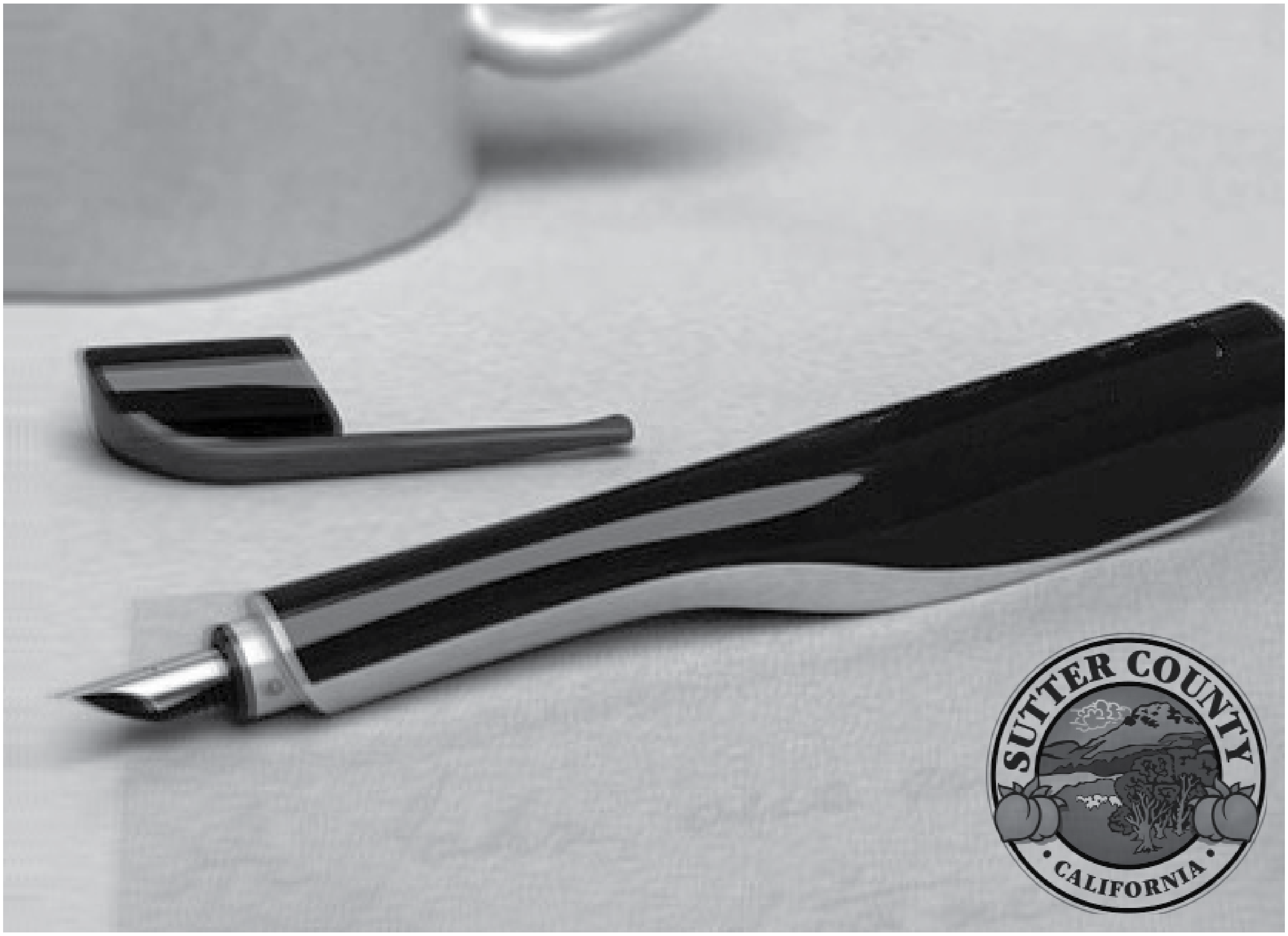

Budget Message

Stephanie J. Larsen
County Administrative Officer

County of Sutter

Office of the County Administrator

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Phone: (530) 822-7100 Fax: (530) 822-7103

June 5, 2012

To: The Honorable Board of Supervisors

Re: **Recommended Budget for FY 2012-13**

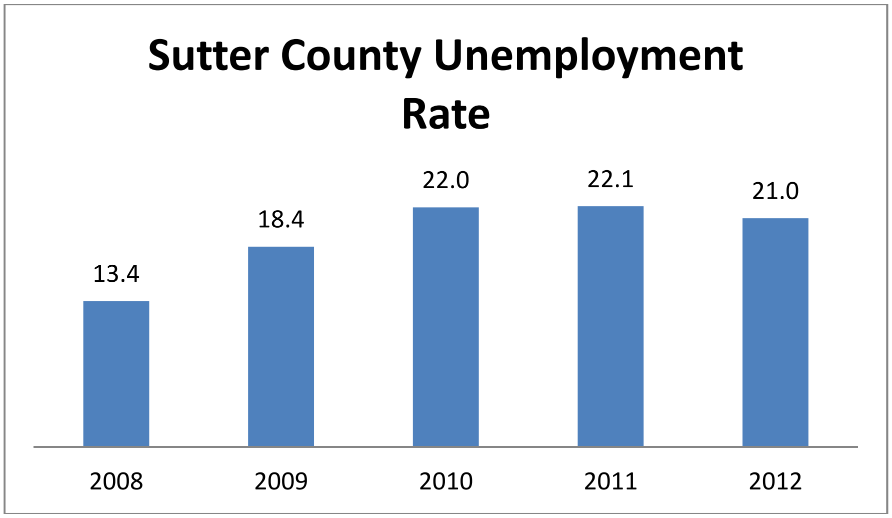
The serenity of the autumn foliage, the Sutter Bypass, and the Sutter Buttes as shown on the cover of this budget book is in contrast to the region's economic condition. The Great Recession has become the Long Stagnation. Although the recession officially ended in June 2009, unemployment remains high, new job creation is scarce, and property values are bumping along in a trough.

When will it end? Although California's coastal counties are seeing modest increases in property values and job creation, inland counties such as Sutter are still lagging behind the State and the nation economically.

According to the Center for Strategic Economic Research, job growth in the Sacramento region "has shown an upward pattern since the summer of 2011 and is currently experiencing only modest annual job losses." They project that, following a brief period of continued negative job growth, "the region will again see job gains on a consistent basis, nearly two full years after the state and the nation shifted back to positive territory and following 54 straight months in negative territory."[1]

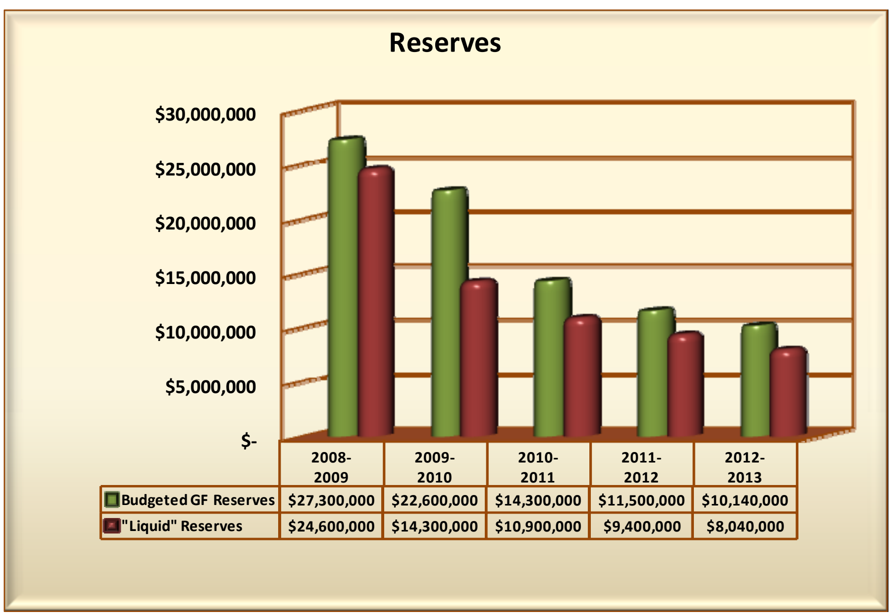
Sutter County's unemployment rate has stayed stubbornly high, rising from 13.4% in March 2008 to 22.0% in March 2010, and remaining above 20% ever since.[2] The chart below shows unemployment rates as of March of each year:

[1] "Sacramento Region Business Forecast," First Quarter 2012 Update. Center for Strategic Economic Research, Sacramento.
[2] SOURCE: U.S. Department of Labor, Bureau of Labor Statistics



Sutter County's saving grace, as has been noted in previous budget messages, is that during the good times, Sutter County resisted the siren call to dramatically ramp up programs and services. Instead, the County prudently built up its reserves. By FY 2008-09, the County's total Reserves and Designations stood at $27.3 million for the General Fund. It is generally recommended that a public entity retain 15% of its total budget for a fund in reserves. At that time, Sutter County's held a healthy 34.9% of its total General Fund budget in reserves.

Since then, however, the County has had to draw down on its reserves four years in a row to balance the budget. By FY 2011-12, the reserves stood at approximately half of what they had been a just two years earlier. Despite some significant budget-cutting (to be described in more detail in the following pages), we will need to draw down on reserves a fourth time to balance the budget for FY 2012-13.



Reserves are one-time savings that cannot underwrite ongoing expenditures forever, so we are forced by the economy and current circumstances to make significant cuts in our budget. Nevertheless, the budget cuts being felt in Sutter County have been nowhere near as draconian as those experienced by other inland counties. In February, our office estimated a $4.0 million budget deficit in the County's $61.0 million General Fund status quo needs for FY 2012-13. This compares positively to a $14.3 million deficit estimated a year earlier.

Because of the ongoing deficit, however, we instructed departments to submit budget scenarios representing a 10% reduction in General Fund contributions from the status quo level of funding. This has been very difficult for both our department heads and our employees, since we are now imposing budget cuts on top of two previous years of budget cuts. In developing the Recommended Budget, CAO staff has approached it with three goals: (1) minimize impacts in public services, (2) minimize staffing reductions, and (3) minimize the draw downs on reserves.

Summary of Recommended Budget

The Recommended Budget for FY 2012-13 totals $247.8 million. The General Fund comprises $56.9 million of this amount. The Adopted Budget for FY 2011-12 consisted of a total countywide budget of $219.1 million and a General Fund budget of $63.6 million. The recommended figures therefore represent an increase of $28.7 million, or 13.1% for the total budget but a decrease of $6.7 million, or 10.5%, for the General Fund. The increase in the overall countywide budget is due to the State's creation of the Public Safety Realignment program in 2011.

Revenues essentially remain stagnant. Although the County Administrative Office is estimating a 9% increase in sales tax revenue for FY 2012-13, property tax values are projected to decrease by 2%, essentially erasing the gains in sales tax revenue. As a result, a drawdown of $1.36 million from reserves is required in order to balance the General Fund budget. Since 51.4% of the General Fund consists of salary and benefits costs, it is not possible to achieve a $6.7 million decrease in the budget, especially after three successive years of cuts, without affecting staffing. For the second year in a row, the Recommended Budget for Sutter County includes recommendations for layoffs.

Staffing Changes

The Recommended Budget includes a few additions in funding for 6.75 new and re-funded formerly-frozen positions. Only two of these positions (Supervising Nurses for Jail Medical) are General Fund positions. These include:

New Positions	*Child Support Services* • 1 Child Support Specialist I/II (replaces a vacant Legal Secretary position, which is being eliminated) *Health – Jail Medical* • 2 Supervising Nurses *Mental Health* • 1 Accountant II (replaces a vacant Account Clerk III position, which is being eliminated) in the Mental Health budget • 1 Intervention Counselor in the Mental Health budget • 1 Resource Specialist in the Mental Health Services Act budget *Information Technology* • 0.75 FTE Deputy Director of Information Technology (full-time position funded for nine months)

Most importantly – important because layoffs affect the lives of our employees -- the Recommended Budget includes the elimination of 6 currently-filled positions (equaling 5.0 FTE), plus reductions in hours for two additional positions (totaling 0.4 FTE). These are shown in the table below:

Eliminated Filled Positions	*Auditor-Controller* • 1 Account Clerk III *County Administrative Officer* • 1 Executive Secretary *Community Services - Administration* • 1 Assistant Director of Community Services • 1 Office Assistant III *Farm Advisor* • 0.5 FTE Office Assistant *Library* • 0.5 FTE Library Technician *Museum* • 0.2 FTE Museum Director/Curator (reduced from full-time to 0.8 FTE) • 0.2 FTE Assistant Curator (reduced from full-time to 0.8 FTE)

Staffing reductions also include a reduction of one vacant position, the elimination of 7.5 vacant positions and an additional 60.45 FTE positions which will be held vacant and unfunded. The list of vacant unfunded positions is rather lengthy, but is included in its entirety here so that we can track the cumulative impact of the recession on Sutter County staffing levels. Although the elimination or defunding of these vacant positions does not result in layoffs, the inability of departments to fill these positions still has a significant impact on the operational abilities of their respective departments.

Reduction in Vacant Position

Clerk-Recorder

- 0.5 FTE Accountant I (reduced from full-time to half-time)

Vacant Unfunded Positions

Agricultural Commissioner

- 1 Agricultural Standards Biologist I

Assessor

- 1 Assistant Assessor

Child Support Services

- 1 Information Systems Coordinator
- 1 Chief Child Support Attorney

Clerk-Recorder-Registrar of Voters

- 1 Deputy Clerk-Recorder III

Community Services

- 1 Hazardous Materials Specialist in Community Services Administration
- 1 Building Inspector II in the Building Inspection Division

County Administrative Office

- 1 Senior Analyst

District Attorney

- 1 Deputy District Attorney
- 2 Senior Criminal Investigators
- 1 Limited-Term Victim Advocate II
- 0.5 FTE Victim Advocate

Human Resources

- 1 Assistant Human Resources Director

Vacant Unfunded Positions (continued)

Human Services

- 1 Administrative Services Manager

Information Technology

- 1 Computer Operator I

Library

- 1 Library Services Coordinator
- 1 Supervising Library Technician
- 1 Library Assistant I
- 1.0 FTE Library Technicians (was two half-time positions)

Mental Health

- 1 Intervention Counselor I in the Mental Health Division
- 2.4 FTE Mental Health Therapists I/II/III in the Mental Health Division
- 1 Psychiatric Technician in the Mental Health Division
- 1 Intervention Counselor I in the Mental Health Services Act budget
- 0.4 FTE Mental Health Therapist I in the Mental Health Services Act budget
- 1 Resource Specialist in the Mental Health Services Act budget

Probation

- 1 Deputy Probation Officer III
- 1 Probation Aide

Public Works

- 3 Custodians in the Building Maintenance Division
- 1 Building Services Worker in the Building Maintenance Division
- 1 Engineering Technician II in the Public Works Division
- 1 Public Works Maintenance Supervisor II in the Roads Division
- 2 Public Works Maintenance Supervisor I's in the Roads Division
- 2 Public Works Maintenance Worker Trainees in the Roads Division

Vacant Unfunded Positions (continued)

Public Works (continued)

- 2 Public Works Equipment Operators in the Roads Division
- 1 Public Works Equipment Operator in the Water Resources Division

Sheriff

- 1 Criminal Records Technician in the Communications Division
- 1 Supervising Public Safety Dispatcher in the Communications Division
- 1 Public Safety Dispatcher in the Communications Division
- 2 Correctional Officers in the Jail budget
- 1 Patrol Lieutenant in the Sheriff-Coroner budget
- 6 Deputy Sheriffs in the Sheriff-Coroner budget

Treasurer-Tax Collector

- 1 Deputy Collector in the Office of Revenue Collections

Eliminated Vacant Positions

Anti-Drug Abuse

- 1 Limited-Term Deputy Probation Officer III
- 1 Limited-Term Senior Criminal Investigator

Child Support Services

- 1 Legal Secretary

Community Services – Planning

- 1 Senior Planner
- 1 Assistant Planner

Health

- 1 Public Health Nurse III
- 0.5 FTE Health Program Specialist

Mental Health

- 1 Account Clerk III

Items Not Included in Recommended Budget

This section includes information about two capital improvement projects – the Animal Shelter and the Jail Expansion – which are not included in the Recommended Budget.

Animal Shelter

After more than six years of effort and a number of ups and downs along the way, the new animal shelter – intended to serve the citizens of Yuba City, Live Oak, and the unincorporated area of Sutter County – is tentatively scheduled to break ground later this year. The nearly 10,000 square foot facility will offer expanded dog and cat holding facilities, an animal care clinic, an expanded customer service area, a meeting room for volunteers, and both indoor and outdoor "get-acquainted" areas. As of this writing, the total cost of the project is unknown. When the construction bids were opened in April 2012, the low bid was approximately $1.0 million over the engineer's estimate. The Sutter Animal Services Agency Board chose to reject all bids, make some revisions to the design to make it less costly, and then re-bid the project. Because the total project cost is still in flux, the animal shelter project is not included in the Recommended Budget at this time. It will be brought back before your Board as a budget amendment at a later date. Sutter County's share of the project is 25%. The County Administrative Office recommends funding 50% of the project through developer impact fees and 50% from the General Fund.

Jail Expansion

Sutter County recently received a $10.1 million Public Safety and Offender Rehabilitation Services grant award to construct 28 male maximum-security beds and 14 women's beds, remodel and expand the nurses' station and sick bay, add an exercise yard for women, and upgrade the jail kitchen. As a small county, a 5% local match of $514,000 is required under the terms of the grant. This is expected to consist of an "in-kind" match of $294,000, which includes County staff time spent on project management, the completion of a project audit after completion of construction, the completion of a needs assessment (already completed), transition planning, real estate due diligence, and a $60,000 credit for the value of the land being provided for the project. There would also be a cash match of $220,000 for design and environmental CEQA clearances. The County Administrator recommends funding the cash match from Developer Impact Fees. Funding for the jail expansion is not included in the Recommended Budget, but will be brought to the Board of Supervisors as a separate

Jail Expansion (continued)

item. It should be noted that the County will need to spend approximately $1.2 million in upfront costs before the State will begin reimbursing the County after the construction contract has been awarded, currently projected for Summer 2014.

The County will also need to plan for operational costs once the new wing is opened. The expansion will not require any additional Correctional Officers because the current maximum security facility design anticipated the addition of a new housing pod, which can be monitored from the existing control room. However, the expansion of population capacity will necessitate an increase in costs for utilities, food, clothing, and medical care. To the extent that the expanded population is spurred by the State's Public Safety Realignment Program of 2011, these costs can be covered through Realignment funds.

Major Budget Impacts

This section includes discussions of a number of issues which have had a significant impact on the County budget.

Jail Medical Costs

The single largest increase in the FY 2012-13 is a $464,000 increase in Jail Medical costs. Approximately half of this increase, or $236,000, is due to the addition of two Supervising Registered Nurse positions to reduce the need for overtime, extra-help staffing, and contract staffing. This increase is slightly offset by a reduction of $16,000 in extra-help costs and $14,440 for contract staffing.

Support and Care of Persons, or direct expenditures for hospitalizations and other outside health care provided to inmates, represents a $210,000 increase in costs. Medical, Dental, and Laboratory Supplies are increasing by $30,000. The jail inmate population mimics and sometimes exceeds the general population of California communities in the rate of chronic disease incidence. The severity of inmate health and mental health conditions presented upon booking continue to result in the utilization of more inpatient hospital days, emergency room visits, and increased pharmaceutical costs. Additional specialty medical services such as kidney dialysis and cardiac catheterization have jointly contributed to the increase in both Support and Care of Persons and medical supplies costs.

Library Closures and Operating Hour Reductions

For decades, the State has provided funding for local libraries which assist in the costs of inter-library loans and delivery of other shared materials. Due to budget cuts at the State level, all funding assistance to local libraries was eliminated. As a result, the Sutter County Library lost nearly $180,000 in State funding. This amounted to more than 13% of the Library's FY 2011-12 operating budget.

Because of these revenue reductions and County budget cuts, the Recommended Budget results in service impacts in the Libraries. The Browns Branch in Rio Oso and the Pleasant Grove Branch Libraries, both of which are school-based locations, will be closed. The majority of the collections and furnishings will remain for continued use by the schools. Two half-time Library Technician positions will be eliminated, resulting in one lay-off and one retirement.

In addition, service hours will be reduced at the Main Library in Yuba City, the Barber Branch in Live Oak, and the Sutter Branch. The Main Library's hours will be reduced by four hours per week, eliminating the late-evening hours on weeknights and thereby closing at 7pm instead of 8pm. The Barber Branch and the Sutter Branch will each lose eight hours per week, reducing public hours to three 4-hour days per week. Extra-help staffing has been reduced by nearly $50,000, representing a reduction of approximately 3,800 staff hours.

There may be future challenges facing the Library, as well. The Sutter County Library works closely with the Sacramento Public Library, which hosts the Library's internet, inter-library loan system, and check-out systems. The Sutter County Library pays an annual fee of approximately $50,000 to the Sacramento Library to be included in this regional technology solution. The Sacramento Public Library, due to its own fiscal challenges, has contemplated discontinuing its inter-library relationships with the Sutter County Library and the Colusa and Woodland Libraries. Although technology services will continue to be provided by the Sacramento Library in FY 2012-13, it is not known if services will continue to be provided in future years. The Library Director has been working with the Colusa and Woodland Libraries to ensure a smooth transition to a new technology system should this occur.

Zoning Code Update

The Planning Division of the Community Services Department reviews and processes general plan and zoning applications, land divisions, use permits, variances, and other development related requests in conformance with all applicable state law requirements, and addresses code enforcement violations relative to the Zoning Code.

As the result of the recent completion of the General Plan Update, a comprehensive review and update is needed of the Zoning Code. The Planning Division's budget includes $100,000 to fund the initial year of a two-year project to update the Zoning Code. An additional $100,000 will be needed in FY 2013-14 to complete the task.

Special Revenue Funds

As has been done for the last two years, if departments have special revenue funds that can legally be used for discretionary purposes, we have recommended that these funds be drawn in the same proportions that the General Fund is drawing down its reserves. The following three departments have met or exceeded this target amount. The draw downs include $68,218 from Sheriff's Assessment Fees, $131,450 from the Assessor's property tax administration program fund, and $114,000 from the District Attorney's Asset Forfeiture and Local Anti-Drug Abuse funds. The Sheriff will be using his Assessment Fees to fund a Legal Specialist position and avoid additional staffing reductions.

It is recommended that the special revenue funds be transferred to the General Fund at the beginning of the fiscal year. Any unexpended funds in the departments' budgets at the end of FY 2011-12 should be used to decrease the County's General Fund contribution to that budget.

Health Insurance

The County's participation in the Tri-County Schools Insurance Group (TCSIG) has saved the County millions of dollars per years as compared to the cost of CalPERS health insurance. There was no increase 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. The County faced premium increases of 14% in FY 2010-11 and 13.3% in FY 2011-12. For FY 2012-13, there is no increase in the County's share of cost for health insurance. However, depending upon which plan is chosen by an employee, individual employees may face a contribution increase ranging from zero to 2%.

Other Post-Employment Benefits

The County completed its bi-annual actuarial review of its Other Post-Employment Benefits (OPEB) plan in February 2012. The County provides a modest stipend to its retirees to help defray the cost of paying for health insurance benefits after retirement. Depending upon the employee's age and years of service with the County, the monthly stipend ranges from $16 to $216. As of June 30, 2011, it was estimated that the County had an unfunded liability of slightly under $10.3 million. This consists of an explicit unfunded liability of $1.9 million and an implicit unfunded liability of $8.3 million. "Explicit" subsidies are the cash payments made to retirees. Because the County places both its active employees and its retirees in the same health insurance pool, it has been determined that retirees over the age of 65 benefit from a lower cost of health insurance benefits (because they are in an insurance pool with younger and presumably healthier active employees and their family members. In actuarial terms, the retirees receive an "implicit" subsidy because their health insurance premiums are not as high as they would be if they were in a health insurance pool consisting solely of retirement-age individuals. The cost of pre-funding the amount necessary to amortize the unfunded liability for the explicit subsidies was estimated to be approximately $77,000 per year. The Board voted to begin setting aside funds for this purpose. That amount is shown in the Non-Departmental Expense budget, #1103.

Voluntary Time Off Program

In May 2011, the Board of Supervisors approved a Voluntary Time Off (VTO) program which allowed employees to voluntarily reduce their working hours and their pay, upon approval of their department heads. During FY 2011-12, the County saved a total of $98,500 as a result of voluntary furloughs taken by 13 employees: six in the County Administrative Office, four in County Counsel, two in Public Works, and one in Probation. The VTO savings enabled the Board of Supervisors to restore a Deputy Sheriff position which had been slated for lay-off in the CAO's Recommended Budget for FY 2011-12.

In May 2012, the Board of Supervisors acted to extend the VTO program for FY 2012-13. All 21 employees in the Assessor's Office immediately agreed to enact 5% furloughs, thus saving almost $70,000. Without the voluntary furloughs, the Recommended Budget would have had to include the lay-off of an Appraisal Aide.

Ettl Hall

The County completed construction of Ettl Hall, a meeting room adjacent to the Community Memorial Museum and Harter Park, in late 2011. Ettl Hall was conceived as a place for the Museum staff and Commission to conduct educational programs and fundraisers as well as a rental hall that would function as a revenue-raising vehicle for the Museum. The hall includes a full kitchen and is an attractive location for wedding receptions since weddings are often held in the Rose Garden in Harter Park. The original fees set for Ettl Hall were too high to attract rentals, and the Board of Supervisors revised the fees downwards in April 2012. The Ettl Hall budget unit includes estimated rental revenue of $30,000. The Community Memorial Museum budget unit is estimated to receive $14,000, which represents one-half of the net rental revenue (less rental expenses). The remaining half of the net rental revenue is returned to the General Fund to repay the General Fund loan made to construct the facility. It is unknown if the new fee structure will be attractive enough to allow the Museum to meet its rental hall revenue goal.

Vehicle Replacement and Fleet Management

The County has been deferring as many vehicle purchases as possible during this economic downturn. Although we save the money required to purchase new vehicles, deferring replacement inevitably means that maintenance costs increase with an aging fleet. For the upcoming fiscal year, the County Administrative Officer is recommending the replacement of four vehicles: three patrol cars in the Sheriff's budget unit and a sedan in the Welfare/Social Services budget. One patrol car will be funded through the Sheriff's Asset Seizure funds and two will be funded by COPS grant funds. The sedan will be funded through Welfare Realignment funds.

Information Technology Equipment

Over the last three years, the County has been deferring major equipment purchases. However, the Information Technology Department has identified seven pieces of equipment that need to be replaced as soon as possible to avoid jeopardizing the computer functions of the entire county. These include a Storage Area Network used as a primary storage device for the servers, two Core Routers which run the network, and four Servers that run the County internet and its domain interface. If purchased new, this equipment would cost $350,000. Instead, the County Administrative Office recommends leasing the equipment over a five-year period for $76,000 per year.

Relocation of the Grand Jury

The Grand Jury has occupied office space in Courthouse East for many years. When the transfer of responsibility for court facilities was enacted between the County and the State in December 2008, the space occupied by the Grand Jury was designated as "court space," though the Superior Court continued to allow the Grand Jury to utilize the space free of charge. Recently, the Superior Court has experienced its own budget pressures and in order to save costs has moved its Family Law offices from leased space into the area previously occupied by the Grand Jury. The County, which is statutorily required to provide office space for the Grand Jury, found temporary office space for the 2011-12 Grand Jury. However, the space was inadequate for the Grand Jury's long-term needs. No existing County buildings contain adequate space for the Grand Jury. Leased facilities were then considered, and costs were estimated at approximately $12,000 per year for an adequate space. Fortunately, Supervisor Larry Montna offered the use of a building near Butchie's Pool, which contains adequate facilities for Grand Jury use. Ongoing costs would be limited to the Grand Jury's share of utilities, estimated at $1,200 per year. A total of $2,000 has been included in the Grand Jury budget for utilities and unanticipated expenses which may be needed for establishment of Grand Jury operations in the new location.

SunGard Personnel-Payroll-Financial Management-Budget-Purchasing System

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. Phase I is over a year behind schedule. It is now expected to "go live" in early FY 2012-13. Phase II should also be completed during FY 2012-13, if Information Technology's limited staffing permits. A total of $47,000 is being re-budgeted in FY 2011-12. These costs include $17,000 in the Auditor-Controller' budget for temporary help staffing for two months, and a re-budget of $30,000 for extra-help in the County Administrative Office to implement the budget module.

Important Issues

The following issues do not necessarily affect the operational budget this fiscal year, but are included as informational items.

Transfer of Robbins Water System to Golden State Water Company

In August 2008, the Golden State Water Company (GSWC) filed for a "Certificate of Public Convenience and Necessity" with the California Public Utilities Commission (CPUC). GSWC's intent was to become the water provider for the planned community of Sutter Pointe in southern Sutter County. Sutter County had originally planned to be a public provider of water to the new community.

As part of a four-party settlement agreement between GSWC, the County, the Robbins Ad-Hoc Committee, and the Sutter Pointe Developers, reached in March 2011, it was agreed that GSWC would be the water provider for Sutter Pointe. GSWC would also acquire the Robbins water system, which is in need of considerable infrastructure improvements that the small community of Robbins cannot afford.

The settlement agreement has been reviewed by the CPUC and the Division of Ratepayer Advocates. The County is awaiting the ruling of the CPUC judge regarding the rate schedule and the settlement agreement. The ruling is expected to be received in August 2012.

If the CPUC approves the settlement agreement and GSWC's subsequent filing for acquisition of the Robbins water system, management of and responsibility for the Robbins water system will be transferred to GSWC. If the settlement agreement is not approved, a new agreement will need to be negotiated between the parties. Until such time as GSWC acquires the Robbins water system (or another solution is reached), the County will retain management and liability for the system.

Labor Agreements

During FY 2010-11, the Board of Supervisors negotiated new bargaining agreements with all of the County's employees. The most important piece of the bargaining agreements was that all employees agreed to give up 3% raises that they would have received under their previous bargaining agreements, resulting in immediate savings in salary and related payroll

Labor Agreements (continued)

costs compared to what would have occurred if the raises had gone into effect.

The agreements also included several provisions intended to bring long-term relief to County pension costs. The agreements included the enactment of a Tier 2 retirement plan for new employees. New Public Safety employees are now enrolled in the 2%@50 retirement plan, and new Miscellaneous members are enrolled in the 2%@60 retirement plan.

In addition, current employees have now begun paying their full 8% (Miscellaneous employees) or 9% (Public Safety employees) contribution to pension costs. The employee contribution change was implemented immediately for Public Safety employees and is being phased in over a year and a half long period for Miscellaneous employees. The final step in the plan is to enact a 1.5% salary increase in December 2012, while at the same time reducing the County's contribution to the employee's share of retirement costs by 1.5%. Overall, the bargaining agreement for Miscellaneous employees resulted in salary increases of 6.5% but an 8% reduction in pay for retirement contributions.

The County Administrative Officer engaged an actuarial firm to study the long-term fiscal impacts of the labor agreements. The actuarial firm concluded that the comprehensive labor package enacted in 2011 would result in $50 million in savings over a 20-year period.

Labor agreements expire in June 2013 for the Deputy Sheriffs' Association and Fire, and in December 2013 for all other bargaining groups. Labor discussions will need to commence during the Spring of 2013.

Sutter Butte Flood Control Agency – Loan Repayment

In 2008 and 2009, Sutter County approved four loans totaling $2.78 million to the Sutter Butte Flood Control Agency (SBFCA) to assist the new agency with start-up expenses and the local share of the Star Bend Levee Setback Project. Voters approved the formation of a benefit assessment district in June 2010.

Work is currently progressing towards developing all of the design plans for the Feather River West Levee Project, which will provide 100-year flood protection from the Thermalito

Sutter Butte Flood Control Agency – Loan Repayment (continued)

Afterbay on the north to the confluence of the Feather River with the Sutter Bypass in the south.

SBFCA will be in a position to repay the loans during FY 2012-13. With accrued interest at the County pooled treasury rate, the amount to be repaid will total approximately $2.97 million. We anticipate placing approximately $1.0 million of this amount in a reserve for the General Fund share of the new animal shelter capital improvement project. We recommend placing the remaining amount, approximately $1.97 million, in a Committed Account for Pension Stabilization (see *"PERS' Revision of Assumptions Regarding Investment Earnings"* on p. 19 for more detail) to minimize the likely impacts of future pension rate increases.

Emerging Issues

This section outlines five issues that have the potential for significant impacts on the County budget in the future: regionalization of the Farm Advisor program, dissolution of the cities' redevelopment agencies, changes in CalPERS' actuarial assumptions, Live Oak fire services, and public safety realignment.

Tri-County Farm Advisor

The Farm Advisor program in each county has traditionally been a joint effort of the University of California Cooperative Extension (UCCE) and the counties. Typically, the University of California provides professional staff, and the counties provide clerical staff, office space, and vehicles. The University of California is in the process of regionalizing the UCCE Farm Advisor programs across the state with the goal of maintaining or improving customer service while simultaneously reducing administrative costs. Sutter County and Yuba County have had a bi-county UCCE Farm Advisor program, with Sutter County as the lead agency, since 1982. The University of California is in discussions with Colusa County to merge its UCCE Farm Advisor program with the Yuba-Sutter program. A draft restructuring plan is expected to be available for review and discussion in the near future. It is anticipated that the tri-county Yuba-Sutter-Colusa Farm Advisor program would be housed in Sutter County.

The University of California also plans to modernize the awkward funding structure for the UCCE Farm Advisor program. Under the new plan, the University of California

Tri-County Farm Advisor (continued)

would be the lead agency and the counties would contract with the University of California to provide services and make a financial contribution towards the total cost. Any county employees employed in the current UCCE Farm Advisor budget unit would become University of California employees.

Dissolution of City Redevelopment Agencies

Until 2011, the Community Redevelopment Law allowed local officials to set-up redevelopment agencies, prepare and adopt redevelopment plans, and finance redevelopment activities.

A redevelopment agency kept the property tax increment revenues generated from increases in property values within a redevelopment project area. When it adopted a redevelopment plan for a project area and selected a base year, the agency "froze" the amount of property tax revenues that other local governments received from the property in that area. In future years, as the project area's assessed valuation grew above the frozen base, the resulting property tax revenues --- the property tax increment --- went to the redevelopment agency instead of going to the underlying local governments. The diversion of property tax increment financing never harmed schools because the State General Fund automatically backfilled the difference between what a school district received in property tax revenues and what the district needed to meet its revenue allocation limit. When a redevelopment agency diverted property tax revenues from a school district, the State General Fund paid the difference.

Last year, citing a significant State General Fund deficit, Governor Brown’s 2011-12 budget proposed eliminating redevelopment agencies and returning billions of dollars of property tax revenues to schools, cities, and counties to fund core services in future years. Among the statutory changes that the Legislature adopted to implement the 2011-12 budget, AB 1X 26 (Blumenfield, 2011) dissolved all redevelopment agencies. The California Supreme Court later upheld nearly all of AB 1X 26, effectively requiring the dissolution of all redevelopment agencies.

Both Yuba City and Live Oak had redevelopment agencies, and both cities have named themselves as the successor agencies to their redevelopment agencies. Redevelopment

Dissolution of City Redevelopment Agencies (continued)

Oversight Boards have been formed to oversee the dissolution of the agencies' assets.

The primary issue for the County budget is the continuation of a "pass-through" agreement with the Yuba City Redevelopment Agency which partially reimburses the County for a portion of its lost property tax revenue as a result of the formation of the redevelopment agency. The pass-through agreement, which provides approximately $650,000 annually to the General Fund, is listed as an "enforceable obligation" under the preliminary list of financial obligations of the former redevelopment agency. In other words, the payments should continue in FY 2012-13 and beyond.

Eventually, in future years, there may be an increase in the percentage of property tax monies allocated to the Sutter County General Fund.

PERS' Revision of Assumptions Regarding Investment Earnings

CalPERS, the state retirement system, sets its pension contribution rates based upon a variety of actuarial assumptions. These include factors such as expected salary increases in the employee workforce, longevity, average age of retirement, and inflation rates. Since investment earnings dwarf revenue from employer and employee contributions, one of the most critical pieces of the actuarial assumptions involves the assumed percentage of earnings on investments. For many years, PERS has assumed 7.75% earnings on investments. Following the dramatic stock market downturn in 2008, pressure has mounted for PERS to use a more conservative earnings estimate. Although PERS investments as of the end of FYs 2009-10 and 2010-11 saw returns of 13.3% and 21.7%, respectively, the PERS Board voted in March 2012 to revise its estimated investment earnings downwards to 7.5%.

As a result, PERS has notified Sutter County that they anticipate 1-2% increases in our retirement contribution rates for FY 2013-14 and beyond for our Miscellaneous plans and 2-3% for our Public Safety plans (exact figures will not be known until the release of the Plan Valuation reports in October). We estimate that this will require increased pension expenditures of $1.24 million countywide, including approximately $750,000 from the County General Fund.

PERS' Revision of Assumptions Regarding Investment Earnings (continued)

Because of this, the County Administrative Officer recommends placing $1.97 million of the $2.97 million in anticipated loan repayments from the Sutter Butte Flood Control Agency (see the *"Sutter Butte Flood Control Agency – Loan Repayment"* section on page 16 for more detail) into a Committed Account for Pension Stabilization. This will help ease financial pressures on the General Fund over the next few years.

Live Oak Fire Services

The County and the City of Live Oak entered into a Master Tax Sharing Agreement in September 2008. In that agreement, the County agreed to continue the existing levels of police and fire services and their related billing methodologies for five years. It was acknowledged at that time that the billing methodology for fire services underestimated the actual costs of providing services. During the next year, the County and the City of Live Oak need to meet and negotiate a new billing methodology that more accurately reflects the true costs of the services provided.

Public Safety Realignment

In January 2011, new Governor Jerry Brown proposed a "vast and historic" realignment of government services in California, transferring authority and responsibility to cities, counties, special districts, and school boards. The Governor proposed to eliminate duplicative administration of services, limit overhead costs, and allow for locally determined priorities while maintaining statewide goals and objectives.

For public safety, AB 109 realigns correctional duties for specified felony offenders to local governments and includes intent language to provide revenues to cover the related costs. Another key provision of AB 109 is that it shifts all newly-released offenders from prison who do not have current convictions for serious or violent felonies, who are not "third strikers", and who are not high-risk sex offenders (dubbed "non-non-nons") to post-release supervision by counties rather than the state parole board. Post-release supervision is to be implemented in a manner consistent with evidence-based practices to reduce recidivism.

Beginning in the summer of 2011, Sutter County's Community Corrections Partnership (CCP) began to craft their plan for dealing with the realignment of correctional services from the State to the counties. The CCP adopted a phased approach to Realignment in order to afford the time to

Public Safety Realignment (continued)

properly address the multifaceted needs of the local population and to assess the necessary resources to achieve desired public safety outcomes. The Phase I plan outlined the anticipated immediate impacts that needed to be addressed prior to or immediately following October 1, 2011, the effective date of the Realignment program. These included new Probation Officers to address the new population under their supervision, the increased need for thorough assessment and implementation of the principles of effective intervention, the adoption of reduced caseload ratios, research and data analysis, and staff to address vocational, educational, and mental health needs of offenders. Correctional Officers were budgeted to address increased classification, programming and transportation issues for the new population, and Intervention Counselors were added to address substance abuse issues. Because of space issues, including a need to house expanded adult probation services, the CCP approved the lease of a building for juvenile services, so that space within the existing Probation office could be expanded to address the needs of adult offenders.

As of May 17, 2012, the California Department of Corrections (CDCR) had referred 159 post-release community supervision cases (PRCS) to Sutter County. CDCR had estimated there would be 69 cases. Roughly 8% of PRCS offenders have committed new felony offenses. The jail population was below pre-realignment figures of an average of 224 inmates until April 2012, when the inmate population began to grow to a current average daily population of 245. State parole violators have been of concern as these bookings spiked prior to Realignment and this is a population that local governments have no control over.

One of the most significant issues faced by the local justice partners is the breadth and complexity of changes to be addressed in a very short period of time. The development of expanded resources in the Jail and the community should begin early in FY 2012-13, along with the development of the Phase II plan.

The Governor has thus far been committed to finding adequate and continuous ongoing funding for the program. The fate of the Governor's tax initiative in November 2012 may test that level of commitment, should voters not approve the new taxes. In addition, a long-term allocation formula has

Public Safety Realignment (continued)

not yet been enacted. Counties will continue to use a short-term allocation formula for at least another year until data can be developed regarding caseloads and outcomes. The anticipated allocation for FY 2012-13 is $2.6 million, which will help address the expansion of services.

The State Budget

The State budget is currently facing an estimated $15.7 billion deficit for FY 2011-12. In what has become the annual budget dance in Sacramento, legislators continue to be at an impasse regarding ways to permanently resolve the State's chronic budget deficit. Passage of Proposition 1A in November 2004 and Proposition 22 in November 2010, both of which enacted various protections of local government revenues from being redirected to the State, has made it more difficult for the State to find new ways to extract money from local government rather than fix its own problems.

The County is at some risk that the Governor's tax initiative on the November 2012 ballot will fail and that continued ongoing funding for the Public Safety Realignment program enacted in 2011 may be shaky. The fallback plan envisioned by the Governor if his tax initiative fails includes significant cuts to education and public safety.

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 cuts. 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.

In Summary

Although the national economy and even the California statewide economy show signs of recovery, inland counties such as Sutter continue to be mired in recession. This Recommended Budget for FY 2012-13 is the third in what is likely to be several more years of constrained budgets. Although we face challenges in the upcoming years, we also have opportunities to find new and creative ways of providing services to our citizens.

Respectfully submitted,

Stephanie J Larsen

Stephanie J. Larsen
County Administrative Officer