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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:	FY 06-07 Budget Study Session

RECOMMENDATION

County Executive Officer requests the Board hold a Fiscal Year 2006-2007 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 2006-2007 Budget, including increased OMB A-87 and Information Technology Services charges, the creation of new funds and requests by Departments for new General Fund-supported positions and program enhancements; and
3. Possibly provide direction to staff regarding some of those Budget issues and Budget policies.

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 most recent General Fund Five-Year Forecast;
- An update on a number of issues that have been identified thus far in the budget process; and
- A request for policy direction regarding the investment of General Fund resources in new positions or new or enhanced programs.

The General Fund Five-Year Forecast projects the General Fund's ending fund balance through FY 2009-10 under three different scenarios. The scenarios project a FY 2009-10 ending fund balance of between $52 million and $36 million, compared to the FY 2005-06 beginning balance of approximately $41 million. Based on these projections, staff concludes that the General Fund Budget is structurally in balance, but it is a somewhat precarious balance. A fairly small increase in Net County Cost or decrease in discretionary revenues could push the General Fund Budget into structural imbalance, requiring expenditure reductions or revenue increases to balance the budget in future years. However, given the relatively robust nature of the General Fund's fund balance, staff believes that the County would have a number of years to address any structural imbalance before significant expenditure reductions are required.

The Study Session will include an update on a number of budget issues, including a description of departmental requests for new positions or new or enhanced programs that would require approximately $2.3 million in additional General Fund support (Net County Cost). Recognizing that there is a backlog of critical unfunded department needs that have developed over the last five lean fiscal years, and given the most recent Five-Year General Fund Forecast information, staff is recommending that the Board revise its Budget Policies to allow the strategic investment of a limited amount of General Fund resources in new staff or programs, if the investments are strategically targeted to enhance operational efficiency, effectiveness or accountability in selected priority areas.

FISCAL IMPACT

Is there a Fiscal Impact? No

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

On January 10th, your Board initiated the FY 2006-07 Budget process by approving a set of Budget Policies that provided guidance to staff in preparing the County's FY 2006-07 Proposed Budget. On March 14th, 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 fiscal condition would be at the end of the current (2005-06) fiscal year. Departments have now submitted their FY 2006-07 requested budgets, and County Executive Office 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. As was the case last 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 FY 2009-10 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. As can be seen, the scenarios project a FY 2009-10 ending fund balance of between $52 and $36 million, compared to the FY 2005-06 beginning balance of approximately $41 million. Based on these projections, staff's conclusion is that, assuming no major capital or operating program enhancements or increase in General Fund-supported positions and no significant revenue reductions or increases in employee salary and benefit costs, the County's General Fund Budget is structurally in balance, but it is a somewhat precarious balance. A fairly small increase in Net County Cost or decrease in discretionary revenues could push the General Fund Budget into structural imbalance, requiring expenditure reductions or revenue increases to balance the budget in future years. At the same time, given the relatively robust nature of the General Fund's fund balance, staff believes that, even under the worse case scenario, the County would have a number of years to come up with a plan to address any structural imbalance before significant expenditure reductions are required.

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:

1. It is critically important to develop a multi-year Capital Improvement Plan (CIP) and Strategic Financial Plan, to help set priorities for use of General Fund resources while maintaining a balanced General Fund budget and appropriate reserves. Staff is in the process of developing such plans for Board consideration in the future.
2. In the meantime, recognizing that there is a backlog of critical unfunded General Fund department needs that have developed over the last five lean fiscal years, in FY 2006-07 it is appropriate to invest a limited amount of General Fund resources in new staff or programs, if the investments are strategically targeted to enhance operational efficiency, effectiveness or accountability in selected areas.

Budget Issues- Information Only

The following are some of the issues that have been identified as CEO staff have reviewed departmental budget submittals. These matters are provided for the Board's information only; staff is not seeking any direction at this time.

- OMB A-87 Charges: Every year the County Auditor-Controller's Office prepares an OMB A-87 Cost Plan which allocates the County's administrative overhead costs (such as finance, human resources, legal services, etc.), that are not already directly billed, to all County departments. The methodology used in this Plan is based on rules promulgated by the Federal Office of Management and Budget (OMB) and each county's plan is approved by the State Controller's Office. OMB A-87 costs are recognized by the Federal and State governments as a basis for claiming certain Federal and State funds. In addition, the OMB A-87 allocation can be used to establish fully-costed fees and charges for service and to appropriately allocate the County's administrative overhead costs to non-General Fund departments and programs. While Napa County's administrative overhead costs amount to over $15 million annually, many years ago the County made an administrative decision not to charge OMB A-87 costs to General Fund departments. This is because the OMB A-87 charging departments are in the General Fund and thus charging OMB A-87 costs to General Fund departments would end up artificially inflating the General Fund Budget (notwithstanding this, General Fund departments use OMB A-87 costs in billing the Federal and State governments under certain programs and in setting fees). In addition, although the intent has been to charge OMB A-87 costs to all non-General Fund departments, for a variety of reasons this has not happened. In fact, in FY 2005-06, only one department - Child Support Services - was actually charged OMB A-87 costs. The FY 2006-07 Proposed Budget will reflect a change in practice, with all non-General Fund departments or programs being charged OMB A-87 costs, unless there is a legal reason not to do so. This will double the amount of OMB A-87 revenues to the General Fund, bringing the total to approximately $600,000, but it will also increase operating costs in many non-General Fund programs.

- ITS Charges: In the FY 2006-07 Proposed Budget, Information Technology Services (ITS) charges to County departments will increase by approximately $1.8 million, or 32%, which will have a significant impact on a number of departmental budgets. For General Fund budgets, in many cases this increase will be covered by increased Net County Cost. Special Fund departments, however, are required to cover the increased cost through increased revenues, use of fund balance or offsetting expenditure reductions. The increase in ITS charges is due primarily to two factors: (1) Approximately half the increase is due to three years worth of salary and benefit cost increases. In FY 2004-05 and FY 2005-06, ITS charges to departments were not increased, despite significant increases in salary and benefit costs for ITS staff. This is because the ITS Fund had a substantial fund balance that was used to cover the cost of those salary and benefit increases. The ITS Fund balance is now diminished significantly and, though some fund balance is used to cover ITS operating costs in FY 2006-07, it is necessary to raise rates in order to cover current staffing costs. (2) Approximately half of the increase is due to a number of major system improvements or equipment purchases, including scheduled replacement of personal computers (which, again has been deferred for a number of years), Voice Over Internet Protocol (IP) phone systems for certain departments and an upgrade of the PeopleSoft HR system.

- Building Inspection Fund: In the FY 2006-07 Proposed Budget, the Building Inspection function will be moved from the General Fund to the Code Enforcement Fund that was established by the Board in FY 2005-06. This action is consistent with the Board's goal of making the Building Inspection function self-sufficient. In previous years, the Board approved fee increases, designed to ensure that Building Inspection revenues covered costs. This action will ensure that any revenues in excess of expenditures received in an given year are retained in fund balance and can be used to help cover Building Inspection costs in future years.

- Accumulated Capital Outlay Fund: Recognizing that the County is facing significant potential capital outlays in the future, the Board's FY 2006-07 Budget Policies state that: "After covering current year operating and capital costs and meeting General Fund Contingency and Reserve requirements, any remaining discretionary resources will be placed in Capital Reserves. These funds will be accumulated and used to help cover the cost of needed major capital improvements." To help accomplish this, the FY 2006-07 Proposed Budget will reflect the redesignation of the Construction Fund - Capital Improvements (Fund 1070) to an Accumulated Capital Outlay (ACO) Fund. This Fund already contains monies received from the sale of certain County properties that are being held for future facilities construction. In accordance with the Board's Budget Policies, the Proposed Budget will transfer any discretionary revenues not needed to balance the FY 2006-07 Budget to this Fund. In addition, staff is reviewing all General Fund designations to determine if it would be appropriate to propose canceling some of those designations and transferring the money to the ACO Fund.

- H&HS' Next Step Program: The Health & Human Services Agency (H&HS) is exploring the possibility of programmatic and staffing reductions in FY 2006-07 to try and limit needed increases in Net County Cost. One program under review is the Next Step vocational training program. This program trains H&HS' clients in kitchen operations -skills which would assist them in obtaining employment. H&HS believes that the Next Step program serves a valuable purpose, however, over the past several years State Department of Rehabilitation funding for this program has become unpredictable, and Next Step has evolved into a largely General Fund supported program. Eliminating this program would save the General Fund approximately $45,000 a year and result in the elimination of one position (though H&HS anticipates the incumbent would be able to move into a vacant position in another program).

- H&HS' DDP Program: H&HS is also reviewing the Drinking Driver Program (DDP) to determine if it can be made financially self-sufficient. DDP is a program for persons convicted of DUI. The program screens clients for alcohol, assesses their level of substance abuse penalty and assigns them to appropriate courses. State law requires that this program be fully funded through fees paid by participants. However, in Napa County costs have historically exceeded revenues, due in part to fee collection problems. H&HS has hired a consultant who specializes in DDP fee collection and is working on a plan to make the program self-sufficient in FY 2006-07.

- Budgeting of Realignment Revenues: The FY2006-07 Proposed Budget will reflect a change in the way certain Health, Mental Health and Social Services Realignment revenues are budgeted and used. Realignment revenues increase annually by a "growth" factor. The Realignment "growth" in any fiscal year is actually received in the following fiscal year and, in addition, increases the Realignment "base" amount for that fiscal year. Because the Realignment growth factor for a particular fiscal year, and thus the increased base for the succeeding year, cannot be known with certainty until after the succeeding year's budget is adopted, and because there is no certainty that there will be Realignment growth in any particular year (Realignment growth is based on sales tax and vehicle license fee growth and in some years there has been no Realignment growth), historically the County has taken a conservative approach and not budgeted any increase in the Realignment base amount to reflect the prior year's growth rate. The result is that any Realignment growth or base increase received in a succeeding fiscal year is reflected as unanticipated revenue. This revenue can be used to fund unanticipated H&HS cost increases during the year or, as is often the case, to reduce actual Net County Cost for H&HS. The latter is possible because the County currently provides more General Fund support for Realigned programs than is needed to meet maintenance of effort requirements. Thus, if additional Realignment revenue becomes available, this General Fund "overmatch" can be reduced. In addition, Napa County has historically used the actual Realignment growth revenues (as distinct from the revenues related to the base increase) to pay H&HS' share of the 2003 Certificates of Participation (COP) debt service or to augment a debt service reserve. In FY2005-06, the County will receive $893,000 in Realignment growth revenue (based on FY2004-05 growth) and the FY2005-06 Realignment base will increase by that amount as well. Given the current projections of strong sales tax growth in the State, H&HS believes it reasonable to assume that FY2005-06 Realignment growth revenue, and thus the FY2006-07 Realignment base, will increase by at least that amount. Thus, the FY2006-07 H&HS budget will include an additional $893,000 in Realignment revenue. Further, as noted above, the actual additional growth revenue received in FY2005-06 would typically have been dedicated to pay debt service or add to a debt service reserve. H&HS' share of annual debt service costs is approximately $420,000 and the debt service reserve has now reached $1.6 million (or approximately 4 years worth of debt service), so staff believes that the $470,000 in FY2005-06 Realignment growth revenue that would normally be placed in debt service reserve, can be allowed to flow to undesignated/unreserved General Fund fund balance. For FY2006-07 the intent then is to increase H&HS' Net County Cost by at least this much to help offset increased FY2006-07 costs. Both of these actions will reduce the amount of undesignated/unreserved resources that would otherwise be available to fund general County operations. The proposal to allow H&HS to budget an estimate of Realignment growth revenue is part of a plan to move toward holding H&HS responsible for managing its budget within a fixed General Fund Contribution. The goal of this plan is to insulate the General Fund against the impact of significant swings in State and Federal revenues for H&HS programs, while at the same time giving H&HS a reasonable General Fund Contribution and as much flexibility as possible to manage its own resources within that Contribution.

Budget Issues - Policy Direction Requested

In reviewing the FY 2006-07 departmental budget submittal, CEO staff have identified a number of requests for increased General Fund support for new positions, new or enhanced programs and/or higher Net County Cost than the level called for in the Board's Budget Policies. In many cases, these requests reflect a backlog of unfunded needs that have accumulated over the last five years or so. As the Board knows, due to the downturn in the region's economy and the State's budget problems, over the last five years the County has either held the line on the Net County Cost provided to departments or provided funding for only current staffing levels for General Fund supported departments or programs.

The following are some of the more significant departmental requests for increased General Fund support.

Health & Human Services ($909,000): The Board's Budget Policies state that the Health & Human Services Agency (H&HS) should prepare a FY 2006-07 Budget with a goal that the Net County Cost will not exceed the FY

2005-06 budgeted Net County Cost level. After adjusting for the increase in Realignment base revenue described above, H&HS is proposing a FY 2006-07 Budget that exceeds the FY 2005-06 Net County Cost level by approximately $909,000. Generally speaking, this increase is comprised of three main components:

1. *CWS Restructure ($244,000):* H&HS is proposing the addition of four new positions - an Assistant CWS Division Manager, two Staff Services Analysts and an Office Assistant - to the Child Welfare Services (CWS) Division, the program responsible for investigating allegations of child abuse or neglect and making decisions about whether, and under what circumstances, children can safely remain in their own home. This is part of a reorganization of this Division recommended by outside consultants with extensive experience in child welfare services management. According to the Agency, these positions are needed to meet an increased number of State mandates directly affecting CWS, requiring the monitoring of key activities, tracking of outcomes, self-assessments and peer program quality reviews. The positions will also provide for an increase in direct management time devoted to CWS staff and programs. Currently, as the only manager in a division with 37 staff, the CWS Division Manager's time is divided between policy, planning and community relations; management of regular program operations; and direct involvement in CWS casework. The proposed restructure is based on the premise that it is not possible for a manager to competently cover this span of responsibilities. The four requested positions would replace positions deleted in prior years due to budget constraints. As proposed, the new positions and other provisions of the reorganization would result in a $244,000 increase in Net County Cost. H&HS believes that this restructuring is such an urgent priority that, if the decision is to recommend funding, H&HS plans on bringing this proposal to the Board for approval in advance of the FY 2006-07 budget hearings.

2. *Mental Health Reorganization ($356,000):* H&HS is requesting the addition of five new positions - a second Assistant Behavioral Healthcare Manager, three Coordinator positions and one Office Assistant - to the Mental Health Division. This is part of a reorganization of this Division designed to ensure the Division meets regulatory compliance requirements, enhance the Division's ability to maximize program revenues and provide for appropriate oversight of both adult and childrens' mental health programs. H&HS' regulatory compliance initiative, primarily involving Mental Health, started in 1999. According to the Agency, the creation of the three Coordinator positions is now necessary to institutionalize regulatory compliance activities. One Coordinator would be primarily responsible for quality and regulatory compliance issues; one Coordinator would be responsible primarily for utilization review for both outpatient and psychiatric hospitalization; and one Coordinator would be primarily responsible for recruiting and overseeing contracts with 120 mental health providers. Adding the Assistant Behavioral Healthcare Manager position will allow for one manager to oversee Children's Mental Health and one Manager to oversee Adult Mental Health. Currently, one Manager oversees both of those programs (which includes 66 staff) and the Agency believes that the result has been inadequate management for both programs. As proposed, the new positions and other provisions of the reorganization would result in a $356,000 increase in Net County Cost. Here, too, H&HS believes that this restructuring is such an urgent priority that, if the decision is to recommend funding, H&HS plans on bringing this proposal to the Board for approval in advance of the FY 2006-07 budget hearings.

3. *Increased Cost of Doing Business ($309,000):* As noted above, the Board's FY 2006-07 Budget Policies set a budget goal for H&HS of no increase in Net County Cost above the FY 2005-06 budgeted level. This is a different policy than for other General Fund departments, where the goal is no increase in staffing. H&HS will experience a substantial increase in the cost of doing business for existing staffing and programs, only some of which can be covered by State or Federal revenues. Major contributors to this increased cost of doing business include: salary and benefit increases from things like COLAs, equity adjustments and step increases ($2.4 million); increased Information Technology Services (ITS) charges ($387,000); and provider contract cost increases, including costs for placement of mental health patients at Napa State Hospital ($817,00). In addition, this increased cost reflects the full cost of the Quality Management Manager position that is being funded in H&HS in FY 2006-07 through a payment to the County Counsel budget for

an Attorney to fulfill that function ($168,000). After adjusting for increased revenue related to these programs, and reducing expenditures in a number of areas, the projected remaining increase in Net County Cost for the Agency is approximately $309,000.

Of the total $909,000 increase in Net County Cost requested by H&HS, $470,000 would represent the carryforward of FY2005-06 growth revenues that would previously have been allocated to the debt service reserve. The remaining increase in Net County Cost would be $439,000.

Sheriff ($524,000): The Sheriff is requesting eight new positions in FY 2006-07. Of those eight, four are dedicated to the City of American Canyon and are 100% funded through the contract with that City. The remaining four positions would be entirely General Fund-supported, at a Net County Cost of approximately $524,000. These positions are requested to address significant workload increases that have occurred, primarily in the unincorporated area of the County. The four requested General Fund-supported positions would address two areas of need:

1. *Patrol Deputies ($372,000):* The Sheriff is proposing to add three patrol deputies to provide services in the County's unincorporated area at a Net County Cost of $372,000. Over the last 15 years the number of patrol deputies assigned to the unincorporated area has actually decreased as patrol deputies were transferred to the Coroner and Civil Divisions to address exigent workload issues. Currently there are 24 deputies staffing 4 patrol shifts in the unincorporated area. Although this averages out to about 6 deputies per shift, during some shifts there are only 2 deputies and a supervisor on duty for the entire 800 square miles of Napa County. In addition, the Sheriff's Patrol Division has seen a significant increase in workload during this period. The large estates built in the hills and on the valley floor generate increased activity. Lovell Valley, Wooden Valley, Mt. Veeder and other areas have transitioned from sparsely populated turkey farms and family cabins to upscale residential areas. More recently, although the unincorporated area's population only increased by 2% between 2000 and 2005, crime reports increased by 23% and arrests increased by 50%. During the same period, misdemeanor citations and traffic citations decreased by 9% and 19%, respectively. The Sheriff believes that these decreases are likely a result of the fact that given the increase in calls for service, deputies have reduced time for these self-directed activities. The three requested patrol deputies would be used to augment selected shifts and help reduce response time, which is now averaging from 15 to 26 minutes, depending on the part of the County the call comes from. Adding the deputies will also allow patrol deputies to continue to be involved in DARE and other school and community-based programs.

2. *Detective ($152,000):* The Sheriff is proposing to add one deputy to the Detective Division at a Net County Cost of $152,000. This would bring the total number of deputies assigned to the Detective Division to 8. According to the Sheriff, this additional detective position is needed due to increases in identify theft and crimes involving children. In addition, the position would assist with major crimes involving the use of computers, for example a pedophile using online chat rooms to entice children. In addition, this position would be responsible for overseeing a centralized, comprehensive, list of sexual registrants throughout the County (in the cities as well as the unincorporated areas).

District Attorney ($443,000): The District Attorney is requesting a $443,000 increase in Net County Cost to backfill a reduction in grant revenues and to add three new positions as discussed more fully below:

1. *Grants Backfill ($126,000):* Over the past ten years, the District Attorney has applied for and received a number of different grants which have helped offset the cost of prosecution and increased the number of allocated positions in the Department. Funding for one grant - the Federal Violence Against Women Grant - will end this fiscal year and will not be available in FY 2006-07. This grant funds an attorney and a legal clerk, which allows for vertical prosecution of domestic violence crimes. In FY 2005-06 the budgeted Net

County Cost of these grant-funded positions was at $72,000. With the loss of this grant and increased salary and benefit costs, in FY 2006-07 the Net County Cost for these positions would be $164,000 - an increase of $92,000. Funding for the second grant - the Hi Tech Apprehension Grant - will be reduced this year and the County will also receive a reduced amount in FY 2006-07. This grant funds an investigator position as part of an interagency team that deals with computer related crime. In FY 2005-06 the budgeted Net County Cost of this program was $22,000. With the reduction in grant funding and increased salary and benefit costs, in FY 2006-07 the Net County Cost for this program will be $56,000 - an increase of $34,000. Although the amount of additional General Fund support requested to maintain these positions in FY 2006-07 is $126,000, if the positions were eliminated, the District Attorney's FY 2006-07 Net County Cost could be reduced by $220,000. The Board has adopted a Budget Policy that states that General Fund dollars will not be used to backfill reductions in grant funding unless the Board has previously determined that the program involved is a high priority. The District Attorney is requesting a General Fund backfill for these two grants because he believes these are high priority activities and increased workload in the Department will not allow use of other resources to assume these responsibilities.

2. *Additional Positions ($317,000):* The District Attorney is also requesting three new positions - an attorney, an investigator and a legal clerk. The Net County Cost of these three positions and other associated costs will be $317,000. According to the District Attorney, these positions are requested to address workload issues, particularly a significant number of pending murder investigations and trials. The District Attorney indicates that the Office has 10 murder cases either under investigation or awaiting trial. In addition, the number of both felony and misdemeanor filings initiated by the District Attorney's Office has been gradually increasing over the last few years.

Auditor-Controller ($146,000): The Auditor-Controller is requesting funding for an additional Assistant County Auditor-Controller position, at a Net County Cost of $146,000. This would bring the number of funded Assistant Auditor-Controller positions in the Department to two. As requested, this new position would provide Department leadership on a number of major, highly technical financial activities, including information technology systems and business workflow process improvements. The Auditor-Controller's Office is the key player in implementing, improving and operating a number of critical finance related information technology systems (such as PeopleSoft and Megabyte). While the County's Information Technology Services (ITS) Division provides technical assistance and support to these systems, the Auditor has concluded that having a high level manager in the Department who is both technically savvy and has the time to devote to working with Departmental managers and staff and other Departments can make a significant difference in how fast and smoothly ITS financial system projects are implemented. Currently, the Auditor-Controller's Office does not have any excess management capacity. Because of seasonal workload fluctuations (due to things like needing to prepare the annual financial report), ITS projects often take a long time to complete. This position will focus on expediting implementation of new ITS projects and will become the in-house expert on the County's PeopleSoft financial system. In addition, the Auditor-Controller has indicated that the upcoming four years will represent her last term in office. Adding this position will be a key part of succession planning for the Department.

Human Resources ($300,000): The CEO/Human Resources (HR) Division is proposing a reorganization that would add two new positions and reclassify certain other positions. In addition, the Division is proposing to contract for consultant services to assist in negotiating memorandum of understanding with the two labor unions that represent County employees. The total Net County Cost impact of these actions in FY 2006-07 would be approximately $300,000. Specifically, HR is proposing to create two major teams in the Division: an Employee Services Team (to deal with employee benefits and workers compensation) and an Organizational Services Team (to deal with recruitment & selection/classification, compensation and generalist human resource services). One of these teams would be headed by a new Principal HR Analyst position. HR is also requesting a new Staff Services Analyst position, which would be responsible for Division budget and administrative matters as well as for research and analysis concerning things like employee and leave administration. As indicated, HR is also proposing to contract with a labor relations consulting firm (at a cost of approximately $90,000) to take the lead in representing the County in negotiating new memorandum of understanding with the two unions representing County employees which are scheduled to start in FY 2006/07. HR is proposing these changes to provide better management and greater accountability in the Division and improve the effectiveness of services in each of the major functional areas.

All told, the requests described above, if approved, would increase Net County Cost by approximately $2.3 million compared to the FY2005-06 budgeted level. Staff is currently analyzing these requests to determine if they have merit and is not asking for Board direction on individual requests at this time. However, staff is seeking general policy direction from the Board on the issue of investing General Fund monies in new positions or new or enhanced programs.

As discussed above, the Board's Budget Policies currently state that General Fund Departments, except for H&HS, should prepare budgets with a goal of holding personnel expenditures to no more than the level needed to fund current staffing levels. Special Fund Departments and H&HS are directed to prepare budgets with a goal of no increase in Net County Cost above the FY 2005-06 level. The Budget Policies also direct staff not to propose new or enhanced programs unless they are fully grant funded or the Board has previously determined that the programs are a high priority. Based on the information in the Five-Year General Fund Forecast, and recognizing that it has been a number of years since most departments have received additional General Fund supported positions or program enhancements, and that a backlog of unmet needs has developed, staff is recommending that the Board revise your Budget Policies to permit investment of a limited amount of General Fund dollars in new positions or programs that are strategically targeted to enhance efficiency, effectiveness or accountability in certain priority areas. Specifically, staff is recommending that your Board direct staff to consider the following factors in evaluating requests for General Fund investments in new positions or program enhancements:

1. Will the investment target high priority areas, including: (a) accountability and regulatory compliance; (b) public health and safety; (c) internal services infrastructure.
2. Will the investment address service level deficiencies that have gone unaddressed for a number of years.
3. Will the investment correct imbalances in a service delivery system.
4. Will the investment benefit programs that have little or no ability to generate other revenues.
5. Is the request justified in terms of workload, service demand and the efficient use of other resources in the relevant department.
6. How critical is the need used to justify the request.

The proposed evaluation factors reflect what staff sees as the most critical issues facing the County at this time, however the Board may have different priorities. They also reflect an effort to make sure that our service delivery systems are balanced (recognizing that additional resources in one area may impact service demand in another) and that without a robust internal services infrastructure (ITS, finance, HR), direct services departments are unable to effectively fulfill their mission, yet because of recent tight fiscal conditions, many of the County's internal services programs have been squeezed so tight as to make it difficult for them to provide adequate services.

SUPPORTING DOCUMENTS

A . Five Year Forecast Memorandum

B . Five-Year Forecast Baseline Scenario

C . Five-Year Forecast Increase Net County Cost Scenario

D . Five-Year Forecast Decrease Net County Cost Scenario

CEO Recommendation: Approve

Reviewed By: Karen Gratton