

BUDGET STUDY SESSION



Board of Supervisors
December 16, 2008

Budget Study Session Agenda

- Purpose and Objectives
- Structural Budget Deficit Update
- Multi-Year Deficit Elimination Plan
- Net County Cost Target Development
- Board Policy Issues
- Next Steps

Budget Study Session Purpose

The study session provides a public forum for the Board to review the County's structural budget deficit and provide direction to staff on eliminating the deficit by FY 2013.

Alignment to Shared Vision

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

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Budget Study Session Objectives

- Provide an update on the County's structural budget deficit
- Review assumptions for revenue and expenditure projections for FY 2010-2014
- Obtain direction on plan to eliminate the deficit by FY 2013
- Obtain direction on setting Net County Cost targets for departments

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FY 2009 Update Structural Budget Deficit



Structural Budget Deficit Current Year Estimate

Based on updated estimates for FY 2009,
the structural budget deficit for the General Fund
has grown from \$28.6 million to

\$41.1 million

Structural Budget Deficit Revenue Shortfalls in FY 2009

The following revenue sources are estimated to be under budget in the current fiscal year:

- Supplemental Property Tax is down by 15% and Assessor projects 25% decline by year-end - **\$2M to \$3M shortfall**
- Property Transfer Tax - **\$1M shortfall**
- Interest earnings - **\$3M shortfall**
- Public Safety Sales Tax - **\$4.3M shortfall**
- SB90 State Mandate Reimbursement - **\$700k**

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Structural Budget Deficit State Budget Impact for FY 2009 and beyond

- State is facing additional \$15+ billion deficit in FY 2009
- \$42 billion through FY 2010
- \$?? billion annually in subsequent years if no action is taken

**Impact of additional State budget reductions
has NOT yet been included
in current year County deficit estimates
or future year projections**

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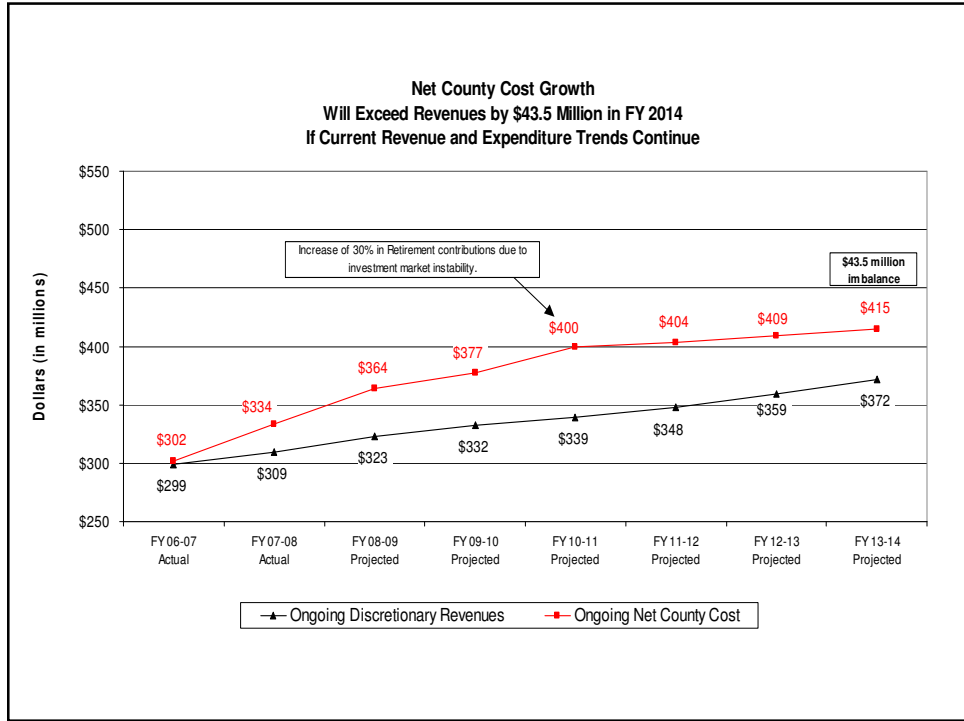
FY 2010 – FY 2014 Projections Structural Budget Deficit



FY 2010-2014 Projections Major Assumptions

Given current year revenue shortfalls and continued economic recession, projections have been updated to further reduce revenue estimates and significantly reduce assumptions for growth in future costs:

- Discretionary revenues are now projected to grow by an average of \$9.8 million or 2.9% annually
- Net County Cost is projected to grow by an average of \$10.3 million or 2.7% annually
- Projections result in \$43.5 million structural deficit in FY 2014



ASSUMPTIONS - Projected Discretionary Revenue Growth
Will Average \$9.8 Million or 2.9% Annually

Revenue Source (In Thousands)	FY 09-10 Projected	FY 10-11 Projected	FY 11-12 Projected	FY 12-13 Projected	FY 13-14 Projected	Average Annual Growth
GROWTH RATES:						
Secured Property Tax	4.0%	2.5%	3.0%	3.5%	4.0%	3.4%
Unsecured Property Tax	-2.0%	-2.0%	0.0%	0.0%	0.0%	-0.8%
Sales Tax (includes property tax in-lieu)	10.1%	2.7%	2.8%	2.8%	2.8%	4.2%
Transient Occupancy Tax (TOT)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Property Tax In-Lieu of Vehicle License	4.0%	2.5%	3.0%	3.5%	4.0%	3.4%
Public Safety Sales tax (Prop 172)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
% Change without Excess ERAF	2.9%	2.0%	2.7%	3.1%	3.6%	2.9%

Revenue Assumptions

What's NOT Included

- Loss in funding due to State Budget reductions
- Reductions in revenue due to assessment appeals and litigation
- Excess ERAF (will continue to use for one-time purposes)

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Expenditure Assumptions

Salaries and Benefits

- **Salary increases** – assumes 0% after current MOUs expire; includes step increases and applicable benefits
- **Retirement Increase** – 30% increase in FY 2011 due to market instability, then 2.5% annual increase through FY 2014
- **Health Benefits** – 10% annual increase
- **Retiree Health Costs** – fully funds Annual Required Contribution (ARC); same increase assumptions as Retirement above

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Expenditure Assumptions Technology/Facilities and Debt Service

- **Countywide IT Maintenance and Upgrades** – current budget \$4.4M plus 5% annual growth;
- **Capital Maintenance** (net Facility Surcharge) – current budget \$5 million + 5% annual growth to keep existing facilities in working condition
- **No New Facilities/Debt Service** – assumes no new building and operations costs for Jail/Re-Entry facilities; also assumes no other new construction and related ongoing maintenance costs

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Expenditure Assumptions Contributions to Non-General Funds

- **Medical Center** – assumes reduction in General Fund contribution from \$72M to \$50M
- **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** - \$200k increase in FY 2012 then increases of \$1.2M in FY 2013 and \$1.5M in FY 2014

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Expenditure Assumptions CBOs and Private Defender Contracts

- **Community-Based Organizations (CBOs)** – assumes 0% increase beginning FY 2010
- **Private Defender Program (PDP) Bar Association contract** - assumes 0% annual increases after contract expires FY 2011

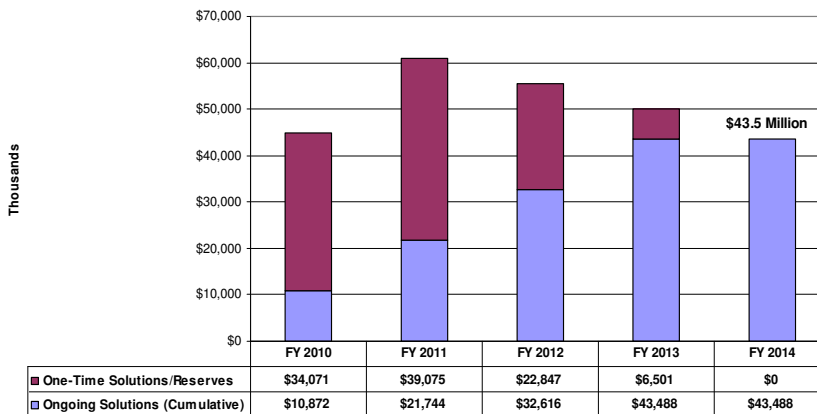
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General Fund Projected Structural Budget Deficit FY 2010 to FY 2014					
Dollars (in thousands)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Carryover FY 2008-09 Structural Budget Deficit	\$ (41,098)	\$ (41,098)	\$ (41,098)	\$ (41,098)	\$ (41,098)
PROJECTED EXPENDITURE INCREASES					
Salaries and Benefits Increases-Cumulative	\$ 9,101	\$ 42,018	\$ 52,824	\$ 64,285	\$ 76,454
Growth in Retiree Health Contributions	4,150	6,976	7,282	7,596	7,918
Jail Replacement & Re-Entry Facility Debt Service	0	0	0	0	0
Medium Security Facility Reopening	5,200	5,356	5,517	5,682	5,853
Increases Community-Based Orgs- 0% COLAs	0	0	0	0	0
Reduction in Medical Center Subsidy	(4,400)	(8,800)	(13,200)	(17,600)	(22,000)
Capital Improvements to Existing Facilities	250	513	788	1,078	1,381
Ongoing Debt Service-Existing Facilities	120	171	223	276	329
Technology Maintenance/Upgrade Existing Apps	222	455	700	957	1,227
Private Defender Program - Contract Increases	633	1,291	1,291	1,291	1,291
Structural Fire Fund Deficit	831	945	1,067	1,193	1,319
Solid Waste Fund Deficit	0	0	201	1,436	2,902
Projected Expenditures Subtotal	\$16,107	\$48,925	\$56,693	\$66,193	\$76,674
PROJECTED REVENUE GROWTH					
General Revenue Growth-Cumulative	\$ 9,476	\$ 16,182	\$ 25,396	\$ 36,258	\$ 48,910
Public Safety Sales Tax Rev Growth-Cumulative	1,223	2,471	3,743	5,041	6,365
Department Salary and Benefit Increase Offsets	1,562	10,551	13,188	16,002	19,009
Projected Revenues Subtotal	\$ 12,262	\$ 29,204	\$ 42,328	\$ 57,302	\$ 74,283
PROJECTED STRUCTURAL BUDGET DEFICIT	\$ (44,943)	\$ (60,819)	\$ (55,463)	\$ (49,989)	\$ (43,488)

Multi-Year Deficit Elimination Plan



Proposed Phased Approach 100% Ongoing Solutions by FY 2013

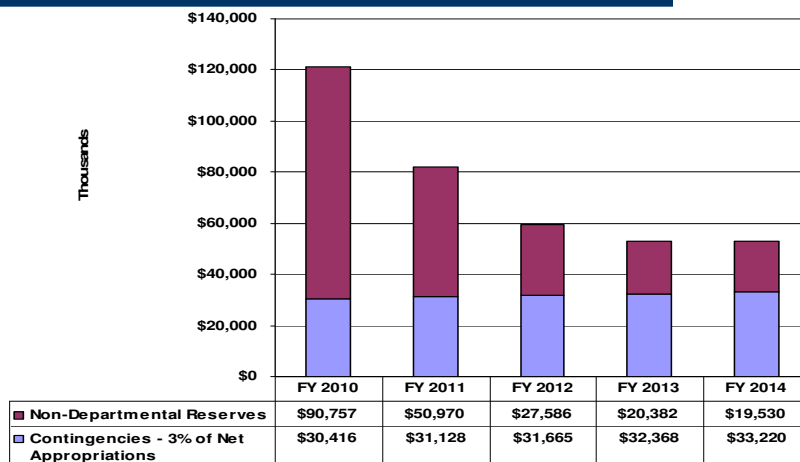


Closing the \$43.5 Million Gap \$10.9M Needed Each Year through FY 2013

(In Thousands)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Total Deficit	(44,943)	(60,819)	(55,463)	(49,989)	(43,488)
One-Time Solutions/Reserves	\$34,071	\$39,075	\$22,847	\$6,501	\$0
Ongoing Solutions - Cumulative	10,872	21,744	32,616	43,488	43,488
Total Solutions	\$44,943	\$60,819	\$55,463	\$49,989	\$43,488
Balance	\$0	\$0	\$0	\$0	\$0
Ongoing Solutions - Annual	\$ 10,872	\$ 10,872	\$ 10,872	\$ 10,872	\$ -

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Spending Down Reserves Down to 4.7% of Net Approps by FY 2014



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Net County Cost Target Development



Net County Cost Targets General Guidelines

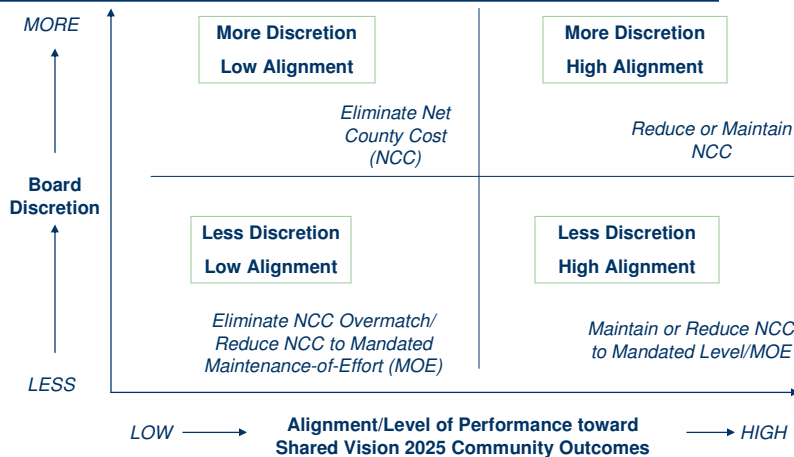
- Undertake no new expenditures without corresponding new revenue or cost-reduction offsets
- Reduce rate of growth in Net County Cost to match expected growth in discretionary revenue
 - Manage growth in future costs
 - Reduce services and eliminate positions

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 2025 community outcomes
 - Performance
 - Unfunded and Non-mandated services
 - Revenue generating ability

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Prioritizing Net County Cost Allocation Board Discretion and Shared Vision Alignment



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Countywide Solutions

- Eliminate positions held vacant – 5% hiring freeze
- Reduce contribution to Medical Center to a level consistent with W&I 17000 indigent healthcare mandate
- Eliminate subsidies to other Non-General Funds - Fire and Solid Waste Funds

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Countywide Solutions

- 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
- Implement employee budget suggestions prioritized by Employee Budget Workgroups

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Board Policy Review



Review of Policy Issues

- Hiring Freeze
- Fees and Charges for Services
- Fund Balance/Reserves Policies
- Use of Departmental Reserves
- Use of Excess ERAF
- New Revenue Sources

Hiring Freeze

- 5% hiring freeze implemented in Dec 2007
- General Fund currently has over 350 positions vacant or 8.4% vacancy rate
- Average cost per position = \$100,000
- Savings from 100 positions = \$10 million
- Mid-year report on hiring freeze impact on performance

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Fees and Charges for Services Annual Adjustments/Comparative Surveys

- Adjust fees annually to cover ongoing cost increases
- Compare fees with similar Bay Area jurisdictions; where applicable, fees and costs should be adjusted
- Services to other public agencies – the County must be reimbursed for services provided under agreements with other public agencies
- Fee Policy – Revenue Enhancement employee budget workgroup developing County Fee Policy

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Fund Balance Policy

- 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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Reserves Policy

- General Fund must maintain Contingencies of 3% and a minimum Reserve level of 2% of net appropriations (will work toward building up to 15%-18% range)
- Departments must maintain a minimum reserve level of 2% of net appropriations
- Reserves Policy to be updated (mid-year report)

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Use of 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 1st year
- Departments can use Reserves in the 2nd year to meet targets, provided that a multi-year plan is submitted that ends the use of reserves by the 3rd year.

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Use of Excess ERAF Continued One-Time Use

- Capital and Technology Improvements
 - 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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New Revenue Sources

- Parcel Tax
- Parking Tax/Business License Tax
- Sales Tax
- Transient Occupancy Tax
- Other taxes and new fees

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NEXT STEPS

- Develop FY 2010/FY 2011 Net County Cost targets and budget instructions based on Board direction
- Distribute preliminary NCC targets by early January
- Return to the Board on January 27 with Mid-Year County Budget Update
- Update Net County Cost targets in February based on updated budget estimates and State Budget impact

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Questions/Comments



THANK YOU
