



Agenda Date: 3/1/2005  
Agenda Placement: 9A

## NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

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**TO:** Board of Supervisors  
**FROM:** Natasha Merkuloff Nichols - Director  
Child Support Services  
**REPORT BY:** Natasha Merkuloff Nichols, Director of Child Support Services, 253-4250  
**SUBJECT:** Budget Shortfall

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### **RECOMMENDATION**

Director of Child Support Services requests discussion and possible action regarding taking necessary actions to address a projected budget shortfall for Fiscal Year 2005-2006 including elimination of up to four positions.

### **EXECUTIVE SUMMARY**

Child Support Services is a non-general fund department which receives State and Federal allocations to support its operations. Board policy of not supporting State funded operations has been consistent since the inception of this program. Projected expenditure for FY 2005-06 exceed anticipated revenues by approximately \$380,000. Staff is recommending a reduction of up to four (4) positions to balance the budget.

### **FISCAL IMPACT**

|                                   |                                                                                                                                                                                                                                                                                                                                                                                        |
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| Is there a Fiscal Impact?         | Yes                                                                                                                                                                                                                                                                                                                                                                                    |
| Is it currently budgeted?         | No                                                                                                                                                                                                                                                                                                                                                                                     |
| What is the revenue source?       | Revenue is one-third State General Fund dollars and two-thirds Federal money. There are no general fund dollars.                                                                                                                                                                                                                                                                       |
| Is it Mandatory or Discretionary? | Mandatory                                                                                                                                                                                                                                                                                                                                                                              |
| Is the general fund affected?     | No                                                                                                                                                                                                                                                                                                                                                                                     |
| Future fiscal impact:             | Each year Child Support Services balances its expenditures based on anticipated revenue from State and Federal allocations. Pursuant to policies adopted by the Board, no general fund dollars are added to this State operated program due to limited General Fund resources. Additionally, if the Board were to add General Fund dollars the County may then be held responsible for |

a portion of the State's obligation to pay the Federal automation penalty. At the present time, this risk is still being analyzed by staff at both the local and State level. If it becomes necessary to further reduce expenses in future years, the Director will return to the Board.

Consequences if not approved: There would be a significant impact to the County general fund. This would have the potential of contributing local general fund dollars to other programs operated exclusively with State and Federal allocations, as well as, the possible added risk of being held responsible for a portion of the Federal automation penalty.

Additional Information: None

### **ENVIRONMENTAL IMPACT**

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

### **BACKGROUND AND DISCUSSION**

The Director of Child Support Services requests Board direction to proceed with steps to balance the Department's budget for FY 2005-06.

The Department is funded solely by state and federal dollars. For the past three years, the Department has received essentially flat funding from these agencies. During the same three year period, expenditures have increased significantly in salaries and benefits as well as operational expenses.

As background, for FY 2002-03, the Department's preliminary allocation was about \$4 million. The final August allocation was reduced by 5% to about \$3,800,000. The Department had projected expenditures of approximately \$4 million based on the preliminary information. The budget was balanced by transferring some employees into vacant essential positions, and leaving several positions vacant. The Department also reduced expenditures on a variety of service and supply items.

For FY 2003-04, the Department's allocation was again approximately \$4 million. The increase from the prior year was partly some reinstatement of funds, but also attributable to one time funding for computer replacement and automation enhancements implemented to save manual data processing. To balance the budget, the Department continued to hold positions vacant and unfunded. The Department also vacated 5,000 square feet of rented space, saving approximately \$130,000 annually in rent and utility payments. Finally, the Department further cut back on service and supply expenditures.

In FY 2004-05 the Department's allocation was again about \$4 million. The Department balanced the budget by continuing to hold positions vacant and unfunded (five vacancies in a Department with 51 allocated positions). A full time District Attorney Investigator position was reduced to half time. However, with the recently negotiated salary and benefit increases and additional retirement costs due to poor stock market returns, the Department continues to leave positions vacant as people leave in an effort to balance revenue and expenses. The Department had seven vacant positions which the Board authorized deleting on February 15. Staff has also re-tooled processes where legally possible to save service of process dollars as well as cutting back in other non-mandated service areas.

In looking at the projected expenses for FY 2005-06, again the State has informed us that the allocation will remain flat, at about \$4 million. We see a number of cost increases this coming fiscal year over which the Department has no control. These will result in a budget deficit of about \$380,000. Significantly contributing to this deficit are increases in salaries (due to COLAs and step increases) as well as increases in retirement and health insurance. While there are some areas where savings have occurred, such as a reduction in IT costs of about \$46,000, overall when all the increases and decreases are tallied up, the deficit is approximately \$380,000.

Because the Department is a state and federal funded program - in effect acting as a contractor to the State - it is important to note the Board's existing policy of not backfilling State funded programs. The County has consistently maintained it's inability to fund ongoing programs which incur increasingly higher costs, even though the program has no control over the cost increases. The Department has been informed that the County Executive Officer would not support a Departmental request to override this policy. It must also be mentioned that the Department is concerned that eliminating positions to balance the budget will likely have a negative impact on service levels, performance and potentially, compliance. The Department could be forced to reduce public hours to deal with processing of day to day work. One logical answer to not backfilling is to convince the State to fund at a higher level. Past history, the State's current budget situation and discussions with State Department of Child Support Services staff indicate this is not a likely scenario. State staff have pointed out that child support is one of very few programs which has not yet been required to sustain cuts, so additional funding is extremely unlikely.

This Department has actively worked to keep the expenditures in line with allocation. Today, the Director requests authority to take whatever actions are required to ensure the Department's budget remains balanced, including eliminating up to four (4) positions from the Departmental Allocation List. Staff will return to the Board to identify actual positions at a later date.

#### **SUPPORTING DOCUMENTS**

None

CEO Recommendation: Approve

Reviewed By: Helene Franchi