

June 18, 2013

Yuba County Board of Supervisors  
915 8<sup>th</sup> Street  
Marysville, CA 95901

## **FISCAL YEAR 2013-2014 PROPOSED BUDGET**

### **INTRODUCTION**

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In accordance with local ordinance and State Law, presented to the Board of Supervisors is the Fiscal Year 2013-2014 Proposed Budget, as recommended by the County Administrator.

The last several years have been a challenge for local governments to maintain essential services to their communities. There are several factors that impact the ability to continue or enhance services and over the last several years those factors relate primarily to severe reductions in local revenue. Recent indicators have produced results showing what appears to be stabilization in the economy; however growth is limited to the extent that most local government revenues will most likely take several years to return to previous levels experienced prior to the recession.

Our organization continues to work collaboratively to address our current and future challenges. This has not been easy. Without the remarkable efforts of our organization's leaders and employees, service levels would have been significantly altered.

For Fiscal Year 2013-2014, our budget is technically balanced, but requires the use of significant one-time funds. Unfortunately, to pay for salary and benefit increases some layoffs are proposed that will severely impact service levels to the public. Departments have little to no flexibility remaining in their budgets to absorb cost increases, making additional cuts and satisfying state mandates next to impossible.

## BUDGET DEVELOPMENT

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### Budget Development

In a presentation to your Board in January 2013, staff attempted to provide an estimate of cost increases and revenues for the upcoming fiscal year. The General Fund estimated deficit based on cost increases and revenues alone was projected to be approximately \$ 2.8 million dollars.

Health Insurance / Salary / Pension Cost Increases	\$ 2,290,065
One Time Revenues (uses in FY 2012-2013)	\$ 285,000
General Fund Revenue reductions	<u>\$ 228,632</u>
TOTAL	\$ 2,803,697

To address the projected deficit, departments were informed to prepare their budgets with no General Fund appropriation increases, using the current year as their base General Fund revenue.

To add to this task, several grants in public safety, health and other service departments were either eliminated or reduced. In addition, cost reimbursements to internal service departments from Non-General Fund departments were significantly reduced. Since some service levels in departments have decreased over the last several years, cost reimbursements decreased for central service departments such as Administrative Services (Fleet, Information Technology, Buildings and Grounds, Custodial), Human Resources, Auditor-Controller, County Administrator and the Clerk of the Board. This was an impact felt more so this year than in the past few.

General Fund appropriations for some General Fund departments are being recommended for an increase, as more layoffs would be necessary without the additional appropriation, and staffing levels are already at a minimum. Some departments were asked to reduce their General Fund appropriation further, including Administrative Services, Sheriff, Probation, Health and Human Services and the Community Development and Services Agency.

After all budgets and projected revenues were analyzed, a General Fund structural deficit of approximately \$833,000 remains. A reduction in one-time General Fund capital outlay to cover the gap is being recommended as well as reducing reserves. In addition, General Fund contingencies are reduced by 50% / or \$300,000 over the previous Fiscal Year budgeted amount.

Use of General Fund Reserves	\$ 288,883
Use of Capital Outlay Funds (one-time)	<u>\$ 544,017</u>
TOTAL	\$ 832,900

The recommended budget assumes a carryover General Fund balance of approximately \$1million, which is significantly less than the \$2.1 million adopted with the final budget for Fiscal Year 2012-2013. That amount may fluctuate based on closing of the financial books in July/August.

Should additional funding become available between adoption of the Proposed and Final budgets, restoring General Fund contingencies to current policy levels and reducing uses of one-time funding (reserves and capital outlay) is recommended.



## KEY BUDGET ISSUES

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**Property Tax Administration Fee Lawsuit** – Counties receive reimbursement in the form of a “fee for service” from incorporated cities and some districts for the cost of administering property tax duties performed by county departments such as the Tax Collector, Auditor-Controller and Assessor. Even though schools receive a majority of property taxes collected, the State of California / schools do not pay for any costs incurred by the County.

With the creation of the “Triple-Flip” tax swap approved by the legislature in 2004-2005, a method was used by Auditors in which California counties recouped additional reimbursement in subsequent years from the cities and some districts.

In November 2012, the California Supreme Court ruled in the case *City of Alhambra vs. Los Angeles County* regarding Property Tax Administration Fees. Several years ago, the City of Alhambra initiated their lawsuit, contending, in essence that they were charged in excess of what was appropriated within the Triple Flip and Vehicle License Fee swap. The Supreme Court ruled in favor of the City and 47 other plaintiff cities.

The ruling has resulted in a fiscal impact to California counties. For Yuba County, a total of approximately \$490,000 is owed to the cities of Marysville and Wheatland for previous years. In addition, the ongoing revenues received by the County from the cities beginning in this fiscal year will be reduced significantly, having a negative impact to the county departments mentioned previously. A repayment agreement has been approved by Wheatland and is budgeted for FY 2013-2014 and Marysville’s is pending their concurrence.

**Health Insurance** – Mentioned in previous years, monthly health insurance premiums continue to be a significant strain on our County budget for General Fund and Non-General Fund departments. During the course of Fiscal Year 2012-2013, we were notified that the monthly premium for the health plan most used by our employees was increasing by 16.9%. Through year end savings and departmental reductions, we were able to meet the increase but not without significant fiscal strain, considering the budgeted increase was only 10%.

The County currently contracts with CalPERS for health insurance, which is one of the largest insurance pools in the State of California. The County shares in the cost of health insurance premiums with employees that elect coverage.

- For Non-Management Employees, the County pays 100% of the premium for an employee-only coverage and 80% of the premium for an employee plus one dependent or an employee plus two or more dependents (percentages based on the standard PERS CHOICE PPO).
- For Management Employees, the County pays 90% of the premium for employee only coverage and 70% for an employee plus one dependent or an employee plus two or more dependents.
- ***For Fiscal Year 2013-2014, it is estimated the County’s share of cost for monthly health insurance premiums is \$10.5 million, which exceeds the County annual share of cost for pensions.***



Simply put, the County cannot afford to continue paying health insurance costs at the 80% level. If an employee elects family coverage with our most selected plan, the monthly premium is \$1,741.00 or **\$20,892 a year** and the County pays 80% of that cost. A majority of the employee associations the County negotiates contracts with have declined to pay an additional share of their health insurance premiums (i.e. similar to what managers currently pay).

In addition, the County has been active in exploring alternatives. Due to the complexities of exiting CalPERS Health and having to negotiate changes with employee associations, it is challenging. Over the next year, the County will enhance its efforts to advocate for change in the health insurance plans.

***Prison Realignment*** – In Fiscal Year 2011-2012, the State of California transferred custody and supervision responsibilities of certain criminal offenders from the state prison system to counties. With that transfer, funding was allocated to counties to address the impact. The shift in responsibility is intended to be permanent. The funding was determined and ultimately distributed to counties now assuming state responsibilities.

The intent of AB 109 is to focus on treatment of offenders, reduce recidivism and have offenders supervised locally upon release from confinement. Results are mixed, as the program is in its infancy. However, the State of California has effectively reduced its prison population and transferred tasks to counties.

A new allocation formula for Fiscal Years 2012-2013 and 2013-2014 has been submitted to the legislature. Recipients of the funding are identified by law and amounts are ultimately determined through a local collaborative. A separate funding stream, albeit much smaller, is also allocated to the Public Defender and District Attorney.

Yuba County leaders, specifically the Chief Probation Officer, Sheriff, District Attorney and Health and Human Services Director, have all worked together to accomplish the realigned mandates. Managing this new population does not come without concern. Programs have been enhanced and developed locally with an emphasis on the criminal justice community working together for greater community safety.

***Public Safety Departments*** - As stated in previous budget messages, approximately ten years ago, the Board of Supervisors approved an agreement concerning the budgets of the Sheriff's Department (Jail and Operations), District Attorney and Juvenile Hall. This agreement allows these departments to "carry forward" budget savings into the next fiscal year (commonly referred to as fund balance) and apply it to expenditures as they deem appropriate.

Referred to as the Public Safety Fund Balance, it is monitored and tracked by these departments and the Auditor's Office. Over the last several years, in an effort to maintain service levels during difficult fiscal times, the departments have used a majority of the savings to assist in balancing their budgets. As a result, the level of available funds has decreased significantly.



Approximately \$860,000 is estimated to be used in FY 2013-2014, thus continuing an operating structural budget gap for the next fiscal year.

**Employee Salaries** - Per Board direction, staff continues to speak with labor groups, hoping to achieve concessions needed to weather the prolonged recession, address revenue shortfalls, and most importantly, to assist in reducing and eventually eliminating the General Fund structural deficit.

**Health Care Reform** – The Health and Human Services Agency has embarked on an effort to address the requirements of the Affordable Care Act. The federally approved statutory program attempts to insure all Americans. Some states have implemented their versions, coupled with federal funding. California is certainly one of them.

“Covered California” as it has been labeled is a statewide initiative that takes the Affordable Care Act and implements its provisions while blending access to insurance policies through private, non-profit, state and county agencies. Creation of new regulations and mandates for California counties have added to our workload. To date, the retraining of our HHS employees has started, a call center is being created and additional personnel are being hired to address the projected / required need.

**California Public Employee’s Pension Reform Act of 2013 (PEPRA)** - Pension Reform became effective January 1<sup>st</sup>, 2013, with impacts to current and future member retirement benefits. PEPRA prohibits the purchase of nonqualified service time, commonly referred to as “airtime,” prohibits retroactive pension benefit increases and pension holidays and places additional restrictions on the re-employment of retirees.

A second tier of decreased benefits and increased retirement age was established for members new to CalPERS after January 2013. In addition, new members are required to pay fifty-percent of the normal cost rate of their pension benefit; an amount which may be higher than that charged to current members.

Over time these changes are expected to decrease the County’s contribution rates as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. However, any savings will not be realized in the immediate future as the employer rates set by CalPERS for new members will continue to match the rates of current members through at least June 30, 2014.

Additionally, CalPERS has proposed changes to the amortization and smoothing policies to be effective in June 2013 which will result in higher volatility in employer contribution rates in years of normal fund performance; a change that CalPERS anticipates will result in an increase in contribution rates over the next five years. These changes have required a significant amount of analysis and preparatory work from our Administrator’s Office and Human Resources. In addition, having employees on multiple retirement tiers expedites our need for a common software system that can accurately track and produce budget projections for our departments.

**Infrastructure Needs** – Last year, the Administrative Services department and County Administrator embarked on an effort to improve the County’s aging technology infrastructure. While cumbersome, the priority for all County operations and the public was identified as critical. Several technology failures over the last several years required fiscal and human resources that only allowed a “fix in place.”

Through a methodical process coordinated by Administrative Services and its technology division, necessary replacement assets and costs were identified. Work continues with the Technology Review Committee and several department heads to improve our approach to technology. In addition, the County is currently recruiting for its first ever Chief Information Officer.

Beginning now and in the years to come, our organization must place a higher priority on technology advancements to become more efficient in the services we provide internally and to the public.

In addition to technology needs, facility improvements were identified as a priority in order to provide for proper upkeep of our public facilities. Over the last several years, the County has set aside facility related funding, however has used portions of it to fund operational costs due to funding shortfalls. The Board is encouraged to limit or eliminate the use of these funds for ongoing operations and prioritize use towards critical infrastructure needs.



# REVENUES

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## General Fund Revenues

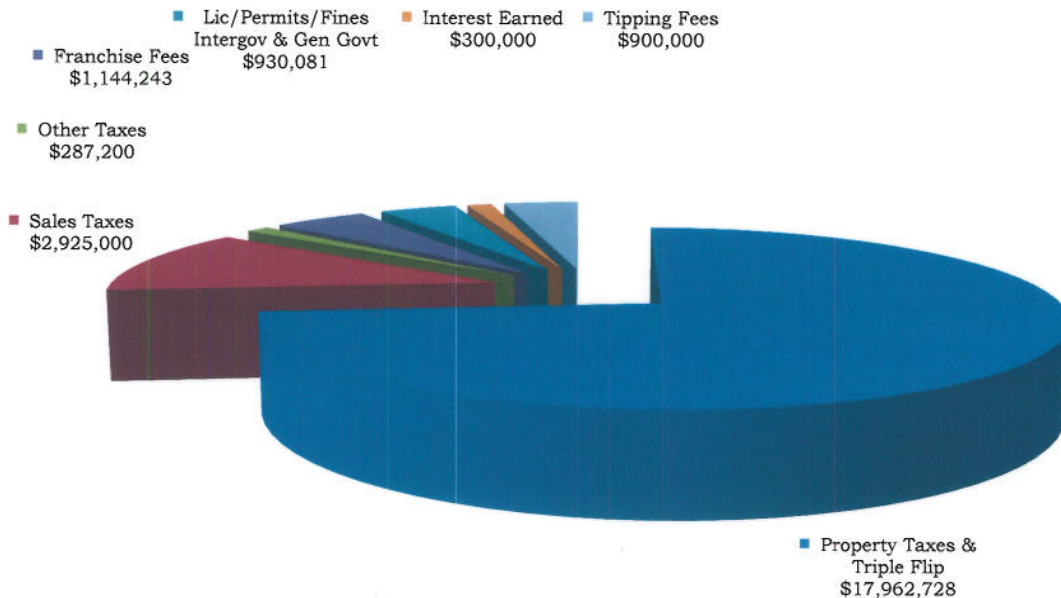
*General Fund revenues have declined by approximately \$10 million or approximately a third of available General Fund revenues during the last several fiscal years.*

Less property tax revenue collected countywide over the last several years impacted revenues and made it necessary to approve employee layoffs and enact significant cost saving measures. The decline in property tax revenue for FY 2012-2013 was not as significant in years past. For FY 2013-2014, a slight increase is budgeted. Based on preliminary estimates from the Assessor, an increase of approximately \$93,000 or 1% is budgeted.

Sales Tax revenue is forecasted to increase approximately 6.5% over last year's budgeted amount.

Interest earnings are estimated to be less than the prior year due to a combination of reduced cash in the County's General Fund and the use of significant one-time funds.

**FIGURE 1: Total General Fund Revenue Sources \$24,449,252**





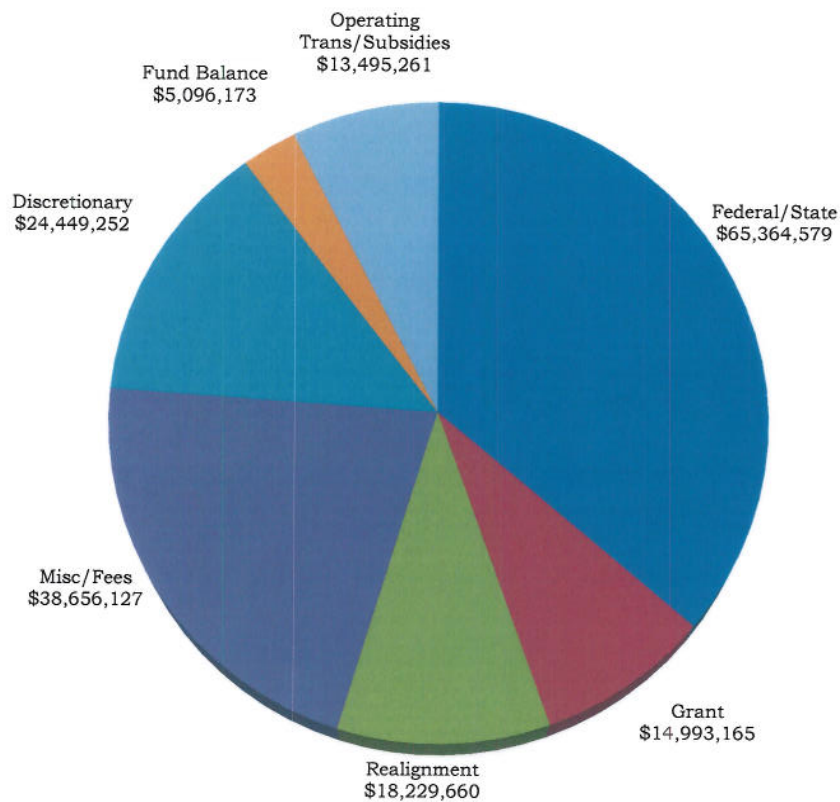
## Non-General Fund Revenues

Non-General Fund revenues have also decreased, particularly in grant programs and state mandated cost reimbursements.

Per Board policy, as grant programs have been eliminated, the costs associated to support the grant have also been eliminated.

In the area of state mandated cost reimbursements, as the state systematically eliminates or suspends reimbursements to counties for state mandated programs as a cost savings for the state budget, they are still requiring counties to perform the mandated service. Counties have no choice but to absorb the cost or not implement the mandate.

**FIGURE 2: Total of All Revenue Sources \$180,284,217  
(General Fund and Non-General Fund)**

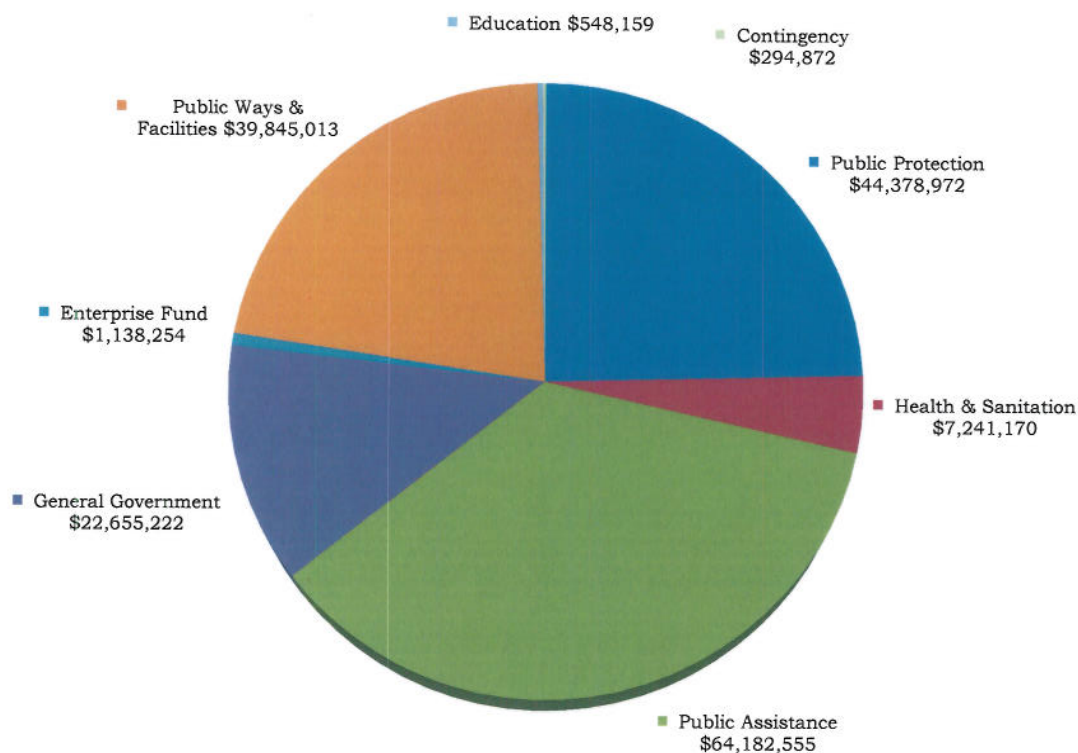


## EXPENDITURES

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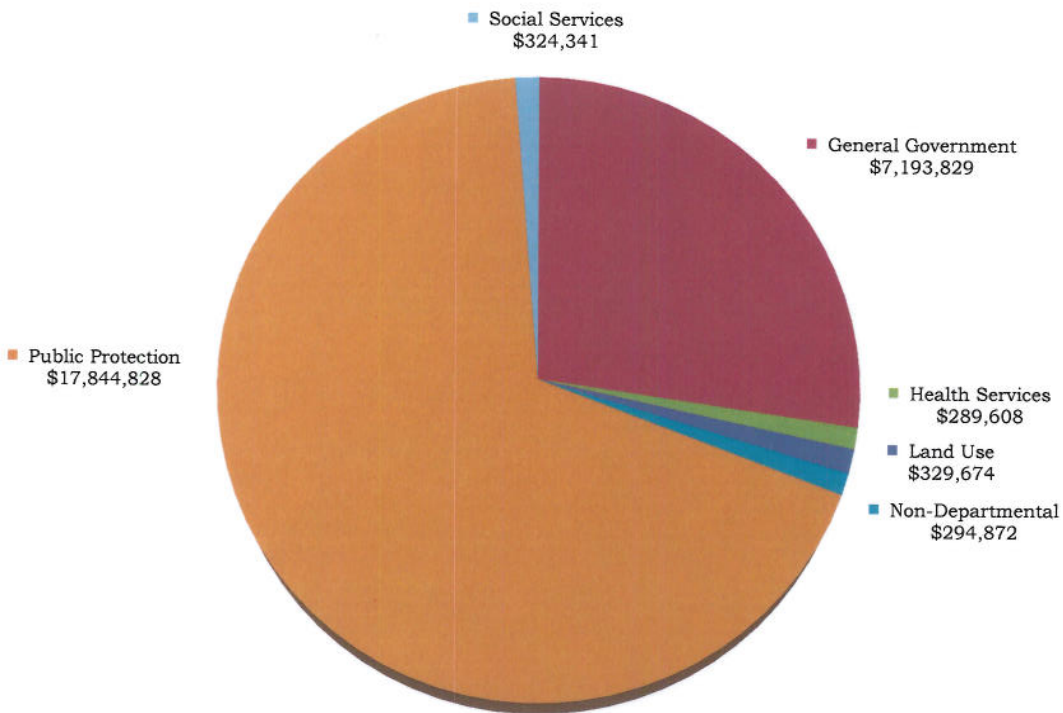
Departments have reduced their operating budgets in several different ways. Reducing operating expenses such as office supplies, travel, training and fixed asset purchases have occurred, however the most significant reductions relate to our workforce.

**FIGURE 3: Total Expenditures \$180,284,217  
(General Fund and Non-General Fund)**





**FIGURE 4: Total General Fund Expenditures by Function \$26,277,152**



Functional groups are identified based on type of County service provided and also grouping identified in the County Budget Act. Public Protection includes Public Safety departments (i.e. Sheriff, Jail, Juvenile Hall, Probation, DA) as well as Agriculture Commissioner, Code Enforcement and County Share Trial Court. General Government includes Board of Supervisors, County Counsel, Library, Treasurer, etc. Health Services includes Health, Environmental Health and CMSP. Land Use includes Planning, Public Works Road, Surveyor, etc. Social Services includes Welfare Administration, Veterans and Housing programs. Non-Departmental includes Contingencies.

## **RESERVES AND CONTINGENCIES**

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### General Fund Reserves

For Fiscal Year 2012-2013 no reserves were recommended to be used to assist in funding operations. For Fiscal Year 2013-2014, it is recommended that the Board of Supervisors use reserves to balance the budget and unfortunately, fund ongoing operations.

Staff has reviewed our current reserve policy, as well as recommendations from the Government Finance Officers Association and Standards and Poors and is recommending a change in our reserve policy, which in essence lowers the amount in General Fund Reserves from 6% to 5%. The dollar amount is as follows:

FY 2012-2013	\$ 1,442,588	General Fund Reserves
FY 2013-2014	\$ 1,153,705	Recommended General Fund Reserves

While this is a very difficult recommendation to make, additional reductions in our service levels would be necessary if not approved. In addition, the reduction in reserves may impact the County's credit rating and results in the County having less in reserves if an emergency occurs. Interest earnings as well as cash flow are also negatively impacted.

### General Fund Contingencies

Also recommended is a reduction in the amount of General Fund Contingencies. Similar to reserves, this is not a recommendation that we would like to make, but a necessary one in order to further cuts. The dollar amount is as follows:

FY 2012-2013	\$ 594,872	General Fund Contingencies
FY 2013-2014	\$ 294,872	Recommended General Fund Contingencies

It is recommended to fund contingencies at a higher level should adequate fund balance revenues be available. The ability to do this will not be known until after the financial books are closed and analyzed during the month of July.

The General Fund Reserve and General Fund Contingency, as well as the importance of maintaining them at policy level, is critical to the financial health of Yuba County. As the Board recalls, in FY 2011-2012 S&P conducted an unannounced credit rating. Significantly stated was the County's following of policies and goals and the levels of our reserves and contingencies. In a time where many public agencies were being downgraded, the County maintained its current credit rating of A. That may not be the case for Fiscal Year 2013-2014.



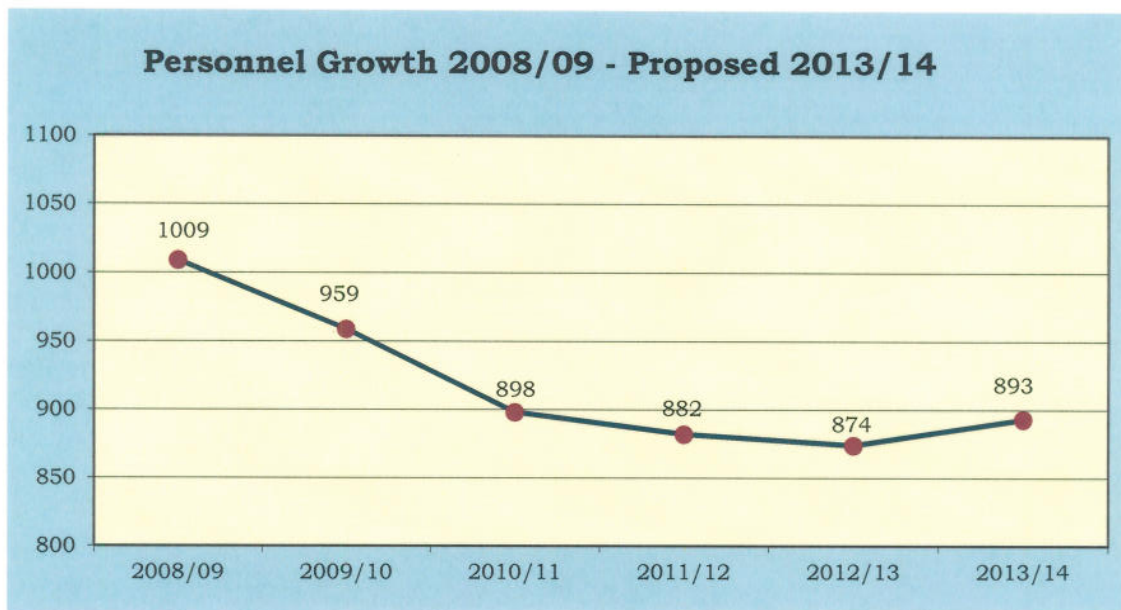
## WORKFORCE

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Reductions that impact our workforce are being proposed by nearly all departments including:

- Deleting 5 filled positions
- Deleting 10 vacant positions
- Un-funding of 21 positions

**FIGURE 5: Annual Position Allocation Totals**



## OUR ACCOMPLISHMENTS

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Through difficult fiscal times over the last several years, our organization continues to provide services to our residents through being resourceful and extremely creative. The following represents a partial list of projects and efficiencies we have achieved:

Levee Improvement Project – Work continues with the Three Rivers Levee Improvement Authority to enhance the safety of our levees.

Economic Development and Business Retention – These efforts continue to be ongoing. Working with business on a constant basis through the County's Economic Development Advisory Commission as well as the annual Perspectives event assist in highlighting our successes while improving our work with our local businesses.

Solar / Energy Efficiency Project – This project is completed.

Countywide Fees – Through a significant effort by the Community Development and Services Director and his staff, countywide fees have undergone a massive overhaul that resulted in over 500 fees being eliminated and several being reduced. Proper categorization of the fees as well as providing better access to the public has greatly assisted the process and reduced concerns and questions regarding specific fees.

Sycamore Ranch – Consistent with our Parks Master Plan and by using Non-General Fund dollars designated for parks, staff took advantage of the sale of land known as Sycamore Ranch, located next to the scenic Yuba River. Since the purchase, numerous improvements have been made to the property that offers our residents and visitors a fantastic camping / recreation site that provides access to the Yuba River. Sycamore Ranch continues to be a work in progress with improvements being made on an ongoing basis as well as a full-time caretaker on site.

Solid Waste Collection & Disposal Feasibility Study – Each member of the Regional Waste Management Authority approved eight year franchise agreements with the current contract provider to continue waste collection and disposal activities. Subsequent to that, and in preparation for future years to place participating RWMA jurisdictions in a more competitive environment, a feasibility study with an outside vendor was launched through the RWMA with assistance provided local agency managers. Results are being compiled and should be presented prior to the end of this calendar year.



## **PLANNING FOR OUR FUTURE**

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### Technology Infrastructure

As mentioned previously, this project will enhance our organizational functionality and enable us to enhance our services, while concurrently providing for a more secure environment.

### Capital Improvements

Major public works infrastructure projects are planned for the upcoming year. Projects include the start of the design phase for the Feather River Blvd/State Route 70 interchange project.

### Zoning / Development Code Update

Anticipated completion of the County's Zoning / Development Code is anticipated during the course of this fiscal year. A necessary project as a result of our General Plan Update, the project will assist in clarifying land use / development policies for our communities.

### Employee Development

To compliment the Executive Leadership and Supervisory Development programs created several years ago, the Yuba County Academy was created to provide a development and career building opportunity for all employees in our organization. With the intent of having every employee attend this unique academy over several months, the first class was recently completed. Participants built relationships across individual departments, engaged in project management and received customer service, budget development and "understanding change" training. The next class will begin in the fall.

## SUMMARY

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The budget presented today continues to provide for essential community services and, where possible, minimizes potential service level impacts. I sincerely appreciate the hard work of all department heads and management for their leadership. The last few years have been extremely difficult, and our leadership team has managed well with fewer resources. They continue to work collaboratively to resolve current and future challenges. Our workforce is commended for their leadership and dedication.

As stated in years past, I am thankful for the opportunity to serve the Board, our employees and, more importantly, our communities. Your executive leadership team and employees have worked very hard and been creative, all the while remaining focused on providing the best service possible.

It is recommended that the Board of Supervisors:

1. Accept the Proposed Budget for Fiscal Year 2013-2014 and direct staff to make available copies for public review, and;
2. Acknowledge that:
  - a. The Proposed Budget estimated expenditures are balanced with estimated revenues;
  - b. Although the Proposed Budget is balanced, it is accomplished with the use of limited one-time funds, therefore is not structurally balanced.
  - c. Actions by the State of California will require significant adjustments to the Proposed Budget as adopted by the Board.
  - d. Restoration of recommended reductions will require equivalent reductions in funds from other County priorities.
3. Adopt the Proposed Budget for Fiscal Year 2013-2014 as the County's interim spending plan, including position allocation changes.
4. Set dates for Fiscal Year 2013-2014 Budget Workshops of August 13<sup>th</sup> and August 20<sup>th</sup>.
5. Set public hearings for September 17<sup>th</sup> – 24<sup>th</sup> for adoption of the Final Budget.

Sincerely,

Robert Bendorf  
County Administrator