



**CHIEF EXECUTIVE OFFICE**

**Stan Risen**  
Chief Executive Officer

**Patricia Hill Thomas**  
Chief Operations Officer/  
Assistant Executive Officer

**Keith D. Boggs**  
Assistant Executive Officer

**Jody Hayes**  
Assistant Executive Officer

1010 10<sup>th</sup> Street, Suite 6800, Modesto, CA 95354  
Post Office Box 3404, Modesto, CA 95353-3404

Phone: 209.525.6333 Fax 209.544.6226

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Chairman Terry Withrow  
Supervisor William O'Brien  
Supervisor Vito Chiesa  
Supervisor Dick Monteith  
Supervisor Jim DeMartini

*"The best time to plant a tree is twenty years ago. The second best time is today."  
Steven M.R. Covey*

Dear Supervisors,

I am pleased to present to you for your consideration the 2015-2016 Recommended Final Budget. This recommended budget, totaling \$1,097,281,913 represents a .4% increase from the 2014-2015 Adopted Final Budget and a 1.4% increase above the 2015-2016 Adopted Proposed Budget.

Last year proved to be a turning point for our organization as we began "planting some trees" that will hopefully bear fruit for years to come. The disciplined and conservative approach that you exercised as a Board during our most recent economic downturn has allowed our organization to remain strong and to begin focusing on laying the seeds for building a stronger community. Early this year you approved a four-year public safety restoration plan that begins restoring critical public safety services and programs. As a result of your Board's leadership, we were among the first counties in the State to take a proactive approach to addressing our groundwater challenges, establishing a groundwater ordinance and a Water Advisory Committee. We also renewed our commitment to excellence in our organization by continuous evaluation of our service delivery system through the eyes of our customers and launched a promising new initiative called "Focus on Prevention."

We will continue to focus on these same priorities this coming year as we work to help these efforts further mature and develop. Whether it is in the meetings of the Water Advisory Committee or the Homeless Action Council, one of the things we are learning is that the key fertilizer that will help these efforts grow and be successful is "trust." That trust will only come as we build relationships, have honest discussions about our "brutal facts," check our egos at the door and work towards developing shared agreement on strategies that serve

the best interests of our community. To quote Mr. Covey once again, “*Change happens at the speed of trust.*”

You have to have a long-term view when you plant trees. Sometimes it takes decades before we are able to enjoy the benefits of a tree that has reached full maturity. That is the case with a lot of our efforts. With that in mind, we continue our commitment to maintaining a long-term fiscal view as well. The recommended budget presented for your consideration is balanced and is focused on developing sustainable strategies through long-range modeling and the prudent set-aside of reserves.

The 2015-2016 Recommended Final Budget is intended to ensure that General Fund departments are properly funded to meet their Board approved service levels while maintaining an incentive program that recognizes and rewards efficient government operations.

### **Budget Outlook**

The 2015-2016 Recommended Final Budget is a solid financial plan which directly ties to the long-range financial model of the organization. Last year, the County shifted its budget process to a Funded Service Level model. This model uses zero-based budget analysis of actual costs and replaced the net county cost model implemented during the Great Recession. This significant shift involved County departments and Chief Executive Office working collaboratively to determine the appropriate level of funding to meet Board-approved staff and service levels. After Board approval of each budget, departments can be confident that their funding is adequate to meet their Board approved service levels. The Funded Service Level model will continue to be used in the 2015-2016 Fiscal Year.

The 2015-2016 Recommended Final Budget reflects \$1,097,281,913 in appropriations and \$1,052,119,986 in estimated revenue. This compares to the 2015-2016 Adopted Proposed Budget, which totaled \$1,081,877,464 in appropriations and \$1,051,220,683 in estimated revenue, meaning appropriations are up by \$15.4 million from the 2015-2016 Adopted Proposed Budget while revenue is up by approximately \$900,000. Discretionary Revenue is estimated at \$178,801,791, which remains consistent with the projections in the 2015-2016 Adopted Proposed Budget.

The General Fund appropriations are approximately \$278.9 million for the 2015-2016 Recommended Final Budget compared to the Adopted Proposed Budget of \$264.7 million. Special Revenue appropriations are up slightly by .1% from \$647.8 million to \$648.8 million, while the Capital Projects Fund is unchanged at \$1.5 million. Enterprise Funds remain constant at the Adopted Proposed Budget level of \$72.5 million with Internal Service Funds increasing .2% from \$95.3 million to \$95.5 million.

The County will be using fund balance and retained earnings in several areas to balance the Final Budget, which includes net county cost savings that has been added back into the Recommended Final Budget. A total of \$45.2 million in balancing funds are included in the Recommended Final Budget versus \$30.7 million in the 2015-2016 Adopted Proposed Budget.

## **Issues & Budget Impacts**

**Water.** The historic drought continues to be of significant concern. The County continues to take progressive action to prepare for a longer-term drought and the financial impact it could have on our community. The Water Advisory Committee continues to advise the Board of Supervisors in matters related to groundwater. The County also has a robust spectrum of water-related issues in its Legislative Platform. This past year, the County developed a water well financial assistance pilot project to help domestic/residential well owners who experience dry well conditions. The County also launched a program to facilitate temporary water assistance for residents with dry wells. The program would supply a water tank and pump to restore water service while the homeowner is waiting for a new well to be drilled. The County also continues to advocate for the North Valley Regional Recycled Water Program, which would be the largest recycled water project in the Western United States and would make a significant impact on the County.

**Public Safety Facility Construction.** Work continues on our Public Safety construction projects. The three phases of the AB 900 Phase II Public Safety Center Jail Expansion project include 480 new maximum security beds, a 72 bed Medical Mental Health Facility, an Intake Release and Transportation Facility and a Day Reporting Center. The Day Reporting Center was dedicated on August 13, 2015. Facilities are projected to open in phases based on available funding. Construction of the new Coroner's facility will be completed in Fiscal Year 2015-2016.

**Public Safety Services.** The three-phased, four-year Public Safety Restoration (PSR) plan was implemented during the third quarter of the 2014-2015 Fiscal Year and will continue over the next three fiscal years. Your Board approved PSR funding of \$2 million in Fiscal Year 2014-2015 and \$4 million in Fiscal Year 2015-2016 to support 39 full-time positions in Phase I. Based on the County's financial condition at the time, it will be proposed that \$2 million be added each year to the baseline of public safety funding to help restore services that were cut during the recession. By Budget Year 2017-2018, PSR funding is forecast to stabilize at \$8 million ongoing General Fund support.

**Parks.** The County will be restoring positions and funding to properly maintain parks, reopen restrooms, fund Police Activity League (PAL) programs and market our parks during the 2015-2016 Fiscal Year. We will be partnering with PAL for juvenile crime prevention programs in Keyes and Grayson, as well as a new partnership with Orville Wright Elementary School and the Head Start Program at Oregon Park.

**Roads & Bridges.** The County will complete the Kiernan Avenue/State Route 219 interchange during the 2015-2016 Fiscal Year, as well as the Claribel Road widening project. These major projects will promote economic vitality, goods movement and improved safety for drivers. A significant challenge for this fiscal year is the impact of decreased roads funding by the State. The County will lose approximately \$3.1 million in Highway Users Tax Account (HUTA) funding. Because of the significant revenue loss, there will be no chip seal program in 2015-2016. During the 2014-2015 Fiscal Year, 110 miles of road were on the chip seal program for resurfacing to preserve the life of the road and safety for drivers. We should be sealing about 150 miles of road each year in order to maintain them over time. This will be a huge impact on our County.

**Staffing.** Final Budget recommendations include restoring six unfunded positions, adding ten new positions, unfunding two vacant positions, deleting one unfunded position, transferring 52 positions between budgets, reclassifying 28 positions, conducting classification studies for ten positions, double-filling four positions, and adding two new classifications. There were 4,124 positions in the allocation count for the 2015-2016 Adopted Proposed Budget. Since the adoption of the Proposed Budget, 14 additional positions have been approved by the Board of Supervisors. With the implementation of the 14 positions recommended in the Final Budget, the new position allocation count will be 4,152.

**Retirement Costs.** The County's retirement plan is currently one of the healthiest funded plans in the State at 87.5% funded. However, it is expected that retirement costs will continue to be a significant cost driver for the organization with annual increases and future changes expected to increase the employer contribution rate by 4% to 5% or higher.

**Financial Reserves.** The Board of Supervisors is continuing with its policy of maintaining a Contingency Reserve of 8% of the three-year average of Discretionary Revenue. Adequate financial reserves are extremely important to weathering a future financial downturn with minimal public service disruption.

**External Assessment/Issues**

*Economic Outlook:*

The California economy is projected to be strong in 2015 with a slight slowdown in growth in 2016. Regional economists project unemployment rates will continue to decrease in Stanislaus County during 2015. Non-farm Payroll Employment in the Modesto Metropolitan Statistical Area (MSA) is projected to increase by 3.5% in 2015, which is a rate comparable to the Bay Area. Valley job growth is projected to range from 1.6% to 3.3%.

Unemployment has continued to decrease in 2015 while the economy improves. Unemployment rates for the second quarter of 2015 show:

<u>2015</u>	<u>Stanislaus County Unemployment Rate</u>	<u>National Unemployment Rate</u>
June	9.3%	5.5%
May	9.5%	5.3%
April	9.7%	5.1%

The median home value in June 2015 was \$227,000, an increase of 9.1% from \$208,000 in June 2014. The median sales price for homes in Stanislaus County was \$237,000 in June 2015, up from \$225,000 in June 2014. Home values are projected to increase nearly 10% over the next year.

Property tax revenue in Fiscal Year 2014-2015 increased by 12% from prior year actuals. With the completion of the Assessed Roll valuation for Fiscal Year 2015-2016, the Assessor announced an increase of 6.75% in the Assessment Roll total of Stanislaus County. Sales tax revenues have continued to increase annually since 2009 and are projected to continue

with moderate growth of 2% this next year. Property tax and sales tax are two of the biggest discretionary revenue sources the County can use to support organizational priorities.

*State Impacts:*

The State budget continues to be very strong as the economy in California improves. Revenues for the end of the 2014-2015 Fiscal Year were extremely strong, but the Governor continues to encourage tight spending restraints. The Governor was successful in negotiating a budget package for the 2015-2016 Fiscal Year approving spending of \$115.4 billion. This is only \$61 million more than the Governor previously proposed compared to the \$749 million in additional spending requested by Democratic leadership. The State continues to pay down debt and place money in the “rainy day” fund and is also paying back local jurisdictions for previous deferred payments. The Governor also acknowledges a host of future issues as the deferred maintenance and pension obligations loom.

As a result of State budget action, the County was pleased to receive one-time revenue of \$5.3 million for pre-2004 SB90 payments and \$0.6 million for Proposition 172 allocation correction by the State Board of Equalization that were included in our 2014-2015 Fiscal Year. This revenue was spoken of during the Proposed Budget process and was received shortly thereafter.

**Looking Forward**

The budget reflects our focus on a sustainable financial model, maintaining adequate financial reserves, targeted restoration of public services and financial preparation for the opening of new jail facilities in 2017.

The County’s multi-year financial strategy, called the Long Range Model, continues to be extremely successful and has allowed the organization to focus our spending on areas of highest priority for the Board of Supervisors with a long-term financial outlook in mind. This strategy has allowed for organizational discipline in hiring practices and promoted important projects such as the targeted Public Safety Restoration (PSR) project to increase service levels in vital public safety areas. The model will continue to be used into the future.

The County completed negotiations on multi-year salary agreements with our employees in the 2014-2015 Fiscal Year, which promote financial stability for the organization. Employee health insurance costs and retirement costs are projected for continued growth even as the County’s self-insured health plan cost increases have slowed relative to industry inflation rates. We expect ongoing pressure in employee benefit expenses even with innovative management practices in place.

The Focus on Prevention initiative is a long-range strategy to address difficult social conditions impacting Stanislaus County. The initiative has four main areas of focus: preventing homelessness; strengthening the family; investing in and supporting children and youth; and reducing the number of repeat criminal offenders. The program will engage ten different sectors of the community and will promote organizations working together toward a common set of objectives. A community forum on homelessness called “Finding Our Way – A Summit on Homelessness” will take place on October 1, 2015 at the Modesto Center Plaza. The public can find more information at [www.preventionfocus.net](http://www.preventionfocus.net).

## **Conclusion**

I have overheard several individuals comment over the past several months that we have a great team here in Stanislaus County and I couldn't agree more. As a Board of Supervisors, you set the tone and demonstrate respect, professionalism and a collegial spirit towards each other and staff. I am privileged to work with such fine leaders and thank you for your dedication to our community and this organization.

I am also grateful to work with an extremely talented and dedicated group of Department Heads, managers and senior leaders. They are resilient and work together well as a team. You can sense the positive energy in the room when this team comes together and I am excited about what we can accomplish together in the coming years.

At the heart of every organization are the employees and I am proud to know and work with so many of them. They are driving our journey towards excellence and I am grateful for their commitment and work ethic.

Finally, to the citizens of Stanislaus County, thank you for allowing us to be stewards of your government services. We are striving to earn your trust through open, transparent and accountable government. I am thankful to call this place home and have found it to be a great place to live, work, worship and play.

So let's go plant some seeds of greatness together so our children and grandchildren can experience an even greater Stanislaus County in the future!

Respectfully,

A handwritten signature in blue ink, appearing to read 'Stan Risen', with a stylized flourish at the end.

Stan Risen  
Chief Executive Officer