

County of San Luis Obispo

County Government Center, RM. 370 • San Luis Obispo, California 93408 • (805) 781-5011



October 18, 2005

Honorable Board of Supervisors
County Government Center
San Luis Obispo, CA 93408

Honorable Board:

On June 20 and 21, the Board held public hearings to discuss the County's proposed spending plan for fiscal year 2005-06. The Board adopted the budget on June 28, 2005 and made adjustments to reserves and contingencies (based on year end fund balances) on September 20, 2005.

The final budget (General Fund and all Special Funds) authorizes a spending level of \$410.7 million.

The May 1, 2003 "budget message" (attached) provides an overview of the key components of the County's proposed spending plan. The following is a summary of changes made to the proposed budget during and after the June budget hearings:

CHANGES MADE TO THE PROPOSED BUDGET DURING BUDGET HEARINGS

Boards, Commissions, Community Projects (Fund Center 106): Your Board increased the recommended amounts for the District Community Project funds by an additional \$15,000 over the recommended amounts. This brings each of the five district funds from \$22,000 to \$25,000. General Fund contingencies funded this increase.

Parks Special Revenue Fund (Fund Center 305): Your Board increased Park's expenditures by \$250,000 to fund maintenance and repairs of existing County Parks. General fund contingencies will be used to fund this increase.

Additionally, your Board approved ten technical adjustments listed on page S-1 of the Supplemental Document. These adjustments were funded by offsetting revenue or cancelled reserves requiring no additional General Fund support.

During the budget hearings, your Board reduced General Fund Contingencies by \$265,000 leaving a balance of \$14,880,165.

CHANGES MADE AFTER BUDGET HEARINGS

Once the fiscal year ends on June 30th, the Auditor's Office begins the "year end closing" process that includes calculation of actual fund balances (i.e. compared to what was projected as part of the budget preparation process). On September 20 2005, the Auditor-Controller brought an item to the Board requesting adoption of the final appropriations, reserves, designations and contingencies. Actual fund balances for all funds was approximately \$ 18.6 million more than estimated in the proposed budget as described below. The additional funds were placed in contingencies and/or

reserves.

General Fund: an increase of \$10.9 million. The increase in fund balance was distributed in the following manner:

- General Fund contingencies: \$340,917
- Internal loan fund designation: \$2,000,000
- Capital Projects: \$3,854,812
- Pay down Pension Obligation Bonds: \$2,000,000
- Pay down 1994 Certificate of Participation: \$1,100,000
- Automation Replacement Reserves: \$1,600,000

Road Impact Fees: an increase of \$4.7 million

Road Fund: an increase of \$309,125.

Capital Projects: an increase of \$751,705.

All Other funds: an increase of \$1.9 million

Sincerely,

DAVID EDGE
County Administrator

May 1, 2005

Honorable Board of Supervisors
County Government Center
San Luis Obispo, CA 93408

Honorable Board:

The fiscal year 2005-2006 Proposed Budget is submitted for your review and consideration. It adjusts departmental expenditures and revenues for the coming fiscal year, meeting all state legal requirements and Board adopted policies. Your Board will consider the plan in detail at public budget hearings, during which time you may add, delete or modify the proposed budget, as you deem appropriate.

RECOMMENDATIONS

1. Adopt the County Administrator's Proposed 2005-06 County Budget for public review, and
2. Schedule public hearings on the Proposed 2005-06 County Budget to begin Monday, June 20, 2005 in the Board of Supervisors Chambers at 9:00 A.M., and
3. Order publication of the required legal notices scheduling the public hearings.

INTRODUCTION

The difficult choices the Board made in the current year have resulted in an improved fiscal condition heading into fiscal year 2005-06. The current (FY 2004-05) budget was balanced by a combination of hard budget cuts, service level reductions, staff reductions and the use of reserves to offset the loss of local government revenue that shifted to the state. Heading into fiscal year 2005-06, a healthy fund balance and improving local revenue picture has helped, but not erased, the budget limitations we face due to state revenue takeaways and the increased costs of doing business. County finances are stabilizing but many County services are funded at levels that place limitations on the resources that we can apply toward achieving desired communitywide goals and objectives.

Development of the 2005-06 Proposed Budget was guided by the budget goals, policies and performance measures adopted by your Board. Within this framework, we have prepared a budget that, for the most part, reflects a "status quo" approach in terms of maintaining existing resources and services.

The recommendations in the Proposed Budget are intended to minimizing service cuts to the public. The budget accounts for local and state budget issues, maintains a healthy reserve level and keeps core community services that support the County's mission and communitywide results of a safe, health, livable, prosperous and well-governed community. The Proposed Budget by no means addresses all of our public service needs. For example, the Libraries will continue with limited hours of operation, the Road Fund will not support an adequate pavement management program to achieve Board adopted goals and Parks maintenance remains under funded.

Concurrent with the budget process, your Board initiated a strategic planning effort that is currently underway to identify priority services, funding options and actions to be our guidepost in aligning County programs with our communitywide results. As the strategic plan is developed over the next year it will guide the budget process in the future. The plan will create a foundation for quality services and a trained and accountable workforce that meets the wants needs and expectations of our

stakeholders within our available financial capacity.

SUMMARY OF THE FISCAL YEAR 2005-2006 PROPOSED BUDGET

- The proposed FY 2005-06 budget for all funds is \$ 383.7 million; a 2.9% increase or \$10.6 million increase over the current year (see chart below). The proposed General Fund budget is \$318.8 million; a 6% increase or \$18 million over the current year.

All Funds Expenditure Comparison			
	FY 04-05 Adopted	FY 05-06 Proposed	% Increase/ Decrease
General Fund	300,741,146	318,758,612	6%
Road Fund	26,448,671	20,079,374	-24%
Library	6,604,662	6,883,128	4%
Parks	5,922,719	5,705,913	-4%
Capital Projects	3,021,548	4,594,300	52%
Community Development	4,121,576	4,576,066	11%
Organizational Effectiveness	524,043	524,043	0%
Public Facilities Fees	4,265,538	3,550,000	-17%
Automation Replacement	1,721,647	1,692,129	-2%
Building Replacement	919,281	961,458	5%
Traffic Impact Fees	4,075,000	2,614,800	-36%
Wildlife and Grazing	10,025	4,954	-51%
Drinking Driver Program	1,140,311	1,101,492	-3%
Fish and Game	23,214	14,625	-37%
Medical Services Program	3,534,191	3,629,672	3%
Emergency Medical Services	1,190,743	491,500	-59%
Indigent Programs	458,299	1,076,624	135%
Debt Service	2,405,556	2,404,641	0%
Pension Obligation Bonds	5,806,020	5,001,295	-14%
TOTAL	372,934,190	383,664,626	2.9%

General Fund Summary

- Contingencies are recommended at 5 % as directed by Board policy.
- Budgets are recommended to keep resources consistent with the current year.
- \$400,000 in one-time reserves is used to help balance the budget.
- No new reserves are recommended.

Other Funds Summary

- All funds, other than the General Fund (see table above), are recommended at \$64.9 million, a decrease of \$7.5million or 10 % from Fiscal Year 04-05.

FACTORS AFFECTING THE FY 2005-06 BUDGET

State's Difficult Fiscal Environment Continues to Threaten County Funding. As we have reported throughout the year, the State continues to face a substantial structural shortfall of approximately \$8-9 billion in its General Fund budget. The Governor's budget released in January proposes to eliminate the shortfall in 2005-06 through significant program reductions (mainly in K-12 education, social services, and employee compensation), a suspension of Proposition 42 (transportation funds), the 2nd year of a local property tax shift of \$1.3 billion and the use of \$1.7 billion in remaining deficit-financing bonds.

The State budget solutions continue to threaten the ability of San Luis Obispo County to provide adequate services to the community. We estimate a loss of over \$5 million from state budget actions. Following is a list of state fiscal impacts we expect for FY 05-06:

- A loss of \$2.3 million in property tax revenue
- A loss of \$1.3 million in roads revenue
- A loss of over \$1 million in mandate reimbursement revenue
- A loss of \$500,000 in criminal justice revenue
- A \$350,000 federal Child Support automation penalty (all counties must pay)
- A loss of \$80,000 in property tax administration revenue

Additionally, the Governor is proposing reduction in the health and human services programs. Most notable is the elimination of the state's participation above minimum wage for In-Home Supportive Services. This proposal brings the state's share of costs down to the state minimum wage level of \$6.75. Should this proposal be enacted it could cost the County over \$2 million to make up the difference. This proposal seems to be losing steam at the state level but we will not know the outcome for a few more weeks as the Governor's administration is preparing an updated budget referred to as the "May Revise". We will track these changes and make additional recommendations to your Board as required. Of course, the Governor's budget and revisions must go through the legislative process and be adopted by the legislature so we will not know the final outcome of the state's effect on the County until sometime after July 1.

Local Costs Continue To Rise. In addition to State funding cuts, the County is addressing its own budget concerns. The cost of baseline service levels, particularly personnel costs and insurance (worker's compensation and liability) continue to increase year after year. Insurance costs are expected to increase over \$3 million next year while personnel costs will increase over \$7 million from the current year.

Revenue. As stated above, we estimate a loss of over \$5 million from state budget actions. Fortunately, local revenue, such as property tax revenue, sales tax and transient occupancy tax continue to increase and will help make up some of revenue losses. Property taxes, which make up about a quarter of the County's revenue, are increasing over 9% next year. Overall, non-departmental revenues are expected to increase by over \$13 million or 12% over the current year.

Additionally, a number of voter-approved propositions will provide additional revenue to support existing and/or new programs as in the case of the Mental Health Department.

Proposition 63 - approved by the voters in November 2004, this proposition established a state personal income tax surcharge of one percent on taxpayers with annual taxable incomes of more than \$1 million. Funds resulting from the surcharge are to be spent on the expansion of County Mental Health programs. San Luis Obispo County is expected to receive about \$3 million annually for mental health programs. However, because of the process involved in reviewing and approving proposals from all 58 counties, the Health Agency estimates that only a portion of these funds

(\$425,000) will be available the latter part of fiscal year 2005-06.

Proposition 172 - Proposition 172 revenues, the ½ cent sales tax approved in 1993 for public safety purposes, are projected to bring in an additional \$2.2 million over current year levels.

SUMMARY OF STAFFING

The Proposed Budget recommends 2,500.75 full time equivalent (FTE) permanent and limited term positions. This represents a net decrease of 2.75 FTE positions from the current allocation. This includes a reduction of 13.75 vacant positions and an increase in 10.50 as shown below.

2005-2006 Summary		
2004-05 Current Allocation		2,503.50
2005-2006 Recommendation		2,500.75
Net Adds/Deletions		-2.75
Department	Adds	Deletions
Airport	.25	
Assessor	2.00	
Clerk- Recorder	.25	
County Counsel	.50	
Co. Med. Services		-.25
District Attorney		-1.00
Drug & Alcohol		-2.00
Farm Advisor	.50	
General Services		-.50
Golf Courses		-1.00
InformationTech.		-2.00
Law Enfor. Medical	1.50	
Library	.50	
Mental Health		-1.50
Parks		-.50
Planning	3.50	
Public Health		-3.25
Public Works	1.00	
Reprographics		-1.00
Sheriff	.50	
Social Services		-.25
Total	10.50	-13.25

MAJOR CHANGES IN FUNDING BY PROGRAM AREA

The following is an explanation of key issues within each major service area.

Health and Human Services

The health and human services functional group includes Social Services, Health Agency, Veterans Services, Contributions to Outside Agencies and the contract for primary care clinics. This is the largest program area and represents \$140 million or 38% of the entire County budget.

Until FY 2003-04, most of the growth in County government had been in the health and human service programs. Substantial increases in funding from the state and federal governments, as well

as a variety of grant programs, allowed us to enhance a number of important services designed to improve the health and welfare of County residents. The vast majority of these increases were paid for with state and federal funding.

The state's fiscal crisis slowed or eliminated growth in many of these programs while some funding sources were completely eliminated. Even when funding is increased, it does not always keep pace with expenditures, especially prevailing wage increases granted to County employees. This has resulted in some staffing reductions, although the number of employees allocated to these programs still remains higher overall than it was 5 years ago.

In March 2004, the Board approved a contract with the Community Health Centers of the Central Coast (CHC) to operate and expand the County's outpatient, primary care clinics. The first year alone of that contract saved the County about \$1.6 million compared to what was spent the previous year to support our clinic system. The savings are even greater when compared to projected cost increases had the County continued to operate the outpatient clinics. The entire \$1.6 million in savings was redirected to Public Health, Mental Health and Drug and Alcohol Services in FY 2004-05 to maintain services that would otherwise have been eliminated due to state and federal budget cuts.

Overall, the 2005-06 recommended budgets for the Health Agency programs can be described as "status quo" in terms of staffing levels. There are minor staffing increases in some programs and minor reductions in others. This status quo environment is recommended in anticipation of two significant upcoming events. First, the Health Agency (Mental Health) is in the process of developing a proposal for use of Proposition 63/Mental Health Services Act (MHSA) funds. San Luis Obispo County is expected to receive about \$3 million annually from the MHSA. However, because of the process involved in reviewing and approving proposals from all 58 counties, the Health Agency estimates that these funds will not be available until the latter part of fiscal year 2005-06. Second, the new Health Agency Director is expected to develop and submit to my office by this summer a reorganization proposal that will enhance efficiencies and collaboration.

The Department of Social Services will be able to fill several vacant positions in FY 2005-06, largely due to an increase of Child Welfare Services funds. The department had previously held a number of positions vacant (up to forty) for over a year. Now, some of these positions can be filled and child protective services expanded. Overall caseloads in the programs administered by Social Services are up 14% since FY 02-03 while aggregate expenditures have only increased by 7.5% over the same timeframe. On a positive note, foster care caseloads are down 9% and the General Fund Support for foster care has decreased by \$846,000 due to a higher ratio of cases qualifying for federal funding.

Public Protection

The Public Protection category includes the Sheriff, District Attorney, Child Support Services, Public Defender, Probation, County Fire, Emergency Services, Waste Management, Grand Jury and the County's contribution to Court operations. This is the second largest program area in the County budget at \$95 million or 25% of the County budget. The Public Safety budget recommendations maintain existing service levels and overall staffing levels by providing significant increases in funding, including a substantial increased allocation of General Fund dollars.

Overall, the General Fund contribution to Public Safety is increasing by \$5.3 million dollars, an 11% increase above the FY 04-05 adopted budget. Three departments, Sheriff, County Fire and the

District Attorney account for \$5.1 million of the General Fund increase.

Expenses in the Public Safety functional budgets are increasing by over \$8.25 million dollars, about a 10% increase as compared to the adopted budget for FY 04-05. The Sheriff Department (\$3.7 million) and County Fire (\$3.6 million) account for nearly 90% of the increased expense. The primary driver of the increased expenses in the Sheriff Department is the cost of labor associated with anticipated labor agreement with the Deputy Sheriff's Association. A combination of significant labor cost increases, necessary equipment replacement and a contract to provide fire protection services to the Community of Los Osos are the factors driving increased expenses for County Fire.

Revenues are projected to increase by about \$3.6 million. While a number of revenues show declines, Proposition 72 revenues, the ½ cent sales tax approved in 1993, are projected to bring in an additional \$2.2 million. County Fire's contract with the Los Osos Community Services District offsets the increased costs associated with providing fire protection services to the community and provides about \$1.3 million in revenue.

Increasing labor costs associated with salaries and benefit packages for public safety employees and the high cost of providing the necessary supplies and equipment have a significant effect on the ability of local governments to expand service levels in law enforcement and fire protection programs. Over the past several years, the Probation Department has been successful at keeping up with the demands fostered by population growth and expanding services through a concerted effort to obtain state and federal funding as well through developing their collections program at the local level. Other notable successes include the Department of Child Support Services, which has maintained the top overall performance rating in the state, and the Animal Services Division of the Sheriff's Department, which has received recognition for its work in increasing the number of animals that are adopted thereby reducing the number of animals that are destroyed.

Land Based Programs

The Land Based functional group includes the Agricultural Commissioner, Planning and Building, Community Development, Public Works, Public Works Special Services, Roads and Road Impact Fees. These program areas represent approximately 12% or \$47 million of the County budget.

Planning and Building department continues its focus on streamlining internal processes and expanding information available on their web site in order to continuously improve customer service. In addition, the department plans to increase its efforts in long-range planning in FY 2005-06, to integrate the "Smart Growth" principles into the County's General Plan and complete phase one of the update to the San Miguel Community Plan. Due to a reduction in costs (primarily in Countywide overhead and rents/leases), and an increase in revenue of over \$1 million, additional resources are recommended to help the department achieve its goals including 3.5 full-time equivalent positions. The department has also been able to absorb the costs of purchasing high-resolution digital elevation maps (to update 25 year old topography data) and a one-year subscription to provide interactive Geographic Information System on the web. Both of these resources will benefit other County departments as well as the general public.

The Public Works department continues to face state and federal revenue reductions, particularly in the Roads fund for construction and maintenance programs. To help mitigate this loss, and slow the deterioration of county roads, the Road's budget is recommended to receive an additional

\$1,435,000 in General Fund Support (bringing the total General Fund contribution to over \$5.7 million). This money will restore the Pavement Management program, funded at \$2 million as compared to a \$4 million level last funded in FY 2002-03.

Community Services

Community Services includes the Library, Parks, Golf Courses, Airports and Farm Advisor.

With the failure of Measure L in the November 2004 election, the Library has reduced services across all branches by approximately 9%, and eliminated 16 temporary help positions. Further, the main Library branches that had been open 6 days per week are now open 5 days per week (Tuesday – Saturday). Based on projections of revenues and expenses, the Library expects to maintain this level of service over the next few years. Funds for a half time Library Assistant have been added for a new branch that may open in Oceano once community funds are generated to support the associated operating costs.

The Parks dedicated revenue stream cannot support the current level of service with additional General Fund support. The recommendation increases the level of General Fund support over \$190,000 to maintain the existing service level for 2005-06. This brings the total General Fund support to Parks to approximately \$2.6 million.

Airport capital improvements continue to be a major portion of the Airport budget. Seven improvement projects including runway improvements, a new rental car facility and construction of new hangers are recommended for approval.

Fiscal and Administrative Services

The Board of Supervisors, Administrative Office, Auditor-Controller, Assessor, Clerk-Recorder and Treasurer-Tax Collector are all represented in this group. These program areas represent about 5% or \$21 million of the County budget.

The Assessor's office has continued to face record workload levels. Due to the challenges the department faced in processing this growing workload with existing staff, the Board approved (mid-year) the addition of two Property Transfer Technician positions that had been eliminated in the FY 2004-05 Adopted Budget. The recommended budget restores the remaining two positions that had also been eliminated so that the Assessor can achieve the department's goal of completing 98% of the assessment roll by June 30 2006.

The General Fund support for the Auditor-Controller is recommended to increase by 14% to support the staffing required to implementation the new Enterprise Financial System. Once the system is in place, towards the middle to end of FY 2005-06, staffing reductions may be possible.

The General Fund support for the Clerk-Recorder is recommended to increase by 24%. There are no consolidated elections next year but the primary elections are scheduled for next year and the entire cost of that election falls to the County.

Internal Support Departments

Departments in this area include Information Technology, General Services, County Counsel, Risk Management and Personnel. These program areas represent about 8% or \$29 million of the County

budget.

It is recommended that County Counsel add one half time Deputy County Counsel position to provide legal services for the Naciminto Water project (a 5 year \$150 million dollar project) and the Lopez Water Treatment Plant upgrade.

The recommended budget for the remainder of the departments in this area reflects maintenance of FY 2004-05 staffing levels.

Capital Projects

The green section of the budget document contains a detailed listing of the capital and maintenance projects proposed for next year. The number of projects proposed for funding is down considerably from previous years. The major projects include a budget augmentation to the Juvenile Services Center remodeling project a Health Campus renovation project and a number of Airport projects. Maintenance projects include augmenting the Countywide American with Disabilities Act (ADA) project to ensure County buildings meet the ADA requirements, a department relocations project to move departments out of lease space after the New Government Center is complete, a replacement fire suppression system for the central computer room and other miscellaneous maintenance projects for parks, libraries and general government operations.

FINANCING

State and Federal Revenue

State and Federal revenue, at \$161 million, represents about 42% of the County's financing. The recommended funding level represents a \$2 million or 1 % decrease under the 2004-05 adopted amount. State and Federal revenue is the single largest County revenue source. The majority of these revenues are used to support statutory programs, such as health and welfare services and some criminal justice programs. For the most part, these funds are restricted as to use and are not available for discretionary purposes.

Taxes

Property taxes, sales tax, transient occupancy and other taxes, at about \$119 million, represent s 31% of the County's financing. The recommended funding level represents a 16% increase (about \$17 million) over the 2004-05 adopted amount. This significant increase is due to the property taxes increasing about 9% over the 2004-05 estimated amounts. Additionally, the use of \$3.2 million in Teeter Reserves to help fund capital projects, property tax in-lieu of vehicle license fees increase of nearly \$2 million and property transfer tax increases of over \$800,000.

License/Permit Fees/ Charges for Services

Licenses, permits and charges for services, at \$44.7 million, represents 12% of the County's financing. The recommended funding level represents a 1% decrease (about \$600,000) over the 2004-05 adopted amount.

The reason for the decrease is a drop in Lab services, medical reimbursement issues

Other Revenues and Financing

About \$34 million falls into the category of other revenues or other financing. This represents

approximately 9% of the County's financing. This category reflects billings from various County departments that charge other departments (and outside entities) for their services. It also includes Countywide overhead charges. The funding in this area is consistent with current year budget.

Fines, Forfeitures and Penalties

At approximately \$4 million, this funding source is comprised of court fines and penalties. The funding in this area is consistent with current year budget.

Interest Earnings

Interest earnings, at about \$1.7 million, will decrease by over \$100,000 compared to the current year budget. This is principally due to the recent decline in interest rates and the use of reserves.

RESERVES

The County has two types of reserves: general reserves and designations. The general reserve is not designated for a specific use. It serves to stabilize the County's cash position prior to receipt of property tax revenues. In addition, it provides protection against downturns in the economy and may provide financial protection if a major catastrophic disaster were to occur within the County. Designations are reserves that are set-aside for specific purposes. These reserves ensure the County's financial capability to provide long-range service needs.

General Reserves:

The General Fund has \$8 million in general reserves. We are not recommending additions to general reserve funds or the use of the existing general reserve funds as a financing source for the FY 05-06.

Designated Reserves - General Fund:

No new designated reserves are recommended. However, it is recommended that approximately \$400,000 of designated reserves be used to help balance the budget.

Designated Reserves -Other (Non-General) Fund:

Road Fund reserves: It is recommended that \$1.3 million of road reserves be used for specific road projects identified in the Roads budget.

Organizational Effectiveness Reserves: It is recommended that \$100,000 be utilized to help offset the costs for training activities to continue various training and educational opportunities for County employees.

Library Reserves: It is recommended that \$214,000 of Library facilities planning reserves be used for general maintenance of library facilities.

Automation Replacement reserves: It is recommended that \$183,129 be used to pay for maintenance costs associated with the financial and human resource computer system and \$429,000 be used to replace computer equipment.

Building Depreciation Fund: Based on the depreciation schedule included in the County's cost

allocation plan, it is recommended that \$961,458 be reserved for building replacements.

Traffic Impact Fees reserve: It is recommended that \$1 million be reserved for future road projects.

Public Facility Fees: Public facility fees reserves are recommended to increase by \$3 million.

Wildlife and Grazing reserve: The Wildlife and Grazing Advisory Board requests cancellation of \$754 to pay for projects completed in 2005-06.

Fish and Game reserve: The Fish and Game Board requests cancellation of \$7,645 to pay for projects to be completed in 2004-05.

ACKNOWLEDGMENTS

Many thanks to all of the Department Heads and department budget staff that put in many hours crafting their own department requests while at the same time participating and dealing with the complications of implementing a new financial management system. This was a particularly tough year for Departments' financial staff and their perseverance and dedication to completing these enormous tasks has not gone unnoticed.

As always, the Auditor-Controller and the Information Technology Director and their staff are recognized and commended for their cooperation and technical help in completing the Proposed Budget.

My thanks and appreciation goes to all my staff who, as always, did a outstanding job of working cooperatively with department staff and then developing a Proposed Budget that lives up to your Board's communitywide results of providing a safe, healthy, livable, prosperous and well governed community. Their efforts to develop this document exhibit a professional dedication that can be used as an example by which we measure public service.

Sincerely,

David Edge,
County Administrator