The County of El Dorado

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TO: Board of Supervisors

FROM: Terri Daly, Chief Administrative Officer

RE: 2014-15 Adopted Budget

Change is difficult for most organizations, especially ours. This budget proposed for adoption is one of the most difficult budget decisions that we have presented to you because it requires a change in the way we approach our budgeting process.

Where we've been. Over the years, the Board has been very conservative in its budgeting approach, estimating revenues low and expenses high. The Board took tough, decisive action early in the recent recession, resulting in a decrease of hundreds of positions and significant cuts to some programs. That conservative approach has served the County well over the years. We have healthy cash reserves and no debt—an enviable position for many jurisdictions.

We have budgeted year to year. Each year we look at what we could afford for that year and budgeting accordingly.

But there is one big problem with this year-to-year approach. We've balanced the budget each year ignoring the hidden "deferred maintenance" that builds every year and results in long-term, growing problems. Our "deferred maintenance" isn't just in the facilities, which alone have accrued more than $55 million in deferred maintenance. We have deferred expenditures over the past 20 years in updating our technology, in updating our systems and in taking care of our employees.

While we are very conservative on a year-to-year basis in current budgeting, we've allowed years and years of deferred maintenance to build up. Because it's easy to ignore it—until that ignored maintenance becomes catastrophic.

About three years ago, the Board took a bold step in trying to address this deferred maintenance. During the recession, the County's employee count was dramatically reduced. Coming out of the recession, we all knew we couldn't just go back to the pre-recession levels—things would really never be that good for the foreseeable future. At that point, the Board decided to invest in taking care of some of that deferred maintenance that would result in operational savings. In other words, investing in ways to make the organization operate “cheaper, better, faster.” The Board, along with the elected and appointed department heads, selected five areas to focus on: Technology, Facilities, Human Resources, Economic Development and Department Accountability and Culture. Three of those areas required significant outlay of cash to see significant return.

Where we are now. So far, we have accomplished quite a bit in those areas. In Technology, we have begun implementation of FENIX, replaced the mainframe, are planning for Electronic Plan Check and a new Land Management system. In Facilities, we have plans to renovate Buildings A & B, are nearing completion of a new animal shelter, and are finally making some progress on a need identified in 1989—a new Sheriff’s Admin facility. In the other investment areas, we’ve updated the Personnel Rules, began the cumbersome projects of updating Ordinances and Policies, and developed economic incentives.

One of the most intensive investments you made was the investment in employees—we completed labor contracts with most of our labor units, resulting in increases in compensation for employees after more than eight years of concessions by employees. After years and years of annual salary and benefit savings well in excess of 10%, our financial analysis showed that for the first two years of the salary increases projected for the labor contracts, we could absorb the increases through those salary savings.

We have invested in our employees, our technology and our facilities. The budget is playing out just as we projected—we can pay for one time investments with one time funds and we are using our annual salary savings to pay for the salary increases. But our budget is getting tighter, just as we projected.

Where we are headed: So, we are now at a crossroads. Frankly, it’s been fairly easy to stay the course on the investment strategy over the past two years because we have had the revenue and one-time funds to spend. In effect, we’ve been able to do things the way we’ve done for the past 20 years. This year is different. This year, we’ve had to enforce part of that salary savings that we projected in order to bring you a balanced budget. This proposed budget enforces a 3% salary and benefit expenditure savings on departments.

This year we cannot keep doing things like we have for 20+ years AND keep investing in handling the deferred maintenance. Either we can abandon the investment strategy and continue to allow the deferred maintenance to pile up OR we can continue on our investment path.

I believe that we need to get to the point where we can start budgeting for multiple years and stop kicking the “deferred maintenance can” down the road**.** We need to continue on our investment path but we need to kick it up to a new level. We need to start planning and enforcing the efficiencies and savings that we are expecting. In short, we need to take this year to develop our enforced savings, i.e., cuts, to next year’s budget. We need to set “rules” for enforced savings and efficiencies. And we need to be disciplined in following those rules.

Specifically, here’s my recommendation for this budget:

1. Adopt a balanced 2014-2015 budget.
2. Give staff direction to establish a task force that will set rules for fiscal discipline and identify the budget reductions needed for the next years.

3. Give staff direction to take our strategic planning to the next level to identify specific County goals for the next three years and a plan of how to accomplish those goals.

I realize I am asking for bold action today. We have a history of Boards that have taken strong, decisive action. I implore you to take that action today. Thank you for your support.