



**Contra
Costa
County**

To: Board of Supervisors
From: David Twa, County Administrator
Date: January 14, 2014

Subject: FY 2014/15 Recommended Budget Development

RECOMMENDATION(S):

1. DECLARE the Board's intent to adopt a FY 2014/15 General Fund budget that balances annual expenses and revenues;
2. ACKNOWLEDGE that the State of California and residents throughout the State continue to struggle to manage the outcomes of the recently depressed economy;
3. ACKNOWLEDGE that significant economic issues continue to challenge the Board of Supervisors in its effort to finance services and programs which Contra Costa County residents need, or expect will be provided to them by the County, especially in a time of slow economic recovery;
4. ACKNOWLEDGE that, in addition to the effects on the provision of services for residents, these State and local economic issues have challenged the maintenance of the Board of Supervisors' reserve policy;
5. ACKNOWLEDGE that restoration of the County's reserve funds, maintaining an improved credit rating, and maintenance of the County's physical assets remain a priority of the Board of Supervisors over the long term;
6. ACKNOWLEDGE that the State's long term structural budget imbalance is expected to mean additional and sizable reductions in State revenues to county government;

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☒ APPROVE

☐ OTHER

☒ RECOMMENDATION OF CNTY
ADMINISTRATOR

☐ RECOMMENDATION OF BOARD
COMMITTEE

Action of Board On: **01/14/2014** ☒ APPROVED AS RECOMMENDED ☐ OTHER

Clerks Notes:

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Candace Andersen, District II Supervisor
Mary N. Piepho, District III Supervisor
Karen Mitchoff, District IV Supervisor
Federal D. Glover, District V Supervisor

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown.

ATTESTED: January 14, 2014

David Twa, County Administrator and Clerk of the Board of Supervisors

Contact: Lisa Driscoll, County
Finance Director (925) 335-1023

By: June McHuen, Deputy

RECOMMENDATION(S): (CONT'D)

RE-AFFIRM the Board of Supervisors' policy prohibiting the use of County General Purpose Revenue to back-fill State revenue cuts;

- DIRECT Department Heads to work closely with the County Administrator to develop a Recommended Budget for consideration of the Board of Supervisors that balances expenses with revenues, minimizes net County cost and maintains core service levels;
- ACKNOWLEDGE that the employees of Contra Costa County have already been negatively affected as a result of the requirement to balance the County's expenses with available revenues;
- ACKNOWLEDGE that the 2014-2015 assessment roll will be prepared using an inflation factor of 1.00454 rather than the 1.02 factor that is the norm;
- ACKNOWLEDGE that this situation is expected to improve for County employees, as we work to manage and cope with the outcomes of slow economic recovery;
- DIRECT the County Administrator to continue to meet with the County's union representatives and employees to explain the size, scope and anticipated length of the County's fiscal challenges and to gain their input/suggestions;
- DIRECT the County Administrator to continue to make this information readily available to the residents of the County;
- DIRECT Departments, in cooperation with Labor Relations and Union representatives, to begin, if necessary, the meet and confer process with employee representatives about the impact of potential program reductions on the terms and conditions of employment for affected employees;
- DIRECT the County Administrator to return to the Board of Supervisors on April 22, 2014 with a FY 2014/2015 Recommended Budget that meets the above requirements;
- DESIGNATE Tuesday, April 22, 2014 for FY 2014/2015 budget hearings (including Bielsonson Hearings, if needed) and Tuesday, May 13, 2014 for the adoption of the FY 2014/15 County and Special District Budgets; and
- DIRECT the Clerk of the Board to publish notice of the budget hearings and the availability of the Recommended Budget documents.

FISCAL IMPACT:

None at this time. However, the result of the recommendations herein, if implemented, are designed to maintain the County's fiscal stability in FY2014/2015 and improve it in subsequent years.

BACKGROUND:

The actions recommended in this documentation direct the County Administrator to return to the Board on April 22, 2014 with a Recommended Budget that balances expenses with revenues for FY 2014/15. This action aligns with both the Budget and Reserve Policy of the Board of Supervisors. Continued labor negotiation as well as the expiration of additional labor contracts with many County employee groups, as well as State actions to manage the reoccurring budget deficit will be taking place in the same time-frame as development of the Recommended Budget. The outcomes of all these events have the potential for significant impacts on the County's financial situation.

Recommended Budget Development

There are many challenges that the County will continue to face to create a balanced budget in the coming fiscal year, including the State's recurring budget deficits. Although the County Administrator continues to believe that there will be growth in local property tax, other general purpose and program revenues used to fund the baseline cost of services into FY 2014/15 are expected to recovery very slowly. Significant wage concessions were negotiated for the majority of County employees through the 2012/13 fiscal year. Negotiations recently completed and currently underway with the majority of our bargaining groups are expected to include modest wage increases. These increases combined with significant pension increases will challenge the County's fiscal health. The County has sustained most of the structural reductions that balanced the last eight County budgets so that significant one-time solutions are no longer required to balance the budget. It is imperative that the County achieve contract settlements in alignment with projected revenue growth; otherwise, compensation costs will create a potential gap for FY 2014/15, which must be filled to achieve a balanced budget.

There are always factors over which the County has little or no control (such as federal and State budgets shortfalls, economic changes, and demographics) that will affect the size of the baseline budget and ultimately the County's budget challenge. While 'part one of the Fiscal Cliff' has been avoided, the Federal government still must resolve significant budget issues over the next several weeks.

The majority of the County's general purpose revenues are generated through property taxes. Revenue and Taxation Code section 51 provides that base year values determined under section 110.1 shall be compounded annually by an inflation factor not to exceed 2 percent. Section 51(a)(1)(C) provides that, for any assessment year commencing on or after January 1, 1998, the inflation factor shall be the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index (CCPI) for all items, as determined by the California Department of Industrial Relations. With the exception of seven times (2011, 2010, 2004, 1999, 1966, 1995, and 1983), the inflation factor has been 1.02 percent for the last 37 years. Information from the Department of Industrial Relations shows that the CCPI increased from 241.537 in October 2012 to 242.633 in October 2013. Rounded to the nearest one-thousandth of 1 percent, this is an increase of 0.454 percent. Accordingly, we will prepare our 2014 assessment roll using an inflation factor of 1.00454.

As per the norm, Department Heads will be expected to work closely with the County Administrator to design a balanced budget that restricts the growth in net County cost while minimizing service delivery cuts. Wherever possible, categorical/program revenues will be increased to offset the increased cost of doing business. Restrictions on increases in net County cost needed to balance the budget may result in the loss of federal and State program revenues, and this added loss may cause program reductions.

Meet and Confer

Departmental budget requests are due to the County Administrator's Office on February 14. At that time Department Heads will know which, if any, positions may be affected by reductions necessary to balance the budget. Departments, in cooperation with Labor Relations, will if necessary, begin the meet and confer process with employee representatives regarding the impact of potential program reductions on the terms and conditions of employment for affected employees. Early planning will allow Departments a reasonable period of time to meet and confer, and permit them to implement all budgetary required actions prior to July 1, 2014. As with the last eight fiscal years, this progress will allow the County to adopt a budget that is balanced from the first day of the new fiscal year.

Public Notice

The County Budget Act requires that the Board of Supervisors publish a notice in a newspaper of general circulation throughout the county, stating when budget documents will be available and the date of Budget Hearings. The FY 2014/15 Budget document will be available to the public on April 8, 2014.

Conclusion

The County Administrator will return to the Board on April 22 with a FY 2014/15 Recommended Budget that meets the requirements listed above. Tuesday, April 22 will be reserved for FY 2014/15 budget hearings including Bielensohn hearings if needed. Additionally, it is recommended that the County Administrator return to the Board of Supervisors on Tuesday, May 13 for adoption of the FY 2014/15 County and Special District Budgets, including any changes the Board makes on April 22.

CONSEQUENCE OF NEGATIVE ACTION:

Delayed processing of the FY 2014/15 budget and potential impact on the fiscal stability of the County and Special Districts.

CHILDREN'S IMPACT STATEMENT:

None.