



# Budget Message

James M. Arkens  
County Administrative Officer

When the Board of Supervisors conducted a speech contest for high school students, some of the students dug into the budget document and made arguments regarding spending priorities. Pictured: Speech contest winners Carolina Valenzuela, Katey Patrick, Maura Johnson, and Preya Gill.



# County of Sutter

## *Office of the County Administrator*

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June 9, 2015

TO: The Honorable Sutter County Board of Supervisors

RE: **Recommended Budget for Fiscal Year 2015-16**

The attached Sutter County Recommended Budget for FY 2015-16 is balanced and the County still maintains reasonable reserves because of past planning and conservative budgeting. My job as the Chief Administrative Officer for the County is to present to the Board a budget that reflects my best recommendations for use of the County's limited resources to maintain priority programs and services. Your Board has also provided direction that the annual budget should use no one-time reserve funds to cover costs of the on-going, daily operations of the County.

As I communicated to your Board last year at this time, I expected another lean budget for FY 2015-16. That expectation has been realized this year with another tight budget. Totaling \$258.5 million, the budget is, as with the prior year, largely status quo in nature. Unfortunately, the economy in this area continues to experience a relatively slow recovery from the recession. It was again necessary to take a hard look at services and costs, continuing to focus on those areas that heavily impact the General Fund. Fortunately, the Sutter County Board of Supervisors and Department Heads have been extremely conservative in past years resulting in a reserve that can be used if absolutely necessary. I am not an advocate of using reserve funds for daily operations, but understand that the Board of Supervisors still wants to provide the community with the best possible services.

Sutter County is slowly recovering from the dramatic downturn in the economy. Departments have been reduced over the past several years and many are looking to restore lost staffing. During tight times, that is not feasible. Increased pressure on both Department Heads, as well as staff, will continue as long as the County is unable to meet those pressing concerns. And, while the budget does not show outward signs of a recovery in the economy, it should be recognized that many of the difficult decisions the Board of Supervisors has made over the past years, in terms of consolidation of services and departments, is making a difference in this year. Expenses that were reduced in prior years are expenses that the County does not need to find revenues to cover in this year. Although still status quo in nature, the budget is showing signs of stability. This is the first year since FY 2009-10 that the County Administrative Office is not recommending the elimination of filled positions.

Meeting the varied needs of the County and its individual Departments remains a challenge, and while no lay-offs are necessary, it is still too early to recommend that new positions be added or that positions that have been left unfunded now have funding reinstated (except in cases where new or increased dedicated revenue or a decrease in related cost is associated with the position). There are three new positions that, during our evaluation of the County needs and Department requests, became apparent as necessary for the benefit of internal County operations: IT Security Administrator, Information Technology Department; Internal Auditor, Auditor-Controller's Office; Deputy Human Resources Manager, Human Resources Department. Should general revenues show reliable improvement in the future, it is my recommendation that these three positions be considered a first priority for addition to the budget.

Sutter County is entering a new chapter with the movement of the Superior Courts to their new State Courthouse on Civic Center Boulevard. The facilities that will remain on Second Street will open up opportunities for County use. The historic Courthouse and annex is owned primarily by the State of California. The County Board could purchase this facility for an estimated \$2.1 million or possibly negotiate other options. The East Courthouse (levee side) is wholly owned by Sutter County. This dated facility is a viable option to house various County operations.

Unfortunately, the East Courthouse will not help the County in accomplishing a major consolidation of services. Social Services/Welfare, Child Support, Probation, and other departments are currently housed in costly rented spaces. These spaces are restrictive, resulting in increasing labor and utility costs, and present other challenges including employee morale issues. Opportunities may exist for the County to consolidate services in a campus type setting to give the County long term savings. An extensive search has been conducted by the County Administrative Office with the assistance of the Assessor and Board members. A recommendation will be forthcoming to the Board on an overall space utilization plan.

In summary, managing a budget will always be difficult when expenses increase more rapidly than revenue. A major effort over the past two years has been to create plans that, over time, will increase the County's opportunity to bring in revenue to support needed County services. To that end, the County has entered into an arena of economic development that in the past was left up to the incorporated cities. The formation of *SutterForward* hopefully will provide direction and drive to the local Economic Development Corporation to attract agricultural based industries to our County. It is essential that the County build on its tax base to increase revenue. With the addition of an industrial tax base comes much needed employment for our local citizens. A joint effort between the EDC, Board of Supervisors, CAO, and the Ferguson Group, *SutterForward* is focusing on the northern corridor between Live Oak and Yuba City.

## Summary of the Recommended Budget

The County Administrative Office has reviewed all aspects of this budget and is presenting the Board of Supervisors with a balanced budget utilizing no drawdown of reserves for daily operating expenses.

The Recommended Budget for FY 2015-16 totals \$258.5 million. The General Fund comprises \$57.86 million of this amount. The Adopted Budget for FY 2014-15 consisted of a total countywide budget of \$242.1 million, and a General Fund budget of \$57.9 million. The recommended figures therefore represent an increase of \$16.4 million, or 6.8%, for the total budget. The General Fund has a slight decrease of \$78,018, or 0.14%, when compared to the FY 2014-15 Adopted Budget.

The County Administrative Office is estimating a 4.6% increase in all combined property tax revenue sources for FY 2015-16 (including Motor Vehicle In-Lieu), with a 2% increase expected in the Secured Property Tax Roll. Franchise Fee revenue has shown a slight increase, and this is reflected in this budget. However, other revenues, including Sales and Use Tax, remain stagnant. The increases we have seen are still considered relatively minor when compared to the financing requirements of the County budget as a whole. Based on changes in State funding and actions that have been taken by the CalPERS Board, there still remains the real threat that much of the revenue increases the County may see in the coming two years will be consumed by other cost increases, primarily in the area of retirement costs.

The following chart summarizes the relative change in the County’s major operating funds.

Source: Schedule 1	2014-15 ADOPTED	2015-16 RECOMMENDED	CHANGE	
			DOLLARS	PERCENT
General	\$57,937,729	\$57,859,711	(\$78,018)	-0.1%
Road	\$9,272,919	\$9,446,164	\$173,245	1.9%
Bi-County Mental Health	\$25,307,951	\$27,547,265	\$2,239,314	8.8%
Mental Health Services Act	\$9,429,158	\$10,171,275	\$742,117	7.9%
Health Services	\$9,764,563	\$10,183,426	\$418,863	4.3%
Welfare/Social Services	\$42,530,913	\$44,320,305	\$1,789,392	4.2%
Trial Courts	\$8,710,739	\$8,825,093	\$114,354	1.3%
Public Safety	\$25,364,903	\$26,728,229	\$1,364,136	5.4%

## **Staffing Changes**

The Recommended Budget includes reductions to the County workforce. Overall, the total number of employee positions has decreased by 0.5 Full Time Equivalent (FTE) positions from the FY 2014-15 Adopted Budget. It includes 12 new positions, primarily for Human Services related functions within the County, where State and Federal funds have been directed to counties for specific purposes. In other areas of the budget, where it appears that new positions are recommended, the increases are offset by like eliminations of vacant positions or reduction in other staffing areas. For instance, two Correctional Officer positions in the County Jail budget, which were previously defunded and held vacant, are recommended to be funded and filled; however, this increase is off-set by a reduction in budgeted (and anticipated actual) Overtime expense in the same budget unit.

The chart on the following page summarizes the recommended staffing changes and the net impact on the General Fund.

DEPARTMENT	CHANGED POSITIONS	CHANGE MADE	POSITION CHANGES	
			GENERAL FUND IMPACT	FTE
Assessor 1-203	Chief Appraiser (upon Vacancy)	Defunded	(\$118,495)	(1.0)
	Appraiser I (V)	Deleted	(\$68,678)	(1.0)
	Assistant Assessor (eff. January 1, 2016)	Reinstated	\$62,650	1.0
Human Resources 1-401	Human Resources Analyst I (V)	Eliminated	(\$73,790)	(1.0)
	Accounting Technician I	Added	\$51,194	1.0
Animal Control 2-726	Animal Control Officer I (V)	Eliminated	\$0	(1.0)
	Animal Control Officer II (V)	Eliminated	\$0	(1.0)
Building Maintenance 1-700	Building Services Lead Worker	Deleted	(\$77,389)	(1.0)
	Building Services Supervisor (eff. Sept 1, 2015)	Added	\$63,269	1.0
	Building Services Worker – HVAC	Deleted	(\$70,981)	(1.0)
	Building Services Worker	Reinstated	\$64,881	1.0
Child Support Services 0-112	Chief Child Support Attorney (V)	Eliminated	\$0	(1.0)
	Child Support Attorney III (V)	Defunded	\$0	(1.0)
	Staff Services Analyst	Added	\$0	1.0
	Child Support Specialist I	Added	\$0	1.0
District Attorney 2-125	Assistant Chief Investigator (V)	Eliminated	(\$116,872)	(1.0)
	Accountant II (V)	Defunded	(\$81,526)	(1.0)
	Staff Analyst	Added – LT	\$99,086	1.0
Fleet Management ISF 4-580	Heavy Equipment Mechanic (V)	Defunded	(\$70,981)	(1.0)
Health Services 4-103	Licensed Vocational Nurse (V)	Deleted	\$0	(1.0)
	Public Health Nurse II	Added	\$0	1.0
Information Technology ISF 8-145	Computer Operator (V)	Eliminated	(\$56,120)	(1.0)
Library 6-201	Supervising Library Technician	Defunded	(\$76,171)	(1.0)
	Library Assistant I/II	Added	\$53,064	1.0
	Defunded Library Services Coordinator (V)	Eliminated	\$0	(1.0)
	Library Technician (part-time to full time)	Increased	\$33,527	0.5
Mental Health 4-102	Mental Health Therapist I/II/III	Added	\$0	1.0
	Mental Health Worker II	Deleted	\$0	(1.0)
	Account Clerk I/II	Added	\$0	1.0
Mental Health Services Act 4-104	Staff Analyst	Added	\$0	1.0
Public Guardian 2-709	Office Assistant II	Added	\$54,975	1.0
Sheriff 2-301	Correctional Officer (V)	Reinstated	\$72,803	1.0
	Correctional Officer (V)	Reinstated	\$72,803	1.0
Welfare Administration 5-101	Accountant I/II	Added	\$0	1.0
<b>TOTAL</b>			<b>(\$182,751)</b>	<b>(0.5)</b>

## Major Budget Impacts

This section includes discussion of a number of issues which have had a significant impact on the Recommended County budget for FY 2015-16.

<p><b>Health Insurance</b></p>	<p>The County will be joining the San Joaquin Valley Insurance Authority, effective July 1, 2015, for the provision of health, dental, and vision insurances. The County previously participated in the Tri-County Schools Insurance Group (TCSIG). The health plans provided through Anthem Blue Cross are proposed at an average 6.85% decrease in monthly insurance premiums as compared to current monthly premiums. Plans provided through Kaiser will experience an average 8% increase. The overall savings, based on 2014 enrollments, was estimated at 6.4% over FY 2014-15 costs. Additionally, the proposed rates are guaranteed for the 18-month period from July 1, 2015 through December 31, 2016.</p>
<p><b>Workers' Compensation &amp; Liability Insurance Programs</b></p>	<p>On July 1, 2015 Sutter County will transition from CSAC-EIA primary workers' compensation program to the Trindel Insurance Fund program. Based on the most recent insurance premium estimates received from the Trindel Insurance Fund program, the Recommended Budget reflects an increase of \$276,010 in Workers' Compensation costs and an increase of \$723,132 in Liability Insurance costs, when compared to FY 2014-15. These cost increases are primarily related to changes in position allocations and the addition of the Self-Insurance Retention Layer that the County now pays to Trindel to manage.</p>
<p><b>CalPERS Retirement</b></p>	<p>Sutter County, like most public agencies under contract with the California Public Employees' Retirement System (CalPERS) for employee retirement benefits, has experienced continued increases in its employer costs. While significant cost increases resulted from market losses in prior years, the County's plans had started on a road to improvement. However, in recent years, the CalPERS Board has taken several actions that have effectively taken back any of the plan's funding improvements.</p> <p>In March 2012, the pension fund lowered its discount rate from 7.75 percent to 7.5 percent citing economic conditions. A year later, CalPERS changed its policies to recognize gains and losses over a shorter period and to use a 30-year fixed amortization period instead of a rolling 30-year period. In February 2014, the CalPERS Board of Administration approved new demographic assumptions,</p>

<p><b>CalPERS Retirement – cont.</b></p>	<p>assuming that public employees will be living longer. The Board also adopted an asset allocation mix that lowers the CalPERS investment risk but largely keeps its investment strategy unchanged, holding the fund’s long-term assumed rate of return at 7.5 percent.</p> <p>While the actions of the CalPERS Board will help to stabilize pension costs over time and ensure that CalPERS will continue to meet its current and future pension obligation, the actions also result in higher employer pension costs for local agencies, now and in the future.</p> <p>CalPERS estimated that local government costs could rise from 5 percent of payroll to 9 percent of payroll over the five year phase in. This is in addition to cost increases experienced thus far. For local agencies, such as Sutter County, CalPERS will implement the additional cost increases in the 2016-17 Fiscal Year with the cost spread over 20 years and annual rate increases phased in over five years. The future impact to Sutter County’s budget will need to be considered and monitored closely.</p>
<p><b>Tri-County Regional Juvenile Rehabilitation Facility and JPA</b></p>	<p>The Tri-County Regional Juvenile Rehabilitation Facility is jointly owned by Sutter, Yuba, and Colusa counties with costs split in a 40/40/20 ratio respectively, pursuant to a Joint Powers Agreement (JPA). For FY 2015-16, Sutter County’s share of cost is budgeted to increase by \$142,005. The increase is due, in part, to the addition of a Juvenile Hall Superintendent position required to oversee the Juvenile Hall. Yuba County’s Assistant Chief Probation Officer had been splitting time between probation duties and oversight of the Juvenile Hall on a temporary basis.</p> <p>Through the SB81 Local Youthful Offender Rehabilitation Facilities Construction Grant process, the counties have been conditionally awarded just over \$15 million towards the construction of a new facility. The impact of the project to construct the new Tri-County Juvenile Rehabilitation Facility will be monitored throughout FY 2015-16. The JPA does not establish a cost sharing agreement for the construction of the new facility. Each county’s share for any costs over the amount provided for in the grant from the BSCC will be negotiated separately and brought to the Board of Supervisors for approval.</p>



<p><b>Plant Acquisition Projects &amp; Jail Expansion Project</b></p>	<p>Major structural improvements (generally those over \$15,000) are classified as Plant Acquisition projects. Because of the size and complexity of these projects, they tend to span two or more fiscal years before they are completed. This year’s recommended projects include \$45,000 for on-going ADA Improvements at various County facilities, a re-budget of \$176,000 for a required back-up generator at the County Jail, \$94,500 for replacement of the roof at the main County Library, and \$93,469 for a Fleet Oil-Water Separator for the vehicle washing facility.</p> <p>The expansion of the Main Jail continues, and is anticipated to be a multi-year project. The project will remodel and expand the Medical Services and Kitchen Areas, and will expand the capacity of the Maximum Security facility by 42 beds.</p> <p>The project is benefitting from \$9,741,000 in State financing. The County is responsible for all remaining costs, including a required 5% match. The County’s Criminal Justice Development Impact Fees will be used to cover any required local match and to advance funds to complete the initial phases of the project prior to receiving reimbursement. The FY 2015-16 Recommended Budget includes \$2.3 million for this project.</p>
<p><b>SunGard Personnel-Payroll-Financial Management-Budget-Purchasing System</b></p>	<p>On March 31, 2009, your Board approved a contract with SunGard LLC to update and integrate the County’s aging financial management systems. The new system will ultimately combine all five functions into one integrated and up-to-date software system.</p> <p>The intermediate upgrade of the Financial module and the HR/Payroll module has been successfully implemented. The remaining modules, Purchasing, Accounts Payable, Accounts Receivable, Employee Online, Budget, and Fixed Assets, are underway and will be implemented during 2015. The upgrade to One Solution, the most recent version of the SunGard software, will be completed by January of 2016.</p> <p>The FY 2015-16 costs include:</p> <ul style="list-style-type: none"> <li>• \$250,000 re-budgeted in the Information Technology ISF budget (with related Interfund charges to related departments);</li> <li>• \$3,000 in the Auditor-Controller’s budget for training related to the new system; and</li> <li>• \$30,000 which is being re-budgeted in the County Administrative Office to implement the budget module.</li> </ul>

<p><b>Information Technology ISF</b></p>	<p>Countywide Information Technology Interfund charges are increasing by \$728,281 for FY 2015-16, for a variety of reasons:</p> <ol style="list-style-type: none"> <li>1) An increase in A-87 Cost Plan Overhead costs of \$150,600 is necessitated by a change to the Cost Plan methodology.</li> <li>2) A change in the Enterprise System is necessary. The County is due to renew its Enterprise Agreement with Microsoft which provides the desktop Office Suite Licensing. Information Technology staff has determined that it will be beneficial and cost effective to move to Office 365, a Cloud based enterprise system. Benefits include increased file storage and sharing, legal hold and discovery compliance support (archiving and storage), and increased security features.</li> <li>3) Several capital asset purchases are recommended this year, in order to continue to improve the network and storage capabilities. This equals approximately \$200,000 in capital assets, and includes a Next Generation Firewall (NGFW) System (\$80,000); a Storage Area Network (SAN) System (\$70,000); and, a Datacenter Server System (\$50,000).</li> <li>4) Following years of using excess fund balance to offset costs, there is no obligated fund balance left to cancel. In each of the past several years, a portion of the funds collected in Obligated Fund Balance for future purchases was used to offset a portion of the Information Technology costs to the County Departments. This fund has been depleted; therefore, no funds will be cancelled to help offset costs.</li> </ol>
<p><b>Replacement Vehicles</b></p>	<p>This year, it is recommended that two passenger vehicles be replaced -- a sedan for the Probation Department and a hybrid sedan for the General Services Department. The Agriculture Department will be replacing one pickup truck and the Building Maintenance Division of General Services will be replacing one ¾ ton service bed pickup. The Weight Truck Special Revenue Fund (0-290), controlled by the Agriculture Department, will replace the weight truck. The Road Division of Development Services will be replacing four work trucks including one pickup, one extended cab pickup, one 4x4 pickup and one water truck.</p> <p>In an effort to reduce the deferred costs for replacement of Sheriff's patrol vehicles, the County Administrative Office is recommending the replacement of four patrol vehicles in the Sheriff's Department.</p>

<p><b>Replacement Vehicles – cont.</b></p>	<p>As with the prior year, it is recommended that the purchases be funded with one-time monies.</p> <p>The County deferred most vehicle replacement purchases during the economic downturn. Although the County has in concept “saved” the money required to purchase new vehicles during that time period, deferring replacement of an aging fleet inevitably leads to increasing maintenance costs in the short-term and a ballooning financial burden to provide County departments with suitable transportation in the long-term. It is currently estimated by the County’s Fleet Management division that the deferred 5-year total cost for replacing vehicles exceeds \$4.2 million for the total County, and \$2.6 million for just General Fund departments and the Sheriff’s Office. Using the County’s current fleet statistics and replacement policies, the average annual replacement expenses would be \$846,000 for the total County and \$512,600 for General Fund departments and the Sheriff’s Office.</p>
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## The State Budget

The Governor released his revised 2015-16 budget proposal, also known as the May Revise, on May 14, 2015. The State's General Fund receipts continue to exceed expectations. It was not too long ago that the State was reporting repeated deficits and had counties planning for dramatic cuts and State budget changes. Some may perceive that we have "turned a corner." However, the improvement that the State may be experiencing at this time is not a sign that all areas of the economy have recovered, or that the State budget itself has fully recovered. Importantly, despite the State's unexpected revenue improvements, it is likely that little of that revenue will ultimately accrue to Sutter County as new revenue.

The May Revise announced additional revenues - - \$6.7 billion more than what was included in the Governor's January budget proposal, and the Governor's May Revise does announce some improvements for counties. However, that proposal continues to virtually ignore the negative impact that decreased funding has had on local streets and roads. Possibly the largest positive for counties is the promised pay-off of pre-2004 mandate reimbursements. The Governor has in some ways portrayed these mandate payments as "new revenues" for counties and has attempted to steer counties' use of the monies toward State priorities; however, it should always be recognized at the local level that these payments are *reimbursements* to agencies for services already provided and costs already incurred in prior years. In Sutter County, it may be wisest to follow at least one of the Governor's guiding principles, and place any reimbursement monies aside to help meet future demands, to help make up, over time, for deferred maintenance, and to start to rebuild reserves in the event we experience future drops in State funding and related deficit situations.

As we caution each year, county government is greatly affected by the decisions made in Sacramento. It is not possible to predict what will ultimately be included or excluded from the State's budget, so the Recommended Budget you see before you does not attempt to anticipate potential State budget changes, whether they may have a positive or a negative effect on the County. If the State budget that is ultimately adopted by the Legislature has significant impacts on the County budget, we will return to your Board with recommended revisions at that time.

Respectfully Submitted,



JAMES M. ARKENS  
COUNTY ADMINISTRATIVE OFFICER