SAN MATEO COUNTY
BOARD OF SUPERVISORS

Budget Study Session
December 15, 2009, 9:30am

Agenda

- Update: Five-Year Deficit Elimination Plan
- FY 2009-10 Budget Update and Economic Well-Being Indicators
- FY 2010-2015 Projections and Major Issues
- Accelerated Budget Balancing Plan
- Next Steps and Recommendation

Recommendation

Adopt a Resolution approving a balanced approach, accelerated timeline, minimum reserve levels, and community forums as part of efforts to eliminate the General Fund structural budget imbalance by Fiscal Year 2013.

Alignment to Shared Vision 2025

Budget study sessions contribute to the Shared Vision of a Collaborative Community, where leaders forge partnerships, inform and engage residents, and demonstrate fiscal stewardship by sustaining core services for future generations and for the most vulnerable members of our community.

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Update
Five-Year Deficit Elimination Plan

Major Actions Taken Since 2007

- Adopted five-year plan in Dec 2007 to eliminate structural deficit by FY 2013
- Reduced budgets
  - implemented 5% hiring freeze
  - Eliminated 179 positions
    - From 5,805 in FY2008 to 5,626 in FY2010
  - Cut ongoing costs by $23.5 million
- Spent > $100 million reserves to balance budget
- Adopted guiding principles and strategies to explore all options to balance the budget

Major Actions Taken Since 2007

- Increased employee communication
  - Established monthly budget meetings with labor organizations
  - Provided regular budget updates via e-mail
  - Created Employee Budget Workgroups, Intranet site and new STARS award category for Employee Budget Suggestions
- Completed negotiations (2008-09) with Nurses, AFSCME and SEIU
  - no salary increases
  - changes in health benefits for $2 million in savings (if all bargaining units included)

Major Actions Taken Since 2007

- Conducted survey to explore cost containment options for managers and attorneys
- Completed analysis of retirement benefit alternatives
- Reduced retiree health liability
  - Reduced benefits for new managers
  - Pre-funded 90% of retiree health liability
- Adopted Voluntary Employee Separation Program (VESP) to minimize layoffs
- Refinanced existing bonds

Current Actions

- Accelerated Budget Balancing Plan
  – Ongoing review of department scenario plans
- Review of mgmt/supervisor-to-staff ratios and staffing levels with peer counties
- Review of administration and support services across County departments for consolidation opportunities
- Managing for Competitiveness Policy
- Charter Review Committee

Current Actions

- Consolidation and co-location of services within geographic region (north, south)
- Shared services with other public agencies
- Contracts Review
- New Revenues (Board Finance & Operations Committee - Employee Budget Workgroup) and Fee Policy
- Planning for labor negotiations
  – 10 contracts expire in 2010

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FY 2009-10 Update

Financial Status
Local Revenues Continue to Fall

- Revenues coming in below estimates
  - Sales & Use Tax down $1.4 million (7.1%)
  - Prop. 172 down $12.5 million (20.6%)
- Prop. 1A Securitization complete
  - $20.7 million stays in Reserves
- County Refinanced 1997 and 1999 Bonds
  - Savings of $780K per year over 18 years

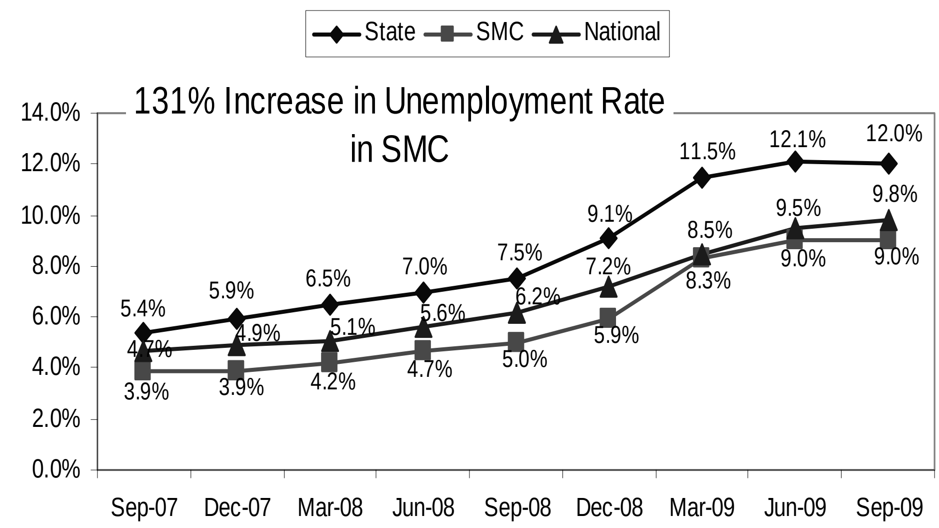
Financial Status
State Budget Worse

- FY 2009-10 revenues and cash receipts coming in below estimates
- Holiday sales expected to be poor
- Legislative Analyst's Office (LAO) projecting $20.7 billion structural deficit continuing through FY 2014
- Mid-year reductions expected to hit Health and Human Services the worst

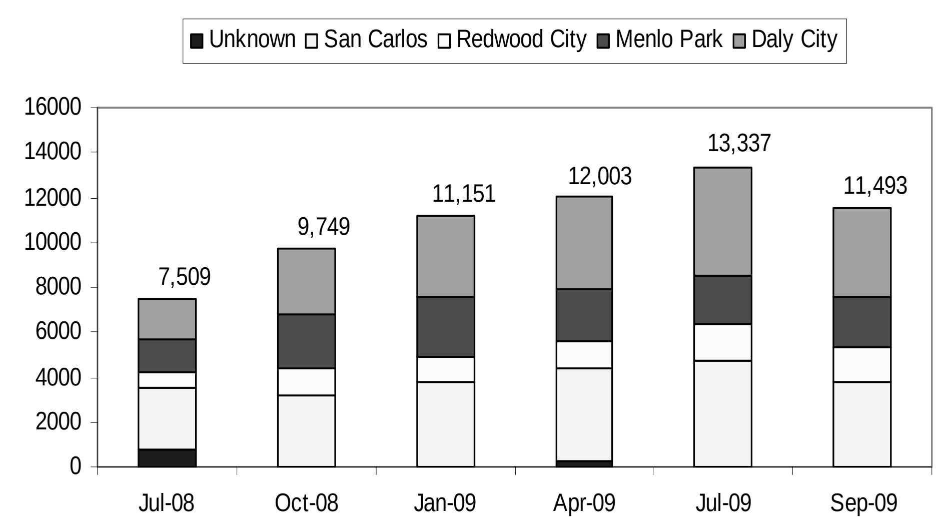
Needs for Assistance Up

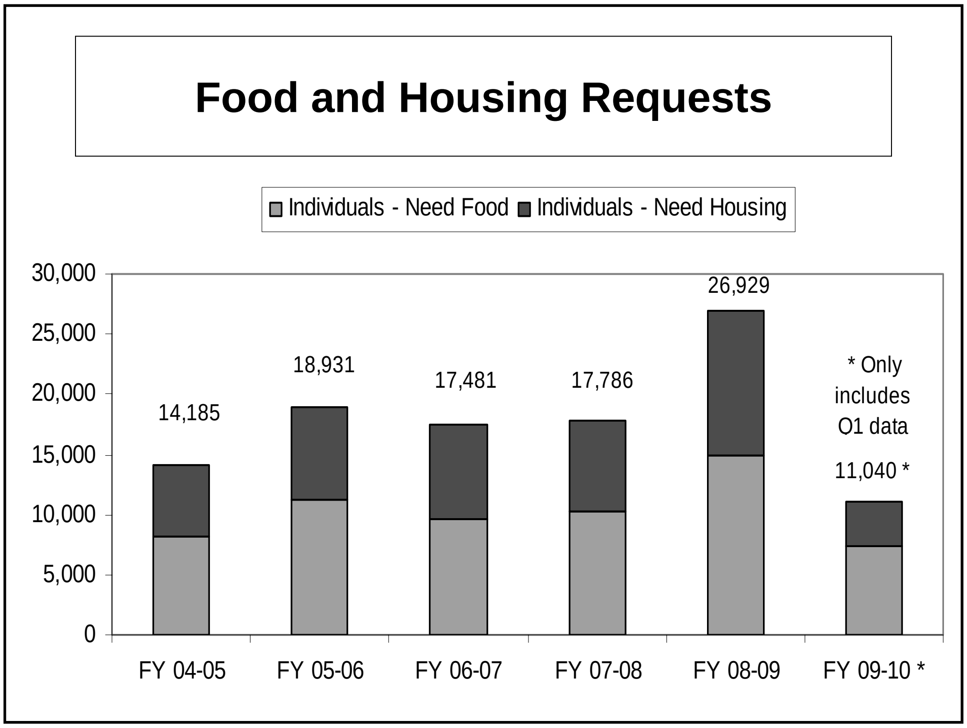
- Unemployment Rate – at 9%
- Notices of Default (foreclosures) – up 58%
- PeninsulaWorks Activity – up 53%
- Food and Housing Requests – up 51%
- Public Assistance Applications – up 42%
- Clinic Visits – up 6%
- Emergency Room Visits – up 9%
- Domestic Violence Calls – up 44%

Unemployment Rate

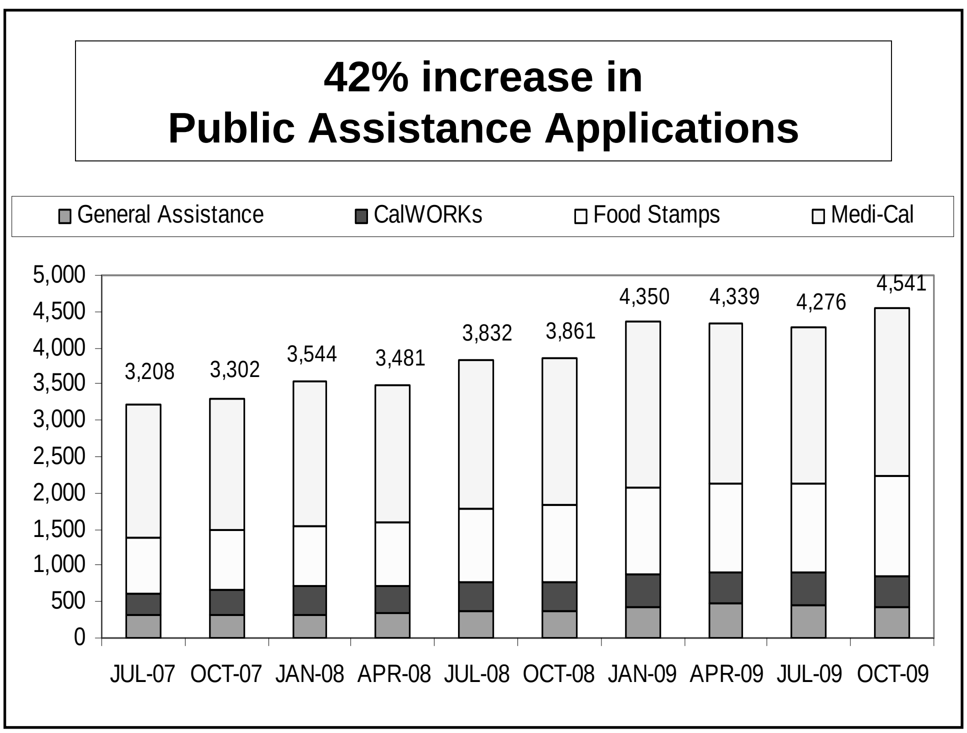


PeninsulaWorks Activity Up 53%



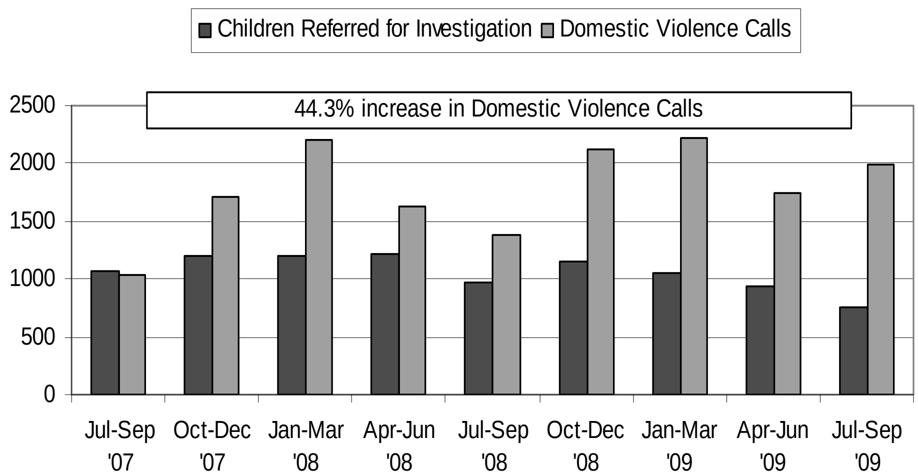


Food and Housing Requests
Individuals - Need Food
Individuals - Need Housing
30,000
25,000
20,000
15,000
10,000
5,000
0
14,185
18,931
17,481
17,786
26,929
* Only includes O1 data
11,040 *
FY 04-05
FY 05-06
FY 06-07
FY 07-08
FY 08-09
FY 09-10 *



42% increase in
Public Assistance Applications
General Assistance
CalWORKs
Food Stamps
Medi-Cal
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
3,208
3,302
3,544
3,481
3,832
3,861
4,350
4,339
4,276
4,541
JUL-07
OCT-07
JAN-08
APR-08
JUL-08
OCT-08
JAN-09
APR-09
JUL-09
OCT-09

Domestic Violence Calls and Child Abuse Referrals



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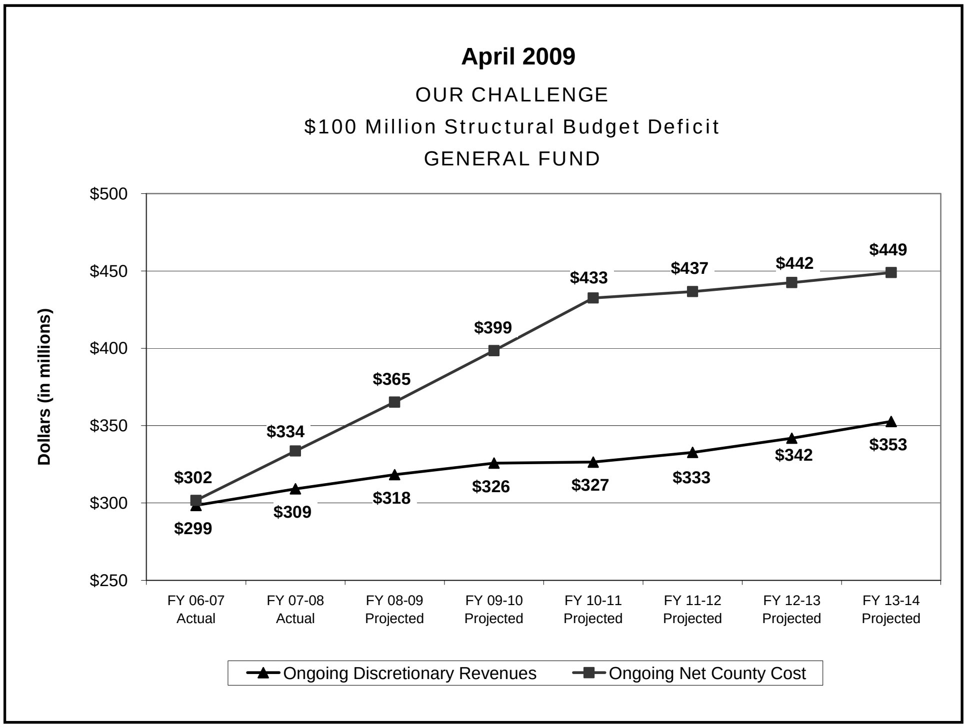
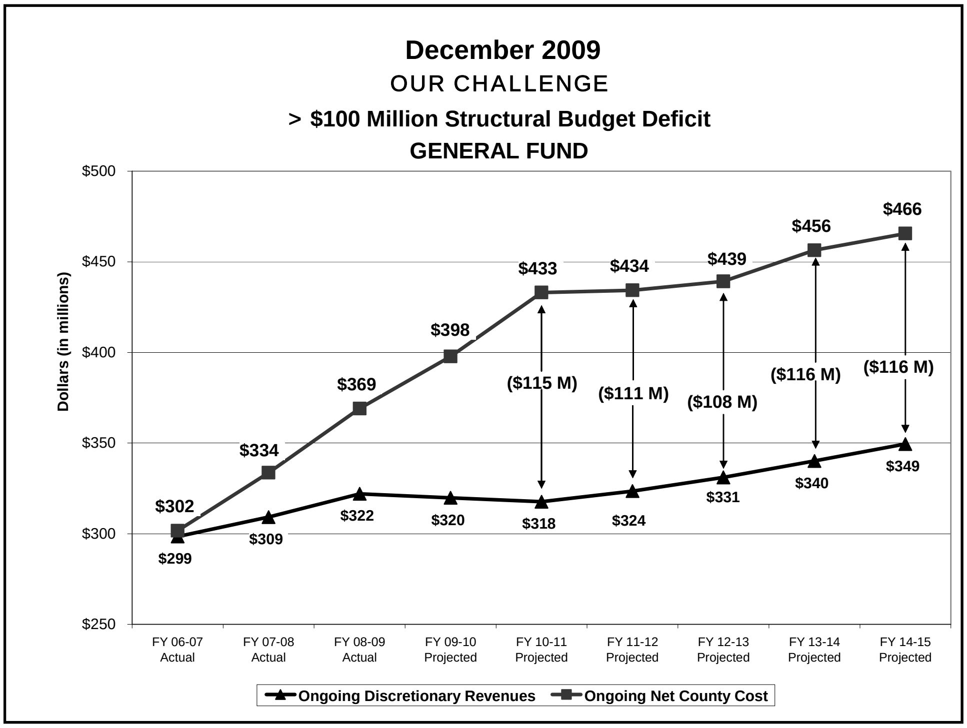
FY 2010-2015 Projections



Structural Deficit Will Likely <u>Increase</u> Due To….

- Reductions in property values
  - Negative Consumer Price Index (CPI) will permanently reduce property tax rolls
  - Commercial property reassessments
- FY 2009 Investment Losses
  - Both Retirement and OPEB funds < 65% funded
- Continued State budget reductions and deferrals
- New Significant Costs
  - Jail replacement – operating costs/debt service
  - Deferred losses-Retirement Fund beginning FY 2015



----Work In Progress----

Updated Deficit Assumptions

- Secured Property Tax
  - 1% = $2.5 million
  - 1% decline in FY 2011; 2%-3% growth in out years
- Sales & Use Tax
  - 1% = $186,000
  - 2% growth in FY 2011 thru FY 2015
- Public Safety Sales Tax (Prop. 172) Growth
  - 1% = $485,000
  - 0% growth in FY 2011; 1% growth in out years

----Work In Progress----

Updated Deficit Assumptions

- Continue to assume State cuts of $20 million
- By FY2014, contribution to Medical Center reduced from $72 million to $50 million
- No salary increases beyond current MOUs
- In FY 2011, Retirement increases from 24% to 34% of payroll
- In FY 2015, Retirement increases to 41.7% of payroll when deferred losses are recognized

----Work In Progress----

Updated Deficit Assumptions

- No increases included for community-based organizations (CBOs)
- Private Defender Program contract flat in FY2011 and FY2012 with 3% increases thereafter
- By FY2015, deficits in Fire and other funds exceed $3 million
- In FY2011, includes $5.2 million to re-open Medium Security Facility (jail)
- In FY2014, includes estimate for ongoing debt service of $9 million for re-entry /jail replacement facilities (still need estimate for operating costs)

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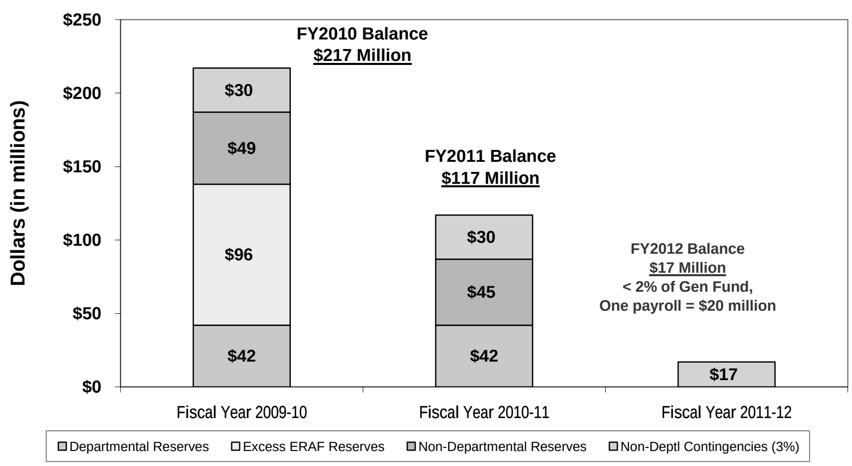
Eliminating the Deficit by FY 2013
Budget Balancing Plan

SOLUTION = $100 MILLION RESERVES
$217 Million Reserves Will Be Depleted in FY 2012



Worst Case Scenarios

- $100 Million Reserves
  - Depleted by FY 2012, remaining ongoing deficit
- $100 Million Program Reductions
  - 30% reduction in Net County Cost
  - Over 1,000 positions, elimination of services
- $100 Million Labor Cost Savings
  - 20% reduction in salaries and benefits, impact on employees
- $100 Million New Revenues
  - 30% increase in revenues, fees from taxpayers

Recommended Balanced Approach

Program reductions/multi-deptl savings

+

Savings in labor costs

+

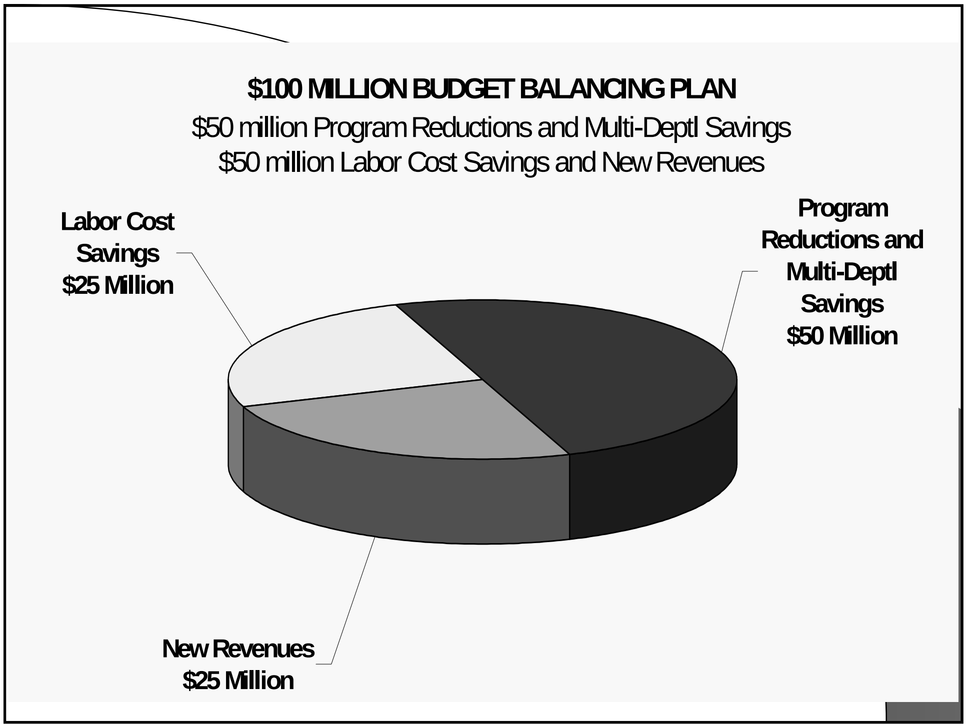
New revenues

+

Managed use of reserves

=

$100 Million



$100 Million Balancing Plan
Accelerated Phase-In

- **Program Reductions = $50 Million**
  - Implement first set of reductions for FY 2009-10 (February 2010)
  - Complete plan to achieve remaining program and Countywide solutions (March 2010)
- **Labor Cost Savings = $25 Million**
  - work with employee organizations to achieve $25 million in labor cost savings – 10 contracts expire in 2010 (Jan-Aug 2010)
- **New Revenues = $25 Million**
  - Place new revenue measures on ballot (June 2012)

$100 Million Balancing Plan
Managed Use of Reserves

- **Non-Departmental Reserves/Contingencies**
  - Balance the budget but maintain 10% minimum or $100 million for contingencies and uncertainties
- **Departmental Reserves**
  - Address in Reserves Policy (February 2010)
- **Excess ERAF Reserves**
  - Replacement facilities and facilities improvements (5-year CIP)
  - IT infrastructure replacement (5-year IT Plan)
  - Reduction in liabilities: retirement, retiree health
  - One-time investments to generate ongoing savings

Labor Cost Savings (Negotiations)
$25 Million

- $25 million represents ~ 5% in salaries and benefits
- Options could include:
  - Employee pick-up of 50% retirement COLA ($8 million annually)
  - Health benefit changes ($3-4 million)
  - New retirement tier for new hires; hybrid plan (prospective savings minimal at first, $59 million over 10 yrs)

New Revenues
$25 Million

- Starting in FY 2013
- Options could include:
  - Utility users tax
  - Increased Transient Occupancy Tax (TOT)
  - Increased sales tax
  - Business license taxes
  - Economic development opportunities

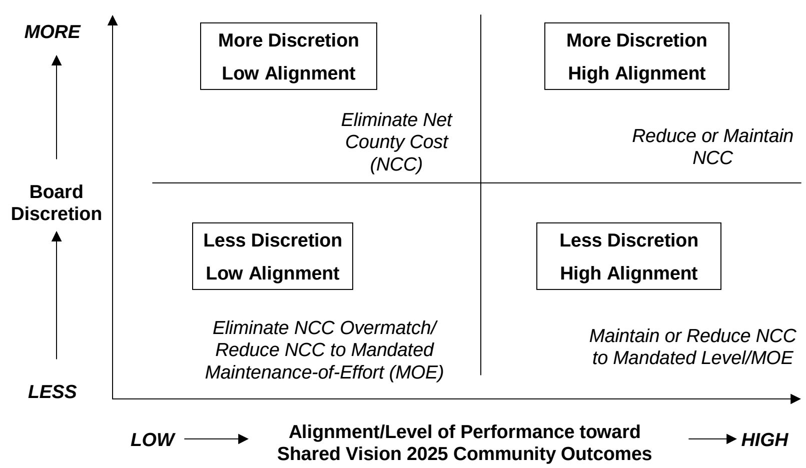
Teams to Focus on Multi-Departmental Efforts

- Employee and Community Engagement
- External Service Partnerships – schools, cities, community-based organizations
- Internal Support Services – administration and support, management/supv-to-staff ratios
- Facilities Management and Fleet
- Revenue Enhancement (existing Employee Budget Workgroup)

Program Reductions/Multi-Dept Savings
$50 Million

- Mandated vs. discretionary funding
- Mandated vs. discretionary levels of service
- Impact of solutions on community
- Alignment with Board-adopted budget balancing principles and strategies
- High Net County Cost growth area
- Staffing levels and mgmt/supervisor-to-staff ratios higher than comparable counties
- Implementation timeframes within 3 years

Prioritizing General Fund Allocation (NCC)
Mandated vs. Discretionary Analysis



FY 2010-11
Critical Issues

- Long-Term Care
- New Jail/Re-Entry
- Juvenile Camps
- Expiration of One-Time Federal Stimulus Funding (Health System, Human Services)

Public and Employee Engagement

- Continue to educate and raise community awareness, seek input about the County's budget challenge, actions already taken, and proposed plan
- Continue to inform and involve employees and labor organizations in budget balancing process
  - Employee Forums
  - Community Forums – one in each Board district
  - Budget publications and updates
  - SEE-IT site launch – outcome indicators
  - Employee Intranet – continued updates and bulletin board
  - Other

Next Steps

- Set FY 2010-11 targets and estimate multi-department and Countywide solutions (December-January)
- Hold employee and community forums (January – February 2010)
- Bring FY2009-10 mid-year reductions to Board (February 9)
- Present Budget Balancing Plans to Board standing committees (March 22-26)
- Adopt FY2010-11 Budget (June 21-23)

Recommendation

Adopt a Resolution approving a balanced approach, accelerated timeline, minimum reserve levels, and community forums as part of efforts to eliminate the General Fund structural budget imbalance by Fiscal Year 2013.