



BUDGET MESSAGE

**Photo Courtesy of Geena Davis
Doe and Fawn in Meridian walnut orchard**



County of Sutter

Office of the County Administrator

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Date: June 12, 2018

To: Honorable Chair & Members of the Board of Supervisors

From: Scott Mitnick, County Administrator

Subject: Recommended FY 2018-19 Budget

On behalf of the County management team, it is my pleasure to submit a balanced Countywide Recommended Budget for Fiscal Year (FY) 2018-19. This document includes estimated revenues/sources of funds and recommended appropriations for both the Operating Budget and Capital Improvement Program (CIP) Budget.

Incorporation of Board of Supervisors Goals and Top Ten Priorities

On June 13, 2017, Board of Supervisors established ten broad Countywide Goals for FY 2017-18, ten Countywide Top Priorities for FY 2017-18, and five Board of Supervisors "Norms." These three important public policy documents represented a significant step toward developing a strategic plan for the organization's future.

Ideally, Board of Supervisors would have held a Strategic Planning Study Session in April or May of this year (prior to the County Administrator's submittal of this Recommended Budget document) to review, and if necessary revise, the organization's Ten Goals and Top Ten Priorities. However, it was decided to delay this study session until after the South Yuba City/Keyhole Annexation vote on June 5, 2018. If this annexation passes, it will have financial, staffing, and service impacts for both the County organization and local community. As a result, the FY 2018-19 Strategic Planning Study Session will be scheduled after both the June 5th annexation vote and Board of Supervisors June 12, 2018 review and approval of the Recommended FY 2018-19 Budget.

It is anticipated that the FY 2018-19 Strategic Planning Study Session will take place in July or August 2018. As a reminder, part of Top Priority #1 ("Preparation of a Long-Term Organization Strategic Plan") includes establishment of a Countywide Mission Statement and Customer Service Philosophy. Proposed samples of both policy statements will be presented to the Board of Supervisors at the upcoming study session.

Status Quo Budget

The Recommended FY 2018-19 Budget represents a basic “status quo” spending plan, which reflects a stable local economy and an organization that is committed to living within its means. As the realities of our financial challenges become more clear, combined with the ability of a stronger and more focused team of professionals working on the County’s budget, staff will be in a better position to conduct a comprehensive review of the organization’s budget practices, internal structure, and operations to ensure long-term fiscal sustainability. This Recommended Budget will allow the County organization to continue pursuing its goals while providing vital services throughout the upcoming fiscal year. However, many difficult decisions will have to be made as the County approaches FY 2019-20 to enable continued provision of services in the future.

Budget Overview

Total Recommended FY 2018-19 Budget appropriations (for all funds) is \$334,869,498. This represents an increase of \$12,525,530 (or 3.9%) from the Adopted FY 2017-18 Budget of \$322,343,968. The following table illustrates the allocation among the ten largest operating funds:

No.	Fund	Adopted FY 2017-18	Recommended FY 2018-19	Change	
				Dollars	Percent
1.	General	\$65,183,327	\$67,954,684	\$2,771,357	4.3%
2.	Welfare/Social Services	51,641,325	57,829,993	6,188,668	12.0%
3.	Bi-County Behavioral Health*	36,979,635	38,740,729	1,761,094	4.8%
4.	Public Safety	31,676,296	33,269,562	1,593,266	5.0%
5.	Health Services	12,683,047	13,844,372	1,161,325	9.2%
6.	Road	15,048,944	13,099,289	(1,949,655)	(13.0%)
7.	Mental Health Services Act*	Included with Bi-County Behavioral Health			
8.	Trial Courts	10,148,085	10,772,602	624,517	6.2%
9.	Capital Projects	9,419,930	10,240,544	820,614	8.7%
10.	Child Support Services	2,980,352	2,989,784	9,432	0.3%

*Bi-County Behavioral Health Fund includes MHSA Fund total due to recommended consolidation for FY 2018-19. This approach will discount operating transfers between funds to avoid double counting of appropriations.

At \$334,869,498, the Recommended FY 2018-19 Budget represents an increase of \$12,525,530 (or 3.9%) from the Adopted 2017-18 Budget of \$322,343,968. Of the \$12,525,530 increase in the Recommended FY 2018-19 Budget, 73% (\$9,111,087) represents adjustments in the following funds managed by the Health & Human Services Department:

- Welfare/Social Services Fund – Up by \$6,188,668
- Bi-County Behavioral Health Fund – Up by \$1,761,094
- Health Services Fund – Up by \$1,161,325

The largest single budget adjustment (\$6,188,668) exists within the Welfare/Social Services Fund. Community demand for “Public Assistance” benefits (which includes CalFresh and other entitlements) continues to rise at levels above the Statewide average. As demand increases, so will the need for additional County staff to provide such services. Most of these costs will be covered by Federal and State funding sources.

The increase in Bi-County Behavioral Health (\$1,761,094) reflects a continued rise in eligible residents within both Sutter and Yuba Counties. As with Welfare/Social Service program, Federal and State funding will be used to provide these services to residents.

The rise in Health Services Fund costs (\$1,161,325) include increased demand for medical, dental, and related Medi-Cal services. In addition, this fund helps pay for costs associated with provided 24-hur medical care to inmates and the main jail. Federal and State funding covers the majority of these costs.

The \$1,593,266 rise in Public Safety Fund reflects rising costs for employee salaries, benefits (including Public Safety CalPERS contributions), and components of the jail expansion project.

The \$1,949,655 drop in the Road Fund Budget is attributable to fluctuations in various Federal and State revenue sources. FY 2018-19 includes a \$3 million projection in additional State of California Senate Bill 1 revenues and associated road overlay and seals projects. However, it also includes a \$3.1 million decrease in Federal replacement and improvement revenue, and a \$2.1 million decrease in road CIP expenses. Both of these decreases are in part attributable to “timing” of projects crossing fiscal years.

The \$820,614 increase in Capital Projects Fund Budget reflects more activity in improving existing County facilities.

Countywide Staffing

Recommended Countywide Full-Time Equivalent (FTE) positions for all 20 Departments is as follows:

No.	Department/Office	Revised FY 2017-18	Recommended FY 2018-19	Change
1.	Health and Human Services	498.25	506.75	8.5
2.	Sheriff	146.00	146.00	0.00
3.	Development Services (Includes Roads & Fire)	71.00	69.00	(2.0)
4.	General Services	57.00	58.00	1.00
5.	Probation	47.00	47.00	0.00
6.	District Attorney	30.00	30.00	0.00
7.	Child Support Services	27.00	26.00	(1.00)
8.	Agricultural Commissioner	20.00	19.00	(1.00)
9.	Assessor	18.00	17.00	(1.00)
10.	County Clerk-Recorder	14.75	14.75	0.00
11.	Auditor-Controller	12.45	12.45	0.00
12.	Library	12.15	12.15	0.00
13.	Human Resources	10.45	10.45	0.00
14.	Treasurer-Tax Collector	9.00	9.00	0.00
15.	County Administrator's Office	8.00	8.00	0.00
16.	County Counsel	6.00	6.50	0.50
17.	Board of Supervisors	6.00	6.00	0.00
18.	Community Memorial Museum	2.05	2.05	0.00
19.	Bi-County Farm Advisor	2.00	2.00	0.00
20.	Public Defender	1.00	1.00	0.00
	TOTAL	998.10	1,003.10	5.00

The overall number of County FTE positions is proposed to increase from 998.10 to 1,003.10. This represents an adjustment of 5.00 positions (or 0.5%) and is largely due to an increase of 8.50 non-General Fund positions located in the Health and Human Services Department, which are fully funded by Federal and State sources. The number

of General Fund positions decreased by 2.50 positions. Child Support Services Fund will experience a reduction of 1.00 position. There are no layoffs related to position eliminations/reductions. Some of the highlighted position allocation changes include:

- Elimination of Deputy Development Services Director for Planning & Building position in Development Services Department
- Addition of Assistant Director of Development Services position in Development Services Department
- Transfer of Geographic Information Systems Analyst position from Development Services Department to General Services Department, Information Technology Division
- Elimination of one Senior Civil Engineer position in Development Services Department
- Addition of one Network Administrator position in General Services Department, Information Technology Division due to Comcast Franchise Agreement expiration
- Elimination of one Office Assistant position in Child Support Services Department
- Elimination of one Agriculture Field Assistant position in Agricultural Commissioner Department
- Addition of one Chief Appraiser position in Assessor's Office
- Elimination of one Assessment Office Supervisor position in Assessor's Office
- Elimination of one Senior Mapping/Title Technician position in Assessor's Office
- Reduction of one full-time Deputy County Counsel position to 1/2-time position
- Addition of one full-time Office Assistant position in County Counsel Office

Future Challenges

While the overall State (inner Metro Sacramento region) economy is growing, the Yuba-Sutter regional economy remains relatively flat. Sutter County serves as a combined agricultural driver (with an incredible, diverse array of highly productive orchards, crops, and other agriculture-based products) and a desirable suburban residential community to Sacramento. The local Sutter County economy, to a large extent, functions as a secondary market within the broader metropolitan Sacramento region.

As the County seat, Yuba City contains the largest population base (with just under 67,000 residents) and serves as the economic engine for the northern region of Sutter

County. When development commences in a few years within the Sutter Pointe Specific Plan area, located inside of the protected Natomas Basin Conservancy area, this strategic location will serve as the economic engine for the southern region of the County. This will further diversify and strengthen the broader Sutter County trade area and provide Yuba City, Live Oak, Sutter, and other northern County communities with a more direct connection to Sacramento.

As a local government, Sutter County has very limited local revenue/tax sources to support the vast array of municipal services it is charged with providing to residents and businesses covering approximately 600 square miles. The few taxes and fees which the County relies on are among the lowest in California and are infrequently adjusted (most do not keep up with inflation).

Sutter County is also highly dependent on Federal and State government funding to support a large portion of the regional and social services it is obligated to provide. To complicate matters, the County's changing demographics have resulted in rising service needs and demands for public assistance above the Statewide average. For example, demands for health and human services and public safety services continue to increase at concerning rates.

Consequently, the Sutter County organization has learned to live with limited financial resources during recurring years of rising service demands. This, in turn, has caused the County to defer maintenance of its many buildings, vehicles, equipment, and assets. The County has also reduced staffing, passed on benefit costs to employees, contracted out services, combined operations and services where possible with other service providers, and cut back on employee training and development. After years of making "one-time" cuts and reductions, the County remains at a crossroads with respect to looking toward the future. A sample of the immediate and near-term budget challenges confronting the County include the following:

South Yuba City (Keyhole Area) Annexation – Measure Z

On June 5, 2018, voters that reside within the 625-acre "Keyhole Area" of south Yuba City will decide on the question of whether or not to annex into the City of Yuba City. Although this proposed annexation makes sense from a long-term land-use perspective, the 17-year-old Tax Exchange Agreement between Yuba City and Sutter County is outdated and will not result in "revenue neutrality" among the impacted local governments (in this case, Yuba City and Sutter County). Achieving a balanced "revenue neutrality" arrangement has been a long-time goal of Local Agency Formation Commissions (LAFCOs) across the State of California.

If Measure Z passes, this annexation will result in County General Fund recurring revenue losses of over \$1 million. This will require the County to reduce General Fund budget appropriations by the same amount. This will translate into position reductions and service reductions (including public safety) to residents and businesses located within the Keyhole Area and throughout the rest of Yuba City and Sutter County. If passed, difficult public policy decisions will have to be made.

No matter what the outcome of this annexation vote, it will be imperative for Sutter County and Yuba City to work together on revising the existing annexation Master Tax Exchange Agreement. A more balanced, revenue-neutral, tax exchange agreement that takes into consideration the big picture impacts to local taxpayers is needed for all future annexations (and Sphere of Influence boundary adjustments) to ensure long-term viability of local government services provided to the community.

Pension Funding

Sutter County contracts with the California Public Employees' Retirement System (CalPERS) for employee retirement benefits. The cost to fund both "Public Safety" and non-public safety ("Miscellaneous") employee group pensions will continue to rise at significant levels, especially with the recent decision by CalPERS to lower the amortization rate from 30 to 20 years and to lower its "discount rate" (anticipated annual investment earnings) from 7.375% to 7.250% (with a future reduction to 7.000% planned for FY 2019-20). While the County continues to be able to meet its annual funding contributions to CalPERS (including setting aside small amounts of additional funds to invest each year), the organization's ability to meet increased rate payments starting next year (FY 2019-20) will become a major challenge. Staff will continue to monitor this impact and provide regular updates.

Health Insurance Funding

Sutter County has experienced rising costs for medical, dental, vision, and other insurance benefits provided to eligible employees. In July 2015, the County joined the San Joaquin Valley Insurance Authority (SJVIA) for medical insurance. A year later, this Authority proposed significant rate increases (over 20%). In response, the County opted to leave SJVIA and join California State Association of Counties Exchange Insurance Association (CSAC EIA) for medical insurance. This change went into effect on April 1, 2017.

In the future, it is possible that the County will experience premium increases above inflation. However, the County plans to mitigate future increases through greater wellness-efforts and assessing the financial viability of the County Employee Clinic. Staff will continue to monitor and provide regular updates.

Fire Department Funding

County maintains a small, rural Fire Department, consisting of 17 FTE positions, which provides fire protection services to County Service Area F. This expansive area encompasses 254 square miles, including City of Live Oak, Town of Sutter, and various unincorporated areas from Butte County line north of the Sutter-Buttes Mountains south to Nicolaus Bridge. The Department is funded via a contract with the City of Live Oak and a small, dedicated portion of annual property taxes and a special dedicated fire tax, levied on property owners within the unincorporated portion of County Service Area F. Direct General Fund support of the Fire Department is not provided.

Over time, County Fire Department has evolved from a small, predominately volunteer department to a larger operation staffed by full-time Firefighters (with full salaries and public safety benefits). The Department has also taken on a greater array of fire related services. As a result, annual recurring expenditures have surpassed recurring revenues which has caused the Department to rely on its fund balance to meet annual expenditure obligations. If this situation does not reverse course soon, it is likely that the fund balance will be depleted within two years.

In order to remain a viable rural fire suppression operation going forward, the Fire Department will have to obtain increased recurring revenues and/or look at further expenditure reductions. Since the Fire Department is already very lean, it may have to consider closing a fire station and adjust to having longer response times to those who reside and work within more remote locations. Staff will continue to review this situation and provide regular updates.

Labor Contract Negotiations

County employees were provided with a 2.0% salary COLA in April 2017 and then another 1.0% salary COLA in March 2018. The Recommended FY 2018-19 Budget does not include any funding for a COLA salary adjustment. This issue will be subject to labor negotiations, which have just commenced for all applicable employee unions.

Rising Retirements & Need for Effective Succession Planning (“People Strategy”)

In FY 2017-18, the County implemented an early retirement incentive program. With increasing numbers of the County’s workforce retiring (not only due to this program, but also the general aging of the workforce), finding replacement positions will continue to be a challenge. Our region faces a highly competitive labor market, especially for managerial, professional, medical, and healthcare positions. As a result, preparing the next generation of County employees is becoming increasingly difficult. This remains true even with advances in technology and the ability to use fewer employees to provide higher levels of service. Staff will continue to devote significant time and energy developing and implementing a viable “People Strategy” to make sure the next generation is prepared to move the organization forward.

Position Vacancies Review Committee

In July 2017, an internal Position Vacancies Review Committee (consisting of the Assistant County Administrator, Auditor-Controller, and Human Resources Director) began meeting on a regular basis to review existing employee position vacancies to determine if there is sufficient recurring revenue and/or recurring expenditure reductions to support filling vacant positions. Going forward, this Committee will play a more important role in managing the County’s limited resources. If recurring funding does not exist to support filling a vacancy, then the Committee will further review the position to determine if a recommendation should be made to reclassify the position to a new job title, or remove and un-fund the position.

County Facilities Master Plan

The County owns and/or leases over 30 facilities at different locations. As the years have progressed, County has evolved into a major property owner and manager with a severely under-staffed and under-funded maintenance operation. This has translated into many facilities suffering from years, and in some cases decades, of neglect and deferred maintenance. Several County facilities are severely run-down and the cost to restore and/or repair them is more than abandoning existing buildings and purchasing existing buildings elsewhere, along with purchasing raw land and building new facilities.

Recognizing the severity of this situation, in May 2017, Board of Supervisors approved hiring an outside consultant (Kosmont and Associates) to conduct a review of all County facilities. A draft report was prepared in October 2017 with a recommendation to consolidate facilities into fewer, more strategically located larger “campus” settings.

This concept included locating all the general administrative and support functions into a main “Government Campus” around where the main offices are housed at 1130 and 1160 Civic Center Blvd. in Yuba City. A “Public Safety Campus” was recommended to be around the new State Courthouse located at 1175 Civic Center Blvd. to include the Sheriff Department, expanded Jail, District Attorney, Public Defender, Probation, etc. A Health & Human Services Campus was recommended at 850 Gray Avenue in Yuba City. Other cluster campuses were recommended for the remaining County uses. Staff is working on a more formal Countywide Facilities Master Plan to be submitted to the Board of Supervisors at a later date.

During the course of FY 2017-2018, County was able to secure a long-term lease for 850 Gray Avenue to house over 400 Health and Human Service employees, obtain Board approval to commence with the \$15 million Jail Expansion Project, complete the first floor remodel of 1160 Civic Center Blvd., select a design firm to study the relocation of the District Attorney’s Office to the former Peachtree Clinic office space next to the Courthouse, continue review of potential relocation sites for Child Support Services, select an engineering firm to prepare design and cost estimates to reconstruct the facility leased to Casa de Esperanza, and a variety of other facility improvements.

In order to determine the most effective financing of the large 850 Gray Avenue Project, as well as to take a look at the overall Countywide Facilities Master Plan, in March 2018, Board approved hiring of KNN Public Finance to do a complete review. This firm is currently working with County staff and will soon provide a recommendation to the Board of Supervisors.

State Court Revenues

In June 2016, State of California Superior Court implemented a new software revenue collection system, coupled with the Court deciding not to require low-income residents to fully pay fines, which resulted in an annual loss of County General Fund fines and fee revenues of approximately \$900,000. Staff will continue to work with Superior Court staff to ensure that additional future revenue losses are kept to a minimum.

Review of Local Revenues, including Development Impact Fees

With respect to local revenue sources, Sutter County relies on the bare minimum in terms of local taxes, fees, charges, etc. to support local government services provided to the community. There is a wide array of revenue sources that the County does not use. With respect to those revenue sources that the County does have, most are among the lowest in California, are not adjusted annually, and don't keep up with inflation. The County's Development Impact Fees, for example, are limited and are significantly below the cost necessary to support development approved, and are not regularly collected. In addition, private rental rates for County facilities are very low and involve substantial General Fund subsidies. Going forward, County will unlikely be able to offer such heavily subsidized facilities for private use. Staff will conduct a review of existing revenues and make recommendations to the Board of Supervisors.

Homelessness

The rise in local homeless population (especially within the Feather River river-bottoms and throughout Downtown Yuba City) continues to present profound challenges for the broader community and local economy. As revealed in a recent Yuba City Citywide survey, homelessness was, by far, ranked as the community's most serious concern. In response, Sutter County continues to work closely with other local governments and service providers, including the following two bi-county working groups: 1) Bi-County Homeless Consortium; and, 2) Bi-County Homeless Services Program.

In November 2017, Board of Supervisors adopted a formal Sutter County Long-Term Homeless Management Plan. One of the components of this Plan involved the formation of an Ad-Hoc Homeless Shelter Location Site Review Committee. The purpose of this Committee was to provide a site location recommendation to the Board of Supervisors. This Committee held several meetings and in May 2018 recommended two potential location sites. County staff was directed to conduct the necessary due diligence for each site and report back to the Board with recommendations by July 31, 2018.

Flood Protection and Levee Improvements

Even though the County's levees along the Feather River, Bear River, Sacramento River, and Sutter Bypass performed remarkably well throughout the long periods of high water associated with the 2017 winter rain events, and during the Countywide evacuation in February 2017 as a result of the Oroville Dam Spillway incident, many miles of levees still need to be restored/improved in order to provide different regions of the County with 100-year flood protection status. Staff will continue to work with the Sutter Butte Flood Control Agency (SBFCA), State Department of Water Resources (DWR), local levee and reclamation districts, and other governmental agencies toward this goal.

Cannabis Cultivation Ordinance Revisions

County staff will continue to monitor how other regions of the State respond to the ever-changing area of cannabis cultivation and regulation. With the number of legal and illegal cannabis grows rising across the State, the street price of cannabis continues to drop at significant levels. This is translating to lower than estimated revenue streams for local governments that assess taxes and charge fees. As a result, anticipated new revenue sources associated with this issue will likely not be as lucrative as previously anticipated. There are also potential significant General Fund cost increases and societal impacts. Staff will provide updates to the Board as more information is learned.

In-Home Supportive Services, Public Health, & Mental Health Funding

Staff will continue to monitor changes in State law which seek to reduce State funding for In-Home Supportive Services, Public Health programs, and Mental Health services. Future updates will be provided to the Board.

Sutter Pointe Specific Plan Implementation

As property owners and developers in the Sutter Pointe development area continue to obtain approvals to provide the necessary public infrastructure and services to this 7,500-acre community, staff will continue to work to ensure full compliance with the Sutter Pointe Specific Plan, Developer Agreements, Federal Incidental Take Permit, and other environmental requirements. Regional Sanitation District approval for wastewater services was obtained in 2017 and approval for a dedicated contract County Planner (funded by developers) will be before the Board on June 12, 2018. This position will help manage and process the necessary development permits and applications.

It is possible that construction of new homes and businesses in this area will commence within two to three years, as the Sacramento regional economy continues to expand. Large industrial and manufacturing uses may begin construction even sooner. As directed by the Board of Supervisors, this development will continue to be self-sustaining and will not have any net new costs to taxpayers outside of the plan area. At build-out, this development will host up to 17,500 housing units, thousands of new jobs, and approximately 50,000 residents.

Long-term Financial Planning – Development of a Ten-Year Financial Strategic Plan

Although staff is submitting a “balanced” Recommended Budget for FY 2018-19, the General Fund continues to experience “structural” challenges. Ideally, recurring revenues should be sufficient to cover recurring expenditures. This is not the case for the General Fund. Instead, the General Fund relies on expenditure “savings” from the prior year to serve as a de-facto revenue (or “source of funds”) to balance the budget for the subsequent year. This is not a “Best Management Practice.”

In addition, the federal government is threatening to significantly reduce (and in some cases, eliminate) funding for social services. The State government is also contemplating reducing local government funding (for programs such as In-Home Supportive Services and Mental Health services) and pushing down more service responsibilities to the County level without off-setting revenues.

In recognition of such financial instability and the need to plan for the long-term, and as part of the Board's Top Priority #6, staff will soon seek Board of Supervisors authorization to solicit proposals from consultants to prepare a ten-year Financial Strategic Plan. This will help the County better prepare for the future.

Staff will also pursue converting from an "Annual Budget" format to a "Biennial Budget" format. This has been a trend in local government budgeting for the past few decades and represents a more efficient way to prepare and monitor budgets. This approach will allow for better long-term forecasting.

Summary

The Recommended FY 2018-19 Budget represents a spending plan that is fiscally responsible and responsive to the community's needs. County's dedicated employees demonstrated their inter-departmental cooperation, commitment to the greater good, and ability to provide the best service levels possible within limited resources. Staff will continue to take proactive steps to ensure County's long-term financial health.

As a result, it is imperative to convey personal thanks and appreciation to the managerial and financial leadership of the "budget team" including the overall budget preparation leadership of Assistant County Administrator Steve Smith and Deputy County Administrator Matt Michaelis. Auditor-Controller Nathan Black and his staff have been tremendous partners with CAO in preparing this budget. Special appreciation needs to be extended to each member of the County's Executive Team, managers from all departments, CAO Principal Analyst Annie Liu, Public Information Officer Charles Smith, and Management Assistant to the CAO Lisa Bush for the key roles they played in preparing and balancing this year's Recommended Budget.

Preparing a complicated and complex local government budget involving 20 departments and over 1,000 employees is a time-consuming and trying process. It would not be possible without the leadership, vision, and support from the organization's governing body—Sutter County Board of Supervisors. Your vote of confidence in staff to prepare and then implement a wide array of services during a challenging period is greatly appreciated.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Steve Smith".

County Administrator