Transmittal Letter

Shasta County

Fiscal Year 2010-11

Members of the
Shasta County Board of Supervisors
1450 Court Street, Suite 308B
Redding, CA 96001

Members of the Board:

This document represents Shasta County's Fiscal Year 2010-11 Budget as adopted by the Board of Supervisors on June 22, 2010, pursuant to Section 29088 of the Government Code. The budget is created from a process that includes requests prepared by the operating and support departments of the County, review and recommendations from my office, public hearings, and final examination and approval by the Board of Supervisors.

The Fiscal Year 2010-11 Budget totals $363,424,204, including Total Governmental Funds, $310,907,593; Internal Service Funds, $25,506,736; Enterprise funds, $10,419,105; and Special Districts and Other Agencies governed by the Board of Supervisors, $16,590,770. The budget represents the efforts of my staff and managers of the County's many departments who worked diligently to prepare a budget that reflects departmental needs and program funding requests as well as the CAO's recommended appropriations for the next fiscal year.

This document is an administrative tool that provides the framework under which the County will operate for the fiscal period. Absent mandates, the budget is a vehicle by which the Board of Supervisors provides philosophical direction for programs important to the local community.

The budget process, and the ultimate adoption of a balanced budget, requires the cooperation, dedication, and labor of many individuals. I would like to extend my thanks to all department heads, and their staff for the common effort they commit to this annual process. All are to be commended for their service and dedication to the County of Shasta and its citizens.

Sincerely,

Lawrence G. Lees
County Administrative Officer

Attachment – Budget Overview

BUDGET OVERVIEW

The Adopted Budget totals $363,424,204 million; this represents a decrease of $32.9 million, or 8 percent, when compared to the Fiscal Year 2009-10 Adopted Budget.

General	$44,916,777
General Capital Projects	1,294,170
General Promotion	626,561
Public Protection	75,811,595
Public Ways & Facilities	23,022,214
Health & Sanitation	55,416,341
Public Assistance	97,990,229
Education	1,519,154
Recreation	1,069,655
Debt Service	4,410,897
Appropriation for Contingencies	4,830,000
Internal Service Funds	25,506,736
Enterprise Funds	10,419,105
Special Districts & Other Agencies	16,590,770
Total All Funds	$363,424,204

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. The 2010-11 General Fund Adopted budget is $70.1 million.

All departments were asked to reduce their General Fund subsidy by 5 percent except for those departments that have a minimum maintenance of effort (MOE) requirement. In accordance with the Auditor's Maintenance of Effort calculation, the County's spending for Public Safety exceeds the MOE by $13.5 million. The subsidy to the combined health and human services programs has been held static over the last several years.

BUDGET PRINCIPLES

On February 9, 2010, the Board of Supervisors received the 2009-10 Mid-Year Report, and approved the following principles for the 2010-11 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.

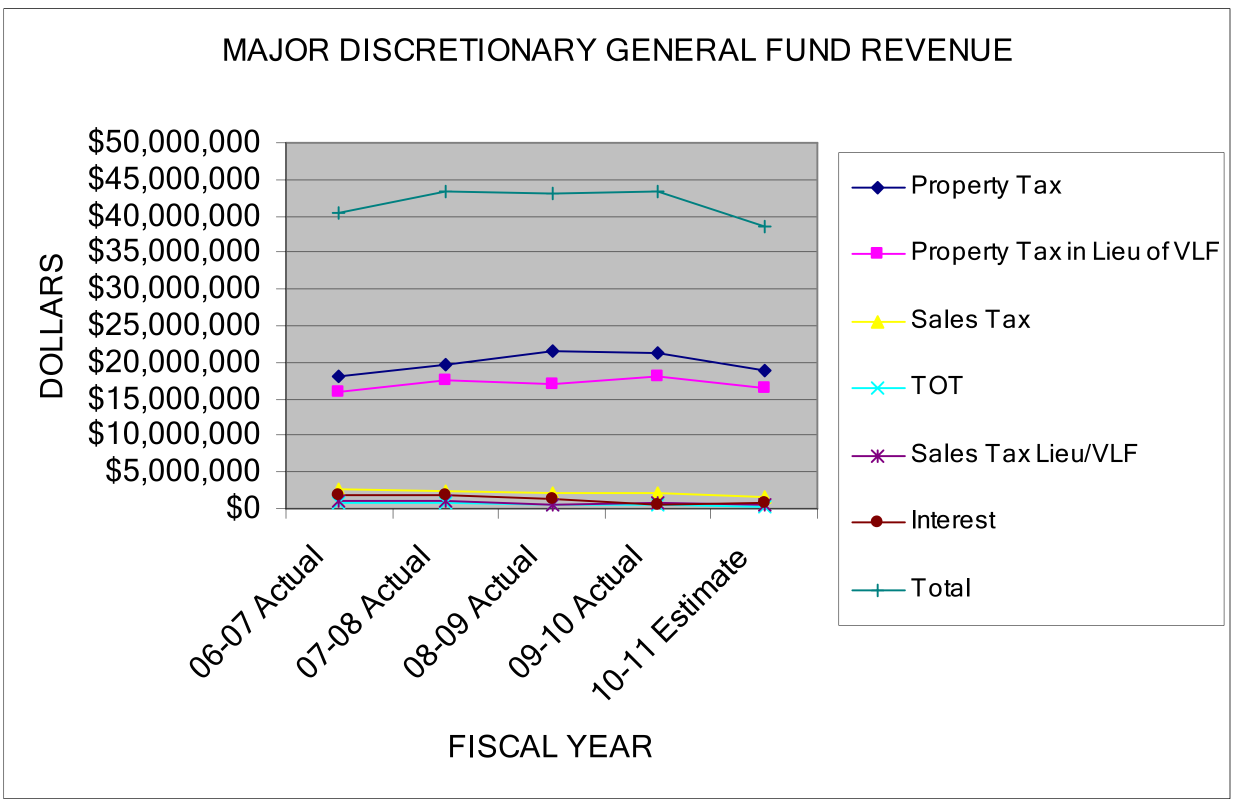
- Continue to review all contracts with community providers and agencies to evaluate if services could be reduced or provided by existing county staff.
- The CAO will review all requests for fixed assets and computer equipment.
- As a baseline, direct departments to prepare a budget with a 5 percent reduction in County Contribution or General Fund Net-County-Cost.
- Realize salary and benefit savings through collaborative bargaining with our labor partners.
- Recommend deletion of positions vacant over 18 months.

DISCRETIONARY REVENUE

The continuing 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.

Locally, the precipitous decline in discretionary revenue slowed in 2009-10. Revenues in 2008-09 declined over 19 percent, while in 2009-10 the decline from all sources was 2.42 percent. Revenues for 2010-11 are projected to increase by 3.45 percent. Assessed property values have declined 5.02 percent. Receipts from sales tax dedicated to public safety saw a decline of 5.3 percent in 2009-10; and, realignment sales tax and vehicle license fees declined as well. The total loss to health and human services programs from taxes and fees is projected to be $6.4 million over two years.

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



Source	06-07 Actual	07-08 Actual	08-09 Actual	09-10 Actual	10-11 (est)
Property Tax	$18,134,144	$19,680,083	$21,498,971	$21,263,660	$19,000,000
Prop. Tax In Lieu of VLF	16,034,693	17,541,670	17,000,000	18,025,972	16,500,000
Sales Tax	2,695,549	2,514,380	2,140,183	2,225,663	1,500,000
TOT	704,600	704,600	492,091	650,574	350,000
Sales Tax Lieu/VLF	1,011,424	1,011,424	617,390	690,856	500,000
Interest	1,884,201	1,884,201	1,233,923	517,458	700,000
Total	$40,464,611	$43,336,358	$42,982,558	$43,374,183	$38,550,000

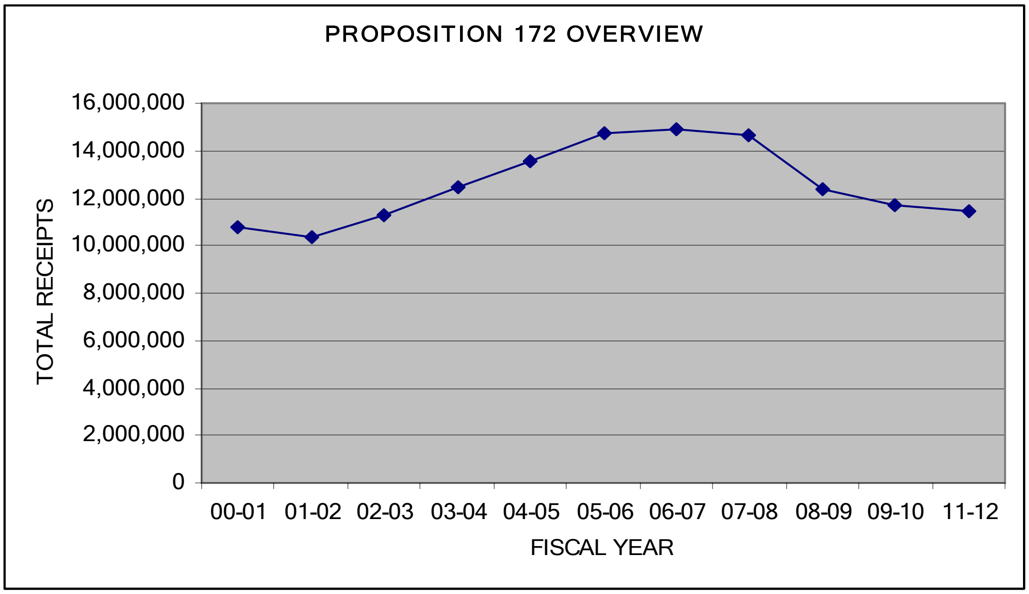
NON-DISCRETIONARY REVENUE

In addition to our discretionary sales tax revenues, sales taxes dedicated to public health, mental health, social services, and public safety have declined so significantly that service delivery may be impacted.

Realignment sales tax and vehicle license fees (VLF) are dedicated to public health, mental health, and social services. This important funding source is projected to decline by 8 percent in sales tax and 6 percent in VLF by the end of 2009-10. Sales tax is expected to be flat for 2010-11 and VLF is expected to decline by 5 percent. Annual realignment base for 2010-11 is projected to be $6 million lower than 2006-07, the last year that the full base allocation was paid. This level of funding is only slightly above what was paid to Shasta County in 2002-03. The cumulative loss from 2007-08 through 2010-11 is estimated to be more than $17 million.

The sales tax dedicated to public safety, or Proposition 172, declined 15.8 percent in 2008-09, or $2.1 million below budget expectations. The District Attorney, Sheriff, and Chief Probation Officer took action to reduce spending before fiscal year end, and the Prop 172 Reserve was depleted. For the year ending June 30, 2010, total Proposition 172 revenue totaled $11,704,078. Of this, $10,600,000 was distributed to the County's public safety budget units, while $272,517 was distributed to the City of Redding, and $16,131 to the City of Anderson. While receipts from this important sales tax augmentation are still depressed, the year-to-year decline slowed, with the year ending just 5.3 percent below 2009.

Our conservative estimate for Proposition 172 revenue in 2010-11 is $11.4 million.



APPROPRIATIONS

Appropriations include a **Contingency Reserve** of $4 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 $8 million, or 2.5 percent of total general operating group of funds appropriations ($310 million). The Board established a policy for budgetary reserves in December 2007. The goal is to attain a 5 percent reserve of estimated financing uses, less designations for reserves and capital projects. An advance of $2 million from the General Reserve was utilized in 2009-10 to offset declining receipts from Public Safety Augmentation Revenue (Proposition 172) which is dedicated to public safety. The advance will be repaid when receipts from Prop 172 improve.

The Capital Projects budget (Land, Buildings and Improvements) includes 7 projects totaling $2.77 million; 1) Burney Veterans Hall Restroom Remodel, $233,079; 2) Fall River Mills Veterans Hall Restroom Remodel, $148,989; 3) Old Library Building Remodel, $347,756; 4) Balls Ferry Boat Ramp Launching Facility, $742,109; 5) Jail Security Closed Circuit Television Replacement, $247,608; 6) Energy Retrofit Project, $936,044; and 7) Anderson Library Building Roof, $120,000.

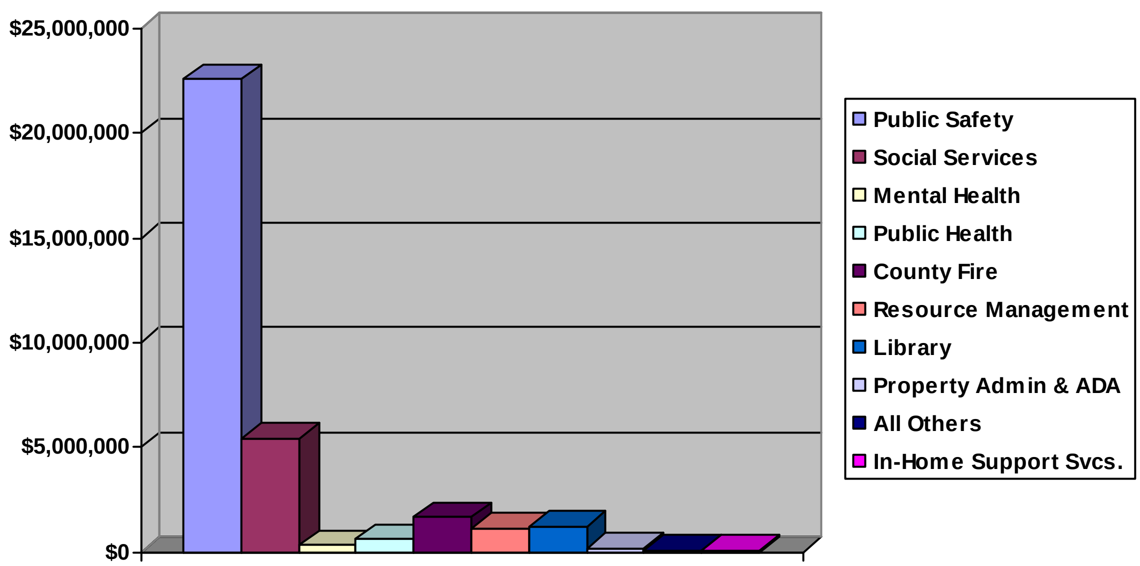
The Jail roof, Veterans Halls, and remodel of the old library were previously approved and are re-budgeted. The boat launch facility is offset by a State Boating and Waterway grant. The Jail project is offset by the Criminal Justice Trust Fund (surcharge on certain court fines and fees). The remodel of the old library building is offset by Accumulated Capital Outlay. The Energy Retrofit Project is partially offset by a grant from the California Energy Commission. The Anderson Library Building Roof project is offset by available fund balance.

A new juvenile hall project has been awarded by the State Corrections Standards Authority. This multi-year project includes appropriations of $1 million in 2010-11. When fully built-out the project is estimated to cost $16.4 million, with a County-match of $2.5 million. Funds previously designated in Accumulated Capital Outlay for juvenile detention, adult detention, and the balance remaining from roofing projects was transferred to the Juvenile Hall Project Fund in 2009-10.

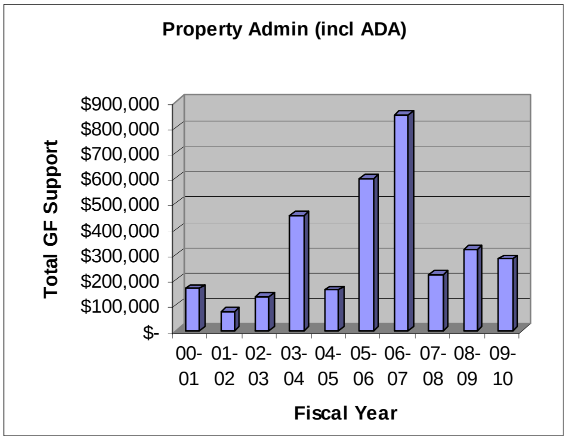
Fiscal Year 2010-11 General Fund subsidies to operating departments outside the General Fund total $33,277,529, as follows:

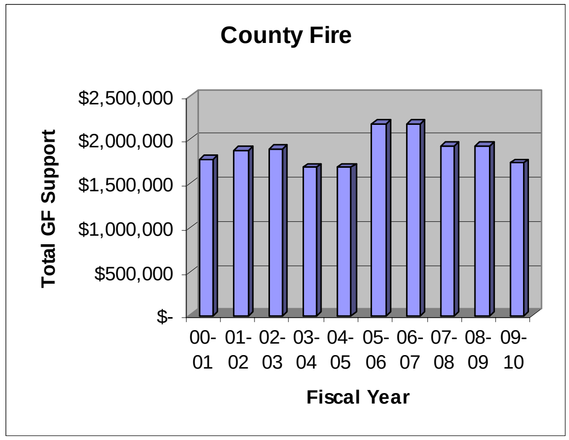
Public Safety	$22,568,592	Public Health	$609,589
Social Services	5,411,950	Mental Health	304,975
County Fire	1,651,657	Property Admin & ADA	179,152
Library	1,232,659	In-Home Support Svcs	84,734
Resource Mgmt.	1,133,639	All Others	100,582

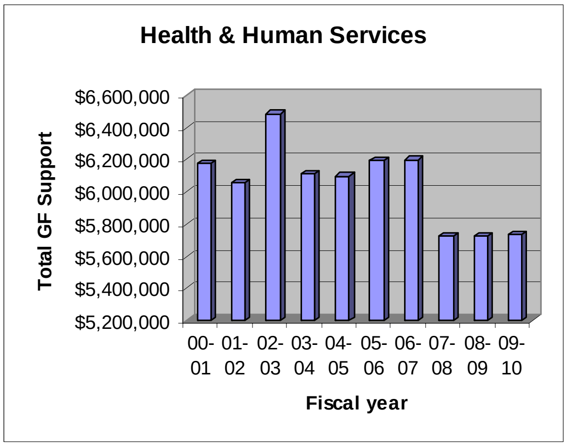
Fiscal Year 2010-11 General Fund Subsidies

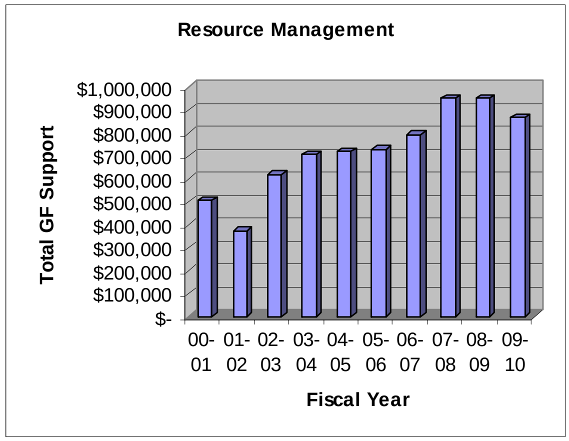


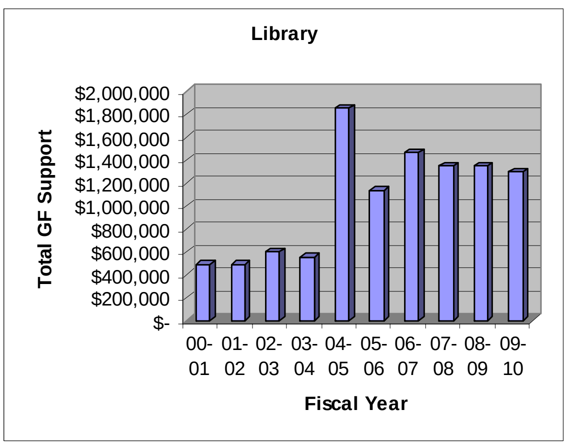
A COMPARATIVE LOOK AT GENERAL FUND SUBSIDIES FOR THE PAST TEN FISCAL YEARS IS PROVIDED:

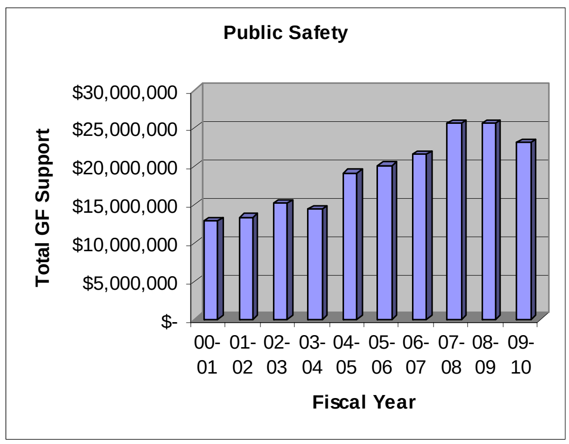












The largest share of County discretionary revenue supports Public Safety.

COUNTY WORKFORCE

Consistent with our Budgetary Principles, on June 30, 2009, following adoption of the FY 2009-10 Budget, the Board adopted a Salary Resolution which deleted 132.5 vacant positions reducing the workforce to 1790.5 FTE's. The FY 2010-11 Adopted Budget provides for a workforce of 1,769.5 full-time-equivalents (FTE's).

The Recommended Budget relies on $7.6 million of unallocated salary savings. This savings is realized through normal attrition as well as by leaving position(s) 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 $91.2 million, the unallocated savings is approximately 8.35 percent. In the aggregate the anticipated savings are: General Fund $386,549; Child Support $169,169; Public Safety $1.5 million; Resource Management $484,329; Health and Human Services $5 million; and Housing Rehabilitation $25,000.

EMPLOYEE BENEFITS

The cost of workers compensation insurance, PERS 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 share of cost for PERS retirement will undoubtedly increase due to investment losses in CalPERS holdings caused by significant investment market volatility and asset value declines for all investors. Employers are faced with increasing retirement costs at a time when local revenues are at the lowest. While rate spikes are generally cushioned by CalPERS 30-year rate smoothing methodology, they are modifying rates to recapture recent investment losses over a shorter period of time.

On the local level, the County has successfully negotiated with 9 represented bargaining units and 2 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 60) 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 scheduled cost-of-living adjustments and leave buy-outs.

The County of Shasta provides post-retirement medical and dental benefits 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 Unfunded Actuarial Liability as of June 30, 2009, is $140.9 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. OPEB Trust assets as of June 30, 2010 are $16.4 million.

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 FY 2010-11 Shasta County Adopted Budget attempts to address potential harm from State take-aways. The State continues to grapple with a significant budget deficit and cash flow problems. The County could receive significantly more or less than projected upon State budget amendments.

The State manages its cash shortfall by delaying payments to small businesses, community clinics, local governments and schools. AB 1624 authorizes the State Controller to continue delaying payments to counties for the CalWORKS program and county administration payments associated with the CalWORKS program. The State Controller can delay payments to counties at any time to ensure the state has sufficient cash to make its priority payments. Shasta County must continue to provide service regardless of receipt of State allocations. The State does not pay interest on the late payments, with the exception of deferred mandates. In essence, the County is "loaning" the State funds, at a cost to the County. This is either in reduced interest earnings, or negative interest. This methodology has created a considerable dilemma for the County and has eroded our cash reserves.