

BACKGROUND

The Auditor-Controller's Office closed the 2011-12 fiscal year on August 13. State law requires that the budget be balanced at fiscal year end and all cost overruns addressed. The Auditor completes this process through numerous year end appropriation transfers and the recognition of additional revenue sources. As provided in state law, some of these transfers must be approved by the Board of Supervisors and are therefore included in this report. In accordance with the long-term financial plan, included in the report is an analysis of how each department ended the year.

As required by state law, the Board must adopt a budget by October 2 of each year. The attached resolution and exhibit is based on the recommended 2012-13 budget as approved by the Board of Supervisors on June 12 and as revised by the recommendations included in this memo.

A - Year End Transfers

Appropriation transfers are required to cover expenditures in excess of approved budgets within various budget units and funds as prescribed by state law. The transfer schedule (Attachment B) includes the budget unit description amount of the transfer. Unless otherwise noted below, department management covered budget overdrafts by transferring unused appropriations from within the department.

The Auditor-Controller has balanced various department budgets using unanticipated revenues and available fund balance. The following is a list of the most significant transfers:

- General Fund:
 - Increased costs of \$26,971 in Conflict Indigent Defense required fund balance use.
 - Grand Jury expenses exceeded the budgeted amount by \$3,916, requiring fund balance use.
 - General Services – Facilities revenue from departments was insufficient to cover salary and benefit appropriations requiring \$43,631 use of fund balance. The revenue loss was primarily due to reduced service requests from departments hesitant to invest in facility maintenance and improvements during tight budgets.
- Health Fund: \$537,327 of the \$600,000 indigent health contingency was used to cover additional expenses.
- Public Safety Fund: Proposition 172 revenues exceeded 11-12 budget estimates, thus \$867,858 in Public Safety Fund year-end fund balance was used to reduce the amount of previously allocated general fund needed to meet appropriations in the District Attorney, Sheriff and Probation budgets. This action was consistent with the Board of Supervisors adopted Fund Balances and Reserves policy (attachment C) that directs the use of General Fund be the fund of last resort and all special purpose funds should be expended first before General Fund resources are drawn on. While the recaptured available general funds were used to augment public safety needs within the 2012-13 budget, the Sheriff and District Attorney have expressed concern that they were not consulted prior to the implementation of the policy. Additionally, they are reviewing the legality of this policy. Their belief is that any general fund revenues appropriated in adopted budget should remain and cannot be altered without a public hearing and a vote of the board. The Sheriff and the DA also opine that any public safety revenues in excess of the budgeted amount should be available, after action by the board, to potentially help restore essential public safety programs that have been previously cut during the budget process. As a tentative solution, the County Administrator has agreed to meet with them at third quarter in order to determine a strategy for utilization of

any increased public safety revenue and provide an opportunity for the Sheriff and DA to express their concerns to the Board. The Sheriff and the DA will advise the County Administrator of their findings regarding the legality of this policy.

- Other Funds: Expense in other funds exceeded revenues by \$1,216,165. (See Attachment B for details)

There remain negative balances in certain funds as described below. Staff does not recommend adjusting these balances at this time:

Mental Health – As in prior years, the mental health managed care fund will remain in deficit by \$3,234,528. This deficit is the result of recorded liabilities associated with anticipated audit findings from prior year cost reports. A significant lag time exists between the year a cost report is submitted and when the state completes its audit review. For example, last month the state completed its audit of the department's 2007-08 cost report. A four to five year lag time coupled with changes in accounting requirements has resulted in a large estimated liability that although must be recorded for accounting purposes, may or may not be an accurate estimate of what the final cost may be. The final settlement may vary significantly from the estimate as evidenced recently when the 2007-08 liability was settled at \$520,305 less than the estimate. The department is hopeful that this pattern of more favorable cost report outcomes will continue and the overall liability will further reduce over time.

Aviation Enterprise –The soon to be completed state and federally required tree removal project required funding from Airport Operations during fiscal year 11-12. Those funds will be reimbursed through an FAA grant this fiscal year and will cover the negative 11-12 ending balance of \$19,473.

Unemployment Self Insurance – The \$214,970 in deficit will be recovered in future years from departments incurring the unemployment expenditure.

To show how departments managed their 11-12 budgets, Attachment D illustrates their actual end of the fiscal year operating results. A positive balance indicates that the department revenues exceeded expenditures. A negative balance indicates expenses exceeded revenue.

Currently, the members of the Long Term Financial Plan working group are developing policies for Board of Supervisors consideration that in the future will recognize and reward departments for successfully meeting budget expectations.

B - Fund Balance Summary Report

The Fund Balance Available report (Attachment E) is a general accounting of the fund balances for all funds. The budget process appropriates funds expected to be used in the current year but has not historically included information regarding the balances that are carried over from year to year that are not being used in the fiscal year. In this new report, the first two columns identify the budget unit followed by the balance of that fund at the close of the 11-12 fiscal year. The fund balance used or not available indicates the amount that is either appropriated for use in the 12-13 fiscal year or has been set aside as it is not available for current spending (i.e. prepaid expenses and inventories). The available fund balance are those remaining amounts that have not been appropriated for use in 12-13 and are available to be used in the manner outlined in statute. The final board control column identifies how much flexibility the board has in directing the use of those available funds. The

definition for the control identification is contained on the final page of this report. Please note that this is a new report and subject to further change as it is refined.

General Fund (Fund 110)

The general fund has an available fund balance of \$4,916,154. This amount includes \$2,500,000, which was used as a funding source in the 2012-13 recommended budget. For the remaining amount which was not allocated in the 12-13 Recommended Budget, recommended allocations are described below.

Recommended action: It is recommended that the fund balance in the General Fund be allocated as follows:

	Recommended Appropriation	Running Total
Beginning General Fund fund balance		\$4,916,154
Transfer from Social Service fund balance	\$1,735,272	\$6,651,426
12-13 Rec. Budget Carryforward	\$2,500,000	\$4,151,426
Health Insurance Cost Increase- GF portion only	\$956,489	\$3,194,937
Public Safety Shortfall	\$177,851	\$3,017,086
Revised Revenue Projection	\$201,689	\$2,815,397
Utilities	\$100,000	\$2,715,397
IT Innovation	\$100,000	\$2,615,397
Ag Mitigation Study	\$100,000	\$2,515,397
Countywide Professional Services	\$72,217	\$2,443,180
Tactical Plan Implementation	\$150,000	\$2,293,180
Probation Shortfall	\$133,676	\$2,159,504
General Fund share of Landfill loan	\$21,017	\$2,138,487
General Fund Reserve per board policy	\$376,351	\$1,762,136
Sheriff Vehicles	\$288,000	\$1,474,136
Budget Official	\$75,000	\$1,399,136
Delta Carryforward	\$53,795	\$1,345,341
Public Safety Contingency	\$374,000	\$971,341
Elections Staffing	\$15,000	\$956,341
HRIS/FSRT Solution	\$948,000	\$8,341
Vet Services Indigent Burial	\$8,341	

Description of Appropriation of Additional Funds

The general fund balance is considered to be a one-time resource and thus should be utilized for short-term funding solutions. The additional recommended distribution of general fund balances is as follows:

- o CalPERS has notified the county that we will receive a 16% increase in our health insurance premium rates effective January 1; (General Fund portion: \$956,489)
- o The revenue projections utilized in June have been updated to reflect actual amounts received which indicates a downward trend in several projections and results in a lower overall general fund available for allocation; (\$201,689)

- The recommended budget included an assumption that the solar project would be completed in March and result in additional savings in utilities. The updated and extended project delivery date will lower those anticipated savings; (\$100,000)
- IT innovation. These funds allow departments to request funds from the board to implement IT solutions which result in department efficiencies or enhanced client self-service options; (\$100,000)
- The tactical plan includes completion of an agricultural mitigation analysis to identify appropriate mitigation ratio options (\$100,000)
- The Elections department has revised their estimated need to administer the November election and requires additional general fund to hire additional extra help personnel; (\$15,000)
- The County Administrator's Office engages external professional expertise to assist in a variety of areas from managing departmental climate and culture to recruiting hard-to-fill leadership positions. There has been higher than expected demand in the first quarter of 12-13. (\$72,217)
- The Board-approved tactical plan includes a number of goals for which funding is needed to accomplish in this fiscal year. These funds will be set aside much like the IT Innovation fund available for future Board appropriation as the projects become defined and costs known. (\$150,000)
- Sheriff Vehicle – In previous years, the Accumulated Capital Outlay fund and the Development Impact Fee fund have provided resources for the purchase of replacement vehicles for the Sheriff's department. Upon further review of the acceptable uses of these funds and following the recommendation of the Government Finance Officers Association, it is more appropriate that the general fund cover the cost of these vehicles. (\$288,000)
- Delta funding – The general fund received a reimbursement for delta related activities during the 2011-12 fiscal year. This reimbursement was included in the general fund balance and should be used for 2012-13 delta related activities. (\$53,795)
- HRIS/FRST – The human resources information system (PeopleSoft) and the accounting system (GenLed) are both outdated and inadequate to meet the needs of the county. Oracle has notified the county that it will no longer support the ongoing PeopleSoft payroll tax updates by the end of 2013. In order to maintain our ability to process payroll and improve our self-services functions, an RFP will be announced seeking bids on replacement software. GenLed has been the county's personalized accounting software for more than 20 years. In that time, fiscal policies and practices have changed dramatically and staff finds it difficult to meet those increased demands with the software as it exists today. (\$948,000)
- Budget Official – The budget staff has been affected by staffing reductions and while the team brought together to develop and administer the budget has done amazing work, there remains a need to have an individual whose focus is the budget rather than relying on staff to have this as one of their many duties. Depending on the outcome of the ballot initiative to create a Director of Finance position, this added position will either be assigned to the County Administrator's Office or to the potentially new Department of Finance. (\$75,000)

Central Landfill Closure Fund Loan Repayment

In 2010-11 the Board of Supervisors approved a \$10.5 million loan from the Central Landfill Closure Fund to the General Fund to cover deficits within the Public Safety (\$2.5 million) and Mental Health (\$8 million) funds. The repayment schedule, based on a projected public safety and realignment

growth distribution formula, began January 2012 and the amount and source of repayment is determined annually. Higher than anticipated public safety funds were used to make the 11-12 public safety payment. ADMH's realignment came in higher than projected in 11-12, which will allow for an 11-12 and 12-13 mental health loan repayment. The combined 2012-13 general fund contribution to the repayment plan is \$56,017 of which \$35,000 was set aside in the recommended budget.

It is important to note that since the funds used to make the central landfill loan remain in an interest bearing account with the interest continuing to accrue to the landfill closure fund, no interest payments are required.

Public Safety Fund (Fund 117) & Public Safety Grant Fund (Fund 116)

The total Public Safety Fund has a combined deficit adjusted beginning fund balance of \$245,195. It is recommended that additional public safety funds received subsequent to the closing of fiscal year 11-12 be used to cover this deficit.

Social Services Fund (Fund 111 & 167)

The Social Service fund has a positive adjusted beginning fund balance of \$4,071,548.

Although \$1.2 million is from 2010-11 carryforward amounts, the remaining amount is from a myriad of savings and increased funding from the state. Notwithstanding, it must be noted that the department has done a commendable job attaining positive fund balances over the last three fiscal years.

Staff Recommendation: It is recommended that the fund balance in the Social Service Fund be allocated as follows:

	Recommended Appropriation	Running Total
Beginning Social Service fund balance		\$4,071,548
Already included in 2012-13 budget	\$1,000,000	\$3,071,548
CPS/APS Staffing	\$97,402	\$2,974,146
Cal Fresh Staffing	\$45,588	\$2,928,558
IHSS State funding reduction	\$138,494	\$2,790,064
Wraparound Contract	\$335,792	\$2,454,272
Health and Human Services Contingency	\$700,000	\$1,754,272
Undesignated`	\$19,000	\$1,735,272
Returned to General Fund	\$1,735,272	

Over the past year, DESS has experienced an increase in mandated program requirements from State and Federal regulations involving child and adult safety. In addition the County has also experienced a significant increase in the number of reports of abuse which are investigated by CWS.

Examples of new mandates include Family Finding (PL 110-351) and the California Fostering Connections to Success Act, Extended Foster Care Program (AB12). These mandates require the County to enhance efforts to locate family members to offset foster home placement and extend the care and supervision of children over the age of 18. In addition, DESS introduced Safety Organized

Practice (SOP) to engage families to participate in safety planning efforts. Changes of this magnitude require Social Workers to spend extended time with families, search for family members up to the 5th family relation as mandated by Family Finding and provide additional care and supervision for non-minor dependents over the age of 18 as mandated by AB12. The number of investigations in our Emergency Response Unit has increased by as high as 300% in some months. Requirements of new mandates and increases in investigations impact the County's ability to ensure the health and safety of children in Yolo County under the current staffing pattern.

The Adult Protective Services (APS) program is at an unmanageable level for the two Social Workers currently assigned to APS. For FY 11-12, APS received 678 reports of alleged abuse or neglect. Of those reported, 845 cases were investigated and managed by these two workers. Complicating factors include complexity of issues and lack of resources to ameliorate risk. As a result, each social worker carries an average of 35- 40 cases per month, well above the standard of 25, in addition to the 20-35 new referrals they receive each month. At current staffing levels, the department is unable to provide full-scope APS services which ensure the safety and well -being of the elderly and dependent adults of Yolo County.

The participation rate in the CalFresh program continues to lag in Yolo County compared to other jurisdictions. The department continues its outreach and lacks sufficient staff to process applications. It is anticipated that the addition of four Public Assistance Specialist positions will enable the department to increase participation.

C – IT Charges for Public Safety

The methodology for charging for IT services was revised beginning with the 2012-13 fiscal year. The new methodology charges each department based on their potential use of the information technology infrastructure, technical assistance, and specialized service. In order to be consistent among county departments, every department participated in the new structure. The Sheriff and District Attorney requested that their charges be shown separately from their operating budgets based upon the long-standing practice of the county to fund these charges separate from the Public Safety Fund. Therefore, the changes and associated revenue made with respect to IT charges will be reversed from the DA and Sheriff budgets.

D - Future Risk Factors

Though the County's fiscal condition has begun to stabilize, there remain factors which could affect the balanced state of the 2012-13 budget. It is for these reasons that staff recommends maintaining strengthened fund contingencies:

- State budget—The possibility of midyear State Budget action remains should the sales tax measure fail to pass in November.
- Economy—Recent economic reports indicators suggest economic growth has slowed. While most economists suggest a second dip is unlikely, future economic conditions remain uncertain.
- County Medical Services Program (CMSP) -.The full contract for 2012-13 for CMSP and Path2Health is \$7,900,000. Funding exists for \$7,705,000. At this time, enrollment is lower than anticipated and budgeted funds should meet the needs. If not, funds will be needed from the Health and Human Services Contingency.
- Labor Negotiations— Agreement has been reached on most labor contracts to obtain long term sustainable cost reductions. There remain four bargaining unit contracts that expire this year and short-term furlough concessions are insufficient to maintain a balanced budget if agreements are not reached prior to furlough expiration.

- Assessor Staffing –As directed by the board during recommended budget hearings, the Assessor’s office is undergoing a business process review which is designed to illuminate the need for business process improvements and/or additional staffing. At the conclusion of the review, a recommendation will be brought to the board and any appropriations needed will be made through the use of contingency.
- Increased reliance on grant funding/continuity—Departments such as the DA and Probation depend on grant funding to maintain staff positions. The last year has seen this grant funding threatened both at the State and Federal level.
- Federal Funding – There are currently across-the-board spending cuts scheduled to go into effect on January 2, 2013 in the areas of public safety, transportation, homeland security, health and human service programs, housing, water resources and agriculture. Attachment K is a brief summary of the White House Office of Management and Budgets expected impacts of these cuts.

At this time, the previously set aside contingencies would be utilized to address these risk factors before more extreme measures are taken to maintain a balanced 2012-13 budget.

A summary of the recommended budget as compared to previous years is included as Attachment J.