Message from the County Executive Officer

Nevada County Carries On Despite the Severe Recession and the State's Insolvency

Not since the Great Depression has our world, country, state and county been faced with the magnitude of financial challenges now confronting us. Unemployment rising, businesses closing, retail sales disappearing and the real estate market finally hitting bottom have caused severe hardship in all communities, including Nevada County. This has resulted in an increased demand for some government services while severely diminishing tax resources are available to pay for public services. On top of this, the State of California has once again created a financial house of cards that is in the process of collapsing. These two negative factors have rocked many local governments in the state and the nation.

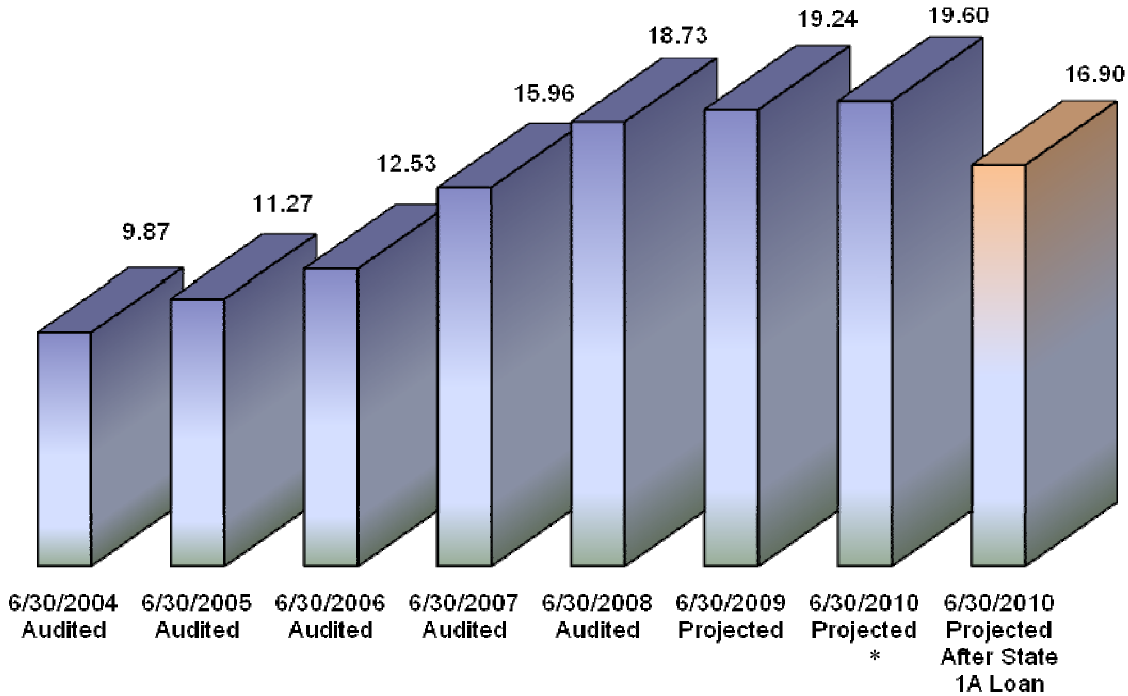
The County of Nevada budget has been impacted by both the national recession and the State's inability to act in a financially responsible manner. Our revenues are down while costs continue to increase. The good news is that the Nevada County organization has prepared for this and has taken further actions to ensure the County's financial health.

These preparations have included strict adherence to the Board of Supervisor's fiscally conservative policies. The County has followed these conservative principles again this year just as we have for a number years leading up to the present economic circumstances. This was important because the County government stayed lean during better economic times which allowed a build up of reserves. Many local governments are dipping heavily into their dwindling reserve funds to balance their operating budget. Nevada County will not be drawing down on it's reserves. The County's reserves will not change this year. The total reserves will stand at 19+ million dollars just as they did last year. These reserves are, by policy, to be used only for one time expenditures and emergencies, as they were largely set aside as a result of one-time gains or specifically to mitigate emergencies. During the pre-recession years, Nevada County has increased its reserves each of the last six years, but the rate has slowed as the economic downturn approached. On the following page, you will see a chart which demonstrates this trend.

Rather than drawing on these reserves, the County organization has made further cuts to balance its own ongoing operations budget in order to sustain priority services into the future. These cuts began during the current fiscal year of 2008/2009 and were almost surgical in their nature. Adhering to another policy of the Board of Supervisors, public safety was given a top priority. Areas affected by federal, state and the local economic cutbacks were scaled back as revenues declined. These areas focused on library hours, transit routes and reducing the transfer station days of operation. Internally, general government offices like the County Executive, Human Resources, Auditor-Controller, General Services, Clerk-Recorder, Assessor and County Counsel all made personnel reductions.

This proactive approach enabled the County organization to reduce overall full-time staffing from 976 positions to 912 authorized positions for 2009/2010. Personnel costs are a major portion of any local government budget. These staffing reductions saved $4 million dollars.

In addition to these personnel savings, strategic reductions to other programs have allowed actual overall expenditures for the County budget to be reduced by almost $5.6 million dollars or 3%. Every effort was made to preserve services wherever possible. There were exceptions when specific revenue streams were reduced.



*Does not include expected reductions in 2009-10 for one-time technology and facility expenditures.

For instance, in Transit, state funding was reduced by 59%. This necessitated the reduction and elimination of certain bus routes. In the case of libraries, sales tax fell by 6% requiring the reduction of hours in the system. These are examples of where service cutbacks were necessary due to revenue shortfalls.

Duplication of services were identified and eliminated where possible. For example the teen health services were being provided more efficiently by community providers, so that duplication of services was eliminated at the County.

Some might say why not draw down on those reserves to preserve services. That is a strategy that the State of California has used and it has brought them to the brink of financial disaster. No one knows when this downturn will end, so the County will put off, for as long as possible, any draw down of reserves for services.

One small area of service improvement has been an increase in the staffing for Veteran's Services. This is in anticipation of the increase of cases and the complexity of those cases as veterans return home.

A larger area of service improvement is road capital projects. The County has been able to increase its efforts in this area because of the Federal government's economic stimulus efforts known as the American Recovery & Reinvestment Act (ARRA). ARRA will allow our Department of Public Works to increase road improvements by $1,120,000. This means that 7 additional miles will be improved this year. We expect additional road improvements to be expanded in future years because of ARRA.

Another area of service improvement has been Mental Health as revenues have increased from Prop. 63 funds which are derived from a 1% income tax on millionaires. The Department has efficiently used those new revenues to provide additional services through contractors. The use of contractors may be a wave of the future as local government continues to scale back.

Speaking of the future, there is no expectation that the State will correct budget problems without raiding local government coffers. The national economy, while showing signs of recovery, is still far from stable and a long way from expanding. The County will have to find more efficiencies while continuing to eliminate waste, continuing to use technology to its fullest and doing things differently than in the past.

Some examples that the County will be considering and working on for future fiscal years include:

Where appropriate and most effective, preserve existing services from revenue reduction by contracting the service to non-profits or the private sector.

The need to modernize future public employee labor agreements to reflect the new economic realities of the state and the nation. This will include remaining competitive in wages while finding ways to moderate pension costs, particularly for new employees.

Local public safety organizations, which have a rich history in Nevada County of cooperation and collaboration, will need to use that experience to seriously address the issue of appropriate areas for consolidation. Any remnants of the era of protecting turf have to come to an end if we are to meet future economic challenges. The time for hiding inefficiencies behind the cloak of "public safety" will have to cease.

The justice system should be commended for admirably creating specialty courts to focus on the treatment of offenders while freeing up expensive jail space. This action has allowed the Sheriff to be creative by contracting with the Federal government to house federal inmates in vacant jail beds and provide a new revenue stream. The justice system should continue these improvements by streamlining archaic court calendaring procedures to allow for more efficient use of overly stretched police officers, deputies, detectives, probation officers, social workers, mental health professionals, prosecutors and public defenders. These economic times require continued creativity by our justice system.

Local government can no longer continue to increase its investment in economic development organizations only to see efforts remain the same. The County has increased its contributions 75% in the last five years while cities decreased their contributions. The Economic Resource Council is to be commended for its efforts to work against the inertia of the old guard, but it appears to be a losing battle. Normally, government should not dictate the changes in this area where the private sector should take the lead, but the status quo cannot stand if we are to have a diverse local economy. Local policymakers are beginning to make their own recommendations because of the lack of new approaches in this area.

We cannot expect that a mythically balanced state budget and a dusting of federal stimulus funds will solve our issues locally. We will apply for our share of stimulus funding and fight the State's never ending waves of unfunded mandates, but we will have to be responsible to make our own economic future.

At the time of this writing the voters of California have rejected propositions 1A through 1E at the May 19 special election. The Governor has proposed a revised 2009/2010 Budget to overcome a dire 21.3 billion deficit in Sacramento. Among the provisions of this proposed budget is the suspension of Proposition 1A (2004) and the borrowing of 8% of local government's property taxes for up to three years. This will result in a hit of approximately $2 billion to local governments statewide and specifically to Nevada County government of a minimum of just over $2.7 million dollars. Once again, a short term fix, diverting local revenues to finance the State's inability to balance its budget. We are developing alternatives to deal with this new State of California raid on County funds. Some combination of additional reductions and use of carefully gathered reserves is likely. But until we know the final outcome of budget deliberations in Sacramento, I am recommending we continue on the course of the Board of Supervisors conservative fiscal policies, adopt our local budget, and watch carefully the outcome of fiscal debates at the capital.

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The State of California's fiscal crisis is unprecedented. How it will be finally resolved in the short term and long term is yet unclear. The crisis could very well deepen before it is over. At a minimum, it will likely continue to be chronic and Nevada County will suffer for several years to come as the State chips away at funding and increases demands on us and our local dollars. Since 1990 the number of State Employees has increased by more than 33 percent and during the current Administration's six years in office the State Budget, adjusted for inflation, has increased nearly 20 percent. In Nevada County, the number of employees has declined since 1990 and spending in the last six years has increased by an average of 2.3% per year.

The challenges facing us are daunting, but we have a rich foundation in this County to build on that can see us through the next decade if we find the ways to collaborate and cooperate locally. This community has the talent and creativity to meet these serious challenges.

I would like to express my appreciation to our two Budget Subcommittee members, Supervisors Hank Weston and Nate Beason, for their long hours reviewing department requests and for their dedication to allocate county resources for all the citizens of Nevada County.

Putting together a document like this takes a great deal of effort by some very talented individuals in all of the County Departments. Their efforts are to be lauded. Joe Christoffel, whose talent, skill and patience were the catalyst for producing such a quality product, led the entire endeavor. He led a team that included analysts Cathy Cross, Pam Raymond, and Tina Vernon. They provided the heavy lifting by accomplishing an in depth review of every expenditure area of the County operation. Laura Matteson provided overall review and insight as well as maintaining the vacancy review. Leann Whitaker and Janiene Lynch provided key support in many areas of the process. Lastly, Marcia Salter and her staff must be thanked for their key role in the review process.

Respectfully submitted,

Richard A. Haffey
County Executive Officer