
COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 20, 2010
TO: Board of Supervisors
FROM: Michael D. Johnson, County Administrator
SUBJECT: FY2010/11 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m., June 28, 2010, and approve an Adopted Budget at the conclusion of the Hearings.

Included in the budget message are the following budget-related sections: 1) Budget Overview, 2) Financial Summary, 3) State Budget Impacts; 4) Five-Year Fiscal Forecast; 5) Reduction Efforts During FY2009/10; and 6) Permanent Position Summary.

Budget Overview

The Recommended Budget totals \$785,840,926. This amount represents a decrease of (\$63,949,067), or (7.5%), when compared to the FY2009/10 Adopted Budget. This also represents a cumulative reduction of (\$232,850,010), or (23%) from the FY2007/08 Adopted Budget. The Recommended Budget includes the following changes:

- General Fund totals \$228.1 million, a decrease of (\$15.1 million), or (6%);
- Public Safety Fund totals \$139.6 million, a decrease of (\$13.9 million), or (9%);
- Health and Social Services Fund contains \$266.9 million, a decrease of (\$1.3 million), or (0.5%);
- Special Revenue Funds consists of \$117.6 million, a decrease of (\$26.8 million), or (18.6%);
- Capital Project Funds includes \$14.6 million, a decrease of (\$1.6 million), or (9.8%); and
- Debt Service Funds total \$18.7 million, a decrease of (\$5 million), or (21%).

The Recommended Budget is financed by \$64.6 million in Fund Balance, of which \$40 million is from the General Fund. The General Fund Balance projection for FY2009/10 is much healthier than that of FY2008/09. This is a significant accomplishment during these recent economic times and a testament to the year-round spending discipline exercised by the County Departments and the hard choices made by the Board, Department heads and my office since September 2009.

The Recommended Budget is not an ideal budget. It reflects the fiscal realities facing the County. In light of dramatically reduced resources, the Department Heads had to make difficult choices to prioritize programs and services to live within available funding and hold the line on expenses at the lowered spending levels adopted by the Board in October 2009. The Department Heads understood that the fiscal crisis facing Solano County goes beyond the current or next fiscal years. They have worked collaboratively with my office to come to concurrence on the Recommended Budget.

The Recommended Budget uses prior year savings, established as General Reserves and designations, to fund County core services, Capital Renewal Projects and accrued leave payoffs in anticipation of employee retirements.

The Recommended Budget also reflects drastic reductions in revenues – particularly in property and sales taxes and fees. Your Board has been continually apprised over the last year of the financial impacts the housing meltdown, credit crisis and recession have had, and will continue to have, on the revenues needed to finance County operations. The most significant to the General Fund is the cumulative impact of foreclosures, short sales and Proposition 8 reassessments, which is estimated to reduce property tax revenues by (10%) from FY2009/10 levels.

At the same time, the cost of “doing business” continues to escalate. The Departments have had to make significant cuts into their operations to stay afloat. These cuts affect several programs, outlined in more detail throughout this budget, which in turn will impact services provided to the residents. The reductions in personnel will increase the demands on individual employees to continue delivering high quality services in an even more efficient and cost-effective manner.

The Recommended Budget provides for a workforce of 2,642.6 FTE positions, excluding extra help positions. This reflects a net reduction of (279.73) positions from the FY2009/10 Adopted Budget. Of these, (290.735) net decrease in positions as a result of actions in FY2009/10, including the ongoing budget reduction strategy efforts and some increases in limited term positions in Health and Social Services as a result of an influx in American Recovery and Reinvestment Act funding. The Recommended Budget contains the recommendations to eliminate (27.755) positions, which is offset by the addition of 18.75 new positions. The hiring freeze implemented by the Board since FY2008/09 and the use of the Early Retirement Incentive program have helped contain the size of the workforce and will minimize the number of layoffs in FY2010/11.

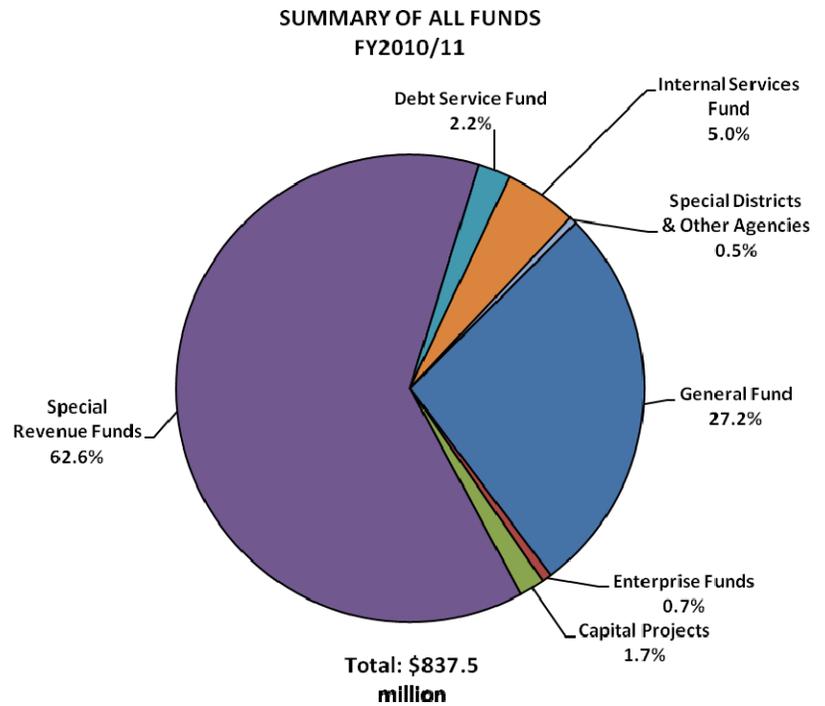
Absent in this year’s Recommended Budget is a discussion of the County’s Strategic Plan as well as listings of major accomplishments, performance measures and goals for the coming year. These remain important aspects of our organization, and we will explore other venues to present this information to the Board and the public. The purpose of these items is to convey how successfully the departments have used their allocated funds to achieve their stated goals and meet Board priorities. Those allocations changed significantly in FY2009/10 and no longer reflect the Department’s capability to deliver as promised. This streamlined document allows the Board to focus on the financial and programmatic implications of this budget.

The Supplemental Budget document has historically been an administrative function, primarily to address accounting notations. In an environment where unprecedented budget actions have become the norm, the Supplemental Budget takes on more significance. To the degree possible, the Supplemental Budget will reflect additional program and service reductions that can be expected based on the May Revision. Unfortunately, as we do not know the speed in which the Legislature will act on the Governor’s May Revision, many unknowns will remain that could significantly distress the FY2010/11 budget. The potential impacts of the May Revision and other State Budget issues are discussed in more detail under State Budget Impacts.

In consideration of the unknown pace of recovery in the economy and the housing market and the additional State cuts that are extremely likely, but not clear yet as to their magnitude, the Board can anticipate continued status updates and discussions of further reductions in programs and services.

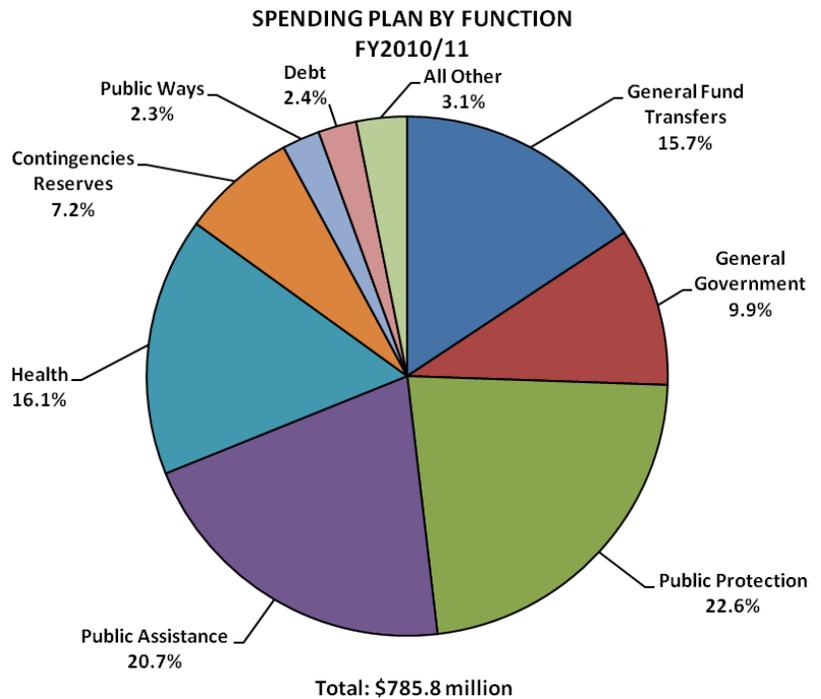
Financial Summary

The Summary of All Funds graph provides information on all of the sources of funds included in the budget document. This not only includes governmental funds subject to the Budget Act, but Internal Service Funds, Enterprise Funds and Special Districts and Other Agencies. Special Revenue Funds represent 62.6% of all funds, which is restricted to a specific purpose in the delivery of services and programs, such as Health and Social Services, Sheriff, District Attorney, Public Defender and Probation. The second largest fund category is the General Fund, which includes the majority of the remaining departments under the control of the Board of Supervisors.



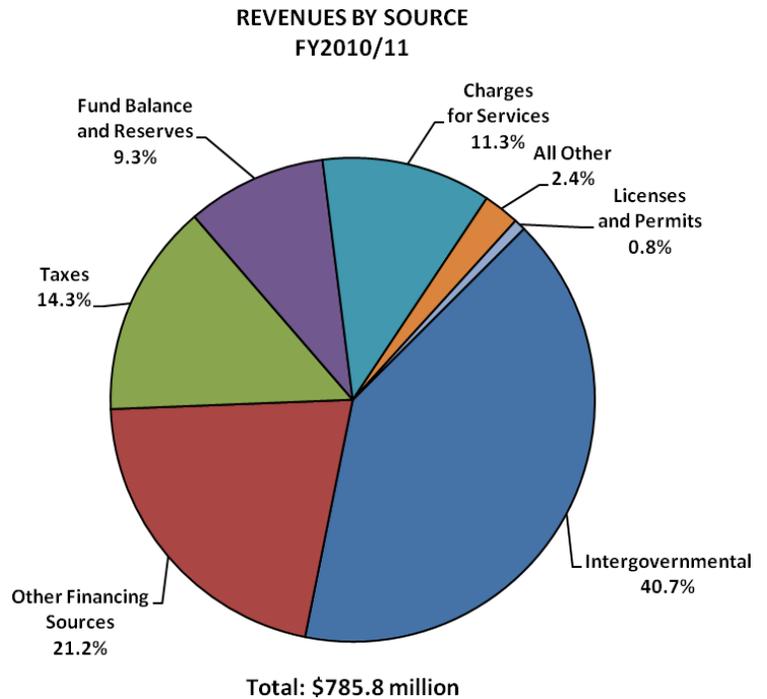
The Spending Plan by Function graph portrays a total of \$785.8 million. As shown, the graph indicates the percent of the total for each of the functional areas required within the County Budget.

As shown, Public Protection represents the single largest category of County expenditures at 22.6%. Public Assistance, the second largest, represents 20.7% of the total.

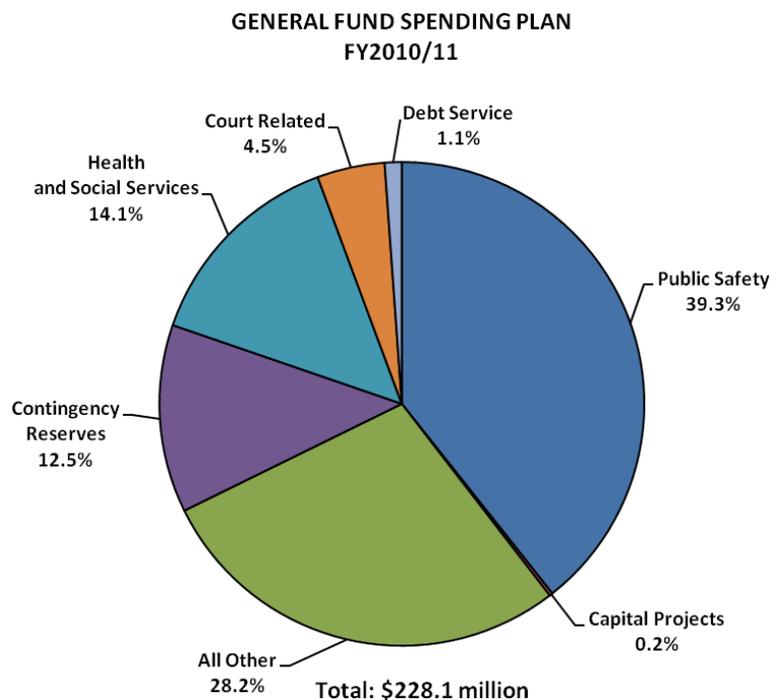


The Revenues by Source graph indicates the sources of funding to finance the Budget. The County Budget's single largest revenue source is Intergovernmental Revenue from State and Federal Agencies.

The County receives these revenues from State and Federal agencies, generally with specific requirements for the funds' expenditures. Intergovernmental Revenue represents 40.7% of the total, followed by Other Financing Sources at 21.2%. Taxes provide 14.3%, Fund Balances and Reserves 9.3% and Charges for Services 11.3%. The All Other category represents 2.4%. Licenses and Permits bring in less than 0.8% of the County's funding.



The General Fund Spending Plan graph portrays a total of \$228.1 million. As shown, the Public Safety category represents the single largest category of expenditures at 39.3%. This category includes the Sheriff, District Attorney, Public and Conflict Defender, Other Defense and Probation. The All Other category represents 28.2%. Departments listed under the All Other category include Agricultural Commissioner, Animal Care, Resource Management, Legislative, Administrative and Financing. H&SS is the third largest category of General Fund use at 14.1%. The County's Courts Maintenance of Effort (MOE) is 4.5% of the total.

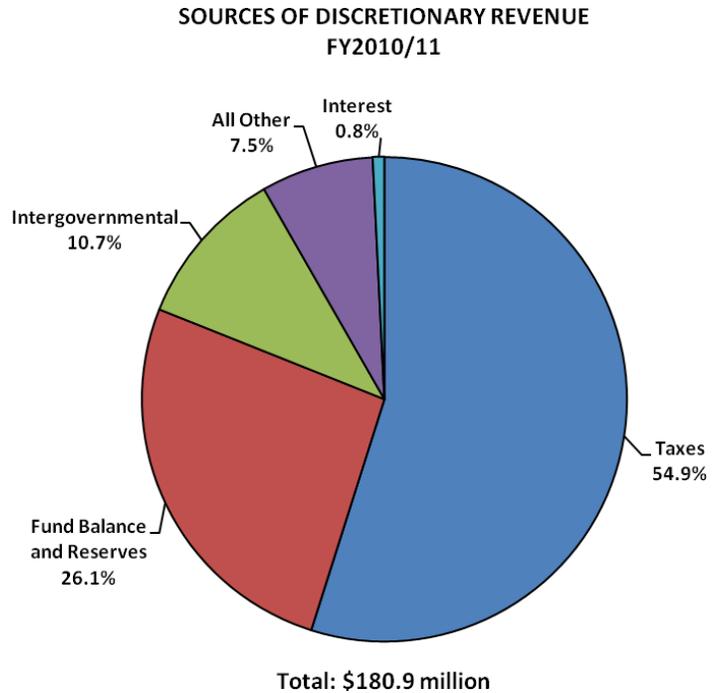


The Sources of Discretionary Revenue graph provides information concerning General Fund financing for County operations. Discretionary revenues are those revenues which are not collected in direct response to services provided. This includes countywide property taxes as well as Intergovernmental Aid that comes to the County without restrictions as to specific program use. These non-program revenues are reflected in the General Revenue budget. Program revenues resulting from such activities as the issuances of building permits, marriage licenses, etc., are shown within the operating departments.

The single largest category is Taxes at 54.9%. This category includes all property taxes - secured, unsecured, supplemental, utility roll, property tax in lieu of Vehicle License Fee (VLF), as well as sales tax receipts. A 10% revenue decrease is projected in current secured property tax.

The next largest category is Fund Balance and Reserves. The General Fund projected Fund Balance at the end of FY2009/10 becomes a means of financing for the FY2010/11 Recommended Budget. Fund Balance and Reserves total \$47.3 million, of which Reserves/Designation accounts for \$7.3 million. The FY2009/10 Fund Balance is higher than FY2008/09, growing from \$28.3 million to \$40 million as a result of expenditures reductions in FY2009/10 to address long-term revenue declines.

The third largest category, Intergovernmental Aid, represents 10.7% of the total. Included within this category are revenues such as Homeowners Exemption and Redevelopment Pass-Throughs.



State Budget Impacts

The County's Recommended Budget incorporates the impacts of the State Budget adjustments approved in March 2010. It does not take into account any proposals included in the FY2010/11 May Revision, which are substantial. These changes will be incorporated into the Supplemental Budget document to the extent information is available in early June 2010.

May Revision

The State Budget Outlook as reflected in the May Revision has not improved. In fact, the Governor indicates the State budget problem to be \$19.1 billion, which includes \$7.7 billion for the 2009/10 fiscal year, \$10.2 billion for the 2010/11 fiscal year and a modest reserve of \$1.2 billion. The Governor has also backed away from his estimate of \$7 billion in Federal dollars as part of the budget. His revised proposal only includes drawing down \$3.4 billion in Federal funds. Overall, the Governor's Budget solutions include \$12.4 billion in spending reductions and about \$3.4 billion in various fund shifts, alternative funding, and other revenues, including a \$650 million loan of excise taxes on gasoline.

As proposed, the Governor's May Revision would bring overall General Fund spending to a level well below what it was a decade ago, adjusted for population and inflation growth. The Governor's Budget purports to close the budget gap without raising taxes, while maintaining State funding for schools at the current year level, fully funding the Proposition 98 guarantee, and increasing funding for higher education.

Governor's Proposals

The Governor is proposing major spending reductions across State government to address the budget shortfall. These cuts will impact social services programs, Medi-Cal and the public safety system. Some of the Governor's most significant program reductions impacting counties are described below:

Education

- "Re-benching" Proposition 98. To achieve additional budget-year savings without suspending the Proposition 98 minimum guarantee, the May Revision "re-benches" the guarantee to reflect the elimination of child care services. The re-benching essentially reduces the FY2010/11 minimum guarantee by an amount equal to Proposition 98 child care spending in FY2009/10. By re-benching the guarantee, the Governor essentially redefines expenditures counted toward Proposition 98 and the minimum percentage of General Fund revenues that the State must provide for Proposition 98 spending.

Health and Social Services Reductions

The May Revision includes total General Fund expenditures of \$22.9 billion for all Health and Human Services Agency budgets, which represents a decrease of (\$1.5 billion), or (6.4 %), from the revised 2009 Budget Act. **General Fund costs would have increased by \$2.9 billion** above FY2009/10 if it were not for \$4.4 billion in total health and human services budget solutions (includes proposals from January 2010 and May Revision), which include the following major reduction proposals since January 2010:

- Eliminating the CalWORKs program (\$1.5 billion).
- Restructuring the In-Home Supportive Services program (\$637.1 million).
- Establishing limits and cost-sharing for Medi-Cal benefits (\$309 million).
- Restructuring county mental health realignment programs to offset expenditures in child welfare services and adult protective services (\$602 million).
- Suspension of AB 3632 mandate for the Individuals with Disabilities Education Act (IDEA) Services.

Public Safety Proposals

- \$243.8 million projected General Fund savings in FY2010/11 from an Administration proposal to send non-sex offender, non-serious, non-violent offenders convicted with sentences of three years or less to serve their felony sentence in local jails. The State will provide the counties with approximately \$11,500 per offender, to be allocated at the local level, for programs and services, such as probation programming, drug courts and alternative custody.
- \$4.6 million decrease in FY2010/11 to reflect savings resulting from the transfer of the supervisory responsibilities for new Division of Juvenile Justice parolees to county probation. The State will allocate \$15,000 per parolee per year, based on the average length of stay on parole, to provide county probation departments some resources to supervise the parolees.
- \$300 million increase in lease revenue bond authority for local juvenile detention facilities to enhance the capacity of local communities to implement an effective continuum of response to juvenile crime and delinquency.
- Proposes design build legislation to assist AB 900 and SB 81 new jail construction projects.
- \$502.9 million annual General Fund commitment, beginning in FY2011/12, as a continuous appropriation to local jurisdictions for public safety programs that are currently funded using a portion of the revenue from vehicle license fees.
- The Administration supports the intent of AB 1697 (Hall) to ensure a more stable and ongoing funding source for court security and to create a specific fund inside the judicial budget for court security. Proposed to increase the court security fee to \$45 and remove the sunset date. Department of Finance estimates this \$15 increase will generate \$45 to \$60 million for court security.

Transportation

- Loan \$650 million from the Highway Users Tax Account to the General Fund, to be repaid by June 2013. This was new revenue created by "gas tax swap" as adopted in March and not previously dedicated to any programs.

In March, the Governor signed several measures called the "gas tax swap" which changed the funding mechanisms for transportation within the State of California. None of these proposals were affected by the May Revision. The "gas tax swap" proposal:

- Eliminated the sales tax on gasoline and increases the excise tax on gasoline by 17.3 cents.
- Beginning in FY2011/12, increases the sales tax on diesel fuel by 1.75 percent (5% to 6.75%) and decreases the excise tax on diesel by 4.4 cents in 2011-12 (from 18 to 13.6 cents). The Board of Equalization will adjust this tax annually thereafter to maintain revenue neutrality (and keep pace with what Proposition 42 would have generated in a given year).
- Authorized the deferral of \$50 million each month from July 2010 through March 2011. Any deferrals must be paid within two business days of April 28, 2011. Cities and Counties with a population of less than 50,000 are exempt from the HUTA deferral.
- Provided that deferrals from July 2010 to March 2011 are to be made on a pro rata basis, as determined by the Controller, from all allocations to cities, counties, and cities and counties from the Highway Users Tax Account.
- Allows local jurisdictions to borrow against Prop 1B funding but requires any accrued interest to be repaid to be used for purposes consistent with Prop 1B.

Williamson Act

The May Revision did not include any changes to the Governor's January proposal to eliminate state funding for the Williamson Act. There are ongoing negotiations to secure "bridge financing" for the Act while long-term reforms are developed that will make the Act more self-financing.

Legislative Analyst Proposals

The Legislative Analyst in his overview of the 2010/11 May Revision states that "the administration's estimate is reasonable. While our tax revenue estimates are slightly higher than the Governor's: \$400 million in FY2009/10 and \$1 billion in FY2010/11 – overall, the view of the budget problem is similar."

Revenues

- In the January trigger proposals (withdrawn as part of the May Revision), the Administration suggested delaying the implementation of recent tax changes (such as the optional single sales factor) by one year. The LAO recommends the Legislature consider delaying these provisions for two years in recognition of the FY2010/11 budget challenges, as well as the loss of nearly \$10 billion in other temporary taxes in FY2011/12.
- **Fee Increases.** According to the LAO, some fee increases benefit the General Fund and make sense from a policy perspective.
- **Targeted Tax Rate Increases.** Given the fragile state of the economy and the level of these taxes relative to other states, the LAO discourages increasing the state's broad-based big three taxes (personal income, sales and use, and corporation taxes) above their current levels. According to the LAO, since alcohol tax rates have not been updated for inflation since 1991, such an adjustment could produce over \$200 million of General Fund benefit. In addition, the LAO suggests permanently aligning the VLF—currently increased temporarily under provisions of the February 2009 budget package—with local property tax rates, as it represents a tax on property.

Most Likely State Budget Scenario This Summer

It is unclear how the Legislature will address the May Revision/Budget process given the continued nature of the problem. All legislative budget committees have begun budget deliberations and are holding hearings on the Governor's proposals. The budget subcommittees have already rejected the Governor's proposals regarding CalWORKs and IHSS.

Very recently, Senate Democrats proposed \$4.9 billion in tax increases to help bridge the budget gap. Their proposal includes:

- Suspending corporate tax breaks scheduled to begin January 1, including a suspension of net operating losses for two years and eliminating the ability to carry back losses for two years (\$2.05 billion);
- Raising the vehicle license fee from 1.15 percent to 1.5 percent of estimated value starting July 1 (\$1.2 billion);
- Extending a 0.25 percent income tax surcharge that is scheduled to end December 31 (\$1 billion);
- Extending a \$217 per dependent income tax credit, also scheduled to end December 31 (\$430 million); and,
- Increasing the state's alcohol tax by adding inflation factor from current level set in 1991 to the present (\$210 million).

The Governor has suggested that government should be more efficient. The Senate Republicans have indicated that they would like to see performance-based budgeting introduced into the State's budget system. Additionally, some Republicans have tied passage of the Budget to longer-term reforms such as public pension, a State spending cap, streamlining energy functions, eliminating and/or merging a number of boards and committees, consolidating commissions, and transferring functions. Republicans have also indicated the budget needs to be balanced without another tax hike and without gimmicks as in the last few budgets. It is therefore likely that the budget will be comprised largely of program reductions.

Conventional wisdom suggests that an on-time budget is highly unlikely, given the difficult decisions regarding program reductions and the reluctance of Republicans to provide the requisite votes for a budget that contains any type of tax increase. Rumors persist that the budget may not be passed until the very end of the legislative session in August or that the Legislature may have to remain in session in September to get the job done.

As former Director of Finance Mike Genest recently said, "The unavoidable reality of the cash flow situation is going to dictate how much pressure the Legislature is going to feel to solve the budget."

The State's Cash Position

Year-to-date revenues are now behind estimates by approximately \$1.3 billion. Personal income taxes accounted for most of the drop in April, coming in \$3.1 billion below projections for the month and \$2.2 billion short for the year-to-date. State expenditures, however, were running \$102 million behind estimates through April 30.

The State started the fiscal year with an \$11.9 billion cash deficit in the General Fund, which grew to \$20.2 billion by April 30. Those deficits are being covered with a combination of \$11.4 billion of internal borrowing from special funds and \$8.8 billion in short-term Tax Revenue Anticipation Notes.

The State Controller believes that the State currently has enough cash to pay all of the debts through the end of the fiscal year. However, without changes it is expected that the State of California will have trouble paying bills as early as July and this issue will persist throughout the summer and – absent significant additional budgetary measures – possibly well into FY2010/11.

Future Budget Years

Various factors will affect future budget years at the State level: Federal assistance, pension reform, the continuation of certain taxes currently due to expire, new taxes, the overall performance of the economy, realignment of services to other levels of government, and litigation, most especially new suits brought by the education community wherein they contend that the schools are owed as much as \$11 billion for past years under Proposition 98.

Lastly, significant revamping of the political system in California may also greatly affect future budget years for counties. Proposition 11, the redistricting initiative, has already passed, and presumably – barring successful legal challenge – legislative districts will be redrawn by a Citizens Commission rather than the Legislature for the 2012 elections. Proposition 14, the latest "open primary" initiative, will be on the June ballot this year. If the open primary initiative passes, it could, especially in concert with the already passed redistricting initiative, have wide ranging effects on the California political landscape, affecting state and county budgets for years to come.

COUNTY OF SOLANO
GENERAL FUND 5 YEAR FISCAL FORECAST
FY2010/11 Recommended Budget

(In Millions of Dollars)

	FY2009/10 3rd Quarter Projection	FY2010/11 Recommended Budget	FY2011/12 Projected Budget	FY2012/13 Projected Budget	FY2013/14 Projected Budget
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MEANS OF FINANCING

Discretionary Revenue	147.622	132.596	128.686	130.002	132.336
Public Safety Revenue Fund	24.492	24.476	25.455	26.728	28.064
Total Ongoing Revenues	172.114	157.072	154.141	156.730	160.400
Accrued Leave Payoff Designation	2.000	0.800	0.500	0.500	0.500
Deferred Maintenance Designation	3.389	0.509	0.000	0.000	0.000
Total One-time Revenues	5.389	1.309	0.500	0.500	0.500
TOTAL MEANS OF FINANCING	177.503	158.381	154.641	157.230	160.900

EXPENDITURES

Net County Cost	139.001	136.519	134.974	139.023	143.194
Courts MOE/Court-Related Program	5.658	5.899	6.238	6.550	6.877
Long-Term Debt	2.158	2.584	2.741	2.878	3.021
Public Safety Expenses	24.492	24.476	24.455	26.728	28.064
Other Public Defense	2.800	3.000	3.300	3.696	4.250
Obligations by Government Code	3.492	3.306	3.873	4.067	4.270
Total Ongoing Expenditures	177.601	175.784	176.581	182.942	189.676
Accrued Leave Payoffs	2.000	0.800	0.500	0.500	0.500
Deferred Maintenance	3.389	0.509	0.000	0.000	0.000
Total One-Time Expenditures	5.389	1.309	0.500	0.500	0.500
TOTAL EXPENDITURES	182.990	177.093	177.081	183.442	190.176
STRUCTURAL DEFICIT	5.487	18.712	22.440	26.212	29.276
Use of General Fund Reserve	6.000	6.000	6.000	6.000	6.000
Use of Fund Balance	(0.513)	12.712	16.440	20.212	23.276

General Fund Reserve Balance	46.064	40.064	34.064	28.064	22.064
Contingencies	29.030	28.600	30.000	30.000	30.000

Solano County uses a Five-Year Fiscal Forecast model to provide insight into future trends for General Fund revenue and expenditures. This model allows the County to work proactively with departments to address potential program impacts in future years.

The Five-Year Fiscal Forecast model includes General Fund Third Quarter projections for the FY2009/10 Budget and the FY2010/11 Recommended Budget. From this starting point, expenditures and revenues are forecast through FY2013/14. While projections beyond 2014 are possible, it is more difficult to provide a meaningful forecast longer than three years out in light of the constantly changing dynamics of the economy and the State budget.

The forecast model focuses on the General Fund's Net County Cost, which includes contributions to Public Safety, Health and Social Services, the County's Maintenance of Effort for the Courts, as well as all other programs requiring General Fund support. These expenditures are then compared to the County's discretionary revenue sources. The following annual growth assumptions are made for the General Revenue forecast:

- Current Secured Property Taxes are projected to decrease by (10%) in the FY2010/11 Recommended Budget, (4%) in FY2011/12 and a 2% increase per year for FY2012/13 and FY2013/14.
- No Supplemental Secured Property Tax revenue because of the current real estate market, where Supplemental Refunds are greater than billings.
- Sales Tax is to remain flat.
- Sales and Use Tax in Lieu of Vehicle License Fees (VLF) is projected to decrease at the same rates as property taxes.
- Property Transfer Tax is projected to remain flat.
- Interest income is reduced drastically since the daily cash balance is much lower than in previous years and interest yield continues to drop.
- Homeowner exemption is projected to remain flat.
- Redevelopment Pass Through is projected to decrease (2%) in FY2009/10 and FY2010/11 before beginning to grow 2% in FY2012/13 and FY2013/14.

- Assessment and Tax Collection Fees are projected to increase 3% annually.
- Disposal Fees are projected to remain flat through FY2013/14 due to less tonnage.
- Excess Tax Loss Reserves of \$10 million is budgeted in FY2009/10, \$6.5 million for FY2010/11, \$6 million for FY2011/12, and \$5 million each year thereafter.

In addition to General Revenue, the County Budget is financed with Proposition 172 Public Safety Sales Tax revenue, beginning Fund Balance, the use of certain one-time revenues and general reserves, if necessary. Proposition 172 revenue reflects a drastic drop from previous fiscal years through FY2010/11 then increase by 4% in FY2011/12 and 5% in FY2012/13 and FY2013/14 if the downturn in the economy persists. However, this may be optimistic.

As it has been in the past, one of the assumptions in the projection is that the County will begin future fiscal years with a General Fund beginning Fund Balance. However, this assumption is no longer valid in light of the economic downturn and the housing market meltdown. Prior year fund balance is projected to reduce much more than in the past. It is also assumed that the General Fund Reserve of \$6 million will be used per year to keep the County's financial conditions afloat. Therefore, the Board's goal of increasing the General Fund Reserve from 5% to 10% of the total County budget (excluding inter-fund transfers) will not be realized in this forecast.

The Five-Year Fiscal Forecast table assumes that the County will deplete its Deferred Capital Maintenance designation by FY2010/11.

The Fiscal Forecast does not include any Tobacco Settlement revenue or income from the Tobacco Settlement Securitization Endowment fund in the discretionary revenue projections.

On the expenditure side, the following assumptions are included in the forecast:

- The Net County Cost is estimated to increase at least 3% per year. This is conservative as tax revenues decline because of the economy and pending State budget cuts. The General Fund may be forced to back fill Health and Safety programs.

- The General Fund share of the payment for 2002 COP for the County Administrative Center Complex is reflected at \$2.7 to \$3 million.
- Not included in the assumptions is the outcome of the State May Revision.

The County's FY2010/11 Recommended Budget is balanced using General Fund discretionary revenues of \$132.5 million, Public Safety Sales Tax revenue of \$24.7 million, General Reserve of \$6 million and a General Fund beginning Fund Balance of \$40 million.

The FY2010/11 Recommended Budget contains \$28.6 million in Contingency.

While the County budget is balanced as it has been in the past, a persistent structural deficit has continued. As shown on the forecast tables, the current fiscal year (FY2009/10) deficit is mitigated by using \$6 million in General Fund Reserve. The Recommended Budget for FY2010/11 through FY2013/14 will experience structural deficits each year from \$12.7 million to \$23.2 million. If the structural deficit is not addressed or reduced, the County can expect the use of Fund Balance to grow by an additional \$4 million each year until there is not enough General Fund Reserve and Fund Balance to manage the gaps between expenses and revenues.

As this forecast is prepared, the financial conditions of the State budget have worsened. It is obvious that the County's Five-Year forecast will need to be revisited. The impacts of State funding cuts will undoubtedly decimate most County programs as Counties have never experienced before.

The nature and complexity of fiscal governance has and will continue to grow due to increases in population, new mandates, and rising need for the protection and safety net services that counties provide. The financial assumptions in this forecast could easily fall short of the reality due to unforeseen changes in California's future economic conditions and the impact of policy decisions at the State and local levels.

Projecting expenditures and revenues, even three years out, is often problematic. While the Board and County departments have made tough choices, including laying off employees over the last 15 months, the County continues to face the difficult choice of deciding which programs to eliminate, which to hold the line or which to utilize more General Fund reserves to fund services.

Reduction Efforts During FY2009/10

The FY2009/10 budget was adopted with the expectation that the Board would have to revisit the subject throughout the year to address impacts from State budget cuts and the economic downturn. The following is a highlight of the milestones, but does not begin to encapsulate a complete narrative of the budget reduction efforts embarked upon throughout the year.

May 26, 2009

- Authorized a six-month use of the Voluntary Time-Off Program that allows employees to voluntarily reduce their work week with concurrence of their Department Head. This program can only be used during times of economic hardship.

June 23, 2009

- Froze the majority of compensation adjustments identified in Groups 1 (Maintenance, Operations, medical and Trades) and 2 (Management, Executive and Confidential) of the Comprehensive Classification and Compensation Study. Projected savings of \$1.4 million.
- Authorized staff to re-open all existing employee organization MOUs and Unrepresented resolutions for the purpose of deferring cost of living adjustments in FY2009/10, creating a lower retirement tier for future employees, modifying the "cash-back" option provided to County employees for unused cafeteria plan dollars, and mandatory furlough days.
- Authorized staff to calculate the feasibility of offering an Early Retirement Incentive program.
- Modified the Management Incentive Program, reducing the performance adjustment by 33% for eligible employees, effective July 12, 2009. Projected savings of \$218,169.
- Deferred a scheduled 3% COLA in FY2009/10 for unrepresented employees. Projected savings of \$831,517.

August 11, 2009

- Authorized an Early Retirement Incentive program that would offer 2 years service credit to entice up to 156 eligible employees from 14 departments and 46 job classifications to retire by

December 23, 2009. Potential net savings if all employees participated in ERI was \$28.9 million.

September 1, 2009

- Received the first of almost monthly updates on various factors impacting the County budget, including the economic downturn and the State budget. Identified a potential shortfall of \$11.5 million in the General Fund if expenditures were not brought in line with known available resources.
- Reduced appropriations by a net of \$3.18 million to reflect lower revenue projections and expenditure reductions to date.

September 22, 2009

- Deleted (66.6) FTE positions. Reductions by Department were:
 - District Attorney: (6.0)
 - General Services: (4.0)
 - H&SS Behavioral Health: (2.0)
 - H&SS Health Services: (4.0)
 - H&SS Social Services: (15.0)
 - Library Services: (5.6)
 - Probation: (2.0)
 - Sheriff: (28.0)
- Reaffirmed the continuation of the hiring freeze established in FY2008/09.
- Reaffirmed the policy that any positions funded with one-time revenue would be allocated and recruited as limited term.

October 6, 2009

- Directed the County Administrator to prepare targeted reductions of \$9 million, or nearly 50% of the General Fund structural deficit estimated at \$18.9 million. If left unchanged, this structural deficit would grow to \$37.4 million in FY2010/11. To achieve this, it was estimated that the equivalent of 11.3% of the \$265.4 million in countywide salary and benefits, or \$30 million, would need to be cut to generate the targeted General Fund savings.

October 27, 2009

- Authorized the Director of Human Resources to initiate the procedures required to formalize the

elimination of an estimated 205 FTE positions, of which 161 positions were filled at the time.

- Directed the Director of Human Resources to continue meeting and conferring with recognized employee organizations to receive concessions that would mitigate pending layoffs and close the County's structural deficit.
- At this point, only the Deputy Sheriff's Association and the unrepresented employees had made any concessions. By the time layoffs would be put into effect, Mid Managers and Attorneys would have provided concessions. With exception of the MIP reduction, all concessions to this point were temporary.

November 24, 2009

- Amended the Position Allocation List to delete (183.03) filled and vacant FTE positions to achieve the workforce reductions designed to mitigate the General Fund structural deficit. Layoffs would be effective January 2, 2010. Also, directed staff to return on December 8, 2009 with potential modifications to reduce this list, based on concessions and Board discussion.

December 8, 2009

- Reinstated 11.125 FTEs to reduce the total workforce reduction to (171.905) FTE positions, of which 122.405 were filled at the time. Reductions by Department were:
 - Agriculture: (1.0)
 - Assessor-Recorder: (4.0)
 - Auditor-Controller: (2.0)
 - UC Cooperative Extension: (0.4)
 - County Counsel: (1.0)
 - Department of Information Technology: (4.0)
 - District Attorney: (12.0)
 - General Services: (8.50)
 - H&SS Admin: (2.0)
 - H&SS Public Guardian: (1.0)
 - H&SS Behavioral Health: (8.50)
 - H&SS Health Services: (4.0)
 - H&SS Social Services: (28.5)
 - Human Resources: (1.0)
 - Library: (2.50)
 - Office of Family Violence: (1.0)

- Probation: (27.50)
- Public Defender: (6.0)
- Public Defender - Conflicts: (1.0)
- Resource Management: (4.0)
- Resource Management Public Works: (1.0)
- Risk Management: (2.0)
- Sheriff: (49.0)
- Veteran Services: (1.0)

January 12, 2010

- Authorized an additional six-month use of the Voluntary Time-Off Program.

January 19, 2010

- *Board Budget Workshop No. 1:* The primary focus of this workshop was to take stock of where the County was and what was the status of departments in light of the incremental reductions over the past seven months.

February 2, 2010

- Received a report on the results of the Early Retirement Incentive program. Estimated General Fund savings of \$1 million in FY2009/10 and \$4.9 million in FY2010/11, as a result of 69 employees participating in the program. A total of 65 positions were deleted, as four positions had been deleted in November 2009. Reductions by Department were:
 - Agriculture: (1.0)
 - County Administrator: (3.0)
 - County Counsel: (1.0)
 - Department of Information Technology: (1.0)
 - DoIT Communications: (3.0)
 - District Attorney: (2.0)
 - General Services: (1.0)
 - H&SS Behavioral Health: (3.0)
 - H&SS Social Services: (19.0)
 - Library: (1.0)
 - Probation: (7.0)
 - Public Defender: (7.0)
 - Public Defender – Conflicts: (1.0)
 - Resource Management: (3.0)
 - Resource Management Public Works: (8.0)
 - Sheriff: (4.0)

February 9, 2010

- Received the Midyear projections that showed the County had made overall expenditure reductions of about \$68 million that was offset by overall revenue projections that were down by more than \$23 million.
- Began the discussion that ultimately determined that the FY2010/11 budget should be built with the target of holding expenditures flat – meaning cuts in FY2009/10 would carry forward and any additional expenses had to be absorbed if not offset by additional revenues.
- FY2010/11 budget to be prepared with no COLAs for unrepresented employees.

February 23, 2010

- *Board Budget Workshop No. 2:* The primary focus of this workshop was to understand the magnitude of the General Fund structural deficit, which was estimated to be between \$16 and \$18 million. The ensuing strategy that would develop focused on tackling the structural deficit over four fiscal years.

March 23, 2010

- Terminated the Management Incentive Program effective June 27, 2010, returning Department Heads to a five-step program that was in place when the MIP program was established.
- Permanently reduced the Employer Paid Member Contribution (EPMC) by 3% for all unrepresented employees, effective April 4, 2010.
- Approved an additional 3% EPMC reduction for unrepresented employees contingent upon equivalent permanent payroll concessions from all represented employee bargaining units.
- Authorized the 3% COLA that was deferred in August 2009 for all unrepresented employees, except for the Board, Department Heads, Assistant Department Heads and Chief Deputies.

March 30, 2010

- *Board Budget Workshop No. 3:* The primary focus of this workshop was a discussion of potential revenue enhancements and automation enhancement that could be incorporated into the FY2010/11 budget. This discussion also solidified the concept that the FY2010/11 budget would be prepared, to the degree possible, with no increase in Net County Cost or General Fund Contribution.

April 26, 2010

- *Community Workshop on the Budget:* Nonprofits from all sectors of the community engaged in a discussion that developed strategies for the delivery County services with fewer resources. These ideas ranged from enhancing economic opportunities to rethinking what aspect of the community is best suited to delivering services.

May 4, 2010

- Declared the entire FY2010/11 as a period of economic hardship and encouraged the use of the Voluntary Time-Off Program.
- *Board Budget Workshop No. 4:* This primary focus of this workshop was setting priorities on the types of automation projects that Board wanted to invest in to ensure the County could deliver services in the future with a smaller workforce.

May 25, 2010

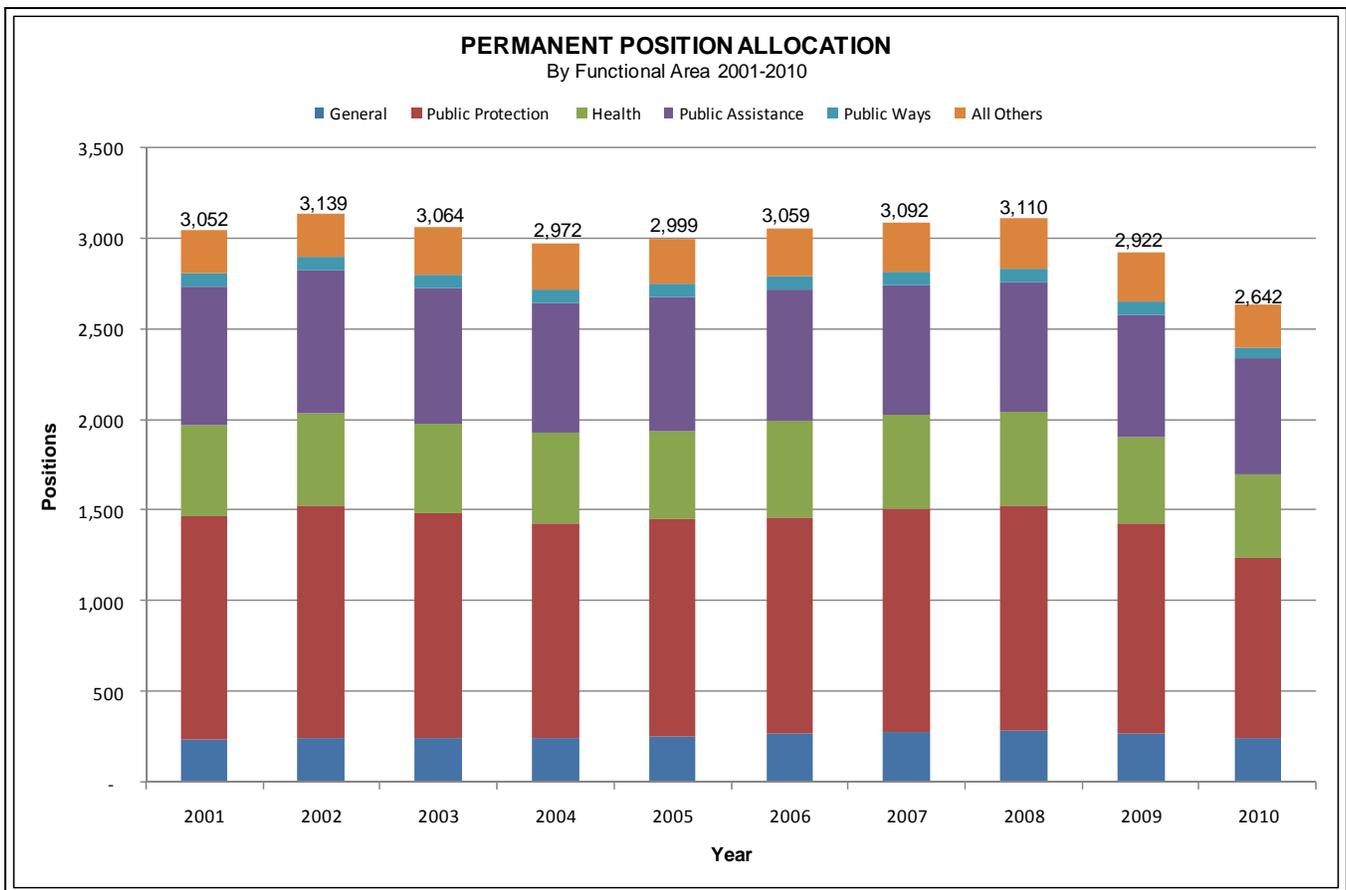
- Authorized another round of the Early Retirement Incentive program that would offer 2 years service credit to entice up to 41 eligible employees from 8 departments and 20 job classifications to retire by August 23, 2010. Potential net savings if all employees participated in this ERI is \$5.8 million.

Permanent Position Allocation

Over the past decade, the total number of Full Time Equivalent (FTE) positions in the County workforce, exclusive of Courts employees, has decreased from 3,052 in FY2000/01 to 2,642 in FY2010/11 Recommend Budget. The 2,642 positions is the lowest staffing levels since FY1997/98 when there was a total of 2,561 employee positions. Note: in FY2001/02 Court employees were transitioned from the County to the State of California. For the

purposes of this comparison, all Courts allocated positions have been removed from the historical position data to provide a more relevant year-to-year comparison to present County positions.

As reflected in the following bar graph, *Permanent Position Allocation by Functional Area 2001 to 2010*, County permanent position allocations have decreased by (410) FTEs, or (13.4%), since 2001.



Prior to FY2009/10, all functional areas experienced consistent service growth, with the exception of Public Ways. The FY2010/11 Recommended Budget continues the new trend of contracting staff levels.

As shown on the next page, *Permanent Position Allocation Detailed by Function* graph, all six functional areas had significant changes from last year. The changes in functional areas are:

<u>Function</u>	<u>Staffing Changes</u>
General Government	(21.25)
Public Protection	(167.75)
Health Services	(17.0)
Public Assistance	(35.5)
Public Ways	(10.0)
All Others	(28.23)
ALL FUNCTIONS	(279.73)

General Government has seen a net decrease of (21.25) positions, which includes a net of (19.0) positions deleted during FY2009/10. The General Government departments have 250.25 positions in the Recommended Budget. Changes in the Recommended Budget include a net increase of 3.0 in County Administrator's Office, a net decrease of (0.5) in Human Resources, (9.0) decrease in General Services and increases of 0.25 in Delta Water Activities and 1.0 in Registrar of Voters. Human Resources will receive a transfer of 2.0 positions from Risk Management.

Public Protection has seen a net decrease of (167.75) positions, which includes a net of (157.75)

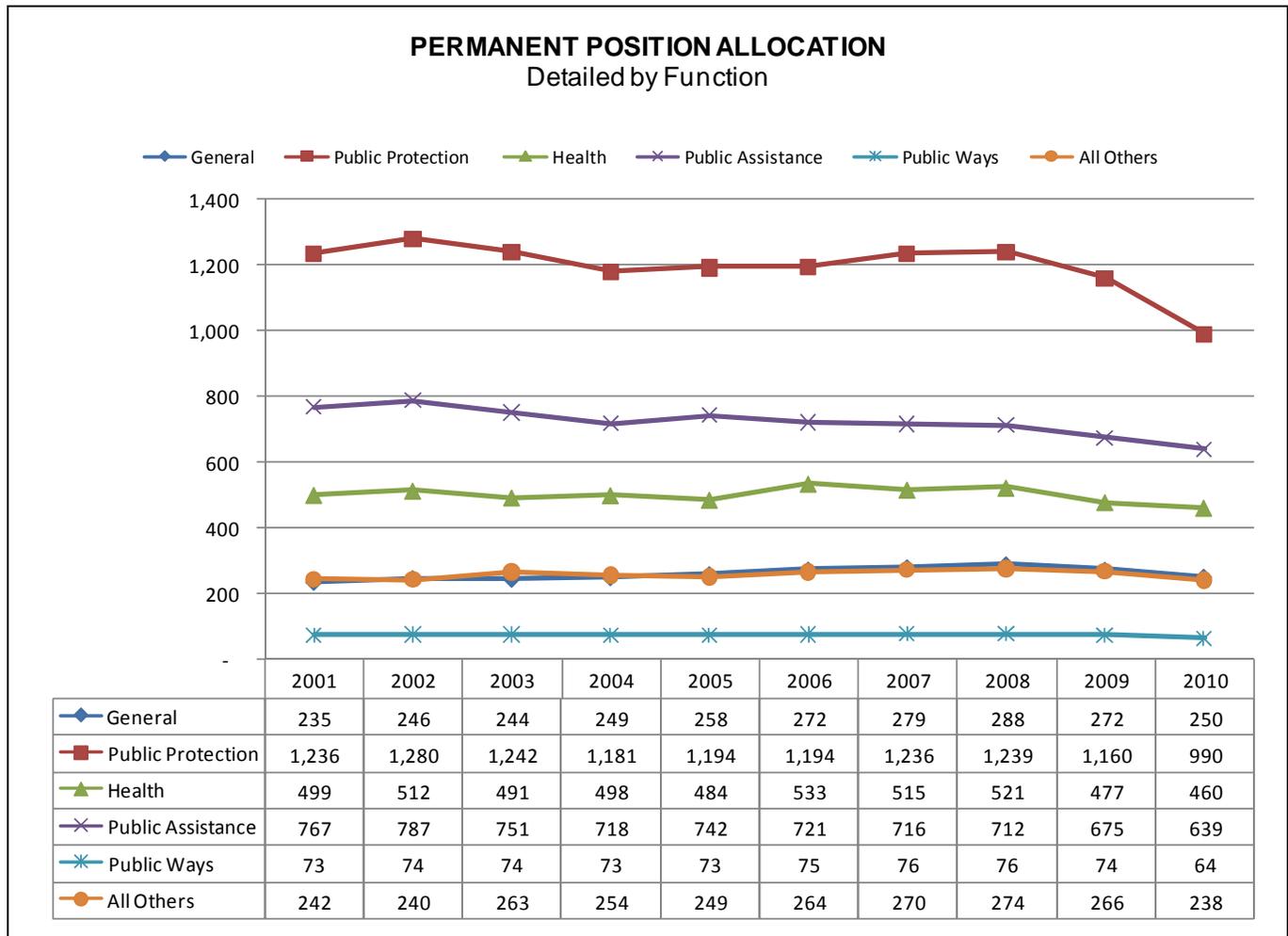
positions deleted during FY2009/10. The Public Protection departments have 990 positions in the Recommended Budget. The changes in the Recommended Budget include increases of 1.0 in Public Defender, 1.0 in Public Defender – Conflict, 1.0 in Department of Child Support Services, and 1.0 in Resource Management, and decreases of (2.0) in District Attorney, (4.0) in Sheriff and (8.0) in Probation.

Health Services has seen a net decrease of (17.0) positions, which includes a net of (14.0) positions deleted during FY2009/10. The Health Services departments have 460.1 positions in the Recommended Budget. Changes in the Recommended Budget include an increase of 3.0 in Family Health Services. Mental Health is transferring 5.78 positions to Family Health.

Public Assistance has seen a net decrease of (35.5) positions, which includes a net of (31.5) positions deleted in FY2009/10. The Public Assistance departments have 639 positions in the Recommended Budget. Changes in the Recommended Budget include an increase of 4.0 in H&SS Social Services.

Public Works has seen a decrease of (10.0) positions that were deleted during FY2009/10. No changes from the 63.5 positions in Public Works are in the Recommended Budget.

All Other Departments have seen a net decrease of (28.23) positions, which includes a net decrease of (29.7) during FY2009/10. These departments have a total of 97 positions in the Recommended Budget. Changes in the Recommended Budget includes decreases of (1.5) in Reprographics, (1.0) in Airport and (0.255) in UC Cooperative Extension. Communications is transferring 4.0 positions to DoIT, and Risk Management is transferring 2.0 positions to Human Resources.



FY2010/11 Position Additions and Deletions

The FY2010/11 Recommended Budget includes **2642.6** positions, which is a net decrease of **(279.73)** FTE positions when compared to the positions approved in the FY2009/10 Adopted Budget.

The *Permanent Position Summary* table at the end of this section provides specifics of the net changes that are proposed in the following functional areas:

Functional Area Change	FTE
General Government	(21.25)
Public Protection	(167.75)
Health Services	(17.0)
Public Assistance	(35.5)
Public Ways	(10.0)
All Others	(28.23)
Total	(279.73)

The Position Allocation List is a fluid document, subject to change based on Board actions through the year, the Director of Human Resources' ability to administratively create medical or military limited-term positions to backfill for employees on extended periods of medical or military leave, expirations for limited-term positions and other administrative actions delegated to the Director of Human Resources and the County Administrator by the Board. The information that follows reflects any changes that occurred in FY2009/10 along with the Recommended Budget recommendations.

The County Administrator's Office is recommending **18.75** new positions for approval in the FY2010/11 Recommended Budget. In some cases, Departments are proposing to delete one position and add another to better meet staffing needs. The recommended new positions are in the following departments:

General Government

County Administrator's Office
 2.0 Principal Management Analyst
 2.0 Management Analyst (Senior)
 1.0 Budget Officer
 1.0 Legislative, Intergovernmental
 and Public Affairs Officer **6.0**

Human Resources
 0.5 Senior HR Analyst (LT) **0.5**

Delta Water Activities
 0.25 Senior Staff Analyst **0.25**

Public Protection

Public Defender
 1.0 Deputy Public Defender (LT) **1.0**

Public Defender - Conflicts
 1.0 Deputy Public Defender (LT) **1.0**

Resource Management
 1.0 Building Inspector II **1.0**

Department of Child Support Services
 1.0 Position (to be classified) **1.0**

Health Services

H&SS Health Services
 1.0 Project Manager (LT)
 1.0 Health Services Manager
 1.0 Patient Account Manager **3.0**

Public Assistance

H&SS Social Services
 2.0 Eligibility Benefit Specialist
 Supervisor
 2.0 Social Worker III (LT) **4.0**

All Others

Department of Information Technology
 1.0 Sr. Communications Technician **1.0**

The County Administrator's Office is recommending the transfer of **11.78** positions as part of departmental reorganizations for approval in the FY2010/11 Recommended Budget. The recommended transfers are in the following departments:

Communications
 4.0 Positions **(4.0)**

Department of Information Technology
 4.0 Positions **4.0**

Risk Management
 2.0 HR Assistants **(2.0)**

Human Resources
 2.0 HR Assistants **2.0**

H&SS Behavioral Health
 5.78 Psychiatrist **(5.78)**

H&SS Health Services
 5.78 Psychiatrist **5.78**

The Recommended Budget recommends the deletion **27.755** FTE regular positions that are either not funded or no longer meet the organizational needs of the County. These deletions do not include the positions deleted throughout FY2009/10. The positions identified for deletion in the Recommended Budget are as follows:

General Government

Human Resources
 (1.0) Principal HR Analyst
 (1.0) HR Assistant **(2.0)**

General Services
 (1.0) Courier
 (1.0) Inventory Coordinator
 (1.0) Office Assistant II
 (1.0) Stationary Engineer
 (1.0) Small Projects Coordinator
 (4.0) Custodian **(9.0)**

Public Protection

Probation
 (1.0) Legal Procedures Clerk
 (1.0) Senior Deputy Probation
 Officer (LT)
 (4.0) Group Counselor
 (1.0) Supervising Group Counselor
 (1.0) Senior Group Counselor **(8.0)**

Sheriff's Office
 (3.0) Building Trades Mechanic
 (1.0) Building Trades Supervisor **(4.0)**

District Attorney
 (1.0) Legal Procedures Clerk (Sr)
 (1.0) Victim/Witness Assistant **(2.0)**

All Others

Reprographics
 (1.0) Duplicating Services
 Supervisor
 (0.5) Duplicating Services
 Assistant **(1.5)**

UC Cooperative Extension
 (0.225) Cooperative Extension
 Assistant **(0.255)**

Nut Tree Airport
 (1.0) Airport Maintenance Worker **(1.0)**

In addition to the **(27.755)** FTE deleted positions, an additional **(2.0)** FTE Limited Term positions will expire on June 30, 2010.

Auditor Controller
 (1.0) Accounting Technician (LT) **(1.0)**

Parks
 (1.0) Park Ranger (LT) **(1.0)**

As of May 25, 2010, a net of 2,631.6 position allocations were approved by the Board through FY2009/10. The following table summarizes the position allocation changes requested since FY2009/10 Adopted Budget.

Summary of Positions

Net of Prior Actions by Board and HR during FY2009/10	(290.735)
Added in Recommended Budget	18.75
Deleted in Recommended Budget	(27.755)
Expiring Limited Term	(2.0)
Net Deleted Positions	(279.73)

Position Allocation List

Allocated Positions in FY2009/10 Adopted Budget	2,922.33
Net Deleted Positions	(279.73)
Allocated Positions Recommended in FY2010/11 Budget	2,642.60

The *Permanent Position Summary* on the following pages is a digest of changes for each department from prior years to the Recommended Budget.

PERMANENT POSITION SUMMARY

		FY2006/07 Adopted Budget	FY2007/08 Adopted Budget	FY2008/09 Adopted Budget	FY2009/10 Adopted Budget	FY 2010/11 Requested Budget	FY2010/11 Recmd. Budget	Change Recmd. vs Adopted
GENERAL GOVERNMENT								
1000	Board of Supervisors	10	10	10	10	10	10	0
1100	County Administrator	16	17	18	15	18	18	3
1103	Employment Development & Training	1	1	1	1	1	1	0
1117	General Services	97	101	106	101	82	85	-16
1150	Assessor	45	45	45	44	40	40	-4
1200	Auditor/Controller	33	33	35	33	31	31	-2
1300	Tax Collector/County Clerk	14	14	14	12	12	12	0
1350	Treasurer	4	4	4	3	3	3	0
1400	County Counsel	21	21	21	19.75	17.75	17.75	-2
1451	Delta Water Activities	0	0	0	0.75	0.75	1	0.25
1500	Human Resources	18	20	19	18	17.5	17.5	-0.5
1550	Registrar of Voters	11	12	12	11	12	12	1
1642	Real Estate Services	2	2	3	3	2	2	-1
Total General Government		272	280	288	271.5	247	250.25	-21.25
PUBLIC PROTECTION								
6500	District Attorney	130	139	140.5	141	124.75	122.75	-18.25
2480	Department of Child Support Services	130	127	120	107	107	107	0
6530	Public Defender	62	66	68	66	56	56	-10
6540	Public Defender - Conflict	20	18	21	16	15	15	-1
6550	Sheriff	492	507	513	489.5	410.5	406.5	-83
6650	Probation	241	256	255	226.5	191	185	-41.5
5500	Office of Family Violence Prevention (1)	0	5	4	4	3	3	-1
2830	Agricultural Commissioner	23	23	23	22	20	20	-2
2850	Animal Care Services	14	16	16	16	15	16	0
2909	Recorder	20	19	19	12	12	12	0
2910	Resource Management	60	59	61	56	47	47	-9
3250	CAL-MMET	2	2	2	2	2	2	0
2930	LAFCo	2	2	2	2	0	0	-2
Total Public Protection		1,196	1,239	1,245	1,160	1,003	992	-167.75
PUBLIC WAYS								
3010	Public Works	74.5	76.5	75.5	73.5	63.5	63.5	-10
Total Public Ways		74.5	76.5	75.5	73.5	63.5	63.5	-10
HEALTH SERVICES								
7550	Public Guardian	14	16	15	14	12	11	-3
7690	In-Home Supportive Services	6	6	6	6	4	4	-2
7950	Tobacco Prevention and Education	2	2	2	2	2	2	0
7560	Substance Abuse (3)	23	23	23	0	0	0	0
7598	Mental Health Managed Care (3)	6	6	6	0	0	0	0
7700	Mental Health (3)	247.03	223.28	225.28	0	0	0	0
7780	Behavioral Health	0	0	0	232.55	214.27	214.27	-18.28
7580	Family Health Services (4)	72	76.55	72.8	0	0	0	0
7800	Public Health (4)	162.6	168	170	0	0	0	0
7880	Health Services	0	0	0	222.55	228.83	228.83	6.28
Total Health Services		532.63	520.83	520.08	477.1	461.1	460.1	-17

FY2006/07 Adopted Budget	FY2007/08 Adopted Budget	FY2008/09 Adopted Budget	FY2009/10 Adopted Budget	FY 2010/11 Requested Budget	FY2010/11 Recmd. Budget	Change Recmd. vs Adopted
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PUBLIC ASSISTANCE

1530	First 5 Solano Children and Families	7	7	8	9	9	9	0
5500	Office of Family Violence Prevention (1)	4	0	0	0	0	0	0
5800	Veterans Services	6	6	6	6	5	5	-1
7501	H&SS Administration	87	88	88	84	80	80	-4
7600	Child Welfare Services (5)	136	140	140	0	0	0	0
7640	Older and Disabled Adult Services (5)	84	88	85	0	0	0	0
7650	Employment and Eligibility Services (5)	396.5	384.5	384.5	0	0	0	0
7680	Social Services	0	0	0	575.5	545	545	-30.5
Total Public Assistance		720.50	713.50	711.50	674.50	639.00	639.00	-35.5

EDUCATION

6300	Library	137.98	139.98	141.48	142.1	133	133	-9.1
6200	Cooperative Education	3.25	3.25	3.25	3.13	2.33	2.5	-0.63
Total Education		141.23	143.23	144.73	145.23	135.33	135.5	-9.73

RECREATION

7000	Parks and Recreation	8.5	9	9	6	5	5	-1
Total Recreation		8.5	9	9	6	5	5	-1

OTHER FUNDS

1140	Solano County Integrated Prop. Sys. (2)	7	0	0	0	0	0	0
1600	Communications	8	7	7	7	0	0	-7
1830	Risk Management	11	14	16	12	8	8	-4
1870	Department of Information Technology	41	49	49	44	45	45	1
1901	Reprographics	4.5	4.5	4.5	4.5	3.5	2	-2.5
2801	Fouts Springs Youth Facility	29	29	30	30	29	29	-1
3100	Fleet Management	11	12	12	12	9	9	-3
9000	Airport	4	4	5	5	5	4	-1
Total Other Funds		115.5	119.5	123.5	114.5	99.5	97	-17.5

TOTAL COUNTY ALLOCATION		3,060.86	3,101.56	3,116.81	2,922.33	2,653.68	2,642.60	-279.73
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- (1) Moved from Public Assistance portion of table to Public Protection.
- (2) Solano County Integrated Property System (SCIPS) merged into Department of Information Technology during FY2006/07.
- (3) Combined into Behavioral Health (BU 7780) in FY2008/09.
- (4) Combined into Health Services (BU 7880) in FY2008/09.
- (5) Combined into Social Services (BU 7680) in FY2008/09.
- (6) Combined into Department of Information Technology (BU 1870) in FY2010/11.