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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:	Budget Study Session

RECOMMENDATION

County Executive Officer requests that the Board hold a Fiscal Year 2005-2006 Budget Study Session to receive an update and possibly provide direction to staff regarding a number of budget issues, including:

1. The use of Measure V (increased Transient Occupancy Tax) revenues;
2. Potential fee increases for the property departments (Conservation, Development and Planning, Public Works, Environmental Management);
3. Suspension of State mandates; and
4. Possible reduction in grant funding for certain programs.

EXECUTIVE SUMMARY

As part of the County's annual budget process, your Board typically holds one or more budget study sessions. You held your first budget study session on March 22nd. Among other things, that study session included a presentation of the Five Year General Fund Forecast. This study session will include an update, and in some cases a request for direction, on a number of issues that have arisen thus far in the budget process, including:

- The Use of Measure V Revenues: Based on your Board's Budget Policies, the County's Five Year Revenue/Expenditure Forecast assumed that increased Transient Occupancy (hotel) tax revenues generated by Measure V would be treated as discretionary revenues and used to fund general County operations. The Ordinance approving Measure V's placement on the ballot indicated that the tax increase could be used to augment shortfalls in County revenues resulting from the State's continuing fiscal crisis and to improve the quality and level of services currently provided. Once the General Fund's needs are met, other potential uses of Measure V funds identified at the time of the ballot Measure went to the voters included arts, parks, community services, visitor management and other public partnerships. If your Board decides you want to initiate new programs funded with discretionary revenues, staff recomends: (1) First determining the goals and outcomes you want to achieve and direct staff to return with specific proposals; (2) Consider making one-time investments rather than long-term commitments; and (3) Direct staff to prepare definitions and policies on any longer-term commitments.

- Potential Property Department Fee Increases: Your Board previously concurred with proceeding with a plan of action to raise certain property department (Conservation, Development & Planning, Public Works, Environmental Management) fees to fully recover the cost of providing services. As part of that plan, certain fee increases were scheduled to take effect in FY2005-06 and certain other fee increases were scheduled to take effect in FY2006-07. Staff is asking your Board to reaffirm your previous decision to make certain fee increases in FY2005-06 in Planning and Building Inspection. Staff is also seeking direction on whether you want to consider making some of the fee increases previously scheduled for FY2006-07 in FY2005-06, or possibly phasing some of those fee increases in over a number of years, in order to reduce the one-year impact of significant cost-of-doing business adjustments; and whether your Board wants to consider converting fixed fee development applications received prior to the time the revised time-and-materials fees went into effect to a time-and-material-basis. Though still not completed, the County has incurred significantly more cost on these applications than the amount of the fixed fee. If all the fee increases were approved, it would provide an estimated $870,000 a year in revenue to the property departments.

- Suspension of State Mandates: For the last three years, the State has "borrowed" revenue owed to the County for providing reimbursable mandates. Under Proposition 1A, the State is required to either fund or suspend reimbursable mandates. In his FY2005-06 State budget, the Governor has proposed suspending 7 mandates for programs provided by the County. The total value of these mandates to the County is approximately $800,000. Because the Legislature has not yet acted to suspend these mandates, staff is recommending that we proceed with the County's budget process based on the assumption that the State will fund thse mandates and revisit the issue once the State's budget is approved.

- Possible Reduction In Grant Funding for Certain Programs: At the present time it is unclear whether the FY2005-O6 State budget will include funding for a number of grants currently received by the District Attorney's office. The total value of these grants is approximately $486,000. The District Attorney believes that the Legislature will ultimately approve funding for these grants. At this point, staff is recommending that we proceed with the County's budget process based on the assumption that the State will provide the grant funding and revisit the issue once the State's budget is approved.

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 fiscal status, including an estimate of what the General Fund's condition would be at the end of the the current (FY2004-05) fiscal year. On March 22nd, your Board held your first budget study session. At that session, staff presented your Board with a Five Year General Fund Forecast and updated your Board on three issues related to the FY2005-06 budget. This, second, budget study session will address a number of other FY2005-06 budget issues that have been identified.

Use of Measure V Revenues

In November of 2004, the County's voters approved Measure V, which increased the Transient Occupancy (hotel) tax from 10.5% to 12% to augment funding for general County purposes. The tax increase went into effect on January 1, 2005. At the time the Board approved submitting Measure V to the voters, it was estimated that this tax increase would provide approximately $650,000 a year in additional Hotel Tax revenues (the actual amount generated will not be known until it has been in place for at least a full fiscal year). Because voters approved the Hotel Tax increase as a general tax (requiring a majority vote) rather than a special tax (requiring a two-thirds vote), the proceeds of the tax were not restricted to specific projects or uses, but instead constitute discretionary revenues to be allocated, like other discretionary revenues, as your Board deems appropriate.

The Ordinance approving Measure V specifically noted that revenues from the tax increase could be used to augment shortfalls resulting from the continuing financial crisis at the state level and to help improve the quality and level of County services currently being offered (copy attached). The advisory group dealing with this issue recommended the increased revenues be used to meet the General Fund's needs before any of the funds were used for any other needs. Among the possible uses of funds not needed to meet General Fund needs identified were: arts, parks, community services, visitor management and other public partnerships (see attached Argument in Favor of Measure V).

As you know, one of your Board's Budget Policies states that, unless your Board has previously made a decision to earmark revenues for a particular purpose, wherever legally possible revenues are to be treated as discretionary revenues and not earmarked for a particular program or service. Based on that, staff has assumed in the General Fund Five Year Forecast that all Hotel Tax revenues would be available to fund on-going General Fund operations. That Forecast showed that, due to historically conservative spending practices, the General Fund is not facing an immediate fiscal crisis. However, it is likely that expenditures will exceed revenues for the foreseeable future and that, in the near future, it will be necessary to take actions to bring expenditures into balance with revenues.

If your Board does decide that you want to use discretionary revenues to initiate new programs or services, staff would recommend that you:

- Determine what goals or outcomes you would like to achieve and direct staff to return with specific proposals for achieving those goals (e.g., specific scope of work; provide in-house vs. contracting; process for selecting contractor; etc.).
- Consider making one-time investments rather than long-term commitments, given fiscal uncertainties which may impact the General Fund in future years.
- Direct staff to prepare definitions and policies on any longer-term commitments similar to the Board's policy on the use of tobacco settlement revenues.

This is an issue that your Board asked be brought to you so that appropriate direction can be provided.

Potential Property Department Fee Increases

As you are aware, you previously concurred with proceeding with a plan of action to raise certain property department (Conservation, Development & Planning, Environmental Management, Public Works) fees to fully recover the cost of providing services. Some of those fee increases have aleady been implemented, some (the second phase of fee increases for Building Inspection and fixed Planning fees) were scheduled to take effect in

FY2005-06 and others (fee increases to reflect increases in the cost of doing business for all the property departments since FY2003-04) were scheduled to take effect in FY2006-07. As currently crafted, the requested FY2005-06 budgets for these departments do not include any new fee increases. In addition, because salary and benefit costs have experienced significant cost increases, staff is seeking direction on whether you want to move forward and recover some or all of the cost-of-doing business fee increase that was originally scheduled for FY2006-07in FY2005-06, so that the magnitude of the increase in FY2006-07 is reduced. Also, as your Board knows, there were a large number of development applications submitted before the revised, time and materials-based, Planning fees took effect in January of 2004. It has turned out that most of these applications, for which processing is still not complete, have cost the County far more than the fixed fee of $2,350. Thus staff is seeking direction from the Board on whether you want to consider converting the fees for these applications to a time and materials basis. If all of the fee increases were approved, it would provide an estimated $870,000 a year in revenues to these departments and allow a proportionate reduction in Net County Cost.

The attached Fact Sheet outlines the relevant issues in more detail. Staff's plan would be to bring agenda items to your Board within the next two months to adjust any fees for FY2005-06 and is asking:

- That your Board reaffirm your decision to implement the second phase of the increase in fixed fees for Planning as your Board previously directed in November of 2003?
- That your Board reaffirm your decision to implement the second phase of the increase in fees for Building Inspection as your Board previously directed in July of 2004?

Staff is also seeking direction from your Board concerning the following questions:

- Does the Board wish to change its previous direction to start updating property department fees FY2006-07, to fully recover the increase in the cost of doing business? Other options include: (1) Recover the cost increases starting in FY2005-06; (2) spread the cost increases over a two or three year period starting in FY2005-06; (3) spread the cost increase over a two or three year period starting in FY2006-07.
- Should we bring your Board a proposal to convert the pending pre-2004 development applications from a fixed fee to a time and materials basis.

Suspension of State Mandates

Under the state constitution and laws, the State has, for many years, been legally obligated to reimburse local governments for providing certain mandated services. For the last three years the State has "borrowed" this money, with a promise to repay it in future years, and the County has continued to provide the services. However, the recent passage of Proposition 1A changed the legal framework for State mandate reimbursement. According to Proposition 1A the State can no longer require local governments to provide the relevant mandated services but "borrow" the money owed to local governments as compensation for providing the services. Now, the State must either provide compensation or suspend the mandate. If the mandate is suspended, the local government is not legally obligated to provide the service, though we can do so if we wish.

The attached fact sheet and table identifies 18 State mandates that the County is eligible to be reimbursed the cost of providing. In his FY2005-06 State budget, the Governor has proposed suspending 7 of those mandates which, together, would generate approximately $800,000 in revenue to the County if the mandates were not suspended. Your Board has already discussed the AB 3632 mandate to provide certain services to mentally ill children which accounts for approximately $400,000 of this amount. The other mandates range from handling administrative license suspensions (at cost of roughly $2,000), to providing absentee ballots to any registered voter, as opposed to only certain voters (at a cost of $137,000), to the District Attorney's child abduction and recovery program (with a cost of approximately $141,000).

Your Board has adopted a Budget Policy that calls for not back-filling reductions in state funding with County General Fund dollars. However, at this point it is not clear whether the legislature will approve the Governor's request to supsend some or all of these mandates. Consequently, staff is recommending that we proceed with the County's budget process based on the assumption that the State will fund these mandates and revisit the issue once the State's budget is approved.

Possible Reduction in Grant Funding for Certain Programs

The District Attorney receives a number of grants to operate a variety of special programs, including the Violence Against Women Grant, Statuory Rape Vertical Prosecution Grant and Gang Violence Suppression Grant. At this point it is not clear whether the State's FY2005-06 budget will include funding for some of these grants. All-told, the amount at risk is approximately $486,000. The District Attorney's Requested Budget assumes that the County will receive all of these grants and the District Attorney believes that the Legislature will ultimately fund the grants. At this point, staff recommends that we proceed with the County's budget process based on the assumption that the State will provide the grant funding and revisit the issue once the State's budget is approved.

SUPPORTING DOCUMENTS

A . Transient Occupancy Tax Ordinance

B . Transient Occupancy Tax Ballot Argument

C . Fee Policy Issues Fact Sheet

D . State Mandates Fact Sheet

E . State Mandates Table

CEO Recommendation: Approve

Reviewed By: Britt Ferguson