
COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 22, 2012
TO: Board of Supervisors
FROM: Birgitta E. Corsello, County Administrator
SUBJECT: FY2012/13 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m., June 25, 2012 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) Overview of the State and Federal Budgets; 4) General Fund Fiscal Projection; and 5) Reduction Efforts During FY2011/12.

BUDGET OVERVIEW

The FY2012/13 Recommended Budget for Governmental Funds totals \$752,791,728 (*Schedules 1 and 2*). This amount represents a decrease of \$36.6 million, or 4.6%, when compared to the FY2011/12 Adopted Budget.

- General Fund totals \$207,562,153, a decrease of \$21.1 million, or 9.2%;
- Public Safety Fund totals \$143,697,236, an increase of \$6.3 million or 4.6 %;
- Health and Social Services Fund contains \$269,005,706, a decrease of \$2.9 million or 1.1%;
- Other Special Revenue Funds consists of \$105,364,480, a decrease of \$17.2 million or 14%;
- Capital Project Funds includes \$6,844,625, a decrease of \$2.1 million or 23.3 %; and
- Debt Service Funds total \$20,317,528, an increase of \$3.3 million or 1.4 %.

The Recommended Budget for Governmental Funds is financed by \$51.2 million in Fund Balance, of which \$32.6 million is from the General Fund. The General Fund Balance projection for FY2011/12 is slightly less than the ending fund balance in FY2010/11 and should be considered an accomplishment, given the continued impacts of the recession on County revenues and requests for various publicly funded assistance. The estimated FY2012/13 Fund Balance of \$32.6 million, coupled with the annualized ongoing reductions in operational expenses, will enable a balanced General Fund FY2012/13 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 enabled us to counter the losses of revenue and unanticipated program cost increases, and prevent the size of the operational funding deficits in the General Fund, the Library Fund, and several other operating budgets from increasing in FY2012/13.

The Recommended Budget provides for a workforce of 2,573.5 FTE positions, excluding extra help positions. This reflects a net increase of 76.225 FTE from FY2011/12 Adopted Budget. The additional positions requested are related to increases in service demands related to AB 109 Public Safety Realignment, health care reform and cost avoidance measures, such as in Child Welfare Services and the Public Defender's Office.

The FY2012/13 Recommended Budget uses prior-year savings, draws down from designated reserves but maintains General Reserves to address the future, and relies on projected fund balances to fund County core services,

The Recommended Budget reflects a reduction in ongoing General Fund revenues of \$174.2 million when compared to the FY2011/12 Adopted Budget of \$175.6 million. The reduction in General Fund revenues are related to lower interest earnings, reductions in intergovernmental revenues and licenses, permits and franchise fees, and anticipated reduced charges for services. Due to the State dissolution of Redevelopment Agencies in California, the County is uncertain if it will receive the projected revenues from pass-through agreements, totaling \$16.5 million in FY2011/12 and \$16.5 million in FY2012/13. Currently, the successor agencies are submitting their Recognized Obligation Payment Schedules (ROPS) to the State Department of Finance for final determination by June 1, 2012. It should be noted that the Governor in his message with the May Revision Budget Report has proposed further program funding and program administration changes as well as language to further clarify that obligations for former redevelopment pass-through agreements between the redevelopments agencies and other taxing entities, such as the County, should be on the list of Recognized Obligation Payments.

The Recommended Budget reflects reduced General Fund appropriations of \$207.6 million compared to FY2011/12 Adopted Budget of \$228.6 million. These reductions are related to the departments using Board-approved budget-reducing strategies to decrease the overall cost of operations.

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 units. 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.

This is the second year that the Recommended Budget document was prepared early in the month of May to facilitate a May release and longer review period prior to Budget Hearings in June. To accommodate the earlier release, we have reflected in the department budgets only the known and approved State and Federal programs changes as of May 1, which will take effect July 1, 2012. Other issues are noted in pending issues as state uncertainties.

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 changes including possible reductions that can be expected based on the Governor's May Revision released on May 14, 2012. Unfortunately, we do not know the speed in which the California State Legislature will act on the Governor's proposals in the May Budget Revision. Given the State's projected structural deficit of at least \$15.7 billion, there remains a lot of uncertainty and unknowns that could significantly distress the County's FY2012/13 budget and several other operational budgets. If this materializes in the coming weeks, the CAO and County Departments will return to the Board with additional budget recommendations.

The FY2012/13 Recommended Budget addresses known revenue challenges and proposes reductions and adjustments in operating expenditures to address these challenges, while allowing for some continued investments in technology, training, and capital renewal. It still relies on one-time funding to close the operational funding deficit in the General Fund, the Library Fund and several other operational budgets, which will require further cost containment efforts in the coming year. As Washington, D.C., and Sacramento grapple with the consequences of a prolonged recession, a sluggish economic recovery and continuing budget deficits – given the range of budget-balancing concepts being debated – we, locally, await the consequences of the resulting actions. 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 FY2012/13.

FINANCIAL SUMMARY

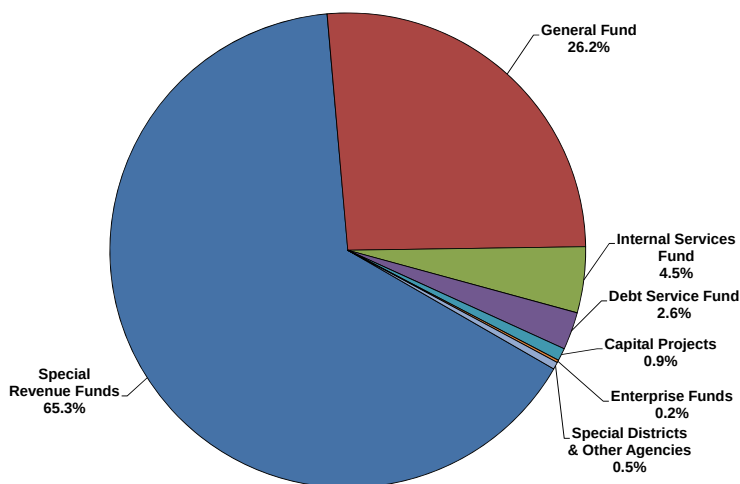
The Summary of All Funds graph provides information on all of the sources of funds included in the budget document. This not only includes Governmental Funds subject to the Budget Act, but Internal Service Funds, Enterprise Funds and Special Districts and Other Agencies.

Special Revenue Funds represent 65.3% of all funds and are 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 26.2% is the General Fund, which includes the majority of the remaining departments under the control of the Board of Supervisors.

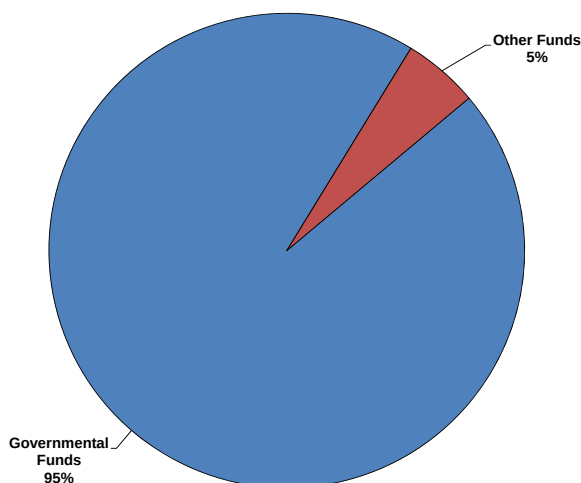
Detailed information for the charts on this page is available in *Schedule 1: All Funds Summary* for the Fiscal Year 2012/13.

Summary of All Funds for FY2012/13



ALL FUNDS
Total: \$793,665,049

Governmental Funds/Other Funds Distribution for FY2012/13



The Government Funds/Other Funds Distribution graph illustrates the distribution of the funds managed by the Board of Supervisors. Governmental Funds represents 95% of the funds listed in the 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.

The Governmental Funds Spending Plan by Function graph portrays a total of \$752.8 million. The graph indicates the percent of the total for each of the functional areas required within the Governmental Funds part of the County Budget.

Public Protection represents the single largest category of County expenditures at 24.3% in the FY2012/13 Recommended Budget, which is an increase from the 22.7% share of the FY2011/12 Adopted Budget. Public Protection spending is projected to increase \$3.67 million in FY2012/13 with the largest contribution to this increase being AB109 2011 Public Safety Realignment duties.

Public Assistance at 20.6% and Health at 17% represent the social safety net function of County government, which represents a collective increase from the 21.1% and 15.5%, respectively, in the share of projected County expenditures for FY2011/12. However, total Public Assistance and Health spending is projected to decrease by \$5.4 million in FY2012/13, attributable to the State's realignment of AB 3632 programs to schools, First 5 budgeting changes, and eligibility changes in assistance programs.

Contingencies & Reserves declined from an 8.8% share of the FY2011/12 Adopted Budget to a 6.4% share of the FY2012/13 Recommended Budget.

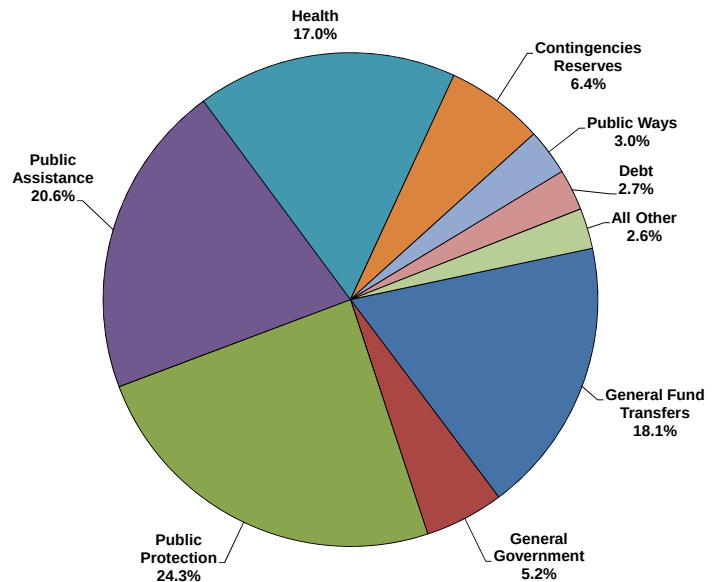
The Revenues by Source graph illustrates the different sources of funding to finance the Governmental Funds Budget. The largest revenue sources are Intergovernmental Revenue from State and Federal agencies, which collectively account for 40.9% of the FY2012/13 Recommended Budget, and generally have specific requirements on how they can be used. These Intergovernmental Revenues represent an increase of \$12.1 million from FY2011/12 Adopted Budget and an increase from the 37.4% share of the total budget.

Taxes represent 15.2% of the FY2012/13 revenue projections, which is up from the 14.4% share in FY2011/12. This also represents a \$1.1 million increase in projected tax revenues.

Fund Balance and Reserves represent a 7% share of the FY2012/13 revenues, which is a decline from the 10.8% share in FY2011/12.

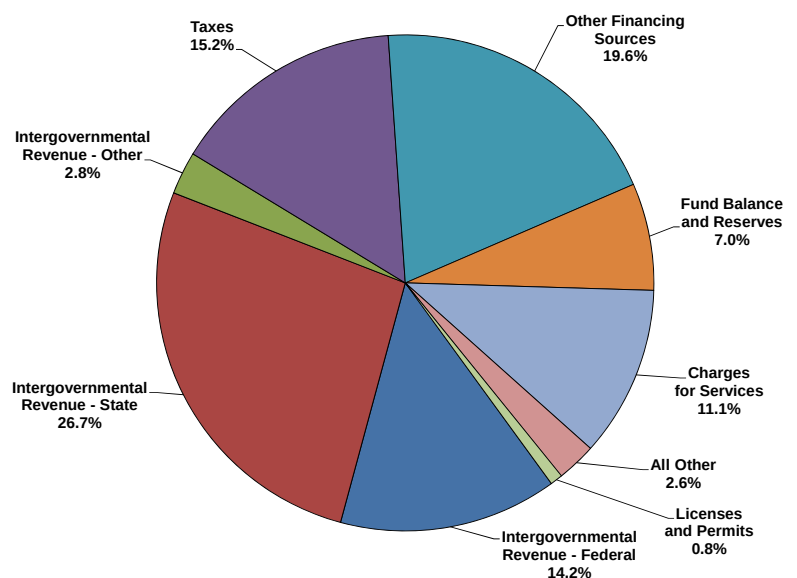
All other sources of revenue retained approximately the same share of total revenues.

Spending Plan by Function for FY2012/13



GOVERNMENTAL FUNDS Total: \$752,791,728

Revenues by Source for FY2012/13

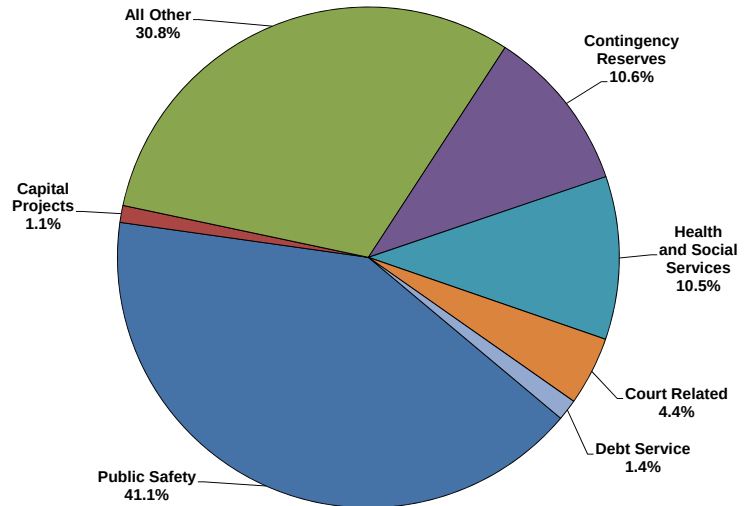


The General Fund Spending Plan (Fund 1) graph portrays a total of \$207.6 million. The Public Safety category represents the single largest category of expenditures at 41.1% in FY2012/13, which is a decline from the 48% share in FY2011/12. This category includes the Sheriff, District Attorney, Public and Conflict Defender, Other Public Defense and Probation.

The All Other category represents 30.8%. 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 10.5% of the total. The County's Courts Maintenance of Effort (MOE) is 4.4% of the total.

General Fund Spending Plan for FY2012/13



GENERAL FUND Total: \$207,562,153

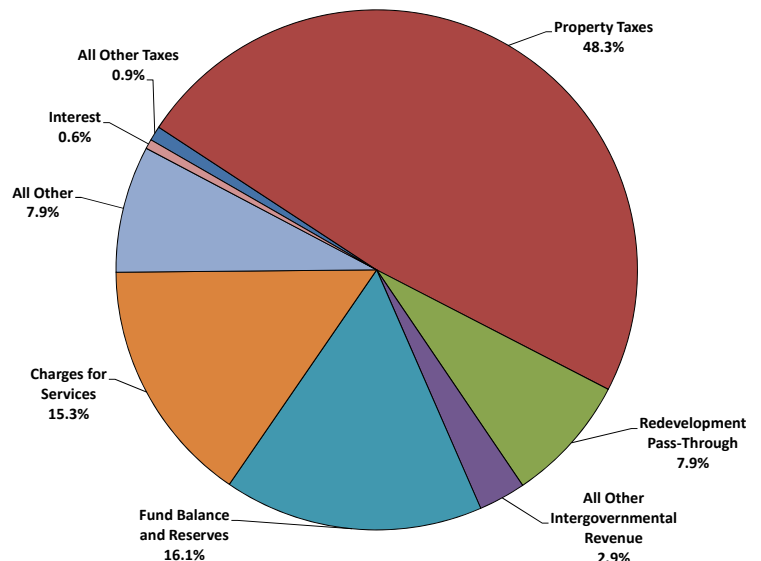
The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations.

Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 48.3% and Redevelopment Pass-Through at 7.9%. Property taxes include secured, unsecured, supplemental, utility roll, property tax in lieu of Vehicle License Fee (VLF) and property transfer tax. The FY2012/13 Recommended Budget projects a net 0.6% decrease in these property-related revenues when compared to the FY2011/12 Adopted Budget.

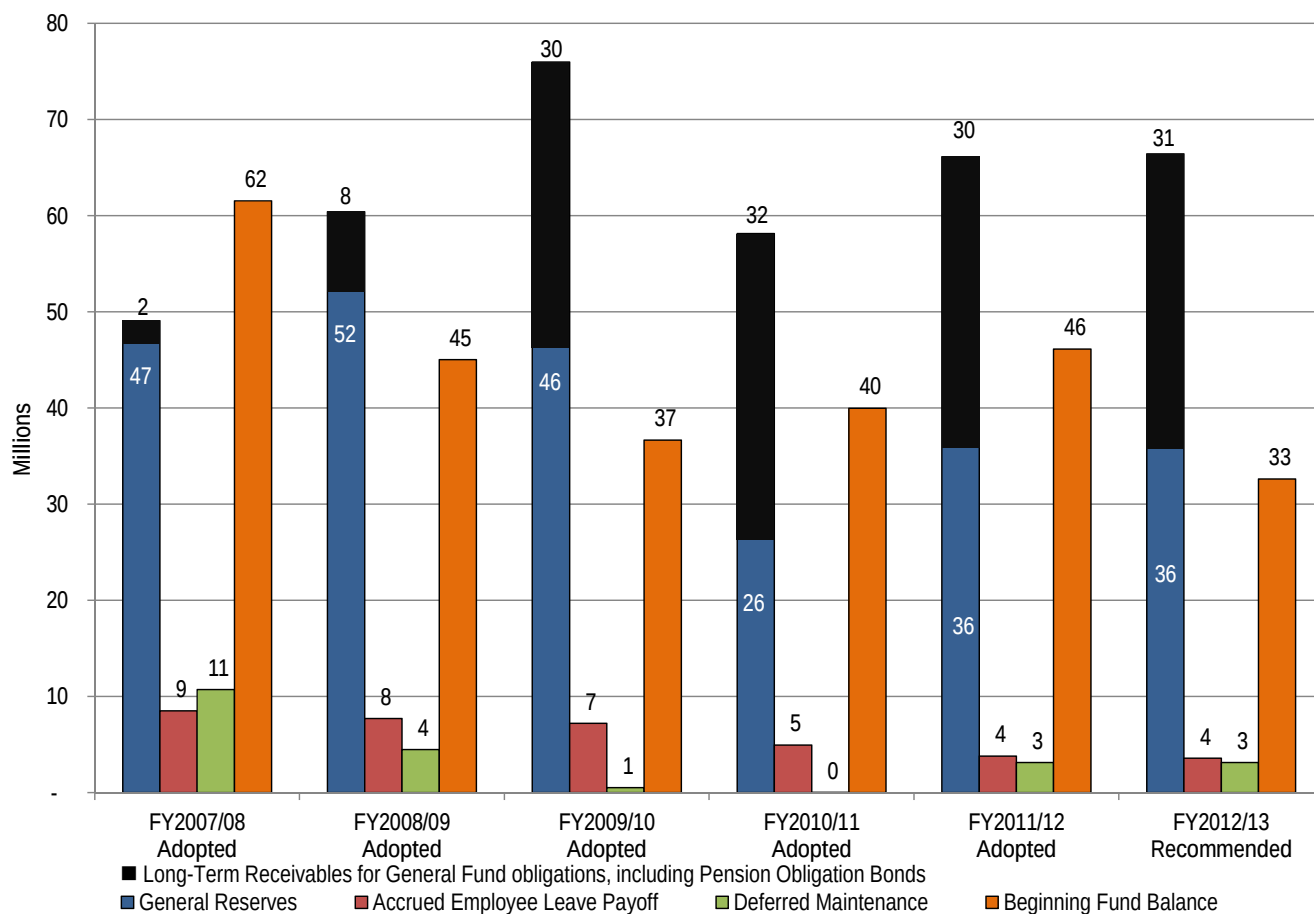
The next largest category is Fund Balance and Reserves. The General Fund projected Fund Balance at the end of FY2011/12 becomes a means of financing for the FY2012/13 Recommended Budget. Fund Balance and Reserves total \$33.4 million, of which Reserves/Designation accounts for \$800,000.

As shown, the third largest category is Charges for Services at 15.3%, which includes, for example, fees, permits, licenses, property tax administration fees and reimbursements for County costs of service.

Sources of General Fund Revenue for FY2012/13



History of General Fund Reserves, Designations & Fund Balance



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 excess revenues in Reserves in anticipation of an inevitable correction in the market. The County's intent was to draw from these resources and strategically step-down programs to align ongoing expenditures with ongoing revenues. As a result of the unprecedented recession and the collapse of the housing market, the rate of decline in County revenues outpaced projections. The flexibility to sustain continuous draws 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 General Reserves.

FUNDED AND UNFUNDED OBLIGATIONS AND LIABILITIES

Over the past 20 years, the Board adopted financial policies and over-arching principles intended to the County in addressing the range of investments necessary for the County to sustainably provide services. In better economic times the Board consciously set monies aside to fund and finance some of these obligations, liabilities, and responsibilities.

The protracted effects of the 2008 recession have required the Board to make strategic decisions regarding the use of available financial resources. While the first priority has been to address the delivery of current services, the Board has been making concerted efforts to reduce the operational funding deficit (gap) between ongoing revenues and ongoing expenditures. This has resulted in a focus shift on how some programs are managed and at what levels services are delivered. As part of that process, the Board has had to prioritize and balance how it can direct its limited resources toward investments that result in long-term cost

reductions or cost avoidance, and still address other financial obligations related to County operations and countywide priorities.

The FY2012/13 Recommended Budget represents the intended spending plan for the County of Solano in the coming year and relies on identified and known revenue sources to fund this spending plan. However, to fully understand the County's financial picture the reader should review the County's Comprehensive Annual Financial Report (CAFR) as of June 30, 2011 and the statements and disclosures included therein regarding the other legal obligations of the County, such as debt service, certificates of participation, pension obligations, pollution remediation obligations, and other liabilities. (This document is available online at www.solanocounty.com, under the Auditor-Controller section.) In the CAFR, the government-wide financial statements provide further detail on the long-term (multi-year) financial obligations of the County. The FY2012/13 Recommended Budget contains provisions for the payment of legally required obligations due in the upcoming year, including pension obligations, post retirement obligations, and certificates of participation. Due to current fiscal year constraints, limited resources have been budgeted to address some of the County's identified infrastructure, capital renewal, and technology investment requirements.

Labor Cost Related Obligations

Funding strategies were put in place in 2002 to begin the process of addressing the identified cost and exposures of labor benefit costs. Using actuarial data, policies and guiding principles were put in place to address pension obligations and the County's unfunded accrued actuarial liability, as well as the legal requirement to fund Other Post-Employment Benefits (OPEB). (Refer to the Debt Service section of this budget for additional information.)

Funds for Pension Obligations Bonds, OPEB and contributions to CalPERS are incorporated in the calculations of salaries and benefits, and a designation was established and remains, although limited, to address accrued leave payoff obligations; however, contingency reserves are not fully funded to address existing obligations.

Accrued leave payout obligations have been planned for through the establishment of the General Fund Balance for Accrued Leave Payoff and the implementation of cost recovery methodologies. However, the actuarial review has not been updated for several years. Departments have been and will continue to absorb a portion of this cost in the operational budgets at the time the accrued leave payoffs for staff separating from County employment or retiring employees is incurred.

Capital Renewal & County Facilities (Deferred Capital/Maintenance Projects – County Buildings)

In the area of County buildings, building systems and related infrastructure, in 2007 the Board established a committed fund balance for deferred capital/maintenance projects to fund deferred maintenance of County facilities. The Board's adopted policies and strategies to address unfunded liabilities center on the need to:

- replace infrastructure and building systems in aging County facilities where County public services are provided;
- achieve code compliance in relation to current regulations; and
- effectively manage/reduce the County's risks associated with the programs dispensed from County-occupied buildings.

Since 1992 the Board has established and collected fees on residential and commercial construction within the county to aid the construction of new County facilities to handle the corresponding growth in demand for County services. (Refer to the Public Facilities Fees budget.) Annually, through the review and approval of the 5-Year Capital Facilities Improvement Plan (CIP), the Board reviews the status of County building infrastructure and maintenance needs. The Board weighs these exposures against available resources to determine how to budget for these facility demands. The CIP approved by the Board on February 28, 2012 reflects unfunded deferred maintenance and infrastructure projects for the coming five years and estimates this to be approximately \$72 million. (Refer to the Capital Projects section for the CIP of CIP projects.)

Additional capital projects for which funding has not been determined but will likely need to be discussed and determined in the coming year include the establishment of: a day reporting center as part of AB 109 2011 Public Safety Realignment, a Family Justice Center, replacement/capital renewal of the animal control shelter, and final disposition of the Fouts Springs Juvenile Detention Facility structures and infrastructure.

Capital Renewal and Major Maintenance – County Roads and Bridges

As required by law, the Board has adopted a 5-Year Capital Investment Plan for Roads and Bridges, which shows an estimated \$21 million in unfunded road maintenance and bridge replacement projects. The Board's existing policy has been for the County to secure State and Federal funds for large projects, such as bridge replacements and major road reconstruction, and to use the

local Road Fund to provide for all other required maintenance. As State and Federal funding for this area of responsibility continue to diminish, other options and further consideration regarding this area of liability and responsibility will be necessary. (Refer to Public Ways budget.)

Capital and Technology Renewal – Communications, Telecommunications, Computer, Data and Software Systems

The existing practice for fixed asset and equipment renewal, including communications, telecommunications, data equipment, software systems, and computers as well as technology infrastructure, has been “a pay as you go” approach. This has resulted in significant challenges for not only the Department of Information Technology (DoIT) staff to support aging technology, systems spread across multiple platforms and security issues, but also for County departments that have had to reduce their operating budgets, prioritize their staff over equipment renewal, and then find themselves relying more on technology to support their workload.

The Board set aside \$1 million in the FY2010/11 Adopted Budget to fund technology initiatives that would improve operational efficiencies, such as automating the Board agenda process and the payroll time and attendance system. As part of short-term cost containment efforts, Departments deferred replacement of computers, looking to replace computers after five years of service. Existing charges for computer data processing fund the department and specific IT projects; however, the replacement of computers, infrastructure, and software systems continue to be on a “pay as you go” approach. For the first time in three years, the FY2012/13 Recommended Budget includes some funding for the replacement of computers in departments’ budgets as well as funding of critical system upgrades. (Refer to individual department budgets and the Department of Information Technology budget for more details.)

With regards to telecommunication systems and communication systems and the supporting infrastructure for both, these remain areas of deferred capital renewal and deferred investments. The replacement and upgrade of telecommunications systems is being incorporated into new building construction or major building renovations as part of the capital project funding, but replacement at the end of the life cycle has not been addressed. In addition, DoIT has identified the need for increased long-term storage and the refresh of aging servers. Radio and microwave communication infrastructure are also in need of investment renewal and could benefit from the development of a capital renewal investment plan and funding strategies.

In summary, although the FY2012/13 Recommended Budget is balanced, General Fund projections for future fiscal years still indicate enduring operational funding deficits. There still is a great need for ongoing reductions in expenditures and/or increased ongoing revenues, not only to address the deficits projected for the next several years, but also to manage the County’s unfunded obligations, liabilities and infrastructure and investment needs.

OVERVIEW OF THE STATE AND FEDERAL BUDGETS

State Budget

On January 5, 2012, Governor Brown released his FY2012/13 Proposed State Budget, which included \$92.6 billion in State General Fund expenditures. The budget plan projected a \$9.2 billion deficit; \$4.1 billion in the current year and \$5.1 billion deficit for FY2012/13. The Governor’s plan called for solving the 18-month deficit through a combination of \$4.2 billion in expenditure reductions, a temporary tax increase and revenue solutions totaling \$4.7 billion, and various other solutions estimated at \$1.4 billion. The Governor’s plan also set aside \$1.1 billion as a reserve.

May Revision

Subsequently, on May 14, 2012, Governor Brown released his May Revision to his FY2012/13 Proposed Budget. The May Revision projects a significant increase in the two-year General Fund budget deficit, up \$6.5 billion from the January estimate, due to overestimation of revenues in January’s Proposed Budget, higher costs to fund schools (K-14 education), and the blocking of previously enacted cuts by the federal government and the courts. The total State General Fund deficit is now projected to be \$15.7 billion, an amount equal to 17% of the State’s entire General Fund. The \$15.7 billion deficit includes a current year (FY2011/12) shortfall of \$7.6 billion and a budget year (FY2012/13) shortfall of \$8.1 billion.

Solutions in the May Revision to cover the projected increased budget deficits include: \$8.3 billion in program cuts; \$5.9 billion in increased revenues, and \$2.5 billion in “other” solutions (such as borrowing from special funds and extending loan repayments). The May Revision also includes a reserve of \$1.0 billion.

The May Revision proposal is contingent upon voters passing the Governor's tax initiative on the November 2012 ballot that would generate the bulk of the increased revenues, estimated at \$5.6 billion. The current ballot initiative contains a slightly different mix of taxes than those originally proposed in January, with more of the tax revenues coming from personal income taxes on the wealthiest taxpayers and less coming from an increase in the state sales tax. The ballot initiative taxes would still be temporary; the increased income taxes on the wealthy would be in place for seven years and the half-cent increased state sales tax would be in place for four years.

Regardless of whether voters pass the tax measure, the May Revision proposes deeper cuts to the Medi-Cal and In-Home Supportive Services (IHSS) programs than those proposed in January. The May Revision also includes new proposals to reduce spending on state employee compensation by more than \$400 million and to use the "cash assets" of redevelopment agencies – entities that were eliminated in February of this year – in order to offset \$1.4 billion in state spending for schools and community colleges in 2012-13.

The Governor's \$16.7 billion in budget "solutions" include:

- \$8.3 billion in spending reductions, including a \$1.2 billion cut to Medi-Cal, an \$879.9 million reduction to the California Work Opportunity and Responsibility to Kids (CalWORKs) Program, and deep cuts to IHSS, child care, the courts, and the Cal Grant college financial aid program;
- \$5.9 billion in additional revenues, nearly all of which is attributable to the proposed tax measure;
- \$2.5 billion in fund shifts, loan payment deferrals, borrowing from special funds, and other one-time measures; and
- A \$1 billion reserve.

Should the Governor's tax initiative fail passage by the voters, the May Revision continues to propose General Fund reductions that would take effect January 1, 2013; although these "trigger" cuts differ somewhat in amount and by program from those proposed in January. The May Revision General Fund "trigger" cuts would total \$6.1 billion and include:

- \$5.5 billion reduction to K-14 schools;
- \$250 million reduction each to the University of California and California State University;
- \$50 million reduction to developmental services;
- \$15.6 million reduction to state park rangers and wardens, elimination of lifeguards on state beaches, and to local law enforcement for water safety patrol;
- \$10 million reduction to the Department of Forestry and Fire Protection's firefighting capabilities;
- \$6.6 million reduction to flood control programs; and
- \$1 million reduction to Department of Justice law enforcement programs.

Due to the timing and release of the May Revision, alignment to the County's budget has been deferred until a more accurate analysis can be conducted to determine the full impacts of the Governor's May Revision. Similarly, following the November 2012 elections, should an unfavorable outcome occur, the County's budget may again need to be aligned to reflect the automatic trigger cuts associated with the failure of the Governor's proposed tax initiative.

Preliminary estimates to potential County budget impacts resulting from the Governor's May Revision include, but are not limited to:

Realignment

The 2011 Realignment is funded through two sources: a state sales tax of 1.0625% and 0.5% in Vehicle License Fees (VLF). In January, these revenue sources were estimated to generate \$5.107 billion in sales taxes and \$462.1 million in VLF in FY2011/12. The May Revision estimates an increase in sales taxes revenues to \$5.153 billion in FY2011/12 and decreases VLF to \$439.4 million.

The May Revision does not contain any further details on Phase Two of realignment. The implementation of Phase Two is linked to ongoing discussions of how California will implement health care reform.

Probation

As a diversion from the Governor's January budget proposal to cease the intake of juveniles into the Division of Juvenile Justice, the May Revision reinstates this as a placement option for juvenile offenders; however, the cost has increased from \$10,000 annually to \$24,000 annually for each juvenile offender committed by the juvenile court. Currently, the County funds six juvenile offenders at the Division of Juvenile Justice at a total cost of \$60,000 per year. The increased fee proposed in the May Revision will cost the County General Fund an additional \$84,000 annually to maintain these juvenile offenders at the Division of Juvenile Justice facilities. The age limit has also been narrowed down from 25 to 23 years.

Public Safety

The May Revision General Fund "trigger" cuts include a provision to reduce funding for state-wide Boating Safety and Enforcement Programs that would significantly impact the County's ability to provide water safety patrol services to Delta communities. The Sheriff's Department has no other remaining first responder capabilities in that area to backfill the loss.

Education

The bulk of the May Revision General Fund "trigger" cuts are targeted at schools and community colleges and would result in significant funding reductions, equivalent to three weeks of instruction, that will have devastating effects on Solano County's communities.

Federal Budget

On February 13, 2012, President Obama released his proposed \$3.8 trillion budget for Federal Fiscal Year (FFY) 2013, which will begin on October 1, 2012. As estimated by the Office of Management and Budget, the federal budget deficit will drop from \$1.3 trillion in FFY 2012 to \$901 billion in FFY 2013. This is achieved by reducing overall non-security discretionary spending from \$450 billion in FFY 2012 to \$410 billion in FFY 2013, the same levels as in the Budget Control Act of 2011, which increased the federal debt limit and reduced projected federal expenditures. Overall, discretionary spending under the President's budget request for FFY 2013 would be \$52 billion less than the amount enacted in FFY 2012.

As of mid-May, lawmakers have made a fair amount of progress on the FFY 2013 budget, though work on the appropriations process is expected to slow in the coming weeks as House Republican leaders wrestle with how to advance some of the more traditionally contentious spending bills. With only about 20 full legislative days scheduled in the House before the start of the new fiscal year on October 1, advancement of the annual appropriations measures is expected to be challenging, particularly in an election-year environment.

To date, the House has cleared the Commerce-Justice-Science (CJS) appropriations package, making it the first FFY 2013 spending bill approved by either chamber. At the committee level, the House Appropriations Committee has approved the Energy and Water (E&W) Development spending legislation, with four Appropriations subcommittees approving their respective bills. In the Senate, the Appropriations Committee has approved the following four bills: Agriculture; CJS; E&W Development; and Transportation-Housing and Urban Development (T-HUD).

Notably, the House is moving forward with its budget process under a spending allocation that is roughly \$19 billion less than the Senate's (\$1.028 trillion vs. \$1.047 trillion). Whereas the House is adhering to the numbers that are included in the Republican's FFY 2013 budget resolution, Democratic leaders in the Senate have opted to stick to the discretionary spending cap imposed by last year's debt limit law. The different budget baselines will set the two chambers on a collision course for later this year when lawmakers seek to negotiate a final budget deal.

On a related matter, the debt limit law requires \$1.2 trillion in discretionary spending cuts over the next decade, accompanied by an additional \$1.2 trillion in automatic, across-the-board cuts – known as a budget sequester – set to begin in January. The sequester is scheduled to affect security and non-security accounts equally, and will reduce state and local discretionary programs at a rate of roughly seven to eight percent in FFY 2013. Additionally, the current debt limit is expected to be reached later this year or early next year, and another increase will be necessary to allow the government to continue to honor its debt obligations.

GENERAL FUND FISCAL PROJECTIONS

Solano County uses 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 Fiscal Projections shown below include the FY2011/12 Third Quarter projections for comparison only. Using the FY2012/13 Recommended Budget as the starting point, revenues and expenditures are forecast through FY2014/15. While projections beyond 2015 are possible, it is more difficult to provide a meaningful longer forecast in light of the constantly changing dynamics of current conditions – the depressed local economy and existing deficits in the State and Federal budgets, and the still-to-be-taken actions by the Legislature and Congress.

COUNTY OF SOLANO

GENERAL FUND FISCAL PROJECTION

FY2012/13 Recommended Budget

(In Millions of Dollars)

	FY2011/12 3rd Quarter Projection	FY2012/13 Recommended Budget	FY2013/14 Projected Budget	FY2014/15 Projected Budget
a) General Fund Beginning Balance	46.125	32.611	25.000	25.000
b) To General Reserve	13.247	0	0	0
c) From General Reserve	6.000	0	6.000	6.000
d) From Accrued Leave Payoff Designation	0.960	0.800	0.800	0.800
e) To Accrued Leave Payoff Designation	0.560	0	0	0
f) Loan to Opportunity House	0.300	0	0	0
g) Reserves for Encumbrances	0.492	(0.492) 0.500	0	0
h) Exposure: Fouts' Operational Deficit	0.497	0.000	0	0
i) Net Change in Funding Uses/Sources (c+d+g-b-e-f-h)	(7.152)	0.808	6.800	6.800
j) TOTAL AVAILABLE FINANCING (a+i)	38.973	33.419	31.800	31.800
k) Operating Expenditures (excluding Contingency)	184.001	185.562	185.497	189.346
l) General Fund Contingency	0	22.000	22.000	20.000
m) Total Operating Expenditures (k+l)	184.001	207.562	207.497	209.346
n) Operating Revenues (excluding transfers from Reserves)	176.331	174.151	173.180	175.139
o) Operating Expenditures (excluding Contingency)	184.001	185.562	185.497	189.346
p) Operational Funding Deficit (n-o)	(7.670)	(11.411)	(12.317)	(14.207)

SOURCE: FY2012/13 Recommended Budget figures from Schedule 1 and Schedule 3

Revenue Assumptions - From General Revenue Projections:

- Current Secured Property Taxes are projected to increase by 1% in the FY2012/13 Recommended Budget, to \$54.8 million, when compared to the FY2011/12 Adopted Budget. It is anticipated to remain flat in FY2013/14, and increase by 2% in FY2014/15.
- Current Unsecured Property Tax revenue reflects a decrease of 8% in FY2012/13 when compared to the FY2011/12 Adopted Budget, to \$2.5 million. It is projected to remain flat in FY2013/14, and increase by 2% in FY2014/15. However, there are a significant number of appeals from large businesses that may impact these projected revenues.
- Sales Tax revenues are increased by \$50,000, or 4%, in FY2012/13 when compared to the FY2011/12 Adopted Budget. These revenues are then projected to remain flat through FY2014/15, because of the turbulent state of the economy.
- Property Transfer Tax is projected to stay flat, as real estate activity is expected to continue being depressed.
- Interest Income is also projected to stay flat for FY2012/13 through FY2014/15, with continued interest yields of less than 1%, due to the prolonged economic downturn.
- Homeowners Property Tax Relief is projected to remain flat through FY2014/15.
- Redevelopment Pass-Through is projected to decrease by 2% in FY2012/13 as compared to the FY2011/12 Adopted Budget and remain at this lower level through FY2014/15. Because the State recently dissolved Redevelopment Agencies, implementation is still evolving and it is not clear what the impacts on the County will be at this point.
- Disposal Fees are projected to decrease by \$0.9 million in FY2012/13 and held constant through FY2014/15 due to loss of a contract at the Potrero Hills landfill and a significant decrease in tonnages at the County's landfills. The Measure E appeal hearing is still pending and may significantly impact this source of revenue.
- Excess Tax Loss Reserves is budgeted at \$8 million in FY2012/13 through FY 2014/15.
- The projections do not assume any increases in Departments' revenues because there are too many unknowns in how the State and Federal governments will deal with their respective deficits, and the continuing uncertainties regarding the economy.

The County's General Fund 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 FY2012/13 Recommended Budget includes the use of \$800,000 from the General Fund General Reserve (designation) for Accrued Leave Payoff.

In addition to General Revenues, the County budget is financed by Proposition 172 revenues for Public Safety and 1991 Realignment funds (State Sales Tax and VLF) for Health and Social Services (H&SS). 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 FY2012/13 Recommended Budget includes \$29.0 million in Proposition 172 revenues, a 6% increase over the FY2011/12 Adjusted Budget of \$27.3 million. The FY2012/13 Recommended Budget also includes 1991 Realignment revenues for H&SS of \$28.7 million, a \$1.6 million increase from the FY2011/12 Adjusted Budget.

In FY2011/12, when the State enacted 2011 Public Safety Realignment, it provided some funding for the Public Safety departments. Since this funding is restricted in use, it does not directly impact the General Fund. The 2011 Public Safety Realignment also realigned funding sources for certain human services programs. Notably, AB 118, one of the bills enacting the 2011 Realignment redirected funding for community mental health programs from 1991 Realignment into the 2011 Realignment. Other human services programs realigned were Adoption Services, Foster Care, Child Welfare Services (CWS), CalWORKS assistance grants, and Adult Protective Services (APS). Because 2011 Realignment changed the funding source from the State's General Fund to state sales tax, a concern arises as to the funding for these programs when sales tax proceeds are not sufficient to cover the cost of the realigned programs.

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, 2012 is projected to continue to be much lower than in June 30, 2011.

It is assumed that available fund balance at year-end FY2011/12 will be used to balance the FY2012/13 General Fund budget. Thus, the FY2012/13 Recommended Budget assumes \$6 million from the General Fund Reserve will not be drawn down.

Expenditure Assumptions:

- Retirement costs are projected to continue to increase at an average of 2% per year.
- Health insurance costs are projected to continue increasing 5% per year.
- General Fund Contribution.
 - General Fund support for Public Safety is projected to increase from \$85.4 million in the FY2012/13 Recommended Budget to \$89.5 million in FY2014/15, a \$4.1 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 and 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 FY2012/13 Recommended General Fund Budget is balanced with revenues of \$174.2 million, a drawdown of \$800,000 from the General Fund General Reserve for Accrued Leave Payoff, and a General Fund beginning Fund Balance of \$32.6 million. The FY2012/13 Recommended Budget of \$207.6 million includes \$22 million in Contingency.

REDUCTION EFFORTS DURING FY2011/12

The FY2011/12 budget was adopted with the expectation that the Board would have to continue 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 as well as other funds. The Board held workshops and received budget updates throughout the year. The Board adopted the following six broad strategies to guide the departments in their continuing efforts to contain costs and where possible, reduce even further to meet reduction targets.

Strategy 1: *Elimination or freezing of all vacant positions and only fill positions that are "Mission Critical" to the organization*

Strategy 2: *Continue to review all discretionary and mandatory programs*

Strategy 3: *Continue to seek additional employee concessions, in addition to the current MOUs and agreements in place or in progress*

Strategy 4: *Continue to reduce General Fund Contribution to Health & Social Services and Public Safety departments, reducing the level of service to the community*

Strategy 5: *Continue reducing the County's footprint in buildings in Fairfield, Vallejo and Vacaville, and move employees out of leased space into County-owned space; consider selling older/outdated County buildings to reduce operational expenses*

Strategy 6: *Continue automating the delivery of services so reorganization / downsizing opportunities can continue*

When the budget was adopted in June 2011, the operational funding deficit in the General Fund was estimated at \$19.8 million. As a result of the strategies, staff reported at the Third Quarter Financial Projections on May 8, 2012 that the year would end with a \$7.7 million deficit in the General Fund. The full impact of the overall reduction efforts are masked, however, by shifts in new responsibilities to the County as a result of the 2011 Public Safety Realignment, which not only impacts public safety departments but also Health and Social Services.

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