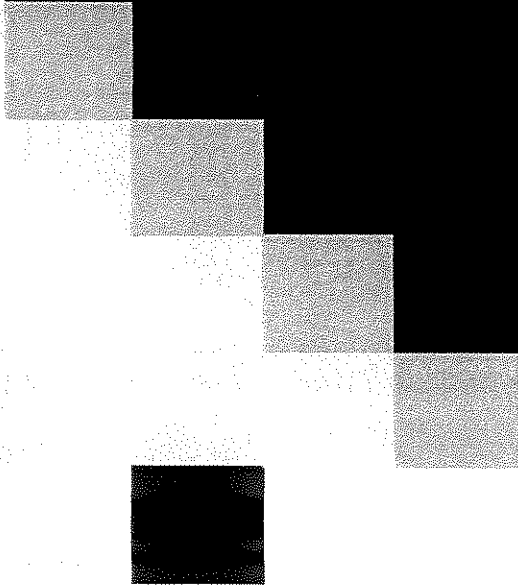




BUDGET HEARINGS

March 17, 2009

A bend in the road is not the end of the road ... unless
you fail to make the turn. ~ Author Unknown



Budget Hearing Agenda

- CAO Presentation
- Department Head Presentations
 - Joe Valentine, EHSD
 - William Walker, Health Services
 - Warren Rupf, Sheriff-Coroner
 - Robert Kochly, District Attorney
- Public Comment
- Board Discussion/Action



CAO Presentation

- Economic Outlook
- Reserve Update
- Expenditures
- Revenues
- Structural Imbalance
- Recommended Reductions
- CAO Recommendations



Economic Outlook

- “The Chinese use two brush strokes to write the word ‘crisis.’ One brush stroke stands for danger, the other for opportunity. In a crisis, be aware of the danger but recognize the opportunity.”

John F. Kennedy

State of the Economy

- Nationally
 - Consumer Spending = 20% of the World Economy
 - Jobs Lost since December 2007 = 4.4 Million highest since 1945, with half coming in past four months
 - 423,000 in October
 - 584,000 in November
 - 681,000 in December
 - 655,000 in January 2009
 - 651,000 in February 2009
 - Unemployment rising = highest level since 1983
 - 4.6% in 2007
 - Currently 8.1%
 - 12.5 million unemployed

State of the Economy

■ California

- \$8 Billion projected Deficit remaining
- Sales Tax Receipts down
- Income Tax Receipts down
- Property Tax Receipts down
- State lost 73,500 jobs in November, 2008
- Additional 78,200 jobs lost in December 2008
- State lost Total of over 462,000 jobs in 2008
- Unemployment at 10.1% expected to go higher (12%?)



State of the Economy

- East Bay Area
 - Sales Tax Receipts down
 - Income Tax Receipts down
 - Property Tax Receipts down
 - Median Home Price declined by over 50%

State of the Economy

■ Contra Costa County

□ Like the rest of the Nation, we are getting buffeted by the fallout from the housing, credit and financial crises – the worst since the 1930s There is no easy fix nor can we expect a quick turn around

□ Unemployment

■ Oct 2008	7.0%
■ Nov 2008	7.1%
■ Dec 2008	7.6%
■ Jan 2009	9.0%

□ Expected to go higher during 2009

Contra Costa County

■ Median Home Price 2006	\$578,000
■ Median Home Price 2007	\$575,000
■ Median Home Price 2008	\$265,000
■ Median Home Price 12/08	\$252,500
■ Median Home Price 01/09	\$220,000
(Contra Costa Times - MDA DataQuick 2/20/09)	
■ Median Home Price 2009	???



Housing Crisis to Continue

- Beacon Economics expects property taxes to decline by nearly 11% over the next three years, with the largest declines coming in 2009-10

(Bill Pollacek, Treasurer-Tax Collector)

Housing Crisis to Continue

- Beacon Economics predicts that property tax revenue in the state will fall 6.1 percent in the next fiscal year, which runs from July 1 to June 30, 2010. The following year will see a 3.6 percent decline, followed by a more modest 0.8 percent drop. Only in 2012-13 will property tax revenues rise again and then only by 1 percent, Beacon projects. 1/26/09

	<u>Annual Loss</u>	<u>Total Reduction in Property tax</u>
FY 09/10	(\$16,748,224)	(\$16,748,224)
FY 10/11	(\$9,281,262)	(\$26,029,486)
FY 11/12	(\$1,988,252)	(\$28,017,738)
FY 12/13	\$2,465,433	(\$25,552,305)

State of the County

- **FISCAL UPDATE – Actions to Date**
 - Local cuts at budget adoption \$55 Million
 - Local Share of property tax loss \$12 Million
 - Local Share of State revenue loss \$3 Million
 - Local Share of Federal revenue loss \$5 Million
 - Local impacts (Mostly EHSD) \$15 Million
- **Total Impacts = \$90 Million to date**



Significant Impacts Expected in 2009

- State Budget Issues remain
- Demand for services exacerbated by economic crisis turmoil
- OPEB funding plan
- Results of Labor Negotiations
- Revenue reductions from property tax, sales tax, fines, fees, and State and Federal funds
- Continuing fiscal crisis of State and Federal Governments



Reserve Update

General Fund Reserve Policy

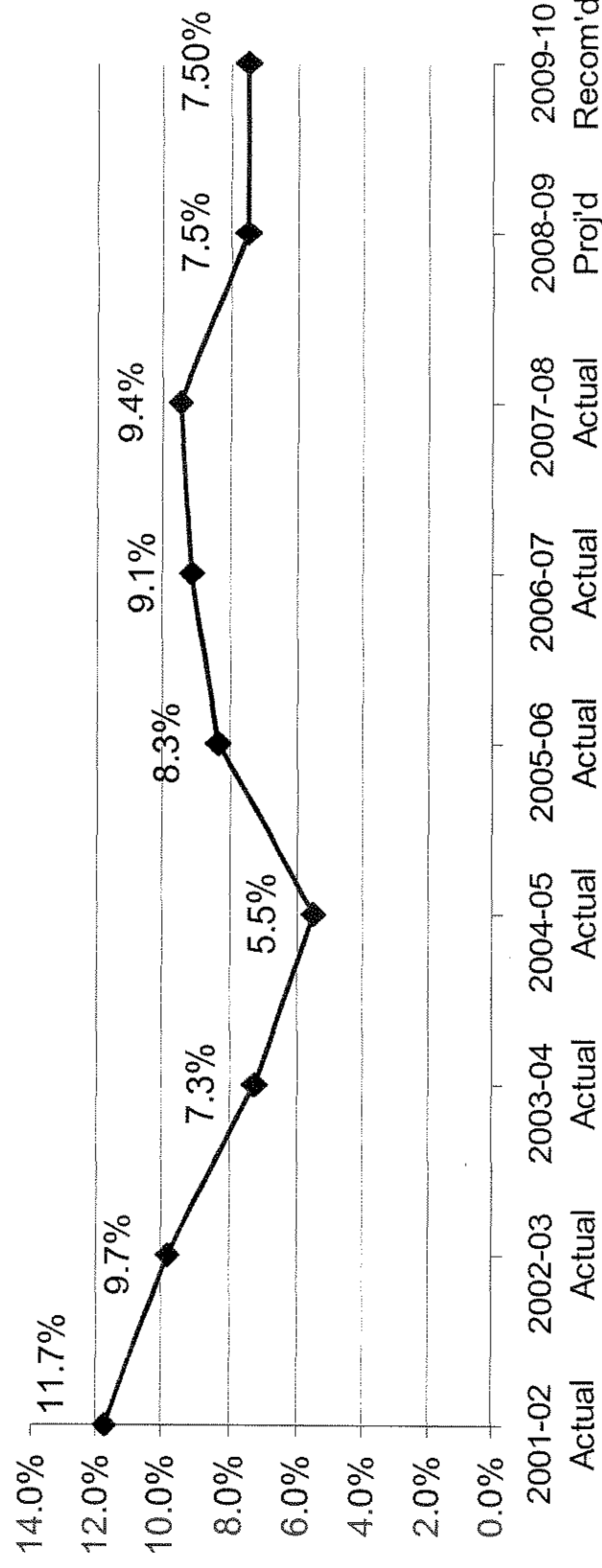
- Minimum *unreserved* General Fund balance of 5% of budgeted General Fund revenues
- Minimum *total* General Fund balance of 10% of budgeted General Fund revenues
- First use after meeting minimums, designated for capital projects and other one-time uses, up to an amount equal to 1% of General Fund revenues per year
- Additionally, reserves may be drawn below the minimum level
 - ☐ to address an unforeseen emergency
 - ☐ to fund a non-recurring expense, or
 - ☐ to fund a one-time capital cost,
 - ☐ but only following the adoption, by at least a four-fifths vote, of a resolution of the Board of Supervisors specifying the circumstances that justify the invasion of the minimum reserve level

General Fund Reserve Assumptions

- June 30, 2008:
 - Total general fund revenues were \$1,270,663,000 and total fund balance was \$143,335,000.
 - Total balance of 11.3% of total revenue (1.9% is reserved for items such as encumbrances and prepaid items)
 - Of the \$143 million
 - \$119 million was unreserved
 - \$24 million was reserved
 - Minimum fund balances of 5% and 10% would be \$63,533,000 and \$127,066,000 respectively. There was \$16,269,000 available over the 10% reserve minimum.
- June 30, 2009:
 - It is anticipated that Total General Fund Reserves will fall below the 10% minimum by approximately \$10 million
- June 30, 2010:
 - No reserve use is recommended in FY 2009-10 [If revenues continue to fall, the percentage will increase with no increase in the actual reserve dollar level]

Reserve Status Update

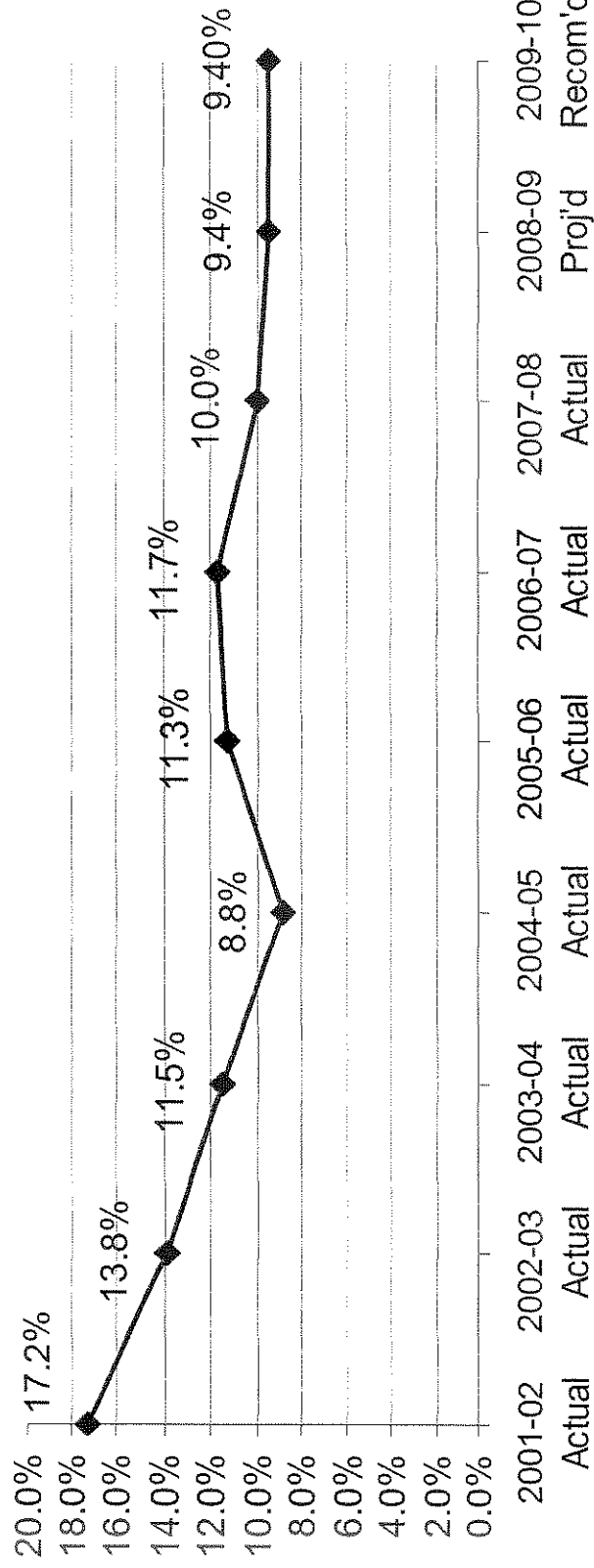
Unreserved Percentage of General Fund Revenue
Still meeting 5% minimum



Reserve Status Update

Total Percentage of General Fund Revenue

Projected to fall below 10% minimum





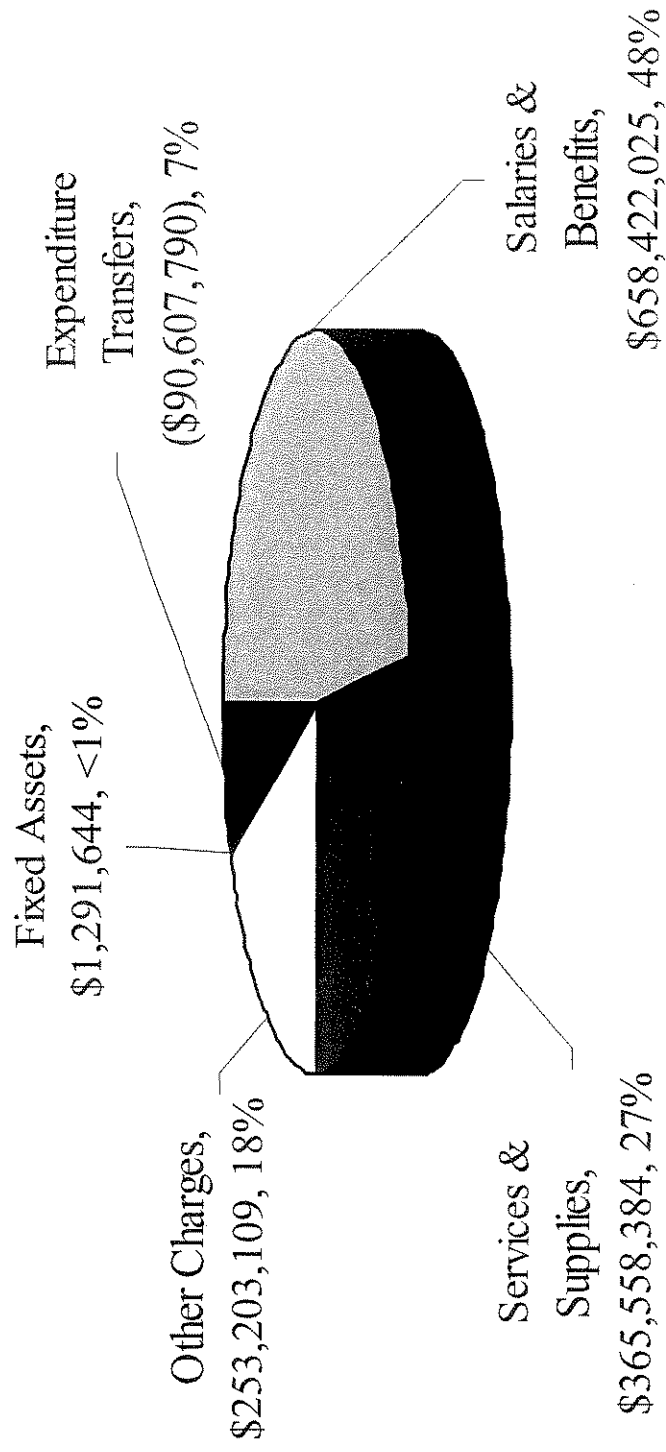
Reserves

- There is insufficient General Fund reserve balance to solve the on-going structural balance of the County

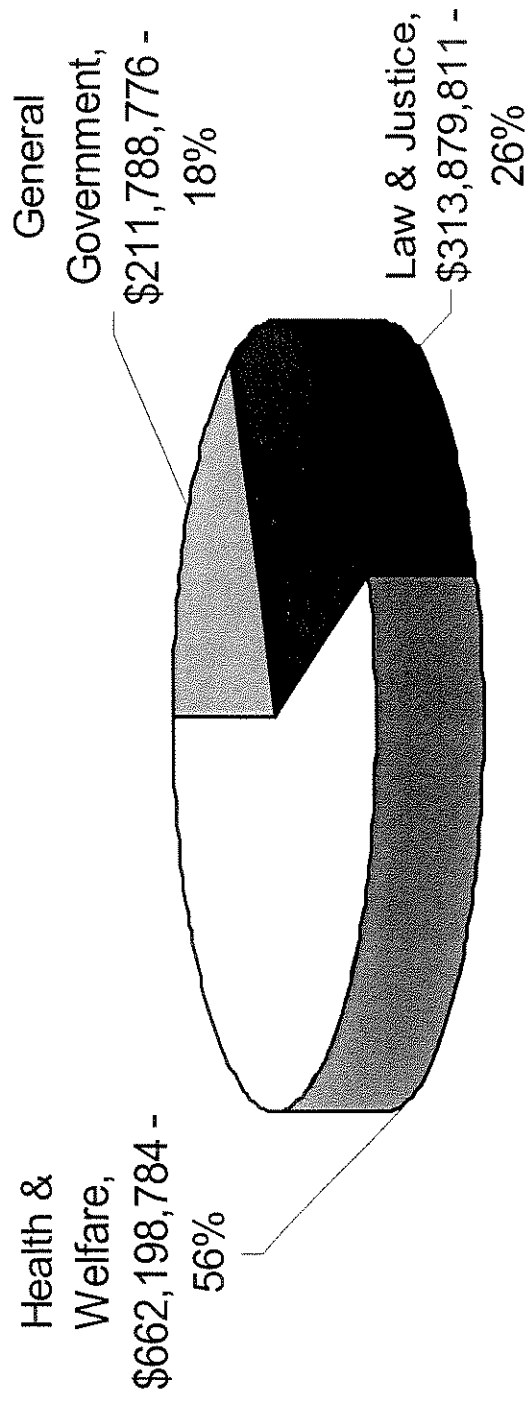


Expenditures

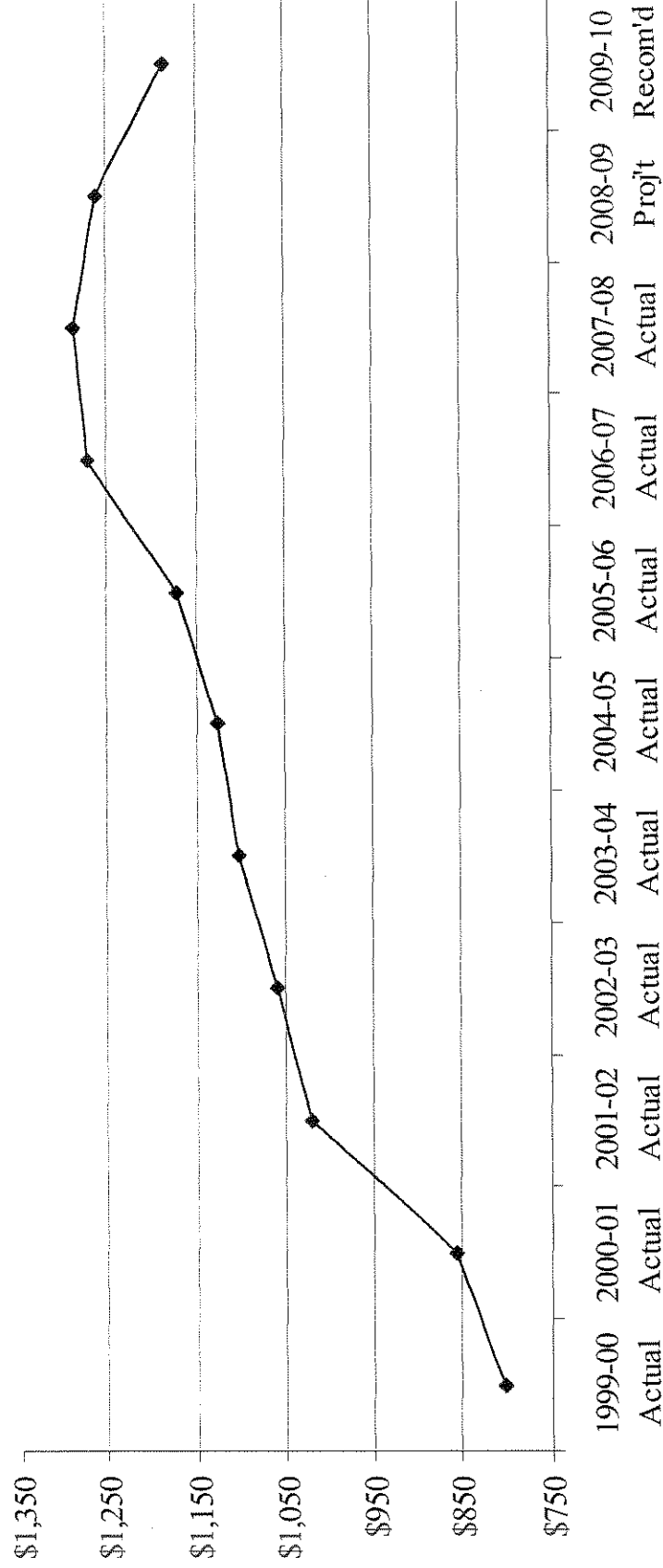
How are our General Fund dollars spent?



Where are our General Fund dollars spent?



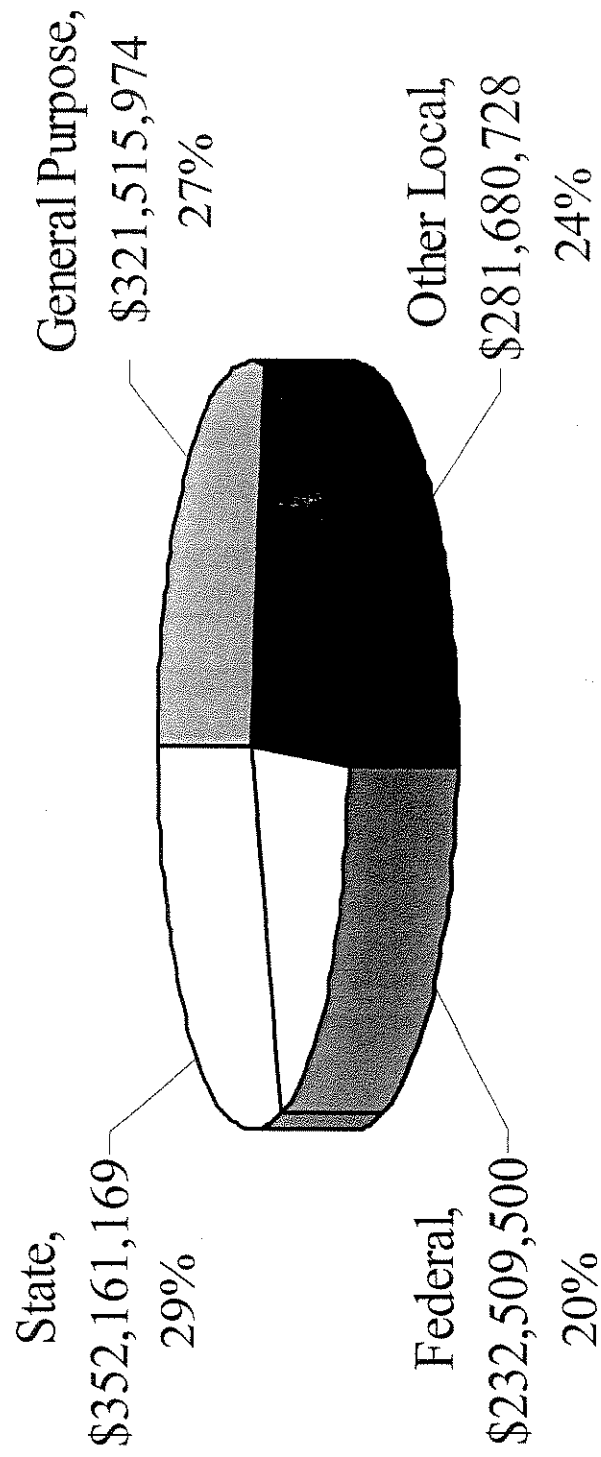
10 Year General Fund Expenditure History (in millions)



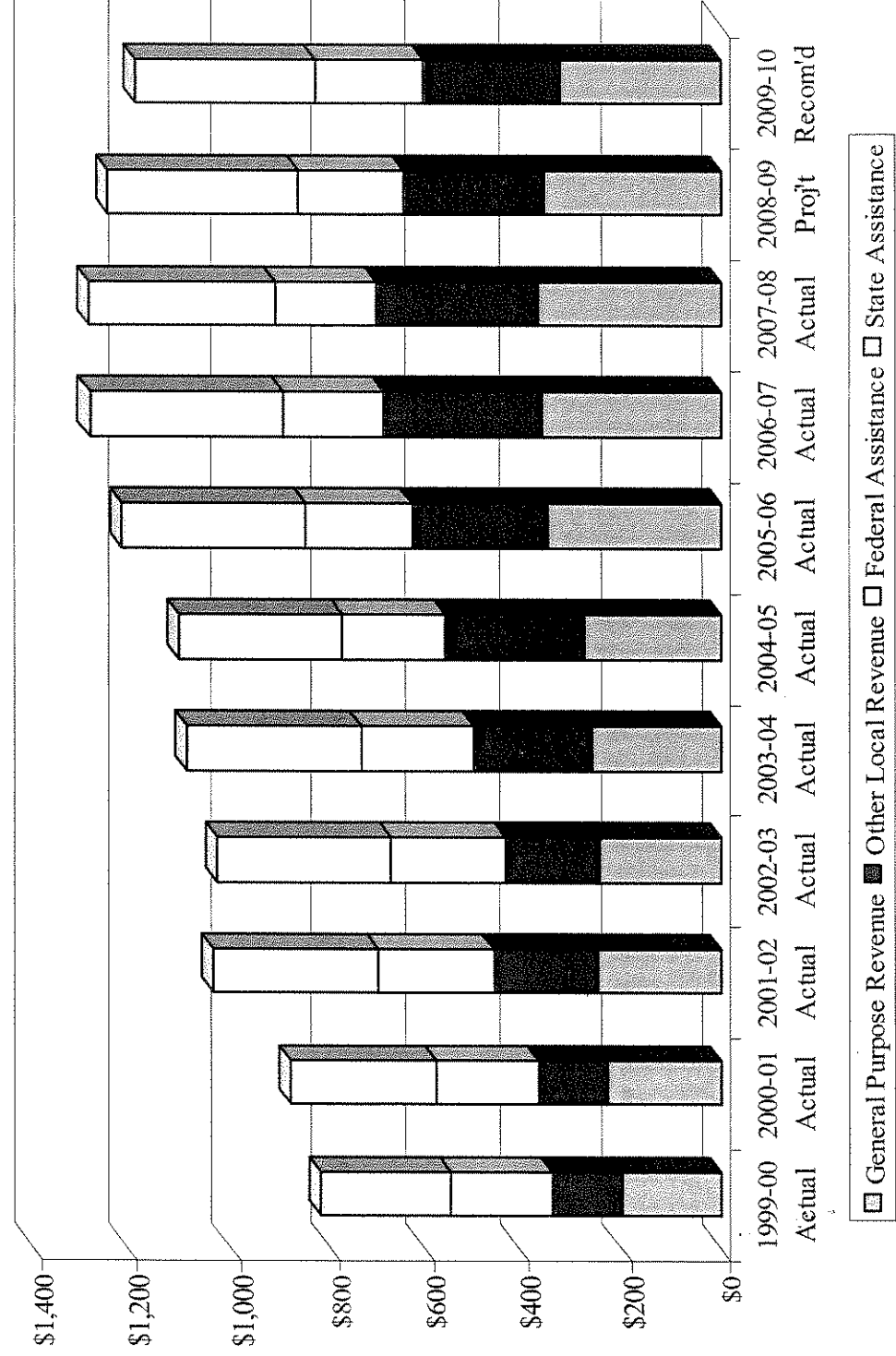


Revenues

Where do our General Fund dollars come from?



10 Year General Fund Revenue History (in millions)

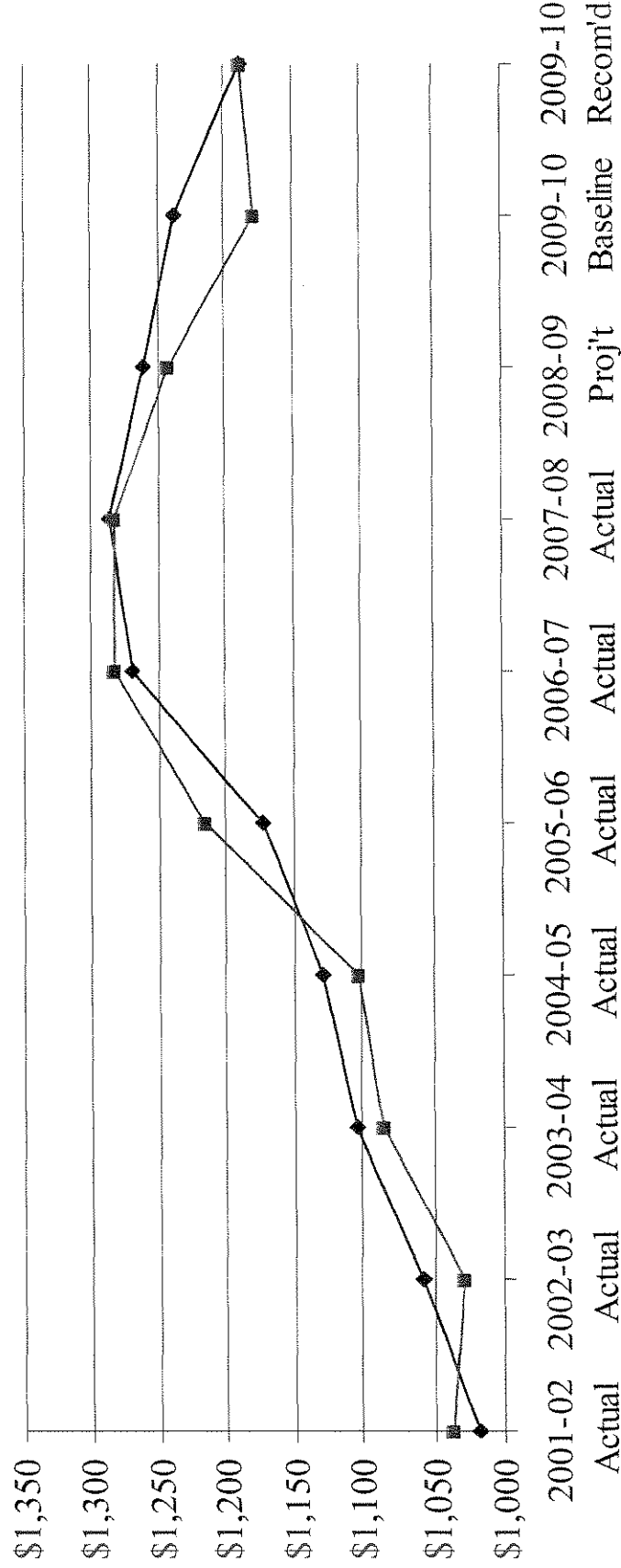




Structural Imbalance

General Fund Expenditures & Revenues Continue Unbalanced

(in millions)



—◆— Total Expenditures —■— Gross Revenue

What constitutes a *balanced* budget?

- Net County cost is an Agency's share of general purpose revenue ... the total net County cost of all general fund agencies is funded by total General Purpose revenue (if the budget is balanced)
- If there is a difference – that remainder is either fund balance (positive) or reserve use (negative)

Contra Costa's challenges to structural balance

- Other Post Employment Benefits (OPEB);
- Prior year imbalance carried forward;
- Lack of planning and funding of Capital maintenance costs;
- High level of mandated services required;
- Significantly declining revenues; and
- Looming pension funding crisis due to severe stock market losses

Other Post Employment Benefits

Liability

- Current Liability at \$1.7 billion (down from \$2.3 billion)
- Will require an additional \$56 Million contribution each year for next 30 years to fund at a 40% level
- Employees are resisting the County proposal to eliminate retiree health insurance for new hires and cap County's share of cost to current employees at the 2009 level

FY 2008-09

- \$26 million projected deficit, due to demand for service, unsustainable cost increases, reduced revenues, and one-time prior year fixes such as:
 - Health Insurance Premiums
 - In Home Supportive Services
 - Conflict Defense Services
 - Supplemental Property Tax Revenues
 - Proposition 172 Revenues (DA & Sheriff)
 - Interest Earning Revenues
 - Other significant local revenue decreases

Capital Maintenance Costs

- Recent comprehensive building condition assessments identified a total of \$251.2 million in deferred facilities maintenance needs and capital renewal requirements
- The distribution of costs by level of priority was as follows:

□ Priority 1 – Currently Critical	\$ 2,059,913
□ Priority 2 – Potentially Critical	25,881,877
□ Priority 3 – Necessary, but not Critical	175,052,172
□ Priority 4 – Necessary, within 6-10 Years	48,180,568
- No funding has been identified in FY 2009-10

Mandated vs. Discretionary Costs

The Mandatory/Discretionary Program Listing included in the FY 2009-10 Budget uses two keys:

■ Service Key, which indicates if the program/service provided is mandated or discretionary

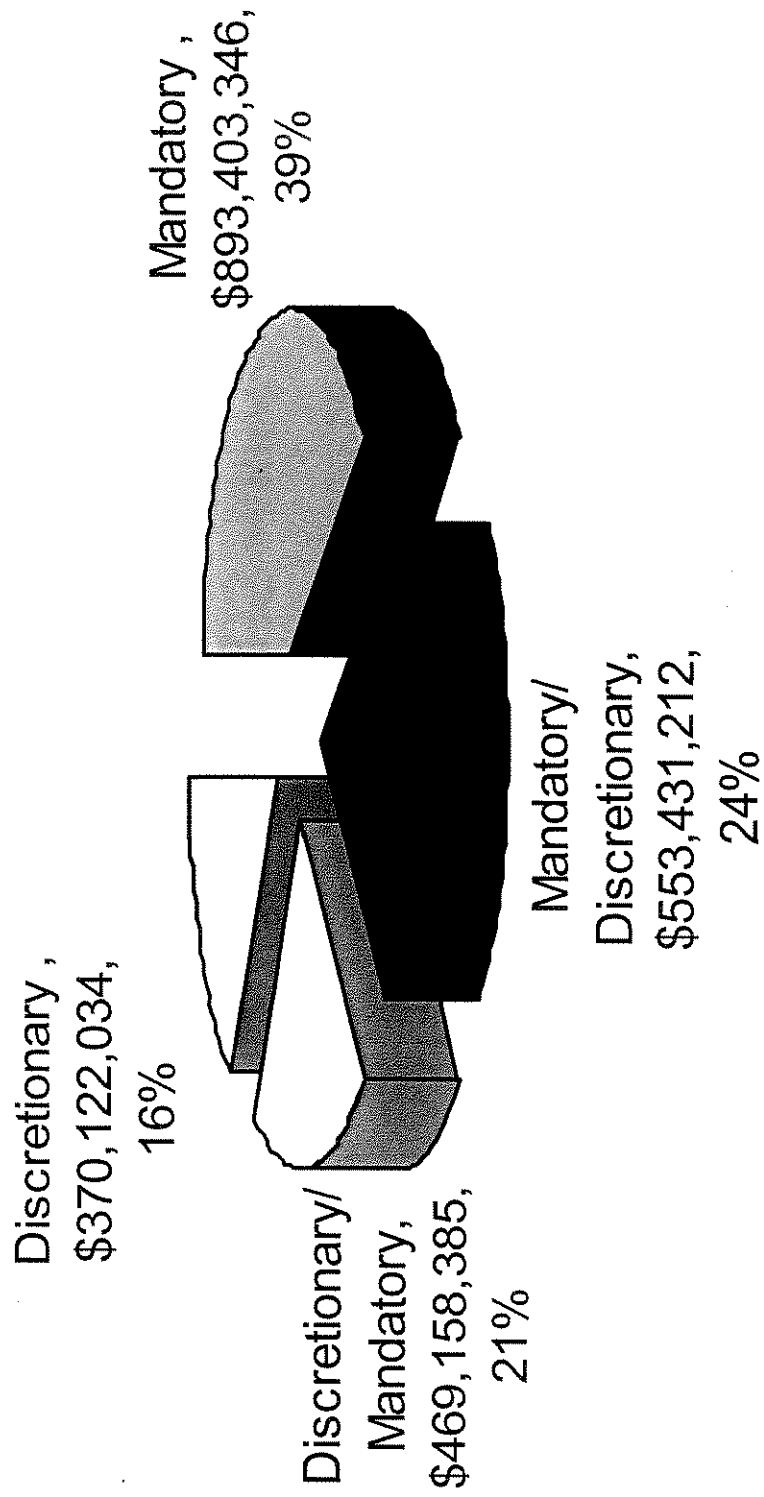
- ☐ Mandated by law (i.e. Hospital Inpatient Psychiatric Services)
- ☐ Discretionary (i.e. Arts Commission)

■ Level Key*, which indicates if the level of service provided is mandated or discretionary

- ☐ Mandated by law
- ☐ Discretionary

* Interestingly there are services which are not mandated; however, if the service is provided - the level of service is mandated

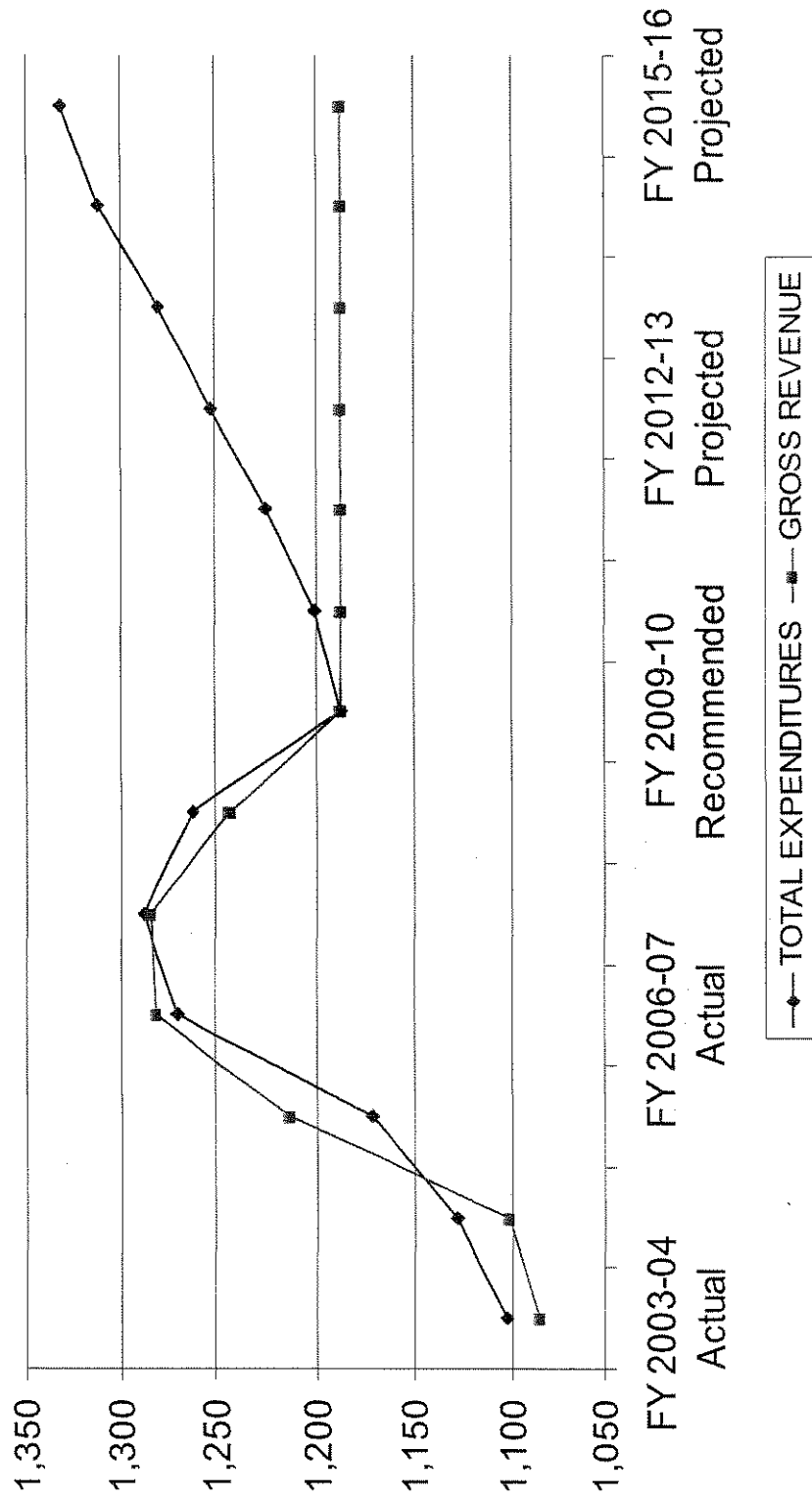
Mandatory vs. Discretionary Service Costs FY 2009-10 Baseline



■ **Looming Pension Funding Crisis Combined with Declining Revenues**

- Due to severe stock market losses, County's Pension Obligation will double in next five-seven years
- Will require an additional \$165 million contribution each year by 2016
- Additional \$10 million in FY 2010-11; \$26 million in FY 2011-12; \$31 million in FY 2012-13; \$36 million in 2013-14; and \$41 million in 2014-15; \$20 million in 2015-16

Declining Revenue & Looming Pension Costs Drive Total Expenditures (in millions)





Recommended Reductions

FY 2009-10 Baseline

Budget Development

- Began with position allocations as of 1/1/09 – to incorporate reductions of 12/31
- Projected salaries & benefits based upon FY 2009/10 data – significant reduction to retirement (\$19.5 million) and workers compensation
- Thoroughly reviewed all revenues – for the most part reducing them
 - Assumes negative Assessed Valuation growth of 5%
 - Assumes negative growth in sales tax and Proposition 172 taxes
 - Increased those few revenues that supported such a change
- Updated allocations for occupancy, telephone, data processing, etc.

FY 2009-10 Baseline Requests

result in \$58 million gap

General Fund	2007-08 Actual	2008-09 Budget	2009-10 Baseline
EXPENDITURES			
Salaries and Benefits	\$ 664,027,695	\$ 695,636,829	\$ 679,160,699
Services and Supplies	567,848,038	442,662,502	375,172,909
Other Charges	272,614,312	266,001,156	273,221,231
Fixed Assets	25,013,640	11,118,323	1,434,644
Expenditure Transfers	-241,348,470	-167,874,502	-91,690,971
TOTAL EXPENDITURES	\$1,288,155,215	\$1,257,544,308	\$1,237,298,511
REVENUE			
Other Local Revenue	\$ 702,665,476	\$ 651,024,658	\$ 603,664,388
Federal Assistance	214,480,390	222,824,637	226,555,229
State Assistance	366,834,325	374,185,447	348,873,518
GROSS REVENUE	\$1,283,980,191	\$1,248,034,742	\$1,179,093,135
NET COUNTY COST (NCC)	\$4,175,024	\$9,509,566	\$58,205,376
Allocated Positions (FTE)	5,747	5,650	5,352

CAO Review & Recommendation

- Requested baseline budgets and potential program reductions from every department
- No department was exempt
- Took direction from Board of Supervisors to:
 - ☐ Cut as few FTE as possible
 - ☐ Preserve public protection
 - ☐ Eliminate those that are totally discretionary
- Presenting those that meet the Board's policy direction

FY 2009-10 Recommended Budget

General Fund	2007-08 Actual	2008-09 Budget	2009-10 Baseline	2009-10 Recommended	Change
EXPENDITURES					
Salaries and Benefits	\$ 664,027,695	\$ 695,636,829	\$ 679,160,699	\$ 658,422,025	-20,738,674
Services and Supplies	567,848,038	442,662,502	375,172,909	365,558,384	-9,614,525
Other Charges	272,614,312	266,001,156	273,221,231	253,203,109	-20,018,122
Fixed Assets	25,013,640	11,118,323	1,434,644	1,291,644	-143,000
Expenditure Transfers	-241,348,470	-167,874,502	-91,690,971	-90,607,790	1,083,181
TOTAL EXPENDITURES	\$1,288,155,215	\$1,257,544,308	\$1,237,298,511	\$1,187,867,371	-49,431,140
REVENUE					
Other Local Revenue	\$ 702,665,476	\$ 651,024,658	\$ 603,664,388	\$ 603,196,702	-467,686
Federal Assistance	214,480,390	222,824,637	226,555,229	232,509,500	5,954,271
State Assistance	366,834,325	374,185,447	348,873,518	352,161,169	3,287,651
GROSS REVENUE	\$1,283,980,191	\$1,248,034,742	\$1,179,093,135	\$1,187,867,371	8,774,236
NET COUNTY COST (NCC)	\$ 4,175,024	\$ 9,509,566	\$ 58,205,376	0	-58,205,376
Allocated Positions (FTE)	5,747	5,650	5,352	5,198	-154



Impacts

- The \$58.2 million budget gap represents significant service reductions to our Citizens (identified in program budget)
 - \$49.4 of the gap is reduction in services
 - Loss of General Purpose Revenue is used to match Federal and State Revenue
 - \$1 cut to District Attorney's Budget = \$1 reduction, but \$1 cut to Employment & Human Services represents only 20 – 30 Cent savings

Why we cut where we do

	FY 2009/10 Baseline Request	FY 2009/10 Recommended	Share of Total
Health Services	114,299,120	95,099,120	29.6%
Sheriff-Coroner	76,949,234	64,970,703	20.2%
Probation	36,598,630	35,086,728	10.9%
Employment & Human Services	32,162,547	19,007,785	5.9%
Public Defender	20,039,147	17,472,296	5.4%
Assessor	15,481,223	14,965,991	4.7%
General Services	14,606,052	12,258,578	3.8%
District Attorney	14,584,204	12,158,896	3.8%
Superior Court-Jury Commissioner	11,409,391	10,597,282	3.3%
Miscellaneous Services	8,345,297	7,539,921	2.3%
County Administrator	6,154,910	5,320,077	1.7%
Board of Supervisors	4,817,309	4,772,093	1.5%
County Clerk-Recorder	5,281,487	4,293,094	1.3%
Justice System Planning	3,975,628	3,975,628	1.2%
Animal Services	3,596,432	3,296,432	1.0%
Auditor-Controller	3,039,504	3,034,639	0.9%
Human Resources	2,219,250	2,106,348	0.7%
Agriculture-Weights & Measures	1,865,676	1,791,044	0.6%
County Counsel	1,699,121	1,675,523	0.5%
Treasurer-Tax Collector	1,637,824	1,502,824	0.5%
Veterans Services	586,386	546,961	0.2%
Plant Acquisition	47,594	44,010	0.0%
Cooperative Extension	325,383	0	0.0%
Conservation & Development	0	0	0.0%
Public Works	0	0	0.0%
	379,721,349	321,515,973	100.0%

What else can be done?

- Attempt to maximize local, federal & State Revenue
- Continue to streamline operations and consider consolidation of departments and functions to improve service delivery
- Pursue and fund technological advancements/improvements
- Fully develop a list of Core Services
- Use 2 year budgets to improve strategic planning
- Work with Community & Labor Partners to achieve efficiencies and cost reductions to maintain programs and jobs in Contra Costa County
- Pursue legislative change to current funding mandates

CAO Recommendations

- Acknowledge that,

- Due to significant market losses in the Contra Costa County Employees Retirement Association assets, retirement expenses are expected to double in the next five years.

- The Recommended Budget balances annual estimated expenditures with estimated revenues in FY 2009-10, but is not structurally balanced;

- Action by the State regarding its budget may require subsequent adjustments to the Recommended Budget adopted by the Board;

- Although the Recommended Budget does not include a specific appropriation for contingency, that the Board maintains its ability to manage General Fund contingencies during the fiscal year by use of reserve funds set aside for that purpose; and

- Any restoration of any recommended program reductions will require an equivalent reduction in funds from other County priorities in order to adhere to our balanced budget policy.

Direct the County Administrator to:

- Prepare for Board adoption on March 31, 2009, the FY 2009-10 County and Special District Budgets, as Recommended; and
- Prepare for consideration by the Board of Supervisors on April 7, 2009, lay-off resolutions necessary to carryout Board action on the Recommended Budget

MISSION

Contra Costa County is dedicated to providing public services which improve the

quality of

life of our residents and the economic viability of our businesses

VISION

Contra Costa County is recognized as a

world-class

service organization

where innovation and partnerships merge to enable our residents to enjoy a safe, healthy and prosperous life.

VALUES

Contra Costa County **serves people,**

businesses and communities. Our organization and each one of our employees value:

- Clients and communities
- Partnerships
- Quality Services
- Accountability
- Fiscal prudence
- Organizational excellence

