



Budget Message

James M. Arkens
County Administrative Officer



County of Sutter

Office of the County Administrator

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TO: The Honorable Sutter County Board of Supervisors

RE: **Recommended Budget for Fiscal Year 2014-15**

The attached Sutter County Recommended Budget for FY 2014-15 is balanced and the County still maintains reasonable reserves because of past planning and conservative budgeting. My job as the Chief Administrative Officer 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 in 2014-15. That expectation has been realized this year, with another tight budget, and further recommendations for the elimination of positions, some of which result in layoffs.

Totaling \$238 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 just a few years ago. Going into this budget cycle the budget gap was again greater than I or my staff anticipated. 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.

Your Board approved the reorganization of the Community Services, Public Works, General Services and Information Technology functions of the County in the prior year, resulting in the establishment of two primary departments – Development Services and General Services. That reorganization has resulted in on-going savings to the County. However, that single reorganization is not enough to allow the County to maintain a balanced budget and continue to provide core services. Unfortunately, the County has previously consolidated most common functions across the County, and remaining opportunities to consolidate department are limited due to statutory requirements.

Therefore, the FY 2014-15 Recommended Budget includes a recommendation to initiate the reorganization of the Human Resources function of the County, including portions of the Risk

Management function. The primary recommendation is the elimination of the Human Resources Director, and the transfer of top-level management duties to the County Administrative Office. The recommendation also includes the elimination of the Safety Coordinator position, a partial merger of some safety duties with emergency management duties, and the transfer of the Emergency Services Manager position to report to the County Administrative Office. As your Board is aware, both the Human Resources Director and Safety Coordinator positions are filled positions, and the recommendation to eliminate both positions is not taken lightly.

With the opportunities for consolidation of internal departments virtually exhausted, any opportunities for shared services and regional consolidations of functions should be closely scrutinized - - and sought out to the extent possible. Sutter County currently has four bi-county departments, which we share with Yuba County. One of those departments is the Juvenile Hall. Starting in FY 2014-15, that function will fall under the Tri-County Joint Powers Agreement, with the addition of Colusa County. This effort at regionalization of services and functions may very well become the way of the future, if small Counties such as Sutter are expected to continue to provide quality services within the funding limitations we will most likely continue to face.

It is my sincere hope that, as we watch the housing market slowly rebound in the area, we will also see our revenues stabilize and begin to recover. While I was not optimistic that this would occur in FY 2014-15, we do hold more hope for the coming two years. However, based on changes in State funding and actions that have been taken and most likely will be taken in the future by the new CalPERS Board, there is the real threat that any revenue increases the County may see in the coming two years will be more than consumed by on-going cost increases, primarily in the area of retirement costs.

Fortunately, the Sutter County Board of Supervisors, and Department Heads, has 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.

For FY 2014-15, for those departments that are experiencing further budget reductions, including the defunding or elimination of positions, if the reduction is due to the loss of State or federal funding, or even grant funding, then certain expenses would be considered for adding back should that funding return later in the year.

Summary of the Recommended Budget

The Recommended Budget for FY 2014-15 totals \$238.1 million. The General Fund comprises \$54.0 million of this amount. The Adopted Budget for FY 2013-14 consisted of a total countywide budget of \$245.4 million and a General Fund budget of \$55.6 million. The recommended figures therefore represent a decrease of \$7.3 million, or 3.0% for the total budget.

The General Fund has been decreased \$1.6 million, or 2.9%, when compared to the FY 2013-14 Adopted Budget.

Revenues essentially remain stagnant, with an increase in A-87 reimbursements to the General Fund offsetting some of the negative impacts of decreasing departmental revenues, such as is occurring in the Library and Probation Departments, and general revenues, with decreases in interest earnings and revenue from franchise fees. The County Administrative Office is estimating only minor increases in sales tax and property tax revenues for FY 2014-15. These minimal increases are not sufficient to make up for revenue decreases in other areas, or to cover the overall increase in the basic costs associated with providing the level of programs and services that this County currently is committed to.

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

Source: Schedule 1	2013-14 ADOPTED	2014-15 RECOMMENDED	CHANGE	
			DOLLARS	PERCENT
General	\$55,607,751	\$54,004,381	(\$1,603,370)	-2.9%
Road	\$6,722,191	\$9,272,919	\$2,550,728	37.9%
Special Aviation	\$675,813	\$17,379	(\$658,434)	-97.4%
Fish & Game	\$21,430	\$21,608	\$178	0.8%
Bi-County Mental Health	\$24,359,049	\$26,672,230	\$2,313,181	9.5%
Mental Health Services Act	\$9,635,971	\$9,423,732	(\$212,239)	-2.2%
Health Services	\$12,608,360	\$9,675,155	(\$2,933,205)	-23.3%
Welfare/Social Services	\$40,207,041	\$42,274,649	\$2,067,608	5.1%
Trial Courts	\$9,105,289	\$8,710,739	(\$394,550)	-4.3%
Public Safety	\$24,600,035	\$25,358,903	\$758,868	3.1%

Staffing Changes

The Recommended Budget includes reductions to the County workforce. Overall, the total number of employee positions has decreased by 14.0 Full Time Equivalent (FTE) positions from the FY 2013-14 Adopted Budget. It includes only 5.5 new positions, primarily for Human Services related functions within the County, where State and Federal funds have been directed to counties for specific purposes as well as the Development Services Department where specific funding has also been used to offset some of the costs.

The charts on the following pages summarize the recommended staffing changes and the net impact on the General Fund.

DEPARTMENT	POSITION TITLE (FILLED OR VACANT)	ELIMINATED OR DEFUNDED	POSITION REDUCTIONS	
			GENERAL FUND IMPACT	FTE
Child Support Services 0-112	Child Support Specialist I/II (V)	Defunded	\$0	(1.0)
County Counsel 1-301	Legal Secretary II (F)	Eliminated	(\$47,415)	(0.5)
Human Resources 1-401	Human Resources Director (F)	Eliminated	(\$176,026)	(1.0)
Sheriff 2-201	Deputy Sheriff (V)	Defunded	(\$82,364)	(1.0)
	Deputy Sheriff (V)	Defunded	(\$82,364)	(1.0)
Probation 2-304	Accounting Technician II (F)	Eliminated	(\$84,573)	(1.0)
	Deputy Probation Officer (V)	Defunded	(\$79,043)	(1.0)
	Supervising Probation Officer (V)	Defunded	(\$124,519)	(1.0)
Development Services Admin 2-721	Office Assistant II (V)	Defunded	(\$54,749)	(1.0)
Health Services 4-103	Nutrition Assistant (V)	Elimination	\$0	(1.0)
	Account Clerk I/II (V)	Defunded	(\$56,913)	(1.0)
	Health Program Specialist	Defunded	\$0	(0.5)
Workers Compensation 4-591	Safety Coordinator (F)	Eliminated	(\$25,809)	(0.6)
Library 6-201	Library Technician (F)	Reduced	(\$21,526)	(0.4)
	Defunded Library Technician (V)	Eliminated	\$0	(1.0)
	Defunded Supervising Library Technician (V)	Eliminated	\$0	(1.0)
TOTAL			(\$835,301)	(14.0)

DEPARTMENT	CHANGED POSITIONS	ADDED OR DELETED	POSITION CHANGES	
			GENERAL FUND IMPACT	FTE
Mental Health / MHSA 4-102 / 4-104	Physician – Cont. (V)	Deleted	(\$0)	(0.5)
	Psychiatrist – Cont.	Added	\$0	0.5
Planning and Building 2-724	Deputy Director of Planning and Building (V)	Defunded	(\$140,080)	(1.0)
	Limited Term Building Inspector	Added	\$91,915	1.0
TOTAL			(\$48,165)	0.0

DEPARTMENT	NEW POSITIONS	VACANT OR FILLED	NEW POSITIONS	
			GENERAL FUND IMPACT	FTE
Mental Health 4-102	Account Clerk III	N/A	\$0	1.0
	Mental Health Therapist I/II/III		\$0	1.0
Mental Health Services Act 4-104	Resource Specialist	N/A	\$0	1.0
Emergency Services 2-401	Emergency Services Manager (Increase)	Filled	\$0	0.5
Welfare Administration 5-101	Staff Services Analyst I	N/A	\$0	1.0
Engineering Services 1-920	Associate Civil Engineer (Effective Jan 1, 2015)	N/A	\$24,652	1.0
TOTAL			\$24,652	5.5

Major Budget Impacts

This section includes discussions of a number of issues which have had a significant impact on the Recommended County budget for FY 2014-15.

<p>Reorganization of Human Resources Functions</p>	<p>The FY 2014-15 Recommended Budget includes a recommendation to initiate the reorganization of the Human Resources function of the County, including portions of the Risk Management function. The primary recommendation is the elimination of the Human Resources Director, and the transfer of top-level management duties to the County Administrative Office. The recommendation also includes the elimination of the Safety Coordinator position, a partial merger of some safety duties with emergency management duties, and the transfer of the Emergency Services Manager position to report to the County Administrative Office. As your Board is aware, both the Human Resources Director and Safety Coordinator positions are filled positions, and the recommendation to eliminate both positions is not taken lightly.</p> <p>This recommendation assumes that the oversight of the Human Resources functions will be managed within existing County Administrative Office staff for up to one year. It is anticipated that, following further analysis of the reorganization and assessment of alternatives, the County Administrative Officer will submit a recommendation to the Board to consider adding additional, although lower-cost, staff to provide on-going oversight and assistance in the Human Resources and Risk Management functional areas.</p>
<p>Health Insurance</p>	<p>For FY 2014-15, the County will experience an average 9.7% increase in Health Insurance premium costs. The County's participation in the Tri-County Schools Insurance Group (TCSIG) has benefitted the County and its employees over the past ten years that the County has been a member. There were no increases in health insurance premiums for a seven year period. However, for a number of years, TCSIG was drawing down on reserves to keep health insurance costs stable, and more recently the plan has experienced significant rate increases. The County faced premium increases of 14% in FY 2010-11 and 13.3% in FY 2011-12, and no increase to the Basic and Standard Plans for FY 2012-13, followed by an across-the-board increase of 8% in FY 2013-14.</p> <p>During the economic down-turn, the County had been paying the employees' share of cost increases, such that the County's effective share of cost had risen to approximately 87%. With the conclusion of labor negotiations in early 2014, the County and employee groups</p>

Health Insurance, Continued	reached agreement to re-establish the 80-20 share of costs, such that all future cost increases will be shared jointly by the County and employees, 80% and 20%, respectively.
CalPERS Retirement	<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 of 2014, the CalPERS Board of Administration approved new demographic assumptions, 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 in the future.</p> <p>CalPERS has 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>
Plant Acquisition Projects & Jail Expansion Project	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 \$43,000 for on-going ADA Improvements at various County facilities, \$176,000 for a required back-up generator at the County Jail, and \$150,000 for an initial programming phase of a County-wide facility master plan update. The facility master plan update is

<p>Plant Acquisition Projects & Jail Expansion Project, Continued</p>	<p>considered an urgent need, in light of the pending completion of the new State Courthouse and associated move of Court employees from the 463 and 446 Second Street offices. The recommended projects also include \$115,000 for the removal of the earthen berm and wall affronting Civic Center Boulevard, at the main County offices. This project will improve safety while adding a limited number of parking spaces.</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.</p>
<p>Workers’ Compensation & Liability Insurance Programs</p>	<p>Based on the most recent insurance premium estimates received from CSAC-Excess Insurance Authority, the Recommended Budget reflects an increase of \$248,541 in Workers’ Compensation premium costs and an increase of \$85,236 in Liability Insurance premium costs, when compared to actual premium costs for FY 2013-14.</p> <p>In an effort to more effectively manage these costs, and to provide the County with additional local control over its costs and funds, the County Administrative Office has been in discussions with the Trindel Insurance Fund, and anticipates bringing a recommendation to the Board to consider moving our insurance programs to the Trindel Fund. Trindel offers a banking arrangement, and an opportunity for the County to “save” unspent insurance funds, rather than have those savings accrue solely to the CSAC-EIA pool. Due to competing time schedules, this recommendation was not able to be included in the Recommended Budget. It is anticipated that the recommendation will be presented at the same time as the Budget is presented to the Board of Supervisors.</p>
<p>Chevron Project Implementation</p>	<p>In 2014, the County entered into a contract with Chevron Energy Services for a countywide energy efficiency and infrastructure upgrade project. The project is projected to save Sutter County \$18 million over the next 25 years in energy and related utility costs.</p> <p>The financing agreement provides for annual payments to PNC Equipment Finance commencing in February of 2015, with an initial</p>

<p>Chevron Project Implementation, Continued</p>	<p>payment amount of \$690,124. Payment amounts will graduate annually with a final payment of \$1,235,778 in February of 2029. This Recommended Budget reflects the allocation of the first payment for the financing agreement, with direct costs of the project allocated between facilities and their respective departments/budget units based on the costs of improvements. The share of the payment is reflected in the Rents and Leases Equipment accounts of all budget units affected by the project. Chevron project costs for the Solar Array at the Sutter County Airport are reflected in the Building Maintenance budget unit, with an anticipated reduction in Utilities expense. Both costs are distributed to County departments through the annual A-87 Cost Plan. The share of cost from outside funding sources will be recouped through the Cost Plan process. Anticipated first-year savings have been reflected in the Utilities accounts for the respective budget units, although savings experienced in the first year will most likely be lower than future years due to a mid-year project completion date. Chevron ES has provided the County with detailed information to support the allocation of costs. It is anticipated, as demonstrated by the cash flow analysis presented with the project approval, that the annual cost will be offset by savings experienced over the life of the project.</p>
<p>SunGard Personnel-Payroll-Financial Management-Budget-Purchasing System</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. The project was split into two phases: Phase I includes the majority of the Personnel and Payroll modules, as well as an intermediate upgrade of the financial management system. Phase II will include the Purchasing and Budget modules, the remainder of the Personnel and Payroll modules, and conversion to the most current version of the Financial Management system.</p> <p>The intermediate upgrade of the Financial module has been successfully implemented while the Personnel and Payroll modules will be implemented for the first payroll of 2015. The remaining modules, Purchasing, Accounts Payable, Accounts Receivable, Employee Online, Budget, and Fixed Assets, will be implemented during 2015. It is also anticipated that the upgrade to One Solution will be completed by January of 2016. A total of \$81,060 is included in the Recommended Budget.</p> <p>The FY 2014-15 costs include:</p> <ul style="list-style-type: none"> • \$5,760 in the Information Technology ISF budget for project management oversight from SunGard; • \$38,400 in the Auditor-Controller's budget for consulting

<p>SunGard Personnel-Payroll-Financial Management-Budget-Purchasing System, Continued</p>	<ul style="list-style-type: none"> • services; • \$6,900 in the Auditor-Controller’s budget for training related to the new system; and • \$30,000 which is being re-budgeted in the County Administrative Office to implement the budget module. <p>Additional allocation requests related to the management of the implementation of the final modules and the update to the most current version of the Financial system will be brought to the Board for approval as the project progresses.</p>
<p>Replacement Vehicles</p>	<p>This year, it is recommended that three passenger vehicles be replaced -- a small SUV and a pickup truck for the Assessor’s Office, and one sedan for Welfare and Social Services. The Building Maintenance Division of General Services will be replacing two utility-bed pickups and a regular full-size pickup. The Road Division of Development Services will be replacing one heavy duty truck, one utility-bed truck and one water truck. County Service Area C and County Service Area D will both be replacing a Type I fire engine. Mental Health Services will be purchasing three new mini-vans. These are not replacement vehicles, and will increase the overall size of the Mental Health Services fleet in conjunction with increases in caseload and related staffing.</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 three patrol vehicles in the Sheriff’s Department. The replacement of two inmate transport vans is also recommended. 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 \$3.2 million for the total County, and \$2.1 million for General Fund departments and the Sheriff’s Office only. Using the County’s current fleet statistics and replacement policies, the average annual replacement expenses would be \$647,120 for the total County, and \$426,660 for the General Fund and Sheriff departments.</p>

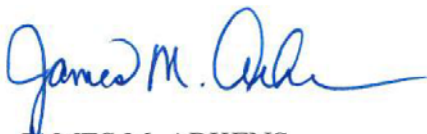
The State Budget

The Governor released his revised 2014-15 budget proposal, also known as the May Revise, on May 13, 2014. The State's General Fund receipts continue to exceed expectations. This is a marked difference from the past several years' budgets, where, as your Board is aware, the State has reported 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 lauded revenue improvements, it is likely that little of that revenue will ultimately accrue to Sutter County.

The Governor's May Revise planned to "shore up" teachers pensions, pay down debts and liabilities, maintain a balanced State budget, and save for a rainy day. It also announced additional revenues - - \$2.4 billion more than what was included in the Governor's January budget proposal. With the new found wealth, it is not surprising that individual interests at the State have already begun to dismantle these proposals and replace them with others, which on balance aim to redirect State resources to a long line of special interests, many of whom feel that they have sacrificed and suffered for too long.

Nonetheless, 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

