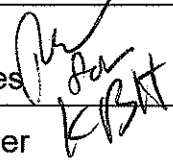


MEMORANDUM
FROM
OFFICE OF THE COUNTY MANAGER

DATE: June 24, 2010

To: BoCC

FROM: Karen B. Hawes
County Manager



RE: Preliminary Budget Workshop, June 28

Commissioners,

This memo and attachments outline the preliminary budget and issues for Fiscal Year 2010-11. Decisions are not final until the September public hearings and work will continue throughout the summer. However, a basic understanding of what faces the county is necessary before your July 6 meeting in order to set the maximum property tax rates for the TRIM (Truth In Millage) notices sent to taxpayers. These maximum rates can be decreased in September, but not increased.

This year, Fiscal 2009-10, has been a financially challenging one for the county. Next year, Fiscal 2010-11, will prove to be the most challenging this county government has ever experienced. While there have been positive signs economically in the private sector, the public sector lags the private sector in an economic recovery, partly because there is such a lag in how we collect property tax revenues. We are still collecting revenues this year based on the assessments at January 1, 2009, and the January 1, 2010 assessments, which are the basis for FY10-11 property tax revenues, declined significantly further.

In the last three years the tax base has plummeted 33% from \$96.5 billion to \$64.9 billion. The January 2010 assessment shows a further decline to \$55 billion, or 43% in total. This entire time, the county has held its property tax rates steady – **a property tax revenue loss of \$158 million to date**. This has resulted in significant tax relief for taxpayers. However, even with significant cuts, it also has resulted in continued operating losses for the county.

As you may recall, the county budgeted the following operating subsidies from reserves for this year, Fiscal 09-10 (\$60 million in the General Fund, \$11 million in the Unincorporated MSTU Fund, \$9 million in the Library Fund). With no changes, the further decline in the tax base would increase these subsidies by \$36 million in the General Fund, \$4.4 million in the Unincorporated MSTU Fund, and \$2.6 million in the Library Fund to the following overall subsidies:

General Fund	\$96 million
Unincorporated MSTU	\$15.4 million

Library Fund

\$11.6 million

The proposed budgets reduce these subsidies significantly, however, they do not make them go away.

The following write-up focuses on the expense side of this equation – what further cost reductions the county is proposing. We believe you will find these cutbacks – **more than \$48 million** – to be significant. The revenue side of the equation will be further discussed July 6.

Operations and Cutbacks

The preliminary FY10-11 budgets for all BoCC departmental operating budgets (including enterprise funds) show a reduction of \$12.5 million, or 3% (Attachment A). Nearly all departments have cut their budgets. If a \$4.6 million increase for the Solid Waste department is excluded, **the reduction is \$17.1 million.**

While the Solid Waste division's budget has increased (see Attachment F), it is effectuating this while still reducing rates by an average of \$13 per household.

The \$17 million in cutbacks include the modified Tier 1 (minimal) reductions in service levels the Board discussed at its February goals session. It also includes significant reductions in operating expenses, including renegotiation of contracts, at all levels and in all departments.

In addition to these cuts, County Management is recommending the following further cutbacks for FY10-11:

1. **Furloughs** – an **average** of 10 unpaid furlough days (about a **4% pay decrease**) is being recommended (we are further exploring a recommendation that management employees take 12 furlough days and non-management employees take 8). Cost reduction: between **\$4 million-to-\$4.5 million**.
2. **Health Insurance** – we are recommending that we begin phasing in, over the next three years, greater employee financial participation in the health care plan. Our recommendation for FY10-11 is to increase employee premiums, with single coverage employees paying a premium for the first time, as well as identified increases in co-pays. The plan design itself will remain the same. Cost reduction: **\$4.5 million**.
3. **Service Demand** – there are certain departments in the county where service demand has declined significantly, much like Community Development experienced two years ago in the sudden drop off in permits and inspections. There will be reorganization and layoffs in these areas where current demand does not support the number of approved positions. Cost reduction: **\$4.5 million**.

4. **Community Development** – demand has not picked up in Community Development. The department is proposing closing permitting on Fridays and selected mandatory furloughs in certain sections. Cost reduction: **\$1 million.**

5. **Part-time** – the county is recommending that part-time (30 hours per week; but retaining benefits) be offered to employees on a completely voluntary basis if it fits with the needs and demands of their department. This would be a one-year commitment, and employees who volunteer would automatically revert back to full time for FY11-12 unless they were to choose to continue it. Cost reduction: **to be determined.**

6. **Recapture** – based on spending patterns and estimated to spend through the end of this fiscal year, we will be recapturing **\$9.3 million** of current year budget before the 4th quarter begins. This further reduces current year expenditures.

In all, these actions, if the Board agrees, total an **additional \$23 million in cost savings** in all funds as follows:

Furloughs	\$4.5 million
Health Plan Allocation	4.5
Reorganization	4.5
Community Development	1.0
Recapture	<u>9.3</u>
Total	\$23.8 million
Operating Reductions	17.1 million
Constitutionals and Courts	<u>7.2 million</u>
TOTAL REDUCTIONS	<u>\$48.1 million</u>

Constitutionals and Courts

The county funds a portion of all of the Constitutional Officers budgets, as well as Courts and Courts Related Services, through the General Fund, which is the county's most discretionary, but also most fiscally constrained fund (\$60 million operating loss in FY09-10).

The Constitutionals and Courts budgets **comprise more than half of the General Fund**, the Sheriff being the majority of that share:

	<u>FY10-11 Proposed</u>	<u>FY09-10 Adopted</u>
County Depts.	\$114.5	\$124.9
Non-departmental	5.4	6.1
Const. & Courts	203.2	209.8

Debt Service Trnsfrs.	12.0	20.7
Major Maintenance	20.9	20.4
Transfers*	<u>22.9</u>	<u>22.8</u>
	\$378.9	\$404.7

*Includes transfer of \$12.4 million to LeeTran and \$8.4 million to Courts.

The Constitutionals and Courts Related programs have submitted budgets that show a **reduction of \$7.2 million (all funds), or 3% (Attachment B).**

The County funds a portion of or nearly all of the Constitutionals and Courts budgets, depending on the agency. The funding dollars are a combination of property taxes and other revenues. In response to the Board's questions at the June M&P meeting, we have also included an attachment (Attachment E) of the support budgets for the Constitutionals and Courts.

Funds

Breaking out the BoCC operating budgets, before additional identified cuts (Attachment C), by funds results in the following:

- General Fund – decrease of \$10.5 million, or 8.4%.
- Unincorporated MSTU – decrease of \$2.4 million, or 8.1%.
- Library – decrease of \$806,000, or 3.2%.
- All Hazards – decrease of \$188,000, or 19.8%
- Enterprise and Special Revenue – increase of \$1.4 million, or 0.6%.

Further Tier Reductions

The cuts being recommended so far have only minimal impact on service levels because they are targeted and not across the board.

At your February goals workshop, you were presented with further tier cuts that would have service level impacts. If the Board wishes to cut more, these should be considered, recognizing there will be a service level reduction.

There already are \$2.3 million of minimal impact cuts in the FY10-11 proposed budgets. If the Board chooses, it could also consider Tier 2 (significant) and Tier 3 (major) service level cuts in some combination (Attachment G). If the Board directs so, we would work through the summer to refine these numbers and come back with a recommendation:

- Tier 1 cuts not yet implemented -- \$1.3 million
- Tier 2 cuts – \$3.6 million
- Tier 3 cuts – \$16.1 million

Reserves

A three-year projection of revenues, expenses, and fund balances continues to show significant operating subsidies from reserves, in the short- and long-term unless the revenue side also is addressed at some point.

Without any change to tax rates, which would require absorbing an additional \$36 million in the General Fund, the subsidy remains about \$60 million next year (primarily due to the cuts mentioned above and \$14 million anticipated from the Red Sox bonding), then increases to \$71 million in FY11-12 and \$73 million in FY13-14 (Attachment H).

These projections assume all cost cutting measures continue and revenues are flat.

More importantly, however, is that undesignated reserves in the General Fund fall below a 15% level (about \$60 million) by FY11-12 if no adjustments are made.

Going to the roll-up rate in the General Fund (collecting the same amount of property tax revenues next year as this year), would decrease the subsidies in FY11-12 and FY13-14 to about \$36 million, and result in an undesignated fund balance at October 1, 2013 of \$89 million.

In the Unincorporated MSTU, because of the expected proceeds from the Red Sox bonding this summer, fund balance is replaced and the subsidy declines, due to cuts, to about the \$3 million-to-\$4 million range, or results in a balanced fund in the roll-up scenario.

The Library Fund reserves would fall into a deficit following October 1, 2012 if nothing is done to the tax rate.

We will provide more information on the fund balances and projected reserves for your July 6 meeting.

Capital Projects and Major Maintenance Budgets

Both the capital projects budget – at \$88.1 million for FY10-11 (Attachment J) – and the major maintenance budget – at \$29.3 million (Attachment I) – could be considered bare bones budgets. There are no identified issues in these budgets.

Health Benefits and Furloughs

The Constitutional Officers, other than the Sheriff, participate in the in the county's self-funded health plan. The Sheriff has its own full insurance plan. While premiums in the plans are somewhat similar, the employer's premium subsidy varies by agency (allocation between what the employee pays and what the employer pays). We would recommend that we explore aligning how much employees pay and how much employers pay from agency to agency.

We would also recommend that the Constitutionals and Courts participate in the county's furloughs, or consider a further reduction in lieu of furloughs.

Finally, a question was asked at the June M&P about the county's subsidy for retiree health insurance premiums (currently the county pays half of the premium). If we were to shift the premium subsidy to a 40/60 split or 30/70 split, the shift in additional annual costs to current retirees would be \$383,000 and \$767,000, respectively. We do not have an estimate for a reduction in the total OPEB liability because that would require a more in-depth actuarial analysis.

Thank you.

Cc: County Attorney
Constitutional Officers and Courts

Attachments:

- A – BoCC Operating Budgets (All Funds)**
- B – Constitutional Officers & Courts Budgets (All Funds)**
- C – BoCC Operating Budgets (By Fund)**
- D – Constitutionals & Courts (General Fund)**
- E – Constitutionals & Courts (Support Budgets)**
- F – Solid Waste Division (Budget Memo)**
- G – Tier Reductions (Overall Savings)**
- H – 3-Year Fund Balance Projections**
- I – Major Maintenance Budget**
- J – Capital Projects Budget**