



COUNTY OF SAN MATEO

County Manager's Office



DATE: January 20, 2011
BOARD MEETING DATE: January 25, 2011
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors
FROM: David S. Boesch, County Manager
SUBJECT: **Budget Workshop - FY 2011-12 Budget Process**

RECOMMENDATION:

Provide direction to staff for the preparation of the Fiscal Year 2011-12 Recommended Budget.

BACKGROUND:

Since 2008-09, your Board has made significant progress on the five-year plan to balance the County's budget. This has involved reducing expenditures by \$50 million, eliminating 433 positions with minimal layoffs, negotiating responsible labor agreements and using about \$200 million in Reserves.

Yet difficult decisions remain. The County's ongoing deficit is estimated at \$82 million in FY 2011-12. This does not include assumptions for the following:

- Backfill for state funding reductions;
- Debt service, operating and maintenance costs for replacement facilities such as the women's jail, and other capital and technology improvements; and
- Future salary increases

These costs could increase the deficit to well over \$100 million by FY 2015. As we enter 2011, demands for County services and the costs to provide them continue to outpace growth in revenues. And State budget changes may increase County program and service responsibilities without guarantees of stable funding.

Over the last year, your Board and Department Heads requested changes to the budget process. The current process has not provided the information the Board needs to make well-informed decisions during times of competing priorities and scarce resources. The process is labor intensive, narrowly focused on cuts, and the budget document too lengthy.

On November 30, your Board directed staff to hold a workshop in January to focus on changes to the process for the FY 2011-12 budget. The County Manager's Office has worked with Department Heads and staff from the Health System, Human Services Agency, Sheriff, Parks, Controller's Office and Human Resources to plan for the workshop. The draft agenda and workshop outline were presented to the Board Finance and Operations Committee at its January 18 special meeting.

DISCUSSION:

The purpose of today's budget workshop is to provide direction on changes to the budget process to assist the Board in making well-informed decisions necessary toward eliminating the County's structural budget imbalance.

Scope of the Budget Problem – General Fund Deficit Assumptions

The table below summarizes three sets of assumptions for sizing the General Fund budget deficit.

Option B, which projects the deficit to grow from \$79 million in FY 2011 to \$151 million in FY 2015, is recommended for budget planning purposes. This option includes the latest estimates from the Sheriff's Office on ongoing jail replacement costs, including debt service. It also includes an assumption for future modest salary increases.

The ongoing impact of the State budget on specific County services will be uncertain for some time, so it is not prudent to assume that the General Fund will backfill state funding reductions until impacts are known. The Board could consider using Reserves to continue providing services while alternatives are being developed.

General Fund Structural Deficit Assumptions	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Deficit Option A (Existing): <ul style="list-style-type: none"> • Includes prior year deficit addressed by Reserves • 0-2% general revenue growth • Negotiated salary increases • Retirement and health benefit increases • Step increases • State backfill estimate (\$20 million/year) • No assumption for future salary increases • No assumption for jail replacement 	\$99 million	\$102 million	\$106 million	\$120 million	\$126 million
Deficit Option B (Recommended): <ul style="list-style-type: none"> • Option A, except: • <u>No</u> State backfill • Assume salary increase of 1% per year, beginning in FY 2013 (\$5 million/year, \$15 million cumulative) • Add jail replacement costs, including debt service, operations and maintenance (\$30 million/year) beginning in FY 2015 	\$79 million	\$82 million	\$91 million	\$110 million	\$151 million
Deficit Option C: <ul style="list-style-type: none"> • Option B, except: • Assume salary increases of 1% in FY 2013, 2% in FY 2014 and 2% in FY 2015 (\$5 million/year, \$25 million cumulative) • Add debt service for all other capital and facilities needs (\$20 million) in FY 2015 	\$79 million	\$82 million	\$91 million	\$114 million	\$178 million

Recommended Funding Levels for FY 2011-12 Budget

If your Board chooses the assumptions in Option B above, the projected deficit of \$82 million in FY 2012 can be addressed in the following ways:

- (1) Continue the five-year balancing plan and use a combination of Reserves and ongoing solutions over the next two fiscal years, eliminating the imbalance by FY 2013
- (2) Rely on Reserves and delay further significant program reductions to subsequent years
- (3) Take a more aggressive approach by developing ongoing solutions to reach structural balance during FY 2012

It is recommended that the Board continue executing the five-year plan using a combination of Reserves and ongoing solutions.

The following guidance would be provided to departments on funding levels for FY 2011-12:

Departments would be funded at 85% of this year’s General Fund allocation. This would eliminate \$55 million or two-thirds of the \$82 million structural deficit. The proposed reductions will be prioritized by departments to also show funding levels at 90%, 95% and 100%, so the Board will have the flexibility to fund programs and results at different levels.

Budget Process and Timeline for FY 2011-12 and Work on Future Process

Based on feedback from your Board and departments, the following improvements are proposed:

- Shorten the FY 2011-12 process and increase the amount of time for Board deliberations
- Reduce the number of deliverables; present concise program information
- Utilize departmental expertise and increase departmental collaboration
- Provide adequate time for the layoff process after the Board adopts the budget
- Work with Board Finance and Operations Committee on more improvements to the budget process for FY 2012-13 and subsequent budget cycles
- Conduct future workshops for major issues such as the State Budget and Capital Projects

Budgeting Activity	Proposed Timeline
County Manager (CMO) provides funding level(s) guidance to departments	February 1
Departments review budget development criteria with Board Committees	February
One-page program budgets due to CMO	March 16
CMO presents all budgets to Department Heads (Executive Council)	March 28
CMO submits FY 2011-12 Recommended Budget to Board of Supervisors	May 6
Board conducts one week of public hearings; adopts budget	May 23-27
Additional Board budget workshops: Capital Projects, State Budget, other	June – July
Board Finance and Operations Committee works on comprehensive budget process for FY 2012-13 and subsequent years	June – September
Fiscal Year 2011-12 begins	July 1
Board conducts public hearings – State Budget and other budget adjustments	TBD

Budget Document

The following improvements are proposed to the County’s budget document:

- Organize programs by community outcome, not by department;
- Divide Healthy Community into two sections: Healthy Residents and Safe Neighborhoods
- Begin each community outcome section with a summary list of programs and services, by “funded” and “not funded” categories, with “not funded” in prioritized order.
- Provide a one-page summary for each program or service, with performance and budget information, a brief description of results and impacts if services will not be funded

Use of General Fund Reserves and ERAF

Additional information on Reserves and Education Revenue Augmentation Fund (ERAF) will be provided at the workshop. It is recommended that Reserves, including amounts generated from the return of property taxes through ERAF, be used for the following limited purposes:

- (1) maintain minimum Reserves and Contingencies levels;
- (2) pay down unfunded pension and retiree health liabilities;
- (3) one-time capital and technology needs to reduce borrowing and minimize debt, and
- (4) short-term backfill of state funding losses until impacts are known and ongoing solutions identified

For example, with a fiscal year-end General Fund Reserves and Contingencies balance of \$200 million, the Board may choose to make the following allocations:

Unfunded Liabilities and One-Time/Short-Term Needs	Amounts	EXAMPLE: \$200 Million Possible Allocations/Designations
10% Minimum Reserves and Contingencies (County Reserves Policy – Feb 2010)	\$100 million	\$100 million
Pension liabilities (6/30/10 valuation)	\$919 million	\$50 million
Retiree health liabilities (6/17/10 valuation)	\$106 million	\$10 million
Five-Year Facilities Master Plan	\$400 million+	\$40 million
Five-Year IT Strategic Plan	TBD	TBD
State budget short-term backfill	TBD	TBD

The budget workshop contributes to the Shared Vision 2025 outcome of a Collaborative Community by giving the Board and departments the opportunity to work together to improve the budget process and help the Board make well-informed decisions to eliminate the County’s budget imbalance.

FISCAL IMPACT:

Direction on funding levels and use of Reserves to be used to prepare the FY 2011-12 budget.



COUNTY OF SAN MATEO
Board of Supervisors - Budget Workshop
Tuesday, January 25, 2011
1:30pm – 5:00pm
455 County Center, Room 101, Redwood City



Desired Budgeting Process Outcomes:

- Significant progress toward rebalancing the budget
- A budget process that results in informed decision-making
- A budget document that is informative and helpful in decision-making

Workshop Objectives:

1. Understanding and consensus on the scope of the budget problem
2. Review estimates of available resources for FY 2011-12
3. Direction on funding levels (range of cuts) and use of Reserves
4. Direction on the budgeting process
5. Direction on budget schedule
6. Direction on timing of layoffs

AGENDA

LARGE GROUP

1:30 – 2:30pm

- Overview of the Budget Problem – Review Assumptions
- FY 2011-12 Recommended Funding Levels, Process and Schedule
- Reserves and ERAF

SMALL GROUPS (Board Members and Department Heads)

2:45 – 3:45pm

1. Funding Level Alternatives
2. Budget Process and Timeline
3. Budget Document

PUBLIC COMMENT

BOARD DISCUSSION AND DIRECTION

4:00 – 5:00pm

- Adopt assumptions and use of Reserves
- Set funding levels
- Adopt process and timeline for FY 2011-12 budget