

**SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

**FROM:** County Executive Office

**SUBMITTAL DATE:**  
February 9, 2010

**SUBJECT:** Budget Policies

**RECOMMENDED MOTION:** That the Board:

- 1) Establish a Prop. 172 revenue policy based on options presented in Attachment "A" or as otherwise specified by the Board.
- 2) Establish a net county cost reduction policy for FY 10/11 based on the options presented in Attachment "B" or as otherwise specified by the Board.

**BACKGROUND:** The Board discussed these matters in the budget presentation on January 26, 2009 and continued its discussion to the February 9, 2010 agenda. For clarity, the issues are summarized herein and presented for action. Four votes are required for contingency action, three votes are required for policy decisions.

<b>FINANCIAL DATA</b>	Current F.Y. Total Cost:	\$	In Current Year Budget:
	Current F.Y. Net County Cost:	\$	Budget Adjustment:
	Annual Net County Cost:	\$	For Fiscal Year:
<b>SOURCE OF FUNDS:</b>			
			Positions To Be Deleted Per A-30 <input type="checkbox"/>
			Requires 4/5 Vote <input type="checkbox"/>

**C.E.O. RECOMMENDATION:** Board Policy

**County Executive Office Signature**
**MINUTES OF THE BOARD OF SUPERVISORS**

On motion of Supervisor Buster, seconded by Supervisor Ashley and duly carried by unanimous vote, IT WAS ORDERED that the Proposition 172 policy be established to affirm backfill of 15.2 million dollars of contingency funds.

IT WAS FURTHER ORDERED, that the Executive Office return at a later date to establish a net county cost reduction policy for FY 2010-2011.

**Ayes:** Buster, Tavaglione, Stone, Benoit and Ashley

**Nays:** None

**Absent:** None

**Date:** February 9, 2010

**xc:** E.O., Auditor, COB

**Kecia Harper-Ihem**  
Clerk of the Board

 By:   
Deputy

**Prev. Agn. Ref.:** 3.54a – 01/26/10

**District:**
**Agenda Number:**
**3.64**

**PROP. 172 BACKGROUND**

Prop. 172 revenue was estimated for FY 09/10 at \$125.8 million. This estimate was submitted to affected departments and factored into budget plans. The deteriorating economy has slashed this revenue and the estimate has fallen to \$110.6 million. Estimated and actual revenues are described below.

Department share:	Original estimate	Current Estimate	Loss
Sheriff - 61.31%	77.12	67.81	9.32
DA - 17.16%:	21.58	18.97	2.51
Fire - 5.02%:	6.31	5.55	0.76
Probation - 16.51%:	<u>20.76</u>	<u>18.26</u>	<u>1.48</u>
TOTAL	\$125.8 million	\$110.6 million	\$15.2 million

Absent other action, the difference of \$15.2 million would have to be backfilled to balance the books at year end, unless those departments cut expenses to compensate.

The alternative is to acknowledge the shortfall now and either:

1. Affirm that we plan to backfill the lost revenue with net county cost and leave appropriations in those departments intact (shifting the burden to the general fund), or
2. Reduce revenue and equivalent appropriations (leaving the burden with the departments).

Without action, the shortfall will convert to a general-fund expense in FY 09/10 by default. By extension, we also must address the policy question involving future Prop. 172 receipts. If Prop. 172 receipts underperform as in recent years, backfilling the losses will continue to strain the general fund. The issues are:

1. Should the backfill be capped?
2. If so, what level is appropriate?

Finally, there is the issue of recovering general funds advanced to backfill Prop. 172 shortfalls. County Counsel reports that when sales tax receipts recover, the general funds advanced to backfill the shortfall can be recovered. The options are:

1. Should backfill be returned?
2. If so, should it go to the general fund, earmarked as general revenue?
3. Alternatively should it be earmarked for reinvestment back into safety priorities, such as the mid-county jail's staffing needs?

These issues are summarized in motions on Attachment "A." Policy #1 option A, transferring funds from contingency, requires four votes for approval per Government Code Section 29125(a)(2). Option B, decreasing revenue, requires three votes. All other policy questions require three votes.

### **NET COUNTY COST REDUCTIONS**

As we begin the budget process for FY 10/11, it is clear that reducing net county cost, as well as cutting personnel and programs, is unavoidable. However, the budget must reflect Board priorities and service expectations. Building a structurally balanced budget within two years should be a policy goal. Finally, reserves should not be allowed to drop below the set minimum level.

Therefore, we seek the Board's direction on how NCC cuts should be planned for and implemented. We presented the Board with models that include proportional NCC cuts to all departments (10 percent / 10 percent), and disproportionate cuts weighted to favor public safety over general government (3 percent / 25 percent or 5 percent / 20 percent). Those values, however, can be set at any level the Board specifies.

This policy direction is to assist staff in preparing budgets. It will clarify NCC targets. A vote at this time is for guidance only. The final and binding vote would be made at the time the budget is adopted.

The issue at hand is for the Board to declare preferences for the unavoidable NCC reductions. Those cuts represent the foundation for our budget planning over the next two fiscal years, and for addressing the structural deficit.

In the interim, I have directed departments to begin developing separate budget plans that reflect both the 3 percent / 25 percent option and the 10 percent / 10 percent option.

These issues are summarized in motions on Attachment "B."

**ATTACHMENT "A" PROPOSITION 172 POLICIES**

**POLICY #1 – SHOULD \$15.2 M IN PROP. 172 REVENUE BE BACKFILLED?**  
**OPTION A: (AFFIRM BACKFILL OF PROPOSITION 172 AND DRAWDOWN CONTINGENCY)**

*That the Board affirm backfill of \$15.2 Million of contingency funds for estimated Proposition 172 revenue, and approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	\$15,192,975
Decrease estimated revenue:		
10000-2200100000-755020	CA – public-safety sales tax growth	\$2,606,601
10000-2500200000-755020	CA – public-safety sales tax growth	1,696,904
10000-2500300000-755020	CA – public-safety sales tax growth	4,521,026
10000-2500400000-755020	CA – public-safety sales tax growth	2,688,917
10000-2501000000-755020	CA – public-safety sales tax growth	408,655
10000-2600100000-755020	CA – public-safety sales tax growth	981,561
10000-2600200000-755020	CA – public-safety sales tax growth	1,526,575
10000-2700200000-755020	CA – public-safety sales tax growth	<u>762,736</u>
	Total	\$15,192,975

**OR**

**OPTION B: (NO ADDITIONAL BACKFILL OF PROPOSITION 172; DECREASE OF APPROPRIATIONS AND REVENUE TO PUBLIC SAFETY DEPARTMENTS)**

*That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Decrease appropriations:		
10000-2200100000-510040	Regular Salaries	\$2,606,601
10000-2500200000-510040	Regular Salaries	1,696,904
10000-2500300000-510040	Regular Salaries	4,521,026
10000-2500400000-510040	Regular Salaries	2,688,917
10000-2501000000-510040	Regular Salaries	408,655
10000-2600100000-510040	Regular Salaries	981,561
10000-2600200000-510040	Regular Salaries	1,526,575
10000-2700200000-510040	Regular Salaries	<u>762,736</u>
	Total	\$15,192,975

Decrease estimated revenue:		
10000-2200100000-755020	CA – public-safety sales tax growth	\$2,606,601
10000-2500200000-755020	CA – public-safety sales tax growth	1,696,904
10000-2500300000-755020	CA – public-safety sales tax growth	4,521,026
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10000-2700200000-755020	CA – public-safety sales tax growth	<u>762,736</u>
	Total	\$15,192,975



**POLICY # 2 –CAPPING BACKFILL OF PROPOSITION 172 REVENUE**

**OPTION A** – Should the backfill of Proposition 172 be capped?

**AND**

**OPTION B** – IF CAPPED, at what level?

**POLICY #3 –RECOVERING PROP 172 BACKFILL TO THE GENERAL FUND**

**OPTION A:** Should the backfill of Proposition 172 be recovered?

**ATTACHMENT "B" NET COUNTY COST POLICIES**  
**FOR FISCAL YEAR 2010/2011**

**THAT THE BOARD ESTABLISH ITS PRORITY FOR NET COUNTY COST CUTS:**

**OPTION A –Cut to Public Safety (Sheriff, District Attorney, Fire, Probation) departments of 3% of net county cost and 25% cut to all other general fund departments.**

**OR**

**OPTION B –Cut to Public Safety (Sheriff, District Attorney, Fire, Probation) departments of 5% of net county cost and 20% cut to all other general fund departments.**

**OR**

**OPTION C –Cut to all departments of 10% of net county cost**

MINUTES OF THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



**3.54a**

(1)

On motion of Supervisor Ashley, seconded by Supervisor Stone and duly carried, IT WAS ORDERED that the recommendation from the Executive Office regarding the FY 10/11 Budget Policy and Budget Schedule as presented is approved as recommended.

Roll Call:

Ayes: Buster, Stone, Benoit and Ashley  
Nays: None  
Absent: Tavaglione

(2)

On motion of Supervisor Ashley, seconded by Supervisor Benoit and duly carried, IT WAS ORDERED that the recommendation from the Executive Office regarding A Public Safety Sales Tax Cap at the Board's preferred amount is continued to Tuesday, February 9, 2010 at 9:00 a.m.

Roll Call:

Ayes: Buster, Stone, Benoit and Ashley  
Nays: None  
Absent: Tavaglione

I hereby certify that the foregoing is a full true, and correct copy of an order made and entered on January 26, 2010 of Supervisors  
Minutes.

WITNESS my hand and the seal of the Board of Supervisors  
Dated: January 26, 2010  
Kecia Harper-Ihem, Clerk of the Board of Supervisors, in  
and for the County of Riverside, State of California.

(seal)

By: [Signature] Deputy

AGENDA NO.  
**3.54a**

xc: E.O., All Depts., COB

MINUTES OF THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



(3)

On motion of Supervisor Ashley, seconded by Supervisor Benoit and duly carried, IT WAS ORDERED that the recommendation from the Executive Office regarding a policy on any change to NCC after future Prop 172 revenue exceeds current year actual is continued to Tuesday, February 9, 2010 at 9:00 a.m.

Roll Call:

Ayes: Buster, Stone, Benoit and Ashley  
Nays: None  
Absent: Tavaglione

(4)

On motion of Supervisor Benoit, seconded by Supervisor Ashley and duly carried, IT WAS ORDERED that the recommendation from the Executive Office regarding the reserve for economic uncertainty will not fall below 6% of discretionary revenue is approved as recommended.

Roll Call:

Ayes: Buster, Stone, Benoit and Ashley  
Nays: None  
Absent: Tavaglione

I hereby certify that the foregoing is a full true, and correct copy of an order made and entered on January 26, 2010 of Supervisors  
Minutes.

WITNESS my hand and the seal of the Board of Supervisors  
Dated: January 26, 2010  
Kecia Harper-Ihem, Clerk of the Board of Supervisors, in  
and for the County of Riverside, State of California.

(seal)

By: [Signature] Deputy

AGENDA NO.  
3.54a

xc: E.O., All Depts., COB

MINUTES OF THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



(5)

On motion of Supervisor Stone, seconded by Supervisor Ashley and duly carried, IT WAS ORDERED that the recommendation from the Executive Office regarding a policy with regard to FY 10/11 NCC target adjustments for public safety and general fund operations is continued to Tuesday, February 9, 2010 at 9:00 a.m.

Roll Call:

Ayes: Buster, Stone, Benoit and Ashley  
Nays: None  
Absent: Tavaglione

I hereby certify that the foregoing is a full true, and correct copy of an order made and entered on January 26, 2010 of Supervisors  
Minutes.

WITNESS my hand and the seal of the Board of Supervisors  
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and for the County of Riverside, State of California.

(seal)

By: [Signature] Deputy

AGENDA NO.  
3.54a

xc: E.O., All Depts., COB

# **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.



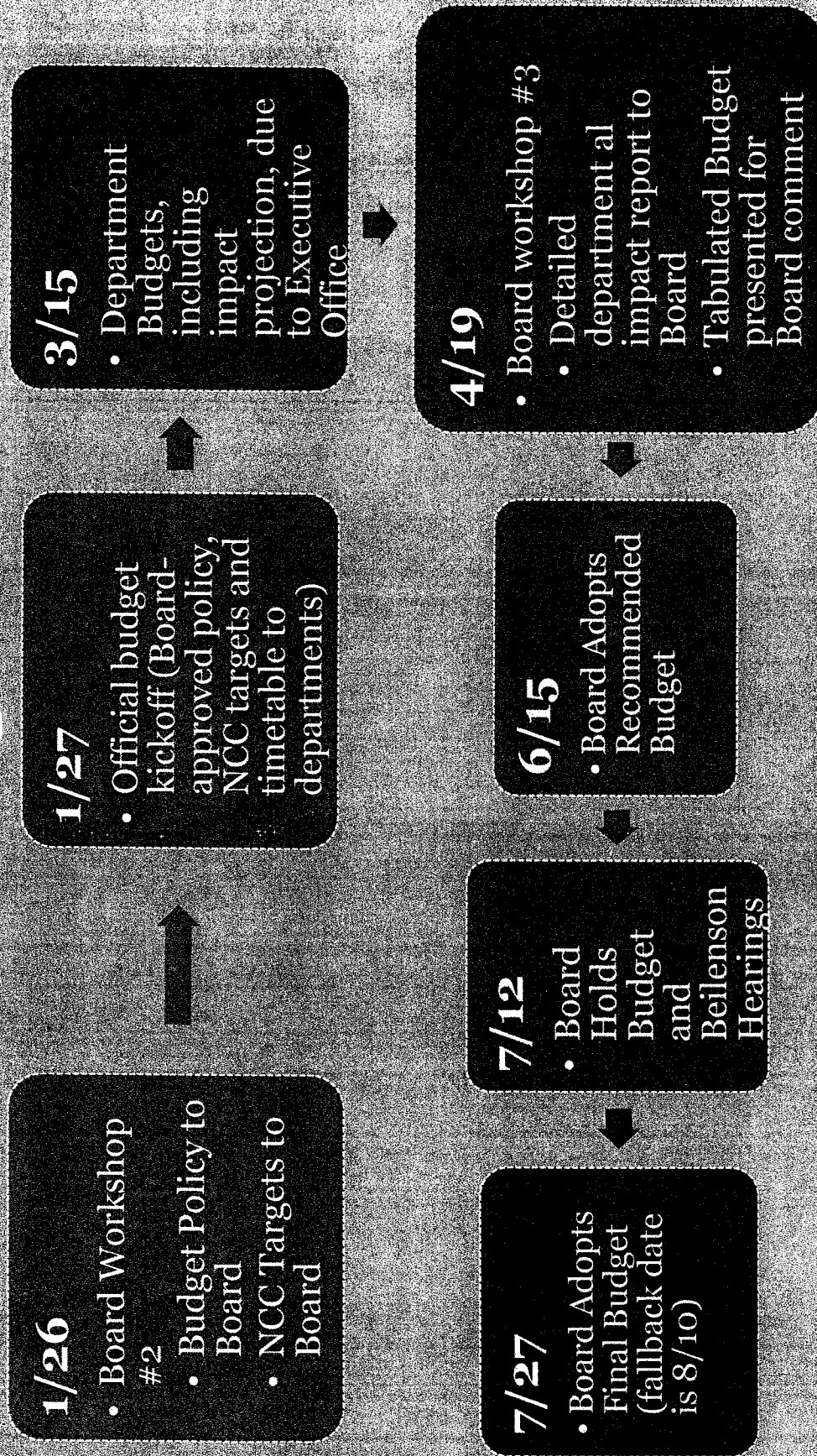
# FY 10/11 Budget Policy and Guidelines

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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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# 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

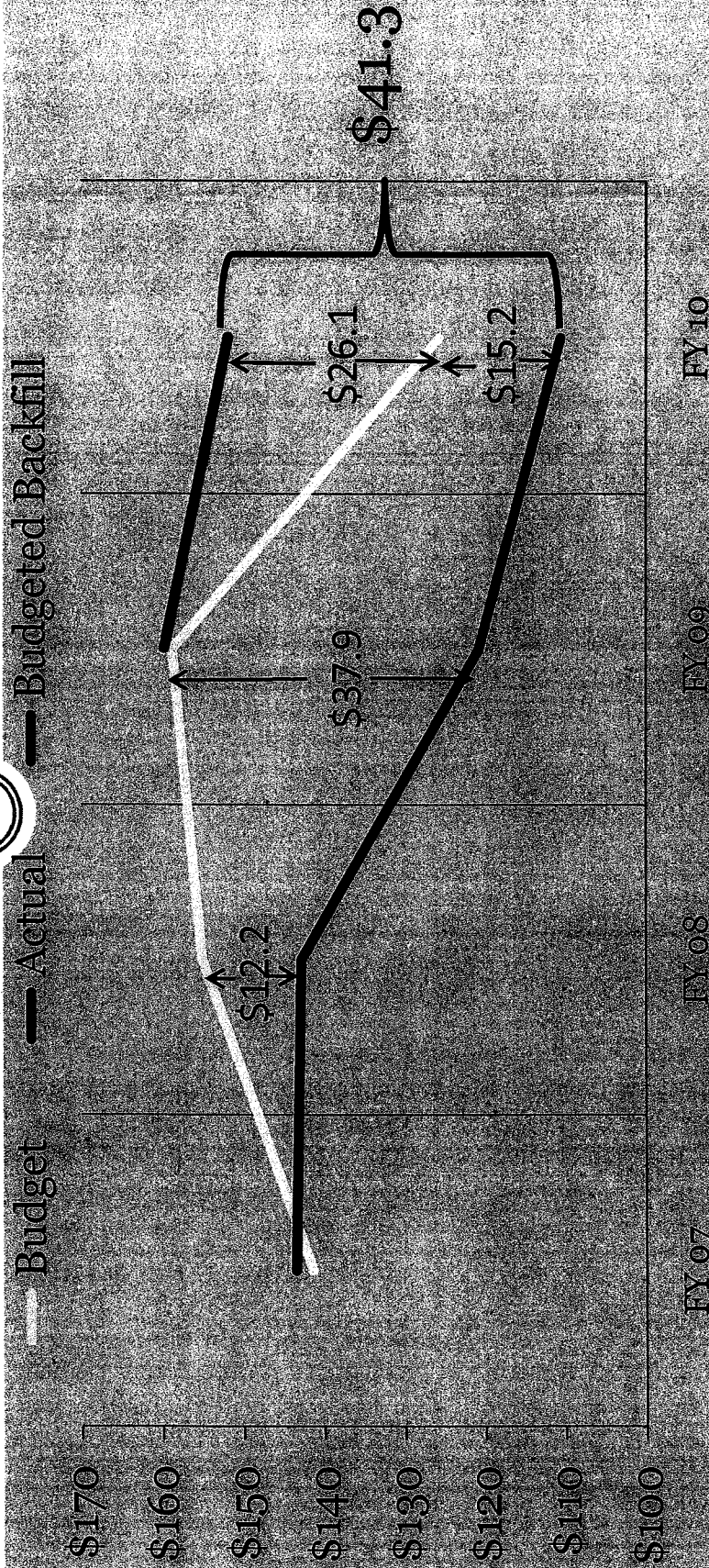
“public safety services include, but is not limited to, sheriffs, police, fire protection, county district attorney, county corrections, and ocean lifeguards.”

- 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 GE backfill now totals \$76.2 million. Backfilling the additional

# Future 172 Allocations

11

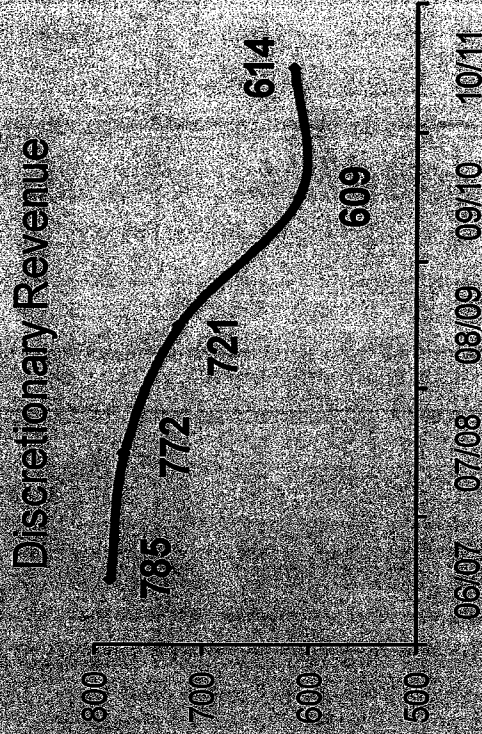
- Backfilling 172 losses should be capped somewhere between the \$26.1 million currently budgeted and the \$41.3 million that would include this year's entire shortfall
- As 172 allocations increase, the general fund should be relieved of its 172 backfill obligations on a dollar for dollar basis
- Alternatively, 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

12

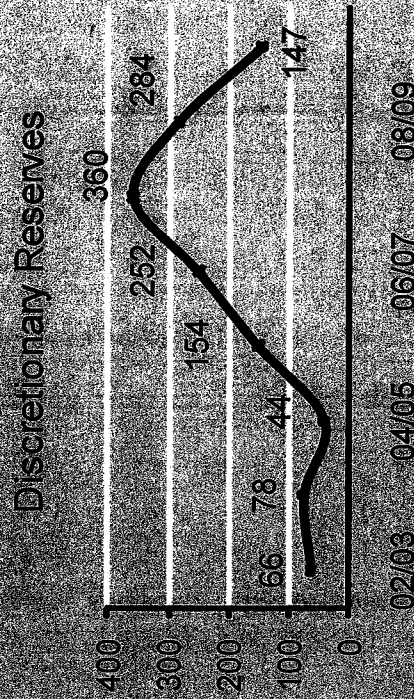
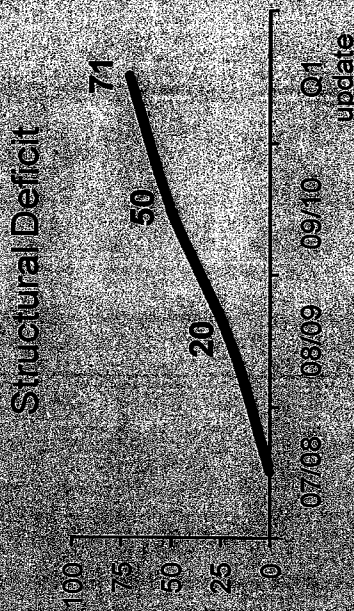
- The US economy is slowly recovering, but the California economy is still shrinking
- Local unemployment is at historic highs
- The state does not yet have a solution to its \$20B budget deficit
- Our own structural deficit is \$71M now, and could increase dramatically based on policy options before 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





# 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