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June 5, 2012

Honorable Board of Supervisors
County Departments and Employees
Members of the Public

SUBJECT: Placer County Fiscal Year 2012-13 Proposed Budget

Introduction

The County Executive Office presents Placer County's Proposed Budget for Fiscal Year 2012-13 for your review and consideration. This document is the culmination of a comprehensive effort on the part of county staff from all departments to develop a budget that recognizes future obligations, protects the county from state financial uncertainties to the extent foreseeable at this time, and maintains critical services that benefit our citizens during a time of constrained resources.

The Proposed Budget represents the County's legal authority to spend, provides a guide to county programs and service delivery models for next year and sets the stage for future budget cycles. The Proposed Budget serves as the interim spending plan until the Final Budget is adopted by the Board of Supervisors (Board) in September. The Final Budget is adopted after a public hearing, is developed and deliberated on during Board Workshops conducted during the month of August. The adopted Budget funds services and activities deemed critical and necessary, providing an annual, comprehensive framework that reflects the Board's policy direction and priorities. Additionally, the fiscal decisions contained within this document adhere to the County Financial Policies as well as incorporate Board direction received during budget updates and workshops held from December 2011 through April 2012. Finally, the Proposed Budget reflects the dynamic nature of the county service delivery model which continues to change in order to meet ongoing service demands in a climate of reduced discretionary resources.

Executive Summary

As the longest recession in recent memory now shows signs of stabilizing, Placer County remains fiscally healthy relative to the economy. Cost pressures continue to grow while revenues look less certain than before the economic decline. However, the Board's proactive measures over recent years, including efforts to control cost growth where possible, provide a measure of financial flexibility to approach the challenges of a re-benched economy.

Over the past several years, the Board has overcome significant budget and operational challenges as it has guided Placer County through the prolonged recession that began in the Fall of 2007. The Board has done so through reprioritization of declining revenues to preserve core service levels to the extent feasible. Specifically, the Board suspended General Fund contributions to reserves and road overlay projects, reduced capital infrastructure contributions, deferred building maintenance, and redirected funds for other county priorities to mitigate fluctuations in funding and service levels. The Board instituted a hiring freeze and created greater cost sharing to reduce labor cost pressures related to health benefits and pension costs. Further, the Board has implemented cost savings ideas and alternative service delivery models to leverage remaining limited resources and minimize service impacts.

- Since FY 2007-08, the total budget has declined 12.9% largely a reflection of completed buildings and roads projects as well as significantly scaled back General Fund support for infrastructure due to the economic downturn. In addition, filled positions have been reduced 15.4% to 2,150 due to the hiring freeze put in place in 2007.
- Declining discretionary revenues have resulted in a General Fund budget that has declined $17.8 million (4.8%) over this period at the same time service demands supported by the General Fund have increased. This is particularly the case with property taxes, the County largest discretionary revenue source, which is projected to decline an additional 1.1% in FY 2012-13, for a cumulative $16.4 million (12.4%) drop since FY 2007-08.
- Ongoing cost pressures related to pension and other post employment benefits largely due to lower than anticipated investment returns requiring increased county contributions.
- State funding for mandated programs has been a continued target for State reductions thereby shifting unfunded mandate costs to the County over the past several years.

The FY 2012-13 Proposed Budget of $690.1 million continues to provide services to our constituents and meet important obligations to the Placer County community. The FY 2012-13 Proposed Budget is $59.2 million (7.9%) smaller than the FY 2011-12 Final Budget. Major changes include:

- $45.5 million reduction to the Public Ways and Facilities Fund (Road Fund) due to timing of project costs including the Foresthill Bridge;
- $8.5 million reduction to the Capital Projects Fund reflects the prior year completion of funding for the South Placer Adult Correctional Facility;
- $5.8 million increase due to adding the Redevelopment Obligation Retirement Fund in lieu of considering the former Redevelopment Agency separately;
- $4.9 million increase to the Public Safety Fund due to a $4 million increase in Public Safety Sales Tax, as well as additional AB 109 (Public Safety Realignment) revenues;
- $4.5 million reduction to the General Fund to reflect $3.7 million in reduced revenues and other operational adjustments.

As discussed at the March 27, 2012 meeting, the economic downturn is beginning to show mixed signs of recovery. Property Tax, the County's largest discretionary revenue source continues to decline; however, targeted revenues in some departments are improving, primarily Public Safety and Health and Human Services. As the revenue picture changes it warrants a strategic approach to ensure the long-term priorities of the Board can be met. That could include reprioritization of targeted revenues to more fully implement the Budget and Financial Policy as the County emerges from years of declining revenues; pursuing strategic investment opportunities to best meet resident needs within limited resources; reducing one-time revenues used for ongoing operations; increasing the General Fund reserve to position the County to withstand the next economic downturn, and meeting other Board operational and budget priorities.

Development of the 2012-13 Proposed Budget

The Board has held a series of FY 2012-13 budget discussions and workshops since December 2011. The workshops have highlighted the local budget and operational challenges including:

- Sustainability of library services amid declining dedicated property tax revenue and State funding;
- Fire protection fiscal and operational challenges due to declining dedicated property tax revenue and an insufficient revenue base to maintain existing service levels, particularly for the North Auburn Ophir Fire County Service Area (NAOF). Residents served by NAOF will vote on a special tax measure to maintain service levels at the June 5, 2012 election;
- Infrastructure and deferred maintenance cost pressures;
- Timing, demand, and approach to opening the South Placer Adult Correctional Facility

At the initial report to the Board on December 13, 2011, the projected FY 2012-13 operating deficit was $5.1 million ($2.3 million General Fund and $2.8 million Public Safety Fund). Identified balancing adjustments in the General Fund included decreasing the General Fund set-aside in General Liability ($500,000), and decreasing General

Liability and Workers Compensation loss contingencies to an 80% confidence level consistent with the Budget and Financial Policy ($1 million). Other balancing measures were from General Fund revenues, which declined less than initially anticipated. The Public Safety Fund's initial deficit was resolved through growing receipts from the Public Safety Sales Tax.

The early actions put into place in late 2007 designed to slow and reduce expenditures, such as instituting a hiring freeze, remain in effect. When combined with other cost saving measures, the anticipated end of the year fund balance (one-time funds) is healthy and will enable Placer County, as in past years, to start the fiscal year in a more positive position than most counties. This is a direct result of the Board's steady hand throughout the recession.

Essential to the planning and development process for the Proposed Budget has been the guidance, participation, and leadership of the Board. Staff worked within Board established policies as well as guidance from the Board throughout the past several months. The Proposed Budget has been able to address the shortfall while continuing to provide critical services to county residents within the available resources.

As in previous years, those charged with creating this document recognize that the county is in the business of efficiently providing high quality services to the public. Pursuant to Board direction and adherence to financially sound fiscal policies, the Proposed Budget promotes optimal use of staffing within limited resources.

Pursuant to Board Policy, the Proposed Budget is balanced, uses realistic and probable revenue estimates, and maintains a prudent level of funding for reserves and contingencies. Unanticipated revenues received following presentation of the Proposed Budget will be brought to the Board for consideration.

In summary, the FY 2012-13 Proposed Budget:

- Protects critical operations, services, and programs while maximizing savings where possible.
- Continues to fund capital infrastructure projects prioritized by the Board.
- Maintains appropriate fiscal contingency and reserve levels and has not used General Fund reserves for operations for the second time in five years.

The remaining portions of this letter highlight some of the challenges and resolutions addressed in the Proposed Budget for FY 2012-13.

Sources and Uses of Funds

The FY 2012-13 Proposed Budget reflects the following:

- $647.1 million in total revenues, representing a decrease of $50.6 million (7.3%) as compared to the FY 2011-12 Final Budget. The reduction in revenues is primarily a function of fiscal year timing related to capital infrastructure projects such as the Foresthill Bridge as well as a $4 million reduction to *General Fund* revenues. (Comparison amounts for FY 2011-12 reflect final enactment of the Governor's 2011 Realignment resulting in a March 27, 2012 technical accounting change for an effective FY 2011-12 Budget of $749.3 million).
- $328.3 million in *General Fund* revenues and $318.8 million in other revenues.
- $42.8 million in fund balance carryover of which $27.0 million is *General Fund*. Fund balance carryover is the result of current year expenditure savings, or deferral of costs or projects into the next year, as well as additional revenue received in FY 2011-12. As such, a portion of fund balance remains committed for specific purposes as costs transfer from FY 2011-12 to FY 2012-13 so is therefore not available for general purposes.
- Limited use of $0.2 million in fund reserves, bringing the grand total for available financing sources to $690.1 million.

In addition, overall revenues anticipated in the Proposed Budget for FY 2012-13 highlight a continued reduction when compared to the budgeted amounts in the current year in some areas, particularly in the *General Fund*. They reflect the slowdown in revenue received by and available to the county when planning to provide important services to our citizenry. However, other areas such as Public Safety have seen significant revenue growth for the

[1] A portion of fund balance remains committed for specific purposes as costs transfer from FY 2011-12 to FY 2012-13 so is therefore not available for general purposes.

first time in several years highlighting a targeted economic improvement amidst a general dance around the bottom of the economic downturn.

Table 1. Year-To-Year Financing Source Comparison

Description	Final Budget* FY 2011-12	Proposed Budget FY 2012-13	% Change
General Fund Revenue	$ 332,007,289	$ 328,259,190	-1.1%
Public Safety Fund Revenue	128,283,804	132,728,659	3.5%
Road Fund Revenue	142,053,978	98,444,602	-30.7%
Other Operating Fund Revenue	26,352,773	30,259,539	14.8%
Capital Project Fund Revenue	68,972,300	57,368,657	-16.8%
Total Revenue:	697,670,144	647,060,647	-7.3%
Fund Balances & Cancelled Reserves	51,621,497	43,047,349	-16.6%
Total Financing Sources:	$ 749,291,641	$ 690,107,996	-7.9%

FY 2011-12 Final Budget as approved September 27, 2011 was $765.8 million. Above amounts reflect final enactment of the Governor's 2011 Realignment resulting in a March 27, 2012 technical accounting change for an effective FY 2011-12 budget of $749.3 million.

In FY 2012-13 departments submitted net budget requests $57.6 million above the recommended Proposed Budget. Department budget requests were evaluated by weighing the county's ongoing, critical program needs against its financial responsibility to limit continuing commitments as State reimbursements and other revenue sources remain in doubt. The difference between what county departments requested and what has been presented in the Proposed Budget reflects the common understanding countywide of the severe budget constraints the county is operating under, and is a testament to the continued cooperative efforts that have been so valuable during these challenging budget years.

Table 2. Year-To-Year Financing Uses Comparison

Description	Final Budget* FY 2011-12	Proposed Budget FY 2012-13	% Change
General Fund Expenditures	$ 359,188,479	$ 354,659,190	-1.3%
Public Safety Fund Expenditures	133,909,571	138,847,999	3.7%
Road Fund Expenditures	144,093,972	98,635,562	-31.5%
Other Operating Fund Expenditures	29,718,302	31,172,185	4.9%
Capital Project Fund Expenditures	74,648,702	66,193,060	-11.3%
Total Expenditures:	741,559,026	689,507,996	-7.0%
Provision to Reserves	7,732,615	600,000	-92.2%
Total Financing Uses:	$ 749,291,641	$ 690,107,996	-7.9%

FY 2011-12 Final Budget as approved September 27, 2011 was $765.8 million. Above amounts reflect final enactment of the Governor's 2011 Realignment resulting in a March 27, 2012 technical accounting change for an effective FY 2011-12 budget of $749.3 million.

The FY 2012-13 Proposed Budget is $59.2 million lower than FY 2011-12 due to timing of capital infrastructure projects as well as the Board's continued efforts to align costs with available resources to fund them. This has been accomplished in large part by holding growth in salaries and benefits nearly flat in the *General Fund*, and by cutting back where possible on services and supplies, fixed assets, and a number of other areas. As a service driven provider, salary and benefits costs remain the largest expenditure category in the county budget, representing $281.5 million (40.8%) of the $690.1 million budget.

The Proposed Budget includes 2,780 recommended employee position allocations, which is 29 more than the total number approved in the FY 2011-12 Final Budget including both Operating and Capital Projects Budgets. Increases are primarily in the Public Safety Fund related to the COPS Grant and public safety realignment. Additionally, as part of our continuing effort to reduce expenditures in this uncertain financial time, there are 376 fewer filled positions in the county since the recession began in Fall 2007, a 13.8% drop in staffing. At the same time, there have been very few layoffs – less than 1% compared to 3-10% throughout the region.

The Local Economy Continues to Face Difficult Hurdles

While there have been some signs of the economy slowly improving, there remain difficult economic times throughout the state, including right here in Placer County. The statewide April unemployment rate was 10.9% with Placer County faring much better at 9.6%. Although the County's unemployment rate remains substantially higher than four years ago, when it was 6%, the unemployment rate is nearly 1% lower than in March 2012 due to approximately 1,000 residents transitioning to employment. While the increase is largely due to seasonal employment, it reflects a marked improvement from April 2011 and indicates a long sought measure of improvement in the regional economy.

The decline in the real estate industry continues to take a toll on county revenues, and while it appears that the residential markets have flattened somewhat over the last several months, residential values remain well below pre-recession levels and are unlikely to return in the foreseeable future. In addition, commercial real estate continues to decline, reducing the estimated amount of property tax revenue anticipated for the coming fiscal year. As a result, staff estimates property tax revenues will decline 1.1% in the coming fiscal year.

FY 2012-13 State Budget Impact

As a legal subdivision of the State, Placer County is required to deliver state services, including public health, mental health and welfare, as well as countywide services such as public safety (jail, prosecution, probation) to all county residents. It also is required to provide municipal services to residents in the unincorporated area such as sheriff patrol, parks, planning, roads, and libraries.

The Governor's May Revision to the FY 2012-13 State Budget addresses a $15.7 billion deficit. As of this writing, much of the remaining State Budget problem is yet to be resolved. This includes a likely November 2012 initiative sponsored by the Governor that seeks to increase taxes to resolve half of the deficit. Given this scenario, it is likely that there will be additional State Budget impacts to the County. These may include further direct or indirect reductions to state mandated programs provided by the County.

Placer County Workforce

Placer County remains committed to providing quality services to its citizens despite constrained resources. With a hiring freeze in effect since 2007, the county's workforce has declined by 390 positions (15.4%). In addition, while the County is fortunate to have experienced, long term employees, the average age of the majority of the workforce is approximately 48 years and, as a result, workforce retirement eligibility is expected to grow substantially over the next several years. 71% of managers and 54% of Placer Public Employees Organization (PPEO) are eligible to retire within three years, requiring a vigilant focus on succession planning to maintain continuity of operations.

The costs to provide competitive employee salaries, as well as health, pension and other benefits are expected to grow over the next few years. Health and dental benefits continue well into an employee's retirement and the County's current liability related to these benefits is estimated at $195.8 million. In contrast to many cities and counties, Placer County has taken a number of proactive steps to fund the obligation including requiring half of the obligation to be funded up front for new hires effective beginning in FY 2010-11. This and other actions by the Board have resulted in decreasing this obligation by $20 million from what it would have otherwise been based on the most recent actuarial report at the very time it is growing significantly in other local agencies. As reflected in the FY 2010-11 Comprehensive Annual Financial Report (CAFR), the Board has funded 37.5% of the obligation. The FY 2012-13 Proposed Budget continues appropriately funding these costs to ensure long term manageability for the County.

Placer County has two collective bargaining organizations that represent county employees: Placer Public Employees Organization (PPEO) and the Placer County Deputy Sheriffs Association (PC-DSA). The PPEO represents approximately 1,644 active employees in clerical, professional, industrial and probation officer classifications. The PCDSA represents approximately 214 employees including sheriff deputies, district attorney investigators and welfare fraud investigators. Sworn personnel salaries are governed by a ballot measure approved by voters in 1978 that requires salaries be tied to an average of similar classes in Sacramento, Nevada, and El Dorado Counties (Measure F).

Capital Infrastructure

Strategic efforts by the Board have positioned the county to replace its aging infrastructure and plan for program and service delivery growth. As part of a long-term, ongoing facility planning effort, the Board established funding mechanisms to address identification of capital infrastructure needs, including the provision of General Fund reserves, Capital Facility Impact Fees (CFIF) (assessed on new development that occurs within cities and the unincorporated portion of the County), Securitized Master Settlement Agreement Revenue (tobacco securitization revenues issued in 2002 and 2006) as well as bond potential and community financial support. These measures are intended to address the significant facility needs the county will face in coming years, and in some instances, such as the CFIF (implemented in 1997), will need to be updated to keep pace with facility needs in the future.

The FY 2012-13 Capital Project Budget is $66.2 million, representing a decrease of $8.5 million or 11.3% compared to the FY 2011-12 adopted Final Budget. Construction projects are supported by $57.4 million in revenues and $8.8 million of fund balance carryover. The year-to-year budget decrease reflects the wind down of the South Placer Adult Correctional Facility project, as well as completion of other large projects such as the Rocklin Library. Projects funded in the Proposed Budget include the remaining South Placer Adult Correctional Facility project, Applegate Sewer Improvements, the Burton Creek Justice Center, and Dry Creek Park. New General Fund support of $1.0 million is added in the Proposed Budget for the Comprehensive Facility Master Plan.

Conclusion

Due to the many proactive decisions of the Board, Placer County remains fiscally healthy relative to the sustained economic downturn. The Proposed Budget resolves our locally driven challenges in addition to preparing to the greatest degree possible for the unknown impacts related to the State Budget.

As we present the FY 2012-13 Proposed Budget to your Board, there are mixed reports of economic recovery in the state and nation. Sales taxes, a relatively small revenue source for the county, appear to be improving. However, county revenues have yet to feel the effects in a meaningful way particularly given the continued downward trend of Property Tax revenues. General Fund revenues are projected to be down year-over-year by $3.7 million, and it is still unclear what the shape of the recovery will be as it emerges. What is clear is that the county should continue to prepare for a future that provides services under a nimble delivery model that can provide a high level of service to our residents with fewer staff and less resources.

Over the past several years, by working together in a collaborative fashion, many departments have reduced costs and constrained budgets. However, beyond reducing the budget and constraining costs, our service delivery model will also require change, and without it our costs of doing business will rise beyond available revenues. The Board has continued to recognize this economic necessity and has directed staff to identify available options for reprioritization and flexibility to best position the county to respond to the changing economy as well as Federal and State impacts. This includes development of the multi-year budget strategy following the March 27, 2012 discussion with the Board. This strategy will be presented for Board consideration in the near future and is intended to strengthen the County’s fiscal footing while strategically meeting short-term and long-term priorities of the Board.

The staff and I look forward to working with the Board as we refine the Proposed Budget and develop a Final Budget for Board consideration in September.

Respectfully submitted,

Holly L. Heinzen,
Interim County Executive Officer