

Our next challenge will be to construct a budget for next fiscal year that balances the need to meet service demands with our shrinking resources. It is necessary to reduce FY 09/10 general fund allocations by 10 percent, as reported to you in the first-quarter budget report. Departments were asked to draft plans adhering to this cut. A summary of those plans is attached to this report (Attachment B). Department heads made a number of assumptions as they created their budget plans; should these assumptions not come true, additional adjustments might be necessary.

Some departments requested additional funding to support on board staff before taking reductions, however, adherence to cost cutting is necessary. At my most recent department head meeting on January 20, 2009, department heads were directed to prepare to execute plans for cost-cutting as the budget process proceeds.

Planned cuts will include staff reductions in FY 09/10 of one percent of payroll, approximately 150-200 positions. While harder to quantify, department plans also include the expected attrition of perhaps several hundred other employees. Should this attrition not occur, the number of layoffs next year could increase by another 1-2 percent of payroll. Finally, approximately 300 employees, another 1-2 percent of payroll, are expected to take advantage of the early retirement offer this year.

I have updated the budget policy (Attachment E) to reflect our fiscal situation. I also plan to present the budget on May 4, 2009, one month ahead of schedule. My proposed budget will support only core county functions. In accordance with our maximum fill rate, departments will be asked to fund only filled positions. Given the severe budget conditions, I recommend suspending add-back requests for reinstated funding and/or enhanced services.

We have continued to pursue other cost-cutting measures since the first five were proposed to you in the fall. Those new measures will include reducing vehicle use, financial reengineering of our PERS obligations, and reducing payroll expenses by expanding furlough program and staff reductions. By your action, your Board is documenting that furloughs of exempt employees are budget-required. Management compensation has already been curtailed by restricting the payoff of management leave for three years. We should integrate these as well as any new measures directed by the Board and evaluate their impact to restore a structurally balanced budget. In order to sustain priority service levels, it will be necessary to draw down reserves and reduce other discretionary general-fund programs, such as the community improvement designation. Reserves should be drawn down as necessary to soften the payout impact of early retirements.

Elsewhere on today's agenda we have a State of the County report prepared by this office that provides context about progress made and the challenges that lie ahead as we begin to see service declines. Attached to this report is a summary of departmental budget plans for FY 09/10 (Attachment B) that provides a preview of what county government will look like next year. Also attached is our annual economic forecast from economist John Husing (Attachment F). We recently commissioned a macroeconomic forecast from a Southern California economist to validate our assumptions on long-range budget planning. That report will be available during budget hearings.