

**COUNTY OF SONOMA  
AGENDA ITEM  
SUMMARY REPORT**

**Clerk of the Board Use Only**  
**Meeting Date**                      **Held Until**  
 /   /                                      /   /  
**Agenda Item No:**                      **Agenda Item No:**  
 \_\_\_\_\_                                      \_\_\_\_\_

**Department:** County Administrator

(   ) **4/5 Vote Required**

**Contact:**  
Chris Thomas

**Phone:**  
(707) 565-2431

**Board Date:**  
4-14-09

**Deadline for Board Action:**

**AGENDA SHORT TITLE:** Budget Discussion

**REQUESTED BOARD ACTION:**

Informational report on updated budget gap

**CURRENT FISCAL YEAR FINANCIAL IMPACT**

<u><b>EXPENDITURES</b></u>		<u><b>ADD'L FUNDS REQUIRING BOARD</b></u>	
<b>Estimated Cost</b>	\$	<b>Contingencies</b>	\$
		(Fund Name:)	
<b>Amount Budgeted</b>	\$	<b>Unanticipated Revenue</b>	\$
		(Source:)	
<b>Other Avail Approp.</b>	\$	<b>Other Transfer(s)</b>	\$
(Explain below)		(Source:)	
<b>Additional Requested:</b>	\$	<b>Add'l Funds Requested:</b>	\$
<b>Explanation (if required):</b>			

**Prior Board Action(s):**

January 13 and March 3, 2009 Board held two Budget Policy Workshops and gave direction to make adjustments in preparation for an anticipated shortfall in County General Fund resources as compared to expenses

**Alternatives - Results of Non-Approval:**

Informational report, no action necessary at this time

**Background:**

On January 13, 2009, in recognition of an ever worsening economy, the Board took the proactive step of holding a Budget Policy Workshop for FY 09-10, two months earlier than its normal schedule. At that time, and based upon November and December data, the County Administrator's office estimated that there would be a need to reduce the size of the organization subsidized by the County General Fund by 10-15% for the coming budget year and an additional 5-15% in the following years. The General Fund projections at that time were summarized in the following table (with the understanding that actions taken to address the shortfall each year would have the effect of reducing each subsequent year's shortfall by a like amount):

Sonoma County General Fund (Local Programs) Projection (in millions)

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Financing	443.4	411.8	414.0	418.5
Expenditures	<u>443.4</u>	<u>433.2</u>	<u>447.6</u>	<u>464.5</u>
Projected (Shortfall)	0.0	(21.4)	(33.6)	(46.0)

At the request of this office, your Board gave the staff direction to return with a 5% reduction, to be implemented across all departments supported by the General Fund, by the end of the current year so that a full year's savings could be achieved for FY 09-10. At this same January workshop, we provided the Board with a very general list of priorities that would guide our next list of cuts. In response, your Board asked us to provide more specifics on how these service priorities might be converted to actual cuts, before determining your position on the service priority setting. The Board also directed staff to solicit ideas from employees and seek public input as the Proposed Budget was developed and agreed to move the Final Budget Hearings from August to June, so that these remaining reductions could be implemented earlier and thereby avoid even deeper reductions to balance the budget.

**Attachments:****On File With Clerk:**

**CLERK OF THE BOARD USE ONLY**

**Board Action** (If other than "Requested")

**Vote:**

**Background:** (Continued)

On March 3, the Board was presented with reduction options both for the first 5% (totaling \$10.4 million) and additional options to close the \$11 million remainder of the originally projected gap of \$21.4 million. The Board approved 99.5% of the proposed reductions for the first 5% and directed staff to return with the necessary actions to implement those reductions. These are being scheduled for your April 7, 2009 agenda. In addition, the Board gave staff guidance to use when prioritizing the remainder of the necessary reductions to balance to available resources in the Proposed Budget. Finally, staff shared with the Board that continued worsening in the economy would likely have an adverse impact on our original projections and that staff would be returning with an update on the projected gap sometime in April. We also mentioned that when we provide updated projections we will have benefit of the detailed departmental budget submittals that will have more refined cost estimates and departmental revenues. Today, we are projecting the remaining gap to have grown, primarily as a result of 2 factors.

The first factor is due to County costs for “Welfare” or Human Services Programs (net increase of \$3.7 million). The County pays a local share of eight different programs that are included in the Human Services “Welfare” Programs Division. Some examples include: In Home Support Services (IHSS), Foster Care, General Assistance, etc. This County share requirement is reduced by a portion of state sales tax and vehicle license fees that were directed to Counties when the state “realigned” these responsibilities in the late 1980’s and early 1990’s. This sales tax and the vehicle license fees are often referred to as “realignment revenues”. Increases in some of these eight programs, most notably the IHSS program, foster care costs for the severely emotionally disturbed and the general assistance (GA) programs have contributed significantly to this increased projection. GA is the biggest contributor to this revised forecast (\$1.1 million). Unfortunately, re-alignment revenues, have also dropped significantly since our November data.

These realignment programs highlight a systemic problem where the County has limited control over program costs and program needs tend to increase during tough economic times which in turn reduces the specific revenue that funds these programs i.e. sales tax. Other the last seven years, the net cost or “draw on the general fund” has doubled, from \$7 million to \$14 million.

This \$3.7 million increase in the deficit would be greater if not for the passage of the federal stimulus package and some changes in state legislation. The County will be receiving some additional federal funds which will have the effect of reducing County costs over a 24 month period. Early estimates of the monies available over the 24 month period are \$5 million or more. Given that our current economic picture remains grim, and in fact could still worsen significantly, staff will be recommending that these monies be used over a 3 year period to help close the gap associated with the increases in program costs and reduced realignment revenues. Hopefully at the end of the three years program costs such as General Assistance will go down with the improved economy.

The second factor that increases the deficit since January, has to do with salary and benefit costs that have come in about \$2.8 million (slightly less than 1%) more than projected. This is a combination of several factors including a recently adjusted new retirement rate, some changes in employee organization agreements approved after the projections were developed, slightly lower salary savings figures, and more accurate salary figures once departments reviewed and updated actual position information loaded into the budget system. Staff is working with SCERA to look at options related to the retirement rate and internally to see if there are any other rates that can be recommended for adjustment to assist with addressing this portion of the gap.

**Background:** (Continued)

Several other items came in higher or lower than our original projections for a variety of reasons as is normal in any year but the net result after washing all those out and recognizing approximately \$1.3 million in new federal stimulus revenues for welfare programs is that our remaining gap grows from \$11 million to \$16.2 million. This increase in deficit reflects less than a 1% change in revenues and expenses. However, as your Board is aware, we will be pursuing various cost cutting measures to reduce this deficit, e.g. COLA's, MTO, etc. The one item that I am comfortable removing from this deficit, and consequently from the Proposed Budget at this stage is the estimated cost of a COLA, i.e. \$4.5 million. Given the difficulty of next year's budget and the magnitude of the cuts necessary to balance it, we will not be budgeting for a COLA in those departments that do not have employees with an MOU. If through negotiations your Board decides to grant a COLA, we will identify a separate way to fund it.

Unfortunately, even as this report is being written we just received word from the Assessor's office that our property tax revenues will likely have to be revised downward. While we have been meeting monthly to track the progress of the valuation for the FY 09-10 tax roll, the most recent calculations performed by the Assessor suggest a far greater reduction in overall value due to declining home prices than had been estimated for the January projections. As the Board is aware, state law requires the Assessor to reduce values to reflect the market condition, even if a property hasn't sold. These reductions are often referred to as "Prop 8's" after the original voter approved initiative. Last year the Assessor's office conducted reviews and reductions on approximately 25,000 properties last year and expects that most if not all of these will see another review and reduction this year. In addition, approximately another 15,000 properties will likely have to be reviewed this year for potential reductions.

The law requires the values to be set as of January 1 each year but allows for sales data through March in order to provide for more accurate market valuations. This means that the Assessor still does not have all the sales information to work with and won't be able to give an accurate prediction of the final valuation until they have both the sales data and have worked through many of 40,000 reviews. Nonetheless, staff from the Clerk Recorder Assessor, Auditor Controller Treasurer Tax Collector, County Administrator and PRMD have been trying to get the most accurate picture possible and much earlier than usual to plan for our budget. If pressed today, the best prediction would be somewhere between an additional \$5 to \$10 million reduction in County property tax revenues for the coming year. It is important to mention two observations with this news: (1) the Assessor's Office has never been asked to forecast property values and revenues this early in their tax assessment cycle and (2) this radical drop of property values has never been experienced in our careers or lifetime.

Staff is not asking for Board direction to look at additional departmental reduction options at this time to provide for the potential further reduction in property tax revenues but is only providing an update based on the best information currently available. Our office has developed contingency plans to respond to additional reductions in property tax revenues.

An updated estimate will be provided again as your Board is presented with the Proposed Budget on May 12 and for the Final Budget Hearings in June. At that time, we are hopeful that much of the Prop 8 reviews, the other ownership change reviews, and an estimate of the consumer price index adjustment for other properties will be far enough along that the available property tax revenues for the upcoming year can be predicted with a higher degree of accuracy.

Ultimately, the budget is an operating plan and in this year, more than any in our working careers thus far, the plan may have to be developed with a greater degree of uncertainty, and adjusted as necessary along the way.