



JAY E. ORR
COUNTY EXECUTIVE OFFICER

COUNTY OF RIVERSIDE EXECUTIVE OFFICE

GEORGE A. JOHNSON
CHIEF ASSISTANT COUNTY EXECUTIVE OFFICER
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ZAREH SARAFIAN
ASSISTANT COUNTY EXECUTIVE OFFICER
HEALTH SYSTEMS
ED CORSER
COUNTY FINANCE DIRECTOR
CHRISTOPHER HANS
CHIEF DEPUTY COUNTY EXECUTIVE OFFICER

May 5, 2015

Honorable Board of Supervisors
County of Riverside
Robert T. Andersen Administrative Center
4080 Lemon Street, 5th Floor
Riverside, CA 92501-3651

4/5th Vote

SUBJECT: *FY 14/15 Third Quarter Budget Report*

Board members:

At third quarter, we evaluate the county's projected year-end financial position and preview the budget outlook for next fiscal year. While the economic forecasts included in this report indicate local economic factors are gradually trending positive, the county confronts significant budget challenges.

First, two notes of good news. On May 5, 2015, Fitch's rating agency lifted its negative watch on the County of Riverside. This improved rating outlook should have a positive effect on the county's financing efforts by lowering our debt service costs.

In addition, the medical center's new chief executive projects positive year-end net income because of efforts to collect prior year receivables, as well as other initiatives. Although, he does report there are significant and pressing needs to replace and refresh medical equipment, technology, and other hospital infrastructure.

It is clear, however, using one-time funding will be unavoidable to close this fiscal year and cover the projected gap next fiscal year. I recognize this is unsustainable, and ongoing solutions will be necessary to bring the budget into structural balance. Given the magnitude of the costs, and the fact all departments have for some time absorbed cost increases, the county clearly cannot cut its way to structural balance. Consequently, it will be necessary for the Board to give careful consideration to the spending priorities driving many of these cost increases.

At the beginning of this fiscal year, the Sheriff projected a \$46 million deficit, due in part to increased labor costs. At this time, he has reduced his projection to \$29.7 million. Likewise, the District Attorney initially projected a \$10 million year-end shortfall, but now projects a year-end deficit of \$5.9 million. At this time, I am recommending funding for half of the currently projected deficits for each of these two departments to cover labor increases, recognizing additional funding may be required if the continued efforts of

these departments do not achieve further savings.

The Fire Department also projects a year-end deficit of \$4.2 million for increased labor costs for state firefighters, capital maintenance, and other fixed costs. In addition, shortfalls in receivables owed for contract fire services rendered by the county could increase that deficit by \$1.9 million or more. At this time, I recommend funding \$2 million of the deficit so Fire may pay its obligations for labor increases to the state.

In addition, Mental Health requests \$1.6 million in general fund support to cover projected current year Prop. 47 costs associated with inmates at Patton state hospital. That cost became the county's financial responsibility when the new law passed. On an annualized basis, the projected FY 15/16 total costs would be at least \$2.9 million. I recommend covering the projected current year portion of this unfunded mandate while the department works to find adequate but less costly inpatient care options.

For several years, the Public Defender attempted to collect registration fees from defendants, but receipts chronically fall short of the \$1 million annual budget estimate, causing a shortfall at year's end. To recognize the department's actual net cost borne by the general fund and to address other unavoidable revenue shortfalls, I recommend funding \$1.2 million now, rather than at year-end. Court facilities costs also continue to rise, although the annual allocation has remained fixed. Consequently, I also recommend funding \$1.5 million to reimburse for facilities costs already incurred.

In addition, the Board committed discretionary revenue to several specific purposes, including revenue sharing agreements and the newly established Cabazon community revitalization act infrastructure fund and the Wine Country infrastructure fund. This report includes \$1.2 million for these, including \$265,000 for the revenue sharing obligations to the City of Banning and the March Joint Powers Authority, \$715,177 in initial funding for the Cabazon fund, and \$227,586 for the Wine Country fund.

Other departments are working within their budget allocations and available departmental resources, and the remaining recommendations in this report are routine. Future policy actions may be needed to address certain identified funding issues, but I recommend continuing to monitor those budget units and deferring action at this time.

However, I do now recommend increasing certain revenue estimates for property taxes by \$4.6 million and redevelopment residual assets by \$5.5 million for a total of \$10.1 million in ongoing revenues. I recommend transferring \$4.7 million in restricted contractual revenue previously held in reserve to cover the Board's commitment to the UCR School of Medicine. I also recommend transferring into the general fund the \$1.2 million general purpose balance in the solar payments fund, and appropriating \$226,647 for capital improvements at the Lake Tamarisk Club House from the solar payments commitment for community benefit, leaving a balance of \$430,066 remaining committed for community benefit.

Overall, this report contains \$32.5 million in reductions and \$16.5 million in

increases to general fund contingency. The resulting net decrease of \$16 million takes the balance to \$12.8 million.

The significant current year financial challenges outlined above frame substantial challenges for the FY 15/16 budget that cannot be minimized. Projections indicate labor increases to date might not leave many departments with much year-end savings. If these projections prove out, there may be little surplus year-end fund balance to carry over into next year. Consequently, to glean some year-end savings, on April 23, 2015, I subjected purchasing of services and supplies to Executive Office review and sign-off.

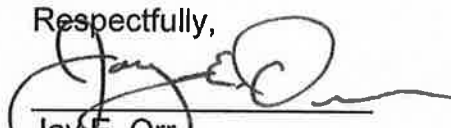
Next fiscal year, further labor increases go into effect, as well as pension obligations and internal service rate increases that will create additional financial strain for most departments. Unfortunately, modest discretionary revenue increases are not keeping pace with these cost increases. Per the Board's budget policies, my office instructed departments to submit budgets on target and absorb these cost increases. Most complied, but not without sacrifice. Several departments, including the Sheriff, District Attorney, and Assessor, have sizeable budget deficits they could not absorb, and the Department of Public Social Services projects caseload growth that might require additional discretionary funding to meet growing service demands. In total, there are requests for nearly \$127 million for funding over the allocated general fund target levels. Of the total, \$65 million, or 52 percent, is attributable to the Sheriff's department.

My office continues working closely and cooperatively with departments to manage these difficult challenges. On June 15, I will present the Board a balanced FY 15/16 recommended budget to provide the base spending authority necessary on July 1. There also will be an outline of additional funding requests and policy issues for Board consideration during budget hearings. Based on the Board's policy direction given during those hearings, I will return to the Board in September with recommendations for final budget adoption.

IT IS RECOMMENDED that the Board of Supervisors:

- 1) Receive and file this report and all its attachments;
- 2) Approve the recommendations and associated budget adjustments contained in Attachment A; and
- 3) Approve Resolution No. 440-8999 amending Ordinance No. 440 contained in Attachment B.

FISCAL PROCEDURES APPROVED
PAUL ANGULO, CPA, AUDITOR-CONTROLLER
BY Esteban Hernandez 5/5/15

Respectfully,

Jay E. Orr
County Executive Officer



COUNTY OF RIVERSIDE

STATE OF CALIFORNIA

FISCAL YEAR 2014/15

THIRD QUARTER BUDGET REPORT



PREPARED BY
Jay E. Orr
County Executive Officer



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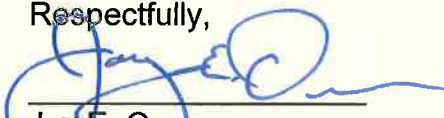
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County Executive Officer

FISCAL PROCEDURES APPROVED
PAUL ANGULO, CPA, AUDITOR-CONTROLLER
BY  5/5/15
Esteban Hernández

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A. EXECUTIVE SUMMARY

The medical center's new executive leadership continues to implement Huron initiatives, significantly improving the financial position by pressing to collect non-recurring prior year revenues, and through enhanced reimbursements made possible by the Affordable Care Act (ACA). The medical center expects to end with positive net income for the current year.

The Sheriff began FY 14/15 with a projected \$46 million budget shortfall stemming from negotiated salary and benefits increases, increased staffing levels, and higher internal service rates. The Sheriff reduced that estimate by \$16.3 million to **\$29.7 million**. That change is due to higher revenue estimates and revised estimates for overtime, computer lines, aircraft maintenance and utilities for the remainder of the fiscal year. Likewise, the District Attorney now projects a **\$5.9 million** shortfall, down from the \$10 million initially projected. The Executive Office recommends funding half of each of the deficits projected by the Sheriff and the District Attorney to cover labor increases, understanding additional funding may be required if the ongoing efforts of these departments do not achieve further savings.

The Fire Department projects a **\$3.9 million** shortfall due primarily to an anticipated **\$2.6 million** increase in labor costs for state firefighters. The Executive Office recommends funding **\$2 million** for Fire to enable the department to pay most of its obligations for anticipated labor increases to CalFire. The remainder of the deficit is for station repairs and other capital maintenance, an administrative rate adjustment, training costs, and a lease not funded in the final budget. The department projects this deficit might increase by **\$1.9 million** because of shortfalls in receivables owed for current and prior year services rendered by the county.

Although for several years under Board direction the Public Defender attempted to collect registration fees from defendants, actual receipts fell far short of the estimated \$1 million budgeted per year, which results in *de facto* general fund support at year's end. In addition, the department has additional unanticipated expenses exacerbated by state funding shortfalls. Consequently, the Executive Office recommends funding **\$1.2 million** now to recognize the actual net cost to the department borne by the general fund.

The allocation for court facilities has remained fixed since FY 09/10, in spite of rising costs. At this time, appropriations are exhausted and invoices for mandated services remain unpaid. Consequently, the Executive Office recommends an additional **\$1.5 million** to cover these current year costs.

The Board has committed discretionary tax revenue toward specific purposes, including revenue sharing agreements with the City of Banning and the March Joint Powers Authority, and the newly established Cabazon Community Revitalization Act Infrastructure Fund and Wine Country Infrastructure Fund. This report includes **\$1.2 million** for these commitments, including an additional \$120,000 for the City of Banning and \$145,000 for the March Joint Powers Authority to cover estimated increased revenue sharing obligations, \$715,177 in initial funding for the Cabazon fund and \$227,586 for the Wine Coun-

try fund.

Among the ongoing challenges the hospital director highlights is significant investment needed to upgrade or replace equipment, information technology, and other infrastructure needs at the medical center. To address this, the Executive Officer recommends terminating the **\$1.5 million** per year commitment to the University of California, Riverside, School of Medicine and investing it instead in the capital needs at the medical center.

The Executive Office also recommends funding **\$5.2 million** in mission-critical, Board-approved capital improvements that are either under way or in the planning stages. They include department relocation costs associated with the East County Detention Center construction, shower stall restoration at the Smith correctional facility, the 911 backup generator for the Alessandro facility.

The Executive Office recommends revising several revenue estimates at this time to acknowledge receiving revenues anticipated to exceed original budget estimates. This includes a **\$4.6 million** net increase in property taxes, **\$5.5 million** in allocation of RDA residual assets, **\$498,000** in unrestricted contractual revenue, and **\$4.7 million** in restricted contractual revenue being released from reserve for the commitment toward the UCR medical school. The Executive Office also recommends transferring **\$1.2 million** in general purpose solar payment revenue into the general fund, and appropriating \$226,647 of the solar payments committed for community benefit for capital improvements at the Lake Tamarisk Club House, leaving a balance of \$430,066 committed for community benefit

In summary, this report contains \$32.5 million in reductions to contingency and \$16.5 million in increases. The \$16 million net reduction leaves contingency at **\$12.8 million**.

The significant current year financial challenges above frame substantial future challenges. The FY 15/16 budget cycle began in early February when the Board approved budget policies and rate packages. Budget submittals were due from departments March 16, and the Executive Office has worked with departments since then to craft the recommended budget, which the County Executive Officer will present to the Board on **June 15**. At that time the Board will be asked to approve the recommended budget to provide base spending authority on July 1, and to open budget hearings. Once the year-end results are in, the Executive Office will return to the Board in September with final budget recommendations.

The challenges faced in the FY 15/16 budget cannot be minimized. Projections indicate labor increases to date might leave many departments without much in year-end savings. If these projections prove out, there may be little surplus year-end fund balance to carry over into next year. Consequently, in an attempt to glean some year-end savings, the County Executive Officer issued a directive on April 23 that subjected purchase of services and supplies to Executive Office review and sign-off.

Next fiscal year, further labor increases go into effect, in addition to pension obligations

and internal service rate increases, creating considerable financial strain for departments. Unfortunately, discretionary revenues are not keeping pace with these cost increases. Departments were instructed to submit budgets on target and absorb these increases; most were able to comply but not without sacrifice. Several departments, including the Sheriff, District Attorney, and Assessor, have sizeable budget deficits they are not able to absorb. The Department of Public Social Services projects caseload growth that might require additional funding to meet service demands. In total, there is nearly **\$127 million** in requests for funding over the allocated budget targets that the Executive Office is evaluating, of which \$65 million, or 52 percent, is attributable to the Sheriff's department. The Executive Office expects to pare the total down for Board consideration at budget hearings in June.

The Executive Office is working cooperatively with departments to manage these challenges. In the face of these significant factors, it is clear that use of one-time funding will be unavoidable to close this fiscal year, and to cover the projected funding gap next fiscal year. However, the Executive Office recognizes this is unsustainable, and that ongoing solutions must be implemented to bring the budget into structural balance within ongoing revenue sources by FY 16/17. Given the scale and magnitude of the cost factors involved, and the fact all departments have for several years absorbed increases in labor, retirement, and other internal costs, it is clear the county cannot cut its way to structural balance. Consequently, it will be necessary for the Board to give careful consideration to the policy initiatives driving many of these cost increases.

B. ECONOMIC OUTLOOK

GENERAL OUTLOOK

California Unemployment

The state's unadjusted unemployment rate was 6.7 percent in February, down from 7.2 percent in November. By contrast, the U.S. unemployment rate was 5.5 percent in March, down from 5.8 percent in November. In March 2015, 464,530 people were receiving regular unemployment insurance benefits in California, down from 510,919 in March 2014, and there were 44,502 new claims for unemployment insurance, down from 52,755 in the same period the year before.

California Employment Trends

The number of people in California holding non-farm payroll jobs in March increased by 3.1 percent over the year before. Total civilian employment in California rose to 17.7 million. Ten sectors posted job gains over the year, with construction, professional and business services, and leisure and hospitality posting the highest growth. Only mining and logging sectors reflected lost jobs during the preceding year. The state's personal income increased 4.7 percent during 2014, leading the national increase of 3.9 percent.

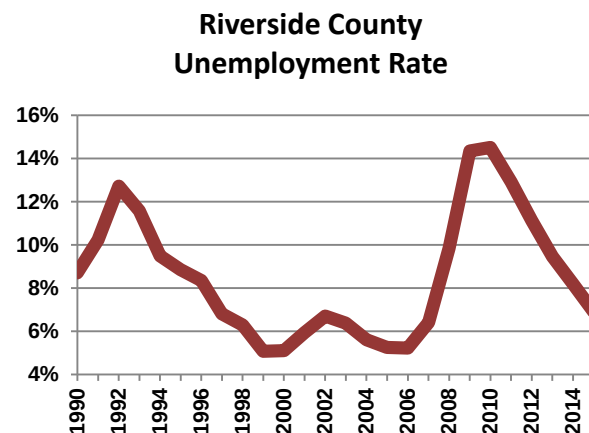
California Real Estate Trends

Statewide, the pace of home sales decreased 2.4 percent since February 2014, and existing home prices increased 5.5 percent from February 2014.

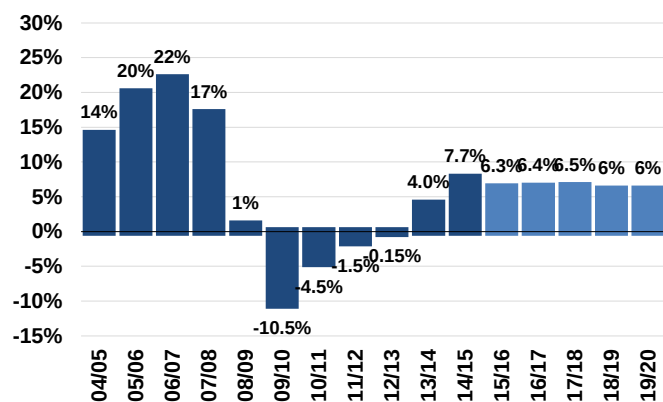
LOCAL OUTLOOK

Unemployment

In March, Riverside County's unemployment rate declined significantly to 6.6 percent, slightly higher than neighboring San Bernardino County's rate of 6.4 percent. This represents a return to Riverside County's historic, non-recessionary period. The annual average unemployment rate was 6.6 percent between 1995 and 2008. As of March 2015, Riverside County had a labor force of 1 million, with 952,900 employed and an estimated 67,000 unemployed.



Annual Change in Assessed Value



Source of forward projections: Beacon Economics

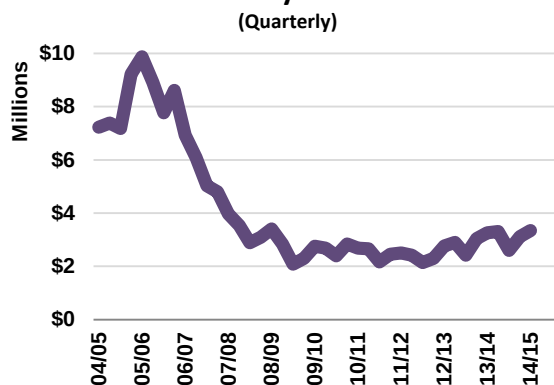
Assessed Value

The Assessor estimates that the FY 15/16 roll will close 5.9 percent higher than last year. This increase can be attributed to increased median home prices, a 1.998 percent increase in the Consumer Price Index on Prop. 13 properties, new construction activity, and properties affected by Prop. 8 being revalued to current market value under Prop. 13.

Recordation Activity

Fiscal year-to-date document recording counts are down slightly; however, activity has improved considerably over recent months. The Clerk-Recorder projects county documentary transfer tax revenues will meet budget estimates based on the increasing property values and anticipated improvement in home sales.

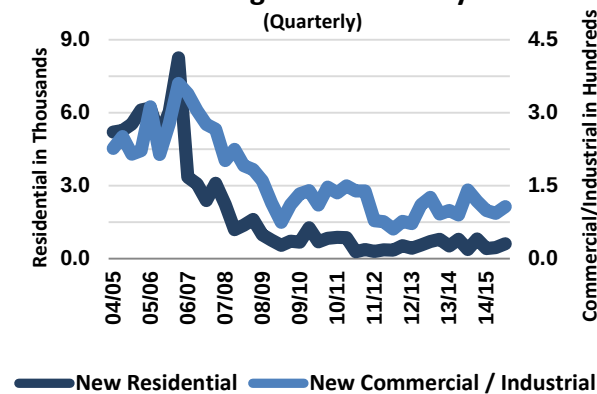
Documentary Transfer Tax



Building Permits

From July 2014 through March 2015 (FY 14/15), the Building and Safety Department issued 9,212 building permits compared to 8,479 for the same period last fiscal year, a 9 percent increase. Combined deposit-based fee and flat fee receipts for July 2014 through March 2015 came in at \$6.1 million compared to \$6.4 million for the same period last year, a decrease of \$313,917 or 5 percent. Overall deposit-based fee receipts decreased during this period by 13 percent while flat fee receipts increased by 25 percent. This mixed trend of more cases but less overall deposit-based fee receipts reflects the “solar heavy” nature of cases being submitted to Building and Safety. Planning applications for July through March of this fiscal year have increased to 556 compared to 529 for the same period last fiscal year. This increase of 27 cases consists of 13 minor and 14 major cases. Even though the number of cases taken in has risen, receipts for July through March of this fiscal year have dropped by \$157,686.

Building Permit Activity



Source: Building & Safety Department

FEDERAL UPDATE

The House and Senate both approved their respective versions of the FY 2016 Budget Resolution. These budget resolutions set broad parameters for current year federal spending, and as a blueprint for long-term spending. Both versions would balance the budget within 10 years, largely at the expense of entitlement programs such as Medicaid, Medicare, and the Supplemental Nutrition Assistance Program (SNAP).

A joint conference committee has been tasked with reconciling the House and Senate proposals. Appropriation sub-committees continue to hold hearings in anticipation of drafting the FY 2016 spending bills later in the spring.

Of particular interest to counties, FY 2016 domestic discretionary spending under both budget resolutions adheres to the sequestration caps imposed by the Bipartisan Budget Act of 2013. This would keep FY 2016 spending largely flat for domestic discretionary programs. However, during floor debates, the Senate adopted an amendment to lift those caps with unspecified offsets, indicating a bipartisan willingness in the upper chamber to negotiate a budget deal to remove or alter sequestration.

A number of healthcare proposals have been introduced to address reauthorization of the Children's Health Insurance Program, Sustainable Growth Rate, and Medicaid Disproportionate Share Hospital (DSH). In addition, hearings have been held to address industry concerns regarding the 340B Drug Pricing Program.

MAP-21 reauthorization has been a priority within the House and Senate this session. Existing authority under MAP-21 is scheduled to expire on May 31 and another short-term extension is likely.

The County received \$3.3 million in payments in lieu of taxes (PILT) last year. Requests were made by our delegation to fully fund the PILT program for the coming year.

Our state's delegation also issued a letter supporting full funding for the State Criminal Alien Act Assistance Program (SCAAP) in FY 2016, in anticipation of upcoming hearings on the matter. President Obama proposes once again to eliminate SCAAP, leaving Congress to reinstate funding to state and local governments to defray some of the costs of incarcerating illegal aliens.

STATE UPDATE**State Revenue**

The State Controller recently reported March revenues are \$547 million above budget projections for the month. Total revenues for the fiscal year through the end of March were \$1.5 billion ahead of the Governor's estimates. Although its dependence on personal income taxes makes the state's fiscal condition particularly vulnerable to economic downturns, income tax receipts are now driving California's positive revenue numbers. In March, personal income taxes came in \$498 million above monthly estimates, corporate taxes were \$77 million above monthly estimates, and sales tax receipts were

\$15 million above monthly estimates.

For the current fiscal year, total general fund revenue receipts exceeded forecasts by \$1.5 billion, or 2.1 percent. Spending is running \$672 million above forecasts, or 0.7 percent above estimates. The final three months of the fiscal year give reason for both optimism and caution.

Governor's FY 15/16 Proposed State Budget

The Governor presented his proposed FY 15/16 budget in January with a focus on fiscal discipline. The legislature's review of the Governor's proposals is now under way, with each house's relevant budget subcommittees meeting to review and potentially take action on the various proposals.

The county is actively reviewing the legislative proposals during the committee process, with our associations, (California State Association of Counties, Urban Counties Caucus, and others), and our Sacramento based advocates. The Board will be notified routinely as issues of county significance arise. In addition, the Executive Office will coordinate a review of the Governor's May Revise once it is released in mid-May.

LAO May Revise Scenarios

The Legislative Analyst's Office report issued April 7, 2015, outlines five possible scenarios for the May Revise, given the recent surge in state general fund revenues. The report describes the impact of the increased current year general fund revenues to the FY 15/16 state budget. It notes that the surge will boost K-14 school funding largely to the exclusion of other items and create a potential scenario under which balancing the state budget becomes more difficult in years to come.

The report indicates that certain revenues, potentially, could grow considerably in the near future, and that April 2015 personal income tax revenues will be the key indicator for assessing state revenues.

Higher current year state revenues will require a dollar-for-dollar increase in the Prop. 98 guarantee. This higher level creates a new minimum funding level for FY 15/16 that is additionally increased, possibly requiring budget adjustments on the non-Prop. 98 side of the budget.

The five scenarios outline the effects increased revenues will have on the Prop. 98 guarantee, the Prop. 2 (rainy day fund) requirements, and the FY 14/15 state budget trigger to provide funding for pre-2004 local government mandates. The bottom line is significantly impacted by both the size and type of the revenue gains. All five scenarios result in greater Prop. 2 requirements, meaning the state can pay down more of its debt and build up the rainy day fund for future economic downturns. All five also show additional revenue available to repay local government mandates beyond the Governor's January budget estimate of \$533 million. In four scenarios, increased revenues result in a budget problem requiring cuts to non-Prop. 98 programs.

C. THIRD QUARTER ACTIVITY

DISCRETIONARY REVENUE

Property Taxes

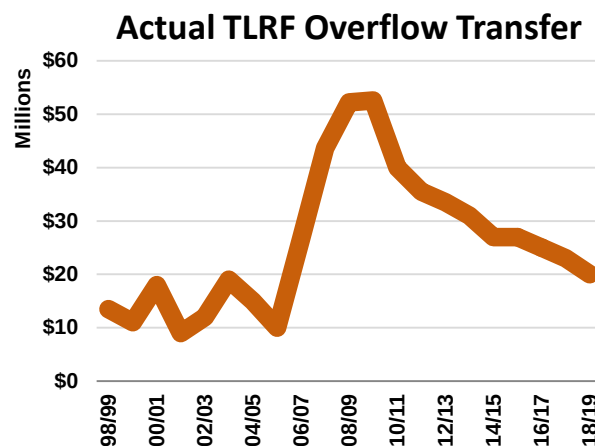
Property tax revenue was budgeted at \$295.8 million based on a forecasted 7.75 percent increase in assessed values. The Executive Office projects property tax revenue will exceed the original forecast by \$4.6 million, and recommends adjustments to the revenue estimate at this time.

Redevelopment Dissolution Related Revenue

In 2011, the Governor signed ABX1 26, dissolving redevelopment agencies statewide, and the courts upheld the law. Consequently, redevelopment agencies were dissolved February 1, 2012. Under ABX1 26, redevelopment agencies' assets not essential to meet enforceable obligations must be liquidated and distributed to taxing entities, such as the county. At this time, the Auditor-Controller's Office anticipates allocating \$7.4 million in residual assets to the county general fund this fiscal year, \$5.4 million more than currently budgeted. At this time the Executive office recommends adjusting the revenue estimate to reflect this.

Teeter Tax Losses Reserve Fund (TLRF) Overflow

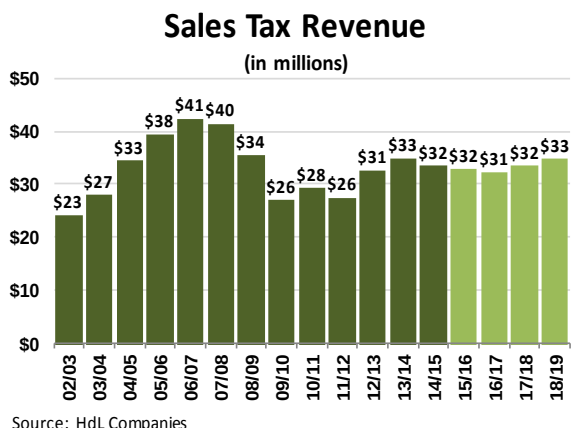
Under the California Teeter plan, the county advances participating local agencies their property tax allocations based on enrolled assessed valuation. In return, the county collects and retains the actual taxes received, plus any penalties and interest on delinquent taxes. The tax losses reserve fund manages revenues and expenditures associated with the program. Revenue that exceeds financing costs and the necessary tax loss reserve is discretionary revenue and is released to the general fund. As delinquency rates continue to decline, the associated overflow projection of \$27 million remains unchanged for this fiscal year. As the real estate market stabilizes over the next several years, this revenue will continue to erode, as projected in the chart at left.



Sales and Use Taxes

Total sales and use tax receipts from the most recent quarter rose 5.3 percent from the same quarter a year ago for all jurisdictions in the county, according to Hinderliter de Llamas & Associates (HdL), Riverside County's sales tax consultant. This is notably higher than reported among other counties in the region, and the state as a whole. The state's overall growth rate was 3.6 percent over the same quarter a year ago.

Adjusted for one-time allocations and corrections, the county's year-over-year change in sales and use taxes increased 12.2 percent last quarter, bumped by growth in consumer goods attributable to the expansion of the factory outlet development and increased allocations to the county use tax pool. Sales at wineries continue to grow modestly as that sector emerges.



Construction-related sales and use tax receipts from solar projects were significant over the last two fiscal years, which drove a temporary increase both in Riverside County's share of the pooled use tax allocated within the county and the county's Prop. 172 allocation factor. However, such projects are short-lived, and receipts on those projects are now rapidly declining. While another solar project outside of Blythe is now ramping up, the Executive Office cannot forecast when, or in what amounts, sales and use tax receipts from that project will occur.

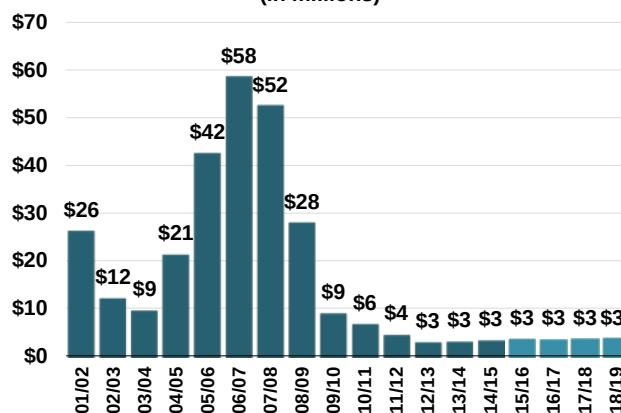
The county's FY 14/15 budgeted estimate for sales and use tax revenue is \$33.5 million, which assumes some continued one-time receipts from solar projects this fiscal year, as well as growth in other sales sources. Revenue from the expanded factory outlets is beginning to increase sales tax revenue. However, the Board's recent decision to set aside a portion of the revenue from that growth will dampen the effect on general fund. Factoring in recent recoveries to the county's favor of sales and use tax receipts misallocated in past years, HdL now projects the county will receive \$32 million this fiscal year. Factoring out those one-time windfalls in FY 14/15 and accounting for the wind down of the Triple Flip in FY 15/16, HdL currently projects the county will receive \$31.5 million next fiscal year. This fall, the state adjusted Prop. 172 revenue to correct a recently confirmed state error in computing the gas tax swap. This one-time adjustment was not built into budget assumptions. Additional economic detail from HdL is contained in Attachment C.

Interest Earnings

The Treasurer's estimate for general fund interest earnings continues to reflect the low level of interest rates as a result of current Federal Reserve (FED) monetary policy. At this time, investor sentiment leans toward a late year increase in the federal funds rate, therefore having no material impact on earnings this fiscal year. Economic indicators that can alter the FED's move to raise rates include lesser-than-expected inflation and/or

General Fund Interest Earnings

(in millions)



weaker-than-expected job growth. We will update the Board if there are any material general fund impacts.

Events that can alter FED activity include lower-than-expected inflation due to the major decline in crude oil prices, a weakening and deflationary European economy, geopolitical unrest in the Middle East, and renewed terrorism threats in Western economies. Historically, those forces have driven a flight to quality to the U.S. bond market, specifically treasury securities, which will place further downside pressure on the general level of interest rates.

Revenue Summary

Projections of discretionary general fund revenues remain stable through the second quarter, summarized in the chart at right. Overall, net general fund discretionary revenues appear likely to increase \$24.1 million beyond original estimates. That is due primarily to a net increase in forecasted property tax revenue of \$4.6 million and one-time receipts of \$5.5 million in residual

redevelopment assets, in addition to the receipt of \$5.9 million in SB90 reimbursement already recognized in the midyear report. At this time, the Executive Office recommends the adjustments below to property tax revenue and RDA residual assets estimates, as well as adjustments for operating transfers of \$4.7 million in restricted contractual revenue and \$1.2 million in solar payment revenue discussed elsewhere below in this report.

Recommendation 1: That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for contingency and estimated property tax and RDA residual asset revenues totalling \$10.6 million, as follows:

Increase estimated revenue:

10000-1300100000-700020	Property tax – current secured	7,655,000
10000-1300100000-715070	RDV property tax residual assets	5,521,000
10000-1300100000-781000	Contractual revenue - RDV	498,000
	Total	13,674,000

Decrease estimated revenue:

10000-1300100000-701020	Property tax – current unsecured	574,000
10000-1300100000-704000	Property tax – current supplemental	2,042,000

General Fund Projected Discretionary Revenue (in millions)

	Budgeted Estimate	Current Quarter Estimate	Variance
Property Taxes	\$296.3	\$300.9	\$4.6
RDA Residual Assets	2.0	7.5	5.5
Motor Vehicle In Lieu	208.6	208.6	0.0
Tax Loss Reserve	27.0	27.0	0.0
Fines and Penalties	22.8	23.3	0.5
Sales & Use Taxes *	33.5	33.5	0.0
Tobacco Tax	10.0	10.0	0.0
Documentary Transfer Tax	12.4	12.4	0.0
Franchise Fees	5.0	5.0	0.0
Interest Earnings	2.9	2.9	0.0
Misc. Federal and State	10.7	11.7	1.0
Other (Prior Year & Misc.)	6.7	19.2	12.5
Realignment	35.0	35.0	0.0
Total	\$672.9	\$697.0	\$24.1

10000-1300100000-705000	Property tax – prior supplemental	484,000
	Total	3,100,000

Increase appropriations:

10000-1109000000-581000	Appropriations for contingencies	10,574,000
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Anticipated use of unassigned fund balance:

10000-1109000000-370100	Unassigned fund balance	10,574,000
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FUND BALANCE

General Fund Commitments and Designations

The county maintains a number of Board-established general fund commitments and fund balance designations. The listing at right takes into account recommendations made during the year. The Board's previously established objective is to achieve and then maintain at least \$250 million in unrestricted general fund reserves.

The Executive Office is reviewing all committed and otherwise restricted fund balances to determine which remain essential, and which might be liquidated into unassigned fund balance. Human Resources holds a general fund committed fund balance that is obsolete and no longer necessary. The department requests that the remaining committed fund balance amount be released and closed out to the general fund unassigned fund balance.

General Fund Commitments and Designations

(in millions)

	FY 12/13 Ending Balances	FY 13/14 Ending Balances	Adj. for Budget Use	FY 14/15 Beginning Balances	Balance Upon Approval
Economic uncertainty	\$124.7	\$124.7	\$0.0	\$124.7	\$124.7
Budget stabilization	34.1	53.9	0.0	\$53.9	50.6
Disaster relief	15.0	15.0	0.0	\$15.0	15.0
Property tax system	6.1	0.0	0.0	\$0.0	0.0
SB90 deferral	1.4	1.4	0.0	\$1.4	1.4
Historic courthouse remodel	0.5	0.5	0.0	\$0.5	0.5
CAC remodel	0.5	0.5	0.0	\$0.5	0.5
Community improvement	0.0	0.0	2.0	\$2.0	2.0
ACO internal audits unit	0.1	0.1	0.0	\$0.1	0.1
DPSS realignment growth	4.3	4.3	0.0	\$4.3	4.3
Legal liabilities	3.7	3.7	0.0	\$3.7	3.7
TOTAL	\$190.4	\$204.1	\$2.0	\$206.1	\$202.8

Recommendation 2: That the Board of Supervisors approves and directs the Auditor-Controller to make adjustments releasing a remaining committed fund balance for Human Resources of \$6,344, as follows:

Release committed fund balance:

10000-1130100000-330100	Committed fund balance	\$6,344
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Increase unassigned fund balance:

10000-1130100000-370100	Unassigned fund balance	6,344
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Increase appropriations:

10000-1109000000-581000	Appropriations for contingencies	6,344
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Anticipated use of unassigned fund balance:

10000-1109000000-370100 Unassigned fund balance 6,344

APPROPRIATIONS FOR CONTINGENCY

Appropriations for contingency are intended to cover urgent, unforeseeable events such as discretionary revenue shortfalls, unanticipated expenditures, uncorrectable departmental budget overruns and other mission-critical issues at the Board's discretion. The corrected Board-approved contingency level at the beginning of FY 14/15 as contained in the final budget was \$23.2 million, or 1.6 percent of ongoing discretionary revenue. This report contains \$32.5 million in uses of contingency and \$16.5 million in additions, for a net decrease of \$16 million at this time, taking the contingency level to **\$12.8 million**.

	Cost Adjustment	Revenue Adjustment	Total Adjustment	Balance Available
Beginning Balance:				\$23,234,386
Adjustments to date:				
SB90 Mandates reimbursement		5,867,859	5,867,859	
Reimbursement of Van Horn match		5,200,000	5,200,000	
Water Service Fiduciary Fund	270,400		(270,400)	
Correctional Health Services	5,000,000		(5,000,000)	
Tax sharing agreements	265,000		(265,000)	
	5,535,400	11,067,859	5,532,459	28,766,845
Actions recommended in this report:				
Discretionary revenue estimate		10,574,000	10,574,000	
Release of committed fund balance for HR		6,344	6,344	
Capital improvement projects	5,200,000		(5,200,000)	
Sales tax consulting services	300,000		(300,000)	
Moreno Valley pass-through revenue		4,741,442	4,741,442	
Tax sharing agreements	265,000		(265,000)	
Cabazon CRA Infrastructure Fund	715,177		(715,177)	
Wine Country Infrastructure Fund	227,586		(227,586)	
Solar payments - general purpose		1,169,228	1,169,228	
Fire Department	2,000,000		(2,000,000)	
Sheriff's Department	16,442,869		(16,442,869)	
District Attorney's Office	2,950,000		(2,950,000)	
Court facilities	1,500,000		(1,500,000)	
Public Defender	1,207,000		(1,207,000)	
Prop. 47 inmate care	1,638,868		(1,638,868)	
	32,446,500	16,491,014	(15,955,486)	
Contingency balance upon approval of this report =				<u>12,811,359</u>

D. MULTIYEAR BUDGET OUTLOOK

FY 15/16 BUDGET PROCESS AND SCHEDULE

The annual budget policies and schedule for FY 15/16 were distributed to departments during a budget kickoff meeting in early February. Departments' net county cost (NCC) targets remained mostly unchanged from current levels, except for adjustments to account for ongoing prior Board commitments and the funding increases indicated in the

five-year master plan discussed below. These targets reflected the expectation that departments would absorb labor cost increases without additional general fund support, except for existing Board commitments.

Departments' FY 15/16 budget submittals were due in to the Executive Office on March 16. The Executive Office plans to return **June 15** with the FY 15/16 recommended budget for Board approval. Recommended budgets provide core spending authority for the new fiscal year and, by law, must be approved by the Board on or before June 30 to have legal spending authority in place on July 1. Budget hearings can commence immediately after the Board approves the recommended budget. After considering open testimony from departments and the public during these hearings, the Board may provide further policy direction for the final budget.

The Executive Office will then prepare any necessary adjustments based on that Board direction and year-end financial results, and return to the Board in early September with any recommended adjustments necessary to adopt the FY 15/16 final budget.

BUDGET POLICIES AND STRATEGIC OBJECTIVES

As outlined in the midyear report, the FY 15/16 budget is being developed with the following Board objectives in mind:

Strategic Objectives: Allocation of the county's limited discretionary resources prioritized based on the following strategic organizational objectives:

- **Public Safety** – Existing commitments to mission-critical public safety functions.
- **Healthy Communities** – Essential services that address public health mandates and foster healthy homes and workforces.
- **Business Friendly Operations** – Maximizing use of fees and taxes most effectively, and making the county an efficient, timely business partner.

Financial Objectives: In addition to the basic requirements for a balanced budget required by the state Budget Act, the Executive Office also strives to meet the following long-term financial objectives:

- **Structural Balance:** Achieving a structurally balanced budget in which ongoing expenditures do not exceed ongoing revenues, and that limits use of one-time resources only to one-time expenditures.
- **Prudent Reserves:** Achieving and maintaining prudent reserves and working capital.
- **Restricted fund balance and net assets:** Avoiding accumulation of unexpended restricted fund balance and net assets, except where necessary for prudent reserves, working capital, or specified purposes.
- **Committed and Assigned Fund Balance and Net Assets:** Holding commitments and assignments of fund balance or net assets only as long as necessary to provide for the purpose for which they are established. Releasing those as-