



County of El Dorado

Chief Administrative Office

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Date: April 15, 2015
To: The Honorable Board of Supervisors
From: Pamela Knorr, Chief Administrative Officer
RE: Status of the FY 2015-2016 CAO Recommended Budget

On June 1, 2015 the CAO Recommended Budget for Fiscal Year 2015-2016 will be submitted for your consideration and approval in accordance with the California Budget Act. The CAO Recommended Budget was prepared in accordance with your Board's direction of February 24, 2015 to develop a structurally balanced budget and work with department heads to accomplish that goal. Additionally, the development of the CAO Recommended Budget for FY 15-16 took into consideration the strategic priorities which are in the process of being developed by your Board with the input of the County leadership team, as well as other stakeholders.

This memo will provide an update of the current state of the General Fund as communicated by the Auditor/Controller on April 14, 2015, the progress which has been made in an attempt to achieve a structurally balanced budget, the recommended future activities and actions which are necessary for long term financial sustainability, and the service level impacts which are anticipated as a result of the current recommended reductions to appropriations.

Summary

On April 14, 2015 the CAO received communication from the Auditor/Controller advising that there was a significant adverse trend in the County's General Fund Cash Balance. The Auditor stated that in the last 12 months the County's General Fund Cash Balance has dropped \$16 million. At March 31, 2014, the balance was \$20,482,271. Two weeks ago, at March 31, 2015, the General Fund Cash balance was \$4,321,614. The most significant increase in spending has been in salaries and benefits. General Fund salaries and benefit expenditures are \$13 million higher for the nine month period ending March 31, 2015, compared to the nine months ending March 31, 2014. The Auditor cautioned that your Board needs to take steps to swiftly cut spending. If spending is not significantly cut soon, your Board will need to make draconian cut to vital public services, including public safety in the summer of 2016. CAO are currently working in conjunction with the Auditor to analyze this situation.

On December 16, 2014 the Board of Supervisors was informed that there was a projected \$19.1 million General Fund structural deficit for FY 2015-2016. Since the Board's direction of February 24, County staff and other stakeholders have worked diligently in an attempt to achieve the Board's goal of a structurally balanced budget. As you are aware, on February 24, this Board provided direction to staff to apply a 6.25% reduction of net county costs for all departments. In meeting with departments, the universal application of a 6.25% reduction to net county costs would have resulted in disproportionate service level reductions; therefore CAO staff utilized discretion in making departmental appropriation recommendations based on historical spending trends, service

level impacts, and the draft strategic priorities of your Board. As a result, the CAO recommended budget reflects an appropriation to departments which either meets, exceeds or falls short of the 6.25% net county cost reduction target.

Many departments have reduced salary and benefit costs in order to balance department budgets. Reductions to salary and benefits occur through deleted unfilled positions, budgeting salary savings based on historical trends, through reorganization or by reductions to the work force. It is imperative that the Board of Supervisors direct the CAO and Human Resources to begin discussions with labor to develop an approach to best achieve the budgeted reduction to salary and benefits.

As of April 8, 2015 the CAO Recommended Budget General Fund structural deficit stands at \$8.3 million. This \$10.8 million reduction to the General Fund structural deficit was achieved through collaboration with department heads and stakeholders with a proposed multifaceted approach of:

- 1) Reducing expenditures in Services and Supplies
- 2) Reducing expenditures in Salaries and Benefits
- 3) Increasing revenue (i.e. fees and the use of departmental reserve balances)
- 4) Transferring financial responsibility from the General Fund to other funding streams

Accomplishing a structurally balanced budget in an abbreviated period of time would result in the elimination of services of some programs and/or service level reductions in catastrophic proportions.

Through the budgetary review process, staff identified existing short term efficiencies which could be obtained by transferring responsibility or by implementing more cost effective service delivery models with no or little service level impact. Any reasonable service level efficiency which was identified by the department head was included in the CAO's Recommended Budget. Some of the identified efficiencies include matters which are of a negotiable nature. It is recommended that your Board direct the CAO to work with departments and labor to explore the viability of these program changes and report back to your Board with additional information for Board direction.

Historically programs and services have been added without consideration of data to support the program, other available funding streams, the financial return on investment, the financial sustainability of the service and/or the impact that the diversion of limited funding would have on existing operations. Therefore, it is the recommendation that your Board direct the CAO to conduct a program inventory and efficiency review of each department with a net county cost in an effort to continue to move towards structurally balancing the General Fund. The review would contemplate benchmarks, opportunities and business process redesign (BOBPR) to allow for the development of additional budget reductions. Engaging in this review will allow your Board to consider and adopt future budget reductions which are targeted, methodical and driven by data. It is anticipated that this endeavor could be accomplished near the time of the adoption of the FY 15/16 budget which takes place in September 2015.

The CAO Recommended Budget schedule for Fiscal Year 2015-2016 is as follows:

April 15 th	Board receives FY 2015-2016 update
May 22 nd	Recommended Budget document available
June 1 st	Recommended Budget approval process begins

Rather than conduct budget hearings in June without any quantitative data or benchmarks, it is recommended that the CAO and department staff commence the BOBPR process immediately and review that information with the Board of Supervisors during special budget workshops between the approval of the Recommended Budget and the Adopted Budget in September.

Fiscal Year 2015-2016 CAO Recommended Budget Synopsis

The following is an updated financial synopsis for the General Fund for FY 2015-2016:

Fiscal Year 2015-2016 General Fund Synopsis as of April 8, 2015	
Description	Estimate
Estimated Net County Cost plus General Fund Contributions	\$146 Million
Revised Net County Cost plus General Fund Contributions	\$130 Million
Estimated Discretionary Revenue to fund Net County Cost	\$127 Million
Revised Discretionary Revenue to fund Net County Cost	\$122 Million
Estimated Deficit	\$ 19 Million
Revised Deficit (\$8.3 Million - \$1.6 Million from Fund Balance)	\$ 6.7 Million
Contingency Balance for Fiscal Year 2014-2015	\$3.8 Million
Targeted Contingency Balance for Fiscal Year 2015-2016	\$6.5 Million
Reserve Balance for Fiscal Year 2014-2015	\$10 Million
Targeted Reserve Balance for Fiscal Year 2015-2016	\$10.9 Million
Estimated Fund Balance for Fiscal Year 2014-2015	\$11 Million
Actual Fund Balance for Fiscal Year 2014-2015	<i>To Be Determined</i>

Use of Fund Balance and the Deficit

Fund balance is considered one-time money and should not be utilized to balance the budget. During labor negotiations, recurring high levels of fund balance was identified and identified as a source to fund the costs associated with the negotiated salary and benefit increases. This approach has resulted in a dramatic decrease in the amount of fund balance. Additionally, the County made commitments towards public infrastructure projects (the Public Safety Building land acquisition and the Courthouse Road) without earmarking any funds for those projects. These are two of the factors contributing to the current GF structural deficit. Future financial sustainability will be dependent upon the County’s ability to adhere to a policy of utilizing one-time money for one-time expenditures, and eliminating the dependency on one-time funds to fund recurring operating costs.

The CAO Recommended Budget for Fiscal Year 2015-2016 recommends use of the estimated fund balance as follows:

Use of Estimated Fund Balance of \$11 Million for Fiscal Year 2015-2016	
Description	Amount
Public Safety Facility Land Acquisition	\$2.6 Million
Courthouse Road	\$3.0 Million
Contingency	\$3.8 Million
Funds directed to fill GF structural deficit	\$1.6 Million
Total	\$11 Million

Although fund balance should not be utilized to support recurring operating costs, this has been a long-standing practice of the County. Unfortunately, the CAO Recommended Budget for Fiscal Year 2015-2016 includes the use of \$1.6 million of fund balance to prevent catastrophic service level reductions. Additionally, it is anticipated that the amount of the fund balance will exceed the estimated amount of \$11 million and that any excess fund balance will be dedicated to plugging the existing deficit of \$6.7 million. If there is an inadequate amount of fund balance to cover the remaining deficit of \$6.7 million, the CAO Recommended Budget will be adjusted by further reducing expenditures, reducing contingency, and/or reducing the reserves.

Significant Issues and Service Level Reductions

Significant Issues - Assumptions

- Additional revenues of approximately \$700,000 from the A-87 cost plan. This cost plan is still in draft mode and has not yet been approved by the State Controller’s office. If there are major changes to this plan and revenue is reduced, expenses would need to be further reduced or additional money pulled out of contingency or reserves.
- Funding is not included for any discretionary contributions to outside agencies, such as patch costs for the Fire Districts, money for CASA or funding for City pools.
- The budget does not include any additional General Fund contributions for Road maintenance.
- Property and Sales Tax are grown at 4% over anticipated FY 2014-15 actuals.
- Funding for unfunded liabilities such as retirement pay outs or Other Post-Employment Benefits (OPEB) is not included.
- Additional funding for deferred maintenance of county facilities is not included.

Service Level Impacts

General Government

- BOS – Reduced salaries and benefits in less reception duties and shifting of fiscal oversight to the Chief Administrative Office.
- Chief Administrative Office – Reduced salaries and benefits resulting in less intergovernmental oversight, less public information, reduced custodial services and reduced interdepartmental mail delivery. Services and supplies reductions including \$100,000 savings in utility costs based on the implementation of the energy conservation policy.
- Auditor-Controller – Reduced salaries and benefits resulting in reduced services to the District Attorney (offset with reduced revenues) and reduced auditing services for outside agencies. Slight increase in revenues due to Credit Card rebates, property tax administrative revenues and Automation Trust revenues.
- Treasurer/Tax Collector – Reduced services and supplies primarily in the areas of postage, professional services (including bankruptcy counsel), reduced extra-help, and the suspension of the tax sale.
- Assessor – Reduced services and supplies.
- County Counsel – Reduces salaries and benefits and services and supplies.
- Human Resources – Reduced salaries and benefits due to unfunding the Human Resources Director for 6 months and unfunding .5 of a vacant HR Technician resulting in less oversight and slower response times to departments.
- Information Technologies – Reduced salaries and benefits due to unfunding 5 vacant positions (including the IT Director and one Deputy Direction) and savings in services and supplies for reduced Microsoft licensing costs and the elimination of the FAMIS system support. These reductions will result in the IT department moving into a maintenance mode with little to no ability to implement and develop new technologies.
- Economic Development – Funding in FY 2015-16 has been reduced to 51% of total Transit Occupancy Tax (TOT). Additionally the FY 2015-16 budget does not include the carry forward of any unspent funds from the current or prior fiscal years. Impacts include the elimination of the Micro Grant program; a 9% cut to promotional contracts including the American River Music Festival, El Dorado Film Commission, El Dorado Visitor's Authority, El Dorado Hills Chamber of Commerce, El Dorado Arts Council and the Lake Tahoe Shore Chamber of Commerce; elimination of the web portal project, elimination of traffic support for Apple Hill, and termination of grant consulting services.
- Recorder-Clerk/Registrar of Voters – Increased fee revenue (fees have not been changed since 1993) and reduced extra help. The reduction in extra help on the Elections side could be problematic due to major elections coming up and may result in a need for a transfer from contingency.

Law and Justice

- District Attorney – Reduction of 2 vacant FTE’s and increased revenues based on welfare fraud funding.
- Public Defender – Reduced salaries and benefits.
- Sheriff – Reduction in salaries and benefits by budgeting a 5.5% vacancy factor and reductions services and supplies. This may result in an increased vulnerability to request contingency funding.
- Probation – Reduction in salaries and benefits based on unfunding 7.5 vacant positions. Reduced services and supplies resulting.

Land Use and Development Services

- Surveyor – Reduced salaries and benefits and transfer of Land Management Information System workload to be determined. The reductions result in delays in service to all clients and delays or elimination of new web applications and system upgrades
- Agriculture – Reduction to the Wildlife Services contract with the USDA resulting in decreased ability to respond to public requests resulting in the need for citizens to draw upon private professional pest control operators. The ability to respond to calls involving large predatory animals will also be decreased.
- Community Development Agency – Reduced salaries and benefits based on a 15% vacancy rate in the Building Services unit and a 7% vacancy rate overall for CDA. Service impact is increased wait times when applying for permits, delays in plan checking and delayed project inspections.

Health and Human Services

- Health and Human Services Agency – Various reductions in salaries and benefits and reduced services and supplies. See detail below.
 - Public Guardian – Reduced salaries and benefits.
 - Perks Court Transitional Housing – The facility is staffed by a local community-based non-profit organization. HHSA contributes \$1,100 monthly towards the facility. HHSA will need to notify the non-profit that services will be terminated effective June 30, 2015 resulting in annual savings of \$13,200.
 - Senior Safety Net Programs
 - Senior Day Care – Take steps to shift the service delivery model of Senior Day Care services and explore the feasibility of outsourcing this service to a private organization that will be permitted to provide the services in the existing County owned facilities at the El Dorado Hills Senior Center and the Placerville Senior Center. This is a matter that will require negotiations with labor to determine if the service model can be modified or if the service will have to be eliminated. If HHSA is successful in identifying a private organization and negotiating with labor, the community impact will be minimal.
 - Congregate Meal Dining – Discontinue providing meal dining in Diamond Springs, Pollock Pines, Greenwood, Pioneer Park and El Dorado Hills, while maintaining congregate meals dining in Placerville and South Lake Tahoe. Participation in congregate dining is down and the most significant impact is a reduction in opportunities for the seniors to gather for meals. The Meals-on-Wheels program will continue.

- Veteran’s Affairs – Reduction in salaries and benefits based on an existing vacancy.
- Library – Minimal reductions in services and supplies and unsustainable increased use of fund balance. It is important to note that the department is proposing to utilize over 50% of their total fund balance. This is not sustainable and unless long-term solutions can be found future years may require reduced library hours.

Department	Increase Revenue	Reduce Costs	Transfer	Service Impact
Agriculture	X	X		Eliminate small animal trapping and delayed response for large animals.
Assessor		X		Reduced service level
Auditor	X	X		Reduced service level
CAO-Economic Development		X		Elimination of Glogou & Micro Grants; Reduction of 9% to Chamber/Tourism
CAO-Facilities		X		Reduced maintenance/response
CAO-Parks		X		Reduced maintenance/response
CAO-Procurement		X		Reduced service level
CDA-Admin		X		Reduced service level
CDA-Long Range Planning	X	X		Reduced service level
Clerk/Recorder	X	X		Reduced service level
Clerk of the Board		X	X	Reduced service level & delayed fiscal processing
County Counsel		X		Reduced service level
District Attorney	X	X		Reduced service level
Elections		X		Reduced service level
HHSA-Animal Services		X		Reduced service level
HHSA-Public Guardian		X		Reduced service level
HHSA-Aging Programs		X		Reduced service level
Human Resources		X		Reduced service level
Information Technology		X		Eliminate the maintenance of the business license programming, increased response time for service, & terminate software maint license
Library	X	X		Unsustainable reliance on fund balance. (Utilization of 57% of fund balance)
Probation		X		Reduced service level
Public Defender		X		Reduced service level
Sheriff		X		Reduction in services and supplies, reduction in salaries and benefits for salary savings, increased vulnerability to reliance on contingency
Surveyor/GIS		X	X	Reduced service level
Treasurer/Tax Collector		X		Reduced service level
Veterans		X		Reduced service level

Conclusion

The significant adverse trend in the County's General Fund Cash Balance is alarming. A structurally balanced General Fund could not be achieved in an abbreviated amount of time without countywide catastrophic service level impacts. Additional analysis and implementation of more efficient service delivery models will position the County to achieve a structurally balanced budget within a reasonable time.

The CAO recommendation is as follows:

- 1) Seek recommendations from the Auditor as to what immediate steps need to be taken with respect to the significant change in the County's General Fund Cash Balance.
- 2) Approve the CAO Recommended Budget as submitted on June 1st and delay department presentations until the program inventories are collected, analyzed and recommendations for additional efficiencies are developed.
- 3) Direct the CAO to collaborate with departments and labor to explore more cost effective service delivery models and methods.
- 4) Direct the CAO and Human Resources to meet with labor to discuss an approach to reduce salary and benefit costs to align with department appropriations.