

# BUDGET STUDY SESSION



Board of Supervisors  
December 4, 2007  
9:30 am

## Budget Study Session Agenda

- Background and Objectives
- Overview - Structural Budget Deficit
- Overview - Net County Cost
- Board Policy Issues
- Deficit Reduction Strategies
- Net County Cost Targets
- Next Steps

## Budget Study Session Background

At the conclusion of June 2007 budget hearings, the Board requested a study session in the Fall to discuss and plan for the elimination of the County's structural budget deficit.

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## Budget Study Session Objectives

- Provide an overview of the County's structural budget deficit
- Review assumptions for revenue and expenditure projections for FY 2009-2013
- Review Board policy issues
- Obtain direction on a multi-year approach for eliminating the structural deficit by FY 2013
- Obtain direction on deficit reduction strategies to set Net County Cost targets for departments

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## **Alignment to Shared Vision Long-Term Planning**

**Government decisions are based on careful consideration of future impact, rather than temporary relief or immediate gain.**

The study session contributes to this goal by providing a public forum for the Board to review the County's structural budget deficit and provide direction to staff on a multi-year approach to eliminating the deficit by FY 2013.

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## **Overview Structural Budget Deficit**

Budget Study  
Session

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## Structural Budget Deficit

### What Is It?

- A structural budget deficit occurs when ongoing expenditures (spending) grow faster than ongoing revenues (income)
- Based on estimates for FY 2008, the structural budget deficit for the County General Fund is **\$25 million**

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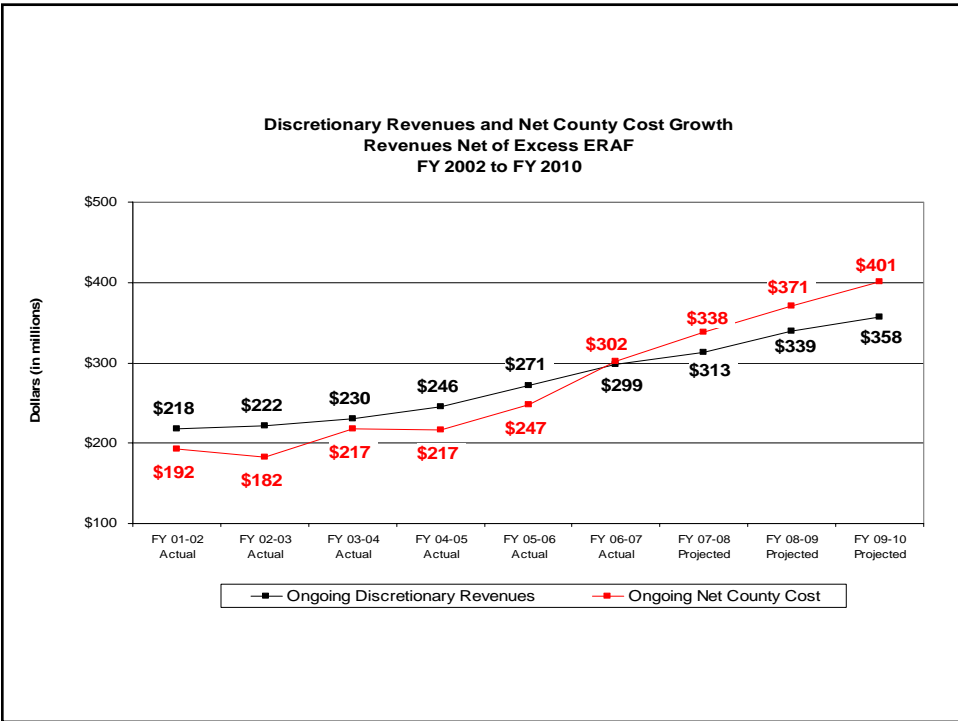
## Structural Budget Deficit

### Terminology

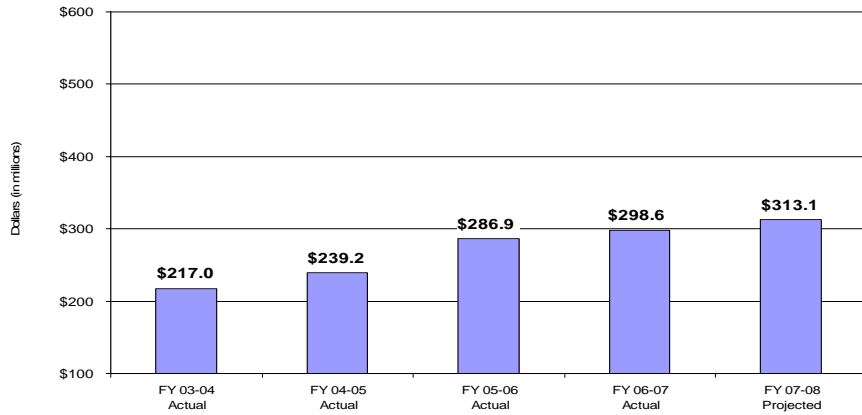
- The following terms are used throughout this presentation. In calculating the structural budget deficit, the County looks at the difference between:
  - Growth in ongoing revenues: **Discretionary revenues** in the General Fund that are used for operations; also called general purpose revenue, and includes property tax and sales tax
  - Growth in ongoing expenditures: **Net County Cost (NCC)** or General Fund allocation to operating departments; also includes ongoing costs to maintain existing infrastructure (facilities and technology); NCC is funded by discretionary revenues

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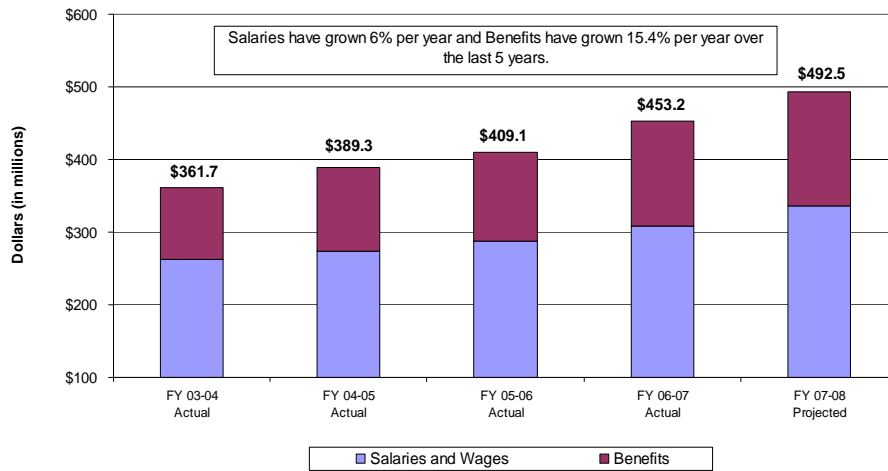
<b>Structural Budget Deficit Summary</b>	
<b>Ongoing Revenues and Expenditures</b>	
<b>FY 2007-08</b>	
	<b>FY 07-08</b>
<b>Revenue/Expenditure Description</b>	<b>Projected</b>
Secured & Unsecured Property Taxes	\$184,818,630
Property Tax In-Lieu of VLF	67,938,189
Sales and Use Taxes (includes In-Lieu of VLF)	18,763,147
Property Transfer Taxes	7,800,000
Transient Occupancy Taxes	1,073,173
Interest Earnings	19,852,826
State Mandated Cost Reimbursement (SB 90)	880,340
A-87 Cost Plan Reimbursements	4,882,795
Reimbursement of Health Plan IGT Contribution	5,000,000
Miscellaneous Other	2,139,155
<b>Total Ongoing Revenue</b>	<b>\$313,148,255</b>
Net County Cost Allocated to Operating Depts	\$313,728,042
Retiree Health Costs (Pay As You Go)	4,986,807
Children's Health Initiative	2,700,000
Structural Fire Deficit	915,000
Countywide Technology Initiatives & Maintenance	4,443,177
Capital Projects - Non-Deptl GF Contributions	4,876,330
Debt Service - Non-Deptl GF Contributions	6,185,205
Miscellaneous Other	271,722
<b>Total Ongoing Expenditures</b>	<b>\$338,106,283</b>
<b>Structural Deficit</b>	<b>\$24,958,028</b>



**Discretionary Revenues  
Have Grown by \$17.5 Million or 7.1% Annually  
Over the Last 5 Years**



**While Salaries and Benefits  
Have Grown by \$32.8 Million or 8.4% Annually  
Over the Last 5 Years**



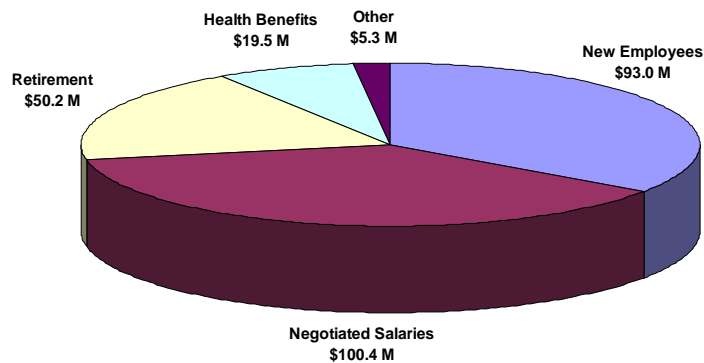
## Structural Budget Deficit Growth in Salaries and Benefits

The single largest contributor to the structural deficit has been the growth in labor costs. Salaries and Benefits have averaged 8.4% growth since FY 2003, primarily due to:

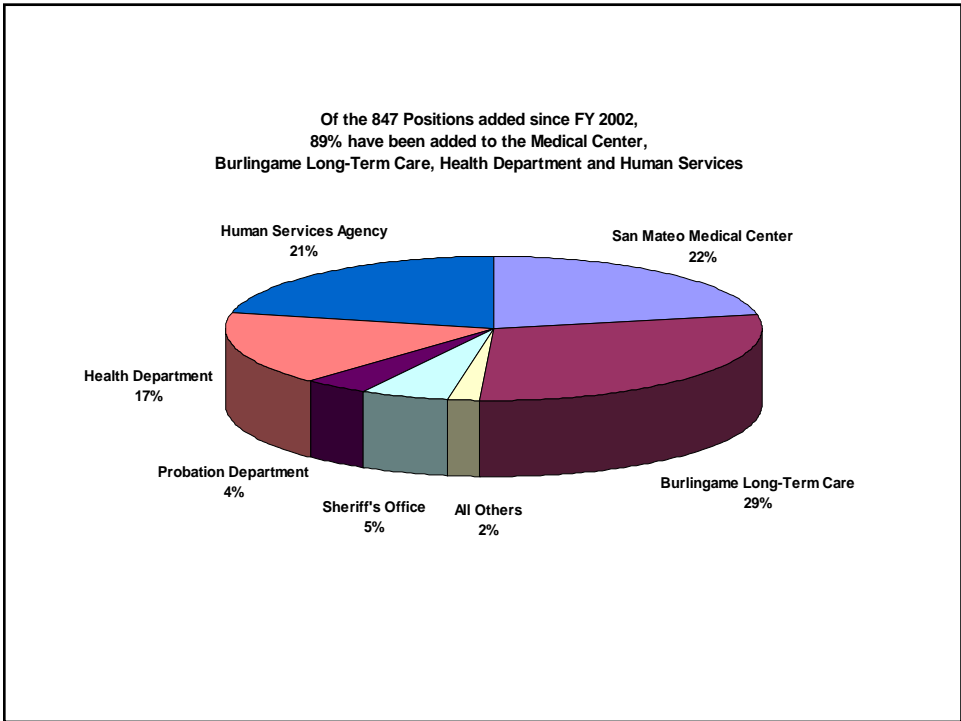
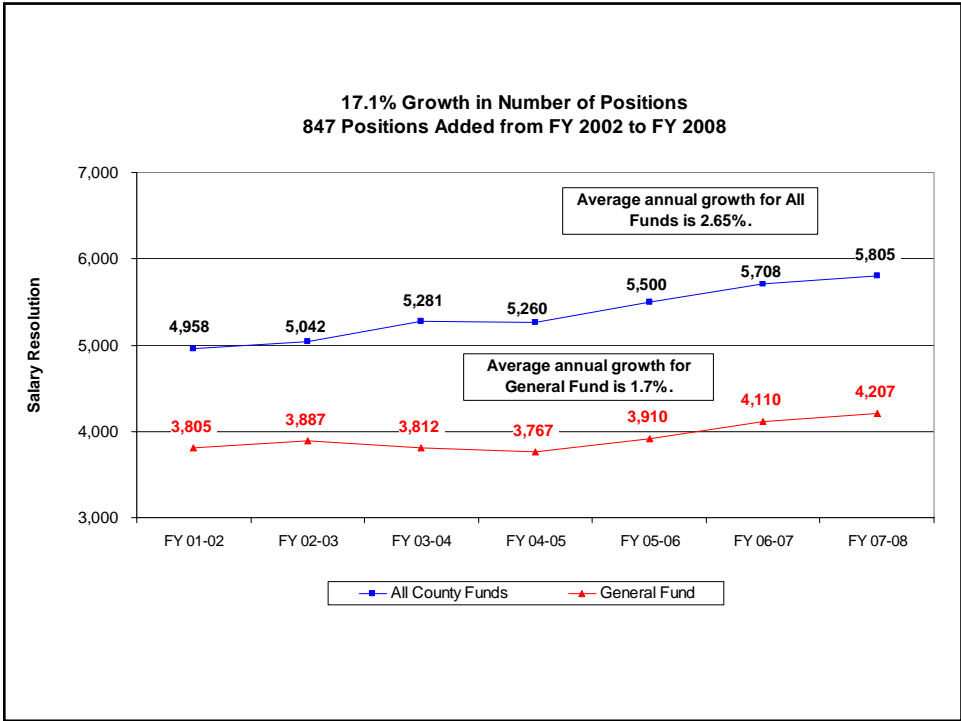
- Negotiated increases
- Retirement enhancements and actuarial adjustments
- Additional positions
- Annual double digit health benefit increases

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**Breakdown of 5-Year Salary and Benefit Growth By  
New Employees, Negotiated COLAs, Retirement and Health Benefits**



\*The \$93 million for New Employees includes Salaries and Benefits.  
The 35% breaks down as follows: Salaries (\$51.8 M), Retirement (\$28.2 M), Health Benefits (\$11.0 M) and Other (\$2.0 M).





## **Position Changes Significant Events and Requirements**

- Burlingame Long Term Care = 243
- HSA Eligibility Determination = 122
- Mental Health Services Act = 51
- Child Welfare Redesign/Caseloads = 50
- Extra Help Conversions to Permanent = 42
- Youth Services Center = 33
- SMMC Senior Care Center = 23
- Sheriff's Relief Pool = 18
- SMMC Outpatient Pediatrics = 16
- Health State Mandated Programs = 16

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## **Assumptions – Increases in Discretionary Revenue and Net County Cost**

Budget Study  
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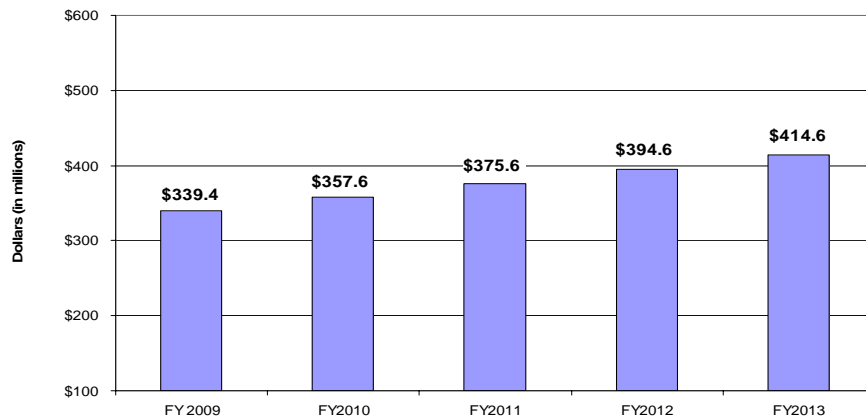
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## Revenue Assumptions Summary – Historic vs. Projected Growth

- Historic revenue growth +7.1%
  - Actual growth for FY 2004-2007 & FY 2008 estimate
    - \$17.5 M average annual growth for the five year period
- Projected revenue growth +5.8%
  - Forecast for FY 2009-2013
    - \$20.3 M average annual growth for the five year period
    - \$19.1 M average and 5.5% annual growth without Teeter

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Discretionary Revenues  
Are Projected to Grow by \$20.3 Million or 5.8% Annually  
Over the Next 5 Years



ASSUMPTIONS - Projected Discretionary Revenue Growth						
VIII Average \$20.3 Million or 5.8% Annually						
Revenue Source (In Thousands)	FY 08-09 Projected	FY 09-10 Projected	FY 10-11 Projected	FY 11-12 Projected	FY 12-13 Projected	Average Annual Growth
<b>GROWTH RATES:</b>						
Secured Property Tax	7.2%	6.5%	6.0%	6.0%	6.0%	6.3%
Unsecured Property Tax	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Sales Tax (includes property tax in-lieu)	10.1%	2.7%	2.8%	2.8%	2.8%	4.2%
Transient Occupancy Tax	16.2%	5.0%	5.0%	5.0%	5.0%	7.2%
Property Tax In-Lieu of Vehicle License Fees	7.0%	6.5%	6.0%	6.0%	6.0%	6.3%
Teeter Revenues	100.0%	0.0%	0.0%	0.0%	0.0%	20.0%
Other Revenue (without Excess ERAF)	2.9%	2.1%	2.2%	2.2%	2.2%	2.3%
<b>% Change without Excess ERAF</b>	<b>8.4%</b>	<b>5.4%</b>	<b>5.0%</b>	<b>5.1%</b>	<b>5.1%</b>	<b>5.8%</b>
<b>% Change w/o Excess ERAF or Teeter</b>	<b>6.5%</b>	<b>5.5%</b>	<b>5.1%</b>	<b>5.1%</b>	<b>5.2%</b>	<b>5.5%</b>

## Revenue Assumptions

### What's Included

- Reduced levels of growth from prior years
- Property tax projections from Assessor's Office
- FY 2009 significant adjustments:
  - Return of jet fuel sales tax from Oakland on January 1, 2008; 2.5% overall sales tax growth beginning in FY 2009 with fully annualized jet fuel (\$1.2 M)
  - Addition of \$6 million Teeter revenue as an ongoing source beginning in FY 2009 for YSC debt service
  - Solid Waste Fund contribution to Children's Health Initiative – reduced from \$2.7 M to \$1.5 M in FY 2008 with 2.5% decline through FY 2013 due to declining tipping fees at Ox Mountain (reduced use of landfill); General Fund to subsidize CHI loss

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## Revenue Assumptions

### What's NOT Included

- Excess ERAF (see Board Policy Issues)
- Loss in funding due to State Budget reductions
  - State facing \$10 billion deficit in FY 2009
  - Waiting for Governor's January budget to determine impact to specific County programs and services
  - Budgets for programs that receive reduced State funding will be adjusted to a level commensurate with the revised allocations
- Assessment appeals and litigation

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## Expenditure Assumptions

### Salaries and Benefits

- **Salaries & Benefits Gen Fund** – assumed 5% growth through FY 2013 given past trends
- **Sheriff's Relief Pool** added nine positions \$1.52 M in FY 2009
- **Retiree Health Costs** – \$5 M increase to meet Annual Required Contribution (ARC) of \$10 M beginning in FY 2009, then 2% growth through FY 2013

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## Expenditure Assumptions Technology/Facilities and Debt Service

- **Countywide IT Maintenance and Upgrades** – 4.4% increase in FY 2008; fluctuates in future years based on ISD estimates; Average growth from FY 2008 to FY 2013 is 6.5%; priorities to be set by IT Strategic Plan
- **Capital Maintenance** (net Facility Surcharge) – 28.1% increase in FY 2008 to address unmet needs; average growth from FY 2008 to FY 2013 is 4.7%; priorities to be set by 5-Year Capital Improvement Plan

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## Expenditure Assumptions Debt Service

- **Current Debt Service** – increases of 29.5% in FY 2008 and 33.9% due to Youth Services Center; growth then stabilizes at less than 1% through FY 2013
- **New Debt Service** – assumes debt service similar to YSC to construct new jail and local re-entry facility, with debt service commencing at \$5.8 M in FY 2010-11 and annualized at \$8.8 M through FY 2013

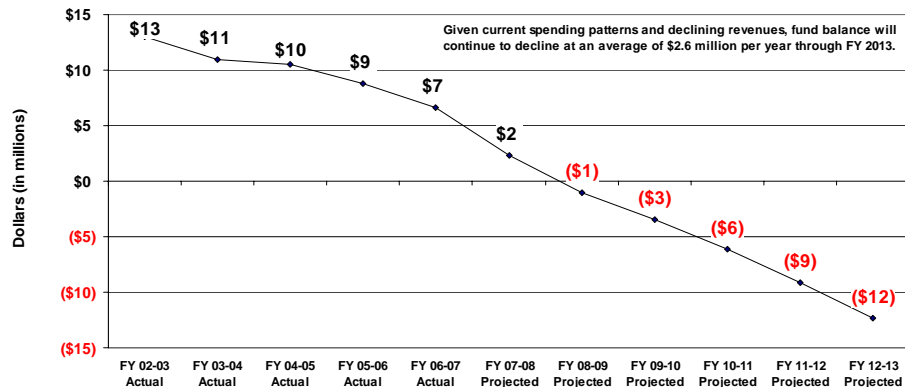
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## Expenditure Assumptions Contributions to Non-General Funds

- **Medical Center** – assumes continued contributions due to insufficient state/federal reimbursement; adds \$5.1 M per year based on past trends in negotiated labor increases
- **Structural Fire Fund** – kept flat at \$915,000 in FY 2009 then significant jump due to beginning of facility and vehicle replacement/debt service
- **Solid Waste Fund** - \$1 M in FY 2009 then increases \$2.6 M per year through FY 2013

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**Solid Waste Fund  
Declining Fund Balances  
FY 2003 through FY 2013**



## Solid Waste Fund Breakdown of Annual Expenditures

- Landfill Closure/Monitoring = \$3.3 M
- Public/Environmental Health Programs = \$1.8 M
- Children's Health Initiative = \$1.5 M
- Recycling/Composting Programs = \$1.1 M
- County Garbage & Disposal Charges = \$715 K
- C/CAG Outreach Efforts = \$648 K
- Green Building/Green Business = \$374 K
- Solid Waste Planning & Reporting = \$328 K
- OES/Hazardous Waste Programs = \$232 K

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## Expenditure Assumptions CBOs and Private Defender Contracts

- **Alcohol and Other Drug (AOD) Strategic Plan** - increases \$750,000 in FY 2009
- **Community-Based Organizations (CBOs)** – based on prior year trends, assumed 3% annual increases through FY 2013
- **Private Defender Program (PDP) Bar Association contract** - based on prior year trends, assumed 4% annual increases through FY 2013

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## **Expenditure Assumptions**

### **What's NOT Included**

- **Future Capital/Debt Service Needs:**
  - Replace Sheriff's Firing Range
  - Transition of Court Facilities to the State
  - New County Office Building RWC Campus
  - Replace Burlingame Long-Term Care Facility
- **Ongoing maintenance for new facilities**

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## **Expenditure Assumptions**

### **What's NOT Included (continued)**

- **Future Technology Needs**
- **Medicare Part B – ~ \$2.5M request from Retirement Board when 80% funded ratio is reached – could be FY 2010**
- **Litigation and Audit Disallowances**

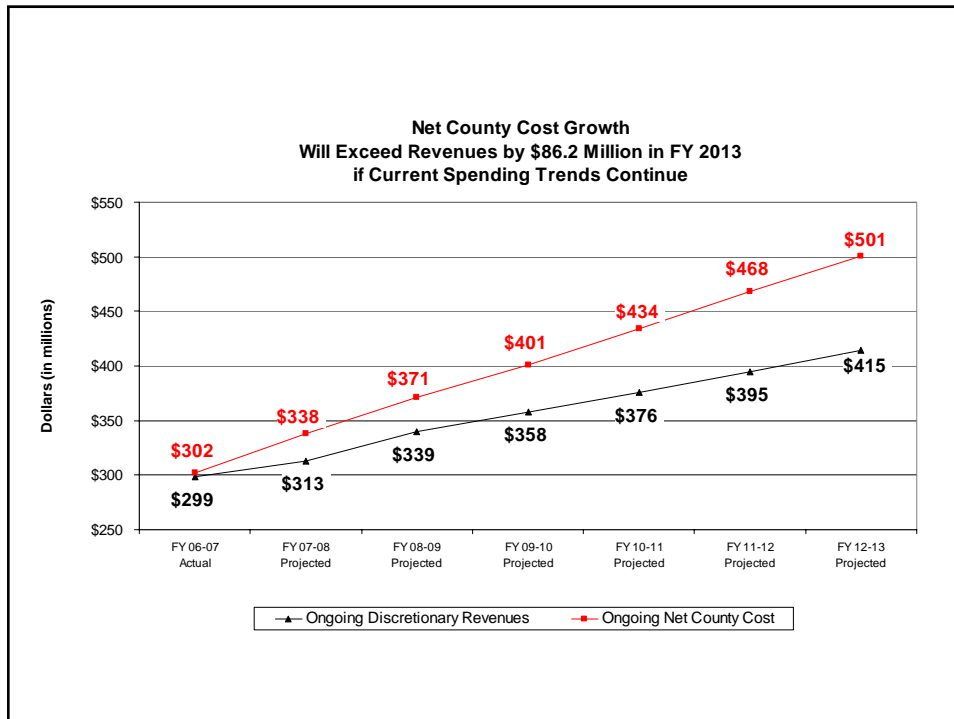
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## Projected Structural Budget Deficit If We Do Nothing...

- Ongoing discretionary revenue will grow at an average of \$20.3 M or 5.8% per year through FY 2013
- Ongoing Net County Cost will grow \$32.5 M or 8.2% per year through FY 2013
- **Over the next five years the structural budget deficit will increase from \$25 M in the current fiscal year to \$86.2 M in FY 2013**

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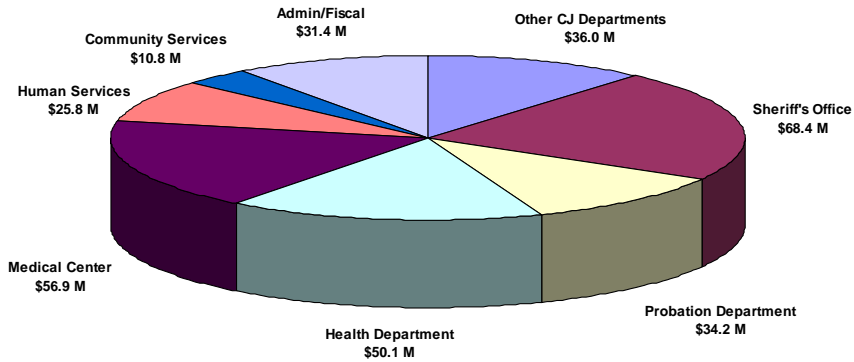
General Fund Projected Structural Budget Deficit FY 2009 to FY 2013						
Dollars (in thousands)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	TOTALS
<b>Carryover FY 2007-08 Structural Budget Deficit</b>	<b>\$ (24,958)</b>	<b>\$ (24,958)</b>	<b>\$ (24,958)</b>	<b>\$ (24,958)</b>	<b>\$ (24,958)</b>	<b>\$ (124,789)</b>
<b>PROJECTED EXPENDITURE INCREASES</b>						
Salaries and Benefits Increases-Cumulative	\$ 21,903	\$ 48,549	\$ 76,526	\$ 105,902	\$ 136,747	\$ 389,627
Growth in Retiree Health Contributions	5,013	5,213	5,418	5,626	5,839	27,109
New Youth Services Center Debt Service Payments	2,098	2,218	2,084	2,151	2,144	10,695
Jail Replacement & Re-Entry Facility Debt Service	0	0	5,750	8,800	8,800	23,350
Increases Community-Based Orgs-3% COLA	1,069	2,170	3,304	4,472	5,676	16,692
Sheriff's Office Relief Staffing Pool	1,525	1,525	1,525	1,525	1,525	7,625
Alcohol and Other Drug (AOD) Strategic Plan	750	773	796	820	844	3,982
Capital Improvements to Existing Facilities	(622)	(497)	(380)	970	1,679	1,151
Technology Maintenance/Upgrade Existing Apps	1,678	2,947	1,022	651	784	7,081
Private Defender Program - Contract Increases	608	1,241	1,899	2,583	3,295	9,626
San Mateo Medical Center Deficit	5,106	10,467	16,096	22,006	28,212	81,886
Structural Fire Fund Deficit	0	1,746	1,860	1,982	2,108	7,696
Solid Waste Fund Deficit	1,027	3,469	6,163	9,112	12,320	32,092
<b>Projected Expenditures Subtotal</b>	<b>\$40,156</b>	<b>\$79,820</b>	<b>\$122,062</b>	<b>\$166,600</b>	<b>\$209,972</b>	<b>\$618,611</b>
<b>PROJECTED REVENUE GROWTH</b>						
General Revenue Growth-Cumulative	\$ 20,270	\$ 38,451	\$ 56,417	\$ 75,404	\$ 95,473	\$ 286,015
Public Safety Sales Tax Rev Growth-Cumulative	794	2,120	3,472	4,852	6,258	17,497
Department Salary and Benefit Increase Offsets	6,571	14,565	22,958	31,771	41,024	116,888
Ongoing Teeeter Proceeds	6,000	6,000	6,000	6,000	6,000	30,000
<b>Projected Revenues Subtotal</b>	<b>\$33,635</b>	<b>\$61,135</b>	<b>\$88,847</b>	<b>\$118,027</b>	<b>\$148,755</b>	<b>\$450,399</b>
<b>PROJECTED STRUCTURAL BUDGET DEFICIT</b>	<b>\$ (31,479)</b>	<b>\$ (43,643)</b>	<b>\$ (58,173)</b>	<b>\$ (73,532)</b>	<b>\$ (86,175)</b>	<b>\$ (293,001)</b>

## Net County Cost Overview

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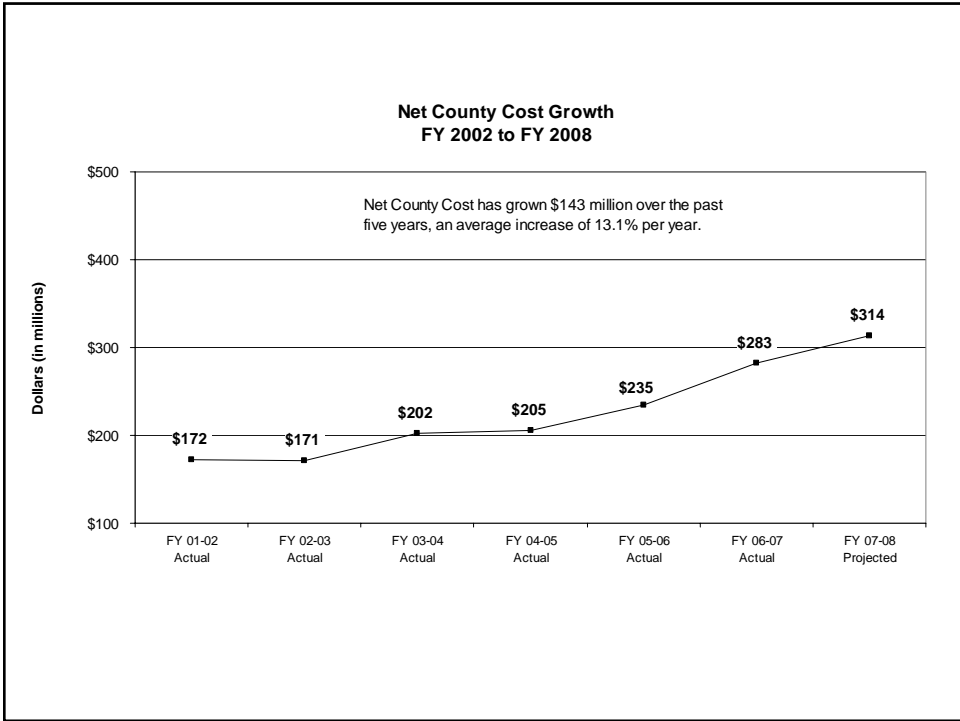
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**FY 2008 Net County Cost Allocation**  
**86.6% or \$271.5 Million Is Spent on**  
**Criminal Justice, Health/Medical Center, and Human Services**



## Net County Cost Growth Trends in Past Five Years

- Since FY 2003 Net County Cost in operating departments has grown 84% from \$171 Million to \$314 Million, an average increase of 13.1% per year
- 81% of the Net County Cost growth can be attributed to four departments:
  - Sheriff's Office (24.3%), Medical Center (21.5%), Probation Department (17.8%), and Health Department (17.5%)



## Board Policy Issues

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## **Review of Policy Issues**

### **Provide Direction to Staff**

- Deficit Reduction Strategies
- Mandates/Maintenance of Effort (MOE)
- Shared Vision - Framework for Prioritizing Services
- Use of One-Time Funds and Excess ERAF
- Internal Service Charges
- Fees and Charges for Services
- New Revenue Sources
- Elimination of Positions

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## **Deficit Reduction Strategies**

### **Guidelines for Setting Net County Cost Targets**

- Undertake no new expenditures without corresponding new revenue or cost-reduction offsets
- Reduce rate of growth in General Fund net cost to match expected growth in discretionary revenue
  - Manage growth in future costs
  - Reduce services and eliminate positions

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## Deficit Reduction Strategies

### Guidelines for Setting Net County Cost Targets

- Make reductions where the State has not provided funding or has reduced funding/COLAs
  - unfunded mandates
  - local overmatch
- Eliminate subsidies to Fire Fund and Solid Waste Fund
- Reduce contribution to Medical Center to a level consistent with W&I 17000 indigent healthcare mandate

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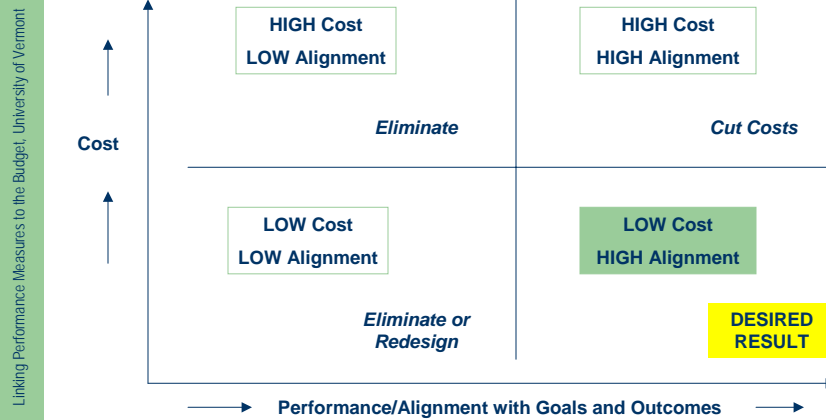
## Mandates/Maintenance of Effort

### Minimum requirements must be met

- Realignment – Health / Mental Health / Social Services
- Public Safety Sales Tax
- County Support of the Courts
- Local matches for state/federal funds
- Mandated staffing ratios (e.g. Nurses)
- Negotiated MOUs
- **Mandates without minimum requirements** – will be prioritized using community goals identified in Shared Vision process and other factors, including level of state/federal funding (unfunded mandates/overmatch)

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## Prioritizing Services Alignment to Shared Vision Goals



## Use of One-Time Funds Fund Balance and Reserves Policies

- General Fund must maintain Contingencies of 3% and a minimum Reserve level of 2% of net appropriations
- Departments must maintain a minimum reserve level of 2% of net appropriations
- General Fund departments can keep 75% of year-end savings and unanticipated revenues; remaining 25% goes to Non-Departmental Reserves for one-time uses and for balancing the budget
- Reserves and unspent appropriations related to capital and technology projects that were not completed in the current fiscal year can be carried forward at 100%

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## Use of One-Time Funds Departmental Reserves

- Amounts exceeding the 2% reserves requirement can be appropriated for one-time uses or short-term use to meet Net County Cost targets
- Departments can use Reserves to meet targets in the 1<sup>st</sup> year
- Departments can use Reserves in the 2<sup>nd</sup> year to meet targets, provided that a multi-year plan is submitted that ends the use of reserves by the 3<sup>rd</sup> year.
- Future review of Reserves Policy

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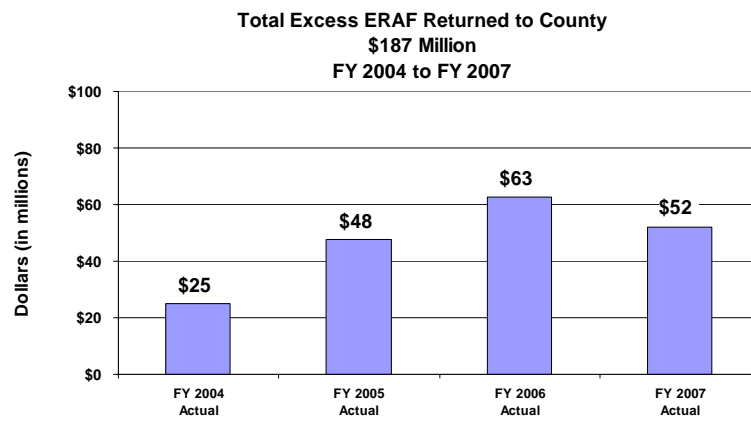
## Excess ERAF Background

- Excess ERAF exists when property tax revenues remain in the Education Revenue Augmentation Fund (ERAF) after funding school districts, community college districts and county office of education up to their respective revenue limits
- San Mateo County is one of three Excess ERAF counties (also Marin and Napa) due primarily to high property values and declining enrollments in some school districts

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## Excess ERAF Amounts Received Since FY 2004



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## Excess ERAF Factors Affecting Future Stability

- Slowing of property tax growth
- Increase in school enrollments
- Recent review by State Controller
- State legislation

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## Excess ERAF Recommended Uses

- Due to continuing review and scrutiny by the state, it is recommended that Excess ERAF be limited to the following uses:
  - Capital and Technology Improvements
    - Will develop Five-Year IT and Capital Plans
  - Reduction of unfunded liabilities
    - Reach 80 - 90% funding levels
  - Productivity enhancements
  - Cost avoidance projects
  - One-time projects

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## Internal Service Departments Capped Growth in Charges

- Internal Service Departments that provide services to County departments, such as ISD and Public Works, will continue to cover all costs through charges to customer departments
- Growth in internal services charges are capped at Bay Area CPI for non-labor costs, and negotiated MOU increases for labor costs
- Increase in charges are reviewed annually by the Service Charges Committee
- Will review charge structures for other internal services

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## **Fees and Charges for Services**

### **Annual Adjustments/Comparative Surveys**

- Where applicable, existing fees and charges must be adjusted annually to cover ongoing cost increases
- Comparisons should be done with at least three similar Bay Area jurisdictions to ensure proposed increases are within range; where applicable, fees should be adjusted up to the average
- Fees that are significantly above average should be reviewed and costs reduced where applicable
- Services to other public agencies – the County must be reimbursed for services provided under agreements with other public agencies

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## **New Revenue Sources**

### **Taxes**

- Parcel Tax
- Parking Tax
- Sales Tax
- Transient Occupancy Tax

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## Eliminating Positions

- Vacant positions – use 12 months-savings
- If proposing the deletion of filled positions, which could result in layoffs, the department must contact Human Resources immediately
- Filled positions – use 10 months-savings for first year, and include how annualized savings will be met

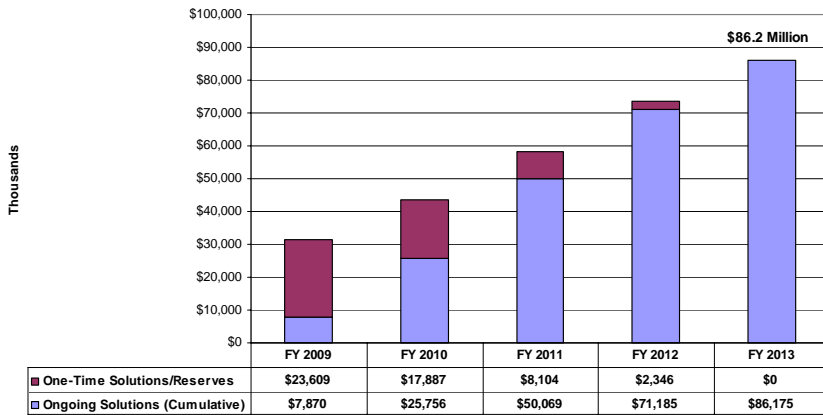
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## Multi-Year Approach to Eliminating the Deficit

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## Proposed Phased Approach 100% Ongoing Solutions by FY 2013



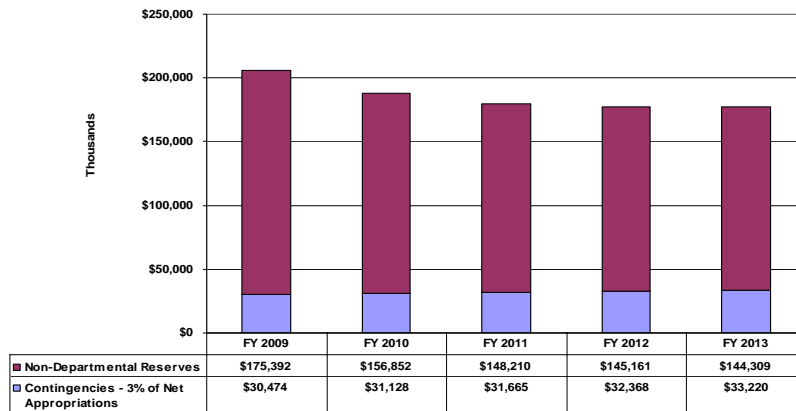
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## Proposed Phased Approach Five-Year Plan

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
One-Time Solutions/Reserves	75%	50%	25%	10%	0%
Ongoing Reductions/Revenue	25%	50%	75%	90%	100%
(In Thousands)					
One-Time Solutions/Reserves	\$23,609	\$17,887	\$8,104	\$2,346	-
Ongoing Reductions/Revenue-Annual	7,870	17,887	24,313	21,117	14,989
<b>Total Solutions</b>	<b>\$31,479</b>	<b>\$35,773</b>	<b>\$32,417</b>	<b>\$23,463</b>	<b>\$14,989</b>

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## Reserves and Contingencies 16% of Net Appropriations by FY 2013



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## Net County Cost Target Development

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## Next Steps

- Develop Net County Cost targets and budget instructions based on direction provided by the Board
- Distribute targets to departments by early January

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## Departmental Solutions Proposed Target Methodology

- Across-the-board reduction targets OR
- Baseline across-the-board reductions and additional solutions based on the following:
  - Alignment to Shared Vision goals and priorities
  - Performance
  - Revenue generating ability
  - Unfunded and Non-mandated services

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## Countywide Solutions

- Reduce contribution to Medical Center to a level consistent with W&I 17000 indigent healthcare mandate
- Eliminate subsidies to Fire and Solid Waste Funds
- Pre-fund or accelerate payments to reduce unfunded liabilities and future retirement and retiree health contribution levels
- Explore changes to benefits structure – defined contribution and cafeteria plans
- Return on investments – prioritization of capital and technology projects

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## Questions/Comments

THANK YOU