



CHIEF EXECUTIVE OFFICE

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September 12, 2006

Supervisor Ray Simon, Chairman
Supervisor Bill O'Brien
Supervisor Tom Mayfield
Supervisor Jeff Grover
Supervisor Jim DeMartini

Dear Supervisors Simon, O'Brien, Mayfield, Grover and DeMartini:

I am presenting for your consideration, the Stanislaus County Final Budget Addendum for Fiscal Year 2006-2007. The Final Budget Addendum recommends changes to the 2006-2007 Proposed Budget adopted by your Board of Supervisors on June 13, 2006. The Proposed Budget document and this addendum of recommended changes reflect the entire recommended final spending plan for Stanislaus County for Fiscal Year 2006-2007. A Public Hearing on the 2006-2007 Final Budget Addendum has been scheduled for 9:25 a.m. on September 12, 2006 to be continued if necessary on September 13 and 14 at 9:00 a.m.

Proposed Budget for 2006-2007

The Proposed Budget for Fiscal Year 2006-2007 totaled \$881,622,388. It was a balanced budget, representing a \$30 million increase from the 2005-2006 Final Budget. The increase included over \$18 million of additional funding in the General Fund to continue base services and expand existing services in many areas. The balance of the overall budget increase was represented by increased State and Federal funding for various program growth. A summary of the major increases is as follows:

- ◆ A net increase of 60 new positions in various County departments;
- ◆ Salary exposures including overtime and extra-help costs in the Sheriff's Department and Probation Department;
- ◆ Future salary exposures related to pending labor agreements with employee organizations;
- ◆ The one-time loss of the Property Tax Administration Grant, expected to be funded in 2007-2008 by the State, affecting the Assessor's Office, Auditor's Office, and the Clerk of the Board;
- ◆ Increased deferred maintenance for facilities repair;
- ◆ Infrastructure projects and information technology upgrades for the Parks and Recreation Department;
- ◆ Funding for the November election for the Clerk/Recorder-Elections Division;
- ◆ The establishment of a Safety Repair Fund;
- ◆ Construction management contract costs for various capital projects;

- ◆ 12th Street Office Building and Parking Garage ongoing operations and maintenance;
- ◆ Additional vehicles, information technology enhancements, and office equipment for various departments; and
- ◆ Enhanced communications and emergency preparedness equipment and supplies.

Unlike the 2005-2006 Proposed Budget, where most of departments' critical needs were addressed in the Final Budget, the 2006-2007 Proposed Budget addressed and included funding for many of departments' unfunded critical needs at that time. Although most needs were addressed in June, funding for additional critical needs are recommended in the Final Addendum and are described as follows.

Final Budget Addendum for 2006-2007

The Final Budget totals \$899,890,972 and outlines State Budget actions as well as the actual year-end fund balances from the 2005-2006 Fiscal Year that ended on June 30, 2006. It adds an additional \$14.88 million in discretionary revenue, which reflects increases in Secured Property Taxes; Supplemental Property Taxes; Sales and Use Tax; Property Tax In-lieu of VLF; Fines, Forfeitures, and Penalties; Interest; and Endowment Trust revenue. This additional revenue is used to fund all of the departmental requests in the General Fund as well as a designation of \$4.5 million for possible State shortfalls and a portion (\$1.5 million) of a new designation. This new designation of \$10 million would be established to allow the General Fund to fulfill its prior commitment to repay the Fink Road Landfill Enterprise Fund for any land not designated for landfill expansion or endangered species mitigation once a plan is developed and approved by the Board.

In the Proposed Budget, \$6.1 million of fund balance was used to balance the General Fund Budget. This was reduced significantly from the \$14 million that was used in the previous fiscal year budget. The Final Budget Addendum uses an additional \$8.5 million of fund balance which is entirely dedicated to funding the new \$10 million designation. There was no additional fund balance used to balance the Final Budget for ongoing, operational costs.

In the General Fund, the additional discretionary revenue funds \$8.8 million of departmental requests including:

- ◆ \$2,150,000 in Appropriations for Contingencies for costs associated with the resolution of issues at the Stanislaus Behavioral Health Center and preparation for the Avian Flu;
- ◆ \$3,850,087 in the CEO - Plant Acquisition Budget for various parks and capital projects and facility improvements;
- ◆ \$2,100,000 to pay back the Courthouse Construction Fund once an agreement is received concerning the disputed use of these funds;
- ◆ A decrease in the CEO – Debt Service net county cost by \$750,907 for the use of one-time funding available in the financings and the transfer of USDA revenue from discretionary revenue;
- ◆ \$250,000 for staffing changes in the Chief Executive Office;

- ◆ A \$97,942 increase in interest earnings from the Tobacco Securitization Fund to repay the Health Services Agency's accumulated cash deficit;
- ◆ \$159,043 of Vehicle License Fees to pass through to Behavioral Health and Recovery Services;
- ◆ \$302,914 for the General Services Agency for additional costs related to the operation of the 12th Street Office Building and Parking Garage, additional positions, and facilities maintenance issues;
- ◆ \$300,000 for the GSA – Fleet Services budget to replace vehicles in its fleet;
- ◆ \$210,013 for increased dispatch costs for the Office of Emergency Services and the Sheriff's Department;
- ◆ A revenue increase of \$189,288 for Parks from the close out of capital projects and Public Facility Fees revenue; and
- ◆ Various other facility, staffing, and operational requests.

Adjustments in other funds were also recommended. In the Proposed Budget, the Public Works Road and Bridge Division anticipated the receipt of nearly \$3.2 million of Proposition 42 revenue, which represented the entire amount owed to the County for streets and roads from Proposition 42 loans. That revenue was received in August, and the Department has requested an additional \$399,000 for ongoing maintenance of County roads. Behavioral Health and Recovery Services also increased its budget by \$2.7 million for Mental Health Services Act revenue that was not spent in 2005-2006, and the Community Services Agency anticipates receiving an additional \$2.2 million for its various programs.

Workforce Demographics

This budget is recommending an increase of 20 positions, which is offset by the same number of deletions for all funds. If approved this will result in a workforce of 4,509 full time employees. The majority of these employees are represented by labor unions. We are currently in negotiations with the Emergency Dispatchers/Call Takers. In the Fall, we will start negotiations with the Attorneys and our two largest groups, the Stanislaus County Employees Association (SCEA), AFSCME Local 10 and the Service Employees International Union (SEIU) Local 535. These negotiations will result in a need to increase funding to cover any negotiated increases for labor cost obligations.

Challenges

The County faced a number of challenges as it entered the 2006-2007 Fiscal Year. Among the most significant continues to be the ongoing restructuring of the Health Services Agency's Clinic system, to ensure fiscal viability. As the Agency enters the second year of its three-year Strategic Plan, the department has submitted an application for designation as a Federally Qualified Health Center Look-Alike (FQHC-LA), in conjunction with the establishment of the newly authorized Community Health Center Board. Receipt of the FQHC-LA designation is projected to increase the Clinic revenue streams by an estimated \$1.25 million in Fiscal Year 2006-2007. Also, remodeling efforts will continue to enable the clinics to achieve additional operating efficiencies.

Another major challenge faced by the County at this time is the revenue shortfall and structural deficit of the Behavioral Health and Recovery Services. As part of the 2005-2006 Mid-Year Financial Review the department identified a potential shortfall of over \$4 million for Fiscal Year 2006-2007 and immediately began to develop plans to reduce the structural deficit. Additionally, departmental retained earnings have been depleted, as have audit exception reserves and the Managed Care Risk Reserve Fund. Any unanticipated costs, including negotiated labor increases, may result in further cuts in services. Finally, the department, in conjunction with the Chief Executive Office, is in discussions with Doctor's Medical Center related to the Department's "provider-based" status and the further operations plan for the psychiatric inpatient unit at Stanislaus Behavioral Health Center.

Labor relations will present fiscal challenges to the organization due to the expiration of several labor agreements this year, including agreements with two of the County's largest groups, Stanislaus County Employees Association (SCEA) and Service Employees' International Union (SEIU). It is anticipated that negotiations will result in a need to increase funding to cover the labor cost obligations.

Health insurance coverage also continues to be a challenge as the cost to both the County and employees is expected to rise again this fiscal year. An agreement was reached with employee groups last fiscal year which outlined a plan for increasing the employees' office visit co-pay by \$5 per year through 2008. In January 2007, the co-pay amount will increase from \$10 to \$15. In addition, renewals for the two remaining carriers contracted with the County through Pacific Business Group on Health are projecting an increase of approximately 18% in January 2007. This is not only a challenge for the General Fund, but it is also an issue for budgets in other funds that are facing their own fiscal crises, and can't afford this increase. For instance, both the Health Services Agency and Behavioral Health and Recovery Services do not have sufficient funding for health insurance and labor-related increases.

The Department of Animal Services is in desperate need of facility improvements due to the age and high usage of the buildings, and to comply with State mandates. Due to the lack of space, the Shelter is experiencing a greater spread of disease among the animals. The Chief Executive Office – Capital Projects staff has been working with the Department to address the immediate facility needs, which has included funding in the 2005-2006 Fiscal Year as well as in this fiscal year. Once the current needs assessment is completed, the Department will work with staff from the Chief Executive Office and the Animal Advisory Committee to review the results and make recommendations concerning the future of the Animal Services Facility to the Board of Supervisors.

A need exists to replace the computer aided dispatch system for the Stanislaus Regional 9-1-1 Dispatch Center. A project is underway currently to evaluate proposals to replace this critical component of the public safety and emergency response system. Very preliminary estimates reflect a potential County only cost of \$2 million for this shared system.

The Future

“There are risks and costs to a program of action, but they are far less than the long range risks and costs of comfortable inaction”

- *John Fitzgerald Kennedy, 35th US President (1961-63)*

Stanislaus County enters the future with a strong “program of action” that is reflective of its historical achievements. In the not-so-distant past, this organization braced for State funding cuts by reducing expenditures and improving efficiencies. Even in those bleak days, the County was able to retain a reserve balance to prepare for unforeseen catastrophes. Today, while discretionary revenue has increased in the General Fund, some departments with State and Federal funding are making difficult choices to reduce and combine services in order to remain fiscally sound.

Stanislaus County’s “program of action” includes continuing to focus on your priorities, and collaborating with public and private partnerships to strive for:

- ◆ A safe community
- ◆ A healthy community
- ◆ A strong local economy
- ◆ Effective partnerships
- ◆ A strong agricultural economy/heritage
- ◆ A well-planned infrastructure system
- ◆ Efficient delivery of public services

I am grateful for the hard working and excellent staff of the Chief Executive Office, our department heads, and our over 4,500 employees who serve our community with compassion and dedication. It is an exciting time, full of challenges and opportunities. It is also an intense time; the entire organization is busy and focused on positive business results for the community we serve.

For these reasons, it is with pride that I continue to serve you and the citizens of our community.

Respectfully Submitted,



Richard W. Robinson
Chief Executive Officer