



Budget Message

Stephanie J. Larsen
County Administrative Officer



COUNTY OF SUTTER
County Administrative Office

June 29, 2010

To: The Honorable Board of Supervisors

Re: **Recommended Budget for FY 2010-11**

On November 4, 2009, the Starr Bend levee setback project was completed, strengthening a major section of the western levee of the Feather River just south of Yuba City. We chose to feature this important project on the cover of this year's budget book. Further levee improvements are pending. As this Budget Message is being written, our citizens are considering mail-in ballots to determine whether they will approve a property assessment to improve flood protection for over 34,000 properties in Butte and Sutter Counties.

In figurative terms, Sutter County's finances face changing tides this year. Thanks to the foresight of the County Supervisors, Sutter County built up an impressive mass of reserves¹ envied by many other counties. At its peak on June 30, 2009, total General Fund reserves stood at \$30.95 million. These reserves have spared Sutter County from the budget ravages that have plagued many other cities and counties.

But the Great Recession has been so deep, so prolonged, and has affected so many sectors of the economy that our revenues no longer cover our ongoing expenditures. We drew down \$3.4 million² of reserves to balance the FY 2009-10 budget. My goal has been to draw down no more than one-third of the remaining liquid reserves for FY 2010-11 in order to maintain sufficient reserves to also help us through FYs 2011-12 and 2012-13.

¹ Purists will remind me that the set-asides I'm referring to consist of both reserves and designations. For the sake of simplicity, I'm using "reserves" generically to refer to both.

² Schedule 3A of the FY 2009-10 Final Budget shows a total drawdown of General Fund reserves of \$8.3 million. Over \$4.9 million of that amount was used to cover Mental Health cash flow problems because of late payments from the State. Of the remaining \$3.4 million, \$2.1 million was for ongoing operating expenses and \$1.3 million was for one-time expenses such as information technology projects and capital projects.

When we issued budget instructions to the departments back in March, I asked departments to submit 5% budget cutback scenarios. At that time, I thought that we could trim some non-critical expenditures to better position ourselves for future budget years. I wasn't expecting to be making any dramatic budget reductions.

That all changed in late April with the discovery of 18 months' worth of reversals in sales taxes – reversals that meant the County General Fund owed the Sacramento Area Council of Governments (SACOG) more than \$1.7 million. On top of that, it meant that we had to reduce our sales tax expectations for FY 2009-10 and 2010-11 by approximately \$1.0 million each year. We knew sales taxes were declining, but the true numbers showed that sales taxes had been declining even more precipitously than that. Our General Fund budget for FY 2010-11 suddenly had nearly \$4.0 million less than it had the day before.

To put this in perspective, \$4.0 million is roughly 5.3% of the County's \$75.4 million General Fund³. Suddenly, those 5% cutback scenarios became more than just a theoretical exercise. It was real. And some of those cutback scenarios included people.

The benefit of being a “lean and mean” conservative county is that we don't ramp up our expenditures during good times, only to be forced to reverse the process and cut back services during bad economies. The downside of being “lean and mean” is that, when we *are* forced to make reductions, there's not much available to cut. Even minor reductions quickly lead us to make painful decisions regarding personnel expenditures.

In this economy, the private sector isn't hiring, and neither are our surrounding jurisdictions, which are generally facing even tougher budget challenges than Sutter County is. If one of our employees gets laid off, where is he or she to go? Our employees are not just numbers in a budget, they are real people with families and homes. Two-thirds of our employees live right here in Sutter County. We are shopping here, paying taxes here, and contributing to our local economy. Two-thirds of the remaining one-third live in Yuba County next door – also contributing to our closely-intertwined bi-county economy. Our employees help strengthen the local economy, and any reductions in force will place that much more pressure on an already-strained bi-county business climate.

How does all this affect our FY 2010-11 Recommended Budget? Here's the basic math: we anticipate that we'll have approximately \$8.5 million in carry-forward funds from FY 2009-10 to use for operating expenses. Our General Fund revenue projections for FY 2010-11 equal \$54.7 million, for a grand total of \$63.2 million available for operating expenses. If we had continued at a status quo funding level, our ongoing General Fund expenditures would have been approximately \$75 million⁴ – a structural deficit of nearly \$12.0 million.

We have made significant budget reductions in the General Fund. We've postponed most capital projects, vehicle purchases, fixed asset purchases, and new I.T. projects. We're

³ FY 2009-10 Adopted Budget

⁴ This number is very rough due to the inadequacies of our 30-year-old budget system.

holding most vacant positions open and unfunded. We've asked departments to contribute one-third of any discretionary special revenue funds they might have to their operating budgets. We have trimmed specific line items as much as we can. We have identified areas for future study.

But even with all that, we need another \$1.26 million (\$756,000 General Fund) in order to balance the budget without drawing down more than one-third of our reserves. We have included generic "salary savings" in each of our operating budgets with a request to our bargaining units to meet and confer with county representatives in an effort to achieve the savings necessary to balance the budget. The Law Unit has already agreed to temporarily postpone their June 19, 2010 wage increase pending the outcome of these negotiations. County representatives also have been meeting with representatives of the General, Supervisory and Professional bargaining units in furtherance of this goal. The overall goal is to save approximately \$756,000 in the General Fund and reduce pressure in future years on all County funds.

There are two positions we can't save this year, even with employee concessions. For the first time since FY 1992-93, Sutter County will need to issue lay-off notices to some of its employees.

The County partners with Yuba City for some services and with Yuba County for others. Both Yuba City and Yuba County have had more severe budget constraints than Sutter County. Yuba City has had to enact 10% unpaid furloughs and lay-off five employees to balance its FY 2010-11 budget. Yuba City has notified the County that they can afford no more than \$375,000 in FY 2010-11 for Animal Control services. Last year, Yuba City began using its own police department to respond to barking dog calls and an outside contractor to pick up and dispose of deceased animals. Although this represented a reduction in the level of services to be provided by Sutter County, we made no decrease in staffing at that time. This year, however, we have no choice. Under normal circumstances, Yuba City's 2/3rds cost-share would be approximately \$450,000. There is no practical way to provide a reduced level of animal control services to citizens within the boundaries of Yuba City and a higher level of services to citizens within Live Oak and the unincorporated area of Sutter County. The only way to avoid the lay-offs is for the County to subsidize services that would normally be paid by Yuba City. We regretfully recommend laying off two Animal Control Officers effective January 1, 2011.

We recommend that the Board direct the County Administrative Officer and her staff to work with our partner cities between now and January 1st to determine a cost-effective and sustainable way to provide animal control and shelter services to our citizens.

Summary of Recommended Budget

The total Recommended Budget for FY 2010-11 is \$251.5 million⁵, of which \$70.6 million, or 28.0%, is General Fund costs. This compares to \$250.7 million in total

⁵ Excluding dependent special districts and internal service funds.

expenditures and \$75.1 million in General Fund costs in FY 2009-10, or a 0.3% increase overall and a 6.0% decrease in the General Fund.

The Recommended Budget assumes a 4.5% decline in the property tax roll for FY 2010-11, as well as a 38.3% decrease (\$1.15 million) in budgeted sales taxes. Public Safety (Proposition 172) sales taxes are projected to decline by 12.5%, which requires a greater contribution from the General Fund for Law & Justice departments. General Fund franchise fees are anticipated to decline from \$2.1 million to \$1.6 million, or a drop of 23.8%. The only bright spot on the revenue side comes from A-87 cost reimbursements, which are projected to increase by approximately \$700,000.

The Recommended Budget utilizes \$4.2 million from designations to balance the budget and approximately \$511,000 for one-time capital projects expenditures. After these drawdowns, the General Fund Appropriation for Contingencies will remain at \$750,000 and there would be an estimated \$7.7 million balance in the Designation for Capital Projects⁶. The General Fund General Reserve, which is used to cover cash flow issues during dry periods and to provide funding for unforeseen emergencies, will remain at \$1.1 million. Other General Fund reserves and designations will total approximately \$7.2 million. Altogether, projected General Fund contingencies, reserves, and designations total 22.1% of total General Fund financing requirements for FY 2010-11.

Capital projects in the Recommended Budget include \$3.9 million in continuing projects and \$378,000 for six new projects. The new projects range from \$10,500 to replace and upgrade the HVAC system in the jail nursing station to \$150,000 to repair erosion at the Tisdale boat launching facility and parking lot. Only one new project, the Tisdale boat launching facility, will be funded from the General Fund. Of the \$3.9 million in continuing projects, approximately \$430,000 will be funded from the General Fund.

Major changes and/or policy issues in the FY 2010-11 Recommended Budget include:

Staffing Changes

The Recommended Budget holds approximately 27.0 FTE positions vacant and unfunded for FY 2010-11. These include:

Child Support Services

- 1 Child Support Specialist
- 1 Chief Child Support Attorney

Community Services

- 1 Kennel Assistant in the Animal Control Division
- 1 Senior Planner in the Planning Division

County Administrative Officer

- Salary savings equivalent to approximately 0.7 FTE

⁶ Exact balance will not be known until close-out of the FY 2009-10 budget.

District Attorney

- 1 Senior Criminal Investigator
- 0.46 FTE Deputy District Attorney I (5.5 months)

Health

- 1 Licensed Vocational Nurse
- 0.5 FTE Public Health Laboratory Director
- 0.5 FTE Public Health Microbiologist
- 1 Account Clerk I
- 0.6 FTE Office Assistant II

Human Services Administration

- 1 Administrative Services Manager

Information Technology

- 1 Computer Operator I/II
- 0.3 FTE Deputy Director of Information Technology

Library

- 1 Library Assistant

Public Works

- 1 Highway Engineering Technician II in the Administration Division
- 3 Custodians in the Building Maintenance Division
- 1 Building Services Worker I in the Building Maintenance Division
- 1 Public Works Equipment Operator in the Water Resources Division
- 1 Public Works Maintenance Supervisor I in the Roads Division

Sheriff

- 3 Deputy Sheriffs
- 1 Correctional Sergeant
- 2 Correctional Officers

Treasurer

- 1 Treasurer Collector Deputy I/II

We are recommending two reorganizational requests this year.

In Public Works, various position changes are being recommended to update the Purchasing Division's functions. This includes converting a vacant Buyer position to a

Procurement/Contract Analyst and upgrading an Office Assistant II position to an Office Assistant III. A vacant Central Services Assistant II position will be eliminated. In the Building Maintenance Division, several Custodian positions will be revised for greater flexibility in the deployment of staff. The Custodian – Mental Health position will be re-named to Senior Custodian (no fiscal impact). Two Custodian positions will be converted to Senior Custodian positions. The end result of these personnel changes is a net savings of approximately \$30,000 per year.

To provide higher-level assistance to the Personnel Director and to relieve the County’s need to rely on an outside consultant for labor negotiations, we are recommending the addition of an Assistant Personnel Director position. The cost of the Assistant Director position will be offset by the elimination of an Office Assistant II and a decrease of \$100,000 in Professional & Specialized Services, for a net savings of \$28,842.

As mentioned earlier, we recommend laying off two Animal Control Officer I/II positions effective January 1, 2011.

Special Revenue Funds

As stated earlier, if departments have special revenue funds that can legally be used for discretionary purposes, we have recommended that these funds be drawn down by approximately one-third of the current balance. This includes \$14,000 from Sheriff’s Assessment Fees, \$131,450 from the Assessor’s property tax administration program fund, and \$52,000 from the District Attorney’s Asset Forfeiture and Local Anti-Drug Abuse funds.

Health Insurance

The County’s participation in the Tri-County Schools Insurance Group has saved the County millions of dollars per year as compared to the cost of CalPERS health insurance. There has been no increase in health insurance premiums over the last seven years. However, over the last three years, TCSIG has been drawing down on reserves to keep health insurance costs stable. For FY 2010-11, a 15% increase in health insurance costs has been incorporated into the Recommended Budget.

There are no increases for dental, vision, or life insurance premiums.

Vehicle Replacement and Fleet Management

A total of nine vehicles are included in the Recommended Budget. Two will be funded from the Designation for Vehicle Replacement, one from the Road Fund, one used vehicle from District Attorney asset forfeiture funds, and five patrol cars from the General Fund.

Fleet Management rates each vehicle's condition on a letter scale from A through E. Typically, a vehicle rated D or E will be recommended for replacement. This year, only those vehicles rated E (plus a few isolated D's) are included in the Recommended Budget.

While looking at vehicle utilization reports, we noted a significant number of vehicles that are not being driven as many miles per year as we would have expected.

We recommend that the Board direct the County Administrative Officer and her staff to work with Public Works' Fleet Management Division and all other departments to determine the most cost-effective way of providing fleet operations services.

Fixed Assets (Capital Assets)⁷

Almost all Capital Asset requests have been deferred this year. Only \$15,500 is being recommended from the General Fund. The Recommended Budget for FY 2010-11 includes \$10,000 for a modular work station in the Welfare Administration budget (Welfare/Social Services Fund) and \$97,015 for communications-related equipment in the Sheriff's Communication budget. A total of \$47,515 for a digital radio tower and interoperable communications equipment will be funded from COPS grant monies, Sheriff's Civil fees will fund a \$9,000 video answering system, a \$25,000 voice logger system will be funded from the Criminal Justice Facilities Fund, and the \$15,500 General Fund item is for a replacement voice mail system.

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

⁷ An update to the County Budget Act, which became effective January 1, 2010, changed the term "fixed assets" to "capital assets."

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 expected to “go live” in July 2010. Phase II should be completed during FY 2010-11. A total of \$130,940 is being re-budgeted in FY 2010-11. These costs include \$73,000 in Information Technology for Sungard contract costs⁸, \$27,940 in the Auditor-Controller’ budget for a limited-term position for three months plus SunGard-related training and travel expenses, and \$30,000 for extra-help in the County Administrative Office.

Road Funding

The State recently enacted a tax swap for road funding that gives us concerns for the future. In 2002, voters approved Proposition 42, the Transportation Congestion Improvement Act, which imposed a sales tax on gasoline that has become a major component of local road funding. In Spring 2010, the State eliminated Proposition 42 funding and instead increased the excise tax on gas (the Highway Users Tax Account, or HUTA). The alternative HUTA revenues will be allocated first to pay state transportation debt services, then will be allocated 50% to the State Transportation Improvement Program (STIP) and 50% to be split evenly between cities and counties using current HUTA formulas.

What the State has accomplished with this swap is an elimination of Proposition 42 funding, which was protected from State raids by the local revenue protection provisions of Proposition 1A, and replaced it with an excise tax that has no such protections. In addition, the excise tax is a declining source of revenue.

Animal Shelter

The Recommended Budget includes a re-budget of \$357,500 to complete the design of the new Animal Shelter and develop construction drawings. However, due to the uncertainty regarding the long-term operational status of Animal Control Services, we recommend temporarily suspending further work on the animal shelter design project. Once staff has a recommendation regarding the most cost-effective way of providing Animal Control Services, we will return to your Board with a plan for continuing with the animal shelter project as originally conceived, or with a recommendation for a new alternative.

⁸ The contract costs are then spread to the budgets of the Auditor-Controller, County Administrative Officer, Personnel, and Purchasing.

***County Facilities
Master Plan***

To better plan for the County's current and future facilities needs, we included \$250,000 in the FY 2009-10 budget to update the County Facilities Master Plan. The Recommended Budget includes a re-budget of \$150,000 for a scaled-down version of the project. County staff intends to revise the Scope of Work so that certain components will be completed by in-house staff. This option was included in the original RFP, but bidders had differing interpretations of the extent of work to be done by in-house staff, so more consistent specifications will be developed.

***Management of
County Outpatient
Health Clinic***

On July 14, 2009, your Board approved a proposal to shift management of the Outpatient Health Clinic from county staff to Peachtree Clinics. The key reason for making the change in management was to allow the Outpatient Clinic to qualify as a Federally Qualified Health Clinic (FQHC) and become eligible for a higher level of expense reimbursements. The federal government has not yet issued a determination on whether they will grant FQHC status to the Outpatient Clinic, so Sutter County employees continue to staff the Outpatient Clinic for the foreseeable future.

The State Budget

The State budget is currently facing an estimated \$19.1 billion deficit for FY 2010-11. Legislators continue to be at an impasse regarding ways to permanently resolve the State's chronic budget deficit. The State also continues to find new and creative ways to extract money from local government rather than fix its own problems. 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. The best explanation I've heard is that the state is technically no longer in a recession because employment has begun growing again instead of declining – but that the unemployment rate continues to stay high because the growth in the labor force far outstrips the number of new jobs being created. Sutter County's unemployment rate stood at 21.3% as of April 2010⁹. Economists predict only a 1% decline in the unemployment rate each year for the next two years. This Recommended Budget for FY 2010-11 is the first in what is

⁹ SOURCE: U.S. Bureau of Labor Statistics

likely to be several 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,

A handwritten signature in blue ink that reads "Stephanie J. Larsen". The signature is written in a cursive style with a large, stylized initial 'S'.

Stephanie J. Larsen
County Administrative Officer