

ITEM 20

Adoption of Proposed Preliminary Decision:

BUTTE COUNTY APPLICATION FOR A FINDING OF SIGNIFICANT FINANCIAL DISTRESS

Welfare and Institutions Code Section 17000.6
California Code of Regulations, Title 2, Article 6.5, Section 1185 et seq.
Statutes 1993, Chapter 72 (SB 1033), et al.

EXECUTIVE SUMMARY

Background

Senate Bill 1033 was enacted in 1993 and added section 17000.6 to the Welfare and Institutions Code. That section authorizes a county board of supervisors to adopt a general assistance standard of aid below the level established in Welfare and Institutions Code section 17000.5 if the Commission on State Mandates finds that meeting the general assistance standard of aid established by section 17000.5 results in significant financial distress. The Commission shall not make a finding of significant financial distress unless the county has made a compelling case that basic county services, including public safety, cannot be maintained. As originally enacted, a Commission finding allowed the county board of supervisors to reduce general assistance benefits for a period of up to 12 months. In 1996, however, the Legislature increased the period to up to 36 months.

On February 10, 2005, Butte County filed an Application for a finding of significant financial distress with the Commission. The basis for the Application is that the ongoing fiscal situation in the County has seriously impacted the ability of departments to provide services and meet increasing demands.

On May 3, 2005, Commission staff issued its Staff Analysis of the Application. Staff found trends to support the County's claim of unmet needs and recommended approval if the County provided more current information to support their underlying assertions. The County submitted comments on the Staff Analysis in a letter dated May 6, 2005. This response included additional information to support its claims.

On May 12, 2005, the Commission conducted a fact-finding hearing in Oroville to hear testimony from county officials. Appearing for Butte County were Mr. Paul McIntosh, Chief Administrative Officer; Mr. Sean Farrell, Deputy Administrative Officer; Ms. Shari McCracken, Deputy Administrator; Mr. Michael Ramsey, District Attorney; Mr. Henri Brachais, Fire Chief; Mr. John Wardell, Chief Probation Officer; Mr. Steve Ellen, Assistant Chief Probation Officer; Mr. Perry Reniff, Sheriff-Coroner; Ms. Yvonne Christopher, Developmental Services; Mr. Ed Craddock, Water and Resource Conservation; Mr. David Houser, Auditor-Controller.

Ms. Jennifer Haffner, Legal Services of Northern California and Mr. Tony Valim, Homeless Shelter Board of Directors, provided public testimony.

County officials provided an overview of the County's Application, rebutted the staff recommendations on unmet needs for some departments, disputed staff recommendations on revenue flexibility and the duration of the finding, and responded to questions from the Commissioners and staff. The County submitted additional information. No action was taken at this hearing.¹

Since the Application was filed, the County has changed its statement of unmet needs. These changes were submitted by the County in its response to staff questions and the Staff Analysis and testimony at the May 12 hearing. These changes are summarized in the table on page 13.

CONCLUSION AND RECOMMENDATIONS

Based on the evidence and testimony provided, and in accordance with Welfare and Institutions Code section 17000.6, staff recommends that the Commission find that –

1. The County's FY 2004-05 Final Budget totals \$320.9 million, with a General Fund contingency appropriation of \$5.6 million. While this represents increased financing requirement of approximately \$2 million from prior year, the General Fund contingency is expected to decrease by \$400,000.
2. The County's discretionary expenditure flexibility is constrained both by fund restrictions and by state and federal mandates, leaving \$70.4 million, of the \$320.9 million in Final Budget appropriations, as theoretically, available for discretionary use.
3. The full \$70.4 million cannot be considered truly discretionary inasmuch as 35 percent, or \$24.7 million, is directed toward state mandated costs and state established required maintenance of efforts.
4. The County's total available discretionary resource for FY 2004-05 is projected to decline by \$4 million from \$74.4 million in FY 2004-05.
5. The County has unmet needs in basic county services, including public safety, in the amount of \$17,459,947.
6. The County has total resource flexibility of \$8,290,839, comprised of Revenue and Reserves, including appropriation of contingency of \$5,616,078.
7. Therefore, the County's unmet needs of \$17,459,947 offset by its resource flexibility of \$8,290,839 leaves the County with a net county cost of identified basic County services unmet need of **\$9,169,108**.
8. Demands outside of the County's growth in program and service, such as the increased cost of health care premiums for employees and California Department of Forestry contract costs, have increased.²

¹ See Exhibits P and Q.

² The County intends to submit additional information concerning the cost of retirement benefits. Subject to testimony at the hearing the Commission may wish to amend the finding as follows: "Demands outside of the

Staff recommends the Commission determine that –

- Butte County has made a compelling case that meeting the general assistance standard of aid established in Welfare and Institutions Code section 17000.5 will result in significant financial distress to the County and that, absent this finding, basic county services, including public safety, cannot be maintained.

Duration of Finding

Staff recommends that the Commission make a finding of significant financial distress for a period of 12 months.

STAFF ANALYSIS

Following the May 12, 2005 hearing, Commission staff revised its original findings and recommendations on the County's unmet needs, resource flexibility, and finances. These changes are detailed below:

A. Unmet Needs

The County originally requested \$48,728,623 in unmet needs. The County revised some of its requests for unmet needs, bringing the total request to \$46,930,816. The Staff Analysis recommended \$16,084,899 in unmet needs.³

Based on the County's response to the Staff Analysis submitted on May 6, 2005, and the testimony provided at the May 12, 2005 public hearing in Butte County, staff updated the County's total unmet needs request to **\$47,768,870** and revised the recommended unmet need to **\$17,459,957** as detailed below:

1. District Attorney

The District Attorney requested unmet needs of \$746,433 for salaries and benefits for an additional five attorney positions, three legal secretary positions, and two criminal justice investigator positions.⁴ Staff originally recommended approval of \$662,250 and disapproval of \$84,183 for the deputy district attorney for misdemeanors.⁵

At the public hearing, the District Attorney revised its unmet need request, by substituting the misdemeanor deputy district attorney position requested in the Application for a gang deputy district attorney since the gang caseloads have increased.⁶ Based on the information provided, staff revises this recommendation to include additional \$84,183 in unmet needs.

Revised Recommendation: \$746,433 in Unmet Needs.

County's growth in program and service, such as the increased cost of health care premiums and retirement benefits due to enhanced benefits and market conditions, and California Department of Forestry contract costs, have increased. See Exhibit Y, page 3900.

³ See Exhibit O, page 3241.

⁴ See Exhibit O, page 3172.

⁵ See Exhibit O, page 3176.

⁶ See Exhibit P, page 3408.

2. Fire

The Fire Department requested unmet needs of \$2,171,208 for additional positions, overtime and training budget, volunteer equipment, volunteer stipend budget, and equipment replacement fund.⁷ Staff originally recommended approval of \$1,198,825 and disapproval of \$972,383.⁸

During the public hearing, the Fire Department requested additional unmet needs of six firefighters. However, they did not provide sufficient justification for these positions.⁹ Additionally, the Fire Department requested reconsideration for approval of a Haz Mat fire apparatus position (\$101,736) and the volunteer stipend budget (\$87,000).¹⁰ Insufficient information was provided to support the request.

No revisions are being made to this staff recommendation.

3. Probation

The Probation Department requested unmet needs of \$9,909,689 for Probation Officer staffing and re-opening the 20 beds in the Juvenile Hall.¹¹ Staff originally recommended approval of \$3,416,776 and disapproval of \$6,492,913.¹²

During the public hearing, a letter to all law enforcement was presented. The letter indicated that the Juvenile Hall services were being reduced and that the criteria for booking and holding minors was changed to accommodate the reduction in bed space.¹³ This document provides compelling support for \$585,000 (\$95,000 increase from the original request) in unmet needs to reactivate the 20 beds.

The County's response to the Staff Analysis provided additional information requesting reconsideration of SB 933 staffing and vehicle expenses (\$329,288).¹⁴ However, the information presented did not support the needs.

Though updated caseload information for the Adult Supervision Unit (\$3,778,433) was provided in response to the Staff Analysis, it did not provide an adequate level of detail for each position requested.¹⁵

In the County's response to the Staff Analysis, the Probation Department requested additional unmet needs of \$500,000 for additional cars for the additional officers.¹⁶ Insufficient information was provided to support the request.

Revised Recommendation: \$4,001,776 in Unmet Needs.

⁷ See Exhibit O, page 3177.

⁸ See Exhibit O, page 3179.

⁹ See Exhibit P, page 3424.

¹⁰ See Exhibit P, pages 3422-3423.

¹¹ See Exhibit O, pages 3180-3182 and 3184-3186.

¹² See Exhibit O, page 3184.

¹³ See Exhibit U

¹⁴ See Exhibit R, pages 3549-3550.

¹⁵ See Exhibit R, page 3551.

¹⁶ *Ibid.*

4. Sheriff

The Sheriff requested unmet needs of \$9,713,038 for staffing, an evidence facility and morgue, uniforms, equipment, and vehicles.¹⁷ Staff originally recommended approval of \$6,691,617 and disapproval of \$3,021,421.¹⁸

In the response to the Staff Analysis, the Sheriff requested an increase of \$505,504 (from \$34,444 to \$539,948) for the first-year financing for the evidence facility.¹⁹ Based on information describing the first-year financing needs, staff revises its recommendation to include the additional \$505,504 in unmet needs.

During the public hearing, the Sheriff reiterated the difficulties of performing autopsies in the absence of its own morgue facilities.²⁰ However, no compelling evidence was provided.

Staff originally disapproved unmet needs for the Own Recognizance (OR) program (\$420,367) due to the lack of information. The Sheriff revised its unmet needs for the OR program by \$226,191 from \$420,367 (seven staff) to \$194,176 (four Correctional Technicians).²¹ Based on the description of the savings that would be achieved in a Pretrial Release Program, staff finds that the resulting savings could be used to fund the positions.²² Therefore, staff makes no revisions to this recommendation.

In the response to the Staff Analysis, the Sheriff requested additional unmet needs of \$752,829 for seven Correctional Officers and five Correctional Technicians based on the Board of Corrections 2005 facility inspection. However, the County has paid overtime, averaging \$713,171 per year.²³ The County could redirect overtime costs to fund the new unmet needs. Therefore, the staff recommends disapproval of these new unmet needs.

The Sheriff requested reconsideration of \$350,000 for fourteen replacement fleet vehicles.²⁴ Insufficient information was provided as to why fourteen cars should be replaced.

Revised Recommendation: \$7,197,121 in Unmet Needs.

¹⁷ See Exhibit O, pages 3185-3186.

¹⁸ See Exhibit O, page 3187.

¹⁹ See Exhibit R, page 3552

²⁰ See Exhibit P, pages 3447-3448.

²¹ See Exhibit R, pages 3553-3555.

²² See Exhibit R, page 3554

²³ See Exhibit R, pages 3556-3557.

²⁴ See Exhibit R, pages 3555-3556.

5. Agricultural Commissioner

The Agricultural Commission originally requested unmet needs of \$144,145 for vehicle replacement, additional staffing, services and supplies and remodeling of the Chico office. With the County's adoption of the fiscal year 2004-05 Final Budget, the Department reduced its request to \$55,155.²⁵ Staff originally recommended approval of \$13,352 for services and supplies reduced in the FY 2004-05 budget and disapproval of the remaining \$41,803.²⁶

In its response to the Staff Analysis, the Agricultural Commissioner stated that the GIS Engineering Aide position (either full time at \$55,000 or part time at \$14,039) was not approved in the final budget.²⁷ Staff revises its recommendation to include additional \$14,039 in unmet needs for the part time GIS Engineering Aide position.

In its response to the Staff Analysis, the Agricultural Commissioner stated that two clerical positions (\$16,883) were not approved in the final budget.²⁸ No information was provided to explain how these clerical positions are necessary to maintain the current level of services.

Revised Recommendation: \$27,391 in Unmet Needs.

6. Clerk-Recorder

The County requested no unmet need.

7. Development Services

Development Services requested unmet needs of \$1,212,000 for additional staffing, contracts, Global Positioning System units, computers, office security systems and other equipment.²⁹ Staff originally recommended approval of \$5,000 for office security and disapproval of \$1,207,000.³⁰

In the response to the Staff Analysis, Development Services requested additional unmet needs for the General Plan Update ranging from \$3 million to \$5 million.³¹ The range of costs with no supporting documentation could not be evaluated and, therefore, is not reflected in the table on page 13, Summary of Unmet Needs.

The County requested reconsideration for approval of two long-range planning staff necessary to update its General Plan (\$149,000).³² However, as described above, insufficient information was provided to support the need.

Development Services requested reconsideration for approval of two GIS positions.³³ There is insufficient information to evaluate the need for the GIS positions.

²⁵ See Exhibit O, page 3188.

²⁶ See Exhibit O, page 3189.

²⁷ See Exhibit R, page 3558.

²⁸ *Ibid.*

²⁹ See Exhibit O, page 3190.

³⁰ See Exhibit O, page 3192.

³¹ See Exhibit P, pages 3460-3463 and Exhibit R, page 3557.

³² See Exhibit P, pages 3463-3464.

³³ See Exhibit P, pages 3464-3467.

No revisions are being made to this staff recommendation.

8. Water and Resource Conservation

Water and Resource Conservation requested unmet needs of \$1,090,000 for additional staffing, a water inventory program, and completion of monitoring wells.³⁴ Staff originally recommended disapproval of the entire \$1,090,000.³⁵

During the public hearing, the County requested reconsideration for approval for ground water quality monitoring (\$250,000), a water education program (\$50,000), revisions to the groundwater model and development of a watershed model (\$270,000), and feasibility studies and pilot projects (\$370,000). Based on available information, it appears that the County meets the minimum requirement to receive the AB 3030 Groundwater Management Grant.³⁶

No revisions are being made to this staff recommendation.

9. Behavioral Health

Behavioral Health requested current and projected unmet needs of \$4,233,970 for additional staffing, recruitment costs, beds, transitional shelters, Mobile Crisis Team Enhancement, and an Acute Psychiatric Facility for Children.³⁷ Staff originally recommended disapproval of the entire \$4,233,970.³⁸

No revisions are being made to this staff recommendation.

10. Public Health

Public Health requested unmet needs of \$1,042,700 for additional staffing, the Certified Unified Program Agency requirements, computer replacements, Health Insurance Portability and Accountability Act (HIPAA) compliant electronic medical records system.³⁹ Staff originally recommended approval of \$389,450 and disapproval of \$653,250.⁴⁰

No revisions are being made to this staff recommendation.

11. Employment and Social Services

Employment and Social Services requested unmet needs of \$623,900 for additional staffing, and a shelter contract. With the passage of the fiscal year 2004-05 Final Budget, the Department reduced its request to \$453,900.⁴¹ Staff originally recommended approval of \$97,750 and disapproval of \$356,150.⁴²

³⁴ See Exhibit O, page 3193.

³⁵ See Exhibit O, page 3195.

³⁶ See Exhibit W

³⁷ See Exhibit O, page 3196.

³⁸ See Exhibit O, page 3198.

³⁹ See Exhibit O, page 3200.

⁴⁰ See Exhibit O, page 3202.

⁴¹ See Exhibit O, page 3203 and 3205.

⁴² See Exhibit O, page 3205.

No revisions are being made to this staff recommendation.

12. Administrative Office

The Administrative Office requested unmet needs of \$700,000 for additional staffing, and new computer-related equipment.⁴³ Staff originally recommended disapproval of the entire \$700,000.⁴⁴

No revisions are being made to this staff recommendation.

13. Assessor

The Assessor requested unmet needs of \$318,290 for additional staffing and vehicles.⁴⁵ Staff originally recommended approval of the entire \$318,290.⁴⁶

No revisions are being made to this staff recommendation.

14. Auditor-Controller

The Auditor-Controller requested unmet needs of \$219,250 for additional staffing and computer upgrades.⁴⁷ Staff originally recommended approval of \$161,850 and disapproval of \$57,400.⁴⁸

No revisions are being made to this staff recommendation.

15. County Counsel

County Counsel requested unmet needs of \$93,156 for additional staffing and related costs.⁴⁹ Staff originally recommended approval of the entire \$93,156.⁵⁰

In the response to the Staff Analysis, the County stated that the Department no longer had unmet needs.⁵¹

Revised Recommendation: \$0 in Unmet Needs.

16. Elections and Registration

Elections and Registration requested unmet needs of \$381,913 for additional staffing, accessibility equipment, voting system, and supplies.⁵² Staff originally recommended approval of \$34,500 and disapproval of \$347,413.⁵³

⁴³ See Exhibit O, page 3206.

⁴⁴ See Exhibit O, page 3207.

⁴⁵ See Exhibit O, page 3208.

⁴⁶ See Exhibit O, page 3209.

⁴⁷ See Exhibit O, page 3210.

⁴⁸ See Exhibit O, page 3212.

⁴⁹ *Ibid.*

⁵⁰ See Exhibit O, page 3213.

⁵¹ See Exhibit R, page 3562.

⁵² See Exhibit O, page 3214.

⁵³ See Exhibit O, page 3215.

No revisions are being made to this staff recommendation.

17. General Services

General Services requested unmet needs of \$1,396,564 for additional staffing, equipment, supplies, modernization of facilities, development of local hazard mitigation plan, and the Americans with Disabilities Act (ADA) Remodel Program.⁵⁴ Staff originally recommended approval of \$550,360 and disapproval of \$846,204.⁵⁵

In the response to the Staff Analysis, the County requested reconsideration for approval of costs (\$254,035) associated with establishing the centralized Contract/Property Division.⁵⁶ However, no additional information was provided to support a revision to this recommendation.

Emergency Services requested reconsideration for approval of modernization of Emergency Operations Center.⁵⁷ Information provided in its response to the Staff Analysis substantiates that the upgrade is necessary to meet current needs. Therefore, staff revises its recommendation to include additional \$196,000 in unmet needs.

Facilities Services requested reconsideration for approval of the unfunded portion of the Facilities Master Plan.⁵⁸ Based on the additional information provided for annual maintenance expenses, staff revises its recommendation to include additional \$72,000 in unmet needs for the following essential items:

a. Chico Memorial Hall HVAC replacement	\$38,000
b. Del Oro CAA Office #2 HVAC replacement	8,500
c. Del Oro CAA Office #3 HVAC replacement	8,500
d. Paradise Library HVAC replacement	5,000
e. Chico Library roof drains	6,000
f. Paradise County Building HVAC replacement	6,000

Central Duplicating requested reconsideration for approval of the collator. Based on the additional information provided in County's response to the Staff Analysis, it appears that the collator was not purchased in fiscal year 2002-03.⁵⁹ Therefore, staff revises its recommendation to include \$11,000 in unmet needs.

In the response to the Staff Analysis, Central Stores requested reconsideration for approval of two full time and two part-time courier/stock clerks (\$79,770).⁶⁰ Since current needs are being

⁵⁴ See Exhibit O, pages 3216, 3218, 3220, and 3223-3225.

⁵⁵ See Exhibit O, page 3225.

⁵⁶ See Exhibit R, pages 3562-3563.

⁵⁷ See Exhibit R, pages 3564-3565

⁵⁸ See Exhibit R, page 3565.

⁵⁹ *Ibid.*

⁶⁰ See Exhibit R, page 3566.

met through the use of volunteer work program personnel, staff still makes no revision to this recommendation.

Revised Recommendation: \$829,360 in Unmet Needs.

18. Information Systems

Information Systems requested unmet needs of \$648,356 for additional staffing and network switching equipment upgrade.⁶¹ Staff originally recommended approval of \$436,690 and disapproval of \$211,660.⁶²

In the response to the Staff Analysis, Information Systems reduced its unmet need for additional positions by \$134,546 (from \$244,464 to \$109,918).⁶³ Based on this information, staff revises its recommendation from \$183,348 to \$109,918.

Information Systems also reduced its unmet need for the network switching equipment by \$195,882 (from \$376,392 to \$180,510).⁶⁴ Based on this information, staff revises its recommendation from \$253,342 to \$180,510.

In response to the Staff Analysis, the County requested **new** unmet needs of \$180,000 for a mass Storage Area Network (SAN) server to comply with the Health Insurance Portability and Accountability Act (HIPAA).⁶⁵ Staff recommends approval of this unmet need of \$180,000.

Revised Recommendation: \$470,428 in Unmet Needs.

19. Information Systems – Communications

Information Systems - Communications requested unmet needs of \$1,599,000 for radio system, related site improvement, and transportation and testing equipment. Staff originally recommended approval of \$1,538,000 and disapproval of \$61,000.⁶⁶

No revisions are being made to this staff recommendation.

20. Human Resources

The Human Resources requested unmet needs of \$317,603 for additional staffing, training, and computer equipment.⁶⁷ Staff originally recommended approval of \$309,753 and disapproval of \$7,850.⁶⁸

The Staff originally recommended \$250 for training five employees for the mandated sexual harassment training. In the response to the Staff Analysis, Human Resources stated that the County has 350 managers and supervisors who need the mandated training at an estimated cost

⁶¹ See Exhibit O, page 3226.

⁶² See Exhibit O, page 3227.

⁶³ See Exhibit R, page 3566.

⁶⁴ See Exhibit R, page 3567.

⁶⁵ *Ibid*

⁶⁶ See Exhibit O, pages 3227-3229.

⁶⁷ See Exhibit O, page 3229.

⁶⁸ See Exhibit O, page 3230.

of \$7,000.⁶⁹ Therefore, staff recommends approval of \$7,000 in unmet needs for mandated training.

Revised Recommendation: \$316,503 in Unmet Needs.

21. Treasurer-Tax Collector

The Treasurer-Tax Collector requested unmet needs of \$215,000 for additional staffing and equipment.⁷⁰ Staff originally recommended approval of \$40,000 and disapproval of \$175,000.⁷¹

In response to the Staff Analysis, the Treasurer-Tax Collector stated that the Department no longer had the unmet need identified in the staff analysis (\$40,000).⁷² Therefore, staff revised its recommendation on unmet needs from \$40,000 to \$0.

Revised Recommendation: \$0 in Unmet Needs.

22. Public Works

Public Works requested unmet needs of \$9,612,583 for additional staffing and computer upgrades. Upon the passage of the FY 2004-05 Final Budget, the Department reduced its request to \$9,119,151.⁷³ Staff originally recommended disapproval of the entire \$9,119,151.⁷⁴

No revisions are being made to this staff recommendation.

23. Farm, Home, and 4H Advisor

The Farm, Home, and 4H Advisor requested unmet needs of \$66,250 for vehicle replacement, publications, equipment, and computer replacement.⁷⁵ Staff originally recommended disapproval of the entire \$66,250.⁷⁶

No revisions are being made to this staff recommendation.

24. Library

The Library requested unmet needs of \$1,228,190 for additional staffing, Internet workstations, and related costs.⁷⁷ Staff originally recommended approval of \$127,280 and disapproval of \$1,067,075.⁷⁸

No revisions are being made to this staff recommendation.

⁶⁹ See Exhibit R, page 3567.

⁷⁰ See Exhibit O, page 3231.

⁷¹ See Exhibit O, page 3233.

⁷² See Exhibit R, page 3567.

⁷³ See Exhibit O, page 3233.

⁷⁴ See Exhibit O, page 3236.

⁷⁵ See Exhibit O, page 3237.

⁷⁶ See Exhibit O, page 3238.

⁷⁷ *Ibid.*

⁷⁸ See Exhibit O, page 3241.

Revised Totals

Based on the foregoing revisions, staff revises its recommendation on the County's unmet need from \$16,084,899 to **\$17,459,957** (see the table on next page).

B. Resource Flexibility

Staff originally recommended finding that the County has \$8,290,839 in resource flexibility.⁷⁹ Staff is revising its recommendation to include the following discussion based on the testimony, the County's rebuttal, and Governor's Budget May Revision:⁸⁰

1. Reserves – Appropriation Contingencies

The Staff Analysis issued May 3, 2005, included appropriation for contingencies for the General Fund, or \$5.6 million, as resource flexibility.⁸¹

During the testimony, the County stated that it has no General Fund reserves that can be used in time of emergency. The County officials further stated that the County needs contingencies to fund unplanned critical needs. The County also depends on contingencies for cash flow.⁸² Even so, the County estimates the projected Fund Balance for the General Fund as of June 30, 2005 to be \$9.8 million. This includes the unused portion of contingencies.⁸³ Based on this information, staff continues to recommend that \$5,616,078 be considered resource flexibility.

2. Statutory Relief - General Assistance

Staff originally estimated that in the area of Statutory Relief, the County would receive \$269,280 annually in savings in General Assistance (GA) if the Commission makes finding of significant financial distress and the County reduces GA.⁸⁴

During the testimony, the representative from Legal Services of Northern California testified that the estimated savings should be reduced based on the level of reimbursement the County anticipates to receive in the current year (\$361,000).⁸⁵ In the response to Commission questions and public comment, the County revised its estimate of the amount of GA savings that would be achieved. Based on the level of reimbursement the County anticipates, the annual savings would be \$172,339, rather than \$269,280.⁸⁶ The amount of reimbursement is directly related to the amount of assistance paid. If the GA rate is reduced, the subsequent reimbursement from Supplemental Security Income (SSI) will also decrease.⁸⁷ Therefore, staff finds that the savings in general purpose revenue from the approval of the distressed county designation would be approximately \$172,339.

3. Potential Resource Flexibility

The Staff Analysis included discussion on the unpaid Vehicle License Fee (VLF) gap of \$4.3 million. The VLF gap was originally scheduled to be repaid to local agencies on or around

⁷⁹ See Exhibit O, page 3255.

⁸⁰ See Attachment 1.

⁸¹ See Exhibit O, pages 3248-3249.

⁸² See Exhibit P, pages 3476-3479.

⁸³ See Exhibit Z, pages 3953-3954.

⁸⁴ See Exhibit O, page 3253.

⁸⁵ See Exhibit P, page 3492.

⁸⁶ See Exhibit Y, p. 3901

⁸⁷ See Exhibit Y, p. 3907

August 2006.⁸⁸ The Governor's Budget May Revision now proposes to repay half of the VLF gap to cities and counties in FY 2005-06.

The May Revision also proposes to restore \$18.5 million in funding for the small and rural sheriffs' program, which provides \$500,000 grants to the county sheriffs of 37 counties.⁸⁹ Butte County will receive \$500,000, contingent upon the passage of May Revision.

During the public hearing, County officials also stated that they expect to receive initial Proposition 63 funding (\$150,000 to \$200,000) during FY 2004-05. This additional revenue will be spent on planning to expand behavioral health services. The County officials further project to receive additional \$2 million annually thereafter.⁹⁰

4. Payroll

After the May 12, 2005 public hearing, the County revised its vacancy list, which now reflects only 100 vacancies in General Fund positions.⁹¹ The County states that salary savings have been included in the General Fund fund balance projections for June 30, 2005.⁹² The County now estimates that the projected fund balance for the General Fund on June 30, 2005 will be \$9.8 million.⁹³

5. Revised Totals

Staff makes no revision to its recommendation on the County's total resource flexibility. (See Summary of Resource Flexibility on next page).

⁸⁸ See Exhibit O, p. IV-9

⁸⁹ *Ibid.*

⁹⁰ See Exhibit P, p. 3480

⁹¹ See Exhibit Y- p. 3903-3906

⁹² See Exhibit R, page 3546.

⁹³ See Exhibit Y, p. 3901

Summary of Resource Flexibility

REVENUE	<u>Staff Recommendation</u>
Motor Vehicle in-lieu Tax	\$ -
Sales Tax	-
Property Tax	-
Prop. 172 Sales Tax	1,139,014
Charges for Services	171,441
Revenue Flexibility	1,310,455
RESERVES	
Appropriation for Contingency	5,616,078
Cost Savings Flexibility	525,000
Unexpended Available Resources	7,367
Internal Service Fund Balance	831,939
Reserves Flexibility	6,980,384
STATUTORY RELIEF	<u>-</u>
 <i>TOTAL RESOURCE FLEXIBILITY</i>	 <i>\$ 8,290,839</i>

CONCLUSION AND STAFF RECOMMENDATIONS

Based on the evidence and testimony provided, and in accordance with Welfare and Institutions Code section 17000.6, staff recommends that the Commission find that –

1. The County's FY 2004-05 Final Budget totals \$320.9 million, with a General Fund contingency appropriation of \$5.6 million. While this represents increased financing requirement of approximately \$2 million from prior year, the General Fund contingency is expected to decrease by \$.4 million.
2. The County's discretionary expenditure flexibility is constrained both by fund restrictions and by state and federal mandates, leaving \$70.4 million, of the \$320.9 million in Final Budget appropriations, as theoretically, available for discretionary use.
3. The full \$70.4 million cannot be considered truly discretionary inasmuch as 35 percent, or \$24.7 million, is directed toward state mandated costs and state established required maintenance of efforts.
4. The County's total available discretionary resource for FY 2004-05 is projected to decline by \$4 million from \$74.4 million in FY 2004-05.
5. The County has unmet needs in basic county services, including public safety, in the amount of \$17,459,947.
6. The County has total resource flexibility of \$8,290,839, comprised of Revenue and Reserves, including appropriation of contingency of \$5,616,078.
7. Therefore, the County's unmet needs of \$17,459,947 offset by its resource flexibility of \$8,290,839 leaves the County with a net county cost of identified basic County services unmet need of **\$9,169,108**.
8. Demands outside of the County's growth in program and service, such as the increased cost of health care premiums for employees and California Department of Forestry contract costs, have increased.⁹⁴

Staff recommends the Commission determine that –

- Butte County has made a compelling case that meeting the general assistance standard of aid established in Welfare and Institutions Code section 17000.5 will result in significant financial distress to the County and that, absent this finding, basic county services, including public safety, cannot be maintained.

⁹⁴ The County intends to submit additional information concerning the cost of retirement benefits. Subject to testimony at the hearing the Commission may wish to amend the finding as follows: "Demands outside of the County's growth in program and service, such as the increased cost of health care premiums and retirement benefits due to enhanced benefits and market conditions, and California Department of Forestry contract costs, have increased. See Exhibit Y, page 3900.

Duration of Finding

The evidence and testimony provided to date reflects that the financial condition for Butte County will improve. By its own estimates for the County's General Fund, the County will improve its financial situation in FY 2006-07, when the County is estimating a year-end fund balance of \$470,670, and increasing to \$5,484,466 in FY 2007-08.⁹⁵

The unpaid Vehicle License Fee (VLF) gap of \$4.3 million for Butte County was scheduled to be repaid on or around August 2006. However, the Governor's Budget May Revision now proposes to repay half of the VLF gap to cities and counties in FY 2005-06.

The May Revision also proposes to restore \$18.5 million in funding for the small and rural sheriffs' program, which provides \$500,000 grants to the county sheriffs of 37 counties. Butte County will receive \$500,000, contingent upon the passage of the May Revision.

During the public hearing, County officials also stated that they expect to receive initial Proposition 63 funding (ranging from \$150,000 to \$200,000) during FY 2004-05. This additional revenue will be spent on planning to expand behavioral health services. The County officials further project to receive additional \$2 million annually thereafter.

Therefore, staff recommends that the Commission make a finding of significant financial distress for a period of 12 months.

⁹⁵ Butte County Application, p. 50