

The County of Yuba

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Yuba County Board of Supervisors
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FISCAL YEAR 2014-2015 PROPOSED BUDGET

INTRODUCTION

In accordance with local ordinance and State Law, presented to the Board of Supervisors is the Fiscal Year 2014-2015 Proposed Budget, as recommended by the County Administrator.

After much thought about previous budget messages and the focus of the budget document, we have transitioned to more of a "what's behind the numbers" document. Our Fiscal Year 2014-2015 budget still presents information required by state law and what is normally expected in a budget document, but my hope is the reviewers receive further explanation.

Local Government budgets should be more than the stating of revenue and expenditure numbers. For Yuba County and its recommended budget one can see historical trends, challenges, accomplishments, an outline of critical services our departments provide to the public and a planning document for the upcoming fiscal year and beyond.

Numerous initiatives are underway within our organization to plan for the future and further explanation is contained in this message and in the departmental narratives. From employee development to infrastructure improvements, public health initiatives and economic development, the leadership of Yuba County remains committed to challenging ourselves everyday so our communities and the people we serve receive better services and not just the status quo. We don't take that responsibility lightly nor are we dismissive at the value brought through partnerships with other local agencies, community groups and individuals.

Budget messages over the last five years have focused on the most difficult economic time facing Yuba County since the Great Depression. The recovery process has been very slow and the public and our organization is reminded everyday of the lingering

impacts. Our local government can choose to complain and agonize over the impacts, claim to be the perpetual victim of state regulations or costs we cannot control, but complaining simply has no value. Don't get me wrong, we will still advocate on behalf our County, but looking forward, being innovative and taking charge of our future is what we choose.

There is no doubt that one day we will be back to our previous local revenue and service levels. Until that day, our charge has been and will continue to be to work smarter, strive to be more efficient, and ultimately become better stewards of the public trust. Regardless of specific duties our individual employees may have, our organization works better because we work together.

The last five or six years have been the most challenging throughout my career as a public servant. I know for me, and those I work alongside, a greater appreciation has been gained for the opportunity we are given to serve the residents of Yuba County. It is truly a privilege for all of us.

The following document represents the hard work and dedication of dozens of department heads, managers, and fiscal and support staff.

EXECUTIVE SUMMARY

What is in store for the Fiscal Year 2014-2015 budget? It is technically a balanced budget, but requires the use of one-time funds to do so. There is an increase in the overall budget compared to last year.

TOTAL BUDGET

| | |
|-----------------------|---------------|
| Fiscal Year 2013-2014 | \$175,399,956 |
| Fiscal Year 2014-2015 | \$189,675,582 |

The primary increases are mostly due to large capital projects through our Public Works Department of over six million dollars, Health and Human Services Agency – two million dollar increase for programs, the Neighborhood Stabilization Program which is approximately two million dollars and the first levee bond payment of approximately two million dollars. Other increases are primarily related to increased costs of business further explained in this budget message.

During the budget development stage, which began in December 2013, departments were asked to absorb cost increases and reflect that within their respective budgets. While some larger departments were able to absorb those increases, most were not. The recommendations from departments, if they had to absorb a majority of cost increases, would have left many of them at staffing levels (due to projected layoffs) that would result in a significant decrease in services to the public. In January of this year, staff estimated and presented to your Board that cost of business increases and potential revenue reductions would impact the General Fund.

| | |
|----------------------------------------------------|---------------------|
| Health Insurance / Salary / Pension Cost Increases | \$ 1,208,012 |
| Use of previous year Fund Balance | \$ 1,747,925 |
| Projected General Fund Revenue Increase | \$ <u>(413,876)</u> |
| TOTAL | \$ 2,542,061 |

Non-General fund departments that are appropriated minimal to no funding from the General Fund such as the Health and Human Services Agency, Child Support Services Agency and fee for service based departments in the Community Development and Services Agency have their own challenges meeting their revenue needs as well. For example, with fee based departments the increases in County costs drive the need to raise fees to cover our costs, but raising fees does not help the businesses we are trying to provide services to and is contrary to our Strategic Priority of Economic Development.

Expenditure increase categories for this year's budget are similar to previous years. Increases are attributed to salaries, benefits, fuel and supplies. Benefit costs related to employee pensions and health insurance continue to rise at alarming rates.

After all budgets and projected revenues were analyzed, a General Fund structural deficit of approximately \$691,000 remains.

While a difficult recommendation to make, use of one-time revenue in the aforementioned amount is recommended. The one-time revenue source is from property based auction proceeds that occurred during Fiscal Year 2013-2014. General Fund contingencies and General Fund Reserve levels remain at or above budgeted policy levels. A more detailed summary is provided later in the budget message.

The recommended budget assumes a carryover General Fund balance of approximately \$1.2 million, which is significantly less than the \$1.7 million adopted with the final budget for Fiscal Year 2013-2014. That amount may increase based on closing of the financials in July/August. Should additional funding become available between adoption of the Proposed and Final budgets, it is recommended that one-time auction proceed funding be replaced and the like amount be placed into one-time funds such as contingencies, reserves or capital needs.

REVENUES

General Fund Revenues

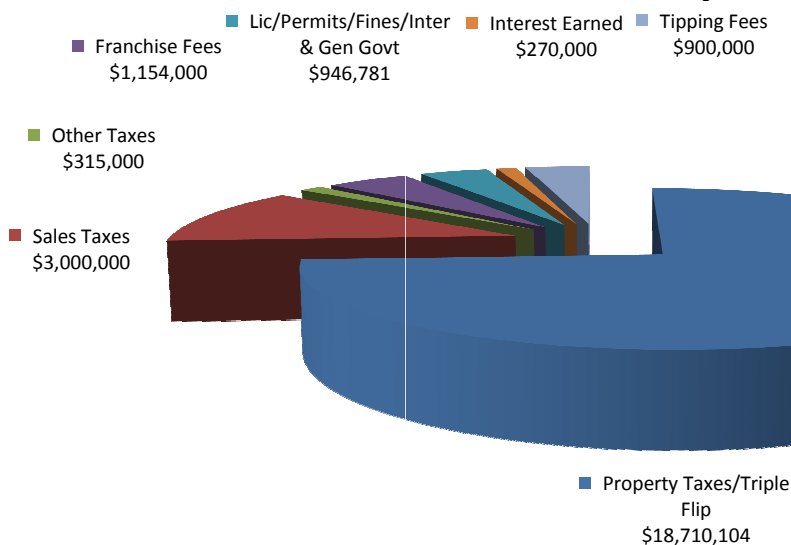
We are pleased to report that beginning with the Fiscal Year 2014-2015 revenues, we are heading in the right direction, albeit at a very gradual incline, and that for the first time in nearly six years, budget estimates provide for an increase in General Fund revenue. The increased revenues are primarily attributed to property tax, triple flip (a factor of the increased property tax) and sales tax. Other significant General Fund revenues such as interest earnings, franchise fees and tipping fees remain fairly flat or show slight decreases.

| Type of Revenue | FY 13/14 Budgeted | FY 14/15 Budgeted | Increase/Decrease |
|-----------------|-------------------|-------------------|-------------------|
| Property Tax | \$9,360,624 | \$9,800,000 | 4.69% |
| Triple Flip | \$7,075,000 | \$7,288,000 | 3.01% |
| Sales Tax | \$2,200,000 | \$2,300,000 | 4.55% |

General Fund revenues have declined by approximately \$10 million or approximately a third of available General Fund revenues during the last several fiscal years preceding the increase projected for FY 2014-2015.

The decrease in the above listed revenues negatively impacted our ability to provide services, making it necessary to approve employee layoffs and enact significant cost saving measures. For FY 2014-2015, a slight increase in most of these revenue categories is anticipated. 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 one-time funds.

FIGURE 1: Total General Fund / Discretionary Revenue Sources \$25,295,885

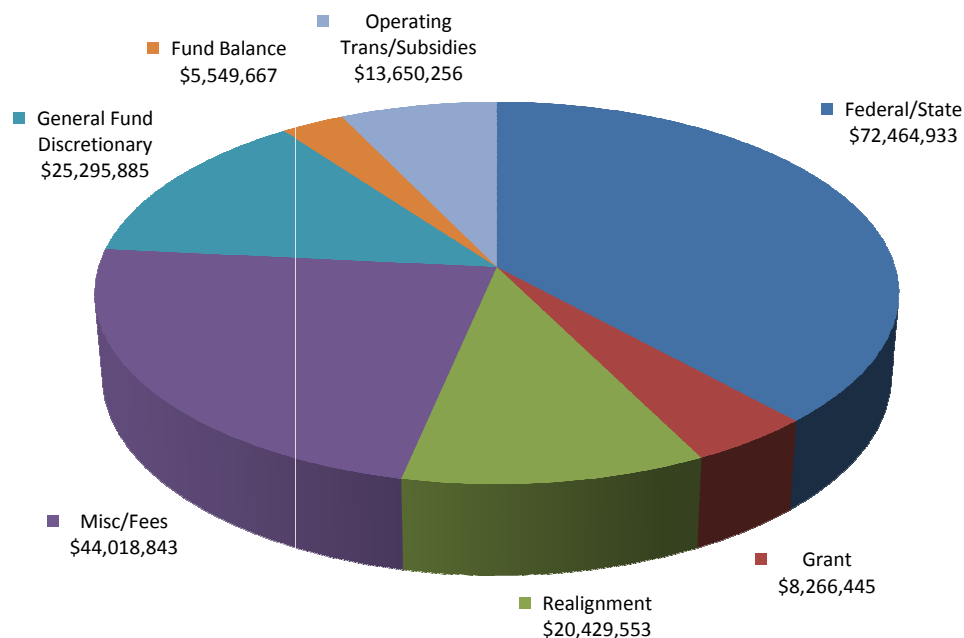


Non-General Fund Revenues

Non-General Fund revenues are performing well. However grant programs and state mandated cost reimbursements are declining or not paid at all.

Per Board policy, as grant programs have been eliminated, costs associated with the grant have also been eliminated. The same is recommended and has been supported by the Board for programs the County administers on behalf of the State and/or Federal governments. Historically the state has systematically eliminated or suspended reimbursements to counties for state mandated programs as cost savings for the state budget, but 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 \$189,675,582
(General Fund and Non-General Fund)**



EXPENDITURES

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 \$189,675,582
(General Fund and Non-General Fund)**

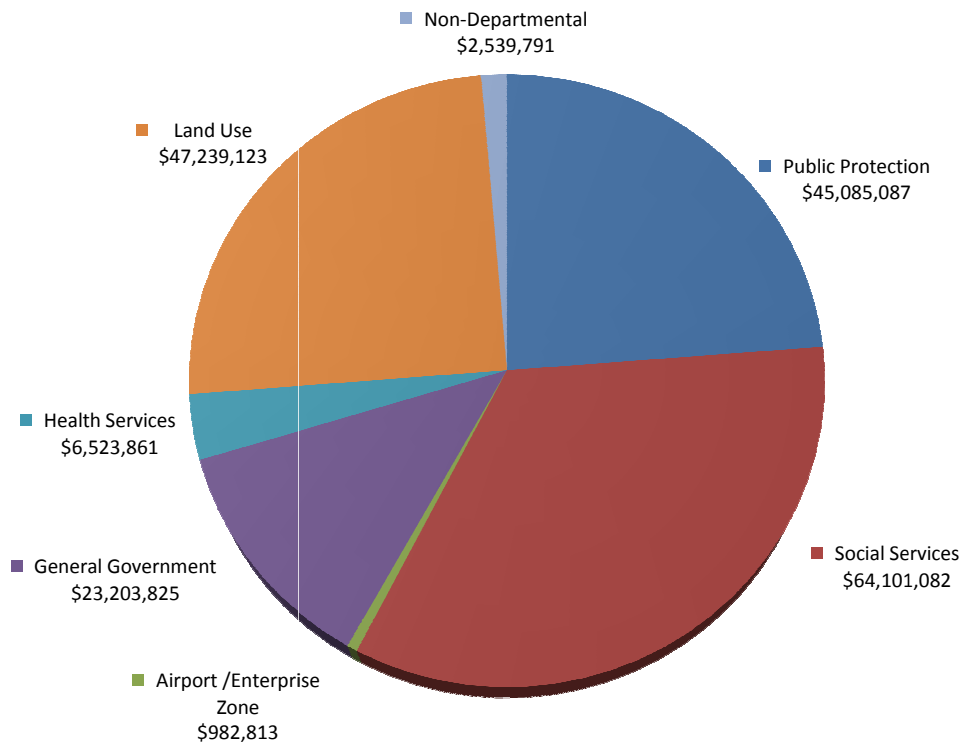
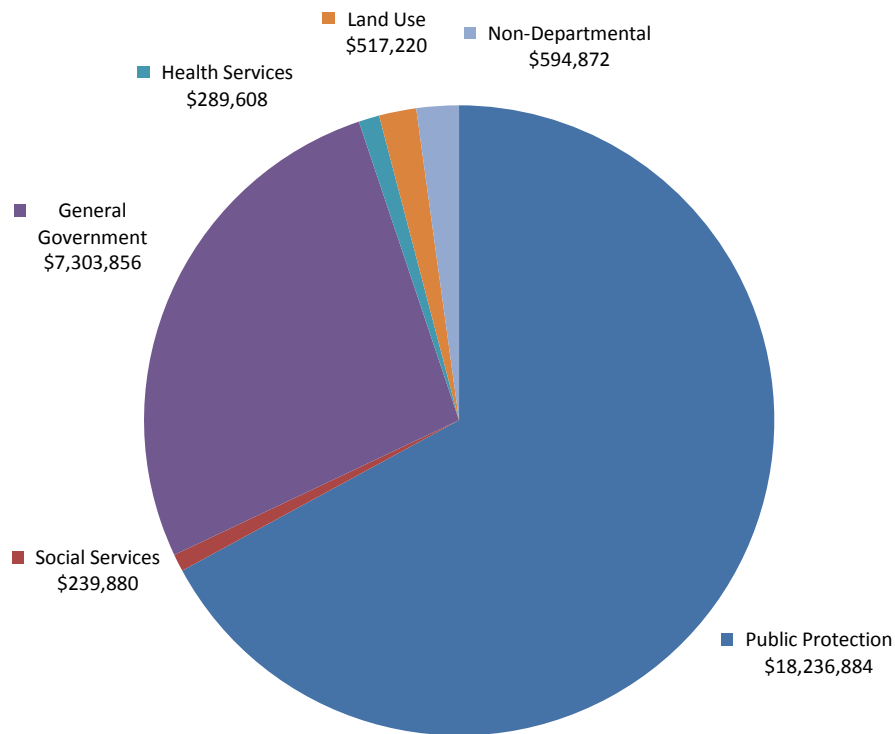


FIGURE 4: Total General Fund Expenditures by Function \$27,182,320



Functional groups are identified based on type of County service provided and grouped according to the County Budget Act.

Public Protection

Sheriff
Jail
Juvenile Hall
Probation
District Attorney
Ag Commissioner
Code Enforcement
Public Defender
County Share Court
Child Support Services

Land Use

Planning
Public Works
Building Department
Roads
Surveyor

General Government

Board of Supervisors
County Administrator
County Counsel
Library
Treasurer-Tax Collector
Auditor-Controller
Human Resources
Clerk-Recorder
Clerk of the Board
Assessor
Administrative Services
Information Technology

Non-Departmental

Contingencies
Reserves
Debt Service

Health Services

Health Department
Environmental Health
CMSP

Social Services

Welfare Administration
Veterans Services
Housing Programs
Child Welfare Services
CalWorks
Public Guardian

RESERVES & CONTINGENCIES

General Fund Reserves

No General Fund reserves are being recommended to balance the budget. For Fiscal Year 2014-2015, reserve levels are recommended to be above the stated policy level of 5%.

This action is consistent with Board direction to achieve a stated goal of a 10% reserve funding level within the next five years. The proposed budget increases the reserve funding level by \$300,000. The new reserve amount increases the policy level from 5% to 6.96%.

| | | |
|--------------|--------------|-----------------------------------|
| FY 2013-2014 | \$ 1,442,588 | General Fund Reserves |
| FY 2014-2015 | \$ 1,742,588 | Recommended General Fund Reserves |

As stated previously to the Board, reducing reserve levels or not meeting stated goals may impact the County's credit rating, results in having fewer reserves if an emergency occurs, and impacts interest earnings.

General Fund Contingencies

General Fund Contingencies are recommended at the same level as FY 13/14 which is slightly above the 1.5% policy level at 2.19%.

| | | |
|--------------|------------|----------------------------------------|
| FY 2013-2014 | \$ 594,872 | General Fund Contingencies |
| FY 2014-2015 | \$ 594,872 | Recommended General Fund Contingencies |

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. Credit ratings have occurred in the last several years and the County is currently underway of having an unannounced credit rating performed. The overall financial picture of the County must have adequate reserves and contingencies as well as a demonstration that we are controlling our costs to meet ongoing revenues.

DEBT SERVICE

Debt Service

The County continues to pay debt service for the Solar/Infrastructure replacement project. The payment for this debt service is made through energy savings produced by solar generation.

For Fiscal Year 2014-2015, the County will be making the first debt service payment for the levee construction bonds that were issued in 2008. The first payment is due in March of 2015.

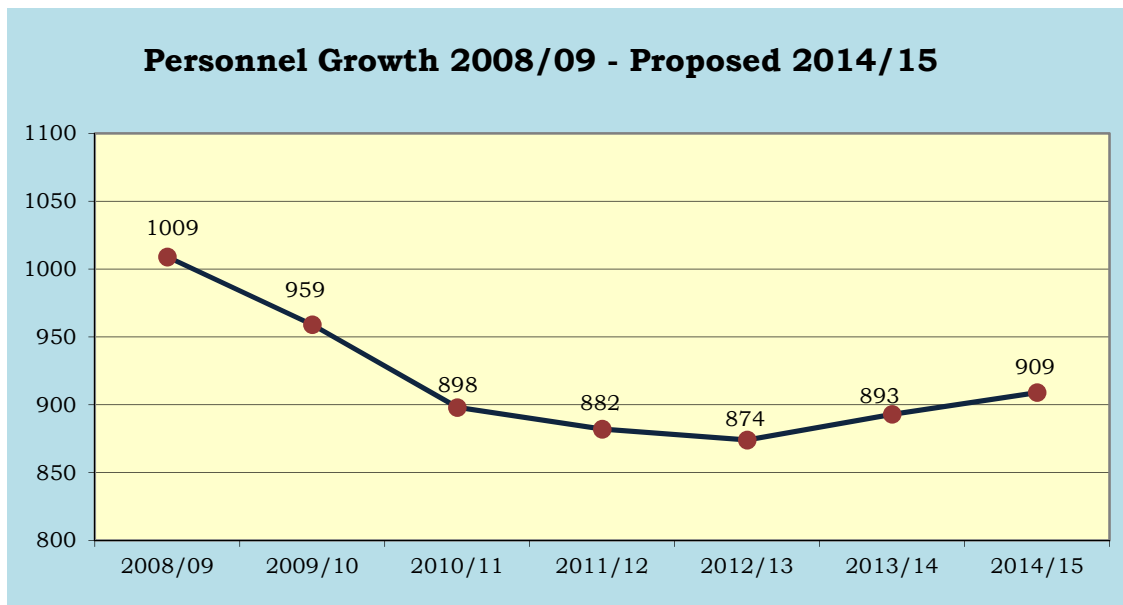
| | |
|---------------|--------------|
| Solar Project | \$ 902,018 |
| Levee Bonds | \$ 1,944,919 |

WORKFORCE

For Fiscal Year 2014-2015 there are no significant reductions to our workforce and in fact there is an increase, of which is attributable mostly to the Health and Human Services Agency. The following is a summary for all departments and the more detailed recommendation is provided for in the budget.

- Adding 20 new positions
- Deleting 7 vacant positions
- Funding 4 vacant positions
- Un-funding 1 vacant position

FIGURE 5: Annual Position Allocation Totals



CHALLENGES

State Mandates – In the Governor’s May revision budget, he proposed to begin paying off the pre-2004 mandates owed to counties, cities and special districts. Statutory requirements state that the entire debt should be paid by 2020-2021. Unfortunately, the legislature has not been cooperative in accelerating the debt repayment to local governments, even though we have assumed significant shifts in programs from the State such as prison realignment.

Property Tax Administration Fees – The County will continue to receive a reduced amount compared to previous years from cities as a result of the California Supreme Court ruling in the case *City of Alhambra vs. Los Angeles County*. As previously stated, all property tax activities are performed by the County, from assessments to appeals, calculations and collections. The County pays for over 90% of those activities out of local tax payer funds.

Recognizing the State of California does not pay any administration fees for property tax receipts, even though it receives *80% of the 1% for schools*, Governor Brown made note of it in his budget and proposed a plan to provide some funding to counties. Unfortunately, it would only apply to nine counties, three rural, three urban and three suburban and it would be a competitive grant and counties must provide a local match.

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. At the time of completion of this budget message, CalPERS had not released the monthly premium rates for the upcoming calendar year. Budget estimates for Fiscal Year 2014-2015 health insurance premiums are 5% over 2013 rates.

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 most 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 and Safety 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.

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 reduction in the allocation received by counties is anticipated for Fiscal Year 2014-2015. Advocacy efforts are underway to have the Governor make the allocation whole so efforts can continue to move forward and the partnership with the State does not become suspect.

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 \$1,255,000 is estimated to be used in FY 2014-2015, thus continuing an operating structural budget gap for the next fiscal year.

Pensions – Public Employee Pension Reform Act (PEPRA) became effective January 1st, 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. Recently, a new assumption related to mortality rates of members in the pension system poses a severe challenge for local governments and affordability of pension costs. In summary, employer rates are expected to rise 6% to 8% total over the next five to six years, thus putting a further burden on already strapped budgets.

Drought Conditions - Earlier this year, Governor Brown enacted certain provisions to declare a State of Emergency for California as a result of the drought. Approximately \$687 million was appropriated in the 2014 fiscal year and additional state funding is proposed in the budget for issues related to the drought. For Yuba County, the Office of Emergency Services is anticipating an active fire season; however we are hopeful that prevention efforts in past years will avoid significant danger. County emergency response personnel and support staff are prepared to respond.

OPPORTUNITIES

Technology - In 2013, Yuba County hired its first Chief Information Officer (CIO) and began the process of the Information Technology Division becoming a stand-alone department. That transition is set to take place upon adoption of this year's budget. Initial planning by the CIO has involved customer surveys from internal technology users, a review of user support systems in place, and also systems currently used by the County.

The Board has placed a high priority on advancements and efficiencies through technology. A specific focus is placed on e-government, improving customer service support and further identifying roles and responsibilities.

Capital Improvements – Likely to begin just prior to this fiscal year, the Public Works department will begin managing construction of the County's second interchange project, this one located at Feather River Blvd/State Route 70.

With a construction manager aboard, the bid process for completion of tenant improvements to the Sheriff's Department building on Yuba Street will commence soon. Once completed, the Sheriff's Administration and Operations functions will move to the new location and provide for a much more usable configuration.

Zoning / Development Code Update - 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 as well as further our goals of being a business friendly County by creating greater flexibility and certainty for our businesses.

Employee Development - The Yuba County Academy was created to provide a development and career building opportunity for all employees in our organization. The Academy has conducted three Employee Development classes thus far with approximately 25 employees across multiple departments in attendance at each class and plans for three more in FY 2014-2015. The classes span over three days and participants build/reinforce relationships across individual departments and engage in several employee development disciplines such as personal awareness and management, customer service, budget development and leadership. The next class will begin in July.

Strategic Planning Workshop – Approximately five years ago, the Board of Supervisors adopted a set of strategic priorities to serve as a guide for our daily business (Responsible Growth, Public Safety and Health, Economic Development, and Organizational Excellence). In February 2014, the Board of Supervisors held a workshop to revisit those strategic priorities and establish key objectives related to each priority. Focusing on these objectives was integrated into the budget preparation process with as many of the projects or programs as was feasible contained in the budget. For example, one of the objectives under Public Health and Safety is the construction of the new Sheriff's Administration Building, which is proposed in the FY

2014-2015 budget and under Responsible Growth is an objective to update the Development Code, which is proposed to be completed in FY 2014-2015.

Tax Sharing Agreement between the City of Wheatland and Yuba County – A work in progress for over two years, an agreement was reached to establish a Master Tax Sharing Agreement. The result is a \$4.5 million net positive benefit for Yuba County to continue to provide countywide services for new residents of planned development within the City of Wheatland. Subsequent to the tax agreement, Wheatland received approval from LAFCO on the annexation of the land that, when developed in the future, will generate additional residences and businesses to generate the additional revenue needed for services.

Economic Development and Business Retention – The County celebrated our fifth Business Perspectives event in April 2014 and it proved to be the most attended to date. The growing success of this event serves as a catalyst to further our economic development efforts while honoring those that continue to have their businesses located in Yuba County.

Regional Fire Study – With the approval of local fire agencies in Yuba County, Wheatland Fire Authority, City of Marysville, Linda Fire Department and Olivehurst Fire Department, a study to examine regional fire efficiencies is underway through a contract entered into by the County Administrator on behalf of aforementioned partners. All parties are actively contributing to further examination and preliminary results should be forthcoming in the summer of 2014.

Sycamore Ranch – Consistent with our Parks Master Plan and by using Non-General Fund dollars designated for parks, several years ago 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. This last year, through the efforts of our crews in the Public Works department and grant funding through the State, gazebos and barbeque areas with electricity are being installed in the day use area that will provide more opportunities for the public to hold events such as weddings and family gatherings in this picturesque setting of the County.

SUMMARY

It is recommended that the Board of Supervisors:

1. Accept the Proposed Budget for Fiscal Year 2014-2015 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, a carry forward cash balance and one-time 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 may require adjustments to the Proposed Budget during Final Budget Hearings.
 - d. Restoration of recommended reductions will require equivalent reductions in funds from other County priorities.
3. Adopt the Proposed Budget for Fiscal Year 2014-2015 as the County's interim spending plan, including position allocation changes.
4. Set dates for the Fiscal Year 2014-2015 Budget Workshops for August 12th and August 19th.
5. Set public hearings for September 16th – 23rd for adoption of the Final Budget.

Sincerely,

Robert Bendorf
County Administrator