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STAFF REPORT

BOARD MEETING DATE: May 10, 2011

DATE: May 9, 2011
TO: Board of County Commissioners
FROM: Katy Simon, County Manager
SUBJECT: Discussion and possible direction regarding Manager's Recommended Budget for Fiscal Year 2011/12. (All Commission Districts)

SUMMARY

Planning for the Fiscal Year 2011/12 budget began with a series of workshops focusing on the future of county government, at which time the Board provided broad direction to establish a goal of achieving organizational and financial sustainability. This goal is exceedingly difficult to achieve in a climate that must deal with an economy that remains caught up in the Great Recession; with the State looking to address a multi-billion dollar deficit through program and/or revenue shifts that will negatively impact Washoe County; and with labor costs continuing to rise faster than revenues can support. These factors are taken into account in the financial and organizational sustainability plan. Also in alignment with the sustainability plan the Board approved the parameters that have been used to balance the Fiscal Year 2011/12 budget by focusing on:

- Resetting the cost of delivering services;
- Refining the focus on which services the County can sustainably continue to deliver;
- Rethinking ways for greater efficiency in delivering core services; and
- Investing fund balances to achieve long-term changes in service delivery and labor costs.

Property taxes, which provide nearly 55 percent of the revenue for the General Fund, will continue to decline and will not keep up with the cost to provide services in Fiscal Year 2011/12 and into the near future. More specifically labor costs, which represent more than 75 percent of the General Fund operating budget, will continue to grow at rates that are not supportable by current revenue sources. As a result, the initial estimate of the deficit for Fiscal Year 2011/12 was projected to be \$33.5 million on January 25, 2011. The Board directed a four point action plan to begin closing the deficit. That plan consisted of achieving:

- \$13.8 million in labor cost savings;
- \$5 million in efficiency savings from department budgets;
- \$5 million in first-year savings and a total of \$15 million over two years by redefining the "what and how" of services provided through a Fundamental Review; and

- Invest \$9.75 million in fund balances to front the transition time and costs necessary to achieve long-term changes.

Departments have developed budget reduction plans totaling more than \$5.7 million, which achieve more than the target of \$5 million that was required using reduction targets of 1.7% for Core Services, 3.7% for Non-Core Services, and 2.0% for Admin Services. It is an extreme challenge to cut operating budgets without laying-off employees when 75 to 90 percent of department budgets are personnel. Therefore as part of the reduction plan three positions will be eliminated by layoffs, 42.49 additional vacant full time equivalent positions will be eliminated and three positions are recommended to have hours reduced or transferred to restricted funding sources. In addition, the Insurance Negotiating Committee has negotiated lower health insurance plan design and costs that resulted in trimming about \$2.22 million off initial deficit estimates.

In summary, the savings achieved by department reduction plans and health insurance plan design as well as some slightly more favorable final property tax estimates have combined to lower the total deficit from \$33.5 million down to \$31.33 million. Of the \$31.33 million deficit, there is a net deficit remaining of \$16.58 million. This represents the additional \$11.588 million savings needed from labor costs and the \$5 million savings needed from the alternative service delivery initiative through the Fundamental Review.

The \$5.7 million in department budget reductions is in addition to the \$123 million in reductions taken in the four previous years. Furthermore, budget reductions have resulted in 725 fewer funded positions to serve the public. The recommended reductions will result in an additional 44.59 fewer full time equivalent positions for Fiscal Year 2011/12. This brings the total number of positions eliminated since the beginning of the Great Recession to 769. Departments are managing through reductions by retrenching to essential and mandated services. While all departments will continue best efforts to provide excellent public services, due to necessity and limited resources efforts are prioritized to ensure mandates are met and essential services provided to the public.

Labor cost growth with its imbedded pressures combined with declining revenues are the two primary structural deficit drivers. Therefore, achieving sustainable labor costs is the most important component of the Balanced Plan. While wages and benefits represent more than 75 percent of the General Fund operating budgets, a savings target of \$13.8 million by resetting labor costs represents only about 40 percent of the deficit solution. Pursuant to NRS 288, pay and compensation matters are subject to collective bargaining for represented employees. As noted above the health plan proposal kept costs at slightly above last year's premiums, trimming about \$2.22 million off the initial deficit and the labor cost savings targets, which now total \$11.58 million.

Statutorily the Board must adopt a budget by June 1. However, the timeline for labor negotiations may not align with the statutory budget timeline. Should labor contracts not be negotiated by the time the budget must be adopted, a budget that anticipates labor cost savings will likely result. In the event that such savings are not achieved, additional department budget and staffing reductions will be necessary to balance the budget. As such department budgets include contra accounts that reduce their budget by the anticipated labor cost savings by a total of \$11.58 million.

The final element of the Balanced Plan is the investment of \$9.75 million in fund balances. It is critical to use fund balances to redefine the business of government because if the balances are used to subsidize existing cost structures and not make long-term change, the County will not be financially sustainable. Therefore, staff recommends that \$9.75 million in fund balances from two sources be used to promote long-term changes in service delivery

Consistent with the Board's Strategic Plan to create long-term financial sustainability and out of the necessity to plan for the potential financial impacts of Legislative actions (currently estimated at \$24 million per year) the Board also directed all departments to develop contingency plans for funding levels based on two scenarios:

- A contingency plan on what services would be provided at **90% funding** of Fiscal Year 2011/12 Recommended Budget; and
- A contingency plan on what services would be provided at **75% funding** of Fiscal Year 2011/12 Recommended Budget.

The proposed Fiscal Year 2011/12 budget includes the following elements:

- The budget is comprised of 23 Governmental Funds and 6 Proprietary Funds.
- Combined appropriations in the Governmental Funds, including Fund Balance and Transfers Out, total \$568,918,457.
- Estimated expenses in the Proprietary Funds total \$103,064,411.
- The property tax rate remains the same as last year at \$1.3917 per \$100 of assessed value, generating estimated property tax revenue of \$174,777,324 for all Governmental Funds.
- Consolidated tax revenue is estimated to be \$69,199,021 and all other revenues total \$132,052,178 for all Governmental Funds.
- The General Fund includes \$266,754,000 in expenditures; contingency is budgeted at \$1,775,000, a special line item expenditure savings of \$5 million, named "Alternative Service Delivery: Fundamental Review Savings", and \$19,860,576 in transfers to other funds.
- The proposed ending fund balance in the General Fund has two components: \$4 million reserved for stabilization (equivalent of 1.5%), and \$23.9 million unreserved (equivalent to 8.5%) for subsequent year cash flow.
- There are 2,657.7 full time equivalent positions.

Strategic Objectives supported by this item:

- 4. Sustainable Resources

Strategic Outcomes supported by this item:

- 4.1 Engaged, skilled and valued employees
- 4.2 Sustainable financial relationship between revenue and expenses
- 4.3 Clear statutory framework to support the purpose and core functions of County government
- 4.4 Sustainable resources linked to the needs of the public (public safety, security, health, cultural, recreational, and environmental)
- 4.5 Tax revenue structure reflects modern economy

PREVIOUS ACTION

April 12, 2011	Board approval of the FY 2011/2012 Employee Health Benefits Program.
April 4, 11, 18, 2011	Budget Hearings on proposed department reduction plans.
March 17, 2011	Board approved allocation of the \$13.8 million Fiscal Year 2011/12 labor cost savings based on each employee group's proportional share of total personnel costs in the General Fund.
March 8, 2011	Update and direction to staff on Fiscal Year 2011/12 budget plans including direction on the development of contingency plans for funding level scenarios.
February 17, 2011	OEC Meeting on the RFP to retain a consultant for Phase II of Fundamental Review
February 2, 2011	OEC Meeting on planning for Phase II of Fundamental Review
January 25, 2011	Update, status report, and direction on Fiscal Year 2011/12 Budget Plan to address an initial deficit estimate of \$33.5 million
January 11, 2011	Acceptance of Organization Effectiveness Committee's recommendations on defining core services and budget prioritization Board Workshop on Future of County Government #3: Scenario Planning
December 15, 2010	Organizational Effectiveness Committee: Fundamental Review of Resource Allocation Process, Meeting #4
December 14, 2010	Board Workshop on Future of County Government #2: Organizational and Financial Sustainability
December 1, 2010	Organizational Effectiveness Committee: Fundamental Review of Resource Allocation Process, Meeting #3

- November 23, 2010 Organizational Effectiveness Committee: Fundamental Review of Resource Allocation Process, Meeting #2
- November 16, 2010 Organizational Effectiveness Committee: Fundamental Review of Resource Allocation Process, Meeting #1
- November 9, 2010 Board Workshop on Future of County Government #1: Compensation and Benefits

BACKGROUND

Overview of Fiscal Year 2011/12 Budget Strategy and Deficit

At the December 14, 2010 Board Workshop on Organizational and Financial Sustainability the Board provided broad direction to establish a goal of achieving organizational and financial sustainability. This goal in turn informed the strategy to develop a balanced and sustainable budget for next fiscal year. Attaining the goal will not be easy in a decision-making climate that must deal with an economy that remains depressed; with the State looking to address a multi-billion dollar deficit through program and/or revenue shifts that will negatively impact local government budgets; and with labor costs continuing to rise faster than revenues can support. All of these factors have been accounted for in the County's financial and organizational sustainability plan.

On January 25, 2011, the Board approved the parameters that are being used to balance the Fiscal Year 2011/12 budget and set a foundation for sustainability by:

- Resetting the cost of delivering services;
- Refining the focus on which services the County can sustainably continue to deliver;
- Rethinking ways for greater efficiency in delivering core services; and
- Investing fund balances to achieve long-term changes in service delivery and labor costs.

These four deficit-closing strategies align with the Balanced Plan for Sustainability presented at the Organizational and Financial Sustainability Workshop on December 14, 2010.

Understanding the Budget Deficit

Washoe County and the State's economy remains mired in a deep recession with the steepness and duration of the decline in property taxes continuing to be greater than originally expected. Property taxes, which provide nearly 55 percent of the revenue for the General Fund, will continue to decline and will not keep up with the cost to provide services in Fiscal Year 2011/12 and into the near future. More specifically, labor costs, which represent more than 75 percent of the General Fund operating budget, will continue to grow at rates that are not supportable by current revenue sources. As a result, the initial estimate of the deficit for Fiscal Year 2011/12 was projected to be \$33.5 million on January 25, 2011.

The deficit can be closed by increasing revenues and/or decreasing expenditures. Board options to change revenues are limited. The County is at the statutory property tax rate of

\$3.66 per \$100 of taxable property value; therefore, increasing property taxes is not an option. Consolidated taxes (mostly sales taxes) are controlled by state law and the Board cannot change those laws without legislative authorization. Fees generate about 8 percent of total revenue (\$22.7 million). Departments routinely evaluate fees to ensure they are at a reasonable price point, but raising fees in the current economic climate has risks. Another option could be increasing the government services tax (GST), which is the tax people pay on their cars and trucks. In 2009, the Legislature gave the Board authority to increase the GST by 1 cent, which equals a 25 percent increase in the tax rate for car owners. Imposing that tax could generate about \$8 million a year in new revenue. Then again, the Board increasing taxes or fees of any type remains a risk-based proposition while the local economy has 13.8 percent unemployment and continued job losses.

Therefore, the proposed budget plan to close the \$33.5 million deficit is composed of reductions in expenditures coming from labor costs and department operating budgets. It also includes the use of fund balances to bridge transition costs and create long-term changes in labor costs as well as to phase in service delivery changes. Details of the plan are outlined in the paragraphs that follow.

Update on the Deficit for Fiscal Year 2011/12

On January 25, 2011, the initial deficit estimate was reported as \$33.5 million. Following the Board's strategy outlined above, the Board directed a four point action plan to begin closing the deficit. That plan consisted of achieving:

- \$13.8 million in labor cost savings;
- \$5 million in efficiency savings from department budgets;
- \$5 million in first-year savings and a total of \$15 million over two years by redefining the "what and how" of services provided (alternative service delivery) through a Fundamental Review; and
- Invest \$9.75 million in fund balances to front the transition time and costs necessary to achieve long-term changes.

Since that initial direction, work has begun to close the deficit. Departments have developed budget reduction plans and those plans were heard by the Board in the Public Budget Hearings conducted on April 4, 11, and 18. Departments proposed reduction plans totaling more than \$5.7 million (Table 2), which achieved more than the target of \$5 million.

In addition, the Insurance Negotiating Committee (INC) has negotiated lower health insurance plan design and costs for Fiscal Year 2011/12 employee health insurance. The initial estimate of health insurance premium increase was 12 percent, which meant over \$2 million in addition cost from the prior year. However, the INC delivered a health plan proposal that kept costs at slightly above last year's premiums, trimming about \$2.22 million off initial deficit estimates. On April 12, 2011, the Board approved the health benefit plan proposed by the INC.

The savings achieved by department reduction plans and health insurance plan design as well as some slightly more favorable final property tax estimates have combined to lower the total deficit from \$33.5 million down to \$31.33 million. Of the \$31.33 million deficit,

there is a net deficit remaining of \$16.588 million. This represents the additional \$11.588 million savings needed from labor costs and the \$5 million savings needed from the alternative service delivery initiative (Fundamental Review).

Table 1 shows the summary sources and uses as of January 25, 2011 and May 10, 2011. The major differences include:

- Beginning Fund Balance increased by over \$6.9 million due to the proposed transfer of \$2.25 million from the Stabilization Fund in FY 10/11, an increase in estimated FY 10/11 revenues of \$1.5 million, a reduction in estimated FY 10/11 expenses of \$2 million, and a reduction of \$1.2 million in use of Contingency.
- Property tax revenue increased by \$2.7 million as the original estimate was based on aggregate data and the current estimate uses assessed values for each parcel processed through the tax billing system.
- Transfers In increased by \$7.5 million as a component of the investment of fund balances to front the transition time and costs necessary to achieve long-term changes, which is more fully explained below.
- Salaries, wages and benefits decreased by about \$5.4 million due to the elimination of positions that are a part of the Department reduction plans and the reduction in the cost of health benefits achieved by the INC, that is offset by an increase in the estimated accrued benefit payouts that may occur due to position reductions resulting from the fundamental review.
- Services and Supplies declined by \$1.8 million as part of the Department reduction plans.
- Contingency was increase by \$275,000 to accommodate the additional uncertainty of the impact that may result from the Legislative Session.
- Transfers Out increased by \$3.3 million to begin moving to a more sustainable funding of infrastructure preservation (i.e., roads, technology, facilities', etc.).
- Total ending fund balance increased by \$2.9 million in order to provide for a reserved component of fund balance designated for stabilization, which is more fully explained below.

Table 2**Department Operating Reductions: Core, NonCore, and Admin Services**

Priority Group	General Fund Dept	FY 11/12 Initial		
		Funding Level (does not include restricted)	Percent	
			Reduction	\$\$ Reduction
Core Related	Alternate Public Defender	\$ 1,936,615	1.7%	32,000
Core Related	Alternative Sentencing	\$ 669,758	1.7%	11,000
Core Related	Child Protective Services	\$ 613,791	1.7%	10,000
Core Related	Conflict Counsel	\$ 1,780,463	1.7%	29,000
Core Related	Coroner	\$ 1,948,215	1.7%	32,000
Core Related	District Attorney	\$ 17,765,497	1.7%	294,000
Core Related	District Court	\$ 15,479,848	1.7%	256,000
Core Related	Fire Suppression	\$ 262,564	1.7%	4,000
Core Related	Health Fund (Gen Fund Support)	\$ 8,192,500	1.7%	136,000
Core Related	Incline Constable	\$ 235,463	1.7%	4,000
Core Related	Incline Justice Court	\$ 376,190	1.7%	6,000
Core Related	Juvenile Services	\$ 13,503,932	1.7%	224,000
Core Related	Public Administrator	\$ 953,688	1.7%	16,000
Core Related	Public Defender	\$ 7,316,017	1.7%	121,000
Core Related	Public Guardian	\$ 1,551,893	1.7%	26,000
Core Related	Registrar of Voters	\$ 1,384,514	1.7%	23,000
Core Related	Reno Justice Court	\$ 4,637,712	1.7%	77,000
Core Related	Senior Services	\$ 232,860	1.7%	4,000
Core Related	Sheriff's Department	\$ 89,938,609	1.7%	1,489,000
Core Related	Social Services- Net Medical	\$ 3,220,722	1.7%	53,000
Core Related	Sparks Justice Court	\$ 2,210,469	1.7%	37,000
Core Related	Wadsworth Justice Court	\$ 271,061	1.7%	4,000
Core Related		\$ 174,482,381		\$ 2,888,000
NonCore Related	Community Development	\$ 2,378,067	3.7%	87,000
NonCore Related	Community Support	\$ 411,466	3.7%	15,000
NonCore Related	Law Library	\$ 670,531	3.7%	25,000
NonCore Related	Library Department	\$ 9,229,618	3.7%	337,000
NonCore Related	Regional Parks and Open Space	\$ 5,225,068	3.7%	191,000
NonCore Related	Public Works	\$ 21,210,908	3.7%	775,000
NonCore Related	Regional Water Planning	\$ 750,955	3.7%	27,000
NonCore Related		\$ 39,876,613		\$ 1,457,000
Admin Service	Assessor	\$ 6,092,478	2.0%	122,000
Admin Service	Board of County Commissioners	\$ 530,344	2.0%	11,000
Admin Service	County Clerk	\$ 1,434,236	2.0%	29,000
Admin Service	County Manager	\$ 2,839,073	2.0%	57,000
Admin Service	County Recorder	\$ 2,086,965	2.0%	42,000
Admin Service	Finance Department	\$ 3,374,939	2.0%	67,000
Admin Service	Human Resources	\$ 2,328,584	2.0%	47,000
Admin Service	Technology Services	\$ 11,848,268	2.0%	237,000
Admin Service	Treasurer	\$ 2,131,982	2.0%	43,000
Admin Service		\$ 32,666,869		\$ 655,000
Grand Total		\$ 247,025,863		\$ 5,000,000

Departments subsequently developed budget reduction plans based on these targets and those plans were heard by the Board in a series of public hearing conducted on April 4, 11, and 18. The departments' proposed reduction plans achieved more than the target of \$5 million, totaling more than \$5.78 million (Table 3). The only difference of note between the plans proposed by the departments and the County Manager's recommended reductions involve plans that have contingent expenditure reductions (i.e., expected future vacant position, changes in state law, etc.) and/or contingent revenue increases (i.e., increase in fees being imposed). In those instances contra accounts have been included in the department budgets, which will be removed when the expenditure savings occur or the additional revenue materializes. Thus the total dollar value of the department proposed reduction and the County Manager recommended reductions are the same.

Table 3

Summary of Operating Budget Reductions and County Manager Recommendations for Fiscal Year 2011/12				
Department	Percent Cut	Target Reduction Amount	Proposed Plan by Dept	County Manager Recommended Reduction
Alternate Public Defender	1.70%	32,000	31,720	31,720
Alternative Sentencing	1.70%	11,000	11,000	11,000
Assessor	2.00%	122,000	122,000	122,000
Board of County Commission	2.00%	11,000	11,000	11,000
Child Protective Services Fund	1.70%	10,000	10,000	10,000
Clerk	2.00%	29,000	29,000	29,000
Community Development	3.70%	87,000	87,000	87,000
Community Support	3.70%	15,000	15,000	15,000
Conflict Attorney	1.70%	29,000	29,000	29,000
County Manager	2.00%	57,000	57,000	57,000
District Attorney	1.70%	294,000	294,000	294,000
District Court	1.70%	256,000	267,400	267,400
Finance	2.00%	67,000	67,000	67,000
Fire Suppression	1.70%	4,000	4,000	4,000
Health District	1.70%	136,000	136,000	136,000
Human Resources	2.00%	47,000	47,000	47,000
Incline Constable	1.70%	4,000	4,000	4,000
Justice Court-Incline	1.70%	6,000	6,000	6,000
Justice Court-Reno	1.70%	77,000	77,000	77,000
Justice Court-Sparks	1.70%	37,000	37,089	37,089
Justice Court-Wadsworth	1.70%	4,000	4,000	4,000
Juvenile Services	1.70%	224,000	224,000	224,000
Law Library	3.70%	25,000	<i>Included in District Court</i>	
Library	3.70%	337,000	337,000	337,000
Medical Examiner	1.70%	32,000	33,280	33,280
Parks & Open Space	3.70%	191,000	191,000	191,000
Public Administrator	1.70%	16,000	67,500	67,500
Public Defender	1.70%	121,000	121,000	121,000
Public Guardian	1.70%	26,000	26,000	26,000
Public Works	3.70%	775,000	777,002	777,002
Recorder	2.00%	42,000	42,000	42,000
Registrar of Voters	1.70%	23,000	38,000	38,000
Senior Services	1.70%	4,000	4,000	4,000
Sheriff's Office	1.70%	1,489,000	1,489,000	1,489,000
Social Services	1.70%	53,000	53,000	53,000
Technology Services	2.00%	237,000	237,000	237,000
Treasurer	2.00%	43,000	43,000	43,000
Water Resources-Planning	3.70%	27,000	750,955	750,955
Reduction Plan Totals		5,000,000	5,779,947	5,779,947

Positions Impacted by Reduction Plans

It is an extreme challenge to cut operating budgets by 2 percent without laying-off employees when 75 to 90 percent of department budgets are personnel. Best efforts and innovative thinking by all departments have minimized layoffs. However, for some department budgets there were no other options but to cut funding for positions with employees in them. This unfortunate situation has been limited to only one department; Public Works will need to layoff three positions. In addition, reduction plans will impact current vacant positions that were anticipated to be filled. As part of the recommended reductions, 42.49 additional vacant full time equivalent positions will be eliminated in Fiscal Year 2010/11 to help balance the budget. Lastly, three positions are recommended to have hours reduced or transferred to restricted funding sources in order to lower costs. The position impacts of budget reductions are displayed in Table 4.

Table 4

SUMMARY OF POSITION IMPACTS FOR COUNTY MANAGER RECOMMENDED BUDGET			
	Vacant/To Be Vacated	Lay-off	Reduce Hours/Cost Distribution
Position Eliminated or Reduced FTE			
Alternate Public Defender	-	-	0.23
County Clerk	-	-	0.12
County Recorder	2.00	-	-
Child Protective Services	8.12	-	-
County Manger	1.00	-	-
District Attorney	1.00	-	-
Finance	1.00	-	-
Health Department	2.00	-	-
Human Resources	-	-	0.25
Juvenile Services	2.00	-	-
Library	3.00	-	-
Public Defender	1.00	-	-
Public Guardian	1.00	-	-
Public Works	2.00	3.00	-
Regional Parks	1.00	-	-
Senior Services	1.33	-	-
Sheriff's Office	14.00	-	-
Technology Services	3.00	-	-
Subtotal	43.45	3.00	0.60
Positions Added or Redistributed			
County Manager	-	-	0.50
Public Guardian	0.96	-	-
Regional Parks	-	-	1.00
NET TOTAL POSITION CHANGE	42.49	3.00	(0.90)

Numbers are displayed as full time equivalent

Note: The County Manager is eliminating a Marketing Coordinator position and will "job share" a PIO position from Libraries on a half time basis. The Public Guardian is eliminating a vacant Supervising Case Manager position and using the savings to create two part-time non-benefited positions. Lastly, Parks is transferring a position from the May Fund into the General Fund and offsetting the additional cost with other budget reductions.

Service Impacts of Budget Reductions

The \$5 million in department budget reductions is in addition to the \$123 million in reductions taken in the four previous years. Furthermore, budget reductions have resulted in 725 fewer funded positions to serve the public. The recommended reductions will result in an additional 44.59 fewer full time equivalent positions for Fiscal Year 2011/12. This brings the total number of positions eliminated since the beginning of the Great Recession to 769. Continuing to cut budgets at this level is impacting services to the public, which is why the Board has set the goal at redefining what services the County can sustainably continue to provide.

Departments are managing through reductions by retrenching to essential and mandated services. While all departments will continue best efforts to provide excellent public services, due to necessity and limited resources efforts are prioritized to ensure mandates are met and essential services provided to the public. Some examples of how service will be impacted in Fiscal Year 2011/12 are outlined in Table 5. In addition, each department’s presentation on budget reduction plans is available on the web at <http://www.washoecounty.us/finance/FY12presentations.html>

Table 5:

Department	Some Examples of How Budget Cuts Impact Services
<i>Alternate Public Defender</i>	<i>Reducing the hours of Deputy Public Defender which decreases the office’s ability to handle conflict cases and increases the need to use outside counsel at a potentially higher cost.</i>
<i>Library</i>	<i>Eliminating Associate Director position impacting the management of Library system and placing greater work burdens on library staff potentially pulling them away from assisting the public.</i>
<i>Public Defender</i>	<i>Losing a Deputy Public Defender position which decreases the office’s ability to handle cases and increases the need to use outside counsel at a potentially higher cost.</i>
<i>Public Works</i>	<i>Laying-off three positions in Facilities Management compromising the department’s ability to maintain clean facilities and provide service to other departments.</i>
<i>Regional Parks and Open Space</i>	<i>Elimination of entire turf and plant fertilization programs along with reductions to maintenance and janitorial resources.</i>
<i>Sheriff’s Office</i>	<i>Eliminating 14 positions. Detention loses one Sergeant, 6 Deputies, 2 Support Specialists: booking agencies may be delayed in returning to street and increased workloads may result in failure of critical task completion with risk to staff and other inmates. Patrol loses Lieutenant and one Deputy: increases span of control and lengthens time to review reports. Special Operations Deputy eliminated: increases response times to other government agencies. Records and Civil losing two positions which will delay scanning of documents.</i>

Labor Cost Savings

Labor cost growth with its imbedded pressures combined with declining revenues are the two primary structural deficit drivers. Therefore, achieving sustainable labor costs is the most important component of the Balanced Plan. While wages and benefits represent more than 75 percent of the General Fund operating budgets, a savings target of \$13.8 million by resetting labor costs represents only about 40 percent of the deficit solution. Pursuant to NRS 288, pay and compensation matters are subject to collective bargaining for represented employees. As noted above the INC delivered a health plan proposal that kept costs at slightly above last year's premiums trimming about \$2.22 million off the initial deficit and the labor cost savings targets.

Statutorily the Board must adopt a budget by June 1. However, the timeline for labor negotiations may not align with the statutory budget timeline. Should labor contracts not be negotiated by the time the budget must be adopted, a budget that anticipates labor cost savings will likely result. In the event that such savings are not achieved, additional department budget and staffing reductions will be necessary to balance the budget. As such department budgets include contra accounts that reduce their budget by the anticipated labor cost savings shown in Table 6 below.

Table 6

\$11.58M Labor Cost Savings Targets By Each Employee Group FY 2011/12			
Employee Grouping (as classified in SAP)	FY 11/12 Final Budgeted Personnel Costs		Allocation of \$11.58 Million Target
		% of Total	
Attorneys	10,901,221	5.8%	671,667
Attorneys Confidential	2,855,802	1.5%	175,957
Deputies NonSupervisory	37,821,013	20.1%	2,330,301
Chief Deputies	606,258	0.3%	37,354
Deputies Supervisory	10,270,217	5.5%	632,788
District Court/Law Library	13,217,721	7.0%	814,396
Elected Officials	1,721,758	0.9%	106,084
DA Chief Investigator	150,913	0.1%	9,298
DA Investigators	1,239,617	0.7%	76,378
Incline Justice Court	346,279	0.2%	21,336
Reno Justice Court	4,264,453	2.3%	262,750
Sparks Justice Court	2,062,989	1.1%	127,109
Wadsworth Justice Court	250,279	0.1%	15,421
Juvenile Services	11,497,796	6.1%	708,424
Nurses NonSupervisory (GF only)	113,189	0.1%	6,974
WCEA NonSupervisory	54,328,841	28.9%	3,347,413
WCEA Supervisory	27,881,899	14.8%	1,717,913
Management	3,610,642	1.9%	222,466
Confidential	4,943,356	2.6%	304,580
Totals	188,084,243	100.0%	11,588,607

Investing Fund Balances of \$9.75 Million to Create Long-Term Changes

The final element of the Balanced Plan is the investment of \$9.75 million in fund balances. It is critical to use fund balances to redefining the business of government because if the balances are used to subsidize existing cost structures and not make long-term change, the County will not be financially sustainable. Therefore, staff recommends that \$9.75 million in fund balances from two sources, the Risk Management Fund and the Stabilization Fund, be used to promote long-term changes in service delivery.

In addition, there are two key operational attributes of fund balance, financing stability and sustainability. A companion item on the May 10, 2011, Board's agenda addresses these attributes, in which a proposed update to the fund balance policy will set minimum fund balance levels in the General Fund for the purpose of stabilization at 1.5% and for the purpose of sustainability of the working capital balance between 8% and 10%. The proposed budget includes these two fund balance components, 1.5% for stabilization and 8% for working capital. The 1.5% stabilization proposal is also being put forward to meet the requirements of Government Accounting Standards Board Statement 54 as the Stabilization Fund no longer meets the accounting conditions for a special revenue fund and it is being recommended this become a part of the General Fund. Therefore, included in the report on fund balance policy is a recommendation to transfer the remaining \$2.25 million balance in the Stabilization Fund to the General Fund by June 30, 2011. The remaining portion of the proposed \$9.75 million fund balance investment needed to close the FY 11/12 budget deficit will be \$7.5 million transferred from the Risk Management Fund.

The Risk Management fund accounts for property, liability, and worker compensation claims and to accumulate resources to pay those liabilities over time. The County prefunds the liability for known and accepted heart and lung claims, which is fiscally prudent and lowers the cost of paying the liability. Although it is not fiscally advisable in ordinary times to use these savings, the current fiscal crisis is extraordinary and a calculated risk can be taken in the short-run to use these savings to promote long-term changes in service delivery. As soon as financially feasible, the County should return these funds so that those liabilities are funded.

Department 90% and 75% Funding Level Planning Targets

When originally estimated, the deficit for Fiscal Year 2011/12 did not include a potential legislative impact because all the current diversions of County revenue to the State are set by law to expire on June 30, 2011. However, Governor Sandoval's current proposed budget contains an estimated \$24 million per year impact to Washoe County. Table 7 below provides the estimated impact based of Governor's Budget.

Table 7

Governor's Budget Impacts to Washoe County
 (updated 5/3/11)

<u>Item</u>	<u>Description</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
<u>Countywide Impacts</u>			
1	Continue shift of 5 cents of property tax originally intended for capital projects in Clark and Washoe County. Funds will be redirected to support higher education. These dollars are split between the County (72.38%) and the cities of Reno (20.20%) and Sparks (7.42%) in the percentages described. (SB 434)	6,000,000	6,000,000
2	Continue shift of 4 cents of property taxes in Washoe and Clark county. Property Taxes used for mandated service provision in the County. Funds will be redirected to fund higher education. (SB 434)	4,800,000	4,800,000
3	Senior Citizen Property Tax Assistance. (SB 423)	1,100,000	1,100,000
<u>Social Services</u>			
Child Welfare			
4	The State currently provides funding to Clark and Washoe counties for child welfare programs. The budget converts the funding to a block grant that includes incentive funding for reaching performance goals. The block grant will offer greater flexibility to meet child welfare needs and provides performance goals and expectations that will need to be met to access incentive dollars. (SB 447)	TBD	TBD
5	TANF Emergency Assistance - The remaining TANF Emergency Assistance funding at \$450,000.00 has been eliminated, however the resulting gap is being funded within the proposed block grant for child welfare.	439,268	439,268
6	Developmental services for children (per NRS 435.010 \$11,553,000 statewide).	1,685,899	1,637,502
Adult Services			
7	Reduction of medical reimbursement rates to medical providers. (SB 485)	TBD	TBD
8	Supplemental funds to the state. (AB 529)	3,000,000	3,000,000
9	Medical Assistance to the Aged, Blind and Disabled (MAABD) and Medicaid Waiver costs - County Match for Long Term Care	3,169,960	3,606,243
<u>Health</u>			
10	Consumer Health Protection (Food and Facilities) Washoe County District Health currently provide these service except for those facilities required to provided by the state per NRS. (SB 471)	20,205	19,933
11	Medical Care related to TB Program. (SB 471)	98,251	98,251
<u>Juvenile Justice</u>			
12	Elimination of Community Block Grant to local jurisdictions (includes elimination of sex offender treatment funds).	296,906	297,644
13	Elimination of State reimbursement for Youth Parole's use of detention. (SB 476)	134,560	134,560
14	Elimination of commitment beds at the Nevada Youth Training Center - The elimination of these beds will affect Washoe County's ability to place youth in correctional care in a timely manner.	TBD	TBD
15	Youth Parole and Probation Assessment to the County. (SB 476)	945,067	947,453
<u>District Court</u>			
16	Pre-Sentence Investigators from State Parole and Probation to the County. (Est. based on County taking program and staffing) (SB 443)	1,000,000	1,000,000
17	Mental Health Courts - Statewide impact is \$ 6,026,000, the reduction in payment for treatment will push additional costs onto our County indigent medical program. (SB 469)	1,191,903	1,201,606
Total Impact Across all County Departments (as of 5-3-11)		23,882,019	24,282,460

Consistent with the Board's Strategic Plan to create long-term financial sustainability and out of the necessity to plan for the potential financial impacts of Legislative actions on March 8, 2011, the Board directed all departments to develop contingency plans for funding levels based on two scenarios:

- A contingency plan on what services would be provided at **90% funding** of Fiscal Year 2011/12 Recommended Budget; and
- A contingency plan on what services would be provided at **75% funding** of Fiscal Year 2011/12 Recommended Budget.

The proposed department 90% and 75% Funding Level Planning Targets have been developed and take into account the recommended \$5.78 million in Department operating reductions, the \$2.22 health benefits cost reductions and the \$11.58 labor cost savings targets. In addition, programs accounted for in the Special Revenue funds, Enterprise funds and the Equipment Services Fund are include in the fundamental review in order capture the broadest definition of county services in the fundamental review that will redefine the purpose of county government. The proposed departments and funds that have been included in the Funding Level Planning Targets are shown in Table 8 below. A limited number of programs are not being recommended for inclusion in this review as their funding sources are not flexible and/or their costs are managed through a different process (i.e., Indigent Tax Levy Fund, Enhance 911 Fund, Truckee River Flood Management Fund, Central Truckee Meadows Remediation District Fund, Other Restricted Special Revenue Fund, Health Benefits Fund and Risk Management Fund).

Table 8

90% and 75% Contingency Funding Level Plans for Fundamental Review and Legislative Impacts					
	Recommended FY11/12 Adopted Budget (only cost centers)	90% of Recommended FY11/12 Adopted Budget	75% of Recommended FY11/12 Adopted Budget	10% Funding Reduction Amount	25% Funding Reduction Amount
General Fund:					
Alternate Public Defender	\$ 1,797,710	\$ 1,617,939	\$ 1,348,282	\$ (179,771)	\$ (449,427)
Alternative Sentencing	\$ 606,330	\$ 545,697	\$ 454,748	\$ (60,633)	\$ (151,583)
Assessor	\$ 5,547,850	\$ 4,993,065	\$ 4,160,888	\$ (554,785)	\$ (1,386,963)
Community Development	\$ 2,134,668	\$ 1,921,202	\$ 1,601,001	\$ (213,467)	\$ (533,667)
Conflict Counsel	\$ 1,751,463	\$ 1,576,317	\$ 1,313,597	\$ (175,146)	\$ (437,866)
County Clerk	\$ 1,303,821	\$ 1,173,439	\$ 977,866	\$ (130,382)	\$ (325,955)
County Commissioners	\$ 485,562	\$ 437,006	\$ 364,171	\$ (48,556)	\$ (121,390)
County Manager-Community Support	\$ 388,401	\$ 349,561	\$ 291,301	\$ (38,840)	\$ (97,100)
County Manager-General Govt	\$ 2,512,001	\$ 2,260,801	\$ 1,884,000	\$ (251,200)	\$ (628,000)
County Manager-Emergency Mngmnt	\$ 108,158	\$ 97,342	\$ 81,119	\$ (10,816)	\$ (27,040)
County Manager-Fire Suppression	\$ 257,940	\$ 232,146	\$ 193,455	\$ (25,794)	\$ (64,485)
County Recorder	\$ 1,908,562	\$ 1,717,706	\$ 1,431,422	\$ (190,856)	\$ (477,141)
District Attorney	\$ 16,282,062	\$ 14,653,856	\$ 12,211,547	\$ (1,628,206)	\$ (4,070,516)
District Court (incl. Law Library)	\$ 14,702,222	\$ 13,232,000	\$ 11,026,667	\$ (1,470,222)	\$ (3,675,556)
Finance	\$ 3,084,033	\$ 2,775,630	\$ 2,313,025	\$ (308,403)	\$ (771,008)
Human Resources	\$ 2,152,488	\$ 1,937,240	\$ 1,614,366	\$ (215,249)	\$ (538,122)
Incline Constable	\$ 218,452	\$ 196,607	\$ 163,839	\$ (21,845)	\$ (54,613)
Justice Court - Incline	\$ 349,193	\$ 314,274	\$ 261,895	\$ (34,919)	\$ (87,298)
Justice Court - Reno	\$ 4,222,278	\$ 3,800,050	\$ 3,166,708	\$ (422,228)	\$ (1,055,569)
Justice Court - Sparks	\$ 2,005,611	\$ 1,805,050	\$ 1,504,208	\$ (200,561)	\$ (501,403)
Justice Court - Wadsworth	\$ 251,894	\$ 226,704	\$ 188,920	\$ (25,189)	\$ (62,973)
Juvenile Services	\$ 12,157,365	\$ 10,941,629	\$ 9,118,024	\$ (1,215,737)	\$ (3,039,341)
Library System	\$ 8,245,965	\$ 7,421,368	\$ 6,184,473	\$ (824,596)	\$ (2,061,491)
Medical Examiner	\$ 1,862,668	\$ 1,676,401	\$ 1,397,001	\$ (186,267)	\$ (465,667)
Public Administrator	\$ 869,785	\$ 782,806	\$ 652,339	\$ (86,978)	\$ (217,446)
Public Defender	\$ 6,652,074	\$ 5,986,866	\$ 4,989,055	\$ (665,207)	\$ (1,663,018)
Public Guardian	\$ 1,419,060	\$ 1,277,154	\$ 1,064,295	\$ (141,906)	\$ (354,765)
Public Works-General Gvnt	\$ 6,289,930	\$ 5,660,937	\$ 4,717,448	\$ (628,993)	\$ (1,572,483)
Public Works-Public Works	\$ 13,428,453	\$ 12,085,607	\$ 10,071,339	\$ (1,342,845)	\$ (3,357,113)
Regional Parks and Open Space	\$ 4,769,981	\$ 4,292,983	\$ 3,577,486	\$ (476,998)	\$ (1,192,495)
Registrar of Voters	\$ 1,309,615	\$ 1,178,654	\$ 982,211	\$ (130,962)	\$ (327,404)
Sheriffs Office	\$ 83,394,045	\$ 75,054,640	\$ 62,545,534	\$ (8,339,404)	\$ (20,848,511)
Social Services (excl Med.Assistance)	\$ 2,943,745	\$ 2,649,370	\$ 2,207,808	\$ (294,374)	\$ (735,936)
Technology Services	\$ 10,964,558	\$ 9,868,102	\$ 8,223,418	\$ (1,096,456)	\$ (2,741,139)
Treasurer	\$ 1,957,817	\$ 1,762,036	\$ 1,468,363	\$ (195,782)	\$ (489,454)
Total General Fund	\$ 218,335,759	\$ 196,502,183	\$ 163,751,819	\$ (21,833,576)	\$ (54,583,940)
Special Revenue Funds (1)					
Animal Services	\$ 4,548,485	\$ 4,093,637	\$ 3,411,364	\$ (454,849)	\$ (1,137,121)
Child Protective Services	\$ 14,405,627	\$ 12,965,064	\$ 10,804,220	\$ (1,440,563)	\$ (3,601,407)
Health	\$ 11,204,095	\$ 10,083,685	\$ 8,403,071	\$ (1,120,409)	\$ (2,801,024)
Library Expansion	\$ 2,496,584	\$ 2,246,925	\$ 1,872,438	\$ (249,658)	\$ (624,146)
Regional Communications System	\$ 2,221,927	\$ 1,999,734	\$ 1,666,445	\$ (222,193)	\$ (555,482)
Regional Public Safety	\$ 884,857	\$ 796,371	\$ 663,643	\$ (88,486)	\$ (221,214)
Senior Services	\$ 2,140,132	\$ 1,926,119	\$ 1,605,099	\$ (214,013)	\$ (535,033)
Enterprise Funds (excludes depreciation) (1)					
Building & Safety	\$ 1,362,718	\$ 1,226,446	\$ 1,022,039	\$ (136,272)	\$ (340,680)
Water Resources	\$ 24,486,824	\$ 22,038,142	\$ 18,365,118	\$ (2,448,682)	\$ (6,121,706)
Golf Course	\$ 2,057,890	\$ 1,852,101	\$ 1,543,418	\$ (205,789)	\$ (514,473)
Internal Service Funds (excludes depreciation) (1)					
Equipment Services	\$ 5,741,577	\$ 5,167,420	\$ 4,306,183	\$ (574,158)	\$ (1,435,394)
Totals	\$ 289,886,476	\$ 260,897,828	\$ 217,414,857	\$ (28,988,648)	\$ (72,471,619)

(1) 6.37% of the system calculated salaries and benefits (labor concessions) have been removed from the cost centers adopted budgets

Note: For purposes of calculating funding levels, grant and restricted funded revenues and expenditures are excluded from all Recommended FY 11/12 Adopted Budgets. In addition, the \$11.58M in labor cost savings under negotiation are included in each departments budget as anticipated labor savings in the form of a labor costs savings (contra) budget amount.

FISCAL IMPACT

There is no direct fiscal impact with this item. Any fiscal impact related to Board direction would be incorporated into the proposed budget for Fiscal Year 2011/12 and be presented to the Board at the May 16, 2011 Public Hearing on the Fiscal Year 2011/12 Budget.

RECOMMENDATION

It is recommended that the Board discuss and provide direction regarding the Manager's Recommended Budget for Fiscal Year 2011/12.

POSSIBLE MOTION

Should the Board agree with the staff report, possible motion would be move to provide direction on the Manager's recommended operating budget reduction plans in the General Fund for Fiscal Year 2011/12.