

EL DORADO COUNTY CALIFORNIA
Chief Administrative Office

February 24, 2005

Memo To: Board of Supervisors

From: Laura S. Gill, Chief Administrative Officer

Subject: Preliminary FY 2006 – FY 2010 General Fund Projection

Recommendation

I recommend that the Board of Supervisors receive and file the preliminary FY 2006 – FY 2010 General Fund Projection. This projection and its underlying assumptions are attached to this memo.

Background

Since the release of the FY 2003-04 Preliminary budget, the Chief Administrative Office has prepared a series of five-year financial forecasts for the General Fund. These projections are provided to integrate current budgetary decisions to future budgetary trends.

Issues/Analysis

The preliminary FY 2006 - FY 2010 General Fund Projection indicates that projected appropriations exceed projected revenues by just under \$1 million. Also, an additional \$438,000 is needed to bring the level of undesignated fund balance reserved for economic uncertainties to the desired 5% level.

The preliminary FY 2006 – FY 2010 General Fund Projection includes assumptions concerning the following programmatic and organizational issues:

- **Implementation of Changes to Salary Schedule.** During this fiscal year, the County completed a review of its compensation plan. The review included a comparison of the County's salaries and benefits of 39 benchmark positions and all department head positions with those of 13 other northern California counties and the State of California. The comparison revealed that salaries offered by El Dorado County were below the market average. The preliminary projection includes funds to bring positions up to the market average by July 1, 2007. However, the assumptions for the distribution of these funds are subject to change, as the County is currently negotiating with its employee representatives over implementation issues.
- **General Plan Implementation.** The Board of Supervisors adopted a General Plan on July 19, 2004. To support the implementation of the new General Plan, the FY 2004-05 budget includes funding for the implementation of the General Plan. However, most of the implementation activities have been delayed pending the March 8 vote to ratify or repeal the Board's adoption of the General Plan. The preliminary FY 2006-FY 2010

projection assumes implementation of the General Plan as adopted. However, if the adopted General Plan is rejected by voters on March 8, a new implementation cost estimate and would be developed upon adoption of an alternate General Plan.

- **State Budget Actions.** The preliminary five-year projection assumes the following revenue impacts from prior and current State actions:
 - The State has implemented the “triple flip” of revenues between property taxes and sales taxes.
 - The State will restore \$1.45 million in property taxes in FY 2007 as a condition of implementing the swap of property taxes for vehicle license fees. (The State and local governments agreed to this arrangement in lieu of a third shift of property taxes from local governments to schools.)
 - The State will restore \$2.6 million in vehicle license fees over five years, or \$520,000 per year, beginning in FY 2006-07. This restoration reimburses the County for the first quarter of VLF backfill funds retained by the State in the first quarter of FY 2003-04.

- **Transfer to Road Fund for Road Maintenance.** Since 2001, the County has transferred 50% of all vehicle license fee backfill funding to the Road Fund for road maintenance to comply with Measure H. With the elimination of the backfill funding, it appears that the Board of Supervisors may choose to eliminate the transfer to the Road Fund. However, the possible elimination of this transfer runs counter to the Board’s priority of maintaining its infrastructure. The preliminary five-year projection assumes the continuation of the transfer of \$1.8 million to the Road Fund. The Department of Transportation and I will come before the Board this spring to receive policy direction concerning this transfer so that direction can be incorporated into future budgets.

- **Level of Contingency Funds.** Over the past two years, the Board of Supervisors has taken actions to increase the amount of contingency and reserves for economic uncertainties to a combined 8% of appropriations. However, the General Fund budget includes appropriations that are purely pass-through in nature, such as the Health and Mental Health realignment funds, that cannot be used for other purposes. Likewise, the Child Support Services Department is funded entirely with state and federal revenues. If the State chose to reduce the amount of funds appropriated for Child Support Services or to withhold realignment revenue, the affected departments would have to reduce its appropriations accordingly – these operations do not receive any support from the General Fund. Due to the distinct nature of these appropriations, I believe that it is appropriate to adjust the base appropriation to subtract all pass-through revenues from the State for realignment funds for health and mental health, and appropriations for Child Support Services prior to calculating the amount of funds needed to achieve the 8% goal. The FY 2006 – FY 2010 projection assumes this methodology in ensuring that the 8% goal is met through the projection period – 3% appropriated in the contingency account in Department 15, and 5% in fund balance reserved for economic uncertainty.

- **Sheriff Deputies for El Dorado Hills area.** The County is experiencing rapid growth in the El Dorado Hills area, with an additional 3,000 residents annually. To ensure that the Sheriff's Department can maintain a ratio of one deputy for every 1,000 residents, the five-year projection assumes the addition of three Sheriff's deputies each year.
- **Opening of El Dorado Hills Library.** The five-year projection includes approximately \$500,000 in annual associated costs for the opening of the new library branch in El Dorado Hills. These costs are offset by the new \$25 annual library assessment placed on residential units in El Dorado Hills.
- **Renewal of Library Assessments.** The five-year projection assumes that voters will approve the March 8 referendum to increase library assessment fees in most areas of the County. The projection also assumes that the General Fund will match the assessment fees dollar for dollar.
- **Subsidy for Social Services Activities.** The County has historically contributed discretionary revenues to fund activities in Social Services. For FY 2002-03, that amount totaled over \$400,000. The then-Social Services Director offered to forego that subsidy beginning in FY 2003-04, and I accepted that offer in preparing the FY 2003-04 budget. That practice is in effect for the FY 2004-05 budget. However, the Social Services division cannot sustain its current operations without the restoration of the subsidy. The five-year projection includes \$400,000 for social services activities. As a part of the FY 2005-06 budget preparation process, the CAO staff will work with staff from the Human Services Department and the Auditor-Controller's Office to address the long-term funding needs of the Social Services division.
- **Recording Fees.** The Recorder-Clerk/Registrar of Voters receives recording fees for various real estate activities as departmental revenue. Actual recording fees received for FY 2003-04 totaled \$2.3 million, which was \$1 million above budget estimate. The projected amount of recording fees received during FY 2004-05 is estimated at \$3.4 million, which is \$1 million over the budget estimate. The five-year projection assumes that recording fees will grow at a rate consistent with that assumed for property tax revenues (9% for FY 2005-06 and 8% thereafter). Changes in the real estate market can adversely affect this revenue projection, and we will have to monitor this projection closely.

My staff and I remain available to answer any questions you may have concerning this projection.

Attachment A: Assumptions Used in FY 2006 – FY 2010 General Fund Projection
 Attachment B: Discretionary Revenue Growth Rate Assumptions

EL DORADO COUNTY CALIFORNIA
General Fund Revenue and Appropriation Projection

	PROJECTED				
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
REVENUES					
Property Tax	\$ 44,706,704	\$ 49,638,563	\$ 53,460,252	\$ 57,584,434	\$ 62,035,205
Other Local Taxes	16,827,618	17,804,647	18,815,325	19,923,944	21,075,095
Licenses/Permits/Franchises	8,592,959	8,913,627	9,303,068	9,711,471	10,140,066
Fines/Forfeitures/Penalties	1,323,515	1,327,641	1,346,394	1,365,522	1,385,032
Use of Funds/Property	603,297	613,993	613,903	625,031	636,382
Intergovernmental Revenue	67,215,758	69,723,908	72,227,092	74,837,566	77,551,860
Charges for Service	15,656,331	15,907,099	16,063,763	16,223,701	16,387,004
Other Revenue	9,685,162	9,351,553	9,409,408	9,466,351	9,530,383
Transfers from Other Funds	5,387,213	5,486,998	5,589,437	5,694,603	5,802,572
Total Current Revenues	\$ 169,998,558	\$ 178,768,027	\$ 186,828,642	\$ 195,432,624	\$ 204,543,599
Appropriation from Fund Balance	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Total Revenues	\$ 180,998,558	\$ 189,768,027	\$ 197,828,642	\$ 206,432,624	\$ 215,543,599
Discretionary Revenues	\$ 94,001,385	\$ 100,311,302	\$ 105,409,414	\$ 110,899,276	\$ 116,748,028
Departmental Revenues	86,997,173	89,456,726	92,419,227	95,533,349	98,795,571
Total Revenues	\$ 180,998,558	\$ 189,768,027	\$ 197,828,642	\$ 206,432,624	\$ 215,543,599
APPROPRIATIONS (Category)					
General Government	\$ 26,064,556	\$ 26,864,459	\$ 27,692,103	\$ 28,548,613	\$ 29,435,170
Law and Justice	65,502,781	67,634,654	70,927,712	74,843,367	79,055,694
Development Services	19,823,667	20,007,086	20,235,313	22,080,141	22,218,674
Health/Human Services	44,284,587	46,089,042	48,038,082	50,087,941	52,245,376
Nondepartmental	26,306,623	30,948,763	33,056,023	33,997,533	35,032,577
Total Appropriations	\$ 181,982,214	\$ 191,544,005	\$ 199,949,233	\$ 209,557,596	\$ 217,987,491
APPROPRIATIONS (Object)					
Salaries/Benefits	\$ 113,882,446	\$ 121,468,669	\$ 127,841,675	\$ 135,318,283	\$ 141,542,650
Operating Expenses	47,839,945	49,258,187	50,762,534	52,317,324	53,924,477
Fixed Assets	1,536,370	1,582,461	1,629,935	1,678,833	1,729,198
Other Financing Uses	145,700	150,071	154,573	159,210	163,986
Transfer to Other Funds	13,470,725	13,699,413	13,932,080	14,176,314	14,476,243
Appropriation for Contingency	5,107,028	5,385,204	5,628,436	5,907,631	6,150,937
Total Appropriations	\$ 181,982,214	\$ 191,544,005	\$ 199,949,233	\$ 209,557,596	\$ 217,987,491
Revenue Surplus/(Shortfall)	\$ (983,656)	\$ (1,775,978)	\$ (2,120,591)	\$ (3,124,972)	\$ (2,443,891)
FB Reserved for Contingency	\$ 8,072,838	\$ 8,511,064	\$ 8,975,100	\$ 9,380,899	\$ 9,846,433
Amt Needed for 5% Reserved FB	\$ 8,511,064	\$ 8,975,100	\$ 9,380,899	\$ 9,846,433	\$ 10,252,609
Additional Funds to Reach 5%	\$ (438,226)	\$ (464,035)	\$ (405,799)	\$ (465,534)	\$ (406,176)
Total Revenue Surplus/Shortfall	\$ (1,421,883)	\$ (2,240,013)	\$ (2,526,390)	\$ (3,590,506)	\$ (2,850,067)

ASSUMPTIONS USED IN FY 2006 – FY 2010 GENERAL FUND PROJECTION

Revenues

Discretionary Revenues (Department 15)

Please refer to the attached chart that shows growth assumptions and notable adjustments.

Departmental Revenues

Department	Annual Growth from FY 2005 Budget Level
Board of Supervisors	Held constant at FY 2005 budget levels through projection.
Chief Administrative Office	Transfer from Risk Fund (\$20,000) held constant at FY 2005 budget levels through projection; 12.5% of Hotel/Motel Tax follows established method of distribution.
Information Technologies	Licenses and permits (cable franchise fees): 2%; Charges for Service: 1%.
Auditor-Controller	Held constant at FY 2005 budget levels through projection.
Treasurer-Tax Collector	Other Local Taxes: 6%; License/Permits: 2%; Fines:2%; Charges for Service: 1%, Other Revenue: constant.
Assessor	Other Local Taxes: 2%; Intergovernmental Revenue (State payment for assessor services) held constant; Charges for Service: 1%, Other Revenue: constant.
County Counsel	Held constant at FY 2005 budget levels through projection.
General Services	Charges for service: 1%, all other revenue held constant.
Recorder-Clerk/Elections	Other Local Taxes: by 9% in FY 2006 and 8% thereafter; Licenses and permits: 2%; Charges for Service: 1%, Other Revenue: constant.
Court MOE	Charges for Service: 1%, all other revenue held constant.
District Attorney	Prop 172 Sales Taxes increase by 6% annually; all other revenue held constant at FY 2005 budget levels through projection.
Public Defender	Prop 172 Sales Taxes increase by 6% annually; all other revenue held constant at FY 2005 budget levels through projection.
Sheriff	Property Taxes grow by 9% in FY 2006 and 8% thereafter; License/Permits: 2%; Fines:2%; Intergovernmental Revenue: Prop 172 Sales Taxes increase by 6% annually, all other at 2%; Charges for Service: constant; Other Revenue: constant.
Probation	Fines: 2; Intergovernmental Revenue: Prop 172 Sales Taxes increase by 6% annually, all other at 2%; Charges for Service: constant; Other Revenue: constant.
Surveyor	Charges for Service: 1%.
Agriculture	License/Permits: constant; Intergovernmental Revenue: 2%; Charges for Service: constant.
Development Services/Building	Licenses/Permits: 5%; Charges for Service: constant; Other Revenue: constant.

Development Services/Planning	Licenses/Permits: 2%; Charges for Service: 1%; Other Revenue: constant.
Environmental Management	Licenses/Permits: 2%; Use of Funds/Property: constant; Intergovernmental Revenue: 2%; Charges for Service: 2%; Other Revenue: constant. Assumes that there will be revenue to cover 100% of costs.
Transportation/County Engineer	Charges for Service: 3%; Operating transfers in: 3%.
University of CA Extension	Charges for Service: constant.
Public Health/Animal Control	License/Permits: 2%; Fines:2%; Intergovernmental Revenue: 2%; Use of Funds/Property: constant; Intergovernmental Revenue: 2%; Charges for Service:1%; Other Revenue: constant.
Human Services/Social Services	Intergovernmental Revenue: 7.64% in FY 2006, 3.8% thereafter; Charges for Service: constant; Other Revenue: constant. Assumes NCC of approximately \$400,000 annually.
Veterans Affairs	Intergovernmental Revenue: 2%; Other Revenue: constant.
Library	Use of Funds/Property: constant; Intergovernmental Revenue: constant; Charges for Service: 2%; Other Revenue: constant. Assumes no transfer from Library Trust Fund; assumes El Dorado Hills library assessment fee revenue to begin in FY 2006; assumes \$400,000 increase in NCC due to passage of Measure L.
Child Support Services	Assumes that revenue will recover 100% of appropriation.

Appropriations

Category	Notes
Salaries	Assumes normal progression through established ranges. FY 2006 and FY 2007 estimates are provided through BPREP. The percent change between the two years is then applied through the remainder of the projection period. Salary increases included in new Deputy County Counsel MOU are applied. Costs for implementation of findings from comp survey are included in Department 15 for General Fund departments.
Benefits: Retirement	Assumes retirement increases for FY 2006 and FY 2007 as indicated by CalPERS. Increases beyond FY 2007 are embedded in the percent change calculation noted above.
Benefits: Retiree Health	Assumes increases for FY 2006 and FY 2007 as indicated in Mercer schedule adopted in FY 2003. Increases beyond FY 2007 are embedded in the percent change calculation noted above.
Services and Supplies	3% increase through projection period.
Other Charges	3% increase through projection period.

Fixed Assets	3% increase through projection period.
Intrafund Transactions	3% increase through projection period.
Transfers to Other Funds	Road Fund: 1.5% increase through projection period. Airport Fund: 3% increase through projection period. Risk Fund: Remains constant at \$1,500. ACO Fund: Remains constant at \$200,000. Health Fund: VLF realignment transfer equal to amount received; GF contribution assumes 3% increase through projection period. Mental Health Fund: VLF realignment transfer equal to amount received; Wraparound expenses assumes 3% increase through projection period; GF contribution remains constant at \$214,717. Community Services: GF contribution assumes 3% increase through projection period.
Appropriation for Contingency	Assumes level equal to 3% of budget, adjusted to exclude transfers to Health and Mental Health Funds that are funded through VLF realignment revenues and exclude appropriations for Child Support Services.

Fund Balance Reserved for Economic Uncertainty

Amount needed to maintain “fund balance reserved for contingency” level equal to 5% of budget, adjusted to exclude transfers to Health and Mental Health Funds that are funded through VLF realignment revenues and exclude appropriations for Child Support Services.

Discretionary Revenue Assumptions Used in FY 2006 – FY 2010 Budget Projection

	FY 2006 (growth on FY 2005 budget)	FY 2007 annual growth	FY 2008 annual growth	FY 2009 annual growth	FY 2010 annual growth	Notes
Property Tax:						
Current Secured	9.00%	8.00%	8.00%	8.00%	8.00%	FY 2007: State returns \$1.45 M consistent with ERAF III agreement
Current Unsecured	0.00%	3.00%	3.00%	3.00%	3.00%	consistent with A/C staff projections
Prior Unsecured	0.00%	0.00%	0.00%	0.00%	0.00%	consistent with A/C staff projections
Supplemental Prop Tax - Current	6.50%	6.50%	6.50%	6.50%	6.50%	consistent with A/C staff projections
Supplemental Prop Tax - Prior	0.00%	0.00%	0.00%	0.00%	0.00%	
Sales Tax (1%)	6.00%	6.00%	6.00%	6.00%	6.00%	
In-Lieu Sales Tax	6.00%	6.00%	6.00%	6.00%	6.00%	
Race Horse Tax	0.00%	0.00%	0.00%	0.00%	0.00%	FY 2005 growth higher than budgeted
Hotel/Motel Tax	38.00%	6.00%	6.00%	6.00%	6.00%	FY 2005 growth higher than budgeted
Timber Yield Tax						Auditor's estimate
Loss Reserve Tax	8.82%	0.00%	0.00%	0.00%	0.00%	FY 2005 growth higher than budgeted
Garbage Franchise	0.00%	0.00%	0.00%	0.00%	0.00%	
Cable Franchise	12.00%	0.00%	0.00%	0.00%	0.00%	FY 2005 growth higher than budgeted
Delinquent Taxes	0.00%	0.00%	0.00%	0.00%	0.00%	
Interest	18.20%	2.00%	2.00%	2.00%	2.00%	FY 2005 growth higher than budgeted
Rent/Land & Buildings	2.00%	2.00%	2.00%	2.00%	2.00%	
Vehicle License Fees (in lieu of tax)	3.50%	3.50%	3.50%	3.50%	3.50%	Includes State repayment of \$520,000 from FY 2007 through FY 2009
Vehicle License Collections	0.00%	0.00%	0.00%	0.00%	0.00%	
Vehicle License Fees - Realignment						
Mental Health	1.50%	1.50%	1.50%	1.50%	1.50%	
Health	1.50%	1.50%	1.50%	1.50%	1.50%	
Social Services	1.50%	1.50%	1.50%	1.50%	1.50%	
State Subventions						
Homeowner Property Tax Relief	1.00%	1.00%	1.00%	1.00%	1.00%	
Open Space Subvention	0.00%	0.00%	0.00%	0.00%	0.00%	
Off Highway MV License	0.00%	0.00%	0.00%	0.00%	0.00%	
Federal Payments						
Admin Public	0.00%	0.00%	0.00%	0.00%	0.00%	
In-Lieu Taxes	0.00%	0.00%	0.00%	0.00%	0.00%	
Child Support Incentive	eliminate					combined w/interfund rev
A87 Child Support	eliminate					combined w/interfund rev
Assessment/Tax Collection Fees	0.00%	2.00%	2.00%	2.00%	2.00%	
Recording Fees	2.00%	2.00%	2.00%	2.00%	2.00%	
Interfund Revenue	0.00%	0.00%	0.00%	0.00%	0.00%	child support related revenue included in category
Miscellaneous Revenue	eliminate					
Residual Equity Transfer In	eliminate					