

BUDGET MESSAGE

County of Sutter
Office of the County Administrator

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May 30, 2008

To: The Honorable Board of Supervisors

Re: Proposed Budget for Fiscal Year 2008-09

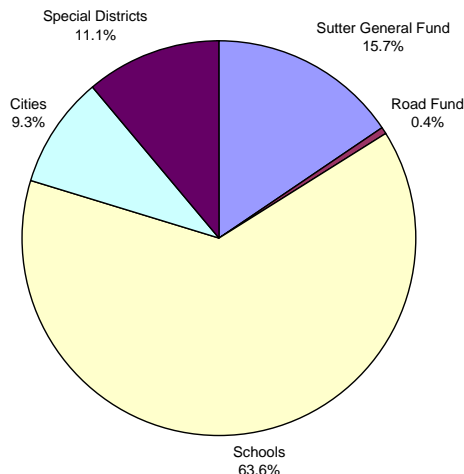
I am pleased to present the attached Sutter County Proposed Budget for FY 2008-09. The budget is balanced and the County enjoys healthy reserves. Totalling \$226.7 million, this budget is largely status quo in nature. Although many counties across the State are facing multi-million dollar budget deficits and are imposing hiring freezes or facing employee lay-offs, Sutter County has not had to resort to such measures to balance its budget.

The two top stories for FY 2008-09 include the continuing impact of the meltdown in the regional housing market and the State's continuing – perhaps eternal – budget crisis. These two factors have varying impacts on Sutter County's budget.

The Housing Market Meltdown

The housing market began its retraction in early 2006. As subprime mortgages reset to new and higher interest rates, the number of foreclosures slowly began to rise. This, coupled with tightened lending standards by the banks, made it difficult for homeowners to refinance and sell their homes. The number of homes on the market has increased, resulting in lower sales prices in the Sutter County market. The median housing price dropped from \$293,000 in April 2007 to \$221,500 in April 2008, a 24.4% decrease.

Where Your Property Tax Dollar Goes

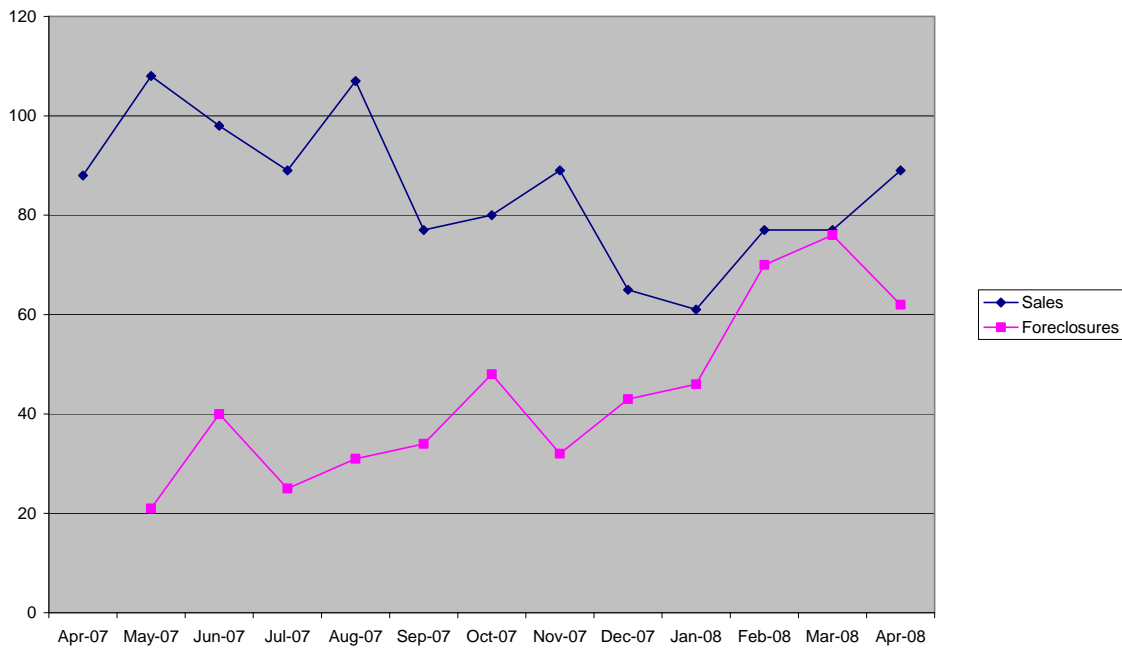


Nevertheless, some homes that were last sold before the housing market began to rise in early 2002 are continuing to turn over. When these older homes sell, they are re-appraised at current market values, thus increasing the total property tax roll. In addition, the commercial sector continues to invest in Sutter County. Although Sutter County's total assessed valuation is not climbing at the pace of a few years ago, the Assessor still projects a 2% increase in the total assessment roll for FY 2008-09.

Sutter County's General Fund retains an average of 15.7% of each property tax dollar collected. Thus, a 2% increase in total assessed valuation results in a modest increase of \$1.5 million in current secured property tax revenues that will be retained by Sutter County.

We estimate that supplemental property taxes (imposed after a home is sold and reflecting its change in market value from its previous owner) will actually decrease by \$300,000 – reflecting some of the turmoil in the housing market. Therefore, the net increase in property tax revenue is projected to be approximately \$1.2 million.

Sutter County Home Sales and Foreclosures



SOURCE: Sacramento Bee, May 20, 2008

Both local realtors and area newspapers are reporting that when homes are priced competitively, property owners receive multiple offers. Whether the housing market will pick up towards the end of the calendar year or not is essentially guess-work. To be conservative, the Proposed Budget includes few new positions, programs, or capital projects. On the other hand, we are cautiously optimistic that the housing market will bottom out this year, and therefore begin a slow recovery in 2009.

The California State Budget Crisis

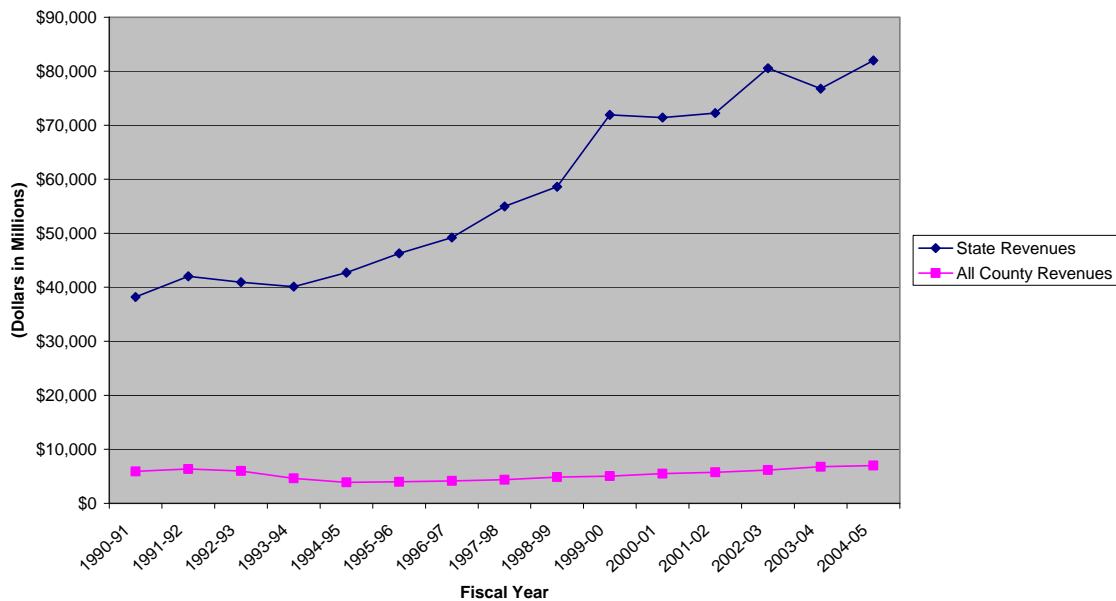
Sutter County, like all counties in California, receives almost half (45.4%) of its revenues from the State and federal governments. These monies typically come with strings attached – i.e., we're required to spend the revenues on specified programs and services. Thus, counties are heavily affected by State budget decisions. Each year, the Governor introduces a Proposed Budget in January. However, little real action occurs on the State budget until late May, when

the Governor publishes his May Revise that reflects updated revenue estimates and corresponding expenditure revisions.

The Governor published the May Revise of the FY 2008-09 Proposed State Budget on May 14, 2008. At that time, he estimated the State’s budget deficit at \$17.2 billion out of a \$101.8 billion total budget. Although various state officials and legislators differ on their estimates of the total budget deficit – with figures ranging from \$7 billion to \$24 billion – the general consensus is that the number is significant and that the “easy” cuts are gone. Any future budget cuts will necessarily affect health and welfare and/or law and justice programs. Counties, of course, provide all of these services – largely with State money. The Governor proposes to use one-time money for an ongoing financing problem by privatizing the state lottery. In doing so, he estimates that the lottery will generate significantly higher revenues than it has in the past. His proposal involves borrowing against these future increased revenues (called “securitization”) and using the borrowed revenue for current-year operations. Most Capitol-watchers predict little chance of success for this proposal.

It should be noted that State General Fund revenues have been increasing at a faster rate than the discretionary revenues of all the combined 58 counties, as the graph below illustrates:

Discretionary Revenue Growth: State vs All Counties



SOURCE: California State Association of Counties

Other Counties Face More Difficult Budget Times

Butte County

“Butte County has a cash-flow problem, and it wants poor people with mental-health problems to pay for it. Not literally, of course. But pay they will, if the Board of Supervisors approves a budget proposal that would close Butte County Behavioral Health’s two treatment centers in Paradise and one in Gridley by September.”—*Chico News and Review*, May 28, 2008

Santa Clara County

“Under the budget proposal for Santa Clara County for the fiscal year beginning in July, reductions must be made in many areas to cover the \$172 million deficit...” *Morgan Hill Times*, May 26, 2008

Kern County

“Kern County supervisors will stare down the barrel of a \$47.7 million general fund budget deficit Tuesday. County Administrative Officer Ron Errea will deliver a proposal asking the board to give him the power to clamp down on county hiring and spending.” – *Bakersfield Californian*, April 21, 2008

Los Angeles County

“The budget squeeze comes as property and sales taxes - two of the main revenue sources for local governments - have plummeted to a combined loss that is expected to have a devastating impact. As Los Angeles County faces a nearly \$200 million deficit in its health department - along with drops in property and sales-tax revenues - the budget is expected to include a variety of cuts in health care, social services and other areas.” – *Inland Valley Daily Bulletin*, April 20, 2008

Contra Costa County

“Contra Costa County may have to slash \$51.7 million from programs serving thousands of residents, including mental health, law enforcement and children’s services. Budget cuts are not new for the county, but the plan for 2008-09 proposals is more severe than others in recent memory.” – *Contra Costa Times*, April 19, 2008

Shasta County

“Between proposed state budget cuts, an 8.5 percent decrease in sales tax revenue and about 3.5 percent less in hotel occupancy taxes, Shasta County officials are bracing for a lean 2008-2009 budget.” – *Redding Record Searchlight*, April 4, 2008

San Francisco City/County

“Lawmakers have proposed dramatic measures to meet a huge city budget shortfall for next year. The proposal comes days after three City Hall budgeting offices estimated that the deficit for next year had grown to \$338 million.” – *San Francisco Chronicle*, March 26, 2008

The Sutter County Proposed Budget does not include any of the budget cuts included in the Governor’s original FY 2008-09 Proposed State Budget or those included in the May Revise. Because the State budget is merely a proposal at this point, and is likely to be heavily revised by the State Legislature over the course of the summer, the CAO’s office will review the State budget when it is finalized and will return to your Board with budget amendments if they are necessary.

Sutter County in Strong Fiscal Shape

Headlines across the state acknowledge that counties are facing difficult financial times.

Nevertheless, Sutter is well-positioned to thrive despite these challenges. Your Board has prudently combined fiscal restraint with the foresight to set aside reserves against just such situations. Whereas other counties are facing significant budget deficits, severe budget cuts, hiring freezes or even lay-offs for hundreds of personnel, we anticipate that Sutter County can absorb State budget cuts without any such measures.

In fact, Sutter County department heads use Sutter’s historic job stability as an effective recruiting tool. Despite salaries that are oftentimes below those of comparable positions in neighboring counties, Sutter County is attractive as an employer that keeps its employees and doesn’t eliminate jobs in difficult budget times.

Sutter’s fiscal health can be measured by a number of different factors. The County’s General Reserve fund provides cash flow during the first six months of the fiscal year until property tax payments are collected in December. Additionally, it is designed to

act as a contingency for the County in extreme emergencies, and is available upon the formal

declaration of an emergency. The County's General Reserve is established by the Board of Supervisors at \$1,088,000 (or 1.5% of total General Fund expenditures). The County also maintains specific designated reserves which provide funding sources for one-time projects or expenditures as designated by the Board of Supervisors. The primary designated reserve is the Designation for Capital Projects, which is projected to stand at \$20 million on July 1, 2008, and equals approximately 8% of the total County budget (or 26.8% of General Fund expenditures). This designated reserve fund is used each year to fund identified one-time expenditures, such as Plant Acquisition projects funded by the General Fund, and has been used in past years to fill the "gap" for temporary funding issues as a result of State budget decisions.

Sutter County's pension plans remain well-funded and in good fiscal health, according to the California Public Employee Retirement System (CalPERS). The miscellaneous employees' pension plan was 88.2% funded and the safety employees' plan was 89.6% funded, both marked increases since 2004, according to a presentation by CalPERS to the Board of Supervisors in September 2007. The amount of the underfunding is within an acceptable range and there are "no issues" with the county's pension position, according to CalPERS.

The County's traditional long-term debt policy is to borrow funds only for building projects funded by the State or federal governments. The County General Fund traditionally sets aside funds for anticipated building projects, and then pays cash for its capital projects. The County General Fund has no significant long-term debt.

Overall, Sutter County enjoys healthy financial reserves, carries little long-term debt, and is able to balance its budget without resorting to budget cuts or employee lay-offs. Many California counties would envy Sutter's position.

Additional FY 2008-09 Proposed Budget Issues

Medical Outpatient Clinic: The County's Medical Outpatient Clinic, operated by the Health Division of Sutter County's Human Services Department, has been operating at a deficit of \$1.0 - \$1.3 million annually. The County General Fund contributes finances to keep the Outpatient Clinic operating. According to the Human Services Department, the deficit cannot be completely closed through implementation of operating efficiencies; the problem is that MediCal fee-for-service cost reimbursements for indigent patient care are insufficient to meet operating costs. However, Federally Qualified Health Clinics (FQHC), are allowed to receive reimbursement rates that are double and triple the rates that MediCal fee-for-service will pay to the County-operated Outpatient Clinic. Two FQHCs already operate in the Sutter County area: Peachtree Clinics and Del Norte Clinics. The Human Services Department spoke to the U.S. Department of Health and Human Services about receiving designation as an FQHC, but was told that it was highly unlikely that their request would be approved because there are already two other FQHCs operating in the same area. Even if approved, the operation of the County's clinic would be required to be under the control of an outside FQHC board and not the County Board of Supervisors.

PeachTree Clinics approached the County about operating the Outpatient Clinic. PeachTree or Del Norte Clinics would provide the same services to the same clientele at the same site as the traditional County-operated Outpatient Clinic; only the management would change. Del Norte

clinics or Peach Tree's specialists could also offer additional services beyond those traditionally offered, such as orthopedic, dental care, and/or podiatry services. The County would then have an opportunity to use its savings to expand Public Health services, such as medical and health education efforts aimed at curbing obesity, diabetes, and methamphetamine and Oxycontin use.

The entire proposal hinges on a key factor: whether PeachTree or Del Norte Clinics can receive approval from the federal government to operate as an FQHC at the County's site. If that approval is granted, the Human Services Department will negotiate with both clinics to determine which can offer the best services to its clients. Some staff would be provided the opportunity to accept employment with the new Clinic manager, but all current clinic staff will have the opportunity to remain as County employees providing health care in a different setting. The complete set of recommendations will go through a series of public hearings before the Board makes a decision whether to go forward with the proposal or not.

Because the change of management for the Outpatient Clinic is still conceptual at this point, the Public Health budget assumes the status quo will continue for FY 2008-09. The Outpatient Clinic budget includes a recommended General Fund contribution of \$1,398,657.

Personnel-Payroll System: The County went through an extensive search process to determine the best software to replace its aging personnel-payroll system. A vendor has been selected, but a contract has not yet been negotiated. In addition, other jurisdictions we consulted strongly recommend the use of a consultant as a facilitator, as well as the use of extra-help staff to fill in while experienced staff are working with the software vendor to ensure that departmental needs are included in the final configuration of the software.

Once the project has been conceptually approved by your Board and a contract has been negotiated, the CAO's office will return to your Board with the legal agreement and recommendations for related budget amendments. Harvey M. Rose Associates, LLC, estimated first-year costs for the Sungard Bi-Tech system at approximately \$633,000 for the first year, with ongoing costs dropping dramatically in following years once the implementation is completed.

Plant Acquisition: Major structural improvements (those costing over \$25,000) 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. The Proposed Budget includes approximately \$4.1 million of re-budgeted projects from the prior year that are still in progress, and approximately \$835,000 in new projects.

The largest of the re-budgeted projects include approximately \$1.6 million for the Tisdale Boat Ramp; \$800,000 for architectural design of the proposed General Government Building; approximately \$424,000 for security fencing and lighting for the Airport; \$380,000 for design and improvements for the Sheriff's firing range; and \$300,000 for architectural design of the new Animal Shelter. Major new projects for FY 2008-09 include \$135,000 to remodel the Jail Control Room; \$108,000 to refurbish the showers and restrooms in the minimum-security Jail facility; and \$80,000 to renovate the parking lot at 1130 and 1160 Civic Center Drive for safer traffic flow.

Safe Neighborhoods Act: Stop Gun, Gang, and Street Crime: The California State Sheriff's Association, Chief Probation Officers of California, and the California District Attorney's Association have jointly sponsored a ballot initiative for the November 2008 election that would mandate appropriations in existing state criminal justice programs (discussed earlier in the Public Safety fund section), increase the base amounts for each of these programs, provide for annual inflationary adjustments, and add several new criminal justice programs.

The Safe Neighborhoods Act is intended to provide a stable funding base for County law and justice programs. The initiative is currently in circulation to acquire sufficient signatures to qualify for the November 2008 ballot. If passed by the voters, appropriations for County law and justice programs would increase significantly beginning in FY 2009-10.

Court Facilities Transfer: Under current law, counties are required to provide facilities for their local trial courts. Courts are not permitted to pay for their proportionate share of utilities, maintenance, or renovation costs of the facilities they occupy. Counties are also responsible for liability claims associated with these facilities – and the costs of their eventual replacement if a facility is no longer usable. The Court Facilities Act of 2002 (SB 1732, Chapter 1082, Statutes of 2002) initiated a process whereby the counties can transfer these responsibilities for court facilities to the State. County staff are currently negotiating with the State Administrative Office of the Courts to develop an agreement to transfer responsibility for Sutter County's two courthouses. We anticipate bringing a Transfer of Responsibility agreement to your Board for consideration later this year.

Sutter County is currently ranks twelfth on the State's priority list for construction of new courthouses. If the State maintains its projected schedule, funding would become available in FY 2009-10 for construction of a new courthouse to replace the current Sutter County facilities.

Charter Commission Initiative: Measure R, to be considered during the primary election on June 3, 2008, will ask Sutter County citizens if they would like to form a charter commission to draft a proposed County charter for Sutter County. Citizens will also be asked to vote for up to 15 individuals to sit on the Charter Commission. If Measure R is passed, we anticipate that the Commission will request funding for legal consultants, staff support, office supplies, and office space. The Proposed Budget went to press prior to the June 3rd election. If Measure R passes and the Charter Commissioners subsequently requests funding, CAO staff will return to your Board at a later date with funding recommendations for the Charter Commission.

Animal Shelter: The County's Animal Shelter, constructed in 1986, is outdated and no longer serves the needs of Sutter County's citizens and their animals. The Public Works Department anticipates requesting authorization from your Board on June 10th to issue a Request for Proposals for architectural design services for a new animal shelter. County staff are currently in discussions with the Cities of Yuba City and Live Oak regarding their commitments for animal control services and their financial participation in the construction costs of the new animal shelter.

General Government Building: The Public Works Department also anticipates requesting authorization from your Board on June 10th to issue a Request for Proposals for architectural design services for a new General Government Building. To be located next to the Sheriff's

Office on Civic Center Drive in Yuba City, the General Government building is continued progress towards implementing the County Facilities Master Plan that was developed in 1999. The General Government building is anticipated to allow the County to relocate the Auditor-Controller, the Treasurer-Tax Collector, and Information Services from their current locations at 463 Second Street; and consolidate the District Attorney's functions at 463 Second Street.

Flood Control and Sutter-Butte Flood Control Agency:

Flood control is a high priority for the citizens of Sutter County. Although the County does not own or maintain the levee system, the County facilitated a major development in flood control efforts in 2007 by working with the City of Yuba City, City of Live Oak, City of Biggs, City of Gridley, Levee District #1, Levee District #9, and Butte County to form the Sutter-Butte Flood Control Agency (SBFCA). In helping to create a regional flood control agency with greater leverage in achieving flood control, Sutter County has put the community in a stronger position to receive accelerated funding for necessary flood control projects.

In FY 2007-08, your Board provided \$2.9 million to the SBFCA in the form of a \$1.3 million grant (Calpine funds) and a \$1.6 million loan from the General Fund. Based on preliminary figures from the SBFCA, it is estimated that the County will be asked to provide approximately \$333,000 for the operations of the SBFCA in FY 2008-09. These funds, in conjunction with contributions from the City of Yuba City and Levee District #1, assist Levee District #1 in getting the Star Bend setback levee project under construction; finance the on-going costs of the SBFCA (including engineering work that could accelerate implementation of projects); continue the local share of a U.S. Army Corps of Engineers Feasibility Study to determine what flood control projects are necessary; and get the SBFCA in position to conduct a property owners' election in the fall of 2009 to fund flood control projects.

Because the Board of the SBFCA has not yet adopted its FY 2008-2009 budget and the actual numbers have not been finalized, this Proposed Budget does not include Sutter County's contribution to the SBFCA. Once SBFCA's budget has been officially adopted by its Board, CAO staff will return to your Board with recommendations for the County's contribution to the SBFCA.

Future year contributions from Sutter County for the SBFCA are expected to increase to \$1.1 million in FY 2009-10 and \$433,000 in 2010-11.

Summary of the FY 2008-09 Proposed Budget

The Proposed Budget is largely status quo in nature. It includes only one new position – a limited-term Victim Advocate II position in the District Attorney's Office (see Budget Unit #2-125), the deletion of one vacant Health Program Specialist and one Clinic Nurse Practitioner II in the Sutter County Health budget (see Budget Unit #4-103), and the deletion of 5.75 FTE vacant positions in Mental Health (BU #4-102). Capital projects are largely carry-over items from FY 2007-08.

Overall, the budget requirement for the recommended County operations in FY 2008-09 totals \$226,749,140, which is an increase of \$6,518,191 (3.0%) from the FY 2007-08 Adopted Budget.

The following table summarizes the recommended budget for the primary operating funds of the County. The table does not include the Special Revenue Fund budgets that have been included in the budget to comply with GASB 34. With few exceptions, expenditures are not made directly from these special revenue funds. Instead, revenue from them is transferred to the funds listed below. Consequently, a large “double count” would occur if the special revenue funds were included in the totals.

Generally, the increases in expenditures are necessary to fund some program mandates from the Federal and State governments, plant acquisition projects, bridge replacement and related road projects, to comply with employee bargaining agreements, and the comprehensive general plan process. The plant acquisition budget includes both re-budgeted projects, totaling \$4,066,660, some of which have adjusted cost estimates due to the increased cost of construction, and new projects, totaling \$834,810. Overall, the total number of employee positions has decreased by 7.75 FTE¹ from the FY 2007-08 Adopted Budget.

¹ The reduction in total allocated positions includes the net decrease of 6.75 FTE positions mentioned earlier in this section, and one Office Assistant II position in Mental Health that was deleted mid-year FY 2007-08.

**COMPARISON OF FY 2007-08 ADOPTED BUDGET
TO FY 2008-09 RECOMMENDED BUDGET**

	2007-08 ADOPTED	2008-09 RECOMMENDED	CHANGE	
			DOLLARS	PERCENT
General	\$73,726,976	\$74,741,136	\$1,014,160	1.4%
Road	\$22,442,444	\$19,588,608	(\$2,853,836)	-12.7%
Special Aviation	\$729,621	\$705,328	(\$24,293)	-3.3%
Fish & Game	\$27,837	\$19,356	(\$8,481)	-30.5%
Bi-County Mental Health	\$24,192,644	\$24,723,372	\$530,728	2.2%
Mental Health Services Act	\$5,799,363	\$6,240,099	\$440,736	7.6%
Housing Rehab CDBG Fund	\$16,198	\$17,048	\$850	5.2%
Health Services	\$12,974,925	\$13,304,601	\$329,676	2.5%
Welfare/Social Services	\$35,921,930	\$41,336,489	\$5,414,559	15.1%
Trial Courts	\$6,069,279	\$6,689,329	\$620,050	10.2%
Public Safety	\$23,321,974	\$24,902,197	\$1,580,223	6.8%
Capital Projects	\$305,822	\$312,522	\$6,700	2.2%
Internal Service	\$10,532,286	\$9,863,481	(\$668,805)	-6.4%
Special Districts	\$4,169,650	\$4,305,574	\$135,924	3.3%
Total County	\$220,230,949	\$226,749,140	\$6,518,191	3.0%

Each year, we note that the General Fund includes five budget units which appropriate the General Fund's "contribution" to the Mental Health, Health, Welfare/Social Services, Trial Court, and Public Safety Funds. These appropriations are also budgeted in the five receiving funds, so technically the appropriations are double-counted. The following chart shows the magnitude of this double-count. Thus, the total unreplicated budget is \$196.2 million. It should be noted here that since these appropriations are intended to demonstrate the cost to the general fund for the operations in each of these funds on an annual basis, it is critical that each year only the exact amount required to offset the aggregate unreimbursed cost of the budgets in each fund should be shown.

GENERAL FUND CONTRIBUTION TO OTHER FUNDS

	2007-08 ADOPTED	2008-09 RECOMMENDED	DIFFERENCE
Mental Health	\$1,764,813	\$1,830,963	\$66,150
Health	\$7,714,398	\$8,061,429	\$347,031
Welfare/Social Services	\$1,902,488	\$1,978,678	\$76,190
Trial Court	\$2,927,918	\$3,503,247	\$575,329
Public Safety	\$13,802,499	\$15,172,372	\$1,369,873
TOTAL	\$28,112,116	\$30,546,689	\$2,434,573

Public Safety Fund

The total Public Safety Fund requirements are recommended at \$24,902,197, which is an increase of \$1,580,223 (6.8%) compared to the FY 2007-08 Adopted Budget. The Public Safety Fund was created during FY 1993-94 as a result of the voters' approval of Proposition 172, which increased the sales tax by one-half cent and dedicated the resulting revenue to public safety. The fund includes the operating budgets for the Sheriff's Department, the District Attorney, the Bi-County Juvenile Hall, the Delinquency Prevention Commission, and Fire and Emergency Services. The increase in the Public Safety Fund is largely the result of the county-wide salary survey that resulted in increases in salaries.

We are recommending a Limited Term position in the District Attorney's Victim Witness Division for a Victim Witness Advocate with a start date of July 1, 2008. The District Attorney has had an unfilled position due to a voluntary leave of absence. This position is crucial to the continuation of service within the Victim Witness Assistance Program. No new permanent positions were requested or recommended.

The Public Safety departments rely on a wide variety of State grants totaling approximately \$1.25 million to augment their budgets. These include Citizens' Option for Public Safety (COPS) funding, which provides \$161,130 for Sheriff's Operations, the Jail, and the District Attorney; the Rural Law Enforcement Grant, which provides \$500,000 for Sheriff's patrol services; and Cal-MMET Governor's War on Methamphetamine monies. In addition, the District Attorney receives a variety of grants that fund the staffing to investigate and prosecute specific crimes in Sutter County: the Anti-Drug Grant provides \$142,791; Spousal Abuse Prosecution Program Grant provides \$33,261; Statutory Rape Vertical Prosecution Grant provides \$122,067; Violence Against Women Grant provides \$90,000; Anti Gang Grant provides \$68,000; and Victim Witness Grant provides \$129,322. All of these funding sources frequently become pawns in the ongoing saga of how to solve the State's structural budget deficit. The Governor's Proposed Budget (unchanged by the May Revise) includes a 10% cut in each of these programs. As of this writing, the Senate budget subcommittee that oversees Law

and Justice funding has zeroed out the appropriations for all of these grants. It should be noted that all of these grant revenues have remained stagnant since they were created in the late 1990's and the early 2000's. Even without budget cuts at the State level, stagnant grant funding means that program services have had to be reduced to accommodate rising costs.

The Office of Emergency Services relies on two federal grants that are passed through the State to the County. These include the Homeland Security Grant, which funds natural disaster and terrorism response planning activities. This grant stood at \$252,000 in FY 2007-08 but has been budgeted at zero in the FY 2008-09 Proposed Budget. The Emergency Management Planning Grant, which funds operations of the Office of Emergency Services, provides \$60,000. These grants are less likely to be affected by State budget actions because they are federal funding, but are still uncertain funding sources from year to year.

The State budget is unlikely to be settled for several months yet, so recent events – which are merely proposals and not an enacted budget – have not been included in our budget recommendations. State grants have been budgeted essentially at prior-year levels. If the State budget significantly increases or decreases its funding levels, we will return to your Board at a later date with recommended budget amendments.

Road Fund

Sutter County continues an aggressive program to inspect and maintain its 790 miles of county roads and 96 bridges. Road Fund revenues primarily come from state and federal sources, including gas taxes and proceeds from the sale by the State of California of general obligation bonds authorized by various ballot initiatives.

Road Work Plans are presented each fiscal year during the fall after adoption of the final budget. The Public Works Department continues to work on projects included in the FY 2007-08 Road Work Plan. Despite a reduction in the overall Road Fund budget, revenue and expenditures for the inspection and maintenance of roads and bridges is expected to remain level and another aggressive program is anticipated.

The Road Fund budgets for FYs 2006-07 and 2007-08 reflected notable increases in both revenues and expenditures due to additional bridge projects financed with Federal Bridge Replacement Program grant funds. An expenditure of \$2.5 million of these funds in FY 2007-08 accounts for most of the overall reduction in Road Department revenues reflected in the FY 2008-09 proposed budget. Due to the reduction in federal bridge funds, total Road Fund requirements for FY 2008-09 are recommended at \$19,588,608, a decrease of \$2,853,836 (12.7%) from the FY 2007-08 Adopted Budget.

Proposition 1B, passed by voters in 2006 as the Highway Safety, Traffic Reduction, Air Quality, and Port Security Act, authorized the state to sell \$19.9 billion in general obligation bonds to fund state and local transportation improvement projects. Sutter County received \$2,086,244 in Proposition 1B funds in FY 2007-2008 and was scheduled to receive another \$790,000 in FY 2008-09. The Governor has proposed suspending Proposition 1B funds to counties, however, so no Proposition 1B revenues are anticipated in the FY 2008-09 Proposed Budget.

However, this budget does include \$1.6 million in Proposition 42 (Transportation Congestion Improvement Act of 2002) funds in FY 2008-09, funds the county did not receive last year because the Governor suspended Proposition 42 payments to counties.

Special Aviation Fund

The total Special Aviation Fund requirements are recommended at \$705,328, which is a decrease of \$24,293 (3.3%) compared to the FY 2007-08 Adopted Budget. Total available financing also decreases by \$24,293. This budget reflects appropriations for safety fencing and lighting to provide for increased security at the facility. This project is being re-budgeted from the prior year. Revenues to fund recommended appropriations are derived from FAA grant funding and from user pay revenues.

This budget includes a recommendation to increase Rents Land and Buildings revenues by \$49,000. This increase in rents is required to maintain a proper balance between revenues and the expenditures required to maintain and operate the Airport facility. The Airport operates within its own fund, and must balance to its own revenue. The last general rent increase was approved by the Board of Supervisors in January 1992. The recommendation to increase rents will be presented to the Board by the Public Works department in June for possible adoption. These increased revenues are included in this Proposed Budget with the understanding that if the recommendation to increase rents at the Airport facility is not ultimately approved by the Board of Supervisors, the Public Works department will be required to return to the Board of Supervisors with recommendations to balance this fund.

Fish and Game Fund

The total Fish and Game Fund requirements are recommended at \$19,356. This is a decrease of \$8,481 (30.5%) compared to the FY 2007-08 Adopted Budget. However, the actual expenditures out of the fund are the same as the prior year. The decrease from the prior year is primarily due to a reduction in the Increases in Reserves line item. All funds that were not required for expenditure in FY 2007-08 were budgeted to be placed into reserves at the close of FY 2007-08, and these funds will no longer appear in the budget unless there is a requirement to use those funds for expenditures out of the fund.

It should be noted that, in prior years, any excess fund balance was reflected in the Appropriation for Contingency line item. Due to a change in budgeting policy in FY 2006-07, these excess funds were placed into reserves in FY 2007-08, and will no longer be reflected in the Appropriation for Contingency line item each year. Therefore, the funds will not be available for FY 2008-09 budgeting purposes, and therefore are not reflected in the total requirements. This is a change in budgeting policy that affects many of the County's smaller, self-contained funds.

Bi-County Mental Health / Mental Health Services Act

The total Bi-County Mental Health fund requirements are recommended at \$24,723,372, which is an increase of \$530,728 (2.2%) compared to the FY 2007-08 Adopted Budget. The total requirements for the Mental Health Services Act (MHSA) fund are recommended at \$6,240,099,

which is an increase of \$440,736 (7.6%) compared to the FY 2007-08 Adopted Budget. Therefore, there is a net increase in requirements of \$971,464 for Mental Health programs.

The budget for the Mental Health division reflects the re-assignment of positions from the Mental Health fund to the MHSA fund. In order to take full advantage of the available funding in these two budget units, the Mental Health division is proposing that identified positions in budget unit 4-102 be reassigned to MHSA-funded programs in budget unit 4-104, where they will provide new and enhanced services consistent with the intent of the MHSA. The division's objective in doing this is to provide enhanced services for clients who have been receiving Children System of Care and Adult Day Treatment services in the "core" Mental Health budget.

Additionally, the Mental Health budget contains a recommendation to delete six (6) vacant positions. This is a reduction of 5.75 FTEs as compared to the FY 2007-08 Adjusted Budget (or a reduction of 6.75 FTEs as compared to the FY 2007-08 Adopted Budget, due to the elimination of one position mid-year). Specifically, the department will delete one vacant Staff Analyst position; one vacant, flexibly staffed Supervising Nurse/Mental Health Therapist III position; two vacant, flexibly staffed Intervention Counselor I/II positions; one vacant, flexibly staffed Psychiatric Tech/Psychiatric Licensed Vocational Nurse position; one vacant, flexibly staffed Mental Health Worker I/II position; and one vacant 0.75-FTE Quality Assurance-Review Nurse position.

The Mental Health Services Act (MHSA, Proposition 63), passed in November 2004, is one of the most significant policy issues facing this division. It is anticipated that Mental Health will receive \$3,068,300 in additional MHSA funds to operate the programs identified in the approved Community Services and Supports plan. This funding must reside in a separate fund, and may not be used to offset shortfalls in the operation of existing mental health programs.

It is important to note, however, that, while the passage of the MHSA was intended to provide new services to mental health clientele, due to funding decreases in the core Mental Health program – and the non-supplantation requirements included in the MHSA – counties have developed new MHSA enhancement programs while their primary core programs are being significantly reduced.

Health Fund

The total Health Fund requirements are recommended at \$13,304,601, which is an increase of \$329,676 (2.5%) compared to the FY 2007-08 Adopted Budget. This fund includes the County Health Division, Human Services Administration, California Children's Services, and Non-County Health Providers budget units as well as Health Care General, which is a revenue account budget unit.

The Board of Supervisors at its April 22, 2008 meeting conceptually approved implementation planning whereby the Health Division would contract with a local Federally Qualified Health Center (FQHC) to operate the medical clinic. FQHCs are eligible for enhanced reimbursements; therefore they would be able to provide comparable outpatient medical services at no cost to the county General Fund. If approved, this transition to a local FQHC would occur during FY 2008-09. This subject is addressed in more detail in the "Issues Affecting the FY 2008-09 Proposed Budget" section, below.

It is important to note that expenses related to the provision of medical care to the Sutter County Jail continue to account for some of the largest cost areas in this budget unit. As noted in the past, these are costs over which the County has little control.

The Governor's May Revise includes 10% cuts in many Health programs. If enacted, the Health Division estimates that the largest reductions would affect the Immunization, Pandemic Flu, California Children's Services Administration, and Child Health & Disability Prevention Administration programs. As we have stated earlier, these proposed cuts have not been included in the Proposed Budget since the State budget has not yet been finalized.

Welfare/Social Services Fund

The total Welfare/Social Services Fund requirements are recommended at \$41,336,489, which is an increase of \$5,414,559 (15.1%) compared to the FY 2007-08 Adopted Budget. This fund includes all of the budget units administered by the Welfare Division of the Human Services Department including Welfare Administration, In-Home Supportive Services (IHSS), Special Circumstances, Temporary Assistance to Needy Families (TANF), TANF-Foster Care, Refugee Cash Assistance, Aid for Adoption, General Relief, and Welfare/Social Services General.

The increase in costs in the Welfare/Social Services Fund is primarily the result of increased caseloads in the TANF-Foster Care and Aid for Adoptions budget units. The TANF program assists recipients who are eligible for cash assistance due to the absence, unemployment, incapacity, or death of either parent. This budget unit is primarily financed with state and federal TANF funding. Costs in the Aid for Adoptions budget unit are not under County control. The Court decides when a child is to be removed from the home, and then decides again as to when to terminate parental rights and make the child eligible for adoption. The State performs the adoption process and determines which children are eligible for aid under this program. Historically, the program has continued to grow as the State has placed more emphasis on Adoption Assistance as a viable alternative for meeting the needs of these children.

One of the most significant State funding issues affecting the Social Services Division is the Human Services Funding deficit. California counties administer various social service and welfare programs funded primarily with federal and state money allocated by the California Department of Social Services (CDSS). Due to budget shortfalls for the last seven (7) years, CDSS has not provided Cost-of-Doing-Business increases for the administration of programs despite their acknowledgement that county costs have increased. In February of this year, each county submitted a proposed administrative operational budget for FY 2008-09. CDSS used these county surveys to estimate the gap between the proposed funding levels and the actual costs for administration of county human services programs. These surveys indicated that there is nearly \$1 billion in annual deferred administrative cost payments to counties since 2001. Without receiving these Cost-of-Doing Business increases for seven years, the counties are repeatedly asked to do more work at a higher quality without sufficient funds to pay for the ever-increasing cost of staffing and operational expenses.

To reduce TANF expenditures, the Governor is proposing to require face-to-face interviews with all recipients who are not meeting their work requirements (including child-only and exempt cases) every six months. If an individual fails to show up for this review, the family loses its

CalWORKs eligibility. The face-to-face interview can be waived in Food Stamps cases where the single head of household is working at least 30 hours per week and for cases where couples are working at least 20 hours per week each. The Governor assumes caseload reductions as a result of this new interview requirement. However, he provides no additional funds for the extra staff time these meetings will take, or for the additional services or work participation activities that may take place as a result of these meetings. Sutter County has 144 participants who fall in this potential category. Social Services staff estimate that the County would save approximately \$11,400 per year due to sanctioned participants; these savings would be more than offset by increased staff time required to conduct the interviews.

The May Revision also proposed the elimination of county Pay for Performance incentive funding. Pay for Performance funds were proposed as an incentive to counties to assist CalWORKs recipients increase their work participation rates and meet federal requirements. It is estimated that the County would have received approximately \$100,000 in FY 2007-08 if the funding had actually been allocated to the counties. Elimination of these funds is a disappointment to the Social Services Division since Sutter County has one of the highest participation rates in the State. No Pay for Performance funding has been included in the FY 2008-09 Proposed Budget.

Trial Court Fund

Total Trial Court Fund requirements are recommended at \$6,689,329, which is an increase of \$628,050 compared to the FY 2007-08 Adopted Budget. This fund contains the operational budgets for Sheriff's Court Bailiffs, the Public Defender, Probation and various budgets created to implement the provisions of the Trial Court Funding Act of 1997. The increase in the Trial Court Fund is the result of countywide salary increases, negotiated contracts with two alternate public defenders, and a rise in criminal trials. Due to more trials of indigent defendants, we are experiencing increases in associated costs such as investigation fees, expert witnesses, and psychological evaluations of indigent defendants.

The major public policy issue in the Trial Court Fund is the status of the State budget. Probation revenues are still tentative pending adoption of the State budget, along with potential reform of the California Department of Corrections and Rehabilitation adult system, which could have significant impact on counties. While it is anticipated that Probation will be minimally impacted by proposed cuts as they stand now, it is impossible to predict what the final budget status will be once the State resolves its budget deficit and adopts its FY 2008-09 budget.

Human Services Building Capital Projects Fund

The total Capital Projects Fund requirements are recommended at \$312,522. This fund provides a mechanism to account for costs incurred for the proposed new Human Services building, as this is a major construction project for the County. The appropriation is funded by an Interfund transfer from the Social Services/Welfare Fund. The funding would be available in the event we are able to proceed with the building.

There is a need to provide for adequate facilities for the various Human Services divisions. For several years, this need has been planned to be addressed by the construction of a new Human Services Building adjacent to the Mental Health Facility at 1965 Live Oak Boulevard, Yuba

City. The building has been fully designed by an architectural firm retained by the County. The construction cost of the building was last calculated at \$16 million. However, construction of the building has repeatedly been delayed by the unavailability of State funding. The County has begun exploring alternative means of providing for the facility needs of the Human Services divisions. In the meantime, we recommend re-budgeting the annual amount of \$312,522 until it can be determined with certainty whether or not it is feasible to construct a Human Services facility in the foreseeable future.

Internal Service Funds

Total Internal Service Fund requirements are recommended at \$9,863,481, which is a decrease of \$668,805 (6.4%) compared to the FY 2007-08 Adopted Budget. Funds included in this total include: Information Technology, Fleet Maintenance, Liability Insurance, and Workers' Compensation Insurance.

The decrease in these funds over the prior year is primarily the result of decreases in the Workers' Compensation and Vehicle Replacement Program funds. The reduction in the Workers' Compensation ISF is due to reduced premium costs. The reduction in the VRP fund is due to the elimination of that fund in FY 2007-08. In FY 2007-08, the Board of Supervisors approved that the Vehicle Replacement Program (VRP) be discontinued effective with the FY 2008-09 annual budget; therefore, this budget contains no appropriation in the VRP fund. Ownership of current VRP vehicles will be transferred to their respective departments within the General Fund. Future replacement and new vehicles will be budgeted in their respective departments and funding for those future vehicles will be provided through the General Fund.

Special Districts

Total Special Districts requirements are recommended at \$4,305,574, which is an increase of \$135,924 (3.3%) compared to the FY 2007-08 Adopted Budget. Special Districts include County Service Areas, which provide fire protection; water agency operations and zones of benefit; lighting districts; public facility impact fee funds; the Rio Ramaza Community Services District; and the El Cerrito Drainage District.

In prior years, any anticipated excess fund balance was reflected in the Appropriations for Contingency line item for that particular Special District fund. Due to a change in budgeting policy in FY 2006-07, these excess funds are now placed into reserves. Therefore, the funds will not be available for FY 2008-09 budgeting purposes, and therefore are not reflected in the total requirements.

IN CONCLUSION

I would be remiss if I did not conclude by thanking the many dedicated employees who made this budget possible. As you know, Sutter County is extremely fortunate to have a number of excellent employees who continuously provide exceptional service. In particular, I would like to thank the staff of my office – especially Stephanie Larsen, Assistant County Administrator; Deputy County Administrators Shawne Rising and Barbara Kinnison; Jaime Veglia, Administrative Analyst; Chuck Smith, Public Information Officer; and Jessica Sumait and Sandy

Morrish for their tireless efforts in preparing this document. I would also like to thank all department heads and their fiscal staffs for the responsiveness they have shown throughout the budget process. And finally, thank you to your Board for your guidance, direction, and your interest in seeing that Sutter County receives the best governance possible within the resources we have.

**RECOMMENDATIONS FOR THE PROPOSED BUDGET
FOR FISCAL YEAR 2008-09**

These recommendations and this Budget Message are submitted to you, the Board of Supervisors, for your consideration. Upon your approval, this document will constitute the Proposed Budget for FY 2008-09. Pursuant to State law, a notice of your scheduled hearings will appear in the local newspaper at least ten days prior to those hearings. It is anticipated that copies of the Proposed Budget will be available to the public when your Board acts to approve it, 14 days in advance of the hearings.

Approval of these recommendations as the Proposed Budget by your Board will:

- Authorize continuation of normal operating expenditures by County departments pursuant to mandates or existing levels of locally determined services until such time as a Final Budget is adopted.
- Authorize the Proposed Budget for FY 2008-09 to be made available to the public as an appropriate source of information regarding budgetary actions recommended for consideration during Final Budget Hearings.

Unless specific exceptions are made by your Board, approval of the Proposed Budget will not authorize any additions or deletions of County positions or the expenditure of any funds for fixed assets, capital outlays, or proposed new programs contained in this document. I have recommended some specific exceptions below. In each case, I consider these exceptions to be essential to County and departmental operations.

It is therefore recommended that the Board of Supervisors:

1. Approve the enclosed recommendations as the Sutter County Proposed Budget for FY 2008-09.
2. Set noticed Public Hearings commencing Tuesday, June 24, 2008, at 9:00 a.m. at the Veterans' Memorial Building in Yuba City, and continuing as required for a 14-day successive period, regarding the adoption of the Final Budget, and request that each department head be in attendance for the review of his/her budget(s).
3. Direct the County Administrative Officer to have sufficient copies of the approved Proposed Budget available to meet public demand.
4. Authorize the Public Works Department to:
 - a. Proceed with the weather-sensitive projects set forth in the Plant Acquisition and Building Maintenance budgets. These projects, which are specifically identified in the budgets, need to be completed during the summer months to avoid adverse weather.

- b. Proceed with the Plant Acquisition projects which were included in the Adopted FY 2007-08 budget and which were re-budgeted in this year's recommended budget. Those projects are identified in the Plant Acquisition budget.
 - c. Proceed with road projects that were approved by the Board in FY 2007-08.
- 5. Authorize the Information Technology Department to purchase fixed assets as needed for workflow purposes during the period from July 1 to October 1, 2008.
- 6. Authorize the Personnel Department to:
 - a. Add the recommended limited-term Victim Advocate II to the District Attorney's Office position allocation effective July 1, 2008; and authorize the District Attorney to recruit for, and fill, the position effective the same date.
 - b. Re-assign 12 existing full-time positions, a portion of the time of five other existing positions, and one part-time position, as detailed in the position allocation schedule, from the Mental Health Budget (4-102) to the Mental Health Services Act budget (4-104), effective July 1, 2008.
- 7. Until a more formal policy is set by the Board of Supervisors, the Auditor-Controller is directed, after all other accounting entries are made for FY 2007-08, and prior to closing the books on the fiscal year, to bring the fund balance of Funds 12 through 15 to zero by returning any excess revenue to the General Fund.

Respectfully submitted,



Larry T. Combs
County Administrative Officer

APPROPRIATION AND REVENUE ANALYSIS
PROPOSED BUDGET BASIC OPERATING FUNDS
 Excluding Internal Service, Debt Service and Special District Funds,
 and Other Special Revenue Funds
 FY 2008-09 RECOMMENDED

APPROPRIATION ANALYSIS BY OBJECT			
APPROPRIATION OBJECT	GENERAL FUND	OTHER FUNDS	GRAND TOTAL
Salaries & Benefits	\$22,328,975	\$58,029,164	\$80,358,139
Services & Supplies	\$12,736,185	\$30,725,074	\$43,461,259
Other Charges	\$33,447,378	\$47,868,403	\$81,315,781
Fixed Assets	\$3,961,730	\$892,400	\$4,854,130
GROSS	\$72,474,268	\$137,515,041	\$209,989,309
Intrafund Transfers	\$0	\$0	\$0
NET	\$72,474,268	\$137,515,041	\$209,989,309
Contingencies	\$750,000	\$318,908	\$1,068,908
TOTAL APPROPRIATIONS	\$73,224,268	\$137,833,949	\$211,058,217
Increases in Reserves	\$1,516,868	\$5,000	\$1,521,868
TOTAL REQUIREMENTS	\$74,741,136	\$137,838,949	\$212,580,085²

REVENUE ANALYSIS BY SOURCE			
DESCRIPTION	FY 2007-08 Adopted	FY 2008-09 Recommended	% OF TOTAL REVENUE
Total Taxes	\$26,646,332	\$28,824,949	13.56%
Licenses, Permits & Franchises	\$2,611,000	\$2,890,400	1.36%
Fines, Forfeitures & Penalties	\$128,559	\$125,000	0.06%
Use of Money & Property	\$2,467,136	\$2,707,869	1.27%
Intergovernmental Revenues	\$80,123,459	\$89,573,607	42.14%
Charges for Current Services	\$64,121,781	\$67,494,631	31.75%
Miscellaneous Revenues	\$3,085,761	\$5,600,387	2.63%
Other Financing Sources	\$15,000	\$0	0.00%
SUB-TOTAL	\$179,199,028	\$197,216,843	
Fund Balance Available as of July 1	\$23,989,746	\$13,280,660	6.25%
Liquidation of Reserves	\$2,340,239	\$2,082,582	0.98%
GRAND TOTAL	\$205,529,013	\$212,580,085	100.00%

² The total budget is \$226.7 million, as shown in the table on page 10. This chart excludes \$9.9 million of internal service funds and \$4.3 million of special district funds (which brings the adjusted total down to the \$212.6 million shown here).