

COUNTY ADMINISTRATIVE OFFICER'S  
BUDGET MESSAGE



## County Administrator's Office

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TO: Board of Supervisors  
FROM: Craig L. Pedro, County Administrator   
SUBJECT: Recommended FY 2014-15 Budget

The adoption of a County budget has typically involved a straight forward, two step process. The first step is adoption of a recommended (a.k.a. preliminary) budget before the end of June each year. The second step is adoption of a final budget after a formal hearing sometime in late summer. The final budget incorporates the final fund balance calculations from the Auditor/Controller and impacts related to an adopted State budget.

In recent years, the process of adopting a County budget has been altered. While we still adopt recommended and final budgets, our preparation and public dialogue regarding the budget has become almost a non-stop, year-round process. This process now regularly includes: 1) multi-year forecasts; 2) early policy direction via Board adopted strategies which are used in developing recommended budgets; 3) confirmation that the "in process" recommended budget is consistent with the strategies and expectations of the Board; and 4) implementation of most major personnel and program actions in conjunction with the recommended versus final budget.

### DEVELOPMENT OF THE FY 2014/15 RECOMMENDED BUDGET

The FY 2014-15 Recommended Budget has been developed in the manner described above and is the product of discussions and Board actions that began in February 2014. The following were the major decision points in that process:

- **February 4, 2014 – "FY 2014/15 through FY 2018/19 Multi-Year Budget Projections"**. Staff presented the most recent version of multi-year budget forecast modeling. It was the most optimistic view of the County's long-term fiscal health since the inception of such reports indicating a relatively small, \$1 million annual shortfall amongst the County's three major operating funds (i.e. General, Fire and Roads) through four of the five years covered by the forecast. The report characterized our future challenge as follows: *"... the forecast shows the General Fund returning to a positive and improving position in FY 2016-17 while the Road Fund and Fire Fund continue to decline due to their core revenue sources (i.e. gas ...serving the Board of Supervisors, departments, and the community as good stewards of the County's fiscal and human resources through collaborative, professional and ethical leadership.*

*tax and property tax, respectively) not keeping pace with expenses.*” Stated another way, given all of the Board’s prior year budget actions, the assistance of our employees relative to bargaining and a slowly recovering economy, the County’s fiscal condition has stabilized but help is needed by way of revenue infusions in the Fire and Road Funds.

- **February 18, 2014 – “Modified FY 2014/15 through FY 2018/19 Multi-Year Budget Projections”.** New to this year’s budget process was Board direction for staff to modify the multi-year forecast to show what it would look like if the Board were to fund some high priority position restorations (e.g. Deputy County Counsel, Animal Control Officer, Deputy Sheriff, etc…) and fund the highest priority capital projects (e.g. Juvenile Detention Facility, new Jail, etc…) it would like to pursue. The result was increased forecasted deficits. Instead of the modest \$1 million annual shortfalls projected amongst the three major operating funds in the original model, forecasted deficits increased as follows:

FY 2014-15	<\$4,474,000>
FY 2015-16	<\$2,163,000>
FY 2016-17	<\$1,697,000>
FY 2017-18	<\$2,275,000>
FY 2018-19	<\$1,493,000>

This suggested that the Board be very selective in any additional ongoing costs it would commit to until operating revenues grew sufficiently to sustain them. Staff was then directed to proceed in preparing the FY 2014-15 Recommended Budget and to return on May 20, 2014 with its first cut of that budget along with a list of high priority position restorations for Board review and direction. It is important to note that returning to the Board in late May with an initial look at the budget is also new to this year’s process.

- **May 20, 2014 – “Status and Direction on Development of the FY 2014/15 Budget”.** When staff returned to the Board on May 20, the initial budget was balanced with the exception of the General Fund, Road Fund and Fire Fund. The real problem was in the General Fund which was showing a <\$1,389,782> initial deficit. The Board gave direction to use one-time funding to address some one-time expense issues (i.e. General Plan EIR work and construction costs related to the Juvenile Detention Facility) which dropped the projected deficit to <\$773,058>. Staff was then directed to utilize any combination of the following options to solve the problem:

- Work with department heads to prepare revenue and expense adjustments without assigning specific department reduction targets;
- Review all discretionary General Fund transfers out for possible reduction; and
- Use \$363,609 of Contingencies to reduce the operating deficit, if needed.

The result of the work outlined above was to be brought back for review and further modification as desired by the Board and approval at the June 3 meeting.

- June 3, 2014 - “Status and Direction on Development of the FY 2014/15 Budget – Round #2”.** Utilizing the options offered by the Board on May 20, CAO staff and department heads worked together to further update and balance the budget. These efforts resulted in a completely balanced budget that stays true to the County’s Budget Policies and Board priorities as articulated over the past several months. The Board was generally pleased with the work completed by County staff and gave approval to proceed in finalizing the FY 2014-15 Recommended Budget for adoption on June 17, 2014 with a few key changes: 1) allocate \$50,000 of one-time funding in Contingencies to fund work by a contract biologist in support of various natural resource issues and projects; and 2) allocate \$262,919 in one-time funding in Contingencies to fund replacement of weapons and vehicles in the Sheriff’s Department.

The FY 2014-15 Recommended Budget closely follows and reflects the Board direction provided above.

### SUMMARY OF RESULTING RECOMMENDED BUDGET

The FY 2014-15 Recommended Budget now before you is very much a status quo budget in terms of permanent staffing and programming levels. The major variations really have to do with changes amongst major emergency incidents and capital projects. This reinforces the notion that the County has “leveled out” financially after a 7 year run of particularly challenging budget years and has arrived at a “new normal” for base operations and staffing.

The following chart illustrates the change between the FY 2013/14 Adopted Budget and the FY 2014/15 Recommended Budget:

	<b>Adopted FY 2013/14</b>	<b>Recommended FY 2014/15</b>	<b>Change</b>	
<b>General</b>	\$58,453,562	\$57,700,360	(\$753,202)	(1.29%)
<b>Governmental</b>	\$124,257,840	\$141,399,521	\$17,141,681	13.80%
<b>Enterprise</b>	\$5,710,348	\$5,655,721	(\$54,627)	(0.96%)
<b>Internal Service</b>	\$14,755,809	\$16,082,989	\$1,327,180	8.99%
	\$144,723,997	\$163,138,231	\$18,414,234	12.72%
<b>Permanent Employees</b>	588.75	593.10	4.35	0.74%

The chart shows that the **General Fund** will actually decrease by \$753,000 under this budget. This decrease is heavily influenced by the one-time revenues and expenses related to the 2013 RIM Fire of approximately \$1.5 million included in the FY 2013-14 Budget. If one were to adjust for this one-time emergency incident, the General Fund Budget will have actually grown by \$701,000 or 1.23%.

Most notable is the \$17.1 million increase amongst the County's **Governmental Funds**. This increase is driven by inclusion of the \$16.8 million Juvenile Detention project. By way of reminder, 100% of the estimated construction cost (\$16 million) is being funded by a State SB 81 grant. The Board should also be apprised of the following adjustments made within governmental funds since the June 3 budget discussion: 1) a \$70,000 storage area network project has been re-budgeted and funded by an adjustment to the General Fund's beginning balance; 2) \$55,000 in AB 109 revenue and offsetting vehicle expense have been removed from the Jail budget. This change was made with the knowledge and concurrence of Sheriff administration; and 3) the Cabrini House acquisition has been re-budgeted requiring \$300,000 in offsetting revenue and expense in both the Behavioral Health and Behavioral Health Housing Funds.

The growth of \$1.3 million amongst the County's **Internal Service Funds** is primarily due to a combination of \$750,000 in increased health and disability insurance costs borne by County employees and a \$350,000 increase in leave liability funding in preparation for the retirement of more of the County's "baby boomer" era employees.

The **overall budget** will be \$18.4 million higher. However, by again adjusting for the Juvenile Detention project, the remainder of County budget will grow by a modest \$1.6 million or 1.12%. Summary charts (a.k.a. **Schedule 1s**) for each group of funds can be found under *Tab 3*. Of the 4.35 **overall position gain**, 3.6 FTE were approved during the current fiscal year (2 FTEs added in Behavioral Health, 0.6 FTE in Health and 1 FTE in the Building Division). A mere 0.75 FTE increase is recommended in this budget.

## **PERSONNEL ACTIONS**

A list of personnel actions recommended and contained in the Recommended Budget can be found on the "**FY 2014/15 Recommended Budget Personnel Changes**" spreadsheet (*Tab 2, Attachment A*). The chart details a number of reclassifications, position conversions, additions, and reductions. Most personnel actions are referenced for immediate implementation. The resulting change in total "**Allocated Positions by Department**" can be viewed in *Tab 2, Attachment B*.

Also provided for reference and use during the FY 2014-15 Final Budget Hearing on September 2, 2014 is the "**High Priority Position Restoration List**" contained in *Tab 2, Attachment C*. By the time of the hearing, more will be known in important areas such as: 1) final fund balances; 2) updated revenue estimates; 3) the outcome of the miscellaneous PERS cost sharing contract vote (*which could increase County expenses and deficits significantly if it fails*); 4) final State Budget actions with related revenue and expense impacts on the County; and 5) actual savings figures from the PERS Safety Side Fund refinancing.

## **INFORMATION TECHNOLOGY PROJECT LIST**

The Information Technology Steering Board (ITSB) has completed work on the FY 2014/15 Project List. It has been greatly constrained given staffing and general funding limitations. The recommended list can be found in *Tab 2, Attachment D*.

## **CAPITAL PROJECTS**

The recommended capital project lists for both the Capital Fund and Road Construction Fund can be found in *Tab 2, Attachments E and F*, respectively.

## **GENERAL FUND CONTINGENCIES**

General Fund Contingencies have been established at \$1,480,921. \$1 million is needed to comply with County Budget Policy to set-aside 1% of the total operating budget for governmental funds. The remaining \$480,921 is available for one-time uses (e.g. cash match for the new County Jail, equipment needs, major road maintenance projects, increasing the County's General Reserve, etc...). However, the Board may choose to use some or all of this to address on-going operational needs. To do so would be in conflict with existing Budget Policy.

## **USE OF ONE-TIME DOLLARS IN THE GENERAL FUND**

The Recommended General Fund Budget contains one major source of one-time funding:

Year-End Projected Undesignated Balance	\$2,480,564
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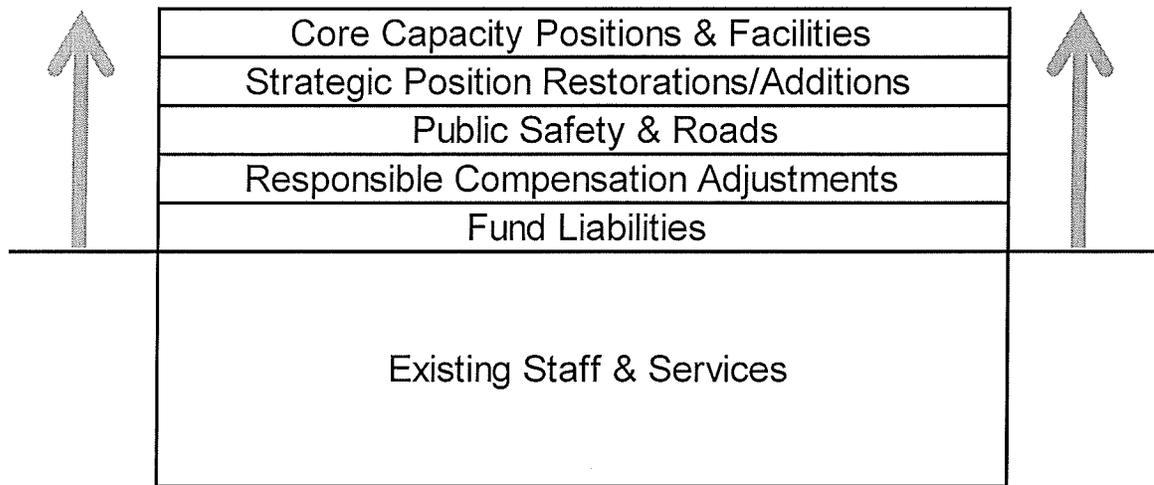
This one-time funding is being applied as follows:

Contingencies	\$1,480,921
Re-budget General Plan EIR Work	100,000
Transfer to Capital Fund for Juv. Det. Fac.	516,724
Contract Biologist	50,000
Sheriff Weapons and Vehicles	262,919
Re-budget IT Project	70,000
<i>Ongoing Operational Costs</i>	<u>0</u>
	\$2,480,564

## **LOOKING FORWARD TO THE FINAL BUDGET HEARING**

The FY 2014-15 Recommended Budget has been vetted by the Board as outlined previously and is consistent with the Board's adopted budget policies. Therefore, staff is confident that this budget plan has been built on a solid financial foundation and reflects the Board's general priorities. When the Board enters the Final Budget Hearing on September 2, it will have refined revenue and expense numbers and answers to important questions that could materially impact this budget (e.g. will the Miscellaneous PERS cost sharing contract be approved?).

Staff wanted to remind the Board of its adopted Priorities-Based Budgeting System (Tab 2, Attachment G). This system was intended to guide decision-making at a time when base staffing and services are being funded and the Board is deciding where future growth in discretionary revenues should be applied. The chart below attempts to depict how the Priorities-Based Budgeting System should work:



Below the line is a block that represents the *New Normal* of base staffing and services. *We are at this point now.* While managers are expected to continually evaluate the most cost-effective manner by which to offer these services, this block does represent a base-line to be supported before growth in the County's discretionary revenues (e.g. property tax, sales tax, TOT, etc...) are applied elsewhere. *With base staffing and services funded, where should future growth in discretionary revenues be applied?* Such investments should be made in the general order (versus strict linear order) of Board determined priorities as depicted in the blocks stacked above the line.

*For such a system to work, great discipline must be exercised to pay down liabilities, guard against budget creep amongst base-line staff and services and negotiating labor agreements that are fair and based on sustainable compensation systems. Only by doing these things will the Board be allowed to make future investments consistent with their priorities.*

Again, the FY 2014-15 Recommended Budget is built on a solid financial foundation and the above is offered only as food for thought for the Board as it readies itself for additional decision-making in the Final Budget Hearing.

## **Recommendation**

It is recommended that your Board approve the FY 2014/15 Recommended Budget by:

- A. Adopting the FY 2014/15 Recommended Budget as presented;
- B. Approving all associated staffing changes;
- C. Authorizing staff to proceed with acquisition of fixed assets and capital projects prior to the final budget hearing; and
- D. Approving the FY 2014/15 Information Technology Steering Board Project List and authorizing staff to proceed with projects prior to the final budget hearing.

Cc: Department Heads  
 CAO & HR Staff  
 All Bargaining Groups