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DATE: March 4, 2010
TO: Butte County Board of Supervisors
FROM: Scott Tandy, Interim Chief Administrative Officer
RE: Options of Potential Cuts to Restore Public Safety Funding

OVERVIEW

On December 14, 2009, the Board of Supervisors directed the Chief Administrative Officer to provide a comprehensive financial report in March 2010 including options of reducing funding to other departments in order to restore funding to public safety. This report focuses on the Board's direction to explore options to restore funding for public safety; the midyear financial report for fiscal year 2009-10 is presented as a separate report.

RECOMMENDATION

After reviewing various options with both administrative staff and department heads, being mindful that the County's budget is still delicately balanced, and facing the fact that the County is just barely living within its means, I do not recommend further funding cuts at this time to any department in order to restore public safety funding.

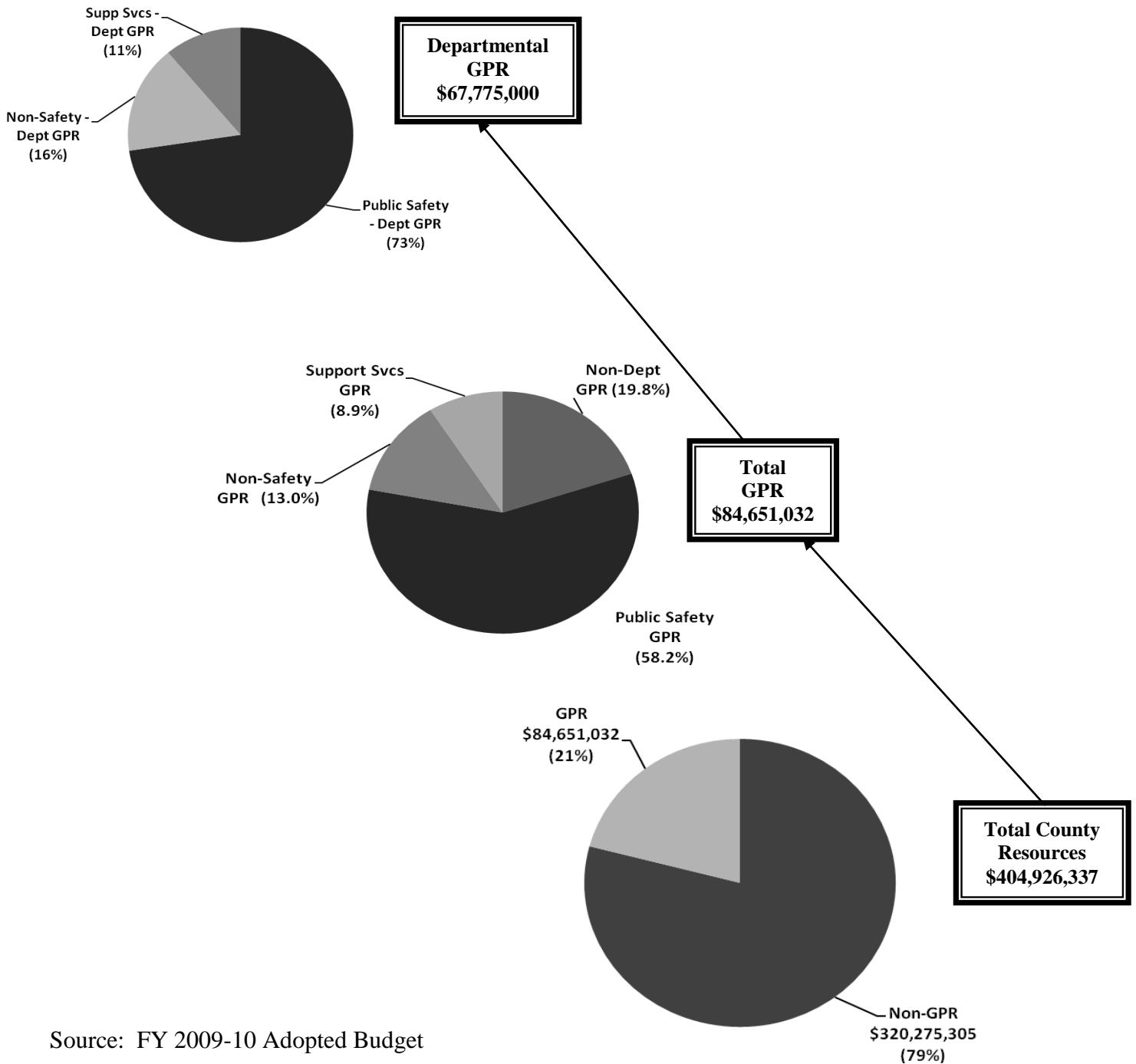
Additional cuts to non-public safety departments, beyond those made in fiscal year 2009-10, will reduce outside revenues; may take the County out of compliance with the law; may present unacceptable reductions to public services; and will increase risks to the County.

In addition, there are a number of forces that are out of the County's control – the economy, the financial markets, and the State budget, to name a few – that have the potential to negatively impact Butte County's financial position. We must be very cautious and strategic as we move forward and make budgetary decisions.

GENERAL PURPOSE REVENUE (GPR) AS PART OF THE COUNTY BUDGET

For perspective, one must look at how the wide range of County services are funded; what portion of that funding is general purpose revenue (property tax, sales tax, interest earnings, etc.); and how that discretionary revenue is currently allocated. Chart 1 below provides that information based upon the fiscal year 2009-10 Adopted Budget.

Chart 1
Funding of County Services and Approximate Use of General Purpose Revenue (GPR)



Source: FY 2009-10 Adopted Budget

The largest portion of the County’s budget, approximately 79%, is funded primarily by restricted revenue from state and federal governments. General purpose revenue funds the other 21% of the County budget.

Of the portion funded by GPR, resources are allocated as follows:

- Public Safety departments (Sheriff, District Attorney, Fire and Probation) 58%
- Non-Departmental purposes. 20%

Some of the non-departmental purposes are required such as debt service payments, the County’s Tax and Revenue Anticipation Note (TRAN) costs, Public Defender costs, LAFCo costs, the County’s obligations to pay for a portion of State Court operations, maintenance of effort costs for state programs and Grand Jury expenses. The Board of Supervisors has little to no discretion over these costs.

The Board does have discretion within these non-departmental allocations regarding the amounts set aside for Appropriations for Contingencies, Capital Projects, and Equipment Replacement.

- Non-Public Safety such as Agriculture, Development Services, Assessor, and Library. 13%
- Support Service departments, including Administration, Auditor/ Controller, County Counsel, Human Resources, General Services, Information Systems and Treasurer/Tax Collector. 9%

If you remove the funds allocated for non-departmental purposes (20%) and look only at all departments (public safety, non-public safety, support services), the portion of GPR allocated to public safety rises from 58% of all discretionary revenue to 73% of departmental discretionary revenue.

RECENT BUDGET ACTIONS

Since December 2008, the Board of Supervisors has made many difficult decisions to balance the budget as the national, state, and local economies continued to deteriorate. A summary of recent budget actions are summarized below:

- December 16, 2008 – cut \$10 million to County departments including \$4 million of required expenditure savings from all departments and \$6 million of one-time solutions. A total of 41 positions were eliminated.
- March 3, 2009 – Eliminated 44 vacant positions.

- March 24, 2009 – Eliminated 42 positions primarily through layoffs, though many of the laid off employees were able to be transferred to funded positions elsewhere in the County organization
- May 18, 2009 – The fiscal year 2009-10 Proposed Budget recommended eliminating 63 positions and an 11.6% reduction in the General Fund from the previous fiscal year. Only a new contract secured by the Sheriff’s Office with the Federal Marshal’s Office to house federal inmates in the County jail, as well as new grants and fee increases, allowed the County to save 53 of the positions in the Final Budget that was adopted on June 9, 2009.

The amount of general purpose revenue reduced in public safety departments from fiscal year 2008-09 to 2009-10 totaled approximately \$12 million. Of that total, \$1 million was reduced from the District Attorney’s budget, \$4.2 million from the Fire Department, \$1.8 million from Probation, and \$5 million from the Sheriff’s Office. The reduction in the Sheriff’s Office did not result in an equal reduction in services, due to the new \$3 million contract with the U.S. Marshal’s Office, and the Fire Department was able to use almost \$1 million in one-time revenue to lessen the service impacts in its budget.

OPTIONS FOR FURTHER REDUCTIONS

During the fiscal year 2009-10 budget process, a number of options were considered by my office to balance the budget, including the cost and impact of the proposed reduction weighed against the benefit of the savings. A complete list of options is shown in Attachment A, with some prominent examples shown below.

- **Eliminating backfill of the Property Tax Administration Program (PTAP) in the Assessor’s Office (\$350,000).** This would require eliminating up to seven (7) positions in the Assessor’s Office, leaving the department unable to complete the tax roll and, dependent upon estimates, property tax revenue would decrease and the loss of general purpose revenue would be much greater than any savings. In addition, the department would lose state subventions for non-compliance with state accuracy requirements. This option is not cost effective; the County could lose up to \$2 million in revenue leading to a net loss of \$1.65 million. *The GPR allocated to the Assessor’s Office was already reduced by 27% in the fiscal year 2009-10 Adopted Budget.*
- **Reducing or eliminating funding for the General Plan 2030 process (up to \$500,000).** This reduction would increase risk to the County and approved development projects. The current inconsistencies between the County’s General Plan and Zoning Code increases the amount of staff time, outside attorney time, and other resources necessary to process land use projects, and ultimately costs the County more than it would save in one-time resources. This option would provide one-time savings up to \$500,000, but would very likely lead to greater expenses related to addressing future concerns of the County’s General Plan. *The GPR allocated to the Department of Development Services was already reduced by 37% in the fiscal year 2009-10 Adopted Budget.*

- **Reducing the number of Library branches from six to three (\$245,000).** This proposal also includes reducing service hours in Oroville, Paradise, and Chico to 25 hours per week. Because such a reduction would result in a decrease in locally generated revenue from fines, fees, and donations, the net savings associated with this option would likely be under \$200,000. *The GPR allocated to the Libraries was already reduced by 25% in the fiscal year 2009-10 Adopted Budget.*
- **Eliminating the County's contract with its federal lobbyist (\$120,000).** The contract produces many times its cost for projects that benefit County residents. This past year, over \$3 million was obtained through this contract to support the Drug Endangered Children (DEC) Program, the Literacy is for Everyone (LIFE) Program and the widening project for Forest Highway 171. *The operating costs for the Administration Department were already reduced by 23% in the fiscal year 2009-10 Adopted Budget.*
- **Eliminating jobs in the Central Collections unit of the Treasurer/Tax Collector's Office (180,000).** This is not a cost effective option, since the savings of approximately \$180,000 of general purpose revenue would lead to a net loss of approximately \$820,000 from a decrease in the ability to collect funds owed to the County. *The operating costs for the Treasurer/Tax Collector's Office were already reduced by 5% in the fiscal year 2009-10 Adopted Budget.*
- **Further reducing Support Service Departments (various savings).** Additional reductions in support services departments are problematic for three reasons. 1) All County departments use and rely on already lean support service departments for legal services, personnel services, accounting, finance, and safety and risk management, to name a few; 2) Support service departments provide direct services to County residents and other agencies outside of the County organization; and 3) Since many of the functions of the support service departments are allocated to revenue sources other than the General Fund, the reduction of \$1 in expenses does not save \$1 in discretionary revenue, and some of the support service departments also generate revenue through programs they administer.

The Board reduced funding for support service departments over the past year, just as it did for other County departments. *Reductions in operating costs for support service departments in the fiscal year 2009-10 Adopted Budget included: General Service (25%), County Counsel (17%), Administration (23%), Auditor/Controller (8%), Treasurer/Tax Collector (5%) and Information Systems (23%).*

CONCLUSION

Further cuts are not recommended at this time because they would: 1) reduce revenues; 2) subject the County to being out of compliance with the law; 3) dismantle an already lean organizational structure; and 4) present unacceptable reductions to public services in proportion to the amount saved.

Given the priority of public safety to the Board of Supervisors and its importance to the residents of Butte County, my recommendation does not come easy. If fiscal projections translate to a sustainable increase in County revenues next year, public safety would be the first priority for restoration. However, from everything I have observed, the national, state, and local economies are at best in mild recovery and many experts are beginning to discuss the possibility of a “double-dip” putting the economy fully back into recession. Examples of an uncertain future are shown below:

- The federal debt continues to rise to unsustainable levels.
- The State has not addressed its huge \$19.9 billion structural gap that will not only impact Butte County but schools and all other local governments too.
- The State is struggling with cash flow problems, which ultimately create cash flow problems in local government. The financial markets are tighter than ever, which threatens Butte County’s ability to obtain a short-term Tax and Revenue Anticipation Note (TRAN). A TRAN is necessary to pay the County’s bills through the summer and fall until property taxes are received in December. Credit markets will be looking closely at the County’s overall fiscal management, including available carryover in fund balance, as they decide whether or not to provide the County with a short-term cash flow loan this summer.
- The stock market remains volatile, which has implications on the County’s costs for pensions through CalPERS.
- Stability in the housing and commercial property markets remains uncertain. Since property taxes are the primary source of general purpose revenue, any further deterioration in either market has severe implications for the County’s discretionary funding.

The Board of Supervisors has made it crystal clear that public safety sits on the top in terms of County spending priorities. As we prepare the Proposed Budget for fiscal year 2010-11 that priority will be forefront in our recommendations. It is important, however, to recognize that public safety already uses over 70% of the County’s departmental discretionary revenues. That leaves little room to cut other services and non-safety departments, which the public expects, and still comply with state mandates, deal with mandated cost increases, and avoid unacceptable risks.