INTERDEPARTMENT MEMORANDUM
CHIEF ADMINISTRATIVE OFFICE

TO: Board of Supervisors

FROM: Gayle Erbe-Hamlin, CAO

DATE: November 4, 2008

RE: **Budget Update**

I am writing your Board with an update on the County's fiscal forecast. Last week the Auditor-Controller presented your Board preliminary projections of a number of key Department 15 revenues. The projections showed a dramatic decline in sales tax, interest rate, some property taxes and Prop 172 law enforcement sales tax.

My staff have refined those projections in conjunction with the Auditor-Controller and used them to update the 5 Year Financial Projection. Attached is a summary of that projection with a historical review of where we have come since the Proposed Budget was presented in June 2008. The outcome of that review paints a grim picture for the County. Current projections show us to be $20 M out of balance for FY 2009/10 should we make no adjustments. The increased deficit of $11 M since adoption of the Final Budget in mid September is primarily due to the compounding loss of the sales tax and property tax over the remaining 7 months of this year and the continued reduced projections for next year plus the loss of fund balance roll over. This projection does not account for potential reduction due to State Budget actions.

There are a number of discretionary revenues and appropriations that could be utilized in the County's FY 2009/10 Budget to offset the deficit should the Board chose to do so. Examples are Tobacco Settlement, Casino Revenue, Aid to Fire, General Fund Contribution to DOT, and the Undesignated Reserve for Capital Projects. The total of these funds available for FY 2009/10 would be $11.3 M. Nevertheless, these funds alone are insufficient to fill the whole gap as can be seen in Scenario A – Status Quo. Use of any or all of these funds now could potentially leave us with little or no flexibility in the near future should the current economic situation continue for sometime.

Immediate action is needed to ensure that sufficient time is available in the current year to achieve the savings necessary to offset a deficit of this magnitude. While I would like to engage in a detailed evaluation of each and every Department's organizational structure and understand the programmatic implications for any staff reductions, that is a luxury which is no longer available to us given the urgency of the situation.

Over the past several weeks we have discussed a number of approaches on how to achieve cost reductions. These have included: selecting from a menu of program options, across the board reductions of 4%, and targeted position reductions equaling 4%. I recognize how difficult this decision is and that there is no clear cut path. Nevertheless, the bottom line is that I believe that each Department understands their business objectives sufficiently such that they can in short order identify which positions they could eliminate and still provide their core services.

Consequently, I recommend that you direct me to identify at least 100 positions to eliminate, in conjunction with the Departments, and to return to the Board on November 18, 2008 with revised personnel allocations to achieve a significant percentage of this reduction in force now. Based on an assumption that an average position costs $80,000 in annual salary/benefits, a 60 position reduction would generate per Scenario B a $7.5 M offset to the projected $20 M deficit in FY 2009/10 while a 100 position reduction would generate per Scenario C a $12.5 offset to the projected deficit. Staff will do all they can to provide advance materials prior to the November 18th meeting, however the final recommendation may only be able to be brought forth on the Monday prior to the Board meeting given the tight time frame.

In January we will evaluate the full fiscal consequence of this reduction and determine if we need to make more cuts based on the mid year report and any State action. While the Board will make the final decision on which positions are eliminated, I request the Board's support for the CAO to be the final arbitrator on the reductions with the Departments. I am recommending that all general fund positions be on the table except for Deputy Sheriffs. That recommendation is based on the Board's consistent message that you do not wish to reduce those positions. Board's input on this recommendation is requested.

I am also requesting Board direction as to whether or not to budget for FY 2009/10 any of the discretionary revenues and appropriations outlined in the "What If" Scenarios to support annual operational costs, in particular Aid to Fire. Additionally, the Board has requested an update on the WS Animal Shelter for November 18, 2008, and at that time can give direction as to the continuation of that project and any redirection of funds that may result.

My staff and I will provide you with an overview of the attached charts and be available to answer any questions.

Cc Joe Harn, Auditor-Controller

Five Year Projection

As of 6/17/08	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
Revenues	$ 219,496,504	$ 213,050,385	$ 220,281,212	$ 227,730,851	$ 234,271,069	
Appropriations	219,415,413	227,763,136	231,851,308	237,912,609	243,335,680	
Add Reserve	(81,091)	435,253	267,221	274,429	252,494	
Total	-	**(15,148,004)**	**(11,837,317)**	**(10,456,187)**	**(9,317,105)**	
As of 8/25/08						
Total	-	**(6,283,834)**	**(5,385,937)**	**(4,195,908)**	**(2,908,447)**	
As of 9/15/08						
Revenues	219,647,190	215,127,356	222,035,143	229,130,997	236,339,565	
Appropriations	219,599,576	224,043,490	228,044,375	234,016,232	238,813,345	
Add Reserve	(75,098)	349,073	262,754	269,851	221,087	
Sub-Total	122,712	(9,265,207)	(6,271,986)	(5,155,086)	(2,694,867)	
Less Sheriff AVL (one-time cost in FY 09)		750,000	750,000	750,000	750,000	
Total	**122,712**	**(8,515,207)**	**(5,521,986)**	**(4,405,086)**	**(1,944,867)**	
Variance from 8/25	(122,712)	2,231,373	136,049	209,178	(963,580)	
As of 10/31/08						
Revenues	219,647,190	201,061,758	208,715,056	212,474,964	216,275,193	
Appropriations	219,722,288	220,699,374	224,601,256	230,474,952	235,316,686	
Add Reserve	(75,098)	195,968	258,704	265,693	216,818	
Total	-	**(19,833,584)**	**(16,144,904)**	**(18,265,681)**	**(19,258,311)**	
Variance from 9/15		11,318,377	10,622,918	13,860,595	17,313,444	
Elements of variance						**Notes**
Property Taxes		1,125,785	2,319,118	3,583,150	4,921,169	Reduced growth rate from 4% to 2%
Supplemental Property tax		483,270	571,952	666,398	766,984	Reduced to FY 08/09 Auditor projection - no growth
Sales Tax		1,483,487	2,028,207	2,605,610	3,217,657	Reduced to FY 07/08 actuals, less 6% (no growth)
In-Lieu Sales Tax		183,671	380,199	590,485	815,490	Growth rate reduced from 7% to 0%
Property Tax In-Lieu of VLF		1,482,406	2,492,504	3,591,434	4,785,777	Growth rate reduced from 7% to 2%
Interest		1,232,000	1,264,640	1,297,933	1,331,891	Interest reduced to $400,000 annually (no growth)
Prop 172 Revenues		1,424,645	1,449,434	1,474,718	1,500,509	Prop 172 reductions per Auditor estimate
Reduced Fund Balance		4,100,754	-	-	-	Revenue shortfall anticipated in FY 2008-09
Contingency Adjustment		-	(282,000)	(300,000)	(315,000)	
Misc. Department Adj.		(197,641)	398,864	350,867	288,967	
Total		11,318,377	10,622,918	13,860,595	17,313,444	

Prepared by: Laura Schwartz

11/03/2008

"What If" Scenarios

Scenario A - Status Quo

	FY 2010	FY 2011	FY 2012	FY 2013
Projected Shortfall	(19,833,584)	(16,144,904)	(18,265,681)	(19,258,311)
Tobacco Settlement Revenue	1,611,540	1,611,540	1,611,540	1,611,540
Casino Revenue	2,500,000	2,500,000	2,500,000	2,500,000
Delete Aid to Fire	1,391,371	1,488,767	1,592,981	1,704,490
Delete GF Contribution to DOT	2,000,000	2,000,000	2,000,000	2,000,000
Utilize Reserve for Capital Projects	3,774,167			
Revised Shortfall	(8,556,506)	(8,544,597)	(10,561,160)	(11,442,281)

Scenario B - RIF 60 positions

* Assume 60 positions @ $80,000 each with 6 months of savings in FY 2008-09

	FY 2010	FY 2011	FY 2012	FY 2013
Projected Shortfall	(12,393,584)	(11,218,904)	(13,216,531)	(14,094,819)
Tobacco Settlement Revenue	1,611,540	1,611,540	1,611,540	1,611,540
Casino Revenue	2,500,000	2,500,000	2,500,000	2,500,000
Delete Aid to Fire	1,391,371	1,488,767	1,592,981	1,704,490
Delete GF Contribution to DOT	2,000,000	2,000,000	2,000,000	2,000,000
Utilize Reserve for Capital Projects	3,774,167			
Revised Shortfall	(1,116,506)	(3,618,597)	(5,512,010)	(6,278,789)

Scenario C - RIF 100 positions

* Assume 100 positions @ $80,000 each with 6 months of savings in FY 2008-09

	FY 2010	FY 2011	FY 2012	FY 2013
Projected Shortfall	(7,433,584)	(7,394,904)	(9,850,431)	(10,652,490)
Tobacco Settlement Revenue	1,611,540	1,611,540	1,611,540	1,611,540
Casino Revenue	2,500,000	2,500,000	2,500,000	2,500,000
Delete Aid to Fire	1,391,371	1,488,767	1,592,981	1,704,490
Delete GF Contribution to DOT	2,000,000	2,000,000	2,000,000	2,000,000
Utilize Reserve for Capital Projects	3,774,167			
Revised Shortfall	3,843,494	205,403	(2,145,910)	(2,836,460)

Prepared by: Laura Schwartz

11/03/2008