COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 18, 2011

TO: Board of Supervisors

FROM: Birgitta E. Corsello, County Administrator

SUBJECT: FY2011/12 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m., June 20, 2011, and approve an Adopted Budget at the conclusion of the Hearings.

Included in the budget message are the following budget-related sections: 1) Budget Overview, 2) Financial Summary, 3) State Budget Impacts; 4) General Fund 5-Year Fiscal Projection; 5) Reduction Efforts During FY2010/11; and 6) Permanent Position Summary.

Budget Overview

The FY2011/12 Recommended Budget totals $761,290,609. This amount represents a decrease of $31,893,228 or 4%, when compared to the FY2010/11 Adopted Budget. The Recommended Budget reflects the third consecutive year of reductions in County operations beginning with the Adopted Budget of FY2008/09 for a cumulative reduction of $220,642,834 or 22.5%. The Recommended Budget includes the following changes when compared to the FY2010/11 Adopted Budget:

- General Fund totals $215.2 million, a decrease of $13.1 million, or 5.7%;
- Public Safety Fund totals $136.5 million, a decrease of $4.2 million or 3.0%;
- Health and Social Services Fund contains $270.6 million, an increase of $3.6 million or 1.4%;
- Other Special Revenue Funds consists of $109.1 million, a decrease of $11.8 million or 9.8%;
- Capital Project Funds includes $9.4 million, a decrease of $8.2 million or 46.6%; and
- Debt Service Funds total $20.0 million, an increase of $1.2 million or 6.6%.

The Recommended Budget is financed by $54.5 million in Fund Balance, of which $32.7 million is from the General Fund. The General Fund Balance projection for FY2010/11 is slightly less than the ending fund balance in FY2009/10 and should be considered an accomplishment, given the continued impacts of the recession resulting in increased assistance program costs; reduced interest earnings; a decline in property tax revenues; the impact of the Federal Government's decision to end enhanced FMAP funding for IHSS, thereby increasing County costs by $2.2 million; and the State of California's actions to eliminate AB3632 funding, leaving the County with an unfunded mandated program cost of $2.9 million, requiring a Court decision to suspend the mandate. The projected Fund Balance of $32.7 million, although less than that of FY2009/10, will enable a balanced FY2011/12 budget. It is a testament to the year-round spending discipline exercised by the County Departments and the hard choices made by the Board this year through the series of budget workshops focused on trimming the county budget further which enable us to counter the losses of revenue and unanticipated program cost increases, and prevent the size of the structural deficit from increasing in the General Fund, the Library Fund, and several other operating budgets.

The Recommended Budget is not a status quo budget nor is it ideal: it reflects reduced revenues and a further reduction in flexibility. The continued fiscal demands and realities facing the County in the third year of a recession are evident by increased case loads, higher unemployment and uninsured residents, and reduced resources and staff to address these. Since October 2009 the Department Heads have had to make many difficult choices to prioritize programs and services, reduce operating expenses and staffing to enable the County to remain functioning within available funding. The Recommended Budget provides for a workforce of 2,469 FTE positions, excluding extra help positions. This reflects a net reduction of 180 positions fewer than in the FY2010/11 Adopted Budget. The three year net decrease in positions now totals 670 and demonstrates the significance of the difficult decisions necessary over the past three years to address the collapse of county revenues.

The FY2011/12 Recommended Budget uses prior year savings, draws down but maintains General Reserves and Designations to address the future, and relies on projected fund balances to fund County core services, Capital Renewal Projects and accrued leave payoffs in anticipation of employee retirements.

The Recommended Budget reflects further reductions in revenues – particularly in interest earnings, which is anticipated to drop below Fiscal Year 2010/11 receipts. The most significant loss of revenue to the General Fund is property tax revenues, where the cumulative impact of foreclosures, short sales and Proposition 8 reassessments, and assessment appeals for a third consecutive year, have reduced local assessed values.. However, unlike the past two fiscal years, it appears that the rate of decline in property tax revenues may be slowing, and we anticipate a net reduction of 3% in FY2011/12 as opposed to the 10% and 4% reductions realized in the past two fiscal years, respectively. The revenue losses which are attributed to the local and regional housing market meltdown, the credit crisis and the recession will continue to have an ongoing impact on the revenue relied upon by cities, counties, and special districts as the means to financing their operations are largely supported by property tax and sales tax revenues.

For FY2011/12 the Department heads were asked to prepare budgets for their operations anticipating the potential need for staff reductions 18 months to 2 years out, and then absorb increases in the cost of "doing business" including retirement, workers comp, liability and medical costs, address any losses of state or federal funding, and minimized their requirements for General Fund support. To accomplish these requirements, departments have held positions vacant, encouraged and supported early retirements through the PARS incentive program offered in April 2011 and in some instances are proposing the elimination of positions resulting in layoffs. This Budget contains the recommendation to eliminate 87.85 positions, which is offset by the addition of 15.3 new positions for a net reduction of 72.55. The selective hiring freeze approved by the Board and in place since FY2008/09 and the use of the PARS Retirement Incentive in FY2010/11 has helped reduce the size of the workforce while attempting to minimize the number of layoffs required further reducing the operating budgets and addressing revenue losses.

The nature and extent of the impacts of staffing cuts and program changes included in this budget document are outlined in more detail throughout this budget. We acknowledge that the reductions in personnel have and may continue to increase the demands on individual employees as they strive to deliver high quality services in an efficient and cost-effective manner and regret that this is the new reality in which we find ourselves.

The Recommended Budget this year is presented in a new format which is intended to capture budget figures and operational information in a single document. The budget document utilizes financial tables, charts, and text to present information about the department, its programs, and services as well as the budgetary information. Much of the program and functional information was initially developed by Departments for the Board of Supervisors and the public in July 2010, and initially presented at several budget workshops held in August and September 2010. At that time, Department heads presented their department budgets in terms of their functional operations providing both information about the services and programs they operate and associated staffing, along with the cost of operation, source of funding and General Fund cost. The Recommended budget has been restructured to incorporate this information. In addition, this budget document groups budgets which are related and under the direction or control of a specific department together to allow the reader to more easily understand how different budget units are related to the operation of a department. A Budget Summary narrative has been prepared and accompanied by a series of budget tables that are intended to describe the budgeted expenditures and associated revenue used to fund the programs and services in the budget unit. The Recommended Budget narrative provides the following department information: the purpose; function and responsibilities; significant challenges and accomplishments as identified by the department head; workload indicators (where pertinent and relevant); a summary of significant adjustments to the operation or budget; summary of position changes; and identification of pending issues and policy considerations as identified by the department head.

It should be noted that absent from the FY2011/12 Budget Document is a detailed discussion on the County's 2007 Strategic Plan or progress report related to the initiatives and catalytic projects approved in 2009. The Plan remains an important aspect of our organization, and work on several of the initiatives and catalytic projects has continued although at a much diminished capacity due to reduced staffing and resources. Department Heads have had to redirect resources and focus on restructuring services and programs in response the fiscal crisis. In FY2011/12 we will continue to explore other venues to present this information to the Board and the public to highlight strategic planning efforts.

The Recommended Budget Document has been prepared earlier in the month of May to facilitate an earlier release and longer review period prior to budget hearings. To accommodate the earlier release we have reflected only the known and approved State and Federal programs cuts as of May 1 which will take effect July 1, 2011 and noted in pending issues state uncertainties. The Budget includes the assumption of the loss of Public Safety VLF to the Sheriff, District Attorney and Probation, including the loss of Juvenile Camp Funding, and the redirection of MHSA (Prop 63) funds from several mental health programs to other State mandated mental health programs. (Further discussions of these reductions are provided in the Department Budget narratives.) The State's approval of the redirection of Proposition 10 funds used to fund the work of the First Five Children's Commission have not been included in this Budget, there is currently litigation on this action. The CAO intends to bring forward the Solano First Five Commission budget decisions and recommendations in the Supplemental budget for Board consideration during Budget Hearings.

Phase I Realignment - the most significant pending State Budget Proposal that would restructure and realign public safety programs between counties and the State and seeks to implement AB109 Community Corrections is not reflected in the Recommended Budget at this time. Due to the lack of details on regarding the programs, process, and timing of the realignment and the absence of a funding source the affected Department heads and the County Administrator have determine it would be premature to make recommendations as part of the Budget document. It is therefore reasonable to anticipate that additional discussion and analysis will occur as State budget information becomes available and that there will be a need further budget related actions in response to State decisions in the coming months.

Additionally, the Federal Government has been operating since October 1, 2010, (beginning of Federal Fiscal Year 2010/11) without an Adopted Budget and has utilized a series of Continuing Resolutions to operate. A number of these resolutions included budget reductions to current year funding of Federal programs and it is likely there will be additional Federal Budget cuts in FY2011/12 that may affect county programs, when known these will be brought forward separately for Board consideration.

Historically the County Administrator's office prepares a Supplemental Budget document following the completion and distribution of the Recommended Budget, as more of an administrative function, primarily to address accounting notations. To the degree possible, the Supplemental Budget may reflect additional program and service reductions that can be expected based on the Governor's May Revision released on May 16, 2011. Unfortunately, as we do not know the speed in which the Legislature will act on the Governor's May Revision, many unknowns will remain that could significantly distress the FY2011/12 budget. But should there be sufficient details on State budget actions available prior to Budget hearings staff will use the Supplemental Budget to assemble and prepare the information for Board deliberation and make budget recommendations as necessary.

The Recommended Budget addresses known revenue challenges and proposes further reductions in operating expenditures to address these while allowing for some continued investments in technology, training, and capital renewal. It still relies on one-time funding to close the structural deficit in the General Fund and the Library Fund which will require further cost reductions and containment in the coming year. A prolonged recession with a sluggish economic recovery and the local consequences resulting from actions pending in Washington DC and in Sacramento, given the range of budget balancing concepts being debated, remains unclear. The fiscal crisis goes beyond Solano County and has persisted, and experts and economists indicate recovery will vary and be slow, and that there are initial hints of potential inflation; making forecasting in the 5-year fiscal projections a challenge. What is certain is that County Department Heads and the Board can anticipate the need for continued discussions and the potential for further reductions in programs and services in FY2011/12.

FINANCIAL SUMMARY

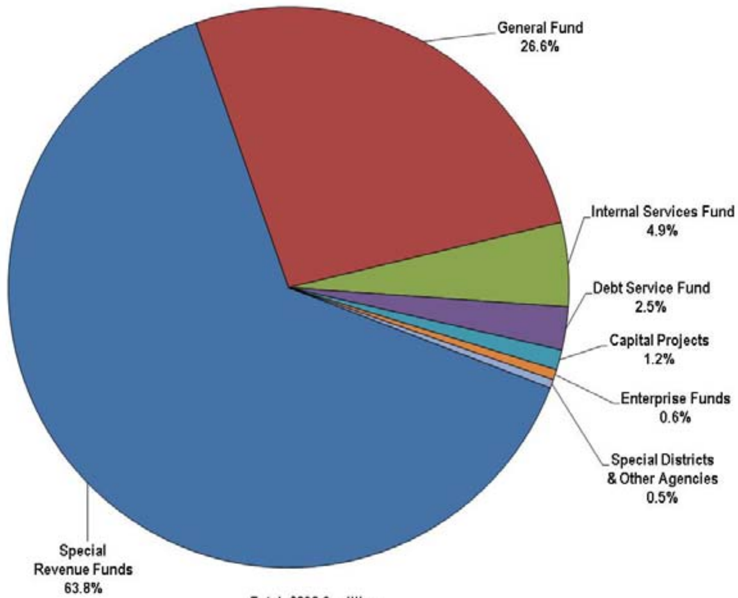
The Summary of All Funds graph provides information on all of the sources of funds included in the budget document. This not only includes Governmental Funds subject to the Budget Act, but Internal Service Funds, Enterprise Funds and Special Districts and Other Agencies.

Special Revenue Funds represent 63.8% of all funds, which is restricted to a specific purpose in the delivery of services and programs, such as Health and Social Services, Sheriff, District Attorney, Public Defender and Probation.

The second largest fund category at 26.6% is the General Fund, which includes the majority of the remaining departments under the control of the Board of Supervisors.

Detailed information for the charts on this page is available in Schedule 1: All Funds Summary for the Fiscal Year 2011/12.

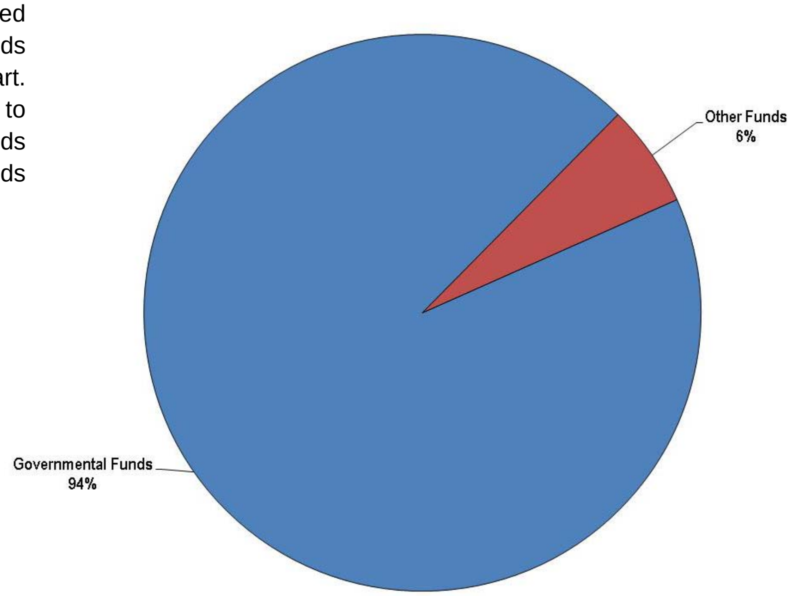
Summary of All Funds for FY2011/12



Total: $808.9 million

The Government Funds/Other Funds Distribution graph illustrates the distribution of the funds managed by the Board of Supervisors. Governmental Funds represents 94% of the funds listed in the above chart. Governmental Funds characterize what is referred to in this document as the Total Budget. Other Funds include the Internal Service Funds, Enterprise Funds and Special Districts and Other Agencies.

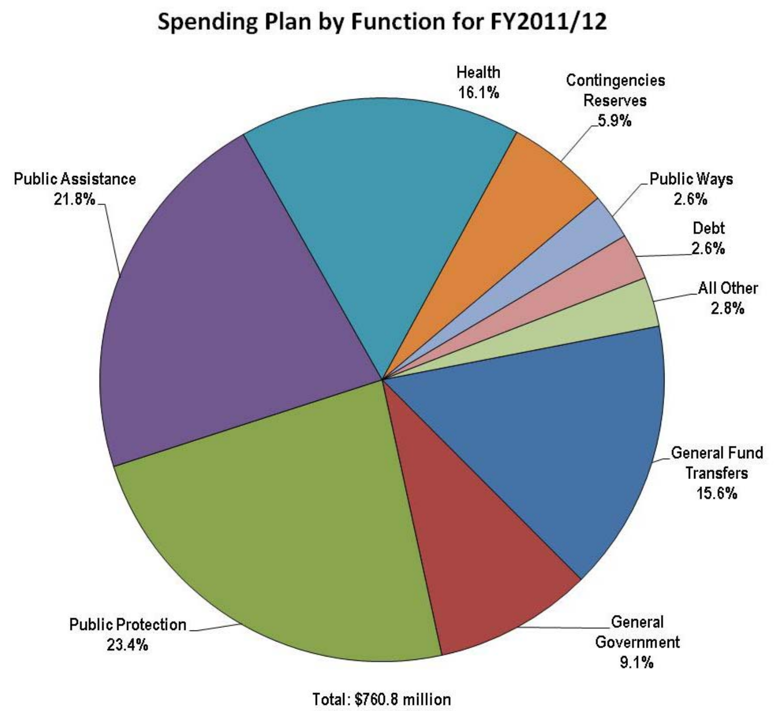
Governmental Funds/Other Funds Distribution for FY2011/12



Total: $808.9 million

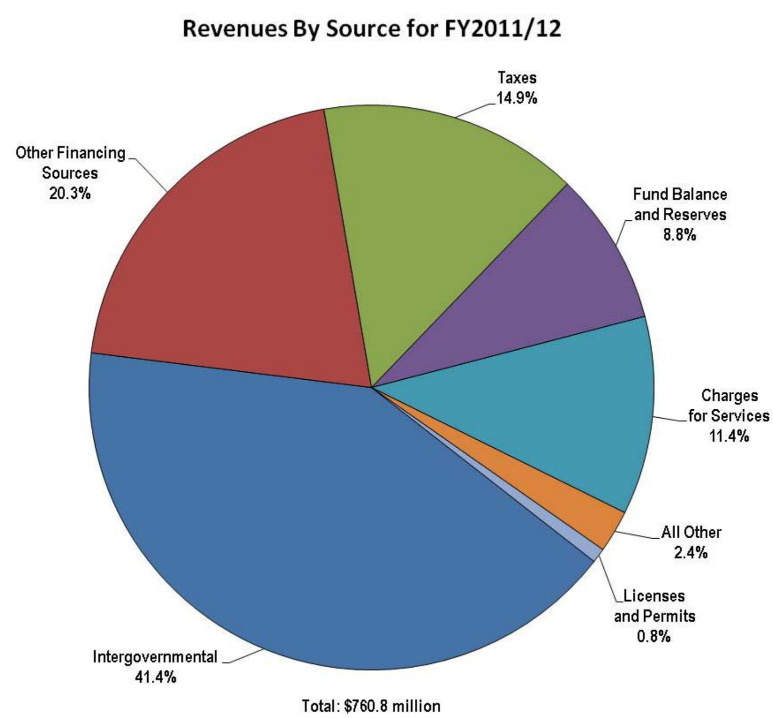
The General Fund Spending Plan by Function graph portrays a total of $760.8 million. As shown, the graph indicates the percent of the total for each of the functional areas required within the Governmental Funds part of the County Budget.

As shown, Public Protection represents the single largest category of County expenditures at 23.4%. Public Assistance, the second largest, represents 21.8% of the total.



The Revenues by Source graph indicates the sources of funding to finance the Governmental Funds Budget. The single largest revenue source is Intergovernmental Revenue from State and Federal Agencies.

The County receives these revenues from State and Federal agencies, generally with specific requirements for the funds' expenditures. Intergovernmental Revenue represents 41.4% of the total, followed by Other Financing Sources at 20.3%. Taxes provide 14.9%, Charges for Services 11.4%, and Fund Balances and Reserves at 8.8%. The All Other category represents 2.4%. Licenses and Permits bring in less than 0.8% of the County's funding.



The General Fund Spending Plan graph portrays a total of $215.2 million. As shown, the Public Safety category represents the single largest category of expenditures at 42.2%. This category includes the Sheriff, District Attorney, Public and Conflict Defender, Other Public Defense and Probation.

The All Other category represents 29.9%. Departments listed under the All Other category include Agricultural Commissioner, Animal Care, Resource Management, Legislative, Administrative and Financing.

H&SS is the third largest category of General Fund use at 12.5% of the total. The County's Courts Maintenance of Effort (MOE) is 4.7% of the total.

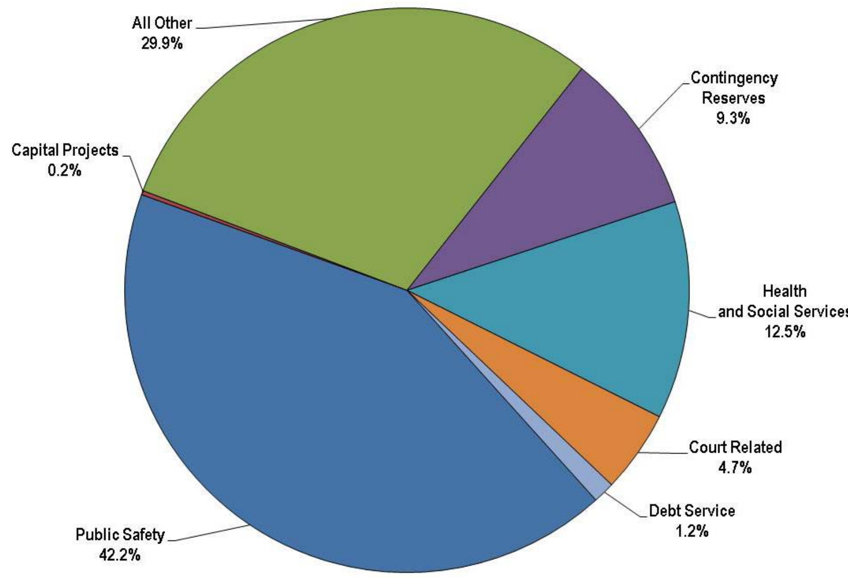
The Sources of Discretionary Revenue graph provides information concerning General Fund financing for County operations. Discretionary revenues are those revenues which are not collected in direct response to services provided. This includes countywide property taxes as well as Intergovernmental Aid that comes to the County without restrictions as to specific program use. These non-program revenues are reflected in the General Revenue budget. Program revenues resulting from such activities as the issuances of building permits, marriage licenses, etc., are shown within the operating departments and are not counted as discretionary revenues.

The single largest category is Taxes at 57.7%. This category includes all property taxes - secured, unsecured, supplemental, utility roll, property tax in lieu of Vehicle License Fee (VLF), as well as sales tax receipts. A 6.7% revenue decrease from FY2010/11 actuals is projected in current secured property tax.

The next largest category is Fund Balance and Reserves. The General Fund projected Fund Balance at the end of FY2010/11becomes a means of financing for the FY2011/12 Recommended Budget. Fund Balance and Reserves total $39.7 million, of which Reserves/Designation accounts for $6.96 million. The FY2010/11 Fund Balance is projected to be less than FY2009/10.

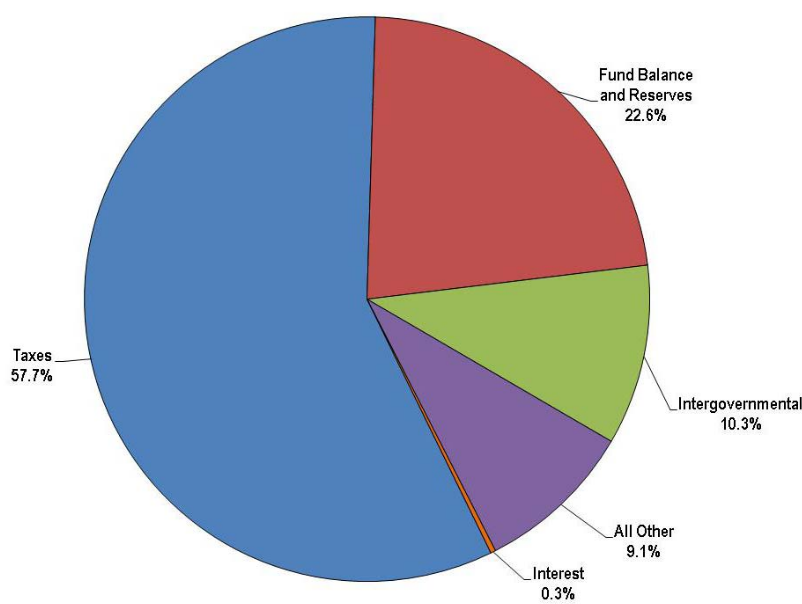
The third largest category, Intergovernmental Aid, represents 10.3% of the total. Included within this category are revenues such as Homeowners Exemption and Redevelopment Pass-Throughs.

General Fund Spending Plan for FY2011/12

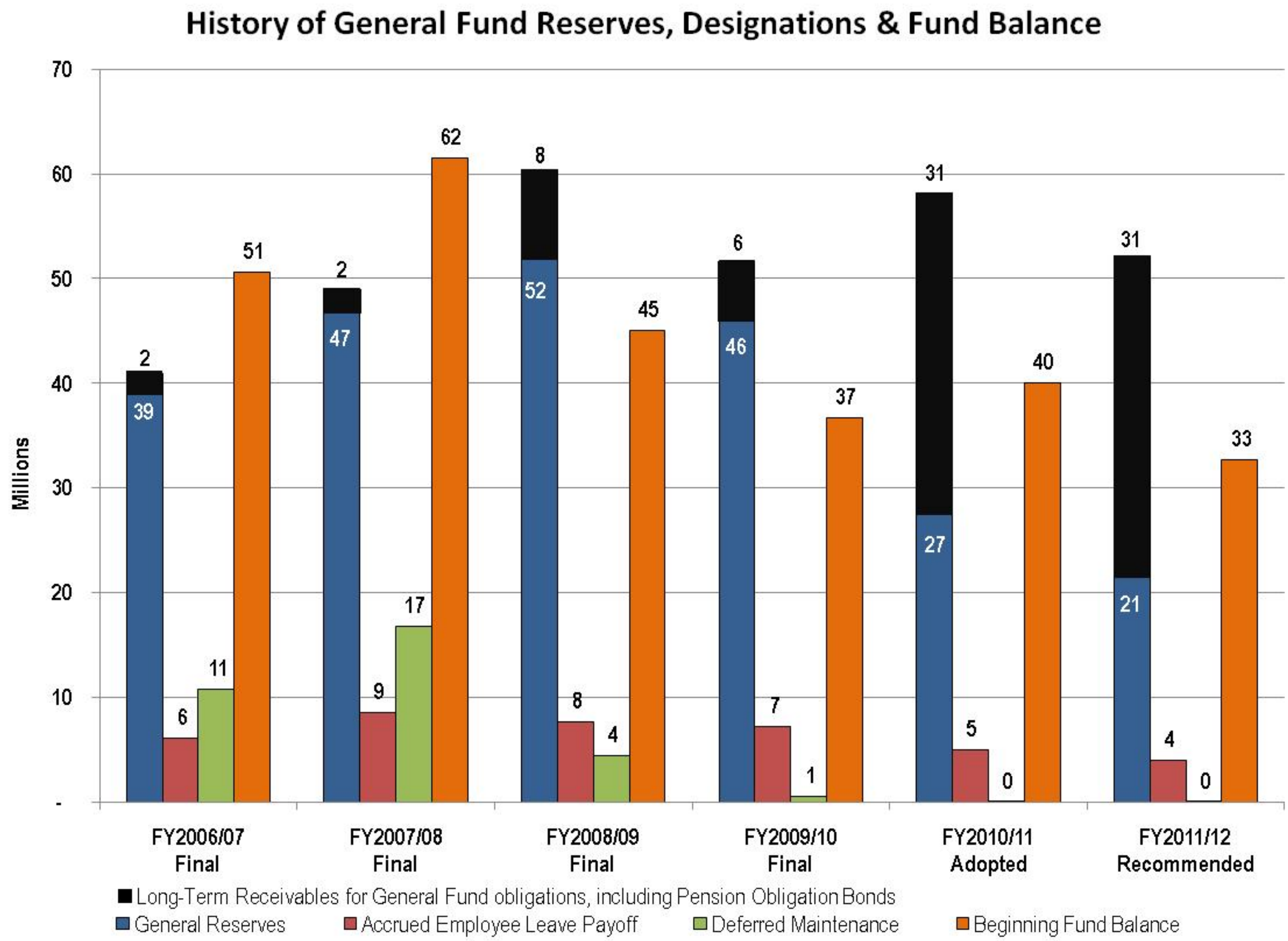


Total: $215.2 million

Sources of Discretionary Revenue for FY2011/12



Total: $175.6 million



The History of General Fund Reserves, Designations and Fund Balance graph depicts the growth and decline of the availability of key reserves and the Fund Balance. During the hot housing market, the County grew its programs modestly and set aside the excess revenues in Reserves in anticipation of the inevitable correction in the market. The County's intent was to drawn from these resources to strategically step-down programs to align ongoing expenditures with ongoing revenues. As a result of the recession and the collapse of the housing market, the rate of decline in County revenues outpaced expectations.

- From its peak in FY2007/08 to the FY2011/12 Recommend Budget, the County's available Beginning Fund Balance has declined $28.8 million or 46.8%. The FY2011/12 Beginning Fund Balance of $32.7 million reflects a $20 million allocation for Contingencies for the coming fiscal year.
- From its peak in FY2008/09 to FY2011/12, the undesignated General Reserves have declined $30.9 million or 59.4%. This is the result of three years of $6 million draw downs and Pension Obligation Bond funding to prepay PERS unfunded retirement costs. (Refer to Debt Service.) In 2007 the Board established a minimum floor for the General Reserves of $20 million.
- During the FY2005/06 Budget Hearings the Board established designated reserves for Deferred Maintenance and Accrued Leave Payoffs. From the designations peak in FY2007/08, the County has drawn down these Reserves a total of $23.1 million. The Reserve for Deferred Maintenance fund has been depleted.

The flexibility to draw from these resources in future years as a means of financing the County's operations has diminished. Improved economic conditions, resulting in increased revenues from sales and property taxes or fees for service, would reduce the need to draw on reserves.

STATE BUDGET OVERVIEW

At this point in time it would appear that an on-time budget may not be likely; and this may be true despite voter-approved change in state law. The California State Constitution requires the Legislature to send a budget to the Governor by June 15 and subsequently requires the Governor to sign the budget by July 1. These deadlines may have more meaning this year because Proposition 25, approved in November 2010, prohibits legislators from being paid if they submit a late budget to the Governor. However, Given the difficult decisions facing the legislators regarding program reductions and the reluctance of Republicans to provide the requisite votes for a budget that contains any type of tax increases or extensions including the Governor's proposed extension of Sales and Use Taxes and Vehicle License Fees (VLF) for five years and the commitment by the Governor that these revenue extensions be subject to voter approval.

The following is a brief overview of the State Budget woes and Governor Brown's proposed solutions and the Legislature's current action in response to the budget challenges and proposed solutions.

State Budget - January 2011

On January 10, the Governor released his proposed FY2011/12 state budget, which included budget and policy actions intended to eliminate a projected $25.4 billion deficit, for a two-year period ending June 30, 2012. In February, the state budget deficit increased by $1.2 billion in the current year, as a result of the Governor's decision not to proceed with the sale and leaseback of various state buildings. With the Governor's February action and a desired budget reserve of $1 billion, a total of about $26.7 billion in solutions are needed.

The Governor's January budget framework proposed expenditure reductions totaling $12.5 billion, revenue enhancements totaling $12 billion, $1.8 billion in fund shifts and other solutions and a constitutional amendment to maintain temporary taxes for an additional five-year period. The maintenance of existing taxes would be achieved through a vote of the people and would support realignment of public safety services from the state to local governments and fund K-12 education.

<u>Phased State Program Realignment I & II</u>

The centerpiece of the Governor's January budget plan proposed a major restructuring of the state-local relationship that would shift funding and responsibility for more than $10 billion in services to county governments. The realignment of services would be accomplished through The Schools and Local Public Safety Protection Act of 2011, a constitutional amendment proposed for placement on a special election ballot.

The realignment of services is proposed to occur in two phases and over several years:

Realignment Phase I would transfer $5.9 billion in program responsibilities to counties, beginning in FY2011/12. Services proposed for realignment in Phase I include public safety programs which are identified as emergency services and fire, court security, local public safety programs, lower-level offenders, adult parole, juvenile justice, child welfare services, foster care, adult protective services, substance abuse treatment, and certain mental health services.

Realignment Phase II proposes to realign additional health and human services programs from the state to counties. Few details beyond this list of programs have been released for Phase II, but it is anticipated that Phase II would follow implementation of Federal Health Care Reform and transfer programs including In-Home Support Services (IHSS) and Child Care Services (CCS) from counties to the state.

The primary funding source identified for Realignment Phase I is the extension of the 1 percent sales tax rate ($4.5 billion) and the 0.5 percent VLF ($1.4 billion). Under current law, these funding sources expire June 30, 2011.

State Budget Cuts Approved March 2011

During the week of March 14, the Legislature passed $14 billion in solutions intended to partially close a projected $26.6 billion state budget shortfall. The vast majority of actions taken were expenditure reductions, totaling approximately $11.2 billion. The remaining solutions were revenue enhancements through tax enforcement, one-time solutions and borrowing.

As of May 1, Governor Brown has signed over $11 billion in budget solutions, but has not signed the main budget bill, SB 69. He has also signed three trailer bills related to public safety realignment, which include language that stipulates that they shall take effect upon an appropriation of funds.

The Governor had originally proposed a June special election at which time voters would be asked to extend collection of the increased sales tax and VLF for five years to fund significant portions of public safety realignment and provide a stable revenue stream for these programs in year six and thereafter. As of May 16 the Legislature has yet to act on the constitutional amendment proposal, which requires a two-thirds vote, and the election window for June has passed. The Governor in his May Revise Budget proposal now calls for the legislature to approve an extension of the sales tax and VLF without a constitutional amendment and allow the voters to vote on it sometime in the coming year.

State budget actions approved by the Legislature and signed by the Governor through May 1, 2011 and of significance to County FY2010/11 revenues are as follow:

Agricultural Commissioner. The state budget reduces State General Fund (GF) support for the California Department of Food and Agriculture by $15 million, resulting in across-the-board reductions to numerous programs and activities. Of significance to the County is a $1 million reduction for inspection of incoming shipments of agricultural products and the elimination of State GF support for commissioner salaries, resulting in a combined loss of $12,600 to the County.

Child Support Services. SB 72 suspends the counties' share (2.5 percent) of child support collections, estimated at $24.4 million statewide in FY11/12, and shifts those funds to the State GF. The County estimates its share of child support recoupment collections was $394,000 in FY09/10. Funding is presently divided between County H&SS and Probation; some impacts as a result of this action are anticipated.

County Veteran's Services Offices. SB 69, the main budget bill, provides $2.6 million in funding for County Veterans Service Offices (CVSOs) in FY2011/12. State revenues to the County for FY2011/12 are projected to be $145,000.

First 5 /Proposition 10. AB 99 makes a one-time shift of $1 billion in Prop. 10 reserves, as follows: 1) shifts $50 million from the State Children and Families Commission; and 2) shifts $950 million from County First 5 Commissions. It also establishes the Children and Families Health & Human Services Fund to provide Medi-Cal services for children 0-5. The bill provides that transfers shall be made no later than June 30, 2012 and makes findings and declarations establishing that this action does not violate Prop. 10, citing the state's fiscal emergency. First 5 Solano anticipates a one-time hit to its fund balance, with an estimated loss of $8.8 million.

Health and Social Services (H&SS). Comprehensive changes to H&SS programs will include program cuts and revenue reductions, pursuant to budget trailer bills AB 100 and SB 70, 72, and 74.

- *Mental Health*. AB 100 transfers $861 million statewide from the Mental Health Services Act (Proposition 63) to the State GF to fund the shift of financial responsibilities for the non-Federal share of cost for county-administered programs including: AB 3632 ($150.9 million), Early Periodic Screening, Diagnosis, and Treatment (EPSDT) ($636.9 million), and Mental Health Managed Care ($190.7 million). These federal entitlement programs are currently administered by counties and funded through a combination of Federal, State, and county funds. Beginning in FY2012/13, the Governor proposes to provide realignment funding for these programs, though a funding source has not been identified.

  In FY2011/12, SB 70 shifts community mental health programs funded under the 1991 Realignment ($1.07 billion) to the 2011 Realignment. The freed-up 1991 Realignment revenues will be used to increase the county cost-sharing ratio for CalWORKs grants from 2.5 percent to 4 percent. SB 70 also transfers $184 million statewide in funding from the state to counties to assume financial responsibilities to administer substance abuse treatment programs.

- *CalWORKS Grants*. SB 72 transfers $1.077 billion statewide in expenditure cuts to fund the state portion of increased share of costs for CalWORKs grants. The bill makes an eight percent grant cut for a state savings of $300 million. It also reduces the time limit for adults to receive assistance from 60 months to 48 months and makes additional grant cuts for safety net and child-only cases that exceed 60 months to generate state savings of $100 million.

- *In-Home Support Services (IHSS).* SB 72 achieves state savings of $486 million by requiring physician certification to receive IHSS services and domestic service. The bill triggers an 8.4% reduction in hours of service, effective October 1, 2012 to achieve state savings of $140 million if alternative policy changes - including a pilot project to encourage Medi-Cal recipients to take prescribed medications - fails to achieve those savings.

- *Foster Care and Child Welfare Services (CWS).* Budget trailer bill language transfers the non-Federal share of financial responsibilities for Foster Care and Child Welfare Services (CWS) from the state to counties. The Governor's total projected costs for these programs is $1.61 billion annually statewide, starting in FY2011/12. In February, the proposal was expanded to include $19 million for funding for the Transitional Housing Program-Plus, and $40 million to restore previous funding reductions in CWS.

Library Funds. Funding for the Public Library Foundation Fund, Library Literacy Grants, and Transaction Based Reimbursement funds have been reduced from a combined $30.4 million to $15.2 million for FY2011/12. It is estimated that the County library system will lose $294,913 in state revenues.

Mandates/ Mandate Reimbursements. The budget continues to suspend all programs that were suspended or eliminated for funding in the FY2010/11 state budget. The budget also continues to defer payment for mandate reimbursements owed to local agencies for costs incurred prior to FY2004-05. Pre-FY2003/04 mandate claims, submitted by the County, total $7,337,740. This figure largely consists of AB3632 services not reimbursed by the State.

Public Safety Realignment.

- *Lower-Level Offenders & Parole Violators.* AB 109 realigns offenders convicted of non-serious, non-violent, non-sex offenses, and without any previous convictions for such offenses, and all parole violators to counties, as defined. The bill prospectively applies to all those sentenced after July 1, 2011. The proposal allows local jurisdictions to contract with the state for the full cost of housing any such offender in a state facility and provides a statewide allocation of $257.7 million in FY2011/12, increasing to $705.1 million in FY2014/15 when the realignment is fully implemented. The Governor's proposal assumes counties will be able to manage this population at a reduced cost by using a combination of incarceration time, community supervision and treatment, and/or alternative custody and diversion programs.

  While specific impacts of this proposal are unknown, projections anticipate the transfer of approximately 350 to 400 new inmates to County jail facilities by 2014. To accommodate the increased population, the County would need to increase the number of correctional officers and staff assigned to Alternative Sentencing to manage the anticipated population increase

- *Adult Parole*. AB 109 realigns on a prospective basis, non-serious or non-violent crimes adult parolees to local jurisdictions, and provides $140.4 million in FY2011/12 growing to $183 million in FY2014/15.

- *Division of Juvenile Justice*. AB 109 ceases state intake of juvenile offenders and transfers this responsibility to counties. It also permits counties to contract with the California Department of Corrections and Rehabilitation to house juvenile offenders from their County.

- *VLF Funding for Public Safety Programs*. In February 2009, the Governor and Legislature enacted legislation to shift funding for local public safety programs from the State GF to VLF. The legislature temporarily increased the VLF by 0.65% and directed 0.15% of the increase to the Local Safety and Protection Account to fund the following public safety programs:

Juvenile Probation Funding	$181.3 million
Citizens Option for Public Safety (COPS) Program	$107.1 million
Juvenile Justice Crime Prevention Act	$107.1 million
Various public safety grants	$ 57.4 million
Jail Booking Fee Subventions	$ 35.0 million
Small/Rural Sheriffs Program	$ 18.5 million

The loss of the Vehicle License Fee (VLF) extension means significant reductions to County public safety and probation services, which have been included in the County's Recommended Budget. The County estimates its portion of VLF revenues for Probation alone to be over $2.7 million. The projected loss to the Sheriff's Office is almost $1.2 million and $0.6 million to the District Attorney.

Williamson Act. SB 80 eliminates Williamson Act funding in FY2011/12 and thereafter, thus making it a local program. Prior year state subvention amounts received by the County for its Williamson Act contracts were $710,000 (FY07/08); $690,000 (FY08/09); $18.35 (FY09/10); and $0 (FY10/11).

May Revise Budget Cut Proposals

The May Revise budget released by the Governor on May 16 includes the following information:

It includes a revised budget short fall which is now estimated as a deficit of $9.6 billion, comprised of a current year (FY2010/11) shortfall of $4.8 billion and a budget year (FY2011-12) shortfall of $4.8 billion.

The reduction in the deficit between January and May is due to several factors, which largely include budget solutions enacted by the Legislature in March and increased revenues, estimated at $6.6 billion. The Governor's revised budget proposal includes a General Fund reserve of $1.2 billion, thereby increasing the total amount of May Revision solutions needed to balance the budget to $10.8 billion.

Updated 2011/12 State Budget Problem – May Revision

($ in billions)

Budget Gap in January/February	$26.6
Solutions Already Enacted	($11.1)
Revenue Increases	($6.6)
Spending Increases	$2.0
Proposition 10 Litigation	$1.0
Solutions Adopted by the Legislature in Pending Legislation	($2.4)
Remaining May Revision Problem	$9.6
Reserve	$1.2
May Revision Solutions Needed	$10.8

Significant policy proposals contained in the May Revise include the elimination of 43 state departments, boards and commissions and elimination of 5,500 state positions. The proposal also assumes a FY2011/12 Proposition 98 funding level of $52.4 billion for K-14 education, an increase of $3 billion, and also reflects cuts already adopted or assumed by the Legislature as part of budgetary actions approved in March.

The May Revise continues to include the controversial proposal to eliminate redevelopment, but drops the plan to eliminate enterprise zones and, instead, proposes program modifications. The May Revise also assumes that current litigation will prevent the shift of $1 billion of funds from First 5 commissions, supported by Proposition 10 of 1998.

Business Tax Breaks and Incentives

The May Revise proposes new tax breaks for business, as follows:

- Delays the extension of the personal income tax (PIT) surcharge enacted in February 2009 for one year. Under the revised plan, the 0.25 percent PIT surcharge would be imposed for four years beginning in 2012 through 2015.
- Drops the January proposal to eliminate enterprise zones and, instead, restricts the Zone Hiring Tax Credit to businesses that hire new employees for a combined, estimated state savings of $93 million in FY2010/111 and FY2011/12.
- Creates a new sales tax break, which is contingent on the approval of the 1 percent sales tax extension, for businesses that purchase manufacturing equipment beginning in FY2012/13. Qualified, new businesses would be exempt from the full 5 percent sales tax rate, while existing businesses would be exempt from the 1 percent tax rate. If implemented, the tax break would remain in effect for 4 years, through FY2015/16.
- Expands employer eligibility for the temporary hiring tax credit established in 2009 to include businesses with up to 50 employees and increases the size of the credit from $3,000 to $4,000. The credit would sunset December 31, 2012.

May Revise - Updated Phased State Program Realignment I & II

The Governor's May Revise continues to propose the Phase I Realignment of "public safety" programs from the state to counties, but makes various program and funding adjustments. It also continues to assume an implementation date of July 1, 2011. The May revise is silent on Realignment II.

The definition of "public safety programs" continues to include local public safety subvention programs currently supported through a dedication of 0.15 percent of the Vehicle License Fee (VLF), court security, low-level offenders, and adult parole. Realignment also continues to include Child Welfare Services, Foster Care, Adult Protective Services, mental health services, and substance abuse treatment. Revisions to the realignment proposal are, as follows:

The May Revise removes several program elements from the public safety realignment proposal as follow:

- Peace Officer/Correctional Officer Training ($40.5 million)
- Public safety mandates, including those related to domestic violence arrest policies and sexually violent predators ($50.9 million)
- Fire protection services ($250 million)
- AB 3632 - Mental health services for special education students ($221.8 million)
- Child Welfare Training Activities ($8.2 million)
- Independent Adoptions ($1.7 million)
- Foster Care and CWS work for all tribal-state agreements ($911,000)

The May Revise makes several proposed realignment program funding adjustments as well including:

- Local Public Safety Subventions. Shifts approximately $2 million in local public safety subvention funding that currently goes to entities other than local public safety agencies. Maintains $504.4 million for public safety subventions in FY2011/12.
- Court Security. Increases court security funds by $13.2 million to $497.8 million to reflect increased workload and the application of a 2.2 percent annual inflation factor.
- Low Level Offenders**.** Adjusts funding by $18 million to cover the costs of programming for offenders who are detained in county jails.
- Parole Violators/Revocations. Provides an additional $44.6 million in funding for District Attorneys and Public Defenders for increased workload due to parole revocation hearings and $41.8 million to the courts for their costs associated in assuming jurisdiction for parole revocations.
- Agency Adoptions. Proposes to realign agency adoptions to counties ($6 million). Currently, 28 counties perform this work, with the state doing the work for the balance of the counties. Agency adoptions are not presently done in Solano County.

As a result of the above changes, the May Revise proposes that 0.4 percent of the VLF extension (increase) be allocated for realignment programs, versus the 0.5 percent included in January. The one-cent sales tax extension continues to be proposed to fund realignment. The May Revise proposal continues to assume the extension of these taxes effective July 1, but does not address any of the timing-related problems associated with the gap between July 1 and the expected enactment of the tax extension via an election in the fall.

Proposition 10 / First 5. The May Revise assumes that legal challenges filed by several counties including Solano, will prevent the shift of $1 billion in Proposition 10 tobacco tax revenues, proposed in January and approved by the Legislature in March, from First 5 Commissions. These funds were originally proposed to pay for Medi-Cal services for children up to age 5 in FY2011/12. The legal challenge focuses on the state's authority to shift funds, which the state says it will continue to defend in court. In the Governor's May Revise summary document, the Governor suggests that his decision to restore General Fund costs in lieu of Proposition 10/First 5 funds reflects a "conservative budget approach."

Public Safety and Corrections. The May Revise makes several additional changes in the area of public safety and corrections, as follow:

- Community Corrections Performance Incentive Grants**.** Increases by $30 million funding for Community Corrections Performance Incentive Grants, authorized under SB 678 (Leno), Chapter 608, Statutes of 2009. The Governor notes that the increase is the equivalent of estimated state savings from the program, which has reduced recidivism by keeping approximately 6,200 felony probationers out of state prison.
- California Department of Corrections and Rehabilitation (CDCR)**.** Proposes a 25 percent reduction in staff costs through workload reductions associated with public safety realignment. The proposal would not be fully implemented until July 1, 2013 to give time to "develop and implement layoff processes."
- Program Reductions/Eliminations**.** Scales back the Office of Inspector General, which monitors CDCR and eliminates the Office of Gang and Youth Violence Prevention and the California Council on Criminal Justice.

Health and Social Services

The May Revise makes the following changes in the area of Health and Social Services:

- Healthy Families/MRMIB. Shifts nearly 871,000 children from the Healthy Families Program to Medi-Cal beginning in FY2011/12 for an estimated state savings of $31.2 million. It also eliminates the Managed Risk Medical Insurance Board (MRMIB), which administers the Healthy Families Program and transfers remaining responsibilities administered by the MRMIB to the Department of Health Care Services by FY2012/13. MRMIB currently administers 5 programs, including Healthy Families, the Access to Infants and Mothers Program, the County Children's Health Initiative Program, the Major Risk Medical Insurance Program and the federal Pre-Existing Condition Insurance Plan.
- Medi-Cal. Extends for one additional year, through June 30, 2012, an existing hospital fee to draw down additional federal matching funds to fund health coverage for children in Medi-Cal and Healthy Families.
- Public Health. Restores $7.3 million in funding to local public health departments to purchase the influenza vaccine for elderly and at-risk individuals. Reduces State GF expenditures in the AIDS Drug Assistance Program by modifying eligibility requirements and enrolling more patients in the Pre-Existing Condition Insurance Plan.
- Mental Health. Eliminates the Department of Mental Health and transfers some of the department's current responsibilities to counties as part of realignment, as proposed in January, and shifts the balance of the Department's responsibilities to a new Department of State Hospitals. The May Revise also eliminates the Department of Alcohol and Drug Programs.
- Child Welfare Services. Assumes continuation of the $80 million GF veto for FY2011/12.
- Foster Care. Increases funds for rates paid to foster family homes, including relative caregivers with children in approved homes, as a result of litigation, *Foster Parent Association, et al vs. John A. Wagner, et al*. The May Revise assumes implementation of the increased rates effective July 1, 2011. The May Revise notes that $1.6 million of the increase is offset by the elimination of the supplemental clothing allowance for foster family homes. The County's share of foster care is 60 percent. Hence, with this increase the County share would increase by approximately $200,000 per year. A reduction of $68 million in Foster Care costs is also proposed to reflect that fact that AB 3632 will no longer be the responsibility of counties.
- Other Program Reductions/Board Eliminations. Eliminates a number of advisory boards and commissions that advise the state on health and social services issues. Affected programs are outlined in *Attachment B* (pages 21-22).

Child Care

The May Revise projects a net decrease of $123.5 million in funding for CalWORKs Stages 2 and 3 child care due to a declining Stage 3 caseload. The Governor attributes the drop in caseload to the previous Governor's veto of Stage 3 funding effective November 1, 2010, despite the fact that the funding was subsequently restored. Stage 3 funding provides child care for working families who have successfully transitioned off CalWORKs cash assistance. It also eliminates the statewide Early Learning Advisory Committee (ELAC), which will force the state to forego $3.6 million in federal funds as part of a $10.8 million federal grant to develop quality rating early learning information and tracking systems for children up to age 5.

Housing

The May Revise rescinds the Governor's January proposal to impose a one-year freeze in new awards of bond funds for housing project loans and grants. The May Revise permits the Department of Housing and Community Development to approve pending and future awards from Proposition 1C bonds. It also increases Proposition 1C bond funding by $63 million in FY2011/12 to support the Housing Urban-Suburban-and-Rural Parks Program, the Transit-Oriented Development Program, and the Building Equity and Growth in Neighborhoods Program.

Natural Resources and Water

The May Revise makes the following changes in the area of Natural Resources and Water.

- State Parks. The May Revise reflects the Governor's January proposal to reduce state park funding by $33 million ($11 million in FY2010/11 and $22 million in FY2011/12). The $11 million reduction was adopted by the Legislature in March, and on May 13, the Department of Parks and Recreation released a list of 70 state parks currently slated for closure to achieve budget savings. Included on the list are Benicia Capitol State Historic Park and Benicia State Recreation Area.
- Watermaster Program. Eliminates State GF support for the Watermaster Program administered by the Department of Water Resources (DWR) and, instead, imposes a beneficiaries pay system. The purpose of the Watermaster Program is to ensure water is allocated according to established water rights as determined by the court.
- Program Reductions. Decreases water data collection support for the Central Valley Flood Board and flood control activities by $1.8 million in FY2011/12, but maintains $64 million in State GF for DWR's high priority water management and flood control programs.
- Proposition 1E. Shifts $16 million in State GF to Proposition 1E funds to improve flood protection, including levee maintenance, Delta levees, and floodplain mapping activities.
- Board Eliminations. Eliminates various boards including the State Mining and Geology Board and nine advisory committees and review panels under the Department of Fish and Game.
- California Energy Commission (CEC). Provides an increase of $646,000 to the CEC to support the implementation of SBX1 2 (Simitian), Chapter 1, Statutes of 2011-12 First Extraordinary Session. The bill requires one-third of the state's electricity to come from renewable sources, by increasing California's current 20 percent renewables portfolio standard target in 2010 to a 33 percent renewables portfolio standard by December 31, 2020.

State Fairs

The May Revise directs the California Department of Food and Agriculture to evaluate legislative proposals that aim to sell fairgrounds in the context of a statewide policy and a property-by-property review of the fairgrounds by FY2012/13.

Transportation

March Legislative actions and Governor Brown's approval changed Transportation funding undoing the changes made in earlier in 2010 by Governor Schwarzenegger.

Highway User Tax Account (HUTA). AB 82 repeals prior budget language that authorizes the deferral of apportionments to local governments for HUTA revenues. The County receives about $9.1 million in HUTA annually.

- Local Streets and Roads. AB 105 re-enacts the 17.3 cents excise tax increase on gasoline, approved in March 2010 (ABX8 6 and SB 70), and the 1.75 cent sales tax rate increase on diesel fuel, which was invalidated pursuant to the passage of Proposition 26 (November 2010). AB 105 protects an estimated $3.6 million annual allocation for County streets and roads.

The May Revise includes full funding for transportation consistent with the Transportation Tax Swap enacted in 2010 and validated by the Legislature as part of its budgetary actions in March.

GENERAL FUND FISCAL PROJECTIONS

COUNTY OF SOLANO

GENERAL FUND 5-YEAR FISCAL PROJECTION

FY2011/12 Recommended Budget

(In Millions of Dollars)

	FY2010/11 Projection	FY2011/12 Recommended Budget	FY2012/13 Projected Budget	FY2013/14 Projected Budget	FY2014/15 Projected Budget
a) **General Fund Beginning Balance**	**39.978**	**32.720**	**25.000**	**25.000**	**25.000**
b) To General Reserve	6.212	0	0	0	0
c) From General Reserve	6.000	6.000	4.600	3.600	3.600
d) From Accrued Leave Payoff Designation	0.800	0.960	0.800	0.800	0.800
e) From Deferred Maintenance Designation	0.510	0.000	0.000	0.000	0.000
f) **Net Change in Reserves** (c+d+e-b)	**1.098**	**6.960**	**5.400**	**4.400**	**4.400**
g) **TOTAL AVAILABLE FINANCING** (a+f)	**41.076**	**39.680**	**30.400**	**29.400**	**29.400**
h) Operating Revenues	187.646	175.562	180.485	183.001	186.640
i) Operating Expenditures (excluding Contingency)	196.002	195.241	197.573	200.283	204.429
j) General Fund Contingency	0	20.000	20.000	20.000	20.000
k) **Total Operating Expenditures** (i+j)	**196.002**	**215.241**	**217.573**	**220.283**	**224.429**
l) Operating Revenues	187.646	175.562	180.485	183.001	186.640
m) Operating Expenditures (excluding Contingency)	196.002	195.241	197.573	200.283	204.429
n) **Structural Deficit** (l-m)	**(8.356)**	**(19.679)**	**(17.088)**	**(17.282)**	**(17.789)**
o) **PROJECTED ENDING FUND BALANCE** (g+n)	**32.720**				

Solano County uses Five-Year Fiscal Projections to provide insight into future trends for General Fund Revenues and Expenditures. Doing so allows the County to work proactively with departments to address potential program impacts in future years.

The Five-Year Fiscal Projections includes General Fund Third Quarter projections for the FY2010/11 Budget and the FY2011/12 Recommended Budget. From this starting point, expenditures and revenues are forecast through FY2014/15. While projections beyond 2015 are possible, it is more difficult to provide a meaningful forecast longer than three years out in light of the constantly changing dynamics of the economy and the State budget.

The Projections focus on the General Fund's revenues and expenditures. Expenditures include contributions to Public Safety, Health and Social Services, the County's Maintenance of Effort for the Courts, as well as all other programs requiring General Fund support. The expenditures are then compared to the County's revenues.

Revenue Assumptions - from General Revenue projections:

- Current Secured Property Taxes are projected to decrease by 3% in the FY2011/12 Recommended Budget, increase by 2% per year for FY2012/13 and FY2013/14, and increase by 3% in FY2014/15.
- Current Unsecured Property Tax revenue reflects a decrease of 1.5% in FY2011/12 when compared to the FY2010/11 Adopted Budget, and then increase by 2% each of the next three years. However, there are a significant number of appeals from large businesses that may impact these projected revenues.
- Sales Tax in the unincorporated areas of the County are projected to be slightly lower in FY2011/12 when compared to FY2010/11, which included some one-time audit recoveries and adjustments not expected to occur in FY2011/12. Sales Tax revenues are then expected to gradually increase through FY2014/15.
- Property Transfer Tax is projected to stay flat, as real estate activity is expected to continue being depressed.
- Interest Income is reduced drastically for FY2011/12 due to interest yields of less than 1%; however, the interest yields, and correspondingly interest earnings, are projected to increase over the next three years.
- Homeowners Property Tax Relief is projected to remain flat.
- Redevelopment Pass-Through is projected to decrease 2% in FY2011/12 as compared to the FY2010/11Adopted Budget, increase 2% in FY2012/13 and FY2013/14, and increase by 3% in FY2014/15.
- Disposal Fees are projected to increase by 5% in FY2011/12 due to an increase in tonnage fees for 2011. These revenues are expected to remain flat through FY2014/15.
- Excess Tax Loss Reserves of $8 million is budgeted in FY2011/12, and $7.5 million projected for each year thereafter.
- The projections do not assume any increases in Departments' revenues because there are too many unknowns in Federal and State governments' budgets and the continuing uncertainties regarding the economy.

The County Budget is financed with General Revenues (refer to budget unit 1101, which accounts for revenues not attributable to a specific County service or department), beginning Fund Balance, the use of certain one-time revenues and general reserves, if necessary. The FY2011/12Recommended Budget includes the use of $960,000 from the Accrued Leave Payoff designation. Another funding source used in past years, the Deferred Capital Maintenance designation, has been depleted. In FY2011/12, the County Administrator will work towards developing a plan for the replenishment of general reserves, including the Accrued Leave Payoff designation and the depleted Deferred Maintenance designation.

In addition to General Revenues, the County budget is financed by State Sales Tax and VLF Realignment funds for Health and Social Services and Proposition 172 revenues for Public Safety. While most of these revenues do not go into the General Fund, they indirectly impact the General Fund in that the need for General Fund contribution/support by the departments receiving these funds may be reduced as these revenues increase. The FY2011/12 Recommended Budget includes Realignment revenues of $36.8 million, a $0.9 million increase from the FY2010/11 Adopted Budget. The FY2011/12 Recommended Budget also includes $24.8 million in Proposition 172 revenues, an increase of $0.3 million.

As it has been in the past, one of the assumptions in the projection is that the County will begin future fiscal years with a General Fund beginning Fund Balance. This assumption may not be valid going forward, in light of the economic downturn and the housing market meltdown. Year-end fund balance for June 30, 2011 is projected to continue to be much lower than in the previous year.

It is assumed that $6 million from the General Fund Reserve will be used in FY2011/12 to keep the General Fund budget balanced. The 5-year Projection indicates this is the last year a drawdown of $6 million will be possible, unless the actual FY2011/12 Fund Balance ends up being more than the projected $32.7 million (including a $20 million Contingency).

Expenditure Assumptions:

- Retirement costs are projected to continue to increase at an average of 2.5% per year.
- Health insurance costs are also projected to continue increasing 5% per year.
- General Fund Contribution.
  - General Fund support for Public Safety is projected to increase from $90.8 million in the FY2011/12 Recommended Budget to $96.9 million in FY2014/15, a $6.1 million increase taking into consideration salary increases per Memoranda of Understanding with labor units and an initial staffing phase for the new jail.
  - The projections reflect no increases in General Fund contributions to other funds for projected increases in Retirement, Health Insurance and Liability Insurance. The projections assume increases in these and other increase in costs of salaries/benefits will be absorbed by the departments through revenue increase or labor cost reductions.
- Any increases in Departments' expenditures for Services and Supplies and other cost categories are assumed to be absorbed by the Departments through further reductions in costs and/or revenue increases or raising new revenues.

The County's FY2011/12 Recommended General Fund Budget is balanced with revenues of $175.56 million, draw downs of $6 million from the General Reserve and $0.96 million from the Accrued Leave designation, and a General Fund beginning Fund Balance of $32.72 million. The FY2011/12 Recommended Budget of $215.2 million includes $20 million in Contingency.

REDUCTION EFFORTS DURING FY2010/11

The FY2010/11 budget was adopted with the expectation that the Board would have to revisit its reduction efforts throughout the year to address impacts of State budget cuts and the economic downturn as well as reduce the identified structural deficit in the General Fund by $6 million. The following are highlights of the milestones and do not begin to encapsulate a complete narrative of the budget reduction efforts conducted throughout the year.

June 29, 2010

The Board adopted a resolution stating its intention to implement lower retirement tier formulas for future County employees upon the completion of the appropriate negotiation process with represented employee organizations. The proposal would reduce the formula for future non-safety employees from 2.7% at age 55 to 2% at age 60. For the two public safety employee groups, the formula would be reduced from 3% at age 50 to 3% at age 55 for future deputy sheriffs and from 2% at age 50 to 2% at age 55 for future correctional officers and designated Probation Department employees.

July 27, 2010

The Board adopted a clarified County Hiring Freeze Policy to help contain costs as departments continue to adjust programs and services to reflect the expected long-term lower revenue streams, including reduced property taxes, sales taxes and funding from the State and Federal government. The policy provides guidelines for departments to fill vacancies, which included evaluating the community impact of not filling the position and identifying a dedicated and assured revenue source.

August 3, 2010

The Auditor-Controller informed the Board that after the close of the final books after June 30 the final numbers for FY2009/10 were better than projected, reflecting a concerted effort by departments to reduce expenditures and wring out an additional $6.2 million in savings. This year-end savings is one-time in nature and was placed in General Fund Reserves for potential use in FY2011/12 to address projected deficits.

Aug. 24, 2010

The Board approved contract changes with two employee groups that will save $383,590 in FY2010/11. The first action ratified a memorandum of understanding with the 25 members of Correctional Supervisors Unit 14. The second action adopted the terms of the Last, Best, and Final Offer made to Correctional Officers Unit 13 covering 190 Correctional Officers after over a year of negotiations failed to produce a contract. Both unit MOUs have key short- and long-term fiscal impacts.

Aug. 31, 2010

During Budget Workshop No. 1, programs and service levels for several departments were examined in light of the County's mandated obligations by outside agencies, such as the State, or from community priorities. Discussion focused primarily on programs where the County has discretion in how it delivers the service or whether to deliver the service at all, as well as the impact of reducing or eliminating the service.

While significant attention was made on reducing the County's $18 million General Fund structural deficit by $6 million this fiscal year, the review also considered potential changes for programs in other funds facing financial difficulty in the current economy.

Sept. 14, 2010

A total of 11 eligible employees participated in an Early Retirement Incentive (ERI) Program designed to reduce the County workforce through means other than layoff. The eligible employees received two years of additional CalPERS service credit, and the County saved $2.57 million in salary and benefits through FY2012/13. The total General Fund savings for the period is $1.34 million. The Board also took action to delete the positions from the allocation list of employee positions.

Sept. 21, 2010

During Budget Workshop No. 2, the remaining programs and service levels were examined in light of the County's mandated obligations by outside agencies, such as the State, or from community priorities. Discussions focused primarily on programs where the County has discretion in how it delivers the service or whether to deliver the service at all, as well as the impacts of reducing or eliminating the service.

Oct. 5, 2010

The Board reviewed the actuarial results that illustrated, absent changes to the existing retirement plans, the County's retirement costs would increase from $23.6 million in FY2010/11 to $44 million by FY2015/16. The Board had previously declared its intention to eliminate over time the Employer Paid Member Contribution (EPMC) toward retirement costs. By negotiating to end the payment of EPMC, the County can reduce future retirement costs by $109 million over the next 10 years.

The Board adopted a decrease in the County's contribution toward the cafeteria plan of unrepresented managers, including legislative, executive, senior and mid-management-confidential, from 80% to 75% of the CalPERS Bay Area Region Kaiser family rate beginning with the January 2011 renewals. This represents an annual savings of $66,395 for this group.

Oct. 26, 2010

During Budget Workshop No. 3, the Board took action to eliminate a net 23.7 vacant positions and directed staff to return on Dec. 7 with additional information regarding the remaining vacant positions and the rest of the reduction plan presented by the County Administrator. In addition, the Board asked for an analysis of the impacts of a $1 million reduction in General Fund contribution to the Health and Social Services Department and the amount of leveraged dollars coming to Solano County as a result of contracts with community partners.

Nov. 23, 2010

The Board approved contract changes with the Deputy Sheriff's Association that will save $1.6 million over the life of the three-year MOU, with General Fund savings estimated at $962,646.

Dec. 7, 2010

During Budget Workshop No. 4, the Board approved a series of cost-reduction proposals recommended by the County Administrator's Office to address nearly $1.7 million of the County's $18 million General Fund structural deficit this fiscal year. The actions included the deletion of three vacant and 11.65 filled positions and the addition of one position as a result of reductions in the level of service to several programs as well as the reorganizations of the Library and the Assessor-Recorder's Office.

As part of the workshop, the Board reviewed and tentatively concurred with a proposal that will reduce an additional $5.3 million in expenditures in FY2011/12. About $1.7 million of the proposed reductions affected funding of contributions to local non-profits. The Board asked that the nonprofits participate in a workshop in early 2011 to examine alternative funding options.

The Board also approved an outline of proposed actions by Health and Social Services to reduce $1 million in General Fund expenditures in FY2010/11, and directed staff to return with options to reduce an additional $3 million in General Fund support to H&SS as part of the Midyear Financial Report.

As part of this workshop discussion, the Library and the Assessor-Recorder presented changes to their organizational structures. The Library plan to "flatten" its organization realigned its operating costs to help address a structural deficit caused by significantly fewer sales tax dollars as a result of sluggish local retail sales. Changes in the Assessor-Recorder's Office reflected changes in the level of service due to a changing workload - a reduced demand in mapping services and an increased demand in the property section.

In addition, the Board approved a $285,000 investment in software to further automate the valuation of residential property transfers and assessments performed by the Assessor-Recorder's Office.

Dec. 14, 2010

The Board received a presentation regarding Health and Social Services and the variety of health and safety net programs it delivers, mostly funded with State and Federal dollars. Local General Fund dollars support these programs too. The Board approved a proposal that reduced the General Fund contribution to the department by $1 million annually. Based on the implementation of this H&SS reorganization, the Board adopted a resolution that adjusted the Position Allocation List to reduce the workforce by a net 11.9 positions. The resolution reflected actions taken by the Board on Dec. 7 as well.

The Board adopted an ordinance that implemented the establishment of a second retirement tier for new deputy sheriffs with the retirement formula of 3% at age 55.

Jan. 11, 2011

The Board established the Public Agency Retirement System Supplemental Retirement Program (PARS-SRP) to offer eligible employees an incentive to retire early. Unlike two previous early retirement incentives offered through the Public Employees Retirement System, the PARS-SRP gave the County greater flexibility in targeting its reduction efforts. The program was set with the flexibility of considering up to 25% of the positions for replacement, if the business operations justified the position. The overall salary savings would pay for the retirement incentive in five years. Eligible employees had to be at least age 50 and have at least five years of service in Solano County as of April 30, 2011. They had to resign by April 29 and retire by April 30. The incentive was equivalent to 6% of their final pay.

Jan. 25, 2011

A temporary 3% reduction in Employer Paid Member Contribution for the Attorneys bargaining unit ended on Jan. 9, 2011, in accordance with the Memorandum of Understanding with the Attorneys in December 2009. The County began negotiating with the Attorneys in Nov. 1, 2010, but had not yet reached an agreement on a successor MOU. The fiscal impact was an increase of $141,610 in FY2010/11. The County Administrator's Office recommended the effected departments – District Attorney and Public Defender – as part of their Midyear projections to anticipate and reduce the labor costs to address the effect of these increased labor costs.

Feb. 8, 2011

The Board of Supervisors adopted a proposed reduction plan from Health and Social Services to reduce the use of County General Fund dollars by $3 million in the coming fiscal year. The department plan increased some revenue opportunities and reduced a variety of programs, with a bulk of the reductions in the mental health area. The department proposed a number of changes that would restructure the organization to adjust the way it delivers services and the type of services it delivers to reflect the reality that funding levels will continue to remain reduced for many years to come.

The Board received its Midyear Financial Report_for FY2010/11, which showed a net savings in the Public Safety Fund of $279,000, net shortfall in the Health and Social Services Fund of $3.9 million primarily driven by the state suspension of AB3632 funding for mental health services provided at school sites and increased In-Home Supportive Services provider costs, and net improvement of $6.4 million in the General Fund. The structural deficit in the General Fund had been reduced from $18 million to $14.9 million for FY2010/11, slightly over half the targeted $6 million reduction for the fiscal year.

The outlook for preparing the FY2011/12 budget reflected the continued impact of the housing market collapse and increasing service needs. The structural deficit in the General Fund was expected to grow to $20.2 million as a result of increased labor costs, reduced revenues (primarily from property taxes), and increased demand on and for assistance programs. The assumptions for the next fiscal year did not include impacts from the Governor's budget proposal.

Departments were instructed to prepare their initial FY2011/12 budgets based on Midyear projections. In addition, the departments were asked to develop reduction plans that reflected a 10% reduction in labor costs, which may require eliminating programs and/or reducing levels of services.

March 1, 2011

The Board approved the modification of a memorandum of understanding with the nearly 73 employees of Public Employees Union Local One (Unit 6) that will save $702,670 over the remaining 18 months of the three-year contract.

Workshop No. 5: the Solano non-profit community presented to the Board of Supervisors their perceived impacts from a proposal presented to the Board on Dec. 7, 2010 to reduce contributions to the non-profits in FY2011/12 by $1.86 million, down from $2.69 million in FY2010/11. Representatives for a number of the non-profits presented the impacts and other funding options that could help them deliver the services offered by their respective programs. No actions were taken.

March 22, 2011

The Board approved a memorandum of understanding with the nearly 80 employees of Public Employees Union Local One (Unit 16) that will save $684,239 over the life of the two-year contract.

The Board received a report on the participation in the PARS-SRP and approved modifications to the plan adopted in January 2011 to more effectively apply it within the departments. The modifications allowed departments to accept only as many retirement applications as the department could operationally support. If a department had more applicants than needed in a particular job class, selection was based on seniority. A total of 836 County employees were eligible to apply for early retirement, and 168 employees expressed interest to retire by April 29, 2011 under the PARS-SRP program.

April 5, 2011

The Board adopted a resolution allowing 91 County employees to retire early under the PARS-SRP plan. The County added back 22 positions, which is slightly less than the 25% cap on position replacements. PARS estimated the County could achieve a net savings of $2.8 million by the end of year one, growing to cumulative savings of $14.4 million over the five years.

April 26, 2011

The Third Quarter Financial Update articulated a fiscal improvement of $4.8 million in the General Fund balance from Midyear projections, while underscoring continued financial concerns due to declining revenues, projected and sustained increases in assistance programs, and approved State budget actions that further reduce State reimbursements for the remainder of the fiscal year and in FY2011/12.

From a revenue perspective, the rate of decline of property taxes, a key revenue, has slowed and the result in FY2010/11 will be less of a loss in revenues than projected when the budget was built. However, as a result of the continued devaluation of the local real estate market, the overall revenues projected for FY2011/12 are anticipated to be 3% less than FY2010/11. In addition, uncertainty remained over the fiscal and operational impacts of State and Federal efforts to reduce their respective budgets.

It should be noted that there is a distorted sense of savings stemming from an abridged law enforcement capacity across the county. A reduced jail population has had a cascading effect on all of the public safety departments that has resulted in savings this fiscal year. As law enforcement shifts to fewer prevention programs and more of an emphasis on responding and containing criminal activity, the ongoing fiscal and operational impacts could increase. A similar downsizing effort in the health and social services arena may exacerbate this situation over time.

As part of the preparation for the requested budgets, departments were asked to review their operations from a long-term perspective, anticipating the impacts of program roll backs and staff reductions. The departments examined how they could adjust the service delivery of programs, including the scaling back of the amount and types of services to reduce ongoing operational costs. They factored in projected increases in employee benefit costs (retirement, medical and workers' compensation rates) identified at Midyear and the employee concessions received from management, unrepresented employees and five of the nine employee unions. As a result of this review, departments were able to take advantage of the

PARS-SRP program to adjust staffing. Still pending are successful conclusions to negotiations with the remaining four unions representing about 69% of the workforce, the bulk of which are represented by Service Employee International Union 1021.

The Third Quarter quantified cost increases attributed to factors outside the control of the County are impacting the operational costs for departments, including court decisions that raised the rates for foster care, the discontinuance of the temporary American Reinvestment and Recovery Act (ARRA) enhancement of the Federal Medical Assistance Percentage (FMAP) for In-Home Supportive Services, and the defunding by the State of AB 3632, which provides school-based mental health services.

The net result of the overall reduction efforts to date in FY2010/11, when rolled forward into FY2011/12, will help to reduce the structural deficit to be addressed in FY2011/12 to $19 million.

As part of the Third Quarter Financial Update, the Board adjusted the implementation timeframe for the second 3% EPMC give back from management and unrepresented employees. The roll back roll back on the County paid share of the contribution is set to be effective upon agreement with all represented bargaining units or Dec. 31, 2011, whichever date comes first.

In addition, the Library eliminated 7.5 vacant positions as part of its continued realignment of day-to-day operations of the eight branches to ongoing revenue realities.

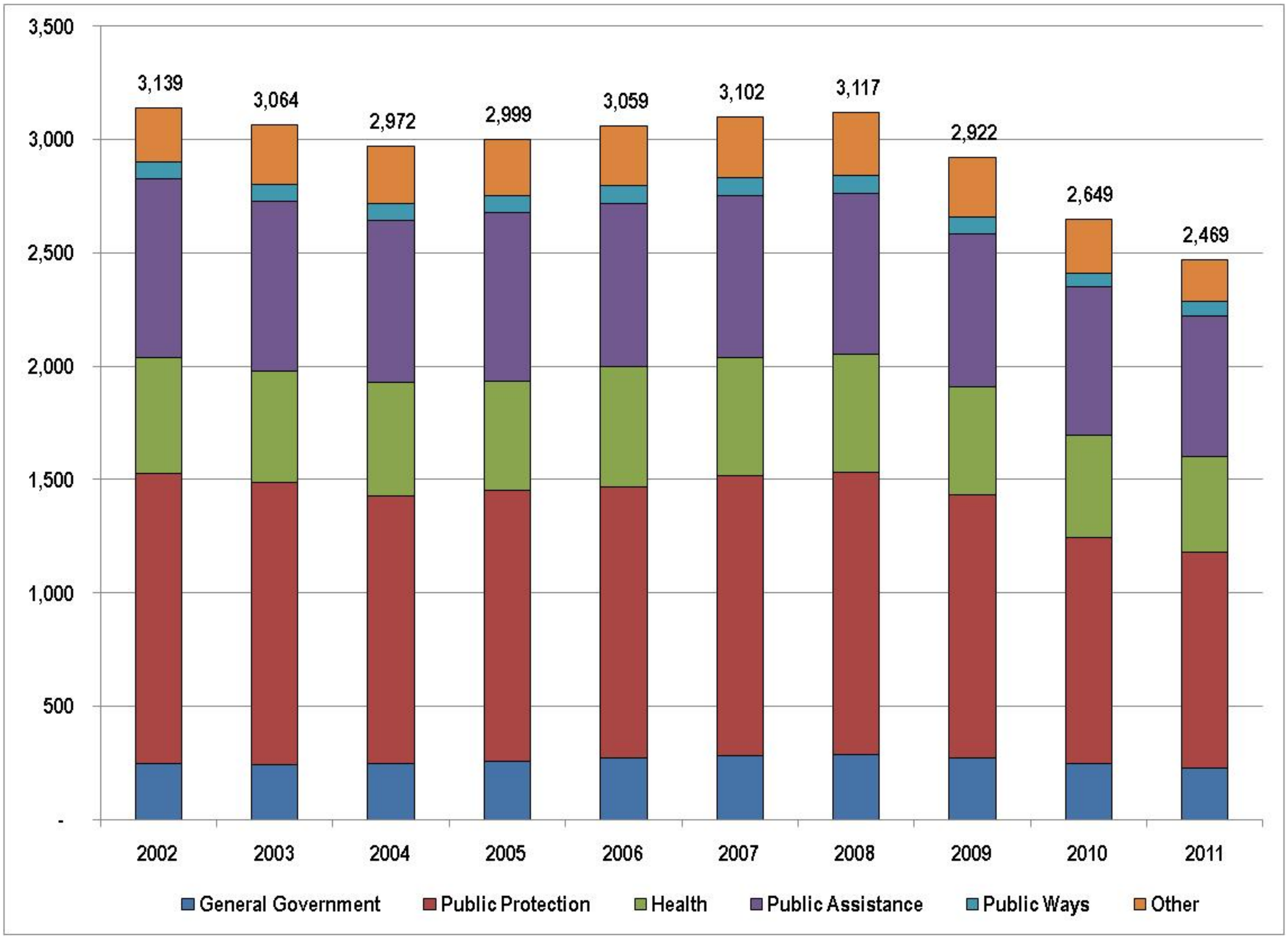
May 3, 2011

The Board affirmed the FY2011/12 contributions for funding various nonprofit and community-based organizations to be reflected in the FY2011/12 Recommended Budget. A commitment was set at $784,000 in General Fund contributions and $117,000 in one-time revenue and other funding sources.

PERMANENT POSITION ALLOCATION

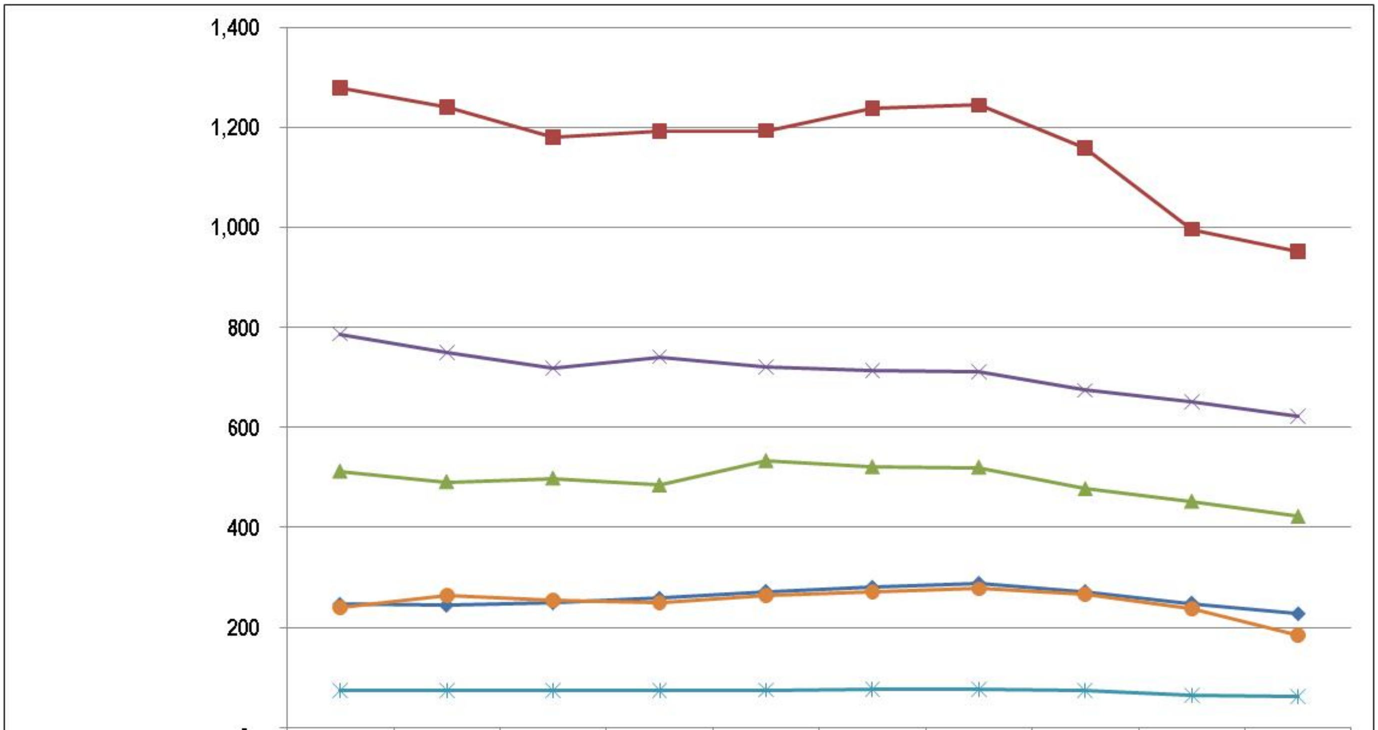
Over the past decade, the total number of Full Time Equivalent (FTE) positions in the County workforce has decreased from 3,139 in FY2002/03 to 2,469 in the FY2011/12 Recommend Budget. This the lowest staffing levels since FY1996/97 when there was a total of 2,466 employee positions, exclusive of Court employees. County permanent position allocations have decreased by 670 FTEs or 21.3% since 2002.

Permanent Position Allocation by Functional Area: FY2001/02 to FY2011/12



Function	Staffing Changes During FY2010/11	Additional Staffing Changes for FY2011/12	Total Change from FY2010/11 to FY2011/12
General Government	(12.30)	(8.90)	(21.20)
Public Protection	(27.00)	(18.00)	(45.00)
Health Services	(27.50)	(2.65)	(30.15)
Public Assistance	(8.70)	(20.00)	(28.70)
Public Ways	(2.00)	(0.00)	(2.00)
All Others	(20.00)	(33.00)	(53.00)
ALL FUNCTIONS	**(107.50)**	**(72.55)**	**(180.05)**

Permanent Position Allocation (Detailed by Function)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government	246	244	249	258	272	280	288	272	248	227
Public Protection	1,280	1,242	1,181	1,194	1,194	1,239	1,245	1,160	997	952
Health	512	491	498	484	533	521	520	477	452	422
Public Assistance	787	751	718	742	721	714	712	675	652	623
Public Ways	74	74	73	73	75	77	76	74	64	62
Other	240	263	254	249	264	272	277	266	237	184

FY2011/12 POSITION ADDITIONS AND DELETIONS

The Position Allocation List is a fluid document, subject to change based on Board actions through the year, the Director of Human Resources' ability to administratively create medical or military limited-term positions to backfill for employees on extended periods of medical or military leave, expirations for limited-term positions and other administrative actions delegated to the Director of Human Resources and the County Administrator by the Board.

The County Administrator's Office is recommending **15.3** new positions for approval in the FY2011/12 Recommended Budget. In some cases, Departments are proposing to delete one position and add another to better meet staffing needs. The recommended new positions are in the following departments:

<u>**GENERAL GOVERNMENT**</u>

1117- General Services

- 0.3 FTE Architectural Project Coordinator (Assistant)

1550- Registrar of Voters

- 1.0 FTE Deputy Registrar of Voters

PUBLIC PROTECTION

6550 – Sheriff

- 2.0 FTE Correctional Officer (Entry)

HEALTH

7880 – Health Services

- 6.0 FTE Medical Assistant
- 2.0 FTE Nurse Practitioner/Physician Assistant
- 0.5 FTE Registered Dental Assistant
- 0.5 FTE Dentist

PUBLIC ASSISTANCE

7680 – Social Services

- 1.0 FTE Social Worker III
- 2.0 FTE Eligibility Benefits Specialty II-LT

The Recommended Budget recommends the deletion **60.85** FTE regular positions that are either not funded or no longer meet the organizational needs of the County. These deletions do not include the positions deleted throughout FY2010/11. The positions identified for deletion in the Recommended Budget are as follows:

GENERAL GOVERNMENT

1100 – County Administrator

- 1.0 FTE Management Analyst (Senior)

1117 – General Services

- 1.0 FTE Administrative Secretary
- 1.0 FTE Energy Program Coordinator
- 4.0 FTE Custodians

1200- Auditor-Controller

- 1.0 FTE Accounting Technician

1400- County Counsel

- 1.0 FTE Legal Secretary
- 0.2 FTE Attorney

1500 – Human Resources

- 1.00 FTE Human Resources Assistant (effective October 2, 2011)

PUBLIC PROTECTION

6500 – District Attorney

- 7.0 FTE Deputy District Attorney I - IV
- 1.0 FTE Deputy District Attorney IV

6530 – Public Defender

- 1.0 FTE Deputy Public Defender I-IV (Limited Term) effective December 31, 2011

6540 – Conflict Defender

- 1.0 FTE Deputy Public Defender I-IV (Limited Term) effective December 31, 2011

6650 – Probation

- 2.0 FTE Supervising Group Counselor
- 1.0 FTE Accounting Technician
- 1.0 FTE Supervising Deputy Probation Officer (Limited Term)
- 1.0 FTE Deputy Probation Officer
- 4.0 FTE Senior Deputy Probation Officer
- 2.0 FTE Legal Procedures Clerk
- 1.0 FTE Probation Services Manager

2910 – Resource Management

- 1.0 FTE Environmental Health Specialist (Journey)

HEALTH

7780 – Behavioral Health

- 1.0 FTE Office Assistant II
- 2.0 FTE Mental Health Specialist II
- 3.65 FTE Mental Health Clinician (Lic)
- 3.0 FTE Mental Health Nurse
- 1.0 FTE Mental Health Services Coordinator
- 1.0 FTE Clinical Psychologist
- 1.0 FTE Mental Health Services Manager
- 1.0 FTE Medical Records Technician (Senior)

PUBLIC ASSISTANCE

7501- H&SS Administration

- 1.0 FTE Staff Analyst

7680 – Social Services

- 3.0 FTE Public Health Nurse
- 1.0 FTE Social Services Program Coordinator
- 2.0 FTE Social Services Supervisor
- 2.0 FTE Social Worker II
- 1.0 FTE Deputy Public Guardian/Conservator/ Administrator

OTHER FUNDS

1870 – DOIT

- 1.0 FTE Communications Supervisor

1901 – Reprographics

- 1.0 FTE Duplicating Services Operator

2801 – Fouts Springs

- 1.0 FTE Senior Group Counselor
- 1.0 FTE Group Counselor

The County Administrator's Office is recommending the following transfer of positions, reclassifications and the extensions of limited term positions as part of departmental reorganizations for approval in the FY2011/12 Recommended Budget:

GENERAL GOVERNMENT

1100 – County Administrator

- Reclassify 1.0 FTE Office Coordinator (C) to 1.0 FTE Office Assistant III (C)

1117 – General Services

- Transfer 1.0 FTE Facilities Operations Supervisor from the Airport (BU 9002) to General Services (BU1117)

1500 – Human Resources

- Extend 0.50 FTE Senior Human Resources Analyst (Limited Term) from July 1, 2011 through June 30, 2012.

PUBLIC PROTECTION

2480 – Child Support Services

- Reclassify 1.0 FTE Officer Supervisor to 1.0 Office Coordinator

6550 – Sheriff

- Transfer 1.0 FTE Sergeant Sheriff from CAL-MMET (BU 3250) to Sheriff (BU6550)
- Transfer 1.0 FTE Deputy Sheriff from CAL-MMET (BU 3250) to Sheriff (BU6550)

2910 – Resource Management

- Extend 1.0 Limited Term Building Inspector II (Limited Term) from July 1, 2011 through June 30, 2012

HEALTH

7880 – Health Services

- Transfer 1.37 FTE Psychiatrists from Mental Health Division to Family Health Services
- Extend 1.0 FTE Public Health Nurse (Limited Term)
- Extend 1.0 FTE Accounting Technician (Limited Term)
- Extend 1.0 FTE Medical Assistant (Limited Term)
- Extend 0.5 FTE Project Manager (Limited Term)
- Extend 0.5 FTE Project Manager (Limited Term)
- Extend 1.0 FTE Health Education Specialist (Sr) (Limited Term)
- Extend 2.0 FTE Health Assistant (Limited Term)
- Extend 1.0 FTE Health Services Manager (Limited Term)
- Extend 1.0 FTE Social Worker III (Limited Term)

PUBLIC ASSISTANCE

7680 – Social Services

- Extend 20 FTE Eligibility Benefit Specialist II
- Extend 2.0 FTE Eligibility Benefit Specialist Supervisor
- Extend 2.0 FTE Social Worker III
- Extend 1.0 FTE Social Services Worker

As of May 10, 2011, a net of 2,541.825 position allocations were approved by the Board through FY2010/11. The following table summarizes the position allocation changes requested since FY2010/11 Adopted Budget.

Summary of Positions

Net of Prior Actions by Board and Human Resources during FY2010/11	**(107.5)**
Added in Recommended Budget	**15.30**
Deleted in Recommended Budget	**(60.85)**
Expiring Limited Term	**(27.00)**
Net Deleted Positions	**(180.05)**

Position Allocation List

Allocated Positions in FY2010/11 Adopted Budget	**2,649.325**
Net Deleted Positions	**(180.05)**
Allocated Positions Recommended in FY2011/12 Budget	**2,469.275**

The *Permanent Position Summary* on the following pages is a digest of changes for each department from FY2007/08 through the Recommended Budget, including identifying changes occurring during FY2010/11.

PERMANENT POSITION SUMMARY

		FY2007/08 Adopted Budget	FY2008/09 Adopted Budget	FY2009/10 Adopted Budget	FY2010/11 Adopted Budget	Adjusted Totals for FY2010/11	FY 2011/12 Recmd. Budget	Change Recmd. vs Adopted
GENERAL GOVERNMENT								
1000	Board of Supervisors	10	10	10	10	10	10	0
1100	County Administrator	17	18	15	18	17	16	-2
1103	Employment Development & Training	1	1	1	1	2	2	1
1117	General Services	101	106	101	84	80.7	76	-8
1150	Assessor	45	45	44	40	36	35	-5
1200	Auditor/Controller	33	35	33	31	30	29	-2
1300	Tax Collector/County Clerk	14	14	12	11	10	10	-1
1350	Treasurer	4	4	3	3	3	3	0
1400	County Counsel	21	21	19.75	17.75	17.75	16.55	-1.2
1451	Delta Water Activities	0	0	0.75	1	1	1	0
1500	Human Resources	20	19	18	17.5	17.5	16.5	-1
1550	Registrar of Voters	12	12	11	12	9	10	-2
1642	Real Estate Services	2	3	3	2	2	2	0
Total General Government		**280.000**	**288.000**	**271.500**	**248.250**	**235.950**	**227.050**	**-21.200**
PUBLIC PROTECTION								
6500	District Attorney	139	140.5	141	123	114.5	106.5	-16.5
2480	Department of Child Support Services	127	120	107	107	105	105	-2
6530	Public Defender	66	68	66	56	52	52	-4
6540	Public Defender - Conflict	18	21	16	18	17	17	-1
6550	Sheriff	507	513	489.5	406.5	405	409	2.5
6650	Probation	256	255	226.5	185	175.5	164.5	-20.5
5500	Office of Family Violence Prevention	5	4	4	3	5	5	2
2830	Agricultural Commissioner	23	23	22	20	17.5	17.5	-2.5
2850	Animal Care Services	16	16	16	16	16	16	0
2909	Recorder	19	19	12	13	13	13	0
2910	Resource Management	59	61	56	47	46	45	-2
3250	CAL-MMET	2	2	2	2	3	1	-1
2930	LAFCo	2	2	2	0	0	0	0
Total Public Protection		**1239.000**	**1244.500**	**1160.000**	**996.500**	**969.500**	**951.500**	**-45.000**
PUBLIC WAYS								
3010	Public Works	76.5	75.5	73.5	63.5	61.5	61.5	-2
Total Public Ways		**76.500**	**75.500**	**73.500**	**63.500**	**61.500**	**61.500**	**-2.000**
HEALTH SERVICES								
7550	Public Guardian (1)	16	15	14	0	0	0	0
7690	In-Home Supportive Services	6	6	6	4	3.75	3.75	-0.25
7950	Tobacco Prevention and Education (2)	2	2	2	0	0	0	0
7560	Substance Abuse (3)	23	23	0	0	0	0	0
7598	Mental Health Managed Care (3)	6	6	0	0	0	0	0
7700	Mental Health (3)	223.28	225.28	0	0	0	0	0
7780	Behavioral Health	0	0	232.55	220.05	198.8	185.15	-34.9
7580	Family Health Services (4)	76.55	72.8	0	0	0	0	0
7800	Public Health (4)	168	170	0	0	0	0	0
7880	Health Services	0	0	222.55	227.8	221.8	232.8	5
Total Health Services		**520.830**	**520.080**	**477.100**	**451.850**	**424.350**	**421.700**	**-30.150**

		FY2007/08 Adopted Budget	FY2008/09 Adopted Budget	FY2009/10 Adopted Budget	FY2010/11 Adopted Budget	Adjusted Totals for FY2010/11	FY 2011/12 Recmd. Budget	Change Recmd. vs Adopted
PUBLIC ASSISTANCE								
1530	First 5 Solano Children and Families	7	8	9	9	9	9	0
5800	Veterans Services	6	6	6	5	4	4	-1
7501	H&SS Administration	88	88	84	81	75.5	73.5	-7.5
7600	Child Welfare Services (5)	140	140	0	0	0	0	0
7640	Older and Disabled Adult Services (5)	88	85	0	0	0	0	0
7650	Employment and Eligibility Services (5)	384.5	384.5	0	0	0	0	0
7680	Social Services	0	0	575.5	557	554.8	536.8	-20.2
Total Public Assistance		**713.500**	**711.500**	**674.500**	**652.000**	**643.300**	**623.300**	**-28.700**
EDUCATION								
6300	Library	139.98	141.48	142.1	132	116.5	116.5	-15.5
6200	Cooperative Education	3.25	3.25	3.13	2.725	2.725	2.725	0
Total Education		**143.230**	**144.730**	**145.230**	**134.725**	**119.225**	**119.225**	**-15.500**
RECREATION								
7000	Parks and Recreation	9	9	6	5	5	5	0
Total Recreation		**9.00**	**9.00**	**6.00**	**5.00**	**5.00**	**5.00**	**0.00**
OTHER FUNDS								
1600	Communications (6)	7	7	7	0	0	0	0
1830	Risk Management	14	16	12	8	7	7	-1
1870	Department of Information Technology	49	49	44	45	43	42	-3
1901	Reprographics	4.5	4.5	4.5	2.5	1	0	-2.5
2801	Fouts Springs Youth Facility (7)	29	30	30	29	30	0	-29
3100	Fleet Management	12	12	12	9	8	8	-1
9000	Airport	4	5	5	4	4	3	-1
Total Other Funds		**119.500**	**123.500**	**114.500**	**97.500**	**93.000**	**60.000**	**-37.500**
TOTAL COUNTY ALLOCATION		**3,101.560**	**3,116.810**	**2,922.330**	**2,649.325**	**2,551.825**	**2,469.275**	**-180.050**

(1) Combined into Social Services (BU 7680) in FY2010/11.
(2) Combined into Health Services (BU 7880) in FY2010/11.
(3) Combined into Behavioral Health (BU 7780) in FY2008/09.
(4) Combined into Health Services (BU 7880) in FY2008/09.
(5) Combined into Social Services (BU 7680) in FY2008/09.
(6) Combined into Department of Information Technology (BU 1870) in FY2010/11.
(7) County w ill be transitioning the program in FY2011/12.

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