



The County of El Dorado

Chief Administrative Office

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TO: Board of Supervisors
FROM: Gayle Erbe-Hamlin, Chief Administrative Officer
RE: FY 2010-11 Budget Gap and FY 2011-12 Structural Deficit

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BOARD OF SUPERVISORS
EL DORADO COUNTY
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Background

During the June 2010 Recommended Budget workshop I provided the Board with an update of the Five Year Forecast that projected a \$15 Million general fund deficit for FY 2011-12. Since that time the Assessor's Office has completed the property tax assessment roll and we have learned that the roll came in 2% lower than assumed in the Recommended Budget projection. The result is that we are now \$1.5 Million in the red for FY 2010-11 and project an additional \$1.0 Million deficit in FY 2011-12. At the end of the Recommended Budget Workshop the Board set a special meeting on July 26, 2010 to receive information and recommendations on how to close the FY 2011-12 budget gap and address the future structural budget problem. That agenda has been broadened to include the new deficit in the FY 2010-11 budget.

Recommended Action:

Reset Expectations - The County must in this year reset the citizens' and the organization's expectations on what services we can deliver, how we deliver those services and the availability of those services. We will need to do this as a result of a dramatic reduction of the workforce. We are in an unprecedented economic time and the best we can hope for at this moment is that it does not get worse. We need to forgo our hope for a fiscal turn around because that only diverts us from our obligation to dedicate ourselves to the very draconian task before us: that of reducing our organization equal to the fiscal resources available.

Expect the Worst And Know That It Will Be Even Worse – It is discouraging to read the memo I sent your Board two years ago when I recommended we eliminate 100 positions in order to balance the FY 2008-09 budget. We were dealing with a projected shortfall of \$20 Million at that time and today we are faced with another \$16 Million one. While we successfully downsized ourselves to balance the budget then, and many times since, we still need to do more as it is still not sufficient. The primary issue then is still the primary issue today – our costs exceed our available revenues.

The Problem is Structural and Requires Sustainable Reductions – We can use every one-time only dollar we have and still not solve this fiscal problem. The reason for this is twofold. One, we do not expect to “grow” out of this fiscal crisis in the near future so any one-time dollar thrown at the deficit/shortfall only helps in that one year. The fiscal deficit continues to persist in the out years. And two, costs continue to rise while revenues continue to fall thus increasing the deficit in every future year. Furthermore, we still are an organization that needs certain resources to continue to operate and operate at least at a modicum of efficiency. Investing in our future cannot be put on hold indefinitely. One-time only monies should be directed to those future investments not at an ongoing problem.

Limited Options Exist Outside of Employee Reductions and the Bargaining Process - Since our organization has been in a reduction mode for more than three years, it has become extremely lean. Departments have stripped or been stripped of nearly all non essential expenditures. There is still the possibility that we can nickel and dime them out of a couple of hundred thousand more dollars and we intend to do that. Nevertheless that does not close the projected \$16 Million general fund deficit. The only way to accomplish that is by eliminating general fund positions or reducing employee compensation. With that we are recommending the County proceed with eliminating 150 general fund positions per the timeline below by the beginning of FY 2011-12. We also recommend that we identify certain conditions that, if they occur according to specific timelines, could ameliorate some of these reductions. Finally we recommend this plan with the full understanding that it does not anticipate any potential impact from the adoption of the State budget. We further acknowledge that no matter how conservatively we predict our revenues, they continue to fall further than anticipated. Our ability to predict continues to fall short.

No Way To Avoid a Major Impact on Law and Justice Departments - The most fundamental challenge with this next step in downsizing is that most of the general fund resources are devoted to the law and justice departments – 65%. This is a priority service area for the Board and our citizens. Our cost reductions have been for the most part across the board thus sustaining the percent of general fund distribution by functional group. However there is no way to significantly redistribute the necessary cuts away from law and justice to other areas of the organization without causing catastrophic failure in some of our core government services. There are departments that simply cannot get much smaller and still function. The law and justice departments have taken their share of reductions but unfortunately as we need to make further reductions the majority of those reductions must be in this functional group because that is where the majority of general fund resources are committed. The tradeoffs are terrible: senior programs versus deputies on the street.

Eliminate and Reduce Service Levels - I am reluctant to recommend an across-the-board cut because that does not sufficiently capture the need to reduce services and how services are delivered. As we go through this process we will need to decide what we won't be able to provide any longer. Out of that process we will need to set staffing levels sufficient to deliver the services we choose or are mandated to provide. We must clearly articulate to the organization and our citizens what services will no longer be available, what services will be reduced and what services still remain. The reason this is critical is because after this reduction process there

will no longer be sufficient staff to do the work in a number of areas. We cannot continue to do business as usual and absorb these levels of staff reductions as we have attempted to do without a corresponding reduction in the services. We lost our wiggle room a long time ago and the staff has done a yeoman's job in taking on expanding workloads. Just returning to the service levels of the past is not possible because the world of today is so different than that prior world. A total reset of our priorities is necessary. We service the needs of a different constituency than we did 10 years ago due to increases in population, changes in population density, changes in demographics, changes in technology, increased levels of accountability etc. The Chief Administrative Office will be discussing with departments their services and reviewing on a position by position basis their organizational chart. The outcome of this process will be brought to the Board in September at the Budget Hearings with recommended service reductions and eliminations that are in line with recommended staff reductions.

Position Reduction Timeline (see Attachment A):

- 75 positions eliminated by January 2011:
 - Offset by positions eliminated through the Early Retirement Incentive Program by December 2010
- 75 positions eliminated by March 2011:
 - Offset by any sustainable savings achieved through the bargaining process (such as PERS employee pickup, elimination of differentials), or
 - Offset by use of the 36 hour work week in those departments where it can be utilized (mainly in Buildings A, B, C and Libraries) if agreed to in the bargaining process.

Plan for FY 2010-11 Year Budget Shortfall:

- Use the Early Retirement Incentive Plan to achieve general fund salary savings in the current fiscal year
- Use current year savings achieved through elimination of positions according to the above described timetable

Board Action Requested

1. Direct the Chief Administrative Officer proceed meeting with Departments using the functional group reduction targets as a starting point for identifying a 150 general fund position reduction along with associated service reductions;
2. Recommend that the Chief Administrative Officer report back to the Board in September Budget Hearings the outcome of these meetings along with interim cost savings figures and any recommendations for further actions.
3. Recommend that the Chief Administrative Officer return on August 23, 2010 in conjunction with Department of Transportation with a full discussion of their budget and strategies to address their fiscal challenges.