

Mid-Year Budget Workshop and FY 2011 Preview



RIVERSIDE COUNTY

JANUARY 26, 2010

TODAY'S AGENDA

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- 1) **Budget Instructions:**
FY 10/11 budget policy, schedule, and ISF rates
- 2) **Early Retirement:**
eligibility and term
- 3) **Proposition 172:**
backfill cap and future use
- 4) **NCC Dynamics:**
FY 10/11 Net County Cost reductions

FY 10/11 Budget Policy and Guidelines

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- **Net County Cost (NCC):** Ongoing discretionary funds authorized to general fund departments by the Board in FY 09/10's final budget, reduced by an amount to be determined by the Board, will be the basis for developing FY 10/11 proposed budget NCC allocations. This NCC will be increased for budget units in which FY 09/10 Form 11s permanently modified ongoing costs. All budgets will be submitted within this target as approved by the Board.
- **Labor Savings:** At this time no assumed labor savings will be included in NCC targets.
- **Priorities in Budget Construction:** Departments will budget first for basic costs of doing business, such as rent, debt service and utilities. Then, departments will budget for the costs of completing their missions, such as essential materials and services. Finally, departments will budget for non-essential costs, such as subscriptions, memberships and redecoration.
- **Funding Salaries and Benefits:** Unfunded positions should be frozen in the Human Resources Management System.

FY 10/11 Budget Policy and Guidelines

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- **Addbacks and Impacts:** In the event a department cannot provide core services within its allocated NCC, the department will include this information in its impact report. These impact reports are due to the Executive Office with department's budgets on **March 15, 2010**.
- **General Fund Support “Last In/First Out”:** Unless otherwise mandated or restricted, all general fund departmental revenues shall be fully expended in the year received, ensuring that general fund support is provided only as needed.
- **Department Revenue:** Revenue shortfalls will not be backfilled by the general fund.
- **Submittal Deadlines:** All departments will submit their FY 10/11 budget requests to the Executive Office no later than **March 15, 2010**. To be considered on time, budget requests must be complete and in accordance with these budget policies.

FY 10/11 Budget Schedule

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1/26

- Board Workshop #2
- Budget Policy to Board
- NCC Targets to Board

1/27

- Official budget kickoff (Board-approved policy, NCC targets and timetable to departments)

3/15

- Department Budgets, including impact projection, due to Executive Office

4/19

- Board workshop #3
- Detailed departmental impact report to Board
- Tabulated Budget presented for Board comment

6/15

- Board Adopts Recommended Budget

7/12

- Board Holds Budget and Beilenson Hearings

7/27

- Board Adopts Final Budget (fallback date is 8/10)

Internal Service Fund Direction

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- ISF's were directed by the CEO in January to lower rates by drawing down cash reserves to minimum levels
- Adoption of the revised rates is planned for the 2/09/10 agenda

Early Retirement Option

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- Early retirement is presented today as agenda item 3.54b
- This action could reduce the number of expected layoffs
- Issues to be presented to the Board:
 - Eligibility: Who is included?
 - Term: How long will the window remain open to eligible employees?

Prop 172 Cap, Backfill, Future Use

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- Initiated in 1993
 - To assist in maintaining a sufficient level of public safety services
 - To promote a more orderly transition to the restructured state and local fiscal relationship
- One-half cent sales tax is collected by the BOE and apportioned to the county based on its proportionate share of statewide taxable sales
- Auditor-Controllers then distribute the funds to eligible cities by formula; the County keeps the remainder

Proposition 172 funds

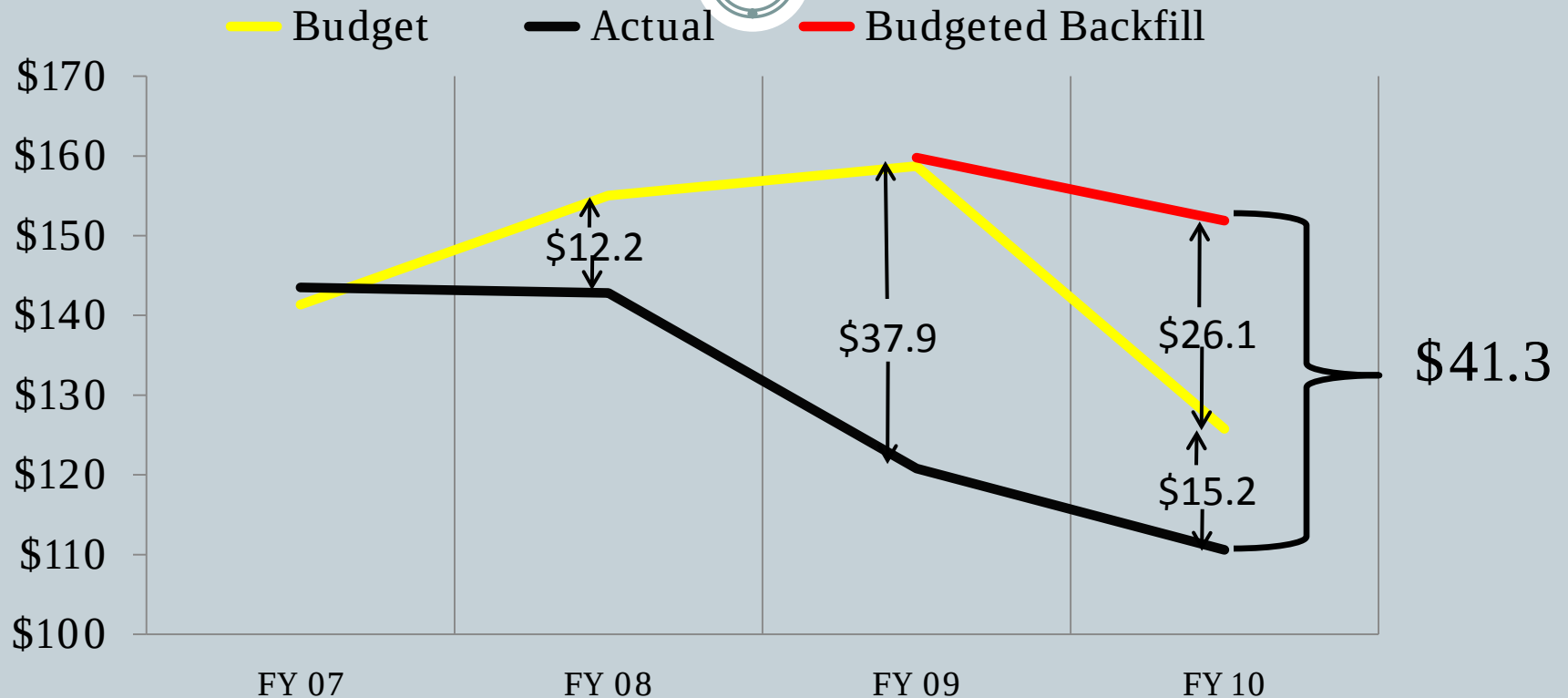
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- Allocations by the county Auditor-Controller must be expended on public safety services, defined in GC section 30052

“public safety services include, but is not limited to, sheriffs, police, fire protection, county district attorney, county corrections, and ocean lifeguards.”
- At its maximum in FY 2006/07, the County’s share was \$146 million
- The FY 2009/10 allocation to the County is now expected to total \$110.6 million

Proposition 172 Backfill

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- Ongoing backfill approved by the Board in the current budget now stands at \$26.1 million
- The remaining question before the Board is how to treat this year's expected additional 172 shortfall of \$15.2M (continued from 3.51 of 11/3/09)
- The cumulative three-year GF backfill now totals \$76.2 million. Backfilling the additional \$15.2 million will bring the 3-year total to \$91.4 million

Future 172 Allocations

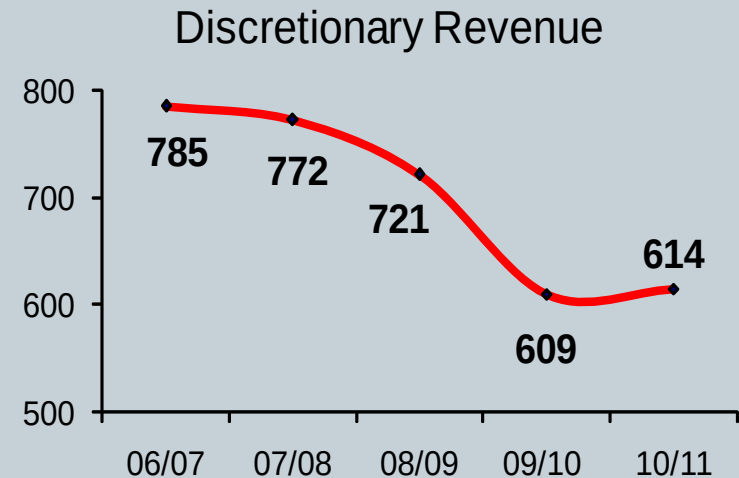
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- Backfilling 172 losses should be capped somewhere between the \$26.1 million currently budgeted and the \$41.3 million that would include this year's entire shortfall
- As 172 allocations increase, the general fund should be relieved of its 172 backfill obligations on a dollar for dollar basis
- Alternatively, 172 allocation in excess of FY 09/10 actual receipts could be set aside and restricted to public safety. The use of this fund, such as for future jail staffing, could be determined by the Board at a later date

Status Unimproved

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- The US economy is slowly recovering, but the California economy is still shrinking
- Local unemployment is at historic highs
- The state does not yet have a solution to its \$20B budget deficit
- Our own structural deficit is \$71M now, and could increase dramatically based on policy options before the Board today
- Compared to FY 08/09, current-year discretionary revenue is down \$107M, or 15%
- General reserves have fallen by about \$200M in two years

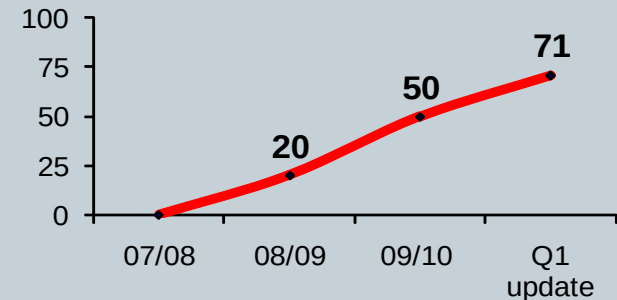


Cuts Will be Needed to Balance

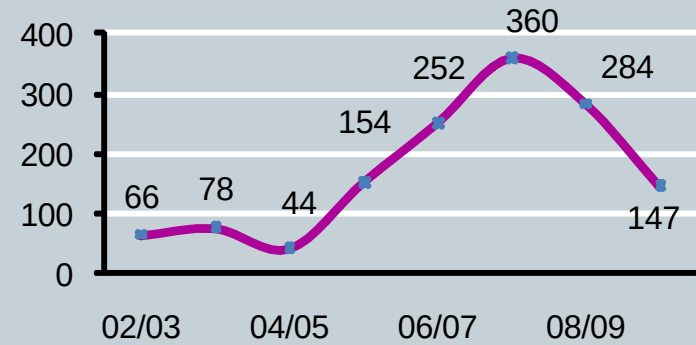
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- The deficit must be closed before reserves are gone
- A minimum reserve level (at the 6% of discretionary revenue as recommended in the 11/24/09 budget workshop) is needed to protect against insolvency
- The Executive Office developed a model to balance the budget in two years

Structural Deficit



Discretionary Reserves



FY 10/11 Spreadsheet Assumptions

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- The Reserve for Economic Uncertainty will not be allowed to fall below 6% of discretionary revenue
- Each of the following will increase the structural deficit:
 - 1) Furloughs will expire at the end of FY 09/10
 - 2) Backfill of 172 funds budgeted this year, but no longer expected to be received
 - 3) Continued funding of FY 10/11 public safety COLA's

FY 10 /11 NCC Allocations

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- NCC reduction models will display 3 scenarios:
 - 1) Minor cut to public safety and significant cut to general operations
 - 2) Proportionally increased cut to public safety and decreased cut to general operations; and,
 - 3) Equal cuts to public safety and general operations

Position Control

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- The CEO has, among others, two tools available to limit the growth of the county's workforce:
 - A Hiring Freeze (HF) is the most restrictive option, but can achieve savings by shrinking the size of the workforce. Attrition of employees for any reason permanently lowers employee count of frozen departments. Limited exceptions are allowed when a critical position vacates. There was a freeze in place for the last quarter of FY 2009 and the beginning of this fiscal year in conjunction with last year's early retirement option.
 - A Maximum Fill Rate (MFR) will not lower personnel costs, but is designed to stop or limit cost growth. It places more responsibility on department heads to manage personnel costs. Under an MFR, departments are restricted to a set number of employees; it doesn't allow growth, but does allow newly vacated positions to be refilled. An MFR is active now for the General Fund.

Approval of Policy Positions

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That the Board of Supervisors approve:

- 1) The FY 10/11 Budget Policy and Budget Schedule as presented
- 2) A Public Safety Sales Tax cap at the Board's preferred amount
- 3) A policy on any change to NCC after future Prop 172 revenue exceeds current year actual
- 4) That the Reserve for Economic Uncertainty will not fall below 6% of discretionary revenue
- 5) A policy with regard to FY 10/11 NCC target adjustments for public safety and general fund operations