



Agenda Date: 3/22/2005
Agenda Placement: 8B
Set Time: 9:30 AM
Estimated Report Time: 2.5 Hours

NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Britt Ferguson for Nancy Watt - County Executive Officer
County Executive Office
REPORT BY: Britt Ferguson, Assistant County Executive Officer, 253-4406
SUBJECT: Fiscal Year 2005-2006 Budget Study Session

RECOMMENDATION

County Executive Officer requests that the Board hold a Fiscal Year 2005-2006 Budget Study Session, to include:

1. Receipt of the General Fund Five Year Forecast;
2. Receipt of an update on various issues related to the Fiscal Year 2005-2006 Budget, including the suspension of the AB3632 Mandate, the reduction in state funding for IHSS, and the proposed reorganization of the Information Technology Services Division; and
3. Possibly providing direction to staff regarding some of those Budget issues.

EXECUTIVE SUMMARY

As part of the County's annual budget process, your Board typically holds one or more budget study sessions. This session will include:

- | A presentation of the General Fund Five Year Forecast; and
- | An update on a number of issues that have been identified thus far in the budget process.

The General Fund Five Year Forecast projects the General Fund's ending fund balance through FY2008-09 under three different scenarios. All of the scenarios indicate that it will likely be necessary to spend down the fund balance in order to balance the budget, with an ending fund balance in FY2008-09 of between \$7 and \$23 million. Given the trend of annual reductions in fund balance, staff concludes that it will not be possible to continue reliance on the fund balance to meet long-term needs. Absent any major program cost increases or revenue reductions it should be possible to maintain General Fund supported programs at current levels through FY2006-07, but after that it becomes problematic. Staff suggests that it would not be prudent to make any major new on-going commitments of General Fund resources at this time and is proposing to develop a Strategic Financial Plan for the County that will help set priorities for use of limited General Fund resources and establish a long term strategy for bringing revenues into balance with expenditures while maintaining appropriate reserves.

The Study Session will include an update on three budget issues:

- | The impact of the potential suspension of the AB3632 mandate to provide mental health services for certain students. Staff is working with the County's schools to determine the best way to address this need, should the mandate be suspended. The potential cost impact to the County is approximately \$300,000.
- | The potential reduction of the state's share of funding for In Home Support Services ((HSS) providers. If the Governor's proposal regarding this program is approved, it could increase the County Cost of this program by \$440,000 in FY2005-06. The impact in future years would depend on negotiations between the IHSS Public Authority and the union representing IHSS providers.
- | Staff is proposing a reorganization of the Information Technology Services Division to better meet the needs of the County departments that are the Division's clients. This will involve the adding and deleting of a number of positions and the elimination of three vacant positions. No reduction in filled positions is anticipated at this time.

FISCAL IMPACT

Is there a Fiscal Impact? No

ENVIRONMENTAL IMPACT

There is no Environmental Impact for this item.

BACKGROUND AND DISCUSSION

On January 11th, your Board initiated the FY2005-06 Budget process by approving a set of Budget Policies that provided guidance to staff in preparing the County's 2005-06 Proposed Budget. On March 1st, staff provided your Board with a Mid-Year review of the County's current fiscal status, including an estimate of what the General Fund's condition would be at the end of the current (2004-05) fiscal year. Departments have now submitted their FY2005-06 requested budgets, and County Executive Office (CEO) Analysts are in the process of reviewing those requests.

At this point in the budget process, your Board typically holds a budget study session to receive an update and provide any needed direction concerning the budget for the upcoming fiscal year. This year, this study session will include a presentation of the General Fund Five Year Forecast as well as the identification of certain issues that have arisen thus far in the budget process.

Five Year General Fund Forecast

Using the Mid-Year revenue and expenditure estimates as a base, staff has prepared a forecast of the General Fund's fiscal condition through FY2008-09 under three different scenarios (see Attachments A through D). Each of the scenarios makes different assumptions about what the General Fund's discretionary revenues and the Net County Cost of General Fund programs will be over the next four years. All of the scenarios indicate that it will likely be necessary to spend down the General Fund's fund balance in order to balance the budget in future years. The scenarios project a FY2008-09 ending fund balance of between \$7 million and \$23 million, in either case a significant reduction from the FY2004-05 beginning balance of approximately \$39 million. Based on this, staff's

conclusion is that it will not be possible to continue reliance on the fund balance to meet long term needs. Absent any major program cost increases, significant changes in state or federal funding formulae or back-filling of reductions in state and federal revenue, it should be possible to maintain General Fund supported programs at current levels through at least the next two years (through FY2006-07). After that the situation becomes more problematic, given the trend of gradual decline in fund balance under all of the scenarios.

The Five Year Forecast is important, because revenue/expenditure decisions made in one year can have a significant impact on the resources that will be available to fund General Fund programs in future years. Based on the information contained in the Five Year Forecast scenarios, staff believes that it would not be prudent to make major new on-going commitments of General Fund resources at this time, but that limited, one-time, investments might be appropriate, particularly if they are strategically targeted to enhance operational efficiency and achieve long-term cost savings. Staff is proposing to develop a Strategic Financial Plan that will help set priorities for use of limited General Fund resources and establish a long term strategy for bringing revenues into balance with expenditures while maintaining appropriate reserves.

Budget Issues

The following are some of the issues that have been identified as CEO staff have reviewed departmental budget submittals and the Governor's State budget proposals.

- 1 AB 3632 Mandate Suspension: AB 3632 requires that counties provide mental health services for certain students. These services are an entitlement, and children can receive services irrespective of their parents' income-level. While counties have been required by the state to provide these services, we are essentially functioning as contractors assisting public education to fulfill its mandate under federal law to provide a free, appropriate education to students with special needs in the least restrictive educational environment. Prior to FY2002-03, the costs of providing these services were reimbursed through the SB90 mandate reimbursement process. Since FY2002-03 the state has "borrowed" this money rather than reimburse the County and efforts have been made to reduce costs while still providing mandated services. The County currently receives approximately \$400,000 a year in State funding for these services (through the Office of Education) and, in addition, is able to get state and federal Medi-Cal reimbursement for approximately \$300,000, but this is approximately \$300,000 short of the cost of providing the services. In his FY2005-06 Budget, the Governor has proposed suspending the AB3632 mandate. If this were to occur, the County would not be required to provide the services beyond the available State and federal funding level and the mandate to provide the services may revert to the schools. The County's Director of Health & Human Services is working with the Napa County schools to develop a realistic plan for addressing the needs of this special population. Depending on the results of those efforts, and the outcome of the legislative budget process, your Board may be asked to provide policy direction concerning the County's financial commitment to the AB3632 program.
- 1 Reduction in State Share of Funding for IHSS: In his 2005-06 Budget, the Governor has proposed limiting the state's participation in In Home Support Services (IHSS) provider wages and compensation to its share of the minimum wage, which is \$6.75 an hour, instead of the current \$10.75 an hour. Under the Memorandum of Understanding (MOU) with the union representing the providers, the County is obligated to pay the maximum \$10.10 an hour through the end of the 2005-06 fiscal year. Thus, if the Governor's proposal is approved, the County would be obligated to pick up an additional \$440,000 a year in wage and benefit costs in FY2005-06. Once the MOU expires, the IHSS Public Authority Board could reduce provider wages to the minimum wage and eliminate this additional General Fund cost or, by agreeing to maintain wages at current levels, require the County to backfill this reduction in state revenues with General Fund dollars. At this point, staff is not seeking any direction from your Board, but, if the Governor's proposal is approved, this will be an issue for the County's FY2006-07 budget.

- | Reorganization of Information Technology Services Division: The County Executive Office is proposing a reorganization of the Information Technology Services (ITS) Division to better meet the long-term needs of its clients - the various County departments that receive ITS services. The rationale for the reorganization proposal is described in more detail in Attachment E, but, in essence, it is to address the changing environment in information technology by making the Division more customer focused and creating real partner relationships between ITS and its user departments. This will involve deleting 24 existing positions and adding 24 positions in the new classification of Information Technology Specialist and deleting two positions to add two new classifications, Geographic Information Specialist and Technology Architect. The major feature of the Information Technology Specialist class is that, in addition to requiring technical data processing skills, these positions would have a significant customer relations function and would focus in part on using existing technology to better meet the needs of the user departments. The Technology Architect would be responsible for assisting ITS management in setting standards and ensuring that technology infrastructure is up-to-date and aligned to meet County computing requirements. The Geographic Information Officer, would be a management position, and would be responsible for overseeing the development and implementation of the County's comprehensive Geographic Information System (GIS).

Consistent with the Board's Budget Policies, the ITS Division has proposed no rate increase to user departments for the FY2005-06 fiscal year. The just-released audited fund balance for the ITS Fund shows a FY2003-04 ending fund balance of \$1.2 million. Assuming most most employees apply for the new positions, this will permit us to proceed with the proposed reorganization and not require the deletion of any filled positions, at least for the FY2005-06 fiscal year. The net result of the reorganization, then, will be that, in addition to existing management staff, the Division will have 24 IT Specialists; one Technology Architect; one Geographic Information Officer; and 6 staff in their old classifications. The proposal is to recruit internally to fill the new positions in conjunction with the relevant user department, to ensure the appropriate match of skills and abilities with the user departments' needs. This will result in a net reduction of three vacant positions in the Division, though FY2005-06 costs will be higher than without the reorganization because the new positions would be paid at higher rates. In future fiscal years rate increases and/or reductions in staffing for ITS will likely be required whether or not the reorganization is implemented. However, the reorganization will better allow us to meet technology and user department needs should reductions in staffing be required.

At this point, absent direction to the contrary from your Board, ITS, in conjunction with the Human Resources Division, will begin the process of moving forward on the reorganization proposal, including holding the appropriate meetings with the union that represents affected employees.

In addition to the above, there are a number of other budget issues that have been identified and may be brought to your Board at a later date. These include:

- | Use of Measure V funds.
- | Fee Increases for property departments.
- | Suspension of other state mandates.
- | Reduction in grant funding for certain programs.

SUPPORTING DOCUMENTS

- A . Five Year General Fund Forecast Memorandum
- B . Exhibit A - Baseline Forecast Scenario
- C . Exhibit B - Expenditure Increase/Revenue Decrease Scenario
- D . Exhibit C - Expenditure Decrease/Revenue Increase Scenario
- E . Rationale for Reorganization of Information Technology Services Division

CEO Recommendation: Approve

Reviewed By: Britt Ferguson