscal Year 2010-11 budget.

Attached are the proposed budget principles for Fiscal Year 2010-11. These principles are designed to enable departmental staff to develop a targeted balanced budget the County Executive Officer can recommend to the Board while at the same time balancing the evolving economic factors and significant fiscal issues that have been presented to the Board on various occasions, including August 18, 2009 (State Budget Impacts and Solution Strategies Report) and October, 13, 2009 (Fiscal Issues Report).

The principles will be used by the County Executive Office and departments in developing the FY 2010-11 recommended budget. Each year, in beginning the review for the following year's operating budget, staff examines the economic condition of the County and projected impacts that will affect the County's finances. These include projecting revenue and highlighting potential expenditure requirements. The proposed budget principles are intended to provide a policy framework to enable the Board to adopt a balanced Fiscal Year 2010-11 budget.

Background:

The development of the Budget Principles for FY 2010-11 centered on the three following key areas:

I. Policy Environment
II. Principles Development
III. Budget Adoption

I. Policy Environment

In February 2009, the State adopted a 17-month budget that included $36 billion in solutions to solve the budget deficit and required voter approval of certain budget referenda. However, the failure of the propositions to garner passage by the voters during the special election in May 2009 and the further decline in revenues resulted in an additional $24 billion budget gap. On July 28, 2009, the State adopted amendments to the Fiscal Year 2009-10 Budget to address the ongoing budget shortfall exacerbated by the continued decline in revenues. The accumulation of $60 billion in budget solutions adopted this year attempts to address the largest budget gap the state has ever faced.

Most significantly, the State's budget includes borrowing $1.9 billion from local governments through the suspension of Proposition 1A. The suspension allows the State to redirect local tax revenues to the Supplemental Revenue Augmentation Fund. In turn, the State will transfer funds from this entity to schools thereby saving General Fund dollars that would have otherwise been paid to schools. The borrowing of Proposition 1A equates to a total loss of approximately $16 million to the County in Fiscal Year 2009-10: $13 million to the County's General Fund; $2 million to the County Fire District; and about $1 million to various dependent special districts, such as the flood zones that are managed by the County. On October 13, 2009, the Board chose to mitigate the impacts of the Proposition 1A Suspension by participating in the Proposition 1A Securitization Program, which will enable the County to avoid having to reduce County expenditures by $16 million due to the loss of property tax revenue.

However, there remains a wide belief that the budget crisis is not resolved. Critical questions remain about whether and when additional funding reductions or suspensions might be enacted to balance the budget if another deficit materializes this fiscal year. In fact, since Proposition 13 was passed in 1978 (which cut property taxes and established a requirement of a two-thirds vote of the Legislature to pass statewide taxes), 19 out of the 32 State budgets have spent more than the State took in from tax revenues. In addition, the chronic structural budget deficit is not the only ongoing concern; the State's looming financial liabilities represent an even greater problem. According to a recent report by the Legislative Analyst's Office, these liabilities include: $35 billion in deferrals and borrowing that must be made up in future budgets; $69 billion in bond debt; and more than $130 billion in debt related to unfunded retirement liabilities of State entities, including approximately $21 billion in the California Public Employees' Retirement System, $21 billion in the California State Teachers' Retirement System, $48 billion in State retiree health benefits, and $43 billion in the University of California pension plan.

Moreover, the County is not alone in dealing with the effects of the state budget and other critical financial issues. In fact, the economic condition of counties throughout California has been similar to Santa Barbara County, as other counties are now facing multi-million dollar reductions. For example, San Luis Obispo County recently announced an estimated budget gap of $24 million in its FY 2010-11 budget. This follows $30 million in reductions that were enacted to balance its current FY 2009-10 budget. Monterey County also enacted $41.6 million in reductions for FY 2009-10, with an additional

$23.5 million in reductions expected by the end of the fiscal year due to reduced revenues. Contra Costa County predicts cuts of $27-$35 million for next fiscal year. This comes after making $65 million in reductions in this year's budget. Finally, San Mateo County enacted $62.6 million in cuts for FY 2009-10 and is estimating a budget gap of $100 million for FY 2001-11 primarily due to retirement cost increases.

In light of these fiscal realities, on October 13, 2009, the Board received the Fiscal Issues Report which identified critical issues that will likely impact subsequent County budgets. Most significantly, the latest five-year plan projects a shortfall for Fiscal Year 2010-11 of $16.6 million. This gap is only the difference between local discretionary revenues and General Fund Contribution to departments. Other General Fund revenues are also declining, including fee revenue, Realignment revenue, and Proposition 172 public safety sales tax revenue, which will require additional service level reductions in order to develop a balanced FY 2010-11 budget. In addition, the $16.6 million does not account for all new General Fund expenditure requirements such as those discussed in this report. Taken together, the reductions necessary to develop a balanced FY 2010-11 budget will likely exceed the $16.6 million currently projected and could continue to grow as State budget impacts become known, particularly if revenues continue to soften during the budget development process.

FY 2010-11 General Fund Contribution &
Local Discretionary Revenue Projections
(Dollars in Millions)

Expenditure Projection		
Salary & Benefit Increases		
Salaries	$	3.8
Equities/Market		0.4
Health		0.3
Retirement		4.6
OPEB		0.2
Other Changes		
Fire Department Level of Service		1.1
Social Services Mandate Match		4.6
MOE & Base GFC to Non-GF Departments		0.5
Contribution to Designations		(1.3)
Total Expenditure Change from FY 2009-10		14.3
Revenue Projection		
Secured Property Tax		-
Unsecured & Unitary Property Tax		0.1
Supplemental Property Tax		(0.1)
Property Transfer Taxes		-
Retail Sales Tax		(0.4)
Transient Occupancy Tax		0.1
Property Tax In Lieu of MVL Fees		-
Franchise Fees		-
Interest Earnings		-
Other Revenue		0.1
Total Revenue Change from FY 2009-10		(0.3)
FY 2010-11 Projected Deficit		
Total Revenue Change Less Total Expenditure Change		(14.6)
Structural Deficit Carryover		(2.0)
Total Deficit to Be Solved in FY 2010-11	**$**	**(16.6)**

This shortfall is ongoing and, if not resolved in FY 2010-11, would grow to $21.6 million in FY 2011-12. Of course, the County is required by law to adopt a balanced budget and therefore must identify strategies to close the FY 2010-11 gap during the budget development process. Given the impact of growing ongoing expenditure demands, revenue growth alone will likely not be sufficient to close the gap.

II. Principles Development

The goal of the budget principles is 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.

The principles will afford flexibility to departments in order to determine appropriate service levels to request in FY 2010-11, while closing the budget gap. In order to mitigate severe service level reductions, the principles contain a potential for the use of previously set aside one-time funds for FY 2010-11. The principles also contain revenue and fee cost recovery guidelines that will enable 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 express the intent for Internal Service Funds (ISF) to control costs to reduce rates charged to departments to the extent fiscally prudent and to mitigate departmental budget gaps. The ISFs will 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.

The principles were also developed with countywide collaboration. Following a countywide survey on the prior year budget process and principles, all fiscal executives and managers were asked to participate in the FY 2010-11 Budget Principles development process. Following that input, the Budget Advisory Committee, consisting of County Executive Office and Department staff, reviewed and advised on the development of the budget principles which resulted in changes to this year’s principles. Finally, the Department Directors reviewed and provided input prior to final changes and recommendations for the attached proposed budget principles.

III. Budget Adoption

Staff utilizes an incremental approach from adoption of budget principles to adoption of the budget, as detailed by the following timeline:

October - Principles: Board of Supervisors adopts the Budget Principles that direct and guide staff through the budget process for adopting a balanced budget.

December - Kickoff: The County Executive Office along with the Auditor – Controller, General Services, Human Resources, and Information Technology Department hosts a Budget Kickoff for the new fiscal year to introduce the new budget instructions, rates, and changes to all departments.

January-February - Assemble professional requests: The departments work with the County Executive Office to assemble funding packages that go into the CEO’s Recommended Budget.

February-March - Budget workshops: The County Executive Office presents departmental budget requests developed in accordance with the budget principles and provides the Board an updated financial forecast at a budget workshop where details are provided about the budget requests and inquires are researched.

April-May - Develop recommendation: The County Executive Office takes final funding recommendations and publishes the Recommended Budget to officially present for adoption by the Board of Supervisors in June.

June - Board adoption: The County Executive Officer presents the Recommended Budget to the Board of Supervisors over a series of hearings where inquiries are researched and public comment is received, resulting in the adoption of a balance budget.

In conclusion, approval of the Fiscal Year 2010-11 Budget Principles is recommended to address the impacts of the ongoing state budget crisis, the continued economic downturn, and the projected budget gap of $16.6 million in Fiscal Year 2010-11. Using this policy environment as a framework, the budget principle development centered on balancing the budget, preserving core service levels, mitigating "cliffs," enhancing revenues, and controlling ISF rates.

Thus, staff recommends that the Board of Supervisors adopt budget principles for use in developing the Fiscal Year 2010-11 operating budget.

Attachments:

1. Proposed Fiscal Year 2010-11 Budget Principles
2. Budget Calendar

Authored by:

Jason Stilwell, Assistant CEO/Budget Director

cc:
Department Directors
Assistant County Executive Officers
CEO Budget and Research