To: Board of Supervisors

From: David Twa, County Administrator

Date: February 24, 2009

Contra
Costa
County

Subject: FY 2008-09 MID-YEAR BUDGET STATUS REPORT AND DEPARTMENT HEAD SUMMIT REPORT

RECOMMENDATION(S):

ACCEPT report regarding the mid-year status of the 2008/09 County Budget, the Department Head Summit, the State Budget, and the Economic Stimulus Package; and DIRECT the Auditor-Controller to suspend transfers to the Workers' Compensation Internal Services Fund for May and June.

FISCAL IMPACT:

This report is informational and will be used for planning purposes and budget development. Additional recommendations will be presented to the Board during Budget Hearings on March 17, 2009.

BACKGROUND:

The Administrator's Office annually reports the status of the Budget as of December 31 to determine whether departmental expenses and revenues to date are consistent with the spending plan adopted, and – in a normal year – amended from time to time, by the Board of Supervisors. Normally, mid-year reviews provide an opportunity to identify variances from anticipated expenditures and revenue receipts, and permit budget staff to confer with departments regarding the potential need for budgetary adjustments. This has not been a

☑ APPROVE ☐ OTHER

☑ RECOMMENDATION OF CNTY ADMINISTRATOR ☐ RECOMMENDATION OF BOARD COMMITTEE

Action of Board On: **02/24/2009** ☑ APPROVED AS RECOMMENDED ☐ OTHER

Clerks Notes: Soren Chernell, Community Clinic Consortium; Mariana Moore, Contractors Alliance of Contra Costa; Rollie Katz, Public Employees' Union Local One.

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Gayle B. Uilkema, District II Supervisor
Mary N. Piepho, District III Supervisor
Susan A. Bonilla, 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: February 24, 2009

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

By: June McHuen, Deputy

Contact: Lisa Driscoll (925) 335-1023

cc:

normal year.

The Board of Supervisors has already taken action to reduce the County and Special District Budgets by over $90 million. The following is a summary of those actions (all reports are available on the internet

BACKGROUND: (CONT'D)

www.co.contra-costa.ca.us under Budget Documents):

On **May 6, 2008, the Board of Supervisors adopted a FY 2008/09 budget that included over $52 million in General Fund reductions in over $55 million in local cuts to baseline services.**

On August 12, 2008, the Board of Supervisors received a report stating that anticipated assessed valuation had dropped from a projected 4% to 0.21% countywide. The lack of growth in assessed valuations translated to loss of anticipated General Fund revenue in the current year of $6.6 million included in over $12 million in Countywide loss from property tax revenue. The County Administrator was directed to return to the Board with rebalancing solutions.

On October 7, 2008, the Board discussed a rebalancing report that had been forwarded from the Finance Committee. The Board agreed that the economic picture was not likely to improve in the short-term and requested that the County Administrator return with recommendations and appropriation adjustments to balance the local budget shortfall by spreading reductions evenly among agencies without the use of reserves.

On October 28, 2008, the Board met and adopted recommended FY 2008/09 local departmental cuts in the following funds/amounts: General Fund Reduction of $7.6 million ($6.6 property tax, $1.0 supplemental), Library Fund reduction of $0.8 million, Contra Costa County Fire Protection District reduction of $3.5 million, and East Contra Costa County Fire Protection District reduction of $1.4 million.

Additionally, due to further economic uncertainty, the County Administrator recommended and the Board authorized the Auditor-Controller to reduce the General Fund Reserve Designation by $10,000,000; and to transfer those funds to an appropriation for contingency. In effect, this action 'budgeted' $10,000,000 of one-time reserves in the current fiscal year budget. This action was recommended in case of further loss of General Fund revenue and was not to be construed as a cushion for any known problems. The plan was for the County Administrator to continue to work with departments throughout the year to achieve balanced year-end expenditures. The report ended with the direction that staff would return to the Board with final State funding reductions and plans to implement a no-growth FY 2009/10 budget. It was anticipated that a no-growth budget would include significant additional reductions for increased cost of doing business outside the County's control.

On November 18, 2008, the Board of Supervisor held a Budget Rebalancing/State Budget Workshop to discuss pending impacts on the FY 2008/09 Budget. The County Administrator presented cost reduction options to rebalance the FY 2008/09

Budget to reflect state cuts and other revenue loss; and requested direction on additional action to be taken. The options presented would rebalance the FY 2008/09 Budget to reflect the known impact of State cuts and other local economic impacts on Employment and Human Services. The County Administrator also requested Board direction regarding further action to be taken. The Board directed the County Administrator to return in December with specific balancing plans to address these losses and identify options for the possible saving of two specific programs – Adoptions and Foster Care Licensing. At the conclusion of the presentation, the County Administrator noted that the recommendations merely realigned the budget for the cuts to programs already known. The reductions made no progress in addressing the $28 billion looming State deficit, were not sufficient to balance the County budget, and additional reduction recommendations would be presented in January.

On December 9, 2008, the County Administrator returned to the Board with specific budget balancing recommendations, including alternatives to eliminating the Adoptions and Foster Care Licensing Programs. At the conclusion of the staff report, the Board received several hours of testimony from employees and members of the public who had received services from the County. The Board acknowledged the irony that because the County exists primarily to serve the most vulnerable populations, cuts in services necessarily impact the most vulnerable populations. Our County's problems are not unique in this respect, but indicative of local governments nationwide. The Board members expressed their anguish over the proposed cuts and acknowledged the sobering truth that additional local cuts would yet be necessary in order to address diminishing revenues and new trickle-down impacts from state and federal budget balancing initiatives. Staff was directed to work particularly with the Employment and Human Services Department to evaluate all cost savings possibilities to mitigate future budget reductions. However, the Board emphasized that every available dollar would be needed in all County departments and programs to address future reductions. The Board adopted over $20 million in General Fund reductions included in over $22 million in total funding reductions to adjust for the impact of State and other local revenue losses and directed the County Administrator to return with a lay-off resolution necessary to implement the reductions.

On December 16, 2008, the Board of Supervisors adopted a lay-off resolution with lay-offs effective December 31, 2008. The resolution authorized the deletion of certain positions in affected County departments, as approved by the Board of Supervisors on December 9, 2008. The Board authorized the Human Resources Department to implement the Tactical Employment Team Program (TETP), whose objective was to mitigate the negative impact that anticipated layoffs would have on County employees. The Board also directed the County Administrator to return to the Board with additional information regarding short- and long-term options originally presented to the Board on October 7, 2008, and a report from the County Assessor on property assessment activity. Finally, the Board again acknowledged

that further State reductions and economic impacts would require subsequent adjustments to the FY 2008/09 Budget.

On January 20, 2009, the Board of Supervisors accepted a report regarding national and local economic impacts on Contra Costa County and acknowledged that the County Administrator had scheduled a Department Head Summit for January 30. In summary, the report noted the importance of the Board and community receiving local and national economic impact information in the context of potential impacts on services to Contra Costa County residents. It was noted that the magnitude of loss of revenue and increased service level demand in Contra Costa is more easily understood in the context of the national and local economy. The report projected a current year budget gap of $30 million and a FY 2009/10 gap of an additional $26 million. For a variety of reasons including the economic situation and the magnitude of the County's problem ($56 million), the County Administrator recommended developing a two year budget for fiscal years 2009/10 and 2010/11. It was anticipated that the budget would be adopted in early spring with program reductions and lay-offs effective in the current fiscal year. The report ended by noting that every attempt would be made during current labor negotiations to achieve savings to salvage services and jobs in Contra Costa.

On February 3, 2009, the Board of Supervisors declared its intent to adopt a FY 2009/10 General Fund budget that balances annual expenses and revenues; acknowledged that the known budget gap of over $56 million represents significant service reductions to our citizens and is in addition to the $90 million in reductions already made in the current fiscal year; acknowledged that the County Administrator held a Department Head Summit on January 30 to develop a strategy for dealing with the current budget crisis, the budget crisis over the next two years, and for weathering the storm and coming out of this stronger, and better able to serve our constituents; directed the County Administrator to return to the Board with a 'Summit Report' on February 24; affirmed the Board's commitment to defining the County's budget/core service policy on March 3; directed Department Heads to work closely with the County Administrator to achieve reduced net County costs pursuant to Board policy; directed Departments, in cooperation with Labor Relations, to 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; directed the County Administrator to return to the Board March 17 with a FY 2009/10 Recommended Budget that meets the above requirements; and designated Tuesday, March 17 for FY 2009/10 budget hearings (including Bielenson hearings if needed); and Tuesday, March 31 for adoption of the FY 2009/10 County and Special District Budgets.

Mid-Year Report Discussion

Normally, the mid-year budget status report is important in that it is based on a sufficient amount of experience during the budget year to permit a reasonably

accurate assessment of how closely actual expenses and revenues are likely to track with the approved budget.

Our review of departmental budgets at this mid-year juncture suggests that departmental expenditures and revenues are performing substantially in accord with *expectations* and are projected to exceed the FY 2008/09 Adjusted Budget. However, as noted later in this report, there are several large variables which are affecting this projection. The Board is not being asked to take any corrective action at this time. Recommendations will be made as part of the Budget Hearings on March 17. This assessment could change based on intervening factors – e.g., revenue curtailments or program shifts by the State – that could affect current year costs and revenues and further substantially impact in a negative way our outlook for the ensuing fiscal year.

This report provides an overview of the status of the County's FY 2008/2009 Budget as of December 31, 2008. Included in this report are tables that summarize the County's General Fund mid-year fiscal condition (Attachments A, B, and C).

The County's implementation of its Board-approved FY 2008/09 adjusted spending plan is proceeding as anticipated; however a significant deficit remains. As of December 31, 2008, with 50% of the fiscal year having passed, actual expenditures for all County funds totaled 45.6% of planned spending, while actual revenues totaled 43.6% of amounts anticipated for the year. These figures compare unfavorably to 44.5% and 47.9% respectively for the same period last year and even more negatively when compared to the same period in fiscal year 2006/07 (43.8% and 45.5% respectively) and 2005/06 (42.6% and 44.2% respectively).

For the General Fund alone, actual expenditures totaled 50.1% of planned spending, and actual revenues totaled 37.7% of amounts anticipated for the year. As with all funds, these figures compare chiefly *unfavorably* to 47.5% and 39.0% respectively for the same period last year and when compared to the same period in fiscal year 2006/07 (47.0% and 39.7% respectively) and 2005/06 (46.4% and 38.6% respectively). Mid-year actual figures reflect not just continued tightening budgets but deficit spending. The specific dollar amounts were as follows:

ALL FUNDS
Second Quarter Summary

	Budget	Actual	Percent
Expenditures	$ 2,222,897,906	$ 1,012,714,358	45.6%
Revenues	$ 2,079,486,366	$ 905,663,493	43.6%

GENERAL FUND
Second Quarter Summary

	Budget	Actual	Percent

Expenditures	$ 1,273,535,308	$ 638,474,937	50.1%
Revenues	$ 1,248,034,742	$ 470,905,502	37.7%

GENERAL FUND
Second Quarter Expenditure Summary

	Budget	Actual	Percent
Wages & Benefits	$ 695,636,829	$ 343,730,270	49.4%
Services & Supplies	444,460,163	192,510,103	43.3%
Other Charges	266,001,156	137,726,553	51.8%
Fixed Assets	25,311,662	8,077,885	31.9%
Inter-departmental Charges	(167,874,502)	(43,569,874)	26.0%
Contingencies	10,000,000	0	0.0%
Total Expenses	$ 1,273,535,308	$ 638,474,937	50.1%

GENERAL FUND
Second Quarter Revenue Summary

	Budget	Actual	Percent
Taxes	$ 312,485,671	$ 188,195,363	60.2%
Licenses, Permits, Franchises	15,415,340	3,219,441	20.9%
Fines, Forfeitures, Penalties	14,684,786	2,403,100	16.4%
Use of Money & Property	6,281,302	4,340,648	69.1%
Federal/State Assistance	595,108,515	158,988,060	26.7%
Charges for Current Svcs	194,359,923	75,865,789	39.0%
Other Revenue	109,699,205	37,893,101	34.5%
Total Revenues	$ 1,248,034,742	$ 470,905,502	37.7%

As noted above, County expenditures and revenues at mid-year were outside of acceptable parameters given the Board approved budget. The difference between budgeted expenditures and revenues are due to prior year encumbrances, restricted reserves, and other carry forwards. The variances in anticipated expenses and revenue receipts are noted at the mid-year; the majority of this variance was anticipated due to the local and national economy.

Revenues

- Revenue from State and federal sources are typically late in being realized because much of it is based on expenditure claims paid in arrears. Normally departments that rely on State and Federal revenue experience a two-to three-month lag in revenues. Recent State actions have significantly increased these delays.
- As expected cash-flow and interest income have been impacted due to the State's delay in payments. The direct impact on revenue for fiscal year 2008/09 thus far has been the posting of negative interest to the General Fund due to lack of cash. This was exacerbated by the County's inability to sell tax revenue anticipation notes

(TRANs) this year.

Expenditures

- Normally salary costs are understated at mid-year. Unanticipated vacant positions lessen salary costs, though vacancy savings continue to lag behind prior years. Some reduction in permanent salary costs is anticipated in the second half of the fiscal year due to retirements, which tend to occur in March, however, the majority of this savings is spent in retiree pay-outs. The most significant savings are anticipated to come from the May 1 lay-offs.
- The most notable exceptional salary savings will be approximately $5.0 million from the recommended suspension of the May and June Workers' Compensation trust transfers should this recommendation be approved. The Workers' Compensation trust is significantly above the County's established minimum funding level of 80% and will remain so given this recommendation.
- Employee benefit costs are understated at mid-year because the budget includes appropriations for health insurance cost increases that did not become effective until the end of the second quarter, December 31, 2008. Actual expenses for employee health insurance will increase the second half of the year and will exceed budget amounts as these increases were not budgeted.
- Service and supplies costs are generally understated throughout most of the fiscal year because of the time required to process payments to vendors and contractors. This payment cycle averages one month in arrears. Additionally, in very tight fiscal years – as this one is – departments tend to wait later in the year to make purchases to ensure that resources are not needed elsewhere.

General Purpose Revenue

General Purpose budgeted revenues, adjusted October 2008, total $349 million spread over approximately 50 accounts. It consists primarily of $292.0 million in taxes for current property. Of the taxes for current property, $171.2 million is current secured, $5 million is supplemental, $5.2 million is unitary, $104.5 million is Property Tax in Lieu of Vehicle License Fees (from non-realignment vehicle license fees) and $5.9 million is current unsecured. Other significant budgeted revenue is real property transfer tax ($5.5 million), supplemental roll changes ($4 million), sales tax ($13.0 million), and interest income ($5 million). Based on six months of experience, General Purpose Revenues are not expected to meet budgeted levels. This projection is contingent upon several significant factors. All of these factors are affected by the housing market – the most significant being Proposition 8 reassessments and prior year adjustments. Additionally, State delays of payment will negatively impact interest earnings. It is quite possible that interest earnings for the General Fund will end the year in the red.

In Summary, the over-all County General Fund budget is not balanced, the

following four departments are currently projected to exceed their General Fund allocations:

Conflict Defense

The County's contract with the Contra Costa County Bar Association is projected to exceed its General Fund allocation by $2.1 million. This deficit is attributed to the ever increasing number of capital cases and the complexity of those cases. This program is 100% funded by the General Fund and will not be balanced in the current year.

District Attorney

The County Administrator continues to project a budget shortfall in the Office of the District Attorney in the amount of $2.1 million. This shortfall is above the 'soft landing allocation' of $600,000 extended to the District Attorney for the current fiscal year. The District Attorney's budget continues to be affected by significant exposure to state and local revenue reductions and unforeseen retirement buyback conversions. In addition to State revenue reductions implemented by the Board on December 16, 2008, two Anti-Gang grants totaling $287,920 may be abolished by the State in the current fiscal year; Proposition 172 and sales tax realignment funding shortfalls are projected to be $851,068 and $21,415 respectively; and city prosecution contract revenue has been reduced by $164,803 due to cities cancelling and reducing services. Salaries and benefits costs are projected to be $1,171,209 over budget due to unforeseen retirement buyback expenses totaling $557,276 through December and a combined overrun of $410,423 in temporary salary and permanent overtime costs. Temporary salary costs have increased as the department has made use of temporary positions as a cost savings measure in an attempt to preserve service levels. The District Attorney has pro-actively submitted a corrective action plan to mitigate $1,361,523 of the projected current year shortfall, although the County Administrator can only recommend supporting the use of $670,118 of the proposal. Due to the magnitude of the shortfall entering fiscal year 2009/10, immediate layoffs or a substantial increase in the general fund allocation to the department is recommended to establish a sustainable base of services for the foreseeable future. Taking into account the projected timetable for economic recovery on the federal, state, and local levels, continuing to deplete one-time funding sources is not a viable solution.

Employment and Human Services (EHSD)

The County Administrator and EHSD are projecting a $6.4 million deficit over the identified Budget Rebalancing package which was approved by the Board of Supervisors on December 9, 2008. The rebalancing plan approved by the Board did not include an estimated $6.5 million for In Home Supportive Services (IHSS). The estimated over expenditures results from a combination of salary increases granted

in the collective bargaining agreement between IHSS Public Authority and the SEIU United Health Care Workers West and an increase in the number of clients and hours of service. The costs associated with these increases were never actually appropriated into EHSD's Budget.

EHSD staff anticipates that the department will end the year with a deficit of $6.4 million due to IHSS and a slight savings from workers' compensation. In an attempt to mitigate the anticipated over expenditure, all purchases, hires, and expenditures of any kind are being closely monitored. Additionally, County Administrator staff is working with the department on a rebalancing plan.

Health Services

The County Administrator and Health Services Department had projected a budget shortfall in the Health Services Department in the amount of $4 million, due to projected contractual savings that have not materialized. Through a herculean effort, the Health Services Department has implemented a corrective action plan, which includes restructuring the ambulatory care delivery system, securing additional grant funds through the Coverage Initiative (Federal), receiving final approval for a Health Plan intergovernmental transfer, and streamlining the system through reclassification and other personnel items. The Department and County Administrator are projecting a balanced budget for Health Services.

Sheriff-Coroner

The County Administrator continues to project a budget shortfall in the Office of the Sheriff in the amount of $3,000,000. This shortfall is acceptable based on the $5,000,000 'soft landing allocation' extended to the Sheriff for the current fiscal year. The Sheriff has been working diligently to identify opportunities for increased revenue and additional cost savings measures, several of which have been implemented. Lower than expected attrition and significant shortfalls in Proposition 172 funding have made it difficult to achieve the structural balance needed to enter fiscal year 2009/10 at a sustainable level. Additional reductions will be necessary to balance the department's fiscal year 2009/10 operational budget due to further reductions in local revenue and the expiration of one-time revenue sources used to balance the current year budget. The Sheriff continues to make regular status reports to the Public Protection Committee regarding progress in analyzing impacts to services provided by the department. Due to the magnitude of the shortfall entering fiscal year 2009/10, immediate layoffs or a substantial increase in the general fund allocation to the department is recommended to establish a sustainable base of services for the foreseeable future. Taking into account the projected timetable for economic recovery on the federal, state, and local levels, continuing to deplete one-time funding sources is not a viable solution.

Library and Special Districts

Reductions in property taxes and other related revenues have impacted many of the County's Special Districts and the County Library Fund.

East Contra Costa Fire Protection District

The East Contra Costa Fire Protection District's general operating fund is projected to have a net fund cost of $194,000 this fiscal year. The District began the year with $6.4 million in reserves and will end the year with $6.2 million. Original projections had been worse however the District has addressed part of the property tax revenue problem by postponing remodels that had been scheduled for older stations. Preliminary revenue estimates suggest that in excess of $1.7 million will be spent in fiscal year 2009/10.

Contra Costa County Fire Protection District

The Contra Costa County Fire Protection District's general operating fund is projected to have a net fund cost of $5.8 million this fiscal year. The District began the year with $18.9 million in reserves and will end the year with $13.1 million. Preliminary revenue estimates suggest that in excess of $7.9 million will be spent in fiscal year 2009/10. Given no operational changes, this would leave the District with only $5.2 million in reserves. The District is aware that the economy is not expected to improve dramatically by June 2010 and has begun developing a plan for the FY 2009/10 budget.

Library

The Contra Costa County Library's general operating fund is projected to have a net fund cost of $3.5 million this fiscal year. The Library began the year with $10.3 million in reserves and will end the year with $6.8 million. In fiscal year 2009/10 the Library is adjusting operating expenditures to meet the estimated revenue levels, however they do anticipate using approximately $1.7 million in designated reserves for capital and equipment automation expenditures. The estimated gross fund balance for June 30, 2010 is $5.1 million.

CONCLUSION OF MID-YEAR STATUS

There are no simple solutions. As noted, the overall General Fund budget is not balanced and is expected to exceed budgeted amounts at year end by approximately $26 million (down from the projected $30 million due to the Hospital Enterprise Fund corrective actions). A hiring freeze has been implemented to achieve a current year savings and to fix seniority lists in anticipation of lay-offs scheduled for May 1. Additionally, the County Administrator has recommended that fiscal year 2009/10 reductions be made immediately after adoption of the local budget and no later than

April 1, 2009. These actions will help improve fund balance this fiscal year.

In the next few months, the County will face massive fiscal challenges both locally, from the State, and quite possibly connected with the Federal Economic Stimulus Package. The development of the State budget is being closely followed by fiscal staff throughout the County.

The first impact of payment delays announced by the State Controller began last Friday, February 13th when payments for many social services programs were not paid. Some counties are taking action to sue the Controller with Sacramento County leading this effort. CSAC has provided language to the Department of Finance which would require the state to repay counties for any delay by the State Controller by April 30th but there has been no response to the proposed language from Finance.

Furthermore, County department heads have been provided 2009/10 budget direction that includes significant County cost reductions necessary to address declines in local County revenue. Due to timing of the County and State budgets, the fiscal year 2009/10 budget will likely be presented in two phases. Phase one will address the local problem and phase two will address State budget impacts.

Fiscal year 2009/10 phase one budget hearings are scheduled for March 17 with adoption of phase one scheduled for March 31. Phase two will be scheduled once State Budget details/impacts are known.

Department Head Summit

The County Administrator hosted a Department Head Summit at the end of January to begin to address current and future budget and service issues. In preparation for the Summit, Department heads were asked to solicit from their employees ideas to streamline operations, and develop a catalog of core services for the County. The County Administrator stated that, although likely to be painful, a solution to our structural imbalances must and would be found.

The purpose of the Summit was not only to develop a strategy for dealing with the current and future budget crisis, but additionally to determine how the County can position itself to weather the storm and come out of this stronger, and better able to serve our constituents.

The Department Heads were very engaged in the Summit discussions and represented the myriad services provided by the County and the varying levels General Fund dependence. Discussions were lively and reflected various viewpoints. In general, it was felt that, because of their differences, all Departments should not be subject to arbitrary funding formulas. Departments need to be sensitive to and

comply with legal and statutory requirements. It was generally agreed that many of the recommendations received from County employees can be implemented on a department by department basis at the department heads' discretion. However, other suggestions require start-up fiscal commitments and should be looked at on a County wide basis.

Many of the suggestions that could potentially create the most cost efficiencies/savings are dependent upon other agreements or legislation. For example, pay wage reductions, days off, changes to vacation and sick leave accrual, and changes in health benefit plans all require agreement by labor unions. Many functions carried out by operating departments lend themselves to being contracted out.

The Department Heads reached a consensus regarding the top five issues that should be addressed on a Countywide basis. These top five items are listed below. The next ten issues that were repeatedly identified throughout the discussion are listed as well.

DEPARTMENT HEAD CONSENSUS

OF TOP COUNTYWIDE ISSUES TO BE ADDRESSED IN PRIORITY ORDER

(In Priority Order)

1. Countywide paperless automated timekeeping
2. One countywide e-mail program and standardize the name convention
3. Workers Compensation:
   a. Modify or eliminate the County's workers' compensation salary continuation plan to State minimum
   b. Modify or eliminate the County's continuing pay of wages (up to 3 hours per day for the duration of the claim) if the employee must attend medical appointments for a work related injury or illness during the work day
4. Pro-rate benefits for part-time employees
5. Develop and implement Countywide training programs – especially for first-line supervisors and managers

OTHER ISSUES WHICH RECEIVED MULTIPLE SUGGESTIONS

(Not in Priority Order)

1. Close non-24/7 services between the Christmas and New Year holidays
2. Pro-rate benefits for part-time employees
3. Reduce cost of employment benefits

4. Centralize IT
5. Eliminate employee service awards in-lieu of a non-cost recognition program
6. Contract out: Janitorial, Landscaping, Fleet Management services
7. Eliminate Affirmative Action/SBE Program
8. Countywide imaging/filing/document management system (including personnel action requests)
9. Increase County Administrator and Department Head authority (decrease micro-management)
10. Re-examine County facilities and see if offices can be consolidated

The Department Heads also spent time discussing principles for guiding the classification of core services. Although consensus was not reached due to time constraints, the following principles were discussed:

PRINCIPLES GUIDING THE CLASSIFICATION OF CORE SERVICES
(In Priority Order)

1. Mandated by state law or the judiciary at the mandated level
2. Mandated regulatory services
3. Mandated services above the mandated level when funded from outside revenue
4. Essential state-funded services which the county administers as an agent of the state
5. Essential to the health and safety of county citizens and for which there are no other organizations or institutions able to provide them
6. Supportive of economic development
7. Support services that increase the efficiency of the delivery of core services

Each breakout table spent varying amounts of time on defining core services, beginning to define core services, and what services should be provided. This topic will be more fully addressed in the March 3 report to the Board.

Finally, departments implemented an Employee Cost Savings Suggestion Campaign to generate recommendations from staff. A great deal of time was spent reviewing hundreds of cost savings ideas received from employees. Many of the suggestions have County wide implications and are included in Attachment D. The list is sorted into four sections with sub-groupings within each section. The first section lists those suggestions which, if feasible, could be implemented immediately. The second section includes those suggestions which, if feasible, would require either policy direction or action by the Board of Supervisors before it could be implemented. The third section lists those suggestions made by employees which would require discussion and agreement with labor representatives or legislation in order to be implemented, should that decision be made. The last section includes those suggestions which, at this time, staff feels are not feasible for implementation at this time. We continue to receive ideas from departments and add them to our lists. Departments are working with their employees and the County Administrator's Office to review those suggestions which impact only their own operations. Those with clear cost savings potential and few inhibitors are being implemented immediately, others are being evaluated in context of legality, start-up costs, etc. A summary of the Employment and Human Services and Health Services Departments' suggestion campaigns are also attached (Attachments E and F).

State Budget

As of noon Wednesday, February 18 the State had yet to adopt a budget. The Urban Counties Caucus reported that the budget was stalled (again). Although many bills in the package had the votes for passage, the Senate was still short a vote on the tax bill.

The details listed below are the latest information gathered, however, since budget negotiations are on-going there may be new ideas added or some of these details could change.

In addition, many of the revenue increases and cuts listed below may be limited in scope or not taken depending on the federal stimulus package and whether the spending cap is approved by the voters. Major highlights of the budget package:

- Defers county payments for social services in July and August (similar to last year's budget).
- Provides for a spending cap/rainy day fund.
- Includes provisions on judicial benefits.
- Provides for a special election on May 19th to approve the following: spending cap, Proposition 98, Lottery securitization, Proposition 10 transfers, and Proposition 63 transfers.

Revenues

The package includes $14.4 billion in taxes as follows (reduced to $12.5 billion if federal funds are available):

- Increasing the sales tax by 1 cent through 2011/12. Temporary tax increase that will sunset in 2012 if the spending cap is approved, if the voters reject the spending cap it would expire in 2011.
- Increasing gasoline taxes by 12 cents per gallon for up to five years if spending cap passes, if it fails through 2011/12.
- Raising the VLF from 0.65 percent to 1.15 percent through 2013/14 (2011/12 if spending cap fails). A portion of these funds would be used to fund local law

enforcement programs.

- Increasing the personal income tax surtax 5% across the board for up to five years, if spending cap passes (2011/12 if spending cap fails). This would be triggered down to 2.5% if federal funds are available.

Reduces the size of dependent credit exemption (Personal Income Tax) to the level of personal credit for up to 5 years if cap passes (2011/12 if cap fails).

Deferrals

- Defers county Social Service payments for July and August to September 2009. This language exempts SSI/SSP and IHSS payments form the deferral and exampts counties under 40,000 in population.
- Defers fuel excise tax allocaiton for local streets and roads scheduled for January, Feburary, March and April to be paid in May (applies to 2009 only)

Economic Stimulus Package

President Obama signed into law the American Recovery and Reinvestment Act (ARRA) of 2009 on February 17, 2009. This economic stimulus legislation is a supplemental appropriations bill with tax provisions. The objectives of the bill include job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization.

According to Moody's U.S. Public Finance report of February, since relatively few of the federal programs that are being expanded are funded from cities' and counties' general funds, the increase in federal funding doesn't directly offset much of the general fund revenue and expenditure pressures that local governments are facing as a result of the economic downturn. Though it won't have much of an impact on city and county general funds, much of the stimulus bill's infrastructure spending will nevertheless be well received by local governments. The more significant benefits on the local level are likely to be indirect in the form of fewer lost jobs, few foreclosures and, ultimately, less of a reduction in sales and other economically-sensitive tax revenues.

Department Heads have been asked to monitor the Economic Stimulus Package and the State Budget as they develop. We will address the Board at our first opportunity with local impacts anticipated from these major measures.

Next Steps

The Board of Supervisors, using the results of the Summit Report and other materials to be provided by the County Administrator will conduct a budget/policy discussion of

March 3. On that date, it is anticipated that the Board will develop a policy to guide the County Administrator in preparing a FY 2009/10 Recommended Budget and a FY 2010/11 Planning Budget. The County Administrator will return to the Board of March 17 with the Recommended Budget for FY 2009/10 and the Planning Budget for FY 2010/11. It is anticipated that the Board will adopt a Final Budget on March 17. All reductions not associated with lay-offs will become affective as soon as possible following that date and no later than May 1.

CLERK'S ADDENDUM

County Administrator David Twa presented the item and commented on the importance of updating the County's business models.

Supervisor Piepho said that critical care and public safety are top priorities, yet said they seem to be the hardest hit by the Budget crisis. Mr. Twa responded that Health and Human Services and Public Safety are the biggest parts of the County's General Fund and so proportionately appear to be the hardest hit. He added that there is also the issue of, Are we going to use County reserves to address this crisis? He said doing so is an easier decision if we think we are dealing with short-term problems, which in this case he said we are not.

Supervisor Piepho said she would appreciate looking for a way to keep the Sheriff's deputies, saying the proposed elimination of 70 deputies is too stark an action to take. She asked if any proposed measures for cost savings could be implemented quickly in order to help offset proposed cuts.

Mr. Twa said that cost-saving measures that could be implemented immediately are being implemented now, but said that overall they will still not be a solution. He added that it will be the long-term solutions that will really make changes.

Supervisor Piepho suggested it would be useful to have a discussion about how to define core services.

Supervisor Uilkema asked about the District Attorney's budget and "unforeseen retirement budget conversions."

Lisa Driscoll, County Administrator's Office, responded that the conversions are those of employees converting years of service from Tier 2 to Tier 3 in the retirement structure, and noted that when and how much employees choose to make this conversion can obligate the County to match dollars accordingly. She added that this is happening countywide, but said that since the D.A.'s office employs attorneys – higher-cost employees – the costs in that department are higher.

Supervisor Uilkema requested clarification that this report does not address impacts to the County's budget based on current and proposed changes to the State's budget.

Mr. Twa responded that it does not.

ATTACHMENTS

Attachment A
Attachment B
Attachment C
Attachment D
Attachment E
Attachment F