



*Discussion on
DOT's Budget Forecast and
Organizational Implications
(continued from 7/26/10)*

Presented to the Board of Supervisors

August 23, 2010

Legistar #10-0835

On July 26, 2010, DOT committed to return to the Board to review:

- Insights developed from gathering information and evaluating alternatives;
- Initial list of alternative courses of action, including potential restructuring options and consolidation of functions;
- Costs/benefits and risks associated with alternatives;
- Preliminary conclusions/recommendations;
- Review and analyze processes.

Agenda

- • Background
- West Slope Road/Bridge Capital Improvement Program
- Staffing and Labor Rates
- Next Steps

DOT's primary responsibilities are to maintain, operate, and improve a broad range of capital and infrastructure on behalf of the County:

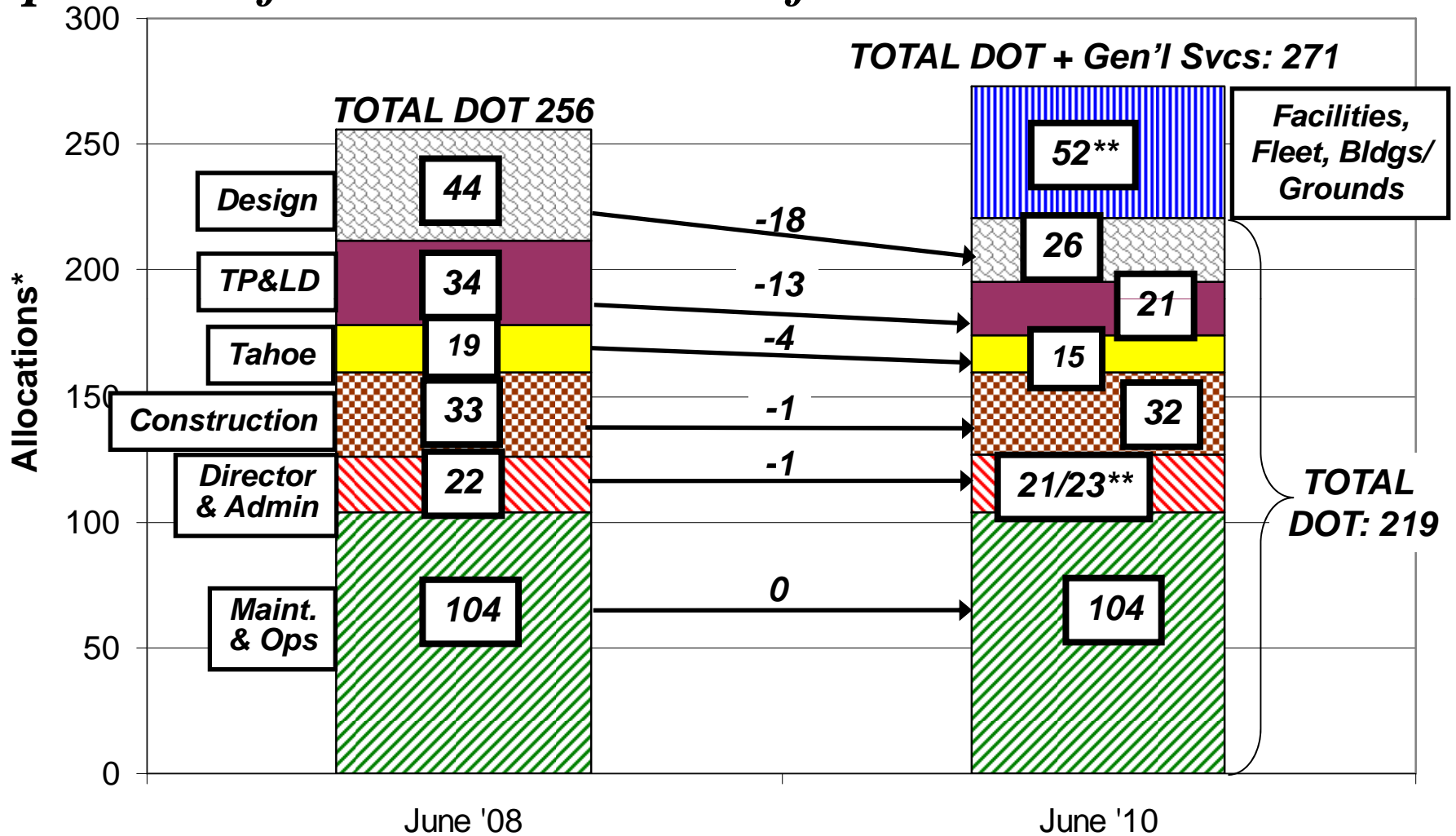
- Roads/Bridges (including Zones of Benefit)
- Tahoe EIP
- Erosion Control/Drainage
- Equipment Maintenance
- "Fleet"*
- Buildings/Grounds* (including Cemeteries)
- Parks & Trails*
- Airports* (Georgetown and Placerville)

**Indicates responsibilities previously done by General Services, added to DOT in July 2008 (Airports) and March, 2009 (Fleet, Building/Grounds, Parks/Trails)*

DOT has built up core competencies across many areas including:

- Capital Project Planning, Design, and Construction Management
- Maintenance / Operations of Capital Equipment, Infrastructure, & Real Property
- Financial and Administrative Functions
- “Sales & Marketing” (e.g., grants, coalition building)

DOT has eliminated 37 allocations and 7 Extra Help positions from its FY 07/08 workforce but added 52 positions for General Services functions.*



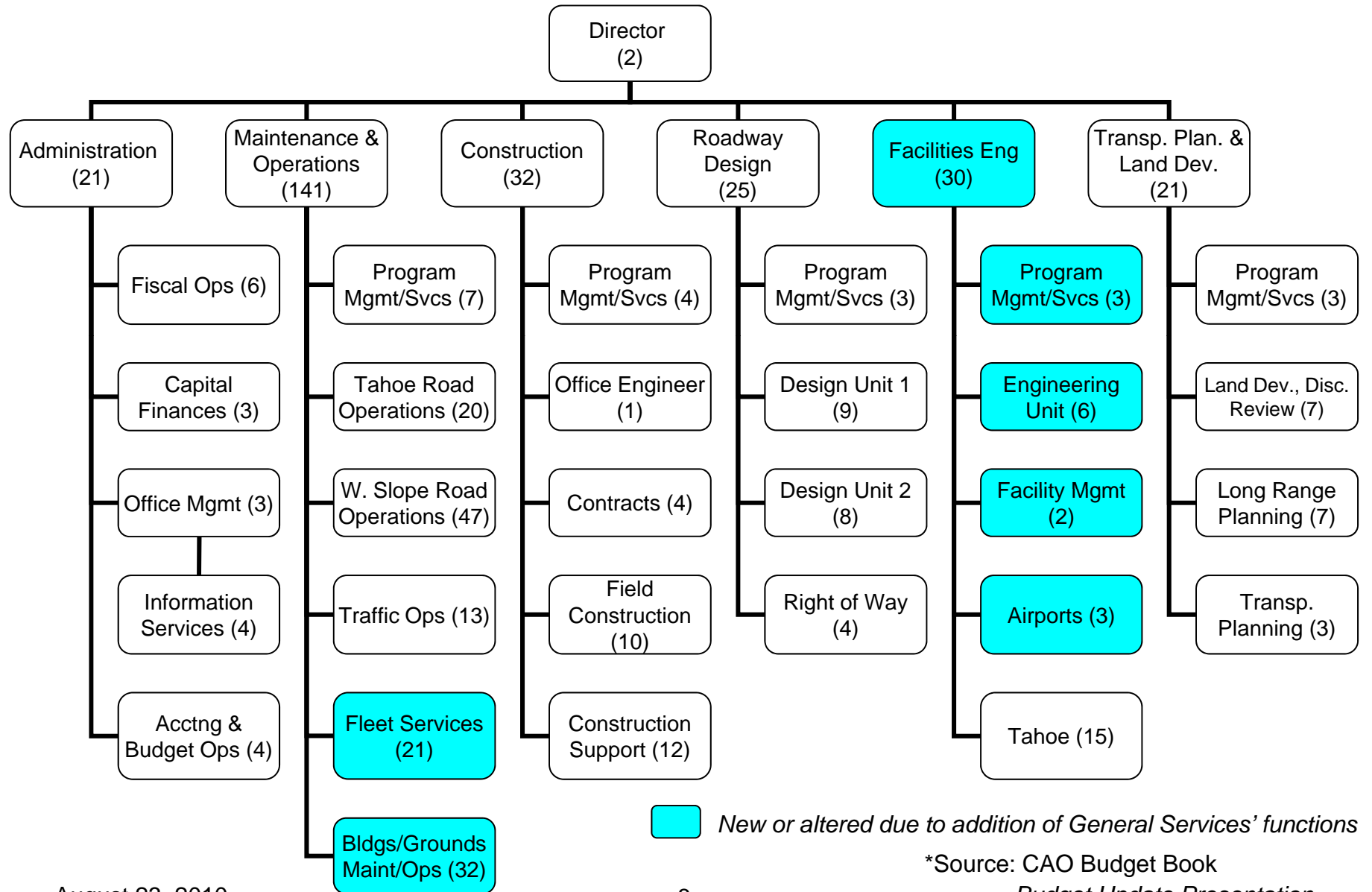
* Totals do not include Extra Help **Total includes 2 add'l in Admin Div. to support Facilities, Fleet, Bldgs/Grounds
 *** General Services' Admin, Maintenance, Facilities, Airports totaled 62 positions in Jan, 2008 (Ref. Legistar 07-1598, 1/08).
 August 23, 2010

Actions Already Taken:

1. Slowed use of cash (e.g., reviewing the CIP and moving projects out in time)
2. Increased revenue seeking activities (e.g., grants)
3. Cut expenses:
 - Combined 2 Design Divisions into 1
 - Eliminated management positions (merging Sections)
 - Deleted vacancies & Extra Help
 - Have not replaced staff who have retired/left
 - Selective layoffs
 - Consolidating into County-owned space
4. Moved staff to the funding/work (e.g., Facilities Eng.)

However, DOT has added positions to support the addition of General Services functions.

DOT's Current Organization*:



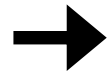
*Source: CAO Budget Book

Budget Update Presentation

August 23, 2010

Agenda

- Background



- West Slope Road/Bridge Capital Improvement Program

- Staffing and Labor Rates

- Next Steps

Based on actual permits for FY 09/10, DOT recommends lowering the housing permit forecast.

5 New Forecasts have been developed for discussion:

1. “High” (Existing, March 2010 Forecast)
2. “Medium”
3. “Low”
4. “Long, Slow Climb”
5. “Flat Line”
6. “Great Depression II”

Due to the many uncertainties at play, there is data to support any one of these forecasts.

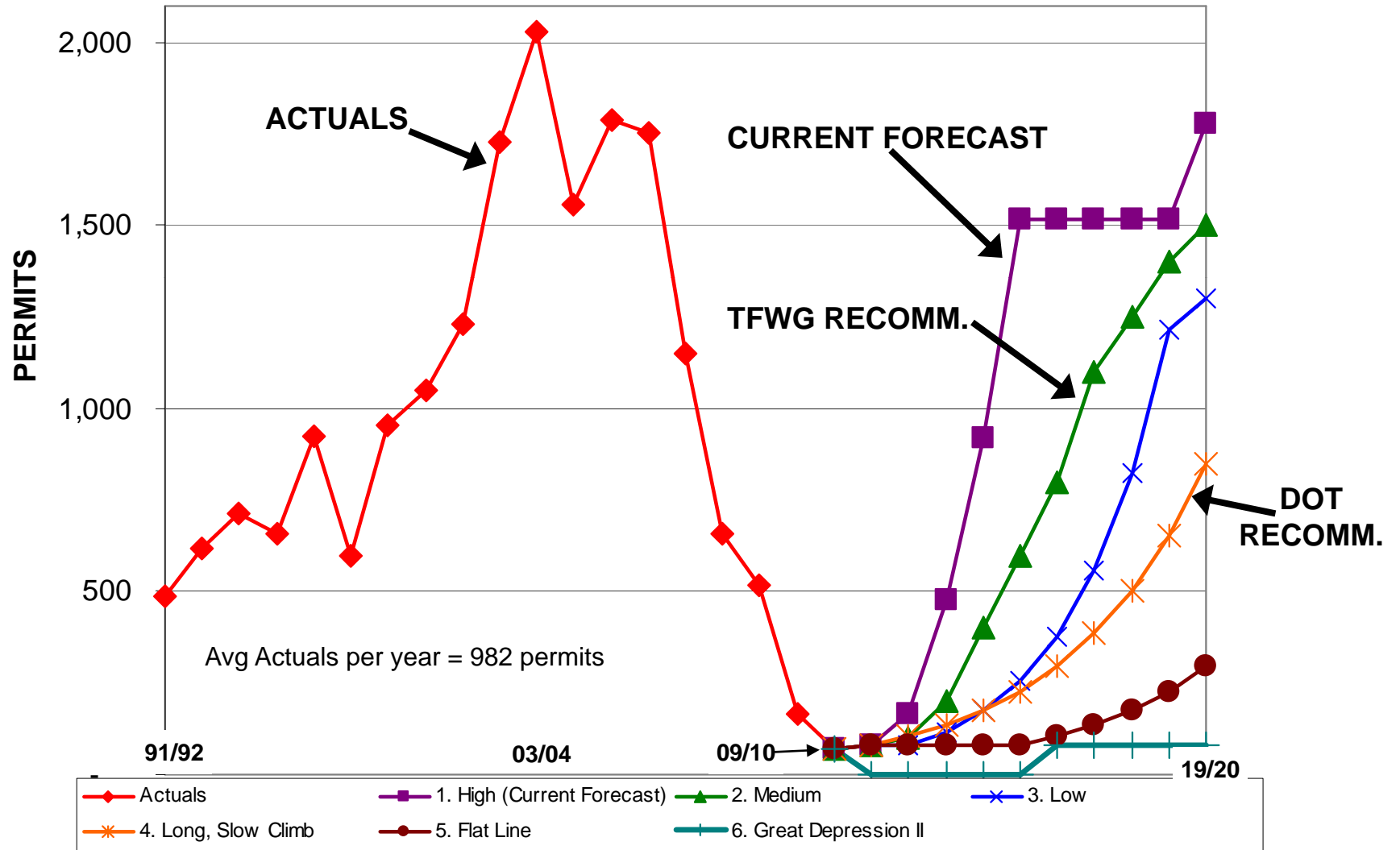
Permit Forecasts for all 6 Scenarios:

	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	TOTAL 09/10 thru 18/19	TOTAL 10/11 thru 19/20
1. High (Current Forecast)	71	80	166	478	920	1518	1518	1518	1518	1519	1780	9306	11015
2. Medium	71	80	100	200	400	600	800	1100	1250	1400	1500	6001	7430
3. Low	71	80	80	118	174	257	379	559	824	1215	1300	3756	4985
4. Long, Slow Climb	71	80	104	135	176	228	297	386	502	653	848	2632	3409
5. Flat Line	71	80	80	80	80	80	104	135	176	228	297	1114	1340
6. Great Depression II	71	0	0	0	0	0	80	80	80	80	80	391	400

- TFWG Recommendation: Scenario 2: “Medium”
 - 7,430 units between FY 10/11 and FY 19/20 (inclusive)
 - Rationale:
 - 6,000 undeveloped, approved lots in Development Agreements that expire 2018
 - Forecasted population growth

- DOT Recommendation: Scenario 4: “Long, Slow Climb”
 - 3,409 units between FY 10/11 and FY 19/20 (inclusive)
 - Rationale: Same as TFWG’s for “Medium” but it will take longer for the market to get back to the historical average

After reviewing available research, as well as discussion with the TFWG, DOT recommends using the “Long, Slow Climb” scenario.

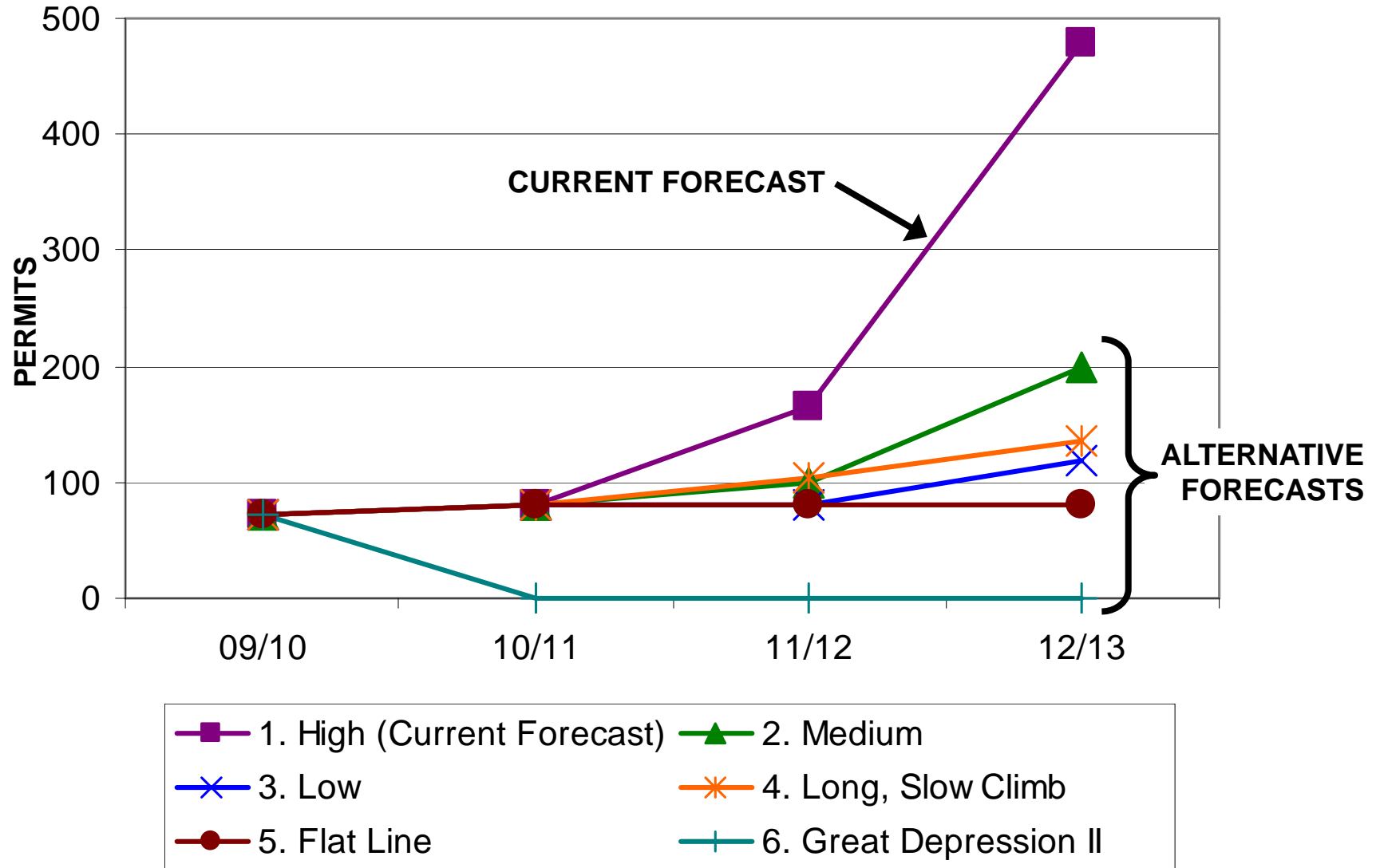


August 23, 2010

12

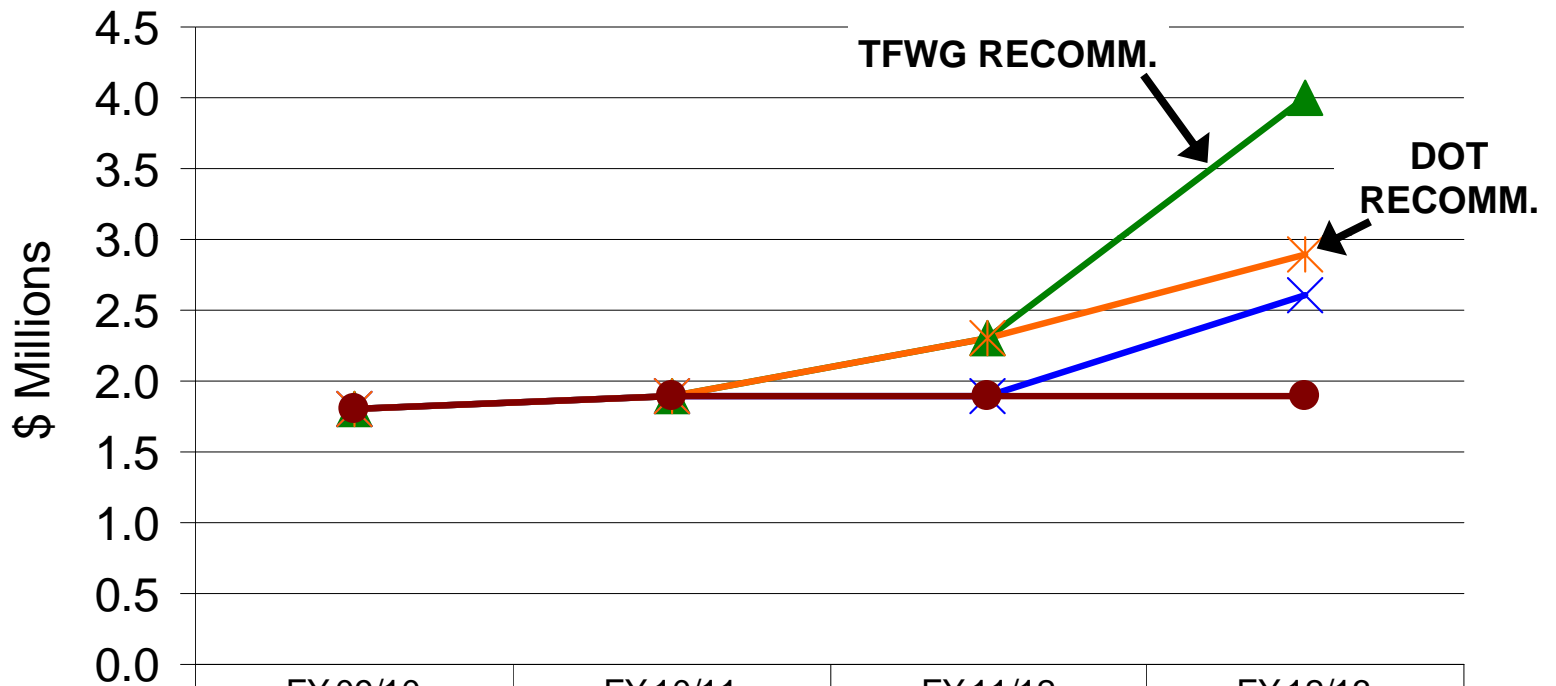
Budget Update Presentation

The alternative permit forecasts do not vary much over the next 3 years...



The revenues don't vary much either:

	PERMITS			
	09/10	10/11	11/12	12/13
2. Medium	71	80	100	200
3. Low	71	80	80	118
4. Long, Slow Climb	71	80	104	135
5. Flat Line	71	80	80	80



REVENUES	FY 09/10	FY 10/11	FY 11/12	FY 12/13
▲ 2. Medium	1.8	1.9	2.3	4.0
× 3. Low	1.8	1.9	1.9	2.6
* 4. Long, Slow Growth	1.8	1.9	2.3	2.9
● 5. Flat Line	1.8	1.9	1.9	1.9

Cumulative funds available, assuming permit forecast for Scenario 4: Long, Slow Climb, and slowing CIP projects that are dependent on TIM Fee revenue:

\$ Millions

TIM Fee Year End Fund Balances by Zone	Estimate for 09/10	Projections		
		FY 10/11	FY 11/12	FY 12/13
Zone 8 TIM	1.9	1.3	0.4	-0.4
Blackstone Prepaid	3.9	0.8	0.8	0.8
Silva Valley Set Aside	26.9	27.5	20.8*	10.0*
Zones 1-7 TIM	11.9	8.2	8.2	4.2
Highway 50 TIM	5.9	3.3	3.6	4.0
Highway 50 TIM – Blackstone**	0.9	1.1	1.3	1.6
TOTAL	51.4	42.2	35.1	20.2

* SV Set Aside goes down for spending on construction

** Reserved for 53115 US 50 – Westbound Auxiliary Lane – El Dorado Hills Blvd to Empire Ranch Rd

Reimbursement Agreements by TIM Fund under Forecast Scenario 4 and modified CIP:

\$ Millions

	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15 - 18/19	FUTURE
Hwy 50 Approved Reimb.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hwy 50 Pending Reimb.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Zones 1-7 Approved Reimb.	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Zones 1-7 Pending Reimb.	0.0	0.3	0.5	0.7	0.6	4.0	7.1
Zone 8 Approved Reimb.	0.7	0.7	1.3	1.3	1.3	1.4	0.0
Zone 8 Pending Reimb.	0.0	0.0	0.0	0.0	0.0	0.0	23.3

DOT has applied for over \$50M in new grants and the applications have been accepted.

- Most bridge grants pay 88.53% of the cost requiring a 11.47% match:
 - Green Valley Rd at Indian Creek: Total \$3.3M.
- New “Rural Off-System Bridge Grants” are 100% funded; applications submitted for:
 - Silver Fork Rd at S. Fork American River \$4.3M;
 - Hazel Valley Rd at PG&E Canal \$2.2M;
 - Bassi Rd at Granite Creek \$3.6M;
 - Mosquito Rd Bridge @ S. Fork American River: \$30M;
 - Blair Rd at EID Canal \$2.1M;
 - Mt. Murphy at S. Fork American River \$8.0M;
 - Alder Rd at EID Canal \$2.1M.

In addition to new bridge grants, DOT is working to secure additional grants including:

- TIGER* II: \$16M for U.S. Hwy 50/HOV Phase 2A;
- Additional RSTP** funding from EDCTC estimated at approx. \$1M/year (ongoing funding);
- CMAQ*** funding from EDCTC estimated at:
 - \$3.5M for FY 10/11
 - \$1.3M/yr thereafter

DOT was awarded \$333K recently for CIP #77109 Green Valley Rd at Tennessee Creek Bridge Replacement

* Transportation Investment Generating Economic Recovery

** Regional Surface Transportation Program Exchange Funds

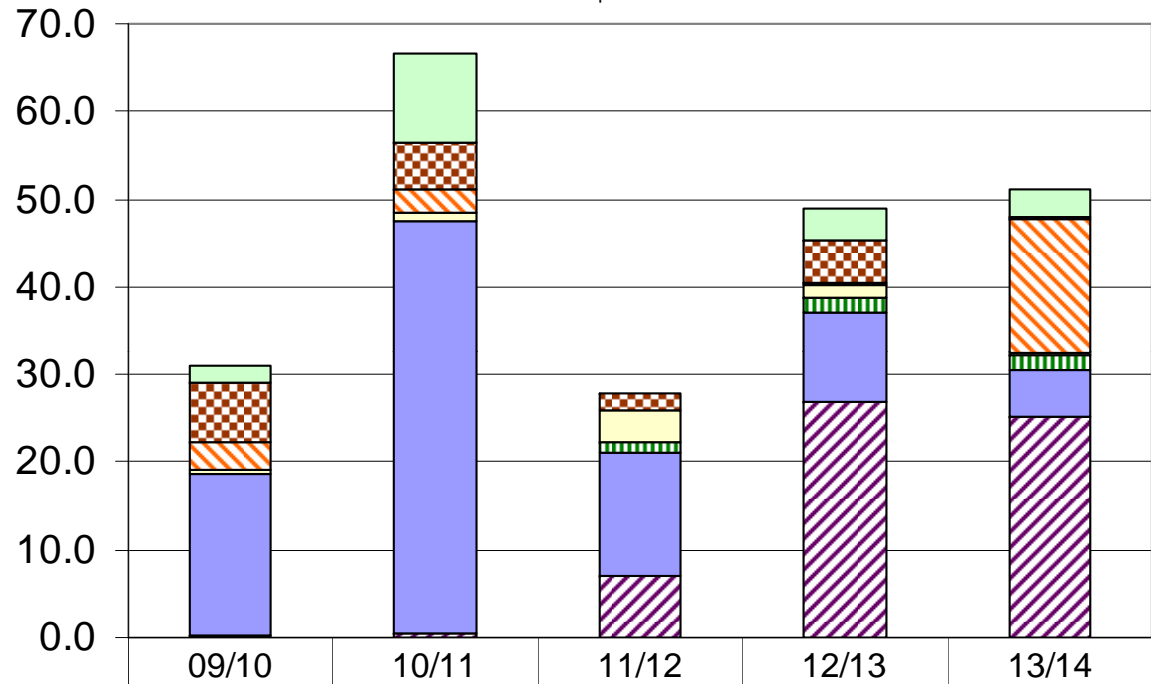
*** Congestion Mitigation Air Quality

Sources of revenues programmed to be used in DOT's Road Capital Program over the next few years*:

\$ MILLIONS

PROJECTS w/LARGE GRANT FUNDING:

- 09/10: Mo Flat 1B \$4M
US 50/HOV Ph 1 \$12M
- 10/11: Mo Flat 1B \$26M
US 50/HOV Ph 1 \$13M
- 11/12: Mo Flat 1B \$6M



	09/10	10/11	11/12	12/13	13/14
Dev Funded/Advance Other	2.0	10.0	0.0	3.6	3.2
TIM Fees (except SVSA)	6.7	5.3	2.1	4.9	0.4
Casino	3.1	2.7	0.0	0.1	15.3
MC&FP	0.6	1.1	3.5	1.4	0.1
Anticipated Grants	0.0	0.0	1.3	1.7	1.8
Confirmed Grants	18.2	47.1	14.0	10.1	5.4
Silva Valley Set Aside	0.3	0.4	7.0	27.0	25.1

* Assumes all new bridge grants are awarded

August 23, 2010

19

Budget Update Presentation

Road/Bridge CIP Grant Revenue Forecast (FY09/10 thru FY13/14):

- Federal
 - Total Grants Approved – \$66M
 - Grants with “Slow Pay” risk – \$0
 - Grants with “No-Pay” risk - \$0
 - Anticipated Grants - \$5M

- State
 - Total Grants Approved – \$28M
 - Grants with “Slow Pay” risk – \$28M
 - Grants with “No-Pay” risk - \$0
 - Anticipated Grants - \$0

DOT needs Board feedback in order to make decisions on its CIP Staffing and Organization:

<u>PARAMETER</u>	<u>DOT Recommendation</u>	<u>Board Direction</u>
Permit Forecast	Long, Slow Climb	
Grant Funds Received over Next 3 Years	50% of new grants (i.e., \$25M total, \$6M for Staff)	
TIM Fee Fund Balances (Zones 1-7 TIM & Hwy 50 TIM)	Don't go below \$4M in each fund	
Organization, Staffing Levels	Based on Above Choices	

Agenda

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- • Staffing and Labor Rates
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DOT is making the following 5 changes:

1. Span of Control: Increase Direct Reports to 4 - 6 per Manager (with some exceptions);
2. Centralization of Most Administrative Functions;
3. Process Improvements;
4. Project Management, Process Controls, and Performance Measures;
5. Combine/Move Functional Groups (as required).

Agenda

- Background
- West Slope Road/Bridge Capital Improvement Program
- Organization, Span of Control, Process Improvements
- • **Next Steps**

DOT will return to make recommendations in September regarding:

- Revisions to Approved 2010 CIP including
 - Revised Permit forecast
 - Updated Grant forecast
 - Assumption of \$4M reserve in TIM Zones 1-7 & Hwy 50
- Plans for Staffing and Organization:
 - Changes to Span of Control
 - Centralization of Admin
 - Process Improvements
 - Project Mgmt., Process Controls, Performance Measures
 - Combine/Move Functional Groups

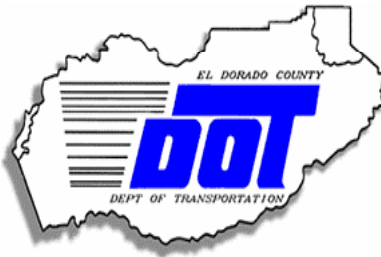
After approval of these, DOT will work with the CAO and Auditor/Controller to revise Labor Rates



Comments?

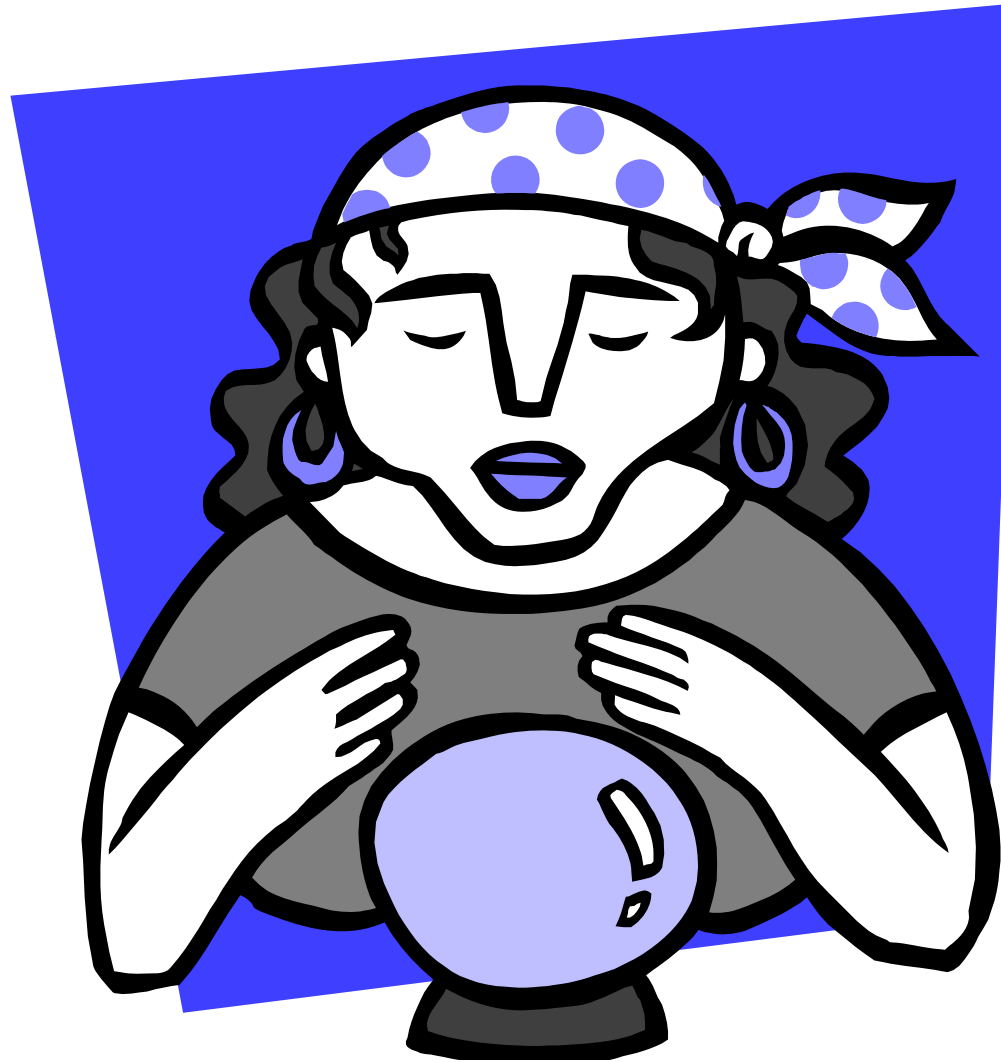
Feedback?

Suggestions?



Back-up: Permit Forecast

*If we had a crystal ball, permit forecasting
would be easy...*



There are many forces working for and against a housing market recovery:

FOR

Temp jobs have increased nationally, usually an indicator of an improving jobs market

Sales for March, April, May of 2010 are comparable to the same 3 mos. in 2009, even with expiration of the Federal tax credit

Median home prices have dipped increasing affordability in the Sacramento Region

Mortgage rates have dropped to the lowest level ever since tracking began in 1971

The population continues to grow, therefore the need for housing demand will grow

Business investment has steadily increased from a low in early 2009

Companies are hoarding cash, waiting to see if increases in demand are real

Consumer confidence is rebounding off lows from 2008 and 2009; however it dipped back down in June

Personal incomes are rising slowly (e.g., up 0.4% from April to May)

Builders have written down value of lots; Developers are starting to snap up cheap lots.

AGAINST

High unemployment continues (13.6% in EDC & 13.1% in the Sacramento Region in March)

Federal homebuyer tax credit has expired, causing new home sales to plummet in May to 300K annual rate which is a record low

Foreclosure rates are still high (above 5% in the Sac. Region in 1st qtr 2010 vs. 1% in '01); some forecast it will take 3 – 5 yrs to work these through the system

Loans are harder to get for consumers and small businesses

U.S. home ownership was 69% in the 2006 peak vs. 67% now and is predicted to decline back to the historical average of 62%

Global growth is uncertain as a result of the European debt crisis and revised downward growth in China

As the Federal deficit grows, lawmakers are under pressure to end or downsize stimulus programs as well as tax cuts, and benefit programs (e.g., ext. unemployment benefits)

Consumers are saving more (4% in May vs. 1.7% before the Recession) & spending less (up 0.2%) than after previous downturns

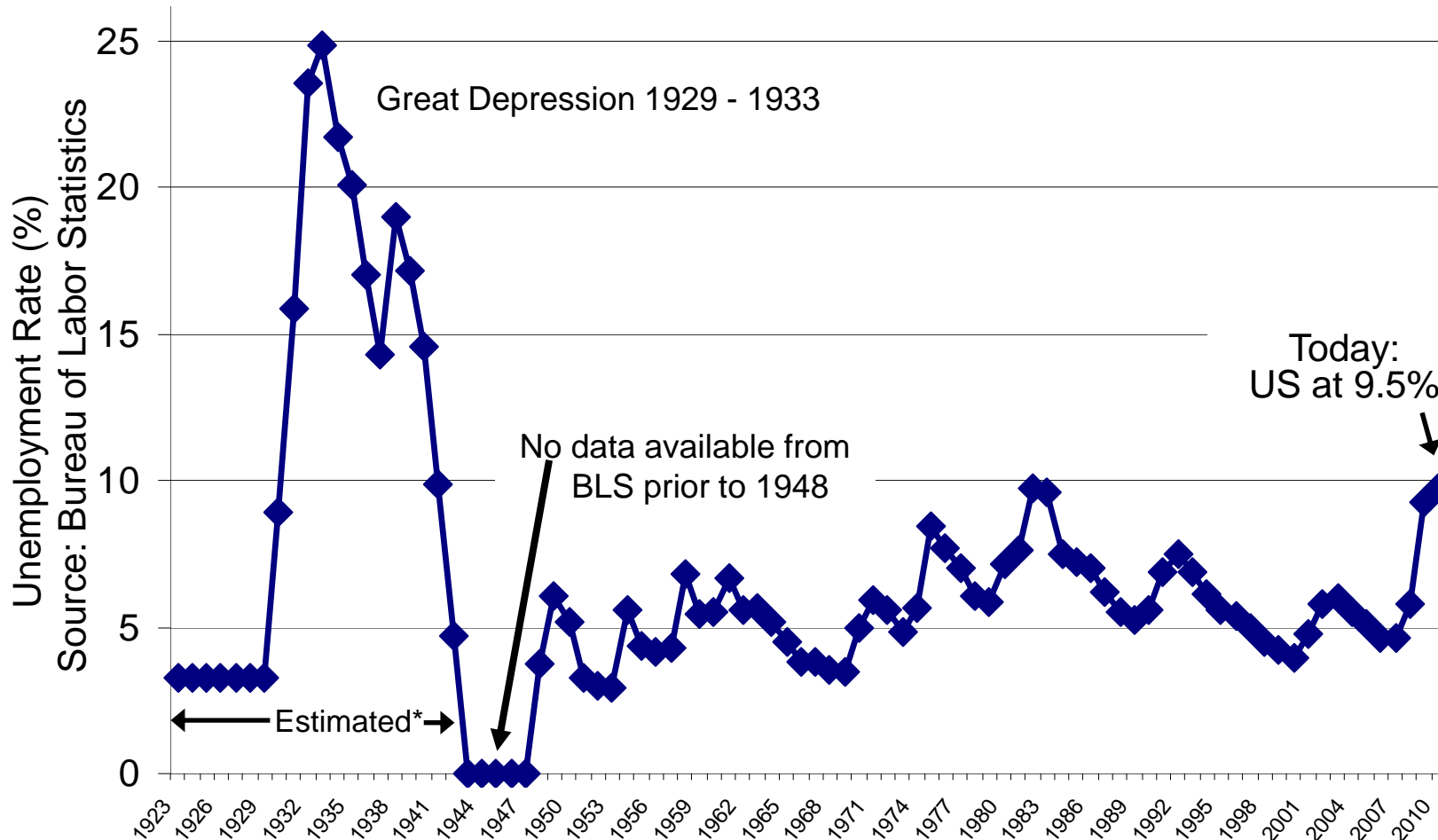
The only thing certain about the forecast is that we're going to be wrong...

August 23, 2010

29

Budget Update Presentation

The unemployment rate is an indicator of economic health and thus growth: Will unemployment start to recede now; will it remain flat for awhile; or, will it rise further ala the Great Depression?



* Estimated in Labor in the Twentieth Century / edited by John T. Dunlop, Walter Galenson, New York : Academic Press, 1978

The “High” scenario was developed from:

- This is the current forecast which DOT revised downward in March, for the 2010 CIP:
 - Total between FY 09/10 and FY 18/19 = 9,310 permits.
- SACOG’s MTP (updated April, 2010) forecasts 10,276 permits for El Dorado County between 2010 and 2020 (based on their population and household projections).
 - This forecast is still undergoing review/comment and may be modified.
 - A revised forecast is scheduled to be out late this summer or early fall.

The “Medium” scenario was developed from:

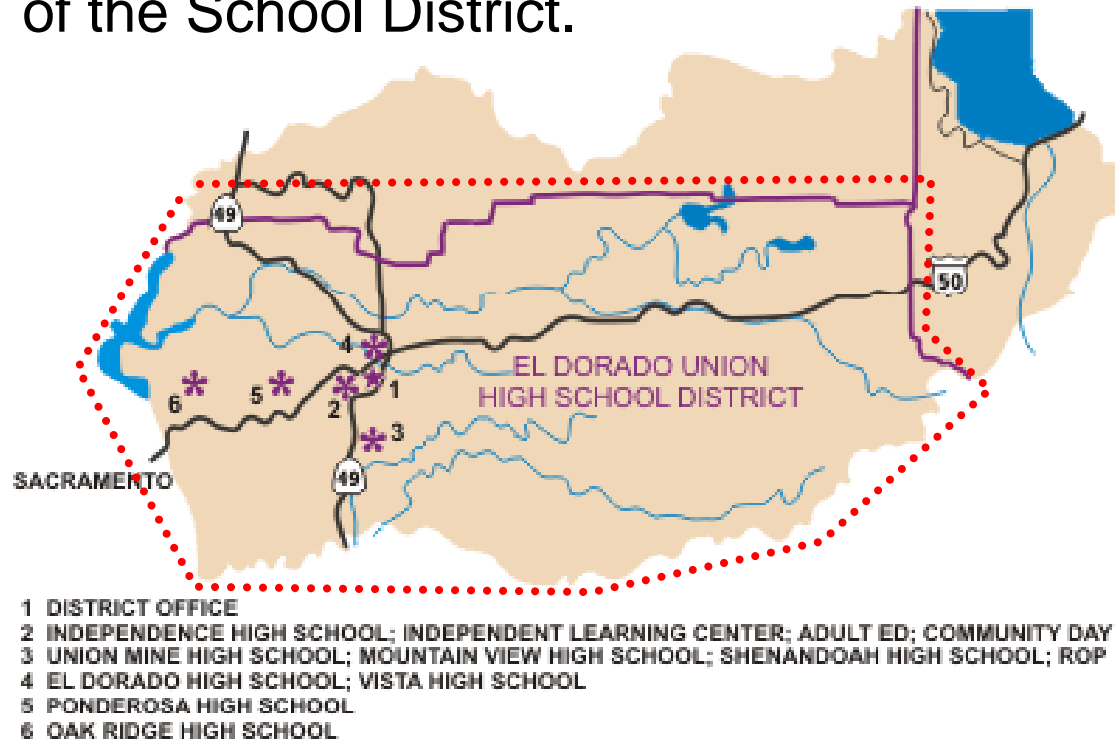
- DSD’s forecast of approximately **6,000** approved residential lots in Development Agreements valid through 2018 (all will be built out);
- Population forecasts that show that El Dorado County will gain approx. 14,000 more residents by 2019*
 - 14,000 people divided by 2.7** people/household = **5,185** units needed
- National Association of Home Builders and National Association of Realtors’ forecasts for U.S. single family housing starts include increases of 29% to 47% per year from 2009 through 2011.
- California DOF’s (Department of Finance) forecast for single family housing permits includes increases of 38% to 81% per year from 2009 through 2012.

* “El Dorado County Industry-Focused Economic Development Study”, Center for Strategic Economic Research, May 12, 2010

** 2004 County of El Dorado General Plan

The “Low” scenario was developed from:

- A demographic study prepared for the El Dorado Union High School District* forecasting **3,757** residential units will be built over the next 10 years.
 - This includes units expected in the geographic area of the School District.



* “Demographic Study 2009-2010 El Dorado Union High School District”, SchoolWorks, Inc., December 2009

August 23, 2010

33

Budget Update Presentation

The “Long, Slow Climb” scenario was developed from:

- Applying the growth rate implied by SACOG’s current household projections between 2008 and 2020, (i.e., 1.46% growth factor)
 - But starting at a base of 80 permits in 2010
 - And capping the maximum number of permits per year at 1,000

Results in an overall growth factor of 30% per year in permits and a total of **2,632** permits over 10 years

* SACOG Item #10-4-10C dated April 7, 2010 “Authorize Release of Draft Regional Growth Projections”

The “Flat Line” scenario (i.e., 80 permits per year for the next 5 years) was developed from:

- Predictions from RealtyTrac* and the National Association of Real Estate Editors** that it could take several years for the economy to absorb all of the foreclosures and coming foreclosures.
- Unsustainable home ownership rates:
 - “...the home ownership rate went from a historical 62% average to a record high of 69% in 2006. It’s currently 67% and projected to finally settle back down again to 62% in a more balanced 2013 or 2015.”**
- The last downturn in new housing construction ran from approximately 1990/1991 through 1999***

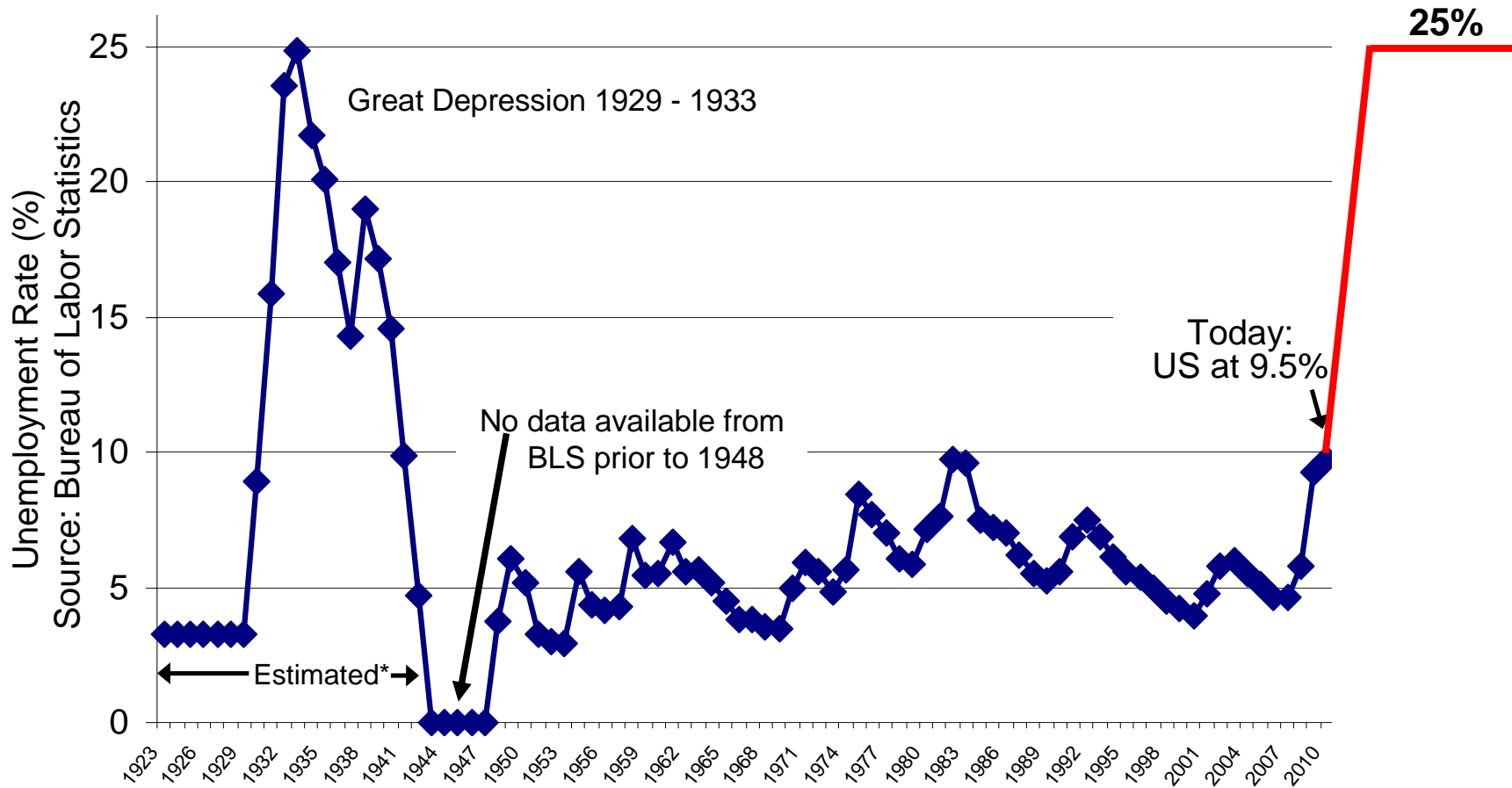
* “Foreclosure sales decline, but housing recovery still has far to go”, LA Times, June 30, 2010

** “Where is the bounce in home values?”, Mountain Democrat, June 18, 2010

“Housing shortage may develop as economy recovers”, Mountain Democrat, July 2, 2010

*** “California Economic Indicators”, California Department of Finance, May-June 2010 (“New Housing Units Authorized by Building Permits”, pg. 14)

The “Great Depression II” scenario (i.e., 0 permits per year for the next 5 years) assumes a repeat of the Great Depression era with unemployment around 25%.



Back-up: Organization

Benefits of Centralization vs. Decentralization of Admin Functions:

- Benefits of Centralization:
 - Can quickly shift staff to highest priorities for the Department
 - Distributes work across one pool of staff enabling:
 - Work load leveling
 - Matching of skill sets to customer needs
 - Easier to make Departmental processes and procedures more consistent
 - Easier to cross-train staff

- Benefits of Decentralization:
 - Close to the end customer and thus able to tailor services to the Division's needs
 - High Level of Responsiveness to Divisions
 - Staff have high familiarity with Division norms and practices
 - Reduces coordination with other Divisions' Admin staff