Maximizing Revenue in a Budget-Reducing Environment

If "Budget Drives Everything," What Drives the Budget?

Debra Van Vleck

EXECUTIVE SUMMARY

In 2003, in response to upcoming budgetary changes that would impact social service agencies at the state and county level, three participants from the Bay Area Social Services Consortium joined together and created a project to provide a framework of budget information that affected human service agencies. As the title of that project indicated, counties were beginning to feel the impact of an ever-dwindling state budget and were seeking ways to continue to provide excellent services with decreasing monetary support. In their research for their project, they visited Sonoma County and spoke with Jerry Dunn, who was then the Director of the Employment and Training Division and is now the Assistant Director of Human Services. He was quoted in that project as saying, "budget drives everything." If that quote is accurate and "budget drives everything", then it is imperative that we understand what factors contribute to the financial aspects of the programs that use county general funds.

A suggested course of action for Sonoma County is to continue to look for ways to leverage funds from state and federal sources and to research grant opportunities. As a county we should continue to inform staff about the budget process, provide training opportunities in fiscal management, and share information with other divisions and counties.

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Introduction

In the 2003 Bay Area Social Services Consortium (BASSC) report, "Maximizing Revenue in a Budget-Reducing Environment," the recommendations to Contra Costa County included the possibility of training "program people" in basic fiscal management and "fiscal people" in program guidelines. As I was choosing a final presentation project for the BASSC Executive Development program, this fiscal management concept rang true for me. I requested to research financial management to facilitate my knowledge in that area. I am the analyst for the General Assistance program, which is a 100% county-funded program. My interest in discovering how my program is financed led me in the direction of looking at the budget at the county level. In researching how the general fund is financed, I interviewed Jerry Dunn, Assistant Director of Sonoma County Human Services, and received fiscal information from Gail Goring, Chief Financial Officer for the Human Services Department. When I visited Leslie Gutierrez, Financial Analyst in Contra Costa County Employment and Human Services, I was provided with information that provided insight into how issues specific to a certain county could affect various departments.

Sonoma County, like many counties, is facing a fiscal crisis. In preparation for the next fiscal year, July 1, 2011–June 30, 2012, the Sonoma County Board of Supervisors directed Sonoma County Human Services to cut its general fund allocation by 25%. By the end of fiscal year (FY) 2010–2011, the Sonoma County Human Services Department (SCHSD) will have received approximately $152 million in revenue. Of that, 14%, or just over $21 million, will have come from local general funds. In FY 2011–2012, revenue from county general funds allocated to the SCHSD is projected to be $15,750,000. To understand why these budget reductions need to be made, we must review how counties receive funding and what effect varying circumstances have at the county level. To do this, we must review our own county and make comparisons to other counties.

Historical Framework

On the heel of welfare reform in 1996, the State of California enacted a number of federally mandated changes. When FY 1996–1997 ended, the State of California had a surplus of $648 million. It was assumed that the following year would end with a two billion dollar fund balance, and in fact the FY 1997–1998 budget was filled with terms such as "strong economic growth," "wage and salary increases," and "additional funding."[1] The summary of FY 1998–1999 asks, "How shall the surplus be spent?"[2] In reviewing the 1999 May Revision to the State Budget from the California Budget Project, the following statement was quoted, "As proposed, the FY 99–00 budget spends more than it raises in revenues. This could leave the state vulnerable in the event of a slowdown in the economy or unforeseen expenditures."

In planning for FY 2001–2002, a couple of key phrases such as "ticking time bombs"[3] and "the state's growing dependence on stock market related income sources"[4] sounded increasingly ominous. September 11, 2001 provided a look at the future fi-

1 California Budget Project, "What's in the Governor's Proposed 1997–98 Budget?"

2 California Budget Project, "1998–99 Budget Summary", January 1998.

3 California Budget Project, "Ticking Time Bombs: ACA 4 and AB 26 Will Limit the State's Ability to Meet Future Obligations, July 2001.

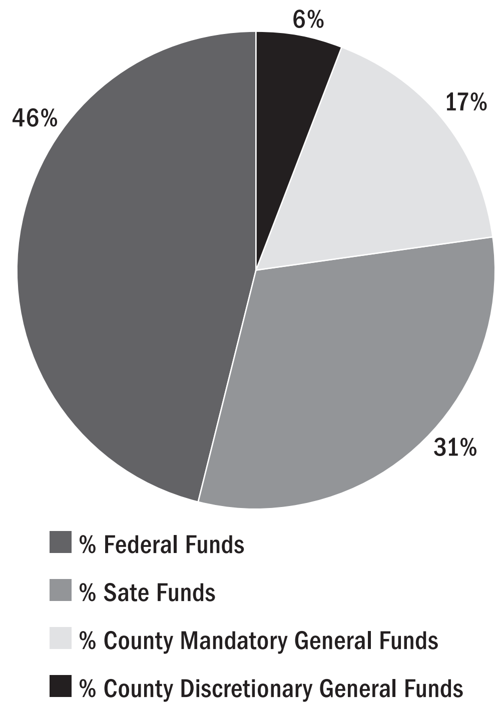
4 California Budget Project, "The Budget Unplugged: The Social and Economic Context of the Governor's Proposed 2001–02 Budget, January 2001.

nancial situation of a state that relied on tourism and was heavily invested in stock options. People were concerned about flying, the tech industry stopped "booming", and the personal income tax that was generated from the wealthiest Californians, which accounted for 50% of all income tax collected, declined. FY 2001–2002 ended $6.8 billion below the expected revenue of $77 billion, and it was projected that reductions needed to be made for the next fiscal year. In the midst of all of this, economists thought it was a temporary crisis.

County General Funds

Sonoma County Human Services receives 33 different funding allocations from federal, state, and county general funds. In FY 2009–2010, the funds were divided as per the chart in Figure 1.

FIGURE 1
Sonoma County Human Services Funding Sources FY 2009–2010



County general funds come from a variety of sources, including: taxes, licenses, permits, fines (including forfeitures and penalties), use of money (interest and rent), intergovernmental (state and federal) funds, charges for services, and use of reserves. Taxes include sales tax and property taxes. The recession of the early 1990's found the state of California in a budget crisis. One of the first attempts to offset the deficit at that time was the creation of the Educational Revenue Augmentation Funds (ERAF) that shifted some of the educational funding responsibility to the local county government. ERAF has continued to reinvent itself under plans I, II, and III. In FY 2010–2011, ERAF withheld $7.5 billion from city and county governments, forcing cuts to human services, parks, libraries and community services, deferring maintenance on infrastructure, and creating pressure to raise local taxes, assessments, and fees. Many counties continue to cite the funds they are "missing" due to ERAF in their local county budgets.

As part of the shift to embolden counties to become more fiscally responsible and to have greater control of funds, the State of California required local governments to be responsible for paying for a portion of many mandated programs, including In-Home Supportive Services, mental health services, child welfare services, and CalWORKS (a cash assistance program for families with children). Also included were services for foster care and adoptions assistance. As counties pushed for a reliable funding source to pay for those programs, the state decided that it would partially fund the aforementioned programs, mostly health and human services, by collecting sales tax and vehicle license fees and giving a portion of the revenue back to the counties through a methodology that is difficult to comprehend. This is known as realignment. At the end of a given fiscal year, the total realignment figure is considered to be the base for the next year. The base also factors in an increase in funding based on projected caseload growth. In addition, the state imposes a maintenance of effort provision for some programs or services, which requires that counties must contribute a certain amount of funding in order to receive a share of the revenue.

Local government also receives funding from property taxes. According to the Sonoma County proposed budget for FY 2010–2011, property tax revenue is at its lowest since 2006 and it is expected to remain flat during FY 2011–2012. Property tax apportionment rules are extremely complex, and the 81-page report, "Demystifying the California Property Tax Apportionment System" (Elldedge, D., May 2006), did little to demystify the process.

As the recession continued, counties encountered a new level of frustration attributed to the realignment challenge. The funding base dropped below the level necessary to pay for mandated services. When this first occurred, the state expected the counties to pick up the difference, but a compromise was reached and a subsequent senate bill allowed individual counties to enact financial changes to mandated services in the event the base became too low.

Also contributing to the downturn in Sonoma County's economy is revenue from sales taxes, which continue to be low. In Sonoma County, retail sales dipped 16% in 2009 and have only risen 3% since that time. Likewise, per capita income has decreased, which has led to a decrease in spending; as a result, the revenue from sales tax has decreased. Voters approved a local tax increase in Sonoma County, from 9.25% to 9.5%, which went into effect on April 1, 2011. Time will tell if that eases the crunch.

Planning

In FY 2009–2010, the departments in Sonoma County were each asked to reduce their budget by 15%. In FY 2010–2011 the requested reduction rose to 20%, and the reduction request for fiscal year 2011–2012 has risen to 25%.

A majority of a county human services department's budget is already spoken for through mandates from federal or state governments. In the previous pie chart, both county mandatory and county discretionary funds are referenced. Often, all county funds are referred to as discretionary, meaning the county has control over how they are spent; however, this is actually not accurate. For example, California Welfare and Institutions Code Section 17000-17030.1 requires county governments to provide relief for indigent citizens. Cash payments or voucher assistance for rent through General Assistance must come from the county's budget, and there are no matching federal or state monies to fund this program. The provision requires a minimum of 62% of the 1991 federal poverty level must be provided for one person. In reality, parts of the discretionary funds are mandatory. For 2009–2010, the 6% of the budget that our county had control over was for administrative costs, leading us to attempt to do more with less.

For the next fiscal year, the shortfall for the Sonoma County Human Services Department is projected to be 25 percent. In very simplistic terms, if SCHSD had $100 to work with in FY 2008–2009, then in FY 2011–2012, they will have $51 to work with.

The number of applications for Economic Assistance alone has increased from an average of 3,680 per month in 2008, to an average of 5,100 per month in 2010. Unfortunately, this number is negatively correlated with the number of intake eligibility workers, which has decreased since 2008. Because of the need to keep vacant positions open for workers who are on approved leave, the number of workers is down from 27 in 2008 to 26 as of February 2011. One can understand why budget discussions are filled with terms such as dire, deep, unprecedented, and drastic. In the FY 2010–2011 budget presented to the Sonoma County Board of Supervisors, County Administrator Veronica Ferguson was quoted as saying, "The budget is balanced, despite many fiscal obstacles, including the recession, housing meltdown, credit crisis, and a continually unraveling state budget." To achieve the balanced budget for 2010–2011, Sonoma County had to institute layoffs, as well as reductions in programs and services.

In prior years, expenditures for welfare programs primarily included benefits that were paid out; a smaller but still significant amount was spent on welfare administration. A county has no control over how many people come to its door to apply for benefits; as a result, some human services departments were not held responsible for adhering to this part of their proposed budget. This is called "to hold harmless." In the next fiscal year, however, Sonoma County Human Services will no longer be held harmless. Because we must plan for caseload growth, pay benefits to eligible clients, and remain within budget, even greater cuts will need to come from welfare administration.

Difficult Choices

The process of cutting the budget can start out fairly simple, but it can rapidly deteriorate into a labyrinth of finances. First, you must identify programs and services that the general fund supports. In Sonoma County, the next step involves labeling each program or service as red, yellow, or green. Those terms indicate precisely what they seem to represent: a program labeled green could go, or be cut, if necessary; a program labeled yellow can be cut if it has to be; and those labeled red mean stop, don't cut them unless there is no other option.

But again, it is not that simple. Some programs receive only a very small percentage of general fund income and bring in federal or state funds as a supplement. This is called "drawing down." A county may spend $1 of its own funds and bring in $9 from federal sources. The county may then be able to leverage those funds. An example of leveraging is when a county spends general fund dollars on the CalFresh Employment and Training program. Spending money on this program can bring in federal dollars that may be utilized to fund other overlapping programs such as General Assistance. As long as program spending is not in conflict with any laws, and you are reporting it to the appropriate auditors, you may be able to offset some general fund spending with federal or state money. Drawing down federal funds is an excellent use of revenue and a good investment; however, counties must first decide if they have the funds to initially invest and how they are allowed to spend the money they get back.

Comparison to Contra Costa County

After the Board of Supervisors has allocated funds, a new level of planning begins. Just as the allocation to a county department is dependent on certain mandates and propositions, there may be additional limitations at the department level. Lawsuits can also affect a county's general fund budget allocation as reflected in the Contra Costa County Employment and Human Services Department recommended budget for FY 2011–2012, which states that in FY 2009–2010 the program was amended to facilitate eligibility determinations for General Assistance. A settlement in 2009 of the lawsuit Lugo vs. the Contra Costa County Board of Supervisors forced eligibility changes to the program. Since the close of FY 2008–2009, the GA caseload has increased by 423 percent. In the next fiscal year, Staffing for caseworkers is projected to be at 27 FTE, whereas staffing was at 11.2 FTE at the end of the first quarter of FY 2009–2010. The price of operating within a defined budget for only one program is that there is less county money available for other expenses, no matter how valuable those services might be. As previously stated, other programs that utilize general funds may require the county to pay up-front for a portion of the services with the expectation of receiving additional funding back, which is referred to as leveraging state or federal reimbursement. While there was a modicum of local funding that offset this, the outcome for FY 2010–2011 was a net county loss of $7.8 million. Contra Costa County countered the loss by eliminating critical administrative positions, consolidating programs and diverting other services to federally funded programs. In FY 2005–2006, the GA caseload in Contra Costa County was 386 cases. Today, it is nearing 1,600. During that same timeframe, the total cost of the program has increased from $2.5 million to a projected $9.2 million in FY 2011–2012. This will account for 55% of the total revenue allocated to EHSD from local funds. To offset this, some major cuts were made to Children and Family Services, including many administrative positions that could directly impact timely service. One service cut that stands out is staffing that assists in licensing new foster parents. Delays will impact children being placed in a safe and stable housing environment. Human services certainly reflect the adage: nothing exists in a vacuum.

Other programs that are partially funded by general funds include CalWORKS, Foster Care, Child

Welfare Services, and Adult Protective Services. While these are state-mandated programs, the state froze payment levels in 2001 and has not provided additional funding for these programs to the counties. Therefore, any additional funds required have come from the general fund budget. As in Contra Costa, services to many of these programs are now on the chopping block in many counties, including Sonoma. In the case of Contra Costa County, the cost to fund additional GA clients has come from a finite budget that also provides services to children and vulnerable adults. The outcome of the Lugo lawsuit has been a major contributing factor in determining future budgets in Contra Costa EHSD.

Recommendations

Sonoma County can benefit by continuing to explore ways of improving its financial outlook. As funding for certain programs is cut, the elimination of a program may mean expanded opportunities to fund a program that is struggling to succeed. We should therefore:

- Continue to work with community partners to research joint grant opportunities;
- Continue to identify opportunities to leverage funds and maximize the revenue coming from the federal and state levels rather than from local general funds; and
- Continue to inform staff about the budget process and provide opportunities for staff development in the area of financial management.

Conclusion

The county budget process is considered a moving target. It is vital that we continue to seek methods of cost management that may have recently been unworkable. Any change, however slight, has the potential to impact other programs and/or divisions. It is also imperative to continue to work with management across divisions and to solicit information and best practices from other counties.

Acknowledgements

Thank you to Leslie Gutierrez of Contra Costa County Employment and Human Services Department who prepared charts and graphs, and allowed me to take up her valuable time. Also, thanks to Jerry Dunn, Assistant Director of Sonoma County Human Services and "Budget Guru", and Gail Goring, Chief Financial Officer of Sonoma County Human Services.

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