



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager's Office



DATE: April 8, 2011
BOARD MEETING DATE: April 12, 2011
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors
FROM: David S. Boesch, County Manager
SUBJECT: FY2011-12 Preliminary Budget Wrap Up

RECOMMENDATION:

- 1) Provide direction to the County Manager on the use of Non-Departmental Reserves to balance the budget. The Five-Year Plan approved by the Board requires that the County achieve a structural balance in Fiscal Year 2012-13. With an estimated deficit of \$82 million for FY 2011-12, departments increased revenues and used Departmental Reserves to maintain services, and also submitted a combination of program and service reductions that total approximately \$46 million, leaving an initial gap that would require the use of \$36 million in Non-Departmental Reserves;
- 2) Provide direction on priority-setting criteria to guide the preparation of the Recommended Budget. Staff recommends using the following criteria and recommended approaches described in more detail in the Discussion section of this report:
 - Board Budget Balancing Principles adopted on August 25, 2009
 - Role of program or service in achieving the most important results
 - Demonstrated effectiveness
 - Minimum requirements
 - Level of overmatch
 - County as sole service provider or provider of last resort
 - Cost recovery
 - Level of demand for services
 - Strategic consequences
- 3) Provide direction to the County Manager and all County departments to work collectively on a re-prioritized Recommended Budget; and
- 4) Set aside time with the Board at its regular meeting of May 10 to review progress before submitting a complete Recommended Budget to the Board on Friday, June 3.

BACKGROUND:

The current Five-Year Plan approved by the Board requires that the County achieve a structural balance in Fiscal Year 2012-13. Your Board on February 2 held a Budget Workshop where you gave direction to departments for building budgets using targets. On March 1-3 departments presented to the Standing Committees preliminary strategies and priority-setting processes. The Standing Committees provided feedback for departments to use in presenting budget proposals at the Preliminary Budget Hearings on March 29-31.

The budget materials submitted to your Board in advance of the Preliminary Budget Hearings included:

- Five-year history of Net County Cost (General Fund allocation) for all departments
- Department Fast Facts
- Summary Lists of Proposals: Funded and High/Medium/Low Unfunded
- Program Summaries (one-page detail for Funded and Unfunded)
- Report-back items from the Standing Committee meetings
- County Manager's Opening Remarks – charts and graphs
- Vacant Position Summary and Detail by Department
- General Fund Reserves by Department
- Reduction %s by Department
- Management vs. Non-Management %s by Department (FY 2010-11)
- September 2010 Board Report – Span of Control Guidelines

During the Preliminary Budget Hearings, departments presented proposals that could result in reducing total expenditures by \$46 million. This would leave a gap that would require to be filled by Reserves of \$36 million as the estimated deficit if we take no action stands at \$82 million in FY2011-12.

The key question is: How does our organization balance the budget yet maintain critical services? The County Manager's Office is continuing to work with all departments to maximize savings while prioritizing core services based on the guiding principles your Board adopted in August 2009.

DISCUSSION:

The Wrap Up session on April 12 affords your Board an opportunity to make additional comments and to provide feedback and guidance that will be used in developing the FY2011-12 Recommended Budget.

Top Ten Themes

Over the course of the three days and during the abbreviated last day wrap up, Board Members commented on what the County must consider in the following areas:

1. Economy

Problem: The “new normal” means that traditional revenues will continue to lag expenses for the foreseeable future. Economic development efforts will need to be undertaken and job training/ retraining will remain important as we position for recovery. New tax revenues may need to be investigated and taken to the voters.

Approach: Work with departments and community partners to identify and pursue opportunities to strengthen and broaden the County's tax base and provide additional job opportunities for county residents. In particular, develop strategies for key opportunity locations such as the Events Center, a hotel at the San Francisco International Airport and commercial development in North Fair Oaks, and revisit the timing and feasibility of a tax measure on a future ballot.

2. **Critical Services**

Problem: Determine the appropriate level of services, based on mandates, revenues and priorities, for our most vulnerable residents, for public safety and community resources such as parks and roads.

Approach: The County Manager's Office will work with County departments to improve coordination among departments and identify additional opportunities for collaborative efforts. To assist in that process, the County Manager will draw from the Board's adopted Principles (attached) and utilize the following criteria:

- **Results** – What programs demonstrate the most important results?
- **Effectiveness** –Has the program documented that it works?
- **Minimum Requirements** – How much does it cost to fulfill the mandate?
- **Overmatch** – Are mandated programs being “over-delivered”?
- **County Service** – What services are dependent on the County to provide?
- **Cost Recovery** – What programs do direct user fees appropriately fund?
- **Level of Demand** – What programs are experiencing a “change” in demand?
- **Strategic** – What is the long-term implication of any change to the program?

3. **Vulnerable Populations**

Problem: The County is often either the only or the provider of last resort when it comes to essential life services (food, shelter, health), especially for struggling families with children, seniors and the disabled.

Approach: Review with departments their processes and rationales for establishing priorities to ensure that children and families, seniors and the disabled community are not disproportionately impacted, and that eligibility and service levels are comparable to other counties with similar demographics and needs.

4. Leverage Funding

Problem: County funding is often required as a match, maintenance of effort obligation or used to attract additional outside funds.

Approach: Maximize revenue by maintaining revenue-generating positions, preserve qualification for federal and state dollars, leverage County funding where possible, review current fee structures to recover cost and ensure reasonableness and comparability, and expand economic development efforts and continue workforce employment training for when job growth returns.

5. Workforce

Problem: Minimize layoffs, as revenues are inadequate to support current workforce levels.

Approach: Use available Reserves to offer a final round of early retirement and voluntary separation incentives broadly Countywide, to minimize layoffs and create more opportunities for restructuring and redesign; this will be a final offering until 2014. CMO/HR will proceed with layoff notification for filled positions (offering early retirement and other incentives, finding vacant positions if available) to provide information for the Board in May about how many employees are still at-risk of layoff. Look for additional opportunities to share administrative support functions within and across departments and the efficacy of centralizing internal functions and resident-facing service delivery outlets (one-stop centers).

6. Organization

Problem: Find ways to increase efficiency and cost effectiveness.

Approach: Re-engineer business processes to create faster, more customer friendly service that requires less staff; consolidate divisions and/or departments across the organization; eliminate vacant positions first, preferably all but essential by 7/1; spread position reductions across all levels of the organization; reduce administrative expenses; expand management span of control; reduce back-office to preserve customer facing services; and aggressively pursue internal and external shared service arrangements. Further, to look for savings in expenses such as cell phones and the use of fleet vehicles.

7. Realignment

Problem: The realignment of State programs back to the County creates both a challenge and an opportunity, while the State's own budget crisis poses immediate challenges.

Approach: Organize department head-level working groups to prepare the County for different contingencies, ensure the County's interests are represented to our State delegation and in Sacramento through organizations like the California State Association of Counties and avoid using local funds when the State cuts funding to mandated programs.

8. Future Focus

Problem: The decisions we make have implications for the future.

Approach: Plan and prepare for the future by giving full consideration to issues such as health care reform, services for children, youth and their families, and the investment return on prevention and early intervention strategies. Avoid inadvertently shifting costs from one department/area to another.

9. State Cutbacks

Problem: The uncertain timing and gravity of State funding cutbacks.

Approach: Incorporate the latest reliable information into County decision-making, but avoid substituting (“backfilling”) County funds where the State retains clear responsibility. Develop multiple scenarios and contingencies.

10. Board Policy

Problem/Issue: Over time, the Board adopts a number of financial management policies that may not be well known, understood or cohesive.

Approach: Provide a complete set of policies to Board Members and Department Heads for their review to ensure understanding and relevancy. In particular, ensure agreement around the use of Educational Revenue Augmentation Funds (ERAF) property tax revenue for one-time purposes and not ongoing operating expenses. (Given that these funds are not separated from other reserves that are accrued, they have been used to supplement available funding in order to preserve programs and services over the past several years.)

SUMMARY

While it is true that we cannot precisely predict or absolutely control the future, it is also true that we can influence and to a certain extent create it by the choices we make. The presentations made to the Board demonstrated convincingly that there is nothing that this County does that isn’t important. Therefore, it is incumbent on us to do what we can to protect and preserve services in the near-term in order to ensure a bright future for all our residents.

The departments used their best judgment in formulating proposals that adhere to adopted Board Principles and in response to the funding available. The impact of the cuts necessary to hit their targets in many cases present us with a future we don’t like. As a compassionate community comprised of people who would likely describe themselves as “socially progressive and fiscally moderate,” we need to find a proper balance between what we can afford to keep and by necessity that which we must forego.

We have endeavored to give a voice to those potentially affected by the choices we make. This new budgeting process is not about making hasty decisions without adequate information or input, nor have we explicitly prioritized any Community Outcome or need over another.

We need to keep working the 5-Year Plan and to simplify, streamline, reorganize, flatten and seek out new service models and sharing opportunities. More work is required; and, in some circumstances, more time will be necessary. Our employees have stepped up to the challenge and are participating in the solution, and at some point soon we must revisit the question of new, reliable and stable revenues to replace our recent reliance on Reserves.

We need to find new solutions and new ways of working together to avoid deep reductions that will severely impact services to our residents. We are doing that and look for your Board's feedback and direction as we look to do even more.

Preparing a Recommended Budget that is reflective of community values and the priorities of your Board with early input from the community is demonstrative of our Shared Value commitment as a Collaborative Community.

FISCAL IMPACT:

The Board's direction will be used to prepare the FY 2011-12 Recommended Budget.

Attachment: Budget Balancing Principles (August 2009)

COUNTY OF SAN MATEO
BUDGET BALANCING PRINCIPLES
(Resolution Adopted by Board of Supervisors - August 25, 2009)

- A. Our highest priority is a sustainable community for current and future residents of San Mateo County as defined by achievement of our Shared Vision for a healthy, prosperous, livable, environmentally conscious and collaborative community. We aim to continue progress toward our vision while the economy suffers, and position ourselves strategically for when the economy rebounds. Therefore,
- All options will be explored to reduce costs and/or redesign services in order to minimize service reductions
 - Near-term decisions must be made in the context of long-term strategic goals
 - Long-term cost effectiveness of prevention and early intervention is recognized
 - Existing services and service levels will be evaluated based on performance and alignment with County's mission and Shared Vision 2025, as well as minimum legal requirements (mandates).
- B. We aim to continue performing at levels of service quality and outcomes that are at or above average of comparable agencies or established benchmarks
- C. We recognize that budgeting is a process. Solutions will emerge over time and be implemented to meet the goal of a balanced budget by Fiscal Year 2013. An effective multi-year process that restores structural balance will create a stronger organization and contribute to a stronger community.
- Solutions may be phased-in, with managed use of reserves, to avoid disruption of service and to cushion transitions to reduced service levels
 - Where possible, employment and training options will be provided to displaced employees
- D. Our budget process will engage the community we serve to inform inclusive, fact-driven and thoughtful decision-making on multiple strategies, including the reduction and elimination of services. As such,
- We will be transparent and forthcoming throughout and will work closely with our employees, organized labor and community partners.
 - Reliable information will be provided in a timely way to continue to build trust, confidence and credibility throughout the process.
 - We will seek input from the general public regarding strategies developed by staff.
- E. We aim to not impact any one geographic, ethnic or linguistic community disproportionately as we sustain efforts to address long-standing disparities
- F. We will work together as a single organization while recognizing the unique services offered by each department
- All County Departments will contribute to the solution.
 - Departments will be afforded flexibility to achieve efficiencies in all areas of operations, operational support and administration
 - We value our employees and will continue to develop our workforce, retain and promote high-performers and continue succession planning efforts
 - We value our broad range of partnerships that cut across departmental lines, and also value partnerships with our community-based organizations and neighboring municipalities