BUDGET OVERVIEW

The FY 2013-14 Adopted Budget totals **$400,433,971**, including,

GOVERNMENTAL FUNDS
- $205,512,691 General Fund
- $129,835,738 Special Revenue Funds
- $ 6,750,359 Capital Project Funds
- $ 3,895,452 Debt Service Funds
- $345,994,240 Total Governmental Funds

OTHER FUNDS
- $ 26,507,594 Internal Service Funds
- $ 18,885,437 Enterprise Funds
- $ 9,046,700 Special Districts and Other Agencies
- $ 54,439,731 Total Other Funds

This represents an increase of $7.8 million, or 1.9 percent, when compared to the FY 2012-13 Adopted Budget.

About 80 percent of the overall budget is for non-general fund operating departments. Most have various state and federal funds earmarked for specific purposes.

In accordance with Budget Principles (the "Principles") approved by the Board which encouraged departments to realize savings in the current year to provide carryover funds for FY 2013-14.

BUDGET PRINCIPLES

On February 26, 2013, the Board of Supervisors received the FY 2012-13 Mid-Year Report, and approved the following principles for the FY 2013-14 Budget:

- Continue the Controlled Hiring Process approved by the Board in December 2007.
- Approve no new programs or new positions that are not clearly revenue supported.
- Review all grant funded positions. The Board has consistently maintained that the County will not preserve positions that have lost grant funding.
- The County administers many costly State programs. We have limited ability to raise revenues to offset any loss in State and Federal funding. We will avoid back-filling reductions in such funding when legally permissible, and continue to seek relief from unfunded State mandates.
- Continue to evaluate all contracts with community providers and agencies to evaluate if services could be reduced or provided by existing county staff.
- The CEO will review all requests for capital assets and computer equipment. Approval will be granted if the cost of the equipment is fully revenue offset or is critical to program operations.

- As a baseline, direct departments to prepare a budget with a status quo level of County Contribution or General Fund Net-County-Cost. As the full impact of the State budget is realized further cost containment measures may be necessary.

- Realize salary and benefit savings through collaborative bargaining with our labor partners.

- Review all positions vacant over 18 months.

- Encourage expenditure reductions in the current fiscal year to create carry-over funds for 2013-14.

The Adopted FY 2013-14 General Fund Budget is $69 million, which is approximately 5 percent ($3.9 million) less than the adjusted 2012-13 budget. The County refunded the long-term debt on the Shasta County Administration Building which yielded lower annual debt service expense ($494,512). The prior fiscal year included a one-time appropriation ($2.8 million) for the contract with Haven Humane for animal care and sheltering. These two account for the bulk of the reduction.

The Principles directed all departments to maintain a status quo General Fund subsidy, except for those departments that have a minimum maintenance of effort (MOE) requirement. The two most significant MOE's are to public safety and health and human services programs.

Annually, the Auditor-Controller calculates the County's Maintenance of Effort (MOE) for public safety. In FY 2012-13 the County over-matched the public safety MOE by $11.5 million. The County subsidy to the combined health and human services programs has been held static over the last several years.

LONG-RANGE PLANNING

There has been no significant improvement to revenues, and the County continues to adhere to conservative spending due to the continued economic downturn. Taking a proactive approach to spending reductions in the past several fiscal years has helped keep the County solvent; but, absent sustained annual revenue growth more reductions may be necessary each fiscal year.

Balancing service delivery with available resources will continue to be a challenge to the County for many years.

DISCRETIONARY REVENUE

The national, state, and local economic downturn has resulted in a decline in property values, lagging sales of consumer goods and services, and a steep decline in interest rates. Shasta County continues to experience the unprecedented loss of discretionary revenue. In the year ending June 30, 2013, revenue is projected to decline by $2.1 million, or 4.3 percent, and is estimated to decline another 2.7 percent at June 30, 2014. Problematic is not only the loss of current year base revenues but the continued loss of revenue growth. Projections are for at least two additional years of declining revenue, approximately 2 percent per year. The dissolution of redevelopment agencies may have some yet unknown positive impact on the General Fund, as a minimal amount of tax increment may accrue to the General Fund. In FY 2012-13 the County received some one-time revenue ($2.5 million) from the dissolution of the City's Redevelopment Agencies, in accordance with State Department of Finance directives. However, the cities of Anderson, Redding and Shasta Lake have claims pending for property tax administration fees. The settlement of these claims may erode some or all of the one-time revenue.

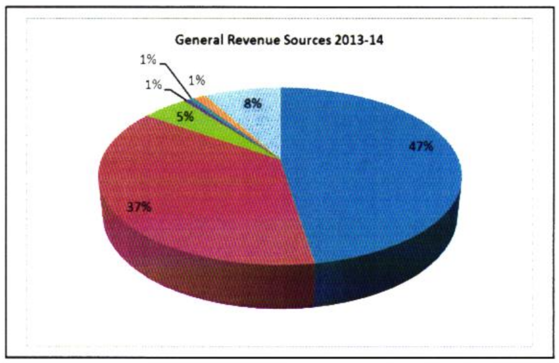
For comparison, a look at 5 years of discretionary revenues is provided.

Discretionary Revenue	09-10 A	10-11 A	11-12 A	12-13 EST	13-14 R
Taxes	43,972,983	42,362,880	42,332,244	42,925,545	42,122,000
Franchises	653,816	670,436	664,167	624,718	600,000
Fines, Forfeitures, Penalties	269,575	397,952	266,119	238,944	220,000
Money & Property	359,164	377,705	351,407	328,080	311,653
Intergovernmental Revenue	1,987,597	3,800,571	3,442,609	1,998,298	1,814,000
Charges for Services	842,902	1,309,903	1,434,789	923,773	700,000
Miscellaneous Revenue	8,641	1,300	19,394	27,790	1.200
Other Transfers-in	(7,569,952)	20,400	0	0	0
Sale of Land or Fixed Assets	48,500	0	710,000	0	0
Total	40,573,226	48,941,147	49,220,723	47,067,148	45,768,853
	-2.42%	20.62%	0.57%	-4.38%	-2.76%

A=Actual, EST=Estimated Year End, R=Recommended
**Year ending 6/30/2010 does not include a one-time transfer-in from General Revenue ($2M)*

Fiscal Year 2013-14 Adopted General Fund Discretionary Revenue totals $45.7 million, as follows:

General Revenue Sources 2013-14		
Property Taxes (PT)	$21,722,000	47.46%
PT In Lieu of VLF	17,000,000	37.14%
Sales Tax	2,200,000	4.81%
Interest	300,000	0.66%
PT Penalties	220,000	0.48%
Transient Occp Tax	600,000	1.31%
All Others	3,726,853	8.14%
Grand Total	*$45,768,853*	*100%*



NON-DISCRETIONARY REVENUE

In addition to our discretionary sales tax revenues, sales taxes dedicated to public health, mental health, social services, and public safety have declined dramatically.

<u>1991 Realignment (Health and Human Services)</u> sales tax and vehicle license fees (VLF) are dedicated to public health, mental health, and social services and provided the majority of matching funds for numerous state and federal funding sources. After decreasing for several years, VLF receipts are expected to be flat in FY 2012-13 and a modest amount of growth is projected, primarily for Public Health and Mental Health, in FY 2013-14. Sales tax revenue is anticipated to grow slightly. Previous years' unpaid caseload growth was substantially paid in FY 2012-13, with a small amount remaining. Sales tax growth funds will be used to complete caseload growth and then be distributed in FY 2013-14 as general growth to other realigned programs, including Public Health, Mental Health, and Social Services. The total realignment base for all accounts for FY 2013-14 is projected at $28,360,875, which is $1.2 million lower than FY 2006-07, the last year that the realignment base in all accounts was fully funded.

<u>2011 Realignment (Health and Human Services)</u> Similar to 1991 realignment, 2011 realignment is projected to see a modest amount of growth in FY 2013-14. Within the funding mechanism, restoration of child welfare funding in a statewide amount of $200 million takes precedence over growth in funding for other programs. Provided the economic recovery is sustained, this restoration is expected to be fully paid by FY 2014-15, leaving growth funds available for behavioral health and other realigned programs. The 2011 realignment structure includes preferential treatment of behavioral health, intended to compensate for financial treatment that favored health and social services under the 1991 realignment mechanism.

<u>2011 Realignment (Public Safety)</u> included a major realignment of public safety programs from the state to local governments. The intent of the Community Corrections Partnership Program authorized by AB 109 is to end the revolving door of lower-level offenders and parole violators through the state's prisons.

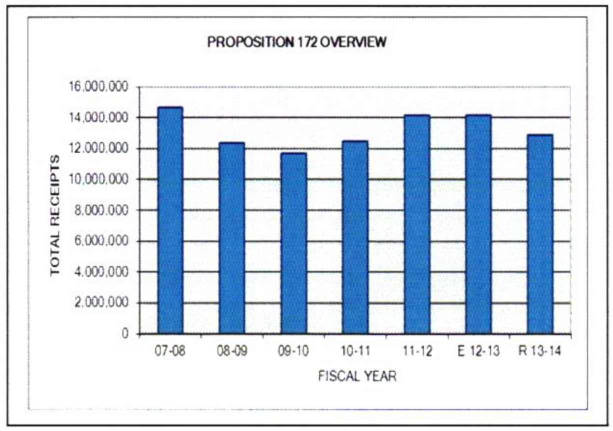
The County's Community Corrections Partnership Executive Committee (CCPEC), chaired by the Chief Probation Officer, presented a coordinated plan for the second year of implementing AB 109 in Shasta County to the Board of Supervisors on October 2, 2012. Funding for FY 2013-14 is expected to be $7.4 million and appropriations are requested at $8.1 million, balanced with use of $752,232 in carryover AB109 Restricted fund balance. Funding is expected to decline to and stabilize at $6.9 million in FY 2014-15. There are estimated annual growth funds starting in FY 2012-13; however, the allocation methodologies have not yet been set so the amounts allocated to Shasta County cannot be projected at this time. The CCPEC approved FY 2013-14 funding augmentations in the District Attorney's and Public Defender's budgets as they will be responsible to staff nearly all revocation hearings beginning July 1, 2013 as part of the continued transfer of state responsibilities to counties; this will include all Mandatory Supervision, all Post Release Community Supervision, and most of state Parole's revocation hearings, as well as the Probation revocation hearings they have always staffed. The CCPEC augmented this revenue because the 2011 Realignment allocation to the District Attorney and Public Defender (which is separate from the AB 109/CCP allocation) is only about half the amount necessary to fund one full-time attorney and does not include any funding for support staff, training, equipment, supplies, etc.

The state and a nine-member CEO workgroup are currently working on new CCP and DA/PD permanent funding allocation methodologies for FY 2014-15 and beyond, as well as 2011 Realignment growth allocations (however, the state Department of Finance has the authority to make the final determination on the growth allocations). The Governor's 2012 November ballot initiative, called the Schools and Local Public Safety Protection Act of 2012, which included a temporary increase in the state sales tax rate and income tax for people earning over $250,000 annually in order to fund education, and a Constitutional Amendment to protect realignment funding for counties, was approved by the voters on November 6, 2012. The Constitutional Amendment protects the state funding source for 2011 Realignment revenue which comes from Vehicle License Fees (VLF) in the statewide amount of $453.4 million and 1.0625% of the state's sales and use tax (SUT) that would have ordinarily gone to the state general fund. Both of these funding sources, though now constitutionally protected are not stable, as receipts are directly related to the health of the economy; additionally, the temporary increase in the sales tax will sunset at the end of 2016.

Finally, the Governor is under pressure to release an additional 10,000 inmates from prison by December 2013 to meet the Three-Judge Panel's order to reduce prison capacity to 137.5 percent of designed capacity. Therefore it is possible that we could see the AB 109 population grow to levels higher than estimated with no additional funding, especially for Shasta County who is now second in the state (per 1,000 arrests) for sending people to prison.

Receipts from **Public Safety Augmentation Proposition 172** sales tax are once again lagging behind the prior year. The County's pro-rata share of this sales tax was decreased from 0.005211 to 0.004889 in mid-year and the State recouped over $360,000 with the sixth distribution. We are cautiously optimistic the receipts will at least meet the budget target. Absent, however, will be a surplus which has been used to retire the debt owed to the General Reserve for funds advanced in 2008-09 when receipts were $2 million less than budgeted. Several years of positive receipts has enabled the Public Safety fund to pay back all but approximately $370,000. Starting in FY 2012-13, 5 percent of each monthly receipt has been set aside for reserves to cushion the impact of any future decline in this revenue, or for new detention facilities. The new Juvenile Detention Facility will use $507,854 of this reserve to offset its first year's increased operating expenses. The remaining reserve is estimated to be $1.9 million. Due to declining receipts the monthly addition to the Reserve has been suspended for 2013-14.

Public Safety (Prop 172)			% Inc/ Dec
13-14	Recommend	$12,861,817	-9.17%
12-13	Estimate	$14,160,324	0.00%
11-12	Actual	$14,160,324	+13.40%
10-11	Actual	$12,487,200	+6.34%
09-10	Actual	$11,704,078	-5.30%
08-09	Actual	$12,358,532	-15.81%
07-08	Actual	$14,679,783	-1.55%
06-07	Actual	$14,910,395	+1.36%



A=Actual, E=Estimate, R=Recommended

APPROPRIATIONS

Appropriations include a **Contingency Reserve** of $5 million that can be used for unanticipated requirements that may occur during the fiscal year. When no need arises, these funds return to fund balance and become the basis of the carry-over for the succeeding year. Financing is derived from anticipated revenue, inter-fund transfers, and carry-over fund balances.

The **General Reserve** is approximately $10 million. This is 2.9 percent of total Government Funds appropriations ($346 million). The Board established a policy for budgetary reserves in December 2007. The goal is to attain a Reserve of 5 percent of estimated financing uses, less designations for reserves and capital projects, but no less than $10 million. The Public Safety Fund is making payments on a loan from the General Reserve when Proposition 172 receipts declined; the balance due is approximately $370,000.

YEAR-TO-YEAR COMPARISON

Departments were directed to submit a status quo budget request which could be achieved by spending reductions in FY 2012-13. For the fiscal year ending June 30, 2013, the General Fund will realize a 13 percent reduction in expenditures, and a reduction to the net-county-cost ($9.5 million).

Adopted General Fund appropriations for FY 2013-14 are $69.1 million, or 5 percent less than the adjusted FY 2012-13 budget. Contributing factors include the following: The County refunded the long-term debt on the Shasta County Administration Building which yielded lower annual debt service expense ($494,512). The prior fiscal year included a one-time appropriation ($2.8 million) for the contract with Haven Humane for animal care and sheltering. These two account for the bulk of the reduction.

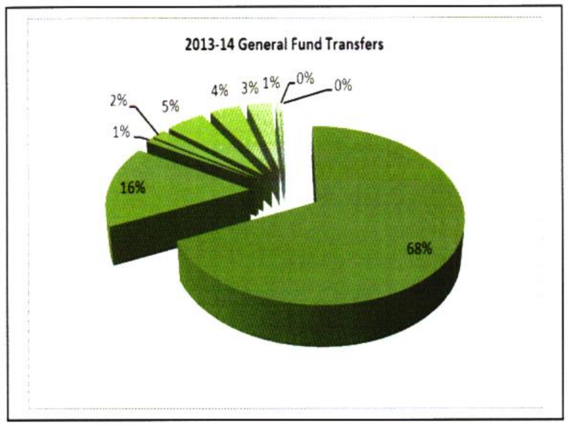
In the aggregate, the Adopted FY 2013-14 budget for ***select*** budget units, excluding special districts, totals $391.2 million, which when compared to the 2012-13 Adjusted Budget, is an increase of $8.5 million, or 2.2 percent. The bulk of the growth is in the Public Assistance budgets due to preparations for implementation of the Affordable Care Act, and in Public Safety budgets due to implementation of community corrections programs in response to AB 109.

The following Table compares by Fund the 2012-13 Adjusted Budget (at 01/31/2012), versus estimated expenditures at 6/30/2013, with the 2013-14 Adopted Budget for ***select*** budget units.

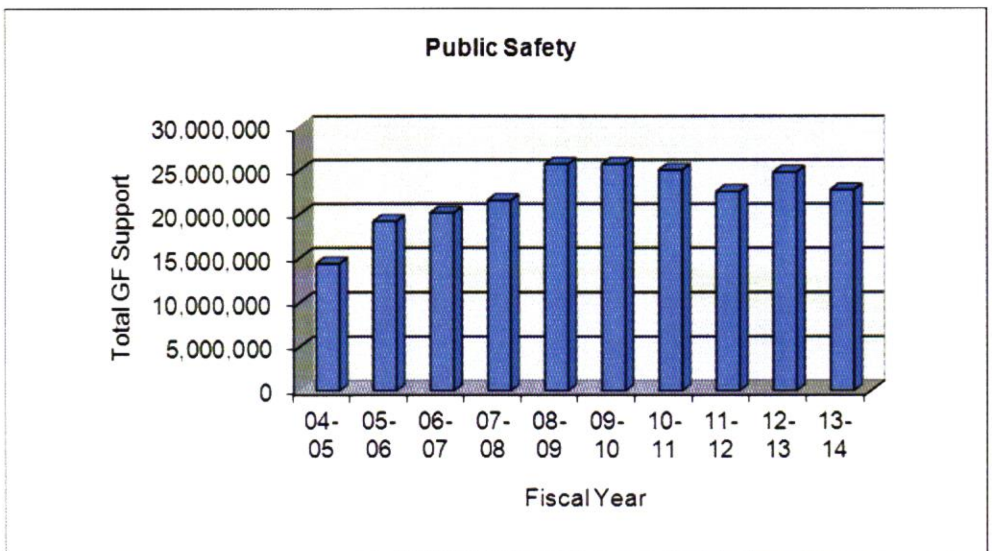
Functional Area	Adjusted 12-13	Estimate 6/30/13	% Inc/Dec	Adopted 13-14	% A 12-13 vs 13-14
General Fund	73,076,313	63,573,087	-13.00%	69,158,406	-5.36%
Accumulated Capital Outlay	3,171,295	2,933,022	-7.51%	50,000	-98.42%
Juvenile Hall Construction	15,181,383	8,163,814	-46.22%	6,700,359	-55.86%
Land Buildings & Improvements	2,859,085	859,125	-69.95%	82,547	-97.11%
Resource Management	4,990,638	4,275,382	-14.33%	4,952,244	-0.77%
Mental Health	21,657,105	23,539,004	8.69%	24,864,032	14.81%
Mental Health Services Act	9,963,911	7,622,043	-23.50%	8,727,118	-12.41%
Intermountain Fair	402,001	396,937	-1.26%	326,587	-18.76%
Library	1,302,106	1,300,700	-0.11%	1,359,147	4.38%
Opportunity Center	4,537,008	4,244,749	-6.44%	4,579,966	0.95%
Public Assistance	91,560,197	89,845,516	-1.87%	100,119,039	9.35%
Roads	26,380,508	16,565,367	-37.21%	31,425,864	19.13%
Child Support	7,843,874	6,896,720	-12.08%	7,802,751	-0.52%
Public Safety	58,513,323	54,391,146	-7.04%	60,339,507	3.12%
Public Health	21,285,086	20,172,436	-5.23%	21,028,536	-1.21%
Internal Service Funds	24,657,111	22,569,209	-8.47%	26,507,594	7.50%
Enterprise Funds	6,537,429	2,782,031	-57.44%	14,409,229	120.41%
Air Pollution Control	1,808,587	1,416,745	-21.67%	1,522,979	-15.79%
CSA #1 County Fire	5,589,100	4,687,079	-16.14%	6,175,540	10.49%
Shasta Co. Water Agency	328,775	176,727	-46.25%	284,862	-13.36%
IHSS Public Authority	365,218	333,688	-8.63%	359,456	-1.58%
All Others	689,107	360,613	-47.67%	494,401	-28.25%
Grand Total	382,699,160	337,105,140	-11.91%	391,270,164	2.24%

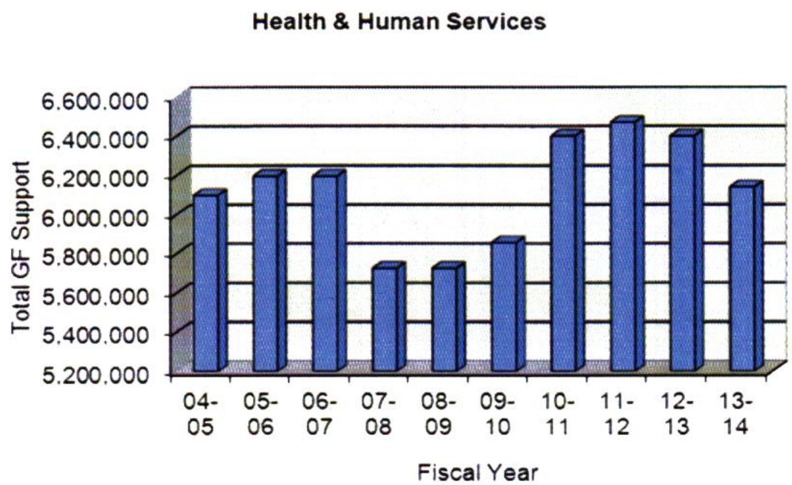
Fiscal Year 2013-14 General Fund subsidies to operating departments outside the General Fund total $33,587,831, as follows:

GENERAL FUND TRANSFERS-OUT 2013-14		
Public Safety	$22,886,851	68.14%
Social Services	$5,167,214	15.38%
Mental Health	$294,990	0.88%
Public Health	$609,589	1.81%
County Fire	$1,729,657	5.15%
Resource Mgmt	$1,397,590	4.16%
Library	$1,123,511	3.34%
Capital Proj & ADA	$182,547	0.54%
IHSS	$68,882	0.21%
Others	$127,000	0.38%
Total	***$33,587,831***	***100.00%***



A COMPARATIVE LOOK AT GENERAL FUND SUBSIDIES FOR THE PAST TEN FISCAL YEARS IS PROVIDED:




Health & Human Services
6,600,000
6,400,000
6,200,000
6,000,000
5,800,000
5,600,000
5,400,000
5,200,000
Total GF Support
04-05
05-06
06-07
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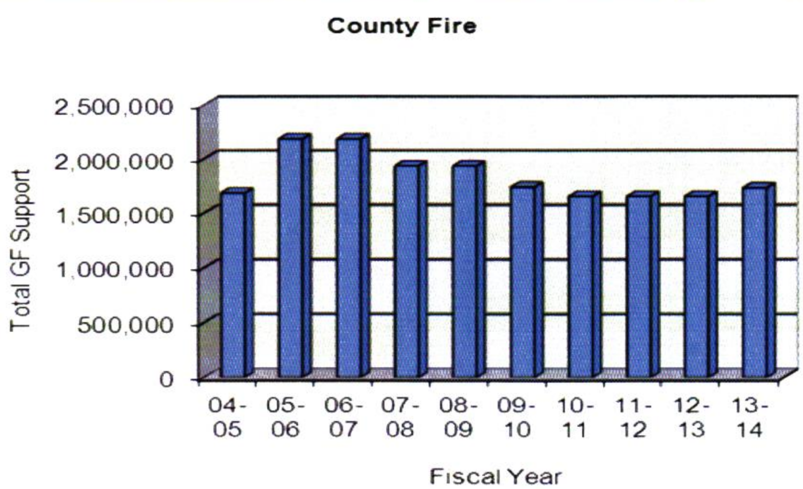
11-12
12-13
13-14
Fiscal Year


County Fire
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
Total GF Support
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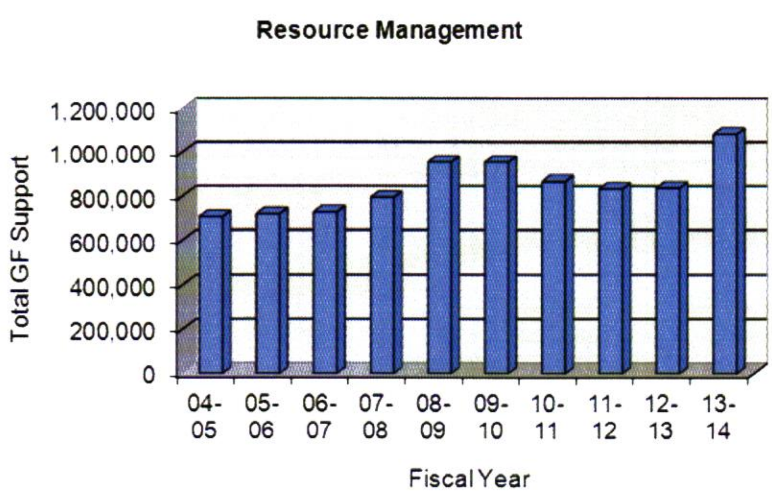
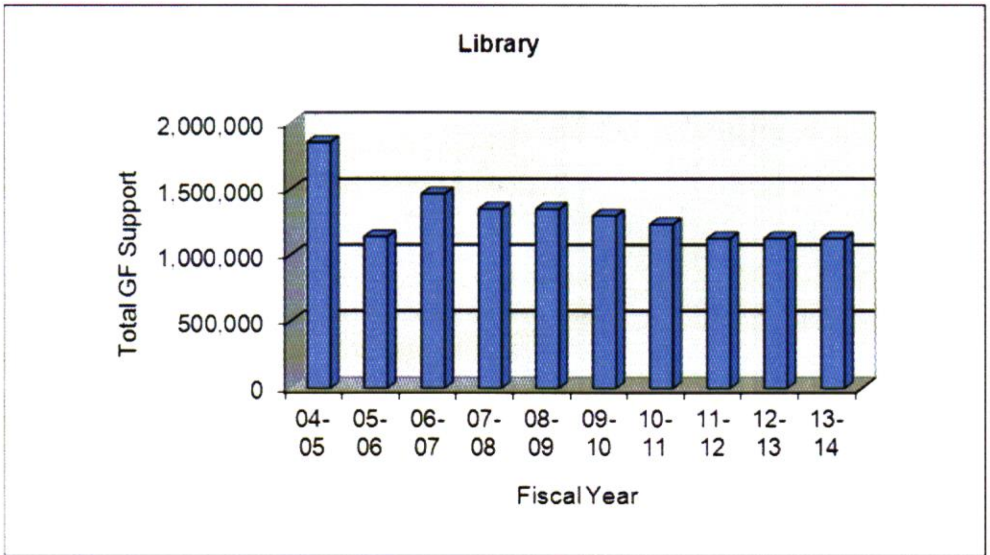
05-06
06-07
07-08
08-09
09-10
10-11
11-12
12-13
13-14
Fiscal Year


Resource Management
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
Total GF Support
04-05
05-06
06-07
07-08
08-09
09-10
10-11
11-12
12-13
13-14
Fiscal Year


Library
Total GF Support
2,000,000
1,500,000
1,000,000
500,000
0
04-05
05-06
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08-09
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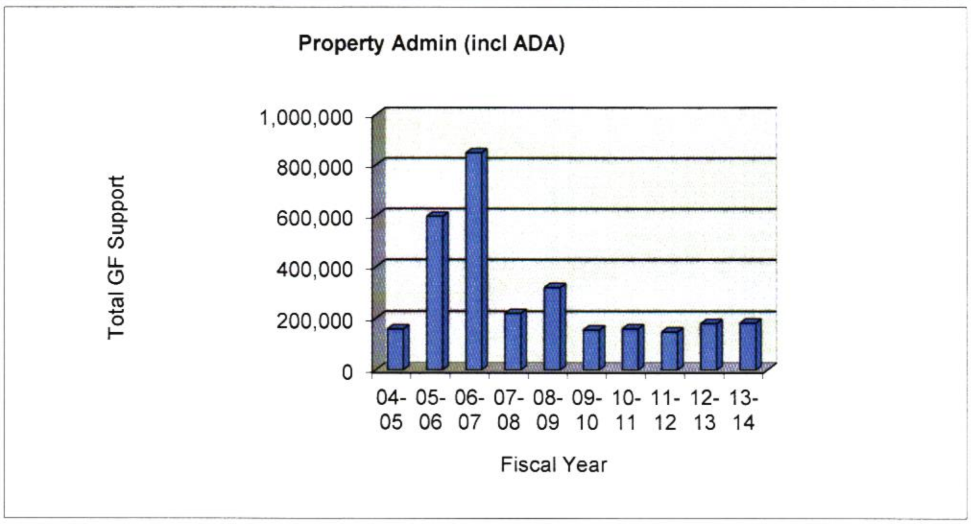
12-13
13-14
Fiscal Year


Property Admin (incl ADA)
Total GF Support
1,000,000
800,000
600,000
400,000
200,000
0
04-05
05-06
06-07
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08-09
09-10
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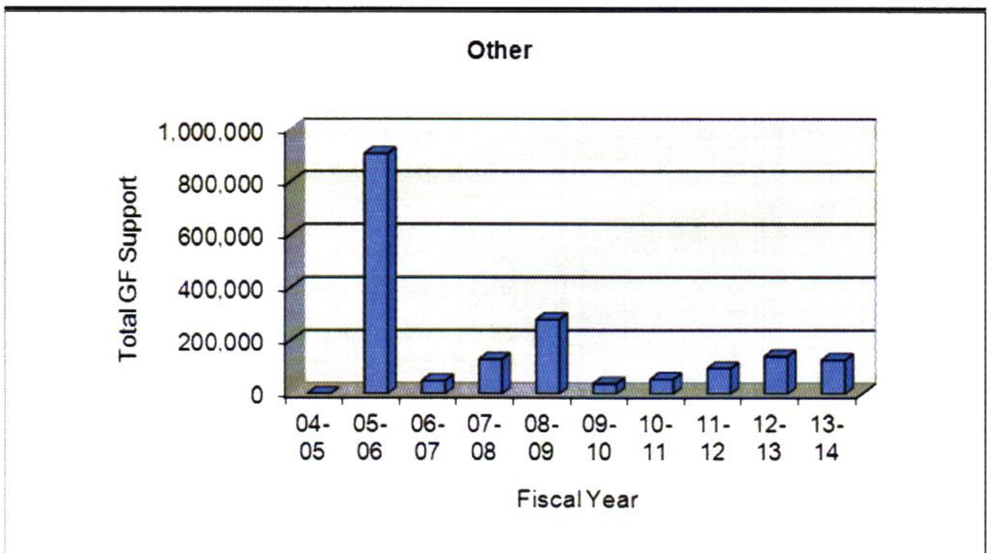
12-13
13-14
Fiscal Year


Other
Total GF Support
1,000,000
800,000
600,000
400,000
200,000
0
04-05
05-06
06-07
07-08
08-09
09-10
10-11
11-12
12-13
13-14
Fiscal Year

OVERVIEW OF SELECT BUDGET UNITS

AGRICULTURAL COMMISSIONER/SEALER OF WEIGHTS & MEASURES

As part of their two-year general fund reduction requirement, the California Department of Food and Agriculture (CDFA) was directed to take a $12 million permanent reduction in its FY 2012-13 budget. While most of the CDFA's general fund reductions went into effect last fiscal year, their Division of Measurement Standards continues to struggle financially. Counties have been notified that the state will not provide counties with funding for the Petroleum and Weighmaster programs as they have been doing for many years. The department has historically received approximately $8,000 annually for these activities.

ASSESSOR

The function of the Assessor is to produce an annual assessment roll that reflects the taxable values of land, improvements, and personal property by the Assessor's parcel numbering system or account numbering system. In addition to the taxable value, the roll must also indicate the current status of ownership; the owner's mailing address and the existence of any exemptions. To accomplish this, the Assessor must discover, classify and appraise all locally assessable property according to constitutional, statutory, and administrative requirements. In addition to preparing the annual local assessment roll pursuant to Section 601 of the California Revenue and Taxation Code, the Assessor must produce the supplemental assessment roll as provided in Sections 75 through 75.8 of the Revenue and Taxation Code.

For FY 2012-13 there were 108,814 locally assessed properties in Shasta County with a taxable value of $14,649,497,044 generating more than $146 million in property tax revenue for use by Shasta County agencies that include: County government, the three cities, school districts, and other local taxing agencies. These figures represent a decrease of 1.36 percent in taxable value and property tax revenue over the previous year.

In their FY 2013-14 Requested Budget, the department requested the re-classification of the Executive Assistant-Confidential. The reclassification was studied and approved by County Personnel for an Agency Staff Services Analyst I/II.

CAPITAL PROJECTS

The Capital Projects budget (Land, Buildings and Improvements) includes 5 projects totaling $2.1 million: 1) Placer Street DPW Upper-N Remodel, $390,000; 2) MHSA Breslauer Remodel, $1.38 million; 3) Mental Health Building Roof, $50,000; 4) Opportunity Center Transit Shelter, $170,451; and 5) Jail Phase-1 Hot Water System Upgrade, $150,000. Each project is funded by a dedicated funding stream and none require a General Fund contribution.

Additionally, we broke ground on the **new juvenile rehabilitation facility** on April 24, 2012. This multi-year project includes appropriations of $6.7 million in 2013-14. When fully built-out the project is estimated to cost $18.45 million, with a County-match of $3.4 million. The County-match has been fully appropriated.

COUNTY FIRE

The FY 2013-14 requested budget reflects a 7.5 percent increase in appropriations, a 5.8 percent decrease in revenues, and is predicated on use of fund balance in the amount of $1.45 million. However, the department projects returning $1.43 million to fund balance at the end of FY 2012-13.

General Fund support is almost $1.73 million, an increase of $78,000 to fund the Volunteer Firefighter Stipend which increased from $6 to $12 per call as approved by the Board on February 5, 2013, and effective July 1, 2013. General Fund support has declined from a high of just over $2.1 million in FY 2007-08. County Fire has continued to provide the same level of services to communities by relying on fund balance. Continued reliance on fund balance to balance the budget could cause the department's fund balance to be depleted by FY 2015-2016 and/or could eventually impact emergency response services in the future.

The department has requested just over $1.15 million in capital assets for FY 2013-14, an increase of $658,616, or 132.9 percent, from the FY 2012-13 Adjusted Budget. The new requests for FY 2013-14 include one new fire engine for Keswick Volunteer Fire Company (VFC) ($332,000), two water tenders - one for Soldier Mountain VFC and one for Old Station VFC ($500,000 total), one breathing support vehicle for Palo Cedro VFC ($260,000), one defibrillator ($32,345), and one truck for County Fire administration ($30,000).

ELECTIONS

The FY 2013-14 requested budget includes expenditures in the amount of $2.07 million and revenues in the amount of $587,547 which results in a status quo budget as compared to the FY 2012-13 adjusted budget.

In 2011, local elected boards received approval from the Board of Supervisors to completely eliminate the Shasta County odd-year election. This results in a more even budget, with variation coming over a longer period of time.

It should be noted that in FY 2012-13, Shasta County was forced to conduct a Special Vacancy Election. The cost of the Special Vacancy Election was not included in the department's FY 2012-13 budget. The County's Contingency Reserve was increased by 1 million dollars to cover the cost of this Special Vacancy Election. The department was able to conduct the Special Vacancy Election without additional County General Fund cost. The department should be commended for their prudent use of county resources.

HEALTH AND HUMAN SERVICES

The combined budgeted fund balance draw for FY 2013-14 from the Social Services, Mental Health, and Public Health reserves is approximately $4.3 million. The requested HHSA budgets are conservative; however, the reserves could become too low to sustain future years of fund balance draw absent revenue growth or relief from non-mandated services.

There are immediate concerns relative to the Mental Health budget. Despite significant efforts to reduce costs for treatment of acute and long-term psychiatric conditions, the volume and severity of clients coming into the local mental health system has increased significantly over the past year and the cost of providing the most intensive services has risen as well. An analysis of current expenditures indicates that those related to support and care of persons will exceed $11 million, or more than half of the total Mental Health expenditures in FY 2012-13. Mental Health expenditures in the "support and care" category are expected to surpass the current budget by more than $1.8 million.

HHSA staff have taken steps to identify and implement efficiencies and curb controllable costs such as holding essential but non-critical positions vacant and allocating costs to Mental Health Services Act programs wherever appropriate. However, those actions are not sufficient to sustain the Mental Health budget. For this reason, the Board of Supervisors approved a transfer of $1.19 million in

1991 realignment revenue from Social Services to Mental Health on May 7, 2013. Although Social Services is experiencing 1991 realignment growth and can sustain the $1.19 million transfer, cash flow is a continuing concern for Mental Health and Social Services due to the timing of reimbursements from the State and that some of the revenue received by Mental Health must be transferred to the Mental Health Services Act budget based on allowable services.

Additionally, the settlement of the Katie A. lawsuit makes mental health services for foster children an entitlement. Shasta County's child welfare and mental health systems have worked together with service providers to address the mental health needs of children, youth and families in the child welfare system for a significant period of time. Although this coordination is already occurring, further expanded services will be necessary to meet the court ordered requirements. Counties completed Readiness Assessment and Service Delivery Plan documents. These actions are designed to pull together people and information from the Child Welfare Service system, the Mental Health system and other stakeholders. The timeline for completion of these documents and their submission to the State Department of Health Care Services was May 15, 2013. A Fiscal Task Force is meeting at the State level to continue to work on funding resources for mandated services.

Some children and youth previously served in the Healthy Families program are now eligible for Medi-Cal in FY 2013-14, due to a change in the eligibility criteria. This expansion of Medi-Cal eligibles and changes to the eligibility criteria for those most in need of mental health services in the Healthy Families program is expected to increase the number of children and youth eligible for services through county Mental Health departments. Some additional funding was provided under the 2011 realignment to reflect the expanded population, but it remains to be seen whether the additional funding is sufficient to meet the needs of the children transferred from the Healthy Families program.

Unfortunately, much of HHSA's fiscal future rests with decisions at the state and federal levels in an attempt to alleviate their budget deficits. The Governor's May Revise, which was released May 14, 2013, proposes a path for state-based expansion of health care coverage allowed under federal law and a commensurate shift in some responsibilities to counties. The State currently dedicates about $1.5 billion annually to counties for health care, primarily for services for indigent adults, which are many of the same people who will move to Medi-Cal coverage under the new law. The Governor indicates that the State is taking on more responsibility for health care, so counties should take on more financial responsibility for certain human services programs over time. To ensure adequate funding remains at the county level for safety net services, dollars would be redirected to counties based on actual county-by-county experience. The reliability of those dollars being available to counties is a concern.

Medi-Cal, the second largest state General Fund expense, is experiencing higher costs of $467 million statewide, principally as a result of the federal government and courts either rejecting or delaying approval of previously adopted legislative actions. In addition, actions taken by the federal government to address its own fiscal challenges could further strain the state budget. This could result in shifting of program costs from the federal government to states and/or reducing overall federal spending in California.

INTERMOUNTAIN FAIR

In FY 2011-12, the California Department of Agriculture, Division of Fairs and Expositions funding was eliminated from the state budget. With the loss of this funding the Intermountain Fair can continue to operate without additional support for two to three more years by relying on fund balance. In order to extend the life of the department's fund balance, the Intermountain Fair Manager retired at the end of 2012 and is currently working part time.

PUBLIC DEFENDER

A balanced justice system includes the obligation to properly represent those individuals accused of a crime. The County does so through a County Public Defender's Office and a Conflict Public Defender contract. Both budget units fund legal representation for persons unable to afford counsel in certain kinds of cases where life or liberty is at stake. Primary legal services are provided by staff in the County's Public Defender Office (Cost Center 207). For cases in which the Public Defender must declare a legal conflict of interest, a local, private attorney provides services through a single contract (Cost Center 203). Federal and State laws mandate that these services be provided, however, the cost of providing legal counsel to indigent clients falls mainly to the County. In cases where both the Public Defender and local contracted public defender must declare a conflict, the courts will appoint an attorney.

Although the Public Defender has always provided defense for Probation Revocation Hearings, the 2011 Realignment legislation, signed by the Governor on April 4, 2011 and effective October 1, 2011, requires the Public Defender to now also provide defense for Mandatory Supervision and Post Release Community Supervision Revocation Hearings as well. Additionally, effective July 1, 2013, this will also include most state Parole Revocation Hearings. Federal and State laws mandate that these services be provided, however, the cost of providing legal counsel to indigent clients falls mainly to the County.

While every effort is made to accurately project the expense for any given fiscal year, ultimately the number and complexity of cases determine the final County cost for indigent defense. A recent case involving multiple defendants has created a significant workload in the Public Defender's Office for the past several fiscal years. However, it is estimated that this case will be adjudicated by the end of FY 2012-13. The Adopted Budget includes a contingency reserve in the conflict public defender's budget. This reserve of $250,000 will fall back to the General Fund at the end of the fiscal year if is not needed.

PUBLIC SAFETY

As a starting point the public safety departments - District Attorney, Juvenile Hall, Probation, and the various Sheriff's budget units, were directed to budget for status quo General Fund support and 3 percent decrease in Public Safety Augmentation (Prop 172) revenue. The District Attorney, Chief Probation Officer, and the Sheriff have worked diligently to provide a FY 2013-14 budget that protects public safety and fulfills their core missions with consideration for the County's overall fiscal health.

Funding for public safety subvention programs such as booking fees, small and rural sheriff's grants, COPS, SAFE grant, CalMMET grant, juvenile reentry, juvenile justice, Youth Offender Block Grant, and juvenile probation has declined as a result of the Great Recession but is now funded via 2011 Realignment and the funding source is Constitutionally protected via Proposition 30 approved by the state's voters on November 6, 2012. State revenue projections have been realized in fiscal years 2011-12 and 2012-13.

Total Adopted FY 2013-14 appropriations for the public safety group are $60.3 million, an increase of over $1.9 million from the current year primarily due to the new and expanding county duties and obligations related to 2011 Realignment (such as the opening of the Community Corrections Center/Day Reporting Center) and increased operational costs for the new Juvenile Rehabilitation Facility scheduled to open the winter of 2013. Revenues from all sources total nearly $54.7 million, including $22.9 million from the General Fund, and $12.8 million from Public Safety Augmentation.

To balance his budgets, the Sheriff will utilize a little over $2.2 million in fund balance, the District Attorney will use $430,935 in fund balance, and the Probation Department will use almost $3 million in fund balance. However, of these amounts, which total a little over $5.6 million, approximately $3.9 million are from Restricted fund balance accounts such as 2011 Realignment, asset forfeiture, and SB 678 (revenue from the state related to shared savings by reducing the number of adult felony probationers who return to prison); therefore the department's request a use of Public Safety fund balance in the amount of $1.7 million in order to balance their FY 2013-14 budgets.

It is worth noting that the District Attorney's Office (although always required to staff Probation Revocation Hearings), is also likewise affected by the 2011 Realignment legislation, which requires the District Attorney to now provide staff for Mandatory Supervision and Post Release Community Supervision Revocation Hearings. And, like the Public Defender's Office, effective July 1, 2013, will also be required to provide staff for most state Parole Revocation Hearings.

2013-14 Requested Expenditures	District Attorney		Probation		Sheriff		Total	
County Contribution (GF)	56.52%	3,547,437	21.35%	3,595,831	42.53%	15,840,670	38.07%	22,983,938
Prop. 172	17.23%	1,081,332	11.15%	1,877,978	26.61%	9,913,691	21.32%	12,873,001
Subtotal GF & Prop. 172	***73.75%***	***4,628,769***	***32.50%***	***5,473,809***	***69.14%***	***25,754,361***	***59.40%***	***35,856,939***
Other Revenue Sources	19.39%	1,216,701	49.70%	8,369,772	24.85%	9,256,112	31.21%	18,842,585
(Falls To) or Uses Fund Balance		430,935		2,996,510		2,239,538		5,666,983

<u>JUVENILE REHABILITATION FACILITY OPERATIONS (262)</u>

The new Juvenile Rehabilitation Facility is scheduled to open mid-way through the 2013-14 FY and so budget requests will fund additional operational costs for the new larger facility which can house up to 90 juvenile wards (more than twice the size of the current facility), along with operating the current facility during the transition (some parts of the current facility will remain in operation as it houses the Juvenile Probation Division as well as Juvenile Court). Total FY 2013-14 requested appropriations will increase by 22.6 percent, or $805,662, from $3.57 million to $4.37 million. It is important to note that this level of funding will only support housing up to 35 juvenile wards, or the opening of only two of the three pods, in the new facility. There are five new Juvenile Detention Officers position allocations requested to staff the new facility. No new capital assets or equipment are requested; however, funding for these types of costs for the new facility are budgeted, as part of the required County match, in the Juvenile Rehabilitation Facility construction project budget at $167,000.

Requested revenues of just over $3.8 million will increase by 7.5 percent, or $265,947, from the FY 2012-13 Adjusted Budget, primarily due to an increase in Proposition 172 support of $300,005, or 46.3 percent. General Fund support for the FY 2013-14 budget year has decreased slightly (less than one percent) and other revenues have been very conservatively budgeted. The department requested use of Public Safety fund balance in the amount of $569,645 to balance the FY 2013-14 Requested Budget. However, the CEO recommended various minor technical changes in the budget that resulted in a decrease use of fund balance, or $507,854, and recommends this deficit is funded from Proposition 172 Reserves, and not Public Safety fund balance. There are sufficient Proposition 172 Reserves to fund this deficit.

<u>PUBLIC WORKS</u>

The Department of Public Works consists of the following divisions: Facilities Management, Road Operations, and County Service Areas. Revenues for the Road Division have increased by $6.4 million and expenditures have increased by $5 million.

The Facilities Management Division is financed through charges for service to user departments and does not receive General Fund support. The Division has experienced an increase of $511,936 in revenues and expenditures as a result of the increase in department project and service requests. The Division has requested the addition of a Custodian I/II due to the increased square footage of County facilities. The Division has been operating at minimal staffing for several years, and has difficulty in covering shifts when employees utilize accrued vacation and sick leave hours. Effective July 1, 2013, the Facilities Management Division of Public Works will manage all of the County's fleet operations. Currently, Fleet (non-Public Works vehicles) is managed by the Department of Support Services.

RESOURCE MANAGEMENT

The Department of Resource Management consists of the following divisions: Air Quality Management District, Building Division, Environmental Health Division, Planning Division and Community Education Section.

Environmental Health is requesting, and the County Executive Officer supports the addition of an Environmental Health Technician I/II to review Environmental Health permits and perform field work that does not require a Registered Environmental Health Specialist certificate. The General Fund continues to support one full-time Senior Environmental Health Specialist position that works on un-reimbursed community Environmental Health programs.

The Building Department serves as the code enforcement arm of the Resource Management Department. This includes serving as the code enforcement officer for Medical Marijuana cultivation. The Department is requesting, and the County Executive Officer recommends an increase in General Fund support for the addition of a Building Inspector III to address nuisance complaints generated by the cultivation of medical marijuana.

The Planning Department is requesting, and the County Executive Officer recommends the addition of a Planning Division Manager for the daily administration and coordination of the Planning Division. Building and planning activity is relatively stable with the department is concentrating on several projects, including the General Plan. A General Fund contribution of $440,000 is budgeted for the General Plan update. Fund balance will be utilized to offset any revenue shortfall.

General Plan Update

By law, each California County must adopt and maintain a comprehensive, long-term general plan that governs physical development and land use within its boundaries. Shasta County has adopted a five year interval for review. The last comprehensive General Plan was adopted in 2004. On March 23, 2010 the Board of Supervisors elected to proceed with a limited General Plan update which will address the critical greenhouse gas requirement in a new air quality element and will include the mandatory housing element update with integration of both elements into the rest of the General Plan as needed. The update will include editorial updates to policy language and to County profiles (population, economic trends, etc.). The total estimated cost of the limited General Plan update is $552,000. Each fiscal year we increase the appropriation from General Revenue to Planning to offset the expense of the update, but we only transfer actual expenses. To date, approximately $6,500 has been spent on the contractor and the project is 2 percent complete.

TITLE III PROJECTS

Unless re-authorized by Congress for future years, FY 2012-13 will be the last year for the Secure Rural Schools Act.

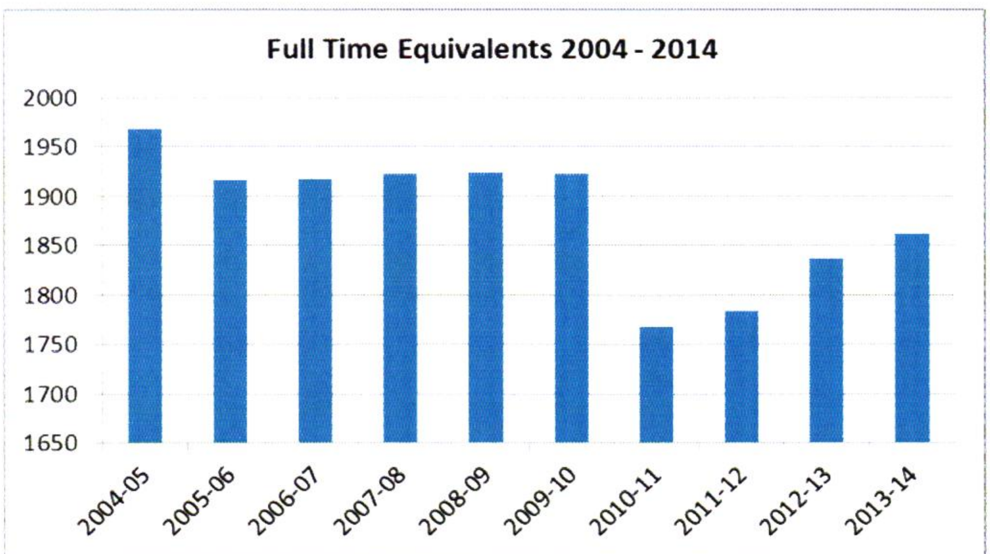
TRIAL COURTS

The County worked closely with the City of Redding, the local Court, and the Administrative Office of the Courts (AOC) on siting the **new courthouse building**. The County and the AOC executed a Purchase Acquisition Agreement whereby the AOC exchanged its equity in the Main Courthouse and Courthouse Annex, and the Justice Center, for the Public Safety Building. The agreement allows each party to holdover in their respective buildings. The Adopted Budget includes $1 million for activities related to relocating the Sheriff and the Probation Department from the Public Safety Building. The start-date for construction of the new courthouse building has been delayed due to the State budget. The CEO will work with the AOC to extend our holding over in the Public Safety Building until, at a minimum, December 31, 2014. Future costs will include yet unknown expense to relocate county-staff, although the CEO continues to research co-locating staff within available County square footage. Upon completion of the new courthouse the Court will vacate the Main Courthouse/ Courthouse Annex and Justice Center; the Department of Public Works has estimated remodel of the Main Courthouse will cost upwards of $4 million.

VETERANS HALLS

One project is scheduled to be completed this year, the replacement of the heater at the Fall River Mills Veterans Hall at a cost of $15,000. Two projects were completed in FY 2012-13: the replacement of the roof of the Redding Veterans Hall and the refinish of the floor at the Fall River Mills Veterans Hall. The completion of these two projects has decreased the net county cost of the Veterans Halls by approximately $75,000 compared to the FY 2012-13 adjusted budget (a General Fund expense).

COUNTY WORKFORCE



The Adopted Budget provides for a workforce of 1862.5 full-time-equivalents (FTE's). This includes a net increase of 14 FTE's. The sunset date for 41 positions will be extended from June 30, 2013, to June 30, 2015. Also, the position allocation will be cleaned-up to more accurately reflect the assignments for eleven positions; for example, if the incumbent was under-filling a higher classification, or from a study which recommended a reclass.

The following chart details the various recommended changes to the number of Full-Time Equivalents:

Position Changes Adopted 2013-14	
New Positions	
Facilities Management	1
Juvenile Hall	5
Probation	2
Public Defender	1
Resource Management	2
Social Services	11
	22
Delete Positions	
Animal Control	-3
Child Support Services	-5
	-8
Net Change to Position Allocation	14
Extend Sunset Dates	
HHSA Business & Support Svcs	1
MHSA	8
Social Services	32
	41
No Net Change/Clean-up	
CAO	1
Treasurer Tax Collector	1
Assessor Recorder	1
Sheriff	3
Public Health	2
HHSA Business & Support Svcs	2
Opportunity Center	1
	11
Positions Not Adopted	
Auditor-Controller	**1**

The Adopted Budget relies on $7.8 million of unallocated salary savings. This savings is realized through normal attrition as well as by leaving positions unfilled. This mechanism allows departments to submit balanced budgets pending resolution of yet unknown revenue shortfalls caused by the State budget. Compared to Regular Salaries of $94 million, the unallocated savings is approximately 8.3 percent. In the aggregate the anticipated savings are: Housing $5,000; General Fund $196,963; Public Safety $1.1 million; and Health and Human Services $6.4 million.

As of March 21, 2013, total vacancies were 226, or 12.2 percent. Some of the vacancies may be due to the County's Controlled Hiring Process. The CEO confers with Support Services weekly to review all requests to fill positions. This is in part to reduce expenditures, but also to preserve positions for employees facing a layoff situation.

The CEO will continue to review all requests for new positions to ensure they are offset by long-term reliable revenue.

EMPLOYEE BENEFITS

The cost of workers compensation insurance, CalPERS retirement, health insurance rate increases, and retiree health care continue to impact the County. In December 2007 the Board of Supervisors adopted an 80 percent confidence level for the County's self-insured workers' compensation and liability insurance programs. The County is committed to maintaining a prudent reserve.

The County's employer share of CalPERS retirement had already experienced volatility due to the investment losses CalPERS experienced during the downtown in the market. In April 2012, CalPERS announced an assumption change which included the reduction of the discount rate from 7.75 percent to 7.5 percent. Additionally, CalPERS will change other important benchmarks such as the average mortality of retirees and their survivors. Then, in April 2013, CalPERS announced a change in their amortization and smoothing policies. That is, they will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. This new policy will affect the County's employer share of CalPERS beginning in FY 2015-16. Using CalPERS model, over a five-year period starting in July 2015, the County's employer contribution to employee retirement could reach as high as 20 percent for miscellaneous employees (up from 13.69), and 48 percent for safety employees (up from 35.59). It is yet uncertain what impact pension reform will have on employee retirement. The County successfully bargained reduced retirement benefits with labor, many of which are now the state-norm. While beneficial to the County's long-term fiscal health, these pension changes will not realize an immediate financial benefit.

On the local level, the County has successfully negotiated with 9 represented bargaining units and 3 unrepresented bargaining units for wage and/or benefit concessions. Active employees will pay the employee share of PERS retirement, and new hires will be working longer (to age 62 for miscellaneous and 57 for public safety) and their retirement will be based on the average of high three years (instead of highest year). Across-the-board, wages have been stagnant for several years, with elected officials and unrepresented managers forgoing and/or postponing scheduled cost-of-living adjustments and leave buy-outs.

The County of Shasta provides post-retirement medical and dental benefits (OPEB) to eligible employees who retire directly from the County. Eligible retirees pay a portion of the medical premium based on the PEHMCA (CalPERS medical program) "unequal method." The remaining premium is shared by the County and active employees in accordance with bargaining agreements. Like most governmental agencies, the County pays for these post-retirement benefits on a "pay-as-you-go" basis. This means that OPEB costs are ignored while an employee renders service and recognized only after the employee retires.

GASB 45 requires governmental agencies to conduct an actuarial valuation of the liability for OPEB and report them on their financial statements. The Unfunded Actuarial Accrued Liability is the excess of the Actuarial Accrued Liability over Plan Assets. This represents the amount of the Actuarial Accrued Liability at the valuation date that still must be funded. The County's estimated Unfunded Actuarial Liability as of June 30, 2012, is $188.4 million.

Although GASB does not require governmental agencies to pre-fund their OPEB liability, Shasta County is taking positive steps towards addressing OPEB. The County established two irrevocable OPEB Trusts with initial funding of $6 million each; and implemented a one percent charge, as a percent of payroll, effective July 1, 2008. This percentage will be increased to 2 percent effective July 1, 2013. The combined assets of the two OPEB Trusts as of June 30, 2012 was $21,785,373.

We continue to advocate for legislative changes to PEMHCA to give counties greater flexibility in establishing a tiered benefit system; and to work towards OPEB cost avoidance through labor negotiations. Within available resources the County may incrementally increase the payroll charges for OPEB to pass a portion of this expense to state and federal programs when appropriate.

CALIFORNIA STATE BUDGET

The Governor released his May Revised budget on May 14th. He has lowered revenue estimates due to the sequester and federal tax changes, as each reduced employees take-home pay, thus reducing spending power. For the first time in many years the State budget is not staring down billions of dollars in deficits. The revised budget is balanced and on track to lower the state's debt to $4.7 billion by 2017 (down from a high of $35 billion). This was achieved through billions of dollars in permanent cuts in the 2011-12 and 2012-13 budget years as well as temporary revenues passed by voters in 2012 (Proposition 30). The majority of new revenue, as required by Proposition 98, will accrue to K-12 schools and community colleges.

Of concern to counties is the need to address the further reduction in the number of state prisoners which will most certainly impact local public safety, and the Governor's plan to make significant reductions over time to counties 1991 Realignment revenues.

In 2011, the state shifted responsibility for low-level offenders to local government; the Governor's revised revenue estimates will not affect the 2011 Realignment allocations for Assembly Bill 109 (CCP) and the District Attorney/Public Defender. However, his revenue estimates have been reduced for all projected 2011 Realignment Growth revenue and for Juvenile Justice allocations (Youthful Offender Block Grant and Juvenile Reentry) beginning in FY 2013-14; actual receipt of revenue is dependent on the state's actual receipt of sales and use tax and Vehicle License Fee revenue anyway. He has also presented a new proposal that would allow the counties to exchange inmates with long sentence terms with state prison inmates who have short prison terms, but only after the County Jail inmate has served three years in the County Jail. There is little detail and it seems that this proposal would be population and cost neutral (to who?) and so one wonders what the details will eventually reveal.

In 1991, the State overhauled how healthcare services and social services were delivered, known as 1991 Realignment. As a result, counties assumed responsibility for safety-net social services, public health and mental health services in return for a portion of sales tax and vehicle license fees. With the advent of the Affordable Care Act (ACA), many more individuals will be eligible for these services than ever before. For the first three years the cost of this expansion will be borne by the federal government. The Governor's May Revise suggests a mechanism to determine the level of county savings based on actual experience, and estimates that $300 million in 2013-14, $900 million in 2014-15, and $1.3 billion in both 2015-16 and 2016-17 will shift from local health programs to local human services programs. The California State Association of Counties (CSAC) is keeping a dialogue open with the Governor to ensure that counties are not negatively impacted by this shift of local dollars. The Governor stated in his comments that the State will not pay twice for work the counties are doing, while CSAC points out that for at least the first three years the federal government will bear the cost of 100 percent of the cost of implementing the ACA. Counties have suggested that any cost avoidance in these 3 years be reinvested in the health care system at the local level.

The CEO will monitor the eventual adoption of a State spending plan for 2013-14, and keep the Board apprised of any negative impact on the County budget and the public we serve.

OTHER AGENCY INVOLVEMENT

Every County department head provided input into this report via their budget request. The CEO and/or the CAO analysts met with department heads to discuss their budget request. The CEO and Auditor-Controller worked collaboratively on compilation of the Adopted Budget.

FINANCING

Department heads have worked diligently to control spending in the current fiscal year to create fund balance carryover for FY 2013-14. The CEO directed every General Fund department to submit a status quo budget, which could be realized by reductions in 2012-13, and/or 2013-14. General Fund departments will achieve a 13 percent reduction ($9.5 million) in the year ending June 30, 2013, which will result in a fund balance carryover of $11.0 million. The CEO also recommended a status quo subsidy to non-general fund budgets. Exceptions were made for those budgets with a minimum maintenance of effort (MOE), and for certain Board approved projects.

Total funding requirements for the General Fund, which includes the subsidy to non-general fund departments, is $69,159,406. This will be offset by revenue, $58,469,159, leaving a structural imbalance of $10,689,247. This will be offset by use of approximately $11.0 million from fund balance carryover. The carryover estimate is developed through a joint effort of staff in the Auditor-Controller's Office and the County Administrative Office. The actual fund balance figure is not firm until the County's books are closed at the end of September, subsequent to the adoption of the County budget.

Recognizing the lasting impact on County resources due to the great recession, over a period of several years, benefit concessions have been realized through collaborative bargaining with our represented labor groups. Elected officials and unrepresented managers have also conceded wages and benefits. This partnership contributed to our ability to present the Board with a balanced Budget.

Department heads and their fiscal managers are to be commended for their willingness to manage spending within available resources while continuing to meet the needs of our community.