



COUNTY OF YOLO

Office of the County Administrator

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June 16, 2009

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

Subject: County of Yolo Recommended 2009-10 Budget

Dear Members of the Board of Supervisors:

With this letter I submit for your consideration the recommended budget for Yolo County for 2009-10. It adjusts departmental expenditures and revenues for the coming fiscal year, meeting all legal requirements and Board of Supervisors adopted policies. On June 16, 17 and 18, 2009, the Board of Supervisors will conduct a public hearing to consider the recommended spending plan at which time you may add, delete or modify this recommended budget as you deem appropriate.

Total expenditures for the county are recommended in the amount of \$330,675,671 with general purpose revenues of \$54,470,681. Capital expenditures are recommended at \$18,483,432, including the completion of the major library projects in Winters and West Sacramento and the remodeling and expansion of the Davis Library. The recommended budget results in a 2009-10 operating (or net) budget (total budget less internal transfers, capital projects and debt service) of \$281,537,860, a decline of \$1,223,165 from 2008-09, for a two year decline in net operating funds of \$2,783,280. The budget once again relies on the use of general fund reserves (\$4.2 million) to balance.

Recommended Action

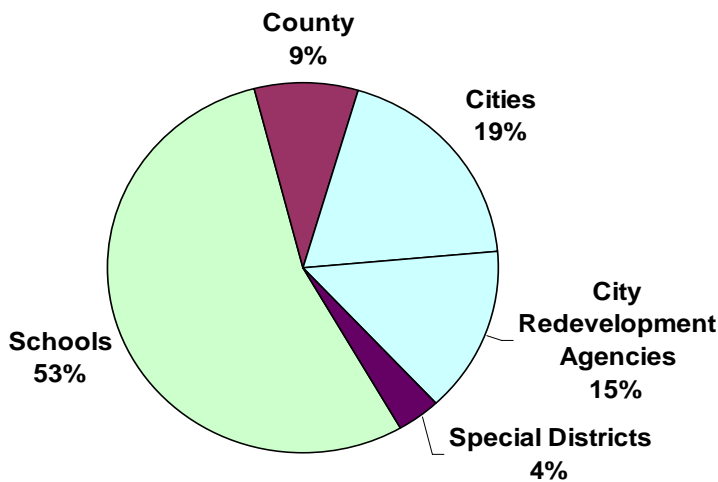
Adopt the attached recommended budget for Yolo County and return within 30 days of the state's passage of the revised 2009-10 state budget to make additional changes as needed.

Introduction

This has been the most difficult budget in many years to prepare, compile and present to you with my recommendation.

It has been shaped by the economic forces beyond our control – a national economy in turmoil and a state on the brink of fiscal collapse. But although the budget is a product of the revenue and the economic uncertainty that those forces bring to bear, it is not defined by them. It is what the county will do with whatever resources are available that defines the Yolo County budget. Under the strong leadership of the Board of Supervisors, this budget has been crafted with a clear direction – a strategic plan with goals and a vision for where this county should be by 2012.

Figure 1. Property Tax Shares in Yolo County



Yolo County is the hardest pressed of all counties to respond to times of fiscal stress. The longstanding policy of the Board of Supervisors to preserve and protect agriculture as well as the string of events that led to Yolo's lowest share of property tax in the state have resulted in Yolo paying a dear price for its values. What this county may lack in financial resources, however, it exceeds in leadership and human resources.

As economic crises go, this crisis may be one for the record books. No longer confined to the housing sector, or the financial sector, it has spread virally on a global basis. It has undermined consumer

confidence in a national economy built on consumer spending. But the federal government has quickly stepped in to rescue private sector corporations. These businesses were deemed too big too fail; the result of their impacts on employment, banking and ancillary economic impacts being too large for an already weak economy to handle. As a result, the federal government has spent billions to prop them up and ensure that the economy is provided enough stimulation to prevent further spirals downward.

Yet governments, particularly California's government, have seemingly not been given the benefit of the same analysis. For our state it may be the result of the continued partisan budget battles, year after year of one-time fixes, smoke and mirrors and magical thinking. Yet the impacts of a failure of the state of California, even if we have no one but ourselves to blame, will have far-reaching impacts.

California, were it a nation, would be one of the world's top ten economies. One of the largest segments of California's economy is government employment. Nearly one in five workers (17.7%) in California works at the federal, state or local level of government. While the state does have its share of prison guards, college faculty and DMV desk staff, most of the state's spending is actually done at the local level where teachers, social workers, doctors and road crews get their wages, at least in part, from state funds.

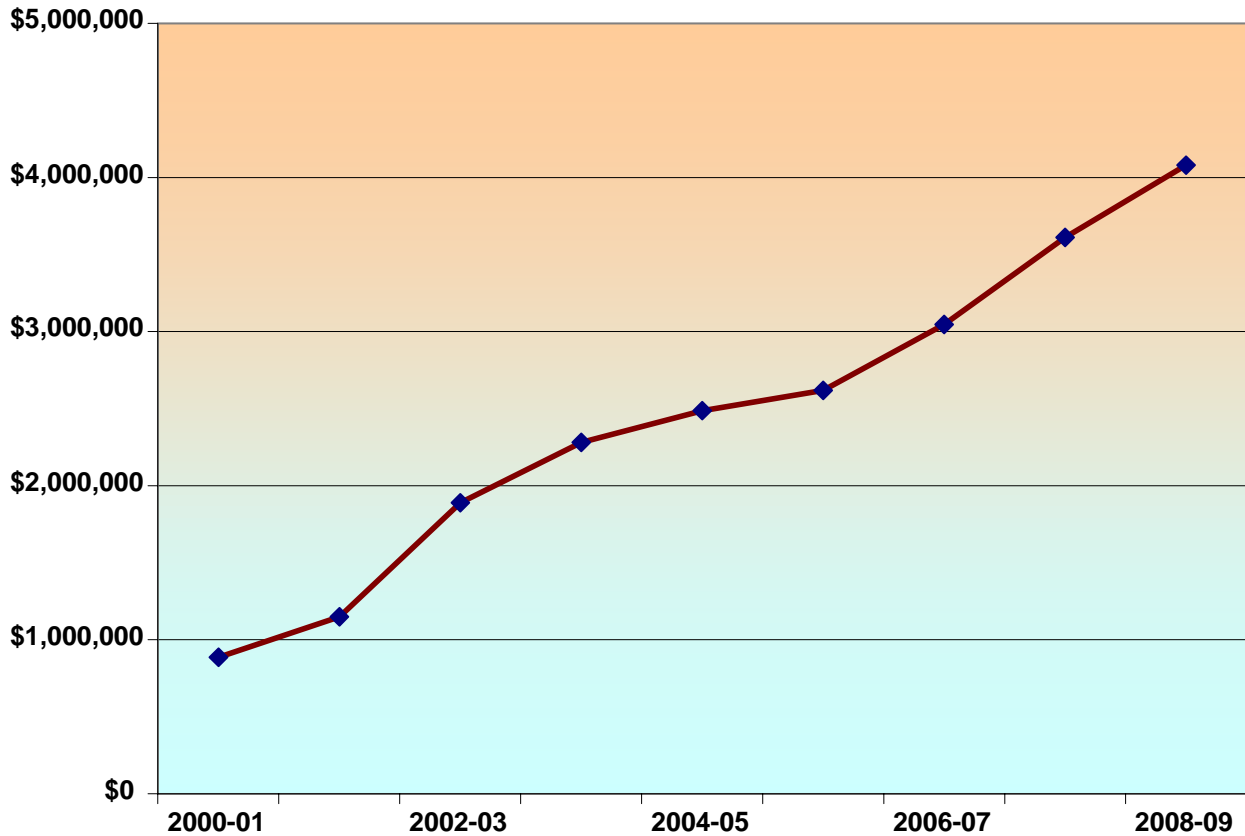
As an arm of the state, it is counties that deliver the services to millions of Californians. Many of our programs are designed to provide a safety net to those in need, often serving as truly the last resort. Other county services benefit the wealthy as well as the poor, such as public health or criminal prosecution. We are there at the beginning of life with a birth certificate to mark the official record, and for some, at the end, when after dying alone and sometimes unnoticed, the county steps in to provide a proper memorial to a human life.

For as long as most can remember, counties have struggled with the state to receive adequate resources to meet not only the legal mandates but also our responsibility to the people those programs serve. It has been an ongoing battle that counties have frequently lost. The state often views counties as having the resources and the obligation to provide those resources at the local level, overlooking the reality that Boards of Supervisors have precious little in the way of revenue authority and more competing demands for resources. The coming year, with the state in true fundamental crisis, may result in one of the biggest struggles ever in the ongoing dysfunctional relationship between counties and the state.

One example of the disconnection between state funding and local responsibility is the In-Home Supportive Services program. This program, which is funded locally through Realignment funds, provides necessary support for low-income disabled individuals to allow them to remain out of

institutional care settings. This program has been funded through Realignment from the beginning in 1991. But as a result of numerous changes made by the legislature, it has grown out of proportion with all other programs funded by Realignment. As Realignment provides a limited amount of funding each year, the continued growth in this program, if unchecked, will require either cutbacks in health, mental health and social services, or an infusion of county general fund at some point. Of note, this year, Realignment funds are anticipated to drop an additional 7.5% on top of the 5% decline in 2008-09.

Figure 2. Yolo County In-Home Supportive Services Costs



Fiscal Outlook

Economists are projecting a continued recession in California, some indicating it may last at least through the year 2010. Yolo County is continuing to witness a decline in property values as the housing market continues to seek a bottom. The Assessor is anticipating reassessments of at least 20,000 properties in 2009, up from 12,000 in 2008. At this level, the Assessor will be examining one in three homes for a potential loss of value. The recommended budget projects a 4% decline in property values for 2009-10.

As a result of this continued decline, the county will once again experience a shortfall in so-called “Teeter” revenues, which in the past have provided as much as \$1 million to the county general fund. These revenues are derived from paying all of the entities in the county that receive property tax their full allocation as if all taxpayers had paid on time and in-full. The county then receives all of the penalties and interest on the collections for those who did not make full payments. Although this revenue source will reappear as houses move on the market, we are anticipating no revenue from Teeter this year.

In addition to the loss of property tax, the county is experiencing significant declines in two important revenues which are derived for state collections. Specifically, these revenues are the Public Safety sales tax (Proposition 172) which provides funds from a ½ cent sales tax collected statewide, and Realignment, which provides funds from a ½ cent sales tax and a portion of vehicle license fee revenues. Public Safety funds the Sheriff, the District Attorney and Probation. Realignment funds health, mental health and social services programs. As a result of the drastic drop in consumer sales, both of these funds are anticipated to decline; Public Safety by 10% and Realignment by 7.5%.

This year, in the face of an overwhelming state deficit, it is likely that counties will see dramatic changes in spending. First, counties are dealing with their own economic downturns. In Yolo County, we began our budget planning with a projected general fund deficit of \$22.5 million – approximately 33%. As the budget was prepared, that gap grew to \$24 million as a result of worsening conditions. This shortfall was projected as a comparison between ongoing revenues and ongoing expenditures, with one-time funds removed. Although the state adopted a budget in February for 2009-10 – an unprecedented action – that budget is currently \$25 billion out of balance.

Budget

Due to the poor economy, budget planning activities began much earlier than normal for 2009-10. Initial planning projections were established in December of 2008. A two day planning session was held by the Board of Supervisors and department heads at the end of February. During that session, Board members supported the use of \$4 million in reserves, \$2 million in new revenue and a target of \$5 million in general fund (\$10 million total funds) from countywide options. When departments were given budget instructions in January 2009, staff projected a beginning deficit of approximately \$22.5 million for fiscal year 2009-10. 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 December, the deficit increased by an additional \$2 million.

Last year, 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 \$8.2 million from reserves based on several factors, including degree of discretion, public safety, state mandates and use of other available funding resources. This year, as the economic picture continued to decline, these new base budgets were the basis for the planning for this upcoming fiscal year.

In order to meet the budget targets, a furlough will likely be required for all workers of between 80 and 96 hours. This remains subject to negotiations which are continuing as this letter is written.

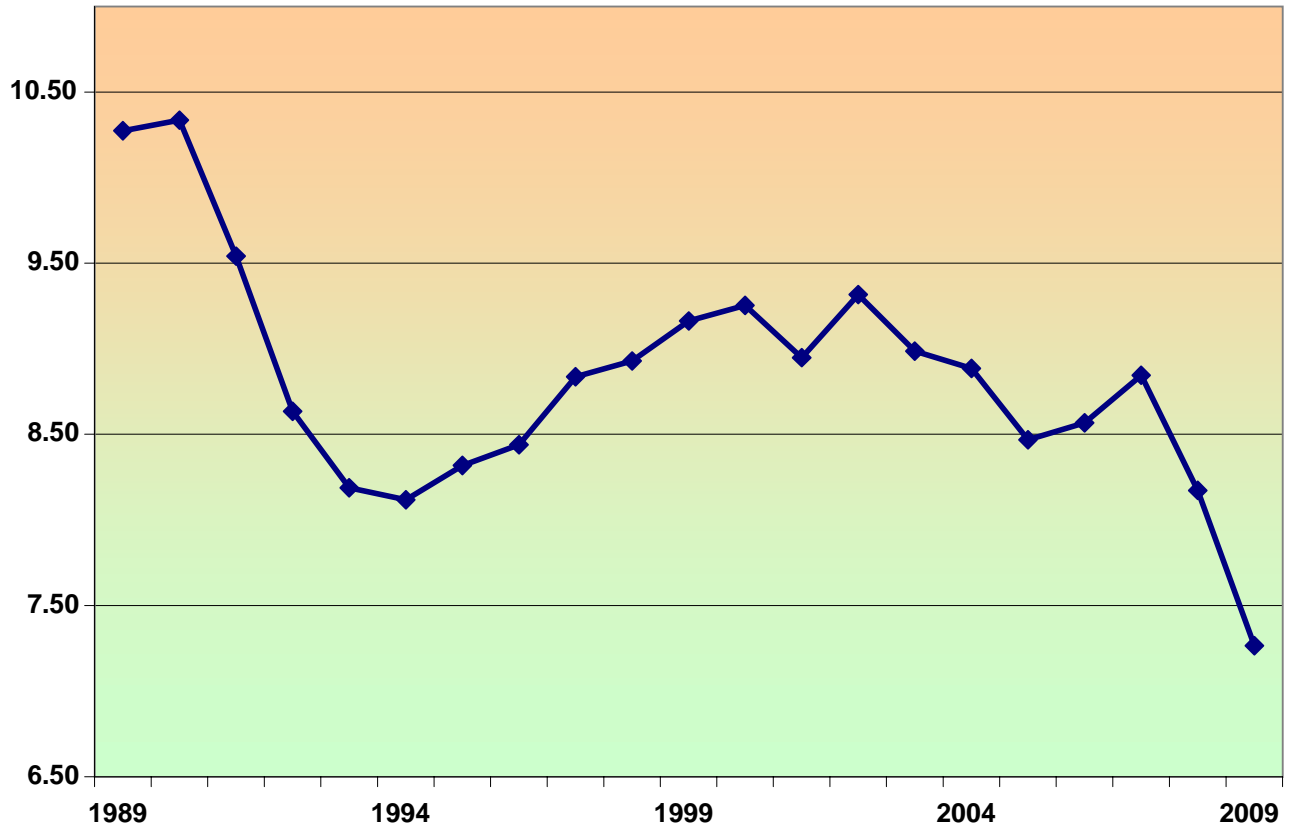
The continued use of reserves, although planned, is not without peril. Paying for ongoing costs with one time revenues is generally ill-advised. **At the end of the coming fiscal year, Yolo County will have expended 73% of our reserves within two years.** As a result, this 2009-10 budget should be considered a transitional budget to an even tighter county spending plan next year.

This is the second year of a net decline in operations. As a result, the Yolo County workforce will decrease by 161.5 funded positions in 2009-10. Over two years, the number of funded positions in the county will have declined by 265, a 15% decline.

Total staff reductions include 41 layoffs and 103 retirements. In order to decrease the number of layoffs and reduce expenditures the Board of Supervisors approved offering the CalPERS option of two years of retirement service credit for those who retire within a specified time frame. In order to take advantage of this option, agencies must demonstrate to CalPERS that the program will save the

agency money. In Yolo County, this is accomplished both by holding positions vacant and by setting aside the funds required to pay the cost of the benefit. Under this program, retirements are accelerated (occurring generally one to three years earlier than would otherwise be the case) and positions are freed up for staff that would otherwise have to be laid off. It is estimated that more than 60 jobs will be preserved using this program.

Figure 3. History of Authorized Full Time Positions per 1,000 County Residents



The impacts of these reductions will be significant. Offices may need to be closed and hours adjusted in order to meet service demands with fewer staff. For example, the Agriculture/Cooperative Extension program will only be open four days per week. Many offices will be closed during the last two weeks of the calendar year. The county will continue to struggle to serve the public in the best manner possible which will involve innovation and adaptation. County workers strive to continue to provide the highest level of service possible, which sometimes masks the severity of budget reductions. But delays in service are likely as fewer workers handle increasing caseloads.

Figure 4. Total Spending by Program Area

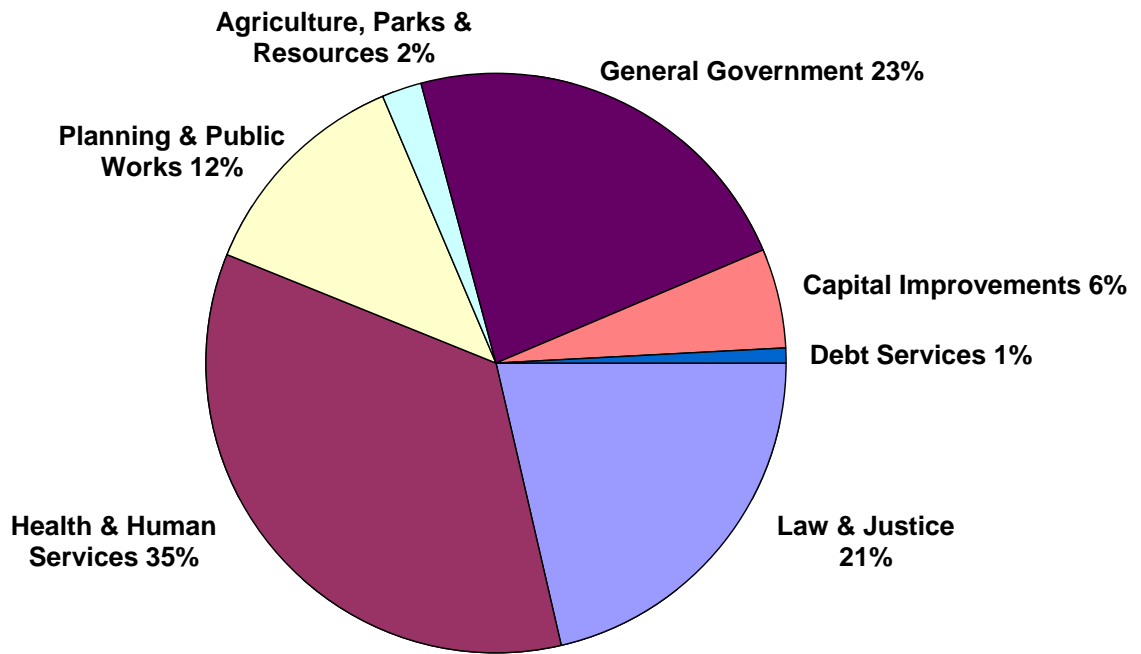


Figure 5. General Fund Spending by Program Area

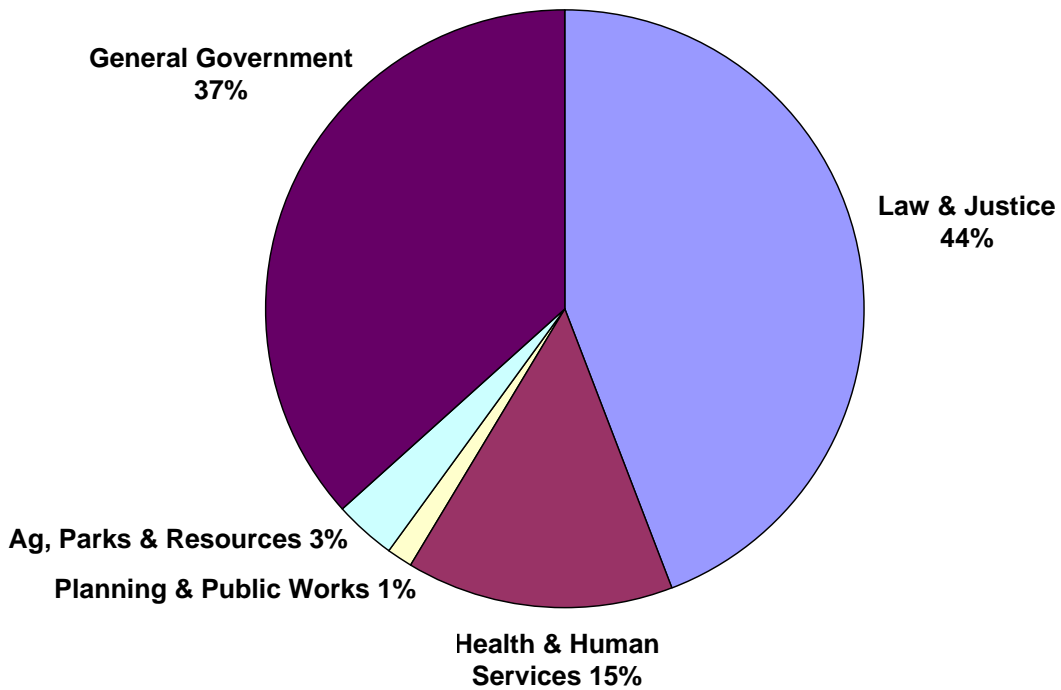


Figure 6. Sources of Total County Funds

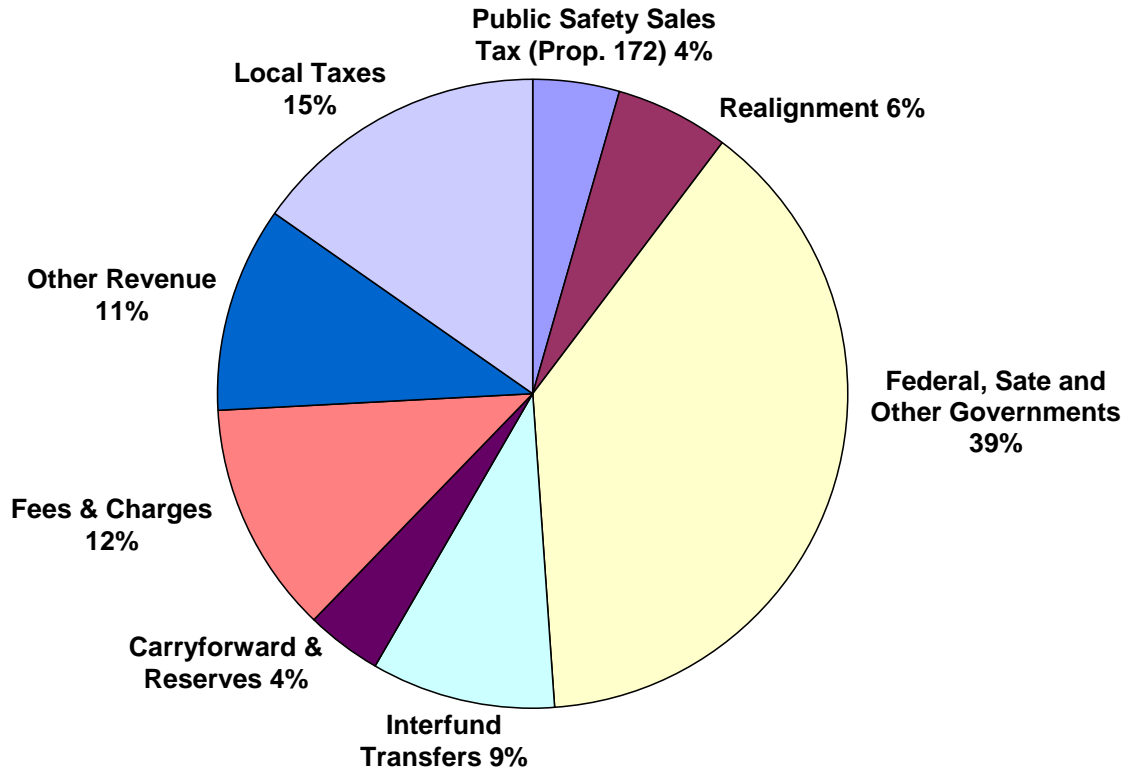
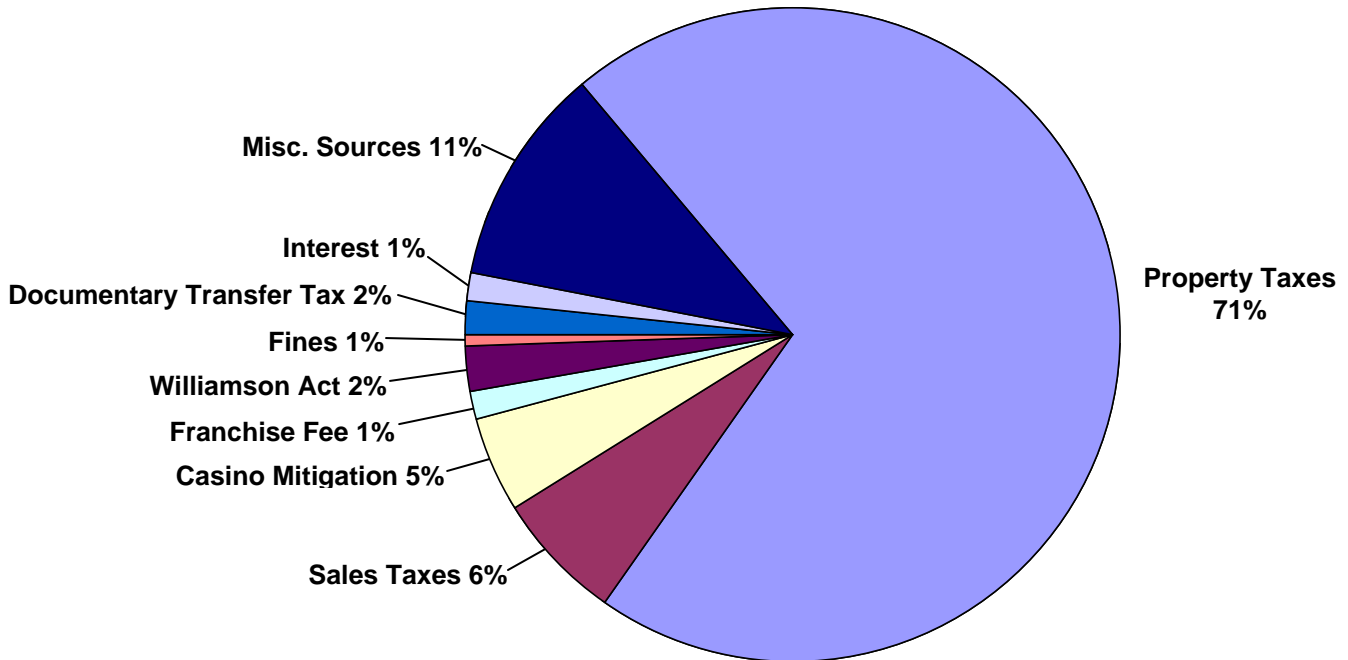


Figure 7. Sources of County General Fund



State Budget Considerations

At the time this budget has been compiled, the state has yet to finalize actions to adjust their budget to the new fiscal reality of the \$25 billion deficit they are currently facing. Proposals have already been made to borrow local property taxes as allowed under the California Constitution, as well as cut major subventions to counties, including eliminating the payments for the Williamson Act – \$1.1 million to Yolo County, eliminating the funds for the Rural Law Enforcement Grants (\$500,000) and Juvenile Justice grants (\$500,000) as well as elimination of the CalWORKs program.

Currently, the state has limited funds available for internal borrowing and will have to borrow from external sources starting in mid-summer. With the continuing turmoil in the markets, and the fact that California has the lowest credit rating in the U.S., it will be very expensive for California to borrow money. The State Controller estimates it will cost California at least \$500 million on top of already higher than normal borrowing and issuance costs.

The following is a list of the estimated impacts in Yolo County from the Governor's May Revision of the budget that was adopted in February, and after the May election (note that some of the proposals are incompatible – the administration has not yet provided a consolidated list of all proposals):

Programs	Proposal Source	County Impact
General Revenues		
Borrow property taxes pursuant to Proposition 1A; \$1.982 billion impact to all locals, allocation unknown	May Revision	\$1.982 billion
Delay usual payments to counties to preserve state cash - February to March 2009	Cash Management	~\$500 million
Defer July & August payments for health and human service programs to most counties and aid recipients	2009-10 Budget	\$1.3 billion
Defer unspecified further payments to local agencies	LAO/May Revision	\$ billions
Eliminate Williamson Act subventions to local agencies (on top of existing 10% reduction)	May Revision	\$34.7 million
Defer payment for pre-2004 mandates	2009-10 Budget	\$91 million
Require counties to conduct May 19 special election	2009-10 Budget	\$68 million
Suspend most state mandates, except those related to law enforcement and property taxes	May Revision	\$100.3 million
Defer funding for AB 3632	May Revision	\$52 million
Health and Human Services		
Eliminate CalWORKs; would increase county GA costs substantially	May Revision	\$ hundreds of millions
Increase the county share of Child Welfare Services and Foster Care to 75 percent of the nonfederal costs of each program.	May Revision	\$550-625 million
Impose 60-month time limit on child-only CalWORKs cases; separately, modify Safety Net aspect of CalWORKs so children lose assistance when parents reach 60-month limit; increase county GA costs	May Revision	\$ tens of millions
Eliminate state funding for Prop. 36	May Revision	~\$100 million
Eliminate CAPI benefits for legal immigrants; would increase county GA costs	May Revision	\$ tens of millions
Reduce child welfare allocations to counties; counties would also lose associated federal funds	May Revision	\$70 million

Reduce mental health managed care allocation to counties by \$64 million, with no reductions on service expectations for this federal entitlement.	May Revision	\$64 million
Sweep some federal Medi-Cal funds intended for public hospitals	2009-10 Budget	\$54.2 million
Defer paying the mandate for AB 3632 mental health services	May Revision	\$52 million
Eliminate 2009-10 County Medi-Cal Cost of Doing Business Adjustment	2009-10 Budget	\$49.4 million
Suspend CalWORKs Pay for Performance program	2009-10 Budget	\$40 million
Reduce the Early, Periodic Screening, Diagnosis and Treatment (EPSDT) allocation to counties by \$28 million with the expectation that counties will backfill with Mental Health Services Act funds.	May Revision	\$28 million
Seek \$1 billion in federal waivers for unspecified Medi-Cal changes	May Revision	\$ tens of millions
Reduce Medi-Cal scope of benefits for legal immigrants; increases costs to public hospitals & clinics	May Revision	\$ few million
Eliminate the Healthy Families Program for the 930,000 children currently served; may increase costs to public hospitals, county clinics, mental health and California Children's Services program.	May Revision	\$ few million
Suspend General Fund support for immunization assistance to local agencies	LAO	\$18 million
Establish 30% county share for Transitional Housing Program Plus for emancipated foster youth	LAO	\$12.3 million
Reduce state participation in IHSS wages from \$11.50 to \$8/hr; no relief from collective bargaining	2009-10 Budget/May Revision	\$ tens of millions
Eliminate \$24.6 million of local funding for HIV Education and Prevention	May Revision	\$ millions
Eliminate \$10 million of local funding for Maternal, Child and Adolescent Health Grants	May Revision	\$ millions
Transportation		
Borrow all 2009-10 HUTA distributions (gas tax subventions) to locals with no interest	LAO	\$500 million
Sweep three-fourths of local HUTA funds permanently	May Revision	\$375 million
Delay January through March HUTA payments until April payment is made in May 2009	2009-10 Budget	\$125 million
Repeal Prop. 42 for 2010-11 and all out-years (\$325 million/year)	LAO	\$325 million
Suspend most of Prop. 42 in 2009-10	LAO	\$225 million
Justice		
Redirect half of 0.15 VLF rate increase; eliminate COPS, rural and small county sheriff assistance, booking fees, and all CalEMA local assistance programs	LAO	\$250 million
Make certain wobblers subject only to jail time	May Revision	\$99.9 million
Phase in competitive bidding for court security	LAO	\$20 million
Charge state and local agencies for forensic lab services	LAO	\$40 million
Implement a series of sentencing and parole changes; eliminate inmate rehabilitative services (except those that are court-ordered) within state prison system	LAO/May Revision	Unknown but significant impacts

Fiscal Year 2009-10 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	\$56,277,999
Employment & Social Services Fund	\$72,580,539
Public Safety Fund	\$54,475,349
Medical Services and YCHIP Funds	\$16,978,256
Alcohol, Drug and Mental Health Services Fund.....	\$25,885,610
Road/Transportation Fund	\$25,440,805
Library Fund	\$6,537,540
Other Funds	\$70,124,231
Cache Creek Area Plan.....	\$2,555,342
Total.....	\$330,675,671

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 2009-10 recommended budget totals \$330,675,671.

The recommended budget includes a decrease of 161.5 funded positions. Of the employees who are subject to layoff, all efforts are being made to find new employment locations within the county or to assist with outside employment opportunities. Detail on all county positions is provided in Appendix D.

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 \$18.5 million, including the following major items:

- \$3.4 million for the construction of a new branch library in Winters
- \$5.6 million for the construction of a new branch library in West Sacramento
- \$6.6 million for the remodel of the Davis branch library
- Replacement of aged equipment, in the amount of \$1.53 million (see Appendix B - Equipment List).
- Road Fund Projects in the amount of \$10.9 million

Debt service remains low – \$2.5 million of the total budget. Debts currently being paid include the West Sacramento County Service Center, the District Attorney’s building, the Davis branch library, and the Davis county offices.

Reserves

During the year’s when the county was experiencing growth, primarily in property taxes, the Board of Supervisors put aside funds with the expectation of spending those funds when necessary in future years. This budget again pulls funds from reserves in order to reduce the impacts in services that would otherwise result from dramatic budget reductions. \$8.2 million in reserves were used in 2008-09 and an additional \$4.2 million are recommended for use in 2009-10, bringing the total use of reserves to \$12.4 million in two years.

The recommended budget includes the following remaining reserves:

General Fund Reserve	\$3,925,628
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, this cost funds 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.

Pursuant to GASB 45, the county commissioned an actuarial study to determine its OPEB liability. The results found an unfunded future obligation in excess of \$150 million, based on current health care cost increase assumptions and the demographic profile of our workforce. Few counties have the resources available to fully fund the cost to extinguish this liability. Particularly in these extraordinary fiscal times most counties, like Yolo, are continuing to fund these obligations on a pay-as-you-go basis. The budgeted amount for this cost for 2009-10 is \$2,711,900.

Conclusion

It is very difficult, but critically important to remember and convey in the midst of the struggles that will be faced by the county and the people we serve in the coming year, that this is a temporary condition. The economy may be slow to rebound, but it will rebound. The key for local governments is to ensure that the way that reductions are made during the downturns is in such a way that we can nimbly respond when conditions improve.

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 and commend the Board of Supervisors for your consistent leadership and outstanding stewardship of the public's trust.

Respectfully,



Sharon Jensen, County Administrator