



COUNTY OF YOLO

Office of the County Administrator

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June 17, 2008

Yolo County Board of Supervisors
625 Court Street, Room 204
Woodland, California 95695

SUBJECT: Recommended 2008-09 Budget for Yolo County

Dear Members of the Board of Supervisors:

With this letter I submit for your consideration the recommended budget for Yolo County for 2008-09. It adjusts departmental expenditures and revenues for the coming fiscal year, meeting all legal requirements and Board of Supervisors adopted policies. On June 17, 2008 (and, if necessary, June 18) the Board of Supervisors will conduct a public hearing to consider the spending plan at which time you may add, delete or modify this recommended budget as you deem appropriate.

Recommended Action

Adopt the attached recommended budget for Yolo County.

Introduction

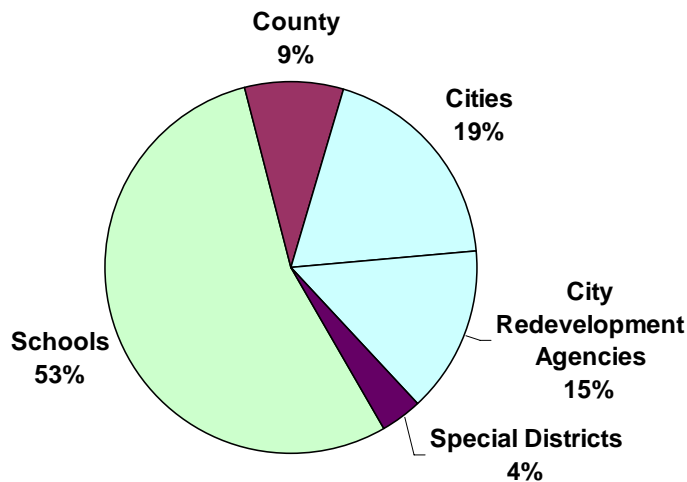
This is probably the most difficult budget for Yolo County in more than a decade. The formula is as simple as it is unyielding: revenues are down, costs are up. Challenges that the county has been able to weather over the last few years, such as those in the Department of Alcohol, Drug and Mental Health, no longer have general fund resources available to address them.

Modern local finance in California is at best an economic roller coaster, following the sharp rises and falls of the economy. Just when local governments think it's safe to engage in long term financial planning, the state often throws us for a loop. Thankfully, it is not as bad as it was prior to the passage of Proposition 1A by voters in 2004. That constitutional amendment protected local governments from what had become routine raids on local property taxes whenever the state faced financial challenges. But while Proposition 1A provided a great deal of protection against the rug being pulled out from under local governments, it did not provide complete protection. In fact, counties, due to our inextricable ties to the state, are still particularly vulnerable to state cuts. This year, as the state faces a \$17 billion shortfall, that danger is very real.

The economy in California is still reeling from the massive shockwaves of the sub-prime mortgage crisis and its effects on housing values, the bond market and the consumer economy. As property values fall, property taxes – the bread and butter of Yolo County's general fund – have flattened or declined.

The appearance of the fuel crisis has driven consumer prices up, and consumer confidence down, which again reduces revenues from statewide retail sales which provide critical revenue to public safety and health and social services programs. Making matters worse is the paradox is that county funding and county service demand are inversely related. In other words, just when the money goes down, the demand for services usually goes up.

Figure 1. Property Tax Shares in Yolo County



In Yolo County, with the second smallest property tax share in the state, and little sales tax, these economic forces are magnified. As a result, the Board of Supervisors and county administration have been prudent during periods of economic growth and placed funds in reserve to be expended during the low periods and restored during better times.

The successful negotiation of new labor agreements earlier this year also has a significant effect on the budget. Yolo competes for employees with other cities and counties in the region – some short commutes away – that have significantly higher revenues and therefore higher salaries and benefits than Yolo has been able to offer. The result was a reputation as a

training ground where employees could acquire training and experience and then move on to higher paying jobs elsewhere – a costly predicament for Yolo County footing the bill for all of that knowledge. The outcome of new contracts on recruitment and retention has been significant, and savings will result. Early savings, however, will not offset the additional costs in the short term.

In an effort to deal with the predicted shortfall in the current year as well as the coming budget year, departments were instructed at the mid-year to implement the following budgetary measures to reduce spending.

- Implement a countywide hiring freeze
- Strengthen management of overtime, extra help and temporary part time services
- Reduce travel and various service and supply expenditures
- Establish a targeted hold on equipment and capital project expenditures
- Enhance fees, service charges and reimbursement claim revenues

These measures have reduced current year expenditures and are proving very useful in the transition to the reduced budget for 2008-09.

Fiscal Outlook

The revenue picture for the county in fiscal year 2008-09 is dire. Fueled by the collapse that resulted from the sub-prime mortgage meltdown, assessed home values are dropping statewide and locally. The Assessor’s office expects to reassess over 12,300 properties in 2008, most of which will result in lower assessed valuations. As a result, the robust growth that Yolo County has experienced in property tax over the last three years has abruptly come to an end. Property tax revenues are now anticipated to be completely flat for 2008-09. Directly related to the collection of property tax is the anticipated decline in funds from the Teeter plan. With the increase in foreclosures and delinquencies, this revenue will be significantly delayed. Under this plan, the county funds all property tax agencies in the county as though all property tax had been collected on time and in the correct amounts. The county

then retains all penalties and interest on late or delinquent taxes. Generally this produces modest revenue for the county, however, it is anticipated that for 2008-09, this shortfall in revenue, combined with the requirement to fully fund other agencies will result in a net loss to the county of \$1.8 million. These funds will be recouped in subsequent years, but create a deficit in the budget.

Fueled by fears of a recession, consumers have fled from retail sales, particularly large purchases such as cars and appliances. Though that does not have as dramatic an effect in the budget due to the small share of revenue derived from the local sales tax, it does have a significant impact on Yolo County's share of statewide sales tax revenue in Public Safety Sales tax and Realignment revenue. Both are projected to decline by 5% in the coming fiscal year.

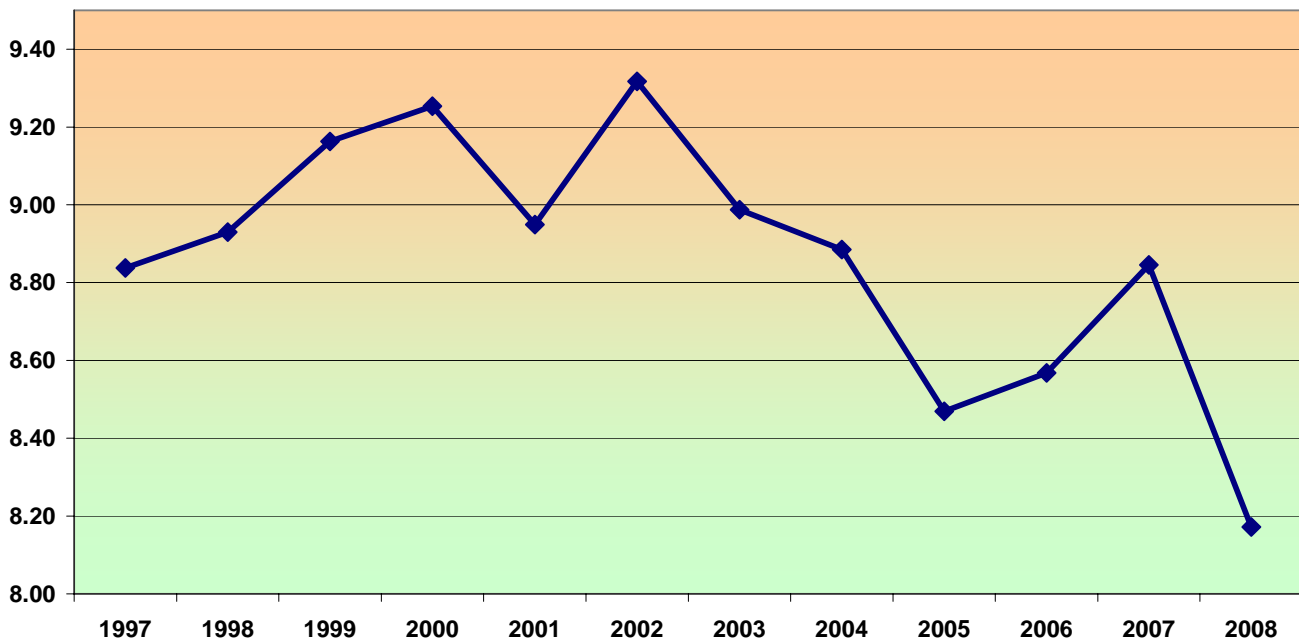
Budget

The net operating budget is recommended to experience an actual decline in appropriations for 2008-09. One of the results is that for the first time in more than a decade, layoff notices are being given to employees. This is a reduced, balanced, and financially sound budget that provides for essential county services for the coming fiscal year.

Total expenditures are recommended at \$349,713,940, with general fund revenues of \$56,628,976. Although the total recommended budget is \$22.9 million over last year's amount, the increase is due to \$32.2 million in new restricted capital spending for four major projects, including the Davis Library remodel, construction of the new Winters and West Sacramento branch libraries, and the expansion of the adult detention center. The 2008-09 net operating budget of \$282,721,025 (total budget minus capital projects, debt service and internal transfers) represents a decrease of 1% (\$1,560,115) from the 2007-08 budget.

For the first time in three years the total number of funded positions is recommended to drop by 118 from last year, representing a 6% decrease in workforce.

Figure 2. History of Authorized Full Time Positions



When departments were given budget instructions in January 2008, staff projected a beginning deficit of approximately \$18.9 million for fiscal year 2008-09. The deficit projection was based on the difference between estimated ongoing revenues and ongoing expenditures, with all one time expenditures removed from the estimate. After the initial estimate in January, the deficit increased by an additional \$2.8 million as a result of additional costs that were not included in the base budget calculation and a new prediction of significant loss of revenues from the Teeter property tax program.

As we began the construction of this budget in late fall and early winter, department heads were solicited to take a larger, countywide role in the development of the budget. Rather than addressing the shortfall from a departmental silo-based, prior-year expenditures baseline budget, discussions were held to encourage countywide solutions that aligned with the Board of Supervisors Strategic Plan. The result of these collaborations was the development of a priority-ranked funding system which allocated the planned use of reserves based on several factors, including degree of discretion, public safety, state mandates and use of other available funding resources. This recommended budget includes the use of nearly \$8.3 million in one-time reserves that, in conjunction with reductions made by departments, balance this budget.

County departments demonstrated extraordinary effort to meet spending targets. Departments were innovative and proactive in finding ways to reduce costs. For example, Planning and Public Works reduced costs by restructuring the building inspection process and will now have existing staff, rather than contractors, do all plan checks and building permit inspections. This results in a more efficient process, significantly reducing contracting costs and increasing revenue to the department. In most departments, but particularly in small departments, such as Agriculture, Parks and Resources, and Cooperative Extension, reductions to overtime, extra help and equipment purchases were made. Cooperative Extension reviewed their costs in telecommunications and by reorganizing equipment and service plans, made sufficient reductions to meet their goal. The County Clerk-Recorder and Sheriff significantly reduced costs by budgeting for operating reimbursements from special funds, rather than transferring at the end of the year as a balancing number. Also, departments did not fund currently vacant positions.

In addition, following Board of Supervisors approval, an uncompensated time off program was initiated to allow employees to purchase additional time off without the loss of benefits. Known as XTO, this voluntary time off program is assisting many departments in meeting their spending targets without the need for additional layoffs or mandatory furloughs. All general fund departments were also required to include additional salary savings (generally from holding vacant positions open for a period of time before filling them) to meet a target of 3.5% in additional savings.

Several departments, including Planning and Public Works, Agriculture, and Cooperative Extension, are closing over the two weeks of the winter holidays, using this voluntary time off to save both salary costs and facility expenses, while still maintaining minimum off-site operations to ensure necessary services.

The use of reserves, although planned, is not without peril. Paying for on-going costs with one time revenues is generally ill-advised. Further, the economy continues to struggle. Even experts cannot predict where it may go. Although economists are still arguing about whether California, or the nation, is or is not in a recession, revenues are certainly behaving as if we are. While there have been some recent positive indicators in the regional housing market, there is still widespread belief that no relief will be forthcoming through 2009. As a result, this budget should be considered a transitional budget to an even tighter county spending plan next year. Departments have built these expectations into their 2008-09 budgets, but it will be very challenging to maintain current service levels in 2009-10 absent a significant economic turnaround. We currently are projecting a continued deficit through 2009-10 with a beginning rebound in 2010-11. As a result, these revenues are being rationed in a transitional manner, to cover the lowest ebb of the economic cycle while preserving necessary services.

The budget has also been built without any impacts from the 2008-09 state budget. While there is certainty that counties will be negatively affected by the state's budget, it is impossible to identify how much they will be affected, or where those impacts will be felt. It is not likely that the state will enact a budget prior to the end of the fiscal year, and it is highly probable that it may be delayed significantly after the start of the new fiscal year. Staff will carefully monitor state actions and will return to the Board of Supervisors with proposed actions necessary to meet whatever reductions may be adopted.

Figure 3. Total Spending by Program Area

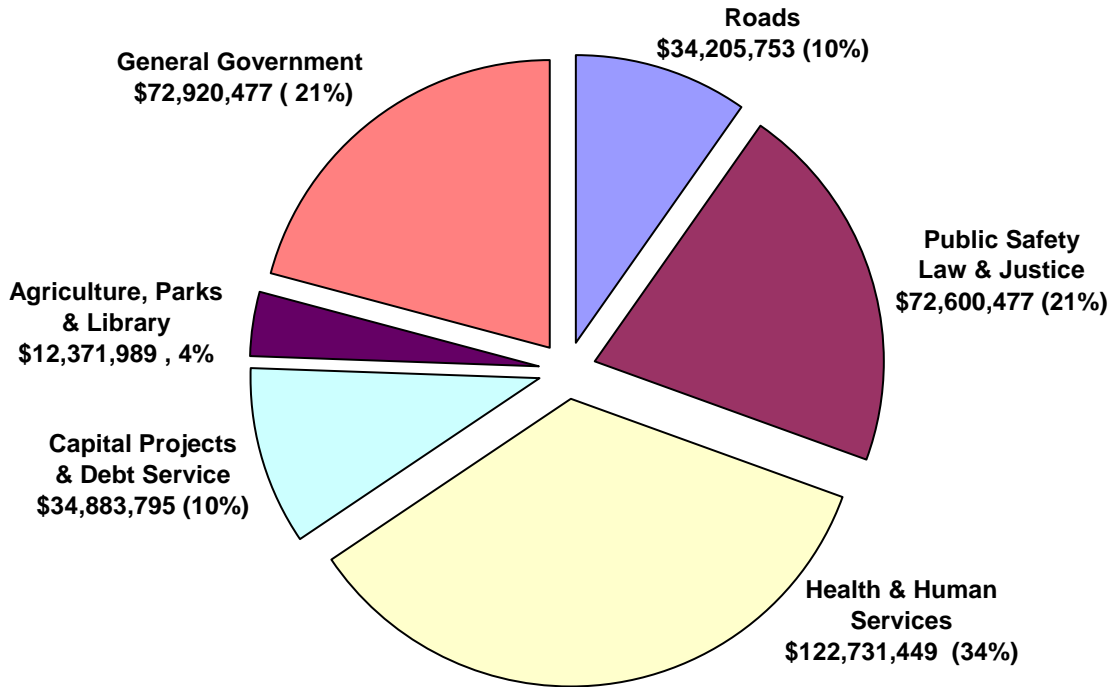


Figure 4. General Fund Spending by Program Area

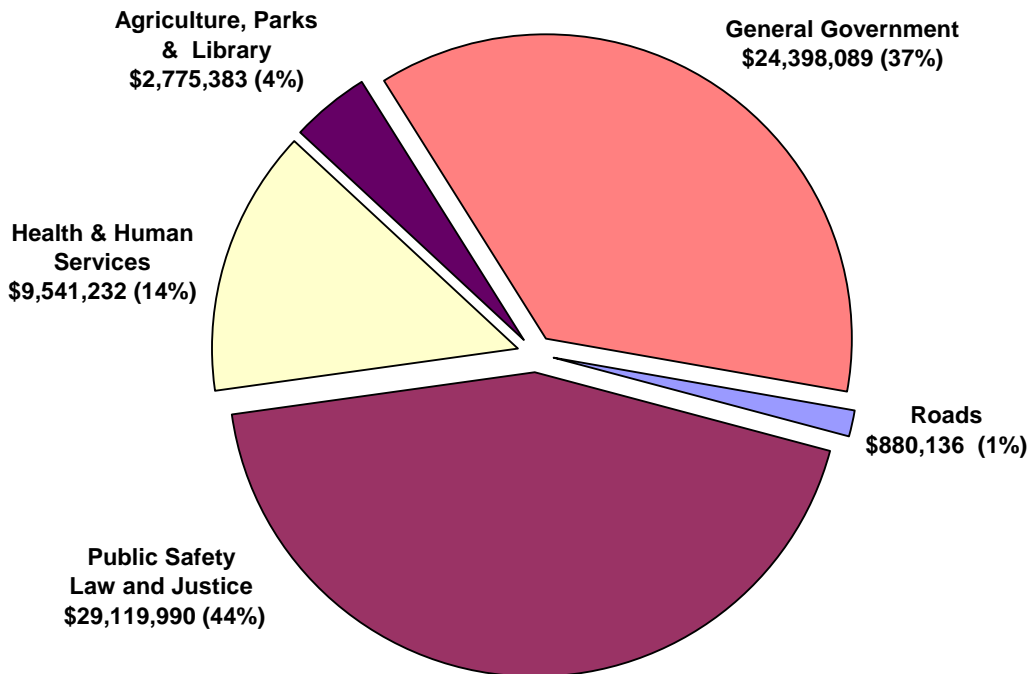


Figure 5. Sources of Total County Funds

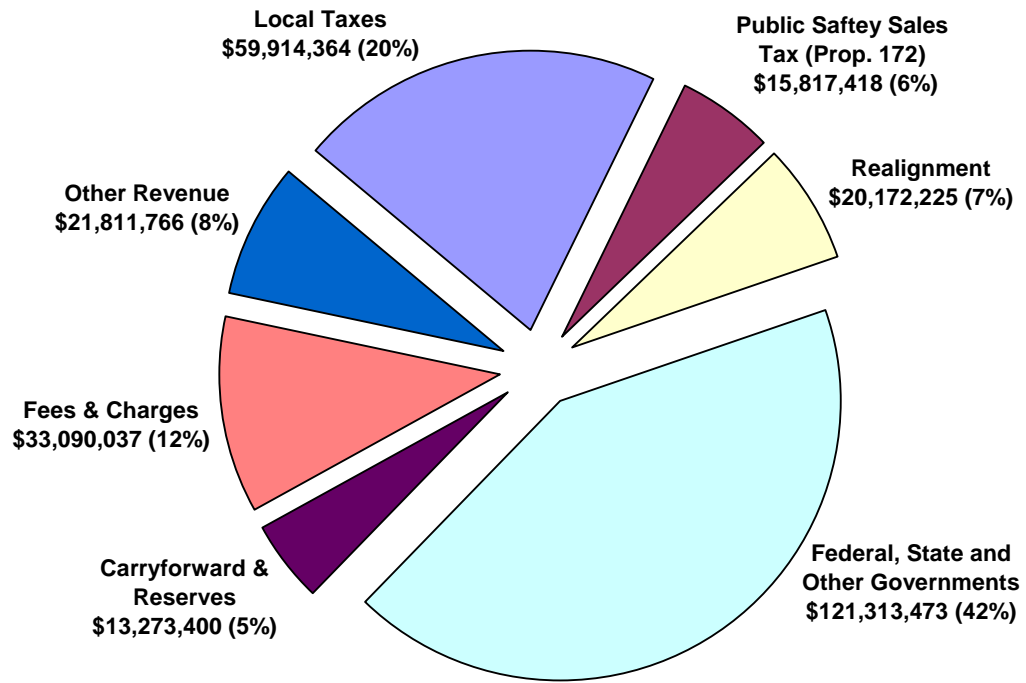
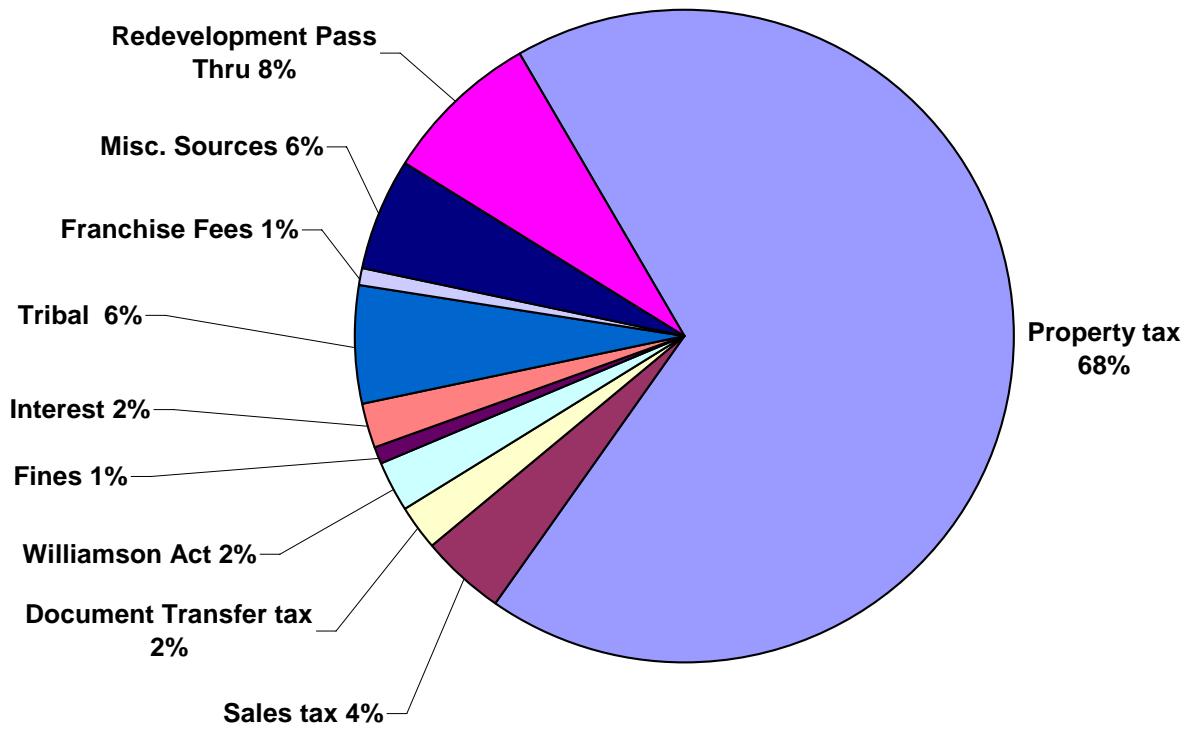


Figure 6. Sources of County General Fund



Alcohol Drug and Mental Health Services

One of the greatest challenges in the 2008-09 budget is concerning services provided by the Department of Alcohol, Drug and Mental Health (ADMH). On March 18, consultant Phil Batchelor presented a report to the Board of Supervisors outlining significant structural and fiscal issues within the department. Notably, in regard to expenditures the report stated:

“A review of the fiscal condition of the ADMH department revealed that in a three year time period, from 2004-05 to 2006-07, the department had overrun its budget by an accumulative total of \$8.5 million. In addition to this, the mid-year budget report that was presented to the Board of Supervisors on February 12, 2008 projects a deficit (expenditures in excess of revenues) for the current fiscal year of \$5.7 million in the ADMH department. If the current year’s projections are accurate, the ADMH department will have posted a \$14.2 million deficit in a four year period.”

Under the direction of interim department head Ed Smith, the predicted deficit in the current year has been reduced to \$4.3 million and a plan to bring the budget back in line within available revenues has been initiated.

For fiscal year 2008-09 the budget for the Alcohol, Drug and Mental Health Department will show significant differences from prior years. The basic principle behind the budget is to develop a program that will rely on revenues available to the program and have minimal impact on the county general fund. As presented, the proposed budget will provide for the lay-off of 27 county employees and reduce contracts with community-based organizations that have long been involved with Yolo County Alcohol, Drug and Mental Health. A new organizational structure will be created to accommodate these changes that will feature expanded opportunities for patients to receive brief services to reduce wait times. A small but specialized children’s service will be re-established, and services funded under the Mental Health Services Act (Proposition 63) will be expanded to serve as many clients as possible.

In this budget year, close examination will be paid to the Driving Under the Influence (DUI) program to see if it should remain a county program or be moved to the private sector. Because this program is closely linked to a variety of services to clients of the criminal justice system, careful evaluation will be necessary to monitor any unintended program impacts on the successful programs offered by the Yolo Superior Court.

Budgets for fiscal years 2009-10 and 2010-11 will depend in large measure on the department’s ability to increase revenue collection from Medi-Cal while reducing expenses currently committed to various forms of care for patients in hospitals and Institutes for Mental Disease (IMD’S). Increased training and efficiencies in the data and information systems are currently underway and will be required for success in future years.

State Budget Considerations

At the time this budget has been compiled, no final action has occurred on the state budget. As a result of Proposition 1A, no major shifts of local revenue have been proposed by the Governor or the legislature. However, the state still has many avenues to directly impact local county budgets, both positively and negatively. The following significant issues remain unresolved at this time. Final outcomes may result in the need for future actions by the Board of Supervisors.

Currently, the state has only \$15.3 billion available for internal borrowing and will likely have to borrow from external sources starting in mid-September. It appears the state has only two options available for external borrowing – Revenue Anticipation Notes (which require a state budget) and Revenue Anticipation Warrants (which don’t require a state budget, but are very expensive). The fastest the

State Controller has ever issued a Revenue Anticipation Warrant is 60 days, so the legislature will have to make a decision about the course of action as early as mid-July. California has the second lowest credit rating in the U.S., higher only than Louisiana. Without a budget, and with such a low credit rating, it will be very expensive for California to borrow money. The Controller estimates it will cost California at least \$200 million on top of already higher than normal borrowing and issuance costs. The Governor's budget already assumed the issuance of \$10 billion in Revenue Anticipation Warrants – the largest such issuance in the state's history. The state also will need an entity to back its Revenue Anticipation Warrants, which will add to the cost.

The following is a list of the estimated impacts in Yolo County from the Governor's May Revision of his January Budget:

Programs	January Budget	May Revision
Public Health		
HIV/AIDS Treatment and Prevention	(\$108,000)	(\$108,000)
California Children's Services/Child Health and Disability Prevention	(\$50,000)	(\$50,000)
Tuberculosis Control Program	(\$5,200)	(\$5,200)
Immunization Program	(\$2,500)	(\$8,300)
Pandemic Flu Program	(\$10,700)	(\$10,700)
Mental Health		
Early Periodic Screening, Diagnosis and Treatment Program	\$0	\$0
Mental Health Managed Care Program/State Maximum Allowance	(\$800,000)	(\$800,000)
Alcohol and Other Drug Programs	\$0	\$0
Proposition 36 Program/Offender Treatment Program	\$0	\$0
Social Services		
Pay for Performance Funds	\$0	(\$529,347)
Child Welfare Services Administration	(\$600,000)	(\$600,000)
Food Stamps	\$0	(\$150,000)
Adult Protective Services Administration	(\$40,000)	(\$40,000)
Medi-Cal Administration	\$0	(\$679,000)
In-Home Supportive Services (IHSS) Administration	(\$163,000)	(\$163,000)
In-Home Supportive Services Program Savings*	*	*
Reduced State Participation in IHSS Wages	*	*
Justice and Public Safety		
Juvenile Probation Camp Funding	(\$45,444)	(\$45,444)
Juvenile Justice Crime Prevention Act Program	(\$62,509)	(\$62,509)
Mentally Ill Offender Crime Reduction Grant	(\$90,000)	(\$90,000)
Citizens Option for Public Safety (COPS) Program	(\$17,000)	(\$17,000)
Rural and Small County Sheriffs Program	(\$50,000)	(\$50,000)
General Government		
Delay of Third Installment of the Deferred Mandate Payments	\$0	(\$94,000)
February 2008 Presidential Primary Election	\$0	\$0
Public Library Fund	(\$5,375)	(\$5,375)
Subventions for Open Space (Williamson Act)	(\$130,000)	(\$130,000)
Total	(\$2,179,728)	(\$3,637,875)

* Additional costs or savings will be contingent on future Board of Supervisors action.

Fiscal Year 2007-08 Recommended Budget

The Yolo County budget is composed of seven major funds and a large number of smaller special funds, internal service funds, enterprise funds, debt service and capital project accounts. The recommended budget includes:

General Fund	\$63,338,657
Employment & Social Services Fund	\$74,971,936
Public Safety Fund	\$56,014,164
Medical Services and YCHIP Funds	\$21,691,936
Mental Health Fund	\$22,994,640
Road Fund.....	\$20,816,570
Library Fund	\$5,275,098
<u>Other Funds</u>	<u>\$84,281,019</u>
TOTAL.....	\$349,713,940

The total budget of all funds pays for a wide variety of services, programs and projects that are financed by many revenue sources including grant funds, state and federal revenues, and numerous fees that are acquired in exchange for providing requested services to members of the public. When all of these funds and sources are combined, and internal transfers are taken out to avoid double counting, the fiscal year 2008-09 recommended budget totals \$349,713,940.

The recommended budget includes a net decrease of 107.5 new positions. Of the employees who are subject to layoff, all efforts are being made to find new employment locations within the county. Detail on all county positions is provided in the Appendix.

Capital Improvements and Debt Service

The capital improvement budget is financed by state grants, development impact mitigation fees, Accumulative Capital Outlay funds and certain special revenue funds. The recommended budget for capital improvements is \$32.2 million to finance the following items:

- \$5.1 million for the construction of a new branch library in Winters
- \$7.6 million for the construction of a new branch library in West Sacramento
- \$6.6 million for the remodel of the Davis branch library
- \$ 8.7 for expansion of the current adult detention facility
- Replacement of aged equipment, in the amount of \$2.2 million (see Appendix A - Equipment List).
- Road Fund Projects in the amount of \$10.3 million

Debt service remains very low – just \$2.6 million of the total budget, although it has increased with the passage of Measure P for fund the Davis Library project. Debts currently being paid include the West Sacramento County Service Center, the District Attorney’s building, the Davis Library, and the Davis county offices.

Reserves

The county’s conservative approach to budgeting has allowed the gradual accumulation of reserves to offset future obligations. Use of reserves in fiscal years 2003-04 and 2004-05 prevented the county from resorting to more extreme cost-cutting measures like layoffs and service cuts. The recommended budget includes the following reserves:

General Fund Reserve	\$4,925,628
Road Fund Deferred Maintenance Reserve	\$3,000,000
Reserve Against Unfunded Liabilities	\$890,000
Other Post-Employment Benefits Reserve	\$1,100,000

Two years ago, the Board of Supervisors created a new reserve for Other Post-Employment Benefits (OPEB). The Governmental Accounting Standards Board (GASB), the accounting rule-making body for public entities, issued Rule 45, which requires governments to begin reflecting their post-employment benefits obligation on their balance sheets. For the county, the only OPEB of significance is our commitment to provide partial payment of retiree health care premiums. The costs of this contribution increased this year as the result of legislation which passed in 2007. The California Public Employee Retirement System (CALPERS) for health insurance requires the county to provide at least minimal levels of premium payment for qualified retirees. For 2008-09, it is recommended that these benefits be funded on a “pay-as-you-go” basis for a total of \$2.0 million.

Pursuant to GASB 45, the county commissioned an actuarial study to determine its OPEB liability. This study is currently being updated. The result found an obligation in excess of \$150 million, based on current health care cost increase assumptions and the demographic profile of our workforce. Accounting for OPEB’s will represent a sea change for all local entities because most, like Yolo County, have been funding these obligations on a pay-as-you-go basis, with the projected cost in this year’s budget of \$2.0 million.

All cities, counties and other public agencies in the country are facing the same challenge in addressing the liabilities identified in GASB 45 – the huge up-front cost of fully funding unfunded, accrued liability, as well as set-asides for future liability. The California State Association of Counties as well as CALPERS and others are working to develop statewide solutions, including a possible irrevocable trust funding instrument, to address GASB 45 liability funding. Staff will continue to monitor these activities and will analyze any opportunities to address this issue in a more economical manner.

Conclusion

Although it will be a difficult year, the recommended budget is balanced and prudent. As we have learned over the years, county governments, including ours, are highly sensitive to many external factors beyond our control. This budget represents a fiscal plan for the year, but it is also the first step in the plan for the future of Yolo County.

The County of Yolo continues to benefit from an engaged, skilled and dedicated workforce who should be recognized for their ongoing commitment to quality, service and integrity. I wish to thank our department heads, budget staff, human resources staff, the Auditor-Controller, and fiscal staff throughout the county whose hard work contributed to the creation of this budget. I also wish to acknowledge the Board of Supervisors for your consistent leadership and outstanding stewardship of the public’s trust.

Respectfully,

Sharon Jensen, County Administrator