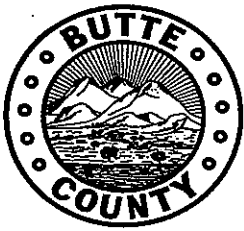


# **BUDGET MESSAGE**



# BUTTE COUNTY ADMINISTRATION


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GREGORY G. ITURRIA  
Interim Chief Administrative Officer

April 24, 2009

To: Butte County Board of Supervisors  
From: Gregory G. Iturria, Interim Chief Administrative Officer   
RE: Proposed Budget for the 2009-10 Fiscal Year

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Attached for consideration by the Board of Supervisors is the Butte County Proposed Budget for fiscal year 2009-2010. Budget hearings have been scheduled to begin on May 18<sup>th</sup>, which will allow the Board to consider and adopt the final budget by July 1, 2009. This proposed budget serves as the basis for those hearings.

## BACKGROUND

The worst financial and economic crisis since the Great Depression is having a profound impact on the United States and the State of California. Since the current recession began in December 2007, 5.1 million jobs have been lost in the United States. Almost two-thirds of those job losses (3.3 million) occurred in just the last 5 months. In March, the unemployment rate in the United States was 8.5%. In California, the unemployment figures fared even worse. At 11.2%, California's unemployment rate in April was at its highest since officials began keeping systematic records in 1976. California has lost 637,400 jobs over the past 12 months. In contrast to previous downturns where few industries shed jobs in California, the current recession is affecting nearly all industries.

By January 2009, the State of California was facing a \$42 billion budget deficit over the following 18 months as a result of precipitous revenue reductions and its inability to deal with on-going fixed costs. After much rancor, the Legislature balanced the State budget through a combination of tax increases, spending cuts, internal borrowing, one-time fixes, and reliance on voters passing a series of ballot measures in a special election to be held May 19, 2009. Within weeks of passing the budget, the State budget deficit grew by another \$8 billion. Moreover, if the series of ballot measures designed to deal with the State budget deficit does not pass in the statewide special election on May 19<sup>th</sup>, the State's budget deficit may climb to \$15 billion.

The State's ballooning budget deficit does not bode well for Butte County since the State has historically looked to local governments to solve its budget problem. For years, the State has taken local resources, especially property taxes, to balance its budget. Additionally, the State has failed to provide adequate funding for mandate services provided by the County. While the passage of Proposition 1A in November 2004 gave some protection to local governments, Butte

County still faces the possibility of additional cuts to revenues from the State and increasing costs to provide mandated services.

Nonetheless, Butte County has and will continue to adopt a responsible and balanced budget. When the County was preparing the fiscal year 2008-2009 Proposed Budget in the spring of 2008, Administration staff anticipated a slowdown in the economy. In fact, the General Fund for fiscal year 2008-2009 was proposed at 0.92% lower than the previous fiscal year. For all County funds, it was 1.18% lower than the previous year. In the 2008-09 Proposed Budget, 4% of the County workforce was reduced, going from 2,300 allocated positions to 2,207. While a slowdown in the economy was anticipated, no one could foresee the magnitude of the collapse of the financial markets that would take place in the fall of 2008 and the subsequent decline in the economy.

At the conclusion of the first quarter of fiscal year 2008-2009, the Administrative Office conducted a financial analysis to gauge the impacts of the economic slowdown on Butte County. The analysis showed that actual revenues were significantly lower than budgeted figures, and the County was facing a \$10 million structural budget deficit. Based on this analysis, the Board approved approximately \$4 million in Required Expenditure Savings from all County departments and approximately \$6 million in one-time solutions. The Board also eliminated 41.2 positions and directed staff to review all hiring requests effective December 2008.

A second financial analysis at the end of the second quarter of fiscal year 2008-2009 showed that revenues had decreased even further. The structural deficit was then projected to be \$18 million. Staff presented the findings to the Board on February 10, 2009. On March 3, 2009, the Board approved additional measures to address the deteriorating financial condition by eliminating 43.75 vacant positions and reducing many contracted services.

The budgetary problems continued to worsen, and the estimated structural budget deficit grew to \$19.1 million by the end of February 2009. On March 24, 2009, the Board approved the elimination of 42.3 filled positions as well as reducing the annual contract with CalFire by \$2.5 million.

The economic slowdown and collapse of the financial markets has impacted the County budget and cash flow in unprecedented ways. The budget is a financial plan based on estimated revenues and expenditures for the fiscal year, while cash refers to what is actually in the County treasury on any given day. As an organization, County expenses are relatively evenly spread out through the year, but revenues are received unevenly throughout the year. As ongoing payments are made, there needs to be sufficient cash in the treasury to pay the bills. The tool used by the County to manage cash flow is a Tax Revenue Anticipation Note (TRAN). The County borrows money at the beginning of a fiscal year to make the ongoing payments, and upon receiving property tax installments, the note is repaid. The TRAN is crucial for Butte County. Without it, the County would not be solvent. The current state of the financial markets, however, has significantly lowered the market demand for TRANs, which makes them more difficult to obtain than in previous years. Financial institutions are requiring TRAN issuers to be in an exceptional financial position with a sound management plan and a top bond rating. Complicating this

picture is that the State has its own cash flow challenges. Unfortunately, the State has increasingly pushed this problem on to counties by requiring certain services be provided, but withholding payment for those services. This has had the effect of periodically draining cash from the County treasury, which requires careful cash management through the year.

As stated earlier, obtaining a TRAN is critical to the County. Given the rigorous requirements of the financial markets, this proposed budget balances the use of one-time funding, including lower contingency funding than in years past, with the need to demonstrate a solid financial position and a sound management plan to maximize the likelihood of obtaining this crucial cash flow loan.

## PROPOSED BUDGET SUMMARY

The fiscal year 2009-2010 Proposed Budget recommends appropriations of \$381,575,383 for all funds, which is a decline of 8.29% compared to the fiscal year 2008-09 Adopted Budget. Table 1 below summarizes the Proposed Budget by fund.

Table 1  
Proposed Budget for Butte County  
Fiscal Year 2009-2010 - All Funds

<u>Fund</u>	<u>Adopted 2008-2009</u>	<u>Proposed 2009-2010</u>	<u>Percent Change</u>
General	127,325,845	112,584,429	-11.58%
Welfare	141,395,489	142,528,765	0.80%
Public Health	25,928,398	26,021,484	0.36%
Behavioral Health	46,821,716	50,335,399	7.50%
Child Support Services	8,894,072	8,862,564	-0.35%
Road Operations	22,192,672	15,716,640	-29.18%
Debt Service	4,054,126	4,054,126	0.00%
Capital Projects	11,657,370	1,578,079	-86.46%
Equipment Replacement	601,364	11,469	-98.09%
ISF Equipment Replacement	737,936	4,049	-99.45%
State COPS Program	943,106	728,234	-22.78%
Water Services	2,075,461	1,470,512	-29.15%
Library	3,098,270	1,533,576	-50.50%
Fish & Game	52,737	96,046	82.12%
Other Countywide Funds	20,283,051	16,050,011	-20.87%
<b>TOTAL</b>	<b>416,061,613</b>	<b>381,575,383</b>	<b>-8.29%</b>

The recommended budget for the General Fund is \$112,584,429, which is a decline of 11.58% compared to the fiscal year 2008-2009 Adopted Budget. The reduction is primarily the result of lower discretionary revenues and available fund balance. While local revenues such as property tax and sales tax are down slightly, revenues based on a statewide economy such as Proposition 172 public safety sales tax are down significantly. Moreover, the fund balance available in the General Fund on July 1, 2009 is anticipated to be significantly lower than in previous years. As recently as fiscal year 2007-2008, the beginning fund balance was \$17 million. For fiscal year 2009-2010, this figure is estimated to be \$1.7 million. This is an increase of \$500,000 from the estimate in March 2009 based on the series of decisions the Board took to begin balancing the budget.

The recommended budget for the Welfare Fund is \$142,528,765. This is an increase of 0.80% compared to the fiscal year 2008-2009 Adopted Budget. The increase is primarily the result of higher costs for providing mandated services such as In-Home Supportive Services, adoption assistance and services to severely emotionally disturbed children. The recommendation includes a realignment transfer from the Public Health Fund of \$2,421,421 and a realignment transfer from the Behavioral Health Fund of \$674,282. These transfers lower the General Fund transfer to Welfare Fund to \$1,402,039.

The recommended budget for the Public Health Fund is \$26,021,484. This is an increase of 0.36% compared to the fiscal year 2008-2009 Adopted Budget. The increase is the result of an accounting change that now shows the realignment transfer to the Welfare Fund as a transfer in the Public Health's operating budget. In prior years, realignment transfers were not included in the operating budget. This change in accounting practices increases the Public Health budget by \$2,421,421. The recommended operating budget for Public Health, excluding the \$2,421,421 realignment transfer, decreases the budget by \$2,328,335 compared to the fiscal year 2008-2009 Adopted Budget.

The recommended budget for the Behavioral Health Fund is \$50,335,399. This is an increase of 7.50 % compared to the fiscal year 2008-2009 Adopted Budget. The increase is primarily the result of higher Mental Health Services Act revenue (over \$4 million) along with an accounting change that now shows the realignment transfer to the Welfare Fund as a transfer in the Behavioral Health's operating budget. In prior years, realignment transfers were not included in the operating budget. The recommended operating budget for Behavioral Health, excluding the \$674,282 realignment transfer, increases the budget by \$2,839,401 compared to the fiscal year 2008-2009 Adopted Budget.

The recommended budget for the Child Support Services Fund is \$8,862,564. This is a decrease of 0.35% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is the result of reduction in a state allocation for data processing. This fund is entirely supported by federal and state revenues.

The recommended budget for the Road Fund is \$15,716,640. This is a decrease of 29.18% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is due to fewer and smaller capital projects going to construction this year.

The recommended budget for the Debt Service Fund is \$4,054,126, which is same compared to the fiscal year 2008-2009 Adopted Budget.

The recommended budget for the Capital Projects Fund is \$1,578,079. This is a decrease of 86.46% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is primarily the result of lower discretionary revenues available to take on major capital projects.

The recommended budget for the Equipment Replacement Fund is \$11,469. This is a decrease of 98.09% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is the result of the recommendation to not replace vehicles for fiscal year 2009-2010.

The recommended budget for the ISF Equipment Replacement Fund is \$4,049. This is a decrease of 99.45% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is the result of the recommendation to not replace equipment for fiscal year 2009-2010.

The recommended budget for the State COPS Program Fund is \$728,234. This is a decrease of 22.78% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is the result of lower allocations for COPS program for local governments.

The recommended budget for the Water Services Fund is \$1,470,512. This is a decrease of 29.15% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is primarily the result of lower grant revenues.

The recommended budget for the Library Fund is \$1,533,576. This is a decrease of 50.50% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is the result of a reduction of General Fund contribution to the Library Fund of \$998,407 and a reduction in restricted revenues of \$603,410. The revenue decrease is due to a projected loss of State revenues, contributions from the City of Chico, fines, fees, and donations. Some of these revenue assumptions may need to be reviewed as cities consider supplemental funding.

The recommended budget for the Fish and Game Fund is \$96,046. This is an increase of 82.12% compared to the fiscal year 2008-2009 Adopted Budget. The increase is primarily the result of the Fish and Game Commission choosing to provide additional funding for California Department of Fish and Game operations from restricted revenues.

The recommended budget for other County funds is \$16,050,011. This is a decrease of 20.87% compared to the fiscal year 2008-2009 Adopted Budget. The decrease is primarily the result of lower General Fund contribution to the Fire Fund and lower revenues for other various funds.

The Proposed Budget recommends the elimination of 92.75 positions and the addition of 31.2 positions resulting in the net loss of 61.55 positions. This brings a total County allocation to 2,002.25, which is nearly 300 fewer positions than May 6, 2008. The Proposed Budget recommends General Fund Appropriation for Contingencies at \$4.5 million. This is \$1 million lower than the amount recommended in the fiscal year 2008-2009 budget and is the minimum

amount necessary for cash flow purposes, for a viable TRAN application, and to deal with any unforeseen costs and emergencies.

The Proposed Budget includes the use of the following one-time resources to avoid further cuts in services and programs:

- Federal Stimulus Funding – One-time General Fund savings of \$1.5 million related to a temporary change (through December 2010) in the federal sharing ratio for Medi-Cal services.
- Space Use Allowance – One-time General Fund savings of \$500,000 by not collecting the Space Use Allowance from County departments and deferring facility improvements.
- Equipment Replacement Fund – One-time General Fund savings of \$1.2 million by deferring payments to the Equipment Replacement Fund and further delaying replacement of emergency response vehicles.
- Workers' Compensation Premiums – One-time General Fund savings of \$660,000. The reduction in workers' compensation premiums is possible due to better than anticipated claims experience.
- Community Cost Share – One-time General Fund savings of \$450,000 by using funds in the Community Cost Share restricted cash account to support the Fire budget including support for the volunteers program.
- Deferred Purchases – Substantial reductions to planned purchases of supplies, protective clothing, professional training, equipment maintenance and software updates are made throughout department budgets. This cannot be sustained beyond the next fiscal year.

## **PROGRAM/SERVICE IMPACTS**

Virtually all County programs and services are negatively impacted by the Proposed Budget. Some service reductions will be felt directly by the public while others will be less visible. The following highlights some examples of negative impacts of the Proposed Budget:

**Agriculture** – The reduction in extra help hours will affect the Detection Trapping Program. In order to maintain this program and preserve local agricultural exportation, existing staff from other programs will be diverted to the Detection Trapping Program. These staffing constraints will reduce office hours in the Chico field office to only be open in the afternoon from 2:00 to 4:00 pm.

**Assessor** – The reduction of several positions in the Assessors office will result in longer time needed to complete the annual tax roll. This may result in an increase in roll corrections, which may, in turn, affect the preparation of the following year's tax roll. As a result of staff spending more time on tax roll and roll corrections, appeal hearings are anticipated to take longer than usual.

**District Attorney** – The reduction in prosecution, investigative, and support staff may result in delays in some cases.

**General Services** – The Veteran’s Services Office will be open only four days a week. Additionally, there will be a reduction of maintenance and janitorial services to County buildings.

**Farm, Home & 4H** – The elimination of one clerical position in the Farm, Home & 4H office (out of existing three), along with reductions in extra help will result in reduced office hours, going from 7:30 am-5:00 pm, open during the lunch hour, to 8:00-5:00 and closed from 12:00-1:00.

**Fire** – The reduction in contract services with CalFire will result in the closure of up to two County fire stations per day, referred to as a rolling brownout. The impact of such reductions is an increase in the response time for County fire engines to respond to emergencies. In addition, non-station staffing reductions, most of which are qualified first responders who respond to emergencies on top of their support role to station staff, will lead to a decrease in fire and emergency prevention activities, longer turnaround for various required inspections, and a decrease in the department's capacity for any training beyond mandated requirements.

**Library** – Branches in Chico, Paradise, Oroville and Gridley will be open two days per week for 6 hours per day, while the Durham and Biggs branches will be open one day per week for 6 hours. In addition to a reduction in service hours, the following services will be discontinued: summer reading program for children; online hold requests; inter-branch delivery; literacy coach; bookmobile; books by mail; reference desk; and children’s area staffing. Several services will be reduced as follows: one story time per branch per week; community meeting rooms will be closed when the library is closed; online databases cancelled; purchase of new books, magazines, and newspapers limited to donated material.

**Probation** – A pod in the Juvenile Hall, which has the capacity to house 20 juveniles, will close. This will reduce the capacity in the Juvenile Hall to 40, which will effectively end the ability to properly classify juveniles into appropriate levels.

**Sheriff** – The Delta Wing of the Jail, with the capacity to house approximately 240 inmates, was originally recommended to close in the Proposed Budget. However, while the Proposed Budget was being finalized, the Sheriff negotiated a 3-year contract with the Federal Marshal’s Office to temporarily house federal inmates who are awaiting trial, sentenced but waiting to be transported to a federal penitentiary, and criminal aliens waiting for deportation hearings. The Board approved this contract at its April 21, 2009 meeting. At the budget hearings, Administration staff will recommend restoring 18 jail staff and will allow the Delta Wing of the Jail to remain open.

**Water** – The revenue from the Proposition 50 funding has been frozen due to the State's cash flow problems. If the Proposition 50 funding is not received by September 30, 2009, it is recommended that the Department be eliminated and the remaining 2.5 positions be transferred to the Agriculture Department to continue local water activities.

## FISCAL FORECAST

The fiscal year 2009-2010 Proposed Budget provides a responsible and balanced spending plan for the next fiscal year. However, the recommended budget is not structurally balanced due to the use of one-time solutions described earlier in this transmittal. This means that the budget recommends more on-going expenditures than on-going revenues.

On one hand, the use of one-time solutions prevents further service and program cuts. On the other hand, it will have ramifications several years out. Therefore, it is prudent to view such financial decisions in a long-range perspective.

Table 2 below provides a summary analysis of the recommendations contained in the fiscal year 2009-2010 Proposed Budget and forecasts potential fiscal impacts those recommendations may have on Butte County over the next five (5) years. Butte County still faces the possibility of additional cuts to state revenues and increasing costs to provide State mandated programs, but the forecast assumes the State will address its budget deficit without further impacting the County budget. The forecast also assumes the current recession will ease by the end of 2009, and the County's revenues will start to gradually recover starting in 2010.

Table 2  
Five-Year Fiscal Forecast  
Through Fiscal Year 2013-2014  
General Fund Only

GENERAL FUND	Proposed Budget 2009/10	Forecasted Budget 2010/11	Forecasted Budget 2011/12	Forecasted Budget 2012/13	Forecasted Budget 2013/14
<b>ESTIMATED DEMAND:</b>					
Appropriation for Employee Compensation	65,652,954	65,926,202	69,577,854	69,986,087	70,470,135
Appropriation for Other Expenditures	46,931,475	52,083,538	54,192,741	54,367,322	54,904,641
Restricted Revenue	<u>35,250,880</u>	<u>34,641,610</u>	<u>35,159,355</u>	<u>36,075,057</u>	<u>37,041,597</u>
<b>Net - Demand For Resources</b>	<b>77,333,549</b>	<b>83,368,130</b>	<b>88,611,240</b>	<b>88,278,353</b>	<b>88,333,179</b>
<b>ESTIMATED RESOURCES:</b>					
General Fund Carryover From PY*	1,698,643	5,000,000	5,500,000	6,000,000	6,500,000
Property Taxes	46,360,342	46,360,342	46,592,144	47,058,066	47,763,937
Sales Taxes	14,632,582	14,778,908	15,000,591	15,300,603	15,683,118
Other Discretionary Revenues	<u>14,641,982</u>	<u>14,829,294</u>	<u>15,044,161</u>	<u>15,285,669</u>	<u>15,553,520</u>
<b>Net - Available Resources</b>	<b>77,333,549</b>	<b>80,968,545</b>	<b>82,136,897</b>	<b>83,644,338</b>	<b>85,500,575</b>
<b>Budget Surplus / (Deficit) at Year End</b>	<b>\$0</b>	<b>(\$2,399,585)</b>	<b>(\$6,474,344)</b>	<b>(\$4,634,015)</b>	<b>(\$2,832,604)</b>

\* Includes unexpended Contingency appropriations from prior year (PY).

Projected expenditures for future years do not include cost of living adjustments to salaries and do not consider potential savings through bargaining unit concessions. Projected expenditures assume that the County's share of health insurance costs will remain fixed at current contribution levels and anticipate a significant increase to Butte County's CalPERS retirement contribution rates.

Forecasts are not precise predictions of the future. Rather, they are indicators of trends and demonstrate a likely scenario based on current information and current assumptions. The financial forecast, though, enables the Board of Supervisors to make short-term decisions with a long-term perspective.

## **FUTURE OULOOK**

The fiscal year 2009-10 Proposed Budget is primarily balanced with reductions to ongoing expenses, but it also relies on several one-time solutions that do not address the structural budget deficit completely. The use of one-time solutions will buy time needed to work with County employees to find new ways to save payroll costs. The budget is also balanced with an optimistic assumption that the State of California will solve its budget shortfall without negatively impacting the County further. In addition, the budget also assumes a gradual economic recovery will commence toward the end of 2009.

If these assumptions hold true, the recommended budget will stay balanced through June 2010. If not, the Board will need to explore additional measures during the coming fiscal year. No matter what happens in fiscal year 2009-10, the subsequent years will present challenges.

It is also important to keep in mind that some of the one-time funds used to balance the budget create impacts that need to be acknowledged. By not collecting the Space Use Allowance from County departments and deferring facility improvements, the County postpones facilities plans. Many departments currently have inadequate space to allow them to maximize efficiency. The use of facility funds to balance the Proposed Budget will require these departments to remain in their current locations for longer than anticipated. Additionally, by extending the time in current facilities, the County may incur additional infrastructure costs, as current facilities age and may require costly repairs. The deferral of payments into the Equipment Replacement Fund will necessitate that law enforcement and emergency vehicles be kept in service for an additional year.

As of this writing, the County is still negotiating with employee bargaining groups to reduce payroll costs. A variety of ideas are being explored that can lead to significant ongoing cost savings. It is possible that the recommendations in the Proposed Budget plus the implementation of payroll cost saving measures can fully address the structural budget deficit. In other words, the County may be able to get to the point where ongoing expenditures are in line with ongoing revenues.

Butte County may face another significant budgetary challenge beginning July 1, 2011. That fiscal year is particularly daunting because CalPERS investments have sustained steep losses in this recession, and this will likely have great impact to the County's contribution to the CalPERS

retirement plan. CalPERS has reported that it intends to tap California public employers for more money if its heavy investment losses do not reverse. Its assets have declined by more than 20%, or at least \$48 billion since the end of June 2008. CalPERS is funded by contributions from employees and employers. In Butte County, as well as most public agencies in California, the employer pays a fixed employee share. The employer's share varies based on investment returns by CalPERS and employee demographics. Unless its investment returns improve, CalPERS will increase the employer share by an additional 4% starting in July 2011.

## **RECOMMENDATION**

The Proposed Budget provides Butte County with a prudent spending plan, balanced with the resources available to the County and provides the foundation to conduct hearings as required by California law. It is recommended that the Board of Supervisors accept this Proposed Budget as the basis for budget hearings, which have been scheduled to begin on Monday, May 18, 2009, and under California law, can last no longer than ten (10) days. Subsequent to those hearings, the Board of Supervisors may adopt a budget that is smaller, but no larger, than the accountings made at the conclusion of the hearings.