

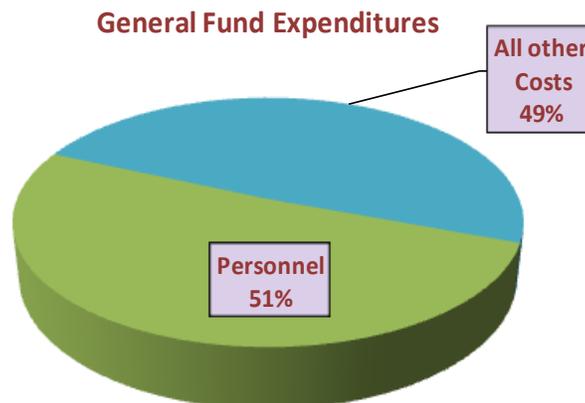
## *Frequently Asked Questions*

# Sutter County Budget Status

### **What is the status of Sutter County's budget?**

Over the past three years, most counties and hundreds of cities throughout California have cut back on programs and services and have laid-off employees due to the economic downturn. For the past two years in Sutter County, the strategy of restricting costs and using reserve funds has allowed the County to maintain operations with limited impacts to existing services and programs. The County has also been able to avoid the layoffs and furloughs that other agencies have experienced. However, the U.S. recession is now forcing the County to take steps not necessary since the early 1990s. Sutter County will therefore need to consider budget cuts for its FY 2011-12 budget, which begins July 1, 2011.

Because of its consistent, fiscally conservative budgeting practices, the County of Sutter entered the recession with a healthy reserve fund and one of the lowest per capita debt burdens of any county in California. At its peak at the beginning of FY 2008-09, available General Fund reserves stood at approximately \$24.6 million. However, in FY 2009-10 and FY 2010-11, the County was forced to draw down roughly \$13 million of its reserve funds to balance its budget while still maintaining services to our citizens. The FY 2010-11 General Fund budget was reduced by six percent over the preceding year. However, available General Fund reserves have been depleted to just under \$11 million.



Absent a dramatic turnaround in the national and local economies, it is anticipated that for FY 2011-12, General Fund expenditures will need to be reduced by an additional 20 percent. Salaries and benefits comprise approximately 51 percent of the General Fund budget, when Public Safety expenditures are also considered.

### **How big is the problem?**

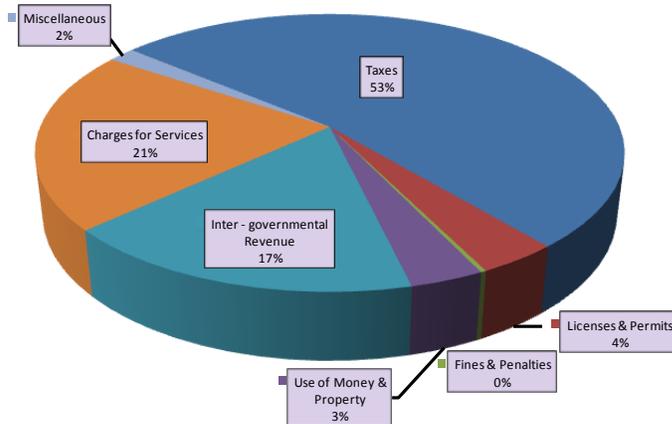
On February 15, Sutter County Administrative Officer Stephanie J. Larsen reported to the Board of Supervisors that, departments are largely on-track with their budgets. Monies not spent in FY 2010-11, which make up the year-end fund balance, will help offset costs in FY 2011-12. However, the year-end fund balance at the end of FY 2010-11 is estimated at just \$1.3 million. Current projections are that there will be an approximate \$14.3 million gap between expected General Fund revenue for FY 2011-12 (\$51.4 million) and the cost of providing the existing

level of General Fund services (\$65.7 million) - - a structural deficit. Use of reserves could help balance the budget, but will not reduce the structural deficit.

## What caused this deficit?

The short answer is - the U.S. recession. The “Great Recession” began in December of 2007 and set in motion a series of events that have resulted in a reduction in tax revenues and an increase in the cost of doing business. The details are interrelated. Beginning in 2006, the

**Revenues by Source - General Fund**  
**Fiscal year 2009-10**



downturn of the housing market in California robbed consumers of home equity and access to easy credit, so consumers curtailed their shopping. Reduced consumer spending drastically reduced sales tax revenues to the State and local governments. Both the downturn in the housing market and the reduction in retail activity reduced the number of jobs, which impacted payroll taxes that the State and Federal governments rely on to support programs and services. Reduced jobs also had the double-effect of further reducing consumer

spending. As housing prices fell, property tax revenues fell. Property taxes provide revenue support to schools, the State and to local government programs. The stock market collapse in 2008 knocked equity out of the California Public Employee Retirement System’s investment portfolio, leading to increased annual contributions to the employee retirement system for state and local governments.

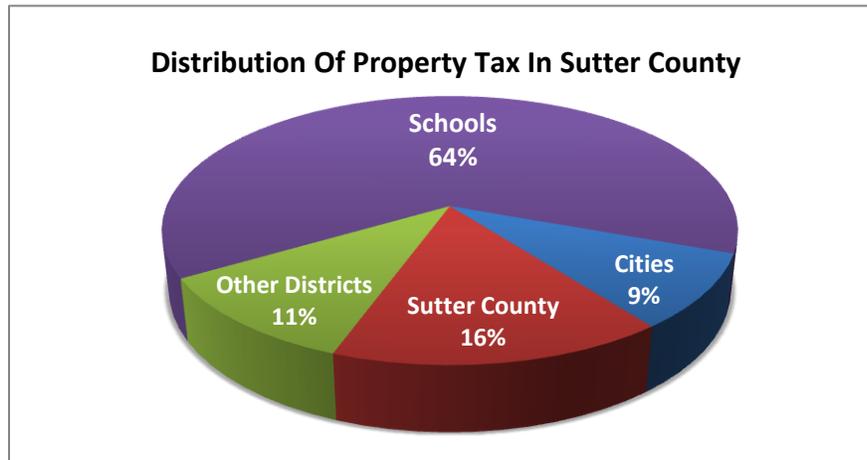
There are other significant factors affecting Sutter County’s budget status: after seven years without increases in employee medical insurance premiums, Sutter County experienced an increase of 15 percent in 2010 and is currently anticipating a 20 percent increase in 2011. California’s state budget problems continue to have severe consequences for local governments as the State has withheld or deferred (sometimes for years) millions of dollars in payments to counties for many mandated programs.

## How much has sales tax revenue decreased?

Sutter County receives a percentage of the sales tax generated at retail outlets located in unincorporated Sutter County (i.e., outside the city limits of Live Oak and Yuba City), and shares sales tax revenue within recently-incorporated areas of Yuba City. Sales tax receipts dropped approximately 21 percent in FY 2008-09, and another 13 percent in FY 2009-10. Sales tax revenue has remained relatively flat in the current fiscal year, and is expected to remain stagnant in FY 2011-2012. (The CAO’s office will have a better estimate of expected sales tax receipts in April or May, prior to the release of the Recommended Budget.)

## How much has property tax revenue decreased?

In FY 2008-09, Sutter County's share of property tax revenues totaled approximately \$24 million.



In FY 2011-12, that revenue is projected to be \$21.4 million, a drop of \$2.6 million over the three-year period, reflecting the decreased value of property as a result of the housing bust and the recession. (The CAO's office will have a better estimate of property tax revenues in April or May).

## Have County employees' salary and benefit concessions made a difference?

Yes. The expected FY 2011-12 General Fund deficit is lower than it otherwise would have been as a result of the wage and benefit concessions achieved through the collective bargaining process with the Deputy Sheriff's Association, and the General, Professional and Supervisory units' concessions, which have included giving back pay increases and agreeing to pay eight to nine percent of salary for the employee's share of the CalPERS retirement contribution. These savings are an estimated \$5 million over the next three fiscal years.

Wage and benefit concessions have now been calculated into the equation; in other words, the estimated deficit of \$14.3 million includes most of the savings realized by these concessions. The concessions allow the County to make fewer reductions in programs and services. (It should be noted that, also through the collective bargaining process, the Fire Unit also gave up salary increases and agreed to pay nine percent of their salary toward retirement benefits; their salaries and benefits, however, are not General Fund responsibilities and those savings have no direct impact on the General Fund).

## What are the next steps?

The County Administrative Office has directed Department Heads to submit FY 2011-12 budget proposals that reflect a 20 percent reduction in the General Fund portion of their budgets. In preparing the Recommended Budget for FY 2011-12, for consideration by the Board of Supervisors, the CAO's office will evaluate the Department budget submittals and what effects the reductions will have on service levels and staffing. The CAO's office will be continually monitoring and updating revenue projections, and will keep tabs on any budget decisions made by the State of California that will impact County operations.

The Board of Supervisors is scheduled to convene a public hearing on June 21 to consider the CAO's Recommended Budget. The Board of Supervisors may accept, reject or modify budget recommendations. The Board is required by law to adopt a balanced budget for FY 2011-12.

## **Are layoffs avoidable?**

The benefit of being a “lean and mean” conservative county is that Sutter County has historically not “ramped up” expenditures during good times – knowing that we would only be forced to reverse the process and cut back services during bad times. The downside of being “lean and mean” is that, when we are confronted with such a significant change in the economic picture of the county, and we are forced to make reductions, there’s not much available to cut. Even minor reductions quickly lead us to making painful decisions regarding personnel expenditures.

Two-thirds of our employees live right here in Sutter County. We are shopping here, paying taxes here, and contributing to our local economy. Another 22 percent live in Yuba County next door – also contributing to our closely intertwined bi-county economy. Our employees help strengthen the local economy, and any reductions in force will place that much more pressure on an already-strained bi-county business climate. Unfortunately, it does not appear that position reductions, and ultimately layoffs, can be entirely avoided.

## **What happens if the State of California also cuts programs or services?**

There are several proposals pending in Sacramento related to how to balance the State Budget. Because these are simply proposals—and historically the Legislature and the Governor do not agree on a budget prior to the end of the fiscal year—none of the proposals about reducing state programs or shifting responsibility and funding to the County for certain programs is being included in the current planning for the Sutter County FY 2011-12 Recommended Budget. After the State of California adopts a budget, the Board of Supervisors will revisit the Sutter County FY 2011-12 Recommended Budget and make any changes necessary.